CFA Society Singapore Response to MAS Consultation Paper on ‘Proposed Requirements on Insurers’ Charging of Expenses to the Participating Fund’

CFA Society Singapore has responded to MAS consultation paper on ‘Proposed Requirements on Insurers’ Charging of Expenses to the Participating Fund’ dated 6 February 2020. The response was submitted on 9 March 2020 via the central bank’s electronic submission as encouraged by MAS.

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<th>Proposed Requirements on Insurers’ Charging of Expenses to the Participating Fund</th>
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This document records our response to MAS as detailed below:

**Question 1. MAS seeks comments on the need for insurers to meet policy owners’ expectations in a ‘fair and reasonable’ manner, particularly when it comes to the allocation of charges and expenses to the Par Fund**

- CFA Society Singapore welcomes MAS initiative to garner feedback on allocation of charges and expenses to policy funds for the benefit of policy owners.
- We agree that there is a need to ensure that interest of policy owners need to be safeguarded against unfair back-of-house allocation of expenses. Allocation of charges and expenses must be justified, and reasonable in its nature and amount.
- As stated under MAS consultation paper paragraphs 2.1 (b) and (c), MAS’ intent to be more prescriptive on expenses charging and non-chargeable expenses should help insurers in discharging fiduciary responsibilities to its policy owners. MAS’ requirements are transparent on what expenses policy owners should bear and ultimately, addresses paragraph 1.2 that “if expenses are inappropriately allocated to the Par Fund, the distributable bonuses for Par policy owners may be reduced and can disadvantage the policy owners".
• Where MAS requirements on expenses allocation are more prescriptive and transparent, they would shape policy owners’ expectations of what is fair and reasonable and also allow for a more common practice amongst insurers.
• Given that Par Fund, investment-linked plans (ILPs) and collective investment schemes (CIS) (e.g. REITs and unit trusts) and even fund management share common savings and investment objectives, and fiduciary requirements, MAS should take a more holistic approach to harmonize its supervisory policy on how expenses are to be allocated across all investment products and basis for discrepancies.
• This is more so when insurance companies offer products which are effectively collective investment schemes with an element of protection. Should more policy owners view that this is indeed the case, more scrutiny will be placed on how a par policy works, how returns are generated, and what goes into expenses.

Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.

• We agree with the proposed roles and responsibilities of the Board, senior management and appointed actuary, which reinforce their fiduciary roles to the policy owners.
• Consistent with our comments under Question 1, MAS should review whether these proposed roles and responsibilities are consistent with those applicable to ILP and CIS.

Question 3. MAS seeks comments on the proposed Requirements 1 and 2.

• We agree with Requirement 1 and 2.

Question 4. MAS seeks comments on the proposed Requirement 3.

• There is a general agreement with regards to Requirement 3.
• One approach is to only allow a standard distribution charge to be allocated to the Par Fund which should be fully disclosed.
• There is however another school of thought. In principle, distribution remunerations, including design of agency schemes are business decisions. Where businesses are likely to appreciate business dynamics better, MAS may wish to be mindful that its regulatory prescriptions do not unwittingly disrupt business dynamics and market competition. Alternatively, as a start, MAS can consider disclosure-based approach and leave the policy owners and governance advocates to assess whether the insurers’ distribution incentives are fair and reasonable, including ex-gratia ones outside the distribution agreements.
• With regards to levelling playing field, and reinforcing our recommendations to take a holistic view on all investment products, we note that MAS does not regulate how unit trust managers compensate their distributors.

**Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?**

• Diversification source of new business and seeking a lower distribution cost (which will benefit policy owners) are justification for insurers to operate more than one agency scheme.

**Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them, (a) what are the key factors which differentiate the schemes? (b) what challenges, if any, inhibit the reduction in number of schemes?**

• 6(a) A key factor is the committed amount of new business by distribution channel via contracts. The committed new business and remuneration will depend on the size of the sales force.
• 6(b) Contractual agreement between insurer and distribution channel may inhibit the reduction in number of schemes.

**Question 7. MAS seeks comments on the proposed Requirement 4.**

• There is a general agreement with regards to requirement 4, and its rationale.
• There is however another view as per response to question 4. Design of marketing campaigns is a business decision. Classifying marketing expenses as being directly or indirectly related to the sales of the insurer’s Par products as stated under paragraph 5.11 is also a judgment call.
• The examples under paragraph 5.14 can be re-positioned as corporate branding and fit the purpose stated under paragraph 5.13, i.e. "to build customer loyalty and may improve the insurer’s retention of its existing business or the sales of new business over time. This could indirectly benefit the Par Fund as the fixed overhead cost will be borne by a bigger group of policies."
• Consistent with a disclosure-based approach, we agree with paragraph 5.12 - "Where an insurer allocates any marketing-related charges and expenses to the Par Fund, the insurer must clearly document the basis and justification for such allocation". How and why marketing-related charges are borne by policy owners should also be disclosed in the annual statement to policy owners, including sales and marketing material.
Question 8. MAS seeks comments on the proposed Requirement 5.

- There is a general agreement with regards to Requirement 5.
- Nevertheless, distribution incentives received by individual FA representatives from insurers through their FA employers (as a company) can be substantively same as those received by tied agency representatives directly from insurers. To underline the point on form over substance between FA and tied agencies, with reference to paragraph 5.15, if an FA firm were not to receive distribution incentives at firm level, would it be entitled to insurers’ reimbursements of its operating expenses similar to tied agencies?

Question 9. MAS seeks comments on the proposed Requirement 6.

- We agree with Requirement 6.

Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.

- Adjusting existing partnership contracts may pose more harm than good for the exempted FA and insurer's operation.
- Should the MAS proposal be implemented, insurers must provide rationale for its action and provide full disclosure.

Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.

- We agree with Requirement 7, 8 and 9.

Question 12. MAS seeks comments on the proposed Requirements 10 and 11.

- We agree with Requirement 10 and 11.

Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.

- We are in agreement with items on the proposed list. The list is an excellent starting point.
- However, should the items on the list not be permitted to be charged to Par Funds, we seek clarification from MAS as to whether it should be more specific that shareholders’ funds should bear these expenses.
Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.

- Hardware and/or software changes requiring time to implement can be taken into account for time extensions but implementation date should remain 1 April 2020.

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