Solvency II Implementation in the EEA Insurance Market and Its Implication

The past decades have witnessed an extraordinary decline in long-term interest rates in European Economic Area (EEA) insurance market. All this has made the European insurance supervisors initiate the market consistent and risk-based solvency test (Solvency II) project for the EEA insurance markets and a de-regulation process to increase competition in order to enhance products and services.

The framework of Korea Insurance Capital Standard, i.e. K-ICS which is initiated by the Financial Supervisory Commission and the Financial Supervisory Services, is similar to that of Solvency II. The new regulations may lead to significant adjustments to companies’ structures, strategies, and footprints; however, market participants continue to raise questions about the direction and purpose of capital regulation and whether there is a clear end goal for regulatory reform.

The report asks, “Where are we going, exactly? What should the system look like, and are we appropriately balancing safety and soundness with growth?”

The report suggests that the evolution of Solvency II be understood in the context of the EEA insurance market under the prolonged low interest rate environments and that Korean supervisors show what the end goal of K-ICS is and create the roadmap to the end goal from where the Korean insurance market stands rather than when to implement the K-ICS.