

Meeting Summary

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

6 February 2024

Bank of England Offices, MS Teams

The PRA, observers from the 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. Objectives for Life Insurance Stress Test
2. Update on design
3. Update on disclosure

Summary of meeting

This meeting focused on the PRA presenting the design and disclosure package as approved by the PRA internal governance.

First, the PRA covered **objectives** for Life Insurance Stress Test:

- To assess **sector resilience** to severe but plausible events.
- To strengthen **market understanding and discipline** through individual firm publication.
- To improve insight into **risk management vulnerabilities**.

Next the PRA outlined **scenario design**:

- In particular, LIST 2025 will include one core and two exploratory scenarios.
- The core scenario will be designed and calibrated to assess sector and firm resilience. For this scenario, the PRA will set out a financial market stress

developing over three stages, to build on the design of LIST 2022. The stages are designed to educate market participants on mechanics and core component of the Solvency UK regime and how they evolve in stress. The PRA intends to publish core scenario results at the level of each individual firm.

- There will also be two exploratory scenarios to explore emerging risks as well as develop modelling capabilities at the firms. Exploratory scenario findings will not be disclosed at the individual firm level.
- The first exploratory scenario will explore asset concentrations and will ask firms to assess the impact of the additional downgrade stress to the asset category most material to their MA benefit (excluding corporate bonds and sovereign assets). The members agreed to have additional discussions around consistent asset classifications.
- The second exploratory scenario will focus on the risks around Funded Re and will ask the firms to assess the financial impact of the recapture of their most material Funded Re arrangement. The members agreed that further discussions on details of this stress and identification of the arrangement for recapture stress would be needed.

The PRA then provided update on **disclosures**:

- For individual firm disclosures, LIST 2025 will focus on solo level disclosure with a view to build a group approach for future exercises. The members discussed potential overlays to solo results for firms which are part of the wider group.
- The PRA set out disclosure on firms' starting point asset composition and asset risk profile with the aim to provide necessary context for the stress test results. The industry noted a need for consistent asset category definitions and suggested using broader asset categories. The members also thought that including additional asset characteristics needs careful considerations to be informative for disclosure users; they also noted that such disclosures go beyond current public disclosures produced by the firms.
- For the core scenario, PRA intends to publish results against a set of clear, understandable and rigorous metrics. This will include explaining the results of the stress test in the context of the design of the Matching Adjustment and other elements of the solvency regime. The members discussed the informativeness of

the presented metrics; given the level of detail they thought it was important to assess how clearly those metrics can be explained.