

THE NEW INSURANCE REGULATIVE OF THE EUROPEAN UNION – SOLVENCY 2 AND THE NECESSARY REFORMS FOR ITS IMPLEMENTATION IN MACEDONIA¹

Biljana Petrevska²

Abstract

The objective of this paper is to analyze Solvency II which is a new insurance regulatory regime introduced by the European Union in order to enhance the financial stability of the insurance and reinsurance undertakings and to better protect the policyholders and insurance beneficiaries from insolvent insurance. This paper is going to describe the concept of Solvency 2 and it will suggest the necessary reforms in the legislation and the necessary institutional reforms, which are going to be analyzed from different aspects in order to fully implement this concept in the Republic of Macedonia. It will consist of 4 parts. The first part of this paper will be an introduction to the framework that will explain the subject of research, while in the second part we will analyze in detail the legal framework of the European Union that regulates the issue of Solvency 2 as a system that is based on three pillars which are: quantitative requirements, quality requirements and mandatory disclosure of market data. In the third part of this paper we will explain the reforms that are necessary for the implementation of Solvency 2 in the Republic of Macedonia. Finally, in the fourth part of this paper "Conclusion," we are giving our basic conclusions that will arise from our paper.

Key words: *insurance, solvency, supervision of the insurance, technical provisions, solvency capital requirement*

JEL classification: F5, F3

INTRODUCTION

Solvency 2 is a new supranational insurance regulatory regime introduced by the European Union institutions in order to enhance the financial

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2 Biljana Petrevska, PhD – Assistant Professor at the Department of Business Law and Economics, Faculty of Law "Justinianus Primus", University "Ss. Cyril and Methodius", Skopje, Republic of Macedonia, e-mail: petrevskabiljana@yahoo.com

NOVA REGULATIVA O OSIGURANJU EVROPSKE UNIJE – SOLVENTNOST 2 I NUŽNE REFORME ZA NJENU IMPLEMENTACIJU U MAKEDONIJI¹

Biljana Petrevska²

Sažetak

Osnovni cilj ovog rada je da analizira Solventnost 2 - nova regulativa o osiguranja Evropske Unije, uvedena da bi se poboljšala finansijska stabilnost kompanije za osiguranje i reosiguranje, i da bi se osigurenici i korisnici osiguranja bolje zaštitili od nesolventnih osiguranja. Ovaj rad će opisati koncept Solventnost 2 i predložiti će nužne reforme u zakonodavstvu i institucionalne reforme, koji bi bili analizirani iz različitih aspekata, kako bi se u potpunosti implementirao ovaj koncept u Republici Makedoniji. Ovaj rad biće sastavljen iz 4 dela. Prvi deo ovog rada će biti uvod koji će objasniti predmet istraživanja, dok u drugom delu ćemo detaljno analizirati pravni okvir Evropske Unije koji reguliše pitanje Solventnost 2, kao sistem koji je zasnovan na 3 stuba, a to su: kvantitativni zahtevi, kvalitativni zahtevi i obavezno objavljivanje podataka o tržištu. U trećem delu ovog rada ćemo objasniti reforme koje su nužne za sprovođenje Solventnost 2 u Republici Makedoniji. Na kraju, u četvrtom delu ovog rada, "Zaključak", dajemo naše osnovne zaključke koji proizlaze iz našeg rada.

Ključne reči: osiguranje, solventnost, nadzor osiguranja, tehničke rezerve, obavezne solventnosti kapitala

JEL klasifikacija: F5, F3

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2 Dr Biljana Petrevska, Docent Pravnog Fakulteta "Justinijan Prvi", Skopje, UKIM, Makedonija, Odsjek za poslovno pravo i ekonomiju, e-mail: petrevskabiljana@yahoo.com

stability of the insurance and reinsurance undertakings and to better protect the policyholders and insurance beneficiaries from insolvent insurance. The protection of policy holders is the main objective of the insurance supervision. Financial stability and fair and stable markets are other objectives of insurance and reinsurance regulation and supervision which should also be taken into account but should not undermine the main objective.³

The starting point for the adequacy of the quantitative requirements in the insurance sector is the Solvency Capital Requirement. Supervisory authorities therefore have the power to impose a capital add-on to the Solvency Capital Requirement only under exceptional circumstances, following the supervisory review process. The Solvency Capital Requirement standard formula is intended to reflect the risk profile of most insurance and reinsurance undertakings.⁴ However, an effective system of governance is also essential for the adequate management of the insurance undertaking and for the regulatory system. The system of governance includes: the risk-management function, the compliance function, the internal audit function and the actuarial function. In order to guarantee transparency, insurance and reinsurance undertakings should publicly disclose – that is to say make it available to the public either in printed or electronic form free of charge – at least annually, essential information on their solvency and financial condition. Undertakings should be allowed to disclose publicly additional information on a voluntary basis.⁵

Valuation standards for supervisory purposes are compatible with international accounting developments, to the extent possible, so as to limit the administrative burden on insurance or reinsurance undertakings.⁶ In order to allow insurance and reinsurance undertakings to meet their commitments towards policy holders and beneficiaries, member states should require those undertakings to establish adequate technical provisions. The amount of technical provisions reflects the characteristics of the underlying insurance portfolio.⁷

In accordance with the risk-oriented approach to the Solvency Capital Requirement, it is possible, in specific circumstances, to use partial or full

3 European Commission, “*Solvency II: Frequently Asked Questions (FAQs)*”, 2010, pp.1-13.

4 Scott H., “*Capital Adequacy beyond Basel – Banking, Securities, and Insurance*”, Oxford University Press, 2005, p.98.

5 European Commission, “*Proposal for a Directive of the European Parliament and of the Council, amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority*”, 2010, pp.1-51.

6 Sandstrom A., “*Solvency – Models, Assessment and Regulation*”, Chapman & Hall/CRC, Taylor & Francis Group, 2006, pp.290,291.

7 Committee of European Insurance and Occupational Pensions Supervisors, “*Solvency II – Calibration Paper*”, CEIOPS-SEC-40-10, 2010, pp.3-26.

internal models for the calculation of that requirement rather than the standard formula⁸. When the amount of eligible basic own funds falls below the Minimum Capital Requirement, the authorization of insurance and reinsurance undertakings shall be withdrawn where those undertakings are unable to re-establish the amount of eligible basic own funds at the level of the Minimum Capital Requirement within a short period of time. The Minimum Capital Requirement ensures a minimum level below which the amount of financial resources should not fall.⁹

SOLVENCY 2 – SYSTEM BASED ON THREE PILLARS

Solvency 2 is really an ambitious regulatory project initiated by the European Commission and which has a significant impact on the risks that the insurance undertakings are exposed to, which include¹⁰: the risks from insurance, or determining the premium, reserves, reinsurance and design of the product; market risks; credit risk; liquidity risk; and operational risks. It is this new system of measuring the solvency and the capital requirements contained in Solvency 2 that tends to change insurance undertakings risk management systems. The new framework also aims to create the same playing field for all market participants, harmonization of supervision in the European Union member states, improving the allocation of the capital and increasing the competition in the insurance industry in Europe¹¹. We can safely say that the new regulatory framework arising from the European Commission is a step that completely follows the development of Basel II - capital requirements related to the banking industry¹².

Solvency 2 is a system that consists of three pillars, and they are:

(1) The first pillar of Solvency 2 is called: *Quantitative requirements* and it primarily focuses on capital requirements for maintaining the solvency. The aim is to encourage the use of internal models for risk management in the insurance business¹³. This concept uses a standard formula to calculate the mandatory solvency capital that reflects the risk profile of most insurance and reinsurance undertakings. The Solvency Capital Requirement (SCR) is calculated at least annually and it should cover at least the following risks,

8 Wuthrich M.V., Merz M., "Financial Modeling, Actuarial Valuation and Solvency in Insurance", Springer Finance, 2013, pp.261-336.

9 Sandstrom A., "Solvency – Models, Assessment and Regulation", Chapman & Hall/CRC, Taylor & Francis Group, 2006, p.284.

10 Koller M., "Life Insurance Risk Management Essentials", EAA Series, Springer, 2011. p.6.

11 Vaughan E.J., Vaughan T., "Fundamentals of Risk and Insurance", Tenth Edition, John Wiley & Sons, Inc., 2007, p.649.

12 Zweifel P., Eisen R., "Insurance Economics", 2012, Springer Texts in Business and Economics, Springer, 2012, p.345.

13 Baxter Bruce, "Satisfying the Use Test – How to meet and benefit from the Solvency II Use Test requirements", pp.1-5.

including¹⁴: risk taken by contracts non-life insurance; risk taken by contracts for life insurance; risk taken by contracts for health insurance; market risk; credit risk, and operational risk (that includes the legal risk). The Solvency Capital Requirement calculated using the standard formula is a set of core (basic) capital requirements for solvency, capital requirement for operational risk, and the calculated amount that serves as cover (reserve) from unforeseen losses because of insufficient calculated technical provisions and deferred taxes.

The insurance and/or reinsurance undertakings should have adequate own resources as a cover for the minimum capital requirement, and they should be regularly monitored. The minimum required capital must not be lower than¹⁵:

- EUR 2.200.000 for non-life insurance undertakings, including insurance undertakings that are part of a group, unless the insurance company carries out the insurance at least in one of the classes of liability insurance, loans and/or guarantees, in which case it shall not be lower than EUR 3.200.000;
- EUR 3.200.000 for life insurance undertakings, including those that are part of a group;
- EUR 3.200.000 for reinsurance undertakings, except in the case of undertakings that are part of a group, in which case the minimum capital requirement must not be lower than EUR 1.000.000; and
- For insurance undertakings that also perform non-life insurance and life insurance, and who meet all the requirements, the minimum capital requirement is the sum of the amounts listed in the first two paragraphs above.

In addition to these amounts, the minimum capital requirements must not be lower than 25% nor higher than 45% of the solvency required capital, that is calculated either using the standard formula, or using the full or partial internal model, including an additional amount of required capital, if such supervisory measures is imposed. If these conditions are met, the minimum capital requirement is calculated as a linear function of all or part of the following variables: technical provisions of an insurance company, premiums written, venture capital, deferred taxes and administrative costs. The used variables are expressed net of reinsurance. The commonly used

14 European Parliament and Council Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (*Solvency II*) (recast), Official Journal of the European Union 17.12.2009, L335/1., Article 101.

15 European Parliament and Council Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (*Solvency II*) (recast), Official Journal of the European Union 17.12.2009, L335/1., Article 129.

methods of calculating technical provisions are: reserves for unearned premiums, reserves for claims, reserves for unexpired risks, and other technical reserves and mathematical reserve.¹⁶ Insurance and reinsurance undertakings should calculate the minimum capital requirement at least on a quarterly basis and should report the supervision authority.

(2) The second pillar of Solvency 2 is called: *Procedure for conducting supervision* and it concerns with the corporate governance of insurance undertakings and their supervision. The system of corporate governance involves the operation of separate organizational unit of corporate risk management, organizational unit for monitoring compliance with the insurance regulations in force, an independent organizational unit of the internal audit and actuarial independent organizational unit. These functional units should have the administrative capacity and authority to carry out responsible authorities within the insurance undertaking. The insurance and reinsurance undertakings can determine what kind of organization they will establish, given the nature of the work that is undertaken in terms of the insurance risks, the size of the company, as well as the territory of which they carry on the insurance. Moreover some insurance undertakings are determined to professionals employed in the company, while others opt to transfer these functions to external entities (actuaries). The inadequate corporate governance and failure of internal control systems, were shown as the main causes for the collapse of some major financial institutions in the world financial (economic) crisis. Hence, an effective system of corporate governance is necessary required for proper operation of the insurance undertakings, maintaining the financial stability of insurance undertakings, and the financial system as a whole.¹⁷

Any insurance and reinsurance undertaking must have, as an integral part of its business strategy on a regular basis established monitoring of a solvency in terms of its own specific risk profile (own assessment of risk exposure and solvency). Supervisory authorities exercise their power transparently and responsibly with due consideration for the protection of confidential information. This implies the existence of a system that provides publication of at least the following information: texts of all laws, regulations, general provisions and rules and guidelines in the field of insurance regulation; common general criteria and methods used by supervisors in their work; aggregated statistics for main aspects of the application of prudential regulation; if supervision interpreted certain rules - mandatory disclosure

16 Barrieu P., Albertini L., *"The Handbook of Insurance - Linked Securities"*, Wiley Finance, 2009, pp.341-362.

17 Policy Issues in Insurance, *"The Impact of the Financial Crisis on the Insurance Sector and Policy Responses"*, OECD No.13., 2011, pp.1-48.

of their conduct; purposes of supervision and their basic functions and activities.¹⁸ This disclosure of information should be sufficiently clear to enable meaningful comparison between different countries. For this purpose standardized formats should be used and they will be regularly updated. The access to them should be at any time provided electronically. It is also very important that the countries should establish transparent procedures for the selection and dismissal of members of the management and the management of the supervisory authorities.¹⁹ The supervisory authorities should adopt a plan for financial consolidation and short-term plan to provide funding or to revoke the license for carrying out the insurance or reinsurance undertaking.²⁰

(3) The third pillar of Solvency 2 is called: *Market discipline* or minimum requirements for publication of comprehensive, relevant, reliable and complete information by the insurance and reinsurance undertakings, which in turn will help the decision makers and will reduce disparities in information that exist between the owners of capital - managers as well as between insurance undertakings - insurers and insurance customers. The regulatory framework that applies to reporting supervisory purposes includes one set of laws, standards, and regulations, which require insurance undertakings to report to the supervisory authority in the country where the head of the undertaking is based, and this report is for: calculation of capital; required margin of solvency, the technical provisions for certain classes of insurance and total; investment of assets covering technical provisions; and the calculation and monitoring of certain technical coefficients for the performance of core (basic) business – that is insurance. These regulations should allow insurance and reinsurance undertaking and supervisors timely disclosure of the potential risks of possible losses in certain classes of insurance which could jeopardize the solvency at a time, and this data are confidential, they are not published, and a small circle of institutions can use them.²¹

Although the reporting for supervisory purposes is of particular importance for the functioning of Solvency 2, however the reporting framework for supervisory purposes has not yet been harmonized between the European Union member states.

18 European Parliament and Council Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (*Solvency II*) (recast), Official Journal of the European Union 17.12.2009, L335/1., Article 31.

19 European Commission, "Solvency II: Frequently Asked Questions (FAQs)", 2010, pp.1-13.

20 Policy Issues in Insurance, "The Impact of the Financial Crisis on the Insurance Sector and Policy Responses", OECD No.13., 2011, pp.55-58.

21 European Parliament and Council Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (*Solvency II*) (recast), Official Journal of the European Union 17.12.2009, L335/1., Articles 51-56.

THE NECESSARY REFORMS FOR IMPLEMENTATION OF SOLVENCY 2 IN MACEDONIA

After explaining the concept of Solvency 2, the question arises: how many insurance companies in Macedonia are willing to accept Solvency 2 as a new system of risk management and of maintaining capital, but also the willingness of the supervisory authority to conduct supervision based on risk assessment and risk exposure of insurance companies when calculating available capital and required capital to maintain solvency. Therefore, in this part of the paper we will try to make an assessment of the degree of compliance of existing insurance legislation and institutional capacity in basic insurance principles and standards, and hence to propose reforms that are necessary to comply and apply the concept of Solvency 2 in the insurance market in Macedonia.

The basic legal framework that regulates the performance of insurance, reinsurance, advocacy and mediation in the insurance, conducting cross-border insurance activities, supervision of insurance, bankruptcy and liquidation of insurance and reinsurance in Macedonia is the Law on Supervision of Insurance. Compulsory Transport Insurance is regulated by a special law. In terms of the legal form of incorporation and operation of insurance companies despite the Law on Supervision of Insurance, we can apply the provisions of the Company Law. The procedure of bankruptcy of an insurance company is run by the Bankruptcy Law and Company Law. Supervision of insurance in Macedonia is made by the Agency for Supervision of Insurance, which also carries other rules and regulations. However, despite this legal framework built in Macedonia, the country does not apply so-called economic concept of capital valuation. This concept involves the valuation of capital as the difference between the market value of the total assets of the company and the market value of total liabilities. Therefore it is necessary to amend the legislation in order for us to introduce the concept of capital valuation. Changes are needed also in the area of licensing of insurance companies in order to accept the concept Solvency 2 in the country, whereby the changes need to refer to quantitative capital requirements for carrying on insurance in certain classes of insurance, and meeting human, technical and information requirements relating to capital requirements.

If we analyze the method of calculation of the available capital of the insurance company, as well as the calculation of the required margin of solvency for performing non-life insurance and life insurance²², we can

22 Law on Supervision of Insurance, "Official Gazette of the Republic of Macedonia", No.30 of 29.02.2012, Article 75 and Article 76.

conclude that Macedonia applied, with certain exceptions, a harmonized system of determination of available and required solvency for insurance companies or Solvency 1.

The deviation in terms of the requirements stipulated by Solvency 1, is in the way of acceptance of capital category. Thus, while in Macedonia the term capital means the amount you get after the calculation²³, the member states of the European Union under capital means the total value of assets after reduction of all duties that may be anticipated. Given that the concept Solvency 2 refers to the new capital requirements for insurance companies, it is expected that this part of the Law on Supervision of Insurance will need to have major changes. Hence, we should expect the required solvency margin to be calculated using the standard formula. In my opinion, the new way of calculating solvency capital requirements for insurance companies in Macedonia should give a clearer picture of their operations and hence more realistic view of the required margin of solvency in the existing insurance companies. Special attention, in my opinion, should be given to the stipulation and implementation of mandatory requirements for owning and maintaining the value of own funds of insurance companies. Namely, under Solvency 2 insurance companies and reinsurers will be required at any time to hold own funds as acceptable cover of the capital requirements for solvency and minimum capital requirements.

Insurance and reinsurance companies in Macedonia calculate technical provisions as prescribed in the Law on Supervision of Insurance and Regulation on the calculation of technical provisions. Regarding the acceptance of Solvency 2 in the legal system of Macedonia in the calculation and valuation of technical provisions will require changes in regulations relating to acceptance of the methods in terms of calculating the value of the technical provisions calculated as the sum of the amount of best estimate and the risk margin. A particular challenge for the insurance companies and the regulator in the country i believe will be a new way of valuing technical provisions under Solvency 2. The technical provisions will be calculated as weighted averages of the expected future cash flows while taking into account the time value of money and including risk margin. Today mostly reserves for claims are calculated using actuarial traditional deterministic techniques, which rely on data resulting damages²⁴. Under Solvency 2 will not only need to discount these estimates of reserves, which includes preparation of projections of payments, but will need to demonstrate knowledge for uncertainty of these stocks.

²³ Ibid, Article 78 and Article 79.

²⁴ Ibid, Article 80.

Regarding the implementation of Solvency 2 in the country it should be careful if the insurance companies in Macedonia have the will and institutional capacity to carry out an analysis of the credit risk of reinsurers, and whether they can and are willing to perform on a regular basis estimates of the impact of these risks on available capital and capital requirements. Concentration of risks and risks arising from transactions within the group are properly reflected in the standard formula and internal models established by the regime of Solvency 2. Several initiatives by the relevant government authorities are made in Macedonia in order to establish a regulatory framework and institutional cooperation for financial institutions that are part of a group identified as a financial conglomerate, but has not performed additional supervision of insurance undertakings in this regard. In terms of accounting requirements, companies that have significant involvement in other companies or exercise control over other companies are obliged to prepare consolidated accounts.²⁵

Under the Law on Supervision of Insurance in Macedonia the insurance companies can decide whether to establish a single-or two-tier management system. Most companies have established a single system and chaired by the Board of Directors. The Law on Supervision of Insurance has not defined specific requirements regarding disclosure of interests of other members of the management body of the insurance company might have, which could differ from the interests of the insurance company who manage. In this sense, it is important to take the provisions of the Companies Act, which states that data and information must be disclosed to the Annual Meeting of Shareholders by members of the management body, in other cases stipulated by the Law. Given the ownership structure of the insurance companies in Macedonia, the level of development of the insurance market, and the regulatory framework which is in force at the moment, there is a room of complement regulation in this segment, but in need of further development of the corporate culture for disclosure of information to members of the management bodies of the insurance companies, as well as to holders of qualified (substantial) participation in insurance companies.

The Law on Supervision of Insurance in Macedonia established legal requirements that insurance companies had to comply in respect of internal audit. In fact, by law, first set the requirements under which the organizational structure of each insurance company established in the territory of Macedonia should have provided a separate organizational unit for internal audit, independent of the authorities managing the company.²⁶ Considering the growth and development of the insurance companies in the country,

²⁵ Ibid, Article 120.

²⁶ Ibid, Article 123.

changes in the ownership structure and the expected opening of the insurance market in terms of carrying out cross-border insurance and reinsurance, we can expect changes in terms of function and operation internal audit insurance companies. These changes primarily i expect in terms of establishing a new system of capital requirements and the necessary changes in the risk management in insurance companies, which will cause changes in the organizational structure and priorities of the activities of internal auditors in companies.

The actuarial work in Macedonia is performed by authorized actuaries. The certified actuary is a person who is licensed to practice as a certified actuary by the Agency for Supervision of Insurance, or other authorized body or entity which conducts training for work as a certified actuary. The certified actuary is an independent and autonomous in performing the work and is responsible for the accuracy of the identified actions.²⁷ In connection with the adoption of Solvency 2 and the new capital standards for insurance companies we should expect greater presence of actuaries in the working meetings related to the planning and preparation of the new regulatory framework in Macedonia.

Given the fact that insurance companies in the country are institutions of public interest they have committed to transparency and disclosure to a minimum level of information and data for supervisory purposes and for the general public. These requirements for disclosure of operations arising from the Law on Supervision of Insurance, Companies Act, International Accounting Standards and International Standards for Financial Reporting. Insurance companies in Macedonia shall inform the Agency for Supervision of Insurance on regular quarterly, annual and current for data and changes in business operations that are defined in the Law on Supervision of Insurance. Besides the mentioned information, the insurance companies are required to prepare and submit audited financial reports, data for changes to data entered in the commercial register, changes in terms of tariffs and insurance premiums for compulsory insurance and etc.²⁸

The Law on Supervision of Insurance has given power to the supervisory authority to carry out supervision over insurance companies and other entities governed by this Law in Macedonia and from the point to determine whether the performance of insurance is in accordance with the rules on risk management, other provisions of law or other laws governing the operations of insurance companies (meaning primarily the Law on Compulsory Transport Insurance, Contract Law and Company Law). The supervision of insurance in the country is done through: a permanent site, and additio-

²⁷ Ibid, Article 110 and Article 111.

²⁸ Ibid, Articles 117 - 122.

nal field supervision.²⁹ Also the amendments to the Law on Supervision of Insurance introduce opportunity the supervisory authority or the Agency for Supervision of Insurance, in cases determined by the law, in order to avoid the ultimate measure of supervisory approval or revocation of license, to appoint a special Administration in the insurance company to task in a certain time period to consolidate the operations of debates insurance company.³⁰

Solvency 2 establishes a different approach in terms of performance of the insurance supervision and imposing supervisory measures. Unlike the current approach to the implementation of supervisory control in terms of compliance with the regulations, the new regulatory framework is established so that the supervisory authorities have the authority to act even in the planning stage. These changes aim to strengthen the control of insurance companies, and to minimize the probability of bankruptcy of insurance, as intended by Solvency 2.

In Macedonia, according to the Law on Supervision of Insurance, the Agency for Supervision of Insurance and other authorities responsible for the supervision of other financial institutions, at the request of the supervisory authority they share any kind of information about an insurance company or other financial institution needed for enforcement of financial supervision organization, permitting and decision-making on other things. Supervisory authorities inform each other of irregularities discovered during the supervision, if the irregularities relate to the work of other supervisory bodies. These data and data from the supervisory bodies of a member state or foreign country are treated as confidential and may be used only for those purposes for which they were obtained.³¹ The Agency for Supervision of Insurance pursuant to statutory powers and increased international activity since the foundation started, i.e. continued with the started cooperation with foreign insurance supervisory authorities bilaterally and in the framework of the International Association of Insurance Supervisors.

CONCLUSION

From the all above mentioned in our paper, we can conclude that the Solvency 2 framework represents a mirror of the concept of Basel II. Solvency 2 is a three-pillar system that can be summarized and presents as the following:

²⁹ Ibid, Article 159 and Article 160.

³⁰ Ibid, Article 168.

³¹ Ibid, Article 232.

The First Pillar Quantitative requirements	The Second Pillar The Supervision Procedure	The Third Pillar Market Discipline
The minimum capital	The corporate governance and the internal control	The reporting of supervision
Solvency margin Standard formula Internal models	The supervision procedures Supervisory authority	The reporting to the public
Risk exposure Allocation of risks	Security measures Control of solvency	
Technical provisions	Functionally risk management Managing assets and liabilities	
Tangible, measurable risks: Insurance risks; Market risk; Credit risk; Operational risk; Liquidity risk; Risk from management of assets and liabilities; and Other risks	All risks	

The introduction of the new insurance supervisory standards for the calculation of the capital and minimum capital, required for maintaining the solvency (named Solvency 2) in the European Union member states and in the candidate countries, is expected to improve the efficiency in the allocation of the capital, financial stability and transparency in the insurance and reinsurance undertakings.

The basic Law that sets the legal framework for the calculation of the solvency and solvency control of insurance and reinsurance in Macedonia is The Law on Supervision of Insurance. Under the Law, the insurance companies in Macedonia calculate solvency requirements and available capital under the framework known as Solvency 1. Given the fact that Macedonia aspires to become a member state of the European Union, it will have to align its legislation with the legal framework of the member states of the European Union, and hence it is necessary in the future our country to introduce and implement the concept Solvency 2. Therefore we expected that in the future we will adopt the necessary systemic reforms for implementing Solvency 2 in the country, which means adoption of a new law, and the period of harmonization of insurance companies.

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