

# CONSULTATION PAPER

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## Proposed Guidelines On Fair Dealing - Board And Senior Management Responsibility For Delivering Fair Dealing Outcomes To Consumers

MAS

Monetary Authority of Singapore

## PREFACE

MAS invites interested parties to forward their views and comments on the *Guidelines on Fair Dealing – Board and Senior Management Responsibility for Delivering Fair Dealing Outcomes to Consumers*. A copy of the proposed Guidelines is attached at the Annex. Respondents may wish to consider the following questions in their responses:

- a) Do the five fair dealing outcomes clearly express the key outcomes that our regulatory regime for financial advisory services should seek to achieve? Are there any other outcomes that should be included?
- b) Are the illustrations useful? Do you have other suggestions or examples of good or poor practices?
- c) Are the self-assessment questions relevant and comprehensible? Are there any other questions that should be included?
- d) Besides the proposed initiatives set out in the Guidelines, what other practical initiatives may help the industry deliver fair dealing outcomes to consumers?

2 Electronic submission of comments is encouraged. All written comments should be submitted to:

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Monetary Authority of Singapore  
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MAS Building  
Singapore 079117  
Email: [fairdealing@mas.gov.sg](mailto:fairdealing@mas.gov.sg)  
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All comments and feedback should be submitted to MAS by 21 May 2008.

3            Please note that all submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

## **Annex**

# **GUIDELINES ON FAIR DEALING - BOARD AND SENIOR MANAGEMENT RESPONSIBILITY FOR DELIVERING FAIR DEALING OUTCOMES TO CONSUMERS**

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# 1 INTRODUCTION

## PURPOSE

1 One of the supervisory objectives of the Monetary Authority of Singapore (“MAS”) is promotion of fair dealing by financial institutions (“FIs”) when they conduct business with consumers. In line with this objective, MAS enacted the Financial Advisers Act (“FAA”) in 2002. The FAA seeks to improve transparency and fair dealing standards across the financial advisory (“FA”) industry.

2 From its supervisory work and interaction with the FA industry, MAS has observed that the industry has shown progress in improving policies, systems and controls to comply with the requirements of the FAA. There is however room for improvement as the industry continues to receive a steady flow of consumer complaints. FIs cannot be complacent. They will face keen competition for market share and increasingly demanding consumers. In such circumstances, earning the trust and goodwill of consumers makes good business sense.

3 MAS surveyed international developments on better regulation initiatives and considered the approaches adopted in other jurisdictions, especially the United Kingdom, in regulating the retail distribution and advisory market. Although international benchmarking is important, we are mindful that we must adapt our regulatory approach to reflect the characteristics of the local retail financial services market.

4 MAS is publishing these Guidelines as part of its efforts to work with the industry to achieve better standards of fair dealing with consumers.

## SCOPE

5 These Guidelines focus on the role of the Board and Senior Management in leading their FIs to deliver fair dealing outcomes to consumers. They have been written with the needs of retail consumers in mind. They particularly apply to FA services on investment products regulated under the FAA as well as after-sales services and complaints handling. However, the general

principles enunciated in these Guidelines also apply to other financial services offered to retail consumers, such as loans and credit card services.

6 The Guidelines articulate five fair dealing outcomes and explain why each outcome is important to consumers. They also list key issues and set out some self-assessment questions for the Board and Senior Management to consider.

7 The emphasis on outcomes is deliberate. Firstly, fair dealing outcomes are what the FAA seeks to achieve. Secondly, fair dealing outcomes create win-win situations: for consumers when their interests are met and for FIs as their business can grow as consumer confidence in them increases. Thirdly, the outcomes can be used as benchmarks by MAS and the industry to assess the performance of FIs in delivering financial services to consumers and to gauge whether efforts to promote good market conduct practices are succeeding.

8 FIs differ in their business model, size and complexity. As such, each FI needs to consider how best to apply the Guidelines to suit its circumstances. The Guidelines do not replace or override the legislative rules and should be read together with the FAA, its subsidiary legislation and written directions, notices, codes and guidelines that MAS may issue from time to time.

9 MAS looks to the Board and Senior Management of FIs to conduct a detailed analysis of their business to identify how well they are delivering the five fair dealing outcomes across their retail business. Where gaps exist, the Board and Senior Management are expected to develop a plan to address these gaps and set clear priorities and targets for its implementation.

10 MAS also encourages industry associations to promote the fair dealing outcomes. They can do so in several ways, including:

- a) developing case studies and examples of best practices for each fair dealing outcome;
- b) conducting mystery shopping exercises, consumer surveys and other studies to identify problem areas and make improvements in market conduct standards;
- c) conducting training for representatives to deliver fair dealing outcomes for consumers; and

- d) aligning their industry codes of practice with the fair dealing outcomes.

11 Consumers must also be responsible for their financial decisions. MAS will continue to issue consumer guides and educational tips under the MoneySENSE financial education programme to help consumers understand what the fair dealing initiative means to them and what they can expect from FIs.

12 Although MAS intends to shift emphasis of supervision under the FAA to a more outcome-focused approach, it recognizes that clear rules are necessary as they provide certainty and predictability in key areas for FIs. A balance has to be struck between having sufficient rules so that FIs know with certainty their obligations and giving them the flexibility to implement requirements to suit their circumstances. Where flexibility does not compromise clarity on legal obligations, MAS will remove rules considered redundant, or replace these with more outcome-based obligations. The objective is to enable the Board and Senior Management to decide how best to deliver fair dealing outcomes to consumers.

13 To assess the progress made by the industry in delivering fair dealing outcomes, MAS will use a variety of supervisory tools such as thematic inspections, surveys of FIs and consumers, firm visits, interviews with the Board and Senior Management, and mystery shopping.

14 Going forward, MAS will work with stakeholders to provide information to help FIs understand and achieve the five fair dealing outcomes set out in the Guidelines.



## **2 RESPONSIBILITY OF THE BOARD AND SENIOR MANAGEMENT FOR DELIVERING FAIR DEALING OUTCOMES TO CONSUMERS**

1 These Guidelines rest on the basic tenet that the Board and Senior Management of an FI are ultimately responsible for delivering fair dealing outcomes to consumers. The Board and Senior Management have this primary responsibility because they set the culture and direction of the firm.

2 The culture of a firm refers to the set of formal and informal rules, norms and values, attitudes, practices and general course of conduct in the firm. The influence of culture is pervasive and tangible. It will have an imprint on every aspect of the FI's business operations, right down to how the FI's staff conducts day-to-day business with consumers and whether they are dealing with them fairly.

3 The Board and Senior Management are responsible for developing and sustaining a culture of fair dealing throughout their business. This means more than framing a mission or value statement, although such an action has its purposes. Setting a culture means influencing attitudes and behaviour at all levels of the firm. It requires concerted and wide ranging measures such as:

- a) committed leadership by the Board and Senior Management to embed a culture of fair dealing;
- b) implementing an information management system to monitor progress in achieving fair dealing outcomes;
- c) providing training for staff to acquire the competencies required for fair dealing; and
- d) orienting the compensation and performance evaluation system to incentivise fair dealing conduct.

4 In setting a culture of fair dealing, the Board and Senior Management should focus on making sure that for their FI the following fair dealing outcomes are achieved:

- a) Consumers have confidence that financial institutions put consumers' interests first in the conduct of their business;

- b) Financial institutions offer products and services that are suitable for the consumer segments they target;
- c) Financial institutions appoint competent representatives who provide consumers with advice that meet their financial objectives and suit their personal circumstances;
- d) Consumers receive clear, relevant and timely information to make informed financial decisions; and
- e) Financial institutions handle consumer complaints promptly and in a consistent manner.

5 These fair dealing outcomes can be interpreted as principles of conduct, not rules to be applied rigidly. As such, FIs have the flexibility to decide how best to conduct their FA business and deliver the outcomes in a manner that best fits the size, scale and complexity of their business.

6 A useful starting point for the Board and Senior Management is to review their approach to fair dealing through the life cycle of an investment product. Such a cycle usually begins from the point a product or service is conceived, to the advisory and sales process, and finally, to how the FI handles after-sales service and complaints. The Board and Senior Management must be able to ascertain that they are delivering fair dealing outcomes to consumers throughout the life cycle of the products they offer. This will require reporting arrangements and a management information system to be able to do so.

7 We set out in the following sections further guidance on how the Board and Senior Management can meet their responsibility for delivering the five fair dealing outcomes.

### **3 FAIR DEALING OUTCOME ONE**

**Consumers have confidence that financial institutions put consumers' interests first in the conduct of their business.**

#### **1 RATIONALE**

1.1 FIs often play an influential role in the financial decisions made by consumers. This is because retail consumers usually do not have as much information about investment products as FIs. Many consumers also do not fully understand investment products and the risks they pose. Consumers consequently tend to rely on FIs for information, advice and recommendations. Moreover, the retail financial services market remains dominated by commission sales arrangements which create potential conflicts of interests between FIs and their customers. Accordingly, it is important that FIs do not use their greater expertise, knowledge and resources to take unfair advantage of consumers. They should instead abide by the principle of putting the interests of consumers first when dealing with them.

1.2 Giving priority to the interests of consumers is not to be regarded as just a nice marketing slogan. It has to be intrinsic to the FI's business practices, manifested in its day-to-day dealings with consumers. In other words, it has to do with the culture and values of the firm. As the Board and Senior Management set the tone and culture of the FI, they are expected to be the champions and stewards of a culture of fair dealing in their firm.

#### **2 KEY COMPONENTS**

2.1 In seeking to develop and reinforce a culture of fair dealing with consumers, the Board and Senior Management focus on four key components:

- a) aligning organizational policies and practices to achieve a fair dealing culture;
- b) communicating to staff that fair dealing is a priority for the firm;
- c) implementing a strategy to achieve fair dealing outcomes; and
- d) monitoring the effectiveness of policies and strategies.

## **2.2 Aligning Organisational Policies and Practices**

2.2.1 The Board and Senior Management have set a goal of creating a culture of dealing with consumers fairly that will permeate the firm. They recognise that they will only succeed if the firm's policies and practices are aligned with this goal. They consequently review the FI's policies, systems and processes to identify market and business conduct practices that may affect its ability to achieve positive outcomes for consumers. They take steps to rectify practices that tend to produce negative outcomes.

2.2.2 For example, the FI considers carefully areas of potential conflicts of interests among different categories of customers and between its own interests and those of its customers. The FI pays particular attention to its experiences with commission sales arrangements as these arrangements create potential conflicts between the long-term well-being of consumers and the short-term bottom line commercial demands of the firm.

2.2.3 The Board and Senior Management also consider policies in other areas. These include:

- a) the remuneration system to ensure that it does not incentivise inappropriate practices such as "product-pushing" or selling unsuitable products;
- b) the recruitment practices so that it targets and recruits fit and proper persons;
- c) the supervisory system for representatives and staff delivering financial services to ensure that the supervision is on-going and effective; and
- d) the performance appraisal system to ensure that performance evaluation criteria encourage behaviour and standards required to achieve fair dealing outcomes.

**Illustration 1.1**

*Under the leadership of the Chief Executive Officer, the Fair Dealing Taskforce of a FI conducted a review of the FI's advisory and sales process to identify areas where it fell short. Based on the findings, the Taskforce formulated a strategy which included defining a set of principles to drive cultural change, as well as training and supervising staff on treating consumers fairly. This strategy was subsequently endorsed by the Board, which was also provided quarterly updates on the FI's progress.*

Explanation: Moving to a culture of fair dealing requires a mindset shift, which needs to be driven from the top. The formation of a taskforce dedicated to achieving fair dealing outcomes, as well as discussion and support for the initiatives to support the achievement of these outcomes at the Board and Senior Management level, are some ways to demonstrate the FI's commitment to dealing with consumers fairly.

**Illustration 1.2**

*A FI designs its remuneration package for representatives in a manner that aligns the interests of its representatives with consumers. Besides sales volume, the remuneration of its representatives takes into account client retention, complaints, compliance records, proportion of full fact-finds conducted, and competency assessments.*

Explanation: A heavily commission-driven remuneration structure for representatives can create risks of product-pushing and aggressive selling. FIs should address this risk by incorporating indicators which support fair dealing objectives into the remuneration structure of their representatives.

**2.3 Communicating fair dealing outcomes as a priority for the firm**

2.3.1 The Board and Senior Management recognise that creating a fair dealing culture also requires an appropriate communications strategy. The strategy is about communicating a clear and consistent message to both internal and external stakeholders that delivering fair dealing outcomes for consumers is an organisational priority.

2.3.2 The Board and Senior Management are aware that communications can shape attitudes, perceptions and expectations. Accordingly, they request for, review and oversee a communications strategy to convey the importance they

place on fair dealing. The strategy covers various elements: involvement by the Board and Senior Management in communicating the importance they place on fair dealing; internal communication initiatives to set the FI's expectations for staff and to obtain staff buy-in and feedback; and campaigns and activities aimed at consumers and external stakeholders so that they are clear of what to expect when dealing with the FI.

***Illustration 1.3***

*The Chief Executive Officer of a FI announces a series of fair dealing initiatives at the annual staff seminar, one of which involves sending its entire staff and sales force for an in-house course titled "Fair Dealing and What It Means to Us and Our Customers".*

Explanation: In order for a FI to truly embed a culture of fair dealing throughout the firm and to deliver fair dealing outcomes to consumers, buy-in and engagement with staff is necessary. This will require FIs to develop and implement a communications plan to ensure that the fair dealing objective is clearly understood by all staff and implemented consistently across all business units.

## **2.4 Implementing a strategy to achieve fair dealing outcomes**

2.4.1 The Board and Senior Management are aware that there has to be a business plan, or strategy, to execute their policy intent to create a culture of fair dealing. Accordingly, they review proposed strategies, decide on one that fits their firm and oversee its implementation. The chosen strategy includes articulating objectives and priorities; identifying ways of achieving these; developing an appropriate communications plan; setting measurable targets or benchmarks; and tracking performance against these targets.

***Illustration 1.4***

*A FI sets up a project team to implement a programme to support its fair dealing strategy. An initiative involves introducing formal customer feedback procedures, including quarterly customer forums. The objective of such forums is to gather consumer feedback on recent product and service launches, complaints handling procedures, service standards and the FI's marketing materials. Following each forum, the project team produces a report for discussion and endorsement at the quarterly Board meetings. This report summarises consumer feedback and suggests corrective actions where weaknesses have been identified.*

Explanation: In this example, the Board and Senior Management view consumer feedback as essential to achieving fair dealing outcomes. By getting regular feedback from consumers, the FI takes into account the opinions of consumers when formulating, and implementing its business strategy. This is a strong display of how the Board and Senior Management are integrating good market conduct standards into the FI's business strategy and conduct.

**2.5 Monitoring implementation of fair dealing outcomes**

2.5.1 The Board and Senior Management also recognise that they need to monitor the implementation of their fair dealing strategy. Careful monitoring gives them timely feedback on: whether the FI is on track to achieve set targets; the response of staff and customers to the strategy; and whether changes to the strategy are needed.

2.5.2 The FI establishes a management information system to monitor the progress of its fair dealing strategy. The system includes monitoring complaints trends, conducting consumer surveys and mystery shopping, and preparing compliance reports to ensure that the FI is achieving the fair dealing outcomes for consumers.

**Illustration 1.5**

*A FI prepares quarterly management information reports which cover compliance issues, complaints trends, consumer feedback, and other relevant indicators. These reports are reviewed at the quarterly management meetings to identify gaps and possible enhancements to its fair dealing proposition. In addition, the FI conducts customer surveys and mystery shopping exercises on an annual basis to track the effectiveness and progress of its initiatives.*

Explanation: Monitoring is important in assessing the effectiveness of a FI's fair dealing initiative and in identifying areas for improvement. For effective monitoring, Senior Management needs to identify the management information relevant for different levels of the firm and ensure that the information is analysed and shared.

**3 KEY ISSUES FOR FI'S SELF-ASSESSMENT**

3.1 How do the Board and Senior Management lead the FI in delivering fair dealing outcomes for consumers? Specifically, what strategies have the Board and Senior Management drawn up to address areas where the FI has fallen short of delivering the fair dealing outcomes?

3.2 How are the fair dealing outcomes incorporated into the FI's performance benchmarks and reward structure for its Senior Management and staff?

3.3 How do the Board and Senior Management clearly communicate the message of delivering fair dealing outcomes throughout the firm?

3.4 How do the Board and Senior Management monitor the effectiveness and progress of the FI's fair dealing strategy?



## 4 FAIR DEALING OUTCOME TWO

**Financial institutions offer products and services that are suitable for the consumer segments they target.**

### 1 RATIONALE

1.1 The financial decisions that consumers make are often influenced by how FIs market their investment products and services. At the same time, investment products and services are becoming more complex. Consumers, particularly the elderly and those with low financial literacy, may not understand such products and their risk characteristics. As such, they are more susceptible to buying complex products that are unsuitable for them. Therefore, the Board and Senior Management should ensure that the FI carefully assesses the suitability of products before it markets them to specific consumer segments.

### 2 KEY COMPONENTS

#### 2.1 Identifying relevant consumer segments

2.1.1 The FI carefully evaluates investment products that it plans to distribute and identifies the appropriate consumer segments to target.

2.1.2 The FI also ensures that the investment products are not offered to consumer segments for which they would be unsuitable.

#### Illustration 2.1

*A FI has been offered distribution rights for an innovative and complex investment product. Upon evaluation, the FI found that the product may not be easily understood by retail investors. It therefore decided to confine the distribution of the product to its private banking customers.*

Explanation: Before distributing a new investment product, FIs should have procedures in place to assess the risks of the product and to identify suitable consumer segments to target. This will ensure that the product distributed suits the general profile of the target consumer segments.

## **2.2 Tailoring marketing approach to the target consumer segments**

2.2.1 The FI tailors its marketing approach based on the profile of the target consumer segments and ensures that its products and services are only marketed to consumer segments for which they are suitable.

2.2.2 In designing its marketing approach, the FI considers the profile, needs and general financial literacy level of the target consumer segments. It is particularly careful about complex products. For these, it ensures that the products' features and risks are clearly set out in all marketing materials and that its sales representatives are trained so that they can provide quality advice to consumers. The FI gives special attention to vulnerable groups, such as the elderly, to ensure that they understand the products being marketed to them.

## **2.3 Assessing the risk and impact of selling unsuitable investment products**

2.3.1 Some investment products may not be suitable for all consumers within a particular consumer segment because of their specific profiles and circumstances. The FI seeks to identify such groups and carefully assesses the risk and impact of consumers purchasing investment products that do not suit their needs. It also puts in place controls to mitigate the risk of mis-selling to these consumers. This can include special training for front line sales staff.

**Illustration 2.2**

*At a training session before the launch of a regular premium investment-linked life insurance policy, a FI communicated its marketing strategy to its representatives. The strategy identified the target consumer segment to be young executives who have worked for at least a year. The FI informed its representatives that while the target consumer segment had been identified, they were nevertheless required to take into consideration the specific profile of each consumer. In particular, the FI highlighted that the product was not suitable for consumers who were risk-adverse, given the high investment element. The FI strongly encouraged its representatives to conduct a full fact-find to ensure that they had a good understanding of the customer's risk profile before recommending the product. The FI also required the representatives to highlight the risk factors to consumers before recommending the product.*

Explanation: In identifying a target consumer segment for distribution of an investment product, FIs should be mindful that the product may not suit all consumers falling under the target segment. As such, FIs should put in place appropriate controls, such as additional risk disclosure requirements, specialised training for representatives or requiring supervisory approval, to ensure that the products offered to consumers fit their personal situation and investment objectives.

**3 KEY ISSUES FOR FI'S SELF-ASSESSMENT**

3.1 How does the FI ensure that the products and services it offers are suitable for the consumer segments to which they are targeted?

3.2 How does the FI ensure that its products and services are only marketed to the consumer segments for which they are suitable?

3.3 How does the FI assess and monitor the risk that consumers may buy investment products that do not meet their needs? What additional controls has the FI put in place to mitigate this risk?

## 5 FAIR DEALING OUTCOME THREE

**Financial institutions appoint competent representatives who provide consumers with advice that meet their financial objectives and suit their personal circumstances.**

### 1 RATIONALE

1.1 There is a wide array of investment products that cater to consumers of different investment preferences and risk profiles. Consumers often rely on representatives of FIs to enlighten them on the differences among these products and which products are suitable or unsuitable for them and why. Information which consumers would need to make an informed investment decision include the key product features, the underlying risks, fees and charges, and other salient terms and conditions. Representatives must therefore have a good understanding of the investment products offered by the FI. To ensure that representatives are competent and able to provide quality professional advice to consumers, FIs should provide representatives with adequate and continual training.

### 2 KEY COMPONENTS

#### 2.1 Competency of representatives

2.1.1 The FI ensures that all representatives have the knowledge and skills to provide FA services and to give quality advice to consumers, by:

- a) requiring that representatives meet the minimum entry and examination requirements under the FAA;
- b) ensuring that representatives undergo a structured training program covering the advisory and sales process, rules and regulations, product knowledge, and other relevant topics; and
- c) monitoring that representatives undergo continuous professional training.

2.1.2 Given the continual changes in financial markets, the FI provides quality, continuing training to its representatives to keep them up-to-date on

important areas such as market developments, new products and changes in the regulatory environment. The training programme is well structured and continuously updated. It is effective and purposeful, and goes beyond satisfying requirements on training hours.

2.1.3 In supervising its representatives, the FI sets limits on the supervisory span of control of its supervisors so that they can effectively coach, monitor and supervise the representatives. MAS' *Information Paper on Good Practices for Licensed and Exempt Financial Advisers* provides further guidance in this area.

***Illustration 3.1***

*A FI requires new representatives to be put under the guidance of their supervisors when they start out in the field. The supervisors will observe the representatives in the advisory and sales process to see how they conduct fact-finds, needs analysis and the making of recommendations. Representatives will only be allowed to work independently when the supervisors are satisfied that they are competent. During the observation period, the supervisor will identify areas that the representatives need training in. The FI will arrange for the additional training and coaching.*

Explanation: Financial decisions of consumers are influenced by the advice and recommendations of representatives. FIs should develop a robust training and competency programme to ensure that their representatives are equipped with the necessary skills and knowledge to provide proper advice to consumers. They should be competent in tailoring their advice to suit the specific financial needs and circumstances of their clients.

## **2.2 Suitability of Advice**

2.2.1 The FI has controls and procedures that ensure:

- a) representatives collect sufficient information to understand and analyse the risk tolerance, financial situation, personal circumstances and investment priorities of consumers before offering advice; and
- b) representatives provide advice that suit the financial objectives and personal circumstances of consumers.

2.2.2 The FI conducts compliance checks and other reviews to monitor the quality of advice given by its representatives. The FI pays particular attention to ensure that the fact-finds conducted by its representatives are not a mere form-filling exercise. The FI regularly reviews the fact-find forms and sales documents to ensure that the recommendations made by its representatives are suitable, taking into account consumers' financial objectives, risk tolerance and personal circumstances.

2.2.3 The FI is also mindful that it should not unduly influence the financial decisions of consumers by offering free gifts or rebates without due consideration of their financial objectives and personal circumstances.

2.2.4 The FI trains its representatives to undertake proper fact-find and risk analysis to provide consumers with appropriate advice and recommendations. In its training programme, the FI emphasises the importance of collecting all relevant information from consumers and presenting sufficient investment options to consumers, based on their financial objectives, risk tolerance and other personal circumstances.

**Illustration 3.2**

*A consumer has spare cash of \$200,000. He sought a representative's advice on the best way to make the most of this money, in particular whether to invest the money or use it to repay his mortgage. The representative focused the fact-find process and his recommendations on investments without considering whether the potential return from the investments outweighs the mortgage interest of the housing loan.*

Explanation: Representatives should ensure that the fact-find process is thorough as well as consider all information provided by consumers and consumers' needs when providing advice. When advising consumers, representatives should not limit their recommendations to investment options for which they would earn a higher fee or commission.

***Illustration 3.3***

*A FI carries out monthly compliance reviews of the fact-find forms submitted by its representatives to ensure that they are complete and that the recommendations meet the needs of consumers. The fact-find forms are graded as “pass”, “pass with improvements needed” and “unsatisfactory”. The Compliance and Training Departments follow up with representatives graded “pass with improvements needed” and “unsatisfactory” to address the shortcomings and weaknesses.*

Explanation: Regular and independent review of the quality of advice provided by representatives ensures that the interest of consumers is protected and that the products recommended meet their personal circumstances and financial objectives. Such reviews are also useful in highlighting areas where representatives need further support and training.

### **3 KEY ISSUES FOR FI'S SELF-ASSESSMENT**

- 3.1 How does the FI ensure that its training and competency plan identifies and addresses gaps in the knowledge and skills of each representative so that they are competent to provide quality professional advice to consumers?
- 3.2 How does the FI ensure that its representatives conduct proper fact-finds and needs analysis?
- 3.3 How does the FI ensure that its representatives provide appropriate advice to consumers?

## **6 FAIR DEALING OUTCOME FOUR**

**Consumers receive clear, relevant and timely information to make informed financial decisions.**

### **1 RATIONALE**

1.1 To make informed financial decisions, consumers need clear, relevant and timely information from FIs. Such information should be given at the beginning, during and after the advisory and sales process. This information, whether written or verbal, should be presented in a balanced fashion and include key product features, the underlying risks, fees and charges, and salient terms and conditions. As the investment landscape is dynamic and consumers' investment objectives and personal circumstances may change over time, it is a good practice for FIs to review and update the profile of customers regularly. They can then provide their customers with updated analysis and recommendations. Consumers can use this information to modify their investment portfolios in line with their changing needs.

### **2 KEY COMPONENTS**

#### **2.1 Clear information**

2.1.1 The FI's disclosures to consumers are:

- a) in plain language and avoid the use of jargon; and
- b) presented in a format that is simple to read and easy to understand.

2.1.2 The extent to which consumers are able to understand a particular investment product depends on their financial literacy as well as the clarity and simplicity of information provided by the FI. It is therefore important that the FI gives consumers information that is easy to understand to help them make informed financial decisions.

2.1.3 The FI presents key information clearly, in simple format and that is not hidden away in the fine print. Where information is explained verbally, the FI



ensures that these representations are consistent with the written information provided.

2.1.4 For vulnerable consumers, such as the elderly, the illiterate or those who are not knowledgeable about investing, the FI takes extra steps to help them understand the investment product. For instance, the FI trains its representatives to explain information in plain language or the FI illustrates the information using diagrams to aid understanding. The representative recommending the product makes sure that the consumer clearly understands all the risks before concluding the sale.

2.1.5 The FI performs due diligence before making available to consumers marketing materials and other documents developed by product providers. The FI ensures that its representatives understand the information provided by the product providers. The FI also considers whether the materials are appropriate for its target market. Where the materials are unclear, the FI seeks clarification from the product provider and asks the product provider to provide additional information. The FI does not distribute the product if it is not satisfied with the quality of disclosures provided by the product providers.

**Illustration 4.1**

*A FI recently launched an interest rate linked structured deposit. The product summary and other marketing materials furnished to consumers contained numerous technical terms such as “barrier spread”, “first year no barrier” and “reference rate”. There was no explanation or glossary provided for these terms.*

Explanation: FIs have a responsibility to ensure that consumers understand the information disclosed to them before they make any recommendation. FIs should use plain language and avoid jargon, where possible. Otherwise, these technical terms should be clearly explained to consumers. FIs should consider providing tables, diagrams, graphs or simple examples to aid consumers in understanding the key features and risks of products recommended to them. If, despite these explanations, a consumer still does not understand how the product works, FIs should not proceed with the transaction.

## **2.2 Relevant information**

2.2.1 The FI gives consumers all information that is material to their financial decisions. It presents the information in a balanced fashion. Such information include the benefits and risks of the product, fees and charges, salient terms and conditions, rights and obligations of consumers, and early withdrawal penalties.

2.2.2 When deciding what information is relevant, the FI considers the profile of its target consumer segments such as their financial literacy levels, investment experience and personal circumstances. Through this process, the FI is better able to present information in a way that is best understood by those categories of consumers.

2.2.3 The FI ensures that all marketing materials and advertisements of investment products give a true and fair representation of the product's features and the benefits and risks of the product. This helps prevent consumers from being misled about the possible performance of the product or from having unrealistic expectations. In addition, the FI informs consumers about the range of possible outcomes for the investment product. For example, for products that involve market risk, the possible impact of stock market movements are made clear; in the case of life insurance, information about exclusions and the likelihood of not being able to make a claim are carefully explained.

2.2.4 The FI informs consumers how they can provide feedback or lodge complaints about the FI or its representatives. This includes information on the independent disputes resolution scheme, the Financial Industry Disputes Resolution Centre Ltd ("FIDReC"). The FI furnishes such information to consumers at the start of the relationship, rather than only when they have a dispute with the FI.

**Illustration 4.2**

*A consumer bought his first unit trust with a FI. The representative informed the consumer that part of the initial investment amount will be utilized for the front-end charges. In addition, the consumer was told that his investment return will be affected by the fund's expense ratio. The FI also informed the consumer of his rights and obligations.*

Explanation: When making recommendations on investment products, it is important for FIs to inform consumers of all relevant information such as fees and charges as well as their rights and obligations so that they can make informed financial decisions.

**Illustration 4.3**

*At the account opening stage, a FI provides a brochure to all its customers on the procedures for lodging complaints, feedback or queries as well as the contact details of the independent consumer dispute resolution scheme, FIDReC.*

Explanation: It is a good practice for FIs to inform consumers of their after-sales service, client support facilities as well as the alternative dispute resolution avenues available at the start of the relationship. This is so that consumers know who to approach and how to go about resolving a dispute with the FI or its representatives should the need arise.

**2.3 Timely information**

2.3.1 The FI provides consumers with information and updates about their investments at the appropriate time, whether during the advisory and sales process or after the sale has been concluded. The FI ensures that consumers understand the information provided, consider the recommendations of the representatives and are not pressured into making a financial decision.

2.3.2 The FI clearly spells out the scope of its services so as to manage consumer expectations on the services provided by the FI. This includes the post-sale stage where the FI may provide periodic updates on product performance.

2.3.3 The FI provides post-sale updates to consumers at regular intervals to keep them informed of the performance of the product and changes in the terms and conditions.

***Illustration 4.4***

*A FI has appointed a new investment manager for certain sub-funds of its investment-linked insurance plan. The FI issues a circular informing all affected customers of the change and assures them that there will be no adjustment to the investment objectives of the funds arising from the change in investment manager.*

Explanation: FIs should ensure that consumers are given important information in a timely manner as part of their post-sale service. This would enable consumers to make changes or adjustments to their investment portfolio, where necessary.

***Illustration 4.5***

*At a road show, a representative pressured a consumer into buying a unit trust by claiming that it was the last day of the promotion period where the consumer could receive a free digital camera if he invested a certain amount of money with the FI. The consumer bought the product but realized later that it did not meet his needs.*

Explanation: FIs should not unduly influence the financial decisions of consumers by offering free gifts or the like. Most investment products require long term financial commitment and the purchase of unsuitable products by consumers can be detrimental to their financial well-being. It is also important that FIs give consumers sufficient time to understand and review investment recommendations.

### **3 KEY ISSUES FOR FI'S SELF-ASSESSMENT**

3.1 How does the FI ensure that vulnerable groups, such as the elderly, the illiterate and those not knowledgeable about investing, understand the information that is disclosed to them?

3.2 How does the FI ensure that key information on investment products, such as the product characteristics, fees and charges, benefits and risks, as well as salient terms and conditions are disclosed to consumers?

3.3 How does the FI ensure that consumers are provided with post-sale updates on their investment portfolio in a timely manner?

## **7 FAIR DEALING OUTCOME FIVE**

**Financial institutions handle consumer complaints promptly and in a consistent manner.**

### **1 RATIONALE**

1.1 The Board and Senior Management should view the proper handling of complaints as a key part of dealing with consumers fairly. There are several reasons why. Firstly, it is responsible business conduct to address consumer grievances quickly and satisfactorily. Secondly, complaints can be seen as indicators of areas which the FI needs to improve on. The FI should therefore establish a system and process to deal with complaints from consumers.

### **2 KEY COMPONENTS**

#### **2.1 Prompt resolution of complaints**

2.1.1 The FI devotes sufficient resources to resolve consumer complaints within its stipulated turnaround time, without compromising the quality of investigations.

2.1.2 The FI recognizes that its complaints handling process is critical in delivering fair dealing outcomes to consumers. It establishes a structured and independent complaints handling process and provides training to its complaints handling staff.

**Illustration 5.1**

*A FI noted a backlog in its complaints handling function. Although the FI's service standard is to resolve complaints within 3 weeks after receiving a complaint, it found that most complaints took about 3 months to resolve. To meet its service standard, the FI added resources to reduce the turnaround time for complaints resolution.*

Explanation: FIs should have adequate resources to handle complaints so that complaints are resolved promptly and complainants are updated on the status of their complaints regularly. This gives assurance to consumers that their concerns and feedback are attended to in a prompt and professional manner.

**2.2 Consistent treatment of complainants**

2.2.1 The FI ensures consistency in how it resolves complaints as well as in the service recovery actions for consumers with similar complaints, having regard to precedent cases.

2.2.2 The FI has an independent process to ensure that complaints are handled objectively. It is not biased against any party and gives equal opportunity to all affected parties to present their case. Where appropriate, the complaints are escalated to the Board and Senior Management.

2.2.3 When handling complaints, the FI looks at the facts and circumstances of each case. Besides reviewing the documentation, the FI considers other relevant factors, such as verbal representations or promises made by the representatives to consumers during the advisory and sales process.

2.2.4 The FI views complaints as a valuable indicator of the effectiveness of its systems, and at times, of problem areas in its operations which need to be addressed. Where the FI receives a significant number of complaints about a specific issue or product, it considers whether a general problem exists and takes steps to rectify such problems. This involves not just the proper handling of complaints, but identifying whether there is an underlying issue that prevents consumers from getting a fair deal and if so, taking steps to rectify the problem.

**Illustration 5.2**

*A FI received a complaint that a customer was not properly informed during the advisory and sales process that his initial capital investment in a structured product was not guaranteed. Upon investigation, the FI found out that this was due to the use of misleading sales materials developed by the FI. After discussion with its Board, the FI contacted all investors who had purchased the structured product and offered to compensate them for the full amount of their investments, should they decide to redeem their investments. In addition, the FI revised the sales materials of the affected product to provide a clear and accurate explanation of the product features and risks. The FI also took the opportunity to review its internal processes for approval of marketing materials.*

Explanation: FIs should deal with complaints in a consistent manner. This will assure consumers that the FI has their interests at heart. FIs should also regard complaints as a valuable source of feedback about its internal processes, the quality of its sales force and other aspects of its business.

**Illustration 5.3**

*A FI sets up a centralized unit to handle complaints and implements an information system to capture all complaint cases. It appoints the Compliance Department to independently review and investigate all complaints. All serious complaint cases are discussed at the monthly management meetings involving the CEO and all Heads of Department. To underscore the importance of dealing fairly with consumers, the Chairman of the FI reads all consumer complaints addressed to him.*

Explanation: It is inappropriate for FIs to give their representatives full mandate to investigate and resolve complaints against themselves as there exists inherent conflicts of interest. To ensure that complaints are handled objectively and consistently, FIs should appoint an independent party to oversee the investigation and resolution of complaints. There should also be guidelines on when to escalate complaints to the FI's Senior Management for their review.



### **3 KEY ISSUES FOR FI'S SELF-ASSESSMENT**

- 3.1 How does the FI ensure that complaints are dealt with promptly?
- 3.2 How does the FI ensure that all complaints are handled in a consistent manner?
- 3.3 What processes and procedures does the FI have to deal with recurring complaints?
- 3.4 What is the role of the Board and Senior Management in the handling of complaints?



Monetary Authority of Singapore