

Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Investment Flexibility Subject Expert Group (IFSEG): Fourth meeting

2 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
-

Agenda

1. Introduction of any delegates
2. Reflections, if any, on the previous meeting
3. Thematic topic: Continuing discussions of 'structural features' that are barriers to investment. Focus on approaches for how such assets could be included in matching adjustment portfolios
4. AOB/ Conclusion

Summary of meeting

During the fourth meeting, the IFSEG considered the following set of questions in relation to the thematic topic:

- What are additional risks that structural features pose?
- What design principles should be considered when developing risk mitigants?
- What mitigants are available to reduce the additional risks?
- How could mitigants be designed?

Key areas of discussion included:

-
- Some IFSEG members felt that addressing structural features of debt securities was more likely to have a positive impact on reform objectives than the treatment of junior notes, but that junior notes could be considered in the discussion as this was important to some firms.
 - With respect to the PRA determining credible fundamental spread (FS) add-ons, a range of potential issues were outlined including the amount of work required, scarcity of data, heterogeneity of assets, the limited time available and the need for an appropriate approach for a wide array of possible asset features and risks.
 - A simple approach was considered whereby firms calculate particular add-ons in the context of a framework with an agreed scope.
 - It was discussed that if the PRA published FS add-ons then insurers might challenge the size of these, or consider them appropriate for some assets but not others, moving the issue back to the PRA who would be less well sighted than firms on the idiosyncratic features of the assets.
 - The IFSEG considered a number of risk mitigants including that ‘highly predictable assets’ would be a minority of the asset portfolio.

The IFSEG agreed to focus the discussion on ‘whole investments’ at the next meeting.