

Prudential Regulation Authority

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Dear CEO

Insurance Stress Test 2022 (IST 2022)

Following the request for technical input in our letter to firms on Thursday 20 January 2022,¹ the PRA is today launching its biennial insurance stress test (IST) and is asking a number of the largest regulated life and general insurers to provide information about the impact of a range of stress scenarios on their business.

Our recent Dear CEO letter² highlighted that IST 2022 is one of the key priorities for the PRA and insurers this year. The objectives of the exercise are to:

- assess sector resilience to severe but plausible adverse scenarios;
- guide supervisory activity; and
- enhance the PRA's and firms' ability to respond to future shocks.

The PRA expects participating firms to fully engage and to provide comprehensive responses to its request. The PRA will publish a summary of the overall results. Individual firm results will not be published, but will inform the PRA's supervisory priorities.

Insurers that have not been asked to participate in the stress test may find the materials useful to inform their own stress testing exercises.

IST 2022 scenarios and materials

The scenario specifications, technical instructions and templates for recording results are available on the website.³ In addition, firms are requested to provide a supporting narrative in the "Results and basis of preparation" (RBP) report. The required content for the RBP report is also available on the PRA website.⁴ For life insurers, the PRA has also provided Solvency II Technical Information to be used in IST 2022.

¹ January 2022: <https://www.bankofengland.co.uk/prudential-regulation/letter/2022/january/insurance-stress-test-2022-request-for-technical-input>

² January 2022: [Letter from Anna Sweeney and Charlotte Gerken 'Insurance Supervision: 2022 priorities'](#)

³ May 2022: <https://www.bankofengland.co.uk/prudential-regulation/letter/2022/May/insurance-stress-test-2022>

⁴ May 2022: <https://www.bankofengland.co.uk/prudential-regulation/letter/2022/May/insurance-stress-test-2022>



The PRA scenarios reflect typical business profiles of participants – for example, (1) the life stress considers a fall in interest rates, as PRA analysis and firm reporting highlight the increased financial risk to life insurers of a low interest environment relative to one where interest rates are rising. Similarly, (2) the inclusion of a US hurricane scenario reflects the significant US exposures of participating London Market insurers.

Although these scenarios are expected to impact a significant number of insurers across the sector, they are by no means comprehensive, and insurers are expected to carry out their own scenarios most relevant to their business model.

In response to the current heightened geopolitical and economic risks, the PRA has included an additional question, which requires firms to consider the implications of rising inflationary pressures on their balance sheet and business model. These responses will also inform supervisory priorities.

Deadline for submissions and next steps

The deadline for submission is **5pm, Wednesday 28 September 2022**.

The PRA will be hosting a webinar for IST participants only on Wednesday 11 May 2022 for the launch of the exercise.

The PRA will be running Q&A process post launch to enable firms to ask questions as they are working on the submissions. Please send any questions to **IST.2022@bankofengland.co.uk**, with your firm's name and FRN in the subject of the email.

In addition, depending on sufficient industry demand, the PRA plans to host two industry roundtables in July to provide firms with the opportunity to discuss and seek clarifications on any aspects of IST 2022 on the following dates:

General Insurers: Monday 18 July 2022 (10:30 AM)

Life Insurers: Wednesday 20 July 2022 (10:30 AM)

If you would like to participate, please respond by **Monday 20 June 2022**, via the email address provided above, including any preferred issues/areas for discussion.

Yours sincerely,



Stefan Claus

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Attachments:

1. Life Insurance Stress Test 2022 – Scenario Specification, Guidelines and Instructions
2. Life Insurance Stress Test 2022 – Quantitative Template
3. General Insurance Stress Test 2022 – Scenario Specification, Guidelines and Instructions
4. General Insurance Stress 2022 – Quantitative Template
5. Results and Basis of Preparation Report
6. Solvency II Technical Information to be used for Life Insurance Stress Test Scenario