A Study on the Introduction of the RBC Internal Models to Korean Insurance Market

This paper presents some guidance on how to introduce the Risk-based Capital (RBC) internal models to Korean insurance market. The Financial Supervisory Services (FSS) plans to replace its current solvency regulation with a new one, RBC in 2011 and to also introduce internal models as an alternative to the standardized RBC formula.

Insurers are expected to have opportunity to develop and use internal models for calculating and reporting their RBC requirements to the FSS. However, the plan for RBC internal models is not fully concrete yet. This paper explores foreign cases of solvency capital requirements using internal models and observes what motivates insurers to use internal models in Korean insurance market. Our suggestions are as follows:

First, it is desirable for insurers to use internal models for all the risks that they face; as a result, selective use of internal models should not be allowed. Second, requirements of an internal model needs to be more clear, which makes insurers meet them practically in implementing it. In this context, the RBC standard model needs to be aligned with internal models for their soft landing. Finally, more specific road map for the roles of internal models in enterprise risk management is required.