

# CONSULTATION PAPER

P002 - 2012

February 2012

# Insurance Group-wide Supervision

MAS

Monetary Authority of Singapore

## **CONTENTS**

	Preface	2
1	Introduction	3
2	Legislative Framework for Insurance Group-wide Supervision	4
3	MAS' Powers and Rules on Group-wide Supervision	
	(a) Scope of Application	5
	(b) Group Structure	7
	(c) Corporate Governance	11
	(d) Group Solvency and Capital Adequacy	17
	(e) Group Monitoring Requirements	23
4	Implementation Timeline	26

## **PREFACE**

MAS has developed a group-wide supervision framework for insurance groups in line with developments in international standards. The framework will be relevant for groups headed by an insurance company, as well as those headed by a non-operating financial holding company ("FHC"). The scope of this paper covers the regulatory policy proposals for insurance groups. Details on the supervisory methodology and approach for insurance groups will be addressed in a separate consultation paper to be issued by MAS at a later date.

MAS invites interested parties to forward their views on the proposals and comments to the consultation questions set out in this paper. Electronic submission is encouraged. Please submit your comments by 19 March 2012 to:

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Please note that any submission received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

## 1 INTRODUCTION

1.1 MAS is enhancing current insurance group-wide supervisory practices by establishing a more robust group-wide supervision framework. These enhancements to group-wide supervision, in addition to solo supervision of individual entities within the group, will enable MAS to monitor the financial health of insurance groups more effectively. Following the financial crisis of 2008/09, the International Association of Insurance Supervisors (“IAIS”) has also undertaken substantial work in setting international standards on group-wide supervision in line with the recommendations of the Financial Stability Board and the G20 action plan. The IAIS Insurance Core Principle on group-wide supervision was recently reviewed and updated<sup>1</sup> as a result. MAS’ proposals to enhance its group-wide supervision framework are in line with these international standards.

1.2 An insurance group may be headed by a **controlling parent entity** that is either an insurance company or an FHC. MAS’ insurance group-wide supervision framework will cover both types of groups.

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<sup>1</sup> The revised IAIS Insurance Core Principles (2011 version) was published in October 2011 and is available on the official website of the IAIS (<http://www.iaisweb.org>).

## 2 LEGISLATIVE FRAMEWORK FOR INSURANCE GROUP-WIDE SUPERVISION

2.1 MAS' prudential requirements for an insurance group will be applied **via the controlling parent** of the group. Where this is an FHC, the FHC will be designated for regulation under the proposed FHC Act ("designated FHC") and the FHC-specific requirements prescribed there will apply (please refer to *MAS Consultation Paper on Regulatory Framework for Financial Holding Companies* issued on 17 February 2012 ("FHC consultation paper") for the details). Where the controlling parent is an insurance company, the existing provisions under the Insurance Act (Cap. 142) ("IA"), together with relevant amendments to include rules on group-wide supervision, will apply<sup>2</sup>.

2.2 To ensure a level playing field between both types of groups, MAS will subject insurance groups headed by designated FHCs and insurance companies to the same rules, where applicable. There will, however, be differences in rules applied at the parent entity level due to the operating status of the parent entity as an insurance company, i.e. that it engages in insurance business and is directly accountable to policyholders while an FHC does not.

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<sup>2</sup> Refer to the Annex for further details.

### 3 MAS' POWERS AND RULES ON GROUP-WIDE SUPERVISION

3.1 MAS will put in place the necessary enabling powers and requirements to enhance our group-wide supervision of insurance groups. The sections below set out the relevant proposals.

#### (a) Scope of Application

3.2 MAS will assess the circumstances of each case to determine the scope of MAS' group-wide supervision. With the exception of **Singapore insurance groups**<sup>3</sup>, for which MAS is the *de facto* home supervisor responsible for group-wide supervision, the others will be **intermediate insurance groups** that are part of a larger insurance group operating internationally. Such groups will likely be subject to group-wide regulation and supervision by the insurance supervisor of the jurisdiction in which the ultimate parent entity of the group is located ("the foreign home supervisor"). In considering the scope of our supervision, MAS is mindful to avoid unnecessary duplication of regulatory and supervisory oversight in the case of such groups that are already subject to group-wide supervision by the foreign home supervisor. Where a group is not subject to group-wide supervision, MAS will consider applying group-wide supervision to the intermediate group if it has significant operations in Singapore.

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<sup>3</sup> Singapore insurance groups will be those whose ultimate parent entity is incorporated in Singapore.

### **Proposal 1**

MAS will carry out group-wide supervision of **Singapore insurance groups** whose parent entity holds an insurance subsidiary operating in Singapore or is itself an insurance company operating in Singapore.

MAS will consider carrying out group-wide supervision of **intermediate insurance groups** whose ultimate parent entity is incorporated outside Singapore based on the following conditions:

- i) the insurance group to which the intermediate group belongs is not subject to group-wide supervision by the foreign home supervisor; and
- ii) the operations of such an intermediate insurance group in Singapore is significant to the Singapore financial system, or significant to the intermediate insurance group under the intermediate parent entity in Singapore.

In this case, the scope of MAS' group-wide supervision, if applied, will cover only the intermediate group operating from Singapore. In each case, MAS will have the power to determine whether or not to exercise group-wide supervision, and that such a determination be made upon consultation with relevant foreign supervisors as necessary.

### **Proposal 2**

The scope of MAS' group-wide supervision of an insurance group shall include, at a minimum, the parent entity in Singapore (be it a designated FHC or an insurance company) and its group of companies in accordance with the Singapore Accounting Standards. MAS may **include other entities** in the defined group as necessary, if these entities are assessed to also pose contagion risk (whether financial, reputational or operational) to the group.

### **Consultation Question 1**

Are the proposed conditions for MAS to carry out group-wide supervision of **intermediate insurance groups** appropriate? What other additional conditions should be taken into account?

### **Consultation Question 2**

Is the proposed scope of group-wide supervision of an insurance group appropriate? What adjustments might be needed?

## (b) Group Structure

### Cyclical Shareholding Arrangements

3.3 To ensure transparency in group structure and lines of control within the insurance group, cyclical shareholding arrangements, under which entities of the group downstream of the parent entity hold stakes in the parent entity, will not be permitted. The proposed rules will also prevent the multiple use of capital within the group. Such rules to restrict cyclical shareholdings within a bank group are already in place since 2004.

3.4 The scope of the restriction on cyclical shareholdings will cover the parent entity and its **affiliated entities**. MAS proposes that the definition of an “**affiliated entity**” be aligned to that applicable for banks to ensure a level playing field and avoid regulatory arbitrage between the banking and insurance sectors<sup>4</sup>. Figure 1 provides an example of how the cyclical shareholding prohibition applies.

#### **Proposal 3**

Cyclical shareholding arrangements, under which entities of the insurance group hold stakes in the parent entity, shall be prohibited.

#### **Proposal 4**

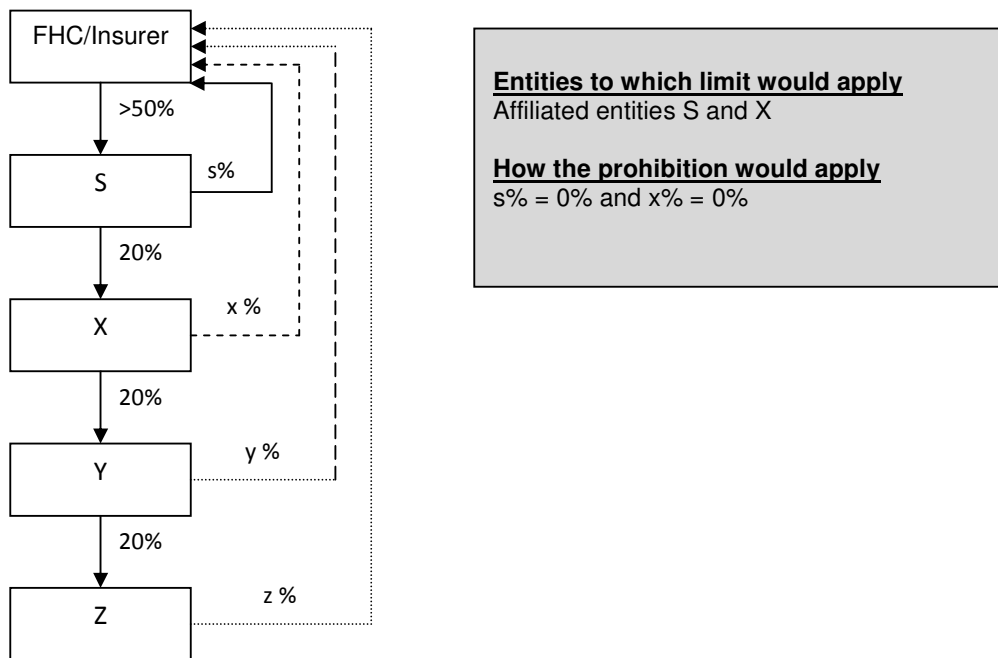
An “**affiliated entity**” in the context of an insurance group shall mean:

- (a) any subsidiary of the parent entity (either a designated FHC or an insurance company);
- (b) any company in which the parent entity and its subsidiaries –
  - (i) hold in the aggregate a beneficial interest in not less than 20% of the share capital; or
  - (ii) control in the aggregate not less than 20% of the voting power;
- (c) any other company where the directors of the company are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions and wishes of the parent entity, or where the parent entity is in a position to determine the policy of the company; or
- (d) any subsidiary of a company referred to in (b) or (c) above.

<sup>4</sup> This is particularly relevant in the case of cross-sector groups comprising banking and insurance operations.



**Figure 1: Cyclical Shareholding Prohibition within an Insurance Group**



*Investments Held under Insurance Funds*

3.5 MAS recognises that investments under insurance funds are held for purposes that differ from those held using the equity (or shareholder funds) of the insurance company. Therefore, investments held under insurance funds where the rights conferred are held and exercised for the primary benefit of policyholders, such as the participating fund and the unitised portion of the investment-linked fund, will be excluded from the proposed cyclical shareholding prohibition. This exclusion is on the premise that investments held under these funds are made to optimise returns for the policyholders. Conditional to such exclusion is the requirement for the insurance company to have a clear **investment policy** and **voting policy**<sup>5</sup> for investments made using the participating fund and investment-linked fund to ensure that the interests and rights of policyholders concerned are not compromised.

Changes to Group Structure

3.6 An insurance group's structure may change as it adapts to market conditions by establishing new entities or acquiring stakes in other companies. Conversely, the group may also exit from certain markets or products thereby resulting in the

<sup>5</sup> MAS intends to issue relevant guidelines on what these investment and voting policies should entail going forward.

disposal of existing entities or stakes held. New operations or acquisitions pose a greater degree of prudential concern as they draw on the capital of the group. Disposals, on the other hand, result in the release of capital<sup>6</sup>. The prior approval of MAS should therefore be obtained for the holding or acquisition of major stakes in other companies. It is proposed that the definition of “**major stake**” in this case be aligned to that applicable for banks for the same reasons stated in paragraph 3.4 above.

#### **Proposal 5**

MAS' prior approval will be required for the parent entity to acquire or hold, directly or indirectly, a **major stake** in any company<sup>7</sup>, whether financial or non-financial. In the case of disposals and divestments, MAS shall be notified in advance by the parent entity.

#### **Proposal 6**

MAS proposes that the definition of a “**major stake**” in this case be aligned to that applicable for banks, namely:

- (a) any beneficial interest exceeding 10% of the total number of issued shares in a company;
- (b) control over more than 10% of the voting power in a company; or
- (c) any interest in a company, where the directors of the company are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions and wishes of the parent entity (either a designated FHC or an insurance company), or where the parent entity is in a position to determine the policy of the company.

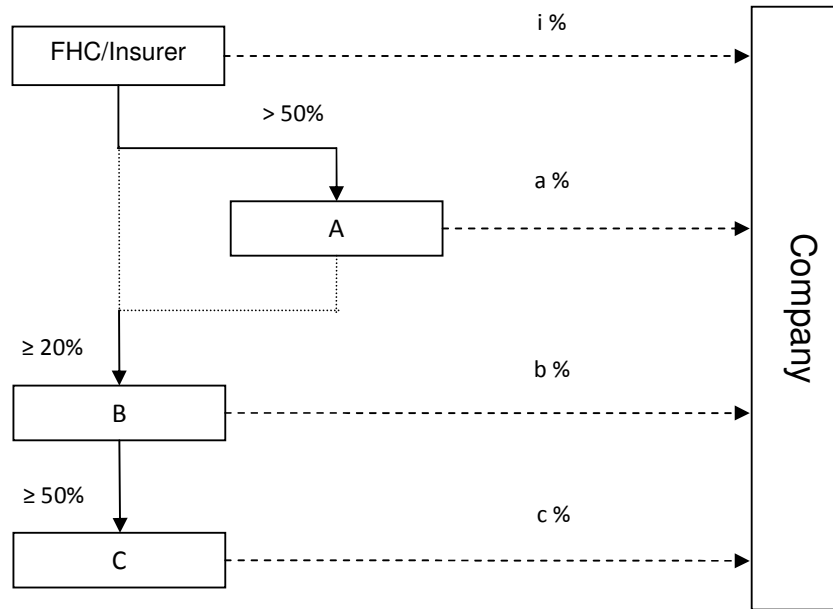
3.7 As mentioned earlier, the parent entity of the insurance group may acquire or hold stakes in a company indirectly via another downstream entity of the group. To ensure that such stakes are also captured, MAS proposes that stakes held by “affiliated entities” of the parent entity (as set out in Proposal 5 above) be aggregated in full with its own stakes in the company concerned for determining whether a major stake is held in that company. Figure 2 below illustrates how such an aggregation applies. As investments held under insurance funds such as the participating fund

<sup>6</sup> This is the case for voluntary and solvency disposals.

<sup>7</sup> Currently, MAS-registered insurance companies require MAS' prior approval before setting up new operations (including subsidiaries, joint ventures or branches) or acquiring controlling stakes in other companies. This requirement is imposed by way of a condition to registration under Section 8 of the IA on Registration by the Authority. The above proposed rule will effectively make the requirement explicit in the IA.

and the unitised portion of the investment-linked fund are made to optimise the interests of policyholders (and not the insurance company), investments held under these funds will be excluded from such aggregation for the determination of major stakes held.

**Figure 2: Aggregation of Stakes Held by the Parent Entity in a Company (i % + a % + b % + c %)**



Unregulated Entities

3.8 An insurance group may comprise entities that do not carry on MAS-regulated financial activities, but exist within the group to provide ancillary services that support the core financial business of the group. While MAS does not regulate these entities, MAS should be kept informed of such unregulated activities so as to assess the relevant potential risks posed to the group. MAS therefore intends to require the parent entity of the group to submit information on these unregulated activities. Such information may include the nature of activities undertaken by unregulated entities within the group, how unregulated entities are owned and held within the group, and key persons governing these unregulated entities.

### (c) Corporate Governance

#### Requirements for the Parent Entity

3.9 The parent entity of the insurance group is in a position to influence and control the direction of the group. It is therefore necessary to ensure that the board of the parent entity (“the Parent Board”) is suitably qualified, competent and able to discharge its oversight role objectively and free of undue influences. MAS proposes to impose requirements on the Parent Board that take into consideration the nature and scale of the insurance group. The Parent Board of an insurance group deemed to be significant will be subject to a higher intensity of regulation and vice versa. To implement this, MAS will define what is deemed to be a “**significant insurance group**”.

#### **Proposal 7**

A “**significant insurance group**” is one that meets the following thresholds:

- (i) for a group conducting life and composite business, total insurance assets equal to or greater than S\$20 billion;
- (ii) for a group conducting non-life business, total gross premiums equal to or greater than S\$2 billion; or
- (iii) the group comprises a “Tier 1” insurer in Singapore.

#### **Consultation Question 3**

Are the proposed thresholds to identify a significant insurance group appropriate? Are there additional criteria that should also be considered for identifying a significant insurance group?

3.10 MAS is concurrently consulting on the requirements to apply to the boards of insurance companies at the solo entity level (please refer to *MAS Consultation Paper on Corporate Governance for Insurers* (“CG consultation paper”) for the details). Under the proposals, an insurance company is categorised as either a “Tier 1” or “Tier 2” insurer. A group that comprises a “Tier 1” insurer will have significant operations in Singapore, as “Tier 1” insurers rank amongst the top few significant players here in terms of the market shares of their respective sectors (life and non-life). MAS will deem such a group to be significant and the Parent Board will be held to higher standards.

3.11 Table 1 below summarises the CG requirements proposed for “Tier 1” and “Tier 2” insurers at the solo entity level as set out in the CG consultation paper. To

differentiate the intensity of requirements applying to the Parent Board of a significant vis-a-vis a non-significant group, we propose that the respective “Tier 1” and “Tier 2” requirements apply.

### Proposal 8

The Parent Board of a significant insurance group shall comply with requirements identical to those of “Tier 1” insurers, while the Parent Board of a non-significant insurance group shall comply with requirements identical to those of “Tier 2” insurers.

### Consultation Question 4

Should there be a differentiation in CG requirements for the Parent Boards of significant and non-significant insurance groups? Are the “Tier 1” and “Tier 2” CG requirements appropriate for the respective Parent Boards of significant and non-significant insurance groups?

**Table 1: Summary of Proposed Requirements for “Tier 1” and “Tier 2” Insurers**

	<b>Proposals for “Tier 1” Insurers</b> (As per current CG Regulations for ‘Significant Insurers’)	<b>Proposals for “Tier 2” Insurers</b>
Board Size	Require a board size of at least three directors.	Require a board size of at least three directors.
Board Composition	Require at least a majority of directors to be independent directors <sup>8</sup> .  Where a single substantial shareholder holds 50% or more of the share capital or voting power in the insurer, then at least one-third of the directors are required to be independent directors <u>and</u> at least a majority of the directors should still be independent from management and business relationships with the insurer.	Require at least one-third of directors to be independent directors.

<sup>8</sup> Under the CG Regulations, an ‘independent director’ is one who:  
(a) is independent from management and business relationships with the insurer;  
(b) is independent from any substantial shareholder; and  
(c) has not served on the board of the insurer for a continuous period of nine years or longer.

	<b>Proposals for “Tier 1” Insurers</b> (As per current CG Regulations for ‘Significant Insurers’)	<b>Proposals for “Tier 2” Insurers</b>
Board Committees	Require the following board committees <sup>9</sup> to be established: <ul style="list-style-type: none"> <li>• Nominating Committee</li> <li>• Remuneration Committee</li> <li>• Audit Committee</li> <li>• Risk Management Committee</li> </ul>	No requirement for the establishment of board committees.
Chairman cannot be an Executive Director or immediate family of the Chief Executive	Apply.	Apply.
Required appointments that are also subject to MAS’ approval	Board chairman, members of the board, members of the Nominating Committee, chief executive officer, chief financial officer, chief risk officer, appointed actuary and certifying actuary <sup>10</sup> .	Board chairman, members of the board, chief executive officer, appointed actuary and certifying actuary.

3.12 For a parent entity that is an insurance company, and where the group is deemed as significant based on the thresholds in Proposal 7(i) or (ii) above, such an insurance company will attract “Tier 1”-type requirements. This will apply even if the insurance company as a solo entity is categorised as a “Tier 2” insurer. As such an insurance company is in a position to control and influence the direction of a significant group, it should be subject to commensurately higher standards notwithstanding its categorisation as a “Tier 2” insurer as a solo entity by itself.

3.13 MAS recognises the practical constraints that the parent entities of insurance groups may encounter in recruiting suitably qualified and independent directors to staff their boards. We therefore propose a transitional period for the parent entities to comply with the requirements.

<sup>9</sup> Where the insurance company is a subsidiary, exemption may be given for the setting up of a Nominating Committee, Remuneration Committee and Risk Management Committee if the company can demonstrate that these functions can be performed by the main board.

<sup>10</sup> The appointment of the appointed actuary and certifying actuary is required only in respect of parent entities that are insurance companies. This is not required currently for parent entities that are non-operating FHCs.

### **Proposal 9**

All insurance groups, whether existing or new, will be granted a transitional period of 3 years from the date of issuance of the relevant regulations to comply with the proposed requirements. For groups conducting reinsurance business, an additional 1 year will be granted. This is consistent with the transitional periods proposed for direct insurance and reinsurance companies at the solo entity level.

### **Consultation Question 5**

What implementation issues may arise for your insurance group? Is the transitional period for compliance proposed above appropriate?

### Disqualification Rules

3.14 Persons who are not fit and proper should be disqualified from holding positions in the parent entity of the insurance group, whether it is a designated FHC or an insurance company<sup>11</sup>. Such a disqualification rule aims to ensure that the parent entity is appropriately staffed at all levels by fit and proper persons at the point of their recruitment, as well as on an on-going basis. The parent entity will be required to obtain MAS' written consent to employ persons disqualified under the rule<sup>12</sup>.

3.15 In applying the rule, MAS proposes to make a distinction between persons who hold key positions within the parent entity and those who do not. **Directors and executive officers**<sup>13</sup> of the parent entity are in positions to influence and control the direction of the insurance group. Such persons should be held to higher standards and the grounds for disqualification should also be more stringent. Besides directors and executive officers, the other category of persons is the employees of the

<sup>11</sup> This is equally applicable for insurance companies as a solo entity i.e. even if the insurance company is not the parent entity of an insurance group. The rule on disqualification will therefore be extended to all insurance companies, as discussed in the CG consultation paper, and not only those that are parent entities of insurance groups.

<sup>12</sup> The financial institution itself ultimately bears the risks of employing a person who presents potential fit and proper concerns and therefore has to assess the risks and merits of each employment case. Should it determine that it will employ or retain the person, it then has the onus to satisfy MAS in a written application that it has adequate safeguards to manage any potential risks arising from the employment of such persons. This is consistent with MAS' supervisory philosophy that financial institutions are ultimately responsible for proper risk management.

<sup>13</sup> The term "Executive Officer" has been defined in the IA as any person, by whatever name described, who (a) is in the direct employment of, or acting for or by arrangement with, the bank/insurer and (b) is concerned with or takes part in the management of the bank/insurer on a day-to-day basis. Such persons will include persons at the function head level.

company. These employees can be further categorised into two distinct groups, namely those employees who are “Representatives” (“Reps”) as defined under the Financial Advisers Act (Cap. 110) (“FAA”) and the Securities and Futures Act (Cap. 289) (“SFA”) and those employees who are non-Reps. Employees who are Reps<sup>14</sup> will continue to be subject to the fit and proper requirements prescribed under the Representative Notification Framework, which was launched in November 2010. The rule on disqualification discussed here will therefore apply on the **employees who are non-Reps**.

#### **Proposal 10**

The grounds for disqualifying **directors and executive officers** be as below, where the person:

- (i) has been convicted, whether in Singapore or elsewhere, of an offence involving fraud or dishonesty or an offence of a criminal nature;
- (ii) is or becomes financially compromised<sup>15</sup>; or
- (iii) has been a director of, or directly concerned in the management of, an MAS licensed entity which is being or has been wound up by a court or the licence of which has been revoked.

#### **Proposal 11**

The grounds for disqualifying **employees who are non-Reps** be as below, where the person:

- (i) has been convicted, whether in Singapore or elsewhere, of an offence involving fraud or dishonesty or an offence of a criminal nature; or
- (ii) is or becomes financially compromised.

The disqualification rule for employees who are non-Reps will apply only on new hires or new cases as they arise.

<sup>14</sup> This is not relevant in the case of financial holding companies.

<sup>15</sup> This is intended to include any person who is an undischarged bankrupt, has had execution against him in respect of a judgement debt returned unsatisfied in whole or in part or has, whether in Singapore or elsewhere, entered into a compromise or scheme of arrangement with his creditors, being a scheme of arrangement that is still in operation.



**Proposal 12**

The parent entity will be required to obtain MAS' written consent to employ persons disqualified under the rule.

## (d) Group Solvency and Capital Adequacy

### General Approach to Group Capital Adequacy Assessment

3.16 Internationally, there are two broad approaches<sup>16</sup> to assessing capital adequacy of an insurance group, with hybrid approaches in between. Under a “*group level focus*” approach, the group is considered as a single integrated entity and assessment for capital adequacy is made accordingly. Under a “*legal entity focus*” approach, the insurance group is considered as a set of separate (albeit interdependent) legal entities and no overall regulatory group capital requirement is imposed.

3.17 One of the common criticisms of the “group level focus” approach is that it implies that there is unlimited fungibility and transferability of capital within the insurance group, which may not necessarily be the case, especially in times of stress. Adjustments can, however, be made to reflect such realities by imposing regulatory restrictions on the fungibility of capital and transferability of assets among group members.

3.18 MAS is of the view that a “group level focus” approach provides useful quantitative information about the insurance group’s capital strength from both a home and host supervisor’s perspectives. It is also more transparent and facilitates comparability of capital strength across insurance groups. Further, MAS’ observations have shown that jurisdictions that lean towards a “legal entity focus” approach have frameworks that are flexible enough to also allow for a quantitative group-wide capital assessment, thereby supplementing the existing legal entity view with a group level perspective.

#### **Proposal 13**

MAS will adopt a “group level focus” approach to assessing the capital adequacy requirements for an insurance group, i.e. there will be a quantitative assessment of capital at the group level as if the group were a single integrated entity. Adjustments will, however, be made to reflect the constraints on fungibility of capital and transferability of assets among group members. This “group level focus” approach will not replace the solo entity level requirements for each legal entity in the group.

3.19 Under a ‘group level focus’ approach, there is a choice of using either a *consolidation method* or an *aggregation method*<sup>17</sup>. Under the consolidation method,

<sup>16</sup> As set out in the IAIS Insurance Core Principle (“ICP”) 17 on Capital Adequacy.

<sup>17</sup> As set out in the IAIS ICP 17 on Capital Adequacy.

the consolidated accounts of the group are used as a basis for assessment. The advantages of this method include automatic adjustments for intra-group holdings, as well as recognition of benefits arising from diversification within the group. This method will also have the benefit of returning group capital adequacy figures that are based on MAS' rules. Under the aggregation method, each insurance entity's available capital (or financial resources) and required capital (or risk requirements) as computed based on the host jurisdiction's rules, will be summed within the insurance group. Whilst this method may be easier to apply<sup>18</sup>, there is a need to explicitly make adjustments to ensure intra-group transactions are eliminated<sup>19</sup>. Further to this, MAS will also have to assess the comparability (or equivalence) of the relevant host regimes to that of Singapore when deciding whether to allow the group to adopt the aggregation method.

**Proposal 14**

Under the "group level focus" approach, MAS will adopt the consolidation method as the default method. MAS may, however, consider approving the use of other methods (for example, aggregation method or a combination of both the consolidation and aggregation methods) on a case-by-case basis. Where the aggregation method is allowed, deductions of participations and subsidiaries, as well as the removal of other intra-group transactions will be required from the available capital in each group entity.

Valuation and Capital Rules

3.20 Work is currently underway to review the Risk-based Capital ("RBC") framework for the insurance industry in Singapore. This review will include the updating of valuation rules for solvency purposes, as well as the ways in which both the required capital and available capital<sup>20</sup> are to be derived for a solo insurance entity. MAS plans to consult on the roadmap of this review by the first quarter of this year.

3.21 MAS intends for the valuation bases of assets and liabilities at the group level to be consistent with those imposed on the solo entity currently, as well as going forward under the revised RBC framework ("RBC 2"). The computation of required capital and available capital at the group level will be based on principles that are consistent with those adopted in respect of a solo insurance entity under RBC 2 when implemented. In the meantime, the computation of both required and available capital at the group level will be based on existing principles under the current RBC

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<sup>18</sup> As there is no need to re-compute the numbers for each group member using Singapore rules.

<sup>19</sup> Unlike the consolidation method where such adjustments are done automatically.

<sup>20</sup> Also referred to as risk requirements and financial resources respectively under the current RBC framework for insurers.

framework for insurers. This means that all insurance entities within the group, whether they are based in or out of Singapore, will be subject to a uniform definition of available capital (e.g. Tier 1, Tier 2 etc) and limits, as defined under Singapore's prevailing RBC framework. Table 2 below sets out the considerations for specific capital components.

**Table 2: Considerations for the Recognition of Capital Components for Determining Available Capital**

<b>Capital Components</b>	<b>Proposed treatment</b>	<b>Rationale</b>
Surpluses of assets over liabilities in insurance funds	Recognised	Such surpluses are widely recognised as available capital in insurance business globally. Arising from our earlier proposals, the surpluses of all the insurance entities within the group would have to be derived based on Singapore's bases, unless MAS allows the aggregation method to be used.
Balance in the surplus of participating fund <sup>21</sup>	Recognised as freely transferable	Positive balance represents monies belonging to shareholders and insurers are not restricted from transferring such balances to other funds
Aggregate of allowance for provision for non-guaranteed benefits ("APNGB") <sup>22</sup> in participating funds	Not recognised as freely transferable other than for the purposes of meeting the required capital of the participating fund	While the APNGB is recognised as a capital buffer for solvency purposes, APNGB is typically not transferable out of the participating fund as there are generally strict rules around how monies can be transferred out of the participating fund. Approach is consistent with that adopted by a number of other jurisdictions.

<sup>21</sup> Applicable for Singapore's insurance entities only.

<sup>22</sup> In some jurisdictions such as Singapore, life insurers which write participating life insurance business must ensure that policy liabilities are sufficient to meet all future non-guaranteed bonuses. However, they have the discretion to cut bonuses when the bonus rates are not supportable. In recognition of this discretion, APNGB is currently included in the available capital (or financial resources) of the insurer up to 50% of future non-guaranteed bonuses.

Capital Components	Proposed treatment	Rationale
Surplus of any group entity that the host supervisor has required to be held or earmarked as additional capital resources	Not recognised	Movement of surplus is legally constrained and is not freely transferable.

### Proposal 15

The bases for valuing assets and liabilities, required capital and available capital at the group level shall be consistent with that imposed on the solo insurance entity.

### Solvency Control Levels

3.22 International standards on capital adequacy prescribed by the IAIS set out the two triggers for supervisory intervention when assessing the capital adequacy of an insurance entity:

- (a) *Prescribed Capital Requirement ("PCR")*, which is the solvency control level above which the supervisor does not intervene on capital adequacy grounds. The PCR is defined such that the assets will exceed technical provisions and other liabilities with a specified level of safety over a defined time horizon; and
- (b) *Minimum Capital Requirement ("MCR")*, which is the solvency control level at which, if breached, the supervisor would invoke its strongest actions, in the absence of appropriate corrective action by the insurance legal entity.

3.23 When it comes to group-wide supervision, the insurance supervisor is expected, under the relevant international standards, to apply solvency control levels that are appropriate for the approach to group-wide capital adequacy. Whilst this does not necessarily mean establishing a single regulatory capital requirement at group level, MAS nevertheless proposes to establish a single group-wide PCR and MCR in light of our earlier proposal to adopt a 'group level focus' to assessing group capital adequacy. This approach allows the insurance supervisor to obtain an idea of the financial strength and solvency position of the insurance group while having useful indicators that also serve as triggers for supervisory intervention.

3.24 MAS is reviewing the PCR- and MCR-equivalents for solo insurance entities under RBC 2 review and will consult on the approach separately. For consistency, the principles for the derivation of PCR and MCR for solo insurance entities will be extended to apply at the group level. In the meantime, MAS intends to require an insurance group to maintain an amount of financial resources which, when expressed as a percentage of the group's total risk requirements computed based on the current RBC framework, does not fall below a prescribed minimum level.

**Proposal 16**

MAS will determine a group-wide PCR and MCR to apply on insurance groups. In the case of the group-wide PCR, this will be subject to the floor equal to the sum of the legal entity MCRs of the member entities in the insurance group<sup>23</sup>.

**Proposal 17**

In the meantime, MAS will require insurance groups to maintain a solvency level as below, to be computed based on the current RBC framework:

Group financial resources/Group total risk requirements  $\geq$  Prescribed minimum level

**Consultation Question 6**

Are PCR and MCR relevant at a group-wide level? Is the proposed approach to setting the group solvency control levels appropriate?

**Consultation Question 7**

What will be an appropriate figure for the prescribed minimum level and why?

Unregulated Entities

3.25 As mentioned earlier in this paper, an insurance group may comprise entities that do not carry on MAS' regulated financial activities, but exist within the group to provide ancillary services supporting the core financial business of the group. MAS will monitor the risks emanating from the non-regulated entities by requiring the insurance group to submit relevant and timely information. For the purposes of capital adequacy assessment at the group level, MAS proposes to deconsolidate and deduct the capital of any non-insurance entities from the insurance group for prudence. To elaborate, this means that any surplus arising from the non-insurance

<sup>23</sup> Otherwise, no supervisory intervention would be triggered at the group level, even though at least one of its member entities has breached its MCR.

entities will not be counted towards the group's available capital; any deficits will, however, be deducted from the group's available capital.

**Proposal 18**

Any surplus arising from the non-insurance entities will not be counted towards the group's available capital, but any deficits would be deducted from the group's available capital.

### (e) Group Monitoring Requirements

3.26 It is important for insurance groups to have adequate risk management systems in place to measure, monitor, manage and control the intra-group transactions and risk concentrations within the group, including unregulated entities. Insurance groups are therefore expected to have reporting systems that can furnish relevant and updated information for MAS to form an appropriate risk assessment of the group.

3.27 MAS is considering to require insurance groups to furnish, at a minimum, the following types of information concerning the group:

(a) Intra-group transactions and exposures

- ▶ Cross shareholdings
- ▶ Guarantees, loans and commitments provided to, or received from, other companies in the group
- ▶ The provision of management and other service arrangements
- ▶ Exposures to major shareholders (including loans and off-balance sheet exposures such as commitments or guarantees)
- ▶ Exposures arising through placement of client assets with other group companies
- ▶ Purchases or sales of assets with other group companies
- ▶ Transfer of risk through reinsurance

(b) Risk Concentrations

- ▶ Individual counterparties
- ▶ Groups of individual counterparties or related entities
- ▶ Counterparties in specific geographical locations
- ▶ Industry sectors
- ▶ Specific products
- ▶ Service providers e.g. back office services
- ▶ Natural disasters or catastrophes

3.28 Information received from the group should be updated and present an accurate risk profile of the group. As group operations can change, MAS proposes that the information submission be done on a quarterly basis. For large and exceptional transactions (e.g. affecting more than 5% of the group's available capital), the group will be required to inform MAS separately as and when they occur. MAS recognises that group operations can be fairly extensive and it will



hence not be practical to require every single intra-group transaction to be reported to MAS. MAS therefore proposes that only material transactions and exposures be reported.

**Proposal 19**

An insurance group will be required to continuously monitor and report to MAS on a quarterly basis, its:

- (a) intra-group transactions and exposures; and
- (b) risk concentrations.

MAS will develop the relevant reporting templates and consult on these separately.

**Proposal 20**

MAS will require only the reporting of intra-group transactions and exposures and risk concentrations that are material.

**Proposal 21**

Insurance groups will be required to report the above on a quarterly basis. For large and exceptional transactions (e.g. affecting more than 5% of the group's available capital), the group will be required to inform MAS separately as and when they occur.

**Consultation Question 8**

Are there any other intra-group transactions and exposures or risk concentrations that should also be monitored and reported to MAS at the group level?

**Consultation Question 9**

What should be the appropriate limit or threshold for identifying material transactions and exposures that have to be reported to MAS? For example, if the threshold of reporting could be set as a specified percentage of available capital or total assets, what should this percentage be?

**Consultation Question 10**

What should be the appropriate thresholds for identifying large and exceptional transactions?

3.29 Under MAS' RBC framework for insurers, there is currently no hard regulatory limit for concentration risk imposed on solo insurance entities. Instead, concentration risk charges apply and any exposures beyond the specified thresholds attract additional capital requirements. International standards also do not require the imposition of hard limits to address concentration risk at either the solo-entity or group level. Rather, the general approach has been to make use of group-wide supervisory review and reporting (i.e. through on-site inspection, offsite monitoring and supervisory reporting) to take into account risk exposures inherent in groups.

3.30 This differs from the approach taken for the banking sector, where hard concentration limits are imposed at both solo-entity and group levels<sup>24</sup>. These include:

- (a) large exposures limit on exposures to single counterparty groups;
- (b) equity investment limit to single security; and
- (c) property investment limit for immovable property.

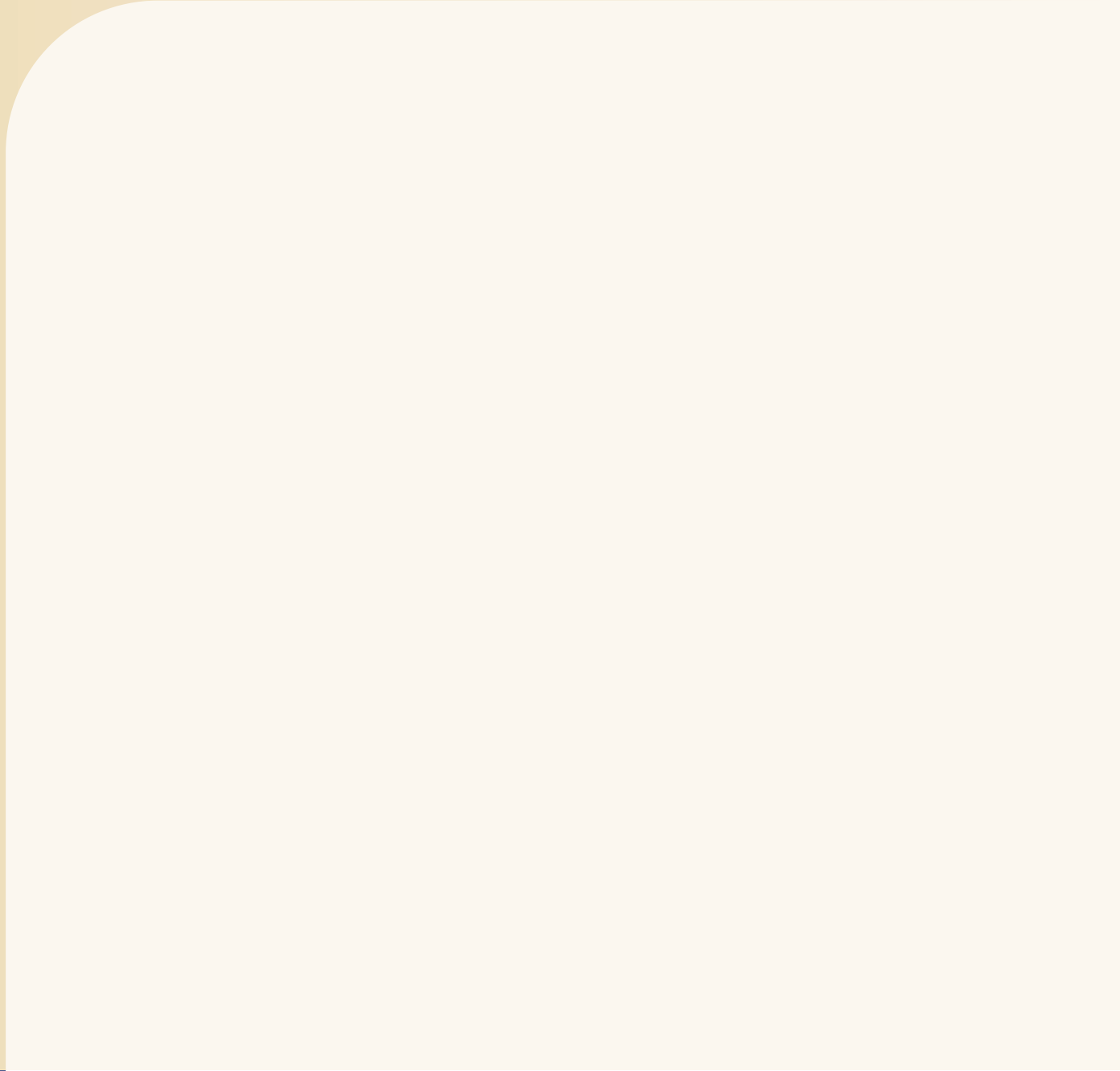
#### **Consultation Question 11**

Is it appropriate, in the case of insurance groups, to impose hard limits to address concentration risks (akin to the approach in place for banks) at both solo entity and group level? If so, what are the concentrations that should be captured and what should the appropriate limits be?

<sup>24</sup> These concentration limits are prescribed under sections 29, 31 and 33 of the Banking Act (Cap. 19) and MAS Notice 639.

#### **4 IMPLEMENTATION TIMELINE**

MAS will consider the feedback received from this consultation in finalising the requirements for group-wide supervision of insurance groups. The draft FHC Bill, IA Amendment Bill and other related amendments to existing regulations will be made available for consultation later.



Monetary Authority of Singapore