

Journey of Solvency Regulations-2007 and Beyond

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The European Union is introducing a new, risk-sensitive system for measuring the financial stability of insurance companies. Known as Solvency 2, this new system is intended to provide greater security for policyholders and stability for financial markets by providing insurance supervisors with better information and tools to assess the financial strength and the overall solvency of insurance companies.

The paper traces the journey of the solvency regulations starting from the first life and non-life directives of the EU (in the 70's), the era of Solvency 1, evolution towards a better risk-based approach in some of the EU countries and finally what Solvency 2 means to them.

The drawbacks in each of the solvency regulations and the evolution into a newer directive are being attempted through illustrations by way of actual spreadsheet workings. The solvency regimes of three EU countries is being illustrated – UK, Switzerland and Netherlands. The paper also attempts to elucidate the challenges that insurance companies in these countries would face in view of the Solvency 2 directive.