Guidance on transitioning to a risk-based solvency (RBS) regime

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The mission of the IAIS is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders
- Contribute to global financial stability

More than **200** jurisdictions,

constituting **97%** of global insurance premiums,

represented by **38** members of our Executive Committee

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Risk-based Solvency Implementation Forum

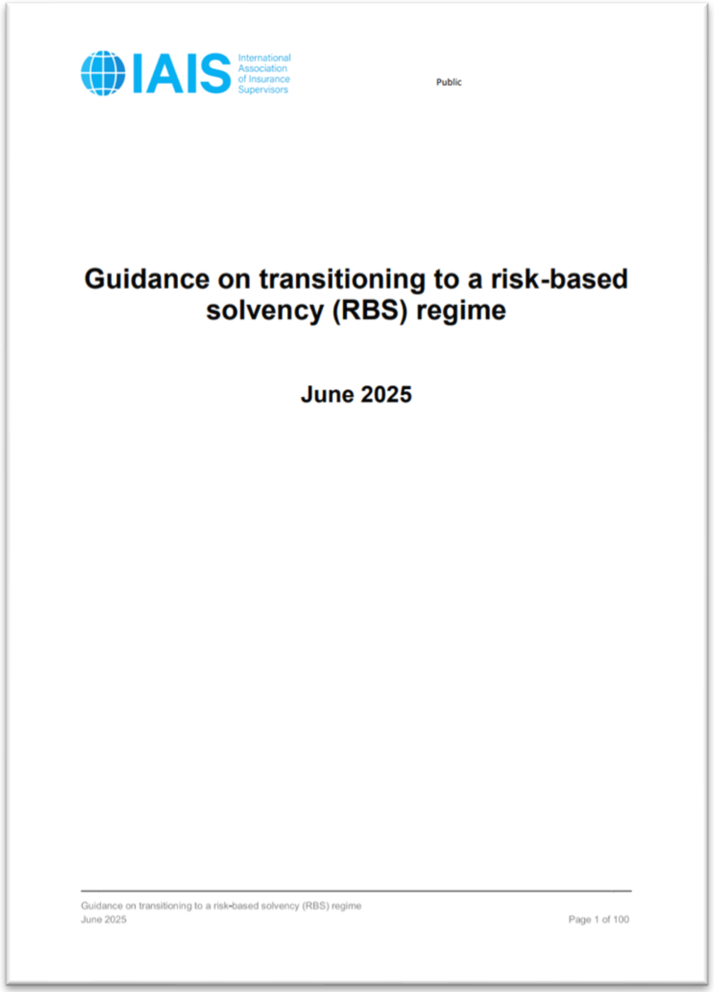
The RBSIF aims **to support EMDE jurisdictions to advance their observance of the IAIS supervisory material and strengthening Members' supervisory frameworks by fostering the transition towards Risk-based Solvency (RBS) regimes**. The forum shall provide an ongoing and flexible peer-exchange platform for insurance supervisors to discuss and exchange experiences on issues and challenges as well as on technical topics for implementing RBS.

Developing Member-only guidance for EMDE supervisors on practical aspects of implementing an RBS

Facilitating the exchange of experiences amongst supervisors on the transition to, and technical aspects of, RBS regimes

Guidance on transitioning to an RBS regime

- **Objective:** To provide **practical guidance** to supervisors who are intending to transition to a risk-based solvency (RBS) regime.
- Provides guidance on **key considerations in the design of an RBS regime** and the process of implementing such a regime.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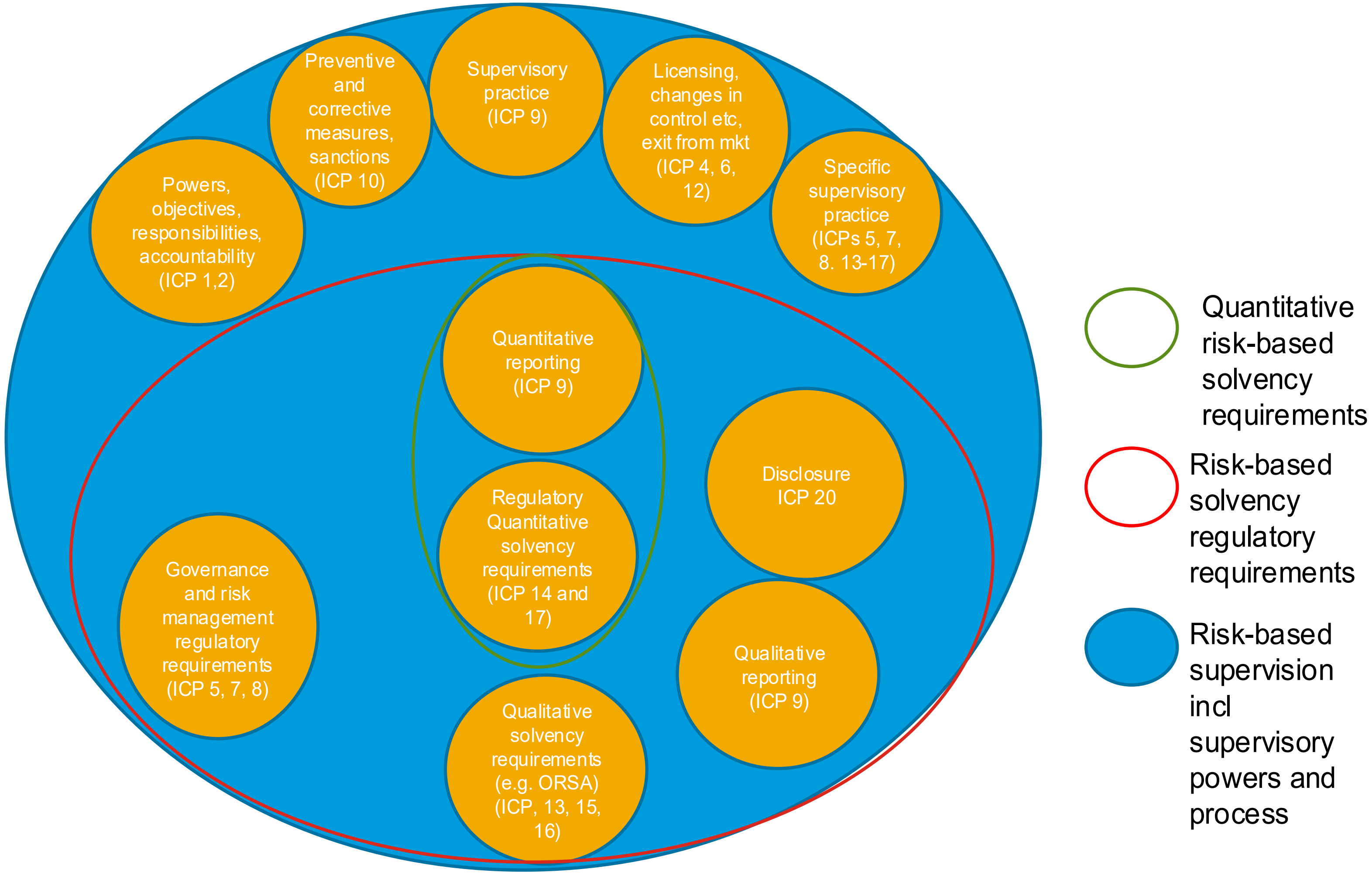
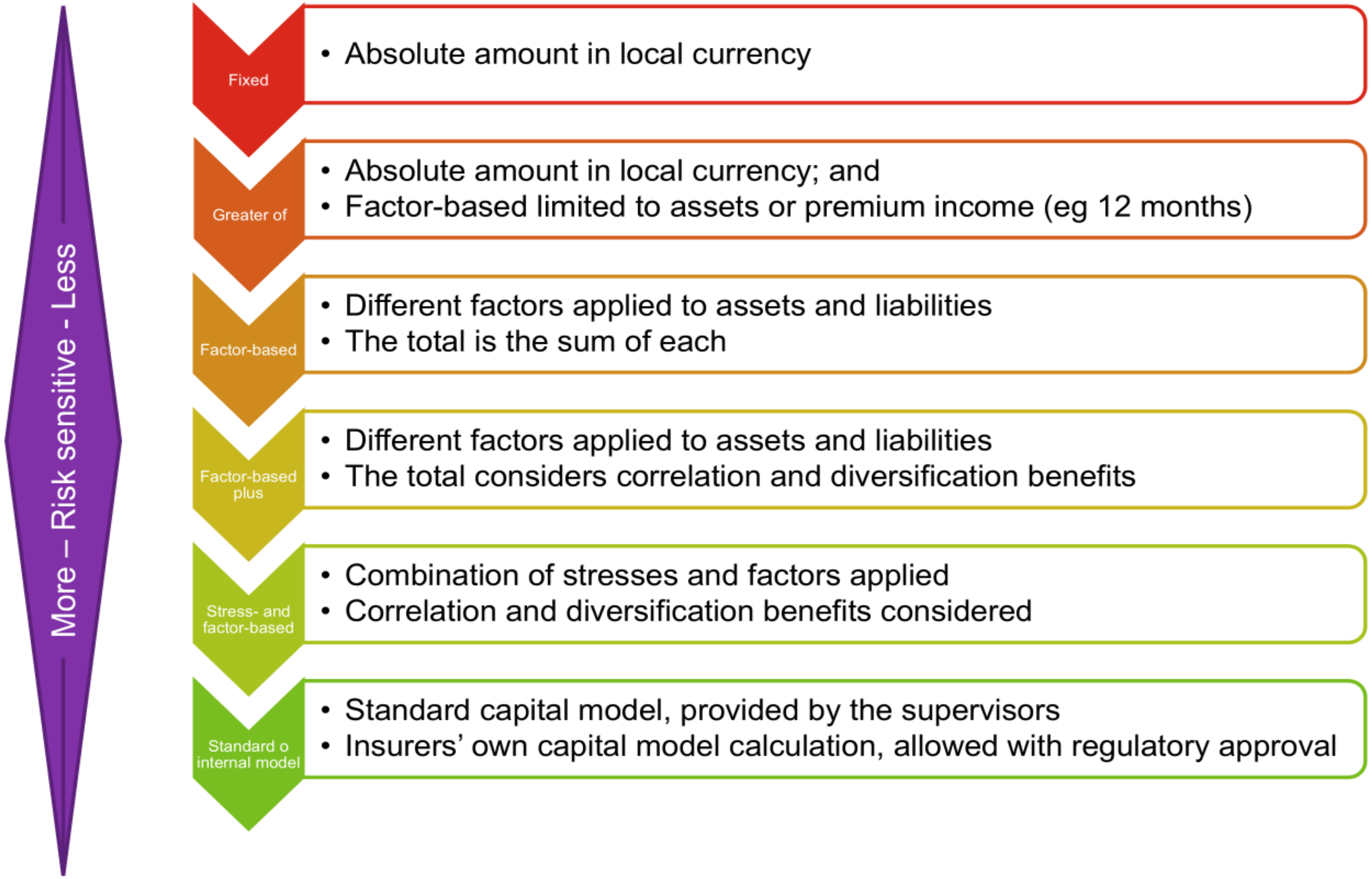
What is RBS and why Implement it?

Risk based solvency (RBS) is a 'comprehensive, formally structured regime, both **quantitative** and **qualitative**, that ensures insurers maintain a capital adequacy level commensurate with their risk profiles to guarantee that they have enough financial resources to withstand financial difficulties, supported by a sound **corporate governance framework**, in particular an **enterprise risk-management system.**



Stages of capital calculation



Advantages and costs of implementation

- Transitioning to RBS should be take into account the advantages and costs of implementation

Drivers for implementing RBS
Alignment with ICPs
Stronger risk management culture in insurers
Support capital efficacy and market development
Closer integration of macro and micro prudential supervision
Tap into international markets

Implementation costs
Adequate supervisory resourcing
Software and IT infrastructure
Insurers may need to recruit additional resources
Organisational structure of supervisors and insurers
Training and capacity building

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General considerations for implementing RBS

- Regulatory initiatives should take into consideration the **environmental factors** of each jurisdiction and tailored to the specific **market circumstances**.
- Consideration of each of these factors should inform the steps that need to be taken in an RBS project, the type of RBS regime to be chosen and implementation approach.

Economic conditions and activities	Unstable economic policies	Ineffective fiscal and monetary policy	Partially effective fiscal and monetary policy	Stable fiscal and monetary policies	Sophisticated fiscal and monetary policy
Financial markets	Only bank deposits available	Primary market for gov bonds and bank deposits	Secondary market for gov bonds	Secondary market for financial instruments	Sophisticated financial instrument and derivatives markets
Demographics and culture	Agrarian society, no knowledge of insurance	Young population, little knowledge of insurance	More mature population, some understanding of insurance	Maturing population, widespread insurance usage	Maturing population, sophisticated use of insurance
Insurance sector	Simple - Motor and Fire and mutual aid	Simple + Motor third party liability insurance (MTPL) and Long-tail non-life	Mix of non-life plus term life and health protection	Sophisticated non-life market, life/health protection and saving products	Sophisticated non-life market, long-term saving and annuity products
Balance sheet	Rudimentary financial information	Basic balance sheet	Simple positions, incl insurance specific positions	Medium complexity of positions and risk, simple reinsurance and dependencies	Complex positions, risk factors, reinsurance and dependencies
Supervisory authority	Small size – less than 5 insurance supervisors	Small-medium size – less than 20 supervisors	Medium size – no actuaries, few other qualified professionals	Medium-large size – some actuaries, accountants, lawyers, economists	Large size – all necessary skillsets for sophisticated supervision

Less sophisticated → More sophisticated

RBS regimes	Fixed	Greater of	Factor-based	Factor-based +	Stress- & factor-based	Standard or internal model

Less risk sensitive → More risk sensitive

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Practical aspects of implementing RBS

Project start-up phase

- Scope of the project
- Endorsement by Executive Authority
- Government buy-in and endorsement
- Establishment of project teams
- Project plan put in place
- Formal launch for the project

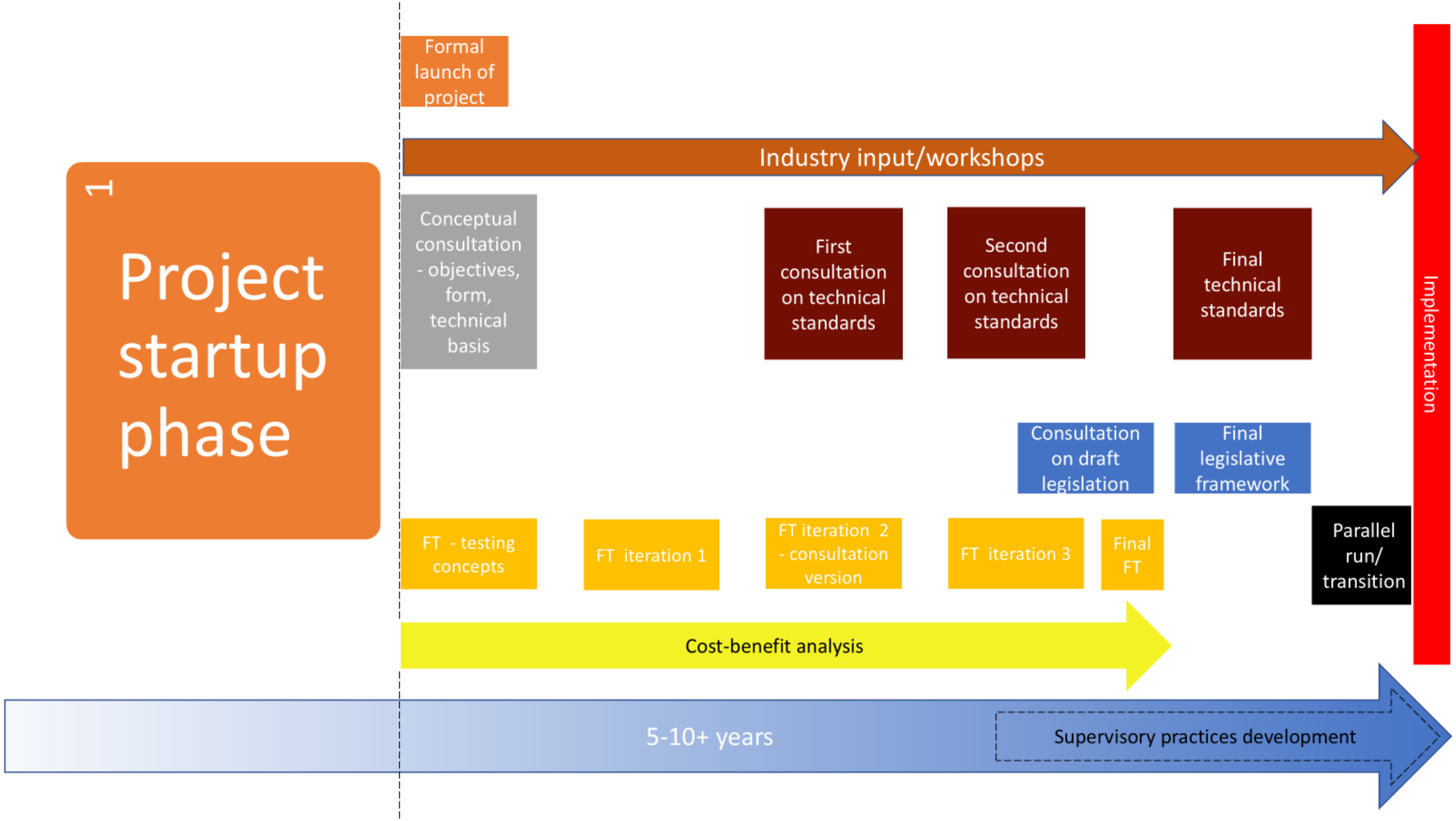
Project plan

- Establish project governance and structure
- Set goals
- Prioritize tasks and create activity schedule
- Assess risks
- Develop communication plan
- Asses and report on progress

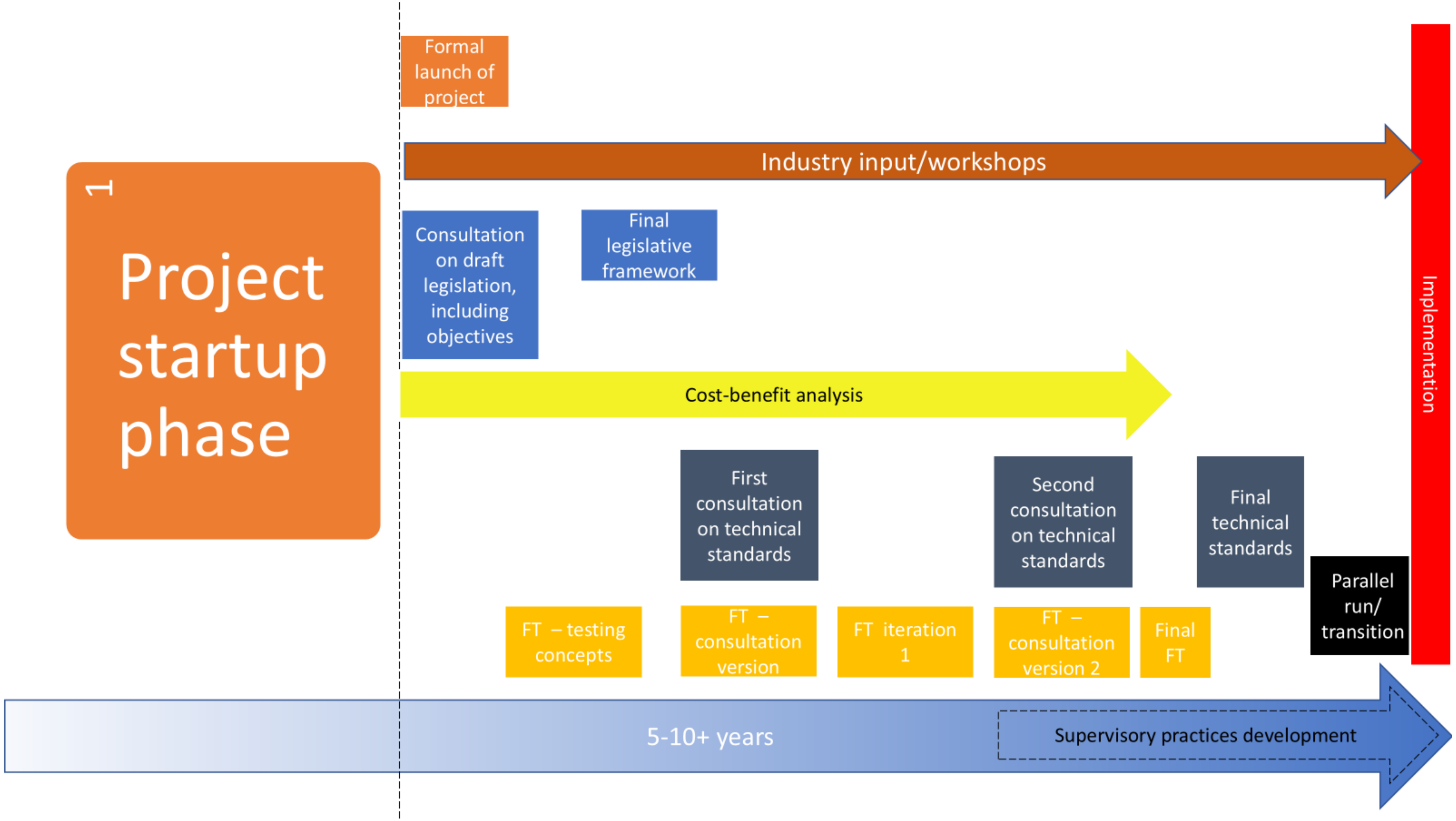
Implementation stages

- **Conceptually-led**: Initial consultation informs design.
- **Legislation-led**: sets out the broad legislative framework with technical details to be added later through other legal instruments
- **Phased** approach or **big-bang** approach

Example of a consultation led process



Example of a legislation led process



Key takeaways (1)

RBS is a comprehensive framework

- RBS integrates **quantitative** (capital adequacy), **qualitative** (governance), and **disclosure** requirements.
- Focus on fostering a **risk-aware culture** for insurers and supervisors alike.

Not a cookie-cutter approach

- RBS is not one-size-fits-all—jurisdictions must tailor frameworks to their **local market conditions**.
- Avoid "copy-pasting" advanced market models; focus on **practical adjustments** for emerging markets.

Think Years, Not Months

- Transitioning to RBS is a **medium- to long-term journey**, not a quick fix.
- Success requires **careful planning, strong governance**, and sustained efforts over time.

Start the conversation

- Early buy-in is critical: engage **government, supervisors and industry stakeholders** to build consensus.
- Establish a **clear project plan** with accountability and transparency to maintain momentum.

Key takeaways (2)

Collaborate, Communicate, Continue

- Effective stakeholder engagement is key: use **consultations, field testing, webinars, and informal channels** to build trust.
- RBS implementation involves cultural change—invest in **training, technology, and capacity-building**.

Build your regime brick-by-brick

- For EMDEs - start with **simplified approaches** (eg, ORSA, reporting) and scale up as expertise matures.
- Balance **market development goals** with policyholder protection to ensure sustainable growth.

- The IAIS guidance offers a range of considerations and practical examples, **not rigid rules**.
- Jurisdictions should adapt RBS principles to their unique **economic, market and supervisory contexts**.

Q&A