TITLE: Capital Adequacy Requirements for Life Insurers under the Canadian, US and the proposed EU Solvency II regulatory frameworks

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ABSTRACT: In many countries around the world, the solvency regulation of insurance companies is moving from rules-based to principles-based approaches. A principles-based approach to solvency assessment allows the reserve and capital requirements to be tailored to the specific risk characteristics of the insurance product or portfolio. The insurance regulators in Canada, US and European Union are at different stages in developing principles-based capital frameworks. The aim of this paper is to investigate some of the more important differences among the current US, Canadian and proposed EU Solvency II standard regulatory frameworks, using capital requirements for a hypothetical term life insurance portfolio as the main tool of the investigation. The shortcomings in these standard approaches to capital determination provide the motivation for adopting more fully principles-based regimes based on internal capital models.