Monetary Authority of Singapore

Response to Feedback Received

P007 - 2022 – 21 September 2023

Response to Public Consultation on Proposed Framework for Systemically Important Insurers in Singapore

Contents

1. Preface

1.1. On 25 October 2022, the Monetary Authority of Singapore ("MAS") issued a consultation paper on the Proposed Framework for Systemically Important Insurers ("D-SIIs") in Singapore.

1.2. The consultation period closed on 30 November 2022, and a total of 23 respondents submitted their feedback. MAS would like to thank all respondents for their contributions. The list of respondents is in Annex A, and the full submissions are provided in Annex B.

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. Proposed D-SII Framework

Objectives and Scope of D-SII Assessment

The need for D-SII designation

2.1. MAS proposed to develop a D-SII framework that achieves the objectives of updating MAS' diagnostic toolkit for assessing systemic importance of insurers and identifying D-SIIs, and establishing a range of policy measures that may be applied to D-SIIs. The establishment of a D-SII framework is consistent with international developments and guidance. The International Association of Insurance Supervisors ("IAIS"), recognising that systemic risk may arise from both the distress or disorderly failure of individual insurers and the collective activities and exposures of insurers at a sector-wide level, had developed the Holistic Framework for Systemic Risk in the Insurance Sector ("Holistic Framework") in November 2019. Several respondents commented that whilst the proposed D-SII framework incorporates many elements of the IAIS Holistic Framework, it is creating a list of D-SIIs in Singapore when the Financial Stability Board ("FSB") and IAIS have discontinued the annual identification of G-SIIs.

MAS' Response

2.2. The focus of the proposed D-SII framework is to identify insurers whose individual distress or disorderly failure, would cause significant disruption to Singapore financial system and economic activity. In fact, identifying insurers that have a significant impact on Singapore's overall financial system and the broader economy, as well as on Singapore's reputation, if they fail, is not new. Under MAS' risk-based supervisory framework, both the impact of a Financial Institution ("FI") within each financial services sector (i.e. relative systemic importance) and its risk (i.e. relative risk profile) are being considered, to ensure that the intensity of MAS' supervision is proportionate to the FI's bearing on the achievement of MAS' supervisory objectives.

2.3. MAS' D-SII framework is an update to the existing framework for identifying insurers that are of high impact, while also incorporating useful elements of the Holistic Framework. Putting in place the proposed D-SII framework to identify and designate D-SIIs, and the proposed policy measures that would be implemented would enhance the robustness and transparency of the current supervisory process. This is the same approach that MAS takes for all FIs.

2.4. The Key Attributes of Effective Resolution Regimes for FI issued by the FSB ("FSB KA") in Oct 2014 also requires any insurer that could be systemically significant or critical if it fails, to be subject to a resolution regime consistent with the FSB KA.

Scope of Assessment

2.5. MAS sought views on the proposed scope of D-SII assessment to include all licensed insurers in Singapore. Majority of respondents agreed with or had no comments on the proposed scope of D-SII assessment. However, the following feedback was noted:

(a) Several respondents commented that core reinsurance activities are not a source of systemic risk. Through their global presence and significant risk diversification, reinsurers can positively contribute to financial stability during a financial crisis and play a prominent and stabilising role in mitigating effects of major catastrophic events;

(b) A few respondents suggested that reinsurers should be excluded from the scope as they usually have relatively smaller onshore business and more of the business which are offshore based;

(c) Two respondents suggested excluding the smaller insurers from the scope while another respondent suggested that it would suffice to scope in the top 5 insurers from the direct life, direct general insurers and reinsurers respectively;

(d) One respondent suggested excluding insurers that are part of Internationally Active Insurance Groups ("IAIGs") as the IAIGs are already subject to ComFrame[1] and the Holistic Framework.

MAS' Response

2.6. MAS agrees that reinsurers can contribute to financial stability during financial crisis for the reasons cited, and these would be taken into account in the D-SII assessment. However, it would not be prudent to exclude reinsurers upfront without performing any assessment under Stage One of the two-stage approach in identifying D-SIIs. A reinsurer's failure can still have significant impact to the financial market if it is rated:

(a) high for Size, Interconnectedness or Substitutability. For example, the reinsurer holds significant amount of Singapore corporate debt, or where Singapore-based direct insurers

[1] Common Framework for the Supervision of Internationally Active Insurance Groups ("ComFrame") builds on Insurance Core Principles and establishes supervisory standards and guidance focusing on the effective group-wide supervision of IAIGs.

are highly dependent on a particular reinsurer for reinsurance, resulting in higher potential impact from the reinsurer's distress or disorderly failure; or

(b) high for Complexity, and also near the threshold of an indicator in any of the three categories mentioned earlier.

2.7. Given the above, reinsurers should not be ex-ante excluded from the assessment. In addition, this provides a consistent approach between reinsurers and direct insurers writing inward reinsurance business. Before any recommendation of D-SII status is put forth to MAS senior management for approval under Stage Two, the Stage One assessment will be weighed against other obtained supervisory information, including the role that a reinsurer can play in mitigating systemic risk given its activities in and through Singapore, and supervisory judgment will be applied in the final designation.

2.8. Regarding the feedback that reinsurers should be excluded as more of their business are typically offshore based, the D-SII indicators are intended to capture different aspects of systemic importance of insurers and are not just based on size of the business. A reinsurer with a comparatively smaller sized onshore business (vs offshore business) can, in the event of failure, still have significant impact to the domestic financial markets, financial sector, and/or economy if it is rated high for Interconnectedness or Substitutability. To avoid doubt, a reinsurer's offshore business is assessed under Complexity. Given the construct of the D-SII framework, an insurer which is rated high in Complexity will not be assessed as systemically important unless it is also near the threshold of an indicator in any of the other three categories (i.e. the complex insurer is also large, highly connected or a provider of insurance that is hard to substitute). As such, it would not be prudent to exclude reinsurers upfront without performing at least a Stage One assessment.

2.9. On the feedback that MAS should exclude smaller insurers from the assessment scope or limit the assessment only to certain insurers, as explained in the paragraph above, it would not be prudent to exclude any insurers without performing at least a Stage One assessment.

2.10. As to the feedback that insurers who are part of IAIGs are already subject to ComFrame and the Holistic Framework and should be excluded, MAS would like to clarify that IAIS' criteria for identifying an insurance group as an IAIG is only based on size and international activity, moreover the proposed D-SII framework is to assess the systemic importance of insurers in Singapore (e.g. impact on Singapore's overall financial system and the broader economy, as well as on Singapore's reputation if the insurer fails). Hence the purpose and considerations for determining D-SIIs are different from that for IAIGs.

3. Assessment Methodology

Indicator-based Approach

3.1. A few respondents sought clarification on the weightage that MAS will assign for each D-SII indicator whilst several respondents requested MAS to disclose the threshold used for each indicator under the Stage One assessment.

3.2. One respondent agreed with the proposed indicators but suggested that the thresholds for size indicators can be set at a higher level initially and then brought down over time, to allow an orderly implementation based on priority. In addition, thresholds should be set so as to ensure consistency with the potential financial impacts from the D-SIBs, i.e. the potential losses arising from a D-SII should be comparable with the potential financial losses from a D-SIB.

3.3. One respondent suggested using weighted premiums for the Size indicator instead of Gross Written Premium ("GWP") to be consistent with how the life insurance industry determines market share. Policy liabilities would be more reflective of the degree of disruption in the event of failure.

3.4. One respondent opined that the indicator "Share of SIF Total Assets" penalises insurers which are very well-capitalised and it poses incentives which may be adverse to the stability of the industry. Another respondent opined that the indicator "share of investment in Singapore capital markets" may act as a disincentive for insurers to invest in the Singapore capital markets for competitiveness reasons (i.e. to avoid D-SII designation and the policy measures imposed).

3.5. One respondent suggested that in assessing insurer's investment, the following should also be considered:

(a) Absolute dollar amount of investments (e.g. "share of holdings in Singapore corporate bond market" may appear low, but a large dollar amount sell off can still severely impact bond prices);

(b) Absolute dollar amount of investment in physical real estate assets; and

(c) Liquidity profile of assets (e.g. proportion of illiquid vs liquid assets)

3.6. One respondent opined that the focus for all criteria should be solely on the domestic market and the Singapore Insurance Fund as the asset and liabilities for Singapore policyholders are clearly segregated from the other funds, and the other funds are not relevant for Singapore policyholders. Hence for the assessment of Complexity, neither “The importance of the Singapore operations to the whole insurance group", nor "the number of foreign jurisdictions in which a Singapore-incorporated insurer has branches in" should be taken into account.

3.7. One respondent requested MAS to provide clearer definition and examples of what constitutes system wide impact.

3.8. One respondent suggested that MAS can consider expanding the D-SII indicators to capture impact to the environment to address long-term existential systemic risk, if relevant.

MAS’ Response

3.9. MAS would like to clarify that there is no pre-determined weightage assigned to each indicator. MAS will select insurers that cross the threshold of any impact indicator in the Size, Interconnectedness and Substitutability categories under Stage One assessment. The thresholds for each indicator will be carefully calibrated to take into consideration annual industry data. Similar to the D-SIB framework approach, MAS will not disclose the thresholds used for the D-SII framework.

3.10. On the size indicator threshold, it will be carefully calibrated to take into consideration annual industry data. The threshold used by MAS in the assessment would not result in a long list of insurers being designated, hence there is no need to prioritise the implementation. For Interconnectedness indicators, they are assessed against the whole financial industry, including the D-SIBs. However, for indicators that are specific to the insurance industry, they will be assessed within the industry.

3.11. MAS would like to clarify that the same D-SII framework is used for the entire insurance industry, i.e. the same indicator will be used for direct life insurers, direct general insurers and reinsurers. Weighted premium will not be relevant for the general insurers and reinsurers. In addition, weighted premium will not take into account in-force business of direct life insurers, while GWP includes renewal premiums of in-force business. That said, MAS acknowledges that a downside of relying solely on GWP for direct life insurers is that the figure for a particular year may be skewed by large amounts of single premium business. MAS will take this into consideration in the Stage Two assessment. For example, if one insurer crosses relevant thresholds under Stage One due to once-off underwriting of large tranches of single premium business (which will lead to high GWP in a particular year), the detailed discussions under Stage Two may result in the insurer not being designated as a D-SII.

3.12. Regarding the suggestion to use policy liabilities instead of total assets as Size indicator, MAS' view is that valuation of Total Assets is likely more consistent across various insurers as compared to Policy Liabilities, where there could be different assumptions when estimating the liabilities based on each individual insurer's experience.

3.13. MAS noted the feedback that using total assets as a measurement may penalise insurers with high capital buffers or may act as a disincentive for insurers to invest in the Singapore capital markets for competitiveness reasons. As capital is a scarce resource, insurers are expected to have effective capital management and the level of capital buffer held should be appropriate to the risk profile of an insurer.

3.14. On the feedback regarding the assessment of insurer's investment, MAS' views are:

(a) The proposed indicators focus on the impact to the financial markets due to individual insurers' disorderly failure. If the share of the insurer's holdings of the financial market is small, it is not expected to have significant impact to the whole market. It will also be challenging to pre-determine a dollar amount trigger whereupon sentiment-driven knock-on impacts on asset prices can occur.

(b) Relative to other types of assets that MAS has included in the D-SII framework, insurers' current physical real estate holdings are small compared to the entire real estate market, and it is unlikely to cause systemic impact at this juncture. However, MAS will continue to closely monitor insurers' real estate holdings.

(c) The impact to the Singapore market is not differentiated by the liquidity profile of the assets, as the D-SII framework is assessing the impact to the financial market due to individual insurers' disorderly failure, rather than to assess what can lead to the insurer failing, including over considerations such as having a significant proportion of illiquid assets.

3.15. Regarding the suggestion on focusing the D-SII assessment solely on the domestic market, MAS would like to clarify that the focus for Size and Substitutability indicators is on the domestic market. However, for Interconnectedness indicators, the other funds are relevant as the failure of the insurer could also have impact on Singapore's financial market, e.g. by selling their investments in the Singapore capital markets, which are held in the OIF fund. In addition, an insurer with complex businesses and structure could potentially cause larger spillover effects, and more time and resources would also be required to resolve such an insurer if it fails. Hence "the importance of the Singapore operations to the whole insurance group" and "the number of foreign jurisdictions in which a Singapore-incorporated insurer has branches in" are considered as part of the D-SII framework. However, as explained under Paragraph 3.8(1) of the consultation paper, complexity itself is not a sufficient reflection of systemic importance (i.e. a complex insurer is less likely to be systemically important unless it is also large, highly connected or a provider of insurance that is hard to substitute).

3.16. On providing a clearer definition and examples of what constitutes system wide impact, currently there are no definitive examples of non-insurance business that are assessed to increase systemic impact in Singapore[2]. However, including this indicator in the D-SII framework will allow MAS to monitor future emerging business that could contribute to systemic impact.

3.17. Assessment of environmental risks on insurance business and investment is still relatively nascent and are being studied. MAS actively participates in the global discussions on environmental risks and will monitor and assess if there is a need to expand the factors in subsequent reviews of D-SII framework.

Assessment Approach

3.18. MAS sought views on adopting a two-stage assessment process for assessing insurers' systemic importance. Several respondents commented that there should be transparency and consistency in the D-SII assessment approach, for example:

(a) supervisory judgment decisions should be sufficiently explained to designated D-SIIs;

(b) insurers should be engaged for open discussion/appeal in Stage Two; and

(c) evaluation approach in Stage Two should be consistently applied to all insurers, backed by verifiable rationales and be documented.

3.19. Two respondents suggested that MAS should consider factoring risk mitigating measures into the D-SII framework. Large insurers may seem to affect the Singapore market in the event of distress or disorderly failure, but they are more likely to have strong policies in place and take risk mitigating actions to avoid failure. Another respondent suggested that in assessing non-insurance business, MAS should also consider safeguards or measures which the insurer has put in place to ring fence the risks and mitigate impact arising from such businesses.

3.20. One respondent suggested that in the assessment of Complexity indicators, insurer's corporate structure should be considered as branches are not separate legal entities, and it will be the head

[2] In some other insurance markets, insurers may be allowed to provide mortgage loans directly, and this may have some systemic impact.

office bearing the ultimate liability of the branch. From a risk perspective, a branch should be less risky compared to a subsidiary and should therefore be less likely a D-SII.

3.21. One respondent agreed with the two-stage assessment process, but opined that the size indicator should be investigated first in all situations as even though an insurer may score higher on interconnectedness and substitutability, they would still not have a significant impact if the size is small enough.

MAS' Response

3.22. MAS agrees that maintaining consistency in the assessment process is important. MAS has put in place internal guidelines and procedures, including approvals at appropriate management forums, to ensure proper assessment of all cases. MAS will start engaging the insurers when they are assessed as potential D-SIIs based on at least one year's data. MAS will also explain the reasons for the designation of an insurer as a D-SII on a bilateral basis.

3.23. Regarding the feedback to consider risk mitigating measures in the D-SII framework, MAS agrees that controls, safeguards and risk mitigation measures/policies are important, and they are assessed separately under MAS' Comprehensive Risk Assessment Framework and Techniques ("CRAFT"). However, the D-SII framework does not aim to assess the probability of insurers' failure. Instead, it focuses on identifying insurers whose individual distress or disorderly failure, would cause significant disruption to Singapore financial system and economic activity.

3.24. MAS has taken into consideration differences between branch and subsidiaries in the assessing the complexity indicator and hence some of the complexity indicator assessment will only be applied to subsidiary.

3.25. On the feedback to assess size indicators first, MAS would like to clarify that indicators under Size, interconnectedness and substitutability are intended to capture different aspects of systemic importance of the insurers. Even though an insurer is small in size, its failure could have significant impact to the financial market if there are concentrations in its asset holdings or provision of reinsurance coverages for certain key business lines. Thus, MAS considers that the two factors, Interconnectedness and Substitutability, should remain separate and equally important considerations of systemic impact.

Periodic assessment of D-SIIs and review of framework

3.26. MAS sought views on the proposed D-SII annual assessment timeframe and two-year observation period, including the discretion to adjust an insurer's D-SII status where the change in an insurer's systemic importance is likely to be permanent. MAS also sought views on the proposal to review the D-SII framework every three years.

3.27. Majority of respondents agreed with the proposed annual assessment timeframe. One respondent suggested a bi-annual review, as an annual review could be too slow to react to credit events that take less than a year to evolve. Another respondent suggested a biennial assessment to allow MAS more time to do in-depth reviews.

3.28. On the proposed two-year observation period, one respondent suggested having a 3-year observation period instead to minimise possible fluctuations in the various indicators. Another respondent suggested that more consideration should be given to the most recent year result or to use a two-year average result to determine the D-SII list to better reflect an insurer's profile.

3.29. On the frequency of review of the D-SII framework, one respondent suggested reviewing every 5 years instead, citing that more time is needed for insurers to comply especially when changes are required. Another respondent suggested that notwithstanding that the three-year review period is appropriate, it should not be hardwired and there should be flexibility for a shorter review period if necessary.

MAS' Response

3.30. An annual assessment and a two-year observation period are consistent with the D-SIB framework, and the annual assessment is also aligned to the frequency of MAS' Comprehensive Risk Assessment Framework and Techniques which is performed annually.

3.31. MAS will exercise supervisory judgment in assessing insurers' systemic importance to mitigate the limitations associated with an otherwise mechanistic indicator-based approach. To ensure consistency in the application of supervisory judgment, MAS has in place internal guidelines and procedures, including approvals at appropriate management forums, to ensure proper assessment of all cases. MAS will also explain the reasons for the designation of an insurer as a D-SII on a bilateral basis.

3.32. The framework will take into account two years of data before an insurer is designated as a D-SII or removed as a D-SII. For each year of the data, the insurer will be subject to the two-stage assessment process, where Stage One assessment will be weighed against other obtained supervisory information under Stage Two, such as the insurer’s strategy and the market environment. Once an insurer has been designated as a D-SII, its designation will continue unless otherwise notified by MAS that its D-SII designation has been removed.

3.33. MAS agrees that the frequency of review of the D-SII framework need not be predetermined in advance and will instead monitor developments in the financial system as well as international assessment methodologies to ensure that the framework remains appropriate and make refinements when required.

4. Policy Measures

Higher capital requirement

4.1. MAS sought views on the proposal to impose a D-SII surcharge of 25%. Two respondents provided feedback that having a D-SII surcharge is highly punitive and may hurt the Singapore insurance market in the long term. Several respondents also sought clarity as to how the 25% surcharge quantum was determined and one respondent suggested the add-on to be 20%.

4.2. Two respondents also sought clarification on how MAS will manage potential secondary risk arising from a non-DSII that could have relatively lower financial strength and less sophisticated enterprise risk management ("ERM").

4.3. Separate suggestions were also received on the following:

(a) To impose the capital surcharge on systemic activities instead of being entity-based;

(b) To use a tiered approach to the add-on based on the assessment score;

(c) To take into consideration additional capital that is already being imposed at the Group level by the Group-wide supervisor.

MAS' Response

4.4. Insurers in Singapore have robust capital adequacy ratios, with capital levels above the regulatory minimum. MAS assessed that it is risk appropriate and risk commensurate with insurers' profile for insurers who are domestic systemically important to hold more capital. Larger insurers generally hold higher capital buffers and will be able to meet the capital add-on. For the existing high impact insurers, the regulatory capital requirement includes the high impact surcharge. As the D-SII framework is an update to the existing framework for identifying insurers that are of high impact, the proposed 25% capital add-on for D-SIIs will replace the high impact surcharge and is not another layer of add-on.

4.5. The surcharge of 25% is consistent with the 2% points higher loss absorbency imposed on D-SIBs. For D-SIBs, the 2% is an add-on to the minimum capital adequacy ratio requirement of 8%, translating to a 25% add-on equivalent for D-SII.

4.6. Regarding insurers that are not designated as D-SIIs and could have lower financial strength and less sophisticated ERM, these non-D-SII insurers are still subject to MAS' supervision, including CRAFT and the capital add-on framework. Higher capital add-ons and stronger supervisory oversight will be imposed if there are regulatory concerns about risk management deficiencies for these insurers. Similarly, the requirements in MAS Notice 126 on ERM are applicable to both D-SII and non D-SII insurers. As such MAS expects non D-SII insurers to have appropriate risk management in place.

4.7. On the suggestions received regarding how the D-SII capital surcharge can be imposed, MAS' views are:

(a) The D-SII framework assesses insurers' impact based on size, interconnectedness, substitutability and complexity. As such, the assessment is not limited to activities undertaken by insurers. Given that the construct of the framework assesses the insurers as a whole entity, it is appropriate for the surcharge to be imposed on the insurers.

(b) Under the proposed D-SII framework, an indicator-based approach will be used to assess insurers' systemic importance. There will not be a score assigned to each insurer and hence no tiering of D-SIIs. This indicator-based approach and the flat D-SII surcharge is also consistent with the D-SIB framework. Also, a flat D-SII capital surcharge is more appropriate in Singapore's context because there is only a small number of D-SIIs and a tiered approach would add unnecessary complexity to the D-SII framework. Given the above, MAS will maintain the proposal to impose a single-tier D-SII capital add-on.

(c) The D-SII surcharge takes into consideration the systemic importance of the Singapore entity and aims to reduce the probability of failure by increasing its going-concern capital buffers. Additional capital that is already being imposed at the Group level by the Group-wide supervisor addresses specific supervisory concerns of the Group and serves a different purpose.

Recovery and resolution planning

4.8. MAS sought views on the proposal to require recovery and resolution planning ("RRP") for D-SIIs. One respondent commented that MAS' RRP requirements should be aligned with international standards. Several respondents commented that Singapore subsidiaries and branches of international re/insurance groups should be exempted from RRP requirements as MAS can rely on international coordination of group supervision and that group-wide RRP would be sufficient for local purposes.

MAS' Response

4.9. As highlighted in paragraph 1.6 of the consultation paper, the proposal to subject D-SIIs to an ongoing requirement of RRP is consistent with the Key Attributes of Effective Resolution Regimes for Financial Institutions issued by the FSB in October 2014 which expects that insurers that could be systemically significant or critical if they fail be subject to RRP. Under the Insurance Core Principles and ComFrame last updated by the IAIS in November 2019, an insurance supervisor may require an insurer to produce a recovery plan that identifies in advance options to restore the financial position and viability if the insurer comes under severe stress, as well as for an insurer to evaluate prospectively its specific operations and risks in possible resolution scenarios and to put in place procedures for use during a resolution. IAIGs are required under the ComFrame to have a recovery plan and the crisis management group for the IAIG should assess whether a resolution plan is needed for the IAIG.

4.10. MAS recognises that an insurer in Singapore could be included in its group-wide RRP. If the insurer in Singapore is a D-SII, in establishing RRP requirements for the insurer, MAS will seek to understand how the group-wide RRP would be implemented locally. Notwithstanding the existence of any group-level RRP requirements, a recovery plan and a resolution plan that contain details specific to the D-SII are necessary. This is to ensure there is sufficient clarity on the actions to be taken on the D-SII in the event of recovery or resolution.

Management information systems

4.11. MAS sought views on the expectation for D-SIIs to put in place management information systems ("MIS") that allow information to be readily available for the orderly resolution of a D-SII. Several respondents sought clarifications on whether MAS has any specific expectation on MIS.

4.12. Several respondents sought clarifications on the proposed information that should be readily available:

(a) What is considered "prone to runs" mentioned in paragraph 4.6c of the consultation paper.

(b) What would be the specific information mentioned in paragraph 4.6d of the consultation paper and to provide examples of such information. Respondent also suggested that the information required should be aligned to those required under MAS Notice 122 on Asset and Liability Exposures for Insurers.

(c) More information regarding fungibility of surplus assets mentioned in paragraph 4.6d and also what would be deemed as a "stressed conditions" e.g. would it be a 1-in-200 event.

(d) What would be the specific information mentioned in paragraph 4.6e of the consultation paper and to provide examples of such information. Respondent also asked what would be deemed as "essential services and functions" and how does this differ from the definition of critical functions.

4.13. One respondent highlighted that some of the information listed in paragraphs 4.6 and 4.7 of the consultation paper would not be applicable to reinsurers. Another respondent suggested for MAS to consider information relating to business continuity planning to be made readily available. The respondent cited recovery time objectives and recovery point objectives, date of annual due diligence conducted, date of last business continuity plan/IT disaster recovery exercise conducted and any findings from the business continuity plan/IT disaster recovery exercise that would impact the service rendered to D-SIIs.

4.14. One respondent suggested for MAS to provide the level of granularity required of the proposed information and how often the information should be made available to MAS. The respondent also asked if the proposed information should be reported to a committee or the board of directors.

MAS' Response

4.15. MAS would like to clarify that insurers do not necessarily have to set up new systems, but insurers must be able to produce the relevant information needed for MAS to establish and maintain a resolution strategy and operational resolution plan, and to implement resolution measures in a timely manner. As mentioned in the consultation paper, MAS will engage the D-SII on this aspect, including leveraging on existing regulatory submissions.

4.16. On the feedback received on the proposed information that should be readily available for the orderly resolution of a D-SII, MAS would like to emphasise that resolution plans need to be tailored to the specific risks of each insurer and take into account factors such as the types of business the insurer engages in and the nature of its assets and liabilities. For example, as highlighted by a respondent, some of the information listed in paragraphs 4.6 and 4.7 of the consultation paper would not be applicable to reinsurers. MAS' bilateral discussions with D-SIIs on resolution planning will include discussions on the specific information that should be readily available.

4.17. When assessing whether an insurance product could be prone to runs, insurers should take into account the nature of the product and whether policyholders will likely surrender the policies when the insurer is in financial distress. Such products could be those where a policyholder has the right to surrender a policy to obtain substantially all of the value of any savings element or the right to accelerate payments of income due under a policy.

4.18. It is essential for D-SIIs to be able to produce information on a timely basis, in particular assets backing insurance liabilities, for MAS to effectively execute resolution actions (e.g. transfer of portfolio) when need be. Fungibility refers to the free flow of capital from a related entity to the insurer when the insurer is in financial distress. D-SII would need to make an assessment as to whether it thinks it can receive the funds when needed in reality.

4.19. Regarding information on service agreements or outsourcing agreements, as set out in the FSB Key Attributes Assessment Methodology for the Insurance Sector, essential services and functions refers to services that are necessary to support continuity of critical functions including but not limited to critical shared services.

4.20. On the suggestion for information related to business continuity planning to be made readily available, such information is pertinent from a business continuity perspective. When an insurer enters into resolution, it has reached the point of non-viability and the key objective is to resolve the insurer without severe systemic disruption or exposing taxpayers to loss while protecting vital economic functions.

4.21. MAS' expectations on MIS, as well as an insurer's governance framework with regard to the RRP process, will also be set out in the new Notice on Recovery and Resolution Planning for Insurers which we will publicly consult on.

Enhanced corporate governance requirements

4.22. MAS informed in paragraph 4.8 of the consultation paper that it is reviewing the corporate governance requirements that should be applied to D-SIIs given their systemic importance, and that this would be part of a wider review of the corporate governance regulations for the insurance sector that would be consulted on separately. Two respondents shared their views on the corporate governance requirements that should be applied to D-SIIs.

MAS' Response

4.23. MAS notes the feedback on the corporate governance requirements that should be applied to D-SIIs and will take them into consideration as part of the wider review of the corporate governance regulations for the insurance sector. Given that the corporate governance requirements would be consulted on separately, the draft monograph on MAS' Framework for Impact and Risk Assessment of Financial Institutions has not made mention of the corporate governance requirements under the proposed policy measures yet.

5. Transition Period and Implementation Timeline

Transition period for new D-SIIs on higher capital requirement

5.1. MAS sought views on the proposal to provide a one-year transition period for newly designated D-SIIs (that are not existing high impact insurers) to comply with the 25% surcharge. Several respondents commented that the transition period of one year for new D-SIIs should be longer, for instance using a 2-year period.

MAS' Response

5.2. Regarding allowing a longer transition period for the capital add-on, the D-SII framework already provides for an observation period before confirming the D-SII status of an insurer. An insurer will not be designated as a D-SII if it is assessed to be systemically important based on just the first year of observed data. It will only be designated as a D-SII if it is also assessed to be systemically important in the subsequent year. In addition, upon designation as a D-SII, the insurer will be given up to one year (or otherwise as agreed with MAS) to comply with the D-SII capital add-on requirement. MAS is of the view that the observation period, combined with the transition period, provides sufficient lead time for an insurer to comply with D-SII capital add-on requirement.

5.3. To avoid doubt, for insurers which already have been identified as high impact under the existing framework, they are currently subjected to a high impact surcharge. Following the assessment under the new framework, if these insurers are designated as D-SIIs, the high impact surcharge would be replaced by the D-SII surcharge with effect from 1 January 2024.

Transition period for proposed policy measures on RRP and MIS

5.4. Several respondents asked for more time to implement the D-SII framework (i.e. beyond 1 January 2024) and sought clarifications on the proposed implementation timeline, e.g. whether the D-SIIs are expected to comply with policy measures such as RRP and MIS from 1 January 2024, or would the one-year transition period that is proposed for newly designated D-SIIs for D-SII surcharge apply for RRP and MIS.

5.5. On RRP, two respondents commented that there should be a realistic timeframe for meeting the proposed requirements on RRP. One respondent asked whether MAS would be requesting relevant information from D-SIIs to kickstart the resolution planning process.

5.6. On MIS, some respondents sought clarification on what is meant by “readily available” and asked about the transition period for D-SIIs to put in place the MIS.

MAS’ Response

5.7. As mentioned in the consultation paper, for selected existing high impact insurers which MAS has commenced discussions with on RRP, MAS will engage these insurers on the transition period needed and allow reasonable transition time for insurers to comply with the policy measure on robust MIS, if they were to be designated as a D-SII under the proposed framework.

5.8. For newly designated D-SIIs (in the first or subsequent years of implementation of the proposed D-SII framework), MAS will also work with these insurers on the transition period by which they have to comply with the policy measures on RRP and robust MIS. Similarly, MAS will allow reasonable transition time for these insurers.

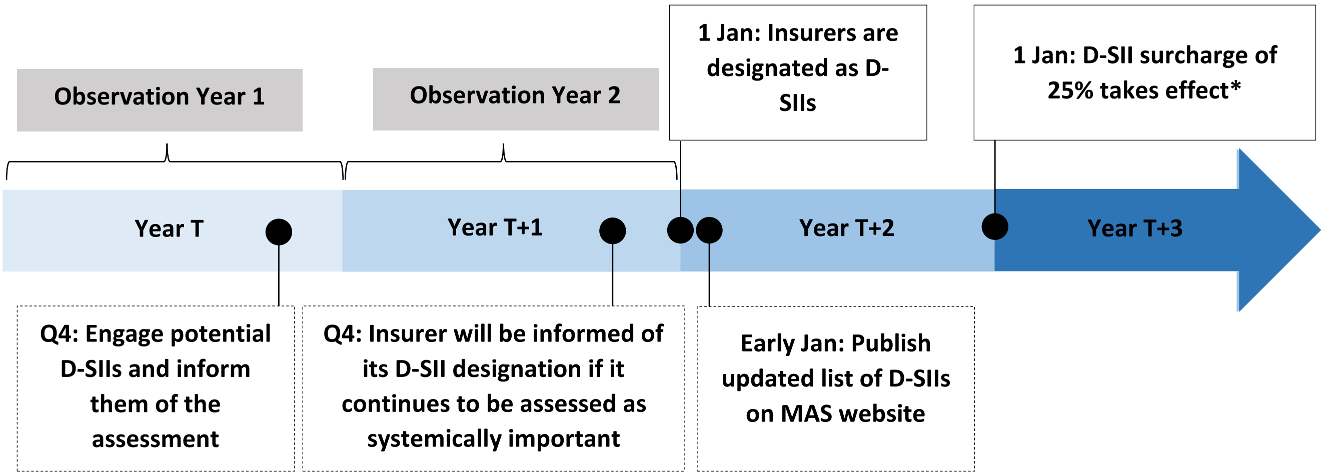
5.9. MAS recognises that the RRP process would be an iterative and continuous process, where there would be regular engagements between MAS and the D-SII to continually improve the D-SII’s viability and resolvability. The proposed Notice on Recovery and Resolution Planning for Insurers, which MAS will be consulting on, will set out MAS’ expectations of a D-SII’s recovery planning process and how the D-SII can facilitate MAS' resolution planning.

5.10. For MIS, the timeframe for “readily available” would take into account the resolution strategy and operational resolution plan of the insurer, to ensure that resolution measures can be implemented in a timely manner. As a starting point, MAS would engage the insurer as part of the resolution planning process to understand the timeframe needed to produce the required information on a business-as-usual basis. MAS will then consider the resolution strategy of the insurers, e.g. portfolio transfer, to determine what would be a reasonable timeframe in a resolution situation.

Illustration of implementation timeline

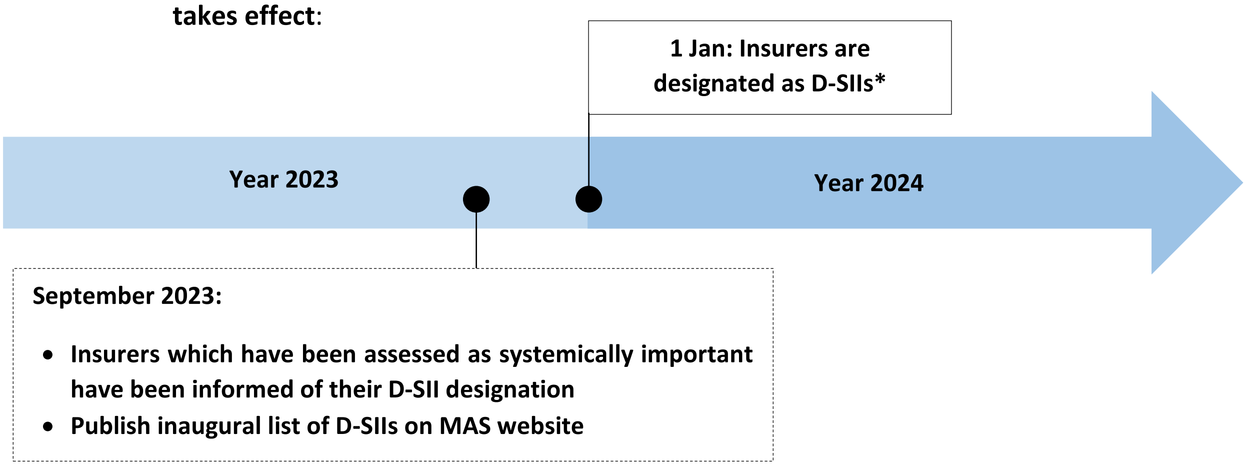
5.11. To provide better clarity on the implementation timeline, please refer to the timeline charts below on observation period, formal D-SII designation and transition period:

(a) **Timeline (for any newly designated D-SIIs which are not existing high impact insurers)**:



*Or otherwise as agreed with MAS. For other policy measures, MAS will work with the D-SIIs on the transition period.

(b) **Existing high impact insurers which will be designated as D-SII once the D-SII framework takes effect**:



* D-SII capital surcharge of 25% takes effect (i.e. no change from the current high impact surcharge). For other policy measures, MAS will work with the D-SIIs on the transition period.

Annex A

List of respondents to the consultation paper on Proposed Framework for Systemically Important Insurers in Singapore

1. AIA Singapore Private Limited
2. Allianz SE, Singapore Branch
3. China Reinsurance (Group) Corporation, Singapore Branch requested for confidentiality of submission
4. GARD Marine & Energy Limited, Singapore Branch
5. Income Insurance Limited
6. Swiss Re International SE Singapore Branch requested for confidentiality of submission
7. One respondent requested for confidentiality of identity
8. 16 respondents requested for confidentiality of identity and submission

Please refer to Annex B for the submissions.

Annex B

Submissions from respondents to the consultation paper on Proposed Framework for Systemically Important Insurers in Singapore

Note: The table below only includes submissions for which respondents did not request confidentiality.

S/N	Respondent	Responses from respondent
1	AIA Singapore Private Limited	**Question 1:** We agree that all insurers should be considered within the scope and should include both life insurers and general insurers. Reinsurers could also be systematically important as a lot of risk is also ceded out to the reinsurers. **Question 2:** While we are agreeable with MAS' proposal, it is not clear how these factors will translate into the assessment. What will be the weightages attached to each of the 4 factors? We would like to seek clarity if assets and GWP will be considered as a total across Life/Non-Life. In assessing the insurer's investment, the following should also be considered: 1) Absolute dollar amount of investments (e.g., "share of holdings in Singapore corporate bond market" may appear low, but a large dollar amount sell off can still severely impact bond prices). 2) Physical Real Estate Assets ($ amount) 3) Liquidity Profile of Assets (e.g., Proportion of Illiquid vs Liquid assets) **Question 3:** It would be good if MAS can clarify how the thresholds will be set, and the principles adopted in setting these thresholds. To consider if there should be a discussion/appeal process available under the framework for insurers who wish to perhaps be included/excluded as a D-SII.

S/N	Respondent	Responses from respondent
		Question 4: We are agreeable with MAS' proposal. **Question 5:** Confidential **Question 6:** We are agreeable with MAS' proposal. **Question 7:** We would like to seek clarity on the following: 1. On 4.6 (c), please provide clarity on "prone to runs". 2. On 4.6 (d), please provide clarity on the specific information that would be referred here. Examples of such information would be helpful. We would suggest that such information be similar to the current MAS 122 filing requirements. 3. On 4.6 (d), please provide clarity on "fungibility of surplus assets" and also what would MAS deem as a "stressed conditions" e.g., a 1-in-200 event? 4. On 4.6 (e), please provide clarity on the specific information that would be referred here. Examples of such information would be helpful. 5. On 4.6 (e), please provide clarity on what MAS would deem as "essential services and functions". How does this differ from "critical functions"? **Question 8:** We would like to seek clarity on what MAS deems as "to be readily available" please. Is there a specific timeframe or a general expectation by the MAS? Are there specific expectations regarding the requirement to put in place a "management information system"? While most of this information may already be "readily available", it may not necessarily be within a "system" per se. Given the lack of detail, and the need for clarity on these and other assessment and information requirements, we would like further clarification, and a further opportunity to comment on more detailed proposals before they are finalised.

S/N	Respondent	Responses from respondent
		Question 9: We noted that there will be a one-year transition period where newly designated D-SII insurers have up to 2024 Q4 to comply with the requirements. We would like to seek clarity if the one-year transition period applies to all aspects of the requirements e.g., management information system requirements, or whether it only applies to capital requirements. **Question 10:** We are agreeable with MAS' proposal. However, we would suggest allowing flexibility to review the methodology and indicators every three years or earlier, if necessary, rather than as a "fixed" timeline of 3 years.
2	Allianz SE, Singapore Branch	**Question 1:** Confidential **Question 2:** Confidential **Question 3:** na **Question 4:** The 2 year observation period makes sense **Question 5:** na **Question 6:**

<table>
<tr><th>S/N</th><th>Respondent</th><th>Responses from respondent</th></tr>
<tr><td></td><td></td><td>This should follow and be aligned with international developments (IAIS, ComFrame etc).

Question 7:

na

Question 8:

An adequate MIS should be in place in general.

Question 9:

Generally, timeline to be aligned with international developments.

Question 10:

na</td></tr>
<tr><td>3</td><td>GARD Marine & Energy Limited, Singapore Branch</td><td>Question 1:

We view the inclusion of all licensed insurers to be a logical starting point for the scope given that smaller insurers and branches are excluded in the preliminary selection of the assessment approach without being subject to undue burden.

Question 2:

We consider the factors listed to be logical, but we have some comments about certain indicators:
Size
Share of SIF total assets
We would hesitate to have indicators that effectively penalize being highly capitalized compared to the share of the business. It is our view that this indicator poses incentives which may be adverse to the stability of the industry.
Interconnectedness
Linkages to another D-SIFI</td></tr>
</table>

S/N	Respondent	Responses from respondent
		▪ We seek clarification on this point regarding the interpretation of whether a branch is considered to be interconnected to a different group's branch or company due to agreements between the non-Singapore head-office or group companies with the other parties non-Singapore business entities. It could become difficult to keep track of whether or not every business partner has a group company, or branch of a group company, in Singapore. This indicator may prove to be more burdensome than probative. **Question 3:** We appreciate the preliminary selection as a way of reducing burdens for smaller companies and branches. We do, however, feel that the size indicator should be investigated first in all situations as even though an insurer may score higher on interconnectedness and substitutability, they would still not have a significant impact if the size is small enough. **Question 4:** We view the two-year observation period to be logical and understand MAS' desire to exercise discretion in particular instances. We would like clarification regarding more examples where MAS would use discretion, for instance the view on transfer of business of the same type as the current business from other parts of the group to a Singapore branch or company so one can know if there is still a grace period after such an event or not. **Question 5:** A one-year transition period seems sufficient to comply with the 25 % surcharge. **Question 6:** The proposed requirements appears reasonable. **Question 7:**

S/N	Respondent	Responses from respondent
		Paragraphs 4.6 and 4.7 contain comprehensive information and we have no suggestions for expanding the information requirements. **Question 8:** The proposed requirement to have information available at request appears reasonable. **Question 9:** The proposed implementation timeline appears reasonable. **Question 10:** The proposed review process appears reasonable.
4	Income Insurance Limited	**Question 1:** Including all licensed insurers in Singapore would be a complete approach. It would be useful to the insurers if the quantitative thresholds of the impact indicators to be used in the assessment of the 4 factors be made known. **Question 2:** • The size of total assets would penalise insurers who have high capital buffer i.e., excess assets. Policy liabilities would be more reflective of the degree of disruption in the event of failure. • Propose to use weighted premiums to assess size instead of GWP, consistent with how the industry determines market share, which is using weighted premiums. • Current factors reflect insurer's impact to the economy, capital and insurance capacity in the market. To consider expanding the factors to capture impact to the environment to address long-term existential systemic risk, if relevant for MAS' purpose. • Can MAS provide a clearer definition of what constitutes system wide impact and give some examples? When assessing non-insurance business, suggest to also consider the safeguards/measures which the insurer puts in place to ring fence the risks and mitigate the impact of these non-insurance businesses?

S/N	Respondent	Responses from respondent
		Question 3: The proposed approach sounds reasonable. However, for borderline insurers who are considered D-SII, the difference between an additional 25% risk charge and 0% risk charge is significant and will affect the business significantly. Would MAS consider a middle tier of around 10% - 15% for borderline insurers who are considered D-SII? **Question 4:** The proposed assessment timeframe sounds reasonable. **Question 5:** The proposed transition period sounds reasonable. **Question 6:** No comments. **Question 7:** No comments. **Question 8:** A reasonable timeframe is required so that resources can be allocated to put in place the required information and system. **Question 9:** A reasonable timeframe is required so resources can be allocated to support this initiative. **Question 10:**

S/N	Respondent	Responses from respondent
		The proposed timeframe sounds reasonable.
5	Respondent A	**Question 1:** Given Singapore's insurance industry structure, with a significant number of small captives and registered/exempt brokers that would typically not present any systemic issues, it may not be efficient for both the insurance industry and MAS to cast such a wide scope for the exercise. Respondent A suggests that MAS pre-selects the top 5 insurers based on the existing supervisory information in each license type (e.g., Direct Life, Direct General, etc.) as the starting point instead. **Question 2:** Regarding "Share of investment in Singapore capital markets" in interconnectedness, government debt securities that are deemed as safe assets should be excluded as the possibility of fire sale is only applied to risky assets. The fire sale of government debt securities would rather make insurers' CAR position worse. Regarding "insurer's borrowing via Singapore bank loans and overdrafts, and via Singapore's debt market" in interconnectedness, the collateral posted to counterparties should be deducted when aggregating figures as the collateral contributes to reduction in the risk of spill-over effect of default. Such treatment will also give financial institutions an incentive to take collaterals and lead to the stability of the financial system. **Question 3:** The two-stage assessment approach is appropriate. We think it is crucial to maintain transparency and objectivity in the assessment as the designation of D-SIIs has a significant implication to the designated insurers' business. Hence the setting of thresholds in the Stage One and the evaluation approach in the Stage Two should be backed by verifiable rationales and documented to consistently apply to all insurers. **Question 4:** Instead of an annual assessment, a biennial one (i.e., every other year) should suffice. This is because the impact indicators should not vary significant annually. In addition, an annual exercise may be time-consuming

S/N	Respondent	Responses from respondent
		and take up the resources of the insurers and MAS. MAS can then spread out the assessments of D-SIIs over 2 years, giving itself more time to do more in-depth reviews. Instead of a two-year observation period, a three-year one should be more practical to minimize possible fluctuations in the various indicators (e.g., due to unique events such as COVID-19). MAS should also have some flexibility to adjust its approach in the event of major developments (e.g., mergers or closing of insurance funds to new business), i.e., on a case-by-case basis. **Question 5:** Given the current macroeconomic uncertainty in the coming 1-2 years, insurers may face challenges to transition to an additional 25% surcharge within a short time span. A longer transition period (e.g., 18-24 months) may be more pragmatic. **Question 6:** Recovery and resolution planning is necessary for D-SIIs. However, considering the resources required to come up with them comprehensively, there should be a realistic timeframe for MAS and D-SIIs to have them in place. **Question 7:** The proposed information is fine **Question 8:** It may take time and resources for D-SIIs to enhance their management information system to fully meet MAS' expectations. Such major undertaking could take up to 2 to 3 years. MAS should take this into consideration and plan with the D-SII to determine a realistic timeframe for such system to be in place. Furthermore, some of the information, e.g., asset prices, may not be always possible to be obtained in real-time or within a short period, without major and costly enhancements. MAS may wish to be more specific on what "readily available" entails when engaging D-SIIs.

S/N	Respondent	Responses from respondent
		Question 9: MAS may wish to delay the implementation date of the framework in view of current macroeconomic situation and proposed changes in RBC2 in 2023, so that Insurers can better manage and prioritize their resources. **Question 10:** We have no further comments as three-year period is a fair interval to conduct the review.