

**RESPONSE TO
FEEDBACK RECEIVED**

MARCH 2019

**Proposed Enhancements to
Disclosure Requirements for
Sale of Investment-Linked
Policies**

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 26 June 2015, MAS issued a consultation paper on the proposed enhancements to disclosure requirements for the sale of investment-linked policies (“ILP”).

1.2 Following the closure of the consultation on 31 July 2015, MAS has engaged respondents to better understand the feedback received, and to further review the proposals. MAS would like to thank all respondents for their contributions. The list of respondents is in Appendix A.

1.3 MAS has carefully considered the feedback received, and made some refinements to the original proposals. Comments that are of wider interest, together with MAS’ responses, are set out below.

2 Proposal 1: Enhanced disclosure on fees and charges in a new Product-level Product Highlights Sheet (“PPHS”)

Feedback received on Proposal 1(a) – To categorise and disclose fees and charges individually in the PPHS

2.1 While the industry was broadly supportive of the proposal and was of the view that it would provide greater clarity to consumers on the charges incurred, they provided feedback on how the proposal could be improved. Four respondents highlighted that the proposed disclosure of fees and charges in the PPHS seemed to focus on the fees incurred in the first policy year, when the charges over the tenure of an ILP would be equally important to the consumer. MAS also received suggestions that the format in which fees and charges are disclosed should be standardised (e.g. in dollar amount per year) and a summation of all fees and charges should be included. This would facilitate consumers’ understanding of the various costs incurred by an ILP and also allow them to better compare the total cost across different ILPs.

2.2 After further engagement with the respondents, MAS also received additional feedback that the disclosure of Layer 3 fees and charges (“Layer 3”)¹ could be misleading. Since insurers could receive a more favourable institutional rate for investing in the underlying collective investment scheme (“CIS”), the disclosure of this rate under Layer 3 could mislead consumers (who are retail investors) into thinking that they can enjoy the same institutional rate if they invested directly in the underlying CIS.

Feedback received on Proposal 1(b) – To require a new PPHS for ILPs, on top of the current PHS for sub-funds²

2.3 The industry provided feedback that implementing a customised PPHS would require significant resources as this would entail enhancements to the insurer’s existing IT systems. A few respondents commented that additional cost will be required to implement a dynamic PPHS³, as insurers would need to implement system changes to

¹ Fees from ILP sub-fund’s investments in underlying collective investment schemes (“CIS”)

² The new PPHS will, amongst other things, include disclosures on fees and charges according to the format under Proposal 1(a).

³ This means that the PPHS would be continually updated as and when there are changes to the consumer’s ILP, such as changes in the allocation of monies into the various ILP sub-funds.

customise the policy details in the PPHS according to the policyholders' choices of ILP sub-funds. Several respondents also questioned the necessity for introducing the PPHS since it would duplicate information from existing disclosure documents such as the Product Summary.

2.4 Several consumers had also commented that the layout and content of the PPHS, including disclosure of fees and charges, could be enhanced so that it is more reader-friendly.

MAS' Response

2.5 Proposal 1(a), which is on categorisation and disclosure of fees and charges, is intended to provide consumers with more clarity on the charges incurred including what they are due to (e.g. insurance coverage, or investment charges) and to facilitate comparison across products. The disclosure should also enable consumers to compare if there are cost savings from investing directly in the underlying CIS.

2.6 Given the substantial feedback received on proposal 1(a) and proposal 1(b), MAS intends to leverage on behavioural insights ("BI") to improve the overall readability of the PPHS, including the disclosure of fees and charges in the PPHS. MAS will continue to engage the relevant stakeholders in this process and incorporate relevant feedback into the BI review, where applicable. MAS will provide an update after the conclusion of this further study using BI.

3 Proposal 2: Method of determining entry charge for layer 1

Feedback received on Proposal 2 – To simplify upfront deductions to a single "entry charge"

3.1 Responses received were generally supportive of the idea to simplify upfront deductions. Two respondents agreed that the different upfront deductions may be confusing to policyholders, but they suggested that the disclosure of upfront deductions within the product summary be enhanced and made more consistent across insurers as an alternative to introducing a single entry charge.

MAS' Response

3.2 MAS notes that insurers currently impose different upfront deductions on ILPs (e.g. "premium allocation" rate, sales charge, bid-offer spread) and use different methods

for calculating these charges. Hence, enhanced disclosure of such charges may neither improve comparability nor reduce confusion for policyholders.

3.3 MAS is of the view that simplifying these upfront deductions into a single “entry charge” still represents the clearest and most consistent format of presenting upfront deductions at the product level.

Suggestions on the scope of single entry charge

3.4 One respondent queried if the single entry charge would apply to top-up premiums. Another respondent suggested that the proposal should be applied to new ILP products launched and not to new ILP policies⁴.

MAS’ Response

3.5 The entry charge is a combination of all upfront deductions from premiums. Hence, if an upfront deduction is levied on any top-up premiums, insurers should include the deduction as part of the entry charge.

3.6 MAS is of the view that this proposal should apply to new ILP policies issued and not just to new ILP products launched. All consumers who are interested in purchasing ILPs should benefit from these enhanced disclosures.

Suggestion to rename “entry charge” as “premium charge”

3.7 One respondent suggested using “premium charge” instead of “entry charge” as this charge would be levied on renewal premiums as well.

MAS’ Response

3.8 MAS is agreeable to the suggestion.

⁴ New ILP policies cover (i) new ILP products launched and (ii) new policies issued under existing ILP products.

4 Proposal 3: Use of the terms “premium allocation rate” and “bid-offer spread”

Feedback on Proposal 3(a) – To disallow the use of the term “premium allocation” rate (“PA rate”)

4.1 Two respondents suggested for the term “PA rate” to be retained. One respondent further explained that the term “PA rate” may be useful, as it allows policyholders to understand the percentage of their premiums allocated to purchase units in the ILP sub-funds.

4.2 On the other hand, two respondents expressed support for the proposal to remove usage of the term “PA rate” as part of simplifying all upfront deductions to a single charge.

MAS’ Response

4.3 While the responses received for this proposal were mixed, MAS would like to clarify that the current usage of the term “PA rate” may not necessarily reflect the actual percentage of premiums that will be invested. In some cases, after the application of a “PA rate”, the remaining premiums are still subject to further deductions in the form of a sales charge before premiums are invested in the ILP sub-funds.

4.4 Hence, MAS will be disallowing the use of the term PA rate to minimise potential confusion for policyholders.

Feedback received on Proposal 3(b) – To adopt single pricing using NAV basis for ILP sub-funds

4.5 Respondents agreed that the proposal would reduce the complexity of charges, and were broadly supportive of the proposal. One respondent suggested to implement it for new ILP products launched instead of new ILP policies. Another respondent suggested that the pricing point should not be fixed at NAV.

4.6 One respondent highlighted that there might be confusion if existing policies are on dual pricing basis (i.e. bid-offer spread) but new policies are on single pricing basis.

4.7 Another respondent highlighted that implementation of single pricing for all new ILP policies issued would require massive effort, as major system changes and even the withdrawal and re-launch of existing products might be needed.

MAS' Response

4.8 Given that responses received were broadly supportive of the proposal, MAS will proceed to adopt single pricing using NAV basis for ILP sub-funds. This reflects wider industry practice as almost all CIS in Singapore are priced on a single pricing basis.

4.9 This proposal will be applied to all new policies issued. MAS will allow existing ILP policies to remain on dual pricing. In view of the feedback that this proposal may require significant implementation efforts, MAS will provide a transitional period of 12 months upon the revision of MAS Notice 307 (refer to section 6).

4.10 As regard the feedback that the pricing point should not be fixed at NAV, MAS would like to clarify that its proposal will remain consistent with the Code of CIS by allowing insurers to adjust the price of units by adding or subtracting fees and charges to the NAV per unit of the ILP sub-funds.

5 Proposal 4: Monthly statements for ILPs with minimal insurance cover

Feedback received on Proposal 4 – To furnish monthly statements to policyholders of ILPs with minimal insurance cover

5.1 Responses received were broadly supportive of the proposal. Several respondents queried on the definition of ILPs with minimal insurance cover. One respondent suggested that ILPs with minimal insurance cover should include single premium (“SP”) ILPs and recurrent single premium (“RSP”) ILPs that do not provide Policy Illustrations.

5.2 Three respondents suggested that monthly statements should be sent to both SP and regular premium (“RP”) ILPs.

MAS' Response

5.3 MAS is agreeable to extend the proposal to include RSP ILPs, i.e. insurers will need to send monthly statements for both SP and RSP ILPs. However, MAS will not require monthly statements for RP ILPs as such products tend to have a higher insurance component as compared to SP and RSP ILPs. Policyholders of RP ILPs will continue to receive annual statements.

Suggestion to make monthly statements optional for policyholders

5.4 One respondent shared that sending statements on a monthly basis would be too frequent, as policyholders are able to obtain the latest value of their ILPs online. Several respondents proposed for monthly statements to be sent only if policyholders opt in or request for it. This is because (i) some insurers already provide online portals for policyholders to access their policy details, (ii) the associated cost and implementation effort for insurers would be reduced, and (iii) there would be a risk of information overload to policyholders from the increased frequency of statements being sent to them.

MAS' Response

5.5 MAS' rationale for having monthly statements is to ensure that policyholders receive regular updates of their investment portfolio, and to prompt them to make more timely adjustments to their investments following changes in market conditions.

5.6 Taking into account the feedback received, MAS will be including provisions to specify the circumstances where insurers need not send monthly statements to policyholders. These provisions will be equivalent to those in section 40(1) of the Securities and Futures Regulations (Licensing and Conduct of Business)⁵ in relation to CIS.

Suggestions on the mode of dissemination of monthly statements

5.7 One respondent asked if insurers have the option of sending electronic statements. Another respondent provided feedback that increasing the frequency of sending hardcopy statements would increase the operating costs of insurers.

⁵ The holder of a capital markets service license ("CMS licensee") need not send monthly statements if:

- (a) There is no change to any of the particulars since the last statement; or
- (b) The customer is an accredited investor, or a related corporation of the holder, and
 - (i) The CMS licensee has made the information captured in the statements available to customers on a real-time basis on an electronic facility, and the customer consented to receiving such information in this manner; or
 - (ii) The customer has requested not to receive monthly statements.

MAS' Response

5.8 MAS would like to clarify that insurers are allowed to send such correspondence via electronic means. If insurers wish to make the monthly statements available via an online portal, they should ensure that policyholders are promptly notified when these statements become available. In addition, policyholders must be provided with the option to request for hardcopy statements.

5.9 The above approach is consistent with existing requirements under paragraphs 40 and 41 of MAS Notice 307.

Suggestions on the content of monthly statements and the existing requirement to send annual statements to all policyholders

5.10 Two respondents suggested that the content of the monthly statements be kept simple. One respondent further suggested that the monthly statement should contain only information on the ILP sub-funds.

5.11 One respondent queried if the proposed requirement of sending monthly statements would be in addition to the existing annual statements for all policyholders.

MAS' Response

5.12 Currently, annual statements contain (i) information specific to a policyholder's investments in ILP sub-funds and (ii) the ILP's policy details, such as current death benefit and net cash surrender value at the end of the statement period, as per the requirements in MAS Notice 307.

5.13 MAS is agreeable to replace the requirement for annual statements with that of monthly statements for SP ILPs and RSP ILPs. However, the content of the monthly statements shall remain consistent with the requirements for the annual statements as per MAS Notice 307. MAS' view is that such information remains relevant to policyholders of SP ILPs and RSP ILPs.

6 Transitional period

6.1 Several respondents highlighted that a transition period of 6 months is insufficient to make the required system and operational changes for proposals 1, 2 and 3. Three respondents suggested a transition period of 12 months, while one respondent suggested a period of 12 to 18 months.

MAS' Response

6.2 MAS will be conducting a subsequent review of proposal 1 on the PPHS and the disclosure of fees and charges as mentioned in paragraphs 2.5 and 2.6. We will consult with the industry on the timeframe for implementation of this proposal after the PPHS has been finalised.

6.3 MAS acknowledges the system and operational changes needed to implement proposals 2 and 3. Hence, MAS will be allowing for an implementation period of 12 months for proposals 2 and 3 after MAS Notice 307 has been revised.

6.4 MAS notes that the industry has commenced with the sending of monthly statements to policyholders holding SP and RSP ILPs since January 2018. MAS will revise MAS Notice 307 to include provisions mirroring section 40(1) of the Securities and Futures Regulations (Licensing and Conduct of Business) as set out in section 5 of this paper. The changes to the proposal on monthly statements will take immediate effect upon the revision of MAS Notice 307.

Annex A

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON
PROPOSED ENHANCEMENTS TO DISCLOSURE REQUIREMENTS
FOR SALE OF INVESTMENT-LINKED POLICIES**

1. Aviva Ltd
2. Consumers Association of Singapore
3. Friends Provident International Limited (Singapore Branch)
4. The Great Eastern Life Assurance Company Limited
5. iFAST Financial Pte Ltd
6. Life Insurance Association
7. Manulife (Singapore) Pte Ltd
8. St James' Place International Plc (Singapore Branch)
9. Zurich Life Insurance (Singapore) Pte Ltd
10. Zurich International Life Limited (Singapore Branch)

