



FREQUENTLY-ASKED QUESTIONS
GUIDELINES ON VALUATION BASIS FOR LIABILITIES OF LABUAN GENERAL
INSURANCE BUSINESS
GUIDELINES ON VALUATION BASIS FOR LIABILITIES OF LABUAN LIFE
INSURANCE BUSINESS

A. DISCOUNTING OF LIABILITIES

1. Is a Labuan reinsurer allowed to apply an adjustment to the base risk-free yield curve under the *Guidelines on Valuation Basis for Liabilities of Labuan Life Insurance Business*?
 - The requirement on the adjustment to the base risk-free yield curve is applicable to Labuan reinsurer. Paragraph 2.2 of the said Guidelines specifies that the term 'Labuan insurer' includes Labuan reinsurer underwriting life reinsurance business, unless otherwise specified.
 - The adjustment to the base risk-free yield curve may be made based on the Appointed Actuary's professional judgement in line with the criteria prescribed under the said Guidelines.
2. For discounting of liabilities under the *Guidelines on Valuation Basis for Liabilities of Labuan General Insurance Business* and the *Guidelines on Valuation Basis for Liabilities of Life Insurance Business*, is there any prescribed method for converting spot rate to forward rate since there are different approaches that can be applied?

Currently, Labuan FSA does not prescribe the method for converting spot rate to forward rate e.g. discrete or continuous rate methods. However, this would need to be justified by the assessment of the appropriateness of the method selected by the (re)insurer's Appointed Actuary taking into account the individual (re)insurer's circumstances.

B. REINSURANCE RECOVERIES

3. What are the eligibility criteria to be met if (re)insurers adopt the simplified approach for determining the expected net reinsurance recoveries?

The criteria for determining the expected net reinsurance recoveries using simplified approach are:

- Where it is not practical for a Labuan insurer to explicitly determine the expected net recoveries from reinsurance arrangements for each underlying contract according to paragraph 15.1 of the *Guidelines on Valuation Basis for Liabilities of Labuan General Insurance Business* and paragraph 17.1 of the *Guidelines on Valuation Basis for Liabilities of Labuan Life Insurance Business*.
- For instance, for some reinsurance arrangements which are non-proportional, the net reinsurance recoveries may be derived as the difference between gross and net best estimate liabilities.
- The approach has to be documented.

C. COMPUTATION OF THE UNEARNED PREMIUM RESERVE

4. Is there any restriction or condition imposed for the computation of the unearned premium reserve (UPR)?

There is no restriction or condition imposed on Labuan insurer for the computation of its UPR. As such the amount of UPR would be computed on net reinsurance.