Pills

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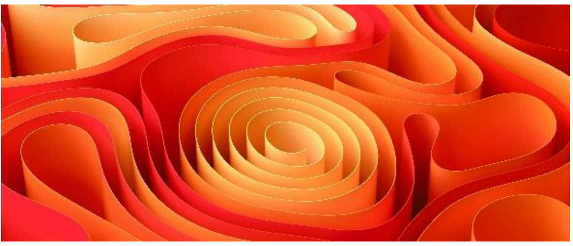

TOPICS:

Insurance

SOURCE:

European Insurance and Occupational Pensions Authority

EIOPA: Final Report on Revised Opinion on Internal Models with DVA - Solvency II Review

- EIOPA published its **final report** revising the 2017 Opinion on the supervisory **assessment of internal models incorporating a Dynamic Volatility Adjustment** (DVA), in response to the updated Solvency II Directive (2025/2). The revision follows a public consultation conducted between April and June 2025, incorporating feedback from stakeholders to refine the Opinion.
- The Opinion aims **to ensure convergence in supervisory approaches** to internal models that apply a DVA, particularly in light of the revised volatility adjustment (VA) framework. **The DVA allows undertakings to reflect changes in VA during the 1-year Solvency Capital Requirement (SCR) forecast**, unlike standard formula approaches where the VA is held constant.
- Key clarifications include the requirement for all **material quantifiable risks** to be modelled under Pillar 1, while **non-quantifiable risks** should be addressed under Pillar 2. Competent authorities are guided to assess internal models by examining the entire EIOPA VA methodology, consistency with other model components (e.g., credit spreads, interest rates), and potential pro-cyclical investment behaviours.
- The Opinion permits **deviations from close replication of the EIOPA VA methodology** if such deviations address undesirable risk management incentives and are backed by adequate Pillar 2 measures. It also emphasizes **transparency** in public disclosures, requiring insurers to report the impact of a zero VA scenario and explain their DVA methodology in the Solvency and Financial Condition Report.