

## **Response to feedback received**

### **Financial Condition Report**

#### **Introduction**

The Bank today finalised the issuance of the policy document on Financial Condition Report (FCR) for insurers and takaful operators (including professional reinsurers and retakaful operators).

As part of the consultation process, the Bank received written responses from 32 respondents, including insurers and takaful operators, industry associations and a regulatory body. A series of engagement sessions were also conducted to allow for more focused and in-depth discussions on the proposed requirements.

The Bank appreciates the feedback and suggestions received during the consultation process. Key comments received and the Bank's responses are provided in the following sections. Other comments and suggestions for clarification have been incorporated in the final policy document where appropriate.

**Bank Negara Malaysia**

**30 December 2015**

## **1. Reporting time frame of Financial Condition Report (FCR) to the board and the Bank**

- 1.1. The concept paper proposed to shorten the reporting time frame from 6 months to 3 months after the end of each financial year. This was intended to promote more timely assessments of risks and threats to the financial condition of insurers and takaful operators and early implementation of the necessary mitigating measures.
- 1.2. A number of respondents highlighted the practical challenges of complying with a shorter reporting time frame, including competing resources with other reporting requirements around the financial year end and the likelihood of a diminished focus by the board on the deliberations of the FCR.
- 1.3. In the final policy document, the FCR submission has been aligned with an insurer or takaful operator's annual business planning period. This allows greater flexibility for the appointed actuary and the board to establish an annual reporting schedule for the preparation and submission of the FCR to support the board in its annual business planning process. This need not coincide with an insurer or takaful operator's financial year end.
- 1.4. The final policy document further clarified that the information used in the FCR must be current, with a reference date corresponding to the immediate quarter preceding the presentation of the FCR to the board.

## **2. Inter linkages between FCR and other requirements**

- 2.1 Some respondents requested for clarity on the inter linkages between requirements related to the conduct of Dynamic Solvency Test (DST) in the FCR and those contained in the policy document on the Internal Capital Adequacy Assessment Process (ICAAP) on capital management plan as well as the conduct of stress test in the policy document on Stress Testing.
- 2.2 The final policy document clarifies that the FCR is intended as a report that provides independent advice from the appointed actuary to the board on material risks and threats to the financial condition, which includes opinion on capital adequacy. The board may leverage on the independent advice on capital adequacy provided by the appointed actuary in the FCR to inform its oversight over an insurer or takaful operator's ICAAP.
- 2.3 In addition, all technical requirements related to stress test will be provided in the stress test policy document which will be finalised in 2016. Guidance on the internally developed scenarios for multi-period stress tests contained in the stress test policy document may be applied by the appointed actuary to inform his assessments on capital adequacy in the FCR.

### **3. Preparation of FCR for other sub-sectors**

#### ***Preparation of FCR for professional reinsurers and retakaful operators***

- 3.1. The final policy document provides more granular requirements for professional reinsurers and retakaful operators following the requirement for the appointed actuary of professional reinsurers and retakaful operators to also prepare the FCR, as specified in the policy document on *Appointed Actuary: Appointment and Duties (for reinsurers and retakaful operators)*.
- 3.2. Respondents from foreign professional reinsurers established as a branch in Malaysia sought clarity on the degree of reliance that may be placed on the inputs from the head or regional office.
- 3.3. The final policy document provides for an appointed actuary of a branch of foreign professional reinsurers and takaful operators to place reliance on reports prepared by the head and regional office that are relevant for his assessments in the FCR. However, appointed actuary of the branch of a foreign professional reinsurer and retakaful operator should be prepared to explain the basis for such reliance to the Bank. The Bank may require the appointed actuary of the branch of the foreign reinsurer or retakaful operator to provide additional assessments where necessary to better capture specific risks and threats to the branch operations in Malaysia in the FCR.

#### ***Preparation of FCR for composite insurers and takaful operators***

- 3.4. Under sections 16 and 276 of the Financial Services Act 2013 (FSA) and sections 16 and 286 of the Islamic Financial Services Act 2013 (IFSA), an insurer and takaful operator that carries on both classes of life insurance/family takaful and general insurance/takaful business must take steps to split the business under separate legal entities before 1 July 2018.
- 3.5. Respondents enquired whether the appointed actuary is required to prepare a separate FCR for each business during the transitional period.
- 3.6. During the transition, the composite insurers and takaful operators may produce either a consolidated or individual report for both the life and general business of insurers, or family and general business of takaful operators, as the case may be.

### **4. Transitional arrangement**

- 4.1 The final policy document provides different transitional periods for the life/family and general insurance/takaful industry, taking into consideration likely differences in the capacity to manage the operational and resource demands. A longer transitional period is provided for the general insurance and general takaful industry to take into account the more prevalent gaps that need to be addressed to meet the requirements in the policy document which are being applied for the first time to general insurers and general takaful operators.
- 4.2 During the transition, the appointed actuary of all licensed person may be guided by the requirements in the final policy document in the preparation of the FCR and also

refer to the existing Guidelines on Financial Condition Report where relevant, concerning the requirements on submission of the FCR to the board and the Bank. In addition, the appointed actuary of a general insurer, takaful operator, professional reinsurer or a retakaful operator should prepare the FCR on best practice basis. Nevertheless, the appointed actuary must take necessary steps to achieve full compliance with the requirements in the policy document within the transitional periods provided.