A Collaboration between GIA and SIBA

Response to Feedback Received

Proposed Revisions to the Premium Payment Framework

July 2016

Table of Contents

1. Preface

1.1. The Premium Payment Framework (PPF) has been in force since 1 May 2005. It is a joint initiative of the General Insurance Association of Singapore (GIA) and the Singapore Insurance Brokers' Association (SIBA) and strongly supported by the Monetary Authority of Singapore (MAS). It is designed to improve efficiency in the collection of premiums for general insurance policies and minimise the possibility of claim disputes between insurers and customers.

In view of the changes in the credit control landscape over the years, a PPF Workgroup was formed in 2014 to review the framework and ascertain areas for improvement.

1.2. A survey was carried out in Mar 2014 to solicit feedback on the effectiveness and value of the PPF. Following the discussion by the PPF Workgroup, a consultation paper was issued on 19 Jun 2015 on the proposed revisions to the PPF.

1.3. The PPF Workgroup met on various occasions to discuss the concerns raised by GIA and SIBA members who had responded on the survey. In addressing the concerns, the Workgroup proposed a recommended practice for commercial lines business to be adopted by insurers and intermediaries in relation to the following:-

(i) new, renewal policies as well as endorsements
(ii) overdue premiums
(iii) re-marketing after cancellation due to breach of premium payment warranty

1.4. The Workgroup discussed at length on the proposed amendments to the PPF. A second consultation was carried out in Dec 2015 to gather further feedback from various stakeholders. Suitable amendments were then incorporated in the revised framework which will be adopted from 1 Sep 2016.

1.5. We have compiled the Workgroup's responses to the feedback in chronological order of the various sections of the framework.

2. Response to Feedback on Proposed Premium Payment Framework

2.1. Item 4 - Premium Payment Warranty

Insurer's hold cover status can be a long period (e.g. gathering of data for analysis before the policy terms are finalised). This may result in a break in the Premium Warranty.

If the insurer cannot issue a policy within 30 days, the Premium Warranty should be amended to policy receipt date. The broker will then have to monitor carefully via a digital diary.

PPF Workgroup's Response

The hold cover situations should be resolved according to item 6.1 of the PPF. The insurer cannot enforce the Premium Payment Warranty (PPW) if the invoice and policy are not issued within 30 days.

2.2. Item 4.1 - Payment Before Cover Warranty

i. The condition in which premium is deemed collected/received is quite well defined, hence this would not be a problem for most individual policies. However, for the following there may be some further consideration:

a) Bond – As this is a document issued in favour of another party who is likely to set the bond wording, the insurer will have to find a way to insert this warranty to ensure its effectiveness especially against the guaranteed party to whom the bond benefit provides. If the warranty cannot be inserted into the bond wording, the insurer/intermediary should only release the bond document when the premium is collected. If this procedural step fails, the bond may remain effective on the guaranteed party who has no obligation on the premium payment.

b) Motor insurance – An enquiry was received as to how the insurer will be responding to a compulsory third party cover in which a claim has arisen and where the policy is already issued but subsequently terminated for non-payment of premium. As to whether such a situation may arise or not is yet to be seen. It was wondered whether the insurer is able to recover from the Insured to whom the policy is deemed retroactively terminated, assuming the insurer decides to honour the liability as dictated by law.

PPF Workgroup's Response

In answering to:

a) Intermediary will not release the bond without receiving the premium. Insurers who choose to issue bonds before receiving the premium will have to bear the risk and honour the bond.
b) If the premium is not paid before inception, item 4.1.1 paragraph 2 of PPF states that insurance will not attach and benefits shall not be payable.

ii. For renewal of existing policies on payment before cover, it is suggested that insurer provides renewal terms with at least 2 weeks in advance of expiry date.

PPF Workgroup's Response

The Singapore General Insurance Code of Practice currently includes a provision on the Notice of Renewal, which stipulates that insurers have to inform policyholders when they need to renew their policies at least 30 business days before the expiry date.

iii. All bonds should be payment before cover. However, it is contradicting to endorse the wording on point 4.1.1 into the policy as the intermediaries should have received the premium before issuing the policy. By stating such wordings in the policy, it seems that the intermediaries have breached the intent of payment before cover and issue the policy first before receiving the premium.

PPF Workgroup's Response

Insurers sometimes have to issue the policy to the intermediary for them to collect the premium. The intermediary should ensure that the premium has been received before giving the policy to the insured.

2.3. Item 4.1.2 - Circumstances Resulting in Non-Payment of Premiums

It is fair that flexibility should be accorded for deserving cases to be reviewed for cover. However, it is recommended that such practice will continue for the intended policyholder pending the outcome of a review. As such, the intended policyholder is not subject to unnecessary duress of non-cover for an unknown period of time (that is, minimally, the period of the review) and, the insurer's interest (for the same period) is safeguarded since the insurer will be entitled to claim and receive any pro-rated premium payable from inception date to the date of review outcome.

The current provision does not oblige the parties conducting the review to complete such a review within a reasonable period of time. The intended policyholders who have sound reasons for missing the premium payment deadlines will therefore be duly prejudiced since they will have no cover during the period of review.

PPF Workgroup's Response

We have proposed the revision of the sentence of 4.1.2 of the PPF to "Should there be extenuating circumstances resulting in non-payment of premiums, and thereby a breach of the Warranty, insurers should consider the circumstances on a case-by-case basis and review the cover within a reasonable time to ensure a fair outcome".

2.4. Item 4.2 - Premium Payment Warranty

i. To commercial policyholders there is an aspect about meeting their own internal system relating to payments to creditors. Insurer may set the requirement for payment within 60 days from the policy inception date but commercial operators are entitled to ensure that the proper documents relating to their procurement procedure are in place. This is especially so for large and probably government organisations.

ii. Issuing of provisional invoice or conclusive invoice should be as soon as possible and the 30-day duration should be for the policyholders to receive these documents. If insurers have up to 30 days to issue documents and deliver to intermediaries for further processing, by the time the policyholders receive the documents, it could be very near to 60 days. Hence, it should be 30 days for the insurer/intermediary and 30 days for the policyholder. With this, there is a reasonable timeline for the policyholder to meet its internal procedure.

iii. Policy is cancelled due to non-payment and payment is subsequently made. There is an assumption that the policyholder is simply tardy in tendering payment only after termination and everything else on the risk remains the same. So the insurer has the right to reinstate the policy which effectively is a new policy since the previous one has already been terminated. The issue about disclosure relating to insurance application may rightfully arise where it is not simply a reissuance of the policy. There may be a situation where a policyholder does not mind having the policy terminated due to premium warranty but a change of situation resulting in a reactivation on its need for cover and then to make a payment. It was wondered if there is a need to include a special provision term in the event where the new (same) policy would serve the new situation or the insurer in reinstating with a new policy

iv. As long as the condition preceding relating to rearrangement of the policy by a defaulting policyholder is not effective, any holding intermediary will find that to adhere to non-payment notification within the 5 days' duration would only result in a loss of business. Unfortunately, this flexibility is not available. This loss will be to both the insurer and the intermediary, and perhaps for clients with good record of payments for the past years. A regime that does not effectively restrict the insurance buying process of defaulting policyholders would over time show that there is no consequence out of non-compliance of premium warranty, and for a majority of compliant clients, the practice is somehow unfair.

v. If there is a written agreement from the insurer confirming that the fee negotiation is ongoing and their cover continues for a further 30 days, the Premium Payment Warranty would sound reasonable.

vi. The Premium Payment Warranty of 60 days may be shorter than the current practice for commercial insurers. Some cases can take up to 90 days for the client to pay the intermediary and 120 days for the intermediary to pay the insurance company. Compliance with a shorter timeframe than is the current market practice may cause issues for some intermediaries and insurance companies. It was wondered what flexibility will be allowed for the parties to agree on longer payment periods.

vii. There are exigencies that cut into this 60-day period which would effectively mean that an insured has fewer days to effect payment. Below are 2 common examples:

1) Insureds who are represented by brokers do not pay the premiums against brokers' debit notes and will typically pay against the policy documents and invoices from the insurers. Any delay by an insurer in issuing the policy documents and invoice will therefore delay the broker's ability to bill insureds in a timely fashion.

2) Policies issued may contain errors and have to be returned to the insurer in question for correction or reissuance. Even though an insured has not contributed to any such error and delay, an insured would have been ultimately prejudiced by having less than the prescribed 60-day time frame before premium is due.

The Premium Payment Warranty should be revised in a manner such that the insurers are given 14 days from the policy inception date to issue the policy documents and the insureds are required to furnish premium payments within 75 days from the policy inception date. In that way, insurers and brokers will have time to review the accuracy of the policy documents issued and, the insureds will be given adequate time to process payment for the insurance premiums.

If this recommendation were to be adopted, the timelines stated in the other provisions will have to be changed accordingly.

viii. The proposed framework puts more structure for the collection of premiums and puts pressure on the brokers. However, it is noted that the practical side of implementing this may cause more problems as the brokers and insurers may take some time to implement this.

Contracts must be signed with all terms and conditions agreed prior to the contract inception or it will be impossible to enforce 4.2.2 of the PPF.

PPF Workgroup's Response

PPF is an agreed industry practice. Members have the discretion to deal with these exceptions in line with the intent of the PPF. Insurers cannot enforce PPW if the invoice and policy are not issued within 30 days.

The above shall also apply to Item 4.3 - Premium Instalment Payment Warranty.

Insurers will have a 30 days' period to issue the invoice and policy. Intermediaries have to ensure that the premium is collected within 60 days. We believe this is reasonable. Provisional invoice is no longer available.

No change to 4.2 of PPF. We will follow the provision for reinstatement under 6.5 of the PPF.

ix. Insurer should be responsible to send a reminder at least 2 weeks before the expiry of the PPW period to prevent duplication. A reminder should be included stating that the policy will lapse if payment is not received by the stipulated date. Intermediaries should be copied in so that they are aware and can follow up if they are receiving money in a broking premium account before paying to insurers.

PPF Workgroup's Response

If there is an intermediary, insurers will not know the status of the premium payment 2 weeks before the PPW expires. This suggestion is not practical for insurers to adopt. The intermediary is the party to collect the premium, hence they should send the reminder.

2.5. Item 4.3 - Premium Instalment Payment Warranty

i. Instalment payment is a premium credit issue while premium for insurer is a consideration for the policy contract. If an insured were to tender the various instalment premiums beyond the due date of the next instalment, can the insurer shorten the cover to this instalment due date all because of failure to meet the premium credit regime whereas all other aspects of the policy remain the same?

ii. For the status of a CAR/EAR policy being committed to the underlying contract duration affecting more than one insured party, a respondent has enquired if the policy could be terminated if there is a PPW cancellation in the policy. It was wondered if the insurer is required to address other joint insured if one fails to pay (principally the contractor) since the policy sets out to capture the contractual relationship of the various joint insureds. In addition, whether this could be over-ruled by a premium credit/collection issue in terms of the fundamental status of a contract policy.

<u>PPF Workgroup's Response</u>

4.3.1 of the PPF applies. The cover will be terminated immediately after the expiry of the instalment due date. A CAR/EAR Policy does not contain a Cancellation Condition. Therefore, if there is an issue on non-payment of premium, the CAR/EAR Policy is not in force ab initio due to non-payment of the premium. If there is a premium warranty clause in the CAR/EAR Policy, the premium must be paid within 60 days, otherwise there is no policy coverage in force.

iii. There are clients who opt for instalment payments for their personal policies. It seems that the Premium Instalment Payment Warranty would only apply to personal lines Insurance.

For payment issues such as card failure, perhaps there could be some clarity on the termination of cover automatically.

<u>PPF Workgroup's Response</u>

Item 4.3 of the PPF applies to commercial lines as well. For payment issues, please refer to question 4b of the PPF FAQ.

2.6. Item 4.3.1 - Recommended Endorsement Wordings for Premium Instalment Payment Warranty

i. Item 4.3.1, clause 3 seems harsh to the policyholder and could mean that the policyholder is exposed at these times (also relevant for item 4.2 and 4.3.1, clause 2).

<u>PPF Workgroup's Response</u>

We agree. That is the intent of the framework.

2.7. Item 5 ii - Terms of Settlement Between Intermediaries And Insurers - Brokers

i. Clarity is required in situations where there is a lead insurer and they are responsible for collecting the money from the policyholder and paying the other co-insurers.

ii. Based on the wording, it gives the impression that the intermediary has to pay the insurer by the 90th day for all types of insurance, assuming this covers both Personal and Commercial lines unless otherwise specified. It would seem logical that an intermediary is given 30 days to finalize their reconciliation and pay over the 30 days after the 60 days for commercial lines and 30 days after the commencement date for personal lines (where due before inception).

<u>PPF Workgroup's Response</u>

PPF is a framework which facilitates the collection of premiums from policyholders. PPF's objective is achieved once the policyholder has paid to the lead insurer within the relevant timeline in Section 4 of the PPF.

Pursuant to Regulation 7 (14) of the Insurance (Intermediaries) Regulation, brokers must pay all premiums received from the policyholder by the 90th day from the date of commencement of cover.

2.8. Item 6 - Recommended Practice Applicable to Commercial Lines Classes of Business

i. It is common for brokers not to have all the information required at inception and sometimes they cannot comply with getting the information within 30 days. The requirements of this clause seem to be problematic.

ii. The requirement for Insurer to issue the tax invoice within 30 days was already in the previous Premium Payment Framework. However, this is not adhered to currently. It was enquired what the intermediary can do if the Insurer does not issue the tax invoice within the 30 days' framework.

<u>PPF Workgroup's Response</u>

Where the risk has been bound and the insurer has yet to receive a complete set of the required information at or prior to the inception date, the insurers will proceed to issue the policy based on essential information received from the brokers ("the New Policy").

If the insurer does not issue the policy and invoice within 30 days, then the insurer has waived its rights to enforce the PPW.

2.9. Item 6.1 - New or Renewal Policy or Endorsement

i. There are some industry practices to only provide tax invoices / billings once all relevant information is received (with close follow up) rather than providing provisional billings based on available information which may be partial. The reasons behind this practice will be:

- to have records that are less confusing
- to ease administrative burden on the need to collect additional premiums or provide refunds accordingly

The respondent supports the clarity provided in the guidance and also the continued flexibility for insurers to adopt non provisional billing approaches. If a single approach is required or mandated, the respondent would suggest an industry survey of current practices.

PPF Workgroup's Response

With the proposed framework, provisional billing will not be required as the billing can be issued based on the minimum essential required information to bind the risk and cover and full information can be provided subsequently within the window period. The framework stipulates the required timeframe the insurer should issue the policy and invoice based on essential information. The insurer will follow the timeframe stipulated in the framework and issue the policy and invoice based on essential information.

ii. There are insurers who do not issue policy on time (e.g. 30 days from inception date). It used to be two weeks in the past. This would mean that the warranty cannot be imposed in practice. Staffing is a problem in the industry and thus premium warranty is difficult to impose in fairness to the insureds.

Brokers who are not GST registered cannot issue tax invoice as the client will not pay unless they see a Tax Invoice. Hence, the insurer must issue the policy on time in order that the broker can bill the client with the insurer's tax invoice in one single task.

The respondent has enquired if it is fairer to chase insured for the payment of premium within 60 days from the receipt of the tax invoice and policy instead of from the inception date. In ordinary commerce (other than insurance), a two months' credit period is given as part of the trade practice. Insurance is not an ordinary consumption of services but an important need. No insured likes to delay payment. Hence, it is necessary for insurers to issue policy as early as possible. In future, all hardcopy policies should be disbanded and only digital copies should be given to clients. In return, clients pay premium directly to either the broker's or the insurer's bank account. This digital policy, tax invoice, endorsement can be considered if such documents are robustly encrypted. This will help in productivity in the industry and lesser staff will be required.

PPF Workgroup's Response

If the insurer does not issue the policy and invoice within 30 days, then it has waived its rights to enforce the PPW. There is a need to await the insurer's tax invoice within 30 days.

2.10. Item 6.1 B - New or Renewal Policy or Endorsement (In respect of renewal business)

i. Often times, insureds do not provide updated sums insured / wageroll / limits before inception and it is more likely than not the insureds will seek to enhance the expiring coverage with new extensions or clauses. Renewing policies based on those expiring terms without new extensions or clauses would inevitably lead to the need for subsequent endorsements. The respondent has recommended that Clause 6.1 (B) be drafted in a manner consistent with Clause 6.1 (A) where insurers renew policies based on brokers' hold covered instructions or, on expiring coverage if no hold covered instructions were received.

PPF Workgroup's Response

This has been changed in the revised item 6.1B of the PPF.

2.11. Item 6.1 C - New or Renewal Policy or Endorsement (Collection of Premium)

i. It is unfair to make intermediaries responsible for the premium owed by the Insured. The framework should protect the intermediaries.

ii. The intermediaries will have heavy responsibilities to inform the insurance company if they are unable to collect the premium within 60 days from inception. If the intermediaries failed to inform the insurer, they are then 'responsible' for the premium. In practice, it may be a challenge for brokers to inform the insurer within 5 working days of breach, hence it may be unfair to hold the broker responsible for such an instance. It is not clear what 'being responsible' for the premium would mean. In other countries with similar frameworks, it is common for intermediaries to make a formal request of the insurer to extend the PPW. It is not clear in the paper to what extent the Insurer has discretion to extend the PPWs.

iii. The respondent is mindful that the timelines for premiums to become due would require a definitive start point but the respondent takes the view that the current start point of policy inception date may not be the most ideal. This is because invoicing of premiums is dependent on insurers issuing the correct policy documents and invoices in a timely fashion on the one hand, and the insurance brokers reviewing policy documents and issuing invoices to the clients in a timely fashion on the other hand. Given the various dependencies, it is therefore recommended that the 60-day time frame before premiums become due be changed as per the recommendation set out in the submission.

PPF Workgroup's Response

Insurers will have a 30 days’ time frame to issue the invoice and policy. Intermediaries are liable for the premium and have to ensure that the premium is collected within 60 days. There is no provision for extension. If intermediaries were to notify the insurer on the names of insureds who have breached the Premium Payment Warranty within 5 working days of the breach, the intermediaries are not responsible for the premium. Only if the intermediaries fail to notify within 5 working days, then they will be held responsible for the premium.

PPF is an agreed industry practice. Members have the discretion to deal with these exceptions in line with the intent of the PPF.

2.12. Item 6.2 - Overdue Premiums

i. It is seen to have potential compliance issues with the requirements set out in this clause. It is not clear how this is to be governed.

PPF Workgroup's Response

This has been amended in the revised item 6.2 of the PPF.

2.13. Item 6.3 - Re-marketing after cancellation due to breach of Premium Payment Warranty

i. A respondent has enquired if there is a standard claim investigation procedure to seek out the insured’s previous insurer to whom an enquiry on breach of premium payment is submitted. So when the claimant does not need to disclose (and may not disclose even if asked), it is wondered if the insurer would check amongst all insurers on the background of the claimant. For this condition preceding to be effective there has to be some form of enforcement by the insurer as well, rather than to depend on the Insured. A policy (replacing a terminated policy due to premium warranty breach) that runs for a full one-year term without claim would result in the Insured’s “bad” record for previous premium warranty breach to become history with no trace. Insurers should set a system similar to the credit bureau (e.g. a databank on all defaulting customers so that insurers can check amongst themselves). The existence of this would be a good deterrent towards the intending breach.

ii. The requirements of this clause may create compliance issues for insurers. It is wondered what would happen in the event a previous insurer (who may not be a member) does not provide the required information.

PPF Workgroup's Response

The Workgroup acknowledges that insureds may not declare. If they declare, item 6.3 of the PPF would set out the procedure to follow. The suggestion would be kept in view. After the revised PPF is implemented, the Workgroup can survey the experience of GIA members in the execution of remarketing after cancellation and ascertain if bad records database system would be useful.

The new insurer should not start cover without written confirmation from the previous insurer. This would also apply to Item 6.3.1 - Recommended Wordings for Declaration in Quotation Slip.

2.14. Item 6.4 - Time on Risk

i. It is stated that brokers are not 'liable' for collection of time on risk but may assist. It would seem that this clause is ambiguous and potentially contrary to item 6.1 (C) since premiums and time on risk premiums are treated differently.

PPF Workgroup's Response

From the edits made to item 6.2 of the PPF, if the intermediary does not notify the insurer within 5 working days of the breach, it will be liable for the collection of the time on risk premium. The intermediary should be liable for the entire premium and not just the time of risk premium. The PPF Workgroup has revised items 6.1, 6.2 and 6.4 of the PPF in response to the feedback.

2.15. Item 6.5 - Suspension and/or Reinstatement of Cover if Payment After Breach

i. This clause seems to be confusing and creating a high level of administrative burden on insurers. If there is a breach, cover must be suspended from the date of breach to the date of payment and applies to time on risk premiums. If the cover is suspended from the time of the breach to the time of payment, there is a period in which free cover will effectively be provided. It is not clear what it means when the cover may be reinstated from the date of receipt of full payment.

ii. Read strictly, the cover resumes on the date of payment to the expiry date and the insurer is to seek a time on risk premium for the period from the original inception to the breach date. It is also not clear if the notification requirements of earlier clauses were to apply.

iii. Importantly there could be material issues depending on the type of cover. For example if it is an occurrence, there will be gaps in cover if it is not reinstated from inception. If it is claims made, retroactive liability dates would need to be considered and would require amendment.

iv. The respondent notes also in FAQ question 14 that backdating is strictly not allowed. The exceptions here are potentially ambiguous, leaving the possibility of a wide interpretation of what is an extenuating circumstance. The clause does not seem practical in liability policies. Finally, compliance with this clause may cause significant operational issues depending on an insurer’s system functionality and capability.

v. In the event a policy is issued on time and the insured fails to pay within 60 days from the inception date, it is best for the insurer to reissue again and treat it as a new risk. This will impact on the insurer’s productivity with additional work and paper trail. The simple way is to re-issue another tax invoice and marked it appropriately therein i.e. the policy would be based on prior policy number ABC123456. In this way, the insured need not file another set of policy but to only make payment for the new tax invoice.

PPF Workgroup's Response

There is no free cover. Refer to FAQ question 12b. The insurer has a choice under item 6.5 of the PPF.

2.16. General Feedback on the Proposed PPF

i. What is the position of Trade Credit policies in the PPF?

ii. For policies to be automatically terminated from the expiry of the 60-day period, is advance reminder and termination notification a precedent condition? What would happen if there is a loss incurred between the 61st day and notification is being received by the insured?

PPF Workgroup's Response

Trade Credit policies is excluded. See definitions on commercial lines under item 2 of the PPF.

As for advance reminder and termination notification, no notice is needed. The cover under the Policy, Renewal Certificate or Cover Note would automatically be terminated immediately after the expiry of the said 60-day period. The framework does not stipulate the requirement of advance reminder or termination notification. Such a practice will be at the discretion of the insurer.

iii. With the exception of policies which operate on a payment before cover warranty, the current framework imposes a 60 days' credit term from policy inception date for an insured to pay premiums. However, insurers are allowed a 30 days' concession from the policy inception date to issue tax invoices and policy documents. These documents are the key trigger point for the insured to initiate settlement of premiums to the insurer. The respondent recommends that it be clearly stipulated that the premium payment credit period should commence from the date of the insurer's tax invoice and policy issuance, instead of the policy inception date. Insurers should notify the intermediaries of the documentation issued within 5 working days from the date of the tax invoice/policy.

Alternatively, the payment before cover warranty could be applied to both personal and commercial lines as currently defined under the framework. This is an industry practice observed by other major insurance markets in Asia, such as Japan and Korea.

PPF Workgroup's Response

Insurer cannot enforce the PPW if the invoice and policy are not issued within 30 days.

Insurers will have a 30 days' time frame to issue the invoice and policy. Intermediaries have to ensure that the premium is collected within 60 days, which seems reasonable.

iv. Given that the framework is currently a best practice guideline as opposed to a regulatory requirement, it allows a commercial decision by the insurer to terminate a policy on the basis of non-premium payment by the insured. The framework currently provides for a courtesy notification by the insurer that a cover has lapsed. If the intention of the framework is for a default cancellation of policy, the respondent recommends that insurers formally communicate a cancellation via a notice of policy cancellation to the intermediaries. This notice would also facilitate the validation of declarations in the quotation slips/insurance policies which serve to prevent a systemic abuse by cancelling covers and placing through other intermediaries/insurers. Accordingly, if an insurer chooses to defer its right to exercise the automatic cancellation clause in the policy, a written confirmation from the insurer should be issued, with explicit stipulation of the extended premium due date (e.g. a further 30 days from original due date etc.). Policies with a payment before cover warranty can be excluded from this requirement as risk has yet to attach.

PPF Workgroup's Response

The insurers rely on the intermediaries to notify them within 5 working days of the breach. Then the insurers can send the courtesy notification that the cover has lapsed.

No extension of the PPW is possible.

v. The framework currently excludes the global/regional programmes from having to apply the premium payment warranties. In reality, a significant number of insurers in Singapore request for such warranty wordings to be included in global/regional type insurance policies. This creates a problem as it is common for local admitted policies and insurer tax invoices of global/regional programmes to be issued near or after 60 days of inception, which would mean that the insured will have no chance to pay premiums before the premium payment warranty date and there is a high risk the policy will be auto-cancelled.

The respondent has suggested that the framework include a provision that where insurers choose to voluntarily include premium payment warranties, the same principles for timely issuance of insurer tax invoice/policy and formal notification of any policy cancellation/extended premium due dates be applied.

PPF Workgroup's Response

The Workgroup agrees. If the insurer does not issue the policy and invoice within 30 days, the insurer has waived its rights on the PPW.

vi. The proposed framework does differ from the respondent's standard aviation market clauses in relation to premium payment. The usual clause used is AVN6A, and usually, an Aviation risk is granted quarterly instalments within AVN6A.

As an example a risk incepting today (8th Jan 2016)

Instalment 1: 8th January 2016 (+60 Days due to Underwriters = 8th March 2016)

Instalment 2: 8th April 2016 (+30 Days due to Underwriters = 8th May 2016)

Instalment 3: 8th July 2016 (+30 Days due to Underwriters = 8th August 2016)

Instalment 4: 8th October 2016 (+30 Days due to Underwriters = 8th November 2016)

Current market practice is that following the 60/30 day period of credit granted by the market a Notice of Cancellation (NoC) is issued for a 30-day period. This is common in Asia as clients more often than not in some cases use the NoC period as part of their own premium payment mechanism. If they have not paid by the end of the NoC, an extension is sought from the insurer to maintain coverage.

It is of the view that Aviation should be excluded from the framework given the similarities in coverages and transactions to the Marine class of business, which is currently exempted from the framework requirements.

PPF Workgroup's Response

The Workgroup agrees that aviation will be excluded from the PPF.

vii. We understand the proposed framework applies only to GIA members and SIBA members. How is the framework to be enforced/applied in a transaction between a member and non-member?

PPF Workgroup's Response

The framework will be applicable to all licensed insurers and intermediaries that carry out general insurance business.

viii. Does the Premium Payment Framework apply to general insurance policy issued by Life Insurer? At the moment, Life Insurers practice “Grace Period” and not the premium payment framework even though it is a general class of policy.

PPF Workgroup's Response

The PPF will be applicable to all insurers carrying out general businesses. Therefore, a composite insurer will be subject to the framework too.

ix. What is the PPF Workgroup's stand on PPF in the case of long-term agreements and/or break and review cases?

PPF Workgroup's Response

For long term agreements, this should be treated like yearly renewal policies.

For break and review cases, this should be treated like renewal policies.

x. Personal lines – cash before cover is hard to impose unless via the commerce channel. Corporate clients who insure their travelling staff cannot pay cash as travel is on a day’s notice. Company cannot pay for staff insurance immediately. To overcome this, the broker has to pay on behalf of the client in view of the personal insurance effected. It is wondered if this is feasible?

PPF Workgroup's Response

If the company buys the travel insurance as personal lines, Payment Before Cover Warranty applies. If the company buys travel insurance as commercial lines, the PPW would apply.

xi. In view of digitisation, all stakeholders’ IT system must be upgraded to be web enabled. In this way, monitoring of premium payment would be on the go and not depending on monthly statement for action and subsequent reporting to insurer and MAS (quarterly).

In this period of economic hardship, insurance premium sometimes will be paid after the 60 days and although brokers chase for payment, the failure to receive payment will surely jeopardise the insured's coverage if insurer chose to impose strictly the warranty and no claim will be admitted. Hence, to avoid hardship, there must be a PPF sub-committee to arbitrate in situations like this. The reason is that a Warranty once breached cannot be restored. Any claim payment will be at the discretion of the insurer.

PPF Workgroup's Response

The intent of the PPF is to cancel the policy automatically if premium is not paid.

3. Response to Feedback on the Frequently Asked Questions (PPF)

3.1. FAQ 6 - CAR/EAR Policies

i. We do not find the answer to the question clear enough on how to address non-cancellable policies. If the non-cancellable policies part of the question is removed, then the answer would make sense.

PPF Workgroup's Response

We have amended question 6 of the PPF FAQ.

3.2. FAQ Question 12 B) - Payment after Premium Payment Warranty Period

i. This question illustrates for Premium Payment Warranty a “No Cover” period between 60 Days’ PPF Deadline and when payment is made (Reinstatement date). The respondent believes that insurers should also be allowed to provide cover from inception date should full payment be made. This would not only ease the administrative burden to calculate pro-rata premiums but also reduce the chances of error of incorrect refunds should the wrong amount be paid.

PPF Workgroup's Response

Upon the receipt of full payment after the 60-day warranty period, the cover may be reinstated from the date of receipt of full payment to the original expiry date. Please refer to item 6.4 of the PPF.

3.3. FAQ Question 16 - Endorsement

i. Credit for premium arising from the endorsement should take effect from the effective date of the endorsement and should be 60 days as intended by the policy premium warranty. Inception policy annual premium if paid within the premium warranty should keep the policy in force if the premium for the endorsement is not settled in time (e.g. only the effect of the endorsement be negated). Regarding this intention, perhaps FAQ question 16 may need a little elaboration.

PPF Workgroup's Response

The Workgroup agrees on the above.

4. Next Step

4.1. Implementation of the changes to the PPF will take effect from 1 September 2016.

General Insurance Association of Singapore

11 July 2016