



Extending our Borders, Enabling our Industry – Role of Regulator

SAS Life Insurance Conference 16th August 2018

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What Role can MAS play?

1 Sensitising insurers and industry to key risks and trends

2 Making regulatory compliance less burdensome

3 Making regulations that are fit-for-purpose

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1. Sensitising insurers and industry to key risks and trends

MAS has oversight of the financial industry and collects a multitude of data

Today's VUCA landscape underscores the importance of identifying key risks and trends early



MAS can help to **'piece the puzzle'** with the **supervisory information** it **gathers from insurers** and its **engagements with overseas regulators**, as well as its **oversight of the rest of the financial sector**.

MAS can then **sensitise the insurers and industry** to key risks and trends and work on **appropriate responses** together.

MAS uses a suite of supervisory tools to identify & monitor risks and trends for the insurance industry



MAS continues to sharpen its tools and risk surveillance capabilities

1

Make use of network analyses

- Leverage on the rich information that we have on hand on reinsurance arrangements (MAS 114) and investment counterparties (MAS 122)
- Easier to identify risk concentration and interconnectedness

2

Enhance the industry-wide stress test exercise

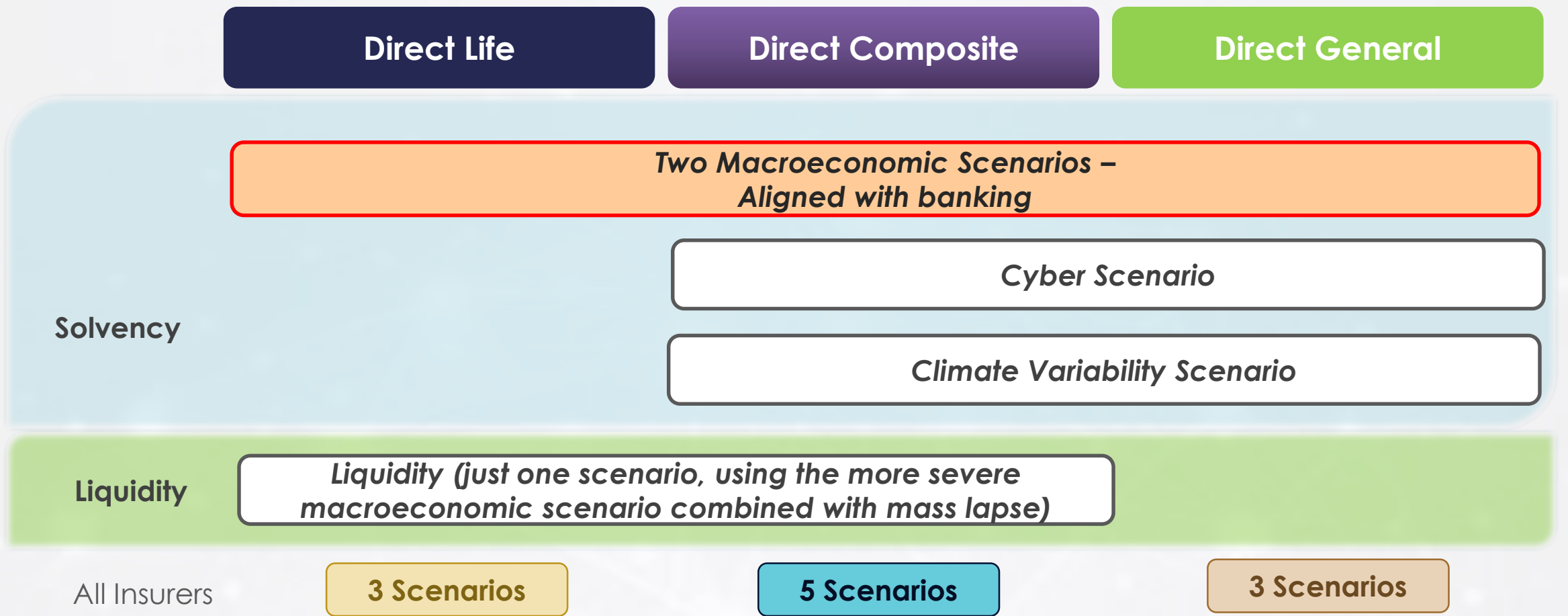
- Useful microprudential and macroprudential tool
- Scenarios continuously updated to ensure relevance
- Useful exercise to sensitise industry to emerging risks

3

Develop supervisory dashboards

- Easier to identify trends and perform peer group analysis

Updates on upcoming industry-wide stress test in 2018



Updates on upcoming industry-wide stress test in 2018

Macroeconomic Risks



As Singapore is undergoing IMF FSAP this year (Nov 2018 – Feb 2019), there will be **two macroeconomic scenarios**, developed in close consultation with FSAP assessors

Cyber Risk



Tests the impact of claims arising from cyber attacks affecting insurers' clients. Insurers must consider both **affirmative** and **non-affirmative silent** cyber exposures.

Climate Variability Risk



Tests the effect of **more frequent and intense rainfall**.

It is MAS' intention to expand this to cover **adverse health outcomes** due to more extreme weather conditions, as well as **impact of transition risks** on insurers' **investments** in future

2. Making regulatory compliance less burdensome

“If you have ten thousand regulations you destroy all respect for the law.” Sir Winston Churchill

Efforts are underway to achieve the following



Streamline processes,
better use of technology

- Product approval & notification
- Key persons' appointment
- Website revamp



Rationalising on the
regulations we have,
apply proportionality
where appropriate



Reduce duplicative
requests



Perform the analysis at
MAS' end

- Top-down stress testing

Industry-wide stress testing (IWST) exercise is an example where MAS tried to streamline work



Since last year, we have confined IWST to just the **significant insurers**, leveraging more on the ORSA for the other insurers. Still captures around 80% market share.

We have also **rationalised on the number of scenarios** to be tested to reduce burden.

We will continue to enhance **top-down stress-testing capabilities** to supplement the bottom-up IWST.

3. Making regulations that are fit-for-purpose

Regulators need to keep pace with innovation but regulation itself must not front-run innovation. We should also not impede insurers from performing their economic and social role on a sustainable basis.

Example 1: Regulatory Sandbox



Example 2: RBC 2

What MAS hopes to achieve under RBC 2

Enhance policyholder protection



- More comprehensive coverage of risks
- Explicit target calibration at 99.5% VaR over 1 year

Improve our risk-based supervision



Greater insights and better analytics on risk profile of insurers

Align with international standards



- Adhere to international standards and best practices
- Align available capital with banking standards

Incentivise long-term investments & products



Allow insurers to continue offering long-term products and invest in long-term investments

Clearer solvency intervention level



Provide clarity on MAS' expectations re solvency levels and supervisory actions

Unlock conservatism



- Allow for diversification benefits
- Partially recognise negative reserves

Example 2: RBC 2

Whilst we have **introduced more risks**, and calibrated to a **higher confidence interval**, we need to **look at RBC 2 in its entirety**. Do not forget the **upside** (some examples listed below).

Solvency (and asset concentration requirements) to be observed at an adjusted fund (i.e. SIF-Par, SIF-Others, OIF-Par, OIF-Others) and not insurance fund level.

Allowance of diversification benefits when aggregating risk requirements

Partial recognition of negative reserves for purposes of solvency

Treatment of unrated bond, and still in progress, infrastructure investments

Allow C1 insurance shocks to be applied at a homogeneous product grouping rather than policy level

Introduction of matching adjustment and illiquidity premium, which will help to give some capital relief to insurers

Greater flexibility in constructing Matching Adjustment portfolios (i.e. remove constraint of Form 14 product classification).

Timelines to watch for

By Aug 2018

- Issuance of final RBC 2 technical specifications (3 months to run YE2017 impact study)
- Industry-wide stress testing package to significant direct insurers (2 months to submit)

By April* 2019

- 1st RBC 2 parallel run (just on YE2018)
- May rely on top-down stress testing in place of IWST

By April* 2020

- 2nd RBC 2 parallel run (just on YE2019)
- Q1 2020 returns

By YE 2018

- Consultation on treatment of infrastructure investments
- Effecting “RBC 1.5” changes to Insurance (Valuation & Capital) Regulations 2004

** tentative*

Working towards a 1 Jan 2020 RBC 2 implementation



- RBC 2 is **not a quantum leap** from current RBC and stress testing requirements. However, there are a few areas which are new and require more work.
- **Learning process** with respect to some of the **newer concepts** e.g. matching adjustment, deriving insurance risk requirements based on homogeneous risk groupings. Will **build up guidance** along the way.
- Insurers should **engage their external auditors early** to **assess robustness of RBC2 parallel run results**
- In fact, should **start to engage the EAs early for the YE2017 impact study**
- Meanwhile, MAS will conduct **supervisory visits for more significant insurers** to gain comfort that processes for RBC2 are robust

Thank you

Questions? Contact Lee_Wai_Yi@mas.gov.sg