Bank of England PRA

Meeting Summary

PRA/ABI Solvency UK Investment Flexibility Subject Expert Group (IFSEG): First Meeting

9 February 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

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Agenda

1. Introductions
2. Timelines
3. Purpose, objectives and approach of the Subject Expert Group (SEG)
4. Structure of workshops
5. Classes of cashflow predictability – a high-level model
6. Close and AOB

Summary of meeting

The purpose, objectives, and approach of the IFSEG were discussed. The overarching purpose of the group being to develop options on how to effectively and safely deliver on the UK Government's intention to legislate to broaden asset eligibility for the Matching Adjustment (MA). Concerns were raised over the 8-week period of the IFSEG and it was noted that for the PRA the work would carry on beyond this, to conclude in the publication of a consultation paper. The importance of efficient engagement with other workstreams was noted.

The initial meeting of the IFSEG also included a wide-ranging discussion on the sources of cashflow predictability. The main topics discussed were:

- The current framework as having three outcomes: MA eligible and economically viable; MA eligible but economically unattractive; MA ineligible. It was suggested the new framework should have flexibility to incorporate future asset classes not yet known about.
- Different options to approach the definition of 'highly predictable' assets.
- The categorisation of asset features. It was agreed here that the SEG should think about how to define a lower bound for MA eligibility, for example considering the applicability of the Prudent Person Principle; the ability to assess a credit rating for the asset in a way that is consistent with ECAI methods and practices; and the amount of cashflow uncertainty.
- Investment policies and the types of lending outside of MA, to better understand the difference between MA and non-MA credit portfolio risk appetites and investment policies.

The following question was suggested and accepted for the focus of the next SEG meeting: what assets can insurers not currently invest in that could become eligible or more economically attractive following HMTs planned reform to MA eligibility?