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# The impact of the implementation of solvency II standards on the Moroccan insurance market

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***ABSTRACT:*** *This paper aims at identifying and analyzing the impact of the implementation of solvency II standards on the Moroccan insurance market. We will address the experience of the European countries that was brought into force in January 2016 and has improved - since then - the solvency of the insurance companies in there. That being said, the following lines will address the strength of the solvency II programs on the Moroccan insurance market, and how it will impact and enhance the performance of the insurance companies in Morocco.*

***Key words:*** *Insurance companies, Moroccan insurance market, solvency and Solvency II,*

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## I. INTRODUCTION

The strengthening of solvency standards in the insurance companies has become vital in order to build a trust scheme with applicants that demand life and non-life insurance products. According to the solvency II directive, the prudential standard system will reinforce the international competitivity of European insurance companies. The alignment of regulatory requirements will lead to optimize the allocation of capital not just at a company level, but also within the insurance market and EU as a whole. Therefore, raising capital will most likely be less expensive to the insurance market and also to the European economy since the insurer has the role of an institutional investor. There will be more efficient allocation of capital and risks in the economy and financial stability in the short and the long term.

## II. ISSUE

After a long preparatory phase, the prudential solvency II system entered into force on January 1st, 2016 in Europe; purposefully, to insure solvency across insurance companies. Morocco should implement it to strengthen its current system, in the upcoming years. So, how can we measure the impact of the introduction of the prudential solvency system “Solvency II” on the Moroccan insurance market?

## III. METHODOLOGY

For this research study, we conducted a quantitative approach by designing a survey for the Moroccan insurance companies. Indeed, our sample size consisted of 50% of insurance companies. The sample size is based on the proximity, the importance and the size of the entity and the accessibility of the market.

In order to reach different insurance companies in Morocco, we conducted the survey and collected information from some of the big insurance companies in the Casablanca – Rabat area.

In this research we were able to attain very important results in spite of many methodological and practical challenges which arose during that phase, namely: refusal of some of the companies’ managers to cooperate for confidentiality reasons, difficulty to contact directly the target companies etc....

As for the software we used in this research study, we have input all the survey's data at "SPHINX" and interpreted all the findings. To respond effectively to the objective, we used sorts to flat in the purpose to highlight the most repetitive modalities to determine the extent of the implementation of the solvency II on the Moroccan insurance companies. Hence, the research study is about "The impact of the implementation of Solvency-II standards on the Moroccan Insurance Market".

## IV. FINDINGS

### 4.1. Presentation of Findings

#### 4.1.1: The impact on economic growth

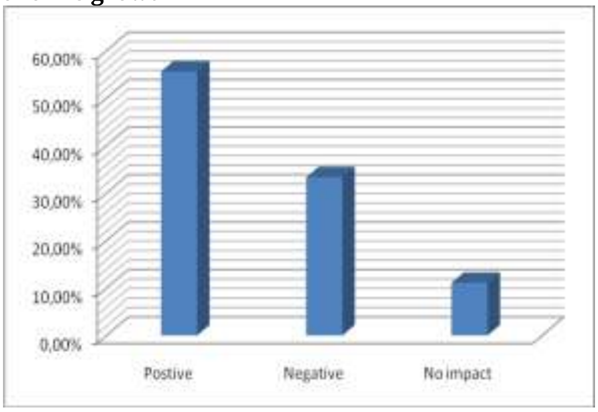


**Figure 1.** The impact on economic growth

#### 4.1.2: The impact on the demand

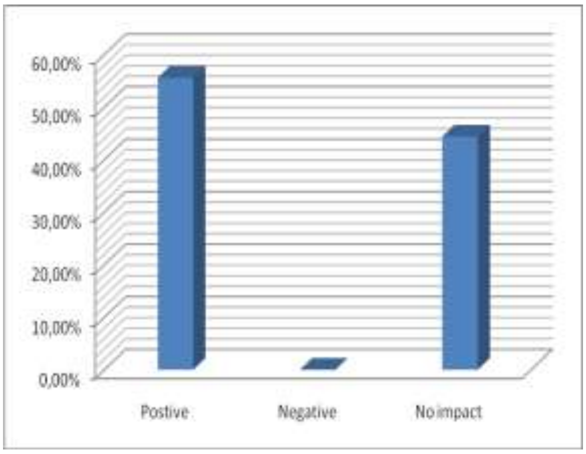


**FIG 2 :** The impact on the demand

#### 4.1.3: The impact on Transparency of pricing


**FIG 2 :** The impact on Transparency of pricing

#### 4.1.4: The impact on Contract pricing

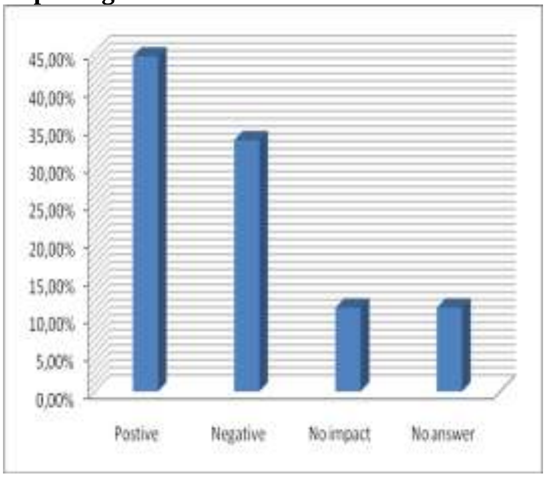


**FIG 3 :** The impact on Contract pricing

#### 4.1.5: The impact on Competition in the insurance market

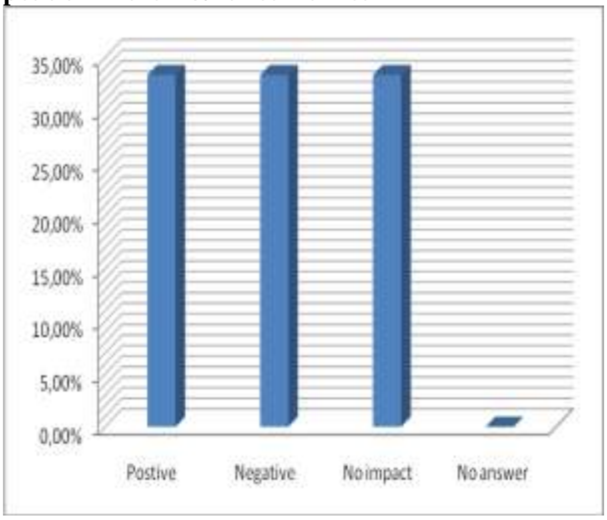


**FIG5:** The impact on Competition in the insurance market

#### 4.1.6: The impact on Market caution

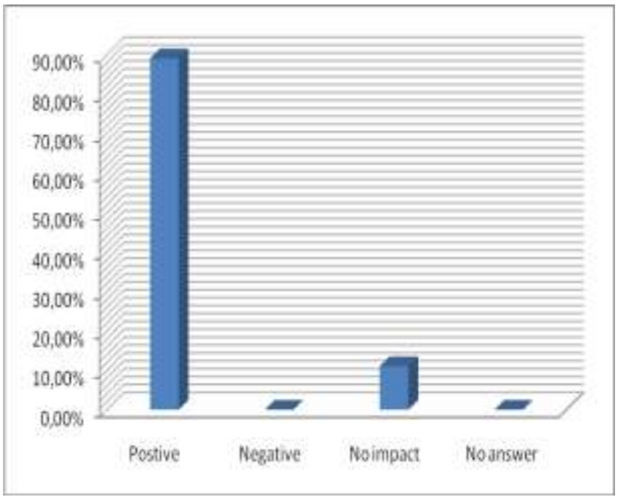


**FIG 6:** The impact on Market caution

**4.1.7: The impact on Risk premiums**

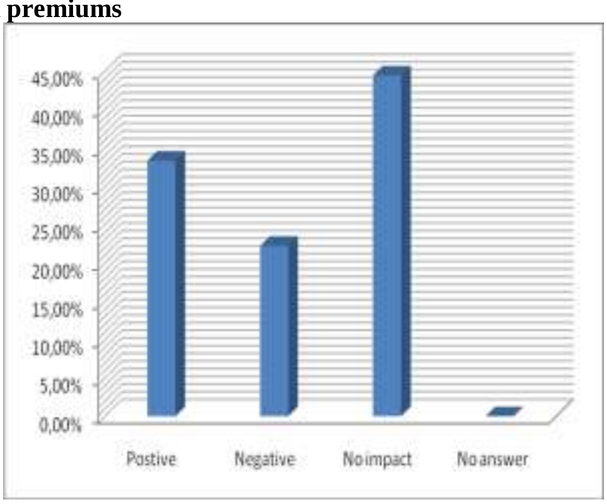


**FIG 7:** The impact on Risk premiums

**4.1.8: The impact on placements**

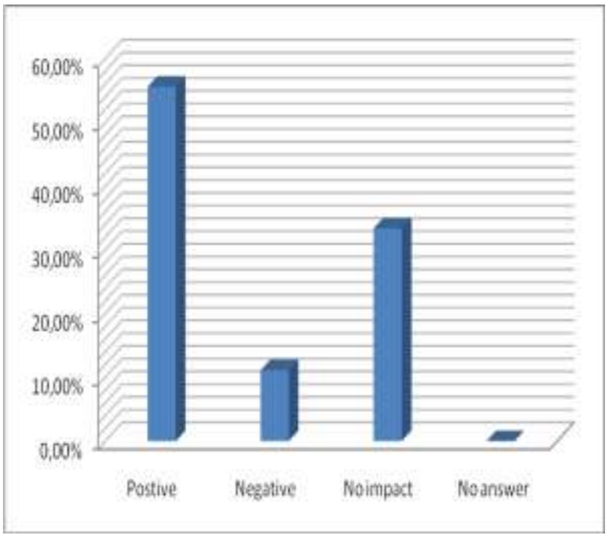


**FIG 8:** The impact on placements

**4.2. Results and discussion**

As far as the impact of the implementation of Solvency II on the Moroccan insurance market:

90% of the interviewees said that the impact will be positive on market prudence. Fear in the market would dissipate and weaken when there will be a declared and clearly stronger management to the insurers. In fact, there is more reaction when there are such declarations, and hence, one could easily interpret it. Also, the Moroccan market will be more sensitive to market financing and liquidity that can drain bank-insurance products. Especially that the long term insurance treasury is significant and easily mobilized (even though it remains risky "case of a disaster").

More than 50% of the interviewees expected a positive impact on the growth of the insurance market. This is mainly explained by three major reasons:

- High demand: according to our survey data, 56% expect a positive impact on demand whereas the others said that there will be no impact.
- High Risk Premium: 44% believe that there will be no impact on risk premium while 33% said that there will be a positive impact.
- Contract Pricing: 44% declared that the impact of solvency II will be positive on the market in terms of the price charged.

Asymmetry of information is expected to decline as a result of convergence since the regulator will be in charge of that. As far as the practices of increase in products' prices, this should be seen as competition amongst the operators in there. This is to be attributed to the assets of the household or insured who will benefit from the game of growth and the increasing quality of contracts, products and services on the Moroccan oligopolistic market undergoing rapid change .This increase will be reflected in the transparency of pricing in the insurance market. This finding was corroborated by more than half of the interviewees who think that the impact will be positive.

89% agreed that the impact will be positive on the regulation of the market: it should be noted that the adoption of Solvency II will require changes to the insurance code and the insurance accounting plan which could take many years of negotiations.

For 55% of the interviewees, the impact will be positive on investments: Indeed, the Moroccan authorities advocate a smooth transition from Solvency I to Solvency II. It would be desirable that this transition phase should not be impregnated with any complexity and that it could be carried out under the best conditions for operators, and without any increase regarding the price of insurance. It should be noted that the Moroccan supervisory authority (ACAPS) did not take any initiative to adapt the Moroccan companies to the different test of impact, following the EU example, in order to make the necessary adjustments during the finalization of the migration project towards Solvency II. This lack of responsiveness augurs a very long convergence process on the Moroccan market towards the international codification. This will result in an obsolescence of the implementation of the measures of solvency II in relation to the demands of the international market and to the risks and future market risks.

Besides, our work confirms the assumptions of the slow pace of that regulation. The latter should change and increase when the convergence will be accepted and come into effect, and so the transparency of the insurers would pass through technical and financial information:

- The slow progress in implementing solvency II in Morocco for professionals is explained by the delay of the authority of regulations to introduce the project in the insurance market for fear of an effect. Thereupon, convergence towards the Solvency II system will have a certain impact on the operating world of the regulatory body under the Ministry of Economy and Finance (ACAPS) and on its position in relation to the market and market monitoring tools. This positive impact is the training effect of the risk management wave required by insurance companies in their asset-liability management (reverse production system).
- Accountability of management bodies and governance of the insurance company: A circular was issued on August, 26th 2008 to bring accountability of the management body in setting up an internal control system. However, that was broad as it had not foreseen concrete arrangements for the setting up of an explicit mechanism for managing quantitative and qualitative risks such as the ORSA (Own Risk and Solvency Assessment) system advocated by Solvency II. This circular points out the role of the regulator regarding the impact and the guidance to insurance companies towards a sound and internally supervised governance system.
- Importance of information about the insurance companies: The non-publication of accounting information of insurance companies is also another reason for the delay in applying convergence to solvency II. In insurance, unlike in other markets, accounting information alone is not enough to provide information on the company's ability to honor commitments to policyholders. There should be detailed information on the technical and financial activities. Besides, the migration to Solvency II should increase the output and improve its quality for insurers and the capital market, who will find there another reason for investments based on reasoned opinions of technical choices and backed on actuarial economic calculation. At this stage, a circular related to the transparency of the market published on October, 31st 2011 expects the publication of purely accounting information.

## V. CONCLUSION

All in all, the implementation of solvency II standards by Moroccan companies will positively impact the insurance market in Morocco. We can also conclude on the value of internal control (Pillar 1 of solvency II) and the market transparency (Pillar 2 of solvency II). Finally, the convergence of the Moroccan market towards these insurance risk management tools will certainly have structural effects on the institutions, their missions, their structures and their management. It will also affect the savings and the investments behavior drained to products with more or less great risk management that is affirmed by insurance companies in the domestic market.

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