
STATUTORY INSTRUMENTS

2015 No. 575

The Solvency 2 Regulations 2015

PART 4

Approvals

CHAPTER 2

Specific Approvals

Matching adjustment

42.—(1) An insurance undertaking, reinsurance undertaking or third-country insurance undertaking may apply to the PRA for permission to apply a matching adjustment to a risk-free interest rate term structure in order to calculate the best estimate of a portfolio of life insurance or reinsurance obligations.

(2) The PRA must approve an application made under paragraph (1) if the conditions specified in paragraph (4) would be satisfied if approval were granted.

(3) The PRA must revoke an approval granted under paragraph (2) if an undertaking fails to comply with a condition specified in sub-paragraphs (a) to (k) of paragraph (4) in relation to that approval for a period of two months or more.

(4) The conditions referred to in paragraphs (2) and (3) are—

- (a) the undertaking assigns a portfolio of assets, consisting of bonds or other assets with similar cash flow characteristics, to cover the best estimate of the portfolio of insurance or reinsurance obligations;
- (b) the undertaking maintains the assignment referred to in sub-paragraph (a) over the lifetime of the obligations, except for the purpose of maintaining the replication of expected cash flows between assets and liabilities where the cash flows have materially changed;
- (c) the portfolio of insurance or reinsurance obligations to which the matching adjustment is applied and the assigned portfolio of assets are—
 - (i) identified; and
 - (ii) organised and managed separately from the other activities of the undertaking;
- (d) the assigned portfolio of assets referred to in sub-paragraph (c) cannot be used to cover losses arising from the other activities of the undertaking;
- (e) the expected cash flows of the assigned portfolio of assets replicate each of the expected cash flows of the portfolio of insurance or reinsurance obligations in the same currency;
- (f) any mismatch between the expected cash flows referred to in sub-paragraph (e) does not give rise to risks which are material in relation to the risks inherent in the insurance business to which the matching adjustment is applied;
- (g) the contracts underlying the portfolio of insurance or reinsurance obligations do not give rise to future premium payments;

Changes to legislation: The Solvency 2 Regulations 2015, Section 42 is up to date with all changes known to be in force on or before 12 September 2023. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

- (h) the only underwriting risks connected to the portfolio of insurance or reinsurance obligations are longevity risk, expense risk, revision risk or mortality risk;
 - (i) where the underwriting risk connected to the portfolio of insurance or reinsurance obligations includes mortality risk, the best estimate of the portfolio of insurance or reinsurance obligations does not increase by more than 5% under a mortality risk stress that is calibrated in accordance with rules implementing paragraphs (2) to (5) of Article 101 of the Solvency 2 Directive;
 - (j) the contracts underlying the insurance or reinsurance obligations include—
 - (i) no options for the policyholder; or
 - (ii) only a surrender option with a surrender value not exceeding the value of the assets, valued in accordance with [^{F1}rules 2.1 and 2.2 of the Valuation part of the PRA Rulebook], covering the insurance or reinsurance obligations at the time the surrender option is exercised;
 - (k) the cash flows of the assigned portfolio of assets are—
 - (i) fixed and cannot be changed by the issuers of the assets or any third parties; or
 - (ii) fixed except for a dependence on inflation, and the assets replicate the cash flows of the portfolio of insurance or reinsurance obligations that depend on inflation;
 - (l) the undertaking does not apply a volatility adjustment to the risk free interest rate term structure in accordance with an approval granted under regulation 43;
 - (m) the undertaking does not apply a transitional measure to the risk free interest rates in accordance with an approval granted under regulation 53;
 - (n) the undertaking has not ceased to apply a matching adjustment to the risk-free interest rate term structure in the 24 months prior to the application.
- (5) For the purposes of paragraph (4), the insurance or reinsurance obligations of an insurance or reinsurance contract must not be split into different parts when composing the portfolio of insurance or reinsurance obligations.
- (6) For the purposes of sub-paragraph (4)(k)(i), where issuers or third parties have the right to change the cash flows of an asset, that right does not disqualify the asset from admissibility to the assigned portfolio, provided the investor receives sufficient compensation to allow it to obtain the same cash flow by re-investing the compensation in assets of an equivalent or better quality.
- (7) In this regulation, “life insurance and reinsurance obligations”—
- (a) includes annuities stemming from non-life insurance or reinsurance contracts; [^{F2}and]
 - (b) in the case of a third-country insurance undertaking ^{F3}..., refers only to insurance and reinsurance obligations assumed in the United Kingdom; ^{F4}...
 - ^{F5}(c)

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| F1 | Words in reg. 42(4)(j)(ii) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), 10(6)(a) (as amended by S.I. 2020/1385, regs. 1(2), 54(2)) |
| F2 | Word in reg. 42(7)(a) inserted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), 10(6)(b)(i) (as amended by S.I. 2020/1385, regs. 1(2), 54(2)) |
| F3 | Words in reg. 42(7)(b) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), 10(6)(b)(ii) (as amended by S.I. 2020/1385, regs. 1(2), 54(2)) |

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- F4** Word in reg. 42(7)(b) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **10(6)(b)(iii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2))
- F5** Reg. 42(7)(c) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **10(6)(b)(iv)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2))

Modifications etc. (not altering text)

- C1** Pt. 4 modified (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **12** (as amended by S.I. 2020/1385, regs. 1(2), **54(2)** and S.I. 2020/1301, regs. 1, 3, **Sch. para. 27(e)**)

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Changes and effects yet to be applied to :

- Regulations revoked by [2023 c. 29 Sch. 1 Pt. 2](#)