

SINGAPORE REINSURANCE MARKET CONTRACT CERTAINTY PROJECT MARKET BRIEFING - OCTOBER 2019

OVERVIEW

The Contract Certainty Working Group (CCWG) is pleased to publish this market report on the status of Contract Certainty in the Singapore Reinsurance Market.

Back in 2011, the MAS encouraged the industry to work towards a market led solution to strengthen the levels of contract certainty in reinsurance contracts. Five industry bodies, namely the General Insurance Association, the Reinsurance Brokers' Association of Singapore, the Singapore Reinsurers' Association, the Life Insurance Association and Lloyd's Asia came together to form the Contract Certainty Working Group and work towards achieving the objective. This group is an advisory body made up of volunteers, established to guide the market associations and Lloyd's Asia in enabling the Singapore reinsurance market to find its own solution to achieving contract certainty. Importantly, this will also help reinsurance buyers to comply better with MAS' existing risk management guidelines.

This briefing aims to give an update on the progress made by the market and the status as at 30th June 2019. The contract certainty project included within its scope, all reinsurances bought, written, and intermediated in Singapore by entities that are regulated by the MAS. The original target for the market was to ensure that 85% of all reinsurance contracts met the contract certainty criteria by December 2014. This was termed as the "Market Aggregate percentage". Given the variations in the monthly Market Aggregate percentages due to the wide variations in the number of reinsurance contracts placed and renewed in different months, the CCWG has been monitoring the moving averages over a twelve-month period, which gives a more consistent measure of the market's performance. Whilst the market did not achieve the 85% target by December 2014, the consistent efforts and hard work of all the entities in the industry and the regular training and education facilitated by the CCWG resulted in the Market Aggregate reaching 85% for the first time in June 2018. The CCWG is pleased to report that the market aggregate has held steady at this level since then.

PROGRESS UPDATE

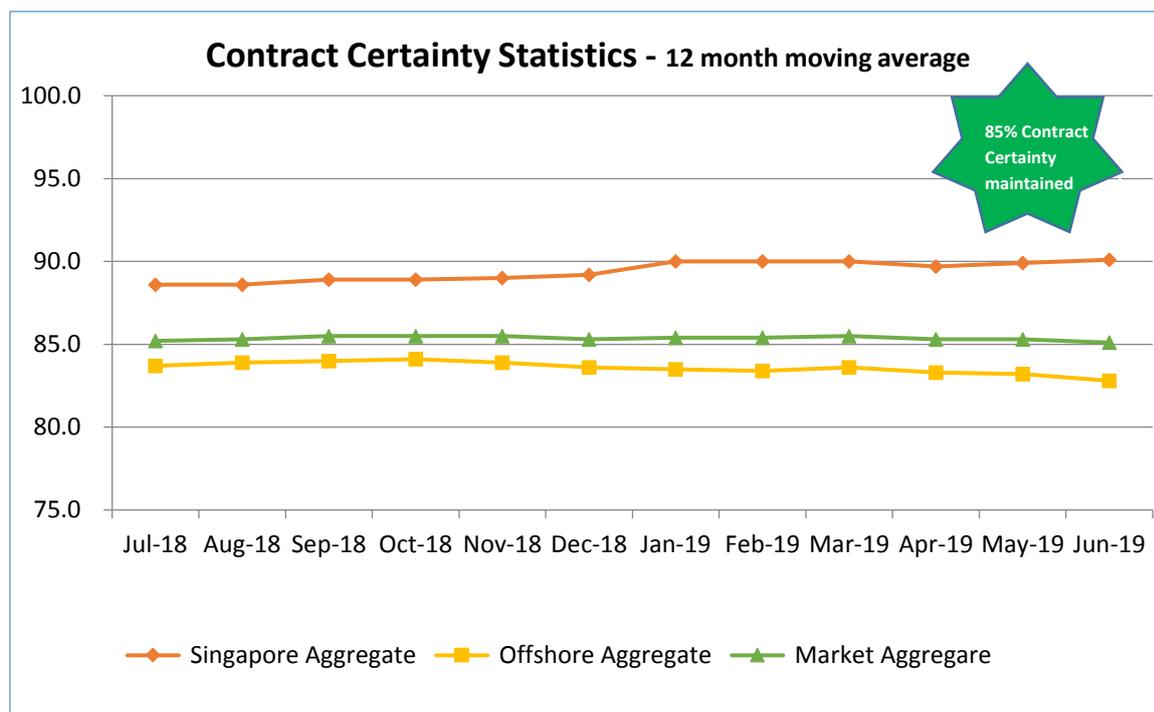
CONTRACT CERTAINTY ACHIEVEMENT RATE – Market Aggregate



Singapore reinsureds are obliged under the MAS Guidelines on Risk Management Practices for Insurance Business to achieve contract certainty of their reinsurance programmes. The performance of the contracts of Singapore based reinsureds has been consistently well above 85% certainty levels, even crossing 90% in many months. Expectation from this market segment would naturally be higher than from the offshore segment. The reinsurance contracts purchased by the Singapore reinsureds are expected to continue demonstrating healthy levels of contract certainty in the future.

As far as the contracts of the offshore reinsureds are concerned, some challenges remain. The main issues experienced are the lack of consistency and completeness of the contract documents. This could be the result of a lack of clearly articulated standards on contract certainty within the regulatory framework in the countries within this region.

In summary, both the onshore and offshore contracts have been improving steadily from the time the market launched contract certainty initiatives, but appears to have plateaued over the past year or so.



CONTRACT CERTAINTY REPORTING RATE

Approximately 95% of the market regularly report on their contract certainty performance on a monthly basis

Market reporting is now consistently at around 95%. The CCWG believe this percentage could be higher if the market constituents improve processes around succession planning, specifically handing over the responsibility for reporting when there is a change in personnel.

PERFORMANCE ISSUES AND CONCERNS

The two main causes of contract certainty failure continue to be lack of reference to an underlying policy (for facultative placements) and failure to fully clause subjectivities.

Some generic measures that can be taken to improve contract certainty performance would be to promote a stronger risk culture; increase senior management focus; and provide regular and enhanced training to underwriters and brokers.

Generally the treaty market with its slip wordings and longer lead period to inception enables risks to be more contract certain than the facultative risks. There is also a concern over the consistency of the

reporting of facultative contracts. The efforts to improve consistency in this area of the business could lead to some of the market constituents who might have been adopting lenient standards of interpretation of contract certainty tightening their standards – which in turn could lead to a deterioration in contract certainty performance in the short term.

The CCWG would like to urge the industry to continue to work on improving the levels of contract certainty of its reinsurance contracts. The fact that the numbers appear to have hit a plateau indicates that any complacency would drive the industry's performance to levels below acceptable standards.

CONTRACT CERTAINTY INITIATIVES

The CCWG has been continuing its initiatives to ensure contract certainty gets greater focus of the industry and to help the practitioners to get a clearer understanding of the principles and concepts. During the initial years, monthly workshops were organised by the Singapore College of Insurance. Starting from 2018, the College has been conducting a full day training programme, which is organised three times a year. The contract certainty portal has useful information including checklists, Q&A, and an infographic "How to make your contract certain". Industry practitioners are encouraged to sign up for the training programme as well as to access the portal and benefit by reading the contents.

Next, the CCWG is planning to produce an e-learning module on contract certainty to make it easier for the industry to access the training material developed so far

The Monetary Authority of Singapore strongly encourages insurers to adopt the industry definition, guidance and best market practices and standards, in the area of contract certainty. In this context, the industry should continue to carry out the following tasks:

1. Monthly reporting by each market participant via the Contract Certainty portal (all in-scope companies)
2. Compiling the contract certainty performance reports and monitoring the statistics (done by CCWG)
3. Providing training to relevant employees in the industry. (facilitated by CCWG)

The CCWG would like to place on record its deep appreciation of the valuable contributions of all members of the Group who have volunteered to work towards the success of this important initiative.

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