Institute and Faculty of Actuaries

Liquidity risk in the UK

Liquidity working party

Purpose of this session

Whilst liquidity risk has historically been an area of importance for life insurers, 2022's "LDI crisis" brought it into sharper focus.

In the time that followed, the industry has found itself grappling with how it can most appropriately measure and manage liquidity.

In this talk, the IFoA's Liquidity Working Party will:

- Provide an overview of liquidity risk management and associated regulation in the UK.
- Summarise its response to December's liquidity risk reporting consultation paper.
- Discuss the results of its recent survey on liquidity risk management.

Jon Mitchell

Erin Nam

Liquidity risk for Life insurers

- Liquidity risk is the risk that a firm is unable to realise investments and other assets to settle financial obligations when they fall due.
- Life insurers face **liquidity risks from numerous sources**, across both assets and liabilities.
- Recent market stresses have **exposed shortcomings and gaps** in life insurers' liquidity reporting to the PRA [1].
- The increased **use of derivatives and financial instruments** by UK life insurers is a source of additional liquidity risk and consideration.

[1] https://www.bankofengland.co.uk/prudential-regulation/publication/2024/december/closing-liquidity-reporting-gaps-consultation-paper

Current regulatory landscape

- The PRA will continue to engage with relevant firms on the proposed liquidity reporting requirements set out in '**CP19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting'**.

- The regulator previously set out its **expectations for a robust liquidity risk management framework in SS5/19**. However, there has been an increase in regulatory focus on firms' approaches to liquidity management of late.

- The PRA has also confirmed [2] that it will follow-up on the **thematic review** it conducted last year on life insurers' liquidity risk appetites, where it identified approaches that would benefit from further development.

[2] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2025/insurance-supervision-2025-priorities.pdf

Working party areas of focus

SS5/19 – Liquidity risk management survey

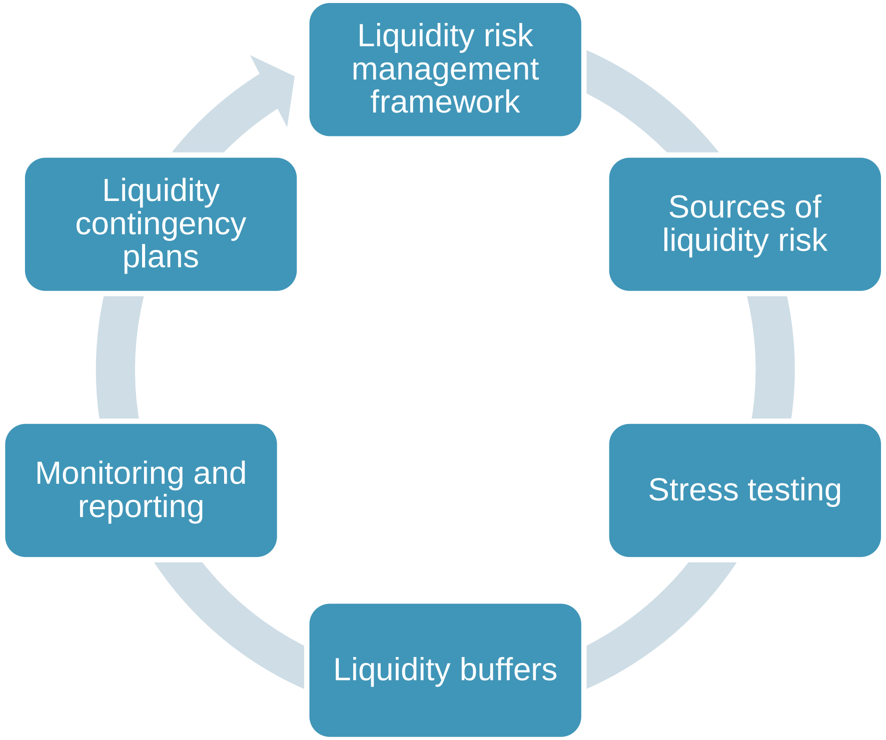
- Survey sent out and responded to by 7 firms
- Focussed on:
  - Process and Governance
  - Methodology
  - Liquidity management / optimisation
  - Models / tools

CP19/24 – Consultation response

- Consultation closed **31st March 2025**
- Implementation **now expected in 2026**.
- Working party submitted consultation response with four areas of focus:
  - Data and requirements
  - Submission timelines
  - Implications for risk management
  - Implementation timelines

Liquidity risk management framework

Below, we set out the key components of the liquidity risk management framework, as set out with SS5/19. [3]



[3] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss519.pdf

Institute and Faculty of Actuaries

Liquidity risk management survey

Background

The LWP conducted a benchmarking survey on liquidity management practice in December 2024.

The survey consisted of multiple choice and open-ended questions in a range of areas:

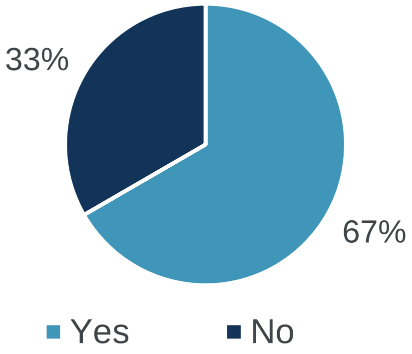
- Hot topics
- Methodology
- Process and governance
- Models and tools
- Contingency and optimisation

A full report will follow later this year.

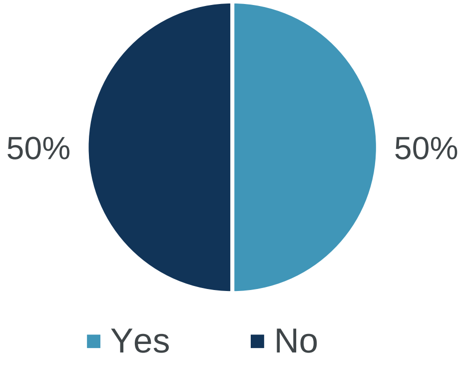
Hot Topics

- **2022 Mini-budget**

Was your liquidity position adversely impacted by mini-budget?



Did you activate any of your contingency plans?



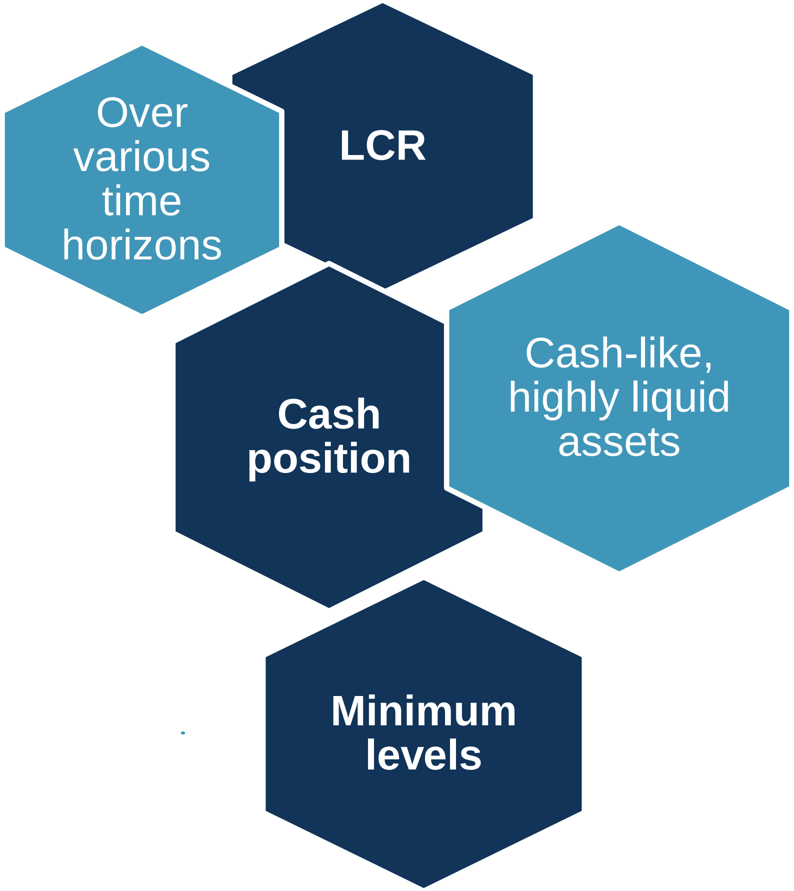
- **Sources of risk**: Asset-side risks stood out as the most common source of liquidity risk. 5 out of 6 cited collateral posting as the main liquidity risk impacting their Matching Adjustment portfolios.
- **Regulatory focus**: Firms generally agreed that the PRA’s focus on liquidity management is well founded but 5 out of 6 firms expressed concerns over the proposed reporting requirements.

Methodology (1)

- **Metrics**:

- The Liquidity Coverage Ratio (LCR) is consistently the main metric used to manage liquidity.

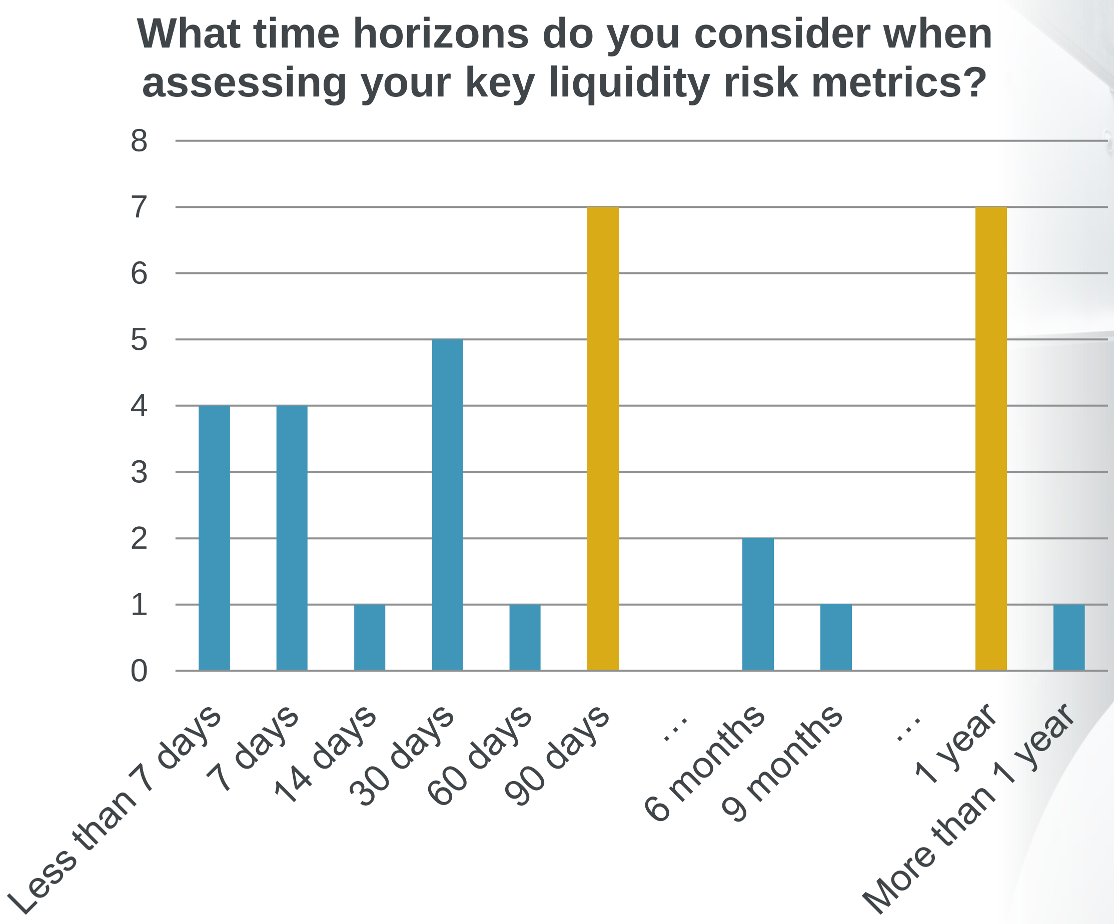
- Several firms also used variations on the LCR or tests. However, firms tended to use a number of metrics and not rely solely on LCR.

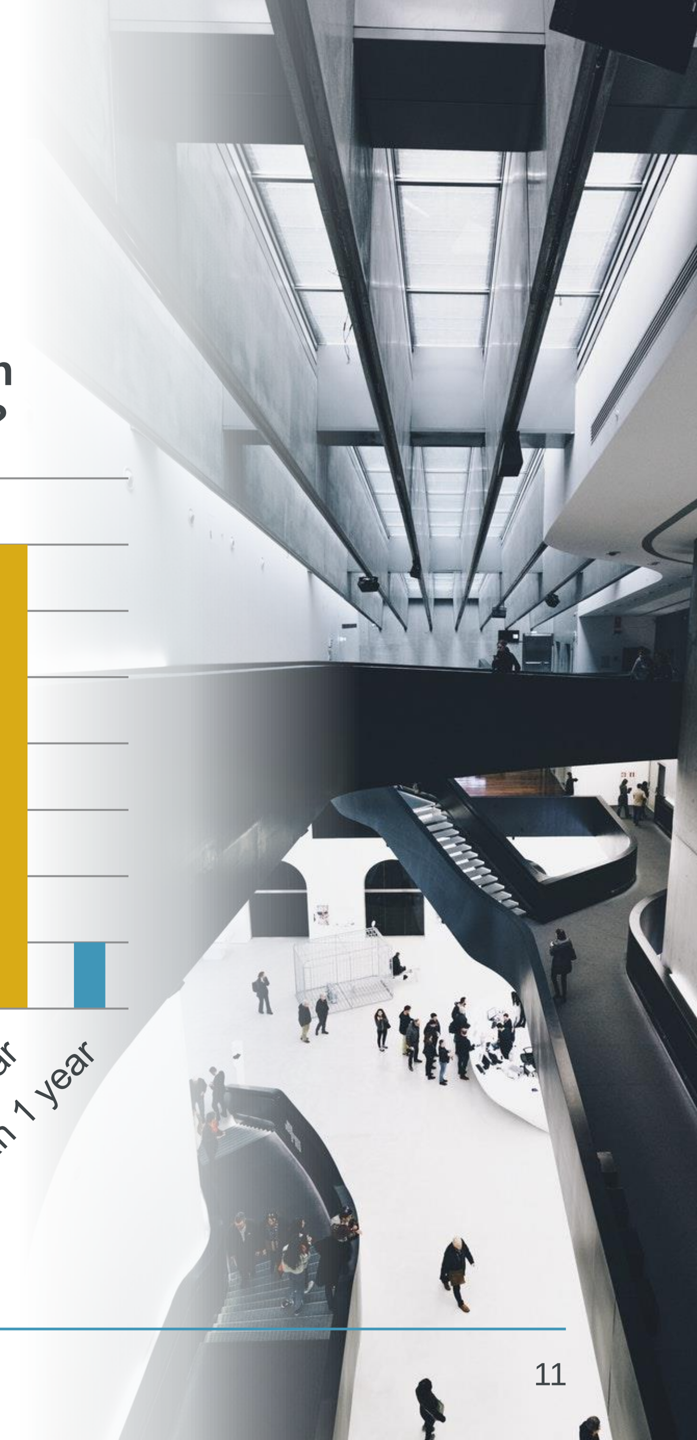


Methodology (2)

- **Time horizon**: All firms monitor liquidity over 90 day and 1 year time horizons. 4 firms considered less than 7 days.

- **Stresses calculation**: The majority of firms set stresses at a 1-in-200 year level. Several firms used their internal models to calculated liquidity stresses but adjusted the models to reflect own liquidity risk exposures.





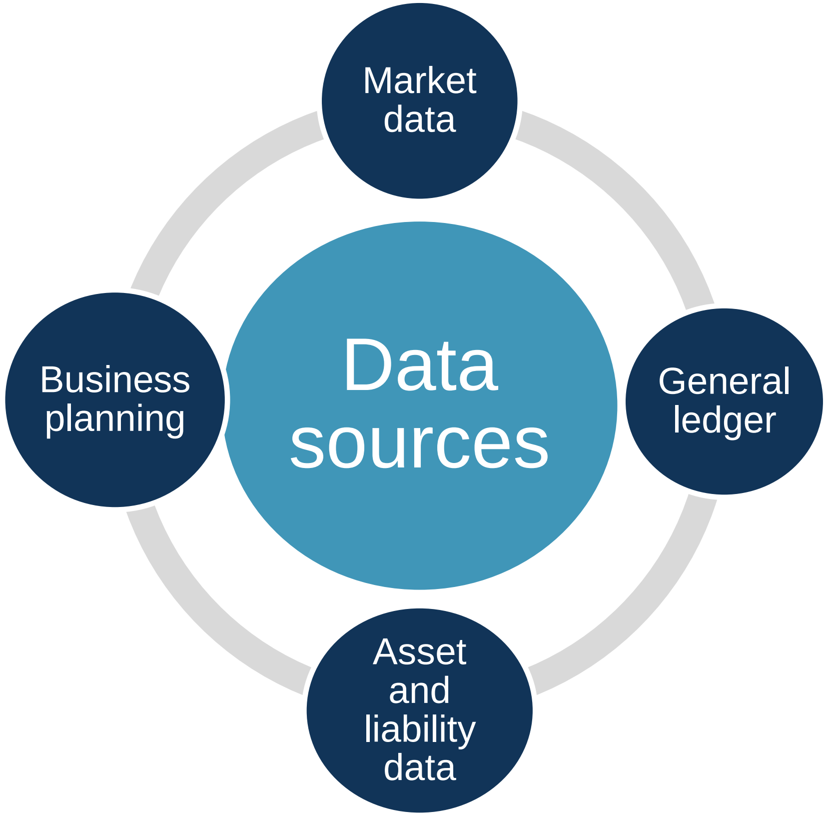
Process and governance

- **Liquidity reporting**: There were a range of responses for the time taken for firms to internally report on their liquidity positions after the valuation date. In some cases, estimated positions would be ready more quickly.

- **Liquidity risk policy**: 4 out of 7 respondents stated that Finance would own their liquidity risk policy. 6 firms review this policy at least annually, with one reviewing every two years. Those that did cited material risk appetite changes, model calibrations and expert judgement.

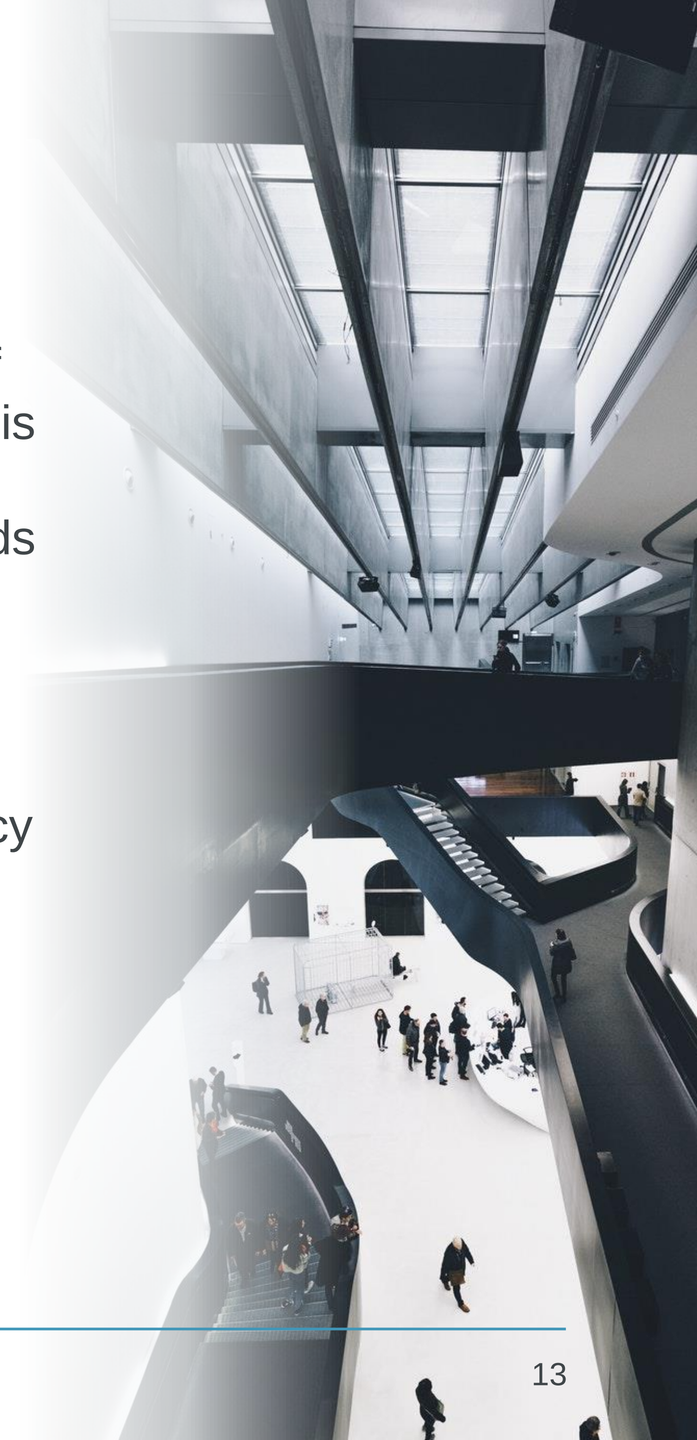
- **Liquidity management**: 5 out of 7 respondents outlined that different teams are responsible for liquidity management and Asset Liability Management activities, though some noted that there would be close co-ordination between the differing teams.

Models and Tools



- **Data**: The responses to the usage of data and systems were varied. Data is taken from a mixture of sources e.g. accounting/ledger, external data feeds and various teams across the business.

- **Models**: There was a strong tendency to leverage the output from the existing capital model, although a bespoke approach was also used. Where the capital model is utilised, the outputs used varied from market risk calibrations to operational and liability-related risks.



Contingency and optimisation actions

- Contingency actions varied significantly by firm. These included repo, new/committed funding, internal funding.

- Several firms did not use any techniques to optimise their liquidity position. Those that did focused on optimising Credit Support Annexes (CSAs) that permitted the posting of bonds.

Institute and Faculty of Actuaries

Consultation paper response

03 July 2025

Overview of PRA’s consultation

- PRA is building upon the existing SS5/19 guidelines with the consultation paper 19/24 (CP19/24), which proposes new liquidity reporting templates.
- The CP was released in December 2024 and **firms had until 31 March 2025 to review the CP** and provide their responses to the PRA.
- The proposals aim to enhance the PRA’s ability to assess and manage liquidity risks by securing **timely, consistent, and comparable data on the liquidity positions of large insurers within the prescribed threshold.**
- The PRA proposes four new liquidity reporting templates for in-scope firms, one of which can be requested daily during periods of elevated stress.
- The reporting templates comprise of approximately **3,000 data fields**, of which the PRA identifies around **150 key data points that must be reported daily during periods of stress**.
- The planned implementation date for the new liquidity reporting requirements was **initially 31st December 2025**, but the PRA confirmed on 17th June that the final policy statement will be **published by the end of Q3 2025** and the revised target implementation date is now the **second half of 2026**.

Who does the reporting apply to?

The PRA plans to apply its reporting requirements only to UK insurers with significant liquidity risk exposure, introducing thresholds to limit these requirements to large firms making significant use of derivatives or securities financing transactions:

- Solo UK Solvency II firms with assets that have exceeded £20bn on average over the previous three quarterly reporting periods; and
- Gross derivative notional value over £10bn, as defined by IR.08.01 (open derivatives exposures as part of Solvency II reporting disclosure) & excluding those held in index or unit-linked contacts; **or**
- Total value of on and off-balance sheet securities involved in lending or repurchase agreements exceeding £1bn, excluding those held for index or unit-linked contracts.

Templates and submission timelines

Template	Frequency	Scope	Key attributes	Timeline
Cash flow mismatch	Monthly	Entity level *Split by RFF, MAP and non-MAP*	Inflows and outflows from insurance business and financial transactions and unencumbered assets. Impact of specified market changes on contingent inflows and outflows.	T+10
Short form cash flow mismatch	Monthly (daily in stress)	Entity level *Split by RFF, MAP and non-MAP*	As above but excluding inflows and outflows from insurance business.	T+1
Liquidity market risk sensitivities	Quarterly	Entity level	Sensitivity of unencumbered asset values & collateral flows to prescribed changes in interest rates, exchange rates, inflation, government bond spread & credit spreads.	T+30
Committed facilities	Annual	Entity and Group level	Liquidity facilities where total committed amount is over £10m; incl. total drawn amounts, maturity dates and lender details.	T+70

Bank of England PRA

LQ.01.02
Cash flow mismatch (short-form)
Monthly Solo

		On the reporting period end date	Initial Stock	Open	Overnight	Greater than overnight up to 2 days	Greater than 2 days up to 3 days	Greater than 3 days up to 4 days	Greater than 4 days up to 5 days	Greater than 5 days up to 6 days	Greater than 6 days up to 7 days
		C0120	C0130	C0140	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Outflows & Inflows											
Outflows											
Liabilities resulting from secured lending and capital market driven transactions	R0060										
Derivatives amounts paid / payable	R0080										
Inflows											
Monies due from secured lending and capital market driven transactions	R0160										
Derivatives payments received / receivable	R0210										
Counterbalancing capacity											
Cash	R0240										
Money market funds	R0260										
Highest quality central banks	R0340										
Highest quality central governments	R0390										
Highest quality regional governments or local authorities	R0520										
Multilateral development banks or international organisations	R0610										
High quality UK regional governments, local authorities or public sector entities	R0660										
High quality non-UK central governments, regional governments, local authorities or public sector entities	R0710										
High quality covered bonds	R0760										
High quality corporate debt securities	R0810										
Investment-grade corporate debt securities	R0900										
Common equity shares	R0990										
Non-interest bearing claims	R1010										

Working party response

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.

Data Templates and Requirements: We suggested that the PRA permit some simplifications in the data request template without compromising policyholder protection. It is also important to clarify cash flow options and consider simplifying liquidity reporting templates.

Submission Timelines: We recommend that the PRA assess the need for monthly submissions of the short form template on a T+1 basis. Alternatively, firms could provide monthly comparisons between the T+1 and T+10 outputs to show their ability to generate the short form report daily during stressful times.

Implications for Liquidity Risk Management: Liquidity reporting requirements should build on existing frameworks from SS5/19. However, we consider that standardised templates and a minimum liquidity requirement might detract from customised liquidity risk management tailored to individual company risks.

Implementation Timelines: Given the challenges involved in implementing the liquidity risk management framework and the proposed T+1 reporting, a longer timeline is necessary. This would allow firms to implement strategic solutions effectively, as the current timeline might result in tactical approaches that raise implementation costs.

Institute and Faculty of Actuaries

Closing remarks

What’s coming next?

- Publication of the final reporting guidance
- Implementation of reporting requirements for YE25
- Consideration of strategic vs tactical solutions
- Alignment of risk management and reporting

Questions?