Notice No. : MAS 125
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Last revised on 30 September 2022

NOTICE ON INVESTMENTS OF INSURERS

Introduction

1. This Notice is issued pursuant to section 154(4) of the Insurance Act 1966 ("the Act").

2. This Notice must be read in conjunction with the provisions of the Act. It is not intended to override any provision of the Act.

[MAS Notice 125 (Amendment) 2022]

3. This Notice applies to any insurer licensed to carry on insurance business. It sets out the basic principles that govern the oversight of investment activities of an insurer and the investments of its insurance funds, and in the case of an insurer that is incorporated or established in Singapore, the investments of both its insurance funds and its shareholders' funds.

[MAS Notice 125 (Amendment) 2013]
[MAS Notice 125 (Amendment) 2022]

4. Paragraphs 8 to 22 do not apply to captive insurers, marine mutual insurers and Special Purpose Reinsurance Vehicles.

[MAS Notice 125 (Amendment) 2022]

5. Paragraphs 14 to 15 and 23 to 30 do not apply to an insurer in respect of the part of any insurance fund established and maintained for its investment-linked policies under section 16(2)(a) of the Act relating to the unit reserves of the policies of the fund.

[MAS Notice 125 (Amendment) 2022]

Interpretation

6. For the purpose of this Notice:

   (a) "appointed actuary" means a person appointed under section 35(1)(b) of the Act;

[MAS Notice 125 (Amendment) 2013]

(b) "certifying actuary" means a person appointed under section 35(1)(c) of the Act;

[MAS Notice 125 (Amendment) 2013]

(c) "counterparty" has the same meaning as in regulation 2(1) of the Insurance (Valuation and Capital) Regulations 2004;

[MAS Notice 125 (Amendment) 2022]

(d) "derivative" has the same meaning as in MAS Notice 133;

[MAS Notice 125 (Amendment) 2022]

(e) "economic capital" means the capital needed by an insurer to satisfy its risk tolerance and support its business plans and which is determined from an economic assessment of the insurer's risks, the relationship of these risks and the risk mitigation in place;

(f) "efficient portfolio management", in relation to a derivative transaction, has the meaning ascribed in paragraph 28 below;

(g) "hedging" means the reduction of investment risk through engaging in a transaction for a derivative on an investment where there is a high degree of negative correlation between the changes in value of the derivative and changes in value of the hedged investment;

[MAS Notice 125 (Amendment) 2013]
[MAS Notice 125 (Amendment) 2022]

(h) "insurance funds" refers to insurance funds established and maintained in accordance with section 16 of the Act, and each, an "insurance fund";

[MAS Notice 125 (Amendment) 2022]

(i) "liquid assets" means assets which are readily converted into cash at a value close to its fair price under normal market conditions; and

[MAS Notice 125 (Amendment) 2013]
[MAS Notice 125 (Amendment) 2022]

(j) [Deleted by MAS Notice 125 (Amendment) 2013]

(k) “Special Purpose Reinsurance Vehicle” has the same meaning as in regulation 2 of the Insurance (General Provisions and Exemptions for Special Purpose Reinsurance Vehicles) Regulations 2018.

[MAS Notice 125 (Amendment) 2022]

7. The expressions used in this Notice, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Act.

[MAS Notice 125 (Amendment) 2022]

Board of Directors and Senior Management Oversight

8. An insurer must establish an investment policy and ensure that the investment policy is approved by its board of directors. The insurer must also ensure that its board of directors, at all times, exercises oversight to ensure that the interests and rights of policy owners are not compromised.

[MAS Notice 125 (Amendment) 2022]

9. The insurer must ensure that its investment policy includes the elements as set out in Appendix A and ensure that its investments are carried out in accordance with its investment policy.

[MAS Notice 125 (Amendment) 2022]

10. For the purpose of overseeing an insurer’s investment activities, an insurer must seek the approval from its board of directors to establish a committee (the “Investment Committee”). The Investment Committee must comprise:

(a) the chief executive and chief investment officer (or an officer in a similar capacity responsible for the investment functions); and

(b) in the case of a direct life insurer, the persons referred to in sub-paragraph (a) and the appointed actuary.

[MAS Notice 125 (Amendment) 2013]
[MAS Notice 125 (Amendment) 2022]

11. In the case of an insurer whose chief executive is solely responsible for the insurer's investment functions and where the nature, scale and complexity of the risks and investments of the insurer permit, the insurer may allow that chief executive to perform the role and duties of the Investment Committee as set out in this Notice, provided that in the case of a direct life insurer, the Investment Committee must comprise both the chief executive and the appointed actuary.

[MAS Notice 125 (Amendment) 2013]
[MAS Notice 125 (Amendment) 2022]

12. A direct general insurer and reinsurer must consult the certifying actuary on investment-related matters for which the certifying actuary's expertise and experience would be useful.

[MAS Notice 125 (Amendment) 2022]

13. An insurer must ensure that its board of directors reviews at least annually, the adequacy and relevance of its investment policy for the insurer in terms of overall risk tolerance, long-term risk-return requirements and solvency position and ensures that it is appropriate for the insurer's activities and risk profile.

[MAS Notice 125 (Amendment) 2022]

Reports to the Board of Directors

14. An insurer must ensure that the Investment Committee prepares the reports on the investment activities of the insurer and reports at least once every quarter to its board of directors. If the board of directors delegates authority to the Investment Committee to make investment decisions on its behalf, the insurer must ensure that the Investment Committee reports any decision of material consequence –

    (a) at the next meeting of the board of directors; and
    (b) within three months of such decision made by the Investment Committee.

[MAS Notice 125 (Amendment) 2022]

15. In addition to the above reports, the insurer must ensure that the Investment Committee reports to the board of directors, as soon as (and in any case, no later than 2 weeks after) any investment-related activity of material consequence arises, with details of the various issues and the impact on the insurer and its insurance funds.

[MAS Notice 125 (Amendment) 2022]

Duties of the Investment Committee

16. The duties delegated to the Investment Committee must include, but is not limited to, the following:

(a) to review the investment policy of the insurer on a regular basis so that it remains appropriate, recognising among other things, changes in business in-force and the economic environment;
(b) to ensure the investment policy is consistent with the asset-liability management strategies required to support new and existing products;
(c) where the insurer establishes and maintains a participating fund, to ensure the investment policy of the participating fund is consistent with the bonus and dividend policy of the insurer;
(d) to ensure the risk management functions continue to be appropriate;
(e) to review the adequacy of internal control systems to support investment activities; and
(f) to ensure that there is a sufficient number of officers, agents and/or employees (collectively, the "personnel") who are equipped with the appropriate skills and knowledge to implement and manage the approved investment policy and any other activities requested by the board of directors.

[MAS Notice 125 (Amendment) 2022]

17. For the purposes of paragraph 16(f), an insurer must ensure that its Investment Committee monitors the performance of the personnel referred to in paragraph 16(f) against its approved investment policy.

[MAS Notice 125 (Amendment) 2022]

18. An insurer must ensure that the Investment Committee implements and maintains adequate risk management systems and controls in respect of the investments of the insurer. These must include, but not be limited to, ensuring that:

(a) there is proper segregation of execution, monitoring and performance measurement functions;
(b) the authority of persons entering into, performing or otherwise dealing in investments for and on behalf of the insurer, and limits of such authority, are clearly delineated;
(c) there are proper performance monitoring procedures;
(d) there are continuous risk monitoring procedures;
(e) there is timely management reporting;
(f) the investments of the insurer are handled by qualified and properly trained persons capable of assessing the nature, scale and complexity of the associated risks; and
(g) there are sound audit procedures to ensure compliance with the insurer's policies and procedures as well as the applicable statutory requirements.

[MAS Notice 125 (Amendment) 2022]

Asset-Liability Management

19. Asset-liability management ("ALM") allows decisions and actions taken with respect to assets and liabilities to be coordinated through the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities in order to achieve an insurer's financial objectives, given its risk tolerance and other constraints. The insurer must ensure that it has a policy approved by its board of directors in relation to ALM.

[MAS Notice 125 (Amendment) 2022]

20. An insurer must ensure that its ALM policy:

(a) takes into consideration the insurer's investment management, product development and pricing functions;
(b) is appropriate to the nature, scale and complexity of the risks associated with assets and liabilities of the insurer;
(c) recognises the interdependence between all of the insurer's assets and liabilities and take into account the correlation of risk between different asset classes as well as the correlation between different products and business lines, while recognising that correlations may not be linear; and
(d) takes into account any off-balance sheet exposures that the insurer may have and the contingency that risks transferred may revert to the insurer.

[MAS Notice 125 (Amendment) 2022]

21. The ALM policy must include all of the following:

(a) the relationship between the investment strategy and the liability profile of the insurer;
(b) how the liability cash flows are met by the cash inflows; and
(c) how the economic valuation of assets and liabilities are changed under an appropriate range of different scenarios.

[MAS Notice 125 (Amendment) 2022]

22. An insurer must ensure that its board of directors reviews, at least annually, the adequacy and relevance of the ALM policy of the insurer and ensures that it is appropriate for the insurer's activities and its asset-liability profile. If a senior management level committee, other than the Investment Committee, is delegated this responsibility, the insurer must ensure that its board of directors defines and documents the roles and responsibilities of the two committees, and their respective reporting structures to its board of directors.

[MAS Notice 125 (Amendment) 2022]

Permitted Derivatives Activities

23. In view of the potential significant financial losses that could arise from speculative trades, an insurer must, subject to paragraph 30, only carry out investments in derivatives when it is capable of assessing the nature, scale and complexity of the risks associated with those investments.

[MAS Notice 125 (Amendment) 2022]

24. An insurer is only permitted to enter into or effect derivative transactions for the purposes of hedging or efficient portfolio management.

[MAS Notice 125 (Amendment) 2022]

25. An insurer must disclose in its annual statutory returns, its accounting policies as well as exposure to derivatives (including the amount and percentage of derivatives of the total assets of the insurance fund and the shareholders' fund for each fund separately).

[MAS Notice 125 (Amendment) 2022]

Hedging

26. An insurer must –

(a) clearly identify any derivative transaction entered into for hedging purposes;
(b) ensure that the derivative transaction entered into continues to have the effect of hedging at any stage during the period of the derivative contract; and
(c) exercise extra caution whilst hedging foreign currency risk where the underlying investment does not have a fixed payment schedule[1].

[MAS Notice 125 (Amendment) 2022]

27. For the purposes of paragraphs 24 and 26(a), an insurer may treat a derivative transaction as having been entered into for hedging purposes if it is not entered into for the main purpose of generating returns and has all the following characteristics:

(a) it results in an overall verifiable reduction of risk;
(b) it reduces the risks linked to the underlying investment being hedged;
(c) it relates to the same asset class being hedged; and
(d) it is able to meet its hedging objectives in all market conditions relevant to the risks being hedged.

[MAS Notice 125 (Amendment) 2022]

[1] For example, equities.

Efficient Portfolio Management

28. For the purposes of paragraph 24, an insurer may treat a derivative transaction as having been effected for the purpose of efficient portfolio management if it has the following characteristics:

(a) it is economically appropriate;

(b) its exposure is fully covered such that the insurer is able to meet any obligation to pay or deliver; and

(c) it has one or more of the following aims:
(i) reduction of risk;
(ii) reduction of cost with no increase in risk or a minimal increase in risk; or
(iii) generation of additional economic capital or income for the relevant insurance fund or shareholders' fund, with no increase or a minimal increase in risk.

29. For the purposes of paragraph 28(a), in determining if the transaction is economically appropriate, the insurer must be of the view that:

(a) where the derivative transaction is entered into for the purpose of reducing risk or cost to the insurer or both, it would diminish a risk or cost which is sensible to reduce; or

(b) where the derivative transaction is entered into for the purpose of increasing economic capital or generating income for the relevant insurance fund or shareholders' fund, the fund would (barring events that are not reasonably foreseeable) derive a benefit from the transaction.

[MAS Notice 125 (Amendment) 2022]

Prohibitions

30. An insurer must not take uncovered positions in derivatives. Subject to paragraph 23, an insurer must ensure that a derivative transaction that gives rise, or may give rise, to future commitments, is covered as follows:

(a) in the case of a derivative transaction that will, or may at the option of the insurer, be cash settled, the insurer must ensure that it holds sufficient liquid assets at all times to cover the exposure; or
(b) in the case of derivative transactions which will, or may at the option of the counterparty, require physical delivery of the underlying assets, the insurer must hold the underlying assets in sufficient quantities to meet the delivery obligation at all times. If the insurer deems the underlying assets to be sufficiently liquid, the insurer may hold as coverage other liquid assets in

sufficient quantities, provided that such alternative assets may be readily converted into the underlying asset at any time to meet the delivery obligation.

[MAS Notice 125 (Amendment) 2022]

Contravention of requirements imposed

31. Contravention of any requirement imposed under this Notice is an offence and attracts the penalty specified in section 142(3) of the Act.

[MAS Notice 125 (Amendment) 2022]

Effective Date

32. This Notice takes effect on 1 January 2014.

[MAS Notice 125 (Amendment) 2022]

Notes on History of Amendments

1. MAS Notice 125 (Amendment) 2013 dated 22 April 2013 with effect from 22 April 2013.
2. MAS Notice 125 (Amendment) 2022 dated 30 September 2022 with effect from 1 January 2023.

Appendix A

Main Elements Of Written Investment Policy Of An Insurer

The main elements must include the following:

1 Policy relating to the determination of the strategic asset allocation for each of the major product line or aggregated product lines, as may be appropriate, that is, the long-term asset mix over the main investment categories. This must be done with due regard to asset-liability management[2], overall risk tolerance[3], long-term risk-return requirements and solvency position of the insurer.

[MAS Notice 125 (Amendment) 2022]

2 Policy relating to the establishment of limits for the allocation of assets by type of asset, credit rating, geographical area, markets, sectors, counterparties and currency. In establishing the limits, the insurer must ensure adequate diversification within a risk category and between different risk categories. Diversification within a risk category occurs where risks of the same type are pooled (e.g. shares relating to different companies). Diversification between risk categories is achieved through pooling different types of risk (e.g. when two asset portfolios whose performances are not fully correlated are combined, the exposure to the aggregated risks will generally be lower than the sum of the exposures to the risks in the individual portfolios).

[MAS Notice 125 (Amendment) 2022]

3 Formulation of an overall policy on the selection of individual securities and other investment titles. The insurer must ensure that the overall policy results in investments where the associated risks of the asset can be properly managed by the insurer, i.e. insurer can identify, measure, monitor, control and report those risks and appropriately take them into account in its own risk and solvency assessment. In particular, the insurer must identify and analyse assets which are lacking in transparency, including those inherent to the investment structure. The insurer must identify and adequately cover potential obligations to make future payments under such assets.

[MAS Notice 125 (Amendment) 2022]

[2] An insurer should consider investment guarantees and embedded options that are contained in its policies, and the currency or currencies of its liabilities and the extent to which they are matched by the currencies of the assets.
[3] An insurer should consider various types of risks, including but not limited to, risk of counterparty default, deterioration in value (including currency risk).

4 Policy for the adoption of passive or more active investment management[4] in relation to each level of decision-making. In the case of active management, definition of the scope for investment flexibility, usually through the setting of quantitative asset exposure limits.

[MAS Notice 125 (Amendment) 2022]

5 Policy relating to the holding or restriction in holding of some types of assets and the levels at which such investments can be held by the insurer.

[MAS Notice 125 (Amendment) 2022]

6 Policy for maintainance of proper books of account relating to each insurance fund and shareholders' fund and establish the framework of accountability for all asset transactions; these have to be audited at least yearly.

[MAS Notice 125 (Amendment) 2022]

7 Policy for safe-keeping of assets, including custodial arrangements and the conditions under which investments may be pledged or lent.

8 Formulation of an appropriate risk management policy in respect of the investment activities of the insurer.

9 Consideration of whether the formulation of a counterparty risk appetite statement is necessary. The factors to be taken into consideration must include (but not be limited to):

(a) considerations of the size of the insurer’s counterparty exposures, both in absolute terms and relative to the insurer’s portfolio, according to type of asset, credit rating, geographical area, markets, sectors, counterparties and currency, as well as the complexity and form of these exposures;
(b) whether the counterparty is a financial sector counterparty, as these counterparties are more likely to contribute to the build-up of systemic risk, and
(c) the insurer’s off-balance sheet exposures or commitments, which may be more likely to arise during events of stress[5].

[MAS Notice 125 (Amendment) 2022]

[4] Passive management refers to the situation where investment transactions are undertaken in order to maintain a predefined strategic mix between asset categories, or within an asset category, possibly in accordance with market indices. Active management, on the other hand, refers to the situation where transactions are undertaken in order to deliberately deviate from the predefined strategic mix to achieve a risk-return profile different from that implied by the strategic portfolio composition. This may take place at various levels, for example by changing the portfolio mix between equities and fixed income investment; altering the geographical allocation; or, in an equity portfolio, over- and underweighting of shares against an index; and, in a fixed income portfolio, increasing or decreasing the duration of the portfolio.
[5] For example, severe economic or market conditions.

10 Where the formulation of the counterparty risk appetite statement is necessary, the content of such statement[6]. The insurer must set out the level of risk[7] that it is willing to accept when a counterparty is unable to meet its obligations as they fall due in its counterparty risk appetite statement.

[MAS Notice 125 (Amendment) 2022]

[6] For example, the insurer can consider whether the counterparty risk appetite statement should include appropriate limits for certain industries, economic sectors and geographic regions to manage concentration risk.
[7] For example, reductions in fair value or impairment of investments, loss of reinsurance cover, open market exposures or the loss of securities that have been loaned.