

CONSULTATION PAPER

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Proposed Changes to Regulatory Requirements for Marine Mutuals

MAS

Monetary Authority of Singapore

PREFACE

1 It is common for shipowners or other maritime operators to come together to form an insurance mutual that provides various types of insurance, including purchasing reinsurance protection, to cover the risks of the group. These insurance mutuals are commonly referred to as marine mutuals. Recognising the changes in the maritime business environment, MAS conducted a review to fine-tune the regulatory requirements imposed on such entities.

2 This consultation paper sets out the key considerations of the review and the proposed changes to the regulatory requirements for marine mutuals.

3 MAS invites interested parties to submit their views and comments on the proposed changes outlined in this consultation paper. Electronic submission is encouraged. Written comments should be submitted to:

Insurance Supervision Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117
Fax : (65) 6-229 9694
Email : marine_ins07@mas.gov.sg

All comments should be submitted to MAS by 20 May 2007.

4 Please note that all submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

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1 BACKGROUND

1.1 Key characteristics of Marine Mutuals

1.1.1 It is common for shipowners or other maritime operators to come together to form an insurance mutual that provides various types of insurance, including purchasing reinsurance protection, to cover the risks of the group. These insurance mutuals are commonly referred to as marine mutuals.

1.1.2 These mutuals are typically called “Clubs”; for example Protection and Indemnity Clubs (“P&I Clubs”), Hull Clubs and War Risks Clubs. These Clubs are differentiated by the types of cover they provide.¹ P&I Clubs are essentially associations of shipowners that agree to insure each other for third party liabilities on an indemnity basis. As the Clubs are mutuals, they have the right to ask for supplementary premiums from their members in case the premiums collected are not sufficient to pay current claims. These mutuals are an important part of the maritime sector, providing capacity and insurance cover to maritime operators. Similar cover might also be provided on a non-mutual basis.

1.1.3 Currently, marine mutuals are subject to less stringent regulatory requirements compared to other general insurers, in view that they are mutuals that insure only their members’ risks, and their members are sophisticated entities rather than the public at large.

1.2 Reasons for Review

1.2.1 MAS has received feedback that the regulatory requirements for marine mutuals could be further reduced, especially since several of the marine mutuals

¹ P&I - Protection & Indemnity from liability arising from incidents like oil spills; Hull & Machinery – Hull and machinery damage arising from collisions or crew negligence; War Risks Club – Losses arising from war

seeking to enter the Singapore market intend to set up limited scope offices. In addition, marine mutuals are similar in concept to captive insurers, and the regulatory requirements could be aligned with that for captive insurers, where possible.

1.2.2 MAS agrees that there is room to further reduce the regulatory requirements for marine mutuals. In particular, MAS notes the following key characteristics of marine mutuals that would justify a less stringent regulatory framework:

- i. Marine mutuals provide insurance cover only for the risks of their members;
- ii. The members of marine mutuals are sophisticated parties that are familiar with the risks in the maritime business. These are typically shipowners and other maritime operators; and
- iii. Marine mutuals have the option to call for supplementary premiums to top up reserves when necessary. It is compulsory for members to pay when such calls are made.

2 PROPOSED CHANGES TO REGULATORY REQUIREMENTS

2.1 Minimum Paid-Up Capital

2.1.1 MAS proposes to reduce the minimum paid-up capital for marine mutuals from S\$25 million to S\$5 million, similar to that for monoline general insurers. However, it should be highlighted that insurers are expected to hold adequate capital at all times, commensurate with the amount of business they intend to write.

2.2 Fund Solvency Requirements

2.2.1 Presently, the fund solvency requirements for marine mutuals are higher than that for captive insurers. MAS proposes to align the fund solvency requirements with that for captive insurers. A comparison of the current and proposed requirements is set out in Table 1.

Table 1: Fund solvency requirements

Fund	Current	Proposed
Singapore Insurance Fund ("SIF")	Highest of:- i) S\$1 million; ii) 20% of net premiums written; or iii) 20% of claims liabilities.	Highest of: i) S\$400,000; ii) 20% of net premiums written; or iii) 20% of claims liabilities.
Offshore Insurance Fund ("OIF")	Assets > liabilities	Assets > liabilities
Shareholders' Fund	No requirement	S\$400,000, and if there are Singapore policies, an additional amount equivalent to the highest of: i) S\$400,000; ii) 20% of SIF net premiums written; or iii) 20% of SIF claims liabilities.

2.3 Statutory Deposits

2.3.1 Presently, marine mutuals are required to post a Statutory Deposit of S\$500,000 with MAS. MAS proposes to remove this requirement.

2.4 Submission of Statutory Returns

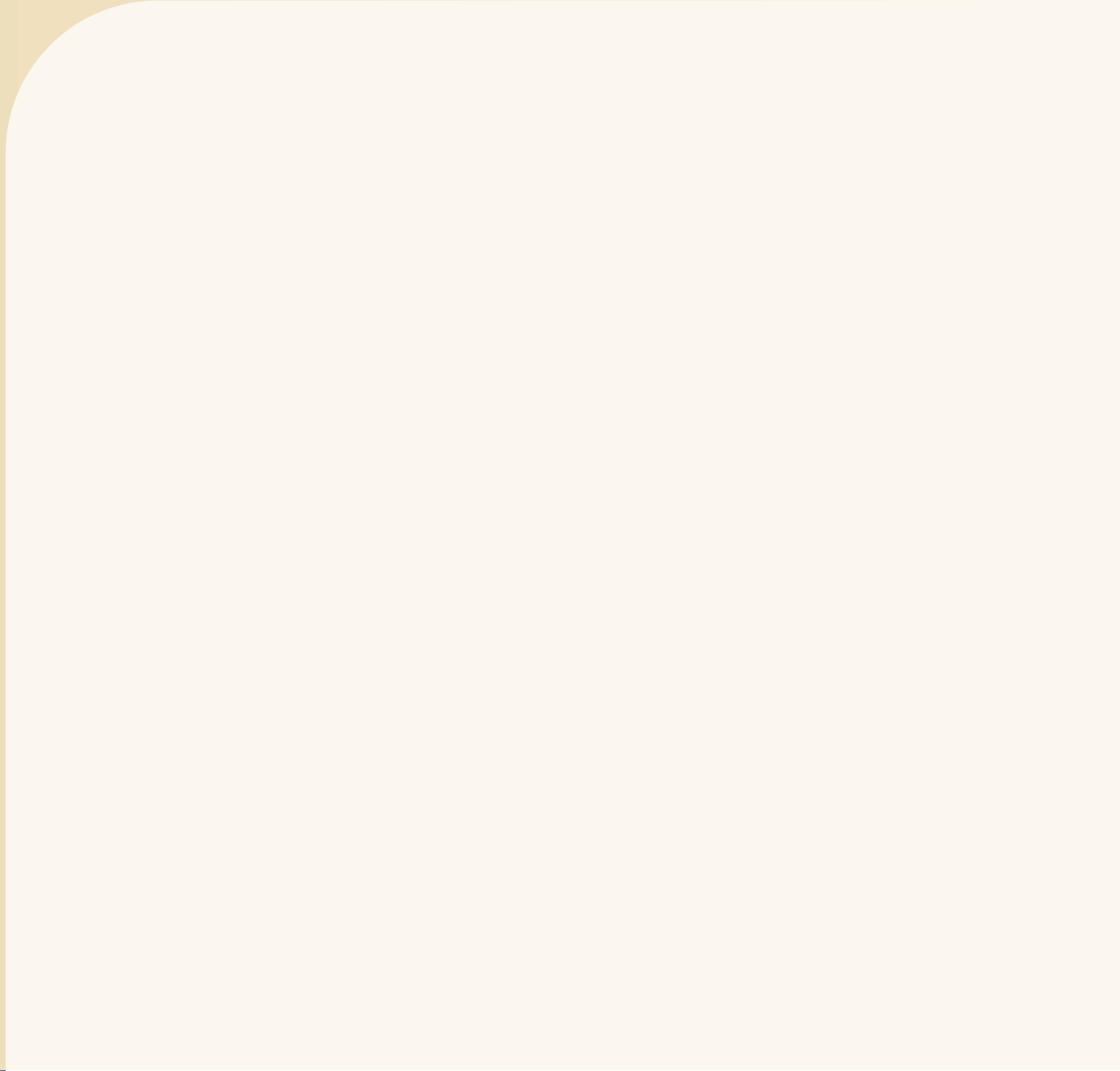
2.4.1 Currently, marine mutuals submit quarterly and annual statutory returns to MAS. MAS proposes to remove the requirement for marine mutuals to submit quarterly returns.

2.5 Annual Registration Fees

2.5.1 Currently, the annual registration fees payable by marine mutuals to MAS range from S\$50,000 to S\$60,000 per annum, depending on the type of mutual. MAS proposes to reduce the annual fees to S\$15,000 per annum for all marine mutuals.

3 IMPLEMENTATION OF THE PROPOSED CHANGES

3.1 MAS will review the feedback received before finalising the changes to be made to the regulatory requirements for marine mutuals. The changes will be implemented by amending the relevant legislation.



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