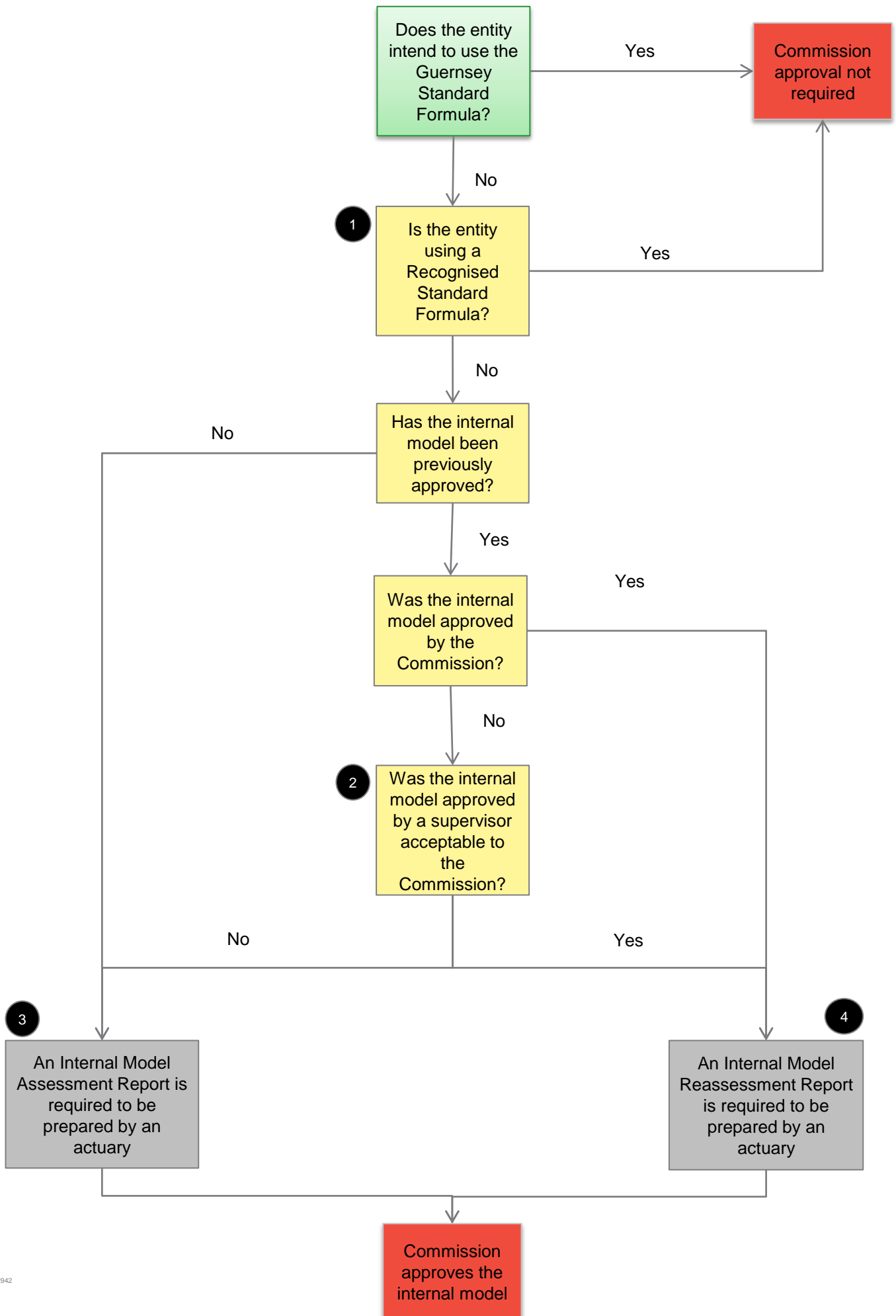




Guernsey Financial  
Services Commission

# **GUIDANCE NOTE ON INTERNAL MODELS**

# Use of Internal Model for Regulatory Solvency Purposes



# Use of Internal Model for Regulatory Solvency Purposes

1

## Recognised Standard Formulas List

The Commission determines and publishes a “Recognised Standard Formulas” list on the website. The standard formulas included on this list will be those deemed to provide a similar level of policyholder/beneficiary protection for regulatory capital adequacy purposes as provided by the Guernsey Standard Formula. Territories could include the EU (i.e. the Solvency II standard formula), Switzerland (i.e. the Swiss Solvency Test), South Africa, Bermuda, Japan, Australia etc.

2

## Internal Model Acceptance Criteria

The Commission determines criteria for obtaining approval to use an internal model in place of the Guernsey Standard Formula. The target criteria will be based on the IAIS core principles and standards. For example, (re)insurers could be required to validate the internal model by subjecting it, as a minimum, to three tests: a statistical quality test, a calibration test and a use test. The (re)insurer could also be required to maintain appropriate documentation of the model

The Commission assesses whether the internal model approval process undertaken by another supervisor is at least as equivalent as would have been undertaken by the Commission.

3

## Internal Model Assessment Report

The licensee must submit an Internal Model Assessment Report prepared by an independent actuary. The Internal Model Assessment Report is a comprehensive assessment of the licensee’s internal model against the Commission’s internal model acceptance criteria.

The cost, fees and expenses of the Commission approving the internal model will be borne entirely by the licensee.

4

## Internal Model Reassessment Report

The Commission determines target criteria for obtaining approval to use a pre-approved internal model in place of the Guernsey Standard Formula. The internal model will have been approved by the Commission or another acceptable supervisor for use by another (re)insurance undertaking (which may or may not be part of the same insurance group) or a group-wide basis. The target criteria will be based on the IAIS core principles and standards and focus on the appropriateness of the internal model to the risks of the Guernsey licensee.

The licensee must submit an Internal Model Reassessment Report prepared by an independent actuary. The Internal Model Reassessment Report is an assessment of the internal model against the Commission’s internal model reacceptance criteria.

The cost, fees and expenses of the Commission approving the internal model will be borne entirely by the licensee. The Commission expects the cost of obtaining approval for a previously approved internal model to be materially less than for a previously unapproved internal model.