Recebido: 06-11-2023 | Aprovado: 20-11-2023 | DOI: https://doi.org/10.23882/emss.24189

Corporate Governance in Bancassurance Context: An In-Depth Analysis of external Control Mechanisms

O Governo das Sociedades no Contexto da Banca de Seguros: Uma Análise dos Mecanismos de Controlo Externo

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Abstract: Governance stands as a multifaceted area of interest, attracting attention in both political and academic realms on a global scale. Its significance, particularly in economics and management, has been increasingly emphasized due to a series of scandals that have resonated across various contexts, often highlighting common issues associated with power struggles and conflicting interests within organizations.

The quest for effective governance demands the implementation of multiple control mechanisms to address and prevent power-related challenges within organizations.

This article embarks on an examination of corporate governance, initially influenced by the aftermath of the 1929 market crash. The foundational work by Berle and Means introduced the concept of corporate governance, instigating extensive scholarly research in this domain. In this article, we focus on the governance of companies operating in the context of bancassurance. Indeed, bancassurance companies are of major importance to any economy, which explains the scope of our research that explores the rules and governance mechanisms governing this sector worldwide, as well as their manifestation in our research context. A comprehensive review of the Basel Committee on Banking Supervision (BCBS) forms an integral part of this discussion. This committee plays a central role in setting global banking standards and its governance structure. Notably, the article highlights Bank Al-Maghrib's adoption of Basel III provisions in the Moroccan context and underscores the significant role played by the Credit Institutions Rating Assistance System (SANEC).

Furthermore, the article delves into the pivotal role of the Insurance and Social Welfare Supervisory Authority (ACAPS) within the insurance sector, emphasizing the intrinsic connection between solvency and governance. It explores the historical importance of Solvency I and its evolution towards Solvency II, with a focus on the impact of this directive on the European insurance industry. Finally, the paper thoroughly examines the strategic application of the risk-based solvency approach in Moroccan bancassurance, stressing its contribution to enhancing financial robustness and its tailored assessment within the national context.

Keywords: Corporate Governance, Banking Control, Solvency, Bancassurance.

Resumo: A governação é uma área de interesse multifacetada, que atrai a atenção dos meios políticos e académicos a uma escala global. A sua importância, particularmente na economia e na gestão, tem sido cada vez mais enfatizada devido a uma série de escândalos que se repercutiram em vários contextos, realçando frequentemente questões comuns associadas a lutas pelo poder e a interesses contraditórios nas organizações.
A procura de uma governação eficaz exige a implementação de múltiplos mecanismos de controlo para abordar e prevenir os desafios relacionados com o poder nas organizações.
Este artigo inicia uma análise da governação empresarial, inicialmente influenciada pelo rescaldo do crash do mercado de 1929. O trabalho fundamental de Berle e Means introduziu o conceito de governação empresarial, instigando uma extensa investigação académica neste domínio. Neste artigo, centramo-nos na governação das empresas que operam no contexto da banca-seguros. De facto, as empresas de banca-seguros são da maior importância para qualquer economia, o que explica o âmbito da nossa investigação, que explora as regras e os mecanismos de governação que regem este sector a nível mundial, bem como a sua manifestação no nosso contexto de investigação. Uma análise abrangente do Comité de Supervisão Bancária de Basileia (BCBS) é parte integrante desta discussão. Este comité desempenha um papel central na definição das normas bancárias mundiais e da sua estrutura de governação. Em particular, o artigo destaca a adoção pelo Banco Al-Maghrib das disposições de Basileia III no contexto marroquino e sublinha o papel significativo desempenhado pelo Sistema de Assistência à Classificação das Instituições de Crédito (SANEC).
Além disso, o artigo analisa o papel central da Autoridade de Supervisão dos Seguros e da Previdência Social (ACAPS) no sector dos seguros, salientando a ligação intrínseca entre solvência e governação. Explora a importância histórica da Solvência I e a sua evolução para a Solvência II, com destaque para o impacto desta diretiva no sector segurador europeu. Por último, o documento examina exaustivamente a aplicação estratégica da abordagem de solvência baseada no risco no sector dos seguros bancários marroquino, salientando o seu contributo para o reforço da solidez financeira e a sua avaliação adaptada ao contexto nacional.

Palavras-chave: Governança Corporativa, Controle Bancário, Solvência, Seguro bancário.

1. Governance, a multidimensional concept of significant importance

The concept of corporate governance is an omnipresent notion in management, the preeminence of which continues to grow. Inspired by the crash of 1929, Berle and Means (1932) published a work on private property in the context of the corporation, 'The Modern Corporation and Private Property,' which marked the inception of the corporate governance concept, paving the way for extensive scholarly research, making it one of the most predominant fields of study. In their work, they emphasize that the contradiction established between the logic of ownership and profit logic in a traditional interpretation as soon as 'the firm becomes managerial' becomes superficial. Thus, in his analysis of the book, Magnan de Bornier (1987) reiterates this profit/property duality in a managerial perspective, asserting that 'the inefficiency of the company, in the case of separation, always suggested, is never demonstrated' (p.1186). In line with these works, the term governance was used by Roland Coase (1937) in his seminal article 'The Nature of the Firm,' where he introduces the concept of transaction costs, which would mark the trajectory of his work, culminating in a Nobel Prize in 1991.

Gradually, other researchers in management sciences and economics have endeavored to define governance. These definitions have drawn upon various theoretical frameworks, including transaction costs, agency theory, incomplete contract theory, stakeholder theory, entrenched theory, and signaling theory.

According to the Cadbury Report (1992), governance is the system by which companies are directed and controlled. The governance structure thus oversees the rights and responsibilities of the various stakeholders in the company. While stakeholders are always broadly conceived, the context of the said report specifically refers to the board of directors, executives, and shareholders. Governance establishes the rules and decision-making procedures in business, from setting objectives to monitoring achievements. A first set of recommendations stems from this perception, aiming notably to limit the power of the executives, as highlighted by the committee on financial aspects of governance (Cadbury, 1992; Dedman, 2002). These recommendations seek to separate the roles of CEO and chairman, set a minimum number of non-executive directors, establish independent audit committees, and strengthen the role of institutional investors.

These measures aim to multiply and diversify control mechanisms (both internal and external) in order to discipline power dynamics within the company and prevent any power drift that could impact the company's future. In 1997, the term 'good' was added to the concept when the World Bank regretted that the market (as a control mechanism, a form of self-regulation) alone cannot counteract the harmful effects of market globalization. Indeed, for Dionne-Proulx and Larochelle

(2010), 'The addition of the term 'good' is certainly connoted with normative reference, the ideological nature of which will become evident. However, the theme of 'corporate governance' has recently gained relevance, both in the concerns of politicians and researchers from various disciplinary fields (law, economics, management, political science, etc.)' (Ibid. p. 37).

Thus, there is no good or bad governance; rather, it is the application of the nearly universal rules of governance that may be lacking in organizations, leading to sometimes very harmful drifts, such as the financial scandals that still resonate (Enron, WorldCom, or CIH BANK in our context).

2. Charter of the Basel Committee on Banking Supervision (BCBS)

As the principal institution responsible for developing globally applicable standards in the field of banking prudential regulation, the Basel Committee on Banking Supervision (BCBS) provides a collaborative platform for issues related to banking supervision. Its role is to strengthen regulations, controls, and practices of banking institutions on a global scale, with the aim of increasing financial stability (BIS, 2013).

The Basel Committee on Banking Supervision (BCBS), as the primary body responsible for developing globally applicable standards in the field of banking prudential regulation, plays a crucial role in promoting global financial stability. Founded within the Bank for International Settlements (BIS) in Basel in 1974, the BCBS acts as a cooperative framework where representatives from central banks and supervisory authorities of 27 countries work together. Its mandate is to enhance banking regulation, control, and practices to achieve greater financial stability.

The BCBS carries out its mission through several strategic avenues. It facilitates the detection of existing or emerging risks by promoting information exchange on dynamics within the banking sector and financial markets. Furthermore, it advocates the adoption of shared perspectives and reinforces international collaboration by conducting dialogues on banking supervision issues, methodologies, and approaches. By developing global standards for banking regulation and supervision, as well as recommending and promoting best practices, it encourages their adoption to consolidate financial stability. The BCBS also monitors the implementation of its standards in member countries and beyond, engaging with non-member financial institutions to encourage adherence to its standards and guiding principles.

Finally, the BCBS coordinates its actions with other international institutions and financial sector standard-setting bodies to promote global financial stability (BAM, 2022; BIS, 2023).

2.1. Governance of the Basel Committee on Banking Supervision.

In terms of governance, the Group of Central Bank Governors and Heads of Supervision (GHOS) plays a supervisory role within the Basel Committee on Banking Supervision (BCBS), to which the latter is accountable by submitting its most significant decisions for approval. As the governing body, GHOS is entrusted with various responsibilities.

The GHOS, as the oversight body of the BCBS, plays a crucial role in governance and decision-making. It is responsible for approving the BCBS Charter and any potential modifications that may be made. Additionally, it is tasked with defining the broad lines of the BCBS work program, which helps steer the committee's activities in the right direction. Another important function involves selecting the Chairman of the BCBS from its members. Should the BCBS Chairman cease to be a member of the GHOS for any reason before the end of their term, the GHOS has the prerogative to appoint a new individual to this position. During any interim period, the responsibility of the chairmanship is entrusted to the General Secretary of the BCBS, ensuring continuity in leadership direction and responsibilities.

In 2010, based on lessons learned from the recent financial crisis, the Basel Committee unveiled a set of reforms called Basel III, aimed at strengthening regulations concerning capital adequacy and bank liquidity. Some of these reforms were implemented starting in 2013. In December 2017, the Basel Committee released the final versions of Basel III standards, scheduled to come into effect in 2022 according to the established international timeline. Improving the stability of the financial system is sought through an approach based on three pillars.

The fundamental principles outlined by the Basel framework rely on a structure with three distinct pillars. The first pillar, also known as pillar 1, establishes the required parameters for determining the capital to be considered and methodological approaches for calculating minimum capital considering inherent operational, credit, and market risks. Within the Basel III framework, the necessary robustness to withstand losses translates into the requirement of more substantial capital levels, leading to an increase in minimum capital requirements. Additionally, this evolution was marked by the introduction of elements such as conservative capital buffers, countercyclical capital buffers, and the maximum leverage ratio, commonly referred to as the leverage ratio. The latter complements traditional risk-based capital requirements while being independent of their weighting. The second pillar, known as pillar 2, focuses on the risk management and supervision framework associated with capital coverage. Finally, the third pillar, or pillar 3, defines the transparency and disclosure obligations imposed on banking institutions. Alongside these aspects, new standards have also been introduced, not only for liquidity management within all banking institutions but also for specific capital requirements targeting financial institutions considered systemic.

2.2. Transposition of Basel standards to the Moroccan context

In the context of enhancing prudential regulation regarding liquidity and transformation, Bank Al-Maghrib has embarked on reform efforts to complete the incorporation of Basel III provisions. These initiatives have included the creation of regulatory projects, conducting impact studies, and engaging in discussions with banking institutions, focusing on the following standards:

"The introduction of a long-term structural liquidity ratio known as the 'NSFR' aimed at ensuring that banks have a minimum reserve of stable resources to meet financing needs over a one-year period. The establishment of a process for assessing liquidity adequacy, commonly known as 'ILAAP,' aimed at ensuring that banks sufficiently cover liquidity risks by maintaining high-quality liquidity reserves, even during prolonged periods of stress. Strengthening liquidity risk management requirements by banks, through the introduction of new monitoring indicators such as intraday liquidity, the foreign currency short-term liquidity ratio 'LCR,' as well as counterparty and instrument-type financing concentration" (BAM, 2022, p. 136).

2.2.1. Moroccan Banking Context: SANEC at the Heart of Interactions with Credit Institutions

The Credit Institutions Rating Assistance System (SANEC) pursues several essential objectives. Firstly, it aims to provide a concise presentation of the financial and prudential situation of credit institutions, thereby offering a clear and succinct overview of their condition. Secondly, SANEC is tasked with evaluating the quality of the management and direction of these institutions, providing a precise diagnosis of the competence of their leadership teams. Moreover, it establishes a specific risk profile for each institution, enabling a thorough assessment of the vulnerabilities and challenges they face. Another key role of SANEC is to serve as a preventive alert mechanism, thereby strengthening prudential control by anticipating potential difficulties.

As an analytical and preventive tool, SANEC plays a crucial role in overseeing credit institutions based on a risk assessment. Furthermore, it serves as an internal management instrument by aiding in determining the optimal level of ongoing monitoring, guiding on-site control missions, and implementing corrective measures when necessary. Once a rating reaches a predefined threshold, appropriate actions are triggered following the procedures defined in the credit institution difficulty management manual.

The introduction of Basel II, especially concerning Pillar 2, has reshaped the relationship between banks and supervisory authorities around SANEC. Banks must now convince supervisors of the adequacy of their capital in relation to their risks, as well as the quality of their management mechanisms. Similarly, when the risk profile requires it, the supervisor may demand additional capital reinforcement to ensure financial system stability.

The credit institutions rating process is based on a scale ranging from 1 (favorable rating) to 5 (unfavorable rating), providing an objective and comparative measure of their performance and risks.

SANEC has played a decisive role in enhancing the effectiveness of on-site inspections by facilitating the identification of vulnerable areas within credit institutions. Controls focus on the most critical risk factors or those becoming critical, such as credit concentration, liquidity, interest rates, and off-balance sheet operations. Indeed, the on-site assessment relies on SANEC results and resulting ratings to prepare the pre-audit form before the start of each mission. In turn, the findings of the on-site inspection feed into continuous surveillance analysis to enrich the SANEC tool. At the end of each on-site inspection mission, a report is transmitted to the leaders of the concerned institution, highlighting identified areas of vulnerability and requesting measures to remedy observed shortcomings to Bank Al-Maghrib.

In Morocco, banking regulations are continuously updated to comply with international standards, especially the Basel Committee's recommendations. In the wake of lessons learned from the global financial crisis, which emphasized the need for regulatory and institutional reforms alongside the establishment of macro-prudential supervision, Bank Al-Maghrib has undertaken a review of its statutes and banking law. The goal of this approach is to structure the oversight of systemic risks in a comprehensive perspective of financial stability while establishing close coordination among financial sector authorities (BAM, 2022).

3. Case of Insurance and Reinsurance Companies

In the context of insurance and reinsurance in Morocco, the Supervisory Authority of Insurance and Social Welfare (ACAPS) is considered the primary external governance mechanism. In this regard, the prudential rules established and continuously monitored by this body are based on solvency on one hand and on risk on the other. We will present ACAPS and then discuss solvency within our research context.

3.1. Insurance and Social Welfare Supervisory Authority (ACAPS)

Established as a replacement for the Directorate of Insurance and Social Welfare (under the Ministry of Economy and Finance), the ACAPS (Insurance and Social Welfare Supervisory Authority) plays the role of the competent entity for supervising companies operating in the field of insurance and reinsurance, intermediaries in the insurance sector, as well as organizations dedicated to social welfare, such as pension funds, social welfare mutual societies, and organizations managing Mandatory Health Insurance.

This authority acts as an external governance body for the following entities:

Insurance and reinsurance companies ,Insurance intermediaries and other entities authorized to offer insurance and reinsurance operations, Public legal entities managing pension or annuity operations governed by legal texts, such as basic pension schemes (civil pension scheme, military pension schemes managed by the Moroccan Retirement Fund, the Collective Retirement Allowance scheme, and the social security scheme managed by the National Social Security Fund)Private legal entities managing pension operations operating on a distribution or distribution and capitalization basis (such as Mutual Retirement Companies), Internal pension funds within public legal entities managing schemes operating on a distribution or distribution and capitalization basis, Organizations managing Basic Mandatory Health Insurance (AMO), Mutual insurance companies, except those established within the Royal Armed Forces and Auxiliary Forces, The National Retirement and Insurance Fund (CNRA).

The table provided shows the entities under the supervision of ACAPS and their respective quantities:

Entity	Number
Insurance and reinsurance companies	23
Insurance intermediaries (Agents and brokers)	2025
Direct management offices	838
Banks	11
Financing companies	3
Microcredit associations	1
Pension organizations including CNRA	7
Mutual insurance companies	23
Mandatory Health Insurance (AMO) managers	2
Authorized payment institutions to offer insurance operations	6

Source: (ACAPS, Activity Report 2020 - Insurance and Social Welfare Supervisory Authority, 2022)

Established in 2016 by Law No. 64-12, the Insurance and Social Welfare Supervisory Authority (ACAPS) was entrusted with the missions of regulating and supervising the insurance and social welfare sectors. Enjoying independence and financial autonomy, the Authority forms one of the three pillars of regulating the Moroccan financial sector, contributing to its stability and modernization in compliance with international standards. With extensive powers, ACAPS plays a fundamental role in overseeing the sectors under its control, ensuring their integrity, proper functioning, and protecting policyholders, members, and subscribers." (Boubrik, 2023)

"With its broad scope of action in regulation and supervision within its competency, the Authority is committed to safeguarding the interests of policyholders, members, and beneficiaries of rights. Its essential mission encompasses several aspects. Firstly, it establishes regulations and standards by issuing approvals or authorizations and setting rules and standards to regulate market activity. Additionally, it is responsible for monitoring the solvency of insurance and reinsurance companies and ensuring the financial soundness of social welfare systems and organizations. Moreover, it rigorously monitors that operators under its supervision strictly adhere to the rules specific to each sector. Its role also includes protecting the interests of policyholders, members, subscribers, and rights beneficiaries. Furthermore, it carefully oversees commercial practices and handles all complaints related to operations conducted by entities under its supervision, contributing to strengthening confidence and transparency in the sector.

3.2. Solvency and governance, inseparable in the insurance industry.

La solvabilité of an insurance company is defined by its ability to meet its obligations to policyholders and beneficiaries. This capability is intrinsically linked to the level of reserves and available equity recorded within the company's balance sheet. The specific calculation parameters related to minimum provisions and equity are meticulously defined in strict compliance with current regulatory provisions. The competent supervisory authority, such as the ACAPS (Authority for the Control of Insurance and Social Welfare) in Morocco, is responsible for ensuring the insurance company's strict compliance with these regulatory requirements.

Insurance companies contractually commit to providing compensation in the event of an accident, such as a car crash or hospitalization. Their solvency depends on two key elements. Firstly, it relies on the extent of their commitments, i.e., the guarantees and protections offered to policyholders. Secondly, it depends on the resources they have to meet these commitments, including their equity and assets such as stocks or bonds.

While banks primarily face liquidity risk, insurance companies must manage the risk of insolvency. To maintain their solvency, these companies must not only maintain adequate reserves to cover their policyholder obligations (known as technical provisions) but also have sufficient equity to deal with unforeseen events that could jeopardize their ability to fulfill their commitments. Regulatory equity, crucial for financial stability and to foster policyholder trust, is a key component of this.

Insurance companies have the option to invest in various assets such as stocks, bonds, or real estate. These assets present varying levels of risk, where riskier assets may experience more significant value fluctuations. Thus, the solvency of an insurance company also depends on the types of assets it holds.

The complexity lies in the fact that each insurer and reinsurer must understand and evaluate the specific risks within its business to allocate sufficient capital to cover these risks. It's crucial to anticipate and manage these risks adequately for sustained financial solvency.

Before 1973, insurance companies were subject to solvency criteria specific to each country, resulting in significant disparities from one country to another. However, the introduction of European directives and the opening of European markets in 1973 led to the establishment of new directives.

Thanks to the opening of insurance markets within the European Union (EU), insurance companies were able to expand their operations and offer services to clients located in countries other than their home country. To ensure fairness and harmonization of regulations, the European Union established directives that set common minimum standards. These directives, known as "Solvency I" (directives 73/239/EEC and 79/267/EEC), were adopted in the 1970s. Although EU member states retain the possibility of imposing stricter regulations, these directives establish rules aimed at protecting policyholders.

3.2.1. Solvency I

Solvency I," also identified as "Directive 73/239/EEC" and "Directive 79/267/EEC," marked a pivotal point in shaping the regulatory structure of the insurance sector in Europe. Adopted in the 1970s, this first European directive focused on the solvency of insurance companies with the aim of establishing a uniform regulatory framework within the European Union, thereby creating regulatory harmonization for entities in the insurance sector.

The primary goal of Solvency I was to define common minimum standards regarding solvency to ensure financial stability and the inherent capacity of insurers to meet their obligations to policyholders and beneficiaries of insurance contracts. This directive established precise criteria in three fundamental areas: technical provisions, eligible assets, and capital.

In terms of provisions related to technical reserves, Solvency I laid down regulatory principles determining the minimum threshold that insurance companies must establish to cover contractual obligations towards policyholders. These provisions are subject to a cautious evaluation to prudently reflect the actual risks insurers face.

Regarding eligible assets, this directive set specific criteria for determining the categories of assets in which insurance companies are permitted to invest. These criteria aimed to ensure that assets held by insurers possess adequate quality and liquidity to meet their obligations.

Finally, Solvency I imposed requirements concerning the capital of insurance companies. Insurers were required to maintain an adequate level of capital reserves to absorb potential financial shocks and preserve their long-term solvency.

Solvency I was a significant milestone in harmonizing insurance regulation in Europe. It created a common regulatory framework that allowed insurers to conduct business across different EU countries while adhering to similar solvency standards. This contributed to enhancing consumer confidence in the insurance sector and ensuring proper policyholder protection.

The Solvency I directives established three main areas that insurers must comply with:

Establishing appropriate technical provisions.

Holding a sufficient quantity and quality of assets.

Maintaining an adequate level of capital reserves.

Technical provisions refer to the financial reserves that the insurer sets aside to guarantee the fulfillment of its commitments to policyholders and contract beneficiaries. It is crucial that these technical provisions are adequate to cover anticipated costs of future claims. It's evident that if there is a lack of financial resources to compensate clients, the insurer faces the risk of insolvency.

Assets play a central role in insurance companies, encompassing various resources such as real estate and financial investments, contributing to the financial strength of the entity. However, the use of these assets to secure insurance obligations is subject to specific rules. Diversification of investments is of paramount importance to mitigate risks, requiring a distribution among different asset categories and geographical allocation to reduce correlation links between their variations. Alignment with technical provisions remains crucial, requiring that the value of assets precisely matches the contractual obligations. The concept of "asset-liability congruence" remains essential, mandating that investments related to a commitment be denominated in the same currency as the commitment, with a limited tolerance of 20% to this rule. Asset profitability is also a key criterion, requiring assets to generate a positive average yield to support commitments. Furthermore, asset stability is sought, avoiding excessive fluctuations in their value. Finally, asset liquidity is a crucial parameter, demanding that the assets held can be quickly converted into cash when needed.

Under Solvency I, assets are recorded in the balance sheet at their acquisition value.

Equity, also known as capital reserves, represents the financial resources available to an insurance company to weather potential adverse economic fluctuations. It serves to protect the interests of policyholders and insurance subscribers by providing a money reserve that can be used in times of need.

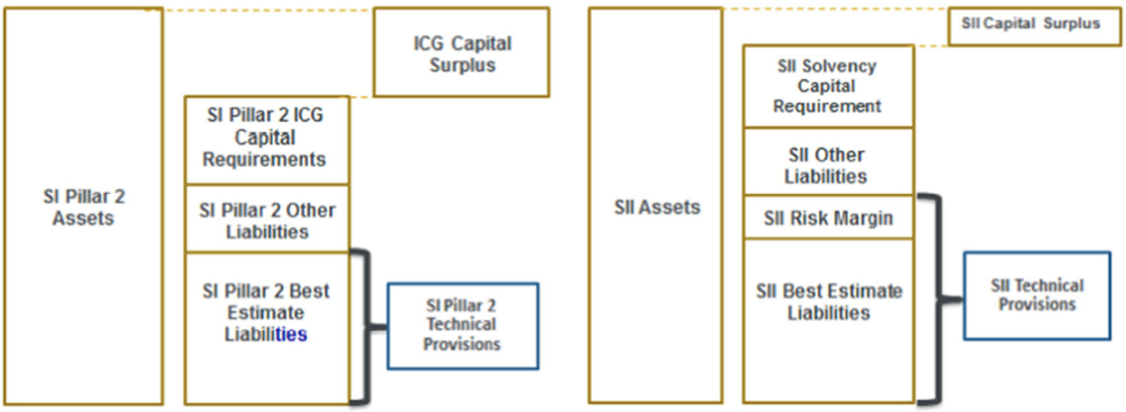
The minimum capital and technical provision requirements imposed on insurance companies under Solvency I set a solvency limit. This limit aimed to ensure that insurers had a sufficient level of capital reserves and provisions to meet their obligations to policyholders.

The goal of the solvency limit established by Solvency I was to guarantee the financial stability of insurers and safeguard the interests of policyholders. This limit was designed to ensure that insurance companies were better prepared to address these challenges and maintain their ability to meet their commitments to policyholders.

Given the crisis of the early 2000s, the requirements of the Solvency I directive proved to be inadequate. Consequently, the European Union undertook a complete reform of insurance regulation in Europe, introducing Solvency II, a more comprehensive directive that came into effect in 2016.

Solvency II introduced a more advanced approach to insurer solvency, with more precise requirements regarding capital calculation, risk management, and reporting obligations.

Figure 1*. Example comparison of Solvency I Pillar 2 and Solvency II balance sheets*



(Cooke, et al., 2017)

3.2.2. Solvency II or "Risk-Based Solvency (RBS)"

The genesis of the Solvency II directive took place in Europe from the late 1990s to the mid-2010s, and its implementation was initiated at the beginning of 2016. Breaking away from the previous prudential framework represented by

Solvency I, this directive established a new regulatory framework that governs the conduct of the insurance industry (Issaka, 2016).

It was designed to enhance the financial stability of insurers, protect the interests of policyholders, and improve risk management within the insurance industry. It introduced new requirements in calculating capital, risk management, and reporting to better assess the capacity of insurers to face the risks they are exposed to.

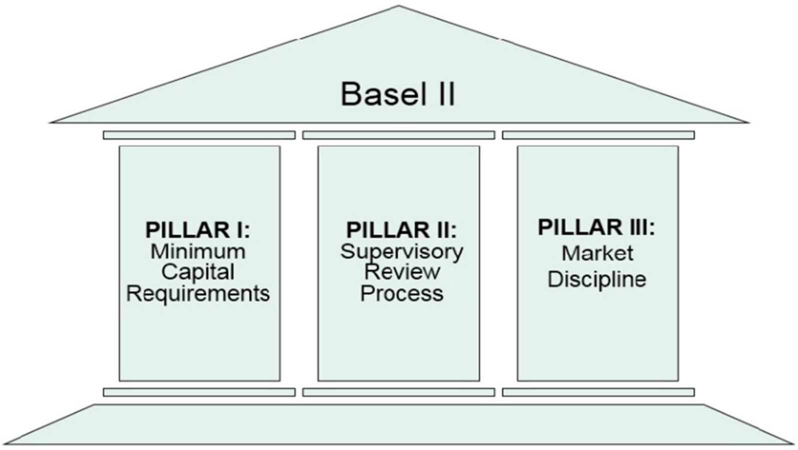
This directive is currently capturing the attention of participants within the insurance and reinsurance industry. Its enforcement on January 1, 2016 represents a major transformation, marking the most significant evolution the sector has seen in many decades. Inspired by the Basel II reform in the banking sector, this directive rectifies the deficiencies observed in the first Solvency I directive and brings substantial changes to the existing regulatory framework (Dupin, 2016).

Solvency II, as well as the risk-based approach to solvency, emerge as concepts of paramount importance within the realm of financial regulation and risk management, specifically in the insurance and financial activities sphere.

The risk-based solvency approach generates a broader strategic paradigm that goes beyond the limitations imposed by regulations. This approach focuses on assessing and managing risks specific to each company, considering parameters such as the entity's size, operational model, the markets in which it operates, and other relevant elements. Unlike fixed and uniform standards, this approach acknowledges the inherent variability in risks and encourages flexible and adaptive management.

In conclusion, the points of convergence between Solvency II and the risk-based approach to solvency lie in their focus on thorough and pragmatic management of financial robustness in enterprises. Both aim for better alignment with the complexity and dynamics of risks within an ever-changing financial environment. Solvency II or Risk-Based Solvency is structured around three pillars.

***Figure 2**: Pillars of the Basel Capital Accord « Solvency II »*



(Brown, 2014)

Pillar 1: Capital Assessment. Insurance companies must calculate their capital requirements based on the risks they assume, using more sophisticated methods and internal models if permitted. This ensures that insurers have adequate capital to cover their risks.

Pillar 2: Risk Management. Insurers must establish strong risk management systems, including governance processes, risk identification and assessment, and control and monitoring measures. The goal is to ensure proactive and effective risk management.

Pillar 3: Transparency and Reporting. Insurance companies must provide detailed information about their activities, financial situation, and risks in regular reports. This allows supervisors and stakeholders to better understand the insurers' situation and make informed decisions.

Solvency II has introduced a more holistic and risk-based approach to insurers' solvency, taking into account elements such as market volatility, asset quality, and operational risks. This directive aims to strengthen the confidence of policyholders, investors, and regulators in the insurance sector by ensuring better risk management and stronger protection for stakeholders (Pierre, 2021).

4. Analysis, discussion and application of Risk-Based Solvency (RBS) in the Moroccan bancassurance context

The implementation of the risk-based solvency approach in Morocco holds strategic significance in advancing the regulation and financial management within the insurance sector. This approach aims to establish a more refined and adaptive evaluation of the financial robustness of insurance companies, taking into account the specific risks they face within the Moroccan context.

The adoption of this approach reflects an acknowledgment of the dynamic and evolving nature of risks in a changing economic environment. Instead of conforming to fixed rules, the risk-based solvency approach aims to assess the financial strength of insurers by considering their ability to effectively manage the risks inherent in their activities.

This process involves an in-depth analysis of risks specific to each company, considering elements such as the nature of their operations, the product categories they offer, the characteristics of the markets in which they operate, and other factors specific to the Moroccan context.

The introduction of the risk-based solvency approach in Morocco demonstrates a commitment to modernizing and strengthening the insurance sector, aligning regulation and financial management with the best international practices. This initiative should contribute to proactive and resilient risk management, thereby promoting stability and long-term viability in Morocco's insurance market.

Structured around three pillars, the reform integrates a comprehensive assessment of all risks insurers face when calculating the solvency margin. This provision is likely to significantly reduce the margin surplus observed within Moroccan insurance companies.

However, these companies demonstrate sufficient resilience to absorb such shocks, as evidenced by various stress tests. According to the interim President of the Insurance and Social Welfare Control Authority, « Since the launch of this initiative in 2017, we have observed strong adherence and sustained engagement from the sector. Today, to our great satisfaction, the implementation of Pillar II, which is very resource-intensive, is almost complete. Regarding Pillars I and III of this project, discussions with the industry are at an advanced stage. We are in the phase of stabilizing the calibration of the model, and we aim to submit the regulatory texts for approval in the second half of this year. Everything leads us to believe that we will be ready by 2024» (Alamy, 2023).

5. Conclusion

Governance is not a passing fad or a simple catchphrase; it remains a crucial imperative, particularly within the realms of insurance and banking companies. The substantial significance of governance has been underscored by financial scandals, notably within these industries, where strong governance frameworks might have potentially prevented such crises. Considering the crucial functions these sectors hold in ensuring economic stability, instituting robust governance practices is vital in upholding financial well-being and fostering public confidence. Global entities like the Organization for Economic Co-operation and Development (OECD) and the World Bank have focused specifically on enhancing governance standards within these sectors through diverse measures and policies.

The governance and solvency oversight are fundamental pillars in the context of bancassurance. This combined financial service sector involves banking and insurance activities, adding complexity to the risks faced by institutions. Prudential regulations and robust governance are critical to ensuring financial stability and safeguarding stakeholders.

Effective governance establishes control structures, decision-making processes, and proper oversight, while solvency oversight ensures companies' ability to meet their obligations to customers and maintain adequate capital levels to cover risks.

In the bancassurance sector, this dual perspective provides a better understanding of operational risks, credit risks, and risks associated with insurance activities, requiring stricter oversight. Strong governance and vigilant solvency surveillance ensure customer protection, encourage transparency, and ultimately bolster confidence in the sector.

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