

# **RESPONSE TO FEEDBACK RECEIVED – CONSULTATION PAPER ON REVIEW OF PARTICIPATING LIFE INSURANCE BUSINESS**

## **1 INTRODUCTION**

1.1 On 22 February 2005, MAS issued a consultation paper on proposals to enhance the management and disclosure requirements of Participating (“Par”) Life Insurance Business. The consultation paper drew upon the findings and recommendations of the Par Fund Review Workgroup (“Workgroup”), which comprised of representatives from the life insurance industry, the Singapore Actuarial Society and the Monetary Authority of Singapore.

1.2 The consultation period closed on 28 March 2005. MAS would like to thank all respondents for their feedback and comments. The respondents are listed in **Appendix A**.

1.3 We have considered the feedback and comments received and have incorporated them, where appropriate, into the proposed measures for enhancing the governance and disclosure of par fund business. Comments that are of wider interest, together with MAS' responses, are set out below.

## **2 ENHANCEMENTS TO INTERNAL GOVERNANCE**

### **2.1 Frequency of review of the internal governance policy**

2.1.1 It was proposed in the consultation paper that the internal governance policy on par fund management should be reviewed regularly. One respondent sought clarification on whether the frequency of review would be determined by the insurer and if MAS would consider a yearly review to be adequate.

#### MAS' Response

2.1.2 It is now stated in the new MAS Notice 320 on Management of Par Life Insurance Business (“Notice”) that the internal governance policy must be reviewed annually by the insurer’s board of directors to ensure its continued relevance.

### **2.2 Availability of internal governance policy to par policyholders**

2.2.1 One respondent suggested that the proposed internal governance policy should be made available upon par policyholders’ request and posted on the corporate websites of the respective life insurers.

### MAS' Response

2.2.2 While there may be benefits to making the internal governance policy available to par policyholders, making this a mandatory requirement could inadvertently cause insurers to draft their internal governance policies in a broad manner or include many caveats, thus undermining the usefulness of the policies in enhancing the internal governance and management of the par fund. As the internal governance policy is intended to provide sufficient guidance to the insurer's management and staff in managing the par fund, it may be too technical for the layperson and contain information that may not necessarily enhance consumers understanding of how the par fund is being managed.

2.2.3 As such, MAS has decided that it is not necessary at this juncture to make it a mandatory requirement that the internal governance policy be made available upon a policyholder's request or on the life insurers' corporate websites. Instead, information that is relevant and important would be included in the enhanced product summary, and disclosed to prospective customers in a manner that would be easily understood by a layperson. Life insurers are, however, free to provide their internal governance policies to their policyholders upon request, or post them on their corporate websites.

## **3 ENHANCEMENTS TO POINT-OF-SALE DISCLOSURE FRAMEWORK**

### **3.1 Risk of information overload to policyholders**

3.1.1 Several respondents were of the view that the majority of consumers may still not be able to understand the proposed enhanced disclosure requirements even though consumer awareness of insurance and investment products have improved with efforts undertaken by LIA and MAS in consumer education. Increased disclosure to consumers would only be beneficial if the additional information provided is useful and easy for consumers to understand. Otherwise, increased disclosure may lead to higher compliance costs (that would inevitably be charged to the par fund and ultimately borne by the par policyholders) without increased customer enlightenment.

3.1.2 As such, the respondents suggested that inputs from a consumer perspective should be sought before finalising the new disclosure requirements for par products. This could consist of feedback or research from existing par policyholders. The consultation would give more credit to the recommendations, and significantly improve the chances that the proposed measures would meet the objective of enhancing consumer understanding.

### MAS' Response

3.1.3 MAS agrees that seeking consumer feedback is necessary to ensure that the enhanced disclosure measures are useful to consumers. As such, MAS supported LIA's proposal to engage a research company to conduct a consumer survey on the proposed disclosure documents. Several focus group sessions were conducted in January 2006 with consumers belonging to different age groups, and who have either intended to purchase or have recently purchased a par policy. In-depth interviews were also conducted with industry experts such as independent financial advisers, former agents and journalists. MAS and LIA have also worked closely to fine-tune the original documents to take into account the feedback received from the survey.

## **3.2 Use of layperson language**

3.2.1 A few respondents agreed with the need for greater transparency, but requested that the terms and language used by the life insurers in the disclosure documents be made easier for the layperson to understand.

### MAS' Response

3.2.2 The enhanced point-of-sale disclosure documents, including product summaries and benefit illustrations, have been tested in the consumer survey commissioned by LIA. They went through a few iterations to ensure that the terminology and language used are easily understood by consumers. The findings of the consumer survey were also shared with the life insurers so that they could incorporate the useful feedback when they prepare their disclosure documents.

## **3.3 Inclusion of generic par product information in an industry guide**

3.3.1 One respondent suggested that a number of the items proposed to be included in the enhanced product summary could be presented by way of standard industry wording. These items, set out in Section 5.2 of the consultation paper, include general concepts surrounding bonus determination (such as fairness, risk pooling, and bonus smoothing), responsibilities of the Board of Directors and Appointed Actuary and factors affecting bonus payouts.

### MAS' Response

3.3.2 MAS agrees that it would be better to present items which are generic and not specific to any life insurer using standard wordings in a generic product guide to be made available at the point of sale. MAS worked with LIA to develop a draft of the generic industry guide on participating policies ("Your Guide to Participating Policies") and tested it for consumer understanding during the survey commissioned by LIA.

3.3.3 Your Guide to Participating Policies aims to provide the prospective customer with general information on how a par policy works, by answering the following questions:

- (a) What is a par policy?
- (b) What is the aim of a par policy?
- (c) How does this differ from investment-linked policies?
- (d) What will affect the bonuses that the policyholders will receive?
- (e) How will bonuses be determined?
- (f) What are the types of bonuses?
- (g) What if the policyholder were to leave the plan early?
- (h) What information the par policyholder should receive?
- (i) What are the key safeguards protecting the interests of par policyholders?

3.3.4 LIA plans to issue “Your Guide to Participating Policies” under the MoneySENSE banner. The finalised guide is scheduled to be ready by the time life insurers are required to implement the enhanced disclosure requirements for product summaries and point-of-sale benefit illustrations.

### **3.4 Frequency of provision of generic par product information**

3.4.1 One respondent was concerned with overloading prospective customers with all the point-of-sales disclosure information proposed in the consultation paper every time a par product is recommended. If consumers were to be overwhelmed by the amount of information provided and choose not to read the disclosure materials, this would defeat the purpose of the enhanced disclosure measures.

3.4.2 Hence the respondent suggested putting together information which would be common to most types of par products offered by the life insurer in a separate document to be given to the customer whenever he or she buys the first par product.

#### MAS' Response

3.4.3 MAS agrees that customers should not be overloaded with too many disclosure materials. In view of this, MAS and LIA agreed not to make it mandatory for life insurers to provide a copy of the generic industry guide, “Your Guide to Participating Policies”, at the point of sale. Instead, life insurers are expected to make the industry guide available (via the corporate website or in hard copies) to prospective customers who are interested to know more about the par product and the key regulatory requirements. In particular, first time buyers of par products would find the industry guide more useful than others who already own one or more par products. The product summaries available at the point of sale will inform consumers that the

industry guide is available on the website as well as from the life insurer upon request. The industry guide will also be available on the MoneySENSE website.

3.4.4 This approach is supported by the results of the consumer survey commissioned by LIA, which showed that the enhanced product summaries and benefit illustrations were of more direct relevance to prospective customers and were more easily accepted as the core documents for the par products they purchase. The industry guide was perceived as useful supplementary reading for those who would like to know more, especially first time buyers of par products.

### **3.5 Understanding of terminal bonus**

3.5.1 A few respondents would like to see more explanations on how terminal bonuses are being determined by life insurers in the enhanced disclosure documents. They felt that information is currently lacking on how life insurers smooth their terminal bonus payouts, for example, whether the terminal bonus payable is based on the performance of the par fund in the particular year that the bonus is due, or based on its performance throughout the term of the par policy.

#### MAS' Response

3.5.2 MAS agrees that it is important for life insurers to provide clear explanations on the differences between reversionary and terminal bonuses, especially the ways in which they are smoothed. With the implementation of the enhanced disclosure measures, life insurers are required to describe in the product summary, the different types of bonuses that may be paid, and how bonuses, both reversionary and terminal, will be smoothed out over the duration of the policy.

3.5.3 Life insurers are also required to set out the respective approaches adopted for smoothing of reversionary and terminal bonuses in the internal governance policy. Life insurers are responsible for ensuring that the par fund is managed in accordance with the rules and guiding principles set out in the internal governance policy on an ongoing basis.

### **3.6 Provision of historical bonus rates**

3.6.1 One respondent suggested that life insurers should disclose to their prospective customers the declared reversionary and terminal bonus rates for the previous five years. The respondent was of the view that the actual historical bonuses declared would help the prospective customer in deciding whether the life insurer would be able to meet the projected bonuses.

### MAS' Response

3.6.2 MAS agrees that such historical information would help prospective customers in their decision making. Thus the Notice requires life insurers to state in the product summary, the reversionary and terminal bonus rates for that particular par plan, or similar plans belonging to the same bonus series, for the past three years. Life insurers should also clearly highlight that past performance is not necessarily indicative of future performance.

3.6.3 There will be instances where such historical information may not be available. For example, where the par plan is to be issued under an entirely new bonus series, or where the plan has not been introduced long enough for historical terminal bonus rates to be available. In such cases, life insurers should explicitly state that no past performance is available and provide the reason(s) why.

## **3.7 Presentation of costs in point-of-sale benefit illustration**

3.7.1 One respondent sought clarification on whether the values shown in the column, "Total Charges", in the proposed benefit illustration in Annex 3 of the consultation paper were cumulative, and what interest rates were used to accumulate those values.

### MAS' Response

3.7.2 Upon further consultation with the industry, MAS and LIA agreed to revert to the current use of "Effect of Deductions" and present the costs differently from what was proposed in the consultation paper. Changes were made to the benefit illustration and the revised version was tested at the consumer survey commissioned by LIA. The change was generally well received and better understood by the consumers. **Appendix B** contains the relevant section on costs (or "deductions") extracted from the finalised benefit illustration to be provided at point of sale.

3.7.3 In this new benefit illustration, there will be a table of deductions to illustrate the effect that deductions will have on the amount that the policyholder will receive on surrender or maturity. The accumulated value of premiums paid to date<sup>1</sup>, surrender/maturity value, and the net difference of the two ("Effect of Deductions To Date") will be calculated at the two projected investment rates of return. This will help to highlight the cost of surrendering the policy early.

3.7.4 There will be another table of distribution costs to illustrate the costs that the life insurer expects to incur in relation to the policy, including the cost of providing any financial advice to the consumer. Information on the total distribution costs has been

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<sup>1</sup> Assuming that the consumer can invest all of the premiums without deduction for cost of insurance and without incurring any expenses.

included previously in the benefit illustration, but as part of the main benefits. Presenting this information in a separate section will now help to give it more focus.

### **3.8 Provision of further breakdown of costs in point-of-sale benefit illustration**

3.8.1 One respondent suggested that there should be a further breakdown of costs in the point-of-sale benefit illustration. For example, the expenses and surrender penalty should be presented separately from “Total charges” so that policyholders can clearly see the effect of such costs on the projected returns.

#### MAS’ Response

3.8.2 Given the nature of the par product, it would not be meaningful to provide a further breakdown of costs. This is because there are no explicit deductions for the different components, such as insurance costs and expenses, in the case of a par product. Instead, charges are allocated to the par product to cover the expenses and costs. Par policyholders will not be separately charged for the fees and charges which have already been included in the calculation of the premium. Hence, it is not necessary to provide a further breakdown of the deductions, aside from information on distribution costs which will be shown on a separate page as mentioned earlier in paragraph 3.7.4.

## **4 ENHANCEMENTS TO POST-SALES DISCLOSURE FRAMEWORK**

### **4.1 Compulsory provision of full updated benefit illustration annually**

4.1.1 It was proposed in the consultation paper that life insurers should provide updated benefit illustrations to their existing par policyholders annually to inform them of the latest projection of benefits based on the actual performance and revised future outlook of the par fund.

4.1.2 A number of respondents expressed concerns that sending full updated benefit illustrations to all par policyholders every year would be of limited use and may result in information overload and confusion to policyholders. In practice, bonus rate fluctuations are not frequent since life insurers would as far as practicable endeavour to maintain their bonus rates. As such, there is less need for annual updates since very similar information will be presented each year. The respondents were also of the view that the benefits of this recommendation, if any, would not outweigh the increased compliance costs, which would ultimately be charged to the par fund and borne by all par policyholders.

4.1.3 A few respondents proposed that, as an alternative, par policyholders be provided with only the revised projected maturity values (for endowment policies) or surrender values at a specified age (for whole life policies) instead of the full projections. Interested policyholders could approach their financial adviser representatives or their respective life insurer directly for a full updated benefit illustration.

MAS' Response

4.1.4 Upon further consultation with the industry, MAS notes that substantial system enhancements and costs would be involved in preparing and sending the full updated benefit illustration to all existing par policyholders every year. In addition, the benefits to par policyholders may not be as apparent in an environment where bonus rates are kept stable over the long run. Policyholders may end up receiving similar information each year, and this is of limited value to them.

4.1.5 LIA currently requires life insurers to provide par policyholders with the revised projected maturity value (for endowment plans) or projected surrender value at a specified age (for whole life plans) whenever there are changes to the bonus rates declared. Life insurers are also required to highlight the impact of the bonus change to policyholders. Policyholders are able to request for a full updated benefit illustration at anytime.

4.1.6 Taking the above into consideration, MAS has decided not to require life insurers to send the full updated benefit illustrations to par policyholders every year. Instead, MAS proposes to enhance the current practice adopted by LIA. Hence, with effect from bonus declarations to be announced in 2008 (ie for 2007), life insurers will be required to provide key figures to par policyholders whenever there are changes to the bonus rates being declared, or whenever they revise their estimation of future bonus rates<sup>2</sup>.

4.1.7 For endowment plans, the key figures to be provided will be the revised total<sup>3</sup> maturity value, revised yield at maturity, and the impact of the bonus rate revision on the total maturity value and yield at maturity. For whole life plans, the key figures to be provided will be the revised total surrender benefit, revised yield at surrender, and the impact of the bonus rate revision on the total surrender value and yield at surrender, shown at a specified age or duration.

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<sup>2</sup> This would apply to both annual (e.g. reversionary) and terminal bonus rates.

<sup>3</sup> This would be the sum of benefits which have already been guaranteed to-date, and the future non-guaranteed benefits.



4.1.8 A full updated benefit illustration will be made available to par policyholders upon request. All these information may be made available to par policyholders in electronic form if the policyholder's written consent has been obtained.

4.1.9 The above approach would help to meet the objective of managing par policyholders' expectations over the term of their policies, yet keeping compliance costs reasonable for the life insurers.

## **4.2 Provision of yield-to-date**

4.2.1 One respondent commented that the post-sales disclosure report should provide information on the present returns, ie the yield-to-date based on how much the policyholder has invested after deducting the administrative costs in addition to information on the par fund performance and impact on future bonuses. Such information would allow policyholders to know their yield-to-date and assist them in deciding whether to continue or terminate their policies.

### MAS' Response

4.2.2 Policyholders should appreciate that buying a life insurance policy is a long-term commitment and early termination of the policy more often than not involves high costs. As such, the surrender value payable may be less than the total premiums paid when policies are surrendered early. It is therefore neither advisable nor meaningful for policyholders to focus on the yield-to-date. MAS is of the view that the provision of the revised yield at maturity or yield at surrender at a specified age or duration (as described in paragraphs 4.1.6 and 4.1.7) is more meaningful to the par policyholders.

## **5 TRAINING FOR FINANCIAL ADVISER REPRESENTATIVES AND RELEVANT INTERNAL STAFF**

### **5.1 Training for financial adviser representatives selling par policies**

5.1.1 It was mentioned in the consultation paper that financial adviser representatives selling par policies should be adequately trained on the proposed enhancements to the governance and disclosure framework so that they would be able to provide well considered advice to their clients. A number of respondents agreed that training of the financial adviser representatives is instrumental to the effectiveness of the proposed enhancements by the Workgroup. One respondent suggested having standard industry curriculum for agents selling par policies, rather than each life insurer developing its own training programme.

### MAS' Response

5.1.2 LIA will be working closely with the Singapore College of Insurance (SCI) to incorporate the relevant information on the newly introduced enhanced governance and disclosure measures in the course materials and examination for CMFAS Module 9 (Life Insurance and Investment-linked Policies). The examination, administered by SCI, helps to ensure that potential financial adviser representatives possess the requisite knowledge of life insurance and investment-linked policies. MAS currently requires those intending to provide advice on and/or arrange life insurance policies to pass this module together with module M5 on Rules and Regulations for Financial Advisory Services.

5.1.3 In addition, life insurers would be required to administer their own training for all their financial adviser representatives on a regular basis. The training should meet the objectives set out in Section 6.2 of the consultation paper, with emphasis placed on company-specific issues. Life insurers should also ensure that similar training is conducted regularly for relevant staff involved in various aspects of the management of par funds.

## **5.2 Training for board of directors**

5.2.1 It was proposed in the consultation paper that a life insurer should also conduct training for its staff who are involved in various aspects of par fund management. A respondent suggested that the Board members should also receive appropriate training in order for them to appreciate the rules and guiding principles set out in the internal governance policy.

### MAS' Response

5.2.2 MAS agrees that there are merits in providing appropriate training for the Board of Directors on the enhanced governance and disclosure measures, given that the Board is to approve and review the internal governance policy, and ensure that the par fund is managed in accordance with the rules and guiding principles set out in the internal governance policy. Although the requirement for training (regardless of whether to financial adviser representatives, relevant staff or board members) will not be covered in the Notice, life insurers are strongly encouraged to arrange appropriate training for their Board members to enhance their competencies in order to carry out their duties effectively. Such training should not be limited to the management of the par fund.

## **6 IMPLEMENTATION RELATED ISSUES**

## **6.1 Division between MAS regulations and industry guidelines**

6.1.1 One of the respondents suggested that the proposed MAS regulations should be light on specifics and focus more on the principles and the intention of the regulation. LIA could fill the gap by issuing more detailed industry guidelines, which could be more responsive to industry changes.

### MAS' Response

6.1.2 The suggestion is in line with MAS' intention of implementing the enhanced measures via a combination of MAS regulations and industry guidelines. MAS has worked closely with LIA to decide on what elements to be included in the Notice as well as the disclosure guidelines to be issued by LIA. It was agreed that the Notice would set out the mandatory requirements relating to the internal governance policy, as well as information to be contained in the product summary and post-sales disclosure report ("annual bonus update"). Guidelines on the point-of-sale benefit illustrations, which prescribe the format and the contents of the accompanying notes, would be contained in the industry guidelines issued by LIA.

6.1.3 The Notice has been drafted with an emphasis on the principles instead of the specific details. For example, the Notice sets out broadly the type of information that should be included in the product summaries. Life insurers should refer to the results of the consumer survey commissioned by LIA for suggestions on how to present the necessary information in a manner that will be easy for the layperson to understand.

## **6.2 Timeline for implementation**

6.2.1 A number of respondents requested that insurers be given adequate lead time on the implementation of the proposed recommendations by the Workgroup. This is because considerable work such as system enhancements would be involved in the implementation of the enhanced disclosure requirements.

### MAS' Response

6.2.2 MAS appreciates that life insurers would need considerable time and resources to comply with the proposed enhancements, especially those involving disclosure. Hence, MAS and LIA have decided to roll out the proposed enhancements in phases:

- (a) *Phase 1* – Life insurers are required to put in place board-approved *internal governance policies* as set out in the Notice by 31 December 2007;
- (b) *Phase 2* – Life insurers are required to include the information set out in the Notice in the *product summaries* of all the par products which

they are selling with effect from 1 March 2008. The *point-of-sale benefit illustrations* of these par products should also comply with the revised disclosure guidelines on benefit illustration for par policies issued by LIA. Life insurers should also ensure that the financial adviser representatives and relevant staff are adequately *trained* on the new measures;

- (c) *Phase 3* – Life insurers are required to provide the *post-sale disclosure reports* (“*annual bonus updates*”) incorporating the information set out in the Notice to their par policyholders when they declare the bonuses for the year ending 31 Dec 2007 in 2008, and for subsequent periods thereafter.

6.2.3 The staggered implementation dates will ensure that life insurers have adequate time to enhance their systems to cope with the additional disclosure requirements and train their financial adviser representatives as well as relevant staff. The industry has been consulted on the implementation timeline.

## **Appendix A**

### **List of Respondents to the Consultation Paper on the Review of Participating Life Insurance Business**

1. Life Insurance Association of Singapore
2. 12 individual respondents

## Appendix B

### Finalised Sample of Point-of-sale Benefit Illustration

The following is an extract of the tables of deductions and distribution costs from the finalised format of point-of-sale benefit illustration.

#### What is the impact of deductions on what you might get back?

The following table illustrates the effect that deductions will have on the amount you get back on surrender or maturity. It also highlights the cost of surrendering the policy early.

Table of deductions							
End of Policy Year/Age	Total Premiums Paid To-date (S\$)	DEDUCTIONS					
		Projected at 3.75% investment return			Projected at 5.25% investment return		
		Value of Premiums Paid To-date (S\$)	Effect of Deductions To-date (S\$)	Total Surrender Value (S\$)	Value of Premiums Paid To-date (S\$)	Effect of Deductions To-date (S\$)	Total Surrender Value (S\$)
1/36							
2/37							
3/38							
4/39							
5/40							
10/45							
15/50							
20/55							

#### What do the columns in the table of deductions mean?

1. "Value of Premiums Paid To-Date" is obtained by accumulating the premiums paid to date at the Projected Investment Rate of Return, assuming that you were able to invest all of your premiums without deduction for the cost of insurance and without incurring any expenses.
2. The difference between the "Value of Premiums Paid To-Date" and "Total Surrender Value" represents the "Effect of Deductions To-Date". This is the accumulated value of the deductions for the cost of insurance and expenses.

### How Much Are You Paying for Distribution Costs?

This table shows the total costs of distribution that XYZ Insurer expects to incur in relation to your policy, including the cost of any financial advice provided to you.

<b>Total distribution cost</b>		
End of Policy Year/Age	Total Premiums Paid To-date (S\$)	Total Distribution Cost To-date (S\$)
1/36		
2/37		
3/38		
4/39		
5/40		
10/45		
15/50		
20/55		

#### **What does the last column represent?**

1. The Total Distribution Cost To-Date is the sum of each year's expected distribution-related costs, without interest. Such costs include cash payments in the form of commission, costs of benefits and services paid to the distribution channel.
2. Please note that the Total Distribution Cost is not an additional cost to you; it has already been allowed for in calculating your premium.
3. You can obtain the Total Distribution Cost of each of the supplementary benefits (if applicable) from your Financial Adviser or its representatives.