

Meeting Summary

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

20 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. Asset concentration exploratory scenario: objectives, design and output
2. Disclosure of starting point asset class composition: objectives and asset categorisation
3. Management actions
4. Timeline

Summary of meeting

This meeting started with the PRA responding to the members question on the objectives, design and output of the exploratory asset concentration scenario:

- Exploratory scenarios allow the PRA to explore emerging risks or vulnerabilities of insurer business models. These may often be in areas where modelling capabilities are still developing, and running a scenario as part of the stress test can help drive further improvement.
- In future stress tests the PRA may specify stresses at the level of individual assets. This will allow assessment of idiosyncratic risks, concentrated exposures and uncertainties around firms' ability to earn the MA. The PRA's engagement with the

firms highlighted that the industry does not have a comparable and consistent framework to assess such risks. As a stepping stone to this ambition, the LIST 2025 exercise includes an exploratory feature on asset concentration.

- In this particular scenario firms will be required to assess the impact of an additional downgrade stress to the asset category most material to their MA benefit (excluding corporate bonds and sovereign assets). This will provide insight into a firm's reliance on a particular source of MA and their vulnerability to possible idiosyncratic risks, beyond a general economic downturn.

The follow up discussion focused on:

- Asset category identification, including basing it around Matching Adjustment Asset and Liability Information Return (MALIR) classifications published by the PRA.
- Design of the downgrade stress, including rating category granularity.
- Most informative output – in particular, the PRA confirmed that the exploratory scenario findings will not be disclosed at the individual firm level as the PRA expects the results of exploratory scenarios to demonstrate a range in methodologies and ease with which the firms can model and assess these risks.

Next the SEG discussed disclosure of starting point composition of asset exposures. This included categorisation and its consistency across firms as well as asset characteristics that would be most informative in explaining the results of the stress test.

The following discussion on management actions focused on revisiting management actions allowed in previous exercise, LIST 2022, and lessons learnt to achieve comparability and consistency across firms.

The meeting concluded by reminding participants the timelines. In particular, the PRA highlighted planned publication of approach document to LIST 2025 alongside draft guidelines, and instructions to the firms in June 2024.

Members agreed on holding a number of additional technical workshops in the run up to June publication, with the aim to inform the instructions document.