

Findings of MAS' Mystery Shopping Exercise

1 Methodology

- 1.1 MAS engaged an external consultant to conduct a mystery shopping exercise (MSE) on the sales and advisory practices of the financial advisory industry from mid-2018 to end-2019. The exercise covered 500 representatives from 12 financial institutions (FIs), comprising six life insurance companies and six licensed financial advisers. The mystery shoppers, made up of members of the public with varying profiles (in terms of age, gender, occupation and financial objectives), posed as customers interested in seeking financial advice.
- 1.2 The MSE covered the following areas¹:
 - (a) Suitability of advice
 - (b) Disclosure of medical conditions
 - (c) Explanation of illustrated rates of return
 - (d) Conduct at roadshows
 - (e) Implementation of safeguards for vulnerable customers
 - (f) Conduct of fact-find
- 1.3 Each mystery shop entailed at least two meetings between the mystery shopper and the representative concerned. At the end of the sales and advisory process, the mystery shopper accepted the representative's recommendation and made payment to purchase the product. Upon receipt of the sales documents, the mystery shopper cancelled the purchase during the free-look period (unless the mystery shopper chose to proceed with the purchase).
- 1.4 The sales and advisory process for all the mystery shopping cases were audio recorded and transcribed to text. The transcripts and sales documents were reviewed to assess how the representatives fared in the six audit areas.
- 1.5 MAS appointed an expert panel to provide guidance on the design and methodology of the MSE, as well as to assess the suitability of product recommendations made by the representatives (please see [Expert Panel Members](#)). In assessing product suitability, the panel members considered if the representatives obtained sufficient information to understand the shoppers' needs and circumstances. Where there were deficiencies in the fact-find process, the panel members also evaluated if the lapses

¹ Of the 500 mystery shopping cases, 284 were conducted at roadshows and 216 were from customer referrals. There were 50 cases involving vulnerable customers and 106 cases involving insurance products which require disclosure of medical conditions.

led to the product recommendation being unsuitable, taking into account the shopper's financial objectives, time horizon, risk preference and financial situation (to assess if the shopper can afford the product).

2 MSE findings

2.1 Suitability of advice

88% of the investment and insurance products recommended by the representatives surveyed were assessed to be suitable for the shoppers. For the cases assessed as unsuitable, these were recommendations that did not meet the shoppers' financial objective and/or had tenures longer than the shoppers' time horizon. In some instances, the recommended product was unaffordable given the shopper's financial situation. Some representatives also recommended investment products that were riskier than the shoppers' risk profiles.

2.2 Disclosure of medical conditions

The majority of representatives (75%) fared well when helping customers to purchase insurance products which require disclosure of pre-existing medical conditions². 81% of representatives asked the shoppers about their medical conditions. When the shoppers disclosed their medical conditions, 95% of the representatives accurately documented such information in the sales documents. In instances when the shoppers mentioned or asked if they should declare their medical conditions, 89% of representatives probed for more details to assist the shoppers in making such disclosure in their insurance application forms or warned them of the risks of not disclosing their medical conditions. None of the representatives influenced the shoppers not to disclose their medical conditions.

2.3 Explanation of illustrated investment rate of return

When explaining the recommended product's illustrated investment rate of return, 85% of the representatives clarified that the illustrated investment rates of return depicted in the Policy Illustrations were projected and not guaranteed. However, 8% of representatives failed to explain to the shoppers that the illustrated investment rate of return was projected, while another 8% of representatives were found to have misrepresented non-guaranteed amounts as guaranteed³.

² Such insurance products include endowments with riders, whole life policies, term life policies and MediShield insurance policies.

³ The figures do not add up to 15% due to rounding difference.

2.4 Conduct at roadshows

More than half of the mystery shopping cases (52%) conducted at roadshows had some deficiencies. In comparison to sales done through customer referrals, sales closed at roadshows had greater prevalence of representatives inappropriately influencing shoppers' purchase decisions and recommending unsuitable products. When the shoppers were making a purchase decision at roadshows, 35% of the representatives sought to influence them by offering gifts or incentives. This is higher compared to sales done through referrals (11%). There were also more unsuitable products recommended at roadshows (15%) compared to customer referrals (7%).

2.5 Implementation of safeguards for vulnerable customers

There were lapses observed in the sale and advisory process involving vulnerable customers. In 74% of cases, the representatives did not properly identify vulnerable customers. In cases where such customers were correctly identified, 75% of the representatives did not advise the shopper to involve a Trusted Individual⁴, such as a trusted relative or friend in the sale and advisory process. When making product disclosures to vulnerable customers, 76% of the representatives did not adequately explain the features, risks, and fees and charges of the products being recommended. For instance, some of the representatives did not disclose the free-look period⁵ to them. In cases where vulnerable customers were correctly identified, 33% of the representatives' supervisors did not conduct a call-back⁶ during the free-look period to affirm the customer's understanding of his purchase. Notwithstanding the above, 98% of the products recommended to vulnerable customers were assessed to be suitable as they met the shoppers' objectives, risk tolerance, time horizon and were also affordable.

2.6 Conduct of fact-find

2.6.1 All 500 representatives conducted fact-find on the shoppers, although the extent of fact-finding was not comprehensive in 97% of the cases. Most representatives did not obtain or accurately document all information on shoppers' financial circumstances (such as income, expenses, assets, liabilities, and existing investment portfolio) in the fact-find forms. However, sufficient information relating to shoppers' financial

⁴ As set out under the Life Insurance Association Singapore (LIA)'s Minimum Standard for Life Insurance Advisory Process and Direct Purchase Insurance Guidelines, it is recommended for a vulnerable customer to be accompanied by a Trusted Individual during the advisory and sales process. A Trusted Individual must (a) be at least 18 years old; (b) minimally have attained GCE 'O' level or 'N' level certifications; (c) be proficient in spoken or written English; and (d) be a person who has the trust of the vulnerable customer.

⁵ During the free-look period, the customer may reconsider his purchase decision and exercise his right to cancel the transaction.

⁶ Paragraph 27(b) of the Guidelines on the Remuneration Framework for Representatives and Supervisors ("Balanced Scorecard Framework"), Reference Checks and Pre-Transaction Checks sets out requirement for an FA representative's supervisor to conduct a call-back with a vulnerable customer to ascertain that the FA representative had made a suitable recommendation and that the customer understood the product purchased.

objectives, budgets, time horizons and risk tolerance were obtained and documented by the representatives for appropriate product recommendations

- 2.6.2 In 85% of cases, the expert panel assessed that the lack of comprehensive fact-find did not affect product suitability. The representatives obtained sufficient information to establish shopper's financial objectives, needs and abilities to sustain premium payments over their respective premium terms. In some instances, while representatives did not specifically ask for the shoppers' needs (e.g. budget or time horizon), they explained a few products with different features (e.g. different premium amounts or payment terms) to shoppers to ascertain if the recommended products were affordable and time horizons suitable.
- 2.6.3 There were nevertheless cases where failure to obtain a shopper's financial circumstances led to unsuitable recommendations being made (8% of cases). In most of such cases, the representatives did not obtain sufficient information to establish the shopper's financial objective or ability to sustain the premium payment over the premium term.

Expert Panel Members

	Name	Designations
1.	Ms Genevieve Cua	Wealth Editor, The Business Times
2.	Mr Vincent Ee	Managing Director, Financial Alliance Pte Ltd Council Member and Former President of the Association of Financial Advisers
3.	Mr Joseph Kwok	Former President, Financial Planning Association of Singapore
4.	Mr Loy York Jiun	Director, Social Policy, National Trades Union Congress (NTUC) Director, International & Strategic Partnerships, NTUC Former Executive Director, Consumers Association of Singapore
5.	Mr V Maheantharan	Senior Lecturer, Singapore Maritime Academy, Singapore Polytechnic Former Centre Director, Institute for Financial Literacy
6.	Mr Ken Ng	Deputy CEO and Chief Investment Officer, NTUC Enterprise Former Deputy President, Life Insurance Association
7.	Mr Ng Wee Jin	Of Counsel (Advocate and Solicitor), Donaldson & Burkinshaw LLP Former CEO, Financial Industry Disputes Resolution Centre Ltd
8.	Mr Colin Pakshong	Director, Etiqa Insurance Pte Ltd Former Lecturer, Nanyang Technological University
9.	Ms Tan Lay Hoon	President and Board Member, CFA Society Singapore
10.	Ms Lorna Tan	Head of Financial Planning Literacy, DBS Bank Ltd Former Invest Editor, The Straits Times
11.	Mr Patrick Teow	Former President, Life Insurance Association
