

FUNDING ARRANGEMENTS

1 The following funding proposal assumes that operating costs in the first year of FIDReC's operation will be approximately \$800,000 - \$850,000¹. This preliminary budget estimate is based on the costs of CMU and IDRO, with an add-on to accommodate the introduction of the capital markets sector. Going forward, the Committee expects synergies to filter through in the integration process in areas such as rental, salaries, training & office expenses.

2 Fixed vs. Variable Costs – Items on the budget have been split into variable and fixed costs on the basis that fixed costs refer to the minimum costs necessary to keep FIDReC in operation e.g. rental. Variable costs are dependent on the number of disputes handled e.g. adjudicator fees. The Committee proposes that, broadly, variable costs should be recovered via case fees while fixed costs should be recovered via a levy.²

3 Blocks - For the purposes of the levy, financial institutions in different sectors will be grouped into five blocks, which correspond to the five main industry sectors participating in FIDReC. Fixed costs will be shared between the five blocks on the basis of the amount of resources required to deal with the disputes generated by that block (proxied by the block's share of total disputes). In this way, institutions from different sectors will not end up cross-subsidizing another sector's use of FIDReC.

4 Share of disputes - The levy on an institution is related to number of disputes because a higher number of disputes will increase an industry block's share of the total levy. At the same time the more disputes an institution generates, the more it will have to pay in terms of case fees.

5 An estimate of each block's share of total disputes is shown in the table below. It is based on statistics for the previous year (2003) obtained from the existing dispute resolution schemes, with estimates for the capital markets and financial advisory services

¹ This does not include setup costs. MAS will assist in the application for a grant from the Financial Sector Development Fund (FSDF) in respect of setup costs. In the event FSDF is unable to provide a grant for the full amount of setup costs, the shortfall will need to be recovered from institutions.

² Salaries have been included under fixed costs, and make up a large proportion of total operating costs. It is arguable that salaries could figure under variable costs. However, there is a minimum number of staff required for a scheme like FIDReC to be able to operate. Beyond this minimum number, staff costs may be variable. In a small scheme like Singapore's the number of staff is likely to be close to the minimum number.

based on complaints received by MAS³. The numbers shown here do not include inquiries, complaints deemed to be outside FIDReC's terms of reference, and complaints referred back to financial institutions.

SHARE OF DISPUTES

BLOCK	No of disputes	Share of disputes
A – Banks and finance companies	229	25%
B – Life insurers	306	34%
C – General insurers	274	30%
D – Capital markets services licensees	50	5.5%
E – Licensed financial advisers and insurance intermediaries	50	5.5%
Total	909	100%

6 Case Fees - Variable costs will be recovered through case fees. Case fees to be paid by institutions will be tiered to take into account the complexity of a case and the amount of resources required to see it through to resolution.

7 Currently, both IDRO and CMU charge institutions a fee of \$500 if disputes are escalated to the adjudication stage. If the dispute is resolved at the case manager level, there is no charge. Assuming 5% of disputes reach adjudication, this fee structure is likely to result in a shortfall in meeting variable costs.

8 Hence, the Committee proposes that a small amount be charged for investigated disputes where an investigated dispute is defined as a dispute resolved at the case manager level which excludes inquiries, disputes outside the Terms of Reference, and disputes referred back to financial institutions.

9 Case fees for investigated disputes should be lower than case fees for adjudicated disputes to provide members an incentive to resolve their disputes prior to

³ To minimize time lags in the statistical data used, the funding arrangements could be based on the previous quarter's complaints statistics rather than the previous year's. However, this could make the funding arrangements more volatile and less certain. Another alternative is to use a 3-year moving average in determining block shares of total disputes. This is an option FIDReC can look into when more data on complaints statistics is available.

adjudication. Case fees should also be low so as not to disincentivise members from using the resources of the scheme to resolve disputes.

10 The Committee proposes a case fee of \$50 for investigated disputes. This identifies a case fee : levy ratio of approximately 10 : 90.

11 Currently consumers are charged nothing for investigated disputes and \$50 if the dispute reaches adjudication. There will be no change to the fees charged to consumers. This fee structure will ensure FIDReC continues to provide consumers an affordable avenue for resolving their disputes. In essence the schedule of fees under FIDREC will be as follows:

SCHEDULE OF CASE FEES

Case fees charged	Consumer	Financial institution
Type of dispute		
Investigated	\$0	\$50
Adjudicated	\$50	\$500

12 Distribution of Levy - Within each block institutions may choose to split their share of fixed costs according to a number of factors such as company size, retail market share, or simply by total number of institutions. Each block may also choose to split its share of funding by usage, i.e. by share of disputes. This would raise the overall proportion of costs that is recovered on the basis of usage for institutions in that block (i.e. case fees + levy shared according to usage).

13 Illustrations - Annex 3A illustrates the proposed distribution of costs by block. For simplicity we have assumed total costs of \$800,000, a case fee : levy ratio of 10 : 90, and a case fee of \$50 for investigated disputes and \$500 for adjudicated disputes. The number of institutions in each block is an estimate provided by the MAS.

14 The funding rules for members will be specified in an Annex to the Terms of Reference. A funding Committee will be appointed by the Board annually to agree on the following:

- The budget for FIDReC for the year (including any audited variances between budgeted and actual income or expenditure for the previous year);
- The allocation of the general levy between blocks in proportion to the workload which each block is expected to generate;
- The distribution of the levy within each block according to the selected funding bases.

ILLUSTRATIONS OF FUNDING ARRANGEMENTS BY BLOCK

BLOCK A (Banks & Finance Companies)

Number of Disputes	229
Share of Total Number of Disputes	25%
Share of Total Costs = 25% x \$800,000	\$200,000
Share of Total Levy = 25% x \$720,000	\$180,000

Distribution of Levy

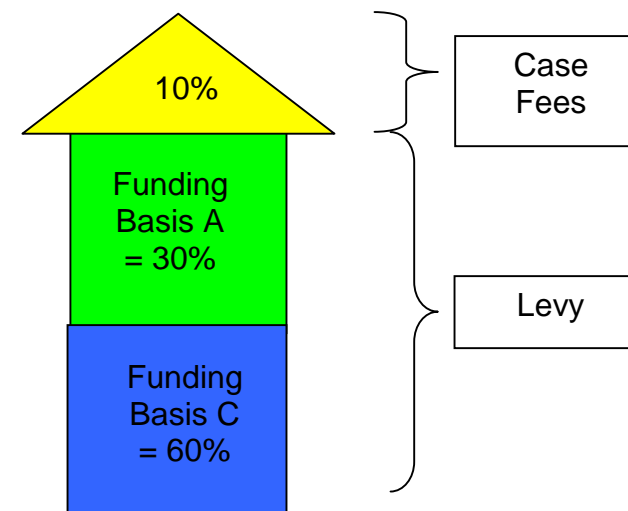
Funding Basis	Method	% of Levy	% of Cost
A. Equal share	Number of institutions (31)	34%	30%
B. Market share	Share of total number of retail accounts	0%	0%
C. Usage	Share of total number of disputes	66%	60%

ASSUMPTIONS:

Case Fees: Levy = 10:90

Total Costs = \$800,000

Total Levy = \$720,000



Firm	Type of licensee	No. of disputes	Funding Basis A	Funding Basis B	Funding Basis C	Illustrative Levy	Illustrative Case Fees	Total Contribution
A	Local Bank	40	\$2,000	\$0	\$20,750	\$22,750	\$2,900	\$25,650
B	QFB	25	\$2,000	\$0	\$12,970	\$14,970	\$1,700	\$16,670
C	Non-Qualifying Full Bank	0	\$2,000	\$0	\$0	\$0	\$0	\$2,000
D	Finance Company	2	\$2,000	\$0	\$1,040	\$3,040	\$100	\$3,140

ILLUSTRATIONS OF FUNDING ARRANGEMENTS BY BLOCK

BLOCK B (Life Insurers)

Number of Disputes	306
Share of Total Number of Disputes	34%
Share of Total Costs = 34% x \$800,000	\$272,000
Share of Total Levy = 34% x \$720,000	\$244,800

Distribution of Levy

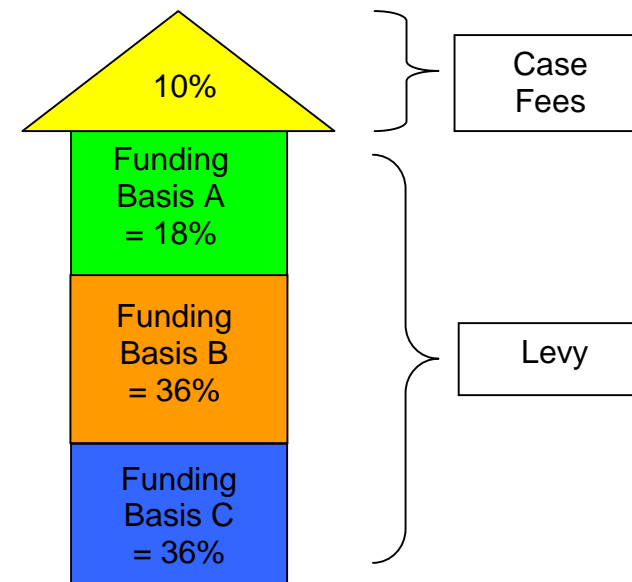
Funding Basis	Method	% of Levy	% of Cost
A. Equal share	Number of institutions (12)	20%	18%
B. Market share	Share of total annual gross premium income	40%	36%
C. Usage	Share of total number of disputes	40%	36%

ASSUMPTIONS:

Case Fees: Levy = 10:90

Total Costs = \$800,000

Total Levy = \$720,000



Firm	Type of licensee	No. of disputes	Market Share	Funding Basis A	Funding Basis B	Funding Basis C	Illustrative Levy	Illustrative Case Fees	Total Contribution
A	Life insurer	40	10%	\$4,080	\$9,790	\$12,800	\$26,670	\$2,900	\$29,570
B	Life insurer	10	5%	\$4,080	\$4,895	\$3,200	\$12,175	\$950	\$13,125
C	Composite insurer	30	5%	\$4,080	\$4,895	\$9,600	\$18,575	\$2,400	\$20,975

ILLUSTRATIONS OF FUNDING ARRANGEMENTS BY BLOCK

BLOCK C (General Insurers)

Number of Disputes	274
Share of Total Number of Disputes	30%
Share of Total Costs = 30% x \$800,000	\$240,000
Share of Total Levy = 30% x \$720,000	\$216,000

Distribution of Levy

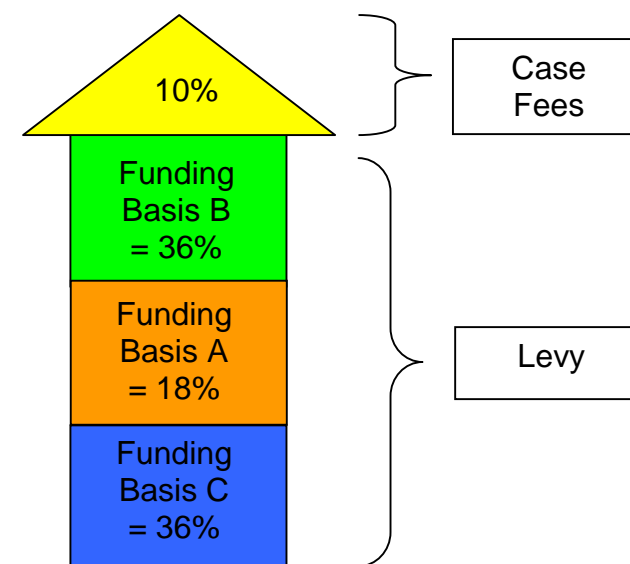
Funding Basis	Method	% of Levy	% of Cost
A. Equal share	Number of institutions (31)	20%	18%
B. Market share	Share of total annual gross premium income	40%	36%
C. Usage	Share of total number of disputes	40%	36%

ASSUMPTIONS:

Case Fees: Levy = 10:90

Total Costs = \$800,000

Total Levy = \$720,000



Firm	Type of license	No. of disputes	Market Share	Funding Basis A	Funding Basis B	Funding Basis C	Illustrative Levy	Illustrative Case Fees	Total Contribution
A	General insurer	40	10%	\$1,390	\$8,640	\$12,620	\$22,650	\$2,900	\$25,550
B	General insurer	10	5%	\$1,390	\$4,320	\$3,160	\$8,870	\$950	\$9,820

ILLUSTRATIONS OF FUNDING ARRANGEMENTS BY BLOCK

BLOCK D (Capital Markets Services Holders)

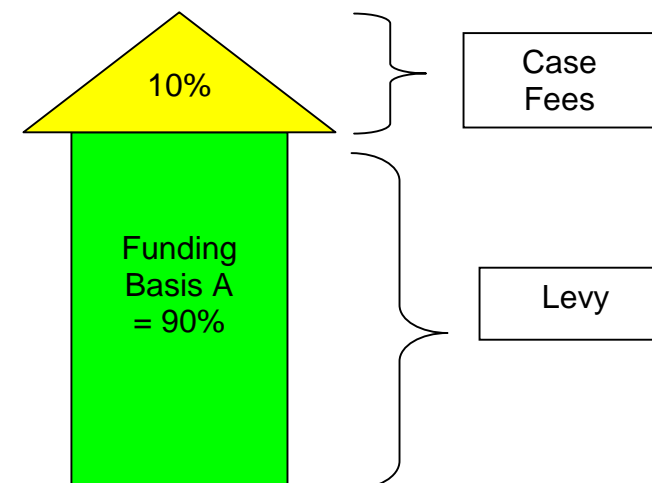
Number of Disputes	50
Share of Total Number of Disputes	5.5%
Share of Total Costs = 5.5% x \$800,000	\$44,000
Share of Total Levy = 5.5% x \$720,000	\$39,600

Distribution of Levy

Funding Basis	Method	% of Levy	% of Cost
A. Equal share	Number of institutions (143)	100%	90%
B. Market share	Fund Managers (Share of total funds under management) Securities Firms & Others (Share of total number of relevant dealers/brokers)	0%	0%
C. Usage	Share of total number of disputes	0%	0%

ASSUMPTIONS:

Case Fees: Levy = 10:90
 Total Costs = \$800,000
 Total Levy = \$720,000



Firm	Type of license	No. of disputes	Funding Basis A	Funding Basis B	Funding Basis C	Illustrative Levy	Illustrative Case Fees	Total Contribution
A	Securities Dealer	5	\$280	\$0	\$0	\$280	\$700	\$980
B	Futures Trader	2	\$280	\$0	\$0	\$280	\$100	\$380
C	Fund Manager	2	\$280	\$0	\$0	\$280	\$100	\$380
D	Custodian	0	\$280	\$0	\$0	\$280	\$0	\$280

ILLUSTRATIONS OF FUNDING ARRANGEMENTS BY BLOCK

BLOCK E (Financial Advisers & Insurance Intermediaries)

Number of Disputes	50
Share of Total Number of Disputes	5.5%
Share of Total Costs = 5.5% x \$800,000	\$44,000
Share of Total Levy = 5.5% x \$720,000	\$39,600

Distribution of Levy

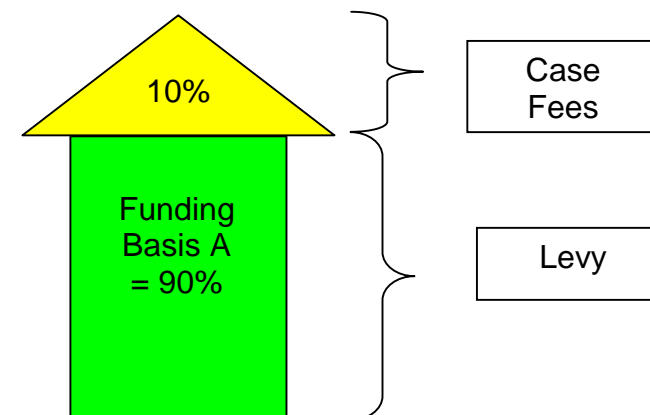
Funding Basis	Method	% of Levy	% of Cost
A. Equal share	Number of institutions (99)	100%	90%
B. Market share	Share of total number of representatives	0%	0%
C. Usage	Share of total number of disputes	0%	0%

ASSUMPTIONS:

Case Fees: Levy = 10:90

Total Costs = \$800,000

Total Levy = \$720,000



Firm	Type of license	No. of disputes	Funding Basis A	Funding Basis B	Funding Basis C	Illustrative Levy	Illustrative Case Fees	Total Contribution
A	Financial Adviser	5	\$400	\$0	\$0	\$400	\$700	\$1,100
B	Direct Insurance Broker	0	\$400	\$0	\$0	\$400	\$0	\$400