

Notice No : MAS 312 (Amendment) 2012
Issue Date : 16 January 2012

STRESS TESTING ON FINANCIAL CONDITION OF DIRECT LIFE INSURERS

Introduction

1. This Notice is issued pursuant to section 64(2) of the Insurance Act (Cap 142) and amends MAS Notice 312 on Stress Testing on Financial Condition of Direct Life Insurers dated 8 May 2007 (“the Existing Notice”).

Amendments

2. Paragraph 11 of the Existing Notice is deleted and substituted with the following paragraph -

“The medium-term scenario projections shall comprise projections of the financial and capital adequacy positions of the insurer over the three-year period immediately following the end of the accounting period to which it relates, in the format specified in Appendix C and based on the following adverse scenarios:

- (a) medium-term scenario(s) to be specified by the Authority from time to time;
- (b) at least one additional medium-term scenario constructed with risk factors specified in Appendix D taken into account.”

3. Paragraph 13D of the Existing Notice is amended –

- (a) by deleting the words “5 months” and substituting the words “3 months”; and
- (b) by inserting immediately at the end of the paragraph the following sentences “Unaudited accounts may be used for this purpose. However, for the stress test report relating to the accounting period ending 31 December 2011, the submission deadline is 31 May 2012.”

4. The Existing Notice is amended by deleting Paragraphs 19A and 19B.

5. Paragraph 26 of the Existing Notice is deleted and substituted with the following

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“26. The stress test report should show the impact on the insurer’s financial condition if no management action is taken. In the stress test report, the appointed actuary should also demonstrate how, with appropriate and timely management action, the insurer can maintain or regain a

satisfactory financial condition under each scenario on a going concern basis¹. The target financial and capital adequacy positions should be consistent with the following:

- (a) the levels set out in the insurer's own capital management plan; or
 - (b) what has been agreed with the senior management and board of directors for the purposes of the stress test exercise.
6. The Existing Notice is amended by inserting, immediately after paragraph 26, the following paragraphs:
- “26A. Management action refers to any action taken by an insurer in direct response to the shocks in each scenario. For the avoidance of doubt, management action should be taken immediately if, in any scenario, the insurer is unable to meet the solvency or capital adequacy requirements on an ongoing basis. Such management action includes, but is not limited to, injection of capital, cuts in bonus rates and restructuring of assets. The choice of management action should be based on the following:
- (a) insurer's own capital management plan; or
 - (b) what has been agreed with the senior management and board of directors for the purposes of the stress test exercise.
- 26B. In relation to paragraph 26, where the insurer is able to meet the regulatory solvency and capital adequacy requirements, management action should still be required in cases where the financial and capital adequacy positions have fallen below a level deemed satisfactory by the insurer.”
7. Paragraph 28 of the Existing Notice is amended by deleting the words “Appendices A and B” and substituting the words “Appendices A, B and C”.
8. Appendix E of the Existing Notice is amended by deleting the words “in both hard and soft copies” in paragraph 14, and substituting the words “in soft copies only”.

Commencement

9. This Notice shall take effect from 16 January 2012.

¹ “Going concern” in this Notice means the financial condition deemed appropriate by the insurer such that normal business operations can be conducted. For example, the target financial and capital adequacy positions should not be set at the financial resources warning event level specified in regulation 4(6) of the Insurance (Valuation and Capital) Regulations 2004.