

Meeting Summary

PRA/ABI Stress Testing Subject Expert Group (STSEG): Twelfth Meeting

5 March 2024

Bank of England Offices, MS Teams

The PRA, observers from the HMT and ABI and representatives of the following insurance firms: Aviva, Just, Phoenix Group, PIC, Rothesay, Legal & General, Scottish Widows Group, Canada Life, M&G

Agenda

1. Read out from the Disclosure Users Group
2. Funded Re Exploratory scenario
3. Management actions
4. Next steps – industry workshops

Summary of meeting

The PRA provided the read out from the Disclosure Users Group meeting (see Meeting Summary of the STSEG Eleventh Meeting).

Next, the PRA covered objectives and design of the Funded Re exploratory scenario.

- Systematic use of funded reinsurance has the potential to introduce significant risks to our objectives of safety and soundness and policyholder protection.
- In line with the Insurance Priorities letter 2024, firms need to retain high confidence in their ability to safely recapture the transferred risks under stressed conditions.
- The PRA will continue to monitor how the market evolves. Funded Re stress will become a feature of LIST exercises.

- Including Funded Re exploratory scenario will improve PRA's insight into risk management vulnerabilities in FundedRe arrangements.
- The scenario purpose is to:
 - Build capacity and assess firms' ability to consistently and accurately model the day 1 impact of recapture using the actual collateral portfolio.
 - Understand management actions that firms may undertake on recapture and whether these are realistic.
 - Assess the solvency impact of a recapture of a firm's most material FundedRe exposure with one counterparty in stressed conditions.
- The findings will be shared at the sector rather than individual firm level.
- The discussion focused on the specifics of the stress, including identification of the most material exposure and stresses for the collateral pool as well as management actions allowed as part of the scenario.
- The members also discussed what findings would be most informative for understanding the impact of the scenario.
- It was agreed that further technical details around the scenario will be discussed in the industry workshops.

The discussion then moved to **management actions** in general. The PRA set out a number of questions to the industry for future discussion. The industry's initial views were that approach to management actions needs to ensure sufficient degree of realism as well as consistency across firms. Members agreed to continue discussion with wider stress testing teams at the firms.

The members agreed to run a series of workshops to continue discussing technical aspects of the design and disclosure over the next several weeks.