

RESPONSE TO FEEDBACK RECEIVED – CONSULTATION PAPER ON REVIEW OF SECTION 21 OF THE INSURANCE ACT (CAP. 142)

1 Introduction

1.1 In September 2010, the Monetary Authority of Singapore (“MAS”) conducted a consultation on the review of section 21 of the Insurance Act (Cap. 142) (“IA”) on the maintenance of assets in Singapore.

1.2 The consultation period closed on 15 October 2010. Various parties commented on the consultation paper and MAS would like to thank all respondents for their contributions. The respondents are listed in Annex 1.

1.3 We have carefully considered the feedback received and incorporated the relevant feedback into the review. Comments that are of general interest, together with MAS’ responses, are set out below.

2 List of Pre-Conditions

2.1 Some respondents felt that the current approach of tying asset maintenance requirements to the cancellation of registration provided better clarity of when such requirements would be imposed. Hence, some respondents opined that the existing conditions stipulated in section 21 should be retained. One respondent suggested developing an additional set of objective measures based on the risk profile of the insurer.

MAS’ Response

2.2 MAS must have the ability to pre-emptively introduce asset maintenance requirements to enhance the recoverability of an insurer’s assets and improve its ability to meet its obligations to policyholders. The pre-conditions in section 21 of the IA are currently tied to the cancellation of registration of the insurer under section 12 of the IA. This is overly restrictive, as the insurer’s assets may no longer be adequate to meet its obligations to policyholders by that time. It is also not practical to specify all the possible conditions in the IA under which asset maintenance requirements would be imposed. Asset maintenance requirements would be imposed where relevant based on MAS’ specific risk assessment of individual insurers.

3 Implementation of Asset Maintenance Requirements

Pre-Implementation

3.1 One respondent proposed for meetings between MAS and the insurer(s) before imposing asset maintenance requirements. In addition, the respondent also suggested for an independent appeal mechanism in case there was a dispute over the reasonableness of the asset maintenance requirements.

MAS' Response

3.2 It is imperative for MAS to be able to act expeditiously where necessary to protect policyholders' interests. MAS may engage in discussions with the insurer regarding the asset maintenance requirements before and after such requirements are imposed provided that the discussions do not compromise MAS' supervisory effectiveness.

Implementation

3.3 Respondents sought clarification on the scope of asset maintenance requirements for life and non-life insurers, and whether this would be applicable to both the Singapore Insurance Fund ("SIF") and the Offshore Insurance Fund ("OIF"). Some respondents asked about the time frame for compliance if imposed, how the asset maintenance amounts would be determined and whether the information would be submitted together with MAS quarterly returns.

3.4 One respondent stated that for investment-linked liabilities, it was necessary under valuation principles to hold assets that closely match the liabilities. In addition, the choice of investments would be at the discretion of the policyholder and any requirement to hold additional capital in respect of these liabilities in Singapore would result in significant strain on the insurer.

3.5 Some respondents stated that there was no indication of the amount of assets that MAS could request to be held in Singapore and this would create uncertainty for insurers. In addition, potential entrants to the Singapore insurance market could be discouraged. Some respondents opined that the investment decisions of insurers might be affected as the revised section 21 would define the type of eligible assets.

MAS' Response

3.5 The proposed legislative changes to Section 21 of the IA would allow MAS to impose asset maintenance requirements on all insurers – life and non-

life, including both SIF and OIF - without pre-conditions. We do not intend to apply asset maintenance requirements to the unit reserve of the investment-linked funds¹. Implementation-wise, MAS would be able to impose asset maintenance requirements:

- (i) on individual insurers; and/or
- (ii) collectively on the industry or any class of insurer.

3.6 AM requirements imposed on individual insurers will be based on MAS' specific risk assessment of the insurer. Details such as the level of AM requirements, how AM amounts are to be computed etc, will be assessed on a case-by-case basis, taking into consideration the risk profile of the insurer. In the absence of an industry-wide AM requirement, insurers with better risk profiles are not likely to have to observe AM requirements.

3.7 If MAS assesses that there is a need to impose asset maintenance requirements collectively on the industry or any class of insurer on an on-going basis, we will conduct another public consultation.

4 Application of the Revised Section 21 to Locally Incorporated Insurers

4.1 A few respondents felt that the revisions should not apply to locally incorporated insurers.

MAS' Response

4.2 The current section 21 applies to all insurers. The proposal in the consultation paper is to give MAS the powers to issue AM requirements, where necessary, on an insurer without any pre-condition.

5 Risk Based Capital Requirements

5.1 One respondent suggested having an extra layer in the capital adequacy rules to achieve the same effect, instead of the proposed revisions to section 21.

¹ The non-unit reserve is the portion of policy liability within the investment-linked fund set aside to meet the insurance benefits and expenses, etc. The asset maintenance requirements would not be extended to the unit reserve which represents the investments selected by the policyholders.

MAS' Response

5.2 The Risk Based Capital framework requires insurers to hold capital commensurate with their risk profiles. However, it does not ensure the recoverability of an insurer's assets to meet its obligations to policyholders. The asset maintenance framework serves to do this.

MONETARY AUTHORITY OF SINGAPORE
04 NOVEMBER 2011

**RESPONDENTS TO THE CONSULTATION PAPER
ON REVIEW OF SECTION 21 OF THE IA**

- (1) ACE Insurance Ltd
- (2) American Home Assurance Co., Singapore Branch
- (3) FM Insurance Co. Ltd, Singapore Branch
- (4) Liberty Insurance Pte Ltd
- (5) Liberty Insurance Underwriters
- (6) Life Insurance Association²
- (7) Pacific Life Re Limited
- (8) Towers Watson
- (9) XL Insurance Co. Ltd, Singapore Branch

² The Life Insurance Association submitted comments on behalf of 3 insurers, namely, Aviva Ltd, Friends Provident International Ltd, Singapore Branch and Zurich International Life Ltd, Singapore Branch.