

Meeting Summary

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

15 June 2023

Bank of England Offices, MS Teams

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

Agenda

1. Design principles of stress tests: Identify pros and cons of desirable features of a stress testing exercise like the 2022 life insurance stress test (LIST 22) to achieve the objectives discussed in week 1 including:
 - Achieving consistent and comparable results; and
 - Scenario objectives, drivers of results, results and disclosures understood by end users.

2. Implementation constraints for 2025: Identify the extent to which any options identified can be implemented for the 2025 exercise and/or in the longer term.

3. Disclosure / next steps: what are the key areas where there are most commercial considerations around public disclosures?

Summary of meeting

This meeting focused on the industry participants' views on high-level design principles for the 2025 life insurance stress test. The main points made were:

- Firms thought that the overall scenario and granularity of LIST 22 had been well balanced.
- Members stressed the importance of comparability – so while there were benefits to firm-specific scenarios these would not be comparable and would prevent analysis of overall sector resilience. On management actions there was agreement that these needed to be kept simple and potentially restricted (as in LIST 22) to preserve comparability.
- They also noted that in the context of providing market discipline the more complex the scenario the more difficult it would be to explain to users.
- Members also said that they would need a similar time to prepare for a stress test in 2025 as in 2022 (when the initial specification was provided about 9 months before running the stress test) as they would be unable to model and run outputs in a more compressed timeframe, particularly if there were new requirements needing additional modelling.

Additionally the PRA asked members for views on possible alternative models (for example a run-off scenario). Members said that they already produced information on solvency and accounting bases and they believed that adding a further basis for the stress test and external disclosure would be burdensome. There were also concerns about achieving comparability between firms if information had to be disclosed on a new and untried methodology.