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Building the Behavioural Balance Sheet: An Essay on Solvency 2

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Introduction

Solvency, the risk of insolvency and the development of metrics for determining the health and failure of organizations, have a long history (Kurunmaki/Miller 2013). Yet it is liquidity which has tended to capture the attention of economic sociologists.

Carruthers/Stinchcombe (1999) argue that liquidity in the sense of an ability to transact, requires a certain kind of standardization. Liquidity is that which makes markets work, and whose essence is circulation. The financial crisis of 2008 increased institutional attention to liquidity – or liquidity risk more precisely – and provided further impetus to the emerging discipline of the sociology of finance focused on the effects of complex financial instruments, and new kinds of market actions (High Frequency Trading for example). Illiquidity of the kind created in complex credit derivative markets even came to be described as a problem in the “sociology of knowledge” (Mackenzie 2011). From this point of view solvency is at best a matter of background interest, involving the technicalities of accounting balance sheets and the relationship between assets and liabilities. Furthermore, many apparently solvent organizations experienced drastic liquidity issues in the financial crisis; liquidity is therefore the primary concept because it “bites first” as the ability to transact. Accounting based solvency is at best a derived measure of financial health.

Despite this interest in liquidity, the focus of this essay will be primarily on solvency. Solvency conceptualizes a different conception of viability and organizational resilience from liquidity, with different temporal horizons. Furthermore, whereas liquidity and illiquidity reveal themselves at the point of transaction, solvency is a whole-of-organization concept with wider scope. This contrast is even more evident in the specific setting of insurance organizations. While such organizations must pay attention

to liquidity, solvency is the constitutive regulatory principle of their continued existence. Indeed, the specific focus on insurance regulation in what follows – on Solvency 2 – will also reveal close relationships between solvency and organizational governance. Yet the purpose of this essay is not to engage directly and more than is necessary with the technicalities of solvency or with the institutional reasons for the shift from one regulatory regime, “Solvency 1” so-called, to another, Solvency 2. It is rather to explore whether and how it might be possible to think sociologically about Solvency 2, a regulation permeated by actuarial and financial economic science, and to suggest that the transition between the two regulations reveals an important shift in the conceptualization of the organization itself, and of the calculative infrastructure which defines it. Beneath the details which preoccupy actuaries and financial economists, Solvency 2 is driven by an “insurantal model” of organizing as such. At the centre of this model is the re-engineering of the insurance organization balance sheet and its temporal modality.

The essay is organized as follows. It begins with a general account of solvency as a construct and how it applies to insurers. This is followed by an abbreviated overview of Solvency 2 and its points of contrast with its predecessor regulation, Solvency 1. Then the main argument consists of two linked parts. First there is a more detailed discussion of Solvency 2 in terms of both the financialization of, and risk-based approach to, solvency. Second, the argument focuses on the Solvency 2 requirement for insurers to assess their own risks to their solvency, in part by transforming the balance sheet from a static point in time statement into a dynamic, strategy-driven representation of ongoing solvency.

This regulatory project to build a dynamic balance sheet with behavioural traction makes Solvency 2 sociologically interesting. Indeed, accounting theorists have dreamed of dynamic accounting like this but have never managed to institutionalise it (Ijiri 1989). We know of course in general terms that human behaviour drives economic activity. This economic activity is usually recorded in the form of transactions which enter accounting systems. Accounting systems aggregate this information into performance representa-

tions – income statements and balance sheets. Yet the link between behaviour (and hence risk-taking) and balance sheets has always been tenuous: accounting systems have generated their own highly institutionalized ways of representing performance and balance sheets which, despite occasional crises, have remained substantially stable. In essence, Solvency 2 is a requirement for insurance organizations to build a new infrastructure linking their solvency balance sheets dynamically to their risk management systems and business strategy. In doing so, a new integrated representation of the organization as a time-series of balance sheets is created with the solvency construct at its heart. This, at least, is the aspiration.

Constructing solvency

Company law in most jurisdictions seeks to “regulate” solvency but it is rarely defined, even though it is normally an offence to trade while ‘insolvent’ since this misleads, and creates involuntary risk, for creditors. The details of solvency are embedded in practice norms generated by accountants. They have evolved from a combination of “change from below” via institutionally specific processes of disputation for the reconstruction of distressed entities, and pressure from above in the form of statutory prescription and global norms. Indeed, efforts to reform solvency regulation encounter diverse institutional frictions in different national contexts (Halliday/Carruthers 2009).

The technical nature of solvency seems straightforward on the surface, a mere matter of accounting. In essence it is a balance sheet concept. In other words, at any point in time the solvency relevant question is: does an entity (or even an individual) have more assets than liabilities in the form of what might be called “free capital”? If it does, we can say it is technically solvent. If it does not, then it is technically insolvent.

From this base concept it is possible to construct “solvency ratios” to reflect relationships between assets and liabilities, and to define norms of financial health. In simple terms the ratio of assets to liabilities ratio should be greater than 1.

A ideal-typical insurance company balance sheet will consist of assets – property and cash but especially investments of different kinds (equity, bonds). It will not generally have a loan book on the asset side like a bank. On the liability side of the balance sheet things are often more complex. Rather than deposits from customers in the case

of a bank, the numbers for liabilities represent an estimate of the contingent claims associated with different insurance contracts. Banks are essentially structured by, and make money from, the mismatch between the lending, usually long term, on their asset book and borrowing short via retail deposits on demand. In contrast, an insurer receives and invests premiums after costs and seeks to estimate and manage its liabilities on the insurance business which it writes. If it charges too little by way of premiums for the risk it writes, or if claims are greater than expected, then the insurer will run into solvency issues. For this reason this liability estimation process, including risk pricing, is a specialist activity usually done by actuaries who use experience data to estimate the likely claim profile on a book of insurance business. This data is used to support a “technical” process of creating “reserves” to cover the expected liabilities. This reserving is normally a way of ring-fencing or linking specific assets to the insurance risk in question – “matching” as it is called. In the case of insurance, solvency is a relationship between these liabilities, in the form of possible future contingent claims represented by reserves e.g. death or some other major health event for life insurance, and the quality of the assets held to cover them.

Even from this simplified account, it is clear that solvency for both insurers and banks is a constructed product of many underlying elements each with their distinctive institutional characteristics, not least the dependence of the valuation of certain assets and liabilities on assumptions and valuation conventions. History provides plenty of examples of companies which have “failed” because they had understated their “true” liabilities (Equitable Life) or, indeed, had hidden them from view in “off-balance sheet” vehicles (Enron). Similarly, asset values – such as loans and investments – which make an entity look solvent, may turn out to be much lower than first imagined, or even fictitious.

Furthermore, solvency is critically dependent on the underlying conception of the entity. Entities such as corporations may seem straightforward but, as the banking crisis showed, the question of solvency may depend on the attitude of creditors to seek a reconstruction, or indeed on government support. In the case of countries, as we saw with Greece most recently, solvency is more evidently a negotiated outcome between different creditors rather than a technical calculation. And as Kurumaki/Miller (2011) imply in the context of health organization failure, solvency does not have the objectivity that is usually attributed to it. Not only is it fundamentally a function of arbitrary entity boundaries and multiple relationships with claimants (e.g.

shareholders, taxpayers), it is also the product of constructed relationships between constructs in the form of financial ratios. Indeed, far from simply monitoring the health of an organization, these solvency ratios construct and perform that health itself via its representations (Miller/Power 1995; Kurunmaki/Miller, 2013:1108).

As I argue below, Solvency 2 is a radical shift in the basis of these representations and hence in the ratios that define and perform the organizational health of insurers.

Solvency 2: a brief overview

Solvency 2 is the label for a new European Union regime for the regulation of insurers and their solvency. Its birth since the original Directive in 2009 has been controversial with a number of stops and starts, but it is due to go live finally on January 1st 2016. Accordingly, 2014 and 2015 have been exceptionally busy years for European insurers as they prepare to comply with the regulations.

Insurance regulation is simple in principle: the aim is to ensure that insurers have sufficient capital to meet claims and other liabilities as they fall due. Liabilities can relate to many different kinds of risks – life, fire, marine, health, auto and so on – with corresponding actuarial and underwriting specialisms. As insurance businesses shifted from providing pure insurance cover of a general or a life-based nature towards being investment managers in their own right, e.g. providing pensions, the actuarial role has become even more critical. This was famously exposed in the UK case of Equitable Life which had written guaranteed annuity contracts which it was not able to honour, an event which triggered reform of the actuarial profession in the UK (Collins et al. 2009).

Traditionally under the original legislation dating back to 1973 – which came to be known as “Solvency 1” – solvency was conceptualised in terms of a minimum, statutorily determined capital requirement (MCR) in addition to the technical reserves for liabilities calculated on a per policy basis. Solvency 2 is much broader in scope than Solvency 1 and mirrors the structure of the Basel 2 global regulatory framework for banks in terms of three pillars, namely: technical solvency; governance and risk management; disclosure and reporting. The pressures for change from Solvency 1 to Solvency 2 are complex but broadly reflect the increased emphasis on risk management in financial organizations, and the desire to make regulation proportionate, and more sensitive to, risks in regulated

entities, something which was not the case under Solvency 1. This increased risk-sensitivity is why Solvency 2 is popularly regarded as a “Basel regulation” for insurers.

The intention of the new regulation is to articulate a conception of solvency based on a “realistic” assessment of assets and a “best estimate” of liabilities. The free assets would then be calculated after the creation of a Solvency Capital Reserve (SCR) as the aggregate of capitalized risks for various standardized risk categories – market risk, insurance risk etc. The SCR may be calculated using a standard formula or internal model, rather like the Basel regulations for banks. Whereas the MCR under Solvency 1 prescribed a minimum level of solvency capital, the SCR is intended as an economically realistic reflection of the risks in the business, which may change as the business evolves.

It is difficult to find anyone who likes Solvency 2. There are of course some – tucked away in the offices of the European Commission in Brussels and the actuarial offices of insurance firms. And there are those who benefit from the advisory market created by Solvency 2. But ask most insurance practitioners and the story is likely to be the same: costly, bureaucratic, unlikely to achieve its objectives, and even likely to generate risk aversity among underwriters. Anecdotes abound: one story, relayed in an interview with the chief risk officer of a large UK insurer, concerned an executive who offered to take a pay cut provided her new role involved no Solvency 2 work. Another concerned the “burn-out” experienced among Solvency 2 project leaders working to constantly changing regulatory deadlines.

This Solvency 2 “existential strain” is much discussed by practitioners who are close to the process. History tells us that most large scale regulatory initiatives involve frictions and issues of this kind. For example, take the early years of implementation of the so-called Sarbanes-Oxley Act in the United States with the aim of “fixing” financial reporting after a series of scandals (Enron, Worldcom), and the stories and anecdotes are much the same. Casual analysis reveals that much of this experiential friction arises from the need to build a “calculative infrastructure” (Kurunmaki/Miller, 2013) and associated data capture and information flows. Indeed, like Sarbox, Solvency 2 demands the creation of audit trails as an evidential base by which compliance with the regulations can be demonstrated.

Yet, by focusing on the pain and detail of implementation – as much practitioner commentary does – the larger idea behind Solvency 2 can often be lost from view. The next

two sections seek to position the sociological relevance of Solvency 2.

Solvency 2 and financialization: from prudence to risk

Risk and risk-taking, and hence solvency, are constitutive of the business models of insurance companies. As suggested above, at the entity level this boils down to the management of balance sheet quality and the relationship between assets and liabilities as a measure of organization health. Insurance entities have a natural self-interest in staying in business and in their solvency, but their financial viability has also been subject to a shift in the regulatory regimes and with it a change in the calculative basis of solvency.

Under the Solvency 1 regulations, solvency was determined primarily by the application of actuarial prudence. Indeed, actuaries have acquired a pop reputation for excessive prudence. In general terms this means that assets are valued at so-called “book” values or historic entry values, normally regarded as a floor or minimum value with little relation to a market value. Technical provisions for liabilities are also valued prudently, and statute applies a further minimum capital requirement. The net sum of these elements yields a figure for free surplus assets. The ratio between these free surplus assets and the minimum capital requirement became a snapshot measure of health around which regulators could focus their work. In short, all the numbers on a Solvency 1 balance sheet had prudence built into them. This has been called the traditional “accounting” approach to insurer solvency and can be represented as follows:

See Appendix, Figure 1

With Solvency 2, this prudence in creating the reserves and in recognizing the liabilities (most importantly, the potential insurance claims to be paid out) has been replaced and relocated by a risk-based approach. This approach has different measurement bases for different elements of the balance sheet above. First there is a so-called realistic valuation of assets, which equates to what is now called fair value, meaning a market or market-replicating value. This is one of the most important and controversial measurement principles in accounting in recent years, blamed in part for amplifying the financial crisis (Laux and Leuz, 2009; Power, 2010). Though it is uncontentious for valuing assets in liquid, well-functioning markets, it is more prob-

lematic when those markets fail, or for more idiosyncratic assets. Importantly, the application of fair value means that Solvency 2 numbers now correspond more or less to those in the published accounts, which was not the case under Solvency 1.

Second, liabilities are measured on a “best estimate” basis also by reference to market indicators and, for technical reserves, by generally using less pessimistic assumptions about e.g. mortality, morbidity, and other relevant loss data, than Solvency 1. So, having adopted a more “realistic” and less prudent measurement of assets and liabilities, risk is primarily dealt with explicitly by determining risk capital in relation to standard categories and sub-categories of risk e.g. market risk, insurance risk and, indeed, liquidity risk. The assessment of these risks modifies how much risk capital an insurer will need; in essence the higher the risk, the more risk capital is needed.

The different risk elements aggregate to the Solvency Capital Reserve (SCR), subject to an allowance for correlation of risks. An emerging balance sheet ratio is that of free assets as a percentage of the SCR. Finally, a further element of prudence – a risk margin – is applied. This is the cost of transferring the liabilities to another party in the event of insolvency. Insurers may use a standard approach to calculate the SCR or their own models e.g. for market and insurance risk. Capitalization is derived from various prescribed stresses applied to the business. This means that risk capital is a point within a range defined by different possible stresses. Insurers have an option to use different stresses from those prescribed by the regulator if they can justify them. The Solvency 2 balance sheet can now be represented as follows:

See Appendix, Figure 2

For all its technicalities, this transition from Solvency 1 to Solvency 2 is much more than a change in measurement method. In essence, the shift from Solvency 1 to Solvency 2 reflects the broader financialization of the balance sheet (Power 2010), and a change in the underlying conceptualization of “solvency risk” – from one based on prudence to one based on fair value adjusted for risk and subject to stress testing. Because of this fundamental change in the representation of “solvency risk,” the key ratios of health for Solvency 1 and Solvency 2 have little to do with each other.

Under Solvency 1 a ratio in the form of a solvency margin is typically calculated as:

$$\frac{\text{Available Capital (Surplus Capital + MCR)}}{\text{MCR}} \times 100\%$$

The MCR is the statutorily determined minimum capital required. So for example, for the year ended December 31st 2014 the insurer and wealth manager AXA reported a solvency margin ratio like this of 266% – very “healthy”. Under Solvency 2 the “equivalent” solvency margin ratio would be as follows:

$$\frac{\text{Available Capital (Free Surplus + SCR)}}{\text{SCR}} \times 100\%$$

Yet this equivalence is illusory because the numerator and denominators of the ratios are completely different. It is estimated that these margins will be lower in general under Solvency 2 but they cannot be compared with those under Solvency 1. In simple terms the uplift in asset values and lower liabilities under Solvency 2 are offset by a risk based reserve – the SCR. Because of this insurers with very different risk profiles might have similar margins under Solvency 1 but would be very different under Solvency 2. Whether Axa’s Solvency 2 margin increases or decreases will depend on its risk profile, leading commentators to predict that the “transparency” of risk under Solvency 2 may lead insurers to be more risk averse. It should also be noted that regulators will prescribe a minimum level of SCR – an echo of the MCR from Solvency 1.

Finally, the Solvency 2 balance sheet is also regarded as more “economically realistic,” meaning that it is constructed from and is more reflective of, although not identical to, the way the insurance company is actually run and how a market might value it. Solvency requirements now also bear a closer relationship to, and feed off, international standards for insurance accounting, although there are some important differences too. Fundamentally, Solvency 2 requires new infrastructure and data collection requirements – in essence an extensive audit trail (e.g. “look-through” requirements in the case of assets) – in order that solvency can be credibly demonstrated both to regulators and to those who run insurance organizations.

The ORSA and the dream of integration

While the shift to a more “realistic” balance sheet adjusted by explicit risk reserves is the distinguishing feature of Solvency 2 as compared to Solvency 1, in a way both are static point-in-time balance sheet conceptions of solvency. The critical regulatory innovation for Solvency 2 is the requirement for a dynamic integration of the solvency balance sheet within the wider risk management and strategy processes of the insurer. The instrument of this integration is the Own Risk Solvency Assessment or ORSA. The ORSA is a new kind of accounting statement, which encompasses inter alia:

- ☐ a narrative account of the business model, namely the products, markets and growth ambitions of the insurer;
- ☐ an account of the risk management framework and risk appetite;
- ☐ importantly, a statement of the capitalization of solvency risks, including stress tests and scenarios for arriving at such capital amounts in aggregate as the SCR;
- ☐ An overall risk profile to include all risks, not just those capitalized.
- ☐ Projections of the Solvency 2 balance sheet based on existing business plans.

So, whereas the Solvency Capital Reserve required under Pillar 1 is a specific form of risk capitalization based on prescribed stresses to the balance sheet, the ORSA requires insurers to produce their own representation of their business model, the risk management systems which underlie the production of the SCR and, using assumptions and stress tests which reflect the business, produce their own assessment of their Solvency 2 balance sheet. In addition, this balance sheet must be projected in line with business plans to provide a “forward-looking assessment” of solvency risk.

So while the SCR is the statutorily derived benchmark of periodic solvency, the ORSA requires that this measure be part of a larger organizationally-specific dynamic linking business plan formulation, specific risk identification practices, risk appetite formulation and monitoring, mitigants in the form of controls and, for designated categories of risk, capitalization. The ORSA may also contain company-

specific stress tests and scenarios designed to demonstrate continued solvency under different conditions.

The institutional ambition behind the Own Risk Solvency Assessment is considerable. In effect, the static balance sheet of accounting is being radicalised and made more dynamic by being explicitly combined with risk management. The ORSA is intended as an all-encompassing statement of strategy and related risks both at a point in time and on a projected basis. In essence, it requires the Enterprise Risk Management of the organization to be systemically integrated with the accounting balance sheet. ERM comes in many shapes and sizes but is essentially an organization-wide framework for assessing many different kinds of risks, not only those that are readily quantifiable. Indeed, via ERM, insurance organizations seek to manage risk, which they do not capitalize under Solvency 2, e.g. reputational and strategic risks.

The importance of Solvency 2 is that, via the ORSA, it is the first systematic attempt to blend practices of accounting and integrated Enterprise Risk Management, which have traditionally occupied different intellectual and practical spaces (Mikes 2009). Furthermore, the ORSA embodies a self-regulatory philosophy and places great emphasis on the governance of the dynamic solvency risk process by insurance company boards. The ORSA is intended to be a board-level and “board-owned” living document and, in essence, regulators are seeking evidence that insurance company directors are fully engaged in the process, have substantial control over scenario and stress test design, and essentially use the ORSA report, and are accountable for it as much as they are for the statutory financial accounts. As business plans and strategy changes, the idea is that this feeds automatically through the ORSA and to adjustments to the SCR benchmark.

This governance programme is in effect a dream of behavioural change at the level of the board, which then trickles down into the wider organization. In the 1990s, surveys of insurance companies revealed that Enterprise Risk Management (ERM) was alien to many of them; they did not identify and manage their many risks comprehensively and in an integrated way. Risk – in the sense of insurance risk – was the province of underwriters and actuaries, while specialist “risk managers” found themselves marginalized for many years (Power 2007). Solvency 2, via the ORSA, attempts to cut across these older resistances to ERM and to create an integrated framework. Furthermore, jurisdictional tensions and differences between the calculative

cultures of accountants and ERM specialists are, in theory at least, dissolved in Solvency 2: the balance sheet at the heart of the ORSA process is simultaneously both an accounting and a risk construct and, crucially, defines a core role of the board in an insurance organization.

Discussion: exploring the behavioural balance sheet

Insurance and its risk-taking properties fascinate sociologists for many different reasons. In part, it is because the history of insurance coincides with the history of applied probability theory and the institutional success of actuarial mathematics. It is the history of “taming chance” (Bernstein 1996). In part it is because, the collective security provided by insurance schemes is a model or metaphor of government itself subject to moral hazard (Ewald 1991). Indeed, insurance can be a form of governance of behaviour (Ericson/Doyle 2003). In part, insurance is implicated in the neo-liberal construction of thrift and the prudential saver (O'Malley 1999). And in part there is the fascination with an industry, which takes risks and operates at the limits of insurability (Ericson et al. 2004; Jarzabkowski et al. 2015).

From the point of view of these grand themes, Solvency 2 seems to be a rather sociologically uninteresting window on insurance. Yet for all the pains of its birth, and for all the technically specific requirements, which have generated a data collection and resource challenge for insurers, it may, by virtue of this infrastructural investment achieve something far-reaching. In short, underlying Solvency 2 is a radicalization of the balance sheet as a way of imagining the organization in a more explicitly future-regarding way, guided by fair values moderated by risk, not merely for external investors but also for internal actors. It does this by demanding something that accounting regulators have never managed via a new kind of accounting document – the ORSA – namely, a dynamic linkage between the balance sheet as a statement of assets, liabilities and net worth, and the risks faced by the organization and their management. Importantly, this means that “valuation” is not just a “spot” concept, a point estimate of a discrete valuation process. It is rather a temporary outcome of a broader organizational infrastructure involving stresses and scenarios, governance practices, data collection and monitoring.

From this point of view, Solvency 2 is much more than a technical regulation of solvency. It is a new way of imagining insurers as risk-takers over time. Liquidity risk is ab-

sorbed into the general risk-based conceptualization of the organization and the balance sheet is understood dynamically as a series of projections under assumptions, which must be “owned” and challenged by the most senior members of the organization.

Following Miller/Power (2013), four themes can be proposed as areas for further and more detailed research on Solvency 2. First, via the instrument of the ORSA, the Solvency 2 regime is adjudicative about the health of insurers in terms of new ratios relating the SCR to Free Capital, which can be tracked over time. The regulator can also set trigger points for intervention based on the SCR. But we know little about how the health of insurers is both constructed and evaluated in specific cases. How, for example, do regulators place weight on the technical parameters of the SCR as compared to assessing the quality of organizational governance via the ORSA? What, in short, is the working relation between pillar 1 and pillar 2? And, crucially, might insurers become more risk averse in a more “risk-transparent” regime?

Second, solvency 2 is also territorializing in the sense of delineating new and distinctive calculative spaces for organizational actors via the ORSA and its data requirements. The ORSA is a distinctive whole-of-organization representation of the insurance entity, which subsumes older representations of risk management and accounting. This territorializing role makes the insurance organization even more explicit as a risk-constituted entity. Risk is no longer buried in prudential assumptions; there is a new kind of solvency transparency supported by a new information infrastructure. So, how might this infrastructure change working practices within insurers?

Third, the ORSA is a mediating instrument in at least two senses. Firstly, it links the solvency balance sheet to the business model and its risks as noted before. Secondly, it provides a point of interface and dialogue between regulator and regulated. The ORSA is designed to be highly organization-specific and yet institutional theories suggest that insurers may converge in their business models and copy risk management systems. How might this dynamic between standardization and specificity play out in practice in the insurance world, given its apparent adverse consequences in the banking sector? Will there be enough organizational diversity in the insurance field? How will new ratios of solvency inform regulatory conversations with insurers and enable comparability?

Fourth, we can only speculate about the generation of a new kind of Solvency 2 human “subject.” But the governance requirement for board oversight and the implied personal “responsibilization” of insurance company directors suggests that senior actors, and non-executive directors in particular, will increasingly attend to, and orient themselves towards, the ORSA and its standard elements. So how exactly will the ORSA as a collective representation redefine the roles of directors, accountants, and actuaries in insurers? Might it provide, like ERM, the psychological comfort of the panoptic view (Latour 2005)? Or might the underlying demand for the auditability and transparency of solvency create risk aversity and, as many fear, a bureaucratization of risk-taking?

These are just suggestive points of enquiry. It remains to be seen what exactly the behavioural consequences of building a dynamic balance sheet will be. Solvency as a kind of financial safety is constituted through its representations, and Solvency 2 is a fundamental change to those representations. These changes are consequential for the governance of organizations, and not just for certain kinds of transaction. But far from being a specialised regulation for a specialised industry, I suggest in conclusion that Solvency 2 could even be the point of diffusion of a new model of organizational governance and accounting, which inverts the time-modality of traditional accounting.

The prevailing modality has been that of the point-in-time balance sheet in which the static presentation of history has been regarded as more reliable than the uncertain projected future. As balance sheets have begun to contain more of the so-called “fair” valuations, they have lost their foothold in the past. The underlying conception of reliability has changed (Power 2010) and they are implicitly premised on views of the future. But with Solvency 2 it seems as if this shift undergoes a further radicalisation; the financialised present of the accounting balance sheet is becoming simply a derived outcome of a continuously projected future. This is potentially a very new way of accounting for organizations, and not just insurers.

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Appendix

Figure 1

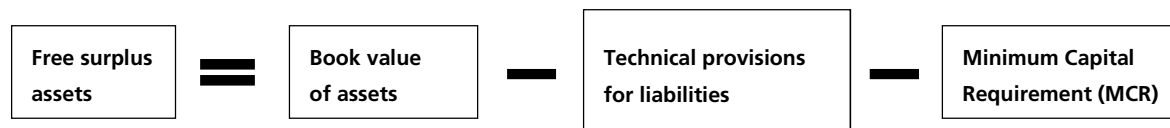


Figure 2

