Monetary Authority of Singapore

GUIDELINES ON STANDARDS OF CONDUCT FOR MARKETING AND DISTRIBUTION ACTIVITIES

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GUIDELINES ON STANDARDS OF CONDUCT FOR MARKETING AND DISTRIBUTION ACTIVITIES BY FINANCIAL INSTITUTIONS

INTRODUCTION

1 The Monetary Authority of Singapore ("MAS") has issued the *Guidelines on Standards of Conduct for Marketing and Distribution Activities* ("the Guidelines") to emphasise our expectations for financial institutions and their representatives to conduct their marketing and distribution activities at retailers and public places in a responsible and professional manner. The Guidelines apply to all financial institutions which conduct marketing and distribution activities that target retail customers, and the representatives who act on behalf of these financial institutions.

2 Financial institutions today have various marketing and distribution arrangements, such as roadshows and tie-ups with retailers, to market their products and services to customers[1]. These arrangements increase the reach of financial institutions to members of the public and if not properly managed, may give rise to the following issues:

(a) <u>Harassment of customers</u>
Customers who are not seeking to purchase financial products and services, may feel harassed or make impulse purchases when they are prospected. Furthermore, they may not be adequately prepared to provide information necessary for a proper sales and advisory session and could face increased risk of buying a product or service that is not suitable for their needs, financial situation or risk profile.

(b) <u>Unconducive environment for the purchase of financial products</u>
When financial institutions market and sell financial products and services at retailers and public places, it is common for them to set up sales booths in open and visible spaces with high foot traffic.

[1] For example, these may include roadshows held at public places such as MRT stations, bus interchanges or shopping malls, and tie-ups with retailers such as supermarket chains or furniture and electrical product retailers.

Under such circumstances, the physical environment may not be conducive for financial institutions to conduct proper sales and advisory sessions.

(c) <u>Confusion over the identities and roles of the financial institution and its representatives</u>

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

When financial institutions conduct marketing and distribution activities in public places or temporary locations, customers may have difficulty identifying the financial institution which the representatives are acting on behalf of. This is because the prospecting activities and sales and advisory sessions are not conducted within the premises of the financial institution and it may not be obvious to customers that the person they are dealing with is from a financial institution.

(d) <u>Enticement of customers to purchase unsuitable products</u>

Financial institutions often attract customers with gifts when they conduct marketing and distribution activities. Customers may be enticed by these gifts or by bundled promotions offered by financial institutions and the retailers they have tie-ups with, and purchase financial products or services which they may not require or which are not suitable for them.

(e) <u>Mishandling of cash and cheques collected</u>

Financial institutions may collect payments from customers in the form of cash or cheques for transactions closed at retailers and public places. The mishandling of such payments exposes financial institutions to possible financial losses or fraud.

3 The Guidelines set out safeguards that financial institutions should put in place and adhere to when they market and sell financial products and services to retail customers at retailers and public places. While the safeguards set out in the Guidelines are aimed at addressing the market conduct risks arising from marketing and distribution arrangements at retailers and public places, we expect financial institutions to also apply the Guidelines to all other activities conducted to market and sell their financial products and services, where relevant. This may include street canvassing, conduct of surveys, door-to-door prospecting and holding seminars where there is also marketing and sale of financial products and services.

4 The Guidelines also set out MAS' expectations that the board and senior management of financial institutions are accountable and responsible for ensuring that there are proper controls in place for their financial institution's marketing and distribution activities.

5 The Guidelines are principles-based. They set out the objectives and intended outcomes of each safeguard. Each financial institution should consider how best to apply and achieve the objectives of the Guidelines to suit its business model and customer base.

6 The Guidelines should be read with the relevant Acts, and their subsidiary legislation, written directions, notices, codes and other guidelines that MAS may issue from time to time. MAS will take into account a financial institution's ability or failure to observe the Guidelines in assessing whether a financial institution or any of its representatives satisfy the business conduct requirements set out in the relevant Acts and subsidiary instruments, and whether they continue to be fit and proper to conduct regulated activities.

7 The Guidelines shall take effect on 1 April 2017.

DEFINITION

8 For the purposes of the Guidelines,

“representative” refers to any employee or agent that is engaged by a financial institution to conduct marketing and distribution of financial products and services on its behalf;

"customer" includes a prospective customer.

9 The terms used in the Guidelines shall, except where expressly defined in the Guidelines or the context otherwise requires, have the same meanings as defined in the relevant Acts.

1 BOARD AND SENIOR MANAGEMENT RESPONSIBILITIES

1.1 MAS expects the Board and senior management of financial institutions to set the right tone in conducting marketing and distribution activities to customers in a responsible and professional manner. MAS will also hold the Board and senior management accountable for ensuring that their financial institution's business conduct practices are in line with the objectives of the Guidelines.

1.2 The Board and senior management should ensure that the safeguards elaborated in section 2 are incorporated into the financial institution's policies, systems and processes relating to its marketing and distribution activities, as relevant. They should also ensure that the risks posed by their financial institution's marketing and distribution activities are properly assessed and addressed. Where issues arise that may compromise the interests of customers, the financial institution should consider instituting measures that are more stringent than those set out in the Guidelines.

2 MARKET CONDUCT SAFEGUARDS

2.1 Exercising adequate oversight of marketing and distribution activities

2.1.1 Marketing and distribution activities at retailers and public places increase the reach of financial institutions to members of the public. If such activities are not properly managed, they could lead to heightened market conduct risks to customers. To mitigate these risks, financial institutions should maintain adequate oversight of their marketing and distribution arrangements at these places to ensure that their representatives engage in proper marketing, sales and advisory practices.

2.1.2 Financial institutions should carefully assess the potential market conduct risks that could arise and ensure that they devote sufficient resources to, and put in place sound processes for, the oversight of their marketing and distribution arrangements at retailers and public places. These are elaborated in Safeguards 1 to 4.

Safeguard 1

Financial institutions should conduct call-backs or surveys for all customers prospected at retailers and public places before or within the free-look or cooling-off period, to ensure that customers have understood their purchases closed at such locations.

Financial institutions are expected to implement this safeguard for the sale of life insurance policies[2], accident and health policies, and collective investment schemes.

2.1.3 Marketing and distribution arrangements are usually held at public areas or at the premises of retailers with high foot traffic (e.g. roadshows at shopping malls or supermarket chains). Some customers may find it difficult to make a

[2] Financial institutions are not expected to implement Safeguard 1 for any sale made with respect to simple life policies sold as an ancillary product to loans with a simple payment basis for the insurance cover. These include policies that cover outstanding loans in relation to personal loans, car loans and credit card balances, but exclude mortgage reducing term assurance plans.

considered decision in such circumstances and could make impulse purchases while being prospected at retailers and public places.

2.1.4 The financial institution should conduct call-backs or surveys to customers when its representatives prospect and close sales at retailers and public places to ensure these customers are fully aware of the features and risks of the financial product or service they have bought. This will also enable the financial institution to detect inappropriate conduct such as mis-selling, misrepresentation or pressure selling.

2.1.5 The call-backs or surveys are only applicable to financial products with a free-look or cooling off period (referred to as "specified period") and should be conducted on all sales closed at retailers and public places before or during the specified period. This is to allow customers to cancel the transaction within the specified period should they subsequently reconsider their decision and decide not to proceed with the transaction.

2.1.6 The call-backs may be conducted by a supervisor of the representative who closed the sale as part of the supervisor's endorsement of the sale. The financial institution may also engage a staff who does not make recommendations or effect transactions for customers, or a third-party provider to conduct the call-backs.

2.1.7 The financial institution may choose to survey customers using other means including in written or electronic form, such as letters, electronic mails or text messages, if the financial institution has assessed that these avenues are more effective, taking into account the financial institution's business model and customer base.

2.1.8 The financial institution should also have procedures to effectively monitor and keep proper records of sales closed at retailers and public places and the call-backs and surveys conducted.

Safeguard 2

Financial institutions should conduct regular mystery shopping and site visits to monitor and ensure that the marketing, sales and advisory practices of representatives at retailers and public places are conducted in line with their internal standards and procedures as well as the Guidelines on Standards of Conduct for Marketing and Distribution Activities. **Financial institutions are not required to implement this safeguard for the sale of banking and general insurance products and services, where the banking or general insurance product or service purchased is related to the product or service that the customer has bought[3].**

2.1.9 Customers often rely on the representatives of financial institutions to explain to them the features, risks, and fees and charges of financial products and services, and recommend financial products and services that are suitable for them. As the purchase of financial products or services may require long-term and/or significant financial commitment by customers, it is important that customers are treated fairly and are recommended financial products or services that meet their needs.

2.1.10 However, some representatives may be motivated by the commissions, incentives, and other rewards that are tied to their sales performance and engage in inappropriate practices such as product pushing and misrepresentation, in order to meet sales targets. As such, financial institutions should institute regular checks on their representatives' marketing, sales and advisory activities.

2.1.11 Financial institutions should generally conduct both mystery shopping exercises and site visits as they complement each other in a financial institution's oversight of its marketing and distribution activities at retailers and public places. Mystery shopping exercises entail more rigorous checks on representatives' sales and advisory practices, while site visits ensure that marketing and distribution activities are conducted professionally in an ongoing manner as they can be conducted more frequently. However, the financial institution may choose to

[3] For example, housing loans entered into at show flats for purchase of property or travel insurance purchased at travel fairs for holiday packages bought.

conduct mystery shopping in place of site visits as long as it ensures that there are regular and adequate mystery shopping checks conducted.

2.1.12 The financial institution should ensure that its mystery shopping exercises and site visits provide sufficient coverage of its marketing and distribution arrangements, taking into account the scale of its business and marketing and distribution activities. The mystery shopping exercises and site visits should be conducted on a regular basis throughout the year and cover at least half of all marketing and distribution arrangements conducted by the financial institution in that year.

Safeguard 3

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

2.1.13 Complaints can be an important indicator of potential problems occurring as a result of a financial institution's business activities. The monitoring of complaints allows financial institutions to identify issues arising from their marketing and distribution activities and implement timely measures to address these issues.

2.1.14 Currently, financial institutions have in place their own complaints monitoring mechanisms and resolution frameworks to track and resolve complaints on their business conduct practices, service standards and commercial practices. Financial institutions should enhance their existing complaints monitoring mechanisms to separately track complaints arising from their marketing and distribution arrangements. Where a financial institution receives a large number of complaints relating to such arrangements, it should take steps to identify the root cause of the problem and implement measures to rectify the issue promptly and effectively. This should also apply when there are complaints relating to marketing and distribution activities at a specific location, by a specific representative or group of representatives, for specific financial products, or with customers of a certain profile.

2.1.15 The results of the complaints monitoring and analysis done on the complaints statistics should be reported to senior management on a regular basis.

<u>Safeguard 4</u>

Financial institutions should maintain a register containing information on their marketing and distribution arrangements at retailers and public places.

2.1.16 When financial institutions conduct marketing and distribution activities, their representatives may be deployed to various locations and there may be concurrent events happening at the same time. In order to exercise effective oversight of their marketing, sales and advisory activities at retailers and public places, financial institutions should maintain proper records of their marketing and distribution arrangements. This will also allow financial institutions to more easily identify the source, nature and cause of any issue or complaint.

2.1.17 Financial institutions should maintain a register containing information on their marketing and distribution arrangements at retailers and public places. The register should minimally keep records of:

(a) the locations of the financial institution's marketing and distribution arrangements and/or events;
(b) the period and duration of the arrangements and/or events;
(c) the identities of representatives and supervisors involved; and
(d) the financial products and/or services marketed or distributed.

2.1.18 The financial institution should consider maintaining records of other relevant information or more granular details than those listed in paragraph 2.1.17 if they are deemed necessary for better oversight of its marketing and distribution arrangements.

2.2 Conducting marketing, sales and advisory activities in a professional manner

2.2.1 Representatives who market and sell financial products and services on behalf of their financial institutions should be competent, adopt ethical practices and uphold the professional image of the financial industry. Financial institutions currently have in place internal codes of professional conduct and requirements that their representatives must adhere to when conducting marketing, sales and advisory activities. Safeguards 5 to 10 set out the standards of conduct financial institutions and their representatives are expected to observe and the steps financial institutions should take to ensure that their representatives conduct proper marketing, sales and advisory practices at retailers and public places.

2.2.2 Financial institutions should review their existing policies and procedures, and ensure that they are in line with the following safeguards and the outcomes that they are intended to achieve. In addition, financial institutions should put in place controls and procedures to monitor and ensure that their representatives adhere to the safeguards.

Safeguard 5

Financial institutions and their representatives should conduct themselves in a professional manner at all times when prospecting for and dealing with customers at retailers and public places. They must not cause annoyance by being unreasonably persistent or by placing undue pressure on members of the public to purchase any financial product or service.

2.2.3 The marketing and distribution activities conducted by financial institutions at public areas or at the premises of retailers increase their visibility and widen their reach to a larger group of potential customers. It is therefore important that representatives conduct themselves professionally when prospecting for and dealing with customers at retailers and public places.

2.2.4 The financial institution should incorporate into its policies and procedures the standards of professional conduct that it expects of its representatives. Appropriate actions should be taken against representatives who engage in unethical or unprofessional conduct when prospecting for customers at retailers and public places. Examples of inappropriate and unprofessional conduct include being rude, unreasonable and aggressive, or causing annoyance by being overly persistent or by placing undue pressure on members of the public to purchase financial products or services.

<u>Safeguard 6</u>

Financial institutions should ensure that their representatives clearly disclose upfront their identities and the financial institution they represent when they prospect for customers.

Where financial institutions market third-party products or services, they should ensure that their representatives disclose and explain to customers the relationship between the financial institution and the third-party product provider.

Where there are tie-ups with retailers, financial institutions should ensure that their representatives clearly disclose to customers the tie-up between the financial institution and the retailer, and explain each party's roles and responsibilities.

2.2.5 When a representative prospects for customers at retailers and public places, the customers should be able to discern that they have been approached by a representative of a financial institution. It is important to avoid any confusion as such encounters are usually not anticipated by customers as they would not have visited the retailer or public area with the intention of purchasing financial product or service.

2.2.6 The financial institution should ensure that its representatives make upfront disclosures to customers of their identities and the financial institution that they represent. Where the financial institution markets and distributes financial products or services manufactured or provided by a third party, the financial institution should ensure that its representatives clearly disclose and explain to customers the relationship between the financial institution and the third party.

2.2.7 Similarly, when the financial institution enters into partnerships with retailers to market and distribute its financial products and services at the retailers' premises, the financial institution should ensure that its representatives clearly disclose to customers the tie-up between the financial institution and the retailer, and explain each party's roles and responsibilities. In this regard, the financial institution and retailer may organise co-branding activities to increase customers' awareness of their respective brands and range of products and services offered. The financial institution should ensure that any co-branding efforts with retailers are not misleading and do not create any confusion among customers. The financial institution should avoid a situation where a customer thinks that he is dealing with a staff of a retailer when he is in fact purchasing a financial product or service from a representative of the financial institution.

2.2.8 The financial institution should set out and communicate clearly to its representatives the information to be disclosed and how the disclosures should be made. Examples of good practices include (i) ensuring that representatives prospect in the immediate vicinity of the sales booth, (ii) providing a script for representatives to adhere to when they approach customers, (iii) requiring representatives to furnish their name cards to customers, and (iv) requiring representatives to prominently display their staff passes or to wear corporate shirts, logos and badges to identify their financial institution.

Safeguard 7

Financial institutions should ensure that their representatives undergo training on proper sales and advisory conduct for their marketing and distribution activities at retailers and public places.

2.2.9 Representatives should be properly trained and equipped with the knowledge and skills to conduct themselves appropriately and to provide sound advice when conducting marketing and distribution activities at retailers and public places.

2.2.10 The financial institution should put in place training programmes to set out clearly the conduct and professional standards expected of its representatives when they conduct marketing and distribution activities at retailers and public places. Representatives should only be allowed to participate in the financial institution's marketing and distribution arrangements after they have completed the training programme.

2.2.11 The financial institution should take into consideration specific market conduct risks that it may face and the scale of its marketing and distribution activities in the design of its training programmes for representatives.

Safeguard 8

Financial institutions should ensure that their representatives who conduct marketing and distribution activities at retailers and public places have a good compliance record.

2.2.12 Given that marketing and distribution activities conducted at retailers and public places could potentially lead to increased market conduct risks to customers, it is important that the representatives participating in such activities act in the best interests of customers. In this regard, the financial institution should ensure that only representatives with good compliance records are assigned to or stationed at retailers and public places to conduct marketing and distribution activities.

2.2.13 The financial institution should assess a representative's compliance record by considering a combination of factors, including but not limited to the following:

(a) the representative's balanced scorecard grade[4];
(b) any complaint(s) filed against the representative previously;
(c) any disciplinary action(s) taken against the representative previously; and
(d) any other relevant information gathered from the financial institution's due diligence conducted on the representative.

2.2.14 The financial institution should, to the best of its ability, assess the compliance records of all representatives participating in its marketing and distribution arrangements, regardless of the nature and period of their employment with the financial institution.

[4] This refers to the balanced scorecard grade as defined in the Notice on Requirements for the Remuneration Framework for Representatives and Supervisors and Independent Sales Audit Unit (FAA-N20).

Safeguard 9

Financial institutions should ensure that the remuneration and incentives paid to their representatives do not lead to aggressive sales tactics and other inappropriate conduct.

2.2.15 The conduct of representatives may be influenced by commissions, incentives and other rewards that are often tied to their sales performance. They may resort to aggressive and inappropriate sales tactics, such as product pushing and misrepresentation, in order to meet sales targets. This may result in significant financial detriment to customers.

2.2.16 The financial institution should ensure that the remuneration and incentive structure for representatives who recommend financial products and execute transactions at retailers and public places do not lead to aggressive sales tactics and other inappropriate conduct. For example, the financial institution should ensure that the remuneration and incentives paid to a representative for financial products and services sold at retailers and public places are not significantly higher than what he will receive for the same products and services sold at other locations or channels.

Safeguard 10

Financial institutions should ensure that any gift offered to customers does not unduly influence the decisions of customers to purchase any financial product or service. Financial institutions should also ensure that the details of gifts are not displayed or promoted in such a manner as to inappropriately influence the purchase decisions of customers.

2.2.17 It is a common practice for financial institutions to offer gifts to customers when they purchase a financial product or service. The value of the gift may be contingent on the amount of investment made.

2.2.18 Given that customers rely on the information and recommendation provided by representatives to decide whether to make a purchase, it is important that representatives provide accurate product information and sound advice that will allow customers to make informed decisions. Financial institutions should ensure that their representatives do not actively promote or draw customers' attention to the gifts being offered as this may influence customers to purchase a financial product or service which does not meet their needs or which they do not need.

2.2.19 Examples of good practices include (i) prescribing a monetary limit on the value of gifts such that the gifts offered to customers are only of nominal value relative to the amount invested, (ii) requiring all gifts distributed at such arrangements to be approved by the financial institution, and (iii) monitoring representatives' sales and advisory practices to ensure that the gifts are not the main focus of the transaction.

2.2.20 The financial institution should also ensure that its marketing collaterals and promotional materials used at such arrangements focus on accurate and relevant product information and do not present or offer gifts in a way that is likely to divert or mislead customers' focus from the proper consideration of the financial product or service.

2.3 Providing a suitable environment for a proper sales and advisory session

2.3.1 Marketing and distribution arrangements at retailers and public places are often located in an open environment where there is high foot traffic. Such environment may not be the most ideal for a proper sales and advisory session to take place and for customers to make a considered financial decision. In addition, customers may not be actively looking to purchase financial products and services when they are prospected at retailers and public places, and may not fully consider the implications of the purchase, including any long-term financial commitments involved.

2.3.2 Safeguards 11 and 12 set out measures that financial institutions should put in place to ensure that the location of their marketing and distribution arrangements facilitate proper sales and advisory sessions and are conducive for customers to properly consider their purchases of financial products or services.

<u>Safeguard 11</u>

Financial institutions should ensure that the venue for their marketing and distribution activities are conducive for representatives to conduct a proper sales and advisory session.

2.3.3 Venues for marketing and distribution activities should facilitate proper sales and advisory sessions to ensure that customers have a positive experience and are able to clearly understand the risks, features and benefits of the financial products or services they are purchasing.

2.3.4 The financial institution should ensure that the space allocated and the environment where their marketing and distribution arrangements are located are suitable for the type and scale of activities involved. For example, the financial institution should ensure that there are adequate tables and chairs to facilitate a comfortable and conducive sales and advisory session. Distractions should also be minimised, by ensuring that the location is not too congested or noisy.

<u>Safeguard 12</u>

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

2.3.5 Collecting payments from customers at retailers and public places poses higher risks due to the open environment and high human traffic, as compared to collecting payments within a financial institution's premises.

2.3.6 The financial institution should ensure that adequate measures are put in place to account for and safe-keep payments received at marketing and distribution arrangements located at retailers and public places. Examples of good practices include (i) minimising the collection of cash payments, (ii) issuing receipts to customers and maintaining proper records of all payments collected on a timely basis, (iii) appointing a dedicated staff or representative to be responsible for the safekeeping of the payments collected, and (iv) requiring representatives to pass on customers' monies and cheques to the financial institution as soon as practicable.

Annex 1

List of Safeguards

No.	Safeguard
1	Financial institutions should conduct call-backs or surveys for all customers prospected at retailers and public places before or within the free-look or cooling-off period, to ensure that customers have understood their purchases closed at such locations. Financial institutions are expected to implement this safeguard for the sale of life insurance policies, accident and health policies, and collective investment schemes.
2	Financial institutions should conduct regular mystery shopping and site visits to monitor and ensure that the marketing, sales and advisory practices of representatives at retailers and public places are conducted in line with their internal standards and procedures as well as the Guidelines on Standards of Conduct for Marketing and Distribution Activities. Financial institutions are not required to implement this safeguard for the sale of banking and general insurance products and services, where the banking or general insurance product or service purchased is related to the product or service that the customer has bought.
3	Financial institutions should separately track and monitor complaints arising from their marketing, sales and advisory activities at retailers and public places. Complaints statistics should also be reported to senior management on a regular basis.
4	Financial institutions should maintain a register containing information on their marketing and distribution arrangements at retailers and public places.
5	Financial institutions and their representatives should conduct themselves in a professional manner at all times when prospecting for and dealing with customers at retailers and public places. They must not cause annoyance by being unreasonably persistent or by placing undue pressure on members of the public to purchase any financial product or service.

6	Financial institutions should ensure that their representatives clearly disclose upfront their identities and the financial institution they represent when they prospect for customers. Where financial institutions market third-party products or services, they should ensure that their representatives disclose and explain to customers the relationship between the financial institution and the third-party product provider. Where there are tie-ups with retailers, financial institutions should ensure that their representatives clearly disclose to customers the tie-up between the financial institution and the retailer, and explain each party's roles and responsibilities.
7	Financial institutions should ensure that their representatives undergo training on proper sales and advisory conduct for their marketing and distribution activities at retailers and public places.
8	Financial institutions should ensure that their representatives who conduct marketing and distribution activities at retailers and public places have a good compliance record.
9	Financial institutions should ensure that the remuneration and incentives paid to their representatives do not lead to aggressive sales tactics and other inappropriate conduct.
10	Financial institutions should ensure that any gift offered to customers does not unduly influence the decisions of customers to purchase any financial product or service. Financial institutions should also ensure that the details of gifts are not displayed or promoted in such a manner as to inappropriately influence the purchase decisions of customers.
11	Financial institutions should ensure that the venue for their marketing and distribution activities are adequate and conducive for representatives to conduct a proper sales and advisory session.
12	Financial institutions should have adequate controls in place to ensure that payments collected from customers at retailers and public places are properly handled and securely kept.