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Finance Norway's Response to the European Commission's Consultation on the Review of the Solvency II Delegated Regulation

Introduction

Finance Norway appreciates the opportunity to provide input to the European Commission's consultation on the review of the Solvency II Delegated Regulation.

Finance Norway is a member of Insurance Europe and fully supports this organisation's response to this consultation. We would like to use this opportunity to elaborate on one of the issues highlighted in the Insurance Europe response which is of particular importance to the Norwegian insurance market; the calibration of interest rate risk for the Norwegian krone (NOK) under the standard formula.

Finance Norway supports the overall framework of the new shifted methodology. However, to ensure fair competition across markets in line with the objectives of the EU's Savings and Investments Union, we urge the Commission to allow for currency-specific calibrations. We will show below that the EUR-based calibration is too strict when applied to NOK and propose a NOK-based calibration which more accurately reflects the actual behaviour of NOK interest rates.

2. Background: Interest Rate Risk Calibration in Solvency II

The interest rate stresses in Solvency II were originally calibrated to historical interest rate curve movements based on government and swap curves for GBP and EUR (CEIOPS 2010). However, already shortly after the framework was introduced in 2016, it became evident that actual market movements – especially during interest rate declines – were more severe than the calibrated stresses suggested.

Since 2017, EIOPA has explored alternative formulations of the interest rate stress (EIOPA 2018). The most recent proposal (EIOPA 2020a, 2020b) calibrates the down-stress using EUR swap data from 1999 to 2016, and back-tests it against data up to 2020. This period includes extensive use of unconventional monetary policy by the ECB, such as negative interest rates and quantitative easing (Rostagno et al. 2019, 2021).

3. Monetary Policy Differences: ECB vs. Norges Bank

From 2014 to 2022, the ECB maintained negative policy rates and implemented large-scale asset purchase programs. These measures significantly affected both the short and long ends of the EUR interest rate curve.

In contrast, the Central Bank of Norway (Norges Bank) has not used negative interest rates or quantitative easing. In a 2019 speech, Governor Øystein Olsen (Olsen 2019) emphasized that such tools are not considered relevant for Norway's monetary policy framework. This position remains unchanged.

While spillover effects from ECB policy may influence Norway to some extent, research from the Swedish Riksbank (Christensen and Zhang 2024) suggests that a floating exchange rate regime largely mitigates such effects. Consequently, the NOK interest rate curve is comparatively less affected by unconventional monetary policy than the EUR curve.

4. Backtesting Results: EUR vs. NOK

To assess the appropriateness of the interest rate stress calibration under the standard formula and EIOPA's proposed methodology, Finance Norway has conducted a series of backtests using daily swap data from 1999 to 2025. The purpose is to evaluate how well the stress scenarios capture actual market movements, and whether they align with the intended 99.5% confidence level.

4.1 Standard Formula Calibration

The first two tables show the results of backtesting the current standard formula calibration for EUR and NOK.

Table 1 illustrates that the number of breaches for EUR exceeds what would be expected under a 99.5% confidence level, indicating that the standard formula underestimates downside risk in the EUR curve:

Table 1: Backtest for EUR given standard formula (daily swap data 1999-2025, backtest based on rolling 1-year lag)

Maturity	5	6	7	8	9	10
Number of observations (daily)	6 107	6 107	6 107	6 107	6 107	6 107
99,5 % percentile	31	31	31	31	31	31
Number of observed violations	1 352	1 292	1 210	1 157	1 147	1 126

The NOK curve shows significantly fewer breaches (cf. table 2 below), suggesting that the correction needed for the standard formula to reflect actual market dynamics is smaller for NOK than for EUR.

Table 2: Backtest for NOK given standard formula (daily swap data 1999-2025, backtest based on rolling 1-year lag)

Maturity	5	6	7	8	9	10
Number of observations (daily)	6 107	6 107	6 107	6 107	6 107	6 107
99,5 % percentile	31	31	31	31	31	31
Number of observed violations	291	349	367	385	411	448

The difference in backtest results for EUR and NOK suggest that it might be difficult to find a common correction to the standard model that works well for both currencies.

4.2 EIOPA's Proposed Calibration

The next two tables present the results of applying EIOPA's proposed calibration.

The EUR results align well with the 99.5% confidence level, confirming that EIOPA's revised calibration improves accuracy for EUR:

Table 3: Backtest for EUR given EIOPA's proposal (daily swap data 1999-2025, backtest based on rolling 1-year lag)

Maturity	5	6	7	8	9	10
Number of observations (daily)	6 107	6 107	6 107	6 107	6 107	6 107
99,5 % percentile	31	31	31	31	31	31
Number of observed violations	16	37	54	58	68	74

However, the number of breaches for NOK are significantly below the expected level, reinforcing the concern that the EUR-based calibration is too strict when applied to NOK:

Table 4: Backtest for NOK given EIOPA's proposal (daily swap data 1999-2025, backtest based on rolling 1-year lag)

Maturity	5	6	7	8	9	10
Number of observations (daily)	6 107	6 107	6 107	6 107	6 107	6 107
99,5 % percentile	31	31	31	31	31	31
Number of observed violations	12	14	14	12	5	3

A possible explanation for this discrepancy lies in the high absolute stress factor used to capture downside risk in low-interest environments. Since NOK interest rates have historically been higher than EUR rates, the same stress calibration may not be appropriate. According to EIOPA's own backtesting (EIOPA 2020b), the current calibration is too strict for not only NOK but other currencies as well, including some maturities for EUR (cf. table 5 below).

Table 5: EIOPA – Down shock breaches per currency and maturity

Currency	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y	12Y	15Y
EUR	25	25	25	25	25	25	25	25	25	25	25	25
HUF	0	0	45	58	36	35	35	35	21	15	15	17
GBP	115	51	20	0	1	10	36	32	17	7	1	0
SEK	138	99	72	80	73	79	87	75	69	46	0	0
HRK	0	0	0	0	0	0	0	0	0	0	0	0
CZK	0	0	0	0	0	0	0	0	0	0	2	3
PLN	0	2	0	18	19	33	61	47	22	18	16	11
CHF	0	66	128	90	55	76	104	102	99	100	89	64
NOK	0	0	0	0	0	0	0	0	0	0	0	0

Currency	20Y	25Y	30Y	35Y	40Y	45Y	50Y	55Y	60Y
EUR	25	4	0	1	1	1	1	1	2
HUF	2	4	9	9	10	11	13	20	22
GBP	0	0	13	53	73	100	148	176	193
SEK	0	0	0	0	0	0	0	0	0
HRK	0	0	0	0	0	0	0	0	0
CZK	0	0	0	0	0	0	0	0	0
PLN	3	2	2	2	2	2	2	2	2
CHF	35	50	20	1	0	0	0	0	0
NOK	0	0	0	0	0	0	0	0	0

These findings support the argument that a currency-specific calibration is necessary to avoid overestimating risk and imposing unnecessarily high capital requirements.

5. Alternative Calibration for NOK

Finance Norway has conducted an alternative calibration of the interest rate down-stress for NOK, using EIOPA's methodology but based on NOK swap data, cf. table 6 below. The results confirm that the calibration achieves the intended 99.5% confidence level, with a more balanced combination of relative and absolute stress components.

Table 6: Backtest for NOK given alternative calibration (daily swap data 1999-2025, backtest based on rolling 1-year lag)

Maturity	5	6	7	8	9	10
Number of observations (daily)	6 107	6 107	6 107	6 107	6 107	6 107
99,5 % percentile	31	31	31	31	31	31
Number of observed violations	30	31	30	31	30	30

Table 7 below shows a comparison of the factors:

Table 7: Comparison of stress factors

Standard formula		EIOPA calibration		NOK calibration	
Relative	Absolute	Relative	Absolute	Relative	Absolute
75 %	0.00 %	58 %	1.16 %	63 %	0.63 %
65 %	0.00 %	51 %	0.99 %	54 %	0.51 %
56 %	0.00 %	44 %	0.83 %	51 %	0.46 %
50 %	0.00 %	40 %	0.74 %	49 %	0.42 %
46 %	0.00 %	40 %	0.71 %	48 %	0.38 %
42 %	0.00 %	38 %	0.67 %	47 %	0.35 %
39 %	0.00 %	37 %	0.63 %	47 %	0.32 %
36 %	0.00 %	38 %	0.62 %	46 %	0.29 %
33 %	0.00 %	39 %	0.61 %	46 %	0.27 %
31 %	0.00 %	40 %	0.61 %	46 %	0.24 %

The NOK-based calibration results in a lower absolute stress component and a slightly higher relative component, which more accurately reflects the behaviour of NOK interest rates. This is consistent with the observed higher interest rate level for NOK which limits the need to adjust the interest rate shock to generate sufficiently low or negative interest rates, and the monetary policy considerations discussed earlier.

6. Conclusion

Finance Norway supports the general design of the new shifted methodology. However, to ensure a level playing field and foster fair competition in line with the objectives of the EU's Savings and Investments Union, the methodology must be appropriately calibrated for all currencies to which it is applied.

We therefore urge the Commission to consider allowing for currency-specific calibrations of interest rate risk under the standard formula. For currencies like NOK, where monetary policy and market

dynamics differ significantly from those of the Eurozone, a one-size-fits-all approach leads to distortions in capital requirements and does not reflect actual risk. A specific calibration for NOK should therefore be included in the delegated regulation.

We thank the Commission for the opportunity to provide input and remain available for further dialogue.

Yours sincerely
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About Finance Norway

Finance Norway is the trade and employers' association for the financial industry in Norway. We represent 260 financial companies employing approximately 50,000 people. Finance Norway is affiliated with NHO – the Confederation of Norwegian Enterprise, Norway's largest employers' organization. We are a non-profit, non-partisan organization funded by membership fees from our member companies. Our members include banks, insurance companies, pension providers, debt collection agencies, and fintech firms. We advocate the interests of the financial industry towards politicians, government bodies, consumer authorities, international partners, decision-makers, and consumers.

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