Monetary Authority of Singapore
10 Shenton Way MAS Building Singapore 079117 Telephone: (65) 6225-5577

Annex A

Key Revisions made to RBC 2 Proposals

- **Moderation of risk requirements**

Capital requirements for equity investment, credit spread, counterparty default and operational risk have been re-calibrated. MAS observed from the QIS 1 results that these requirements were overly conservative.

- **Widening of the eligibility criteria for matching adjustment (MA)**

For life insurers with predictable liability cash flows, the bonds that are held to back these liabilities are typically held to maturity. Under the current RBC framework, an insurer's capital adequacy fluctuates with the short-term market volatility in interest rates and credit spreads, even though the underlying financial strength of the insurer has not changed.

To address this issue, MAS consulted in 2014 on the use of an MA. This is a parallel upward adjustment to the risk-free rates used for discounting the eligible liability cash flows. It is derived from the actual bonds that insurers hold to back their liabilities, and is equal to the spread of the bond yields over the risk-free rate, less an estimated spread for the cost of default and downgrade of the bond. The resultant effect is that it allows policy liabilities to mirror closely the market changes in bond values that are unrelated to defaults or downgrades.

Given the consultation feedback, MAS proposes revisions to widen the eligibility criteria for the use of the MA.

- **Introduction of an illiquidity premium (IP) adjustment**

For products that do not qualify for the MA, MAS proposes to introduce a more generic illiquidity premium for life insurers, which works in a similar way as the MA but will accord a smaller adjustment, to the rate for discounting insurance liabilities.

- **Study of Infrastructure Asset Class**

Given the long-term nature of life insurers' liabilities, they may find the infrastructure asset class to be suitable long-term investments. MAS is therefore seeking feedback on insurers' interest in this asset class, and the specific types and characteristics of infrastructure financing that are appropriate for insurers. The feedback will allow MAS to formulate specific capital requirements for this asset class.