



SOCIETY OF ACTUARIES

Article from:

International News

May 2013 – Issue 59



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FAIR Review

By Jill Hoffman

In 2012 the Monetary Authority of Singapore (MAS) created a Financial Advisory Industry Review (FAIR) panel to review the practices of the financial advisory (FA) market. The aim of the panel is to increase the standards and professionalism of the FA industry in the distribution of life insurance products in Singapore. The panel focused on the following main areas:

- Raising the competency levels of the FA representatives
- Raising the quality of the FA firms
- Making financial advising a dedicated service
- Lowering distribution costs and
- Promoting a culture of fair dealing.
- With these goals in mind, the panel has made the following recommendations:
- Raising the competency levels of the FA representatives

The minimum barrier to entry was raised from four “O” levels to “A” levels; however, existing FAs will be grandfathered in. This is reflecting the increased percentage of the Singapore population that has higher education. As well, the minimum number of hours for continuing professional development is set at 30 hours (which is higher than the Singapore Actuarial Society at 20 hours!).

1. Raising the quality of the FA firms

This will be achieved by setting in place minimum years of experience for the CEO and the senior staff. In addition, compliance will take on larger prominence, with firms over a certain size needing to have a dedicated compliance officer. The minimum base capital and continuing financial requirements were also reviewed and realigned. This may have the impact of consolidation within the FA industry.

2. Making financial advising a dedicated service

While this may sound obvious on the surface, approximately 20 percent of FA representatives engage in economic activities other than financial advising. The panel recommends that FA firms should recruit only

representatives whose professional focus is primarily on their FA role.

3. Lowering distribution costs

A study commissioned by the panel found that distribution costs for life insurance products in Singapore tended to be higher when compared to the United States, Italy, and Germany. The removal of commissions and caps was explored by that panel but ultimately rejected because Singaporeans surveyed said they would not pay a “fee for advice,” which may lead to the population being underinsured.

Instead the panel concentrated on the improving the comparability of products via a Web aggregator for life insurance and critical illness. The panel has also recommended that customers be given the choice to purchase basic life insurance from the Internet, without the use of a FA, for a lower distribution cost.

4. Promoting a culture of fair dealing

In order to align the long-term interests of customers and FA representatives, first-year commissions on regular premium whole life will be made level, to be paid out over a minimum period of six years. The first-year commission payable would be capped at 40 percent, with the intent of increasing early duration cash surrender values to policyholders.

The panel also recommends moving to a balanced score-card framework for compensation, including nonsales key performance indicators such as quality of the advisory and sales process and suitability of recommendations.

The above is only a snapshot of some of the recommendations of the panel; for a complete list, please see the [full report](#) on the MAS website.

It will be interesting to see how this develops and the impact on the FA market. Other regulators are most likely watching these developments, and if they go well, they may be imported into your home country. □