Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Attestation Subject Expert Group (ASEG): Fourth Meeting

9 March 2023

Location: Bank of England Offices, MS Teams

Attendees: The PRA, ABI and HMT
            Representatives of the following insurance firms:
            - Aviva, Just, Phoenix Group, PIC, Rothesay, Royal London, Legal & General, Scottish Widows Group

Agenda

1.   Introductions

2.   Recap and opening remarks from co-chairs

3.   Scope of attestation

4.   Governance processes

5.   Retained risks and rationalisation of residual MA

6.   Granularity

7.   AOB

Summary of meeting

The meeting was focused on the scope of the attestation, with an exploration of potential options and their positive and negative implications.

It was suggested that from a practical perspective, after deducting spread for all retained risks identified in the firm's risk analysis, the residual element on each high spread / high credit rating asset still needed to be interrogated, with those making the attestation asking themselves: is this a reasonable estimate of liquidity premium on this asset?

Recognising concern around the meaning of 'liquidity premium', the group was tasked with arriving at a definition or reformulation that industry members felt they could reasonably attest to.

It was proposed that the group explore a three-tiered approach as follows:

(a) Identify those assets where a simple model such as the existing FS is adequate, i.e. there are no other retained risks to worry about (e.g. corporate bonds, a range of illiquid assets such as private placements that have the same risk characteristics as bonds but are not traded).

(b) For assets for which the simple model is not judged adequate, firms apply their own, more sophisticated model and ratings process to reach a position where they are happy that the fundamental spread corresponding to the rating, plus any voluntary top up adopted by the firm, reflects compensation for all retained risks. Those might include political risk, or high uncertainty over the rating because of data sparsity or other factors.

(c) Finally, examine the residual spread and where it is relatively high, the attestor will need to satisfy themselves that all of that spread will be earned, i.e. they can explain why it has been possible to acquire at a relatively low price an asset whose fair, modelled price in an efficient market would be significantly higher.