

Notification of the Office of Insurance Commission

re: Rules, Procedures and Conditions for Allocating Insurance Reserves for Unearned Insurance Premiums, Reserves for Compensation, and Other Insurance Reserves, for Non-Life Insurance Companies, B.E. 2554 (2011)

By virtue of paragraph 2, section 23 of the Non-Life Insurance Act, B.E. 2535, amended by the Non-Life Insurance Act (No. 2), B.E. 2551, in combination with the resolution of the meeting of the Office of Insurance Commission No. 8/2554 on 31 August 2011, the Office of Insurance Commission issues the following orders.

Clause 1 This Notification is called the "Notification of the Office of Insurance Commission re: Rules, Procedures and Conditions for Allocating Insurance Reserves for Unearned Insurance Premiums, Reserves for Compensation, and Other Insurance Reserves, for Non-Life Insurance Companies, B.E. 2554 (2011)."

Clause 2 This Notification is effective from 1 September 2011.

Clause 3 The Notification of the Office of Insurance Commission re: the Allocation of Insurance Reserves for Unearned Insurance Premiums, and Reserves for Compensation, for Non-Life Insurance Companies, B.E. 2553 (2010), dated 4 May 2010, will be repealed.

Clause 4 In this Notification,

"company" means a non-life insurance company granted a license to engage in a non-life insurance business under the non-life insurance law, or a branch of a foreign non-life insurance company granted the license to engage in a non-life insurance business in the Kingdom of Thailand under the non-life insurance law; and

"Commissioner" means the secretary general of the Office of Insurance Commission, or the person assigned by the secretary general of the Office of Insurance Commission.

Clause 5 The calculation of insurance reserves in clause 6, clause 7, clause 9, clause 10, and clause 14 must comply with the methodology prescribed in the Notification of the Office of Insurance Commission re: Valuation of Assets and Liabilities of Non-Life Insurance Companies.

Clause 6 The amount of reserves allocated by the company for unearned premiums must be no less than the net amount of reserves for unearned premiums after reinsurance.

Clause 7 The amount of reserves allocated by the company for compensation must be no less than the net amount of compensation reserves after reinsurance.

Clause 8 Companies must arrange reserves for other activities as prescribed in clause 9, clause 10, clause 11, clause 12, clause 13 and clause 14.

Clause 9 The amount of unexpired risk reserves allocated by the company must be no less than the difference between the net amount of unexpired risk reserves after reinsurance, and the net amount of reserves for unearned premiums after reinsurance, if the net amount of reserves for unearned premiums after reinsurance are less than the net amount of unexpired risk reserves after reinsurance.

Clause 10 The amount of reserves for insurance against severe diseases, accident insurance, or health insurance, allocated by the company, must be no less than the net amount of premium reserves after reinsurance, calculated using the total insurance premium formula, in the following events:

(1) the agreement term is longer than one year, or the automatic renewal of the agreement is guaranteed;

(2) the company can neither terminate the agreement, modify the insurance premiums, nor change any benefits in the insurance policy throughout the agreement term; and

(3) the premiums for the insurance policies account for more than five percent of the company's gross premiums.

Clause 11 Companies must allocate reinsurance premiums for reinsurance reserves, if the company is reinsured under proportional treaty reinsurance for an amount no less than the amount specified in the company's reinsurance agreement. The reserves must be optimized at the end of a calendar year or at the end of the reinsurance agreement year, in compliance with the following rules and procedures.

(1) For voyage insurance, and travel insurance with a coverage term of up to six months, the reserves must be equal to 100 percent of reinsurance premiums from the first date of coverage and throughout the term during which the company provides the insurance coverage for the insured, minus

the reinsurance commission received by the company. The commission to be calculated, however, must not exceed the commission for non-life insurance agents or non-life insurance brokers, for which direct insurance premiums are deducted.

(2) For freedom insurance, the reserves must be equal to 70 percent of reinsurance premiums from the first date of coverage and throughout the term during which the company provides the insurance coverage for the insured, minus the reinsurance commission received by the company. The commission to be calculated, however, must not exceed the commission for non-life insurance agents or non-life insurance brokers, for which direct insurance premiums are deducted.

(3) For other types of insurance except (1) and (2), the reserves must be calculated using the 1/24th method (the calculation of reinsurance premiums based on the coverage term using the monthly-average method), or the 1/365th method (the daily-average method).

Clause 12 Companies must allocate reinsurance premiums for reinsurance reserves, if the company is reinsured by overseas-based non-life insurance business operators for facultative reinsurance regarding the commercial aviation industry, the petrochemical industry, the energy industry, mega projects with concession from the state, and the agricultural industry; and against terrorism, and the reinsurance coverage is at least 400 million baht, in compliance with the following rules and procedures.

(1) If reinsurance premiums for reinsurance coverage is less than 400 million baht, the reserves must be arranged in compliance with the rules and procedures in clause 11(1), clause 11(2) or clause 11(3).

(2) If reinsurance premiums for reinsurance coverage is 400 million baht or more, the reserves must be arranged in compliance with the following rules and procedures.

(a) For reinsurance premiums for reinsurance coverage by an overseas-based non-life reinsurance business operator with the credit rating of AAA, or equivalent, the company must allocate 6 percent of the amount calculated in compliance with the rules and procedures in clause 11(1), clause 11(2) or clause 11(3) as reserves.

(b) For reinsurance premiums for reinsurance coverage by an overseas-based non-life reinsurance business operator with the credit rating of AA+, AA or AA-, equivalent, the company must allocate 7 percent of the amount calculated in compliance with the rules and procedures in clause 11(1), clause 11(2) or clause 11(3) as reserves.

- (c) For reinsurance premiums for reinsurance coverage by an overseas-based non-life reinsurance business operator with the credit rating of A+, A or A-, equivalent, the company must allocate 8 percent of the amount calculated in compliance with the rules and procedures in clause 11(1), clause 11(2) or clause 11(3) as reserves.
- (d) For reinsurance premiums for reinsurance coverage by an overseas-based non-life reinsurance business operator with a credit rating lower than A-, or without a credit rating, the company must allocate the full amount calculated in compliance with the rules and procedures in clause 11(1), clause 11(2) or clause 11(3) as reserves.

If the reinsurance business operator is required to place a guarantee as part of the reinsurance agreement, the guarantee can be deducted from the reserves it must allocate under the first paragraph.

The credit rating under the first paragraph must be assigned by Standard & Poor's, Moody's, AM Best, Fitch, or other rating institutes accepted by the Office of Insurance Commission. If a company is assigned with more than one credit rating, the calculation must be based on the second highest rating assigned.

Clause 13 Companies must arrange reserves for reinsurance premiums if they are insured by an overseas-based non-life insurance business operator with any types of facultative reinsurance providing reinsurance coverage of lower than 400 million baht, or with other types of facultative reinsurance, specified in clause 12, with reinsurance coverage of at least 400 million baht. The amount of reserves must be no less than the amount calculated from reinsurance premiums pursuant to the rules and procedures in clause 11(1), clause 11(2) or clause 11(3).

If the reinsurance business operator is required to place a guarantee as part of the reinsurance agreement, the guarantee can be deducted from the reserves it must allocate under the first paragraph.

Clause 14 In addition to the reserves described in clause 6, clause 7, clause 9, clause 10, clause 11, clause 12 and clause 13, companies must allocate the full amount of reserves for liabilities and obligations under other insurance agreements.

Clause 15 Assets that companies may allocate as reserves under this Notification must be cash, Thai government bonds, currency deposits, accrued investment incomes, incomes from securities sale accrued for up to five days after the date of the sale, or assets invested in other business operations of

the company under the non-life insurance law. These assets must be maintained by the company at all times, and must be unencumbered, except for the following encumbrances:

- (1) the purchase and sale, or the holding of derivative status approved by the Commissioner;
- (2) the borrowing and lending of securities; or
- (3) the purchase and sale of securities with sales agreements or redemption agreements.

In the event of (2) or (3), only assets recorded as the assets of the company in compliance with accounting standards will be eligible. The valuation of assets described the first paragraph must be based on the assessed value of assets and liabilities under the Notification of the Office of Insurance Commission re: Valuation of Assets and Liabilities of Non-Life Insurance Companies, and the number of assets on the last business day of each month.

Clause 16 The Road Accident Victims Protection Company Limited may allocate accrued contributions and advance compensation payment from debtors, made under the Road Accident Victims Protection Act, as its reserves.

Announced on 18 November 2011

- Signed -

(Mr. Areepong Bhoocha-oom)

Permanent secretary of the Ministry of Finance, and
chairman of the Office of Insurance Commission

Remarks: The reason for the issuance of this Notification is that non-life insurance companies must arrange reserves for unearned insurance premiums, and reserves for their compensation, in compliance with the principles of risk-based capital. The calculation rules and procedures must comply with those prescribed in the Notification of the Office of Insurance Commission re: Valuation of Assets and Liabilities of Non-Life Insurance Companies.