

INSURANCE ACT
(CHAPTER 142)
INSURANCE
(VALUATION AND CAPITAL) (AMENDMENT)
REGULATIONS 2007

In exercise of the powers conferred by sections 17 and 64(1) of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Insurance (Valuation and Capital) (Amendment) Regulations 2007 and shall come into operation on 1st January 2008.

Amendment of regulation 2

2. Regulation 2(1) of the Insurance (Valuation and Capital) Regulations 2004 (G.N. No. S 498/2004) (referred to in these Regulations as the principal Regulations) is amended —

(a) by inserting, immediately after the definition of “money market debt security”, the following definitions:

““mortgage insurance policy” means a policy that protects against losses on mortgage loans arising from default by borrowers;

“mortgage insurer” means an insurer registered under the Act which has liabilities in respect of mortgage insurance policies;

“net premiums written” means the net amount of premiums written by an insurer after deduction of return premiums and payments in respect of reinsurance business ceded;”;

(b) by inserting, immediately after the definition of “policy assets”, the following definition:

““political risk insurance policy” means a policy that protects against losses from business operations as a result of adverse political developments;”;
and

(c) by inserting, immediately after the definition of “total risk requirement”, the following definitions:

““trade credit and political risk insurer” means an insurer registered under the Act which has liabilities in respect of trade credit insurance

policies or political risk insurance policies or both;

“trade credit insurance policy” means a policy that protects against the risk of non-payment of goods and services by buyers and importers;”.

Amendment of regulation 19

3. Regulation 19 of the principal Regulations is amended —

(a) by inserting, immediately after paragraph (4), the following paragraph:

“(4A) In respect of the general business of an insurer, the amount of premium liabilities or claim liabilities as at the end of an accounting period for each line of business described in Form 6 in the First Schedule to the Insurance (Accounts and Statements) Regulations 2004 shall not be less than the corresponding amount of premium liabilities and claims liabilities as valued by the actuary under section 37(1)(b) of the Act.”;

(b) by deleting the word “premiums” wherever it appears in paragraph (5)(b) and (c)(i) and substituting in each case the words “net premiums written in the accounting period”;

(c) by inserting, immediately before the words “premiums written” in paragraph (6)(i) and (ii), the word “net”;

(d) by deleting the semi-colon at the end of paragraph (e) of the definition of “marine and aviation policy” in paragraph (7) and substituting a full-stop; and

(e) by deleting the definition of “premiums” in paragraph (7).

New regulation 22A

4. The principal Regulations are amended by inserting, immediately after regulation 22, the following regulation:

“Contingency reserves

22A. In addition to maintaining claim liabilities and premium liabilities as required under regulation 19, a mortgage insurer and a trade credit and political risk insurer shall, in accordance with the requirements specified in the Seventh Schedule, establish and maintain contingency reserves in each insurance fund established and maintained under section 17(1) of the Act by the mortgage insurer or trade credit and political risk insurer.”.

Amendment of First Schedule

5. Paragraph 1(14) of the First Schedule to the principal Regulations is amended —

(a) by deleting the word “and” at the end of paragraph (da) of the definition of “financial resource adjustment”, and by inserting immediately thereafter the following paragraphs:

“(db) where it relates to an insurance fund established and maintained by a registered insurer under the Act and the registered insurer is required to maintain contingency reserves in respect of that fund under these Regulations, the negative of the lower of —

(i) 50% of the contingency reserves in each insurance fund established and maintained by the insurer in accordance with regulation 22A; and

(ii) 50% of the C1 requirement of that fund;

(dc) where it relates to an insurance fund established and maintained by a registered insurer under the Act, the negative of the exchange translation reserves resulting from the translation of the financial statements of that insurance fund from a non-Singapore dollar denominated functional currency to the presentation currency in Singapore dollars;

(dd) where it relates to the “Tier 1 resource” of a registered insurer, the sum of —

(i) the amounts referred to in paragraphs (db) and (dc) in respect of all insurance funds maintained by the insurer; and

(ii) the negative of the exchange translation reserves resulting from the translation of the financial statements of all assets and liabilities that do not belong to any insurance fund maintained by the insurer from a non-Singapore dollar denominated functional currency to the presentation currency in Singapore dollars; and”; and

(b) by deleting the word “assets” in paragraph (e) of the definition of “financial resource adjustment” and substituting the word “adjustments”.

Amendment of Second Schedule

6. Paragraph 3 of the Second Schedule to the principal Regulations is amended by deleting sub-paragraphs (b) and (c) and substituting the following sub-paragraphs:

“(b) in the case of a reinsurer incorporated outside of Singapore, any insurance fund established and maintained under the Act by a reinsurer in respect of offshore policies; and

- (c) in the case of a reinsurer incorporated in Singapore, the C2 and C3 requirements —
 - (i) of any insurance fund established and maintained under the Act in respect of offshore policies; and
 - (ii) arising from the assets and liabilities of any of its branches located outside of Singapore.”.

Amendment of Third Schedule

7. The Third Schedule to the principal Regulations is amended —

- (a) by deleting the words “paragraph 5” in paragraph 2 and substituting the words “paragraphs 3, 4 and 5”;
- (b) by deleting the word “The” in paragraphs 3(1) and 4(1) and substituting in each case the words “In the case of a registered insurer other than a reinsurer incorporated in Singapore, the”;
- (c) by inserting, immediately after sub-paragraph (1) of paragraph 3, the following sub-paragraph:

“(1A) In the case of a reinsurer incorporated in Singapore, the C1 requirement in respect of general business is calculated as follows:

- (a) in relation to an insurance fund established and maintained under the Act in respect of Singapore policies and in relation to assets and liabilities that do not belong to any insurance fund established and maintained under the Act (excluding the assets and liabilities of any of the reinsurer’s branches located outside of Singapore), the sum of —
 - (i) the premium liability risk requirement calculated in accordance with sub-paragraphs (2) and (3); and
 - (ii) the claim liability risk requirement calculated in accordance with sub-paragraphs (4) and (5);
- (b) in relation to an insurance fund established and maintained under the Act in respect of offshore policies, the highest of the following amounts:
 - (i) \$5 million;
 - (ii) 10% of the net premiums written by the fund in the preceding accounting period; and
 - (iii) 10% of the claims liabilities relating to the fund as at end of the preceding accounting period; and
- (c) in relation to the assets and liabilities of any of the reinsurer’s branches located outside of Singapore, the highest of the following amounts:
 - (i) \$5 million;

- (ii) 10% of the net premiums written by the branches located outside of Singapore in the preceding accounting period; and
 - (iii) 10% of the claims liabilities relating to the branches located outside of Singapore as at end of the preceding accounting period.”; and
- (d) by inserting, immediately after sub-paragraph (1) of paragraph 4, the following sub-paragraph:

“(1A) In the case of a reinsurer incorporated in Singapore, the C1 requirement in respect of life business is calculated as follows:

- (a) in relation to an insurance fund established and maintained under the Act in respect of Singapore policies and in relation to assets and liabilities that do not belong to any insurance fund established and maintained under the Act (excluding the assets and liabilities of any of the reinsurer’s branches located outside of Singapore), the sum of —
 - (i) the policy liability risk requirement calculated in accordance with sub-paragraphs (2) and (3); and
 - (ii) the surrender value condition requirement calculated in accordance with sub-paragraphs (4) and (5);
- (b) in relation to an insurance fund established and maintained under the Act in respect of offshore policies, the higher of the following amounts:
 - (i) the difference between —
 - (A) a modified liability in respect of the policies of the fund, determined as —
 - (AA) the product of the liability in respect of the policies of the fund determined in the manner provided in regulation 20 and 110%; or
 - (AB) the sum of the liability in respect of the policies of the fund determined in the manner provided in regulation 20 and \$5 million,
 whichever is the higher; and
 - (B) the liability in respect of the policies of the fund determined in the manner provided in regulation 20; and
 - (ii) zero; and
- (c) in relation to the assets and liabilities of any of the reinsurer’s branches located outside of Singapore, the higher of the following amounts:

- (i) the difference between —
 - (A) a modified liability in respect of policies written by the branches located outside of Singapore, determined as —
 - (AA) the product of the liability in respect of policies written by the branches located outside of Singapore determined in the manner provided in regulation 20 and 110%; or
 - (AB) the sum of the liability in respect of policies written by the branches located outside of Singapore determined in the manner provided in regulation 20 and \$5 million,

whichever is the higher; and
 - (B) the liability in respect of policies written by the branches located outside of Singapore determined in the manner provided in regulation 20; and
- (ii) zero.”.

Amendment of Fourth Schedule

8. The Fourth Schedule to the principal Regulations is amended —

- (a) by deleting the words “the interest rate risk” in paragraph 2(9) and substituting the words “any interest rate risk”;
- (b) by deleting sub-paragraphs (a) and (b) of paragraph 4(1) and substituting the following sub-paragraphs:

“(a) in an increasing interest rate environment, the difference between —

- (i) the sum of —
 - (A) the aggregate of liabilities in respect of the policies of the fund determined in the manner provided in regulation 19(1), adjusting the interest rate assumption upwards by an appropriate adjustment set out in Table 10 of the Sixth Schedule; and
 - (B) the corresponding C1 requirement calculated according to paragraph 3 of the Third Schedule; and
- (ii) the sum of —
 - (A) the aggregate of liabilities in respect of the policies of the fund determined in the manner provided in regulation 19(1); and

- (B) the corresponding C1 requirement calculated according to paragraph 3 of the Third Schedule; and
- (b) in a decreasing interest rate environment, the difference between —
 - (i) the sum of —
 - (A) the aggregate of liabilities in respect of the policies of the fund determined in the manner provided in regulation 19(1), adjusting the interest rate assumption downwards (subject to a minimum interest rate of zero) by an appropriate adjustment set out in Table 10 of the Sixth Schedule; and
 - (B) the corresponding C1 requirement calculated according to paragraph 3 of the Third Schedule; and
 - (ii) the sum of —
 - (A) the aggregate of liabilities in respect of the policies of the fund determined in the manner provided in regulation 19(1); and
 - (B) the corresponding C1 requirement calculated according to paragraph 3 of the Third Schedule.”;
- (c) by deleting sub-paragraph (3) of paragraph 4 and substituting the following sub-paragraphs:
 - “(3) The liability adjustment requirement in respect of a non-participating fund or an investment-linked fund shall be —
 - (a) in an increasing interest rate environment, the difference between —
 - (i) the modified liability in respect of policies of the fund determined in the manner provided in paragraph 4(2)(a)(i) of the Third Schedule, adjusting the interest rate assumption upwards by an appropriate adjustment set out in Table 10 of the Sixth Schedule; and
 - (ii) the modified liability in respect of policies of the fund determined in the manner provided in paragraph 4(2)(a)(i) of the Third Schedule; and
 - (b) in a decreasing interest rate environment, the difference between —
 - (i) the modified liability in respect of policies of the fund determined in the manner provided in paragraph 4(2)(a)(i) of the Third Schedule, adjusting the interest rate assumption downwards (subject to a minimum interest rate of zero) by an

appropriate adjustment set out in Table 10 of the Sixth Schedule; and

- (ii) the modified liability in respect of policies of the fund determined in the manner provided in paragraph 4(2)(a)(i) of the Third Schedule.

(4) The liability adjustment requirement in respect of a participating fund shall be —

- (a) in an increasing interest rate environment, the difference between —

- (i) the modified minimum condition liability in respect of policies of the fund determined in the manner provided in paragraph 4(3)(a)(i) of the Third Schedule, adjusting the interest rate assumption upwards by an appropriate adjustment set out in Table 10 of the Sixth Schedule; and

- (ii) the modified minimum condition liability in respect of policies of the fund determined in the manner provided in paragraph 4(3)(a)(i) of the Third Schedule; and

- (b) in a decreasing interest rate environment, the difference between —

- (i) the modified minimum condition liability in respect of policies of the fund determined in the manner provided in paragraph 4(3)(a)(i) of the Third Schedule, adjusting the interest rate assumption downwards (subject to a minimum interest rate of zero) by an appropriate adjustment set out in Table 10 of the Sixth Schedule; and

- (ii) the modified minimum condition liability in respect of policies of the fund determined in the manner provided in paragraph 4(3)(a)(i) of the Third Schedule.”; and

- (d) by deleting the words “appropriate proportion of its contingent liabilities” in paragraph 9(2) and substituting the words “amount in respect of its contingent liabilities which is determined as the product of the value of the contingent liabilities and the appropriate risk factor”.

Amendment of Sixth Schedule

9. The Sixth Schedule to the principal Regulations is amended —

- (a) by deleting item (2) in Table 5 and substituting the following item:

“(2) Medium	(a) Marine and aviation — cargo	(a) Marine and aviation — cargo
	(b) Motor	(b) Property

- | | |
|---|------------------------------------|
| (c) Workmen's compensation | (c) Credit or political risk"; and |
| (d) Bonds | |
| (e) Engineering Construction All Risk/Erection All Risk | |
| (f) Credit or political risk | |
| (g) Others — non-liability class | |

(b) by inserting, immediately after the words "Casualty and others" in the third column of item (3)(b) in Table 5, the words ", but excludes credit or political risk".

New Seventh Schedule

10. The principal Regulations are amended by inserting, immediately after the Sixth Schedule, the following schedule:

"SEVENTH SCHEDULE

Regulation 22A

CONTINGENCY RESERVES

Definitions

1. In this Schedule —

"net claims incurred" means the sum of —

- (a) the net claims settled in an accounting period; and
- (b) the claim liabilities at the end of the accounting period less the claim liabilities at the beginning of the accounting period;

"net premiums earned" means the sum of —

- (a) the net premiums written in an accounting period; and
- (b) the premium liabilities at the beginning of the accounting period less the premium liabilities at the end of the accounting period;

"threshold amount", in relation to the contingency reserves for an accounting period, means 400% of the highest of the following amounts:

- (a) the amount of the net premiums written for that accounting period;
- (b) the amount of the net premiums written for the preceding accounting period; and

- (c) the amount of the net premiums written for the accounting period which precedes the accounting period referred to in paragraph (b).

Contingency reserves requirement for mortgage insurer

2.—(1) At the end of each accounting period and subject to sub-paragraphs (6) and (7), a mortgage insurer shall transfer to the contingency reserves 50% of the net premiums earned in that period in respect of mortgage insurance policies.

(2) Subject to sub-paragraphs (3) and (4), any transfer to the contingency reserves may be withdrawn —

- (a) at the end of an accounting period; and
- (b) to the extent that the net claims incurred by the insurer in respect of mortgage insurance policies exceed 35% of the net premiums earned by the insurer in respect of mortgage insurance policies during that accounting period.

(3) Any withdrawal under sub-paragraph (2) shall be attributed to transfers made to the contingency reserves on a first-in, first-out basis such that all withdrawals under sub-paragraph (2) are attributed to transfers in the order that they have been made to the contingency reserves, beginning with the earliest transfer.

(4) Where the amount to be withdrawn under sub-paragraph (2) exceeds the outstanding value of the transfer that it is to be attributed to under sub-paragraph (3) (being the balance remaining after deducting withdrawals which had been attributed to that transfer previously), the excess amount shall be attributed to the transfer immediately following the aforementioned transfer, and so on until the withdrawal has been fully attributed to one or more transfers.

(5) Where a mortgage insurer has made a transfer to the contingency reserves under sub-paragraph (1) in respect of an accounting period (the particular accounting period), the mortgage insurer shall, at the end of 10 contiguous accounting periods following the particular accounting period, withdraw from the contingency reserves an amount which is equal to the difference between —

- (a) the transfer to the contingency reserves made in respect of the particular accounting period; and
- (b) the aggregate of the amounts withdrawn under sub-paragraph (2) and attributable to the transfer in respect of the particular accounting period in accordance with sub-paragraphs (3) and (4),

and such withdrawal shall be regarded as attributed to that transfer for the purpose of sub-paragraph (3).

(6) Where the amount of contingency reserves maintained by a mortgage insurer at the end of an accounting period is equal to or above the threshold amount for that accounting period after taking into account any withdrawal to be made under sub-paragraphs (2) and (5) only, a mortgage insurer shall not be required to make the transfer under sub-paragraph (1).

(7) Where, in respect of any accounting period, after taking into account —

- (a) any withdrawal to be made under sub-paragraphs (2) and (5) in respect of that accounting period; and

- (b) any transfer to be made under sub-paragraph (1) in respect of that accounting period,

the amount of contingency reserves maintained by a mortgage insurer would exceed the threshold amount for that accounting period, the amount which the insurer shall transfer for the purpose of sub-paragraph (1) shall be reduced by an amount which is equal to the extent by which the contingency reserves would exceed the threshold amount.

Contingency reserves requirement for trade credit and political risk insurer

3.—(1) Subject to sub-paragraphs (3) and (4), at the end of each accounting period, a trade credit and political risk insurer shall transfer to the contingency reserves —

- (a) 12% of the net premiums written in that period in respect of trade credit insurance policies and political risk insurance policies; or
- (b) 50% of underwriting profit earned during that period in respect of trade credit insurance policies and political risk insurance policies,

whichever is the higher.

(2) Any transfer to the contingency reserves may be withdrawn at the end of an accounting period and to the extent that the net claims incurred by the insurer in respect of trade credit insurance policies and political risk insurance policies exceed the net premiums earned by the insurer in respect of trade credit insurance policies and political risk insurance policies during that accounting period.

(3) Where the amount of contingency reserves maintained by a trade credit and political risk insurer at the end of an accounting period is equal to or above the threshold amount for that accounting period after taking into account any withdrawal to be made under sub-paragraph (2), a trade credit and political risk insurer shall not be required to make the transfer under sub-paragraph (1).

(4) Where, in respect of any accounting period, after taking into account —

- (a) any withdrawal to be made under sub-paragraph (2) in respect of that accounting period; and
- (b) any transfer to be made under sub-paragraph (1) in respect of that accounting period,

the amount of contingency reserves maintained by a trade credit and political risk insurer would exceed the threshold amount for the accounting period, the amount which the insurer shall transfer for the purpose of sub-paragraph (1) shall be reduced by an amount which is equal to the extent by which the contingency reserves would exceed the threshold amount.”.

[G.N. No. S 884/2005]

Made this 24th day of December 2007.

ONG CHONG TEE
Acting Managing Director,
Monetary Authority of Singapore.

[ID05.1V32; AG/LEG/SL/142/2002/1 Vol. 10]