CONSULTATION PAPER

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Proposed Revisions to Enterprise Risk Management, Investment and Public Disclosure Requirements for Insurers

Monetary Authority of Singapore

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1 Preface

1.1 The Monetary Authority of Singapore ("MAS") is proposing revisions to MAS Notice 126 Enterprise Risk Management[1], MAS Notice 125 Investments of Insurers[2] and MAS Notice 124 Public Disclosure Requirements[3]. The proposed requirements build upon MAS' existing rules and guidelines on these areas.

1.2 The International Association of Insurance Supervisors ("IAIS"), the international standard setting body for the insurance sector, has performed an extensive review on policy measures that serve to mitigate systemic risk in the insurance sector. In this regard, the IAIS had developed the Holistic Framework for Systemic Risk in the Insurance Sector ("Holistic Framework"), recognising that systemic risk may arise from both the collective activities and exposures of insurers at a sector-wide level as well as from the distress or disorderly failure of individual insurers. In particular, liquidity risk and interconnectedness (such as linkages via macroeconomic and counterparty exposures) were identified as key exposures that can have systemic impact.

1.3 A key feature of the Holistic Framework is an enhanced set of supervisory policy measures to facilitate macroprudential surveillance by insurance regulators, and this was reflected in the updated Insurance Core Principles[4] ("ICPs") adopted by the IAIS in November 2019. As MAS seeks to align our rules and regulations with the relevant updated ICPs, we propose to enhance our current requirements relating to enterprise risk management, investment risk management and disclosure practices where appropriate. The proposed requirements set out in this consultation paper are designed to strengthen insurers' risk management practices, which includes the enhancement of liquidity risk

[1] MAS Notice 126 applies to all licensed insurers, except for captive insurers and marine mutual insurers.

[2] MAS Notice 125 applies to all licensed insurers. Paragraphs 8 to 20 of Notice 125 does not apply to captive insurers and marine mutual insurers, while paragraphs 21 to 28 of the notice does not apply to an insurer in respect of the part of any insurance fund established and maintained for its investment-linked policies under section 17(1A)(a) of the Act relating to the unit reserves of the policies of the fund.

[3] MAS Notice 124 applies to all licensed insurers, except for captive insurers, marine mutual insurers and run-off insurers.

[4] The IAIS has issued the Insurance Core Principles (ICPs), which are comprised of Principle Statements, Standards and Guidance, as a globally accepted framework for insurance supervision. The ICPs seek to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.

management and stress testing processes, and to help prevent insurance sector vulnerabilities and exposures from developing into systemic risks.

1.4 Aside from the requirements relating to the mitigation of systemic risks, MAS is also proposing a separate set of amendments to MAS Notice 125 to provide more clarity on our expectations regarding oversight and investment activities of insurers.

1.5 MAS is also proposing to enhance the public disclosure requirements in MAS Notice 124 in the areas of investment risk, company profile information, technical provisions, and non-GAAP financial measures.

1.6 MAS invites comments from all interested parties on the proposed requirements.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like:

(i) their whole submission or part of it (but not their identity), or

(ii) their identity along with their whole submission,

to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.7 Please submit your comments to the consultation paper by 19 March 2021 at following link –

https://form.gov.sg/6021f8ea1a76ca0011870cc3

If you have any queries, please email id_registry@mas.gov.sg.

2 Revisions to MAS Notice 126

Concentration Risk and Counterparty Stress Testing

2.1 A risk concentration refers to an exposure with the potential to result in losses large enough to threaten a financial institution ("FI")'s financial health or ability to maintain its core operations. Such risk concentrations can arise in an insurer's assets, liabilities or off-balance-sheet items, through the execution or processing of transactions or through a combination of exposures across these broad categories. Concentration risk may arise where there are concentrated exposures to:

(a) Financial and non-financial counterparties;

(b) Products or business lines;

(c) Geographical regions or industry sectors.

2.2 Counterparty risk arises from to direct exposures between an insurer and other entities, which could result in the insurer becoming vulnerable to distress or failure of its counterparty. The extent of counterparty risk depends on various factors, such as the concentration of the exposures (both in absolute terms and relative to the insurer's balance sheet), the correlations of exposures across the insurance sector, and the type of counterparty (e.g. whether the counterparty itself is systemic). Examples of direct investment exposures are asset holdings (such as debt or equity securities, derivatives, or other financial instruments) of entities, sectors or asset classes. Another source of counterparty exposure would be reinsurance counterparties.

Concentration Risk

2.3 MAS proposes to include a new requirement for an insurer to identify and address concentration risk in its enterprise risk management (ERM) framework. This is in addition to the risks currently set out in MAS Notice 126 such as insurance, market, credit, operational and liquidity risks. MAS has observed that many insurers already consider concentration risk as part of their identification and assessment of material risks in practice.

2.4 MAS also proposes to include guidelines that provide examples of concentration risks for insurers to consider, such as those arising from:

- Small number of reinsurers or material counterparties;
- Lack of diversification of products or business lines; and
- Risk concentrations and dependencies due to exposures to geographical regions or industry sectors

Question 1.	MAS seeks comments on the proposed inclusion of concentration risk as one of the mandatory risks that licensed insurers will need to consider and address in the ERM framework.
Question 2.	MAS seeks comments on the proposed inclusion of guidelines relating to examples of concentration risks to be assessed, and welcomes suggestions on any additional guidance that should be included.

Material Counterparty Stress Testing

2.5 To facilitate insurers' assessment of their concentrated exposures, MAS proposes to include a new requirement for insurers to perform stress testing on material[5] counterparty exposures as part of the insurers' annual Own Risk and Solvency Assessment ("ORSA"). MAS has observed that several insurers already perform stress testing relating to material counterparties as part of the ORSA, such as by constructing stress scenarios relating to the default or drop in reinsurance recoverables of significant reinsurance counterparties.

2.6 MAS also proposes to provide guidance on the design of such counterparty stress tests. In designing the counterparty stress scenario, insurers should use assumptions relating to the deterioration of credit-worthiness or the default of individual legal entities, industry sectors or geographic areas. An example of a material counterparty stress testing scenario would be to assume the default of an insurer's largest reinsurer (or retrocessionaire for reinsurers), or a fall in the total reinsurance recoverable on paid and unpaid claims relating to its top 3 reinsurance counterparties. Insurers may also assume the default of bonds and major counterparties in relevant industry sectors or geographical areas in their investment portfolio.

[5] An insurer should assess the materiality of counterparty exposures in a manner appropriate to the nature, scale and complexity of its business, taking into account its risk appetite.

Question 3.	MAS seeks comments on the proposed requirement for licensed insurers to perform counterparty stress testing on material counterparties as part of the ORSA.
Question 4.	MAS seeks comments on the proposed inclusion of guidance relating to the design of the counterparty stress tests and welcomes suggestions on any additional guidance that should be included.

Macroeconomic Stress Testing

2.7 Under MAS Notice 126 on ERM, all licensed insurers are already required to perform stress testing as part of the ORSA and come up with scenarios that will encompass all reasonably foreseeable and relevant material risks. For instance, in the case of life insurers, ORSA stress tests would typically include macroeconomic risks given their asset and liability profile. Significant insurers are also required to participate in regular industry-wide stress tests conducted by MAS, where the potential vulnerabilities of insurers (and the insurance sector as a whole) to adverse macroeconomic and financial developments are assessed. Such stress tests are useful to ensure that insurers have sufficient capital to absorb losses during adverse macroeconomic conditions and are able to take appropriate management actions, where necessary. Given the usefulness of macroeconomic stress testing, especially in light of the current volatile market environment, MAS proposes to require all insurers to perform macroeconomic stress testing as part of their ORSA stress testing process.

2.8 MAS also proposes to provide guidance on the design of macroeconomic stress scenario(s) and include examples of relevant macroeconomic exposures. In designing the macroeconomic stress tests, an insurer should determine its key risk drivers by reviewing its risk profile, for instance, the type of assets that it has significant holdings in, the nature of products that it underwrites and the type of insurance risks that it is more susceptible to. Insurers should define a projection horizon that is commensurate with the severity of the scenario so that the impact of the stresses on its financial position could be captured in the projection horizon. Also, the timing of application of both investment and non-investment stress parameters should be considered based on the construct of the scenario.

2.9 In designing the macroeconomic stress scenario, insurers should also identify a range of plausible events or changes in market conditions that could adversely affect the insurer's financial position, taking into account the insurer's own vulnerabilities. MAS proposes to introduce guidelines for insurers to consider relevant stress factors, such as the following investment and non-investment shocks:

Investment shocks	Non-investment shocks
• Fall in equity and property prices • Changes in sovereign yield curves by major currencies • Large movements in credit spreads	• Fall in new business premium • Increase in termination rates • Mass lapse of policies

Question 5.	MAS seeks comments on the proposed requirement for licensed insurers to perform macroeconomic stress testing as part of the ORSA.
Question 6.	MAS seeks comments on the proposed inclusion of guidelines on the design of the macroeconomic stress tests, examples of relevant macroeconomic stress factors and welcomes suggestions on any additional guidance that should be included.

Liquidity Risk Management

2.10 MAS' Guidelines on Risk Management Practices – Liquidity Risk defines liquidity risk as the risk of an FI being unable to meet its financial obligations as they fall due without incurring unacceptable costs or losses through fund raising and asset liquidation. It could be a result of the inability of the FI to manage unplanned decreases or changes in funding sources and the failure to recognise or address changes in market conditions that affect the FI's ability to liquidate assets quickly and with minimal loss in value. For life insurers, perceived reputational issues may result in large surrenders over a short period of time which could require the insurer to liquidate assets at depressed prices. Certain life insurance products may also contain provisions whereby a policyholder can withdraw cash from the policy with little notice or penalty. Hence, a liquidity shortage may arise in certain circumstances if insurers do not adequately match such liabilities with sufficiently liquid assets. For general insurers, even though their policies typically do not have cash values, a series of large claims over a short period (e.g. as a result of a catastrophe event) may result in liquidity shortfalls.

2.11 Non-insurance obligations may also contribute to an insurer's level of liquidity risk. Derivatives which require collateral or margin calls may cause liquidity concerns if there is a significant marked-to-market decline in the value of the contract, especially if the insurer holds material positions in such derivatives. For securities lending transactions, if the collateral is reinvested in illiquid assets, sudden demands for collateral could force the lender to sell these assets. In a stressed market, these sales may impact the insurer's creditworthiness, triggering more collateral demands and lead to a price spiral as the lender sells assets to meet collateral needs.

2.12 Hence, insurers should not underestimate their liquidity risk exposures which can be exacerbated in times of stress. MAS proposes to require insurers to establish liquidity management processes as part of its ORSA, as set out in the following paragraphs.

Maintenance of Unencumbered Portfolio of Liquid Assets

2.13 MAS proposes to require licensed insurers to maintain a portfolio of liquid assets to meet their liquidity needs under both normal and stressed conditions. The portfolio of liquid assets must be unencumbered such that there are no restrictions on the insurer's ability to liquidate the assets, and these assets must not be pledged or collateralised to any other transaction. Where appropriate, the insurer should assess its liquidity needs by individual currencies.

2.14 MAS also proposes to provide guidance on how insurers should establish the portfolio of liquid assets to ensure that only appropriate assets that meet certain characteristics of liquid assets are included in the portfolio. These characteristics may include:

- being able to be easily convertible into cash;
- being assessed to be of low credit risk;
- being able to easily obtain transparent and accurate valuations;
- showing low correlation with other risky assets;
- having consistently active markets; and
- being reliable sources of liquidity during stress.

2.15 As the quality of the liquid assets could affect insurers' ability to liquidate the assets in a timely and effective manner, MAS proposes to introduce guidelines for insurers to establish a liquidity bucketing framework to assess their ability to meet liquidity needs under different stress horizons. Insurers may consider two classifications[6] of liquid assets under this liquidity bucketing framework – the primary bucket and the secondary bucket, where liquid assets are allocated based on the nature of the asset's characteristics mentioned in paragraph 2.14.

2.16 The primary bucket should consist of liquid assets which are of the highest credit quality and market liquidity, and can be liquidated in a short time even under stress. Examples of assets in the primary bucket may include:

- Cash;
- Demand deposits;
- Securities issued or guaranteed by:
  - a sovereign or a central bank (Credit Quality Class B or better);
  - a Statutory Board in Singapore and recognised multilateral agencies; and
- Government money market funds (holding high levels of cash or liquid assets and have a stated objective to provide liquidity on demand).

2.17 The secondary bucket should consist of liquid assets which are of high credit quality, but may take more time to find a buyer and have relatively less liquid markets as compared to primary assets. Examples of assets in the secondary bucket may include:

- Securities issued or guaranteed by:
  - a sovereign or a central bank (Credit Quality Class C to Class D);
  - a public sector entity (other than a Statutory Board in Singapore) (Credit Quality Class D or better);
  - a qualifying multilateral development bank (Credit Quality Class D or better);
- Covered bonds (Credit Quality Class D or better);
- Non-financial corporate debt securities[7], including commercial paper (Credit Quality Class D (Credit Quality Class "C1" for commercial paper) or better); and
- Unencumbered non-financial equities that are a constituent of a major index.

[6] Insurers may choose to adopt more than two classifications, if deemed appropriate to the nature, scale and complexity of their portfolio of liquid assets.

[7] Excluding complex structured products or subordinated debt securities.

Please refer to Appendix 4K of MAS Notice 133 for the mapping of Credit Quality Class classification by credit rating used in this section. Please refer to Appendix 4C and 4M of MAS Notice 133 for the list of Recognised Multilateral Agencies and Qualifying Multilateral Development Banks respectively.

2.18 MAS also proposes to allow insurers to include any other assets which are assessed to demonstrate the characteristics of liquid assets described in paragraph 2.14 as part of the secondary bucket. In order to do so, the insurer is expected document its assessment of how these characteristics are met if such assets are included in the secondary bucket.

2.19 The examples of assets in the secondary bucket explicitly exclude assets issued by financial firms. MAS proposes for insurers to exclude such assets from the portfolio of liquid assets as they have the potential for wrong-way risk given that their liquidity is positively correlated with developments in the financial markets and/or broader economy. During times of stress, such assets may not be sufficiently liquid and could contribute to systemic risk by increasing the insurer's interconnectedness with the rest of the financial sector. This is the approach already adopted under MAS 649 for banks, where assets issued by financial firms are not allowed to be included as part of a bank's high quality liquid assets (HQLA).

Question 7. MAS seeks comments on the proposed requirement for licensed insurers to maintain a portfolio of unencumbered liquid assets.

Question 8. MAS seeks comments on the proposed inclusion of guidelines for licensed insurers to establish a liquidity bucketing framework to assess their ability to meet liquidity needs under different stress horizons and welcomes suggestions on any additional guidance that should be included.

Question 9. MAS seeks comments on the types of other assets that could be assessed to demonstrate the characteristics of liquid assets and be included in the secondary bucket. Please also include supporting evidence as to how the criteria described in paragraph 2.14 would have been met for such assets.

Question 10.	MAS seeks comments on the exclusion of assets issued by financial firms from the portfolio of liquid assets due to the potential for wrong-way risks.

Liquidity Stress Testing

2.20 As part of the liquidity risk management framework, regular stress testing would enable an insurer to develop a sound understanding of the ways in which its activities affect its liquidity risk profile under both normal and stressed conditions. Hence, MAS proposes to introduce a requirement for insurers to conduct liquidity stress testing as part of the ORSA. Significant insurers have been conducting liquidity stress tests as part of the regular industry-wide stress tests conducted by MAS, and several insurers already include liquidity stress scenarios as part of their ORSA where liquidity risk is assessed to be material.

2.21 In addition, MAS proposes to introduce guidelines on how insurers should design the liquidity stress tests. For example, insurers should consider a variety of short-term and protracted market-wide and insurer-specific liquidity stress scenarios, and consider several time horizons (such as one month, three months or longer-term horizons) that are relevant to the insurer's liquidity risk profile.

2.22 MAS' proposed guidelines would also suggest for insurers to identify a range of severe, but plausible scenarios that could adversely affect the insurer's cash in-flows, cash out-flows and overall liquidity position, taking into account the insurer's own vulnerabilities. During the projection of cash flow positions, insurers should consider relevant stress factors such as the following investment and non-investment shocks:

Investment shocks	Non-investment shocks
• Reduced or no in-flows from dividends and rental income • Increase in collateral requirements	• Decrease in reinsurance recoveries • Mass lapse of policies with surrender values

2.23 In addition, MAS proposes to introduce guidelines on how insurers should assess the adequacy of the portfolio of liquid assets to meet cashflow obligations over the various time horizons used during the liquidity stress testing process, where:

- An insurer should assess whether sufficient primary assets are available to meet cashflow obligations within the immediate horizon (i.e. 7 days or less).

- An insurer should assess whether sufficient primary and secondary assets are available to meet cashflow obligations within short term horizons (i.e. between 7 days and 90 days).

- In addition to the use of primary and secondary assets, an insurer may consider including a broader spectrum of appropriate assets to assess whether cashflow obligations are able to be met under longer term horizons (i.e. more than 90 days up to a year).

2.24 During both normal and stressed conditions, the monetisation of liquid assets would be affected by factors such as market liquidity, time taken to find willing buyers and the possibility of forced-sale losses. Hence, MAS expects insurers to consider the possibility of lower realisable values of the liquid assets during the liquidity stress testing process. These asset haircuts should include the potential costs and financial losses arising from their sale under the various stress conditions, noting that these may be exacerbated when the insurer is a forced seller (i.e. such assets should be subject to higher haircuts). The haircuts applied on assets should reflect the credit quality of the asset, the severity of the stress scenario and the timing of the liquidation, with the rationale and amount of haircut applicable to each asset type to be properly documented.

Question 11.	MAS seeks comments on the proposed requirement for licensed insurers to perform liquidity stress testing as part of the ORSA.
Question 12.	MAS seeks comments on the proposed inclusion of guidelines on the examples of relevant liquidity stress factors, design of the liquidity stress tests and welcomes suggestions on any additional guidance that should be included.
Question 13.	MAS seeks comments on the proposed inclusion of guidelines relating to the nature of assets which may be used to meet liquidity needs under various time horizons during liquidity stress testing and welcomes suggestions on any additional guidance that should be included.

Question 14.	MAS seeks comments on the factors to be considered when determining the amount of haircut to be applied on the market value of the assets during liquidity stress testing. Are there any other factors that may affect the severity of haircuts that should be included in the guidelines?

Liquidity Contingency Funding Plan

2.25 A liquidity contingency funding plan would assist the insurer in responding to liquidity stress events in a timely manner and at a reasonable cost, especially when its portfolio of liquid assets becomes insufficient or unexpectedly becomes illiquid. Such plans would include the management actions that the insurer could realistically take to ensure that liquidity sources are sufficient to maintain normal operations and to continue to meet its financial obligations under liquidity stress.

2.26 MAS proposes to include a new requirement for insurers to establish a liquidity contingency funding plan which sets out the strategy for addressing liquidity shortfalls. In addition, MAS proposes to introduce guidelines on the key elements of a liquidity contingency plan. These include, but are not limited to, the description of:

- the governance process with clear roles and responsibilities, and procedures for identifying early warning indicators on potential liquidity stress events;
- quantitative metrics used to identify liquidity stress events and monitor the liquidity position;
- diversified alternative sources of funding (e.g. liquidity facility) with details of when and how each source of funding can be activated;
- considerations on the impact of stressed market conditions on insurers' ability to monetise assets, including details of any operational, legal and regulatory limitations.

Question 15.	MAS seeks comments on the proposal to require licensed insurers to establish a liquidity contingency funding plan as part of the ERM framework.

Question 16.	MAS seeks comments on the proposed guidelines relating to the key elements of a liquidity contingency funding plan and welcomes suggestions on any additional guidance that should be included.

Submission of the Liquidity Risk Management Analysis

2.27 After performing the liquidity risk management processes described above, it is important for insurers to document the results of the analysis and demonstrate the overall liquidity adequacy of the insurer under both under normal and stressed conditions. Instead of requiring insurers to submit a separate liquidity risk management report, MAS proposes to require licensed insurers to submit the liquidity risk management analysis as part of the submission of the ORSA report. This reflects the view that liquidity risk is one of the risks that insurers have to consider as part of their overall risk assessment.

2.28 In addition, MAS proposes to introduce guidelines on the key elements of a liquidity risk management analysis, which include the:

- liquidity risk appetite statement and liquidity risk limits;
- assessment of current liquidity position in relation to risk appetite and limits;
- details of strategies, policies and processes to manage liquidity risk;
- considerations on potential vulnerabilities and approaches to enhance liquidity positions; and
- results of liquidity stress tests.

Question 17.	MAS seeks comments on the proposal to require licensed insurers to submit a liquidity risk management analysis as part of the ORSA report submission.
Question 18.	MAS seeks comments on the proposed guidelines relating to the key elements of the liquidity risk management analysis and welcomes suggestions on any additional guidance that should be included.

3 Revisions to and Applicability of MAS Notice 125

3.1 MAS Notice 125 on Investments of Insurers sets out the principles that govern the oversight of investment activities of a licensed 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.

3.2 Appendix A of Notice 125 requires the board-approved written investment policy of an insurer to include limits for the allocation of assets by geographical area, markets, sectors, counterparties and currency. In this context, MAS proposes to require that limits for the allocation of assets by type of asset and credit rating to be additionally established in the board-approved written investment policy.

3.3 A counterparty risk appetite statement sets out the level of risk the insurer is willing to accept should a counterparty be unable to meet its obligations as they fall due. This may impact the insurer's financial position through, 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.

3.4 MAS proposes for insurers to also include in their board-approved investment policy to consider whether the formulation of a counterparty risk appetite statement is necessary, taking into account 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. Particular attention should be paid to financial sector counterparties, as these counterparties may be more likely to contribute to the build-up of systemic risk. Attention should also be paid to off-balance sheet exposures or commitments, as these may be more likely to materialise during stress.

Question 19.	MAS seeks comments on the proposed requirement for insurers to include establishment of limits for the allocation of assets by type of asset and credit rating in the board-approved written investment policy.
Question 20.	MAS seeks comments on the proposed requirement for insurers to consider whether the formulation of a counterparty risk appetite statement is necessary and the factors to be taken into account.

3.5 Captive insurers and marine mutual insurers are excluded from the requirements under paragraphs 8 to 20 of Notice 125. MAS proposes to also exclude special purpose reinsurance vehicles ("SPRVs") from these requirements, given the static nature of an SPRV's business model and that it typically invests in liquid financial instruments.

3.6 In addition, paragraphs 21 to 28 of Notice 125 does not apply to an insurer in respect of the part of any insurance fund established and maintained for its investment-linked policies under section 17(1A)(a) of the Act relating to the unit reserves of the policies of the fund. MAS proposes that paragraphs 13 to 14 of Notice 125 shall also not apply to an insurer in respect of the part of any insurance fund established and maintained for its investment-linked policies.

Question 21.	MAS seeks comments on the proposal to exclude SPRVs from the requirements under paragraphs 8 to 20 of Notice 125.
Question 22.	MAS seeks comments on the proposal to exclude the requirements under paragraphs 13 and 14 of Notice 125 in respect of the part of any insurance fund established and maintained for its investment-linked policies.

4 Revisions to and Applicability of MAS Notice 124

Enhancements to Public Disclosure Requirements

4.1 MAS Notice 124 on Public Disclosure Requirements sets out requirements[8] for licensed insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give members of the public, including policyholders, a clear view of their business activities, performance and financial position. This is expected to

[8] MAS continues to hold the view that a standard template for the public disclosures under MAS Notice 124 is not necessary, as such a template may inadvertently limit the extent and presentation format of disclosure. The flexibility given in the presentation format is necessary to cater for different business profiles, and licensed insurers should take into account their nature, scale and complexity when determining the relevance and extent of information to be disclosed.

enhance market discipline and understanding of the risks to which licensed insurers are exposed and the manner in which those risks are managed.

4.2 Liquidity risk in the insurance sector is an exposure that may lead to systematic impact. In this context, MAS proposes to require licensed insurers to publicly disclose quantitative and qualitative information on liquidity risk, including quantitative information on sources and uses of liquidity (considering liquidity characteristics of both assets and liabilities), and qualitative information on liquidity risk exposures, management strategies, policies and processes. MAS also proposes to require licensed insurers to publicly disclose known trends, significant commitments, significant demands and reasonably foreseeable events that potentially results in material improvement or deterioration in liquidity.

4.3 Investment is a key function of licensed insurers. The nature of insurance business necessitates the investment in and holding of assets sufficient to cover policy liabilities, meet capital requirements and generate investment returns. Disclosure of investment risk exposures can provide members of the public, including policyholders, with valuable insight into:

- the level of variability in investment performance that one can expect when economic or market conditions change;
- the ability of an insurer to achieve its desired investment outcome; and
- whether the insurer is exposed to excessive risk that may adversely affect its solvency position.

4.4 MAS proposes to require licensed insurers to publicly disclose quantitative and qualitative information on investment risk, including quantitative information on currency risk, market risk, credit risk and concentration risk, and qualitative information on the management of investment risk exposures, use of derivatives for hedging investment risks and internal policies on the use of derivatives.

4.5 Currently, MAS Notice 124 requires licensed insurers to disclose information about their company profile, including the nature of their business, a general description of their key products, the external environment in which they operate, their objectives and their strategies in place to achieve these objectives. The overall aim for the company profile disclosure is for insurers to provide a contextual framework for the other information required to be made public. MAS proposes to enhance the company profile disclosure by requiring disclosures on corporate structure, including any material changes that have taken place during the year, and key business segments.

Question 23. MAS seeks comments on the proposal to require insurers to disclose:

(a) quantitative and qualitative information on liquidity risk (including quantitative sources and uses of liquidity, and qualitative information on liquidity risk exposures, management strategies, policies and processes), known liquidity trends, and significant commitments, demands and reasonably foreseeable events that potentially results in material improvement or deterioration in liquidity;

(b) quantitative and qualitative information on investment risk, including quantitative information on currency risk, market risk, credit risk and concentration risk, and qualitative information on management of investment risk exposures, use of derivatives for hedging investment risks and internal policies on the use of derivatives; and

(c) corporate structure, including any material changes that have taken place during the year, and key business segments.

Clarification on Technical Provision Disclosure

4.6 Currently, MAS Notice 124 requires licensed insurers to disclose quantitative and qualitative information about the determination of technical provisions, which shall be presented in appropriate segments. MAS proposes to amend this requirement to clarify the policy intent that such disclosure shall be presented based on material insurance business segments as this would be more meaningful and can enhance comparability of disclosures across licensed insurers.

Question 24. MAS seeks comments on the proposal to clarify that the technical provisions disclosure shall be presented based on material insurance business segments.

Disclosures on Non-GAAP Financial Measures

4.7 Insurers may disclose financial measures other than those specified in the accounting standards or MAS' legislations. These are typically known as non-GAAP financial measures[9]. As such measures may not be standardised or fully understood by members of the public, including policyholders, MAS proposes to require insurers to publicly describe the formula or methodology of financial measures other than those specified in the accounting standards or MAS' legislation that are used in their disclosures. MAS also proposes to require insurers to provide appropriate disclaimers that such financial measures do not have a standardised definition within the relevant accounting standards and MAS' legislation and hence may not be comparable with other entities.

Question 25.	MAS seeks comments on the proposal to require insurers to: (a) publicly describe the formula or methodology of financial measures other than those specified in the accounting standards or MAS' legislation that are used in their disclosures; and (b) provide appropriate disclaimers that such financial measures do not have a standardised definition within the relevant accounting standards and MAS' legislation and hence may not be comparable with other entities.

Scope of Public Disclosure Requirements

4.8 Currently, MAS Notice 124 applies to all licensed insurers, except for captive insurers, marine mutual insurers and run-off insurers. As policyholders of SPRVs are the sponsors of the insurance-linked securities transactions, these policyholders will have access to relevant information to understand the risks to which the SPRV is exposed, and the manner in which the risks are managed. Hence, MAS is proposing to exclude SPRVs from the public disclosure requirements in MAS Notice 124.

Question 26.	MAS seeks comments on the proposal to exclude SPRVs from the public disclosure requirements in MAS Notice 124.

[9] This can include combined ratio, earnings before interest, taxes, depreciation and amortisation (EBITDA), economic capital, free cash flows, new business embedded value, and weighted new sales.

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Question 18. MAS seeks comments on the proposed guidelines relating to the key elements of the liquidity risk management analysis and welcomes suggestions on any additional guidance that should be included. 15

Question 19. MAS seeks comments on the proposed requirement for insurers to include establishment of limits for the allocation of assets by type of asset and credit rating in the board-approved written investment policy. 16

Question 20. MAS seeks comments on the proposed requirement for insurers to consider whether the formulation of a counterparty risk appetite statement is necessary and the factors to be taken into account. 16

Question 21. MAS seeks comments on the proposal to exclude SPRVs from the requirements under paragraphs 8 to 20 of Notice 125. 17

Question 22. MAS seeks comments on the proposal to exclude the requirements under paragraphs 13 and 14 of Notice 125 in respect of the part of any insurance fund established and maintained for its investment-linked policies. 17

Question 23. MAS seeks comments on the proposal to require insurers to disclose: 19

(a) quantitative and qualitative information on liquidity risk (including quantitative sources and uses of liquidity, and qualitative information on liquidity risk exposures, management strategies, policies and processes), known liquidity trends, and significant commitments, demands and reasonably foreseeable events that potentially results in material improvement or deterioration in liquidity;

(b) quantitative and qualitative information on investment risk, including quantitative information on currency risk, market risk, credit risk and concentration risk, and qualitative information on management of investment risk exposures, use of derivatives for hedging investment risks and internal policies on the use of derivatives; and

(c) corporate structure, including any material changes that have taken place during the year, and key business segments.

Question 24. MAS seeks comments on the proposal to clarify that the technical provisions disclosure shall be presented based on material insurance business segments. 19

Question 25. MAS seeks comments on the proposal to require insurers to: 20

(a) publicly describe the formula or methodology of financial measures other than those specified in the accounting standards or MAS' legislation that are used in their disclosures; and

(b) provide appropriate disclaimers that such financial measures do not have a standardised definition within the relevant accounting standards and MAS' legislation and hence may not be comparable with other entities.

Question 26. MAS seeks comments on the proposal to exclude SPRVs from the public disclosure requirements in MAS Notice 124. 20

Monetary Authority of Singapore