

Opinion
of the European Insurance and Occupational Pensions
Authority of 2 May 2012 on
External Models and Data

Introduction and legal basis

1. As established in Article 29 of the EIOPA Regulation¹, with the aim to achieve a common supervisory culture EIOPA shall play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.
2. To this end, EIOPA has decided to provide an Opinion relative to the process for the approval of the use by undertakings of external model/data to calculate the Solvency Capital Requirement by using a full or partial internal model.
3. This Opinion is addressed to Supervisory Authorities as defined in Article 13(10) of Directive 2009/138/EC.

Process for the approval of the use of an External Model

4. As set out in the Article 112(3) of Directive 2009/138/EC in any application for approval, insurance and reinsurance undertakings shall submit, as a minimum, documentary evidence that the internal model fulfils the requirements set out in Articles 120 to 125 (tests and standards).
5. The process for the approval of the use of an internal model to calculate the Solvency Capital Requirement is between the Supervisory Authority(es) and the undertaking(s) applying for the use of the internal model to calculate the Solvency Capital Requirement.
6. Thus, during the assessment of whether the internal model complies with the tests and standards, the Supervisory Authority(es) will communicate directly with the undertaking(s).

¹ OJ L 331, 15.12.2010, p.48

7. An undertaking should provide the specific information required in order for the relevant Supervisory Authority to assess whether an internal model approval to calculate the Solvency Capital Requirement should be granted.
8. If the undertaking seeking approval for the use on an internal model to calculate its Solvency Capital Requirement fails to provide the specific information or documentation required by the relevant Supervisory Authority for an appropriate assessment of the application, the relevant Supervisory Authority should reject the application.
9. Article 126 of Directive 2009/138/EC sets out that: "The use of a model or data obtained from a third party shall not be considered to be a justification for exemption from any of the requirements for the internal model set out in Articles 120 and 125".
10. Therefore, undertakings, in order to get the approval of an internal model application which includes the use of an external model /data, should demonstrate to Supervisory Authorities compliance with all the requirements for internal model approval, including those related to tests and standards and model changes.
11. Supervisory Authorities are required to assess an internal model application which includes the use of an external model/data based on the appropriateness of the individual application, paying particular attention to the proper adaptation of the external model/data to the undertaking's risk profile as well as the undertaking's specificities.
12. In the specific case of undertakings using external models and/or external data, Supervisory Authorities may require any specific information about the external model and/or data in order to demonstrate compliance with the requirements.
13. As for the approval of the internal model for the calculation of the Solvency Capital Requirement, if the undertaking using an external model/data fails to provide the information required for an appropriate assessment of the application, the relevant Supervisory Authority should reject the application.
14. Further it is encouraged that, in the contract between vendors and undertakings, both parts specify how to deal with information to Supervisory Authorities for the approval of an internal model application which includes the use of an external model /data, so that there is no constraint for Supervisory Authorities to properly assess the application. Such an agreement or any possible contact of Supervisory Authorities with vendors should not to be considered to be a justification for exemption from the undertaking's own responsibility to demonstrate to Supervisory Authorities that the external model/data used fulfils the requirements and that it possesses an appropriate understanding of such external model/data.

Confidentiality

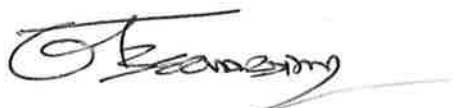
15. Regarding the confidentiality concern expressed by some vendors of external models/data, Supervisory Authorities should underline that confidentiality provisions are already applicable under the current regulatory system (Solvency I), in particular, Article 16 of the Consolidated Life Directive (Directive 2002/83/EC) and Article 16 of the Third Non-life Directive (Directive 92/49/EEC). These confidentiality requirements apply in respect of confidential information received by Supervisory Authorities during the pre-application process.

16. For the upcoming approval process, Directive 2009/138/EC, in its Article 64, provides for the protection of confidential information received by Supervisory Authorities: persons working for the Supervisory Authorities, as well as auditors and experts acting on behalf of those authorities, are bound by the obligation of professional secrecy. Moreover, Article 65 states that the provision on Article 64 shall not preclude the exchange of information between supervisory authorities of different Member States. Such information shall be subject to the obligation of professional secrecy laid down in Article 64.

17. Finally also EIOPA staff members are subject to the obligation of Professional Secrecy as established in Article 70 of the EIOPA Regulation.

This opinion will be published on EIOPA's website.

Done at Frankfurt am Main, 20 April 2012.



Gabriel Bernardino
Chairperson