Pills

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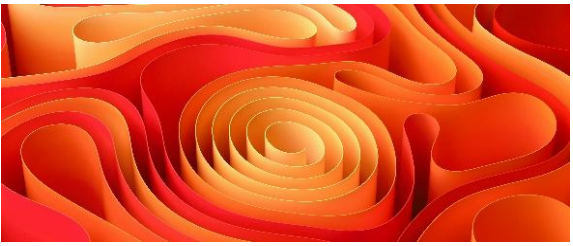

TOPICS:

Insurance

SOURCE:

European Insurance and Occupational Pensions Authority

EIOPA's Year-End 2024 Study on Market and Credit Risk Confirms the Need for Continued Supervisory Attention over Dispersion Identified

- The **comparative study on market and credit risk modelling** provides a supervisory assessment of how European insurance undertakings model market and credit risks under the Solvency II framework.
- The study's primary objective is **to enhance supervisory convergence and transparency** by comparing internal model outputs across firms. It focuses on benchmarking model calibrations - rather than overall solvency positions - using standardized asset and asset-liability portfolios. The analysis is based on data from 22 large insurance groups across seven Member States, representing nearly full coverage of EUR-denominated investments under internal models.
- A key finding is the **significant variation in model outputs** across undertakings. This dispersion reflects differences in modelling approaches (integrated vs. modular), assumptions and business profiles. While such diversity can improve risk sensitivity and avoid herding, it also necessitates ongoing supervisory scrutiny. From a methodological perspective, internal models are subject to strict Solvency II requirements, including statistical validation, governance, and documentation standards. The study uses **Value-at-Risk** (**99.5%**, **one-year horizon**) as a key metric, expressed as a "risk charge" relative to portfolio value. It also analyses underlying risk drivers such as interest rates, credit spreads, equity, and property risks.
- Quantitatively, **results show**: 1) **Moderate to high dispersion** in combined market and credit risk charges across benchmark portfolios; 2) Greater variability in **credit spread modelling**, especially for lower-rated corporate bonds and certain sovereign issuers; 3) Lower dispersion in **major equity indices**, but higher variation in property and strategic equity exposures; 4) Limited incorporation of **sustainability and climate risks**, with almost no firms explicitly modelling physical climate risk.