



Guideline impact analysis statement

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I. Background

OSFI, in collaboration with the property and casualty (P&C) insurance industry, through the Minimum Capital Test Advisory Committee (P&C MAC), has developed criteria for the use of an internal model approach that may eventually be included in OSFI's capital framework for P&C insurance companies. The P&C MAC concluded its work in April 2018.

II. Problem Identification

If an insurer is approved by OSFI to use an internal model to determine regulatory capital requirements (internal model), the insurer has some flexibility in the design of their company-specific model to better measure and



manage the risks they face. However, the flexibility afforded by internal models can introduce risk. OSFI does not currently have any guidance specific for P&C insurance companies regarding the management of risk associated with internal models used for regulatory capital purposes.

III. Objective

OSFI believes that articulating its expectations for an internal model oversight framework provides a common source of reference for P&C insurance companies. Therefore, OSFI would like to provide clear expectations in the areas of internal model and data oversight, internal model risk control, the roles and responsibilities of certain stakeholders (e.g. internal audit) and documentation.

IV. Consultations

OSFI will issue for comment a draft version of Guideline E-25 *Internal Model Oversight Framework*. Comments received by August 30, 2019 will be considered in the development of the final guideline.

V. Recommendation

We recommend that OSFI issue for public consultation a draft version of the guideline that resolves the issues identified in section II and achieves the objectives set out in section III.

VI. Implementation

OSFI intends to finalize guideline E-25 *Internal Model Oversight Framework* for publication by the end of 2019.