

Bank of England PRA

Meeting Summary

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

10 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. Introductions
2. Confirmation of meeting dates/timeline
3. Agreement of the purpose, objectives, and approach for the Subject Expert Group (SEG)
4. Thematic topic: Implementation of Notching
5. Close and AOB

Summary of meeting

The purpose, objectives, and approach of the NSEG were discussed, the overarching purpose of the group being to consider options on how to effectively deliver the UK Government's intention to legislate to allow the use of notched ratings in the Fundamental Spread (FS) methodology and calibration. NSEG members confirmed future discussion topics for the group would include implementation of notching, implications of notching for capital requirements (SCR) and internal ratings (including their validation), operational considerations, and the impact of removal of the sub-

investment grade MA cap. For the latter item, the NSEG had been considered the most natural SEG for this to be discussed.

The main area of discussion of the initial NSEG meeting was on the implementation of notching for the purpose of calculating Technical Provisions, focussing particularly on the different ways in which notching could be implemented in practice and any desired features against which any methodology for implementing notching should be assessed. Two key methods were identified:

1. Data-driven approach – where the FS for each notched rating could be derived directly from data.
2. Interpolation based on existing FS tables – where the notched FS could be interpolated based on the existing FS that is published each month.

Features considered by the NSEG included simplicity and transparency, consistency, data availability, financial intuitiveness and impact on the SCR calculation.