Industry Update and RBC Development - Malaysia

IAA Fund Seminar
Singapore, 14 October 2013
Teh Loo Hai
Recent Developments in Industry and Profession

- Requirement of actuarial expertise in risk management
- Proposal to change Appointed Actuary’s role
- Signing Actuary upgraded to Appointed Actuary in GI
- Detariffing of general insurance premium rates
  - Fire
  - Motor
- Gradual disappearance of smaller players
Actuarial Expertise in Risk Management

• Risk Governance (BNM/RH/GL 013-5)
  – Issued on 1 March 2013
  – Para 49: “For insurance companies, the risk management function must be appropriately supported by actuarial expertise to assess the insurer’s actuarial and financial risks. Consistent with paragraph 45 (independent of business and operational decisions), actuarial expertise supporting the risk management function must not also be directly responsible for, or have a major role in directing business decisions, including product development and design, investment strategies and pricing policies.”
Q1: Is the CRO an Actuary?

Conventional
- Yes: 5
- No: 8
- Unknown: 1

Takaful
- Yes: 5
- No: 4
- Unknown: 2
Q2: Actuarial resources in Risk Management Department

- Conventional
  - 5 Fellows
  - 3 Associates
  - 13 Students

- Takaful
  - 4 Fellows
  - 3 Associates
  - 11 Students

Some double counting
Change of Appointed Actuary’s Role

- BNM/RH/CP-010-4 – Appointed Actuary: Appointment and Duties
  Concept Paper
  - Issued on 7 June 2013
  - Consultation deadline: 2 August 2013

- Removal of product pricing duty to reduce conflicts of interest and
  enhance the objectivity and independence of the appointed
  actuary

- Signing Actuary in general insurance to be renamed Appointed
  Actuary

- FCR required for general insurer
Detariffing in General Insurance

- Fully implemented in 2016
- Affecting motor and fire insurance
- Fire premium rates expected to reduce
- Motor premium rates expected to increase, more rating factors
Gradual Disappearance of Smaller Players

• Recent major mergers and acquisitions:
  – AIA and ING
  – AmGeneral and Kurnia

• Market share of top 5 players

<table>
<thead>
<tr>
<th>Market Share</th>
<th>2012 1H</th>
<th>2013 1H</th>
</tr>
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<tbody>
<tr>
<td>Life</td>
<td>70.69%</td>
<td>76.43%</td>
</tr>
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<table>
<thead>
<tr>
<th>Market Share</th>
<th>2011 9 mths</th>
<th>2012 9 mths</th>
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<tbody>
<tr>
<td>General</td>
<td>42.35%</td>
<td>47.75%</td>
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* estimated for general insurance

• Lesser 100% locally owned insurers
RBC Development

- Concept papers – January 2004 to March 2007
- Finalised RBC Framework – April 2007
- Parallel runs – 2 years
- Effective – 1 January 2009
- Subsequent changes:
  - July 2008:
    - Discount rate cap from max 10 years to max 15 years
    - Allowance for 50% bonus cut
  - March 2009:
    - Temporary relief: weighted average of zero-coupon spot yields – 30% current and 70% simple average of 7 preceding quarters (removed in January 2011)
- RBC for Takaful – effective 1 January 2014
Risk Based Capital (RBC)

Assets
- Market
- Credit

Insurance
- Premium Reserve
- Claims Reserve

Capital Charges
- Surrender

Operations
- Operational

A-L Mismatch
- Interest Rate
How are Risks Measured?

- Credit
  - MGS (0%)
  - AAA (1.6%)
  - AA1 to AA3 (2.8%)
  - A1 to A3 (4%)
  - BBB1 to BBB3 (6%)
  - BB1 to D or unrated (12%)
How are Risks Measured?

Risk Based Capital framework (RBC)

• Market
• Equity
  • FBMKLCI (16%)
  • Main Board (20%)
  • Other listed (30%)
  • Unlisted (35%)
• Property
  • Self-occupied (8%)
  • Otherwise (16%)
• Interest Rate
How are Risks Measured?

- Risk Based Capital framework (RBC)
  - Market
    - Interest Rate – maximum(S0-S1, S0-S2)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Value of Interest Rate Exposures</th>
<th>Liability Value</th>
<th>Surplus</th>
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<tbody>
<tr>
<td>Base</td>
<td>A0</td>
<td>V0</td>
<td>S0</td>
</tr>
<tr>
<td>Increasing interest rate</td>
<td>A1</td>
<td>V1</td>
<td>S1</td>
</tr>
<tr>
<td>Decreasing interest rate</td>
<td>A2</td>
<td>V2</td>
<td>S2</td>
</tr>
</tbody>
</table>
How are Risks Measured?

**Risk Based Capital framework (RBC)**

- **Operational**
  - 1% of total assets
- **Surrender**
  - Max(0, SV – Reserve)
- **Life Insurance**
  - $V^* - (V + PRAD)$
  - $V^*$: BNM prescribed
  - $V + PRAD$: 75% confidence level

**Internal model**

- Some MNCs
RBC Impact

• One-off release in NP surplus
• More volatile profits, solvency, e.g. ALM mismatch
• Cost of bonus for pre-RBC products on NPV basis
• Product shift – from Traditional to Investment-linked
Thank you!

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