CIRCULAR LETTER
CL150121

15 January 2021

The Chief Executive Officers and Managing Directors
All Long Term Insurers

Dear Sir/ Madam

GUIDELINES ON STRESS TEST REQUIREMENT FOR LONG TERM INSURERS


2. The objective of the Guidelines is to assist long term insurers in calculating the stress test requirements, as required by the Insurance (Long Term Insurance Business Solvency) Rules 2007.

3. The purpose of stress test requirement is to quantify the minimum level of assets in excess of liabilities so as to enable the insurer to meet all the obligations as and when they are due and to provide sufficient cushion against adverse deviations in experience in any of the variables used in the valuation of liabilities as required by the Insurance (Long Term Insurance Business Solvency) Rules 2007.

4. Part I of paragraph 2.5.8.3 (ITEM h (ii): Worse investment return capital adequacy requirement) of the Guidelines has been amended.

5. For ease of reference, part I of paragraph 2.5.8.3 of the Guidelines read:

(a) Pre-amendment:

The “worse investment return” scenario assumes that future investment returns would be 0.85 of the valuation assumption (test for a 15% relative reduction) subject to minimum of 2% per annum lower than assumed in valuation. This implies that the valuation interest rate used in valuing both assets and liabilities and the assumed growth rates for future dividends and rentals, where applicable, must all be reduced to 0.85 of the valuation rate per annum, subject to a minimum reduction of 2% per annum.
(b) **Post-amendment:**

The “worse investment return” scenario assumes that future investment returns would be 0.80 of the valuation assumption (test for a 20% relative reduction) subject to minimum of 1% per annum lower than assumed in valuation. This implies that the valuation interest rate used in valuing both assets and liabilities and the assumed growth rates for future dividends and rentals, where applicable, must all be reduced to 0.80 of the valuation rate per annum, subject to a minimum reduction of 1% per annum.

6. The updated [Guidelines](#) is available on the FSC’s website.

7. All Long Term Insurers are informed that the amendments to part I of paragraph 2.5.8.3 of the Guidelines (paragraph 5(b) of this circular letter) is effective for reporting periods beginning on or after 01 January 2020.

Signed by Mr Dhanesswurnath Thakoor, Chief Executive, on 15 January 2021.