FINANCIAL SERVICES AUTHORITY

To.

Directors or any equivalent position holder in Insurance and Reinsurance Companies

COPY

CIRCULAR LETTER OF FINANCIAL SERVICES AUTHORITY
NUMBER 3/SEOJK.05/2015
CONCERNING
RISK LEVEL ASSESSMENT OF
INSURANCE AND REINSURANCE COMPANIES

In accordance with the mandate of Article 5 paragraph (4), Article 7 paragraph (3), and Article 8 paragraph (6) of the Regulation of Financial Services Authority Number 10/POJK.05/2014 concerning Risk Level Assessment of Non-Bank Financial Services Institutions (State Gazette of the Republic of Indonesia No. 197/2014, Supplement to the State Gazette of the Republic of Indonesia No. 5575), it is necessary to set up provisions for the implementation of risk assessment, the format and procedures for the submission of reports from risk assessment, as well as the format and procedures for the submission of the follow-up plan on the risk assessment of insurance companies and reinsurance companies in this OJK Circular Letter as follows:

I. GENERAL PROVISIONS

1. Insurance companies are insurance companies as defined in the legislation

concerning insurance, excluding insurance companies that run all of its business on the basis of sharia principle.

2. Reinsurance companies are companies working on reinsurance businesses as defined in the legislation concerning insurance, not including reinsurance companies that run all of its business on the basis of sharia principle.
3. Financial Services Authority, which hereinafter abbreviated to as OJK, is an independent body that is free from intervention of other parties, which has the function, duty, and authority of regulating, monitoring, checking, and investigating as defined in Law No. 21/2011 concerning Financial Services Authority.

II. GUIDELINES FOR RISK LEVEL ASSESSMENT AND PREPARATION OF REPORT OF RISK LEVEL ASSESSMENT RESULTS

1. Risk level assessment of Insurance and Reinsurance Companies shall be performed by taking into account the materiality and significance of a risk area against the total risk of Insurance and Reinsurance Companies.
2. Risk level assessment of Insurance and Reinsurance Companies shall be performed by taking into account the history of past risks and the probability of future risks.
3. Risk level assessment of Insurance and Reinsurance Companies shall be prepared in accordance to the guidelines as outlined in Annex I which is an integral part of this OJK Circular Letter.
4. Report of Risk Level Assessment Result must be prepared and signed by the

director or any equivalent officer who is in charge of risk management function and is acknowledged by the president director or any person in an equal position.

5. Report of Risk Level Assessment Result of Insurance and Reinsurance Companies must be prepared in accordance with the format as outlined in Annex II which is an integral part of this OJK Circular Letter.

III. GUIDELINES FOR PREPARING FOLLOW-UP ACTION PLAN BASED ON THE RISK LEVEL ASSESMENT

1. Follow-up action plan on the risk assessment shall be signed by the director or any equivalent officer.
2. Follow-up action plan on the risk level assessment of Insurance and Reinsurance Companies shall be prepared in accordance with the format as mentioned in Annex III which is an integral part of this FSA Circular Letter.

IV. PROCEDURE FOR SUBMITTING REPORT OF RISK LEVEL ASSESSMENT RESULT AND RISK LEVEL ASSESMENT FOLLOW-UP ACTION PLAN

1. Report of risk level assessment result and risk level assessment follow-up action plan shall be submitted to OJK via online through the OJK's data communication system network.
2. In terms where OJK's data communication system network is unavailable, report of risk level assessment result and risk level assessment follow-up action

plan shall be submitted online via the official e-mail of Insurance and Reinsurance Companies by enclosing the softcopy of risk level assessment result report and risk level assessment follow-up action plan in a spreadsheet format addressed to rbs.asuransi@ojk.go.id.

3. In terms that the OJK is experiencing technical problems at the deadline of submission of risk level assessment result report or risk level assessment follow-up action plan that causes:
   a. Insurance and Reinsurance Companies unable to submit their risk level assessment result report or risk level assessment follow-up action plan as referred to in item 1 or item 2; and/or;
   b. OJK unable to receive the risk level assessment result report or risk level assessment follow-up action plan via online as mentioned to in item 1 or item 2;

   OJK shall provide notice in writing to the Insurance and Reinsurance Companies on the same day when the technical problem occurs and the Insurance and Reinsurance Companies are obliged to submit the softcopy of their risk assessment result report or risk assessment follow-up action plan in a spreadsheet format via offline on no later than the next business day.
4. In terms of a technical problem as mentioned to in item 3, Insurance and Reinsurance Companies shall submit the softcopy of risk level assessment result report and risk level assessment follow-up action plan in a spreadsheet format via offline as mentioned to in item 3, through a letter signed by the director of any equivalent officer that should be addressed to:

Financial Services Authority

Attn. Director of Insurance Supervision and Health BPJS

Sumitro Djojohadikusumo Building

Jl. Lapangan Banteng Timur No. 2-4

Jakarta 10710

5. The submission of softcopy of risk level assessment result report and risk level assessment follow-up action plan in a spreadsheet format via offline as referred to in item 3 can be made via any one of the following methods:
   a. Direct submission to OJK office as referred to in item 4;
   b. Registered mail via postal mail delivery; or
   c. Delivery via courier or delivery service company.
6. Insurance and Reinsurance Companies shall be declared to have submitted risk level assessment result report and risk level assessment follow-up action plan under the following conditions:
   a. for online submission through OJK data communication network system, submission shall be proof by receipt issued by OJK;
   b. for online submission via email, submission shall be proof by an email receipt from OJK; or
   c. for offline submission, submission shall be proof by:
      1) a letter of receipt from OJK, if the report is directly submitted to OJK office as referred to in item 4; or
      2) receipt of delivery from the post office or courier/delivery service

company, if the report is delivered via those services.

V. CLOSING

The provisions in this OJK Circular Letter shall come into effect from the date of its stipulation.

For everyone to be informed, it is so ordered that this Circular Letter of Financial Services Authority be published in the Official Gazette of the Republic of Indonesia.

Stipulated in Jakarta
on 29 January 2015

CHIEF EXECUTIVE OF SUPERVISION
OF INSURANCE, PENSION FUND,
FINANCING, AND
OTHER FINANCIAL SERVICES
INSTITUTIONS OF FINANCIAL
SERVICES AUTHORITY,

Signed,
FIRDAUS DJAELANI

This copy conforms the original

Director of Law I

Departement of Law

Signed,

Sudarmaji

OFFICIAL GAZETTE OF THE REPUBLIC OF INDONESIA NO. 11/2015 DATED 6 FEBRUARY 2015

ANNEX I

OJK CIRCULAR LETTER

NUMBER 3/SEOJK.05/2015

CONCERNING

RISK LEVEL ASSESSMENT OF INSURANCE AND REINSURANCE COMPANIES

RISK LEVEL ASSESSMENT GUIDELINE FOR INSURANCE AND REINSURANCE COMPANIES

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

A. DEFINITION AND SCALE OF RISK LEVEL ASSESSMENT

In conducting its business, companies face multiple risks that may result in the failure of achieving the companies' goals. Companies need to implement risk management to minimize the risks. One part of risk management is to measure and assess risks. The objective of risk assessment is to determine the probability of companies experiencing failure. Companies must perform risk assessment continuously and to update the assessment periodically. According to regulations, companies are obliged to submit the result of risk assessment to the OJK at least once a year.

The probability of companies experiencing failure is reflected in the risk value and risk level. Risk level is categorized into five levels, namely low, mid-low, mid-high, high, and very high. Risk value has the range of value from 0 until 4. The higher the risk value, the bigger the probability of company experiencing failure. Likewise, if the risk value is lower, the probability of company experiencing failure is also smaller. The risk value and risk level can be seen in Table 1

Table 1

Risk Value and Risk Level

of Insurance and Reinsurance Companies

Risk Value (RV)	**Risk Level**	**Description**
$0 < RV \leq 1$	Low	Probability of company to fail in fulfilling its obligations is relatively low. Company is indicated as very sound and has the ability to fulfill its obligation to policyholders/insured parties.
$1 < RV \leq 1{,}5$	Mid-Low	Probability of the company to fail in fulfilling its obligations is at a medium to low level. In general, the company is sound, but there are potential failures in fulfilling its obligations to policyholders/insured parties.
$1{,}5 < RV \leq 2$	Mid-High	Probability of the company to fail in fulfilling its obligations is at a medium to high level. In general, the company is less sound and there are quite few potential failures in fulfilling its obligations to policyholders/insured parties.
$2 < RV \leq 3$	High	Probability of the company to fail in fulfilling its obligations is at a high level. In general, the company is not sound and there are some potential failures in fulfilling its

Risk Value (RV)	Risk Level	Description
		obligations to policyholders/insured parties.
$3 < RV \leq 4$	Very High	Probability of the company to fail in fulfilling its obligations is at a very high level. In general, the company is not sound, and there are tremendous potential failures in fulfilling its obligations to policyholders/insured parties.

B. OBJECTIVES OF RISK LEVEL ASSESSMENT GUIDELINE

This guideline is intended to provide guidance for company management in performing risk level assessment of the company.

C. GENERAL PRINCIPLES OF RISK ASSESSMENT

Company management must consider the following general principles:

1. Risk Based

   Risk level assessment shall be performed by identifying a number of factors that might influence the probability of company's failure in achieving its goals.

2. Materiality

   Companies must take into account materiality and the significance of inherent risk and risk control management for all type of risks. Determination of materiality and significance shall be based on sufficient data and information concerning factors that influence the company's risk level.

3. Comprehensive

   Risk level assessment shall be performed for all areas of risk of the company through a structured and integrated analysis.

CHAPTER II

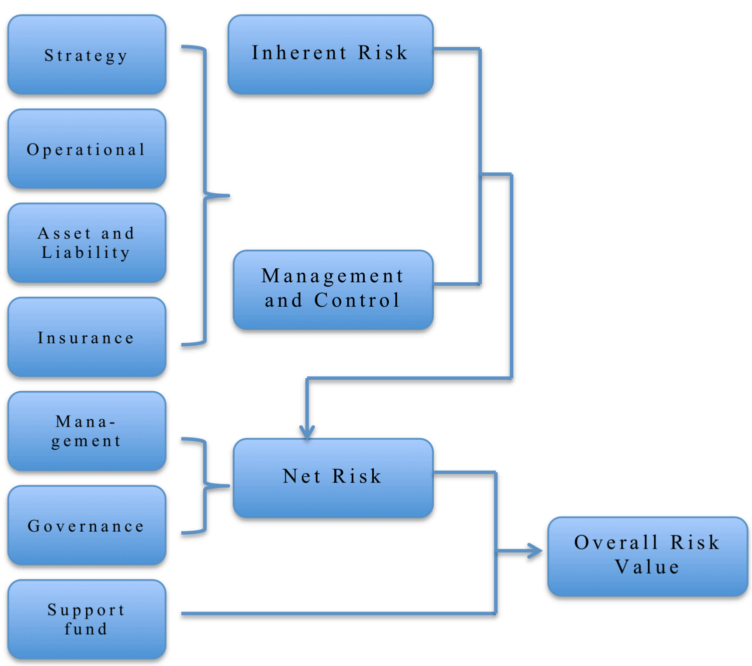
RISK LEVEL CALCULATION PROCESS

A. OVERVIEW OF RISK LEVEL CALCULATION

Risk level calculation shall be based on the following factors:

1. Inherent risk, i.e. all risks that are inherent in each type of company activities;
2. Management and control, i.e. measures that can be taken by board of directors and board of commissioners or any of the equivalent to minimize the level of inherent risks; and
3. Funding support (capital), i.e. the available funds or capital that reflects the company's ability to fulfill its obligations and maintain its business.

The framework of risk assessment system is as follows:



B. ASSESSMENT OF INHERENT RISK

Inherent risk is a risk that is inherent to company activities, regardless of management and control performed by the company. All risks that inherently affect the company's ability to fulfill its obligations, especially financially, shall be included as inherent risk.

A company's inherent risk is strongly influenced by the characteristics and complexities of the company, company line of business, and the type of products being sold. Inherent risk is also influenced by company's operational activities. The more diverse and the higher the volume of operational activities, the higher the inherent risk of the company. The company risk profile shall determine how much inherent risk can be taken, by considering the required funding support.

Company's inherent risk assessment shall be performed separately from management and control to reduce such risk. In other words, in this inherent risk, the management only assesses the risks that would probably appear in the operations of the company without considering whether or not the risk would really appear due to strong management and risk control.

C. ASSESSMENT OF MANAGEMENT AND CONTROL

Management and control refers to how a company identifies, measures, monitors, and controls its inherent risks. In practice, this is done by a series of policies and procedures, applied systems, administration practices, and monitoring.

Management and control assessment is intended to assess management and control mechanisms or systems for every inherent risk exposed to the company. Aspects that are considered in this assessment are the management's concern towards risks as well as the control system it has, including risk management framework owned and implemented by the company. The result of management and control assessment shall be a mitigating factor of inherent risk to become net risk.

D. DETERMINATION OF NET RISK VALUE

Determination of net risk value is carried out in two stages, i.e. the calculation of net risk value for each type of risk and the calculation of total net risk value.

1. Calculation of net risk value for each type of risk

   Net risk value is basically the inherent risk value after taking into account management and control. The net risk value is mathematically calculated using the average value of the sum of inherent risk value and the management and control value.

$$\text{Net Risk} = \frac{(\text{Inherent Risk} + \text{Management and Control})}{2}$$

   The above calculation of net risk value is applied for operational risks, asset and liability risk, insurance risk, and strategic risk. Management and governance risks are net risk values and that there shall be no subtraction from management and control.

2. Calculation of total net risk value

   After net risk value is obtained for each type of risks, total net risk value is calculated by assigning weight for each type of risks. The weighting of each type of risk is presented in the following table:

Table 2

Risk Weight

No	Risk Type	Weight (%) of LIC[1]	Weight (%) of GIC[2]
1	Management	10	10
2	Governance	15	10
3	Strategic	15	15
4	Operational	15	15
5	Asset and Liability	20	20
6	Insurance	25	30
	TOTAL	100	100

Note:

1. Life Insurance Companies
2. General Insurance and Reinsurance Companies

The total net risk value is calculated using the following formula:

$$\text{Total Net Risk Value} = \sqrt[4]{\sum_{i=1}^{6} RV^4 x\ weight_i}$$

i is the type of risk as outlined in Table 2.

E. DETERMINATION OF FUNDING SUPPORT (CAPITAL) RISK VALUE

Funding support risk value reflects the capability of a company in absorbing unpredictable losses originating from the company's asset and liability management. In determining funding support, company considers the funding capacity and additional capital.

Funding support risk value is calculated by weighting the funding capacity and additional funding. The two aspects are weighted differently for life insurance and general insurance. By considering characteristics of fluctuating claims for general insurance, the weight for funding capacity of general insurance is bigger than life insurance. The weight for funding capacity and additional capital shall be made in accordance to the following table:

Table 3

Weighting of Support Funds (Capital) Risk

No	Component	Weight (%) LIC[1]	Weight (%) GIC[2]
1	Funding Support (Capital) Capacity	50	55
2	Additional Funding Support (Capital)	50	45
	TOTAL	100	100

Notes:

1. Life Insurance Companies

2. General Insurance and Reinsurance Companies

Total Funding Support (Capital)Risk Value = $\sqrt[4]{\sum_{i=1}^{2} RV^4 x\ weight_i}$

i is the support funding component as outlined in Table 3.

F. DETERMINATION OF OVERALL RISK VALUE

Overall risk value reflects the overall probability of company failure. The overall risk value is calculated based on the total net risk value taking into account the company's support fund or capital risk.

The weightings to calculate overall risk value of Insurance Companies are as follows:

Table 4

Weighting of Total Net Risk Value and Support Fund (Capital) Risk Value

No	Component	Weight (%) LIC[1]	Weight (%) GIC[2]
1	Total Net Risk Value	60	50
2	Funding Support (Capital) Risk Value	40	50
	TOTAL	100	100

Notes:

1. Life Insurance Companies
2. General Insurance and Reinsurance Companies

The overall risk value is calculated by adding and weighing the total net risk value with the funding support risk value using the following formula:

$$ORV = \sqrt[4]{(TNRV^4 x\ weight_{TNRV}) + (TFRV^4 x\ weight_{TFRV})}$$

ORV = Overall Risk Value

TNRV = Total Net Risk Value

TFRV = Total Funding Support (Capital) Risk Value

The formula for calculating the Overall Risk Value is comprehensively presented in the following table:

Table 5

Risk Assessment

	Type of Risk	**Inherent Risk (IR)**	**Management & Control (MC)**	**Net Risk**	**Risk Weight (%)**	
					GIC	**LIC**
1.	Management			(0-4)	10	10
2.	Governance			(0-4)	10	15
3.	Strategic	(0-4)	(0-4)	(0-4)	15	15

	Type of Risk	Inherent Risk (IR)	Management & Control (MC)	Net Risk	Risk Weight (%)	
					GIC	LIC
4.	Operational	(0-4)	(0-4)	(0-4)	15	15
5.	Asset and Liabilities	(0-4)	(0-4)	(0-4)	20	20
6.	Insurance	(0-4)	(0-4)	(0-4)	30	25
Total Net Risk Value					**100**	**100**
1.	Funding Capacity			(0-4)	55	50
2.	Additional Funding			(0-4)	45	50
Funding Support (Capital)					**100**	**100**
1.	Total Net Risk Value			(0-4)	50	60
2.	Risk Value of Support Fund (Capital)			(0-4)	50	40
Overall Risk Value				**(0-4)**	**100**	**100**

GIC: General Insurance and Reinsurance Company

LIC: Life Insurance Company

CHAPTER III

RISK LEVEL ASSESSMENT BY RISK TYPE

This chapter provides a guideline for companies to conduct risk level assessment based on risk type. The risk types in Insurance and Reinsurance Companies are management risks, governance risks, strategic risks, operational risks, asset and liabilities risks, insurance risks, and funding support (capital) risks.

A. MANAGEMENT RISK

Management risk is a company's risk to fail in achieving its objectives due to failure of the company in maintaining the best composition of management who have strong competence and integrity. The definition of management in this guideline includes directors and the board of commissioners or any equivalent position holders. The risk that arises from management shall influence the company's ability in fulfilling its obligations to policyholders, insured parties, and other stakeholders.

Topics assessed in this risk are as follows:

1) Appointments and terminations

   In this topic, the areas assessed are the procedures and legality of documents regarding appointments and terminations of the management.

2) Composition and proportions

   Things that should be assessed are the suitable number and composition of management and clarity of management structure and job description.

3) Competence and integrity

In this topic, areas assessed are results of fit and proper test, work experience, education and training, and the management's behaviours.

4) Leadership

In leadership, areas assessed are vision and mission and the characteristics of management.

The followings are general indicators of management risk for each level of risk value:

1. **Indicators of Companies with Low Management Risk (0 < RV ≤ 1)**
   a. The appointment and termination of the management is very proper.
   b. The composition and proportion of the management is suitable and appropriate to the needs of the company.
   c. The competence and integrity of the management is very adequate and support the management's duties and responsibility.
   d. Management leadership is very good.
2. **Indicators of Companies with Mid to Low Management Risk (1 < RV ≤ 1.5)**
   a. The appointment and termination of the management is proper.
   b. The composition and proportion of the management is suitable, but there is indication that it is less appropriate to the needs of the company's.
   c. The competence and integrity of the management is adequate and support the management's duties and responsibility.

d. Management leadership is good.

3. **Indicators of Companies with Mid to High Management Risk ($1.5 < RV \leq 2$)**

   a. The appointment and termination of the management is improper.

   b. The composition and proportion of the management is less suitable.

   c. The competence and integrity of the management less adequate and give less support to the management’s duties and responsibility.

   d. Management leadership is fair.

4. **Indicators of Companies with High Management Risk ($2 < RV \leq 3$)**

   a. The appointment and termination of the management is improperly executed and documented.

   b. The composition and proportion of the management is unsuitable.

   c. The competence and integrity of the management is inadequate and do not support the management’s duties and responsibility.

   d. Management leadership is poor.

5. **Indicators of Companies with Very High Management Risk ($3 < RV \leq 4$)**

   a. The appointment and termination of the management is very improperly executed and documented.

   b. The composition and proportion of the management is highly unsuitable to the needs of the company.

   c. The competence and integrity of the management is highly inadequate and hinder the management in exercising their duties and responsibility.

   d. Management leadership is very poor.

B. GOVERNANCE RISK

Governance risk is the potential failure in terms of implementation of good governance, inappropriate management style, control environment, and behaviour of all parties who are directly or indirectly involved with the company.

Topics assessed in this risk are as follows:

1) Good-governance guidelines

   Areas that must be assessed are availability and completeness of governance guidelines, procedures for developing governance guidelines, implementation of governance guidelines, and evaluation of the governance guidelines implementation.

2) Transparency

   In this topic, areas assessed are transparency in decision making process and transparency in disclosing and providing relevant information about the company.

3) Accountability

   Things that need to be assessed are establishment of functions, activities and tasks, behavioural guidelines, early detection system, reward and punishment, and internal control structure.

4) Responsibility

   In this topic, things that are assessed are duties to the insured parties and policyholders, duties to shareholders, and social responsibility.

5) Independence

Areas to be assessed are conflicts of interest and intervention by shareholder or any equivalent position holder, board of commissioners or any equivalent position holder, and/or other parties.

6) Fairness and Equality

In this topic, things that must be assessed are cooperation with business partners, treatment to insured parties and policyholders, and treatment to employees.

7) Risk Management

Areas to be evaluated in this topic are availability of risk management guidelines, risk management control unit, and implementation of risk management.

The followings are general indicators of governance risk for each level of risk value:

1. **Criteria of Company with Low Governance Risk ($0 < RV \leq 1$)**
   a. The company's guideline on good governance is very proper.
   b. The company implements the principle of transparency very well.
   c. The company implements the principle of accountability very well.
   d. The company implements the principle of responsibility very well.
   e. The company implements the principle of independence very well.
   f. The company implements the principle of fairness and equality very well.
   g. The company implements the principle of risk management very well.

2. **Criteria of Company with Mid to Low Governance Risk ($1 < RV \leq 1.5$)**
   a. The company's guideline on good governance is proper.
   b. The company implements the principle of transparency well.
   c. The company implements the principle of accountability well.
   d. The company implements the principle of responsibility well.
   e. The company implements the principle of independence well.
   f. The company implements the principle of fairness and equality well.
   g. The company implements the principle of risk management well.
3. **Criteria of Company with Mid to High Governance Risk ($1.5 < RV \leq 2$)**
   a. The company's guideline on good governance is quite proper.
   b. The company implements the principle of transparency quite well.
   c. The company implements the principle of accountability quite well.
   d. The company implements the principle of responsibility quite well.
   e. The company implements the principle of independence quite well.
   f. The company implements the principle of fairness and equality quite well.
   g. The company implements the principle of risk management quite well.
4. **Criteria of Company with High Governance Risk ($2 < RV \leq 3$)**
   a. The company's guideline on good governance is less proper.
   b. The company implements the principle of transparency less well.
   c. The company implements the principle of accountability less well.
   d. The company implements the principle of responsibility less well.
   e. The company implements the principle of independence less well.

f. The company implements the principle of fairness and equality less well.

g. The company implements the principle of risk management less well.

5. Criteria of Company with Very High Governance Risk ($3 < RV \leq 4$)

a. The company does not own a guideline on good governance or that the guideline tends to be not proper.

b. The company does not implement the principle of transparency to company stakeholders.

c. The company does not implement the principle of accountability in managing the company.

d. The company does not implement the principle of responsibility in managing the company.

e. The company does not implement the principle of independence in managing the company.

f. The company does not implement the principle of fairness and equality in managing the company.

g. The company does not implement the principle of risk management in managing the company.

C. STRATEGIC RISK

Strategic risk is the company's potential failure in meeting their obligations to policyholders/insured parties/customers due to inadequacy or failure in planning, setting and implementing strategy, inaccurate business decision making, and/or the company's lack of response towards external changes.

Assessment of strategic risk consists of assessment of inherent risk and assessment of control management.

Topics assessed in inherent risk and strategy risk are as follows:

1) Suitability between strategy and business environment

   In this topic, areas assessed include suitability of the company's vision, mission and course of business, internal readiness of company in developing business, and consideration of external factors in developing company business.

2) Company's strategic position

   Areas to be assessed are adequacy of competitor analysis, company readiness in dealing with macro-economic changes, reputational risk, and the company's plan to diversify.

   Topics to be assessed in management and control are as follows:

   1) Developing and setting strategy

      In this topic, areas to be assessed are evaluation of the calculated risk to be taken and acceptable risk tolerance, and active supervision by board of commissioners and directors or any equivalent position holder.

   2) Implementing strategic plan

      Assessment can be made, among others, on the level of understanding of the directors or any equivalent position holder and officials who are one level below as well as key performance indicators.

The followings are general indicators of strategy risks for each level of risk in inherent risks and management and control:

INHERENT RISK

1. **Strategy Risk Indicators of Companies with Low Inherent Risk ($0 <$ RV ≤ 1)**
   a. Strategy owned and implemented by the company is very suitable to the condition of the environment.
   b. The company's implemented policies really suitable with the company's strategic position.
2. **Strategy Risk Indicators of Companies with Mid to Low Inherent Risk ($1 <$ RV ≤ 1.5)**
   a. Strategy owned and implemented by the company is suitable to the condition of the environment.
   b. The company's implemented policies suitable with the company's strategic position.
3. **Strategy Risk Indicators of Companies with Mid to High Inherent Risk ($1.5 <$ RV ≤ 2)**
   a. Strategy owned and implemented by the company is quite suitable to the condition of the environment.
   b. The company's implemented policies quite suitable with the company's strategic position.
4. **Strategy Risk Indicators of Companies with High Inherent Risk ($2 <$**

RV $\leq$ 3)

a. Strategy owned and implemented by the company is less suitable to the condition of the environment.

b. The company's implemented policies are less suitable with the company's strategic position.

5. **Strategy Risk Indicators of Companies with Very High Inherent Risk (3 < RV $\leq$ 4)**

a. Strategy owned and implemented by the company is not suitable to the condition of the environment.

b. The company's implemented policies are not suitable with the company's strategic position.

MANAGEMENT AND CONTROL

1. **Indicators of Companies with Very Strong Management and Control over Strategy Risk (0 < MC $\leq$ 1)**

a. The company's process in developing and setting strategy runs very well.

b. Implementation of the company's strategic plan is very well.

2. **Indications of Companies with Strong Management and Control over Strategy Risk (1 < MC $\leq$ 1.5)**

a. The company's process in developing and setting strategy runs well.

b. Implementation of the company's strategic plan is well.

3. **Indications of Companies with Adequate Management and Control**

over Strategy Risk (1.5 < MC ≤ 2)

a. The company's process in developing and setting strategy runs quite well.

b. Implementation of the company's strategic plan is quite well.

4. **Indications of Companies with Weak Management and Control over Strategy Risk (2 < MC ≤ 3)**

   a. The company's process in developing and setting strategy runs less well.

   b. Implementation of the company's strategic plan is less well.

5. **Indications of Companies with Very Weak Management and Control over Strategy Risk (3 < MC ≤ 4)**

   a. The company does not have strategy in running its business.

   b. The company does not develop any strategic plan.

D. OPERATIONAL RISK

Operational risk is the company's potential failure in meeting its obligations to the insured parties and policyholders as a consequence of inadequacy or failure in internal process, human resources, information technology systems, and/or events from outside of the company's environment.

Assessment of operational risk consists of assessment of inherent risk and assessment of management and control.

Topics to be assessed in terms of the inherent risks in the operational risk are as follows:

1) Company's complexity

   Areas that must be assessed in this topic are size and structure of organization, human resources, volume of work and workload, corporate action and development of new business, and source and line of business or marketed products.

2) System and Information technology

   Areas that must be assessed are the reliability of information technology system, changes in the information technology and system, and infrastructure.

3) Fraud and legal matters

   In this topic, areas assessed are history of internal fraud and legal disputes with consumers.

4) Interference in company business

   Areas that must be assessed are frequency and materiality of external events, the company's location and geographical condition, and the use of third party services.

Topics assessed in management and control are as follows:

1) Policies and procedures

   Areas that must be considered are the formulation of policy and decision making process, standard operating procedures (SOP), communication and documentation of policy, and risk management.

2) Administrative activities

In this topic, areas to be considered are budgeting cycles and activities planning, consumer administration, recordkeeping, bookkeeping and reporting of transactions, and archiving and documentation.

3) Management of information technology and systems

   In this topic, areas to be assessed are the management of information technology and systems and infrastructure, blueprint and application change management, data security management, database and information management, and back up procedures and disaster recovery plan.

4) Prevention of fraud and legal matters

   Areas that must be assessed are internal control structures and supervision from board of commissioners or any of its equivalent.

5) Human resources management

   Areas that must be assessed are planning and strategic on human resources, recruitment process, career development, salary and remuneration, and employees revitalization and replacement.

6) Management of use of third party services

   In this topic, areas assessed are, among others, policies in using third party services, appointment of service provider, reporting and accountability, as well as control over the cost of using third party service.

The followings are general indicators of operational risks for every level of risk in inherent risks and management and control:

INHERENT RISK

1. **Operational Risk Indicators of Companies with Low Inherent Risk ($0 < RV \leq 1$)**
   a. The company has organizational structures, human resources, volume of work and workload in very low complexity.
   b. The company has very adequate information technology and systems which can support the administration of the company's business.
   c. The company never had history of internal fraud or legal disputes with insured parties, policyholders, or other parties.
   d. The company does not get any interference in the administration of the company's business.
2. **Operational Risk Indicators of Companies with Mid to Low Inherent Risk ($1 < RV \leq 1.5$)**
   a. The company has organizational structures, human resources, volume of work and workload in low complexity.
   b. The company has adequate information technology and systems which can support the administration of the company's business.
   c. The company almost never had history of internal fraud or legal disputes with insured parties, policyholders, or other parties.
   d. The company gets few interference in the administration of the company's business.
3. **Operational Risk Indicators of Companies with Mid to High Inherent Risk ($1.5 < RV \leq 2$)**

a. The company has organizational structures, human resources, volume of work and workload in fair complexity.

b. The company has less adequate information technology and systems which can support the administration of the company's business.

c. The company rarely has history of internal fraud or legal disputes with insured parties, policyholders, or other parties.

d. The company gets quite significant interference in the administration of the company's business.

4. Operational Risk Indicators of Companies with High Inherent Risk ($2 < RV \leq 3$)

a. The company has organizational structures, human resources, volume of work and workload in high complexity.

b. The company has inadequate information technology and systems which can support the administration of the company's business.

c. The company quite frequently has internal fraud or legal disputes with insured parties, policyholders, or other parties.

d. The company gets significant interference in the administration of the company's business.

5. Operational Risk Indicators of Companies with Very High Inherent Risk ($3 < RV \leq 4$)

a. The company has organizational structures, human resources, volume of work and workload in very high complexity.

b. The company has very inadequate information technology and systems which can support the administration of the company's business.

c. The company frequently has internal fraud or legal disputes with insured parties, policyholders, or other parties.
d. The company gets very significant interference in the administration of the company's business.

MANAGEMENT AND CONTROL

1. **Indicators of Companies with Very Strong Management and Control over Operational Risk ($0 < MC \leq 1$)**
   a. The company's policies and procedures are very adequate.
   b. The company's administration is very good.
   c. The company's management of information technology and system is very good.
   d. The company's mechanisms and policies to prevent internal fraud and legal disputes are very good.
   e. The company's human resources management in the company is very good.
   f. The company's management of third party services is very good.
2. **Indicators of Companies with Strong Management and Control over Operational Risk ($1 < MC \leq 1.5$)**
   a. The company's policies and procedures are adequate.
   b. The company's administration is good.
   c. The company's management of information technology and system is

good.

d. The company's mechanisms and policies to prevent internal fraud and legal disputes are good.

e. The company's human resources management in the company is good.

f. The company's management of third party services is good.

3. Indicators of Companies with Adequate Management and Control over Operational Risk (1.5 < MC ≤ 2)

a. The company's policies and procedures are adequate, but some areas must be improved.

b. The company's administration is good, but some areas must be improved.

c. The company's management of information technology and system is good, but some areas must be improved.

d. The company's mechanisms and policies to prevent internal fraud and legal disputes are good, but some areas must be improved.

e. The company's human resources management in the company is good, but some areas must be improved.

f. The company's management of third party services is good, but some areas must be improved.

4. Indicators of Companies with Weak Management and Control over Operational Risk (2 < MC ≤ 3)

a. The company's policies and procedures are inadequate.

b. The company's administration is poor.

c. The company's management of information technology and system is poor.

d. The company's mechanisms and policies to prevent internal fraud and legal disputes are poor.

e. The company's human resources management in the company is poor.

f. The company's management of third party services is poor.

5. Indicators of Companies with Very Weak Management and Control over Operational Risk (3 < MC ≤ 4)

a. The company's policies and procedures are very inadequate.

b. The company's administration is very poor.

c. The company's management of information technology and system is very poor.

d. The company's mechanisms and policies to prevent internal fraud and legal disputes are very poor.

e. The company's human resources management in the company is very poor.

f. The company's management of third party services is very poor.

E. ASSET AND LIABILITY RISK

Asset and liability risk is the risk arising from potential failure in the management of assets and liabilities in insurance and reinsurance companies, causing insufficiency of funds to fulfill the insurance companies' obligations to policyholders or the reinsuring companies' obligations to the companies that reinsure (ceding companies).

Assessment of asset and liability risk shall be based on the assessment of inherent risk and assessment of management and control.

Topics to be assessed in inherent risk of asset and liability risks are as follows:

1) Asset management

   Areas assessed in this topic are asset valuation, management of investment asset (including purpose and style investment) and non-investment asset, and calculation of unit price.

2) Liabilities management

   Areas assessed in this topic are the use of methods and assumptions in forming technical reserves, margin between claims incurring and claims expected, and assessment of liabilities that has exchange rate value risk.

3) Disparity between asset and liabilities

   In this topic, areas assessed are mismatch of maturity/duration between asset and liabilities, disparity between asset and liabilities in foreign currency (currency gap), and liquidity level.

Topics assessed in management and control are as follows:

1) Directors' concerns

   Areas assessed in this topic are the concerns of directors or any equivalent position holder on the purpose of asset and liabilities management.

2) Management of asset and liabilities risks

   Areas assessed in this topic are monitoring of solvency and capital adequacy, monitoring of asset and liabilities management from actuary's side, and management of asset and liabilities when designing products.

3) Management of investment risks

   Areas assessed in this topic are setting the goals of investment, setting and reviewing investment strategies, and the monitoring of asset allocation.

4) Control in asset valuation

   Areas assessed in this topic are valuation policies, independent valuator, and expertise of human resources.

The followings are general indicators of asset and liabilities risks for every risk level in inherent risks and management and control:

INHERENT RISK

1. **Indicators of Asset and Liabilities Risk of Companies with Low Inherent Risk ($0 < RV \leq 1$)**
   a. The company manages its assets very well.
   b. The company manages its liabilities very well.
   c. Match between asset and liabilities is very good.
2. **Indicators of Asset and Liabilities Risk of Companies with Mid to Low Inherent Risk ($1 < RV \leq 1.5$)**
   a. The company manages its assets well.
   b. The company manages its liabilities well.
   c. Match between asset and liabilities is good.
3. **Indicators of Asset and Liabilities Risk of Companies with Mid to High Inherent Risk ($1.5 < RV \leq 2$)**

a. The company manages its assets less well.
b. The company manages its liabilities less well.
c. Match between asset and liabilities is less good.

4. **Indicators of Asset and Liabilities Risk of Companies with High Inherent Risk ($2 < RV \leq 3$)**
   a. The company manages its assets poorly.
   b. The company manages its liabilities poorly.
   c. Match between asset and liabilities is poor.
5. **Indicators of Asset and Liabilities Risk of Companies with Very High Inherent Risk ($3 < NV \leq 4$)**
   a. The company manages its assets very poorly.
   b. The company manages its liabilities very poorly
   c. Match between asset and liabilities is very poor.

MANAGEMENT AND CONTROL

1. **Indicators of Companies with Very Strong Management and Control over Asset and Liabilities Risk ($0 < MC \leq 1$)**
   a. Directors and the board of commissioners or any equivalent position holder have very high concern towards the purpose of asset and liabilities management.
   b. The company has very good asset and liabilities management.
   c. The company manages investment risk very well.
   d. The company has very strong control in asset valuation.

2. **Indicators of Companies with Strong Management and Control over Asset and Liabilities Risk (1 < MC ≤1.5)**
   a. Directors and the board of commissioners or any equivalent position holder have high concern towards the purpose of asset and liabilities management.
   b. The company has good asset and liabilities management.
   c. The company manages investment risk well.
   d. The company has strong control in asset valuation.
3. **Indicators of Companies with Adequate Management and Control over Asset and Liabilities Risk (1.5 < MC ≤2)**
   a. Directors and the board of commissioners or any equivalent position holder have enough concern towards the purpose of asset and liabilities management.
   b. The company has fair asset and liabilities management.
   c. The company manages investment risk fairly well.
   d. The company has enough control in asset valuation.
4. **Indicators of Companies with Weak Management and Control over Asset and Liabilities Risk (2 < MC ≤3)**
   a. Directors and the board of commissioners or any equivalent position holder have lack of concern towards the purpose of asset and liabilities management.
   b. The company has poor asset and liabilities management.
   c. The company manages investment risk poorly.

d. The company has poor control in asset valuation.

5. Indicators of Companies with Very Weak Management and Control over Asset and Liabilities Risk ($3 < MC \leq 4$)

a. Directors and the board of commissioners or any equivalent position holder have no concern towards the purpose of asset and liabilities management.

b. The company has very poor asset and liabilities management.

c. The company manages investment risk very poorly.

d. The company has very poor control in asset valuation.

F. INSURANCE RISK

Insurance Risk is the potential failure of Insurance and Reinsurance Companies in meeting its obligations to the insured parties and policyholders as a result of inadequacy of risk selection process (underwriting), insurance premium setting (pricing), use of reinsurance, and/or handling of claims.

Assessment of insurance risk consists of assessment of inherent risk and assessment of management and control.

Assessment of insurance risk is differentiated for life insurance companies and general insurance and reinsurance companies.

F.1 LIFE INSURANCE RISK

Topics assessed in inherent risk of insurance risk are as follows:

1) Domination of Insurance Risk in the Entire Business Line

Areas assessed in this topic are the proportions of insurance protection risk and investment.

2) Mixture of Product Risk and Type of Benefits

   Areas assessed in this topic are type of risk covered, method of benefit payment, type of coverage sources, and type of products.

3) Reinsurance Structure

   Areas assessed in this topic are proportion of insured risks, types and programs of reinsurance, Reinsurance Company, and reinsurance concentration.

Topics assessed in management and controls over insurance risk are as follows:

1) The understanding of directors or any equivalent position holder

   Areas assessed in this topic are understanding over insurance risk and monitoring of insurance risk.

2) Product design

   Areas assessed in this topic are policies and procedures of product development, line of business/type of products, product approval process, product risk assessment, product modification, terms and conditions in the insurance policy (policy wording), and reinsurance requirements.

3) Insurance premium setting

   Areas assessed in this topic are policies and procedures in setting premium, actuary assumptions, estimated claims (claim costs), level of profit/loss, purpose and result of investment, reinsurance, and review of premium rate.

4) Underwriting

Areas assessed in this topic are the structure of underwriting functions, underwriting infrastructure, underwriting procedure and process, collective insurance products, delegation of authority, compliance with policies and procedures, portfolio monitoring, data quality, reinsurance consideration in underwriting process, and training.

5) Valuation of Liabilities

Areas assessed are liabilities valuation report, financial condition report, and data integrity.

6) Reinsurance

Areas assessed in this topic are the structure of reinsurance program, the structure of reinsurance functions, reinsurance management, reinsurance documentation, financial reinsurance, and partner reinsurance company.

7) Claims

Areas assessed are the structure of claim handling function, claim policies and procedures, claim handling process, human resources, data quality and system, portfolio monitoring, and reinsurance.

8) Product distribution

Areas assessed in this topic are selection of distribution channel, marketing system and e-business, cooperation agreement, distribution channels conflicts, commission structure, and mis-selling.

9) Independent Review

Areas assessed in this topic are opinions from internal and/or external auditors and supervision of risk management function.

The followings are general indicators of insurance risks for life insurance for every risk level in inherent risks and management and control:

INHERENT RISK

1. **Insurance Risk Indicators of Life Insurance Companies with Low Inherent Risk ($0 < RV \leq 1$)**
   a. The company has very low domination of insurance risk compared to the entire business line.
   b. The company has very good mixture of product risks and type of benefits.
   c. The company has very adequate reinsurance structure.
2. **Insurance Risk Indicators of Life Insurance Companies with Mid to Low Inherent Risk ($1 < RV \leq 1.5$)**
   a. The company has low domination of insurance risk compared to the entire business line.
   b. The company has good mixture of product risks and type of benefits.
   c. The company has adequate reinsurance structure.
3. **Insurance Risk Indicators of Life Insurance Companies with Mid to High Inherent Risk ($1.5 < RV \leq 2$)**

a. The company has relatively low domination of insurance risk compared to the entire business line.
b. The company has fairly good mixture of product risks and type of benefits.
c. The company has less adequate reinsurance structure.

4. **Insurance Risk Indicators of Life Insurance Companies with High Inherent Risk (2 < RV ≤3)**
   a. The company has high domination of insurance risk compared to the entire business line.
   b. The company has poor mixture of product risks and type of benefits.
   c. The company has inadequate reinsurance structure.
5. **Insurance Risk Indicators of Life Insurance Companies with Very High Inherent Risk (3 < RV ≤5)**
   a. The company has very high domination of insurance risk compared to the entire business line.
   b. The company has very poor mixture of product risks and type of benefits.
   c. The company has very inadequate reinsurance structure.

MANAGEMENT AND CONTROL

1. **Indicators of Life Insurance Companies with Very Strong Management and Control over Insurance Risk (0 < MC ≤1)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is very good.

b. The process in designing insurance product is very good.

c. The setting of insurance premium is very good.

d. The company's underwriting process is very good.

e. The process of liabilities valuation is very good.

f. The reinsurance process and structure are very good.

g. Claims handling is very good.

h. Insurance product distribution process is very good.

i. Independent review is very good.

2. Indicators of Life Insurance Companies with Strong Management and Control over Insurance Risk ($1 < MC \leq 1.5$)

a. The understanding of director or any equivalent position holder concerning insurance risk is good.

b. The process in designing insurance product is good.

c. The setting of insurance premium is good.

d. The company's underwriting process is good.

e. The process of liabilities valuation is good.

f. The reinsurance process and structure are good.

g. Claims handling is good.

h. Insurance product distribution process is good.

i. Independent review is good.

3. Indicators of Life Insurance Companies with Adequate Management and Control over Insurance Risk ($1.5 < MC \leq 2$)

a. The understanding of director or any equivalent position holder concerning insurance risk is fairly good.

b. The process in designing insurance product is fairly good.
c. The setting of insurance premium is fairly good.
d. The company's underwriting process is fairly good.
e. The process of liabilities valuation is fairly good.
f. The reinsurance process and structure are fairly good.
g. Claims handling is fairly good.
h. Insurance product distribution process is fairly good.
i. Independent review is fairly good.

4. **Indicators of Life Insurance Companies with Weak Management and Control over Insurance Risk ($2 < MC \leq 3$)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is poor.
   b. The process in designing insurance product is poor.
   c. The setting of insurance premium is poor.
   d. The company's underwriting process is poor.
   e. The process of liabilities valuation is poor.
   f. The reinsurance process and structure are poor.
   g. Claims handling is poor.
   h. Insurance product distribution process is poor.
   i. Independent review is poor.
5. **Indicators of Life Insurance Companies with Very Weak Management and Control over Insurance Risk ($3 < MC \leq 4$)**

a. The understanding of director or any equivalent position holder concerning insurance risk is very poor.
b. The process in designing insurance product is very poor.
c. The setting of insurance premium is very poor.
d. The company's underwriting process is very poor.
e. The process of liabilities valuation is very poor.
f. The reinsurance process and structure are very poor.
g. Claims handling is very poor.
h. Insurance product distribution process is very poor.
i. Independent review is very poor.

F.2 GENERAL INSURANCE AND REINSURANCE RISK

Topics assessed in inherent risk of insurance risk are as follows:

1. Nature of insurance business

   Areas assessed are short-tail products versus long-tail products, short-term and long-term insurance coverage, and hazard level of the insured businesses.

2. Composition and diversification of business portfolio

   Areas assessed in this topic are business diversification and market segmentation.

3. Reinsurance structure

   Areas assessed in this topic are proportion of reinsured risks, type and program reinsurance, reinsurance company, and reinsurance concentration.

Topics assessed in management and control of insurance risks are as follows:

1) Understanding of the directors or any equivalent position holder

   Areas assessed in this topic are understanding of issues concerning insurance risk and monitoring of insurance risk.

2) Product design

   Areas assessed in this topic are policies and procedures of product development, line of business/type of product, product approval process, product risk assessment, product modification, terms and conditions in the insurance policy (policy wording), and reinsurance requirements.

3) Insurance premium setting

   Areas assessed in this topic are policies and procedures in setting premium, estimation of claim (claim costs), return on investment, assumption of costs and commission, quality of risk profile data, level of profit, market condition and competitors analysis, reinsurance, review of insurance premium rate, and changes of insurance premium rate.

4) Underwriting

   Areas assessed in this topic are underwriting policies and procedure, structure of underwriting function, underwriting infrastructure, delegation of authority, manual underwriting, compliance with policies and procedures, portfolio monitoring, data quality, reinsurance consideration in underwriting.

5) Liabilities Valuation

   Areas assessed in this topic are liabilities valuation report, financial condition report, and data integrity.

6) Reinsurance

Areas assessed in this topic are the structure of reinsurance program, the structure of reinsurance function, reinsurance management, reinsurance documentation, financial reinsurance, and partner of reinsurance company.

7) Claims

Areas assessed in this topic are the structure of claims handling function, claim policies and procedures, claim handling process, human resources, data quality and system, portfolio monitoring, claim leakage, and reinsurance, and fraudulent claims.

8) Product distribution

Areas assessed in this topic are selection of distribution channels, marketing system and e-business, cooperation agreement, distribution method conflicts, commission structure, and mis-selling.

9) Independent Review

Areas assessed in this topic are opinion of internal and/or external auditors and monitoring of risk management function.

INHERENT RISK

1. **Insurance Risk Indicators of General Insurance and Reinsurance Companies with Low Inherent Risk ($0 < RV \leq 1$)**

   a. The company has very low risk insurance products and business.

   b. The company has very good business portfolio composition and diversification.

c. The company has very good reinsurance structure.

2. **Insurance Risk Indicators of General Insurance and Reinsurance Companies with Mid to Low Inherent Risk ($1 < RV \leq 1.5$)**

   a. The company has low risk insurance products and business.

   b. The company has good business portfolio composition and diversification.

   c. The company has good reinsurance structure.

3. **Insurance Risk Indicators of General Insurance and Reinsurance Companies with Mid to High Inherent Risk ($1.5 < RV \leq 2$)**

   a. The company has quite low risk insurance products and business.

   b. The company has fairly good business portfolio composition and diversification.

   c. The company has fairly good reinsurance structure.

4. **Insurance Risk Indicators of General Insurance and Reinsurance Companies with High Inherent Risk ($2 < RV \leq 3$)**

   a. The company has high risk insurance products and business.

   b. The company has poor business portfolio composition and diversification.

   c. The company has poor reinsurance structure.

5. **Insurance Risk Indicators of Life Insurance Companies with Very High Inherent Risk ($3 < RV \leq 4$)**

   a. The company has very high risk insurance products and business.

   b. The company has very poor business portfolio composition and diversification.

c. The company has very poor reinsurance structure.

MANAGEMENT AND CONTROL

1. **Indicators of General Insurance and Reinsurance Companies with Very Strong Management and Control over Insurance Risk (0 < MC ≤1)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is very good.
   b. The process in designing insurance product is very good.
   c. The setting of insurance premium is very good.
   d. The company's underwriting process is very good.
   e. The process of liabilities valuation is very good.
   f. The reinsurance process and structure are very good.
   g. Claims handling is very good.
   h. Insurance product distribution process is very good.
   i. Independent review is very good.
2. **Indicators of General Insurance and Reinsurance Companies with Strong Management and Control over Insurance Risk (1 < MC ≤1.5)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is good.
   b. The process in designing insurance product is good.
   c. The setting of insurance premium is good.
   d. The company's underwriting process is good.

e. The process of liabilities valuation is good.
f. The reinsurance process and structure are good.
g. Claims handling is good.
h. Insurance product distribution process is good.
i. Independent review is good.

3. **Indicators of General Insurance and Reinsurance Companies with Adequate Management and Control over Insurance Risk ($1.5 < MC \leq 2$)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is fairly good.
   b. The process in designing insurance product is fairly good.
   c. The setting of insurance premium is fairly good.
   d. The company's underwriting process is fairly good.
   e. The process of liabilities valuation is fairly good.
   f. The reinsurance process and structure are fairly good.
   g. Claims handling is fairly good.
   h. Insurance product distribution process is fairly good.
   i. Independent review is fairly good.
4. **Indicators of General Insurance and Reinsurance Companies with Weak Management and Control over Insurance Risk ($2 < MC \leq 3$)**
   a. The understanding of director or any equivalent position holder concerning insurance risk is poor.
   b. The process in designing insurance product is poor.
   c. The setting of insurance premium is poor.

d. The company's underwriting process is poor.

e. The process of liabilities valuation is poor.

f. The reinsurance process and structure are poor.

g. Claims handling is poor.

h. Insurance product distribution process is poor.

i. Independent review is poor.

5. Indicators of General Insurance and Reinsurance Companies with Very Weak Management and Control over Insurance Risk ($3 < MC \leq 4$)

a. The understanding of director or any equivalent position holder concerning insurance risk is very poor.

b. The process in designing insurance product is very poor.

c. The setting of insurance premium is very poor.

d. The company's underwriting process is very poor.

e. The process of liabilities valuation is very poor.

f. The reinsurance process and structure are very poor.

g. Claims handling is very poor.

h. Insurance product distribution process is very poor.

i. Independent review is very poor.

G. FUNDING SUPPORT (CAPITAL) RISK

Company's capital reflects the company's capacity in absorbing the unexpected losses caused by, among others, increase of unpredicted claim ratio, bad return of investment, or other unexpected events.

Topics assessed in this risk are as follows:

1) Funding (Capital) Capacity

Areas assessed in this topic are, among others, the current equity nominal value, solvency level ratio, and capital target.

2) Additional Funding (Capital)

Areas assessed are profitability and sources of additional capital.

The followings are general indicators of support funds (capital) risks for every risk level:

1. Indicators of Companies with Very Strong Capital (0 < RV ≤1)

a. The company's funding capacity is very strong.

b. The company's additional funding is very high.

2. Indicators of Companies with Strong Capital (1 < RV ≤1.5)

a. The company's funding capacity is strong.

b. The company's additional funding is high.

3. Indicators of Companies with Adequate Capital (1.5 < RV ≤2)

a. The company's funding capability is adequate.

b. The company's additional funding is adequate.

4. Indicators of Companies with Weak Capital (2 < RV ≤3)

a. The company's funding capability is weak.

b. The company's additional funding is low.

5. Indicators of Companies with Very Weak Capital (3 < RV ≤4)

a. The company's funding capability is very weak.

b. The company's additional funding is very low

EXAMPLE OF CALCULATION OF RISK IN LIFE INSURANCE COMPANY

Type of Risk		**Risk Value (C)**	**Weight (D)**	**Net Risk Value (E)**
1. Management		1.5	10%	0.51
2. Governance		1.6	15%	0.98
3. Strategic		2.0	15%	2.17
3.1 Inherent Risk (A)	2.4			
3.2 Management and Control (B)	1.5			
4. Operational		1.6	15%	0.98
4.1 Inherent Risk	1.1			
4.2 Management and Control	2.1			
5. Asset and Liabilities		3.0	20%	16.20
5.1 Inherent Risk	2.9			
5.2 Management and Control	3.1			
6. Insurance		1.9	25%	3.26
6.1 Inherent Risk	2.0			
6.2 Management and Control	1.8			
		(F)	100%	24.33

Type of Risk	Risk Value (C)	Weight (D)	Net Risk Value (E)
Total Net Risk Value (G)			**2.22**
Funding Support (Capital)			
a. Funding (capital) capacity	1.2	50%	1.04
b. Additional funding (capital)	1.3	50%	1.43
(H)		100%	2.47
Total Risk Value of Fund Support (Capital) (I)			**1.25**
The weight of net risk value and fund support = 60%, 40%			
Total Risk Value			**1.98**
Level of Risk			**Mid-High**

A: Inherent risk value

B: Management and control value

C: Risk test value = (A+B)/2

D: Risk weight

E: Combined risk value = C^4 x D

F: Sum of combined value = $\sum E$

G: Total net risk value = $\sqrt[4]{F}$

H: Sum of combined funding value

I: Total risk value for support funds risk = $\sqrt[4]{H}$

J: Overall risk value = $\sqrt[4]{(G^4 x\ 60\%) + (I^4 x\ 40\%)}$

EXAMPLE OF CALCULATION OF RISK IN GENERAL INSURANCE AND REINSURANCE COMPANY

Type of Risk		Risk Value (C)	Weight (D)	Net Risk Value (E)
1. Management		1.5	10%	0.51
2. Governance		1.6	15%	0.66
3. Strategic		2.0	15%	2.17
3.1 Inherent Risk (A)	2.4			
3.2 Management and Control (B)	1.5			
4. Operational		1.6	15%	0.98
4.1 Inherent Risk	1.1			
4.2 Management and Control	2.1			
5. Asset and Liabilities		3.0	20%	16.20
5.1 Inherent Risk	2.9			
5.2 Management and Control	3.1			
6. Insurance		1.9	30%	3.91
6.1 Inherent Risk	2.0			
6.2 Management and Control	1.8			
		(F)	100%	24.66
Total Net Risk Value (G)				**2.22**

Type of Risk	**Risk Value (C)**	**Weight (D)**	**Net Risk Value (E)**
Funding Support (Capital)			
a. Funding (capital) capacity	1.2	55%	1.14
b. Additional funding (capital)	1.3	45%	1.29
(H)		100%	2.43
Total Risk Value of Funding Support (Capital) (I)			**1.25**
The weight of net risk value and fund support = 50%, 50%			
Total Risk Value			**1.91**
Level of Risk			**Mid-High**

A: Inherent risk value

B: Management and control value

C: Risk test value = (A+B)/2

D: Risk weight

E: Combined risk value = C^4 x D

F: Sum of combined value = $\sum$E

G: Total net risk value = $\sqrt[4]{F}$

H: Sum of combined funding value

I: Total risk value for support funds risk = $\sqrt[4]{H}$

J: Overall risk value = $\sqrt[4]{(G^4 x\ 50\%) + (I^4 x\ 50\%)}$

Stipulated in Jakarta

on 29 January 2015

CHIEF EXECUTIVE OF SUPERVISION

OF INSURANCE, PENSION FUND,

FINANCING, AND OTHER

FINANCIAL SERVICES INSTITUTIONS

OF FINANCIAL SERVICES AUTHORITY

Signed

FIRDAUS DJAELANI

This copy conforms the original

Director of Law 1

Department of Law,

Signed

Sudarmaji

ANNEX II

OJK CIRCULAR LETTER

NUMBER 3/SEOJK.05/2015

CONCERNING

RISK LEVEL ASSESSMENT OF INSURANCE AND REINSURANCE COMPANIES

UNOFFICIAL TRANSLATION

Report of Risk Level Assessment Results

of Insurance and Reinsurance Companies

Company Name :

Business Type : (1) Life (2) General (3) Reinsurance

Assessment Date :

Report Date :

A. General Information

Shareholder or its equivalent:

Name	Value owned	Percentage owned

Directors or its equivalent

Name	Position	Duration of Term

Board of Commissioners or its equivalent

Name	Position	Duration of Term

Financial Information per Assessment Date

Description	Value (IDR)*
Asset	
Investment	
Payables	
Technical Reserves	
Gross Premium**	
Gross Claims**	
Solvency level	
Risk-Based Minimum Capital	
Ratio of Solvency (%)	
Number of Policyholders (person)	

*Excluded for solvency ratio and number of policyholder

**For the period of one year after the assessment date

B. Summary of Risk Assessment

Type of Risk	Risk Value	Weight	Net Risk Value
1. Management			
2. Governance			
3. Strategic			
3.1 Inherent Risk			
3.2 Management and Control			
4. Operational			
4.1 Inherent Risk			
4.2 Management and Control			
5. Asset and Liabilities			
5.1 Inherent Risk			
5.2 Management and Control			
6. Insurance			
6.1 Inherent Risk			
6.2 Management and Control			
Total Net Risk Value			
1. Funding (capital) capacity			
2. Additional funding (capital)			
Funding Support (Capital)			
1. Total Net Risk Value			

Type of Risk	Risk Value	Weight	Net Risk Value
2. Total Funding Support (Capital) Risk Value			
		Total Risk Value	
		Level of Risk	

C. Description of Risk

General Description

Description by Risk Type

Management Risk	**Value of risk:…. Level of risk:….**
Description	
Governance Risk	**Value of risk:…. Level of risk:….**
Description	
Strategic Risk	**Value of risk:…. Level of risk:….**
Inherent risk	Value
Description	

Management and Control	Value
Description	
Operations Risk	**Value of risk:…. Level of risk:….**
Inherent risk	Value
Description	
Management and control	Value
Description	
Assets and Liabilities Risk	**Value of risk:…. Level of risk:….**
Inherent risk	Value
Description	
Management and control	Value
Description	
Insurance Risk	**Value of risk:…. Level of risk:….**
Inherent risk	Value
Description	
Management and control	Value
Description	
Funding Support (Capital) Risk	**Value of risk:…. Level of risk:….**
Funding (capital) capacity	Value
Description	
Additional funding (capital)	Value
Description	

UNOFFICIAL TRANSLATION

Acknowledged by: Name: Position:	Prepared by: Name: Position:

Stipulated in Jakarta

on 29 January 2015

CHIEF EXECUTIVE OF SUPERVISION

OF INSURANCE, PENSION FUND,

FINANCING, AND

OTHER FINANCIAL SERVICES

INSTITUTIONS OF FINANCIAL

SERVICES AUTHORITY,

Signed,

FIRDAUS DJAELANI

This copy conforms the original

Director of Law I

Departement of Law

Signed,

Sudarmaji

ANNEX III

OJK CIRCULAR LETTER OF FINANCIAL SERVICES AUTHORITY

NUMBER 3/SEOJK.05/2015

CONCERNING

RISK LEVEL ASSESSMENT OF INSURANCE AND REINSURANCE

COMPANIES

FOLLOW-UP ACTION PLAN OF RISK LEVEL ASSESSMENT

OF INSURANCE/REINSURANCE COMPANY

<table>
<tr><td colspan="2">1. Name:</td><td colspan="3"></td></tr>
<tr><td colspan="2">2. Type of Business:</td><td colspan="3">(1) Life
(2) General
(3) Reinsurance</td></tr>
<tr><td colspan="2">3. Date of Risk Assessment:</td><td colspan="3"></td></tr>
<tr><td colspan="2">4. Date of Report:</td><td colspan="3"></td></tr>
<tr><td colspan="3">5. Level of Risk</td><td colspan="2">6. Risk Value:</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td>7. Type of Risk</td><td>8. Cause of Risk</td><td>9. Follow-up Action Plan</td><td>10. Timeframe</td><td>11. PIC</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
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<tr><td colspan="5"></td></tr>
<tr><td colspan="5">Prepared by:</td></tr>
<tr><td colspan="3">12. Name</td><td colspan="2">13. Signature</td></tr>
</table>

14. Position	
Acknowledged by:	
15. Name	16. Signature
17. Position	

Guideliness to fill out:

1. Name of Insurance or Reinsurance Company
2. Choose one from the list of types of Insurance or Reinsurance Company.
3. Date of risk assessment that becomes the basis of the follow-up plan
4. Date of signed risk assessment report
5. Risk level of Insurance or Reinsurance Company from assessment, as specified in item 3.
6. Risk value of Insurance or Reinsurance Company from assessment, as specified in item 3.
7. Type of risk as outlined in OJK Regulation No. 10/POJK.05/2014 regarding Risk Level Assessment of Non-Bank Financial Institutions
8. Cause of risk
9. Follow-up action plan to be taken to reduce risk level for every type of risk area.
10. Targeted timeframe for every step to be taken in the follow-up action plan, can be either the date of completion or starting date and ending date if the plan does not start immediately after follow-up action plan is developed

11. Unit in charge to implement follow-up action plan
12. Name of official preparing the follow-up action plan of risk assessment of Insurance or Reinsurance Company
13. Signature of the official preparing the follow-up action plan
14. Position of the official who prepared the follow-up action plan of risk assessment of Insurance or Reinsurance Company
15. Name of director or any equivalent position holder in Insurance or Reinsurance Company who handle risk management of Insurance or Reinsurance Company
16. Signature of director or any equivalent position holder in Insurance or Reinsurance Company who handle risk management of Insurance or Reinsurance Company
17. Position of director or any equivalent position holder in Insurance or Reinsurance Company who handle risk management of Insurance or Reinsurance Company.

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