FREQUENTLY-ASKED QUESTIONS
GUIDELINES ON INSURANCE CAPITAL ADEQUACY FRAMEWORK

A. EFFECTIVE DATE

1. What is the rollout plan for the implementation of the Guidelines on Insurance Capital Adequacy Framework (ICAF)?

The rollout for ICAF will be on phased-in approach to ease in the industry into the risk-based capital regime as follows:

(i) ICAF Parallel Run (1 January – 31 December 2023)

(a) (Re)insurers are required to compute and submit the ICAF reporting to the Authority on a quarterly basis beginning 31 March 2023, in addition to its existing reporting for Margin of Solvency (MOS). A separate guidance may be issued later to facilitate the ICAF quarterly submissions;

(b) In terms of solvency compliance, (re)insurers are required to observe and maintain the MOS as provided in the *Clarification Note for Directive on Minimum Capital Requirement by Labuan Licensed Entities* issued on 13 October 2015 during the parallel run period; and

(c) During the parallel run period, the Authority also expects (re)insurers to undertake preparatory arrangements to comply with ICAF which include:

- formulating a capital management plan vis-a-vis the (re)insurer's risk management policy including the determination of the internal target capital level (ITCL);
- instituting the appropriate IT infrastructures to support ICAF including requisite databases or systems in generating the periodic ICAF reporting; and
- developing other relevant internal policies to facilitate the (re)insurers' adoption of the ICAF requirements.

(ii) ICAF Full Implementation (effective on 1 January 2024)

(a) The MOS requirements will be replaced by ICAF i.e. (re)insurers are required to meet and maintain its solvency as specified by ICAF;

(b) The regulatory reporting to the Authority will be confined to ICAF quarterly submissions; and

(c) As part of supervisory expectations, a (re)insurer is required to immediately inform the Authority when its Capital Adequacy Ratio (CAR) falls below its ITCL.

B. APPLICABILITY

2. What is the solvency requirement for Labuan (re)takaful operators which are not scoped in under ICAF?

Labuan (re)takaful operators will be subject to the MOS requirements until such time when Labuan FSA later specifies on the implementation of the risk-based capital requirements for the takaful sector.

3. What is the solvency requirement for Labuan (re)insurers with (re)takaful window?

For the purpose of ICAF, Labuan (re)insurer with (re)takaful window is only required to include the whole entity without window into the ICAF computation. Labuan FSA will advise the treatment on the takaful portion later. Notwithstanding this, as a matter of prudence, Labuan (re)insurers are highly encouraged to include (re)takaful window business into ICAF reporting, where relevant.

4. What are the criteria that Labuan FSA will consider in assessing an exemption application from ICAF by a Labuan branch for its non-Malaysian insurance business portion?

The exemption for non-Malaysian insurance business underwritten by a Labuan (re)insurer branch may be considered subject to meeting the conditions, amongst others:

No.	Conditions	Labuan FSA's Expectation
(i)	there is an explicit undertaking from the branch's head office	The branch's head office provides an explicit undertaking which can be in the form of a guarantee letter/letter of undertaking/commitment/financial

<table>
<tr><td></td><td>to satisfy the liabilities arising from non-Malaysian insurance business in the event that the branch is unable to fulfil its obligations</td><td>outlay/other types of commitment to satisfy Labuan branch's payment obligations arising from insurance business outside Malaysia in the event that the Labuan branch is unable to fulfil its obligations.

Labuan FSA recognises that the guarantee letter provided by the Labuan branch’s head office during the licensing stage would generally sufficient to satisfy this condition. However, Labuan FSA may direct the Labuan insurer to provide additional confirmation from its head office if the content of the guarantee letter is deemed to be insufficient for the purpose of ICAF exemption. For this purpose, Labuan FSA will direct the Labuan insurer to submit another commitment letter or other form of undertaking to support its application.</td></tr>
<tr><td>(ii)</td><td>the financial position of the Labuan insurer’s group is strong</td><td>• The group has been accorded with good financial strength rating accorded by the international rating agency e.g. minimum A-.
• In addition, the application must be supported by the latest audited financial statement of the Group as a proof of its financial position.</td></tr>
<tr><td>(iii)</td><td>the branch is subjected to consolidated supervision by a recognised and competent home supervisory authority</td><td rowspan="2">The Labuan insurer may lend its support by providing the contact details of its home supervisor (including email address and telephone number) to Labuan FSA. Labuan FSA will liaise with the home supervisory authority to seek confirmation on these two conditions.

For this purpose, any regulatory authorities that have signed the bilateral Memorandum of Understanding (MoU) with Labuan FSA or multilateral Memorandum of Understanding (MMoU) in which Labuan FSA is a signatory, would be considered to have met the condition specified under item iv.

The list of MoUs/MMoUs signed between Labuan FSA and other regulatory authorities is available on Labuan FSA website at https://www.labuanfsa.gov.my/about-labuan-fsa/the-regulator/memoranda-of-understanding.</td></tr>
<tr><td>(iv)</td><td>the Labuan insurer’s home supervisory authority is willing to cooperate with Labuan FSA in the supervision of the Labuan insurer</td></tr>
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C. SUPERVISORY AND INTERNAL TARGET CAPITAL LEVELS

5. Does the minimum CAR need to be maintained at both company and fund level under ICAF?

A Labuan insurer is only required to maintain the minimum CAR at company level.

6. What is Labuan FSA's expectation for a Labuan (re)insurer in setting its ITCL?

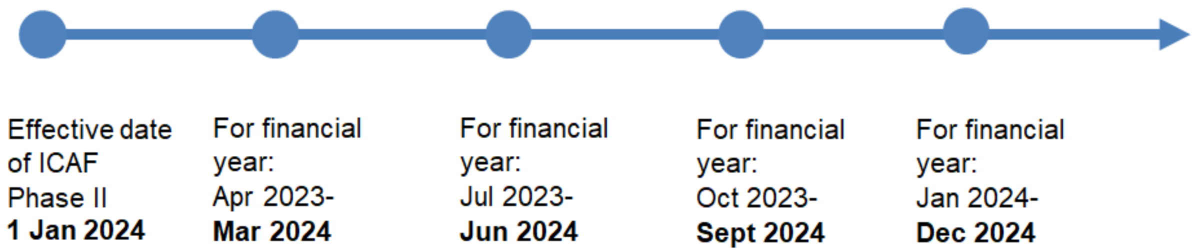
- A Labuan (re)insurer is required to develop its ITCL with some assumptions and projections. Thereafter, a Labuan (re)insurer should share the results and discussed the proposed ITCL with the relationship manager from the Supervision and Enforcement Department of Labuan FSA before finalising it. This is to ensure the suitability and sufficiency of the ITCL set.
- As part of supervisory expectations, a Labuan (re)insurer is required to immediately inform the Supervision and Enforcement Department of Labuan FSA when its CAR falls below the ITCL.
- Labuan FSA has the discretion to impose higher capital requirements if it deems that the ITCL set does not commensurate with the Labuan insurer's business activities, risk exposures and risk management practices based on its supervisory assessment of the Labuan insurer concerned.

D. REPORTING REQUIREMENTS

7. How does a Labuan insurer submit the ICAF reporting to Labuan FSA during parallel run period?

- During parallel run, the ICAF reporting is to be submitted to Statistics Unit of Labuan FSA through email at iru@labuanfsa.gov.my.
- At this juncture, ICAF is exclusively manual submission. The incorporation of ICAF into the Statistical Management System will be done as future enhancement and Labuan FSA will advise on this when the system is ready.

8. When should ICAF reporting begin to be audited?



- Submission of audited ICAF reporting is based on ‘as at basis’.
- As the effective date of ICAF is 1 January 2024, Labuan (re)insurers are required to submit the audited ICAF reporting from 2024 onwards, as illustrated above.

E. ICAF Computation

E.1 Paragraph 5.0 of ICAF: Capital Adequacy Ratio

9. In computing the CAR for a Labuan branch that has been exempted from complying with ICAF requirements for non-Malaysian insurance business, how should Total Capital Available (TCA) and Total Capital Required (TCR) be computed?

$$\boldsymbol{CAR} = \frac{\boldsymbol{TCA}\ (\boldsymbol{total\ company})}{\boldsymbol{TCR}\ (\boldsymbol{Malaysian\ business} + \boldsymbol{shareholders'\ fund/working\ fund})}$$

- Notwithstanding this, Labuan FSA has the discretion to limit the TCA to Malaysian business and shareholders' fund/working fund only to reflect the Labuan (re)insurers’ business activities and risk exposures, based on Labuan FSA’s supervisory assessment of the Labuan (re)insurer concerned.
- For information, Labuan FSA may further refine the ICAF reporting templates in the future to reflect better CAR computation e.g. TCA to be confined to Malaysian business and shareholders' fund/working fund only.

E.2 Form B of ICAF Reporting Templates: Total Capital Available

TOTAL CAPITAL AVAILABLE

		All funds	All funds excluding par fund
(A)	(i) Fully paid-up ordinary shares/ Working fund		
	(ii) Share premiums		
	(iii) Paid-up non-cumulative irredeemable preference shares		
	(iv) Capital reserves		
	(v) Retained profits/(accumulated losses)		
	(vi) Valuation surplus[1/] of non-participating life insurance fund maintained in the insurance fund		-
	(vii) Valuation surplus[1/] of participating fund maintained in the insurance fund		
	(viii) 50% of future bonuses	-	
	(ix) Other Tier-1 capital instruments		
	Tier-1 Capital	-	-
(B)	(i) Cumulative irredeemable preference shares		
	(ii) Mandatory convertible capital loan stocks or similar instruments		
	(iii) Irredeemable subordinated debts		

List | Form A | Form B | Form C | Form C1 | Form C1-1_MB Par Ord Life | Form C1-1_MB Non Par Ord Life

10. How should the 'All funds' and 'All funds excluding par fund' under Form B be computed?

- For general (re)insurers and life (re)insurers without participating business, the two columns of Form B i.e. 'All funds' and 'All funds excluding par fund' should be filled with same figures.
- For life (re)insurers with participating business, the two columns of Form B should be filled with different figures to reflect different categories of funds.
- This will be automatically reflected into Form A.

E.3 Form C1 of ICAF Reporting Templates: Summary of Credit and Market Risks Capital Charges

(vii)	Asset concentration risks [6/ 7/]				
	Total	-	-	-	-

Note:

1/ Capital charges to mitigate interest rate risks for shareholders'/working fund shall be calculated in the same manner as that applicable for a gene

2/ Aggregate credit risk capital charge arising from loans (except for policy loans) granted to the staffs of insurers and other individuals

3/ Aggregate credit risk capital charge arising from debt obligations with LTV ≤ 90%

4/ Structured deposits and Specific Investment Account (SIA) would not qualify as eligible collateral

5/ Due from licensees under the Labuan Financial Services and Securities Act 2010, Labuan Islamic Financial Services and Securities Act 2010, BN

6/ An exposure which already attracts asset concentration charge of 100% shall not be subject to any credit or market risk charges

7/ Asset concentration capital charge for excessive exposure to an individual counterparty should be apportioned between individual funds accordin limit'. The 'notional limit' to any particular exposure for each fund is computed by multiplying the maximum counterparty limit by the total assets on Insurance Capital Adequacy Framework.

E.g.: Insurer with total assets of USD1,000 m, has overall exposure of USD120 m to a counterparty falls under 'any other counterparties' categ counterparty is thus USD120 m - (5% x USD1,000) = USD70 m.

Fund	Total assets	Total exposure (a)
Participating life fund	800	110
Non-participating life fund	200	10
Total	1,000	120

List | Form A | Form B | Form C | Form C1 | Form C1-1_MB Par Ord Life | Form C1-1_MB Non Par Ord Life

11. How should the asset concentration risks under Form C1 be computed?

- For each maximum limit stated under Appendix III of ICAF:
  - o Where the amount of assets falling within the limit is calculated to be less than USD5 million, a limit of USD5 million shall apply. This means there is no asset concentration risk charge as long as the amount of assets stays below the limit.
  - o Where the amount of assets falling within the limit is calculated to be equivalent to or more than USD5 million, the maximum limit stated in paragraphs 1, 2 and 3 shall apply. For example, if an insurer only has amount due from holding company amounting to USD6 million, of which the maximum limit is 25%, then the asset concentration risk charge is USD6 million – (25% of USD6 million) = USD4.5 million.
- For the minimum limit stated under Appendix III of ICAF:
  - o Where the amount of liquid assets held is calculated to be equivalent to or more than the minimum limit, there is no asset concentration risk charge.
  - o Where the amount of liquid assets held is calculated to be less than the minimum limit, for example, if an insurer has liquid assets amounting to USD1 million and the minimum limit is USD1.2 million, then the asset concentration risk charge is USD1.2 million – USD1 million = USD200,000.
- An exposure which already attracts asset concentration charge of 100% shall not be subject to any credit or market risk charges.