

Commission Delegated Regulation (EU) 2015/35 of 10 October 2014  
supplementing Directive 2009/138/EC of the European Parliament  
and of the Council on the taking-up and pursuit of the business of  
Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

TITLE I

[<sup>X1</sup>VALUATION AND RISK-BASED CAPITAL REQUIREMENTS  
(PILLAR I), ENHANCED GOVERNANCE (PILLAR II)  
AND INCREASED TRANSPARENCY (PILLAR III)]

CHAPTER III

**RULES RELATING TO TECHNICAL PROVISIONS**

*SECTION 3*

*Methodologies to calculate technical provisions*

*Subsection 1*

*Assumptions underlying the calculation of technical provisions*

*Article 22*

**General provisions**

1 Assumptions shall only be considered to be realistic for the purposes of Article 77(2) of Directive 2009/138/EC where they meet all of the following conditions:

- a insurance and reinsurance undertakings are able to explain and justify each of the assumptions used, taking into account the significance of the assumption, the uncertainty involved in the assumption as well as relevant alternative assumptions;
- b the circumstances under which the assumptions would be considered false can be clearly identified;
- c unless otherwise provided in this Chapter, the assumptions are based on the characteristics of the portfolio of insurance and reinsurance obligations, where possible regardless of the insurance or reinsurance undertaking holding the portfolio;
- d insurance and reinsurance undertakings use the assumptions consistently over time and within homogeneous risk groups and lines of business, without arbitrary changes;
- e the assumptions adequately reflect any uncertainty underlying the cash flows.

For the purpose of point (c), insurance and reinsurance undertakings shall only use information specific to the undertaking, including information on claims management and expenses, where that information better reflects the characteristics of the portfolio of insurance or reinsurance obligations than information that is not limited to the specific

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undertaking or where the calculation of technical provisions in a prudent, reliable and objective manner without using that information is not possible.

2 Assumptions shall only be used for the purpose of Article 77(3) of Directive 2009/138/EC where they comply with paragraph 1 of this Article.

3 Insurance and reinsurance undertakings shall set assumptions on future financial market parameters or scenarios that are appropriate and consistent with Article 75 of Directive 2009/138/EC. Where insurance and reinsurance undertakings use a model to produce projections of future financial market parameters, it shall comply with all of the following requirements:

- a it generates asset prices that are consistent with asset prices observed in financial markets;
- b it assumes no arbitrage opportunity;
- c the calibration of the parameters and scenarios is consistent with the relevant risk-free interest rate term structure used to calculate the best estimate as referred to in Article 77(2) of Directive 2009/138/EC.

### *Article 23*

#### **Future management actions**

1 Assumptions on future management actions shall only be considered to be realistic for the purposes of Article 77(2) of Directive 2009/138/EC where they meet all of the following conditions:

- a the assumptions on future management actions are determined in an objective manner;
- b assumed future management actions are consistent with the insurance or reinsurance undertaking's current business practice and business strategy, including the use of risk-mitigation techniques; where there is sufficient evidence that the undertaking will change its practices or strategy, the assumed future management actions are consistent with the changed practices or strategy;
- c assumed future management actions are consistent with each other;
- d assumed future management actions are not contrary to any obligations towards policy holders and beneficiaries or to legal requirements applicable to the undertaking;
- e assumed future management actions take account of any public indications by the insurance or reinsurance undertaking as to the actions that it would expect to take or not take.

2 Assumptions about future management actions shall be realistic and include all of the following:

- (i) a comparison of assumed future management actions with management actions taken previously by the insurance or reinsurance undertaking;
- (ii) a comparison of future management actions taken into account in the current and in the past calculations of the best estimate;
- (iii) an assessment of the impact of changes in the assumptions on future management actions on the value of the technical provisions.

Insurance and reinsurance undertakings shall be able to explain any relevant deviations in relation to points (i) and (ii) upon request of the supervisory authorities and, where changes in an assumption on future management actions have a significant impact on the

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technical provisions, the reasons for that sensitivity and how the sensitivity is taken into account in the decision-making process of the insurance or reinsurance undertaking.

3 For the purpose of paragraph 1, insurance and reinsurance undertakings shall establish a comprehensive future management actions plan, approved by the administrative, management or supervisory body of the insurance and reinsurance undertaking, which provides for all of the following:

- a the identification of future management actions that are relevant to the valuation of the technical provisions;
- b the identification of the specific circumstances in which the insurance or reinsurance undertaking would reasonably expect to carry out each respective future management action referred to in point (a);
- c the identification of the specific circumstances in which the insurance or reinsurance undertaking may not be able to carry out each respective future management action referred to in point (a), and a description of how those circumstances are considered in the calculation of technical provisions;
- d the order in which future management actions referred to in point (a) would be carried out and the governance requirements applicable to those future management actions;
- e a description of any on-going work required to ensure that the insurance or reinsurance undertaking is in a position to carry out each respective future management action referred to in point (a);
- f a description of how the future management actions referred to in point (a) have been reflected in the calculation of the best estimate;
- g a description of the applicable internal reporting procedures that cover the future management actions referred to in point (a) included in the calculation of the best estimate;

4 Assumptions about future management actions shall take account of the time needed to implement the management actions and any expenses caused by them.

5 The system for ensuring the transmission of information shall only be considered to be effective for the purpose of [F1 the governance requirements set out in rule 2.2 of the Conditions Governing Business part of the PRA Rulebook] where the reporting procedures referred to in point (g) of paragraph 3 of this Article include at least an annual communication to the administrative, supervisory or management body.

#### Textual Amendments

- F1** Words in Art. 23(5) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), 11(9) (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

### Article 24

#### Future discretionary benefits

Where future discretionary benefits depend on the assets held by the insurance or reinsurance undertaking, undertakings shall base the calculation of the best estimate on the assets currently held by the undertakings and shall assume future changes of their asset allocation in accordance with Article 23. The assumptions on the future returns of the assets shall be consistent with the relevant risk-free interest rate term

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structure, including where applicable a matching adjustment, a volatility adjustment, or a transitional measure on the risk-free rate, and the valuation of the assets in accordance with Article 75 of Directive 2009/138/EC.

#### *Article 25*

### **Separate calculation of the future discretionary benefits**

When calculating technical provisions, insurance and reinsurance undertakings shall determine separately the value of future discretionary benefits.

#### *Article 26*

### **Policyholder behaviour**

When determining the likelihood that policy holders will exercise contractual options, including lapses and surrenders, insurance and reinsurance undertakings shall conduct an analysis of past policyholder behaviour and a prospective assessment of expected policyholder behaviour. That analysis shall take into account all of the following:

- (a) how beneficial the exercise of the options was and will be to the policy holders under circumstances at the time of exercising the option;
- (b) the influence of past and future economic conditions;
- (c) the impact of past and future management actions;
- (d) any other circumstances that are likely to influence decisions by policyholders on whether to exercise the option.

The likelihood shall only be considered to be independent of the elements referred to in points (a) to (d) where there is empirical evidence to support such an assumption.

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