2013.2 RR BCUC.180.1 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-11 to 4-13
Exhibit B-3, 2013.1 RR BCUC.66.6
130% MCT Solvency Target

In 2013.1 RR BCUC.66.6, ICBC states:

"...the 130% MCT Solvency Target was calculated based on an industry standard risk analysis to estimate the amount of Basic capital that is needed to cover plausible adverse events and still remain above he regulatory minimum of 100% MCT. The Commission accepted that analysis and ICBC does not see any basis to deviate froth the Solvency Target as determined from the risk analysis at this time."

As the risk analysis testing (DCAT testing) used by ICBC to select and recommend a 130% MCT level (which the Commission approved) took into consideration plausible adverse events and their impact on the MCT known at the time, should the DCAT test be updated to take into consideration and integrate the +/-1.5% rate caps change limitation and the restriction on decreases to rates too? If not, why not? (If ICBC has updated the DCAT testing, provide a summary of the findings.)

Response:

ICBC recently conducted an internal analysis to review the current Basic insurance solvency MCT target of 130% and the impact on the proposed capital management target as a result of the proposed rate smoothing provisions. That review confirmed that the solvency target of 130% continues to be reasonable, and a 20-point MCT margin for rate smoothing is indicated.

ICBC's risk profile has changed somewhat since filing its Basic capital management target analysis with the Commission in June 2008 as a result of internal and external factors. ICBC's actuaries quantify the potential financial consequences to ICBC under adverse scenarios, meeting with senior management to better understand and evaluate the risks facing ICBC as a precursor to developing those plausible adverse scenarios. The scenarios of the 2013 analysis are consistent with the scenarios that were used in the 2008 analysis and reflect the following notable changes to the risk environment since the 2008 filing:

- Greater volatility in the equity market returns is assumed going forward as a result of the economic downturn in 2008.
- Concerns of high inflation in the short-term are less than in 2008.

- The risks associated with the adverse development of unpaid claim are ongoing with different risks emerging from time to time. The actuaries respond to new risks with appropriate adjustments to their methods and assumptions.

Similar to the analysis filed with the Commission in June 2008, single adverse scenarios were constructed at the 10% probability level. Table 1 below summarizes the indicated management targets based on these scenarios. It is the most severe of the 10% scenarios that indicates the management target.

Table 1 – Indicated Target by Scenario

Plausible Adverse Scenarios	Solvency Target	Management Target
Asset Decline	133%	153%
Adverse Loss Cost	121%	144%
Adverse Unpaid Claims	120%	142%
Unanticipated Inflation	118%	145%

The industry standards for setting capital management targets has evolved since 2008, making use of stress testing and increasing attention on the use of integrated scenarios in the risk analysis. Integrated scenarios assume more than one adverse scenarios will happen simultaneously. ICBC will consider using integrated scenarios in future risk analyses to be consistent with industry standards; however, this may support the need for an even higher Basic capital management target going forward.