

**CONSULTATION PAPER ON PROPOSED MODIFICATIONS TO
REGULATORY REQUIREMENTS FOR TRADE CREDIT & POLITICAL RISK
INSURANCE BUSINESS
- RESPONSE TO FEEDBACK RECEIVED -**

1 Introduction

1.1 On 1 November 2006, MAS issued a consultation paper outlining the proposed modifications to the regulatory requirements for trade credit and political risk insurance (TCP) business.

1.2 The consultation period closed on 15 December 2006. MAS thanks all respondents for their feedback. The feedback received and MAS' responses to the feedback are set out below.

2 C1 (Insurance Risk) Requirements for TCP Business

2.1 A respondent commented that the proposed C1 (insurance risk) requirements imposed on TCP business were high, given the relatively good loss experiences of major TCP groups internationally in the past few years.

MAS' Response

2.2 The proposed C1 (insurance risk) factors for TCP business, as set out in our consultation paper, was derived from statistical analyses performed on the actual loss experiences of TCP players operating in Singapore over a period of 5 years. Hence, the proposed insurance risk factors reflect the actual loss experiences of TCP business written in Singapore.

3 Contingency Reserves

3.1 A respondent questioned the necessity of requiring additional contingency reserves to be set up for TCP business, given that there are already capital requirements imposed in the form of C1 (insurance risk) factors.

MAS' Response

3.2 Unlike the C1 (insurance risk) requirements, which address the ordinary claims experiences of TCP players, contingency reserves are necessary to buffer against potential surges in losses arising from widespread default on accounts receivables during times of cyclical economic downturns or adverse political developments, events which TCP business are particularly susceptible to. It is noted that the UK Financial Services Authority also requires the establishment of contingency reserves in respect of TCP business.

4 Recognition of Internal Modelling for Capital Provisioning Purposes

4.1 A respondent suggested that MAS should consider recognising the internal modelling systems of TCP insurers for capital provisioning purposes as an alternative to the existing approach of imposing prescriptive statutory requirements. Such a move would be consistent with developments under the proposed Solvency II approach in the EU.

MAS' Response

4.2 MAS follows the developments of the Solvency II framework closely. MAS will review the recommendations and consider adopting, where appropriate, for the Singapore solvency framework.

MONETARY AUTHORITY OF SINGAPORE

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