HYMANS ROBERTSON

Briefing note

Large UK insurers face increased scrutiny on liquidity risk

This communication is intended for insurers, reinsurers, asset managers, banks, and building societies only. It is published for informational purposes only, and does not constitute advice.

17 December 2024

Marc Storan
Head of Insurance Investment Strategy
marc.storan@hymans.co.uk

Sarah Rabbolini
Senior Consultant - Insurance & Financial Services
sarah.rabbolini@hymans.co.uk

Sanjiv Harindran
Associate Consultant - Insurance & Financial Services
Sanjiv.harindran@hymans.co.uk

On 11 December 2024, the PRA published a Consultation Paper 19/24 on their proposals to formalise regulatory reporting for liquidity risks[1].

Summary

The Prudential Regulation Authority (PRA) is set to implement a mandatory regulatory framework for liquidity risk reporting of major UK life insurers, effective on 31 December 2025. This builds upon the standards of liquidity risk management detailed in SS5/19 and addresses issues highlighted in the 2024 insurance supervisory priorities letter. The commitments will require more frequent and granular reporting on liquidity risk. As such, firms need to immediately begin building out their reporting capabilities to meet the challenging submission targets and daily demands of reporting under stress. The first short form disclosure could be expected to be submitted on 1st January 2026.

Why is this being introduced?

The PRA believes there is a distinct lack of liquidity reporting that appropriately captures firm-specific risk exposures to inform the PRA's application of remedial actions. The introduction of the framework should help to address any inconsistencies between firms' application of SS5/19 and may help inform the PRA on a regulatory minimum liquidity requirement in the future.

The PRA has noted a marked increase in the use of derivatives and secured financial transactions (SFTs), where the former has seen a doubling of gross notional exposure to £1.4 trillion since 2018. Both investments attract significant sources of liquidity risk via margin and collateral payments. This was most evident in the two market stresses of "Dash for cash" (Covid 19 uncertainty) and "LDI episode" (the September 2022 mini-budget).

[1] Whilst not covered here, this CP also discusses the removal of annual SF SCR reporting via the SF.01 template: Solvency II: Monitoring model drift and standard formula SCR reporting for firms with permission to use an internal model

The PRA cites growing international focus on enhanced liquidity risk monitoring where international jurisdictions have already taken steps to increase granularity of reporting frameworks & requirements (EU) and employ sensitivity testing of liquidity sources & demands over multiple time horizons (USA). The PRA also notes the findings of the International Monetary Fund's Financial Sector Assessment Programme on the UK alignment with the International Association of Insurance Supervisors' ("IAIS") guidance on insurance supervision, which suggests the UK may benefit from enhancing liquidity reporting around short-term cashflows & derivatives.

Who does this affect?

To maintain proportionality in implementation, these requirements will be restricted to firms with material exposures to liquidity risks under the following conditions:

- **Asset value**: average of **£20bn** over preceding three quarterly reporting periods.

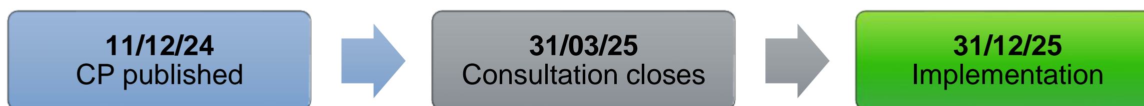
and one or both of:

- **Gross notional of derivatives**: holdings in excess of **£10bn**.
- **SFT exposure**: holdings in excess of **£1bn.**

Points to note:

- Above excludes any assets backing index-linked or unit-linked contracts.
- Does **not** apply to Society of Lloyd's or its managing agents, third-country branches or non-Solvency II firms.

When will this be implemented?



Important to note: first submission of information appears to be the "Cash flow mismatch (short term)" template on **01/01/2026** using the liquidity position as at **31/12/2025**

How do we think this will impact firms?

Insurers will need to perform a gap analysis against their current liquidity processes, with particular attention paid to whether:

- data is available, and calculations performed, at the granularity required.
- existing processes have sufficient governance and controls or if these need to be developed.
- processes enable reporting at the speed proposed in the CP and to the quality required.

The latter point is of importance because the proposals detail frequencies and submission targets that are comparatively more challenging than existing regulatory submissions. This is most evident for daily reporting under stress where automation of reporting will be vital

How Hymans Robertson can help

We have been supporting our clients to improve their liquidity reporting and frameworks for a number of years and have recently also supported with international liquidity frameworks and requirements. We have also been supporting in optimising and automating financial and actuarial processes. Therefore, we can help you to:

- identify any gaps between the requirements within the CP and your current frameworks and processes.
- Perform an end-to-end review of your liquidity reporting processes to identify areas for optimisation.
- Provide ad-hoc SME support to your overall liquidity project, including providing an independent opinion over your existing liquidity framework and how this compares to your peers.

If you would like to hear more, please get in touch with your normal Hymans Robertson contact or the authors of this paper.

The additional section below discusses the key reporting requirements under each of the four new templates (full details & instructions can be found in Appendix 2 of the consultation paper).

Reporting templates

Cash flow mismatch

Requirements/data

- **Backward looking** (financial contracts → short time steps & granular; insurance contracts → longer & less granular).
- **Forward looking** (short term: daily reporting for one week after reporting date; longer horizon: less frequent time steps).
- **Cashflows** (insurance & reinsurance contracts, debts, other financial contracts).
- **Counterbalancing capacity** (granular disclosures of {asset class, credit rating, residual maturity & sector}).
- **Market-driven outflows** (downgrades, market shocks, etc.).

Purpose: assess liquidity adequacy in normal market conditions & under stress and monitor potential mismatches, using backward-looking data (stress materialisation) & forward-looking data (cashflow mismatches)	
Scope: individual ring-fenced funds (RFFs), individual matching adjustment portfolios (MAPs), remaining solo entity	
Frequency: monthly cycle	**Submission target**: T+10

Cash flow mismatch (short term)

Requirements/data: subset of “Cash flow mismatch” template

Purpose: assess readiness for accelerated reporting & monitor key drivers of liquidity adequacy during stress	
Scope: as above for “Cash flow mismatch” template	
Frequency: monthly cycle (normal conditions) | daily cycle (stress conditions)	**Submission target**: T+1

Committed facilities

Requirements/data

- Committed credit & liquidity facilities where total for each exceeds **£10m** (or foreign currency equivalent).
- **Details of facilities** (lender, contractual payments, maturity date, collateral requirements, withdrawals on facility & remaining available facility).

Purpose: estimate the nature & availability of additional liquidity under stressed market conditions	
Scope: solo entities and groups	
Frequency: annual cycle	**Submission target**: T+70

Liquidity market risk sensitivities

Requirements/data

- **Market stresses** (interest rates, sterling FX rates, inflation, bond spreads {government & corporate}).
- **Qualifying assets** (government bonds, investment grade corporate bonds, shares, derivatives – including mark-to-market values).
- **Qualifying collateral/margin payments or short-term repayments** (derivatives, SFTs, reinsurance contracts).
- No allowance for correlation between stresses.

Purpose: assess the sensitivity of liquidity positions to changes in market variables	
Scope: solo entities	
Frequency: quarterly cycle	**Submission target**: T+30

London | Birmingham | Glasgow | Edinburgh **T** 020 7082 6000 | www.hymans.co.uk

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party.

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

© Hymans Robertson LLP 2024. All rights reserved.