

Response - Consultation on Revised Guidelines on the valuation of technical provisions

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Related documents:	Consultation paper		
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Introduction

Q1. Do you have general comments on the consultation document?

- Yes**
- The industry welcomes the opportunity to contribute to EIOPA's consultation regarding the revised Guidelines on the valuation of technical provisions.
 - With the introduction of the exponential and time-dependent element (lambda factor) of the risk margin in the Amending Directive, the Guidelines need to reflect the application of this element in the simplification methods for the calculation of the risk margin. While there is no single method to incorporate the lambda factor into method 4, the industry supports a recognition of this factor for this method if the undertaking can reasonably justify their approach.
 - The industry supports the retention of all four methods

Q3. Do you have comments on the following amended guidelines?

Guideline 50 – Simplified calculation of technical provisions during the year

- Yes**
- The removal of Annex VI leads to a reduction in the information contained in these guidelines. Once the consolidated version is finalised, the explanatory text of Guideline 50, which includes elements from Annex VI, will disappear. Having fewer details may give organisations more freedom, but supervisors will refer to this explanatory text if an organisation makes a different choice.

Guideline 62 – Hierarchy of methods for the calculation of the risk margin

■ **Yes**

- The previous version of the guideline contained different approximation methods in a four-level hierarchy. The new proposal effectively contains the same four methods/levels, but with the underlying consequence that the lambda discount is lost when using methods 3 and 4. This is not in line with the SII legislation, which introduced the lambda factor.
- For Method 3, EIOPA is encouraged to draw inspiration from its earlier work, notably the document EIOPA BOS 20/107 “*Technical specification of the information request on the 2020 review of Solvency II Holistic impact assessment*” which sets out an approach to approximating the lambda in Method 3 (page 13). This would ensure that the lambda factor and the impact of it are implemented as intended by the Commission and co-legislators in the guidelines.
- The exact implementation of Method 4 is not specified in the Guidelines beyond the requirement to take into account specific characteristics of the undertaking’s liability portfolio. Where the calibration of the percentage α explicitly reflects the temporal structure of the liabilities, the lambda factor can be incorporated in a consistent and meaningful manner.
- The proposed categorical exclusion of the lambda factor for Method 4 would therefore unnecessarily restrict undertakings that are able to demonstrate a robust and transparent approach to integrating this factor into the derivation of α . Allowing such flexibility would not undermine proportionality or comparability, provided that undertakings adequately document and justify their methodology.
- Accordingly, the Guidelines should not exclude the lambda factor for Method 4 by default. Instead, they should permit its application where undertakings can demonstrate that the derivation of α appropriately reflects the time dimension of the liabilities and that the lambda factor is integrated in a sound and verifiable manner.

Technical Annex IV - Hierarchy of simplifications for the risk margin

■ **Yes**

- See Guideline 62