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Comprehensive Review of Financial Advisory Industry in Singapore



This week, on the occasion of the Life Insurance Association's 50th Anniversary Gala Dinner, Mr Ravi Menon, managing director of the Monetary Authority of Singapore (MAS) announced plans to conduct a Comprehensive Review of the Financial Advisory Industry in Singapore.

In response to the large protection gap in Singapore (citing a 2009 survey from Nanyang Technological Survey which found that existing life cover in Singapore was only around one-third of what dependants need) and inadequate preparation for retirement (citing a 2011 survey by Nielsen Company which stated that only 14% of Singaporeans were financially ready for retirement), the MAS intends to review the overall financial planning process being delivered in the market. The regulator wants to modify the nature of its advice so that it not only applies to investment products but also meets the financial needs of the full life cycle of an individual, including planning for retirement.

The MAS formally launched the new initiative under the name of the Financial Advisory Industry Review (FAIR), which focuses on "putting the customer first and building the customer's trust and confidence in life insurance and financial advisory services." Its two main stated objectives are:

- To enhance the professional standing and competence of financial advisors
- To create a more competitive and efficient system for the distribution of life insurance and investment products

The MAS plans to achieve this through the following five areas of change:

1. Raising the competence of financial advisory representatives

The focus here will be on raising the product knowledge of financial advisory representatives (FARs) through the provision of further exams. This may then lead to the possible availability or restriction of certain products to those FARs that have passed particular exams. The entry requirements for FARs will also be reviewed, with the MAS stating that the current requirements fall short of the equivalent requirements from other jurisdictions, where, for example, tertiary education is required.

2. Raising the quality of financial advisory firms

The MAS will review the management expertise and financial resources of financial advisory firms to ensure that they are well managed and financially sound.

3. Making financial advice a dedicated service

The aim is to make financial advice a dedicated and professional vocation.

Mr Menon cited examples of financial advisors supplementing their income through real estate agency work and through junket promoter licenses in casinos! The aim will be to review unregulated activities and to exclude activities that lead to conflict with financial advisory services.

In addition, the MAS plans to review the role of "introducers" used by FARs and firms, and to review the financial advisory activities that are currently conducted in insurance broking firms that might not have sufficient management expertise and compliance capability to manage the financial advisory portion of their business.

4. Lowering distribution costs

With the aim of lowering the cost of life insurance to Singaporeans, the MAS is keen to increase the proportion of business sold via the Internet.

The MAS also plans to review the current multi-tier agency distribution structure to examine if it aligns the interests of FARs with the long-term interests of consumers, if it provides adverse incentive to sell products that pay higher commissions, and if it actually provides value for the customer or simply increases the overall cost. Examples of developments in the UK and Australia moving to a purely fee-based model were mentioned as models that might be considered.

Current disclosure norms will also be reviewed to further enhance the customer's understanding of what he or she is buying (to consider a breakdown of the protection and insurance elements of an investment-linked product) and to disclose more on the actual levels commission paid to the FARs.

5. Promoting a culture of fair dealing

The last area mentioned was to develop and promote a culture of fair dealing by reviewing the expectations of individual financial advisory firms and enhancing the transparency of product literature.

Conclusions

FAIR has the potential to be far reaching. The MAS plans to establish a panel to oversee the review process, comprising various interested parties and stakeholders. No timelines have been set, but the expectation is that once the panel is formed and announced, work will commence. The last major review of financial advice led to the introduction of the Financial Advisors Act, and followed the establishment of the Committee for the Efficient Distribution of Life Insurance (CEDLI) which, after a period of two years, made recommendations on minimum standards for the advisory process and the competency of agents.

We can expect the new panel to operate in a similar manner and to recommend changes that will provide the platform for distribution in Singapore for the next decade or so.

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