EIOPA
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA-BoS-15/111 EN

Guidelines on the implementation of the long-term guarantee measures

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1. Introduction

1.1. According to Article 16 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council (hereafter EIOPA Regulation)[1] EIOPA is issuing Guidelines on the implementation of the measures set out in Articles 77b, 77d, 308c and 308d of Directive 2009/138/EC of the European Parliament and of the Council (hereinafter Solvency II Directive)[2].

1.2. These Guidelines aim at ensuring convergence of practices across Member States and supporting undertakings in implementing the volatility adjustment, the matching adjustment, the transitional measure on the risk-free interest rates and the transitional measure on technical provisions (known as "long-term guarantee adjustments and transitional measures").

1.3. These Guidelines are divided in two sections: Section 1 deals with the valuation of technical provisions with the long term guarantee measures. These measures are relevant for all insurance and reinsurance undertakings. Section 2 deals with the determination of the Solvency Capital Requirement (SCR) for standard formula users and the Minimum Capital Requirement (MCR). Guidelines on the interaction of the long-term guarantee measures with the SCR and the MCR assume that the SCR and the MCR are calculated on the basis of technical provisions valued with the long-term guarantee measures.

1.4. These Guidelines are addressed to supervisory authorities under Solvency II Directive.

1.5. For the purpose of these Guidelines, the expression "long term guarantee measures" refers to the adjustments and transitional measures set out in Articles 77b, 77d, 308c and 308d of Solvency II Directive.

1.6. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.

1.7. The Guidelines shall apply from 1 January 2016.

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[1] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48)

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1)

Section 1: The valuation of technical provisions with the long term guarantee measures

Guideline 1 – Effects of the volatility adjustment, the matching adjustment and the transitional on risk-free interest rates on policyholders' behaviour

1.8. Insurance and reinsurance undertakings should avoid creating an unrealistic or distortionary link between the assumptions on policyholder behaviour referred to in Article 26 of Commission Delegated Regulation (EU) 2015/35[3] (hereafter the Delegated Regulation) and the use of the matching adjustment, the volatility adjustment or the transitional on the risk-free interest rates.

1.9. In particular, where the likelihood that policyholders will exercise contractual options is modelled dynamically using benchmark rates (e.g. market rates), insurance and reinsurance undertakings should ensure that the benchmark rates are set consistently with the relevant risk-free interest rate term structure applied for the calculation of technical provisions.

Guideline 2 – Interaction of the long term guarantee measures with the risk margin calculation

1.10. For the purposes of calculating the risk margin in accordance with Article 38 of the Delegated Regulation, insurance and reinsurance undertakings that apply the matching adjustment, the volatility adjustment, the transitional measure on the risk-free interest rates or the transitional measure on technical provisions should assume that the reference undertaking does not apply any of these measures.

Guideline 3 – Combination of the matching adjustment and the transitional measure on technical provisions

1.11. When insurance and reinsurance undertakings apply to use both the matching adjustment and the transitional measure on technical provisions to the same insurance or reinsurance obligations, in accordance with Article 77b and Article 308d of Solvency II Directive, the amount referred to in point 2(a) of Article 308d of Solvency II Directive should be calculated with the matching adjustment.

Guideline 4 – Scope of the transitional measure on risk-free interest rates

1.12. Insurance and reinsurance undertakings should apply the transitional measure on risk-free interest rates to the whole of the admissible obligations.

[3] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.1.2015, p. 1)

Section 2: The determination of the MCR and the SCR standard formula where long term guarantee measures are used

Guideline 5 – Interaction between the volatility adjustment, the matching adjustment and the transitional measure on the risk-free interest rates and the interest rate risk sub-module of the SCR standard formula

1.13. Insurance and reinsurance undertakings using the volatility adjustment, the matching adjustment or the transitional measure on the risk-free interest rates should ensure that the amounts of these adjustments and of the transitional adjustment referred to in Article 308c of Solvency II Directive remain unchanged after the application of the shocks to the basic interest rate term structure set out Articles 166 and 167 of the Delegated Regulation.

Guideline 6 – Interaction between the volatility adjustment and/or the transitional measure on the risk-free interest rates with the spread risk sub-module of the SCR standard formula

1.14. When calculating the spread risk sub-module, insurance and reinsurance undertakings applying the volatility adjustment and/or the transitional measure on the risk-free interest rates should ensure that the amounts of the volatility adjustment and/or of the transitional adjustment referred to in Article 308c of Solvency II Directive remain unchanged following the stresses applied under the spread risk sub-module set out in Articles 176(1), 178(1) and 179(1) of the Delegated Regulation.

Guideline 7 - Interaction between the transitional measure on technical provisions and the calculation of the SCR standard formula

1.15. Insurance and reinsurance undertakings applying the transitional measure on technical provisions should ensure that the amount of the transitional deduction referred to in Article 308d (1) of Solvency II Directive remains unchanged in scenario based calculations of the SCR standard formula.

Guideline 8 – Interaction between the transitional measure on technical provisions and the capital requirement for operational risk of the SCR standard formula

1.16. When calculating the capital requirement for operational risk, insurance and reinsurance undertakings applying the transitional measure on technical provisions should use, for the volume measures TP_{life}, $TP_{life\text{-}ul}$ and $TP_{non\text{-}life}$ referred to in Article 204(4) of the Delegated Regulation, the amount of technical provisions before application of the transitional measure minus the maximum between the risk margin and the amount of the transitional deduction.

1.17. Where the amount of the transitional deduction is higher than the risk margin, the amount of the transitional deduction in excess of the risk margin should be apportioned across TP_{life}, $TP_{life\text{-}ul}$ and $TP_{non\text{-}life}$ according to each component's contribution to the overall amount of the transitional deduction.

Guideline 9 – Interaction between the transitional measure on technical provisions and the MCR calculation

1.18. When calculating the linear minimum capital requirement, insurance and reinsurance undertakings applying the transitional measure on technical provisions should use, for the volume measures $TP_{(nl,s)}$, $TP_{(life,1)}$, $TP_{(life,2)}$, $TP_{(life,3)}$ and $TP_{(life,4)}$ referred to in Articles 250(1) and 251(1) of the Delegated Regulation , technical provisions before application of the transitional measure minus the maximum between the risk margin and the amount of the transitional deduction.

1.19. Where the amount of the transitional deduction is higher than the risk margin, the amount of the transitional deduction in excess of the risk margin should be apportioned across $TP_{(nl,s)}$, $TP_{(life,1)}$, $TP_{(life,2)}$, $TP_{(life,3)}$ and $TP_{(life,4)}$ according to each component's contribution to the overall amount of the transitional deduction.

Compliance and Reporting Rules

1.20. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, competent authorities and financial institutions shall make every effort to comply with guidelines and recommendations.

1.21. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.

1.22. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.

1.23. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

1.24. The present Guidelines shall be subject to a review by EIOPA.