

Legislative Changes Relating to Requirements on Key Executive Persons and Directors for Insurers



Response to the
Monetary Authority of Singapore
Consultation Paper P009-2012 (August 2012)

By

Singapore Actuarial Society

28 September 2012



SINGAPORE ACTUARIAL SOCIETY

Correspondence Address:

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3 October 2012

Ms. Luz Foo
Head, Insurance Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117

Dear Ms. Foo,

**Re: Consultation Paper P009-2012
Legislative Changes Relating to Requirements on Key Executive Persons and Directors for Insurers**

The Singapore Actuarial Society ("the Society") is pleased to present the response to the put forward in the above Consultation Paper on the Key Executive Persons undertaken by MAS. The Society strives to promote actuarial best practices in the insurance industry and the responses represent the views of the Life Insurance and General Insurance sub-committees.

While these responses represent the majority view of sub-committees 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 website and it will be available to the public.

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, FSA, FCIA, FSAS
President 2012/2013
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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 the Legislative Changes Relating to Requirements on Key Executive Persons and Directors for Insurers

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Section 1 – Background and Scope

- 1.1 The Monetary Authority of Singapore (“MAS”) issued a Consultation Paper on 8 August 2012 entitled Legislative Changes Relating to Requirements on Key Executive Persons and Directors for Insurers or “the Consultation Paper”.
- 1.2 The Life Insurance sub-committee and General Insurance sub-committee were asked for their comments on the Consultation Paper, which have been incorporated here.
- 1.3 The final response from the Society was reviewed and approved by the Council of the Society.
- 1.4 The comments and recommendations in the Society’s responses are:
 - 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;
- 1.5 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.

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.

Proposal 10

- 2.2 The Society is unclear on this proposal and the responsibilities of the CA and the AA. The Society may be able to assist via the issuance of a Guideline, once it is clearer.

Proposal 11

- 2.3 In the transfer of existing provision to the new regulations, it is important that "Persons who may be actuaries" continues to be defined as "Any person who is a Fellow of the Singapore Actuarial Society".
- 2.4 The Society proposes that the regulations explicitly mentions that CAs be at least Associates of the Singapore Actuarial Society.

Proposal 12

- 2.5 The Society questions if some of the points, should read for both the AA and CA.
- 2.6 Clear guidelines will be required as to what constitutes risk transfer in a reinsurance contract. The Society will be pleased to assist in these guidelines.

Proposal 13

- 2.7 The AA and CA when performing actuarial services are subject to SAS Code of Conduct and their independence and objectivity should be the same regardless of the reporting line. The Society supports the CA and AA having the ability to approach the Board / Chairman without the presence of the management.

Proposal 14 and 17

- 2.8 The Society recommends that, as a professional, the AA or CA should be able to determine whether the work load they have undertaken is too onerous to allow them to complete their duties and responsibilities.

Proposal 18

- 2.9 The Society agrees with the proposal, but questions the practical issues for a smaller sized company.

Section 3 – Responses on Individual Proposals & Consultation Questions

Proposal 8

MAS proposes to remove the need for written approval by the board on the appointment of the AA.

- 3.1.1 The Appointed Actuary role is statutory role. With the importance of the role to a life insurance company, it would be unlikely that the AA would be appointed without the board's involvement. The appointment of this role, should be in line with other senior appointments.

Proposal 10

To align the powers under 37(1)(b) with 37(1)(a) of the IA, meaning that section 37(1)(b) will also include that a registered insurer shall have an investigation made by an actuary approved by MAS into the financial condition of its general business for each accounting period.

- 3.1.2 The concept of the Financial Condition Report is consistent with international practice and life insurers.
- 3.1.3 To clarify the intent of this proposal for the stress test performed in 2012, under MAs Circular ID0112 point 4.1.1, it was stated that "For direct composite insurers, the appointed actuary and certifying actuary should be jointly responsible for the preparation for the stress test report and jointly sign-off the report. The AA and the CA would be responsible for the items relating to the life and general insurance business respectively, and items relating to the company as a whole. However, in the case where the appointed actuary is comfortable with assuming responsibility for the projections/recommendations relating to the general insurance business in the report, he may also sign-off on the report, without the need for a joint sign-off by the certifying actuary."
- 3.1.4 Does this proposal mean that in future, the AA can no longer sign off the report on his/her own and that the CA must also sign off?
- 3.1.5 The scope of this investigation will need to be carefully drafted so that the CA can perform the investigation properly. The Society may be able to assist via the issuance of a Guideline.

Proposal 11

MAS proposes to introduce a new set of regulations to set out the roles, responsibilities and appointment of all key executive persons. The Actuaries Regulations will be repealed with the introduction of the new regulations. Provisions in the Actuaries Regulations which are equally applicable for other key executive persons would be extended to the new regulations.

- 3.1.6 Noted that Actuaries Regulation will be repealed with the introduction of the new regulations, and that existing provisions under the current Actuaries Regulation will be transferred to the new regulations. In the transfer of existing provision to the new regulations, it is important that "Persons who may be actuaries" continues to be defined as "Any person who is a Fellow of the Singapore Actuarial Society".
- 3.1.7 In addition, we propose that the regulations specify that CAs be at least Associates of the Singapore Actuarial Society.

Proposal 12

MAS proposes to expand the roles and responsibilities of the AA and CA beyond what is presently covered under the Actuaries Regulations. The proposed additions are:

- (a) The AA and CA should be responsible for the computation and reporting of the protected liabilities for the purposes of the Policy Owners "Protection Scheme;*
- (b) The AA and CA should verify that reinsurance contracts involve significant insurance risk transfer when valuing policy liabilities net of reinsurance;*
- (c) The AA and CA should prepare a written report to the PO and board of directors of the insurer on any matter which,
 - (i) has come to the attention of the actuary in the course of carrying out his duties;*
 - (ii) in the opinion of the actuary, has any material adverse effect on the financial condition of the insurer in respect of its life or general business (as the case may be); and*
 - (iii) requires rectification by the insurer.**

Where the actuary is of the opinion that the insurer has failed to take appropriate steps to rectify any matter reported to him (as described above) within a reasonable time, the actuary should immediately send a copy of his report to MAS and notify the directors that he has done so.

(d) The CA should, besides conducting an investigation into the liabilities of the insurer, also conduct an investigation into the financial condition¹³ of the life or general business (as the case may be) for each accounting period. The CA should submit to the board of directors all reports on and all necessary documents relating to the investigation. The CA should also explain, when required by the board of directors, any report or document submitted.

(e) The CA should advise the PO and board of directors on actuarial matters and other matters such as investment policy, risk management, and pricing, for which his expertise and experience would be useful. In discharging his responsibilities, the CA should ensure that the interests and rights of policyholders are not compromised to the best of his knowledge.

3.1.8 With reference to point (b), requiring actuaries to verify the risk transfer within reinsurance contracts may require a significant amount of extra analysis. Currently, auditors are relied upon by some to verify risk transfer. Will this practice be allowed to be continued? Clear guidelines will be required as to what constitutes risk transfer in a reinsurance contract; the Society will be pleased to assist in deriving these guidelines. As the guidelines are developed, a timeline for implementation should be discussed.

3.1.9 With reference to point (d), should this read for AA and CA?

3.1.10 With reference to point (e), should this read for AA and CA?

Proposal 13

MAS proposes to set out in the regulations on key executive persons the requirement for the insurer to ensure the CA and AA has,

- (a) a direct reporting line to the board of directors, and;*
- (b) the opportunity to communicate directly and to meet periodically, without the presence of the management, with the Chairman of any relevant board committee and/or with the Chairman of the full board.*

3.1.11 The AA and CA when performing actuarial services are subject to SAS Code of Conduct and their independence and objectivity should be the same regardless of the reporting line. In practice, the Board usually does not get involved in day to day management of the company. Therefore in reality, the current approach of AA/CA having a direct reporting line to management (usually the PO or CFO) whilst having the right or opportunity (point b) to present to the board or meet with the Chairman as required either to discuss any concerns or in a whistle blowing role may be more practical. The Society supports the CA and AA having the ability to approach the Board / Chairman without the presence of the management.

Proposal 14

To set out in the regulations on key executive persons the requirement for the AA or CA to notify the insurer when the AA or CA is contracted to perform similar duties with another insurer (including overseas insurers) within one month after such additional appointment has taken effect.

In addition, to require the insurer to, within one month of being notified by the AA or CA, notify MAS about it in a format prescribed in Appendix A. To also require the insurer's board of directors (in the case of a locally incorporated insurer) or the board member responsible for the Singapore operations (in the case of a foreign incorporated insurer) to provide a written explanation to MAS on whether the change would result in a compromise of the quality of work of the AA or CA, or result in potential conflict of interest, and if so, the measures that the insurer has or proposes to put in place to mitigate the risks.

3.1.12 Actuaries and firms are different and the amount that can be undertaken by any one AA/CA is dependent upon a number of factors, not just the number of engagements to which "similar duties" are performed. Potential issues with this proposal include:

- a. Definition of "similar duties"
- b. Level of other non-similar duties work-loads
- c. More engagements broaden the market perspective of the AA/CA
- d. Evaluation of support and resources available
- e. Are notifications required for deletions of appointments?

3.1.13 Ultimately, as a professional, the AA or CA should be able to determine whether the work load they have undertaken (whether similar or not to the role of the AA/CA) is too onerous to allow them to complete their duties and responsibilities. The AA/CA is guided by the Society's Code of Conduct. Specifically point 8, which states "A Member should not provide actuarial advice on any particular issue unless he has sufficient relevant experience and the professional competence to do so." Professional competence encompasses the ability to complete duties and responsibilities.

Proposal 17

MAS proposes to set out in the non-mandatory guidelines section of the revised Notice, criteria which would be taken into consideration by MAS when assessing the appointment of directors of the board and key executive persons. These include, but are not limited to:

- (a) the fitness and propriety of the proposed appointee, in accordance with the Fit and Proper Guidelines issued by MAS;*
- (b) the potential conflicts of interest arising from the proposed appointee's duties as the director or key executive person of the insurer and his directorship(s), shareholding(s) and other position(s) currently held by the proposed appointee in the insurer or any other corporation or business, as well as arising from the proposed appointee's reporting structure;*
- (c) the effectiveness of the measures that the insurer has put in place, or proposes to put into place, in mitigating the risks associated with the resultant conflict of interest arising from (b); and*
- (d) in the case of AA and CA, their engagements by other insurers (in Singapore or overseas) where they perform an equivalent role. Here, MAS will have regards to:*
 - (i) the volume and complexity of the business written by, and risk profile of, such an insurer;*
 - (ii) whether such an insurer is newly set-up, a going-concern or in run-off;*
 - (iii) the level of actuarial support provided by the insurer itself; and*

(iv) the level of actuarial support which the AA or CA can rely upon from the consultancy firm, the head office, parent company, regional office or other related entities, as the case may be, where he works from.

3.1.14 With respect to point (d), when assessing the appointment of AAs and CAs, MAS has listed a number of factors they will take into consideration including the size and complexity of the insurer, the actuarial support provided by the insurer, the actuarial support from within the consultancy and the number engagements by other insurers where they perform an equivalent role. As per the comments in response to Proposal 14, the same issue would apply here as well: the AA/CA is in a better position to know their own abilities to meet the responsibilities assigned to them and is guided by the Society's Code of Conduct.

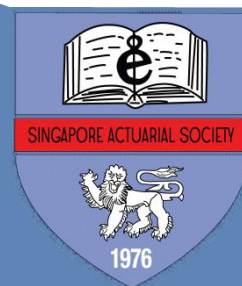
Proposal 18

MAS proposes to set out in the non-mandatory guidelines section of the revised Notice that the proposed appointee for director or key executive person should not hold additional roles as an executive officer¹⁸ in the insurer to avoid the potential conflict of interest arising from holding multiple positions.

If the proposed appointee has multiple roles in an insurer, the insurer will be required to provide a written explanation from the board of directors in support of the appointment. If the insurer is not locally incorporated, MAS will require the written explanation from the board member who is responsible for the Singapore operations.

This written explanation should opine if there is any conflict of interest, and if so, the measures that the insurer has or proposes to put in place to mitigate the conflict of interest risks arising. MAS will then consider how effective such measures are in managing the potential conflict of interest.

3.1.15 This sounds appropriate but may increase the cost of doing business for smaller companies if AA/CA are no longer able to perform other "executive officer" roles within the company.



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