

LOW RISK OFFSHORE IN THE ORIENT

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SINGAPORE is making significant progress in its bid to establish a recognized insurance and reinsurance centre for the Asian and Pacific zones. The insular republic's own insurance industry has likewise come a long way since the sixties, having experienced healthy growth as well as an increase in sophistication. Another feature is that it is a market which has an international character.

A total of 135 insurers are licensed to operate in Singapore, namely, 60 direct insurers, 29 professional reinsurers, and 46 captive insurers. About three-fourths of the direct insurers and reinsurers in Singapore are foreign-owned, and operate as branches or subsidiaries of large and reputable insurers from Britain, America, Japan and 10 other countries. They compete on equal footing with local insurers. All captive insurers are subsidiaries of offshore industrial and business conglomerates. This reflects the openness of the Singapore insurance market.

All insurers doing insurance business in Singapore are required to be licensed. This is the job of the Monetary Authority of Singapore or more specifically its Insurance Commissioner's Department. Singapore's policy on admission of insurers can be broadly described as selective. The Insurance Act and the Insurance Regulations prescribe the requirements for carrying on insurance business in Singapore and provide the supervisory authority with the power to intervene as and when necessary. The act was amended substantially in 1986 with three objectives:— to improve monitoring; to strengthen insurers' financial basis; and to protect policy-holders against insolvency. The minimal capital for direct insurers is now S\$5 million, while reinsurers must have double that; for captives the sum is S\$1 million (Singaporean dollars).

Like most, if not all, insurance authorities, the overall goal in regulating the insurance industry in Singapore is to protect policy-holders' interests. The approach adopted by Singapore may be described as "minimal control with responsibility". What this means is



that Singapore seeks to encourage as much self-regulation as possible. Well-managed insurers are given the maximal degree of freedom in carrying out their business with the least interference from the supervisory authority. On the other hand, those incapable of self-regulation are subject to intensive monitoring and close control.

This liberal policy is perhaps reflected in the growth of the domestic market, where there are 14 direct insurers licensed to conduct life insurance busi-

ness. The life insurance industry in Singapore has expanded remarkably over the past decade, helped no doubt by Singapore's excellent record of economic performance amid low interest and low inflation. Annual premiums in force of total life insurance business were less than S\$200 million in 1981, but rose to S\$1100 million last year. This represented an annual average compounded growth of 21.3%, surpassing the average annual growth of the economy of 9.1% over the same period.

In particular, life insurance sales enjoyed tremendous growth in recent years. About 42% of the total population are now covered with life insurance, as compared with 21% in 1986. The growth of the life insurance funds reflects the importance of savings through life insurance. Total assets of the life insurance funds reached S\$4100 million at the end of 1990, having grown by an average annual rate of 19.3% since 1981.

There are 48 direct insurers writing general insurance business. Growth in domestic insurance business over the past decade had been moderate, and averaged 5.1% per annum. Gross premiums last year were S\$880 million, an increase of 14% over 1989. Total assets in respect of domestic general business amounted to S\$1600 million as at the start of this year. The general insurance industry has been able to innovate and meet the insurance needs of the domestic economy and the public. With 48 direct insurers competing in such a small market as Singapore's, there is certainly no lack of market competition.

With a population of only three million, Singapore realized early in its economic development that it must pursue a policy of free trade and open economy, and be plugged into the world market-place. For insurance, this meant promoting Singapore as a reinsurance centre and as a domicile for captive insurers.



Insurance benefits from all-round financial services like the Singapore International Monetary Exchange

The first reinsurer, Singapore Reinsurance Corporation Ltd, started operations in 1973. Since then, many others, mostly leading international professional reinsurers, have established themselves in Singapore. Offshore business written by the professional reinsurers had grown from nothing in 1973 to S\$392 million last year. With its strategic location at

the hub of the Asian/Pacific sphere; a stable political and social climate; a conducive total business environment; excellent infrastructure and a disciplined and productive workforce, Singapore continues to be viewed favourably by insurers and reinsurers as a base for both regional and international reinsurance business.

The development of Singapore as a captive domicile fits in well with the government's plan to promote the island as a total business centre. Singapore is now recognised as an attractive domicile for captives of multinationals in the Pacific Rim. Efforts to promote Singapore as a captive domicile began in the early nineties, with the first captive insurer licensed in 1983. Today, there are 46 captive insurers operating in Singapore. Besides, many international insurance brokers have also established subsidiaries in the republic to provide captive management services.

Offshore business written by captive insurers had increased to S\$166 million in 1990. Besides the professional reinsurers and the captive insurers, direct insurers also write offshore business. Total offshore business written by all three groups of insurers in 1990 was S\$702 million.

The Asian/Pacific is expected to be the fastest-growing region in the nineties. Given that the insurance industry in these countries will grow faster than the economy, Singapore's insurers have reasons to be optimistic about their prospects. The lower ratio of premiums to gross domestic products in the ASEAN nations compared with those of developed markets such as Japan, Britain and America, implies that there is a vast but yet untapped market in the region.

The challenge for the Singapore insurance industry is two-fold. First, it must ensure that it provides better products and services which adequately meet the insurance needs of a growing domestic economy and a more affluent and sophisticated buying public. In particular, life assurers must develop new and innovative products that are attractive to that segment of the public who are more interested in investment yields than in financial protection.

Secondly, the industry must develop and increase its offshore business by tapping into and strengthening its market position in the Asian-cum-Pacific region. In this regard, the professional reinsurers and the captive insurers are expected to assume an increasingly important role in the development of offshore business in Singapore in this final decade of the century, thus enhancing the insular republic's position as a recognized reinsurance centre and insurance captive domicile. ■

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