

**MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA**  
**CAPITAL MARKET AND FINANCIAL INSTITUTIONS**  
**SUPERVISORY AGENCY**

**COPY OF**  
**THE REGULATION OF THE CHAIRPERSON OF CAPITAL MARKET**  
**AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY**  
**NUMBER: PER- 08/BL/2012**

**CONCERNING**

**THE GUIDELINE TO CALCULATE RISK-BASED MINIMUM CAPITAL**  
**FOR INSURANCE COMPANY AND REINSURANCE COMPANY**

**THE CHAIRPERSON OF CAPITAL MARKET**  
**AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY,**

Considering: That in order to implement the provision in Article 3 paragraph (4) of the Regulation of the Minister of Finance Number 53/PMK.010/2012 concerning the Financial Soundness of Insurance Company and Reinsurance Company, there is a need to issue a Regulation of The Chairperson of Capital Market and Financial Institutions Supervisory

Agency concerning the Guideline to Calculate Risk-Based Minimum Capital for Insurance Company and Reinsurance Company;

- In view of:
1. Law Number 2 of 1992 on Insurance (State Gazette of the Republic of Indonesia Year 1992 Number 13 and Supplement to State Gazette Number 3467);
  2. Government Regulation Number 73 of 1992 concerning Insurance (State Gazette of the Republic of Indonesia Year 1992 Number 120, Supplement to State Gazette of the Republic of Indonesia Number 3506), as amended several times, lastly amended by Government Regulation Number 81 of 2008 (State Gazette of the Republic of Indonesia Year 2008 Number 212, Supplement to State Gazette of the Republic of Indonesia Number 4954);
  3. Presidential Regulation Number 24 of 2010 concerning Position, Role, and Function of State Ministries and The Organizational Structure, Duties, and Functions of Echelon 1 of State Ministry as amended several times, lastly amended by Presidential Regulation Number 92 of 2011;
  4. Regulation of Ministry of Finance Number 184/PMK.01/2010 concerning Organization and Procedure of Ministry of Finance;
  5. Regulation of Ministry of Finance Number 53/PMK.010/2012 concerning Financial Soundness of Insurance Company and Reinsurance Company;

**HAS DECIDED:**

To enact: REGULATION OF THE CHAIRPERSON OF CAPITAL MARKET AND FINANCIAL SUPERVISORY AGENCY CONCERNING GUIDELINE TO CALCULATE RISK-BASED MINIMUM CAPITAL FOR INSURANCE COMPANY AND REINSURANCE COMPANY.

**Article 1**

Risk-Based Minimum Capital for Insurance Company and Reinsurance Company is determined based on the risk of loss that might arise from deviation in the management of assets and liabilities.

**Article 2**

Calculation of risk of loss that might arise as a result of deviation in the management of assets and liabilities as referred in Article 1 must be carried out in accordance with the Guideline to Calculate Risk-Based Minimum Capital as explained in the Attachment hereto which is an inseparable part of this Regulation.

**Article 3**

This Regulation does not apply for financial statement of Sharia-based Insurance and Reinsurance Company as well as for the Sharia Unit of conventional Insurance and Reinsurance Company.

**Article 4**

This Regulation shall be effective for the financial statement of Insurance Company and Reinsurance Company starting from the first quarter that ends on 31 March 2013.

**Article 5**

When this Regulation comes into effect, the Regulation of The Chairperson of Capital Market and Financial Institutions Supervisory Agency No. PER-09/BL/2011 concerning Guideline to Calculate Minimum Solvability Requirement for Insurance Company and Reinsurance Company is revoked and shall be declared no longer valid.

Stipulated in Jakarta

On 27 December 2012

THE CHAIRPERSON OF CAPITAL  
MARKET  
AND FINANCIAL INSTITUTIONS  
SUPERVISORY AGENCY,

Signed by

NGALIM SAWEGA

Copy is in accordance with the original

The Chairperson of General Affairs Division

Signed by

Prasetyo Wahyu Adi Suryo

NIP 19571028 198512 1 001

**MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA**  
**THE CHAIRPERSON OF CAPITAL MARKET**  
**AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY**

**ATTACHMENT TO**  
**REGULATION OF THE CHAIRPERSON OF CAPITAL MARKET**  
**AND FINANCIAL INSTITUTIONS SUPERVISORY AGENCY**  
**NUMBER PER- 08/BL/2012**  
**CONCERNING**  
**GUIDELINE TO CALCULATE RISK-BASED MINIMUM CAPITAL FOR**  
**INSURANCE COMPANY AND REINSURANCE COMPANY**

ATTACHMENT

Regulation of The Chairperson of Capital Market and Financial Institutions

Supervisory Agency

Number: PER- 08/BL/2012

Dated : 27 December 2012

**GUIDELINE TO CALCULATE RISK-BASED MINIMUM CAPITAL**

**I. General Provisions**

1. Risk-Based Minimum Capital, hereinafter referred to as RBMC, is the amount of fund required to anticipate risk of loss that might arise as a result of deviation in managing assets and liabilities. Risk of loss that might arise as a result of deviation in managing assets and liabilities consists of components as referred Article 3 paragraph (2) of the Regulation of the Ministry of Finance Number 53/PMK.010/2012 concerning Financial Soundness of Insurance Company and Reinsurance Company.
2. Investment-Linked Insurance Products, hereinafter referred to as ILIP, are insurance products that offer not only protection but also investment yield that is based on market investment stated as unit or non-unit.
3. Admitted Assets, hereinafter referred to as AA, is asset that is admitted in the calculation of Level of Solvability as referred in the Regulation of the Ministry of Finance Number 53/PMK.010/2012.
4. Liabilities are the liabilities as referred in the legislation of insurance.

## II. General Guideline in Calculating RBMC

1. Calculation of Level of Solvability and RBMC of Insurance Company and Reinsurance Company that have sharia-based business unit shall be carried out separately between the holding company and its sharia-based business unit.
2. For the purpose of calculating the Level of Solvability, net capital balance of the Insurance Company and Reinsurance Company that are placed in sharia-based unit are recorded as other assets.
3. Calculation of RBMC for ILIP shall be carried out according to the following provisions:
  - a. For Assets and Liabilities derived from the protection component of ILIP<sup>1</sup>, such Assets and Liabilities are included into the balance sheet as traditional insurance product.
  - b. For Assets and Liabilities derived from the investment component of ILIP, of which the return of investment entirely refers to market performance (no guarantee for minimum return of investment), RBMC is not calculated.
  - c. For Assets and Liabilities derived from the investment component of ILIP of which minimum yield is guaranteed, RBMC shall be calculated as referred in this Attachment.
4. For insurance company that sells ILIP that guarantees minimum return of investment, the total RBMC of such insurance company is the sum of RBMC for traditional products (non-ILIP) and RBMC for ILIP. For example, a life insurance company that

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<sup>1</sup> In line with the regulations, ILIP always contains protection component



sells ILIP that guarantees minimum return of investment shall have the total RBMC as follows:

RBMC for Conventional Insurance Company				Company's total RBMC  (a) + (b)	
ILIP		Non-ILIP Product			
(a)		(b)			
<i>Schedule A</i>	25	<i>Schedule A</i>	250	<i>Schedule A</i>	275
<i>Schedule B</i>	150	<i>Schedule B</i>	1.50	<i>Schedule B</i>	1.65
			0		0
<i>Schedule C</i>	15	<i>Schedule C</i>	150	<i>Schedule C</i>	165
<i>Schedule D</i>	NA	<i>Schedule D</i>	950	<i>Schedule D</i>	950
<i>Schedule E</i>	NA	<i>Schedule E</i>	250	<i>Schedule E</i>	250
<i>Schedule F</i>	NA	<i>Schedule F</i>	50	<i>Schedule F</i>	50
<i>Schedule G</i>	NA	<i>Schedule G</i>	50	<i>Schedule G</i>	50
<i>Schedule H</i>	NA	<i>Schedule H</i>	50	<i>Schedule H</i>	50
<i>Total</i>	190	<i>Total</i>	3.25	<i>Total</i>	3440
			0		

Note: NA = Not Applicable

### III. Guideline to Calculate RBMC for Insurance Company and Reinsurance Company

1. Risk of loss that might arise as a result of deviation in management of assets and liabilities consists of:
  - a. failure in managing assets;

- b. Mismatch between the projected flow of Assets and Liabilities;
  - c. Mismatch between the value of Assets and Liabilities in all types of foreign currency;
  - d. Mismatch between actual claim liabilities and estimated claim liabilities;
  - e. insufficient premium as a result of the difference between the assumed return of investment and the actual return of investment;
  - f. inability of reinsurance company to pay out the claim liability;
  - g. failure in production process, incapacity of human resources or systems to perform well, or other disadvantaging circumstances;
2. In the event Life Insurance Company markets ILIP, aside from the risk of loss as referred in point 1, the Company must calculate the risk of loss as a result of failure in production process, incapacity of human resources or systems to perform well, or other disadvantaging circumstances related to management of investment fund that comes from ILIP.
3. Failure in managing asset (Asset Default Risks), or Schedule A
- a. Risk of failure in managing asset might result from the probability of loss or reduction in assets value that is caused by market risk or credit risk.
  - b. The amount of fund needed to overcome the risk of failure in managing assets is calculated by multiplying the risk factor ( $fr$ ) for such asset type with the value of AA.

$$\text{The amount of fund} = \Sigma (fr_i \times AA_i)$$

$$fr_i = \text{Risk factor for asset type } i$$

$AA_i = AA$ for asset type $i$
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- c. The rank that is used shall refer to the provision in point III.3.e
- d. The risk factor for each type of asset and example of calculation for capital cost for each type of investment asset is as follows:

1) Time-deposit in Banks, including on-call deposit and deposit with period of time of 1 (one) month or less, and non-negotiable certificate deposit in Banks;

a) Risk factor

Category	Factor
i. Special category	0.0%
ii. Other category, according to the rank of Banks	
- Cluster 1	1.2%
- Cluster 2	2.1%
- Cluster 3	3.0%
- Cluster 4	4.5%
- Cluster 5	9.0%

b) Deposit/deposit certificate included in special category is the deposit or deposit certificate in a bank that meets the guarantee

requirement (i.a. interest rate) with amount up to the maximum amount as guarantte by Deposit Insurance Agency.

2) Shares that are traded in stock market;

a) Risk Factor

Description	Factor
i. Shares that are included in LQ45 or JII	16.0%
ii. Shares that are traded in Indonesian Stock Exchange aside from group i	20%
iii. Shares that are traded in International Stock Exchange	
- Shares that composite the main index in the Asia Pacific and European Stock Exchange members of World Federation of Exchanges	20%
- Other Shares	30%

b) The value of share to be calculated with the risk factor is the net value after considering the hedging component.

3) Corporate bonds, corporate sharia-bond, or commercial paper issued by countries other than Republic of Indonesia

Rating of Bonds/Sukuk (Sharia Bonds)	Factor
Cluster 1	1.6%
Cluster 2	2.8%

Cluster 3	4.0%
Cluster 4	6.0%

4) Commercial papers issued by the Republic of Indonesia, Bank Indonesia, and multinational institutions where Indonesia is one of the members or shareholders;

a) Risk factor 0%

b) The multinational institutions are the World Bank, IMF, IDB, and ADB

5) Mutual Funds

Mutual Funds Portfolio	Factor
i. Entirely consists of government bonds	0.00 %
ii. Entirely consists of private sector bonds and or money market negotiable instrument	6.00 %
iii. Entirely consists of equity negotiable instrument	16.00 %
iv. Combination	Weighted average based on composition of mutual fund portfolio

6) Asset-backed securities issued based on collective investment contract for asset-backed securities (KIK-EBA) and real estate investment fund (DIRE):

KIK-EBA/DIRE Rating	Factor
i. Cluster 1	1.6%
ii. Cluster 2	2.8%
iii. Cluster 3	4.0%
iv. Cluster 4	6.0%

7) Direct investment (shares that are not listed in stock market);

a) Risk factor

Risk factor for direct investment is classified based on the category, as follows:

Category	Risk Factor
Under the Supervision of BAPEPAM-LK	10%
Not under the Supervision of BAPEPAM-LK	20%

b) For direct investment in Special Purpose Vehicle companies hereinafter referred to as SPV or holding company that does not conduct operations, the risk factor is adjusted to the

dominant sector of the subsidiary company, weighted based on company's assets.

8) Buildings with strata title or land with buildings, for investment purposes;

a) Risk factor

Risk factor for buildings with strata title or land with building, for investment purposes, is categorized based on the return of investment, as follows:

Category	Factor
net of return of investment more than 4.0% annually	7.0%
net of return of investment of between 2.0% - 4.0% annually	15.0%
net of return of investment less than 2.0% annually	40.0%

b) Net of return of investment does not take into account gain from the sale or revaluation of buildings with strata title or land with buildings.

9) Refinancing through cooperation mechanism with other party in the form of buying receivables;

The risk factor for refinancing through cooperation mechanism with other party in the form of buying receivables is classified by the underlying financing, as follows:

Underlying Financing	Risk Factor
Leasing	3.0 %
Credit Cards	20.0 %
Consumer Financing	8.0 %

10) Pure gold, risk factor of 3.0%

11) Loan secured with mortgage right

a) Risk factor of loan secured with mortgage right is categorized based on loan to value (LTV) ratio and type of property usage

b) LTV is calculated based on the balance of loan and market value of the property bound to mortgage

c) The risk factor for each category is as follows:

Category	Risk Factor
i. Residential property	
- LTV < 80%	2.8 %
- 80% < LTV < 90%	4.0 %
ii. Other commercial property	
- LTV < 80%	5.6 %



- 80% < LTV < 90%	8.0 %
iii. Unused property	12.0 %

12) Risk Factor for each type of AA for non-investment assets is as follows:

Type of Asset	Category	Factor
Cash and Banks		0.0 %
Direct premium receivable, including coinsurance premium receivable as share of the Company;		8.0 %
Co-insurance claim receivable	Co-insurer under the supervision of Bapepam LK	2.8 %
	Co-insurer not under the supervision of Bapepam LK:	
	- Cluster 1	2.8 %
	- Cluster 2	4.0 %
	- Cluster 3	6.0 %
	- Cluster 4	12.0 %
Re-insurance receivable  (note: for reinsurance)	Re-insurer under the supervision of Bapepam LK	2.8 %
	Re- insurer not under the supervision of Bapepam LK:	

companies, risk factor for retrocession receivable is the same as for reinsurance receivable)	- Cluster 1	2.8 %
	- Cluster 2	4.0 %
	- Cluster 3	6.0 %
	- Cluster 4	12.0 %
	- Cluster 5	15.0 %
Investment Receivable		2.0 %
Investment Return Receivable		2.0 %
Insurance Policy Loan		0.0 %
Buildings with strata right or land with buildings, for own use		4.0 %

e. The rules for using ratings are as follows:

1. Rating as referred in this guideline is the rating issued by rating agencies registered in Bapepam LK or those that have achieved international recognition.
2. For each investment instrument, the rating used is the rating for such instrument. When the rating of instrument is unavailable, rating for similar instrument as issued by relevant issuer or rating at one level below the issuer's rating can be used.

3. For investment instruments issued by Indonesian legal entities or SPVs established overseas by Indonesian legal entities, the investment instrument rating is based on:
  - a. Rating issued by rating agency in Indonesia;
  - b. Rating issued by rating agency affiliated with a rating agency in Indonesia; or
  - c. Rating of similar instrument issued by relevant issuer that has been rated by a rating agency in Indonesia; or
  - d. Rating issued by a rating agency that is internationally recognized.
4. For investment instruments issued by foreign legal entity, the rating used shall be the rating as issued by internationally recognized rating agency.
5. Classification of ratings issued by rating agency is as follows:
  - a. Ratings issued by rating agencies registered at Bapepam LK

Cluster	Pefindo	Fitch Indonesia	ICRA Indonesia
1	idAAA	AAA (idn)	[Idr]AAA
2	idAA+	AA+ (idn)	[Idr]AA+
	idAA	AA (idn)	[Idr]AA
	idAA-	AA- (idn)	[Idr]AA-
3	idA+	A+ (idn)	[Idr]A+
	idA	A (idn)	[Idr]A
	idA-	A- (idn)	[Idr]A-
4	idBBB+	BBB+(idn)	[Idr]BBB+

	idBBB idBBB-	BBB (idn) BBB- (idn)	[Idr]BBB [Idr]BBB-
5	Below idBB+, or unrated	Below BB+(idn), or unrated	Below [Idr]BB+, or unrated

b. Ratings issued by internationally recognized rating agencies.

Cluster	Standard & Poor's	Moody's	AM Best	Fitch	ICRA
1	AAA	Aaa	A++	AAA	AAA
2	AA+	Aa1	A+	AA+	AA+
	AA	Aa2		AA	AA
	AA	Aa3		AA	AA
3	A+	A1	A A-	A+	A+
	A A-	A2		A	A
		A3		A-	A-
4	BBB+	Baa1	B++	BBB+	BBB+
	BBB	Baa2	B+	BBB	BBB
	BBB-	Baa3		BBB-	BBB-
5	BB+, below	below Ba1, or unrated	below B, or unrated	below BB+, or unrated	below BB+, or unrated

	BB+, or  unrated				
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- f. The amount of funds considered in Schedule A is as follows:
- 1) For 2013 financial statement, 50% of the fund needed;
  - 2) For 2014 financial statement, 75% of the fund needed;
  - 3) For 2015 financial statement onwards, 100% of the fund needed.
4. Mismatch between the Projected Flow of Asset and Liabilities (Cash-flow Mismatch Risk), or Schedule B
- a. Risk of Mismatch between Projected Flow of Asset and Liabilities (RMPFAL) results from mismatch between the amount and maturity date of Liabilities and the amount and maturity date of Assets.
  - b. To calculate Schedule B, the value of AA and liabilities as referred to the book value in the Statement of Financial Position are categorized based on the maturity:
    - 1) Maturity in less than one year;
    - 2) Maturity in between one and three year;
    - 3) Maturity in between three and five years;
    - 4) Maturity in between five and ten years;
    - 5) Maturity in ten years or more.
  - c. AA in the form of traded securities and valued based on market value (such as shares) are categorized as assets with maturity date of less than one year.
  - d. AA to be held until maturity is categorized based on the remaining period;
  - e. The amount of fund needed to address RMPFAL is calculated as follows:

$$\text{RMPFAL} = \Sigma 4.0\% \times (\text{Max} (L_i - \text{AA}_i), 0)$$

$\text{AA}_i$  = book value of AA with maturity in period i

$L_i$  = book value of liability with maturity in period i

- f. The amount of fund considered in schedule B is as follows:
- 1) For 2013 financial statement, 50% of the fund needed;
  - 2) For 2014 financial statement, 75% of the fund needed;
  - 3) For 2015 financial statement onwards, 100% of the fund needed.

5. Mismatch between the value of Assets and Liabilities on each foreign currency (Foreign Currency Mismatch Risks), or Schedule C

- a. Risks of Mismatch between the Value of Assets and Liabilities on each foreign currency (foreign currency mismatch risks), hereinafter referred to as RMVAL, arise as a result of difference between the value of Assets and Liabilities in foreign currency and exchange rate fluctuation of the foreign currency against rupiah.

- b. The amount of funds needed to address this risk is as follows:

$\text{AA}_i - L_i$	Factor	RMVAL
Less or zero	30%	$\Sigma 30\% \times (L_i - \text{AA}_i)$
More than zero but less than 20% of total liabilities	0%	Zero
More than 20% of total liabilities	10%	$10\% \times \Sigma (\text{AA}_i - (120\% \times L_i))$

$AA_i$  = book value of AA in currency i

$L_i$  = book value of liabilities in currency i

- c. The calculation result of amount fund in point b shall be converted to Rupiah according to Bank Indonesia middle exchange rate on the date of report.
  - d. Insurance contracts containing provisions on foreign exchange conversion to Rupiah using exchange rate as specified in the contract shall be treated as insurance contract in Rupiah currency.
  - e. In the event there is a hedging contract, the value of assets and liabilities is the net value of assets and liabilities which including the hedging calculation.
6. Mismatch between Actual Claims Expense and Expected Claims Expense (Risks of Claim Experience Worse Than Expected), or Schedule D
- a. Risk of the difference between actual and expected claim (hereinafter referred to as Insurance Liability Risk or ILR) arise from the possibility that the claim as experienced is worse than expected, and an under-estimated calculation of technical reserves.
  - b. Calculation of ILR for insurance products with time period of more than one year period, in which terms and conditions are non-renewable at every anniversary of the insurance policy, or Schedule D1, is calculated using the following formula:

$$ILR = \max ((PR^* - PR), 0)$$

PR = premium reserve according to statement of financial position (balance sheet) and in accordance with company's actuarial calculation

PR\* = premium reserve calculated with the best estimate added with the Margin for Deterioration Risk on 95% level of confidence of the sufficiency of premium reserve (company level).

- c. Stress test to reach at the 95% level of confidence is carried out on all variables in the calculation of premium reserve, except for the interest rate variable (stress test on the interest rate variable is calculated on schedule G).
- d. Calculation of ILR for insurance product of less than one year period, or more than one year period provided that the terms and conditions are renewable in the end of policy period, or schedule D2, is calculated using the following formula:

$$ILR = \sum ((UPR_i - RA_i)fupr_i + (RC_i - RA_i)fc_r_i)$$

UPR = unearned premium reserve

RA = Reinsurance Assets

fupr<sub>i</sub> = risk factor for UPR for business line i

RC<sub>i</sub> = reserve claim for business line i

fc<sub>r</sub><sub>i</sub> = risk factor for claim reserve for business line i

The fupr and fc<sub>r</sub> for each of insurance business line are as follows:

Line of Insurance	Factor	
	fupr	fc <sub>r</sub>
Property	25 %	20 %



Motor vehicle (own damage, third party liability, and personal accident)	25 %	20%
Shipment (marine cargo)	30 %	25 %
Marine hull	30 %	25 %
Aviation hull	30 %	25 %
Satellite	25 %	20 %
Onshore energy (oil and gas)	35 %	30 %
Offshore energy (oil and gas)	35 %	30 %
Engineering	25 %	20 %
Liability	35 %	30 %
Credit	30 %	25 %
Suretyship	25 %	20 %
Miscellaneous	25 %	20 %
Life	10 %	10 %

7. Insufficient premium as a result of difference between the Assumed Return of Investment used in setting the premium and Realized Return of Investment (Risks of Insufficient Premium due to realized investment return worse than expected), or Schedule E
- a. Risk of insufficient premium could be caused by return of investment that is lower than the expected return of investment in setting the premium and reserve (hereinafter referred to as Interest Rate Risk or IRR).

- b. The amount of funds needed to address IRR is calculated using the following formula:

$$IRR = f_{IRR} \text{Max}((PR_{rf} - PR_o), 0)$$

$f_{IRR}$  = IRR factors

$PR_{rf}$  = premium reserve calculated under risk-free interest

$PR_o$  = premium reserve calculated by company's actuary (premium reserve displayed in statement of financial position/balance sheet)

- c. Risk-free interest rate refers to average yield of benchmark-series Government Bonds within the past three years, in a period that corresponds with average of policy period at the company level.
- d. IRR factors are determined as follows:
- 1) For 2013 financial statement, 5%;
  - 2) For 2014 financial statement, 10%;
  - 3) For financial statement since 2015, 15%.

## 8. Reinsurance Risks

- a. Components of reinsurance risks are a part of calculated credit risk to anticipate default/inability of reinsurer to fulfill its responsibility to insurance company.
- b. The amount of fund calculated in RBMC to address reinsurance risk is calculated by multiplying the reinsurance's degree of exposure with the risk factor.

- c. The degree of reinsurance exposure is calculated using reinsurer' liabilities technical reserve minus the reinsurer's deposit in the form of savings placed by the reinsurer on the insurer, including the premium held by the insurer where the insurer has full authority to use such savings.
- d. Below are the risk factors used:

Category of Company / Reinsurer	Factor
Under the supervision of Bapepam LK	2.8 %
Not under the supervision of Bapepam LK	
- Cluster 1	2.8 %
- Cluster 2	4 %
- Cluster 3	6 %
- Cluster 4	12 %
- Cluster 5	15 %

- 9. Failure in production process, incapacity of human resources or systems to function well, or other disadvantaging circumstances, or Schedule G
  - a. This risk component is used to anticipate the loss caused by failure in production process, incapacity of human resources or the systems to function well, or other circumstances, or known as operational risk (OR).
  - b. The more complex corporate structure, the bigger the operational risk. The proxy for complexity is the amount of General and Administrative Expense (GAE) minus the Cost for Training and Development (CTD).

- c. The amount of operational risk is determined as follows:

$$OR = 1\%(GAE - CTD)$$

10. Failure in production process, incapacity of human resources or systems to function well, or other disadvantaging circumstances related to the management of investment funds that comes from ILIP, or Schedule H

- a. This risk component is used to anticipate loss caused by failure in production system, incapacity of human resources or the systems to perform well, or other circumstances related to management of investment fund derived from ILIP, or known as ILIP operational risk (ILIPOR).
- b. The amount of fund calculated in RBMC to address ILIP operational risk is determined by multiplying the amount of ILIP managed fund with the ILIP operational risk factor, using the following formula:

$$ILIPOR = 1\% \times \text{ILIP Managed Fund}$$

**IV. Guideline to Calculate RBMC for Insurance Company that Sells ILIP with Investment Component in which the Minimum Return is Guaranteed.**

1. Insurance Company that sells ILIP with guaranteed minimum return of investment should be able to determine the minimum amount of liability to policyholders in terms of the investment component based on the guarantee as prescribed in the insurance policy. In the event a company does not specifically set the minimum amount of liability to policyholders in terms of the investment component, that minimum

liability is calculated by accumulating parts of insurance premium for the investment component by using minimum interest rate equal with the guarantee as prescribed in the insurance policy.

2. Components of RBMC consist of:
  - a. Failure to manage Assets
  - b. Mismatch between projected flow of Assets and Liabilities;
  - c. Mismatch between the value of Assets and Liabilities in all types of foreign currency;
3. The method to calculate each of the above component is as follows
  - a. Failure to manage assets (Asset Default Risks)
    - 1) Risk Factor applied for each type of AA and calculation of fund for RBMC is the same as prescribed for other insurance product as referred in part III 3.
    - 2) The amount of AA used to determine amount of fund in RBMC is the minimum amount of company liability to policyholders for investment component of the said ILIP.
    - 3) If the amount of accumulated AA is smaller than the minimum amount of liability to the policyholders as referred in point IV 3 a. 2, the amount of AA used in the calculation is the total of accumulated AA
  - b. Mismatch between projected flow of Assets and Liabilities (Cash-flow Mismatch Risks)

- 1) Risk of mismatch between projected flow of assets and liabilities resulted from potential difference between both the amount and due date of liabilities and those of the Assets.
  - 2) The amount of fund considered in RBMC to close such mismatch risk is set at 2% (one per cent) from minimum liability to policyholders for each investment component of the said ILIP.
- c. Mismatch between the value of Assets and Liabilities in all types of foreign currency (Foreign Currency Mismatch Risk)
- 1) Provisions and procedure of calculating the amount of fund needed in RBMC for this component is the same as the one referred in part III 3.
  - 2) Liability is minimum liability in foreign currency for policyholders for the investment component of the said ILIP.
  - 3) Assets is AA in foreign currency calculated using the provision as referred in point IV 3 a. 2) and IV 3 a. 3).

THE CHAIRPERSON OF CAPITAL  
MARKET AND FINANCIAL  
INSTITUTIONS SUPERVISORY  
AGENCY

Signed by

NGALIM SAWEGA

Copy is in accordance with the original

The Chairperson of General Affairs Division

Signed by

Prasetyo Wahyu Adi Suryo

NIP 19571028 198512 1 001