

OIC RBC 2



Stage 3: Market Testing (Life) – Frequently Asked Questions

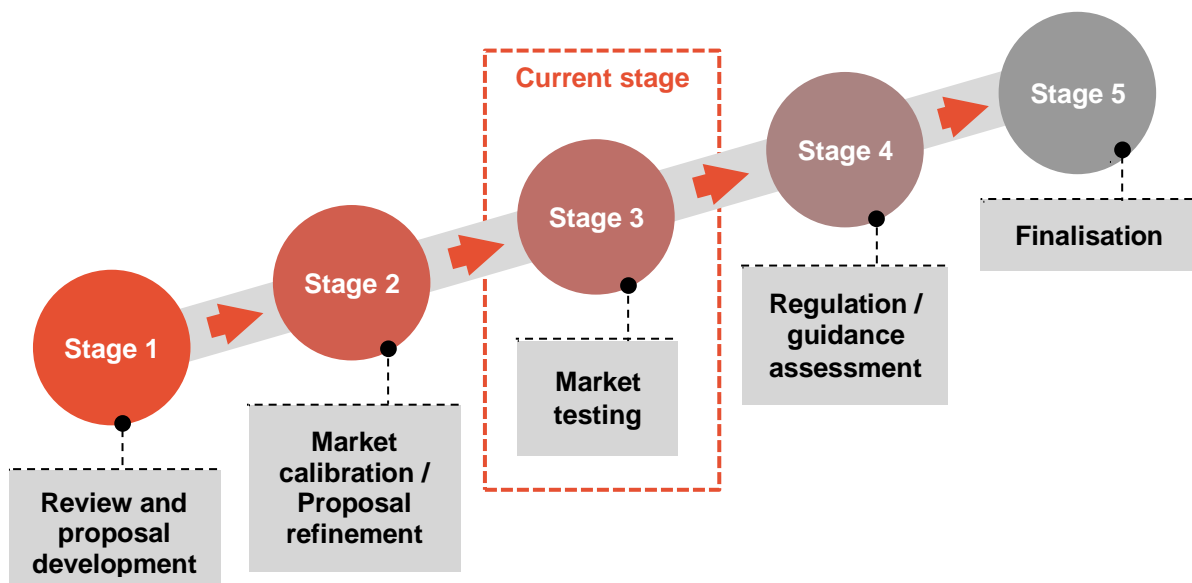
14 May 2014

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.

In line with its aim to pursue continuous improvement, 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:



In the current Stage 3, companies will be able to test the impact of the proposed changes to the RBC framework, to understand what the likely impact to the capital adequacy position will be from each proposed change.

The objectives of market testing are to enable:

- companies to assess the impact of potential changes to the RBC framework, and provide feedback;
- the OIC to make informed decisions based on quantitative testing of possible changes; and
- an assessment of appropriate transition periods for proposals that will be adopted in the RBC framework.

The market testing has two main parts:

- Testing the impact of proposed changes to the RBC framework; and
- Testing the impact of changes to the parameters



Submission requirements

- 1.1 The market testing will be based on the **31 December 2013** financial position, using the 31 December 2013 RBC submissions as a base starting point.
- 1.2 The latest date for submission is **30 May 2014** (9 weeks starting from 1 April).
- 1.3 There is no requirement for the market testing submission to be certified by an auditor.
- 1.4 The submissions are to be sent directly to the OIC at the following email address:

rbc@oic.or.th

Questions and answers

- 1.5 Questions may be submitted via the following email address:

oic.rbc2@towerswatson.com

- 1.6 Answers to frequently asked questions ("FAQs") will be distributed once a week to the industry, and will be available at the following website:

<http://www.oic.or.th/th/rbc/bs/>

Market testing template updates:

Form 1

Correction of formula for calculation of deductibles in cell H13

Previous version: Deductibles have positive value.

Revised version: Deductibles have negative value.

Form 2

Updated the description in cell K26

Previous version: Intangible assets and minimum capital requirement of subsidiaries and associates

Revised version: Intangible assets of all subsidiaries and associates, and minimum capital requirements of insurance / banking subsidiaries and associates that are regulated.

Form 3.1

Updated colour code in cell J24 and J25

Previous version: No colour

Revised version: Blue colour. For the purpose of market testing, we have removed the timing constraint related to the recognition of investments in subsidiaries or associated companies undertaking insurance / banking business as capital available. Note that under the current RBC framework, only investments in subsidiaries or associated companies undertaking insurance business made before the date RBC1 came into effect can be recognised as capital available. In addition, investments in subsidiaries or associated companies undertaking banking business are also recognised as capital available in this market testing.

Thus companies may need to manually adjust the value of investment in subsidiaries and associates accordingly to reflect the revised definition.

Updated formula in cell L24 and L25

Previous version: link to RBC1 table (cell H24 and H25)

Revised version: link to RBC2 table (cell J24 and J25)

Form 4.3

Updated sub-totals in row 74

Previous version: cell value set to zero ("0")

Revised version: insert summation formula

Form 5.1

Updated the description in cell L14

Previous version: Investments in insurance subsidiaries or associates, net of intangibles and minimum required capital

Revised version: Investments in insurance / banking subsidiaries or associates, net of intangibles and minimum required capital

Form 5.2

Updated formula in cell R14

Previous version: link to RBC1 Form 5.2 (cell G14)

Revised version: link to RBC2 Form 3.1 (cell J24)

Updated the description in cell N15

Previous version: Investments in insurance subsidiaries or associates, net of intangibles and minimum required capital

Revised version: Investments in insurance / banking subsidiaries or associates, net of intangibles and minimum required capital

Form 5.4

Updated the description in cell S29

Previous version: Risk mitigating effect - Notional amount of Cross Currency Swap for each currency

Revised version: Risk mitigating effect - Notional amount of derivatives used to hedge currency risk for each currency

Form 6

Correction of formula for calculation of interest risk charge in cell AI15, AQ15, AY15, BG15, and BO15

Previous version: Interest rate risk charge = max [surplus from shock up – base case surplus, surplus from shock down - base case surplus, 0]

Revised version: Interest rate risk charge = max [base case surplus – surplus from shock up, base case surplus – surplus from shock down, 0]

Form 8

Correction of formula for calculation of additional reinsurance concentration risk capital charge (for unrated local reinsurers) in row 93

Previous version: The applicable risk charge for unrated local reinsurers is based on risk level 5 (unrated).

Revised version: The applicable risk charge for unrated local reinsurers is based on reinsurer's own CAR ratio.

Form 11

Correction of formula for calculation of equity risk charge in cell P32:T32

Previous version: Equity risk charge = equity risk + equity risk from unit trust + Commodities risk from unit trust

Revised version: Equity risk charge = equity risk + equity risk from unit trust + Commodities risk from unit trust + other asset risk from unit trust

Frequently Asked Questions (“FAQ”)

Currently none