

SINGAPORE REINSURANCE MARKET CONTRACT CERTAINTY PROJECT MARKET BRIEFING - December 2023

OVERVIEW

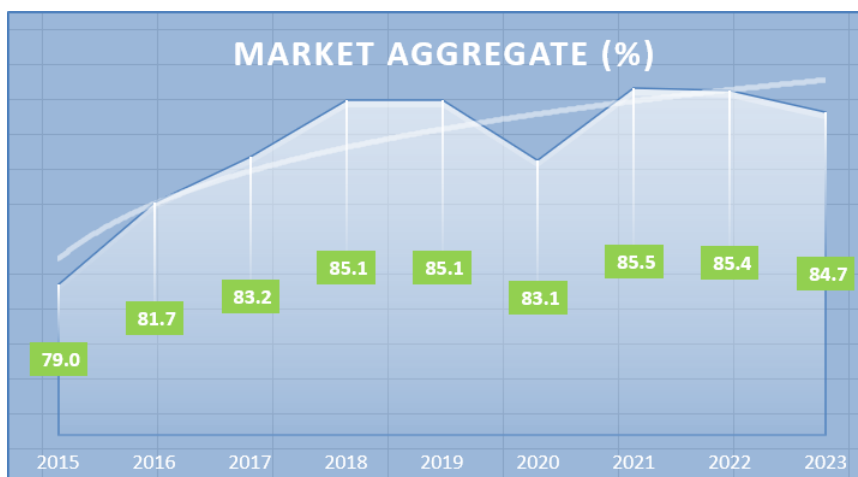
The Contract Certainty Working Group (CCWG) is pleased to publish this market report on the status of Contract Certainty in the Singapore Reinsurance Market.

With the encouragement and support from the Monetary Authority of Singapore (MAS), five industry bodies in Singapore, namely the General Insurance Association, the Life Insurance Association, the Singapore Reinsurers' Association, Lloyd's Asia and the Reinsurance Brokers' Association of Singapore came together to form the Contract Certainty Working Group (CCWG) in 2011. The objective of this Group was to strengthen the levels of contract certainty in reinsurance contracts and to help reinsurance buyers to comply better with MAS' existing risk management guidelines.

This briefing provides an update on the status of contract certainty in the market as at 31st July 2023. The contract certainty project includes within its scope, all reinsurances bought, written, and intermediated in Singapore by entities that are regulated by the MAS. The percentage of both the Singapore and Offshore contracts meeting this condition is measured by the "Market Aggregate percentage". The aspiration target for the Market Aggregate percentage is for at least 85% of all reinsurance contracts to meet the contract certainty criteria laid out by CCWG. Given the wide variations in the number of reinsurance contracts placed and renewed in different months, the CCWG monitors the moving averages of Market Aggregate percentages over a twelve-month period, which gives a more consistent measure of the market's performance. The CCWG is pleased to report that due to the consistent efforts and hard work of all the entities in the industry and the regular training and education facilitated by the CCWG, the market aggregate has held steady at levels close to 85% since June 2018, barring a slight dip in performance during the early months of the Covid-19 pandemic, due to the abrupt changes in the working practices forced on the market due to the pandemic.

PROGRESS UPDATE

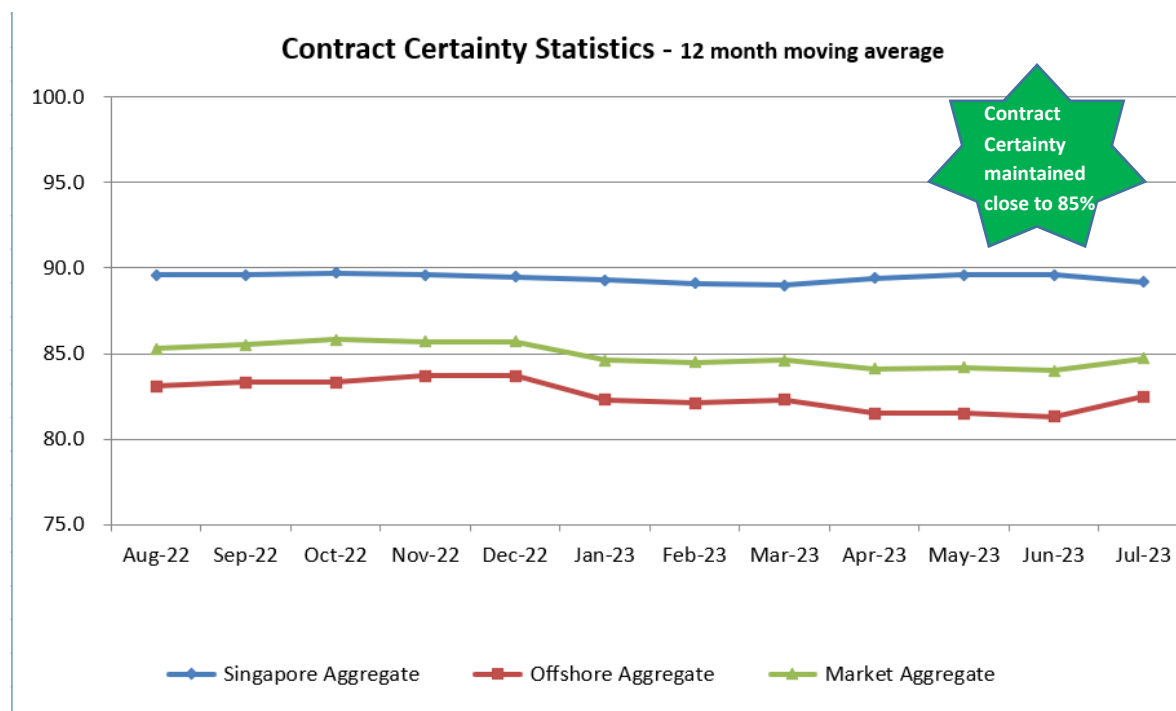
CONTRACT CERTAINTY ACHIEVEMENT RATE – Market Aggregate since 2015



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 (the blue line in the chart below) has consistently been 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 (the red line in the chart below) are concerned, the challenges have been 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. However, the performance in this segment too, has been showing a slow but steady improvement over the past few years.



CONTRACT CERTAINTY REPORTING RATE

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

The CCWG believe this percentage could be higher if the market constituents improve processes around succession planning, specifically with regard to handing over of reporting responsibilities when there is a change in personnel.

PERFORMANCE ISSUES AND CONCERNS

The main causes of contract certainty failure continue to be lack of reference to an underlying policy (for facultative placements); failure to fully clause subjectivities and delay in completing the signed documentation by the parties to the contract.

Based on the guidelines issued by CCWG, “contract certainty” is measured using two yardsticks viz. (a) the complete and final agreement of all terms and signed lines between the reinsured and the reinsurer by the time they enter the contract; and (b) contract documentation being provided to all parties within 30 days of the reinsurer’s risk inception or the reinsured’s order to bind whichever is later. The Market Aggregate percentages referred to earlier in the report represent contracts which achieved both yardsticks.

The CCWG is pleased to report that going by the first yardstick of measurement, the Market Aggregate percentages are much higher, as shown in the table below. This indicates that the basic underlying processes regarding placing and binding of reinsurance contracts are reasonably sound and healthy. If the parties can demonstrate that full and final agreement of all terms was achieved at the time of binding cover, disputes can be minimised. The completion of formal documentation further strengthens contract certainty. The industry needs to work on improving the timeliness of this process, as shown by the gap between the two sets of numbers.

Performance @ July 2023	Singapore Aggregate	Offshore Aggregate	Market Aggregate
Yardstick 1 (contract certainty) achieved	97.4%	91.5%	93.5%
Yardstick 1 achieved and documentation completed in time	89.2%	82.5%	84.7%

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 CCWG would like to urge the industry to continue to work on improving the levels of contract certainty of its reinsurance contracts by way of training and awareness, and clearly defined standards. Regular monitoring of contract certainty levels by senior management and taking steps to correct any weaknesses should be an integral part of the risk management process of each reporting entity. The fact that the market aggregate numbers appear to have hit a plateau over the past few years 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 develop a clearer understanding of the principles and concepts. During the initial years, monthly workshops were organised by the Singapore College of Insurance. Later, the CCWG assisted the College in conducting a full day training programme which used to be organised a few times a year, based on demand from the industry.

The contract certainty portal also provides useful information including checklists, Q&A, and a tutorial on “How to make your contract certain”.

E-learning Module

The CCWG has developed an e-learning module which contains all the elements of the training material developed so far, and a Question & Answer segment at the end, to help the attendees strengthen their understanding of the contract certainty concepts. This module is currently being offered free of charge to all employees of the reporting entities.



Access to the e-learning module was opened from 1st June 2021. Industry practitioners are encouraged to sign up for the e-learning module, if they have not already done so, as well as to access the wealth of learning materials uploaded on the portal.

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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