

**RESPONSE TO FEEDBACK RECEIVED –
CONSULTATION PAPER ON PROPOSED REVISION TO THE DEFINITION
OF “SINGAPORE POLICY” AND “TRADE CREDIT INSURER”**

1 Introduction

1.1 On 19 September 2012, MAS issued a public consultation paper (“the CP”) on proposed revision to the definition of “Singapore policy” and “trade credit insurer”. A total of 17 respondents have submitted their feedback. The respondents are listed in the Annex. MAS would like to thank all respondents for their comments.

1.2 MAS has carefully considered the feedback received. Comments that are of wider interest, together with MAS’ responses, are set out below.

2 Treaty Life Reinsurance and Treaty Accident & Health Reinsurance

Threshold used in the definition of “Singapore policy”

2.1 Under the proposed definition, a treaty life reinsurance contract or treaty accident & health (“A&H”) reinsurance contract will be a “Singapore policy” if more than 25% of the policies under which the risk or risks reinsured ultimately arises in terms of gross premiums are “Singapore policies”. One respondent enquired about the rationale for using 25% as the threshold, and the frequency which the reinsurer has to reassess its treaty contract to determine whether there is any change to the policy classification of that contract.

MAS’ Response

2.2 The threshold of 25% was chosen so as to be consistent with the existing definition of “Singapore policy” for treaty general reinsurance. At the commencement of the treaty contract, the reinsurer will have to estimate the

percentage of underlying “Singapore policies”, in terms of gross premiums, relating to that treaty contract, and classify the treaty contract accordingly. MAS believes that the threshold of 25% is high enough for the reinsurer to determine the appropriate policy classification at the commencement of the treaty contract. However, in the event that the reinsurer becomes reasonably aware of a change in the policy classification of the treaty contract, it should reclassify it immediately.

3 Facultative General Reinsurance

Counter-proposal to classify the facultative general reinsurance policy based on location of cedant

3.1 One respondent commented that the cedant manages its own insurance portfolio and decides its own extent of outward reinsurance. Therefore, from this perspective, the respondent felt that the focus should be on the cedant rather than on the underlying risk. The respondent had counter-proposed to classify a facultative general reinsurance policy according to the cedant’s residency.

MAS’ Response

3.2 MAS does not agree that the classification of a facultative general reinsurance policy should be based on the cedant’s residency. For risk profiling purposes, MAS is of the view that the location of the risk, rather than the location where the risk is being managed, is a better proxy to use for the classification.

Cases where the facultative general reinsurance policy covers less risk than its underlying direct general insurance policy

3.3 One respondent indicated that there are instances where the risks covered by an underlying direct general insurance policy and its corresponding facultative general reinsurance policy do not match exactly (for example, where

the cedant only reinsure part of the underlying risks). Thus, the facultative general reinsurance policy may cover less risk than the underlying direct general insurance policy. In these cases, it is not necessarily correct for the reinsurance policy to follow the classification of the direct insurance policy.

MAS' Response

3.4 MAS agrees with the respondent's comments. The illustration set out in paragraph 2.2 of the CP is based on the scenario where the facultative general reinsurance policy covers the same risks as the underlying direct general insurance policy. Under the proposed definition set out in the Annex of the CP, however, in the event where the cedant only reinsures part of the underlying risk, the facultative general reinsurance policy will be a "Singapore policy" if –

- (a) the reinsured risk arises in Singapore;
- (b) in the case where the person insured by the underlying direct general insurance policy is an individual, that person is ordinarily resident in Singapore; or
- (c) in the case where the person insured by the underlying direct general insurance policy is not an individual, that person is a person resident in Singapore or has a permanent establishment in Singapore.

4 Direct Life Policy and Direct A&H Policy

Application to group policies

4.1 Several respondents sought clarification on whether a group life or group A&H policy with at least one insured who is ordinarily resident in Singapore, should be classified as a "Singapore policy".

MAS' Response

4.2 A group life or group A&H policy with at least one insured who is ordinarily resident in Singapore would be classified as a "Singapore policy". Such classification would be consistent with the existing classification for a group general insurance policy.

5 Implementation of Proposed Definition of "Singapore Policy"

Prospective application of proposed definition of "Singapore policy"

5.1 Some respondents requested for clarification on whether the change in definition of "Singapore policy" will be applied prospectively or retrospectively, and whether existing policies have to be reclassified into a different insurance fund based on the new definition.

MAS' Response

5.2 The change in the definition of "Singapore policy" will be applied prospectively. For policies relating to new business, if the earlier of "the date of policy commencement" and "the date that the insurer becomes a party to the policy contract" is on or after the effective date of change in definition, the new definition shall apply. For policies relating to renewal business, if the date of policy commencement is on or after the effective date of change in definition, the new definition shall apply.

Effective date of proposed definition of "Singapore policy"

5.3 One respondent informed that its current system is unable to cater to the revised definition of "Singapore policy" and requested MAS not to revise the definition.

MAS' Response

5.4 MAS understands that some insurers will have to make changes to their systems to cater to the revised definition of "Singapore policy". In order to give insurers sufficient time to change their systems, MAS will only implement the proposed definition of "Singapore policy" with effect from 1 January 2014.

6 Trade Credit Insurer and Trade Credit Insurance Policies

Revised definition for "trade credit insurance policy"

6.1 One respondent commented that the proposed definition does not adequately represent the underlying obligations to corporates and banks that are insured under credit insurance policies.

6.2 Two other respondents are concerned that certain risks covered by traditional credit insurance might not be categorised as goods and services and suggested to broaden the definition to include all debt obligations.

MAS' Responses

6.3 MAS recognises the insurers' concerns. However, MAS is of the view that the proposed wording to include all debt obligations is too broad, and will capture other forms of products not within our policy intent (including but not limited to mortgage¹ and financial guarantee insurance²). These products are captured in

¹ Mortgage insurance policy means a policy that protects against losses on mortgage loans arising from default by borrowers.

² Financial guarantee insurance policy means a policy that guarantees to the beneficiary of the policy the performance of a financial obligation in accordance with the terms of the obligation, including the right to receive scheduled payments in a trust certificate or other equity security but excludes letters of credit issued by licensed banks, performance bonds, fidelity bonds and such other similar contracts of guarantee as MAS may determine.

the Insurance (Valuation and Capital) Regulations 2004 and Insurance (Financial Guarantee Insurance) Regulations respectively. Concerned parties might want to reassess the product classification if the risk involved is non-trade related.

6.4 In order to improve the clarity and to accurately reflect MAS' policy intent of capturing only trade specific credit risk, the definition is revised as follows:

“Trade credit insurance policy” means a policy that protects against the risks of loss of the insured, arising from the non-payment of goods and services, arising from the insolvency or from default (otherwise than through insolvency) of the insured's debtor.

MONETARY AUTHORITY OF SINGAPORE

29 JANUARY 2013

**RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED
REVISION TO THE DEFINITION OF “SINGAPORE POLICY” AND “TRADE
CREDIT INSURER”**

1. ACE Insurance Ltd
2. AIA Singapore Pte Ltd
3. Aviva Ltd
4. Charles Monat Associates Pte Ltd
5. Coface, Singapore Branch
6. Euler Hermes Deutschland Aktiengesellschaft, Singapore Branch
7. Federal Insurance Company, Singapore Branch
8. Institute of Certified Public Accountants of Singapore
9. JLT Specialty Pte Ltd
10. Lloyd's of London (Asia) Pte Ltd
11. Manulife (Singapore) Pte Ltd
12. Prudential Assurance Co. Singapore (Pte) Ltd
13. Royal & Sun Alliance Insurance Plc, Singapore Branch
14. The Great Eastern Life Assurance Company Ltd
15. The Overseas Assurance Corporation Ltd
16. Zurich Life Insurance (Singapore) Pte Ltd

One other respondent requested confidentiality.