

# Meeting with IRSG

Draft Guidelines on Internal Models

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These guidelines:

- Clarify the information which has to be submitted in the “application pack”
- In specific cases assist groups for the submission of internal models applications used for the calculation of the group SCR

These guidelines:

- Aims to provide clarity about what an undertaking should do to ensure compliance with the use test for full and partial internal model, as well as how supervisory authorities should assess compliance with the use test both at solo and group level.
- Reinforce the concept that the use test should be specific to the firm and that a “checklist approach of uses” should not be used by supervisory authorities to assess undertakings’ compliance with the use test as long as the model fits the business model, it is used to support decision making and it is an integral part of risk management.

These guidelines:

- Clarify requirements undertakings should comply with in relation to assumptions based on the expertise of individual persons or committees with relevant knowledge, experience and understanding of the risks inherent in the insurance or reinsurance business, whether they are used in models for risk (“internal models”) or models for the valuation of assets and liabilities.
- Provide guidance to undertakings on the nature of controls regarding the use of expert judgement, including validation, governance framework, communication (e.g. uncertainties around expert judgement) and documentation.

These guidelines clarify requirements, addressed to undertakings, for assessing the consistency between the methods used to calculate the PDF and the methods used for the calculation of technical provisions for solvency purposes.

# Probability Distribution Forecast (PDF)



These guidelines:

- Clarify undertakings requirements on the knowledge of their risk profile and the richness of the PDFs produced by undertakings as an output of their internal model.
- Point out that undertakings should have a methodological preference for more rich PDFs as it enables in-depth analyses of the risk profile, permits a flexible use of risk management and risk mitigation techniques, facilitates the application of validation tools and may allow for a better risk aggregation and capital allocation.

These guidelines:

- Clarify what an undertaking should do to ensure the relevance and adequacy of the approximations used to derive the SCR from an internal model which uses a different risk measure, time horizon or underlying variable, other than the VaR of BOF, sub to a confidence level of 99.5%, over a one-year period.
- Also address how supervisory authorities should assess these approximations.
- Do not provide guidance about the adequacy of the risk measures, time horizons or underlying variable used in the internal model.

These guidelines provide clarifications about:

- What an undertaking should do to ensure the relevance and the adequacy of the P&L attribution process.
- How supervisory authorities should assess it.
- The definition of P&L undertakings should consider.
- The link between P&L attribution, use test and validation standards.



These guidelines:

- Clarify requirements related to the validation policy and validation tools
- Explain that an undertaking should document the validation results as well as the analyses and conclusions of the validation process in a validation report
- Provide clarifications regarding the role of different parties in the validation process, the governance around validation, materiality issues and the use of different validation tools

These guidelines:

- Aim to assist undertakings and supervisory authorities in their understanding of the requirements relating to the documentation of an internal model during the approval and the use of the model.
- Point out that model documentation should not be seen as a compliance exercise but as a best practice.
- Emphasise the need to distinguish between initial documentation related to the application, and on-going documentation as requested in Article 125 of the Directive.

The guidelines:

- Provide clarifications to undertakings about how to make sure that the external models/data they use comply with the general requirements on internal models.
- Point out that undertakings should make sure they have an appropriate understanding of the external model/data they use.
- Point out that there should be no restriction on the information related to the external model / data for the supervisors to assess compliance by the undertakings of tests and standards.

# EIOPA activities in the field of internal models



- **Pre-application and post-approval initiatives** (beyond the publication of Level 3 guidelines) to enhance supervisory convergence and consistency in the pre-application, approval process and ongoing monitoring of appropriateness of internal models, both in terms of processes and outcomes, and in particular for group internal models.
- **Active role in colleges** helping them to reach a joint decision, and enhancing their functioning
- **Enhance dialogue between supervisors and different stakeholders**, including firms, external providers and consultants on internal models



**Thank you**

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