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Expected profits included in future premiums

Scope of calculation

1.1. Expected profits included in future premiums (EPIFP) result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received. Any premiums already received by the undertaking are not included within the scope of EPIFP. Single premium contracts where the premium has already been received are also excluded.

1.2. For the avoidance of doubt, this also applies to non-life business.

1.3. EPIFP should be calculated in accordance with the methodology below, which makes use of the Solvency II approach to technical provisions and the calculation of the lapse risk of the SCR (including definitions, standards etc.).

1.4. It is acknowledged that EPIFP changes over time. As with other market consistent values of assets and liabilities (that are also volatile) the calculation of EPIFP should be as at the balance sheet date.

Methodology.

1.5. **First step** - The undertaking calculates the technical provisions using the best estimate assumptions. (This is not an additional calculation required of the undertaking, but refers to the technical provisions that the undertaking has already computed).

1.6. **Second step** – The undertaking calculates the technical provisions using a lapse rate equal to 100% with all the other assumptions remaining unchanged and on the basis that all policies can be lapsed. In this calculation, it is important that policies are effectively treated as paid up rather then being set to surrender value in order to achieve the objective of isolating the effect of EPIFP. The use of a surrender value could also capture profits relating to past (including single) premiums and that is not the purpose of this calculation. A paid up treatment should be adopted regardless of whether this is required or permitted under the policy terms.

This calculation should be carried out at the same level of granularity used in the calculation of technical provisions as in the previous step.

1.7. **Third step** – The value of profits included in the future premiums is equal to:

$$EFP = \sum_i max\{0; \Delta TP_i\}$$

Where:

EFP = value of Profits included in future premiums

ΔTP_i = Technical Provisions as calculated in the Second step minus Technical Provisions as calculated in the First step

and i denotes the homogeneous risk groups for which the calculation of the Technical Provisions is carried out (i.e. level of granularity as described above).