FSA 2008/12

GENERAL PRUDENTIAL SOURCEBOOK (ADEQUACY OF FINANCIAL RESOURCES) (AMENDMENT) INSTRUMENT 2008

Power exercised

A. The Financial Services Authority makes this instrument in exercise of its power under section 157(1) (Guidance) of the Financial Services and Markets Act 2000.

Commencement

B. This instrument comes into force on 6 April 2008.

Amendments to the Handbook

C. The Glossary of definitions is amended in accordance with Annex A to this instrument.

D. The General Prudential sourcebook (GENPRU) is amended in accordance with Annex B to this instrument.

Citation

E. This instrument may be cited as the General Prudential Sourcebook (Adequacy of Financial Resources) (Amendment) Instrument 2008.

By order of the Board
27 March 2008

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

supervisory review and evaluation process	the *FSA's* assessment of the adequacy of certain *firms'* capital, as more fully described in *BIPRU* 2.2.9G and *INSPRU* ~~7.1.12G~~ 7.1.91G to *INSPRU* 7.1.99G.

Annex B

Amendments to the General Prudential sourcebook (GENPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1.2.15 G This section also has *rules* requiring a *firm* to identify and assess risks to its being able to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the *firm* considers necessary. *GENPRU* 1.2.60R provides that a *firm* should document that assessment. The *FSA* will review that assessment as part of its own assessment of the adequacy of a *firm's* capital under its *supervisory review and evaluation process (SREP)*. When forming a view of any *individual capital guidance* to be given to the *firm*, the *FSA* will also review the ARROW risk assessment and any other issues arising from day-to-day supervision. ~~This review by the *FSA* forms part of the *FSA's* ARROW assessment of a *firm*.~~

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1.2.73 G (1) …

(1A) For an *insurer*, these tests and analyses are in addition to those that may be used for the *ICA* (see *INSPRU* 7.1.10G and *INSPRU* 7.1.68G). Projections should be made on different bases, including ones which are consistent with the business plan, as well as others using 'realistically adverse' alternative scenarios. In considering the tests and analyses to be used for the purposes of these projections, an *insurer* should have regard to the matters mentioned below.

(a) As with the *ICA*, it is for the *insurer* to identify an appropriate range of adverse circumstances and events. As the projections are being assessed as part of business planning, the *FSA* would expect stresses and scenarios to be more likely than the extreme conditions covered by an *ICA*. As a guide, stresses and scenarios with a probability of once in a 25 year period would be useful as a reference when an *insurer* discusses projections of its financial position with the *FSA* (see also *GENPRU* 1.2.75G(3)).

(b) Business risk is likely to be a more significant feature in projecting an *insurer's* financial position than in its *ICA* (see *GENPRU* 1.2.31R and *GENPRU* 1.2.32G).

(c) The treatment of new business is likely to be different for projecting an *insurer's* financial position than in its *ICA*. In the former, this should be based on the firm’s business plan, but flexed to incorporate potential changes in trading conditions and strategy. In the latter, account should be taken of the effects of a closure to new business (see *GENPRU* 1.2.27G, *GENPRU* 1.2.73G(3) and *INSPRU* 7.1.16G to *INSPRU* 7.1.19G).

(d) Methods that are more approximate than used for an *ICA* may be appropriate for projecting elements of an *insurer's* financial position (e.g. the *with-profits insurance capital component* for *realistic basis life firms*).

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