

CONSULTATION PAPER

P005 - 2012

February 2012

Corporate Governance For Insurers

MAS

Monetary Authority of Singapore

PREFACE

The MAS Insurance (Corporate Governance) Regulations (“CG Regulations”¹) are currently applicable to only significant insurers² while the insurance companies covered under the MAS Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers (“Guidelines”³) are restricted to only direct insurers which are incorporated in Singapore. In the 2010 Consultation Paper on Corporate Governance Regulations and Guidelines, MAS had stated that the extension of the CG Framework to cover other financial institutions supervised by MAS would be undertaken in the next phase of our review. This consultation paper sets out MAS’ proposals to extend the CG Regulations and Guidelines to all locally-incorporated insurers and reinsurers which were excluded from the review in 2010. Details on the proposed amendments to the CG Regulations and Guidelines will be provided in a separate consultation paper at a later date.

2 This consultation paper also proposes the introduction of a disqualification rule for the directors, executive officers and employees of insurers.

3 MAS invites interested parties to submit their views and comments on the proposals made in this paper. Electronic submission is encouraged. Please submit your written comments by 23 March 2012 to:

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¹ Available at [http://www.mas.gov.sg/resource/legislation_guidelines/insurance/sub_legislation/Insurance_S_L/INSURANCE%20\(CORPORATE%20GOVERNANCE\)%20REGULATIONS%202005.pdf](http://www.mas.gov.sg/resource/legislation_guidelines/insurance/sub_legislation/Insurance_S_L/INSURANCE%20(CORPORATE%20GOVERNANCE)%20REGULATIONS%202005.pdf)

² In the Insurance (Corporate Governance) Regulations, “significant insurer” means any direct life insurer which -
(a) is incorporated in Singapore; and
(b) has total assets of at least \$5 billion or its equivalent in any foreign currency in its Singapore Insurance Fund and Offshore Insurance Fund.

³ Available at http://www.mas.gov.sg/resource/legislation_guidelines/insurance/guidelines/Corporate_Governance_Guidelines.pdf

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

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1 INTRODUCTION

1.1 The MAS CG Framework for financial institutions comprising the CG Regulations and Guidelines⁴ was first issued in 2005 and revised in 2010. Currently, the CG Regulations are applicable to only the significant insurers⁵, while the CG Guidelines apply to only direct insurers incorporated in Singapore. Given the importance of effective corporate governance, MAS is proposing to extend the application of the CG Regulations to all direct insurers and reinsurers incorporated in Singapore. This is covered in Part I of this consultation paper.

- 1.2 In Part I, the proposals are categorized in the following manner :
- (i) Application of CG Regulations;
 - (ii) Tiering of Insurers;
 - (iii) CG Regulations for Tier 1 and Tier 2 Insurers;
 - a. Board Composition
 - b. Board Committees
 - c. Approval of Board and Senior Management Appointments by MAS
 - (iv) Application of CG Guidelines

1.3 Insurers' compliance with the CG Regulations and Guidelines as well as the relevant Board assessments in relation to the requirements of the CG Regulations and Guidelines will be reviewed by MAS as part of our ongoing supervisory programme.

1.4 Part II of this paper proposes to introduce a disqualification rule for the directors, executive officers and employees of insurers. Such a rule, which seeks to ensure that insurers are appropriately staffed at all levels by fit and proper persons, is already in place for banks. MAS intends to align the

⁴ Regulations are legislation issued under the authority of the relevant Acts which flesh out the provisions of an Act and spell out in greater detail the requirements that financial institutions have to adhere to. Regulations have the force of law and may specify that a contravention is a criminal offence.

Guidelines set out principles or "best practice standards" that govern the conduct of financial institutions. While contravention of guidelines is not a criminal offence and does not attract civil penalties, the degree of observance with the spirit of the guidelines by an institution will impact MAS' overall risk assessment of that institution.

⁵ In the Insurance (Corporate Governance) Regulations, "significant insurer" means any direct life insurer which -

- (a) is incorporated in Singapore; and
- (b) has total assets of at least \$5 billion or its equivalent in any foreign currency in its Singapore Insurance Fund and Offshore Insurance Fund.

approach for insurers to reinforce MAS' expectations for all financial institutions to employ fit and proper staff as part of proper risk management and governance.

PART I

2 APPLICATION OF CG REGULATIONS

2.1 In line with our consistent emphasis on the importance of effective corporate governance, MAS proposes to extend the application of the CG Regulations to all locally-incorporated direct insurers and reinsurers, with requirements calibrated to take into account the significance of an insurer's operations in Singapore.

Proposal 1: To apply the CG Regulations to all direct insurers and reinsurers incorporated in Singapore. Please refer to Proposals 2 to 7 for details on the calibration of requirements to take into account the significance of an insurer's operations in Singapore.

3 TIERING OF INSURERS

3.1 Taking into consideration the diversity of insurers in terms of size and types of business, an insurer with significant operations will be held to higher corporate governance standards. In this regard, MAS proposes to tier all locally-incorporated insurers according to the size of total assets or annual gross premiums, with the CG requirements calibrated accordingly.

Proposal 2: To introduce in the CG Regulations, definitions of Tier 1 and Tier 2 insurers as follows:

- (i) A Tier 1 insurer is defined as :
 - (a) a direct life or composite insurer whose total assets are at least \$5 billion⁶; or
 - (b) a direct general insurer or reinsurer whose annual gross premiums are at least \$500 million⁷.

Based on the definition above, all existing significant insurers will be classified as Tier 1 insurers.

⁶ \$5 billion is the threshold for significant life insurers as defined in the current CG regulations.

⁷ Based on a review of insurers' gross premiums and market share, the proposed threshold of gross premiums of \$500 million amounts to at least a 10% market share.

- (ii) A Tier 2 insurer is defined as :
 - (a) a direct life or composite insurer whose total assets are less than \$5 billion; or
 - (b) a direct general insurer or reinsurer whose annual gross premiums are less than \$500 million.

For both Tier 1 and 2 insurers, total assets or annual gross premiums include those from the shareholders' fund, overseas branches as well as the life and general insurance funds, as per Form 8 and Form 9 of the statutory returns respectively.

4 CG REGULATIONS FOR TIER 1 AND TIER 2 INSURERS

4.1 For Tier 1 insurers, MAS proposes to subject them to the current CG Regulations, which are presently applicable to significant insurers. This implies that all Tier 1 insurers require a minimum of three directors. For Tier 2 insurers, some of the requirements under the CG Regulations have been calibrated as per Proposals 4 to 7, given the smaller scale of their operations. Notwithstanding this, the board of a Tier 2 insurer should comprise a sufficient number of directors for effective decision-making.

Proposal 3: To subject all Tier 1 insurers to the current CG Regulations. This proposal will not affect existing significant insurers, which are already required to comply with the current CG Regulations.

Proposal 4: To introduce in the CG Regulations a requirement that a Tier 2 insurer shall have a board of directors comprising at least three directors.

a. Board Composition

4.2 It is important to ensure that the Board of an insurer has a strong and independent element. The current CG Regulations require significant insurers to have a board of directors comprising at least a majority of independent directors. In the case where a single substantial shareholder holds 50% or more of the share capital or the voting power in the significant insurer, the significant insurer shall have a board of directors comprising at least one third of directors who are independent directors. MAS proposes to require all Tier 2 insurers to also have a board of directors comprising at least one third of directors who are independent directors. This is regardless of whether a Tier 2 insurer has a single substantial shareholder who holds 50% or more of the share capital or voting power in the insurer.

Proposal 5: To introduce in the CG Regulations a requirement that a Tier 2 insurer shall have a board of directors comprising at least one third of directors who are independent directors.

b. Board Committees

4.3 The current CG Regulations require significant insurers to establish a Nominating Committee (“NC”), a Remuneration Committee (“RC”), a Risk Management Committee (“RMC”) and an Audit Committee (“AC”), with specified composition requirements. Where the insurer is a subsidiary, it may seek exemption from having to set up an NC, RC and RMC, provided MAS is satisfied that the main Board is able to perform the respective functions. In view of the small Board size of most of the existing Tier 2 insurers, MAS recognises that these insurers may face practical difficulties in setting up all the required Board Committees and complying with the composition requirements. As such, given the smaller scale of the operations of the Tier 2 insurers, MAS proposes not to make it mandatory for these insurers to establish the above-mentioned Board Committees. Tier 2 insurers which are able to set up these Board Committees would be encouraged to do so. For Tier 2 insurers which do not to set up Board Committees, MAS expects the main Board to perform the functions of the respective Board Committees.

Proposal 6: To amend the CG Regulations such that Tier 2 insurers are not required to establish the Board Committees (viz NC, RC, RMC and AC) nor meet any composition requirement of such Board Committees.

c. Approval of Board and Senior Management Appointments by MAS

4.4 The current CG Regulations require significant insurers to seek MAS’ approval for the appointment of the Chairman of the Board, members of the NC, Chief Financial Officer (“CFO”) and Chief Risk Officer (“CRO”). This will remain the case for Tier 1 insurers. For Tier 2 insurers, MAS proposes to impose a lower requirement for these insurers to seek MAS’ approval to appoint the Chairman of the Board only, as the Chairman plays an important leadership role in setting the tone at the top for corporate governance standards.

Proposal 7: To amend the CG Regulations such that Tier 2 insurers are required to seek MAS’ approval for the appointment of the Chairman of the Board. Tier 2 insurers would not be required to seek MAS’ approval to appoint its CFO, CRO or members of its NC.

5 APPLICATION OF CG GUIDELINES

5.1 The CG Guidelines, which complement the CG Regulations in providing additional guidance on governance practices in key areas, are currently applicable to all locally-incorporated direct insurers. To further raise the governance standards of the insurance industry, MAS proposes to extend the Guidelines to the locally-incorporated reinsurers. Captive insurers will not be covered by the Guidelines since the risks written by such insurers pertain mainly to their parent companies.

Proposal 8: To amend the Guidelines to extend their applicability to all direct insurers and reinsurers incorporated in Singapore, with the exception of captive insurers.

PART II

6 DISQUALIFICATION RULES

6.1 MAS' Guidelines on Fit and Proper Criteria ("Fit and Proper Guidelines") (FSG-GO1, last revised 26 Nov 2010) apply to all regulated financial institutions including insurers. All insurers are therefore expected to conduct fit and proper assessments in line with the criteria set out in the Fit and Proper Guidelines as part of their risk management processes. To reinforce this, MAS proposes to introduce a disqualification rule to ensure that insurers are appropriately staffed at all levels by fit and proper persons, both at the point of recruitment, as well as on an on-going basis. MAS' written consent will be required for an insurer to employ persons disqualified under the rule⁸.

Proposal 9: To introduce a disqualification rule for the directors, executive officers and employees of an insurer. The insurer will be required to obtain MAS' written consent to employ persons disqualified under the rule.

6.2 In applying the rule, MAS proposes to make a distinction between persons who hold key positions in the insurer and those who do not. Directors and executive officers⁹ are in positions to influence and control the

⁸ 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.

⁹ The term "Executive Officer" has been defined in the Insurance Act (Cap. 142) as any person, by whatever name described, who (a) is in the direct employment of, or acting for or

operations of the insurer and should be held to higher standards. For purposes of applying the disqualification rule, other employees of the insurer can be 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 will continue to be subject to the fit and proper requirements prescribed under the Representative Notification Framework, which was launched in November 2010. The disqualification rule outlined in Proposal 10 would be applicable to the employees who are non-Reps.

Proposal 10: The grounds for disqualifying directors and executive officers are as follows, 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 compromised¹⁰; 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 license of which has been revoked.

Proposal 11: The grounds for disqualifying employees who are non-Reps are as follows, 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.

7 IMPLEMENTATION TIMELINE

7.1 The proposals requiring insurers to appoint new independent directors to the board set out in Part I of this consultation are targeted to take effect no later than from the first Annual General Meeting of each insurer held on or

by arrangement with, the company and (b) is concerned with or takes part in the management of the company on a day-to-day basis. Such persons will include persons at the function head level.

¹⁰ This is intended to include any person who is an undischarged bankrupt, has had execution against him in respect of a judgment 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.

after 1 January 2015. The longer targeted timeline takes into consideration that affected insurers may need more time to find suitable new independent directors. Proposals 7 and 8 are targeted to take effect no later than from the first Annual General Meeting of each insurer held on or after 1 January 2013.

7.2 The proposed disqualification rules in Part II of this consultation are targeted to take effect in mid 2013.

Appendix A

SUMMARY OF RECOMMENDATIONS

Key Issues	Key Recommendations
(I) Application of CG Regulations	Proposal 1: To apply the CG Regulations to all direct insurers and reinsurers incorporated in Singapore.
(II) Tiering of Insurers	<p>Proposal 2: To introduce in the CG Regulations the definition of Tier 1 and Tier 2 insurers as follows:</p> <ul style="list-style-type: none"> (i) A Tier 1 insurer is defined as : <ul style="list-style-type: none"> (a) a direct life or composite insurer whose total assets are at least \$5 billion; or (b) a direct general insurer or reinsurer whose annual gross premiums are at least \$500 million. (ii) A Tier 2 insurer is defined as : <ul style="list-style-type: none"> (a) a direct life or composite insurer whose total assets are less than \$5 billion; or (b) a direct general insurer or reinsurer whose annual gross premiums are less than \$500 million.
(III) CG Regulations for Tier 1 and Tier 2 insurers	<p>Proposal 3: To subject all Tier 1 insurers to the current CG Regulations. This proposal will not affect existing significant insurers, which are already required to comply with the current CG Regulations.</p> <p>Proposal 4: To introduce in the CG Regulations a requirement that a Tier 2 insurer shall have a board of directors comprising at least three directors.</p> <p>a. Board Composition</p> <p>Proposal 5: To introduce in the CG Regulations a requirement that a Tier 2 insurer should have a board of directors comprising at least one third of directors who are independent directors.</p>

	<p>b. Board Committees</p> <p>Proposal 6: To amend the CG Regulations such that Tier 2 insurers are not required to establish Board Committees (viz NC, RC, RMC and AC) nor meet any composition requirement of such Board Committees.</p> <p>c. Approval of Board and Senior Management Appointments by MAS</p> <p>Proposal 7: To amend the CG Regulations such that Tier 2 insurers are required to seek MAS' approval for the appointment of the Chairman of the Board. Tier 2 insurers would not be required to seek MAS' approval to appoint its CFO, CRO or members of its NC.</p>
(IV) Application of CG Guidelines	<p>Proposal 8: To amend the Guidelines to extend their applicability to all direct insurers and reinsurers incorporated in Singapore, with the exception of captive insurers.</p>
(V) Disqualification Rules	<p>Proposal 9: To introduce a disqualification rule for the directors, executive officers and employees of an insurer. The insurer will be required to obtain MAS' written consent to employ persons disqualified under the rule.</p> <p>Proposal 10: The grounds for disqualifying directors and executive officers are as follows, where the person:</p> <ul style="list-style-type: none"> (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; 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 license of which has been revoked. <p>Proposal 11: The grounds for disqualifying employees who are non-Reps are as follows, where the person:</p>

	<p>(i) has been convicted, whether in Singapore or elsewhere, of an offence involving fraud of dishonesty or an offence of a criminal nature; or</p> <p>(ii) is or becomes financially compromised.</p>
<p>(VI) Implementation Timeline</p>	<p>The proposals requiring insurers to appoint new independent directors to the board set out in Part I of this consultation are targeted to take effect no later than from the first Annual General Meeting of each insurer held on or after 1 January 2015. The longer targeted timeline takes into consideration that affected insurers may need more time to find suitable new independent directors. Proposals 7 and 8 are targeted to take effect no later than from the first Annual General Meeting of each insurer held on or after 1 January 2013.</p> <p>The proposed disqualification rules in Part II of this consultation are targeted to take effect in mid 2013.</p>



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