

Bank of England PRA

Appendix 11: Table of internal model tests and standards streamlining and how it corresponds to the EIOPA self-assessment template

Consultation paper | CP12/23

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Draft for consultation



Table of internal model tests and standards streamlining and how it corresponds to the EIOPA self-assessment template

The table below accompanies Chart 5 in Chapter 3 – ‘Internal models’ of Consultation Paper (CP) 12/23. It sets out the existing tests and standards as referred to in the EIOPA self-assessment template (SAT), with an additional mapping column on the right-hand side of the table. Where a row entry sets out a mapping location, this means that the PRA has considered the provision and is proposing to set out the provision as requirements in its rules or as expectations in the new supervisory statement – Expectations for meeting the PRA’s internal model requirements for insurers under Solvency II (Appendix 6 of CP12/23). Where a row entry does not include a mapping location, this means that the PRA has considered the provision and does not propose to include it in PRA rules or policy.

The SAT includes ‘Level 1’ provisions, which are Articles in the Solvency II Directive that were implemented in PRA rules. Where a row entry states ‘Retain L1’ in the mapping column, this means that there is an existing rule that implemented the Directive provision which the PRA proposes to retain. Where a row entry states ‘Delete L1’, this means that there is an existing rule that implemented the Directive provision which the PRA proposes to delete (there is only one such row in the table below, and the proposed deletion is Solvency Capital Requirement – Internal Models 13).

Where a row entry refers to ‘Decouple’ in the mapping column, this means that the PRA proposes to decouple the provision from the scope of the IM permission process and to review compliance as part of the PRA’s regular supervision.

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping	
Tests & Standards requirements	General provisions	Art. 112						Retain L1	
			2	ITS Approval process	art.2		New Internal Models statement of policy		
			3				New Internal Models statement of policy		
			5	ITS Approval process	art.5		New Internal Models statement of policy		
	Policy for changing the full and partial internal models	Art. 115						Retain L1	
						GL6 - Scope of the policy for model changes; GL7 - Definition of a major change; GL8 - Report of minor and major changes as a combination of minor changes	Not relevant to this consultation paper		
	Responsibilities	Art. 116						Retain L1	
	Use Test	Art. 120							Retain L1
				Use of the internal model	223			PRA Rulebook	
				Fit to the business	224	(a)	GL 11 - Incentive to improve the quality of the model; GL 12 - Use test and changes to the internal model		
						(b)			
			(c)		PRA Rulebook				

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping	
						(d)		PRA Rulebook	
				Understanding of the internal model	225	(1)	GL13 – Understanding of the internal model	PRA Rulebook	
						(2)		PRA Rulebook	
				Understanding of external models and data	237			PRA Rulebook	
				Support of decision-making and integration with risk management	226	(a)	GL14 – Support of decision-making		
						(b)			
						(c)			
						(d)			
						(e)			
						(f)			
						(g)			PRA Rulebook
						(h)			
						(i)			
						Simplified calculation		227	1
				2			PRA Rulebook		

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping	
						3		PRA Rulebook	
						4		PRA Rulebook	
	Statistical Quality Standards	Art. 121						Retain L1	
								GL21 - Consistency check points; GL22 - Aspects of consistency; GL23 - Consistency assessment	Not relevant to this consultation paper
				Probability distribution forecast	228		1		
							2		New Internal Models supervisory statement
				2	Adequate, applicable and relevant actuarial techniques	229	(a)	GL24 - Knowledge of the risk profile; GL25 - Probability distribution forecast richness; GL26 - Assessment of richness of the probability distribution forecast; GL27 - Probability distribution forecast enrichment	
							(b)		
							(c)		
							(d)		
							(e)		
							(f)		
		(g)							

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping	
						(h)			
				Information and assumptions used for the calculation of probability distribution forecast	230	1	GL16- Materiality in assumptions setting; GL 17 - Governance of assumptions setting; GL 18 - Communication and uncertainty in assumptions setting; GL 19 - Documentation of assumptions setting; GL20- Validation of assumptions setting		
						2			
						2 (a)			
						2 (b)			
						2 (c)			
			3	Data used in the internal model	231	1 (a)		New Internal Models supervisory statement	
								1 (b)	
								1 (c)	
								2 (a)	New Internal Models supervisory statement
								2 (b)	PRA Rulebook
								3 (a)	
								3 (b)	New Internal Models supervisory statement
								3 (c)	
								3 (d)	

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping
						3 (e)		
			4	Ability to rank risk	232	1		
		2						
		3						
		4						
			4	Coverage of all material risks	233	1		PRA Rulebook
		2(a)				PRA Rulebook		
		2(b)						
		2(c)						
		3(a)						
		3(b)						
		3(c)						
			5	Diversification effects	234	(a)		PRA Rulebook
		(b)				PRA Rulebook		
		(c)						

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping
			6	Risk-mitigation techniques	235	1 (a)		PRA Rulebook
						1(b)		PRA Rulebook
						1 (c)		PRA Rulebook
						2		PRA Rulebook
						3		PRA Rulebook
			7				Retain L1	
			8	Future management actions	236	1 (a)	GL30 - Management actions if using a time period longer than one year	
						1 (b)		
						1 (c)		
						1 (d)		
						1 (e)		
						2(a)		
						2(b)		
						3(a)		
3(b)								

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping
						2		
						3		
						4		
	Validation standards							Retain L1
		Art. 124		Model validation process	241	1	GL32 – Validation policy and validation report; GL33 – Scope and purpose of the validation process; GL34 - Materiality in validation; GL35 – Quality of the validation process; GL36 – Governance of validation process; GL37 – Roles in validation process; GL38 – Independence of the validation process; GL39 – Validation specificities for group internal models under Article 231 of Solvency II; GL40 – Application of validation tools; GL41 – Stress tests and scenario analysis; GL42- Validation data sets	New Internal Models supervisory statement
						2		PRA Rulebook
						3(a)		New Internal Models supervisory statement
						3(b)		
						3(c)		New Internal Models supervisory statement
						3(d)		
						4(a)		New Internal Models supervisory statement
						4(b)		New Internal Models supervisory statement
				Validation tools	242	1		
						2		
						3(a)	New Internal Models supervisory statement	

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping
						3(b)		New Internal Models supervisory statement
						4		PRA Rulebook
						5		New Internal Models supervisory statement
						6		PRA Rulebook
	Documentation standards							Retain L1
				General provisions	243	1	GL46 - Appropriateness to addressees; GL47 - User manuals or process descriptions; GL48 - Documentation of model output; GL49 - Software and modelling platforms	New Internal Models supervisory statement
						2		PRA Rulebook
						3		New Internal Models supervisory statement
		Art. 125		Minimum content of documentation	244	(a)		New Internal Models supervisory statement
						(b)		New Internal Models supervisory statement
						(c)	GL43 - Control procedures of documentation; GL44 - Documentation of methodologies	New Internal Models supervisory statement
						(d)		New Internal Models supervisory statement
						(e)		New Internal Models supervisory statement
						(f)		New Internal Models supervisory statement

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping
						(g)		New Internal Models supervisory statement
						(h)		
						(i)		New Internal Models supervisory statement
						(j)		New Internal Models supervisory statement
						(k)		New Internal Models supervisory statement
						(l)		New Internal Models supervisory statement
						(m)		
						(n)		New Internal Models supervisory statement
						(o)		New Internal Models supervisory statement
						(p)		New Internal Models supervisory statement
				Circumstances under which the internal model does not work effectively	245	(a)	GL45 - Circumstances under which the internal model does not work effectively	New Internal Models supervisory statement
						(b)		New Internal Models supervisory statement
						(c)		New Internal Models supervisory statement
						(d)		New Internal Models supervisory statement
						(e)		New Internal Models supervisory statement

Chapter	Topic	Level 1 Article	Level 1 Paragraph	Level 2 or 2.5 Title	Level 2 or 2.5 Article	Level 2 or 2.5 Paragraph	EIOPA Guidelines	Mapping		
						(f)	Refer to GL6 to 9	New Internal Models supervisory statement		
						(g)		New Internal Models supervisory statement		
						(a)		New Internal Models supervisory statement		
						(b)		New Internal Models supervisory statement		
						(c)		New Internal Models supervisory statement		
						Changes to the internal model		246		
						External models and data		Art. 126		
	External models and data		247		GL50 – External data; GL51 – Understanding of the external model; GL52 – Reviewing the choice of external model and data; GL53 – Integration within the internal model framework; GL54 – Validation in the context of external models and data; GL55 - Documentation in the context of external models and data; GL56 - Responsibility of the undertaking in the context of external models and data; GL57 - Role of service providers when using external models and data	PRA Rulebook				

General requirements	Risk management	Art. 44	1	Risk Management System	259		Decouple L1
						1(a)	Decouple
						1(b)	Decouple
						1(c)	Decouple
						1(d)	Decouple
						2	Decouple
						3	Decouple
						4	Decouple
						5	Risk management function
	2(b)	Decouple					
	2(c)	Decouple					
	Internal control	Art. 46				Decouple L1	
				Internal control system	266		Decouple

special requirements for application under article 231	Policy for changing the full and partial internal models	Art. 115						Retain L1
							GL9 – Policy for changing the model for group internal models under article 231 of Solvency II	Not relevant to this consultation paper
	Use Test							Retain L1
		Art. 120		Use test for group internal models	350	1 (a)	GL15 – Use test specificities for group internal models under Article 231 of Solvency II	PRA Rulebook
			1 (b)			PRA Rulebook		
			1 (c)			PRA Rulebook		
		1 (d)	PRA Rulebook					
		2	PRA Rulebook					
special requirements for application under article 230	Policy for changing the full and partial internal models	Art. 115						Retain L1
							GL9 – Policy for changing the model for group internal models under Article 231 of Solvency II	Not relevant to this consultation paper
	Use Test							Retain L1
		Art. 120		Use test for internal models to calculate only the consolidated group Solvency Capital Requirement	346	1(a)		PRA Rulebook
			1(b)			PRA Rulebook		
			1(c)			PRA Rulebook		
		2	PRA Rulebook					