



**Stefan Claus**

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*This letter has been adapted for publication on the website.*

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Dear [Firm Contact]

### **Insurance Stress Test 2019: Request for technical input**

The PRA will be conducting an insurance stress test for the largest UK regulated life and general insurers from July to September 2019.

General insurers will be most familiar with this exercise, as it represents an evolution of the stress testing exercises conducted in 2015 and 2017<sup>1</sup>. For life insurers, this exercise captures potential risks that were not fully covered under last year's EIOPA stress test. Alongside these market-wide stress tests, we will also be requesting a climate scenario designed to provide additional market impetus in this area, and to inform the Bank's development of a consistent and effective approach to climate-focused scenario analysis.

The purpose of this letter is to seek industry feedback on any aspects of this exercise ahead of our formal announcement to request participation on Monday 1 July 2019. Participating firms will then be requested to complete this exercise by Monday 30 September 2019.

### **Collaboration with the Bermuda Monetary Authority (general insurers only)**

For general insurers, we will be running a number of scenarios jointly with the Bermuda Monetary Authority (the BMA), reflecting commitment to transparency, supervisory cooperation and information sharing by both Authorities, in line with the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS).

Many London Market insurers are exposed to risks similar to those based in Bermuda. Furthermore, UK-based insurers cede a significant proportion of risks to Bermuda-based reinsurers. This joint exercise will allow us to understand the interdependencies between London Market and Bermuda-based reinsurers in more depth.

### **Request for feedback and technical input**

We welcome feedback on any aspects of the stress test (eg detailed instructions, the excel template), and specifically on:

1. Clarity of the instructions and feasibility of the timetable; and specifically whether there are any areas that require further explanation / clarification?
2. Availability of information: are there any concerns on the availability of the information to complete the outputs required in the template?
3. For Scenario 1 ('Downturn in the economic environment'): what are the pros and cons of the two options outlined for the credit downgrade event?
4. For general insurers only: do you have any specific comments relating to the joint exercise with the BMA?

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<sup>1</sup> The results of the 2015 general insurance stress test were published in April 2016 and are available at <https://www.bankofengland.co.uk/prudential-regulation/letter/2016/general-insurance-stress-test-2015> and the results of the 2017 stress test were published in December 2017 and are available at <https://www.bankofengland.co.uk/prudential-regulation/letter/2017/general-insurance-stress-test-2017-feedback>.

## Timeline

This request for technical input will close on 31 May 2019. Please provide any comments to [IST2019@bankofengland.co.uk](mailto:IST2019@bankofengland.co.uk), with your firm's name and FRN in the subject of the email.

In addition, we will be hosting three industry roundtables on the 10 May 2019 to discuss any questions or comments regarding this exercise:

General Insurers: 9:00 – 11:00

Life Insurers: 13:30 – 15:30

Climate Scenarios: 15:30 – 17:30

If you would like to participate in these roundtables please notify us via the email address above, including your preferred issues/areas for discussion.

Finally, if you prefer to discuss any of the issues directly with the team please use the general email address above setting out which areas you wish to cover. We can then ensure that the relevant specialists will be available to participate.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S. E. C.', is positioned below the text 'Yours sincerely'.

## Attachments:

1. Life Insurance Stress Test 2019 – Scenario Specification, Guidelines and Instructions
2. Life Insurance Stress Test 2019 – Template
3. General Insurance Stress Test 2019 – Scenario Specification, Guidelines and Instructions
4. General Insurance Stress Test 2019 – Template