Promoting Ethical Culture and Conduct in Insurance Intermediaries (Life)

AN INTERMEDIARY BEST PRACTICE PAPER PUBLISHED BY THE INSURANCE CULTURE AND CONDUCT STEERING COMMITTEE

April 2022

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Over the past few years, the life insurance industry has introduced various requirements and practices aiming to enhance the professionalism of Financial Advisory Firms (FAFs) (which includes insurers), Financial advisory representatives (FA Reps) and the quality of the financial advisory services provided. These requirements include, but are not limited to:

a. Training and competency standards recommended by the Committee on Efficient Distribution of Life Insurance (CEDLI);

b. Implementation of the Representative Notification Framework (RNF) to ensure that FA Reps meet licensing requirements such as the minimum entry and examination requirements, and the fitness and propriety of FA Reps;

c. Reporting misconduct to the Monetary Authority of Singapore (MAS);[1]

d. Introduction of the Guidelines on Fair Dealing to promote fair dealing by financial institutions when they conduct business with their customers;

e. Implementation of the Financial Advisory Industry Review (FAIR) aimed at raising standards in the industry through initiatives such as the Balanced Scorecard (BSC) framework; and the spreading of commissions.

In this regard, the industry also developed best practices to promote compliance with the requirements and consistency among FAFs.

With the continued growth of demand for protection, investment and savings policies, currently around $4 billion new business weighted annualised premium per annum, it remains the focus of the life insurance industry to ensure that FA Reps continue to act in the best interest of their customers, and customers continue to maintain high levels of trust in the financial advisory profession.

The Insurance Culture and Conduct Steering Committee (ICCSC) has built on the strong foundation created by the life insurance industry and has developed recommendations to complement the current rules in the Financial Advisers Act, Insurance Act, and their subsidiary legislations, as well as LIA Guidelines, to further enhance the quality of the financial advisory service sector through the practices of FAFs.

As set out in the Corporate Governance paper (CG paper), the Board and senior management of FAFs remain ultimately responsible for providing leadership and setting the culture within their FAF, which include their FA Reps and supervisors. Nevertheless, ICCSC, through a review of the practices of FAFs, has noted areas for improvement relating to FA Reps and supervisors:

a. Enhance the role of supervisors by reinforcing the right culture and conduct (C&C) of the FA Reps they supervise;

b. The need to calibrate and standardise on industry practice and expected quality of financial advisory services expected of FA Reps; and

c. Alignment between the insurers and non-tied FAFs distributing their products for better eventual outcome to customers.

ICCSC's International Best Practices (IBP) sub-committee was tasked to research, analyse, and synthesise international C&C best practices for sharing with Committee members.

The IBP sub-committee paper consolidated responses to 12 research questions and provided inputs on regulatory expectation in certain jurisdictions, industry best practices and/or international standards.[2] The IBP sub-committee's research paper on Agency Culture and Conduct Practices focused on the three areas:

1) Mindset of Culture;

2) Hiring and Onboarding; and

3) Performance Management and Rewards.

1 FAs are required under the Notice on Reporting of Misconduct of Representatives by Financial Advisers (FAA-N14) to report any misconduct committed by FA Reps to MAS.

2 Please refer to the 'Reference' section for links to a selected list of relevant regulations and international standards

EXECUTIVE SUMMARY

ICCSC believes that the identified areas for improvement, if not addressed, will distract industry efforts to further enhance the professionalism of the financial advisory services sector and may create divergence in the vision and values between FAFs and FA Reps over time. To address these areas, ICCSC formed the Intermediary Sub-Committee consisting of members from the Life Insurance Association (Singapore), Association of Financial Advisers (Singapore), General Insurance Association of Singapore and Singapore Reinsurers' Association, to look into enhancing the current frameworks.

This paper, by the Intermediary Sub-Committee, has referred to the IBP sub-committee paper and taken guidance, wherever appropriate, and is also an extension of the CG Paper, revised as necessary to apply specifically to FA Reps (including their supervisors). It should be read with the existing rules as set out in paragraph 1 and other best practices. It is structured into three parts:

a. Tone from the Top

   i) Like the CG Paper, the primary emphasis of this paper is the tone from the top. It is crucial that supervisors of FA Reps set the correct tone pertinent to their organisation's C&C. Absent this, the drive for sales and revenue will likely only produce results that are neither desirable nor sustainable for customers and insurers. Supervisors must therefore be held accountable for setting the correct tone from the top.

   ii) Supervisors must be assessed on their effective management of quality practices and behaviour of their FA Reps and are measured on specific key performance indicators (KPIs) and quality indicators.

   iii) Promotion to supervisory roles cannot be premised only on sales results and recruitment capability. Personal conduct and managerial competency must also be taken into consideration.

   iv) Supervisors should be affirmed or held accountable for the C&C of their organisation by way of a reward and penalty framework that incorporates the relevant KPIs and quality indicators.

b. Extension of Fair Dealing

   i) FA Reps should be measured against metrics pertinent to fair dealing and C&C that are clear and specific, to which their supervisors and principals can hold them accountable, including when assessing their suitability for promotion.

   ii) These KPIs can then be subsumed into the KPIs of their supervisors, to ensure alignment and clear accountability.

   iii) Recognition and awards pertinent to C&C should supplement sales incentives to reinforce the emphasis on appropriate C&C.

   iv) After-sales reviews with customers should be introduced to ensure the continuing relevance of the financial plans recommended to (and accepted by) customers.

c. Value alignment between insurers and FAFs that are not tied to insurers

   i) FAFs that are not tied to specific insurers (non-tied FAFs) are not members of the Life Insurance Association and may not presently be aligned in approach on fair dealing and C&C.

   ii) Insurers and non-tied FAFs should work together to ensure that their mutual customers' interests are safeguarded.

   iii) It is therefore important that there is alignment by way of common expectations, complemented by sharing of best practices in proper disclosures to customers in product recommendations, disclosure of incentives and sharing of data to improve C&C.

1. TONE FROM THE TOP

The quality of leadership in an organisation is critical when it comes to imparting professional values and desirable conduct to its employees and FA Reps. There is a direct correlation between poor or weak supervisors with lacklustre performance of FA Reps under their supervision, usually resulting in (i) increased incidences of customer complaints and/or market misconduct, (ii) poorer BSC grades, and (iii) poorer business quality/persistency.

Supervisors play a pivotal role in shaping the C&C of their organisations with responsibilities extending to recruitment, training, monitoring and enforcing appropriate quality of sales. They must uphold the highest standards of professionalism and integrity to be appropriate role models and mentors for their charges. There should be a higher expectation to adhere to their organisation's C&C to ensure that the firm's vision and values filter down to all the FA Reps in the firm.

To further strengthen the practices and C&C of supervisors, ICCSC sets out recommendations in the following areas:

a. Supervisory Quality Indicators;

b. Quality Management Framework; and

c. Promotion criteria for supervisors.

On the tone from the top, ICCSC recommends establishing and adopting a set of industry-level Supervisory Quality Indicators (SQI) that are objectively measurable and can provide consistent indication of the supervisors' quality of management. This set of indicators will allow for early intervention by the FAF as and when necessary, to address any potential concerns before they manifest into systemic C&C issues impacting customers and the firm.

A set of Quality Indicators should be developed for FA Reps. The Quality Indicators will be incorporated into the supervisors' quality management framework to reflect the performance of supervisors in the management of their reps. This will allow for concrete and objective actions to be taken to address any persistent failure by the supervisors to address poor or undesirable results.

Qualitative indicators focusing on C&C should be included in the promotion criteria to supervisory level, to ensure (new) supervisors start off with the right attributes and, thereafter, to inculcate the right C&C standard in their organisation to support the firm-wide C&C vision and values.

1.1 Quality Indicators for Supervisors

All FAFs should set clear C&C expectations for supervisors along with the implementation of SQIs. SQIs should be properly documented and communicated clearly to the supervisors. Supervisors should be regularly assessed on these SQIs by the FAFs.

All FAFs should use the proposed SQIs when monitoring their supervisors to ensure consistency and alignment of expectations across the industry. These SQIs allow the FAFs to bring greater focus on quality measurements to promote better C&C of the organisation. It will also allow each organisation to identify areas falling short of the FAF's expectation.

FAFs should ensure that the SQIs are shared with their supervisors on a regular basis (at least once every three months) to prevent poor behaviour from promulgating in their respective organisations. Where necessary, a documented action plan with specific deliverables and future follow-ups should be put in place to further align the firm's expectations with the supervisors on their level of management of the activities and oversight of the quality of business.

ICCSC undertakes to review the SQIs on a regular basis to further enhance the relevance over time. Hence, ICCSC proposes that the first review takes place 12 months after the full implementation of these SQIs.

Recommendation 1 – All FAFs should introduce SQIs as set out in Appendix 1, Table 1 to monitor the non-sales management quality of the supervisors. FAFs should develop thresholds for each of these indicators over time, to establish expected standards in the FAF.

1. TONE FROM THE TOP

1.2 Quality Management Framework for Supervisors

To drive effective C&C outcomes and management accountability, FAFs should focus on the effectiveness of the supervisors in managing the activities and business quality of their organisation. This can be done by assigning a supervisory performance banding score for each supervisor based on the banding of their FA Rep Quality indicators (refer to Recommendation 4 under Fair Dealing and Good Practices of FA Reps)

The performance banding would enable FAFs to objectively assess the overall standard of the supervisors in the management of C&C and facilitate greater conversations between FAFs and supervisors. The performance banding will be calculated on a quarterly basis and the results will be communicated to the supervisors.

The performance banding should be used proactively by FAFs to manage their supervisors and to improve the management capabilities of the supervisors to the highest level. Any weaknesses observed in the performance banding should be followed up with more in-depth discussions on the underlying cause and concrete remediation plan with a clear timeline for the remedial action to take place.

Where the performance banding is less than ideal, FAFs should impose some business restrictions to allow the supervisors time to improve. In more adverse situations where the supervisors' banding continues to be persistently poor, additional controls should be imposed on supervisors. However, if they continue to act inappropriately as supervisors or manifest supervisory incompetence as a supervisor, FAFs should take action and consider demotion or suspension from supervision.

Recommendation 2 – FAFs should develop a quality management framework for supervisors based on the banding of the FA Reps under their supervision, to enhance the effectiveness of the supervisors in carrying out their role, as set out in Table 2: Supervisors' Quality Management Framework (Appendix 2).

1.3 Promotion Criteria for Supervisors

The industry should further elevate supervisor standards by setting promotion criteria that places greater emphasis on C&C. FAFs should not promote candidates solely on sales and recruitment achievements but ensure they display the right attributes to support the FAF's C&C.

Some FAFs may potentially use promotion as a retention tool for their FA Reps with strong sales performance. However, promoting FA Reps into a supervisory position solely based on sales performance without due consideration for C&C attributes may not be in the FAFs' and customers' best interest in the long run and may create issues and challenges in building the right C&C for the organisation.

Hence, FAFs should evaluate candidates for promotion holistically beyond mere sales achievement. Consideration and evaluation should include other factors such as (i) requisite minimum years of relevant experience, (ii) satisfactory completion of the FAF's mandatory management training programme, and (iii) their quality of sales and advisory services beyond quantitative performance measures. This ensures that suitable candidates with good qualitative and quantitative track records are given sufficient time to understand the business requirements, company culture and the expected business quality; as well as sufficiently equipping them to perform their supervisory roles effectively.

Candidates being considered for promotion or recruited from other Financial Institutions as supervisors should be objectively evaluated using the same assessment framework. This would allow the industry to set a consistent baseline for adhering to a higher standard of promotion criteria, preventing FAFs with recruitment pressure to undermine C&C expectation required of a supervisor. Financial Institutions will provide the C&C dashboard results to the recruiting FAF upon request.

Recommendation 3 – FAFs should incorporate standardised promotion criteria to enhance the level of supervisory quality. Table 3 (Appendix 3) outlines the minimum criteria that FAFs should adopt to evaluate candidates' suitability and competence to undertake supervisory roles.

2. FAIR DEALING AND GOOD PRACTICES OF FA REPS

FA Reps are front-line personnel who deal directly with customers. Their competencies and value attributes will have a direct impact on the quality of advice provided to customers and the eventual outcome of their recommendations, should these be accepted and executed for the customers.

While there are currently regulations and guidelines that govern the role of FA Reps (licensing requirement, CPD requirement, fit and proper, etc.), there is no consistent approach across all firms that provides a standardised measurement of the quality of the FA Reps to allow supervisors to consistently manage and improve their quality.

To further strengthen the practice and C&C of FA Reps, ICCSC sets out the following areas as good practices of FA Reps:

a. FA Rep Quality Indicators (FQIs) and scoring band to monitor quality;

b. Rewards and recognitions in C&C; and

c. Post-sales services to customers

FQIs can provide FAFs and their supervisors better visibility on the quality and value attributes of their FA Reps to identify areas of concern. FA Rep scoring bands will contribute towards the Supervisors' Quality Management Framework to determine the Supervisors' performance band.

To further drive organisational C&C, FAFs should extend their recognition and reward program beyond performance in sales. FAFs should consider recognition programs that emphasise the quality of business and services provided to customers, as well as recognise exemplary sales behaviour that puts customers first.

Finally, the value proposition of FA Reps should go beyond product advice and recommendations. Ongoing review of the suitability of the financial plan and product effectiveness in meeting the customer needs is an important element of financial planning as their needs change over time. Hence ICCSC also recommends that FAFs require their FA Reps to provide ongoing servicing of customers to review their financial plans.

2.1 Quality Indicators for FA Reps

Monitoring is key to ensure that FA Rep conduct is tracked, analysed, and acted upon. FQIs should be used to assess the C&C standards of the FA Reps. FQIs should be documented, and supervisors should share expectations set with FA Reps and scores on a regular basis.

FAFs should encourage good sales behaviour and address bad practices through ongoing communication. FAFs should also place special attention to high-risk areas where FA Reps have a higher potential for market misconduct and ensure there are enough controls to mitigate these concerns.

FA Reps should be assessed through a risk-based approach on the qualitative non-sales indicators by the FAFs. This can be done by assigning an overall score for each FA Rep using the FQIs and banding the FA Reps accordingly. The score would enable supervisors to objectively assess the overall conduct of FA Reps and facilitate in-depth conversations between the supervisor and FA Reps. The score will be calculated on a quarterly basis and the results will be communicated to FA Reps.

The scoring of FA Reps would also allow their supervisors to determine the appropriate follow-up actions. This will also be used as part of the promotion assessment criteria. FA Reps with poor scores who continue to display errant behaviour and lack of improvement should be subjected to mitigating measures that may include suspension and/or disqualification from annual incentives and awards.

As with SQIs, FAFs should use the proposed FQIs to ensure consistency and alignment of expectations across the industry. ICCSC will undertake regular reviews of both sets of indicators to ensure continuing relevance to evolving C&C expectations. The first review will be done 12 months after full implementation of these indicators.

2. FAIR DEALING AND GOOD PRACTICES OF FA REPS

Recommendation 4 - All FAFs should introduce Quality Indicators to monitor the non-sales quality of their FA Reps and develop targets and thresholds consistent with the recommendations in Appendix 4, Table 4 (FA Rep Quality Indicators) and Table 5 (Scoring Bands for FA Rep Quality Indicators).

2.2 Rewards and Recognitions on Culture and Conduct

FAFs should place greater emphasis on qualitative aspects of the business by recognising FA Reps with the right attributes towards the desired C&C.

It is common practice that FAFs put in place rewards and recognition programs for sales-related achievements. While recognition and rewards are good motivators, some FA Reps may be encouraged to pursue this recognition at all costs, potentially compromising sales quality and possibly even the customers' interests. Hence a better balance of recognition between sales performance and quality of sales can help drive healthy growth for the organisation. FAFs should create the right conditions to promote an environment of recognition for good customer outcome, quality business and C&C in addition to sales performance.

FAFs should provide a greater proportion of recognition and awards for supervisors and FA Reps on qualitative criteria to promote good C&C outcomes. These awards can include but are not limited to the quality indicators as recommended above. By doing this, FAFs send out a clear signal to their FA Reps on the importance of C&C for the organisation.

Recommendation 5 – FAFs should provide awards and recognitions for Supervisors and FA Reps on qualitative culture and conduct achievements.

2.3 Post-Sales Services to Customers

All FAFs should invest in developing a holistic training curriculum around the financial planning cycle such as prospecting, fact finding, financial analysis, product recommendation and post-sales servicing. There should be an emphasis on post-sales servicing so that FAFs can ensure that FA Reps are reliable and proficient in conducting periodic policy reviews and post-sales servicing.

Customers' negative feedback often centres on the lack of follow-ups, regular servicing and policy reviews from their FA Rep. Customers typically report that their FA Reps are uncontactable when they require assistance or have enquiries.

This has led to customers' reduced trust in their FA Rep and often results in a request for a change of FA Rep. FAFs should promote a culture of servicing the customers throughout the lifetime of the policy beyond the commission payment term. They should include regular review programs and service calls by the FA Rep.

To facilitate this, FAFs should provide sufficient training to ensure FA Reps are reliable and proficient in conducting periodic policy reviews and after-sales servicing.

FA Reps should regularly update and share essential policy information or any changes relating to the specific policy held by the customers. Examples of areas that may provide good ongoing review for customers are:

a. Par fund performance and bonus declarations provided in the life insurer's letter to customers;

b. Investment-Linked Fund performance;

c. Policy values and surrender charges;

d. Automatic premium loan/premium holiday.

Recommendation 6 – FAFs should ensure that FA Reps are competent and able to conduct ongoing post-sales reviews and service for their customers.

3. VALUE ALIGNMENT BETWEEN INSURERS AND NON-TIED FAFS

While all the above recommendations apply to FAFs that are not tied to insurers (non-tied FAFs), insurers need to work closely with non-tied FAFs to ensure that products designed are sold appropriately and that any potential misalignment between insurers and these non-tied FAFs are flagged out for remediation.

Insurers and non-tied FAFs will collaborate to elevate the standard of C&C across customer transactions, recruitment and onboarding of FA Reps and quality business. As non-tied FAFs are independent of insurers, insurers' roles are typically limited to that of product manufacturers.

As FAFs are a key distribution channel for insurers, they should seek and commit to work together to ensure that their (mutual) customers' interests are safeguarded. This can be achieved through regular engagement and dialogue to facilitate better exchange of information.

To strengthen the alignment of values between insurers and non-tied FAFs, ICCSC recommends the following:

a. Adequate disclosures to customers on product suitability and incentives received; and

b. Sharing of data to improve C&C.

Non-tied FAFs play a key role in fostering a culture of trust with better disclosure on product information and incentives to customers. Having access to a wide range of solutions, they have the duty to share the available choices to customers in the spirit of trust and transparency.

Insurers and non-tied FAFs should mutually engage and share regular business quality data to actively detect and address potential market conduct hot spots. Such exchange of data should be done on a quarterly basis for early detection of market trends and misalignment in C&C.

3.1 Adequate Disclosures to Customers (Products and Incentives)

I. PRODUCT CHOICES FOR CUSTOMERS

a. Non-tied FAFs that represent multiple insurers for certain classes of products should put in place a due diligence process to analyse the strengths and weaknesses of these products.

b. When making product recommendations, FA Reps of non-tied FAFs should provide choices to customers, where applicable. FA Reps should analyse the available products and highlight to the customers suitable products based on their circumstances and needs.

c. FA Reps should document the available options clearly in product recommendations to ensure customers are given the choice and necessary information required to make an informed decision before the purchase.

II. INCENTIVES DISCLOSURE

a. Currently FA Reps of non-tied FAFs disclose the total distribution cost (TDC) as part of their remuneration disclosure via the respective insurer's policy illustration. For circumstances where insurers offer any monetary incentive outside of the TDC, the insurers should inform the non-tied FAFs to ensure transparency and disclosure. Non-tied FAFs will take the necessary steps to inform and ensure their FA Reps undertake proper disclosure on incentives to customers during the sales process.

Recommendation 7
Non-tied FAFs and insurers should collaborate closely to ensure that FA Reps do the required disclosures to their customers on product choices and incentives they receive, to safeguard customers' interests and for them to make informed decisions.

3. VALUE ALIGNMENT BETWEEN INSURERS AND NON-TIED FAFS

3.2 Sharing of Data to Improve Culture and Conduct

To progress with aligned values, insurers must have a better understanding of the non-tied FAFs' sales behaviour. Non-tied FAFs and insurers should foster collaboration and promote transparency through regular communication. This can be better facilitated via regular review of non-sales qualitative indicators through an exchange of essential data and information between both parties. The review should be done on a quarterly basis between the appropriate management teams to identify potential market misconduct by FA Reps and to allow the insurers to take immediate action and implement sufficient controls.

Proposed indicators for sharing:

a. Persistency (product level)

b. No. of customer complaints

c. No. of free looks

d. No. of early surrenders/lapsed policies

e. No. of early claims

f. No. of replacement of policies

Regular discussions between insurers and non-tied FAFs should be conducted to increase engagement and transparency. Through these findings, non-tied FAFs can address any isolated or systemic risks immediately and communicate such findings or relevant case studies of market misconducts to their FA Reps through townhalls or via a newsletter. Non-tied FAFs should also consider the severity of the offence and issue the necessary disciplinary actions when there are adverse customers outcome (e.g. suspension of sales for specific product for errant individuals). Rehabilitation measures via enhanced supervision and retraining should also be considered.

Recommendation 8
Both insurers and non-tied FAFs should share data every quarter. Both parties should analyse the data and propose actions to improve C&C.

CONCLUSION

While the above recommendations across the three workstreams seek to address and elevate C&C, ICCSC recognises the need to continuously engage with the industry, regulator and the public and to gather, collate and consider valuable feedback. Regular episodic reviews of the proposed recommendations will be undertaken to ensure coherency and consistency as well as to improve over time to be relevant to market changes.

The insurance landscape has changed drastically with the onset of COVID-19 and the evolution of virtual sales interactions and digital services. These modes of interaction will continue to be embedded in the customer journey as sales activities (roadshows, door to door prospecting, group seminars) are limited, which influence the roles of FA Reps. Working from home and working remotely is likely to be part of the new normal, and this will likely impact (and shift) customers' expectations, making it all the more important to elevate C&C standards. ICCSC will further assess possible implications of customer behaviour and determine appropriate C&C improvement and measures needed where necessary.

APPENDIX 1 - QUALITY INDICATORS FOR SUPERVISORS

Table 1: Supervisors' Quality Indicators and proposed tracking

	SUPERVISORY QUALITY INDICATORS	PROPOSED TRACKING
	Business quality indicators	
A	Persistency	a. High policy retention rate is an indicator that policies sold are suitable to meet customers' needs and the premiums are sustainable for customers. b. Each FAF should set its company's persistency threshold given the difference in types of life products sold by each firm. Such a threshold should be set at an appropriate level. FAFs should compare the persistency (using a 24-month persistency measurement) of the organisation against the FAF's acceptable threshold. FAFs should work with organisations with persistency which is below the FAF's expectation to improve the quality of business.
B	Number of free look cases	a. High volumes of free look cases could be an indication of poor fact finding and product recommendations that do not meet customer needs or lack clarity in terms of how they can meet the needs of the customers. b. FAFs should compare the number of free look cases across the organisation against the company average and reflect to the organisation if an unusually high number of free look cases occurred compared to the average. c. FAFs also need to take into consideration valid reasons for free looks, especially if there is any financial detriment to the customers (for instance, market value adjustments for ILPs).
C	Compliance records	a. Complaints on misconduct, whether they are substantiated or otherwise, may indicate systemic issues in the organisation. b. It could be caused by ineffective training and coaching by the supervisors, resulting in incompetence among FA Reps in providing appropriate advice and service, or the existence of certain culture in the organisation that promotes wrong values that may compromise the best interest of customers or the FAF. c. Complaints will be defined as in the Financial Advisers (Complaints handling and resolution) Regulations. "Complaint" means a complaint made by a named client or named prospective client of a financial adviser, containing an allegation of any conduct which, if true, may constitute (i) a contravention of a business conduct requirement; or (ii) an unfair practice in relation to the provision of a financial advisory service. d. FAFs should tally the number of market conduct complaints in the last 12 months of the organisation (on a rolling 12 month basis); a case ID (i.e. a case recorded as an official complaint) is counted as one complaint (based on the date of conclusion of the complaint outcome) against each FA Rep named in the case. e. This will give an overview to organisations for all the complaints received and help supervisors better manage the practices and behaviour of their FA Reps.

APPENDIX 1 -
QUALITY INDICATORS FOR SUPERVISORS

	SUPERVISORY QUALITY INDICATORS		PROPOSED TRACKING
D	Provision of holistic financial advice	a.	FA Reps should provide comprehensive financial planning that take into account all the existing policies of customers, where possible (i.e. when such information is willingly provided by the customers).
		b.	Supervisors should train their FA Reps to encourage their customers to provide comprehensive financial information to them to facilitate holistic financial planning. It is also their duty to train FA Reps to do so professionally so that over time financial advice given to customers will improve in quality and value and more customers will benefit from the advice provided by the financial advisory profession.
		c.	FAFs should compare the percentage of new business cases submitted with documentation of customers' existing* policies in the organisation with the company-wide percentage. FAFs should work with organisations with a low percentage, compared to the FAF's company-wide percentage, to improve their practices. * *Existing policies that were sold by the FA Rep serving the customer*
	Agency management indicators		
E	Active ratio	a.	Active ratio is an indicator of the supervisors' management effectiveness and ability to coach their FA Reps to be consistently active.
		b.	Active ratio is measured as the percentage of FA Reps in the organisation who have sold at least one case per month (Life and Accident & Health products).
		c.	FAFs should compare the active ratio of the organisation against the company's average active ratio. Organisations with an exceptionally low average active ratio may need additional support to help their FA Reps do better.
F	Training and continuous improvement for themselves and their reps	a.	Professional qualifications and certifications are proxies of competencies of the FA Reps and the profession needs to embrace continuous learning to improve their skills and market relevance.
		b.	The objective of this indicator is for supervisors to actively seek professional development for themselves as well as their FA Reps to acquire professional qualifications and certifications relevant to the provision of financial advisory services beyond the fulfilment of 30 CPD hours. Professional qualifications and certifications could include but not limited to IBF Levels 1, 2 or 3 certificates.
		c.	FAFs may establish the desired targets and communicate them with the supervisors.
		d.	For FAFs that have just started off on this journey, the recommendation is to have a timeline to raise standards in one or two years.

APPENDIX 2 -
QUALITY MANAGEMENT FRAMEWORK FOR SUPERVISORS

Table 2: Supervisors' Quality Management Framework
Supervisors' performance banding is dependent on the percentages of their FA Reps in bands 1, 2 and 3.

PERFORMANCE BANDING FOR SUPERVISORS

BANDING	POSSIBLE MANAGEMENT ACTIONS	RESTRICTIONS (IF ANY)	ADDITIONAL CONTROLS
Band 1: 80% or more reps are in Band 1	FAFs to ensure supervisors are aware of Quality Indicators, especially those that are below the FAF's company average	No restriction on Span of Control deviation (SOC – MU65-15 Span of control deviation) and promotion. No restriction on annual awards; incentives and overseas conventions.	Nil
Band 2: Any other scenario not within Band 1 or Band 3	FAFs to provide additional training for both supervisors and their reps for Quality Indicators that are below the FAF's company average	No restriction on annual incentives; awards & recognition and overseas conventions. However, at the point of application for SOC deviation and/or promotion, such applications may be considered if the supervisor was graded Band 1 for at least two of the four quarters.	Supervisors who were graded Band 3 in any of the last four quarters should not be considered for SOC deviation or promotion.
Band 3: 0–49% of reps are in Band 1 <u>AND</u> more than 25%, with minimally two reps, in Band 3	FAFs to monitor closely and provide 1:1 coaching by the corporate team to the supervisor, up till improvement is noted.	Not eligible for SOC deviation and promotion until the performance banding improves.	No improvement noted over two consecutive quarters. 1) FAFs may consider suspension from supervision and recruitment for a period of one quarter 2) Disqualification from annual incentives; awards & recognition; and overseas conventions. 3) FAFs may consider demotion if the outcome is undesirable over more than two consecutive quarters

APPENDIX 3 - PROMOTION CRITERIA FOR SUPERVISORS

Table 3: Supervisor Promotion Criteria

	PROMOTION CRITERIA	DESCRIPTION
A	Candidates should produce a business plan for their new organisation, including their expectations on C&C	a. The candidate's business plan should align with the FAF's corporate vision and standards. The plan should indicate the desired C&C for his/her new team and the structure to support the execution. b. The plan should be part of ongoing monitoring of the development of a new supervisor. Where there are significant deviations from the business plan, the new supervisor should be asked to provide an explanation for such.
B	Honesty & integrity	a. The candidate should satisfy the Fitness and Proprietary criteria in the F&P framework.
C	Financial soundness	a. The candidate should satisfy the Fitness and Proprietary criteria in the F&P framework. b. FAF will set guidelines on the acceptable level in the rating for promotion purposes. Using the example of the Credit Bureau Singapore (CBS) Report, the rating ranges from AA to HH and is an indication on the probability of default with AA to be less likely and HH to be highly likely. A suggested guideline using the CBS rating could be as follows: • Grade BB or better: Eligible for promotion • Grade CC to DD: Candidate requires monitoring after promotion, on a quarterly basis until the debt is repaid • Grade EE to HH: Not eligible for promotion
D	Fulfilled mandatory supervisors' training	a. Candidates must fulfil a mandatory supervisors' training module and complete a competency assessment before being considered by the FAF for promotion.

APPENDIX 3 - PROMOTION CRITERIA FOR SUPERVISORS

	PROMOTION CRITERIA	DESCRIPTION
E	Years of Experience	a. ICCSC observed that some FA Reps were promoted to a Tier 2 role shortly after joining the industry even though they did not have enough time to accumulate sufficient experience. This may result in their inability to supervise a team of FA Reps effectively to provide quality sales advice. b. FAFs should take into consideration factors other than sales, such as past relevant employment experience as a people manager as well as the FQIs, before promoting an individual. c. ICCSC's proposed guidelines are: 1) Promotion from Tier 1 to Tier 2: it is recommended that a candidate has at least 24 months of experience in insurance sales advisory before being considered for promotion. Exceptions can be considered if the candidate has more than 24 months of management experience in a previous role, or has an exceptionally strong score in the FQIs. 2) Promotion from Tier 2 to Tier 3: A Tier 3 supervisor looks after a group of Tier 2 supervisors as well as direct and indirect Tier 1 reps. A candidate should have at least 24 months of experience as a Tier 2 supervisor before being considered for promotion to Tier 3.
F	Quality Indicators	a. Promotion from Tier 1 to Tier 2: To take into consideration the FQIs score on a rolling 12- month average ICCSC's proposed FQIs Scoring criteria: • 5–10 points: May be considered for promotion • 11 or more points: Not to be considered for promotion b. Promotion from Tier 2 to Tier 3: To take into consideration the supervisors' quality management framework performance banding over a rolling 4 quarters ICCSC's proposed Supervisors' Quality Management performance banding: • May be considered for promotion: Minimum 2 quarters in Band 1 in the past 4 quarters • Not to be considered for promotion: 1 quarter in Band 3 in the last 4 quarters

APPENDIX 4 - QUALITY INDICATORS FOR FA REPRESENTATIVES

Table 4: FA Rep Quality Indicators and recommended targets and thresholds

	FA REP QUALITY INDICATORS		PROPOSED THRESHOLD AND MEASUREMENTS
A	Persistency	a.	A high policy retention rate is an indicator that policies sold are suitable for customers' needs and the premiums are sustainable for customers.
		b.	Each FAF is encouraged to set their company's persistency threshold given the difference in types of life products sold by each firm.
		c.	Grading for this indicator will compare the persistency (using 24-month persistency measurement) of the FA Rep against the FAF's acceptable threshold. Grade: High: meet or higher than threshold Medium: up to 10% below threshold Low: more than 10% below threshold
B	Number of free look cases	a.	A high volume of free looks could be an indication of poor fact finding and product recommendations that do not meet the customer needs or lack of clarity in explaining to customers on how the new purchase is able to meet their needs.
		b.	The indicator is be measured as a percentage of free look cases of the FA Rep on a quarterly basis.
		c.	FAFs also need to consider valid reasons for free looks, especially whether there is any financial detriment to the customers (for instance, market value adjustments for ILP). Grade: High: less than 3% Medium: 3% to 9% Low: more than 9%

APPENDIX 4 -
QUALITY INDICATORS FOR FA REPRESENTATIVES

	FA REP QUALITY INDICATORS	PROPOSED THRESHOLD AND MEASUREMENTS
C	Compliance records	a. Complaints on misconduct, whether it is substantiated or otherwise, may indicate systemic issues in the sales practice. b. It could be due to incompetence of FA Reps in providing appropriate advice and service or the existence of certain culture in the organisation that promotes wrong values, which may compromise the best interest of customers or the FAFs. c. Complaints will be defined as in the Financial Advisers (Complaints handling and resolution) Regulations. "Complaint" means a complaint made by a named client or named prospective client of a financial adviser, containing an allegation of any conduct which, if true, may constitute (i) a contravention of a business conduct requirement; or (ii) an unfair practice in relation to the provision of a financial advisory service. d. FAFs should tally the number of market conduct complaints (both substantiated and non-substantiated) in the last 12 months, (on a rolling 12-month basis); one case ID (i.e. a case recorded as an official complaint) is counted as one complaint (based on the date of conclusion of the complaint outcome) for each FA Rep named in the case Grade: High: No complaints Medium: 1 to 3 complaints Low: more than 3 complaints
D	Provision of holistic financial advice	a. FA Reps should provide comprehensive financial planning that takes into account all the existing policies of the customer, where possible (i.e. when such information is willingly provided by the customers). b. It is also their duty to do so professionally so that over time financial advice given to customers will improve in quality and value, and more customers will benefit from the advice provided by the financial advisory profession. c. Measurement is the share (%) of FNA, submitted by FA Reps, with documented customers' existing policies, over the last 12 months on a rolling 12-month basis. d. The grading is based on minimum expectation of FA Reps performing proper financial analysis to derive customers' financial shortfall. The measurement will be reviewed 12 months after implementation and data availability. Grade: High: more than 45% of FNA Medium: 30% to 45% Low: less than 30%

APPENDIX 4 - QUALITY INDICATORS FOR FA REPRESENTATIVES

	FA REP QUALITY INDICATORS	PROPOSED THRESHOLD AND MEASUREMENTS
E	Balanced Scorecard	a. Although FA Reps are subjected to BSC audits, the framework is measured quarterly. b. Over and above the BSC framework, this indicator is intended to track FA Reps who may have a trend of BSC grades worse than "A" over a longer period of a rolling 4-quarter basis. Additional measures may be imposed to help FA Reps to improve. <u>Grade:</u> High: A grade or only 1 quarter with non-A grade Medium: 2 consecutive quarters with non-A grade Low: 3 consecutive quarters with non-A grade

APPENDIX 5 -
SCORING BANDS FOR FA REPRESENTATIVES

Table 5: Scoring Bands for FA Rep Quality Indicators

SCORING FOR THE FA REP QUALITY INDICATORS HIGH = 1 POINT; MEDIUM = 2 POINTS; LOW = 3 POINTS			
SCORING BAND	**POSSIBLE MANAGEMENT ACTIONS**	**RESTRICTIONS (IF ANY)**	**ADDITIONAL CONTROLS**
Band 1: 5 to 8 points	FAFs to ensure FA Reps are aware of Quality Indicators that are graded Low.	Nil	Nil
Band 2: 9 to 12 points	FAFs to provide additional training on related indicators that are graded Medium and Low.	Only candidates with 10 or fewer points may be considered for promotion. Will not be considered for promotion if candidate has 11 or more points in the past 12 months, at the point of application for promotion.	No improvement noted over 2 consecutive quarters, FAFs to consider issuing Letter of Warning.
Band 3: 13 or more points	FAFs to implement close supervision and 1:1 coaching by the corporate team till improvement is noted.	Not eligible for promotion.	No improvement noted over 2 consecutive quarters. 1) FAFs to consider suspension from sales activities for 1 quarter or potential re-designation. 2) Disqualification from annual incentives; awards & recognitions and overseas convention.

REFERENCE

1. MAS Notice FAA-N20 Notice on the requirements for the remuneration framework for representatives and supervisors (Balanced Scorecard Framework" and independent sales audit unit [Financial Advisers] https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Financial-Advisers/Notices/FAA-N20-wef-5-Oct-2020.pdf

2. Standards of Conduct For Financial Advisers And Representatives https://www.mas.gov.sg/-/media/MAS/resource/legislation_guidelines/fin_advisers/fin_advisers_act/guidelines/FAA_G04.pdf

3. Code of Practice For Agent http://gia.org.sg/pdfs/GIARR/AMF_CodeOfPractice.pdf

4. MAS Notice 117 Training and Competency Requirement: Health Insurance [Insurers, insurance brokers and financial advisers] https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Insurance/Regulations-Guidance-and-Licensing/Notices/Notices-to-All-Insurers/MAS-Notice-117-Training-and-Competency-Requirement---Health-Insurance.pdf

5. MAS Notice 211 Minimum and Best Practice Training and Competency Standards for Direct General Insurers https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Insurance/Regulations-Guidance-and-Licensing/Notices/Notices-to-All-Insurers/MAS-Notice-211_clean16042020.pdf

6. Fit and Proper Guidelines https://www.ia.org.hk/en/legislative_framework/files/Eng_GL23_FPP.pdf

7. Code of conduct for licensed insurance agents https://www.ia.org.hk/en/legislative_framework/files/Agent_Code_Eng.pdf

8. Code of conduct for licensed insurance brokers https://www.ia.org.hk/en/legislative_framework/files/Broker_Code_Eng.pdf

9. Guideline on exercising power to impose pecuniary penalty in respect of the regulated persons under the Insurance Ordinance (Cap.41) https://www.ia.org.hk/en/legislative_framework/files/Guideline_on_Pecuniary_Penalty_English.pdf

10. Continuing Professional Development For Licensed Insurance Intermediaries https://www.ia.org.hk/en/legislative_framework/files/Eng_GL24_CPD.pdf

11. Professional standards for financial advisers https://asic.gov.au/for-finance-professionals/afs-licensees/professional-standards-for-financial-advisers/

12. Insurance Distribution Requirements https://www.fca.org.uk/firms/insurance-distribution-directive

13. Guidelines on Fair Dealing [FAA-G11] https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Financial-Advisers/Guidelines/Fair-Dealing-Guidelines--20-Feb-2013.pdf

14. FCA Principles for Customers and PRIN for Firms https://www.fca.org.uk/firms/fair-treatment-customers

15. 14 Regulation on the sale of long term policies for promotion of fair treatment of customers https://www.ia.org.hk/en/consumer/industry_practices_associated_with_the_sale_of_Insurance_policies.html

GLOSSARY

C&C	Culture and conduct
FAF	Financial Advisory Firm. Refers to insurance companies, tied and non-tied FA Firms
FA Reps	Financial Advisory Representative distributing life insurance products
FI	Financial institutions, which include insurers, tied and non-tied FA Firms and Banks
ICCSC	Insurance Culture and Conduct Steering Committee
Insurers	FIs that manufacture and distribute their insurance products through any of the sales channels (e.g. tied sales force, tied and non-tied FAFs)
Organisation	A group consisting of a Tier 3 supervisor plus his or her Tier 2 supervisors and direct and indirect FA Reps
Supervisors	Refers to both Tier 2 and 3 supervisors

Promoting Ethical Culture and Conduct in Insurance Intermediaries (Life)

An Intermediary Best Practices Paper Published
By the Intermediary Sub-Committee
of the Insurance Culture and Conduct Steering Committee

Intermediary Sub-Committee
Sean Goh – Chairperson
Andrew Yeo – Deputy Chair
Khoo Kah Siang
Khoo Kay Hwee
Raymond Ong
Ben Tan
Choong Wing King
Jean Ong
Vincent Ee
Warren Lim

International Best Practices Sub-Committee
Christian Sandric - Chairperson
Penny Ying
Denise Lim
Pierre Santolini
Stephanie Tan
Sheela Parakkal
Jonathan Farrant
Karin Winbauer

Other Contributors
Seema Sanghani
Priscilla Soh
Kathryn Tinker

Insurance Culture and Conduct Steering Committee
Khoo Kah Siang – Chairperson
Michael Dannemann
Sean Goh
James Lee
Kevin Leong
Loh Wei Lyn
Looi Pek Hong
Jean Ong
Ong Kian Peng
Christian Sandric
Karin Winbauer
Andrew Yeo
Deepika Zingade