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Ongoing regulatory changes in Singapore

Milliman

As part of its continued effort to enhance the governance of the insurance industry in Singapore, the Monetary Authority of Singapore (MAS) has issued a number of new notices and guidelines in recent weeks. A summary of the key changes is set out below.

1. Guidelines on risk management practices and enterprise risk management (ERM)

The MAS issued revised Guidelines on Risk Management Practices aimed at providing “sound risk management practices to financial institutions (which include banks, direct insurers, reinsurers and captive insurers)”. In conjunction with the revised Guidelines, the regulator also released MAS Notice 126 (Notice on ERM for insurers). One of the key mandatory requirements of MAS Notice 126 is that insurers must put in place an ERM framework which covers the identification and quantification of key risks. The approach and assumptions underlying the framework will need to be documented and signed off on by senior management.

Key requirements of the framework are as follows:

- **Risk management policy:** Insurers must put in place a risk management policy that outlines how all relevant and material categories of risk are managed, including those affecting both the insurer’s business strategy and its day-to-day operations.
- **Risk tolerance statement:** Insurers must establish and maintain a risk tolerance statement which defines their overall quantitative and qualitative risk tolerance limits.
- **Risk responsiveness and feedback loop:** Insurers are required to put in place a feedback loop which forces management to monitor and respond in a timely manner to changes in risk profile.
- **Own risk and solvency assessment (ORSA):** An insurer must perform its ORSA at least annually to assess the adequacy of its risk management, as well as assess current and projected future solvency positions using a time horizon which is consistent with that used for internal business planning. The ORSA will need to include an assessment of the insurer’s economic and regulatory capital requirement given its own risk tolerance and business plans, and an analysis of its ability to continue its operations under a range of plausible adverse scenarios, i.e., stress testing. The board of directors and senior management will be responsible for the ORSA, and the formal ORSA report (including an extract of minutes of the board of director’s deliberations on the ORSA report) will need to be lodged with the MAS.

This notice shall take effect on 1 January 2014. For a Tier 1 insurer (total assets of at least SG$5 billion), the ORSA report must be lodged annually with the MAS, with the first ORSA report due on or before 31 December 2014. For all other insurers, the first ORSA report is due on or before 31 December 2015, and every third year thereafter.

2. Notice on investments of insurers

A new notice on investments of insurers (MAS Notice 125) has been introduced. This notice takes effect from 1 January 2014 and replaces MAS Notice 104 (use of derivatives for investment of insurance fund assets) and MAS Notice 317 (asset management of life insurance funds). The purpose of the new notice is to raise the qualitative requirements on the investment activities of insurers. The key features are as follows:

- **Coverage:** The new regulations will be extended to direct general insurers and reinsurers, who are currently exempted from MAS Notice 317. Consistent with direct life insurers, these entities will be required to establish an investment policy and investment committee.
- **Shareholders’ fund:** Regulatory requirements under MAS Notice 104 and MAS Notice 317 only applied to insurance funds. The new notice extends the scope to include shareholders’ funds, as investment outcomes there could have an adverse impact on the solvency of an insurer.

- **Asset liability management (ALM):** The new notice includes more explicit and detailed guidance on ALM. In particular, there is a requirement for a board-approved policy, which will need to clearly state the nature, role and extent of ALM activities and their relationship with investment management, product development and pricing functions.

- **Quarterly reporting:** The new notice requires the investment committee to report to the board of directors at least quarterly.

- **Other amendments:** Other amendments include providing greater clarity on the existing requirements.

3. Guidelines on use of internal models for liability and capital requirements for life insurance products containing investment guarantees with non-linear payouts

In 2009, the MAS issued a consultation paper setting out proposed guidelines governing the use of internal models developed by insurers for the determination of liability and capital requirements for products with investment guarantees which have non-linear payouts. The MAS has recently refined these guidelines following comments received from an industry workgroup comprising of representatives from the Singapore Actuarial Society, the Life Insurance Association and the MAS, which was established to develop the technical details in relation to the guidelines. The main amendment contained within the new guidelines is presented in Appendix A, which sets out the minimum standards on the level of technical documentation that is required. The appendix provides a checklist of information that should be covered within the technical documentation in order to ensure that the information is sufficiently detailed for the MAS to make an assessment of the insurer's use of an internal model.

4. Public disclosure requirements

In order to improve market discipline and for the public to understand the risks to which an insurer is exposed and the manner in which those risks of managed, the MAS has issued new rules in relation to public disclosure in a new MAS Notice 124. The new notice requires a registered insurer to disclose to the public information in relation to company profile, key features of its corporate governance framework and management controls, quantitative and qualitative information on key risks and financial information as prescribed by the notice. Where any required disclosure has been made in the insurer's annual returns or any document lodged with the Accounting and Corporate Regulatory Authority (ACRA) that will be made publicly available, the insurer need not repeat the disclosure but will have to provide in its official website all links of references to such disclosures. Registered insurers will have to comply with the notice in respect of all accounting periods or financial years beginning on or after 1 January 2013.

5. Revised regulations on corporate governance

The MAS has issued new subsidiary legislation in relation to corporate governance (Insurance [Corporate Governance] Regulations 2013) as well as revised Guidelines on Corporate Governance. The new subsidiary legislation applies to all direct insurers and reinsurers incorporated in Singapore other than marine mutual insurers. The legislation categorizes insurers and reinsurers into two tiers based on the size of total assets or annual gross premiums, with key obligations specified within each of these tiers. The revised Guidelines on Corporate Governance will apply to all financial holding companies, including banks, direct insurers, reinsurers and captive insurers (collectively known as financial institutions) and provides guidance on best practices that such financial institutions should strive to achieve in relation to their corporate governance.

Conclusions

Once again, the MAS has taken a proactive role in refining the risk management and corporate governance practices and enhancing public disclosure in line with international best practices, with increasing responsibilities placed on senior management and the board of directors.

Although the ERM regulations are expected to take effect from 1 January 2014, the requirements are comprehensive and insurers are already starting to plan in advance in order to meet them.

The industry is also in the midst of responding to the MAS consultation paper on the Recommendations of the Financial Advisory Industry Review that was released in March 2013, with responses due by 4 June 2013. The results of this consultation will be covered in a future e-Alert.

Contact details

If you have any questions about this e-Alert, please contact:

Richard Holloway
Managing Director South East Asia & India Life
180 Cecil Street, #10-01 Bangkok Bank Building
Singapore 069546
Office +65 6327 2301
Fax +65 6221 0642
Mobile +65 9732 0150
Email **richard.holloway@milliman.com**

Wen Yee Lee
Principal & Consulting Actuary
180 Cecil Street, #10-01 Bangkok Bank Building
Singapore 069546
Office +65 6327 2302
Fax +65 6221 0642
Mobile +65 9655 6829
Email **wenyee.lee@milliman.com**

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