Case Study: Solvency II Internal Models

A client needed to work out whether it should be seeking to adopt a full or partial internal model when calculating the Solvency II SCR. Nematrian was asked by the client to estimate the impact of the standard formula SCR using latest available guidance on what the standard formula might involve.

Because the calibrations proposed by the regulators changed several times, Nematrian re-computed its estimates as new guidance became available. The results indicated the sensitivity of the position to whatever rules would eventually be put in place under Solvency II. They also indicated the main risk areas for the client and the areas where use of a partial or full internal model might alter materially the client's overall SCR. This helped the client to decide whether to try to implement an internal model (and of what sort) and if so when to do so.

The overall conclusion reached was that the effort involved in adopting a formal internal model would be disproportionate relative to the benefits that might accrue from doing so. However, the lessons learnt were incorporated in a more informal manner in the firm's subsequent (internal) individual (economic) capital assessments.

If you would like to discuss how Nematrian could help you with Solvency II or implement internal models then please contact Malcolm Kemp at SolvencyII@nematrian.com.

Related material available via Nematrian website

Some of the analytics used by Nematrian to carry out these calculations have been packaged into web service functions accessible via the Nematrian Extensions part of the Nematrian website, see Nematrian Solvency II Tools.