

Content

Title : Required Qualification and Directions for Life Insurance Companies to Engage in Foreign-currency Denominated Non-investment-linked Life Insurance Business **Ch**

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Content : 1. Life insurance Companies that engage in foreign-currency denominated non-investment-linked life insurance business (referred to as the "Business" hereunder) shall conduct the Business in accordance with these Directions. 2. A life insurance company applying for engaging in the Business shall meet the following qualification requirements:

(1) Not having been subject to major sanction/penalty or cumulative fines of NT\$3 million or more by the competent authority in the past year; the preceding provision does not apply if concrete improvement actions have been taken to remedy the violation and recognized by the competent authority;

(2) Foreign investment risk is assessed using value-at-risk (VaR) techniques and the assessment is performed at least once a week;

(3) Having a risk management committee set up under the board of directors or an internal risk management department with a chief risk officer or officer in comparable position has been established to assume de facto responsibility for the overall risk management of the company;

(4) Ranking in the top eighty percent in the past year in terms of overall score received by life insurance companies from low to high based on the rates of non-claim complaints and claim-related complaints filed by policyholders with the competent authority and its designated agency, as well as the speed of complaint handling by the life insurance companies. The preceding provision does not apply to a life insurance company that could provide reasonable explanation (for not ranking in the top eighty percent) and such explanation is accepted by the competent authority.

The "value at risk" referred to in Subparagraph 2 of the preceding paragraph means the value at risk for ten trading days calculated with confidence level set at 99% and with data samples which are taken either on a weekly basis for a minimum period of three years or on a daily basis for a minimum period of one year, and back testing is performed every month.

3. When entering into a non-investment-linked life insurance contract, the insurer and the insurance applicant may agree on a foreign currency used in the receipts and payments of premiums, insurance benefits, expenses and other items, but are not allowed to agree on the conversion between NT dollar and a foreign currency or between two foreign currencies.

For the receipts and payments of premiums, insurance benefits, expenses and other items mentioned in the preceding paragraph, the insurer and the insurance applicant shall agree in advance that all receipts and payments will be handled through a foreign currency deposit account. The foregoing provision does not apply provided the insurer and the insurance applicant have agreed that on the date the living benefits of another foreign currency insurance contract entered between the insurer and the insurance applicant becomes payable, the living benefits will be used to pay for the premiums of another same-currency insurance contract and the beneficiary of the living benefits and the applicant of the insurance contract to be paid for are the same person.

4. The Business that a life insurance enterprise may engage in is limited to life insurance, annuities insurance and health insurance and must be approved by the Central Bank.

The benefits of health insurance mentioned in the preceding paragraph shall

be limited to waiver of premium or lump sum benefit payment for cancer, dread disease or specified disease.

The term "lump sum benefit payment" in the preceding paragraph means the type of payment where in case of occurrence of an insured event, the insurance contract is forthwith terminated after the insurer has paid the claim.

5. Assets in the general account books corresponding to foreign-currency denominated non-investment-linked life insurance contracts may not be exchanged into NT dollars. However the use of funds in the account shall still be governed by the provisions in Article 146-4 of the Insurance Act.

6. There shall be no conversion between a foreign-currency denominated non-investment-linked life insurance contract and a NTD-denominated life insurance contract.

7. When a life insurance company sells a foreign-currency denominated non-investment-linked life insurance product for the first time, it shall apply to the competent authority for approval by submitting documents evidencing that it meets the qualification requirements set out in Point 2 herein and in accordance with the Regulations Governing Pre-sale Procedures for Insurance Products.

When a life insurance company submits an aforementioned insurance product for review and approval, it shall enclose relevant documents provided in the Regulations Governing Pre-sale Procedures for Insurance Products, and in addition, descriptions of accounting treatment for transactions in connection with the insurance product, specific foreign-currency assets and liabilities allocation plan and implementation method, and method for foreign-currency assets segmentation. The company shall also state in the insurance application form and policy provisions the method for collecting premiums, payment of remittance charges, disclosure of exchange rate risk and other relevant matters.

When a life insurance company submits a RMB-denominated non-investment-linked life insurance product for review and approval, the description of foreign-currency assets and liabilities allocation plan and implementation enclosed according to the preceding paragraph shall contain at least the following particulars:

- (1) The objectives, strategies and methodologies for carrying out assets and liabilities allocation, major considerations for asset allocation, investment guidelines and asset allocation planning.
- (2) Expected rate of return on investment portfolio invested with new money (excluding existing assets), projected asset allocation ratios and expected returns on various classes of assets underlying that rate of return, and explanations of why the assumptions made for calculating the expected rate of return are reasonable, and correlation between the expected rate of return and the assumed pricing interest rate for the product.
- (3) Relevant risk control measures and mechanisms for evaluation of investable RMB assets, sale limits, limit control frequency, excess sale prevention mechanism, stop-sale decision, RMB funds backflow mechanism and other risk assessment and control measures.
- (4) Appointed actuary shall issue a professional evaluation opinion on the feasibility of the proposed plans. The risk management department of the company shall subsequently follow up on the actual implementation of the plans. If it is found that the actual implementation deviates significantly from the original plans, the company's chief risk officer or an officer in comparable position shall promptly submit a written report and improvement plan to its chairperson and general manager.

When a life insurance company sells RMB-denominated non-investment-linked life insurance products, the ratio of its total adjusted net capital to risk-based capital shall comply with Article 143-4 of the Insurance Act and the sale limits prescribed by the competent authority.

8. A life insurance company that engages in the business shall implement policies for solicitor management, product information disclosure and product suitability, and in addition, observe the following:

- (1) The company shall incorporate exchange rate risks and foreign exchange related regulations into its solicitor training programs.

Solicitors who sell those types of insurance products shall have passed the special examination given by the Life Insurance Association of the Republic of China and completed the qualification registration. If an insurance

company plans to solicit the Business through insurance agents or insurance brokers, it shall draw up relevant rules in reference to the aforementioned principles.

(2) When selling those types of insurance products, the company shall reveal the methods for premium collection, payment of remittance charges, associated exchange rate risks, and political and economic risks associated with the country that issues the currency of the product at prominent places on the application form and product prospectus, and ask both the insurance applicant and the solicitor to sign the application form, confirming that the solicitor has fully explained the aforementioned matters to the applicant.

(3) The company shall disclose to insurance applicants at least once a year the reference cash surrender value, death benefit and survivor benefit of the product in equivalent NT dollars.

The insurer and the applicant will agree on the manner by which the aforesaid information is provided.

(4) The company shall understand the needs and exchange risk tolerance of the applicants and establish product suitability policy before selling those types of products.

9. When a life insurance company engages in the Business, it shall comply with the relevant rules of the Central Bank and the competent authority, and in addition, the Actuarial Guidelines for Foreign Currency Denominated Insurance Products set out by the Actuarial Institute of the Republic of China and the customer suitability rules set out by the Life Insurance Association of the Republic of China.

10. A life insurance company that engages in the Business shall implement risk management as well as internal control and audit systems, and in addition, obey the following:

(1) The company shall include the contents of these Directions into its internal control and internal audit items, and establish operating procedures for Business-related internal control operations in accordance with Article 5 of the Regulations Governing the Implementation of Internal Control and Audit Systems by Insurance Enterprises.

(2) Business units of the company handling solicitation, underwriting, claim adjustment, actuarial, preservation, legal and investment businesses for those types of products shall conduct self-inspection on a quarterly basis in accordance with Article 7 and Article 24 of the aforementioned Implementation Regulations.

(3) The internal audit unit of the company shall conduct audit on semiannually basis of the solicitation, underwriting, claim adjustment, actuarial, conservation, legal and investment operations of those types of products in accordance with Article 7 and Article 18 of the aforementioned Implementation Regulations, and within two months after the end of audit (no later than the end of February and August every year), submit an audit report to the competent authority for reference in accordance with Article 20 of the same Implementation Regulations. The aforementioned audit report shall have been passed by the company's board of directors in its latest meeting.

(4) The internal audit unit shall carry out semiannually audits in accordance with the following principles:

A. Audit the compliance with relevant rules and regulations, and self-regulatory rules regarding the development, sale, information disclosure, risk disclosure, use of funds and foreign exchange management of the foreign currency denominated non-investment insurance product by respective business units, and the implementation of operating procedures for selling those types of products (including qualifications and training of solicitors, and product suitability policy).

B. Auditing of internal control measures shall also include the internal check and cross-check functions of the internal control systems.

C. Evaluate the appropriateness of respective internal control procedures and make suggestions for revision to ensure that the internal control systems are consistently and effectively implemented.

D. Evaluate the performance of respective business units in carrying out quarterly self-inspections.

11. Life insurance companies shall file Business-related statistical reports with the competent authority or Taiwan Insurance Institute in accordance

with the format, contents and deadline prescribed by the competent authority for use by the competent authority for supervision purpose.

Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System