

1 BACKGROUND

MAS published a consultation paper in October 2003 on the proposed regulatory framework for accident & health (“A&H”) insurance business, which included the following documents:

- Draft MAS Notice on the market conduct requirements for the distribution of A&H insurance products;
- Draft industry standards on disclosure and advisory process, and draft of “Your Guide to Health Insurance”, all of which are jointly developed by practitioners from the insurance industry and MAS; and
- Draft reporting format for insurers related to A&H business.

This document summarises the comments received during consultation, which closed on 26 November 2003, and sets out MAS’ responses to these comments. We have incorporated relevant feedback into the MAS Notice and industry standards issued in relation to this regulatory framework. We would like to take this opportunity to thank all who have contributed feedback.

2 APPLICATION OF THE FRAMEWORK

2.1 *Hospital Income Cash Products*

A respondent said that “hospital income cash product” (“HIC product”) is a simple product and should be exempted from the advisory process rules, just like pure personal accident products.

MAS’ Response: We feel that HIC should not be exempted from the advisory process despite its simple product design. When designing a comprehensive health insurance coverage that meets the client’s healthcare financing needs, an advisor needs to consider various types of A&H products that pay out benefits under different contingencies. For example, an advisor may choose a HIC product for his client if the need for income supplement during hospitalization is a priority. On the other hand, if the client’s greatest concern is to seek reimbursement for hospitalisation costs incurred, “hospital & surgical insurance product” (“H&S product”) should be chosen. As HIC products are often mis-sold as H&S products, application of the advisory process rules to HIC products helps consumers to obtain the right type of insurance coverage.

2.2 Exemptions and Grandfathering

Respondents suggested to exempt the following cases from complying with the disclosure and advisory process requirements for A&H products:

- Case 1: Any modification to an A&H policy that is in-force before the disclosure and advisory process requirements start;
- Case 2: Any life policy with “total and permanent disability benefits” as the only type of A&H benefits provided under the policy; and
- Case 3: Any A&H policy related to national opt-out schemes, such as an ElderShield or a MediShield-substitute policy.

MAS' Response:

Case 1

We feel that the “grandfathering” treatment should not be adopted. This is because policyholders should be given sufficient information to assess the impact of any modification to their existing insurance coverage. This will also allow policyholders to make timely adjustments where necessary.

Case 2

We have decided to exempt such cases from the A&H product disclosure and advisory process requirements. The Financial Adviser's Act requirements are sufficient to address our market conduct concerns.

Case 3

The advisory process requirements will not apply to ElderShield policies as admission into the ElderShield scheme is automatic and involves no advisory process.

However, we decided not to exempt MediShield-substitute policies. This is because admission into any MediShield-substitute policy requires policyholders to first switch out of their existing MediShield coverage. Any advice for such switch must be made on a sound basis and the switch should not be detrimental to the policyholder.

2.3 Voluntary Schemes

Respondents sought clarification on why the disclosure and advisory process requirements should apply when an insurer or an insurance intermediary deals with group A&H plans that contain voluntary benefits.

MAS Response: We decided that the disclosure requirements shall apply and an insurer or insurance intermediary shall provide the necessary information to help the group's decision-making. Advisory process requirements will also apply when advice on voluntary benefits is given to members. This is because a member in the group still has to decide whether to spend money to take up the voluntary benefits, although the choice of A&H benefits available to the member (e.g. an employee) covered under a group A&H policy with voluntary benefits is limited by the terms that the group (e.g. the employer) signed up for.

2.4 Change of Plan

Respondents sought clarification on how the disclosure and advisory process requirements will apply when the insured switches to another A&H plan without changing the insurer.

MAS Response: We decided that the disclosure and advisory process requirements shall apply to switching A&H plans offered by the same insurer. This is because switching A&H plans offered by the same insurer has similar effects as terminating the existing coverage and acquiring a new one. Therefore, consumers should be given the same level of protection from poor market conduct practices in both cases.

2.5 Use of the Group Insurance Fact-Find Form

The standardised fact-find format for group insurance business has been used by the insurance industry in the past three years. The consultation paper proposed an improved version of the fact-find format to facilitate needs analysis by insurance intermediaries. Respondents clarified if placement slips commonly used by insurance brokers for group A&H business can be used in lieu of the standardised format.

MAS Response: We feel that the existing fact-find format adopted by the insurance industry has been effective in improving transparency of group insurance transactions. The proposed modifications to the standardised fact-find format will provide the necessary information on the background and risk profile

of the client. The information will help intermediaries and insurers to properly analyse the client's needs and recommend the appropriate coverage. Information found in placement slips used by the broking community often lack such detail. Therefore, we encourage the adoption of this standardised fact-find format.

2.6 Commencement Date

A few respondents requested MAS to postpone the commencement date of the disclosure and advisory process requirements to allow insurers and intermediaries to make necessary preparations.

MAS' Response: We have conducted discussions with the insurance industry on the amount of work required to ensure compliance with the various requirements and standards. We have decided to push back the commencement of the disclosure and advisory process requirements to 1 April 2004. This is in light of the time needed to finalise the industry standards, print disclosure material and train intermediaries on the new sales process.

3 SALES PROCESS INVOLVING MORE THAN ONE PRODUCT TYPE

The consultation paper presented the standards on disclosure and fact-find format developed by the insurance industry. Respondents distributing life insurance products with A&H rider benefits were concerned that they may need to provide many documents to their clients under these standards. They also questioned whether this would discourage consumers from reading the disclosure materials.

MAS' Response: We note the industry's concern about the disclosure and advisory process requirements.

Disclosure requirements specified under the Insurance Act for A&H products and the Financial Adviser's Act for investment products describe the information items that must be disclosed to consumers. Likewise, advisory process requirements spell out the information that must be obtained from client when conducting a fact-find. These requirements, however, do not prescribe a specific format for the communication or data collection process.

We believe that it is possible to design disclosure and fact-find formats that meet all requirements specified by various legislations and appeal to consumers, as well as adapt well to a multi-product advisory process. We encourage the financial services sector to work closely together to develop standards on how to effectively and efficiently comply with the disclosure and advisory process requirements.

4 “YOUR GUIDE TO HEALTH INSURANCE”

While all respondents agreed with the intent of the proposed “Your Guide to Health Insurance” (“the Guide”) , the following concerns were raised:

- the draft Guide was too long and detailed (especially when compared to the existing “Your Guide to Life Insurance”);
- the cost of producing and distributing the Guide may be too high;
- as general insurers offer only a limited range of A&H products, a comprehensive Guide may give life insurers an unfair advantage when marketing as sensitised clients may turn to life insurers for a wider range of A&H products.

Two respondents also suggested combining the Guide with the existing “Your Guide to Life Insurance”.

MAS’ Response: We have no objection to industry’s effort to combine the guides for life and health insurance if the combined guide does not compromise its effectiveness in educating consumers.

Health insurance is more complex compared to life insurance. Therefore, it is inevitable that the Guide for health insurance requires more detailed elaboration than its life insurance counterpart. Efforts have been made to shorten the Guide and make it more comprehensible for consumers. After incorporating some of the proposed edits received during consultation, we are pleased with the Guide in its final form, which will be used by the insurance industry from 1 April 2004.

A copy of the Guide should be distributed to every policyholder. However, an insurer or intermediary may save on the cost of distributing the

Guide if it can establish that the client has already received a copy of the Guide from previous dealings with the insurer

We do not think that the Guide puts general insurers at a disadvantage. Not all consumers are looking for a full range of A&H products. They may already own some A&H products. The Guide helps to enhance consumers' awareness of what a comprehensive insurance coverage contains. General insurers who are able to leverage on this awareness and offer competitive products to meet unfilled needs will be well-positioned for growth in the A&H market.

5 OTHER FEEDBACK RECEIVED

5.1 Cost of compliance

One respondent said that the proposed disclosure and advisory process requirements may increase the cost of insurance to consumers.

MAS' Response: We believe that the costs and effort needed for the new requirements are justified, as it will help consumers to obtain the right type and level of insurance coverage. The requirements have been tailored to the complexity and the risk of mis-selling A&H products. Simple products (e.g. standalone personal accident products) are exempted from the advisory process requirements. ,

5.2 Reporting Requirements

With regards to the proposed reporting requirements for A&H business, some life insurance companies said it can be difficult to attribute premiums and claims figures relating to A&H benefits when the A&H benefits are packaged with life policies.

MAS' Response: We have decided to exclude any life policy where A&H benefits accelerate death benefits payment (as opposed to a policy where the A&H benefits payments are made over and above the death benefits payment) from the scope of the reporting requirement. We acknowledge that it is difficult to attribute premiums and claims figures relating to A&H benefits when they are embedded with other benefits offered under life policies.

5.3 On-going Disclosure Requirements

One respondent suggested for changes in policy terms and conditions, instead of requiring insurers to notify the insured 30 days prior to the change, a 14-day notification period should suffice.

MAS' Response: We believe that a 30-day notification is more appropriate. When an insured is not pleased with the impending changes to the terms of the insurance policy and wishes to change the policy, it will take more than 14 days to source and conclude a new insurance contract.

ANNEX A: LIST OF RESPONDENTS TO THE CONSULTATION PAPER

General Insurance Association of Singapore;
Life Insurance Association of Singapore;
Singapore Insurance Brokers Association;

and one respondent who does not wish to be named.