Institute and Faculty of Actuaries

31 March 2025

PRA Consultation CP19/24

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

Key points

The IFoA welcomes the opportunity to respond to PRA CP19/24. We support the introduction of new liquidity reporting requirements and agree with the PRA that recent market wide events as well as emerging liquidity risks are key reasons for the need for consistent and comparable liquidity reporting information. Our consultation response focuses on four primary areas:

Data Templates and Requirements: we suggest the PRA consider allowing simplifications in respect of certain aspects of the data request template. We believe this can be done without compromising policyholder protection. In addition, we suggest that the PRA provide additional clarity in relation to cash flow optionality and consider permitting the use of simplifications when populating the liquidity reporting templates.

Submission Timelines: we also suggest the PRA consider whether the monthly submission of the short form template on a T+1 basis is required. An alternative approach, such as monthly comparisons between the short form T+1 output against the required T+10 output could be sufficient to demonstrate the ability to deliver the short form report on a daily basis in times of stress.

Implications for Liquidity Risk Management: the liquidity reporting requirements are intended to supplement existing liquidity risk management requirements set out in SS5/19. The proposed reporting requirements may require firms to review their internal liquidity risk management frameworks. We believe there is a risk that standardisation of the reporting templates, and the potential introduction of a minimum liquidity requirement in the future, may lead to liquidity risk management frameworks being focussed on the PRA submission templates, rather than being specific to the risks each company faces.

Implementation Timelines: given the implementation activities, including the interaction with the liquidity risk management framework and proposed T+1 reporting requirement, we believe the implementation timeline is very challenging. We consider that an extended implementation timeline would give firms the ability to implement strategic solutions in a robust and controlled manner. The current timeline could result in the PRAs objects not being met as robustly as desired, and insurers needing to deploy tactical solutions to meet the deadline, resulting in additional implementation costs to firms.

We would be delighted to engage further with the PRA to ensure these measures are effectively implemented, balancing policyholder protection with the PRA's objectives for competitiveness and growth.

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PRA Consultation CP19/24
IFoA Response

Introduction

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's Consultation Paper CP19/24 *Closing liquidity reporting gaps and streamlining Standard Formula reporting*. Amongst others, members of our Liquidity Working Party reviewed the PRA's proposals within the CP. Members of the Working Party work for a range of insurers or insurance consultancy firms.

2. We support the implementation of additional liquidity reporting requirements, given the impact of recent market wide events, such as the 2020 'dash for cash' and the 2022 Liability-Driven Investment (LDI) crisis, and the current lack of consistent and comparable information across firms. As noted within our response, we do, however, consider there to be areas which could be streamlined, whilst providing a consistent level of policyholder and firm protection

3. It is important to note that, as with any IFoA response, we have considered the PRA's liquidity proposals from an independent, public interest perspective. In doing so, we have considered the potential implications on safety and soundness, maintaining policyholder protection but also advancing the PRA's secondary competitiveness and growth objective.

4. We believe that the IFoA has an important role to play in the management and reporting of liquidity risk within the UK Insurance market and we would therefore be delighted to discuss our response with the PRA in due course.

General Comments

5. We support the introduction of new liquidity reporting requirements and consider it to be important that the PRA has access to robust and consistent liquidity information, that can be produced efficiently in times of stress. As liquidity risks faced by firms continues to evolve, the proposed reporting requirements will help to enhance both the management and monitoring of liquidity risk. We also note and appreciate that the PRA's direction of travel also aligns with global regulator direction and agendas, which ensures that the UK insurance market is keeping pace.

6. Insurers have historically focused on capital as the key metric to mitigate failure, and with large quantities of available liquid assets and therefore more granular and regular liquidity reporting was not deemed to be required. With that and the existing limited nature of liquidity reporting, a granular/ bottom up view of liquidity risk exposures is typically not readily available at high frequencies (e.g. daily) in UK insurers. This contrasts with other financial sectors where liquidity risk is more prominent.

7. The PRA has noted that during the 2020 'dash for cash' and 2022 'LDI crisis', sufficient reporting of live liquidity position was not readily available, for either firms themselves or for the regulator to monitor. In addition, there has also been a rising liquidity exposure for UK insurers from use of derivatives, use of Repo/R.Repo facilities, greater sophistication in structuring, Pension Risk Transfer (PRT) liability features and asset allocations. With the evolving exposure that UK Insurance firms face to liquidity risk, we agree that there is a requirement to increase the liquidity reporting standards.

8. The reporting templates will provide both firms and the PRA with the information to make informed decisions, which will act to protect policyholder interests and align to the expectation of international

liquidity reporting standards. Given the nature of the liquidity as a risk, we recognise that there is little value in low frequency risk monitoring, and lags in reporting of liquidity risk positions.

9. In preparing detailed comments on the consultation, we have focussed on the following four areas:

    - data templates and requirements;
    - submission timelines;
    - implications for liquidity risk management processes;
    - implementation timelines.

10. We have also commented on the proposed amendments to Solvency II Standard Formula Reporting.

Data Templates and Requirements

11. We understand the rationale for each of the four data request templates and support the intended purpose and information that is proposed to be collected. We have considered the requirement and the associated instructions and have the following specific comments in relation to the data items requested:

    - the draft guidance for the cash flow mismatch templates states that 'where an option to defer payment or receive an advance payment exists, the option must be presumed to be exercised where it would advance outflows from the firm or defer inflows to the firm';
        - we suggest that the PRA provide additional guidance on the key asset and liabilities to which this is expected to apply;
        - for example, should firms have to model that all eligible deferred members become in payment and that each will take the maximum permissible cash lump sum?
    - the current proposal includes a significant number of data cells at granular reporting timesteps;
        - we suggest that introducing a simplified process could be considered;
        - for example, where there are simplifications made when populating the forms, these could be subject to an agreed internal governance process and material/ significant simplifications should be disclosed to the PRA.

12. In addition, the PRA has requested that sensitivities and stresses are produced in both the cash flow matching template and the market risk sensitivity template. In our view the information requested is reasonable, but we note that the PRA does not give guidance or comment on how they will interpret the results of any sensitivities that are produced. We believe it would be beneficial to firms if the PRA provided further explanation as to how the results of the sensitivity and stresses should be used to inform liquidity risk management practices. If the PRA expect it to be at the discretion of each firm to set and manage sensitivity limits and tolerances, then sufficient time needs to be allowed to enable firms to assess whether this information should be incorporated into their liquidity risk management policies.

Submission Timelines

13. In our view the submission timelines for the reporting templates are reasonable but we recognise that the submission of the short form template on a T+1 basis is likely to present certain challenges for firms. For example:

    - firms are expected to have certain data reliances on internal process and third parties, where information is not currently provided or available in the required timeframe;

  - this would mean that firms are likely to have differences between both the processes and data feeds required to produce the short form and full cash flow mismatch template, which could lead to differences in the T+1 and T+10 submission;

- the submission at T+1 will allow for a reduced internal governance and review process than would be standard for regulatory submissions;

  - this therefore may increase the risk of error within the submission and could result in differences between the T+1 and T+10 submission.

14. We understand that the PRA are requesting this information on a T+1 basis to ensure firms can accurately report quickly in times of stress. However, we suggest that the PRA consider whether permitting the submission of the short form template (produced on a T+1 basis) along with the full cashflow mismatch template, with an explanation of any differences, would still provide the PRA with consistent information in a timely manner in normal circumstances. This alignment would enable firms to adopt a consistent governance process, whilst demonstrating the ability to accurately produce the short form template on a T+1 basis.

15. If the submission timeline remains at T+1, we believe it important that the PRA recognise that there are likely to be differences between the T+1 and T+10 output. Whilst firms should have processes in place to minimise these differences, further clarity could be provided to firms if it is realised that the T+10 submission will differ from the previously submitted short form template. We consider this to be particularly important as firms are establishing their liquidity reporting processes.

Implications for Liquidity Risk Management Processes

16. The PRA notes its expectations for effective management of liquidity risk that Supervisory Statement (SS) 5/19 liquidity risk management for insurers, will remain an important part of the PRA's supervision of liquidity risk management. The proposals in CP19/24 will therefore supplement the requirements set out in SS5/19 by closing gaps in its reporting framework with respect to liquidity risk.

17. Whilst the reporting requirements will supplement the existing liquidity risk management framework for insurers, we believe that there will be an additional exercise that the industry will need to consider when interpreting and understanding the results and outputs required by the CP.

18. Firms will need to interpret the output of the liquidity reporting framework and assess the results alongside their own liquidity risk management. This may include, for example, assessing both results in times of stress to ensure that the dynamics and relationships are well understood.

19. The CP has a clear focus on short (i.e. up to 7 day) liquidity requirements. Whilst this may be considered as part of a firm's existing liquidity risk management framework, it would be expected that current analysis is not performed at this level of granularity. Firms will therefore need to make a decision on how the liquidity reporting requirements should be reflected in their internal liquidity risk management processes. As noted previously, this may extend to the level of coverage that is required relative to the sensitivities and stresses set out in the PRA's proposed reporting templates.

20. The PRA also noted that the proposals would also enable the PRA to consider the prudential case for a minimum liquidity requirement in the future. Whilst we understand why the PRA may consider a minimum liquidity requirement, we would not expect that this should undermine the current liquidity management policies that firms have in place. Ultimately each firm themselves are best placed to determine and risk manage the liquidity resources required for their own business model.

21. Any minimum liquidity requirement would need to be considered in relation to both the additional reporting that is produced and the current liquidity risk metrics considered by firms. We would expect any proposal to be efficient for firms to implement based on the information set out within the proposed

reporting framework, such that it does not introduce an additional overhead in terms of cost and implementation.

22. We consider that the firms in scope of the reporting requirements, will have different liquidity risks and their focus will be on the ones most important to their business, not ones purely for consistency of what others have. Assessing firms against a standardised framework, with prescribed sensitivity tests, could have unintended implications. For example:

- liquidity risk management frameworks may converge to focus on the data that is set out within the liquidity risk management reporting templates;
    - this could introduce a risk that more focus is put on the information disclosed to the PRA and less emphasis is placed on the internal risk identifications, assessments, and reporting metrics;
- having insurers all standardise to how they assess liquidity, may force them to all act in a common way should a market liquidity event occur, with potentially a common response of UK insurers driving the risk further.

23. We note that developing a minimum liquidity requirement is beyond the existing scope of CP19/24, but we consider it important to be cognisant of future potential developments that could impact the liquidity risk management of firms going forward.

Implementation Timelines

24. We consider that the implementation timeframe is very challenging. We consider the following areas to present the biggest implementation challenges within the proposed timelines:

- production and testing of a process to be able to submit data on T+1 with confidence. This would likely require firms to perform dry-run control testing at Q3 2025 to ensure that processes are automated in advance of the year-end submission;
    - as the liquidity reporting requirements are expected to be finalised in Q2 2025, this presents a significant implementation challenge;
- analysis and interpretation of results to ensure that the templates and dynamic behaviour of the output are well understood;
    - given the production time, if dry-run output is not available until Q3 2025, this gives limited time for testing and sensitivity analysis of results;
- reflecting any potential changes to the current liquidity risk management framework to give consideration to the liquidity reporting requirements would require board approval and engagement;
    - the timeframes proposed do not give firms a significant amount of time to assess and implement any changes that may be required to their liquidity risk management practices for year-end 2025, in order to coincide with the first submission date.

Solvency II Standard Formula Reporting

25. We support the aim to reduce the reporting of Standard Formula (SF) Solvency Capital Requirement (SCR) information. We believe however that further changes/ clarifications may be necessary to help achieve this.

26. We note that paragraph 5.6 explains ‘firms will still need to maintain the capability to be able to fulfil a PRA request for an estimate of the SF SCR’. We are not convinced this is necessary, and believe it

could offset the potential benefit of the wider proposals. In our view SF SCR calculation is only necessary where Internal Model (IM) approval is removed; this may now be less likely given recourse to Residual Model Limitation and Capital Add-On tools.

27. If however the PRA decide to retain this requirement, we would welcome greater clarity on the circumstances where SF calculations could be required and how existing SF processes could be materially scaled back from current levels to realise the cost savings.

28. Finally, the benefit of removing SF.01 could, in our view also be lost if firms had to calculate SF SCR results for other purposes.

Should you want to discuss any of the points raised please contact me, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Steven Graham
On behalf of Institute and Faculty of Actuaries