

**RESPONSE TO FEEDBACK RECEIVED –
THIRD CONSULTATION PAPER ON
POLICY OWNERS’ PROTECTION FUND (“PPF”)**

1 Introduction

1.1 In May 2011, the Monetary Authority of Singapore (“MAS”) conducted a third consultation on PPF. The PPF seeks to compensate policy owners in the event of default of their insurers.

1.2 The consultation period closed on 15 June 2011. Various parties commented on the consultation paper and MAS would like to thank all respondents for their contributions. The respondents are listed in Annex 1.

1.3 We have carefully considered the feedback received and incorporated the relevant feedback into the review of PPF. Comments that are of general interest, together with MAS’ responses, are set out below.

2 Target Fund Size and Build-Up Period

2.1 The third consultation paper proposed a target fund size of 0.61% of protected liabilities (i.e. S\$345 million) for the PPF Life Fund, and a target fund size of 1.51% of protected premiums (i.e. S\$24 million) for the PPF General Fund. Taking into consideration that 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 in 2009, it was proposed that the build-up period of 10 years be maintained.

2.2 The respondents to the proposals on target fund size and build-up period were from the life insurance industry. Two respondents felt that the build-up period should be more than 10 years. Another respondent felt that targeting the fund size at a level that would be able to meet the costs of insolvency over a period of one year with a 99.9% level of confidence was too conservative, and suggested that MAS use a 99.5% level of confidence instead.

MAS’ Response

2.3 The approach of targeting the fund size at a level that will be able to meet the costs of insolvency over a period of one year with a 99.9% level of confidence is similar to the approach taken by the Deposit Insurance Scheme. There is no strong justification for calibrating the Deposit Insurance Scheme and PPF Schemes at different levels of confidence. However, we recognise that

the proposed target fund size in absolute terms has increased significantly for the PPF Life Fund, notwithstanding that the new annual levy contributions translate to only about 0.22% of the total gross premiums written by the life insurers. Therefore, we will extend the build-up period for the PPF Life Fund to 15 years. This will lead to a lower annual levy contribution. As the proposed target fund size for PPF General Fund has not gone up substantially, we will maintain the build-up period for the PPF General Fund as 10 years.

2.4 With the extension of the build-up period for the PPF Life Fund to 15 years, the revised levy structure is attached below. The levy rates within is lower than those proposed in the third consultation paper. There is no change to the levy structure for the PPF General Fund.

Supervisory Ratings	PPF Life Fund (as a % of protected liabilities)	PPF General Fund (as a % of protected premiums)
Low	0.028%	0.106%
Medium Low	0.033%	0.121%
Medium High	0.049%	0.181%
High	0.142%	0.529%

3 Levy Assessment

Differentiation in Levy Rates across Different Risk Ratings

3.1 One respondent commented that the increase in levy rate from ‘Medium High’ risk rating to ‘High’ risk rating was very significant. Another respondent felt that to provide greater incentive for ongoing sound and prudent risk management, MAS might consider continuing the levy after 10 years if the insurer’s risk rating is ‘Medium High’ or ‘High’ to cover the ongoing risks of making payouts from PPF funds. There was also a proposal for a uniform levy rate for all general insurers.

MAS’ Response

3.2 The first consultation on PPF proposed imposing risk-based levies based on the CRAFT¹ supervisory rating on the insurers. The feedback given on the second consultation paper was that the levy rates were too highly differentiated, and might not be equitable as CRAFT ratings were a subjective assessment.

¹ CRAFT stands for Common Risk Assessment Framework and Techniques.

Hence, a more ‘compressed’ levy structure across the different risk rating categories was proposed in the third consultation paper where the levy rate for ‘High’ rating is 5 times the levy rate for a ‘Low’ rating, compared to the previous differentiation of 8 times.

3.3 Under this approach, the levy charged is commensurate with the risk profile of the insurer. The differentiation of levy rates amongst the various risk ratings also provides an incentive for the insurer to improve its risk profile to enjoy a lower levy rate. As the levy structure already takes into account the risk profiles of insurers with ‘Medium High’ and ‘High’ risk ratings, it is not necessary to extend the levy payment for such insurers, beyond the specified build-up period. In addition, the PPF Scheme will be subject to regular reviews. If necessary, we can revise the levy structure to incorporate changes in the risk profiles of the insurers.

Motor Vehicle (Third Party Risks and Compensation) Act Insurance and Singapore Policies of Personal Motor Insurance

3.4 The Motor Vehicles (Third Party Risks and Compensation) Act covers only death and bodily injury to third parties (“Act Cover”) only. All Motor policies, both Personal and Commercial policies, would therefore include such a coverage. As the levy assessment is based on the gross premium income in respect of the insured policies of a PPF Scheme member in the preceding year ending 31 December, it was proposed in the third consultation paper that statistics relating to Act Cover and Personal Motor (i.e. excluding Act Cover) be provided separately. Insurers were also given the option to use any approximate method to calculate the premiums and liabilities for Act Cover, e.g. using the proportion of premiums received or claims paid as a gauge.

3.5 Some respondents felt that it would be difficult to provide a split of the statistics for Act Cover (which applies to Personal and Commercial Motor) and Personal Motor (excluding Act Cover) as they do not currently maintain the statistics or the pricing in such a format. In addition, there were comments that different insurers would use different formulas, resulting in inconsistency across insurers. It was suggested that MAS consider a more consistent basis, e.g. use Motor premiums, which can be reconciled with the numbers reported to MAS in the statutory forms, for the purpose of levy computation. As this would result in a larger premium base, MAS could then consider applying a lower rate for the purpose of levy computation.

MAS’ Response

3.6 As the PPF General Fund covers Personal Motor in its entirety, we agree that the split of premiums (i.e. for Act Cover versus non-Act Cover) for

Personal Motor is not necessary for the purpose of levy computation. Based on the premium information for year 2009², we note that protected motor liabilities and protected motor premiums constitute a large proportion (i.e. >90%) of total motor liabilities and total motor premiums respectively. Therefore, for the levy computation purposes, the PPF Scheme members can provide the total premiums received for Personal Motor (i.e. there is no need to split the premiums between Act Cover and non-Act Cover). Likewise for Commercial Motor, the total premiums received can be used for the levy computation. However, if an insurer is able to determine the ratio of gross claims under Act Cover to total gross claims (Act Cover and non-Act Cover), it may use this ratio to derive a proxy for the premiums received under Act Cover for computing the levy.

Workmen Injury Compensation Act Insurance

3.7 A respondent commented that for Workmen Injury insurance cover, it typically comes with Employers' Liabilities insurance. It asked whether Employers' Liabilities insurance would be covered under the PPF General Fund. If not, the respondent suggested for MAS allow insurers to estimate the premiums for Employers' Liabilities insurance and exclude it from the levy computation.

MAS' Response

3.8 Employers' Liabilities insurance is not covered under the PPF General Fund. Insurers may use the total premiums received from Workmen Injury insurance as the base for the levy computation. However, if an insurer is able to determine the ratio of gross claims under Employers' Liabilities to the total gross claims under Work Injury insurance cover, it may use this ratio to derive a proxy for the premiums received under Employers' Liabilities and exclude it from levy computation.

4 Rules and Disclosure Requirements

Policies covered under the PPF Life Fund

Benefit Illustration

4.1 The third consultation paper proposed for PPF Scheme members to illustrate in the Benefit Illustration ("BI"), the guaranteed benefits that are covered under the PPF Life Fund. One insurer commented that it would be difficult to gather the information of all the policies with a common life assured.

² We had requested for this information to compute the target fund size for the PPF Life and General Fund.

Without such information, an insurer would not be able to illustrate the exact PPF guaranteed benefits in the BI since they are subject to a cap based on per life assured per insurer. A couple of respondents felt that the illustration of the guaranteed benefits that are covered under the PPF Life Fund should be standardised across the industry. Another respondent also felt that the policy documents should state if the policy is covered by the PPF Life Fund.

MAS' Response

4.2 We agree that the illustration of the guaranteed benefits that is covered under the life insurance PPF Scheme in the BI may be misleading as the guaranteed benefits under a policy might not be covered in full. This would occur if the aggregate sum assured and/ or surrender values of the life insurance policies of an individual with an insurer, exceed the relevant caps. Hence, we will remove the requirement to illustrate the guaranteed benefits that is covered under the life insurance PPF Scheme in the BI.

Information Sheet

4.3 We had proposed that PPF Scheme members prepare an information sheet stating the scope and level of coverage of the life insurance PPF Scheme. This information sheet would be provided to the policy owners together with the policy documents. Some respondents commented that the information sheet should be standardised across the industry. One respondent felt that MAS should specify the documents which should have the disclosure statement on PPF Scheme coverage.

MAS' Response

4.4 We agree with the comment made by some respondents that the information sheet should be standardised across the industry. In this regard, we will look to the Life Insurance Association of Singapore (“LIA”) and the General Insurance Association of Singapore to work on the standardised format for the information sheet and the disclosure statement. We will require the disclosure on whether a policy is covered by the PPF Scheme to be made in the policy contract and product summary.

Disclosure Requirements for Existing Policy Owners

4.5 For existing policy owners, it was proposed that the PPF Scheme members provide policy owners the option to request for the revised policy documents. This covers the requirement for positive disclosure on whether the policy in question is covered by life insurance PPF Scheme, as well as to illustrate the guaranteed benefits that are covered under the PPF Life Fund in the BI.

4.6 Some of the respondents commented that for very old policies which are no longer “on the shelf”, it would take a lot of effort for insurers to recreate the policy documents to include the information on PPF coverage. This would also result in additional cost for insurers.

MAS’ Response

4.7 As mentioned above, we will not require insurers to illustrate the guaranteed benefits that are covered under the PPF Life Fund in the BI. The respondents’ concerns on the difficulty to recreate policy documents for very old policies, at the request of the policy owners, are valid. We are agreeable to removing this requirement for the option to be given to policyowners. This is since policy owners will be given an information sheet on the PPF Scheme, and they can also refer to the Register of insured policies maintained by the insurer to check if their policies are covered under the Scheme.

Policies covered under the PPF General Fund

Disclosure Requirements for Existing Policy Owners

4.8 For existing policy owners, the third consultation paper proposed that PPF Scheme members send a letter to policy owners of protected lines of business to inform them that their policy is covered, including the scope and level of coverage of the PPF Scheme for general insurance. Some respondents felt that it would not be necessary for insurers to write to every policy owner about the PPF Scheme as it would have been publicised. A respondent suggested sending such notification only upon renewal.

MAS’ Response

4.9 Given the short term nature of general insurance policies, we are agreeable for existing policy owners to receive such notification upon renewal.

4.10 In summary, the revised disclosure requirements for the PPF Scheme members are:

Policies covered under the PPF Life Fund	Policies covered under the PPF General Fund
a) To state in the policy contract and product summary whether the policy in question is covered by the	a) To state in the policy contract and product summary whether the policy in question is covered by the

<p>PPF Life Fund. The disclosure statement will be standardised across the industry.</p> <p>b) To prepare an information sheet stating the scope and level of coverage of the PPF Life Fund to be provided to the policy owners together with the policy document.</p> <p>c) To send existing policy owners the information sheet.</p>	<p>PPF General Fund. The disclosure statement will be standardised across the industry.</p> <p>b) Upon the renewal of the policy, to send a letter to policy owners of protected lines of business to inform them of the scope and level of coverage of the PPF General Fund, including informing them that their policy is covered. The disclosure statement will be standardised across the industry.</p>
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Register of Insured Policies

4.11 In the draft Deposit Insurance and Policy Owners’ Protection Schemes (Policy Owners’ Protection Scheme) Regulations, each PPF Scheme member is required to maintain a register of its products which are insured policies (“Register”). In addition, every PPF Scheme member shall, within 10 days from 1 April each year, submit to SDIC a copy of the Register updated to 1 April of that year and shall notify SDIC of any change to the Register within 10 days of such change. The PPF Scheme member shall also, upon reasonable request, make available to any person a copy of the Register for inspection, at every place of business of the PPF Scheme member where insured policies are offered.

4.12 Some respondents sought clarification on the information to be reflected on the register, i.e. whether it is a register of products or a register of individual policy by policy details. One respondent asked whether the “10 days” refer to 10 working days. Another respondent felt that it was not feasible to have the Register available upon request by all members of the general public.

MAS’ Response

4.13 The Register is a listing of the products that are covered under the PPF Scheme, and not a listing of policy details. As such, we are of the view that it will be useful for the public to have access to the Register to check whether their policies are insured. The “10 days” refers to “10 calendar days”.

Transitional Period for Disclosure Requirement

4.14 One respondent proposed a transition period of at least twelve months to ease the administration and costs.

MAS' Response

4.15 The necessary disclosure materials should be ready by 1 January 2012.

5 Refund of PPF Levies

5.1 One respondent asked whether the PPF levies would be refunded (in full or in part) in the event an insurer ceases to carry on insurance business in Singapore.

MAS' Response

5.2 PPF levies paid are non-refundable.

6 Tax Deductibility of PPF Levies

6.1 One respondent asked whether the PPF levies are tax deductible.

MAS' Response

6.2 PPF levies paid can qualify for the income tax deduction under the deduction principles stated in the Income Tax Act.

MONETARY AUTHORITY OF SINGAPORE
21 JULY 2011

RESPONDENTS TO THE THIRD CONSULTATION ON PPF

- (1) Life Insurance Association³
- (2) General Insurance Association
- (3) ACE Insurance
- (4) AXA Insurance Singapore
- (5) Liberty International Underwriters
- (6) Liberty Insurance
- (7) MSIG Insurance (Insurance)
- (8) Sompo Japan Insurance (Singapore)
- (9) Tenet Insurance
- (10) Mr Jeff Choa
- (11) One respondent requested to be shared on no name basis

³ The Life Insurance Association submitted comments on behalf of 8 insurers, namely, AIA, AXA Life, Great Eastern & OAC, HSBC Insurance, Manulife, NTUC Income, Prudential and Transamerica.