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## INSURANCE CAPITAL ADEQUACY FRAMEWORK CONFERENCE

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# ENHANCING FINANCIAL RESILIENCE IN A DYNAMIC INSURANCE LANDSCAPE

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Thursday • 21 Sep 2023 • 8.30am - 12.00pm (GMT +8)

Venue: Sasana Kijang, Kuala Lumpur, Malaysia

Co-organised by:



**Syahrul Imran Mahadzir**  
Director, Regulatory Policy, Labuan FSA





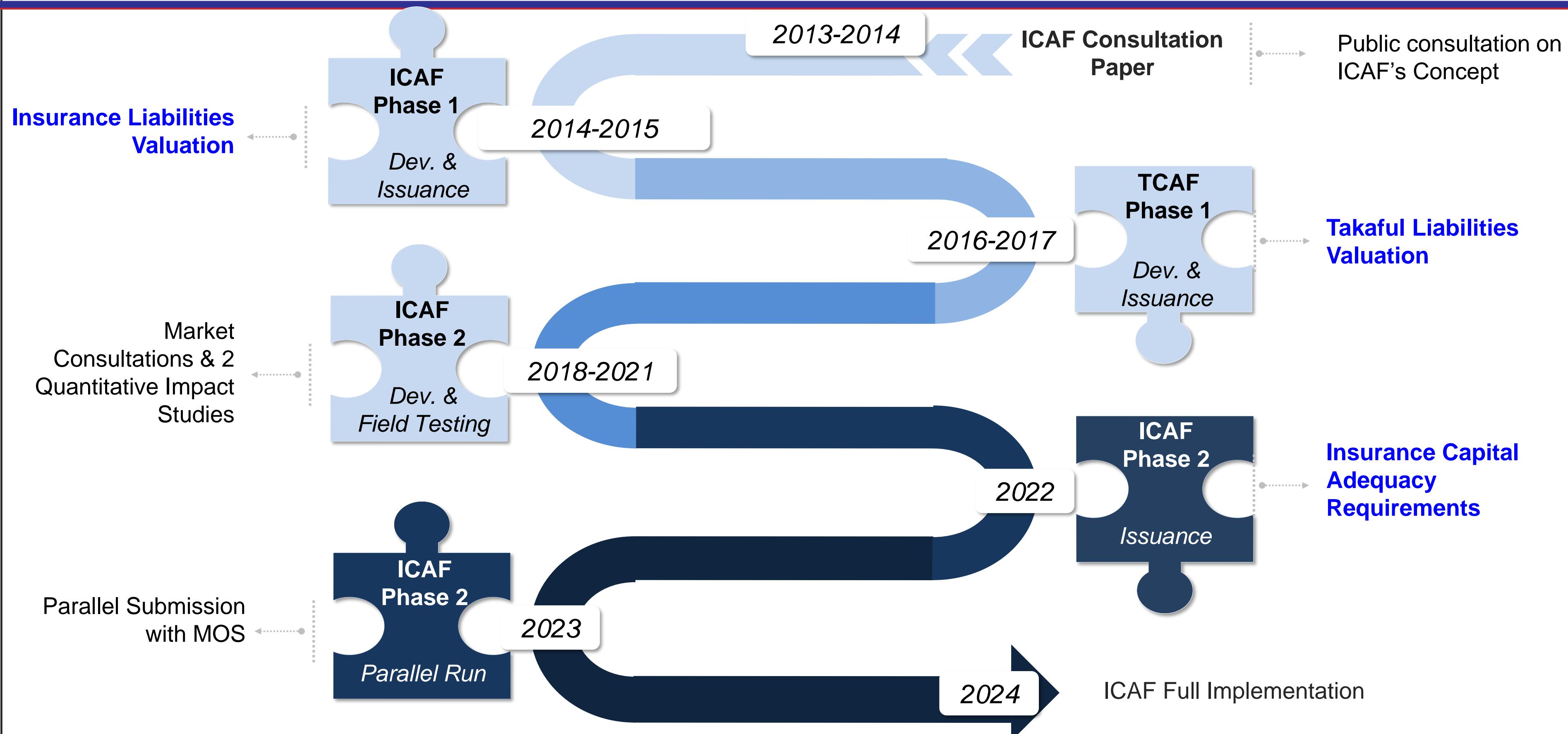
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# Overview of Insurance Capital Adequacy Framework (ICAF)

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21 September 2023

# Developing Labuan's RBC... *laying down the building blocks*



***Gradual transformation into new solvency regime rather than disruptive change***

# ICAF Development Approach... *pitching the right level*



## Prudential Ceiling

- Actuarially certified insurance liabilities
- Capital Adequacy Ratio
- Consultation with BNM's RBC Team

**Malaysia's RBC**

## LFSA Prudential Pitching

- Market consultation
- Consistent with developmental agenda
- Padded up based on supervisory concerns

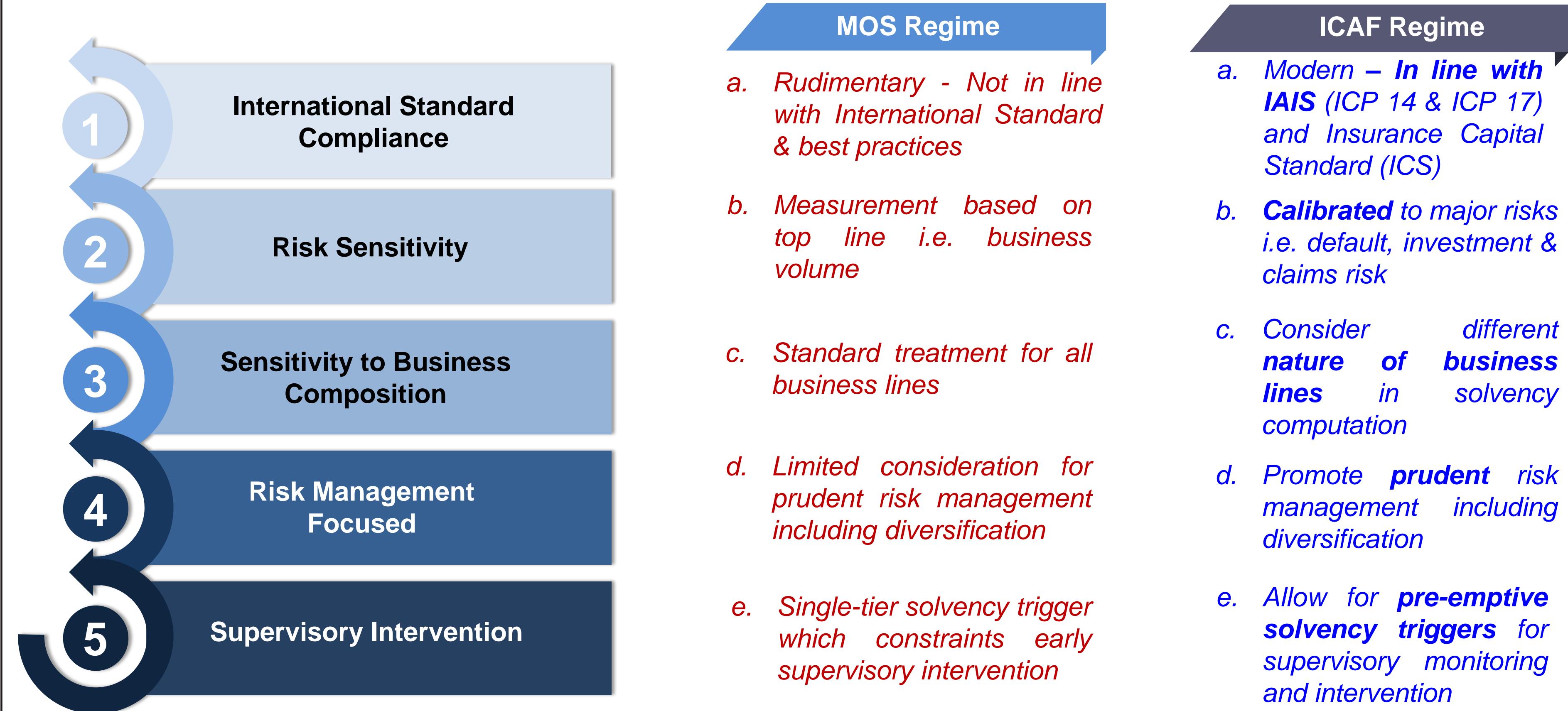
**Catering for LIBFC's circumstances**

## Prudential Floor

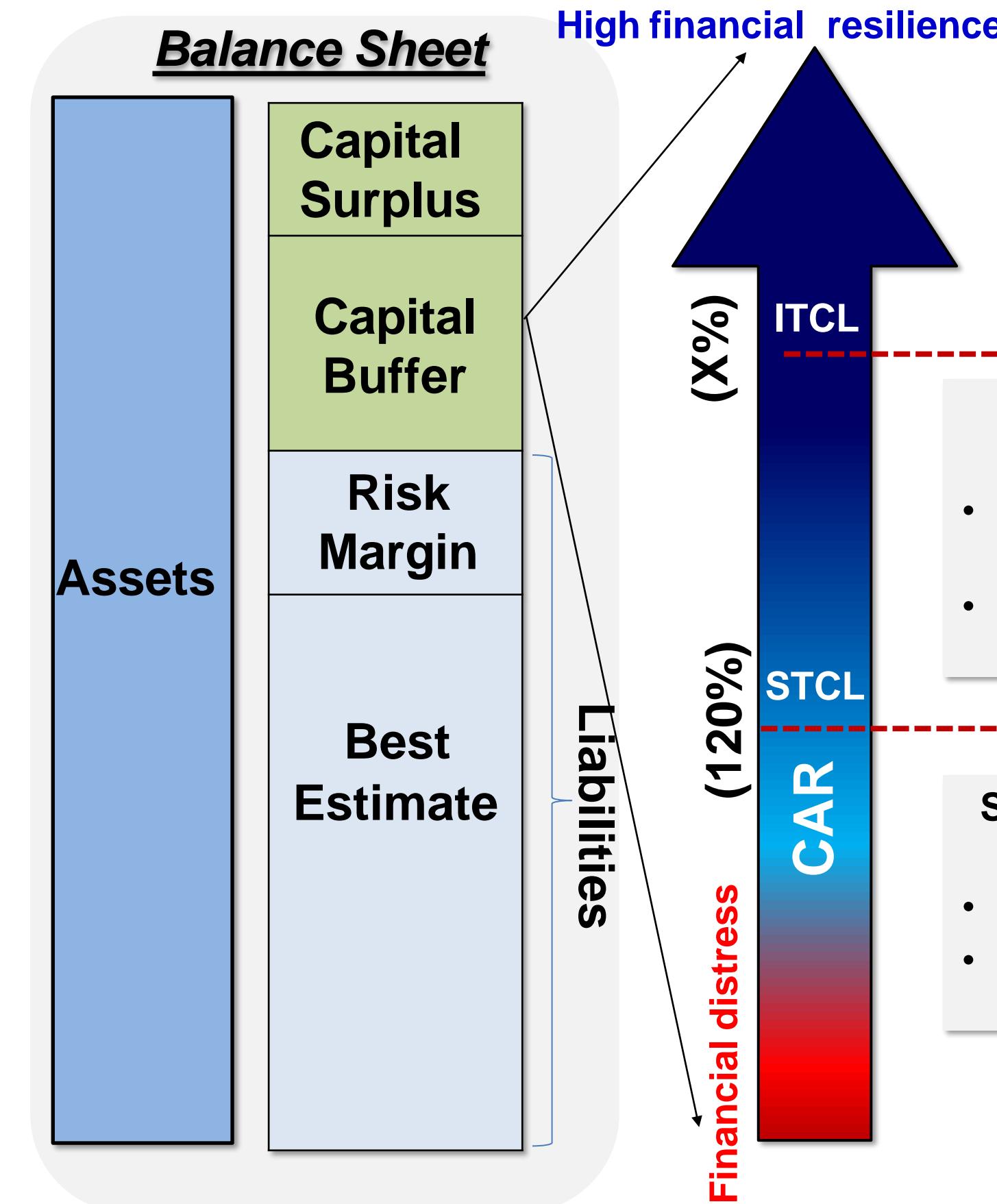
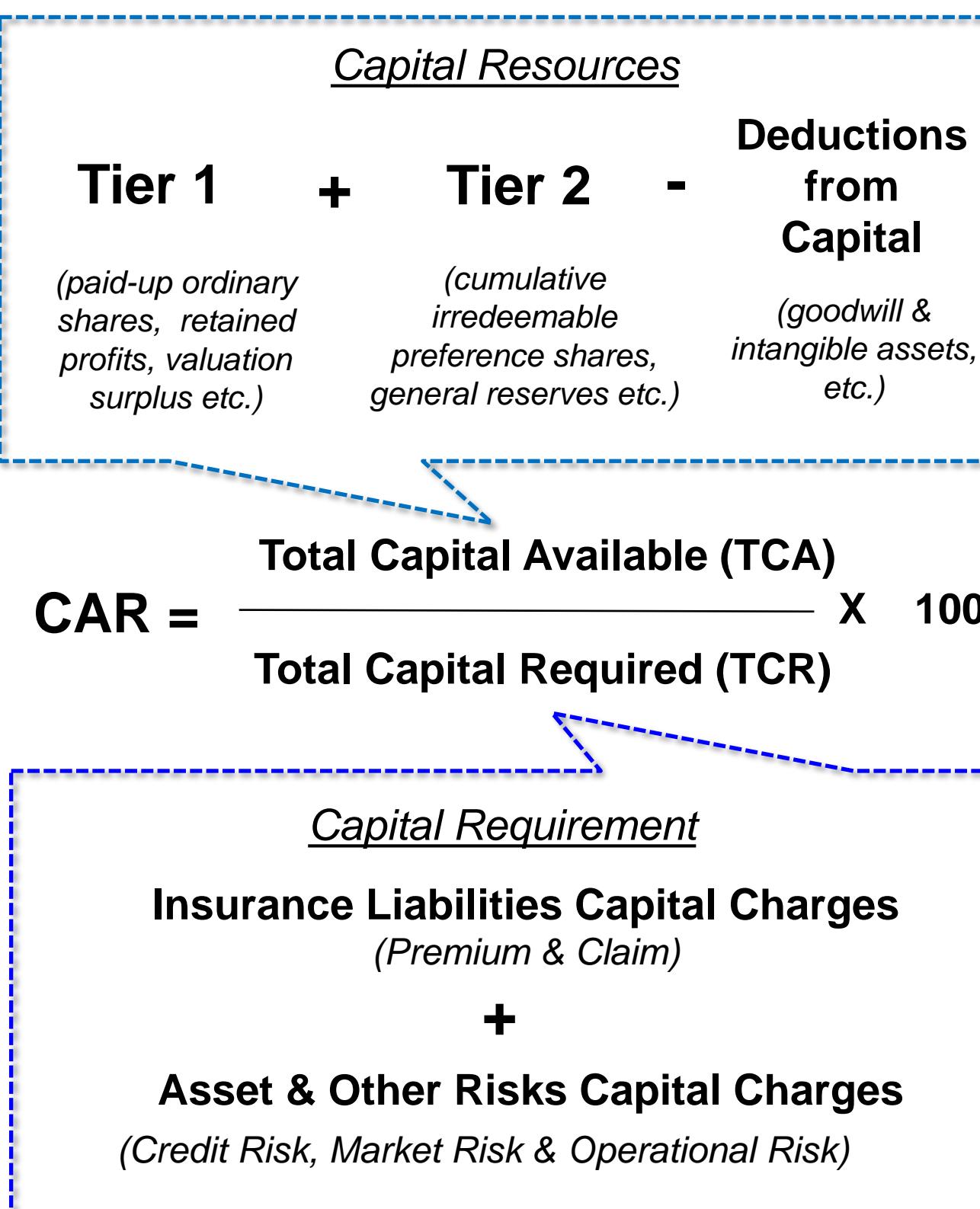
- Adherence to baseline regulatory standards
- Address material risks
- Quality of capital resources

- **IAIS (ICP 14 & ICP 17)**
- **Other IFCs:**
  - ⇒ *Singapore (RBC 2)*
  - ⇒ *Guernsey (Solvency Rules)*
  - ⇒ *Bermuda (Solvency Capital Requirement)*

# ICAF...more transparent risk-calibrated solvency design



# ICAF's Conceptual Design... *solvency measurement & levels*



## Internal Target Capital Level (ITCL)

- Reflects insurer's risk profile & risk management practices
- CAR above 120% as trigger for early intervention

## Supervisory Target Capital Level (STCL)

- Minimum CAR at 120%
- Stricter intervention to address financial distress



# Regulatory End-Game

- ④ *Modernising Labuan's solvency requirements **in line with international norms***
- ④ *Evolving into a **dynamic risk-based** insurance market*
- ④ *Inculcating **holistic** risk management, capital management and business planning*
- ④ *Appropriate for **mid-shore market** adoption*

# THANK YOU

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[www.labuanfsa.gov.my](http://www.labuanfsa.gov.my)

**Disclaimer**

The information contained herein is of a general nature and should not be regarded as offering a complete explanation of the business of Labuan IBFC or Labuan FSA.

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# PANEL DISCUSSION

## OVERVIEW OF RISK-BASED CAPITAL (RBC) REGIME



**Moderator:**  
**Roy Sharma**



**Panelist 1:**  
**Syahrul Imran  
Mahadzir**



**Panelist 2:**  
**Chong Chih  
Jen**



**Panelist 3:**  
**Zainal Abidin  
Mohd Kassim**

# Development of BNM's Risk-based Capital Framework (RBC) for insurers and takaful operators

## 1 Transition from Margin of Solvency to RBC

### Issuance of RBC for insurers

- ✓ 2-year parallel run



2007

2009

2012

2014

**Effective date of RBC  
for insurers**

**Effective date of RBC  
for takaful operators**



*BNM issued separate RBC for takaful operators to ensure compatibility with Shariah principles and reflect specificities of takaful business*

## 2 Review of existing RBC

### Industry consultations

- ✓ *Valuation of Insurance and Takaful Liabilities*
- ✓ *Overall RBC Framework Design*

**Quantitative impact study and framework design (ongoing)**

2019 onwards



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# PANEL DISCUSSION

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Co-organised by:



# Nicholas Yeo

## Founder & Actuary, n-actuarial



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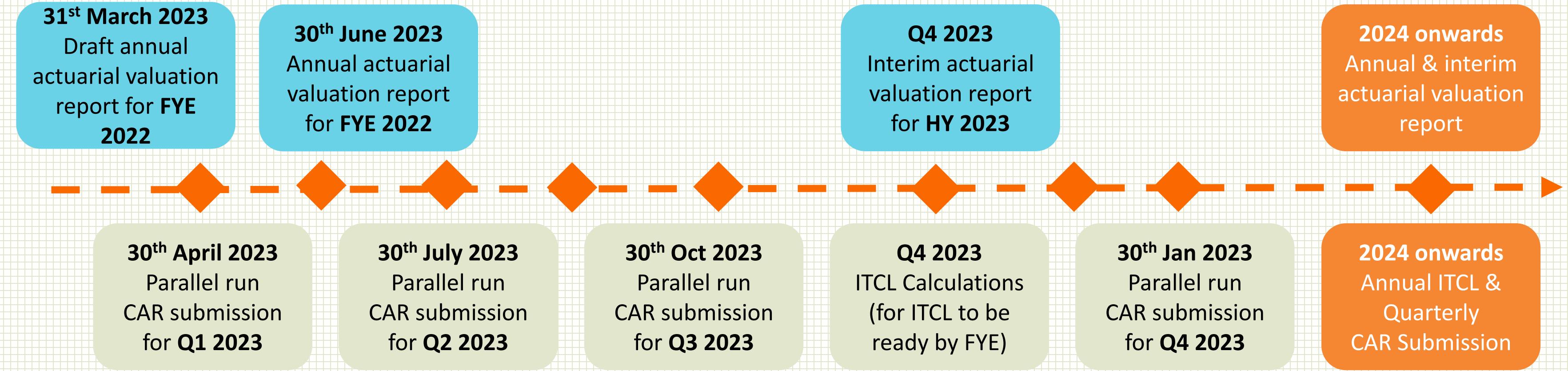


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# Insurance Capital Adequacy Framework (ICAF)

Nicholas Yeo FIA FASM FSA FSAS | Founder & Actuary

# Insurance Capital Adequacy Framework (ICAF) Implementation Timeline



## Key Salient Points

1. Quarterly capital adequacy ratio (CAR) computation to be completed within 30 days after quarter end.
2. Annual actuarial valuation to be completed within 3 months of year end and report to be submitted within 6 months of year end, and interim actuarial valuation to be completed for half year.
3. Individual target capital level (ITCL) calculations to be performed annually.

# Insurance Capital Adequacy Framework (ICAF) Project Plan

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PROJECT NAME & DESCRIPTION	APPOINTED ACTUARY	PROJECT LEAD	ANALYST	60-CHECKS DOER	PEER REVIEWER	TECHNICAL LEAD	SHADOWER	PROJECT START DATE	PROJECT END DATE
Client_Year_Quarter	Actuary	Project_lead	Analyst_1	Analyst_2	Peer_reviewer	Technical_lead	Shadower	Start	End
ACTIVITY	STATUS	ASSIGNED TO		START DATE	END DATE		DURATION (DAYS)	COMMENTS/REMARKS	
		SCHEDULED	ACTUAL						
<strong>PHASE 1: KICK-OFF</strong>									
Task 1.1: Assign Analysts, 60-checks Doer, Technical Lead and Shadower.				30/Aug	30/Aug		1		
Task 1.2: Review scope in the EL.				30/Aug	30/Aug		1		
Task 1.3: Review outstanding issues from previous valuation.				30/Aug	30/Aug		1		
Task 1.4: Issue invoice upon commencement.				31/Aug	31/Aug		1		
<strong>PHASE 2: DATA COLLECTION - SOFT CLOSE</strong>									
Task 2.1: Send data request to the Client via email, for the YTD data up to 1 month preceding the quarter end.				1/Sep	1/Sep		1		
Task 2.2: Client to prepare and share the data.				1/Sep	12/Sep		1		
<strong>PHASE 3: RATIO ANALYSIS - SOFT CLOSE</strong>									
Task 3.1: Perform ratio analysis.				12/Sep	12/Sep		1		
<strong>PHASE 4: DATA RECONCILIATION - SOFT CLOSE</strong>									
Task 4.1: Reconcile premium data.				12/Sep	12/Sep		3		
Task 4.2: Reconcile claims data.				12/Sep	12/Sep		3		
Task 4.3: Communicate with Client if there are any reconciliation issues.				12/Sep	12/Sep		1		
Task 4.4: Complete data reconciliation.				12/Sep	12/Sep		2		
<strong>PHASE 5: VALUATION - SOFT CLOSE</strong>									
Task 5.1: Perform actuarial valuation for premium liability.				16/Sep	20/Sep		3		
Task 5.2: Perform actuarial valuation for claim liability.				16/Sep	20/Sep		3		
Task 5.3: Update the ratio analysis when the liability figures are ready.				15/Oct	15/Oct		1		
Task 5.4: Review of draft liability figures by Technical Lead.				20/Sep	21/Sep		2		
Task 5.5: Review of draft liability figures by Project Lead.				21/Sep	22/Sep		2		
Task 5.6: Review of draft liability figures by Appointed Actuary.				27/Sep	28/Sep		2		
Task 5.7: Prepare the final draft liability figures.				28/Sep	28/Sep		1		
<strong>PHASE 6: DELIVER THE SOFT CLOSE RESULTS TO CLIENT</strong>									
Task 6.1: Deliver the draft liability figures to Client.				2/Oct	2/Oct		1		
Task 6.2: Communicate with Client if there are any feedbacks from Client on the draft liability figures.				2/Oct	3/Oct		2		
Task 6.3: Finalize the liability figures.				2/Oct	3/Oct		1		
Task 6.4: Deliver the final liability figures to Client.				2/Oct	3/Oct		1		
<strong>PHASE 7: DATA COLLECTION - HARD CLOSE</strong>									
Task 7.1: Send data request to the Client via email, for the YTD data up to the quarter end.				3/Oct	3/Oct		1		
Task 7.2: Client to prepare and share the data.				3/Oct	12/Oct		9		

# Insurance Capital Adequacy Framework (ICAF) Project Plan

Phase	Task	Start Date	End Date	Lead	Team	Comments
<b>PHASE 8: RATIO ANALYSIS - HARD CLOSE</b>						
Task 8.1: Perform ratio analysis.		8/Oct	8/Oct		1	
Task 8.2: Review of the ratio analysis by the Appointed Actuary.		8/Oct	8/Oct		1	
<b>PHASE 9: DATA RECONCILIATION - HARD CLOSE</b>						
Task 9.1: Reconcile premium data.		9/Oct	12/Oct		3	
Task 9.2: Reconcile claims data.		9/Oct	12/Oct		3	
Task 9.3: Communicate and discuss with Client if there are any reconciliation issues.		12/Oct	12/Oct		1	
Task 9.4: Complete data reconciliation.		12/Oct	16/Oct		2	
<b>PHASE 10: FINALISE LIABILITY FIGURES</b>						
Task 10.1: Update the liability figures using the data as of the end of quarter.		16/Oct	15/Oct		2	
Task 10.2: Review of the updated liability figures by Technical Lead.		15/Oct	15/Oct		2	
Task 10.3: Review of the updated liability figures by Project Lead.		16/Oct	16/Oct		2	
Task 10.4: Review of the updated liability figures by Appointed Actuary.		16/Oct	16/Oct		2	
Task 10.5: Finalize the liability figures.		16/Oct	16/Oct		1	
<b>PHASE 11: ICAF WORKING - HARD CLOSE</b>						
Task 11.1: Prepare ICAF form based on the finalised liability figures and quarter end account.		15/Oct	15/Oct		1	
Task 11.2: Review of the ICAF result by Technical Lead.		15/Oct	16/Oct		2	
Task 11.3: Review of the ICAF result by Project Lead.		15/Oct	16/Oct		2	
Task 11.4: Review of the ICAF result by Appointed Actuary.		16/Oct	19/Oct		2	
Task 11.5: Prepare the final draft ICAF form.		20/Oct	20/Oct		1	
<b>PHASE 12: VALUATION - HARD CLOSE</b>						
Task 12.1: Update the content of report based on the finalised liability figures.		16/Oct	15/Oct		2	
Task 12.2: Update the ratio analysis when the liability figures are ready.		15/Oct	15/Oct		1	
Task 12.3: Review of the valuation report by Technical Lead.		15/Oct	16/Oct		2	
Task 12.4: Review of the valuation report by Project Lead.		16/Oct	19/Oct		2	
Task 12.5: Perform 60-checks.		19/Oct	19/Oct		1	
Task 12.6: Review of the draft valuation report by Appointed Actuary.		20/Oct	23/Oct		2	
Task 12.7: Prepare the final draft valuation report.		23/Oct	24/Oct		2	
Task 12.8: Review by Peer Reviewer, if needed.		28/Oct	28/Oct			
<b>PHASE 13: DELIVER THE ICAF RESULTS TO CLIENT</b>						
Task 13.1: Deliver the draft ICAF form to Client.		24/Oct	24/Oct		1	
Task 13.2: Communicate with Client if there are any feedbacks from Client on the draft ICAF form.		24/Oct	27/Oct		4	
Task 13.3: Finalize the ICAF form.		27/Oct	27/Oct		1	
Task 13.4: Deliver the final ICAF form to Client.		27/Oct	27/Oct		1	
<b>PHASE 14: DELIVER THE VALUATION REPORT TO CLIENT</b>						
Task 14.1: Deliver the draft valuation report to Client.		26/Oct	26/Oct		1	
Task 14.2: Communicate with Client if there are any feedbacks from Client on the draft valuation report.		26/Oct	27/Oct		2	
Task 14.3: Finalize the valuation report.		28/Oct	28/Oct		1	
Task 14.4: Deliver the final valuation report to Client.		28/Oct	28/Oct		2	
<b>PHASE 15: PROJECT CLOSING</b>						
Task 15.1: List out current outstanding issues to be addressed now or later.		25/Oct	25/Oct		1	

### Financial Year End

A Labuan insurer shall submit to Labuan FSA its CAR computations based on the **financial year end** positions, **within 6 months after the end of each financial year end** using the reporting forms specified by Labuan FSA.

The financial year end CAR positions shall be certified by the Labuan insurer's **external auditor, appointed actuary and Principal Officer (PO)**.

### Quarter End

In addition, a Labuan insurer shall submit its **quarterly CAR** computations to Labuan FSA **within 30 days** after the end of reporting period.

The quarterly CAR does not need to be certified by the Labuan insurer's external auditor and appointed actuary.

However, the Labuan insurer's **PO shall certify that the reported figures represent the actual capital adequacy position of the Labuan insurer**.

### Others

Labuan FSA may require a Labuan insurer with a weak capital adequacy position to compute and report its CAR to Labuan FSA on a **more frequent basis**.

The capital adequacy position of a Labuan insurer at any particular point of time shall be the **lower of its latest quarterly CAR and audited CAR in its preceding financial year**.

The **minimum amount of capital funds** or surplus of assets over liabilities which a Labuan insurer shall maintain at all times to carry on insurance business shall be as prescribed pursuant to section 103 of the LFSSA.

Labuan FSA may impose **other conditions** such as restrictions on **payment of dividends** if it reasonably believes that the CAR of Labuan insurer is below its ITCL or will fall below its ITCL as a result of the payments of dividend.

### Internal Target Capital Level (ITCL)

The TCR assumes an average industry level of risk and that risks arising are mitigated by standard risk management practices. The actual risk profile and the quality of risk management measures adopted may differ.

Each Labuan insurer is expected to set an internal target capital level that better reflects its own risk profile and risk management practices.

The assessment of an appropriate internal target capital level should be performed by the Labuan insurer by **conducting appropriate stress and scenario tests**.

Board of directors is **primarily responsible for setting the internal target** in the context of Labuan FSA's broader expectations for individual insurer to have in place an appropriate **capital management plan** that takes into account its **strategic business direction** and the **changing business environment**.

Labuan FSA also expects each Labuan insurer to **establish adequate processes to monitor and ensure the maintenance of an appropriate level of capital** which commensurate with current risk profile.

### Supervisory Target Capital Level (STCL)

Labuan FSA has set a STCL of 120%, below which supervisory actions of increasing intensity will be taken.

The STCL should be viewed as a benchmark to establish a higher ITCL. Labuan FSA will assess whether the ITCL is appropriate and may require an adjustment to the ITCL. A Labuan insurer shall not set its ITCL below the STCL.

When a Labuan insurer's CAR breaches ITCL but remains above the STCL, Labuan FSA will assess the circumstances and the Labuan insurer's **remedial plans to restore CAR above ITCL**, before deciding on the level of supervisory intervention required.

Continued deterioration of a Labuan insurer's CAR below ITCL will attract increasing levels of supervisory attention. A Labuan insurer whose CAR breaches the STCL of 120% will face stricter supervisory action as imposed by Labuan FSA.

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Questions?

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# PANEL DISCUSSION

## ICAF IMPLEMENTATION – KEY PREPARATION & GUIDANCE



**Moderator:**  
**Billy**  
**Gumbang**



**Panelist 1:**  
**Aw Yong Chong**  
**Leong**



**Panelist 2:**  
**Alston Go**  
**Xue Ji**



**Panelist 3:**  
**Nicholas**  
**Yeo**