

Solvency II Survey Findings

The risk function and the governance of the internal model

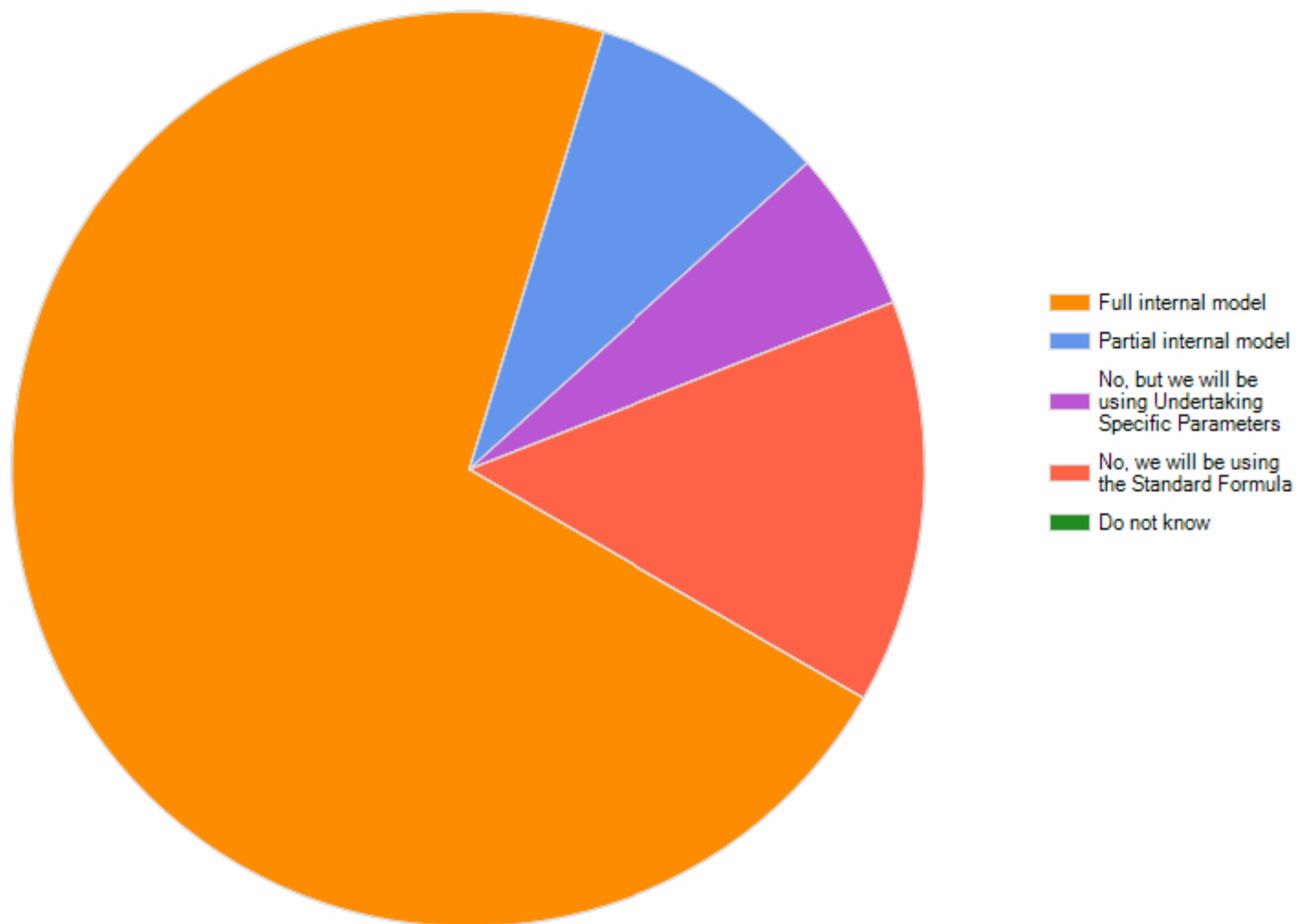
September 2011 SIG

(35 Participants)

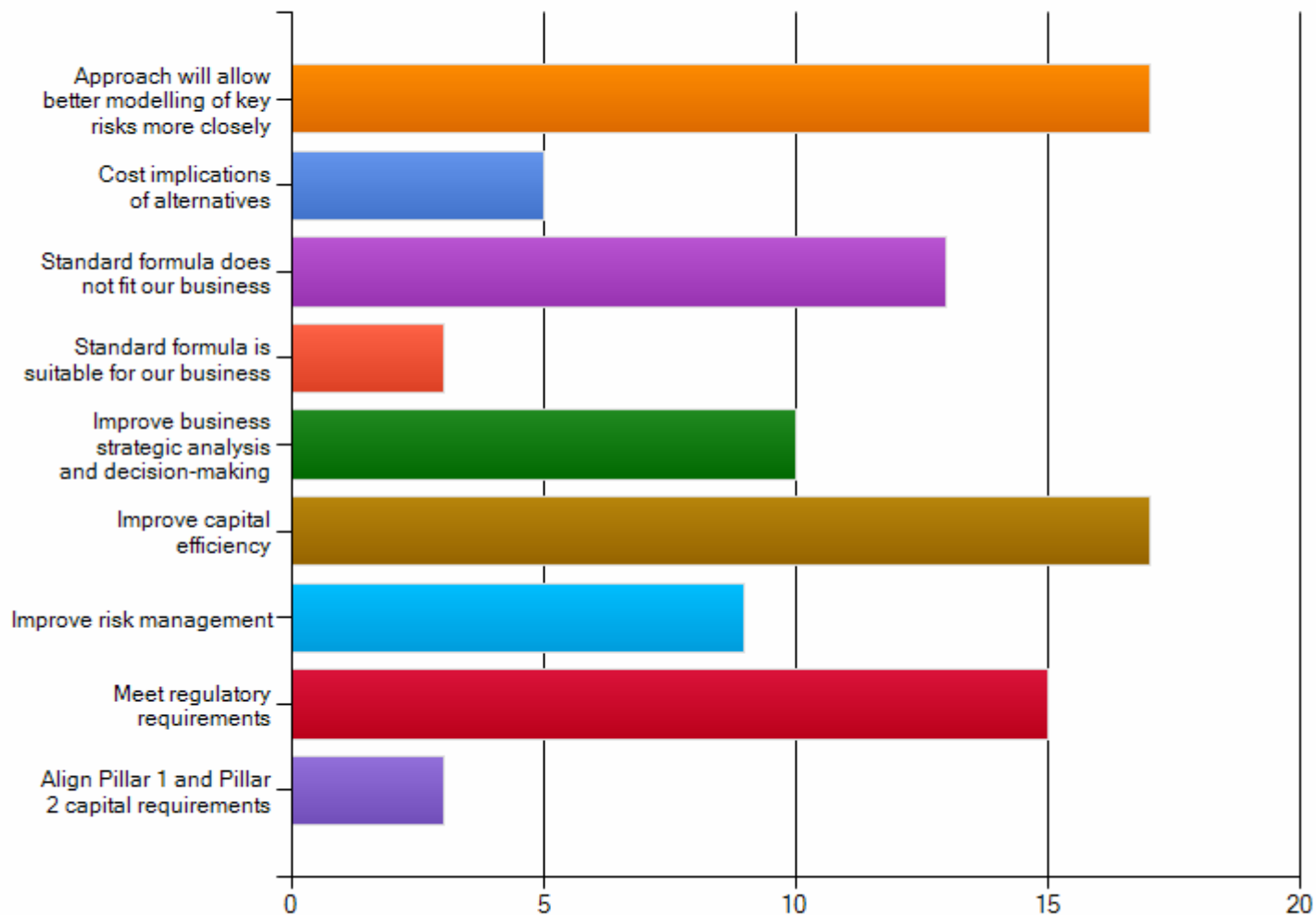
Summary

- IRM Solvency II SIG completed an online survey on the use and governance of Internal Models and the role of the risk function in these processes
- Key aspects considered included
 - Drivers for internal model use
 - Primary users / audience for the model outcomes
 - Use of model in decision making and capital setting
 - Links to the ORSA
 - Nature of Internal Model governance arrangements
 - Role of the risk function in Internal Model governance
 - Data quality and validation

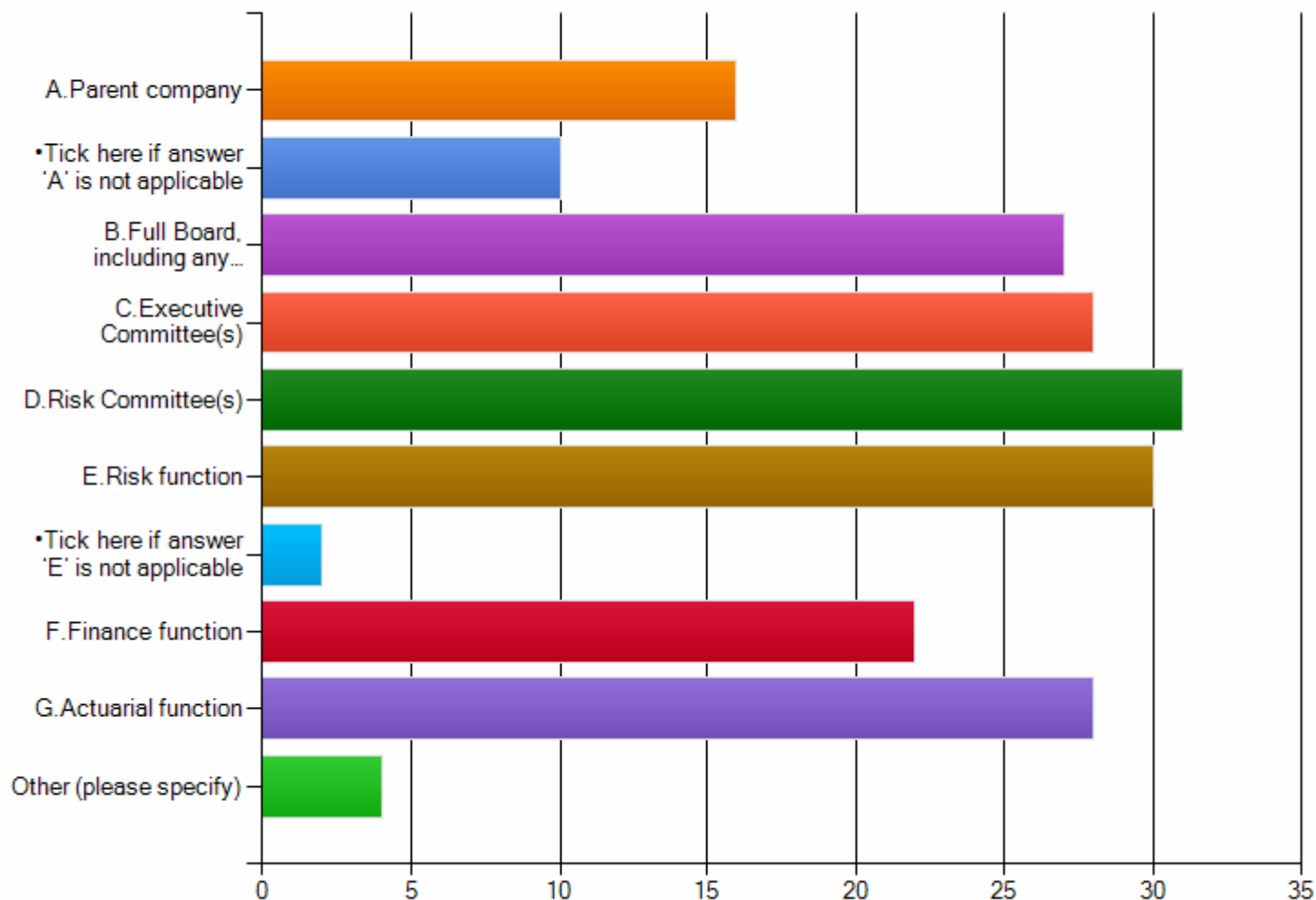
Is your organisation implementing an internal model? (tick the most appropriate answer)



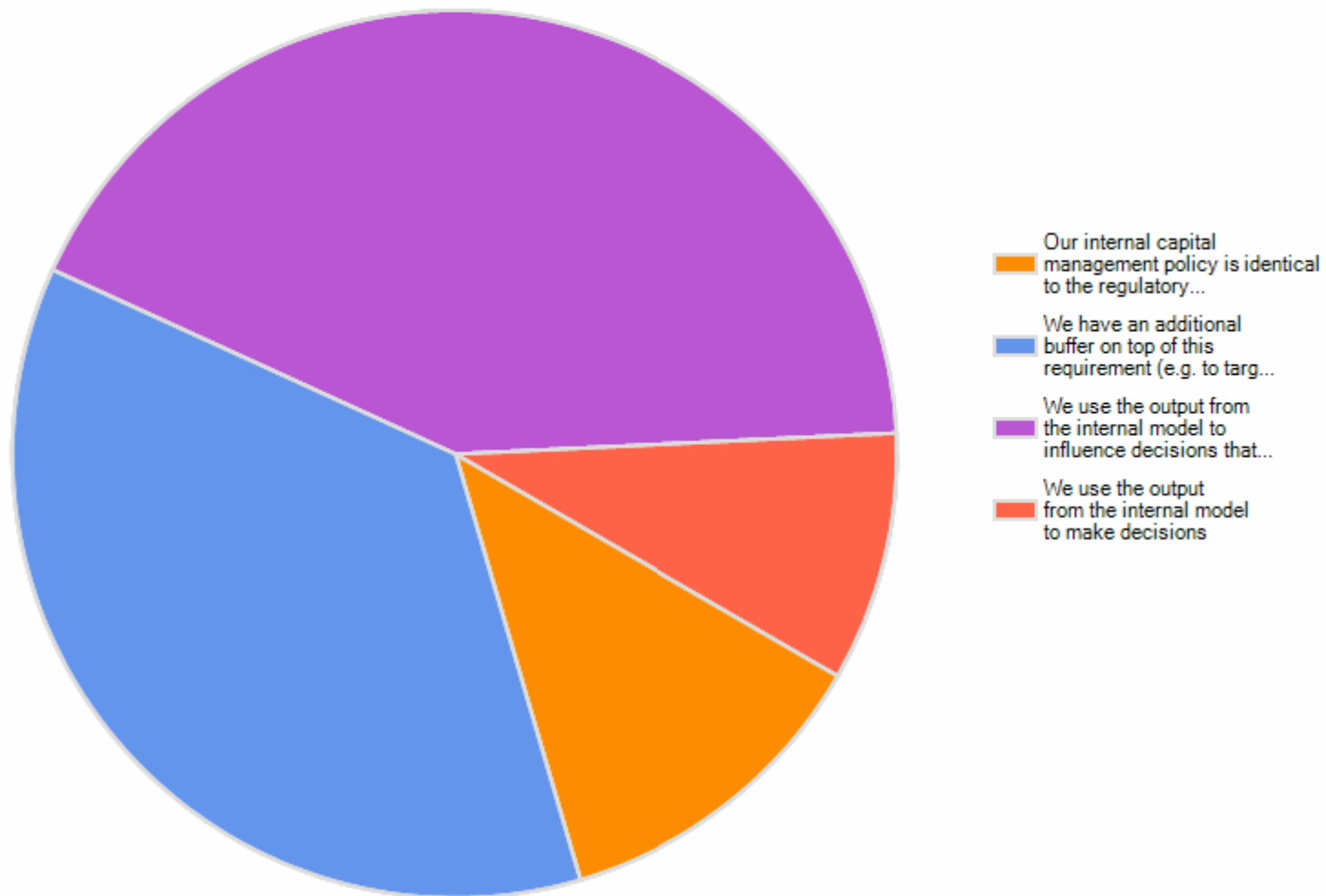
What are the primary motivations for adopting this approach? (please rank the top 3 from this list)



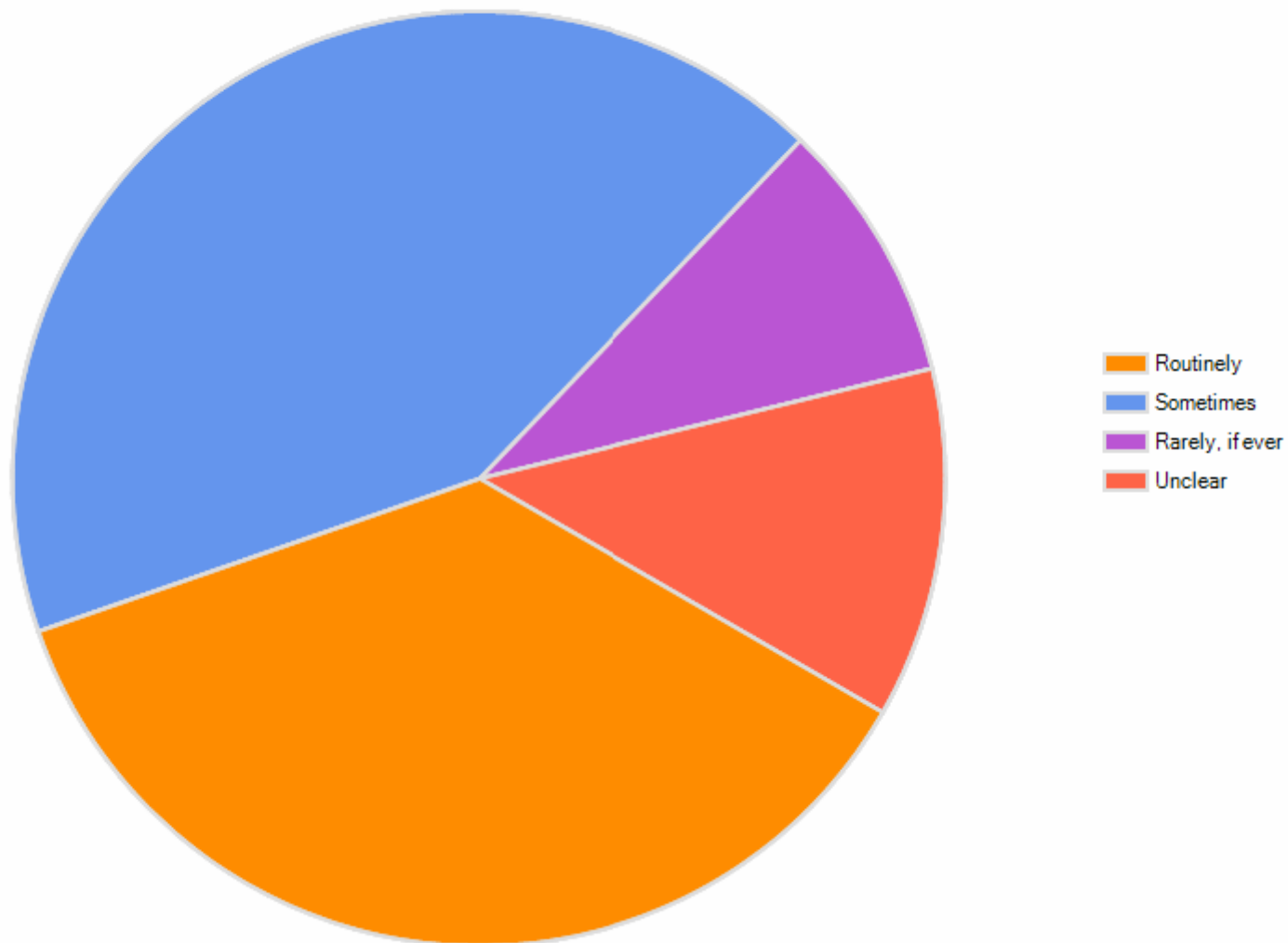
Who in your organisation considers the outputs of the internal model in performing their roles? (tick all that apply)



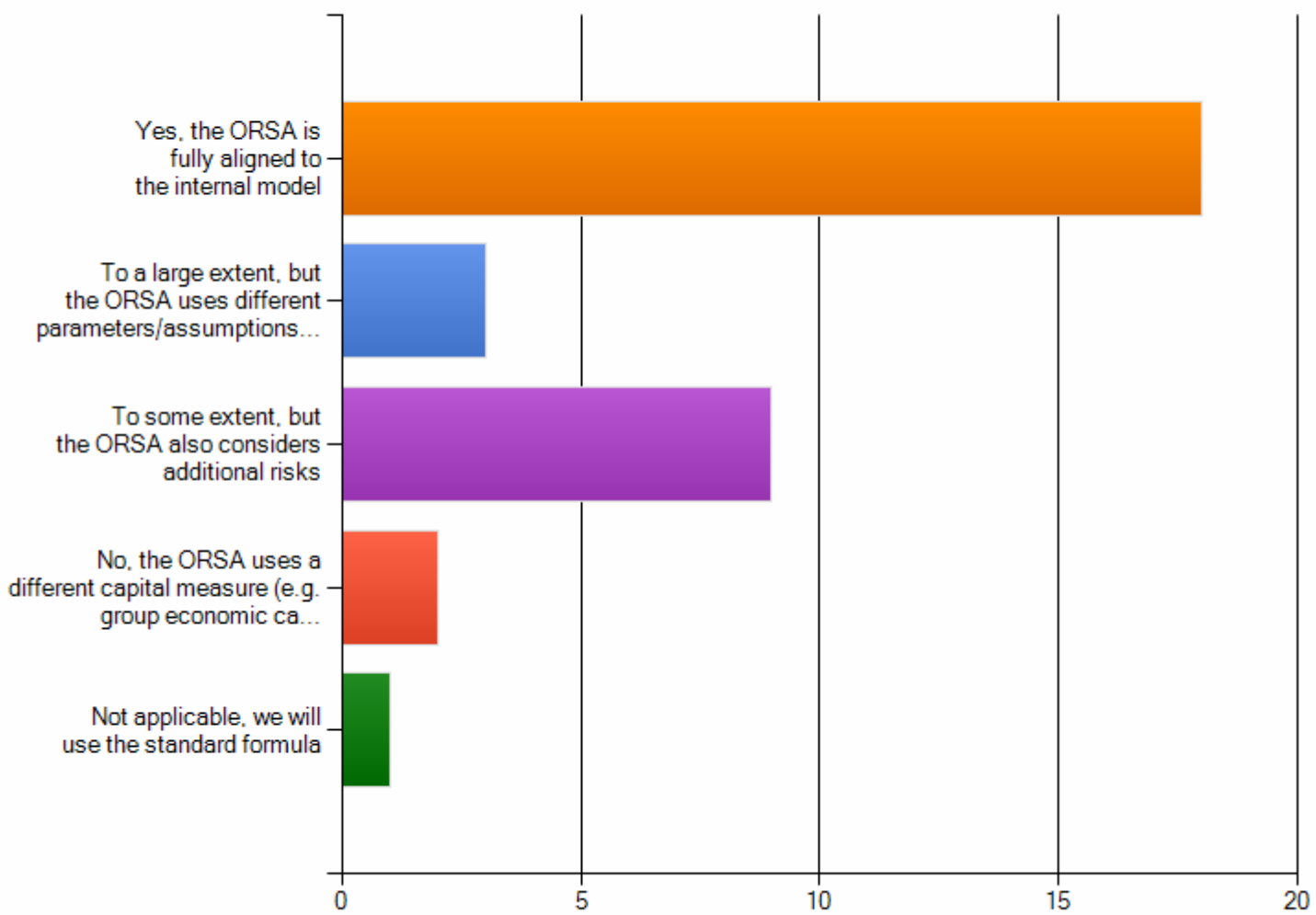
**How does your regulatory capital requirement as defined by your internal model relate to your internal risk management process?
(tick the most appropriate answer)**



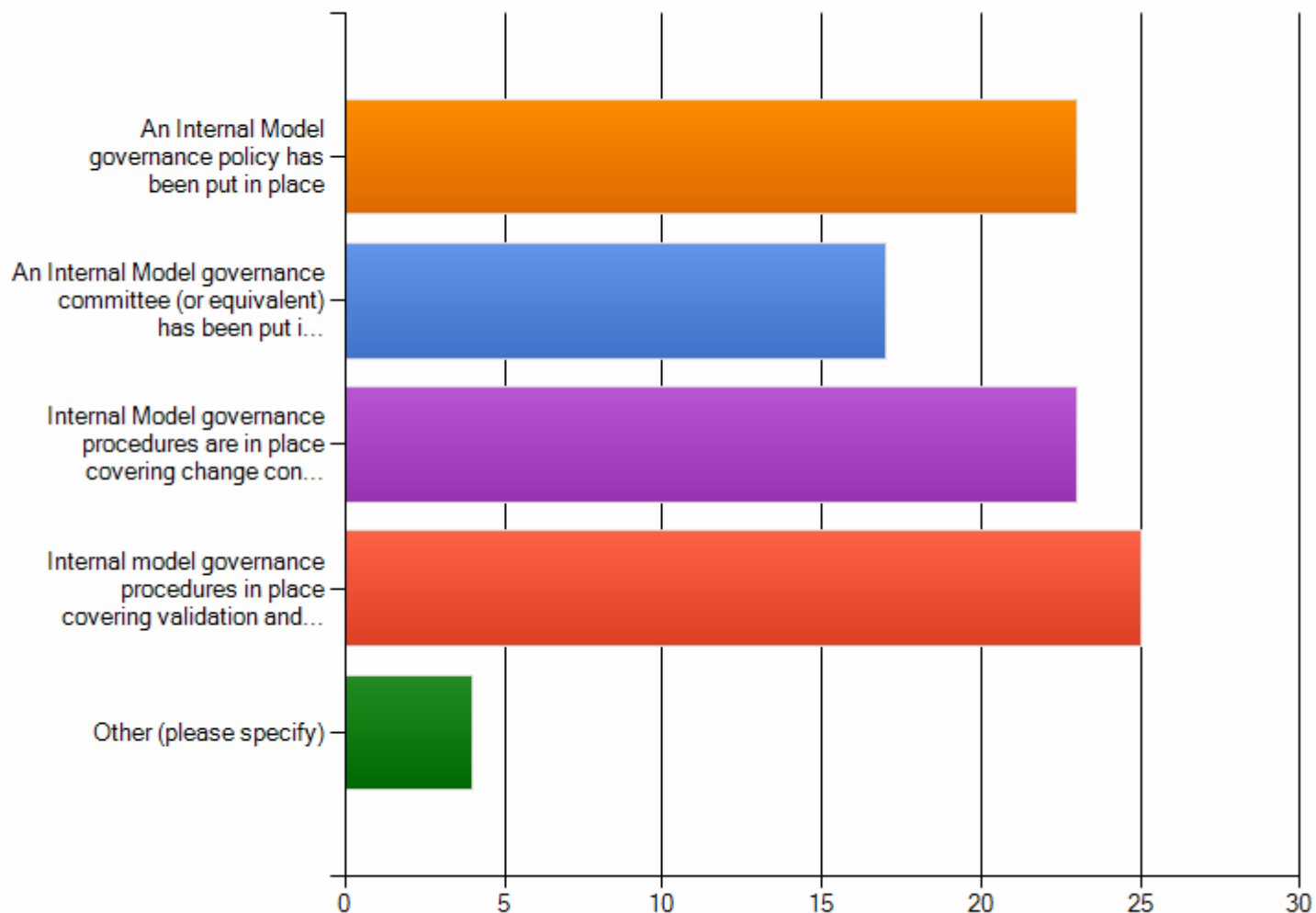
To what extent is your organisation's internal model used to inform decision-making? (tick the most appropriate answer)



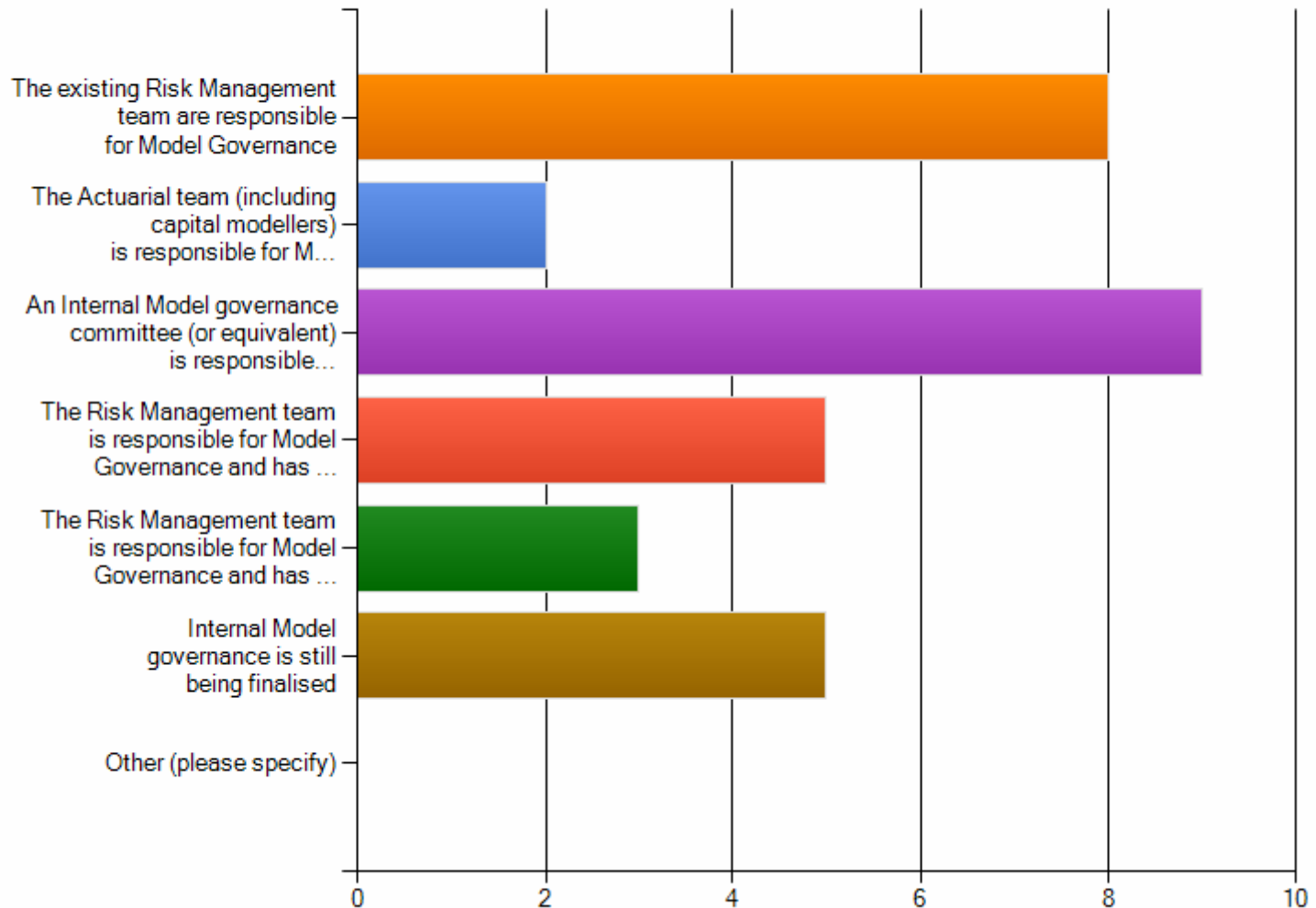
Will your internal model be the source of the main capital measure in your ORSA? (tick the most appropriate answer)



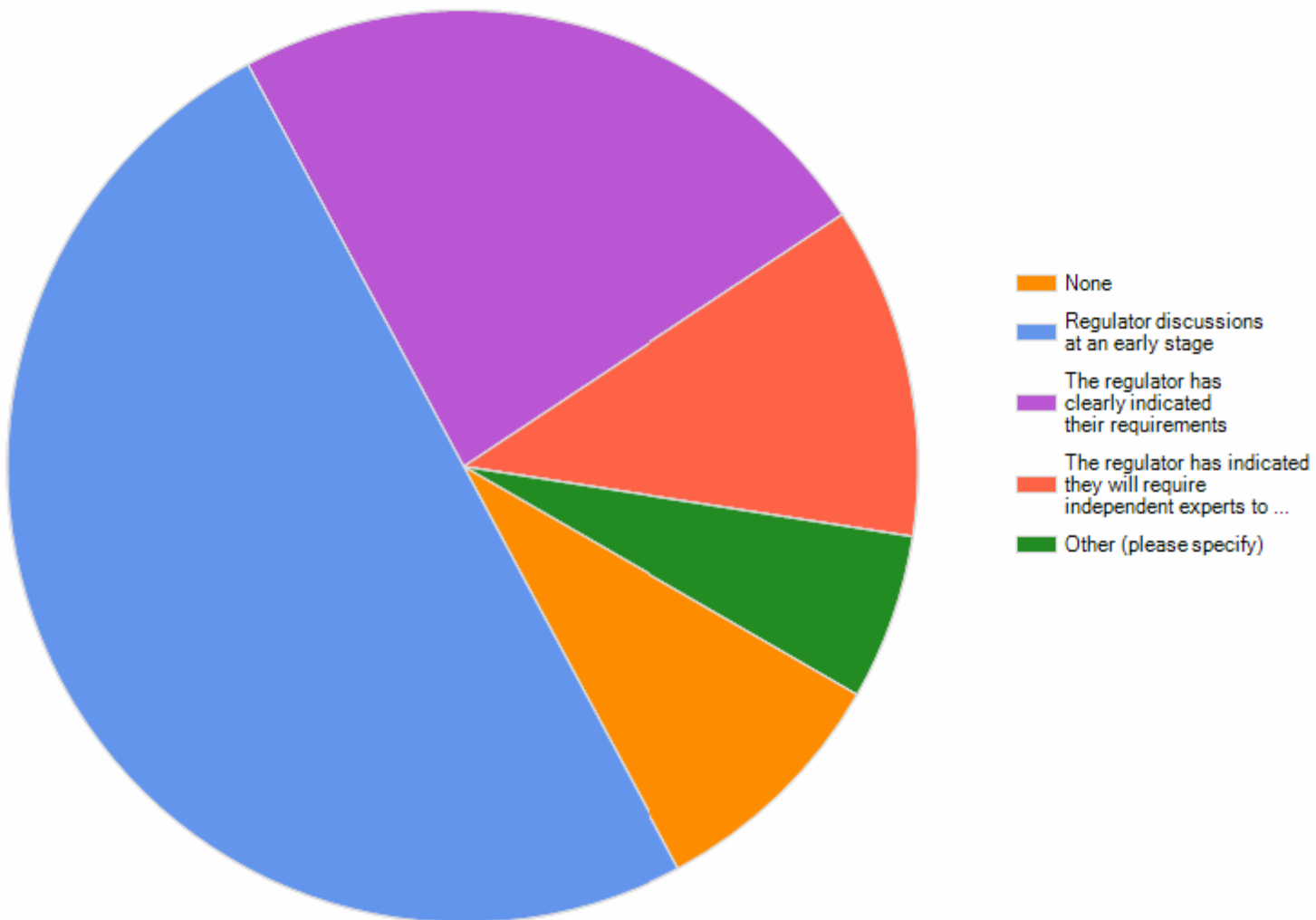
What is the nature of the governance arrangements over the Internal Model in place within your Organisation? (tick as many as relevant)



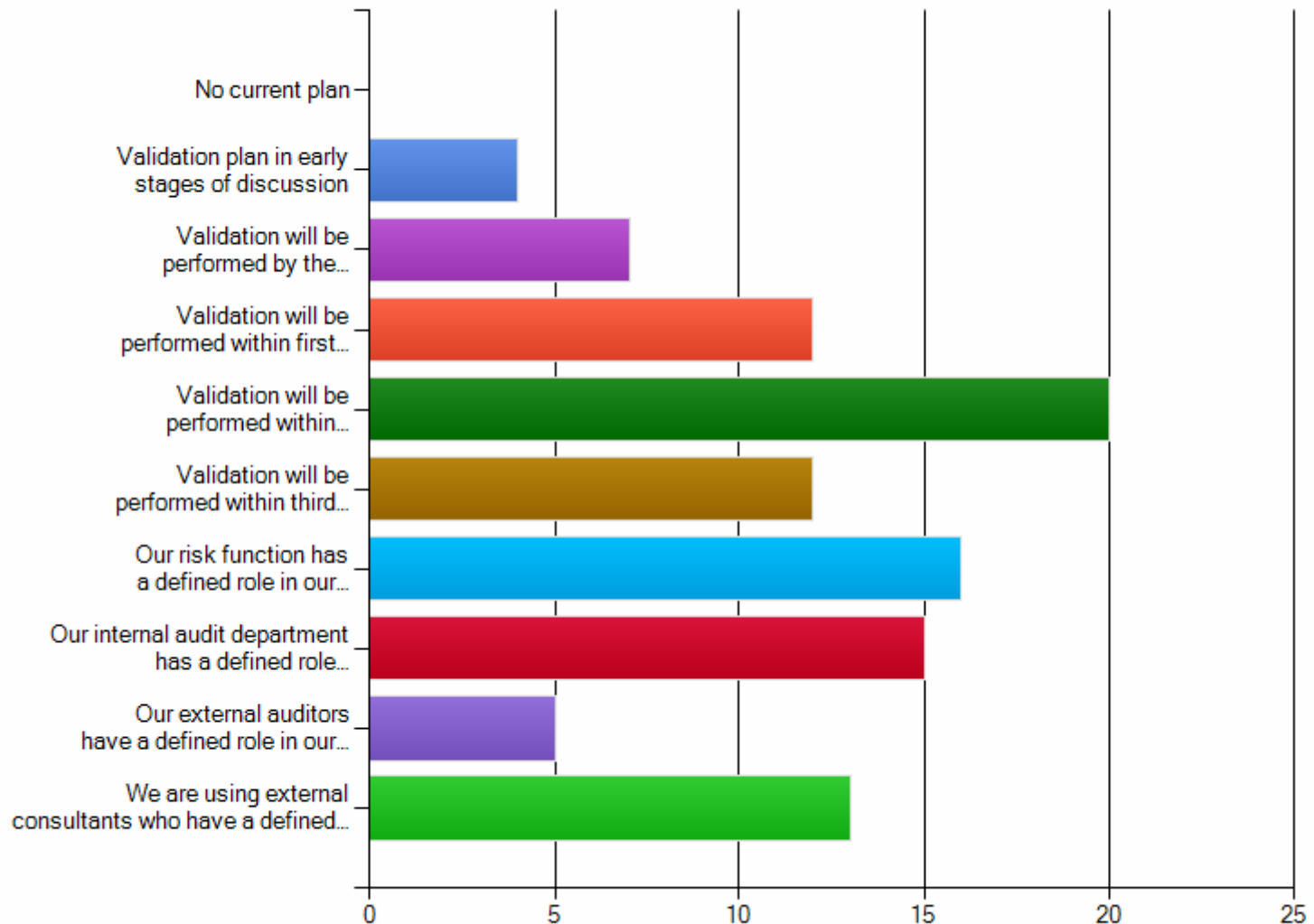
What is the role of the 'risk function' in the overall governance of the Internal Model and how has this been addressed organisationally? (tick the most appropriate answer)



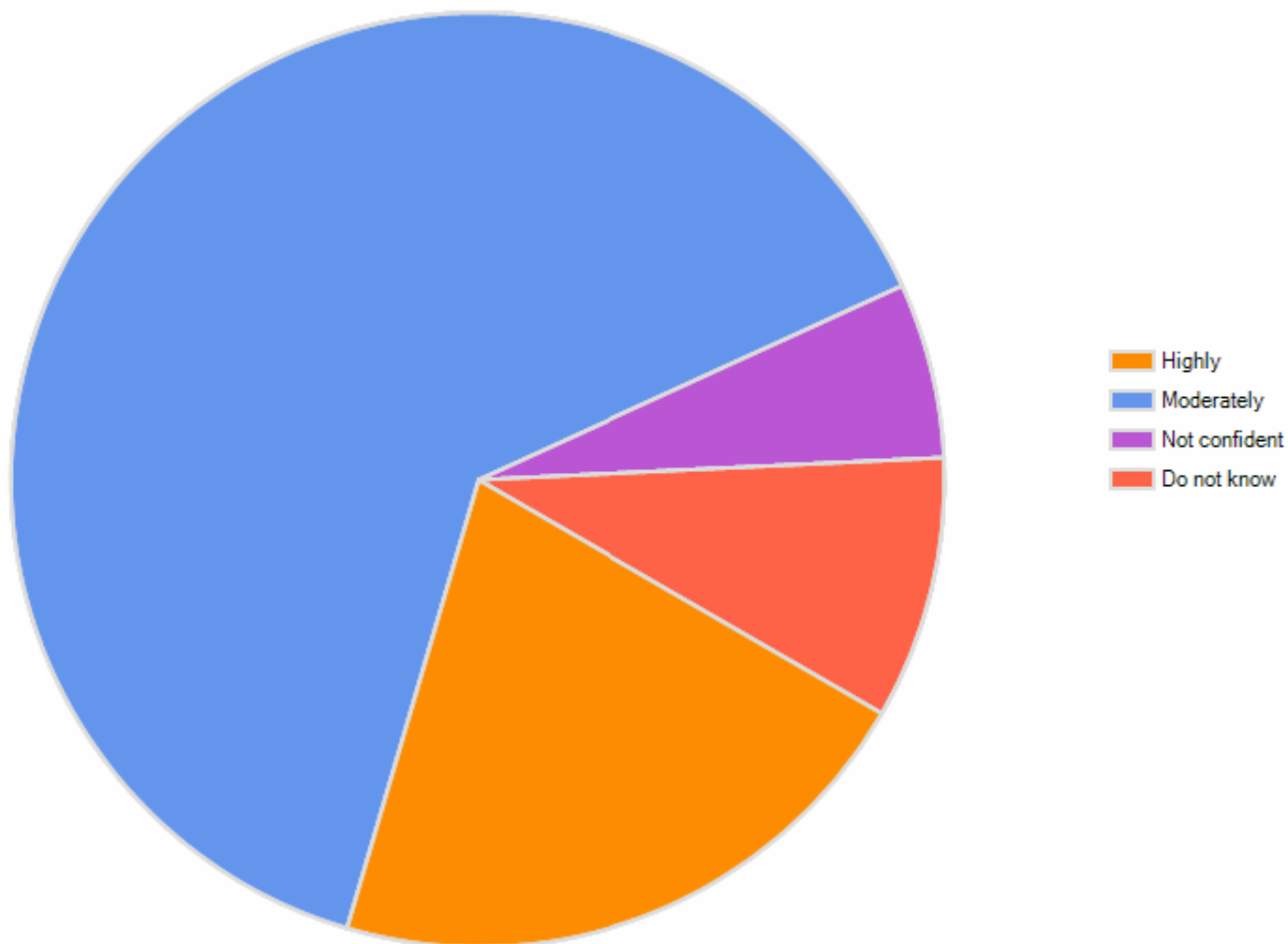
What discussions have been held with your regulator with regard to model approval and validation? (tick the most appropriate answer)



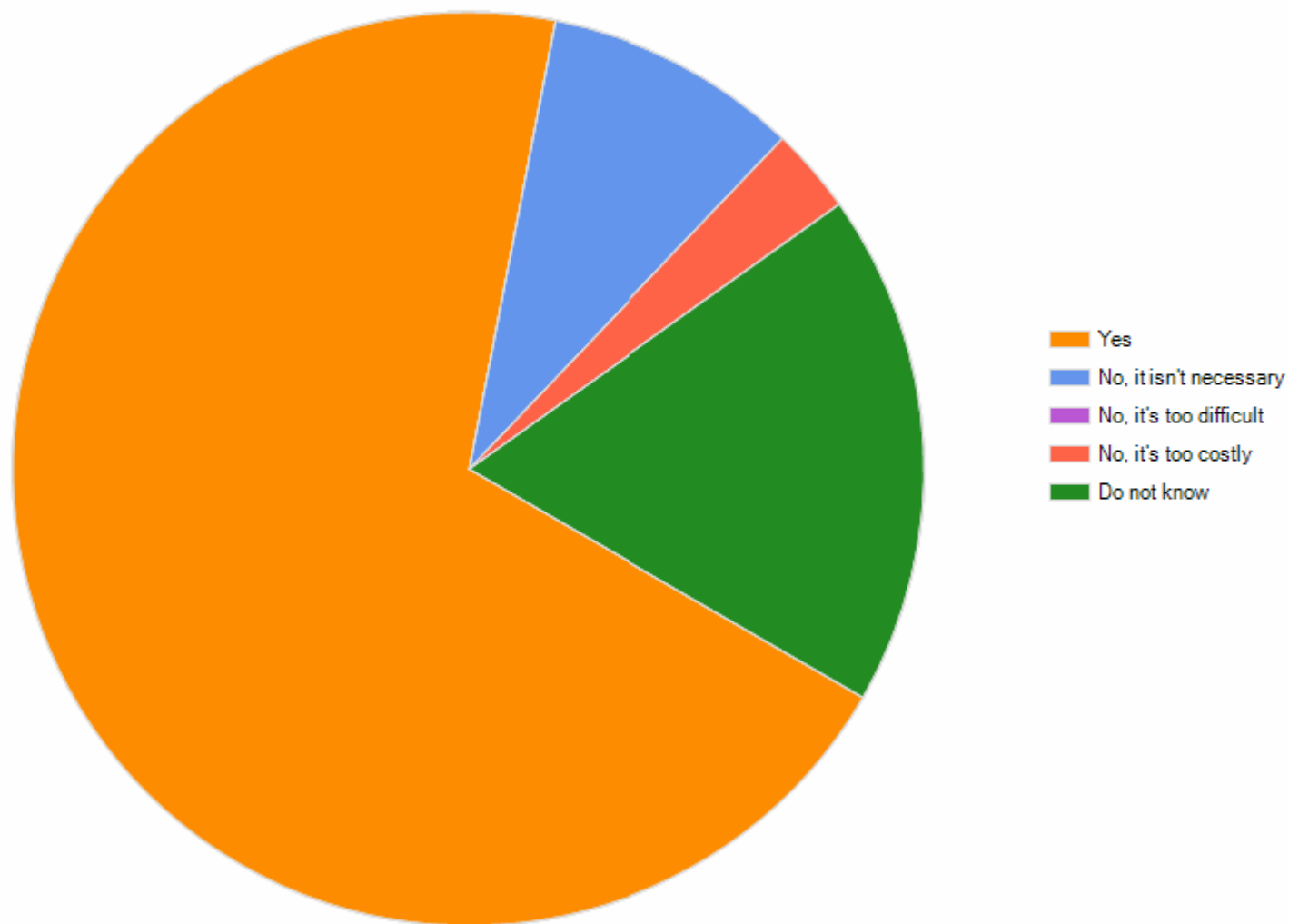
What plans are in place to validate your internal model? (tick all that apply)



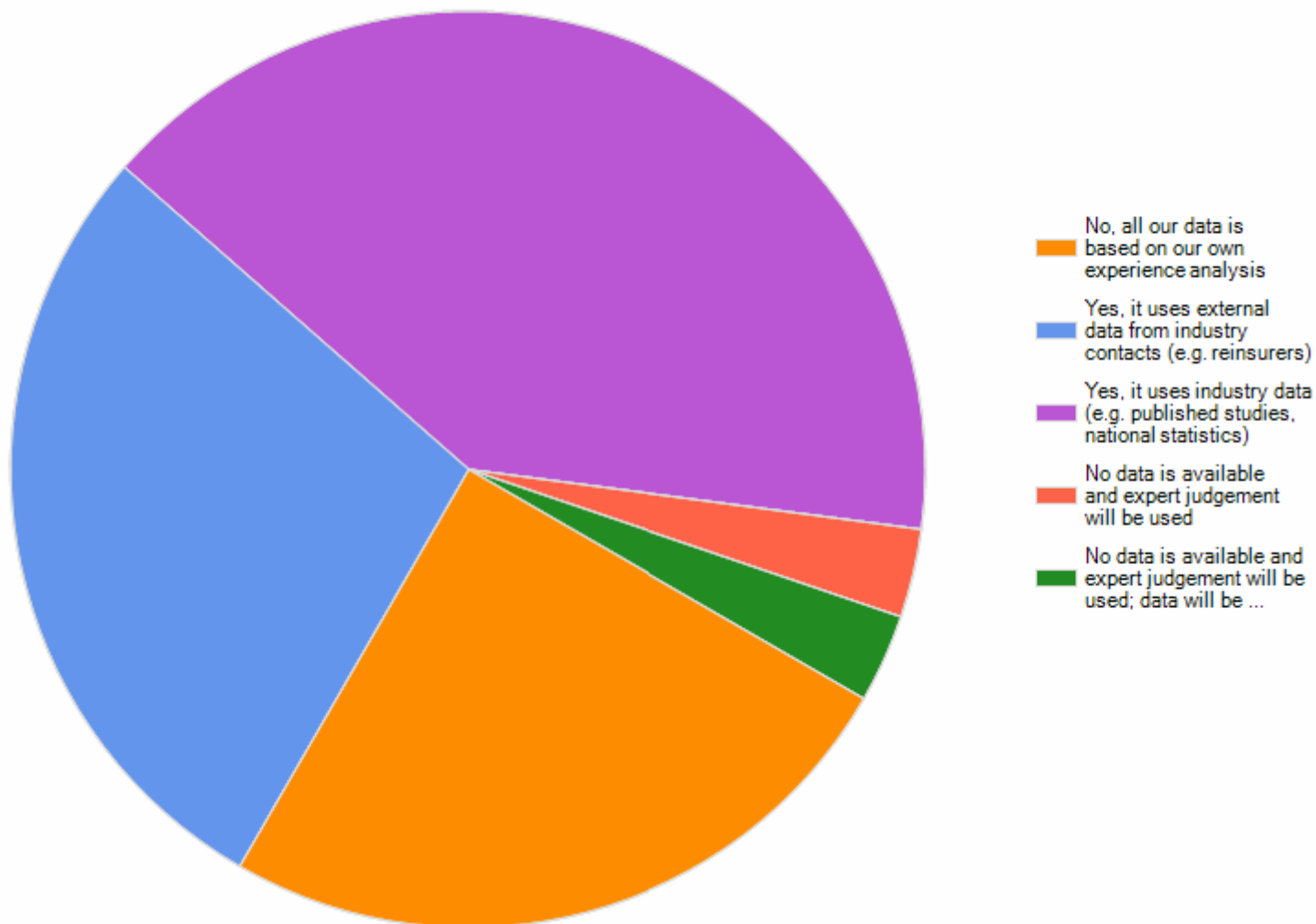
How confident are you about the quality of the data used in the internal model? (tick the most appropriate answer)



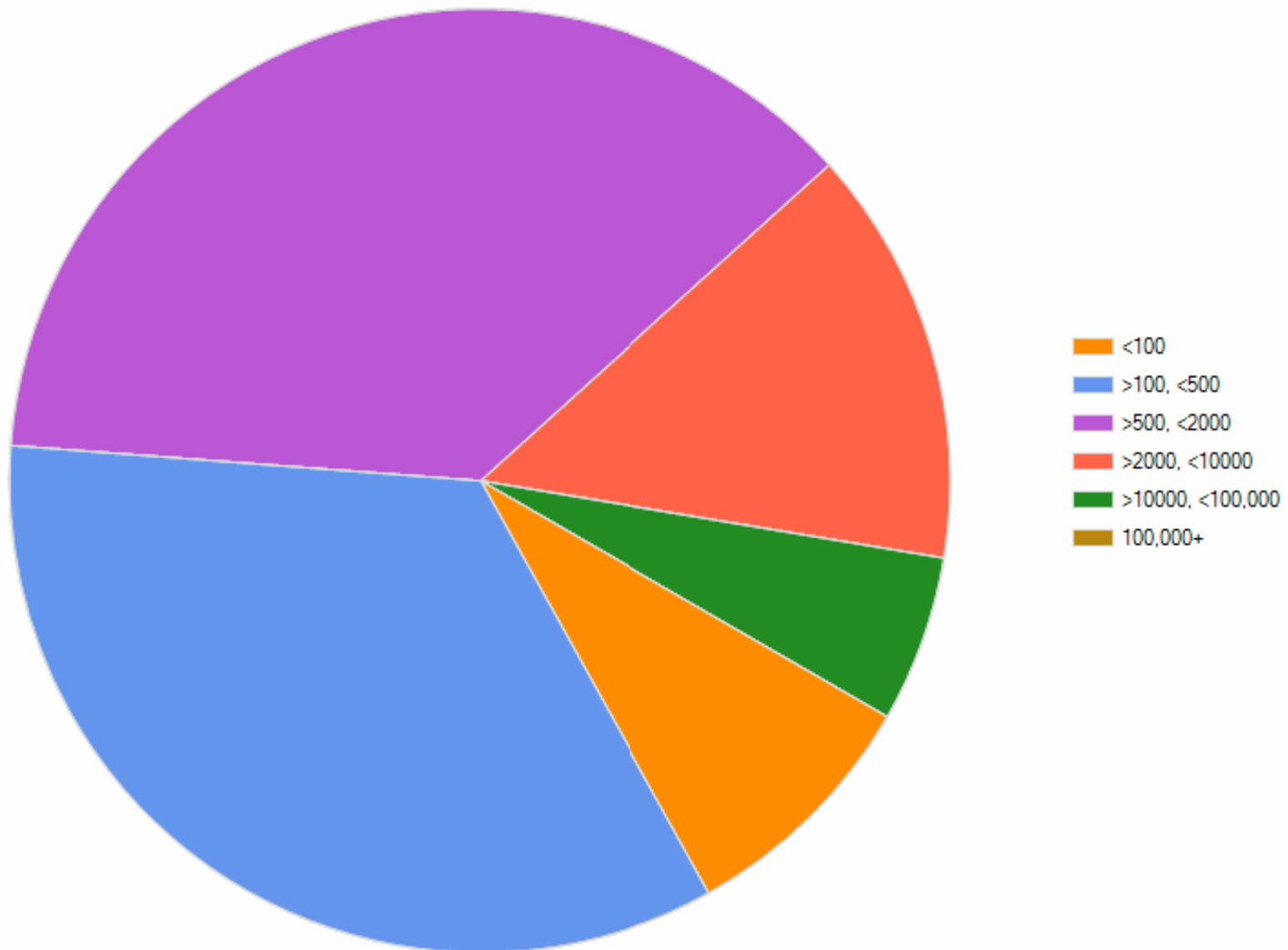
Does your organisation have plans to improve the amount or quality of the data in the internal model? (tick the most appropriate answer)



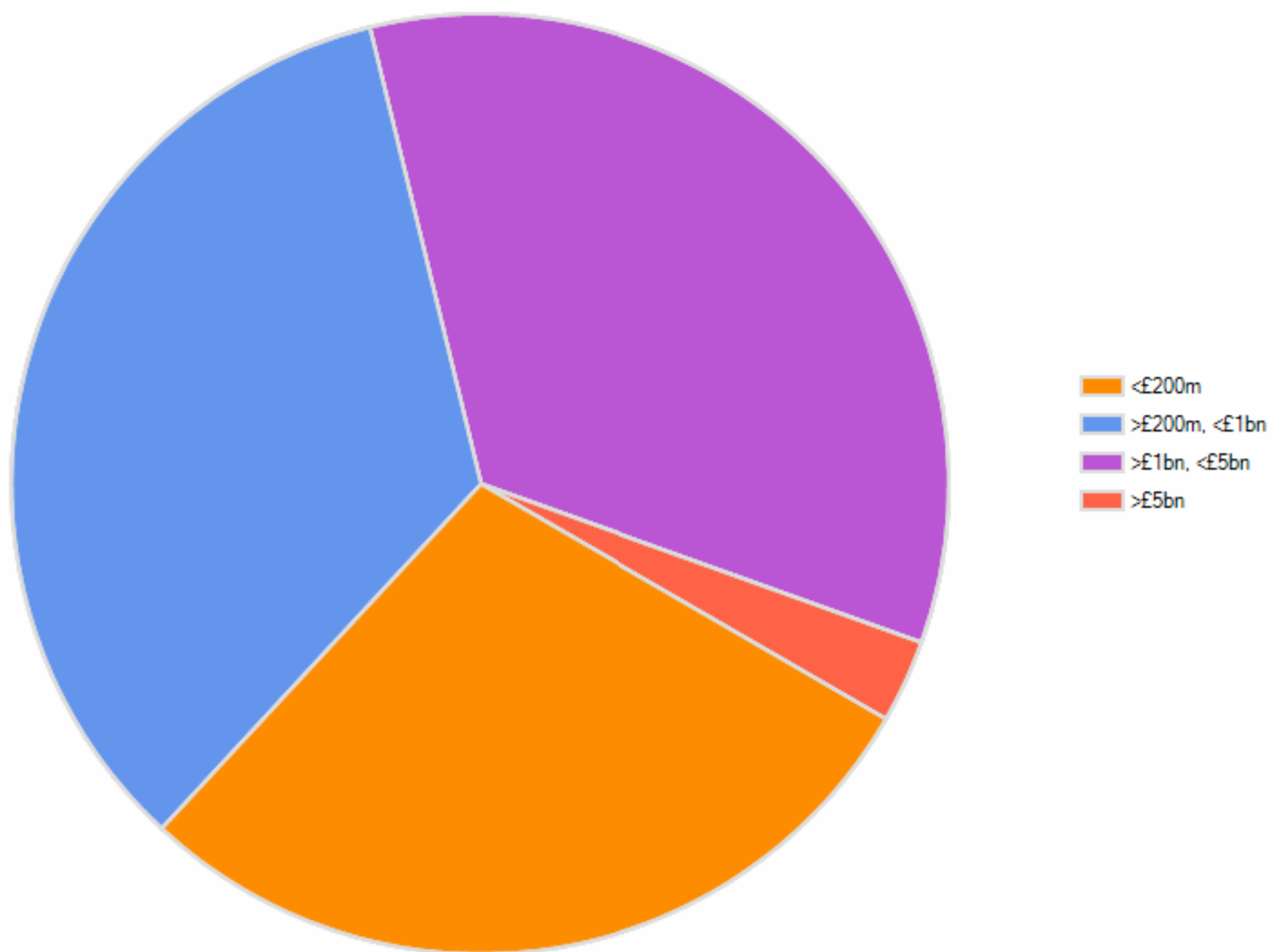
Does your organisation use external data in the internal model?
(tick the most appropriate answer)



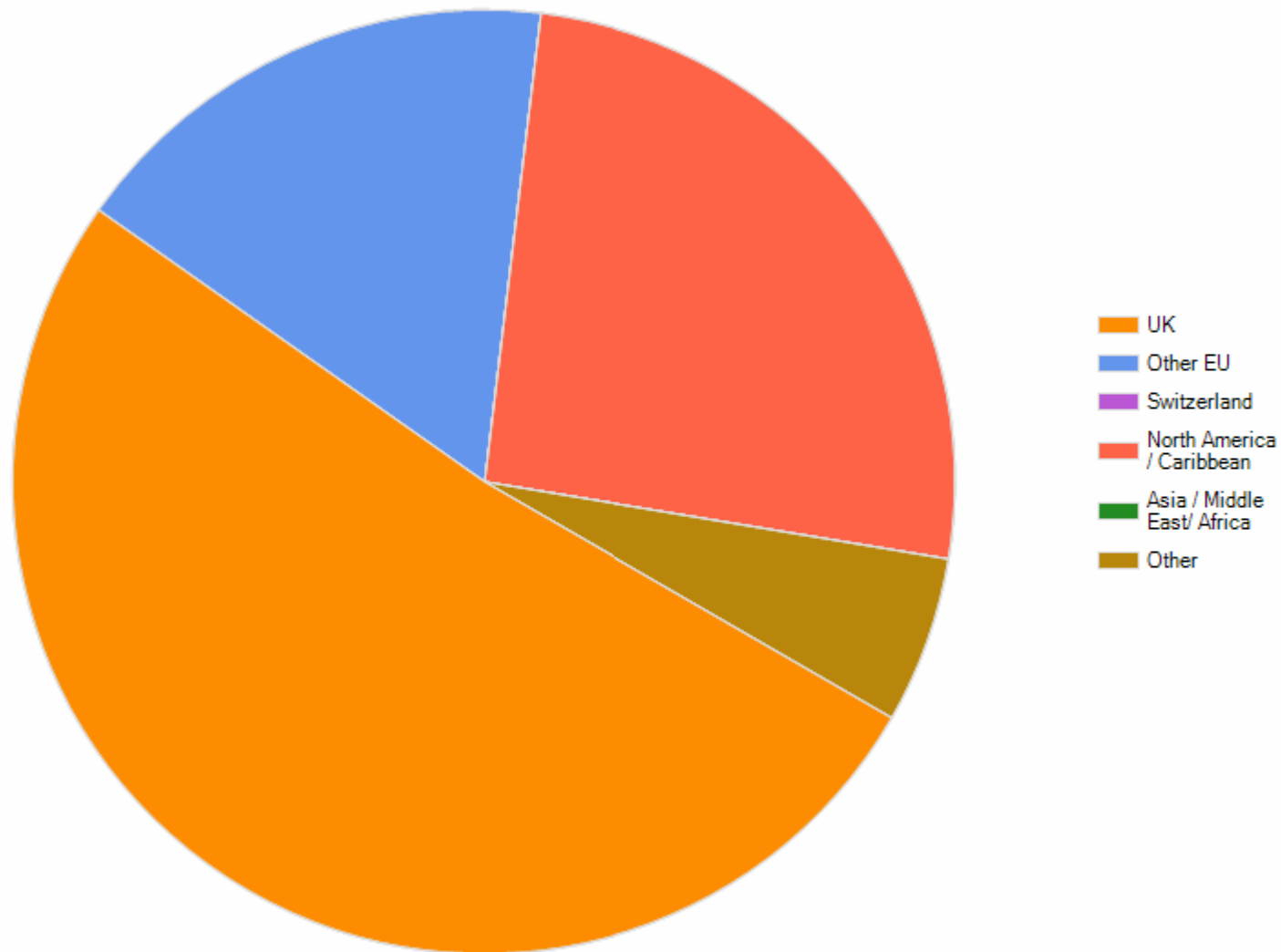
Organisation headcount



Organisation turnover



Domicile of organisation's overall Headquarters



Conclusions

- 71% of respondents intend to have an Internal Model (IM), driven by capital setting and a desire to better understand key risks
- The primary audience for model outcomes is the Risk Committee, with the Board, risk and actuarial functions as key stakeholders
- 43% have used the model to influence key decisions & do this 'sometimes'
- 54% claim the IM is completely aligned to their ORSA
- The majority have defined and approved their Internal Model governance, with the most common procedures around validation (76%)
- 61% have put in place a formal Internal Model governance committee
- Responsibility for IM governance is very inconsistent. The most common groups are a Committee (28%) and the existing risk function (25%) augmented by additional capital modellers (in 16% of cases)
- Most (50%) remain at an early stage of discussions with regulators over model governance
- The majority (61%) intend to complete validation within the 2nd line
- Model data quality remains a significant challenge