

Insurance (Financial Guarantee Insurance) (Amendment) Regulations 2004

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No. S 802

INSURANCE ACT CHAPTER 142

INSURANCE (FINANCIAL GUARANTEE INSURANCE) (AMENDMENT) REGULATIONS 2004

In exercise of the powers conferred by sections 18, 52 and 64 of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Insurance (Financial Guarantee Insurance) (Amendment) Regulations 2004 and shall come into operation on 1st January 2005.

Amendment of regulation 2

2. Regulation 2 of the Insurance (Financial Guarantee Insurance) Regulations (Rg 6) (referred to in these Regulations as the principal Regulations) is amended —

- (a) by inserting, immediately after the word “Regulations” in the 1st line, the words “, unless the context otherwise requires”;
- (b) by inserting, immediately after the definition of “capital on call”, the following definition:

““electronic record” has the same meaning as in section 2 of the Electronic Transactions Act (Cap. 88);” and

- (c) by deleting the words “Reserve Fund” in paragraphs (a) and (b) (2nd line) of the definition of “qualified capital” and substituting in each case the words “contingency reserves”.

Deletion and substitution of regulation 6

3. Regulation 6 of the principal Regulations is deleted and the following regulation substituted therefor:

“Contingency reserves

6.—(1) In addition to maintaining claim liabilities and premium liabilities as required under regulation 19 of the Insurance (Valuation and Capital) Regulations 2004 (G.N. No. S 498/2004), a financial guarantee insurer shall —

- (a) maintain contingency reserves in each insurance fund established and maintained by the financial guarantee insurer under section 17(1) of the Act; and
- (b) at the end of each accounting period and subject to paragraph (2), transfer to the contingency reserves in respect of every financial guarantee insurance policy issued by the insurer which is in force during the accounting period —
 - (i) a sum equivalent to 3.33% of net premiums written in respect of that policy; or
 - (ii) a sum equivalent to the relevant percentage of the guaranteed unpaid principal under that policy, net of reinsurance,

whichever is the higher.

(2) A financial guarantee insurer shall not be required to make the transfer to the contingency reserves under paragraph (1)(b) at the end of an accounting period if the contingency reserves at the end of that accounting period, but before any transfer under that paragraph is made, is equal to or more than 4 times the highest of the following amounts:

- (a) the amount of the total net premiums written in respect of all financial guarantee insurance policies in force during that accounting period;
- (b) the amount of the total net premiums written in respect of all financial guarantee insurance policies in force in the preceding accounting period; or
- (c) the amount of the total net premiums written in respect of all financial guarantee insurance policies in force in the accounting period which precedes the accounting period referred to in subparagraph (b).

(3) Where the total net claims settled by a financial guarantee insurer during an accounting period in respect of financial guarantee insurance policies issued by the insurer exceed 80% of the total net premiums written in respect of all financial guarantee insurance policies issued by the insurer which are in force during that accounting period, the insurer may withdraw from the contingency reserves maintained by the insurer an amount which is no greater than the difference between the total net claims settled and 80% of the total net premiums written for that accounting period.

(4) In this regulation —

“net claims settled”, in relation to an accounting period, means the gross claims paid, including any portfolio losses, any increase or decrease (as the case may be) in outstanding claims during the period, and any medical or legal expense incurred directly in settlement of claims paid in the period, net of recoveries from salvages, subrogation and reinsurance business ceded, where applicable;

“net premiums written” means the net amount of premiums after deduction of return premiums and payments in respect of reinsurance business ceded;

“outstanding claims” means the claims which have been approved by the financial guarantee insurer for payment but not yet paid, and includes expenses associated with the settlement of such claims but does not

include such claims that are already included in policy liabilities;

“relevant percentage”, in relation to the guaranteed unpaid principal under a financial guarantee insurance policy, means —

- (a) 0.037% of the guaranteed unpaid principal, where the policy is issued in respect of a government obligation which is of investment grade;
- (b) 0.057% of the guaranteed unpaid principal, where the policy is issued in respect of a government obligation which is not of investment grade;
- (c) 0.067% of the guaranteed unpaid principal, where the policy is issued in respect of an infrastructure obligation which is of investment grade;
- (d) 0.167% of the guaranteed unpaid principal, where the policy is issued in respect of an infrastructure obligation which is not of investment grade;
- (e) 0.1% of the guaranteed unpaid principal, where the policy is issued in respect of any financial obligation (other than a government or infrastructure obligation) which is of investment grade; or
- (f) 0.167% of the guaranteed unpaid principal, where the policy is issued in respect of any financial obligation (other than a government or infrastructure obligation) which is not of investment grade.

(5) For the purposes of the definition of “relevant percentage” in paragraph (4), an obligation is of investment grade if, as at the end of the accounting period in question, it is in one of the top 4 generic lettered rating classifications (or their equivalent) awarded by an internationally recognised credit rating agency.”.

New regulation 8A

4. The principal Regulations are amended by inserting, immediately after regulation 8, the following regulation:

“Requirements and returns as to fund solvency and capital adequacy

8A.—(1) A financial guarantee insurer who carries on the business of issuing only financial guarantee insurance policies shall be exempt from —

- (a) regulation 4 of the Insurance (Valuation and Capital) Regulations 2004 (G.N. No. S 498/2004); and
- (b) regulation 8 of the Insurance (Accounts and Statements) Regulations 2004 (G.N. No. S 494/2004).

(2) For the purposes of section 18(1)(a) of the Act, the fund solvency requirement in respect of an insurance fund established and maintained under the Act by a financial guarantee insurer who carries on the business of issuing only financial guarantee insurance policies shall at all times be such that —

- (a) in the case of an insurance fund that relates to Singapore policies, the surplus of assets over liabilities of the fund, less its contingent liabilities, is not less than the highest of the following amounts (referred to in this regulation as the SIF amount):
 - (i) \$5 million;
 - (ii) 50% of net premiums written of the fund in the preceding accounting period; or
 - (iii) 50% of claim liabilities of the fund as at the end of the preceding accounting period; and
- (b) in the case of an insurance fund that relates to offshore policies, the surplus of assets over liabilities of the fund, less its contingent liabilities, is not less than the highest of the following amounts (referred to in this regulation as the OIF amount):
 - (i) \$1 million;
 - (ii) 20% of net premiums written of the fund in the preceding accounting period; or
 - (iii) 20% of claim liabilities of the fund as at the end of the preceding accounting period.

(3) For the purposes of section 18(1)(b) of the Act, the capital adequacy requirement of a financial guarantee insurer who carries on the business of issuing only financial guarantee insurance policies shall at all times be such that the shareholders' equity and surplus of the insurer, less the contingent liabilities of the insurer, is not less than the sum of the SIF amount, OIF amount and \$5 million.”.

New regulations 10 and 11