

IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

IRSG input to the Consultation on revised
Opinion on Dynamic Volatility Adjustment
(DVA) - Solvency II Review

IRSG-25/13
26 June 2025



eiopa

European Insurance and
Occupational Pensions Authority

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1. General comments

* QuestionQ1. Do you have general comments on the consultation document?

Answer

Yes

No

The Volatility Adjustment (VA) has proven to be an important instrument of the Solvency II framework to better reflect the business and asset management strategy of the insurance industry and to reduce pro-cyclical steering effects in short periods of high market volatility.

For internal model users the instrument of the Dynamic Volatility Adjustment (DVA) helps to even better link the actual movement of the DVA with the credit spread projections and hence avoids the application of proxies that need to be used in the VA approach in the standard formula. This synchronized approach is crucial for an effective risk management and steering.

We welcome EIOPA's efforts to reinforce the convergence of this instrument in Europe. Hence, we welcome EIOPA's proposal on the revised Opinion on the supervisory assessment of internal models including the DVA.

2. Consultation paper overview and next steps

* QuestionQ2. Do you have comments on Section 'Consultation paper overview and next steps'?

Answer

Yes

No

IRSG-25/13
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3. Revised Opinion

1. Legal Basis

* QuestionQ3. Do you have comments on Section 1. Legal Basis?

Answer

Yes

No

2. Context and Objective

* QuestionQ4. Do you have comments on Section 2. Context and Objective?

Answer

Yes

No

3. Modelling

* QuestionQ5. Do you have comments on Section 3. Modelling?

Answer

Yes

IRSG-25/13
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No

We recommend that EIOPA guidelines do not use absolute wording such as in 3.10. “All quantifiable risks should be modelled in Pillar 1 [...]” could be interpreted that EIOPA effectively recommends to really model all risks. This would not be in line with the approach to model risks adequately and in a focused approach. We suggest that 3.10 and Paragraph 9 of the Opinion is changed to:

All material, quantifiable risks related to the application of the volatility adjustment should be modelled in Pillar 1 and all respective non-quantifiable risks should be dealt with in Pillar 2 when applying a DVA in the internal model.

Applying the DVA increases the complexity of an internal model. To ensure that these models deliver stable and intuitive results, unnecessary additional complexity should be avoided. This is important for using the internal model in accordance with the Solvency II Directive 2009/138/EC, Article 120. Additional complexity can lead to undue effort in developing the model and ensuring its ongoing appropriateness. Therefore, the requirement in 3.10 and Paragraph 9 of the Opinion should be limited to material risks and to the elements of the DVA. This will also facilitate a consistent interpretation of this requirement across different jurisdictions. We think that just adding the aspect of material risks to Paragraph 10 of the opinion might still not be sufficient to avoid misinterpretations.

4. Risk Management

* QuestionQ6. Do you have comments on Section 4. Risk Management?

Answer

Yes

No

While the Solvency II Directive has been amended to introduce a broader prudency principle directly in Article 122(5) of the Solvency II Directive, the opinion does not provide any details

IRSG-25/13
PUBLIC

regarding a possible DVA approach once an undertaking-specific adjustment of the risk-corrected spread is applied in the base case. We would welcome a clearer specification to further reinforce the convergence of this instrument in Europe.

5. Public Disclosure

* QuestionQ7. Do you have any comments on Section 5. Public Disclosure?

Answer

Yes

No

4. Any other comments

* QuestionQ8. Do you have any other comments?

Answer

Yes

No

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