



Monetary Authority of Singapore

# Updates on Local Actuarial Issues

Presentation at Singapore AA Symposium

4 November 2010

# AGENDA

1. Risk-based Capital
  - Financial Resource Adjustments
  - Capital Treatment for Reinsurance
  - Amendment of A&S Regs
2. Liquidity Requirements
3. Internal Models
4. Stress Testing for Insurers
5. Par Fund Review
6. Amendment of Actuaries Regs
7. Asset-Liability Management
8. Policy Owner's Protection Fund
9. Framework for Reinsurance Management

# Risk-based Capital

## 1. Financial Resource Adjustments

- MAS issued a circular on 17 Nov 2009 on the application of FRA:
  - a) Clarification of the definition of FRA in V&C Regs;
  - b) Amendment to V&C Regs to include as FRA: (i) equity investments in related corporation; (ii) all charged assets, including those pledged in the conduct of insurance business; and
  - c) Proposal to apply FRA to unsecured amounts owed by a related party, arising from a contract of insurance, only 30 days after they are recorded in the insurer's books.

# Risk-based Capital

## 2. Capital Treatment for Reinsurance

- MAS is reviewing the credit given for reinsurance ceded and intends to propose changes in the following areas:
  - a) Reinsurance arrangements with Head Office/related parties
  - b) Risk requirement on reinsurance recoverables on paid claims
  - c) Reinsurance adjustment for general business
- Consultation targeted by end 2010

# Risk-based Capital

## 3. Amendment to A&S Regs

- Consider for reporting basis used in MAS returns to be aligned to FRS as far as possible
- Information requirements in MAS returns will be reviewed in tandem with development of accounting standards and changes in RBC framework
- Streamlining of MAS Forms to avoid duplication
- In July 2010, the International Accounting Standards Board published the exposure draft on Insurance Contracts. MAS is currently studying the proposals in this exposure draft.

# Liquidity Requirements

- Review current rules with a view of more clearly distinguishing between solvency and liquidity requirements
- Consider measures to take into account liquidity risk of insurers

# Internal Models

- Issued response to consultation on “Guidelines on Use of Internal Models for Liability and Capital Requirements for Life Insurance Products Containing Investment Guarantees with Non-Linear Payouts” in Apr 2010
- Commenced a tripartite workgroup with SAS and LIA to work on selected technical aspects of MAS’ Guidelines such as:
  - Scenarios to be used in projections and stress-testing
  - Correlation modelling
  - Costing of guarantees
  - Minimum Quantitative Standards
  - Backtesting
- Expected Completion: Dec 2010

# Stress Testing for Insurers

- For life insurance stress testing:
  - Revised the macroeconomic stress scenario;
  - Shortened the projection period to 3 years;
  - Introduced Stress-to-Failure scenarios; and
  - Shortened submission deadline to 5 months from last day of accounting period
- Introduced stress testing for direct general insurers, who have submitted their reports at end of Jul 2010
- MAS has/will be following up with individual insurers and the industry (where necessary) on recommended enhancements to the stress test reports.



# Par Fund Review

- Review of Notice 101 to provide more guidance on what expenses can or cannot be charged to the par fund
- Review if there is a need to tighten or amend Notice 320
- Target to issue consultation on Notices 101 and 320 by Q1 2011
- LIA to provide in the Product Summary a better layman explanation on how bonuses are determined (with SAS' inputs); LIA to educate public by editorials and publishing these in form of booklet (Target : end 2010)
- SAS in process of developing Guidance Notes on bonus determination

# Amendment of Actuaries Regs

- Review of Actuaries Regs and related provisions in the IA for appointment of key persons
- Mandatory requirements relating to :
  - Approval process of these key persons
  - Their role and responsibilities (potential conflicts of interest between CFO and AA roles)
  - MAS' assessment criteria (including fitness and propriety, conflict of interest, engagement with other insurers, etc.)
- Target to issue for consultation in Nov 2010

# Asset-Liability Management

- MAS targets to issue a consultation in 2011 on the ALM Guidelines, which seek to provide guidance on sound practices to identify and mitigate insurers' exposures to ALM risks

# Policy Owner's Protection Fund

- Second consultation paper on PPF (revisiting some of the Phase 1 issues on level and scope of coverage, and covering Phase 2 operationalisation details) and consultation paper on insurance resolution framework issued in Dec 2009, and response papers in Aug 2010
- LIA briefed on the consolidated key positions in Sep 2010
- Insurers asked to provide data for purposes of re-computing the target fund size and levies. MAS will consult on the target fund size and levies in early 2011

# Policy Owner's Protection Fund

(cont'd)

- Target public consultation on the Deposit Insurance and Policy Owners' Protection Fund Schemes Bill, and Insurance (Amendment) Bill for Insurance Resolution by end 2010
- Target legislative changes in 1H 2011 and operationalisation of PPF in 2H 2011
- AAs should consider how to streamline the ways in which to compute PPF levies and actual PPF payouts/transfer value, e.g. wrt aggregating policy details at life assured level, and between individual and voluntary group schemes

# Framework for Reinsurance Management

- Weaknesses in reinsurance arrangements may impair insurer's liquidity or capital position, and possibly affect its ability to meet obligations to policyholders and claimants
- Several unsatisfactory practices in reinsurance management were observed in the course of MAS' supervision
- MAS issued consultation paper in Jun 2010 to, amongst other things:
  - a) Require a direct insurer to submit information on its outward reinsurance arrangements on an annual basis
  - b) Remove the need to seek MAS' approval before entering into financial reinsurance arrangements in respect of life insurance business
  - c) Incorporate a general provision in V&C Regs that MAS may invoke to reduce capital relief if a reinsurance contract involves insignificant risk transfer or contains terms or characteristics that may jeopardize an insurer's ability to meet its policy liabilities
  - d) Amend A&S Regs to require insurers to disclose any reinsurance financing contract that does not require significant insurance risk transfer
- Target to respond to feedback on consultation by Dec 2010



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THE END