Q&As about the publication of the Solvency II relevant risk-free interest rate term structures

What is being published?

The publication consists of Technical Information and Technical Documentation.

Technical Information consists of:

- Risk-free interest rates term structures for 53 countries - 2 sets of term structures per country for the interest rates with and without volatility adjustment;
- Values of the volatility adjustment to the relevant risk free interest rate term structure;
- Values of the fundamental spread to be applied for the calculation of the matching adjustment.

The Technical Documentation consists of the methodology, assumptions and data used to calculate the Technical Information.

Why is EIOPA publishing these Solvency II relevant risk-free interest rate term structures?

Insurance and reinsurance undertakings have to set up technical provisions for their insurance and reinsurance obligations. Under Solvency II those technical provisions will be discounted with risk-free interest rates. The Solvency II Directive requires EIOPA to publish risk-free interest rate term structures for that purpose.

For whom is the Technical Information relevant?

The Technical Information is relevant for insurance and reinsurance undertaking falling under Solvency II and their supervisory authorities.

What is the purpose of the Technical Documentation?

The Technical Documentation specifies the methodology that EIOPA applies to the calculation of the risk-free interest rate term structures in line with Solvency II. By publishing the Technical Documentation EIOPA ensures transparency about the methodology. In particular, by means of the Documentation stakeholders can understand how the term structures will change when the market inputs of the calculation change.

Solvency II starts in 2016. Why does EIOPA publish Technical Information already now?

Insurance and reinsurance undertakings need to prepare for the introduction of Solvency II. The availability of the Technical Information at this stage will facilitate that preparation. Moreover, some approval procedures for Solvency II start already in April 2015, for example for the use of internal models to calculate capital requirements. Knowing how the risk-free interest rate term structures are calculated will help the undertakings in specifying their applications.

What will happen from 2016?

From January 2016 insurance and reinsurance undertakings will have to use the updated term structures for the calculations of the technical provisions under Solvency II.

What will be the impact of calculating technical provisions with the published term structures?

The risk-free interest rate term structures will change over time, depending on market parameters, in particular the level of market interest rates. Therefore, the amount of technical provisions will usually increase when market interest rates decrease and vice versa. This will allow undertakings and supervisors to better assess the risks that changes in market interest rates will pose to insurance and reinsurance undertakings. Better risk management will ultimately be of benefit for consumers.

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