

CONSULTATION  
PAPER

## CONSULTATION PAPER

on the revised Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment

EIOPA-BoS-25-110  
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eiopa

European Insurance and  
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## RESPONDING TO THIS PAPER

EIOPA welcomes comments on the Consultation Paper on the revised Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment.

Comments are most helpful if they:

- ▶ respond to the question stated, where applicable;
- ▶ contain a clear rationale; and
- ▶ describe any alternatives EIOPA should consider.

Please send your comments to EIOPA via EUSurvey ([link](#)) by 26 June 2025, 23:59 CET.

Contributions not provided via EUSurvey or after the deadline will not be processed. In case you have any questions please contact [Solvencyllreview@eiopa.europa.eu](mailto:Solvencyllreview@eiopa.europa.eu).

### Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third-party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents.<sup>1</sup>

### Declaration by the contributor

By sending your contribution to EIOPA you consent to publication of all non-confidential information in your contribution, in whole/in part – as indicated in your responses, including to the publication of the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

### Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data is treated can be found in the privacy statement at the end of this material.

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<sup>1</sup> [Public Access to Documents](#)

# CONSULTATION PAPER OVERVIEW AND NEXT STEPS

The Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment (EIOPA-BoS-17/366) was published in 2017 and is updated following the review of the volatility adjustment framework in Solvency II<sup>2</sup>.

EIOPA is therefore interested in stakeholders' feedback on the proposed deletions, amendments and additions to the Opinion. The changes introduced in the revised aim to align the Opinion with the Solvency II directive amendments. The changes introduced in the revised Opinion have no material impact on the regulatory requirements in force. Accordingly, this consultation paper does not include an impact assessment of the proposed changes.

## Next steps

EIOPA will consider the feedback received and expects to publish a Final Report on the consultation and to submit the revised Opinion for adoption by the Board of Supervisors.

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<sup>2</sup> Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks and group and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU

# REVISED OPINION

## 1. LEGAL BASIS

1. The European Insurance and Occupational Pensions Authority (EIOPA) issues this Opinion on the basis of Article 29(1)(a) of Regulation (EU) No 1094/2010<sup>1</sup>. This Article mandates EIOPA to play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.
2. This Opinion is based on Directive 2009/138/EC (Solvency II Directive)<sup>2</sup>, Commission Delegated Regulation (EU) 2015/35 (Delegated Regulation)<sup>3</sup> and EIOPA's guidelines and other relevant instruments.
3. This Opinion is addressed to the competent authorities, as defined in Article 4(2) of Regulation (EU) No 1094/2010.
4. The Board of Supervisors has adopted this Opinion in accordance with Article 2(8) of its Rules of Procedure<sup>4</sup>.

## 2. CONTEXT AND OBJECTIVE

5. EIOPA is attentive to the convergence of supervisory practices on internal models and undertakings' compliance with the relevant requirements set out in the Solvency II Directive, further developed in the Delegated Regulation and supplemented in EIOPA's guidelines.
6. The volatility adjustment (VA) is one of the measures introduced in the so called LTG package concerning Solvency II valuation of insurance contracts with long-term guarantees. It aims at stabilising the Solvency II balance sheet during short periods of high market volatility by adding an extra spread component to the discount rate used for the calculation of technical provisions.
7. Concerning internal models, there are currently dynamic volatility adjustment (DVA) approaches that take the VA into account in the Solvency Capital Requirement (SCR) by allowing the

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<sup>1</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

<sup>2</sup> Directive 2009/138/EC of 25 November 2009 of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1–155)

<sup>3</sup> 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) (OJ L 12, 17.01.2015, p. 1)

<sup>4</sup> Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available on: [https://www.eiopa.europa.eu/system/files/2022-07/bos-rules\\_of\\_procedure.pdf](https://www.eiopa.europa.eu/system/files/2022-07/bos-rules_of_procedure.pdf).

VA to move in line with the modelled credit spreads during the 1-year forecast of basic own funds. In the standard formula or constant VA approaches the VA is kept constant in the SCR calculation.

8. EIOPA has identified the DVA modelling as an area where supervisory convergence needs to be reinforced.

9. This Opinion does not concern the requirements applicable to the constant VA, such as the demonstration of the ability of the undertaking to earn the VA (recoverability test). However, these requirements are setting the frame and referred to as assumptions underlying the VA. These requirements have to be taken into account in the DVA context, e.g. assessed under the stressed scenarios relevant for the modelling approach.

### 3. MODELLING

10. All quantifiable risks should be modelled in Pillar 1 and all non-quantifiable risks should be dealt with in Pillar 2 when applying a DVA in the internal model.

11. When challenging the model, competent authorities should consider *inter alia* all elements of the EIOPA VA methodology<sup>5</sup> (e.g. choice of the reference portfolio, the risk correction) and the variation of those elements over the forecasting period; sensitivity to the parameters and the undertaking's risk profile, including the assumptions underlying the VA and any deviations from that in the undertaking's risk profile; the principles of materiality and proportionality.

12. Furthermore, when challenging the model, competent authorities should assess the consistency of the DVA modelling with the approach to other aspects of the internal model, especially the approach to credit spreads, any potential interrelations to the approach to interest rates and the coverage of all material risks.

### 4. RISK MANAGEMENT

13. A holistic view should be taken in the supervisory assessment of modelling and risk-management aspects. This means on the one hand that all tests and standards on internal models apply and on the other hand that no undesirable risk management incentives should be allowed. In this context, deviation from close modelling or replication of EIOPA VA Methodology may be used if the requirements of Article 122(5) of the Solvency II Directive are satisfied and the approach is supported by appropriate non-model and Pillar 2 actions.

14. In the application of the above principle, when challenging the model, competent authorities should consider *inter alia* that:

- a. No undesirable risk management incentives should be allowed. This includes such cases where undertakings would move their asset allocation towards the EIOPA VA reference portfolio with the sole purpose of lowering the SCR while increasing actual risk. This also includes

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<sup>5</sup> The EIOPA VA methodology is published on the EIOPA website.

putting in place investment strategies that could trigger pro-cyclical behaviour in a stressed situation.

b. The undesirable incentives can be reduced or removed using a method that deviates from closely modelling the EIOPA VA Methodology, as long as the form of the deviation corresponds to the undesirable risk management incentives that should be resolved, and the revised model complies with the requirements of Article 122(5) of the Solvency II Directive.

c. In addition, non-model and Pillar 2 actions by the undertaking play an essential role:

- i the use of DVA should be analysed regarding the requirements of the prudent person principle and risk management;
- ii the validation and documentation of the DVA should justify the underlying reasons of each deviation and analyse the impact of each deviation.

d. A refusal to approve the use of the VA (in Member States where the competent authority has this power) and the possible application of a capital add-on in line with Article 278 of the Delegated Regulation are other ways to prevent or mitigate undesirable incentives.

## **5. PUBLIC DISCLOSURE**

15. A specific requirement in the Solvency and Financial Condition Report as defined in Article 296(2)(e) of the Delegated Regulation is to disclose the impact of a change to zero of the VA on the undertaking's financial position. This should be performed as if the regulatory concept of the VA would not exist at all. No compensation should be included in this specific calculation, e.g. via switching off other model components, such as the modelling of sovereign risk.

16. EIOPA considers it necessary for undertakings to provide the explanation of DVA methodology in the Solvency and Financial Condition Report in order to fulfil the disclosure requirements defined in Article 297(4)(e) of the Delegated Regulation.

## **6. PUBLICATION BY EIOPA**

17. This Opinion will be published on EIOPA's website.

## EXPLANATION OF THE MAIN CHANGES

The main revisions introduced in the Opinion are as follows:

AMENDED: Modelling – paragraph 9

~~9~~ **10.** All quantifiable risks should be modelled in Pillar 1 and all non-quantifiable risks should be dealt with in Pillar 2 when ~~forecasting the VA~~ **applying a DVA in an internal model**. ~~Any deviations from the VA methodology as described in the Solvency II Directive, the Delegated Regulation and EIOPA VA Methodology<sup>4</sup> should be addressed in a way that the internal model produces an SCR guarantying a level of policyholder protection that is at least as high as if replicating the EIOPA VA Methodology. Concretely, this means that the undertaking shall demonstrate that its SCR is at least as high as if replicating the EIOPA VA Methodology (prudency principle).~~

### Explanation of the changes:

The Solvency II Directive has been amended to introduce a broader prudency principle directly in Article 122(5) of the Solvency II Directive. To avoid redundancy with that article, the reference to the prudency principle has been deleted in Paragraph 9.

Furthermore, "... when forecasting the VA" is replaced by "... when applying a DVA in the internal model" as the Opinion covers also holistic DVA approaches that do not "forecast the VA".

AMENDED: Modelling – paragraph 10

~~10~~ **11.** ~~In the application of the above principle,~~ When challenging the model, competent authorities should consider inter alia all elements of the EIOPA VA Methodology<sup>5</sup> (e.g. choice of the reference portfolio, ~~the fundamental spread~~ **the risk correction**) and the variation of those elements over the forecasting period; sensitivity to the parameters and the undertaking's risk profile, including the assumptions underlying the VA and any deviations from that in the undertaking's risk profile; the principles of materiality and proportionality. **Furthermore, when challenging the model, competent authorities should assess the consistency of the DVA modelling with the approach to other aspects of the internal model, especially the approach to credit spreads, any potential interrelations to the approach to interest rates and the coverage of all material risks.**

### Explanation of the changes:

"Fundamental spread" has been replaced by "risk correction" to align the wording with the new Solvency II approach.

In order to enhance supervisory convergence, paragraph 10 has been amended to provide a non-exhaustive list of aspects that should be assessed by competent authorities when challenging a model in the amended (D)VA framework.



As mentioned in the footnote that was added to this paragraph, the EIOPA VA methodology will be published on the EIOPA website in time before the entry into application of the revised directive.

AMENDED: RISK MANAGEMENT – paragraphs 11 and 12

~~“11~~ **12.** A holistic view should be taken in the supervisory assessment of modelling and risk-management aspects. This means on the one hand that all tests and standards on internal models apply and on the other hand that no undesirable risk management incentives should be allowed. In this context, deviation from close modelling or replication of EIOPA VA Methodology may be used ~~in certain circumstances and under the prudency principle mentioned above~~ **if the requirements of Article 122 (5) of the Solvency II Directive are satisfied and the approach is supported by appropriate non-model and Pillar 2 actions.”**

~~“12~~ **13.** [...] b. The undesirable incentives can be reduced or removed using a method that deviates from closely modelling the EIOPA VA Methodology, as long as the form of the deviation corresponds to the undesirable risk management incentives that should be resolved, and the revised model passes the ~~prudency principle introduced above~~ **requirements of Article 122 (5) of the Solvency II Directive.”**

**Explanation of the changes:**

The reference to the “prudency principle” has been replaced by a reference to Article 122(5) of the Solvency II Directive.

DELETED: Monitoring by EIOPA AND REPLACED BY:

6. PUBLICATION BY EIOPA

17. This Opinion will be published on EIOPA’s website.

## ANNEX - PRIVACY STATEMENT RELATED TO PUBLIC ONLINE CONSULTATIONS AND SURVEYS

### Introduction

1. The European Insurance and Occupational Pension authority (EIOPA) is committed to protecting individuals' personal data in accordance with Regulation (EU) 2018/1725<sup>4</sup> (further referred as "the Regulation").
2. In line with Article 15 and 16 of the Regulation, this privacy statement provides information to the data subjects relating to the processing of their personal data carried out by EIOPA.

### Purpose of the processing of personal data

3. Personal data is collected and processed to manage online public consultations EIOPA launches, and to conduct online surveys, including via online platform EUSurvey<sup>5</sup>, and to facilitate further communication with participating stakeholders (e.g., when clarifications are needed on the information supplied or for the purposes of follow-up discussions that the participating stakeholders may agree to in the context of the consultations or surveys).
4. The data will not be used for any purposes other than the performance of the activities specified above. Otherwise you will be informed accordingly.

### Legal basis of the processing of personal data and/or contractual or other obligation imposing it

5. The legal basis for this processing operation are the following :
  - Regulation (EU) 1094/2010, and notably Articles 8, 10, 15, 16, 16a and 29 thereof
  - EIOPA's Public Statement on Public Consultations
  - EIOPA's Handbook on Public Consultations

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<sup>4</sup> Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC, OJ L 295, 21.11.2018, p. 39–98.

<sup>5</sup> For more information on the processing of personal data in EUSurvey, please see the [dedicated privacy statement](#)

6. In addition, in accordance with Article 5(1)(a) of the Regulation, processing is lawful as it is necessary for the performance of a task carried out in the public interest.

### **Controller of the personal data processing**

7. The controller responsible for processing the data is EIOPA's Executive Director.
8. Address and email address of the controller:

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt am Main

Germany

[fausto.parente@eiopa.europa.eu](mailto:fausto.parente@eiopa.europa.eu)

### **Contact detail of EIOPA's Data Protection Officer (DPO)**

9. Westhafenplatz 1, 60327 Frankfurt am Main, Germany

[dpo@eiopa.europa.eu](mailto:dpo@eiopa.europa.eu)

### **Types of personal data collected**

10. The following personal data might be processed:
  - Contact details (name, email address, phone number).
  - Employment details (company and job title).

### **Recipients/processors of the personal data collected**

11. Data will be collected and disclosed to the relevant staff members part of the Department/Unit in charge of the consultation/surveys and also to other EIOPA's staff on a need-to-know basis (e.g. IT staff, security officer).

### **Retention period**

12. Personal data collected are kept by until the finalisation of the project the public consultation or the survey relate to.
13. The personal data collected in EUSurvey are deleted from EUSurvey as soon as the period to provide answers elapsed.

### **Transfer of personal data to a third country or international organisations**

14. No personal data will be transferred to a third country or international organisation. The service provider is located in the European Union.

### **Automated decision-making**

15. No automated decision-making including profiling is performed in the context of this processing operation.

### **What are the rights of the data subject?**

16. Data subjects have the right to access their personal data, receive a copy of them in a structured and machine-readable format or have them directly transmitted to another controller, as well as request their rectification or update in case they are not accurate. Data subjects also have the right to request the erasure of their personal data, as well as object to or obtain the restriction of their processing.

17. Where processing is based solely on the consent, data subjects have the right to withdraw their consent to the processing of their personal data at any time.

18. Restrictions of certain rights of the data subject may apply, in accordance with Article 25 of Regulation (EU) 2018/1725.

19. For the protection of the data subjects' privacy and security, every reasonable step shall be taken to ensure that their identity is verified before granting access, or rectification, or deletion.

20. Should the data subjects wish to exercise any of the rights provided in paragraphs 16 and 17 above, please contact EIOPA's DPO ([dpo@eiopa.europa.eu](mailto:dpo@eiopa.europa.eu)).

### **Who to contact if the data subjects have any questions or complaints regarding data protection?**

21. Any questions or complaints concerning the processing of the personal data can be addressed to EIOPA's Data Controller ([fausto.parente@eiopa.europa.eu](mailto:fausto.parente@eiopa.europa.eu)) or EIOPA's DPO ([dpo@eiopa.europa.eu](mailto:dpo@eiopa.europa.eu)).

22. Alternatively, the data subjects can have recourse to the **European Data Protection Supervisor** ([www.edps.europa.eu](http://www.edps.europa.eu)) at any time, as provided in Article 63 of the Regulation.