

Dynamic Financial Analysis of the Minimum Capital Requirement. Empirical Analysis of Polish Non-life Insurance Companies

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Abstract

The Dynamic Financial Analysis (DFA) is a useful tool to forecast assets, liabilities, full financial statements (financial position) and probability of ruin of an insurance company. DFA can be used by regulators and supervisors of insurance markets to test different solutions on capital requirements especially standard formulas of Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). In the European Union in a framework of Solvency II project the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) identified the MCR as one of the critical issues from the political and technical points of view.

The article describes the role of DFA in the decision process of adoption of the standard MCR formula on the example of Polish non-life insurance companies. The paper presents an interpretation of Margin over Liabilities (MoL) approach to MCR calculation.

The study is based on empirical examples concerning non-life insurance companies operating in Poland in the period 1995-2006.

Key words: DFA, Solvency II, Solvency Margin, Minimum Capital Requirement.