FAQ on Guidelines on Internal Capital Adequacy Assessment Process for Insurers & Implementation Guidance (IG)

Item	Page	Para	Question/Comment	Response
1	3	5.1 (ii)	How is 'comprehensive' defined?	The expectation is for all material risks which are not included or not adequately provided for in the 'Total Capital Required' component under Risk Based Capital Framework (RBCF) to be addressed.
2	3	6.2 (i)	Will there be a guideline from the Bank articulating the risk appetite/tolerance statement?	The Bank had recently published the Concept Paper on Risk Management Guidelines – Risk Governance. Insurers may refer to paragraphs 2.2 to 2.4 for guidance on articulating the risk appetite/tolerance statement.
3	4	6.3 (ii)	Comprehensive assessment to be carried out annually appears onerous.	To support maintenance of capital adequacy on an ongoing basis, insurers are expected to have regular assessments to ensure that the levels of capital commensurate with the evolving risk profile. Insurers may leverage on the monitoring and review process as outlined in section 11 of the Guidelines.
4	4	7.1	Are insurers required to explicitly quantify the additional risks and is there a requirement to provide evidence of this assessment?	The assessment and quantification of risks which are not included or not adequately provided for under RBCF is important for the management of capital adequacy. Results of the assessments should be documented as part of the governance and monitoring process. Please also refer to paragraph 4 of Implementation Guidance.
5	4	7.1	Are there any 'minimal' additional risks that the ITCL must cater for, as well as any standard benchmarks/guidelines on how these risks may be quantified?	Risks which are not included or not adequately provided for under RBC should be considered when setting ITCL. Since these risks are likely to be firm-specific, insurers are expected to have a proper understanding of their own risk profiles and develop appropriate risk techniques that take into account their own needs and circumstances. In addition, please refer to paragraph 3 of Implementation Guidance for some of the additional risks to be considered. Going forward, the Bank may issue additional guidance should the need arise to ensure that appropriate standards are observed across the industry.

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6	5	7.2	What are the thresholds for which a risk is deemed significant?	A particular risk would be deemed significant if it has a material impact on the insurer's financial position or it is material relative to the level of risk appetite and tolerance of the insurer.
7	6	8.3	The language in this section seems to discourage the use of stochastic models in favour of 'plausible adverse scenarios'. We would like to seek clarification if this is the case.	The Guidelines does not preclude the use of stochastic models (see Paragraph 9.3 of the guidelines). For example, the generation of scenarios may be done stochastically, with the selection done at a level which is "plausible and adverse".
8	6	8.2	Should the ITCL be kept at the internal capital target level set prior to the issuance of ICAAP Guidelines?	Existing CMP/ITCL should be modified if it currently does not meet the expectations outlined in the Guidelines. The CMP will be reviewed as part of ongoing supervision under the Risk-Based Supervisory Framework.
9	7	9.1	Under Stress Test Guidelines, stress test exercise is conducted twice yearly. Does this imply that ITCL needs to be derived / revised semi-annually? Is this required as part of the half-yearly stress test submissions or will it be considered a separate exercise just to meet ICAAP requirements?	The frequency of stress testing under ICAAP is related to the frequency of assessment of capital adequacy, which is annually or more frequently if necessary. This is a separate exercise from the stress test exercise required under the Guidelines on Stress Testing. However, insurers may leverage on the biannual stress test exercise to conduct the stress test for ICAAP purposes.
10	7	9.1 (ii)	This paragraph states that the impact of plausible adverse scenarios should be tested on the ITCL rather than the actual capital level. Does this mean that moving forward, the current and planned capital level is not taken into consideration when stress testing?	This is a separate stress testing exercise for purpose of determining the ITCL. The impact of plausible adverse scenarios is tested on the ITCL to ensure that insurers are able to maintain CAR above the supervisory target level of 130% after the occurrence of those scenarios. Please also refer to paragraph 6 of Implementation Guidance.

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11	7	9.2	We interpret this paragraph as saying that the risk events/parameters tested under ICAAP must be at least as stringent as the half-yearly Stress Test submission to the Bank. Can the insurers opt to test different risk events/ different parameters for the purpose of ITCL setting and monitoring?	The stress test scenarios for purpose of deriving ITCL must be consistent with the findings from the comprehensive risk assessment exercise. Hence, the adverse scenarios will be those that are relevant to the insurer. In general these are likely to be similar to scenarios used under the Guidelines on Stress Testing.
12	8	9.3	Can the insurer place reliance on its head office/regional office for the technical expertise and support to generate scenarios using simulation methods? Does the expertise need to be in-house?	An insurer may obtain the assistance of its head office/regional office to generate scenarios. However, responsibility for the governance of the ICAAP rests with the Board and senior management, who must assess the appropriateness of any reliance on external parties whilst ensuring a high degree of integration with the insurer's business planning, risk management processes and day-to-day operations. In particular, the scenarios generated must be representative of insurer's own risk profile.
13	8	9.4	Can pre-determined management solvency action be factored in when determining the ITCL?	It is inappropriate for planned corrective actions under the CMP to be taken into account when stress testing as these corrective actions, by definition, are only triggered when CAR breaches the relevant threshold level under an adverse scenario.
14	8	10.2	With reference to this paragraph, does ITCL have to be based over a span of at least three years instead of a one year time horizon as specified in paragraph 8.2(i).	The 3-year timeframe mentioned in paragraph 10.2 is meant for capital planning purposes as part of the CMP documentation. For purpose of stress testing to derive the ITCL, the minimum time horizon is one year as stated in paragraphs 8.2(i) and 9.1(i).
15	10	11.1	Suggest to provide more clarity on the "potential breach of ITCL"? E.g. if actual capital is within x% above ITCL, regulator needs to be informed immediately?	"Potential" will depend on the sensitivity of CAR to risk events/ developments. Therefore, it is not appropriate to prescribe x% margin above ITCL for notification to the Bank, as different underlying risk profiles and risk management practices affect the sensitivity of the CAR differently.

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16	11	11.3	Does the Bank need to approve the assigned independent reviewer (similar to the process of application to be the Appointed/ Signing Actuary)?	There is no requirement for the independent reviewer to be approved by the Bank.
17	11	11.3	Are the independent reviewers required to submit their independent findings to the Bank? If so, how often?	There is no requirement for independent reviews to be submitted to the Bank on a regular basis. However, the Bank may request such information as part of the supervisory review process where necessary.
18	11	11.3	Can the ICAAP be jointly signed off by the Appointed Actuary (AA) and the Head of Risk Management of the insurer? Also, since the AA is independent in performing his statutory role, the independent review may not be necessary as it results in replication of work and may not be cost efficient.	The Guidelines does not prescribe a requirement for sign-off of ICAAP as the responsibility lies with the Board and senior management. In assessing whether a particular function is suitable to perform the independent reviewer role, the insurer needs to assess against the criteria as set out in the Guidelines. The Bank has observed that the AA is often involved in the setting the ITCL or other areas under ICAAP. In such cases, the insurer would need to justify how the AA meets the independence criteria if the AA is also involved in the independent review process.
19	12	12	Will insurers be given any new standard supervisory reporting template(s) and/or additional reporting requirements with regards to the ICAAP?	There are no additional reporting requirements for ICAAP.
20	12	12.1	Can the Bank share the salient features of the Risk-Based Supervisory Framework, so that insurers can better meet the Bank's expectations?	Insurers may refer to the article on 'Prudential Regulation and Supervisory Framework' published in the 2007 Financial Sector and Payment System Report for further details on the Risk-Based Supervisory Framework.

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21	IG-7	12	How does the Bank ensure consistency in setting ITCL across the industry?	An objective of the Guidelines is to promote consistent approaches to the determination of ITCL, while allowing for specific risk characteristics of an insurer. This will be further supported by the supervisory review and evaluation of an insurer's ICAAP. The actual capital levels at which insurers choose to operate, however, may also depend on other capital management objectives of an insurer, including the desire to maintain certain financial strength ratings. The setting of the ITCL should be viewed in this broader context as an important tool that aids an insurer's business planning and risk management process. Prescription of a risk measure and confidence interval will be considered in the future when internal models are introduced.
22			Guidelines requirement appear to be stringent and seem to result in over-capitalisation and impede on the growth of the industry.	The objective of the RBCF is to ensure insurers are adequately capitalized at all times in order to promote orderly growth of the industry. RBCF's risk charges for standard risks were calibrated taking into account past industry data and were further aligned to ensure consistency with other regulatory capital regimes in the financial sector and the prevailing economic environment. ITCL is meant to capture the inadequacy in the standard risks prescribed based on individual insurer's risk profile and risks that are **not** taken into account in the RBCF.