



**THE LEVELS OF APPLICABILITY OF SOLVENCY II BY MOROCCAN  
INSURANCE COMPANIES**

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*Abstract*

*This paper seeks to analyze and check the applicability levels and the preparation of solvency II by Moroccan companies especially after the implementation of this system of prudential regulation on 1st January 2016 by European countries after a long preparation. To reinforce the solvency of insurance companies. So, in the years to come, Morocco has to set up a system of prudential insurance to reinforce the present system.*

*Index Terms - insurance, insurance companies' solvency and solvency II.*

**I. INTRODUCTION**

The insurance sector is characterized by its production cycle hence the need for a consolidated regulation to ensure the solvency of the sector as well as protection of policyholders / insurers[1][2].



This business sector is an activity full off risk hence the need to implement necessary and sophisticated tools to manage risks via the analysis of the causes that can jeopardize the continuity of insurance companies [3].

Solvency II is a project of European reform of prudential regulation applying to the insurance sector, the date of its application is January 1st, 2016.

In the tradition BALE II for banks, its purpose is to encourage, organizations to better know and manage their risks namely adapting regulatory requirement risks that the organizations are running in their activity.

The requirements are structured into three pillars[4]:

- The first pillar: quantitative requirements mainly in terms of equity and technical provisions calculation.
- The second pillar: requirement in terms of organization and governance bodies.
- The third pillar : requirement in terms of prudential information and publication ...

These pillars are supplemented by fourth aspect that is the control of groups that goes beyond the existing directive on the supplementary supervision on insurance agencies.

Solvency II includes namely measures on the college of insurance supervisions of the so-called Helsinki protocol.

This reform introduces deep modifications to the present prudential rule in terms of insurances.

In fact, Solvency II was convieved to be principal-based rather than rule-based. It seeks to establish fair competition that is level playing field, the harmonization of principals and supervision practices, the establishment of unified European reporting.

And to establish prudential standards taking into account all risks (according to a risk-based approach and principle of proportionality

## **II. PROBLEMATIC**

The prudential system of solvency II entered into force on 1<sup>st</sup> January 2016 in Europe after long preparations to ensure the solvency of insurance companies. In the years to come, Morocco is called to setup a system of prudential insurance to reinforce the present system[5]. What are the levels of applicability of the system of prudential solvency II by Moroccan insurance companies?

## **III. METHODOLOGY**

In order to meet the study goals, we have adopted a quantitative approach, which consists of the development and administration of a questionnaire with target companies. The target well be primarily make up of Moroccan insurance enterprises.

The sample we treated is made 50% insurance companies in the Moroccan market. This sample meets considerations of proximity, of importance and size of the entity as well as considerations of land access.



In order to reach different insurance enterprises in Morocco, we administered the survey with structures lying at the axis of Casablanca – Rabat. Furthermore, some methodological and empirical difficulties have re-emerged namely and refusal of some officials to cooperate for reasons of confidentiality of statistical data sought by the study, in addition to the difficulty of contacting companies directly as well as the dunning of some of them many times.

In fact we have used Sphinx software to develop the survey and treat the results, and to respond as effectively as possible to the objectives, we used flat sorting to brightlight the most repetitive modes in order to define the levels of applicability of solvency II within Moroccan insurance companies[6].

This article analyses the levels of applicability of solvency II by Moroccan insurance companies. For this purpose, the following assumptions have been set:

- The present system of solvency is reliable (assumption 1).
- Moroccan insurance enterprises are indirectly preparing the implementation of solvency II (assumption 2)

The study addresses concerns the analysis of the levels of applicability of solvency II by Moroccan insurance companies. The goals of this study are as follows:

- Check the reliability of the present system of solvency.
- Analyze the elements of solvency II implementation.

#### IV. RESULTS

The study showed lots of evidences. We try here to get the more significant results that are giving the light on particular elements linked to our hypothesis that are reliability of the system in the Moroccan market of insurance and in another side the levels of the elements compounding the solvency 2 system :

##### Result presentation:

##### i. The reliability of the present system:

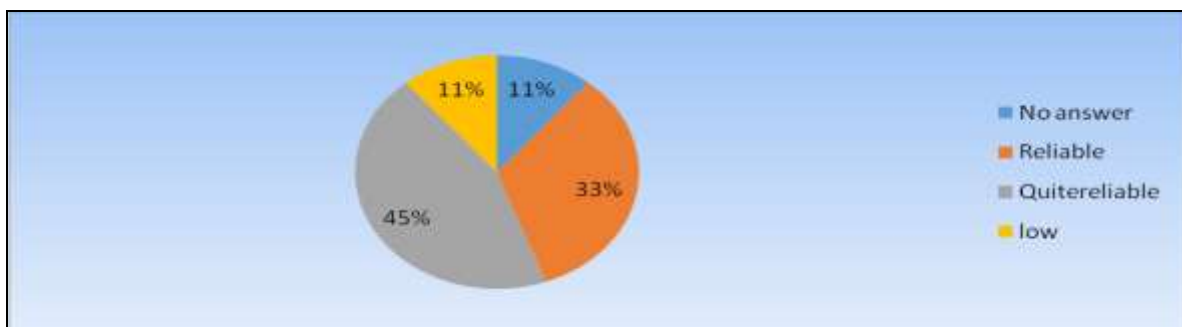


Fig. 1. The reliability of the present system



More than 77% of the interviewed estimate that the solvency system is reliable or quite reliable.

**Results on pillar 1**

**ii. The level of implementation of pillar 1**

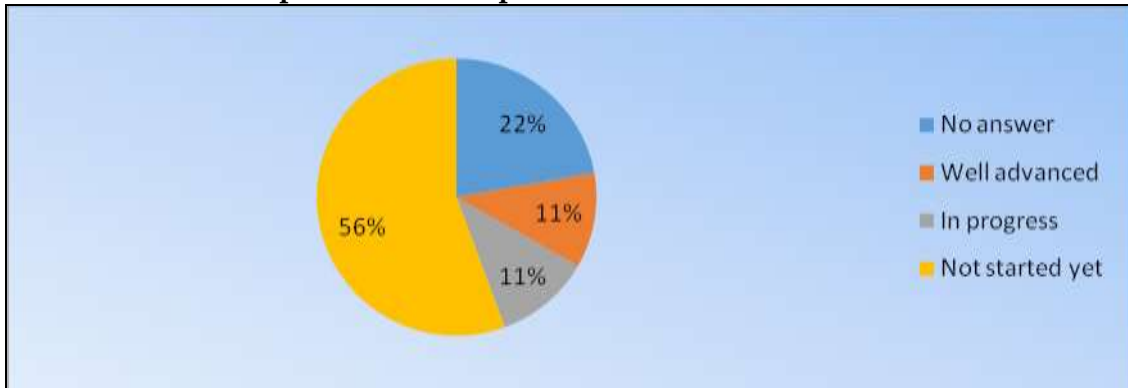


Fig. 2. the level of implementation of pillar 1

**iii. The level of implementation the solvency capital required**

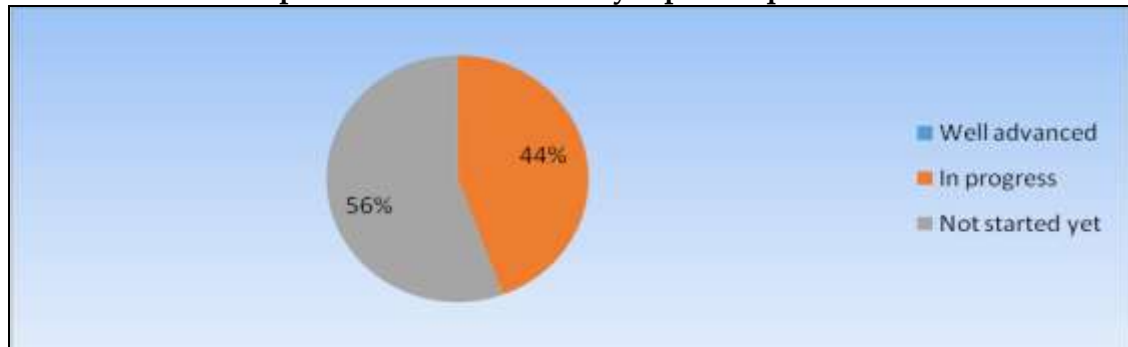


Fig. 3. The level of implementation the solvency capital required

**iv. The level of implementation of the minimum required capital**

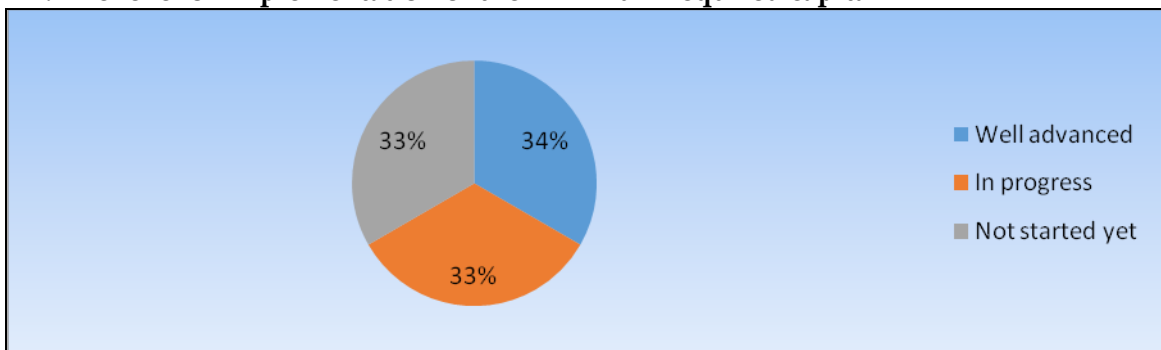


Fig. 4. The level of implementation of the minimum required capital



v. The level of implementation of technical provisions

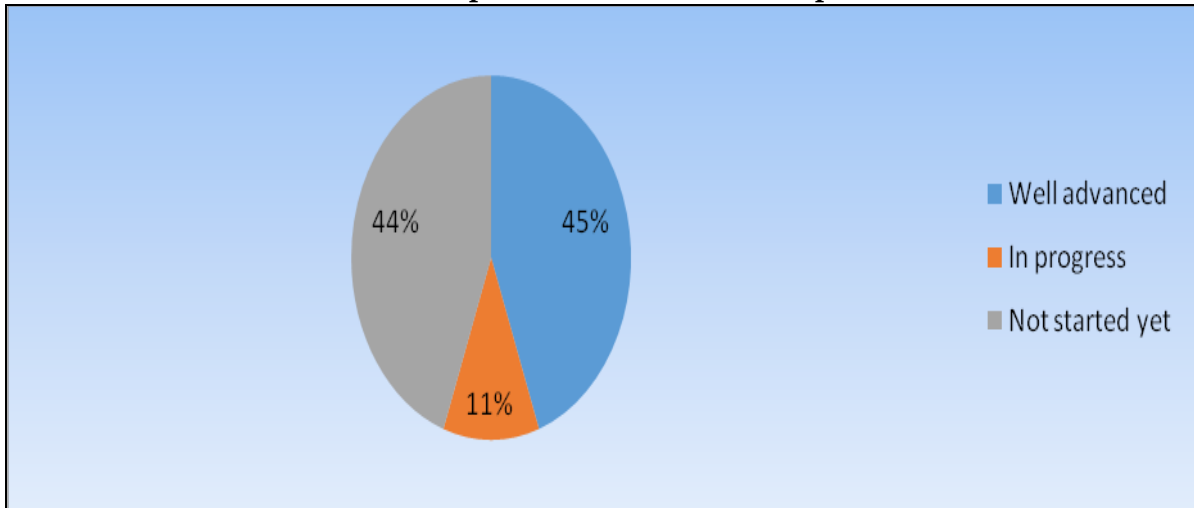


Fig. 5. The level of implementation of technical provisions

Generally concerning the implementation of pillar (1): the notice that work on technical provisions, in comparison with the solvency capital required (s c r) and the minimum required capital (MRC) is more developed in Moroccan companies.

Results on pillar 2

vi. The level of application of pillar 2

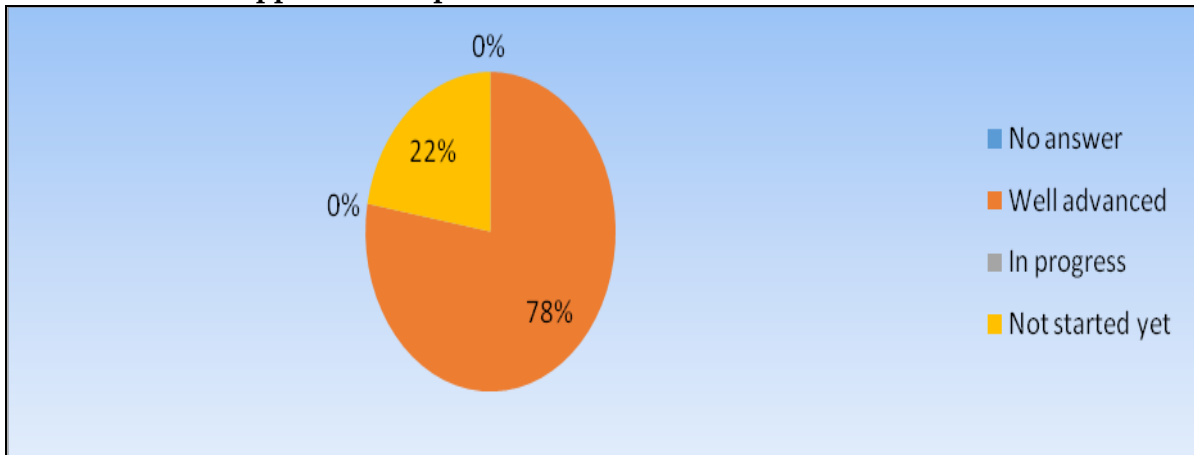


Fig. 6. The level of application of pillar 2



vii. Management of responsibilities

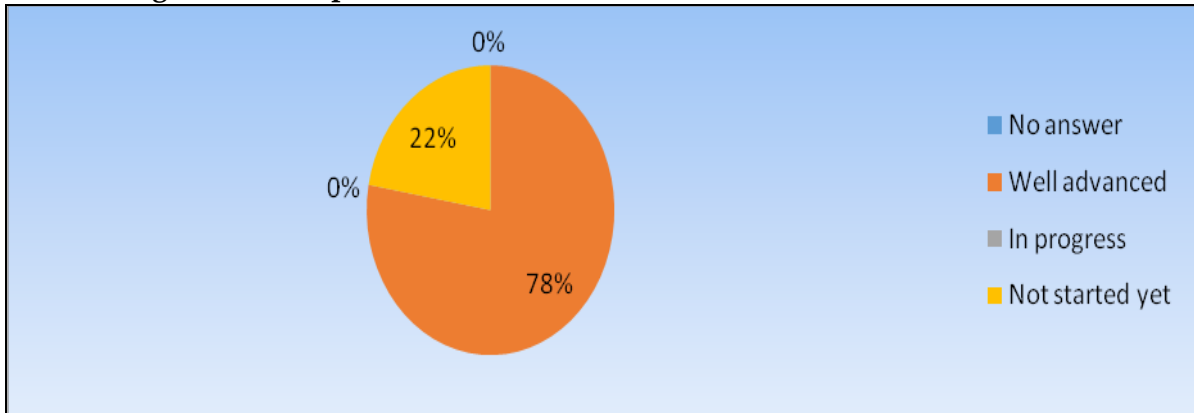


Fig. 7. The level of application of management of responsibilities

viii. Risk management

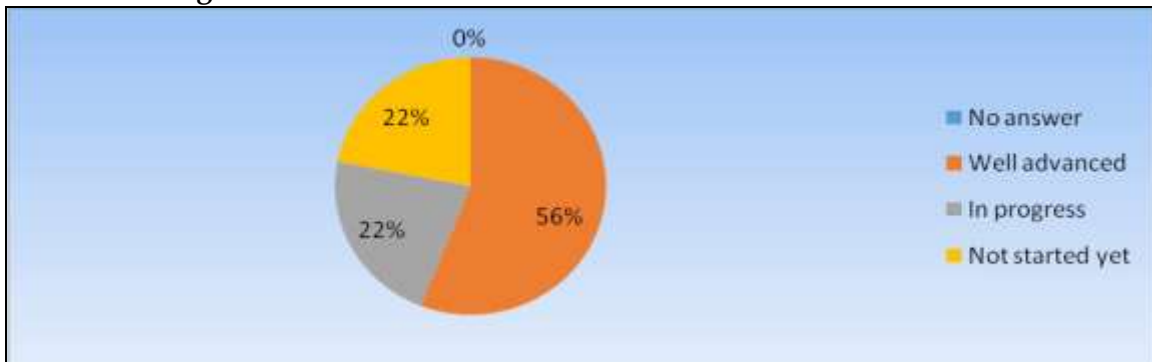


Fig. 8. The level of application of risk management

ix. Governance system

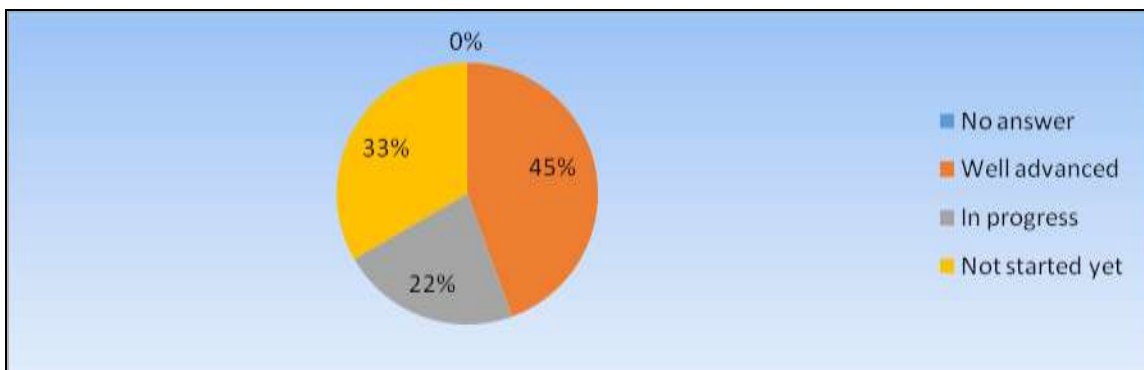






Fig. 9. The level of application of governance system

x. Internal control

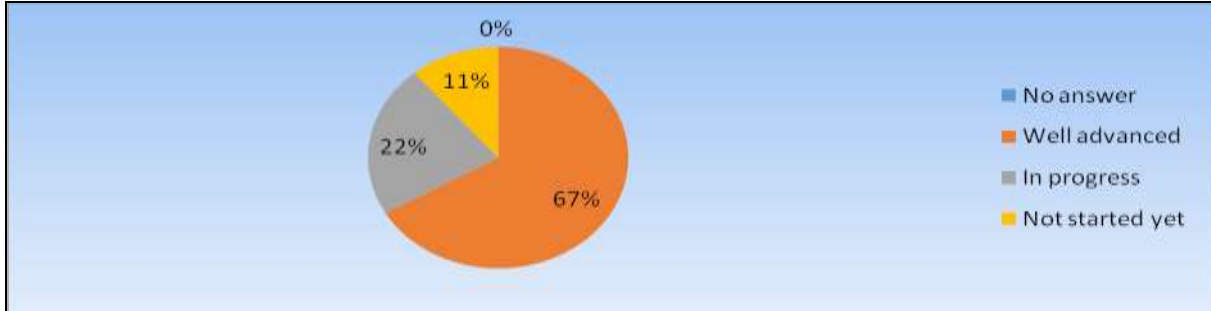


Fig. 10. The level of application of internal control

Over all, the work on pillar 2 are will advanced in Moroccan enterprises than on pillar 1, namely at the level of the management of responsibilities, and authority delegations and internal control.

Results on pillar 3

xi. Results on pillar 3

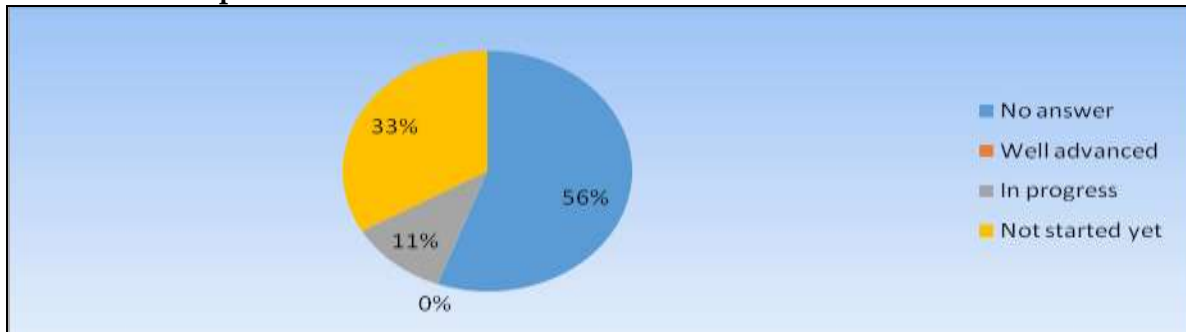


Fig. 11. The level of application of pillar 3

xii. The production of prudential states according to IFRS

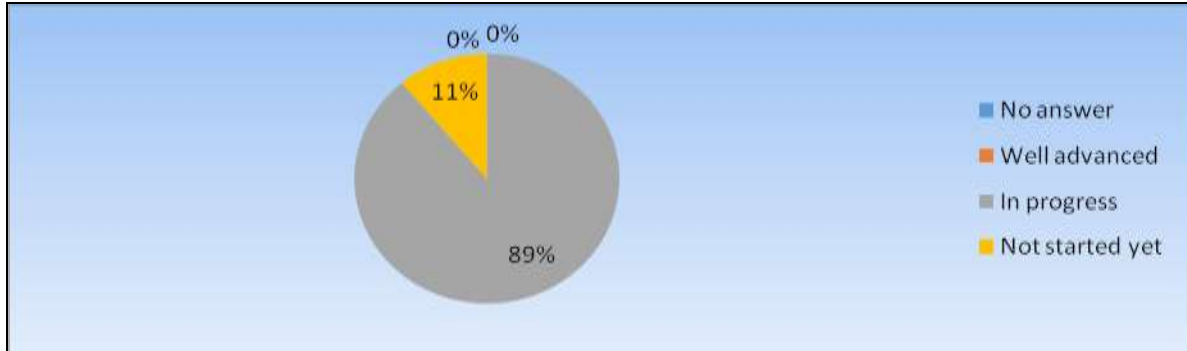


Fig. 12. The level of application of The production of prudential states according to IFRS

**xiii. Financial information for the public**

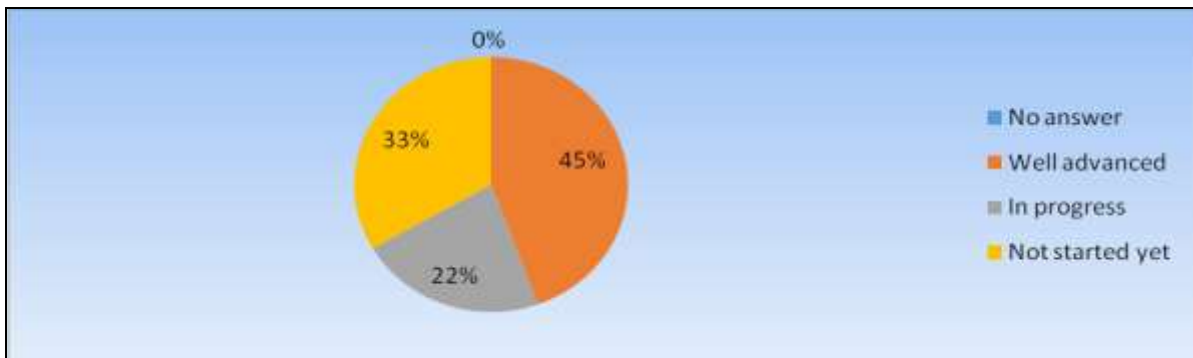


Fig. 13. The level of application of financial information for the public

**xiv. Reporting to the insurance authority**

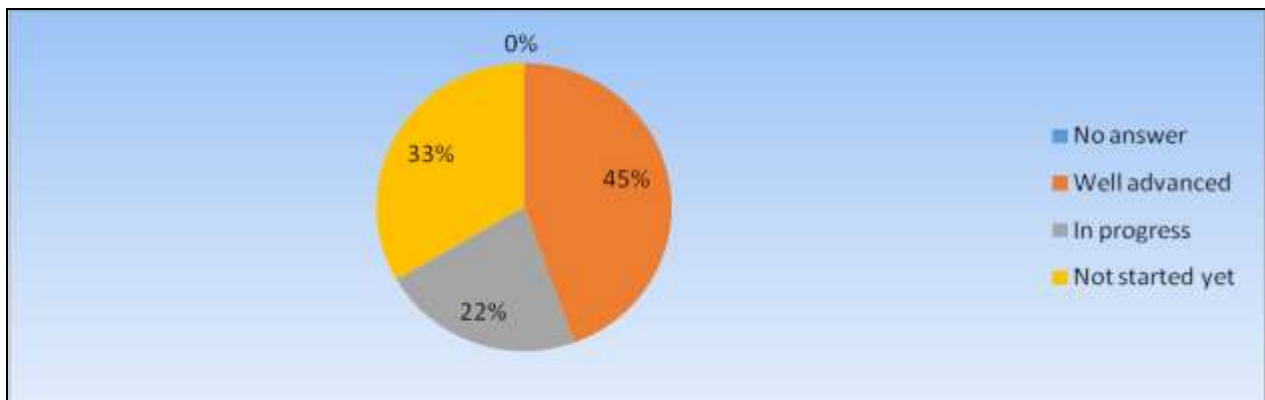


Fig. 14. The level of application of Reporting to the insurance authority





Besides, the production of prudential states according to IFRS, all the work on pillar 3 is, in the majority of cases, either at a well advanced stage of implementation or is being implemented.

#### **V. DIAGNOSIS AND DISCUSSION OF RESULT**

Concerning the preparation of pillars 1 and 2 , we noted ,found the following results :

- 85% of the managers of insurance companies interviewed currently have an internal monitoring and supervising service.
- All the companies surveyed have an internal audit department.
- Less than 90% of the companies interviewed develop risk mapping
- More than 55% of companies implement a business continuity plan
- Only 33% of companies have a governance system
- 67% of companies interviewed start preparing methods of information system risk management
- The adequate time period for the publication of prudential reports is more than 18 months according to 78% of surveyed companies.
- According to 67% of the interviewed companies the production of prudential reports will lead to the strengthening of the management system
- 68% of the companies interviewed currently have computer skills to meet new reporting requirement.

In sum, the study enabled us to make major findings on the Moroccan insurance market and the degree of knowledge of solvency 2 requirements, by companies active in sector as well as the application level of a sample of the latter in the region of Rabat-Casablanca. Nowadays, it matters to strengthen the reliability of the current market and rethink the development of new tools of risk management in the sector :

- Authorities must implement the application of solvency 2 according to the characteristics of insurance market by strengthening the insurance governance system.
- This will oblige the implementation also of accounting reform to achieve prudential reports.
- The adoption of standards model to determine the solvency capital requirement according to the characteristics of Moroccan companies.
- Internal reorganizations of insurance companies, with recruitment of important IT and human investment in order to collect, check, correct process and archive technical and financial data.
- The implementation of a system of management by objectives to reinforce transparency in insurance companies.



- Encouragement of concentration's operation of insurance companies to satisfy capital requirement.

## VI. CONCLUSION

In this article, the main purpose is to study the applicability of solvency 2 by Moroccan insurance companies, was carried out in a specific methodological framework, throughout phases that formed article , objectives and hypotheses were formed and put into practice by means of a survey, which is the key element of the field of study ,intended for Moroccan insurance companies, and this in order to achieve , in a satisfactory manner, the objectives set out and respond to the different issues that were raised.

In fact we have tried thanks to this study to shed light on the prudential solvency , in order to better assess the levels of applicability by Moroccan insurance companies , the syntheses of objectives that follow were the wish of this study and that will have the ultimate goal of answering the different questions that we raised and meeting the various objectives we fixed at the beginning of this analysis .

So we validated the assumptions of our research, this means the following:

The present system of solvency in Morocco is quite reliable. It indicated that the majority of companies surveyed on consulted foster the development of new analytical tools of risks within then. We also made series of observations:

- Lack of implementation of pillar 1, in Morocco.
- The indirect application of pillar 2 and 3 of system.
- Absence of a risk assessment process within many structures consulted during the empirical stage.
- A large part of pillar 2 is already applied by Moroccan insurance companies.
- The absence of training plan on the device of solvency 2 dedicated to directors or members the supervisory board of insurance companies.
- The starting of the preparation of methods of risk management of information system by Moroccan insurance companies.
- The absence of a regular assessment of the preparation of the system of prudential "solvency 2".
- Moroccan companies possess computer skills to implement a reporting.

Finally, in the years to come, Morocco will implement a system of prudential solvency that takes into consideration the characteristics of Moroccan insurance companies.

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