

CONSULTATION PAPER

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Public Consultation on Market Conduct Rules for Marketing and Distribution Arrangements of Financial Institutions at Retailers and Public Places

MAS

Monetary Authority of Singapore

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PREFACE

Financial institutions (“FIs”) today have various distribution arrangements to market their financial products and services. Some conduct roadshows at public places while others may enter into distribution arrangements with retailers, to market their financial products and services at such venues. This increases the reach of FIs to members of the public and may give rise to market conduct issues.

2 Due to increasing interest amongst FIs to market and distribute financial products and services at retailers and public places, the Monetary Authority of Singapore (“MAS”) is proposing measures to mitigate the potential market conduct risks posed to consumers arising from such arrangements. The proposed measures consist of a set of market conduct safeguards for FIs conducting marketing and distribution activities at retailers and public places and periodic submission of details of these activities to MAS.

3 MAS invites interested parties to provide their views and comments on the proposals. Please submit written comments by 24 August 2015 to –

Capital Markets Intermediaries Department II
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117
Email: MnDConsult@mas.gov.sg

4 Electronic submission is encouraged. Please also use this suggested format [[link to consultation feedback submission document](#)] for your submission to ease our collation efforts.

5 Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1 INTRODUCTION

1.1 It is a common practice for some FIs to conduct roadshows at public places such as MRT stations, bus interchanges and shopping centres to market and distribute their financial products and services to members of the public. For instance, an insurance company may hold a roadshow at an atrium of a shopping centre to sell its life insurance products. Similarly, a bank may conduct a roadshow at a bus interchange to market its credit cards. There is also increasing interest from FIs to enter into marketing and distribution arrangements with retailers, such as those selling consumer goods and groceries, for their representatives¹ to market and sell their financial products and services at the premises of these retailers.

1.2 Such marketing and distribution arrangements of FIs at retailers and public places will increase the reach of FIs to members of the public. The proliferation of such arrangements, if not properly managed, could lead to the following problems:

(a) Harassment of consumers

Consumers who are not seeking to purchase financial products and services, may feel harassed or make impulse purchases when they are prospected at retailers and public places. Further, consumers may not be adequately prepared to provide information necessary for a proper sales and advisory session and could face increased risk of buying a product that is not suitable for their needs, financial situation or risk profile.

(b) Confusion over the roles of the FI and retailer

Where there are tie-ups between an FI and a retailer, the sales booths of the FI may be located within the premises of the retailer and there may be co-branding efforts between the two parties. In such scenarios, consumers may be confused as to whether they are dealing with a representative of the FI or staff of the retailer when approached to purchase a financial product or service.

¹ Representatives refer to employees and agents of FIs including, but not limited to, representatives appointed to conduct regulated activities under the Securities and Futures Act and/or provide financial advisory services under the Financial Advisers Act.

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- (c) Enticement of consumers to purchase unsuitable products
Consumers may be enticed by gifts offered by FIs or by bundled promotions offered by the FI and retailer, and purchase financial products or services which they may not require or which are not suitable for them.

 - (d) Unconducive environment for the purchase of financial products
When financial products and services are sold at retailers and public places, it is common for promotion and sales booths to be set up in a small, open and visible space with high foot traffic. Under such circumstances, the physical environment may not be conducive for FIs to conduct proper sales and provide proper advice.

 - (e) Mishandling of cash and cheques collected
FIs may collect payments from consumers in the form of cash or cheques for transactions closed at retailers and public places. The mishandling of such payments exposes the FIs to possible financial losses or fraud.

Proposed supervisory approach

1.3 To address the concerns listed in paragraph 1.2, MAS is proposing to require FIs to:

- (a) comply with a set of Market Conduct Guidelines setting out controls and safeguards that FIs should put in place when conducting marketing and distribution activities at retailers and public places. These measures are aimed at mitigating the risks of FIs engaging in improper practices such as product pushing and aggressive selling; and

- (b) provide prior notification to MAS of their plans to conduct marketing and distribution activities at retailers and public places, as well as information on the actual activities conducted. Such notification requirements will allow MAS to monitor the proliferation of such activities and take pre-emptive measures where necessary to mitigate the associated market conduct risks posed to consumers.

1.4 In considering the regulatory approach for such marketing and distribution arrangements, MAS recognises that roadshows at public places and distribution

arrangements with retailers are an important component of some FIs' business models, in particular FIs which do not operate a large physical branch network. Such marketing and distribution arrangements also create greater awareness of and facilitate easier access to financial products and services for consumers. Notwithstanding this, MAS is mindful of the potential market conduct risks posed to members of the public, some of whom may not fully appreciate the risks and financial commitments required of financial products and the implications from impulse and unsuitable purchases. MAS proposes to apply the Market Conduct Guidelines and notification requirements to the FIs listed in Table 1 and the financial products and services listed in Table 2.

Table 1: List of FIs

- Banks
- Non-bank credit card and charge card licensees
- Holders of a capital markets services licence
- Licensed financial advisers
- Insurance companies and their intermediaries²

Table 2: List of Financial Products and Services

- Banking products and services, including credit cards, charge cards and unsecured facilities
- Capital market products and services
- Life insurance
- General insurance, including Accident and Health insurance

² Insurance intermediaries refer to licensed and exempt financial advisers (including banks and insurers) and their representatives, insurance agents or direct and exempt direct insurance brokers who advise on or arrange contracts of insurance.

1.5 Due to the open nature of marketing and distribution arrangements at retailers and public places, the proposed rules will apply to all arrangements accessible to members of the public. “Closed-door” events such as a seminar organised in an auditorium by invitation or subject to registration, or a workplace seminar specifically conducted for employees of an organisation will not be subject to the rules. The market conduct risks posed by such events are not as significant given that the participants would be fully aware of the purpose of these events when attending them.

1.6 While some FIs already have similar policies and procedures in place for marketing and distribution arrangements at retailers and public places, the proposed Market Conduct Guidelines will ensure consistency and alignment of market conduct standards across the financial sector.

Question 1. MAS seeks comments on:

- (i) Whether it is sufficient to subject banks, non-bank credit card and charge card licensees, holders of a capital markets services licence, licensed financial advisers and insurance companies and their intermediaries to the proposed supervisory approach, or whether more classes of FIs should be included;
- (ii) Whether it is sufficient to apply the proposed supervisory approach to the marketing and/or sale of banking products, credit cards, capital markets products, as well as life, general and accident and health insurance products, or whether more classes of financial products should be included; and
- (iii) Whether “closed-door” events should be excluded from the proposed supervisory approach.

2 MARKET CONDUCT GUIDELINES

2.1 The proposed Market Conduct Guidelines set out:

- (a) MAS' expectations that the board and senior management of FIs are accountable and responsible for ensuring that there are proper controls in place for their FIs' marketing and distribution arrangements at retailers and public places; and
- (b) controls and safeguards that FIs should put in place to address the potential market conduct risks arising from such marketing and distribution arrangements. These are set out in paragraphs 2.2 to 2.5.

Proposed market conduct controls and safeguards³

2.2 FIs should assess the possible market conduct risks that could arise and ensure that they devote sufficient resources to, and put in place sound processes for, the oversight of their marketing and distribution activities at retailers and public places.

Safeguard 1: FIs should conduct call-backs to all customers prospected at retailers and public places before or within the free-look or cooling-off period, to ensure that customers have understood their transactions conducted at such locations. FIs are expected to implement this safeguard for the sale of life, general and accident and health insurance products, and collective investment schemes.

Safeguard 2: FIs should conduct regular mystery shopping and site visits to monitor and ensure that the marketing, sales and advisory practices of representatives at retailers and public places are conducted in line with internal standards and procedures as well as the Market Conduct Guidelines. FIs are not required to implement this safeguard for the sale of general insurance products where the insurance purchased is related to the product or service that the customer is buying⁴.

³ The proposed safeguards apply to all the products listed in Table 2, except for safeguards 1 and 2.

⁴ For example, FIs need not put in place this safeguard for the sale of travel insurance at a travel fair. The implications and risks of consumers purchasing unsuitable products are less relevant under such scenarios.

Safeguard 3: FIs should separately track and monitor complaints arising from their marketing, sales and advisory activities at retailers and public places. Complaints statistics should also be reported to senior management on a regular basis.

Safeguard 4: FIs should maintain a register containing information on their marketing and distribution arrangements at retailers and public places.

2.3 Representatives that market and/or sell financial products and services on behalf of FIs should be competent and uphold the professional image of the financial industry. In addition, FIs should ensure that their representatives conduct proper marketing, sales and advisory practices when prospecting for customers at retailers and public places.

Safeguard 5: FIs and their representatives should conduct and present themselves in a professional manner at all times when prospecting for and dealing with customers at retailers and public places.

Safeguard 6: FIs and their representatives should only prospect for customers in the immediate vicinity of the FI's sales booth. They must not cause annoyance by being unreasonably persistent or by placing undue pressure on members of the public to purchase any financial products or services.

Safeguard 7: FIs should ensure that their representatives clearly disclose upfront their identities and the FI that they are representing when they prospect for customers. Where representatives of an FI market third-party products, they should disclose and explain to customers the relationship between their FI and the third-party product provider.

Safeguard 8: FIs should ensure that their representatives undergo training on proper sales and advisory conduct at retailers and public places.

Safeguard 9: FIs should ensure that their representatives who are assigned to or stationed at retailers and public places have a good compliance record.

Safeguard 10: FIs should ensure that the remuneration and incentives paid to representatives for financial products and services sold at retailers and public

places are not higher than the remuneration and incentives for financial products and services sold at other locations or channels.

2.4 FIs should ensure that their marketing and distribution activities at retailers and public places are conducted in a proper manner and that the venue for such activities facilitates a proper sales and advisory process by their representatives and give customers a positive experience.

Safeguard 11: FIs should ensure that any gift offered to customers by FIs and/or the retailer does not influence the decisions of customers to purchase any financial products and services. FIs should also ensure that the details of gifts are not prominently displayed or actively promoted to influence customers' purchase decisions.

Safeguard 12: FIs should ensure that the space allocated for their sales booth is adequate and conducive for representatives to conduct a proper sales and advisory session.

Safeguard 13: FIs should have adequate controls in place to ensure that payments collected from customers at retailers and public places are properly handled and securely kept.

2.5 The last two safeguards⁵ (Safeguards 14 and 15) only apply to FIs who market their financial products and services at retailers. They serve to mitigate any confusion by consumers as to whether they are dealing with a representative of the FI or staff of the retailer when approached to purchase a financial product or service.

Safeguard 14: FIs should clearly disclose to consumers the relationship between the FI and the retailer, and each party's roles and responsibilities.

Safeguard 15: FIs should ensure that their co-branding efforts with the retailer (if any) are not misleading or create any confusion among consumers as to the roles and responsibilities of the FI and the retailer.

⁵ Safeguards 1 to 13 apply to all marketing and distribution arrangements at retailers and public places.

Question 2. MAS seeks comments on:

- (i) The proposed market conduct safeguards for marketing and distribution arrangements of FIs at retailers and public places;
- (ii) Whether Safeguard 1 should be applied to insurance products that are not required by regulations to have a free-look period⁶ (e.g. motor and travel insurance); and
- (iii) Whether there are any other market conduct safeguards which FIs should put in place.

⁶ Under regulation 8(1) of the Insurance (General Provisions) Regulations, insurers are required to provide free look for life policies and accident and health policies.

3 NOTIFICATION REQUIREMENTS

3.1 MAS proposes to require FIs⁷ to notify MAS and submit information on their marketing and distribution arrangements⁸ at retailers and public places on a regular basis. This will allow MAS to monitor any large-scale proliferation of such marketing and distribution arrangements of FIs and tailor its supervisory approach accordingly. Based on the information submitted, MAS seeks to identify any potential market conduct risks posed to consumers arising from such arrangements and take pre-emptive measures to mitigate the risks.

Frequency of submission

3.2 MAS proposes to require FIs to provide details of their marketing and distribution arrangements on a quarterly basis. The information which MAS proposes for FIs to submit is elaborated in paragraphs 3.3 to 3.6.

Information to be submitted

3.3 ***For arrangements with duration shorter than one quarter:*** In the same submission, FIs will be required to furnish information on (i) their plans to conduct marketing and distribution activities at retailers and public places in the next calendar quarter at least two months prior to the start of the next calendar quarter; and (ii) the actual activities that have been conducted in the preceding calendar quarter. MAS proposes for FIs to submit the details in Table 3.

⁷ Direct general insurers need not fulfil the notification requirements for Trade Specific Agents who are conducting marketing and distribution activities at the agents' own premises.

⁸ An arrangement refers to each unique contract/agreement, which an FI has entered into with a third party for the FI to station its representatives at specified location(s) to conduct marketing and distribution activities. Examples of an arrangement at a public place and an arrangement with a retailer are illustrated below respectively:

- A space lease or rental agreement with a shopping centre to set up a promotion and sales booth at its atrium to market and distribute financial products and services for a one-week period; and
- A contract with a retailer group such as a supermarket chain, to market and distribute financial products and services at its various stores (i.e. locations) for a one-year period.

Table 3: Details to be Submitted

For all marketing and distribution arrangements at retailers and public places with duration shorter than one quarter:

- (a) Number of arrangements that will be/were conducted
- (b) Number of days that marketing and distribution activities will be/were conducted for all arrangements combined
- (c) Maximum number of representatives that will be/were stationed at any arrangement, in any single day
- (d) Number of locations where marketing and distribution activities will be/were conducted across all arrangements, naming the top five locations based on the number of days that marketing and distribution activities will be/were conducted

3.4 ***For arrangements with duration of one quarter or longer:*** FIs will be required to furnish information on any new arrangements at least two months prior to the start of the calendar quarter in which such arrangements will commence. Thereafter, they will also be required to notify MAS of any changes to the arrangements. MAS proposes for FIs to submit the details in Table 4.

Table 4: Details to be Submitted

For each marketing and distribution arrangement at retailers and public places with duration of one quarter or longer:

- (a) Names of all contracted parties (e.g. name of shopping centre, bus interchange operator, retailers)
- (b) Commencement and end dates of all arrangements
- (c) Number of locations where marketing and distribution activities are conducted, naming the top five locations based on the number of days that marketing and distribution activities will be conducted
- (d) Average number of days that marketing and distribution activities are conducted for all locations combined, in a quarter
- (e) Maximum number of representatives to be stationed at any location, in any single day

3.5 Table 5 below provides an illustration of the reporting schedule:

Table 5: Illustration of Reporting Schedule

Submission Deadline	Next Calendar Quarter <ul style="list-style-type: none"> • For arrangements shorter than one quarter – Forecasted arrangements • For arrangements lasting one quarter or longer – New arrangements and changes to existing arrangements 	Preceding Calendar Quarter <ul style="list-style-type: none"> • For arrangements shorter than one quarter – Actual arrangements
31 January 2016	April – June 2016 (Q2 2016)	October – December 2015 (Q4 2015)

3.6 Besides the information stated in paragraphs 3.3 and 3.4, MAS also proposes that FIs submit the following information in their quarterly submissions:

- (a) Details of market conduct complaints⁹ for marketing and distribution activities conducted in the preceding quarter:
 - i) Number of such complaints categorised as follows:
 - Inappropriate advice/misrepresentation/disclosure issues
 - Aggressive sales tactics
 - Issues on fitness and propriety of licensees/regulated persons
 - Unauthorised transactions/fraud/forgery
 - Others; and
 - ii) Proportion of such complaints relative to the total number of market conduct complaints received by the FI;
- (b) Top five financial products or services sold at all marketing and distribution arrangements at retailers and public places in the preceding quarter; and

⁹ A market conduct complaint refers to any complaint alleging facts which may constitute a contravention of any business conduct requirement or any unfair practice in relation to a consumer transaction for MAS-regulated financial products or MAS-regulated financial services. Examples of market conduct complaints include allegations of fraud, forgery, inappropriate advice, misrepresentation and aggressive sales tactics.

- (c) Details of any mystery shopping exercises, compliance visits and internal audits conducted in the preceding quarter.

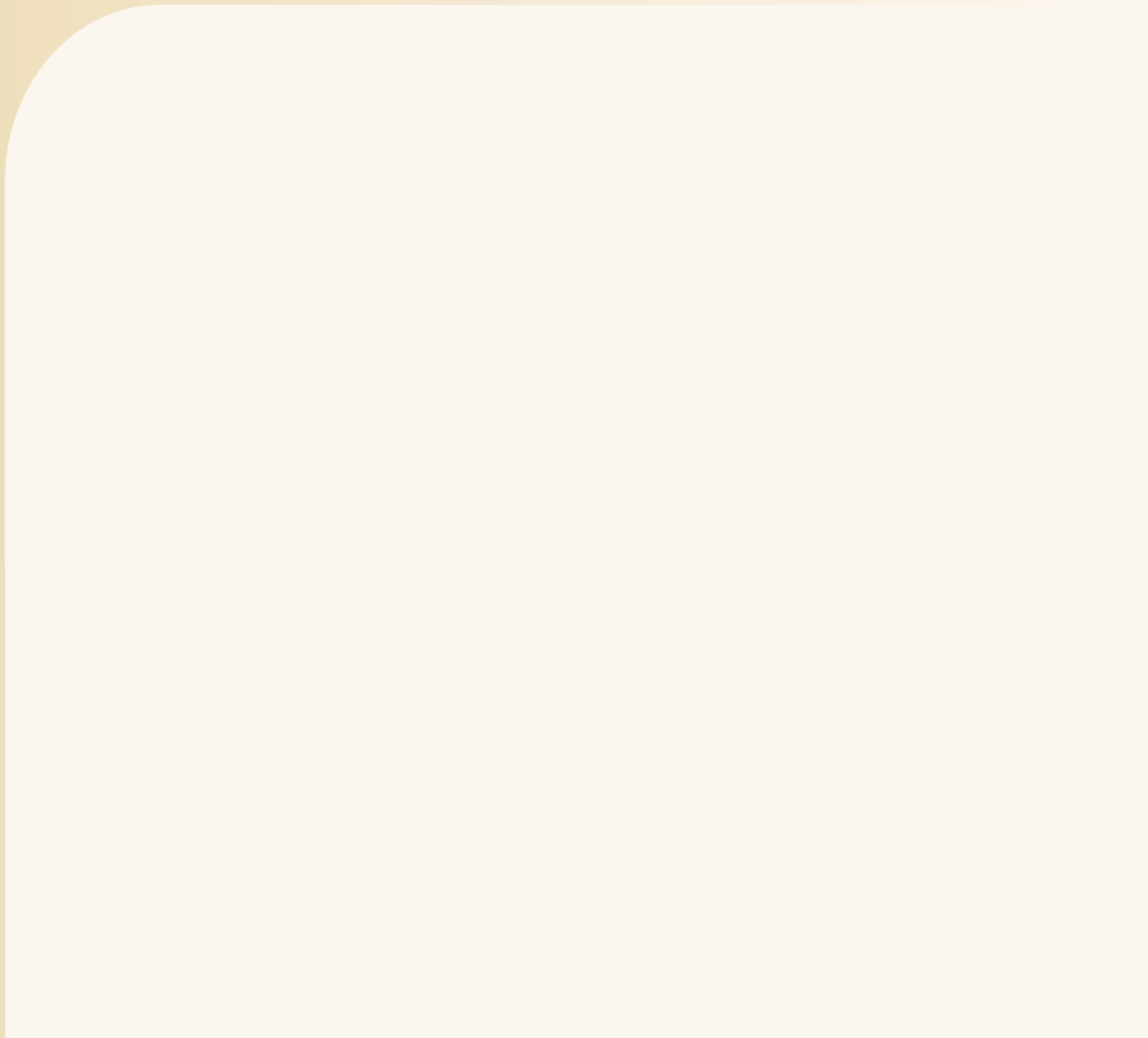
Question 3. MAS seeks comments on:

- (i) The notification requirements listed in Tables 3 and 4 as well as paragraph 3.6; and
- (ii) The reporting schedule of the notification requirements.

Annex A

LIST OF QUESTIONS

- Question 1.** MAS seeks comments on:.....7
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