

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

Workshop on Solvency II consultation papers

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



The Opinion on the supervisory assessment of internal models, including a dynamic volatility adjustment (DVA), was published in 2017.



The Solvency II Directive has been amended, revising the methodology for calculating the VA and introducing a broader prudency principle for the DVA directly within the legislation.



The Opinion is being updated to reflect the revised prudency principle and add further clarifications.

- A prudency principle is directly introduced in the Directive. Pursuant to a new paragraph added to Article 122:
  - The SCR with DVA should be at least as high as: (1) the SCR using the EIOPA VA methodology and (2) the SCR with a VA based on the EIOPA VA methodology applied to the undertaking's own investment portfolio.
  - Moreover, the DVA should exclude the undertaking-specific adjustment of the risk-corrected spread and, for the euro currency, any increase of the VA due to the macro VA.

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## Main changes to the Opinion

- 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 references to the prudency principle are either deleted or replaced by a reference to Article 122(5) of the Solvency II Directive;
- The scope of the Opinion is clarified, e.g. "... 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";
- "Fundamental spread" is replaced by "risk correction" to align the wording with the new Solvency II approach to the VA;
- To enhance supervisory convergence, paragraph 10 is 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.

**THANK YOU!**