Insurance and Reinsurance | Financial Institutions

MAS Framework for Domestic Systemically Important Insurers (D-SIIs) to Take Effect on 1 Jan 2024

Introduction

In October last year, the Monetary Authority of Singapore ("**MAS**") issued a Consultation Paper on its proposed framework for Domestic Systemically Important Insurers ("**D-SIIs"**) which is intended to formalise and update its Framework for Impact and Risk Assessment of Financial Institutions to facilitate the annual impact assessment of insurers based on their size, interconnectedness, substitutability and complexity. You may read more about the key proposals concerning the D-SII framework in our earlier Legal Update, available here.

On 21 September 2023, MAS issued its Response to feedback received on the Consultation Paper ("**Response**") (available here), and announced that it will be implementing the D-SII framework as proposed on **1 January 2024**. Under the D-SII framework, MAS will formally designate insurers whose failures are assessed to have a significant impact on the financial system and broader economy in Singapore as D-SIIs. Four insurers are included in the inaugural list of D-SIIs: AIA Singapore Private Limited; Income Insurance Limited; Prudential Assurance Company Singapore (Pte) Limited; and The Great Eastern Life Assurance Company Limited.[1]

This Update highlights the key aspects of the D-SII framework, and where relevant, salient responses from MAS on the feedback received on the Consultation Paper.

Key Aspects of the D-SII Framework

Scope of Assessment

In the Consultation Paper, MAS sought views on its proposal to assess all insurers licensed under the Insurance Act 1966 under the D-SII framework. Several respondents suggested that reinsurers and small insurers should be excluded from the assessment. However, MAS commented that reinsurers should not be ex-ante excluded as their failure could still have significant impacts on the financial market. The systemic importance of insurers is also not just based on the size of their businesses. All insurers should therefore at least go through a Stage One assessment (see discussion below on the two-stage assessment process) in which MAS preliminarily selects insurers that cross the threshold of any impact

[1] MAS media release on "MAS Publishes Inaugural List of Domestic Systematically Important Insurers in Singapore".

indicator based on Size, Interconnectedness, and Substitutability before any recommendation of D-SII status is put forth to MAS' senior management for detailed consideration under Stage Two of the assessment.

Indicator-based Approach to Assess D-SIIs

MAS sought views on the four proposed indicators for assessing an insurer's systemic importance, namely: Size, Interconnectedness, Substitutability and Complexity. The respondents sought clarifications and proposed changes to the indicators. In its Response, MAS made several noteworthy points:

- There is no pre-determined weightage assigned to each indicator. MAS will select insurers that cross the threshold of any impact indicator in the Size, Interconnectedness and Substitutability categories under the Stage One assessment. MAS will carefully calibrate the thresholds for each indicator to take into consideration annual industry data. However, MAS will not disclose the thresholds used.

- The same D-SII framework will be used for the entire insurance industry, i.e. the same indicator will be used for direct life insurers, direct general insurers and reinsurers. However, MAS will take into consideration skewed data, such as a once-off underwriting of large tranches of single premium businesses written by a direct life insurer which leads to high gross written premiums and an inflated Size indicator in a particular year.

- Responding to the suggestion to use policy liabilities instead of total assets as a Size indicator, MAS takes the view that the valuation of Total Assets is likely more consistent across various insurers as compared to policy liabilities, as there could be different assumptions when estimating the liabilities based on each individual insurer's experience.

- While the domestic market is the focus for the Size and Suitability indicators, an insurer's offshore businesses remain relevant under the Interconnectedness indicators. For example, an insurer may hold investments in the Singapore capital markets in its Offshore Insurance Fund. With regard to the Complexity indicator, the failure of insurers with complex Singapore and offshore businesses and structures could also potentially cause larger spillover effects and require more time and resources to resolve. However, complexity itself is not a sufficient reflection of systemic importance. A complex insurer is less likely to be systematically important unless it is also large, highly connected, or a provider of insurance that is hard to substitute.

Two-Stage Assessment Process

MAS proposed a two-stage assessment process that is similar to the two-stage process under the domestic systemically important banks ("**D-SIBs**")) framework:

- *Stage One: Preliminary Selection*: Broadly speaking, MAS will select insurers that exceed the threshold of any impact indicator in the Size, Interconnectedness and Substitutability categories; and

- *Stage Two: Detailed Consideration*: 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.

In response to feedback received from the respondents, MAS made several key points, including:

- It is important to be consistent in the assessment process, and MAS has put in place internal guidelines and procedures to ensure proper assessment of all cases. MAS will start engaging the insurers when they are assessed as potential D-SIIs based on at least one year's data, and explain the reasons for the designation of an insurer as a D-SII on a bilateral basis.

- With regard to feedback to consider risk mitigating measures in the D-SII framework, MAS agrees that controls, safeguards and risk mitigation measures/policies are important. These are assessed separately under MAS' Comprehensive Risk Assessment Framework and Techniques ("**CRAFT**") set out in the Framework for Impact and Risk Assessment of Financial Institutions. In contrast, the D-SII framework does not aim to assess the probability of an insurer's failure. Instead, it focuses on identifying insurers whose individual distress or disorderly failure, would cause significant disruption to Singapore financial system and economic activity.

- MAS has considered the differences between branches and subsidiaries in assessing the Complexity indicator and clarified that some of the Complexity indicators will only be applied to subsidiaries.

- MAS clarified that the indicators under Size, Interconnectedness and Substitutability are intended to capture different aspects of systemic importance of the insurers. The failure of an insurer small in size could have significant impact to Singapore's financial market if there are concentrations in its asset holdings or provision of reinsurance coverages for certain key business lines.

Annual Review of D-SIIs

MAS will conduct its assessment of insurers' systemic importance on an annual basis, and have 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. The annual assessment is aligned to the frequency of MAS' risk assessment under CRAFT.

Based on each year's data, the insurer will be subject to the two-stage assessment process, where the findings of the Stage One assessment will be weighed against other supervisory information (such as the insurer's strategy and the market environment) under the Stage Two assessment. Once an insurer has been designated as a D-SII, its designation will continue unless otherwise notified by MAS that its D-SII designation has been removed.

Policy Measures for D-SIIs

D-SIIs will be subject to additional supervisory measures which will largely mirror those applicable to D-SIBs. These measures include:

- Higher capital requirements: A 25% capital add-on will apply, increasing a D-SII's higher and lower supervisory intervention levels, as well as Common Equity Tier 1 (CET1) and Tier 1 capital requirements. This add-on will replace the 25% high impact surcharge applicable to the four D-SIIs under the existing framework.

- Recovery and resolution preparedness ("**RRP**"): Recovery planning strengthens an insurer's ability to restore its financial strength and viability in a period of distress, and resolution planning will enhance MAS' ability to ensure the timely and orderly restructuring or exit of an insurer if it fails to minimise impact to the financial system and economy.

- Robust management information systems ("**MIS**") that will allow information to be readily available for the orderly resolution of a D-SII.

- Enhanced corporate governance requirements.

Transition Period and Implementation Timeline

The D-SII framework will take effect on 1 January 2024. In its Response, MAS dealt with feedback concerning:

- *The transition period for new D-SIIs on the higher capital requirement*. MAS clarified that insurers which have already been identified as high impact under the existing framework are currently subjected to a high impact surcharge. Following the assessment under the new framework, if these insurers are designated as D-SIIs, the high impact surcharge would be replaced by the D-SII surcharge with effect from 1 January 2024.

- *The transition period for proposed policy measures on RRP and MIS*. For selected existing high impact insurers which MAS has been in discussion with on RRP, MAS will engage these insurers on the transition period required and allow reasonable transition time for insurers to comply with the policy measure on a robust MIS, if they were to be designated as a D-SII under the proposed framework. For newly designated D-SIIs (in the first or subsequent years of implementation of the proposed D-SII framework), MAS will also work with these insurers on the transition period by which they will have to comply with the policy measures on RRP and robust MIS, and allow reasonable transition time for these insurers.

MAS also provided a detailed illustration of the implementation timeline in its Response.

For details on the D-SII framework, including the process for designating D-SIIs, please refer to the *updated* paper on "MAS' Framework for Impact and Risk Assessment of Financial Institutions".

If you have any queries on the above development, please feel free to contact our team members below who will be happy to assist.

Contacts

Insurance & Reinsurance

Simon Goh
Head, Insurance & Reinsurance

T +65 6232 0645

simon.goh@rajahtann.com

Wang Ying Shuang
Deputy Head, Insurance & Reinsurance

T +65 6232 0365

ying.shuang.wang@rajahtann.com

Alvin Ee
Partner, Insurance & Reinsurance

T +65 6232 0929

alvin.ee@rajahtann.com

Financial Institutions Group

Regina Liew
Head, Financial Institutions Group

T +65 6232 0456

regina.liew@rajahtann.com

Larry Lim
Deputy Head, Financial Institutions Group

T +65 6232 0482

larry.lim@rajahtann.com

Benjamin Liew
Equity Partner, Financial Institutions Group

T +65 6232 0686

benjamin.liew@rajahtann.com

Samuel Lim
Partner, Financial Institutions Group

T +65 6232 0941

samuel.lim@rajahtann.com

Please feel free to also contact Knowledge Management at 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

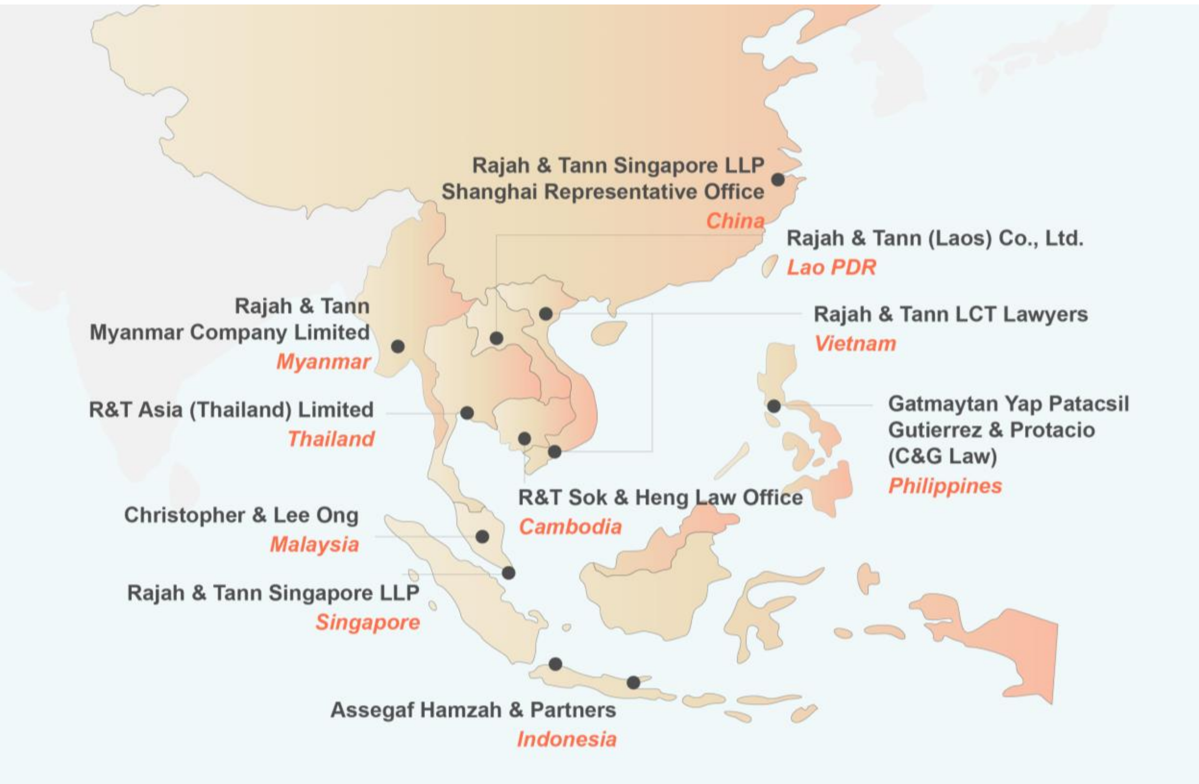
Ho Chi Minh City Office
T +84 28 3821 2382 / +84 28 3821 2673
F +84 28 3520 8206

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

Rajah & Tann Asia is a network of legal practices based in Asia.

Member firms are independently constituted and regulated in accordance with relevant local legal requirements. Services provided by a member firm are governed by the terms of engagement between the member firm and the client.

Our Regional Presence



Rajah & Tann Singapore LLP is one of the largest full-service law firms in Singapore, providing high quality advice to an impressive list of clients. We place strong emphasis on promptness, accessibility and reliability in dealing with clients. At the same time, the firm strives towards a practical yet creative approach in dealing with business and commercial problems. As the Singapore member firm of the Lex Mundi Network, we are able to offer access to excellent legal expertise in more than 100 countries.

Rajah & Tann Singapore LLP is part of Rajah & Tann Asia, a network of local law firms in Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Our Asian network also includes regional desks focused on Brunei, Japan and South Asia.

Please note also that whilst the information in this Update is correct to the best of our knowledge and belief at the time of writing, it is only intended to provide a general guide to the subject matter and should not be treated as a substitute for specific professional advice for any particular course of action as such information may not suit your specific business and operational requirements. It is to your advantage to seek legal advice for your specific situation. In this regard, you may call the lawyer you normally deal with in Rajah & Tann Singapore LLP or email Knowledge Management at eOASIS@rajahtann.com.