



# Use Test and Embedding

What does it all mean?

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# What are the key requirements?

## Key messages

**Foundation principle:** the undertaking's use of the internal model shall be sufficiently material to result in pressure to improve the quality of the internal model



Capital management and allocation

Decision making tool

Board understanding and involvement

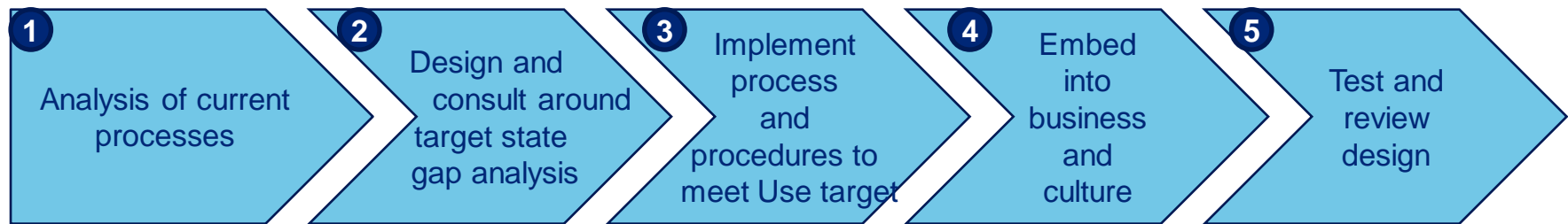
Risk management and monitoring

Internal model design fit for purpose

The key challenge is being able to **evidence** that these things are being done in practice

# How are insurers addressing this?

**Most insurers begin by reviewing existing risk management and decision making processes to identify opportunities.**



- 1** Mapping out the current way of doing things and reviewing the current level of analysis and documentation in place.
- 2** Keeping in mind the current position, identify how the internal model could be used, gain agreement with stakeholders and ensure requirements are fed into the design of the model. Carry out gap analysis against target state.
- 3** Implement process and procedures to meet Use test target state, determine resource requirements
- 4** Co-ordinate within programme wide communication plans. Embed the design into procedures, role profiles and committee terms of reference.
- 5** Through parallel running and with numbers from the internal model test how practical and effective the design is and whether any adjustments need to be made.

Although every insurer's approach to meeting the Use Test is individual, it is important not to underestimate the culture shift required to implement the requirements.

# What are the key challenges?

1. Understanding the actual requirements for meeting the Use Test.
2. Demonstrating the evidence of Use and the requirements for the Use Test are being met in practice on an ongoing basis.
3. Ensuring consistency and proportionality in embedding of the requirements.
4. Ensuring that the Use Test is given sufficient prominence throughout the Solvency II programme.

The key challenge is being able to **evidence** that these things are being done in practice

# What are the key lessons learned?

## How to make the approach more pragmatic

1. Engage stakeholders early on in the process.
2. Ensuring that the design is proportionate to the business.
3. Do not underestimate the culture shift required.
4. Reference and review existing materials.
5. Make the internal model accessible to users.

The key message is to embed the business into the internal model before embedding the internal model into the business



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