

Notification of the Insurance Commission

Re: Classification and Types of Capital as well as Criteria, Procedures, and Conditions for Computation of Non-life Insurance Companies' Capital Requirements (No.6) B.E. 2566 (2023)

By virtue of Section 27 of the Non-life Insurance Act B.E. 2535 (1992), as amended by the Non-life Insurance Act (No. 2) B.E. 2551 (2008), together with the resolution adopted at the Meeting of the Insurance Commission's Meeting No. 12/2022 on 25 November 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 Types of Capital as well as Criteria, Procedures, and Conditions for Computation of Non-life Insurance Companies' Capital Requirements (No.6) B.E. 2566 (2023)."

Clause 2 This Notification shall take effect from 30 June 2023 onwards.

Clause 3 The provision of 3 of Attachment 2: Criteria, Procedures, and Conditions for Computation of Capital Requirement for Market Risks attached to the Notification of the Insurance Commission Re: Classification and Type of Capital as well as Criteria, Procedures, and Conditions for the Computation of the Capital Amount required of Non-life Insurance Companies, (No.3) B.E. 2563 (2020) dated 28 September 2020, shall be repealed and replaced by the following provision:

"3. The capital requirements for market risk associated with equity and commodity price is equivalent to the addition of 3.1, 3.2, and 3.3.

3.1 The capital requirement for the market risk associated with the price of equity listed on the Stock Exchange of Thailand, the Market for Alternative Investment (MAI), and other exchanges is equivalent to the product of the net exposure of each type of equity and the risk capital in Table 2.1:

whereby

net exposure = total exposure – hedged exposure

Remark:

1) The total exposure of equity shall be calculated in accordance with the Notification of the Insurance Commission on the Valuation of Assets and Liabilities of Non-Life Insurance Companies.

[Translation]

2) The hedged exposure shall be valued from the market value of the underlying assets of the hedging instrument, provided that it shall not exceed the value of the equity investment portfolio intended for hedging.

The hedged exposure value must not be higher than the value of the equity investment portfolio intended for hedging on the date that the company becomes a contractual party of the hedging instrument, and hedging against the market risk of the equity price must comply with every condition of the following clauses, otherwise it shall be deemed that the hedged exposure is equivalent to zero, and the computation of the capital requirements for relevant risks must be made.

3.1.1 The company must have a relevant risk management policy that defines an equity investment portfolio intended for hedging and the use of hedging instruments. The risk management policy must be approved by the Board of Directors or a subcommittee assigned by the Board of Directors. In addition, the risk management policy must address potential risks that may arise from becoming contractual parties of hedging instruments, for example, liquidity risk, basis risk (risk from price changes in hedging instruments not aligning with price changes in the equity investment portfolio intended for hedging), operational risks, and credit risks, etc.

3.1.2 The company must have the short position in futures or other hedging instruments as prescribed and notified by the Office; These instruments must have underlying assets in the form of equity or an index computed with equity as the underlying variables, in accordance with the conditions specified in the Notification of the Insurance Commission on investment in other businesses of non-life insurance companies:

3.1.3 The company must define the relationship of the hedged portfolio, which consists of investment portfolio intended for hedging and hedging instruments;

3.1.4 The use of hedging instruments must be for hedging purposes, and must fully comply with the following conditions:

(a) The use of hedging instruments must not be intended to generate returns;

(b) The use of hedging instruments must be able to prove that the overall risk has been reduced, and that the reduced risk value can be measured;

(c) The use of hedging instruments must result in the reduction of market risk associated with the price of equity in the hedged portfolio;

[Translation]

(d) The characteristics and foundations of the underlying assets align with those of the investment portfolio intended for hedging;

(e) The use of hedging instruments must be in line with the risk hedging purpose and the policy;

3.1.5 The fair value must be evaluated in a reliable manner;

3.1.6 The hedging instrument must demonstrate effectiveness for hedging purposes from the date on which the company becomes a contractual party, and it must comply with the following conditions:

3.1.6.1 After a regression analysis between the monthly return of hedging instruments and the monthly return of the investment portfolio intended for hedging with all appropriate data:

(a) The slope value of the line of best-fit is not greater than -0.80 and not less than -1.25; and

(b) The correlation coefficient is no greater than - 0.9.

In the case that the data is insufficient for the regression analysis, the underlying assets of hedging instruments must correspond to the investment portfolio intended for hedging;

3.1.6.2 The value of the portion intended for hedging of the investment portfolio, divided by the underlying asset value of the hedging instrument, and the underlying asset value of the hedging instrument divided by the value of the portion intended for hedging of the investment portfolio, must not be lower than 95 percent.

3.2 The product of the value of each type of equity other than the equity specified in 3.1 and the risk capital change in Table 2.1;

3.3 The product of the addition of the net position of each type of commodity and the risk capital change of 50 percent.

Table 2.1: Risk capital charge for market risk associated with equity and commodities price

Types	Risk Capital Change (Percentage)
1. Equity which have been registered on the Stock Exchange of Thailand and the Market for Alternative Investment (MAI)	25
2. Equity which have been registered in other stock exchange markets and whose indices are on the exchange in Table 2.2	25
3. Equity which have been registered in other stock exchange markets, but whose indices are not on the exchange in Table 2.2	35
4. Infrastructure funds, REITs, and property funds in the form of equity, that have been registered and have been invested in Thailand	16
5. Thailand Future Fund with the objective for the establishment under the Cabinet's resolution of 12 July 2016	8
6. Equity of Road Accident Victims Protection Co., Ltd.	0
7. Equity of T.I.I. Co., Ltd., equity of Thai Insurers Datanet Co., Ltd., equity of the companies held for debt restructuring, equity of the companies held for rectifying the financial position of other life insurance companies or non-life insurance companies, including other companies prescribed and notified by the Office.	25
8. Other equity than those in 1, 2, 3, 4, 5, 6, and 7, including commodities	50

Table 2.2: Indices of other exchanges (according to the countries and indices of a developed market notified by the SEC Office)

Countries	Indices	Countries	Indices
Australia	S&P/ASX 20	Luxembourg	LuxX Index
Austria	ATX	Netherlands	AEX-INDEX
Belgium	BEL 20	New Zealand	S&P/NZX 50 Index
Canada	S&P/TSX60	Norway	OBX Index
Denmark	OMX Copenhagen 20	Portugal	PSI 20
Finland	OMX Helsinki 25	Singapore	Straits Times Index
France	CAC 40	South Korea	KOSPI 100
Germany	DAX	Spain	IBEX 35

[Translation]

Countries	Indices	Countries	Indices
Hong Kong	Hang Seng Index	Sweden	OMX Stockholm 30
Ireland	ISEQ 20	Switzerland	Swiss Market Index
Israel	TA-35 Index	United Kingdom	FTSE 100
Italy	FTSE MIB	USA	S&P 500
Japan	Nikkei 500		

Notified on this 20th day of June B.E. 2566 (2023).

Permanent Secretary, Ministry of Finance

Chairman of the Insurance Commission

Remark: the reason for issuing this Notification is to encourage the non-life insurance companies to use hedging instruments to manage the market risk in various manners, and to be flexible and accommodate potential fluctuations in the financial market both in Thailand and abroad, and to revise the criteria for maintaining risk-based capital (RBC) in line with international standards.