

## REGULATORY INTELLIGENCE

**COUNTRY UPDATE-Singapore: Insurance**

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The primary legislation governing insurance business in Singapore is the Insurance Act 1966 (IA), which regulates and governs insurers and insurance intermediaries. The IA is supplemented by subsidiary legislation, notices and directives, guidelines and codes that are issued by the Monetary Authority of Singapore (MAS).

The main authority that regulates the provision of insurance business in Singapore is the MAS, which is a member of the International Association of Insurance Supervisors. Apart from the MAS, the Life Insurance Association - the trade association of life insurers, and the General Insurance Association - the trade association of general insurers also play an important role in the regulation of insurers and insurance intermediaries.

**Financial promotion**

The Guidelines on Standards of Conduct for Marketing and Distribution Activities set out safeguards that insurers should put in place and adhere to when they market and sell financial products and services to retail customers. These include conducting call-backs or surveys within the free-look period; tracking and monitoring complaints from marketing and sales activities; and providing training to representatives conducting sales and marketing activities.

**Product specific legislation**

Apart from the IA, there are other legislation regulating specific types of insurance such as marine insurance (under the Marine Insurance Act 1960) and motor vehicles insurance (under the Motor Vehicles (Third-Party Risks and Compensation) Act 1960). Additionally, the MAS issues notices from time to time on specific insurance products.

For example, in relation to life insurance, MAS Notice 318 on Market Conduct Standards for Direct Life Insurer as a Product Provider sets out mandatory requirements on the disclosure, sales process, replacement of life policies, cessation of business with financial advisers and reports to the MAS. MAS Notice 321 on Direct Purchase Insurance Products stipulates when life insurers should manufacture and offer direct purchase insurance, as well as requirements for naming, pricing, re-pricing and product features.

The MAS has also published Guidelines on the Online Distribution of Life Policies with No Advice, including providing key product information, incorporate prominent statements, provide tools and calculators and set up appropriate avenues to handle queries, complaints and claims.

In relation to reinsurance, persons carrying on reinsurance business outside Singapore may apply to the MAS to be authorised to carry on such business and provide policies to persons in Singapore on a cross-border basis, without establishing a physical presence here. Further details of this authorisation framework, which includes minimum financial and reporting requirements for such cross-border reinsurers, are found in the Insurance (Authorised Reinsurers) Regulations.

**Capital reserve requirements***Paid-up capital requirements*

- A licensed insurer is required at all times to maintain a minimum level of paid-up ordinary share capital as determined by the Insurance (Valuation and Capital Regulations) 2004.



- A licensed direct insurer that carries on business only in investment-linked policies or only in short-term accident and health policies is required to have a minimum paid-up ordinary share capital of S\$5 million.
- A licensed direct insurer that carries on any other types of business would be required to have a minimum paid-up ordinary share capital of S\$10 million.
- For reinsurers, a minimum paid-up ordinary share capital of S\$25 million is required.

#### *Fund solvency requirement and capital adequacy requirement*

Singapore adopts a risk-based capital framework whereby the capital an insurer must hold is dependent on the risks associated with its financial assets and amount of operations. Risks arising from an insurer's assets and liabilities are grouped into the following three components:

- (a) Component 1 (C1) requirement relating to insurance risks of the insurer's life and general businesses;
- (b) Component 2 (C2) requirement relating to market risks, credit risks and risks arising from the mismatch, in terms of interest rate sensitivity and currency exposure, of the assets and liabilities of the insurer;
- (c) the risk requirement relating to operational risk of the insurer as described in MAS Notice 133 on Valuation and Capital Framework for Insurers (MAS Notice 133).

The sum of the above components is known as the "total risk requirement" and the amount of assets or other resources (as specified in MAS Notice 133) available to meet the total risk requirement is known as "financial resources".

Each of the financial resources of an insurer and insurance fund and the total risk requirement is determined, and assets and liabilities are valued, in accordance with the requirements of the Insurance (Valuation and Capital) Regulations 2004, MAS Notice 133, the MAS Guidelines on Valuation of Policy Liabilities of General Business and the MAS Guidelines on Use of Internal Models for Liability and Capital Requirements for Life Insurance Products Containing Investment Guarantees with Non-Linear Payouts, where applicable.

The fund solvency requirement in respect of an insurance fund established and maintained by a licensed insurer is that the total assets of the fund must not at any time be less than the total liabilities of the fund. The fund solvency requirement of an adjusted fund (being certain insurance funds specified under the Insurance (Valuation and Capital) Regulations 2004) is that the financial resources of the adjusted fund must not at any time be less than the total risk requirement.

The total risk requirement is further calibrated into two different thresholds, one being the "higher solvency intervention level" and the other being the "lower solvency intervention level". A breach of each level may give rise to different regulatory responses from the MAS.

A licensed insurer is also required to satisfy its capital adequacy requirement at all times, which is that its financial resources must not be less than the total risk requirement (again further calibrated into either the higher or lower solvency intervention levels) but at all times subject to the minimum capital requirement of S\$5 million.

Separately, a licensed insurer must also ensure that at all times: (a) where it is an insurer incorporated in Singapore, the Common Equity Tier 1 (CET1) Capital ratio which is determined as the ratio of the CET1 Capital over the sum of total risk requirements (excluding the risk requirements of participating funds) is not less than 60%; and (b) the Tier 1 Capital ratio which is determined as the ratio of the Tier 1 Capital over the sum of total risk requirements (excluding the risk requirements of participating funds) is not less than 80%.

#### **Investment management and markets**

MAS Notice 125 on Investments of Insurers sets out basic principles that governs the oversight of investment activities of licensed insurers and the investments of its insurance funds. Certain requirements include oversight by the board of directors and senior management, establishing an investment policy approved by an insurer's board, preparing reports of investment activities, asset liability management (ALM), as well as provisions related to carrying out investments in derivatives, hedging and portfolio management.

An insurer's ALM policy must, *inter alia*:

- Consider the insurer's investment management, product development and pricing functions;
- Be appropriate to the nature, scale and complexity of the risks associated with the insurer's assets and liabilities;
- Take into account of the interdependence between all of the insurer's assets and liabilities;
- Take into account any off-balance sheet exposures;
- Include the relationship between the investment strategy and the liability profile of the insurer;
- Include how the liability cash flows are met by the cash inflows;
- Include how the economic valuation of assets and liabilities are changed under an appropriate range of different scenarios.

#### **Enforcement and investigation**

The MAS may conduct any investigation that it considers necessary or expedient in order to, *inter alia*, determine the truth or otherwise of an alleged or suspected contravention of the IA and its related legislation. The MAS may require the relevant person to provide information or to produce books, accounts, records and other documents relating to any matter under investigation.



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The MAS may cancel the license of any insurer (either wholly or in respect of a class of business) on certain grounds listed in Section 13(3) of the IA, including but not limited to carrying on business in a manner likely to be detrimental to the interest of its policy owners, providing false, misleading or inaccurate information, and any of the insurer's managerial or executive officers being convicted of an offence under the IA.

Separately, the MAS launched the Financial Industry Disputes Resolution Centre (FIDReC) to provide an affordable and independent alternative dispute resolution scheme to assist in the resolution of disputes between consumers and financial institutions, including life insurers, general insurers and insurance brokers.

Mediation is first conducted between the disputing parties and are facilitated by case managers at FIDReC. If no resolution is reached at mediation, the consumer may proceed with adjudication, where a neutral and independent adjudicator is appointed. The adjudicator's decision is only binding on the financial institution if the consumer accepts the award. However, consumers are free to pursue their dispute outside of FIDReC if the adjudicator does not rule in the consumer's favour.

### **Insolvency and policy-holder protection**

Upon the winding up of a licensed insurer, its liabilities are ranked in the order of priority in accordance with Section 123(3) of the IA. Save for the costs of liquidation and outstanding levies due, (i) protected liabilities incurred by the licensed insurer (up to the amount paid or payable out of any of the Policy Owners' Protection Life Fund and the Policy Owners' Protection General Funds), (ii) liabilities in respect of direct policies not protected under the Deposit Insurance and Policy Owner's Protection Schemes Act 2011, (iii) liabilities incurred by the licensed insurer in respect of reinsurance policies and (iv) any sum claimed by the trustee of a resolution fund (as defined in Section 98 of the MAS Act 1970) from the licensed insurer rank above all unsecured liabilities of the insurer apart from preferential debts specified in Section 203(1) of the Insolvency, Restructuring and Dissolution Act 2018.

The Policy Owners' Protection (PPF) Scheme protects policy owners in the event a life or general insurer which is a PPF Scheme member fails. The PPF Scheme provides 100% protection for the guaranteed benefits of life or general insurance policies, subject to the applicable caps.

Per Section 120 of the IA, a liquidator appointed for the purposes of winding up a licensed insurer must:

- (a) endeavour, as far as reasonably practicable, to sell or transfer the whole or part of the insurance business of the licensed insurer to any other insurer licensed to carry on the relevant class or classes of business;
- (b) continue to carry on the insurance business of the licensed insurer until the whole insurance business is transferred to another insurer licensed to carry on the relevant class or classes of business, unless directed by the Court; and
- (c) have all necessary powers to carry out the abovementioned functions.

The MAS also has resolution powers in respect of a licensed insurer in Singapore to, *inter alia*, impose moratoriums, apply to court for the winding-up of a licensed insurer, and imposed requirements relating to recovery and resolution planning. Under Section 102(2)(b) of the IA, the MAS also has powers to assume control of a licensed insurer. However, the statutory bail-in powers of the MAS are currently limited to Singapore-incorporated banks and bank holding companies and there is no statutory bail-in regime for Singapore insurers.

### **Data protection**

The Personal Data Protection Act 2012 of Singapore (PDPA) is the main legislation governing the protection of personal data in Singapore. Generally, organisations are required to ensure that they have obtained consents from customers for all purposes for which they intend to collect, use and/or disclose such customers' personal data.

For insurers, this could mean regular reassessment of customers' profiles and portfolios after the purchase of life insurance and related products and services, administration of the relevant policies, processing of claims under such policies and compliance with relevant regulations.

### **Corporate governance**

The Insurance (Corporate Governance) Regulations 2013 imposes obligations on insurers including but not limited to a minimum number of 3 directors on its board, and the prohibition to appoint an insurer's executive directors or family members of the principal officer as the chairman of the insurer's board.

However, certain requirements are imposed depending on whether the insurer is classified as a Tier 1 insurer or a Tier 2 insurer. A Tier 1 insurer is an insurer that is established or incorporated in Singapore and in the case of:

- (a) a direct life insurer, its latest annual audited statement of financial position shows that it has total assets of at least \$5 billion or its equivalent in any foreign currency;
- (b) a direct general insurer or a reinsurer, its latest annual audited statement of profit and loss shows that it has gross premiums of at least \$500 million or its equivalent in any foreign currency in its insurance funds and income and outgoings of the operations of all branches of the insurer located outside Singapore; and
- (c) a direct composite insurer, satisfies the requirements of paragraph (a) in respect of its total assets or paragraph (b) in respect of gross premiums for its general business.



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A Tier 2 insurer is an insurer that is established or incorporated in Singapore but does not satisfy the requirements under paragraphs (a)-(c) above.

Requirements that are only applicable to Tier 1 insurers include but are not limited to:

- Establishing a nominating committee, remuneration committee, audit committee and risk management committee and ensuring that the majority of directors in the nominating, remuneration and audit committees are independent directors and the majority of directors in the risk management committee are non-executive directors; and
- Obtaining MAS' approval for the appointment of the chief financial officer, chief risk officer, and members of the nominating committee.

In addition, the Guidelines on Corporate Governance for Designated Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers contains principles, provisions and additional guidelines in relation to the following:

- Formation of board committees (including the audit, remuneration and nominating committees), oversight of senior management
- Board independence and diversity
- Processes for the appointment and re-appointment of directors
- Ensuring formal and transparent procedures for developing policies on director and executive remuneration
- Governance of risk, with a sound system of risk management and internal controls

### **Financial crime prevention**

Singapore has been a member of the Financial Action Task Force since 1992. Licensed insurers must comply with anti-money laundering and countering the financing of terrorism requirements under MAS Notice 314 on Prevention of Money Laundering and Countering the Financing of Terrorism – Life Insurers and relevant guidelines.

The MAS has also issued the MAS Guidelines for Financial Institutions to Safeguard the Integrity of Singapore's Financial System, which apply to financial institutions generally, including licensed insurers.

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[Complaints Procedure](#)

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