

OIC RBC 2



Data request list for Stage 2 analysis – Frequently Asked Questions

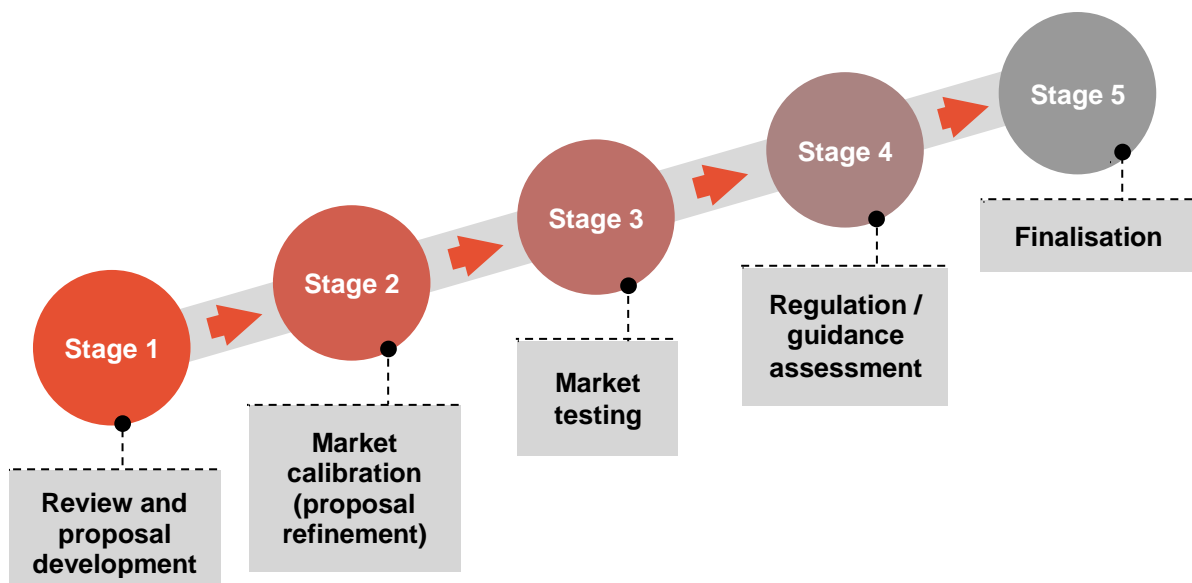
23 October 2013

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:



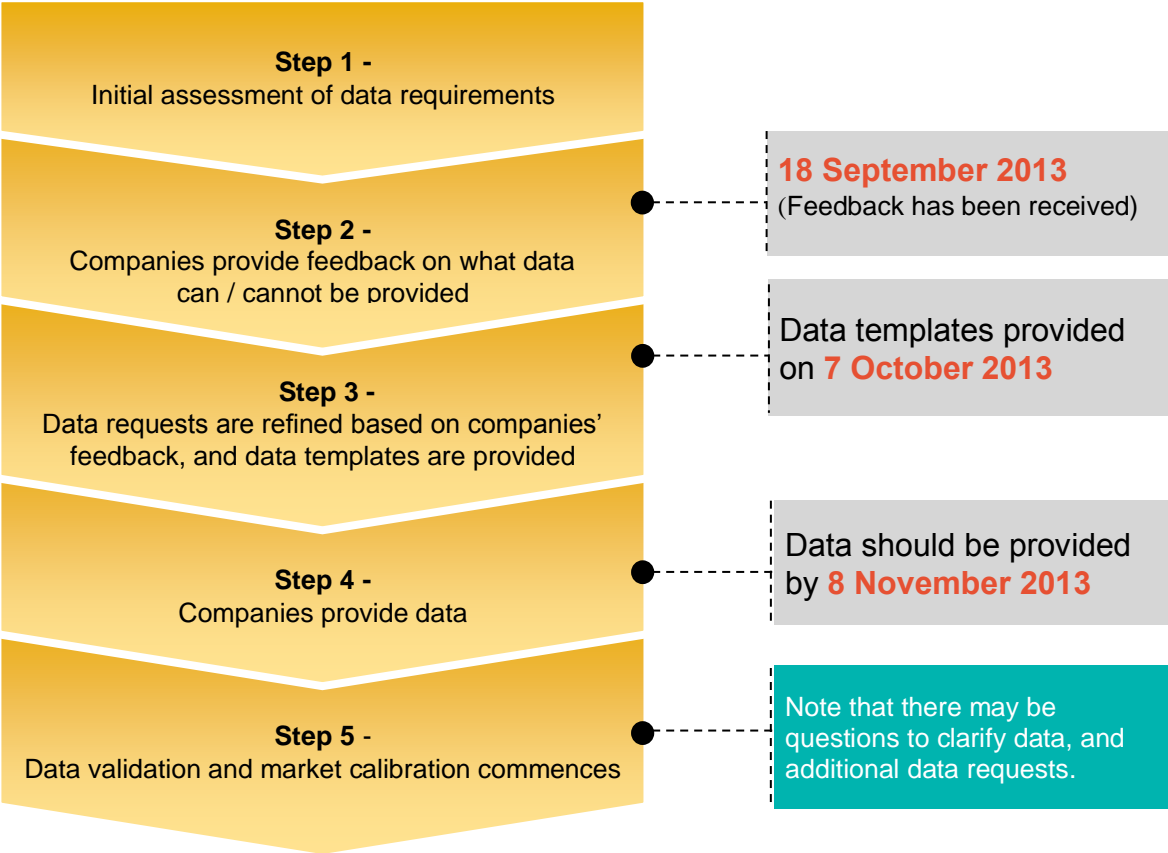
We are requesting companies to provide data to enable our analysis in Stage 2 (market calibration / impact testing) for the following areas:

- Asset valuation and classification
- Liability valuation and classification
- Insurance risk calibration and diversification (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 1.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.

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

FAQ 7 – 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 2.x Premium and claim liability figures as at 31 December 2012

FAQ 8 – 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 9 – 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 10 – 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 11 – 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 12 – 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).

Other Question

FAQ 13 – My question relate 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 14 – 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.