

To: Ordinary and associate members

MU 55/19 - LIA GUIDELINES ON RISK MANAGEMENT PRACTICES IN RESPECT OF LIFE INSURANCE  
INTERMEDIARY FRAUD RISK

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**ACTION:**

- 1. THIS MEMBERS' UNDERTAKING REPLACES MU 55/16 OF 14 SEPTEMBER 2016**
- 2. FOR ORDINARY MEMBERS' COMPLIANCE, IF APPLICABLE, NO LATER THAN 1 AUGUST 2019**
- 3. FOR ASSOCIATE MEMBERS' INFORMATION**

**Reference: MINUTES OF 50<sup>TH</sup> MAS-LIA INDUSTRY DISCUSSION, 1 FEB 2010**

**4. INSURANCE INTERMEDIARY FRAUD**

*- Key recommendations and additional guidelines, and the next steps*

MAS had received more reports of intermediary fraud since it alerted the life industry in 2005. In November 2007, the MAS Guidelines on Risk Management Practices for Insurance Business (Insurance Fraud Risk) ("fraud guidelines") was issued. However, **MAS observed that there was a wide range in the level of adoption of best practices across the industry.**

MAS presented its findings of common frauds and identified key recommendations which should be implemented by all insurers, to **materially reduce opportunities for intermediary fraud.** The measures highlighted are found in the fraud guidelines.

Furthermore, MAS believed that **consumer education** should go hand in hand so as to enhance the effectiveness of recommended measures. For example, policyholders should become accustomed to receiving documents and notifications directly from the insurer, and hopefully raise suspicion when they do not get such notifications. Policyholders should also come to expect, as the norm, to making payments directly to the insurer and receiving payments directly from the insurer, rather than via an intermediary.

MAS also suggested additional measures to be included in the fraud guidelines.

**MAS noted that whilst the number of cases may not be significant as yet, the level of reliance that policyholders place on their agents opens up many opportunities for fraud. The industry should thus promulgate preventative measures.** It was also noted that the victims of fraud are not necessarily illiterate or lowly educated people; some are busy professionals.

In response to a comment that insurers may face difficulties in applying the key recommendations and additional guidelines to non-tied representatives, it was agreed by the meeting that, depending on the issues, some measures lend themselves to enforcement provided all insurers act in one accord.

LIA MU 55/19 has been issued to *supplement* the MAS Guidelines on Risk Management Practices for Insurance Business (Insurance Fraud Risk) of November 2007.

**Changes have been made to paragraphs 10.8 and 10.9.**

**LIA SECRETARIAT**

## **MU 55/19 – LIA GUIDELINES ON RISK MANAGEMENT PRACTICES IN RESPECT OF LIFE INSURANCE INTERMEDIARY FRAUD RISK**

### **PRINCIPLES**

1. The insurer's anti-fraud operating procedures and processes should serve the main objectives of minimising opportunities for intermediary fraud and managing such risks. Such operating procedures and processes should require (1) that the policyholder is informed of important transactions pertaining to his policy, and (2) that an audit trail is kept for purposes of carrying out investigations and taking remedial actions in the event of fraud or misconduct.
2. The insurer's agency contracts with its tied representatives and/or business agreement(s) with its external distributor firm(s) should require the latter to honour the insurer's relevant operating procedures and processes.
3. The insurer should have operating procedures for staff to be able to act quickly when fraud is first suspected.
4. The insurer should have appropriate measures to monitor and detect instances of suspicion of fraud that are adequate for the nature and complexity of its activities. Such measures may include monitoring typical warning signs of intermediary fraud, conducting periodic anti-fraud audits of its business, etc.
5. The insurer should have an effective penalty structure to deal with misconduct as well as to deter future misconduct.

### **SPECIFIC OPERATING PROCEDURES**

#### **Marketing materials and information**

*Rationale: Prevents dissemination of unauthorised information, which may be inaccurate, misleading or untrue*

6. Representatives should not be permitted to use marketing material or information referring to the insurer unless the material / information is authorised or has been specifically approved by the insurer.

#### **Change of representative**

*Rationale: Alerts of unauthorised change*

7. The policyholder shall be informed of any change of servicing representative.
  - 7.1 Where the change is initiated by the insurer or external distributor firm, a letter to inform of the change shall be sent to the policyholder accordingly.
  - 7.2 In the case where the policyholder wishes to make a change, he should be required to sign-off on a request form for change of servicing representative. The insurer or external distributor firm should issue a letter to the policyholder to confirm receipt of his instruction and inform of the actions taken.

#### **Notification of transactions**

*Rationale: Alerts of unauthorised transaction*

8. For all important transactions, the insurer should notify the policyholder directly and as soon as possible following the transaction where this is the case.
9. The direct communication is separate and in addition to any correspondence or dispatch of document made via the representative.

10. Important transactions include, but are not limited to, the following:

10.1 Inception of cover

10.2 Policy endorsement

10.3 Withdrawal / Cancellation

10.4 Policy loan

10.5 Surrender

10.6 Payment of claim

10.7 Premiums received by the insurer

10.8 Address

General rule

All correspondence from the insurer shall be sent to the policyholder's address. Insurers may adopt other means of communication or notification directly to the policyholder (e.g. email, mobile SMS and/or online policyholder portal developed by the insurer).

Exceptions handling

The insurer may send correspondence to the representative's address, provided (1) there is a justifiable basis/ rationale, e.g. offshore or foreign customer, and (2) the policyholder has given authorisation to use the representative's address.

10.9 Change of address (COA)

The insurer may notify that the address has been changed in the following manner:

(1) Send a notification of COA by letter to the new address, provided the new address has been validated (e.g. by sighting a utilities bill).

(2) For requests received such that the identity of the policyholder has been validated (e.g. verification by ID or 2FA log-in), the insurer need not send such notification to the new address. However, insurers may do so if they wish.

(3) For cases where both the new address and the identity of the policyholder are not validated, the insurer will send a notification of COA through other available means of communication (e.g. by email or mobile SMS) and proceed to change the address. For cases where no other means of communication are available, the insurer shall handle the "change the address" request according to the insurer's operational process/ controls.

10.10 Change of beneficiary

Follow the Insurance Act requirements.

10.11 Undelivered correspondence in respect of new business

For policyholders whom the insurer is unsuccessful in contacting, the insurer must be able to demonstrate that every attempt has been made, on a best effort basis, to make contact.

**Collection of premiums**

*Rationale: Section 350 Insurance Act; Provides crucial audit trail*

## 11. Payment by cheque

### References:

Bills of Exchange Act (Cap 23) Section 89, 7(a), states that "the image of a cheque shall comprise the front view and the back view of the cheque".

Section 4.1.1 of the CTS SGD & USD Operating Manuals, to be complied by all cheque clearing banks pursuant to Rule 1 of the Singapore Clearing House Association Bye-Laws, provide for the cheque image file to contain 3 types of images as follows:

- i. Front image - Grayscale (JPEG)
- ii. Front image - Bitonal (CCITT)
- iii. Back image - Bitonal (CCITT)

11.1 The insurer must only accept cheques that are made payable to the insurer.

11.2 For documentation and audit trail purposes, the insurer is permitted to rely solely on CTS images and current retention period applicable to all banks.

## 12. Payment in cash

12.1 The insurer must provide for a robust audit trail of cash transactions.

12.2 The insurer should ensure that there is some form of documentation to record the collection of monies by a representative at the point of transaction.

### **Payment of claims**

*Rationale Section 350 Insurance Act; Alerts of unauthorised handling of monies*

13. The insurer must not issue cheques in favour of parties other than the policyholder, beneficiary, proper claimant as the case may be or where applicable, bona fide entities such as a hospital, the Official Assignee or CPF Board.

14. The insurer should send the payment directly to such a person or entity.

15. However, where the representative is given the cheque, the insurer should also be in direct communication with the payee, ensuring that the latter is aware and informed.

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