

Dive into pensions de-risking

# Under Pressure: How Life Insurers Fared in the PRA's Latest Stress Test



On 17 November 2025, the Prudential Regulation Authority (PRA) published its aggregate findings from its 2025 stress testing of life insurers.

## What is LIST?

The PRA has conducted regular life insurance stress tests (LIST) since 2019, with the last one being conducted in 2022. The stress tests apply a series of severe yet plausible events to insurers in order to assess individual insurers' and the sector's resilience. The tests have historically been designed to help guide supervisory activity and enhance the PRA and insurers' ability to respond to future shocks.

## What is new with LIST 2025?

Given the growth in pension buy-ins and buy-outs over recent years, the 2025 tests are specifically focused on the eight largest bulk annuity insurers<sup>1</sup> and are the first under the Solvency UK regulatory regime. The PRA recognises the importance of these insurers to pension schemes and their members, as well as the increasingly material role these insurers play in UK long-term investments.

The 2025 exercise introduces some new stress test scenarios. Unlike previous exercises, which have only disclosed results at an industry level, the outcome of the core stress tests will be published at an individual insurer level.

## Scenario overview

This year's stress test is broken down into two components: core and exploratory. The **core scenario** consisted of a market stress similar to that used in previous tests – the results published on 17 November 2025 were the aggregated results, and the individual results for the core scenario are due to follow on 24 November 2025.

The **exploratory scenarios** are designed to assess what the PRA deems to be emerging risks: asset type concentration and funded reinsurance. Given these emerging risks are harder to consistently assess and quantify, the results of the exploratory scenarios are only being published at an aggregate level and not at an individual one.

### Core scenario

Under Solvency UK, insurers are required to hold sufficient capital for a 1-in-200 stress over a one year

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<sup>1</sup> The tests covered the main insurance entities within Aviva, Canada Life, Just, L&G, M&G, PIC, Rothesay and Standard Life, covering over 90% of overall market bulk annuity liabilities.

period. Insurers also hold capital buffers designed to withstand foreseeable shocks whilst retaining a sufficient level of capital coverage above the regulatory minimum. Target capital coverage ratios (the ratio of capital resources to regulatory capital requirements) are typically in the range of 140% to 190%, with most firms operating well above target in the past 2-3 years. The PRA has set the core scenario in order to achieve a roughly 1-in-100 severity, with the results showing the impact on capital coverage ratios on aggregate across the sector. The scenario is examined over the course of three stages as follows.

| Stage                      | Overview                                                       | Further detail                                                                                                                                         |
|----------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Initial market shock    | Rapid financial market shock                                   | Interest rates fall 150bp nominal / 75bp real, equities fall 30% with increased volatility, credit spreads widen (e.g. BBB +270bp)                     |
| 2. Developing market shock | The stresses in stage 1 develop further to peak during stage 2 | Credit ratings fall and defaults occur, property values fall c.30%                                                                                     |
| 3. Markets stabilise       | Markets stabilise and liquidity improves                       | Credit spreads fall but remain elevated compared to base case (e.g. BBB +100bp vs base case); insurers are required to model certain restorative steps |

#### *Exploratory scenario 1: asset type concentration*

This scenario builds on the core scenario and considers an additional credit downgrade stress to the asset type most material to an insurer's matching adjustment benefit, i.e. to the asset class that provides them with the greatest amount of risk-adjusted yield (allowing for both the level of the yield and the amount of the asset type held). All participating insurers produced this scenario.

#### *Exploratory scenario 2: funded reinsurance<sup>3</sup>*

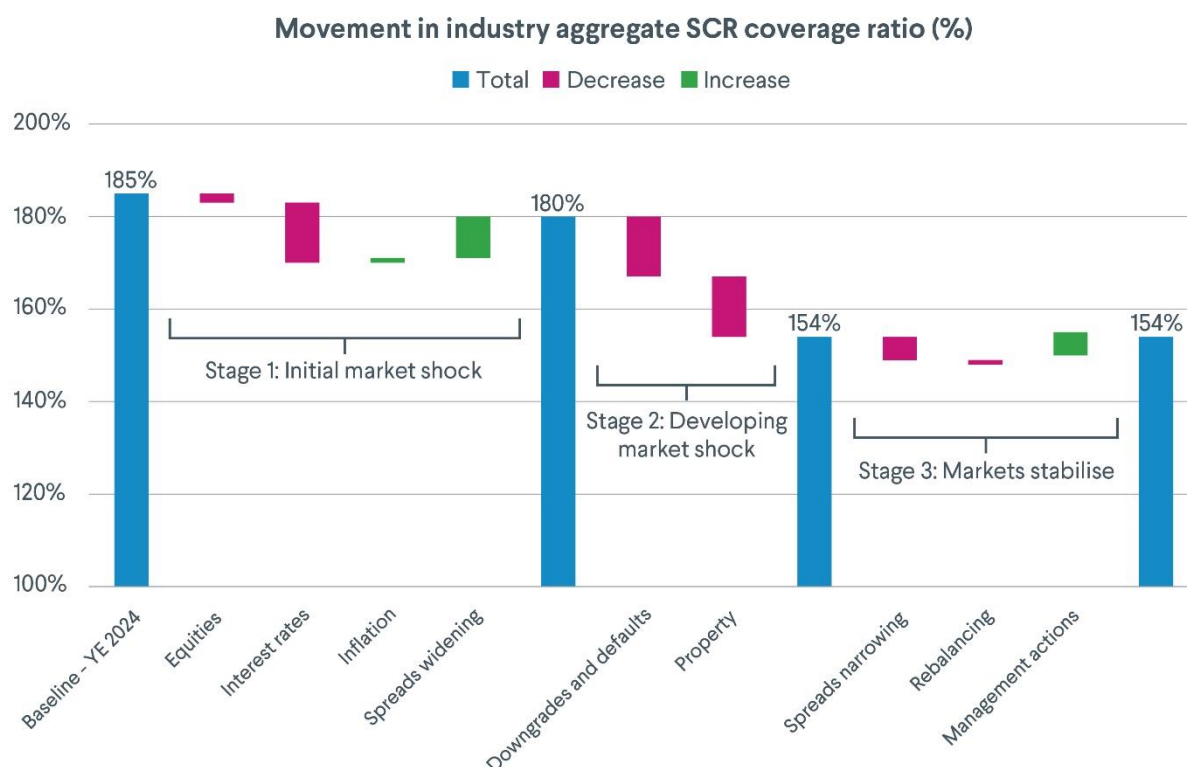
This scenario also builds on the core scenario and considers the impact of a recapture of all funded reinsurance arrangements with each insurer's most material funded reinsurance counterparty. Only insurers with material exposures to funded reinsurance participated in this scenario.

### **LIST 2025 findings**

#### *Core scenario*

From a starting overall industry aggregate Solvency Capital Requirement (SCR) coverage ratio of 185% for participating insurers at 31 December 2024, the adverse economic scenario stresses of the core scenario (set out in the table above) reduced this to 154%, with all participating firms retaining in excess of 100% of the regulatory capital requirements. The chart below illustrates the evolution of the SCR coverage ratio throughout the core scenario stresses.

<sup>3</sup> Funded reinsurance is where an insurer passes both longevity and asset risks to another party, similar to a buy-in – the insurer pays an up front premium to the reinsurer and the reinsurer then provides monthly benefit payments to the insurer. As part of a funded reinsurance transaction, insurers use a suite of contractual protections and collateral arrangements to protect against a reinsurer's financial strength deteriorating, as well as planned management actions should this occur. The idea in simple terms is that before (or, failing that, at) the point of a reinsurer failing, the insurer can step in and take control of a portfolio of assets that they can then use to back the liabilities themselves (a "recapture").



Source: Bank of England

The results show a reduction of SCR coverage ratio of 5% under Stage 1. Whilst the interest rate stress of 150bps has a reasonably material impact of a c. 10% reduction to the SCR coverage ratio, this is largely offset by an increase driven by the stress of widening of credit spreads.

The Stage 2 stresses, which represent further development of the Stage 1 stresses until they reach a peak, have the most material impact on the aggregate SCR coverage ratio, resulting in a 26% reduction. This is perhaps not surprising given how material both credit and property assets (primarily via Equity Release Mortgages) are to annuity provider portfolios.

Stage 3 stresses had a relatively low impact on the overall position, primarily as this stage reflects a partial stabilisation of the markets and allows the insurers to reflect management actions.

#### Exploratory scenario 1: asset type concentration

Exploratory scenario 1, which applied a 20% credit rating downgrade shock to the most material asset held (excluding corporate/sovereign credit exposures), found that the SCR coverage ratios across all firms fell a further 1% from the core scenario i.e. to 153%. For most insurers this was the result of additional stresses being applied to their Equity Release Mortgage portfolios – the report notes that these assets account for 16% of overall industry allocation. The small impact of the stress could indicate that the insurance portfolios are well diversified to absorb such a stress, although the PRA caveat that the test is likely to underestimate the impact of interconnectivity of risks. The test by design does not allow for the correlation of risk factors and their impact to asset classes but instead applies a downgrade stress to asset classes in isolation; something which the PRA have indicated they plan to consider further for future stress tests.

#### Exploratory scenario 2: funded reinsurance

Exploratory scenario 2 required those insurers with material funded reinsurance exposures to apply a scenario whereby their most material counterparty defaulted, and they were required to recapture the transferred risks back onto the balance sheet. The aggregate results showed a 10% reduction in aggregate

SCR coverage ratios relative to the core scenario i.e. a reduction in aggregate SCR coverage ratio to 144%. There are two key contributors to the change in headline rate:

- 1) An increase in the capital required to be held as a result of risks, notably longevity and credit risk, being recaptured onto the balance sheet; and
- 2) A proportion of the collateral assets supporting the transaction not being eligible under the Matching Adjustment<sup>4</sup> (MA) framework. The PRA has noted that most of the collateral being recaptured was deemed to be MA eligible so this can be considered a small contribution to the overall reduction to the aggregate SCR coverage ratio.

The findings highlight the importance of MA eligible assets within the recapture portfolio, enabling insurers to reintegrate assets and liabilities into their existing MA portfolios. The PRA did however note that where transactions and collateral pools potentially become more complex as the market develops, the impact of this feature may become more material.

One notable statistic coming out of the exercise was that c. £12.3bn of funded reinsurance contracts were recaptured under the stress scenario, which represents c. 50% of exposures. This figure suggests some insurers have relatively concentrated exposures to single reinsurers, though it should be noted that the results did not disclose the extent to which there is overlap between these reinsurers (to the extent there is overlap, this could introduce some systemic risk). We estimate that the total exposure<sup>5</sup> of all eight insurers to funded reinsurance is c.6%, or c.9% when considering only those insurers that have funded reinsurance exposures.

The PRA's key conclusion as a result of the exploratory scenario encourages insurers to develop and maintain stress testing capability in relation to recapture of funded reinsurance arrangements.

Exploratory scenarios are not due to be part of the individual level publication on 24 November 2025.

### What can pension schemes take from this exercise?

The objective of LIST 2025 is to determine the resilience of the life insurance sector's capital positions when faced with plausible economic scenarios. The fact that insurers still hold more than 150% of the required regulatory capital following the core stress scenario is a clear demonstration of this resilience. In addition, none of the insurers fell below the required level of regulatory capital at an individual level.

Given the significant focus on funded reinsurance over the past few months, exploratory scenario 2 is likely to be of particular interest. Results show that participating insurers remain well capitalised, in aggregate, under the recapture scenario tested, but the PRA is clear that, consistent with the related speech given in September this year<sup>6</sup>, it is considering whether further action is needed to ensure that the capital treatment of funded reinsurance is appropriate.

Trustees that have already insured or are looking to progress with an insurance transaction should take comfort from the fact that the PRA is regularly stress testing insurers and from the resilience of the sector shown by the results of LIST 2025.

The individual results of the core stress test are due to be published on 24 November, which we look forward to analysing in due course.

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<sup>4</sup> A requirement for assets being held to support annuity portfolios having highly predictable cashflows and being well matched to the expected liability outflow.

<sup>5</sup> Funded reinsurance exposures are consistent with those used for LIST 2025, which considers agreements entered into since 2016 and excludes intra-group reinsurance.

<sup>6</sup> See our September 2025 newsflash [Latest on Funded Reinsurance](#).

## Get in touch

If you have any questions about anything covered, please don't hesitate to get in touch.



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