

Insurance (Financial Guarantee Insurance) Regulations

Table of Contents

1 Citation

2 Definitions

3 Registration by Authority

4 Minimum capital and rating requirements

5 Single and aggregate risk limits

6 Contingency reserves

7 Currency adjustment

8 Exemption from contributing to Policy Owners' Protection Fund

9 Additional returns

THE SCHEDULE

Legislative History

**INSURANCE ACT
(CHAPTER 142, SECTIONS 7(2), 53 AND 66)**

INSURANCE (FINANCIAL GUARANTEE INSURANCE) REGULATIONS

Rg 6

G.N. No. S 40/1997

[6th February 1997]

Citation

1. These Regulations may be cited as the Insurance (Financial Guarantee Insurance) Regulations.

Definitions

2. In these Regulations —

“average annual debt service” means the amount determined in accordance with the formula

$$\frac{(A \times B)}{C},$$

- where
- A is the amount of insured unpaid principal and interest on an obligation;
 - B is the number of such insured obligations (assuming each obligation represents US\$1,000 par value); and
 - C is the amount equal to “B” multiplied by the number of years of the term of such insured obligations;

“capital on call” means capital commitments backed by proper agreements to effect the call on capital on demand;

“eligible collateral” means —

- (a) cash, letters of credit issued by eligible banks, guarantees issued by eligible companies, recourse to eligible banks or eligible companies, reinsurance agreements with eligible insurance companies;
- (b) the scheduled cash flow from obligations issued by government units; and
- (c) the market value (as determined by reference to market rates or by an independent third party) of marketable securities of investment grade or its equivalent,

which must be available to make payment on the guaranteed obligation at the time payment on the guaranteed obligation is due or to reimburse the financial

guarantee insurer for any payment made under the related financial guarantee insurance policy;

“eligible company”, “eligible bank” or “eligible insurance company” means —

- (a) a company, bank or insurance company (providing the eligible collateral) which is in one of the top 4 generic lettered rating classifications or its equivalent awarded by an internationally recognised credit rating agency; or
- (b) such other company, bank or insurance company as the Authority may determine;

“financial guarantee insurance policy” means a policy that guarantees to the beneficiary of the policy the performance of a financial obligation in accordance with the terms of the obligation, including the right to receive scheduled payments in a trust certificate or other equity security but excludes letters of credit issued by licensed banks, performance bonds, fidelity bonds and such other similar contracts of guarantee as the Authority may determine;

“financial guarantee insurer” means an insurer whose registration under the Act is restricted to the carrying on of the business of issuing financial guarantee insurance policies;

“government unit” means a local, regional, national or supranational government entity or any agency thereof;

“net exposure” under a financial guarantee insurance policy means the guaranteed unpaid principal amount, net of any eligible collateral;

“qualified capital” shall include only shareholders’ equity (paid-up share capital, share premium reserves and retained earnings), capital on call and the Reserve Fund referred to in regulation 6.

Registration by Authority

3.—(1) No person shall carry on business in Singapore as a financial guarantee insurer unless registered by the Authority to do so.

(2) A financial guarantee insurer shall not underwrite any obligation except the following:

- (a) asset-backed obligations — obligations of an entity which owns a diversified pool of assets or to which a diversified pool of assets including residential real estate and other consumer and corporate assets have been pledged, the proceeds of which, whether through collection or sale, are

available to make any payments due on the obligations;

- (b) infrastructure obligations — obligations issued to finance construction, maintenance, improvement or expansion of physical infrastructure including power production and distribution, telecommunications, roads, bridges, tunnels, waste disposal and resource recovery facilities, pollution control facilities, airports, schools and hospitals;
- (c) government obligations — obligations that are payable or guaranteed by a government unit or that are payable from tax revenue, rates charges or appropriation imposed or collected by such government unit;
- (d) real estate obligations — obligations that are backed by cash flows or market values associated with income-producing real property excluding residential real estate;
- (e) corporate obligations — obligations related to corporate bonds or promissory notes issued by a corporation; and
- (f) such other financial obligations as the Authority may approve in writing.

[S 360/99 wef 01/09/1999]

Minimum capital and rating requirements

4. The Authority shall not register a person to carry on the business of a financial guarantee insurer in Singapore unless the insurer has —

- (a) a paid-up share capital of not less than US \$75 million or its equivalent in value; and
- (b) a claims-paying ability rating in the top 3 generic lettered classifications or its equivalent awarded by an internationally recognised credit rating agency.

Single and aggregate risk limits

5.—(1) A financial guarantee insurer shall limit its net exposure under any single financial guarantee insurance policy as follows:

- (a) for asset-backed obligations — the net exposure to each of the supporting assets shall not exceed 10% of the financial guarantee insurer's qualified capital;
- (b) for infrastructure obligations that are issued in respect of projects or facilities built, owned or operated (whether at the time of construction or afterwards) by or on behalf of a government unit and for government obligations — the net exposure to the average annual debt service on the

obligation shall not exceed 15% of the financial guarantee insurer's qualified capital, and the net exposure to the principal amount of the obligations shall not exceed 100% of the financial guarantee insurer's qualified capital;

- (c) for infrastructure obligations that are issued in respect of projects or facilities built, not owned or operated by a government unit — the net exposure to the average annual debt service on the obligations shall not exceed 10% of the financial guarantee insurer's qualified capital, and the net exposure to the principal amount of the obligations shall not exceed 75% of the financial guarantee insurer's qualified capital;
- (d) for real estate obligations that do not otherwise constitute asset-backed obligations — the net exposure to the principal amount of the obligations less 50% of the appraised value of the underlying real estate shall not exceed 10% of the financial guarantee insurer's qualified capital; and
- (e) for corporate and other obligations — the net exposure to the principal amount shall not exceed —
 - (i) 25% of the financial guarantee insurer's qualified capital for secured obligations; and
 - (ii) 15% of the financial guarantee insurer's qualified capital for unsecured obligations.

[S 360/99 wef 01/09/1999]

(2) A financial guarantee insurer shall maintain at all times qualified capital which in the aggregate shall be not less than the sum of —

- (a) 1% or 1/100th of the aggregate net exposure to asset-backed obligations;
- (b) 1.3333% or 1/75th of the aggregate net exposure to infrastructure obligations, government obligations, and real estate obligations that do not otherwise constitute asset-backed obligations;
- (c) 2% or 1/50th of the aggregate net exposure to other obligations which are secured; and
- (d) 4% or 1/25th of the aggregate net exposure to other obligations which are unsecured.

Contingency reserves

6.—(1) In addition to maintaining loss reserves and unearned premium reserves as required under regulation 20 of the Insurance Regulations (Rg 1), a financial guarantee insurer shall —