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Singapore

S4 - Regulatory changes in Singapore and implications for Asia-Pacific

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FSA, FCIA, FSAS – Singapore Actuarial Society

Waves of Reforms…Oceans of Opportunities

2013 AGFA & 15th Global Conference of Actuaries

17th – 19th Feb, 2013 | Mumbai, India

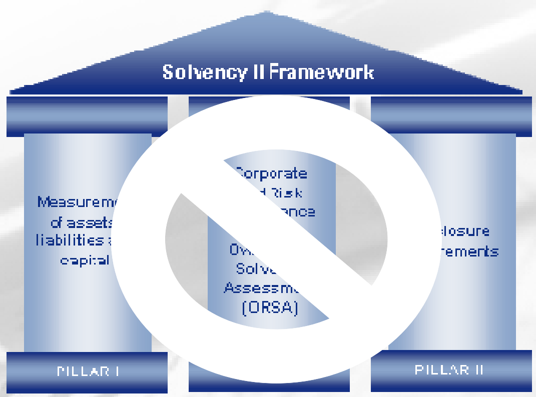
Agenda

- RBC2
- FAIR
- Others

RISK BASED CAPITAL 2

Risk Based Capital (RBC) 2

- MAS issued a Consultation Paper in June 2012
  - One month response time
- SAS gave a formal response
  - Efforts of ERM, Life and Non-Life committees
  - Had a member's forum on the response – over 100 members attended!
- RBC2 is not a significant overhaul of current framework, but rather improvements to:
  - Comprehensiveness of risk coverage
  - Risk Sensitivity



RBC2 Highlights

- **Proposal 5 -** recalibrate risk requirements using the Value at Risk ("VaR") measure of 99.5% confidence level over a one year period.
  - VaR 99.5% confidence level (1 in 200 year event)
    - ✓ Widely adopted as a solvency standard
    - ✓ Easy to compute
- Singapore insurance market has survived through a number of global and Asian economic crises without major problem implies that the current RBC regime is operating at a satisfactory level
  - Is VaR 99.5% too high?

RBC2 Highlights

- ***Proposal 6:*** MAS proposes not to allow for diversification benefits when aggregating the capital risk requirements.
  - MAS is, however, prepared to consider diversification benefits if the industry is able to substantiate, with robust studies and research conducted on the local insurance industry, that there are applicable correlations which can be relied on during normal and stressed times.
- Implies perfect correlation and will create a much higher capital standard than the 1-in-200 year basis.

RBC2 Highlights

- ***Proposal 3:*** MAS proposes to incorporate an explicit risk charge to capture operational risk within the RBC 2 framework
  - x% of the higher of the past 3 years' averages of (a) earned premium income; and (b) gross policy liabilities, subject to a maximum of 10% of the total risk requirement. Where x = 4% (except for investment-linked business, where x = 0.25% given that most of the management of investment-linked fund is outsourced)
- Issues with a standardized formula:
  - No reward to companies who have good risk management
  - No recognition different riskiness of different lines of business

RBC2 Highlights

- ***Proposal 9:*** MAS proposes to allow a part of the negative reserves to be recognised as a form of positive financial resource adjustment (FRA) under Financial Resources. MAS will consult further on the amount to be recognised.

On Balance Sheet	Off Balance Sheet
• Negative Reserve in the policy liabilities	• Negative reserves as positive FRA
• Market consistent, economic value of the business	• Negative reserve not reflected in economic value of the business
• Taxes???	• No tax consequences

RBC2 Highlights

- ***Proposals 11 & 12:*** Prescribed Capital Requirement (PCR) is the higher supervisory intervention level which corresponds to a VaR of 99.5%. Minimum Capital Requirement (MCR) is the lower supervisory intervention level which corresponds to a VaR of 90%. Both have to be maintained at both the company level, as well as at an insurance fund level.
- PCR for company level only?
  - Excessive if fund level
- MCR for fund level only?

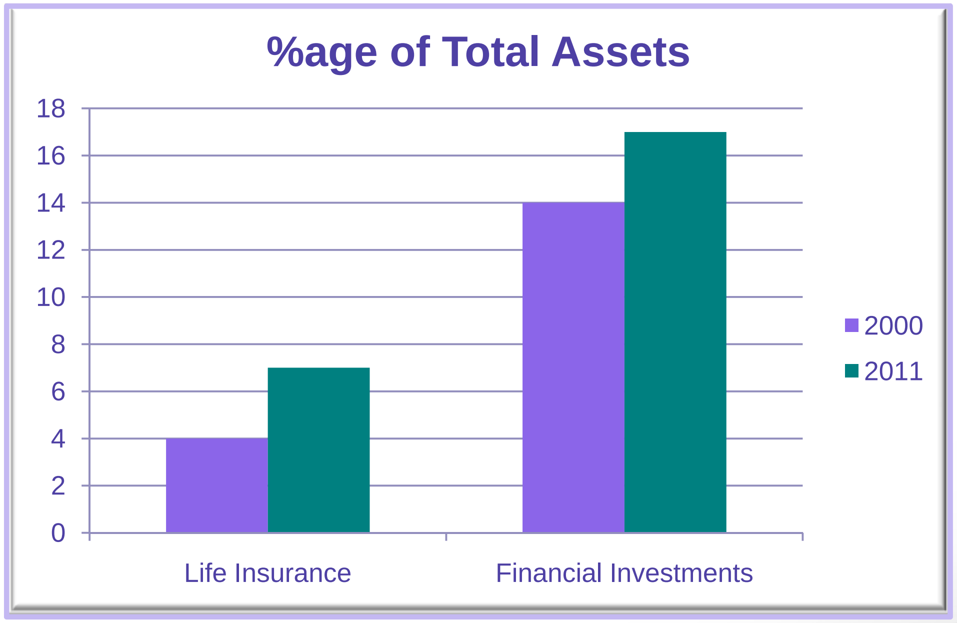
RBC2 Highlights

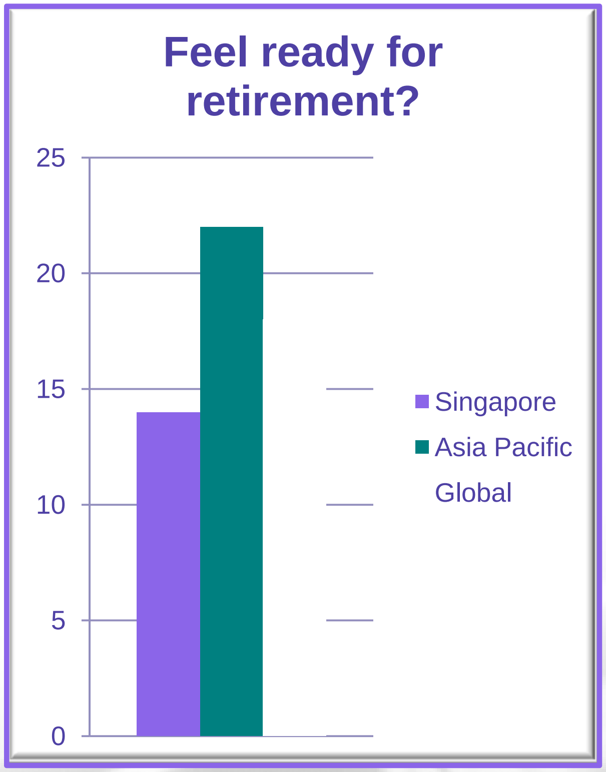
- Explicit charge for spread risk
- No explicit charge for liquidity risk
  - Taken care of via stress testing
- Explicit charge for cat risk
  - Man-made, natural and pandemic
- Focus on ERM and ORSA
- Implementation date: 31 December 2013
  - Pushed back to 1/1/2015

FINANCIAL ADVISORY INDUSTRY REVIEW - FAIR

Background

- Speech to the LIA in March 2012
- Changing environment:





http://www.mas.gov.sg/News-and-Publications/Monetary-Policy-Statements-and-Speeches/2012/Financial-Advisory-Services-Putting-the-Customer-First.aspx
Nielsen Company – Global Ageing Report (February 2011)

Objectives

Five Key Thrusts of FAIR:

1. Raise the competence of financial advisory representatives
2. Raise the quality of financial advisory firms
3. Make financial advice a dedicated service
4. Lower distribution costs of insurance products
5. Promote a culture of fair dealing

Objectives:

1. Enhance the professional standing & competence of financial advisers
2. Create a more competitive & efficient system for the distribution of life insurance & investments

Protect & Benefit the Customer.

1. Raise the competence of financial advisory representatives

- Product Knowledge:
  - New exam modules
  - Pushback:
    - I only sell simple products – why understand the complex
    - Academic qualifications are enough
- Raising entry requirements:
  - Currently is four GCE “O” level passes

2. Raise the quality of financial advisory firms

- FA firms can be quite small
  - Doubling up of duties as representative / CEO / CFO / Compliance Officer
- MAS will review the management expertise & financial resources of FA firms
  - Take this into account when admitting new FA firms

3. Make financial advice a dedicated service

- Unregulated activities of FA reps
  - Activities with clear conflict:
    - Money lending
    - Promoting junkets for casinos
    - Selling real estate
    - Marketing investment products which do not fall under Financial Advisers Act

3. Make financial advice a dedicated service

- Role of Introducers
  - Introducers are paid a fee / % of commission to reach out to customers
- FA activities in insurance broking firms
  - FAIR will review the scope
  - Ensure expertise and compliance

4. Lower distribution costs of insurance products

- Direct Sales of simple products
  – Why not internet sales for life insurance? Simple term
- Commission based remuneration & distribution structure
  – “Underlying inefficiencies”
  – FAIR will do a fundamental review
  – Does current structure align representative & consumer?
  – UK & Australia moving towards a fee-based model

4. Lower distribution costs of insurance products

- Enhance transparency
  - Benefit illustrations show the TOTAL distribution cost
    - Not payout to the rep
  - Investment linked policies
    - Illustration not clear on split between protection & investment

5. Promote a culture of fair dealing

- Board & Senior Management to set a strategy to achieve
  - Fair dealing outcomes
  - Monitor its implementation
  - Train staff & reps
  - Revenue targets must never be at the expense of treating customers fairly & honestly
- Enhance transparency of products
  - Product Highlights Sheet
  - Customer Knowledge Assessment
    - Does the customer have relevant knowledge / experience to understand the risks in the products

Other Changes

EAAC – Resorts World, Singapore – October 15 – 18, 2013

References

- www.mas.gov.sg / News and Publications / Consultation Papers / Closed
- http://www.mas.gov.sg/en/News-and-Publications/Consultation-Paper/2012/Consultation-Paper-on-Review-on-Risk-Based-Capital-Framework-of-Insurers-in-Singapore-RBC-2-Review.aspx

Thank you very much for your attention.

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