

Thailand's Financial Regulation related to Capital Adequacy

by

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Agenda

- Existing Capital Adequacy Regulation
- Signs for change
- Outlook for the New Regime



Existing Capital Adequacy Regulation

- Regulation

	Life Insurer	Non-Life Insurer
Paid-up Capital	>= 500 Million Baht (12 Million USD)	>= 300 Million Baht (7.25 Million USD)
Security Deposit	>= 20 Million Baht (0.48 Million USD)	>= 14 Million Baht (0.34 Million USD)
Solvency Margin*	Max(2% of Life policy reserve, 50 Million Baht) (1.2 Million USD)	Max(10% of net written premium on previous year, 30 Million Baht) (0.725 Million USD)
Technical Provision	Maintain specified assets to cover the life policy reserve	Maintain specified assets to cover the unearned premium reserve, and loss reserves.

• ³Solvency Margin = Admissible asset – Admissible liabilities



Existing Capital Adequacy Regulation

- Corrective Measure
 - Order for financial condition improvement
 - New director or any authorised person appointment
 - Temporarily control the company
 - Consider the submitted business rehabilitation plan
 - licence revocation
- Support requirement
 - Information disclosure and reporting system



Signs for change

- Future Trend
- International Best Practices
- Self Assessment

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Signs for change : Future Trend

- The deterioration of the financial performance and risk profile of insurance and reinsurance companies
 - Weak and volatile bond and equity markets
 - Contagion from corporate scandals
 - The aftermath of September 11th, Indian Ocean tsunami, and natural catastrophes
 - Change in insurers' risk appreciation and their premiums
- Financial liberalization
 - The emergence of integrated financial services financial conglomerates, and integrated financial sector supervision

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Signs for change : International Best Practices

- ICP 23 : Solvency regime
 - Capital adequacy requirement
 - Suitable forms of capital

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Signs for change : Self Assessment

- Existing Capital Adequacy Regulation
 - Pros:
 - Easy to apply
 - Cons:
 - Not cover all type of insurer's risk
 - Not truly risk sensitive to each insurer's risk
 - Not comparable to those of the other Thai supervisory agencies

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Current status

- Hire Technical advisors to create consultative paper
 - Apply other supervisory authority regulation and international standard
 - Capital definition (tier 1, 2)
 - Study the historical data of risk experienced by each Thai insurer (VAR concept)
 - 5 risk categories :
 - Insurance Risk (Model Validation & Fine-tuning)
 - Market Risk, Credit Risk, Liquidity Risk (Undergoing parametrisation)
 - Operational Risk (Awaiting for the internationally agree-upon approach)
- Propose an adaptation of new Insurance act



Thank you

