Insights – RBC

Regulatory change is sweeping across Asia, whose markets are moving towards risk-based capital (RBC) frameworks, though at a varying pace. Today, there remain as many questions as answers. We bring you a snapshot of issues raised at the 3rd Asia Conference on Risk-Based Capital held in Manila.

By Chia Wan Fen in Manila

The Philippines' Insurance Commission will look to improve the insurance regulatory framework in the country through the revised RBC2 framework, without unduly imposing unnecessary burdens on the industry, Deputy Commissioner Ferdinand George A Florendo said.

Hon. Ferdinand George A Florendo

He highlighted that the country is the world's fourth most disaster-prone in the world and its market volatility and exposure to changes in economic and market variations is unlike other jurisdictions. So local concerns must be considered. Just this past December, the Commission issued Circular Letter 68 to amend the RBC2 framework, to adapt to international standards while considering unique domestic circumstances.

Host country update

The Philippines is currently implementing Pillar 1 (on quantitative requirements), while it is in the process of developing Pillar 2 (on governance and risk management requirements) and Pillar 3 (on disclosure requirements).

Mr Florendo said that having heard the industry's discomfort in solely relying on the parallel run phase in 2015-16 for the Quantitative Impact Study (QIS) of the Margin of Solvency Framework to determine the final calibration for RBC2, the Commission had thus modified the erstwhile RBC framework which would help serve as a transitory phase to RBC2, and would allow both public and private sectors to gather more information on the impact of the shift to the latter.

Another example of taking into consideration industry feedback was in setting the standard for determining risk charges. Although the internationally accepted standard for solvency frameworks should be at the 99.5th percentile level of confidence, the Commission addressed industry concerns by staggering the transition to 99.5% by imposing 95.5% this year, 97.5% in 2018, before reaching 99.5% in 2019.

Mr Florendo said that the Commission is in the midst of trying to resolve the is-

Highlights

- Despite the general move to RBC, Asian markets are at differing steps of implementation with unique challenges;
- RBC regimes have generally strengthened the industry across markets and provide opportunities for insurers to improve their operations; and
- Reinsurance offers some innovative and customised options for companies to obtain capital relief.

sue on the implementation of provisions of admissibility or inadmissibility for computation of net worth under the Amended Insurance Code, by exploring risk-based supervision while complying with the Code's provisions, so as not to unduly burden insurers.

Acknowledging that RBC was still young in the country, he said that there are certain issues on calibration and implementation that have to be thrashed out. "No regulation is perfect… as the business environment evolves, so should regulation be adjusted," he said.

Changing face of risk


Mr John Tan

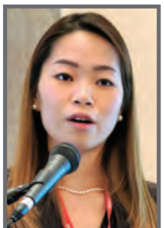
There are many new issues which are currently reshaping the insurance industry and creating unprecedented risks. Among these, the rise of new and systemic risks would create new challenges for RBC, said Mr John Tan, Asia Representative, The Geneva Association.

There is also the challenge of convergence among regulatory policies. Although regulators are more aware of the need for higher RBC standards, Mr Tan noted that they are divided between that and domestic priorities and the need to keep the economy and employment growing domestically.

While he lauded the regulators' positive approach to learn to adjust their rules through discussions with stakeholders, he cautioned that at the end, it is principles which form the backbone of the industry. His view is that the greatest risk and what could most go wrong for the world would be the failure of the financial sector.

"If any one company fails, then the reputation of the entire industry is affected. And this industry is about trust," he said. He called for inclusiveness, for the industry to manage extreme and structural risks together, such as regulators working via platforms like the IAIS and via ASEAN for the region.

The way forward


Ms Caroline Wong

Sharing the view of a consultancy which has worked closely with a regulator in its RBC journey was Ms Caroline Wong of NMG Consulting, which was engaged by the Philippines' Insurance Commission.

Through the RBC2 review process, it found that the changes have resulted in companies improving in maturity for RBC, such as moving from a focus on quantity to quality of capital. RBC2 has also created better consistency and transparency within the industry and enabled comparison between life and non-life insurers and other jurisdictions. It also provided an opportunity to develop internal controls and talent, as insurers improved their systems and people to meet new requirements.

Ms Wong said RBC2, implemented from January 2017, is expected to positively influence the way businesses will operate to create long-term sustainability in the current and future economic environment.

"It will encourage insurers to scrutinise the drivers of their capital requirements and take reactive measures to improve solvency position," she said.

She noted that converting point-in-time solvency assessment to forward looking risk management will provide greater understanding of risks affecting the business, beneficial to insurers and regulators. Those insurers who make an early move beyond just compliance in their RBC approach could gain competitive advantage.


Ms Vanessa Lou

Ms Vanessa Lou, Senior Manager of Ernst & Young Singapore, spoke about the implications of the upcoming IFRS 17 standards from 2020s meant to improve comparability and transparency for financial reporting.

Reinsurance


Mr Vinod Krishnan

Reinsurance is a good tool to obtain capital reliefs and brokers can help in this process, as their role has gone beyond a transactional one, said Mr Vinod Krishnan, CEO, Aon Benfield Asia.


Mr Anthony Egerton

Mr Anthony Egerton, Principal Officer of Huntington Underwriting in Malaysia proposed that the use of customised, structured solutions in reinsurance, such as its purchase via a quota share approach, could be one way to provide efficient and cost-effective capital relief while still achieving risk transfer and mitigating the impact of unexpected loss events. "As the RBC regimes develop, you need to get smarter about how you get reinsurance," he said.

Questions for developing market


Mr Hassan Scott Odierno

The developing markets which are new to RBC have a unique set of questions to consider, highlighted Mr Hassan Scott Odierno, Partner, Actuarial Partners Consulting, Malaysia.

Is it possible to have risk-free products – is microinsurance such a field? Can we design products which use the law of large numbers? Can the industry look at making a fair but low profit?

Citing challenges for small countries, with Brunei as the example, he said liabilities in current solvency include elements such as accounts payable, so paying claims in a timely manner is important. There may not be enough data for assumptions and to develop a mortality table for best estimates.

With insurance growth being low (Brunei's reason being citizens are well taken care of), RBC regulations must be extremely careful not to stifle growth, instead, it should encourage growth; in niche or developing markets. Having a minimum amount of paid-up capital mitigates the potential that RBC underestimates operational risk, but it also minimises the potential for a niche player to enter with limited size and risks. "There's no one-size-fits-all; every company and country has its own unique differences," he said.

The 3rd Asia Conference on Risk-based Capital, organised by *Asia Insurance Review* raised as many questions as it answered, reflecting the different developmental stages of RBC among the APAC markets. The theme was "Getting Ready and Strategic About RBC". Held from 29-30 March, it was supported by the Actuarial Society of the Philippines, the Philippine Insurers and Reinsurers Association, the Philippine Life Insurance Association and the International Insurance Society.