

# OIC RBC 2



## *Stage 3: Market Testing (Non-life) – Frequently Asked Questions*

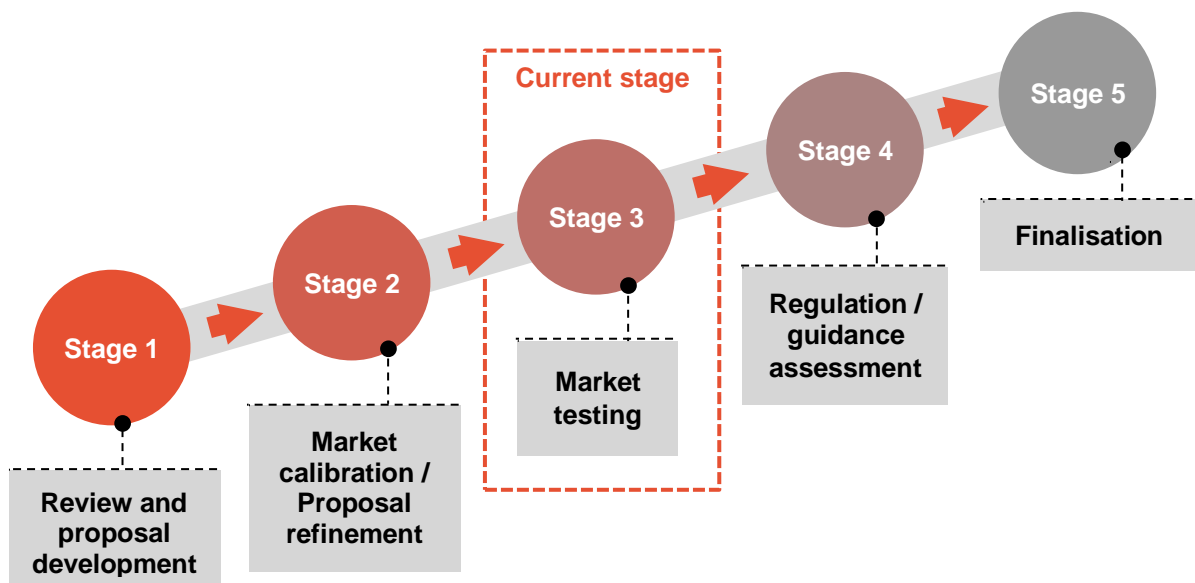
**10 June 2014**

# 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 **20 June 2014** (11 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](mailto:rbc@oic.or.th)

### Questions and answers

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

[oic.rbc2@towerswatson.com](mailto: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:

## 3<sup>rd</sup> update on 10 June 2014 (version 2.0)

We have made some minor updates to the market testing template (version 2.0). Since these changes are minor we would like to ask companies to update the following items in version 2.0 (uploaded on 27 May) by following the instructions below:

### Form 4.2 (c)

#### ***Correction of formulae for Premium Liability Risk Charge (ON UPR BASIS) in cells AK83:AO83 and AK84:AO84***

Example of current formulae:

AK83 = MAX(0,SUM(AK68:AK82)-MAX(0,\$G\$48-~~AE\$48~~))

AK84 = MAX(0,SQRT(MMULT(MMULT(TRANSPOSE(AK\$68:AK\$82),\$AS\$10:\$BG\$24), AK\$68:AK\$82))-MAX(0,\$G\$48-~~AE\$48~~))

Example of revised formulae:

AK83 = MAX(0,SUM(AK68:AK82)-MAX(0,\$G\$48-~~AE\$83~~))

AK84 = MAX(0,SQRT(MMULT(MMULT(TRANSPOSE(AK\$68:AK\$82),\$AS\$10:\$BG\$24), AK\$68:AK\$82))-MAX(0,\$G\$48-~~AE\$83~~))

**Noted that please press Ctrl+Shift+Enter in cell AK84:AO84 for calculating the value.**

### Form 9

#### ***Updated the Thai description of 'Earned premium' in cell B9***

Earned premium in form 9 refers to gross earned premium i.e. earned premium gross of reinsurance and without any deductions such as commissions. The Thai description in cell B9 should be revised as follows:

Current เบี้ยประกันภัยที่ถือเป็นรายได้สุทธิ

Revised เบี้ยประกันภัยที่ถือเป็นรายได้ ก่อนเอาประกันภัยต่อ และไม่หักค่าคอมมิชชั่น

## 2<sup>nd</sup> update on 27 May 2014 (version 2.0)

### Form 7

#### **Updated the calculation of additional reinsurance concentration risk capital charge**

Changes made to the template are:

- Local reinsurer:
  - Added a new row (row 69) to allow companies to select appropriate risk indicator. Select '**Risk rating**' if the reinsurer has a credit rating OR select '**CAR ratio**' if the reinsurer is unrated. This eliminates the issue with lookup formula in Excel encountered by some companies.
  - Entry examples:

RBC 2 market testing			
ความน่าเชื่อถือในการชำระหนี้ของผู้รับประกันภัยแต่ละราย (Risk ratings of each individual reinsurer)			
		ผู้รับประกันภัยต่อรายที่ 1	ผู้รับประกันภัยต่อรายที่ 2
สำหรับผู้รับประกันภัยในประเทศไทย (For local reinsurers)			
	Use CAR ratio or risk rating?	CAR ratio	Risk rating
	ความน่าเชื่อถือในการชำระหนี้ของผู้รับประกันภัยในประเทศไทย (Risk ratings for local reinsurers)	Unrated	2
	สัดส่วน CAR สำหรับผู้รับประกันภัยต่อในประเทศไทยที่ไม่ได้รับการจัดระดับความน่าเชื่อถือ (CAR ratio for UNRATED local reinsurers)	150% < X ≤ 250%	

- Updated the formulas in row 94 (or row 93 in the prior version) Table 7.1 to address the issue found in the lookup formula
- Combined the two risk indicators (namely, '**Risk grade**' and '**CAR ratio**') for additional reinsurance concentration risk capital charge into one table (the table immediately below Table 7.1). All the calculations in this table are automated.

- Offshore reinsurer:
  - Input for CAR ratio of unrated offshore reinsurer in row 74 (or row 73 in the prior version) is no longer required.
  - Updated the formulas in row 115-119 (or row 114-118 in the prior version). This update only impacts the results of companies with unrated offshore reinsurance counterparty.

Updated reinsurance credit risk charges for unrated (offshore) reinsurer in cell D157:H157 (or cell D156:H156 in the prior version).

## 1<sup>st</sup> update on 14 May 2014 (version 1.6)

### 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 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 5.5

### **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 7

### **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 10

### *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”)

## FAQs on 10 June 2014

**FAQ 1:** According to the OIC’s notification “ประกาศคณะกรรมการกำกับและส่งเสริมการประกอบธุรกิจประกันภัย เรื่อง กำหนดประเภทและชนิดของเงินกองทุน รวมทั้งหลักเกณฑ์ วิธีการ และเงื่อนไข ในการคำนวณเงินกองทุนของบริษัทประกันวินาศภัย (ฉบับที่ ๕) พ.ศ. ๒๕๕๖”, when the reinsurance counterparty is the National Catastrophe Insurance Fund (กองทุนส่งเสริมการประกันภัยพิบัติ), there shall be no reinsurance credit risk charge and concentration risk charge for reinsurance recoveries due from such entity. Please explain how this provision will be incorporated into the market testing results.

**Answer:** We would like to ask companies to complete the template as given. Once we have received your submission we will then adjust your results to allow for this provision as prescribed in the regulation.

**FAQ 2:** Referring to table 5.5 (RBC 2), if the values in column P (Net position for each currency) are already the net amount i.e. value of foreign currency assets less value of foreign currency liabilities, what should be the input in column Q (Net liabilities for each currency)?

**Answer:** In this case column Q (Net liabilities for each currency) should be left blank.

**FAQ 3:** Referring to table 5.5 (RBC 2), if our company has no derivative positions to hedge against currency risk, what should be the input in column S?

**Answer:** In this case column S (Risk mitigating effect - Notional amount of derivative which is hedged currency risk for each currency) should be left blank.

## FAQs on 27 May 2014

**FAQ 1:** Please define ‘Earned premiums’ in form 9

**Answer:** Gross earned premiums (including commissions)

**FAQ 2:** Our company has long term contracts in the portfolio, where can we find the PAD values for determining GPV at various percentiles in Form 4.3?

**Answer:** You can find the prescribed PAD parameter values in the Stage 3 paper (Life Insurance)