

Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Investment Flexibility Subject Expert Group (IFSEG): Seventh Meeting

22 March 2023

Location: Bank of England Offices, MS Teams

Attendees: The PRA, ABI and HMT

Representatives of the following insurance firms:

- Aviva, Phoenix Group, PIC, Legal & General, Rothesay, Scottish Widows Group
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Agenda

1. Introductions
2. Reflections on the previous meeting
3. Interactions with other SEGS
 - a. Impacts from the removal of the BBB cliff edge on investment choices (incl. interaction with notched ratings)
 - b. Any other interactions IFSEG wish to note
4. Thematic topic: Approaches for including assets with structural features in MA portfolios, including consideration of the FS add-on and appropriate controls.
5. Confirm date, time and agenda for the next meeting
6. AOB

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Summary of Meeting

During the seventh meeting, the IFSEG discussed its interaction with other SEGs and the potential impact of the removal of the BBB “cliff-edge” on MA portfolio investment choices.

The IFSEG also resumed discussion on the potential approaches for debt securities that have structural features that lead to uncertainty over the timing or amount of cashflows:

- The IFSEG returned to the stylised examples considered at the previous meeting and gave particular focus to cashflow amount uncertainty by looking at bonds where the coupons are bounded and/or contingent on a benchmark/metric.
- The IFSEG discussed where the risk allowance would lie if the de-risking approach were to use the best-estimate outcome as one anchor and the lowest possible MA outcome as another.
- The IFSEG considered two types of control to monitor and manage accumulations of risks in MA portfolios: (i) the size of the portfolio with potential cashflow variability and (ii) the quality of matching. The Group considered that a well-designed test might only penalise assets to the extent to which they are taking credit for a MA benefit above the lowest possible MA outcome.
- The IFSEG considered extending the current PRA control framework to cover new uncertainties around the timing and amount of cashflows. The Group considered that the sources of uncertainty discussed would manifest as either liquidity or reinvestment risk. The IFSEG considered that tests should be cashflow based; versus the worst-case cashflow outcome.

The IFSEG noted that simpler day-1 approaches to adjusting cashflows for expected losses should evolve into more sophisticated approaches as risk exposure increased. The IFSEG also considered the limitations of the FS add-on, and the consequent need for suitable matching tests and other controls