

# Bank of England PRA

## Meeting Summary

### PRA/ABI Solvency UK Investment Flexibility Subject Expert Group (IFSEG): Second meeting

16 February 2023

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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. Introduction of any delegates
2. Reflections, if any, on the previous meeting
3. Thematic topic: Barriers to investment – a discussion of examples of assets insurers have declined to invest in (whether MA eligible but economically unattractive, or not MA eligible). [Construction assets]  
  
Thematic topic (related): How could the examples and discussion inform the PRA's thinking of 'suitability' of assets for the MA portfolio construction assets
5. Close and AOB

#### Summary of meeting

For the purpose of the IFSEG discussions, participants considered it was better to discuss and try to identify common sources of uncertainty for debt instruments rather than specific features, with the aim of getting a sense of what unites common asset features.

For construction assets, the following points were considered:

- The IFSEG focussed on investing in debt assets, being distinct from insurers making 'whole project' investments.
- Various stages of construction were discussed (e.g. acquisition, development) along with the various investor protection packages available that could allow debt cashflows to be met where construction end-date is uncertain. The group noted this brings both liquidity and reinvestment risks. It was also noted that tying the borrower to a fixed repayment shifts risk to the borrower but could increase risk to the lender.
- A number of risks and mitigants were highlighted. The suitability of credit ratings for assessing cashflow probability was also discussed.
- Timing variability in the context of the MA was considered. The role of technical advisors, the Prudent Person Principle and accurate reporting of project results were risk mitigating factors, as was the efficiency of using long-stop dates as recognition of cashflows for MA purposes.

The Group discussed other structural features and their associated risks, noting some commonalities between features. It was agreed that this would be considered in further detail at a future IFSEG meeting.

The group agreed to discuss the issues with, and possible approaches for, pools of assets at the next meeting.