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A Shortcut to Calculating Return on Required Equity and Its Link to Cost of Capital

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<u>Abstract</u>

An insurance product's return on required equity demonstrates how successfully its results are covering the company's basic capital. Using some simplified assumptions, it is possible to calculate this return ratio and decompose it without a full projection of liabilities. Based on the relationship between the return on required equity and the risk-based capital target, an optimal company RBC-level calculation is possible and the corresponding cost of capital can be calculated.