RESPONSE TO FEEDBACK RECEIVED – PUBLIC CONSULTATION ON THE PROPOSED REVISIONS TO THE REGULATORY FRAMEWORK FOR TRADE CREDIT INSURANCE, POLITICAL RISK INSURANCE AND MORTGAGE INSURANCE

1 Introduction

1.1 In July 2010, the Monetary Authority of Singapore ("MAS") issued a consultation paper inviting interested parties to comment on the proposed revisions to the regulatory framework for Trade Credit Insurance ("TCI"), Political Risk Insurance ("PRI") and Mortgage Insurance ("MI") businesses.

1.2 The consultation period closed on 23 August 2010. 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 considered the feedback received, conducted further review and incorporated the relevant feedback. Comments that are of general interest, together with MAS' responses, are set out below.

2 Trade Credit Insurance ("TCI")

Requirements on Contingency Reserves

2.1 One respondent commented that the Contribution Rules appear stringent when compared to those in other jurisdictions. Another respondent queried the need for TCI insurers to maintain contingency reserves, given that such insurers have likely made sufficient buffers for the surge in claims during cyclical downturns in the course of their actuarial valuation of insurance policy liabilities. Another respondent commented that the volatility categories for the purpose of calculating the insurance risk requirements (C1 requirements) for TCI business should be lowered as insurers were already required to maintain contingency reserves in addition to the usual insurance policy liabilities.

MAS’ Response

2.2 MAS recognises that insurers who write TCI business may have made provisions for a surge in claims during cyclical downturns in the course of their actuarial valuation process. As a result, such provisions have been permitted to count towards meeting the statutory contingency reserve requirement, provided that the amount of such provisions is established over and on top of case reserves and reserves for Incurred But Not Reported (IBNR) claims[1].

2.3 MAS also recognises that contingency reserves serve the same purpose as capital resources to a certain extent. As such, contingency reserves have been permitted to be recognized as capital to a limited extent for compliance with statutory capital requirements. More specifically, the current capital rules allow up to 50% of the insurance risk (C1) requirements in respect of a particular insurance fund to be met using no more than 50% of the contingency reserves pertaining to that fund for TCI business.

2.4 Given the greater volatility in loss experience expected of the relatively smaller portfolios of TCI insurers here when compared to the more established markets, there is a need for an accelerated building up of reserves for relatively newer and growing insurers in Singapore. Nonetheless, MAS has taken into consideration the industry feedback that the Contribution Rules appear more stringent than other jurisdictions for the more established insurers. A two-tier approach to the Contribution Rules will be adopted to cater to both growing and established insurers.

2.5 Under this approach, insurers would contribute the higher of 12% of Net Premium Written (“NPW”) or 50% of underwriting profit when the total contingency reserves is less than 50% of the highest NPW in each of the preceding 5 years. However, when the contingency reserves exceed 50% of the highest NPW in each of the preceding 5 years, insurers would contribute the lower of 12% of NPW or 50% of underwriting profit. This would allow for an accelerated building up of contingency reserves for new and growing insurers, but would adjust for a slower build up when the insurers are more established. Please refer to the table below.

[1] However, where the amount of such provisions is below that stipulated by the statutory requirement, the insurer is required to top up with additional contingency reserves to make up the difference between the two items.

Two-tier Approach	Contribution Rules
Tier 1 Where Contingency Reserves < Interim Threshold Amount (i.e. 50% of highest NPW in each of the preceding 5 years)	**HIGHER** of: (i) 12% of NPW or (ii) 50% of Underwriting Profits
Tier 2 Provided that Contingency Reserves ≥ Interim Threshold Amount (i.e. 50% of highest NPW in each of the preceding 5 years)	**LOWER** of: (i) 12% of NPW or (ii) 50% of Underwriting Profits

Applicability to Captive Insurers

2.6 Clarification was also sought from a respondent on whether captive insurers writing TCI business will be subject to the requirement to maintain contingency reserves.

MAS' Response

2.7 It is advisable for a captive insurer assuring TCI business to set aside adequate reserves, including contingency reserves. However, taking into consideration that captives write mainly in-house risks of its parent corporation, MAS will exempt captive insurers writing TCI business from the requirement to maintain contingency reserves if these relate to in-house risks.

3 Political Risk Insurance ("PRI")

Forms of PRI business

3.1 One respondent sought clarification on whether the definition of Political Risk referred to in Para 2.2.2 of the consultation paper includes terrorism risk.

MAS' Response

3.2 MAS would like to clarify that the definition of Political Risk referred to in Para 2.2.2 of the consultation paper includes terrorism risk.

Volatility Category for PRI business

3.3 One respondent commented that the volatility category for PRI business should be determined by the domicile of the PRI risk instead of by whether the PRI policy is classified in the Singapore Insurance Fund (“SIF”) or the Offshore Insurance Fund (“OIF”). Another sought clarification on whether a policy covering an insured in Singapore for a PRI risk that is located overseas should be classified as an SIF or OIF risk.

MAS’ Response

3.4 It is MAS’ policy intent for the domicile of the PRI risk to determine the volatility category (and hence the insurance risk requirements) that should be applied to that risk. This should be differentiated from whether the risk is classified in the SIF or OIF for statutory reporting to MAS. For the purpose of classifying into SIF or OIF for statutory reporting, insurers should still refer to Section 2(1)(b) of the First Schedule of the Insurance Act (Cap 142).

3.5 The following table illustrates how a PRI policy is to be treated for the purposes of classification for statutory reporting and volatility categorization (risk-charging).

Residence or permanent establishment of Insured	**Domicile of the PRI Risk**	**Classification for Statutory Reporting**	**Volatility Category for Risk-Charging**
Singapore	Singapore	SIF	Low
Outside Singapore	Singapore	SIF	Low
Singapore	Outside Singapore	SIF	High
Outside Singapore	Outside Singapore	OIF	High

MAS will make amendments to the relevant insurance legislation to accord clarity to the policy intent discussed above.

Bundled Policies

3.6 A respondent feedback that certain short-term TCI policies still offer some form of political risk cover as a bundled package. The respondent explained that since coverage for commercial risks form the larger part of such policies, these policies should still be allowed to be classified as TCI business for statutory purposes instead of breaking up the two into separate classifications.

MAS' Response

3.7 For short-term TCI policies that offer some form of political risk cover as a bundled package, and for which political risk cover is only a small element of the overall cover, such policies can be classified as TCI business for statutory purposes. This is consistent with the Insurance (Accounts & Statements) Regulations, which state that "For the purpose of risk classification, where separate figures for each class of business are not available, as in a combined policy covering several classes of risk, the premiums may be shown under the predominant class of risk."

4 Mortgage Insurance ("MI")

Definition of Short-tailed Liabilities

4.1 A respondent sought clarification on the definition for short-tailed liabilities in relation to mortgage reinsurance inwards business.

MAS' Response

4.2 Short tailed liabilities for reinsurance inward business could arise from reinsurance provided that does not cover the whole term of the loan as per direct insurance contracts. The cover could be provided to protect the insurer against losses on a portfolio basis for only a limited period of time (for example, one or two years).

Annex 1

RESPONDENTS TO THE CONSULTATION PAPER

(1) Ace Insurance Limited
(2) Asia Capital Reinsurance Group Pte Ltd
(3) Coface, Singapore Branch
(4) ECICS Ltd
(5) Euler Hermes Credit Insurance Agency (S) Pte Ltd
(6) JLT Insurance Management (Singapore) Pte Ltd
(7) QBE Insurance (International) Limited