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**SOLVENCY II IMPLEMENTATION
CHALLENGES IN SMALL
TRANSITIONAL COUNTRIES**

Željko Šain
Jasmina Selimović

Outline

- Solvency II
- Small countries
- Case study

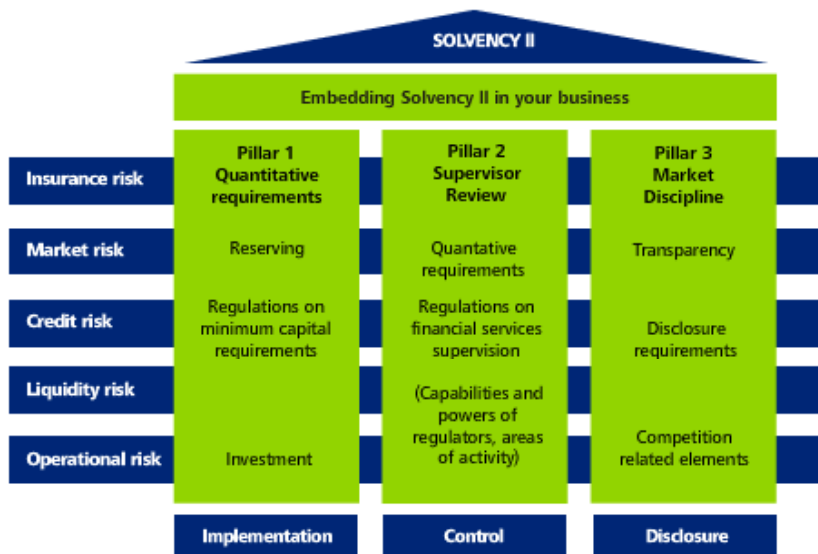


Solvency II

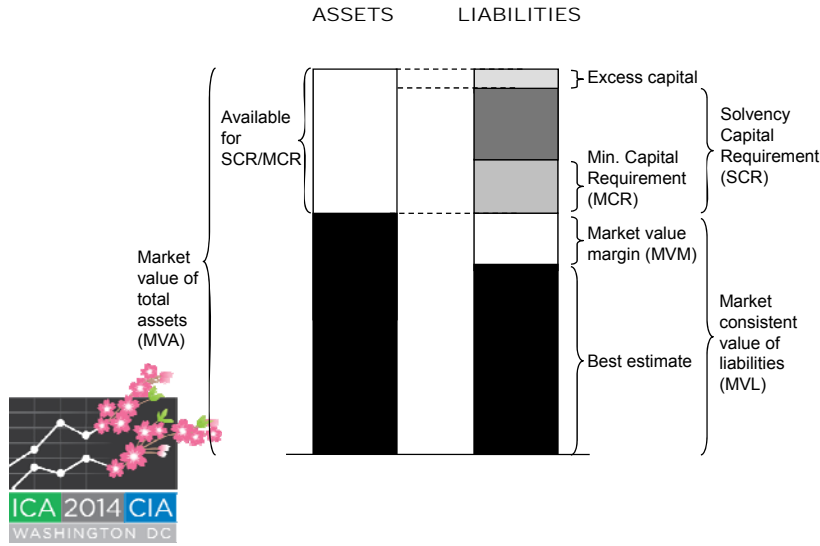
- Discussions in 2002.
- Directive in 2009. (2009/138/EC)
- Implementation...



Solvency II cont'd

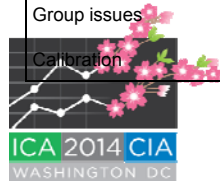


Solvency II cont'd



S I vs. S II

	Solvency II	Solvency I
Valuation of assets	Market consistent value for assets	Market / book value of assets
Valuation of liabilities	Market consistent value for liabilities	Methods not harmonized
Available Capital	Adopts a Total Balance Sheet Approach	Partly used
Diversification	Being used	Not being used
Risk mitigation	Being used	Partly used
Solvency Control Levels	SCR i MCR	Only a single control level determined by supervisor
Group issues	Being recognised	Partially recognised
Calibration	On an economic basis using market / historic data and actual experience	Subjective and not specific to the insurance company's circumstances



Small countries

- Membership in EU
- Market size
- Regulation



Bosnia and Herzegovina

- 3,8 M people
- 24 insurance companies
- 2 supervizors (+1 at the state level)
- 2 actuarial associations



Bosnia and Herzegovina

- Issues:
 - Insurance companies
 - Management
 - Actuaries
 - Infrastructure
 - Regulators
 - Market
 - Environment



Bosnia and Herzegovina

- Insurance companies have no systematic approach to new solvency assessment system; issues are being solved mostly on *ad hoc* system;
- The documentation that insurance companies have is mostly first level documentation (which can be the direction to implementation, but not the guideline);
- Insurance companies have no clear vision (so the way of Solvency II implementation is not clear);
- Managers of the companies have no specific interest for the new assessment models; namely, the new system seems to be far away in the future, so the management teams still do not have the sense of importance and complexity;



Bosnia and Herzegovina

- Until the end of 2012 only 20% of the sample were companies that have been trying to implement one part of the new system; the rest of the sample (80% of the companies) is trying to develop the documentation of the strategic level;
- 20% of the surveyed companies had no plans to start the testing in the next 12 months;
- There is no official analysis of compliance of the present legislative with the necessary one;
- The supervisory authorities have no (proc)active role (regarding to the documentation creation, models testing,...);



Bosnia and Herzegovina

- Actuaries are key persons in the new system implementation (other professionals in companies have no specific interest regarding Solvency II issue);
- The internal models (part of the them or whole models) are seem to be the most challenging issue in the future;
- Insurance companies are determinate to apply the standard forms of solvency assessment (without specific interest for the internal modeling or the benefits that can be experienced); namely 70% of the surveyed sample has plans for applying only standard model;
- The market has no necessary data and knowledge;



Latest developments

- New date - 01.01.2016.
- European Parliament adopts the “Omnibus II” Directive – 11.03.2014
- ...



THANK YOU FOR THE
ATTENTION

