

A Road Map to the Strengthening of an Insurer's Solvency

Insurers will face two big challenges in Korea: Solvency capital requirements and New insurance accounting. In 2011 Korean solvency system for insurance company moved to US-based solvency system (RBC) from EU-based solvency system; Korean financial supervisory authority plans to raise the confidence level of capital requirements to 99 percent in line with global regulatory developments until 2015. Current liability adequacy test is expected to move to the IFRS-based valuation principle around 2018.

However, capital requirements and insurance accounting are being reinforced respectively without comprehensive blue print for their implementation, which makes their implementation uncertain.

In this report, we suggest a road map to the strengthening of an insurer's solvency as follows based on the assessment of the influence of new capital requirements and new insurance accounting on the solvency position of an insurer:

1. Preparing for market-based insurance liability valuation and reinforcing the qualitative assessment of solvency system; then,
2. Reinforcing the quantitative assessment of solvency system.

Finally, we suggest that the financial authority eases conditions for issuing bond and revises regulations for reinsurance and derivative products to handle risk management efficiently.