



RESPONSE TO FEEDBACK RECEIVED - CONSULTATION PAPER ON REVIEW OF REQUIREMENTS ON INVESTMENT ACTIVITIES OF INSURERS

1 Introduction

1.1 In January 2013, MAS published a consultation paper inviting industry and public comments on the proposed new Notice on Investments of Insurers, and imposing the requirements on investment activities to insurance groups.

1.2 This paper summarises the feedback and sets out MAS' responses. The respondents are listed in Annex A. MAS has carefully considered the feedback received and would like to thank all respondents for their feedback.

2 Establishment and Composition of an Investment Committee

2.1 Some respondents gave their feedback that an insurer incorporated outside Singapore should not be required to set up an Investment Committee if such a committee is already present at the insurer's head office, or if the insurer is already represented at the head office's Investment Committee.

2.2 A few respondents were of the view that if there is a Board-level Investment Committee and the Principal Officer of the insurer reports to that Committee, the Singapore entity should not be required to set up another Investment Committee. A few other respondents interpreted that the Investment Committee has to be a Board-level committee and yet few other respondents suggested that only larger insurers or Tier 1 insurers be required to set up an Investment Committee.

2.3 A few other respondents also commented that given that the roles and responsibilities of all certifying actuaries ("CAs") are the same, regardless of whether they are employees of the insurer or external consultants, MAS should not use that (employment status) as a basis to decide whether or not to require the CA to be a member of the Investment Committee.

MAS' Response

2.4 MAS is of the view that the local management should be involved in the implementation of the Board-approved investment policy, and in establishing the necessary framework, processes, procedures and controls in line with the risk tolerance levels set by the Board. MAS therefore requires the establishment of a management Investment Committee at the Singapore entity level to carry out the functions as stated in the proposed new Notice. The Committee shall include the Principal Officer ("PO") and Chief Investment Officer (or an officer in a similar capacity responsible for the investment functions). For direct life insurers, the committee shall also include the Appointed Actuary. However, if the PO can carry out the function required of the Investment Committee and assumes concurrent responsibility as the officer responsible for the investment functions, and the nature, size and complexity of an insurer's risks and investments permit (e.g. a small insurer investing in simple assets such as fixed deposits), the "Committee" can just comprise the PO.

2.5 On the expectation of a CA, MAS would like to clarify that the same expectation applies to all CA, regardless of whether a CA is an employee of the insurer or an external consultant. An insurer should decide whether to include the CA as a member of the Investment Committee. Given the long-term nature of life business, there is a greater need for the appointed actuary ("AA") of direct life insurers to be involved in the review of investment policy and strategy, and hence the requirement for the AA to be a member of the Investment Committee.

3 Reporting to the Board

3.1 A few respondents commented that the requirement for the Investment Committee to report to the Board no less than once every quarter is too prescriptive and the frequency of the reporting should be at the Board's discretion.

MAS' Response

3.2 MAS deems that a reporting period of more than a quarter is too infrequent for the Board to exercise effective oversight over the investment activities. The Board should also be informed immediately should there be an event resulting in a significant impact on the insurer's investment activities.

4 Board-Approved Investment Policy

4.1 A few respondents highlighted the impracticality for the Board to formulate, establish and approve the investment policy of a registered insurer which is not incorporated in Singapore, especially when the asset size of the insurer is small as compared to the asset size of the group. Instead, the senior management of the insurer's head office appointed to oversee the insurer's operation should be allowed to approve the insurer's investment policy.

MAS' Response

4.2 MAS recognises the practical difficulty raised for branches, especially when the asset size of the Singapore branch is small relative to the group. In the case of a Singapore branch, senior management at the head office or parent company level with oversight responsibilities for the Singapore branch can formulate, establish and approve the branch's investment policy provided that such authority has been delegated to it by the Board.

5 Extending Requirements to Shareholders' Fund

5.1 One respondent is of the view that the requirements of the proposed new Notice should not be extended to shareholders' fund ("SHF") if the SHF only holds investments in subsidiaries. Another respondent suggested that the SHF should be exempted from the asset-liability management ("ALM") requirements, and yet a few other respondents suggested that flexibility be given to investments in the SHF as long as the insurer can maintain a satisfactory capital adequacy ratio.

MAS' Response

5.2 MAS would like to reiterate that poor investments outcomes may have an adverse impact on the solvency and reputation of an insurer; as such, the SHF should be subject to the requirements in the proposed new Notice.

5.3 Specific to the ALM requirements for the SHF, these can commensurate with the nature of liabilities within the fund.

6 Asset Liability Management (“ALM”) Requirements

6.1 A few respondents commented that MAS should allow flexibility in allowing the ALM policy to be part of the investment policy or other policies, and not as a separate policy.

6.2 One respondent also proposed that the proposed new Notice explicitly allow a branch to adopt the head office’s ALM policy.

6.3 In addition, with regard to paragraphs 12(b) and 15 of the proposed new Notice relating to ALM, a few respondents are of the view that some of the requirements may not be applicable to direct general insurers and reinsurers, partly because references were made to “products”. A few respondents also commented that insurance branches and some life insurers with focused product portfolio should be excluded from the requirements.

MAS’ Response

6.4 MAS does not prescribe whether the ALM policy has to be a separate policy. The ALM policy can be part of the investment policy or other relevant policies.

6.5 Insurers may also adopt their head office’s or parent company’s ALM policy when meeting the requirements of the proposed new Notice, as long as the ALM policy is relevant to the Singapore entity’s operations and there is proper documentation on the assessment of the relevance of the head office’s or parent company’s ALM policy. The applicable head office’s or parent company’s ALM policy, if adopted by the Singapore entity, has to be approved by the Board. For a Singapore branch, senior management at the head office or parent company can approve the insurer’s ALM policy provided that authority for such is delegated by the Board.

6.6 The ALM requirements are applicable to direct general insurers and reinsurers, as well as insurance branches or insurers specialised in a few product lines. Insurers may apply the ALM requirements to a level that is appropriate to its nature, scale and complexity of the risks of the insurer, and where it is deliberated that any of the requirements is not appropriate or relevant, such deliberation should be clearly documented. The management of the Singapore entity should be involved in the implementation of the ALM policy.

7 Determination of Strategic Asset Allocation by Product Line

7.1 Paragraph 1 of Appendix A of the proposed new Notice sets out that the strategic asset allocation (“SAA”) has to be determined by each major product line. A few respondents commented that it is not practical for general insurers to determine asset allocation by each major product line.

MAS’ Response

7.2 MAS agrees that the liabilities of general insurers and reinsurers are on overall, short-tail in nature, and the nature of the liabilities do not differ much between product lines. As such, insurers can determine the SAA by aggregated product lines, if deemed appropriate by the insurer.

8 Extending Requirements to Insurance Groups

8.1 Some respondents sought clarification on the definition of insurance groups. One of them enquired how the requirements will be applicable to an insurance group which owns both the bank and insurance entities, and another enquired if an insurer will be regarded as an insurance group if the insurer, which is a subsidiary, has an insurance branch in Singapore.

MAS’ Response

8.2 MAS has publicly consulted on group-wide supervision framework for insurance groups in February 2012 and responded to the feedback in May 2012. MAS would like to reiterate that an insurance group is defined as a group that may be headed by a controlling parent entity that is either an insurance company or a financial holding company. MAS will designate the controlling parent of the insurance groups as such and apply any group regulatory requirements to the insurance groups via the designated controlling parent.

8.3 The scope of the insurance group-wide supervision will comprise, at a minimum, the consolidated group according to the Singapore Accounting Standards. This includes subsidiaries and joint ventures (which are subject to proportionate consolidation) of the parent entity. Where it is appropriate for a prudential rule to have a different scope of application, this will be set out clearly in the regulations.

8.4 MAS would like to reiterate that the proposed new Notice is only applicable to the operating insurer. MAS will consult on the relevant legislations for designated insurance groups at a later date.

9 Implementation Timeline

9.1 A few respondents suggested that the implementation timeline of the proposed new Notice be deferred to 31 December 2014 or 1 January 2015.

MAS' Response

9.2 Life insurers are already subjected to the investment requirements. Under the MAS Guidelines on Risk Management which was first issued in 2006, all registered insurers are expected to maintain sound and comprehensive risk management processes for investment activities. The requirements in the proposed new Notice supplement these processes that insurers should already have in place and MAS deems that the implementation timeline of 1 January 2014 is reasonable.

**RESPONDENTS TO THE CONSULTATION PAPER ON REVIEW OF
REQUIREMENTS ON INVESTMENT ACTIVITIES OF INSURERS**

1. Asia Capital Reinsurance Group Pte Ltd
2. Manulife (Singapore) Pte Ltd
3. Mitsui Sumitomo Reinsurance Ltd
4. MSIG Insurance (Singapore) Pte Ltd
5. Odyssey Reinsurance Company
6. Prudential Assurance Co. Singapore (Pte) Ltd
7. Friends Provident International Ltd (Singapore Branch)
8. Life Insurance Association of Singapore
9. SCOR Reinsurance Asia-Pacific Pte Ltd
10. Singapore Reinsurers' Association
11. Singapore Actuarial Society
12. Swiss Reinsurance Company Limited
13. Towers Watson
14. QBE Insurance International Ltd
15. United Overseas Insurance Ltd

Eight respondents requested confidentiality.