

Navigating Par Fund management Challenges in Singapore

From AA perspective (a panel discussion)

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Introduction

Aim to discuss three current challenges that Appointed Actuaries are facing with regards to participating (“par”) business in Singapore:

1. The rising & volatile interest rate environment
2. Implications of the recent changes to MAS 320 that took effect from 2021
3. Managing conflicts of interest

Idea is for this to be an interactive session, so would be great to hear comments from the audience as well as our panel.

Panel

A big thank-you to our panel of Appointed Actuaries for taking part:

Mudit Kumar, Axa

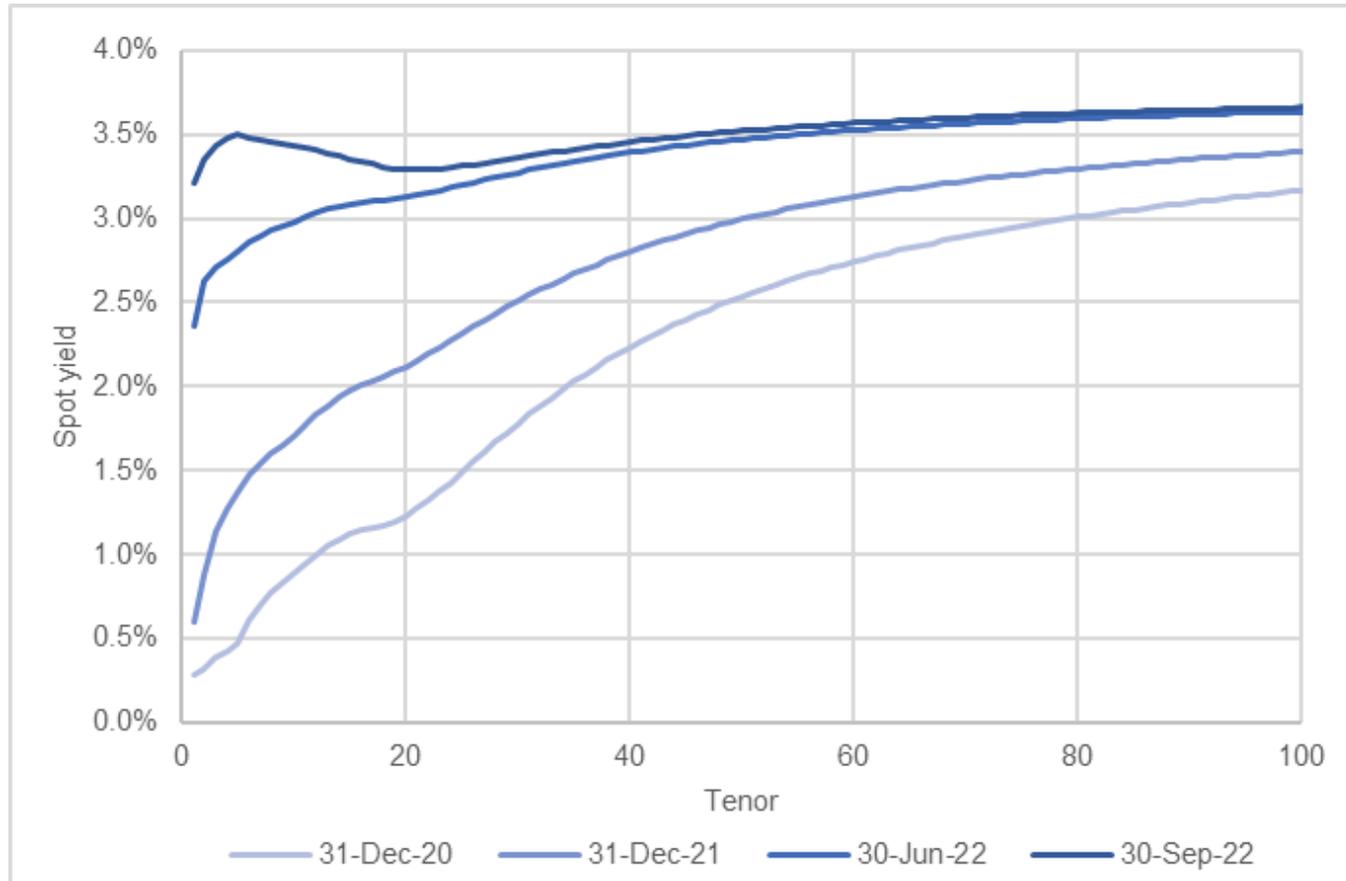
Wen Yee Lee, Milliman

Ellen Leung, Manulife

Lee Jiat Liauw, Prudential

The rising & volatile interest rate environment (1)

MAS SGD risk-free yield curve



- SGD government bond yields rose during 2021, but have risen even more significantly in 2022
- Higher expected returns from the higher yields (so liabilities **should** have reduced)
- Existing bonds will have fallen in value, however, so assets have also reduced
- The longer the duration of the assets, the bigger the drop in value
- Yields at the short-end of the curve have risen the most

The rising & volatile interest rate environment (2)

Asset share

- Retrospective “fair value” of assets backing each policy
- Allows for actual experience to date
- Negative investment returns from interest rate rises push down asset shares

VS

Bonus Reserve Value (BRV)

- Prospective valuation of future expected cash-flows
- Realistic basis allowing for future bonuses
- Discounted using a “best estimate” investment return assumption.

- Best estimate investment return assumptions have typically been set on a long-term view.
- When interest rates were low this allowed for expected increases in future yields

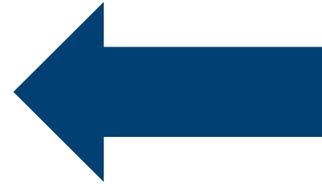
MAS 320

- MAS notice 320 sets out rules regarding how insurers should manage participating funds
- First issued in 2007, with subsequent updates, most recently in 2020 to take effect from 1 January 2021
- The update introduced significant details on the management and charging of expenses to par funds
- Expense allocation is a very important aspect of treating customers fairly as the policyholders effectively have to pay 90% of the expenses allocated to the par fund, whereas shareholders pay 100% of expenses not allocated.
- New rules under MAS 320 include, amongst other things, specific types of expenses that cannot be charged to the par fund and prohibiting the use of lower expense assumptions for pricing (other than for new par funds in the first three years).

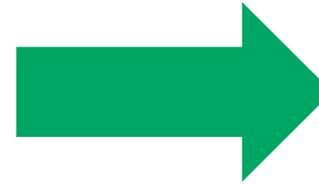
Managing conflicts of interest (Singapore)

Shareholder

- Profits (aligned with policyholder)
- Minimise capital support



Appointed
Actuary



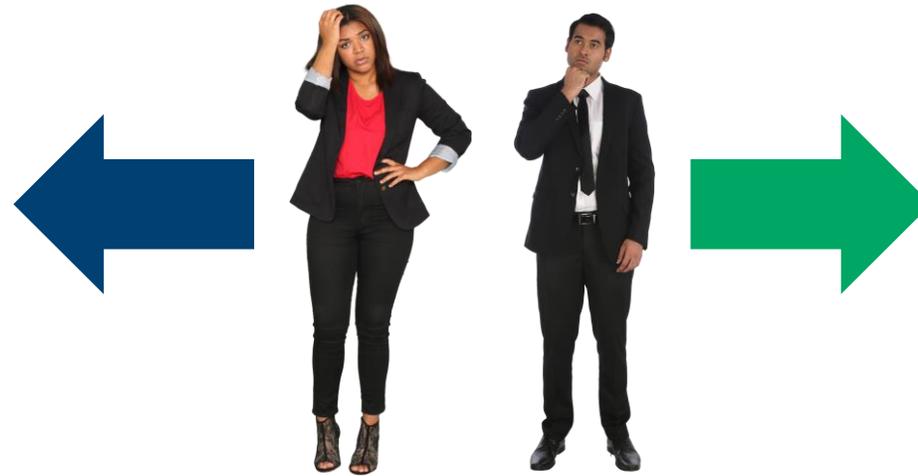
Policyholder

- Maximise benefits
- Deliver on reasonable expectations (PRE)

Managing conflicts of interest (UK)

Shareholder

- Profits (aligned with policyholder)
- Minimise capital support



Chief
Actuary

With-profits
Actuary

Policyholder

- Maximise benefits
- Deliver on reasonable expectations (PRE)

With-profits Committee

- Made up of independent experts
- Directive to provide advice on running of par fund
- Ensure customers are treated fairly and PRE is met

Thank you