

# Newsflash

## "Life Insurance Stress Test 2025"

### PRA publishes its approach to LIST 2025

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On 10 July 2024, the Prudential Regulation Authority (PRA) published its approach to [LIST 2025](#), along with guidelines, instructions and templates. Similar to 2022, the Life Insurance Stress Test (LIST) will be focused on Bulk Purchase Annuity (BPA) providers.

### LIST 2025

The LIST 2025 exercise will comprise of one core scenario and two exploratory scenarios. The core scenario will follow the previous LIST (LIST 2022), with three stages occurring over a year. The first stage will feature rapid shocks to interest rates, credit spreads, equity values and interest and inflation option implied volatilities. During the second stage, the stresses reach their peak with credit rating downgrades, along with property value stresses, whilst the third stage will represent some market recovery with insurers able to perform some of their management actions (including trading).

The exploratory scenarios are intended to assess emerging risks and vulnerabilities in insurers' business models. These scenarios align with some of the themes in the PRA's 2024/25 business plan, as follows below.

1. Asset concentration stress: exploring the impact of a further rating downgrade to the largest asset type (by exposure) in the Matching Adjustment (MA) portfolio.
2. Funded Reinsurance stress: exploring the impact for a Funded Reinsurance recapture for the insurers' largest Funded Reinsurance exposure.

A key change from the previous LIST is that the results from the core scenarios will be published at an individual firm level, allowing for comparisons of results. Publication of results at an individual firm level brings a greater need for consistency and comparability, and firms can likely expect a higher degree of scrutiny during the PRA's quality assurance phase. However, the consistent approach to the core scenario at a solo entity level and restriction of management actions to a permissible list means results may not fully reflect the resilience of the firm and the sector. Further, the 11-month timeframe from the start of LIST 2025 to the publication of results, means that the results will not likely give an accurate up-to-date picture, given the buoyant and ever-changing BPA market.

As for the exploratory scenarios, the PRA has acknowledged challenges remain in modelling these emerging risk in a consistent way, and therefore only plan to publish results at a sector level. However, the PRA's ambition to also publish all results at an individual firm level is clear, and firms will likely need to enhance their modelling capabilities for future LIST exercises.

### Solvency UK Regime

The PRA published its [policy statement](#) on the reforms to the MA on 6 June 2024, which we discussed in a previous [Newsflash](#). A number of these reforms to Solvency II have already been implemented (such as the reduction of the Risk Margin), with final changes due for 31 December 2024. Therefore insurers need to ensure that the stresses in LIST 2025 take into account some of the reform changes.

However, there will not be any requirements to recalculate the Fundamental Spread (FS) additions in stress, though the overall FS could change, for instance, due to the need to rebalance the MA portfolio. This will be a welcome relief for insurers who are still working through MA attestation requirements, and approaches to assessing and calculating FS additions (including FS additions in stress).

### Resourcing & Capabilities

The Solvency UK (SUK) reforms have meant that firms have needed to secure additional specialist resources to implement the necessary changes. In addition, insurers are currently working through the scenario phase of the Bank of England's System Wide Exploratory Scenario, examining the impact from a hypothetical liquidity shock and corresponding management actions. The LIST 2025 is a further driver of the ever-increasing need for robust and sophisticated stress and scenario testing capabilities. With the PRA signalling its intention to use the exploratory scenarios to inform on future LIST exercises, it is likely that firms will need to invest in their modelling capabilities and ensure there is sufficient resource.

### How we can help

We continue to speak to a wide range of insurers across the UK and abroad about their priorities and the hot topics on their agendas. These include risk and capital management, support for developing and validating SUK MA attestation frameworks, independent review of stress and scenario testing methodology, and using our in-house credit risk tools to support on areas such as sensitivity testing and portfolio analysis of MA portfolios.

If you would like to discuss the content of this newsflash further or any aspects of stress and scenario testing or SUK developments, [please get in touch](#) with one of the authors.

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