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

VALUATION AND RISK-BASED CAPTAL REQUIREMENTS (PILLAR I), ENHANCED GOVERNANCE (PILLAR II) AND INCREASED TRANPARENCY (PILLAR III)

CHAPTER VI

SOLVENCY CAPITAL REQUIREMENT — FULL AND PARTIAL INTERNAL MODELS

SECTION 7

Validation standards

Article 241

Model validation process

1 The model validation process shall apply to all parts of the internal model and shall cover all requirements set out in Articles 101, Article 112(5), Articles 120 to 123 and Article 125 of Directive 2009/138/EC. In the case of a partial internal model the validation process shall in addition cover the requirements set out in Article 113 of that Directive.

2 In order to ensure independence of the model validation process from the development and operation of the internal model, the persons or organisational unit shall, when carrying out the model validation process, be free from influence from those responsible for the development and operation of the internal model. This assessment shall be in accordance with paragraph 4.

3 For the purpose of the model validation process insurance and reinsurance undertakings shall specify all of the following:

- a the processes and methods used to validate the internal model and their purposes;
- b for each part of the internal model, the frequency of regular validations and the circumstances which trigger additional validation;
- c the persons who are responsible for each validation task;
- d the procedure to be followed in the event that the model validation process identifies problems with the reliability of the internal model and the decision-making process to address those problems.

4 As part of the model validation process insurance and reinsurance undertakings shall assess the quality and independence of the validation. In the assessment of independence, undertakings shall take all of the following into account:

a in case of an internal validation process, the responsibilities and reporting structure of the persons involved in the process,

b in case of an external validation process, the remuneration structure of the persons, including where applicable their employees or other persons acting on their behalf, who are involved in the process and any other mandates of these persons relating to the insurance or reinsurance undertaking.

Article 242

Validation tools

1 Insurance and reinsurance undertakings shall test the results and the key assumptions of the internal model at least annually against experience and other appropriate data to the extent that data are reasonably available. These tests shall be applied at the level of single outputs as well as at the level of aggregated results. Insurance and reinsurance undertakings shall identify the reason for any significant divergence between assumptions and data and between results and data.

2 As part of the testing of the internal model results against experience insurance and reinsurance undertakings shall compare the results of the profit and loss attribution referred to in Article 123 of Directive 2009/138/EC with the risks modelled in the internal model.

3 The statistical process for validating the internal model, referred to in the second paragraph of Article 124 of Directive 2009/138/EC, shall be based on all of the following:

a current information, taking into account, where it is relevant and appropriate, developments in actuarial techniques and the generally accepted market practice;

b a detailed understanding of the economic and actuarial theory and the assumptions underlying the methods to calculate the probability distribution forecast of the internal model.

4 Where insurance or reinsurance undertakings observe in accordance with the fourth paragraph of Article 124 of Directive 2009/138/EC that changes in a key underlying assumption have a significant impact on the Solvency Capital Requirement, they shall be able to explain the reasons for this sensitivity and how the sensitivity is taken into account in their decision-making process. For the purposes of the fourth subparagraph of Article 124 of Directive 2009/138/EC the key assumptions shall include assumptions on future management actions.

5 The model validation process shall include an analysis of the stability of the outputs of the internal model for different calculations of the internal model using the same input data.

6 As part of the demonstration that the capital requirements resulting from the internal model are appropriate, insurance and reinsurance undertakings shall compare the coverage and the scope of the internal model. For this purpose, the statistical process for validating the internal model shall include a reverse stress test, identifying the most probable stresses that would threaten the viability of the insurance or reinsurance undertaking.