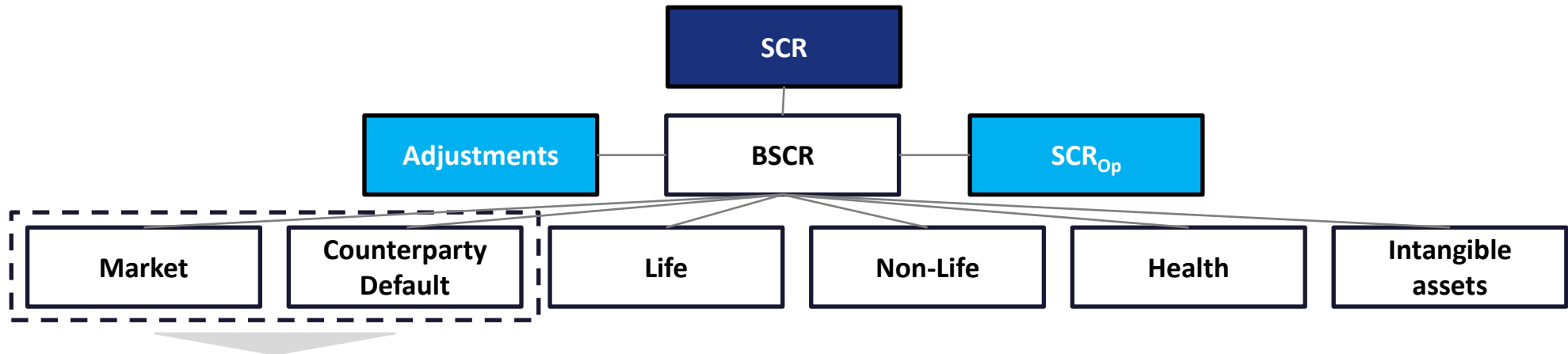


The Basic Solvency Capital Requirement (BSCR) aggregates various risk sub-modules using a correlation matrix. It is then adjusted for operational risk and loss absorption (from technical provisions and deferred taxes) to determine the Solvency Capital Requirement (SCR).



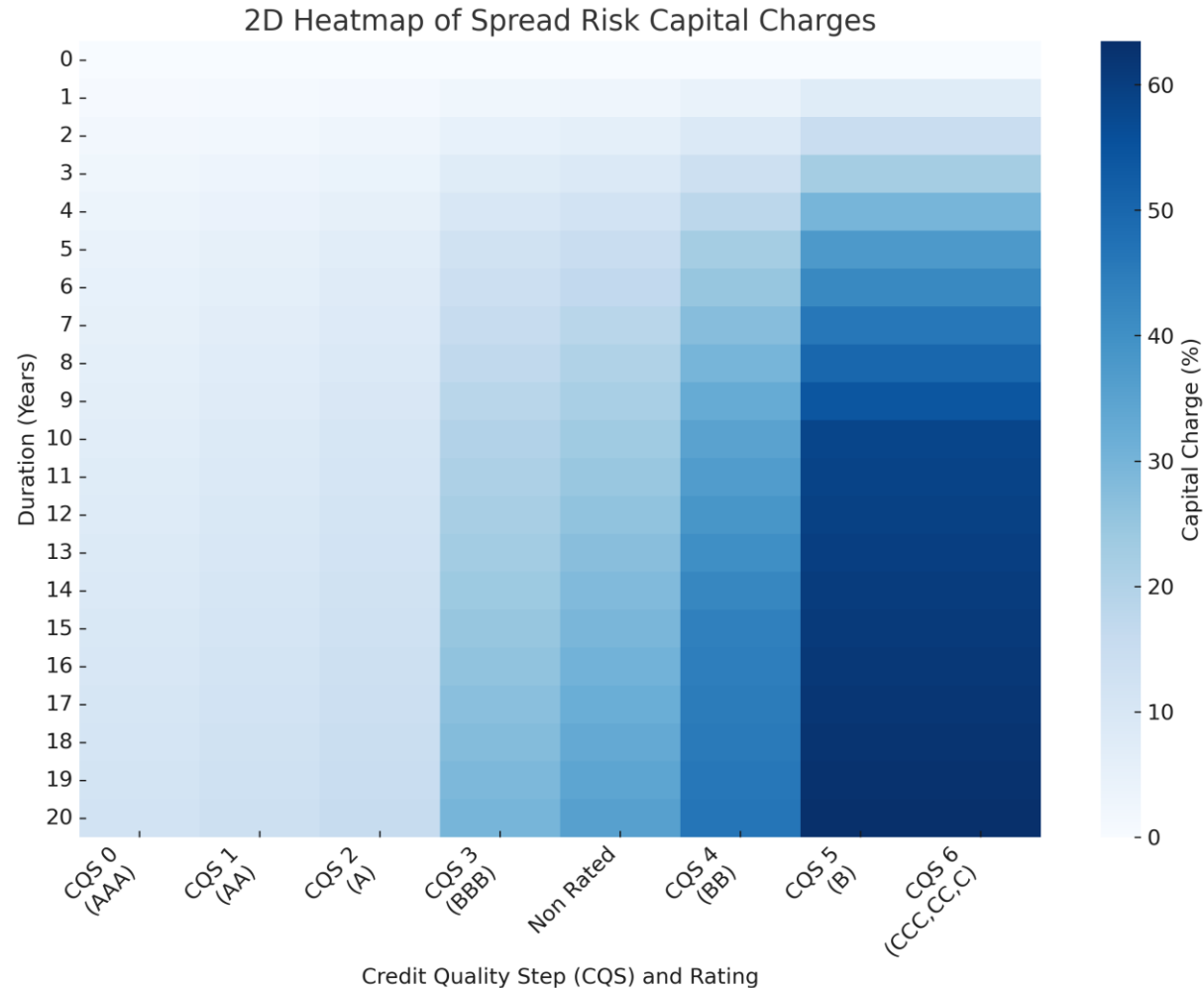
Credit Ratings directly affect the capital requirements in both the Counterparty Default and Market risk modules.

- The **Counterparty Default** risk module uses ratings and Credit Quality Steps (CQS) to determine capital charges for losses due to a counterparty's failure to meet its obligations.
- The **Market** risk module—often 70–80% of life insurers' BSCR—is largely driven by exposure to fixed-income assets. It includes several sub-modules, including interest rate, equity, property, currency, concentration and spread risks - the latter being crucial due to bonds' sensitivity to credit spread changes in line with long-term liabilities. Hence, the next slide focuses on the SCR_{Spread} and it will be illustrated for Corporate Bonds & Loans .

About EACRA: The European Association of Credit Rating Agencies (EACRA) is a platform for cooperation among EU-based Credit Rating Agencies (CRAs). Our mission is to support CRAs in meeting regulatory requirements through effective communication, cross-border knowledge sharing, and the promotion of best practices. EACRA also seeks to advance the understanding and value of Credit Ratings within the financial community and among the general public, while advocating for the interests of CRAs across Europe. Established in November 2009 and registered in Paris, EACRA is listed in the French Association Directory (N° W751202513) and the EU Transparency Register (ID 24205924101-57).

Spread Risk Capital for Corporate Bonds and Loans

Capital charges increase with credit risk and duration (and vice versa)



Source : Calculations based on Solvency II - Article 176 - Spread risk on bonds and loans. Par. 3-4

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