

Circular No. ID 11/07

15 October 2007

To Principal Officers of All Insurers

Dear Sir/Madam

AMENDMENTS TO THE INSURANCE (VALUATION & CAPITAL) REGULATIONS 2004

In August 2004, the Monetary Authority of Singapore (“MAS”) implemented the risk based capital requirements for insurers with the introduction of the Insurance (Valuation and Capital) Regulations 2004 [“V&C Regulations”].

2 We would like to inform you that MAS will be making amendments to the V&C Regulations by the end of the year and the amendments will take effect from 1 January 2008. These amendments, outlined in Annex A, will improve the consistency and clarity of the V&C Regulations.

3 In addition, amendments will also be made to the V&C Regulations to incorporate the establishment of contingency reserves for Mortgage Insurance¹ and Trade Credit and Political Risk Insurance² business, as well as the addition of simplified C1 risk requirements applicable to the Offshore Insurance Fund and Shareholders’ Fund for reinsurers incorporated in Singapore. MAS had earlier consulted the industry on these amendments.

¹ Refer to the MAS Consultation Paper on the Proposed Regulatory Framework for Mortgage Insurance Business issued on 12 October 2006.

² Refer to the MAS Consultation Paper on the Proposed Modifications to Regulatory Requirements for Trade Credit & Political Risk Insurance Business issued on 1 November 2006.

4 Kindly contact your company's liaison officer in MAS should you require further clarifications.

Yours faithfully

(via MASNET)

LOW KWOK MUN
EXECUTIVE DIRECTOR
INSURANCE SUPERVISION DEPARTMENT
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1 Liability Calculation for Each Type of General Insurance Business

1.1 An insurer is currently required to determine the liabilities in respect of policies of its general insurance fund established and maintained under section 17 of the Insurance Act, which are the sum of the premium liabilities and claim liabilities in respect of these policies. Regulation 19(4) of the V&C Regulations further requires the insurer to make separate calculations for the premium liabilities and claim liabilities for each type of business, as described in Form 6 in the First Schedule of the Insurance (Accounts & Statements) Regulations 2004 ["A&S Regulations"].

1.2 However, Regulation 19(4) does not explicitly require an insurer to ensure that the amounts reported for the premium liabilities and claims liabilities for each type of business in Form 6 in the First Schedule of the A&S Regulations are not less than those determined by its approved actuary, when an actuarial investigation is conducted into the liabilities of the insurer's general business.

1.3 MAS will be amending the V&C Regulations to make this requirement explicit since it is reasonable to expect that an insurer will regard its approved actuary's calculation of the premium liabilities and claims liabilities for each type of business as the most reliable estimate of these values, unless the insurer can justify otherwise. However, the insurer will still need to ensure that the value of the premium liabilities reported is not less than the unexpired risk reserves for each type of business.

2 Translation Reserves

2.1 Translation reserves arising from the movement in the exchange rate when translating financial statements from a non-Singapore dollar functional currency to the presentation currency in Singapore dollars are presented as part of equity according to the Singapore Financial Reporting Standards.

2.2 However, in the MAS statutory returns, translation reserves are classified as part of liabilities and do not contribute to the financial resources of an insurer in the risk-based capital calculations. Such a treatment does not reflect the economic substance of such reserves.

2.3 MAS will therefore amend the V&C Regulations to include translation reserves in the financial resources of an insurer.

3 Liability Adjustment Requirement

3.1 The purpose of the liability adjustment requirement (“LAR”) is to allow for a reduction in the C2 debt risk requirement so as to provide recognition of the corresponding movement in liability values when asset values, especially the value of debt security investments, change in an increasing or decreasing interest rate environment.

3.2 Currently, paragraph 4(3) of the Fourth Schedule in the V&C Regulations requires the LAR for life business to be determined as the difference between the C1 risk requirements for policy liabilities calculated with and without an adjustment to the interest rate assumption. This would not fully reflect the adjustment in the policy liability value when interest rates change because the C1 risk requirement is determined as the difference between the modified policy liability and the policy liability.

3.3 The LAR should instead be measured by the change in the policy liability value as interest rates increase or decrease. The relevant policy liability would be the full modified policy liability which includes the provision for adverse deviation and the risk requirements.

3.4 As such, MAS will amend the calculation of the LAR to better reflect this intent. Hence, the LAR for non-participating and investment-linked life business will be:

- a. In an increasing interest rate environment, the difference between the modified policy liability in respect of policies of the fund with an upward adjustment to the interest rate assumption, and the modified policy liability in respect of policies of the fund; and
- b. In a decreasing interest rate environment, the difference between the modified policy liability in respect of policies of the fund with a downward adjustment to the interest rate assumption, and the modified policy liability in respect of policies of the fund.

3.5 Similar amendments will be made to the calculation of the LAR for participating life business, and for general business.