

# MAS' Mystery Shopping Exercise on Practices in the Financial Advisory Industry

## Coverage

- 500 representatives (reps) from 6 life insurance companies and 6 licensed financial advisers
- Conducted from mid-2018 to end-2019

## Methodology

- Entire sales process was audio recorded and transcribed
- All the mystery shoppers completed the sale
- Expert panel appointed to assess suitability of product recommendations made by the reps



## Scope

### 1 Suitability of advice



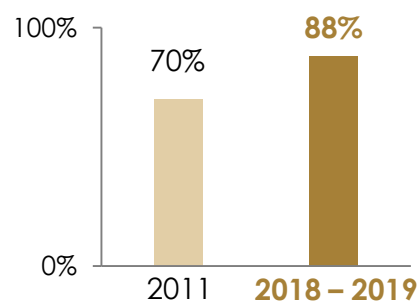
Reps must recommend products that meet customers' needs:

- investment objectives
- time horizon
- risk tolerance
- financial situation



## Findings

**88% of recommended products were suitable**



**Improvement** from 70% in 2011 mystery shopping exercise

(Sample size 500)

### 2 Disclosure of medical conditions



- Reps should help customers make accurate disclosures of their medical conditions<sup>1</sup>
- Failure to do so could result in customers not being able to make a claim on their policies

**Most reps helped shoppers make accurate disclosures of their medical conditions**



**75%** of reps asked shoppers about their medical conditions, and informed them of the risks of not sharing this information



**No instances** of reps influencing shoppers not to disclose their medical conditions

(Sample size 106)

### 3 Explanation of investment illustrated rates of return



- Reps should make accurate disclosures about the product's risks, exclusions and disclaimers<sup>2</sup>
- Reps should also explain that illustrated investment rates of return are projected and not guaranteed

**Most reps properly explained illustrated investment returns of recommended products**



**85%** of reps clarified that illustrated investment rates of return were projected and not guaranteed

(Sample size 499)

<sup>1</sup> Examples of insurance products which require disclosure of medical conditions are term life policies and whole life policies.

<sup>2</sup> For information on disclosure requirements, please refer to FAA-N03 Notice on Information to Clients and Product Information Disclosure at this [link](#).

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## 4 Conduct at roadshows

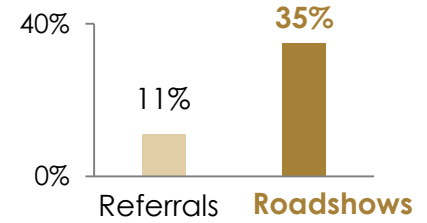
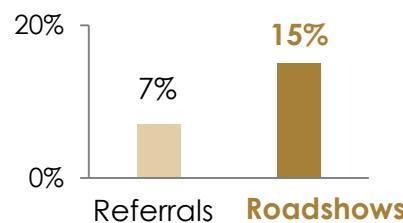


Financial advisers (FAs) and their reps should conduct their marketing activities in a responsible and professional manner<sup>3</sup>

### Compared to sales from customer referrals, sales closed at roadshows had ...

✗ more unsuitable products recommended

✗ more inappropriate influencing of shoppers' purchase decisions through offer of gifts and incentives



(Sample size 284)

## 5 Implementation of safeguards for vulnerable customers<sup>4</sup>



FAs and their reps should exercise greater care when dealing with vulnerable customers

### Many reps did not properly identify customers as vulnerable. In addition, ...

✗ **75%** of reps did not request a Trusted Individual<sup>5</sup> to accompany the vulnerable customer during the sales and advisory discussion

✓ Nevertheless, **98%** of products recommended were suitable for vulnerable customers

(Sample size 50)

## 6 Fact-finding



Reps are required to take reasonable steps to collect and document information on customers' objectives, financial circumstances and risk tolerance<sup>6</sup>

### Many reps did not conduct detailed fact-find, although most obtained sufficient information to recommend suitable products

**97%** of reps did not obtain detailed information on shoppers' financial circumstances. Nevertheless, there was sufficient information obtained on shoppers' objectives, budgets, time horizons and risk tolerance for appropriate product recommendations, suggesting that more flexibility can be given on the extent of fact-find required.

(Sample size 500)

## Looking ahead

### Financial institutions asked to

- Review the mystery shopping cases
- Take remedial actions to address deficiencies in their reps' sales and advisory practices

### MAS will

- Review rules on roadshow activities to raise conduct standards
- Enhance safeguards for vulnerable customers<sup>7</sup>
- Review rules on fact-find to provide more flexibility for reps to collect information that tailors to customers' needs and profiles

<sup>3</sup>For information on Guidelines on Standards of Conduct for Marketing and Distribution Activities by Financial Institutions, please refer to this [link](#).

<sup>4</sup>These are clients who meet any two of the following criteria: (a) aged 62 years or older; (b) not proficient in spoken or written English; (c) has below GCE 'O' level or 'N' level certifications, or equivalent. Safeguards for vulnerable customers include requiring the supervisor of the representative to conduct a call-back with the client to review the quality of the representative's advisory process and to ensure the relevant disclosures were made.

<sup>5</sup>As set out under the Life Insurance Association Singapore's (LIA) Minimum Standard for Life Insurance Advisory Process and Direct Purchase Insurance Guidelines, it is recommended that a vulnerable customer be accompanied by a Trusted Individual during the advisory and sales process. A Trusted Individual must (a) be at least 18 years old; (b) minimally have attained GCE 'O' level or 'N' level certifications; (c) be proficient in spoken or written English; and (d) be a person who has the trust of the vulnerable customer.

<sup>6</sup>For information on fact finding requirements, please refer to Notice FAA-N16 Recommendations on Investment Products at this [link](#).

<sup>7</sup>MAS has issued a consultation paper on enhancing pre and post-transaction safeguards for retail clients. For more information on the proposals, please refer to this [link](#).