General		
Notation	• SCR → Solvency Capital Requirement • MCR → Minimum Capital Requirement	
Free Surplus	IFRS Assets Available − SCR Assets Required • SCR Assets Required = Technical Provision + SCR • MCR Assets Required = Technical Provision + MCR • Technical Provision = Best estimate of liabilities + Risk Margin	
Regulator Intervention	IFRS Assets ≥ SCR Assets Required	No Actions
	MCR Assets Required ≤ IFRS Assets < SCR Assets Required	Regulator will intervene
	IFRS Assets < MCR Assets Required	Company can no longer operate

Calculation	
Risk Margin	$$\sum^{\text{All Years}} \frac{(\text{Cost of Capital in Year})}{(1+i)^t}$$ • Cost of Capital in Year = SCR ∗ (R − i) • SCR corresponds to the 99.5^{th} percentile • i = Risk-Free Rate + **Illiquidity Premium** • R → Cost of capital • t → Assume year end payments. t = 1,2 …,
SCR Assets Required	Risk Margin + Best Estimate Liabilities + SCR • This can be used to determine regulator intervention per the table above