

Notification of the Insurance Commission

**Re: Classification and Type of Capital as well as Criteria, Procedures, and Conditions for
Computation of Life Insurance Companies' Capital Requirement (No.6)**

B.E. 2565 (2022)

By virtue of Section 27 of the Life Insurance Act B.E. 2535 (1992), as amended by the Life Insurance Act (No. 2) B.E. 2551 (2008), together with the resolution of the Insurance Commission's Meeting No. 7/2022 on 24 June 2022, the Insurance Commission hereby prescribes this Notification as follows:

Clause 1 This Notification shall be called the "Notification of the Insurance Commission Re: Classification and Type of Capital as well as Criteria, Procedures, and Conditions for Computation of Life Insurance Companies' Capital Requirement (No.6) B.E. 2565 (2022)."

Clause 2 This Notification shall apply to a report on capital maintenance as from June 2022 onwards.

Clause 3 The provision of 2. of Attachment 5: Criteria, Procedures, and Conditions for Computation of the Capital Requirement For Surrender Risk attached to the Notification of the Insurance Commission Re: Classification and Type of Capital as well as Criteria, Procedures, and Conditions for Computation of Life Insurance Companies' Capital Requirements B.E. 2562 (2019), dated 27 December 2019 shall be repealed and replaced by the following provision:

"2. The capital requirement for the policy surrender risk is equivalent to 50% of the maximum value between 2.1 minus the sum of 2.2 plus 2.3, and zero,
as per the following equation:

$$\text{surrender risk capital} = 50\% \times \max(0, \text{CSV} - (\text{PL} + \text{other risks}))$$

2.1 The aggregate cash surrender value (CSV) of in-force insurance policies at the valuation date, after deducting the outstanding policy loan amounts;

2.2 The policy liability (PL) pursuant to the Notification of the Insurance Commission Re Valuation of Assets and Liabilities of Life Insurance Companies;

2.3 The total sum of capital for five other risks, namely the insurance risk capital, the market risk capital, the credit risk capital, the concentration risk capital, and the operation risk capital, and the acquired risk diversification effect between the asset risk and the insurance risk;

2.4 If a Company has entered into a mass lapse reinsurance, the Company shall compute the capital requirements for surrender risk, by taking into consideration the maximum effect on the Company's capital of not less than zero in accordance with the conditions of the said reinsurance contract made for the situation of insurance policy mass lapse, but not exceeding 50%.

A lapse means an event of the insured's non-payment of an insurance premium within the period specified in the insurance policy, or surrendering the insurance policy, or the insurer not renewing the insurance contract, any of which causes the insurance policy to expire and cease to take effect in accordance with the specified conditions.

2.5 The computation method shall be in accordance with the following examples:

Example 1: Company A has the following data:

The aggregate cash surrender value (CSV) after deducting outstanding loan amounts collateralized by insurance policies is THB 1,000 million.

The total policy liability is THB 700 million.

The insurance risk capital is THB 50 million.

The market risk capital is THB 150 million.

The credit risk capital is THB 100 million.

The concentration risk capital is THB 20 million.

The operation risk capital is THB 20 million.

The risk diversification effect between insurance risk and asset risk is THB 27 million.

The surrender risk capital is equivalent to:

$$\begin{aligned} & 50\% \times \max(0, 1,000 - (700 + 50 + 150 + 100 + 20 + 20 - 27)) \\ & = 50\% \times \max(0, 1,000 - 1,013) \\ & = 50\% \times \max(0, -13) \\ & = 50\% \times 0 \\ & = \text{THB } 0 \end{aligned}$$

Example 2: Company B has the following data:

The aggregate cash surrender value (CSV) after deducting the outstanding loan amounts collateralized by the insurance policies is THB 1,000 million.

The total policy liability is THB 650 million.

The insurance risk capital is THB 50 million.

[Translation]

The market risk capital is THB 150 million.

The credit risk capital is THB 100 million.

The concentration risk capital is THB 20 million.

The operation risk capital is THB 20 million.

The risk diversification effect between insurance risk and asset risk is THB 10 million.

The surrender risk capital is equivalent to:

$$50\% \times \max(0, 1,000 - (650 + 50 + 150 + 100 + 20 + 20 - 10))$$

$$= 50\% \times \max(0, 1,000 - 980)$$

$$= 50\% \times \max(0, 20)$$

$$= 50\% \times 20$$

$$= \text{THB 10 million}''$$

Notified on this 29th day of June B.E. 2565 (2022).

Permanent Secretary, Ministry of Finance

Chairman of the Insurance Commission