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DRAFT STATUTORY INSTRUMENTS

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**2024 No.**

The Insurance and Reinsurance Undertakings  
(Prudential Requirements) (Amendment and  
Miscellaneous Provisions) Regulations 2024

PART 2

Prudential requirements

**Amendments to the Insurance and Reinsurance Undertakings (Prudential Requirements)  
Regulations 2023**

2.—(1) The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023<sup>(1)</sup> are amended as follows.

(2) Before regulation 1 (citation, commencement and extent) insert—  
“PART 1

*Introductory”.*

(3) After regulation 1 insert—  
“PART 2

*Prudential requirements*

Chapter 1

*Matching adjustment”.*

(4) In regulation 2 (interpretation)—

- (a) for the heading substitute “Interpretation of Chapter 1”;
- (b) in paragraph (1) for “In these Regulations” substitute “In this Chapter”;
- (c) in paragraph (2) for “in these Regulations” substitute “in this Chapter”.

(5) After regulation 7 (power of PRA to make rules) insert—

“CHAPTER 2

Risk margin

**Interpretation of Chapter 2**

7A.—(1) In this Chapter—

- “insurance undertaking” has the same meaning as in section 417(1) of FSMA 2000(2);
- “PRA rules” means the rules made by the PRA under FSMA 2000 as they have effect from time to time;
- “reinsurance undertaking” has the same meaning as in section 417(1) of FSMA 2000.

(2) Any other term used in this Chapter which is used in PRA rules applicable to insurance and reinsurance undertakings has the same meaning as in those rules.

### Calculation of risk margin

**7B.** Where PRA rules provide for a risk margin to be calculated separately from the best estimate, the risk margin for the whole portfolio of insurance and reinsurance obligations of an insurance or reinsurance undertaking must be calculated in accordance with the following formula—

$$RM = CoC \times \sum_{t \geq 0} \frac{SCR(t) \times \max(\lambda^t, \lambda_{\text{floor}})}{(1+r(t+1))^{t+1}}$$

;

where—

- (a) “RM” denotes risk margin;
- (b) “CoC” denotes the cost-of-capital rate, which equals 4%;
- (c) the sum covers all integers including zero;
- (d) “SCR(t)” denotes the SCR of the reference undertaking after t years, calculated in accordance with PRA rules;
- (e) “λ” denotes the risk tapering factor, and equals—
  - (i) 0.9 for long-term insurance and reinsurance obligations, and
  - (ii) 1.0 for general insurance and reinsurance obligations;
- (f) “ $\lambda^t$ ” denotes the risk tapering factor to the power of t years;
- (g) “ $\lambda_{\text{floor}}$ ” denotes the floor of the risk tapering factor, and equals 0.25;
- (h) “r(t+1)” denotes the basic relevant risk-free interest rate for the maturity of t + 1 years, derived from the basic relevant risk-free interest rate term structure.

### Power of PRA to make rules

**7C.** Notwithstanding regulation 7B, the PRA’s power to make general rules under section 137G of FSMA 2000(3) continues to include power to make rules permitting an insurance or reinsurance undertaking to use simplified methods to calculate risk margin which are proportionate to the nature, scale and complexity of the risk underlying its insurance or reinsurance obligations.”.

(2) 2000 c. 8. The definitions of “insurance undertaking” and “reinsurance undertaking” in section 417(1) were inserted by S.I. 2015/575 and substituted by S.I. 2019/632. They are further substituted by regulation 7 of these Regulations.

(3) Section 137G was inserted by section 24 of the Financial Services Act 2012 (c. 21).

(6) Before regulation 8 (PRA's functions and powers under FSMA 2000) insert—  
“PART 3

*Enforcement and review”.*

(7) In regulation 8—

- (a) in paragraph (1) for “and 6 (calculation of fundamental spread)” substitute “, 6 (calculation of fundamental spread) and 7B (risk margin)”;
- (b) for “5 or 6” in each place substitute “5, 6 or 7B”.