

Bank of England PRA

Meeting Summary

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

16 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. Thematic topic: Approaches for including assets with structural features in MA portfolios, including consideration of the FS add-on and appropriate controls.
4. Confirm Date, Time and Agenda of the Next Meeting
5. AOB

Summary of Meeting

During the sixth meeting, the IFSEG discussed how a FS add-on might be determined for debt securities that have structural features that lead to uncertainty over the timing or amount of cashflows. The IFSEG considered:

- Possible proportionate day one approaches. This included whether the FS add-on should be at an asset or portfolio level; the materiality of the FS add-on in terms of its size and preciseness; the frequency of any recalculation; and the granularity of FS add-ons.

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- The need for an accompanying controls framework: whether it addresses accumulations of risk, assures the vast majority of the MA portfolio cashflows are fixed, and whether measures of uncertainty are straightforward to define.

The group discussed a range of stylised examples to draw out examples of cashflows which may be uncertain in amount, timing or both.

For assets with optionality linked to economic conditions (e.g. callable bonds) IFSEG discussed two possible approaches to adjusting the asset cashflows for expected losses:

- (i) Best estimate cashflows determined using yield to worst measures, or some other worst metric (e.g. MA benefit). A separate question is what further adjustment is required to allow for uncertainty in the amounts and/or timing of cashflows
- (ii) A statistical (probabilistic or percentile) approach for determining the best estimate cashflows and then determining the FS add-on.