RBC: Three letters that spell change

The pace of regulatory change throughout the world is hectic and RBC is catalysing the process faster for better or for worse as both regulator and regulated grapple with new concepts, new dynamics and new boundaries. Hence the sharing of RBC experiences around the globe and Asia turned out to be the high point of the 2nd Asia conference on risk-based capital held in Hong Kong.

"Setting global standards is a huge, complex, difficult task, that is almost impossible but yet still possible as it has to be done ," said Ms Annie Choi, Hong Kong Insurance Commissioner in her keynote address kicking off the second Asia Risk-Based Capital conference in June.

The harmonisation exercise requires tackling a myriad of "technical and philosophical questions" touching on quantitative and qualitative issues, making the work of the IAIS in defining global insurance standards an uphill battle, Ms Choi said, adding that Asia was poised to remain one of the leading growth engines of the global insurance industry in the future.

Coming up with a viable RBC framework for all a big challenge

Hong Kong was chosen as the venue for this conference as it was the next country in Asia looking at embracing RBC, coming after China's C-ROSS.

Ms Choi said that the move comes with its own share of challenges given the diversity of the Hong Kong insurance landscape. The city counts no fewer than 158 insurers, with a good mix of large, medium and small-sized insurers, divided into local insurers, members of international groups with multi-jurisdictional operations, and insurers considered Globally Systemic Important Institutions (G-SIIS) or International Active Insurance Groups (IAIGs).

Another equally challenging task was to come up with a RBC framework that allows comparability of insurers across jurisdictions, she said, and this is where the work of the IAIS in defining global standards will be beneficial.

Wide ranging changes

Mr David Alexander, Director and Head of Business Development, Asia, Swiss Re and Chair of the HKFI Industry Taskforce on RBC, said the implementation will have wide ranging implications.

While RBC will certainly impact the solvency positions of certain insurers, changes are also expected in products design and pricing, in reinsurance, financing and investment strategies, which in turn will lead to changes in the capital market.

Sri Lanka

Mrs Indrani Sugathadasa, Chairperson, Insurance Board of Sri Lanka (IBSL), where the first Asia RBC Conference was held two years ago when Sri Lanka went RBC, said there was no one-size-fits-all regime. She stressed the importance of providing training to insurers to ensure a smooth implementation including in areas such as capital requirements, risk management, governance and IT requirements.

(L-R): Mr Katsuo Matsushita , Ms Annie Choi, Mrs Indrani Sugathadasa and Mr David Alexander

Some thoughts on RBC in Hong Kong


Ms Rani Rajasingham

Ms Rani Rajasingham, Member of RBC Task Force, Actuarial Society of Hong Kong and SVP, Chief Actuary, Life & Health, Peak Re, provided an overview of the different parts of the consultation paper issued by the Hong Kong regulator in September last year, and outlined the key comments formulated by the actuarial society of Hong Kong.

On Pillar I, she proposed an alternative method to quantify operational risks with market and credit risks being better defined to avoid overlap, and suggested that catastrophe risk be included in the framework, among other things. She felt that there was enough exposures to windstorm damage in general insurance and pandemics in long-term business to warrant CATs being considered.

On Pillar 2 & ORSA, she said: "While this is a good thing, and is certainly a much better approach to corporate governance than the traditional box-ticking approach, our main comment is that there is a large variety of companies in Hong Kong at different levels of readiness and sophistication." She suggested that the regulator conduct a survey to assess the level of preparedness of companies for ORSA requirements before these are formalised.

Welcoming the increasing transparency and disclosure requirements set out under Pillar 3, she warned that adequate public education was necessary in the lead up to the implementation of these requirements to avoid misinterpretation and lack of confidence in the market.

Thailand


Mrs Vasumadi Vasinondha

Mrs Vasumadi Vasinondha, Assistant Secretary General, Supervisory Standard Development, Office of Insurance Commission (OCI), Thailand, said they were looking to bolster the country's existing RBC framework introduced in 2011. The revamped framework will see the confidence level brought to 99.5% from 95% previously, and the inclusion of group risks and operational risks.

Indonesia


Mr Abdul Rahman Jamil

Mr Abdul Rahman Jamil, Head of Life Insurance Supervisory Division, Directorate of Insurance and BPJS – Health Supervision, Indonesia Financial Services Authority (OJK), spelt out the changes they were considering. This includes broadening the scope of asset classes in which insurers can invest and revising the capital charge for investment risks are two of the few measures currently being contemplated by the Indonesian regulator.

China


Ms Susanna Lam

With China's C-ROSS touted as a game changer with the jump from Solvency 1 to RBC, there were many challenges predicted at the Panel that looked at RBC in China, chaired by Ms Susanna Lam of AM Best.


Ms Cathy Hwang

Ms Cathy Hwang, Member of RBC Task Force, The Actuarial Society of Hong Kong and Principal & Consulting Actuary, Milliman Limited, said that companies are still in the process of familiarising themselves with the new regime, and that the effects might not be felt immediately. In the longer run, she expects C-ROSS to have far-reaching implications on the products companies will develop and to dramatically alter the competitive landscape.


Mr Sammy Lau

Mr Sammy Lau, Director & General Manager, Taiping Reinsurance Company Ltd, said the C-ROSS will bring about opportunities for reinsurers to assist their clients in complying with the regulation.

More reinsurance may be placed with local reinsurers

However, the framework discriminates against international reinsurers, with the introduction of additional capital charges for insurers placing their reinsurance with overseas reinsurers. The move is an attempt by the regulator to encourage the development of domestic reinsurers, in a market where an estimated 50% of reinsurance premiums are written by international reinsurers. Uncertainty remained, however, as to whether local reinsurers have the capacity to absorb the additional capacity, Mr Lau said.


Mr Jeff Yeung

Mr Jeff Yeung, Associate Director of Analytics, A.M. Best Asia Pacific, said that many expected a drastic revamp of the reinsurance market with more reinsurance being placed with local reinsurers. But, from a credit risk management perspective, it was important that insurers strike a balance between retaining reinsurance risks within the country and placing reinsurance abroad, he said.


Mr Jonathan Zhan

Mr Jonathan Zhan, Partner, Asia Pacific Insurance Leader and Head of Actuarial Services, EY, said that the main difference between C-ROSS and other RBC frameworks lay in the self-evaluation that companies are required to carry out under Pillar 2. Under C-ROSS, insurers need to secure a score of at least 80% or face additional capital requirements and limitations in terms of the asset classes they can invest in and products they can develop, he elaborated.

The Philippines


Mr Roshan Pereira

Mr Roshan Pereira, Partner, NMG consulting, who compared the Philippines and Sri Lanka experiences in going RBC, said that while Sri Lanka's implementation was smooth and acceptance for the new model ran high among insurers in the country, the Philippines had a more contrasted experience, he said.

The limited number of consultations carried out by the Philippines' regulator meant that the understanding of the model and level of buy-in among insurers there remained limited, with many still reliant on the margin of solvency to determine their levels of capital.

Pillar 2 should come first

While regulators will naturally have a role to play in ensuring the new requirements are fully understood among the insurers, what are the steps that insurers can take to ensure that their journey toward a RBC-compliant framework does not turn into a nightmare?


Mr Chris Hancorn

The key is to focus on risk, and not capital, said Mr Chris Hancorn, Director, Actuarial Services, PwC. Insurers should start by defining Pillar 2, a view that was widely echoed by many experts during the two-day conference.


Mr Anthony Bice

One must first develop Own Risk and Solvency Assessment (ORSA), and then to develop risk management information, "the lifeblood of that ORSA," to finally develop better capital management, with capital metrics aligning to the company's risk appetite, he added.

"The real value of this exercise is to gain a better understanding of your own business and making better decisions as a result of that understanding," Mr Anthony Bice, Partner, Insurance & Wealth Management, Oliver Wyman.


Mr Rob Curtis

However, many firms still failed to take this approach but were still seeing it as a compliance exercise, said Mr Rob Curtis, Executive Director, KPMG.

Silos not conducive to RBC compliant framework


Mr Peter Gregoire

Mr Peter Gregoire, General Counsel, AIG Insurance Hong Kong, warned that companies with a heavily compartmentalised structure will likely struggle with tackling Pillar 2. A silo approach does not lend itself to the enterprise view of risk, which underpins the RBC framework, he said.

For those companies, a cultural shift will need to take place. CEOs, CFOs, CROs, whose functions typically cut across all these silos, will be best equipped to lead the charge, he said.

(L-R): Mr Peter Gregoire, Ms Wong Ka-Man, Mr Anthony Bice and Mr Rob Curtis