

Notification of the Insurance Commission

Re: Criteria, Procedures, and Conditions for Life Insurance Companies' Reinsurance Arrangements, B.E. 2566 (2023)

By virtue of Section 38 (3) and (13), and Section 45 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 resolutions adopted at the Insurance Commission's Meeting No. 7/2022 on 24 June 2022, and 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: Criteria, Procedures, and Conditions for Life Insurance Companies' Reinsurance Arrangements B.E. 2566 (2023)."

Clause 2 This Notification shall take effect from the date of its publication onwards.

Clause 3 Notification of the Insurance Commission Re: Criteria, Procedures, and Conditions for Life Insurance Companies' Reinsurance Arrangements B.E. 2561 (2018) shall be repealed.

Clause 4 In this Notification,

"Company" means a company that has been licensed to undertake the life insurance business under the law on life insurance, and shall include a branch of any foreign life insurance Company that has been licensed to undertake the life insurance business in the Kingdom of Thailand under the law on life insurance;

"Board of Directors" means the Board of Directors of a Company under the law on life insurance, and shall include the executive board of a foreign life insurance Company's branch that has been granted a license to operate a life insurance business under the law on life insurance where the branch manager also acts as a director;

"Manager" means a person of the highest position being tasked by the Board of Directors with responsibilities in the management of the Company, regardless of the name of such position;

"Executive" means the Manager, the first four persons holding executive positions beneath the manager, every person holding executive positions equivalent to the fourth

executive, and shall include any person holding an executive position in the accounting or finance department at the level of department manager or above;

“Licensed Life Reinsurer” means a life insurance Company under the law on life insurance, and shall include a foreign life insurance Company’s branch that has been granted a license to operate a life insurance business in the Kingdom of Thailand under the law on life insurance;

“Foreign Reinsurer” means a reinsurer that has been granted a license to operate an insurance business by a regulatory authority in a foreign country, and shall include a person eligible to accept reinsurance ceding in accordance with international laws or agreements which are not subject to the law on life insurance and the law on non-life insurance;

“Notification of the Insurance Commission on Receiving and Making Payments, Audit and Internal Control” means the Notification of the Insurance Commission on Criteria, Procedures, and Conditions for Receiving and Making Payments, Audit, and Internal Control of Life Insurance Companies;

“Registrar” means the Secretary-General of the Insurance Commission or any person designated by the Secretary-General of the Insurance Commission;

“Office” means the Office of the Insurance Commission.

“Actuary” means the actuary under the law on life insurance.

Clause 5 The Office may prescribe guidelines for reinsurance in the interest of compliance with this Notification, and after the Company has complied with such guidelines, it shall be deemed that the Company has complied with the relevant part of this Notification.

Clause 6 The Board of Directors has the following role and duties:

(1) To define policies and grant an approval of the reinsurance management framework;

(2) To supervise and ensure reinsurance arrangements’ compliance with the Company’s reinsurance management framework and the criteria required by the Office;

(3) To establish an internal control system to ensure proper implementation of the reinsurance management framework.

Clause 7 The Executive tasked with responsibilities for the Company’s reinsurance arrangements shall have the following role and duties:

(1) To supervise, oversee, and monitor the reinsurance arrangements to ensure due compliance with the Company's reinsurance management framework that has been approved by the Board of Directors;

(2) To maintain a written work procedure and handbook in relation to reinsurance arrangements to ensure due compliance with the reinsurance management framework;

(3) To consider the performance of the reinsurance arrangement on a regular basis in order to achieve the objective of the reinsurance management framework which forms a part of the Company's risk management framework;

(4) To maintain an internal control system and a reporting system for reinsurance monitoring and evaluating, which forms a part of the Company's risk management framework.

Clause 8 A Company shall maintain a unit or a person tasked with responsibilities for reinsurance activities.

Clause 9 A Company shall maintain that the Company's internal audit unit monitors and controls reinsurance-related activities to ensure due compliance with the reinsurance management framework and the criteria prescribed in this Notification and other relevant notifications.

The internal audit unit under paragraph one shall mean the internal audit unit under the Notification of the Insurance Commission on Receiving and Making Payments, Audit and Internal Control.

Clause 10 A Company shall establish a written reinsurance management framework that must be approved by the Board of Directors. The reinsurance management framework shall consist of:

(1) the organizational structure relating to reinsurance management, that specifies the position and/or name of each Executive pursuant to Clause 7 as well as a unit or person tasked with the responsibilities pursuant to Clause 8;

(2) the reinsurance policy that takes into consideration the Company's risk and capital management framework, including its preferred level of risks to be retained and to be ceded that corresponds with its acceptable risk appetite and capital target;

(3) the guidelines on reinsurance-related risk management and internal control.

In this regard, the Company shall review the reinsurance management framework on a yearly basis.

Clause 11 In the case where a Company will place outward reinsurance or inward reinsurance, the Company shall enter into treaty reinsurance contracts and facultative reinsurance contracts that are appropriate to its business operation and correspond with the prescribed reinsurance management framework, which forms a part of the Company's risk and capital management.

Clause 12 The outward reinsurance under Clause 11 is allowed in the following cases:

- (1) Protection part of each insurance policy; or
- (2) In case of mass lapse of insurance policies at the volume agreed between the Company and reinsurer.

An insurance policy 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 its effect in accordance with the specified conditions.

In a circumstance of any public catastrophe or country financial crisis, the Company may place outward reinsurance other than cases in accordance with (1) and (2) only for necessity of the risk management and adequate of the Company's capital approved by the Insurance Commission in case by case basis.

The application for the approval of the Insurance Commission in paragraph three must be in accordance with the criteria, procedures, and conditions prescribed by the Registrar.

Clause 13 An outward reinsurance procured from a Licensed Life Reinsurer shall be in compliance with the reinsurance management framework and an appropriate proportion.

A reinsurance procured from a Foreign Reinsurer shall be in compliance with the following criteria:

(1) A Company may procure treaty reinsurance contracts in the specified proportion and from a Foreign Reinsurer that has the credit ratings as described in the following table.

| Risk Levels | Credit Rating of Foreign Reinsurers | | | | The proportion of the reinsurance premium payable to all Foreign Reinsurers at the same risk level to the reinsurance premium payable to Foreign Reinsurers of all treaty reinsurance contracts |
|-------------|-------------------------------------|----------------------|-----------|---------------------|---|
| | Standard & Poor's | Moody's | AM Best | Fitch | |
| 1 | AAA | Aaa | A++ | AAA | Unlimited |
| 2 | AA+ AA AA- | Aa1 Aa2 Aa3 | A+ | AA+ AA AA- | |
| 3 | A+ A A- | A1 A2 A3 | A A- | A+ A A- | |
| 4 | BBB+ BBB BBB- | Baa1 Baa2 Baa3 | B++ B+ | BBB+ BBB BBB- | Not exceeding fifty percent |

(2) A Company may procure facultative reinsurance contracts from a Foreign Reinsurer that has the credit ratings as specified in (1) of the table, in the appropriate proportion in accordance with the reinsurance management framework.

In a case of a Foreign Reinsurer with more than one credit rating, the following criteria shall apply:

(1) If a Foreign Reinsurer has two different credit ratings, the lower credit rating shall apply;

(2) If a Foreign Reinsurer has more than two different credit ratings, the first two highest credit ratings shall be taken into account for comparison and the lower credit rating shall apply.

In a case where a Foreign Reinsurer's credit rating is downgraded causing the reinsurance to be incompliant with the specified proportion described in paragraph two (1) or (2), as the case may be, the Company shall, on the first possible occasion, arrange for a replacement of such Foreign Reinsurer with a view to reinstating its compliance with the criteria specified in paragraph one.

Clause 14 A Company is allowed to enter into treaty reinsurance contracts and facultative reinsurance contracts in types of the financial reinsurance or finite reinsurance under the following conditions:

(1) The Company must obtain an advice on the appropriateness of reinsurance contracts and risks that may occur from an Actuary and approved by the Board of Directors;

(2) A significant insurance risk transfer must be tested by a method acceptable by accounting standards and certified by an auditor approved by the Office of the Securities and Exchange Commission;

(3) The Company must be able to present documents relating to the advice under (1) and the test results of insurance risk transfer under (2) to the Registrar at all times upon requested by the Registrar;

Clause 15 Financial reinsurance contracts or finite reinsurance contracts under Clause 14 which does not have significant risk transfer may have any of the following characteristics:

(1) A reinsurer has transferred assets to a Company, the Company has the duty to return those assets or other assets to the reinsurer in accordance with the agreed conditions and period; or

(2) The reinsurance contract contains a provision that limits the risk of the reinsurer, for example, adjustments to coverage clause, loss participation clause, or loss corridor clause.

Clause 16 If it sees fit, the Registrar may instruct a Company to rearrange its procurement of certain treaty reinsurance contracts or facultative reinsurance contracts.

Clause 17 A Company shall maintain a control of risks associated with reinsurance in order to achieve the following objectives of the reinsurance management framework, at a minimum:

(1) Credit risk control:

(a) Selecting reinsurers: the Company shall establish the reinsurer selection criteria, taking into consideration the minimum credit rating acceptable to the Company, the

supervision of the regulatory authority, the solvency position, knowledge, expertise, period of payments, and other services, and compliance with the criteria prescribed in this Notification.

(b) Reducing credit risk: the Company should maintain a tool to reduce credit risk, for example, requiring the reinsurer's placement of collateral or holding reinsurance deposit accounts, specifying the conditions for amendment or termination of contracts with the reinsurers in a case where the reinsurer's credit rating is downgraded.

(c) Monitoring stability and appropriateness of the reinsurer: the Company shall maintain a procedure for the reinsurer to monitor credit ratings, financial positions, capital adequacy, and the ability to perform its obligations.

(d) Receiving and making payments relating to reinsurance: the Company shall establish a criteria regarding receiving and making payments relating to reinsurance, reports due from and to the reinsurer, and collection of claims relating to reinsurance. In this regard, the Company shall comply with the Notification of the Insurance Commission on Receiving and Making Payments, Audit, and Internal Control at a minimum.

(e) Selecting reinsurance brokers: the Company shall establish a reinsurance broker selection criteria, taking into consideration their experience and the regulatory authority's supervision of reinsurance brokers, expertise, and provision of services, etc.

(f) Monitoring the reinsurance brokers' receiving and making payments: the Company shall maintain a procedure for monitoring, control, and inspection of the reinsurance brokers' receiving of and making payments or other activities as assigned to act on the Company's behalf (if the services are available). In this regard, the Company must comply with the Notification of the Insurance Commission on Receiving and Making Payments, Audit, and Internal Control at a minimum.

(2) Concentration risk control:

(a) Concentration level of any reinsurer or any group of reinsurers: the Company shall procure reinsurance contracts on the principle of risk diversification and consider the risks associated with any reinsurer or any group of reinsures, within the limit set forth by this Notification or other relevant notifications.

(b) Aggregate risk limit: the Company shall manage to limit its aggregate risk in accordance with its reinsurance management framework. In a case of any deviation from the specified limit, there must be a process to rectify the situation in order to resume the specified limit.

(3) Operational risk control:

(a) Preparation of documents relating to reinsurance contracts: the Company shall ensure that documents relating to reinsurance contracts are complete and valid within an appropriate period of time, and that the terms and conditions of the coverage under relevant reinsurance contracts are clear and complete in accordance with its intention in procuring such reinsurance; and that a process for controlling and monitoring reinsurance contracts are duly maintained.

In this regard, the Company shall, before the effective date of a reinsurance contract, secure evidence of the reinsurer's acceptance of the ceding, or a reinsurance slip.

(b) Procurement of facultative reinsurance contracts: the Company shall establish the criteria for procuring a facultative reinsurance contract and name a person or persons with the approval authority, as well as maintain a process for monitoring and confirming the facultative reinsurance contract.

In a case where the Company accepts any risk that triggers a necessity for the Company to procure a facultative reinsurance contract, the Company shall procure such facultative reinsurance contract before accepting such risk.

(c) Data storage and preparation of reinsurance and reinsurance broker transaction reports: the Company shall store data and prepare reinsurance transactions reports which must be able to demonstrate details of creditors and debtors under such reinsurance.

(4) Liquidity risk control: the Company shall maintain a process, procedure, and arrangement for monitoring and accelerating claims recovery in accordance with the reinsurance contracts, particularly in the case of major losses. In this regard, reinsurance contracts should contain terms on cash calls, collateral, or reinsurance deposit accounts.

Clause 18 A Company shall maintain a liquidity risk management plan to accommodate major losses or continuous claims, consisting of capital procurement, short-term cash flow management, and acceleration for claims recovery from reinsurance. In the event of major loss or continuous claims, the liquidity risk management plan shall be strictly complied with.

Clause 19 The Registrar may require a Company to conduct a stress test to assess the effectiveness of treaty reinsurance contracts and facultative reinsurance contracts.

Clause 20 A Company shall submit its report on the reinsurance management framework and analysis of the effectiveness of reinsurance to the Office by the March of every year. The report shall consist of:

(1) The organizational structure relating to the reinsurance management, that specifies the position or the name of each Executive pursuant to Clause 7, and a unit or person tasked with the responsibilities pursuant to Clause 8;

(2) The result of analysis of overview performance of the treaty reinsurance contracts and facultative reinsurance contracts procured in the preceding year, together with supporting reasons;

(3) The reinsurance policy;

(4) The summary of the current year's procurement of treaty reinsurance contracts, and the result of analysis of their appropriateness that is consistent with the Company's business operation, risk appetite, and capital target, together with the supporting reasons;

(5) The procedure for risk control and internal control relating to the reinsurance procured by the Company, with an explanation in accordance with the criteria set forth in Clause 17, at a minimum.

Clause 21 A Company shall submit the reinsurance statistical data report, prepared in the form, items, conditions, and period of time prescribed and notified by the Registrar.

Clause 22 A Company shall submit a copy of the reinsurance contracts, including any amendments and side letters (if any) upon the request of the Registrar.

Clause 23 A Company shall transmit the reinsurance management framework and the analysis of the effectiveness of reinsurance under Clause 20, and the reinsurance statistical data report under Clause 21 via the Office's electronic system. In this regard, if such transmission fails to pass verification of the prescribed system, it shall be deemed that the Company has not yet transmitted the report as required by this notification.

Notified on this 27th day of June B.E. 2566 (2023).

Permanent Secretary, Ministry of Finance
Chairman of the Insurance Commission