

Commission Delegated Regulation (EU) 2015/35 of 10 October 2014
supplementing Directive 2009/138/EC of the European Parliament
and of the Council on the taking-up and pursuit of the business of
Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

TITLE I

[^{X1}VALUATION AND RISK-BASED CAPITAL REQUIREMENTS
(PILLAR I), ENHANCED GOVERNANCE (PILLAR II)
AND INCREASED TRANSPARENCY (PILLAR III)]

CHAPTER VI

**SOLVENCY CAPITAL REQUIREMENT —
FULL AND PARTIAL INTERNAL MODELS**

SECTION 2

Use test

Article 223

Use of the internal model

Insurance and reinsurance undertakings shall explain upon request of the supervisory authorities the different uses of their internal model and how they ensure consistency between the different outputs where the internal model is used for different purposes. Where insurance and reinsurance undertakings decide not to use the internal model for a part of the system of governance, particularly in the coverage of any material risks, they shall explain that decision.

Article 224

Fit to the business

Insurance and reinsurance undertakings shall ensure that the design of the internal model is aligned with their activities in the following manner:

- (a) the modelling approaches reflect the nature, scale and complexity of the risks inherent in the activities of the undertaking which are within the scope of the internal model;
- (b) the outputs of the internal model and the content of the internal and external reporting of the undertaking are consistent;
- (c) the internal model is capable of producing outputs that are sufficiently granular to play an important role in the relevant management decisions of the undertaking; as a minimum, the outputs of the internal model shall differentiate between lines of business, between risk categories and between major business units;

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 2 is up to date with all changes known to be in force on or before 26 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

- (d) the policy for changing the internal model provides that the internal model is to be adjusted for changes in the scope or nature of the activities of the undertaking.

Article 225

Understanding of the internal model

1 The administrative, management or supervisory body of the insurance or reinsurance undertaking and the other persons who effectively run the undertaking shall be able to demonstrate upon request of the supervisory authorities an overall understanding of the internal model which comprises knowledge about all of the following:

- a the structure of the internal model and the way the model fits to the business and is integrated in the risk-management system of the insurance or reinsurance undertaking;
- b the scope and purposes of the internal model and the risks that are or are not covered by the internal model;
- c the general methodology applied in the internal model calculations;
- d the limitations of the internal model;
- e the diversification effects taken into account in the internal model.

2 The persons who effectively run the undertaking shall be able to demonstrate a sufficiently detailed understanding of the parts of the internal model used in the area for which they are responsible.

Article 226

Support of decision-making and integration with risk management

An internal model shall only be considered to be widely used in and to play an important role in the system of governance of an insurance or reinsurance undertaking where it meets all of the following conditions:

- (a) the internal model supports the relevant decision-making processes in the undertaking, including the setting of the business strategy;
- (b) the internal model and its results are regularly discussed and reviewed in the administrative, management or supervisory body of the insurance or reinsurance undertaking;
- (c) all material quantifiable risks identified by the risk management system which are within the scope of the internal model are covered by the internal model;
- (d) the undertaking uses the internal model to assess, where material, the impact on its risk profile of potential decisions, including the impact on expected profit or loss and the variability of the profit or loss resulting from those decisions;
- (e) the outputs of the internal model, including the measurement of diversification effects, are taken into account in formulating risk strategies, including the development of risk tolerance limits and risk mitigation strategies;
- (f) the relevant outputs of the internal model are covered by the internal reporting procedures of the risk management system;
- (g) the quantifications of risks and the risk ranking produced by the internal model trigger risk management actions where relevant;

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- (h) the insurance or reinsurance undertaking is required to change the internal model in accordance with Article 115 of Directive 2009/138/EC as soon as possible where the results of the model validation process in accordance with Article 124 of that Directive show that the internal model does not comply with the requirements set out in Articles 101, 113, 120 to 125 of that Directive, to ensure compliance with those requirements;
- (i) the policy for changing the internal model provides that the internal model is changed, where relevant, to reflect changes in the risk management system.

Article 227

Simplified calculation

1 Insurance and reinsurance undertakings may use a simplified calculation of the Solvency Capital Requirement as set out in paragraph 2 of this Article to satisfy the requirement to calculate the Solvency Capital Requirement in accordance with the second paragraph of Article 120 of Directive 2009/138/EC.

2 In order to produce a simplified calculation of the Solvency Capital Requirement referred to in paragraph 1, insurance and reinsurance undertakings may carry out only a part of the calculations which are usually necessary to determine the Solvency Capital Requirement. For the remaining part of the calculation, the results from the previous calculation of the Solvency Capital Requirement shall be used.

3 Insurance and reinsurance undertakings may use the approach set out in paragraph 2 provided that they are able to demonstrate upon request of the supervisory authorities that the results taken from the previous calculation of the Solvency Capital Requirement would not be materially different from the results of a new calculation.

4 Insurance and reinsurance undertakings shall not use a simplified calculation of the Solvency Capital Requirement when calculating the Solvency Capital Requirement in accordance with Article 102 of Directive 2009/138/EC.

Changes to legislation:

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Changes and effects yet to be applied to :

- [Recital 53 Sentence 1 replacement by EUR 2016/2283 Regulation](#)

Changes and effects yet to be applied to the whole legislation item and associated provisions

- [Art. 1\(18a\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(a\)](#)
- [Art. 1\(18b\)\(a\) substituted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(i\)](#)
- [Art. 1\(18b\)\(a\) word omitted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(ii\)](#)
- [Art. 1\(18b\)\(c\) and word inserted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(iii\)](#)
- [Art. 1\(19\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(c\)](#)
- [Art. 1\(20\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(d\)](#)
- [Art. 1\(21\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(e\)](#)
- [Art. 1\(22\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(f\)](#)
- [Art. 1\(23\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(g\)](#)
- [Art. 177\(2\)\(b\) words omitted by S.I. 2019/407 reg. 11\(25\)\(a\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(2\)\(h\)\(i\) words omitted by S.I. 2019/407 reg. 11\(25\)\(b\)\(ii\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(2\)\(h\)\(i\) words substituted by S.I. 2019/407 reg. 11\(25\)\(b\)\(i\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(2\)\(r\) words substituted by S.I. 2019/407 reg. 11\(25\)\(c\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(2\)\(s\) words substituted by S.I. 2019/407 reg. 11\(25\)\(c\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(2\)\(t\) words substituted by S.I. 2019/407 reg. 11\(25\)\(d\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(5\)\(a\) words substituted by S.I. 2019/407 reg. 11\(25\)\(f\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 177\(5\)\(c\) words substituted by S.I. 2019/407 reg. 11\(25\)\(f\) \(This amendment not applied to legislation.gov.uk. Reg. 11\(25\)\(39\) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1\(2\), 22\)](#)
- [Art. 257\(1A\) inserted by S.I. 2024/705 Sch. 2 para. 28\(3\)](#)
- [Art. 257\(6\) inserted by S.I. 2024/705 Sch. 2 para. 28\(7\)](#)