

CONSULTATION PAPER

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Consultation on Recommendations of the Financial Advisory Industry Review

MAS

Monetary Authority of Singapore

PREFACE

1 On 26 March 2012, MAS announced the launch of the Financial Advisory Industry Review (FAIR), aimed at raising the standards of practice in the financial advisory (FA) industry¹ and improving the efficiency in the distribution of life insurance and investment products in Singapore. A panel, chaired by MAS and comprising representatives from industry associations, consumer and investor bodies, academia, media, and other stakeholders (FAIR Panel), was formed on 2 April 2012 to conduct the review.

2 The FAIR Panel submitted its recommendations to MAS on 16 January 2013 (Panel Report)² under the following five key thrusts:

- (a) Raising the competence of FA representatives;
- (b) Raising the quality of FA firms;
- (c) Making financial advising a dedicated service;
- (d) Lowering distribution costs; and
- (e) Promoting a culture of fair dealing.

3 MAS has reviewed the Panel Report and agrees in principle, to the recommendations made by the FAIR Panel. In addition, MAS has made further recommendations relating to the five key thrusts. This consultation paper is issued to interested persons to provide their views and comments on the recommendations made by the FAIR Panel and MAS. Written comments should be provided no later than 4 June 2013 to:

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

We encourage respondents to provide their feedback via email.

¹ Financial institutions in the FA industry include licensed FA firms and exempt financial advisers (i.e. those exempt under Sections 23(1)(a), (b), (c), (d) or (e) of the Financial Advisers Act, such as banks, life insurance companies, capital markets services licence holders, and insurance broking firms).

² The link to the Panel Report is as follows:

http://www.mas.gov.sg/~media/resource/news_room/press_releases/2013/Annex%201%20%20Report%20on%20recommendations%20of%20the%20Financial%20Advisory%20Industry%20Review%20Panel.pdf

4 Please note that any comments received may be made public unless confidentiality is specifically requested.

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1. THRUST ONE: RAISING THE COMPETENCE OF FINANCIAL ADVISORY REPRESENTATIVES

I. MINIMUM ACADEMIC ENTRY REQUIREMENT

1.1 Since 1 October 2002, the minimum academic entry requirement for FA representatives has been set at four GCE 'O' Level credit passes. This is to ensure that individuals conducting FA activities under the Financial Advisers Act (Cap. 110) (FAA) possess a minimum level of literacy and numeracy skills.

1.2 Today, the Singapore population is better educated than a decade ago, with the percentage of Singapore residents with a post secondary (non-tertiary) or a higher qualification rising from 33% in 2000 to 47% in 2010³. The financial landscape is also becoming increasingly complex with more innovative and risky products being offered in the market.

1.3 In the international arena, several leading jurisdictions have raised the minimum academic entry requirement for their FA representatives, for example:

- (a) In Australia, the Australian Securities and Investments Commission (ASIC) requires its financial product advisers to meet training standards set at Tier 1 level, which is broadly equivalent to a diploma under the Australia Qualifications Framework; and
- (b) In the United Kingdom (UK), the Financial Services Authority (FSA) requires its representatives to have tertiary-level qualifications which are equivalent to the first year of a Bachelor's Degree.

Proposals

1.4 The FAIR Panel is of the view that the current minimum academic entry requirement of four GCE 'O' Level credit passes for FA representatives in Singapore is inadequate given Singapore's rising educational levels, the higher expectations from a more literate and sophisticated public and the increasing complexity of financial products. Furthermore, the current requirement is lagging behind other established jurisdictions which have raised the entry requirement for their representatives.

³ Source: The Department of Statistics Singapore's census of population 2000 and census of population 2010.

1.5 Given the above considerations, the FAIR Panel has recommended raising the minimum academic entry requirement for new FA representatives from the current four GCE 'O' Level credit passes to: (i) a full certificate in GCE 'A' Level⁴; (ii) an International Baccalaureate Diploma qualification; (iii) a diploma awarded by a polytechnic in Singapore; or their equivalent. In recognition of the experience of existing representatives and to ensure that service to their customers is not disrupted, the FAIR Panel has recommended that MAS grandfather all existing representatives when the new minimum academic entry requirement comes into effect (Implementation Date). This includes grandfathering individuals whose notifications to be appointed as FA representatives have been lodged with MAS prior to the Implementation Date.

1.6 There may be former FA representatives who are on a career-break from the FA industry at the Implementation Date. Examples include individuals taking a short period off from work and those who are in between jobs. MAS proposes to grandfather such individuals so long as they have left the FA industry not more than one year prior to the Implementation Date, and subsequently seek to re-join the industry within one year from the Implementation Date.

1.7 Where a grandfathered FA representative takes a career break after the Implementation Date, he or she will continue to remain grandfathered so long as the period between his or her cessation as an FA representative and subsequent appointment as an FA representative is not more than one year.

1.8 MAS has received feedback expressing concern that the qualifications remain low for existing FA representatives who are grandfathered. Therefore, for these grandfathered representatives, MAS strongly encourages FA firms to provide opportunities to them to upgrade their skills and competency. This could be through on-the-job training or supporting them in acquiring relevant professional qualifications.

1.9 MAS estimates that less than 20% of potential new entrants to the FA industry each year will not be able to meet the new minimum academic entry requirement. To provide such individuals an alternative means to meet the new entry requirement, MAS plans to work with the polytechnics in Singapore to offer a specialised diploma course in Financial Advisory Services. Individuals with this diploma qualification will be deemed as meeting the

⁴ A full GCE 'A' Level certificate includes at least passes in three "Higher 2" and two "Higher 1" subjects.

new minimum academic entry requirement for representatives. We will provide more details in due course.

Question 1: MAS seeks views on the following:

- (i) Criteria for what may be considered equivalent to (a) a full certificate in GCE 'A' Level; (b) an International Baccalaureate Diploma qualification; and (c) a diploma awarded by a polytechnic in Singapore (paragraph 1.5);
- (ii) Proposal to grandfather all existing FA representatives who do not meet the new minimum academic entry requirement (paragraph 1.5) and former FA representatives, so long as these individuals have left the FA industry not more than one year prior to the Implementation Date, and subsequently seek to re-join the industry within one year from the Implementation Date (paragraph 1.6); and
- (iii) Proposal for FA representatives to remain grandfathered so long as the period between their cessation as an FA representative and subsequent appointment as an FA representative is not more than one year (paragraph 1.7).

II. CONTINUING PROFESSIONAL DEVELOPMENT

1.10 Continuing professional development (CPD) training plays an important role in ensuring that FA representatives remain current and up-to-date in their knowledge of market and regulatory developments. Currently, all FA representatives are required under the Notice on Minimum Entry and Examination Requirements for Representatives of Financial Advisers and Exempt Financial Advisers (FAA-N13) to undergo CPD training. FAA-N13 also sets out the expectation for all FA representatives who sell life insurance products to abide by the requirement to undergo a minimum of 30 CPD training hours stated in the Minimum Standard for Continuing Professional Development of Life Insurance Representatives (LIA MU 47/11) issued by the Life Insurance Association, Singapore (LIA).

1.11 In some jurisdictions, a minimum number of CPD training hours is prescribed by the regulator. In the UK, for example, the FSA has prescribed a minimum of 35 CPD training hours for their representatives, of which 21 hours must consist of structured training. There is also an increased emphasis in other jurisdictions for representatives to provide evidence that they have gained new and relevant knowledge from the CPD training.

Proposals

1.12 The FAIR Panel believes that a more structured CPD training framework is necessary to ensure consistency in the quality of CPD training received by FA representatives. It would also level the playing field for FA representatives who provide FA services in respect of life insurance and other investment products. As such, the FAIR Panel has recommended that MAS prescribe the following:

- (a) All FA representatives to undergo at least 30 hours of structured CPD training⁵ on an annual basis except for representatives who only advise on or arrange mortgage reducing term assurance policies and/or group term life insurance policies. For the latter group, they need only undergo a minimum of 16 hours of structured CPD training annually; and
- (b) Out of the total number of CPD training hours required, all FA representatives to undergo at least:
 - (i) Four hours of training in Ethics, and
 - (ii) Eight hours of training in Rules and Regulations.

1.13 If the proposal in paragraph 1.12(b) is adopted, MAS will work with the Institute of Banking and Finance (IBF) and the Singapore College of Insurance (SCI) on the structure and content for the compulsory training in Ethics, and Rules and Regulations. Should there be interest for such courses to be offered by other training providers (such as the in-house training units of FA firms), MAS will work with IBF and SCI on the criteria for accrediting such courses.

Question 2. MAS seeks views on the following:

- (i) Types of courses that should be counted towards fulfilling the CPD training hours (paragraph 1.12);
- (ii) Necessity for representatives to be assessed on whether the objectives of the CPD training have been achieved (paragraph 1.12); and
- (iii) Criteria for accreditation of the courses in Ethics, and Rules and Regulations (paragraph 1.13).

⁵ Structured training includes lectures, conferences, workshops and courses (including e-learning courses), ideally with an assessment to determine that learning outcomes have been achieved. It does not include activities that are part of the job scope of an FA representative, such as carrying out research on products and services for customers, as well as attendance at product seminars prior to the launch of new products.

Question 3. MAS seeks views on the proposal to apply all the recommendations under Thrust One to all representatives of licensed and exempt financial advisers (i.e. those exempt under Sections 23(1)(a), (b), (c), (d) or (e) of the FAA).

2. THRUST TWO: RAISING THE QUALITY OF FINANCIAL ADVISORY FIRMS

2.1 Entities providing FA services in Singapore are regulated under the FAA as either licensed financial advisers (LFAs) or exempt financial advisers. LFAs are required to meet business conduct and financial requirements stipulated in the FAA and subsidiary legislation, including the minimum entry requirements set out in the Guidelines on Criteria for the Grant of a Financial Adviser's Licence (FAA-G01).

2.2 Currently, there are over 60 LFAs in Singapore serving primarily the retail market. These players provide FA services mainly on collective investment schemes (CIS) and life insurance policies. Whilst exempt financial advisers, such as banks and life insurance companies, are generally well capitalised and resourced, LFAs vary in their quality of management, staff strength, compliance arrangements and financial resources.

2.3 It is important that the regulatory regime keeps pace with international developments, and that financial institutions are adequately staffed, properly managed and sufficiently resourced to better safeguard the interests of customers. In this regard, the FAIR Panel has recommended enhancing the admission and ongoing requirements for LFAs. This would include raising the bar on management competency, calibrating the requirements relating to financial and compliance resources according to the type and scale of their business, and requiring LFAs to conduct FA services as a dedicated business.

2.4 Apart from the proposed enhancements in paragraph 2.6 which will apply only to new CEO appointments and paragraph 2.9 which will apply only to new entrants to the FA industry, the enhancements set out under Sections I to V below will apply to both existing LFAs and new entrants. This is irrespective of the type of clientele they serve, unless otherwise specified.

I. COMPETENCY REQUIREMENTS

2.5 The CEO and Executive Directors (EDs) of an LFA are currently required to have a minimum of five years of relevant working experience, of which at least three years must be in a managerial capacity.

Proposals

2.6 As CEOs have primary responsibility for the day-to-day management of companies, they are expected to be experienced and well-qualified. In addition, given the increasing complexity of financial markets, the roles and responsibilities of CEOs are now more demanding. In this regard, the FAIR Panel has recommended that CEOs of LFAs should have at least 10 years of relevant working experience, of which at least five years should be at a managerial level. This requirement will only apply to new CEO appointments. The existing requirements relating to relevant working experience for EDs and the requirements in respect of academic and professional qualifications for CEOs and EDs remain unchanged.

2.7 The FAIR Panel has also recommended that MAS require LFAs to employ a minimum of three full-time, resident professionals with at least five years of relevant experience each. This is to ensure that LFAs are properly resourced, and operated by professionals who possess relevant expertise and experience. The management staff (including the LFA's CEO and EDs) and representatives can be counted towards the fulfilment of this requirement. If this recommendation is adopted, MAS proposes to provide all existing LFAs a transitional period of six months from the date of implementation of the new rules to meet this requirement.

Question 4: MAS seeks views on the proposed enhancements to the competency requirements for CEOs of LFAs and the minimum staffing requirements for LFAs (paragraphs 2.6 and 2.7).

II. CORPORATE TRACK RECORD AND PARENTAL SUPPORT

2.8 Currently, an applicant for a financial adviser's licence (Licence Applicant) is required to have at least three years of proven track record in the FA business. The corporate track record of related entities can be considered in meeting this requirement. For a Licence Applicant that does not have the requisite corporate track record, MAS requires the CEO to hold at least 20% shareholding of the Licence Applicant. The CEO and EDs should also, in the aggregate, own at least 50% shareholding of the Licence Applicant. This is to ensure that the CEO and EDs are committed to the firm and the FA business.

Proposals

2.9 Given the increasing demands of managing an LFA, it is important for Licence Applicants to demonstrate that they have an established track record in the FA activities that they intend to carry out in Singapore. Accordingly, MAS proposes to raise the corporate track record requirement for Licence Applicants from three years to five years. For applicants that are unable to meet the proposed corporate track record requirement, the current shareholding requirements for the CEO and EDs will continue to apply.

2.10 In addition, for a Licence Applicant or an existing LFA that is part of a business group, MAS proposes to formalise the current expectation for the parent entity (with tangible and substantial assets) to provide a Letter of Responsibility to MAS to demonstrate the group's support for the entity's operations in Singapore. MAS proposes to provide all existing LFAs a transitional period of six months from the date of the implementation of the new rules to meet this requirement.

Question 5. MAS seeks views on the following:

- (i) Changes to the corporate track record requirement for Licence Applicants (paragraph 2.9); and
- (ii) Requirement for parental support for Licence Applicants and existing LFAs that are part of a business group (paragraph 2.10).

III. COMPLIANCE ARRANGEMENTS

2.11 LFAs are currently required to have adequate internal compliance systems and processes that are commensurate with the size, complexity and risks of their business operations. However, only about 40% of existing LFAs have independent and dedicated compliance functions.

Proposals

2.12 The FAIR Panel is of the view that it is important for LFAs to have effective compliance arrangements. This is so that LFAs are able to comply with regulatory requirements, have robust internal control systems, and adopt ethical practices and high

professional standards. Ideally, all LFAs should have independent and dedicated compliance arrangements. However, it may not be practical for LFAs that are smaller in scale and have simpler business models, to maintain a dedicated compliance function. Accordingly, the FAIR Panel has recommended that MAS require all LFAs to minimally put in place a compliance function that is independent of their sales and advisory functions. For example, compliance officers should not be appointed as FA representatives, or have any front-office responsibilities.

2.13 For larger LFAs with more than 20 FA representatives or an annual gross revenue of more than S\$5 million, the FAIR Panel has recommended that MAS require such LFAs to put in place a compliance function which is staffed by suitably qualified individuals who, besides being independent from front-office sales and advisory responsibilities, are dedicated to the compliance role.

2.14 MAS proposes to provide all existing LFAs a transitional period of six months from the date of implementation of the new rules to put in place the required compliance arrangements.

Question 6. MAS seeks views on the proposed compliance requirements for LFAs (paragraphs 2.12 to 2.14).

IV. FINANCIAL REQUIREMENTS

Minimum Financial Requirements

2.15 In accordance with Regulation 15 of the Financial Advisers Regulations (FAR), LFAs are required to have a paid-up capital⁶ of:

- (a) Not less than S\$300,000 if they advise on futures contracts, foreign exchange contracts or leveraged foreign exchange contracts; or
- (b) Not less than S\$150,000 if they undertake other FA activities.

2.16 Drawing from lessons learnt from the global financial crisis, the FAIR Panel is of the view that the minimum capital requirement for LFAs should be reviewed. Furthermore, the

⁶ Paid-up capital is defined in Regulation 1 of the FAR to comprise ordinary shares and non-redeemable preference shares that have been fully paid for.

FAIR Panel has noted that paid-up capital does not take into account capital erosion due to operational losses or dividend payouts.

Proposals

2.17 The FAIR Panel has, therefore, recommended imposing a “base capital” requirement on LFAs, to account for capital erosion and to ensure that LFAs are sufficiently resourced during times of economic and financial stress.

2.18 MAS proposes to define “base capital” as:

The sum of:

- (a) Paid-up ordinary share capital;
- (b) Irredeemable and non-cumulative preference share capital; and
- (c) Any unappropriated profit or loss in the latest audited accounts of the LFA, less the following, where applicable:
 - (d) Any interim loss in the latest accounts of the LFA; and
 - (e) Any dividend that has been declared since the last audited accounts of the LFA.

2.19 As stated in paragraph 2.15, LFAs advising on futures contracts, foreign exchange contracts or leveraged foreign exchange contracts are currently subject to a higher minimum financial requirement, as these products have traditionally been deemed to be more complex or risky. The FAIR Panel believes that, given continuous product innovation and blurring of product lines, it is more appropriate to take into account the type of FA service the LFA provides, rather than the type of investment product the LFA advises on, in calibrating the minimum financial requirements.

2.20 In this regard, the FAIR Panel has recommended requiring a lower minimum base capital of S\$250,000 for pure research houses⁷ given the lower market conduct and legal risks posed by such firms. LFAs which conduct all other types of FA activities should be subject to a minimum base capital of S\$500,000. These recommended levels of base capital take into account the risk exposures of LFAs during the global financial crisis, and the adequacy of their capital and professional indemnity insurance (PII) coverage to meet financial claims during the crisis.

⁷ “Pure research houses” refers to LFAs who advise others by issuing or promulgating research analyses or research reports concerning investment products. These analyses or reports are not tailored to the specific investment objectives or risk profiles of customers.

2.21 To calibrate the impact to the industry and to cater to LFAs with different capital structures, the FAIR Panel has recommended allowing LFAs (other than pure research houses) the option of maintaining a lower minimum base capital of S\$300,000, on condition that they purchase additional PII coverage of S\$500,000. This additional PII coverage will be over and above the recommended minimum PII coverage discussed in paragraph 2.28.

Question 7. MAS seeks views on the following:

- (i) Proposal to replace the paid-up capital for LFAs with the base capital concept (paragraph 2.17);
- (ii) Definition of “base capital” (paragraph 2.18); and
- (iii) Minimum amount of base capital and the additional PII to be maintained by LFAs (paragraphs 2.20 and 2.21).

Continuing Financial Requirements

2.22 Under Section 10(1)(a) of the FAA, read with Regulation 16(1) of the FAR, LFAs are required to maintain a net asset value⁸ (NAV) of not less than the higher of:

- (a) One-quarter of their relevant annual expenditure⁹ of the immediate preceding financial year; or
- (b) Three quarters of the required minimum paid-up capital.

2.23 The FAIR Panel has pointed out that the current continuing financial requirements do not take into account the extent to which LFAs hold illiquid assets. As such, they do not adequately reflect the ability of LFAs to meet their short-term financial obligations.

⁸ “Net asset value” is defined in Regulation 1 of the FAR as the excess of the value of the assets owned by the firm over its liabilities.

⁹ “Relevant annual expenditure” is defined in Regulation 16(3) of the FAR as the total expenditure of the LFA for that year less the following:

- (a) staff bonuses (except to the extent that they are guaranteed);
- (b) employees’ and directors’ shares in profits (except to the extent that they are guaranteed); and
- (c) any commission or fee paid to its representatives which is directly related to the commission or fee received by the financial adviser.

Proposals

2.24 The FAIR Panel has, therefore, recommended that MAS require LFAs to maintain minimum “financial resources”, where illiquid assets will be adjusted, to better reflect available resources to cover operational risks.

2.25 MAS proposes to define “financial resources” as:

The sum of:

- (a) Paid-up ordinary and preference share capital;
- (b) Subordinated loans with not less than two years to maturity;
- (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) General provision,

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

- (g) Assets that cannot be converted to cash within 30 days;
- (h) Non-current assets;
- (i) Pre-paid expenses;
- (j) Deposits other than qualifying deposits;
- (k) Unsecured amounts due from directors of the LFA and its connected persons that are included as current assets;
- (l) Unsecured loans and advances made by the LFA and its connected persons that are included as current assets;
- (m) Any unsecured amount owed by a related corporation;
- (n) Intangible assets;
- (o) Charged assets, 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;
- (p) Future income tax benefits included as current assets; and
- (q) An amount equal to 8% of the value of any contingent liability, which includes any letter of credit or guarantee issued on behalf of the LFA.

2.26 Separately, expenditure is currently used as a proxy in measuring an LFA's ongoing operational risk. Using expenditure as a proxy in the calculation of continuing financial requirements may discourage spending on middle- and back-office operations such as compliance and risk management. In this regard, the FAIR Panel has recommended using gross revenue as a proxy for a firm's ongoing operational risks since gross revenue better reflects an LFA's scale of activities compared to relevant expenditure. Accordingly, the FAIR Panel recommends requiring LFAs to maintain financial resources that are the higher of:

- (a) 10% of the average audited gross revenue in the immediate three preceding financial years; or
- (b) S\$150,000.

Question 8. MAS seeks views on the following:

- (i) Use of financial resources as a measure of ongoing financial resources instead of NAV (paragraph 2.24);
- (ii) Definition of "financial resources" (paragraph 2.25); and
- (iii) Use of gross revenue as a proxy in the calculation of minimum financial resources in place of expenditure (paragraph 2.26).

Professional Indemnity Insurance

2.27 To provide for claims against LFAs due to professional negligence, LFAs are currently required to procure a PII policy with a minimum coverage of S\$500,000 regardless of the scale of their operations and the type of customers they serve. The deductible for the policy must not be more than 20% of the NAV of the firm.

Proposals

2.28 The FAIR Panel has suggested revising the current "one-size-fits-all" PII requirement as it does not take into account the specific types of FA services an LFA provides, its clientele, as well as the scale of the LFA's business. It has also recommended that MAS consider imposing PII requirements only on LFAs that serve retail customers. For LFAs which are pure research houses, the FAIR Panel has proposed that the minimum PII coverage be set at S\$500,000. For LFAs conducting all other types of FA activities, the FAIR Panel has

recommended that the PII be calibrated based on the LFA’s scale of business, using gross annual revenue as a proxy, as summarised in the table below:

Revenue Threshold	Proposed Minimum PII Coverage
Annual revenue ≤ S\$5 million	S\$1 million
Annual revenue > S\$5 million	20% of the audited gross revenue of the immediate preceding financial year

2.29 The FAIR Panel has also recommended capping the deductible for the PII policy at 10% of the LFA’s base capital. This is to prevent LFAs from purchasing PII policies with very high deductibles in order to pay lower premiums, thereby affecting their ability to pay the deductibles when making claims.

2.30 MAS will not make it mandatory for LFAs to purchase PII if they serve only accredited investors¹⁰. Nonetheless, these LFAs are encouraged to obtain PII policies to protect themselves against possible claims by investors for breach of professional duty.

2.31 MAS proposes to provide all existing LFAs a transitional period of one year from the date of implementation of the new rules to meet the enhanced financial requirements in Section IV.

Question 9. MAS seeks views on the proposed PII requirements for LFAs (paragraphs 2.28 to 2.30).

V. NON-FINANCIAL ADVISORY ACTIVITIES CONDUCTED BY LICENSED FINANCIAL ADVISORY FIRMS

2.32 LFAs play a crucial role in helping their customers make sound financial decisions. However, the FAIR Panel has noted that it is common for LFAs to engage in activities other than the provision of FA services (i.e. non-FA activities). Some of these activities may be in conflict with their FA role, result in a neglect of their FA duties, or bring disrepute to the FA industry.

¹⁰ As defined under Section 4A of the Securities and Futures Act (Cap. 289) (SFA).

Proposals

2.33 To ensure that LFAs remain professional and dedicated to their role as financial advisers, the FAIR Panel has recommended that MAS restrict the non-FA activities of LFAs to the following:

- (a) Acting as introducers or making referrals in respect of non-FA activities to financial institutions licensed by MAS¹¹, subject to the following conditions:
 - (i) LFAs should not provide customers with advice or product information;
 - (ii) The revenue generated from referrals should not be tied to successful referrals or a percentage of customers' spending arising from the referral; and
 - (iii) LFAs should disclose to customers:
 - That they cannot and have not given advice in respect of the referred business;
 - Whether there are potential conflicts of interest arising from their referral activity, such as whether the LFA, its directors and/or its shareholders has any relationship with the financial institution or any of its representatives being referred to the customer; and
 - The amount and basis of remuneration the LFA will receive for carrying out the referral activity.

These conditions help customers make a distinction between the LFA's roles as a financial adviser and introducer, so as to avoid any misunderstanding regarding the roles and responsibilities of the introducer vis-à-vis the financial institution the customer is being referred to.

- (b) Providing training and consultancy in respect of financial planning or financial literacy aimed at educating and empowering consumers, subject to the following conditions:
 - (i) Where financial products are covered in the scope of such training and consultancy, these should be limited to investment products as defined in Section 2(1) of the FAA; and
 - (ii) There should be disclosure to consumers on whether financial advice will be provided in the course of the training or consultancy.

¹¹ The financial institutions licensed by MAS which LFAs could act as introducers for or make referrals to are as follows: commercial banks, merchant banks, finance companies, money brokers, holders of capital markets services licence, holders of trust business licence, registered insurers and insurance broking firms.

2.34 For the avoidance of doubt, the scope of non-FA activities referred to in paragraph 2.33 does not include:

- (a) Referral activities which are passive or ad-hoc in nature, for example an LFA referring its customers to another company or individual without receiving any payment or benefits-in-kind for making the referral; and
- (b) Regulated activities outside the ambit of the FAA which the LFAs are authorised to conduct, for example, an LFA carrying on business as an exempt insurance broker under Section 35ZN of the Insurance Act (Cap. 142) (IA).

2.35 To ensure that LFAs continue to be focussed on their core business of providing FA services, the FAIR Panel has recommended that the gross revenue generated by LFAs from their non-FA activities be capped at 5% of their total annual revenue derived from their FA business.

2.36 MAS proposes to provide all existing LFAs a transitional period of six months from the date of implementation of the new rules to meet the above requirements relating to the scope of non-FA activities that LFAs can conduct.

Question 10. MAS seeks views on the following proposals:

- (i) Restricting the non-FA activities of LFAs to:
 - Acting as introducers or making referrals to financial institutions licensed by MAS (paragraph 2.33); and
 - Providing training and consultancy in respect of financial planning or financial literacy (paragraph 2.33); and
- (ii) Capping the revenue derived from the non-FA activities of LFAs to 5% of their total annual FA revenue (paragraph 2.35).

VI. FINANCIAL ADVISORY ACTIVITIES OF INSURANCE BROKING FIRMS

2.37 Currently, insurance broking firms registered under the IA are allowed to carry out the full range of FA services under the FAA without the need to hold an FA licence once they have notified MAS of the commencement of their FA business. However, these firms are subject to the same business conduct requirements applicable to LFAs.

2.38 Most insurance broking firms undertake FA activities, such as advising on and arranging life insurance policies, to complement their general insurance broking activities. Over the past few years, MAS has noted an increase in the number of insurance broking firms branching into the provision of other FA services such as the marketing of CIS. Many of these insurance broking firms do not have adequate management expertise and resources to support such FA activities, resulting in poor market conduct practices. In 2009, MAS directed three insurance broking firms to cease the provision of FA services as they did not have adequate management oversight, as well as, policies and procedures for their FA operations.

Proposals

2.39 The FAIR Panel believes that the primary focus of insurance broking firms should be on their insurance broking role, and where these firms also provide FA services, they must be fully capable of managing this part of the business. Accordingly, the FAIR Panel has recommended that insurance broking firms be allowed to carry out the full range of FA activities only if they have adequate management expertise as well as the capital, financial and compliance resources to undertake such business. To this end, the FAIR Panel proposes that such insurance broking firms should meet the same management expertise, financial and compliance requirements applicable to LFAs before they are allowed to commence FA business. Otherwise, their FA activities should be restricted to advising on or arranging group life insurance policies and incidental individual life policies¹². The FAIR Panel has also recommended that the total revenue from these activities be capped at 25% of the insurance broking firm's annual total revenue, and that the brokerage income from the sale of incidental individual life policies be capped at S\$200,000 per annum. This is to ensure that insurance broking business remains the core activity of insurance broking firms.

2.40 To ensure a level playing field between new and existing insurance broking firms, MAS proposes to require all existing insurance broking firms who intend to or are already carrying on FA activities to comply with the revised requirements. We propose to provide a transitional period of six months from the date of implementation of the new rules for existing insurance broking firms to meet the revised requirements.

¹² Incidental individual life policies refer to life policies that the registered insurance brokers arrange for the owners/staff/directors of the corporates which they are already servicing in terms of general or group life policies.

Question 11. MAS seeks views on the following:

- (i) Requirement for insurance broking firms providing full-fledged FA services to meet the same management expertise, financial and compliance requirements imposed on LFAs (paragraph 2.39); and
- (ii) Proposal to restrict the scope of FA activities and impose a cap on the revenue from FA activities for insurance broking firms that do not meet the revised requirements for conduct of FA business (paragraph 2.39).

3. THRUST THREE: MAKING FINANCIAL ADVISING A DEDICATED SERVICE

I. NON-FINANCIAL ADVISORY ACTIVITIES CONDUCTED BY FINANCIAL ADVISORY REPRESENTATIVES

3.1 The conduct of non-FA activities by FA representatives can potentially undermine the quality of FA services received by customers, and damage the professional image of the FA industry, particularly in situations where there are clear conflicts of interest. To ensure that FA representatives maintain a high level of professionalism and competence in conducting business with customers, the FAIR Panel is of the view that FA firms should only recruit representatives whose professional focus is primarily on their FA role.

Proposals

3.2 As FA firms are responsible for the FA representatives they appoint, the FAIR Panel has recommended that the onus be placed on FA firms to assess whether their FA representatives should be allowed to conduct non-FA activities. In this respect, the FAIR Panel has suggested that FA firms assess the non-FA activities of their representatives to ensure that:

- (a) The non-FA activities do not conflict with the FA firm's business;
- (b) The non-FA activities do not tarnish the image of the FA industry; and
- (c) The conduct of non-FA activities by the representative will not lead to a neglect of his or her FA role.

3.3 The FAIR Panel has identified the following as examples of non-FA activities that clearly do not fulfil the criteria set out in paragraph 3.2:

- (a) Holding a moneylender's licence or being an employee, director, shareholder, sole-proprietor or partner of a licensed moneylender

An FA representative who is also in the moneylending business may have incentive to entice his or her customers to borrow money for the purpose of making investments, which may not be in the customers' best interests.

- (b) Holding a junket promoter licence or being an employee, director, shareholder, sole-proprietor, partner or associate of a licensed junket promoter

A customer who seeks financial advice from an FA representative on how to manage his or her savings should not be put at risk of being encouraged by the same representative to engage in gambling activities.

- (c) Acting as a real estate salesperson or agent, or being an employee, director, shareholder, sole-proprietor or partner of a licensed estate agency

An FA representative who is marketing both financial investments and property may not provide advice which is in the customer's best interest. For example, due to differences in commission amounts and sales targets, the representative may induce a customer who may be best served with additional insurance coverage, to consider a property purchase instead.

- (d) Marketing investments not regulated under the FAA

Customers may not be aware that safeguards in the laws administered by MAS do not apply to them when they purchase products for investment not regulated by MAS¹³. When an FA representative markets such products, customers may be misled into thinking that they are accorded full protection under the FAA when they are not. As the reputation of the FA industry could be tarnished by representatives who leverage on their regulatory status to market unregulated investments to customers, FA firms should ensure that their representatives do not have business interests or hold directorships in firms operating such schemes.

3.4 The FAIR Panel has also recommended that FA firms require prospective representatives with other gainful employment to obtain the approval of their other employers prior to appointing them as representatives. For existing representatives with other gainful employment, FA firms should ensure that these representatives disclose their representative status to their other employers. In this way, the other employers are made aware of their staff's obligations and responsibilities as FA representatives.

¹³ Please refer to the MoneySENSE web-site for a non-exhaustive list of common unregulated schemes (<http://www.moneysense.gov.sg/understanding-financial-products/investments/consumer-alerts.aspx>).

3.5 FA firms are accountable for any reputational or market conduct risks arising from the non-FA activities conducted by their representatives. Therefore, MAS expects FA firms to put in place proper systems and controls to monitor their representatives' conduct of such activities. For example, FA firms could conduct independent checks with the customers and other employers of such representatives to ensure that their conduct of non-FA activities do not pose any reputational or market conduct risks.

3.6 MAS proposes to provide a transitional period of six months from the date of implementation of the new rules for existing FA firms and their representatives to comply with the requirements for the conduct of non-FA activities by representatives.

Question 12. MAS seeks views on:

- (i) The proposed criteria for assessing the circumstances under which FA representatives may be allowed to conduct non-FA activities (paragraph 3.2); and
- (ii) Whether there are other activities that clearly do not satisfy one or more of the criteria set out in paragraph 3.2.

II. USE OF INTRODUCERS BY FA FIRMS

3.7 Under the FAA, an FA firm can appoint individuals or entities to introduce customers to the FA firm for the provision of FA services. Examples of such persons (also known as introducers) include financial institutions and representatives regulated by MAS, as well as individuals and entities not regulated by MAS, such as lawyers and real estate agents. Whilst the introducing activities¹⁴ carried out by these persons are exempt¹⁵ from licensing under the FAA, the introducing arrangements between FA firms and these introducers are subject to various business conduct requirements¹⁶. These include the need for the FA firm and introducer to enter into a formal written agreement, and for the FA firm to provide the introducer with a script to guide the introducer in its introducing activities. MAS notes that the applicable requirements for introducers vary across jurisdictions. For example,

¹⁴ The activities carried out by an introducer typically involve:

- (a) Arranging for the customer to meet with or speak to the FA firm;
- (b) Forwarding the customer's particulars to the FA firm; and/or
- (c) Providing the customer with factual product information.

¹⁵ As set out in Regulation 31(1) of the FAR.

¹⁶ As set out in Regulation 31 of the FAR and the Notice on Appointment and Use of Introducer by Financial Advisers (FAA-N02).

introducers in Australia are not allowed to provide product information to consumers. In the US and UK, introducers are required to disclose to consumers details of their remuneration, including remuneration in-kind.

3.8 It is not MAS' policy intent to regulate introducer arrangements which are passive or ad-hoc in nature, such as:

- (a) A company referring its customers to an FA firm as a value-added service, where no remuneration or benefits-in-kind is received for making the referral;
- (b) An individual referring friends or relatives to an FA firm or representative in his or her personal capacity (and where no remuneration or benefits-in-kind is received); or
- (c) Passive placement of brochures by an FA firm at the premises of third parties, where no introducing activity is carried out by the third parties.

3.9 The current introducer framework poses two key concerns. Firstly, as there is no restriction on the types of individuals or entities that an FA firm can appoint as an introducer, it is difficult to ensure that introducers are fit and proper. Appointing introducers that are not "fit and proper" can tarnish the image of the FA industry, and result in consumers losing confidence and trust in the industry. Secondly, as the line between introducing activity and FA activity is easily blurred, 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. This problem is exacerbated by volume-based remuneration structures¹⁷, which are typical in the industry, as there could be an incentive for introducers to cross the line from "introducing" to "advising" in order to increase their remuneration.

Proposals

3.10 Given the above concerns, the FAIR Panel has recommended that MAS tighten the existing introducer regime in the following areas:

- (a) Persons permitted to act as introducers;
- (b) Scope of introducing activity;
- (c) Remuneration structure for introducers; and

¹⁷ Examples of volume-based remuneration structures include remuneration based on the number of successful introductions, or a percentage of the premium or investment amount paid by the customer subsequent to the successful introduction.

- (d) Additional disclosure requirements for introducers.

Persons Permitted to Act as Introducers

3.11 To minimise the risk of individuals and entities who are not fit and proper acting as introducers, the FAIR Panel has recommended that FA firms 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.

3.12 An elaboration of the principles is set out below:

Principle	Illustrations
No conflicts of interest will arise from the appointment of introducers	<p>Corporations appointed as introducers should not be engaged in businesses that give rise to potential conflicts of interest with their introducing activities. For example, some corporations may have a fiduciary duty to their clients which may be in conflict with their appointment as an introducer.</p> <p>Similarly, the roles and responsibilities of the individuals (i.e. staff of the corporate introducer) effecting the introductions should not give rise to such conflicts. An individual should not be allowed to effect introductions where he is able to exert undue influence over the persons he introduces (for example, officers, executives or managers may be able to exert undue influence over their staff or subordinates).</p>
The appointment of the introducers will not tarnish the image of the FA firm or FA industry	<p>Corporations should not be appointed as introducers, and the staff of corporations should not be allowed to effect introductions, if, for example, the corporation or its staff:</p> <ul style="list-style-type: none"> (i) Possesses a judgment or criminal record for offences involving fraud, dishonesty, misrepresentation, or has been suspended or struck off by professional bodies or regulators (for example, disbarred lawyers or doctors, or former representatives of financial institutions with

	<p>adverse records);</p> <p>(ii) Is unlikely to fully understand and abide by regulatory requirements, and other requirements imposed by the FA firm in relation to introducing activities; or</p> <p>(iii) Is under financial distress or facing insolvency (for example, corporations or individuals facing winding-up proceedings or a bankruptcy order).</p>
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3.13 MAS proposes that FA firms be allowed to enter into introducer agreements with corporations¹⁸ only, and not with individuals (i.e. natural persons). We do not propose any restriction on the types of corporations that can be appointed as introducers, subject to FA firms implementing measures to ensure that the two principles set out in paragraph 3.11 are complied with. There is no change to the current requirement where representatives of FA firms cannot enter into introducer agreements with introducers on their own. As it is the responsibility of FA firms to implement appropriate measures to ensure that the introducers they appoint adhere to all applicable laws and regulations, entering into introducer agreements with corporations will make it easier and more cost-effective for FA firms to discharge this responsibility.

Scope of Introducing Activity

3.14 Currently, introducers are allowed to perform the following activities on behalf of the FA firms:

- (a) Arranging for customers to meet with or speak to the FA firm;
- (b) Forwarding the particulars of customers to the FA firm; or
- (c) Providing customers with factual information on the products distributed by the FA firm.

3.15 Allowing introducers to provide customers with factual product information can lead to confusion as to whether the customer is dealing with an introducer or a financial adviser given that such information is also provided by FA firms during the advisory process. MAS has also received complaints from consumers in this regard. As such, the FAIR Panel has

¹⁸ It is an existing requirement under FAA-N02 that corporate introducers should not carry out introducing activities as a full-time business activity.

recommended that introducers be prohibited from providing product information to customers.

3.16 The FAIR Panel has also recommended that FA firms be prohibited from acting as introducers in respect of investment products for which they are permitted to provide advice. For example, an FA firm which is authorised to advise on life policies would be deemed to be “advising”, instead of “introducing”, if it makes customer referrals in respect of life policies. This will make it clear to consumers whether they are dealing with an introducer or a financial adviser.

Remuneration Structure for Introducers

3.17 Most introducers are currently remunerated based on volume-based formulas such as a percentage of the customer’s first year premiums paid on insurance policies purchased following a successful introduction, or a fee for every successful introduction.

3.18 To prevent fee structures from creating the incentive for introducers to adopt aggressive tactics when effecting introductions, or to inadvertently carry out FA activity, the FAIR Panel has recommended that volume-based remuneration models for introducers, such as those tied to successful introductions or the volume of sales or transactions closed be prohibited. Examples of acceptable remuneration models include receiving a fixed fee per introduction (regardless of whether the introduction is successful), or a flat fee for a specified period of time.

Additional Disclosure Requirements for Introducers

3.19 Currently, introducers are required to disclose to customers the following, based on a script provided by the FA firm:

- (a) That the introducer is carrying out introducing activities for the FA firm;
- (b) That the introducer is not allowed to give advice or provide recommendations on any investment product to the customer, market any CIS, or arrange any contract of insurance in respect of life policies, other than to the extent of carrying out introducing activities;
- (c) Whether or not the introducer will be remunerated by the FA firm for carrying out introducing activities; and

- (d) Where the introducer will be remunerated by the FA firm, the amount of remuneration if so requested by the customer.

3.20 The FAIR Panel has recommended that the disclosure requirements for introducers be enhanced as follows:

- (a) In addition to the disclosure requirement in paragraph 3.19 (b), to disclose that the introducer has not given advice or provided recommendations in respect of the service or product that is provided or sold by the FA firm;
- (b) In lieu of the disclosure requirement in paragraph 3.19(c) and (d), to disclose the amount and basis of remuneration received by the introducer for carrying out the introducing activity; and
- (c) To disclose whether the introducer, its directors and/or shareholders have any direct or indirect stake in the FA firm, or whether the introducer has any other relationship with the FA firm or any of its representatives.

Question 13. MAS seeks views on the proposals to:

- (i) Require FA firms to implement measures to ensure: (i) no conflicts of interest will arise from the appointment of introducers; and (ii) the appointment of introducers will not tarnish the image of the FA firm or FA industry (paragraph 3.11);
- (ii) Allow FA firms to enter into introducer agreements only with corporations (paragraph 3.13);
- (iii) Prohibit introducers from providing product information to customers (paragraph 3.15);
- (iv) Prohibit FA firms from acting as introducers in respect of investment products for which they are authorised to provide advice (paragraph 3.16);
- (v) Prohibit volume-based remuneration structures for introducers (paragraph 3.18); and
- (vi) Enhance the disclosure requirements for introducers (paragraph 3.20).

Question 14. MAS seeks views on the proposal to apply all recommendations under Thrust Three to all licensed and exempt financial advisers, and their representatives, irrespective of clientele type.

4. THRUST FOUR: LOWERING DISTRIBUTION COSTS BY ENHANCING MARKET EFFICIENCY

4.1 Distribution costs are paid by product manufacturers to distributors for their sales efforts and for servicing customers. Such costs, which include commissions paid to the FA representatives and their supervisors, are embedded in the premiums or prices of life insurance and investment products. The FAIR Panel considered various approaches to enhance the efficiency in the distribution of these products, including abolishing and capping commissions. After considering the merits and limitations of these approaches, the FAIR Panel recommended the following initiatives aimed at enhancing the efficiency of the market with a view to lowering distribution costs over time:

- (a) Facilitating comparability of products;
- (b) Improving accessibility of “basic insurance” products through a direct channel; and
- (c) Enhancing transparency of products.

4.2 Other than the proposals at paragraphs 4.31 to 4.34 which apply to all licensed and exempt financial advisers serving retail clients, the proposals under Thrust Four are applicable to all product manufacturers except where expressly excluded.

I. COMPARABILITY OF PRODUCTS

4.3 Currently, there are portals on investment platforms and websites providing product comparisons of CIS offered in Singapore. However, there is no similar portal for insurance products allowing consumers to compare pricing, benefits and other features of similar products offered by different life insurance companies. Consumers can only make comparisons of life insurance and critical illness insurance products by approaching FA firms or their representatives for information on different products.

Proposals

4.4 To facilitate comparison of prices and other pertinent features of life insurance policies, as well as to foster greater competition in the life insurance market in Singapore, the FAIR Panel has proposed that MAS and LIA work together to design and develop a web aggregator as an informational tool (with no execution capability) for comparison of certain insurance products such as life insurance and stand-alone critical illness policies. MAS has

received feedback from some FA representatives expressing concerns that their roles may be displaced by the web aggregator, thereby affecting their livelihood. If implemented, the web aggregator will purely be a comparison tool, with no functionality to allow customers to purchase insurance products online. Consumers who wish to purchase an insurance policy after using the web aggregator will continue to engage the services of an FA representative to execute the transaction. In addition, marketing efforts by MAS and the industry to promote the web aggregator could lead to greater consumer awareness of insurance products and may stimulate more demand for the services of FA firms and their representatives.

4.5 Given that implementing a comprehensive web aggregator for all life insurance (such as term life, whole life, endowment and investment-linked policies) and critical illness insurance products is a complex undertaking, the FAIR Panel has suggested that the web aggregator be developed in phases, starting with simpler products such as term life insurance products.

4.6 The web aggregator is envisaged to be an interactive tool. Consumers who visit the website will be prompted to provide details such as:

Personal information

- a) Age
- b) Gender
- c) Smoker status

Desired product features

- d) Sum assured
- e) Benefits to be included (e.g. for example, total permanent disability, critical illness)
- f) Duration of policy (for non-whole life insurance products)

4.7 Based on the inputs provided by the consumer, the web aggregator will generate a list of insurance products, and provide comparisons on annual premiums, guaranteed benefits, number of years for the policy to break even, risks and limitations of the policy, historical annual investment returns and expense ratios of the participating funds of different life insurance companies and other information such as the credit ratings of these companies, where available. When comparing and deciding which insurance product to purchase, consumers should not simply compare and base their purchase decisions on premiums alone. Consumers should also compare other pertinent benefits and features of

the product, and other factors such as the credit rating of a life insurance company which provides an indication of the company's financial strength and ability to pay out policy claims. If the proposal to develop a web aggregator is adopted, MAS will implement consumer education programmes to raise consumer awareness of the web aggregator and provide tips to consumers on how to make meaningful comparisons amongst the policies offered by different insurers.

4.8 The web aggregator will have links to the websites of the life insurance companies to enable consumers to view specific benefits and features of different products. In addition, the web aggregator will provide tools to enable consumers to calculate affordability of premiums and adequacy of insurance coverage. It will also display prominent warning statements, where relevant, to alert consumers to read the Benefit Illustration (BI) and Product Summary, and to seek financial advice before making any financial decision.

Question 15. MAS seeks views on the following:

- (i) Proposal to implement a web aggregator as an informational tool with no execution capability, for life insurance and critical illness insurance products (paragraph 4.4);
- (ii) Types of life insurance products (such as term life, whole life, endowment and investment-linked policies) to be compared on the web aggregator (paragraphs 4.4 and 4.5); and
- (iii) Comparative features and tools to be made available on the web aggregator (paragraphs 4.7 and 4.8).

II. ACCESSIBILITY OF PRODUCTS

4.9 Life insurance products are currently sold through various channels such as tied agencies of life insurance companies, banks and LFAs. When purchasing a life insurance policy, customers typically receive financial advice from representatives of these 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 total distribution cost¹⁹ (TDC).

¹⁹ Total distribution cost refers to payments in the form of commission, as well as, costs of benefits and services made to the distribution channel.

4.10 Customers pay the same premium irrespective of the channel through which they purchase the life insurance product. Even if there are cost efficiencies in using a particular distribution channel, the savings are not passed on to consumers in the form of lower distribution costs.

4.11 The FAIR Panel has observed that whilst the current commission-based model serves the insurance protection needs of passive consumers for whom “insurance is sold, and not bought”, there is no alternative channel for self-directed consumers such as those who prefer the option of not receiving advice and buying life insurance products directly from life insurance companies without incurring commissions.

4.12 In a fee-based remuneration model²⁰, customers negotiate and agree on the fee to be paid to FA firms for FA services and separately pay the product manufacturers the “factory-gate price” for the products. This is different from the current commission-based model, where product manufacturers pay commissions to FA firms out of the premiums paid by customers. Customers who prefer to be served by independent FA firms that advise them on their entire portfolio needs have to pay commissions to another FA firm if the preferred insurance product is not available through the independent FA firm. This is on top of the financial advisory fee the customer has to pay to the independent FA firm for the provision of FA services.

Proposals

4.13 The FAIR Panel has proposed that life insurance companies catering to the retail market²¹ make available to customers a set of “basic insurance” products through a direct channel²², without dispensing advice and at a nominal administration charge (in addition to the “factory gate price”). This proposal allows the current distribution models in Singapore to co-exist with the proposed direct channel. Consumers who prefer differentiated and customised insurance products and to receive advice can continue to be served by current

²⁰ The UK implemented a fee-based regime for all investment products, including life insurance policies (except those for pure protection), under its Retail Distribution Review on 31 December 2012. The fee-based regime in Australia, under its Future of Financial Advice initiative, will take effect on 1 July 2013.

²¹ This proposal will exclude the life insurers operating in the Defined Market Segment.

²² “Direct channel” refers to the process through which a customer purchases his or her insurance policy directly from the life insurance company (for example, through its customer service centre), without paying the full TDC as no financial advice will be provided. It does not refer to the purchase of policies through the proposed web aggregator (as it will not have any execution capability) or the website of the life insurance company.

distribution models. For other consumers, they will have the choice to purchase “basic insurance” products directly from life insurance companies without advice, rather than through a tied agency, a bank or an LFA.

4.14 By making “basic insurance” products available, insurance companies can now meet the demands of consumer segments that do not require financial advice and those who prefer independent financial advice, as well as cater to the needs of the lower income groups. This will, in turn, help address the problem of underinsurance in Singapore. The proposed direct channel for the sale of “basic insurance” products also provides cost competition amongst products offered through different distribution channels (i.e. the existing distribution channels versus the proposed direct channel) and can help to reduce distribution costs over time.

4.15 Some FA firms and FA representatives have expressed concerns that the new direct channel for “basic insurance” products may pose a threat to the profitability of FA firms and the livelihood of FA representatives. This would not be the case as the FAIR Panel’s recommendation is for the direct channel to sell only “basic insurance” products. All other insurance products will continue to be sold through the current distribution channels. The FAIR Panel has also noted industry feedback that “insurance is sold, and not bought” and that most consumers would still prefer to be served by an FA representative for their insurance needs. Thus, the current distribution channels can continue to meet the needs of this larger consumer segment.

4.16 To manage the impact to the industry and to facilitate familiarity with the direct channel, the proposal for the sale of “basic insurance” products will be implemented in phases, starting with simpler products such as term life insurance products.

Products and Features

4.17 The FAIR Panel has recommended that MAS work with the LIA to design these “basic insurance” products to cater to the primary protection needs of most Singaporeans. These “basic insurance” products can comprise term life, whole life and stand-alone critical illness insurance products, as such products are primarily for protection. Given anecdotal feedback that most Singaporeans prefer life insurance products with surrender value, the set of “basic insurance” products should preferably include whole life insurance products. The FAIR Panel has also recommended the following features for “basic insurance” products:

- (a) The premiums should be paid on a regular basis, rather than in a single payment, as payment of premiums on a regular basis is more affordable for the retail market and “basic insurance” products are targeted at meeting the protection needs of this consumer segment;
- (b) Total permanent disability and critical illness benefits should be included, as such benefits are essential components of protection coverage for Singaporeans. These benefits should be defined and standardised across the industry as “basic insurance” products are meant to be offered to consumers without financial advice;
- (c) The administration charge should be capped at an affordable level to ensure that distribution-related expenses are kept low for consumers who purchase “basic insurance” products; and
- (d) The sum assured should be capped to act as a safeguard to help ensure that consumers do not purchase “basic insurance” products beyond what they can afford.

Process

4.18 Consumers can approach life insurance companies directly (for example, through their customer service centre) to purchase the “basic insurance” products. Simple tools or calculators will be made available by the life insurance companies so that consumers can calculate whether they will be adequately covered for their protection needs, and whether they can afford the insurance coverage based on their income and financial commitments.

4.19 Once the customer has indicated his or her interest to purchase a “basic insurance” product, the life insurance company will assign an FA representative or its customer service staff to provide basic information on the policy terms and highlight the relevant warnings and disclaimers to the customer. The assigned representative or staff will also (i) check whether the customer has used the tools or calculator to verify his or her affordability of the product and adequacy of insurance coverage and assist the customer to do so, if necessary; (ii) prompt the customer to make the necessary declarations, including any pre-existing medical conditions; and (iii) check that the application forms are properly completed. These safeguards help ensure that consumers do not over-commit on the premiums, under-insure themselves, or misunderstand the product benefits and terms.

4.20 After the customer has completed the application forms and submitted other relevant documents to the life insurance company, the company's underwriting process starts. Upon acceptance or approval of the application by the life insurance company, the policy contract is issued to the customer.

Question 16. MAS seeks views on the following:

- (i) Proposal to require life insurance companies catering to the retail market to make available "basic insurance" products through a direct channel, in addition to the current distribution channels (paragraph 4.13);
- (ii) Types of life insurance products to be included as "basic insurance" products (paragraph 4.17);
- (iii) Features of the "basic insurance" products (paragraph 4.17); and
- (iv) Process for the purchase of "basic insurance" products through the direct channel (paragraphs 4.18 to 4.20), including whether additional safeguards should be instituted.

III. TRANSPARENCY OF PRODUCTS

4.21 The FAIR Panel has reviewed the current disclosure requirements and industry practices for the sale of investment and life insurance products. It has observed that:

- (a) There is insufficient disclosure of the fees earned by FA firms for the sale of CIS;
- (b) Consumers may not be aware that some life insurance products (such as endowment plans and whole life insurance policies) bundle both protection and savings/investment elements; and
- (c) The BI for life insurance products could be enhanced so that it is easier for consumers to understand the costs and features of life insurance products.

4.22 The mystery shopping survey conducted by MAS in 2011 also revealed weak disclosure practices amongst FA firms. The survey found that FA representatives would typically disclose basic product information to consumers, but more detailed product information (for example, the amount and frequency of fees and charges, warnings, exclusions and caveats, as well as the free-look period) was often not disclosed. Inadequate

disclosures may result in consumers making unsuitable investment decisions due to lack of understanding of the features and risks of products being recommended.

Proposals

Collective Investment Schemes

4.23 Currently, all remuneration received by FA firms for making recommendations on investment products has to be disclosed to customers in writing. For CIS, sales charges (or subscription fees) payable by customers to the FA firm and management fees payable to the fund manager are disclosed in the Product Highlights Sheet (PHS) and fund prospectus. The PHS and fund prospectuses do not, however, contain information on trailer fees paid by fund managers to FA firms, which constitute about 45% to 65% of the management fees. FA firms also employ their own formats of disclosure to meet the requirements set out in the Notice on Information to Clients and Product Information Disclosure (FAA-N03). This does not facilitate easy comparison by consumers of trailer fees paid to different FA firms. The FAIR Panel is of the view that it is useful for consumers to know that their FA firms receive a portion of the management fees they pay to the fund managers, as this may encourage them to seek quality advice or service from the FA firm, on an ongoing basis. Accordingly, the FAIR Panel has proposed to require fund managers of CIS to disclose the trailer fees paid to FA firms in the PHS.

Life Insurance Products

4.24 Currently, MAS prescribes the information that needs to be disclosed in the Product Summary for participating life insurance products and investment-linked policies (ILPs)²³. The Product Summary for non-participating products and the BI for all life insurance products are prescribed by the LIA. These documents are used by FA representatives to explain the features, benefits and costs of life insurance products to customers during the advisory and sales process.

4.25 The FAIR Panel has noted feedback from the public that the BI may be difficult for some customers to understand. There have also been complaints that the illustrated non-guaranteed returns displayed in the BI could be misleading as it may give the wrong

²³ For participating products, MAS Notice 320 Appendix B prescribes the information that needs to be disclosed in the Product Summary. For ILPs, the information that needs to be disclosed in the Product Summary is prescribed under MAS Notice 307 Appendix A.

impression that these illustrated returns are what customers can expect to receive when the actual returns would depend on other factors such as the investment returns and the total expense ratios of the participating funds.

4.26 To help consumers better understand and make sense of the information in the BI and Product Summary, the FAIR Panel has recommended that life insurance companies add a cover page to the BI and Product Summary to highlight the following important information to consumers:

- (a) TDC of the life insurance product and the number of years over which policyholders have to pay these costs²⁴;
- (b) The illustrative rates of return of the life insurance product and a warning that these returns are not guaranteed, do not take into account management, distribution and other expenses, and the actual returns will depend on the performance of the sub-fund(s) for ILPs or the participating fund for participating products²⁵;
- (c) The average expense (investment, management, distribution and other expenses) ratio of the participating fund over the last three years²⁶;
- (d) A warning that if the policyholder surrenders his or her policy before a certain year, the amount he receives (based on the guaranteed return) will be lower than the premiums paid²⁷;
- (e) 14-day free-look period²⁸; and
- (f) A brief description and the website address of the web aggregator²⁹.

²⁴ Commissions payable to FA representatives for the sale of a life insurance product is a key component of the TDC of that product. Consumers should, therefore, be alerted to the TDC and the potential bias for an FA representative to sell a product with higher TDC so as to earn higher commissions.

²⁵ It is important to highlight to consumers that the illustrated returns displayed in the BI may not be the actual returns as the latter would depend on other factors.

²⁶ Participating policyholders share in the profits of the insurance company's participating fund. This is paid in the form of bonuses or cash dividends which comprise both guaranteed and non-guaranteed benefits. A less efficient participating fund with higher average expense ratio may result in lower bonus or cash dividend payable to participating policyholders.

²⁷ For products with surrender value such as whole life insurance and endowment plans, it is important to alert consumers that the surrender value at a certain year may not break-even with the premiums he or she has paid up to that point in time, given that premiums for such products are typically paid over a longer term and can add up to a substantial sum over the years.

²⁸ Consumers should be alerted to the 14-day free-look period upfront as it is important for consumers to review the policy vis-à-vis other available policies during that period to determine if it meets their needs. This also mitigates possible pressure-selling on the part of the FA representative, as well as impulse buying of the insurance policy by the consumer.

²⁹ The proposal on the web aggregator is elaborated in paragraphs 4.4 to 4.8. As life insurance products are usually of a longer tenure as compared to other investment products, it is important for consumers to be able to compare premiums and other features and benefits of the life insurance product before deciding on which life insurance product to purchase.

4.27 The FAIR Panel has proposed that the above information be presented in a font size of at least 10-points Times New Roman. In addition, it has recommended that FA firms obtain their customers' signed acknowledgement on the cover page that they have read and understood the BI and Product Summary, including the information highlighted in the cover page. This would alert customers to the importance of reading and understanding the contents of these documents.

Participating Life Insurance Products

4.28 For participating life insurance products, life insurance companies are currently required to disclose to customers, after the point of sale, expenses they have incurred (including distribution, investment and management expenses) in the Annual Bonus Update³⁰. The investment returns and investment expense ratios for the past three years are also required to be disclosed in the Product Summary of participating products.

4.29 However, customers who wish to buy participating products are not provided with information on management expenses and distribution expenses charged to the participating fund in prior years. Disclosure of such information will allow customers to understand the level of expenses incurred by the life insurance company in relation to the participating fund. This is pertinent information as management and distribution expenses will affect the return for the customer's policy.

4.30 Given the relevance of information on management and distribution expenses in the decision of customers to purchase participating products, the FAIR Panel has proposed that life insurance companies disclose in the Product Summary the management, distribution and other expenses for participating products, as a combined total expense ratio, averaged over the last three years.

Bundled Life Insurance Products

4.31 A bundled life insurance product is generally understood as any life insurance product that (i) contains a protection element, as well as, a savings or investment element; and (ii) is purchased in a single contract. Some examples are whole life plans, endowment plans, and ILPs.

³⁰ This requirement is stipulated in the MAS Notice on Management of Participating Life Insurance Business.

4.32 In the case of life insurance products, FA representatives are currently required to disclose and explain the nature and objective of the product to the customer, including whether the product is for protection, savings or investment. However, there is no requirement for the BI to include a detailed breakdown of the proportion of premiums that are channelled towards the protection, savings or investment components of bundled insurance products. Whilst most consumers are aware that ILPs contain protection and investment elements, many consumers are unaware that a large portion of the premium is channelled towards the investment element as compared to the protection element. Some consumers are also unaware that whole life and endowment plans comprise both protection and investment or savings components.

4.33 Given the above observations, the FAIR Panel has proposed that when recommending the purchase of bundled life insurance products, FA representatives should disclose to customers that they have the option of purchasing an unbundled term life insurance product (with similar coverage) and placing the difference in premiums (of an amount equal to the difference between the premiums for the bundled life insurance product and the comparable term life insurance product) in a fixed deposit³¹. This proposal will raise consumer awareness that they have the option of purchasing a term life insurance product for the same amount of coverage at a lower premium, and placing the balance of the premium in a fixed deposit or investing the balance in other financial instruments. If this proposal is adopted, MAS will work with the industry associations and consumer groups to develop a common template for such disclosure.

4.34 The FAIR Panel believes that 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 they can make a meaningful comparison of the two products and decide which one is more suitable for them. The FAIR Panel has, therefore, recommended that the following salient features of the two products should be disclosed to customers:

- (a) For term life insurance products, there is no surrender value and the death benefit is guaranteed and fixed throughout the policy term; and
- (b) For whole life insurance products, policyholders may receive bonuses, which are non-guaranteed. As such, the death benefit for whole life insurance products may be more than the guaranteed amount at the inception of the policy as compared to term life insurance products.

³¹ Fixed deposits are the most easily accessible savings product for consumers.

Question 17. MAS seeks views on the proposals to require:

- (i) Fund managers to disclose the trailer fees they pay to FA firms for the sale of CIS in the PHS (paragraph 4.23);
- (ii) Life insurance companies to add a cover page to the BI and Product Summary, setting out certain specific information (paragraph 4.26);
- (iii) Life insurance companies to disclose the management, distribution and other expenses for participating products, as a combined total expense ratio averaged over the last three years, in the Product Summary (paragraph 4.30); and
- (iv) FA representatives to present an alternative unbundled term life insurance product and fixed deposit on a standard disclosure template when recommending a bundled life insurance product, and to disclose the salient features of both types of insurance products (paragraphs 4.33 and 4.34).

5. THRUST FIVE: PROMOTING A CULTURE OF FAIR DEALING

I. COMMISSION PAYOUT STRUCTURE OF REGULAR PREMIUM LIFE INSURANCE PRODUCTS

5.1 Compared to investment products such as CIS, the commissions paid to FA firms and their representatives for regular premium life insurance products are typically more heavily front-loaded, with about 49% to 55% of the total commissions paid in the first year of the policy. Commissions for such life insurance products are also usually paid over a shorter period of about six years vis-a-vis the duration of the policy.

5.2 The FAIR Panel is of the view that a heavily front-loaded payout structure rewards FA representatives for the conclusion of sales, rather than the provision of quality after-sales services. Furthermore, such a payout structure will result in low surrender value for insurance policies, especially in the initial years.

Period of Commission Payout

5.3 Ideally, a longer commission payout period will better align the interests of FA firms and their representatives with that of their customers. However, extending the period of the commission payout for too long will result in the commissions being spread too thinly, thereby impacting the cash flows for FA firms and their representatives. Commissions that are too thinly spread will also negatively impact the incentive for FA representatives to provide quality after-sales services.

Proposal

5.4 Taking into account the above considerations, the FAIR Panel has recommended that the commission payout for regular premium life insurance products with duration of six years or longer be spread over a minimum period of six years. The FAIR Panel has proposed six years as the minimum payout period so as not to cause major disruption to the industry as most regular premium life insurance products are structured with a commission payout period of six years. For regular premium life insurance products with duration of less than six years, the FAIR Panel has suggested that commissions be paid out throughout the duration of the policies.

Question 18. MAS seeks views on the proposed minimum period of commission payout to FA firms and their representatives for regular premium life insurance products (paragraph 5.4).

Re-distribution of Commissions

5.5 The FAIR Panel has recommended imposing a cap on the total commissions to be paid to FA firms and their representatives (including any overriding commissions) for the sale of regular premium life insurance policies in the first year, and re-distributing the remaining commissions evenly over the subsequent periods. The FAIR Panel believes that these recommendations will result in stronger alignment of interests between the FA industry and the retail public and promote a culture of quality on-going after-sales service.

Proposal

5.6 The re-distribution of the remaining commissions over the subsequent years will have an impact on the income of FA representatives in the first few years of implementation, particularly for new entrants to the FA industry. The FAIR Panel has, therefore, proposed to cap the total commissions for the first year at 50% of total commissions in the first year of implementation, and to adjust the cap to 40% in the second year of implementation. This phased approach will ease the transition for the industry and give industry practitioners sufficient time to adjust to the new commission payout structure. The following table illustrates the proposed caps:

	Total Commissions to be Paid in the First Year of the Policy	Remaining Commissions to be Paid from the Second Year of the Policy Onwards
In Year 1 of implementation	50% of total commissions	<ul style="list-style-type: none"> • For policies with duration of 6 years or more, the remaining commissions will be spread evenly over the next 5 years or more; • For policies with duration of less than 6 years, the remaining commissions will be spread evenly over the remaining years of the policy.
In Year 2 of implementation	40% of total commissions	

5.7 FA firms could consider introducing measures to minimise the impact of the proposal on the income of FA representatives, particularly for new entrants. These may include providing a training allowance for new entrants, introducing a base pay for FA representatives, or re-distributing the proportion of commissions paid to the FA representatives and their supervisors and managers.

Question 19. MAS seeks views on the following proposals:

- (i) Re-distributing total commissions for regular premium life policies by capping the first year commissions at 40% of total commissions, with the remaining commissions being spread evenly over at least five years or the remaining life of the policy, whichever is shorter (paragraph 5.6); and
- (ii) Implementing the proposal in (i) over two years, with the cap being set at 50% in the first year of implementation and 40% in the second year of implementation (paragraph 5.6).

II. BALANCED SCORECARD FRAMEWORK FOR REMUNERATION OF FINANCIAL ADVISORY REPRESENTATIVES

5.8 The Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers (Fair Dealing Guidelines) set out the general principle that FA firms should remunerate their representatives in a manner that encourages them to act in the best interests of customers. The Fair Dealing Guidelines also state that remuneration structures that rely primarily on commissions may create risks of product pushing and aggressive selling, and compromise customers' interests.

5.9 Whilst MAS has noted some improvement³² in the remuneration structures of FA representatives following the issuance of the Fair Dealing Guidelines, most FA representatives continue to be remunerated largely based on their sales performance. In addition, many supervisors of these FA representatives are rewarded for the sales performance of the FA representatives, with some earning a pre-determined percentage of overriding commissions for each product sold by the FA representatives. MAS' mystery

³² The Association of Banks in Singapore, in its press release of 7 July 2009, stated that banks are moving towards the use of balanced scorecards to determine representatives' remuneration where the performance of representatives will not be assessed based on sales factors alone. Other factors that they will be assessed on include competency and compliance with the Fair Dealing Guidelines.

shopping exercise conducted in 2011 also revealed the need for improvement in the sales behaviour of FA representatives. One of the key observations from the mystery shopping exercise was that a third of the recommendations provided by the FA representatives surveyed were “clearly unsuitable” as the products recommended failed to take into account the needs and objectives of the mystery shoppers.

Proposals

5.10 To better align the interests of FA representatives and their customers, the FAIR Panel has recommended that FA firms adopt a balanced scorecard (BSC) framework incorporating non-sales key performance indicators (KPIs) in the remuneration structure for FA representatives and their supervisors. The FAIR Panel believes that this will motivate FA representatives to provide quality advice and good after-sales service to their customers.

5.11 Whilst some FA firms are already assessing and rewarding their representatives based on certain non-sales KPIs, the types of KPIs vary widely amongst FA firms and most are not direct measures of the quality of the advisory process and the suitability of recommendations. Furthermore, the weights of non-sales KPIs in the current remuneration structure for FA representatives tend to be low and ineffective in aligning the interests of FA representatives with that of their customers. If the proposal for all FA firms to put in place a BSC framework for remunerating their FA representatives is adopted, MAS will work with the industry associations to design an industry-wide BSC framework, with common parameters on the types, measurement methods and weights of non-sales KPIs.

Types of non-sales KPIs

5.12 MAS proposes that all FA firms develop non-sales KPIs to measure the performance of their representatives in the following four areas:

- (a) Quality of advisory and sales process -- whether there is sufficient fact-find conducted to understand the circumstances and needs of the customer;
- (b) Suitability of recommendations -- whether the product recommended is suitable for the customer based on his or her financial objectives, investment horizon, risk profile, financial situation and particular needs;
- (c) Adequacy of information disclosure -- whether the representative has highlighted and explained all material information to the customer; and

- (d) Customer complaints -- the number, nature and severity of substantiated complaints against the FA representative for misconduct relating to the provision of financial advice and poor after-sale services.

Where representatives fail to meet any or all of the non-sales KPIs, their remuneration will be deducted accordingly.

Methods for measuring non-sales KPIs

5.13 Currently, most supervisors conduct pre-transaction checks by reviewing the documentation on fact-find performed by FA representatives, as well as the recommendations and disclosures made by FA representatives to customers. Some FA firms also require supervisors to perform customer call-backs shortly after the advisory process to assess the quality of FA services provided by their representatives. In order to measure whether representatives have met the non-sales KPIs, MAS proposes that all FA firms put in place pre-transaction documentation reviews and customer call-backs by supervisors for all sales conducted by FA representatives.

5.14 Besides the full-scale documentation reviews and customer call-backs by supervisors, MAS proposes that FA firms set up an Independent Sales Audit Unit to perform post-sale checks on the quality of the advisory and sales process conducted by their FA representatives and the suitability of recommendations made to customers. Such checks could be done on a sample basis and include documentation checks and customer surveys. This would serve as an independent check to supplement the reviews conducted by the supervisors. It is not sufficient for FA firms to rely solely on the supervisors to perform checks on the quality of the advisory and sales process conducted by their representatives, given that the remuneration of supervisors tends to be correlated with the sales performance of the FA representatives under their supervision. To ensure independence, the Independent Sales Audit Unit should be staffed by individuals who are not involved in the provision of FA services. They 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.

5.15 Following the release of the findings from MAS' mystery shopping exercise on 6 July 2012, the industry associations have committed to conduct regular mystery shopping exercises to assess whether FA representatives are dealing with customers fairly. This can

also serve as an effective assessment tool to complement the measurement methods adopted at the firm level.

Proportion of remuneration to be subject to deductions under the BSC framework

5.16 As the primary role of FA representatives is to provide customers with quality advice and suitable recommendations, the FAIR Panel has recommended that the proportion of their remuneration that can be deducted under the BSC framework reflect this primary role. In addition, given that supervisors have an important role to play in supervising the provision of FA services by their representatives, the FAIR Panel has recommended that supervisors incur heavier penalties in the form of larger deductions from their remuneration should the FA representatives under their supervision fail to meet the non-sales KPIs. This principle will apply unless FA firms can clearly demonstrate that the failure of the FA representatives to meet the non-sales KPIs is not due to poor supervisory oversight by their supervisors and managers.

5.17 MAS notes that the remuneration structures for FA representatives and their supervisors vary across different sectors and firms. If the BSC framework is adopted, MAS will work with the industry on the appropriate proportion of remuneration to be subject to the BSC for representatives and their supervisors, taking into account the different remuneration structures in the industry.

Question 20. MAS seeks views on the following proposals:

- (i) Types of non-sales KPIs to be incorporated in the BSC framework for FA representatives and their supervisors (paragraph 5.12);
- (ii) Methods for measuring the non-sales KPIs (paragraphs 5.13 to 5.15); and
- (iii) Proportion of remuneration to be subject to deductions under the BSC framework for FA representatives and their supervisors (paragraphs 5.16 and 5.17).

III. BANNING OF PRODUCT-SPECIFIC INCENTIVES FOR FINANCIAL ADVISORY REPRESENTATIVES

5.18 Product-specific incentives that reward FA representatives for recommending certain investment products may encourage poor market conduct practices such as product

pushing, pressure selling and improper switching of investment products, to the detriment of customers. For example, to coincide with promotional or marketing activities for the launch of a new investment product, an FA firm may introduce an additional incentive tied to the sale of that particular product, which is over and above the usual commissions paid to FA representatives for selling that product. Such incentives may be in the form of cash or non-cash benefits and could include incentive trips, hotel stays, prizes and vouchers, amongst others.

Proposals

5.19 To eradicate improper practices such as product pushing or pressure selling, the FAIR Panel has recommended that FA firms be prohibited from paying their FA representatives cash and non-cash incentives which are:

- (a) Tied to the sales volume of a specific investment product; and
- (b) Over and above the typical commissions paid to FA representatives for selling that investment product.

Question 21. MAS seeks views on the proposal to ban the offering or giving of product-specific cash and non-cash incentives to FA representatives (paragraph 5.19).

IV. ACCOUNTABILITY FOR FAIR DEALING RESPONSIBILITIES IN FINANCIAL ADVISORY FIRMS

5.20 The Fair Dealing Guidelines set out five fair dealing outcomes, including providing adequate information to customers in the advisory and sales process and ensuring that advice provided to customers is suitable. The Fair Dealing Guidelines also emphasise the responsibilities of the board and senior management of FA firms in inculcating a culture of fair dealing in the firm.

5.21 Since the introduction of the Fair Dealing Guidelines, MAS has been assessing the progress of FA firms in achieving the fair dealing outcomes. In 2011, MAS conducted thematic inspections of selected FA firms to assess their progress in delivering Outcome One of the Fair Dealing Guidelines (relating to the fair dealing corporate culture of the organisation). This was followed by a mystery shopping exercise to assess the industry's

implementation of Outcome Three (relating to the quality and suitability of advice) and Outcome Four (relating to adequacy of information disclosure). MAS found from the thematic inspections that whilst progress has been made in implementing the Fair Dealing Guidelines, the board and senior management of some FA firms could play a more proactive role in promoting and strengthening a culture of fair dealing within their organisations. A number of key findings emerged from the mystery shopping exercise including failure to conduct comprehensive fact-finds, inadequate disclosures on products recommended and inappropriate recommendations of products that did not match the mystery shoppers' financial objectives.

5.22 Based on the weaknesses uncovered in the thematic inspections and mystery shopping exercise, it is clear that there is a need for greater oversight and involvement by the board and senior management in driving fair dealing initiatives within their organisations.

Proposals

5.23 Given the important role that the board and senior management play in driving fair dealing with customers, their accountability in promoting a culture of fair dealing within their firms should be enhanced. Accordingly, the FAIR Panel has recommended 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. This will allow MAS to vary our supervisory intensity according to the board and senior management's efforts in driving fair dealing within their organisations, and help strengthen the fair dealing culture in firms where the board and senior management's involvement is lacking.

5.24 Further, MAS will revise the Fair Dealing Guidelines to enhance clarity of MAS' expectations of the board and senior management in promoting a culture of fair dealing within their organisations.

Question 22. MAS seeks views on the proposal to strengthen the accountability of the board and senior management in promoting a culture of fair dealing within their organisations, by incorporating the assessment of the board and senior management's efforts in promoting a culture of fair dealing into MAS' risk assessments and regulatory reviews of FA firms (paragraphs 5.23).

V. COMPLAINTS HANDLING AND RESOLUTION PROCESSES

5.25 Outcome Five of the Fair Dealing Guidelines states that FA firms should handle customer complaints in an independent, effective and prompt manner. In addition, FA firms should establish a robust process to provide assurance to customers that their concerns and feedback are handled fairly and professionally.

5.26 MAS has found in its supervision of FA firms that there are varying standards of Complaints Handling and Resolution (CHR) processes among FA firms. During the global financial crisis in particular, numerous complaints were lodged by investors against FA firms. MAS observed that some FA firms dealt with these complaints in an ad-hoc manner due to the lack of formalised CHR processes, thereby undermining consumer confidence in these FA firms.

Proposals

5.27 Complaints are a valuable indicator of potential problems that need to be addressed by an FA firm. A large volume of complaints could also undermine customers' trust in an FA firm. To ensure consistent minimum standards in complaints handling and to increase consumer confidence in FA firms, the FAIR Panel has recommended strengthening existing requirements in respect of the CHR processes of FA firms. This is in line with the practice in other jurisdictions such as the UK³³ and Australia³⁴, where statutory provisions relating to CHR processes have been implemented to safeguard consumer interests.

5.28 In response to the FAIR Panel's recommendation, MAS is considering the issuance of Regulations under the FAA to enhance the CHR processes of FA firms dealing with retail customers by requiring FA firms to –

(a) Establish a CHR process for retail customers which is independent and prompt --

(i) Independent: The business unit resolving complaints must be independent of the unit against which the complaint is made;

³³ The FSA requires firms to assess complaints fairly, consistently and promptly. See *FSA Handbook – "Dispute Resolution: Complaints, 'Treating Complainants Fairly' (DISP 1)"*.

³⁴ ASIC requires financial services licensees to have procedures for CHR that satisfy guiding principles such as accessibility, objectivity and efficiency. See Section 912A(1)(g) and 912A(2) of the *Corporations Act 2001* in conjunction with *"Regulatory Guide 165: Licensing: Internal and external dispute resolution"*.

- (ii) Prompt: FA firms must set and publicly disclose a reasonable timeframe for resolving complaints, and put in place the following procedures:
- Send a written acknowledgement to the complainant within two business days upon receipt of a complaint;
 - If a complaint is not resolved within three weeks, send an interim response to inform the complainant that his or her complaint is being reviewed; and
 - By the end of six weeks from the receipt of a complaint, FA firms must provide:
 - a final response setting out their position on the complaint; or
 - 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.
- (b) Designate a person or committee responsible for oversight of the FA firms' compliance with the regulatory requirements on CHR to enhance accountability and strengthen senior management's responsibility;
- (c) Make information on their CHR process available at their place of business or on their website (if any) so that customers are informed of the appropriate channels to lodge complaints; and
- (d) Track and manage complaints data and report such data to MAS on a biannual basis for accountability.

MAS proposes to apply these requirements to complaints relating to FA firms' business conduct³⁵.

Question 23. MAS seeks views on the proposal to introduce regulatory requirements in respect of an FA firm's CHR process as set out in paragraph 5.28.

³⁵ Examples of such complaints include those that concern acts involving dishonesty or fraud, inappropriate advice, mis-selling, or inadequate disclosure by the FAs.

VI. INVOLVEMENT OF INDUSTRY ASSOCIATIONS IN PROMOTING FAIR DEALING

5.29 Industry associations play an important role in setting standards of good practice for their members. This is articulated in the Fair Dealing Guidelines and in MAS' monographs on the "Objectives and Principles of Financial Supervision in Singapore" and "Tenets of Effective Regulation". In particular, the Fair Dealing Guidelines mention that one of the ways industry associations may contribute to promoting the fair dealing outcomes is to conduct mystery shopping exercises, customer surveys and other studies to identify areas for improvement.

Proposals

5.30 The FAIR Panel recognises that industry associations can play a useful role in assessing and monitoring the implementation of fair dealing initiatives by their members. As such, the FAIR Panel has proposed that industry associations consider:

- (a) Formulating a set of KPIs to measure their members' achievement of the fair dealing outcomes;
- (b) Establishing monitoring mechanisms such as customer surveys and mystery shopping exercises to measure their members' progress in achieving the fair dealing outcomes; and
- (c) Sharing the results of these assessments with the public and MAS on a regular basis.

Question 24. In addition to the proposals in paragraph 5.30, MAS seeks views on other initiatives industry associations can undertake to promote a culture of fair dealing in the FA industry.

Question 25. MAS seeks views on the proposal to apply all the recommendations under Thrust Five to licensed and exempt financial advisers, and their representatives, serving retail customers (i.e. customers other than accredited investors as defined in Section 4A of the SFA). Where relevant, licensed and exempt financial advisers targeting other consumer segments are encouraged to implement the recommendations to promote fair dealing.



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