STATUTORY INSTRUMENTS

2015 No. 575

The Solvency 2 Regulations 2015

PART 4

Approvals

CHAPTER 2

Specific Approvals

Transitional measures on technical provisions

54.—(1) An insurance undertaking, reinsurance undertaking or third-country insurance undertaking may apply to the PRA for permission to—

(a) apply a transitional deduction to its technical provisions or to such of its technical provisions as are contained within an homogenous risk group; or

(b) recalculate the amount of those technical provisions (and any matching adjustment or volatility adjustment to those technical provisions) at periods of 24 months or less.

(2) The PRA must approve an application made under paragraph (1)(a) if—

(a) conditions 1 and 2 are satisfied; and

(b) condition 3 is satisfied or would be satisfied if the amount of the approved deduction were limited.

(3) The PRA must approve an application made under paragraph (1)(b) if condition 4 is satisfied.

(4) The PRA may also grant the approval referred to in paragraph (1)(b) other than on an application under that paragraph if condition 4 is satisfied.

(5) Where the PRA approves an application under paragraph (2), the PRA may—

(a) make the approval subject to a condition limiting the amount of the approved deduction; or

(b) at any time after granting approval, vary the approval so that—

(i) the approval is subject to a condition limiting the amount of the approved deduction; or

(ii) if the approval is already subject to a condition imposed under sub-paragraph (a) or (b)(i), amend the condition to change the limit.

(6) A limit specified in a condition imposed under paragraph (5) must be no larger than is necessary to ensure that condition 3 is satisfied.

(7) Where the PRA grants approval under paragraph (2), (3) or (4) the undertaking may apply to vary the approval.

(8) Paragraphs (2) to (6) apply to an application to vary an approval under paragraph (7) as they would apply to an application for the approval as varied.

(9) The PRA must revoke an approval granted under paragraph (2) if—

(a) condition 1 or 2 is not satisfied;

(b) condition 3 cannot be satisfied by imposing a condition limiting the amount of the approved deduction; or

(c) condition 5 is satisfied.

(10) In this regulation—

(a) "GENPRU 1.2.26R" means the rule known as GENPRU 1.2.26R (requirement to have adequate financial resources) in the PRA's General Prudential Sourcebook as at 31st December 2015, treated as having been made by the PRA on 7th March 2013 under the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 [F1];

(b) "INSPRU 7" means the rules and guidance known as INSPRU 7 (individual capital assessment) in the PRA's Prudential Sourcebook for Insurers as at 31st December 2015, made or treated as having been made by the PRA on 7th March 2013 under FSMA and the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013; and

(c) conditions specified in the first column of Table 3 have the meaning given in the second column of Table 3.

Table 3

Condition	Meaning
1	The transitional deduction satisfies the following condition for all T_N— $$0 \leq T_N \leq (X_N - Y_N)\left(1 - \frac{N}{16}\right) \qquad (N = 0,1,2 \ldots 16)$$ where— T_N is the amount of the transitional deduction in the year N, so that T_0 is the transitional deduction in 2016, T_1 is the transitional deduction in 2017, T_2 is the transitional deduction in 2018 and continuing until T_{16} which is the transitional deduction in 2032. X_N is the amount of the technical provisions to which the approval or application for approval relates, calculated for the year N, less the amount recoverable (if any) from reinsurance contracts and special purpose vehicles. The technical provisions for the year N must be calculated in accordance with rules implementing Article 76 of the Solvency 2 Directive, applied as at the last date ("the relevant date") before the year N at which technical provisions may be recalculated in accordance with an approval granted under paragraph (1)(b) or, if no such approval has been granted, as at 1st January 2016. Where a matching adjustment or volatility adjustment was applied to those technical provisions on 1st January 2016 in accordance with an approval granted under regulation 42 or 43 (as the case may be), the calculation must take into account the matching adjustment or volatility adjustment, recalculated for the relevant date in accordance with an approval granted under paragraph (1)(b) (if any). Y_N is the amount of the technical provisions to which the approval or application for approval relates, calculated for the year N, less the amount recoverable (if any) from reinsurance contracts. The technical provisions for the year N must be calculated in accordance with INSPRU 7, applied as at the last date before the year N at which technical provisions may be recalculated in accordance with an approval granted under paragraph (1)(b) or, if no such approval has been granted, as at 31st December 2015.

N represents the years from 2016 to 2032. *N* takes integer values from 0 to 16, so that 2016 is year 0, 2017 is year 1, 2018 is year 2, and continuing until 2032 which is year 16.

2 A transitional deduction is not applied in any year after 2032.

3 The transitional deduction does not result in the financial resources which the undertaking is required to maintain in accordance with requirements imposed by or under FSMA in pursuance of the Solvency 2 Directive being less than the financial resources which the undertaking would be required to maintain in accordance with GENPRU 1.2.26R if GENPRU 1.2.26R still applied to the undertaking.

4 The risk profile of the undertaking has changed materially.

5 A progress report submitted to the PRA under rules implementing Article 308e of the Solvency 2 Directive shows that it is unrealistic to expect compliance with the solvency capital requirement by 2032.

F1 S.I. 2013/161.

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)**)

Changes to legislation:
The Solvency 2 Regulations 2015, Section 54 is up to date with all changes known to be in force on or before 28 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.
View outstanding changes

Changes and effects yet to be applied to :

– Regulations revoked by 2023 c. 29 Sch. 1 Pt. 2