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Singapore: Online distribution of life policies with no advice

On 31 March 2017 the Monetary Authority of Singapore (MAS) issued its guidelines for the distribution of life policies online with no advice, to take immediate effect. This was following the announcement made by Mr Ravi Menon, Managing Director of the MAS at the opening of the Singapore FinTech Festival on 16 November 2016 that a full suite of life insurance products would be allowed to be distributed online. Since 30 March 2015, MAS has allowed insurers to offer direct-purchase insurance products (DPI)¹ online without advice and has been proactive in encouraging direct insurance sales, with the development of initiatives such as CompareFIRST, a one-stop online portal for comparing life insurance offerings.

In this e-Alert, we highlight MAS' expectations on the safeguards that direct life insurers would need to put in place for the online distribution of life policies, which include sales via web portals and applications. We also discuss our views on the potential implications for the life insurance product distribution landscape in Singapore.

NECESSARY SAFEGUARDS FOR THE ONLINE CUSTOMERS

PROVIDING PRODUCT INFORMATION AND RECEIVING ACKNOWLEDGEMENTS

Similar to what customers receive from other distribution channels, prior to purchase online customers would need to have access to the Product Summary, Benefit Illustration, Product Highlights Sheet and full policy wordings of the relevant life insurance policy. Acknowledgements need to be obtained to ensure that the client has read and understood the benefit illustration and product summary, including any coverage exclusion. The client also needs to complete and disclose fully and truthfully all the information requested in the proposal form and any supplementary questionnaire(s).

If medical and moratorium or financial underwriting are conducted, the insurer also needs to receive acknowledgement from the client that he/she has declared all pre-existing medical conditions, reviewed all existing life policies that he/she owns or is in the process of applying for, and declared his/her current financial situation. Any conditions relating to the product, including special exclusions or additional premium loadings as a result of policy underwriting would need to be highlighted. Prior to purchase of the product online, an acknowledgement needs to be obtained to ensure that the client has read and understood these conditions.

SERVING THE ONLINE CUSTOMERS

MAS has also set out some rules on the resources that are to be provided to the potential online customers before and after the sale of the life insurance product. Specifically, the insurer would need to offer links to free websites, including the Insurance Estimator (to estimate level of insurance coverage needed), Budget Calculator (to check the affordability of life insurance premiums) and CompareFirst (to compare features and premiums of DPI and other types of life policies). These tools are designed to help online customers make sure that the life policy intended for purchase is suitable for his/her financial circumstances and needs before taking on any long-term financial commitment.

In terms of handling queries, the direct life insurer would need to set up appropriate avenues at least via the telephone or email to address general queries on the online life insurance products. Information on the complaints and claims process should also be provided on the online direct channel.

SETTING UP INTERNAL CONTROLS, POLICIES AND PROCEDURES

In the new guidelines, MAS has reiterated that it is the insurer's current obligation to mitigate technological, money laundering and terrorism financing risks when policies are sold online. Adequate policies, procedures and controls would need to be in place to address any other specific risks associated with non face-to-face, online business relations with a client.

¹ According to MAS Notice 321, DPI products refer to a term life or whole of life participating product (with or without a critical illness rider) that is priced without distribution expenses, and has lower premiums and has benefits which are no less favourable than a life policy of the same type which is not a DPI product.

On top of establishing a sound and robust risk management framework, the insurer should strengthen their system security and deploy strong authentication to protect customer data. An appropriate business continuity plan would need to be in place to minimise system downtime or component failures to the online direct channel.

SPURRING INNOVATION FOR INSURTECH?

InsurTech is a term commonly applied to the technological innovations that disrupt the insurance space by altering the current insurance business model. With the possibility of making 'digital contracts' for any life insurance product, MAS has taken a step in the right direction of encouraging innovation in the InsurTech sector, while also seeking to make the industry more efficient. Robo-advisory and profiling applications would then fill in the gap to assist in the provision of unbiased financial advice to potential customers. Although the adoption of InsurTech has not been widely observed, it is well known that several insurers are investing in the establishment of various innovation labs or digital garages in Singapore.

Digital technology in the insurance field has so far been focused more on digitising analog practices, rather than transforming the way insurance is sold. There has been little product distinction or differentiation between products sold online and those sold via traditional distribution channels. There is clearly scope for insurers in Singapore to explore in greater detail what products might be suited to online distribution in addition to the limited range of DPI products that have been permitted to date.

CONCLUSIONS

With the new guidelines, it is encouraging to see the MAS again taking a proactive step to further embrace the digital and technological initiatives that are capturing the insurance sector. The announcement is a natural progression from the DPI initiative that was introduced in March 2015, some aspects of which have been taken up by other regulators such as Bank Negara Malaysia (BNM)². With MAS opening doors to allow a full suite of life insurance products to be sold online, companies now have an incentive to focus greater resource on looking into the viability and feasibility of this channel.

Sales from DPI have been lukewarm since its introduction in April 2015. In 2016 the industry sold 957 DPI policies with total annualised new business premiums of S\$0.25 million (representing less than 0.03% of total annualised new business premiums in 2016)³. One of the challenges for the success of DPI has been the lack of focus given to it by existing insurers, especially for the larger companies where the more traditional channels are much larger and dominant, or where the focus for others has been on the development of new bancassurance channels. The restricted range of DPI products may also deter investment into online technology. However, the new guidelines are likely to be well-received, especially by the smaller players or potential new entrants as an opportunity to focus and invest greater resources to build more critical mass through online distribution models. The larger players may also see the opportunity to sell a wider range of products online as incentive to look at product diversification, balancing the need to manage any channel conflicts that this may present.

² On 28 October 2016, BNM released a concept paper on the 'Direct Distribution Channels for Pure Protection Products' which would require insurers to offer pure protection products via direct distribution channels, whereby customers can deal directly with the insurer without any intermediaries.

³ From Life Insurance Association of Singapore statistics for 2016

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