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Plenary 4: Panel Discussion: Harmonising Solvency Frameworks Across a Region

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Chair: Mark Saunders, AIA Group Ltd



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Risk Based Capital in Malaysia and Issues in Convergence with Global Reforms

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Outline



- Introduction of RBC in Malaysia
- Overview of Malaysia's RBC and ICAAP
- Global and regional convergence of solvency regimes
- Group capital – key considerations
- Supervisory coordination and cooperation



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Introduction of RBC in Malaysia

- Address shortcomings of previous framework:
 - Prudential buffers were implicit in valuation bases (book values, NPV) and the structure of the capital adequacy framework (admitted assets)
 - Previous capital adequacy based on solvency of insurance fund, rather than company as a whole
 - Solvency Margin requirements were simplistic (% net liabilities, claims incurred, net premiums)
- Incentivise better risk-management
- Support more timely supervisory intervention
- Incorporate IAIS and global financial reporting standards
- Extensive stakeholder engagement and involvement

**Preliminary
Investigations**
2002 - 2004

**Concept
Paper**
2004 - 2005

**Quantitative
Surveys**
2005 - 2006

Parallel Run
2007 - 2008

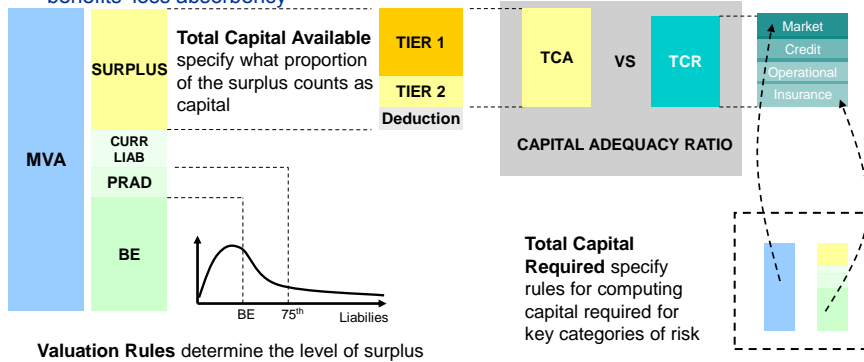
Launch
1 Jan 2009



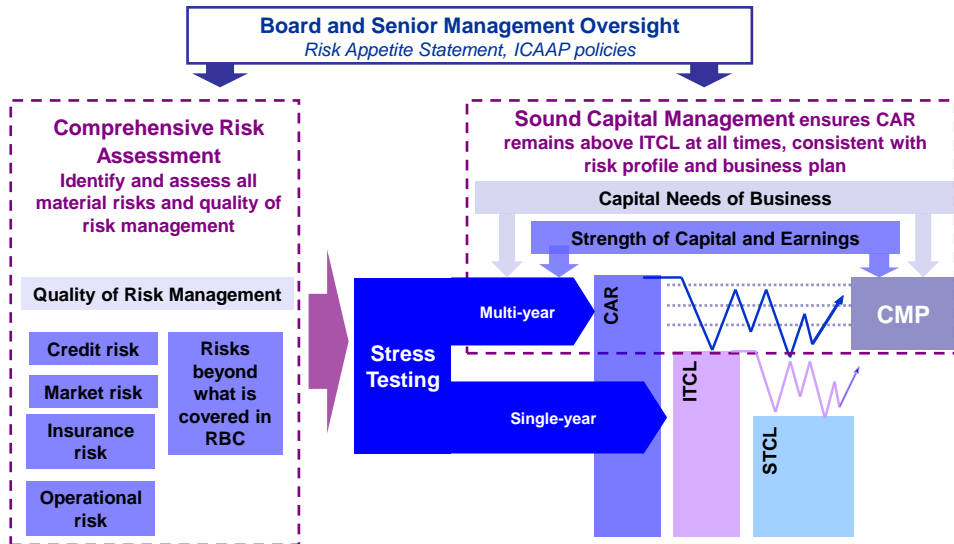
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Overview of Malaysia's RBC

- Total balance sheet approach with capital requirements for major risk categories
 - Valuation approach was revised to be more market consistent
 - Capital requirements combination of factor and scenario based approaches
 - Greater consistency between valuation and capital measurement
 - Dual valuation basis for par business, partial recognition of future non-guaranteed benefits' loss absorbency



Overview of Malaysia's ICAAP requirements



RBC has fostered risk awareness in the management of insurance business

- More explicit recognition of risks removed certain distortions and improved risk management
 - Better alignment of premium rates to risk levels
 - Reduced lapse supported products
 - Derisking of asset portfolios
 - Reduced asset-liability duration mismatch
 - More optimal use of reinsurance
- Increased investment in systems and expertise (in particular actuarial, risk management)
- Boards' awareness of key risk areas has increased
- Insurers embarking on ERM
- Better prepared for insurance sector liberalisation



Global and regional convergence of solvency regimes

- ICPs major step in fostering convergence between jurisdictions, further reinforced by IMF's Financial Sector Assessment Programme
- Global regulatory reforms will accelerate this process:
 - IAIS aims to publish ICS by mid-2017 and adoption of ComFrame by 2018
- Impact of reforms will be felt initially for insurance groups however will eventually have bearing on domestic markets
- Within the region, forces driving insurance integration agenda
 - Regional growth prospects, urbanisation, demographic changes
 - ASEAN Financial Integration Framework – insurance integration to lower cost of doing business and spur trade, strengthen resilience to natural catastrophe
- Context for convergence
 - Different market sizes and depth, financial literacy, sales practices, distribution
 - Differences in prudential regulations, market conduct and disclosure standards
 - Winding-up and resolution mechanisms



Group capital – key considerations

- Adequate financial resources to support group-wide risks including those emanating from non-regulated entities
- Consolidated capital requirements for insurers will need to address:
 - Diverse local requirements for overseas subsidiaries / affiliates
 - Regulatory, market and legal requirements to hold higher capital levels or restrictions on transfers of excess capital across the group
 - Constraints on the transferability of participating and takaful fund surpluses
- Bank Negara Malaysia developing policies on insurance group solvency and supervision – consistency with global developments and timelines (IAIS ICS)
 - Insurance groups may have additional requirements issued by supervisors in the interim
 - Requirements applied to apex entity on a consolidated basis, but not extended to non-operating holding companies or non-regulated entities



Supervisory Coordination and Cooperation

- ICP 25 - The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.
- Most important is the supervisory college:
 - Group-wide supervisor carries out group-wide risk analysis;
 - Forum for discussions on systemic issues, information gathering and exchange between supervisors
- IAIS Multilateral Memorandum of Understanding (MMoU)
 - Facilitate information exchange (55 signatories to date)
- Supervisory recognition
 - Minimises duplication and burden, fosters consistency in supervision
 - Home-host perspectives, cross-sector coordination for conglomerates
- Regional forums
 - ASEAN Insurance Regulators Meeting (AIRM), Asian Forum of Insurance Regulators (AFIR)

