Bangkok Post

Bangkok Post
Circulation: 70,000
Ad Rate: 1,500

Section: Business/WORLD
Date: Tuesday 25 June 2013
Volume: - **No:** - **Page:** B4(Center)
Col.Inch: 43.16 **Ad Value:** 64,740 **PRValue (x3):** 194,220 **Clip:** Full Color
Column: LEADING THE WAY: INSURANCE RISK-BASED CAPITAL REFORMS DRIVING THE INDUSTRY...

INSURANCE RISK-BASED CAPITAL REFORMS DRIVING THE INDUSTRY FORWARD

LEADING THE WAY

PwC THAILAND

In recent years, the Thai insurance industry has been experiencing rapid growth and transformation. Life insurers have seen improving penetration rates and demographics, changes in the personal tax regime, increasing foreign investment, better corporate governance, higher profitability and potential industry consolidation.

The general insurance industry is emerging from the financial difficulties caused by the 2011 floods, while recent growth has been supported by the first-car policy and is underpinned by general economic expansion. Key trends in the near future are likely to emphasise industry consolidation with a reduction in the number of companies, enhancements in operational effectiveness, risk and capital management, and the use of new technology in product distribution.

The Office of the Insurance Commission (OIC) is working closely with the industry on an extensive programme of regulatory reform. Its aims are to support the growth, development and efficiency of the Thai insurance industry, promote effective competition and consumer choice in insurance product markets. As well, the reforms are intended to bring Thai regulations in line with international standards to ensure greater consumer confidence in the solvency of insurance companies and better understanding of insurance products, also help prepare the Thai industry for the onset of the Asean Economic Community (AEC).

A key reform is the forthcoming revision to the regulatory risk-based capital (RBC) solvency regime. The current regime, in place since September 2011, replaced a book value-based solvency regime with a more forward-looking approach, aiming to tie solvency capital to the likely financial effects of key risks facing insurance companies.

The new regime will potentially incorporate more thorough coverage of key risks, better alignment with and encouragement of financial risk management and adherence to relevant International Association of Insurance Supervisors (IAIS) standards. Key international influences are the regulatory approaches taken in Europe, where the complex Solvency 2 regime is seen as international best practice, and Singapore, where the Monetary Authority of Singapore (MAS) has been updating RBC regulations.

For general insurance companies in particular, the new regime is likely to increase capital requirements, reflecting catastrophic events such as the experience of the Thai floods. For life insurers, the new regime is likely to further emphasise the importance of asset and liability management, ensuring that asset portfolio strategies are tied into the characteristics of liability.

These changes will create greater demand among insurers for longer-term bonds and increase demand for interest-rate swaps and other derivatives used to manage financial risk, and for more diversified product offerings based on consideration of market interest volatility.

In a related area, the OIC is actively working with the industry to improve standards of risk management to bring them in line with IAIS regulations. Again, European and Singaporean regulatory approaches could be key influences. For the life industry, a dynamic solvency testing (DST) regime for future capital management would take the business planning process to the board level.

Many countries including China, facing long-term rapid growth, have developed DST to strengthen shareholders' understanding of the future business plan and its financial impacts on an insurer's future capital needs.

Enterprise risk management for insurers is also drawing closer scrutiny. For larger companies this may in future result in the need to produce ORSAs (own risk and solvency assessments), which are full internal assessments and quantifications of risk and capital needs and entail public disclosure. ORSAs are a key part of the regulatory approaches in Europe and Singapore.

Many Thai companies are now in the process of developing risk management frameworks, technical capabilities including numbers and quality of technically skilled professionals required for RBC reporting.

Insurance regulation reform and its success are important to Thailand, for Thai insurance customers, for Thai insurance companies, management and employees.

It entails an internal reform programme within the OIC, as it develops the skills, personnel and infrastructure required to deliver the reforms while also managing its normal responsibilities. The key to the success of the process will be working with the industry closely to deliver reforms that are effective in practice and incentivise the industry to continue to develop and grow.

The outcome will be an insurance industry that is more modern, more internationally competitive, and better serves the needs of all of its stakeholders.

Anothai Leekitwattana and Shuyen Liu are Partners, and Tom Ashton is a Senior Manager with PwC Thailand. We welcome your comments at leadingtheway@th.pwc.com