

# OIC RBC 2



## Data request list for Stage 2 analysis – Frequently Asked Questions

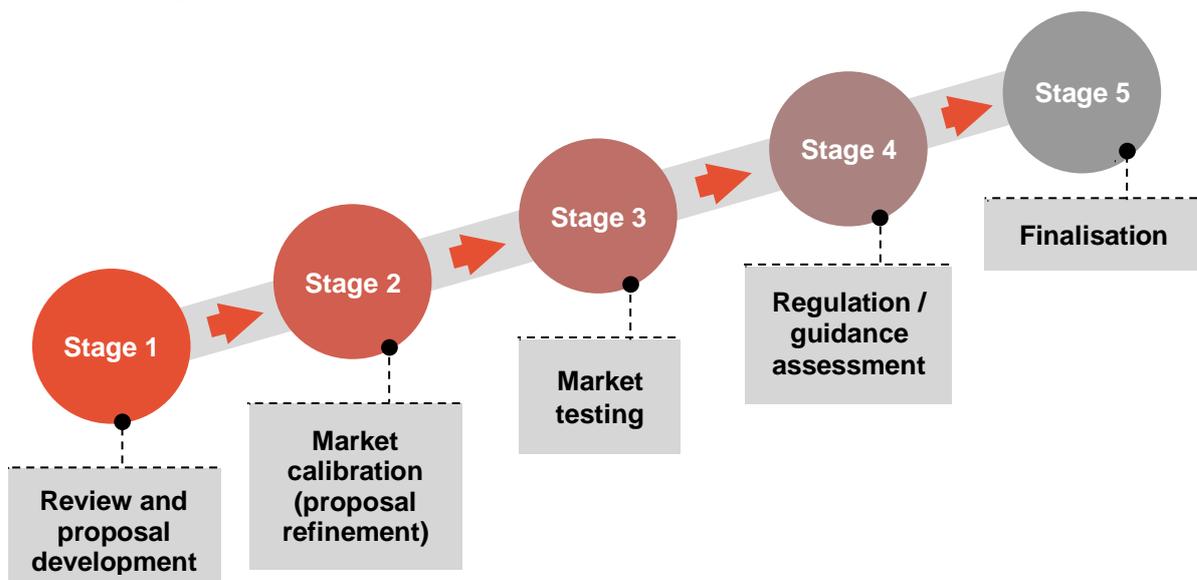
9 October 2013

# 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:



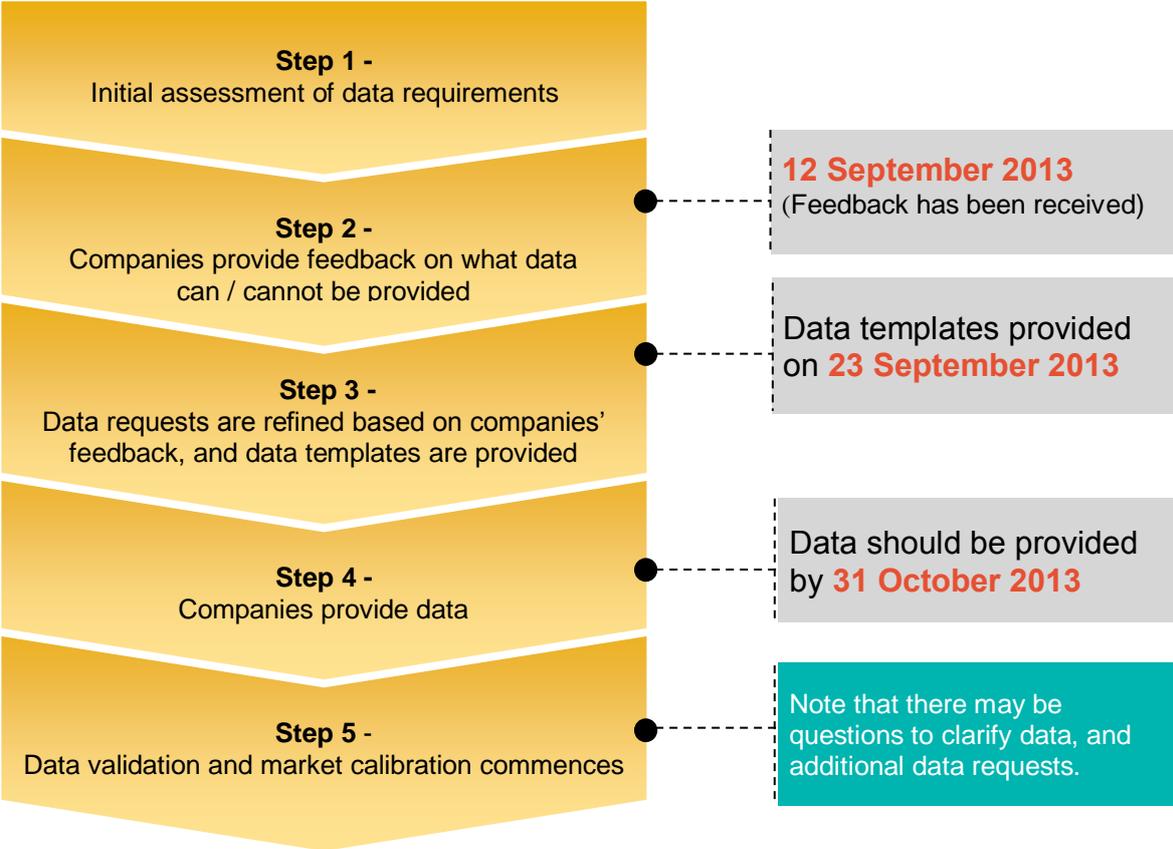
We are requesting companies to provide data to enable our analysis in Stage 2 (market calibration / impact testing) for the following areas:

- Asset valuation and classification
- Liability valuation and classification
- Insurance risk calibration and diversification (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”)

## Life insurance

### Item 3.1.2 – Mortality / longevity risk calibration data (Form A)

#### FAQ 1 – What is the definition of “Paid Up” in the sample “Form A” below? (tab [Examples] of the Data Request Template excel file)

TITLE	Inforce					Paid Up				
	2551	2552	2553	2554	2555	2551	2552	2553	2554	2555
<b>1. ORDINARY</b>										
MALE ,MED ,STANDARD										
FEMALE ,MED ,STANDARD										
MALE ,MED ,SUB-STANDARD										
FEMALE ,MED ,SUB-STANDARD										
MALE ,NON-MED ,STANDARD										
FEMALE ,NON-MED ,STANDARD										
MALE ,NON-MED ,SUB-STANDARD										
FEMALE ,NON-MED ,SUB-STANDARD										
TOTAL										
<b>2. INDUSTRIAL</b>										
MALE ,NON-MED ,STANDARD										
FEMALE ,NON-MED ,STANDARD										
TOTAL										
<b>GRAND TOTAL</b>										

**Answer:**

We have requested for “Form A” to gain an understanding of the total number of policies that are still on the company’s books (i.e. have not terminated) at each calendar year.

The format of Form A **does not matter** – please just **provide it in the format that you submit** to the OIC, i.e. any definition of paid-up does not matter, and if you do not split between “in-force” and “paid-up”, it does not matter either.

The table above was just intended an example of what some companies submit to the OIC, so that companies understand which “Form A” we are referring to, and we are not requesting companies to follow the specific format.

### Item 3.3 – Lapse risk calibration data

#### FAQ 2 – What is the definition of “lapse” / “surrender” in this data request?

**Answer:**

What we are intending to capture here is the **risk related to voluntary discontinuances** by policyholders, i.e. policy terminations that are “chosen” by policyholders; (death is not a choice).

We understand that there a variety of definitions of voluntary discontinuances used by companies, which may include “lapse”, “surrender”, “cancel”, etc.

We do not wish companies to have to re-perform any experience analysis, or create unnecessary work for companies; therefore we would like companies to provide the definition of policy discontinuances that each company **currently uses** in its discontinuance experience studies.

We understand there may be inconsistencies between companies, and this will aid our quantification of the “mis-estimation of the mean”.

It will be useful if companies can **indicate the definitions** (i.e. “surrenders”, “lapses”, “cancellations”, “ETI / RPU status changes” etc.) that are being used for its discontinuance studies.

#### FAQ 3 – Does the table below need to be recreated for data submission?

(tab [Lapse Risk] of the Data Request Template excel file)

Typical lapse triangle:

Policy year	Calendar (i.e. reported) year that lapse occurs					
	2012	2011	2010	2009	2008	...
1	X	X	X	X	X	x
2	X	X	X	X	X	
3	X	X	X	X		
4	X	X	X			
5+	X	X				
<b>Total</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>

**Answer:**

No – this table does not need to be provided.

This table was shown to illustrate the format of lapse experience data that we wish to collect. Lapse experience data is typically presented as a “lapse triangle”, i.e. on two axes:

- By calendar / reporting year; and
- By policy in-force year

We wish to collect the lapse experience data on a calendar / reporting year basis, i.e. the “Total” row that is shown in the table above.

We **do not** need the lapse triangle that is shown above, **only the totals** of lapse experience in each calendar / reporting year, i.e. the “Total” row in the table above, for each of actual and expected experience.

## **FAQ 4 – “Internal” product grouping for lapses**

### **Answer:**

We have requested companies to provide lapse experience data based on the “internal” lapse product grouping that each company currently uses, so as to reduce additional work for companies.

We understand that inconsistencies between companies may exist due to different product grouping rules. While we will examine experience by product group, we expect that lapse risk will likely be calibrated on an aggregate basis. The inconsistencies between companies’ product groups are not therefore expected to affect the final outcome of the analysis.

## **FAQ 5 – What basis is required for the surrender / lapse (i.e. discontinuance) “amounts”?**

### **Answer:**

Following feedback from various companies, we understand that most companies perform discontinuance studies on two bases:

- Policy count; and
- Premiums

Therefore, please provide the discontinuance “amounts” on a **“premium”** basis.

### **Item 3.4 – Expense risk calibration data**

#### **FAQ 6 – Definition of “expense overrun”**

There was a mis-linking of the “expense overrun” calculation in the Data Request Template. This was intended to be calculated as:

Actual expense *minus* BE basis expenses

Please just provide the items indicated in the yellow cells, and the formula will be corrected when we perform our analysis.

Please also note that the item “Impact of change in assumptions” is intended to reflect:

“New” BE basis expenses *minus* “Old” BE basis expenses