

Newsletter

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MAS Guidelines on Online Distribution of Life Policies with No Advice

On 31 March 2017, the Monetary Authority of Singapore ("MAS") issued a set of guidelines on the [Online Distribution of Life Policies with No Advice](#) (the "Guidelines"). The Guidelines apply to all direct insurers licensed under Section 8 of the Insurance Act (Cap. 142) ("Insurance Act") to carry on life business.

The Guidelines outline MAS' expectations on the safeguards that direct life insurers should put in place for the online distribution of life policies without provision of advice.

Offer of equivalent Direct Purchase Insurance Products ("DPIs") and Provision of Key Information

Requirement to offer equivalent DPIs¹

According to the Guidelines, direct life insurers must make available on their online direct channels all equivalent DPIs that they offer before offering any specific life policy² online.

Key Information to be provided via the online direct channel

Direct life insurers must also put in place certain safeguards at the point of a client's application for the purchase of a life policy via its online direct channel. These safeguards include, but are not limited to:

- providing product information, including product summary, benefit illustration and product highlights sheet (where appropriate) and the full policy wordings of the relevant life policy;
- obtaining the acknowledgement of the client that he has completed the items set out under Annex A of the Guidelines, such as having read and understood the benefit illustration and product summary (including any coverage exclusion) and completed and disclosed fully and truthfully all the information requested in the proposal form and any supplementary questionnaire(s);
- highlighting to the client any conditions (including special exclusions or additional premium loadings imposed by the direct life insurer as a result of underwriting the policy application);

¹ A DPI refers to a term life insurance product (with or without critical illness rider) or a whole life participating insurance product (with or without critical illness rider).

² As defined under the [First Schedule](#) of the Insurance Act.

- obtaining the client's acknowledgement that he has read and understood the conditional acceptance (if any);
- alerting the client in a simple and concise manner, before he completes the purchase of a life policy, via the online direct channel that:
 - a life policy is not a savings account or deposit;
 - he may not recover the premiums paid (in part or full) if the policy is terminated or surrendered early;
 - some benefits are not guaranteed (where applicable);
 - there is a 14-day-free-look period;
 - he may request for the explanation of the product features;
 - he may seek separate advice on the suitability of the life policy; and
 - he should consider if the life policy is suitable for his financial circumstances and needs (in the event that he chooses not to seek advice on the suitability of the policy).

Tools and Calculators

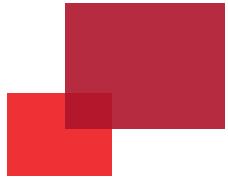
In addition to the information safeguards discussed above, MAS further requires direct life insurers to encourage their clients to consider the items set out under Annex B of the Guidelines. Under Annex B, clients are encouraged to:

- use the [Insurance Estimator](#) and the [Budget Calculator](#);
- compare and consider the features and premiums of DPAs and other types of life policies; and
- consider whether the life policies they intend to purchase is suitable for their financial circumstances and needs.

MAS recognises that the additional safeguards under Annex B may not be applicable for all types of life policies, such as monthly renewable group term life policies that do not require long term financial commitment.

Setting up appropriate avenues to address general queries

Direct life insurers are also required under the Guidelines to set up appropriate avenues, including but not limited to telephone or email helplines to handle queries, complaints and claims from clients relating to the life policies offered on their online direct channels.



Information on claims and complaints processes are also required to be provided on the online direct channels.

Implementation of Internal Controls, policies and procedures

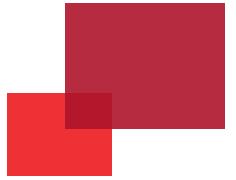
The Guidelines also reiterates the existing obligations of direct life insurers in relation to implementing:

- adequate policies, procedures and controls to mitigate money laundering and terrorism financing risks (as set out in relevant MAS Regulations, Notices and Guidelines);
- internal policies and processes to address technological risks;
- an appropriate business continuity plan to minimise system downtime or component failures to the online direct channel and to ensure the functionality and continued operation of the same.

Conclusion

The advent of financial technology has transformed the financial services industry. To allow the offering of online life policies with no advice is a positive step towards enabling the insurance industry to be continually relevant to the growing segment of technology-savvy and self-directed consumers.

Should direct life insurers be keen to distribute online life policies with no advice, they are reminded that they should be able to demonstrate to MAS that they are able to observe the Guidelines. MAS may require direct life insurers to adopt additional measures to address any deficiencies if MAS is not satisfied with their level of compliance.



MAS imposes restrictions on Financial Advisor's commission payout

In March 2012, the Monetary Authority of Singapore ("MAS") announced the launch of the Financial Advisory Industry Review ("FAIR"), aimed at raising the standards of practice in the financial advisory industry and improving the distribution of insurance products in Singapore.

One of the key thrusts of the recommendations of the FAIR Panel is to promote a culture of fair dealing in the financial advisory industry, and in particular, to reassess the regulations governing the commission payout structure of regular premium life insurance products.

The FAIR Panel was of the view that a heavily front-loaded payout structure rewards financial advisory representatives for the conclusion of their sales rather than the provision of quality after-sales services. In view of that, the FAIR Panel recommended, among other things, that:

- a. the commission payout for regular premium life insurance products be spread over a minimum period ("Minimum Period Condition"); and
- b. a cap to be imposed on the total commission that can be paid to financial advisory firms and their representatives in the first year of the sale of regular premium life insurance policies ("Commissions Cap Condition").

Following several rounds of public consultations conducted by the MAS, the Insurance (Remunerations) (Amendment) Regulations 2017 (the "Amendment Act") was introduced and came into force on 1 April 2017. The Amendment Act amends the Insurance (Remuneration) Regulations 2015 ("Remuneration Regulations") to give effect to the aforementioned Minimum Period Condition and Commissions Cap Condition, albeit with minor deviations from what was initially envisaged by the FAIR Panel.

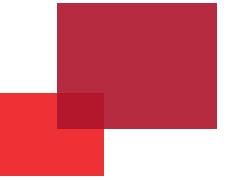
Overview of the Amendments

Following the amendments, a licensed insurer is required to fulfil, among others, the Minimum Period Condition and the Commissions Cap Condition when paying the remuneration of financial advisers (or their representatives or supervisors) in relation to the sale of a Relevant Life Policy ("RLP") when such remuneration consists of Variable Income (as defined below).

What is an RLP?

The Amendment Act introduced a distinction between life policies and RLPs. An RLP refers to a life policy that is issued by a licensed insurer on or after 1 April 2017, which is neither a Single Premium Life Policy³ nor a Specified Life Policy⁴.

³ A **Single Premium Life Policy**, as defined by the Amendment Act, refers to: (a) a life policy the premium of which is payable as a lump sum on or before the date of commencement of coverage



Only payment of remuneration in relation to the sale of RLPs are subject to the Minimum Period Condition and the Commissions Cap Condition when such remuneration consists of Variable Income.

What is Variable Income?

Variable Income, in relation to a financial adviser, refers to the remuneration payable; it may refer to income that is either directly or indirectly linked to the sale of a particular RLP. Such income must be determined by one or more of the following factors:

- the total number or total value of all investment products in relation to the financial advisory services provided to the financial adviser's clients;
- the total number or total value of all agreements, transactions or arrangements relating to investment products entered into by the financial adviser's clients in connection with financial advisory services provided by the financial adviser;
- the total amount of remuneration payable to the financial adviser by the financial adviser's clients in connection with the financial advisory services provided by the financial adviser;
- the total amount of premiums payable in respect of all life policies purchased by the financial adviser's clients in connection with financial advisory services provided by the financial adviser.

Conditions to be satisfied for payment of remuneration in relation to an RLP

General Conditions

A licensed insurer when paying remuneration in relation to the sale of an RLP (whether the remuneration consists of Variable Income or not) must satisfy any of the following conditions:

- the sale must be made pursuant to an agreement under which the financial adviser is entitled to the remuneration for the sale of life policies⁵ (listed under the schedule to the Remuneration Regulations (the

under the policy; or (b) all premiums of which are payable within a period of no more than 12 months starting from the date of commencement of coverage under the policy.

⁴ A **Specified Life Policy**, as defined by the Amendment Act, refers to a life policy in respect of which (a) the policy owner is not an individual, unless the individual holds the policy in the individual's capacity as a sole proprietor; and (b) there are 2 or more insured persons.

⁵ Under the Schedule, categories of life policies include the following: (1) whole life policies other than investment-linked policies; (2) term policies; (3) endowment policies other than investment-linked policies; (4) investment-linked policies where only a single premium is payable; (5) investment-linked policies where only a single premium is payable; (6) investment-linked policies where the premiums are payable at regular intervals; (7) universal life policies.

"Schedule")) for a continuous period of at least 12 months starting from the date the agreement becomes effective;

- the sale is made pursuant to an agreement for the sale of any type of life policies within 2 or more categories listed under the Schedule; or
- the RLP is a pure protection policy.

Where the remuneration consists of Variable Income (directly or indirectly linked to the sale of an RLP), additional conditions including but not limited to the Minimum Period Condition and the Commissions Cap Condition must also be satisfied.

Minimum Period Condition

For remuneration consisting of Variable Income that is directly linked to the sale of an RLP, the remuneration must be payable at least once every year:

- over a period of at least 6 years starting from the date of issue of the RLP; or
- over a period that covers at least the premium payment period of the RLP (if the premium payment period is less than 6 years starting from the date of issue of the RLP).

As for remuneration consisting of Variable Income that is indirectly linked to the sale of a RLP, the remuneration (in respect of a portfolio of RLPs) must be payable at least once every year over a period of at least 5 years starting from the date the first payment of the remuneration (or any part of it) is made.

Commissions Cap Condition

For remuneration consisting of Variable Income in relation to the sale of an RLP, the total remuneration, during the first 12 months of the sale of the RLP (or in respect of a portfolio of RLPs in the case of Variable Income that is indirectly linked to the sale of an RLP), must not exceed 55% of the total remuneration payable in respect of the sale of the RLP.

Conclusion

The adoption of the FAIR Panel recommendations in relation to the Minimum Period Condition and the Commissions Cap Condition reflects MAS' commitment to raise the standards of practice in the financial advisory industry.

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The reform is a positive step towards addressing the problems of a heavily front-loaded payout structure; it also strikes an appropriate balance in conserving the interests of licensed insurers and their representatives. Under the existing framework, subsequent yearly payments of commissions after the first year are not required to be spread out evenly. With such flexibility, licensed insurers may adopt a remuneration structure that can better align the interests of licensed insurers, financial advisors and their customers so as to ensure the provision of quality after-sales services to customers.