

CONSULTATION PAPER

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Review of Section 21 of the Insurance Act

MAS

Monetary Authority of Singapore

PREFACE

1 Section 21 of the Insurance Act (Cap. 142) (“IA”) allows the Monetary Authority of Singapore (“MAS”) to issue directions to any insurer (branch or locally incorporated) to maintain assets in Singapore if there are grounds on which MAS can cancel the registration of the insurer under section 12 of the IA.

2 This consultation paper proposes to amend section 21 of the IA to allow MAS to impose asset maintenance requirements without pre-conditions. This will enhance MAS’ supervisory tool-kit by allowing MAS to act speedily to protect the interests of policyholders.

3 MAS invites interested parties to forward their views and comments on the proposals made in this paper. Electronic submission is encouraged. Please submit your written comments by 15 October 2010 to:

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Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117

Fax: (65) 6229 9694
Email: review_s21@mas.gov.sg

Please note that all submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

1 INTRODUCTION

1.1 Section 21 of the IA allows MAS to issue directions to any insurer (branch or locally incorporated) to maintain assets in Singapore if there are grounds on which MAS can cancel the registration of the insurer under section 12 of the IA. This is overly restrictive since it would not allow MAS to take pre-emptive measures for supervisory purposes unless there exist grounds for MAS to cancel the registration or withdraw the authorisation of an insurer.

2 REVIEW OF SECTION 21

2.1 To enhance the responsiveness of the regulatory framework, this paper proposes to amend section 21 to give MAS the powers to issue asset maintenance ("AM") requirements on insurers without any pre-condition. The justifications are:

- a) MAS should have an adequate range of supervisory powers to take effective measures to secure policyholders' interests. One such possible supervisory power is for MAS to require an insurer to maintain assets in Singapore to meet its obligations;
- b) In some cases, AM requirement may be tied to the risk profile of the insurer or used as a pre-emptive measure which can be removed when the situation improves; and
- c) In times of crisis, it is imperative for MAS to act speedily. To tie the AM requirement on an insurer to the cancellation of registration may lead to protracted delays and/ or legal discussions with the insurer which ultimately impede supervisory effectiveness.

2.2 The amended section 21 will allow MAS, by notice in writing to any insurer in Singapore, or any class of insurers in Singapore, to require the insurer or insurers to maintain and hold such minimum amount of assets in Singapore as may be specified in the notice for the purpose of meeting its or their liabilities. This proposed regulatory treatment for insurers is consistent with that for banks in Singapore.

2.3 Section 21 will continue to be applicable to any insurer as MAS should not be precluded from imposing AM requirements on any insurer. However, MAS' current intention is to impose AM requirements only on direct insurer branches carrying on life business (except those targeting the affluent segment of the population) in the normal course of business.

2.4 The draft of the proposed section 21 is set out in Appendix A.

Proposal: To give MAS the powers to issue AM requirements on insurers without any pre-condition.

Appendix A: Draft of Proposed Section 21

DISCLAIMER: This version of the proposed section 21 is in draft form and subject to change. It is also subject to review by the Attorney-General's Chambers.

21. —(1) The Authority may, from time to time, by notice in writing to any registered insurer or authorised reinsurer, or any class of registered or authorised reinsurers, require that person or persons to maintain and hold such minimum amount of assets in Singapore as may be specified in the notice for the purpose of meeting its or their liabilities.

(2) Without prejudice to the generality of subsection (1), the Authority may, in a notice issued under that subsection, specify —

(a) the types of liabilities in respect of which assets are to be maintained and held in Singapore;

(b) the types of assets that are to be treated as assets maintained and held in Singapore and the minimum amount or amounts in respect of each asset for the purpose of any requirement of the Authority under that subsection; and

(c) the necessary modifications to the method of valuation of assets as prescribed in the Insurance (Valuation & Capital) Regulations 2004¹.

(3) Where the Authority issues a notice under subsection (1) to a class of insurers, the Authority may require different insurers within the class of insurers to maintain and hold different minimum amount or amounts of assets in Singapore, having regard to the financial soundness of each insurer, the risk profile of each insurer and such other factors as the Authority may consider relevant.

¹ The 'modifications' here refers to the haircuts that would be applied to asset values for the purposes of asset maintenance.



Monetary Authority of Singapore