

## **RESPONSE TO FEEDBACK RECEIVED – CONSULTATION PAPER ON INSURANCE GROUP-WIDE SUPERVISION**

### **1 Introduction**

1.1 In February 2012, the Monetary Authority of Singapore (“MAS”) conducted a public consultation on Insurance Group-wide Supervision (“IGWS”).

1.2 A total of 11 respondents have submitted their feedback<sup>1</sup>. MAS has considered carefully the feedback received. MAS is reviewing the proposals on the insurance group capital and reporting framework in greater detail and will respond to the feedback received at a later date. Comments pertaining to the other parts of the consultation paper that are of wider interest, together with our responses, are set out below. We would like to thank all respondents for their comments.

### **2 Designation of Insurance Groups for Group-wide Supervision**

2.1 A respondent asked how MAS intended to define “significant to the Singapore financial system” and “significant to the intermediate group” for the purpose of designating foreign-owned intermediate groups for group-wide supervision.

#### MAS’ Response

2.2 MAS will develop relevant measures for “significance” for its internal reference and benchmarking. The measures will be based on objective criteria, including market share in Singapore, substitutability of products and services offered in Singapore, and the size of Singapore operations both in absolute terms and relative to the group.

### **3 Scope of Group-wide Supervision**

3.1 All subsidiaries of the FHC will be included within the scope of FHC group regulation. Some respondents asked if there were other entities that would be included within the regulatory scope. Insurer respondents asked if the scope of application of FHC regulations should be aligned to that of insurance group-wide supervision.

---

<sup>1</sup> The respondents are listed in the [Annex](#).

## MAS' Response

3.2 The scope of the insurance group-wide supervision will comprise, at a minimum, the consolidated group according to the Singapore Accounting Standards. This includes subsidiaries and joint ventures (which are subject to proportionate consolidation) of the parent entity. Where it is appropriate for a prudential rule to have a different scope of application, this will be set out clearly in the regulation. Examples of prudential rules with a wider scope of application include restrictions on cyclical shareholdings and acquisition of major stakes as explained in the consultation paper.

3.3 The scope of application of FHC regulations for insurance groups will be aligned to that of the insurance group-wide supervision framework.

## **4 MAS' Prior Approval for Acquisition of "Major Stakes"**

### *Definition of "Major Stakes"*

4.1 A respondent commented that the threshold of 10% defining a "major stake" should be raised. Another respondent suggested using an absolute monetary value instead of percentage shareholdings in the investee company to define "major stake".

## MAS' Response

4.2 The proposed definition of "major stake" is consistent with other jurisdictions like Switzerland and the EU, as well as the definition adopted in the Singapore banking regulations in respect of bank groups. The current proposed definition encompasses both direct and indirect interests.

4.3 An absolute monetary value to define "major stake" may not capture all acquisitions that result in control of the investee company (essentially limb (c) of Proposal 6 in the consultation paper) and hence will not meet the intent of the rule.

### *Aggregation of "Major Stakes"*

4.4 Two respondents asked why the stakes held by "affiliated entities" were to be aggregated in full and whether this should instead be pro-rated based on the parent entity's holdings in these affiliates.

### MAS' Response

4.5 As there is control over the “affiliated entity” by the parent entity, the holdings of the affiliated entity are deemed to be controlled by the parent entity as well. MAS thus maintains that the stakes of affiliated entities are to be aggregated *in full*. This aggregation approach is consistent with the current approach under the banking regulations in respect of bank groups.

#### *“Major Stakes” to be Excluded*

4.6 On the requirement for the parent entity of the insurance group to obtain MAS' prior approval for acquiring or holding a major stake in another company, a number of respondents asked if MAS will consider excluding certain holdings, for example, those resulting from conversion features inherent in financial and investment instruments, such as warrants and options, held by the parent entity.

### MAS' Response

4.7 A parent entity may come to possess shareholdings in other companies arising from conversion features inherent in financial and investment instruments held, such as warrants and options. MAS will make provision for such shareholdings and interests to be excluded for the purposes of determining “major stakes” held by the parent entity, on the condition that such holdings are disposed at the earliest suitable opportunity.

#### *Assessment and approval considerations*

4.8 One respondent asked under what circumstances will MAS approve or reject applications by the parent entity to acquire or hold a “major stake” in another company.

### MAS' Response

4.9 MAS will develop relevant assessment criteria for such applications. In general, acquisitions of companies which conduct non-financial business activities or activities that are not ancillary to financial business will not be approved.

#### *Subsequent Reductions in Stakes Held*

4.10 Two respondents asked if the requirement to notify MAS in advance of subsequent divestments or reductions in stakes held applies to *all* reductions, however small.

## MAS' Response

4.11 Divestments or reductions involving very small amounts or resulting from developments beyond the parent entity's control (for example, a dilution in stakes held in the company due to other shareholder actions) may not require prior notification. MAS will require notification where:

- (a) the reduction amounts to 10% of the total number of issued shares or voting power of the company; or
- (b) the reduction results in the parent entity to no longer hold a "major stake" in the company.

## **5 Corporate Governance**

### *Scope of Application of the Disqualification Rule*

5.1 A respondent sought clarification on the term "financially compromised" and whether this is defined according to criteria under the Bankruptcy Act. Another respondent asked if persons who have been issued Prohibition Orders under an Act administered by MAS should also be subject to the disqualification rule. In addition, a respondent also enquired if persons who have been a director or executive officer of an overseas financial institution, which is being or has been wound up by a court or the license of which has been revoked by the regulatory authority, should also be disqualified under Proposal 10(iii) of the IGWS consultation paper.

## MAS' Response

5.2 MAS intends for "financially compromised" to also encompass situations leading up to bankruptcy defined under the Bankruptcy Act. This will include cases where the person is facing repayment difficulties with creditors.

5.3 Under the relevant provisions on issuance of Prohibition Orders under the Insurance Act, Financial Advisors Act and Securities and Futures Act, a person who is issued a Prohibition Order is also prohibited, whether permanently or for a specified period, from taking part, directly or indirectly, in the management of or acting as a director of a bank or insurer licensed or regulated by MAS. For clarity, a person who is under a Prohibition Order that is in-force will be disqualified from serving as **directors and executive officers** under the FHC Act.

5.4 In addition, the reference to "an MAS licensed entity" under Proposal 10(iii) of the IGWS 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 FHC obtains MAS' approval for such a person to act as its director or executive officer.

### *Compliance with the Disqualification Rule*

5.5 A number of respondents cited the unavailability of criminal records in the public domain as a difficulty in complying with the rule and sought clarification on MAS' expectations of the level of care and detail to be exercised by the financial institution ("FI") in identifying employees with such records.

#### MAS' Response

5.6 An FI must exercise due diligence in the screening of its directors, executive officers and employees to ensure that the FI is appropriately staffed at all levels by fit and proper individuals. FIs will be required to obtain MAS' approval to appoint persons under the disqualification criteria to director and executive officer positions. For all other employees who are not subject to the requirements under the Representative Notification Framework, the senior management of the FI is still 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. The FI should be able to demonstrate to MAS that it has established and implemented processes to screen employees for adverse records at the point of recruitment, as well as on an on-going basis. These processes may include, for example, regular employee self-declarations and checks with external data providers where available.

## **6 Prudential Requirements**

### *Capital Framework for FHC Groups where Insurance Business is Predominant*

6.1 Some insurer respondents sought clarification on the approach to assess capital adequacy of FHC groups where insurance is predominant.

#### MAS' Response

6.2 In general, the insurance group capital framework will apply to FHC groups where insurance business is predominant. MAS may, however, direct FHC groups where insurance business is predominant to apply the Modular Approach<sup>2</sup> on a case-by-case basis.

### *Prudential Limits for the Insurance Sector*

6.3 A number of insurer respondents expressed preference for the current regulation of concentration risk charges under the insurance Risk-Based Capital framework over "hard" prudential limits to address such concentration risks.

---

<sup>2</sup> See Proposal 23 of the consultation paper on Regulatory Framework for Financial Holding Companies

## MAS' Response

6.4 MAS will take the feedback into consideration in reviewing the applicability of regulatory prudential limits to insurance groups. Should MAS determine that such limits will apply on insurance groups, we will consult the industry on the relevant proposals accordingly.

MONETARY AUTHORITY OF SINGAPORE

24 MAY 2012

**RESPONDENTS TO THE CONSULTATION PAPER ON INSURANCE GROUP-WIDE SUPERVISION**

1. ACE Insurance Ltd
2. Asia Capital Reinsurance Group Pte Ltd
3. AVIVA Asia Pte Ltd
4. AXA Life Insurance Singapore Pte Ltd
5. Prudential Assurance Company Singapore
6. SHC Capital Ltd
7. Swiss Reinsurance Company Ltd, Singapore Branch
8. United Overseas Insurance Ltd

Three other respondents requested confidentiality.