

Singapore Reinsurance Market Contract Certainty Project

Market Briefing April 2014

Introduction

It is three years since the four main institutions which represent the interests of participants in Singapore's general reinsurance market resolved, that there should be a market led solution to deliver contract certainty in the Singapore reinsurance market, with the support of the Monetary Authority of Singapore (MAS). Those organisations are General Insurance Association of Singapore, Singapore Reinsurers Association, Lloyd's Asia and the Reinsurance Brokers Association (Singapore). They provided representatives that formed the Contract Certainty Working Group (CCWG) which was tasked with developing and implementing a project plan. In early 2013 the Life Insurance Association of Singapore joined as the scope of the project was extended to include life reinsurance contracts.

The market goal is that by December 2014 85% of all reinsurance contracts that are either purchased, intermediated or reinsured by MAS regulated entities will be contract certain, according to the definition and principles agreed by the market.

This document is intended to share the progress that the market has made so far, and also highlight the areas where action is still required.

Summary

- 1) Overall, the participation of the market with the contract certainty project has been encouraging:
 - a) The market is currently demonstrating an acceptable level of performance: 68.5% for January contracts, which is the market's peak volume month.
 - b) The 85% market target by end of December 2014 is readily achievable, with the appropriate engagement from individual companies supported by the market associations.
 - c) Singapore reinsureds are reporting significantly higher levels of contract certainty, 88.5% for treaty and 76.8% for facultative, which is important given their obligations under the Risk Management Practices for Insurance Business (March 2013) issued by MAS.
 - d) 82% of the market reported contract certainty performance statistics for January. Whilst this is a reasonable level of participation for a market led project, we believe that achieving reporting levels consistently over 95% is important for the credibility of the initiative and to demonstrate robust statistics.
 - e) Unfortunately, some companies are not yet sufficiently engaged to effectively implement contract certainty processes and reporting in time for the December 2014 milestone. However, with prompt and concerted action there is still time for them to catch up. We have suggested a 'Checklist' to guide senior management in evaluating their company's progress toward implementing reinsurance contract certainty.
 - f) MAS have provided invaluable support as a stakeholder in the project offering guidance, promoting the initiative and they have now started to enquire specifically about contract certainty implementation during supervision visits.

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- 2) The portal which has been developed in conjunction with Singapore College of Insurance (SCI) is operating smoothly for the reporting of contract certainty performance and is the primary tool for sharing relevant information.
- 3) An example of a standard slip which is aligned to the checklist has recently been posted as a resource for companies to refer to if needed.
- 4) We will now be posting the market aggregate contract certainty score on the website and providing participant companies with monthly data at a sector level.
- 5) The definition and principles have been revised to improve clarity. Companies need to ensure that they are familiar with these revisions and have communicated them internally.
- 6) Guidance given in the 'Frequently Asked Questions (FAQ)' document has been revised following stakeholder consultation. The most notable change is that companies should also report on the contract certainty outcomes relating to reinsurance contracts arranged by an overseas parent that covers the Singapore entity, and also any inter-group contracts with the Singapore entity.

Contract Certainty Statistics

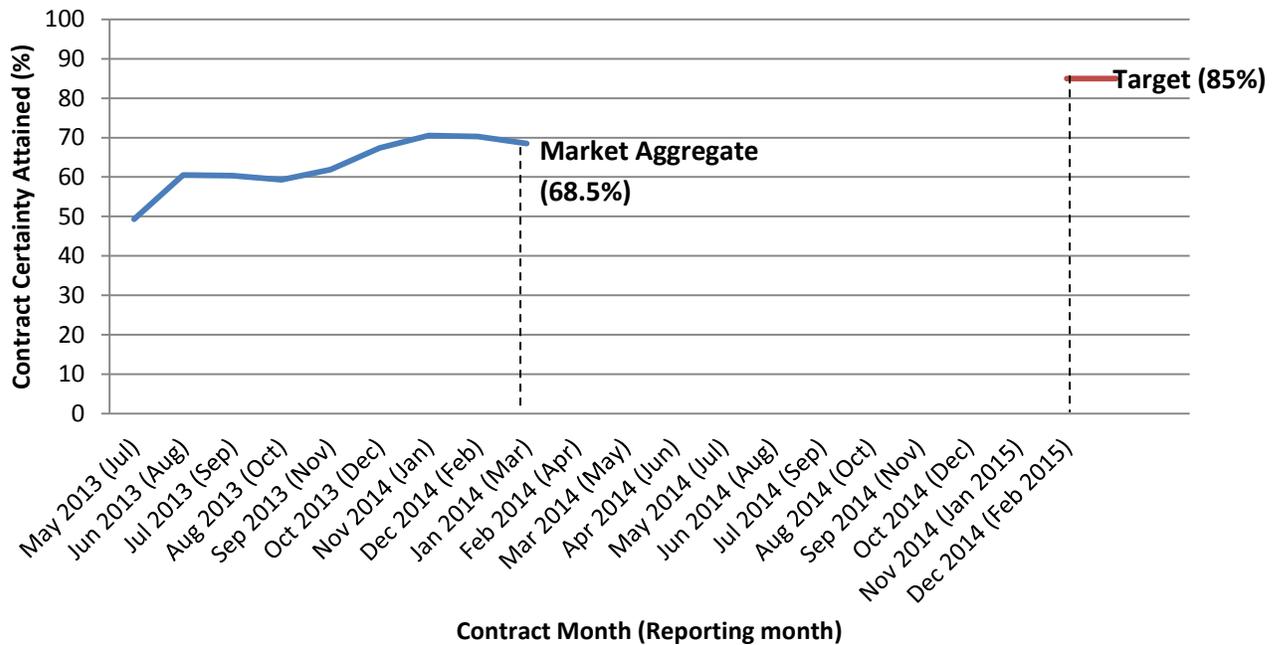
The contract certainty performance on reporting statistics are set out in the table below:

| Reporting As | | Reinsurance Type | May | June | July | August | September | October | November | December | January | |
|-----------------------------|-------------------------|------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Reinsured Location | Singapore | Broker | Treaty | NA | 0.0% | 40.0% | 33.3% | 25.0% | NA | NA | NA | 49.6% |
| | | | Facultative | 45.0% | 13.6% | 55.6% | 85.1% | 20.0% | 54.8% | 81.5% | 75.5% | 76.3% |
| | | Reinsured | Treaty | 17.3% | 36.4% | 28.6% | 72.0% | 63.6% | 94.1% | 66.7% | 85.5% | 88.5% |
| | | | Facultative | 36.8% | 51.6% | 48.7% | 58.0% | 38.9% | 72.5% | 61.7% | 73.3% | 76.8% |
| | | Reinsurer | Treaty | 0.0% | 60.0% | 100.0% | 42.9% | 16.7% | 0.0% | 50.0% | 50.0% | 59.1% |
| | | | Facultative | 57.6% | 60.7% | 57.7% | 60.0% | 14.3% | 76.0% | 73.9% | 76.6% | 67.6% |
| | Offshore | Broker | Treaty | 68.8% | 30.8% | 46.9% | 68.8% | 37.5% | 66.7% | 40.0% | 55.6% | 62.4% |
| | | | Facultative | 66.9% | 80.3% | 71.2% | 48.8% | 67.0% | 70.9% | 86.3% | 74.6% | 68.7% |
| | | Reinsurer | Treaty | 60.0% | 56.5% | 73.7% | 70.6% | 73.7% | 44.3% | 62.5% | 83.3% | 64.9% |
| | | | Facultative | 50.9% | 62.3% | 64.6% | 61.4% | 66.1% | 63.7% | 70.2% | 64.3% | 66.0% |
| | Market Aggregate | | | 49.3% | 60.5% | 60.4% | 59.3% | 61.9% | 67.4% | 70.5% | 70.3% | 68.5% |
| | Reporting Entities | | | 96 | 103 | 96 | 107 | 101 | 108 | 108 | 112 | 113 |
| Registered Entities | | | 106 | 115 | 118 | 125 | 128 | 129 | 129 | 132 | 133 | |
| Number in Scope | | | 130 | 130 | 130 | 130 | 130 | 135 | 135 | 137 | 137 | |
| Percentage Reporting | | | 74% | 79% | 74% | 82% | 78% | 80% | 80% | 82% | 82% | |

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Contract Certainty Performance



Commentary on Statistics

Contract Certainty Performance

Market Aggregate

The market aggregate score peaked at 70.5% for November contracts. The January contracts score of 68.5% needs to be judged in the context of this being the month with, by far, the highest volume of contract inceptions and renewals.

With the market target set for 85% for December 2014 contracts, there needs to be a material improvement in performance. However, there do not appear to be any insurmountable barriers which will prevent companies achieving this goal.

Singapore Reinsurance

Importantly (given the requirements of MAS' Risk Management Practices for Insurance Business) the performance reported by Singapore reinsureds is continuing to improve over time reaching 88.5% for Treaty and 76.8% for facultative in January.

Onshore / Offshore Comparison

When initiating this project our expectation was that there would be a clear differentiation in performance between the onshore and offshore markets i.e. that the reinsurer and reinsurance broker contract certainty scores for Singapore reinsureds would be higher. The basis of this assumption was the ongoing challenges in dealing with certain markets in the region caused by language or different business practices. Also, the reinsured and producing intermediaries would not be under the same obligation to adopt contract certainty principles. However, the statistics, so far, do not show markedly worse performance for offshore contracts. We do not have any clear

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explanation for this. However, anecdotally, offshore counterparties and intermediaries have been open to the initiative and appreciated the benefits.

Treaty / Facultative Comparison

Contract Certainty performance for treaties was expected to be significantly superior to facultative placements. This assumption was based on the differences in volume, negotiation timescale, and value of the two types of contract.

From the statistics, this assumption is validated by the Singapore Reinsureds reporting only. Otherwise, there is no consistent pattern yet emerging.

Engagement

Using registration with the portal as a proxy measure, engagement with the project by 'in scope' companies is very high at 97%. Only a handful of companies have yet to register or engage in the project in a meaningful way.

The reporting level for January contracts was 82% of 'in scope' companies. This level has remained relatively consistent for the last six months.

In the earlier stages of implementation this reporting level was acceptable, but for the market statistics to be credible as we move toward the December 2014 reporting milestone, we need to strive for consistent reporting levels at least greater than 95%.

Companies that are not yet reporting contract certainty performance statistics on a regular basis should evaluate the reason for this and communicate with their trade association (if they are a member) or the Contract Certainty Working Group, if appropriate.

Sample Slip

An example of a slip format and wording which is aligned with the checklist is now provided on the Contract Certainty portal

Confidentiality

From the outset of the project the CCWG has been very mindful that individual companies will be very concerned that the data they report on contract certainty performance remain confidential and is not available to any party which could potentially derive a commercial advantage from it. Only the Singapore College of Insurance, the Contract Certainty 'Portal Manager' (solely for the purposes of managing the portal) and the Monetary Authority of Singapore (should they request it) have access to the company level data.

The following statement has recently been posted on the Contract Certainty Portal regarding confidentiality (it is an extract from the contract between the Market Associations and the SCI for the running of the portal:

"The Portal Manager, Market Associations and Market Constituents shall maintain strict confidentiality of all Confidential Information, including the Contract Documentation Records submitted by the Market Constituents, and shall only use such information for the purpose of exercising or performing their rights and obligations under the Agreement entered into by the Associations with the Portal Manager

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Notwithstanding the above, the Market Associations and Market Constituents accept and acknowledge that the Portal Manager shall be authorised to disclose any information, including any Confidential Information submitted by the Market Constituents, to the Monetary Authority of Singapore upon official request by its duly authorised officers.”

The CCWG only sees contract certainty performance data aggregated at a sector level. The only information the CCWG sees relating to company reporting is whether a company has registered with the portal and has reported in a particular month, so that the Group can remind and chase up, as appropriate.

Revised Definition

The contract certainty definition has been revised to give greater clarity. This is set out below:

Contract Certainty is achieved by the complete and final agreement of all terms and signed lines between the reinsured and the reinsurer by the time they enter the contract. Contract documentation shall be provided to all parties within 30 days of the reinsurer's risk inception of the reinsurance contract or the reinsured's order to bind whichever is later.

Principle A

In the Principles & Guidance, this was originally stated as:

“The reinsurer and broker (where applicable) must ensure that all terms are clear and unambiguous by the time the offer is made to enter into the contract or the offer is accepted. All terms must be clearly expressed, including any conditions or subjectivities.”

However, in addition it should also include the following:

“All evidence of offer and acceptance including file notes of conversations and meetings, written and electronic communications, must be maintained by the reinsurer and broker (where applicable).”

This additional requirement was covered in the Contract Certainty Workshops and the associated slides.

Revised Principle B

The original Principles & Guidance document erroneously restated the definition in Principle B. Principle B should have read:

“The reinsurer and broker (where applicable) should ensure that the contract documentation is sent out to the reinsured within 30 days of the reinsured's risk inception or the reinsured's order to bind whichever is later and also where appropriate strive to ensure that it is signed by all parties”

*See Guideline B

Again the correct Principle was included in the Workshop sessions conduct by the CCWG.

Updated FAQ

Some of the responses in the FAQ document have been revised following consultation with stakeholders. Companies are recommended to download the revised document from the Contract Certainty Portal [[FAQ](#)].

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The most notable revision, is that companies should now report on the contract certainty performance of reinsurance protection which the Singapore entity arranged overseas and also any inter-group contracts.

Further, there is no variance in the contract certainty requirements for entities that are Singapore branches of overseas companies.

Contract Certainty Timeline

- 2011
 - Formation of CCWG
 - Formulation of Contract Certainty Definition and Principles for the Singapore Reinsurance Market
- 2012
 - Consultation and feedback from associations' members and non-members
 - Development of implementation plan
- 2013
 - Market briefing event in 21 January
 - Implementation of Singapore Reinsurance Market Contract Certainty Initiative during 1st quarter of 2013
 - Collection and collation of Contract Certainty data commenced July 2013 (May data)
- 2014
 - Achieve targeted Contract Certainty performance by 4th quarter 2014

Senior Management Checklist

The following checklist is provided as a guide for Chief Executive Officers, Principal Officers, Board Members and Senior Management on the questions they should be able to answer regarding contract certainty implementation in their organisation:

- Have we adopted the Principles & Guidance notes and Checklist developed by the industry, or have we developed our own comparable documents?
- What is our targeted level of contract certainty?

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- What is the timeline for us to achieve this target?
- How does our current level of performance compare to the market?
- Have we undertaken any assurance activity to validate whether contract certainty is being implemented and measured appropriately and consistently?
- Have we trained all relevant staff involved in reinsurance activity? Are we doing additional training for new joiners? If we're not confident to do the training, have we sought external support?
- If we have encountered obstacles during the implementation process that we have been unable to resolve, have we reached out for guidance to our Association or the Contract Certainty Working Group?
- How are we collecting information on contract certainty performance? Is it a paper based system? If so, do we have sufficient volume to justify modifying our applications to capture relevant contract certainty information?
- What are the reasons for contract certainty failures? Are there training needs or are we having problems with particular counterparties or markets? What are the potential solutions?

The most important message for senior management in insurers, reinsurers and reinsurance brokers is that improving reinsurance contract certainty should not be seen simply as compliance with a market initiative or a means of meeting a risk management obligation. For reinsurers and reinsurance brokers this is about delivering a more consistent and reliable product to their customers. For reinsurance buyers, this is a means to ensure that the reinsurance protection that they purchased is robust.

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