

The Development of the Offshore Reinsurance Market in Singapore and Its Experiences for India

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Abstract

In March 2017, China Insurance Regulatory Commission issued Notice on Matters Related to the Provision of Guarantee Measures for Offshore Reinsurers, and announced the formal establishment of a deposit system for Offshore reinsurers.

This measure improves China's reinsurance regulatory system. It can not only prevent the cross-border transfer of foreign financial risks through reinsurance exchanges but also promote the smooth and healthy development of Chinese reinsurance market. The establishment of Offshore reinsurance margin system provides institutional guarantee for the construction of international Offshore reinsurance in China. India, as a major shipping country in the world, has superior geographical location and mature shipping business. The establishment of international reinsurance center plays an important role in promoting the development of India's insurance market and shipping market. Offshore reinsurance business accounts for greater proportion in business structure of the international reinsurance center. The establishment and development of Offshore reinsurance center in India need to compete with many mature Offshore reinsurance companies in the world. Singapore is not only Asia's largest international financial center but also one of Asia's largest international reinsurance centers. Its Offshore reinsurance market is more mature. In the past 10 years, it has maintained a steady growth trend, which can provide a reference for the development of Offshore reinsurance business in India. This paper begins with the development conditions and market data of Singapore Offshore reinsurance market, analyzes the development of Singapore's Offshore reinsurance market and the development of the domestic insurance industry in India, combines with the analysis of the advantages and disadvantages of Mumbai, Kandla Port and other places, and puts forward suggestions for the development of Offshore reinsurance business in India.

Keywords

Offshore reinsurance, Singapore, India, Kandla Port

1. Introduction

Since the 1970s, the Offshore financial market has developed rapidly. Now, the more developed countries and regions have established Offshore financial centers. It can be said that Offshore financial markets have spread all over the world. At the international level, the more popular types of Offshore centres are London, New York, Singapore, and the Caribbean.

India's has special geographical location. To be specific, it is located in South Asia and connects the Middle East and Southeast Asia, which can be described as a geographical location with superior marine resources. Moreover, there are many world-renowned harbors in India, such as Kandla, Mumbai, Chennai, and JNPT. These port cities offer a unique condition for the establishment of international Offshore financial center. At present, India's Offshore business is still in its infancy, and the supporting facilities and the basic system are not yet perfect. Thus, India should combine its own geographical advantages to find the ideal entrance. Since there are many international shipping centers in India, the demand for original insurance and reinsurance related to shipping is huge. This also provides the conditions for the development of Offshore reinsurance business.

In the 1980s, Singapore established an Offshore insurance center-one of the largest Offshore insurance centers in Asia and the world. Besides, its Offshore insurance business has a relatively short development time, which is more suitable for India than other countries and regions. Singapore's Offshore insurance business consists of life insurance and non-life insurance business. Moreover, the Offshore reinsurance business is a strong main force, accounting for half of the premium income. Based on the analysis of Singapore's Offshore reinsurance conditions, market data and the development of regulatory policy, this paper studies Singapore's Offshore reinsurance market, combines with the conditions of India, and summarizes the experience that is worthy of reference for India.

2. The Development of the Offshore Reinsurance Market in Singapore

In September 2017, the Global Financial Center Index (GFCI), compiled by UK Z/Yen, was officially released. Mumbai, as the highest financial center in India and an international financial center, ranks as the world's 60th largest financial center. Singapore ranks fourth in the world after London, New York, and Hong Kong. The international financial business of Singapore has promoted the development of Offshore reinsurance market. In recent decades, large numbers of international reinsurers have set their Asian operation headquarters in Singapore, so that the Offshore reinsurance business of Singapore is stable and the market becomes more prosperous. This chapter will analyze the development conditions, market types, market data, company profiles, and regulatory policies of Singapore's Offshore reinsurance.

2.1 Development Conditions

The development of Singapore as an important financial center in the world is closely related to its own conditions.

2.1.1 Local Mature Insurance Market

The mature insurance market in Singapore is the foundation of international insurance center and international Offshore reinsurance center. There are many famous international insurance groups, Insurance agencies, Insurance consulting companies and Insurance broker companies, which promote the maturity of the Singapore insurance market.

2.1.2 Perfect Regulatory System

Singapore's insurance regulation legal system is more perfect. Insurance company can decide the rate and freely formulate policy terms. In this area, regulators give sufficient degree of freedom to fund use. In 2002, Singapore formally launched the risk-based RBS regulatory model to oversee the solvency of insurance companies. Some illegal practices, such as money laundering, are common in Offshore markets. Singapore has regulation model of internal and external separation. To be specific, the Offshore financial institutions must offer special Offshore accounts. Besides, all Offshore transactions conducted by financial institutions must be carried out within the account. This regulatory mode is not only convenient for regulatory supervision but also can effectively curb the impact of some international financial activities on domestic financial markets.

2.1.3 Preferential Tax Policy

Offshore company has a high requirement for tax policy. For example, in Bermuda and the Cayman Islands as well as the British Virgin Islands, the preferential tax policy of financial center becomes fertile ground for the development of Offshore reinsurance market. Moreover, Bermuda has a tax exemption for its reinsurance companies. Currently, Singapore's tax policy is exempt from sales tax, which is 17%. Also, it offers greater discounts for Offshore insurance and Offshore reinsurance businesses. By contrast, India has a relatively high corporate income tax. In fact, there is a competition among Offshore financial centers. Although a low tax or tax exemption policy may reduce tax revenues, it can attract large numbers of international companies and talents, promote the construction of infrastructure, and boost the economic development.

2.1.4 Geographical Environment Factor

Singapore has made full use of its geographical advantages in the process of developing its economy. As an island country, Singapore consists of the islands of Singapore as well as 54 small islands around it. Singapore is known as the "Oriental crossroads" because it is close to Malaysia in the North, carries Mata Strait in the south, guards the entrance to the Malacca Strait in the west, and faces to Indonesia and the South China Sea in the east. Regarding the history of reinsurance, "during the 14th century and the 15th century, it began to sprout and develop in Italy, Britain, Germany, Spain, the Netherlands, and other countries. Meanwhile, the maritime trade of these countries is more developed". According to the world's top 10 container port throughput statistics released by China's port database, Singapore ranked second in the world in 2015. Therefore, the developed ports have made Singapore's shipping insurance business develop rapidly. Also, the shipping insurance business is one of the main businesses of Singapore's Offshore reinsurance business. Thus, Singapore's superior location has boosted the flourish

of its Offshore reinsurance business.

2.2 Analysis of the Offshore Reinsurance Market in Singapore

In fact, Singapore's Offshore reinsurance market already leads the Asian and global Offshore reinsurance business. Thus, it is important to understand the market structure and market data for establishing an Indian Offshore reinsurance market. This section will analyze the development process of the Offshore reinsurance market in Singapore from the overall market index and the company's operating index.

2.2.1 Offshore Insurance and Offshore Reinsurance Premium Income and Growth Rate

In recent five years, Singapore Offshore insurance has grown stably. The average growth rate of overall Offshore insurance premium income is about 11%, while the average growth rate of Offshore reinsurance premium income is slightly lower than the former, which is about 10%. The premium income growth of Singapore's Offshore insurance industry and the Offshore reinsurance industry is among the highest in the world. From 2011 to 2015, Singapore's Offshore total premium income rose 40 percent, while Offshore reinsurance revenue improved about 35 percent. Regarding premium income and growth rates, the Offshore insurance industry has grown faster than the Offshore reinsurance industry, which could be due to the rapid growth of other Offshore product sales. However, Offshore reinsurance's position in the Offshore insurance industry is not shaken, although the market share has been up and down over the past five years (it has remained above 50%, as shown in Table 1).

Table 1. 2011-2015 Offshore Insurance and Offshore Reinsurance Premium Income and Growth Rate

Index	Total Offshore insurance premium income (million dollars)	Growth rate (%)	Total Offshore reinsurance premium income (million dollars)	Growth rate (%)	Proportion (%)
years					
2011	6396.8	19.6	3700	20.2	57.84
2012	6789.8	6.1	3748.9	1.3	55.21
2013	7364.3	8.5	3884.1	3.6	52.74
2014	7917.6	7.5	4244.1	9.3	53.6
2015	8997.7	13.6	4990.8	17.3	55.47

Note. Information from 2011-2015 annual report of Singapore monetary authority.

As shown in the above Figures, the Offshore reinsurance industry in Singapore is the most important component of Offshore insurance, and its steady growth rate has contributed to the flourish of the whole Offshore insurance industry.

2.2.2 Net Claims Incurred and Ratios

Claims and loss ratios reflect the extent to which the insured person has received compensation, and it partly reflects the reputation of the insurance industry. As displayed in Table 2, except 2011, the loss ratio of 2012-2015 is in a relatively stable state, with the average total loss rate of about 52.4%. Compared with the insurance products, property insurance has the lowest average loss rate in nearly four years, which is about 47.9 percent. Cargo and liability insurance has the highest average loss rate, which is nearly 77.9%. Thus, the shipping industry has brought great opportunities to Singapore's Offshore reinsurance, but shipping related businesses also make insurance companies pay the most.

Table 2. 2011-2015 Offshore Reinsurance Claims and Ratios

Index years	Net Claims		ratio	Cargo (%)	Hull and Liability (%)	Property (%)	Casualty and Others (%)
	Incurred (million dollars)	Total (%)					
2011	5799.4	222.4		94.4	88.9	294.4	50.9
2012	1385	54.8		85.2	81.2	47.9	65.8
2013	1270.2	47.2		57.1	57.9	49.6	30.2
2014	1274.4	41.4		38.5	95.7	30.3	74.7
2015	1983.9	66.4		82.8	76.9	63.9	71.1

Note. Information from 2011-2015 annual report of Singapore monetary authority.

From the Table, it can be seen that the claims and ratios of property insurance is extremely high in 2011, and the ratio of the property insurance is 300%, which leads to the increase of the total loss rate. In 2011, the dollar was at an all-time low and the global economy was in a low-growth period. In 2011, the global catastrophe insurance industry was hit hard, and frequent natural disasters caused severe damage in many Asian regions, such as Japan and Thailand. The global insurance industry lost nearly \$100 billion on catastrophe insurance. Singapore's Offshore reinsurance market underwrites multiple catastrophe insurance of Asian regions. This is one of the reasons why its 2011 losses reach up to 300%.

2.2.3 Gross Premiums of Offshore Reinsurance Fund Business by Territory

Figure 1 reflects the proportion of countries and regions in Singapore's Offshore reinsurance market in 2015. Obviously, Singapore's Offshore reinsurance market mainly focuses on Asia and the Pacific, which also highlights its position as an Offshore financial centre in Asia. Singapore has utilized its advantages to attract peripheral countries and regions to participate in financial activities, which also promotes the vigorous development of Offshore reinsurance market in China and Asia.

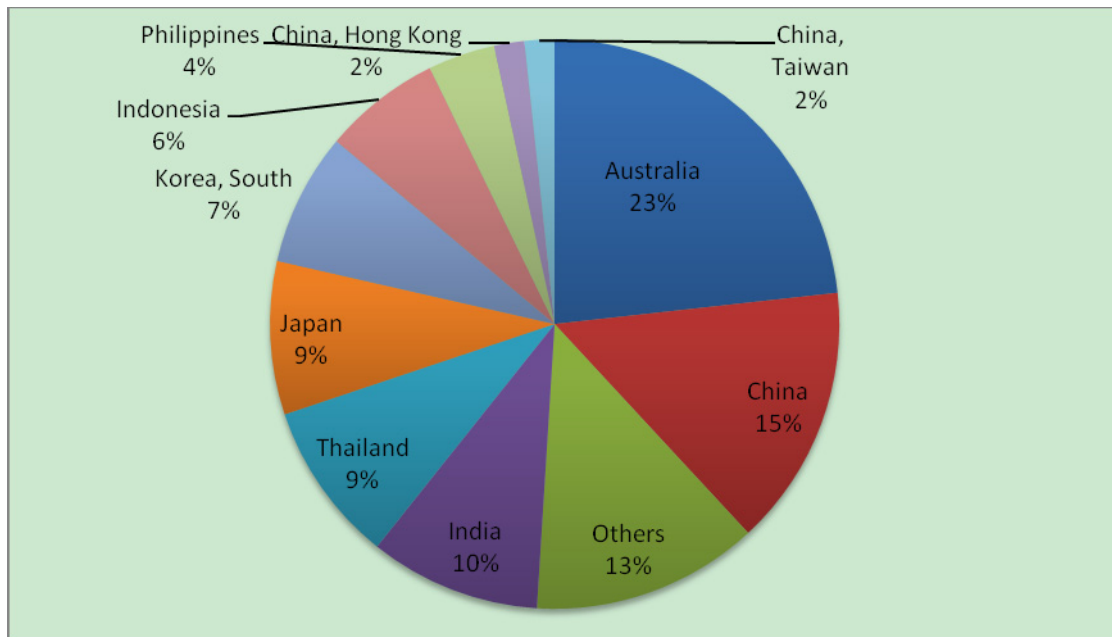


Figure 1. Gross Premium Ratio of Offshore Reinsurance Fund Business by Territory

3. The Development of the Insurance Industry in India

3.1 The History and Opportunity of the Indian Insurance Industry

India is a developing country. The insurance industry is not developed and it has a considerable gap with China. But in the history of development, because of British colonial rule, Indian insurance began in the early 19th century and has been around for nearly 200 years. India's insurance industry has gone through the process of privatization, nationalization and free competition.

India became a member of the WTO in 1995. By common sense; India should be more open to foreign trade than China, which joined the WTO in 2002. But in the case of India's insurance reinsurance market, which is not the case. India has been under British colonial rule for two centuries, which brought India into the industrial age earlier. India started the insurance industry in the early 19th century and then developed rapidly. By the first half of the 20th century, there were hundreds of insurance companies. Only in the 1950s and 1970s, India nationalized life and property insurance twice, and the number of insurance companies plummeted to two, each with life insurance and property insurance companies. Since then, India's insurance reinsurance industry has entered a period of slow progress.

In 2000, the Indian government established the Insurance Regulatory and Development Authority (IRDA), which received supervision and management of the insurance industry. India's insurance industry, from its original monopoly to free competition, has seen private or private insurers. Despite the emergence of new business entities in India's property insurance market, the market share of state-owned property insurance companies has remained stable at more than 60%, accounting for more than half of the total. In fact, with the increase of new business entities and the expansion of private

insurance enterprises, the market share of Indian state-owned property insurance companies has been declining year by year. At present, there are dozens of private companies operating in the property insurance industry. Private insurance companies are mostly foreign-funded, and there are no shortages of insurance companies among foreign shareholders. The reinsurance arrangements of these private insurers will be supported by foreign parent companies but are limited to the maximum 10 percent premium. Any Indian insurance company that rearranges the reinsurance premium for an overseas reinsurer cannot exceed 10 percent of the Indian company's premium. So the international reinsurers are wary of the Indian market.

With the free competition of the Indian insurance industry, it opened up the process of opening up the Indian insurance industry. But since the government has adopted a strict and prudent policy of opening up, for example, foreign investors can only participate in the Indian market, and all foreign ownership of an insurance company is capped at 26 percent. There are also hard restrictions on the history and capital of foreign companies. The Indian insurance market has been slow to develop because of weak domestic capital, limited foreign investment and strict supervision.

But in recent years, India's domestic insurance industry has also been actively developing technologies such as the Internet, big data and artificial intelligence to increase spending in the IT sector. In 2013, Indian insurers spent 107 billion rupees to buy IT products and services, up 16 percent from 2012. Indian insurers are expected to spend 177 billion rupees on IT in 2014, up more than 9 percent. The scope of expenditure includes the internal IT construction of insurance companies, hardware, software, external IT services and communications. IT services became the fastest growing segment of India's insurance industry in 2014, at 16.2 percent. Meanwhile, business process outsourcing will grow by 24.1%, consulting services will grow by 20.1%, and enterprise software will grow by 20%, especially customer relationship management, which will be an important growth part.

India's insurance market has a long history, especially car insurance. It and fire insurance constitute two of the pillars of India's non-life insurance, the two fastest-growing sectors. With the rapid growth of India's economy, the insurance industry began to seek business innovation and transformation. And IT system is the necessary management means and tools, at the same time of help enterprises to improve business ability, can also help them through some of what is happening in the inevitable risk, IT may be India's insurance industry IT solutions market maintained rapid growth.

India's insurance industry start is not late, but in the global insurance industry under the impact of liberalization, India's insurance industry ushered in the era of free competition, insurance industry chose a slowly progressive development path; keep the more primitive of primitive simplicity of style. Perhaps in the near future, India's insurance industry will usher in profound changes.

3.2 The Development of India's Domestic Insurance Industry

At the end of March 2016, there are 54 insurers operating in India of which 24 are life insurers, 24 are general insurers and 5 are health insurers exclusively doing health insurance business. In addition, GIC is the sole national reinsurer. Of the 54 insurers presently in operation, eight are in the public sector and

the remaining forty six are in the private sector. Two specialized insurers, namely ECGC and AIC, one life insurer namely LIC of India, four in general insurance and one in reinsurance namely GIC are in public sector. 23 life insurers, 18 general insurers and 5 standalone health insurers are in private sector. GIC is the national reinsurer, providing reinsurance to the direct general insurance companies in India. The Corporation's reinsurance program has been designed to meet the objectives of optimizing the retention within the country, ensuring adequate coverage for exposure and developing adequate capacities within the domestic market.

According to Insurance Regulatory and Development Authority of India, the net earned premium of the Reinsurer during 2015-2016 is increased 2.4 billion dollars from 2.1 billion dollars in 2014-2015. Contrast with the largest reinsurance group in China, China Reinsurance Group, in 2015, the total premium income of reinsurance business of China Reinsurance Group was 8.3 billion dollars, just one company has more than three times as much reinsurance premium income as India. Therefore, under this circumstance of only one reinsurance company in home, it is very difficult for India to set up an Offshore reinsurance center. However, the development of all things has a long process, so the establishment of the international Offshore reinsurance center is not accomplished at one stroke. This paper will offer a proposal on the development of Offshore reinsurance in India.

4. Revelations for India

4.1 Go into Overdrive to Build Supporting Infrastructure for the Offshore Reinsurance Center

The perfect supporting infrastructure and efficient communication system are essential for all successful Offshore insurance. With the development of economy, the current India has been continuously improved in the transportation facilities such as aviation, ports and railways and is committed to building an international shipping center. The construction of traffic facilities is convenient for the flow of people, money and things. In the era of rapid development of Internet in twenty-first century, the construction of communication system is more important. The construction of communication and information technology is an important basic condition for the construction of the Offshore reinsurance center. The development of the Offshore reinsurance in India should make the best of this historical chance, speed up the construction of reinsurance information system and gradually work up the electronic insurance market so as to create a good environment for the development of the Offshore insurance market.

4.2 Encourage Direct Insurance Companies to Engage in Reinsurance Business

The number of reinsurance business that directs insurance company in India run is smaller. Because reinsurance transactions need to inform all the business related to each other and the competition between insurance companies is fierce, no one is likely to leak their secrets to each other. They prefer to give reinsurance to foreign reinsurance companies rather than exchange them with their competitors. In order to increase the reinsurance business of the direct insurance company, first of all, the insurance company should continuously improve the underwriting capacity and increase the reciprocal business

or transfer insurance business to the foreign insurance companies. The second is to strengthen the maintenance of the domestic credit system construction and fair competition environment, promote business communication and cooperation between domestic insurance institutions and achieve the reciprocal reinsurance of insurance business so as to promote the development of reinsurance.

4.3 Take Full Advantage of Geographical Conditions to Develop Offshore Business

The rise of Singapore's Offshore reinsurance market partly depends on its superior location, and the booming shipping business has boosted demand for Offshore reinsurance. In contrast, the ports of India's Mumbai, Chennai Port, and JNPT are all important ports in the world and its shipping business is booming, but the shipping insurance and reinsurance businesses are not developed. Thus, it is suggested that Indian regulators relax the access condition related to India shipping insurance risks, promote the development of the shipping insurance market, encourage cooperation between insurance company and port, and jointly promote the development of shipping insurance as well as related industrial chain.

4.4 Formulate Preferential Taxation Policies to Attract International Outstanding Reinsurers

The competition among the international Offshore financial centers is fierce. Apart from the geographical environment and infrastructure, the tax rate is also an important factor in determining whether Offshore companies set up local branches. At present, most of the world's Offshore financial centres offer different incentives for tax policy. In Singapore, the Offshore reinsurance business is exempted from business tax. The income tax varies according to different types of risks, but it is not more than 10%. Bermuda and Cayman Islands are not required to pay income tax. India, as one of the fastest growing economies in the world, has the ability to develop a series of tax incentives for developing Offshore financial centers. For example, it can set tax-free years, duty-free quotas or percentages to attract internationally outstanding reinsurers to establish branches in India.

4.5 Combine with India's Global Strategic Layout to Help Build Offshore Reinsurance Market

As the leader of the association of Southeast Asian nations, Singapore has involved in various cooperation in the world for many years. No matter it is China's "One Belt And One Road" strategy or the "TPP Agreement" initiated by the United States, Singapore has developed its own market through a variety of international cooperation. Also, its Offshore business has benefited from this. Hence, to develop India's Offshore reinsurance market, the relevant departments and insurance companies of India should rely on the bilateral mechanism of their respective countries, use existing effective platform for the regional cooperation, actively participate in the globalization of world strategic layout, and inject more internationalization connotation and vitality for the establishment and development of Offshore reinsurance market in India.

4.6 Establish a Reasonable Supervision Mechanism to Prevent the Cross-Border Spread of Credit Risk

Offshore companies are regulated in order to protect policy holders and Offshore financial environments and prevent illegal behavior as well as other forms of money laundering. However, there is no need for clear regulation of an ideal environment. In fact, the Offshore reinsurance market in India

is an imperfect market and establishing reasonable regulation is necessary. Singapore has a strict internal and external separation, and Offshore companies are not allowed to operate onshore. There are many Offshore financial centers around the world that are regulated by internal and external separation. However, the long-term internal and external separation will prevent Offshore funds from being infiltrated into the onshore market, which may hinder the development of domestic economy. The Indian Offshore reinsurance market is still in the development stage. While absorbing international advanced experience, it should focus on its own actual situation. In the policy-making, the regulatory authorities should establish relatively loose regulatory policies in the early stage of the market, so as to achieve the post-development supervision. The goal of regulatory policy is to hedge risk, and regulators should not develop complex regulatory policies without a clear picture of risk sources. The regulatory authorities should be tolerant of India's nascent Offshore reinsurance market, and Offshore insurance companies should also actively cooperate with regulators. Overall, India's regulators should work together to build a bottom-line thinking, stick to results orientation, and build a prosperous and stable market for India's Offshore reinsurance.

5. Conclusions

This paper not only analyzes the market conditions of Offshore reinsurance in Singapore and its operation situation but also puts forward some suggestions for the establishment of an Offshore reinsurance market in India. However, the development of world-renowned Offshore reinsurance centers, such as Singapore and Bermuda, has its own unique and non-copyable area. Additionally, India's economic system and political system have their own characteristics. In practice and exploration, the leaders and scholars of the past dynasties have found a path suited to the national conditions of India. All in all, India's Offshore reinsurance market still has a long way to go. Nonetheless, with research and practice, the theory will eventually come true.

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