An Overview Of Current Trends And Developments In Insurance In Singapore

Singapore

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The main statute governing the regulatory aspect and the conduct of (re)insurance business in Singapore is the Insurance Act (Chapter 142). Apart from the Insurance Act, there are other pieces of legislation which govern specific types of insurance contracts or substantive points of insurance law. For example, the Third Parties (Rights against Insurers) Act 1930; Marine Insurance Act (Chapter 387); Motor Vehicles (Third Party Risks & Compensation) Act (Chapter 189); and Workmen's Compensation Act (Chapter 354).

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The insurance industry is regulated by the Monetary Authority of Singapore (MAS). For the purposes of regulation under the Insurance Act, "insurance business" (which includes reinsurance of liabilities) is divided into two classes: (1) life business, which includes all insurance business concerned with life policies, long term accident, and health policies, or both; and (2) general business, which is essentially any insurance business which is non-life insurance business. Entities which wish to underwrite insurance business in Singapore and/or solicit for insurance business from the public in Singapore must be licensed or authorised by the MAS. As of July 2021, there are 124 licensed insurers and reinsurers in Singapore. If the 82 captive insurers are included, the grand total of insurers licensed by the MAS is 206.

Singapore adopts a territorial basis of taxation. This means that only income accruing in or derived from Singapore or income received in Singapore from outside Singapore will be subject to tax in Singapore. The corporate income tax rate generally applicable for the year of assessment 2020 is 17 per cent. Apart from partial tax exemption and corporate income tax rebate, which are given to companies generally, insurers and reinsurers underwriting approved specialised insurance business may also enjoy a concessionary tax rate of 10 per cent under the Insurance Business Development umbrella scheme which was extended to 2025 by the Singapore Government in Budget 2020.

Current Trends & Developments In Singapore

Singapore is well-recognised as the leading specialty insurance and reinsurance hub in Asia. With aspirations to transform Singapore's reinsurance industry from a mainstream traditional reinsurance hub to a sophisticated, full-fledged global capital for Asian risk transfer, the focus in recent years is to expand the current spectrum of reinsurance and risk financing solutions to alternative risk transfer mechanisms such as insurance-linked securities (ILS).

Singapore's commitment to be the industry leader and trail-blazer for the region is evident in its recent establishment of the Global-Asia Insurance Partnership (a tripartite partnership between the global insurance industry, regulators and academia). This platform was launched to address systemic structural protection gaps and new emerging risks in insurance with an initial focus on risks brought on by the COVID-19 pandemic and climate change (an issue which has plagued the industry for some time). The platform aims to produce actionable research insight, develop policy recommendations, and co-create innovative solutions for the region. It is hoped that insurtech start-ups, academia, and international organisations can maximise Singapore's modern and digital marketplace; transfer the way risks and capital are connected; and build long-term risk resilience in Asia to large-scale systemic risks (for example, pandemic and disaster risks and health and longevity risks) and new and emerging risks (for example, cyber risks).

Since 2018, Singapore has taken progressive strides towards developing its ILS market with various incentive schemes. On 26 February 2018, the MAS announced an ILS grant scheme to develop the ILS market in Singapore by funding the upfront costs incurred in issuing ILS bonds in Singapore, including those for catastrophe risks, up to a limit of S$2 million per issuance. The scheme was originally slated to end on 31 December 2020 but was extended by the MAS in June 2020 to now end on 31 December 2022 for valid applications relating to issuances before 31 December 2022.

ILS is seen as an alternative reinsurance product to traditional reinsurance in the Singapore market. The MAS envisage that the ILS will be issued via a Special Purpose Reinsurance Vehicle (SPRV), to allow sponsors to readily securitise reinsurance risks in Singapore. A dedicated set of regulations apply to such SPRVs and under these regulations, the SPRV must be fully funded and MAS expects the same to be bankruptcy remote and legally separated from the sponsor and any party involved in its establishment.

To provide tax neutrality for ILS vehicles and for the notes issued, Singapore has extended, until 31 December 2023, the tax incentive schemes for Approved Special Purpose Vehicles engaged in insurance securitisation as well as for Qualified Debt Securities.

The ILS grant and tax incentive scheme has led to 17 catastrophe bonds being issued in Singapore since December 2018 to June 2021 with total issuance amount exceeding US$2.2 billion. In addition to these 17 catastrophe bonds, the first sovereign catastrophe bond in Asia issued under a World Bank programme covering Philippines' earthquake and tropical cyclone risks was listed on the Singapore Exchange in late 2019. To further enhance Singapore's dominant position in Asia as a reinsurance and alternative risk transfer hub, the regulators are exploring the introduction of new corporate structures like the Variable Capital Company (VCC) structure (introduced in 2018 only for the fund management sector) to the insurance industry to provide more structuring options to ILS sponsors and captive insurers. A market survey was recently conducted in July 2021 by the MAS to gather feedback from sponsors, service providers, and investors on how their Singapore ILS experience has been in order to refine the regulatory framework and improve processes further.

In May 2018, the ASEAN+3 Finance Ministers endorsed the Southeast Asia Disaster Risk Insurance Facility (SEADRIF). SEADRIF is supported by the World Bank in partnership with Japan and was established in 2019 in Singapore. As a first project, SEADRIF issued a flood risk insurance program involving Laos and Myanmar in January 2021 which provides ex-ante climate and disaster risk and insurance financing solutions for these two countries. The aim is for such disaster risk insurance to provide immediate liquidity financing so that countries affected by disaster can receive help promptly with less reliance on humanitarian assistance, which can take time or is uncertain, and also reduce disruptions to national budgets.

In May 2018, the Singapore government announced a new national long-term care insurance health plan, CareShield Life, as it prepares for an aging population. This new national insurance programme will provide financial aid to those with severe disability and will be run by the government from 2021. CareShield Life will replace the optional ElderShield programme introduced by the government in 2007 but run by three private insurers and offers wider coverage of at least S$600 per month for as long as care is needed. It will be compulsory for all Singapore citizens between the ages of 30 and 40 and registration will be automatic.

On 28 February 2020, the Insurance Law Reform Sub-committee formed by Singapore Academy of Law (Committee), which is chaired by the author, published its report on reforming insurance law in Singapore. The report reviewed areas of Singapore's insurance laws the Committee considered to be outdated and whether reform was needed. Key areas included the duty of utmost good faith; the duty of disclosure and misrepresentation;

warranties; remedies for fraudulent claims; insurable interest; late payment of claims; as well as select aspects of an intermediary's role. Significant changes to the said areas of insurance contract law in Singapore can be expected.

As Singapore develops its digital economy further, Artificial Intelligence (AI) is viewed by many as the next key frontier for product innovation and legal development. Singapore, like many jurisdictions, grapples with the myriad legal liability and ethical issues arising from the use of AI and which may not be adequately addressed by the conventional legal liability framework. This uncertainty is likely to cascade down and create issues in risk assessment when underwriting liability insurance. In addition, the prevailing sentiment is to shift the risks relating to the use of AI to insurers (who are perceived to be better equipped to absorb such risks) and this may lead to the introduction of certain compulsory insurance schemes and drive insurance product innovation.

On the insurance regulatory front, after extensive rounds of public and industry consultations as well as a quantitative test run in 2019, the MAS implemented changes to the previous risk-based capital (RBC) framework for assessing the financial and capital adequacy of insurers. In light of evolving market practices and global regulatory developments, changes were introduced to the previous RBC framework to ensure that it remains relevant to industry's needs while enhancing protection for policy-holders and maintaining prudent capital requirements that are commensurate with insurers' risk profiles and business activities and are in line with international standards and best practices. RBC 2 took effect on 31 March 2020 and the main changes relate to the introduction of two solvency intervention levels and the associated supervisory actions for not meeting these levels, in addition to the requirement to meet the fund solvency requirement at a broader adjusted fund level instead of at the insurance fund level.

In addition, the Individual Accountability and Conduct Guidelines (IAC Guidelines) were issued by the MAS on 10 September 2020 and will take effect on 10 September 2021. These IAC Guidelines aim to embed a strong culture of responsible and ethical behaviour in all financial institutions (FI), including insurance companies. The IAC Guidelines cover three key areas with an outcomes-based approach rather than a prescriptive approach on the methodology to be adopted by a FI. First, promoting individual accountability of senior managers. Secondly, strengthening oversight over material risk personnel. Finally, reinforcing standards of proper conduct amongst all employees.

ABOUT THE AUTHOR

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