

# Q&A

QUESTION ID:

761

REGULATION REFERENCE:

Guidelines on valuation of technical provisions

ARTICLE:

278

STATUS:

Final

DATE OF SUBMISSION

20 Jul 2016

## Question

My question relates to the applicability of country volatility adjustment (VA) when calculating the risk free term structure to discount insurance liabilities. My reading of the legislative text isn't too clear on which country VA to use to discount liabilities when calculating the VA for insurers in multiple geographic regions.

For example, if a French insurance group had a large life business in Italy, would the group apply the Italy VA when discounting liabilities from their Italian business (and the French VA when discounting liabilities from their French business) or would they use the French VA? How would this differ for the Italian subsidiary when calculating their solo solvency?

## EIOPA answer

One of the features of the VA is that it can include a country-specific increase as it is currently the case for Greece.

In the absence of country-specific increases (as currently for France and Italy), the currency of the liability determines the VA to be used. In your example it would always be the VA for the euro provided the French and Italian liabilities are

denominated in euro.

If there is a country-specific increase of the VA as currently for Greece, liabilities of products sold in the insurance market of that country that are denominated in the currency of that country receive the increased VA. For all liabilities of products sold in the Greek insurance market and denominated in euro the Greek VA should be used. To liabilities of products sold outside of Greece or to products sold in Greece but not denominated in euro the Greek VA is not applied, irrespective of where the head offices of the insurer or its group are situated. In particular the Greek VA should not be applied to liabilities of products of Greek insurers or groups that were sold in insurance markets outside of Greece.