



Notes to completion of application materials for transitional measure on technical provisions

When making an application to apply the transitional measure on technical provisions, firms are asked to complete an application form, fill out the calculation template provided, and submit the supplementary information requested. These materials can be found on the Authorisations pages of the Bank of England website.

Failure to provide all of the necessary supporting information will result in the application being deemed incomplete.

A firm's application will be assessed and determined taking into account the estimated positions provided in the calculation template and the methodology that the firm describes for arriving at the transitional amount. Firms that are granted approval will be expected to update the PRA with the final results of the calculation (i.e. based on the actual positions at 31/12/15 and 1/1/16) once these are known.

Instructions on completion of the calculation template

All tabs

Throughout the spreadsheet, light orange cells should be completed by the firm.

Dark orange cells contain formulae and should calculate automatically.

If firms make any modifications to the spreadsheet (adding tabs, deleting rows etc.), firms should carefully check the calculations in the dark orange cells to ensure that they continue to operate correctly.

All figures included in the spreadsheet should be based on the position as at 31/12/2014. Where the firm's risk profile as at 31/12/2015 and 1/1/2016 is expected to be significantly different to that at 31/12/2014, an additional pro-forma should also be provided showing the figures estimated at those dates, either by taking a copy of the whole template, or by adding additional tabs to the existing template.

Where a firm's submitted figures are dependent on significant assumptions, such as pending approval decisions on volatility adjustment, matching adjustment or a (full or partial) internal model, the PRA may ask firms to conduct further contingency investigations showing how the estimated transitional amount would differ in the event that these assumptions were not borne out.

"Homogeneous Risk Groups" tab

Technical provisions for the purpose of the transitional deduction must be calculated (and should be shown in the template) net of amounts recoverable from reinsurance contracts and special purpose vehicles.



The identification of homogenous risk groups (HRG) should include a description of the type of product and the fund where it is held.

Firms should add or delete rows as necessary to capture each of the HRGs that are in scope of the transitional deduction.

"Financial Resources Requirement" tab

Firms should allow for all liabilities within their financial resources requirements (FRR) and include the capital requirements of subsidiaries as required by the relevant framework, but should restate the FRR where necessary to ensure it is net of the effect of reinsurance (i.e., insurance obligations should be included on a net of reinsurance basis to ensure a meaningful comparison of FRRs).

If any non-technical liabilities have been excluded, firms should clearly explain why they believe this is appropriate.

"Allocation proposal" tab

Where the transitional deduction, after any applicable limit has been applied, is less than the sum of the absolute values of the components provided by each HRG, firms are expected to agree an allocation approach with the PRA.

When proposing an allocation approach, a firm is expected to consider:

- The effect of the allocation on policyholders, including:
 - The effect on the level of policyholder protection in respect of each HRG; and
 - Where the firm has profit participation contracts, any effect on the surplus distribution strategy.
- The extent to which each HRG has contribute to the total amount of the transitional, before and after the application of any limit.

Instructions on provision of the supplementary information

The HRGs that are in the scope of the application should be explained and put in context by reconciling them with the total amount of technical provisions held by the firm. Firms should also explain, where relevant, the treatment of any 'additional' reserves (e.g. expense overrun reserves) that are within the INSPRU 7 insurance liabilities but have not been previously allocated at the level of HRGs. An attempt should be made to allocate these in a manner consistent with the treatment in Solvency II.

Where a firm feels that existing ICAS or Regulatory Return submissions are inappropriate starting points for the calculation of any limit to be placed on the transitional, they should discuss this with their usual supervisory contact before completing their application materials.



Where the current INSPRU 7 valuation basis contains material differences from that which was used for the firm's most recent ICA review, these differences should be clearly explained within the application, along with an indication of their impact.

Firms should provide a phasing-in plan where the estimated Solvency II capital position suggests that the firm would be unable to meet its SCR at 1 January 2016 in the absence of the transitional measure.

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