Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Investment Flexibility Subject Expert Group (IFSEG): 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, Phoenix Group, PIC, Legal & General, Rothesay, Scottish Widows Group

---

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). [Pools of assets]

   Thematic topic (related): How could the examples and discussion inform the PRAs thinking of 'suitability' of assets for the MA portfolio

4. Conclusion

Summary of meeting

The Group discussed various methods of pooling assets for inclusion in a MA portfolio, including those approaches currently excluded, approaches in other markets and the position of junior notes. The following points were considered:

- It was noted that, subject to an appropriate Fundamental Spread (FS) calibration, there was a wide range of assets that were currently held by insurers in an internally securitised format. Pools of assets discussed included ERMs, SME lending, and ABS (RMBS, CMBS).
- Rating the possible range of features in a pool of assets, along with modelling them, was noted as a particular challenge, along with the potential short duration (relative to the duration of the liabilities that these assets are intended to match) of loans and prepayment risks.
- The SEG discussed an alternative of 'notional' securitisation, where the insurer would undertake restructuring without a legally-enforceable contractual definition of the re-structured assets. Advantages and disadvantages were noted including the reduction in frictional costs and the challenges of obtaining validation of the credit rating.
- The SEG noted that if more 'structural features' such as prepayment risk were permitted in individual debt instruments that this might remove the need for some assets to be internally securitised (e.g. SME lending), or make restructures less complex (e.g. from allowing some prepayment risk on senior notes).
- Other aspects of securitisation were also discussed, including determining and incremental allowance for new risks in MA portfolios, inclusion of junior notes in the MA portfolio and whether some assets required securitisation at all.

The group agreed to continue discussing the variety of different structural features at the next IFSEG meeting.