Basel iii, solvency ii

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Basel III Basel III is an international regulatory for banks. It consist a set of standards and practices for the bank to make sure the banks maintain the sufficient capital when there is an economic strain. Basel III formed after global financial crisis that happens in year 2008. It was first published in 2009 and will be start implement on 1 January 2013. To make sure the banks have sufficient capital, Basel III has some new regulatory on bank leverage and also its liquidity. Solvency II

Solvency II is a basic review of adequacy of capital for the European insurance industry. It aims to revise a set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. For instance, most European insurers are obliged to implement the full Solvency II requirements by January 2013. As such, it will be a major driver for the development and embedding of Enterprise Risk Management (ERM) for the insurance industry. Difference between Basel III and Basel I & II Basel III varies from Basel I and Basel II.

Basel I is create and used to strengthen the stability of global banking system while standardize capital requirement by using regulatory control. The weakness of Basel I is banks are expose to excessive risk because of the freedom in giving loan. Basel II develops from Basel I, it makes improvement on standardize the capital regulation and increase the risk management between the banks. Unlike Basel I, Basel II required banks to make analyze on the ability of corporate in pay back the loan before they decided to lendingmoneyout.

Basel III replace for Basel II which the capital requirement is stricter, so that they can handle the capital fluctuate during financial crisis. Difference

between Solvency I and Solvency II The difference between Solvency I and Solvency II is their fundamental based. Solvency II is principle based, whereas Solvency I is rule based. This means Solvency II knows less rules, instead of introduces principles which have to be adopted by the insurers, they all involved actions and decisions. They can no longer hide behind rules, nor is it easy to find holes in the law.

Therefore, in order to process these principles into company will be tough therefore time is ticking since it is questionable when all is implemented sufficiently. While for the Solvency II is to protect customers from taking unacceptable risks. This is done by demanding insurers to manage their risks better and be transparent on their financial position and risk. Hence it shows more holistic approach in comparison to Solvency I. Who should comply to Basel III The Basel accords are a range of mutual agreements that are voluntarily given by various global banking authorities.

The countries which have signed these agreements would have set it as a common standard. However, some countries which are not the member state may also implement these policies. Besides, in United States of America, the government set the Basel II as a mandatory standard for banks. The banks which have a higher-risk profiles are instead imposed higher and stricter standard under the same accords. Next, Basel III required banks must keep a minimum common equity of 7% of their assets and this percentage covers a capital conservation buffer of 2. %. The countries which have approved Basel III must impose and put the standard. Who should comply Solvency II Solvency II is needed for all the insurance companies and financial institution. Solvency II's regulation will be control by the respective

financial supervisor. Besides, the best practice for insurers is to embed qualitative and quantitative risk management throughout their organization. A process-based risk approach is the best foundation for risk management of market, credit, liquidity, insurance and all operational risks.

Solvency II regulates companies according to the risk inherent in the business. Every company must define that the risk profile is in line with the appropriate governance and risk management processes to meet this risk. Why Basel III is needed? Basel III is needed because it strengthens bank capital requirements by introduces new regulatory requirements on bank liquidity and bank leverage. It help the Bank directors to know the market liquidity conditions for major asset holdings and strengthenaccountabilityfor any major losses. Why Solvency II is needed?

Solvency II is needed because it can supervise the insurance company and strengthen the power of group supervisor, in order to ensure the wide risks of the group are not overlooked. By having Solvency II, a greater cooperation between supervisors can be made. Besides, Solvency II plays an active role in the development in insurance, risk management, and financial reporting. Objective for Basel III There are three objective of Basel III. Firstly, Basel III enhance the ability of banking sectors in handlestressthat arise during financial crisis and economic strain.

Secondly, Basel III used to improve risk management and also its governance. Lastly, Basel III reinforces the transparency and exposure of the banks. Objective for Solvency II These are some objectives for Solvency II. Firstly, it improved consumer protection by standardized level of policyholder protection in EU. Secondly, Solvency II transfers compliance in supervise into

making evaluation on insurers' risk profiles and the quality of their risk management and also their controlling systems. Lastly, Solvency II used to raise the international competitiveness of EU insurers.

What are the challenges that encounter by the Basel III and Solvency II? The challenges that encounter by the Basel III and Solvency II is there is a mutual relationship between the new capital and the liquidity rules for bank and insurance companies that set by Basel III and Solvency II. Besides that, Solvency II had changed the way of allocate the capital for insurance companies. In example, fair value will be calculated by the risk that insurer take on their investing activities. Solvency II also offered a privileged treatment to bond with short tenure.

It impress stricter capital requirement for bond that determined by the investment's maturity, and credit rating due to the volatility of investment. Lastly, there is an inverse relationship between Basel III and Solvency II. Basel III requires all the financial institution to establish more stable, long term source of funding. In example, Basel III require bank to place their funding in a more stable and long term investment, means they will issue more long term bond. While for the Solvency II, the regulation gives shorter preferential treatment to the bank bond. ?