



RESPONSE TO FEEDBACK RECEIVED – CONSULTATION PAPER ON SETTLEMENT OPTIONS IN LIFE POLICIES

1 Introduction

1.1 On 29 June 2012, the Monetary Authority of Singapore (“MAS”) issued a public consultation on settlement options in life policies. A total of 5 respondents have submitted their feedback. The respondents are listed in the Annex. The 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 Coverage of settlement option monies under the Policy Owners' Protection Scheme ("PPF")

2.1 One respondent commented there should be consistent treatment between coupon deposits, advance premium payments and settlement option monies, as they result from conscious decision by policyholders to leave the monies with the insurers. It added that priority ranking would not be an issue if settlement option monies were covered by the PPF Scheme. The respondent also commented that under the current risk-based capital framework, insurers need to ensure minimum fund and capital solvency ratio, and that in calculating the available financial resources, the asset would be net-off all other non-policy liabilities and therefore, there is an indirect "ring-fencing" of assets to meet other non-policy liabilities.

MAS' Response

2.2 Settlement option monies are unlike coupon deposits and advance premium payments as the former are monies left with the insurers after the insurance coverage has ended. As stated in the consultation paper, the PPF Scheme does not cover policies where the insurance obligations of the insurer have ended and the policy owner or beneficiary has made an active decision to exercise the settlement option and leave it with the insurer. In the event of liquidation of an insurer, these monies will be ranked after policy liabilities and equally with the unsecured liabilities of the insurer. As such, MAS will not change its stance on disallowing insurers to offer settlement options for new business.

3 Disallowing Insurers from Offering Settlement Options in their New Business

3.1 The consultation paper proposed to disallow insurers from offering settlement options in their new business. The settlement options in the consultation paper referred to options that allow the policy owner or beneficiary, upon the surrender, maturity or valid claim under the policy, to elect to leave the insurance proceeds with the insurer to accrue interest or to convert the otherwise lump sum payment to instalment payments

over a fixed period of time. In this response paper, the term ‘settlement options’ refers solely to such options.

3.2 A comment was made that disallowing payout structures in instalments may not be beneficial as some policy owners/ beneficiaries may have the need to have the insurance payout in instalments.

MAS’ Response

3.3 A payout structure in instalments will be allowed as long as it is determined at the onset of the contract, that such payout upon its final payment extinguishes all insurance obligations under the policy, and the payout tenure is capped at a maximum of 10 years. For example, a product with a benefit payout structure (upon occurrence of the insured event) of x% of the sum assured every year over a 10 year period will be allowed.

3.4 For avoidance of doubt, payouts under benefits such as ‘Extended Permanent and Total Disability’ will continue to be allowed, and are not subject to any capping on the payout tenure, as they remain contingent on the insured event.

3.5 There is a difference between a product feature where the structure of the benefit payouts is determined at the onset, and settlement options. For the latter, in exercising the settlement options, the policy owners/ beneficiaries change the default mode of lump sum payment. They choose to leave the lump sum amount with the insurance company, and receive interest on this deferred benefit payout.

3.6 Existing products with settlement options will be grandfathered. As stated in the consultation paper, insurers should ensure that there would not be any cross subsidy between the settlement option monies and funds that belong to other participating policies.

3.7 MAS will introduce legislation to reflect the above policy positions.

4 Disclosure requirements

4.1 One respondent commented some policy owners will receive disclosure statements on settlement options and the PPF Scheme¹. It proposed for the industry to adopt a standardised disclosure and that this be carried out as an industry-wide exercise.

MAS' Response

4.2 MAS agrees with the comment that the disclosure should be standardised across the industry. In this regard, MAS will engage the Life Insurance Association of Singapore to work on the standardised disclosure.

5 Implementation Timeline

5.1 The above changes and other proposals stated in the consultation paper should be implemented by 1 October 2013. A summary of the requirements is as follows:

- a) To cease offer of settlement options for new business;
- b) Existing insurance policies with settlement options will be grandfathered regardless whether such options have been exercised;
- c) There should be no cross subsidy between the settlement options' monies and funds that belong to other participating policies;
- d) To inform policy owners/ beneficiaries (upon request for new take-ups and for existing take-ups²)
 - i. that settlement option monies:
 1. are not covered under the PPF Scheme;
 2. rank after policy liabilities and equally with the unsecured liabilities of the insurer in the event of insolvency of the insurer; and

¹ PPF Scheme members are required to include a standardised disclosure statement in their policy documents.

² For existing take-ups, an insurer should disclose the information no later than the date of sending of the policy statements after 1 October 2013.

- ii. of the interest rate on settlement option monies and state whether such interest rate is guaranteed or non-guaranteed, and the amount of settlement option monies together with any interest accrued, due to the policy owners/ beneficiaries. Such disclosure is to be made upon exercise of settlement option and thereafter, at least once annually.

MONETARY AUTHORITY OF SINGAPORE
25 JULY 2013

ANNEX

List of Respondents to the Consultation Paper on Settlement Options in Life Policies

1. Life Insurance Association
2. Swiss Life (Singapore) Pte Ltd
3. Aviva Ltd
4. Baker & McKenzie. Wong & Leow
5. Mr Martin Lee (member of the public)