# Bank of England PRA

# Permissions for transitional measures on technical provisions and risk-free interest rates

**Statement of policy**

November 2024 (Updating February 2024)

# Permissions for transitional measures on technical provisions and risk-free interest rates

## Statement of policy

**November 2024 (updating February 2024)**

# Contents

# 1: Introduction

1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA) approach to granting regulatory permissions in relation to the transitional measure on technical provisions (TMTP) and the transitional measure on the risk-free interest rate (TMIR).

1.2 The statement is relevant to all UK Solvency II firms, the Society of Lloyd's, its members and managing agents, referred to collectively as 'firms'. It is particularly relevant to firms with permission to apply the TMTP and TMIR, or those that may be acquiring business that benefits from TMTP.

1.3 This SoP should be read in conjunction with the Transitional Measures on Technical Provisions Part of the PRA Rulebook, Chapters 10 and 12 of the Transitional Measures Part of the PRA Rulebook, any other rules relevant to UK Solvency II firms, supervisory statement (SS) 17/15 – Solvency II: Transitional measures on risk-free interest rates and technical provisions[1], and the PRA's insurance approach document.[2]

1.4 Firms with permission to apply the TMTP must calculate the transitional measure using the methodology specified in the Transitional Measures on Technical Provisions (the TMTP method). Furthermore, where the PRA has varied a firm's permission to modify the calculation methodology rules so that it can calculate the TMTP using the methodology applied at the date of its last TMTP recalculation prior to 31 December 2024 (the legacy approach), that firm is subject to the additional requirements set out in the written notice to the firm, which are set out in this SoP.

1.5 This SoP also sets out the PRA's approach to considering when it would:

- grant new permissions for firms to apply the TMTP or TMIR;
- revoke TMTP or TMIR permissions;
- vary firm's TMIR permissions; and
- modify certain TMTP rules, including by way of a variation of a firm's TMTP permission.

1.6 Under relevant Financial Services and Markets Act (FSMA) powers, the PRA may, on the application of or with the consent of a firm, give permission to enable a firm to modify the

---

[1]  **https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-transitional-measures-on-risk-free-interest-rates-and-technical-provisions-ss**
[2]  **www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors**.

PRA's rules on the calculation of the technical provisions for the purpose of allowing the firm to apply TMTP relief in accordance with the Transitional Measures on Technical Provisions Part of the Rulebook and, in the circumstances set out in this SoP, waive or modify how those rules apply to a firm. FSMA powers also permit the PRA to vary, to modify, or reverse a modification of, the relevant rules, or remove an existing permission and this SoP sets out the circumstances in which the PRA would consider such changes.

# 2: Approach to TMTP and TMIR permissions

## New TMTP permissions

2.1 The PRA considers that all firms that require TMTP for transitioning their balance sheet from Solvency I to Solvency II should have now sought permission for TMTP. Therefore, the PRA generally will not consider new applications for TMTP permission.

2.2 The only circumstance in which the PRA expects to consider granting a firm a new TMTP permission is if that firm is acquiring a book of business (ie through an insurance business transfer or 100% reinsurance transaction) that already benefits from TMTP. In these instances, a new TMTP permission would be restricted to such acquired business only as required by Transitional Measures on Technical Provisions 2.4.[3] A firm with a new TMTP permission (a 'new TMTP firm') will be required to calculate TMTP using the TMTP method from the date at which the business is acquired. The PRA does not expect to exercise its discretion to allow a new TMTP firm to use the legacy approach.

## Approach and process for applications for TMTP and TMIR permissions

2.2A The PRA will consider applications for the TMIR with respect to admissible insurance and reinsurance obligations.[4] The PRA will approve an application to use TMIR if the firm has calculated TMIR in accordance with Transitional Measures 10.2-10.5.

2.3 For applications for new permissions on TMTP or TMIR (collectively known as 'transitional measures'), the considerations below apply.

2.4 For planning purposes, the PRA asks firms to notify their usual supervisory contacts at the earliest opportunity if they intend to make an application. When submitting an application for these transitional measures, firms should inform the PRA of any other approvals or permissions for which they have applied. The PRA encourages firms to also give details of any other approvals or permissions for which they intend to apply. Where a firm has applied for any other approvals or permissions at the same time as applying for a transitional measure, the PRA may ask it to provide sensitivity tests showing the impact on the transitional measure if the other applications were to be rejected.

---

3    Transitional Measure on Technical Provision 2.4 requires a firm to only apply TMTP to technical provisions on such of its insurance and reinsurance obligations that are the firm's qualifying and reinsurance obligations on 31 December 2024 or are such obligations assumed by the firm after 31 December 2024 as a result of a transfer event.
4    Transitional Measures 1.2.

2.5 For the permission process on the transitional measures, once the PRA has determined the outcome of the application, it will provide the firm with written notice of that determination.

2.6 If further information is required from the firm during the review, the PRA will request this information in writing.

## Initial calculation for new TMTP firms

2.7 A firm applying for a TMTP permission following a transfer event ('new TMTP firm') should include as part of their application its proposed values for '$Z_A$' '$Z_B$', and '$C_0$' for use in the TMTP method, and details of its proposed designation of business to be used in the calculation of the dynamic portion. The PRA may reject an application if it is not satisfied with a new TMTP firm's proposed values or designation of dynamic business. In order for a new TMTP firm to calculate '$A_r$', '$B_r$' and '$C_r$' for use in the TMTP method, the PRA expects:

- The transferor to provide the new TMTP firm with the following values of the 'transferred' TMTP[5] as set out in Transitional Measure on Technical Provisions 5.1: '$A_r$', '$B_r$' and '$C_0$'.
- The new TMTP firm should consider whether to elect to revise the transferor's designation of business used to calculate the dynamic portion. This should include a consideration of whether all such business is also Matching Adjustment (MA)-eligible for the new TMTP firm, as the new TMTP firm can only designate business that is MA-eligible at the point of application for the purpose of calculating the dynamic portion.
- In order to calculate '$A_r$' for use in the TMTP method, the new TMTP firm should first calculate '$Z_A$' in accordance with Transitional Measure on Technical Provisions 4.2(4) by using the transferor's aforementioned calculations for the value of '$A_r$' as '$A_0$' and the new TMTP firm's own value for '$D_0$'. The new TMTP firm can then use its derived $Z_A$ to calculate '$A_r$' as set out in Transitional Measure on Technical Provisions 5.1 for use in the TMTP method.
- If the new TMTP firm does not revise the dynamic business, then in order to calculate $B_r$ for use in the TMTP method, it should first calculate '$Z_B$' in accordance with Transitional Measure on Technical Provisions 4.2 (5) by using the transferor's aforementioned calculations for the value of '$B_r$' as '$B_0$', and the firm's own values for '$E_0$'.[6] The new TMTP firm can then use its derived '$Z_B$' to calculate $B_r$ as set out in Transitional Measure on Technical Provisions 5.1 for use in the TMTP method.
- If the new TMTP firm does revise the dynamic business, then in order to calculate '$B_r$' for use in the TMTP method, it should first adjust the transferor's '$B_r$' value

---

[5] The PRA expects firms to use the value of the TMTP that relates to the technical provisions of the transferred business immediately prior to the effective date of the transfer event.

[6] The firm should calculate the technical provisions on the transferred business for which the transferor had TMTP permission as at the effective date in order to calculate the values for '$D_0$' and '$E_0$'.

proportionally to reflect the revised split of BEL between the dynamic and non-dynamic portions of TMTP. In order to calculate '$Z_B$' in accordance with Transitional Measure on Technical Provisions 4.2(5), the new TMTP firm should use its own value of '$E_0$' based on the revised dynamic business and the adjusted '$B_r$' value as '$B_0$'. The new TMTP firm can then use its derived '$Z_B$' to calculate $B_r$ for use in the TMTP method.

- If the new TMTP firm does not revise the dynamic business, then it should use the value for '$C_0$' as calculated by the transferor, to calculate '$C_r$' for use in the TMTP method. If the new TMTP firm does revise the dynamic business then, in order to calculate '$C_r$', the new TMTP firm should adjust the transferor's '$C_0$' value proportionally to reflect the revised split of BEL between the dynamic and non-dynamic portions of TMTP. This adjusted $C_0$ can then be used to calculate '$C_r$' for use in the TMTP method.

2.8 The PRA expects that the new TMTP firm should ensure that the initial TMTP calculation is no greater than the amount of TMTP that applied to the acquired business immediately prior to the effective date. Where a new TMTP firm has elected to revise the dynamic business, the PRA expects this can be achieved either by adjusting the value for '$Z_B$' or '$C_0$'. A new TMTP firm should provide the PRA with details of the initial calculation and the designation of dynamic business as part of the application process.

## Revoking TMTP permissions

2.9 The PRA may revoke a firm's TMTP permission if it ceases to comply with the applicable requirements and fails to restore compliance with the relevant requirements in a timely and cooperative manner. The PRA may also revoke a firm's TMTP permission if a report submitted under Transitional Measures on Technical Provisions 7.4 shows that it is unrealistic to expect compliance with the solvency capital requirement (SCR) by 2032.

## Varying or revoking TMIR permissions

2.9A A firm with a TMIR permission may apply to the PRA to vary that permission.

2.9B The PRA will vary the firm's TMIR permission if the calculation of TMIR complies with Transitional Measures 10.2-10.5 were the permission to be varied.

2.9C The PRA will revoke a firm's TMIR permission if it ceases to comply with Transitional Measures 10.2-10.5. The PRA will also revoke a firm's TMIR permission if a report submitted under Transitional Measures 12.4 shows that it is unrealistic to expect compliance with the SCR by 2032.

# 3: Approach to TMTP rule modifications

3.1 Firms may apply to the PRA for permission to apply TMTP relief, with or without relevant modifications to rules in the Transitional Measure on Technical Provisions Part of the Rulebook, as set out in this SoP. The PRA will additionally consider applications to make subsequent modifications, including by way of a variation of a firm's TMTP permission on an ongoing basis in the areas set out in this SoP. From 31 December 2024, the PRA will not grant further permissions to use the legacy approach (described further in section 4).

## Amortisation of TMTP during the remaining transitional period

3.2 The amortisation approach in Transitional Measures on Technical Provisions 5.2 may be inappropriate for some TMTP method firms due to the run-off pattern of their business. The PRA will consider applications from such firms to waive or modify the rule and instead be required to adopt their proposed alternative amortisation approach. The PRA will consider this in instances where the application of the rule could result in an adverse impact on a firm's solvency position (measured as the impact on a firm's solvency coverage ratio of five percentage points or more). The PRA expects to only waive or modify this element where the firm proposes an alternative amortisation approach which still achieves a consistent amortisation to zero by 1 January 2032. Furthermore, firms would be expected by paragraph 5.8A of SS17/15 to document the new amortisation approach in their own risk and solvency assessment (ORSA).

## Insurance business transfers and reinsurance transactions

3.3 TMTP method firms must update $Z_A$, $Z_B$, and $C_0$ used in the Transitional Measures on Technical Provisions 5 in accordance with Transitional Measures on Technical Provisions 6. This update should reflect the change in risk profile after specific insurance business transfers and reinsurance contracts, and any changes firms elect to make to business used to calculate the dynamic portion. The increase or decrease in TMTP as a result of any transfer event cannot be greater than the TMTP that would have been applied by transferor or cedant to the obligations covered by the transfer event immediately prior to the effective date of the transfer events.[7] However, the PRA will consider applications to waive or modify Transitional Measures on Technical Provisions 6.2, if firms can provide justification for the transfer event, including revisions to the business used to calculate the dynamic portion to result in an increase or decrease in the amount of aggregate TMTP across the transferee and transferor. One circumstance where the PRA may consider a waiver or modification to

---

[7]  Transitional Measures on Technical Provisions 6.2. See further details in SS17/15.

how $Z_A$ is updated is where the transfer event results in a change in risk profile that alters the level of diversification benefit assumed within the calculation of the risk margin.

# 4: Firms with permission to use the legacy approach

4.1 Where a firm's TMTP permission allows it to continue to calculate its TMTP under the legacy approach (a 'legacy approach firm'), it is expected by SS17/15 to demonstrate to the PRA on an annual basis that it continues to meet the criteria relevant to this variation, as detailed in chapter 5 of this SoP.

4.2 A summary of the requirements that the PRA expects to impose on legacy approach firms is included below. The requirements are detailed in the written notice issued by the PRA to the firm, so the wording may differ from below. The PRA expects to require a legacy approach firm to:

- calculate the TMTP at each reporting period,[8] this does not require regulatory approval;
- apply the methodologies for calculating Solvency I Pillar 2 technical provisions that they were using as at the date of their last TMTP recalculation prior to 31 December 2024 ;
- not make any further changes or simplifications to the aforementioned methodologies;
- only make changes to Solvency I Pillar 2 best estimate assumptions to reflect changes in market conditions and/or demographic assumptions, and not make any other changes to Solvency I Pillar 2 best estimate assumptions;
- notwithstanding the requirements for no assumption or methodology changes, where it has permission for the matching adjustment ('MA') and invests in an asset with new MA-eligible features which it did not hold prior to 2016, assume that the new asset class carries the same level of Solvency I illiquidity premium benefit as the rest of the relevant asset portfolio;
- limit the technical provisions to which the TMTP permission relates to the technical provisions that the firm had a TMTP permission for on 31 December 2024; and
- apply an amortisation approach that runs off TMTP in a consistent manner to be zero by 1 January 2032, ie so that the amortisation applied each year does not lead to a 'cliff-edge effect' where larger decreases are required in the years immediately prior to 2032.

4.3 The PRA will also not conduct further reviews of a firm's Individual Capital Guidance.

---

8   This refers to the reporting periods in which the firm is required to report its TMTP to the PRA in accordance with the Reporting Part of the PRA Rulebook, subject to any waivers.

4.4 In the case of transfer events that involve acquiring a business that is subject to TMTP, a legacy approach firm may wish to apply TMTP to the acquired business. In this situation, the PRA would permit legacy approach firms to apply for a modification of its requirements in order to extend the scope of its TMTP permission to cover the acquired business, and if necessary to update their Solvency I methodologies to accept the acquired business. The PRA will only consider such applications if the firm can demonstrate that the modifications will result in an increase in TMTP that is no greater than the amount of TMTP that applied to the relevant insurance and reinsurance obligations covered by any transfer event immediately prior to the effective date of the transfer event. Firms should submit as part of their application, a proposal on how the legacy approach method used by the firm should be modified to ensure that no additional TMTP is created due to differences in how the transferor and the firm calculate their technical provisions. In granting the waiver or modification to allow the firm to apply TMTP to the acquired business, the PRA expects to also modify the legacy approach method the firm is required to use to calculate TMTP to include this proposed change. Firms should make an application no later than two months after the effective date of any transfer event.

# 5: Criteria for legacy approach firms

5.1 When it considered whether to vary TMTP permissions to enable firms to use the legacy approach, the PRA assessed if calculating the TMTP using the TMTP method would lead to a material financial impact under a range of economic scenarios compared with calculating the TMTP using the legacy approach for a firm.

5.2 The PRA also considered evidence that using the TMTP method rather than the legacy approach would:

(i)  carry a disproportionately high cost of compliance for the firm; or

(ii) significantly disrupt the firm's management practices.

## Assessing the criteria

5.3 With respect to paragraph 5.1, the PRA generally considered that the TMTP calculated under the TMTP method was materially different from the legacy approach if a comparison of the two different approaches under a range of forward-looking economic scenarios could result in a difference in a firm's solvency coverage ratio of five percentage points or more. The PRA considered such a comparison to be reasonable where the assessment, on a forward-looking basis:

(i)  included a comparison of the two different approaches over an appropriate time horizon, consistent with the scenarios in the firm's medium term capital management plan;

(ii) included a separate consideration of stress conditions, which are consistent with the reporting of sensitivities set out in SS7/17 – Solvency II: Data collection of market risk sensitivities[9]; and

(iii) took account of the expected run-off of the business eligible for TMTP, and the resulting impact on the amount of TMTP.

5.4 As noted in 4.2C of SS17/15 – Solvency II: transitional measures on risk-free interest rates and technical provisions[10], the PRA expects that legacy approach firms provide

---

9    **https://www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-data-collection-of-market-risk-sensitivities-ss**

10   **https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-transitional-measures-on-risk-free-interest-rates-and-technical-provisions-ss**

evidence that they continue to meet the criteria set out in 5.1-5.3 on an annual basis as part of their ORSA.

5.5 If a firm considers that it no longer meets the criteria set out in this SoP it should notify the PRA of this within three months. If a firm no longer wishes to use the legacy approach, it should also notify the PRA of this. In these situations, the PRA will consider varying a firm's TMTP permission so that it must calculate TMTP using the TMTP method for the remainder of the transitional period. The PRA will consider all relevant factors when determining the appropriate point at which a firm should begin using the TMTP method. The PRA would expect this to be no later than 12 months from the date on which the firm initially notified the PRA that the criteria in this section are no longer met or that it no longer wishes to use the legacy approach.

# Annex – SoP updates

This annex details the changes that have been made to this SoP following its initial publication in 2024:

## 2024

### November 2024

Following publication of policy statement (PS) 15/24 – Review of Solvency II: Restatement of assimilated law[11], this SoP was amended in the ways summarised below:

- paragraph 1.3: removal of cross-reference to assimilated law;
- paragraph 1.5: addition to scope of this SoP to cover TMIR permissions;
- paragraph 2.2A: addition of this paragraph to capture the restatement of provisions previously covering TMIR approvals in assimilated law;
- paragraph 2.3: minor amendments to accommodate addition of 2.2A;
- paragraph 2.4: addition of text covering sensitivity tests; and
- paragraphs 2.9A to 2.9C: addition of new section covering varying or revoking TMIR permissions.

This policy is effective from 31 December 2024.

---

[11] November 2024: **www.bankofengland.co.uk/prudential-regulation/publication/2024/november/review-of-solvency-ii-restatement-of-assimilated-law-policy-statement**.