Q&A

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Long Term Guarantees (LTGs)
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Question

Guideline 2 of the "Guidelines on the implementation of long-term guarantee measures" states that "for the purposes of calculating the risk margin in accordance to Article 38 of the Delegated regulation, insurance and reinsurance undertakings that apply the matching adjustment, the volatility adjustment, the transitional measures on the risk-free interest rates or the transitional measures on technical provisions" shall assume that the reference undertaking does NOT apply any of these measures. I wanted to confirm the interpretation of this guideline with regards to the calculation of the risk margin for insurance and reinsurance undertakings applying the volatility adjustment. Does it imply that for the purposes of risk margin calculation insurance and reinsurance undertakings applying the volatility adjustment should recalculate the Solvency Capital Requirements for the relevant risks set out in 1(h) of Article 38 of the Delegated regulation based on a base and stressed balance sheets (and the corresponding loss of own funds is determined based on those), produced excluding the impact of volatility adjustment to the risk free yield curve?

EIOPA answer

Indeed, the intention of the guideline is to clarify that the calculation of the risk margin is to be performed based on a reference undertaking that does not apply the matching adjustment, volatility adjustment or the transitional measures. This

implies that the calculations performed to determine the SCR cannot be plainly used for the determination of the risk margin. Rather, the risk margin has to be determined on the basis of a reference undertaking which does not apply any of the measures mentioned. Thus, a recalculation is required for the risks to be covered in the risk margin on the basis of the reference undertaking not applying any of the measures. Where the standard formula is used, this requires recalculations of the scenario based risk modules to determine the final loss in own funds.