



Monetary Authority of Singapore

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**RESPONSE TO FEEDBACK RECEIVED  
CONSULTATION ON CORPORATE GOVERNANCE  
FOR INSURERS  
24 AUG 2012**

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## CONSULTATION ON CORPORATE GOVERNANCE FOR INSURERS - RESPONSE TO FEEDBACK RECEIVED

In February 2012, MAS published a consultation paper inviting industry and public comments on the proposals to extend the Insurance (Corporate Governance) Regulations 2005<sup>1</sup> (“the Regulations”) and Corporate Governance Guidelines (“the Guidelines”) to all locally-incorporated direct insurers and reinsurers.

A total of 13 respondents submitted their feedback. The list of respondents is at Annex A. MAS has deliberated on the feedback. This paper summarises the feedback and sets out MAS’ responses. MAS would like to thank all respondents for their submissions.

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<sup>1</sup> The Regulations were amended in Dec 2010

## SUMMARY OF FEEDBACK

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### 1 APPLICATION OF REGULATIONS

**Proposal 1:** To apply the Corporate Governance (“CG”) Regulations to all locally-incorporated direct insurers and reinsurers

Respondents either agreed with the proposal or expressed concerns with the requirements set out in the Regulations. These concerns are discussed under Proposal 5.

#### MAS’ Response

As there were no major disagreements from the respondents, MAS will proceed to implement the proposal.

### 2 TIERING OF INSURERS

**Proposal 2:** To introduce definitions of Tier 1 and Tier 2 insurers in the Regulations

A Tier 1 insurer is defined as:

- a) a direct life insurer 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.

A Tier 2 insurer is defined as:

- a) a direct life insurer 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

There were no disagreements with Proposal 2. One respondent enquired about the procedural steps, regulations and additional fees that will apply in the situation of an insurer who hovers around Tier 1 and Tier 2.

## SUMMARY OF FEEDBACK

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### **MAS' Response**

MAS will apply the proposed definitions in Proposal 2. We would like to clarify further the application of the definition criteria for a composite insurer. For a composite insurer, we will first apply the criterion of total assets of at least \$5 billion in identifying whether the insurer is a Tier 1 insurer. If the composite insurer does not meet this criterion, but if its annual gross premiums for general business exceed \$500m, the insurer will be categorised as a Tier 1 composite insurer; otherwise it will be categorised as a Tier 2 composite insurer.

In determining the tier, MAS will rely on the audited total assets or annual gross premiums figures lodged by the insurer for the accounting period of the preceding year. As an illustration, we will refer to the audited returns for the accounting period of 1 January - 31 December 2012, which is to be submitted by the statutory deadline of 31 March 2013. If an insurer is categorised as a Tier 1 insurer, it will be expected to comply with the relevant requirements applicable to a Tier 1 insurer with effect from 1 April 2013. Insurers are expected to monitor their premium and asset growth regularly and make the necessary preparations to comply with the Regulations. Once an insurer meets the threshold for Tier 1, and puts in place the necessary governance structure and independent directors to comply with the relevant requirements for Tier 1 insurers, we will expect the insurer to continue to comply with the requirements unless it sees a permanent reduction in gross premiums or total assets such that it will stay below the Tier 1 threshold. There are no additional fees to be imposed on a Tier 1 or Tier 2 insurer in relation to corporate governance.

### **3 CG REGULATIONS FOR TIER 1 AND TIER 2 INSURERS**

**Proposal 3:** To subject all Tier 1 insurers to the current CG regulations

Respondents suggested exempting wholly-owned subsidiaries from having to establish Board Committees as their parent companies which oversee the corporate and business affairs of the wholly-owned subsidiaries already have in place Board Committees to perform the responsibilities for the subsidiary.

## SUMMARY OF FEEDBACK

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### **MAS' Response**

MAS recognises that Board and Board Committees of a parent company do exercise oversight of the subsidiary's activities. Nevertheless, it is necessary for the subsidiary entity to have its own corporate governance responsibilities to ensure the interests of its other stakeholders such as policyholders, are adequately safeguarded. MAS will however provide in the Regulations, that a Tier 1 insurer which is a subsidiary of a bank or insurance parent (licenced in Singapore or otherwise) need not establish Board Committees, if the Board of the insurer performs the functions of the Board Committees for the subsidiary, and informs MAS in writing that this is the case. This however does not apply to an Audit Committee. The Audit Committee ensures the adequacy of the internal control and audit function of the insurer and is expected to discharge its responsibilities objectively and independently of management. Under the current Regulations, the Audit Committee shall comprise only directors independent from management and business relationships with the insurer. Therefore, a Tier 1 insurer cannot rely on its Board, which is likely to comprise executive directors, to carry out the responsibilities of the Audit Committee.

## 4 MINIMUM BOARD SIZE

**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.

Respondents had no comments with Proposal 4.

### **MAS' Response**

MAS notes that the Tier 2 insurers currently have at least three directors on the Board, hence, MAS will not be making changes to the proposal.

## 5 BOARD COMPOSITION

**Proposal 5:** To introduce in the 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.

A handful of respondents who commented on Proposal 5 had also disagreed with the proposal. Respondents expressed the view that since the parent or Group has a Board comprising independent directors, there was no need for the Singapore subsidiary to meet the one-third independent director requirement. In addition there were concerns regarding compliance costs as well as the difficulty in finding "quality" independent directors.

## SUMMARY OF FEEDBACK

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### **MAS' Response**

MAS is of the view that while the Board of a parent company exercises governance and oversight of the subsidiary's activities, the subsidiary insurer should retain its own corporate governance responsibilities. This is important to ensure that the interests of other stakeholders including its policyholder's interests, are adequately safeguarded. MAS is of the view that having at least one-third independent directors will help ensure that the Board of a subsidiary insurer has a strong and independent element, and is able to act objectively and provide effective challenge in the Board's deliberations.

MAS will give insurers a sufficient time period of about three years, that is, up to their annual general meeting held on or after 1 Jan 2015 to find suitable directors in order to meet the one third independent director requirement on the Board.

**Proposal 6:** To amend the Regulations such that Tier 2 insurers are not required to establish Board Committees (viz Nominating Committee, Remuneration Committee, Risk Management Committee and Audit Committee) nor meet any composition requirements of such Board Committees.

There were no comments on Proposal 6.

### **MAS' Response**

MAS will proceed to implement the proposal.

## **7 APPROVAL OF BOARD AND SENIOR MANAGEMENT APPOINTMENTS**

**Proposal 7:** To amend the 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.

Most respondents did not have comments on the proposal. One respondent sought clarification on whether MAS will allow a transition period following the Chairman's departure and whether there will be any residency requirement for the Chairman position. It suggested that the criteria for MAS' approval be made transparent for all positions requiring MAS' approval.

## SUMMARY OF FEEDBACK

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### **MAS' Response**

There is no residency requirement for the position of Chairman. In a situation where the Chairman has indicated intention to step down or in the case of the sudden departure of the Chairman from the Board, MAS expects the insurer to have a succession plan in place so that the position is not left vacant. In addition, MAS' Guidelines on "Fit and Proper Criteria" for approval of key persons are available on MAS' website.

## 8 APPLICATION OF CG GUIDELINES

**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.

Respondents sought clarification on whether the full set of Guidelines was applicable to Tier 2 insurers as there may be inconsistency with the lower requirements in the Regulations for Tier 2 insurers. A respondent suggested that it may not be necessary for the Guidelines to apply to reinsurers, given that reinsurers do not deal directly with the public.

### **MAS' Response**

The Guidelines seek to promote best corporate governance practices to ensure that the business of an insurer is managed in a safe and sound manner. To raise the governance standards of the entire insurance industry, the Guidelines will be applicable to the locally-incorporated direct insurers and reinsurers, including the captive insurers. Insurers are encouraged to comply with the Guidelines, and on a best effort basis implement the recommended governance systems and processes appropriately according to the nature, scale and complexity of its business.

**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.

In general, respondents expressed concern on the scope of application of the proposal. One respondent sought clarification on whether captive insurers would be required to comply with the disqualification rule. Another respondent enquired whether the rule applies to insurers incorporated outside of Singapore.

## SUMMARY OF FEEDBACK

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### MAS' Response

After considering the feedback from respondents, MAS has decided that insurers will only be required to obtain MAS' approval for persons disqualified under the disqualification criteria for directors and executive officer positions within the insurer. Nevertheless, we continue to encourage insurers to exercise due diligence in the screening of its employees as well to ensure that the insurer is appropriately staffed at all levels by fit and proper individuals.

The disqualification rule will be applicable to captive insurers as it is important that the directors in a captive insurer satisfy the fit and proper criteria.

In the case of branches, the rule will apply to executive officers of the registered insurer in Singapore. It will not apply, for example, to the overseas Head Office of a registered insurance branch in Singapore.

**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 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.

A few respondents sought clarification on the term "financially compromised". A respondent sought clarification on the circumstances under which the director or executive officer will be disqualified.



## SUMMARY OF FEEDBACK

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### MAS' Response

MAS intends for “financially compromised” to also encompass situations leading up to bankruptcy defined under the Bankruptcy Act. This includes cases where the person is facing repayment difficulties with creditors. In seeking approval from MAS, the respondent should, when in doubt, explain the circumstances of the case and provide justifications on why such persons do not present “fit and proper” concerns

In addition, the reference to “an MAS licensed entity” under Proposal 10(iii) of the consultation paper will be widened to *any regulated financial institution, whether in Singapore or elsewhere*. This ensures that all persons presenting similar fit and proper concerns will be consistently disqualified under the rule unless the insurer obtains MAS’ approval for such a person to act as its director or executive officer.

**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.

In general, respondents cited the unavailability of criminal records in the public domain which made it difficult to comply with the rule and sought clarification on our expectations of the level of detail to be exercised in identifying employees with such records.

### MAS' Response

Insurers will only be required to obtain MAS’ approval for persons disqualified under the disqualification criteria for directors and executive officer positions within the insurer. Nevertheless, we continue to encourage insurers to exercise due diligence in the screening of its employees as well to ensure that the insurer is appropriately staffed at all levels by fit and proper individuals. This can be achieved through various other means including establishing and implementing processes to screen employees for adverse records at the point of recruitment as well as on an on-going basis through regular employee self-declarations and checks with external data sources for example. The senior management of the insurer is expected to assess the risks and merits in each case of employment to determine if it will employ or retain the person with criminal conviction records, or if the person is or becomes financially compromised.

**LIST OF RESPONDENTS**

1. AIA Singapore
2. Aviva Asia Pte Ltd
3. Prudential Assurance Co. Singapore (Pte) Ltd
4. Friends Provident Insurance Limited, Singapore Branch
5. Transamerica Singapore Branch
6. Liberty Insurance Pte Ltd
7. QBE Insurance (International) Limited Singapore Branch
8. Asia Capital Group Reinsurance Pte Ltd
9. Scor Re Asia Pacific Pte Ltd
10. Charles Taylor Mutual Management
11. JLT Insurance Management

Two other respondents requested for confidentiality.