

Bank of England PRA

Meeting Summary

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

29 March 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.
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Agenda

1. Reflections on discussion at previous meeting held on 22 March focussing on internal ratings validation
2. Update from interpolation sub-group
3. Thematic discussion: possible solvency coverage ratio (SCR) principles for day one and beyond
4. Close and AOB

Summary of meeting

The eighth and final NSEG meeting once again revisited the key areas of focus around interpolation outcomes, impacts on internal ratings validation and impacts on internal models. The main areas of discussion included:

- **Impacts on internal ratings validation:** there were concerns amongst the NSEG that the level of validation required may increase in a notched world and that it may be difficult to get additional validation on top of ECAI validation that is currently used.
- **Interpolation outcomes:** the NSEG considered that interpolating the overall fundamental spread (FS) generally gave the same answer (in basis points) as

interpolating each component of the FS separately and then combining them. It was noted, however, that for some ratings and durations the outcomes varied. It was discussed that interpolation by component was likely to be more complex, especially in stress but that not de-risking asset cashflows on a notched basis (ie not allowing for a notched Probability of Default (PD)) would potentially make the FS less risk sensitive.

- **Impact on the SCR – notching:** NSEG members discussed possible principles around how internal models could be expected to behave following introduction of notching. The discussion covered factors that could be considered in determining if a model change was required, factors that could be considered in developing the model and actions that could be taken whilst the model was being developed.
- **Impact on the SCR – removal of the sub-investment grade MA cap:** the main discussion here was again around the likely materiality of any model change and if it was major or minor. It was noted that it was not possible to give an overarching view on this as a lot would depend on the approach taken by individual firms.