MILLIMAN RESEARCH REPORT

Regulatory diversity across Asia

An analysis of Asia's life insurance regulations

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Milliman

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Introduction

BACKGROUND

In Asia, different countries are at very different stages of evolution—in general economic, social and demographic terms and in respect of the maturity of their various life insurance industries. Consequently, the insurance regulatory regimes vary significantly across the markets, often making it difficult for insurers to keep track of how the regulations change across the region.

For life insurers with operations in more than one market and/or aspirations to expand into new markets, there is a need for a concise summary of the Asian regulatory regimes. The aim of this research report is to provide such a summary, which will be updated on a regular basis in order to provide a "one-stop" reference for the evolving life insurance regulatory environment of Asia.

This report covers an overview of the current regulations applicable to life insurers in 14 Asian markets, namely Brunei, China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

For each of these markets, we have summarised the main regulations governing the following areas:

- Products / pricing
- Distribution
- Reserving
- Capital and solvency requirements
- Investments
- Policyholder protection
- Taxation
- Enterprise Risk Management (ERM)

If you would like a more detailed summary of the regulations for any of the 14 jurisdictions, please contact any of the Milliman consultants listed at the end of this report.

INSURANCE SECTOR REGULATORS / GOVERNING BODIES

The various Asian insurance regulatory bodies are listed below in Figure 1:

FIGURE 1: INSURANCE REGULATORY / GOVERNING BODIES IN ASIA

JURISDICTION	INSURANCE REGULATOR/GOVERNING BODY
BRUNEI	AUTORITI MONETARI BRUNEI DARUSSALAM (AMBD)
CHINA	CHINA INSURANCE REGULATORY COMMISSION (CIRC)
HONG KONG	INSURANCE AUTHORITY (IA)
INDIA	INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (IRDAI)
INDONESIA	OTORITAS JASA KEUANGAN (OJK)
JAPAN	FINANCIAL SERVICES AGENCY (FSA)
MALAYSIA	BANK NEGARA MALAYSIA (BNM)
PHILIPPINES	INSURANCE COMMISSION (IC)
SINGAPORE	MONETARY AUTHORITY OF SINGAPORE (MAS)
SOUTH KOREA	FINANCIAL SUPERVISORY SERVICE (FSS)
SRI LANKA	INSURANCE REGULATORY COMMISSION OF SRI LANKA (IRCSL)
TAIWAN	FINANCIAL SUPERVISORY COMMISSION (FSC)
THAILAND	OFFICE OF INSURANCE COMMISSION (OIC)
VIETNAM	MINISTRY OF FINANCE (MOF)

ACTUARIAL SOCIETIES

Besides these regulatory bodies, in most of the jurisdictions covered, the actuaries working in the insurance industry are also required to comply with certain professional standards, guidelines and guidance notes issued by the respective actuarial societies (see Figure 2).

FIGURE 2: ACTUARIAL SOCIETIES IN ASIAN COUNTRIES

JURISDICTION	ACTUARIAL SOCIETY
BRUNEI	BRUNEI ACTUARIAL SOCIETY (BAS)
CHINA	CHINA ASSOCIATION OF ACTUARIES (CAA)
HONG KONG	ACTUARIAL SOCIETY OF HONG KONG (ASHK)
INDIA	INSTITUTE OF ACTUARIES OF INDIA (IAI)
INDONESIA	PERSATUAN AKTUARIS INDONESIA
JAPAN	INSTITUTE OF ACTUARIES OF JAPAN (IAJ)
MALAYSIA	PERSATUAN AKTUARI MALAYSIA / ACTUARIAL SOCIETY OF MALAYSIA (ASM)
PHILIPPINES	ACTUARIAL SOCIETY OF THE PHILIPPINES (ASP)
SINGAPORE	SINGAPORE ACTUARIAL SOCIETY (SAS)
SOUTH KOREA	INSTITUTE OF ACTUARIES OF KOREA (IAK)
SRI LANKA	ACTUARIAL ASSOCIATION OF SRI LANKA (AASL) (1)
TAIWAN	ACTUARIAL INSTITUTE OF CHINESE TAIPEI (AICT)
THAILAND	SOCIETY OF ACTUARIES OF THAILAND (SOAT)
VIETNAM	ACTUARIAL WORKING GROUP (AWG) (2)

Notes:

(1) AASL was formed as a non-profit making association in September 2008. Since its inception, the AASL has been an Associate Member of the International Actuarial Association (an umbrella organization to all actuarial bodies across the world). The AASL does not currently publish any standards of actuarial practice.

(2) The AWG is a not an actuarial society but a formal group established by the Insurance Supervisory Authority (ISA) (Ministry of Finance), consisting of all Appointed Actuaries in the Vietnam life industry. Its role includes reviewing and discussing issues related to the insurance industry and providing comments and recommendations with an aim of supporting a sound insurance industry and robust actuarial practice. The AWG also provides technical advice and support to the ISA in relation to actuarial matters.

The applicable regulations covered in this report include (wherever relevant) any specific requirements imposed by the actuarial societies in different countries on the actuaries working in the insurance industry.

LIMITATIONS OF THIS REPORT

We would like to stress that this report is not intended to cover all applicable detailed regulations governing the life insurance industries in various jurisdictions. Instead, it is intended to provide a high level overview of the applicable regulatory regimes across markets. By its very nature, the regulatory environment in any jurisdiction is time sensitive. The various regulations covered in this report are based on the applicable regulatory environment in different markets as at 31 December 2017. It is possible that some of these regulations may have changed in the process of writing this report.

We would also like to stress that neither Milliman nor its consultants are experts in legal or taxation matters. As such, the various regulations or taxation regimes included in this report are based on the experience of our consultants working in these markets and should not be taken as formal advice on legal or taxation matters.

We hope you find the report useful and would welcome any comments and suggestions that you may have.

Executive Summary

This report gives an insight into the key regulations governing the life insurance sector in 14 Asian markets. The table below in Figure 3 summarises these regulations.

FIGURE 3: SUMMARY OF REGULATIONS

AREA	REGULATIONS
PRODUCTS / PRICING	Generally, life insurers are required to obtain approval from the regulatory authority before launching a new product or making changes to products already approved. For products with investment risks, the approval process is often more stringent and requires more documentation. In few jurisdictions, in order to make the filing and approval process quicker and easier, regulators adopt a 'Use and File' arrangement, wherein insurers can launch certain products before filing them with the regulator. Apart from Brunei, regulators in all other jurisdictions have imposed certain restrictions on product features, such as death benefits, charges and fees and surrender values. The nature of such restrictions varies across markets. For example, insurers in Thailand are not allowed to sell pure endowment products, whereas products using Constant Proportion Portfolio Insurance (CPPI) techniques are not permitted in India. Usually, there are minimum sum assured requirements in different life insurance products. Also investment-linked products designed using 'actuarial funding' techniques are only permitted in four of the markets covered.
DISTRIBUTION	Regulations in all 14 jurisdictions require that insurance distributors obtain a license from a specified authority, and comply with some form of minimum educational qualifications, work experience and continuous professional development (CPD) requirements. Often there are caps on the commissions payable to insurance distributors, and these caps usually vary by product type and premium payment term. Typically, insurers are also required to issue point-of-sale benefit illustrations to policyholders. The format for these illustrations, along with the gross investment returns to be used, is also usually prescribed in the regulations. Regulators are encouraging insurers to offer insurance products online provided they follow the applicable guidelines. However, currently, this is largely restricted to simpler products such as term insurance and accident insurance.
RESERVING	All jurisdictions follow an 'Appointed Actuary' (AA) or a 'Chief Actuary' (CA) system. The insurance regulations in each market lists the duties and responsibilities of the AA or CA, which mainly include certifying the premium rates and pricing bases of the products; ensuring that liability valuation and reserving methods and assumptions are in accordance with the applicable laws and regulations; certifying the solvency of the insurer and investigating the financial condition of the company at the end of the accounting period. Statutory reserves are calculated using Gross Premium Valuation (GPV) methodology in all jurisdictions except Hong Kong, Japan, South Korea, Taiwan and Vietnam, where reserves are based on a Net Premium Valuation (NPV) approach. In Thailand, although minimum statutory reserves are based on a GPV approach, several insurance companies continue using a NPV basis, subject to passing a Liability Adequacy Test (LAT). Statutory reserves in all jurisdictions are required to be calculated on a seriatim basis (i.e., policy by policy) and are not allowed to be negative (either at a policy level, or at an aggregate product category level or at fund level). There are additional minimum reserving requirements in certain markets. The AA or CA is responsible for setting the valuation assumptions in all jurisdictions other than Japan, South Korea, Taiwan and Vietnam, where the valuation assumptions and methodology are prescribed by the respective regulators. A stochastic approach is required for evaluation of the cost of options and guarantees either by the regulations (in Hong Kong in respect of Class G long-term business;[1] and in Japan, South Korea, Sri Lanka and Taiwan) or by the guidelines issued by the actuarial societies (in India and Singapore).
CAPITAL AND SOLVENCY	Currently, only four markets (Brunei, Hong Kong, India and Vietnam) follow a Solvency I type of approach for determining capital requirements. All other markets follow some form of risk-based capital (RBC) regime. In the coming years, Hong Kong and India are also planning to move to a RBC approach. Insurers are required to hold a prescribed minimum amount of capital. Insurers in all jurisdictions need to notify the regulators in case they are not able to maintain the prescribed minimum solvency ratio, solvency margin or capital adequacy ratio (CAR). Other than for Brunei, Hong Kong, Indonesia, Japan, Taiwan and Vietnam, there are regulations on the bonus-absorbing capacity of the participating business that can be considered whilst assessing the reserving and solvency. In many jurisdictions, insurers are required to submit a financial condition report (FCR) to the board of directors and/or to the regulator.

[1] Policies classified under Class G long-term business (Class G business) are mainly offered as retirement scheme contracts which provide for a guaranteed capital or return under Mandatory Provident Fund Schemes or Occupational Retirement Schemes Ordinance business.

AREA	REGULATIONS
INVESTMENTS	In almost all markets, there are detailed regulations governing investment activities of life insurance companies. Insurers are typically required to have Investment Committees of the Board to oversee their investment functions. Insurers in Malaysia, Singapore and Sri Lanka must also have a board-approved Asset Liability Management (ALM) policy. Other than in India and Singapore, insurers can outsource some part or all of the investment management functions to external fund managers. In almost all the markets, regulators have imposed some restrictions and limits on the assets in which insurance companies can invest their funds.
POLICYHOLDER PROTECTION	All jurisdictions have detailed regulations governing policyholder protection. They include areas such as requirements to issue point-of-sale benefit illustrations and requirements to offer 'free look' cancellation periods, amongst others. Many jurisdictions have also established policyholders' protection funds. Other than in Indonesia, the Philippines and Thailand, certain regulations regarding the management of participating business govern the bonus declarations or allocation of profits to shareholders (although Hong Kong does not have rules on surplus distribution).
TAXATION	The taxation framework applicable to life insurers varies across markets. Generally, the policyholders can claim tax relief (up to a specified amount) for investing in certain types of products.
ERM	Some markets have a regulatory requirement for insurers to develop and maintain certain aspects of ERM framework, although a large majority of the jurisdictions considered do not have a regulatory requirement for a comprehensive ERM framework. However, we would expect the scope of ERM activities to gradually expand in many markets, especially as markets adopt RBC frameworks for the first time or expand the scope of their existing RBC frameworks.

The following can be observed about the Asian life insurance regulatory environment:

- The markets in Asia are still very much 'rules based' (as opposed to 'principles based'), with detailed rules and regulations governing different aspects of the industry.
- Regulators are increasingly looking at areas such as customer protection and meeting policyholders' reasonable expectations (PREs), although these are still at a nascent stage in many of the markets.
- There is also an increasing focus on strengthening the governance environment through the AA/CA systems (enhanced with peer review in some jurisdictions) and the role of board committees.
- There is a clear trend towards adoption of RBC regimes and the enhancement of such frameworks.
- The regulations in several markets are changing rapidly.

Product Pricing

This section provides an analysis of the various regulations applicable to the development and pricing of life insurance products.

PRODUCT APPROVAL PROCESS

In several markets, insurers have to file their products and obtain approval from the regulator (typically referred to as 'File and Use' or 'File and Launch') before the product launch. Usually, the regulator requires insurers to submit a range of documents pertaining to the features of the new product, along with a certification (typically from the AA or the CA of the insurer) that the pricing of the product complies with the regulations and /or insurer’s pricing norms. Figure 4 lists the markets where life insurers can use a 'File and Use' procedure.

In markets such as China, India, Malaysia, Singapore[2] and Taiwan, life insurers are allowed to launch certain types of products without prior approval from the respective regulator (referred to as 'Use and File' or 'Launch and File'). Insurers are then required to file the product within a specified number of days from its launch date.

The approval process is often more stringent for certain type of products. For instance, in Hong Kong there is no product filing requirement or formal regulatory product approval process, apart from Investment-Linked Assurance Schemes (ILAS) and Variable Annuity (VA) products, where charging structures and marketing materials need to be submitted to the Hong Kong Securities and Futures Commission (SFC).

Typically, any revisions to existing products are also subject to the same approval procedure as applicable for new products. However, minor modifications to already approved products may not require any approval.

FIGURE 4: 'FILE AND USE' REQUIREMENTS IN VARIOUS JURISDICTIONS

JURISDICTION	FILE AND USE	JURISDICTION	FILE AND USE
BRUNEI	✓	PHILIPPINES	✓
CHINA	The insurance regulator notifies the specific type of products to which the ‘File and Use’ process applies. It also applies to products wherein the pricing interest rate is higher than the regulated reserving rate.	SINGAPORE	✓
HONG KONG	ILAS, VA products	SOUTH KOREA	✓
INDIA	✓	SRI LANKA	✓
INDONESIA	✓	TAIWAN	✓
JAPAN	✓	THAILAND	✓
MALAYSIA	✓	VIETNAM	✓

RESTRICTIONS ON PRODUCT FEATURES

With the exception of Brunei, all jurisdictions have imposed some restrictions on product features such as minimum insurance coverage, minimum death/survival benefits, minimum surrender values, maximum charges, etc. These restrictions vary by jurisdiction and by type of product or benefit.

Some of the notable restrictions include:

- Minimum death benefits and surrender value requirements across all jurisdictions
- Maximum charges that can be levied on investment-linked and/or universal life products in jurisdictions such as China, India, Malaysia, Thailand and Taiwan
- Pure endowment products are not allowed in Thailand
- Back-end loaded investment-linked products using ‘actuarial funding’ techniques[3] are not allowed in Hong Kong (unless approved by IA), India, Indonesia, Malaysia, the Philippines, Sri Lanka, Taiwan, Thailand and Vietnam

[2] In Singapore, an approval from MAS is required before launching a new product with any feature that does not appear in any previously launched product.

[3] Information not available for Brunei.

- Product designs that use CPPI techniques are not permitted in India
- Maximum rider premiums and coverage exist in India and Thailand.

RESTRICTIONS ON PRODUCT PRICING

Some jurisdictions have additional regulatory requirements governing product pricing. For example:

China

- The pricing interest rate is not allowed to be more than the average investment return earned over the past five years.

India

- For investment-linked and universal life (referred to as ‘VIP’) products, restrictions on maximum charges are specified—the fund management charge (FMC) and surrender penalties on a yearly basis—and a requirement of a maximum 'reduction in yield' to the policyholder, i.e., the gross investment return earned on the fund minus the internal rate of return (IRR) to the policyholder, excluding any risk charges.
- Although no explicit tariffs are specified for traditional non-linked savings products, at the time of filing the product the regulator requires that insurers provide a positive policyholder IRR at an illustrative interest rate of 4%.

Malaysia

- Under the new Life Insurance and Family Takaful Framework which will be effective from 2019, a minimum allocation rate will be required for investment-linked business.

Thailand

- For products requiring filing, maximum premium rates are determined using a regulatory filing basis, which uses a prescribed level of mortality rates, a range of allowable pricing interest rates and capped expense loadings.
- The OIC sets the default limits for health and accident rider premium. Loss ratios must be monitored and reported to the OIC annually. Beyond the default limits, the premium rates may be approved on a case-by-case basis.
- For investment-linked products, there are restrictions on the maximum cost of insurance (COI) charges to the policyholder based on a prescribed level of mortality rates.

Vietnam

- The MoF is extremely involved in the product approval process, requesting insurers to revise their product features on a case-by-case basis. For example, it could place restrictions on the amount of non-contractual top-ups for universal life or set minimum allocation rates for universal life products.
- For lump-sum insurance contracts, the insurer must design the insurance products to ensure that the premium paid by the policyholder is only able to purchase the units of the funds which have certain investment restrictions. These investment restrictions require that the proportion of the investments in bank deposits, government bonds and other securities that generate fixed income is not lower than 60% of the total value of the assets of such investment-linked funds.

LIKELY CHANGES IN THE FUTURE

In South Korea, the current system of ‘File and Use’ is likely to change in the future such that pre-launch filing of the product and prior approval will be required only under certain circumstances.

Distribution

LICENSING OF INSURANCE DISTRIBUTORS

With the exception of Japan, all the other 13 jurisdictions require the training and licensing of the distributors before they are allowed to sell life insurance products. In Japan, there is no regulatory requirement covering minimum qualification or training of distributors. However, the Life Insurance Association of Japan (LIAJ) provides a standard education and examination system.

Wherever licensing requirements exist, they typically include:

- Qualifications / certification from a specified authority
- Minimum hours of training
- Minimum work experience
- CPD training requirements

In Hong Kong, Indonesia, Singapore, Taiwan, Thailand, and Vietnam, there are additional licensing requirements for distributors selling investment-linked products.

In Brunei, India and Thailand, an individual agent is allowed to represent only one life insurance company. A ‘corporate agent’ in India, however, is allowed to sell insurance products for up to three insurance companies.

LIMITS ON COMMISSIONS

Figure 5 shows the caps on commissions payable to insurance agents. In some markets (e.g., India and Sri Lanka), the maximum commissions vary by the type of distributor (e.g., individual agent, broker, corporate agent).

FIGURE 5: MAXIMUM COMMISSIONS/OVERRIDES ON PREMIUM PAYABLE TO INSURANCE AGENTS

JURISDICTION	MAXIMUM COMMISSIONS/OVERRIDES
CHINA	The caps applicable on basic commission rates are: **Single premium contracts:** 4.0% of premium **Regular premium contracts:** The total commission is capped at 5% of total premium over the whole premium payment period and the specific limits vary by premium payment period and policy year.
INDIA	**Single premium contracts:** All individual life products except pure risk products: 2% of premium. Individual pure risk products: 7.5% of premium. **Regular premium contracts:** All individual life products except pure risk products: The maximum first-year commission varies (based on premium payment terms) between 15% to 35% of premiums; and maximum renewal commission is 7.5% of premiums per annum (p.a.). Individual pure risk products: The maximum first-year commission rate is 40% of premiums and the maximum renewal commission rate is 10% of premiums p.a. Pension products: The maximum commission rate is 7.5% of premiums in the first year and 2% of premiums p.a. thereafter. There is also a provision for an additional first-year overriding commission of 20% of the overall commission payable to insurance agents and to the insurance intermediaries whose revenue from insurance activities is more than 50% of their total revenue from all activities.
MALAYSIA	**Single premium contracts:** Investment-linked business: 3.75% of premiums. Ordinary life business: 10% of premiums. Deferred annuity business: 3% of premiums. **Regular premium contracts (with premium payment term of 20 years or more):** Ordinary life business: 171% of the annual premium, to be payable over at least six years, with the maximum commissions payable in the first three policy years being 65%, 40% and 26% of premiums, respectively. Investment-linked business: 160% of the annual premium, to be payable over at least six years, with the maximum commissions payable in the first three policy years being 40%, 40% and 25% of premiums, respectively. **Regular premium contracts (with premium payment term less than 20 years):** Prorated based on the scale applicable for commissions on longer term. Effective 1 January 2019, there will be no commission limits for investment-linked business.

JURISDICTION	MAXIMUM COMMISSIONS/OVERRIDES
SINGAPORE	For all regular premium products, commissions are to be spread over the premium payment term or six years, if shorter. The first-year commission is capped at 55% of total commission payable.
SRI LANKA	**Single premium contracts:** 3% to 6% of premiums, depending upon the policy term. **Regular premium contracts:** Year 1: 30% of premiums Year 2: 20% of premiums Year 3: 15% of premiums Year 4: 10% of premiums Years 5-10: 5% of premiums Years 11+: Nil
THAILAND	The OIC sets the maximum basic commission rates allowed for main products and riders. For individual business, basic commission rate caps are as follows: Year 1: not more than 40% of the first-year premium. Year 2: not less than 40% of the first-year commissions. Year 3: not less than 25% of the first year commissions. Year 4: no restriction. This rule does not apply to group insurance.
VIETNAM	The caps on basic commission rates applicable to individual life insurance policies are as follows: **Single premium contracts:** Term insurance: 15% of premiums. Permanent life insurance: 5% of premiums. Universal life and investment-linked insurance: 5% of premiums for products with policy terms less than or equal to 10 years and 7% of premiums for products with policy terms more than 10 years. Whole life insurance: 10% of premiums. **Regular premium contracts:** Term insurance: 40% of premiums (year 1), 20% of premiums (year 2), 15% of premiums (years 3+). Permanent life insurance: Insurance period less than or equal to 10 years: 15% of premiums (year 1), 10% of premiums (year 2), 5% of premiums (years 3+). Insurance period more than 10 years: 20% of premiums (year 1), 10% of premiums (year 2), 5% of premiums (years 3+). Universal life/investment-linked insurance: Insurance period less than or equal to 10 years: 25% of premiums (year 1), 7% of premiums (year 2), 5% of premiums (years 3+). Insurance period more than 10 years: 40% of premiums (year 1), 10% of premiums (year 2+). Whole life insurance: 30% of premiums (year 1), 20% of premiums (year 2), 15% of premiums (years 3+). The maximum commission rate for health insurance policies is 20% of premiums.

CLAWBACK AND INDEMNITY COMMISSIONS

The regulations in Japan, Singapore, South Korea and Taiwan allow indemnity and clawback type commission arrangements. In other markets, there are no specific rules governing these arrangements and the practice normally varies from company to company.

POINT-OF-SALE BENEFIT ILLUSTRATION

Other than Brunei and Japan,[4] insurers in all the other 12 jurisdictions are required to provide point-of-sale benefit illustrations[5] to policyholders. The illustrations must comply with the format specified by regulations.

In China, Hong Kong, India, Malaysia, the Philippines, Singapore and South Korea, the illustrations of policy benefits payable have to be projected either using the specified gross investment returns or specified percentiles thereof. For instance, Malaysian insurers are required to provide benefit illustrations for non-guaranteed benefits

[4] Although there are no specific laws or regulations, banks disclose commissions for saving type products.

[5] No sales illustrations are required for investment-linked products in Thailand.

on participating products at gross investment returns of 2% p.a. and 5% p.a., as specified by the BNM. Similarly, in India, the non-guaranteed benefits are required to be illustrated at gross investment returns of 4% p.a. and 8% p.a. In Hong Kong, under the standards issued by the Hong Kong Federation of Insurers (HKFI) (i.e. 'Standard Illustration for Participating Policies'), insurers are required to present supplementary benefit illustrations under the 25th and 75th percentiles of the investment returns.

ALTERNATIVE CHANNELS OF DISTRIBUTION

The regulations in Hong Kong, India, Taiwan and Vietnam require a 'wet signature' (i.e., physically signed) by the policyholder on an application form or a digital signature (for online e-insurance contracts). At least five wet signatures are needed for the purchase of any insurance products in Vietnam.

The regulations pertaining to the sale of products through alternative distribution channels vary across markets. For example:

- Brunei, India, Indonesia, Japan, South Korea, Sri Lanka and Vietnam generally do not have any explicit regulations covering what type of products can be sold through a given distribution channel.
- In Taiwan, only simple products, such as travel insurance, term insurance, accident insurance and 1-year term health insurance are allowed to be sold online.
- In Hong Kong, insurers are allowed to sell life insurance products online, provided they follow the guidelines issued by the IA, and the guidance notes or illustration standards issued by the relevant regulatory authorities and industry bodies. Insurers are also required to pay attention to the Personal Data (Privacy) Ordinance.
- Malaysian life insurers are required to provide pure protection term products via selected direct distribution channels (e.g., online, branch). There are further requirements for life insurers offering critical illness, medical and health products to also offer them through direct distribution channels.
- In China, insurers cannot sell products online, other than personal accident (PA), term life and traditional whole life products, to residents living in areas where the insurers do not have branch offices.
- In Singapore, insurers are required to offer Direct Purchase Insurance (DPI) products through direct channels and are allowed to sell products online subject to fulfilment of various conditions.

LIKELY CHANGES IN THE FUTURE

Hong Kong

- In the future, the IA will replace the three Self-Regulatory Organisations (SROs) and will directly supervise insurance intermediaries in Hong Kong.
- The IA will impose certain restrictions or conditions on the products that can be sold online while there are no such regulations now. "Insurtech" is an area of increasing focus for the IA.

Thailand

- The OIC is considering a new distribution channel—website marketing—in addition to the currently permitted distribution channels, i.e., agency, broker, telemarketing and direct mail. Premiums for policies sold through the website channel will need to be paid by credit card or debit card. Companies need to obtain prior approval from the OIC before starting the marketing through the website channel.

Reserving

GOVERNANCE

All 14 jurisdictions have an AA or CA system. Depending on the jurisdiction, the AA or CA must either be a Fellow of the respective jurisdiction's actuarial society or a Fellow of an internationally recognised actuarial society, with prescribed years of relevant work experience.

Typical responsibilities of an AA or CA include:

- Signing premium certificates for new products to be submitted to regulators and ensuring that the premium rates are sound and reasonable. However, in certain jurisdictions, such as Malaysia, the premium certificates cannot be signed off by the AA, to avoid potential conflicts of interest.
- Certifying that the valuation of actuarial and other policy liabilities is in accordance with generally accepted actuarial principles and practices and ensuring the ongoing solvency of the life insurance company.
- Ensuring that valuation methods and assumptions are consistent with applicable laws and regulations.
- Investigating the financial condition of the company's life insurance business at the end of an accounting period, and analysing the movement of reserves from the last period to the current period.
- Explaining the rationale and financial impacts of methodology and/or assumption changes.

In Indonesia, South Korea and Taiwan, all life insurers are required by the regulators to have the valuation of liabilities peer reviewed by an external actuary ('peer reviewer'). In India, although currently there is no regulatory requirement, the IAI professional standards require a peer review of the AA's annual statutory valuation by an external actuary.

RESERVING METHODOLOGY

In all jurisdictions, statutory reserves are calculated on a seriatim basis. Figure 6 summarises the methodologies applicable to different types of products in different jurisdictions.

FIGURE 6: RESERVING METHODOLOGIES APPLICABLE TO DIFFERENT PRODUCTS

JURISDICTION	TRADITIONAL NON-PARTICIPATING	INVESTMENT-LINKED	UNIVERSAL LIFE	PARTICIPATING	OTHER SHORT TERM PRODUCTS/RIDERS
BRUNEI	The valuation approach adopted should be similar to that in Malaysia or Singapore, depending on the home jurisdiction of the AA				
CHINA	GPV (All the products sold by insurers need to pass the significant risk test first to determine whether they are insurance products or not. For the insurance products, the reserves in China-GAAP reporting broadly follow IFRS 17 principles and are the sum of best estimate liabilities [BEL], risk margin and profit margin.)				UPR
HONG KONG	NPV, Modified NPV	Sum of unit reserves and non-unit reserves. Non-unit reserves also include UPR for COI charges, if any.	Sum of account values and non-unit reserves. Non-unit reserves also include UPR for COI charges, if any.	NPV, Modified NPV	UPR
INDIA	GPV	Sum of unit reserves and non-unit reserves	Sum of account value and non-unit reserves	GPV	Maximum of UPR and GPV
INDONESIA	GPV	Sum of unit reserves and non-unit reserves. Non-unit reserve is maximum of UPR and URR.	Sum of account values and non-unit reserves.	GPV	Maximum of UPR and URR
JAPAN	NPV				
MALAYSIA	GPV	Sum of unit reserves and non-unit reserves Non-unit reserves are calculated using sterling reserve methodology.	Sum of account values and non-unit reserves.	Maximum of BEL (allows for projected guaranteed and non-guaranteed cash flows) and guaranteed liabilities	Maximum of UPR and URR plus claim liabilities

JURISDICTION	TRADITIONAL NON-PARTICIPATING	INVESTMENT-LINKED	UNIVERSAL LIFE	PARTICIPATING	OTHER SHORT TERM PRODUCTS/RIDERS
PHILIPPINES	GPV	Sum of unit reserves and non-unit reserves	GPV	GPV	UPR
SINGAPORE	GPV	Sum of unit reserves and non-unit reserves	Maximum of BEL and minimum condition liabilities (MCL). BEL and MCL are both calculated on GPV bases, where BEL includes projected non-guaranteed benefits while MCL is calculated on guaranteed benefits only.	Maximum of BEL, MCL and value of policy asset fund. BEL and MCL are both calculated on GPV basis where BEL includes projected non-guaranteed benefits while MCL is calculated on guaranteed benefits only.	Maximum of UPR and URR plus claim liabilities
SOUTH KOREA	NPV	Sum of unit reserves and time value of options and guarantees (TVOG)	Maximum of MCL and accumulation of the net premium using crediting rate	NPV plus a reserve for publicised profit (i.e. declared bonus)	UPR
SRI LANKA	GPV	Sum of unit reserves and non-unit reserves	GPV (the regulations are silent on this product line)	Higher of the following two GPV reserves: (1) guaranteed benefits liability (guaranteed benefits projected at risk-free investment return and discounted using risk-free rates), (2) total benefits liability (projected guaranteed and non-guaranteed cash flows discounted at par fund investment yield)	UPR
TAIWAN	Modified NPV	Account value, except the guarantees	Account value plus non-unit reserves	Modified NPV	UPR
THAILAND	Minimum statutory reserves based on a GPV approach. Several insurance companies are still using a NPV basis, subject to passing a Liability Adequacy Test (LAT).				
VIETNAM	Modified NPV	Sum of unit reserves, resilience reserves and insurance risk reserves, which is taken as the maximum of UPR and GPV	Sum of surrender value or account value, resilience reserves and insurance risk reserves, which is taken as the maximum of UPR and GPV	Modified NPV plus (a) reserve for publicised profit (i.e. declared bonus), and (b) reserves for profit not yet publicised	UPR

Notes:

1. UPR: Unearned Premium Reserve
2. URR - Unearned Risk Reserve
3. In all jurisdictions, the non-unit reserves for investment-linked and universal life products are calculated consistent with the GPV methodology, unless stated otherwise.
4. In Malaysia, there are few universal life products and therefore no regulatory prescribed reserving methodologies. The information provided in the table above is based on Milliman consultants' experience of the market.

MINIMUM RESERVE REQUIREMENTS[6]

Regulations specify that the statutory reserves should not be negative[7] at a policy level, an aggregate product category level or fund level. Further, in Hong Kong, India, Japan, South Korea and Taiwan, the policy level reserves are not allowed to be less than the cash surrender value. While the reserves in Sri Lanka are not subject to such floors, the required capital must be set at a level such that the sum of reserves and required capital is not less than the total surrender value of policies.

Some additional requirements specified by the regulators are as follows:

- **Hong Kong**: According to the CAP 41E Insurance Companies (Determination of Long Term Liabilities) Regulation, future valuation strain is not allowed when setting up the statutory reserve. For regular level premium contracts, the net valuation premium should be less than or equal to the gross premium used in the reserve calculations.
- **South Korea, Thailand**: For NPV reserves, the valuation interest rate must not be higher than the rate used in the product filing. The mortality assumption must be consistent with the assumption used in the product filing.
- **South Korea, Taiwan**: The LAT from International Financial Reporting Standard (IFRS) 4 should be met, with a LAT reserve calculated as the maximum of either GPV reserves less statutory reserves, or zero.

COST OF OPTIONS AND GUARANTEES

Other than for Hong Kong (in respect of Class G long-term business), Japan, South Korea, Sri Lanka and Taiwan,[8] regulators do not explicitly require insurers to carry out stochastic valuations of financial options and guarantees embedded in insurance contracts. However, guidelines issued by the actuarial societies of India[9] and Singapore[10] (for internal models only) require the AA to adopt stochastic techniques to calculate any additional reserves for investment guarantees.

RESERVING ASSUMPTIONS

In almost all jurisdictions where the regulations do not specify the valuation assumptions, they are the responsibility of the AA or CA. Regulators in Japan, South Korea, Taiwan and Vietnam set the valuation assumptions for the calculation of the net premium reserves. In Japan, the AA is responsible for setting the projection assumptions used in providing the ‘Actuarial Opinion.’

Where the AAs or CAs are responsible for setting the valuation assumptions, they are required to be 'best estimate,' with due regard to significant recent operating experience, and should allow for appropriate provisions and margins for adverse deviations (PADs and MADs).

Other than Japan, India and Singapore, each jurisdiction’s insurance regulator prescribes the minimum PADs to be used for valuations. Even though there are no regulatory requirements for minimum PADs in India, the Actuarial Practice Standard 7 (APS7) issued by IAI specifies the minimum scenarios that must be tested in order to determine the appropriateness of the selected PADs.

LIKELY CHANGES IN THE FUTURE

India

- The insurance regulator is contemplating the introduction of an independent assessment of the statutory valuation of liabilities performed by the AA, instead of the current system of ‘peer review’ adopted by the actuarial profession.

Hong Kong

- The reserving methodology for insurance companies in Hong Kong is expected to move towards a GPV basis under the proposed Hong Kong RBC (HKRBC) framework.

[6] China-GAAP reserves are not subject to any kind of floors.

[7] In Thailand, GPV reserves on a product group level cannot be negative.

[8] Applicable to guarantees in Guaranteed Minimum Benefits (GMxB) investment-linked products only.

[9] Guidance Note 22 (GN22) issued by IAI.

[10] Standards of Actuarial Practice (SAP L02), issued by SAS.

Philippines

- The ASP, through its Professional Standards and Review Council (PSRC), has recently proposed to the IC the adoption of the Appointed Actuary System as a means to strengthen corporate governance and to protect policyholder interests. Once adopted, the AA's key responsibilities will be to ensure compliance with all statutes covering reserving requirements.

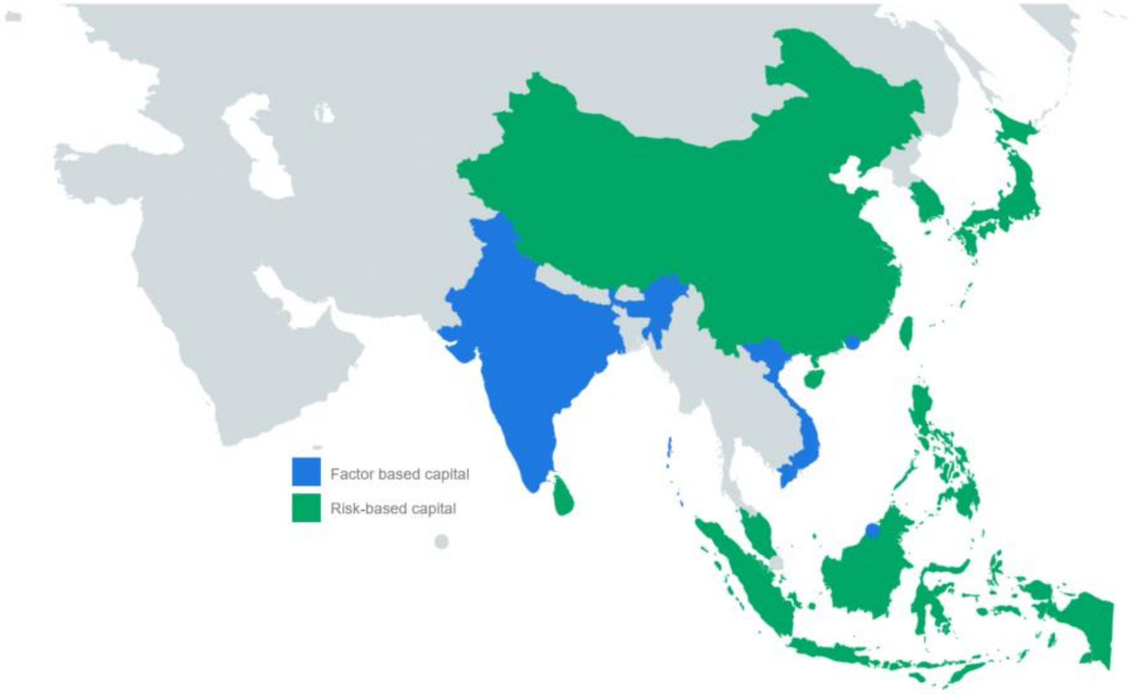
South Korea and Taiwan

- The IFRS 4 Phase II trial test result shows the insufficiency of current statutory reserves. Given this, a reserve enhancement plan is being implemented to make up the gap before the full implementation of IFRS 17.

Capital and Solvency

APPROACH FOR CALCULATING CAPITAL REQUIREMENTS

Broadly, there are two approaches for determining capital requirements— (1) Solvency I factor-based; and (2) risk-based. All markets other than Brunei, Hong Kong, India and Vietnam adopt a risk-based approach to determine capital requirements. The former markets still use a Solvency I type of factor approach.



SOLVENCY I APPROACH

Under this approach, the required minimum capital is specified as a percentage of reserves and 'sum at risk' (i.e., death benefit minus reserves). The percentages used to calculate the required capital vary by type of product. Figure 7 lists the prescribed factors for the relevant markets.

FIGURE 7: FACTORS USED IN REQUIRED SOLVENCY MARGIN (RSM) CALCULATION

JURISDICTION	REGULATOR PRESCRIBED FACTORS
BRUNEI	A fund margin of solvency of not less than 20% of net premium income in the last accounting period.
HONG KONG[11]	**First factor (% of reserves)**: Applicable only for Class A to D and Class F businesses. 4.0% (except for Class C business, for which it can be either 4%, 1.0% or 0% depending on whether the insurer bears investment risk and some other factors). **Second factor (% of sum at risk)**: Applicable only for Class A, B and C businesses. 0.1% for pure death policy with duration less than three years, 0.15% for pure death policy with duration of three to five years, and 0.3% otherwise.
INDIA	First factor (% of reserves): varying between 0.8% (investment-linked) and 3.0% (traditional). Second factor (% of sum at risk): varying between 0.1% (group products) and 0.3% (individual non-linked). The second factor is set to zero for products that do not contain death benefit (e.g. annuity and health).
VIETNAM	First factor (% of reserves): 4.0% (1.5% for investment-linked products). Second factor (% of sum at risk): 0.1% for products with policy terms of less than or equal to five years, and 0.3% for products with policy terms more than five years (0.3% for universal life and investment-linked business regardless of policy term).

[11] For additional business written (such as riders of a general insurance nature) which is reported as long-term business, the RSM is defined as 20% of premium income or relevant claims if the premium income or relevant claims are less than or equal to HKD 200 million, or HKD 40 million plus 10% of premium income or relevant claims in excess of HKD 200 million.

RISK-BASED APPROACH

Under a RBC framework, insurers are required to hold capital based on the estimation of risks they are exposed to. The total risk requirement or required capital is typically set as the sum of capital requirements arising from insurance risks (such as mortality, morbidity, lapse and expense risk), market risks (such as interest rates, equity and property risk), credit risk, operational risk and concentration risk. The regulations prescribe various factors or stresses to be applied whilst determining the total risk capital charges or capital requirements.

MINIMUM CAPITAL AND SOLVENCY RATIO REQUIREMENTS

Figure 8 describes the minimum regulatory capital and solvency ratio that insurers are required to maintain in different jurisdictions.

FIGURE 8: MINIMUM CAPITAL, SOLVENCY RATIO AND CAPITAL ADEQUACY RATIO REQUIREMENTS

JURISDICTION	MINIMUM AMOUNT OF CAPITAL REQUIRED	MINIMUM SOLVENCY RATIO OR CAR
BRUNEI	BND 8 million	Minimum solvency ratio: A surplus of assets over liabilities of 20% as the capital equivalent test.
CHINA	Minimum registered capital of CNY 200 million	Minimum composite CAR is 100%.
HONG KONG	HKD 2 million	Statutory minimum solvency ratio is 100%. For monitoring purposes, the IA requires long-term insurers to maintain a solvency ratio of at least 150%.
INDIA	INR 500 million	A minimum solvency ratio of 150% at the company level.
INDONESIA	Conventional life insurers: IDR 150 billion Standalone Syariah insurers: IDR 100 billion Syariah windows: IDR 50 billion	Minimum CAR is 100%. Minimum internal target CAR is 120%. A breach below 120% would require companies to submit financial recovery plans and restricts distribution of dividends.
JAPAN	JPY 1 billion.	The minimum solvency margin ratio is 200%.
MALAYSIA	The minimum paid-up capital is MYR 100 million	The supervisory target capital level (STCL) is 130% of total capital required.
PHILIPPINES	New domestic insurers must possess a paid-up capital of at least PHP 1 billion. All insurance companies must build up their statutory net worth on a staggered basis from PHP 250 million (by 30 June 2013), PHP 550 million (by 31 December 2016), PHP 900 million (by 31 December 2019) to PHP 1300 million (by 31 December 2022).	The minimum RBC ratio is set at 100%.
SINGAPORE	Minimum paid-up capital is SGD 10 million (SGD 5 million if selling only investment-linked policies [ILPs] or short-term accident and health policies.)	Minimum CAR is 120%. Minimum fund level solvency ratio (FSR) is 100%.
SOUTH KOREA	The minimum paid-up capital is KRW 30 billion	Minimum regulatory capital requirement ratio is 100%. However, the regulator has issued guidelines specifying various levels of regulatory intervention below a CAR of 150%.
SRI LANKA	The minimum Total Available Capital (TAC) required is LKR 500 million.	Minimum CAR is 120%. However, the regulator has issued guidelines specifying various levels of regulatory intervention below a CAR of 160% (or in the case of a volatile CAR).
TAIWAN	NTD 2 billion start-up capital	Minimum CAR is 200%.
THAILAND	Life insurer/reinsurer: THB 500 million.	Minimum CAR is 140%.
VIETNAM	The charter capital requirement is as follows: Life insurer (except investment-linked and pension insurances) and health insurance: VND 600 billion. Insurer with life insurance and investment-linked insurance or pension insurance: VND 800 billion. Insurer with life, investment-linked and pension insurances: VND 1,000 billion. Health insurer: VND 300 billion.	Minimum solvency ratio is 100%.

REGULATORY MONITORING OF SOLVENCY POSITION

Each jurisdiction's regulator specifies the minimum level of solvency ratio or adequacy ratio that the insurer has to maintain. If an insurer's solvency ratio falls below the regulatory minimum, the regulator must be notified.

Certain jurisdictions have differing levels of regulatory response or intervention depending on an insurer's solvency position. For example, in Japan:

- Statutory solvency margin of 200% or more: Sound condition, no intervention by the FSA.
- Statutory solvency margin of 100% to 200%: FSA will order the insurer to submit and execute a recovery plan.
- Statutory solvency margin of 0% to 100%: FSA will order measures to increase solvency.
- Statutory solvency margin below 0%: FSA will order partial or total suspension of business.

OTHER CONSIDERATIONS FOR ASSESSING RESERVES AND CAPITAL REQUIREMENTS

Other than in Brunei, Hong Kong[12], Indonesia, Japan, Taiwan and Vietnam, there are regulations in other markets on usage of the loss-absorbing capacity (LAC) of participating business whilst determining the reserves and capital requirements. The LAC of the participating business (i.e. the future bonus cushion) is considered differently in the calculation of reserves and capital requirements. For instance, in Singapore, Sri Lanka and Malaysia, the financial resource or available capital calculations allow for only 50% of future bonuses in participating business.

REPORTING REQUIREMENTS

Other than Brunei, the Philippines, Thailand and Vietnam, insurers are required to perform an investigation into the financial condition of the business, along with a stress testing exercise. The results are required to be submitted to the board of the insurer and/or to the regulator. Regulators typically prescribe scenarios to be considered for such a stress testing exercise.

LIKELY CHANGES IN THE FUTURE

Generally, those jurisdictions that have a Solvency I regime are looking to move towards a RBC framework. Some jurisdictions with RBC frameworks are looking to refine and enhance these frameworks further. The likely changes in the future include:

Hong Kong

- Hong Kong will move to a RBC framework, which is a combination of stress-based and factor-based approaches, targeted to be not before 2021.
- Under the proposed HKRBC framework, considerations of management actions in the base case current estimate (CE) and prescribed capital requirement (PCR) calculation are allowed. The LAC of management actions is expected to reflect the change in current estimate due to 'additional' management actions taken under a stressed position.

India

- The insurance regulator is contemplating the introduction of a RBC regime. However, the exact framework to be adopted in the RBC is yet to be drafted.

Malaysia

- BNM has initiated a review of its current RBC Framework, which is expected to be conducted in phases over the next few years starting from 2018, to reflect the current insurance and takaful landscape, as well as any recent developments in the regulatory and accounting standards. The first phase will focus on reviewing the prudential limits on assets and counterparty exposures, followed by a review of the standards for the valuation of liabilities and capital adequacy components.

Singapore

- The existing RBC regime is likely to be refined by changes to various stresses, risk charges as well as allowing for diversification benefits, a matching adjustment and the inclusion of operational risks.

South Korea

- The regulator has announced its plan to adopt K-ICS, a principle-based risk capital framework which is similar to the International Capital Standard (ICS). The target effective date is 2021, which is the same as the effective date of IFRS 17. The specifics are not yet determined.

[12] Hong Kong follows the NPV reserving basis and factor-based capital regime and so LAC is not relevant.

Sri Lanka

- The adoption of GPV and RBC (from the earlier NPV and Solvency I type of regime) has resulted in a 'one-off' surplus in life insurance companies' balance sheets. On 20 March 2018, the IRCSL issued guidelines on the treatment of such one-off surplus and approved the transfer of one-off surplus out of the life fund for all business other than participating business. However, the guidelines require the transferred surplus to be identified separately and retained as a restricted reserve until permission is granted by the IRCSL to release it (the timing is unclear, but it is expected to be judged on a case-by-case basis). Further, the IRCSL has intimated that the RBC rules will be revised in the future (including in light of IFRS 17).

Taiwan

- The current RBC approach is based on prescribed risk factors multiplied by risk exposures. In future, Taiwan is expected to move to RBC 2 regime, which will require a shock test to be applied on the decrement rates used to calculate the risk capital.

Thailand

- The RBC 2 development project has been ongoing since 2012. The latest draft of the framework was released in April 2016 following industry analysis and consultation. There has subsequently been further market testing carried out, including two industry-wide quantitative impact studies, QIS1 and QIS2 in 2016 and 2017, respectively. The results of QIS2 were released in late December 2017. After final approval from the OIC, the new framework is scheduled to be implemented in 2019, although the precise timing is not known as yet.

Investments

GOVERNANCE

Insurance regulators in most markets prescribe detailed rules governing investment activities of insurers. Broadly, regulations require an insurance company to set up an investment policy, which is approved by its board. Insurers are usually required to have an investment committee to oversee the investment activities. Insurers operating in Malaysia, Singapore and Sri Lanka are also required to have a board-approved ALM policy.

OUTSOURCING

Insurance companies are required to have an in-house investment department which is responsible for investment management. Other than in India and Singapore, insurers are allowed to outsource some of their investment management activities, subject to certain conditions.

LIMITS ON INVESTMENTS

Most markets have detailed rules pertaining to the categories of investments permitted for different types of products and funds. Besides these regulations, the asset risk charges within the RBC frameworks additionally play an important role in determining how assets are invested by insurance companies. For Hong Kong, although there is no 'hard and fast' rule on investments, the IA may impose certain requirements on insurers, usually on a case-by-case basis, for instance on the limit the insurer can invest in a specified class of assets, prohibiting the insurer from investing in certain assets or requiring the insurer to realise the investment before the expiration of a specified period.

Figure 9 lists the broad limits on different types of investments across counties.

FIGURE 9: LIMITS ON DIFFERENT TYPES OF INVESTMENTS

JURISDICTION	LIMITS ON INVESTMENTS (AS A PERCENTAGE OF THE LIFE INSURANCE FUNDS, UNLESS STATED OTHERWISE)
BRUNEI	The combined investment in fully paid-up common shares of a company with a rating by a reputable international credit rating agency of AAA, AA, A to not less than B: maximum 40%. Quoted shares in any one company as indicated above: not more than 10%. Units in any unit trust: maximum 10%. Debentures (fully secured): maximum 25%. Immovable property: maximum 25%.
CHINA	Insurance investment assets are classified into five groups: liquid assets, equity assets, fixed income assets, real estate and other assets. The cap on equity type asset is 30%, real estate is 30%, other financial assets is 25% and overseas investments is 15%.
INDIA	**For funds backing the traditional (non-linked) life insurance business and shareholders fund, the broad limits specified are:** Government securities: at least 50%. Infrastructure investments: at least 15%. Approved investments (such as listed equities, bonds etc.), subject to exposure and prudential norms: maximum 50%. **For funds backing the traditional (non-linked) 'pensions' business, the broad limits specified are**: Government securities: at least 40%. Approved investments (such as listed equities, bonds etc.) subject to exposure and prudential norms: maximum 60%. **For investment-linked business**: the investment limits are as per the individual funds' investment strategies, with a requirement that at least 75% of the investments should be in the 'Approved Investments' category specified by the regulator.
INDONESIA	Article 11 of 'POJK No 71/POJK.05/2016' lists the various restrictions on the permissible assets to be invested (for example, investment in asset-backed securities is limited to a maximum of 10% of the investment assets managed by each investment manager and at most 20% of the total investment assets).
MALAYSIA	**Following investment limits (determined as a ratio of total assets of individual insurance funds or shareholders' funds) are applicable on individual asset classes for each of the life insurance funds and shareholders' funds:** Shares not listed on the main market of Bursa Malaysia: 5%.

JURISDICTION	LIMITS ON INVESTMENTS (AS A PERCENTAGE OF THE LIFE INSURANCE FUNDS, UNLESS STATED OTHERWISE)
	Debt securities under rating category 4 or poorer: 5%. Loans other than policy loans and loans which are not secured: 1%. Limit for an individual counterparty for loans other than policy loans and loans which are not secured: 1%. Foreign assets in jurisdictions with sovereign ratings at least equivalent to that of Malaysia: 10%.
PHILIPPINES	**The broad limits on different types of investments are as follows:** Real properties which serve as main place of business and/or branch offices: maximum 20% of net worth. Bonds, debentures or other instruments of indebtedness: maximum 25% of total admitted assets in any one institution. Preferred or guaranteed stocks: maximum 10% of total admitted assets in any one institution. Common stocks: maximum 10% of total admitted assets in any one institution. Acquisition/construction of housing projects: maximum 25% of total admitted assets. Real properties (as an investment for the production of income): maximum 25% of total admitted assets. Any investments made in excess of the limits above are considered as non-admitted assets.
SRI LANKA	At least 30% of the assets of the Long Term Insurance Fund must be invested in Sri Lankan government securities. The balance can be allocated to the following types of investment: **Government debt securities:** Government securities/debt securities issued by Central Bank of Sri Lanka: 100%. Securities issued by a foreign government: 0%. **Shares**: 5% of the Long Term Insurance Fund or 5% of the issued number of shares of the investee company, whichever is lower. **Corporate debts:** Corporate debts: 10% of the Long Term Insurance Fund or 10% of the shareholders' funds, whichever is lower. Asset-backed securities guaranteed by a licensed commercial bank issued by a company listed on a licensed stock exchange: 10% of the Long Term Insurance Fund or 15% of a single issue, whichever is lower. **Deposits with a licensed commercial bank**: 10% of the Long Term Insurance Fund or 15% of the shareholders' funds of the bank or finance company, whichever is lower. **Property**: 5%. **Unit trusts and mutual funds**: maximum 7.5%. However, in excess of 5%, investments should be in instruments which have an investment grade rating. **Gold**: 100%. **Investments in related companies**: 10%.
SOUTH KOREA	The broad limits on different types of investments, as a percentage of total assets, applied to "general account" (including the separate account under Article 108 (1) 1 and 4 of Insurance Business Act) and "separate account" pursuant to Article 108 (1) 2, are as follows: **Securities:** Credit offering by a single individual or entity: 3% for general account (5% for separate account) Securities and common stocks issued by a single entity: in aggregation, 7% for general account (10% for separate account) Credit offering, securities and common stocks issued by a same borrower: in aggregation, 12% for general account (15% for separate account) Large credit offering exceeding 1% of total assets to single individual / entity or a corporate group: in aggregation, 20% for both general and separate accounts Credit offering to major shareholders and subsidiaries prescribed by Presidential Degree: minimum of 40% of equity capital and 2% of total assets for general account (2% of total assets for separate account) Securities and common stocks issued by major shareholders and subsidiaries prescribed by Presidential Degree: minimum of 60% of equity capital and 3% of total assets for general account (3% of total assets for separate account) Credit offering by a subsidiary: 10% of equity capital for general account (4% of total assets for separate account) **Real Estate:** Maximum 25% for general account (15% for separate account) **Foreign Investments:** Maximum 30% for general account (20% for separate account) For assets retained in the same foreign currency as that for insurance proceeds paid under insurance denominated in a foreign currency, such assets should not be included in calculating the asset management ratio.

JURISDICTION	LIMITS ON INVESTMENTS (AS A PERCENTAGE OF THE LIFE INSURANCE FUNDS, UNLESS STATED OTHERWISE)
	Derivatives trading: 6% for both general and separate accounts (less than 3% for over-the-counter derivatives trading) The above excludes derivatives meeting requirements for risk-hedging Where it is necessary to enhance soundness in asset management, or protect policy-holders, the respective asset management ratios described above may be reduced by up to 50% of the respective ratios.
TAIWAN	The maximum limits specified are as follows: **Securities:** Government bonds and treasury bills: Unlimited. Securities from financial institute (includes bonds, negotiable certificates of deposit, banker's acceptances and guaranteed commercial promissory notes): in aggregation, no more than 35% of the total assets (TA). Public stock: In aggregation: no more than 5% of the TA of the insurance company for each stock purchased and 10% of the paid-in capital of the stock issuer. Corporate bonds: in aggregation, no more than 5% of the TA of the insurance company for each bond purchased and 10% of the paid-in capital of the bond issuer. Mutual fund or trust: in aggregation, no more than 10% of the TA of the insurance company and 10% of the TA of the fund issuer. Securitisation products and others: in aggregation, no more than 10% of the TA of the insurance company. The total investment in the domestic public stocks and domestic corporate bonds may not exceed 35% of the TA of the insurance company. **Real estate:** For own use: in aggregation, no more than the insurance company's equity value. For investing: in aggregation, no more than 30% of the TA of the insurance company. **Loans**: each entity should not exceed 5% of the TA of the insurance company. Total loans may not exceed 35% of the TA of the insurance company. **Allocation of funds to special projects and investments in public utilities and social welfare enterprises**: with the approval of the competent authority. **Foreign investments**: insurance funds for foreign investment are limited to foreign exchange deposits, foreign securities, investment in foreign insurance companies, insurance agents, insurance broker companies or others approved by the competent authorities of insurance-related businesses and others approved by the competent authorities of foreign investment. In aggregation, no more than 45% of the TA of the insurance company. **Investments in insurance-related businesses**: in aggregation, no more than 40% of the equity of the invested insurance company. **Derivatives trading**: the competent authority shall determine the conditions for conducting derivatives transactions, the scope of transactions, the trading limits, internal handling procedures and other matters to be followed.
THAILAND	Stocks and debentures of insurance firms: maximum 20%. Stocks and debentures of other firms: maximum 20%. Unit trusts: maximum 20%. Combined investments in stocks, unit trusts and debentures: maximum 40%. Banks (per bank): maximum 20%. State enterprises (per entity): maximum 10%. General loans: maximum 30%. Housing loans (per unit): maximum THB 5 million. Property: maximum 15%.
VIETNAM	**Investment of idle capital[13] from insurance reserves should only be invested in Vietnam in the following sectors:** Purchase of government bonds or guaranteed bonds of enterprises, or deposits with credit institutions without any restriction. Purchase of shares, unsecured bonds of enterprises and capital contribution in other enterprises, but not to exceed 50% of idle capital from insurance reserves. Real estate business and lending, but not to exceed 40% of idle capital.

[13] Idle capital from insurance reserves means the total reserves less the amounts used for payment of insurance proceeds in a period.

JURISDICTION	LIMITS ON INVESTMENTS (AS A PERCENTAGE OF THE LIFE INSURANCE FUNDS, UNLESS STATED OTHERWISE)
	The structure of investment-linked funds must satisfy the following requirements: Each investment-linked fund must not invest in more than 10% of the total circulating securities of an issuing organisation, except for government bonds. Each investment-linked fund must not invest more than 20% of the total assets of the fund in the circulating securities of an issuing organisation, except for government bonds. The assets of an investment-linked fund must not be directly invested in real estate, gold, silver, precious metal or gems. Each investment-linked fund must not invest more than 30% of the total assets of the fund in the companies in the same corporation or a group of companies under mutual ownership. Investment in the securities of investment funds and shares of the investment companies established and operating in Vietnam is not allowed. **The investment structure of an investment-linked fund must not vary by more than 15% of the investment limits prescribed above.**
SINGAPORE AND MALAYSIA	There are no explicit limits on investments. However, concentration limits are applicable within RBC frameworks.

LIKELY CHANGES IN THE FUTURE

Hong Kong

- Under the proposed HKRBC framework, a formal ALM policy is suggested under Pillar 2.

Policyholder protection

GUIDELINES FOR POLICYHOLDER PROTECTION

All 14 markets have detailed regulations governing the area of policyholder protection.

The regulations generally cover the following, although some items do not apply for all jurisdictions:

- Requirement to issue point-of-sale product literature and benefit illustrations
- Products must offer 'free look' cancellation options
- Requirement of a policyholder protection charter and turnaround times for various services
- Establishment of a policyholders' protection fund
- Segregation of the assets of different types of insurance business (and the shareholders' fund)
- Specific rules governing the management of participating funds (discussed below)

MANAGEMENT OF PARTICIPATING BUSINESS

There are no explicit rules or regulations on the management of participating business in Indonesia, the Philippines and Thailand.

Other jurisdictions have various regulations concerning management of the participating fund and generally cover rules for determining bonuses, the bonus declaration processes or the allocation of participating business profits to the shareholders' fund (although Hong Kong does not have surplus distribution rules). Generally, the trend across markets is to enhance the governance of participating business.

In some markets, the maximum proportion of profits from participating business that can be transferred to shareholders is restricted, according to the following percentages:

- India, Malaysia,[14] South Korea, Sri Lanka and Singapore: 10%.
- Brunei: 25%.
- China, Taiwan and Vietnam: 30%.

In India, the regulations also require a With Profits Committee (WPC), consisting of the Chief Executive Officer (CEO), the AA, an Independent Director and an Independent Actuary to oversee the asset share calculations, expenses charged to the participating fund and the reinsurance arrangement of the fund.

Generally, all markets require the AA or CA to determine the bonuses to be declared to the policyholders in line with PRE as per the bonus management framework adopted by the insurer.

[14] The maximum proportion of the aggregate surplus which can be transferred to the shareholders' fund is the weighted average computed by dividing the product of the amount within the thresholds and the corresponding proportion (as prescribed in Management of Insurance Funds [BNM/RH/GL/003-30]) by the aggregate of all life insurance funds relating to participating policies, as at end of the financial year.

Taxation

The taxation framework applicable to life insurance companies and policyholders varies across different markets. Given the complexities, a detailed analysis of the taxation frameworks applicable in the 14 markets is outside the scope of this report, but some comments are set out below.

In India, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam, policyholders enjoy tax benefits from investing in life insurance policies (up to certain limits). Life insurance proceeds are exempted from tax in China, India, Indonesia, the Philippines, Singapore, Sri Lanka and South Korea.

Life insurers in most markets are required to pay corporate tax on the surplus or profits arising during the year. However, in some markets, there are restrictions on this. For example:

- Hong Kong: Two alternative frameworks can be adopted - (1) Deemed profits (broadly 5% of the insurance premiums received); or (2) Adjusted actuarial surplus (which, once elected as an option, is irrevocable).
- Thailand: In computing the surplus arising for taxation purposes, the increase in reserves that is allowed as a deductible expense is capped.
- The Philippines: Corporate tax charged is computed as the maximum of corporate income tax (CIT) on taxable income and minimum corporate income tax (MCIT) on gross income. Any excess of the MCIT over the CIT can be carried forward and offset against future CIT for three immediately succeeding taxable years.

In most jurisdictions, insurers are allowed to carry forward any historical taxable losses in the future to offset against the future taxable profits. However, the period over which such carry-forwards are allowed again varies across jurisdictions. For example:

- Indefinitely: Singapore and Sri Lanka.
- For up to 10 years: Taiwan.
- For up to nine years: Japan (only 55% of the losses can be carried forward).
- For up to eight years: India.
- For up to five years: Indonesia, South Korea and Vietnam.
- For up to three years: The Philippines

The tax rates applicable also vary across jurisdictions. In India, the life insurance industry also currently enjoys tax concessions as it pays corporate tax rates at 12.5% (plus applicable surcharges) rather than the 30% (plus applicable surcharges) for other industries.

LIKELY CHANGES IN THE FUTURE

Hong Kong

- According to the 2018/19 Budget, the government will explore ways of enhancing Hong Kong's competitiveness as an insurance hub, including reviewing the current tax arrangements.
- Tax concessions will be applicable to voluntary contributions made to the Mandatory Provident Fund (MPF) as well as all deferred annuity products available in the market, meeting the IA guidelines (which are yet to be issued).

India

- There had been a proposal under the direct tax code (DTC) to change the taxation of life insurance companies to follow a 'dual tax' structure—with a concessional rate of tax on the policyholders' share of the profits and a higher rate (commensurate with the rate of tax for other industries) on the shareholders' share of profits. However, although these proposals were put forward several years ago, they have not yet been implemented. Also, in more recent years, there has not been any discussion around these proposals.
- Nevertheless, if implemented, the DTC may impact the post-tax profitability of life insurance companies adversely.

Japan

- For fiscal years beginning on or after 1 April 2018, life insurers may be allowed to carry forward 50% of losses over 10 years. The corporate tax rate will also be reduced to 23.2% for fiscal years beginning on or after 1 April 2018.

Sri Lanka

- Effective from 1 April 2018, taxable profits will be ascertained by taking the aggregate of the surplus distributed to shareholders from the life insurance policyholders' fund and the investment income of the shareholders' fund, less any expenses incurred in the production of such income. For surplus on participating business, the policyholders' rate of taxation will be used, rather than the corporate tax rate.
- The corporate tax rate is 28%, but life insurance will attract a concessional rate of 14% until 1 April 2021.
- Effective 1 April 2018, the dividends from participating policies will be taxed at the concessional rate of 14% until 1 April 2021 and thereafter at 28%.

Enterprise Management (ERM)

None of the markets in Asia currently have a regulatory requirement for an all-encompassing comprehensive ERM framework.

In jurisdictions other than Hong Kong, Indonesia, the Philippines, Sri Lanka and Vietnam, insurers are required by local regulations to set up a risk management function (i.e., Chief Risk Officer) and have certain aspects of ERM frameworks. In India, although a separate risk management function headed by a CRO is required, there are no detailed requirements governing the ERM framework.

Broadly, an ERM framework consists of a risk tolerance statement and policies covering risk management, capital management, business strategy and own risk and solvency assessment (ORSA), amongst others. However, in some jurisdictions where such a framework is required, the coverage of the various aspects to be included, and the level of detail in which they are required etc., is not specified in the regulations.

LIKELY CHANGES IN THE FUTURE

Although most of the 14 markets currently do not appear to have any stated regulatory plans to require insurers to adopt a comprehensive ERM framework, we would expect the scope of ERM activities to gradually expand in many markets, especially as markets adopt RBC frameworks for the first time or expand the scope of their existing RBC frameworks.

Changes are expected in the following jurisdictions in the near future:

Hong Kong

The consultation paper of the future HKRBC framework states the requirements on:

- Corporate governance and board responsibilities
- Effective ERM framework
- Asset portfolio
- Investment policy
- Risk tolerance statements and risk limit
- Formal ALM policy
- ORSA and adequacy of financial resources

Thailand

We understand that there are ongoing industry discussions related to potential ORSA requirements.

Appendix: Acronyms

AA	APPOINTED ACTUARY
ALM	ASSET LIABILITY MANAGEMENT
AMBD	AUTORITI MONETARI BRUNEI DARUSSALAM
APS	ACTUARIAL PRACTICE STANDARD
ASHK	ACTUARIAL SOCIETY OF HONG KONG
ASP	ACTUARIAL SOCIETY OF THE PHILIPPINES
BEL	BEST ESTIMATE LIABILITIES
BNM	BANK NEGARA MALAYSIA
CA	CHIEF ACTUARY
CAA	CHINA ASSOCIATION OF ACTUARIES
CAR	CAPITAL ADEQUACY RATIO
CEO	CHIEF EXECUTIVE OFFICER
CIRC	CHINA INSURANCE REGULATORY COMMISSION
CIT	CORPORATE INCOME TAX
COI	COST OF INSURANCE
CPD	CONTINUOUS PROFESSIONAL DEVELOPMENT
CPPI	CONSTANT PROPORTION PORTFOLIO INSURANCE
CRO	CHIEF RISK OFFICER
DTC	DIRECT TAX CODE
ERM	ENTERPRISE RISK MANAGEMENT
FCR	FINANCIAL CONDITION REPORT
FMC	FUND MANAGEMENT CHARGE
FSA	FINANCIAL SERVICES AGENCY
FSC	FINANCIAL SUPERVISORY COMMISSION
FSR	FUND SOLVENCY RATIO
FSS	FINANCIAL SUPERVISORY SERVICE
GAAP	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
GMB	GUARANTEED MINIMUM BENEFIT
GN	GUIDANCE NOTE / GUIDELINE NOTE
GPV	GROSS PREMIUM VALUATION
IA	INSURANCE AUTHORITY
IAI	INSTITUTE OF ACTUARIES OF INDIA
IAJ	INSTITUTE OF ACTUARIES OF JAPAN
IAK	INSTITUTE OF ACTUARIES OF KOREA
IC	INSURANCE COMMISSION

IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
ILAS	INVESTMENT-LINKED ASSURANCE SCHEMES
ILP	INVESTMENT-LINKED POLICY
IRCSL	INSURANCE REGULATORY COMMISSION OF SRI LANKA
IRDAI	INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA
IRR	INTERNAL RATE OF RETURN
LAT	LIABILITY ADEQUACY TEST
MADS	MARGINS FOR ADVERSE DEVIATIONS
MAS	MONETARY AUTHORITY OF SINGAPORE
MCIT	MINIMUM CORPORATE INCOME TAX
MCL	MINIMUM CONDITION LIABILITIES
MOF	MINISTRY OF FINANCE
NPV	NET PREMIUM VALUATION
OIC	OFFICE OF INSURANCE COMMISSION
OJK	OTORITAS JASA KEUANGAN
ORSA	OWN RISK AND SOLVENCY ASSESSMENT
PA	PERSONAL ACCIDENT
PADS	PROVISION FOR ADVERSE DEVIATIONS
PRE	POLICYHOLDERS' REASONABLE EXPECTATIONS
RBC	RISK-BASED CAPITAL
RSM	REQUIRED SOLVENCY MARGIN
SAS	SINGAPORE ACTUARIAL SOCIETY
SCR	SOLVENCY CAPITAL REQUIREMENT
SFC	SECURITIES AND FUTURES COMMISSION
SOAT	SOCIETY OF ACTUARIES OF THAILAND
STCL	SUPERVISORY TARGET CAPITAL LEVEL
TA	TOTAL ASSETS
TAC	TOTAL AVAILABLE CAPITAL
TVOG	TIME VALUE OF OPTIONS AND GUARANTEES
UPR	UNEARNED PREMIUM RESERVE
URR	UNEARNED RISK RESERVE
VA	VARIABLE ANNUITY
VIP	VARIABLE INSURANCE PRODUCTS
WPC	WITH PROFITS COMMITTEE

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