Annex

Key Findings and Recommendations from MAS' Review of Switching of Investment Products

1 Background

1.1 MAS reviewed 23 financial institutions (FIs) from the banking, insurance and capital market sectors to assess the systems and controls put in place by these FIs to comply with the MAS Guidelines on Switching of Designated Investment Products (Guidelines). The Guidelines provide guidance to FIs on the controls, processes and procedures that MAS expects them to put in place in order to monitor switching of unit trusts and life policies, and to ensure that their financial advisory representatives (representatives) do not engage in improper switching. The review did not seek to identify improper switching cases.

1.2 MAS conducted the review as there were concerns that consumers were being advised by their representatives to switch[2] from one investment product to another without good reasons. While switching is not in itself improper, MAS would be concerned if representatives advise their clients to switch products so as to generate commissions, without regard to the interest of their clients.

2 Findings

2.1 Controls at the point of sale (front-end monitoring procedures)

2.1.1 Most FIs have provided the necessary disclosures and client declarations in their sales documents. These include:

- Disclosures of fees or charges that clients may have to bear, or any disadvantages that they may suffer when they switch from one investment product to another.
- Warnings to advise clients to find out if they are entitled to free switching.
- Requiring clients to indicate if they have been advised to switch or to surrender a product, and if so, whether they have been informed of the costs and disadvantages of doing so.

2.1.2 There were some good practices observed among FIs. These included:

- Providing clients with a meaningful comparison of the key features, terms and conditions, and costs of their existing product and recommended product to assist them in making a decision on whether to make a switch.

- Presenting clients with the costs and disadvantages associated with the switching transaction in a user-friendly manner and in a single document.

[2] A switch occurs when a client disposes an existing designated investment product (i.e. life policy or unit trust) and replaces this with another designated investment product.

2.1.3 However, some FIs were found lacking in the following areas:

- Some of the warnings on the costs and disadvantages of switching were in small print.
- There were no disclosures and client declarations when clients switched between different types of investment products (e.g. from an investment-link insurance policy (ILP) to a unit trust or vice versa) or when clients surrendered an investment product bought from one FI to purchase a new investment product with another FI.

2.2 Controls after the point of sale (back-end monitoring procedures)

2.2.1 Most FIs were found to be weaker in their implementation of controls after the conclusion of the sale. The major findings are as follows:

- Some FIs held a narrow view of what constituted a switch. For example, some FIs only identified transactions as switches when there were concurrent buy and sell transactions.
- Some FIs with sizeable operations lacked systematic after-sales controls to monitor switching. Instead, they relied on the representative's supervisor to conduct ad-hoc reviews to detect unusual sales transactions by the representative or on product providers to alert them of any suspected switching cases.
- Some FIs did not have any proper mechanisms to monitor and identify representatives with high volumes of switching transactions.
- Most FIs only monitored switches of investment products that occurred during a window period (e.g. 90-day period for switches involving single premium ILPs or unit trusts) but did not have a mechanism to detect improper switching outside the window period.
- For most FIs which distributed both life policies and unit trusts, there was limited or no monitoring of switches made between these two types of investment products. There was also no proper mechanism to assess the risk of switching between these two types of investment products.

2.2.2 Nevertheless, we noted that some FIs have implemented the following good practices:

- Sending letters to clients who have switched products to remind them of the costs and disadvantages involved and to give clients the option of not proceeding with the transaction.
- Making calls to clients who have engaged in frequent switching to check whether they were aware of the costs involved and to find out the reasons for the frequent switching.

3 Recommendations

3.1 MAS has shared these findings with the FIs reviewed as well as the industry ssociations and has made the following recommendations for improvements:

i) FIs should ensure that disclosures on the costs and disadvantages associated with switching are clearly presented to clients in simple language. Such disclosures should also be made:

- When clients switch between different types of investment products; and
- When clients terminate their existing investment product with one FI to purchase a new investment product from another FI.

ii) FIs with sizeable operations should put in place more robust monitoring systems to identify unusual trends such as representatives with a high volume of switching transactions and representatives who engage in switching immediately after the FIs' monitoring period.

3.2 The FIs reviewed have accepted and implemented MAS' recommendations or are in the process of doing so.

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