Death of a GI Insurance Company in Taiwan: Lessons and Experience Learned

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Background and limitation

In 2005, a non-life company with rated “TwBB” (somewhat weak) with “stable” outlook was forced to bankruptcy by regulators in Taiwan.

The company cost government’s insurance guaranty fund more than USD 31 million to clean up.

How can an GI company with more than USD 31 million short of capital was over looked by rating agency, industry and regulators?

This presentation is a case study based on real events.

It does not imply or indicate any specific companies of wrong doing.

Pushing the boundary without ethical discipline is dangerous to the public!

Pushing the boundary the wrong way

Do funny business with your subsidiaries

- For example, if insurers can not borrow money, setup a subsidiary and make it borrow money.
- In Singapore, your loans are not considered part of capital unless it is for policyholders.

Do funny business with your parent company

- For example, buy their stock with your cash, and let them buy your stocks with their cash.
- In Singapore, investment in related companies are not part of financial resources for solvency calculation.

Pushing the boundary the wrong way

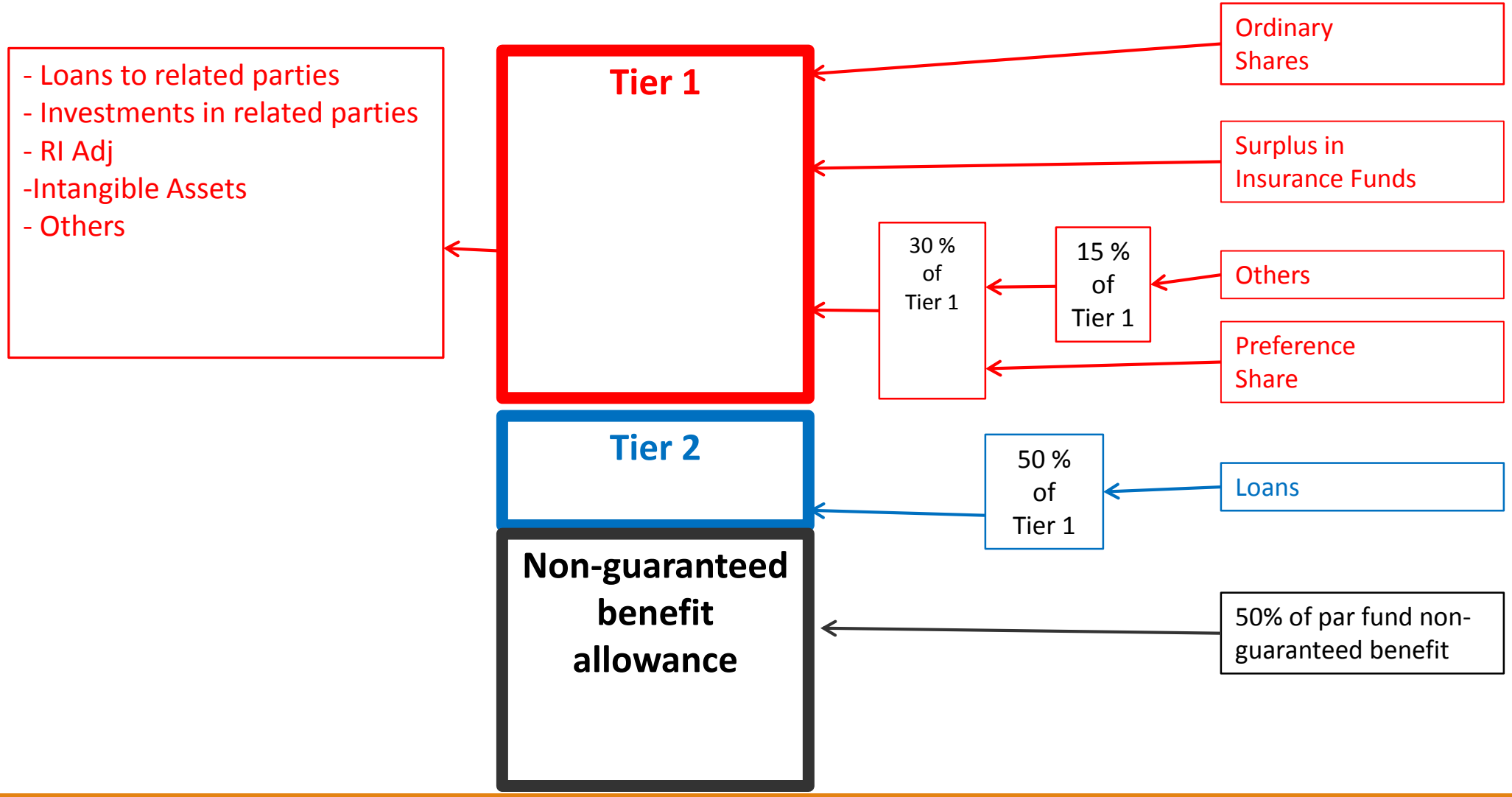
Over value its assets

- Over-estimate the value of your assets
  - Especially for financial instruments that are not traded in open market.
- Book funny assets
  - Venture Capital…etc.
- Reinsurance
  - Funny financial reinsurance arrangements

Liability

- Book liability based on extremely optimistic assumptions
- Borrow money but do not call it loan so you do not need to book as liability

Financial Resources in Singapore – Overall View



Some of the right things Singapore GI companies can do to optimise capital position :

- Do not lend money to your subsidiaries, parents or siblings.
- Do not invest in your subsidiaries, parents or siblings.
- Do not invest so much money in one company so it becomes your subsidiary.
- If want to take out a loan, always say the loan is for policyholders, make it more than 10 year tem with fix coupon rates upfront.

Some of the things that Singapore GI companies should not do to optimise capital position :

- Over-estimate the value of your assets
- Book funny assets
- Engaging in funny financial reinsurance arrangements
- Book liability based on extremely optimistic assumptions
- Borrow money but do not call it loan so you do not need to book as liability

Final thought : Could versus Should

Pushing the boundary without ethical discipline is dangerous to the public!