

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 3

Statistical quality standards

Article 228

Probability distribution forecast

1 The probability distribution forecast underlying the internal model shall assign probabilities to changes in either the amount of basic own funds of the insurance or reinsurance undertaking or to other monetary amounts, such as profit and loss, provided that those monetary amounts can be used to determine the changes in basic own funds. The exhaustive set of mutually exclusive future events, referred to in Article 13(38) of Directive 2009/138/EC, shall contain a sufficient number of events to reflect the risk profile of the undertaking.

2 Insurance and reinsurance undertakings shall calculate the probability distribution forecast of a partial internal model at the highest level of aggregation of the components of the partial internal model. If a partial internal model consists of different components which are separately calculated and not aggregated within the partial internal model, the probability distribution forecast shall be calculated for each component.

Article 229

Adequate, applicable and relevant actuarial techniques

Actuarial and statistical techniques shall only be considered adequate, applicable and relevant for the purposes of Article 121(2) of Directive 2009/138/EC where all of the following conditions are met:

- (a) the techniques are based on up to date information and progress in actuarial science and generally accepted market practice are taken into account in the choice of the techniques;

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 3 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

- (b) the insurance or reinsurance undertaking has a detailed understanding of the economic and actuarial theory and the assumptions underlying them.
- (c) the outputs of the internal model indicate relevant changes in the risk profile of the insurance or reinsurance undertaking;
- (d) the outputs of the internal model are stable in relation to changes in the input data that do not correspond to a relevant change of the risk profile of the insurance or reinsurance undertaking;
- (e) the internal model captures all the relevant characteristics of the risk profile of the insurance or reinsurance undertaking;
- (f) the techniques are adapted to the data used for the internal model;
- (g) the outputs of the internal model do not include a material model error or estimation error; wherever possible, the probability distribution forecast shall be adjusted to account for model and estimation errors;
- (h) the calculation of the outputs of the internal model can be set out in a transparent manner.

Article 230

Information and assumptions used for the calculation of the probability distribution forecast

1 Information shall only be considered credible for the purposes of Article 121(2) of Directive 2009/138/EC where insurance and reinsurance undertakings provide evidence of the consistency and objectivity of that information, the reliability of the source of information and the transparency of the method by which that information is generated and processed.

2 Assumptions shall only be considered realistic for the purposes of Article 121(2) of Directive 2009/138/EC where they meet all of the following conditions:

- a insurance and reinsurance undertakings are able to explain and justify each of the assumptions, taking into account the significance of the assumption, the uncertainty involved in the assumption and why the relevant alternative assumptions are not used;
- b the circumstances under which the assumptions would be considered false can be clearly identified;
- c insurance and reinsurance undertakings establish and maintain a written explanation of the methodology used to set those assumptions.

Article 231

Data used in the internal model

1 Data used in the internal model shall only be considered accurate for the purposes of Article 121(3) of Directive 2009/138/EC where all of the following conditions are met:

- a the data are free from material errors;
- b data from different time periods used for the same estimation are consistent;
- c the data are recorded in a timely manner and consistently over time.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 3 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

2 Data used in the internal model shall only be considered complete for the purposes of Article 121(3) of Directive 2009/138/EC where all of the following conditions are met:

- a data include sufficient historical information to assess the characteristics of the underlying risk, in particular to identify trends in the risks;
- b data that comply with point (a) of this paragraph are available for all relevant model parameters and no such relevant data are excluded from the use in the internal model without justification.

3 Data used in the internal model shall only be considered appropriate for the purposes of Article 121(3) of Directive 2009/138/EC where all of the following conditions are met:

- a the data are consistent with the purposes for which it is to be used;
- b the amount and nature of the data ensure that the estimations made in the internal model on the basis of the data do not include a material estimation error;
- c the data are consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them in the internal model;
- d the data reflect the relevant risks to which the insurance or reinsurance undertaking is exposed;
- e the data are collected, processed and applied in a transparent and structured manner, based on a specification of the following areas:
 - (i) the definition and assessment of the quality of data, including specific qualitative and quantitative standards for different data sets;
 - (ii) the use and setting of assumptions made in the collection, processing and application of data;
 - (iii) the process for carrying out data updates, including the frequency of regular updates and the circumstances that trigger additional updates.

Article 232

Ability to rank risk

1 For the purposes of the second subparagraph of Article 121(4) of Directive 2009/138/EC, the internal model shall be able to rank all material risks covered by the internal model.

2 The ability to rank risks shall be consistent with the classification of risks used in the internal model and the classification of risks used in the risk management system.

3 Similar risks shall be ranked consistently throughout the insurance or reinsurance undertaking and ranked consistently over time.

4 The ranking of risks shall be consistent with the capital allocation referred to in point (b) of the first paragraph of Article 120 of Directive 2009/138/EC.

Article 233

Coverage of all material risks

1 For the purposes of the third subparagraph of Article 121(4) of Directive 2009/138/EC, insurance and reinsurance undertakings shall assess, at least on a quarterly basis, whether the internal model covers all material quantifiable risks within its scope. The assessment shall take into account an appropriate set of qualitative and quantitative indicators.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 3 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

- 2 The qualitative indicators referred to in paragraph 1 shall include the following:
- a the identification in the own risk and solvency assessment of risks other than those that are covered by the internal model;
 - b the existence of a dedicated risk management process for risks other than those that are covered by the internal model;
 - c the existence of dedicated risk mitigation techniques for risks other than those that are covered by the internal model.
- 3 The quantitative indicators referred to in paragraph 1 of this Article shall include the following:
- a the capital allocation in accordance with Article 120 of Directive 2009/138/EC;
 - b the amount of profits and losses which cannot be explained by the risks covered by the internal model;
 - c the results of stress testing and scenario analysis and any tool used in the model validation process.

Article 234

Diversification effects

The system used for measuring diversification effects referred to in Article 121(5) of Directive 2009/138/EC shall only be considered adequate where all of the following conditions are met:

- (a) the system used for measuring diversification effects identifies the key variables driving dependencies;
- (b) the system used for measuring diversification effects takes into account all of the following:
 - (i) any non-linear dependence and any lack of diversification under extreme scenarios;
 - (ii) any restrictions of diversification which arise from the existence of a ring-fenced fund or matching adjustment portfolio;
 - (iii) the characteristics of the risk measure used in the internal model;
- (c) the assumptions underlying the system used for measuring diversification effects are justified on an empirical basis.

Article 235

Risk-mitigation techniques

- 1 Risks that are properly reflected in the internal model, as referred to in Article 121(6) of Directive 2009/138/EC, shall not include risks arising from any of the following situations:
- a the contractual arrangements relating to the risk-mitigation technique are, in any relevant jurisdiction, not legally effective and enforceable or does not ensure that the transfer of risk is clearly defined and incontrovertible;
 - b insurance and reinsurance undertakings do not have a direct claim on the counterparty in the event of the default, insolvency or bankruptcy of the counterparty or other credit

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 3 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

event set out in the transaction documentation to the arrangements relating to the risk-mitigation technique;

- c the legal arrangements underlying the risk-mitigation technique do not contain an explicit reference to a specific risk exposure clearly defining the extent of the cover provided by the risk-mitigation technique.

2 Where the risk-mitigation technique referred to in paragraph 1(c) does not cover the risk exposure of the insurance or reinsurance undertaking in all cases, the internal model shall not be considered to properly reflect the risk arising from the risk-mitigation technique in accordance with Article 121(6) of Directive 2009/138/EC unless it takes into account the reduced effectiveness of the risk-mitigation technique resulting from this deviation of risk exposures.

3 Where the risk-mitigation technique is subject to a condition, the fulfilment of which is outside the direct control of the insurance or reinsurance undertaking and which could undermine the effective transfer of risk, the internal model shall not be considered to properly reflect the risk arising from the risk-mitigation technique in accordance with Article 121(6) of Directive 2009/138/EC unless it takes into account the effects of those conditions and any reduced effectiveness of that risk-mitigation technique.

Article 236

Future management actions

1 Future management actions shall only be considered to be reasonably expected to be carried out for the purposes of Article 121(8) of Directive 2009/138/EC where all of the following conditions are met:

- a the assumptions on future management actions used in the calculations for the internal model are determined in an objective manner;
- b assumed future management actions are realistic and consistent with the insurance or reinsurance undertaking's current business practice and business strategy, including the use of risk-mitigation techniques and, where there is sufficient evidence that the undertaking will change its practices or strategy, the assumed management actions are consistent with the changed practices or strategy;
- c assumed future management actions are consistent with each other;
- d assumed future management actions are not contrary to any obligations towards policy holders and beneficiaries or to legal provisions;
- e assumed future management actions take account of any public information or communication by the insurance or reinsurance undertaking as to the actions that it would expect to take or not take.

2 Assumptions on future management actions shall be realistic and include all of the following:

- a a comparison of assumed future management actions with management actions taken previously by the insurance or reinsurance undertaking;
- b a comparison of future management actions taken into account in the current and past calculations of the internal model.

Insurance and reinsurance undertakings shall be able to explain any relevant deviations in relation to points (a) and (b).

3 For the purpose of paragraph 1, insurance and reinsurance undertakings shall establish a comprehensive future management actions plan, approved by the administrative, management

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, SECTION 3 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

or supervisory body of the insurance and reinsurance undertaking provides for all of the following:

- a the identification of future management actions implemented in the internal model;
 - b the identification of the specific circumstances in which the insurance or reinsurance undertaking would reasonably expect to carry out the future management actions identified pursuant to point (a);
 - c the identification of the specific circumstances in which the insurance or reinsurance undertaking may not be able to carry out the future management actions identified pursuant to point (a), and a description of how those circumstances are reflected in the internal model;
 - d the order in which future management actions would be carried out and the governance requirements applicable to those future management actions;
 - e a description of any ongoing work required to ensure that the insurance or reinsurance undertaking is in a position to carry out the future management actions identified pursuant to point (a);
 - f a description of how future management actions have been reflected in the calculation of the probability distribution forecast;
 - g a description of the applicable internal reporting procedures, which shall include at least an annual communication to the administrative, supervisory or management body, that cover future management actions implemented in the internal model.
- 4 Assumptions on future management actions shall take account of the time needed to implement the management actions and any expenses caused by them.

Article 237

Understanding of external models and data

Parts of the internal model obtained from a third party shall be subject to all of the same tests and standards as the parts developed by the undertaking. In addition, the parts obtained from a third part shall not be considered to be adequate unless the insurance or reinsurance undertaking is able to demonstrate a detailed understanding of those parts, including their limitations.

Data used in the internal model obtained from a third party shall not be considered to be appropriate unless the insurance or reinsurance undertaking is able to demonstrate a detailed understanding of those data, including their limitations.

Changes to legislation:

Commission Delegated Regulation (EU) 2015/35, SECTION 3 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.

View outstanding changes

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\(7\)](#)