

OPINION

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

The Opinion applies from 30 January 2027 and repeals and replaces the Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment of 30 November 2017 (EIOPA-BoS-17/366).

EIOPA-BoS-25/526
Adopted on 26 November 2025

OPINION ON THE SUPERVISORY ASSESSMENT OF INTERNAL MODELS INCLUDING A DYNAMIC VOLATILITY ADJUSTMENT

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 1094/2010¹. 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)², Commission Delegated Regulation (EU) 2015/35 (Delegated Regulation)³ 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 Procedure⁴.

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

¹ 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).

² 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)

³ 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)

⁴ Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available on: [bos-rules_of_procedure.pdf](#).

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 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 material 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 methodology⁵ (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:

⁵ The EIOPA VA methodology is published on the EIOPA website.

- 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 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.

Done at Frankfurt am Main, on 26 November 2025.

[signed]

For the Board of Supervisors

Petra Hielkema

Chairperson