

Life Insurance Stress Test 2025 and Bulk Purchase Annuity market update



List 2025: What you need to know

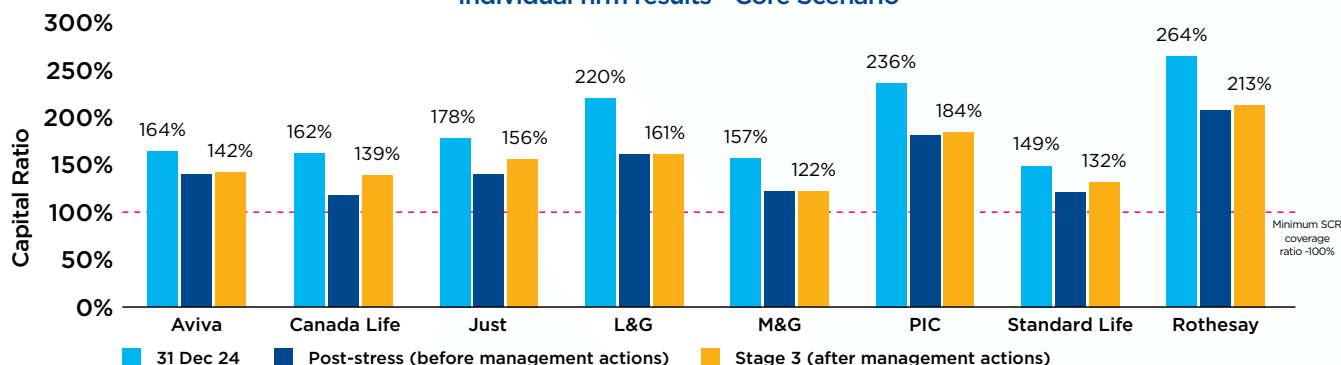
- The Prudential Regulation Authority (PRA) has now released the sector and individual results of its life insurance stress test (LIST) 2025 which seeks to test whether insurers can withstand a severe yet plausible financial shock; it is not a pass-fail exercise but provides the PRA, trustees and sponsors with information about their resilience.
- Insurers demonstrated resilience to a severe stress (broadly a 1-in-100 year event), given the substantial level of excess capital in the market, with a fall in the aggregate solvency capital requirement (SCR) coverage ratio from 185% to 154% under the core scenario.
- Insurers were also resilient to additional shocks with the exploratory scenarios on asset concentration and funded reinsurance (FundedRe) resulting in further decreases to the aggregate SCR coverage to 153% and 144% respectively.
- On an individual basis, all insurers retained headroom above the minimum requirement of 100% with those with higher starting capital ratios maintaining significant headroom.
- Business model and mix had a material impact. Those with large ring-fenced with-profits funds (Aviva, M&G and Standard Life) had lower ratios post-stress, in part due to the impact of the treatment of with-profits on a regulatory basis; these insurers argue that a 'shareholder' view that adjusts this better reflects the risks for policyholders.
- The exercise has limitations, including that the core stress is just one possible scenario and that the PRA prescribes a limited list of management actions, for example with insurers that are part of wider groups not able to account for support that may be available and which could make a difference to results.
- Overall, LIST 2025 is reassuring, however, future exercises may allow for better comparison between insurers as the PRA learns from this first round and once capital ratios converge towards normalised levels at the top end of the market.



LIST 2025: Actions you can take

- **Undertake appropriate due diligence** on any potential buy in to ensure you understand the **key risks** and **mitigations** for this significant investment decision
- Get in touch with your **usual XPS contact** to discuss any of the results below further

Individual firm results - Core Scenario



NB: Aviva = Aviva Life & Pensions UK Ltd; Canada Life = Canada Life Limited; Just = Just Retirement Ltd; L&G = Legal & General Assurance Society Ltd; PIC = Pension Insurance Corporation; Standard Life = Phoenix Life Limited; Rothesay = Rothesay Life plc; M&G = Prudential Assurance Company Limited

LIST 2025: The finer detail

- The PRA's core scenario assesses a severe financial market shock in three stages, including a decline in risk-free rates, decreases in equity and property prices as well as widening spreads followed by defaults and downgrades. Stage 3 included portfolio rebalancing and specific management actions which firms could choose to take
- The PRA also considered two additional exploratory scenarios on asset concentration (focusing on an additional 20% credit downgrade shock) and FundedRe recapture risk
- The results of the asset concentration scenario, may suggest that insurers' asset portfolios are well diversified, although there may be more concentration and interconnected risks in practice
- The FundedRe scenario demonstrated the importance of collateral being eligible for inclusion within the Matching Adjustment Portfolio, as well as the non-linear impact on risk if FundedRe use grows



We expect to see a continued trend in strong pricing and competition which is great news for schemes of all sizes contemplating an insurance transaction in 2026.

Steve Purves
Partner and Head of Risk Settlement

Private equity involvement in the BPA market

There has been an increase in private equity involvement in the BPA market, including acquisitions (PIC / Apollo-backed Athora and Just / Brookfield, both subject to PRA approval) and strategic partnerships (L&G / Blackstone); Standard Life is also rumoured to be seeking investment.

This could result in a change in risk profile, and we would expect higher allocations to less transparent private credit and greater concentration of assets originated by partnership groups. These would, however, still be subject to regulatory requirements.

FundedRe

FundedRe continues to be a focus for the PRA and the inclusion of a recapture scenario in LIST 2025 is helpful transparency even if individual results were not released.

Concentration of risk is a further theme here given the limited number of providers as is private equity involvement in the FundedRe market.

The PRA is considering whether further action is required.

Competitive small and mid-size market

Around 350 transactions are expected this year (compared to 300 in 2024) although overall transaction volumes are expected to be c.10% - 15% lower than 2023 and 2024.

The market has therefore been skewed towards small and mid-size transactions which have also benefitted from new entrants operating in this segment.

Pricing and competition have therefore been strong; this is likely to continue into 2026 with insurer capacity expected to be greater than overall demand.

Find out more

For further information, please get in touch with **Leanne Goold**, **Alex Radhakrishnan** or speak to your usual XPS Group contact.



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