PRA PS10/24 – Review of Solvency II: Reform of the matching adjustment

The final steps

Florin Ginghină, FIA
John Jenkins, FIA
William Smith, FIA
Russell Ward, FIA
Lyndsay Wrobel, FIA

On 6 June 2024, the Prudential Regulation Authority (PRA) published its much-awaited Policy Statement 10/24 (PS10/24) covering the second set of proposed reforms to Solvency II in the UK. The Policy Statement concludes the wider ongoing review of the UK's insurance regulatory environment initiated by the UK government.

This paper follows Milliman's note[1] on Consultation Paper (CP19/23) which preceded PS10/24, and addresses the major areas of CP19/23 that have had notable updates in PS10/24, namely:

- **Investment flexibility**: Including some clarifications regarding assets with 'fixed' cash flows and restructured assets, and higher thresholds for the additional matching tests for assets with highly predictable (HP) cash flows.
- **Credit ratings under the Matching Adjustment (MA)**: Including considerations for investment in sub-investment grade (SIG) assets and modelling of the fundamental spread (FS) for SIG assets in internal models and aspects related to internal credit assessments.
- **Matching Adjustment Attestation:** Including clarification that firms can rely on the PRA-published FS[2] for corporate bonds, where these bonds broadly reflect the calibration data and have up-to-date and accurate credit ratings, as well as clarification that firms are expected to be able to group assets into homogeneous risk groups (HRGs) when determining whether FS additions are needed.
- **Other topics**: This section covers the remaining areas of PS10/24 with updates from CP19/23, namely:
  - Liability eligibility
  - MA Permissions, Breaches and Consequential Rule Changes
  - Matching adjustment asset and liability information return (MALIR) data collection
  - Notching[3]

PS10/24 contains the PRA's final policy updates to the PRA Rulebook: an updated Supervisory Statement 7/18 (SS7/18) on the matching adjustment, SS8/18 covering internal models, SS3/17 on illiquid unrated assets, SS1/20 on the Prudent Person Principle, a final Statement of Policy (SoP) covering MA permissions, a final SoP covering publication of Solvency II technical information, the Matching Adjustment Asset and Liability Information Return (MALIR) instructions, MALIR instructions and a MALIR reporting template.

The final policy in PS10/24 will implement and work alongside the UK government's MA reforms, and came into force on 30 June 2024. For the MA attestation, there will be a transition period between the start of the new policy and year-end 2024 whereby annual attestations and out-of-cycle attestations will not be required as firms prepare for the new regime.

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1 Booth, C., Bugg, R., Christy, N. et al. (October 2023). CP19/23 – Review of Solvency II: Reform of the matching adjustment – What are the main takeaways? Milliman Briefing Note. Retrieved 28 June 2024 from https://uk.milliman.com/-/media/milliman/pdfs/2023-articles/10-16-23_matching-adjustments.ashx.

2 The PRA-published FS comprises the Probability of Default (PD), and the Cost of Downgrade (CoD) and the Long-Term Average Spread (LTAS) floor, prior to any notching adjustments that may be applied by a particular firm.

3 In the previous regime, the calculation of FS reflected the credit quality step for each asset. In CP19/23, the PRA introduced the requirement that when calculating the MA for the purpose of their technical provisions, firms would be required to adjust the FS to reflect differences in the credit quality of exposures by rating notch – for example taking account of the notched AA+ or AA- rating as opposed to just the unnotched AA rating.

Paragraph 1.37 of PS10/24 provides a helpful summary of what the changes mean for firms from 30 June 2024. For convenience, we reproduce the summary here:

- Firms can apply for permission to include assets and liabilities in their MA portfolios based on the expanded asset and liability eligibility criteria
- Firms can remove the sub-investment MA cap
- The PRA's expectations on internal credit assessments come into effect
- The changes to the MA permissions and breaches come into effect
- Firms can choose to implement notching
- Firms may at their own discretion start to apply voluntary FS additions (subject to additional considerations regarding the FS attestation, as mentioned further in paragraph 1.37 of PS10/24)

Investment flexibility

Investment flexibility remains one of the key areas of the reforms, particularly through the introduction of assets with HP cash flows as an MA-eligible asset. Before discussing the updates introduced in PS10/24, it is worth recalling the criteria for assets to be classified as assets with HP cash flows (introduced in CP19/23):

- The cash flows are contractually bounded
- Failure to meet the contractual terms is a default event
- The contractual bounding applies to the timing and the amount of cash flows

The key areas that have been updated by the PRA considering the feedback it received are summarised below:

- Clarification that firms will not have to reclassify existing assets with fixed cash flows in MA portfolios as being assets with HP cash flows
- Clarification that some assets can be considered either as HP cash flows or as fixed cash flows, and that movement between fixed and HP cash flow treatments is permissible, subject to certain conditions being met
- Firms will have to explain the reasons for a restructuring of an asset or group of assets if seeking approval to include the restructuring within the MA portfolio
- An increase in the thresholds for the PRA's cash flow matching tests for HP cash flows from 3% to 5%.

We consider some of these aspects in more detail below.

MOVEMENT BETWEEN FIXED CASH FLOW ASSETS AND ASSETS WITH HP CASH FLOWS

In CP19/23, the PRA stated that some assets can be considered either as having fixed cash flows (if the firm applies the relevant expectations) or as having HP cash flows. An example of this in practice could be considering the lowest amount payable and therefore considering the cash flow to be fixed on this basis. Decomposing an asset into a fixed component and an HP component is however not permitted.

In PS10/24, the PRA has confirmed that it is open to movement between fixed and HP cash flow treatments, subject to certain conditions being met. These criteria are stated in paragraph 2. 12E of SS7/18, and in particular the firm has to have permission to apply both the fixed and HP cashflow treatments.

ASSET RESTRUCTURING

In PS10/24, the PRA has provided an update of its expectations under the new policy for assets that firms have internally restructured. The update set out in paragraph 2.55B of SS7/18 makes it clear that in general the PRA expects that the aggregate value of a restructuring arrangement (including the MA benefit arising from it) will not exceed the value that would result from including the relevant assets directly in the MA portfolio. Nevertheless, it allows some flexibility for a firm to justify that a restructuring has created value, thus avoiding the expectation being a hard limit. It should be noted that some more detailed nuances have been added to paragraph 2.55B in this regard.

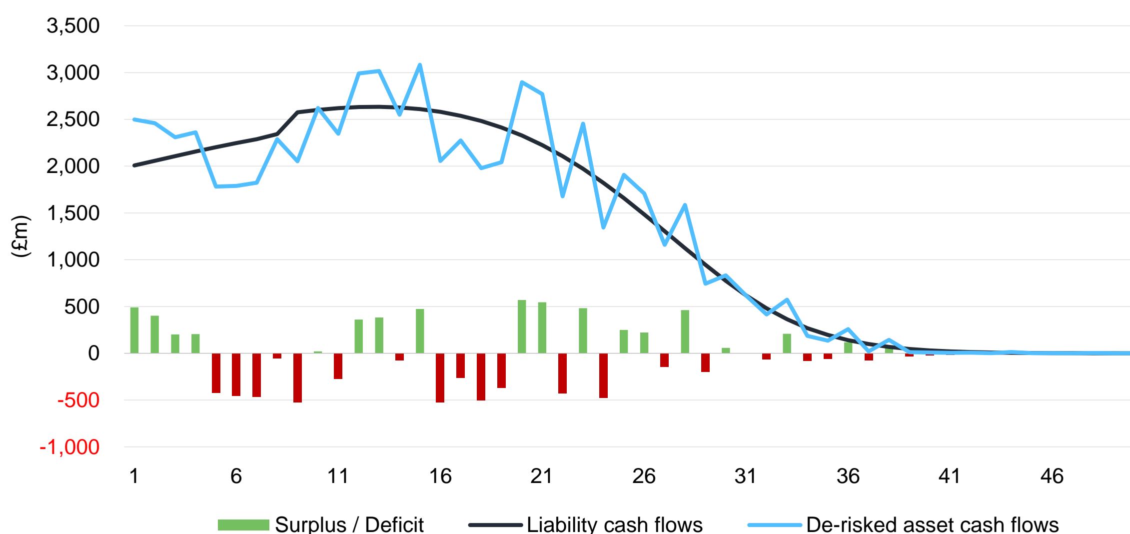
HIGHER THRESHOLDS FOR ADDITIONAL MATCHING TESTS FOR ASSETS WITH HP CASH FLOWS

A notable update in PS10/24 is the increase in the thresholds for PRA Matching Tests 4 and 5 (both tests only being applicable to MA portfolios that include HP cash flows) from 3% to 5%.

To look further into how the higher thresholds for the two matching tests (in particular, PRA Matching Test 5[4]) interact with the size of investments in assets with HP cash flows, we have carried out a high-level analysis for a generic MA portfolio.

The starting point in our analysis is an illustrative liability cash flow profile for a generic MA portfolio. Conditional on selected values for PRA Matching Tests 1 and 3, we added de-risked asset cash flows[5], as shown in Figure 1. We intentionally set asset cash flows such that the portfolio is relatively well matched (with the PRA Matching Test 1 target set to 2% and the PRA Matching Test 3 target set to 99.9%[6]).

FIGURE 1. ILLUSTRATIVE MA PORTFOLIO, ANNUAL CASH FLOWS



For illustrative purposes, we assume assets with HP cash flows are BBB-rated (corresponding to a credit quality step 3), that they are financials, and that their cash flows are uniformly distributed over a 10-year period, from year 10 to year 20 in the projection.

For our analysis, we considered the following scenarios:

- Assets with HP cash flows represent 2.5%, 5%, 7.5%, or 10% of MA assets (taken simplistically as a percentage of de-risked asset cash flows).
- Under PRA Matching Test 5, assets with HP cash flows are extended by one year, three years or five years.

  This is required under PRA Matching Test 5–a key aspect of which is that it requires firms to assume that the receipt of HP cash flows is extended to the latest date possible.

The risk-free rates used are as at 31 May 2024,[7] and cash flows that are extended are assumed to have the higher probability of default applied corresponding to their rating and sector (BBB, financials), in line with the published Solvency II technical information. The results of our analysis are summarised in Figure 2.

4 For a full description of PRA Test 5: Modified Accumulated Cash Flow Shortfall Test, please see Appendix 1: PRA Matching Tests in the updated SS7/18 at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2024/ss718-june-2024-update.pdf.

5 De-risked asset cash flows are cash flows from assets in Component A adjusted for that part of the FS that corresponds to the Probability of Default. Please see Appendix 1 PRA Matching Tests to SS7/18.

6 The thresholds for PRA Test 1 and Test 3 are 3.0%, and a range from 99% to 100% respectively. Please see Appendix 1: PRA Matching Tests to SS7/18.

7 The risk-free rates as at end May 2024 were retrieved from the Technical Information for Solvency II firms provided on the PRA's website at https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/technical-information.

FIGURE 2. PRA MATCHING TEST 5 OUTCOME – ILLUSTRATIVE MA PORTFOLIO

HP cash flows extension period	Proportion of MA assets invested in assets with HP cash flows			
	2.5%	**5.0%**	**7.5%**	**10.0%**
1 year	2.3%	2.7%	3.1%	3.4%
3 years	3.0%	4.1%	5.1%	6.2%
5 years	3.6%	5.3%	7.0%	8.7%

In Figure 2, cells highlighted in green indicate that a PRA Matching Test 5 with a 3% threshold would have been passed. Cells highlighted in orange indicate additional passes for a 5% threshold. Cells highlighted in grey indicate no passes.

Although simplistic, and ignoring everything else such as impacts on PRA Matching Test 4, our high-level analysis shows that the higher thresholds for PRA Matching Test 5 would enable a larger proportion of MA assets to be invested in HP cash flows and / or for those assets to potentially exhibit a higher level of optionality (equivalent to a longer extension period). The increase from 3% to 5% is thus welcome, and arguably necessary, if the HP initiative is to be meaningful.

Credit ratings under the MA

The updates in PS10/24 for credit ratings cover the treatment of SIG assets, including widening the range of metrics for monitoring SIG levels, and modelling the FS for SIG assets in firms' internal models. We discuss this area in more detail below.

We also note that PS10/24 covers internal credit rating assessments for assets within MA portfolios, but the PRA has not made any changes to the draft policy proposals and expectations in CP19/23.

TREATMENT OF INVESTMENT IN SIG ASSETS

Following the feedback received during the consultation, in PS10/24 the PRA extended the metrics for monitoring the level of SIG asset exposures. The updated expectations in paragraph 7.13A of SS7/18 include the following additional metrics, defined as the contribution of SIG assets to:

- The total default probability-adjusted cash flows
- The total monetary value of the MA benefit
- The total monetary value of the FS

MODELLING THE FS FOR SIG ASSETS IN INTERNAL MODELS

Following the removal of the SIG MA cap in base and stress, the PRA has clarified that internal models should be appropriately calibrated for SIG assets before any such removal takes place. In particular, the MA on SIG assets must be appropriate post-stress, as well as in the base scenario. This becomes important as some assets that are investment grade in base conditions will fall into the SIG category under stress following downgrades.

In essence, the level of capital required, as reflected by an internal model, should allow for the risk profile of the SIG assets in question, and this should hold even in the absence of a SIG MA cap. Firms must thus decide if they should retain the SIG MA cap in their internal models, and the extent to which this approach is viewed as temporary or permanent.

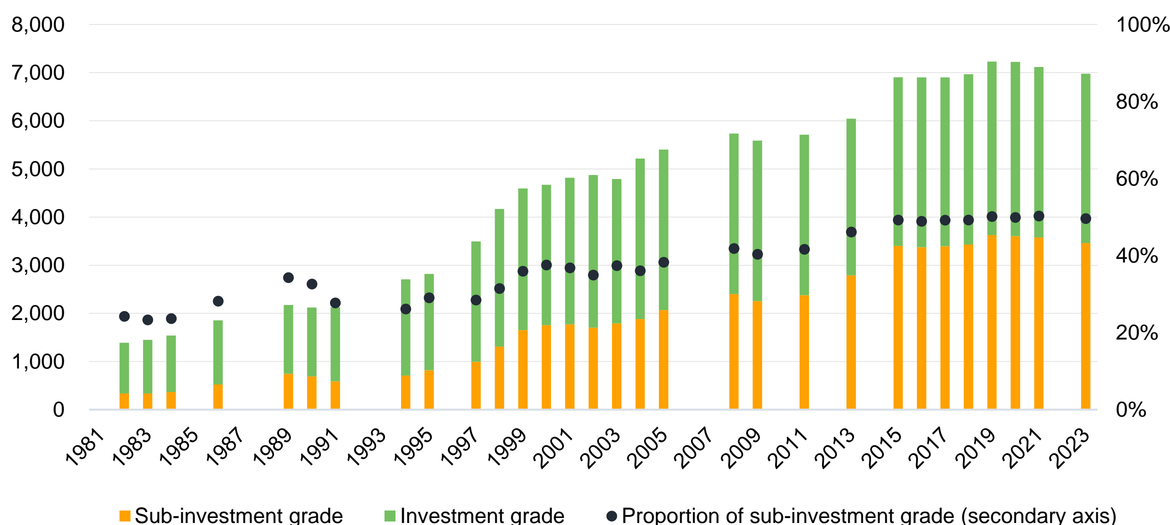
Whilst the removal of the SIG MA cap is expected to have a small positive contribution to firms' MA in base for existing assets, one challenge often mentioned in relation to SIG assets is data scarcity.[8] We can consider this aspect in more detail by looking at the evolution of the number of issuers in the data from Standard & Poor's Financial Services LLC (S&P)[9]–on the basis that transition matrices from S&P are used in the calibration of published FS.

8 For example, please see paragraph 4.29 of the updated SS8/18: Solvency II: Internal models: modelling of matching adjustment at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2024/ss818-june-2024-update.pdf.

9 Please see the disclaimer on the last page of this paper below related to data published by or received from S&P.

Based on the most recent annual default, transition and recovery studies published by S&P,[10] we can summarise the number of corporate bond issuers by investment category (investment grade IG, and sub-investment grade SIG), as shown in **Figure 3** below.

FIGURE 3: NUMBER OF ISSUERS – INVESTMENT AND SUB-INVESTMENT GRADE, 1981-2023. MILLIMAN ESTIMATES, BASED ON DATA PUBLICLY AVAILABLE FROM S&P



Source: Milliman estimates based on data publicly available from S&P.

Our analysis is based on the actual number of issuers in the annual studies from S&P for 2023, 2021, 2020, 2019 and 2017. For all other years for which there is data available, the number of issuers was derived based on data in Table 14 of the most recent publicly available annual S&P study. For years with no data shown in Figure 3, default rates for IG assets were 0.

A noticeable feature in Figure 3 is the consistent increase in the number of SIG issuers around 2000 to 2023, reaching about 50% in more recent years. Looking at a more granular level, the data for SIG assets exhibits some stark characteristics:

- A very large proportion of SIG issuers (approximately 85%) are non-financials.
- Approximately 50% of SIG issuers have a B credit rating.

The conclusion from our analysis is at least two-fold: it is evident that the data for SIG assets has become richer, but it is also concentrated in certain sectors and credit ratings. Firms wishing to consider removing the SIG MA cap will need to carefully consider all relevant data features.

Further analyses are possible based on data from other credit rating agencies.

Matching adjustment attestation

Another much awaited topic of PS10/24 is the FS and MA attestation. Following the consultation in CP19/23, the PRA received feedback which resulted in changes to several areas of the policy. We note the following areas that are updated in PS10/24:

- Updated rules in respect of:
  - Treatment of corporate bonds.
  - Use of homogeneous risk groups (HRGs) when firms are determining whether FS additions are needed.
  - Analysis level and offsets.

10 See annual global corporate default, and rating transition studies published by S&P (for example at https://www.spglobal.com/ratings/en/research/articles/240327-default-transition-and-recovery-2023-annual-global-sovereign-default-and-rating-transition-study-13038208 for 2023). Table 14 in most of these S&P studies from recent years shows defaults and survivor rates in one-year, three-year and five-year pools, which we used for analysing SIG issuers.

- Clarifications around the “high degree of confidence” to which the MA will be earned, without changing the initial meaning of “high degree of confidence” introduced in CP19/23. The PRA also confirmed that firms may find it helpful to consider the MA on corporate bond portfolios with fixed cash flows to be a benchmark to assist in assessing this concept.
- Clarifications around the sufficiency of using the Effective Value Test (EVT) for equity release mortgages (ERMs), namely that where EVT is used for ERMs for attestation purposes, firms should use their own assumptions appropriate for the attestation and they should not fall below the EVT minimum levels. A new paragraph was included in SS3/17.[11]
- Clarification around when an out-of-cycle attestation is required.
- Implementation of attestation.

We consider some of these areas in more detail below.

TREATMENT OF CORPORATE BONDS, HRGS AND OVERS/UNDERS

Following the feedback received on CP19/23, the PRA has amended expectations on the treatment of corporate bonds, as set out in paragraph 5.35 of SS7/18. Where corporate bond portfolios broadly reflect the underlying calibration data and have up-to-date and accurate credit ratings, firms are generally expected to rely on the PRA-published FS–in other words, no FS addition is expected for these assets in these circumstances.

Other corporate bonds, e.g., those which do not necessarily reflect the underlying calibration data or may not have up-to-date credit ratings, are candidates for an FS addition. The interpretation of accurate and up-to-date ratings seems to have been left to the firm to decide but it would be reasonable to suggest that stale rated bonds, or those on a watch list, would not be able to rely on the PRA-published FS. Many firms highlighted to the PRA that the analysis should be carried out on homogeneous risk groups. Although the PRA has updated its policy in this regard, it has done so with certain caveats. In particular, the PRA states that HRGs are expected to be used but that idiosyncratic assets within a group still need to be identified and, in effect, the use of HRGs should not result in any reduction in the effectiveness of risk identification. HRG definitions must be sufficiently granular, with the PRA explicitly stating the minimum criteria for two assets to be grouped in such a way, set out in paragraph 5.36 of SS7/18. See also the further discussion of HRGs below.

Some respondents to CP19/23 highlighted the principle of diversification within MA portfolios, whereby “overs and unders” within an HRG would average out, thus mitigating any high FSs in certain outlier assets. This critique of the policy has been rejected by the PRA and no change to the policy has been made. The PRA argues that, though the FS calibration is based on averages, the portfolio works on a cash flow basis, negating the argument that an “over” can be offset against an “under”, since each cash flow should be matched against a liability cash flow. Furthermore, the PRA has emphasised that firms should “focus their analysis on where the PRA-published FS may not be enough rather than where it may be excessive.”

METRICS FOR IDENTIFYING MATERIAL CONTRIBUTORS TO THE MA

The PRA added several example metrics in paragraph 5.35 of SS7/18, which firms can use to identify material contributors to the MA, listed below:

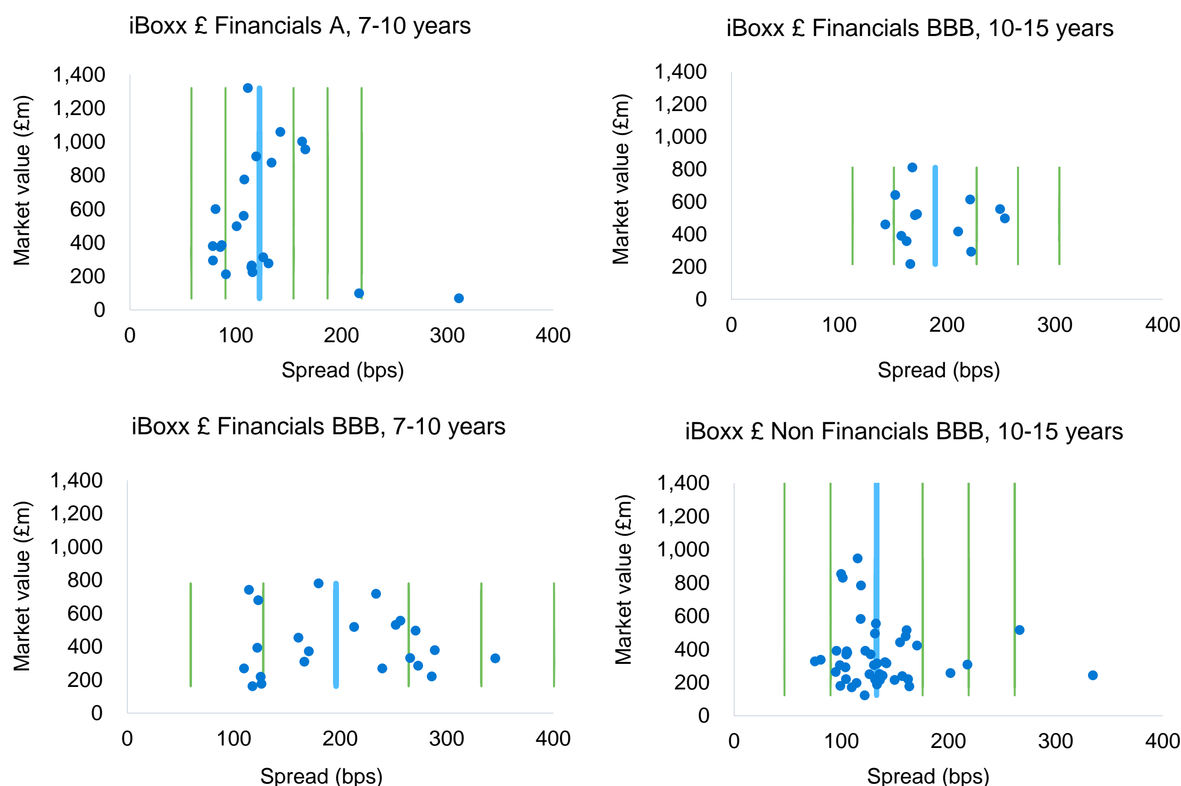
- The [w] biggest contributors to the total MA amount
- Corporate bonds where the spread is more than [x] standard deviations away from the index mean
- Illiquid assets with an MA that is more than [y] basis point (bps) greater than that on an equivalent corporate bond
- Corporate bonds or illiquid assets where the MA exceeds [z]% of the spread.

To give some practical insights into what these metrics may mean, we considered the second metric (“…the spread is more than [x] standard deviations away from the index mean”) more deeply. Identifying material contributors to MA requires a robust understanding of underlying data features (such as corporate bond indices), which should make the process of identifying outliers more effective.

11 Please see paragraph 3.25A in the updated SS3/17: Solvency II: Illiquid unrated assets at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2024/ss317-june-2024-update.pdf.

For a selected number of corporate bond indices from S&P (i.e. iBoxx £ financial and non-financial, 7-10 years and 10-15 years, A and BBB ratings),[12] we analysed the distribution of individual constituent bonds by market value and option-adjusted spread (OAS) and compared them to the index means and multiples of the index population standard deviation. The results of our analysis are summarised in **Figure 4**.

FIGURE 4: SELECTED S&P IBOXX £ CORPORATE BOND INDICES AND CONSTITUENT OPTION-ADJUSTED SPREADS



Source: Milliman estimates based on data publicly available from S&P.

Explanatory notes:

- Individual constituents of the indices are shown in the blue dots by market value (£ millions) and option-adjusted spread (OAS), in bps.
- In each chart, the light blue bar is the index value.
- In each chart, the green lines represent multiples of the population standard deviation away from the index mean. We show the following multiples to standard deviations: -2x, -1x, +1x, +2x, and +3x. We do not show the -3x standard deviation given there is no individual constituent in the data with an OAS lower than 2x standard deviations from the mean.
- Population standard deviations are calculated as the weighted standard deviation, consistent with the index mean. Weighted standard deviations are calculated with the following formula:

$$\sqrt{\frac{\sum_{i=1}^{N} w_i (x_i - \bar{\bar{x}})^2}{\frac{M-1}{M}\sum_{i=1}^{N} w_i}}$$

where:

- N is the number of issuers included in the population (index)
- M is the number of non-zero weights in the population (in our case, there are no non-zero weights, therefore M = N)
- w_i are the constituents' weights relative to the index, by market value
- x_i are individual constituents' OAS
- $\bar{\bar{x}}$ is the weighted mean, i.e., the index

12 An important consideration when choosing corporate bond indices is consistency with published data. The choice of indices included in our analysis is consistent with that in the FS technical documentation, available at https://www.eiopa.europa.eu/document/download/71e6f092-d03d-482c-8242-8ee920410747_en – see Table 18. Markit: GBP iBoxx indices.

Several insights emerge from our analysis:

- The intention in our selection of indices shown in Figure 4 was first to show an index which reflects a typical corporate bond portfolio (iBoxx £ Financials A, 7-10 years), and how this compares to immediate variations by changing each characteristic in turn (A to BBB, 7-10 years to 10-15 years and financials to non-financials). This can help identifying which characteristic can have a bigger impact on the distribution of constituent bonds whilst ensuring the analysis is sufficiently concise.
- Designing and implementing a robust methodology to analyse the data is a key step in the process. The methodology should capture the main features of the data–for example, the data has several dimensions such as market value, duration bucket, currency, credit rating and sector. Depending on how data is segmented and analysed, different conclusions could be reached.
- Results can show significant variance, for example, significant outliers are shown in Figure 4 for iBoxx £ non-financials BBB, 10-15 years. In addition, results may not be stable over time. It is therefore important to identify these features and adapt processes and methodologies which are expected to behave sensibly over time.

Depending on firms' specific MA portfolios, some corporate bond indices may be more representative or relevant than others. Corporate bond indices and their underlying data are "live" and can change quickly and unexpectedly, which again means they are important to recognise in firms' approaches.

HOMOGENEOUS RISK GROUPS

As already referred to above, following the consultation, the PRA has now amended the wording of paragraph 5.36 of SS7/17, and as a result firms will be able to group assets into HRGs when determining whether FS additions are needed as part of the attestation.

As one might expect with HRGs, in deciding how granular they should be, firms need to consider similarity of the type and level of risks in each HRG. The PRA has listed a minimum set of factors in paragraph 5.36 of SS7/18 which include asset type, sector, sub-sector, rating method, rating, broad collateralisation levels and broad maturity bands. The PRA expects however that the grouping of assets into HRGs should facilitate a top-down initial approach, followed by examinations of specific assets where necessary, and that it does not result in fewer risks being identified compared to an asset-by-asset analysis.

OUT-OF-CYCLE ATTESTATION

In terms of attestation frequency, the PRA has scaled back the wording of the policy.

Whilst it has confirmed that the attestation is required annually or upon a material change in risk profile, it has also provided further clarification on where an off-cycle attestation is required, and specifically that there is some flexibility around the effective date in this case, and that the appropriate action would be to engage with the PRA to discuss.

IMPLEMENTATION

In light of the respondents' comments around implementation, the PRA has decided to establish a transitional period. During this period, defined as 30 June to 31 December 2024, no annual or out-of-cycle attestation is required.

Therefore, in most cases, the first required attestation will be in respect of a firm's first financial year-end from 31 December 2024.

Assumptions underlying the MA

The concept of two categories of assumptions underlying the MA–Conceptual Assumptions and Technical Assumptions–and how firms would be expected to use and consider them, was proposed as part of CP19/23.

In addition, the PRA proposed that these assumptions be considered when a firm is assessing whether its risk profile significantly deviates from the assumptions underlying the MA, which it deemed to be consistent with existing practice with regard to capital add-ons for the MA under Solvency II. The PRA is currently consulting as part of CP5/24 on its proposal to reflect this approach in its Statement of Policy: Solvency II: Capital Add-Ons (Capital Add-On SoP).

The main changes to the final policy following the PRA's consideration of responses include:

- Including reference (where appropriate) to the relevant regulation of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023[13] as well as the relevant PRA rules
- Some amendments to give more background on the operation of the MA
- Minor amendments to provide further clarification on the intended meaning of the term "objective" in the context of credit ratings and in addition to the description, and intended use, of the assumptions underlying the probability of default (PD) and cost of downgrade (CoD) calculations

Other updates to PS10/24

The remaining sections covered in PS10/24 are covered in this section.

LIABILITY ELIGIBILITY

The PRA updated its policy to allow for the splitting out of income protection policies into components allowing for in-payment claims to be included (and the rest to be excluded). This ensures that group income protection policies would not be excluded from the MA portfolio.

The PRA has updated its policy to allow a special case for group death in service dependant annuities (GDAs) to be allowed to notionally split up the liability to focus on only the in-payment portion.

MA PERMISSIONS, BREACHES AND CONSEQUENTIAL RULE CHANGES

Many respondents requested that the application documentation requirements be reduced further. In response the PRA has amended parts of SS7/18 and the MA Statement of Policy (SoP) with the aim of clarifying its expectations for firms submitting MA applications. This includes a reduced scope of the required documentation.

MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION RETURN (MALIR) DATA COLLECTION

Substantive changes have been made in PS10/24 in relation to the asset type definitions for "Corporate Bonds", "Covered Bonds" and "Sale and Leaseback Loans on Commercial Properties".

Added to this the policy now includes two new asset type definitions to cover "Other Loans" and "Other Sovereigns, Sub-sovereigns, Quasi-government/Supranationals" as well as minor updates to a number of other asset type definitions to improve clarity.

NOTCHING

A key change from the draft policy arising from the PRA's consideration of the responses is the clarification it has provided that the requirement for the MA calculation to reflect notching (i.e. taking account of the "+" or "-" addition to a credit rating) will not apply until 31 December 2024. It is also noted that firms will be able to include notching in their MA calculations from 30 June 2024 on a voluntary basis if they so wish.

FUTURE DEVELOPMENTS

With regard to future developments, the PRA noted that further work is ongoing on some matters related to the MA, for example the "sandbox" Subject Expert Group (SEG) and, more generally, that it does intend to keep the implementation of the MA reforms under review going forward.

Conclusions

PS10/24 confirms a substantial package of reforms to the MA and to various related issues, much of which is beneficial to insurers and ultimately to policyholders. The proposed eligibility of assets with HP cash flows for MA portfolios is likely to widen asset eligibility, which should contribute positively towards investments in productive finance, and will likely further stimulate asset innovation, for example asset structures or assets with new features.

At the same time, the new MA attestation requirements are significant, and their implementation requires a correspondingly significant amount of thought and consideration from insurers.

The ultimate impacts of PS10/24 will take some time to become clear and are likely to vary between firms.

13 Please see The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023, available at https://www.legislation.gov.uk/uksi/2023/1347/made.

How Milliman can help

Milliman consultants have extensive experience with Solvency II and its operation in the UK and across Europe, and are well placed to understand the policy and the implications for insurers. We have already been working with several large insurers in relation to the new MA attestation requirements.

Milliman can provide tailored assistance and advice on how PS10/24 can impact firms and how to navigate the necessary changes, and we can provide modelling assistance where required.

Please contact your usual Milliman consultant if you wish to discuss further.

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milliman.com

CONTACTS

Florin Ginghină
florin.ginghina@milliman.com

John Jenkins
john.jenkins@milliman.com

William Smith
william.smith@milliman.com

Russell Ward
russell.ward@milliman.com

Lyndsay Wrobel
lyndsay.wrobel@milliman.com

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