

Bank of England PRA

Meeting Summary

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

15 March 2023

Location: MS Teams

Attendees: The PRA, ABI and HMT

Representatives of the following insurance firms:

- Aviva, Just, Legal & General, M&G, PIC, Rothesay.
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Agenda

1. Reflections on discussion at previous meeting held on 8 March
2. Update from interpolation sub-group
3. Thematic discussion: internal ratings (including validation)
4. Close and AOB

Summary of meeting

The sixth NSEG meeting covered a range of topics that had been identified as needing further consideration. The main points arising were as follows:

- **Long-term average spreads (LTAS) calibration:** the PRA gave more insight into how the LTAS is calibrated to aid the NSEG in understanding the underlying data and other drivers of the level of FS, particularly for sub-investment grade (SIG) assets.
- **Internal models:** the NSEG discussed the technical challenges for the introduction of notching to the SCR calculation, specifically issues around data availability (particularly for stressed transitions) and consistency of assumptions between base and stress.

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- **Interpolation:** for BBB-rated assets, it was considered that if a portfolio were equally weighted across all three BBB notches there could be a non-trivial impact in £m from the fundamental spread (FS) increase that would result from implementing notching using interpolation. The actual impact would depend on the interpolation approach used. It was suggested this might not be the case for other asset ratings where the FS does not change as much between different Credit Quality Steps (CQS). It was considered that the NSEG should explore this further, as well as any differences in impact arising from applying notching at the level of individual FS components rather than the overall FS.
 - **Internal ratings:** the NSEG discussed whether validation of notched internal ratings against those that would have been obtained from external credit assessment institutions (ECAIs) would potentially be more resource-intensive than the current 'ECAI validation' that is undertaken. Potential drivers of one or two notch ratings differences were also discussed with it being suggested that these could be the result of small differences in judgements or the application of judgements. It was further suggested the NSEG explore ways in which comfort could be obtained in respect of internal ratings in addition to ECAI validation.