

# Bank of England PRA

## Meeting Summary

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

17 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, Just, Legal & General, M&G, PIC, Rothesay.
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#### **Agenda**

1. Introductions
2. Reflections from previous meeting
3. Thematic topic: Implementation of Notching focussing on technical challenges from different methods
4. Close and AOB

#### **Summary of meeting**

The main focus of NSEG meeting 2 was on the technical issues that could arise in the implementation of notching. Points explored included:

- Feasibility of notching for all assets – the NSEG discussed that it should be possible for the vast majority of assets to be rated on a notched basis, but firms may need time to update internal ratings processes.
- For what CQS/ratings is notching needed – it was discussed that it may not be necessary to notch all letter ratings. For example, AAA ratings are not notched at all and the question remained open as to whether all sub-investment grade ratings should be notched, given particular data shortages for these ratings.

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- Impact of implementing notching – it was noted that the impact of notching on the overall Fundamental Spread (FS) would depend on portfolio composition and the implementation method used. For example, linear interpolation may mean the gap between the letter rating and the minus notch is bigger than the corresponding gap between the letter rating and the plus notch. This would increase the FS for a portfolio that had an equal balance between notches.
  - Data availability – the NSEG acknowledged data is very limited and sometimes behind paywalls which could limit the feasibility of anything based solely on data.

NSEG meeting 2 also reflected on the discussion at meeting 1. It was agreed the NSEG would, in future meetings, continue to assess the implications of different approaches to notching and sub-groups had been set up to specifically explore the two approaches in more detail: (1) interpolation approach(es); and (2) a data-driven approach.