

OIC RBC 2



Data request list for Stage 2 analysis – Frequently Asked Questions

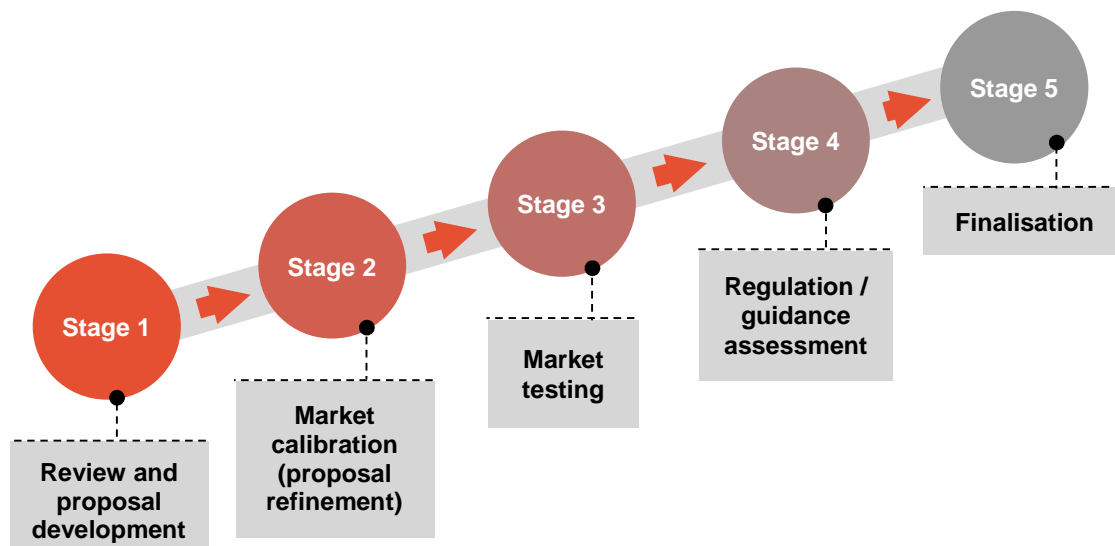
05 November 2013

Introduction

The implementation of risk-based capital (RBC) regulations on 1 September 2011 was the first time the OIC introduced principles-based supervisory regulation. The OIC wants to continuously monitor and develop its supervisory approach to the industry; since 2012 the OIC has sought feedback and comments on the current RBC regime from related parties.

The OIC has now launched phase 2 of the RBC framework development, and has engaged Towers Watson to work together with the OIC in further developing and refining the RBC framework.

There are five stages to this project, namely:



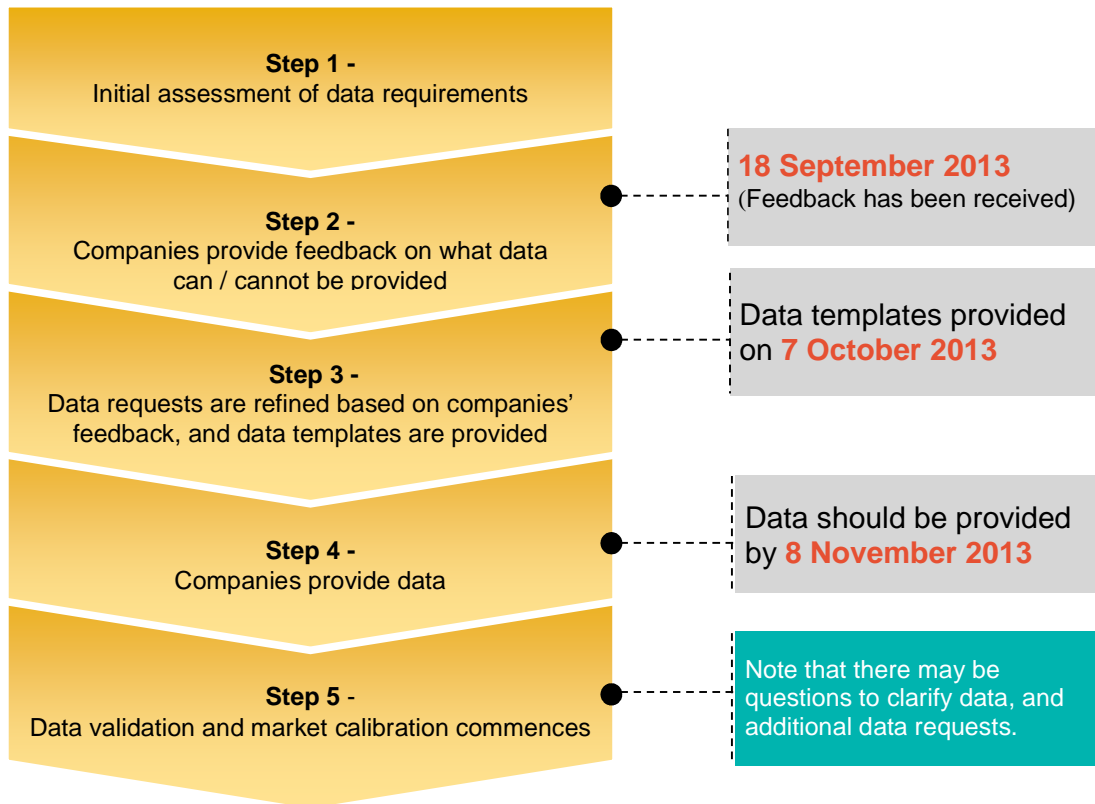
We are requesting companies to provide data to enable our analysis in Stage 2 (market calibration / impact testing) for the following areas:

- Asset valuation and classification
- Liability valuation and classification
- Insurance risk calibration and diversification (Non-life)
- Market, liquidity and credit (default) risk calibration
- Group risk
- Operational risk calibration

The data you provide will determine the analysis that can be performed in Stage 2 (calibration).

The data collection process is outlined on the next page.

Data collection process (excluding Operational risk data)



Please provide the data using the data request templates. These templates should be sent to the OIC upon completion.

Operational risk data

For Operational risk, we would like to discuss our proposed approach with the industry, and obtain more details regarding the types of operational risks that are commonly faced, and the quality of the data that may be available.

The operational risk data request has been **removed** from this data request list, and this will be collected as part of a **separate data collection process**, to be agreed with the OIC and the industry.

Frequently Asked Questions (“FAQ”)

Non-Life insurance

Table: 1.x - Gross (direct insurance) business figures as at 31 December 2012

Table: 2.x - Assumed (inward) reinsurance business figures as at 31 December 2012

FAQ 1 – Should Loss paid and Loss incurred include both Inward Facultative and Inward Treaty or should the figures be separated? Moreover, are they gross losses?

Answer:

Loss paid and incurred should include both Inward Facultative and Inward Treaty. There is no need to separate the figures into inward facultative and inward treaty.

And the figures should be the gross losses (in the form of reinsurance recoveries) that the company need to reimburse the ceding company under the inward reinsurance agreements.

FAQ 2 – Does Earned Premium mean gross earned premium from Inward reinsurance deducted by commission? Moreover, do I need to separate gross earned premium from inward facultative and inward treaty? Or provide gross earned premium in total only?

Answer:

Earned Premium in Table 2.x should be gross of outward reinsurance premium but should be net of agent/brokers commission. Details can also be referred to Note 2 of table 2.x.

Earned premium should include both inward facultative and inward treaty. There is no need to separate the figure into inward facultative and inward treaty.

FAQ 3 – My question relates to Inward Treaty in Table 2.x. If the loss data from Inward Treaty cannot be broken down by Accident Year, how do I complete this section of the template?

Answer:

You may use earned premium as a measure to allocate the loss back to the corresponding accident year. Please also put a note of this adjustment in the comment box if you are adopting this approach so that the modelling team understand these are allocated losses rather than actual losses.

Table: 3.x Reinsurance figures

FAQ 4 – What is the data period for Reinsurance Recoveries?

Answer:

The Reinsurance Recoveries in all years are the figures as at 31 December 2012. Then, the company breakdown these figures into accident year 2007 – 2012 for fill-in the table in item (3), (6), (9), and (12).

FAQ 5 – With respect to table 3.x (Reinsurance Figures) - columns (3), (6), (9) and (12), what does “Paid + Outstanding Loss” include?

Answer:

The figures should include paid loss, case estimate, that is, incurred loss.

FAQ 6 – If my company cannot provide Earn Premium in Accident Year in table 3.x Reinsurance figures, can I provide Earn Premium in Accounting Year instead?

Answer:

Yes, but please put a note in the comment box if that is case so that the modelling team can handle these figures with care.

FAQ 7 - The explanation in the template states that reinsurance premiums provide for both pro-rata (column 1) and excess of loss reinsurance (column 4) should be provided gross of brokerage but does not refer to Facultative reinsurance premium (column 7). Please could you advise whether column 7 should also be gross of brokerage?

Answer:

The facultative reinsurance premium should be gross of brokerage.

FAQ 8 - In case the deferred acquisition cost hasn't been applied, which figures should be presented in pro-rata commission (column 2) and Facultative commission (column 8). For example, the pro-rata commission received was Baht 100 but net commission rate applied was 15%, should we present Baht 100 or Baht 85?

Answer:

The pro-rata commission in column 2 and the facultative commission in column 8 should be given gross of the net commission rate. In this example, the figure to be used is Baht 100 and not Baht 85 {that is, $100 \times (1 - 15\%)$ }

Table: 5 Other Reinsurance arrangements

FAQ 9 - One example of other reinsurance arrangements given in the table is multi-year reinsurance contract, should we input our company's data on the contract level or on the policy level? For example, we have a proportional reinsurance contract consists of 5 policies; two of which are multi-year and the rest have 1-year cover.

Answer:

Please provide data on the contract level. Given the proportional reinsurance contract in your example, please provide the following information in the cells:

- (1) The RI contract type,
- (2) The number of multi-year policies covered by the contract,
- (3) The number of 1-year policies under the contract,
- (4) The line of business of multi-year policies, and
- (5) The percentage of multi-year policies ceded out under the RI contract

Table: 6.x - Net of reinsurance business figures as at 31 December 2012

FAQ 10 – What is the data period for loss figures?

Answer:

The loss figures in all years are the figures as at 31 December 2012. Then, the company breakdown these figures into accident year 2007 – 2012 for fill-in the table in item (2) to (7).

The Total paid loss figure is sum of the Non-Cat paid loss and Cat paid loss; Total reported loss figure is sum of the Non-Cat reported and Cat Reported. If the Company cannot provide paid loss and reported loss breakdown into Non-Cat and Cat, please provide total figures only.

Please put a note in the comment box so that the modelling team can deal with the figure with care.

Table: 7.x Premium and claim liability figures as at 31 December 2012

FAQ 11 – What is the data period for Case Reserve and IBNR estimate?

Answer:

The Case Reserve and IBNR estimate in all years are the figures as at 31 December 2012. Then, the company breakdown these figures into accident year 2007 – 2012 for fill-in the table in item (3) to (8).

FAQ 12 – The Case Reserve is Actuarial Case Reserve or Accounting Case Reserve?

Answer:

The Case Reserve in this table is The Actuarial Case Reserve used for the claim liability calculation.

FAQ 13 – Referring to Case reserves and IBNR reserves in columns (3), (4), (6) and (7), do we need to provide the breakdown of both IBNR and case reserves balance as of 31/12/2012 by accident year?

Answer:

Yes, the case reserve and IBNR should be broken down by accident year as of 31/12/2012. And, actually, this note intends to inform the industry that the process of setting case reserves and estimating IBNR should include direct claims handling expense.

FAQ 14 – If my company would like to provide a split of the aggregate IBNR for “Miscellaneous” class (for example, including aviation and liability classes that not classified as “Other classes” according to current OIC RBC Forms 4.1 and 4.2) into their respective classes, how do I allocate IBNR?

Answer:

If you are splitting the aggregate IBNR for “Miscellaneous” class into their respective classes, using outstanding loss (or case estimates) as weight for each of these class would be a preferred method.

Please put a note in the comment box so that the modelling team can deal with the figure with care.

FAQ 15 – Please clarify note 8 “Case reserves and IBNR reserves in items 3, 4, 6 and 7 should include direct claims handling expense”?

Answer:

The definition of case reserve and IBNR reserve in this table should include direct claims handling expense.

FAQ 16 – Please clarify note 9 “For gross and net unearned premium in columns (1) and (2), please put unearned premiums of all underwriting years into accounting year 2012”?

Answer:

The gross and net UPR after commission as at 31 Dec 2012 for all accounting years are lumped together for the accounting year 2012 (row 179 of the each class’ tab).

FAQ 17 – Are the figures for catastrophe reserves (case estimate + IBNR) in Table 7.x column (8) net OR gross of XOL recoveries?

Answer:

The catastrophe reserves in Table 7.x column (8) is net of reinsurance recoveries, and therefore, should be net of catastrophe reserves recoveries from XOL.

Details can be found in Note 6 of table 7.x, “Net reserves figures provided should be net of salvage, subrogation and reinsurance recoveries (including facultative reinsurance, pro-rata, XOL and other treaties), where relevant.”

Table: 10 Details of distribution / sales counterparties (as at 31 December 2012)

FAQ 18 – My question relates to Table 10 which requires details about frequency of payment by distribution/sales counterparty. Could you clarify whether this is required for both direct premium and assume (inward) premium?

Answer:

The purpose of this table is to give us an idea of how long premiums are held at each of the counterparty / distribution channel of your company. The longer the counterparty / channel holds the premiums, the higher credit risks a company is exposing to – this is not only restricted to the ability to pay for the counterparties, but their willingness to pay as well.

The key for Table 10, therefore, is to list the type of counterparties that is holding premium money for your company, and how long they generally hold the money for. Because both direct premium, or assume (inward) premium are both money of your company, we ought to include both businesses in the table.

If the frequencies of settlement or payment are different for direct premium and assumed (inward) premium, please list them as two separate items. For example if direct premium is settled monthly and assumed (inward) premium is settled quarterly. The entries will look like the following example:

Distribution counterparty ช่องทางกระจายจำหน่าย หรือ คู่สัญญา	Premium amounts receivable (THB) จำนวนเบี้ยประกันภัย ดังรับ (บาท)	Frequency of payments ความถี่ของการชำระเบี้ยประกันภัย (1 for Yearly; 2 for Semi-annually; 4 for Quarterly; 12 for Monthly; Others please specify) (1 สำหรับรายปี; 2 สำหรับรายครึ่งปี; 4 สำหรับรายไตรมาส; 12 สำหรับรายเดือน; อื่นๆ โปรดระบุ)
Broker A, direct business (settled on	23,123,213	12
Broker A, inward business (settled on	5,711,678	4

Other Question

FAQ 19 – My question relates to the Earned Premium in Table 1.x, 2.x and 6.x. From my understanding “Earned Premium figures provided should be net of agent / broker commissions paid out or other acquisition costs per actual rate where relevant, but not exceeding the rate specified by the regulator.” How should I deduct the commission?

Answer:

Take the earned premium and subtract the commission and other acquisition cost from the premium.

The commission rate used should not exceed the rate specified by the regulator.

FAQ 20 – Has the section “Operational risk calibration” been removed after the initial assessment of data requirements?

Answer:

Yes, after the initial feedback round we found that most companies do not keep record of information related to operational risk. Therefore we have removed this section from the template.

FAQ 21 – Could you please clarify the definition and calculation of Paid loss and Reported loss as at 31 December 2012 by accident year?

Answer:

Paid loss as at 31 December 2012 by accident year is defined as the cumulative claim payments as at 31 December 2012 for each accident year. It is the sum of all payment made to the claims for accidents occurred within each accident year as at 31 December 2012.

Reported Loss as at 31 December 2012 by accident year is defined as the total known loss as at 31 December 2012 for each accident. It is the sum of the Paid Loss as at 31 December 2012 by accident year and Case Reserve of claims for accidents occurred within the corresponding accident year as at 31 December 2012.

Calculation Example: Assume a general insurance company only have two accidents occurred since they start writing business. The payment and case reserve information as at 31 December 2012 of these two claims is below:

Sample payment and case reserve information

Claim	Accident Occurred Date	Date of Payment	Payment Amount(THB 000s)	Case Reserve on Payment Date(THB 000s)
1	2008/10/31	2009/2/25	150	1000
		2009/8/26	270	500
		2012/10/9	400	200
2	2009/5/26	2010/3/21	300	7000
		2011/1/6	5000	100

Paid Loss

(1) The Paid loss of Accident Year 2008 as at 31 December 2012
= 150K+270K+400K = 820K THB

(2) The Paid loss of Accident Year 2009 as at 31 December 2012
= 300K+5000K = 5,300K THB

Reported Loss

- (1) The Reported Loss of Accident Year 2008 as at 31 December 2012
= The Paid loss of Accident Year 2008 as at 31 December 2012 +
The Case Reserve of Accident Year 2008 as at 31 December 2012
= 820K + 200K = 1020K THB

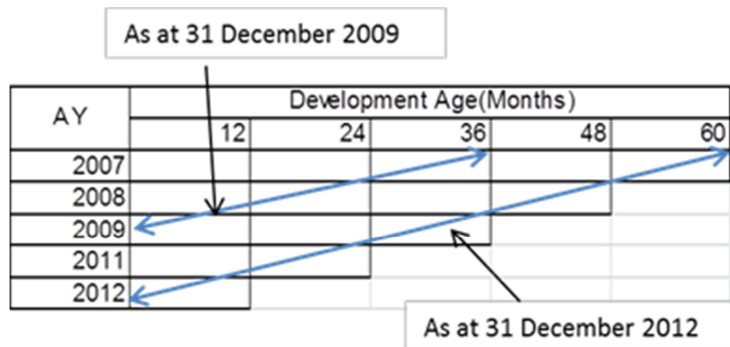
- (2) The Reported Loss of Accident Year 2009 as at 31 December 2012
= The Paid loss of Accident Year 2009 as at 31 December 2012 +
The Case Reserve of Accident Year 2009 as at 31 December 2012
= 5,300K + 100K = 5,400K THB

FAQ 22 – For the required loss data and the method used for the breakdown of loss by accident year, should we do it in the same way as when an actuary prepares the loss triangle to estimate IBNR?

Answer:

Yes. The loss data should be allocated to their accident year. The triangle should have each accident year's loss information as at different valuation date.

The following is an illustration of a Loss triangle. Each row represents an accident year, each diagonal represents an evaluation date, and each column represents the development age of each accident year on the corresponding valuation date.



Sample loss data triangle

Note: Development age is the period between the first day of an accident year to a valuation date