



David Rule
Executive Director, Insurance Supervision

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Dear CEO

Insurance Stress Test 2019 (IST 2019)

Following our request for technical input in a letter to you on 11 April,¹ we are now asking the largest regulated life and general insurers to provide information about the impact of a range of stress tests on their business. At a sector level, this exercise will allow the PRA to assess market resilience and to be better prepared in the event similar scenarios were to occur. At a firm level, IST 2019 will inform our view of a firm's risk management systems - *it will not be used to set capital requirements*.

In addition, we are asking all participating firms to undertake an exploratory exercise in relation to climate change. General insurers are asked also to complete exercises relating to cyber underwriting and commercial liability exposures. These are designed to explore emerging risks so that we can improve our shared understanding of sector exposures.

For general insurers, we will be co-ordinating some of the scenarios with the Bermuda Monetary Authority. Many London market insurers are exposed to similar risks to those based in Bermuda; furthermore (as illustrated in our previous stress test exercise²) UK based insurers cede a significant proportion of risks to Bermuda based reinsurers. This exercise will enhance understanding of the interconnectedness between our jurisdictions in the event of a stressed scenario.

As in the previous stress test exercises, firms are invited to participate on a voluntary basis. The PRA will publish a summary of the overall results but no individual firm results will be made public.

Structure

IST 2019 is split into two broad parts:

- i. Sections A and B are core stress test scenarios. Section A contains a scenario that reflects a downturn in the economic environment, and section B contains a set of severe but conceivable scenarios specific to the business models of life and general insurers.
- ii. Section C is not a stress test; it is an exploratory scenario and instead it is designed to capture information about how different firms are exposed to difficult-to-assess risks, eg climate change.

IST 2019 materials (instructions and template)

Earlier last month we hosted a series of roundtables, and received individual feedback from firms and the Association of British Insurers (ABI). The life insurance, and general insurance, instructions and templates

¹ 'Insurance Stress Test 2019: Request for technical input': <https://www.bankofengland.co.uk/prudential-regulation/letter/2019/insurance-stress-test-2019-request-for-technical-input>.

² December 2017 available at <https://www.bankofengland.co.uk/prudential-regulation/letter/2017/general-insurance-stress-test-2017-feedback>.

have been informed and updated as result of these discussions. These are available, together with this letter, on our website.³

The annex provides the main changes to the instructions and templates following our request for technical input.

Next steps and deadline for submission

The deadline for submission is as follows:

- Sections A and B: **5pm, Monday 30 September 2019**
- Section C: **5pm, Thursday 31 October 2019**

In addition, depending on sufficient industry demand, we will be hosting three roundtables during the exercise. These will provide firms the opportunity to discuss and seek clarifications on any aspects of the IST 2019. The life and general insurance roundtables will be held on Friday 12 July, and the Section C roundtable (covering climate change, cyber and liability accumulation) will be held on Monday 9 September. We will send invites through our normal supervisory channels two weeks in advance of these meetings.

Finally, we will expect the stress test submissions to be signed off by an appropriate senior manager at the firm. Further, we envisage that the stress test results will be subsequently presented to, and discussed by, the firm's board.

As both your firm, and the PRA, will benefit from your completion of the IST 2019, I trust that you will ensure the necessary people and resources are made available within your firm to provide a high quality response. Should you have any comments on this exercise please email IST2019@bankofengland.co.uk.

Yours sincerely



³ <https://www.bankofengland.co.uk/prudential-regulation/letter/2019/insurance-stress-test-2019>.

ANNEX

We have made the following changes to the Insurance Stress Test documentation and design following round tables held on May 10th and the technical input from participating firms:

1. Timing: We have brought forward the launch of the exercise by two weeks to June 18th and extended the deadline for Section C (including the Climate Change scenario) by one month (31/10/2019).
2. Governance: We have changed the request to allow a Senior Manager to sign off the results instead of the Board. However, results should subsequently be presented to, and discussed by, the Board.
3. Insurance Asset shock scenario:
 - a. For life insurers, we have amended the calibration such that firms will be required to assess the impact of a 50% (rather than 75%) notional split of all credit risky assets downgrading (by 1 Credit Quality Step or 3 notches).
 - b. For general insurers, we have removed the asset downgrade stress.
 - c. We have also provided clarification that general insurers should assume that insurance asset shock occurs instantaneously towards the end of 2019, allowing for changes in the business (eg premiums, claims, investments) per the business plan until the point of the stress. This is intentionally different from the life stress (where the stress is assumed to occur at the beginning of the year), reflecting the importance of new business in assessing solvency and capital requirements for general insurers.
 - d. Clarification has been provided that asset shock stresses apply to all economies.
4. Reserve Stress scenario: Reduced the additional claims inflation shock from 'in perpetuity', to 'lasting a maximum of 10 years'.
5. Cyber: Scenario moved to Section C (exploratory), reflecting a lack of common taxonomy and approach in assessing this risk within industry. Some additional clarification on the scenario definition has been provided.
6. Climate Change Scenario: Firms will now need to consider the physical impact on assets (not only liabilities) from climate change. Updates to the parameters and additional clarifications have been provided.
7. Liability exposure data: Firms to provide details of their internal sector classification in addition to the Standard Industry Classification.