ASIA PACIFIC REGULATORY WATCH

Guidelines on Business Continuity Management (MAS)

Overview of the Insurance Act amendments and direct impacts (MAS)

Fintech Opensee rewarded for FRTB product of the year 2023

Asia Pacific Edition, March 2023

Foreword

We are pleased to release this latest issue of Aurexia's Asia Pacific Regulatory Watch newsletter, covering some of the recent regulatory developments in Singapore:

1) Guidelines on Business Continuity Management (BCM), issued by MAS
2) Overview of the Insurance Act amendments proposed by MAS and direct impacts
3) Fintech Opensee (recognized for the FRTB product of the year by Risk.net)

Financial Institutions should follow the updated MAS Business Continuity Management guidelines to ensure their BCM framework meets the updated requirements and is relevant in the event of incidents.

Also, the MAS has published proposed amendments of the Insurance Act reflecting international developments and best practices and providing further clarifications.

Lastly, we are delighted to present the established French Fintech Opensee in our FinTech Corner: their solution provides self-service real-time analytics for financial institutions and was named "Fundamental Review of the Trading Book (FRTB) product of the year" by Risk.net.

If you wish to discuss any of these or other regulatory topics with us, please do not hesitate to contact us!

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REGTECH CORNER

Overview of MAS' revised Business Continuity Management (BCM) guidelines

Background

In June 2022, the MAS (Monetary Authority of Singapore) published a new set of Business Continuity Management (BCM) guidelines to financial institutions (FI) with an end-to-end critical business service-focused approach, which would ensure the continuous delivery of business services to their clients.

From the date of issuance, FIs have 12 months to adopt the BCM Guidelines. In addition, FIs are required to build their BCM audit plan within one year, with the first BCM audit to take place within 2 years from the issuance of the BCM Guidelines.

Definition and purpose of Business Continuity Management (BCM)

Business continuity is a business's level of readiness to maintain critical functions after an emergency or disruption. These may be caused by different types of events, including (but not limited to) include security breaches, cyber-attacks, terrorism attacks, natural disasters (e.g. earthquakes or flooding) and power outages.

A business continuity plan has three key elements: resilience, recovery and contingency. A FI need to increase operational resilience by designing critical functions and infrastructures with various relevant risks in mind; mitigation measures can include staffing rotations, data redundancy and maintaining overcapacity, for instance.

For cases of possible emergency or disruption, MAS is particularly concerned about the stability of the financial state and the quality of services. FIs are expected to set up business continuity measures to ensure services and ongoing operations after the impact of an operational disruption.

Synthesis of Business Continuity Management Guidelines

Identify Critical Business Services and Functions & Implement a Service Recovery Time Objective (SRTO)

Considerations for FIs

- In case of disruptions of a business function, all business services that are dependent could be disrupted, impacting FI's operations and safety.
- Recovery of functions and business should be coordinated based on criticality.
- The SRTO is an indicator for the expected recovery time for each business service, in order to better prioritize resources and monitor the recovery progress post disruption impact.

Proposed actions

1. Identify and maintain list of critical business services and functions by considering the potential impact of their unavailability.
2. Establish recovery strategies with an end-to-end view of dependencies and ensure clear accountability and responsibility.
3. Follow-up on remedial actions and assign ownership.
4. Establish SRTOs for each critical business service.
5. Define clear criteria for BCP activation when a business service is partially disrupted, in order to avoid a service degradation.

Map and Mitigate Dependency & Concentration Risk

- FIs are required to mitigate risk resulting from reliance on common IT systems, people, resources.
- FIs should pay particular attention to third-party dependencies.
- Concentrating people, technology or required resources in the same zone or to a single service provider can lead to exposing banks to a concentration risk.

1. Map end-to-end dependencies covering people, processes, technology and other resources.
2. Set up measures for third parties to meet SRTOs, through regular reviews of operational level, SLAs, BCPs, dedicated people, audit, tests, plans and procedures to address disruptions.
3. Separate critical business services and functions in several zones, sites, infrastructures; split team across different zones and train them on transversal topics and roles to manage concentration risks.

Ensure Continuous Review and Improvement

- FIs should make the BCM an ongoing effort to ensure it address the latest and plausible threats.
- In a context of globalization and technological progress, FIs should ensure that the BCM remain relevant and forward looking.

1. Identify and monitor all external threats and developments potentially disrupting operations.
2. Do a gap analysis after operational disruption to identify areas of improvement.
3. Update BCP and test plans based on operational changes and threat landscape.
4. Review SRTOs, RTOs and dependencies annually or upon material changes.

Conduct Testing and Audit to validate the Response and Recovery Arrangements

- Test phases are crucial to measure to the Business Continuity Plan (BCP) effectiveness. Test activities also aim to familiarize personnel and third parties and verify the SRTOs.
- BCM audit is crucial in order to receive and independent view on the adequacy and effectiveness of the BCM (post testing phases).

1. Plan test activities to validate the effectiveness of the BCPs, familiarise personnel and verify that SRTOs can be met.
2. Follow-up on remedial actions with assigned ownership
3. Participate to industry exercises to strengthen coordination and improve effectiveness.
4. Initiate an independent audit at least once every three years and submit audit reports to MAS upon request.

Develop a robust processes to manage Incident and Crisis

- Vigorous processes to manage incidents, resolution and communication need to be set to help restarting the business services within SRTO.
- A crisis management frame needs to be in place, with clear triggers for activation, plans, procedures, tools for decision making and communication with stakeholders.

1. Implement processes to manage incidents and crisis to restart critical business services and functions.
2. Establish clear communication channels with staff and external stakeholders to provide updates.
3. Notify MAS via incident reporting template within one hour upon discovery of severe incidents.

Implement a strong governance of Board and Senior Management

- The FI Board and Senior Management are responsible for the business needs and client obligations, through an effective BCM framework, with sufficient resources and strong governance.

1. Board and senior management should provide clear governance.
2. Senior management should provide annual attestation to Board and MAS upon request on FI's BCM preparedness, alignment to BCM Guidelines and key issues.

Key takeaways

- FIs are expected to have a **BCM framework** that is consistent with standards and industry best practices.
- BCM arrangements should be regularly **tested, reviewed,** audited and updated to ensure their effectiveness and relevance.
- FIs should identify their **critical business functions** and systems and develop **appropriate strategies** and plans to ensure their continuity in the event of disruptions.
- BCM plans should **include crisis management and communication plans**, alternative operating arrangements and recovery plans.
- **Incident management** procedures, including reporting and escalation protocols should be established.
- FIs should ensure that their **staff is trained** and participate to regular drills and exercises.

Challenges for FIs

- The guidelines are extensive and cover many aspects of BCM, incl. but not limited to processes, governance and upskilling. FIs should conduct a **gap analysis and aim for a holistic implementation** across all affected divisions, functions and departments.
- FIs should focus their efforts on **dependencies mapping**, ensuring to be exhaustive and paying a particular attention on mitigating third-party dependencies.
- Developing and implementing an BCM framework requires **specialized expertise in BCM** across different parts of the organisation, which may not be readily available within an FI. FIs may consider investing in training or hiring specialized personnel to build the necessary expertise.
- Maintaining effective BCM arrangements requires regular **testing, auditing and maintenance**, which can be resource-intensive and time-consuming for FIs.
- FIs should look at BCM beyond regulatory requirements, e.g. understanding and nurturing its value in a wider strategic and risk management context.

Singapore: Overview of Insurance Act amendments and expected impacts

Background

The Insurance Act (IA) 1966 is the main regulatory framework that governs the regulation of insurance business in Singapore, including insurers, insurance intermediaries and related institutions. As such, it covers direct insurance business (life and composite), reinsurance, captive insurance and all brokers and intermediaries linked with the insurance industry. MAS was seeking feedback and comments on their proposed revisions and additions in the course of a consultation which ended mid-January 2023. Upon completion of the consultation process, the finalized draft will be subject to the legislative process. MAS also proposed two amendments with regards to insurance brokers in the Insurance (Intermediaries) Regulations (IIR).

Proposed changes and underlying rationale

In order to ensure that its regulatory regime for insurance activities remains relevant, risk-proportionate and in line with international best practices, MAS aims to enhance the regulatory framework with a focus on:

- reinforcing regulations on new insurance actors (e.g. brokers), and
- ensuring a regulatory framework that is consistent with other markets and regions.

Upcoming key changes in the IA

Proposed changes to strengthen MAS' oversight

i) Introduction of an anti-commingling policy

MAS is proposing an anti-commingling policy to regulate the behaviour and investments of insurers in Singapore. The policy aims to ensure that insurers remain focused on their core insurance business and avoid potential risks from non-insurance businesses. The policy prohibits insurers from directly undertaking businesses other than insurance and permissible ones, using their names, logos, or trademarks on physical infrastructure or other entities, and acquiring or holding a major stake in any corporation without prior approval from MAS.

ii) Oversight of insurers' outsourcing initiatives

MAS proposes to strengthen its oversight of insurers' outsourcing arrangements in the Insurance Act. This will require insurers to conduct due diligence on service providers before entering outsourcing arrangements, and include provisions relating to confidentiality, audit rights, provision of records and termination in outsourcing contracts. Specific outsourcing requirements will be set out in a Notice on Outsourcing by Insurers, on which MAS will carry out a public consultation on separately.

iii) Restitution of insurance funds

MAS plans to set explicit powers to require insurers to restitute their insurance funds for Participating (Par) and Investment-Linked (IL) policies in certain cases. In the past, there were instances where MAS required insurers to restitute their Par and IL funds due to various reasons, such as subsidizing tranche products that were under-priced and erroneous charging for payments related to non-Par policies or investment losses arising from operational delays.

Changes proposed to clarify policy intent and alignments with other MAS-administered acts

i) Clarification of MAS' existing policy intent

MAS is providing more clarity on their policy intent by proposing changes in the Insurance Act. These changes include extending the requirement of separate insurance funds for captive insurers carrying on life business, establishing separate insurance funds for reinsurers, requiring captive insurers to appoint an approved actuary, and amending the definition of marine mutual insurance business to allow mutual insurers to write non-mutual business and make supplementary premium calls.

ii) Alignment with other provisions within the IA or other MAS-administered Acts

MAS removed or revised several sections of the IA to harmonize it with other MAS-administered Acts, such as the Banking Act or the Securities and Futures Act. This will improve consistency and clarity across different regulatory regimes. The proposed amendments include revisions of penalties, alignment of terminology and governance and audit requirements.

iii) Update of provisions to reflect changes in policy intent

In order to reflect changes in policy intent, MAS is proposing to amend certain provisions in the Insurance Act. Firstly, the fixed deposit requirement for authorised reinsurers is proposed to be removed, and only a bank covenant will be accepted as reinsurance deposit. Secondly, the nomination of beneficiaries (NOB) framework will be updated to allow policy owners of joint life insurance policies to effect trust or revocable nominations, subject to certain conditions. Lastly, MAS proposes to remove the flexibility to vary the definition of "accounting period".

Increased Supervision of Insurance Brokers

MAS is proposing two amendments to the Insurance (Intermediaries) Regulations (IIR) to ensure effective supervisory oversight of registered insurance brokers. The first amendment requires registered insurance brokers to notify MAS of material adverse developments and matters affecting the fitness and propriety of their substantial shareholders, controllers, and key officers. The second amendment requires registered insurance brokers to have compliance arrangements, risk management policies, and internal controls in place that are appropriate for their business.

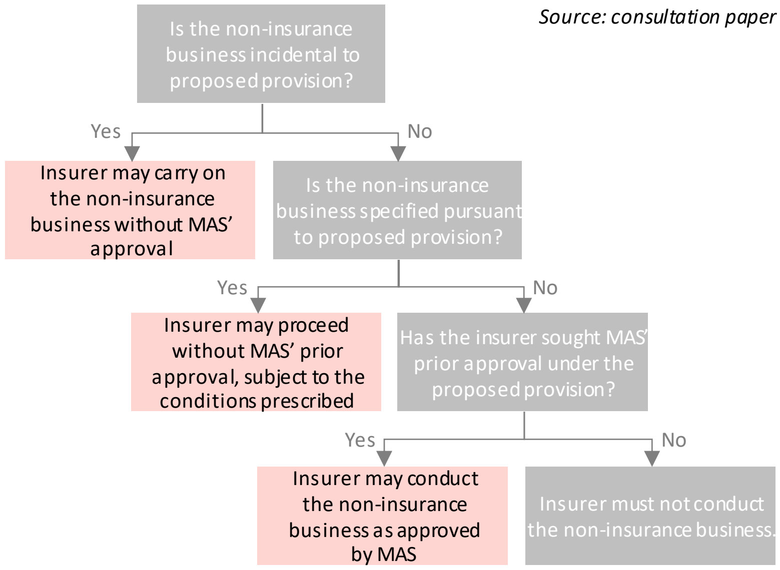
Impacts on insurers and brokers

Three major impacts can be identified for insurers and brokers from the new amendments of the Insurance Act.

Review investments in non-insurance businesses

MAS's proposal to reinforce Anti-Commingling Policy may have a significant impact on licensed insurer's existing and future investments in non-insurance businesses as they could only expand or diversify their activities to given permitted types of business by the regulator.

Source: consultation paper



Extended supervisory oversight on outsourcing

MAS proposes to extend its powers with regards to enhanced supervisory oversight of outsourcing activities. Insurers will have to perform due-diligence on service providers before entering into an outsourcing arrangement. Insurers will also have to update their policies and procedures for both arrangements with its branches or head office as well as outsourcing arrangements with external parties to include requirements related to protection of confidentiality of customer information, right of audit, provisions of documentation upon MAS' request, outsourcing termination and sub-contracting arrangements.

Reinforce brokers' control framework and MAS supervisory oversight

MAS intends to better structure brokers' control framework and take supervisory action in a timely manner:

- All brokers will be expected to promptly inform MAS of material adverse developments. This requirement also extends to developments regarding the fitness and propriety of their substantial shareholders.
- MAS is already expecting registered insurance brokers to have in place compliance arrangements, risk management policies and internal controls as set out in MAS' Guidelines on criteria for the registration of an insurance broker. In this consultation paper, MAS proposes to include those expectations in the Insurance (Intermediaries) Regulation to ensure consistency of with similar regulations applicable to banks, insurers, capital markets intermediaries and licensed financial advisers

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Risk Markets Technology Awards 2023 Winner — Fundamental Review of the Trading Book product of the year Opensee

opensee

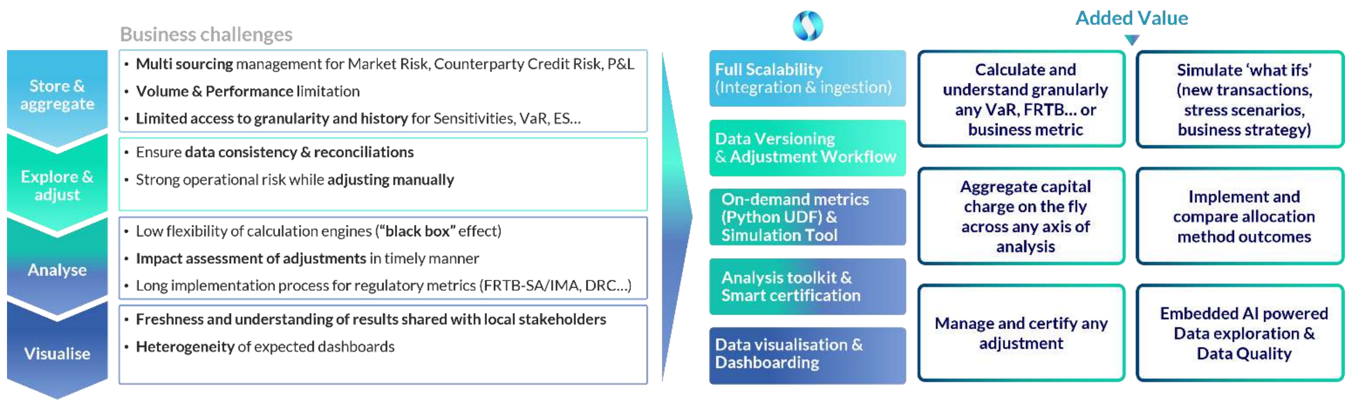
Presentation

Opensee provides self-service real-time analytics to financial institutions, allowing business users to store, extract, aggregate, explore, analyse and visualise all their data on demand, regardless of the size of their dataset and at any level of detail and history.

Opensee helps risk managers, front-office traders and other business users improve their business requirements, such as risk monitoring, trade execution quality management and helps them respond more effectively to regulatory reporting. The company's background, composed of former bankers and big data experts, enables financial institutions to rethink their risk data organisation while implementing the technology to achieve their objectives.

Fundamental Review of the Trading Book (FRTB) product of the year 2023

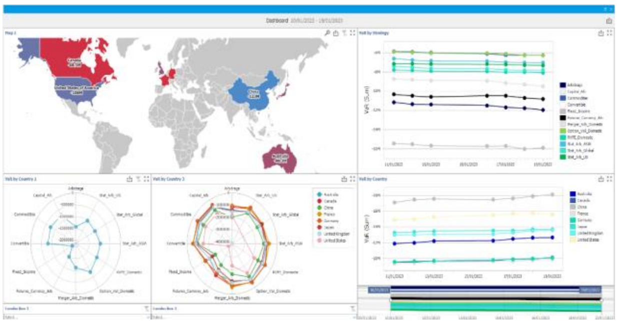
Since the global finance crisis, regulators are more demanding with financial institutions to cope with market risk variations and require adequate capital requirement that banks must hold to absorb market risk losses. The Fundamental Review of Trading Book framework which has to be implemented between 2023 and 2025 in APAC region defines the new standards by introducing new market capital requirement calculations. Opensee has been awarded for the **FRTB product of the year 2023** by **Risk.net** thanks to their innovative data analytics solution. Opensee solution is designed for financial institutions to address regulatory requirements such as the FRTB.



The specificity of the FRTB framework is that it requires a huge amount of data both in transaction level and historical data that banks need to aggregate or disaggregate at the most granular level. In addition, banks have the option between two methods when they calculate capital requirement: a standardized approach (SA) and an internal model approach (IMA).

The revised SA brings significant changes and complexities by introducing the Sensitivities Based Methodology (SBA) and banks will no longer be using basic formulas to calculate their capital requirements. Regarding IMA, the regulator is required an alignment of trading desk and risk management pricing and banks must manage a huge volume of data at transaction level as well as historical data.

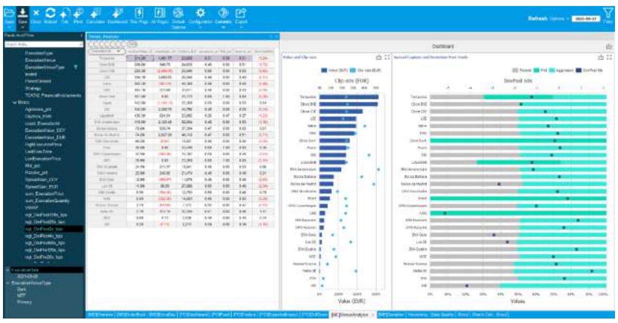
The challenge for banks is the accuracy and the rapidity of risk management calculations and regulatory reporting while managing data infrastructure and related costs. In addition, users must simulate between SA and IMA to determine the most appropriate approach which require to manipulate a very large amount of data.

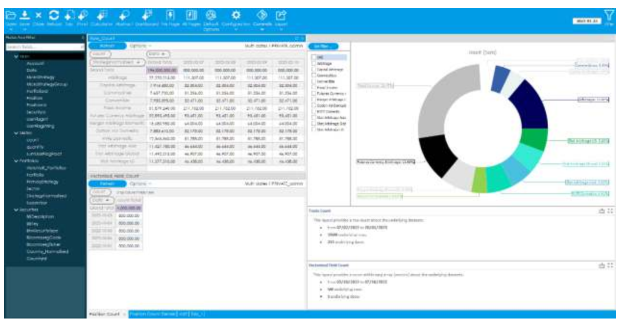


A cutting-edge solution that combines flexibility and easy implementation

Opensee has been created by former Risk and Capital Markets executives and big data experts, frustrated at not being able to find a big data analytics solution that enabled them to navigate into their data easily in real time. Until now, the existing tools in the market were either ready-to-use solutions, with no flexibility in their set up, or platforms that provided flexibility but required a complex and time-consuming implementation.

Opensee combines these two worlds by offering packages including pre-configured Python calculators required for FRTB calculations while allowing an easy implementation in an on-premise, cloud, multi-cloud or hybrid environment. The Opensee solution is leveraging on a powerful parallel processing database, without limits and with a fast OLAP (Online Analytical Processing) query response time.





Banks using Opensee as the Core tool in their FRTB framework can accurately calculate market risk metrics, simulating multiple scenarios and navigating from the most granular level to aggregate level, with no limits on the size of the datasets. For further information on FRTB use case, a demo can be watched here.

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