



Monetary Authority of Singapore

Response to Feedback Received

P011-2021 – 26 July 2024

Response to Feedback on Proposals to Refine the Tier Structure Requirements and to Introduce New Requirements Relating to Remuneration



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1. Preface

- 1.1. On 12 July 2021, MAS issued a consultation paper to seek feedback on proposals to refine the tier structure requirements and introduce new remuneration requirements for the financial advisory (“FA”) industry. The consultation paper set out MAS’ proposals to:
- (a) clarify the policy intent of, and refine the tier structure requirements, which include defining overriding benefits and stipulating the circumstances under which payment of overriding benefits is allowed;
 - (b) consolidate and effect the tier structure requirements under the Financial Advisers Act 2001 (“FAA”) and extend the requirements to all financial advisers, including exempt financial advisers¹ which operate tier structures, for consistency across the FA industry; and
 - (c) introduce restrictions on direct payment of remuneration by persons, other than the principal FA firm, to representatives² and/or supervisors³ of the principal FA firm⁴, and acceptance of remuneration by representatives and/or supervisors of the principal FA firm from other persons. These restrictions will apply to:
 - (i) volume-based incentives; and
 - (ii) commissions, which are subject to spreading and capping as prescribed in section 19 of the FAA, the Financial Advisers (Remuneration) Regulations 2015 and the Insurance (Remuneration) Regulations 2015 (collectively referred to as “Remuneration Regulations”).
- 1.2. The consultation closed on 13 September 2021. MAS received responses from a wide range of respondents, including industry associations, financial institutions and interested individuals. Arising from the feedback received during the consultation process, MAS conducted further engagements and consultations with some of the respondents. MAS has carefully considered the feedback received in formulating our responses and would like to thank all respondents for their comments. Subsequent to the issuance of this response paper, MAS will conduct a consultation on the legislative amendments to effect the proposals set out in this paper. Comments that are

¹ “Exempt financial adviser” is defined under the FAA to mean a financial adviser who is exempt under section 20(1) from holding a financial adviser’s licence.

² “Representative” is as defined under the FAA.

³ “Supervisor”, in relation to a financial adviser, is as defined under the FAA.

⁴ For the purpose of this paper, “FA firms” refers to all financial advisers, i.e. licensed financial advisers, and exempt financial advisers such as insurers, banks, merchant banks, finance companies, insurance brokers and capital markets services licence holders.



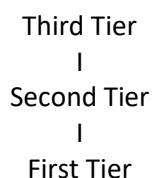
of wider interest, together with MAS' responses, are set out under Sections 2 and 3. The list of respondents and their full submissions are provided in the Annexes at the end of this paper.

2. Tier Structure Requirements

Maximum Tier Structure

2.1. MAS sought comments on the following proposals in the consultation paper:

- (a) FA firms that operate a tier structure for the provision of any financial advisory service and/or the sale of any investment product are required to ensure that a tier structure only consists of three tiers as illustrated below. The Second Tier and Third Tier are responsible for supervising the lower tiers in their financial advisory and sales activities.



- (b) FA firms can only pay overriding benefits to a maximum of two supervisors (i.e. Second Tier and Third Tier) of each First Tier representative for the provision of any financial advisory service or sale of any investment product following the provision of any financial advisory service by the representative (i.e. overriding benefits are only paid to individuals in the Second Tier and Third Tier who are responsible for supervising their lower tiers)⁵.
- (c) “Overriding benefits” will include, but not limited to, any remuneration⁶ payable to any person other than the representative who provided the financial advisory services or made the sale, whether on a periodic basis or otherwise, that is computed based on the provision of any financial advisory service or sale of any investment product following the provision of any financial advisory service by the representative.
- (d) Supervisors will be prohibited from accepting overriding benefits from any person other than the FA firm in which he is a supervisor.

⁵ For the avoidance of doubt, FA firms can only pay overriding benefits to one supervisor (i.e. Third Tier) of each Second Tier representative for the provision of any financial advisory service or sale of any investment product following the provision of any financial advisory service by that representative.

⁶ This may include remuneration such as, but not limited to, commissions, production bonuses, business allowances and all forms of incentives such as recruitment, cash and non-cash incentives, whatever these remuneration may be called, so long as they are computed based on the sale of investment products closed by representatives.



- 2.2. MAS will proceed with the following proposals to which majority of the respondents agreed with or did not provide comments:
- (a) Tier structure to be limited to three tiers;
 - (b) FA firms can only pay overriding benefits to a maximum of two supervisors for each First Tier representative; and
 - (c) Supervisors can only accept overriding benefits from the FA firm in which he is a supervisor.

Overriding Benefits and Other Payments

- 2.3. Several respondents sought clarification on whether the following types of remuneration practices would fall within the scope of overriding benefits:
- (a) Payments which occur when a lower-tier representative is promoted to the next tier⁷. In his role as a newly promoted supervisor, he will form a new agency unit with his team of representatives (see Annex A for an illustration). The FA firm however continues to pay overriding benefits to his former supervisor at the previous agency unit based on the sales of the new agency unit. These are known in the industry as breakaway or buyout payments. In this response paper, we will use the term “breakaway payments” for ease of reference;
 - (b) Payments for representatives and supervisors to defray business costs which are computed based on sales of the representatives. These are commonly known in the industry as business allowances;
 - (c) Residual commissions of investment products previously sold by representatives who have left the FA firm. These are commonly known in the industry as vested commissions; and
 - (d) Commissions and overriding commissions that are shared among representatives and their supervisors from the financial advisory and sales conducted jointly by the representatives. In this response paper, we will use the term “joint sales” for ease of reference.
- 2.4. After considering the purposes of these payments, MAS will exclude these payments from the tier structure requirements provided FA firms have proper governance frameworks and adhere to the relevant conditions for each type of payment as elaborated in paragraphs 2.6 to 2.24. FA

⁷ For example, when a second tier supervisor is promoted to a third tier supervisor.



firms are required, at the minimum, to incorporate the following guiding principles into their governance frameworks:

- (a) The payments align with MAS' policy intent of the tier structure requirements, which restrict the maximum number of tiers to three. Payment of overriding benefits should only be made to the Second Tier and Third Tier who are responsible for supervising the lower tiers in their financial advisory and sales activities;
- (b) The FA firm should put in place measures to address market conduct risks specific to these payment arrangements; and
- (c) The FA firm should exercise discipline to manage distribution costs to safeguard clients' interests.

- 2.5. MAS will hold the FA firms and their Boards responsible for approving and implementing governance frameworks that are aligned with the guiding principles and conditions (where relevant).

Breakaway Payments

- 2.6. Many respondents expressed concerns that breakaway payments would be considered overriding benefits. These respondents opined that previous supervisors of representatives should be recognised for training and promoting their lower-tier representatives, and the payment of breakaway payments compensates the previous supervisors for the loss of future income. The treatment of breakaway payments as overriding benefits would dis-incentivise supervisors from training and promoting their lower-tier representatives, inhibit representatives' career advancement, and curb the growth of the FA firms' sales force.
- 2.7. Two respondents suggested imposing boundaries on the payments, such as by (i) stipulating a finite period of time that these payments can be made, (ii) limiting the payments to be paid out from shareholders' funds instead of participating funds, or (iii) limiting the payments to previous supervisors based on past sales and prohibiting further payments based on future sales of the newly promoted representative and the lower-tier representatives in his agency unit. One respondent suggested that breakaway payments should be allowed if they do not increase distribution costs and are payable over a limited period of time. One respondent suggested that non-cash remuneration, such as production credits, awarded to previous supervisors of lower-tier representatives when the lower-tier representatives are promoted to the next tier should not be viewed as an additional tier.

MAS' Response

- 2.8. MAS notes that breakaway payments⁸ compensate supervisors and incentivise them to train and promote lower-tier representatives under their supervision. However, making breakaway payments without imposing limits or safeguards poses market conduct risks, as the previous supervisor may still exert undue influence over the new agency unit, since they continue to gain from the sales made by the new agency unit. As such, MAS will exclude breakaway payments from the tier structure requirements subject to the following conditions:
- (a) The payments are governed under a remuneration framework that is approved by the FA firm's Board or Board-level Committee (e.g. risk committee, remuneration committee), and consistent with the guiding principles in paragraph 2.4;
 - (b) The quantum of the payments is computed based only on sales made by those lower-tier representatives who were under the previous supervisor's charge, and will exclude sales made by new representatives who joined the new agency unit after the breakaway⁹; and
 - (c) In the case of breakaway payments made by direct insurers, the payments are not charged to any insurance fund.
- 2.9. For the avoidance of doubt, the previous supervisor of a representative who receives the breakaway payment should be part of an existing tier structure in the same FA firm.

Business Allowances

- 2.10. Business allowances refer to amounts paid to a representative or supervisor to defray business costs (e.g. office rental) or for the provision of shared services (e.g. administrative support) for representatives in an agency unit or across several agency units within the same FA firm. The quantum of the business allowance is generally computed as a function of sales made by the representatives in the agency unit(s). A few respondents proposed to exclude business allowances from the scope of overriding benefits such as where business allowances are paid to a single supervisor for ease of administration and are intended to defray business costs incurred by representatives in the agency unit(s). Aside from payments to representatives or supervisors, some FA firms pay business allowances to companies which are owned by the representatives and/or supervisors, for the provision of shared services by these companies to the agency unit(s).

⁸ Including non-cash remuneration such as the use of production credits.

⁹ Refer to Annex A for a graphical illustration of this condition.



- 2.11. Two respondents asked whether business allowances would be caught as “variable income” under the Balanced Scorecard (“BSC”) framework.

MAS’ Response

- 2.12. MAS is of the view that allowances paid by FA firms to help representatives defray business costs, which are computed based on sales made by representatives and not on expenses incurred, is a form of remuneration, if the allowances are not related to the expenses incurred or exceed them. Where such business allowances are paid to a single supervisor or representative for expenses incurred by a group of supervisors or representatives who belong to other agency units, and the payments are computed based on the sales of the representatives in the other agency units, such payments can be construed as a form of remuneration and therefore create an additional tier beyond the third tier. Additionally, some FA firms pay business allowances for services rendered by companies owned by the representatives or supervisors. A potential conflict of interest may arise as such transactions may not be conducted on an arm’s length basis. MAS has also observed from our supervisory engagements with FA firms that there is currently limited oversight by FA firms to ensure that business allowances are indeed used to defray business costs. Given this, MAS is of the view that clients’ interests are not adequately safeguarded when business allowances are borne by clients as part of distribution costs.
- 2.13. Recognising that the purpose of business allowances is to defray business costs, MAS will exclude business allowances computed based on sales of the representatives from the tier structure requirements subject to the following conditions:
- (a) The business allowances are governed under a framework approved by the FA firm’s Board or Board-level Committee (e.g. risk committee, remuneration committee). The framework should set out a list of or criteria for eligible expenditures and limits on amounts payable. The framework should also be in line with the guiding principles set out in paragraph 2.4; and
 - (b) Representatives’ and supervisors’ statements of accounts on the expenses incurred are subject to annual reviews and the review outcome is reported to the senior management of the FA firm. This is to ensure that there is proper cost management and that the payments made were in line with the framework set by the FA firm’s Board or Board-level Committee.
- 2.14. Business allowances which are administered on a reimbursement basis would not fall within the definition of “overriding benefits” as they are reimbursed based on expenses incurred, and hence not subject to the tier structure requirements.



- 2.15. FA firms can determine the manner with which they wish to pay business allowances to their representatives or supervisors, i.e. the methods described in paragraph 2.13 or 2.14, or a combination of both. To address the potential conflicts of interests, for payments which are made by a FA firm to a person other than its representatives and/or supervisors, the FA firm must ensure that this person is not a connected person¹⁰ of any representative and/or supervisors of the FA firm.
- 2.16. MAS would like to clarify that there is no change in the policy position under the BSC framework. Payments that are tied to sales volume but are made to meet expenses incurred will not be caught as “variable income” under the BSC framework. There should, however, be supporting documentation (e.g. invoices) that such payments are indeed made for expenses. Payments for expenses may be made in advance provided there are supporting documentation that (a) the expense is to be incurred at a later date; and (b) the expense is subsequently incurred. For avoidance of doubt, payments that are tied to sales volume but which are not made for incurred expenses will be caught as “variable income” under the BSC framework.
- 2.17. MAS does not prescribe the specific names of remuneration caught under the definition of “variable income”, given the wide range of remuneration arrangements and terminologies used in the industry. Whether a payment for business allowance will be caught as “variable income” under the BSC framework depends on whether it meets the conditions in paragraph 2.16.

Vested Commissions

- 2.18. Vested commissions are residual commissions that the FA firm continues to pay to representatives who have left (e.g. retired, joined another FA firm) based on sales made by the representatives when they were with the FA firm. Some respondents suggested to allow the payment of vested commissions to continue and be excluded from the tier structure requirements. Respondents were of the view that as vested commissions are contractually agreed payments made to former representatives for their past sales, they do not pose additional cost to consumers as they are funded from the FA firms’ earnings.

¹⁰ A “connected person” in relation to an individual, is as defined in the FAA.



MAS' Response

- 2.19. MAS agrees to exclude vested commissions from the tier structure requirements given that FA firms remain accountable to clients for all investment products advised and sold by their former representatives. As such, MAS will exclude vested commissions paid to former representatives from the tier structure requirements if such payments are governed under a remuneration framework that is approved by the paying FA firm's Board or Board-level Committee (e.g. risk committee, remuneration committee) and consistent with the guiding principles set out in paragraph 2.4.
- 2.20. MAS clarifies that the payment of vested commissions to individuals who are not relevant persons under the Remuneration Regulations, such as retired representatives who are no longer providing financial advisory services or acting as a supervisor, or the estate of representatives who have passed away, are out of scope from the tier structure requirements. Additionally, retirement benefits such as pension funds and retirement schemes which are payable to such individuals are out of scope from the tier structure requirements.
- 2.21. To avoid doubt, direct insurers are reminded to comply with the requirements under MAS Notice 320 (Management of Participating Life Insurance Business) and not charge vested commissions to the participating funds if such an expense is not fair or reasonable to the participating fund.

Joint Sales

- 2.22. Joint sales are conducted jointly by two or more representatives of the same FA firm, with the commissions and overriding benefits shared among the representatives and their respective supervisors. Two respondents shared that representatives with differing expertise or areas of specialisation may collaborate to better serve their clients. As the overriding benefits are shared between the supervisors of the representatives who jointly conducted the sale, the respondents suggested to exempt overriding benefits received from joint sales from the tier structure requirements.



MAS' Response

2.23. MAS recognises that clients may benefit from representatives' collaborative efforts as it could enhance the quality of advice rendered. MAS will exclude overriding benefits arising from joint sales from the tier structure requirements where such payments are in line with guiding principles set out in paragraph 2.4 and subject to proper governance as follows:

- (a) Joint sales are approved by the FA firm's senior management (i.e. CEO, Executive Director or equivalent); or
- (b) Joint sales are governed under a senior management-approved framework which sets out clear accountability and responsibilities for all the representatives and supervisors involved, as well as the FA firm's senior management's role in performing market conduct oversight of joint sales activities.

2.24. MAS also expects FA firms to guard against the abuse of joint sales arrangements, such as sub-agency¹¹ and pooling¹² arrangements. FA firms should institute effective controls to detect and prevent such arrangements. These controls include conducting checks to ascertain the identities of the representatives and/or supervisors present at each financial advisory engagement¹³. Additionally, FA firms should leverage on data analytics to identify trends, anomalies and specific cases for further investigation.

Introducer Fees

2.25. Introducer fees are payments by a FA firm to any party that introduces a prospect or client to the FA firm or its representatives and which relate to the provision of financial advisory services. Several respondents sought clarification on whether introducer fees computed based on representatives' sales commissions fall within the definition of overriding benefits. Two other respondents suggested to exclude introducer fees from the scope of overriding benefits.

¹¹ A sub-agency refers to situations where the financial advisory and sales process is carried out by both a representative and an unregulated individual. Such joint sales arrangement is unacceptable as the representative should not conduct regulated activities with an individual who is not authorised to do so.

¹² Pooling refers to situations where the financial advisory and sales process is only carried out by a representative (Rep A), but recorded as a joint sale with another representative (Rep B) who was not involved in the financial advisory and process. The sale is recorded as a joint sale for improper purposes such as helping Rep B achieve his production targets.

¹³ Such checks can be incorporated into FA firms' call-backs to clients and mystery shopping exercises.



MAS' Response

- 2.26. MAS clarifies that introducers are not part of the tier structure as they are only carrying out introducing activities. As such, introducer fees are not captured within the scope of overriding benefits. FA firms should ensure that introducers are not involved in the provision of any financial advisory service other than to carry out introducing activities as defined under Regulation 31(12) of the Financial Advisers Regulations ("FAR").

Consolidation of Tier Structure Requirements under the FAA and Extension to All Financial Advisers

- 2.27. MAS sought views on consolidating the tier structure requirements under the FAA and extending the requirements under the FAA to all financial advisers, including exempt financial advisers, for consistency across the FA industry.
- 2.28. Majority of respondents agreed with or had no comments on the proposals. Two respondents opined that extending the tier structure requirements to banks may not achieve MAS' objectives of limiting the payment of overriding benefits to a maximum of two supervisors as the compensation structures at banks (i.e. typically a fixed salary and variable bonus based on company and individual performance) are different from those of insurers' tied agencies and licensed financial advisers. Another respondent commented that as a principle, remuneration structures should be left to the discretion of individual FA firms so long as they generate good client outcomes.
- 2.29. Two respondents sought clarification on whether the tier structure requirements will be aligned to the FAR¹⁴ under which exempt financial advisers (such as banks) that deal with accredited, expert or institutional investors are exempt from various remuneration requirements.

¹⁴ Under regulation 34A(1)(d) of the FAR, exempt financial advisers that deal with accredited, expert or institutional investors are exempt from the remuneration requirements in sections 47 and 48 of the FAA.



MAS' Response

- 2.30. MAS will proceed with the proposals to consolidate the tier structure requirements under the FAA and extend the requirements to all financial advisers for consistency across the FA industry. Nevertheless, there should be no impact on financial advisers such as banks, merchant banks, finance companies, insurance brokers and capital markets services licensees, to the extent that they do not operate tier structures and pay overriding benefits.
- 2.31. MAS will not apply the tier structure requirements to exempt FA firms who serve only accredited, institutional and/or expert investors and will make the relevant legislative changes to reflect this position.

Other Clarifications on Tier Structure Requirements

- 2.32. Some respondents sought clarification on whether persons who have managerial responsibility or perform oversight functions at an FA firm (e.g. Business Development Managers, Directors of Agency, Distribution Heads) are considered as supervisors based on the current definition of “supervisor” in the FAA.
- 2.33. One respondent sought clarification on whether corporate staff who receive remuneration that is pegged to sales performance of representatives or bonus payments to corporate staff that take into account sales performance of representatives are caught as overriding benefits. Other respondents suggested that overriding benefits should only be paid to persons who are representatives as such persons are subjected to licensing and competency requirements.
- 2.34. Some respondents also sought clarification on whether overriding benefits could be shared with another person where the latter is not acting as a supervisor. For instance, respondents shared that there could be circumstances where representatives transfer to another supervisor’s team within the same FA firm. Following the transfer, overriding benefits arising from the representatives’ sales are shared between the previous and new supervisor for a period of time. Respondents suggested to allow FA firms to make such payments to the previous supervisor although he/she no longer exercises supervisory responsibilities over the transferred representatives. Respondents were of the view that this would ease the internal transfer, retain the representative at the FA firm, and minimise disruption to clients.



MAS' Response

- 2.35. MAS has issued a circular (Circular No. FAS 08/2024) to clarify who might be considered persons deemed as supervisors under the FAA. As clarified in the circular, the responsibilities of each individual may differ across FA firms. Therefore, the determination of whether an individual is a supervisor will depend on the facts and circumstances of the case, based on the considerations set out in the circular. Ordinarily, CEOs (who perform strategic functions) and individuals in corporate functions (e.g. compliance, human resources, learning and development) are typically not considered supervisors. However, if these individuals perform roles and responsibilities that primarily¹⁵ relate to supervision or management of the conduct and performance of any representative or supervisor, the individual will be deemed as a “supervisor”. Please refer to the circular for a non-exhaustive list of the roles and responsibilities that a typical supervisor may perform.
- 2.36. Corporate staff involved in the management of the distribution channels (e.g. Head of Distribution, Head of Agency), may receive variable remuneration based on representatives’ sales performance and be viewed as a tier even if they are not representatives of FA firm (e.g. where their remuneration includes key performance indicators (“KPIs”) based on sales conducted by representatives). MAS notes that remuneration for such corporate staff generally comprises fixed salary and bonus components and the bonus component is derived from an overall bonus pool at the entity level which is allocated to the respective departments, and further allocated to a staff of a department based on achievement of that individual’s KPIs.
- 2.37. MAS will not apply the tier structure requirements to individuals who are not representatives and who are remunerated under the same remuneration framework as other corporate staff (e.g. staff in finance function) in FA firms. Individuals who meet the following conditions will be excluded from the tier structure requirements:
- (a) The individual is a member of the corporate staff of the FA firm, and not a representative; and
 - (b) The variable remuneration received by the individual is governed by the same remuneration framework as that for other corporate staff of the FA firm, and is determined based on non-sales related and sales-related KPIs.

¹⁵ FA firms will need to assess the activities performed by the individual, and consider if the acts of ‘supervision’ or ‘management’ carried out by the individual are significant or material.



- 2.38. MAS expects FA firms' Board and senior management to exercise strong oversight over the remuneration framework of corporate staff and not design remuneration frameworks that circumvent the tier structure requirements. Examples of possible breaches of the tier structure requirements include having a significant amount of the variable component of a corporate staff's remuneration that mimics overriding benefits; removing persons as representatives and redesignating these persons as corporate staff but allowing them to continue exercising supervision over other representatives and receive overriding benefits; and providing overriding benefits to persons who are supervisors, when these persons are neither representatives nor corporate staff.
- 2.39. The payment of overriding benefits to supervisors should be made in connection with the provision of financial advisory services provided by representatives who are under the supervision of the supervisors. As such, overriding benefits should not be paid to any previous supervisor who no longer has supervisory responsibilities over the transferred representative, where the transferred representative remains at the same tier under the new supervisor. Where the transferred representative is promoted to the next tier, breakaway payments to the previous supervisor are allowed subject to paragraphs 2.8 and 2.9. FA firms should ensure that internal transfers of representatives do not result in disruption of services provided to clients.

Implementation Timeline

Grandfathering provisions

- 2.40. Two respondents asked whether MAS intends to grandfather existing remuneration contracts or arrangements which may not be in line with the proposed tier structure requirements.

MAS' Response

- 2.41. MAS does not intend to grandfather existing remuneration contracts or arrangements. Instead, MAS will provide a transitional period for changes to be made to comply with the proposed tier structure requirements. MAS will seek feedback on the length of the transitional period in the subsequent consultation on legislative amendments. In the interim period before the legislative amendments come into effect, MAS strongly encourages FA firms to implement the tier structure requirements and adjust their remuneration frameworks and practices to be consistent with the requirements.

3. Prohibitions on Direct Payment of Remuneration to Representatives and Supervisors of Other FA Firms, and Acceptance of such Remuneration by the Representatives and Supervisors

- 3.1. MAS proposed that, other than the principal FA firms, persons (such as direct life insurers) should be prohibited from determining, communicating and paying Volume Based Incentives (“VBI”)¹⁶ directly to the representatives of the principal FA firms. MAS also proposed to prohibit representatives from receiving VBI for the sale of life business¹⁷ products directly from any person who is not their principal FA firm. Amendments were also proposed to the Spreading and Capping of Commissions rules in the Remuneration Regulations to prohibit FA firms from making commission payments for the sale of regular premium life policies to the representatives and supervisors of other FA firms.
- 3.2. Respondents had no objections to the proposals. One respondent sought clarification on whether the proposals will apply to FA firms who do not serve retail clients.
- 3.3. Two respondents commented that representatives might not fully disclose the VBI payments that they have received if the VBI were non-monetary (e.g. incentive trips). The respondents suggested that MAS maintain a register of VBI payments or restrict representatives to only act on behalf of one principal i.e. the direct life insurer or the FA firm, to effectively allow only a single source of remuneration.

¹⁶ VBI refers to monetary (e.g. commissions) and non-monetary incentives (e.g. incentive trips, shopping vouchers) offered to the representatives and supervisors for the sale of life business products, where the amount of incentives is determined by the volume of sales achieved by the representatives and supervisors.

¹⁷ Life business means all insurance business concerned with life policies, long-term accident and health policies, or both, as defined under section 3(1)(a) of the Insurance Act 1966.



MAS' Response

- 3.4. MAS will proceed to implement the proposals. While the proposals are applicable to FA firms and representatives serving retail clients, all FA firms are encouraged to apply similar principles for effective oversight of their representatives in ensuring fair dealing outcomes for their clients.
- 3.5. As explained in paragraph 3.1, MAS will also prohibit representatives and supervisors from accepting remuneration from any persons other than their principal FA firms.
- 3.6. MAS expects principal FA firms to have appropriate controls to ensure that their arrangements with representatives and product manufacturers do not contravene the prohibitions. This is regardless of whether the VBI is monetary or non-monetary in nature. Principal FA firms should enter into remuneration arrangements with product manufacturers at the corporate level. This will allow principal FA firms to exercise proper oversight over their representatives' conduct. Where principal FA firms become aware of any non-compliance by their representatives, they should report the matter to MAS. Whether principal FA firms will be held responsible if their representatives receive VBI from other persons depends on the facts and circumstances of each case, which may include steps taken by the FA firms to prevent such and report them when discovered.

Extension of Prohibition to Other Product Manufacturers

- 3.7. MAS sought comments on whether the proposed prohibitions against making direct payment of VBI to representatives and supervisors of other FA firms should be extended to other product manufacturers such as banks and fund managers. No concerns were raised on this MAS' proposal.

MAS' Response

- 3.8. As set out in paragraph 3.1, MAS will proceed to prohibit representatives from receiving VBI for the sale of any investment products directly from product manufacturers who are not their principal FA firms. MAS has observed that aside from direct life insurers, product manufacturers such as banks and fund managers generally do not offer VBI or directly pay VBI to representatives and supervisors of other FA firms. Therefore, MAS does not see the need to legislate the



prohibition with respect to other product manufacturers at this time. Product manufacturers are strongly discouraged from offering or paying VBI directly to representatives and supervisors of other FA firms.

Other Comments

- 3.9. A few respondents sought to clarify the controls that FA firms needed, and whether the prohibitions will apply to outsourcing arrangements where the distribution support function of an FA firm is outsourced to its parent firm.
- 3.10. Two respondents expressed concern that the prohibitions will mean that FA firms will be unable to pay vested commissions¹⁸ to former representatives who had joined other FA firms.

MAS' Response

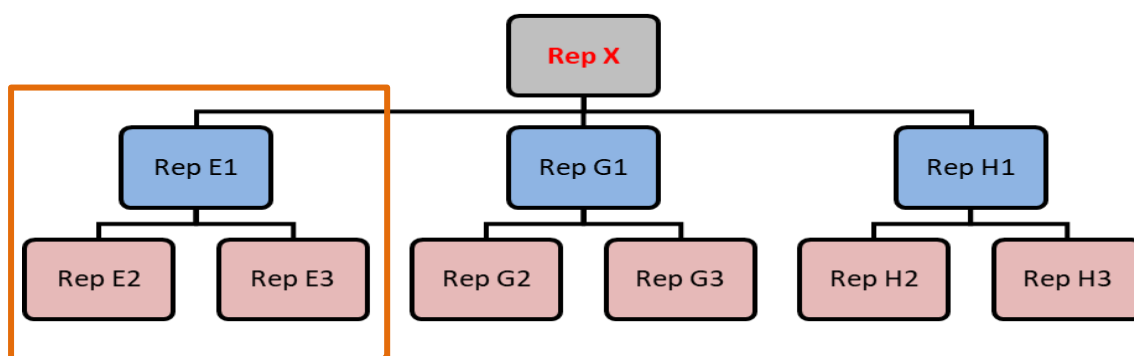
- 3.11. On the outsourcing arrangements between related firms, MAS expects the principal FA firm to be the party that determines the VBI to be paid to its representatives. Where the principal FA firm remains fully responsible to determine its representatives' remuneration, and the related firm only performs an operational role, the direct payment of remuneration by the related firm to the principal FA firm's representatives is not prohibited.
- 3.12. As set out in paragraph 2.19, MAS will allow FA firms to pay vested commissions to former representatives. The representatives concerned should declare the vested commissions that they receive from their previous FA firm to the new principal FA firm.

¹⁸ Vested commissions referred here are as defined under paragraph 2.18.

Annex A

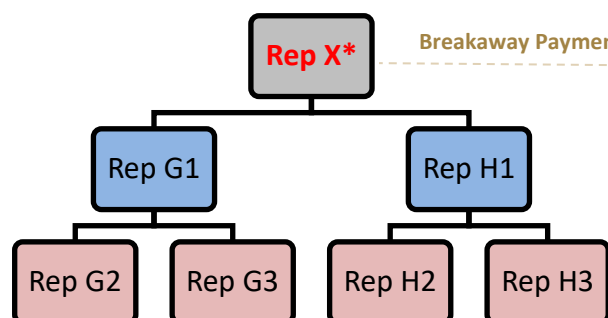
Before promoting Second Tier ("Rep E1") to Third Tier

Agency unit[^] supervised by Rep X

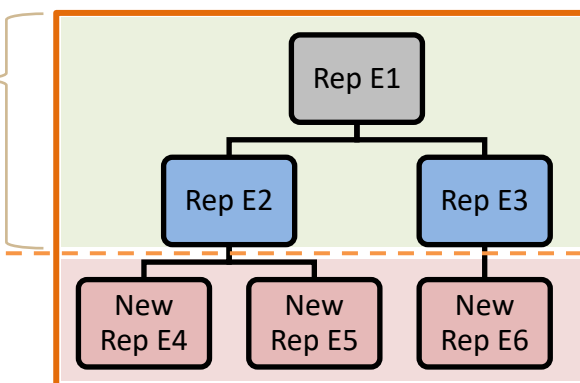


After promoting Rep E1 to Third Tier

Agency unit supervised by Rep X



New agency unit supervised by Rep E1



[^] An agency unit refers to either a unit comprising a Third Tier and his/her lower-tier representatives or a Second Tier and his/her lower-tier representatives. For example, before the promotion of Rep E1 to Third Tier, the agency unit supervised by Rep X includes Rep X, the Second Tier (E1, G1, H1) and their corresponding First Tier (e.g. Rep E2 and E3 under E1).

* Rep X may receive breakaway payments subject to conditions in paragraphs 2.8 and 2.9 computed based on the sale of investment products closed by Rep E1, E2 and E3 in the new agency unit **but not** by new reps (i.e. New Rep E4, E5 and E6) who joined the new agency unit after the occurrence of the breakaway.



Annex B

List of Respondents to the Consultation Paper on Proposals to Refine the Tier Structure Requirements and Introduce New Requirements Relating to Remuneration

1. AAM Advisory Pte Ltd
2. AIA Singapore Pte Ltd
3. Bank of China Limited, Singapore Branch
4. Ex FC
5. FWD Singapore Pte Ltd
6. IFPAS Alliance STAR Team
7. IPP Financial Advisers Pte Ltd, which requested for confidentiality of submission
8. Life Insurance Association
9. Lymon Pte Ltd
10. Manulife (Singapore) Pte Ltd
11. Maybank Singapore Limited, which requested for confidentiality of submission
12. NTUC Income Insurance Co-operative Limited
13. Standard Chartered Bank (Singapore) Limited, which requested for confidentiality of submission
14. The Association of Financial Advisers



15. Tokio Marine Life Insurance Singapore Ltd

Note: 15 respondents requested that their identity be kept confidential.

Please refer to Annex C for the submissions.

Annex C

Submissions from Respondents to the Consultation Paper on Proposals to Refine the Tier Structure Requirements and Introduce New Requirements Relating to Remuneration

Note: Only submissions for which respondents did not request that their responses be kept confidential have been included.

S/N	Respondent	Responses from Respondent
1	AAM Advisory Pte Ltd	Question 1: No comments. Question 2: No comments. Question 3: Should VBI be received from other FA firms, will the principal FA firm be responsible if there are any breaches of this requirement? Are FA firms required to put in place controls to monitor this? Question 4: With regards to paragraph 3.3 and 3.4, to clarify if the restriction is about direct payments to reps and supervisors (i.e. If payments were made at firm level and the disbursement to reps are via the principal FA firm, then it should be allowed?). For paragraph 3.7, would this include FARs that have left the principal firm and joined another firm but still have monies owed to them? General comments: No comments.
2	AIA Singapore Pte Ltd	Question 1: <u>Definition of Supervisor and Scope of Overriding Benefit</u> 1. We note that the definition of supervisor captures any person who is responsible, whether directly or indirectly, for the supervision or management of the conduct and performance of any representative of the FA or another supervisor. Given the breadth of this definition, corporate

S/N	Respondent	Responses from Respondent
		staff outside the 3 tiers (e.g. BDMs) are at risk of being caught within such broad definition by virtue of the fact that their job scope involves some degree of oversight or management of representatives. 2. The compensation structure of these corporate staff (who are involved in the management of the sales channel) is typically pegged to the sales performance. Such compensation could fall within “overriding benefits” in paragraph 2.7 of the CP which is defined as: “any remuneration payable to a person other than the representative who provided the financial advisory services, [...] where that person’s entitlement to that remuneration...is determined by reference to one or more of the following factors, whether or not together with other factors: [...] (c) the total amount of remuneration payable to one or more representatives by the FA firm in connection with any financial advisory services provided; and (d) the total amount of premiums payable in respect of all life policies purchased by the FA firm’s clients...” In view that Para 2.6 of the CP provides that “overriding benefits” is only permitted to be paid to the Second and Third Tier, we ask MAS to clarify if such compensation to corporate staff may continue to be paid without infringing the Tier restrictions; and/or clarify the definition of “overriding benefits”. Such compensation structure is critical in driving better sales performance and aligned with the company’s strategy. 3. There are also persons who have overall oversight of the enterprise or are responsible for policies which have a bearing on conduct and performance of supervisors / representatives (eg. Board of Directors or CEOs). Such persons may receive compensation which is derived from the provision of FA service or sale of investment product by representatives (eg. CEO). We wish to confirm that notwithstanding that such personnel may fall within the definition of “supervisors”, they will be excluded from the scope of the three-tier structure. 4. We note that it is common practice where the annual bonus of an FI’s employees/staff are pegged to the company meeting certain sales targets (e.g. percentage based on value of new business). As highlighted in above paragraph 1 the proposed definition of “overriding benefit” and restriction to limit payment of overriding benefits to Tier 2 and Tier 3 may inadvertently result in payment of such staff bonus being caught as an “overriding benefit” being paid to a deemed “tier” which we submit cannot be the legislative intent. <u>Breakaway Payments</u>

S/N	Respondent	Responses from Respondent
		5. We would like to propose for MAS to consider allowing “breakaway payments” to be excluded from the three-tier remuneration structure. Such payment should not be viewed as an additional tier as it is only triggered when there is a promotion to either Tier 2 or Tier 3 and these payments are only paid over a finite duration where the entitled pay-out rate will diminish over time. We are of the view that an element based on future sales is a critical component of the compensation structure in driving promotion and recruitment efforts and for agency leaders to continue grooming new talents to be agency leaders. If the payments are restricted to be formulated based on past performance, this may have an adverse impact on the dynamics of promotion and recruitment as it may encourage the behaviour of holding back promotions. 6. Similar to breakaway payments, production credits recognition is credited to previous supervisors of representatives, when these representatives are promoted to the next tier. Such production credits will count towards the agency leader's eligibility in meeting the qualifying criteria for Top Awards, club recognition, convention, Agency Share Purchase Programme and contract maintenance. In the same vein, we are of the view that the crediting of production credits should not be deemed to be an additional tier as it is only triggered when there is a promotion to either Tier 2 or Tier 3 and these entitlement is only credited over a finite duration where the entitled credits will diminish over time. <u>Retirement Benefit Scheme</u> 7. Under the retirement benefit scheme, retired Tier 3 supervisors will be entitled to compensation based on a percentage of new business incepted by the transferred agents under the new receiving Tier 3 supervisor. The retired Tier 3 supervisor will also be entitled to renewal compensation based on the old block of business prior to retirement when he was still a Tier 3 supervisor. Effectively, the retired Tier 3 supervisor will no longer be exercising supervisory oversight on the transferred agents. We would propose for MAS to consider excluding such payments from the three-tier remuneration structure with the following rationale: i. The retiring Tier 3 supervisor will only be entitled to such payment for a finite duration after the retirement. ii. There is no additional cost to the consumer or the company as the overriding benefit will be paid based on the usual commission rates, except that these payments will be apportioned between the receiving Tier 3 supervisor and the retired Tier 3 supervisor. iii. Such payments ensure the continuation of business which minimises the potential impact to the customers in relation to succession planning. iv. The company is only facilitating the payment between the retired Tier 3 supervisor and the receiving Tier 3 supervisor. As such, the company should not be seen as being part of the arrangement.

S/N	Respondent	Responses from Respondent
		Business Allowance ("BA") 8. BA that are paid to Tier 3 supervisors for agency office rentals is computed as a percentage of FYP from sales of representatives within a group. Such BA is typically paid to only one selected Tier 3 supervisor, but the FYP validation is on the whole group, which may comprise of other Tier 3 supervisors. The selected Tier 3 supervisor may be seen to be receiving overriding benefits (as BA is computed based on FYP) for business brought in by representatives/supervisors that are not under his/her supervision. We would like to propose for MAS to consider excluding the payment of such BA to be out-of-scope of the three-tier structure. Instead of apportioning the payment to multiple Tier 3 supervisors for the use of the shared office space, it is more efficient to process the payment for a selected Tier 3 supervisor. Furthermore, as production is not double counted in the formulation of the BA, such payments to the selected Tier 3 supervisor do not increase cost. We understand that there are concerns that the BA in excess of the rental expenses may be construed as payment of overriding benefits beyond the 3 Tiers. We are prepared to discuss with MAS to set the boundary and guidelines on the payment of BA. Additionally, we would also like to seek clarification if such payments are subjected to the Balanced Scorecard Framework and the Spreading and Capping of Commission rules. On a plain reading, BA could fall within "variable income" as defined in FAA-N20 and the FA (Remuneration) Regulations respectively, our understanding has been that BA payments are intended to be out of scope and wish to confirm this. Question 2: Yes, for consistency across the FA industry, any firm that operates a tier structure should be subject to the same rules. Question 3: Yes, the same rule should apply consistently across all types of FA firms for level playing field. Direct influence from the product manufacturers will also be reduced, resulting in a more neutral financial advisory service, which would in turn benefit the consumers. This is also aligned with the policy intent to allow FA firms to exercise effective oversight of their own representatives and supervisors by having a complete view of the remuneration, which should not be restricted to remuneration received from direct life insurers. Question 4:

S/N	Respondent	Responses from Respondent
		We do not envisage that AIAS will face any practical challenges in relation to implementation of proposals at para 3.3, 3.4 and 3.7. Paras 3.3 and 3.4 have already been implemented by life insurers via LIA MU 76/20 “Payment of Incentives to Financial Advisory Firms by Insurers”, which took effect from 1 Feb 2020. AIAS also does not currently make direct commission payments to representatives and supervisors of other FA firms, including AIAFA. General comments: No comments.
3	Bank of China Limited, Singapore Branch	Question 1: Noted the proposal for any direct life insurer or FA firm which operates a tier structure to adhere to the definition, computation and provision requirement of the term “overriding benefits”. Retail Banks in general do not operate the tier structure that is adopted by the direct life insurers or FA Firms. The remuneration derived from the sale of any investment/insurance product is being paid to the bank, and not directly to our FA representatives. Our FA Supervisors also do not receive any overriding benefits that is defined as the remuneration which is computed based on the provision of any financial advisory service, or the sale of any investment/insurance product following the provision of any financial advisory service by the representatives. Question 2: The proposed tier structure requirements are meant to limit the payment of overriding benefits to a maximum of two supervisors. As an exempt financial adviser, there is no impact to the extent that we do not pay overriding benefits. As such, imposing the tier structure requirement in banks might not achieve its purported objectives, but is rather likely to disrupt the bank’s current organisation structure. Question 3: Banks in general have direct oversight and control over the remuneration that their FA representatives and FA supervisors receive. Prohibiting the direct payment of VBI will legally prevent any form of remuneration payment to unauthorized persons. Question 4: Since June 2020, direct life insurers are prohibited from determining, communicating and making VBI payments directly to representatives of FA firms. The Bank is the party that communicates the VBI campaign and qualifying criteria to its representatives. We have also established relevant additional criteria that considers the conduct and compliance track record of our representatives in determining the amount of VBI that should be paid to them. Where VBI campaigns involve several sponsors, the coordination,



S/N	Respondent	Responses from Respondent
		time and logistics incurred are the usual challenges for this implementation, however this allows us to have better oversight and control over the campaigns and our representatives. General comments: No comments.
4	Ex FC	Question 1: Would urge MAS to consider banning overriding benefits, even if banning commissions is not considered as a viable option. Many advanced countries have banned commissions, and require financial consultants to be paid by consumers directly. This better align the interest of financial consultants, and avoid product pushing, which is a prevalent issue in FA industry in Singapore and gives the industry a bad reputation. Question 2: As above, MAS prescribing the tier structure is in fact legitimating multi-level marketing for the financial industry, when this is already banned for non-financial services industry. Why is the financial services industry so special to deserve MLM, where regulator is in fact allowing Tier 2 and Tier 3 to cream off moneys, which ultimately will be borne by consumers? Question 3: Agree for level playing field. Question 4: No comments. General comments: Many insurers allow the practice of “parking of representatives”, where a Tier 2 (A) with maximum number of representatives (based on LIA Guidelines of 1:10:15) will “park” his representatives with another Tier 2 (B). B will be paid by A for allowing the representatives to be “parked” under his care. B will not be conducting any supervisory duties, beyond rubber stamping all the application forms. Is MAS allowing this practice, since it is not prohibited in the consultation?
5	FWD Singapore Pte Ltd	Question 1: No comment. We pay commissions to FA firms (calculated as a % of APE). We do not determine the split between their sales force (eg, representatives, managers, or directors). Question 2: No impact to FWD. Question 3:

S/N	Respondent	Responses from Respondent
		We are already operating under the payment of VBI to FA firms: direct life insurers may still pay VBI to FA firms under a business-to-business arrangement. As long as this is maintained, we do not see any issues. Question 4: No issues for FWD. General comments: No comments.
6	IFPAS Alliance STAR Team	Question 1: We have no objection to the proposed refinements as stated in paragraphs 2.5 to 2.9 except for our strong objection to payments of Overriding benefits to persons without RNF. The fundamental premise of the total compensation under the 3-tier structure is that payees licensed with RNF codes are subjected to mandatory annual Continuing Professional Development (CPD) exams and hours requirements, besides the stringent control and the need to pass tests of their respective company's products before they are permitted to do sales or conduct supervisory tasks. There must be no exceptions. As such, we do not agree to the appointment of consultants, with or without supervisory responsibilities, and for them to receive volume-based remuneration. Furthermore, we maintain that incentives for recruitment and other objectives must not be part of the total compensation for the 3-tier structure as these incentives are geared towards the direct benefits (growth and sustainability) of the companies. These incentives must be funded by the FA firms or their shareholders. For FA firms that deviate from the above, through circumvention, they must be punished financially instead of subjecting the rest of the industry to even more stringent rules. Question 2: Yes. There should be a level playing field across the industry. Thus, all FA firms which operate a tier structure must have the tier structure requirements apply to them too. Question 3: In the interest of accountability, transparency and consistency across the whole industry, the proposed prohibition must apply to all FA firms.

S/N	Respondent	Responses from Respondent
		Question 4: To abolish the buyout payments is to disregard business costs invested by the leaders in the recruitment, talent scouting, nurturing and grooming of Tier 2 and Tier 3 leaders. The total cost of which is solely borne by these leaders and not the FA firm, as the representative is not hired or paid by the FA firm and then given free-of-charge to the leader. It is vital to note that this is a business investment with risks, where failures often outweigh the success rate. One of the key reasons for the high insurance penetration rate in Singapore, resulting in greater financial security for the residents to cover the contingencies of death, disability, critical illnesses, hospitalization, accidents, etc. is due largely to a successful distribution system built by competent leaders over many years. Following the issuance of MAS 306 Notice, a successful business model emerged, proven and acknowledged by MAS that allows for reasonable growth and fair compensation. It recognises the effort and resources invested in developing raw talents to realise their full potential. Thus, we cannot quite fathom the reason why a well-tested successful business model approved by MAS for so many years should be dismantled. When MAS 306 was enforced, 1. Tier 2 leader and Tier 1 leader share remuneration for a limited period following the promotion of the Tier 1 leader and 2. Tier 3 leader and Tier 2 leader share remuneration for a limited period following the promotion of the Tier 2 leader to Tier 3 If this practice has not been illegal or improper then, why is it now proposed to be abolished? As this sharing of remuneration is not permanent, it should not be treated as a tier. If the buyout compensation is removed, there remains no incentive for anyone to recruit or groom the next generation of practitioners and leaders. Over time, the ultimate victims will be the population (consumers) in Singapore, who will not be well served by sales professionals. Consequently, the insurance coverage in Singapore will decline and the ones to bear the social liabilities would be the government and tax-payers. The direct sales channel is unlikely to replace the high-touch human distribution system, at least not in the foreseeable future, which is the case not just here in Singapore but globally too.

S/N	Respondent	Responses from Respondent
		In some ways, the Span of Control, introduced in 2010 that restricts the number of agents in a team, has caused and led to this rapid breakaway. The directive inevitably creates a situation where teams that are working well collectively, are left with no choice but be compelled to breakaway. Thus forcing emerging team/s from an existing unit. And if there is no compensation or business buyout, then it is an unfair business model. A double whammy for the leader of the team. The buyout payment, be it at Tier 2 or Tier 3, is only an occasional phenomenon to reward or compensate the time, efforts and financial inputs a leader invests to mentor and groom the younger leader that leads to the latter's promotion. It is not a regular or permanent form of payment. It is done only upon the event of an occasional promotion that may possibly happen only after a number of years of hard work and calculated investment by the senior leader. If and when this happens, the buy-out compensation will only last for a limited period of time. Thus, it must not be deemed as a Tier pay-out but rather a compensation or business buy-out to the leader for some of the potential losses from the future business that will be generated by the emerging leader whom he has groomed. This is commonly practised in commercial business acquisitions and mergers. We do not agree to the abolishment of buy-out compensation. General comments: The scenarios illustrated in the consultation paper are but a few. There can be other possibilities and any proposal to address the consequential practical challenges can be overwhelming.
7	Life Insurance Association	Question 1: Please see response under "General comments". Question 2: Please see response under "General comments". Question 3: Please see response under "General comments". Question 4: Please see response under "General comments". General comments: We refer to MAS's proposal and as an industry we welcome the proposed refinements to improve or enhance practices relating to tier structure

S/N	Respondent	Responses from Respondent
		requirements such that no unnecessary layer of cost is passed on to the end-consumer. However, as an industry we also wish to highlight three areas we strongly believe an opportunity for discussion with MAS would be constructive: - Breakaway payments - Remuneration to corporate staff pegged to sales or profitability factors - Business/ office space allowance A. <u>Breakaway payments</u> We would like MAS to consider allowing “breakaway payments”, which are remuneration paid to previous supervisors of representatives, when these representatives are promoted to the next tier, to be excluded from the three-tier remuneration structure. <i>Rationale</i> - Breakaway payments are in place to recognise the efforts of agency leaders in grooming new talents to be agency leaders, and as a means to compensate for an abrupt loss of income upon breakaway and the subsequent need to rebuild the team. This compensation item is a critical component of insurers’ agency compensation structure, designed to drive both promotions and recruitment. - Although this compensation item may be structured differently by different insurers, it usually includes elements based on past and future sales volume. Our reading of the Consultation Paper is that breakaway payment is not disallowed if based on past sales volume of the then prevailing three-tier hierarchy. However, we are of the view that an element based on future sales remains critical for the agency leader to be able to enjoy the results of his grooming efforts of the breakaway team. - These payments to the previous supervisor should not be viewed as an additional tier as it is only triggered when there is a promotion to either Tier 2 or Tier 3 and payments are paid over a finite period and not in perpetuity. To contain the cost, we are open to discussion on prescribed boundaries to be set for this compensation item. B. <u>Remuneration to corporate staff pegged to sales or profitability factors</u> We seek MAS’s clarification, that such remuneration is out of scope of the three-tier remuneration structure. <i>Rationale</i>

S/N	Respondent	Responses from Respondent
		- We note that it is common practice for corporate staff (especially in a sales/distribution role) to be remunerated with bonuses of which sales or profitability will form one of the prescribed KPIs. However, actual bonuses paid are not based directly on a percentage of sales volume and therefore we are of the view that it should not be considered to be an additional tier of remuneration. - We also seek MAS's clarification on a separate but related issue. Would corporate staff who are in business development roles (e.g., BDM, Agency head, Distribution head) be considered to be "Supervisors", and if so, be caught? If so, then their bonuses would be subject to SCC and BSC requirements. C. <u>Business/ office space allowance</u> We seek MAS's clarification, that such remuneration is out of scope of the three-tier remuneration structure. <i>Rationale</i> - We note that it is common practice for the corporate to remunerate agency force for office space and related agency operation expenses, and this may be expressed as a percentage of sales volume of the agency group or sales volume may be one of the factors used to determine this payout. Our reading of the Consultation Paper is that the payment is allowed as long as it is made to either a Tier 2 or Tier 3 agency leader within the three-tier structure. However, we may have situations where a few Tier 3 agency leaders combine resources and payment is then made to a third party or a Tier 3 agency leader for ease of administration. We would like to confirm that this continues to be allowed and is viewed purely as a form of payment administration. - We request for such payments to be allowed to continue until we receive a clear direction from MAS. We also request for a grace period of nine to 12 months to allow insurers to unwind any current arrangements and align future arrangements with the refined requirements. We look forward to a favourable consideration of industry's feedback, and would be happy to discuss further or respond to any queries MAS may have. Thank you.
8	Lymon Pte Ltd	Question 1: We agree with the proposals set out in paragraphs 2.5 to 2.9.

S/N	Respondent	Responses from Respondent
		Question 2: We agree, however, we suggest excluding firms that do not serve retail customers. Question 3: We agree that the prohibition against direct payment of VBI to representatives and supervisors of other FA firms should similarly be extended to other product manufacturers, to ensure the principal FA firm is able to exercise effective oversight over their representatives and supervisors. However, we suggest excluding firms that do not serve retail customers. Question 4: There are indeed practical challenges in implementing the proposals set out in paragraphs 3.3, 3.4 and 3.7. The biggest challenge would be to ensure that the records from all 3 parties (i.e., the direct life insurer, the FA firm and representatives) are consistent. We are of the view that it is difficult for MAS to enforce compliance on all 3 parties with regard to implementing VBI and SCC. This is mainly attributed to the fact that representatives may not fully disclose their commissions/ payments received to the Authority. A common example of this scenario occurring would be that a representative accepts commissions/ payment from both the direct life insurer and FA firm. Hence, we are of the view that all 3 parties should maintain a mandatory register with the Authority in relation to commissions/ payments and have it updated periodically. This is to inform the Authority that commissions/ payments are made directly by the FA firm to the representatives instead of from the direct life insurers. This is to ensure proper reconciliation and checks and balances among all 3 parties. We would also propose another solution to mitigate the above challenge. We are of the view that MAS should only allow representatives to be acting on behalf of only 1 principal (i.e. the direct life insurer OR FA firm). This will effectively allow only one source of remuneration for the representatives. Hence, this would be in line with MAS's intention to have better oversight and control over their representatives. General comments: No comments.

9	Manulife (Singapore) Pte Ltd	Question 1: The proposed clarification on “overriding benefits” at Paragraph 2.7 has a wide effect as this appears to include the variable incentive programmes for employees, and more specifically, those in business development roles. <u>Employees</u> Full time corporate staff typically have a variable bonus component as part of their total compensation packages to award them for the work performed in a prior financial year of the company. In general, such variable bonuses are typically paid out according to an employee’s performance appraisal and the company’s financial performance. The computation of variable bonus payable will take into consideration the company’s core earnings, new business value and other non-sales KPIs. It is not immediately clear if the proposed definition of “overriding benefits” encompasses such variable bonuses paid to employees. We are of the view that such variable bonuses payable to employees are not overriding benefits because the sales KPI component references core earnings and new business value which are reflective of the company’s overall profitability and financial performance. Such sales KPIs should be differentiated from the reference to APE which would have a direct correlation to the sales of investment products by representatives. We urge MAS to clarify that the payment of such variable bonuses to employees is beyond the scope of the proposed legislative changes to curb remuneration outside the three-tier representative structure. We propose that MAS excludes such variable bonuses that are paid to employees from the definition of “overriding benefits” at Paragraph 2.7. <u>Business Development Managers (BDMs)</u> In a business set up of a direct life insurers and financial adviser firms, it is common to appoint employees as BDMs to function as the FIs’ primary liaison points for the distribution channel(s) or agency branches that they support. BDMs are on fixed salaries with bonus programmes assessing both sales KPIs that relate to the sales performance (usually measured in new business value and annual premium value) of the distribution channel(s) or agency branches that they support, and non-sales KPIs that cover individual leadership ability and other aspects. BDMs primarily support the business growth of the channel(s), ensure that changes or initiatives implemented by the company are effectively rolled out to the channel(s), and communicate the company’s requirements (new business and underwriting, AML/KYC, etc) to the channel(s). As with the variable bonuses that are paid to employees in other functions, we propose that MAS permits insurers and FA firms the flexibility to use sales performance of the distribution channel(s) corresponding to the
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		BDMs' responsibilities as one of the factors in determining BDMs' variable bonuses. The variable bonuses payable to BDMs are determined by the sales performance of the relevant distribution channel(s) or agency branches they support (referencing new business value and core earnings) and other non-sales KPIs (which form part of the performance appraisal of the employees in other functions). <u>Buyout arrangements</u> The Consultation Paper seeks to prohibit buyout arrangements. We would like to highlight the importance of such buyout arrangements as they provide career advancement for representatives. Supervisors play an important role in the growth of their agencies (both recruitment of new representatives and business performance). They would have invested much cost, time and effort to coach and develop their representatives. When a representative (R1) is promoted from a Second Tier to a Third Tier, R1 will spin off from his/her supervisor (S1) and form his/her new agency. This will result in S1 losing the potential overriding benefits which S1 would be entitled to had R1 remained in S1's agency. The buyout arrangement aims to partly compensate S1 for the loss in potential income. In the absence of such buyout arrangement, it would deter the supervisor from devoting time and effort to groom his/her representatives and promoting them to the next tier. This will eventually hinder the growth of agency in the insurance industry. We therefore propose that MAS allows buyout arrangements but to limit the payment of buyout benefits to an acceptable number of years as this arrangement helps to drive the growth of the agency. We also propose MAS to allow existing buyout arrangements to be grandfathered. <u>Introducer arrangements</u> Prospecting for clients is an essential part of a financial adviser's business. The use of introducers by financial advisers to generate business leads would allow financial advisers to spend less time prospecting for clients. This will enable financial advisers to focus their resources on providing higher value-added financial advisory services to clients. Types of remuneration payment to introducers by financial advisers vary across different business arrangements and market segments. This may include (1) fixed fee, or (2) remuneration determined by reference to remuneration payable to representatives or premium size of life policies. This is usually a percentage or cut of the remuneration received by the representative and not any additional remuneration paid by the client or FA firm.
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S/N	Respondent	Responses from Respondent
		The intent of MAS is to regulate remuneration practices or tier structures within the FA firms and to avoid any payment of overriding benefits to a fourth tier. The introducer is a contracted party providing a service. The introducer does not have any supervisory function, control of the activities of the representative/agency or any other relationship with the representative/agency. The introducer framework is also already governed and entrenched by strict regulation and control. We therefore propose that MAS excludes remuneration payment to introducers from the definition of “overriding benefits”, and continues to allow FA firms the flexibility to determine how an introducer should be remunerated as this is a commercial matter between a FA firm and the introducer it appoints. Question 2: We believe that the proposed changes should extend to the FA industry to ensure a level playing field as banks and brokers adopt similar remuneration structures. Question 3: We are supportive of extending the prohibition to other product manufacturers. Question 4: Related FA firms may enter into outsourcing arrangements with their parent life insurers to perform various services. Such services may include office management support, market conduct review, agency recruitment, distribution services (such as commission computation and system support) and human resource support. We propose that MAS permits the parent companies of FA firms to communicate and pay VBI directly to the representatives of the related FA firms pursuant to such outsourcing arrangements. The FA firms will remain accountable for the outsourcing arrangements, that is, the distribution of VBI from their parent companies to the representatives of the related FA firm will be subject to review and approval by the related FA firms. General comments: The proposed legislative change may impact existing contractual arrangements that FIs have with individual representatives. FIs will need adequate transition period to implement relevant changes.

S/N	Respondent	Responses from Respondent
10	NTUC Income Insurance Co-operative Limited	Question 1: We noted in Annex B that over-riding benefits payable to the former Tier 3 when their tier 2 is promoted to Tier 3 should not be allowed. We like to seek clarification if the source of funds matters. If the payment is from shareholder's funds instead of the insurance funds, will this still be allowed? In addition, would performance bonus that is based on the % of target achieved be considered as "over-riding benefits?" We do have staff who are benchmarked with a target but are not responsible for supervising the lower tier in their financial advisory and sales activities (e.g. Director of Agencies & Business Development Manager)." Question 2: No comments. Question 3: No comments. Question 4: No comments. General comments: No comments.
11	The Association of Financial Advisers	Question 1: Please see response under "General comments". Question 2: Please see response under "General comments". Question 3: Please see response under "General comments". Question 4: Please see response under "General comments". General comments: SECTION A We, AFAS, thank MAS for this opportunity to share with MAS our concerns and suggestions, and trust that MAS will incorporate them into policy planning as MAS moves forward with the proposals in the Consultation Paper. AFAS stands with MAS in its intent to:

S/N	Respondent	Responses from Respondent
		1. Align the interests of FA industry practitioners with those of their clients; 2. Promote good sales conduct in the FA industry; and 3. Allow LFAs to have direct oversight and control over the remuneration that their Financial Adviser FARs (“FARs”) and supervisors receive from selling regular premium life policies of other insurers. We also seek to minimize disruption to the pro-client processes/arrangements that are already in place and working well for clients and practitioners. The said arrangements will be presented in this order: A. Lateral Collaboration – Joint Field Work; Joint Manager (Partnership) Model B. Vesting – Servicing Continuation; Retirement of the FAR; Death of the FAR C. Interpersonal Conflict Resolution D. Spin-off (or Breakaway) Arrangements E. Introducers – Introducing New Client Leads; Introducing New FARs to Join the LFA The way they are administered vary among the LFAs, but the objectives are generally similar. <u>A. LATERAL COLLABORATION</u> <i>1. Situation</i> Unlike tied agents, LFAs are able to implement a much wider variety of products to meet client needs. Given the wider variety, and some FARs’ preference to specialise in one particular area (such as life insurance over investments, or vice versa), LFAs have the advantage of grooming experts who excel in different business lines, thus creating a pool of FARs that are not “homogenous” the way an insurer’s pool of tied agents are. The mix of expertise enables the LFAs to serve clients more comprehensively and meaningfully, and also makes collaboration between FARs within the same Tier necessary. <i>1A. Joint Field Work</i> Joint Field Work (“JFW”) is where FARs with differing levels of competence or FARs with expertise/competence in different areas (e.g., life insurance and collective investment schemes) work together to table a more fitting solution to a client with more complex needs. JFW is a common practice among LFAs. <i>Illustration</i> FAR A & FAR B collaborate in JFW to close a case and split the commissions. • If they are from the same group, then the overriding benefit goes to their FA Manager as per normal.

S/N	Respondent	Responses from Respondent
		If they are from different groups, then the overriding benefit is split between FAR A's and FAR B's respective FA Managers proportionately. <i>Rationale</i> Unlike the FARs of a direct insurer (who are only permitted to distribute the products of that direct insurer), the FARs of an LFA have access to a much wider range of business lines and products in terms of the number of insurers as well as in terms of manufacturers of financial products other than life insurance. An LFA FAR may not have the expertise in a certain business line and may thus require assistance from another FAR to jointly provide the client with the solution the client is looking for, which may be far more comprehensive than the solution that one FAR is experienced enough to provide. Thus, JFW empowers the LFA to offer a more holistic, comprehensive and complete service to the client than had the FAR served the client on his own (even with his supervisor's guidance). Hence, a JFW client's needs are better served, his experience and satisfaction more complete, and he has the distinct advantage over a direct insurer's FAR's client by being reassured that all elements of his financial plan are properly evaluated and proposed by suitably competent FARs. On a related note, JFW also enables a more experienced FAR to pass on hands-on knowledge to a less-experienced FAR, resulting in creating more competent FARs in the market. 1B. Joint Manager (Partnership) Model Similar to the JFW model is the Joint Manager Model, which encourages partnership collaboration between two FA Managers. Instead of having a single manager, which is very demanding on the manager if the business is wide-ranging (insurance, investment, etc.), two or more managers are permitted to partner with each other. <i>Illustration</i> FA Manager A and FA Manager B jointly manage Group A. Overriding for the group is split between FA Manager A and FA Manager B. The overriding terms may differ for each manager based on their experience and effectiveness but the total compensation cost to the firm for each product or service remains the same.

	2. Anticipated effect of MAS' Proposal If a "Tier" is not permitted to constitute more than one individual, it will not be possible for FARs to participate in JFW as the second FAR who contributes his professional expertise to benefit the first FAR's client would not be allowed to receive compensation for it. Clients with more complex needs which would be better-served via JFW will lose out from getting the better-fitting solution he deserves. 3. Proposal - We seek MAS' confirmation and clarification that that having "3-tiers" does not mean that only a maximum of 3 individuals (one from each tier) can be paid from the LFA's commission revenue. - Allow LFAs a more flexible compensation model to fairly remunerate FARs who cooperate amicably in JFW instead of prescribing the rigid 3-tier model as the only compensation model. Since meeting the client's needs is a joint effort, it is only reasonable that the relevant FARs involved are compensated for their professional input. - We believe this practice is compliant with the existing 3-tier framework and seek MAS' confirmation that it is so. However, should MAS have a contrary stand, we nevertheless strongly urge MAS to allow the LFAs to retain this pro-client arrangement by allowing JFW FARs and their Managers to be fairly compensated for their effort. Although an insurer can only book the business under one FAR, this administrative constraint should not be cited to restrict recognition for the JFW FAR. As long as the LFA has the internal controls to enable it, and the JFW FARs are acting within the boundaries of their licenses, JFW is a pro-client arrangement that should not be discontinued. <u>B. VESTING</u> 1. Situation There are instances when <u>subsequent</u> commissions are paid to a FAR or a Manager who is not involved in servicing the client from which the commissions arise, and may even be paid to a FAR who has left the LFA. Such scenarios include: - Servicing Continuation - Retirement of the FAR - Death of the FAR These arrangements are necessary by the LFAs to recruit, manage and control their FARs and ensure the clients' interests are protected.
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S/N	Respondent	Responses from Respondent
		Moreover, they do not add to the LFA's cost, and they are funded by the commissions the Firm receives. 1A. Servicing Continuation Vesting is a contractual arrangement that allows for the payment of ongoing/renewal commission to the departing FAR when they transfer the servicing of their existing clients to another FAR in the same LFA, or when the departing FAR joins another LFA and transfer the servicing rights to the new LFA. In other words, vesting allows FARs to move between LFAs without sacrificing their renewal commissions. Most LFAs in the market have some form of vesting and retirement benefits in their existing FAR agreements. <i>Illustration</i> When FAR A joins another LFA, he is able to transfer the servicing rights of existing policies to his new LFA and still enjoy commission. The overriding is retained in his previous LFA. <i>Rationale</i> - Vesting ensures that the clients continue to be taken care of. - When a FAR leaves the firm, the vesting rights enable him to receive the commissions. The former FA Manager continues to enjoy the remaining overriding even though his FAR has left the firm. This arrangement payment pertains to cases which have already been sold. - The presence of vesting and retirement benefits also serves an important factor for FARs in their consideration to join the industry as they would want to build their retirement fund. Moreover, one of the incentives for a person to join an LFA and to stay longer is the enjoyment of ownership over future commissions, especially for life insurance products. 1B. Retirement of the FAR Subject to the final approval from the LFA, in the event that a FAR decides to retire from the LFA and industry entirely, he/she can opt to: - Recruit a new FAR into the LFA and transfer the entire portfolio of business to the new FAR. - Appoint an existing FAR to take over the entire portfolio of business. - Appoint an existing Manager to take over the entire portfolio of business.

S/N	Respondent	Responses from Respondent
		d. The LFA may decide to absorb and continue servicing the entire portfolio of the FAR's business at a price to be agreed upon by both parties at that point in time. <i>Illustration 1</i> FAR A retires from the business and industry and transfers all his clients to FAR B within the same LFA. The LFA continues to pay to FAR A <u>only</u> a part of the renewal commissions from transactions completed by FAR A for a period of, say, 3 years. FAR A will introduce FAR B to his clients and will ensure his clients are well taken care of by FAR B. FAR A could, say, receive 50% of the FAR's renewal commission from transactions previously completed by FAR A and FAR B will receive the other 50%. However, FAR A will no longer be giving any advice, and will also not be entitled to any commission for new cases done by FAR B for FAR A's clients. <i>Illustration 2</i> Manager A retires from the business and industry and transfers all the FARs under him to Manager B within the same LFA. The LFA continues to pay only the renewal overriding benefits arising from transactions completed under Managers A's watch to Manager A for a period of, say, 3 years. Manager A could, say, receive 50% of the renewal overriding benefits arising from transactions completed under Managers A's watch and Manager B will receive the other 50%. However, Manager A will no longer be giving any advice or perform supervision duties, and will also not be entitled to any overriding benefits for new cases done under Manager B. <i>Rationale</i> a. A service succession arrangement like this is beneficial to our customers as they will have new FARs to continue providing relevant financial advice to them. This way, the customers are well taken care even after the FAR or Manager has retired, and the outgoing FAR/Manager can still be a link for the client and the new FAR. b. Retirement arrangements ensure that a retiring FAR can continue to have some retirement income by "selling" their business to another appointed FAR in an equitable manner. 1C. Death of the FAR <i>Illustration 2</i> When FAR C suffers TPD or dies, he (or his estate) continues to receive residual commission for a certain number of years from cases which have

S/N	Respondent	Responses from Respondent
		already been sold. FAR D, who is appointed to service FAR C's clients, will split the commission with FAR C (or FAR C's estate). <i>Rationale</i> a. Vesting makes possible this “humanitarian” financial legacy for the deceased's family. Employment income does not provide this cushion. 2. Anticipated effect of MAS' Proposal Making overriding benefits strictly not payable to persons who do not exercise supervisory responsibilities of a Second Tier or Third Tier will make it impossible or illegal for these widespread practices (many of which appear in contracts) to continue in LFAs. From the perspective of the FAR, the subsequent commissions from the policies already sold are rightly the income of the FAR who completed the sale¹⁹, just that they are delayed and paid over a period of time. In addition, as mentioned earlier, vesting benefits affects a FAR's decision to join an LFA (as compared to becoming a tied agent for an insurer, who can get away without offering vesting because they can offer other incentives LFAs cannot afford). If vesting were to be made illegal, the impact on the viability of LFAs will be significant and their ability to compete with insurers' tied agencies will be severely curtailed. 3. Proposal a. Allow vesting to remain as a legal and valid arrangement that LFAs can offer to their FARs. C. INTERPERSONAL CONFLICT RESOLUTION 1. Situation Conflicts erupt between FARs and their supervisors from time to time. Most of the time, they are resolved without resorting to FARs changing teams. However, occasionally, the conflicts escalate beyond reconciliation, and joining another supervisor or team within the same LFA may be the only way out to appease all parties, especially the unhappy FAR.

¹⁹ To understand MAS' position on whether the subsequent commissions are “deferred income for the sale of financial products” or “remuneration for after-sales servicing”, FARs generally take the cue from the Balanced Scorecard (“BSC”) Framework. As the 4 KPIs arise from the sale itself, and the ISA audit is conducted on the sale itself (and not on any servicing conduct after the sale), FARs conclude that the subsequent commissions are “deferred income for the sale of financial products”. Therefore, FARs generally hold the opinion that they are entitled to all the subsequent commissions arising (subject to the BSC commission clawback requirements) for the cases they close regardless of who does the servicing, and that the BSC Framework implicitly supports this view.

S/N	Respondent	Responses from Respondent
		<i>Illustration</i> To ease the transfer, one way is to share the overriding commission between Group A's and Group B's FA Managers for a few years. There is no additional cost to the firm, and no additional cost to the client and product manufacturer. <i>Rationale</i> - Although transfers are generally discouraged, in extreme circumstances, transfers are the last resort to avoid causing the unhappy FAR to leave the firm. - Each LFA has their own way of handling such FAR/client transfers and they will typically have an arrangement to share overriding in an equitable and agreed manner for a period of time. Such arrangements ensure continuity of financial advisory service for the client when the FAR, client or supervisor need to part ways. 2. Anticipated effect of MAS' Proposal Making overriding benefits strictly not payable to persons who do not exercise supervisory responsibilities of a Second Tier or Third Tier will lead to more instances of unresolvable conflicts and more disruption to clients as unhappy FARs will leave one LFAs to join another (or leave the industry). More orphaned clients may be created as a result. 3. Proposal - Allow LFAs to have the flexibility to pay overriding benefits to "to persons who do not exercise supervisory responsibilities of a Second Tier or Third Tier" where internal transfers become necessary in order to maintain peace in the organization and to avoid disruption to clients. <u>D. SPIN-OFF (OR BREAKAWAY) ARRANGEMENTS</u> 1. Situation In a typical agency structure, it is common and equitable for a supervisor – the one who spends time and financial resources to recruit, groom and train a FAR – to receive a "spin-off" override for a period of time when that FAR is promoted to form another team within the same LFA. <i>Illustration</i> Supervisor B under FA Manager A is promoted to become FA Manager B of a new "Group B". FA Manager A will receive overriding commission from Group B for a period of a few years, taken from FA Manager B's overriding portion. There is no extra payment or cost to the firm, and the split is

S/N	Respondent	Responses from Respondent
		agreed between the Company, FA Manager A and FA Manager B, and is administered by the Company. <i>Rationale</i> a. Typically, when a Tier 2 FAR is promoted to Tier 3, the new team created is separate from the team supervised by that Tier 2 FAR's Tier 3 supervisor. Hence, the above arrangement encourages a Tier 3 supervisor to grow FARs in his team to be promoted to be leaders of new and separate teams. 2. Anticipated effect of MAS' Proposal If the ceding FA Manager stops enjoying the overriding totally and immediately, it will be a great disincentive for managers to grow their FARs to become supervisors or fellow managers, and the FA Manager will discourage and even hamper any of his supervisors from getting promoted. Given the span of control rule, this will hamper growth of the industry and employment opportunities. In an LFA setup, where the sole revenue for the LFA is the gross commission payable by the product providers, and more importantly, where the LFA does not and cannot control the product distribution cost borne by the client, we feel that any agreed sharing of gross commission on an equitable basis for a period of time when a FAR (or team) spins off to form their own team is a purely business decision and will not impose additional cost to the client or affect the quality of financial advisory provided to the client. Taking this business option away and treating such spin off payments as another Tier or outside the Tier will impact the growth of the LFA as a whole and pose further challenges for LFAs to motivate, nurture and promote FARs. 3. Proposal a. Although we note MAS' stand is that overriding benefits must not be paid to persons who do not exercise supervisory responsibilities of a Second Tier or Third Tier, we seek MAS' understanding to permit this practice in LFAs to continue for the above-stated reasons. b. If life insurers have similar spin-off arrangements in their agencies, we propose that MAS categorise them separately from those that occur in LFAs. This is because, in LFAs, such payments are paid out of the same gross commission that LFA receives, i.e., the gross commission pie remains the same and there is no added cost to customers.

S/N	Respondent	Responses from Respondent
		<u>E. INTRODUCERS</u> <i>1. Situation</i> The introducer is a non-regulated individual who receives an introducer fee (normally a share of the commission) arising from financial advisory transactions relating to leads he/she introduced. Specifically, the introducer fee comes from the FAR's commission, and its payment is administered by the LFA. The LFA does not receive additional revenue from product manufacturers to pay the introducers. <i>1A. Introducing New Client Leads</i> <i>Illustration</i> The introducer is appointed to introduce leads to the FAR, who will then cede a certain percentage of the commission the FAR receives to the introducer. <i>Rationale</i> a. To encourage compliant leads acquisition (within the introducer framework), especially at a time when the PDPA, DNC and restrictions on social media marketing have made it more difficult to acquire leads. <i>1B. Introducing New FARs to Join the LFA</i> <i>Illustration</i> FAR A introduces or recommends a new FAR B (either new to the industry or migrating from another LFA) to join the LFA. The recruiting supervisor or manager will cede a certain percentage of the overriding from FAR B's business to the recommender (FAR A). <i>Rationale</i> a. Paying only when there is a business transaction arising from the introduced client is more effective. b. Paying an upfront lump sum is risky because the person who is recommended may not be productive. Hence, making inducement payments is not viable for LFAs. <i>2. Anticipated effect of MAS' Proposal</i> Without this incentive, LFAs with less financial muscle will be deprived of a possible avenue to get new leads and recruit new FARs. This will in turn hamper its growth and its ability to compete against the bigger and better-financed players.

		3. Proposals a. Will MAS confirm that introducers for client leads are not categorized as a tier with this proposed change? b. As for introducers for FAR leads, we seek MAS' understanding to permit LFAs to pay overriding to them for introducing new FARs (of any tier). Most, if not all, LFAs do not have the massive advertising and marketing war chest that insurers enjoy, so LFAs are unable to compete on advertising and marketing to get the public to know of us, much less get candidates to join us as FARs. Hence, we propose that MAS continue to permit introducers to remain as a legal and valid arrangement for LFAs, and permit that they to be paid from revenue received from providing financial advice and from implementing regulated products. SECTION B <u>F. UNEVEN PLAYING FIELD BETWEEN LFAs AND INSURERS</u> We note that MAS has specified that: 1. <u>A tier exists when overriding benefits are payable by the direct life insurer to a FAR for the provision of financial advisory services by another FAR;</u> 2. There should only be a <u>maximum of three tiers</u>; and 3. The payment of overriding benefits should be limited to <u>only</u> the Second Tier and Third Tier who are responsible for supervising the lower tiers in their financial advisory and sales activities. We understand that MAS has limited the number of tiers to restrict the number of layers within the internal sales arm of the insurer with the intent to keep supervisory activity with the sales arm meaningful and to keep distribution costs down. We fully appreciate the spirit behind the tier restrictions imposed on insurers and their internal sales force. However, <u>LFAs are not insurers</u>. When the same restrictions are applied without modification to LFAs, especially those operating as independently-owned business entities, they cause viability problems for the LFAs. In terms of revenue and cost structure, even before considering the 3-tier constraint, an LFA does not enjoy the same level of flexibility an insurer does. Its cost structure is far more rigid, and LFAs are trying their best to cope with this significant constraint.
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S/N	Respondent	Responses from Respondent
		Let us assume an insurance product is sold by both channels and the commission for both is 5%. Although <u>the 5% commission</u> constitutes 100% of the revenue to the internal sales force (just the three tiers alone, but not the rest of the insurance company), it <u>constitutes 100% of the revenue to the entire LFA</u>. An LFA must then put the 5% to its best use in order to manage <u>the entire firm</u>. On top of remunerating the FA FARs, the 5% also pays for corporate management, the compliance function, training and development, business administration and operations manpower, office rental, IT systems, cybersecurity, marketing, etc. In stark contrast, the burden of these same costs incurred by an insurer falls on the other 95%. Moreover, the 5% is insufficient for an LFA to pay upfront inducement compensation or promise any extraordinary commissions (to entice FARs to join) the way an insurer or an LFA collaborating with an insurer can. In addition to covering all business costs, the LFA must design a creative yet competitive remuneration structure – by utilising nothing more than the 5% – to meet several objectives at the same time. Some objectives relevant to this Consultation Paper (and were presented in the previous section) include: 1. Encouraging joint work among FARs who have expertise in different areas – to ensure the client receives holistic advice from a single LFA instead of causing the client to approach different FARs (possibly from different LFAs) to piece together a financial plan. A holistic financial plan is better thought-through than one put together in a piecemeal manner; 2. Reassuring the FARs that they will be equitably remunerated for the effort they have put in to provide proper financial advice, even after they leave the LFA – vesting & the FAR’s own retirement planning; 3. Resolving irreconcilable interpersonal conflicts; 4. Encouraging FAR’s performance growth – provide a practicable promotion pathway to fulfill FARs’ aspirations and to remove disincentives for a FAR’s supervisor to block the FAR’s promotion; and 5. Generating leads in terms of clients and FARs – introducer fee / referral incentive.

S/N	Respondent	Responses from Respondent
		MAS says in the Consultation Paper that, “to harmonise the tier structure requirements for direct life insurers and LFAs, MAS proposes to impose these requirements under the FAA”. We note with concern that MAS’ proposal is to incorporate <u>into law</u> a specifically prescriptive remuneration model that stipulates exactly who is permitted and who is not permitted to receive a share of the remuneration received by the LFA. Although harmonizing the requirements across direct life insurers and other financial institutions (including LFAs) may create advantages in terms of uniform administration and enforcement, it will create a situation where insurers and players with deeper pockets (who are able to offer better incentives to entice FARs to move) are merely inconvenienced, whereas LFAs – who have far less financial resources and hence higher competitive pressure and more constrained ability to recruit and grow FARs – bear the brunt of the soon-to-be-statutory restrictions. Instead of levelling the playing field between insurers and LFAs, we are concerned that MAS’ proposals will have the opposite effect, i.e., tilt the playing field further against LFAs by removing what little leeway LFAs still have in order to remain viable and competitive against insurers’ agencies. <u>G. MASS POACHING ACTIVITY & PAYOUTS</u> On a separate but related note, we observe that the possible presence of a “fourth tier” was referenced in Paragraph 43 of the judgement for Peter Tan’s case²⁰, and that may have been one of the triggers that led to MAS’ Consultation Paper. That case also involved a mass poaching exercise and the implementation of creative remuneration structures to benefit certain individuals. We wish to impress upon MAS that the practices cited in Section A are unlike what happened in the recent cases, where the motive was to find a way to pay additional incentives or artificially create another tier. For LFAs, the arrangements cited in Section A are funded entirely by the commissions received. As such, there should not be any unintended consequences such as excessive movements of groups of FARs due to the attractiveness of inordinately large remuneration packages that are over and beyond the standard remuneration package for product & services.

²⁰ Prudential Assurance Company Singapore (Pte) Ltd v Peter Tan Shou Yi and PTO Management and Consultancy Pte Ltd [2021] SGHC 109

S/N	Respondent	Responses from Respondent
		H. ADDITIONAL PROPOSALS In addition to the proposals in Section A, we have the following proposals, which we hope MAS will take into serious consideration. 1. We propose that MAS should not assume that all components of commission revenue are solely to compensate for advisory and supervision duties. The assumption may be correct for insurers' sales arm, but, as we have explained earlier, it is not the reality LFAs face. 2. We propose that the new requirements should not be applied to LFAs. The reason is that LFAs are constrained to work within the standard remuneration package given by the providers. Specifically, we propose that the LFAs' internal commission income distribution structure should not be regulated to be constrained by the 3-tier structure. LFAs have an overall business to run, therefore LFAs have much broader strategic and structural decisions to make, and face competitive pressures not experienced by the agencies of insurers (who also receive commission income). Hence, LFAs should be permitted to exercise flexibility in how to commensurate their tiers without adding to the total distribution cost. Rationale: LFAs need to maintain a compensation structure that is equitable to multiple parties in order to maintain the healthy state of a company and to compete meaningfully with insurers' agencies and their ability to pay their agents better than LFAs can. To achieve that, flexibility and agility are necessary. 3. If MAS must tie the payment of overriding benefits to tiers, we propose that MAS only defines any compensation to any other party as a fourth tier <u>if</u> the payment <u>adds</u> to the overall cost. Just having a payment made to another individual which does not add to the overall cost should not be interpreted as adding another tier. 4. With respect to mass poaching activity, we propose that all buy-offs should be reported, scrutinised and approved. Any cases which are not reported and found in breach should face stiff penalties. 5. Large-scale poaching accompanied by abnormally high financial incentives can occur only when the poaching entity is an insurer or an LFA working in collaboration with an insurer. If MAS has the intention to curb such activity, we propose that new and direct measures be designed and implemented to do so instead of using a combination of the current tools (such as the tier limitation, BSC and SCC) to indirectly discourage them.

S/N	Respondent	Responses from Respondent
		<u>I. CONCLUSION</u> Being LFAs, we have to cope with a punishing cost structure while having to compete with insurers and their deep pockets. It is very tough, but our passion keeps us going. We also cannot afford to put in place non-pro-client practices. Doing so would be short-sighted, if not suicidal. Not only do the practices we have cited cause no adverse impact to clients, they serve to benefit clients. LFAs need clients, and client acquisition for LFAs is far more challenging than for insurers, so LFAs will instinctively refrain from conduct and practices that alienate clients. As always, the AFAS stands with MAS in its intent to promote good sales conduct in the FA industry and align the interests of its practitioners with those of their clients. We want to be compliant, but we do not want to be collateral damage of laws and regulations that are created to check the abuse perpetrated by others. Most LFAs are relatively small businesses who depend exclusively on the commissions received to keep their businesses going. The commission revenue earned is grossly insufficient to enable most LFAs to poach large groups of FARs. Hence, instead of introducing laws to specifically prescribe how an LFA must or must not use its gross revenue, we would be most grateful if MAS would take our relatively harsher operating conditions into consideration when designing laws and regulations. We look forward to preserving LFAs' competitiveness against much bigger players, and ultimately, LFAs' viability as an alternative to insurers' agencies – for the benefit of consumers in Singapore.
12	Tokio Marine Life Insurance Singapore Ltd	Question 1: We are supportive of MAS' proposal in paragraph 2.5 to 2.9 as this will provide greater clarity on the 3-tier structure and supervisors should only be remunerated based on the supervisory role they assume. The proposal also reinforces accountability and aligns the various industry players' practices more consistently. Question 2: Yes. We agree that the tier structure requirements should be extended to all FA firms to facilitate a more level playing field. It also avoids creating undue comparisons amongst FA firms when they recruit representatives from different financial institutions.

S/N	Respondent	Responses from Respondent
		Question 3: Yes. We agree with MAS’ proposal to extend the prohibition against making direct payment of VBI to other product manufacturers. This promotes fairer competition in the FA industry and standardizes practices. Question 4: We do not foresee any major challenges in implementing the proposals set out in 3.3, 3.4 and 3.7. We would like to seek clarification on the definition of “determining”, in the context of Tied-FA firms. This is because the direct life insurer may have a role in “determining” the VBI. General comments: On a separate note, it may be useful for MAS to consider including Annex B in its subsequent legislative amendments to effect the proposals, as the illustrative examples help provide clarity to all players.
13	Respondent A	Question 1: 1) Some product manufacturers may (for marketing/product/hiring campaign) structure their remuneration payment in such a way that there is payment for certain period without any need for sales target of investment products, but which later on might include elements to hit certain sales values or volume. In this regards to close such loopholes, the payment of remuneration should not be based on just the closing of a sales, but in totality for the particular marketing/product/hiring campaign so as to reduce ambiguity in interpreting the regulation. 2) Suggest for MAS to prescribe a minimum level of supervisory standard/principles that team supervisor and leader should adhere to, and the relevant disciplinary action to take for non-compliance. Question 2: Yes, so there is no ambiguity in interpreting the regulation across the FI industry and to achieve a common standard.



S/N	Respondent	Responses from Respondent
		Question 3: Yes, so there is no ambiguity in interpreting the regulation across the FI industry and to achieve a common standard. Question 4: MAS should prohibit the payment of any forms of remuneration since any such payment will always be a conflict of interest between the sales person and the retail client. The sales person is already remunerated via the commission structure, and there is absolutely no good reason for addition payment on top of the commission. Any rules to mitigate the conflict of interest does not resolve the underlying root causes and the long standing conduct and behaviour seen in the FI industry. General comments: MAS should guide the FI industry toward less dependence on the payment of additional remuneration on top of the commission, and more into a fee-based environment to resolve the long standing issue of conflict of interest.
14	Respondent B	Question 1: With respect to the proposed definition of “overriding benefits” as set out in paragraphs 2.7 and 2.8 of the consultation paper, we would appreciate MAS’ clarification that this does not include the payment of discretionary bonus insofar as it is purely discretionary with no structured methodology on the computation of the bonus and no clear and direct linkage between the payment of the bonus and the factors set out in paragraph 2.7(a) to (d), even though the overall performance of the entity and its salespersons may be taken into account in determining whether to pay and the amount of such discretionary bonus. Question 2: No comments. Question 3: No comments. Question 4: No comments. General comments: No comments.

S/N	Respondent	Responses from Respondent
15	Respondent C	Question 1: We would like to suggest to consider allowing for “Breakaway payments” ie. remuneration paid to previous supervisors of representatives when these representatives are being promoted to the next tier to be excluded from the scope of the Tier 3 remuneration structure. We would like to highlight that the implication of not having such compensation will have a direct impact on rejuvenation of agency force as both promotions and recruitment efforts will likely slow down if the compensation structure is no longer able to remunerate based on volume of future sales. If remuneration is forced to be based on past performance or a fixed rate, it will encourage the behaviour of holding back promotions and in turn impact recruitment due to the Span of Control (SOC) limits. Upon the promotion to the next Tier, there continues to be some dependency on the previous supervisor for mentorship and guidance to allow assimilation into the new role. In addition to actual monetary remuneration, this exclusion should also include production credits recognition over the corresponding period to recognise the mentorship efforts. We acknowledge that MAS may choose to impose boundaries for such “Breakaway payments” remuneration structure. Question 2: We have no concerns with the proposed extension to all FA firms but would also suggest that similar exclusion from scope as proposed above be extended to FA firms too. Question 3: No comments. Question 4: We would like to clarify that the business-to-business arrangement includes outsourcing arrangements which include the scope of determining, communicating and paying VBI to the representatives of FA firm with the expressed consent of the CEO of the FA firm. General comments: No comments.

16	Respondent D	Question 1: We seek MAS to consider not treating “Breakaway Payments” as part of the tier structure remuneration. <u>Respondent D’s Point of View on Insurance Purchase</u> Respondent D’s point of view (POV) is that the purchase of insurance products will continue to shape out to be “High-Tech”, “High-Touch” as well as a hybrid of “High-Tech-High-Touch” model. We think the “High-Touch” element will continue to have a positive correlation with the complexity of products that have significant downstream impact on one’s financial position. Many of such products can be found in Life and Health category. “High Touch” is also valued by many customers when it comes to servicing and administering of claims; often the point where “a piece of paper promise comes alive.” Even if the eventual execution is via the hybrid of “High-Tech-High-Touch” model, many customers may still feel more comforted and assured when they are being guided, even if it is executed digitally. Hence, ethical, competent and service oriented advisors will continue to play an important role in facilitating and supporting the fulfilment of one’s financial needs. By extension, this means it is still important for the advisors talent pipeline to remain strong and flowing continuously. Consequently, Respondent D is relentless in intensifying our digitalisation efforts; while concurrently growing our advisors pool as well as our outreach to other external distribution partners. <u>The Case for Breakaway Payments (BP)</u> Against the backdrop of our POV, our view of BP had always been anchored on it being a reward and recognition of the talent development efforts put in by a sales leader (Supervisor/Manager). While we know this is not the sole factor; it is a significant factor that drives the strength and continuous flow of our advisors’ talent pipeline. Analogously, we believe it is driven by the similar underlying entrepreneurial spirit and motivation that drives startup founders in striving to achieve a unicorn status. The original Tier 3 would have invested in building his/her business and growth, with a reasonable anticipation to expect returns on their investments. Not to mention, we had also observed that in the initial years of a new Tier 3, there’s a natural tendency to continue seeking guidance and advice from their previous Tier 3s.
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S/N	Respondent	Responses from Respondent
		In essence, BPs are meant to address a sudden loss of income due to a breakaway. It is also important to note that BPs are also not designed to be an ongoing and perpetual payment. Without the appropriate rewards and recognition, our greatest concern is the downstream implication on advisors talent pipeline; i.e. stagnation. Again, analogously, there are good reasons for proactive initiatives to create a vibrant start-up environment. By the same token, a stagnant advisors talent pipeline may eventually have downstream implications to support the overall financial planning landscape of the country and to serve the customers that we have; even as digitalisation proliferates. <u>Breakaway Payments (BP) – Funding vs Computation Basis</u> Notwithstanding our POV, we can appreciate the proposed stance as stipulated in the consultation paper. Perhaps a possible consideration is not about invalidating BP nor the basis of computation. Rather, it is the funding source for BPs? For instance, perhaps BPs should be allocated to the Shareholder's Fund instead of the Insurance Par Fund; in order to remain equitable to the Policyholders, while allowing the agency force to be equitable as well. Question 2: Yes, should apply. Question 3: Yes, should apply. Question 4: Based on current understanding of the requirements, we do not foresee any practical challenges. General comments: No comments.
17	Respondent E	Question 1: It is very important to tie the overall cost to the three-tier structure and only define any compensation to any other party as a fourth tier if the payment adds to the overall cost. Just having a payment made to another individual which does not add to the overall cost which can be done for a number of reasons should not be interpreted as adding another tier.



S/N	Respondent	Responses from Respondent
		Question 2: No as the business structure within each channel differs. There are various situations where payment made to another individual should not be interpreted as adding another tier. These situations will be shared in our consolidated response from different companies. Question 3: Yes to be consistent across the board so that no channel is disadvantaged Question 4: Yes - if the VBI is not in cash (e.g. incentive overseas trip), it would not be easy for the FA Firm to administer. General comments: Firms should be allowed to exercise some flexibility in how to commensurate their Tier 1, Tier 2 and Tier 3 without adding to the total cost. All buy-offs should be reported and scrutinised and approved. Any cases which are not reported and found in breach should face stiff penalties. For FA Firms not willing to participate in and administer VBI in order to comply with the guidelines, they would be at a disadvantage compared to other FA Firms that have the resources to. Perhaps if VBI is prohibited across the board, then all FIs would be on a level playing field.