8. Capital Adequacy Ratio : CAR

The company has policy to maintain Capital Adequacy Ratio (CAR) not lower than 300% to keep competitive advantage from reinsurance credit risk charge. OIC' RBC framework has defined the lowest 1.6% reinsurance credit risk charge for domestic reinsurer who maintains Capital Adequacy Ratio: CAR not lower than 300%, which equal to AAA-rated off-shore reinsurer.

As of 31 December 2018, the company has 1,237.5 M. of Total Capital Available: TCA and 316.3 MB of Total Capital Required: TCR which resulting in 391% of Capital Adequacy Ratio: CAR. As of 31 December 2019, the OIC has implemented Risk Based Capital phase 2 (RBC2)

Risk Based Capital phase 2: RBC2

The Office of Insurance Commission (OIC) has implemented Risk Based Capital (RBC) regulations to ensure that the insurance company has sufficient capital to cover risks arising from the business which varied by character, size and complexity of the company.

At the end of 2019, The Office of Insurance Commission (OIC) developed the capital regulation to Risk Based Capital phase 2 (RBC2) In order to better reflect risks of insurance company which vary between companies. The adequacy of capital measured by the Capital Adequacy Ratio (CAR) of Risk Based Capital 2 (RBC2), calculated as below;

$$\text{Capital Adequacy ratio: CAR} = \frac{\text{Total Capital Available: TCA}}{\text{Total Capital Required: TCR}}$$

- Total Capital Available: TCA represents the fair value adjusted of shareholders' equity corresponding to the OIC's requirements.

- Total Capital Required : TCR represents the amount of capital required in order to cover risks arising from business activities, consisting of 6 key risks; 1) Insurance risk 2) Market risk 3) Credit risk 4) Concentration risk 5) Surrender risk 6) Operational risk

The OIC required the insurance company to maintain CAR not lower than and 140%. The Company has policy to maintain CAR above 300% to keep competitive advantage from reinsurance credit risk charge as RBC model required the insurance company to hold the capital to cover reinsurance credit risk. Considering to this requirement, if the insurance company make outward reinsurance to domestic reinsurer who has CAR not lower than 300%, the insurance company will be allowed to hold the capital at the lowest level of risk charge 1.6%, equal to making outward reinsurance with the AAA-rated off-shore reinsurer.

Reinsurance Credit Risk Charge

Risk Grade	Counter party					Risk Charge (%)
	Domestic (% CAR)	Off-Shore (Credit Rating)				
		S&P	Moody's	Fitch	A.M. Best	
1	≥300	AAA	Aaa	AAA	A++	1.6
2	≥200 and > 300	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-	A+	2.8
3	≥150 and < 200	A+ A A-	A1 A2 A3	A+ A A-	A A-	4
4	< 150	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	B++ B+	8
5		BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	B B-	15
6		B+ B B-	B1 B2 B3	B+ B B-	C++ C+	25
7		CCC+ or Below	Caa1 or Below	CCC+ or Below	C or Below	48.5

Source: Office of Insurance Commission

Unit : Million

Items	Value as 31 December	
	Y 2019	Y 2018
Total Assets	2,334.40	2,253.07
Total liabilities	1,032.15	1,004.70
- Reinsurance contract liabilities	851.17	769.13
- Other liabilities	180.98	235.57
Shareholders' equity	1,302.25	1,248.37
Capital Adequacy Ratio : CAR	407.38	391.20
Total Capital Available : TCA	1,249.75	1,237.48
Total Capital Required : TCR	306.78	316.33