

Circular No. ID 15/05

30 Dec 2005

To Principal Officers of All Insurers

Dear Sir/Madam

**INSURANCE (VALUATION AND CAPITAL) REGULATIONS 2004 AND
INSURANCE (ACTUARIES) REGULATIONS 2004**

In exercise of the powers conferred by sections 17 and 64(1) of the Insurance Act, the Monetary Authority of Singapore has amended the above-captioned regulations in order to refine and clarify certain provisions.

2 The amendment regulations take effect on 30th December 2005.

3 A copy of the amendment regulations is enclosed. For a summary of the main revisions, you may refer to the enclosed Appendix A.

4 Please contact your company's liaison officer in MAS should you require further clarification.

Yours faithfully

[Sent thru MASNET]

LOW KWOK MUN
EXECUTIVE DIRECTOR
INSURANCE SUPERVISION DEPARTMENT
PRUDENTIAL SUPERVISION GROUP

No. S 884

INSURANCE ACT
(CHAPTER 142)
INSURANCE (VALUATION AND CAPITAL)
(AMENDMENT) REGULATIONS 2005

In exercise of the powers conferred by sections 17 and 64(1) of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Insurance (Valuation and Capital) (Amendment) Regulations 2005 and shall come into operation on 31st December 2005.

Amendment of regulation 8

2. Regulation 8 of the Insurance (Valuation and Capital) Regulations 2004 (G.N. No. S 498/2004) (referred to in these Regulations as the principal Regulations) is amended by deleting paragraph (2) and substituting the following paragraph:

“(2) For the avoidance of doubt, assets comprised in the deposit made by the insurer under section 14 of the Act shall not be treated as assets of an insurance fund.”.

Amendment of regulation 19

3. Regulation 19 of the principal Regulations is amended —

- (a) by deleting the word “before” in paragraph (1)(b)(i) and substituting the words “on or before”;
- (b) by deleting the words “gross claims payments” in paragraph (2)(a)(i) and substituting the words “gross incurred claims”;
- (c) by deleting the words “data on claims payment” in paragraph (3) and substituting the words “claims data”;
- (d) by deleting paragraph (4) and substituting the following paragraph:

“(4) A registered insurer shall make separate calculations of the premium liabilities, the unexpired risk reserves and the claims liabilities for each line of business described in Form 6 in the First Schedule to the Insurance (Accounts and Statements) Regulations 2004 (G.N. No. S 494/2004) that is carried on by the insurer,

and such calculations shall be made in the following manner:

- (a) the premium liabilities shall be an amount not less than the unexpired risk reserves;
- (b) the unexpired risk reserves shall be calculated as the sum of —
 - (i) the value of the expected future payments arising from future events insured under policies in force as at the valuation date, including any expense expected to be incurred in administering the policies and settling relevant claims; and
 - (ii) any provision for any adverse deviation from the expected experience, calculated based on the 75 per cent level of sufficiency,

after allowing for the effect of diversification, if any, at the level of the relevant insurance fund under paragraph (1)(a)(ii); and
- (c) the claim liabilities shall be an amount not less than the sum of —
 - (i) the value of the expected future payments in relation to all claims incurred prior to the valuation date (other than payments which have fallen due for payment on and before the valuation date), whether or not they have been reported to the insurer, including any expense expected to be incurred in settling those claims; and
 - (ii) any provision for any adverse deviation from the expected experience, calculated based on the 75 per cent level of sufficiency,

after allowing for the effect of diversification, if any, at the level of the relevant insurance fund under paragraph (1)(b).”; and
- (e) by deleting the words “for any premium refund and” in the definition of “premiums” in paragraph (7).

Amendment of regulation 20

4. Regulation 20(3) of the principal Regulations is amended —

- (a) by deleting the word “and” at the end of sub-paragraph (a); and
- (b) by deleting sub-paragraph (b) and substituting the following sub-paragraphs:
 - “(b) the value of expected payments arising from non-guaranteed benefits of the policy in respect of —
 - (i) future allocations by way of bonus under section 17(6)(b) of the Act; and
 - (ii) future allocations to the surplus account under section 17(6)(c) of the Act; and
 - (c) any provision made for any adverse deviation from the expected experience.”.

Amendment of First Schedule

5. Paragraph 1 of the First Schedule to the principal Regulations is amended —

- (a) by inserting, immediately after the words “sub-paragraphs (11), (12) and (13)” in sub-paragraph (10), the words “or in accordance with sub-paragraph (13A)”;
- (b) by inserting, immediately after sub-paragraph (13), the following sub-paragraph:
 - “(13A) An insurer may use any alternative method to calculate the reinsurance adjustment if the method results in a reinsurance adjustment which is no less than that calculated in accordance with sub-paragraphs (11), (12) and (13), and in such a case, the Authority may require the insurer to provide documentary evidence of the fact.”;
- (c) by deleting the word “and” at the end of paragraph (d) of the definition of “financial resource adjustment” in sub-paragraph (14), and by inserting, immediately thereafter the following paragraph:
 - “(da) any investment in securities in a multi-class issue, where the securities are not of investment grade and the investment is a form of credit enhancement to the special purpose vehicle or trust used for the issue of the securities; and”.

Amendment of Fourth Schedule

6. The Fourth Schedule to the principal Regulations is amended —

- (a) by deleting sub-paragraph (4) of paragraph 3 and substituting the following sub-paragraph:

“(4) For any position in a collective investment scheme included in the calculation of debt investment risk requirement with a mandate to invest in debt securities and debt derivatives only, the insurer shall either —

- (a) treat the collective investment scheme as a single debt security and apply the calculation method in sub-paragraph (7) to the average maturity, coupon, credit quality of the debt securities or debt derivatives underlying the collective investment scheme; or
- (b) apply the calculation method in sub-paragraph (7) to each debt security or debt derivative underlying the collective investment scheme.”; and

- (b) by deleting the words “other than cash” in paragraph 9(1) and substituting the words “(other than cash and any financial asset to which paragraph 1(5) applies)”.

Amendment of Sixth Schedule

7. The Sixth Schedule to the principal Regulations is amended —

- (a) by deleting item (1) in Table 6 and substituting the following items:

“(1) Mortality rate for a Singapore policy which does not provide for the payment of an annuity —

- (a) during the period where —

- | | |
|--|--------------------------------------|
| (i) mortality charges are specifically deductible and guaranteed; or | 125% of the rate set out in Table 15 |
| (ii) mortality charges are not specifically deductible but the premium rate is guaranteed; and | 125% of the rate set out in Table 15 |

- (b) during any other period 112.5% of the insurer’s best estimate of its future experience

(1A) Mortality rate for an offshore policy which does not provide for the payment of an annuity —

(a) during the period where —

(i) mortality charges are specifically deductible and guaranteed; or 125% of the insurer's best estimate of its future experience

(ii) mortality charges are not specifically deductible but the premium rate is guaranteed; and 125% of the insurer's best estimate of its future experience

(b) during any other period 112.5% of the insurer's best estimate of its future experience";

(b) by deleting items (3) and (4) in Table 6 and substituting the following items:

“(3) Incidence rate of total and permanent disability —

(a) during the period where —

(i) total and permanent disability charges are specifically deductible and guaranteed; or 125% of the insurer's best estimate of its future experience

(ii) total and permanent disability charges are not specifically deductible but the premium rate is guaranteed; and 125% of the insurer's best estimate of its future experience

(b) during any other period 112.5% of the insurer's best estimate of its future experience

- (4) Incidence rate of dread disease —
- (a) during the period where —
- | | |
|--|--|
| (i) dread disease charges are specifically deductible and guaranteed; or | 140% of the insurer’s best estimate of its future experience |
| (ii) dread disease charges are not specifically deductible but the premium rate is guaranteed; and | 140% of the insurer’s best estimate of its future experience |
- (b) during any other period 120% of the insurer’s best estimate of its future experience”;

(c) by deleting item (8) in Table 6 and substituting the following item:

- “(8) Other insured events —
- (a) during the period where —
- | | |
|---|--|
| (i) the relevant charges are specifically deductible and guaranteed; or | 140% of the insurer’s best estimate of its future experience |
| (ii) the relevant charges are not specifically deductible but the premium rate is guaranteed; and | 140% of the insurer’s best estimate of its future experience |
- (b) during any other period 120% of the insurer’s best estimate of its future experience.”; and

(d) by inserting, immediately after the words “Fourth Schedule” in item (5) in Table 14, the words “for any insurance fund established and maintained under the Act in respect of Singapore policies”.

Made this 12th day of December 2005.

HENG SWEE KEAT
*Managing Director,
Monetary Authority of
Singapore.*

[ID 05.1 V.31; AG/LEG/SL/142/2002/1 Vol. 8]

No. S 883

INSURANCE ACT
(CHAPTER 142)
INSURANCE (ACTUARIES)
(AMENDMENT) REGULATIONS 2005

In exercise of the powers conferred by section 64(1) of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Insurance (Actuaries) (Amendment) Regulations 2005 and shall come into operation on 31st December 2005.

Amendment of regulation 4

2. Regulation 4(1) of the Insurance (Actuaries) Regulations 2004 (G.N. No. S 495/2004) (referred to in these Regulations as the principal Regulations) is amended by deleting the words “in the form set out in the Schedule” in sub-paragraph (a) and substituting the words “in such form as the Authority may specify in directions issued under section 64(2) of the Act”.

Amendment of regulation 10

3. Regulation 10(4) of the principal Regulations is amended by deleting the words “in the form set out in the Schedule” and substituting the words “in such form as the Authority may specify in directions issued under section 64(2) of the Act”.

Amendment of regulation 12

4. Regulation 12 of the principal Regulations is amended by deleting paragraph (1) and substituting the following paragraph:

“(1) The actuary approved for the purpose of an investigation into the financial condition of the life business of a direct life insurer under section 37(1)(a) of the Act shall for each accounting period of the insurer in respect of which the actuary is approved, submit to the directors of the insurer all reports on and all necessary documents relating to the investigation.”.

Deletion of Schedule

5. The Schedule to the principal Regulations is deleted.

Made this 12th day of December 2005.

HENG SWEE KEAT
*Managing Director,
Monetary Authority of
Singapore.*

[ID 05.1 V.31; AG/LEG/SL/142/2002/1 Vol. 8]

The tables below provide a summary of the main provisions in the relevant amendment regulations.

Table 1: Insurance (Valuation and Capital) (Amendment) Regulations 2005

Reference in the Amendment Regulations	Reference in the main Regulations	Nature of Amendments
Reg. 2	Reg. 8	To clarify that intangible assets can be recognised on an insurer's fund balance sheet. However, for the purposes of computing financial resources, all intangible assets will continue to be excluded.
Reg. 3(b) and (c)	Reg. 19(2) and (3)	To clarify that for the purposes of calculating the amount of unexpired risk and claim liabilities net of reinsurance ceded, an insurer can use any form of claims data, including data on claims payment.
Reg. 3(d)	Reg. 19(4)	To clarify that, at the business line level, the requirement is for premium liabilities not to be less than the unexpired risk reserves.
Reg. 3(e)	Reg. 19(7)	To clarify that for the purposes of calculating the amount of premiums written within the accounting period, any premium refund shall not be deducted.
Reg. 4	Reg. 19	To clarify that for the purposes of valuing the liabilities of a participating policy, the value of expected payments arising from non-guarantee benefits refers to future allocations to policyholders (by way of bonus) and shareholders.
Reg. 5(a) to (c)	Reg. 20(3)	To clarify that for the purposes of calculating the reinsurance adjustment of an insurance fund, an insurer can use a more conservative approach other than those currently prescribed in paragraph 1 (11) to (13) of the First Schedule to the Insurance (Valuation and Capital) Regulations 2004.
Reg. 5(d) to (e)	Para. 1(14) of the First Schedule	<ul style="list-style-type: none"> To clarify that any investment in securities in a multi-class issue, where the securities are not of investment grade and the investment is a form of credit enhancement to the special

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		<p>purpose vehicle or trust used for the issue of the securities shall be excluded from financial resource. An example of the above would be an investment in the equity tranche of any asset-backed security.</p> <ul style="list-style-type: none"> • MAS Notice 104 – Use of Derivatives for Investment of Insurance Fund Assets, currently prohibits such investment. We are in the midst of amending this Notice and will publish the revised Notice soon.
Reg. 6(a)	Para. 3(4) of the Fourth Schedule	To clarify that for the purposes of assessing C2 charge of a bond collective investment scheme under the "see-through" approach, an insurer can also use a direct method of summing up the appropriate risk-charges on each individual underlying bonds.
Reg. 6(b)	Para. 9(1) of the Fourth Schedule	To clarify that the risk factors set out in Table 13 – Miscellaneous Risk Factors, of the Sixth Schedule to the Insurance (Valuation and Capital) Regulations do not apply to a non-standard financial instrument.
Reg. 7(a)	Table 6 of the Sixth Schedule	To clarify that where premiums is guaranteed in respect of a offshore life policy, the loading factor need not necessarily be applied on mortality rates prescribed under Table 15 – Prescribed Mortality Table of the Sixth Schedule to the Insurance (Valuation and Capital) Regulations. Instead, the loading factor will be applied on the insurer’s best estimate of its future experience.
Reg. 7(d)	Item 5 in Table 14 of the Sixth Schedule	To clarify that the C3 Foreign currency risk exposure limit do not apply to any policy in the Offshore Insurance Fund (OIF).

Table 2: Insurance (Actuaries) (Amendment) Regulations 2005

Reference in the Amendment Regulations	Reference in the main Regulations	Nature of Amendments
Reg. 2, 3 and 5	Reg. 4(1), 10(4) and The Schedule	<ul style="list-style-type: none"> • To remove the form used to obtain the Authority’s approval for appointment of actuaries from the Regulations. • This form will be incorporated into MAS Notice 106 – Appointment of Principal Officers and Directors. We are in the midst of amending this Notice and will publish the revised Notice soon.
Reg. 4	Reg. 12	To clarify that the requirement for the report of financial condition investigation to be submitted to the directors of an insurer applies specifically to direct life insurers.