Review of Enterprise Risk Management for Insurers

Response to the

Monetary Authority of Singapore

Consultation Paper P002-2013 (January 2013)

By

Singapore Actuarial Society

7 March 2013

SINGAPORE ACTUARIAL SOCIETY
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7 March 2013

Ms. Luz Foo
Head, Insurance Department
Monetary Authority of Singapore
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Dear Ms. Foo,

Re: Consultation Paper P002-2013
Enterprise Risk Management for Insurers ("ERM for Insurers")

The Singapore Actuarial Society ("the Society") is pleased to present the response to the proposals put forward in the above Consultation Paper on the ERM for Insurers undertaken by MAS. The Society strives to promote actuarial best practices in the insurance industry and the responses represent the views of members who will be heavily involved in implementing changes to the ERM framework for insurers.

This document is the culmination of efforts put in by the Enterprise Risk Management ("ERM") Committees and the Council of the Society to draft the preliminary response. This document was subsequently circulated to the general membership. Members contributed their views on the draft response, via e-mail followed by an open forum held on 25 February 2013, which was attended by more than 60 members.

Our final responses took into account all the views expressed. While these responses represent the majority view of members of the Society, they may not represent the views of every individual member. They also represent the views of the profession and not those of the employers of, or other parties receiving advice from, our members.

The Society will be publishing the response on the Society's website and it will be available to the public.

We are looking forward to meeting with you and your team at a suitable date to discuss the Society's responses. If you or they have any questions or wish to speak to me, I may be contacted at **President@actuaries.org.sg** or **Jhoffman@MunichRe.com** or at +65 6318 0764.

Yours sincerely,

Jill Hoffman

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About the Singapore Actuarial Society

The Singapore Actuarial Society was formed in 1976. At that time, the profession was little known in Singapore and there were only a handful of qualified actuaries. The adoption of the new Constitution in July 1996 and the Code of Professional Conduct in November 1997 is the fruition of efforts made in the past two decades to promote the study of actuarial science and professional standards.

The Society is the recognised representative body of the actuarial profession in Singapore, having the final authority in setting professional standards. The objectives of the Society are:

- to uphold the highest professional standards among members;
- to serve the public's interest in matters we are uniquely qualified to respond on;
- to promote the study, discussion, publication and research into the application of economic, financial and statistical principles to practical problems, the actuarial, economic and allied aspects of life assurance, non-life insurance, employee retirement benefits, finance and investment with particular reference to Singapore and the ASEAN region;
- to assist students in the course of their actuarial studies;
- to further the professional development of actuaries; and
- to foster and encourage social relationship among the members.

Our office is located at 81 Clemenceau Avenue, #04-15/16 UE Square, Singapore, 239917. Please visit our website www.actuaries.org.sg for more information.

Consultation Response
Review of Enterprise Risk Management for Insurers

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Section 1 – Background and Scope

1.1 The Monetary Authority of Singapore ("MAS") issued a Consultation Paper on 23 January 2013 entitled Enterprise Risk Management for Insurers ("the Consultation Paper").

1.2 The Society's Enterprise Risk Management ("ERM") Committee together with the Council of the Society ("the Taskforce") conducted a meeting on 6 February 2013 to review the Consultation Paper and provided our responses.

1.3 The recommendations for responses to the Consultation Paper proposed by the Taskforce were presented to the Society's membership at large for comment and posted on the Society's website.

1.4 The final responses from the Society, taking into account comments from our members on the recommendations of the Taskforce, were reviewed and approved by the Council of the Society.

1.5 The comments and recommendations in the Society's responses are:

- based on actuarially sound principles and not on subjective bases or opinions;
- the independent views of the Society based on feedback from those individual members of the Society who responded to the Consultation Paper, and do not represent the views of any company, firm or any other association with which any of our members may be engaged in or with;
- consistent and coherent views across different core practices (e.g., life insurance, general insurance); and
- solely directed to the Consultation Paper and may not necessarily be applicable to any other regimes and jurisdictions outside Singapore.

1.6 This document incorporates the responses from the members of the Society and consists of an Executive Summary in Section 2, which is followed by more in-depth comments and recommendations on the individual Proposals, raised in the Consultation Paper, in Section 3 of this report.

1.7 The list of Taskforce members can be found in Appendix 1.

Section 2 – Executive Summary

2.1 In general, the Society is supportive of the objectives of the MAS as contained in the Consultation Paper. However, the Society would like to highlight several issues and concerns.

Important concern

2.2 The MAS has issued a number of consultation papers and guidelines over the last few months. These consultation papers and guidelines were closely aligned with the best practice requirements presented in the Insurance Core Principles (“ICP”) issued by the International Association of Insurance Supervisors (“IAIS”). Different consultation papers and guidelines aim to address different aspects of the ICP requirements and each comes with its own tight timeline of implementation generally within the next one to two years. In totality, however, the full requirements that insurers need to abide can be very burdensome.

General comments specifically to the ERM Consultation Paper

2.3 The Taskforce noted that the Consultation Paper places very high emphasis on documentation and reporting requirements. However, the high emphasis on documentation and onerous reporting requirements together with very tight timeline could be perceived by company senior management and the board of directors as merely a compliance exercise.

2.4 This is counter intuitive as the purpose of the MAS issuing those ERM guidelines would be essentially to raise the risk awareness and improve the ERM culture in the insurance industry in Singapore, and not merely a ticking-the-box exercise. Implementing requirements too much too soon would certainly be perceived as overhaul by the insurance industry. The value of ERM would be diminished as long as it is perceived as a compliance exercise.

2.5 The Taskforce believes that communication on risk information should be enhanced to be in line with the proposed ERM framework, but it does not necessarily mean more onerous reporting requirements. For example, communication could be enhanced in the initial stage through regular dialogues with key insurers and reinsurers in the market. This would allow the MAS to assess the maturity of the ERM development in the industry over time.

2.6 The Taskforce proposes that MAS should adopt a principle-based approach in formalising the ERM guidelines and apply them differently to insurers according to the nature, scale and complexity of the risk profile of different insurers. Use a rule-based approach and applying a ‘one-size fits all’ method across the whole insurance industry would not necessarily be appropriate.

2.7 The Taskforce would recommend that MAS should allow time for companies to implement the ERM framework and promote risk culture within their organisation. Any proposed requirements on documentation should be proportional to the maturity of the ERM development in the insurance industry.

2.8 The Taskforce is of the view that, despite aggressive timeline, it would probably be fine for the requirements to come into effect on 1 January 2014 so long as the first reports are due later than what was currently proposed.

Section 3 – Responses on Individual Proposals

Proposal 1

MAS proposes to apply the ERM requirements to all registered insurers, except captive insurers and marine mutual insurers

Comments on inclusion

3.1.1 The Taskforce would like to find out whether the definition of "all registered insurers" would also include "all registered reinsurers".

3.1.2 The current regulations exempt reinsurers from the stress-testing exercise. Would this be the same once the ERM guidelines are implemented?

3.1.3 With regards to the "registered insurers" from a legal entity perspective, will there be difference between a subsidiary office and a branch office in Singapore? Would the ERM requirements apply to both?

Comments on exclusion

3.1.4 The Taskforce believes that it is still important for captives and marine mutual insurers to have sound ERM framework and internal control measures. For example,

a. if a captive runs into trouble due to poor internal controls, it will affect its parent company; and

b. If a marine mutual insurer runs into problems, the members of its association will suffer losses.

3.1.5 There are also specific comments relating to the reason(s) stated to exclude these insurers:

a. For captive insurers it was noted that because they *"underwrite in-house risks"*, the implementation of an ERM framework is less necessary. The Taskforce would like to point out that there are some open captives who also underwrite outside risks, so the statement is not always true.

b. For marine mutual insurers, it was noted that because they *"underwrite risks belonging to members of their association",* the implementation of an ERM framework is less necessary. If this statement is a valid point, it should also include all Lloyd's syndicates who also "underwrite risks belonging to the members of the syndicates". The Taskforce also noted that mutual insurers are not excluded from the scope of Solvency II regime in the European Union region.

3.1.6 In addition, excluding certain insurers in the ERM scope may change the competitiveness and level playing field of the insurance industry in Singapore. This side-effect might not be welcomed by the insurance industry.

Recommendation

3.1.7 The Taskforce would like to highlight that consideration of whether to include an insurer in the scope of ERM requirements should be based on the principle of proportionality and materiality. (See also section 3.11.5 to 3.11.8)

3.1.8 We propose that the definition of "all registered insurers" should also include "all registered reinsurers".

3.1.9 The ERM requirements should apply to any insurer whether it is a subsidiary office or a branch office.

3.1.10 The Taskforce would propose to include marine mutual insurers and captives in the scope of the ERM guidelines unless MAS will be issuing specific ERM guidelines for them separately.

Proposal 2

For an insurer which is part of a group that maintains a group-wide ERM framework, MAS proposes to allow the insurer to rely on its group's ERM framework to meet the ERM requirements, subject to the insurer's own assessment of the relevance of the risks identified and the appropriateness and adequacy of techniques employed to measure the risks.

3.2.1 The Taskforce agrees with the proposal.

Proposal 3

MAS proposes to require each insurer to establish an ERM framework which provides for the identification and quantification of risks under a sufficiently wide range of outcomes, using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and are adequate for risk and capital management, and for solvency purposes.

The ERM framework shall also identify and address all reasonably foreseeable and material risks to which the insurer is, or is likely to become, exposed. Such risks shall include, at a minimum:

- *Insurance risk*
- *Market risk*
- *Credit risk*
- *Operational risk*
- *Liquidity risk; and*
- *Additional risks arising due to membership of a group (if applicable)*

The ERM framework shall also be supported by accurate documentation, providing detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.

Comments

3.3.1 Depending on the level of sophistication in the techniques required, the Taskforce believes that quantifying correlation (say by using correlation matrix) and interdependencies (say by using copula) of risk categories would be challenging for many insurers in Singapore.

3.3.2 The Taskforce also noted that not all risks are quantifiable, in particular, operational risk and group risk.

3.3.3 Page 16 of the Consultation Paper highlighted many area of group risk, including contagion, leveraging, double or multiple gearing, concentrations, large exposures, and complexity, participations, loans, guarantees, risk transfers, liquidity, outsourcing arrangements and off-balance sheet exposures. However, the Taskforce thinks that it is not practical to assess every aspect of group risk outlined above.

3.3.4 With regards to the identification and quantification of risks, the linkage between the ERM framework and the proposed Risk Based Capital 2 ("RBC2") framework is unclear or not well-defined.

Recommendation

3.3.5 The Taskforce would like to propose that risks are to be quantified only to the extent possible and practical. However, risk categories that are not easily quantifiable, such as operational risk and group risk, would still need to be assessed qualitatively. Insurers should provide explanation as far as possible where risks are not quantifiable and justify the treatment they have used to assess those risks.

3.3.6 MAS could provide more guidance on what it means by 'sufficiently wide range of outcomes' as well as the level of sophistication in the 'techniques' required for identification and quantification of risks, particularly in relation to quantifying correlation and interdependencies of risk categories.

3.3.7 The Taskforce suggests that model risk to be included in the scope of the ERM framework, if it is not already covered in other risk categories.

3.3.8 Under section 3.8 of the Consultation Paper, the requirements on documentation should be proportional to the nature, scale and complexity of the risks concerned. We propose that any documentation should address only material risks but not every aspect of the risk categories.

Proposal 4

MAS proposes to require each insurer to establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance limits, taking into account its financial strength and long term business goals.

Comments

3.4.1 The Taskforce agrees with the proposal that each insurer should establish and maintain a risk tolerance statement.

Recommendation

3.4.2 The Taskforce suggests that the definitions and terms used in the Consultation Paper should be consistent. For example, we noted the use of both "risk tolerance statement" and "risk appetite statement" in the Consultation Paper. Unless they have different meanings (which would need to be defined clearly), we recommend that only one term should be used consistently throughout the Consultation Paper.

3.4.3 All the terms used should be clearly defined. For example, the term “risk tolerance limits” was not defined in the Consultation Paper.

Proposal 5

MAS proposes to require each insurer to have a risk management policy which, at a minimum, encompasses the following areas:

(a) the insurer’s policy for managing the risks to which it is exposed, including underwriting and investment risks;

(b) the insurer’s policies towards risk retention, risk management strategies including reinsurance and the use of derivatives, diversification and asset-liability management. For insurance risks, particular attention should be paid to risk retention and risk transfer, as well as take into account of the effectiveness of risk transfer under scenarios of financial distress;

(c) the insurer’s policy regarding the processes and methods for monitoring risk; and

(d) the relationship between its risk management policy, of the insurer’s risk tolerance limits, its management of capital, and its corporate objective and strategy (which takes into account current circumstances).

Comments

3.5.1 The Taskforce noted that 5(b) stated in the **Proposal 5** is a more detailed description of various activities under underwriting and investment risks in 5(a).

Recommendation

3.5.2 We recommend that the statement in 5(a) and 5(b) should be combined. Alternatively, 5(b) could become a sub-bullet point of 5(a).

3.5.3 The risk management policy should also cover the risk management framework and its structure.

Proposal 6

MAS proposes to require each insurer to ensure that its ERM framework is responsive to changes in its risk profile, and include mechanisms to incorporate new risks and new information on a regular basis. A review of the ERM framework to ensure this should be carried out at least every quarter.

In addition, there should be in place a feedback loop to enable the insurer to monitor and respond in a timely manner to changes in its risk profile.

Comment

3.6.1 The Taskforce believes that the entire ERM framework should not be changed frequently, so there is no need to review on a quarterly basis.

3.6.2 In addition, if the insurer adopted the ERM framework from its overseas parent, the insurer may not have the necessary power to change its ERM framework.

Recommendation

3.6.3 The Taskforce proposes to leave to each insurer's own discretion to decide on the frequency to review its ERM framework.

3.6.4 In addition, we recommend that there should be quarterly review of material risks and significant changes in risk profile through each insurer's own ERM framework (e.g., through its Risk Management Committees).

Proposal 7

MAS proposes to require each insurer to perform its ORSA, at least annually, to assess the adequacy of its risk management, as well as its current, and projected future, solvency position. When undertaking its ORSA, each insurer will be required to document the rationale of the decisions, considerations and assumptions made; calculations related to its decisions; and action plans arising from its ORSA.

The ORSA shall encompass all reasonably foreseeable and relevant material risks including, at a minimum:

(a) insurance risk
(b) credit risk
(c) market risk
(d) operational risk
(e) liquidity risk
(f) additional risks arising due to membership of a group, if applicable.

The ORSA shall also identify the relationship between risk management and the level and quality of financial resources that is needed and available.

Comments

3.7.1 The Taskforce agrees with an annual Own Risk & Solvency Assessment ("ORSA") proposal.

3.7.2 However, it is unclear how an annual ORSA ties in with the once-in-three years reporting requirements for Tier 2 companies.

Recommendation

3.7.3 The Taskforce recommends that MAS should allow insurers to submit the same ORSA report if they have already provided one for their overseas group submission.

Proposal 8

MAS proposes to require each insurer, as part of ORSA, to:

(a) determine its overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that regulatory requirements are met;
(b) base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources; and
(c) assess the quality and adequacy of its capital resources to meet regulatory and economic capital requirements.

Comments

3.8.1 The Taskforce acknowledges that economic capital ("EC") is probably the best way to measure or manage risk and capital, and we certainly would encourage every insurer to work towards using EC to manage its own business.

3.8.2 However, the Taskforce believes that EC should not be made mandatory for all insurers (see **Proposal 9**), given other priorities of ERM in the near term. Insurers should be encouraged to develop the capabilities to assess EC, but they should be given an extended timeframe to implement EC models for this purpose.

3.8.3 How do the EC requirements tie in with the internal model proposal suggested in the RBC2 consultation paper?

3.8.4 We would also seek MAS clarification whether "regulatory capital requirements" refers to Minimum Capital Requirements ("MCR") or Prescribed Capital Requirements ("PCR") under the RBC2 framework.

Recommendation

3.8.5 The Taskforce proposes to review EC as mandatory requirements only in the later stage, perhaps to align with the next phase of internal model proposal in RBC2.

3.8.6 In the Society's ***RBC2 response report*** dated 29 August 2012, the Society has provided some points for consideration by MAS in proposal 7 in drawing up the internal model regulatory and supervisory framework. These points are also applicable for consideration in this proposal.

3.8.7 If EC is not made mandatory, the wording of **Proposal 8** would need to change accordingly.

Proposal 9

MAS proposes to allow insurers to adopt a simplified approach to economic capital calculations if based on nature, scale and complexity of their business and risks, the insurer deems this to be appropriate. The reasons should be clearly articulated and justified in the ORSA.

Comments

3.9.1 This proposal seems to suggest that the calculation of EC for insurers would be a mandatory requirement. However, the Taskforce would like to highlight that:

- Not all companies have the resources to invest in an economic capital model ("ECM"), even if it is a simplified one;

- Companies may not have the resources to monitor and maintain an ECM; and

- Using an (over-)simplified ECM may not reflect the correct risk profile of the insurer. Over-reliance on an over-simplified ECM may give a false sense of security (or worries) to the senior management and the Board that the company is doing well (or badly).

3.9.2 In addition, there are other important aspects of ERM (e.g., building the framework, defining risk appetite, setting tolerance limits, and promoting risk culture within the organisation) which arguably can add more value in the near term than building an ECM.

3.9.3 For smaller companies, the cost of investing in capital modeling could be prohibitive compared to the benefits they stand to reap.

Recommendation

3.9.4 As in section 3.8.4, the Taskforce is of the view that EC should not be made mandatory for all insurers.

3.9.5 The MAS should also allow companies to use other forms of capital model such as Standard & Poor's capital model, so long as the insurers can articulate and justify their use.

Proposal 10

MAS proposes to require, as part of continuity analysis, to identify likely causes that may result in its business failure through the use of reverse stress testing and take necessary actions to manage this risk. "Business failure" is defined as:

(a) the insurer's solvency position failing below any regulatory capital requirement;
(b) the insurer's capital position failing below any internal target; or
(c) the insurer being wound up.

As part of the insurer's identification of causes for business failure, it shall maintain contingency plans and procedures for use in a going concern or winding-up situation, to identify precautionary, countervailing and off-setting measures that could be taken.

Comments

3.10.1 This proposal suggested that "internal target" would be a mandatory requirement for all insurers.

3.10.2 On the definition of "business failure", the Taskforce thinks that failing internal target does not necessarily result in business failure. It merely means a red flag. In fact, an insurer cannot possibly breach the business failure definition for (a) & (c) before (b), which makes (b) redundant.

3.10.3 The term "reverse stress testing" makes its first appearance in the Consultation Paper but without proper definition. Is reverse stress testing a generally understood concept, with techniques which are applied in a fairly consistent manner by all actuaries undertaking it?

3.10.4 The proposal also implies that there will be dual reporting requirements for stress testing – the first one (prescribed scenarios) continues to be in the scope of the existing stress testing report requirements while the other (self select scenarios) will fall within the scope of ERM.

3.10.5 Would the Appointed Actuary/Certifying Actuary or the Chief Risk Officer be the signing authority for the 2 separate stress testing reports?

Recommendation

3.10.6 The Taskforce recommends that "internal target" should not be made a mandatory requirement for all insurers.

3.10.7 We propose to remove (b) (i.e. the insurer's capital position failing below any internal target) as a definition of 'business failure'.

3.10.8 The stress testing requirement in the ERM scope need not have the same reporting timeline as the current statutory stress testing report since the two reports serve two different purposes. In fact, as insurers' audited financial statements are normally only finalised by end of Q1 for each year, the MAS should allow the ERM's stress testing report to be finalised and submitted only by end of Q2 for each year.

Proposal 11

MAS proposes to require a Tier 1 insurer to submit its latest ORSA report, together with the minutes of the Board's deliberation and approval of the report, on an annual basis. The first report is to be submitted by 30 April 2014 and annually thereafter.

For a Tier 2 insurer, the first report is to be submitted by 30 April 2015 and by 30 April of every third year thereafter (i.e. the next report is to be submitted by 30 April 2018).

Comments on ORSA report requirements

3.11.1 The requirements for Tier 1 are more onerous with tighter deadline for ORSA report submission. This, again, does not appear to be in line with the level playing field in the insurance industry.

3.11.2 Does the ORSA report need an external auditor's opinion and sign off? If so, the tight deadline would even be tighter as external auditor would require the report to be sent to them for review even earlier before they can certify the report.

3.11.3 We noted that Tier 2 companies have to perform ORSA annually (**Proposal 7**) but they are only required to submit the ORSA report once in every 3 years. Would Tier 2 companies still need to write and document an ORSA report on an annual basis?

3.11.4 Similarly, how are reinsurers be differentiated according to Tier 1 (submission on annual basis) and Tier 2 (submission once every 3 years)?

Comments on principle of proportionality and materiality

3.11.5 In relation to the bullet point 3.1.7, MAS has partly addressed the principle of proportionality and materiality by introducing the definition of Tier 1 & 2 concept based on the level of assets and gross premiums for the life and general insurers respectively. However, the principle of proportionality and materiality goes beyond just the size (by assets or premium income) of insurers alone.

3.11.6 In particular, the risk profile of insurers could be significantly different depending on many factors other than size. Consider the following fictitious example:

(a) Insurer A, a Tier 2 insurer, writes primarily long-tailed business, with high concentration in a particular sector and invests heavily in the stock market.

(b) Insurer B, a Tier 1 insurer, writes primarily in short-tailed business, with diversified portfolio and invests mainly in cash and bond.

In the fictitious example above, insurer A would appear to be more “risky” than insurer B even though the ERM requirements for insurer B would be more onerous with tighter deadline than insurer A purely due to its larger size by gross premium income.

(The reader will appreciate that even such analysis could be too simplified for us to come to any conclusive comments. For example, insurer A could have implemented ERM framework for more than 10 years and concentration is well within its defined risk limits, and heavy investment in stocks could be a result of solid investment strategy in asset liability management, with assets closely matching its long tailed liabilities. Insurer B, on the other hand, may not have any ERM in place and may have been undercutting premium prices for its major lines of business in order to grow its business. All these factors could reverse the relative “riskiness” of the insurers.)

Recommendation

3.11.7 The Taskforce proposes that MAS should adopt a principle-based approach in formalising the ERM guidelines and apply them differently to insurers according to the nature, scale and complexity of the risk profile of different insurers. Use a rule-based approach and applying a ‘one-size fits all’ (or in this case a ‘two-size fits all’) method across the whole insurance industry would not necessarily be appropriate.

3.11.8 In order to apply ‘different strokes to different folks’ within the ERM principles, MAS should reach their own views on proportionality and materiality, after taking into account the nature, scale and complexity of the risk profile of the different insurers. In our view, this could only be achieved by enhancing communications through many rounds of regular dialogue sessions between the MAS and insurers.

3.11.9 The ORSA report should not require an external auditor’s opinion and signed off.

Proposal 12

MAS proposes to extend the ERM requirements laid out in proposal 2 to 11 to all insurance groups. Each of these entities group ERM framework must take into account risks arising from all parts of the group, including non-insurance entities (regulated or unregulated) and partly-owned entities.

MAS also proposes to require such insurance groups to submit a Group ORSA on an annual basis, in addition to the ORSA report submitted by the local registered insurer. The Group ORSA report shall include identification of material risks, economic and regulatory capital calculations and continuity analysis from a group-wide perspective, whereas the registered insurer's ORSA report comes from a solo perspective.

Deliberation of the Group ORSA report is required by the Board in control of the insurance group.

Comments

3.12.1 This proposal implies that there are dual ORSA reporting requirements for insurance groups, both with same tight timeline for submission.

3.12.2 There seems to be an inconsistent use of the word 'Group' within the Consultation Paper. Does 'Group' mean insurers with 'ultimate parent' (the term was used on page 4 section 3.3 of the Consultation Paper) companies based in Singapore? What about sub-groups (i.e., companies with regional office based in Singapore but with Head Office or ultimate parent located outside Singapore)?

Recommendation

3.12.3 MAS should allow insurers to combine the local and group ORSA reports into one report for submission.

3.12.4 The definition of 'Group' should be defined accurately without ambiguity and to be consistently applied throughout this Consultation Paper and other consultation papers issued by the MAS.

Proposal 13

MAS proposes to issue a new Notice on ERM and implement the requirements from 1 Jan 2014. The proposed Notice, setting out the requirements, is in Appendix 1.

Comments

3.13.1 The implementation timeline is very tight and highly ambitious, considering most of the reporting requirements stated in the Consultation Paper are new items to the whole insurance industry.

3.13.2 In addition, the ERM framework and risk culture takes time to build in each company. Too onerous reporting requirements in a very tight timeline could be perceived by company senior management and the board of directors as merely a compliance exercise.

3.13.3 This is counter intuitive as the purpose of the ERM guidelines would essentially to raise the risk awareness and improve the ERM culture for the whole insurance industry, and not just a ticking-the-box exercise. The value of ERM will be diminished as long as it is perceived as a compliance exercise.

Recommendation

3.13.4 The Taskforce is of the view that, despite aggressive timeline, it would probably be fine for the requirements to come into effect on 1 January 2014 so long as the first reports are due later than what was currently proposed.

3.13.5 In addition, the Taskforce proposes that the ERM timeline should align with RBC2 implementation timeline.

Part 1 – Mandatory Requirements

Addition comments

3.14.1 We notice that some qualitative phrases have been included as part of the mandatory requirements:

- 19. "<u>Accurate</u> documentation"
- 23. "<u>Clearly</u> address the relationship"
- 24. "Policy is <u>clearly defined and understood</u>"
- 28. "<u>Clear</u> guidance"
- 31. "<u>Reliable</u> information"
- 32. "<u>Good quality</u> information"
- 42. "<u>Relevant</u> actions the insurer could <u>realistically</u> take"

3.14.2 The Taskforce thinks that qualitative phrases are more appropriate in a guideline than in legislation, which is what a Notice is. These subjective elements should be taken out of the Mandatory Requirements. They may be included and elaborated in the Non-Mandatory Standards, and insurers may be supervised based on these standards.

Part 2 – Non-Mandatory Requirements

Addition comments

3.14.3 The term 'internal models' makes a sudden appearance in paragraph 67, undefined and without reference to any other legislation (e.g., it may be defined in the revised Valuation and Capital Regulations to be promulgated after the RBC2 Review).

Appendix 1 – Taskforce Members

A special thanks to the contributors to the ERM responses:

1. Raymond Cheung (Chairman and Head of ERM Committee)
2. Hussain Ahmad
3. Cheng Minhung
4. Chi Cheng Hock
5. Frank Dubois
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7. Alex Lee
8. Noelle Lee
9. Andrew Linfoot
10. Matthew Maguire
11. David Maneval
12. Moi Seng Yew
13. Leo Ng
14. Julien Parasie
15. Jim Qin
16. Eric Seah
17. Raju Seetharaman
18. Keith Walter

Also, a big thank you to the following:

1. Council Members
2. Other members of the Society who have contributed in the ERM forum on 25 February 2013.

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