



FREQUENTLY-ASKED QUESTIONS GUIDELINES ON INSURANCE CAPITAL ADEQUACY FRAMEWORK

A. EFFECTIVE DATE

1. What is the rollout plan for the implementation of the Guidelines on Insurance Capital Adequacy Framework (ICAF)?

The rollout for ICAF will be on a phased-in approach to ease in the industry into the risk-based capital regime as follows:

- (i) ICAF Parallel Run (1 January – 31 December 2023)
 - (a) (Re)insurers are required to compute and submit the ICAF reporting to the Authority on a quarterly basis beginning 31 March 2023, in addition to its existing reporting for Margin of Solvency (MOS). A separate guidance may be issued later to facilitate the ICAF quarterly submissions;
 - (b) In terms of solvency compliance, (re)insurers are required to observe and maintain the MOS as provided in the *Clarification Note for Directive on Minimum Capital Requirement by Labuan Licensed Entities* issued on 13 October 2015 during the parallel run period; and
 - (c) During the parallel run period, the Authority also expects (re)insurers to undertake preparatory arrangements to comply with ICAF which include:
 - formulating a capital management plan vis-a-vis the (re)insurer's risk management policy including the determination of the internal target capital level (ITCL);
 - instituting the appropriate IT infrastructures to support ICAF including requisite databases or systems in generating the periodic ICAF reporting; and
 - developing other relevant internal policies to facilitate the (re)insurers' adoption of the ICAF requirements.

(ii) ICAF Full Implementation (effective on 1 January 2024)

- (a) The MOS requirements will be replaced by ICAF i.e. (re)insurers are required to meet and maintain its solvency as specified by ICAF;
- (b) The regulatory reporting to the Authority will be confined to ICAF quarterly submissions; and
- (c) As part of supervisory expectations, a (re)insurer is required to immediately inform the Authority when its Capital Adequacy Ratio (CAR) falls below its ITCL.

B. APPLICABILITY

2. What is the solvency requirement for Labuan (re)takaful operators which are not scoped in under ICAF?

Labuan (re)takaful operators will be subject to the MOS requirements until such time when Labuan FSA later specifies on the implementation of the risk-based capital requirements for the takaful sector.

3. What are the criteria that Labuan FSA will consider in assessing an exemption application from ICAF by a Labuan branch for its non-Malaysian insurance business portion?

The exemption for non-Malaysian insurance business underwritten by a Labuan (re)insurer branch may be considered subject to meeting the conditions, amongst others:

No.	Conditions	Labuan FSA's Expectation
(i)	there is an explicit undertaking from the branch's head office to satisfy the liabilities arising from non-Malaysian insurance business in the event that the branch is unable to fulfil its obligations	<p>The branch's head office provides an explicit undertaking which can be in the form of a guarantee letter/letter of undertaking/commitment/financial outlay/other types of commitment to satisfy Labuan branch's payment obligations arising from insurance business outside Malaysia in the event that the Labuan branch is unable to fulfil its obligations.</p> <p>Labuan FSA recognises that the guarantee letter provided by the Labuan branch's head office during the licensing stage would generally sufficient to satisfy this condition. However, Labuan FSA may</p>

		direct the Labuan insurer to provide additional confirmation from its head office if the content of the guarantee letter is deemed to be insufficient for the purpose of ICAF exemption. For this purpose, Labuan FSA will direct the Labuan insurer to submit another commitment letter or other form of undertaking to support its application.
(ii)	the financial position of the Labuan insurer's group is strong	<ul style="list-style-type: none"> • The group has been accorded with good financial strength rating accorded by the international rating agency e.g. minimum A-. • In addition, the application must be supported by the latest audited financial statement of the Group as a proof of its financial position.
(iii)	the branch is subjected to consolidated supervision by a recognised and competent home supervisory authority	<p>The Labuan insurer may lend its support by providing the contact details of its home supervisor (including email address and telephone number) to Labuan FSA. Labuan FSA will liaise with the home supervisory authority to seek confirmation on these two conditions.</p> <p>For this purpose, any regulatory authorities that have signed the bilateral Memorandum of Understanding (MoU) with Labuan FSA or multilateral Memorandum of Understanding (MMoU) in which Labuan FSA is a signatory, would be considered to have met the condition specified under item iv.</p> <p>The list of MoUs/MMoUs signed between Labuan FSA and other regulatory authorities is available on Labuan FSA website at https://www.labuanfsa.gov.my/about-labuan-fsa/the-regulator/memoranda-of-understanding.</p>
(iv)	the Labuan insurer's home supervisory authority is willing to cooperate with Labuan FSA in the supervision of the Labuan insurer	

C. SUPERVISORY AND INTERNAL TARGET CAPITAL LEVELS

4. Does the minimum CAR need to be maintained at both company and fund level under ICAF?

A Labuan insurer is only required to maintain the minimum CAR at company level.

5. What is Labuan FSA's expectation for a Labuan (re)insurer in setting its ITCL?

- A Labuan (re)insurer is required to develop its ITCL with some assumptions and projections. Thereafter, a Labuan (re)insurer should share the results and discussed the proposed ITCL with the relationship manager from the Supervision and Enforcement Department of Labuan FSA before finalising it. This is to ensure the suitability and sufficiency of the ITCL set.
- As part of supervisory expectations, a Labuan (re)insurer is required to immediately inform the Supervision and Enforcement Department of Labuan FSA when its CAR falls below the ITCL.
- Labuan FSA has the discretion to impose higher capital requirements if it deems that the ITCL set does not commensurate with the Labuan insurer's business activities, risk exposures and risk management practices based on its supervisory assessment of the Labuan insurer concerned.

D. REPORTING REQUIREMENTS

6. How does a Labuan insurer submit the ICAF reporting to Labuan FSA during parallel run period?

- During parallel run, the ICAF reporting is to be submitted to Statistics Unit of Labuan FSA through email at iru@labuanfsa.gov.my.
- At this juncture, ICAF is exclusively manual submission. The incorporation of ICAF into the Statistical Management System will be done as future enhancement and Labuan FSA will advise on this when the system is ready.