



RESPONSE TO FEEDBACK RECEIVED - PUBLIC CONSULTATION ON RECOMMENDATIONS OF THE FINANCIAL ADVISORY INDUSTRY REVIEW

1. Background

1.1 On 5 March 2013, MAS issued a public consultation paper on the proposed recommendations of the Financial Advisory Industry Review (FAIR). A total of 60 respondents submitted their feedback. The respondents are listed in the Annex. MAS would like to thank all respondents for their comments.

1.2 MAS has carefully considered the feedback received. Comments that are of wider interest, together with MAS' responses, are set out below.

2. General Feedback

2.1 Several respondents were of the view that the recommendations under FAIR should not apply to all financial advisory (FA) firms, in particular, those that do not deal with retail clients.

MAS' Response

2.2 Given that the FAIR recommendations were made primarily with the aim of safeguarding the interests of retail clients, we agree to apply the requirements only to FA firms and representatives serving retail clients, except where it is otherwise stated. However, FA firms and representatives that deal only with accredited and institutional investors are strongly encouraged to adopt similar standards in the conduct of their business.

3. THRUST ONE – RAISING THE COMPETENCE OF FA REPRESENTATIVES

3.1 Minimum Academic Entry Requirement

Scope of Requirement

3.1.1 Respondents from the public and the industry generally agreed with the proposal to raise the minimum academic entry requirement for FA representatives from four GCE 'O' Level credit passes to a full certificate in GCE "A" level, an International Baccalaureate (IB) Diploma qualification, or a diploma awarded by polytechnics in Singapore; or their equivalent. Several respondents from the industry asked whether the new minimum academic entry requirement would apply to appointed representatives of Capital Markets Services (CMS) licensees who are exempt from holding a financial adviser's licence.

MAS' Response

3.1.2 The new minimum academic entry requirement will apply to appointed representatives of all licensed financial advisers (LFAs) as well as appointed representatives of persons who are exempt from holding a financial adviser's licence under section 23(1)(a), (b), (c), (d), or (e) of the Financial Advisers Act (Cap. 110) (FAA). For new representatives who intend to conduct regulated activities under the FAA and the Securities and Futures Act (Cap. 289) (SFA), the higher of the requirements under the FAA and SFA will apply.

Assessment of Equivalence

3.1.3 Respondents from the industry sought clarity on the qualifications which would be considered equivalent to a full GCE 'A' level certificate, an IB Diploma qualification, and a diploma awarded by a polytechnic in Singapore. Several respondents from the industry suggested that professional qualifications, such as the Chartered Financial Analyst (CFA) by the CFA Institute or the Chartered Alternative Investment Analyst (CAIA) by the CAIA Association, should be recognised as fulfilling the proposed minimum academic entry requirement for new FA representatives. One respondent from the industry was of the view that individual FA firms should be responsible for

conducting their own due diligence assessment on what other qualifications may be deemed equivalent to the GCE 'A' Level, IB Diploma or diploma awarded by the local polytechnics.

MAS' Response

3.1.4 MAS agrees with the feedback that individual FA firms should conduct their own due diligence assessment on which qualifications may be deemed equivalent to the revised minimum academic entry requirement. As there are many possible equivalent qualifications, especially from foreign institutions, the principal company may be guided by the following, in determining whether a qualification could be considered as being equivalent to a full GCE 'A' Level certificate, IB Diploma qualification or diploma awarded by a polytechnic in Singapore:

- (a) The total number of training hours of the course is at least 900 hours, or the course duration is at least 2.5 years on a part-time basis;
- (b) The assessment method is minimally 50% examination-based; and
- (c) The qualification allows for admission into a university.

3.1.5 To provide individuals with an alternative means to meet the new minimum academic entry requirement that is also relevant to the financial advisory industry, MAS has engaged the polytechnics in Singapore to offer a specialised diploma course in financial advisory services. For a start, Ngee Ann Polytechnic is offering the Diploma in Business Practice (Financial Advisory) under the Continuing Educational and Training framework. Interested individuals may approach Ngee Ann Polytechnic for further details.

Grandfathering Arrangement

3.1.6 In recognition of the working experience of existing FA representatives and to ensure that the service provided to their customers would not be disrupted, MAS proposed that the following individuals be grandfathered when the new minimum academic entry requirement comes into effect (Implementation Date):

- (a) All existing FA representatives at Implementation Date;
- (b) Individuals whose notifications to be appointed as FA representatives have been lodged with MAS prior to the Implementation Date but have yet to be published on the public register of representatives;
- (c) Former FA representatives who have left the FA industry not more than one year prior to the Implementation Date and subsequently re-join the industry within one year from the Implementation Date; and
- (d) Grandfathered FA representatives described in paragraph 3.1.6 (a) to (c) who leave the industry after the Implementation Date and subsequently re-join the industry within one year from the cessation date.

3.1.7 MAS received feedback from the public and the industry that the one year period between a grandfathered representative's cessation after the Implementation Date and his or her subsequent appointment as an FA representative is too short, and that an FA representative may be on a career break from the FA industry for more than one year due to reasons beyond his or her control, such as to recuperate from an illness. Several respondents from the industry suggested that grandfathering be extended to the FA representative so long as the period between his or her cessation and subsequent appointment as an FA representative is not more than three years. This is to align with the existing requirement for re-taking Module 5 of the Capital Markets and Financial Advisory Services (CMFAS) Examination under the Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers (FAA-N13). Other respondents were of the view that all existing FA representatives, including those on career breaks before the Implementation Date, should be grandfathered indefinitely without the need to specify a fixed timeframe within which they should re-join the industry.

MAS' Response

3.1.8 MAS will grandfather all former and existing FA representatives. In addition, we will not prescribe a timeframe for a grandfathered representative to re-join the industry.

3.1.9 However, given the dynamic financial environment and the introduction of more complex and risky products into the market, it is important for FA representatives to upgrade themselves to keep pace with market developments. As such, a grandfathered representative who has left the industry for a continuous period of more than one year will be required to re-take the relevant CMFAS examinations on product knowledge, and rules and regulations should he or she wish to return to the industry. In such a scenario, the CMFAS exemptions under FAA-N13 would not apply.

3.2 Continuing Professional Development (CPD) Requirements

3.2.1 The FAIR Panel proposed that all FA representatives be required to undergo at least 30 hours of structured CPD training annually, with the exception of representatives who only advise on or arrange mortgage reducing term assurance policies and/or group term life insurance policies. The latter group is required to undergo 16 hours of CPD training instead. Out of the minimum 30 or 16 CPD hours, four hours of training must be in Ethics and eight hours in Rules and Regulations.

Number of Hours Required to Fulfill CPD Requirement

3.2.2 Some respondents from the industry felt that the minimum requirement of 30 CPD hours was too onerous and that the mandatory number of CPD hours for Ethics and Rules and Regulations was too high.

MAS' Response

3.2.3 We do not agree that the minimum requirement of 30 CPD hours per year is onerous. It is consistent with the current CPD requirements set out in the Life Insurance Association, Singapore's (LIA) guidelines and is lower than

that in other jurisdictions such as the United Kingdom (UK) which prescribes a minimum CPD requirement of 35 hours.

3.2.4 The CPD requirement is necessary to ensure that FA representatives are not only updated on product developments, but are also kept abreast of regulatory changes affecting them as well as their ethical obligations. The mandatory four hours of training in Ethics and eight hours of training in Rules and Regulations are necessary to ensure that representatives are adequately trained in these areas in order to enhance their overall competency and professionalism. Such training could cover, for example, anti-money laundering regulatory requirements which are important in upholding Singapore's reputation as a clean and trusted financial centre.

Courses that can Count Towards Fulfilling CPD Requirements

3.2.5 Several respondents from the industry suggested that product seminars for new product launches be included as structured training and be counted towards the fulfilment of CPD hours. One respondent from the industry also suggested allowing e-learning modules to count towards the CPD requirement.

MAS' Response

3.2.6 We agree with the respondents that product seminars may cover topics that are relevant to a representative's learning and development. As such, we will allow product seminars to be considered a form of structured training that can be counted towards the fulfilment of the CPD requirement. However, these product seminars must not be focused on sales and motivational techniques only. In this regard, MAS will issue a set of guidelines to provide guidance to the industry on the type of product seminars that can be regarded as fulfilling the CPD requirements. We are also agreeable to the suggestion to include e-learning courses as a form of structured CPD training, given their proliferation and usefulness as a mode of training for FA representatives. FA firms are required to monitor the continuing education needs of their representatives and maintain documentation of their assessment records and training attendance. All representatives will also be responsible for retaining the relevant supporting evidence of their CPD training.

Assessment Component for CPD Courses

3.2.7 Several respondents from the industry were of the view that CPD training should have an assessment component although others felt that such assessment would not be a reliable gauge of whether training objectives have been met and suggested that attendance without assessment should suffice.

MAS' Response

3.2.8 It is important for FA firms to ascertain that the desired training outcomes of CPD courses attended by their representatives have been achieved. This is particularly so for the mandatory courses in Ethics and Rules and Regulations where the aim is for FA representatives to develop a good understanding of ethical standards and regulatory requirements. As such, we will require all courses in Ethics and Rules and Regulations to have an assessment component for FA representatives to demonstrate that they have met the desired training outcomes. FA representatives must therefore pass an assessment for the CPD training in Ethics and Rules and Regulations.

Accreditation Criteria

3.2.9 Several respondents from the industry felt that there could be conflicts of interest for the Institute of Banking and Finance (IBF) and the Singapore College of Insurance (SCI) to undertake accreditation for the CPD courses in Ethics and Rules and Regulations if they are also conducting such courses.

MAS' Response

3.2.10 IBF is currently not a course provider while SCI has no plans to conduct courses in Ethics and Rules and Regulations. As such, there is presently no conflict of interest for them to undertake the role of accrediting these courses. Should either of these parties wish to conduct any CPD courses in Ethics and Rules and Regulations in the future, they would first need to obtain MAS' approval. MAS will work with IBF and SCI to develop the accreditation criteria for the CPD courses on Ethics and Rules and Regulations and publish the accreditation criteria on IBF's and SCI's websites.

4. THRUST TWO – RAISING THE QUALITY OF FA FIRMS

4.1 Competency Requirements

4.1.1 One respondent sought clarification on whether compliance personnel would be counted towards the minimum requirement of three full-time resident professionals. Another respondent was of the view that as the compliance function can be outsourced to service providers, it would not be necessary to require a minimum of three full-time resident professionals.

MAS' Response

4.1.2 The rationale for requiring LFAs to have at least three full-time resident professionals is to ensure that LFAs are adequately resourced to carry out FA activities. Given that the personnel carrying out the compliance function should be independent of sales and advisory, they would not be counted towards the minimum staffing requirements of three full-time resident professionals.

4.2 Corporate Track Record and Parental Support

4.2.1 Currently, applicants for a financial adviser's licence are required to have a minimum corporate track record of three years. MAS proposed to raise this requirement from three to five years. For an applicant that is currently unable to meet the corporate track record requirement due to its shareholders being individuals, the current requirements for the Chief Executive Officer (CEO) to own at least 20% shareholding of the applicant, and the CEO and Executive Directors to own, in aggregate, more than 50% shareholding of the applicant, will continue to apply. Several respondents sought clarification on the definition of corporate track record and the type of support required from parent companies. One respondent requested clarification on the implications of providing a Letter of Responsibility (LR) and how a parent entity would be deemed to have tangible and substantial assets.

MAS' Response

4.2.2 Corporate track record refers to the experience and reputation of a company or its related entities in the FA business, either in Singapore or in other jurisdictions.

4.2.3 An LR is a letter from the LFA's parent entity to MAS affirming its support for the LFA's operations in Singapore. This would include accepting full responsibility for all operations of the LFA, and ensuring that the LFA maintains a sound financial position, and complies with all the relevant laws and regulations.

4.3 Compliance Arrangements

4.3.1 The FAIR Panel proposed in the consultation paper that all LFAs put in place a compliance function that is independent of their sales and advisory functions. Larger LFAs (with more than 20 FA representatives or annual gross revenue of more than S\$5 million) should have in place an independent and dedicated compliance function. Respondents sought clarification on the definition of suitably qualified compliance officers. One respondent felt that the number of FA representatives and gross revenue are not good proxies for determining the size of the compliance function. Another respondent was of the view that there is no need to have a dedicated compliance function for LFAs in Singapore if the compliance function is carried out by the head office or supported at a group level.

MAS' Response

4.3.2 The compliance requirement for each LFA is dependent on a variety of factors such as the LFA's business model and the complexity of its business. The number of FA representatives and gross revenue of an LFA serve as proxies for the size and scale of an LFA's operations and its impact on the market. For the compliance function to be effective, it is in the interest of LFAs to appoint compliance officers with relevant experience and qualifications. The Board

and Senior Management are best placed to determine this based on the size of the LFA's sales force and business model, among other considerations.

4.3.3 While an LFA may rely on its head office for compliance support, MAS expects the LFA in Singapore to demonstrate that the head office has adequate compliance resources to handle the compliance needs of the LFA. In such cases, MAS also expects the head office to have an independent and dedicated compliance team.

4.4 Other Feedback

4.4.1 Two respondents commented that financial institutions that are exempted from holding a financial adviser's licence should be subjected to the same competency, minimum staffing and compliance requirements as LFAs.

4.4.2 One respondent suggested mandating the publication of a summary of an LFA's audited accounts.

4.4.3 One respondent requested clarification on whether an LFA which advises others on investment products through public seminars and which distributes foreign research reports to retail investors under regulation 32 of the Financial Advisers Regulations (FAR) would be regarded as a "pure research house".

MAS' Response

4.4.4 Financial institutions that are exempted from holding a financial adviser's licence, such as life insurance companies, banks and CMS licensees are already subjected to equivalent, if not higher, requirements under their respective regulatory regimes (i.e. the Insurance Act (Cap. 142), Banking Act (Cap. 19) and SFA).

4.4.5 Currently, financial-related information of any entity registered with the Accounting and Corporate Regulatory Authority, including LFAs, are available to the public through the Corporate Compliance and Financial Profile (CCFP). CCFP contains the financial profiles of registered entities, showing up

to three years of comparative data, financial ratios and audit opinions in the auditors' reports.

4.4.6 A “pure research house” is an LFA whose activities are restricted to the issuance or promulgation of analyses or reports which are not tailored to the specific investment objectives or risk profiles of customers. An LFA that provides advice on investment products tailored to the specific needs of customers will not be deemed as a “pure research house”.

4.5 Financial Requirements

Minimum Financial Requirements

4.5.1 We received feedback from one respondent that the definition of “base capital” is not fair as interim loss is recognised but not interim profit, and only capital erosion is recognised but not capital gain. The respondent suggested either recognising both interim loss and interim profit or excluding both from the definition of base capital.

4.5.2 One respondent disagreed with the proposal to allow additional Professional Indemnity Insurance (PII) coverage for a lower base capital. The respondent commented that PII coverage is not an appropriate substitute for base capital.

MAS' Response

4.5.3 It will not be prudent to recognise interim profit, which is not audited, as base capital. Unappropriated profit in the latest audited account of an LFA is recognised in the calculation of base capital.

4.5.4 MAS agrees with the comment that PII coverage is not a direct substitute for base capital, and has taken this into consideration in determining the alternative base capital requirement for LFAs.

Continuing Financial Requirements

4.5.5 Respondents suggested a reduction in the minimum financial resources requirement if the PII coverage is sufficient to cover an LFA's financial obligations.

4.5.6 The majority of respondents provided feedback that the proposal of using 10% of gross revenue as the proxy for measuring operational risks is too onerous and will affect the financial viability of many LFAs. The respondents also commented that the high reserve requirement could lead to lower incentive for LFAs to invest in human resource and technology for operational effectiveness.

4.5.7 Some respondents suggested retaining the current net assets value (NAV) framework. They felt that expenditure would be a more appropriate measure of minimum financial resources required than revenue, as it measures the expected cash outflow of an LFA and, hence the ability of the LFA to continue its operations.

4.5.8 Several respondents sought clarification on the definition of financial resources and the treatment of certain financial items.

MAS' Response

4.5.9 The requirements for minimum PII coverage and minimum financial resources serve to address different risks. PII coverage provides for claims against LFAs due to professional negligence, while minimum financial resources are used to meet near-term financial obligations relating to the LFA's operational risks.

4.5.10 MAS has taken into consideration the feedback that requiring LFAs to maintain financial resources in excess of 10% of gross revenue would affect the financial viability of LFAs and impede the growth of these firms. MAS agrees with the suggestion to retain the use of relevant annual expenditure as proxy for minimum financial resources required as it provides reasonable assurance that LFAs will have liquid capital to sustain their operations for at least three

months. The continuing financial requirement for LFAs will be revised such that LFAs will have to maintain financial resources that are the higher of:

- (a) One-quarter of their relevant annual expenditure of the immediate preceding financial year; or
- (b) S\$150,000.

4.5.11 MAS has also revised the definition of “financial resources”, removing items, such as non-current assets and assets that cannot be converted to cash within 30 days, from the list of illiquid items to better reflect the risk profile and size of LFAs, as follows:

- (a) Paid-up ordinary and preference share capital¹;
- (b) Qualifying subordinated loans²;
- (c) Revaluation reserves;
- (d) Other reserves;
- (e) Unappropriated profit or loss in the latest audited and interim accounts, less any dividend that has been declared since the last audited accounts of the LFA; and
- (f) Collective impairment allowances

less the sum of the illiquid items in the latest available accounts of the LFA which includes:

- (g) Intangible assets;
- (h) Future income tax benefits;
- (i) Pre-paid expenses;

¹ Preference share capital includes (a) paid-up irredeemable and non-cumulative preference share capital; (b) paid-up irredeemable and cumulative preference share capital; and (c) paid-up redeemable preference shares capital.

² Qualifying subordinated loan means, among others, a subordinated loan that has not less than 2 years to maturity at the time the loan is first drawn down. The specific details will be set out in the relevant regulation.

- (j) Charged assets³, except to the extent that the LFA has not drawn down on the credit facility if the charge is created to secure a credit facility, or as permitted by MAS;
- (k) Unsecured loans and advances due from directors, officers, employees and representatives;
- (l) Unsecured loans and advances due from related corporations and associated companies;
- (m) Other unsecured loans and advances made by the LFA; and
- (n) Capital investment in associates or subsidiaries of LFA.

Based on a quantitative impact study conducted by MAS to assess the ability of existing LFAs to meet the revised requirement, the majority of the LFAs will be able to meet the revised proposal.

PII

4.5.12 We received feedback that the use of gross revenue as a proxy to determine the minimum PII coverage removes the scale benefits of growing an LFA and that the proposed minimum PII coverage was too onerous for LFAs with high revenue. One respondent raised concerns about the PII underwriting capacity in the local insurance market. In this regard, there were suggestions for MAS to impose a cap on the minimum PII coverage.

4.5.13 Some respondents suggested extending the PII requirement to LFAs that serve only accredited investors (AIs) as these LFAs face similar risks of claims by AIs. Another suggested that FA representatives be required to procure individual PII coverage. A few respondents suggested extending the PII requirement to financial institutions exempted from holding a financial adviser's licence.

4.5.14 One respondent suggested that MAS consider allowing other forms of PII.

³ Charged asset means an asset which is subject to a charge under which a third party has a right of retention or sale of the asset upon default of the LFA.

MAS' Response

4.5.15 The use of gross revenue as a proxy in determining minimum PII coverage takes into consideration an LFA's scale of operations which is commensurate with the level of risks it faces. This is in line with the practices in other major jurisdictions, including the UK and Australia.

4.5.16 MAS agrees with the suggestion to impose a cap on the minimum PII coverage. The minimum PII coverage for LFAs (other than pure research houses) whose annual revenues exceed S\$5 million will be capped at S\$10 million.

4.5.17 MAS also agrees with the comment that LFAs that serve only AIs face similar risks of claims. However, as AIs are better placed to protect their own interests, MAS will not impose a PII requirement on LFAs serving only AIs. Notwithstanding this, these LFAs are strongly encouraged to obtain adequate PII coverage.

4.5.18 LFAs may encourage their FA representatives to procure individual PII coverage over and above the LFAs' PII coverage. However, given that FA representatives act on behalf of their principals, MAS will require the PII to be procured at the firm level.

4.5.19 Financial institutions whose activities are primarily advisory in nature, such as CMS licensees conducting fund management and advising on corporate finance, are similarly subject to PII requirements. Although there is no PII requirement for other financial institutions exempted from holding a financial adviser's licence such as life insurance companies and banks, these entities are subject to higher capital requirements.

4.5.20 MAS agrees with the comment to allow alternative forms of PII, so long as such PII does not undermine the interests of customers. In this regard, as spelt out in the Guidelines on Criteria for the Grant of a Financial Adviser's Licence (FAA-G01), MAS will continue to allow alternative forms of PII, such as Group PII, Hybrid PII or Group Hybrid PII, provided that the conditions set out in FAA-G01 are met.

4.6 Non-FA Activities Conducted by LFAs

Scope of Prohibited Non-FA Activities

4.6.1 While some respondents from the public and the industry were supportive of the proposals to restrict the non-FA activities conducted by LFAs, others commented that the permitted scope of non-FA activities for LFAs was too restrictive and should be expanded to include financial planning services which are complementary to FA activities. Examples of such services include will writing, estate planning and tax planning. Several respondents also suggested that LFAs should not be limited to making referrals to financial institutions licensed by MAS, as not all financial institutions offer financial planning services.

MAS' Response

4.6.2 MAS agrees with the feedback that some financial planning services are complementary to the provision of FA services. Therefore, MAS will allow LFAs to provide will writing, estate planning and tax planning services. These may be provided either by the LFA directly, or by way of a referral to another entity or person. In both situations, the following conditions will apply:

- (a) LFAs must conduct due diligence to ensure that the persons conducting such activities, whether in-house or through a referral, are competent and suitably qualified;
- (b) LFAs must provide written disclosure to customers to clearly explain which services provided by the LFAs are covered under the FAA and which are not, as well as the responsibilities of the different parties involved in the process. These disclosures should be provided before making the referral or offering the non-FA services; and
- (c) LFAs must obtain written acknowledgement from their customers that they have understood the disclosure mentioned in paragraph 4.6.2(b), and provide them with a copy of the disclosure document.

Basis of Remuneration

4.6.3 A few respondents from the industry commented that it is market practice for remuneration to be tied to successful referrals and such arrangements should be left to the market to decide.

MAS' Response

4.6.4 Given the feedback received, MAS will not prohibit volume-based remuneration structures for referrals made by LFAs. The onus is on LFAs to implement measures to ensure that:

- (a) No conflicts of interest will arise from the referral arrangements in respect of non-FA activities. This is in line with our requirement that LFAs should address conflicts of interest in all areas of their business; and
- (b) The referral arrangements in respect of non-FA activities will not tarnish the image of the FA firm or FA industry.

Supervisory actions will be taken against LFAs that fail to comply with the above requirements.

Revenue Cap of 5%

4.6.5 Some respondents from the industry commented that capping the revenue derived from the non-FA activities of LFAs to 5% of their total annual FA revenue was too restrictive and should be increased to accommodate non-FA activities which are complementary to providing financial advice. In this regard, two respondents from the industry suggested that the cap be set at 25%. Others suggested that there should be no cap as it could work against customers if the referral is in the customer's best interest, but the LFA was unable to make the referral without breaching the cap. One respondent from the industry was of the view that prescribing a cap may not be effective in ensuring that LFAs continue to be focused on their core business of providing FA services.

MAS' Response

4.6.6 The revenue cap is meant to ensure that the non-FA activities of LFAs do not become significant income drivers, so that LFAs remain focused on their core role of providing financial advice. Based on industry statistics, the percentage of revenue from the permitted non-FA activities of existing LFAs is well within 5% of their total FA revenue. As there is no indication that the proposed revenue cap will have an adverse impact on existing players, we will retain the cap at 5%.

4.6.7 We would like to clarify that the 5% cap on revenue generated from non-FA activities should be calculated based on the LFA's last audited financial statements.

4.7 FA Activities of Insurance Broking Firms

4.7.1 All respondents were generally supportive of the requirement for insurance broking firms providing full-fledged FA services to meet the same management expertise, financial and compliance requirements imposed on LFAs. There was also no objection to the proposal to restrict the scope of FA activities and impose a cap on the revenue from FA activities of insurance broking firms that do not meet the revised requirements for conduct of FA business. One respondent suggested extending the revised requirements across all FA distribution channels, including banks, insurance companies and CMS licensees.

MAS' Response

4.7.2 MAS notes from our supervision of FA firms that, unlike banks, life insurance companies and CMS licensees, many of the insurance broking firms that have moved to providing full-fledged FA services do not have adequate management expertise and resources to support the proper conduct of such activities. Hence, the proposals are meant to ensure that insurance broking firms are adequately resourced and have the necessary infrastructure to properly manage and conduct their FA activities. Notwithstanding this, it is

noteworthy that banks, life insurance companies and CMS licensees are already subject to similar, if not higher, requirements.

5 THRUST THREE – MAKING FINANCIAL ADVISING A DEDICATED SERVICE

5.1 Non-FA Activities Conducted by FA Representatives

Assessment Criteria

5.1.1 Some respondents from the industry suggested that MAS provide more examples of non-FA activities that clearly do not fulfill the criteria set out in the consultation. A few respondents suggested allowing FA firms flexibility in deciding which non-FA activities conducted by representatives pose conflicts of interest.

5.1.2 Some respondents from the public and the industry also expressed concern that FA representatives will be prohibited from acting as real estate agents.

MAS' Response

5.1.3 FA firms can exercise discretion to allow their representatives to conduct non-FA activities, so long as the FA firms are satisfied that these non-FA activities:

- (a) Do not conflict with the FA firm's business;
- (b) Do not tarnish the image of the FA industry; and
- (c) Do not lead to a neglect of the representative's FA role.

FA firms are also expected to maintain sufficient documentation to demonstrate that such assessments have been properly carried out.

5.1.4 Notwithstanding that a few activities have been identified as not fulfilling the assessment criteria, it is not MAS' intention, nor is it practicable,

to provide an exhaustive list of such activities. We encourage the respective industry associations to develop a fuller list of prohibited activities.

5.1.5 MAS notes the feedback that FA representatives should not be prohibited from acting as real estate agents. However, we maintain the view that there are inherent conflicts of interest when FA representatives act concurrently as real estate agents. As mentioned in the consultation paper, a scenario could arise where an FA representative induces a customer whose financial objective may be best served with an investment product to consider a property purchase instead, due to a difference in the commission amounts and sales targets. The number of representatives affected by this rule is small. Our survey indicates that about 1.5% of FA representatives are concurrently real estate agents.

Ongoing Monitoring

5.1.6 Some respondents from the industry expressed concern that the expectation for FA firms to put in place proper systems and controls to monitor their representatives' conduct of non-FA activities was too onerous. Several of these respondents sought clarification on whether relying on annual declarations from their representatives on their non-FA activities or monitoring individual representatives on a risk-based approach would suffice.

MAS' Response

5.1.7 As FA firms may have different ways of implementing monitoring procedures, it is not MAS' intention to prescribe specific monitoring methods. Notwithstanding this, FA firms should ensure that their monitoring procedures and controls are effective and are commensurate with the nature and scale of their FA business.

Transitional Period

5.1.8 Several FA firms expressed concern that there may be operational difficulties for them to complete the assessment of their representatives' non-FA activities and for their representatives to unwind their non-FA activities within the proposed transitional period of six months.

MAS' Response

5.1.9 MAS will extend the transitional period. FA firms are required to complete their assessment of the non-FA activities conducted by their representatives within six months from the date of implementation of this requirement, while affected representatives will be given another six months to make appropriate arrangements to unwind any conflicting activities identified by their FA firms. The longer transitional period will give FA firms and their representatives sufficient time to comply with the new requirements.

5.2 Use of Introducers by FA Firms

Assessment of “Conflicts of Interest” and “Tarnishing the Image of the FA Firm or FA Industry”

5.2.1 Several respondents requested clarification on what constitutes “conflicts of interest” when appointing introducers. Respondents also requested clarification on the types of due diligence checks FA firms are expected to conduct on introducers, and whether FA firms can rely on disclosure from introducers to address such conflicts.

MAS' Response

5.2.2 FA firms are already expected to address conflicts of interest in all areas of their business, including but not limited to their appointment of introducers. Whether an arrangement poses conflict will depend on the specifics of the arrangement, and the nature of business of the parties involved.

5.2.3 MAS will require FA firms to put in place policies and procedures to assess that the two principles⁴ on introducer appointment, and the applicable laws and regulations on the use of introducers, are satisfied both at the time of

⁴ As set out in paragraph 3.11 of the consultation paper, FA firms will be required to implement measures to adhere to the following principles:

- (a) No conflicts of interest will arise from the appointment of introducers; and
- (b) The appointment of introducers will not tarnish the image of the FA firm or FA industry.

appointment and on an ongoing basis. These policies and procedures should cover the following areas:

- (a) The types of information to be collected as part of the FA firm's due diligence process, which would enable the FA firm to perform its assessment of the introducer, such as the core business or sources of revenue of a corporate introducer (or the full-time occupation of an individual introducer), and adverse information on the introducer;
- (b) The process and criteria for assessing and being reasonably satisfied that the appointment of the introducer satisfies the two principles, and documenting the basis of the assessment (this includes specifying the persons responsible for conducting the assessment, and approving the appointment);
- (c) The process and criteria for assessing and being reasonably satisfied that the introducer is not effecting introductions as a full-time occupation or business activity;
- (d) The process and criteria for assessing and being reasonably satisfied that the remuneration of the introducer will not encourage the introducer to go beyond its role as an introducer (i.e. to provide financial advice or make aggressive introductions); and
- (e) The process and criteria for conducting ongoing reviews of the introducer's activities, to ensure that the appointment continues to satisfy the two principles, and adhere to applicable laws and regulations⁵.

5.2.4 While disclosures by introducers may be used to assess whether an introducer satisfies the two principles relating to the appointment of

⁵ Examples of policies and procedures in this area may include conducting a periodic review of the introducer's activities, having internal procedures for handling and assessing complaints received against/involving the introducer, and requiring the introducer to inform the FA firm of complaints received in relation to introductions made.

introducers, the FA firm must be reasonably satisfied that it can rely on such disclosures both at the time of appointment and on an ongoing basis.

5.2.5 Where an FA firm acts as an introducer, MAS will also require the FA firm to put in place policies and procedures in the following areas to mitigate potential conflicts of interest arising from its introducing activities:

- (a) Maintaining a register of its representatives who are performing introducing activities⁶;
- (b) Ensuring that its representatives use a standardised script for introducing activities, explaining that the FA firm is acting as an introducer, and not a financial adviser;
- (c) Providing training to ensure that its representatives who are effecting introductions are familiar with the scope of introducing activities, including what can or cannot be said, when making an introduction;
- (d) Putting in place complaints handling procedures for complaints received against its representatives in respect of their introducing activities;
- (e) Ensuring that substantiated complaints against its representatives in respect of their introducing activities are taken into account when determining their remuneration; and
- (f) Ensuring that the remuneration structure of its representatives encourages ethical behaviour rather than aggressive introductions.

Introducer Agreements with Corporations

5.2.6 As it is the responsibility of FA firms to implement measures to ensure that introducers adhere to all applicable rules and regulations, MAS considered that the compliance burden on FA firms would be lessened if FA firms only

⁶ This is a current requirement set out in regulation 31 of the FAR which also applies to corporations that are not FA firms.

entered into introducer agreements with corporations, as there would be fewer introducer arrangements for the FA firms to monitor.

5.2.7 While some respondents were supportive of MAS' proposal, a large number of respondents gave feedback that it is common for FA firms to enter into introducer arrangements with individuals, who have extensive relationships and networks. Respondents also commented that for FA firms with a rigorous due diligence process for appointing and monitoring introducers, restricting the firm to appointing only corporate introducers may not yield material benefits in terms of cost-effectiveness or ease of monitoring (since all introducers would be subject to the same due diligence process). These respondents proposed that FA firms be granted the flexibility to enter into introducer agreements with individuals, as long as they have implemented policies and procedures to ensure that the introducer (whether a corporation or an individual) adheres to all applicable laws and regulations.

MAS' Response

5.2.8 MAS notes the feedback that there is a genuine business need for FA firms to enter into introducer agreements with individuals, and that the restriction to enter into introducing arrangements with corporations may not lessen the compliance burden for FA firms. MAS agrees that it is more important for FA firms to have policies and procedures governing the appointment and oversight of introducers. In view of the requirement for FA firms to implement policies and procedures on the use of introducers (as stated in paragraph 5.2.3), MAS will not prohibit FA firms from entering into introducer arrangements with individuals.

Prohibition of FA Firms from Acting as Introducers in Respect of Investment Products for which they are Authorised to Provide Advice

5.2.9 Some respondents commented that this recommendation could have the unintended consequence of limiting customers' access to FA firms which provide advisory services in respect of "specialist" sub-classes of investment products. An example of an introducing arrangement that could be affected by this recommendation is the introduction of customers by banks (whose FA

business involves providing advice on whole life insurance products) to life insurance companies or LFAs in respect of universal life insurance policies.

5.2.10 Other respondents requested that MAS provide clarification on whether the FA firm making the customer referral would be required to comply with the regulatory requirements stipulated under the FAA (such as the Know-Your-Client procedures and customer suitability assessment).

MAS' Response

5.2.11 As stated in paragraph 3.9 of the consultation paper, a key concern with the current introducer framework is that it may not be clear to consumers whether they are dealing with an introducer or an FA firm, particularly where an FA firm also acts as an introducer for other FA firms. Nonetheless, it is not MAS' intention to prohibit the types of arrangements mentioned in paragraph 5.2.9. In this regard, MAS would like to clarify its position with respect to an FA firm making customer referrals on investment products that the firm is authorised to provide advice on.

5.2.12 An FA firm that is authorised to provide advice on a class of investment products may rely on the exemption for introducing activity in regulation 31 of the FAR (the "introducer exemption"), only where the customer initiates an enquiry on that class of products, or a specific product within that class. Where this FA firm suggests that the customer consider that class of products before initiating a referral to another FA firm, it will be deemed as providing advice.

5.2.13 Take for example, an FA firm which is authorised to advise on life policies, where its business model involves providing advice to customers on whole life or term insurance. As part of its business model, this FA firm refers customers that have a need for specialised life insurance products such as universal life insurance, to other FA firms which have the expertise to advise on such products. This firm can make referrals and act as an introducer **only** if a customer initiates an enquiry on universal life insurance products. Alternatively, if the firm's representatives suggest that customers consider universal life insurance products and initiate a referral, the firm cannot rely on

the introducer exemption. Instead, the firm is deemed to be acting as a financial adviser, and will be subject to the applicable requirements under the FAA in respect of the provision of financial advisory services. The FA firm should ensure that the customer understands its role⁷, and the scope of its responsibility in respect of the advice it is providing, vis-à-vis the other FA firm to whom the customer is being referred.

5.2.14 Conversely, an FA firm may rely on the introducer exemption when effecting introductions in respect of investment products that the firm is **not** authorised to provide advice on. For example, an FA firm which is not authorised to provide advice on life policies (as its business model does not involve arranging and providing advice on life policies) may rely on the introducer exemption when referring customers that have a need for life policies to other FA firms. The FA firm will be required to comply with the requirements set out in regulation 31 of the FAR and the Notice on Appointment and Use of Introducers by Financial Advisers (FAA-N02).

Provision of Product Information to Customers

5.2.15 Some respondents requested MAS to provide clarity on the information that introducers would be allowed to provide to customers. Two respondents asked that MAS consider allowing introducers to provide factual product information at the customers' request.

MAS' Response

5.2.16 The information that introducers will be allowed to provide to customers shall be set out in a Client Acknowledgement Form, containing the following written disclosures:

- (a) The name of the introducer;
- (b) A statement that the introducer, when carrying out introducing activities, is not permitted to give advice or provide recommendations on any investment product to the customer,

⁷ The respective roles and responsibilities of the FA firms involved should be clearly explained in a Client Acknowledgement Form, as detailed in paragraph 5.2.16, and explained to the customer by the introducer FA firm.

market any collective investment scheme, or arrange any contract of insurance in respect of life policies, other than to the extent of carrying out introducing activities;

- (c) The name of the FA firm and a description of the types of FA services the FA firm is authorised to provide to the client. Where the introducer is carrying out introducing activities for more than one FA firm, the Client Acknowledgement Form should indicate which FA firm the client wishes to be introduced to;
- (d) The roles and responsibilities of the introducer and the FA firm. Where the introducer is an FA firm, this section should explain that the FA firm is acting as an introducer, and not a financial adviser;
- (e) How the introducer will be remunerated by the FA firm for making the introduction; and
- (f) Where the introducer is a corporation, whether its directors and/or shareholders have any substantial shareholdings in the FA firm, and whether the introducer has any other relationship with the FA firm or any of its representatives.

5.2.17 The introducer shall use the Client Acknowledgement Form as a script when effecting the introduction. The customer will be required to sign and acknowledge that he or she has read and understood the contents of the disclosure form, and that he or she consents to allowing the introducer to pass his or her contact details to the FA firm. The introducer shall also provide the customer with a copy of the Client Acknowledgement Form. Both the introducer and the FA firm will be required to retain copies of the Client Acknowledgement Form. MAS will work with the industry associations on a template for the Client Acknowledgement Form.

5.2.18 All product-specific information and materials (such as prospectuses, Product Highlights Sheets (PHS) or fact sheets) should only be provided by the representatives of the FA firms who are responsible for providing financial advice, and not by the introducers.

Volume-Based Remuneration Structures

5.2.19 This section relates to the remuneration of introducers appointed and used by FA firms for clients introduced to the FA firms while the paragraphs at 4.6.3 and 4.6.4 relate to the remuneration of LFAs for referrals of clients in respect of non-FA activities.

5.2.20 Respondents commented that the proposal to prohibit volume-based remuneration models may not fully mitigate the incentive for “aggressive” introductions, or for introducers to cross the line between “introducing” and “advising”, as this incentive still exists under a fixed fee model. In addition, removing the link between remuneration and successful introductions may have the perverse effect of encouraging nuisance or inappropriate introductions as introductions may be made even if they are not in the best interests of the customer.

5.2.21 Respondents also commented that the incentive to cross the line between “introducing” and “advising” could be addressed by other measures, such as the proposal prohibiting introducers from providing product information to customers and the Personal Data Protection Act which provides for the establishment of a national Do Not Call Registry⁸ that mitigates the risk of harassment by introducers.

MAS’ Response

5.2.22 Given the feedback received, MAS will not prohibit volume-based remuneration for introducers. Instead, the onus is on the FA firms to implement policies and procedures to assess and mitigate potential conflicts of interest arising from the remuneration of introducers, as mentioned in paragraphs 5.2.3 and 5.2.4. Supervisory actions will be taken against FA firms that fail to comply. As set out in the consultation paper, introducers will also be required to disclose to customers how they are remunerated (using the Client Acknowledgement Form mentioned in paragraph 5.2.16).

⁸ The Do Not Call Registry, which comes into operation on 2 January 2014, will allow individuals to register their Singapore telephone numbers to opt out of receiving marketing phone calls, mobile text messages such as short messaging service (SMS) or multimedia messaging service, and faxes from organisations.

Disclosure Requirements

5.2.23 With respect to the proposed disclosure on whether a corporate introducer, its directors and/or shareholders have any direct or indirect stake in the FA firm, a few respondents highlighted operational difficulties in obtaining the details of minority shareholders, and suggested that only disclosure of “substantial” stakes or interests be made.

MAS’ Response

5.2.24 MAS agrees to only require the disclosure of “substantial shareholdings” held by the introducer, its directors and/or shareholders in the FA firm. As defined in the Companies Act (Cap. 50), a person has a substantial shareholding in a company if he or she has an interest in the voting shares in the company, and the votes attached to those shares are not less than 5% of the total votes attached to all the voting shares in the company.

Other Feedback

5.2.25 Some respondents sought clarification on whether FA firms which are currently granted exemption under section 100(2) of the FAA will be exempted from the requirements for the appointment of introducers. Other respondents requested clarification on whether the recommendations will apply if clients introduced are accredited investors.

MAS’ Response

5.2.26 As mentioned in paragraph 2.2, MAS’ intention is to apply the FAIR requirements only to FA firms and representatives serving retail clients. In this regard, the recommendations on introducers will not apply to FA firms if clients introduced are accredited or institutional investors as defined in section 2 of the FAA. Nonetheless, FA firms are still responsible for ensuring that their introducing arrangements adhere to all other applicable rules and regulations.

5.2.27 FA firms exempted under section 100(2) of the FAA are currently not required to comply with the requirements set out in the Notice on the Appointment and Use of Introducers by Financial Advisers (FAA-N02). MAS will continue to exempt these FA firms from the new requirements in respect of

the appointment and use of introducers. For the avoidance of doubt, these FA firms are still required to meet the relevant requirements where they act as introducers to other FA firms, unless the clients being introduced are accredited or institutional investors.

6 THRUST FOUR – LOWERING DISTRIBUTION COSTS BY ENHANCING MARKET EFFICIENCY

6.1 Comparability of Products

6.1.1 Many respondents from the public and the industry expressed strong support for the proposed web aggregator. These respondents welcomed the ease of comparing the features and prices of insurance products, and commented that the increased competition derived from better comparability of products could drive premiums down.

6.1.2 However, some respondents from the industry commented that there would be practical difficulties in making product comparisons on the web aggregator due to the large number of life insurance products in the market. A survey conducted by one of the respondents showed that even for relatively simple products such as term life insurance, there are over 40 products in total with varying features⁹ offered by the different life insurance companies. The industry also highlighted that there is a large number of product features in the policies offered by the different life insurance companies. These may be too varied to be captured and compared effectively on the web aggregator. Some respondents also expressed concerns that the product features may be too complicated for consumers to comprehend and may lead to more confusion.

6.1.3 A few respondents from the industry suggested for the web aggregator to include only simple and “basic insurance” products which have standardised

⁹ Some examples of these variations include whether:

- premium payment term is for the full policy term or a limited time period;
- premium amount is level or increases yearly;
- sum assured is level or decreases yearly;
- total permanent disability coverage is included;
- renewability and/or convertibility options are included.

features and benefits. Respondents from the industry also proposed that whole life insurance products and investment-linked policies (ILPs) be excluded from the web aggregator as these products have varying features which make comparison of such products more difficult.

6.1.4 One respondent from the industry suggested that products offered by Defined Market Segment (DMS)¹⁰ insurers should not be included on the web aggregator as the products offered by such insurers typically comprise complex ILPs which are targeted at affluent and high net worth individuals.

6.1.5 On the other hand, some respondents from the public expressed a preference for the web aggregator to compare the full range or a wider suite of life insurance products. One respondent suggested for the web aggregator to compare other financial products such as fixed deposit rates and collective investment schemes. Another respondent expressed concern that FA representatives may “hard-sell” products that are not available for comparison on the web aggregator.

6.1.6 A few respondents from the public and the industry commented that consumers may compare products based solely on premiums and may overlook the other features of the products or credit ratings of life insurance companies which are important factors in their decisions on which insurance products to purchase. One respondent from the industry expressed concern that a consumer who only focuses on premiums may switch his or her existing life insurance policy to a cheaper policy without regard to the other features of the existing policy, especially if the cheaper policy is not suitable for him or her. A respondent from the industry asked whether the premiums displayed on the web aggregator could differ from the actual premiums quoted by the life insurance company when the product is purchased, given the strict underwriting standards of the life insurance companies.

6.1.7 In addition, some respondents from the industry commented that incorporating the quotation systems of all the life insurance companies into

¹⁰ DMS insurers serve specialised life insurance segments, and are allowed to only conduct non-CPF business with minimum sum assured of US\$400,000 or minimum premium size of US\$50,000 (for single premium)/US\$5,000 per annum over 10 years or more (for regular premium).

the back-end system of the web aggregator would be very complex. An alternative suggestion was to launch a pilot programme for term life insurance using a simple comparison table for consumers to view and compare product features. The comparison table would provide indicative rates based on age bands, instead of drawing data from the life insurance companies' quotation systems.

6.1.8 MAS also received queries from some respondents as to who would be responsible for funding, developing, hosting, and maintaining the proposed web aggregator. Respondents from the industry suggested that MAS encourage the development of private sector web aggregators or online insurance portals to provide product information as well as distribute products online, instead of pursuing the proposed web aggregator.

6.1.9 One respondent from the industry expressed the view that consumer education initiatives could be enhanced, for instance, by providing a handbook on the use of the web aggregator, or conducting training courses for FA firms on the use of the web aggregator.

MAS' Response

6.1.10 MAS notes the feedback regarding the complexities of insurance products. However, MAS has assessed that most of the products sold can be compared on the web aggregator, using standardised features which are commonly sought by consumers.

6.1.11 Term, whole life and endowment policies will be compared in the web aggregator. ILPs are typically purchased for investment purposes and are not easily compared due to the multitude of underlying sub-funds. As such, the comparison of different ILPs will be considered at a later phase. In the interim, MAS will work with the industry to include basic information on the more commonly bought ILPs in the web aggregator so that consumers can be made aware of the different types of ILPs offered in the market.

6.1.12 In addition, MAS has assessed that stand-alone critical illness (CI) products need not be included in the web aggregator as they are not commonly purchased and are typically less expensive when purchased as a

rider (i.e. add-on to an existing life insurance policy). Instead, life insurance products with CI riders would be included in the web aggregator.

6.1.13 MAS also notes the feedback to exclude products offered by DMS insurers from the web aggregator. A key objective of the web aggregator is to allow retail customers to easily compare life insurance products. As the products of DMS insurers are targeted at high net worth customers and may comprise specialised niche products, MAS will exclude products of DMS insurers from being listed on the web aggregator. Notwithstanding this, non-retail customers are not precluded from using the web aggregator to compare products offered by other life insurance companies.

6.1.14 MAS agrees that consumers should not compare life insurance products based on premiums only, and other product features and the credit ratings of life insurance companies should also be compared on the web aggregator. MAS also agrees that consumers should seek professional financial advice before purchasing life insurance products. In this regard, warnings would be included in the web aggregator to highlight to consumers the importance of seeking financial advice before purchasing life insurance products or switching life insurance policies. On the comment that FA representatives may “hard-sell” products that are not available on the web aggregator, MAS would like to reiterate that FA representatives are obliged to recommend products that are suitable for their customers. The proposed Balance Scorecard (BSC) remuneration framework (outlined in section 7.2) will curb mis-selling behaviours. MAS also strongly encourages consumers to seek clarification from their FA representatives on the products being recommended to them and ensure that they fully understand the product before making a purchase.

6.1.15 MAS would like to clarify that the premiums that will be displayed on the web aggregator are only indicative because a consumer who decides to purchase the insurance product may be subject to underwriting by the life insurance company. In this regard, the web aggregator will highlight that the indicative premiums are subject to change following such underwriting and may not be the actual premiums offered to each consumer by the life

insurance company. An indicative premium is also useful to the consumer as the financial adviser will need to explain to the consumer why the actual premium is significantly different from that indicated in the web aggregator.

6.1.16 MAS notes the suggestion to explore alternatives to incorporating the quotation systems of life insurance companies in the web aggregator, including the suggestion to use a simple comparison table to compare key features of life insurance products. However, MAS is of the view that a web aggregator with an interactive user interface which compares products based on parameters such as age, gender and smoker status would be most intuitive and useful to consumers. In this regard, MAS will work with the industry on the general specifications, implementation details, development and hosting of the web aggregator.

6.1.17 On the development of private sector web aggregators, MAS does not preclude commercial entities from developing web aggregators provided the requisite licences are obtained from MAS and relevant safeguards are in place for consumers. Such private sector web aggregators, if established, will be separate from the web aggregator put in place under FAIR, which will require full participation¹¹ from all life insurance companies catering to the retail market.

6.1.18 MAS agrees that consumer education is important. In this regard, MAS will work with MoneySENSE and the industry to raise consumer awareness of the web aggregator.

6.2 Accessibility of Products

Sales Process for Purchase of “Basic Insurance” Products

6.2.1 Respondents who are members of the public expressed their support for the proposal requiring life insurance companies catering to the retail

¹¹ Data confidentiality may deter some insurance companies from participating in commercial web aggregators.

market¹² to make available a set of “basic insurance” products through a direct channel¹³ at a nominal administration charge (in addition to the “factory gate price”¹⁴). They were of the view that this would likely lead to a more competitive insurance market and reduce the overall cost of life insurance products for consumers.

6.2.2 Some respondents from the FA industry expressed concerns about the mandatory requirement for life insurance companies to provide a direct channel for the distribution of “basic insurance” products given the additional manpower and infrastructure costs that would be incurred to develop such products, as well as to set up and maintain the direct channel. One respondent from the industry disagreed with the recommendation to assign an FA representative to assist customers to purchase a “basic insurance” product as the nominal fee being paid to FA representatives may not cover the costs they would incur to conduct face-to-face meetings with these customers. To minimise additional costs to the industry, some respondents suggested that MAS dispense with the requirement for life insurance companies to provide face-to-face assistance to customers interested in purchasing a “basic insurance” product, and to allow direct online purchase of life insurance products as an additional avenue or alternative to the direct channel.

6.2.3 Some respondents from the industry felt that consumers should seek professional financial advice before purchasing life insurance products. There were also concerns that some consumers may seek advice from FA representatives before purchasing “basic insurance” products through the direct channel, thus depriving the FA representative of his or her commissions. However, one respondent pointed out that in a service-oriented and

¹² This proposal does not apply to DMS insurers.

¹³ This proposal allows the current distribution models in Singapore to co-exist with the proposed direct channel, and encourages cost competition amongst insurance companies for products offered through different distribution channels (i.e. the existing distribution channels versus the proposed direct channel) and is intended to help reduce distribution costs over time.

¹⁴ When purchasing a life insurance policy, customers typically receive financial advice from representatives of FA firms and pay premiums that comprise the “factory-gate price” (which reflects the cost of providing the benefits excluding distribution costs) of the product and the distribution cost (which refers to payments in the form of commissions, as well as, costs of benefits and services made to the distribution channel).

knowledge-based industry such as that of the FA industry, good FA representatives would not be easily replaced by the direct channel.

MAS' Response

6.2.4 The FAIR Panel proposed assigning an FA representative or customer service counter staff to facilitate the sale of “basic insurance” products as a safeguard to help ensure that consumers do not over-commit on premiums, under/over-insure themselves, or misunderstand the product features and terms.

6.2.5 Given that the benefits and features of “basic insurance” products would be standardised and relevant safeguards would be instituted, MAS will give life insurance companies the option to distribute “basic insurance” products through an online direct channel, subject to the following conditions:

- (a) Life insurance companies must put in place safeguards (refer to paragraph 6.2.7) for the online sale of “basic insurance” products;
- (b) Life insurance companies must provide an avenue for customer queries to be addressed; and
- (c) For Tier 1 life insurance companies¹⁵, they must still offer “basic insurance” products through their customer service staff or FA representatives.

6.2.6 The reason for imposing the condition in paragraph 6.2.5(c) above is because Tier 1 life insurance companies have the widest retail reach and it is important that these companies continue to cater to the needs of the less sophisticated and less IT-savvy consumer groups who may prefer to purchase “basic insurance” products through face-to-face interactions with an FA representative or at the customer service counter.

6.2.7 Safeguards that life insurance companies will be required to put in place for the online sale of “basic insurance” products include, amongst others,

¹⁵ Life insurance companies established or incorporated in Singapore with total assets of at least S\$5 billion or its equivalent in foreign currency.

requiring customers to acknowledge the affordability of the product and adequacy of insurance coverage (by providing them with online calculators to do so), prompting customers to make the necessary declarations such as any pre-existing medical conditions, and highlighting to customers the relevant health warnings and disclaimers relating to the product. We will also be imposing a cap on the sum assured as a safeguard. In addition, life insurance companies that choose to offer an online channel for the sale of “basic insurance” products must institute appropriate controls to guard against money-laundering and terrorist-financing risks, for example, by conducting real-time checks against the relevant sanction lists prior to effecting the sale.

6.2.8 With regard to the concern that consumers may seek free advice from FA firms and representatives before purchasing “basic insurance” products through the direct channel, FA firms and representatives can consider charging a fee for the advice provided.

Types of “Basic Insurance” Products

6.2.9 A few respondents from the industry pointed out that whole life insurance and stand-alone CI products might not be easily understood by consumers and suggested that these products be excluded from the “basic insurance” product range. One industry respondent provided feedback that stand-alone CI products are not popular as they are typically more expensive than those sold as riders. On the other hand, a member of the public suggested that all life insurance products should be made available through the direct channel. Another respondent commented that the features of “basic insurance” products should be kept simple for consumers to understand and purchase without any financial advice. One respondent suggested that life insurance companies which have not established participating funds and currently do not offer participating products should not be required to offer participating “basic insurance” products to consumers.

MAS’ Response

6.2.10 The “basic insurance” products should meet the primary protection needs of most Singaporeans and cater to their preference for life insurance

products with surrender value. As such, “basic insurance” products should include term life and whole life insurance products, and need not include other life insurance products which have a relatively higher investment or savings component (such as ILPs or endowment products). MAS notes the feedback that stand-alone CI products are relatively more expensive than CI riders and are therefore less popular with consumers. In view of this, MAS agrees to exclude stand-alone CI products from the range of “basic insurance” products that will be offered to consumers. MAS agrees that the features of “basic insurance” products should be standardised and kept simple so that these products can be more easily understood by consumers, and can be offered through the direct channel without the need for advice. In this regard, MAS will work with LIA to standardise the benefits and features of “basic insurance” products.

6.2.11 MAS recognises that life insurance companies that currently do not offer participating products would need to incur substantial set-up and ongoing costs to establish and manage participating funds if MAS makes it mandatory for all life insurance companies to offer participating “basic insurance” products. In view of this, MAS agrees that a life insurance company that currently does not have a participating fund or offer participating products should not be required to offer participating “basic insurance” products.

6.3 Transparency of Products

Disclosure of Bundled Insurance Products

6.3.1 The FAIR Panel proposed that when recommending the purchase of bundled life insurance products, FA representatives should disclose to consumers: (a) an alternative option of purchasing an unbundled term life insurance product which provides a proxy for the cost of protection coverage, and placing the premium savings in a fixed deposit; and (b) the salient features of the bundled life insurance product vis-à-vis a term life insurance product.

6.3.2 Several respondents were supportive of the recommendation and commented that the proposal would allow consumers to compare the features

and premiums of term life insurance products vis-à-vis bundled life insurance products more easily.

6.3.3 A number of respondents sought clarifications regarding the definition of “bundled life insurance products”. Some respondents commented that this proposal should not apply to investment-focused bundled life insurance products, such as ILPs, as it is not meaningful to compare such products with protection-focused term life products.

6.3.4 Some respondents, who were supportive of presenting an unbundled term life insurance product, commented that the use of a fixed deposit may not be suitable and could be over simplistic as it cannot fully replicate the savings or investment element in a bundled life insurance product due to differences in asset mix, returns, durations and reinvestment risks. They commented that this proposal may have the unintended consequence of making the bundled life insurance product appear more attractive to consumers, given the current low interest rate environment. These respondents suggested either (a) presenting only the term life insurance product (i.e. not including the fixed deposit); or (b) using other investment products to replicate the savings/investment component. However, some respondents were concerned with using other investment products in place of fixed deposits as the FA representative advising on the bundled life insurance product may not be authorised to advise on these other investment products.

6.3.5 A few respondents commented that term life insurance products may not be as comparable to some bundled life insurance products, such as whole life insurance products, due to different durations of coverage. A few respondents sought clarification on whether the term life insurance product disclosed as an unbundled alternative has to be a product offered by the life insurance company selling the bundled life insurance product.

6.3.6 One respondent felt that the disclosure of bundled products may place too much emphasis on costs and returns, which should not be the only considerations when consumers purchase an insurance policy. Another respondent disagreed with the proposal as he or she was of the view that an

FA representative would only recommend a bundled life insurance product if it suited the customer's budget, financial objective and personal situation.

MAS' Response

6.3.7 As set out in the consultation paper, a bundled life insurance product is defined as any life insurance product that (a) contains a protection element, as well as, a savings or investment element; and (b) is purchased in a single contract. As such, bundled life insurance products will include whole life and endowment plans. MAS recognises that ILPs are complex life policies that have features which resemble both a life insurance policy and a CIS. Accordingly, MAS is of the view that ILPs merit a separate study.

6.3.8 The FAIR Panel recommended presenting fixed deposits as the alternative savings product given that (a) fixed deposits are the most accessible savings product for retail consumers; and (b) it is difficult to select an appropriate alternative investment product as it would depend on the risk profile, financial knowledge and investment objective of the customer. In view of the feedback received, MAS will work with the industry to disclose an imputed rate of return of the bundled life insurance product instead. The imputed rate of return provides a proxy of the guaranteed return¹⁶ of the investment/savings element of the bundled life insurance product, and is derived from investing the difference in premiums between the bundled and term life insurance products, in order to achieve the guaranteed surrender/maturity value of the bundled life insurance product.

6.3.9 With this disclosure, consumers would be made aware that they have the option of purchasing a term life insurance product for the same amount of coverage at a lower premium, and saving/investing the difference in premiums in another financial product of their choice instead of buying a bundled life insurance product. MAS will work with the industry and consumer groups to state prominently in the prescribed disclosure template what the imputed rate of return means for consumers in layman's terms and to ensure that FA

¹⁶ The imputed rate of return is computed based on the guaranteed surrender/maturity value of the bundled life insurance product for the individual consumer and does not take into account any non-guaranteed returns for the bundled life insurance product.

representatives are adequately trained to explain to consumers how to interpret the imputed rate of return. MAS will also work with MoneySENSE to make available resources for consumers to understand the imputed rate of return.

6.3.10 MAS would like to clarify that FA firms and representatives would be required to use the most comparable term life insurance product (including “basic insurance” term life products, described in section 6.2 above) that they offer, given that some life insurance companies may not offer term life insurance products that match the coverage duration of the bundled life insurance product.

6.3.11 MAS recognises that costs and returns should not be the sole considerations of consumers in their decision to purchase a life insurance product. As stated in paragraph 4.34 of the consultation paper, it is also important to highlight to consumers the salient features of bundled life insurance products vis-a-vis term life insurance products so that consumers can make a meaningful comparison of the two products. As such, MAS will work with the industry to require FA representatives to disclose to consumers salient features of the two products, for example that term life insurance products have no surrender value and the death benefit is fixed throughout the policy term, whereas whole life insurance products provide surrender values and also additional bonuses which are not guaranteed.

Disclosure of Trailer Fees for Collective Investment Schemes

6.3.12 The FAIR Panel recommended requiring fund managers to disclose trailer fees paid to FA firms for CIS in the PHS. Although a number of respondents indicated support for this proposal, some respondents cited confidentiality obligations between fund managers and their distributor FA firms as a reason for not supporting this proposal. They commented that this proposal could possibly cause a strain in relationships between fund managers and their distributors given that the trailer fees paid to the various distributors would now be more easily compared. Some respondents also gave feedback on implementation issues relating to the calculation of trailer fees and frequency of updates to the relevant documents.

MAS' Response

6.3.13 MAS would like to clarify that FA firms are currently already required to disclose in writing all remuneration they receive for making recommendations on investment products (including trailer fees received from fund managers) to their customers under paragraph 16 of the Notice on Information to Clients and Product Information Disclosure (FAA-N03). However, the format of disclosure is currently not prescribed. MAS understands that FA firms utilise their own formats of disclosure to meet the requirements set out in FAA-N03. As such, this proposal would allow consumers to compare trailer fees paid by fund managers to the fund distributors (i.e. the FA firms) more easily. MAS will work with the industry on the implementation details, such as the calculation of the trailer fees and the frequency of updates.

Disclosure of Total Expense Ratios of Participating Funds

6.3.14 The FAIR Panel recommended requiring life insurance companies to disclose the total expense ratio of participating funds, averaged over three years in the Product Summary.

6.3.15 Some respondents expressed support for the recommendation but highlighted the need to ensure that the information on expense ratios is useful and comprehensible to consumers.

MAS' Response

6.3.16 MAS agrees with the feedback and will work with the industry and MoneySENSE on consumer education initiatives to ensure that FA representatives are adequately trained to explain to consumers how the total expense ratios of participating funds should be interpreted.

Cover Page to Benefit Illustration (BI) and Product Summary

6.3.17 The FAIR Panel recommended requiring life insurance companies to add a cover page to the BI and Product Summary to highlight specific information to consumers. Some respondents felt that the addition of a cover page was a good idea. There were also suggestions made to the list of items to

be highlighted in the cover page. A few respondents expressed concerns that an additional document might confuse consumers.

MAS' Response

6.3.18 MAS would like to clarify that all the information displayed in the cover page would already be contained in the BI or Product Summary. Hence, the purpose of the cover page is to highlight the more critical information upfront.

6.3.19 MAS will work with the industry to make the cover page simple and easy to understand for the consumer.

7 THRUST FIVE – PROMOTING A CULTURE OF FAIR DEALING

7.1 Commission Payout Structure of Regular Premium Life Insurance Products

Period of Commission Payout

7.1.1 The FAIR Panel proposed that commissions for regular premium life insurance policies be paid over a minimum period of six years or the policy term, whichever is shorter. This is to better align the interests of FA firms and representatives with that of their customers and ensure the provision of quality after-sales services to customers. Feedback received on this proposal was mixed. Several respondents agreed with the proposal, since the commission payout period for most regular premium life insurance products is currently set at six years. Those who disagreed felt that the payout period of six years was too long. They were concerned that representatives would lose the bulk of the deferred commissions when they retire or join another FA firm, and commented that the proposal does not serve the purpose of improving the quality of FA services.

7.1.2 Three respondents suggested spreading the commissions over the premium payment years rather than policy years, as commissions are system-configured to be paid upon the receipt of premiums. Any adjustment to such

system configuration would be costly and could result in higher product costs being passed on to customers.

7.1.3 Four respondents asked whether the proposal is applicable to banks, since banks pay their representatives a fixed salary plus variable incentives, which cannot be directly attributed to a specific policy.

MAS' Response

7.1.4 MAS notes that the policy term of most life insurance products extend beyond 10 years. Thus, a commission payout period of six years is reasonable and better aligns the interest of the FA firm and representative with that of the policy holder.

7.1.5 MAS agrees with the suggestion to spread commissions over the premium payment period, as opposed to the policy term as this does not detract from the objective of the original proposal. Accordingly, we will revise the proposal to require commissions paid by the product manufacturers to FA firms (such as banks, CMS licensees and LFAs) and their representatives, where appropriate, to be distributed over a minimum period of six years or the premium payment period of the policy, whichever is shorter.

Re-Distributing Commissions – Cap on First Year Commissions

7.1.6 Currently, 49% to 55% of total commissions are paid to FA firms and representatives in the first year of a life insurance policy. In order to align the interests of FA firms and representatives with that of their customers, and to promote a culture of fair dealing, the FAIR Panel proposed capping the first year commissions¹⁷ paid to FA firms and representatives at 40% of total commissions, with the remaining commissions paid out evenly over the next five years or the remaining policy years, whichever is shorter.

7.1.7 The majority of the respondents disagreed with the proposal to cap first year commissions. These respondents highlighted that the income of FA representatives could be significantly impacted by the proposal. This could

¹⁷ This refers to the commissions paid to FA firms and representatives in the first year of a regular premium life insurance policy.

result in the remuneration package for FA representatives becoming less competitive, leading to recruitment and retention problems. These respondents also commented that the proposal would result in FA firms having reduced cash flow to meet their operating expenses. Many respondents commented that the objective of aligning the interest of FA representatives with that of customers could be better achieved through the FAIR proposal on adopting a BSC approach to remuneration.

MAS' Response

7.1.8 MAS has considered the comments. We agree that the BSC framework is a better means to align the interests of FA firms and representatives with that of their customers. Capping first year commissions at 40% will impact good and errant representatives alike, while BSC will only penalise the latter. Arguably, with an effective BSC framework, a cap on first year commission may not be necessary. However, as the BSC framework is relatively new and its effectiveness is yet to be determined, capping first year commissions may still be useful. Instead of capping the first year commissions at 40% of total commissions, MAS will impose a 55% cap on first year commissions, which is the practice now for most regular premium life insurance products. The remaining 45% of commissions will be paid out over the next five years or the remaining premium payment years, whichever is shorter. MAS will review the cap on first year commissions where appropriate, after we have ascertained the effectiveness of the other FAIR initiatives, including the robustness of the BSC framework.

7.2 BSC Framework for Remuneration of FA Representatives

Applicability of the BSC Framework

7.2.1 The FAIR Panel proposed a BSC framework incorporating non-sales key performance indicators (KPIs) in the remuneration structure for FA representatives and their supervisors, so as to better align their interests with their customers'. Most respondents were supportive of the proposal. Four respondents shared that they were already using a BSC framework to mitigate

the conflicts of interest resulting from their sales volume-led remuneration models.

7.2.2 Some respondents sought clarification on whether the BSC framework will apply to FA firms which serve certain clientele types who are more investment savvy, in particular, private banking clients, AIs, institutional investors, overseas investors, corporate clients and high net worth investors. Clarifications on the applicability of the BSC framework were also sought from FA firms issuing research reports, product manufacturers distributing investment products solely through third party FA firms, and securities brokers providing execution-related advice. One respondent asked if advice provided on transactions for hedging purposes can be carved out from the post-transaction checks, as these are primarily needs-driven to manage customers' existing exposures. Another respondent enquired whether the BSC framework applies to products that are not subject to the Notice on Recommendations on Investment Products (FAA-N16).

MAS' Response

7.2.3 The primary objective of the BSC framework is to ensure that FA representatives provide quality advice and recommendations that suit the specific needs of their customers. This is underpinned by section 27 of the FAA which requires FA firms and their representatives to have a reasonable basis for recommending any investment product to a customer. FAA-N16 further sets out the standards to be maintained by FA firms and their representatives with respect to recommendations made on investment products. Accordingly, the BSC framework will only apply to FA firms and representatives who are subject to section 27 of the FAA and FAA-N16.

7.2.4 Notwithstanding paragraph 7.2.3, all FA firms are strongly encouraged to apply the principles of the BSC framework in the remuneration model for representatives that deal with other clientele types or FA services.

Proportion of Remuneration to be Subject to the Non-Sales KPIs

7.2.5 Feedback received on this proposal was mixed. Some respondents agreed with the proposal to apply the BSC framework to a larger proportion of

the supervisor's remuneration for the performance of their representatives on the non-sales KPIs. However, some respondents disagreed and proposed that FA representatives and their supervisors be treated the same. Further, one respondent suggested that the performance of representatives and supervisors on the non-sales KPIs should not account for more than 20% of their total remuneration.

7.2.6 One respondent highlighted that as FA firms have different remuneration models, each firm should be left to decide for itself the proportion of remuneration that is subject to the non-sales KPIs.

7.2.7 Two respondents were not supportive of applying the BSC framework to representatives who are not remunerated based on sales volume. Three respondents felt that only variable remuneration should be subject to the non-sales KPIs, and not the total remuneration.

MAS' Response

7.2.8 The objective of the BSC framework is to promote good behaviour and to encourage representatives to provide quality advice and suitable recommendations. Quality of advice and suitability of recommendations are thus the important drivers of a representative's remuneration, rather than sales volume. As remuneration drives behaviour, a significant proportion of an FA representative's remuneration should be based on the representative's performance on the non-sales KPIs. As supervisors have influence and responsibility over how their representatives conduct their FA activities, they should be remunerated according to the performance of their representatives under the BSC framework.

7.2.9 MAS has worked with the relevant industry associations and agreed on the following principles for the BSC framework:

- (a) A representative's performance on the non-sales KPIs should be factored into all variable remuneration that is tied to sales volume paid to the representative, as volume-based remuneration poses inherent conflict to customers' interest;

- (b) A representative's performance on the non-sales KPIs will be assessed based on sample checks on the representative's total portfolio of transactions and any infractions discovered will be factored into the variable remuneration that the representative is entitled to; and
- (c) A representative who performs poorly under the BSC framework will be put on probation and be subject to close supervision by his or her FA firm, and a consistent poor performer will be terminated.

7.2.10 Notwithstanding paragraph 7.2.9(a), FA representatives and supervisors who are paid a fixed fee or salary that is not tied to sales volume will still be subject to monitoring under the BSC framework and their performance on the non-sales KPIs under the BSC framework has to be factored into their appraisals, including pay reviews and considerations for promotion.

Non-Sales KPIs

7.2.11 MAS proposed four non-sales KPIs in the BSC framework, covering the following areas:

- (a) Quality of Advisory and Sales Process;
- (b) Suitability of Product Recommendations;
- (c) Adequacy of Information Disclosure; and
- (d) Customer Complaints.

7.2.12 Six respondents asked whether they can add other non-sales KPIs such as compliance with continuing professional development requirements and persistency ratios.

MAS' Response

7.2.13 MAS accepts that there are other non-sales KPIs that could be incorporated in the BSC framework to meet the specific business objectives of

FA firms. However, to ensure a consistent approach across all FA firms, any additional non-sales KPIs must not dilute the proportion of remuneration that is subject to the prescribed non-sales KPIs under the BSC framework. In other words, the amount of remuneration that is tied to the performance of the representative on the additional non-sales KPIs must be in addition to the remuneration that is subject to deduction under the prescribed non-sales KPIs.

7.2.14 MAS recognises that customer complaints serve more as a detection mechanism rather than as a KPI, and will reclassify it as a measurement method instead. In its place, we will introduce a new KPI – “Standards of Professionalism and Ethical Conduct” to capture poor market conduct practices that do not fall under the other three KPIs.

7.2.15 We will also rename the KPI “Quality of Advisory and Sales Process” to “Understanding Customers’ Needs” to better reflect what is being assessed under this KPI (i.e. whether there is sufficient fact-find conducted to understand the circumstances and needs of the customer).

Methods for Measuring Non-Sales KPIs

7.2.16 The FAIR Panel proposed that supervisors perform pre-transaction documentation reviews and customer call-backs on all sales conducted by their FA representatives, and that FA firms set up an Independent Sales Audit (ISA) Unit to perform post-transaction checks on the quality of FA services rendered by their representatives. Such checks could be done on a sampling basis and include documentation checks and customer surveys. Mystery shopping exercises conducted by MAS or industry associations to assess whether FA representatives are dealing with customers fairly, can also serve as an effective assessment tool to complement the measurement methods adopted at the firm level.

7.2.17 Several respondents expressed concerns that the non-sales KPIs are subjective and difficult to assess. Any ambiguity in the standards for passing the non-sales KPIs, for instance, the suitability of recommendation, may lead to subjectivity in the assessment process. It is therefore important for the industry to use a common definition of the non-sales KPIs so that

representatives are assessed based on similar standards. One respondent highlighted that the standards required under the non-sales KPIs should be reasonable such that most FA representatives are able to achieve them assuming they conduct themselves in a proper and fair manner.

7.2.18 Two respondents gave the feedback that most FA firms currently have policies and procedures to ensure that representatives deal fairly with customers when providing FA services, and these are tailored to their business models and scale of operations. In this regard, the respondents expressed the view that FA firms should be given the flexibility to decide on the appropriate measurement methods, rather than comply with a one-size-fits-all approach which can be unduly onerous for some firms.

7.2.19 One respondent commented that the proposal to require all transactions to be subject to the pre-transaction documentation reviews and customer call-backs was cumbersome.

MAS' Response

7.2.20 Despite policies and processes put in place by FA firms to raise market conduct standards, MAS' mystery shopping exercise in 2011 showed that a third of the recommendations provided to the mystery shoppers were unsuitable. This calls for tighter checks on the quality of the advisory and sales process and the suitability of recommendations made. It is therefore essential that we set a minimum standard for measuring the non-sales KPIs so that the performance of representatives across different FA sectors and firms are assessed in a consistent manner.

Pre-Transaction Checks

(i) Full-Scale Documentation Reviews by Supervisors

7.2.21 Two respondents shared that it is the current practice for FA firms to conduct full-scale pre-transaction documentation reviews, while five others felt that such reviews are too onerous and could lead to an increase in distribution costs and delays in transaction processing for price-sensitive products such as dual currency investments. In this regard, respondents

suggested giving FA firms the flexibility to decide on the type of transactions to be reviewed.

7.2.22 Two respondents asked if the pre-transaction documentation reviews can be conducted through other means besides checks by the supervisors such as reviews by back-office functions or using system-based checks.

7.2.23 One respondent sought clarification on whether the documentation reviews can be conducted during the free-look or cancellation period.

MAS' Response

7.2.24 The full scale pre-transaction documentation reviews is the first level of checks on the quality of advisory service provided by FA representatives to customers. For transactions not selected for sample review by the ISA Unit, this review is the only check, and should therefore be applied to all transactions.

7.2.25 MAS accepts that the pre-transaction documentation reviews can be conducted by parties other than the supervisors, such as back-office functions or through system-based checks, so long as the FA firm can demonstrate that these alternatives are equally effective in ensuring that the advisory and sales process conducted by its representatives is robust.

7.2.26 MAS disagrees that the pre-transaction documentation reviews can be conducted during the free-look or cancellation period. This is because customers who change their minds about purchasing an investment product during the free-look or cancellation period will still have to bear any change in value of the product since the purchase and other relevant fees and charges. To better safeguard the interest of customers, it is important that supervisors or other parties review all product recommendations before they are effected so that any unsuitable sale would not be put through at the outset.

(ii) Full-Scale Customer Call-Backs by Supervisors

7.2.27 Many respondents objected to the proposal requiring supervisors to conduct pre-transaction customer call-backs on all sales conducted by their representatives. Concerns highlighted include raising the ire of customers

(especially from those who invest regularly), unproductive use of supervisors' time, misconception among customers that their FA representatives are incompetent, and practical difficulties if customers are not contactable or refused to be surveyed.

7.2.28 A few respondents counter-proposed that FA firms adopt a risk-based approach in deciding on the type of customers or transactions for which customer call-backs need to be performed. For example, customer call-backs can be performed in cases involving vulnerable customers, the first three transactions of new representatives, transactions involving large sums of investments, and transactions where the risk of the investment product does not match the risk profile of the customer. One respondent suggested that there should be a structured script for the conduct of customer call-backs.

7.2.29 One respondent suggested post-transaction surveys as a substitute for the customer call-backs. Another respondent felt that it would be sufficient if customers certify on a checklist during the advisory session that specific information has been disclosed to them and that the products recommended are suitable.

7.2.30 One respondent highlighted that the customer call-backs should be conducted on a post-transaction basis so as to minimise delays in transaction processing for time-sensitive trades which could result in losses in a market downturn.

MAS' Response

7.2.31 MAS has considered the feedback and agrees with most of the responses. In this regard, we will only require FA firms to conduct full-scale pre-transaction customer call-back for sales involving vulnerable customers¹⁸ and sales conducted by the following representatives:

¹⁸ MAS will work with the industry on a consistent definition of "vulnerable customers". Vulnerable customers will typically be customers who (a) are aged 62 and above; (b) are retired or unemployed; (c) are not proficient in spoken or written English; or (d) have attained academic qualifications which are up to or below secondary school level.

- (a) those with BSC failings in the past 12 months or adverse records arising from reference checks;
- (b) those with a two-year persistency rate that is lower than 75% for the sale of life insurance products; or
- (c) those under close monitoring by the FA firm.

7.2.32 We would like to clarify that infractions discovered during the pre-transaction full-scale checks by supervisors will not be taken into account when assessing the performance of representatives on the non-sales KPIs as any infractions found during this stage would have to be rectified by the representatives before the purchase is processed.

7.2.33 As customer call-backs or surveys serve as an additional check and feedback channel on the quality of the advisory sessions, MAS does not agree with the suggestion for customers to certify during the advisory sessions that specific information has been disclosed to them and that they agree with the products being recommended to them.

Post-Transaction Checks

7.2.34 All respondents agreed with the proposal for FA firms to set up an ISA Unit to perform post-transaction checks on the quality of FA services rendered by their FA representatives.

7.2.35 To be effective in performing post-transaction checks, one respondent stressed that the ISA Unit must not report to the FA Business Head and should have direct access to Senior Management. The ISA Unit should also be staffed by appropriately qualified, experienced and senior persons to ensure that the review process is robust and effective. The ISA Unit should also submit monthly audit reports to Senior Management so that they are aware of the quality of FA services provided by their representatives.

MAS' Response

7.2.36 MAS will require all FA firms to set up an ISA Unit for the purpose of performing quarterly post-transaction sample checks on the quality of FA

services rendered by their representatives. To ensure independence, the unit should be staffed by individuals who are not involved in the provision of FA services. It should have direct access to the Board and Senior Management, and should provide regular reports to the Board and Senior Management on the achievement of the non-sales KPIs by the firm's FA representatives. It is acceptable for an existing function within the FA firm which is independent of the FA business and staffed with competent persons, for example, the Compliance or Risk Management functions, to assume the duties of the ISA Unit. In addition, this function can be outsourced to third party service providers who are capable of performing this role.

7.2.37 On a quarterly basis, all FA representatives will be assigned a BSC grading based on the number and severity of infractions uncovered from the post-transaction sample checks by the ISA Unit, mystery shopping surveys and customer complaints. The quarterly BSC grading will determine the amount of remuneration that the representative is entitled to for that quarter. The infractions will be classified as either major or minor. A major infraction is one which has a material impact on the interests of customers or impinges on the fitness and propriety of the FA representative, in relation to the provision of FA services, and involves any of the following:

- (a) Recommending a product that is clearly unsuitable for a customer, based on information declared by the customer;
- (b) Recommending a customer to enter into switching transactions that are unnecessary and purely for the representative's benefit;
- (c) Failing to provide and explain material information on the product to a customer that if properly disclosed would have resulted in the customer not purchasing that product;
- (d) Failing to execute a customer's instructions without valid cause resulting in the customer incurring losses; or
- (e) Wilful acts of misrepresentation or other serious misconduct.

Major infractions are meant to capture deliberate acts of misconduct or cases of gross negligence. A minor infraction is one which has some impact on the interests of customers in relation to the provision of FA services but is not deemed as a major infraction. The BSC framework is not intended to penalize representatives for minor administrative lapses or errors that do not have an adverse impact on customers.

7.2.38 The effect of the BSC framework is such that compliant representatives without any infraction or with minimal minor infractions noted in a quarter will be entitled to their full variable remuneration in that quarter. In other words, the remuneration of such representatives will not be affected by the BSC framework. However, at the extreme, a representative with one or more major infractions or 30% or more cases with minor infractions in a quarter will risk losing all or a large proportion of the variable remuneration that he or she would otherwise be entitled to in that quarter.

7.2.39 Supervisors are responsible for the quality of FA services provided by their representatives. Accordingly, for supervisors whose remuneration is tied to the sales volume of their representatives, this portion of their remuneration will be proportionately affected by the performance of their representatives on the non-sales KPIs under the BSC framework.

Other Feedback

7.2.40 Two respondents suggested that MAS mandate a fee-based remuneration structure for all FA firms.

MAS' Responses

7.2.41 MAS has considered changing the remuneration structure of representatives by capping or banning commissions. However, it is not clear if Singaporeans are ready for a move towards a fee-based regime. Based on a survey we conducted in April 2012, 80% of the respondents indicated that they were not prepared to pay an up-front fee for advice. It is also possible that implementation of a fee-based regime could result in consumers needing to pay more for their protection or investment needs, especially for consumers with smaller investments. In addition, there could be other unintended

consequences, such as a reduction in the number of FA representatives in the industry, exacerbating the lack of financial and protection planning by consumers. We will review this after a period of time, taking into consideration the effectiveness of the current measures and the experience that other countries have with the fee-based regime.

7.3 Banning of Product-Specific Incentives for FA Representatives

7.3.1 We received strong support for the recommendation to ban product-specific incentives given to FA representatives. Several respondents suggested that the ban be extended to include product-specific incentives given by product manufacturers (e.g. fund managers and life insurance companies) to FA firms and FA representatives and not be limited to incentives given by FA firms to FA representatives.

7.3.2 In addition, several respondents sought clarification on whether the proposal was applicable only to specific products (e.g. unit trust A versus unit trust B) or also for particular product classes (e.g. collective investment schemes versus ILPs). Two respondents suggested extending the ban on the giving of product incentives to include product classes.

7.3.3 Two respondents suggested allowing a transition period before the ban is imposed, to allow FA firms some time to make adjustments to their incentive structure and systems.

7.3.4 Other feedback included suggestions to provide exemptions for certain products, for example mortgage reducing assurance plans, where the risks of product pushing is less evident. Clarification was also sought on whether MAS would provide exemptions for cases where incentives are not made known upfront to FA representatives but are only announced and paid to FA representatives at the end of the marketing campaign.

MAS' Response

7.3.5 MAS agrees with the feedback that product manufacturers should not be allowed to pay FA firms and their representatives additional cash or non-

cash incentives, that are over and above the typical commissions and which are tied to the sales volume of investment products. This will prevent product manufacturers, which may not be distributors, from circumventing the ban by providing such additional incentives directly to FA representatives. In addition, this will mitigate the risk of FA firms putting pressure on their FA representatives to meet certain sales targets so as to receive these additional incentives provided by the product manufacturers.

7.3.6 We are mindful that if we allow additional cash and non-cash incentives that are over and above the typical commissions, to be paid for the sale of products in a particular product class, this may encourage FA representatives to recommend products from a particular product class over another, even if it is not in the customers' best interests to purchase these products. This would not be desirable, and may result in representatives recommending certain classes of products over other more suitable ones, to the detriment of consumers.

7.3.7 As such, we will extend the ban on the payment of additional cash and non-cash incentives to product manufacturers as well as product classes. The ban would only apply to incentives that are given to FA firms and FA representatives on a seasonal or short-term basis, for example, incentive trips or cash prizes given to FA representatives if they hit a particular sales target during a promotional campaign.

7.3.8 However, we recognise that it is important for consumers to be adequately protected for life's unexpected events. As such, we will not apply the ban on product-specific incentives and product class incentives to the sale of pure protection products such as term life insurance products.

7.4 Accountability for Fair Dealing Responsibilities in FA Firms

7.4.1 MAS consulted on incorporating the assessment of the Board and Senior Management's efforts in promoting a culture of fair dealing within their organisations into MAS' risk assessments and regulatory reviews of FA firms.

7.4.2 Most respondents supported this recommendation, with four respondents requesting further clarity and guidance on MAS' expectations of the Board and Senior Management. Two respondents commented on the limited applicability of the Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers (the Fair Dealing Guidelines) to certain businesses. Two other respondents also cautioned that new fair dealing requirements may impose high compliance costs on FA firms.

MAS' Response

7.4.3 Given the strong support for this recommendation, MAS will include our assessment of the Board and Senior Management's efforts in achieving the five Fair Dealing Outcomes into our supervisory and risk assessments of FA firms.

7.4.4 We would like to clarify that this recommendation does not impose any new requirements per se. Nonetheless, MAS will provide greater clarity and guidance on the Board and Senior Management's responsibilities for delivering fair dealing outcomes in the Fair Dealing Guidelines.

7.5 Complaints Handling and Resolution (CHR) Processes

Independent Process

7.5.1 Most respondents were supportive of the proposal requiring the unit resolving complaints to be independent of the unit against which the complaint is made.

7.5.2 Some respondents commented that frontline business units would be better positioned to respond to complaints compared to an independent unit, and that the requirement for an independent unit would raise compliance cost. Others commented that non face-to-face channels (such as call centres) and face-to-face channels (such as sales or service employees who deal directly with customers) should be considered to be independent from their business unit.

7.5.3 Other respondents suggested that monitoring of the CHR process should be done independently with a central complaints management system together with a process in place to escalate complaints to other departments or Senior Management if necessary.

7.5.4 A member of the public suggested that MAS investigate and handle complaints against Senior Management and top salespersons as internal compliance units were not “truly independent”.

MAS’ Response

7.5.5 As business conduct complaints¹⁹ are serious, MAS maintains its view that it is important that the unit responsible for handling and resolving such complaints be independent of the FA firm’s sales and advisory function. This is to mitigate possible conflicts of interest and assure customers that their complaints are treated independently and fairly. We will therefore retain this requirement.

7.5.6 FA firms can appoint their compliance units to be the independent unit responsible for handling and resolving complaints as the compliance unit is required to be independent of the sales and advisory function.

7.5.7 We agree that a centralised complaints management system would be useful. Complaints are a valuable indicator to FA firms of potential problems that they should address. Having a centralised system will allow FA firms to track complaints data and take proactive measures to prevent more complaints arising from similar root causes. FA firms will also be required to establish clear internal processes for assessing the merits of each complaint, including criteria to determine when a complaint should be escalated to Senior Management for direction where necessary.

7.5.8 Complaints that are resolved by the close of the next business day will be exempted from the requirement to send a written acknowledgement, and FA firms will be allowed to exclude such complaints from the set of data to be

¹⁹ Examples of such complaints include those that concern acts involving dishonesty or fraud, inappropriate advice, mis-selling, or inadequate disclosure by the FA firms and representatives.

reported to MAS. These should ameliorate concerns that compliance costs could be raised significantly.

7.5.9 The CHR requirements are designed to place the onus on the Board and Senior Management of an FA firm to ensure that the firm handles and resolves all complaints independently and fairly. This includes complaints against Senior Management and key staff members. If a complainant is not satisfied with the FA firm's handling and resolution of the complaint, he or she may refer the complaint to the Financial Industry Disputes Resolution Centre (FIDReC). FIDReC is an independent institution that provides consumers with a one-stop avenue for resolving disputes in the banking, insurance and capital market sectors. In MAS' supervision of FA firms, we will assess whether the FA firm's complaint handling framework and processes are adequate and compliant with the regulatory requirements.

Application of "Business Days" to all Timelines

7.5.10 One respondent suggested using "business days" instead of "calendar days" to take into account the non-business days when the complaints handling staff are unable to work on the case.

MAS' Response

7.5.11 MAS agrees to apply "business days" instead of "calendar days" for all stipulated timelines in the consultation paper.

Six-Week Timeline

7.5.12 One respondent suggested for the "six-week timeline" to exclude the settlement process for complaints alleging mis-selling. This means that the FA firms could propose a settlement offer to the complainant by the end of six weeks and thereafter, the timeline for final resolution would depend on whether the complainant accepts the offer or wishes to negotiate further.

7.5.13 One respondent commented that the proposed requirements were too onerous, costly and inconsistent with the objectives of FIDReC and that FA firms should have the flexibility to determine their own CHR processes.

MAS' Response

7.5.14 Our proposal was intended to include situations where the FA offers a settlement. In this regard, we would like to clarify that the FA firm must, by the end of 30 business days, provide:

- (a) a final response setting out its position on the complaint;
- (b) an offer to settle the complaint; or
- (c) for more complicated cases, a written response informing the complainant of the reasons for the delay, an indicative timeframe for a final response, and his or her right to refer the complaint to an approved dispute resolution scheme under the MAS (Dispute Resolution Schemes) Regulations 2007.

7.5.15 MAS disagrees that the CHR requirements are too onerous. In fact, most respondents agreed with the proposed requirements. The proposed requirements do not conflict with the objectives of FIDReC as the FA firm is the first point of contact for complainants and it should strive to resolve most complaints at this stage through an independent and prompt CHR process.

Scope of the CHR Recommendations

7.5.16 Some respondents sought clarification on whether the CHR recommendations would apply only to FAA-related complaints.

MAS' Response

7.5.17 The proposed recommendations will apply to complaints in relation to business conduct requirements under the FAA. They do not apply to complaints about the commercial practices or service standards of an FA firm, given that these arise from the FA firm's commercial decisions. We note that financial institutions subscribe to various industry codes to promote good commercial practices and high levels of service standards.

7.5.18 Although the CHR requirements apply only to business conduct complaints from retail customers, all FA firms are strongly encouraged to apply the standards and principles in the CHR recommendations to complaints from

non-retail customers as well as other types of complaints. Where complaints on commercial practices or service standards raise broader regulatory concerns, MAS will work with the relevant industry associations or the FA firms concerned to address the issues.

Acknowledgement of Complaints

7.5.19 Some respondents sought clarification on whether electronic acknowledgement in the form of email or SMS would be considered as acknowledgement. Other respondents asked whether verbal acknowledgement could be an alternative to written acknowledgement.

7.5.20 One respondent queried whether there is a need to send an acknowledgement if the complaint is resolved within one day.

MAS' Response

7.5.21 We would like to clarify that email and SMS notifications are acceptable. These can be in the form of a simple generic acknowledgement that serves to assure the complainant that his or her complaint has been received and is being reviewed. MAS is of the view that a verbal acknowledgement on its own would not suffice as it may be difficult to track for record-keeping purposes. As mentioned in paragraph 7.5.8, complaints that are resolved by the close of the next business day will be exempted from the requirement to send a written acknowledgement. This is to encourage prompt resolution and to reduce administrative burden for minor complaints.

Tracking and Management of Complaints Data

7.5.22 Some respondents sought clarification on what types of complaints data should be tracked and reported to MAS, and how MAS would use the complaints data reported. A few respondents felt that MAS should request complaints data on an ad-hoc basis instead of requiring FA firms to submit complaints data to MAS on a biannual basis.

MAS' Response

7.5.23 FA firms' submission of complaints statistics would enable MAS to monitor possible widespread or regular failure by an FA firm in complying with any business conduct requirement. This allows MAS to assess if there is a need to further inspect or assess a particular firm's business conduct practices. MAS may publish such complaints statistics on a consolidated industry basis or as aggregated complaints statistics at firm level to enhance transparency across the industry.

7.5.24 MAS will be issuing a separate consultation paper on the draft Financial Advisers (Complaints Handling and Resolution) Regulations. The consultation paper will further elaborate on the types of complaints data that should be reported to MAS.

7.6 Involvement of Industry Associations in Promoting Fair Dealing

7.6.1 We consulted on the recommendation for industry associations to:

- (a) Formulate a set of key performance indicators to measure their members' achievement of the fair dealing outcomes;
- (b) Establish monitoring mechanisms such as customer surveys and mystery shopping exercises to measure their members' progress in achieving the fair dealing outcomes; and
- (c) Share the results of the fair dealing assessments with the public and MAS on a regular basis.

7.6.2 Most respondents supported this recommendation. One respondent suggested that only selected information and findings from the results of assessments be made public. Some respondents suggested using customer focus groups, seminars and training sessions as platforms to share fair dealing initiatives. Another respondent was of the view that MAS should not place reliance on the industry associations in the promotion of fair dealing as there may be potential conflicts of interest.

MAS' response

7.6.3 MAS will not prescribe the format for publishing the fair dealing assessments. However, MAS would support greater disclosure of the results of the assessments over time.

7.6.4 MAS encourages the industry associations to use customer focus groups, seminars and training to share their fair dealing initiatives.

LIST OF RESPONDENTSCorporates/Associations

1. Allianz Global Investors Singapore Ltd
2. Aon Consulting Singapore Pte Ltd
3. Association of Financial Advisers Singapore
4. Association of Independent Asset Managers Singapore
5. Aviva Ltd
6. Bank of Singapore Ltd
7. Charles Monat Associates Pte Ltd
8. *Joint submission by:* Citibank NA Singapore Branch, Citicorp Investment Bank (S) Ltd, Citigroup Global Markets Singapore Pte Ltd and Citigroup Global Markets Singapore Securities Pte Ltd
9. Consumers Association of Singapore
10. Coutts & Co Ltd, Singapore Branch
11. Financial Alliance Pte Ltd
12. FPA Financial Corporate Pte Ltd
13. Friends Provident International Ltd
14. iFAST Financial Pte Ltd
15. The Insurance and Financial Practitioners Association of Singapore (IFPAS) Alliance
16. IPG Financial Services Pte Ltd
17. IPP Financial Advisers Pte Ltd
18. Investment Management Association of Singapore

19. Jardine Lloyd Thompson Pte Ltd
20. Life Insurance Association Singapore (LIA)
21. Life Planning Associates Pte Ltd
22. National Australia Bank Singapore Branch
23. Phillip Securities Pte Ltd
24. Professional Investment Advisory Services Pte Ltd
25. Promiseland Independent Pte Ltd
26. Providend Ltd
27. Rockwills International Pte Ltd
28. SingCapital Pte Ltd
29. Sumitomo Mitsui Banking Corporation
30. The Association of Banks in Singapore
31. Towers Watson & Co
32. Unicorn Financial Solutions Pte Ltd
33. United Overseas Bank Ltd
34. Vanguard Investments Singapore Pte Ltd
35. Walton International Group (S) Pte Ltd
36. Zurich Insurance Group

Individuals

1. Sony Adhiguna
2. Chan Ting Fong
3. Jairus Cheon
4. Charles Chew

5. Anthony Chia
6. Eng Tiang Chuan
7. Mohan Gopalan
8. Lim Jiunn Wei
9. Linawaty
10. Ling Siew Wee Wilfred
11. Anne Tan
12. Adrian Tong
13. Rebekah (Yee) Wolfe

11 other respondents requested confidentiality.