THE COMMITTEE ON EFFICIENT DISTRIBUTION OF LIFE INSURANCE

SUPPLEMENTARY REPORT

Table of Contents

A. EXECUTIVE SUMMARY

The Committee on Efficient Distribution of Life Insurance (CEDLI) comprising senior practitioners from the life insurance industry was appointed by the Monetary Authority of Singapore (MAS) in March 2000 to propose recommendations to promote transparency, competitiveness and efficiency in the distribution of life insurance products.

CEDLI has submitted a report (the Main Report) to the MAS in August 2000 containing recommendations on the sales advisory process for life insurance, disclosure of distribution cost and total company charges and expenses, and training and competence requirements for advisors and supervisors. All the recommendations were accepted by the MAS for implementation in phases from 1 Jan 2001.

This Supplementary Report covers the remaining areas to be reviewed by CEDLI: the roles and responsibilities of advisors and supervisors, the agency structure, the limits on commissions, and the development of alternative distribution channels. This Report completes the work of CEDLI and its recommendations.

Recommendations

Agency Distribution Channel

- Prescribe a basic standard for roles and responsibilities of advisors and supervisors.

- Recommend a best practice standard for span of control for the agency model.

- Remove existing limits on agency unit size and on annual recruitment of agents.

- Allow referral arrangements to be made by life insurers with "centres of influence".

- Remove existing limits on commissions to agents.

Implementation

1 Apr 2001

- Prescribe basic standard for roles and responsibilities of advisors and supervisors.

- Remove limits on agency unit size and on annual recruitment of agents.

- Introduce best practice standard for span of control for the agency model.

1 Jan 2002

- Allow life insurers to make referral arrangements with "centres of influence".

- Remove limits on commission to agents.

Recommendations

Alternative Distribution Channels

Bancassurance Channel (including other financial institutions)

- Improve communications between LIA and the bancassurers, and set up a forum for bancassurers.

- Exempt ancillary and simple products (e.g. creditor life and creditor disability) from the life insurance sales advisory process and disclosure requirements.

- Define status of financial institutions (i.e. tied agent or independent broker) on the basis of their commercial relationship with the life insurers concerned.

- Financial institutions to be directly responsible for their life insurance sales process.

- Financial institutions should develop professional sales managers within their organisations to support and develop quality sales staff.

- The Training and Competency requirements as recommended by CEDLI for tied agents and brokers should apply in principle to sales staff and sales managers in financial institutions.

- Sales staff of financial institutions who are organised, managed and compensated akin to life insurance agency model should be treated in a manner consistent with agents, and LIA guidelines and CEDLI recommendations should apply as appropriate.

- Allow finance companies to sell life insurance.

Recommendations

Life Brokerage Channel

- Provide a structural and regulatory framework for viable models of brokerages to develop.
- Look for available development programmes and funding for life brokerages.
- Allow life brokerages to develop referral agreements with “centres of influence”.
- Allow sufficient flexibility in terms of staff recruitment and total staff size, to facilitate the growth of the channel.

<u>Recommendations</u>

Direct Marketing Channel

- As direct marketing falls under the ”No advice” sale category, the CEDLI recommendations in relation to sales advisory process by intermediaries should not apply for this channel.

<u>Recommendations</u>

E-commerce / Internet sales

- Internet companies, which provide some form of electronic advice or recommendation need to be regulated by MAS as an intermediary.

<u>Implementation</u>

Consistent Implementation Dates

- Requirements for agents that are applicable to financial institutions and life brokerages to be implemented on the same dates as far as practicable.

1 Jan 2002

- Referral arrangements made by life brokerages with “centres of influence”.

To be firmed up

- Implementation dates for the other recommendations to be firmed up in consideration of regulatory developments.

B. ROLES AND RESPONSIBILITIES OF ADVISORS AND SUPERVISORS

1. Prescribed Basic Standard for Roles and Responsibilities

   Recommendations

   The key duties are prescribed below and may not be delegated by the Agency Supervisor or Agency Manager but must be personally performed.

   Regardless of the designations used within an organisation, the key duties apply to every person with the responsibilities of supervising the advisors.

   The key duties also apply to independents such as brokers, and in spirit to other (non-electronic) intermediaries.

   - **Agency Supervisor (AS)**

     With new agents

     - Supervise the new agent's first 3 sales (with evidence for compliance audits).
     - For first 3 months:
       - Weekly coaching on a one-to-one basis (with evidence).
       - Weekly meeting, totaling 3 hours, on a one-to-one or group basis (with evidence).

     With existing agents (after first 3 months)

     - Monthly coaching on a one-to-one basis (with evidence).

     With all agents

     - Monthly meeting with all agents (with evidence).
     - Review and sign off on all agents' Needs Analysis cum Recommendation forms.

   - **Agency Manager (AM)**

With new and existing agents directly under AM

- Same requirements as for AS.

With new supervisors

- For first 3 months:
    - Weekly meeting on a one-to-one basis (with evidence).

With all supervisors

- Monthly meeting for all supervisors (with evidence).
- Review and sign off on all supervisors' Needs Analysis cum Recommendation forms.

Rationale

- Key duties have been recommended in some detail and also as a "prescribed basic standard" (as opposed to being "recommended best practice"), in view of the historical absence of any such requirements, and therefore the need to build up an acceptable minimum standard across the industry.
- A clarification and implementation of such basic roles will significantly enhance the quality and professionalism of the agents, the advice rendered to the customers and the productivity of agents.

2. Best Practice for Span of Control

Recommendations

The spans of control shown below are recommended below as 'best practice' standard and in the context of the prescribed key duties.

- Maximum of 15 agents per Agency Supervisor
- Maximum of 10 Agency Supervisors per Agency Manager

3. Implementation

1 Apr 2001

- Prescribe basic standard for roles and responsibilities of advisors and supervisors.

- Introduce best practice standards for spans of control for the agency model.

C. AGENCY STRUCTURE

1. Flexible Structure

   Recommendation

   With the prescribed basic roles and responsibilities recommended in the preceding Section B, the existing limits on agency unit size and on annual recruitment of agents in MAS Notice 306 would no longer be necessary.

   Rationale

   - The qualitative span-of-control approach being recommended and the prescribed roles and responsibilities for advisors and supervisors would inherently limit the agency unit to a practicable size for proper management.

2. Commission Limits

   Recommendation

   The MAS Notice 306 limits on commission should be removed.

   Rationale

   - This is in line with the thrust of the CEDLI recommendations, which are set in the larger context of facilitating free competition and transparency.

   - Consumers will be informed of the distribution and other costs involved through the new disclosure requirements.

3. Referral Arrangements

   Recommendation

   Life insurers should be allowed to develop fee-based referral arrangements with “centres of influence”.

   Further, allowing such arrangements to be made by agencies should be considered.

   Centres of influence would include professionals (lawyers, accountants, etc), financial advisory firms, banks, finance companies and cooperative societies.

Rationale

- Clients of such firms, in particular accounting and legal firms, may naturally need insurance advice and insurance coverage.
- Fee-based partnerships with them are necessary in order to facilitate and provide true financial planning services.
- It would be in line with a level playing field between channels.

4. Implementation

1 Apr 2001

- Remove limits on agency unit size and on annual recruitment of agents.

1 Jan 2002

- Allow life insurers to make referral arrangements with "centres of influence".
- Remove limits on commission to agents.

D. DEVELOPMENT OF ALTERNATIVE DISTRIBUTION CHANNELS

1. Recommendations

Bancassurance Channel (including other financial institutions)

Improved Communications and Forum for Bancassurers

The LIA should establish a communication forum for bancassurers to deal with information in relation to life insurance guidelines and practices.

Rationale

- When bancassurers are made directly responsible for the conduct of their staff in the sale of life insurance, the banks would have a greater need to know what is happening in the life insurance marketplace and should have their own forum.

- A forum for bancassurers enables the players to be more effective in tackling common issues/problems, and in communicating or dialoguing with life insurers/LIA in respect of their perspectives or concerns.

Exemption for Ancillary and Simple Products

Simple life insurance sold as an ancillary product to loans with a simple payment basis for the insurance cover should be exempted from some of the disclosure and Certificate in Life Insurance (CLI) requirements. Examples of such products are creditor life and creditor disability insurance.

These policies would cover outstanding loans through mortgages, personal loans, car loans, credit card balances, etc.

This insurance should be exempted from the new disclosure requirements including: disclosure of advisor's status, use of fact find, product recommendation and benefit illustration.

Distribution costs should be disclosed but on a simplified basis, for instance, as a percentage of premium.
The existing requirement for staff of financial institutions to be CLI-qualified should be removed with respect to such insurance transactions.

Rationale

- This sales approach is an efficient and effective form of meeting client insurance needs. The risks of mis-selling are minimal.

- To follow the straightforward practice of other countries where ancillary insurance cover is simply offered and, if accepted, signed off by ”ticking in the box”.

- Such insurance cover is an ancillary product that is sold in the context of another product transaction, which is the customer’s main purpose/need, e.g. car loan.

- This exemption applies to insurance which is incorporated into the mortgage, covers the outstanding balance at the point of death and claim proceeds are payable to the mortgagor.

- The rationale for conducting a fact find and comprehensive life insurance needs analysis does not apply in this situation. The need is to cover the loan and the supporting facts for the loan have already been determined.

- There is clearly no need for the bank staff to be insurance (CLI)-qualified. Consumers understand the role of the loan officer.

- These types of plans are commonly sold on a group basis where the client receives a group certificate and if so, consistent with current LIA disclosure guidelines, disclosure requirements would not apply.

Status of Financial Institutions as Intermediaries

The status of the financial institution should depend on the commercial relationship with its product supplier(s). The financial institution can either be tied or independent, but cannot be multi-agent. This recommendation does not apply to the model where institutional staff refer potential clients to life insurance agents.

Rationale

- Financial institutions are insurance intermediaries and there must be a level playing field in determining the status of their role.

- Under the current regulatory framework, life insurance products cannot be legally sold through a multi-agency channel.
- If the financial institution is “tied” then it can only sell the products of one life insurer.

- If the financial institution is “independent” then it must sell products from more than one life insurer, and its rate of compensation must not vary with the volume of production.

- The status of the financial institution would then be reflected in the disclosure statement to the client as to the status of the advisor.

Direct Responsibility of Financial Institutions for their Life Insurance Sales Process

Financial institutions should be directly responsible for their sales process for life insurance products irrespective of their status as either "tied agent" or "independent broker".

Rationale

- This recommendation addresses the model where the sales persons who are selling life insurance are representing the financial institution.

- We recommend that all financial institutions, even if they are tied to only one life insurer, be made responsible and accountable for the conduct of their sales staff in selling life insurance products.

- The contractual sales agreement for bancassurance is between an insurer and a financial institution. Even though the financial institution is "tied", the relationship is with the firm, not with the sales staff. It is more effective to have the institution accountable for the sales process.

- Life insurers should be expected to support the compliance effort of the financial institution for life insurance sales. The degree of the support would depend on the agreement between the two parties. However, ultimate accountability should be with the financial institution.

- In some situations, the life insurer would continue to be expected to take action, but the action would relate directly to the financial institution and not to the sales staff. Example might be a commission claw back.

- It would be much more effective and simpler if the institution was directly responsible in the same way as a life insurance brokerage firm.

Sales Management Responsibilities

Financial institutions should develop professional sales managers within their organisations to support and develop quality sales staff. The CEDLI recommendations concerning sales management responsibilities should apply to financial institutions in principle.

Rationale

- This recommendation addresses the model where the sales persons who are selling life insurance are representing the financial institution.

- A high quality sales organisation includes professional sales management.

- CEDLI recommendations for an agency embody the principles of active involvement in the sales process and intensive involvement for new sales staff.

- Specific recommendations for agents should apply to sales staff, i.e. for new staff – first three sales to be supervised, regular coaching sessions and meetings to be conducted; for existing staff – regular mentoring; and for all staff – regular meetings, and review and sign off on their Needs Analysis cum Recommendation forms.

  However, financial institutions may choose to delegate these tasks to someone other than the sales supervisor. The sales supervisor retains accountability for the performance of the sales staff.

- CEDLI recommendations concerning best practices for span of control assume an agency and management structure that is different from the sales management structure within financial institutions.

<u>Training and Competency of Sales Staff</u>

The Training and Competency requirements as recommended by CEDLI for agents and brokers should apply in principle to sales staff and sales managers in financial institutions:

- Same qualifying examinations and modular training programmes for new sales staff.

- For new sales staff 30 hours of training within the first six months.
- For all sales staff and sales managers, 30 hours of continuing professional development.

- Contents of the training programmes to be reflective of financial institutions' products and sales practices.

- Financial institutions to be responsible for appropriate training and competency plans.

<u>Rationale</u>

- This recommendation addresses the model where the sales persons who are selling life insurance are representing the financial institution.

- Clients should expect high quality financial advice from all channels.

- Sales training must reflect the different approaches financial institutions take not only to the selling of financial products, including life insurance, but also to management of client relationships.

- Specific agency-related recommendations such as the new Agency Management Development programme for new agency managers do not apply to financial institutions.

<u>Sales Representatives</u>

Sales staff of financial institutions who are organised, managed and compensated akin to life insurance agency model should be treated in a manner consistent with agents, and therefore LIA guidelines and CEDLI recommendations would apply as appropriate.

<u>Rationale</u>

- Key factors include whether: the sales staff are compensated largely on commissions; sales managers are compensated largely on overriding commissions; more than one tier of overrides is involved in compensating the sales managers.

- The risks of mis-selling and adverse sales conduct increase with the presence of these factors.

- The agency-management practices as reflected in the LIA guidelines and CEDLI recommendations are required practices that are intended to manage these risks.

<u>Selling Life Insurance Products through Finance Companies</u>
Finance companies should be allowed to sell life insurance.

<u>Rationale</u>

- The Finance Companies Act is currently interpreted as not permitting finance companies to act as life insurance agents

- Finance companies are well-placed to sell life insurance products, having a client database, network of branch offices and manpower resource.

Structural and Regulatory Framework for Life Brokerages

In the short term (over the next 12 months or so), service providers should be encouraged to be set up to offer support in areas such as IT and training to brokerages.

There are no regulatory impediments to their immediate establishment as long as they are paid on a fee basis and not in terms of overriding commissions.

In the longer term, the development of network structures should be facilitated through regulatory and legal provisions. A network structure would allow small independent life brokers (as corporates or individuals) a more cost-effective way to develop without sacrificing the desired quality of the sales process.

A life brokerage network consists of a number of such independent life brokers, which have contracted with a network provider.

Under such contracts, it is envisaged that the provider would:

- Be accountable for the regulatory and legal requirements (such as to provide the prescribed capital, hold the license issued by the regulator, conduct compliance audits of members, be responsible for the sales practices of members, training and competency plans of members and bear certain liabilities of members including being sued for actions brought against any member).

- Provide economical administrative and support services (such as processing, IT, training, and negotiation with product providers on products and services, and compensation).

- Receive overriding commissions on the business produced by members.

The regulator may require such members to:

- Hold a secondary license with certain criteria or responsibilities.

- Be accountable for the conduct of their brokers in selling life insurance products.

- Be liable to penalties for breaches or non-compliance.

Rationale

- An authorised IFA network in the UK has a 'leading IFA', which holds the license issued by the authority and is responsible for at least five 'appointed representatives'.

- Members share their overrides with the network in what is usually a 2-tier legal structure, the latter being dictated by commercial considerations.

- A franchise concept is a similar type of structure which starts with a business model, provides certain services and sells the franchise rights to an individual or individuals. Conceivably whatever network structure emerges could accommodate franchise arrangements.

- It is easier for the MAS to deal with networks rather than a large number of small players. MAS can look to the network to ensure compliance with regulations and guidelines.

- It is also easier for life insurers to deal with networks rather than individual small firms.

<u>Development Programmes and Funding for Life Brokerages</u>

LIA, Association of Independent Life Insurance Brokers (AILIB) and MAS should coordinate with other government departments to identify applicable programmes to support the development of the brokerage channel. MAS should also develop specific funding programmes through the Financial Sector Development Fund (FSDF) where they fall within its scope.

<u>Rationale</u>

- The life insurance brokerage channel is under-developed and needs an infrastructure, support and public awareness to develop.

- Funding should be provided for development:

  - Promotion of and public education on the role of life brokers
  - Centralised training for broker representatives

  Members of the public are generally misinformed about the roles of the broker and the IFA.

- New CEDLI recommendations will require appropriate development work specifically for life brokers (e.g. fact finder, needs analysis, specific training requirements, certain guidelines, etc).

- Firms are initially quite small and need training facilities to help train representatives.

Various programmes are available through a number of government departments or agencies. Some could be adapted for the above purposes. MAS should work with these departments to identify what types of funding might be available. Examples include MOM certification and PSB training programmes.

Product training should be provided by life insurers.

- Specific support to brokerage firms and perhaps also to firms that specialise in developing services and products for life brokers could be provided through the FSDF in a variety of ways.

- Support in terms of development incentives, including tax incentives, should also be extended to life insurers who wish to develop a brokerage firm and/or re-train their tied agents to be independent broker representatives.

Referral Arrangements

Life brokerages should be allowed to develop referral agreements with "centres of influence", as is recommended for life insurers.

Rationale

- Clients of such firms, in particular accounting and legal firms, may naturally need insurance advice and insurance coverage.

- Fee-based partnerships with them are necessary in order to facilitate and provide true financial planning services.

Flexible Structure for Growth

The limits, particularly in terms of recruitment of new broking staff and total size, should be made sufficiently flexible in order to facilitate a robust growth of the channel.

Rationale

- These limits will not only hamper the growth of the life brokerage channel but, in addition, will reduce the incentive for potential investors to invest in the business.

- These limits will also constrain innovation by firms tackling the market.

- The limits are not consistent with the IFA network model described earlier nor possibly with the development of life brokerage as a division of stockbrokers.

- The proposed CEDLI recommendations on the roles and responsibilities of supervisors and advisors and the best practice standard for span of control will make the limits unnecessary.

- The proposed CEDLI disclosure requirements and practices should be sufficient in maintaining the desired quality of the channel.

Direct Marketing Channel

“No advice sale”

Direct marketing falls under the “No advice” sale category. The CEDLI recommendations relating to intermediaries are not applicable, viz.:

- Disclosure of advisor’s status
- Use of fact find document
- Use of needs analysis and recommendation document

E-commerce / Internet sales

Licensing of E-insurance Intermediaries

Internet companies, which provide some form of electronic advice or recommendation will need to be regulated by the MAS as an intermediary.

Rationale

- An Internet company is not required to be regulated as an intermediary as long as it operates as a direct marketer without offering any advice or recommendations (electronic or otherwise).

- Only regulated intermediaries can receive commissions.

- Electronic advice includes performing a needs analysis and recommending companies and/or products.

- Internet companies which provide advice, including electronic advice must be regulated.

3. Implementation

Consistent Implementation Dates

- Requirements for agents that are applicable to financial institutions and life brokerages to be implemented on the same dates as far as practicable.

1 Jan 2002

- Referral arrangements made by life brokerages with "centres of influence".

To be firmed up

- Implementation of other recommendations to be firmed up in consideration of regulatory developments.