Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Notching Subject Expert Group (NSEG): Third Meeting

22 February 2023

Location: Bank of England Offices, MS Teams

Attendees: The PRA, ABI and HMT
Representatives of the following insurance firms:
- Aviva, Just, Legal & General, M&G, PIC, Rothesay.

Agenda

1.   Reflections on discussion at previous meeting held on 17 February

2.   Thematic topic: the impact of notching on the Solvency Capital Requirement (SCR)

3.   Thematic topic: validation of internal ratings

4.   Close and AOB

Summary of meeting

The third NSEG meeting discussed the knock-on impacts of notching for the SCR calculation and the validation of internal ratings. The main points discussed were:

- **SCR**: the NSEG focussed on implications for firms using internal models and considered questions around whether the internal model would need to be updated to allow for notching and, if so, the potential technical and practical implications of this. It was estimated it could take up to a year to incorporate notching into internal models, not allowing for Line 2 review or any PRA review that may be necessary. The NSEG was of the view that pragmatic solutions for the interim period may need to be considered, particularly in cases where firms were of the view that the SCR could increase or where the implementation of

notching in the calculation of Technical Provisions led to counter-intuitive impacts on the SCR if no adjustment were made. Suggestions included a temporary uplift to the SCR before more detailed modelling could be developed.

- **Internal ratings validation**: Currently, SS3/17 asks firms to determine whether, for internally rated assets, the Credit Quality Step (CQS) that they obtain by using a mapping of their internal ratings to the CQS scale is broadly consistent with that which would have been obtained had the exposure been rated by an ECAI. This is commonly referred to as 'ECAI validation'. The NSEG considered the implications for ECAI validation if the CQS mapping were applied on a notched basis and the FS itself varied by notch.