

SINGAPORE REINSURANCE MARKET CONTRACT CERTAINTY PROJECT MARKET BRIEFING SEPTEMBER 2018

OVERVIEW

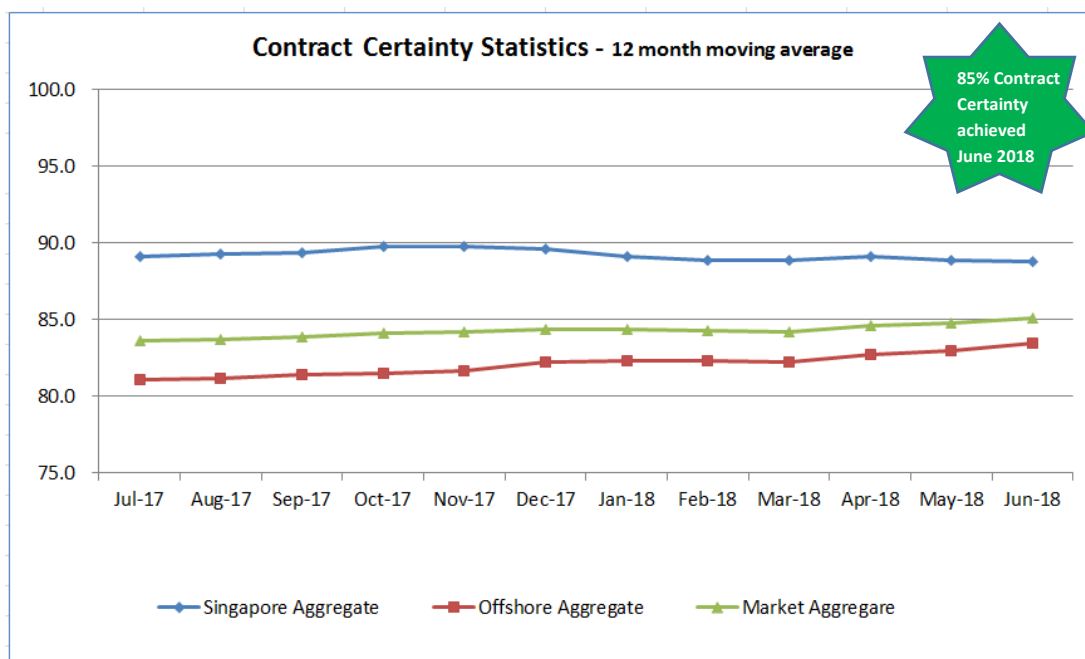
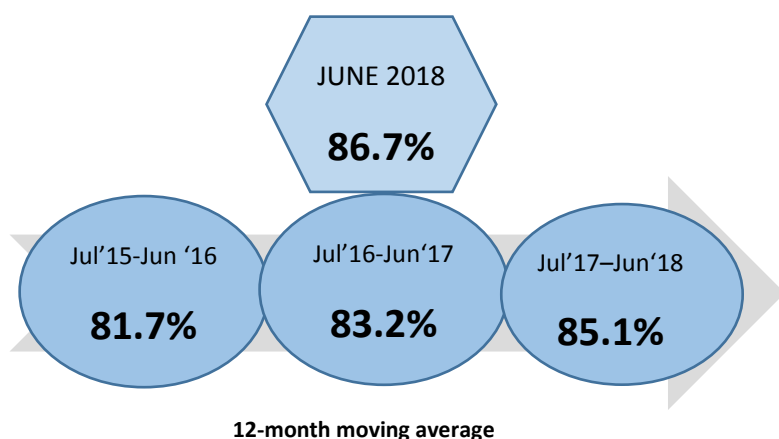
The Singapore Reinsurance Market Contract Certainty Project’s mission is to enable the Singapore reinsurance community to achieve contract certainty.

This briefing aims to give an update on the progress of the market toward achieving this goal. The original Market Aggregate target was to ensure 85% of the contracts met the contract certainty criteria by December 2014. Whilst the market did not achieve that target, the monthly Market Aggregate did reach 85% for the first time towards the end of 2015, and has hit this level several times since. However, the market has not been able to maintain the 85% performance consistently across all months, especially during months when the contract volumes are high, e.g. the treaty renewal months like January, April and July.

As mentioned in the previous market briefing in July 2016, given the variations in the monthly Market Aggregate percentages, we are monitoring the moving averages over a twelve month period, which gives a more consistent measure of the market’s performance.

PROGRESS UPDATE

CONTRACT CERTAINTY ACHIEVEMENT RATE – Market Aggregate



CONTRACT CERTAINTY PERFORMANCE

The Market Aggregate has reached 85% Contract Certainty level on a monthly basis for several months over the past two years, with the exception of the months when contract renewal activity peaks. The Contract Certainty Working Group (CCWG) is pleased to report that the 12-month moving average has reached 85% for the first time in June 2018, having shown consistent progress and trending steadily towards this target over the past three years.

Singapore reinsureds are obliged under the MAS Guidelines on Risk Management Practices for Insurance Business to achieve contract certainty of their reinsurance programmes. The Singapore Aggregate 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.

The offshore placements, whilst improving, remains challenging and has some way to go. 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 continue to demonstrate improvement. There is a good deal of optimism that the 12-month moving average for the market aggregate will continue to maintain its steady improvement in the future.

Market reporting is now consistently at 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.

Other 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.

As reported in the last market briefing, generally the treaty market with its slip wordings and longer lead period to inception enables risks to be contract certain, but there is still 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.

CONTRACT CERTAINTY INITIATIVES

The CCWG has been undertaking a number of initiatives over the years 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 of contract certainty, these include:

- Monthly workshops organised by Singapore College of Insurance, in the initial years.
- Full day training programme to be organised by Singapore College of Insurance at regular intervals – starting 2nd half of 2018.
- More information on the contract certainty portal, including checklists, Q&A and an infographic, which has been sponsored by RBAS on “*How to make your contract certain*”;

- Dialogue with Institute of Singapore Chartered Accountants, to assist the auditors of insurers, reinsurers and intermediaries to effectively assess the application of contract certainty principles, as part of the statutory audit.

The Monetary Authority of Singapore have articulated their expectation that insurers are encouraged to adopt the industry definition, guidance and best market practices and standards, in the areas 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
2. Compiling the contract certainty performance reports and monitoring the statistics
3. Providing training to relevant employees in the industry.

Finally, the CCWG would like to place on record its deep appreciation of the valuable contributions of the founding members of the Group Mr Nick Garrity and Mr Nick Cochrane, due to whose efforts the contract certainty initiative has progressed this far. Mr Cochrane has now stepped down from the Group while Mr Garrity continues to assist the Group as an Adviser. The CCWG also cordially welcomes new members Mr Syn Siew Ho, Mr Joseph Smart and Ms Kate Chen who have joined the Group recently and have volunteered to contribute towards the contract certainty initiative.

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