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Mayukh Gayen

ECONOMIC CAPITAL APPROACHES AND SOLVENCY OF UK ANNUITY PORTFOLIOS

Mayukh Gayen

*School of Mathematics, Statistics and Actuarial Science,
University of Kent, Canterbury,
United Kingdom, CT2 7NF*

Abstract

Insurance firms are required by regulators to back their risks using adequate amounts of risk-based economic capital. Proposed introduction of Solvency 2 regulations in 2014 shows a move towards such risk-based assessments. However, economic capital calculation approaches can have different philosophies, and implications of those on the solvency of a business could be different. Here we present a hypothetical example of a UK term annuity firm and study its solvency over the period 1985-2010 under various economic capital calculation approaches. We found that not all definitions can ensure solvency under actual movements of UK economy and demography over the period.