

Circular No. ID 18/06

10 July 2006

To Principal Officers  
All Direct Insurers

Dear Sir/Madam

## **RISK MANAGEMENT GUIDELINES FOR INSURANCE BUSINESS**

In February 2006, MAS issued guidelines on sound risk management practices for financial institutions. At that time, MAS conveyed its intention to publish additional industry specific risk management guidelines such as those applicable to insurers or capital market intermediaries.

2 MAS is now drafting a set of risk management guidelines for the insurance business (“the proposed guidelines”) and proposes that they cover the following areas:

- Product design and development
- Underwriting
- Claims handling and management
- Reinsurance management
- Asset-liability management
- Insurance fraud

The scope of each of these areas can be found in the attached Annex. The proposed guidelines are intended primarily for direct insurers, but some areas may be relevant for reinsurers as well.

3 MAS invites your comments on the proposed areas and scope. You are also invited to extend to us a copy of your internal guidelines on the above-mentioned areas<sup>1</sup>, which could be guidelines of your company’s operations in Singapore or at your Head Office/Parent company, so that MAS could take into consideration all available sound industry practices when drafting the proposed guidelines.

4 Please provide your comments and documents, if any, within one month from the date of this letter. Should you need any clarification, please contact Ian Lee Chun Wai (Tel: 62299805, Email: cwlee@mas.gov.sg) for life insurers and Alex Lee (Tel: 62299914, Email: alexlee@mas.gov.sg) for general insurers.

Yours sincerely

[sent via MASNet]

LOW KWOK MUN  
EXECUTIVE DIRECTOR  
INSURANCE SUPERVISION DEPARTMENT

Enc

cc Life Insurance Association  
General Insurance Association of Singapore  
Singapore Reinsurers' Association

<sup>1</sup> Life direct insurers may not need to forward guidelines on asset-liability management as MAS has access to such documents during recent thematic inspections of life direct insurers in this area.

**Proposed areas and scope of risk management guidelines  
for insurance business**

Area	Scope
Product design and development	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• Methodology (include research and data collection)/Assumption testing/Sensitivity testing</li> <li>• Influence of underwriting/claims capabilities and practices, and distribution channel</li> <li>• Capital management practices at product development stage</li> <li>• Disclosure in the benefit illustrations and marketing materials to prospective or existing policyholders</li> <li>• Policy wordings</li> <li>• Monitoring of emerging experience and compliance with insurer's policies and procedures</li> <li>• Use of external service providers (example: external consultants providing actuarial support on product design)</li> </ul> <p><u>Life Insurance Business Only</u></p> <ul style="list-style-type: none"> <li>• Par Fund Management and investment mandate</li> <li>• Pricing of embedded options/guarantees</li> </ul>
Underwriting	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• Underwriting expertise and staff training</li> <li>• Underwriting authority</li> <li>• Underwriting guide by type of risks/product/line</li> <li>• Underwriting systems</li> <li>• Declined/referred risks</li> <li>• Reinsurance protection</li> <li>• Contract certainty (coverage and documentation)</li> <li>• Use of external service providers (example: surveyors)</li> <li>• Internal controls</li> <li>• Conflict of interest management (example: staff remuneration structure)</li> <li>• Performance monitoring and reporting (example: underwriting turnaround time)</li> </ul>
Claims handling and management	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• Claims expertise and staff training</li> <li>• Claims approval/settling authority</li> <li>• Claims approval/settlement guide by type of claims/product/line</li> <li>• Case reserving policy and guide</li> <li>• Use of third party service providers (examples: loss adjustors, third party administrators)</li> <li>• Claims system</li> <li>• Claims review cycle</li> <li>• Internal controls</li> <li>• Information management (example: regularly reporting on performance and feeding claims information into the pricing and underwriting processes)</li> </ul>

Area	Scope
Reinsurance management	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• Tolerance to risk/retention</li> <li>• Risk accumulation/aggregate exposure</li> <li>• Data quality</li> <li>• Selection of reinsurers and counterparty exposure</li> <li>• Contract certainty (coverage and documentation)</li> <li>• Internal controls (examples: no acceptance of risks excluded under reinsurance treaty unless separate reinsurance protection secured, proper cessions to the reinsurance treaties)</li> <li>• Monitor and review adequacy and appropriateness of reinsurance protection</li> </ul>
Asset-liability management	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• ALM expertise and staff training</li> <li>• ALM policies, procedures and risk limits</li> <li>• ALM process, tools and systems for identifying, measuring, monitoring and managing risks</li> <li>• Internal controls (example: new risks introduced to the insurer have to be subject to an approval process with risk mitigants clearly identified and put into place)</li> <li>• Management reports for performance monitoring</li> </ul>
Insurance <sup>1</sup> fraud	<ul style="list-style-type: none"> <li>• Board of Directors and senior management oversight</li> <li>• Internal controls (example: internal checks for cheques paid into policies serviced by the representatives)</li> <li>• Information management (example: sharing of information between Compliance Unit and departments handling new business and policy servicing)</li> <li>• Monitor and review the effectiveness of the internal controls to prevent fraud</li> </ul>

<sup>1</sup> For the purpose of the risk management guidelines for insurance business, this area will cover fraud by intermediaries, policyholders, claimants, and other external parties (examples: workshops and surveyors). Risk management practices in respect of preventing fraudulent activities by staff are covered under the Risk Management Guidelines on Internal Control issued by MAS to all financial institutions in February 2006.