

Bank of England PRA

Meeting Summary

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

30 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. Interactions with other SEGS
4. Thematic topics:
 - a. Principles for FS add-ons for debt securities
 - b. Advantages and disadvantages for different approaches to determining FS add-ons
 - c. Definition of 'highly predictable'
5. AOB

Summary of Meeting

During the eighth and final IFSEG meeting participants discussed a range of topics.

- The IFSEG considered it sensible to split any solution to making an allowance for cashflow variability into two: (i) determining the best estimate cashflows, and then (ii) setting a FS add-on. The IFSEG considered that the cashflows used for the MA calculation should fall between a best estimate and those allowed under the current MA rules.

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- The IFSEG considered the evolution of the implementation process: the first step could include prescribed parameters to ensure a simple and consistent treatment of cashflow non-fixity in MA assets; the second step could be a more bespoke, principle-based approach that had parameters defined in terms of some quantitative criteria.
- The SEG discussed the sources of cashflow variability and the appropriate management of uncertainty in each source. Three sources of cashflow variability were considered: i) pure issuer optionality, ii) non-issuer driven variability, and iii) tail risks. When considering an appropriate form for the FS add-on it may be necessary to split the uncertainty features into these groups.
- The IFSEG discussed the role of the PRA in setting a framework for adjusting cashflows for expected losses and the challenges involved with the PRA determining FS add-ons for a potentially wide range of heterogeneous assets.
- The IFSEG discussed the need for controls around the quality of cashflow matching and discussed how cashflow matching tests from the current regime could be appropriately amended. This might support firms demonstrating that 'vast majority' of assets referred to in the HMT consultation response have fixed cashflows.

The PRA co-chair thanked industry members, PRA members, observers and the secretariat for their engagement over the eight Investment Flexibility Subject Expert Group sessions.