Frequently Asked Questions (FAQs) on the Spreading and Capping of Commission ("SCC") Rules under the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017

(Issued on 19 April 2017)

Disclaimer: The FAQs are meant to provide guidance to the industry on MAS' policy and administration of the SCC rules set out under the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017. They do not constitute legal advice. MAS expects industry participants to retain their independent legal counsel to advise them on how their business operations should be conducted in order to satisfy the legal/regulatory requirements and to advise them on all applicable laws of Singapore.

Q1. What type of life policies are subject to the SCC rules?

The SCC rules only apply to relevant life policies. As defined under the Financial Advisers (Remuneration)(Amendment) Regulations 2017 and Insurance (Remuneration), "relevant life policy" includes all life policies issued by a licensed insurer pursuant to proposal forms submitted to the licensed insurer on or after 1 April 2017, and exclude:

- A single premium life policy;
- A specified life policy which means a life policy where -
  - the policy owner is not an individual; and
  - there are 2 or more insured persons.

  For the avoidance of doubt, where an individual owns the policy in his capacity as a sole proprietor, he will not be considered an "individual" and his policy is a specified life policy that is not subject to SCC rules.

Q2. Are group life policies subject to the SCC rules?

The SCC rules do not apply to a group life policy which meets the definition of a "specified life policy" (please refer to the response to Q1).

Q3. Single premium life policies are not considered as relevant life policies and thus not subject to the SCC rules. Will commissions arising from non-contractual, recurring premium top-ups to single premium life policies be subject to the SCC rules?

Single premium life policies, including recurring single premium policies where policyholders make subsequent premium top-ups that are not contractual in nature, are not subject to the SCC rules. It is considered to be <u>not contractual</u> if the policyholder is <u>not obligated</u> under the policy contract to pay premiums on a regular basis.

Q4. If a client buys a single premium life policy and several years later he decides to add a rider to this policy, will commissions arising from the rider be subject to the SCC rules?

No. As the single premium life policy is not subject to the SCC rules, the addition of a rider to a single premium life policy will not be subject to the SCC rules.

Q5. Does the definition of "additional premiums" include the addition of riders to a relevant life policy and thus subject to the SCC rules?

If the premiums payable for the rider satisfy the definition of "additional premiums" - i.e. the premiums payable by the policyholder are on a regular basis as required under the policy to increase the product features and benefits of the policy, or extend the duration of the policy – the rider is subject to the SCC rules.

Q6. Pipeline cases refer to cases where applications for life policies have been submitted to the insurers before the SCC implementation date of 1 April 2017, and which are pending underwriting and issuance as at 1 April 2017. Will pipeline cases be subject to the SCC rules?

No, pipeline cases will not be subject to the SCC rules.

Q7. Do relevant life policies include existing life policies that are incepted before the SCC implementation date of 1 April 2017?

No. A life policy that is issued <u>before</u> 1 April 2017 will not be subject to the SCC rules. Subsequent premium top-ups or addition of riders made to such life policies after 1 April 2017 will likewise not be subject to the SCC rules.

Q8. If an application for a life policy is submitted to an insurer after the SCC implementation date of 1 April 2017 but the client requests to back-date the policy start date to before 1 April 2017, is this policy considered a "relevant life policy"?

Yes. As the policy is issued after 1 April 2017, it will fall under the definition of "relevant life policy" and thus subject to the SCC rules.

Q9. If a client has a 10-year regular premium life policy and decides to add a rider in the last 4 years of the life policy, is the insurer in compliance with the SCC rules if it spreads the commissions for the 4 year rider over the last 4 years?

Yes. The requirement is for the licensed insurer to spread the commissions for a minimum period of 6 years or the premium payment period, whichever is shorter. In this case, as the premiums for the rider is paid over the remaining 4 years of the life policy, the licensed insurer can spread the commissions over 4 years, with the first commission payable for the rider being capped at 55% of the total commissions payable over the 4 years.

Q10. Do the SCC rules apply to both monetary and non-monetary remuneration and payments such as vouchers, trips and holidays?

No, the SCC rules apply only to monetary remuneration and payments. Non-monetary remuneration and payments are not subject to the SCC rules.

Q11. How will the SCC rules apply to different remuneration models?

Depending on the remuneration model of representatives (and supervisors), the SCC rules will apply as follows:

i. Model A: Applicable to representatives who earn commissions only and where the commissions are directly linked to a particular relevant life policy.

For Model A, the applicable rules are set out in paragraph 3(h)(7) in the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017. FA firms and licensed insurers are required to spread the total commission payments over a minimum period of 6 years or the premium payment period (whichever is

the shorter) from the date the relevant life policy is issued, with the first year commissions capped at 55% of total commissions payable.

Under this Model, only remuneration components that are directly linked to a particular relevant life policy are subject to SCC rules. Examples include basic commission and overriding commission based on the sale of a particular relevant life policy.

ii. Model B(i): Applicable to representatives who earn a fixed salary or wage and variable remuneration/commissions, and where the variable remuneration/ commissions are directly linked to a particular relevant life policy.

For Model B(i), the applicable rules are likewise set out in paragraph 3(h)(7) in the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017. FA firms and licensed insurers are required to spread the total commission payments over a minimum period of 6 years or the premium payment period (whichever is the shorter) from the date the relevant life policy is issued, with the first year commissions capped at 55% of total commissions payable.

Under this Model, only remuneration components that are directly linked to a particular relevant life policy are subject to SCC rules. Examples include basic commission and overriding commission based on the sale of a particular relevant life policy.

iii. Model B(ii): Applicable to representatives who earn a fixed salary or wage and variable remuneration/commissions, and where the variable remuneration/ commissions are not directly linked to a particular relevant life policy.

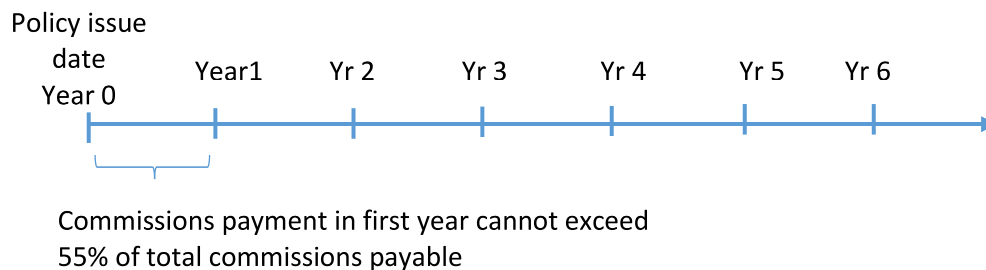
For Model B(ii), the applicable rules are set out in paragraph 3(h)(8) in the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017. FA firms and licensed insurers are required to spread the commission payments over a minimum period of 5 years from the date of first commission payment, with the first year commissions capped at 55% of total commissions payable.

Under this Model, all remuneration components that are not directly linked to a particular relevant life policy are subject to SCC rules. Examples include volume-based commission components that are computed on a portfolio or net asset value basis, such as production bonus (based on whether the

representative can hit a certain production target on his total sales), and trailer fees or wrap fees (based on net asset holdings of a representative's customers).

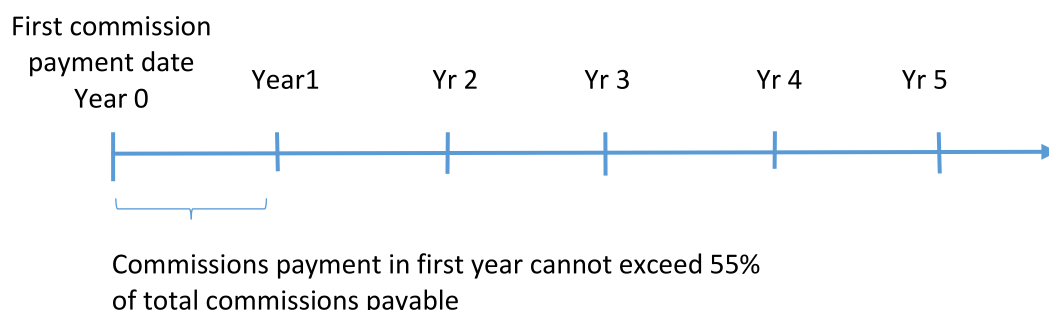
Q12. Paragraph 3(h)(7)(c)(i) in the Financial Advisers (Remuneration) (Amendment) Regulations 2017 and the Insurance (Remuneration) (Amendment) Regulations 2017 states that the spreading of remuneration is "over a period of at least 6 years starting from the date the relevant life policy is issued", while paragraph 3(h)(8)(b) in both Regulations states that the spreading of remuneration is "over a period of at least 5 years starting from the date the first payment of the remuneration (or any part of it) is made to the recipient." Why is there a difference in the number of years?

The policy intent to spread commissions over a period of 6 years remains unchanged. The difference in the number of years is due to the difference in starting point to spread the commissions ("spreading period"). Paragraph 3(h)(7)(c)(i) applies when the commission payment is directly linked to the sale of a particular relevant life policy. In this case, an FA firm or licensed insurer is required to start the spreading period from the date the particular relevant life policy is issued. The total commission payments will be spread over a 6-year period. The first payment of commissions can happen at any time within the first year, and the commissions payable in the first year cannot exceed 55% of the total commissions payable.



On the other hand, paragraph 3(h)(8) applies when the commission payment is not directly linked to the sale of a particular relevant life policy, but is instead based on a portfolio of relevant life policies. Given that this is on a portfolio basis, where there are different issuance dates for the different relevant life policies inside the portfolio, an FA firm or a licensed insurer cannot use an issue date for the spreading period. Instead, the FA firm or licensed insurer is required to start the spreading period from the date of first commission payment for that portfolio. As the spreading period starts with the first commission payment, the remaining commission payments will be

spread over a 5-year period. Similarly, the commissions payable in the first year cannot exceed 55% of the total commissions payable.



Q13. Are the SCC rules applied on a per recipient basis?

Yes. The objective of the SCC rules is to align the interest of the FA firms, licensed insurers and representatives with that of their customers. Thus, it is not sufficient to ensure that total commissions payable to all recipients under a relevant life policy is capped at 55% for the first year. The FA firms and licensed insurers must also ensure that the commissions earned by each and every recipient under the relevant life policy meet the SCC rules. For example, where the FA firm, representative and supervisor earns a fee, basic commission and overriding commission respectively that are directly linked to a particular relevant life policy i.e. Models A and B(i), the FA firm is required to cap the fee earned by itself at 55% in the first year, the basic commission earned by the representative at 55% in the first year, and overriding commission earned by the supervisor at 55% in the first year. Thereafter, the FA firm's fee as well as the representative's and supervisor's commissions must be spread over the next 5 years or the remaining premium payment period (whichever is shorter).

Similarly in Model B(ii), the FA firms and licensed insurers are required to cap the remuneration earned by each recipient i.e. the FA firm, the licensed insurer, the representative and the supervisor, at 55% in the first year and spread the remaining remuneration due to each recipient over the next 5 years.

Q14. If a recipient receives more than one type of remuneration component, are the SCC rules applied on an individual remuneration component basis or on an aggregate basis for each recipient?

The SCC rules shall be applied on an aggregate basis. That is, the FA firm and licensed insurer need not apply the 55% first year commission cap and the spreading of commission rule on each individual remuneration component paid to each recipient.

Q15. Will an FA firm or licensed insurer breach the SCC rules if the representative or supervisor does not receive payments that are spread out over a minimum period of 6 years or the premium payment period (whichever is shorter), due to unforeseen events outside the firm's control (e.g. customer has lapsed or surrendered the policy or the representative/supervisor has left the firm)?

The SCC rules apply to payments that the relevant person is entitled to receive when a relevant policy is issued or when a portfolio of relevant life policies is arranged. Subsequent events, such as those highlighted above, that result in the relevant person not receiving payments that are spread out over a minimum period of 6 years or the premium payment period (whichever is shorter), would not constitute a breach of the SCC rules.

Q16. Can an FA firm or licensed insurer adopt more stringent SCC criteria (e.g. spread over 5 years for a 3-year premium payment period) than those set out by MAS?

Yes.

Q17. Can an FA firm or licensed insurer apply the SCC rules to representatives serving accredited investors, notwithstanding that they are exempted from the SCC rules in the two regulations?

Yes, an FA firm or licensed insurer is not prohibited from applying the SCC rules to these representatives.