Life Insurance Association Singapore
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LIA STANDARDS FOR DISTRIBUTORS ON DETERRENCE OF UNDESIRABLE SWITCHING – REPLACEMENT OF POLICIES

This document sets out the minimum guiding principles for deterrence of undesirable switching in the form of replacement of policies, which members with tied agency are required to comply with. This should be read together with **MAS FAA Guidelines 10 on Switching of Designated Investment Products [FAA-G10]** and **MAS FAA Notice 16: Notice on Recommendations on Investment Products [FAA-N16].**

Insurers/FAs may apply stricter standards in their application of these principles. Insurers/FAs should also in accordance with FAA-G10 and FAA-N16 institute controls to deter other forms of switching.

LIA Members with no tied agency and/or who have arrangements with other intermediaries (e.g. third party FAs) should adhere to MAS Notice 318 on Market Conduct Standards for Direct Life Insurer as a Product Provider (which includes mandatory requirements on replacement of life policies); and endeavour to adapt the requirements of this LIA MU where practical and applicable.

Note on the removal of "Guidance Notes on Monitoring Practices of Churning":

Previously, "Guidance Notes on Monitoring Practices of Churning" were included as part of this undertaking. Since the previous iteration of this undertaking, risk scenarios for churning (or including churning related activities) have evolved to become more complex and possibly include more dynamic considerations. Accordingly, monitoring parameters / programmes for such risk scenarios ought to have evolved to cope with the detection of such activities, along with the tools for such monitoring (e.g. AI-led analytics tools).

In view of these factors, these guidance notes have been removed in favour of allowing each member to adopt the most appropriate compliance monitoring rules and programmes to cater to the evolving risk scenarios identified. Each member ought to bear in mind the principles in this iteration of the undertaking and incorporate any necessary enhancements to its monitoring programme where required.

LIA SECRETARIAT

LIA STANDARDS FOR DISTRIBUTORS ON DETERRENCE OF UNDESIRABLE SWITCHING – REPLACEMENT OF POLICIES

References:
MAS FAA Guidelines 10 on Switching of Designated Investment Products [FAA-G10]
MAS FAA Notice 16: Notice on Recommendations on Investment Products [FAA-N16]

The MAS FAA-N16 and FAA-G10 regulations were issued to provide guidance on the controls, processes and procedures that the MAS expects licensed and/or exempt financial advisers (FAs) to implement to ensure appropriate recommendations are made to customers, and to monitor switching of in-scope products. Safeguards to ensure that representatives of such licensed and/or exempt FAs do not advise their clients to engage in improper switching are also required.

"Switching" refers to a situation where a client disposes of, or reduces his interest in, all or part of an investment product to acquire, or increase his interest in, all or part of another investment product.

"Improper switching" refers to situations where clients switch from one designed investment product ("original product") to another designated insurance product ("replacement product") and suffer detriment as a result of such switches. Under FAA-N16, FAs (and their representatives) are not to make recommendations to a customer which would result in an improper switch. Considerations in the assessment of such switches are detailed in paragraph 42 of FAA-N16.

"Twisting" is a form of improper switching, which involves an experienced FA representative ("rep") directing away any policy from his/her previous insurer to a new insurer where such a switch would be detrimental to the interest of the customer.

Improper switching (and implicitly, twisting) is expressly prohibited under FAA-N16.

Insurers/FAs with tied agency (henceforth referred to as "members") are to consider the following in determining whether improper switching in the form of replacement of policy has occurred:

I. Defining "replacement of policy".
II. Assessing if a replacement might have been detrimental to the customer; and
III. Putting in place controls through which "switching" ought to be detected.

<u>Part I – Defining "replacement of policy"</u>

The rules in this section apply in determining what members may consider to be a "replacement of policy" and **should be adopted by members as a minimum standard**. Generally, switches falling under this category are determined as "replacements" (including partial surrender), given that the benefits owing to the customer arising from such switches may be similar. Hence, given that the "replacement" policies accrue similar benefits to the customer, commissions on the new policies should not be paid.

<u>Replacement of regular premium (RP) policies</u>

A switch is considered a replacement where the switch from an old regular premium policy occurs within 12 months <u>prior to or after</u> (i.e., +/-12 months) a new regular premium policy is purchased. This rule applies to transactions involving the same source of funds and to partial replacements. Any commission paid on the new (or "replacement") policy(ies) should be clawed back.

<u>Replacement of single premium (SP) policies</u>

A switch is considered a replacement where the switch from an old single premium policy occurs within 120 days <u>prior to or after</u> (i.e., +/- 120 days) the purchase of a new single premium policy. This rule applies to transactions involving the same source of funds and to partial replacements. Any commission paid on the new (or "replacement") policy(ies) should be clawed back.

<u>Appeal Assessments</u>

The waiver of claw-back of paid commissions on replacement policies may be made at the discretion of each member, subject to an internal assessment process which each member may independently determine. Once appeals submitted under this assessment process are reviewed and approved, the claw-back of commissions on policies determined above may be waived. Any commission paid on the new (or "replacement") policy(ies) should be clawed back.

The appeal assessment process ought to take into consideration factors such as changes in the client's financial situation or needs, the replacement policy's benefits and features, transaction costs from the switch, etc. in determining if the replacement is considered acceptable and not detrimental to the customer. This assessment also ought to be uniformly applied to all appeals received as far as possible. The appeal assessment should be conducted by a function that is not directly linked to sales.

<u>Part II – Assessing if a replacement might be detrimental to the customer</u>

Paragraph 42 of MAS FAA-N16 lays out several factors to consider in determining if a switch is detrimental to a customer. As a rule of thumb, commissions should be clawed back for replacement policies which were found to be possibly detrimental to the customer. In assessing corrective actions or consequences to be issued against the representatives, members may take into account mitigating or aggravating factors such as the incurrence of any surrender charge by the customer.

Accordingly, members might consider the following in its internal assessments:

i) The reason for the discontinuation (including partial surrenders) of the old policy ought to have been documented and evidenced to be aligned with the customer's financial situation, needs and/or objectives.

   Purpose: This would help members identify instances where the customer might have suffered detrimentally from the discontinuation of the old policy, which was not made known to him/her and/or not aligned with the customer's financial situation, needs and/or objectives.

   Illustration: Customer A desired additional critical illness coverage, and the documented reason for the switch was because the discontinued policy did not provide such coverage. In this scenario, if an add-on rider to the old policy was available to address this need, it should come to the attention of the insurer/FA that the reason for the discontinuation of the old policy is not reasonable and might be detrimental to the customer, especially if the old policy would have covered Customer A for conditions which would have been excluded in the replacement policy and/or was substantially cheaper (with the add-on) than getting a new policy altogether.

ii) The reason for the take-up of the replacement policy ought to have been documented to evidence that the customer received a higher level of benefit to the customer, which is aligned with the customer's financial situation, needs and/or objectives.

Illustration: Customer B was recommended by his rep to discontinue an old ILP policy, which he had held for 5 years, and replace it with a newly launched ILP. The rep cited that the new ILP release offered customers "better features" (i.e. different bonus units and shorter minimum premium payment period for customer not to incur surrender charges) as compared to the old ILP. However, in comparison to the old policy, the replacement ILP's cost to the customer and product features were objectively similar to Customer B's old ILP, with the only change appearing to be the commissions structure offered to reps for the sale of the new ILP. In this scenario, Customer B would reasonably not have secured a higher level of benefit from his switch (given that both the old and new ILPs conferred similar benefits at similar costs). Additionally, the Customer B might have suffered detriment in consideration of the discontinuation of his old plan which might already have received a higher unit allocation to the customer's investment account, and the fact that Customer B would have been implicitly forced to liquidate his holdings at a possibly non-ideal price by way of the discontinuation of the old plan. Accordingly, such a switch would likely be considered improper. The overall assessment of an 'improper switch' should be determined with respect to each FA's own assessment.

iii) Justifications and/or other documentation which is put forward for assessment ought not to be inconsistent. Sufficient information ought to be provided (with accompanying supporting documents, where relevant) to explain or justify the replacement.

iv) Specifically for the replacement of a product with policy of an identical or similar nature (e.g. ILP to ILP), documented justification for the replacement should include evidence of the customer's awareness and acknowledgement of the fact that the features of the new policy may not be the same as the old policy (e.g. the rate at which the premiums are allocated for investment units of the new ILP may not be the same as the old ILP).

Purpose: This would help members identify circumstances where reps might have recommended the switch without providing customers with full facts involved in replacing a policy with another policy of the identical or similar nature, ultimately to the customer's detriment. This is more pertinent for ILPs because of the complex nature and the long time horizon associated with such products.

Part III – Controls to detect "switching"

A – Front-end monitoring controls

All members ought to comply with the provisions of paragraph 10 to 13 of FAA-G10 in ensuring front-end monitoring controls are put in place to safeguard customers' interests against improper switching at the point of sales.

The following additional clarifications and/or safeguards are recommended:

a) Members should ensure that disclosure on the costs and disadvantages of switching is clearly presented and easily understood by clients.

b) A question or statement on switching should be included in the fact-find form or proposal form. This inclusion should draw the customer's attention to the costs and possible disadvantages associated with the switch.

c) Switches recommended by reps (or at the request of customers and concurred with by reps in their final recommendation) ought to be accompanied with a basis for the recommendation of the switch (which may include justifications to address the client's needs for the switch), with justifications as to the suitability of the recommended switch. An acknowledgment of this basis of recommendation ought to be obtained from the customer.

d) Supervisors ought to review switches recommended by their reps in writing. This review ought to include an assessment of whether he agrees with the recommendation made and if not, the actions should be taken to rectify the situation.

B – Back-end monitoring controls

All members ought to comply with the provisions of paragraph 14 to 16 of FAA-G10 in ensuring sufficient back-end monitoring procedures are put in place for the detection of switching.

The following additional clarifications and/or safeguards are recommended:

a) Where a switch not declared by the customer is detected (by way of monitoring programmes or otherwise), the rep ought to assess if the switch was appropriate and suitable for the customer. The rep's supervisor ought to also review the rep's assessment and include an assessment of whether he agrees with the recommendation made and if not, the actions that have been taken to rectify the situation.

b) Members ought to take disciplinary actions against reps found to have recommended switches which were detrimental to the customer (i.e., improper switching).

   For avoidance of doubt, a waiver received under the appeal assessment process for the replacement of policies does not imply that a rep cannot later be faulted for improper switching if there is new evidence presented. Members ought to assess the facts and circumstances (including any assessments under the replacement of policy framework) surrounding cases involving improper switching allegations and take commensurate disciplinary action against reps accordingly.

c) Members ought to consider the usage of the prescribed appendices below in their operations. These appendices should be appropriately adapted for use by each member (i.e., full adherence to the prescribed wordings is not required). This may include the use of product-specific or company-specific terms, and the inclusion of more stringent requirements.

- **Appendix A**: Withdrawal Form (for both RP and SP investment-linked policies)

- **Appendix B**: Withdrawal Form (for both RP and SP traditional policies)

- **Appendix C** (RP replacements only): Letter to be issued where a RP policy has been lapsed (minus 12 months). This letter applies for use under the following scenarios:
    - Where the lapsation took place up to 12 months prior to the inception of the new policy.
    - Cases involving policies of "this office" where the insurer is the "other office".

  Where the insurer is the "other office", the customer may make the decision on the reinstatement of the old policy (while keeping the new policy).

- **Appendix D** (RP replacements only): Letter to be issued where a RP policy is intended to be lapsed (plus 12 months). This letter applies for use under the following scenarios:
    - Where the lapsation takes place up to 12 months after the inception of the new policy.
    - Cases involving policies of "this office" where the insurer is the "other office".

  Where the customer does not respond to the letter, it implies that the customer wishes to purchase the new policy and (may or may not lapse the existing policy); as such, the underwriting should proceed as per normal, and cover should be extended provided premium have been paid.

[Note: It is a requirement for this section to be laid out in a box.]

IMPORTANT NOTICE

What you should know about early full or partial withdrawal of your Investment-Linked Policy

1. An insurance policy is intended to meet your long-term financial needs. Therefore, it may be disadvantageous for you to fully or partially withdraw a policy before its maturity date. Some disadvantages are:
   - You are losing valuable benefits from the policy:
     - You are losing the insurance protection offered by your policy;
     - You may not be able to achieve your intended financial objective;
     - This may result in losing the financial benefit accumulated over the years.
   - It may not be possible for you to obtain a similar level of protection on the same terms in the future.
     - You may not be insurable on standard terms;
     - You may have to pay a higher premium in view of higher age;
     - Withdrawing your insurance policy for another policy could result in loss of specific policy features due to changes in age or health.

2. Additional Charges/Fees

   If you withdraw your investment-linked policy, fully or partially and then buy a new investment-linked policy or other investment product, or top up on your existing investment-linked policy or other investment product, you will incur new charges. These may include:

   - Distribution Fee

   Commission is paid to Agents/Financial Advisers on all new insurance policies / investment products.

   - Administration Charge

   There could be some sales charge/withdrawal fee that is charged for each new policy / investment product.

   The sales charge/withdrawal fee can be as high as x% of your investment-linked fund. Hence, on a single premium investment of S$10,000, a sales charge of S$x00 would be deducted. [Operational note: For insurers to use own example.]

   - Policy Fee

   A policy fee is usually incurred for each policy.

3. Fund Switching Facility

   When the fund you have bought is not meeting your initial or current investment objective, you may switch to other fund(s) offered by the Company at its bid price without incurring any charges.

4. Other Options

   You may enquire whether there are other options available under your policy to meet your short term financial needs. Some options are:
   - Opt for a premium holiday if your policy has accumulated cash value. This allows you to temporarily stop paying premiums; or
   - Reduce the policy regular premiums (applicable only to regular premiums policies). This allows you to reduce your ongoing financial commitment to the policy.

5. Seeking Advice From Your Adviser

   Therefore, it is important to seek advice from your Adviser before early full/partial withdrawal of your investment-linked policy or other investment product. Your Adviser can advise you on your options other than withdrawing the policy, explain the implications of each option and provide appropriate recommendations to you, taking into account your investment objectives, financial situation and particular needs.

Policyowner / Trustee / Assignee's Acknowledgement

	Yes	No
Were you advised by an Adviser to withdraw this policy?	☐	☐

If "yes", please ask your Adviser to complete the "Adviser's Acknowledgement" below.

I have read and understood the above statements. I am aware that should I wish to buy a similar policy in future I may incur additional charges and I may not be able to secure similar terms and conditions.

I want to withdraw my policy (fully or partially) ☐
I want to maintain my policy * ☐

____________________________________ ______________
Signature of Policyowner/Trustee/Assignee Date

[* Operational note: For insurers, this is an optional item.]

Adviser's Acknowledgement

I have explained to the above Policyowner / Trustee / Assignee the alternative options available and the implications of early withdrawal of this investment-linked policy. I have recommended (*the policyowner may not be his client yet)* the withdrawal of this policy for the following reasons:

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____

_______________________ ___________________
Signature of Adviser Adviser's Code

_______________________ ___________________
Name of Adviser Date

[Note: It is a requirement for this section to be laid out in a box.]

IMPORTANT NOTICE

What you should know about early surrender of your Insurance Policy

1. An insurance policy is intended to meet your long-term financial needs. Therefore, it may be disadvantageous for you to surrender a policy before its maturity date. Some disadvantages are:
   - You are losing valuable benefits from the policy:
     - You are losing the insurance protection offered by your policy;
     - You may not be able to achieve your intended financial objective;
     - This may result in losing the financial benefit accumulated over the years.
   - It may not be possible for you to obtain a similar level of protection on the same terms in the future.
     - You may not be insurable on standard terms;
     - You may have to pay a higher premium in view of higher age;
     - Surrendering your insurance policy for another policy could result in higher premiums and loss of specific policy features due to changes in age or health.

2. Additional Charges/Fees

   If you surrender your policy and then buy a new policy or other investment product you will incur new charges. These may include:

   - Distribution Fee

   Commission is paid to Agents/Financial Advisers on all new insurance policies / investment products.

   - Policy Fee

   A policy fee is usually incurred for each policy.

3. Other Options

   If your policy has acquired a cash value, you may choose to:
   - Apply for a cash loan to meet short term financial needs; or
   - Convert to a reduced or paid up extended term insurance policy; or
   - Reduce the policy regular premiums (applicable only to regular premiums policies).

4. Seeking Advice From Your Adviser

   Therefore, it is important to seek advice from your Adviser before early surrender of your policy. Your Adviser can advise you on your options other than withdrawing the policy, explain the implications of each option and provide appropriate recommendations to you, taking into account your investment objectives, financial situation and particular needs.

Policyowner / Trustee / Assignee's Acknowledgement

	Yes	No
Were you advised by an Adviser to surrender this policy?	☐	☐

If "yes", please ask your Adviser to complete the "Adviser's Acknowledgement" below.

I have read and understood the above statements. I am aware that should I wish to buy a similar policy in future I may incur additional charges and I may not be able to secure similar terms and conditions.

I want to surrender my policy ☐
I want to maintain my policy * ☐

_______________________________ _______________ _______________

Signature of Policyowner/Trustee/Assignee Date Policy Number

[* Operational note: For insurers, this is an optional item.]

Adviser's Acknowledgement

I have explained to the above Policyowner / Trustee / Assignee the alternative options available and the implications of early surrender I of this insurance policy. I have recommended (*the policyowner may not be his client yet)* the surrender of this policy for the following reasons:

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____
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________________________ ____________________
Signature of Adviser Adviser’s Code

________________________ ____________________
Name of Adviser Date

Appendix C

The requirement of uniform wordings is lifted for Appendices C and D.

Disclosures and client declarations should <u>cover cross-product switching</u>.

FAs should ensure that disclosure on the costs and disadvantages of switching is clearly presented and easily understood by clients.

<u>Letter to be issued on discovery of replacement through lapsation of RP policy</u>

[dd/mm/yy]
[Name of Insured]
[Address]

Dear Sir/Madam/Name of Insured

Old Policy No: XXXXXXXXX Status: Lapsed on dd/mm/yy
New Policy No: XXXXXXXXX Status: New Policy commenced on dd/mm/yy

We noticed that you have terminated your old policy within 12 months of your purchase of a new policy.

We wish to emphasize that it is usually disadvantageous to replace an existing life insurance policy with a new one. Some disadvantages are:

- You may not be insurable on standard terms;
- You may have to pay a higher premium in view of higher age;
- This may result in losing the financial benefit accumulated over the years.

In your own interest, we would advise that you consult your adviser of the terminated policy for a review of the lapse. We wish to offer you two options shown below in the event that you were not aware of the disadvantages of replacing one policy with another and wish to reinstate your terminated policy.

Please indicate your choice below and return this letter to us in the self-addressed envelope.

If we do not hear from you within 2 weeks from the date of this letter, we will assume that you want to continue with the new policy and leave the old policy as lapsed.

Thank you.

Yours sincerely

Replacement of Policy - Confirmation by Policyowner

Name of Policyowner: __________________ (New) Policy No: _____________________

I confirm that I am aware of the disadvantageous of replacing my old policy with a new one and I have decided to (please tick one of the boxes below):

❑ Keep the new policy and reinstate the old policy.

❑ Reinstate the old policy and cancel the new one. (The premiums paid under the new policy will be refunded to me upon reinstatement of my old policy.)

_________________________ _____________
Signature of Policyowner Date

The requirement of uniform wordings is lifted for Appendices C and D.

Disclosures and client declarations should cover cross-product switching.

FAs should ensure that disclosure on the costs and disadvantages of switching is clearly presented and easily understood by clients.

Letter to be issued when proposer informs that the proposal is to replace or is intended to replace an RP policy

[dd/mm/yy]
[Name of Insured]
[Address]

Dear Sir/Madam/Name of Insured

Plan Proposed: XXXXXXXXX
Date of Proposal: dd/mm/yy

We notice from your proposal form that you are replacing an existing policy with the new policy proposed.

We wish to advise that it is usually disadvantageous to replace an existing life insurance policy with a new one. Some disadvantages are:

- You may not be insurable on standard terms;
- You may have to pay a higher premium in view of higher age;
- This may result in losing the financial benefit accumulated over the years.

In your own interest, we would advise that you consult your adviser of the decision. If you have sent in premiums with the proposal, we wish to offer you a refund of the premiums in the event that you were not aware of the disadvantages of replacing one policy with another and do not wish to proceed with the proposal.

If we do not hear from you within 2 weeks from the date of this letter, we will assume that you want to continue with the new policy.

Yours sincerely