

Risk-based insurance solvency regimes – Executive Summary

A key regulatory measure to safeguard insurers' solvency is the implementation of a risk-based solvency (RBS) regime. Such a regime is designed to incentivise insurers to hold sufficient capital to cover their risks, enabling them to meet their obligations to policyholders, even in adverse circumstances. Transitioning to an RBS regime represents a significant undertaking, involving comprehensive regulatory reforms, extensive training and capacity-building for both supervisors and industry, effective project planning and continuous engagement with stakeholders.

Many emerging market and developing economies are embarking on this journey, which often spans several years. Against this backdrop, the International Association of Insurance Supervisors (IAIS) published the *Guidance on transitioning to a risk-based solvency (RBS) regime* to provide a structured roadmap for supervisors and policymakers to establish a robust RBS regime.

What is an RBS regime?

An RBS regime is a regulatory framework that requires insurers to maintain a sufficient level of capital that is proportionate to cover their risk profiles and withstand financial difficulties, supported by a sound corporate governance framework. An RBS regime is composed of three types of key elements:



Quantitative elements: These elements include valuation methodologies for assets and liabilities, treatment of investments, the calculation of capital requirements, recognition of capital resources and the resulting solvency ratio.



Qualitative elements: These elements focus on the governance frameworks in insurers, including oversight roles and responsibilities, and governance structures such as the risk management system, internal control system and control functions.



Reporting and disclosure elements: These elements encompass supervisory reporting and public disclosure requirements of both quantitative and qualitative information.

An RBS regime can take many forms, involving different combinations of these elements and varying in complexity. The final form of an RBS regime will depend on the characteristics of the jurisdiction, such as its economic activity and conditions, the development of financial markets, demographics and culture, the size and sophistication of its insurance sector, and the technical capacity of the supervisor.

Benefits and challenges of transitioning to an RBS regime

Supervisory authorities may choose to transition to an RBS regime for several reasons. Such a framework can enhance the protection of policyholders by providing supervisors with a deeper understanding of insurers' business models and risk profiles. It also supports the development of insurance markets through proportional application of regulatory requirements based on the size and complexity of insurers, allowing new entrants to gradually meet requirements as they grow. Additionally, an RBS regime contributes to financial stability when insurers hold sufficient capital relative to their risks, enabling early risk identification

and mitigation to prevent the build-up of systemic risk. Finally, aligning with international standards and best practices helps position a jurisdiction as an attractive and secure environment for international insurers.

Implementing an RBS regime involves significant challenges. These include high implementation costs, such as IT upgrades, developing actuarial expertise, training and the development of robust data management systems. It also requires cultural shifts within supervisory authorities and the insurance sector, fostering a risk-based mindset and aligning practices with the new regulatory framework. Additionally, supervisors and insurers may need time to adjust their governance and organisational structures.

Key considerations for transition

Transitioning to an RBS regime is a significant step that requires a long-term perspective. The complexity of an RBS regime should align with a jurisdiction's characteristics. In some cases, other market development initiatives may take priority. The following are key considerations when transitioning to an RBS regime:

- **Tailoring to the jurisdictional context** – Transition strategies should reflect economic conditions, market maturity, demographic and cultural factors, and the sophistication of the insurance sector and the technical capacity of the supervisor.
- **Long-term project planning** – Implementing RBS typically spans medium- to long-term horizons. Careful planning, strong governance, transparent timelines, sound project risk assessment and management, and clear communication plans are recommended.
- **Implementation approaches** – There are multiple ways to structure the implementation of an RBS regime. Jurisdictions may choose a conceptually led approach, where the initial consultation focuses on the objectives and design of the regime, or a legislation-led approach, where the legal framework is established first and technical details are added later. Jurisdictions will also have to decide to adopt a phased approach, where components of the RBS regime are introduced gradually (eg starting with qualitative elements like governance, followed by quantitative requirements), or an approach where all elements are implemented simultaneously.
- **Capacity-building** – Investment in human resources, particularly actuaries, risk managers and IT professionals, is critical. Supervisors should also build internal expertise to oversee RBS processes effectively.
- **Stakeholder engagement** – Engaging insurers, government bodies and other stakeholders through consultations, field testing and workshops can provide transparency, buy-in and smooth implementation.

Practical aspects of RBS regime implementation

Implementing an RBS regime begins with careful scoping, securing endorsement from supervisory leaders and governments, and establishing dedicated teams and governance structures to manage the transition. A comprehensive project plan defines rules of conduct, milestones, communication strategies and risk management processes. Key design choices, such as whether to legislate early or later and whether to phase in reforms or adopt a comprehensive rollout, shape the pace of implementation. Stakeholder engagement, particularly with the insurance industry, is critical: insurers contribute data, participate in consultations and support field testing, which validates design decisions and ensures the readiness of systems before full adoption.

The transition often requires legislative reforms across multiple policy domains and a cultural shift among supervisors and insurers towards proactive, risk-based thinking. Jurisdictional experiences

show that implementation generally takes five to 10 years or more, with success depending on sustained political support, transparent communication and a pragmatic balance between ambition and market realities.

Technical aspects of RBS regime implementation

The technical foundation of an RBS regime lies in building a coherent solvency framework that balances international standards with local realities. Central to this is the total balance sheet approach, which requires supervisors to specify valuation approaches, define qualifying capital resources and establish capital requirements anchored in prescribed and minimum capital requirement control levels to ensure adequate policyholder protection. These quantitative rules are complemented by qualitative requirements, such as governance, enterprise risk management and own risk and solvency assessment, that enable insurers to identify, measure and manage risks effectively. Disclosure requirements further enhance transparency and promote market discipline.

Technical design involves key decisions, including whether to base valuation on financial reporting standards, like International Financial Reporting Standard 17 – Insurance Contracts, or develop bespoke solvency balance sheets; how to calibrate capital charges for insurance, market, credit and operational risks; and how to aggregate them consistently. Proportionality is critical, particularly for emerging market economies, where simplified approaches, phased calibration and transition periods may be necessary to maintain credibility without undermining market growth.

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