

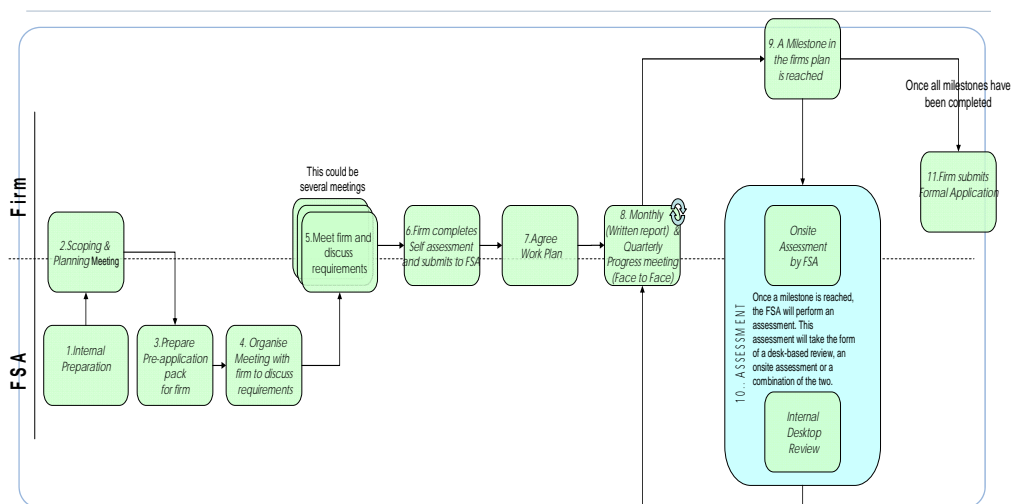
Life conference and exhibition 2010  
Catherine Henshall, Deloitte

# IMAP Update

17 February 2011

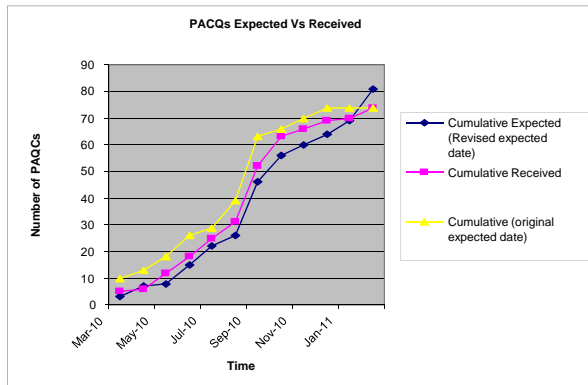
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## IMAP Pre-application process - overview



• Structure based on former CP80 Pre-application process for internal models

## IMAP – Firm Progress as at 08 February 2011



- 88 firms intending to apply for an Internal Model
- 74 PACQs Received to date
  - 60 firms in Pre-Application
- 14 more PACQ submissions due by the end of February

## Contents of application - CEIOPS

- CEIOPS have proposed the minimum contents of the application that firms should submit in their final internal model application to their supervisor/regulator in CEIOPS Doc 28-09 (former CP37).
- Firms are expected to have read the Contents of Application (CoA) and to have **tailored their project plan** so that they have the deliverables to complete the CoA.
- There is an updated version of this in the EC draft Level 2 implementing measures, Oct 2010.

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## Contents of application – Minimum content FSA

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- A) Covering letter
- B) Declaration re clarifications and omissions
- C) Application approval from management
- D) ORSA
- E) Scope of application
- F) Risk management process and profile
- G) Tests and standards
- H) Technical characteristics of internal model
- I) External models and data
- J) Model governance, systems and controls, organisational chart
- K) Independent review/ validation report
- L) Change policy
- M) Plan for future improvement
- N) Capital requirement

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## Contents of application – Minimum content

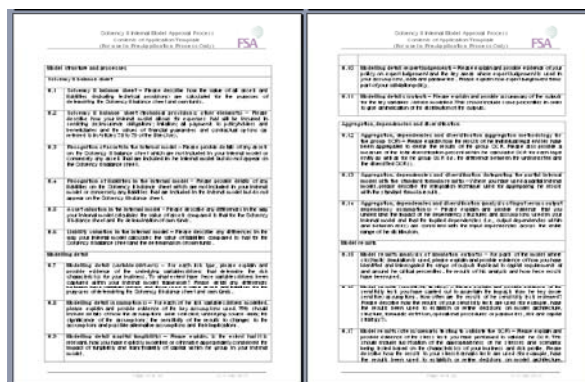
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- A) Covering letter
- B) Explanation of how IM covers the risks the entity faces
- C) Integration of IM with Risk management process
- D) Strengths limitations and short-comings of IM
- E) Technical characteristics of internal model
- F) Internal control system
- G) Adequacy of skills of those developing and validating the IM
- H) Independent validation report
- I) Change policy
- J) Use of third party models or data
- K) Capital requirement
- L) Identification of major business units
- M) Integration technique for Partial Internal Models

## Contents of application – FSA template

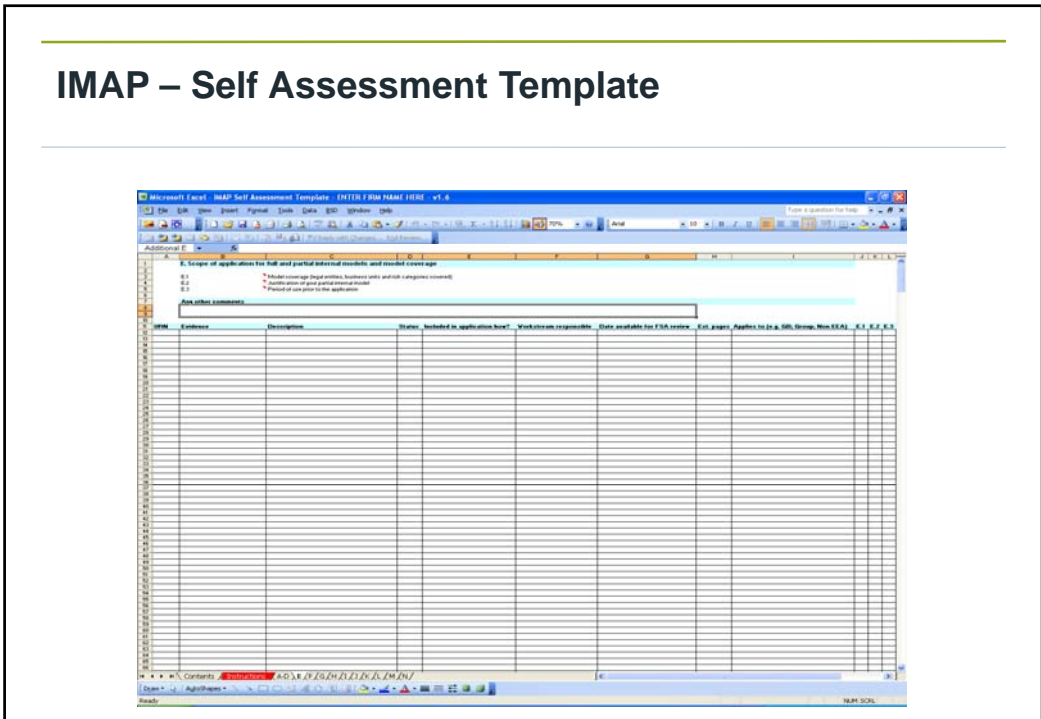
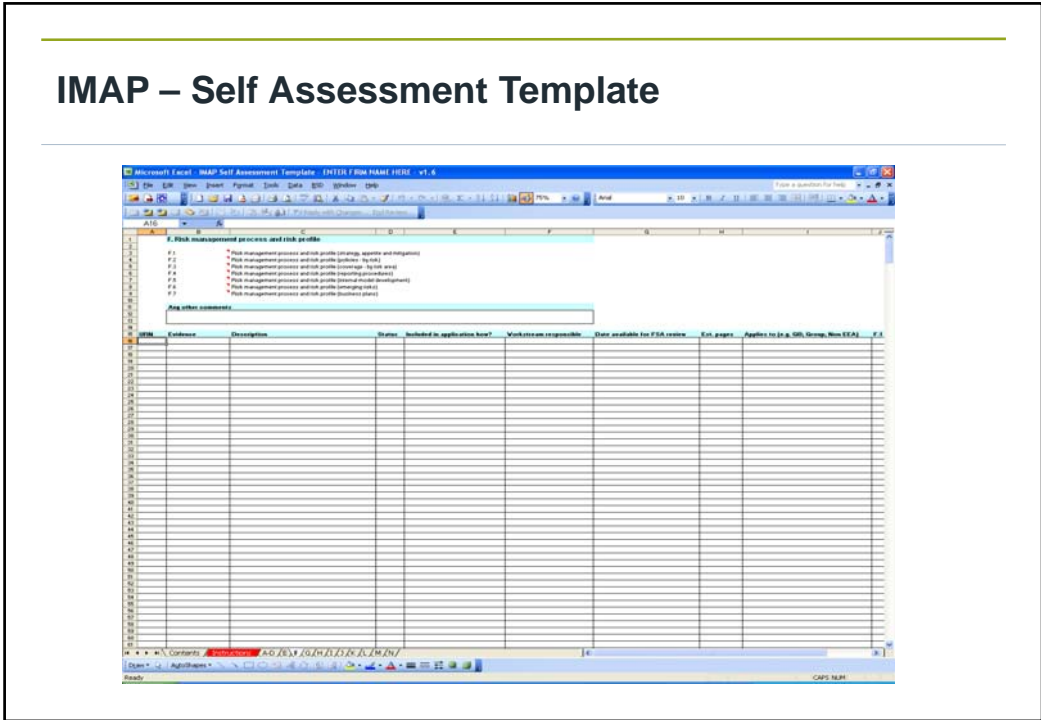
The FSA's CoA template unpacks the E - N using mainly:

- The Solvency II Directive, (the ultimate reference document)
  - System of Governance (Ceioops-Doc-29/09 former CP33)
  - Articles 120 to 126 Tests and Standards for Internal Model - Approval (Ceioops-Doc-48/09, former CP56);
  - Supervisory Reporting and Public Disclosure Requirements (Ceioops-Doc-50/09 former CP58)
  - Partial internal models (Ceioops-Doc-61/10, former CP65)



## Self Assessment template

- Firms will be asked to complete a self assessment template in the early stages of Pre-application based on FSA's Contents of Application template
- Firms find this very structured.
- FSA would view this structure as necessary when processing so many internal model applications.
- For some firms this template creates awareness of the level of detail and the degree to which the FSA is serious about reviewing models.
- Completion of the Self Assessment template is a significant hurdle for firms.



## Example from Contents of Application

F.5	<b>Risk management process and risk profile (internal model development)</b> – Please explain and provide evidence to demonstrate the extent to which the risk management function has been and continues to be involved in designing, implementing, testing, analysing performance, validating and documenting the internal model.
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- The question is about your risk management function. It requires you to demonstrate how the risk management function owns responsibility for the internal model
- You need to show for how the risk management function (a) has been involved in and (b) continues to be involved in:
  - Designing;
  - Implementing;
  - Testing;
  - Analysing performance;
  - Validating; and
  - Documenting
 the internal model

## Example from Contents of Application (cont.)

F.5	<b>Risk management process and risk profile (internal model development)</b> – Please explain and provide evidence to demonstrate the extent to which the risk management function has been and continues to be involved in designing, implementing, testing, analysing performance, validating and documenting the internal model.
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- Explain – the application must be a coherent document, set out with chapters and subchapters per CoA
- Evidence – the supporting information / proof that sits behind the application itself
  - Evidence is a mix of documents, systems, processes and people
  - FSA intend to carry out most of the review of detailed evidence during pre-app, by desk-based review, interview and on-site investigation
  - Some final assessment work will still need to be carried out post-application, especially to ensure processes are being followed

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## Work plan

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- At first firms are not expected to be near the standard they will be required to meet to gain approval – the purpose is to identify firms' progress to date and benchmark their model development plans.
- Following receipt of the completed self assessment, FSA will review the firm's self assessment and work plan and agree a schedule of work with the firm, including areas suitable for early review and assessment.
- This plan is impacting SII projects as those responsible for each IMAP deliverable manage to IMAP delivery dates.
- Allows FSA to manage its resources and best use its risk specialists.
- The self-assessment must be maintained and re-submitted to FSA via the Supervisor according to an agreed schedule.
- Firms progress will be monitored and communicated internally within FSA to management.

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## Challenges

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- FSA
  - Challenge to achieve consistency across firms
- Firms
  - Meeting the timeline
  - External uncertainty
  - Resource management

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## Preparations for the review and assessment phase

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- FSA is currently designing and developing high quality material for supervisors, actuaries and risk specialists across the FSA to assist the model review activity and ensure consistent implementation.
- This is being developed by teams working across the organisation to deliver fit-for-purpose and cost effective implementation of IMAP as part of SII programme for FSA and Firms.
- Working groups have been set up looking at: 1) risk management and use test; 2) model infra-structure; and 3) model methodology, assumptions and validation

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## FSA resources

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- IMAP actuaries
  - Actuaries specialised in SII and leading the Internal Model review work.
    - 100% of their time is focussed on IMAP.
    - Each IMAP actuary has their own portfolio of firms
    - IMAP actuaries will draw on other risk specialists for some of the review work.
- Life/GI actuaries
  - Traditional 'Line actuaries' who will become increasingly involved in SII and Internal Model approvals
    - Their time will be split between BAU on the current regime, and SII.
- Non-insurance risk specialists
  - Derivative, credit, interest rate, liquidity risk, operational risk specialists
    - Typically from a banking background and applying their skills to insurance.
- Supervisors
  - Governance and Risk management reviews
    - Drawing on ARROW experience, supervisors will lead the SII Governance and Risk management reviews



## Key themes

### • Use and Embedding

- Firms need to demonstrate a build up of Use between now and final model application.
- Firms should be using their Internal Model at least at the time they submit their final model application.
- Meeting the Use test in each solo entity and at group level is seen as a big challenge for some large global insurers.

### • Responsibility of Risk Management function with respect to Internal Models

- Article 44(5)
  - For insurance or reinsurance undertakings using a partial or full internal model...  
The risk-management function shall cover the following additional tasks:
    - a) To design and implement the internal model;
    - b) To test and validate the internal model;
    - c) To document the internal model and any subsequent changes made to it;
    - d) To analyse the performance of the internal model and to produce summary reports thereof;
    - e) To inform the administrative, management or supervisory body about the performance of the internal model, suggesting areas needing improvement, and up-dating that body on the status of efforts to improve previously identified weaknesses.

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## Key themes

### • Data

- As per Directive requirements (Article 121), firms should take appropriate steps to ensure that the data used for the Internal Model is accurate, complete and appropriate.

### • What should firms be doing as part of the IMAP process on groups?

- Show they understand the structure of the group. By this we mean, where are their holding companies, subsidiaries, branches, other mixed activity entities, other financial entities, participations etc?
- Analyse the group structure in line with the articles of the Directive and provide us with their understanding of where group supervision applies and reflect this in the pre-application process and meetings with FSA.
- Think about the scope of their model and which SCRs will be calculated and reflect this in the pre-application process and meetings with FSA.
- Ensure that subsidiaries are engaging with the relevant supervisory authorities.
- Consider any risks of being part of the group, for example intra group transactions.
- Factor potential impact of equivalence or non equivalence.
- Plan how information needs to be presented to College of supervisors.

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## Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

