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INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

STANDARD ON THE STRUCTURE OF REGULATORY CAPITAL REQUIREMENTS

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Standard on the structure of regulatory capital requirements

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1. A total balance sheet approach should be used in the assessment of solvency to recognise the interdependence between assets, liabilities, regulatory capital requirements and capital resources and to ensure that risks are appropriately recognised.

2. Establishing regulatory capital requirements

2. Regulatory capital requirements should be established at a level such that the amount of capital that an insurer is required to hold should be sufficient to ensure that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due.

3. Solvency control levels

3. The solvency regime should include a range of solvency control levels which trigger different degrees of intervention by the supervisor with an appropriate degree of urgency.

4. The solvency regime should ensure coherence between the solvency control levels established and the associated corrective action that may be at the disposal of the insurer and/or the supervisor. Corrective action may include options to reduce the risks being taken by the insurer as well as to raise more capital.

4. Regulatory capital requirements as triggers for supervisory intervention

5. The regulatory capital requirements in a solvency regime should establish a solvency control level which defines the level above which the supervisor would not require action to increase the capital resources held or reduce the risks undertaken by the insurer. This is referred to as the Prescribed Capital Requirement (PCR).

6. The PCR should be defined such that assets will exceed technical provisions and other liabilities with a specified level of safety over a defined time horizon.

7. The regulatory capital requirements in a solvency regime should establish a solvency control level which defines the supervisory intervention point at which the supervisor would invoke its strongest actions, if further capital is not made available. This is referred to as the Minimum Capital Requirement (MCR).

8. The solvency regime should establish a minimum bound on the MCR below which no insurer is regarded to be viable to operate effectively.

5. Approaches to determining regulatory capital requirements

9. The solvency regime should be open and transparent as to the regulatory capital requirements that apply. It should be explicit about the objectives of the regulatory capital requirements and the bases on which they are determined.

10. In determining regulatory capital requirements, the solvency regime should allow a set of standardised and, if appropriate, other approved more tailored approaches such as the use of (partial or full) internal models.

5.1 Risks to be addressed

11. The solvency regime should be explicit as to where risks are addressed, whether solely in technical provisions, solely in regulatory capital requirements or if split between the two, the extent to which the risks are addressed in each. The regime should also be explicit as to how risks and their aggregation are reflected in regulatory capital requirements.

5.2 Calibration of regulatory capital requirements

12. The supervisor should set out appropriate target criteria for the calculation of regulatory capital requirements, which should underlie the calibration of a standardised approach.

13. Where the supervisory regime allows the use of approved more tailored approaches such as internal models for the purpose of determining regulatory capital requirements, the target criteria should also be used by those approaches for that purpose to ensure broad consistency among all insurers within the regime.

6. Supervisory review

14. The solvency regime should be designed so that any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework, are proportionate according to the target criteria and are only expected to be required in limited circumstances.

7. Supervisory reporting and public disclosure

15. The solvency regime should be supported by appropriate public disclosure and additional confidential reporting to the supervisor.