



# SINGAPORE

## DETAILED ASSESSMENT OF OBSERVANCE—INSURANCE CORE PRINCIPLES

December 2013

This Detailed Assessment of Observance on Insurance Core Principles on Singapore was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 25, 2013. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Singapore or the Executive Board of the IMF.

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## DETAILED ASSESSMENT OF OBSERVANCE

November 25, 2013

### INSURANCE CORE PRINCIPLES

Prepared By  
**Monetary and Capital  
Markets Department**

This Detailed Assessment Report was prepared in the context of an IMF Financial Sector Assessment Program (FSAP) mission in Singapore from April 3–17, 2013, led by Mr. Karl Habermeier, IMF and overseen by the Monetary and Capital Markets Department, IMF. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>

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## GLOSSARY

AA	Appointed Actuary
AFAS	ASEAN Framework Agreement on Services
ALM	Asset-liability Management
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCM	Business Continuity Management
BCBS	Basel Committee on Banking Supervision
CA	Certifying Actuary
CG	Corporate Governance
CMFAS	Capital Markets and Financial Advisers Services Examination
CMI	Capital Market Intermediaries Department
CRO	Chief Risk Officer
CRAFT	Comprehensive Risk Assessment Framework and Techniques
ERM	Enterprise Risk Management
EWS	Early Warning System
FSC	Financial Stability Committee
FAA	Financial Advisors Act
FHC Act	Financial Holding Companies Act
FIST	Financial Indicators Systems
FRWE	Financial Resources Warning Event
FSB	Financial Stability Board
GIA	General Insurance Association of Singapore
IAIS	International Association of Insurance Supervisors
IHCs	Insurance Holding Companies
IFRS	International Financial Reporting Standards
Ins Act	Insurance Act
LIA	Life Insurance Association Singapore
MAS	Monetary Authority of Singapore
MFSC	Management Financial Supervision Committee
MMoU	Multilateral Memorandum of Understanding
MSD	Macroeconomic Surveillance Department
ORR	Overall Risk Rating
ORSA	Own Risk and Solvency Assessment
PAD	Provision for Adverse Deviation
PPF	Policy Owner's Protection Fund
RNS	Representative Notification System
RBC	Risk-Based Capital
SAS	Singapore Actuarial Society
SRA	Singapore Reinsurers Association
SRD	Specialist Risk Department
STR	Suspicious Transaction Report
Sup CAR	Supervisory Capital Adequacy Requirement
V&C	Valuation and Capital

## EXECUTIVE SUMMARY

**The insurance industry in Singapore has weathered the global financial crisis well.** While the global financial crisis in 2008 had some impact on solvency positions of both the life and non-life insurance sectors, introduction of risk sensitive solvency requirements, early warning systems, and intensive risk-based supervision enabled the insurance sector to weather the crisis relatively well.

**The life insurance industry is concentrated and is focused on participating products with saving features (such as endowment and whole life).** The financial crisis caused a significant shift in life insurance policyholders' appetites from investment linked products to non-linked products (such as participating policies). Although insurers provide guarantees for non-linked products, current regulatory and supervisory requirements provide a strong incentive for insurers to keep the guaranteed rate low (currently at between 1–2 percent) and therefore the question of the guarantees does not raise immediate concern.

**The insurance industry in Singapore is growing; in particular offshore non-life sector. Gross premium of the sector has grown significantly by more than 80 percent in the last five years.** The main products and risks of offshore non-life sector are property reinsurance in the South East Asia and Asia Pacific regions. Large scale natural disasters in 2011 had an impact on the solvency positions of some of the non-life insurers, which needed a capital injection.

**The Monetary Authority of Singapore (MAS) has made significant progress in improving the insurance regulatory regime and supervisory practice since the initial Financial Sector Assessment Program (FSAP) in 2004. The updated regulatory framework and supervisory practices have a significantly high level of observance of the Insurance Core Principles (ICPs).** These include the introduction of Risk-Based Capital framework (RBC) in 2005, which covers the relevant risks that insurers face (such as credit, market, asset-liability management—ALM, and underwriting risks) and has some degree of convergence with Basel II. The framework is currently under review to take into account the international best practices, such as Basel III, ICPs, and Solvency II. Corporate governance and risk management requirements (such as ERM) have been enhanced significantly. MAS introduced and has improved the sophistication of its risk-based supervisory framework (CRAFT) supported by comprehensive reporting requirements. A policyholder protection fund has been introduced with a pre-funded scheme and 100 percent coverage of policyholder liability up to certain limits. Market conduct regulation has been substantially enhanced with remarkable efforts made by both MAS and the Singapore industry.

**The areas requiring improvement include independence, capital, enterprise risk management (ERM), and crisis management in light of the emerging risks of the insurance sector.** The necessary actions have been already taken in ERM and appropriate consideration is underway on capital. MAS is advised to enhance its independence by strengthening its safeguards over and above the existing practices and to ensure effective checks and balances against any inappropriate political objectives. In addition, given the material cross border operations in some of the insurers, MAS is encouraged to improve their crisis management by requiring large insurers with cross border

operations for which MAS is the group wide supervisor, to prepare contingency plans and procedures for use in gone-concern situation.

# ASSESSMENT OF INSURANCE CORE PRINCIPLES

## A. Introduction and Scope

**1. This assessment provides an update on the significant regulatory and supervisory developments in the insurance sector of Singapore since 2004.** The assessment was conducted by Nobuyasu Sugimoto (Financial Sector Expert, IMF) and Donald McIsaac (external expert engaged by the IMF) from April 3 to 17, 2013. Singapore undertook an initial Financial Sector Assessment Program (FSAP) in 2004, which included a formal assessment of its observance of the Insurance Core Principles (ICPs) issued by the International Association of Insurance Supervisors (IAIS).

**2. The current assessment is benchmarked against the ICPs issued by the IAIS in October 2012.** The ICPs apply to all insurers, whether private or government-controlled. Specific principles apply to the supervision of intermediaries. The assessment covers the supervisory practices of the MAS.

## B. Information and Methodology Used for Assessment

**3. The level of observance for each ICP reflects the assessments of the corresponding standards.** Each ICP is rated in terms of the level of observance as follows:

- a) **Observed:** where all the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and must exercise this authority to a satisfactory level.
- b) **Largely observed:** where only minor shortcomings exist, which do not raise any concerns about the authorities' ability to achieve full observance.
- c) **Partly observed:** where, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.
- d) **Not observed:** where no substantive progress toward observance has been achieved.

**4. The assessment is based solely on the laws, regulations, and other supervisory requirements and practices that are in place at the time of the assessment. Ongoing regulatory initiatives are noted by way of additional comments.** A comprehensive self-assessment and other pertinent information (supervisory reports and analysis, studies, consultation papers, etc.) provided by the authorities facilitated a meaningful assessment. Technical discussions with and briefings by officials from the MAS have enriched the analysis in this report.

**5. The assessors are grateful to the authorities for the full cooperation and thoughtful logistical arrangements, particularly the helpful coordination of various meetings with**

**industry participants.** The assessors benefited from the valuable inputs and insightful views gained during meetings with insurers, industry and professional organizations.

## C. Overview—Institutional and Macroprudential Setting

### Market structure and industry performance

#### *Industry structure and recent trends*

**6. The insurance industry in Singapore has grown to a sizable share of the GDP but remains much smaller than the banking sector.** Assets held by insurers<sup>1</sup> are \$165.5 billion<sup>2</sup> or 47.9 percent of GDP while total assets of the (commercial) banks are \$1,957.1 billion or 566.3 percent of GDP as of December 2012.

**7. Penetration and density rates for life insurance are comparable to other advanced markets, while those for non-life insurance are lower than other advanced markets** (Table 1). Higher penetration and density rates are recorded for life insurance compared to non-life insurance. The insurance penetration of non-life in Singapore is lower than the average recorded in advanced markets. This could be attributable to the perceived low probability of natural catastrophes, and hence a lower demand for property coverage. In addition, lower motor insurance coverage per capita could be attributed to a relatively low vehicle per capita ratio.

**Table 1. Insurance Penetration and the Insurance Density**

	Insurance Penetration (As percentage of GDP)	Insurance Density (U.S. dollars per capita)
Life		
Singapore	4.3	2296
Advanced Markets	5.01	2168.1
Non Life		
Singapore	1.5	810
Advanced Markets	3.57	1543.5

Source: MAS and Swiss Re Sigma March 2012.

**8. There were a total of 164 insurers operating in the Singapore market as of the end-2012. Foreign owned insurers account for material shares in all lines of business and the majority of reinsurers are operating as branches.**

<sup>1</sup> The figure for insurers is based on unaudited 2012 data, and excludes assets in the shareholder fund

<sup>2</sup> Unless indicated, all figures are in Singapore dollars. One Singapore dollar is equal to 0.79 U.S. dollar as of June 10, 2013.



**Table 2. Breakdown of Companies Operating in Singapore in 2012**

	Locally-Incorporated		Branch Operation	
	Number	Total Assets S\$ millions	Number	Total Assets S\$ millions
Direct Life				
Domestically-owned	4	64,383	0	0
Foreign-owned	9	76,262	6	2,362
Direct General				
Domestically-owned	6	735	0	0
Foreign-owned	18	8,165	26	3,880
Lloyd's Asia Scheme		Total Assets = 1,100		
Reinsurance companies				
Domestically-owned	2	2,475	0	0
Foreign-owned	5	2,500	21	10,046
Captives				
Domestically-owned	4	41	0	0
Foreign-owned	57	2,939	0	0

Source: MAS.

**9. The life insurance sector is dominated by four direct life insurers, which account more than 80 percent of industry assets,** namely AIA Singapore, NTUC Income, Great Eastern Life Singapore, and Prudential Assurance. The non-life insurance sector is more fragmented where the eight largest non-life insurers' market share by assets is about 50 percent. There are only four insurance groups in Singapore, of which only one of them (Great Eastern Group) is a large conglomerate. Great Eastern Holding is owned by Overseas-Chinese Banking Corporation and has as subsidiaries life, non-life and asset management businesses both in Singapore and the South-East Asia region.

**10. Insurance policies are distributed mainly through tied agents, while bancassurance is growing.** Tied agents continue to be the main channel of distribution for new business for the direct life insurers, with 45 percent of the weighted premium sales. The steady uptrend in bancassurance sales continues, with the bank channel accounting for 32 percent of weighted premium sales. Except from the sales channel, linkages between banks and insurers are limited and discouraged by several regulations, such as higher capital requirements on concentration and intergroup transactions, prohibition of derivative use for speculative purposes and collateral requirements on securities lending. Others, which accounts for a non-negligible share of the distribution channel, include direct sales but its share is declining.

**Table 3. Insurance Distribution Channel**

(In percent)

Source of Business	2007	2008	2009	2010	2011
Own Representatives	67.0	54.1	51.6	52.5	45.3
Licensed Financial Advisors	8.3	9.6	12.7	10.5	15.3
Banks	14.9	27.8	24.5	24.3	31.9
Other Life Insurers	0.0	0.8	0.1	0.1	0.1
Other Financial Institution	1.5	1.3	5.8	6.0	1.9
Others	8.4	6.3	5.3	6.7	5.5
Total	100.0	100.0	100.0	100.0	100.0

Source: MAS Notice 318 Appendix B.

## Underwriting performance

**11. The insurance industry in Singapore is growing; in particular, gross premium of offshore non-life business, which has increased significantly by more than 80 percent in the last five years** (Table 2). The main exposures<sup>3</sup> of offshore non-life insurers arise from providing property reinsurance mainly in South East Asia: Thailand (21 percent), Indonesia (17 percent), South Korea (12 percent), and Malaysia (6 percent) in 2011.

**12. The financial crisis caused a significant shift in life insurance policyholders' appetites from investment linked products to non-linked products, such as participating policies.** Although insurers provide guarantees for non-linked products, current regulatory and supervisory requirements as well as sound risk management practices in the industry have kept the guaranteed rates low (currently at between 1–2 percent) and therefore guarantees do not raise any immediate concern.

## Assets and liabilities-life insurers

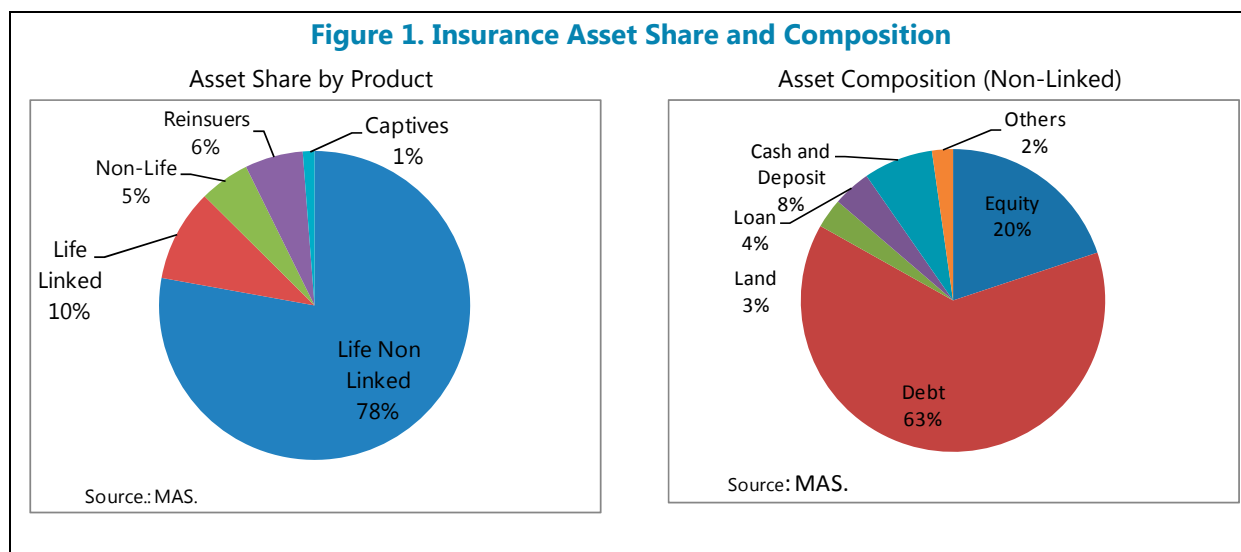
**13. Assets held for non-linked life insurance policies accounted for 80 percent of the industry's total assets. Life insurers hold a relatively high level (20 percent) of equity securities totaling \$19.2 billion in the non-linked portfolio** (Table 4). A large majority of insurers'

<sup>3</sup> The exposures are based on maximum sum insured or limit of liability from information collected under MAS Notice 122.

debt holdings are investment grade (80 percent of debt securities investment in life) and unrated semi-governmental issuers' bonds (20 percent of debt securities investment in life). The majority of assets and liabilities are denominated in Singapore dollar (over 90 percent for each). The duration of debt securities is around six years in large insurers.

**14. The majority of life insurance liabilities come from participating savings type products (such as endowment and whole life) with a minimum guaranteed rate around 1–2 percent.**

The duration of liability of participating contracts seems to be much longer than that of the invested securities, which is around 5–7 years. The majority of assets and liabilities are denominated in Singapore dollar (more than 90 percent).



## Solvency

**15. While the global financial crisis in 2008 had some impact on solvency positions in the insurance sector, the introduction of risk sensitive solvency requirements, early warning systems, and intensive risk-based supervision enabled the insurance sector to weather the crisis relatively well.**

**16. Particular segments of the industry, such as reinsurers and direct general insurers, exhibited greater loss from the recent catastrophic events.** The large scale of natural disasters in 2011 had an impact on the solvency positions of some reinsurers and direct general insurers. These re/insurers had received timely injections of new capital from their head offices to support their solvency positions. Some of them (e.g., the offshore insurance funds of reinsurers which operate as branches or subsidiaries in Singapore) are subject to lighter solvency requirements or are exempted from such requirements, in recognition of the international nature of reinsurance business, as well as taking into account that home regulators impose adequate capital requirements at the group level. This enables them to allocate the group capital across their group operations to meet any unexpected claims.

## Regulatory development since the previous FSAP

**17. The major regulatory developments since 2004 have been in line with the FSAP recommendations.** These include the introduction of a RBC in 2005, which covers the relevant risks that insurers face (such as credit, market, ALM and underwriting risks) and has some degree of convergence with Basel II. The framework is currently under review to take into account evolving international best practices. Corporate governance and risk management requirements (such as ERM) have been enhanced significantly. MAS introduced and has improved the sophistication of its risk-based supervisory framework (CRAFT), supported by comprehensive reporting requirements. Policyholder protection funds have been established, with a pre-funded scheme and 100 percent

coverage for the guaranteed benefits of life insurance policies, subject to certain caps. For covered general insurance policies, 100 percent coverage is provided without caps. Market conduct regulation has been substantially enhanced with remarkable efforts made by both MAS and the Singapore industry.

### Risks and vulnerabilities

**18. In life insurance, participating policies with a low guaranteed rate (1–2 percent) represent the dominant product, and insurers have the capacity to absorb significant losses by reducing dividends or bonuses to their policyholders.** Following MAS requirements, technical provisions established by life insurance companies for their participating business include an amount for the present value of future bonus distributions, including bonuses that have already been declared as well as those appearing in future bonus illustrations. Since the latter are not guaranteed, they can be released as an additional capital buffer in the face of deteriorating economic conditions. A substantial part of the capital resources of life insurance companies represents retained earnings on participating life insurance policies although it is recognized that those earnings will likely be distributable to policyholders at some future time if favorable conditions persist.

**19. The current expected return (4–5 percent) may not be fully achieved and insurers might not be able to meet policyholder expectation in the future in a prolonged low interest rate environment. Relatively high equity exposure, ALM risks and market deterioration could have an adverse impact on policyholder behavior,** such as higher lapse rates or lower renewal at the maturity of the current policies. This could cause deterioration in insurers' profitability, solvency and liquidity position in the long term.

**20. In non-life insurers, higher frequency of and loss from catastrophe events are the biggest risks. In particular, offshore insurers have a high regional concentration on property and casualty risks in the neighboring countries (such as Thailand and Indonesia).** In addition, some of the direct insurers have concentrated exposure of reinsurance arrangements with their parents companies. Such arrangements are not subject to concentration limit. However, MAS collects detailed information on the reinsurance arrangements for the direct non-life insurers, and also subjects them to a prescribed insurance-related stress scenario under the annual stress test exercise, whereby default of reinsurers is tested as part of the scenario.

### Institutional framework and arrangements

**21. MAS is an integrated financial supervisor for the banking, insurance and securities industry and has wide range of responsibility including the central bank's monetary policy making and financial stability surveillance.** MAS is in charge of prudential supervision, market conduct supervision and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). In addition, MAS has functions to manage the official foreign reserves and develop Singapore as an international financial center.

## D. Preconditions for Effective Insurance Supervision

### Sound and sustainable macroeconomic and financial sector conditions

**22. The macroeconomic and financial condition of Singapore is generally sound.** Real GDP growth and inflation averaged around 6.1 percent and 2.6 percent, respectively, during 2003–12. Household and corporate sector balance sheets remain robust in spite of the recent economic slowdown. Corporate earnings have declined, but corporate sector leverage has remained relatively low, with a median debt to equity ratio of around 0.4 and abundant liquidity. Net household wealth is very high at nearly four times GDP. However, new challenges, such as slowing growth, increasing real estate prices, an increasing number of individual bankruptcies and inflation, have emerged in recent years.

### A well-developed public infrastructure

**23. The legal system in Singapore follows the English common law tradition and incorporates well-established and globally-accepted principles of contract, commercial, and financial laws.** The system has consistently been rated highly in international and regional rankings of its integrity and transparency, including the efficiency of the legal framework in determining disputes, property rights and judicial independence. Discussion with market participants endorsed such evaluations and the assessors did not observe any adverse evidence.

**24. Accounting and auditing standards adopted in Singapore are in line with international best practices.** The Singapore Accounting Standards are closely modeled after the IFRS. The Accounting Standards Council, established under the Accounting Standards Act, is responsible for formulating the accounting standards. Singapore's Standards on Auditing are modeled after the International Standards on Auditing.

**25. The Singapore Actuarial Society establishes professional and ethical standards for its members.** There are 591 members as of March 2012 and about half of them are "Fellow", which are qualified as Appointed Actuaries. The Singapore Actuarial Society (SAS) issues the constitution, code of professional conduct and guidance notes which assist its member actuaries in performing the statutory roles required under the regulatory framework.

### Effective market discipline in financial markets

**26. Singapore markets have effective mechanisms in place to ensure market discipline.** MAS imposes stringent rules requiring issuers of securities to disclose and disseminate all material information. MAS conducts ongoing surveillance of market practices and undertakes rigorous enforcement to ensure compliance. Listed companies are subject to the Code of Corporate Governance, which is under joint purview of MAS and SGX since 2007.

## Mechanisms for consumer protection

**27. Policy Owner's Protection Scheme provides 100 percent protection for the guaranteed benefits of life insurance policies up to certain threshold** (US\$500,000 for the guaranteed sum and US\$100,000 for the guaranteed surrender value). No caps are imposed on the 100 percent protection of covered non-life policies. Membership in the protection scheme is compulsory for all insurers registered by MAS to carry on direct life business (other than captive) or direct non-life (other than captive or specialist insurers). There are two funds (the Policy Owner's Protection—PPF Life Fund and PPF General Fund). Both are pre-funded from levies on scheme members and administered by the Singapore Deposit Insurance Corporation.

## Efficient financial markets

**28. Singapore capital markets are at various stages of development, with very deep and liquid foreign exchange, while equity and fixed income markets are at an earlier stage of development.** As of 2012, Singapore is the third largest foreign exchange market in the world and one of the largest trading centers for over-the counter (OTC) derivatives in Asia. The corporate debt market doubled over the last decade, with an outstanding volume at-end 2011 of S\$203 billion (80 percent of GDP). While the government has taken and is taking several measures to improve the situation, including introduction of a securities lending facility, liquidity of the secondary market remains low.

**29. Singapore has a well-developed payment, clearing and settlement infrastructure.** The MAS operates the electronic payment system (MEPS+), which is a real time gross settlement system for interbank large value payments. In addition, three Central Counter Parties (CCPs) are operating in Singapore, one of which is also a Central Securities Depository/Securities Settlement System (CSD/SSS).

## Demographic trends

**30. The population of Singapore is 5.31 million, of whom 62 percent are citizens while the rest are permanent residents or foreign workers. While median age of Singaporeans is 38 years, the total fertility rate was 1.29 children per woman in 2012.** As life expectancy is quite long (males 77.9 and females 82.8), Singapore is facing the challenges as one of the fastest aging populations in Asia. By 2030, it is estimated that only 3.5 persons will be supporting one elderly person.

## Social security system

**31. Singapore has established the Central Provident Fund (CPF) for citizens and permanent residents, with contributions by employers and employees.** However, the cumulative impact of three fundamental shifts, falling fertility, increasing longevity, and smaller family size, will mean that CPF members will have to rely on their savings to help fund their retirement. In addition, with living standard increasing with modest inflation, it is generally recognized that additional voluntary

savings are necessary. The Singapore Government has introduced tax incentives for saving products (Supplementary Retirement Scheme), including insurance products. However, due to lower income tax rates in Singapore, the incentive seems less effective when compared with other countries with higher income tax rates.



**Table 4. Summary of Compliance with the ICPs**

<b>Insurance Core Principle</b>	<b>Level</b>	
1 - Objectives, Powers and Responsibilities of the Supervisor	O	Existing legislation clearly defines MAS as the authority responsible for insurance supervision, and its powers to administer and enforce the enabling legislation for insurance companies and intermediaries in Singapore. Supervisory objectives are clearly defined. MAS has power to regulate and supervise insurance group and all their related entities under the Financial Holding Companies Act as well as through a series of directives.
2 - Supervisor	LO	Legislation provides for MAS to be an operationally independent statutory body. It also affords MAS directors, officers, employees, and others working on its behalf with appropriate legal protection, as well as requires them to protect confidential information and to adhere to a code of conduct. MAS operations are self-funded and budget decisions have the authority of the President. MAS salaries are competitive with those in the industry and they have been able to attract mid-career professionals as well as top quality university graduates. MAS staff have earned the respect of industry stakeholders with whom they have contact. While there is no evidence and outcome which suggests lack of operational independence in the current functioning of MAS, we have questioned the independence of MAS from government influence having regard for the fact that a number of the MAS Board of directors are Cabinet ministers.
3 - Information Exchange and Confidentiality Requirements	O	There is an adequate legal and administrative framework in place that allows MAS to exchange information, on entities it supervises, with other supervisors and authorities subject to confidentiality, purpose and use requirements. MAS is prepared to share confidential information with other supervisors so long as confidentiality is maintained, even in cases where an MOU is not yet in place. However MAS has signed memorandum of understandings (MOUs) with several jurisdictions and is a signatory of the multilateral memorandum of understanding (MMoU) created by IAIS.
4 - Licensing	O	MAS is responsible for both the supervision of insurance entities and the issuance of insurance licenses. An entity requires licensing or authorization by MAS before being allowed to carry on any class of insurance business in Singapore. Licensing and authorization requirements and procedures are publicly available in the Insurance Act (Ins Act), various regulations and on the MAS website. The license application form requests information on the shareholdings of the applicant, the structure of the group, the shareholders of the proposed Singapore insurer, the

		organization chart of the proposed Singapore insurer, the executives to whom the management of the proposed Singapore insurer will report, and the risk control systems of the proposed Singapore insurer. Relationships between all material entities within the group are shown via a diagrammatic group structure. MAS' standard letter to request information from foreign regulators seeks confirmation from the home regulator that it has no objection to the application.
5 - Suitability of Persons	O	<p>Under the Ins Act, a licensed insurer is required to seek MAS' approval for the appointments of the following key functionaries:</p> <ul style="list-style-type: none"> <li>• substantial shareholders and controllers;</li> <li>• directors and the chairman of the Board (for locally incorporated insurers);</li> <li>• key executive persons such as the chief executive and actuaries; and</li> <li>• auditors.</li> </ul> <p>MAS' approval process takes into account whether the persons are fit and proper. These are set out in MAS Guidelines on Fit and Proper Criteria and include:</p> <ul style="list-style-type: none"> <li>• honesty, integrity and reputation;</li> <li>• competence and capability; and</li> <li>• financial soundness.</li> </ul> <p>If it is satisfied that the insurer's affairs are conducted in a manner likely to be detrimental to public or policyholders' interests, MAS may also, under section 41 of the Ins Act remove any person whom MAS considers unfit to be associated with the insurer. Section 31 of the Ins Act also provides that MAS may remove a CE, director or actuary if the individual has failed to perform his functions or is no longer a fit and proper person to be so appointed. For actuaries and auditors, during the assessment of the application, consideration is also given to the professional body to which actuaries and accountants belong and the standards of professional conduct issued by those bodies.</p>
6 - Changes in Control and Portfolio Transfers	O	<p>For any proposed acquisition or change in control, new shareholders or beneficial owners are required to meet requirements for financial and non-financial resources similar to those of a new licensee.</p> <p>The Ins Act prescribes that the whole or part of the insurance business of a licensed insurer may only be transferred to another licensed insurer, or to a company applying to be a licensed insurer, if the transfer is effected by a scheme under section 49FB of the Ins Act, or if the transferor has obtained the approval of MAS for such a transfer.</p>
7 - Corporate Governance	O	The Regulations and Guidelines of Corporate Governance have been implemented for several years and have improved

		<p>corporate governance in the insurance sector over time. In April 2013, regulations of corporate governance, which are legally binding, were extended from just applying to the larger insurers, to all locally incorporated insurers and reinsurers irrespective of their size. This requires insurers (including reinsurers) to have independent directors on their boards, establish committees of the boards and oversee key functions.</p>
8 - Risk Management and Internal Controls	○	<p>The Notices and Guidelines require the key functions to have authority, resources, seniority and direct access to the Board or relevant Board Committees. MAS monitor the effectiveness of the key functions through onsite inspections and offsite monitoring, which are reflected in CRAFT ratings and inspection plans.</p>
9 - Supervisory Review and Reporting	○	<p>MAS uses a single framework—Comprehensive Risk Assessment Framework and Techniques (CRAFT) to identify and assess the risks of a financial institution. The CRAFT framework requires MAS to evaluate both the impact and risk of an insurer relative to other insurers, and assigns each company to a respective risk bucket. The risk bucket will then drive MAS' supervisory intensity and supervisory plan, including the frequency and scope of onsite inspection and the level of offsite review and monitoring. Supervisors will highlight any concerns to the Board and Senior management during regular company visits. The discussion will include a review of MAS' CRAFT assessment of the insurer's key significant activities.</p>
10 - Preventive and Corrective Measures	○	<p>MAS has specific and general powers in the Ins Act and the FAA to issue directions to insurers and insurance intermediaries for both preventive and corrective measures to achieve supervisory objectives. These actions could include issuing directions to the insurer to raise its capital level, remove key personnel deemed unfit to carry on the role, restrict activities, etc. In the event MAS decides that insurer is no longer viable, the insurer can be directed to cease writing new or renewal business and commence run-off operations. MAS also has the power under section 41A of the Ins Act to take over control and wind up the insurer.</p>
11 - Enforcement	○	<p>The Ins Act provides MAS with extensive powers of enforcement. While insurers subject to the enforcement can appeal to the court, it would not delay the process of taking enforcement actions during the course of the appeal. Fund concept, which requires insurers to segregate assets and liabilities with respect to each class of insurance business, strengthens MAS capacity to deal with problem cases.</p>
12 - Winding-up and Exit from the Market	○	<p>The Ins Act enables MAS to take a wide range of actions before and during the liquidation process. Priority of claims of policyholders is specifically stated in the Ins Act. The Policy</p>

		Owners' Protection Scheme, which is pre-funded, specifically establishes the priority of policyholders' claims and provides 100 percent policyholder protection up to certain limits.
13 -Reinsurance and Other Forms of Risk Transfer	O	Insurers are required to establish reinsurance management policies approved by the Board. The policy should lay down clear methodologies for identification of tolerance to risk, retention level, types of reinsurance arrangement and selection of reinsurers. Recognition of reinsurance transactions takes into account reinsurer's licensing status as well as its credit rating. MAS monitors the reinsurance transactions quarterly, using offsite monitoring of outward reinsurance arrangements reported to MAS.
14 -Valuation	O	Debt securities, equity securities (including those classified as "available for sale" under the accounting standards), properties, investment linked funds belonging to the policyholders and derivatives are to be valued at their market values. Loans, outstanding premiums and reinsurance recoverable are valued based on the principal or amount recoverable outstanding less provision for probable loss. The technical provisions (insurance liabilities) are measured with expected cash flows of the underlying insurance policies using best estimate assumptions. In addition, an explicit provision for adverse deviation ("PAD") is added. Valuation of technical provisions (including change of assumption) is endorsed by appointed/certifying actuaries and external auditors and reported to MAS. MAS monitors valuation practice through offsite monitoring and onsite inspections.
15 -Investment	O	Although MAS does not set explicit quantitative limits on an insurer's investments, a robust investment policy is required to be in place. Risk-based capital requirements give insurers strong disincentive to invest in particular assets and to avoid excessive concentration. MAS monitors the investment portfolio in detail on a quarterly basis, and communicates with the industry quite intensively based on the detailed analysis.
16 -Enterprise Risk Management for Solvency Purposes	LO	Stress testing and scenario analysis, which have been conducted by direct insurers for several years, encourages the industry to improve overall risk management gradually. MAS issued the ERM notice, which expanded the stress testing and scenario analysis to cover the reinsurance sector and explicitly requires an ORSA report. MAS conducted a thematic review on ERM, which encouraged industries to improve their framework. Industries are adopting ERM frameworks and some larger insurers have sophisticated systems in place, while smaller insurers are still at earlier stage of development.
17 -Capital Adequacy	LO	MAS has implemented sophisticated risk-based solvency requirement (RBC) since 2005, which is applicable both at the

		company level and the fund level. The capital requirements cover most of the relevant and quantifiable risks. However, due to the recent rapid expansion of Singapore offshore market and the global financial crisis, new risk components (such as catastrophe risk) should be incorporated and other refinements are recommended. MAS is currently conducting review of the regime (RBC II).
18 -Intermediaries	O	Robust licensing requirements are applied both at the levels of companies and individual representatives. Fit and proper criteria which includes the fulfillment of a minimum number of training hours annually is required to ensure that the representative's license remains valid. The Ins Act stipulates strong safeguards of client money. Those requirements encourage insurers to establish strong training program for improving quality and compliance of intermediaries.
19 -Conduct of Business	O	Under the Guidelines on Fair Dealing, MAS sets out five Fair Dealing Outcomes. Notices specify the information that must be disclosed. Several channels of dispute resolution are available for policyholders. MAS monitors market conduct practices carefully against its Fair Dealing Guidelines with onsite inspections, offsite monitoring and mystery shopping. Financial Advisory Industry Review Panel has been established and has made substantial recommendations to improve the industry practice further.
20 - Public Disclosure	LO	A wide range of information is publicly available, including B/S, P/L, valuation of life business, participating fund allocations and solvency ratios. However, information on ERM/ALM and Corporate Governance is not yet publicly available on the industry wide basis, although some of the large insurers have disclosed this type of information on their websites or in their annual reports.
21 - Countering Fraud in Insurance	O	The Notices require all insurers, financial advisers and insurance brokers to report all misconduct committed by their representatives to MAS, as well as lodge suspicious activities and incidents of fraud. Many of the training courses and seminars being held are aimed at minimizing the cost to insurers and to society of insurance fraud committed by policyholders, intermediaries and other third parties. MAS collaborates with police officials and relevant government departments such as the Ministry of Transport, Land Transport authority, the Ministry of Health and the Attorney General's Chambers in an effort to control fraud risks.
22 -Anti-Money Laundering and Combating the Financing of Terrorism	O	Singapore is a member of the Financial Action Task Force (FATF) and of the Asia/Pacific Group on Money Laundering (APG). It underwent its last Mutual Evaluation against the AML/CFT standard in 2008. Overall, assessors found that Singapore had a strong AML/CFT system in place and that life insurers and intermediaries were subject to adequate

		AML/CFT requirements and supervision. MAS continue to improve industry awareness with its risk-based framework (CRAFT) and periodic onsite inspections.
23 - Group-wide Supervision	O	When dealing with group-wide supervision, MAS relies on a series of notices, directives and guidelines supported by legislation that provide satisfactory authority to request information, evaluate risks and assess solvency for insurance groups. Amendments to the Ins Act and the Financial Holding Companies Act were enacted in April 2013. Under the FHC Act, MAS will have powers over the entire FHC group which includes the financial holding company, its subsidiaries and any other company or entity treated as part of the financial holding company's group of companies according to Accounting Standards. MAS works together with other foreign supervisory authorities where appropriate.
24 - Macroprudential Surveillance and Insurance Supervision	O	MAS requires direct life and general insurers to perform bottom-up annual stress testing based on a number of prescribed and self-designed stress scenarios. Vulnerabilities of insurers and the insurance sector as a whole, to financial market stresses and insurance related stresses are revealed in the stress test exercises. Top-down scenario analyses are also done to identify and uncover specific vulnerabilities of insurers (and the insurance industry as a whole) to various types of financial market and insurance related developments. The Macroprudential Surveillance framework is updated on a quarterly basis, monitoring insurers' interconnectedness and interlinkages with other insurers, the broader financial system and the real economy.
25 - Supervisory Cooperation and Coordination	O	MAS has the power and framework in place for supervising all financial institutions, including locally-incorporated cross-sectoral groups with insurance operations. MAS has established numerous bilateral MoUs with foreign regulators and is also a signatory to the IAIS Multilateral Memorandum of Understanding (MMoU) since July 2010. MAS officials have been successful in establishing the supervisory college with the major local insurance group. In addition, MAS personnel have been active participants in a number of such colleges established in other jurisdictions.
26 - Cross-border Cooperation and Coordination on Crisis Management	LO	The MAS participates actively in 11 supervisory colleges on an ongoing basis as a host supervisor and some of the colleges have started to actively plan for crisis management. MAS has also organized a supervisory college as the home supervisor. The significant insurance group, which MAS is the home supervisor, had developed plans for crisis management. BCM framework has been implemented and would set up a crisis command centre and communicate with various stakeholders.

**Table 5. Summary of Observance Level**

Observed (O)	21
Largely observed (LO)	5
Partly observed (PO)	0
Not Observed (NO)	0
<b>Total</b>	<b>26</b>

**Table 6. Recommendations to Improve Observance of ICPs**

<b>Insurance Core Principle</b>	
2 - Supervisor	MAS should strengthen its safeguards further to avoid any undue political/governmental interference.
14 - Valuation	Work with the Singapore Actuarial Society to develop and adopt formal standards that govern the work of the appointed actuary so as to ensure soundness and consistency in valuation practices.
16 - Enterprise Risk Management for Solvency Purposes	Complete roll-out of ERM and full implementation of requirements by all players in the industry
17 - Capital Adequacy	Implement RBC II. Ensure that proper provision for catastrophe risks forms part of the requirements to be met by reinsurance companies.
20 - Public Disclosure	Assist players in the industry to ensure full implementation of new disclosure requirements in 2014.
26 - Cross-border Cooperation and Coordination on Crisis Management	Given the material cross border operations in some of the insurers, works on cross Boarder crisis management need to be prioritized. Where MAS is the group wide supervisor, MAS should continue to work with large insurers with cross border operations so that they develop contingency plans and procedures based on their specific risk for use in gone-concern situation.

***Authorities' responses to the assessment***

**32. The Monetary Authority of Singapore (MAS) appreciates the opportunity to be assessed against the IAIS Insurance Core Principles.** MAS would also like to express its gratitude to the IMF and its assessors for their understanding and objective assessment of the standards in Singapore. The process has given MAS the opportunity to review and improve its regulatory and supervisory frameworks, and dialogues with the IMF assessors have been constructive in identifying areas for further improvement.

**33. Notwithstanding the IMF's overall assessment that MAS shows a high degree of observance with the IAIS Insurance Core Principles, MAS will continue to work with the**

**relevant stakeholders to further strengthen the supervision and risk management practices of the insurance industry in Singapore.**

- MAS notes the assessors' observations on the existing safeguards, their recommendations on how MAS' operational independence could be further strengthened, and their finding that there had been no instance where MAS' operational independence was compromised. We reiterate our position that MAS has operational autonomy in the exercise of its powers and functions. Nonetheless, we will review the assessors' recommendations, and make changes, where necessary, to ensure that it continues to maintain operational independence.
- MAS will continue to work with the Singapore Actuarial Society to enhance the existing professional guidance notes on valuation of liabilities so as to incorporate the best practices with regard to the checks and balances on an actuary's work.
- With respect to enterprise risk management, MAS has already issued a notice setting out ERM requirements for the insurance industry. This notice shall take effect on 1 January 2014. MAS will continue to work with the industry to achieve the standards envisaged under the ERM requirements.
- MAS is working on RBC II with a view to improve the comprehensiveness of the risk coverage and the risk sensitivity of the existing RBC framework, and will explore how to incorporate the appropriate risk charges for catastrophe risks.
- With respect to public disclosure, MAS has already issued a notice setting out public disclosure requirements for the insurance industry. MAS will continue to work with and provide guidance where necessary, to enhance the disclosure practices in the industry.
- MAS agrees with the importance of effective cross-border cooperation and coordination on crisis management. MAS looks forward to enhancing our cooperation and coordination on crisis management matters with group wide supervisors of major foreign insurers in Singapore. For the significant groups for which MAS is the group wide supervisor, MAS will continue to collaborate with its host supervisors as well as the insurance groups to ensure that crisis management plans are up-to-date, and plans and procedures for use in gone-concern scenarios are developed.



## DETAILED PRINCIPLE-BY-PRINCIPLE ASSESSMENT

**Table 7. Detailed Assessment of Observance of the ICPs**

ICP 1	<b>Objectives, Powers and Responsibilities of the Supervisor</b> The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
Description	<p>The Monetary Authority of Singapore (MAS) is an integrated financial supervisor for the banking, insurance and securities industry. The primary legislation, the MAS Act, confers on MAS broad legal powers to carry out functions that include conducting integrated supervision of financial services (including insurance) and financial stability surveillance as prescribed in section 4(2) of the MAS Act. Section 23(8) of the MAS Act also provides that MAS may, in addition to the powers, duties and functions set out in the MAS Act, exercise all powers and perform all functions and duties conferred or imposed on MAS under the Ins Act and the Financial Advisors Act (FAA).</p> <p>The Ins Act and the FAA define MAS's objectives as the supervisor/regulator. The main objective of insurance supervision is the protection of the interests of policy owners. To supplement the broad objectives of MAS as set out in the MAS Act, the MAS' Monograph on "Objectives and Principles of Financial Supervision in Singapore" spells out MAS' objectives of supervision, the functions it performs, and the principles that guide its supervisory approach.</p> <p>The objectives or desired outcomes of MAS' supervisory activities as explained in the Monograph include the following:</p> <ul style="list-style-type: none"> <li>• a stable financial system;</li> <li>• safe and sound financial intermediaries;</li> <li>• transparent and fair-dealing intermediaries and providers; and</li> <li>• well-informed and empowered consumers.</li> </ul> <p>The Monograph is made available to the public and is published on the MAS website. (<a href="http://www.mas.gov.sg/">http://www.mas.gov.sg/</a>)</p> <p>Section 1A of the Ins Act defines MAS as the authority responsible for enforcing the Ins Act. The objective of the Ins Act, as set out in the long title, is for the regulation of insurance business and insurance intermediaries in Singapore, and for other purposes relating thereto or connected therewith. The specific legal powers of MAS relating to the prudential supervision of the insurance industry are further conferred under the Ins Act and its subsidiary legislations. These include the power to issue and enforce rules by administrative means. MAS can enforce all rules through supervisory actions and fines imposed. There is a wide range of powers within the Ins Act to support supervisory actions and directions, as well as to impose fines and take criminal sanctions.</p>

Sections 41(2) and 64(2) of the Ins Act empower MAS to issue such directions to insurers as it may consider necessary, including directions to reinforce the financial position of an insurer/reinsurer, measures that mitigate the risks of the insurer/reinsurer, and measures to restrict/suspend dividends or transfer of assets. Section 12 of the Ins Act set out the grounds for which MAS may cancel the license of an insurer. It also provides for MAS to impose requirements on the insurer, including collecting specific information, for the purpose of cancelling the license of an insurer. Through sections 31, 36 and 37 of the Ins Act, MAS is empowered to approve appointments of chief executives, directors, auditors and actuaries. Under the same sections MAS may direct the insurer to remove/revoke the approval of these key persons when they are considered unfit. The Ins Act also provides for a range of penalties such as fines which are paid to MAS. MAS' powers allow foreign supervisors to inspect insurers in Singapore, and the MAS to provide supervisory information to home regulators and the insurer's head office or parent company and to inspect the overseas branches and subsidiaries of Singapore-incorporated insurers.

The Ins Act spells out the provisions and requirements for the conduct of insurance business and insurance intermediaries. Parts II, III and IIIA of the Ins Act cover the licensing requirements for insurers, as well as conditions and requirements for prudential supervision (e.g. capital and solvency requirements, financial reporting, MAS' power to inspect insurers and insurance intermediaries, and the process for winding up of insurance business). Section 12 of the Ins Act provides grounds for the cancellation of license of any insurer, either wholly or in respect of a class of business, if the insurer is carrying on its business in a manner likely to be detrimental either to the interests of its policy owners, or to the public interest. Section 41 of the Ins Act enables MAS to issue directions to require a specific action or to prevent specific actions, to assume control of and manage the business of a registered insurer, or to appoint statutory manager(s) to do so on terms and conditions specified by MAS, if MAS is satisfied that the business is being conducted in a manner which is likely to be detrimental to the public interest, the interest of the policy owners, or where MAS considers it in the public interest to do so.

Part IIB of the Ins Act provides for licensing and market conduct requirements for insurance intermediaries. In addition, the FAA spells out the provisions and requirements on the arrangement of any life insurance contracts. Section 23J of the FAA confers on MAS the power to refuse entry, or revoke or suspend the status of an appointed or provisional representative if, amongst other grounds, MAS has reason to believe that he may not be able to act in the best interests of the clients of his principal, having regard to his reputation, character, financial integrity and reliability.

MAS reviews the regulatory framework on a regular basis, as well as when issues arise in the course of the supervisory work. In the recent years, MAS initiated reviews when changes in legislation were needed to ensure supervisory objectives were achieved. In every case, the changes initiated were adopted. In May 2011, the insurance regulatory framework was strengthened to allow MAS to act swiftly when dealing with a distressed insurer, in order to preserve financial stability and protect policy owners. MAS will be able to take control of a distressed insurer and determine

	<p>the sale or transfer of assets and liabilities, or ownership, of the insurer. For an insurer in liquidation, MAS will be able to approve the appointment of a liquidator.</p> <p>Below are some of the reviews done for the Insurance (Amendment) Act which was enacted in April 2013:</p> <p><b>Example 1</b></p> <p>Previously, section 21 of the Ins Act provides for MAS to issue directions to an insurer to maintain assets in Singapore only when there are grounds on which MAS can cancel the license of the insurer under section 12 of the Ins Act. In order for MAS to take pre-emptive measures for supervisory purposes, MAS has revised the Ins Act to allow it to issue asset maintenance requirements on insurers without any pre-condition.</p> <p><b>Example 2</b></p> <p>The Ins Act has been amended with section 30B requiring insurers to obtain MAS' prior approval for establishment of new entities or new acquisitions. This enables MAS to ensure that the insurer has adequate resources to support new acquisitions and for the insurer's group structure to be transparent to MAS.</p>
Assessment	Observed
Comments	<p>When dealing with group wide supervision, MAS relies on a series of notices, directives and guidelines that provide satisfactory authority to request information, valuate risks and assess solvency regarding an entire group of companies. Amendments of the Ins Act and introduction of the Financial Holding Companies Act (FHC Act) have been adopted in April 2013. Current series of directives would be replaced by the FHC Act and secondary legislation of the new Act shortly.</p>
<b>ICP 2</b>	<p><b>Supervisor</b></p> <p>The supervisor, in the exercise of its functions and powers:</p> <ul style="list-style-type: none"> <li>• is operationally independent, accountable and transparent;</li> <li>• protects confidential information;</li> <li>• has appropriate legal protection;</li> <li>• has adequate resources; and</li> <li>• meets high professional standards.</li> </ul>
Description	<p><b>Independence, accountability, and transparency</b></p> <p>MAS is legally and institutionally independent of the executive and judiciary branches of the Singapore government and is supposed to operate independently of the government and industry in formulating and pursuing its regulatory and supervisory functions. The institutional relationship between MAS and the executive and judicial authorities in Singapore is clearly defined in terms of sharing of information, consultation on matters of mutual interest, and when approval from relevant authorities is necessary.</p>

Section 5 of the MAS Act provides that the Singapore Government's approval is needed for increase in paid-up capital of MAS. Section 7 of the MAS Act requires that, from time to time, MAS' Board of Directors informs the Singapore Government of the regulatory, supervisory and monetary policies of MAS; and furnishes the Minister-in-charge of MAS with such information as the minister may require in respect of the duties and functions of MAS.

While the members of MAS' Board of Directors set MAS' general direction, they are not involved in the day-to-day supervision of financial institutions. MAS enjoys operational autonomy and the Government does not interfere in the supervision of financial institutions. The legislation does not specify any circumstances in which the executive authorities in MAS' jurisdiction are allowed to override the decisions made by MAS.

The governance structure for MAS is set out in the MAS Act, which defines the responsibilities of the Board of Directors, the Chairman and the Managing Director of MAS. Under the MAS Act, MAS' governing body (i.e., Board of Directors) must not include a director or salaried official of any financial institution supervised by MAS. These directors must not act as delegates to the Boards of any commercial, financial, agricultural, industrial or other interests with which they may be connected. MAS staff members are not allowed to participate in any political activities and must maintain complete reserve in all political matters or matters of public controversy.

The process for the appointment of the Chairman, Managing Director of MAS and the Board of Directors is transparent and provided for in the MAS Act, as follows:

- The Chairman of MAS is appointed by the President on the recommendation of the Cabinet (section 7).
- The other Board Directors are appointed by the President on the recommendation of the Minister in charge of MAS (section 8).
- The Managing Director of MAS is appointed by the President on the advice or recommendation of the Public Service Commission. The President may, in his discretion, refuse to appoint any person as Chairman, Director or Managing Director of MAS or to revoke any such appointment if the President does not concur with the recommendation of the Cabinet or Public Service Commission. The Managing Director is appointed on such terms and conditions of service as the President may decide (section 9).
- The directors appointed hold office for a term not exceeding three years and are eligible for reappointment (section 9).

The reason(s) for a director's removal is publicly disclosed. As specified in section 10(2) of the MAS Act, the President may terminate the appointment of any director if the director:

- resigns his office;
- becomes mentally disordered and incapable of managing himself or his affairs;
- becomes bankrupt or suspends payment to or compounds with his creditors;

- is convicted of an offence involving dishonesty, fraud or moral turpitude;
- is guilty of serious misconduct in relation to his duties;
- is absent, without leave, from three consecutive meetings of the Board; or
- fails to comply with his obligations under the MAS Act.

Pursuant to section 9(6) of the MAS Act, the Managing Director has formed the Management Financial Supervision Committee (“MFSC”) to assist him in the exercise of his powers and the carrying out of his duties in the supervision and regulation of the financial services sector entrusted to him by virtue of section 9(3) of the MAS Act. The MFSC has been delegated the power to make all supervisory decisions. It serves as a key forum for discussion on the regulatory and legislative framework for regulated entities, supervisory policies and policy papers. It has the power to approve or reject license applications, to make decisions on supervisory actions taken against financial institutions, and to determine which of the matters arising out of the forum should be escalated. Safety and soundness of financial institutions are paramount considerations.

The MFSC is chaired by the Deputy Managing Director overseeing financial supervision and consists of the General Counsel, as well as the Assistant Managing Directors and heads of departments under the Financial Supervision Group (the Banking Department, Insurance Department, Prudential Policy Department, Specialist Risk Supervision Department, Macroeconomic Surveillance Department, Capital Markets Intermediaries Department—CMI, Investment Intermediaries Department, and Capital Markets Department).

MAS reviews its regulatory requirements and internal process on a regular basis, some of which resulted in the amendments of regulatory requirements. MAS is required to carry out public consultation if there are any substantive changes to the regulatory framework.

Where insurers disagree with the supervisory actions of MAS, they have an avenue to appeal to the Minister-in-charge of MAS in accordance with the provisions in Part IIIB of the Ins Act. The Minister shall constitute an Appeal Advisory Committee which is required to submit to the Minister a written report on the appeal. MAS officials/staff are not allowed to be represented on the Appeal Advisory Committee.

The MAS Act provides for the establishment of MAS as a body corporate and therefore a separate legal person. MAS is self financing and financially autonomous. It prepares its own budget, which is approved by the MAS Management, the Board and the President of Singapore, who is acting in his own discretion. Under section 34(1) of the MAS Act, MAS is required to produce an annual report, and to include a report on the performance of its functions and duties. A copy of the annual report is made available on the MAS website for public reference. The financial statements, which must be audited by the Auditor-General, are also published together with annual report.

**Protects confidential information**

MAS requires that every employee shall treat all official documents and information acquired in his/her official capacity as confidential. Furthermore, every employee is required to adhere to the Official Secrets Act. Section 40 of the Ins Act also requires the inspection of books and accounts to be carried out under conditions of secrecy, subject to several exceptions set out in section 40(4) of the Ins Act such as during the course of criminal proceedings or in the course of any proceedings under any written law of Singapore or elsewhere.

Senior officers are required to give a minimum notification period of three months before joining any external organizations with which MAS has dealings, including financial institutions under MAS' supervision. The required advance notification period could be up to six months under certain circumstances where officers have access to particularly sensitive information.

Part IIIA of the Ins Act sets out the framework whereby assistance or exchange of information may be rendered. In particular, section 49B(1)(e) prevents MAS from providing information to a foreign regulatory authority unless the regulatory authority has given a written undertaking not to disclose to a third party any material received pursuant to the request unless the regulatory authority is compelled to do so by the law or a court of the foreign country.

#### **Appropriate legal protection**

Section 22 of the MAS Act provides for the legal protection of MAS, and any director, officer or employee of MAS for anything done, including any statements made, or omitted to be done, in good faith. No legal action may be taken against MAS, director, officer or employee of MAS in respect of anything done including any statements made, or omitted to be done in good faith, in the exercise of any powers or the performance of any function or duty under the law. MAS provides legal aid on a full indemnity basis as and when costs are incurred.

#### **Adequate resources**

In accordance with the MAS Act, the costs of operation of MAS are recovered through assessments collected from all licensed or regulated institutions. Thus MAS is self-financing and financially autonomous. MAS enjoys independence in determining its manpower resourcing levels and remuneration policies and is also responsible for setting its own budget, which is approved ultimately by the President of Singapore, acting in his discretion. The President of Singapore is separately elected from the Government. He has his own appointed Council of Presidential Advisers to advise him and he can request for any information to satisfy himself that the budget does not draw on the past reserves of MAS.

Every year, Departments plan their activities and resources as required in the new financial year budget. Each Head of Department is fully accountable for the management of funds allocated to his Department and may use the Department's allocation as is deemed necessary within the MAS' existing policy guidelines. Should the need arise, departments may request additional resources. These funds are

obtained from other departments with unutilised budgets or from a supplementary budget approved by the President.

Under MAS's Comprehensive Risk Assessment Framework and Techniques ("CRAFT"), the risk profile and impact of a financial institution are assessed and combined to assign the institution to one of four categories of supervisory significance. The category with the highest supervisory significance is comprised of institutions that have the greatest potential to affect the achievement of MAS' supervisory objectives. As the supervisory significance increases, there is a corresponding increase in supervisory intensity, and more resources are allocated to supervision. For example, insurers in categories with a higher supervisory significance are subject to more frequent onsite inspections and the key supervisory assessments of such insurers are reviewed by higher-level management.

MAS has in place measures to assure that supervisory activities are proportionate to the individual insurer's risk profile and impact. These include:

- Comprehensive operating procedures to guide supervisory staff in key supervisory processes;
- A system of challenge and review by experienced supervisors or panels of senior and specialist staff for key supervisory assessments of individual financial institutions;
- Decision making on major regulatory or supervisory issues at senior management forums; and
- Regular checks on the supervisory processes by MAS' internal audit function.

The global financial crisis and developments in international supervisory standards have prompted an increased focus on a number of areas such as group supervision, macroprudential surveillance, Enterprise Risk Management and further enhancements to risk-based capital regimes worldwide. As a result of lessons learned, MAS' Insurance Department obtained approval to increase its headcount by an additional 8 people effective September 2011. This was to ensure adequate resourcing to meet its objectives.

### **Professional standards**

Code of Conduct sets out the standards expected of MAS employees. MAS' Human Resources Department sets out specific rules relating to potential conflict of interest situations

The MAS. Staff members are expected to disclose circumstances such as financial indebtedness, investments wherein privileged information could be misused or external appointments.

MAS staff are expected to maintain high standards of integrity and conduct at all times, avoiding situations in which their conduct might prompt questions regarding whether they have acted in MAS' best interests. Staff members are expected to abide by these requirements and to report breaches by their colleagues (i.e., whistle blowing). In the event of alleged violations, MAS's review processes would be invoked. Depending on the severity of the case, appropriate disciplinary actions will

	<p>be taken, ranging from reprimands to suspension from duties, dismissal and legal prosecution.</p> <p>MAS places strong emphasis on attracting and retaining quality staff, and developing them to their full potential. It offers competitive remuneration packages and provides training internally (through 'MAS Academy') and externally. MAS set up the MAS Academy to centralize in-house professional and leadership training programs for all departments. The Academy aims to inculcate MAS' values and ethics in its officers, and to engage in capacity-building for MAS. It organizes the MAS Diploma in Central Banking for entry-level officers to acquire broad-based financial sector knowledge and understanding of MAS' key functions and core values. Besides the use of in-house trainers to help impart institutional knowledge and MAS' values, the Academy has the budget to engage external professional trainers to conduct courses to keep MAS officers abreast of the latest developments and trends in financial markets, activities and products, and best market practices in risk management and internal controls. Functional training courses are organized broadly under the eight knowledge blocks: Macroeconomics &amp; Monetary Policy; Financial Supervision; Financial Markets and Products; Risk Management; Accounting &amp; Financial Analysis; General Management; Managing External Relations and Managing Operating Processes.</p> <p>The Academy also cultivates peer groups – a platform for staff to acquire, create and share their collective knowledge and expertise in specialist subject areas of importance to MAS' work. In addition, the Academy organizes regular talks by leading regulators and senior industry practitioners to share knowledge and exchange views on various supervisory and regulatory issues, and the latest financial sector trends and developments.</p> <p>Secondments of personnel to public organizations, financial institutions and foreign regulators are done regularly. MAS provides support to its staff who pursue professional examinations relevant to their area of work and provides other forms of training to raise their professionalism, skills and expertise.</p> <p>On the hiring front, MAS attracts and recruits staff with excellent qualifications and expertise. Entry level Senior Officers all hold at least a second class honours degree from top universities, while mid-career hires generally bring with them relevant experience and strong expertise in their respective fields. To attract these candidates, MAS pegs its remuneration for staff at a competitive level viz the financial industry. In the 2012 employer branding survey conducted by a global firm, Universum, tertiary students majoring in business ranked MAS as the 8th most ideal employer.</p> <p>MAS undertakes annual talent reviews and regular assessment on its expertise levels. These facilitate succession planning and early identification of gaps on the leadership bench or in expertise levels and appropriate follow up actions are taken.</p>
Assessment	Largely Observed
Comments	There is no evidence and outcome which suggests lack of operational independence in the current functioning of MAS. However, since the Board of Directors includes a



	<p>Chairman and three other Directors who are members of Cabinet and have multiple functions, robust measures to prevent undue political, governmental interference will be necessary.</p> <p>Currently, operational independence is relying heavily on the first line of defense, which is excellent human resources at MAS. However, it is vulnerable to deterioration of the political and market situation.</p> <p>ICPs do not specify any concrete system to adopt for independence, although the guidance mentions that "A member of the governing body of the supervisor should exclude himself from decisions where he/she is in a conflict of interest position. It is recommended that MAS strengthen its safeguards further to avoid any undue political/governmental interference.</p> <p>MAS is succeeding in attracting young staff with excellent qualifications, and providing training to help them acquire necessary skills of the insurance sector. MAS also hires mid career industry experts. 40 percent of the staff of MAS Insurance Department are actuaries who are at various stages of qualification within the profession.</p>
<b>ICP 3</b>	<p><b>Information Exchange and Confidentiality Requirements</b></p> <p>The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
Description	<p>As the integrated supervisor of financial services and financial stability surveillance, MAS has the legal authority and power to obtain and exchange supervisory information in respect of regulated entities and groups. When the FHC Act is enacted (in April 2013), MAS will also have similar authority and powers over relevant (regulated and non-regulated) entities of such groups.</p> <p>MAS does not require strict reciprocity with regards to the level, format and detailed characteristics of information requested. For example, MAS does not insist on a formal agreement/understanding before sharing requested information with other supervisors who have a confidentiality regime in place.</p> <p>MAS voluntarily shares material, and relevant information, such as inspection reports, with other supervisors. MAS also strives to inform the relevant supervisors in advance of taking any action that might reasonably be considered to affect the insurance group entities. However, where prior notification is not possible, MAS would inform the relevant supervisors as soon as possible after taking action.</p> <p>Prior to seeking information from another supervisor, MAS establishes that it has a valid interest in and purpose for that information. Conversely, requests for information from other supervisors are assessed on a case-by-case basis, with responses given in a timely and comprehensive manner. Part of this assessment includes verifying that the requesting supervisors are bound by confidentiality requirements. Where requested information should be passed on to relevant third</p>

	<p>parties, MAS requires that prior consent be sought and that these third parties are subject to confidentiality requirements.</p> <p>MAS is fully aware that information requested can only be used for purposes specified in the request, and seeks prior consent if information is to be used for other purposes, including passing on the information. Where MAS is legally compelled to disclose confidential information it has received from another supervisor, MAS will promptly notify the originating supervisor and seek consent for its release. Where consent is not granted, MAS will use reasonable means to resist the legal compulsion.</p>
Assessment	Observed
Comments	Contacts with other supervisors have confirmed that MAS cooperates completely in the sharing of relevant information.
<b>ICP 4</b>	<p><b>Licensing</b></p> <p>A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.</p>
Description	<p><b>Licensing and authorization</b></p> <p>MAS is responsible for both the supervision of insurance entities and the issuance of insurance licenses. An entity requires licensing or authorization by MAS before being allowed to carry on any class of insurance business in Singapore.</p> <p>Section 2 and the First Schedule to the Ins Act set out the classes of insurance business and the definition of specific insurance terms for the purposes of the Ins Act, while Section 3 of the Ins Act provides that no person shall carry on any class of insurance in Singapore as an insurer unless the person is licensed by MAS in respect of that class of business. In addition, no person carrying on reinsurance business outside Singapore shall carry on reinsurance business, as a principal and as an insurer, with persons in Singapore unless authorized by MAS or carrying on insurance business under a foreign insurer scheme (Lloyd’s Asia Scheme) established under the Ins Act.</p> <p>Sections 4 to 7 of the Ins Act prohibit the holding out as a licensed insurer or authorized reinsurer, use of the word “insurance,” solicitation of insurance business and establishment of an insurance representative office for a person who is not entitled to carry on insurance business in Singapore or who is not authorized. Any contravention of these sections amounts to an offense.</p> <p>In Singapore, the “licensing” and “authorization” regimes are both formal methods of licensing. Singapore does not have a less formal process of licensing for less significant entities such as authorized reinsurers. Licensing for members of the Lloyd’s Asia Scheme is governed by (a) each member having to register with the administrator of the scheme, which is appointed by MAS; and (b) each member</p>

having to carry on insurance business in Singapore through a registered Service Company, where no Service Company may enter into any contract of insurance on behalf of the members of any syndicate without the approval of MAS.

The standard license issued to direct insurers and reinsurers states whether the applicant is allowed to carry on General, Life, or Life and General business, whether the insurer is licensed as a direct insurer or reinsurer, and whether the insurer is a branch or subsidiary. The standard license for captive insurers states whether the applicant is allowed to carry on General, Life, or Life and General business. The standard approval letter for authorized reinsurers states whether the applicant is authorized as a General, Life or Life and General reinsurer.

Licensing requirements and procedures are publicly available in the Ins Act, various regulations and on the MAS website. Application procedures are straight forward, as all required information and documents are clearly set out in the license application form (available on the MAS website). MAS officers are guided by standard internal processes on admission criteria and procedures to ensure that the assessments performed are consistent and handled in a timely manner. MAS adheres to the requirements and guidelines set out in ICPs 5, 7 and 17 on suitability, governance and capital.

MAS' internal process requires that each department makes a decision on a completed application within six weeks if the application does not require reviewing existing policies. The decision process commences only upon receipt of all necessary information pertaining to the application. . Officers are required to give the applicant an indicative timeline for the processing of the license during their initial discussions with the applicant, and notify the applicant if it is not practicable for a decision to be made within the six weeks time frame.

Both the license for direct insurers and reinsurers, and the approval letter for authorized reinsurers, set out the licensing and authorization conditions respectively. The license specifies the type of insurance business and the capacity in which the new insurer/reinsurer is to operate. The license for captive insurers and the approval letter for authorized reinsurers specify the type of insurance business for which they are granted the licenses. Any conditions imposed are clearly stated in the letter. There is no time period for its validity. Having licensed or authorized an entity, MAS is empowered at any time to add to, vary or revoke any existing conditions of the license or approval given.

Where licensing conditions cannot be met, MAS will reject such applications. MAS communicates in writing any rejection, restrictions or conditions imposed to the applicant. Explanations of the reasons for rejection or for imposing licensing conditions or restrictions are communicated verbally to the applicant.

### **The process**

Section 31 of the Ins Act provides that no licensed insurer shall appoint a person as chief executive, deputy chief executive, appointed actuary, certifying actuary,

chairman or director (for insurers incorporated or established in Singapore) unless the insurer satisfies MAS that the appointee is a fit and proper person to be so appointed, and has obtained the approval of MAS. In addition, the admission criteria for insurers require that i) the applicant, ii) the directors, chief executive and actuary, iii) all substantial shareholders, iv) all persons having effective control and v) all persons having control must be fit and proper persons. The MAS Guidelines on Fit and Proper Criteria set out clearly the criteria applicable to all relevant persons in relation to the carrying out of any activity regulated by MAS. The Corporate Governance (CG) Regulations subject existing directors and executive officers to an ongoing disqualification rule for not being fit or proper. This also applies to directors and executive officers under the Financial Holding Company framework.

Section 8(3) of the Ins Act provides that MAS shall not license any applicant unless the applicant satisfies such financial requirements as may be prescribed. Regulation 3 of the Insurance (V&C) Regulations prescribes the paid-up capital requirement of an applicant applying to be a direct insurer or reinsurer, while regulation 4 prescribes the fund solvency requirement and capital adequacy requirement of a licensed insurer.

The license application form requests information on the shareholdings of the applicant, the structure of the group, the shareholders of the proposed Singapore insurer, the organization chart of the proposed Singapore insurer, the executives to whom the management of the proposed Singapore insurer will report, and the risk control systems of the proposed Singapore insurer. Relationships between all material entities within the group are shown via a diagrammatic group structure. The applicant is also required to provide information on the risk control systems of the proposed insurer in Singapore, including reinsurance arrangements, underwriting and claims arrangements, outsourcing arrangements, anti-money laundering arrangements, investment arrangements, capital management, business continuity arrangements, internal audit arrangements and corporate governance framework, if applicable. Where such arrangements are made with a related party, the applicant will be required to declare them in the application form. The CG Regulations set out the requirements for the corporate governance of locally incorporated insurers. In addition, insurers must observe the MAS Guidelines on Corporate Governance.

The admission criteria state that the applicant should have a business strategy that is well developed and reflects the risk profile of the business, and it must be supported by detailed plans. The license application form further requests information on the business plan of the proposed insurer, comprising business strategies for the Singapore operations and three-year business projections. These are taken into account in the licensing assessment of the applicant.

The business strategies provided by the applicant in the license application form must include details on distribution channels, with estimates of the percentage of business from each source and details of target markets, while the three-year business projections must include the projected business volume (by line of business, with both gross premiums and net of reinsurance premiums) and manpower projections. In addition, the applicant is required to submit a feasibility study which

must include the three-year financial projections of the Singapore operations, including but not limited to the revenue, profitability, capital and assets of the business. The admission criteria require the applicant to satisfy MAS that its risk management systems and processes, including reinsurance arrangements, internal control systems and information technology systems, are adequate and appropriate for the size and complexity of the business. Both the proposed Singapore insurer's risk management systems and that of its parent company are taken into account, as are feedback from the home regulator and the credit rating agency's assessment of the parent company's enterprise risk management.

### **Coordination with the home supervisor/regulator**

MAS' internal process on admission takes into consideration, among other factors, the quality of the home supervision. MAS is also required to determine the beneficial owner of the applicant, and take into account the track record, reputation and credit ratings of the applicant. Unrated or start-up insurers are required to obtain a rating, and any insurer rated below a pre-determined level is rejected. Applications from foreign applicants which are not regulated by their home supervisors, or where there is no clear parental responsibility, are rejected.

MAS' internal process on admission requires officers to write to the appropriate overseas supervisory authority for its views on the applicant. In consulting the appropriate supervisory authority, the following relevant ICPs are taken into consideration:

- ICPs 1, 2, 9 to 24: The standard internal process on admission takes into consideration, among other factors, the quality of the home supervision. MAS focuses on the reputation, prudential and market conduct regulations, published reports such as an FSAP assessment of the home regulator, and MAS' past experience in dealing with the home regulator.
- ICP 3: MAS' internal process on working with foreign regulators requires the classification of all information received as "Confidential," and all information requested to be used for purposes relevant to the supervision of the regulated entities and specified in the request. Such purposes should be related to MAS' functions, where MAS has a legal interest.
- ICP 5: MAS' internal process on the appointment of Chief Executives, directors and actuaries requires MAS officers to seek feedback from overseas regulators on foreign applicants to enhance the assessment of the proposed appointee.
- ICPs 7 and 8: MAS' standard letter to request information from foreign regulators asks for comments on the applicant's integrity, competence of management and financial soundness, especially with regard to its insurance risk management and whether it meets the regulatory requirements of the home regulator. The license application form also requires applicants to submit a certified true copy of the letter from the insurance supervisory authority in their country approving their request to establish insurance operations in Singapore, if such approval is required.
- ICPs 23 and 25: MAS' standard letter to request information from foreign regulators seeks the home regulator's assurance that it will supervise the

	<p>Singapore insurer as part of its supervision of the group. MAS' standard internal process on working with foreign regulators also governs information exchange in the context of group supervision.</p> <p>MAS' standard letter to request information from foreign regulators seeks confirmation from the home regulator that it has no objection to the application. MAS' internal process for admission also requires that the home regulator be informed if additional, non-standard licensing conditions are imposed on the Singapore insurer.</p>
Assessment	Observed
Comments	<p>The insurance market in Singapore is an open market and there are no restrictions on ownership of insurance companies, whether branches or domestic companies. When it is approached by a potential candidate for licensing, MAS staffs conduct the process fairly thorough preliminary screening. If the results raise concerns regarding the suitability, resources or track record of the applicant, MAS will hold a preliminary interview and attempt to discourage the applicant from making a formal application. In practice, a high proportion of the formal applications for licensing are approved. In those cases where MAS attempts to dissuade a petitioner from filing a formal application and where the application is filed anyway, MAS will quite swiftly reject the application.</p>
<b>ICP 5</b>	<p><b>Suitability of Persons</b></p> <p>The supervisor requires Board Members, Senior management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.</p>
Description	<p>Under the Ins Act, a licensed insurer is required to seek MAS' approval for the appointments of the following key functionaries:</p> <ul style="list-style-type: none"> <li>• substantial shareholders and controllers;</li> <li>• directors and the Chairman of the Board (for locally incorporated insurers);</li> <li>• key executive persons such as the Chief Executive ("CE") and actuaries and</li> <li>• auditors. Auditors are subject to annual approval by MAS.</li> </ul> <p>Section 31(1) of the Ins Act will further require licensed insurers to seek MAS approval for any appointments as may be prescribed by MAS.</p> <p>MAS has also prescribed that, for locally incorporated direct life insurers with total assets above S\$5 billion, approval of appointments of the Chief Financial Officer ("CFO") and the Chief Risk Officer ("CRO") are required given the significance and potential systemic impact of these insurers.</p> <p>MAS' approval process takes into account whether the persons are fit and proper. These are set out in MAS Guidelines on Fit and Proper Criteria and include:</p> <ul style="list-style-type: none"> <li>• honesty, integrity and reputation;</li> <li>• competence and capability; and</li> <li>• financial soundness.</li> </ul>

If it is satisfied that the insurer's affairs are conducted in a manner likely to be detrimental to public or policyholders' interests, section 41 of the Ins Act authorizes MAS to remove any person whom MAS considers unfit to be associated with it. Section 31 of the Ins Act also provides that MAS may remove a CE, director or actuary if the individual has failed to perform his functions or is no longer a fit and proper person to be so appointed. Section 3(8) and sections 27 to 29 of the Ins Act will further extend MAS' removal powers to any prescribed appointments requiring approval and also substantial shareholders and controllers.

When assessing the application of actuaries and accountants, consideration is also given to the professional body to which the applicant belongs and the standards of professional conduct of these bodies. An auditor is required to be a public accountant under the Accounting Standards Act. Actuaries are required to be members of the SAS and to observe the guidance issued by SAS. As part of the assessment, MAS also conducts checks, with other agencies for criminal or bankruptcy records and where appropriate, with foreign regulators or other departments within MAS.

Section 31A of the Ins Act will provide for a disqualification rule to reinforce the fitness and propriety requirements. This rule extends to directors and executive officers of insurers, including captives to ensure that the insurers are appropriately staffed especially at function head levels, i.e., persons who are able to influence and control the operations of the insurer. MAS' approval is required for an insurer to employ any person disqualified under this rule.

In the course of supervision, MAS meets the Board of directors and the management of the insurer on a regular basis. MAS will come to know of any concerns relating to the suitability of appointed persons and take supervisory actions, if required. Insurers are required, as part of the licensing conditions, to inform MAS immediately if any of their directors or executives is involved or believed to be involved in any unethical conduct or practices prejudicial to the interests of the insurer or its policyholders.

Under the Ins Act, sections 27 to 29 require an insurer to seek MAS' approval for the appointment of substantial shareholders and controllers, while sections 31 and 36 require insurers to seek MAS' approval for the appointments of directors for locally incorporated insurers, CE, actuaries and auditors. MAS also approves the appointments of the CFO and CRO for larger insurers (as provided for in the Insurance (CG) Regulations). All the applicants for these positions must be fit and proper.

The Ins Act will provide that an insurer may not permit a person to act as its director or its executive officer without MAS' prior written consent where the person meets certain criteria. The criteria include, amongst others, conviction involving fraud and dishonesty and bankruptcy. Executive officers, as defined in the Ins Act, will include persons at the function head level, such as Head of Compliance and Head of Internal Audit.

The Insurance (CG) Regulations are applicable to all direct insurers and reinsurers, as

opposed to the previous requirements which apply only to the bigger direct insurers. Under the revised CG Regulations, all direct insurers and reinsurers are required to assess applicants for directorships for suitability in meeting stipulated requirements.

MAS Guidelines on Fit and Proper Criteria set out the fit and proper criteria which are applicable to all “relevant persons” in relation to the carrying out of any activity regulated by MAS. “Relevant persons” as defined under paragraph 6 of the MAS Guidelines would include a substantial shareholder and controller of an insurer, the CE, the Approved Actuary (“AA”), Certifying Actuary (“CA”) and directors.

Under MAS Guidelines on Risk Management – Internal Control compliance officers are required to be equipped with the necessary skills and expertise, the level of which should commensurate with the complexity of the insurer’s products and activities. In addition, the MAS Guidelines on Risk Management – Internal Control set up the expectation for financial institutions to have an internal audit function. MAS Guidelines on Corporate Governance require the internal audit function to be staffed with persons with the relevant qualifications and experience.

The MAS Notice 106 sets out MAS’ expectations that insurers should have in place a policy to ascertain that their directors and key executive persons and executive officers are fit and proper to fulfil their respective roles and responsibilities. The policy should cover recruitment policies, internal control systems and procedures to reasonably ensure that directors and key executive officers/persons are fit and proper, not just at the time of appointment but on a continuing basis.

Through Regulation 12 of the CG Regulations and revised MAS Notice 106, MAS requires the Board or Nominating Committee, to review the appointment of key positions and ensure that the candidate or nominee is a fit and proper person and is qualified for the office taking into account the candidate’s experience, skills and capabilities. The MAS Guidelines on Risk Management – Internal Control require that an insurer establish a code of conduct which states the ethical values of the insurer and prescribe guidelines for employees to observe when discharging their duties. The MAS Guidelines on Corporate Governance further expect the Board to set company values and standards (including ethical standards) and to ensure that the values emphasize, among others, integrity, honesty and proper conduct at all times. The Guidelines place the same expectation on reinsurers and captive insurers.

As part of MAS’ licensing procedures, MAS will arrange for the screening and background checks of the proposed major individual shareholders, the beneficial owners, directors and CE for locally-incorporated companies for any adverse records. The proposed insurer would also need to seek approval for key functionaries. Where MAS’ approval is sought, the candidate would be assessed to be fit and proper before the application is approved. MAS Notice 106 requires the applicants for the positions of the key functionaries to submit their curriculum vitae. The application form is aligned with the MAS Guidelines on Fit and Proper Criteria to facilitate MAS’ assessment of the applicant and includes self declarations of status like bankruptcy, or any civil liability or criminal convictions. Information will also be collected regarding the applicant’s educational and professional qualifications, employment



	<p>history and any other positions or directorships held by the applicant.</p> <p>During the licensing stage, the names, nationalities and addresses of controller or substantial shareholder holding 10 percent or more of the shares of the prospective insurer will be collected, together with the respective shareholdings. Information, on nature and scope of business, group structure and organization chart, will also be obtained with respect to the group and the ultimate parent company. MAS' approval is also required under sections 27-29 of the Ins Act for acquisition of shares of an insurer which would result in substantial shareholdings. MAS will assess the share acquisition and will take into consideration whether the proposed shareholders are fit and proper, as required by the Ins Act.</p> <p>Finally, MAS uses the CRAFT to assess the impact of an insurer and its risks. As part of CRAFT, an assessment of the insurer's parental support takes into account "the ability and willingness of the Head Office, Parent or shareholders to provide financial support to the Singapore entity, as well as the effectiveness of supervision of the home country regulator." The MAS seeks comments from foreign regulators when assessing an application for a change in controller or substantial shareholder of an insurer.</p> <p>In the case of controller or substantial shareholder which is a corporate, the application form requires information on their financials, track record and credit rating.</p> <p>In addition, MAS expects insurers to maintain a high level of management and insurance expertise by providing adequate training and development to its staff as per the licensing condition.</p>
Assessment	Observed
Comments	Changes to the Ins Act adopted in April 2013 will align the insurance legislation with the Banking legislation and bring it into conformity with the expectations described in the Insurance Core Principles. In practice, MAS has been applying these same standards for Suitability of Persons through its Notices and Regulations.
<b>ICP 6</b>	<p><b>Changes in Control and Portfolio Transfers</b></p> <p>Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.</p>
Description	Section 28 of the Ins Act provides that no person shall obtain effective control of a licensed insurer without obtaining the approval of MAS. "Effective control" of a licensed insurer is defined as any person, alone or acting together with his associates, holding 20 percent or more of the number of issued shares in the insurer or is in a position to control 20 percent or more of the voting power of the insurer; the directors of the insurer are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the

person; or the person is in a position to determine the policy of the insurer. Conditions in the pre-licensing and licensing letters imposed on all licensed insurers require an insurer to immediately notify MAS when there are changes to the substantial shareholders or any person in effective control of the company or immediate holding company.

Section 29 of the Ins Act states that no person shall become a substantial shareholder of a licensed insurer incorporated in Singapore without obtaining the approval of MAS. Section 1A of the Ins Act and section 81 of the Co Act define "substantial shareholder" as a person who has interests in one or more voting shares in the company and the total votes attached to those shares is not less than 5 percent of the total votes attached to all shares in the company.

For any proposed acquisition or change in control, new shareholders or beneficial owners would have to meet requirements for financial and non-financial resources similar to that of a new licensee. These requirements are established in MAS' internal processes on corporate restructuring and admission.

The requirements include:

- minimum paid-up share capital;
- fund solvency and capital adequacy requirements;
- financial strength rating;
- reputation and integrity of the new shareholders, beneficial owners and management;
- capability and expertise of the new management;
- support from parent company or head office of the new owners;
- quality of home supervision;
- any proposed revisions to the risk management systems; and
- any proposed revisions to business strategies and projections.

The pre-licensing and licensing letters issued to all insurers also state that the insurer shall immediately inform MAS if there are significant changes in the corporate and financial structure, or in the operations of the insurer. In addition, a company must inform MAS if it amends or alters its memorandum and articles of association, in which event it must submit a certified true copy of the amended or altered documents to MAS within one month of the alteration. Changes from a mutual company to a stock company, or vice versa, are considered a form of corporate restructuring. According to MAS' internal processes, the 'new' organization will be assessed as would a new licensee, including the requirement to furnish a copy of the new memorandum and articles of association.

Section 49FB of the Ins Act prescribes that the whole or part of the insurance business of a licensed insurer may only be transferred to another licensed insurer, or a company applying to be a licensed insurer, if the transfer is effected by a scheme under section 49FB of the Ins Act, or if the transferor has obtained the approval of MAS for such a transfer. Before a scheme of transfer can be confirmed by the High Court, section 49FC of the Ins Act requires a notice of intention for the transfer to be published in the Gazette and not less than 2 newspapers approved by MAS. In

	<p>addition, for a period of 15 days after publication of the notice, a copy of the scheme must be kept at each Singapore office of the transferor and opened to inspection by all members and policy owners of the transferor who are affected by the scheme. MAS' internal process on such schemes places emphasis on ensuring that policyholders' interests are fully protected and met by the transferee insurer.</p> <p>An acquisition or change in control, whether directly or indirectly, of a licensed insurer incorporated in Singapore, applies to all persons (natural, bodies corporate or unincorporated). MAS coordinates with the home regulator on such matters in accordance with MoUs/MMoUs when these are required for the prudential supervision of the insurer or due to AML/CFT concerns. Where the acquisition or change in control is indirect and may result in a new owner for the locally incorporated insurer, MAS requires the proposed new owner to also furnish a letter from its home regulator indicating that the home regulator has no objection to the proposed acquisition.</p> <p>According to MAS' internal process, the financial positions of both the transferee and transferor before and after the transfer must be taken into consideration. For a transferee not locally incorporated, MAS will seek comments from the transferee's home regulator to ascertain if there are any solvency concerns. For a locally incorporated transferee, MAS ensures the policyholders' reasonable benefit expectations are met through assessment of the solvency position before and after the proposed transfer, certification by the transferor's actuary on the amount of capital needed to support the portfolio being transferred, as well as a certification from the transferee's auditor that the assets and liabilities of the transferor relating to the business transferred have been assumed and accounted for in the books of the transferee (section 49FD of the Ins Act).</p>
Assessment	Observed
Comments	MAS practices in regard to transfers of business require prior notification to the affected policyholders and confirmation by the High Court, consistent with international best practices. Likewise, changes of ownership receive the same scrutiny from MAS as would an application for a new license.
<b>ICP 7</b>	<p><b>Corporate Governance</b></p> <p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.</p>
Description	<p><b>Scope of application</b></p> <p>The Corporate Governance Regulation used to be applicable only to large locally-incorporated insurers, while the Guidelines on Corporate Governance were applicable to all locally-incorporated insurers. In April 2013, the Corporate Governance Regulation was expanded to cover all locally-incorporated insurers and reinsurers and the Guidelines on Corporate Governance were expanded to cover</p>

reinsurers and captives. At the same time, the ERM Notice was issued and applicable to all insurers (including branches).

#### **Status of the requirements**

Requirements stated in the Corporate Governance Regulation are legally enforceable and subject to administrative sanctions.

#### **Board**

The ERM Notice requires the Board to establish its risk tolerance, set out a framework with appropriate feedback mechanisms and perform an Own Risk & Solvency Assessment (ORSA) annually.

#### ***Composition of the Board directors and committees***

The Corporate Governance Regulations require for insurers whose total assets are more than S\$5 billion, for the majority of Board directors to be independent from management, business relationships, and substantial shareholder and not have served on the Board for more than 9 years continuously. For larger insurers where a single substantial shareholder holds 50 percent or more of the share capital or the voting power, as well as the smaller insurers, the requirement is for 1/3 of the Board to be independent. The Chairman of the Board cannot concurrently be an executive officer of the insurer or immediate family member of the chief executive. Larger insurers are required to establish Board Committees, namely the Nominating Committee, Remuneration Committee, Audit Committee and Risk Management Committee. The chairpersons of the Nominating Committee, Remuneration Committee and Audit Committee are required to be independent while the Chairman of the Risk Management Committee is required to be non-executive.

The Corporate Governance Regulations will be further revised by end 2013 to require insurers to seek MAS approval to re-appoint an individual as a Board director at least once every three years.

#### ***Managing conflict of interests***

The Guidelines on Corporate Governance requires that remuneration policies be in line with the strategic objectives and corporate values of the insurers. Board members with conflicts of interest should be excluded from the approval process of granting and managing related transactions.

#### ***Oversight of key functions***

The Corporate Governance Requirements require the Board or the Nominating Committee to review the nomination and resignation of directors, chief executive, deputy chief executive, chief financial officer, chief risk officer, appointed actuary and certifying actuary.

#### **Remuneration**

	<p>Regulation 16 (1) of Corporate Governance Regulations and the MAS Guidelines on Corporate Governance require the establishment of a Remuneration Committee and for the Committee to recommend a framework for determining the remuneration of the directors and executive officers for the bigger insurers. The remuneration package is required to be aligned with the risks exposed to by the insurer. For smaller insurers, although a Remuneration Committee is not mandatory, the responsibilities in implementing the requirements are subsumed by the Board.</p> <p><b>Reliable financial reporting</b></p> <p>Section 36 of the Ins Act provides for an insurer to prepare annual accounts and these to be audited by an auditor approved by MAS. Section 201B(5) of the Company Act requires the Audit Committee to review the audit plan, the auditor's evaluation of the system of internal account controls, the balance sheet and profit/loss of the company. Regulation 17 of Corporate Governance Regulations also requires, for bigger insurers, the establishment of an Audit Committee. In addition to such responsibilities as may be determined by the Board, the Committee is responsible for the adequacy of the external and internal audit functions, including reviewing the scope and results of audits carried out and the independence and objectivity of the external auditors. For smaller insurers, the responsibilities are assumed by the Board. In addition, MAS Guidelines on Corporate Governance also expect the Audit Committee to ensure that the financial statements of an insurer are prepared in accordance with accounting policies and practices that are internationally accepted as well as to review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the insurer.</p> <p><b>Supervision</b></p> <p>MAS meets with the management and Board of insurers annually to discuss the insurer's business strategy plans and advise the Board of its assessment of the company. In addition, MAS conduct regular dialogue with individual Board members, in particular, the Chairs of the Audit and Risk Management Committees. Insurers are required to submit minutes of the main Board meetings and the Audit, Investment and Risk Management Committee meetings on a quarterly basis. MAS reviews the minutes and supporting documents used in the committees to evaluate the robustness of discussions, the competence, commitment and expertise of the Board members.</p>
Assessment	Observed
Comments	<p>The Corporate Governance Regulations were expanded in April 2013 to all locally incorporated insurers, and not just the significant or larger insurers. The Regulations also provide for differentiating requirements for the larger and small insurers and are applicable by 4 May 2013. The corresponding Guidelines on Corporate Governance, which have been implemented for several years, were also recently enhanced in April 2013. Therefore, assessors conclude that MAS complies with the ICP requirements.</p>

<p><b>ICP 8</b></p>	<p><b>Risk Management and Internal Controls</b></p> <p>The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.</p>
<p>Description</p>	<p><b>Risk management framework for financial institutions</b></p> <p>The Guidelines on Risk Management Practices outline the cornerstones of effective risk management and sound internal controls for all financial institutions. These are:</p> <ul style="list-style-type: none"> <li>• the role of the Board in its oversight of risk management policies and their implementation</li> <li>• the role of senior management in ensuring that sound policies, effective procedures and robust systems are in place</li> <li>• the presence of sound risk management processes and operating procedures that integrate prudent risk limits with appropriate risk measurement, monitoring and reporting, and</li> <li>• the presence of competent personnel in the risk management, control and audit functions.</li> </ul> <p><b>Risk management framework for insurers</b></p> <p>The Guidelines on Risk Management Practices for Insurance Business cover the insurance core activities of product development, pricing, underwriting, claim handling, and reinsurance management.</p> <p><b>Internal control system</b></p> <p><b>Board</b></p> <p>The Guidelines on Risk Management Practices for Insurance Business, and Guidelines on Corporate Governance require the following:</p> <ul style="list-style-type: none"> <li>• The Board should ensure that adequate resources, expertise, support and authority are provided for the effective implementation of the insurer’s risk management</li> <li>• The Board should be responsible for the appointment, performance assessment, and removal of the insurer’s senior management, which includes the head of each control function</li> <li>• The Audit Committee should be responsible for the appointment, remuneration, resignation and dismissal of the head of internal audit.</li> </ul> <p><b>Risk management function</b></p> <p>The Guidelines on Risk Management Practices for Insurance Business and Corporate Governance require both the Chief Risk Officer and the risk management function to have the requisite authority, sufficient resources and be able to raise issues directly to the Board and relevant Board Committees.</p>

**Compliance function**

The Notice 306 requires all direct life insurers to have a compliance unit headed by a senior officer, who reports directly to the Chief Executive on compliance matters. For non-life insurers, MAS does not require every insurer to appoint a dedicated compliance officer especially for the smaller insurers. However, MAS does ensure that the insurer designates one of its employees to be responsible for all compliance issues. The Guidelines on Corporate Governance put responsibility on the Audit Committee of the Board to review the adequacy and effectiveness of the insurer's compliance controls.

**Actuarial function**

The Ins Act and Insurance (Actuaries) Regulations require the Appointed Actuaries and the Certifying Actuaries to perform the following roles:

- Investigate the financial condition (including valuation of policy liabilities) and provide the actuarial investigation report (except for captives and marine mutual).
- Conduct stress testing and provide stress test reports on annual basis.
- Assist the insurer in formulating a suitable policy on how the assets of an insurance fund are to be invested.
- Provide a written recommendation to the Board on the allocation of the participating fund.
- Determine whether a premium or rate of premium for a life policy or long-term accident and health policy is suitable.
- Confirm the pricing of a product complies with the pricing policy.
- State an opinion of the policy liabilities and certify on the actuarial valuation of each participating and non-participating fund.
- State an opinion on the allocations to participating policies and to the surplus account.

The Insurance (Actuaries) Regulations also require the Appointed (for life insurers)/Certifying (for non-life insurers) Actuaries to notify the Board and the MAS where the direct insurer has failed to rectify any matters reported by him/her. The Appointed/Certifying Actuaries is required to prepare a written report to the chief executive and the Board on matters which may have material adverse effects on the insurer's financial condition and requires rectification by the insurer.

The Ins Act requires prior regulatory approval of appointments of the Appointed Actuaries and the Certifying Actuaries. The Insurance (Actuaries) Regulations require insurers to notify MAS of the termination of the Appointed/Certifying Actuaries and the reason.

**Internal audit functions**

The Guidelines on Corporate Governance states that the Internal Audit function should be independent of the activities that it audits. The Audit Committee at the

	<p>Board level must be established and chaired by an independent Board director. The internal auditor’s responsibilities should include the following:</p> <ul style="list-style-type: none"> <li>• Evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the insurer;</li> <li>• Review of the internal controls of the insurer to ensure prompt and accurate recording of transactions and proper safeguard of assets;</li> <li>• Review whether the insurer complies with laws and regulations and adheres to established policies, and whether management takes appropriate steps to address control deficiencies.</li> </ul> <p>The appointment, remuneration, resignation or dismissal of the Head of Internal Audit should lie with the Audit Committee to ensure independence as provided under the MAS Guidelines on Corporate Governance. The Guidelines on Corporate Governance require the internal audit function to have unfettered access to the Audit Committee and the Board. In addition, MAS conducts regular dialogues with the individual chairs of the Audit Committee of the larger insurers.</p> <p><b>Outsourcing</b></p> <p>The Guidelines on Outsourcing state that an insurer must take steps to ensure that the service provider employed displays the same high standard of care in performing the service as if the activity were not outsourced, and had been conducted by the insurer.</p> <p>MAS does not prohibit the outsourcing of all or substantially all risk management and internal control functions including compliance, internal audit, and financial accounting. MAS considers the outsourcing of all or substantially all risk management and internal control functions including compliance, internal audit, and financial accounting, to be material, and hence there is a requirement for the insurer to notify MAS of such material outsourcing. Nevertheless, currently there are no insurers which outsource all or substantially all risk management and internal control functions. MAS assesses the various aspects of outsourcing through both onsite inspection and offsite reviews to ensure compliance.</p>
Assessment	Observed
Comments	<p>MAS allows a Chief Executive or Chief Financial Officer to be designated as the person responsible for compliance issues in small branches or small foreign-owned subsidiaries. However, in practice, independent compliance officers are assigned at the regional level to ensure the independence of the compliance functions.</p> <p>MAS monitors the effectiveness of the key functions through onsite inspections and offsite monitoring, which are reflected in CRAFT ratings and inspection plans.</p>



<p><b>ICP 9</b></p>	<p><b>Supervisory Review and Reporting</b></p> <p>The supervisor has an integrated, risk-based system of supervision that uses both offsite monitoring and onsite inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior management and compliance with legislation and requirements. The supervisor obtains the necessary supervisory information to conduct effective supervision of insurers and evaluate the insurance market.</p>
<p>Description</p>	<p><b>Principles of supervision</b></p> <p>MAS' philosophy and the principles which guide the supervisory approach are encapsulated in the MAS Monograph on "Objectives and Principles of Financial Supervision in Singapore." The MAS Guidelines on Outsourcing set out MAS' expectations of financial institutions, including insurers, who have outsourced or are planning to outsource business activities to a service provider. The guidelines explicitly state that the outsourcing agreement should not hinder MAS in the exercise of its supervisory powers and functions over the institution, and confirms its right of access to information on the institution and the service provider, whether the service provider is located within Singapore or elsewhere.</p> <p><b>CRAFT framework</b></p> <p>MAS uses a single framework—Comprehensive Risk Assessment Framework and Techniques (CRAFT) to identify and assess the risks of a financial institution. Details of this framework are explained in the MAS Monograph on "MAS' Framework for Impact and Risk Assessment of Financial Institutions." CRAFT is a pro-active, risk-based and forward looking supervisory framework which allows MAS to determine its supervisory plans and priorities so that the degree and nature of supervisory attention is varied and calibrated for individual insurers. CRAFT also allows MAS to assess whether insurers are operating in a manner that is consistent with sound business practices and whether the insurer complies with the relevant legislation and supervisory requirements.</p> <p>The CRAFT framework requires MAS to evaluate both the impact and risk of an insurer relative to other insurers, and assigns each company to a respective risk bucket. The risk bucket will then drive MAS' supervisory intensity and supervisory plan, including the frequency and scope of onsite inspection and the level of offsite review and monitoring. Supporting the CRAFT assessment are various monitoring tools such as the macroprudential surveillance framework, Early Warning System (EWS) and Financial Indicators Systems (FIST) indicator tools, which are used to identify trends and to facilitate peer comparisons. Supervisors from the Insurance Department work closely with supervisors from the CMI Department and Specialist Risk Department (SRD) for inputs on the market conduct assessment of life insurers and technology risk assessment of insurers.</p> <p>As part of the CRAFT process, an insurer's risk profile and performance is reviewed on a quarterly and annual basis using both onsite and offsite information, including</p>

MAS regular and ad-hoc returns and other relevant information such as market reports, news and complaints. For insurance groups where MAS is the group-wide supervisor (currently four insurance groups), MAS has developed a Group CRAFT assessment framework to assess the risks and impact of the insurance groups. The significant activities and risks of each of the four insurance groups are assessed, documented and moderated, with an overall risk rating assigned to each group.

### **Offsite monitoring**

MAS has the legislative powers to prescribe the information and returns to be submitted by the insurers for effective supervision and evaluation of the insurance market as a whole, including the requirement for the statutory returns to be audited. Information reported in the statutory return includes the Balance Sheet, Profit and Loss as well as Off-Balance Sheet items. In accordance with MAS Notice 312 and MAS Circular on Stress Testing on Financial Condition of Direct Insurers, insurers are required to submit a stress test and scenario analysis report every year. In November 2012, MAS issued MAS Notice 122, which requires insurers to submit more detailed information on their assets and exposure on a regular basis, to allow supervisors to identify key trends and potential system wide risk so that the appropriate supervisory actions can be taken. In accordance with MAS Notice 312 and MAS Circular on Stress Testing on Financial Condition of Direct Insurers, insurers are required to submit a stress test and scenario analysis report every year. MAS assesses the insurer's financial condition over a one and three-year period under the short and medium-term stress scenarios respectively, and reviews the corresponding management actions in response to the scenarios. Under the ERM Notice, which was issued in April 2013, MAS will also assess the 'Own Risk and Solvency Assessment' (ORSA) report, which will be required to be submitted by the insurer.

In addition, section 36(1) gives MAS the power to require insurers to prepare statements of account (statutory returns) and other statements in such form and manner as may be prescribed and subsequently lodge them with MAS. There is no distinction between the reporting requirements applied for subsidiaries and branches. The Insurance (V&C) Regulations prescribe that the valuation basis shall be in accordance with the Singapore Accounting Standards unless prescribed otherwise.

The statutory returns and other information submitted by the insurers are reviewed by MAS as part of the offsite monitoring of insurers. The Insurance (A&S) Regulations prescribe the form and manner and the frequency of submission of the statutory returns while section 64(2) of the Ins Act gives MAS the power to request other information through Notices. The supervisory powers and resources of MAS have been elaborated under ICP 1 and ICP 2 respectively.

MAS' statutory returns are collected electronically through MASNet, and information is stored in a data warehouse. Returns requiring signatures, such as the actuarial reports, stress tests report, external auditors report, etc. are collected through hard copy on an annual basis. Any new risks and emerging market trends are identified through the use of Financial Indicators Systems and Early Warning System, which would be discussed internally for further actions.

### **Onsite inspections**

Section 40 of the Ins Act gives MAS the power and authority to conduct onsite inspections of insurers. Section 40 of the Ins Act gives MAS the power to inspect under the conditions of secrecy, the books, accounts, records and other documents of registered insurers. Advance notice to the insurer is not a requirement under the Ins Act. However, MAS would usually give a one month notice to the insurer to allow the insurer to prepare and provide pre-inspection information to facilitate the inspection. MAS does not delegate onsite inspection of insurers to third parties. The length of inspection varies depending on the inspection scope. On average, a routine inspection involves a team with typical size of inspectors from 4–6 and period of inspections is from 8 to 12 weeks, depending on the CRAFT ratings.

Prior to an onsite inspection, the Planning Memo, which sets out the objective and scope of the onsite inspection, as well as the inspection schedule and manpower budgeting is prepared. The Planning Memo with a tailored scope is prepared for each insurer where the areas identified for inspections are usually based on the risk identified through the risk assessment of the insurer. In the event that new priorities arise, internal guideline provides for the team leader to adjust the inspection schedule or manpower budget accordingly to carry out further investigation on the new area of concern.

The intensity of supervision varies for different buckets of insurers under the CRAFT framework and the inspection cycle varies depending on the risk profile and impact assessment of the insurer. Onsite inspections could be more frequent and more in-depth when MAS has concerns about insurers which are in a difficult financial position, or where there is concern that their business practices pose a high risk. For insurers in the lower buckets of supervisory intensity where onsite inspections may be less frequent, MAS leverages more on the work of the external and internal auditors to review the internal controls of the insurers. On an annual basis, external auditors are required to submit to MAS Form 26 on the Auditors' Supplementary Report which sets out the auditors' view on the internal controls of the insurers. Where weaknesses are noted, the supervisors will factor these weaknesses in their assessment of the insurers, and will follow up directly with the insurers on the remedial actions.

MAS' internal guideline includes interviews and meetings with management and staff to obtain a better understanding of the work procedures and controls. MAS will review the insurers' operational procedures and guidelines and sample test the files (e.g., underwriting, claims files). Depending on the scope of the inspection, MAS will also verify the information obtained from offsite monitoring. The interviews and meetings with management and staff, as well as the review of the Board and management meetings' minutes would allow the supervisor to assess the degree of management oversight and the quality of the insurer's corporate governance. The files review and transaction testing will allow MAS to assess the insurers' risk management systems and controls. The review of the insurer's operating procedures and policies allows MAS to assess whether the insurer is compliant with laws and

	<p>regulations. MAS may conduct inspections on a thematic or full scale basis. At the conclusion of an inspection, MAS will issue an inspection report to the insurer and a copy of the report will be extended to the Head Office/Parent Company and the Home Regulator.</p> <p>MAS conducts annual visits to the Board and senior management of all the direct insurers and reinsurers. Prior to the company visit, all insurers and reinsurers are required to submit their latest organization structure, business plan and financial forecasts. Supervisors will review and assess the documents, and highlight any concerns to the Board and senior management during the company visit. MAS will also take the opportunity to disclose and share MAS' CRAFT assessment of the insurer's key significant activities, Board and senior management and head office oversight, earnings and capital adequacy. During the meeting, MAS would also highlight the key weaknesses which require management's immediate attention, allowing MAS and the insurer's Board and senior management to discuss the measures which can be taken to address these concerns.</p>
Assessment	Observed
Comments	
<b>ICP 10</b>	<p><b>Preventive and Corrective Measures</b></p> <p>The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
Description	<p>MAS has the legislative powers to license or authorize individuals and entities to carry on insurance business as insurers or intermediaries, and also to withdraw the license or authorization where required. In line with supervisory objectives of protection of interests of the public and policy holders, MAS has specific and general powers in the Ins Act and the FAA to issue directions to insurers and insurance intermediaries for both preventive and corrective measures to achieve supervisory objectives.</p> <p>Through MAS' CRAFT framework, MAS continually identifies, assesses, and monitors the risks of an insurer. As such MAS is able to take preventive and corrective supervisory measures on a timely basis. There are frequent dialogues and annual onsite visits to insurers to discuss MAS' risk assessment.</p> <p>MAS engages with the Board and senior management of the insurance operation in Singapore, as well as with the head office or parent company of the foreign-owned insurers in Singapore to discuss key areas of concern and plans for the insurer to address these concerns. If necessary, MAS will also engage the home regulators to keep them abreast of the developments in Singapore and discuss any actions which have to be taken either at the domestic level or group level, depending on the severity of the situation.</p> <p>Should any party fail to produce appropriate and timely measures to address the weaknesses identified, MAS will not hesitate to take appropriate remedial supervisory</p>

actions. These actions could include issuing directions to the insurer to raise its capital level, remove key personnel deemed unfit to carry on the role, restrict activities, etc. In the event MAS does not think that it would be viable for the insurer to continue carrying on business, the insurer can be directed to cease writing new or renewal business and commence run-off operations. MAS can also issue directions to take over the control of an insurer and commence the winding up process.

#### **General restrictions on insurers and insurance intermediaries**

Sections 3 to 6, 35W, and 35ZL of the Ins Act empower MAS to take action (i.e., fine, imprisonment or both) against individuals or entities carrying on insurance business or soliciting insurance business without the necessary license issued by the authority.

Similarly, sections 6, 21, 22, 23B to 23E of the FAA empower MAS to take action (i.e., fine, imprisonment or both) against individuals acting as financial advisers or life insurance brokers on a range of products, including life insurance policies, without the necessary license.

#### **Powers to investigate entities and individuals alleged or suspected of contravention of the above sections**

Section 7 of the Ins Act empowers MAS to “inspect the books, accounts and records” of the persons suspected of carrying on insurance business “in order to ascertain whether or not that person has contravened or is contravening any provisions of this act.”

Section 40A of the Ins Act also gives MAS powers to conduct investigations of any person, as it considers necessary or expedient to determine the truth or otherwise of an alleged or suspected contravention of any provision of this act, or any direction issued under this act. This could include suspicions of persons soliciting insurance business on behalf of unregistered insurers in Singapore, and insurers conducting insurance business outside the scope of their license.

Section 71 of the FAA also gives MAS powers to conduct investigations as it considers necessary to ensure compliance with the FAA or to investigate any alleged or suspected contravention of any provisions of the FAA.

Under section 76 of the FAA, MAS has the powers to prosecute and take action (i.e., fine, imprisonment or both) any person who does not comply with section 71, amongst others, of the FAA.

#### **Powers to inspect/investigate**

Under section 40 of the Ins Act, MAS has the power to conduct inspections of registered insurers or insurance intermediaries which will allow MAS to assess how well the various risks faced by an insurer are being managed. Inspections are scheduled based on the CRAFT and impact assessment of insurers. However, if MAS suspects that an insurer is not operating in a manner that is consistent with sound

business practices or regulatory requirements, MAS can under section 40 also conduct an unannounced unscheduled inspection of the insurer.

Should MAS identify any deficiencies in an insurer's operations, MAS would require the insurer to come up with a corrective plan with an appropriate timeline to address the weaknesses. Should the insurer fail to do so (i.e., is uncooperative, or does not have the expertise to do so), under section 41 MAS can require insurers to provide MAS with a corrective plan and/or engage external consultants to assist in developing a corrective plan.

Section 40A of the Ins Act further empowers MAS to conduct investigations on any persons or entity to look into alleged or suspected contravention of any provision of this Act, or any direction issued under this Act.

### **Power to issue directions**

In instances where identified risks have escalated and there is a serious breach of regulations or where MAS believes that the insurer will not take appropriate remedial action on its own, MAS will not hesitate to take stronger action. For example, MAS may direct insurers:

- To recruit management personnel as may be necessary to enable the registered insurer to conduct its business in accordance with sound insurance principles, or to remove any of the insurer's directors or any person whom MAS considers unfit to be associated with it (section 41 of the Ins Act).
- To ring fence assets of a specified class (section 21 of the Ins Act).
- To require licensed insurers to maintain higher solvency margins as required under the Act and Regulation 4 of the Insurance (V&C) Regulations (section 18(4) of the Ins Act).

MAS has a supervisory intervention ladder framework in place to provide internal guidance on the possible supervisory actions to take at varying levels of deteriorating financial condition and risk management and controls deficiencies, and taking into account the ability and willingness of the insurer to rectify or resolve the problem or root cause of weakness.

MAS has a wide range of supervisory actions, from sending reminders and warning letters, to imposing penalties and sanctions including imposing higher capital requirements, restricting activities, ring-fencing assets, requiring a change in management and Board, directing a compulsory transfer of shares, restructuring or the cessation of new business, to winding up the company.

### **Solvency of insurers**

Regulation 4(3) of the Insurance (V&C) Regulations requires insurers to notify MAS immediately if the insurer has failed, is likely to fail, or if a Financial Resources Warning Event (FRWE) has occurred. The FRWE is an early warning mechanism designed to prevent insurers from becoming insolvent. Should a FRWE occur, MAS would require the insurer to:

- submit financial statements more frequently (e.g., monthly, fortnightly,

	<p>weekly) until MAS is satisfied that the insurer has sustainable financial resources;</p> <ul style="list-style-type: none"> <li>• submit a plan on how the insurer will satisfy the solvency requirements; and</li> <li>• cease renewing or issuing new policies in respect of one or more business lines.</li> </ul>
Assessment	Observed
Comments	The CRAFT supervisory system, involving regular communication with senior management and Boards enhances the effectiveness of MAS' work and is probably to be preferred over reliance on powers to discipline and sanction.
<b>ICP 11</b>	<p><b>Enforcement</b></p> <p>The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>
Description	<p>Section 41 of the Ins Act provides MAS with extensive powers of enforcement. MAS may exercise one or more of the powers specified in section 41(2) if it is satisfied that:</p> <ul style="list-style-type: none"> <li>• The affairs of insurer are carried out in a manner detrimental to public interests or the interests of the policy owners or prejudicial to the interest of the insurer;</li> <li>• The insurer is or is likely to become insolvent or unable to meet its obligations, or that is about to suspend payments;</li> <li>• The insurer has contravened any of the provisions of the Ins Act; or</li> <li>• The insurer has failed to comply with any conditions attached to its license.</li> </ul> <p>Section 41 and other provisions in the Ins Act empower MAS to take following actions.</p> <ul style="list-style-type: none"> <li>• Prohibit the insurer from issuing new policies.</li> <li>• Withhold approval for new business activities or acquisitions.</li> <li>• Restrict the transfer of assets.</li> <li>• Restrict activities of a subsidiary where, in its opinion, such activities jeopardize the financial situation of the insurer.</li> <li>• Require measures that reduce or mitigate risks, requiring an increase in capital, restricting or suspending dividend or other payments to shareholders, restricting purchase of the insurer's own shares.</li> <li>• Arrange for the transfer of obligation under the policies from a failing insurer to another insurer that accepts this transfer.</li> <li>• Suspend or revoke the license of an insurer.</li> <li>• Bar individuals acting in responsible capacities from such roles in future.</li> <li>• Assume control of an insurer or appoint one or more persons as a statutory manager to do so on such terms and conditions as MAS may specify.</li> </ul> <p>While insurers can appeal to the court, such an appeal would not delay the process of taking enforcement actions during the course of the appeal. The process of applying sanctions is largely independent from, and does not delay, the imposition of preventive and corrective measures or enforcement.</p>

	<p>The Ins Act provides MAS with the power to approve the appointment of the chief executives, directors, auditors and appointed or certifying actuaries. It also gives the MAS power to remove/revoke the approval of these key persons when they are considered unfit. In addition, under the legislation, MAS will be able to direct an insurer to remove key persons including the chairman and chief executive from office or from employment in certain circumstances, for example, where the management or governance of an insurer is being carried out in a way that is detrimental to policy owners.</p> <p>The Ins Act also provides MAS with the power to restrict or replace a significant owner.</p> <p>The Ins Act allows MAS to impose sanctions, fines and imprisonment if any person is found to be in breach of any of the requirements under the act, such as late submission of the documents, failure to comply with a notice, failure to produce documents for MAS inspections. The new legislation will also provide MAS with the power to impose conditions on an insurer before cancelling the insurer's license.</p> <p>MAS follows-up and checks for compliance by the insurer after corrective action through regular reporting, reports from the external or internal auditors, and/or onsite reviews by MAS. Under section 55(6) of the Ins Act, MAS has the power to compound offences under the Ins Act. MAS works closely with the Commercial Affairs Department, a law enforcement agency under the Singapore Police Force, and the Attorney-General's Chambers for prosecution.</p> <p>To ensure that sanctions issued to insurers are consistently applied, MAS has developed internal guidelines to classify violations based on the gravity of the violation and its impact or threat of impact on the insurance market, interests of the policyholders and insuring public in general.</p>
Assessment	Observed
Comments	<p>The assessors are satisfied with the effectiveness of the enforcement, as exemplified in the following applications:</p> <ul style="list-style-type: none"> <li>• Fund concept strengthens MAS capacity to deal with problem cases. In situations where a company operating as a branch within Singapore has found itself in financial difficulty in another jurisdiction, MAS has been able to continue full protection for the rights of policyholders by conserving assets of the insurance fund to meet its policy liabilities. The same practice has been followed in other jurisdictions (e.g., Canada) for many years with good results.</li> <li>• In the 2008 financial crisis, operations of AIA in Singapore continued without any loss to policyholders even though the problems facing the AIG group worldwide prompted some Singapore residents to a run on the company. With a prompt regulatory actions and effective communication with the public and other relevant parties), calm was restored within a short time.</li> </ul>



<b>ICP 12</b>	<p><b>Winding-up and Exit from the Market</b></p> <p>The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.</p>
<p>Description</p>	<p><b>Power for liquidation</b></p> <p>Under the Ins Act, MAS has the power to take specific actions.</p> <p><b><i>Power before an insurer has gone into liquidation</i></b></p> <ul style="list-style-type: none"> <li>• Take control of an insurance company.</li> <li>• Mandate sale or transfer of the assets and liabilities without the prior consent of the policy owners and creditors.</li> <li>• Mandate transfer of ownership via compulsory restructure of share capital or forced sale of shares.</li> <li>• Apply to the High Court to impose a moratorium such that no other proceedings shall be commenced when the above powers are used.</li> </ul> <p><b><i>Powers where an insurer has gone into liquidation</i></b></p> <ul style="list-style-type: none"> <li>• Power to approve appointment of liquidator.</li> <li>• Require liquidator to seek to sell/transfer portfolios of the failed insurer if possible.</li> <li>• Continue with the business of the insurer until all portfolios of the failed insurer are transferred or when the court decides so.</li> <li>• Grant powers to the liquidator to carry out duties in relation with the above two.</li> </ul> <p><b>Priority of claims of policy holders</b></p> <p>The Ins Act sets out the priority of claims of policyholders and specified liabilities in case of insolvency. Therefore claims of policyholders and specified liabilities shall have priority over all unsecured liabilities except preferential debts specified in section 328 (1) of the Companies Act (Chapter 50). Specified liabilities refer to the outstanding levies due from the failed insurer to the PPF Scheme, payment or funding from the PPF Scheme, policy liabilities not covered by the PPF Scheme, etc. Preferential debts are usually a small amount, such as salary of employees, etc.</p> <p><b>Policy Owners' Protection Scheme</b></p> <p>Two Policy Owners' Protection Funds have been established, namely PPF Life Fund and the PPF General Fund. The PPF Life Fund covers the life policies written by life insurers, while the PPF General Fund covers compulsory motor third party injury, compensation insurance policies as well as Singapore policies of specified personal lines written by general insurers. Participation is mandatory for all direct insurers and the levy is determined by the size of insured policy liability as well as CRAFT ratings</p>

	<p>assigned by MAS to the individual insurer. The PPF provides 100 percent protection for the guaranteed benefits of insurance policies up to certain caps (for example S\$500,000 for the guaranteed sum assured of individual life policies, per life assured per insurer) to facilitate a smooth winding-up and exit process of failing insurers. No caps are applicable for protection of general insurance policies. There have been no calls on the PPF to date. The intention is that an attempt would be made to continue life insurance coverage after a company failure by transferring the block of business to a healthy insurer. If the transfer is not possible, the PPF Scheme would be applied in termination or run-off of the business of the failed insurer.</p> <p><b>Insurance fund concept</b></p> <p>The Ins Act requires the establishment of the appropriate insurance funds for each class of insurance business of an insurer. The Guidelines on Implementation of the Insurance Fund Concept also set out the specific operational safeguards, applicable for both branch and subsidiary, on establishment of insurance funds and segregation of assets of insurers.</p>
Assessment	Observed
Comments	<p>The Ins Act and Policy Owners' Protection Scheme cover all requirements stated in the ICP and its standards.</p> <p>The lack of experience with winding up cases in recent years makes it difficult for the assessors to assess effectiveness and practical challenges. In addition, although this is not relevant for rating, the assessors would like to highlight a potential risk relating to the protection for policyholders in a branch when a foreign liquidator attempts to gather assets of the company.</p>
<b>ICP 13</b>	<p><b>Reinsurance and Other Forms of Risk Transfer</b></p> <p>The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programs. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.</p>
Description	<p><b>Reinsurance management policy</b></p> <p>MAS Notice 114 requires the reinsurance management strategy of each insurer to be established and properly documented. The reinsurance management strategy should also be approved by the Board of directors and the senior management should take responsibility for defining and documenting clear operational policies and procedures for the implementation.</p> <p>The reinsurance management strategy should lay down clear methodologies for determining all aspects of the insurer's reinsurance arrangements, including:</p> <ul style="list-style-type: none"> <li>• Identification of the insurer's tolerance to risk.</li> <li>• Identification of the risk retention levels appropriate to the insurer's tolerance to risk.</li> </ul>

	<ul style="list-style-type: none"> <li>• Determination of the type of the reinsurance arrangement.</li> <li>• Selection of the panel of reinsurers used, including consideration of diversification and credit worthiness of the reinsurers.</li> <li>• Management of liquidity risk.</li> </ul> <p>The Guidelines on Risk Management Practices for Insurance Business—Core Activities states that an insurer should ensure that only approved reinsurers are used and should track aggregate exposures to individual reinsurers or groups of related reinsurers against exposure limits.</p> <p><b>Recognition of reinsurance transactions</b></p> <p>The reinsurance adjustment both for valuation and solvency is made by taking into account the licensing categories and the credit rating of the ceding reinsurers. Full reinsurance credit is accorded for cessions to licensed reinsurers or foreign insurers carrying on insurance business under a foreign insurer scheme (such as Lloyds Asia). While there is no threshold in terms of concentration, MAS monitors the concentration risks from the outward reinsurance arrangement returns and the insurers’ reinsurance management strategy. While currently some insurers have concentrated exposures in reinsurance recoverable, these are not long outstanding. Moreover, reinsurance recoverable which is overdue for more than two years is subject to 100 percent risk charges under the risk-based capital framework.</p> <p><b>Consideration of home supervisors</b></p> <p>MAS takes into consider the quality of home supervisors, when assessing applications for reinsurers. MAS monitors shares of home jurisdictions in the reinsurance market and use such information for macroprudential analysis and stress testing.</p> <p><b>Documentation requirements</b></p> <p>The MAS guidelines on Risk Management Practices for Insurance Business states that the insurer should put in place appropriate system and processes to facilitate contract certainty. This includes prompt commencement of the review of reinsurance program and vetting of contract wordings. It requires that insurers do not adopt a “deal now, detail later” philosophy.</p> <p><b>Supervision</b></p> <p>MAS requires direct insurers to submit annually, details of their outward reinsurance arrangements involving significant risk transfer and including exposure to their top 10 reinsurance counterparties. MAS reviews the reinsurance program and assesses the coverage, concentration of reinsurance counterparties, contract certainty, etc. The statutory returns lodged by insurers on a quarterly basis include information on reinsurance ceded.”</p>
Assessment	Observed

Comments	<p>Reinsurance management policy is effective for insurers to monitor the creditworthiness of reinsurers. MAS also devotes resources and efforts to monitoring the implementation of the policy.</p> <p>Some initiatives toward insurance securitization have been evolving but this activity is still very limited. MAS is encouraged to monitor the market trend carefully and take necessary action, should the market grow without appropriate risk management in place.</p>
<b>ICP 14</b>	<p><b>Valuation</b></p> <p>The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.</p>
Description	<p>The Insurance Regulations set out how the assets and liabilities are to be valued.</p> <p><b>Assets</b></p> <p>The Insurance Regulations specify the valuation of the following assets:</p> <ul style="list-style-type: none"> <li>• Debt securities, equity securities (including those classified as “available for sale” under the accounting standards), properties, investment linked funds belonging to the policyholders and derivatives are to be valued based on the market value, or net realizable value, if the market value for the asset is not available.</li> <li>• Loans, outstanding premiums, and reinsurance recoverable are valued based on the principal or amount recoverable outstanding, less any provision for doubtful debts where applicable.</li> <li>• Other assets follow the Singapore Financial Reporting Standards, which follows closely the IFRS.</li> </ul> <p><b>Liabilities</b></p> <p>The technical provisions (insurance liabilities) are measured with expected cash flows of the underlying insurance policies, including cash flows arising from embedded options and guarantees, and measured on the basis of unbiased and current assumptions. In addition, an explicit provision for adverse deviation (PAD) is added. PADs for non-life policies are specified as 75 percent level of sufficiency. For life policies, although the MAS does not specify the level of PAD, a common method adopted by the appointed actuary is to set the PAD to around half of the capital charge of underwriting risk.</p> <p>The assumptions used in the technical provisions are not explicitly prescribed by the MAS but based on the professional judgment of the appointed/certifying actuaries and guided by notice and guidelines published by MAS. The Singapore Actuarial Society also provides guidance on the selection of assumptions and PAD. Allowance for the improvement in the projected management expenses are allowed up to three years from the valuation date with strong justification by the appointed actuaries.</p> <p>The Singapore Actuarial Society has issued Guidance Notes for its members to</p>

follow. These are not prescriptive but principle-based. Assumptions selected by the actuaries must be detailed in an annual Actuary's report to MAS and any changes in assumptions must be carefully explained. The format of the actuary's report is specified by MAS. These reports are subject to review at senior levels within the organization and by the internal and external auditors. The reports are further reviewed by MAS staff during inspections with particular attention being paid to changes in assumptions.

Assumptions such as mortality, morbidity, and lapse must be supported by experience studies performed by the company. The appointed actuary can rely on industry experience where there is a lack of credible own experience, but this should be stated clearly and shown to be appropriate. The Singapore Actuarial Society conducts periodic industry mortality studies, and the latest mortality study covered the period 2003–08.

#### ***Life technical provisions***

The technical provisions for life policies are calculated as the expected future payments including administration expenses and claim expenses, less the expected future receipts. Negative reserves are not allowed for non-participating and participating contracts and the test is performed on a policy-by-policy basis. The test comparing the computed reserve for life insurance policies to their surrender values is computed on an aggregate basis. Should the aggregate surrender value of an insurance fund exceed the total policy liabilities and capital requirements of the fund, the excess shall be set aside as an additional capital requirement.

#### ***Participating policy***

For a participating policy, the technical provisions include expected future bonuses.

#### ***Investment linked policy***

The technical provisions for investment linked policy are calculated as the sum of the unit reserves, which is the value of the underlying assets backing the units relating to the policy and the non-unit reserves, calculated as the value of expected future payments other than those relating to the unit reserves less expected future receipts other than those relating to the unit reserves. In practice, companies operating in Singapore do not offer performance guarantees with their linked policies.

#### ***Non-life technical provisions***

The technical provisions for non-life policy consist of the premium liabilities and claim liabilities. The premium liabilities are determined as the higher of the unearned premium reserves and the unexpired risk reserves, which are calculated as the expected future payments, administration expenses, and claim expenses from the future events. The claim liabilities are calculated as expected future payments for claims incurred prior to the valuation date, for both reported and unreported claims, and including any expense expected to be incurred in settling those claims.

	<p><b>Discount rates</b></p> <p>For non-participating contracts and non-unit reserve for investment linked policies, risk free rates derived from the yield curve of Singapore Government Securities are used for the discount rates. For participating policies, best estimate returns of assets backing the policy liabilities at the valuation date are used for the discount rates. For non-life policies, the cash flows are discounted only when the impact of discounting is material.</p> <p><b>Boundary conditions</b></p> <p>Notice and guideline require the appointed actuary to take into account the boundary conditions, such as whether the term of a policy liability should be extended beyond the contract term.</p> <p><b>Discretionary payments</b></p> <p>Notice and guideline provide guidance to the appointed actuary on how much future bonus payments for participating policies should be included in the technical provision.</p> <p><b>Supervisory practice of appointed and certifying actuaries</b></p> <p>The Singapore Actuarial Society has established a practice committee with the aim of providing guidance to its members concerning the selection of assumptions for discounting liabilities. Assumptions must be made for mortality, morbidity rate, premature lapse, accident rates and other parameters, as well as investment returns. Valuation practices are very robust and assumptions may be altered more than once within a calendar year. The actuaries will be expected to justify any changes to assumptions in their annual reports, and these arguments will have to stand the scrutiny of the external auditors (who often retain their own actuaries) as well as by MAS officials. Forty percent of the staff of MAS Insurance Department are actuaries who are at various stages of qualification within the profession.</p>
Assessment	Observed
Comments	Valuation of technical provisions (including change of assumption) is endorsed by appointed/certifying actuaries and external auditors and reported to MAS. MAS monitors closely the valuation practice through offsite monitoring and onsite inspections. Although technical provisions for statutory purposes are reported on a net (of reinsurance) basis, MAS collects the detail of reinsurance arrangements and capital adjustments are reflected in the solvency ratio. In addition, insurers disclose technical provisions on a gross basis for general purpose accounting.
<b>ICP 15</b>	<p><b>Investment</b></p> <p>The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.</p>

Description	<p><b>Investment limit</b></p> <p>MAS does not set explicit quantitative limits on an insurer’s investments. Use of derivatives is prohibited except for the purpose of “hedging and efficient portfolio management.”</p> <p><b>Governance requirement</b></p> <p>MAS Notice 317 stipulates basic principles for oversight of the asset management process of life insurers, such as establishing an investment policy, an investment committee and consideration for asset-liability management. MAS has issued a new Notice in April 2013 which sets out the basic principles governing asset management for all insurers. This will have the effect of applying the provisions of MAS Notice 317 to general insurers and reinsurers. The investment policy should be approved by the Board and cover the limit of the allocation of assets by geographical area, markets, sectors, counterparties and currencies, and the extent to which the holding of some types of assets is ruled out or restricted.</p> <p><b>Solvency requirement</b></p> <p>The risk-based capital requirements give insurers incentive to manage their ALM and currency mismatch, and liquidity, concentration, market and credit risks within their available capital. Investment into non-standard instruments (such as equity tranche of CDO, futures/forward, FX contracts for which no method for computation of capital requirement has been prescribed) requires very conservative capital charge (100 percent of the market value). However, the current risk-based capital requirements do not cover some investment risks, such as spread risks. Companies are expected to deal with such risks through their risk management strategies. In addition, insurers are required to conduct stress tests based on prescribed and self-selected scenarios on an annual basis and these help insurers to further identify risks facing their asset portfolios. Securitized products are also treated in the same way as other corporate bonds, while the exposures are closely monitored by MAS on a quarterly basis.</p> <p><b>Group requirement</b></p> <p>The same requirement is applicable to the group in accordance with MAS’ Directive of Group Supervision.</p> <p><b>Supervisory review and actions</b></p> <p>The MAS collects the detailed level of investment portfolio of direct insurers and reinsurers on a quarterly basis and closely monitors the change, trend and concentration.</p>
Assessment	Observed
Comments	Although there are no explicit quantitative limits applicable to investment and to

	<p>categories of investment, effective discipline on investment practices derives from the factors applied to investments through the risk-based capital formula, together with governance requirements and the CRAFT system. In particular, assessors observed the following practices are effective:</p> <ul style="list-style-type: none"> <li>• Investment policy needs to be approved by the Board which must have at least 1/3 of independent directors.</li> <li>• Detailed quarterly reporting requirements of the investment portfolio allow MAS to closely monitor the trend and change of investment strategy.</li> <li>• MAS communicates with the industry quite intensively based on the analysis of investment trend and strategy.</li> <li>• Risk-based capital requirements apply 100 percent capital charge on investments in categories or counterparties beyond the stated concentration limits.</li> </ul> <p>Assessors also observe the challenge that insurers are facing to meet policyholders' expectation of investment returns. If the current low interest rate environment continues, more insurers might begin to take more risky investment decisions. However, insurers may be discouraged from taking unduly risky investment because:</p> <ul style="list-style-type: none"> <li>• MAS has implemented ERM, ORSA, stress test and scenario analysis requirements on an industry wide basis, which would be reflected in CRAFT ratings, intensity of supervision and capital add-on.</li> <li>• MAS is reviewing RBC requirements and changes are expected to be made by the end of 2013, to take into account more risky investment, such as equity, on a more granular basis.</li> </ul>
<b>ICP 16</b>	<p><b>Enterprise Risk Management for Solvency Purposes</b></p> <p>The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.</p>
Description	<p><b>ERM requirement</b></p> <p>Prior to April 2013, all insurers were already expected to adhere to enterprise risk management practices through a set of comprehensive Risk Management Guidelines, supplemented by provisions in the Corporate Governance regulations, various Notices and circulars, such as those requiring direct insurers (except for reinsurers) to submit Board-deliberated forward-looking stress test and scenario analysis reports to MAS on an annual basis.</p> <p>In April 2013, MAS issued an Enterprise Risk Management Notice (ERM Notice) to strengthen requirements on insurers, and explicitly link the risk identification, measurement and management under an ERM framework to an insurer's business strategy and capital management through formalization of its risk tolerance and an Own Risk and Solvency Report (ORSA). Insurers are required to have Board-approved tolerance limits which take into account their corporate objectives, strategy and activities. Well-managed companies have independently adopted best practices in Enterprise Risk Management and have made considerable progress. Smaller companies have not made as much progress and have petitioned MAS to grant more time for full implementation.</p>



	<p><b>ERM framework</b></p> <p>Under the existing Risk Management Guidelines, risk management policies must be approved by the Board and are expected to cover at a minimum the following:</p> <ul style="list-style-type: none"> <li>• the process by which the Board decides on the maximum amount of risk the insurer is able to take, as well as frequency of review of the risk limits;</li> <li>• the roles and responsibilities of the respective business units and staff involved in acceptance, monitoring and management of risks;</li> <li>• the approval structure for the core activities, including authority to approve deviations and exceptions;</li> <li>• the management of concentration and exposures to catastrophic events, including limits, reinsurance, portfolio monitoring and stress testing; and</li> <li>• relationship between their tolerance limits, regulatory and economic capital adequacy of their capital given their activities.</li> </ul> <p>Together with the ERM notice, insurers are to establish a comprehensive risk management framework.</p> <p><b>ORSA</b></p> <p>The ERM Notice requires all insurers (including reinsurers) to conduct annual stress tests and scenario analysis, projecting over a time horizon needed for effective business planning. The effects of scenario are estimated based on insurers' assessment of the future risk profile and business plan. Senior management is required to review, respond to the result and submit recommendations to the Board. The Board is required to deliberate and approve the ORSA report prior to submission to MAS together with extracts of minutes of the deliberation.</p> <p><b>Group requirement</b></p> <p>In April 2013, MAS issued a directive which requires all designated insurance groups to establish ERM frameworks.</p> <p><b>Supervisory review and actions</b></p> <p>All direct insurers are required to submit their stress test and scenario analysis reports. This will be part of the ORSA report as required under the ERM Notice. MAS reviews the effectiveness of the ERM framework and ORSA through offsite monitoring and onsite inspections. For the larger insurers, MAS meets regularly with the individual Chairs of the Risk Committees to better understand the risk management issues within the individual insurer.</p>
Assessment	Largely Observed
Comments	<p>An assessment of "Largely observed" is based on the following observations:</p> <ul style="list-style-type: none"> <li>• The ERM Notice has been recently introduced and ORSA had not been required for reinsurers until then. Direct insurers have been subject to the</li> </ul>

	<p>stress test and scenario analysis exercise beginning in 2005 for life and 2009 for non-life. In the exercise, MAS requires the Board involvement and recommendation from the Appointed or Certifying Actuaries, which had not been called as ORSA but covered most of the ORSA requirements.</p> <ul style="list-style-type: none"> <li>• Establishment of the ERM framework and practices is still evolving. MAS recently conducted thematic review of ERM, which encouraged industry players to improve their risk management frameworks. Companies are adopting ERM frameworks, have developed risk appetite statements and enhanced the awareness of the risks at the Board level as well as a company wide basis. However, the Boards' or senior managements' involvement in ORSA seems to be limited and actions related to the exercises, such as an active feedback loop, etc. are not widely observed.</li> <li>• MAS should follow up the implementation of the ERM Notice closely and encourage the industry to improve the practice.</li> </ul>
<b>ICP 17</b>	<p><b>Capital Adequacy</b></p> <p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p><b>Requirements at company level and fund level</b></p> <p>The Risk-Based Capital Framework requires insurers in Singapore to meet not only capital requirements at company level but also at each fund level. Insurers must establish separate accounts for different categories of products (such as participating, non-participating, investment link, life, non-life, onshore and offshore).</p> <p>Assets of the participating fund are available only to cover the liabilities of participating policy holders. Transfer of money out of the participating fund is subject to limitation, and requires a high level of approval by appointed/ certifying actuaries. Transfers between funds can only be made where there is a surplus of assets over liabilities in the fund, which needs to be ascertained from the latest statement of accounts lodged with MAS. The appointed or certifying actuaries are required to certify the policy liabilities presented in the statement of accounts.</p> <p><b>Coverage of capital adequacy</b></p> <p>Insurers in Singapore are subjected to a Risk-Based Capital Framework set out under the Insurance Regulations 2004 (Insurance V&amp;C Regulations). However, there are certain categories of insurance business which are subject to a lighter solvency regime or exempted from the requirements.</p> <p><b>Lloyd's Asia</b></p> <p>Exempted. MAS places reliance on the regulatory requirements on capital adequacy of the United Kingdom authority.</p> <p><b>Offshore reinsurance (branch)</b></p>

	<p>Exempted. MAS places reliance on the regulatory requirements on capital adequacy of the home regulator.</p> <p><b><i>Offshore reinsurance (subsidiary)</i></b></p> <p>Highest of S\$5 million, 10 percent of net premium and 10 percent of claim liabilities. MAS requires base capital to be put up because the reinsurance subsidiaries are locally incorporated. MAS also places reliance on group level capital requirements imposed by some of the home regulators.</p> <p><b><i>Captive and marine mutual</i></b></p> <p>Highest of S\$400 k, 20 percent of net premiums and 20 percent of the claim liabilities. A base level of capital requirements is imposed on captive insurers in Singapore because they are pure captives restricted to writing in-house business principally of the risks of their parent and related corporations. Similarly, marine mutuals are restricted to writing business that consists principally of risks of their own members.</p> <p><b>Eligibility of capital resources</b></p> <p>Eligibility of capital resources is specified under the regulation. Two types of capital instruments are allowed. Tier 1 resources with “going concern” quality includes aggregate of the surpluses of the assets over the liabilities of all insurance funds, paid up capital, irredeemable and non-cumulative preferred shares. Tier 2 resources with “gone concern” quality, such as cumulative preference shares, can be recognized as capital resources up to 50 percent of the amount of Tier 1. Tier 1 resources and Tier 2 resources, together with the allowance for provision for non-guaranteed benefits of participating fund, will form the financial resources of an insurer.</p> <p>The majority of the eligible capital in life insurers is from the allowance for provision for non-guaranteed benefits of participating policies. However, it is subject to the following limits.</p> <ul style="list-style-type: none"> <li>• Eligible capital resources are set as 50 percent of non-guaranteed benefits of participating policies, determined as the policy assets less policy guaranteed liabilities valued using future expected investment return. However, the capital resources are capped at the difference between the policy assets less policy guaranteed liabilities valued using the risk free discount rates.</li> <li>• Future non-guaranteed benefits of participating policies can be recognized as far as non-participating policies’ fund has the same or higher capital adequacy level.</li> </ul> <p><b>Capital requirements</b></p> <p>Capital requirements are composed from C1 (insurance risks), C2 (market and credit</p>
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	<p>risks) and C3 (asset concentration). C1 is calibrated using 95 percent to 99 percent level of confidence, while C2 closely follow the Basel framework, where the calibrated level is at a 99 percent confidence level over a 10 days holding period (market risk), and 99.9 percent confidence level over a one-year holding period (credit risk).</p> <p><b>Recognition of reinsurance transactions</b></p> <p>The reinsurance adjustment both for valuation and solvency is made by taking into account the licensing categories and the credit rating of the assuming reinsurers. For example, if reinsurers are authorized, unauthorized or within the group, adjustments would be made according to the reinsurers' credit ratings. However, such adjustment is eliminated in case of registered reinsurers or foreign insurers carrying on insurance business under a foreign insurer scheme (such as Lloyds Asia) and there is no threshold in terms of concentration.</p> <p><b>Internal models for capital requirements purpose</b></p> <p>Internal models are only allowed for certain products (such as variable annuity) where the standardized approach is not appropriate. MAS has specified appropriate modelling criteria or tests that such insurers must conduct under the individual directive.</p> <p><b>Group solvency</b></p> <p>Group capital requirements have been imposed via directives issued pursuant to the MAS Act to the insurance groups for which MAS is the Group-wide Supervisor.</p> <p><b>Solvency control level</b></p> <p>The insurers must ensure that the financial resources are no less than the higher of the total capital requirements (100 percent) or an absolute minimum of S\$5 million. There is an early warning, which triggers at 120 percent, where insurers are expected to constantly monitor their solvency position and inform MAS should they become aware that their solvency ratio might fall below 120 percent. In addition, MAS has issued directives pursuant to the Ins Act in January 2013, to all direct insurers (re-insurers are excluded) to impose supervisory capital adequacy requirement (Sup CAR), the purpose of which is to improve the risk sensitivity of the overall RBC framework by setting insurer-specific requirements which take into account risks that are currently not adequately captured by the capital frameworks (such as operational risks). Insurers that have been identified as "High Impact" insurers are required to hold a higher minimum regulatory capital requirement in recognition of the potential impact of any failure on the Singapore financial system and real economy.</p>
Assessment	Largely Observed
Comments	<p>Largely Observed is based on the following adverse observations:</p> <ul style="list-style-type: none"> <li>• While some of the subsidiaries are growing and underwriting complex risks, lighter capital requirements are allowed for reinsurers' subsidiaries and the</li> </ul>

	<p>catastrophe risk (which is relevant and sometimes material) is not recognized.</p> <ul style="list-style-type: none"> <li>• Reinsurance adjustment does not take into account credit worthiness among registered reinsurers.</li> <li>• ALM risk component is currently based on two separate but consistent calculations of interest rate risks on the asset side and liability side. Hence, there may be still some basis risk between the two sides in an ALM mismatch situation.</li> <li>• Sup CAR is currently used to take into account generally observed risks that are not captured by the capital framework, such as operational risks. Given that Sup CAR is only communicated to the insurer and not publicly disclosed, this may not be transparent. However, this should improve as RBC II will include more risks such as operational risks in determining capital adequacy.</li> </ul> <p><b>RBC II review</b></p> <p>MAS is embarking on a review of the current RBC framework. The review aims to improve the comprehensiveness of the risk coverage and the risk sensitivity of the frameworks as well as defining more clearly MAS's supervisory approach with respect to the solvency intervention levels. It is planned to be implemented by the end of 2013. The main issues under consultation for the reviews are as follows:</p> <ul style="list-style-type: none"> <li>• Confidence level for PCR is 99.5 percent, while that of MCR is 90 percent;</li> <li>• Further alignment with capital requirements of banks by incorporating some of the features of Basel III;</li> <li>• Introduction of operational risk and catastrophic risks;</li> <li>• Interrelations between risks; and</li> <li>• Allowance of risk mitigation.</li> </ul> <p>Reviews of the capital requirements are underway to incorporate those risks into the new RBC requirements (RBC II), which is targeted to be finalized by the end of 2013. In addition, MAS is monitoring all material risks closely through offsite monitoring. Therefore, assessors believe that current deficiencies stated above in the capital adequacy do not raise concerns about MAS's ability to discharge its responsibilities in monitoring the financial strength of insurance companies.</p>
<b>ICP 18</b>	<p><b>Intermediaries</b></p> <p>The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.</p>
Description	<p><b>Licensing requirements on insurance intermediaries</b></p> <p>The Financial Advisers Act and the Ins Act require persons conducting financial advisory services or insurance broking to be licensed, unless they already hold a license under other acts administered by MAS. General insurance agents are exempted from the MAS license requirements but are required by MAS to be registered with the Agent's Registration Board under the General Insurance</p>

Association of Singapore.

The main requirements for financial advisory services or insurance broking include:

- Adequate financial resources (minimum paid-up capital and on-going financial obligations);
- Minimum working and managerial experience of CEO;
- Minimum examination requirements;
- Attendance at relevant training for their continuing professional development; and
- Honesty and integrity in their customer dealings.

The requirements for general insurance agents include:

- Adequate financial resources (minimum paid-up capital);
- Educational and professional qualifications;
- Continuing professional development; and
- Honesty and integrity in their customer dealings.

In addition to the above requirements, MAS also requires the companies to put in place a compliance function and adequate internal controls and processes commensurate with the size and complexity of their business to ensure compliance with the law, good practices and professional standards.

#### **Requirements on individual representatives**

In addition to the licensing requirements applicable at the firm level, each representative must be identified to the MAS. The following requirements are applied in the notification process.

#### ***Representative Notification System***

The Representative Notification System (RNS) is a public register of authorized representatives (launched in November 2010) which lists the relevant particulars of representatives such as:

- name of the representative;
- assigned representative number;
- the name of the current principal on whose behalf the representative acts;
- the past principal(s) on whose behalf the representative had acted over the preceding three years;
- permitted regulated activities of the representative;
- the date on which the representative was permitted to conduct such activities; and
- any formal regulatory action(s) taken by MAS against the representative.

With the introduction of the RNS, all financial institutions (FIs) such as banks, insurance companies, and financial advisory firms are required to notify MAS when they intend to appoint a representative to conduct regulated activities under the FAA. For each proposed representative, the relevant FI would be required to:

- certify to MAS that it has conducted reasonable due diligence checks and is satisfied that the proposed representative is fit and proper in accordance with the MAS' Guidelines on Fit and Proper Criteria. FIs who issue "fit and proper" certifications without having made reasonable checks would be in breach of the FAA and subject to appropriate regulatory action.
- notify MAS of (i) the FI's intention to allow the proposed representative to carry out regulated activities on its behalf; and (ii) the specific types of proposed regulated activities; and
- ensure that the proposed representative has met the following minimum entry and qualification requirements set out in FAA Notice Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers (FAA-N13):
  - be at least 21 years old;
  - has at least four GCE "O" levels ; and
  - passed the relevant examination modules under the Capital Markets and Financial Advisers Services Examination (CMFAS).

MAS has the power to refuse to register the name of that individual in cases where MAS has adverse information on fit and proper status of the representative. In such an event, the proposed representative would be given an opportunity to be heard in accordance with procedures set out in the FAA.

#### ***Ongoing requirements***

FIs are required to notify MAS of any cessation of activities by their representatives. For any addition to the type of regulated activities to be carried out by their representatives, FIs are required to notify and certify to MAS that the representatives have met the additional qualification requirements as specified in FAA-N13, if any, in respect of the additional types of regulated activities proposed to be conducted.

In the case of a change of FIs, the original FI would be required to notify MAS of the cessation of the representative's employment with the original FI. The new FI would be required to certify that the representative is fit and proper, and notify MAS of its intention to allow the representative to carry out regulated activities on its behalf.

All FIs are required to notify MAS once they become aware, at any point in time, that any representative under their employment no longer satisfies the fit and proper criteria.

All representatives who wish to retain the registration must continue to meet the fit and proper criteria. Fit and proper criteria, which include the fulfilment of a minimum number of training hours annually, are applied to ensure that the representative's license remains valid.

#### **Professional qualification**

All insurance intermediaries are required to meet minimum academic and regulatory examination requirements and attend relevant training for their continuing

	<p>professional development.</p> <p><b>Disclosure requirements</b></p> <p>Under the Notice on Information to Clients, product information disclosure and the guidelines on standards of conduct for insurance brokers, etc., the insurance intermediaries are expected to disclose to their client various information, including remuneration of the financial adviser, potential conflict of interests arising from connections with product provider, and any premium charged by the insurer. Disclosure requirements are also provided for in Section 35P of the Ins Act, Guidelines on Standards of Conduct for Financial Advisers and Insurance Brokers as well as the Singapore General Insurance Code of Practice.</p> <p><b>Safeguards of client money</b></p> <p>Both the Ins Act and Financial Advisers Act require financial advisers, insurance brokers and agents who receive any money from a client to establish and maintain a separate account with a bank licensed in Singapore. The Ins Act recognizes policyholders' payments to the intermediaries as having been made to the insurers. The Ins Act and Financial Advisers Act also prohibit a claim on the customer money unless the money is for fees owing to the financial adviser. Any insurance intermediary in breach of the requirements in safeguarding customer monies may be liable to regulatory action.</p> <p><b>Supervisory practice</b></p> <p>MAS has a Consumers Issues Division that manages complaints received against insurers and intermediaries. When MAS receives a complaint, MAS will require the insurers and/or intermediaries to look into the complaint and follow up with the complainant accordingly. The insurers and/or intermediaries will also be required to keep MAS updated of the status and any follow up actions. Should the review of the complaint point to control lapses or weaknesses in the insurer and/or intermediary, MAS will follow up with the insurer and/or intermediary separately to rectify the shortcomings noted. MAS conducted onsite inspections of financial advisers related matters on nine Financial Advisers in the past two years. Under the Notice on Reporting of Misconduct of Representatives by financial advisers and Notice on Reporting of Misconduct of Broking Staff by Insurance Brokers, an insurance intermediary is required to report to MAS upon discovery of misconduct by its representatives. MAS uses a variety of supervisory tools such as offsite review and monitoring, thematic inspections, surveys of financial institutions and consumers, visit to firms, interviews with the Board and Senior management, and mystery shopping.</p>
Assessment	Observed
Comments	Although there is limited data available, the turnover ratio among intermediaries of Singapore appears to be significantly lower than that of other advanced insurance markets, supporting the assessment that robust licensing and education process of



	intermediaries are effective.
<b>ICP 19</b>	<p><b>Conduct of Business</b></p> <p>The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p><b>Insurers</b></p> <p>In the licensing letter, MAS requires the insurer to be fair in the treatment of its policyholders and claimants, and maintain a high level of management and insurance expertise by providing adequate training and development to its staff.</p> <p><b>Intermediaries</b></p> <p>Requirements of due skill, care, and diligence when dealing with customers are stipulated under the Financial Advisers Act for Financial Advisers, the Guidelines on Standards of Conduct for Insurance Brokers and the Singapore General Insurance Code of Practice for General Insurance Agents, respectively.</p> <p><b>Fair treatment of customers</b></p> <p>Under the Guidelines on Fair Dealing, MAS sets out five Fair Dealing Outcomes:</p> <ul style="list-style-type: none"> <li>• Customers have confidence that they deal with financial institutions where fair dealing is central to the corporate culture;</li> <li>• Financial institutions offer products and services that are suitable for their target customer segments</li> <li>• Financial institutions have competent representatives who provide customers with quality advice and appropriate recommendations;</li> <li>• Customers receive clear, relevant and timely information to make informed financial decisions; and</li> <li>• Financial institutions handle customer complaints in an independent, effective and prompt manner.</li> </ul> <p>The guidelines focus on the responsibilities of the Board and senior management to deliver fair dealing outcomes to customers.</p> <p><b>Disclosure requirements</b></p> <p><b>Life products</b></p> <p>Under the notice, when making recommendation on any designated investment product, the insurance intermediaries are required to disclose information on risks, pricing fee of the products, free-look period for life policies and exclusions, and whether the premium rate is guaranteed or non-guaranteed. For participating products, the notice mandate insurers to prepare a product summary for each participating product and specify investment of assets, type of risks affecting the level of bonuses, sharing of risks, smoothing of bonuses, etc.</p>

***Non-life products***

Under the Singapore General Insurance Code of Practice, all general insurers and intermediaries are required to explain to customers any significant or unusual restrictions, warranties or exclusions, the full details of the costs of the insurance product, and how to make a claim and provide details of their complaints procedures.

**Dispute resolution**

MAS expects all insurers to have in place a robust internal dispute resolution process to handle complaints and feedback from consumers independently, effectively and promptly. In the event that a customer makes a complaint against an insurer or intermediary directly to MAS, MAS would forward the complaint to their insurer or intermediary with the written consent of the complainant. MAS also requires the insurer or intermediary to reply the complainant within 14 working days and copy MAS in the reply. MAS would monitor and assess the efficiency and quality of the insurer's complaint handling process. Where the customer and insurer are unable to arrive at an amicable solution to the complaint, the customer could be directed to the Financial Industry Disputes Resolution Center, which is an institution independent from the industry and composed of retired judges, senior counsel, lawyers, etc.

**Supervisory practice**

MAS conducted a thematic inspection of eight financial institutions to assess the compliance with fair dealing for consumer confidence. MAS also conducted a mystery shopping exercise which focused on quality and suitability of advice and adequacy of information disclosures. Through those exercises, MAS identified issues to be improved and encouraged the affected institutions to remedy the shortcomings.

***Supervisory Actions where FA representatives are found guilty of committing misconduct offences***

When MAS receives information from an insurer (through misconduct reports or complaints, etc.) that a particular representative, has mis-sold a policy, and if MAS assesses and suspects the mis-selling to have affected a large number of the insurer's customers, MAS requires the insurer to extend its investigations and conduct a review of all the policies transacted by the representative to ensure that there are no other cases of misselling. The insurer would also be required to submit an investigation report to MAS. MAS assesses whether the insurer's controls and systems are sufficiently robust and whether the instance of misselling is a one-off case or more widespread.

For more serious misconduct cases, MAS could require the insurer to extend the review to the suspect representatives' entire agency group. On a 2009 case judged a serious breach, the insurer was required to conduct an audit on the financial advisory

activities of the whole agency group to which the representative belonged. The insurer was also required to closely supervise the agency group for one year and to provide MAS with a report on the agency group at the end of the period of close supervision.

### **Financial advisory industry review panel**

In April 2012, MAS announced the establishment of a Financial Advisory Industry Review Panel (FAIR) to conduct a fundamental review of practices in the financial advisory industry and presented its recommendations to MAS in January 2013. The panel made a total of 28 recommendations, of which most are relevant to the insurance sector. Some of the enhanced disclosure requirements proposed by the panel are:

- Require insurers to disclose the total expense ratio of the participating fund, averaged over three years.
- For sales of bundled life insurance products, require financial advisory representatives to disclose an alternative option of purchasing an unbundled term life insurance product and investing the remaining funds in a fixed deposit.
- Require insurers to add a cover page to the benefit illustration and product summary, containing prominent disclosures on the total distribution costs, warning that illustrative returns are not guaranteed, warning that the amount a customer receives will be lower than the premium paid if the customer surrenders his policy before a certain year, average expense ratio of the participating fund, 14-day free-look period, and website address of the web aggregator.

MAS is currently consulting on these recommendations to be adopted in due course.

### **Financial education**

MAS spearheads MoneySENSE, a national financial education program to enhance the basic financial literacy of consumers. In the website, consumers may find information on insurance needs, type of insurance, things to watch out for, and resolution of possible issues. MAS publishes an Investor Alert List, which is a list of unregulated persons who may have been wrongly perceived as being licensed or authorized by MAS.

### **Disclosure of information**

For Participating products, MAS Notice 320 mandates insurers to send participating policyholders an Annual Bonus Update on a yearly basis. For Investment Linked Products, MAS Notice 320 mandates insurers to prepare and send the following reports to the policyholders, such as a Semi-Annual Report and the Relevant Audit Report.

### **Claim handling**

	<p>In the licensing letter for all insurers, MAS requires the insurer to be fair in the treatment of its policyholders and claimants. Under the Life Insurance Association Code of Life Insurance Practice, a life insurer is expected to respond and inform the claimant of the procedure within two weeks. Under the Singapore General Insurance Code of Practice, a general insurer and/or intermediary should acknowledge the notification of claim within three business days and request for further information, if applicable, within seven business days.</p> <p><b>Privacy protection</b></p> <p>Under the Personal Data Protection Act, insurers or intermediaries shall not collect, use or disclose personal data about an individual unless the individual gives his/her consent or the collection, use or disclosure is required or authorized under any law. In addition, the MAS Guidelines on Standards of Conduct for FAs and MAS Guidelines on Standards of Conduct for IBs require an FA and IB to implement and maintain proper procedures to preserve confidentiality of information it receives from a client or which relates to a client.</p>
Assessment	Observed
Comments	<p>Several Industry Associations, including the Life Insurance Association of Singapore, were represented on the FAIR panel. The FAIR proposals are currently under consultation.</p> <p>Vigorous action is taken if any sales representative is found guilty of misselling or other misconduct. The company represented by the suspect agent will be obliged to conduct an investigation of all policies sold by the agent, and if necessary contact the policyholders, to locate any other cases of such misconduct.</p>
<b>ICP 20</b>	<p><b>Public Disclosure</b></p> <p>The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.</p>
Description	<p><b>Financial statements, risks, and solvency</b></p> <p>Under the Insurance Regulations, the insurers (including reinsurers and branches) are required to prepare and submit externally audited annual statutory returns to MAS within three months from the year end, and these returns are published on the MAS website. The information includes B/S, P/L, valuation of life business, participating fund allocations, solvency ratios. Extensive quarterly insurance statistics are also made available through the website.</p> <p>One of the Notices (public disclosure notice) has just been issued in April 2013 and is currently under the transitional period. It will become effective in early 2014, and would require greater disclosure by all insurers, which would be available through</p>

the MAS website, insurers' websites as well as the website of the Accounting and Corporate Regulatory Authority. Insurers will also provide links or references to the various information and disclosures from a single location on its official website. Under the Companies Act, all insurers are required to prepare and submit externally audited financial statements to the Accounting and Corporate Regulatory Authority (ACRA) within one month from their Annual General Meeting. These financial statements follow closely the International Financial Reporting Standards and have extensive disclosures on technical provisions, material risk exposures and management, capital adequacy, financial instruments and other investments, and financial performance. Members of the public can request for these financial statements from ACRA.

### ***Technical provisions***

Insurers are required to disclose information on technical provisions in the MAS statutory returns and financial statements. This includes information on the accounting policies for insurance contracts, the recognized assets, liabilities, income and expense arising from insurance contracts, the process used to determine the assumptions that have the greatest effect on the measurement of the recognized assets, liabilities, income and expense arising from insurance contracts, the effect of changes in assumptions used to measure insurance liabilities, reconciliations of changes in insurance liabilities, actual claims compared with previous estimates, participating fund allocations, technical provisions by line of business, rationale for the choice of discount rate, and description of methodologies used to determine technical provisions (e.g., risk adjustment methodology).

### ***Investments***

Insurers are required to disclose certain quantitative and qualitative information about financial instruments and other investments by class, including investment objectives, policies, and process for managing the risk and the methods for measuring the risk, values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of the differences, information concerning the level of sensitivity to market variables associated with the disclosed amounts, risk concentrations, a description of collateral held as security and other credit enhancements, information about the credit quality of financial assets, sensitivity analysis on each type of market risks to which the entity is exposed, and the amount that best represents its maximum exposure to credit risk.

### ***ERM/ALM and corporate governance***

MAS issued the Public Disclosure Notice in April 2013 which requires all insurers (including branches) to disclose information on the ERM/ALM framework (both quantitative and qualitative) and corporate governance. Information includes the methodology and the key assumptions employed in the measurement of assets and liabilities for ALM purposes, any capital or provisions held as a consequence of a mismatch between assets and liabilities, the number of Board and Board committee meetings held in the year, delegation of authority to make decisions on certain Board

	matters, the relationship between the chairman and CEO, description of the process for the selection and appointment of new directors to the Board, key information regarding directors including whether they are independent, assessment process on Board effectiveness by the nominating committee and annual remuneration report.
Assessment	Largely Observed
Comments	LO is based on the following adverse observation: <ul style="list-style-type: none"> <li>• Notice on Disclosures of ERM/ALM and Corporate Governance have just been implemented and there is no disclosure yet available on those items. The disclosure based on the new Notice is expected to be made in early 2014.</li> </ul>
<b>ICP 21</b>	<b>Countering Fraud in Insurance</b> The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.
Description	<p><b>Reporting requirements</b></p> <p>The MAS Notice FAA-N14 and MAS Notice 504 require all insurers, financial advisers, and insurance brokers to report to MAS all incidents of misconduct committed by their representatives. Insurers and insurance intermediaries are also required to lodge any suspicious activities and incidents of fraud which are material to the safety, soundness or reputation of the respective entities under MAS Notice 123, 505, and FAA-N17. The Guidelines on Fraud Risks Management also stipulate MAS' expectation that all insurers and insurance intermediaries have in place a sound and robust fraud risk management framework.</p> <p><b>Industry association's initiatives</b></p> <p>The insurance industry contributes with various measures. In July 2012, the General Insurance Association of Singapore organized a "Combating Insurance Fraud Seminar" to raise awareness of insurance fraud in the industry. The Association has also been developing an industry fraud database to detect and address risks of insurance fraud.</p> <p><b>Supervisory practice</b></p> <p>MAS meets with all insurers annually to discuss their business plans, strategies and any new products and services they are introducing. MAS also meets regularly with financial advisers and insurance brokers. MAS may issue supervisory warnings, directions, fines, or order the removal of the chief executive and revocation of the license of insurers and intermediaries. MAS's supervisory framework involves the regular offsite assessment of the key risks in each insurer's operation. If there are any areas that are exposed to fraud risk (e.g., cash receipt processes, etc.), MAS factors such risk into the assessment, which would affect the frequency and the scope of the onsite inspections. In inspections during 2011, MAS identified potential fraud vulnerability, which required the insurers to take remedial actions to address the</p>

	<p>vulnerabilities. MAS has also carried out onsite inspections focusing on fraud risk management against selected insurers and intermediaries. In addition, MAS issued directions to several financial advisers in 2008 to wind down their business following inspections which uncovered suspicious transactions by these advisers.</p> <p><b>Case of sanctions</b></p> <p>Singapore legislation contains offences and sanctions for committing fraud and for prejudicing an investigation into fraud. Two case examples were noted in 2005 and 2012.</p>
Assessment	Observed
Comments	<p>MAS maintains a register of all cases where fraud was suspected or proven. The list is consulted when any licensing application is received. A person who is convicted will be prevented from working in the insurance industry for a period of time, up to 10 years.</p> <p>Much of the training and seminars being held are aimed at minimizing the cost to insurers and to society of insurance fraud committed by consumers. MAS collaborates with police officials and relevant government departments such as the Ministry of Transport, Land Transport Authority, the Ministry of Health and the Attorney General's Chambers in an effort to control fraud risk exposures in an effort to get control of the fraud risks.</p>
<b>ICP 22</b>	<p><b>Anti-Money Laundering and Combating the Financing of Terrorism</b></p> <p>The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering financing of terrorism.</p>
Description	<p><b>Evaluation against the FATF recommendations</b></p> <p>Singapore is a member of the Financial Action Task Force (FATF) and of the Asia/Pacific Group on Money Laundering (APG). It underwent its last Mutual Evaluation against the FATF recommendations in 2008. Overall, assessors found that Singapore had a strong AML/CFT system in place and that life insurers and intermediaries were subject to adequate AML/CFT requirements and supervision.</p> <p><b>Supervisory practices</b></p> <p>MAS is responsible for AML/CFT supervision of underwriting and placement of life insurance and of the provision of financial advisory services for life insurance products in line with the FATF recommendations and IAIS Standards. Life insurers and intermediaries are subject to AML/CFT requirements in application of MAS Notice 314 and MAS Notice FAA-N06, respectively.</p> <p>MAS assesses ML/FT risks of each life insurers and intermediaries using its CRAFT</p>

	<p>framework (Common Risk Assessment Framework and Techniques) and assigns each insurer an Overall Risk Rating (ORR) on the basis of a four-point rating scale (High, Medium High, Medium Low, and Low). The frequency and scope of the onsite inspections is determined based on the rating. In addition, if a life insurer is identified to be of high ML/FT risks, an inspection will be conducted outside the regular cycle.</p> <p>Currently, there are some life insurers and intermediaries who are classified in the High and Medium High categories.</p> <p>In 2012, MAS revised the approach and methodology of assessing ML/FT risks. The inspection cycle for insurers with higher AML/CFT risk was shortened. The MAS' Supervisory Department obtains statistics such as the number of suspicious transaction reports (STRs) filed by life insurers and intermediaries, and analyzes them with a view to establishing the fluctuations in the numbers and the effectiveness of the insurer's process in identifying suspicious transactions.</p> <p>MAS has staff of 22 with capabilities for insurers' AML/CFT supervision, including four with specialist AML/CFT knowledge. The departments are supported by a MAS-wide AML/CFT peer group which consists of representatives across MAS. The peer group facilitates the exchange of information on developments in FATF recommendations and UN requirements and also discusses on matters relating to AML/CFT inspection methodology, offsite supervision practices and interpretation of AML/CFT requirements.</p> <p><b>Cooperation mechanism</b></p> <p>Effective mechanisms exist to enable cooperation and exchange of information both internally and externally. For internal sharing, there are appointed persons for AML/CFT among the various departments. For coordination with various domestic agencies, the FATF Steering Committee has been established which comprises of senior management of the MAS, Ministry of Home Affairs, and Ministry of Finance. MAS is also a member of the IAIS MMoU, which facilitates cooperation with foreign authorities.</p>
Assessment	Observed
Comments	<p>MAS continues to improve industry awareness with its risk-based framework (CRAFT) and periodic onsite inspections.</p> <p>While there is no evidence of higher AML/CFT risks in the Singapore insurance sector, tighter regulation in other sectors may increase the risks that insurance products will be used for ML/FT. Therefore, while non-life insurance products seem to have low risk of AML/CFT, it is recommended that MAS periodically reconsider whether or not non-life insurance products should be subject to the AML/CFT requirements.</p>
<b>ICP 23</b>	<b>Group-wide Supervision</b>



Description	<p>MAS is the integrated supervisor of the financial sector. Section 4 of the MAS Act on the Principal Objects and Functions of the Authority conveys the legal powers for MAS to conduct regulation and supervision of all financial institutions. The Ins Act further confers on MAS specific legal powers to regulate and supervise insurers in Singapore. Under the FHC Act, MAS will have powers over the entire FHC group which includes the financial holding company, its subsidiaries and any other company or entity treated as part of the financial holding company's group of companies according to Accounting Standards. MAS works together with other foreign supervisory authorities where appropriate. There have been no cases where MAS has lacked the power to include certain entities in the scope of supervision where they ought to be included.</p> <p>There are only a small number of insurance groups domiciled in Singapore currently, most of which do not have significant operations and are held under non-operating holding companies. Most of the insurers operating in Singapore are foreign owned, and are part of groups supervised by an overseas supervisor. MAS places importance on participating in supervisory colleges when they are established by the overseas home supervisors, and cooperates with the overseas group supervisor whenever required.</p> <p>MAS issued a Consultation Paper on the FHC Bill in October 2012 which set out the legislation for regulating FHCs. The FHC Act has been passed by Parliament and will take effect in May 2013. Until the FHC Act takes legal effect, MAS is regulating Insurance Holding Companies (IHCs) via directives issued pursuant to section 28 of the MAS Act. There is no change in the substance or the legal effect of the requirements imposed under the directives issued pursuant to section 28 of the MAS Act compared to the FHC Act.</p> <p>These directives have been issued to four insurance groups that have their ultimate parent company incorporated in Singapore. The MAS Act Directives cover the following areas:</p> <ul style="list-style-type: none"> <li>• Minimum Paid Up Capital;</li> <li>• Constitution;</li> <li>• Information to be Furnished;</li> <li>• Permitted Business;</li> <li>• Corporate Governance;</li> <li>• Approval of Directors and Key Executive Persons;</li> <li>• Control Over Investment in Companies;</li> <li>• Consolidation of Assets and Liabilities;</li> <li>• Inspection and Special Investigation;</li> <li>• Production of Books, Accounts and Documents;</li> <li>• Confidentiality of Inspection and Investigation Reports;</li> <li>• Audit;</li> <li>• Publication of Audited Financial Statements;</li> <li>• Capital Adequacy Requirements;</li> <li>• Inability to Meet Obligations;</li> <li>• Enterprise Risk Management;</li> <li>• Investment Activities; and</li> </ul>
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- Market Conduct.

For intermediate insurance groups whose ultimate parent entity is incorporated outside Singapore, MAS will consider carrying out group-wide supervision of these groups based on the following conditions:

- I. the insurance group to which the intermediate group belongs is not subject to group-wide supervision by the foreign home supervisor; and
- II. the operations of such an intermediate insurance group in Singapore are significant to the Singapore financial system, or significant to the intermediate insurance group under the intermediate parent entity in Singapore.

This position is reflected in the FHC Act which will be enacted in May 2013. MAS will designate the non-operating entities that satisfy the criteria set out above as a FHC under the FHC Act shortly. For insurance groups headed by an operating insurer, MAS will regulate and supervise these groups via the operating entity pursuant to the Ins Act. There are currently no insurance groups domiciled in Singapore headed by an operating entity.

The scope of MAS' group-wide supervision of an insurance group shall include, at a minimum, the parent entity in Singapore (be it a designated FHC or an insurance company), its subsidiaries and any other company treated as part of the financial holding company's group of companies in accordance with the Accounting Standards, regardless of the activities carried out. MAS may include other entities in the defined group as necessary (such entities may be operating and non-operating holding companies, non-regulated entities, SPEs), if these entities are assessed to also pose contagion risk (whether financial, reputational or operational) to the group because of its interconnectedness, risk exposure, risk concentration and risk transfers/intra-group transactions among companies within the group.

Via the directives issued pursuant to section 28 of the MAS Act, and under the FHC Act, a designated group is required to seek the prior approval of MAS:

- to invest a major stake in any company;
- to decrease its stake in any of its investments by a stake that in itself would constitute a major stake, or by a stake such that it no longer holds a major stake in the investment; and
- to decrease any of the investments by a stake that in itself, would not constitute a major stake.

Under the FHC Act, prior approval from MAS must be obtained for any person who intends to acquire ownership and control of the designated FHC at thresholds of 5 percent and 20 percent of shareholdings. In particular, prior approval from MAS is required for changes in structure. Designated FHCs are required to submit the group structure on an annual basis. For the purpose of group-wide supervision, the scope of the group is constantly reviewed and updated with new information received, including changes in structure, activities or the macro-economic environment.

The MAS Act Directive on Information to be furnished has been issued to the

designated IHCs, and such IHCs are required to lodge the following information with MAS which is taken into account in the group CRAFT assessment:

- the IHC's annual audited financial statements;
- audited financial statements of each foreign insurance subsidiary in accordance with the accounting standards of the jurisdiction where the foreign insurance subsidiary is located;
- available group capital and required group regulatory capital on a quarterly basis;
- available and required regulatory capital of each downstream insurance operating entity based on the requirements of the host insurance regulatory authority on a quarterly basis;
- information that it uses to monitor significant risk concentration and exposures; and
- information that it uses to monitor intra-group transactions.

Each IHC is also required to inform MAS immediately if:

- there is any regulatory breach by the IHC or any foreign insurance subsidiary or any of its branches that could lead to supervisory or enforcement action by any insurance regulatory authority;
- there is any supervisory or enforcement action taken by any host insurance regulatory authority against any of its branches or any foreign insurance subsidiary; or
- the IHC is or is likely to become insolvent, or unable to meet its obligations, or unable to meet any regulatory capital requirement, or has suspended or about to suspend payments.

These requirements are replicated and will be issued via legislation under the FHC Act.

For groups headed by an operating entity, all licensed insurers are required under the licensing letter issued pursuant to section 8 of the Ins Act, to seek MAS' approval to establish any new operations including subsidiaries, joint ventures or overseas branches. The Ins Act has been amended to incorporate this requirement directly into legislation where similarly, no licensed insurer in Singapore shall acquire or hold, directly or indirectly, a major stake in any corporation without the prior approval of MAS.

Semi-annually, each FHC is required to lodge information that it uses to monitor significant risk concentration and exposures, as well as intra-group transactions and exposures including any internal reinsurance arrangements. All these requirements will be enacted in the FHC legislation going forward.

In the Consultation Paper on "Insurance Group-wide Supervision", MAS intends to allow insurance groups to include entities that do not carry out regulated financial activities, but which exist within the group to provide ancillary services that support the core financial business of the group. MAS will monitor the risks emanating from the non-regulated entities by requiring the insurance group to submit relevant and timely information. For the purposes of capital adequacy assessment at the group

	level, MAS has required IHCs to deconsolidate and deduct the capital of any non-insurance entities from the insurance group for prudential reasons.
Assessment	Observed
Comments	When dealing with group wide supervision, MAS relies on a series of notices, directives and guidelines that provide satisfactory authority to request information, evaluate risks and assess solvency regarding an insurance group. Amendments to the Ins Act have been adopted in April 2013 and the Financial Holding Companies Act will be enacted in May 2013. The current series of notices, directives and guidelines will be replaced by the secondary legislation of the new FHC Act shortly.
<b>ICP 24</b>	<p><b>Macroprudential Surveillance and Insurance Supervision</b></p> <p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilize information from, and insights gained by, other national authorities.</p>
Description	<p>MAS collects granular data on the insurers' asset and liability exposures on a regular basis, coupled with the statutory returns. This allows MAS to conduct frequent and in depth monitoring and analyses of insurers' exposures and performance, and also enables MAS to perform macroprudential surveillance effectively.</p> <p>The macroprudential surveillance framework for insurers is in fact part of the larger surveillance framework for the entire Singapore financial industry. The Macroeconomic Surveillance Department (MSD) of MAS performs regular surveillance and assessment of local and international financial developments, and identifies risks that may adversely impact the financial system including the local insurance industry. This includes market, credit, liquidity, interest rate and insurance risks. Effort is made to analyze and understand the inter-linkages amongst the financial markets, financial intermediaries and the economy, and the possible contagion channels. MSD coordinates and conducts the overall review and surveillance for the entire financial system and economy on an annual basis, incorporating the Singapore banking sector, insurance sector, capital market intermediaries, corporate sector, household sector, OTC market, and Singapore Government Securities. As part of the larger framework, MSD also identifies wider trends beyond the insurance sector that could adversely impact the risk profile of insurers.</p> <p>MSD presents its findings at the quarterly Management Financial Stability Committee (FSC). The FSC is an information-sharing and policy-making forum that serves to facilitate sharing of surveillance findings and to coordinate financial stability policies and projects within MAS. The meeting is chaired by the Managing Director of MAS and members of the committee include departments such the Macroeconomic Surveillance, Markets, Monetary Policy, Prudential Policy and Supervision Departments.</p>

MAS is also an active member of the FSB, IMF, BCBS, and IAIS, thus benefiting from discussions on emerging risks that may have implications for the insurance sector.

### ***Stress testing and scenario analyses***

Under MAS Notice 312 and the circular on Stress Testing on Financial Conditions of Direct Insurer, MAS requires direct life and general insurers to perform bottom-up annual stress testing based on a number of prescribed and self-designed stress scenarios. Vulnerabilities of insurers and the insurance sector as a whole, to financial market stresses and insurance related stresses are revealed from the stress test exercises. The results of the stress test exercise are shared with industry groups Life Insurance Association Singapore (“LIA”) and General Insurance Association of Singapore (“GIA”). While reinsurers are presently not required to perform the annual stress tests, the ORSA requirements under a new ERM Notice will require reinsurers to identify their own risks and vulnerabilities and apply suitable and appropriate stress scenarios specific to their circumstances and business plans.

Top-down scenario analyses are also done to identify and uncover specific vulnerabilities of insurers (and the insurance industry as a whole) to various types of financial market and insurance related developments. These top-down scenario analyses are intended to complement the annual bottom up stress testing exercise whereby (i) it is important to monitor changing risk exposures and vulnerabilities of direct life and general insurers on a regular basis throughout the year; and (ii) include reinsurers who are not presently required to perform bottom-up stress testing.

### ***Macroprudential framework and D-SII***

The Macroprudential Surveillance framework is updated on a quarterly basis, monitoring insurers’ interconnectedness and interlinkages with other insurers, the broader financial system and the real economy. The result of the Macroprudential Surveillance framework for Insurers is shared with the LIA , GIA, and Singapore Reinsurance Association (SRA) annually. It has also been published in the Financial Stability Review Report in November 2011. MAS has also established a process of identifying “High Impact” Insurers in Singapore. This is based on three criteria, i.e., the systemic impact, system-wide impact and the reputational impact of an insurer or insurance group. The results of the macroprudential surveillance study are used in rating these 3 criteria of the insurer to determine if it is “High Impact.” As the Macroprudential Surveillance Framework evolves, MAS will accordingly also refine the assessment criteria of “High Impact” insurers where appropriate.

Insurers that have been identified as “High Impact” insurers are required to hold a higher minimum regulatory capital requirement in recognition of the potential impact of any failure on the Singapore financial system and real economy. In addition, “High Impact” insurers are also subject to greater supervisory intensity, as impact is one of the factors (the other being risk rating) being considered when MAS determines the risk bucketing, which, in turn, affects how it allocates supervisory resources. More resources are allocated to insurers in the higher bucket with a corresponding increase in supervisory intensity, that is, there is a greater reliance on

	<p>onsite inspection as compared to offsite supervision and the inspections would be of a higher frequency. The supervisory interaction with the Board of directors and senior management of the “High Impact” insurers are also stepped up in terms of frequency and seniority.</p> <p>For insurance groups, closer surveillance and monitoring is applied to the biggest and most significant insurance group in Singapore. This is achieved by collecting and analyzing group level data and reports as well as conducting a pilot stress test on the group in 2012. MAS plans to expand surveillance and monitoring to all designated insurance groups where Singapore is the group-wide supervisor, by formalizing reporting and stress test requirements, as well as expanding the macroprudential surveillance framework for insurance groups by 2013.</p> <p>MAS’ insurance supervisors take into account the macroprudential surveillance data and findings for supervisory purposes. Where some insurers are shown to be outliers, and/or where significant increases in systemic risk to the financial system are detected that may have an impact of some insurers, MAS will engage the insurer to communicate the relevant concerns to the insurer, and learn how the insurer plans to manage (or mitigate) the risk.</p> <p>As the development of macroprudential frameworks in general, and for the insurance sector in particular, is still in its infancy, the MAS framework is also expected to evolve and be refined over time.</p> <p>MAS has a system of indicators called Financial Indicator System (FIST) which is automatically generated every quarter from the data collected. The FIST indicators cover a wide area and facilitate trend analysis:</p> <ul style="list-style-type: none"> <li>• Market share indicators—Gross Premium growth by various funds and product line (for life insurers) or business line (for general insurers).</li> <li>• Performance indicators—Return on Equity, Return on Assets, Rate of Return on Invested Assets, Incurred Loss Ratio, Combined Ratio, Underwriting Ratio, Operating Ratio.</li> <li>• Asset Allocation indicators—percentage allocation to each asset class.</li> </ul> <p>MAS also performs peer group analysis. For example, the following standard groups are used for peer comparison:</p> <ul style="list-style-type: none"> <li>• Direct Life Industry: Big four significant insurers, other non-specialist insurers, specialist insurers Direct.</li> <li>• Direct General Industry: Medium to High Impact Insurers, Low Impact Insurers, Credit Insurers, Health Insurers, Specialist Insurers, Others.</li> <li>• Reinsurance Industry: Medium to High Impact Insurers, Low Impact, Life Reinsurers.</li> </ul> <p>MAS also uses the quarterly top-down scenario analyses to assess and rank insurers in terms of their relative vulnerabilities to various risk factors. The ranking is done for the Life, General, and Reinsurance industries separately.</p>
Assessment	Observed

Comments	<p>Stress testing is performed by all direct insurance companies each year and will help to inform their Enterprise Risk Management exercise. The scenarios are monitored and updated by MAS to cope with changing circumstances. For example, in 2011 business year, life insurance companies were asked to perform a test to measure their capacity to cope with an economic environment that featured continuing low rates of investment return over the next few years. The test was not repeated in 2012 because the original test indicated that such a scenario would pose few problems for the companies.</p>
<b>ICP 25</b>	<p><b>Supervisory Cooperation and Coordination</b></p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.</p>
Description	<p>MAS is both the central bank as well as the integrated supervisor of the financial sector. Section 4 of the MAS Act on the Principal Objects and Functions of the Authority conveys the legal powers for MAS to conduct regulation and supervision of all financial institutions, including insurers. MAS has the power and framework in place for supervising all financial institutions, including locally-incorporated cross-sectoral groups with insurance operations. Where necessary, the various supervisory departments within MAS will coordinate and share information to achieve the supervisory objectives of the Authority.</p> <p><b>MoUs</b></p> <p>MAS has established numerous bilateral MoUs with foreign regulators and has been a signatory to the IAIS MMoU since July 2010. The scope of a number of MoUs MAS has in place cuts across the entire financial sector, including banking, insurance and securities. The MoUs and IAIS MMoU establish a formal basis for cooperation, set out confidentiality requirements expected of each party to the agreement, and strengthen MAS' ability to cooperate and exchange information with relevant supervisors.</p> <p>Beyond responding to information requests on a timely basis, MAS also voluntarily shares material and relevant information. It is important to note that MAS does not insist on formal agreements prior to cooperation with relevant supervisors, nor does it require strict reciprocity with regards to the level, format and detailed characteristics of information requests. Where no formal agreement exists, MAS would endeavor to cooperate with the relevant supervisors. This includes sharing of MAS' onsite inspection reports with home supervisors as well as with host supervisors in instances where MAS has inspected the overseas subsidiaries of locally-incorporated financial institutions. MAS has always provided timely inputs when requested by foreign regulators, on any adverse records or comments on key executives and non-executives of insurers (e.g., the chief executive, Board director) who had previously been employed in Singapore, and on any adverse record of the foreign insurer in Singapore. MAS also strives to inform the relevant supervisors in advance of taking any action that might reasonably be considered to affect insurance legal/group entities. Where prior notification is not possible, MAS would inform the relevant supervisors as soon as possible after taking action.</p> <p><b>Establishment of supervisory college</b></p>

For the major insurance group in Singapore, MAS has organized a supervisory college as the best mechanism to ensure there are no gaps or unnecessary duplication in regulatory oversight between the involved supervisors, and to provide for more effective communication given the number of involved supervisors. Participants of the supervisory colleges were required to sign confidentiality agreements. The agreements also define the situations in which that information can be used. Supervisory colleges, are physical meetings organized on an 18 to 24-month cycle and are supplemented with teleconferences, when necessary.

#### **Attendance at supervisory colleges**

As a host supervisor, MAS participates in various supervisory colleges (both physical meetings and via teleconference) led and organized by the home supervisor of insurance entities and had shared essential information with other involved supervisors. For insurance groups which have only two involved supervisors, MAS will continue its current approach of bilateral meetings.

#### **Supervisory recognition of host supervisors**

MAS had established internal processes on the recognition of host supervisors when MAS is the group-wide supervisor. Some of the criteria considered include whether the host supervisor is a member of IAIS, whether the host supervisor is compliant with the ICPs, etc.

In the assessment of group solvency and capital adequacy as the group-wide supervisor, MAS will adopt the consolidation method as the default method. MAS will consider the use of the aggregation method or a combination of both the aggregation and consolidation methods on a case-by-case basis. Under the aggregation method, each insurance entity's available capital (or financial resources) and required capital (or risk requirements) as computed based on the host jurisdiction's rules, will be summed within the insurance group. Hence, MAS supervisors will have to assess the comparability (or equivalence) of the relevant host jurisdiction's capital regimes to that of Singapore when deciding whether to allow the group to adopt the aggregation method. To assess the equivalence of a host jurisdiction, assessment criteria such as whether the capital framework is based on a risk-based regime, the basis for valuing assets and liabilities, whether the capital framework includes solvency control levels, the quality and suitability of the capital etc., are used. MAS had leveraged on a number of sources such as public consultancy reports, IMF FSAP reports and ASEAN reports in performing its own assessment.

MAS' supervisors have to make an assessment of the home foreign supervisory authority to decide whether the foreign owned intermediate financial holding company should be designated as a Financial Holding Company (FHC) under the Financial Holding Companies Bill. Upon designation, MAS would carry out Group-wide supervision for these FHCs. Some of these considerations include whether the foreign supervisory authority has given their confirmation that it has taken on the role of group-wide supervisor, whether the foreign supervisory authority has a group



	supervision framework in place, etc.
Assessment	Observed
Comments	MAS officials have been successful in establishing the supervisory college with the major local insurance group. In addition, MAS personnel have been active participants in a number of such colleges established in other jurisdictions. Even though the costs involved for MAS were significant and the Singapore operations were only a small part of the entire conglomerate, the expense was deemed justifiable since the insurers in question play an important role in the Singapore market.
<b>ICP 26</b>	<b>Cross-border Cooperation and Coordination on Crisis Management</b> The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.
Description	<p><b>Supervisory cooperation</b></p> <p>The MAS participates actively in 11 supervisory colleges on an ongoing basis as a host supervisor and some of the colleges have started to actively plan for crisis management. MAS also have organized a supervisory college as the home supervisor to ensure there are no gaps or unnecessary duplication in regulatory oversight between the involved supervisors. However the college has not reached to the point where substantial discussions on the crisis management plans have been made among the involved supervisors. MAS shares information such as group structures, interlinkages between insurers and the financial system, challenges which insurers are facing and so forth with relevant supervisors. MAS also shares with home supervisors its inspection reports which detail the inspection findings and necessary actions that insurers need to take.</p> <p><b>Crisis management procedure</b></p> <p>The MAS has an internal handbook which provides guidance on ensuring its primary objectives are met, which are to protect policyholders and to maintain public confidence and stability in the insurance industry. The internal handbook lays down the possible options of regulatory and supervisory actions for a distressed insurer. This includes engaging relevant supervisors on a coordinated solution, or where not possible, to consider employing jurisdictional measures with relevant authorities.</p> <p><b>Contingency plans</b></p> <p>MAS has issued Guidelines on Risk Management Practices on Business Continuity Management (BCM) which applies to all financial institutions. MAS followed up by conducting inspections on a number of insurers in 2010. In addition to the BCM Guidelines, MAS requires insurers to perform stress testing annually. The ERM Notice requires insurers to maintain contingency plans for use in going and gone concern situations as part of their continuity analysis.</p>

	<p>In practice, the significant insurance group, of which MAS is the home supervisor, had developed required plans for crisis management through its group's capital management policy and capital contingency plans dovetailed with its enterprise risk management framework. In line with the group risk appetite statement, capital requirements to absorb unexpected losses and capital monitoring alert thresholds were calibrated. In preparation for raising capital in a financial crisis, larger entities in the group obtained credit ratings and set up medium-term note programs. One of the operating insurers within the insurance group had issued debt to further validate its capital contingency plan. The insurance group carried out stress testing half-yearly in accordance with its enterprise risk management policy so as to ensure its internal capital adequacy. The insurance group's BCM framework was implemented in all the locations where the group operated. The components of this framework are crisis management, contingency planning, business recovery, business resumption, and disaster recovery. To address the different aspects of an operational disruption, the insurance group would set up a crisis command center and teams to respond specifically to the incident, assess the overall impact from the incident and communicate with various stakeholders.</p>
Assessment	Largely Observed
Comments	<p>As is mentioned in ICP 25, MAS has made satisfactory supervisory cooperation arrangement. MAS initiated a discussion for crisis management with relevant jurisdictions. Some of the large insurers have also developed plans for crisis management.</p> <p>Those initiatives are still at the early stage and do not elaborate actions in an extreme case where insurers cannot raise additional capital. Given the material cross-border operations in some of the insurers, work on cross border crisis management need to be prioritized. Where MAS is the group-wide supervisor, MAS should continue to work with large insurers with cross border operations so that they develop contingency plans and procedures based on their specific risk for use in gone-concern situations. At the moment, there is only one such group.</p>