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# MAS Seeks Comments on Proposed Framework for Domestic Systemically Important Insurers in Singapore

## Introduction

On 25 October 2022, the Monetary Authority of Singapore ("**MAS**") issued a consultation paper containing its proposals for a Domestic Systemically Important Insurers ("**D-SIIs**") framework with the primary aim to assess the systemic importance of insurers and identify a D-SII, and apply relevant policy measures to a D-SII to address the specific negative externalities that a D-SII can potentially pose as a result of its distress or failure. The consultation ends on **30 November 2022**, and MAS proposes to implement the D-SII framework on 1 January 2024.

The proposed D-SII framework complements MAS' current risk-based supervisory framework of financial institutions ("**FIs**") that is based on the impact and risk model,<sup>1</sup> i.e. one that considers the impact of a FI within each financial services sector and its risk. MAS calibrates its supervision of a FI based on the relative systemic importance and relative risk profile of the FI. Currently, specific to the banking sector, MAS has a framework to assess and supervise domestic systemically important banks ("**D-SIBs**") in Singapore ("**D-SIB framework**"). Building on the current risk-based supervisory framework for FIs, MAS proposes to update this framework for identifying insurers that are of high impact and designate them as D-SIIs. Where appropriate, MAS has aligned the proposed D-SII framework with the current D-SIB framework. In developing the proposed D-SII framework, the MAS considered relevant international developments and guidance (in particular, the assessment methodology for individual insurer monitoring developed by the International Association of Insurance Supervisors ("**IAIS**") and the supervisory policy measures recommended by the IAIS and the Financial Stability Board ("**FSB**").

This Update outlines key features of the proposed D-SII framework.

## Scope of Assessment

For purposes of the D-SII assessment, MAS proposes to include all insurers licensed under the Insurance Act 1966 under the D-SII framework. This will help MAS identify insurers whose individual distress or disorderly failure would cause significant disruption to Singapore's financial system and economic activity.

<sup>1</sup> Please see "[MAS Framework for Impact and Risk Assessment of Financial Institutions](#)" (available on the MAS website).

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## Indicator-based Approach to Assess D-SIIs

Taking reference from the indicator-based approaches used by IAIS to monitor individual insurers and under the current D-SIB framework, MAS proposes to assess the systemic importance of insurers using an indicator-based approach. The proposed indicators will be based on four factors: Size, Interconnectedness, Substitutability and Complexity.

<b>Factors</b>	<b>Indicators</b>
Size	The size of an insurer is proportionate to the likelihood of a negative impact on the domestic economy and markets caused by its distress or disorderly failure. MAS proposes to use two main indicators to measure the insurer's size, namely: its share of Singapore Insurance Fund (" <b>SIF</b> ") total assets; and its share of SIF gross written premiums (" <b>GWP</b> ").
Interconnectedness	The greater the extent and nature of linkages of an insurer to financial markets and other corporates, the greater the potential likelihood and negative impact its failure or distress may cause on the markets and corporates. MAS proposes to assess interconnectedness by looking at five main indicators, namely the insurer's: (i) share of investment in Singapore capital markets; (ii) share of borrowing via Singapore banks and debt market; (iii) share of financial guarantee business; (iv) linkages within the insurance market; and (v) linkages to another domestically important FI.
Substitutability	Generally, everything being equal, lower substitutability of certain key business lines may cause greater interruption to policyholders seeking insurance cover in the event the insurer fails. As an indicator, MAS proposes to look at the insurer's share of key business lines assessed to be of lower substitutability, and identify insurers with a larger market share for the respective business lines.
Complexity	The complexity of an insurer's business, structure and operations might potentially amplify the insurer's systemic importance. The proposed indicators to assess complexity of an insurer in Singapore are: (i) the importance of its Singapore operations to the whole insurance group; (ii) the number of foreign jurisdictions in which a Singapore-incorporated insurer has branches; (iii) the share of insurers' non-SIF business by GWP; and (iv) any non-insurance activities that increases system-wide impact.

MAS seeks comments on the proposed factors and indicators, and whether MAS should also consider other factors or indicators. For details, please refer to Section 3A under "Indicator-based approach", and a summary of the proposed list of indicators is set out at Annex A to the consultation paper.

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## Two-Stage Assessment Process

Similar to the two-stage process under the D-SIB framework, MAS proposes a two-stage assessment process to assess an insurer's systemic importance for the purpose of designating D-SIIs:

<b>Stage One: Preliminary Selection</b>	Broadly speaking, MAS will select insurers that exceed the threshold of any impact indicator in the Size, Interconnectedness and Substitutability categories. MAS stated that Complexity is not in itself a sufficient reflection of systemic importance, and will only select an insurer which is high in Complexity if such insurer is also near the threshold of an indicator in any of the other three categories.
<b>Stage Two: Detailed Consideration</b>	MAS will then conduct a more detailed review of the insurers selected in the first stage. At this stage, MAS will exercise supervisory judgment taking into account other supervisory information, and make an overall assessment taking into account all four factors of systemic importance. The results of the overall assessment will be subject to the approval of the senior management of MAS.

## Annual Review of D-SIIs

MAS proposes to conduct its assessment of insurers' systemic importance on an annual basis. This proposed assessment timeframe allows MAS to take into account changes in the insurer's systemic importance due to changes in the insurer's risk profile or business models over time.

MAS also proposes a two-year observation period where MAS will take into account two years of data before designating an insurer as a D-SII or removing an insurer's D-SII status (with the exception of insurers which have already been identified under the existing supervisory framework as high impact – should these insurers meet the relevant criteria under the proposed D-SII framework and is consequently designated as a D-SII under the D-SII framework, the designation would take place once the D-SII framework is effected).

During the two-year observation period, MAS also proposes to have the discretion to adjust an insurer's D-SII status and its policy measures in cases where a change in an insurer's systemic importance is likely to be permanent.

## Policy Measures for D-SIIs

A D-SII will be subject to more intense supervision by MAS, and MAS proposes to apply appropriate policy measures relevant to the D-SII. In formulating the proposed policy measures, MAS has taken into account the revisions to enterprise risk management, investment and public disclosure requirements for

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insurers (including D-SII) that will take effect on 1 January 2023.<sup>2</sup> In addition to the general requirements that apply to all insurers, D-SIIs will be subject to proposed policy measures specific to them.

**Higher capital requirements** MAS currently imposes a capital surcharge on certain insurers who are assessed to be high impact ("**high impact surcharge**") under the RBC 2 framework. MAS proposes to impose a 25% capital add-on on D-SIIs ("**D-SII surcharge**"), which will replace the current high impact surcharge.

Transition period:

- Newly designated D-SIIs will be given a one-year transition period to comply with the D-SII surcharge.
- For high impact insurers (i.e. those that have been identified under the existing supervisory framework as high impact) that meet the criteria under the proposed D-SII framework and are consequently designated as D-SIIs under the D-SII framework, the D-SII surcharge will be imposed once the framework is in effect.

**Recovery and resolution planning** A recovery plan sets out the actions a D-SII can take to stabilise and restore its financial strength and viability under situations of severe stress, while resolution planning aims to reduce the risks posed by a D-SII to the stability of the financial system by, among other things, ensuring an orderly restructuring or exit of a distressed D-SII. Currently, MAS has been engaging certain high impact insurers in Singapore to prepare and submit recovery plans. MAS proposes to require D-SIIs to undertake an iterative and continuous process of recovery and resolution planning, including providing information to MAS that is relevant to the preparation of resolution plans.

**Robust management information system** MAS seeks comments on the expectation for all D-SIIs to have in place a management information system that allows information to be readily available for the orderly resolution of a D-SII. MAS also seeks comments on the information to be made readily available. It is proposed that such information include information to be provided in respect of resolution of insurers under the [Key Attributes of Effective Resolution Regimes for Financial Institutions](#) (see paragraph 4.6 of the consultation paper), as well as other information relating to regulatory capital and reinsurance arrangements that are in place in the event of a resolution. MAS also seeks comments on what other appropriate information should be made readily available. MAS stated that it will engage the D-SIIs on how the information should be made available in resolution, including leveraging on existing regulatory submissions.

<sup>2</sup> Please see [JD11/22 Amendments to Notices 124, 125 and 126](#) (available on the MAS website).

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#### Transition period:

- For high impact insurers that MAS are in discussions with on recovery and resolution planning (discussed above), MAS will engage these insurers on the transition period for compliance with the additional policy measures for a management information system if they were to be designated as a D-SII under the D-SII framework.
- For other newly designated D-SIIs, MAS will work with these insurers on the transition period for compliance with the policy measures concerning recovery and resolution planning, and having in place a management information system.<sup>3</sup>

#### **Enhanced corporate governance requirements**

Currently, direct insurers and reinsurers must comply with certain corporate governance requirements under the Insurance (Corporate Governance) Regulations 2013 ("**Corporate Governance Regulations**"). Depending on the quantum of their gross premiums or total assets, an insurer is categorised as a Tier 1 insurer or Tier 2 insurer and subject to the relevant corporate governance requirements. Under the Corporate Governance Regulations, Tier 1 insurers are subject to more stringent corporate governance requirements. MAS stated it will review the Corporate Governance Regulations and, as part of this review, will also deliberate on the corporate governance requirements to be applied to designated D-SIIs. MAS will be consulting on this separately.

Transition period: The transition period for enhanced corporate governance policy measures/requirements will follow the implementation timeline of the review of the Corporate Governance Regulations.

## Implementation Timeline

MAS proposes to implement the D-SII framework on **1 January 2024**, and will publish the initial list of D-SIIs (based on end-2021 and end-2022 data) by Q1 2024. MAS will inform the insurers who are designated as D-SIIs in Q4 2023. Subsequently, 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.

<sup>3</sup> Refers to policy measures at paragraphs 4.5 to 4.7 of the consultation paper.

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## **Periodic Review of D-SII Framework**

To ensure that the proposed D-SII framework takes into consideration developments in the insurance sector and international assessment methodologies, it is proposed that MAS will review the proposed D-SII framework every three years, and announce the outcome of its review upon completion where there are changes to the framework.

## **Concluding Words**

If you have any queries on the above development or would like to submit any feedback to the consultation paper, please feel free to contact our team members below who will be happy to assist.

Please click [here](#) for the MAS "*Consultation Paper on Proposed Framework for Systemically Important Insurers in Singapore*" that is made available on the MAS website ([www.mas.gov.sg](http://www.mas.gov.sg)).

## Contacts

### Insurance & Reinsurance



**Simon Goh**  
Head, Insurance & Reinsurance

T +65 6232 0645

[simon.goh@rajahtann.com](mailto:simon.goh@rajahtann.com)



**Wang Ying Shuang**  
Deputy Head, Insurance & Reinsurance

T +65 6232 0365

[ying.shuang.wang@rajahtann.com](mailto:ying.shuang.wang@rajahtann.com)

### Financial Institutions Group



**Regina Liew**  
Head, Financial Institutions Group

T +65 6232 0456

[regina.liew@rajahtann.com](mailto:regina.liew@rajahtann.com)



**Larry Lim**  
Deputy Head, Financial Institutions Group

T +65 6232 0482

[larry.lim@rajahtann.com](mailto:larry.lim@rajahtann.com)



**Benjamin Liew**  
Partner, Financial Institutions Group

T +65 6232 0686

[benjamin.liew@rajahtann.com](mailto:benjamin.liew@rajahtann.com)

Please feel free to also contact Knowledge and Risk Management at [eOASIS@rajahtann.com](mailto:eOASIS@rajahtann.com)

## Our Regional Contacts

RAJAH & TANN | *Singapore*

**Rajah & Tann Singapore LLP**  
T +65 6535 3600  
sg.rajahtannasia.com

R&T SOK & HENG | *Cambodia*

**R&T Sok & Heng Law Office**  
T +855 23 963 112 / 113  
F +855 23 963 116  
kh.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

**Rajah & Tann Singapore LLP  
Shanghai Representative Office**  
T +86 21 6120 8818  
F +86 21 6120 8820  
cn.rajahtannasia.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

**Assegaf Hamzah & Partners**

**Jakarta Office**

T +62 21 2555 7800  
F +62 21 2555 7899

**Surabaya Office**

T +62 31 5116 4550  
F +62 31 5116 4560  
www.ahp.co.id

RAJAH & TANN | *Lao PDR*

**Rajah & Tann (Laos) Co., Ltd.**

T +856 21 454 239  
F +856 21 285 261  
la.rajahtannasia.com

CHRISTOPHER & LEE ONG | *Malaysia*

**Christopher & Lee Ong**  
T +60 3 2273 1919  
F +60 3 2273 8310  
www.christopherleeong.com

RAJAH & TANN | *Myanmar*

**Rajah & Tann Myanmar Company Limited**  
T +95 1 9345 343 / +95 1 9345 346  
F +95 1 9345 348  
mm.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

**Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)**

T +632 8894 0377 to 79 / +632 8894 4931 to 32  
F +632 8552 1977 to 78  
www.cagatlaw.com

RAJAH & TANN | *Thailand*

**R&T Asia (Thailand) Limited**

T +66 2 656 1991  
F +66 2 656 0833  
th.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

**Rajah & Tann LCT Lawyers**

**Ho Chi Minh City Office**

T +84 28 3821 2382 / +84 28 3821 2673  
F +84 28 3520 8206

**Hanoi Office**

T +84 24 3267 6127  
F +84 24 3267 6128  
www.rajahtannlct.com

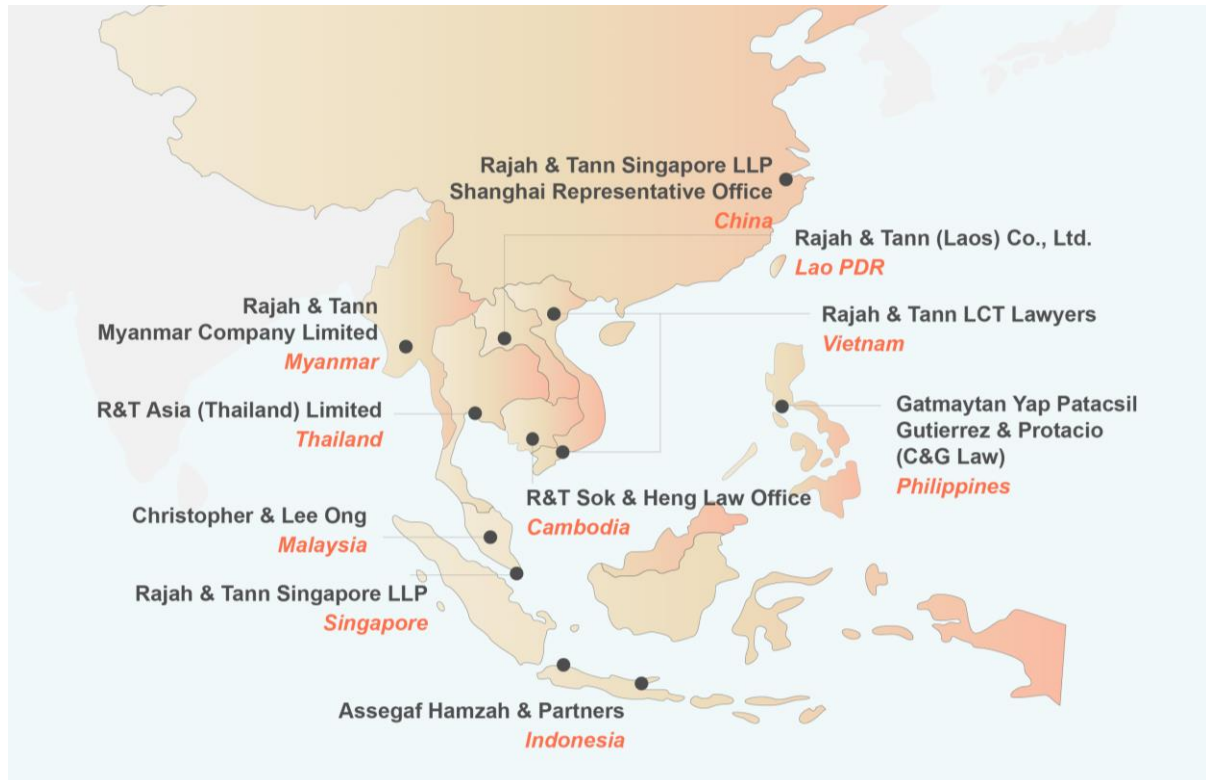
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