CONSULTATION PAPER

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PROPOSED FRAMEWORK FOR SYSTEMICALLY IMPORTANT INSURERS IN SINGAPORE

Monetary Authority of Singapore

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1 Preface

1.1 MAS proposes a framework to identify domestic systemically important insurers ("D-SIIs") in Singapore and address the risks they pose. This consultation paper sets out proposals for a D-SII framework that adds to MAS' existing efforts to address the negative externalities associated with systemically important financial institutions ("FIs"). The proposed D-SII framework also provides an outline of the methodology to be employed to assess the systemic importance of insurers in Singapore and a range of policy measures that may apply to D-SIIs.

1.2 MAS' risk-based supervisory framework[1] uses a model to provide a systematic and consistent approach to help determine MAS' supervisory priorities, and to distinguish between individual institutions within each financial services sector so that the degree and nature of supervisory attention is varied and calibrated appropriately. This model considers the impact of a FI within each financial services sector (i.e. relative systemic importance) and its risk (i.e. relative risk profile). These inputs ensure that the intensity of MAS' supervision is proportionate to the institution's bearing on the achievement of MAS' supervisory objectives.

1.3 There is currently a set of criteria for assessing the potential impact of each insurer on Singapore's overall financial system and the broader economy, as well as on Singapore's reputation. MAS is proposing to update the framework for identifying such insurers that are of high impact, and to refer to them as D-SIIs. MAS has aligned the proposed D-SII framework with the current Domestic Systemically Important Bank ("D-SIB") framework[2], where appropriate.

1.4 The establishment of a D-SII framework is consistent with international developments and guidance. The International Association of Insurance Supervisors ("IAIS"), recognising that systemic risk may arise from both the distress or disorderly failure of individual insurers and the collective activities and exposures of insurers at a sector-wide level, had developed the Holistic Framework for Systemic Risk in the Insurance Sector ("Holistic Framework") in November 2019[3].

[1] More information can be accessed here: https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Monographs-and-Information-Papers/Monograph--MAS-Framework-for-Impact-and-Risk-Assessment.pdf

[2] More information on D-SIB framework can be found in Appendix 1 of the monograph mentioned in footnote 1.

[3] IAIS Holistic Framework: https://www.iaisweb.org/activities-topics/financial-stability/holistic-framework/

1.5 Key elements of the Holistic Framework include an enhanced set of supervisory policy measures for macroprudential purposes, an annual global monitoring exercise to assess global insurance market trends and developments and an implementation assessment by the IAIS on the consistent application of the enhanced supervisory policy measures. Specifically, the annual global monitoring exercise comprises individual insurer monitoring that is aimed at assessing systemic risk stemming from an individual insurer's distress or disorderly failure and based on an assessment methodology developed by the IAIS.

1.6 The Key Attributes of Effective Resolution Regimes for Financial Institution issued by the Financial Stability Board ("FSB KA") in October 2014 requires any insurer that could be systemically significant or critical if it fails, to be subject to a resolution regime consistent with the FSB KA. This includes being subject to a requirement for an ongoing process of recovery and resolution planning[4].

1.7 In developing the proposals relating to the D-SII framework, MAS considered the IAIS assessment methodology for individual insurer monitoring, as well as the supervisory policy measures under the Holistic Framework and FSB KA.

1.8 MAS invites insurers and other interested parties to submit their views and comments on the proposals made in this paper.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like:

(i) their whole submission or part of it (but not their identity), or

(ii) their identity along with their whole submission,

to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.9 Please submit your comments to the consultation paper by 30 November 2022 at this link: https://form.gov.sg/6347be6dcae2a40011869cd5.

[4] Appendix II - Annex 2 - Resolution of Insurers: Section 9 on Recovery and Resolution Planning: https://www.fsb.org/wp-content/uploads/r_141015.pdf

2 Overview of the proposed D-SII framework

2A Objectives

2.1 MAS seeks to develop a D-SII framework that achieves the following objectives:

(a) to update MAS' diagnostic toolkit for assessing systemic importance of insurers and identifying D-SIIs; and

(b) to establish a range of policy measures that may be applied to D-SIIs.

2B Approach

2.2 As part of the current supervisory framework, MAS performs regular risk and impact assessments of each FI to determine MAS' supervisory priorities, so that the degree and nature of supervisory attention to each FI is calibrated appropriately. The impact assessment process captures the relative systemic importance of an FI within the financial system. It involves evaluating the potential impact of the FI to the financial system in the event of distress, such as acute solvency concerns, prolonged business disruption, or major conduct of business problems[5].

2.3 The proposed D-SII framework builds on MAS' existing impact assessment framework to assess an insurer's systemic importance to Singapore's financial system and domestic economy. Besides determining the nature and extent of supervisory attention for D-SIIs, the D-SII framework will establish other relevant policy measures that may apply to D-SIIs to address the specific negative externalities that they could pose.

2C Scope of assessment

2.4 The focus of the proposed D-SII framework is to identify insurers whose individual distress or disorderly failure, would cause significant disruption to Singapore financial system and economic activity. As such, MAS proposes to assess all licensed insurers under the D-SII framework.

Question 1. MAS seeks views on the proposed scope of D-SII assessment to include all licensed insurers in Singapore.

[5] https://www.mas.gov.sg/-/media/MAS/About-MAS/Monographs-and-information-papers/Monograph2020Detailed1.pdf

3 Assessment methodology

3A Indicator-based approach

3.1 MAS proposes to adopt an indicator-based approach[6] to assess insurers' systemic importance. The proposed indicators will be based on the following four factors:

(a) Size;
(b) Interconnectedness;
(c) Substitutability; and
(d) Complexity.

(a) Size

3.2 Size is a key measure of systemic importance. The larger an insurer and its share of domestic activity, the higher the likelihood that its distress or disorderly failure will negatively affect the domestic economy and markets.

3.3 MAS proposes to use share of Singapore Insurance Fund ("SIF") total assets and share of SIF gross written premiums ("GWP") as measures of size. The focus is on SIF business as the D-SII framework aims to assess the impact of an insurer's failure on the domestic economy and markets. The insurer's Offshore Insurance Fund ("OIF") business will be assessed under (d) Complexity.

(b) Interconnectedness

3.4 An insurer's extent and nature of linkages to financial markets and other corporates entail it could potentially originate or amplify financial panic. The more interconnected an insurer is with the financial markets and the corporates, the higher the impact on these markets and corporates if the insurer is in distress or fails.

3.5 MAS proposes to assess interconnectedness in the following five areas:

1) **insurer's investments in the Singapore capital market, such as government debt securities, corporate debt securities, listed equities, and derivatives.** A greater share of an insurer's holdings in these asset markets could imply a greater potential for fire sale of the insurer's assets, thereby negatively

[6] As mentioned in the Preface, MAS made reference to the indicator-based approaches used under IAIS' individual insurer monitoring as well as the current own D-SIB framework in determining the proposed approach for insurers.

impacting Singapore's capital markets. This could in turn affect other corporates or members of public holding these assets;

2) **insurer's borrowing via Singapore bank loans and overdrafts, and via Singapore's debt market.** A greater share of an insurer's borrowing in these markets could imply a greater impact of an insurer's failure on Singapore's banking system and debt market via the insurer's default on its loans or issued debt;

3) **insurer's financial guarantee business.** Financial guarantee products link an insurer with other parts of the market and are correlated with the economic cycle. An insurer with a greater market share would have a higher impact on the financial positions of the guaranteed parties in the event of its distress or disorderly failure;

4) **insurer's linkage within the insurance market through reinsuring the risks.** The greater the interconnectedness between insurers and their reinsurers in Singapore, the higher the dependency by the Singapore insurers on local reinsurers for reinsurance capacity, resulting in higher potential impact from these reinsurers' distress or disorderly failure; and

5) **insurer's linkage to another domestic systemically important financial institution ("D-SIFI").** This can be looked at in two ways. First, an insurer having a significant shareholding of another D-SIFI could imply a higher impact on the D-SIFI if the insurer were to be in distress. Second, if an insurer's operations contribute to a significant portion of the D-SIFI group's business, of which the insurer is part of, its distress would also have higher impact on the D-SIFI.

(c) Substitutability

3.6 Insurers take on risk from other sectors so that economic activities can take place smoothly. Lower substitutability of certain key business lines could lead to interruption to policyholders seeking insurance cover. All things being equal, an insurer providing coverage for key business lines could translate to a higher risk of disruption to the economy if the insurer were to fail, given the higher concentration risks. MAS proposes to assess substitutability of key business lines as part of the D-SII assessment framework and identify insurers with larger market share for the respective lines of business.

(d) Complexity

3.7 An insurer's business, structure and operational complexity could amplify its systemic importance. When in distress, such an insurer could potentially cause larger spillover effects. More time and resources would also be required to resolve a more complex insurer if it fails. MAS proposes to consider the following indicators when assessing the complexity of an insurer in Singapore:

1) the importance of its Singapore operations to the whole insurance group;

2) number of foreign jurisdictions in which a Singapore-incorporated insurer has branches in;

3) share of insurers' non-SIF business by GWP; and

4) any non-insurance activities that increases system wide impact.

Question 2. MAS seeks views on the proposed indicators for assessing an insurer's systemic importance (see Annex A for a summary of the indicators), and whether there are any additional factors or indicators that MAS should consider.

3B Assessment approach

3.8 MAS proposes to adopt a two-stage assessment process[7] for the assessment of an insurer's systemic importance:

1) **Stage One: Preliminary Selection** - MAS will select insurers that cross the threshold of any impact indicator in the Size, Interconnectedness and Substitutability categories. This approach recognises that the failure of an insurer which ranks highly in any of these categories could have a significant impact on the domestic financial system and economy. MAS will select insurers that cross the cut-off for further deliberation. As complexity itself is not a sufficient reflection of systemic importance (i.e. a complex insurer is less likely to be systemically important unless it is also large, highly connected or a provider of insurance that is hard to substitute), MAS will only select an insurer which is high in Complexity if it is also near the threshold of an indicator in any of the other three categories.

2) **Stage Two: Detailed Consideration** - MAS will subject insurers selected in the first stage to a second stage review. Detailed consideration under the second stage is necessary to mitigate the limitations associated with an otherwise mechanistic indicator-based approach. MAS will exercise supervisory judgment along with the consideration of other supervisory information. MAS will make an overall assessment, taking into account all four factors of systemic

[7] A similar process is used under MAS' D-SIB framework as well.

importance. The results of the overall assessment will be approved by senior management of MAS.

Question 3. MAS seeks views on the proposed assessment approach for the designation of D-SIIs.

3C Periodic review of D-SIIs

3.9 MAS proposes to assess insurers' systemic importance on an annual basis. This takes into account changes in their systemic importance as a result of changes in their risk profiles or business models over time. Two years of data will be taken into account before designation of a D-SII[8] or removal of D-SII status[9]. For example, a non-D-SII in year T that is assessed to be systemically important based on the two-stage assessment process in Year T+1 will not be designated as a D-SII immediately in year T+1. If the insurer continues to be assessed as systemically important in Year T+2, it will be designated as a D-SII in Year T+2 and subjected to policy measures. Conversely, if a D-SII in Year T reduces its systemic importance such that it is no longer assessed as systemically important in Year T+1, its D-SII status will remain unchanged until the change in systemic importance is confirmed in Year T+2 where the policy measures will no longer apply. This will provide greater certainty of an insurer's status before applying or dis-applying the appropriate D-SII policy and supervisory measures.

3.10 However, MAS recognises that there may be instances where a change in systemic importance is likely to be permanent (e.g. inorganic growth or restructuring of operations). In such instances, MAS will exercise discretion to adjust the insurer's D-SII status and its policy measures during the two-year observation period.

Question 4. MAS seeks views on the proposed D-SII annual assessment timeframe and two-year observation period, including the discretion to adjust an insurer's D-SII status where the change in an insurer's systemic importance is likely to be permanent.

4 Policy measures

4.1 Besides more intensive supervision, a D-SII will be subject to appropriate policy measures. In coming up with the proposed policy measures on D-SIIs, MAS took into

[8] With the exception of the insurers which have already been identified under the existing supervisory framework as high impact (as mentioned in paragraph 1.3). Should these insurers meet the relevant criteria under the proposed D-SII framework and is consequently designated by MAS as a D-SII, the designation would take place once the framework is effected (elaborated in section 5).

[9] A similar periodic review is applied under MAS' D-SIB framework as well.

consideration the revisions to enterprise risk management, investment and public disclosure requirements for insurers that will take effect on 1 January 2023[10]. These requirements apply to all insurers, including D-SIIs, and are designed to strengthen insurers' risk management practices and to help prevent insurance sector vulnerabilities and exposures from developing into systemic risks, while being aligned with the enhanced supervisory policy measures under the IAIS Holistic Framework. The following proposed policy measures are specific to D-SIIs:

(a) higher capital requirements;
(b) recovery and resolution planning;
(c) robust management information system; and
(d) enhanced corporate governance requirements.

(a) Higher capital requirements

4.2 Insurers with greater systemic importance should be required to comply with higher capital requirements. The application of higher capital requirements to D-SIIs thus aims to reduce the probability of failure by increasing their going-concern capital buffers. Currently MAS imposes a capital surcharge on certain insurers who are assessed to be high impact ("high impact surcharge")[11].

4.3 MAS proposes to impose a 25% capital add-on on D-SIIs, which will increase a D-SII's higher and lower supervisory intervention levels as well as Common Equity Tier 1 ("CET 1") and Tier 1 capital ratios[12] as defined in MAS Notice 133 on Valuation and Capital Framework for Insurers. The 25% capital add-on is a flat percentage add-on and is

[10] https://www.mas.gov.sg/regulation/circulars/id11_22

[11] Under RBC 2, an insurer has to maintain a capital adequacy ratio ("CAR") of at least 100% at the higher intervention level, and at least 50% at the lower intervention level. However, there may be circumstances under which there would be capital add-ons (expressed as X%). The circumstances include risks which are not captured under RBC 2, risk management deficiencies as well as other supervisory concerns such as the impact upon failure, where relevant.

[12] A numerical example to illustrate this.

Assuming that there is a capital add-on of 10% for the D-SII for risk management deficiencies.

The higher intervention level and lower intervention level would then be a CAR of 135% CAR (from 100% + 10% + 25%) and CAR of 67.5% (from 50% of 135%) respectively.

The D-SII would have to ensure that –

a) at the higher intervention level, at least 81% (i.e. 60% of 135%) of the Total Risk Requirements ("TRR") (excluding participating fund) must be met by CET 1 capital and at least 108% (i.e. 80% of 135%) of the TRR (excluding participating fund) must be met by Tier 1 capital; and
b) at the lower intervention level, 67.5% (i.e. 100% of 67.5%) of the TRR (excluding participating fund) must be met by CET 1 capital.

consistent with the 2% points higher loss absorbency imposed on D-SIBs in broad relative terms.

4.4 The proposed 25% capital add-on on D-SIIs will replace the high impact surcharge. MAS proposes a one-year transition period for newly designated D-SIIs to comply with the 25% surcharge[13].

Question 5. MAS seeks views on the proposal to provide a one-year transition period for newly designated D-SIIs to comply with the 25% surcharge.

(b) Recovery and resolution planning

4.5 A recovery plan outlines actions a D-SII can take to stabilise and restore its financial strength and viability under situations of severe stress. Resolution planning can reduce the risks posed by a D-SII to the stability of the financial system, ensure the continuity of functions that are critical to the economy, and allow a distressed D-SII to be restructured or to exit from the market in an orderly manner. Consistent with on-going international efforts, MAS has been engaging certain high impact insurers in Singapore to prepare and submit recovery plans. MAS proposes to subject D-SIIs to a requirement for an ongoing process of recovery and resolution planning, including providing information to MAS that are relevant to the preparation of resolution plans. This would be an iterative and continuous process.

Question 6. MAS seeks views on the proposal to require recovery and resolution planning for D-SIIs.

(c) Robust management information system

4.6 MAS expects all D-SIIs to put in place robust management information systems that allow information to be readily available for the orderly resolution of a D-SII. The FSB KA[14] sets out the following information in respect of resolution of insurers:

a. the number and type of insurance policies, the benefits due to each policyholder and the reinsurance in place;

[13] With the exception of the insurers which have already been identified under the existing supervisory framework as high impact (as mentioned in paragraph 1.3). Should these insurers meet the relevant criteria under the proposed D-SII framework and is consequently designated by MAS as a D-SII, the D-SII surcharge will be imposed once the framework is effected.

[14] Appendix II – Annex 2 – Resolution of Insurers: Section 10 on Access to Information and Information Sharing: https://www.fsb.org/wp-content/uploads/r_141015.pdf

b. details of eligibility for protection under policyholder protection schemes and the scope of protection for eligible policyholders;

c. insurance and financial products that could be prone to runs;

d. information on assets, especially assets backing the insurance liabilities, the fungibility of any surplus assets between jurisdictions in stressed conditions, and custodian of assets; and

e. information about service agreements or outsourcing agreements that are necessary to ensure continuity of essential services and functions of the D-SII.

4.7 In addition to the above, MAS is of the view that information relating to regulatory capital and reinsurance arrangements in place should be readily available in a resolution scenario. MAS will engage the D-SIIs on how such information should be made available in resolution, including leveraging on existing regulatory submissions.

Question 7. MAS seeks views on the proposed information mentioned under paragraph 4.6 and paragraph 4.7. What might be other appropriate information that should be readily available?

Question 8. MAS seeks views on the expectation for D-SIIs to put in place a management information system that allows information to be readily available for the orderly resolution of a D-SII.

(d) Enhanced corporate governance requirements

4.8 The Insurance (Corporate Governance) Regulations 2013 adopts a tiered approach where direct insurers and reinsurers are categorised into Tier 1 or Tier 2 insurers[15], depending on the quantum of their gross premiums or total assets. A Tier 1 insurer is subject to more stringent corporate governance requirements given the significance of its operations in Singapore. With the introduction of the D-SII framework, MAS is reviewing the corporate governance requirements that should be applied to designated D-SIIs given their systemic importance. This would be part of a wider review of the corporate governance regulations for the insurance sector and the proposals would be consulted on separately.

[15] The Insurance (Corporate Governance) Regulations 2013 sets out the definitions of a Tier 1 and Tier 2 insurer.

5 Implementation timeline

5.1 MAS proposes to implement the D-SII framework on 1 January 2024 and will publish the initial list of D-SIIs by the first quarter of 2024. This list of D-SIIs will be determined based on end-2021 and end-2022 data[16]. The insurers who are designated as D-SIIs will be informed in Q4 2023.

5.2 For the high impact insurers which MAS has commenced discussions with on recovery and resolution planning (as mentioned in paragraph 4.5), MAS will engage these insurers on the transition period needed to comply with the additional policy measures outlined in paragraphs 4.6 and 4.7 if they were to be designated as a D-SII under the proposed D-SII framework. For other newly designated D-SIIs, MAS will also work with these insurers on the transition period by which they have to comply with the policy measures outlined in paragraphs 4.5 to 4.7. For the proposed policy measures relating to enhanced corporate governance requirements, the transition period will follow the implementation timeline arising from the ongoing review of the corporate governance regulations.

5.3 Thereafter, MAS will publish the list of D-SIIs annually after each D-SII assessment exercise, when there are changes to the list. This will include publishing any changes to the D-SII surcharge, if any, and the reasons behind such changes.

Question 9. MAS seeks views on the proposed implementation timeline and approach to be adopted in determining transition periods for the applicable D-SII policy measures outlined in paragraph 5.2.

Review of the D-SII framework

5.4 MAS will conduct a periodic review of the D-SII framework to ensure that the framework takes into account developments in the insurance sector and in international assessment methodologies. To this end, MAS proposes that the D-SII framework, including the methodology and indicators, be reviewed every three years, and that MAS announces the outcome of the review upon its completion where there are changes to the framework. A fixed review period will provide clarity and certainty on the frequency of reviews and provide assurance that the framework is kept up-to-date. A three-year period will provide MAS with sufficient time to assess if changes are warranted.

[16] This follows from paragraph 3.9 where two years of data will be taken into account before designation of a D-SII.

Question 10. MAS seeks views on the proposal to review the D-SII framework every three years, and to announce the outcome of the review upon its completion where there are changes to the framework.

Annex A Proposed list of indicators for assessing systemic importance

Factors	Indicators
Size	• Share of SIF total assets • Share of SIF GWP
Interconnectedness	• Share of investment in Singapore capital markets • Share of borrowing via Singapore banks and debt market • Share of financial guarantee business • Linkages within insurance market • Linkages to another D-SIFI
Substitutability	• Share of key business lines assessed to be with lower substitutability
Complexity	• Importance of Singapore operations to the whole insurance group • Number of foreign jurisdictions in which a Singapore-incorporated insurer has branches in • Share of insurers’ non-SIF business by GWP • Non-insurance activities that increases system wide impact

Annex B List of Questions

Monetary Authority of Singapore