



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Supplementary Information for Sources of Surplus Arising for Insurers – Reporting Manual

Applicable to:

1. Licensed insurers carrying on life insurance business

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PART A OVERVIEW

1 Introduction

- 1.1 In order to improve consistency in the reporting of the sources of surplus arising as required under the policy document on Risk-Based Capital Framework for Insurers (RBC) and to better facilitate supervisory assessment, a licensed person carrying on life insurance business is required to provide supplementary information on sources of surplus arising by completing Form E3-1_Supplementary (the supplementary information form).
- 1.2 This reporting manual sets out further guidance on completing Form E3-1_Supplementary.

2 Applicability

- 2.1 This reporting manual is applicable to licensed insurers carrying on life insurance business for all RBC reporting after 1 October 2018.

PART B GENERAL INSTRUCTIONS

3 General Specifications

Reporting form

- 3.1 With the introduction of Form E3-1_Supplementary, a licensed person shall no longer be required to directly input information into Form E3-1, as the information from the supplementary information form will automatically populate Form E3-1.
- 3.2 For hardcopy submissions, Form E3-1_Supplementary shall be submitted together with Form E3-1.

Determination of actual and expected amounts

- 3.3 The reporting basis for quarterly reporting and financial year end reporting shall be in accordance with the Guidance Notes on Insurance Companies Statistical System Monthly / Quarterly / Annual Statistical Returns.
- 3.4 The actual amount for each source of surplus arising shall be consistent with the amount reported under other regulatory reporting requirements prescribed by Bank Negara Malaysia (the Bank).
- 3.5 The expected amount for each source of surplus arising shall be determined on a best estimate basis, with the exception of net liabilities. Net liabilities shall be valued in accordance with the RBC Framework, and shall include a Provision of Risk Margin for Adverse Deviation (PRAD) where necessary.
- 3.6 Where reinsurance credit is taken in computing liabilities, components B to G shall be reported net of reinsurance. Otherwise:
- (a) Components B to G, excluding the item specified in sub-paragraph 3.6 (b), shall be reported gross of reinsurance;
 - (b) The actual impact of reinsurance arrangements, calculated as reinsurance recoveries *plus* reinsurance commission *less* reinsurance premiums, shall be reported under component G; and
 - (c) The expected amount that corresponds to the item specified in sub-paragraph 3.6 (b) shall be reported as zero.
- 3.7 For policies with zeroised net liabilities, the expected amount for each source of surplus arising shall be quantified under a pre-zeroised basis. The zeroised amount that offsets the negative net liabilities shall be reported under component G.
- 3.8 Sub-component G4 shall be an amount that offsets the sum of all other expected components, in order to yield a total expected amount of zero.

- 3.9 The sources of surplus arising shall be quantified in the order of component A to G, as set out in the supplementary information form. The quantified amounts shall include the surplus arising from both the basic plans and the attaching riders.
- 3.10 A licensed person may apply approximations¹ to quantify the amount for a source of surplus arising. The methodology and assumptions adopted for any such approximations shall be described and justified.

Amounts reported for in-force business and new business

- 3.11 A licensed person shall report:
- (a) In-force business² under components A to E;
 - (b) New business³ under sub-component F1; and
 - (c) Renewal business of group yearly renewable products⁴ under sub-component F2.

Universal Life business

- 3.12 Where the Universal Life (UL) business constitutes more than 5% of the company-level gross premiums, a licensed person shall report this business under the UL columns in the supplementary information form.
- 3.13 In relation to paragraph 3.12, a licensed person shall input the name of the insurance fund, in which the UL business resides, in the relevant cell below the UL heading in the supplementary information form.

Documentation

- 3.14 A licensed person shall clearly document the methodologies, assumptions and approximations⁵ applied in quantifying the amount for each source of surplus arising, and provide this information to the Bank upon request.

¹ For example, in apportioning the aggregate insurance benefit payout to each type of coverage specified in the supplementary information form, where actual payment data for each type of coverage is not available.

² Excludes renewal business of group yearly renewable products.

³ Includes new business of group yearly renewable products.

⁴ Includes guaranteed and non-guaranteed yearly renewable products.

⁵ As specified in paragraph 3.10.

PART C TECHNICAL SPECIFICATIONS FOR COMPONENTS OF SOURCES OF SURPLUS ARISING

4 Component A: Investment

- 4.1 A licensed person shall only report the investment returns earned on assets backing the policyholders' fund under this component. The investment returns earned on assets backing other liabilities of the insurance fund that contribute to surplus arising, if any, shall be reported under component G.
- 4.2 Component A consists of the following sub-components:
- A1. Return on assets backing net liabilities
 - A2. Return on assets backing unappropriated surplus
 - A3. Impact of change in discount rates on net liabilities
- 4.3 The actual amount of sub-components A1 and A2 shall capture the following:
- (a) Interest, coupons, dividends and rents;
 - (b) Net gain / (loss) on disposal of investments;
 - (c) Net accretion / (amortization) of investments;
 - (d) Gain / (loss) from changes in fair value;
 - (e) Impairment (loss) / reversal;
 - (f) Foreign exchange gain / (loss) on investments;
 - (g) Taxes on investments; and
 - (h) Direct investment-related expenses.
- 4.4 For products where the net liabilities are valued under an undiscounted basis, the expected amount of component A for these products shall be zero.
- 4.5 The expected amount for sub-component A1 shall reflect the unwinding of discounting effect, net of tax.
- 4.6 If a yield curve is applied for discounting of net liabilities, the expected amount for sub-component A1 shall be estimated using a weighted average of forward rates where the weights are based on the present value of the cash flows
- 4.7 In relation to paragraph 4.6, a different approximation may be used to determine the expected amount for sub-component A1, if it does not result in a materially different outcome.
- 4.8 Sub-component A3 shall capture the impact of any changes in discount rates on net liabilities, including changes arising from market movement and changes in the expected long-term investment return of the insurance fund, where applicable.

5 Component B: Insurance Benefits

- 5.1 Component B consists of the following sub-components:
- B1.1 Mortality & Total Permanent Disability (TPD) benefit payouts
 - B1.2 Cost of insurance / insurance charge for B1.1
 - B2.1 Critical illnesses benefit payouts
 - B2.2 Cost of insurance / insurance charge for B2.1
 - B3.1 Hospitalisation & Surgical Insurance (HSI), Hospitalisation Income Benefit (HIB) and Personal Accident (PA) benefit payouts
 - B3.2 Cost of insurance / insurance charge for B3.1
 - B4.1 Other insurance benefit payouts
 - B4.2 Cost of insurance / insurance charge for B4.1
 - B5 Release of net liabilities for insurance benefit payouts
- 5.2 For sub-components where the expected amount is not readily available in the valuation model, the expected amount may be estimated as the actual amount of earned premium *multiplied with* the valuation loss ratio.
- 5.3 Sub-components B1.2, B2.2, B3.2 and B4.2 shall capture the cost of insurance / insurance charges that are deducted from the unit fund / investment account.
- 5.4 Sub-components B4.1 and B4.2 shall capture payouts for benefits other than those reported under sub-components B1.1 to B3.2 and D1, including but not limited to maturity benefits and survival benefits.
- 5.5 For short-term products which are reserved in accordance to Appendix VI of the RBC Framework, sub-component B5 shall only include the release of claims liabilities, as the release of premium liabilities will be embedded in earned premium income, which is reported under sub-component D3.

6 Component C: Expenses

- 6.1 Component C shall capture the following:
- (a) Commissions;
 - (b) Agency-related expenses;
 - (c) Administrative expenses;
 - (d) Other related expenses; and
 - (e) Release of net liabilities for expense payouts.

7 Component D: Lapse

- 7.1 Component D consists of the following sub-components:
- D1. Surrender benefit payouts
 - D2. Release of net liabilities for lapse and surrender benefit payouts
 - D3. Premiums
- 7.2 Component D shall capture the following:
- (a) Surrender; and
 - (b) Reinstatements.
- 7.3 Sub-component D3 shall capture the following:
- (a) Premiums for traditional products, including UL; and
 - (b) Cash inflows to non-unit fund for investment-linked products.

8 Component E: Change in Valuation Basis

- 8.1 Component E consists of the following sub-components:
- E1. Model and methodology
 - E2. Mortality & TPD assumptions
 - E3. Critical Illnesses assumptions
 - E4. HSI, HIB and PA assumptions
 - E5. Expense assumptions
 - E6. Lapse and surrender assumptions
 - E7. Other assumptions
- 8.2 The impact of changes in valuation bases on net liabilities shall be quantified in the order listed in paragraph 8.1.

9 Component F: New Business

- 9.1 Component F consists of the following sub-components:
- F1. New business for individual and group products
 - F2. Renewal business of group yearly renewable products
- 9.2 For financial year end reporting, new business shall include businesses acquired during the financial year; while for quarterly reporting, new business shall include businesses acquired between the beginning of the reporting calendar year and the end of the reporting quarter.
- 9.3 Sub-components F1 and F2 shall be calculated as cash inflows *less* cash outflows *less* change in net liabilities.

10 Component G: Others

- 10.1 Component G consists of the following sub-components:
- G1. (The top contributor to component G)
 - G2. (The second top contributor to component G)
 - G3. (The third top contributor to component G)
 - G4. Balancing item
- 10.2 The top three contributors to component G shall be reported under sub-components G1 to G3 and ranked in the order of the absolute value of the actual *less* expected amount. A licensed person shall input the names of the top three contributors under the Details of Sub-components G1 to G3 section of the supplementary information form.
- 10.3 In relation to paragraph 10.2, sub-components G1 to G3 may be different for each insurance fund and for each reporting period.
- 10.4 Sub-components G1 to G4 may include:
- (a) Expected profit / (loss) for in-force business (expected profit);
 - (b) For investment-linked products, actual versus expected amount of annual management charges;
 - (c) One-off expenses arising from distribution agreement;
 - (d) Options and guarantees (non-insurance in nature) that are not reported under component B;
 - (e) Bad and doubtful debts / allowance for impairments (e.g. for outstanding premiums, reinsurance balances); and
 - (f) Other gain / (loss).
- 10.5 If expected profit is not one of the top three contributors to component G, the amount shall be reported under the Additional Reporting section of the supplementary information form.
- 10.6 Expected profit shall be calculated as expected cash inflows *less* expected cash outflows *less* expected change in net liabilities.
- 10.7 The expected amount of expected profit / (loss) shall be reported as a negative / (positive) amount, and the corresponding actual amount shall be reported as zero.
- 10.8 The items in expected profit as specified in paragraph 10.6 shall be valued on the following bases:
- (a) For financial year end reporting, using the valuation basis at the beginning of the financial year; and
 - (b) For quarterly reporting, using the valuation basis at the beginning of the calendar year.
- 10.9 For products specified in paragraph 5.5, the expected change in net liabilities shall include change in both premium and claims liabilities.

10.10 For investment-linked products, expected cash inflows shall include but not limited to fund management charges and unallocated premium, where applicable.

11 Additional Reporting

11.1 A licensed person shall report the following under the Additional Reporting section of the supplementary information form:

- (a) Expected profit, as specified in paragraph 10.5;
- (b) The actual amount of acquisition expenses;
- (c) The actual amount of investment returns earned on assets backing policyholders' deposited cash; and
- (d) The actual amount of interest declared or credited for policyholders' deposited cash.

11.2 Policyholders' deposited cash shall refer to monies which are left deposited⁶ with the licensed person.

⁶ For example, cash benefits payable upon survival of the policyholders or advance payments of premium.