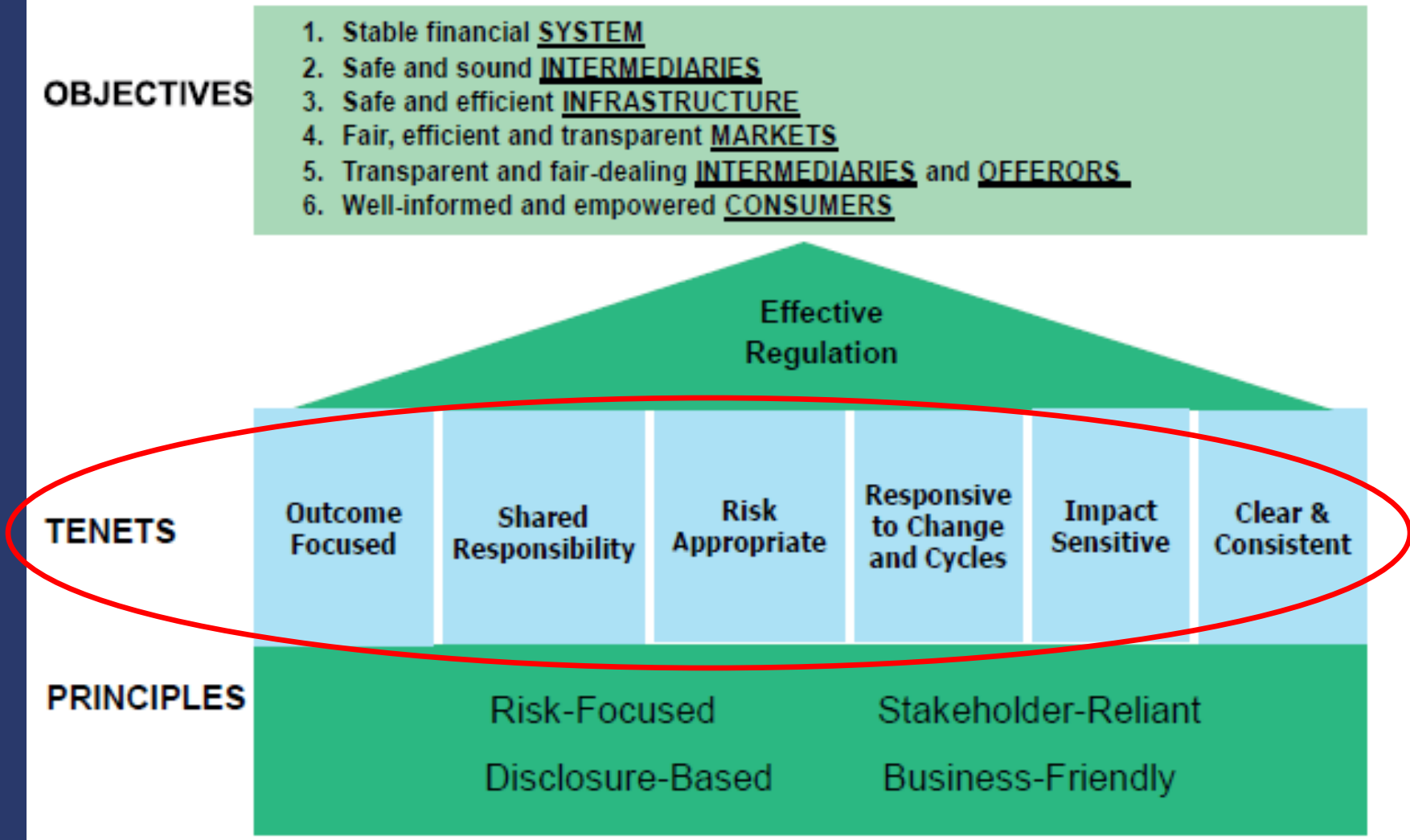
Regulatory Update by MAS

SAS Life Conference

8 November 2012

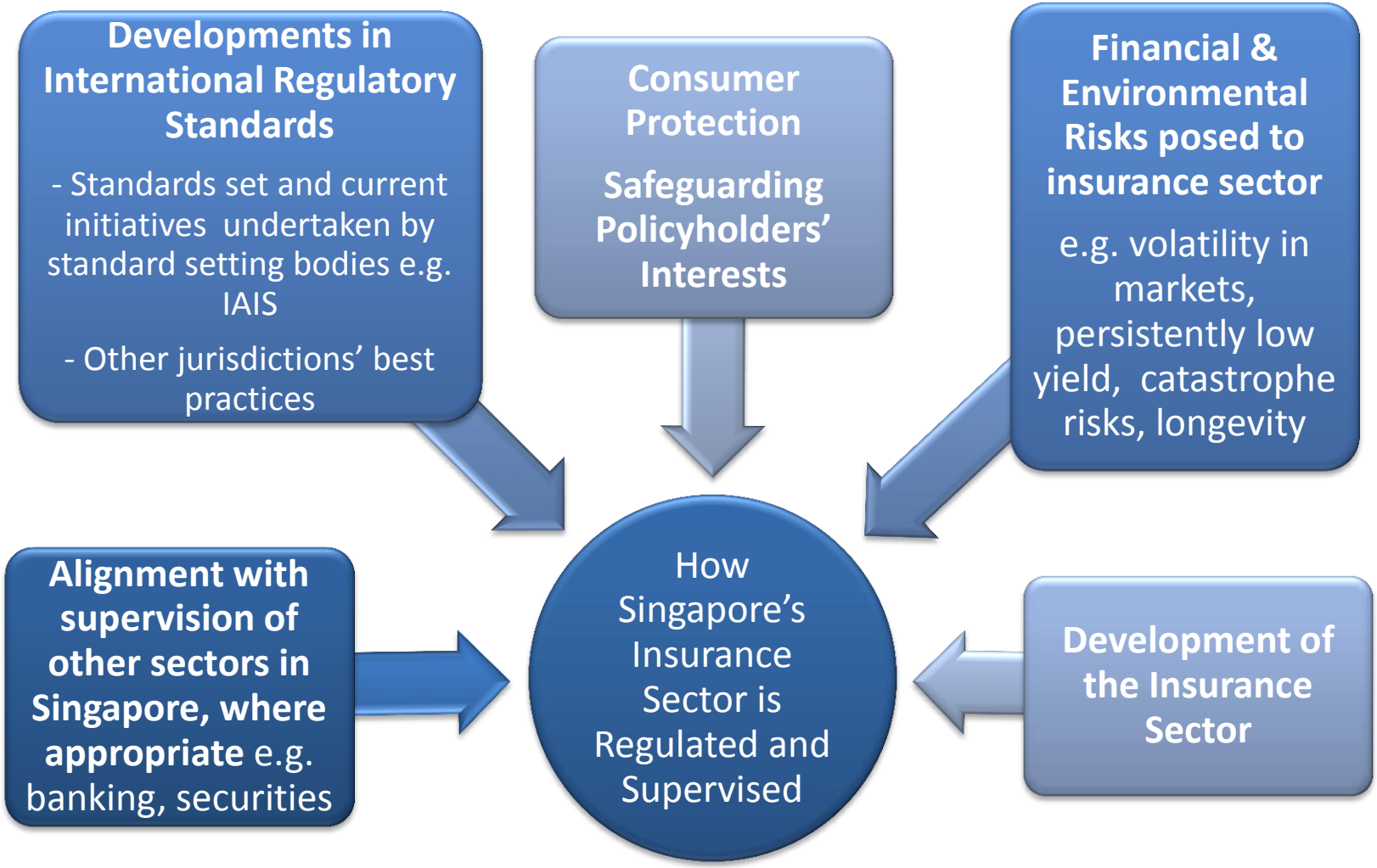
What guides and influences our work as a regulator/supervisor?

What guides our regulatory work?



MAS' Monograph on Tenets of Effective Regulation, June 2010

Factors influencing how we regulate and supervise the insurance sector



What are the key pieces of work undertaken by MAS which would have bearing actuaries' work?

Busy Year for us, and industry…

Apr 2012
- Industry Consultation on New Notice on Asset and Liability Exposure for Insurers

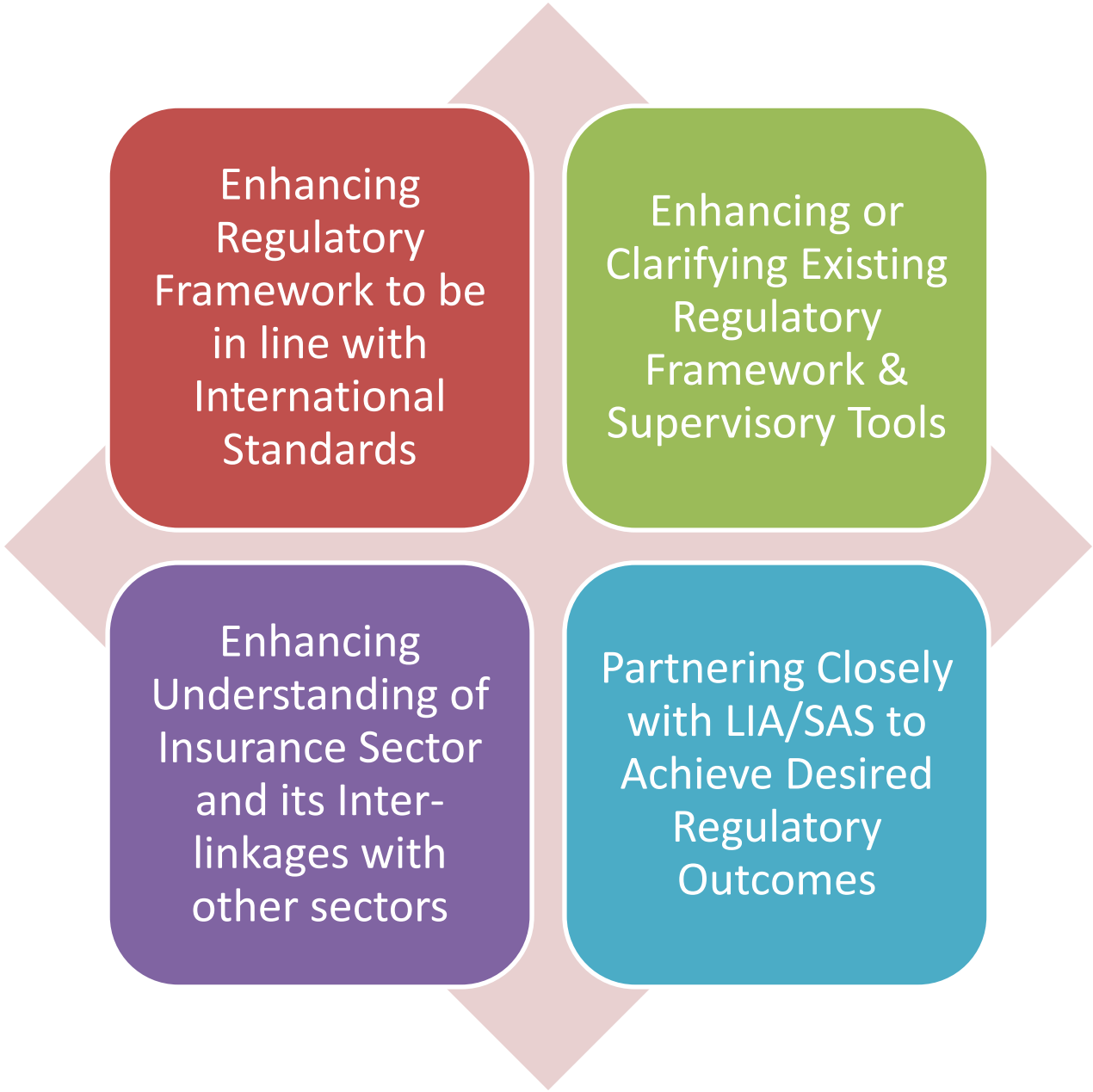
Aug 2012
- CP on Legislative Changes Relating to Requirements on Key Executive Persons and Directors for Insurers

2012

Feb 2012
- CP on Regulatory Framework for FHC (*response May 2012*)
- CP on Insurance Group-Wide Supervision (*response May 2012*)
- CP on Corporate Governance for Insurers (*response Aug 2012*)

Jun 2012
- CP on Review of RBC Framework of Insurers in Singapore (RBC 2 Review)
- CP on Settlement Options in Life Policies

Sep - Oct 2012
- CP on Insurance (Amendment)Bill
- CP on Financial Holding Companies Bill (*still open*)


Enhancing Regulatory Framework to be in line with International Standards
Enhancing or Clarifying Existing Regulatory Framework & Supervisory Tools
Enhancing Understanding of Insurance Sector and its Inter-linkages with other sectors
Partnering Closely with LIA/SAS to Achieve Desired Regulatory Outcomes

Enhancing Regulatory Framework to be in line with International Standards

Group-Wide Supervision Framework

Review of Risk-Based Capital Framework ("RBC 2")

Enterprise Risk Management (including Own Risk Solvency Assessment "ORSA")

Enhancing Regulatory Framework to be in line with International Standards

Group-Wide Supervision Framework

Review of Risk-Based Capital Framework ("RBC 2")

Enterprise Risk Management (including Own Risk Solvency Assessment "ORSA")

- Developing a group-wide supervision framework for insurance groups in Singapore
- Largely guided by ICP 23 on group-wide supervision and some other ICPs, e.g. ICP 17 on Capital Adequacy
- Includes group capital, governance, risk management requirements , supervisory cooperation and coordination
- Requires enactment of a new Act – Financial Holding Companies ("FHC") Act, and supporting legislation next year.
- Recently consulted on the FHC Bill. Will be consulting on the supporting legislation.

Enhancing Regulatory Framework to be in line with International Standards

Group-Wide Supervision Framework

Review of Risk-Based Capital Framework ("RBC 2")

Enterprise Risk Management (including Own Risk Solvency Assessment "ORSA")

- Reviewing the RBC framework, introduced in 2004, in line with IAIS' ICPs and international developments
- Not meant to be an overhaul of existing RBC framework, but to improve the comprehensiveness of risk coverage and risk sensitivity of the framework
- Also defines more specifically MAS' supervisory approach wrt solvency intervention levels
- Additional capital, if needed under RBC 2, would depend on how much buffer insurers have over the current regulatory minimum CAR/FSR
- Insurers already hold much more than the regulatory minimum CAR/FSR in practice

Enhancing Regulatory Framework to be in line with International Standards

Group-Wide Supervision Framework

Review of Risk-Based Capital Framework ("RBC 2")

Enterprise Risk Management (including Own Risk Solvency Assessment "ORSA")

- Consulted on roadmap in Jun 2012. Areas where most feedback was received – allowance of diversification benefits, calibration of operational risk, use of 30-year SGS for discount rate, and implementation timeline
- Will consult SAS and industry associations on technical aspects such as calibration of risk factors
- Target to get most components of RBC 2 finalised by 2013, including the first quantitative impact study. Actual implementation will be later, taking into account of consultation feedback.

Enhancing Regulatory Framework to be in line with International Standards

Group-Wide Supervision Framework

Review of Risk-Based Capital Framework ("RBC 2")

Enterprise Risk Management (including Own Risk Solvency Assessment "ORSA")

- Largely guided by new ICP 16 on ERM, which includes the expectation for a supervisor to impose ORSA requirement on the solo and group entity
- Currently just have risk management guidelines on insurance activities
- Target to consult on new ERM (including ORSA) Notice by end 2012

Enhancing or Clarifying Existing Regulatory Framework or Supervisory Tools

- Stress-Testing Exercise
- Key Persons' Regulations and Notice
- Policy Owners' Protection Fund (PPF)

Enhancing or Clarifying Existing Regulatory Framework or Supervisory Tools

Stress-Testing Exercise

Key Persons' Regulations and Notice

Policy Owners' Protection Fund (PPF)

- Deadline will be brought forward to end Mar 2013, for stress test exercises for year ending 2012 and beyond
- To explore further streamlining the number of scenarios tested, as well as moderating some of the scenarios' level of severity, for the upcoming stress test.
- Will issue revised Notice and accompanying Circular in Nov 2012
- High level results, common short comings and best practices, as well as proposed enhancements for future stress test exercises shared at the LIA-MAS dialogue, and with Appointed Actuaries (organised by SAS)
- Separate liquidity stress testing exercises being explored with industry

Enhancing or Clarifying Existing Regulatory Framework or Supervisory Tools

Stress-Testing Exercise

Key Persons' Regulations and Notice

Policy Owners' Protection Fund (PPF)

- Consulted in Aug 2012 on the legislative amendments relating to appointment of key executive persons (including Appointed Actuary and Certifying Actuary) and directors
- To introduce a new common regulation on key executive persons (repealing Actuaries Regulations)
- Also to revise Notice 106 to include appointment of all key executive persons (and not just POs and directors)
- More transparency on the criteria used by MAS in approving and assessing ongoing fitness and propriety
- Target to issue new regulation and revised Notice by 1Q 2013

Enhancing or Clarifying Existing Regulatory Framework or Supervisory Tools

Stress-Testing Exercise

Key Persons' Regulations and Notice

Policy Owners' Protection Fund (PPF)

- Post-funded PPF has been introduced in 2011
- MAS will be providing more technical guidance on the computation of protected policy liabilities, which can be complicated due to the different caps and need to aggregate policies

Enhancing our understanding of the insurance sector and the inter-linkages with others

Developing a macroprudential surveillance framework for insurance sector

Enhancing our understanding of the insurance sector and the inter-linkages with others

Developing a macroprudential surveillance framework for insurance sector

- Work driven by new ICP 24 on Macroprudential Surveillance and Insurance Supervision
- Pilot study conducted late 2010 on 12 significant direct life, direct general and reinsurers to explore inter-linkages
- High level findings shared at insurance industry dialogues with MAS and Financial Stability Review in Nov 2011
- Consulted industry on data template in Apr 2012 to collect more granular data on asset and liability exposures for all insurers and reinsurers via new notice
- New notice will be issued in Nov 2012
- Evolving process, need to monitor risks and trends continuously and enhance framework

Partnering closely with LIA/SAS to achieve desired regulatory outcomes

Review of Participating Life Insurance Business ("Par Fund Review")

Developing Guidance Notes on Use of Internal Models for Liability and Capital Requirements for specific products

Partnering closely with LIA/SAS to achieve desired regulatory outcomes

Review of Participating Life Insurance Business ("Par Fund Review")

- Plans to review MAS 320 on par fund management with respect to expense allocation. To consult in 2013.

Developing Guidance Notes on Use of Internal Models for Liability and Capital Requirements for specific products

Partnering closely with LIA/SAS to achieve desired regulatory outcomes

Review of Participating Life Insurance Business ("Par Fund Review")

Developing Guidance Notes on Use of Internal Models for Liability and Capital Requirements for specific products

- SAS, LIA and MAS formed a workgroup with several work streams to look into a number of technical aspects of MAS' draft guidelines on the "Use of Internal Models for Liability and Capital Requirements for Life Insurance Products containing Investment Guarantees with Non-linear Payout" (issued in Apr 2010 for consultation)
- Outcome is a set of technical notes to provide further guidance on these technical aspects
- MAS targets to issue the revised draft guidance notes concurrently with the SAS technical notes by this year

What are the key work/initiatives undertaken by IAIS?

Key Work undertaken by IAIS

Insurance Core Principles (ICPs)

- Revised ICPs adopted in Oct 2011, taking into account of developments since last revision in 2003
- Constitutes the **globally-accepted framework** used in evaluation of supervisory regimes **under Financial Sector Assessment Program (FSAP)** conducted jointly by World Bank and IMF
- 26 ICPs in total; Of particular relevance to AAs– ICP 13 (Reinsurance and other Forms of Risk Transfer); ICP 14(Valuation); ICP 15 (Investment); ICP 16 (Enterprise Risk Management for Solvency Purposes); ICP 17 (Capital Adequacy); ICP 23 (Group-wide Supervision); and ICP 24 (Macroprudential Surveillance and Insurance Supervision).
- Some ICPs are being reviewed to ensure practical relevance
- Peer reviews and upcoming FSAP

Key Work undertaken by IAIS

ComFrame for Internationally Active Insurance Groups ("IAIGs")

- Initiated because of recognition that despite growing relevance of IAIGs, no internationally coherent framework exists for supervision of such groups beyond the ICPs.
- Develop a **comprehensive range of qualitative and quantitative requirements for IAIGs**
- Also to **specify the supervisory process and prerequisites for supervisors to implement ComFrame**, so as to foster greater cooperation and coordination among supervisors
- Draft ComFrame released for consultation in July 2012
- Target to develop a common framework for supervising IAIGs by end 2013

Key Work undertaken by IAIS

Supervisory Forum

- Supervisory Forum, comprising of high-level senior supervisors with experience in supervisory practice, established in mid-2011
- **Platform for insurance supervisors to exchange experience, with focus on large insurers and insurance groups.**

Development of a macroprudential surveillance framework

- The other workstream by IAIS' Financial Stability Committee to commence the development of an analytical framework for macroprudential surveillance, with particular attention to the impact of non-traditional insurance activities
- **Provide guidance on the tools and methodology for macroprudential surveillance** to help members introduce or enhance the macroprudential surveillance in their own countries
- Periodic IAIS surveys on key insurance risks and trends

Key Work undertaken by IAIS

Development of Methodology to identify potential Globally Systemically Important Financial Institutions ("G-SIFIs")

- Part of a workstream undertaken by IAIS' Financial Stability Committee to support FSB's efforts to address potential risks posed by insurers which may be regarded as G-SIFIs.
- Consulted on the **proposed assessment methodology (May 2012) for Globally Systemically Important Insurers ("G-SIIs")**. 18 indicators under 5 categories: size, global activity, interconnectedness, non-traditional insurance and non-insurance activities, and substitutability.
- Recently consulted on **the proposed policy measures that would be applied to any G-SIIs (Oct 2012)** – enhanced supervision, effective resolution and higher loss absorbency.

http://www.iaisweb.org

Thank You

Should you have any queries or comments on the presentation, please feel free to contact Lee Wai Yi at wylee@mas.gov.sg