Industry Update and RBC Development

2013 IAA Fund Seminar
Singapore, October 14, 2013
Risk-Based Capital (RBC)

• Implemented on September 1, 2011.
• Quarterly submission with actuarial sign-off on mid-year and year-end numbers.
• Starting from January 1, 2013, the minimum Capital Adequacy Ratio (CAR) increased from 125% to 140%.
Risk-Based Capital (RBC)

• After RBC implementation:-
  – Many big life insurers increased numbers of staffing.
  – Some small life insurers choose to gamble on their current actuarial resources which may or may not have suitable level of competencies.
  – Many general insurance companies out-source to external consultants.
2011 Big Flood

- Happen during September to November 2011, mostly affected central area of Thailand and Bangkok.
- Total gross loss claimed to general insurance companies is 126 billion Baht (2011 Total Gross Written Premium is 140 billion Baht).
2011 Big Flood

- Regulator allowed to not take flood claims reserve into calculation of insurance risk charge.
- Many companies adjusted their business portfolio which is prone to flood risk.
- Lesson learned – No “AOYU” in catastrophe management.
Stress Test

- To perform the testing on insurance company’s financial condition under extreme scenario shocks.
- Objective – to test to identify the key risks to which company is sensitive and their level of tolerance so that company can readily prepare for appropriate risk management.
Stress Test

• Stress Test scenario:-
  – Macroeconomic scenario
  – Financial crisis scenario
  – Pandemic/Catastrophe scenario
  – Self-selection scenario
  – Reverse stress test scenario (Stress-to-fail)
Stress Test

• What to submit:-
  – Capital ratio and its impact under each stress test scenario
  – Management actions to correct the capital ratio if fail under any scenario
  – Key risks identified from stress test
  – Managerial plan to reduce such identified risks
### Stress Test

- **Time frame for Life Insurance business**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 (onward)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase</td>
<td>Preparation</td>
<td>Framework Formulation &amp; Development</td>
<td>Industry Test</td>
<td>Implementation</td>
<td>Revision</td>
<td>Phase II</td>
</tr>
</tbody>
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**Diagram Notes:**
- **Framework Formulation & Development**
- **Industry Test**
- **Implementation**
- **Revision**
- **Phase I**
- **Phase II**
Stress Test

• For Life Insurance business, the first industry test submission basing on 2012 year-end data was due on July 2013.
• For General Insurance business, the framework is still under discussion, expected to implement soon.
RBC phase II

• Kicked off August 2013.
• Regulator involved external consultant to work on framework.
• The project is expected to be complete by end of 2014.
• Implementation timing is subject to discussion between regulator and industry.
RBC phase II

• Intended areas to consider under phase II:-
  – Evaluation of existing risk margins
  – Additions of new risks i.e. operational, liquidity, group risks etc.
  – Diversification of risks
  – Definition of available capital
  – Valuation of non-typical assets
  – Etc.
Thank You!