

CONSULTATION PAPER

P003 - 2011  
May 2011

Third Consultation  
Paper on  
Policy Owners'  
Protection Fund

MAS

Monetary Authority of Singapore

## PREFACE

The Monetary Authority of Singapore (“MAS”) commenced a review of the Policy Owners’ Protection Scheme (“PPF Scheme”) and issued two separate consultation papers<sup>1</sup> in December 2005 and December 2009. These consultation papers discussed key policy proposals relating to the PPF Scheme, including the membership of the PPF Scheme, scope and level of PPF coverage, continuity of insurance coverage, funding method as well as the implementation details of the PPF Scheme.

2 In December 2010, MAS consulted on the draft Deposit Insurance and Policy Owner’s Protection Schemes (“DI-PPF”) Bill and legislative amendments come into effect on 1 May 2011.

3 This third consultation paper on the PPF Scheme sets out the revised target fund sizes and levies for the PPF Life and PPF General Funds using data from insurance companies as at end 2009. In addition, it sets out proposals on the disclosure requirements in relation to the PPF Scheme.

4 The Singapore Deposit Insurance Corporation Limited (“SDIC”) will be appointed as the PPF agency to administer the PPF Scheme and will be empowered under the DI-PPF Act to issue Rules for any matter relating to its functions. This consultation paper also sets out the proposed rules for PPF Scheme members.

5 MAS invites interested parties to forward their views and comments on the proposals made in this paper, including the draft Regulations, draft Notice and draft SDIC Rules appended in Annexes B, C and D, respectively. Electronic submission is encouraged. Please submit your written comments by 15 June 2011 to:

Insurance Department  
Monetary Authority of Singapore  
10 Shenton Way  
MAS Building  
Singapore 079117

Fax: 6229 9694

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<sup>1</sup> A copy of the first and second consultation papers as well as MAS’ response to feedback received can be found at [http://www.mas.gov.sg/publications/consult\\_papers/Reports\\_and\\_Consultation\\_Papers.html](http://www.mas.gov.sg/publications/consult_papers/Reports_and_Consultation_Papers.html)

Email: [ppf2011@mas.gov.sg](mailto:ppf2011@mas.gov.sg)

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

Preface	<i>i</i>
Table of Contents	<i>iii</i>
1. Introduction	1
2. Target Fund Size and Build Up Period	2
3. Levy Assessment	4
4. Rules and Disclosure Requirements	7
5. Annex A: Summary of Key Policy Positions for PPF Schemes	9
6. Annex B: Draft PPF Regulations	15
7. Annex C: Draft PPF Notice	22
8. Annex D: Draft SDIC Rules for PPF Scheme members	26

## 1 INTRODUCTION

1.1 The Insurance Act (Cap. 142) provides for a Policy Owners' Protection Fund ("PPF") to protect or compensate policy owners of life policies and compulsory insurance policies<sup>2</sup> in the event of failure of their insurer. The PPF serves to provide policy owners certainty as to how much of their policy monies will be protected and whether the losses they have incurred from insured events will be compensated should their insurer default. This will help to enhance public confidence and limit possible disruption to the economy.

1.2 MAS embarked on a review of the existing PPF to ensure that it keeps pace with industry and regulatory developments, and issued two separate consultation papers in December 2005 and December 2009. The first consultation paper covered issues relating to the membership, scope and level of coverage, continuity of coverage, funding and size of levies. The second consultation paper revisited some of the prior issues to take into account developments since 2005. It also discussed issues relating to the implementation of the PPF Scheme such as the administration of the PPF Scheme, management of the PPF Life and General Funds, collection of levies and payouts using PPF funds.

1.3 Taking into consideration the feedback provided, MAS then consulted on the draft DI-PPF Bill in December 2010. The Deposit Insurance Act (Cap. 77A) has been re-enacted to give effect to the changes, and the legislative amendments come into effect on 1 May 2011.

1.4 To take into account the developments since the PPF Scheme was first consulted in December 2005, this paper relooks at the target fund size and levy assessment for the PPF Scheme in Sections 2 and 3. Section 4 sets out the specific proposals pertaining to the level and type of disclosure required for the PPF Scheme. A summary of key policy positions for the PPF Scheme is set out in Annex A, while the draft regulations and Notices are set out in Annexes B and C respectively. The draft SDIC Rules for the PPF Scheme members are set out in Annex D.

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<sup>2</sup> "Compulsory insurance policies" is defined in the Insurance Act as any policy or security which satisfies the requirements of the Motor Vehicles (Third Party Risks and Compensation) Act (Cap. 189) or the Work Injury Compensation Act (Cap. 354).

## 2 TARGET FUND SIZE AND BUILD-UP PERIOD

### Target Fund Size

2.1 The models used for deriving the target fund sizes for the PPF Life and General Funds were largely adapted from the model used for the Deposit Insurance ("DI") Fund. 100,000 Monte Carlo simulations were run from the model and the 100<sup>th</sup> highest loss was taken as the optimum fund size. This means that the fund size is targeted at a level that will be able to meet the costs of insolvency in a period of one year with 99.9% level of confidence, similar to the approach for the DI Fund. The results from the simulation are in turn dependent on three key parameters, namely the protected liabilities figures provided by the insurers, the estimated probabilities of default and the estimated loss given default of the insurers.

2.2 The first consultation paper in 2005 had proposed a target fund size<sup>3</sup> of 0.2% and 1.5% of the liabilities of the classes of business covered (i.e. the protected liabilities) by the life and general insurance PPF Scheme, which translated into a fund size of S\$60 million and S\$16 million, respectively.

2.3 A number of developments have since taken place to necessitate a review of target fund size. The most significant is the increase in coverage from 90% to 100% of the liabilities for life insurance policies and selected personal general insurance lines. This has an impact on the target fund size as the PPF Scheme would now be liable for the losses of any insurer as long as there is a shortfall in the value of assets relative to the protected liabilities. Previously however, the PPF Scheme would only have been liable for the losses if the shortfall in the value of assets was greater than 10%. There is also a greater change in the size of the target fund for life insurance than that for general insurance whose coverage for the compulsory lines of businesses was already at 100% previously.

2.4 Other developments considered were the significant growth of the insurance industry as well as the change in the risk profile (which considered the financial strength) of the insurers in Singapore, especially after the financial crisis in 2008.

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<sup>3</sup> These target fund sizes were calculated based on the protected liabilities of the PPF scheme insurers as at end-2003 using the modelling approach described above.

2.5 After re-running the model with the updated parameters, the target fund size worked out to be 0.61% of protected liabilities for the PPF Life Fund, and 1.51% of the protected premiums<sup>4</sup> (i.e. the gross premiums of the classes of business covered by the PPF Scheme) for PPF General Fund. This translates into a target fund size of S\$345 million and S\$24 million for the PPF Life and General Funds, respectively.

### **Build Up Period**

2.6 The 2005 consultation proposed for the target fund size to be built up over a period of 10 years. With the updated target fund sizes, the amount of annual levy contribution will be higher in absolute terms over a 10 year period. However, the new annual levy contributions translate to only about 0.22% and 0.09% of the total gross premiums written by the insurers for the life insurance and general insurance industries respectively. We expect that insurers would be able to charge most of the PPF levies to their insurance funds<sup>5</sup>, and that the levies would not be passed on to the policy owners in the form of higher premiums. This is on the basis that the levies only make up a very small proportion of the industry's total gross premiums. As such, we propose to maintain the build-up period at 10 years.

**Proposal 1:** The target fund size of the PPF Life Fund will be at 0.61% of protected liabilities.

**Proposal 2:** The target fund size of the PPF General Fund will be at 1.51% of protected premiums.

**Proposal 3:** The target fund size will be built up over a period of 10 years for both the PPF Life and General Funds.

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<sup>4</sup> In the first consultation paper on PPF, we proposed that the levies for the PPF General Fund be set as a percentage of the protected premiums, instead of protected liabilities. We explained that whilst protected liabilities are more directly relevant to the payouts that would be incurred by the PPF Scheme in the event of failure by an insurer, the liabilities tend to be volatile and hard to predict. Hence, protected premiums were proposed as an objective proxy for levy computation. As such, in this consultation paper, we have expressed the target fund size as a percentage of the protected premiums.

<sup>5</sup> In the first consultation paper on PPF, we had proposed to allow PPF levies to be paid out of the insurance funds, subject to a limit. The limit is set as the simple average of the annual risk-based levies for the "Medium Low" and "Medium High" supervisory rating categories.

### 3 LEVY ASSESSMENT

#### Risk Based Levies

3.1 The 2005 consultation paper proposed imposing risk-based levies, based on MAS' CRAFT<sup>6</sup> supervisory rating of the insurer. In response to feedback on the 2009 PPF consultation paper, we explained that the purpose of introducing risk-based levies and using the CRAFT supervisory rating was to provide a better reflection of an insurer's overall risk rating, as well its risk of failure. The CRAFT supervisory rating that will be used for the computation of the levy contributions will be the rating that is last disclosed to the insurers as at 30 April of each year<sup>7</sup>.

3.2 The following risk-based levy structure was proposed in the 2005 consultation paper:

<b>Supervisory Ratings<sup>8</sup></b>	<b>Life insurance PPF (as a % of protected liabilities)</b>	<b>General Insurance PPF (as a % of protected liabilities)</b>
Low	0.017%	0.13%
Medium Low	0.020%	0.15%
Medium High	0.035%	0.27%
High	0.150%	1.15%

Table 1: Levy Structure proposed in 2005 Consultation Paper

3.3 We had received feedback that the risk-based levy structure was highly differentiated, as the levy rate for the 'High' rating was 8.8 times of the levy rate for the 'Low' rating. This may be inequitable to insurers, given that the overall risk rating is a subjective assessment. There was call for a lower levy differentiation between the CRAFT ratings, especially as the pre-funding approach is meant to be built up over a period of time.

3.4 To avoid any substantial increase or decrease in the amount of levy contributions collected in any one year due to possible changes in the supervisory ratings of the insurers, we now propose a levy structure that is

<sup>6</sup> CRAFT stands for Common Risk Assessment Framework and Techniques. CRAFT was developed by MAS to assess the risks of a financial institution and its internal controls and risk management. A monograph on CRAFT can be found at [http://www.mas.gov.sg/publications/monographs/Framework\\_for\\_Impact\\_and\\_Risk\\_Assessment\\_of\\_Financial\\_Institutions.html](http://www.mas.gov.sg/publications/monographs/Framework_for_Impact_and_Risk_Assessment_of_Financial_Institutions.html)

<sup>7</sup> The CRAFT supervisory rating is disclosed to an insurer at least once a year.

<sup>8</sup> A low supervisory rating indicates lower risk.



less differentiated across the different risk rating categories, by calibrating the levy rate for 'High' rating at 5 times the levy rate for a 'Low' rating. With the update of the target fund size, the proposed levy structure is attached below:

<b>Supervisory Ratings</b>	<b>Life insurance PPF (as a % of protected liabilities)</b>	<b>General Insurance PPF (as a % of protected premiums)</b>
Low	0.043%	0.106%
Medium Low	0.049%	0.121%
Medium High	0.073%	0.181%
High	0.214%	0.529%

Table 2: Proposed Levy Structure

### Ex-Post Levy

3.5 Levies may be reduced or stopped when the target fund size is reached. Post funded levies may be imposed where the cost of failure exceeds the PPF funds available at that point in time. Section 46 of the Insurance Act (Cap. 142) currently provides that the levies payable by the insurer shall not exceed 1% of the gross premium income of the insurer in a financial year. To provide greater certainty to the insurers on the possible amount of ex-post levy, we are proposing to maintain the cap at 1% of the insurer's gross premium income in the preceding year ending 31 December.

### Submission Requirements for Levy Assessment

3.6 We had given an indication on the type of information to be submitted by the insurers for the purposes of levy assessment in the response to feedback received on the 2009 consultation paper. The draft submission requirements are as stated in the proposed Notice in Annex C for comments.

**Proposal 4:** The risk-based levies will range from 0.043% to 0.214% of protected liabilities for the PPF Life Fund, depending on the insurer's supervisory risk rating.

**Proposal 5:** The risk-based levies will range from 0.106% to 0.529% of protected premiums for the PPF General Fund, depending on the insurer's supervisory risk rating.

**Proposal 6:** The amount of ex-post levy is subject to the cap of 1% of gross premium income of the preceding year ending 31 December.

**Proposal 7:** The submission requirements for the purpose of levy computation are set out in the Annexes to the draft Notice (refer to Annex C).

## **4 RULES AND DISCLOSURE REQUIREMENTS**

### **Rules**

4.1 The proposed Rules issued by the Singapore Deposit Insurance Corporation ("SDIC") pursuant to clause 63 of the Deposit Insurance and Policy Owners' Protection Schemes Bill set out the requirements when administering the PPF Scheme. The Rules will, inter alia, stipulate how SDIC shall collect levies, additional levies and late payment fees, as well as provide compensation using the PPF Funds. They also specify the disclosure requirements expected of the PPF Scheme members.

4.2 The following section describes the disclosure requirements in greater detail.

### **Disclosure Requirements**

4.3 It is important that policy owners are informed if their policies are protected by the PPF Scheme. Hence, we require PPF Scheme members to disclose whether a particular product is protected by the PPF Scheme via their marketing or policy documents. Such documents would include brochures, proposal forms, on the internet portal for policies sold online, policy documents or any other point-of-sale documents.

4.4 The details of the proposed disclosure regime for the PPF Scheme are set out in the following paragraphs.

### **PPF Scheme for Life Insurance Business**

- 4.5 For life insurance business, PPF Scheme members are to:
- a) State in the policy documents and Product Summary whether the policy in question is covered by the PPF Scheme;
  - b) Provide an illustration of the guaranteed benefits that is covered by the PPF Scheme in the Benefit Illustration<sup>9</sup>; and
  - c) Provide an information sheet, in print and electronic form, stating the scope and level of coverage of the PPF Scheme for life insurance business. This information sheet is to be provided to the policy owners together with the policy document. An illustration of how the caps are applied separately for the

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<sup>9</sup> Currently a direct life insurer is required to prepare a Product Summary and Benefit Illustration for each of its life policies, as required under MAS Notice 318.

guaranteed benefits of individual and group policies should be included in this information sheet. It should also be highlighted that the level of coverage would depend on each policy owner's profile at the point of failure and hence, are not product specific. This information sheet should also highlight that accident and health benefits under a life policy, other than those benefits that accelerate the payment of part or the entire sum assured stated in the policy, are covered fully with no caps applied.

4.6 The PPF Scheme members will also send a letter informing all existing policy owners of the scope and level of coverage of the PPF Scheme for life insurance products, including the information sheet as per paragraph 4.5(c). The PPF Scheme members should also provide policy owners the option to request for the revised policy documents with the details in paragraph 4.5(a) and (b).

#### **PPF Scheme for General Insurance Business**

4.7 For general insurance business, PPF Scheme members are to state in the policy document if the policy is protected under the PPF Scheme, as well as the scope and level of coverage of the PPF Scheme for general insurance products. If the products are sold online, such disclosure should be made clearly in electronic form as well. The PPF Scheme members are also required to send letters to its existing policy owners of policies that are covered by the PPF Scheme, informing them of the scope and level of coverage of their policies under the PPF Scheme.

#### **Change in Insured Status**

4.8 Should there be a transfer of portfolio from one insurer to another in the ordinary course of business, the PPF Scheme member taking on the liabilities is to send a letter to policy owners to reiterate the coverage and protection of their transferred policies under the PPF Scheme.

**Proposal 8:** PPF Scheme members are to provide disclosure on the coverage of the PPF Scheme at the point of sale and to state the coverage within the policy documents as per paragraphs 4.5 to 4.7.

**Proposal 9:** PPF Scheme members are to reiterate the coverage of the PPF Scheme to the policy owners whose liabilities have been transferred to them.

**Annex A**

**SUMMARY OF KEY POLICY POSITIONS  
FOR PPF SCHEMES**

Key Issues	Recommendations	
	PPF Scheme for Life Insurance Business	PPF Scheme for General Insurance Business
Membership	<ul style="list-style-type: none"> <li>- Compulsory membership for all registered direct life insurers, except reinsurers and captive insurers.</li> <li>- Subject to MAS' approval, exemption from membership can be made if the life insurer provides sufficient evidence to demonstrate that the equivalent scheme in its home jurisdiction would accord policy owners in Singapore protection at least equivalent to that provided by the PPF Scheme in Singapore.</li> </ul>	<ul style="list-style-type: none"> <li>- Compulsory membership for all registered direct general insurers, except reinsurers, captive insurers and specialist insurers<sup>10</sup>.</li> <li>- Subject to MAS' approval, exemption from membership can be made if the general insurer provides sufficient evidence to demonstrate that the equivalent scheme in its home jurisdiction would accord policy owners in Singapore protection at least equivalent to that provided by the PPF Scheme in Singapore.</li> <li>- Subject to MAS' approval, exemption from membership can also be made for direct general insurers that do not write any of the policies that are covered by the PPF Scheme.</li> </ul>
Scope of coverage	<p>Covers:</p> <ul style="list-style-type: none"> <li>- Life policies' guaranteed benefits.</li> <li>- Short-term and long-term A&amp;H policies written in the life insurance fund.</li> <li>- Accumulated values of coupon deposits, advance premium payments and unclaimed monies.</li> <li>- Singapore and offshore</li> </ul>	<p>Covers:</p> <ul style="list-style-type: none"> <li>- Liabilities arising from the Motor Vehicles (Third Party Risks and Compensation) Act and Work Injury Compensation Act insurance.</li> <li>- Liabilities arising from Singapore policies of personal motor insurance, individual and group A&amp;H insurance, personal property (structure and</li> </ul>

<sup>10</sup> Specialist insurers refer to the protection and indemnity clubs, financial guarantee insurers and credit insurers as prescribed by MAS.

Key Issues	Recommendations	
	<p>policies.</p> <ul style="list-style-type: none"> <li>- Individual and group policies.</li> <li>- For registered life insurers incorporated overseas, only the life insurance business written by the Singapore branch.</li> </ul> <p>Will not cover:</p> <ul style="list-style-type: none"> <li>- Life insurance business written by overseas branches of registered life insurers incorporated locally.</li> <li>- Inward reinsurance business written by direct life insurers.</li> </ul>	<p>contents) insurance, foreign domestic maid insurance and personal travel insurance.</p> <ul style="list-style-type: none"> <li>- For registered general insurers incorporated overseas, only the general insurance business written by the Singapore branch.</li> </ul> <p>Will not cover:</p> <ul style="list-style-type: none"> <li>- General insurance business written by overseas branches of registered general insurers incorporated locally.</li> <li>- Inward reinsurance business written by direct general insurers.</li> </ul>
Level of coverage	<ul style="list-style-type: none"> <li>- 100% coverage, subject to caps<sup>11</sup> where applicable, for protected liabilities of all life and A&amp;H policies, including A&amp;H benefits within life policies.</li> <li>- The cap will apply on the aggregate sum assured and surrender value of all life policies issued on the same life assured and by the same insurer.</li> <li>- The protection ratio will be applied separately to the aggregate sum assured and surrender value when calculating PPF payouts.</li> </ul>	<ul style="list-style-type: none"> <li>- 100% coverage for protected liabilities of all covered business lines.</li> <li>- No caps will be imposed.</li> </ul>
Continuity of insurance	<ul style="list-style-type: none"> <li>- To fund the transfer of in-force policies out of a life insurer to another insurer as long as the transfer is reasonably practicable.</li> <li>- For remaining policies that</li> </ul>	<ul style="list-style-type: none"> <li>- To compensate policy owners on claims incurred, up to 30 days after the winding up order, in respect of policies covered by PPF.</li> </ul>

<sup>11</sup> The details of the caps can be found in the Second Schedule to the Deposit Insurance and Policy Owners' Protection Schemes Act.

Key Issues	Recommendations	
	cannot be transferred or settled by termination of policies, the SDIC will be given the flexibility to run-off the portfolio of policies where practicable.	
Method of funding	<ul style="list-style-type: none"> <li>- To establish a pre-funded PPF through collection of levies from participating insurers.</li> <li>- Where the cost of failures exceeds target fund size, post-funded levies can be imposed.</li> </ul>	<ul style="list-style-type: none"> <li>- To establish a pre-funded PPF through collection of levies from participating insurers.</li> <li>- Where the cost of failures exceeds target fund size, post-funded levies can be imposed.</li> </ul>
Target fund size	<ul style="list-style-type: none"> <li>- Target fund size of 0.61% of protected liabilities (gross of reinsurance) to be built up over a 10-year period.</li> </ul>	<ul style="list-style-type: none"> <li>- Target fund size of 1.51% of protected gross premiums to be built up over a 10-year period.</li> </ul>
Levies	<ul style="list-style-type: none"> <li>- To impose risk-based levies on insurers, ranging from 0.043% to 0.214% of protected liabilities.</li> <li>- Levies can be charged to the insurance funds, subject to a limit of the simple average of the annual risk-based levies for the "Medium Low" and "Medium High" supervisory rating categories.</li> <li>- Levies may be reduced or stopped when target fund size is reached.</li> <li>- Maximum ex-post levy to be imposed in any one year is capped at 1% of the insurer's gross premium income.</li> </ul>	<ul style="list-style-type: none"> <li>- To impose risk-based levies on insurers, ranging from 0.106% to 0.529% of gross premium income of protected classes of business.</li> <li>- Levies can be charged to the insurance funds, subject to a limit of the simple average of the annual risk-based levies for the "Medium Low" and "Medium High" supervisory rating categories.</li> <li>- Levies may be reduced or stopped when target fund size is reached.</li> <li>- Maximum ex-post levy to be imposed in any one year is capped at 1% of the insurer's gross premium income.</li> </ul>
Disclosure Requirements	<ul style="list-style-type: none"> <li>- Members do not need to display a membership logo at their premises</li> <li>- Members are to state in the policy documents and Product Summary whether the policy in question is covered by the</li> </ul>	<ul style="list-style-type: none"> <li>- Members do not need to display a membership logo at their premises</li> <li>- Members are to state in the policy documents whether the policy in question is covered by the PPF Scheme</li> </ul>

Key Issues	Recommendations	
	<p>PPF Scheme</p> <ul style="list-style-type: none"> <li>- To illustrate in the Benefit Illustration the guaranteed benefits that is covered by the PPF Life Scheme</li> <li>- Members are to prepare an information sheet stating the scope and level of coverage of the PPF Scheme. This information sheet is to be provided to the policy owners together with the policy document. The following should be highlighted in the information sheet: <ul style="list-style-type: none"> <li>o How the caps are applied;</li> <li>o The level of coverage would depend on each policy owner's profile at the point of failure; and</li> <li>o Accident and health benefits under a life policy, other than those benefits that accelerate the payment of part or the entire sum assured stated in the policy, are covered fully with no caps applied.</li> </ul> </li> <li>- Members are to send existing policy owners a letter informing them of the scope and level of coverage of the PPF Scheme for life insurance policies, including the information sheet.</li> </ul>	<ul style="list-style-type: none"> <li>- Members are to send existing policy owners a letter informing them of the scope and level of coverage of the PPF Scheme for general insurance policies, including informing them that their policies are covered.</li> </ul>
<p>PPF Agency: Governance and Administration</p>	<ul style="list-style-type: none"> <li>- The PPF Scheme will be administered by SDIC.</li> <li>- Directors of SDIC cannot currently be directors of, employed by or otherwise connected to member institutions of the PPF Scheme. The Board of Directors of SDIC will be accountable to the Minister for its acts and decisions on the PPF Scheme.</li> <li>- SDIC will establish a PPF Life Fund for life insurance and a PPF</li> </ul>	



Key Issues	Recommendations
	<p>General Fund for general insurance. The two PPF funds and the DI fund will be maintained separately and no inter-lending is allowed among the three funds.</p> <ul style="list-style-type: none"> <li>- The principal functions of SDIC with respect to the PPF Scheme will be levy collection, management of the PPF funds, making payouts and consumer education. In the event that policies are to be placed on run-off, SDIC will set up a company to take over the policies and may outsource the administration of the policies to a third party.</li> <li>- MAS will make the decision on whether to trigger payouts using PPF Funds. SDIC will verify that MAS has adhered to established procedures in triggering payouts.</li> </ul>
Management of PPF Funds	<ul style="list-style-type: none"> <li>- PPF Funds should be invested in any security issued by the Singapore Government, Singapore dollar deposits with MAS, MAS Bills and such other investments as may be approved by the Minister.</li> <li>- SDIC will be empowered to borrow to finance the shortfall, in the event that payouts exceed the size of the PPF Funds.</li> </ul>
Levy Collection	<ul style="list-style-type: none"> <li>- Member institutions will be assessed once a year for PPF levies.</li> <li>- For life insurers (including those on run-off) and general insurers on run-off, the assessment base will be the amount of protected liabilities in respect of the insured policies under the PPF Scheme, as at 31 December of the preceding year.</li> <li>- For active general insurers, the assessment base will be the gross written premium received or receivable for the policies that are covered by the PPF Scheme from 1 January to 31 December of the preceding year.</li> <li>- Member institutions should submit information on the assessment base by 30 April of each year.</li> <li>- Levy contribution for each assessment year will be made in full in a single payment. Member institutions will be invoiced on 1 June of each year, with the levy payable on 1 July of the same year.</li> <li>- PPF levies will be deducted from member institutions' designated agent bank accounts with MAS and credited into SDIC's PPF accounts maintained with MAS.</li> <li>- Where an insurer becomes a member institution during the course of a calendar year, levies for that year will be levied on a pro-rata basis, according to the number of months remaining for that year.</li> <li>- No levies will be refunded to a member institution which deregisters during the course of the year.</li> <li>- The minimum levy to be paid by member institutions is S\$2,500 per annum.</li> </ul>

Key Issues	Recommendations
PPF Payout	<ul style="list-style-type: none"> <li>- The following pre-conditions must be met before payouts using PPF funds can be made:               <ul style="list-style-type: none"> <li>- An insurer is in liquidation; or</li> <li>- An insurer is unable or unlikely to be able to meet obligations, is or likely to become insolvent or about to suspend payments to policy owners/creditors; or</li> <li>- MAS is exercising or likely to exercise, or has exercised the powers under Part IIIAA of the amended Insurance Act (i.e. a new section covering transfer of business and shares, restructure of capital of registered insurer and winding up).</li> </ul> </li> <li>- For crystallised claims and compensation for policies terminated, PPF payouts will be made through the issuance of cheques or by crediting the policy owners' bank account as stated in the member institution's database.</li> <li>- SDIC will be automatically subrogated to the rights of policy owners for the amount of PPF payout.</li> <li>- Where PPF has been activated, policy loans are to be netted off in full where claims have crystallised or policies terminated, to determine the amount of PPF payouts. As for policies which have been transferred (including to a run-off company), there will be no netting of the policy loans as these will be taken on by the new insurer or run-off company and allowed to continue.</li> </ul>

**Annex B**

**Draft PPF Regulations**

**No. S 000 –**

DEPOSIT INSURANCE AND POLICY OWNERS’  
PROTECTION SCHEMES ACT 2011  
(ACT 15 OF 2011)

DEPOSIT INSURANCE AND POLICY OWNERS’  
PROTECTION SCHEMES (POLICY OWNERS’ PROTECTION  
SCHEME) REGULATIONS 2011

ARRANGEMENT OF REGULATIONS

Regulation

1. Citation and commencement
  2. Premium year
  3. Determination of levy rates
  4. Computation of levy
  5. Minimum levy
  6. Size of PPF Funds
  7. Payment of compensation from PPF Fund
  8. Compensation payout operational preparedness
  9. Register of insured policies
  10. Disclosure requirements for insured policies
- The Schedule

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In exercise of the powers conferred by sections 37, 38, 51 and 64 of the Deposit Insurance and Policy Owners’ Protection Schemes Act 2011, the Monetary Authority of Singapore hereby makes the following Regulations:

**Citation and commencement**

**1.** These Regulations may be cited as the Deposit Insurance and Policy Owners’ Protection Schemes (Policy Owners’ Protection Scheme) Regulations 2011 and shall come into operation on [date].

**Premium year**

**2.** For the purposes of the definition of “premium year” in section 2 (1) of the Act, the Authority hereby prescribes the premium year to be the period beginning on 1st April of any year and ending on 31st March of the following year.

(2) Where the effective date appointed under section 46(5) of the Act is after 1st April of any year, the first premium year shall be the period beginning on the effective date and ending on 31st March of the following year.

### **Determination of levy rates**

**3.—**(1) For the purposes of determining the levy rates applicable to PPF Scheme members for any premium year, all PPF Scheme members shall be classified into the categories specified in the first column of the Table in the Schedule.

(2) The levy rate applicable to each category is specified in the second and third columns of the Table in the Schedule.

### **Computation of levy**

**4.—**(1) Subject to regulation 5(1), the Authority shall calculate the amount of levy payable by a PPF Scheme member for any premium year as –

- (a) in respect of insured policies covered under the PPF Life Fund, the product of the levy rate applicable to the PPF Scheme member and the aggregate protected liabilities of the PPF Scheme member for the insured policies, as at 31st December of the preceding year;
- (b) in respect of insured policies covered under the PPF General Fund where the PPF Scheme member is not taking in any new insurance business or renewing any existing insurance policy, the product of the levy rate applicable to the PPF Scheme member and the aggregate protected liabilities of the PPF Scheme member for the insured policies, as at 31st December of the preceding year; or
- (c) subject to paragraph (b), in respect of insured policies covered under the PPF General Fund, the product of the levy rate applicable to the PPF Scheme member and the gross premium income in respect of the insured policies of the PPF Scheme member in the preceding year ending 31st December.

(2) Subject to regulation 5(2), where —

- (a) a relevant insurer becomes a PPF Scheme member during the course of a premium year; or
- (b) an exemption from the requirement to be a PPF Scheme member granted to a relevant insurer pursuant to section 32 of the Act is withdrawn during the course of a premium year,

the Authority shall impose on that insurer a levy which is pro-rated according to the number of months, or any part thereof, remaining for that premium year.

(3) For the purposes of calculating the levy of a relevant insurer referred to in paragraph (2), the Authority shall apply the aggregate protected liabilities as at the date on which the insurer becomes a PPF Scheme member or the gross premium income written from 1 January of the year until the date on which the insurer becomes a PPF Scheme member, as the case may be, in respect of insured policies of the relevant insurer.

(4) Subject to regulation 5(3), where the PPF Scheme member is a relevant insurer registered to carry on insurance business under the Insurance Act (Cap 142) immediately before the effective day, the Authority shall impose on the PPF Scheme member a levy for the first premium year which is pro-rated according to the number of months, or any part thereof, comprised in that first premium year.

(5) For the purposes of calculating the levy of a PPF Scheme member referred to in paragraph (4), the Authority shall apply the protected liabilities as at 31st December of the preceding year or gross premium income in respect of insured policies of the PPF Scheme member in the preceding year ending 31st December.

### **Minimum levy**

**5.—**(1) Subject to paragraphs (2) and (3), for any premium year, a PPF Scheme member shall pay a minimum levy of \$2,500 in respect of insured policies covered under the PPF Life Fund and \$2,500 in respect of insured policies covered under the PPF General Fund.

(2) In the case where —

- (a) a relevant insurer becomes a PPF Scheme member during the course of a premium year; or
- (b) an exemption from the requirement to be a PPF Scheme member granted to a relevant insurer pursuant to section 32 of the Act is withdrawn during the course of a premium year,

the minimum levy that the relevant insurer shall pay in respect of each of the Funds, shall be pro-rated according to the number of months, or any part thereof, remaining for that premium year.

(3) Where the first premium year does not commence from 1st April, the minimum levy that a PPF Scheme member shall pay in respect of each of the Funds for the first premium year shall be pro-rated according to the number of months, or any part thereof, comprised in the first premium year.

### **Size of PPF Life Fund and PPF General Fund**

6.—(1) The target fund size of the PPF Life Fund is 0.61% of the aggregate of the protected liabilities in respect of insured policies covered under the PPF Life Fund.

(2) The target fund size of the PPF General Fund is 1.51% of the gross premium income in respect of insured policies covered under the PPF General Fund.

(3) Without prejudice to any other factors that may be relevant in the determination of any variation to the levy rates, where the PPF Life Fund or PPF General Fund, as the case may be, achieves or exceeds the target fund size specified in paragraphs (1) or (2), the Authority and the Agency may conduct a joint review of the levy rates.

### **Payment of compensation from PPF Life Fund or PPF General Fund**

7.—(1) Where an insured policy owner is entitled to compensation in respect of insured policies with a failed PPF Scheme member under the CPFIS, the Agency may pay such compensation to the Central Provident Fund Board or another PPF Scheme member for the benefit of the insured policy owner in which the compensation is to be held in a manner equivalent to the manner of the original policy.

(2) Where an insured policy owner is entitled to compensation in respect of an insured policy or the proceeds of which are held under a trust, the Agency may pay such compensation —

- (a) directly to the insured policy owner or in the case of an insured policy covered under the PPF General Fund which provides third party benefits, the insured policy owner or any beneficiary or both; or
- (b) into an account in the name of the insured policy owner, any beneficiary or both, opened with a bank licensed under the Banking Act (Cap 19).

### **Compensation payout operational preparedness**

8.—(1) Every PPF Scheme member shall at all times have the capability to furnish to the Agency, in a secure manner, within such period and in such form and manner as may be specified by the Agency in the Rules, information which is requested for by the Agency for the purposes of making payment of compensation to insured policy owners or beneficiaries.

(2) Every PPF Scheme member shall —

- (a) participate in any periodic exercise conducted by the Agency for the purpose of assessing whether the PPF Scheme member is sufficiently prepared in the event that the Authority determines that compensation is to be paid out of the PPF Life Fund or PPF General Fund to the insured policy owners of the PPF Scheme member; and
- (b) achieve the level of preparedness required by the Agency of all PPF Scheme members as may be specified by the Agency in the Rules.

(3) Any PPF Scheme member which contravenes paragraphs (1) or (2) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$125,000 and, in the case of a continuing offence, to a further fine of \$12,500 for every day or part thereof during which the offence continues after conviction.

(4) In this regulation, “in a secure manner” in relation to any information, means that when dealing with the information, the PPF Scheme member shall comply with such requirements as may be specified by the Agency in the Rules.

### **Register of insured policies**

**9.**—(1) Every PPF Scheme member shall maintain at all times, a register of all its products which are insured policies (referred to in this regulation as the Register), in such form and manner as may be specified by the Agency in the Rules.

(2) Every PPF Scheme member shall, within 10 days from 1st April of each year, submit to the Agency a copy of the Register updated to 1st April of that year and an annex, in such form as may be specified in the Rules, setting out the product codes of each product, which is an insured policy, in the Register (referred to in this regulation as the Annex).

(3) A PPF Scheme member shall notify the Agency of any change to the Register or Annex within 10 days of such change.

(4) A PPF Scheme member shall, upon reasonable request, make available to any person a copy of the Register (last submitted to the Agency, together with any notification of change since that submission where such change has not been incorporated into the Register) for inspection, at every place of business of the PPF Scheme member where insured policies are offered.

(5) Any PPF Scheme member which contravenes paragraphs (1), (2), (3) or (4) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$125,000 and, in the case of a

continuing offence, to a further fine of \$12,500 for every day or part thereof during which the offence continues after conviction.

### **Disclosure requirements for insured policies**

**10.**—(1) Every PPF Scheme member shall, in respect of every insured policy that it offers, state clearly that the insured policy is protected under the PPF Scheme up to the limits prescribed in the Act in the marketing materials and the policy documents, whether in electronic, print or other form.

(2) Where the statement required under paragraph (1) is in written form, the statement shall be clear and legible.

(3) Any PPF Scheme member which contravenes paragraph (1) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$125,000 and, in the case of a continuing offence, to a further fine of \$12,500 for every day or part thereof during which the offence continues after conviction.

## THE SCHEDULE

Regulation 3

### **Table – Levy Rates applicable to PPF Scheme members**

<i>First column</i>	<i>Second column</i>	<i>Third column</i>
<i>Category of PPF Scheme members</i>	<i>Levy Rate applicable for life business</i>	<i>Levy Rate applicable for general business</i>
A PPF Scheme member which has a supervisory risk rating of —		
(a) Low	0.043%	0.106%
(b) Medium Low	0.049%	0.121%
(c) Medium High	0.073%	0.181%
(d) High	0.214%	0.529%



Made this        day of                    2011.

RAVI MENON  
*Managing Director,*  
*Monetary Authority of Singapore.*

[PPD06/2005; AG/LRRD/26/2002/10]

T:/WC:/DI and PPF Reg (NJ 26.11.10)

**Draft PPF Notice**

MAS Notice DIPOP - N02

DD MMM 2011

**NOTICE TO SCHEME MEMBERS  
DEPOSIT INSURANCE AND POLICY OWNER'S PROTECTION SCHEMES ACT  
POLICY OWNERS PROTECTION SCHEMES RETURNS**

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This Notice is issued pursuant to section XX (1) of the Deposit Insurance and Policy Owner's Protection Schemes Act ["the Act"].

**Definitions**

2 For the purposes of this Notice, "accounting period" means the period beginning from the commencement of its business in Singapore or 1<sup>st</sup> January of any year, as the case may be, and ending 31<sup>st</sup> December of that year.

3 The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same meanings as in the Act or any regulations made thereunder.

**Submission of Returns**

3 A PPF Scheme member registered to carry on life insurance business shall lodge with the Authority, information on the amount of protected liabilities in respect of its life insurance business for each accounting period, in the format set out in Annex A.

4 A PPF Scheme member registered to carry on general insurance business shall lodge with the Authority, information on the amount of gross premiums written and liabilities for the protected lines of businesses in respect of its general insurance business for each accounting period, in the format set out in Annex B.

5 Every PPF Scheme member shall submit the information required in paragraphs 3 and 4 within 4 months from the last day of the period to which the information relates.

**Transitional arrangements**

6 Notwithstanding that the Notice comes into effect on XX XXXX 2011, paragraphs 3 and 4 shall apply to a PPF Scheme member in respect of the year ending 31 December 2010 save that a PPF Scheme member need only submit the first submission of the information required on or before 1 August 2011.

7 This Notice shall take effect on DD MMM 2011.

NAME OF PPF SCHEME MEMBER: \_\_\_\_\_

**ANNEX A - AMOUNT OF PROTECTED LIABILITIES OF LIFE BUSINESS OF PPF SCHEME MEMBER**

AS AT \_\_\_\_\_

**Part I - Amount of Protected Liabilities**

Description	Row No.	Participating Fund	Non-participating Fund	Investment Linked Fund	Total
Category 1 policies	1				
Category 2 policies	2				
Category 3 policies	3				
Category 4 policies	4				
Total (1 to 4)	5				

**Part II - Amount of Coupon Deposits, Advance Premium Payment and Unclaimed Monies**

Description	Row No.	Accumulated Value (Inclusive of Interest which has been Accrued)			
		Participating Fund	Non-participating Fund	Investment Linked Fund	Total
Coupon deposits	6				
Advance premium payment	7				
Unclaimed monies	8				
Total (6 to 8)	9				

*Instructions for completion of Annex A*

1. The protected liabilities of an insurance fund established and maintained under the Act shall be calculated in accordance with Third Schedule of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 ("DI-PPF Act").

2. "Category 1 policies", "Category 2 policies", "Category 3 policies" and "Category 4 policies" have the same respective meanings as in Second Schedule of the DI-PPF Act.

NAME OF PPF SCHEME MEMBER: \_\_\_\_\_

**ANNEX B - AMOUNT OF GROSS PREMIUMS WRITTEN FOR PROTECTED LINES OF BUSINESSES AND PROTECTED LIABILITIES  
OF GENERAL BUSINESS OF PPF SCHEME MEMBER**

FROM \_\_\_\_\_ TO \_\_\_\_\_

Description	Row No.	Motor (Third Party Bodily Injury) Act Insurance	Workmen Injury Compensation Act Insurance	Personal Accident	Health	Personal Motor (excluding Act cover)	Personal Property	Personal Travel	Foreign Maid's Insurance	Total
Gross premiums	1									
Net premiums	2									
Premium Liabilities (end of period)	3									
Gross claims settled	4									
Net claims settled	5									
Claims Liabilities (end of period)	6									
Number of policies	7									
Number of new claims incurred	8									

*Instructions for completion of Annex B*

1. The premiums liabilities and claims liabilities shall be calculated in accordance with the Insurance (Valuation and Capital) Regulations 2004.
2. The information provided under the Personal Motor column shall exclude the information provided under the Motor (Third Party Bodily Injury) Act Insurance column. An insurer may use any approximate method to calculate the premiums, claims and liabilities for the information under the Motor (Third Party Bodily Injury) Act Insurance column, e.g. using the proportion of premiums received or claims paid as a gauge.

**Draft SDIC Rules for PPF Scheme Members**

No. — DEPOSIT INSURANCE AND POLICY OWNERS' PROTECTION SCHEMES ACT 2011

It is hereby notified for general information that, pursuant to section 63(3) of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011, the Singapore Deposit Insurance Corporation Rules issued on 1 May 2011 (hereinafter referred to as "the Rules 2011") were amended on 1 July 2011.

**SINGAPORE DEPOSIT INSURANCE CORPORATION (AMENDMENT) RULES 2011**

1. The Singapore Deposit Insurance Corporation (Amendment) Rules 2011 issued under section 63 of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 shall take effect from 1 July 2011.
2. The Rules 2011 are amended by inserting immediately after paragraph 2, the following paragraph :

“ 2A The Monetary Authority of Singapore (“the Authority”) has issued the Deposit Insurance and Policy Owners' Protection Schemes (Policy Owners' Protection Scheme) Regulations 2011 (“the PPF Regulations”) which include:-

  - (a) regulation 9 on the register of insured policies to be maintained by PPF Scheme members; and
  - (b) regulation 10 on the disclosure statement for insured policies.

**New Rules P1 to P18**

3. The Rules 2011 are amended by inserting immediately after Rule D22, the following Rules:

**”LEVIES FOR PPF SCHEME**

**Levy Payable by PPF Scheme Members**

- P1. For the purposes of section 39(2) of the Act, SDIC shall give each PPF Scheme member notice in writing of the amount of levy payable for any particular premium year at least 1 month before the date on which payment is due from the PPF Scheme member (“payment due date”).
- P2. Where a relevant insurer becomes a PPF Scheme member during the course of a premium year, or where an exemption from the requirement to be a PPF Scheme member granted to a relevant insurer pursuant to section 32 of the Act is withdrawn during the course of a premium year, the PPF Scheme member shall pay the pro-rated amount of levy assessed for that premium year within 1 month from the date it becomes a PPF Scheme member or from the date its exemption is withdrawn, as the case may be, unless SDIC specifies a later payment due date in its notice in writing.

**Re-computation of Levies and Additional Levies**

- P3. If the Authority notifies SDIC, under section 44 of the Act, of any re-computation of the amount of levy or any additional levy, as the case may be, and the shortfall in levy, by a PPF Scheme member, SDIC shall give the PPF Scheme member notice in writing of the shortfall in levy at least 1 month before the payment due date specified in the notice.

#### **Collection of Additional Levies**

- P4. When the Authority has notified SDIC of the additional levy payable by a PPF Scheme member for that premium year or part thereof under section 40 of the Act, SDIC shall give the PPF Scheme member notice in writing of the additional levy payable at least 1 month before the payment due date specified in the notice.

#### **Late Payment Fees**

- P5. As provided under section 41 of the Act, if a PPF Scheme member fails to pay the levy or additional levy or any part thereof by the date specified under these Rules, SDIC may impose late payment fee by notice in writing pursuant to that section.
- P6. Any late payment fee imposed by SDIC shall, subject to section 41(3) of the Act, be the amount computed in accordance with the following formula:

$$A \times r / 365 \times (\text{SIBOR} + 10\%), \text{ where}$$

“A” is the amount of levy or additional levy as the case maybe, which is due and owing;

“r” is the number of days after the payment due date by which the PPF Scheme member is late in making payment;

“SIBOR” means the 3 months’ S\$ Singapore Interbank Offer Rate fixed by the Association of Banks in Singapore, as at the payment due date.

#### **Payment Due Date**

- P7. Any payment that is due on a Saturday, Sunday or public holiday, shall be made by the next business day.

#### **Method of Payment of Levy and Late Payment Fees**

- P8. A PPF Scheme member shall make arrangements to pay the levy, any additional levy, any shortfall in levy, and any late payment fee through a direct debit of its settlement bank’s current account with the Authority. In this regard, the PPF Scheme member shall do all things necessary to enable the settlement bank concerned to authorise the Authority to debit the settlement bank’s current account with the Authority on behalf of the SDIC. The Authority shall credit the amount collected into SDIC’s current account maintained with the Authority for the Policy Owners’ Protection Life Fund (“the PPF Life Fund”) or for the Policy Owners’ Protection General Fund (“the PPF General Fund”), as the case may be.

#### **Refund**

- P9. For the purposes of section 43 of the Act, SDIC shall notify the PPF Scheme member concerned, in writing, of the amount of levy to be refunded to the PPF Scheme member within 1 month of receipt of the notice under section 43. The SDIC notification shall also include the date of the payment of the refund which shall, in any event, be no later than 15 July of the next premium year.

#### **PAYMENT OF COMPENSATION OR USE OF PPF LIFE FUND OR PPF GENERAL FUND**

- P10. When the Authority has notified SDIC of its determination that a payment of compensation shall be made out of the PPF Life Fund or the PPF General Fund, or that the PPF Life Fund or the PPF General Fund shall be utilised to fund the transfer or run-off the insurance business of the failed PPF Scheme member, SDIC shall, as required under section 46(4) of the Act, gazette a notice, stating that a payment of compensation shall be made out of the PPF Life Fund or the PPF General Fund, or that the PPF Life Fund or the PPF General Fund shall be utilised to fund the transfer or run-off the insurance business of the failed PPF Scheme member, as the case may be. In addition, SDIC shall issue a media release to news stations and daily press that payment of compensation will be made or that the insurance business of the failed PPF Scheme member will be transferred or run-off, as the case may be. Such media release shall be issued to at least 4 local daily newspapers, one each in the Malay, Chinese, Tamil and English languages.
- P11. A PPF Scheme member in respect of which a notice has been published in the Gazette that compensation will be paid or that its insurance business will be transferred or run-off shall immediately exhibit at all its offices and branches in Singapore and publish on its website (if any), a notice of the decision by the Authority to pay compensation out of the PPF Life Fund or the PPF General Fund, or that the PPF Life Fund or the PPF General Fund shall be utilised to fund the transfer or run-off the insurance business of the failed PPF Scheme member, as the case may be.
- P12. A failed PPF Scheme member shall provide such information and render such assistance and cooperation to SDIC as may be required by SDIC to make compensation out of the PPF Life Fund or the PPF General Fund, or to use the PPF Life Fund or the PPF General Fund to fund the transfer or run-off the insurance business of the failed PPF Scheme member. In this regard, a failed PPF Scheme member shall provide such information and render such assistance and cooperation to SDIC as may be required by SDIC to determine the eligibility and entitlement of policy owners and other rightful persons under the insured policies of the failed PPF Scheme member, compute the compensation payments and otherwise perform its functions under the Act.

#### **METHOD OF PAYOUT BY SDIC**

- P13. SDIC may pay compensation to policy owners or other rightful persons under the insured policies of the failed PPF Scheme member by sending cheques by post for the amount of compensation due to them. Regulation 7(2) of the PPF Regulations sets out other methods by which SDIC may pay compensation.

#### **DISCLOSURE BY PPF SCHEME MEMBERS**

##### **Register of Insured Policies**



- P14. For the purposes of regulation 9 of the PPF Regulations, the register of insured policies is to be maintained in accordance with the sample register provided in Annex P-A. For the purposes of verifying the accuracy and completeness of the register, SDIC may request a PPF Scheme member to provide additional information, including product descriptions and marketing materials.

#### **Disclosure Statement for Insured Policies**

- P15. For the purposes of regulation 10 of the PPF Regulations, SDIC may require a PPF Scheme member to submit samples of marketing materials and policy documents in order to verify that disclosure statements have been made and are accurate.

#### **New Annex P-A**

4. The Rules 2011 are amended by inserting, immediately after Annex D-E, Annex P-A which may be found at the Singapore Deposit Insurance Corporation's website at <http://www.sdic.org.sg/ppfrules.php>

**Register of Insured Policies**

Name of Life Insurance Product under each Category

<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Category 4</b>

Name of General Insurance Product under each description

<b>Policy of insurance which complies with the requirements of the Motor Vehicles (Third-Party Risks and Compensation) Act (Cap. 189)</b>	<b>Policy of insurance which complies with the requirements of the Work Injury Compensation Act (Cap. 354)</b>	<b>Policy of insurance which provides personal motor cover</b>	<b>Policy of insurance which provides personal travel cover</b>	<b>Policy of insurance which provides personal property (structure and contents) cover</b>	<b>Policy of insurance which provides cover in connection with the employment of a foreign domestic worker</b>



Monetary Authority of Singapore