IC-92 – Actuarial Aspects of Product Development

Original Text in book
Chapter 13 Page no.305

2. Calculation of RSM:

There are mainly two approaches to calculate RSM.

Factor based approach: This approach uses mainly two factors as a percentage of reserve and sum at risk to calculate the solvency margin. Factor based on reserve is usually higher than factor based on sum at risk.

This is a simplistic approach and is followed in India as well. These factors are known first factor and second factor respectively for reserves and sum at risk.
First factor is further multiplied by K1 which is 0.85 or (reserve after reinsurance / reserve before reinsurance) whichever is higher.

Second factor is further multiplied by K2 which is 0.5 or (sum at risk after reinsurance / sum at risk after reinsurance) whichever is higher.

RSM is calculated as:

(First factor x K1 x Reserves) + (Sum at risk x K2 x Sum at risk)

Sum at risk is calculated as death benefit minus reserves.

Revised text as below
Chapter 13 Page no.305

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Original Text in book
Chapter 13 Page no.310 Summary point c)

c) The Actual Solvency Margin (ASM) is the excess of assets over liabilities.

Revised text as below
Chapter 13 Page no.310 Summary point c)

c) The Available Solvency Margin (ASM) is the excess of assets over liabilities.

Original Text in book

Chapter 13 Page no.308

Test Yourself 1

Which of the following represents an excess of assets over liabilities?

I.   Required solvency margin
II. Actual solvency margin
III. Risk based capital
IV. Available solvency margin

Answer of the above question as per text book

Chapter 13 Page no.311

Answers to Test Yourself

Answer 1

The correct option is II.

Actual solvency margin represents an excess of assets over liabilities.

Revised answer as below

Chapter 13 Page no.311

Answers to Test Yourself

Answer 1

The correct option is IV.

Available solvency margin represents an excess of assets over liabilities.