

ITS ON METHODOLOGY TO DETERMINE THE SET OF SCENARIOS FOR THE PRUDENT DETERMINISTIC VALUATION

Workshop on new technical standards

27 November 2024

ITS ON SCENARIOS FOR PRUDENT DETERMINISTIC VALUATION

Changes to the Solvency II Directive

- Solvency II review will introduce a simplification that allows undertakings to perform a prudent deterministic valuation of the best estimate for life obligations with options and guarantees. This simplification is one of the proportionality measures under the new framework for small and non-complex undertakings (SNCU).
- This simplification can be applied by SNCU and undertakings that have obtained prior supervisory approval, provided options and guarantees are not deemed material (new para. 8 in Article 77 Solvency II Directive).

Mandate for technical standards

- EIOPA is mandated to draft ITS that specify the methodology to determine the set of scenarios to be used for the deterministic valuation (Art. 86(2a) of amended Solvency II Directive).
- EIOPA is the addressee of the ITS. EIOPA will have to calculate and publish the set of scenarios on a quarterly basis (point ab in Art. 77e(1) of amended Solvency II Directive).

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Consultation proposal for technical standards

- EIOPA successfully tested potential methodologies in two information requests to the industry in 2023. The consultation proposal describes the preferred methodology („pure stochastic trajectories”).
- The description of the methodology in the proposal is kept high-level to allow for sufficient flexibility in the calculation.
- The proposal aims for a simple and robust methodology. The calibration of the volatility assumptions for the scenarios is based on information derived from the stresses of the SCR standard formula for the relevant market parameters (interest rates, equity, real estate), thereby avoiding the use of market data from external vendors.
- The consultation proposal includes in an annex a description of a potential mathematical implementation to illustrate the application of the draft standard. This implementation will be subject to a technical follow-up EIOPA workshop on 5 December 2024.

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Structure of proposed technical standards

Inputs used

- Article 5 : Selection of volatilities

Calculations

- Article 3 : Base methodology
- Article 4 : Adjustment to the set of scenarios

Requirements on set of scenarios

- Article 1 : Financial market parameters
- Article 2 : Criteria for the set of scenarios
- Article 6 : Currencies

THANK YOU!