Monetary Authority of Singapore

Response to Feedback Received

P010 – July 2023

Group Capital Framework for Designated Financial Holding Companies (Licensed Insurer)

Contents

1. Preface

1.1. On 27 October 2022, MAS issued a consultation paper to seek feedback on the key proposals that will be encapsulated within the Group Capital Notice that applies to all designated financial holding companies that have a subsidiary that is a licensed insurer incorporated, formed or established in Singapore ("DFHC (Licensed Insurer)"). The Group Capital Notice sets out the valuation and capital requirements for all DFHC (Licensed Insurer)s based on the RBC 2 consolidation approach.

1.2. The consultation period closed on 15 December 2022, and MAS would like to thank all respondents for their contributions. The list of respondents is in Annex A.

1.3. MAS has considered carefully the feedback received and will incorporate them where it has agreed with the feedback. Comments that are of wider interest, together with MAS' responses are set out below.

2. Scope of the FHC Group for Solvency Assessment

Materiality Thresholds

2.1. The proposed Group Capital Notice states that all subsidiaries and any other entities within the FHC group[1] must be included in the calculation of Group Capital Adequacy Ratio ("Group CAR") except for certain circumstances such as if an entity is deemed as not material. The proposed Group Capital Notice sets out that an entity is considered as not material if the entity's assets are not more than 1% of the FHC group's total assets. In addition, if there is more than one entity deemed as not material within the group, the aggregate of the assets of these entities should not exceed 5% of the FHC group's total assets.

2.2. A few respondents sought clarification on the process and timeline in including an entity that exceeds the materiality thresholds. There were concerns that an entity may exceed the materiality thresholds only temporarily, and lead time should also be given for the DFHC (Licensed Insurer) to include an entity for regular group reporting.

MAS' Response

2.3. MAS agrees that discussions with the DFHC (Licensed Insurer) would be necessary to better assess whether an entity should indeed be included within Group CAR when it exceeds the materiality thresholds. Some of these considerations would have regards to the group's business strategy, business plan and other related matters for the affected entity.

2.4. MAS will be making changes to the approach to be taken under the Group Capital Notice such that a DFHC (Licensed Insurer) should by default, include all entities within the FHC group for Group CAR calculation unless an exemption has been sought from MAS to exclude any entity. The DFHC (Licensed Insurer) is expected to monitor the materiality of all entities within the FHC group on an ongoing basis. If it wishes to exclude any entity from Group CAR, the DFHC (Licensed Insurer) should seek exemption from MAS to do so. The DFHC (Licensed Insurer) should also provide the supporting reasons for the

[1] "FHC group", in relation to a financial holding company, means the financial holding company, its subsidiaries and any other company or entity treated as part of the financial holding company's group of companies according to Accounting Standards.

exclusion of any entity from Group CAR calculation for MAS' assessment. MAS will engage the DFHC (Licensed Insurer) in reviewing its exemption request.

2.5. Where an exemption has been granted by MAS, the DFHC (Licensed Insurer) should continue to monitor the materiality of the entity. Should the relevant entity become material in future (e.g., exceeds the materiality thresholds set out as part of Group Capital Notice), the DFHC (Licensed Insurer) should engage MAS on the withdrawal of the exemption. As part of the exemption conditions, the DFHC (Licensed Insurer) would be asked to provide information on the asset size of each entity relative to the FHC group's total assets on an annual basis based on prevailing accounting standards.

2.6. MAS will retain the materiality thresholds as well as other circumstances that an entity may be excluded from Group CAR within the Group Capital Notice. These serve as the parameters and guidance on the considerations MAS may have in assessing whether an entity within the FHC group should be exempted from Group CAR.

3. Group Financial Resources

Adjustment due to deficits arising from entities excluded from Group CAR

3.1. For any entity within the FHC group that is excluded from the computation of Group CAR (upon receiving an exemption from MAS), the proposed Group Capital Notice states that any deficit arising from such an entity must be included in the Group Financial Resources ("Group FR"), i.e., the deficits will reduce Group FR, and hence, Group CAR. A respondent sought clarification on how such deficits are to be calculated.

MAS' Response

3.2. The above adjustment is for prudence so that any deficits arising from an entity within the FHC group (although excluded from Group CAR) would still be accounted for in the Group's solvency assessment. Deficits in such cases would mean the shortfall of assets to meet liabilities for the entity within the FHC group that is exempted from Group CAR.

3.3. Given that such deficits on RBC 2 basis would not be readily available (since they are excluded from Group CAR calculations), MAS agrees for such deficits to be measured using prevailing accounting standards i.e. that are used for the preparation of the FHC group's financial statements.

4. Interest Rate Mismatch Risk Requirement

Correlation matrix in deriving market-related C2 risk requirement

4.1. In the Consultation Paper, MAS proposed to determine the interest rate mismatch risk requirement for the FHC group at each jurisdiction level (i.e., the dominant interest rate scenario would be determined for all entities operating within the same jurisdiction). The dominant interest rate scenario is the upward or downward interest rate adjustment(s) that would result in a larger reduction in the net assets for all entities operating within the same jurisdiction. This approach would at least consider the interest rate risk of the dominant currency which a foreign entity is exposed to, which may be different from the rest of the entities operating in other jurisdictions within the group.

4.2. Given that the correlation matrix to derive diversified market-related C2 requirement depends on the dominant interest rate scenario, there was a clarification sought on which correlation matrix to use in aggregating the C2 risk requirement at the overall group level if the dominant interest rate scenario is different across jurisdictions.

MAS' Response

4.3. MAS will be adopting the approach where the dominant interest rate scenario in determining which correlation matrix to use in deriving market-related C2 requirement at the group level will be the scenario that results in the highest aggregated amount of interest rate mismatch risk requirement within the group. The approach is illustrated in the numerical example below:

Example: Assuming there are insurers in Singapore and foreign insurance entities ("FIEs") in two other jurisdictions within a FHC group.

	Singapore Insurers		**FIEs in Jurisdiction A**		**FIEs in Jurisdiction B**	
	Par Business	Excluding Par	Par Business	Excluding Par	Par Business	Excluding Par
Change in Net Assets (Assets less Liabilities)						
Upward interest rate adjustments	1,500	500	1,000	(400)	500	(300)

Downward interest rate adjustments	(2,000)	(600)	(1,100)	300	(450)	200
Dominant interest rate scenario	**Downward**	**Downward**	**Downward**	**Upward**	**Downward**	**Upward**
Interest rate mismatch risk requirement	**2,000**	**600**	**1,100**	**400**	**450**	**300**

Steps:

a. Determine the interest rate mismatch risk requirement for each jurisdiction. The interest rate mismatch risk requirement for Participating ("Par") and ex-Par businesses should be determined separately.

b. In the case of businesses excluding Par businesses, derive the interest rate risk requirement at the group level based on a simple sum of the interest rate risk requirements determined for each jurisdiction: 600+400+300 = 1300.

c. Determine which interest rate scenario results in a higher aggregated amount of interest rate risk requirement:

  i. Upward scenario: 400+300=700

  ii. Downward scenario: 600

  Hence, the dominant interest rate scenario is the "upward scenario" in this example.

d. Derive the diversified market-related C2 requirement using the correlation matrix of the dominant interest rate scenario determined based on Step c above (which is "upward scenario"). To avoid doubt, the interest rate risk requirement for ex-Par businesses is 1300 (not 700), which is to be aggregated using the correlation matrix ("upward scenario") with the other market-related risk requirements.

e. The interest rate risk requirement for each Par business should be determined separately and aggregated using the correlation matrix (based on the dominant interest rate scenario for the Par business) to derive the market-related C2 requirement for the Par business.

5. Implementation Date

5.1. MAS received feedback that it would be neater to implement the Group Capital Notice with effect from the beginning of a financial year rather than in the middle of a financial year. Furthermore, more time is needed to comply with the revised group reporting requirements under MAS Notice FHC-N129.

MAS' Response

5.2. MAS noted the feedback and will change the implementation date of the Group Capital Notice from end-June 2023 to 1 January 2024. MAS had earlier informed all DFHC (Licensed Insurer)s on the revised implementation date.

Annex A

List of respondents to the consultation paper on Group Capital Framework for Designated Financial Holding Companies (Licensed Insurer)

1. United Overseas Insurance Ltd
2. Utmost International Isle of Man Limited Singapore Branch
3. Singapore Life Ltd

Note: The list above only includes the names of respondents who did not request that their identity be kept confidential.

Please refer to Annex B for the submissions.

Annex B

FULL SUBMISSIONS FROM RESPONDENTS

Note: The table below only includes the submissions for which respondents did not request to be kept confidential.

CONSULTATION PAPER ON GROUP CAPITAL FRAMEWORK FOR DESIGNATED FINANCIAL HOLDING COMPANIES (LICENSED INSURER)

S/N	Respondents	Full Responses from Respondent
1.	United Overseas Insurance Ltd	1. MAS seeks views on the group capital adequacy requirements as described in paragraphs 3.1 to 3.12 of the Consultation Paper. No comments 2. MAS seeks comments on the approach taken in recognising diversification benefits at the group level in calculating Group CAR. No comments 3. MAS seeks comments on the approach taken in calculating the interest rate mismatch risk requirement for a FHC group. No comments 4. MAS seeks comments on the approach taken in assessing the impact of capital fungibility on the solvency for a FHC group. No comments

S/N	Respondents	Full Responses from Respondent
		5. MAS seeks feedback on the draft Group Capital Notice. No comments 6. MAS seeks views on the calculation of adjustment for asset concentration risk (“ACR”) for a FHC group. Agree with the Approach as mentioned by MAS. 7. MAS seeks views on the target implementation timeline for the new Group Capital Notice. The insurance industry is currently undergoing a huge change in the implementation of a new accounting standard and would foresee that operational issues may arise. Can the implementation be set for 1 January 2025 instead?
2.	Utmost International Isle of Man Limited Singapore Branch	1. MAS seeks views on the group capital adequacy requirements as described in paragraphs 3.1 to 3.12 of the Consultation Paper. No feedback. 2. MAS seeks comments on the approach taken in recognising diversification benefits at the group level in calculating Group CAR. No comments. 3. MAS seeks comments on the approach taken in calculating the interest rate mismatch risk requirement for a FHC group.

S/N	Respondents	Full Responses from Respondent
		No comments. 4. MAS seeks comments on the approach taken in assessing the impact of capital fungibility on the solvency for a FHC group. No comments. 5. MAS seeks feedback on the draft Group Capital Notice. No feedback. 6. MAS seeks views on the calculation of adjustment for asset concentration risk (“ACR”) for a FHC group. No feedback. 7. MAS seeks views on the target implementation timeline for the new Group Capital Notice. No feedback.
3.	Singapore Life Ltd	1. MAS seeks views on the group capital adequacy requirements as described in paragraphs 3.1 to 3.12 of the Consultation Paper. NIL 2. MAS seeks comments on the approach taken in recognising diversification benefits at the group level in calculating Group CAR. NIL

S/N	Respondents	Full Responses from Respondent
		3. MAS seeks comments on the approach taken in calculating the interest rate mismatch risk requirement for a FHC group. NIL 4. MAS seeks comments on the approach taken in assessing the impact of capital fungibility on the solvency for a FHC group. NIL 5. MAS seeks feedback on the draft Group Capital Notice. NIL 6. MAS seeks views on the calculation of adjustment for asset concentration risk (“ACR”) for a FHC group. NIL 7. MAS seeks views on the target implementation timeline for the new Group Capital Notice. Is the implementation of Q2'2023 applicable to all the companies?