

CONSULTATION PAPER

P003 - 2008  
May 2008

Proposed Regulatory  
Framework  
Governing Special  
Purpose Reinsurance  
Vehicles

MAS

Monetary Authority of Singapore

## INTRODUCTION

1 Insurance securitisation is an alternative risk management tool to reinsurance. Through securitisation, insurers can transfer insurance risk directly to the capital market. In June 2007, the Authority issued a consultation paper on the proposed regulatory framework governing Special Purpose Reinsurance Vehicles ("SPRVs") set up in Singapore to issue reinsurance contracts and insurance linked securities ("ILS"), the proposed regulatory treatment of reinsurance ceded by registered insurers to SPRVs, and registered insurers' investment in ILS.

2 The Authority has considered the feedback received during that consultation phase and released our responses on 13 December 2007. This consultation paper seeks to obtain feedback on the draft regulations for SPRVs set up in Singapore.

3 Other requirements set out in the June 2007 consultation paper such as the actuarial certification in respect of the adequacy of the funds raised and the legal opinion on the bankruptcy remote structure of the SPRV will be included as pre-registration requirements to be spelt out in the application form. The application form will be released on MAS website when the Insurance (SPRV) Regulations come into effect.

4 Insurers who are considering transferring insurance risk to an SPRV via reinsurance would need to seek prior approval from the Authority for any regulatory credit in respect of the risk transfer. The Insurance (Valuation and Capital) Regulations 2004 will be amended to reflect the need for prior approval subsequently.

4 MAS invites interested parties to submit their comments on the regulations set out in this consultation paper. Submissions in electronic form are strongly preferred and should be sent via e-mail to the following address: [sprvs\\_ins08@mas.gov.sg](mailto:sprvs_ins08@mas.gov.sg). Written comments should be submitted to:

Insurance Supervision Department  
Monetary Authority of Singapore  
10 Shenton Way  
MAS Building  
Singapore 079117  
Fax: (65) 6229 9694

All comments should be submitted to MAS by 26 June 2008.

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

# **ANNEX: DRAFT INSURANCE (SPECIAL PURPOSE REINSURANCE VEHICLE) REGULATIONS**

**No. S 000 –**

## **INSURANCE ACT (CHAPTER 142) INSURANCE (SPECIAL PURPOSE REINSURANCE VEHICLE) REGULATIONS 2007**

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## SCHEDULE

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In exercise of the powers conferred by sections 8, 9 (1) (c), 10, 11, 18, 19, 22, 36, and 64 (1) of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

### PART I

#### PRELIMINARY

#### **Citation and commencement**

1. These Regulations may be cited as the Insurance (Special Purpose Reinsurance Vehicle) Regulations 2008 and shall come into operation on 2008.

#### **Definitions**

2. In these Regulations, unless the context otherwise requires—
  - “aggregate limit”, in relation to a reinsurance contract, means the maximum amount payable to the ceding insurer under the reinsurance contract;
  - “ceding insurer” means an insurer that enters into a reinsurance contract with an SPRV;
  - “fully funded” means —
    - (a) in relation to any reinsurance contract entered into by an SPRV that specifies an aggregate limit, the assets held on trust or otherwise held under the terms of the reinsurance contract by or on behalf of the SPRV for the benefit of the ceding insurer are, at all times, not

less than the potential liabilities of the SPRV under all reasonably foreseeable scenarios taking into account the aggregate limit of the reinsurance contract and the expenses of the SPRV; and

- (b) in relation to a reinsurance contract entered into by an SPRV that does not specify an aggregate limit, means the assets held on trust or as otherwise held under the terms of the reinsurance contract by or on behalf of an SPRV for the benefit of the ceding insurer are, at all times, not less than the potential liabilities of the SPRV under all reasonably foreseeable scenarios, taking into account the contractual obligations of the SPRV towards the ceding insurer under the reinsurance contract and the operating costs of the SPRV;

“insurance securitisation”, in relation to an SPRV, means any debt or financing arrangement entered into by the SPRV with investors, where repayment of the principal or interest, or both, to the investors is contingent upon the occurrence or non-occurrence of an event whereupon the ceding insurer is exposed to financial loss under contracts of insurance or reinsurance it has issued;

“Special Purpose Reinsurance Vehicle” or “SPRV” means an insurer registered under section 8 of the Act as a reinsurer to carry on life or general business or both classes of business and—

- (a) is a legal entity separate from any third party involved in its establishment;
- (b) which is created for the purpose of entering into reinsurance contracts with one or more ceding insurers only;
- (c) fully funds its obligation under the reinsurance contracts through insurance securitization.

## PART II

### OPERATION AS AN SPRV

#### **Permitted Activities**

3. An SPRV may enter into arrangements, and carry on any business, as may be necessary, to fulfill its obligations and administrative duties incidental to insurance securitisation and the reinsurance contracts, including entering into management and administrative services agreements, swap agreements, and other forms of asset management agreements.

**Fully Funded Requirement**

4.—(1) An SPRV shall, at all times, be fully funded.

(2) An SPRV shall immediately notify the Authority when the SPRV becomes aware that it has failed, or is likely to fail, to comply with paragraph (1).

(3) Where the Authority is notified by an SPRV under paragraph (2) or becomes aware of any inability by the SPRV to comply with paragraph (1), the Authority may take one or more of the following actions:

- (a) require the SPRV to comply with such directions as the Authority may impose, and in particular, require the SPRV—
  - (i) to submit to the Authority financial statements on a monthly basis or at such other intervals as the Authority may require, until the SPRV satisfies the requirement to be fully funded, as the case may be, for 90 consecutive days or such other period as may be determined by the Authority; or
  - (ii) to submit to the Authority a plan on how the SPRV intends to satisfy the requirement to be fully funded; and
- (b) direct the SPRV to carry on its business in such manner and on such conditions as the Authority may impose.

**Insurance securitisation requirements**

5. An SPRV may not issue any debt securities unless the agreement governing the issuance of the debt securities —

- (a) makes it clear that the SPRV is a legal entity separate from any third party involved in the establishment of the SPRV; and
- (b) makes it a condition of the securities issued or to be issued by the SPRV that the holders of the securities undertake not to initiate or participate in winding up proceedings against the SPRV until the securities are discharged.

**PART III****FINANCIAL REQUIREMENT BEFORE REGISTRATION,  
FUND SOLVENCY REQUIREMENT AND CAPITAL  
ADEQUACY REQUIREMENT**

**Paid-up capital requirement**

6. For the purposes of section 9(1)(c) of the Act, the Authority shall not register an applicant as an SPRV unless the applicant has a paid-up ordinary share capital of not less than \$20,000.

**Fund solvency requirement and capital adequacy requirement**

7.— (1) For the purposes of section 18(1)(a) of the Act, the fund solvency requirement in respect of an insurance fund established and maintained by an SPRV under the Act shall at all times be such that the assets of the fund are not less than the liabilities of the fund.

(2) For the purposes of section 18 (1) (b) of the Act, the capital adequacy requirement of an SPRV shall at all times be such that the assets of the SPRV are not less than the liabilities of the SPRV.

(3) A SPRV shall immediately notify the Authority when the SPRV becomes aware that it has failed, or is likely to fail, to comply with paragraph (1) or (2).

(4) Where the Authority is notified by an SPRV under paragraph (3) or becomes aware of any inability by the SPRV to comply with paragraph (1) or (2), the Authority may take one or more of the following actions:

- (a) require the SPRV to comply with such directions as the Authority may impose, and in particular, require the SPRV
  - (i) to submit to the Authority financial statements on a monthly basis or at such other intervals as the Authority may require, until the SPRV satisfies the fund solvency requirement or the capital adequacy requirement, as the case may be, for 90 consecutive days or such other period as may be determined by the Authority; or
  - (ii) to submit to the Authority a plan on how the SPRV intends to satisfy the fund solvency requirement or the capital adequacy requirement, as the case may be; and
- (b) direct the SPRV to carry on its business in such manner and on such conditions as the Authority may impose.

**Exemptions in respect of the Insurance (Valuation and Capital) Regulations 2004**

8. An SPRV shall be exempt from regulations 3 and 4 of the Insurance (Valuation and Capital) Regulations 2004 (G.N. No S498/2004).



## PART IV

## ACCOUNTS AND STATEMENTS

**Exemption from Insurance (Accounts and Statements) Regulations 2004**

9. Except as otherwise provided in this Part, an SPRV shall be exempt from the Insurance (Accounts and Statements) Regulations 2004 (G.N. No. S 494/2004).

**Forms**

10.—(1) The forms mentioned in these Regulations are those set out in the Schedule, or the First Schedule to the Insurance (Accounts and Statements) Regulations 2004 (G.N. No. S 494/2004), as the case may be.

(2) Where any provision of the Act or these Regulations provides for the lodgment of a document with the Authority, that document shall be lodged with the Authority in the relevant form.

(3) A form prescribed by these Regulations shall be completed in accordance with such directions as may be specified in the form or by the Authority.

**Returns to be lodged by an SPRV**

11. For the purposes of section 36 (1) of the Act, an SPRV shall lodge statements of accounts and other statements in accordance with regulations 12 and 13.

**Annual returns to be lodged by an SPRV**

12.—(1) An SPRV registered to carry on general business shall lodge for each accounting period, for each insurance fund established and maintained under the Act in respect of its general business —

- (a) a fund balance sheet in Form 1, excluding Annexes and Notes (other than Annexes 1A, 1B, 1E, 1(i) and 1(ii)), as at the end of that accounting period;
- (b) a fund profit and loss account in Form 2, excluding the Annexes and Notes (other than Annex 2C); and
- (c) a statement in Form 6, giving as regards policies belonging to that class of business particulars of premiums, claims, underwriting results and operating results during that accounting period.

(2) An SPRV registered to carry on life business shall lodge for each accounting period, for each insurance fund established and maintained under the Act in respect of its life business —

- (a) a fund balance sheet in Form 1, excluding Annexes and Notes (other than Annexes 1A, 1B, 1E, 1(i) and 1(ii)), as at the end of that accounting period;
- (b) a fund profit and loss account in Form 2, excluding the Annexes and Notes (other than Annex 2C); and
- (c) a statement in Form 5, giving as regards policies belonging to that class of business particulars of —
  - (i) the issue of new policies;
  - (ii) the termination of policies and the transfers of policies to or from the register of Singapore policies or offshore policies, as the case may be, during that accounting period; and
  - (iii) the business in force as at the end of that accounting period.

(3) An SPRV shall lodge for each accounting period, in respect of the insurer's global operations —

- (a) a balance sheet in Form 8 (excluding Annexes 8A, 8B and 8C) as at the end of that accounting period; and
- (b) a profit and loss account in Form 9.

#### **Other returns to be lodged by SPRV**

**13.—**(1) An SPRV registered to carry on general business shall lodge for each accounting period, for each insurance fund established and maintained under the Act in respect of its general business —

- (a) a fund balance sheet in Form 1 (excluding the Annexes and Notes), as at the end of that accounting period; and
- (b) a statement in Form 6 (excluding the Notes), giving as regards policies belonging to that class of business particulars of premiums, claims, underwriting results and operating results during that accounting period.

(2) An SPRV registered to carry on life business shall lodge for each accounting period, for each insurance fund established and maintained under the Act in respect of its life business —

- (a) a fund balance sheet in Form 1 (excluding the Annexes and Notes), as at the end of that accounting period; and

- (b) a statement in Form 5, giving as regards policies belonging to that class of business particulars of —
- (i) the issue of new policies;
  - (ii) the termination of policies and the transfers of policies to or from the register of Singapore policies or offshore policies, as the case may be, during that accounting period; and
  - (iii) the business in force as at the end of that accounting period.

(3) An SPRV shall, in addition to the relevant forms set out in paragraphs (1) and (2), lodge for each accounting period in respect of its global business operations a balance sheet in Form 8 (excluding the Annexes and Note) as at the end of that accounting period.

(4) Section 36 (3) of the Act shall not apply to an SPRV in respect of any statement of account lodged under this regulation.

#### **Provisions as to returns lodged**

**14.**—(1) All monetary amounts referred to in any document required to be lodged under these Regulations shall be in Singapore dollars unless otherwise specified in the relevant form, and the basis of conversion of any other currency into Singapore dollars shall be stated in each such document.

(2) Section 39 (3) of the Act shall not apply to any document lodged by an SPRV under section 36 of the Act or any document required by section 36 (13) to accompany the document so lodged.

#### **Valuation of assets and liabilities**

**15.** In any document which an SPRV is required to prepare in accordance with these Regulations, the value or amount given for an asset or a liability of the SPRV shall be the value or amount of that asset or liability, as the case may be, as determined in accordance with any applicable regulation under the Insurance (Valuation and Capital) Regulations 2004 (G.N. No. S 498/2004) and any direction issued under the Act.

#### **Lodgment and signature of returns**

**16.**—(1) Any document to be lodged by an SPRV under paragraph (2) and regulation 17 shall be lodged by sending to the Authority the original and 2 copies of the document.

(2) An SPRV shall, for any document lodged under regulation 12, lodge a certificate, which shall be Form A in the Schedule signed

by the principal officer of the SPRV or an officer signing on behalf of the principle officer.

(3) A document to be lodged by an SPRV shall be in English, and shall be printed or, with the permission of the Authority, produced by other mechanical means approved by it.

(4) This regulation shall not apply to any document in the form of an electronic record required to be lodged under regulation 18.

#### **Audit and auditor's report**

**17.—**(1) An SPRV shall lodge, with any statement of account and balance sheet lodged under regulation 12 —

- (a) an auditor's report, which shall be Form B in the Schedule; and
- (b) an auditor's supplementary report, which shall be Form C in the Schedule,

which shall be signed by the auditor.

(2) The auditor appointed by an SPRV shall immediately notify the Authority when the auditor —

- (a) becomes aware of circumstances that are likely to affect materially the ability of the SPRV to fulfill its obligations to third parties, or to meet any of its material financial requirements imposed by or under these Regulations;
- (b) becomes aware that there are material defects in the financial systems and controls or accounting records of the SPRV that are likely to affect materially the ability of the SPRV to fulfill its obligations to third parties, or to meet any of its material financial requirements imposed by or under these Regulations;

(3) The Authority may, by notice in writing require the auditor appointed by an SPRV to furnish it with information about any matter related to the audit conducted on the SPRV imposed under these Regulations.

#### **Returns in electronic form**

**18.—**(1) An SPRV shall complete and lodge each document required to be lodged under regulations 12 and 13 in the form of an electronic record with the Authority —

- (a) through such electronic facility; and
- (b) in such form and manner,

as may be specified by the Authority to the SPRV.

(2) Unless otherwise required by the Authority, all particulars to be inserted in the document in the form of an electronic record referred to in paragraph (1) shall be in the English language.

### **Deadlines for lodgment of returns**

**19.** Any document to be lodged by an SPRV shall be lodged with the Authority —

- (a) in respect of a document to be lodged in accordance with regulation 17, within 3 months from the last day of the period to which the document relates;
- (b) in respect of a document to be lodged under regulation 12 and in accordance with regulation 18, within 3 months from the last day of the period to which the document relates;
- (c) in respect of a document to be lodged under regulation 13 and in accordance with regulation 18, within 3 weeks from the last day of the period to which the document relates; and
- (d) in respect of any certificate referred to in regulation 16 (2), or any report referred to in regulation 17, within 4 months from the last day of the period to which the document relates.

## PART V

### OTHER EXEMPTIONS

#### **Exemptions from sections 14 and 37 of Act**

**20.** Sections 14 and 37 of the Act shall not apply to any SPRV.

## THE SCHEDULE

INSURANCE ACT  
(CHAPTER 142)INSURANCE  
(SPECIAL PURPOSE REINSURANCE VEHICLE)  
REGULATIONS 2007

FORM A - CERTIFICATE ON THE ACCOUNTS OF  
\*GENERAL / LIFE / GENERAL AND LIFE BUSINESS OF  
\_\_\_\_\_  
FOR THE ACCOUNTING PERIOD ENDED \_\_\_\_\_

I, the undersigned, hereby certify that in our belief —

- (a) the information provided in Forms \_\_\_\_\_ are complete and accurate;
- (b) in the relevant accounting period, no part of the assets and liabilities of the insurance fund(s) established and maintained under the Insurance Act (Cap.142) has been dealt with in contravention of section 17 or 18 of the Act; and
- (c) during the year, regulations made for the purposes of section 19 of the Act have been complied with in relation to those assets.

except

Names and  
signatures of: \_\_\_\_\_  
*Principal Officer*

Date: \_\_\_\_\_

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\*Delete as applicable

*Instruction for completion of Form A*

For the purposes of filling this Form in accordance with regulation 17 (3) —

- (a) an SPRV registered to carry on general insurance shall provide certification in respect of Forms 1, 2, and 6;
- (b) an SPRV registered to carry on life insurance shall provide certification in respect of Forms 1 and 2;
- (c) an SPRV incorporated in Singapore shall also provide certification in respect of Forms 8 and 9 in respect of the insurer's global business operations.

INSURANCE ACT  
(CHAPTER 142)INSURANCE  
(SPECIAL PURPOSE REINSURANCE VEHICLE)  
REGULATIONS 2007FORM B - REPORT OF THE AUDITOR APPOINTED UNDER  
SECTION 36 (6) OF THE INSURANCE ACT (CAP. 142)

1. Pursuant to Section 36 (3) of the Insurance Act (Cap. 142), we have audited the attached balance sheets as at \_\_\_\_\_, profit and loss accounts and other statutory returns (Forms 1, 2, 6, 8 and 9 including their Notes but excluding their Annexes,) for the accounting period ended \_\_\_\_\_. These statements of account and other statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these statements of accounts and other statements based on our audit.

2. We conducted our audit in accordance with the Singapore Standards on Auditing to the extent that they are relevant to the audit. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of accounts are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of accounts. An audit also includes assessing the accounting principles, evaluating the presentation of the overall statements of accounts and the company's internal control systems used in the preparation of the statements of account and other statements. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion and to the best of the information and according to the explanations given to us —

- (a) the balance sheets, profit and loss accounts and other statutory returns (Forms 1, 2, 6, 8 and 9, including their Notes but excluding their Annexes) have been prepared in accordance with the provisions of the Act, any Regulations made thereunder and any directions issued by the Authority;
- (b) the balance sheets present a fair reflection of the financial position of the registered SPRV for which the insurance fund(s) are valued as prescribed under the Insurance (Valuation and Capital) Regulations (G.N. No. S 498/2004); except for

4. As far as can be ascertained from our audit, in our opinion, the fund solvency requirement and capital adequacy requirement under section 18 of the Act have been complied with; except for

Certified Public Accountants

Date: \_\_\_\_\_



INSURANCE ACT  
(CHAPTER 142)INSURANCE  
(SPECIAL PURPOSE REINSURANCE VEHICLE)  
REGULATIONS 2007

## FORM C – AUDITOR’S SUPPLEMENTARY REPORT

The Principal Officer

Date:

Name of Registered Insurer:

Dear Sir

## AUDITOR'S SUPPLEMENTARY REPORT

1. We have audited the balance sheets, profit and loss accounts and other statutory returns (Forms 1, 2, 6, 8 and 9 including their Notes but excluding their Annexes,), and evaluated the internal control systems of \_\_\_\_\_ as at \_\_\_\_\_ and for the accounting period \_\_\_\_\_.

2. Our audit was carried out in accordance with section 36 (3) of the Insurance Act for the purpose of expressing our opinion on the accounts drawn up in accordance with the provisions of the Act. Our audit was conducted on a test basis and included such samples as we deemed appropriate. In this connection, we have reviewed the accounting system and system of internal control and systems used in the preparation of the statements of account and other statements, in operation in the registered SPRV.

3. Based on our audit, we have no comments on the following (except for those matters stated in the Appendix):

- (a) the books of the SPRV have been properly kept and recorded fairly the affairs and transactions of the SPRV in respect of its carrying on insurance business;
- (b) all necessary and proper apportionments have been made in the balance sheets, profit and loss accounts and other statutory returns, and such apportionments have been made in an equitable manner;
- (c) no part of the assets and liabilities of the insurance fund(s) established and maintained under the Insurance Act has been applied in contravention of section 17 of the Act;
- (d) no documents of title to assets of the insurance fund(s) established and maintained under the Act have been held in contravention of section 20 (1) of the Act and the assets of the insurance fund (s) established and maintained under the Act have been invested and held in accordance with regulations prescribed under section 19 of the Act;
- (e) the accounting and internal control systems used in the preparation of statements of accounts and other statements;
- (f) other areas of material weakness in the operations of the registered insurer;

- (g) implementation of directions and recommendations made by the Authority in respect of internal systems used in the preparation of the statements of accounts and other statements; and
  - (h) implementation of our previous year's audit recommendations
4. During the course of our audit (except for those matters stated in the Appendix), nothing came to our notice that caused us to believe that –
- (a) known bad debts of a material amount had not been written off or fully provided for;
  - (b) adequate provision had not been made for known material doubtful debts and for any material diminution in value of other assets;
  - (c) there was any non-compliance with the Act and regulations, licensing conditions and directions issued by the Authority and other relevant laws;
  - (d) the registered SPRV has not followed up on recommendations made by the Authority; and
  - (e) there are conflicts of interests involving management or staff in areas such as underwriting, claims settlement and investment resulting or which may result in any person receiving an undue benefit or advantage at the expense of the policy owners.

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*Certified Public Accountants*

*Appendix*

Auditor's Findings	Auditor's Recommendations	Registered Insurer's Comments



Monetary Authority of Singapore