# RESPONSE TO CONSULTATION PAPER

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| **Consultation topic:** | RBC 2 Review – Third Consultation |
| **Name1/Organisation:**  1if responding in a personal capacity |  |
| **Contact number for any clarifications:** |  |
| **Email address for any clarifications:** |  |
| **Confidentiality** | |
| I wish to keep the following confidential: | *(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)* |

**General comments:**

**Question 1: MAS seeks comments on maintaining PCR and MCR at the following adjusted fund level (i.e. SIF – Par, SIF – Others, OIF – Par, OIF – Others). Do you foresee any prudential concerns in doing so?**

<Please fill in your response to each question in the blank space below the question.>

**Question 2: MAS seeks comments on the proposed discounting approach as described in paragraph 4.12.**

1. [**Is the proposed approach where risk-free discount rates are based on (i) observable market yields up to the LLP; (ii) UFR after a specified period after the LLP, and (iii) extrapolated yields in between, appropriate? Please explain your responses and suggest alternative approaches if your answer is ‘No’**](#_Toc456211206)**.**
2. [**Are the proposed LLPs reasonable? If not, what would be appropriate LLPs to be used?**](#_Toc456211207)
3. [**What method should be used for extrapolating the forward rates from LLP to the point where UFR commences?**](#_Toc456211208)
4. [**What would be an appropriate level of UFR? How should it be determined?**](#_Toc456211209)
5. [**What should be the point at which the UFR commences? How should this be determined?**](#_Toc456211210)

**Question 3: MAS seeks views on whether the MA and illiquidity premium adjustments will be relevant and helpful for general business, especially in cases where the liabilities are long-term.**

**Question 4: MAS seeks comments on the proposed revisions in eligibility criteria for MA as specified in Annex C.**

1. [**Would the proposed revisions help insurers to implement the MA? Where applicable, please give alternative suggestions to improve the usefulness and relevance of MA.**](#_Toc456211213)
2. [**Should the predictability test be based on the present value of cash outflows (i.e. benefits and expenses only) instead of the best estimate liabilities which are based on the present value of cash out flows net of cash inflows (e.g. premium income)? Please provide reasons for your response.**](#_Toc456211215)
3. [**Given that there are some products which would not benefit from the application of MA, is it necessary or practical to limit the scope of the MA to just Whole Life and Endowment (based on the classification in the statutory Form 14)? Please provide reasons for your response.**](#_Toc456211216)
4. [**Is the MA relevant for life reinsurance business? Please provide details to justify your response.**](#_Toc456211217)

**Question 5: MAS seeks comments on the proposed methodology for determining the cost of default (Annex D).**

**Question 6: MAS seeks comments on any overall views or suggestions to refine the proposed MA framework.**

**Question 7: MAS seeks comments on the proposed framework for IP, as set out in Annex E.**

1. [**What would be an appropriate IP as specified by the parameter k% of the Reference Spread? Please provide details to justify your response.**](#_Toc456211221)
2. [**Should an absolute cap (i.e. the Y %) be introduced to remove the effects of extreme market movements? If ‘Yes’, how should the cap be set? If ‘No’, how should the effects of extreme market movements (which can lead to abnormally high levels of IP) be managed?**](#_Toc456211222)
3. [**The IP specifications currently state that the IP is added to the entire valuation curve. This implies that the IP can be earned throughout the duration of the liabilities. Is this treatment appropriate? Please explain your response, and if the response is ‘No’, please give suggestions on the appropriate length of time the IP should be applied.**](#_Toc456211223)
4. [**Similar to MA, there may be products which would not benefit from the application of IP. Is it necessary or practical to limit the scope of IP for example to just Whole Life and Endowment (based on the classification in the statutory Form 14)? Please provide reasons for your response.**](#_Toc456211224)

**Question 8: MAS seeks comments on any overall views or suggestions to improve the IP framework.**

**Question 9: MAS seeks views on the proposed safeguard to require financial resources after the application of MA and IP to meet at least 100% of MCR. The application of the MA and IP will reduce liabilities due to the use of higher discount rates. To avoid insurers relying solely on the MA and IP to meet the MCR, do you agree with the above proposed safeguard? If your answer is ‘No’, please justify your response, as well as provide any suggestions on safeguards.**

**Question 10: MAS seeks comments on the proposed treatment of UL policies under RBC2.**

**Question 11: MAS seeks comments on whether the 30% factor used to compute the mass lapse risk requirement for UL policies is appropriate. Where the 30% factor is not considered as appropriate, please explain your responses and provide suggestions (i.e. methodology and reference data) for an appropriate approach to calibrate the factor.**

**Question 12: MAS seeks** **views on how UL policies should be treated in the computation of the surrender value condition requirement at the fund level, given that the excess of surrender values over policy liabilities has already to some extent, been taken into account in the mass lapse risk requirement for UL policies, which will form part of the total risk requirements.**

**Question 13: MAS seeks comments on the proposed approach in calibrating insured events (A&H) as described in paragraph 5.36.**

**Question 14: MAS seeks comments on the following approach, where MAS will continue to engage LIA and SAS in exploring whether it is feasible to collect more granular data from insurers and calibrate the insured events (A&H) risk requirement.**

**Question 15: MAS seeks comments on the proposed approach in calibrating the life insurance catastrophe risk requirement, as described in paragraph 5.40.**

**Question 16: MAS seeks comments on whether there is a need to have a separate shock on the expense inflation rate. If a separate shock is needed, what method as well as reference data can we use to calibrate this shock, as well as the correlation between the unit expense and inflation components?**

**Question 17: MAS seeks comments on the relevance, design and calibration of the mass lapse event within the computation of the lapse risk requirement.**

1. **Whether there is a need to include a mass lapse event as one of the conditions when calculating the lapse risk requirement (i.e. lapse risk requirement will be based on (i) a permanent increase of 50% to the best estimate lapse rate assumptions, (ii) permanent decrease of 50% to the best estimate lapse rate assumptions, or (iii) the mass lapse event, whichever produces a higher liability value);**
2. **Whether the mass lapse event should be dependent on the type of product e.g. predominantly savings or protection products, positive or negative surrender strain etc.; and**
3. **What method and reference data should be used to calibrate the mass lapse event.**

**Question 18: MAS seeks comments on the proposed approach in calibrating lapse risk requirement as described in paragraph 5.50.**

**Question 19: MAS seeks comments on adopting the correlation matrix (Diagram 15) when aggregating the C1 requirements for life business.**

**Question 20: MAS seeks comments on whether there is a need to consider other types of risks (e.g. lapse) for C1 requirements for general business, in addition to premium liability, claim liability and insurance catastrophe risk requirements. If so, what are these risks, and how are they relevant for general business? What method and reference data should be used to calibrate these risks?**

**Question 21: MAS seeks comments on the proposal to allow for diversification benefits explicitly through the prescribed correlation matrix (Diagram 16) to aggregate the C2 risk requirements.**

**Question 22: MAS seeks comments on how we should combine the aggregated C2 risk requirements (i.e. those covered by the explicit correlation matrix) with the C2 counterparty default risk requirement. We recognise that there should be some correlation between the market risks and the counterparty default risk. Is 0.5 a reasonable and practical factor to use given data constraints? Please provide alternative suggestions if you disagree with the approach.**

**Question 23: MAS seeks comments on the approach of having two distinct risk categories for equities and applying the proposed factors, to the market value of each equity exposure.**

**Question 24: MAS seeks comments on the usefulness of the data grouping approach and alternative suggestions on overcoming the potential operational challenges of a look-through approach.**

**Question 25: MAS seeks comments on the proposal to apply the same set of interest rate adjustments as shown in Diagram 17 on insurers’ debt securities and policy liabilities.**

**Question 26: MAS seeks comments on how interest rate shocks should be applied to the extrapolated segment of the discount curve (as discussed in Section 4), which will converge to the UFR. In determining the interest rate mismatch requirement under QIS 2, an adjustment of 25% is applied to durations of 20 years or more which would include the extrapolated segment. Is this treatment appropriate?  If not, how should interest rate shocks be applied?**

**Question 27: MAS seeks comments on the proposed approach as described in paragraph 5.84 for debt securities with embedded interest rate options.**

**Question 28: MAS seeks comments on giving insurers the flexibility to apply the modified duration approach in calculating their interest rate mismatch and credit spread risk requirements, as described in paragraph 5.86**

**Question 29: MAS seeks comments on the proposal to apply the credit spread shock (expressed in basis points) in Diagram 19 to the debt portfolio.**

**Question 30: MAS seeks comments on the proposed treatment of unrated bonds as described in paragraphs 5.99 and 5.100.**

**Question 31: MAS seeks comments on the proposed criteria for the recognition of internal credit rating model for unrated bonds as set out in Annex H. The key criteria that MAS will focus on will be around oversight and control on the internal rating model, drawing useful and relevant references from MAS 637 for the banking sector, and also from some of the best practices observed in insurers.**

**Question 32: MAS seeks comments on the proposed approach for sovereign bonds.**

**Question 33: MAS seeks comments on the proposed approach for bonds issued by public sector entities.**

**Question 34: MAS seeks comments on the proposed approach for bonds with guarantees or collaterals.**

**Question 35: MAS seeks comments on whether the proposals relating to treatment of bonds issued by Singapore statutory boards and multilateral agencies, sovereign bonds, bonds issued by public sector entities and bonds with guarantees or collaterals are consistent.**

**Question 36: MAS seeks comments on the proposed approach of deriving the risk requirements for structured products.**

**Question 37: MAS seeks comments on the proposed treatment of derivatives under QIS 2 as well as in future under RBC 2.**

**Question 38: MAS seeks comments on the proposal to apply the proposed factors to the relevant market exposure when calculating the property investment risk requirement.**

**Question 39: MAS seeks views on the questions set out in Annex I to better understand the specific types and characteristics of infrastructure financing that our insurers may be keen on, the appropriate capital treatment for such investments, and the data available to back the proposed treatment.**

**Question 40: MAS seeks comments on the proposed approach with respect to foreign currency mismatch risk requirement.**

**Question 41: MAS seeks comments on the approach as described in paragraph 5.137, where the functional currency of an insurer is not in SGD.**

**Question 42: MAS seeks comments on the proposed treatment for unrated corporates when deriving counterparty default risk requirement as described in paragraphs 5.146 and 5.147.**

**Question 43: MAS seeks comments on whether the counterparty default risk charge for outstanding premiums should be linked to the credit rating of the policyholder or cedant. Is credit rating as relevant in determining the counterparty default risk requirement for outstanding premiums as it is for other modules like loan, derivative counterparty and reinsurance recoverables? Please explain your response and provide alternative suggestions on how the risk charge for outstanding premiums should be determined otherwise.**

**Question 44: MAS seeks comments on the proposal to impose a 100% risk charge on reinsurance recoverables exposures that are outstanding for more than a year, regardless of whether it is for treaty or facultative reinsurance.**

**Question 45: MAS seeks views on the ageing of outstanding premiums and agents’ balances**

1. **What should be the ageing definition for reinsurance business? Should a distinction be made on whether the premium are based on estimates or billable date?**
2. **In the first consultation, MAS proposed to impose a 100% risk charge for outstanding premiums that are outstanding for more than a year for facultative reinsurance, and outstanding for more than two years for treaty reinsurance. Is this ageing structure appropriate? Should it be differentiated by whether the premiums are based on estimates or billable date, rather than whether it is facultative or treaty reinsurance business? Please explain your response.**

**Question 46: MAS seeks comments on the proposal to allow the insurer to reduce its counterparty default exposures by the amount of acceptable collateral, subject to the haircuts described in paragraph 5.155.**

**Question 47: MAS seeks comments on the proposal that deposits with a bank or deposit-taking institution that can be unconditionally withdrawn within 6 months of the date of computation of the total risk requirements be subject to the charges set out in Diagram 22.**

**Question 48: MAS seeks comments on the proposal to remove the C3 risk requirements, and instead, deduct asset holdings which exceed prescribed concentration limits from the financial resources. The deductions would be made from Common Equity Tier 1 capital.**

**Question 49: MAS seeks comments on the approach to explore more latitude in how the concentration limits can be applied. Under QIS 2, MAS will test the impact of applying the concentration limits at the levels consistent with paragraph 3.11.**

**Question 50: MAS seeks comments on the proposed formula for calculating the operational risk requirement, subject to a cap of 10% of the TRR (after applying the diversification benefits but excluding the operational risk requirement itself, to avoid circularity in computation).**

**Question 51: MAS seeks comments on the approaches outlined in paragraph 5.172. Please provide details on how a Pillar 2 approach should entail if MAS were to consider this in the longer term.**

**Question 52: MAS seeks comments on the proposal to value long-term health policies as described in paragraph 6.40.**

**Question 53: MAS seeks views on what the contract boundary should be in the case of long-term health policies. Please explain your response.**

**Question 54: MAS seeks views on the proposed approaches to value investment-linked policies (non-unit reserves) as described in paragraph 6.42. Which approach is more appropriate, or should the higher of both approaches be used for prudence? Please give reasons to support your preference.**

**Question 55: MAS seeks comments on the proposal to remove the 50% limit as described in paragraph 6.50.**

**Question 56: MAS seeks comments on the proposal to de-recognise arrangement between the Head Office and its branch in Singapore as a reinsurance arrangement, regardless of whether there is a written agreement between them. MAS will continue to work with the few affected insurers to finalise the acceptable measures (e.g. trust or segregated accounts, Letter of Credit) that could mitigate the impact, to provide more certainty to players before implementing the de-recognition.**

**Question 57: MAS seeks comments on the proposal to continue to recognise reinsurance arrangements where risks written by the Singapore branch are included in the Head Office’s reinsurance arrangements with third party reinsurers, regardless of whether the branch has a legal right to receive the recoveries directly from the third party reinsurers, subject to the safeguards described in paragraphs 6.60 and 6.61.**

**Question 58: MAS seeks comments on the proposal to continue to recognise reinsurance arrangements with downstream entities, subject to safeguards such as collaterals and letter of credit for the benefit of the ceding insurer being in place before recognition can be given.**

**Question 59: MAS seeks comments on any implementation issues encountered in conducting QIS 2.**