Industry Update and RBC Development - Malaysia

IAA Fund Seminar
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TAS Actuaries

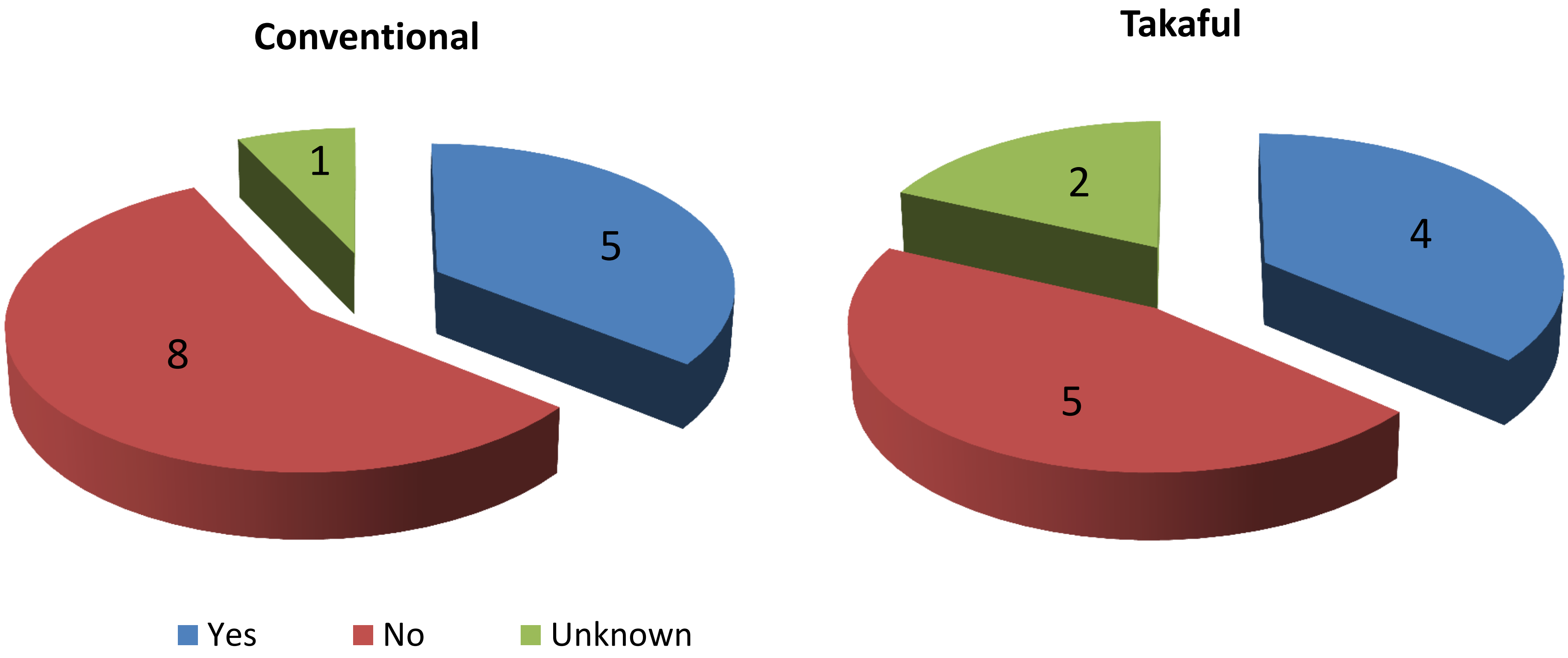
Recent Developments in Industry and Profession

- 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?



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

Market Share	2012 1H	2013 1H
Life	70.69%	76.43%

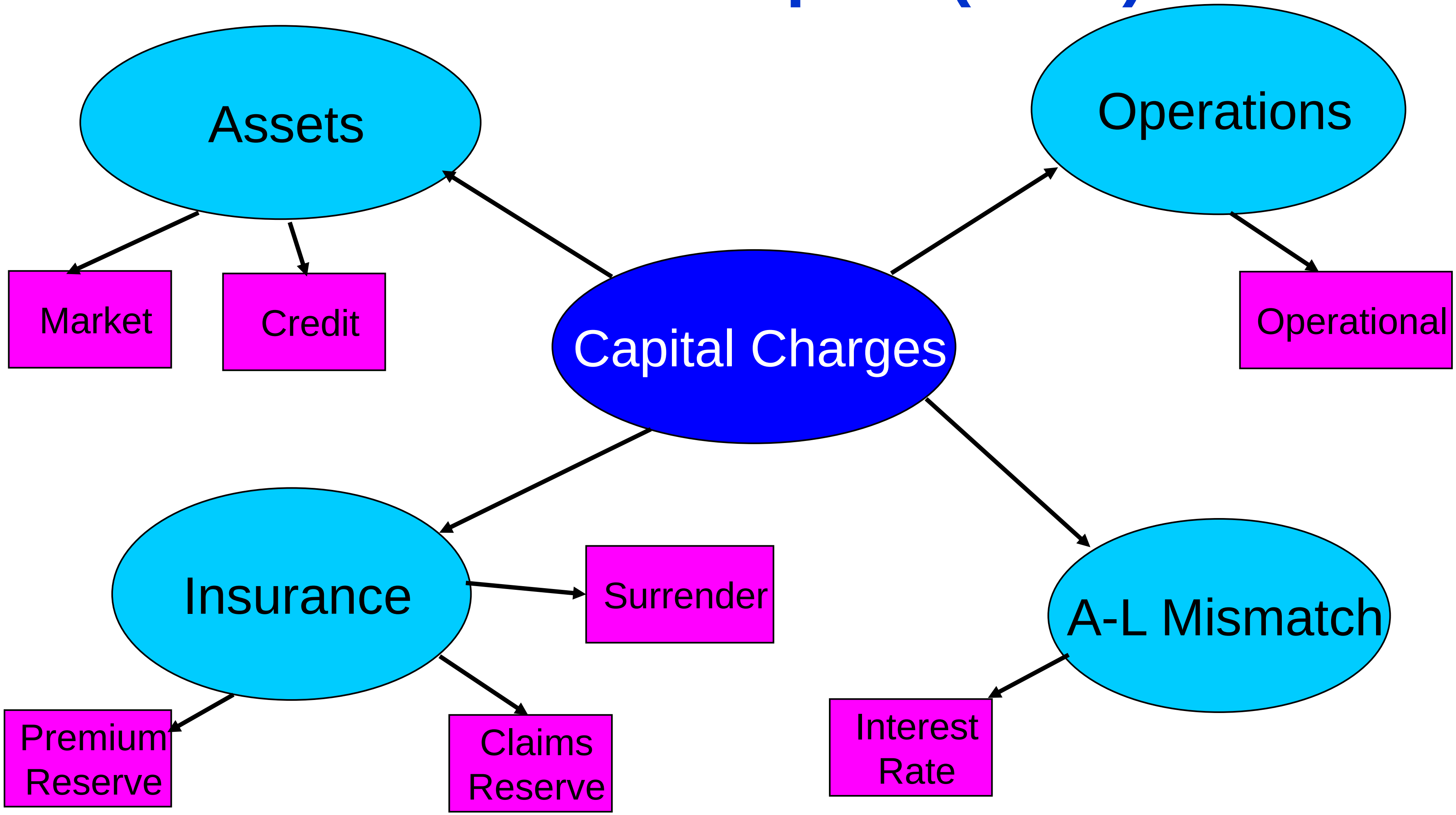
Market Share	2011 9 mths	2012 9 mths
General	42.35%	47.75%

- * 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)
  - Others: November 2008, May 2011, June 2013 (version 3.0)
- RBC for Takaful – effective 1 January 2014

Risk Based Capital (RBC)



How are Risks Measured?

Risk Based Capital framework (RBC)

- 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)

Scenario	Value of Interest Rate Exposures	Liability Value	Surplus
Base	A0	V0	S0
Increasing interest rate	A1	V1	S1
Decreasing interest rate	A2	V2	S2

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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