

**RESPONSE TO  
FEEDBACK RECEIVED**

16 November 2020

**Proposed  
Requirements on  
Insurers' Charging of  
Expenses to the  
Participating Fund**

**MAS**

Monetary Authority of Singapore

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## **1 Preface**

1.1 On 6 February 2020, MAS issued a consultation paper ("the Paper") to clarify its expectations regarding insurers' charging of expenses to the Participating funds ("Par Fund") and also set out additional requirements to bring about consistent and appropriate charging of such expenses, so as to safeguard policy owners' interests.

1.2 The consultation period closed on 9 March 2020, and MAS would like to thank all respondents for their contributions. The list of respondents and their submissions are respectively provided under Annex A and Annex B.

1.3 MAS has carefully considered the feedback received and will incorporate them as appropriate. Comments that are of wider interest, together with MAS' responses are set out below.

## **2 Meeting policy owners' expectations of what will be 'fair and reasonable'**

2.1 All respondents agreed on the need for insurers to meet policy owners' reasonable expectations ("PRE") when it comes to allocation of charges and expenses to the Par Fund. While most respondents agreed with how MAS had set out the explanation for PRE, one respondent emphasised the need for the allocation to be fair to all parties, including shareholders. The respondent viewed the Paper's approach as being prescriptive, and coupled with the existing 90/10 rule<sup>1</sup> governing the maximum profit entitlement for shareholders, may result in shareholders being hesitant to continue supporting Par products as they may view the increased risk involved to be not commercially viable. Another respondent opined that analysing whether charges or expenses benefit the Par Fund in the long term may be complicated, as the benefits may not be obvious at point of assessment.

2.2 Some other suggestions were received, ranging from enhancements to the definition of PRE, to enhanced disclosures to explain to policy owners the insurer's definition of PRE and how that is being met. On a broader note, one respondent suggested MAS could take a more holistic approach to harmonise its supervisory policy on how expenses are to be allocated, across all investment products.

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<sup>1</sup> Transfer of profits to shareholders from the Par Fund is restricted to a maximum of 1/9<sup>th</sup> of the amount of bonus allocated to Par policy owners. This aligns shareholders' profit objective with Par policy owners' interests, and takes reference from Section 17(6)(c)(iv) of the Insurance Act (Cap. 142).

2.3 One respondent sought to clarify whether it was necessary to publicly communicate an appointed actuary ("AA")'s opinion regarding allocation of material charges and expenses to the Par Fund.

### MAS' Response

2.4 MAS seeks to provide sufficient clarity on expectation of insurers' charging of expenses to the Par Fund without being overly prescriptive. By achieving a level of fairness perceived to be reasonable by policy owners, shareholders can be expected to benefit from sustained growth coming from the Par Fund. Otherwise, customers may consider investing or obtaining insurance protection from elsewhere.

2.5 Management of the Par Fund is complex. The insurer's board of directors ("the Board"), senior management and AA are therefore required to be prudent gatekeepers of PRE and safeguard the interests of policy owners. Certain assessments will require the expert judgment of the AA and senior management, such as whether a particular cost is beneficial to Par policy owners in the long term. These persons, being experts and having the requisite knowledge to carry out their responsibilities, are well placed to make informed judgments relating to Par Fund matters.

2.6 Current circumstances do not warrant MAS to harmonise requirements imposed on the Par Fund on allocation of charges and expenses with other financial sectors or products. Each financial sub-sector and specific product and business lines has its pricing and charging intricacies, and requirements suitable for one may not be entirely appropriate for another.

2.7 The attribution of expenses in the Par Fund involves expert judgement in certain cases. The Par Fund also has the 90/10 rule that acts as a profit-sharing mechanism between policy owners and shareholders, which is not found in other financial products with an investment component. For the Non-participating Fund and Investment-linked Fund, insurers are required to disclose premiums and charges clearly to customers and there is no participation in profit of the respective funds with policy owners. For these funds, any expenses incurred will directly translate to lesser profit for transfer to the Shareholders' Fund. Hence, there is less need to prescribe requirements for these funds, unlike the Par Fund.

2.8 MAS intends to continue giving insurers discretion on the extent to which they would publicly disclose information related to allocation of material charges and expenses to the Par Fund, beyond its Internal Governance Policy ("IGP"). Insurers should consider doing so, if this enhances Par policy owners' understanding of how PRE is being adhered

to. Insurers should also consider how they can better communicate to their policy owners what PRE means to them in terms of their Par Fund management practices.

### **3 Roles and responsibilities of the Board, senior management and appointed actuary**

3.1 Several respondents were concerned that 30 days may not be sufficient for the AA to raise to MAS an unresolved matter where he has material reservations regarding the allocation of charges and expenses to the Par Fund. They felt that more time was needed for stakeholders to deliberate and address such reservations.

3.2 In relation to paragraph 4.2 of the Paper, one respondent felt it was impractical for an insurer to bring to its Board's attention past material deviations from the insurer's IGP beyond the year of review, as the IGP evolves over time. Another respondent asked for "materiality" to be defined, so that consistency can be achieved across the industry.

3.3 There was a suggestion to apply a materiality threshold for the purpose of paragraphs 4.4(a) and (b) of the Paper whereby the insurer is required to inform its Board of any proposed one-off charges or expenses or change to the categories of charges or expenses, to be allocated to the Par Fund.

#### MAS' Response

3.4 MAS will like to be informed when an AA has material reservations regarding the allocation of charges and expenses to the Par Fund, and this cannot be satisfactorily addressed within 30 days from the time that the matter has been brought to his attention. This will enable MAS to determine if it needs to more closely engage the insurer, and MAS is not expecting for the matter to be resolved at the time of notification, especially if there are complex issues and considerations involved.

3.5 Under paragraph 4.2 of the Paper, MAS had proposed that an insurer brings to its Board's attention of past material deviations from the insurer's IGP in managing the Par Fund when the Board conducts any review of the IGP. Given that the Board is required to review the IGP annually, any material deviations would at most be compared against the previous year's version of the IGP unless there had been lapses in past reviews. MAS expects the AA to consult the Board so that the materiality threshold is in line with the Board's expectation and within the insurer's risk appetite.

3.6 With regard to the suggestion given, MAS is of the view that changes to categories, inclusion of new categories or removal of existing categories of charges or

expenses should not happen extensively. If they do, MAS expects the Board to be apprised and understand how these will impact the Par Fund. Similarly, when one-off charges or expenses occur frequently, the Board should understand the implications to PRE, and assess whether it is fair and reasonable for such charges or expenses to be allocated to the Par Fund.

#### **4 Requirements on allocation of charges and expenses to the Par Fund**

*Requirement 1: An insurer must ensure that any charge or expense allocated to the Par Fund is fair and reasonable.*

*Requirement 2: An insurer must ensure that any charge or expense allocated to the Par Fund that is incurred by reason of any payment to any related party is commensurate with the goods or services provided by the related party.*

4.1 All respondents agreed with Requirements 1 and 2.

4.2 One respondent suggested MAS provide more examples for Requirement 1. Otherwise, there could be disparity in the degree of compliance by insurers. Another respondent suggested that overheads and cost of organising events for an insurer's tied agency channel be allowed to be allocated to the Par Fund, proportionate to the tied agency's sales contribution to the Par Fund, as it viewed such basis to be fair to both the Par policy owners and shareholders.

4.3 Two respondents sought clarification on the following areas:

- a) whether business allowance to cover an agency unit's office rental and other administrative costs, which is based on the unit's production level for Par business can be charged to the Par Fund;
- b) whether benefits paid to an agency leader whose representative had been promoted to lead the latter's own agency unit, and hence suffer from a short-term loss of overriding commission (i.e. breakaway payments), can be charged to the Par Fund;
- c) whether transfer pricing rules will suffice to meet the intent set out under Requirement 2.

#### **MAS' Response**

4.4 Senior management and the AA need to exercise their judgment on what is fair and reasonable and seek views from their external auditors, if necessary. Insurers should

document clearly deliberations made on charges to the Par Fund and the outcome of such deliberations. As indicated in the Paper, MAS will update the examples of non-chargeable expenses for the Par Fund from time to time, to reflect items which are commonly mishandled in the industry that has come to MAS' attention.

4.5 Operating expenses for the tied agency channel, as provided for under Requirement 5, can be charged to the Par Fund, so long as these are necessary for the ongoing management of the Par Fund. An insurer can either house its tied agency channel under the same building as its other staff or provide an allowance for agency units to source for their own office space. MAS views such business allowance as operating expenses. However, insurers must ensure the business allowance being remunerated satisfies Requirement 3. Likewise, insurers are allowed to allocate the cost of events organised for its tied agency channel, on a reasonable and equitable basis to the Par Fund, as long as such events are deemed necessary for the ongoing management of the Par Fund.

4.6 As for the breakaway payments highlighted under paragraph 4.3(b), they must not be charged to the Par Fund as they are not necessary for the ongoing management of the Par Fund.

4.7 Requirement 2 goes beyond adhering to transfer pricing rules. Whereas a key principle of transfer pricing is to ensure transactions with related parties occur at arms' length, such transactions do not necessarily mean related party charges are commensurate with the services performed or deliverables received for the Par Fund.

*Requirement 3: Where expenses are paid selectively or are above the norm paid to representatives of the same distribution channel that are of the same tier, rank and scheme, an insurer must ensure that such charges and expenses are not allocated to the Par Fund.*

4.8 Majority of the respondents agreed while others expressed concerns toward Requirement 3:

- a) One respondent noted that such a requirement should not unwittingly disrupt business dynamics and market competition. It asked for MAS to consider a disclosure-based regime and let policy owners and advocates for good governance assess whether an insurer's distribution incentive scheme was fair and reasonable.

- b) Two respondents felt that the exception made to Requirement 3 only for selected new representatives<sup>2</sup> joining the insurer's tied agency force, as indicated under paragraph 5.10 of the Paper, will disadvantage insurers whose business model is mainly based on non-exclusive distribution channels. Such an exception should apply to all channels in order to level the playing field.
- c) Two respondents highlighted that each insurer has different needs and may effect tactical initiatives so as to encourage productivity of the different agency units. An unintended consequence of Requirement 3 is that it may increase overall costs to the Par policy owners when selective incentives are now opened to all representatives.

4.9 One respondent sought clarification on paragraph 5.4 of the Paper, which mentioned that if an insurer chooses to selectively pay remuneration or incentives to certain representatives under the same financial advisory ("FA") firm<sup>3</sup>, such expenses must not be charged to the Par Fund. The respondent put forth that insurers typically pay remuneration or incentives to the FA firms, which in turn decide how much their representatives should get. Given that insurers have neither visibility nor control over how FA firms pay remuneration or incentives to their FA firms' representatives, the respondent was concerned about insurers being made responsible for these, so as to comply with Requirement 3.

### MAS' Response

4.10 MAS agrees that encouraging greater disclosures can enhance transparency and this remains a key component of MAS' supervisory approach. Nevertheless, as insurers may design various remuneration initiatives that do not easily lend themselves to comparison and benchmarking across the industry by consumers, MAS needs to supplement disclosures with specific requirements. Requirement 3 addresses such instances, and some examples are listed under paragraph 5.9 of the Paper.

4.11 Regarding the concern raised under paragraph 4.8(b), MAS notes insurers traditionally own tied agency channels and an exception is made for remuneration and incentives paid only to certain new representatives of such channels, as indicated under paragraph 5.10 of the Paper. This reflects MAS' support for organic growth of such

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<sup>2</sup> New representatives refer to those who join an insurer's tied agency force, and who had not been representatives of another insurer or FA firm for the past 2 years or have less than 2 years of experience, in aggregate, as a representative in the insurance industry.

<sup>3</sup> FA firm, as defined in the Paper, refers to either (a) a financial adviser that was granted a licence under section 13 or (b) an exempt financial adviser as indicated under section 23(1), of the Financial Advisers Act (Cap. 110).



channels in order to grow insurers' Par business. For insurers pursuing other business models, such as working mainly with other FA firms, MAS would like to emphasise that Requirement 3 is relevant to insurers' allocation of charges and expenses to the Par Fund. It does not prescribe how FA firms should allocate their charges and expenses. The recruitment of representatives in an FA firm remains a matter for the FA firm itself, and the insurer and FA firm are separate legal entities.

4.12 As for the feedback under paragraph 4.8(c), while each insurer may wish to effect its own tactical initiatives to encourage productivity of different agency units, MAS has concerns over the lack of transparency and accountability of such initiatives. This is especially so when such remuneration and incentives are paid either on a selective basis, or that are above the norm paid to certain tied representatives over others, of the same tier, rank and scheme in its tied agency channel. Disallowing them does not necessarily mean that overall costs would increase. For example, remuneration and incentives which are open to all representatives do not necessarily mean more costs, as the qualifying criteria can be tailored to better achieve the insurer's objectives.

4.13 As for FA firms selling an insurer's products, given that the FA firms are typically directly remunerated for their effort, the insurer need not concern itself with how FA firms subsequently remunerate or incentivise their representatives.

#### *Operation of agency schemes*

4.14 MAS had asked for feedback from insurers which presently had more than one agency scheme. Two respondents indicated that they each operate two different schemes for their tied agency channel. There was one respondent which indicated they operated three or more schemes. Reasons offered for operating different schemes included productivity and career aspiration considerations as well as different remuneration structures. MAS will separately engage these insurers on the merits of the additional agency schemes.

*Requirement 4: An insurer must not allocate any marketing-related charges and expenses to the Par Fund, where they are not directly related to the sales of the insurer's Par products.*

4.15 Responses received were mixed. Of those which disagreed, the reasons are indicated below:

- a) Even if an insurer was not fully aware of how the FA firm makes use of a marketing allowance, such allowance is necessary to promote sales of Par products.

- b) Some marketing-related expenses are similar to branding and may indirectly benefit Par products.
- c) Entertaining an FA firm's representative is necessary to maintain a good relationship with the FA distribution channel, which in turn drives sales for Par products.

4.16 These respondents felt that unless marketing expenses were entirely irrelevant or unrelated to sales of Par products, or if basis and justification can be made for them to be charged to the Par Fund, they should be allowed to be charged to the Par Fund.

4.17 One respondent suggested disallowing all entertainment expenses across all channels to be charged to the Par Fund.

4.18 Another respondent asked for clarification if a marketing cost, involving both Par and non-Par products, could be allocated to the Par Fund using appropriate drivers.

### MAS' Response

4.19 There have been multiple cases of inappropriate and undesirable marketing-related charges and expenses to the Par Fund previously, and examples can be found in paragraph 5.14 of the Paper. Therefore, there is a need to strengthen safeguards in this area.

4.20 In paragraph 5.12 of the Paper, MAS has explained that the cost of a joint marketing campaign involving Par products between the insurer and its distributors can be allocated to the Par Fund. How the allocation is shared between them, including the rationale and methodology for apportionment, are areas that must be clearly documented. Similarly, marketing campaigns involving sale of Par products together with other products, can be allocated as appropriate to the Par Fund, and the basis and justification including the rationale and methodology for apportionment is to be clearly documented.

4.21 Remunerations made by insurers to FA firms should be transparent to all. Entertainment expenses incurred by an FA firm's representative does not contribute to such transparency as the amounts spent on such activities may not necessarily translate directly to sales of an insurer's Par products. If it does, the insurer ought to include them explicitly as part of its sales remuneration to the FA firm. Otherwise, remunerations paid to FA firms for selling Par products would not be fully reflected in the total distribution costs, which reduces comparability across the industry. This could in turn impede consumers from making informed choices of their intended purchases.

*Requirement 5: An insurer must not allocate any operating expenses incurred by its distribution channels other than its tied agency force to the Par Fund.*

4.22 Several respondents read Requirement 5 to mean prohibition of charging of operating expenses from other distribution channels such as direct marketing, in-house sales team, digital and bancassurance, to the Par Fund. They highlighted that these channels also incur costs related to Par product sales.

4.23 Two respondents highlighted that the operating expenses of an insurer's FA firm, where the FA firm is a subsidiary of the insurer, should also be allowed. Being a subsidiary, the respondents expressed that the FA firm is treated no differently from their own tied agency force.

### MAS' Response

4.24 MAS would like to clarify that insurers can allocate operating expenses incurred by distribution channels that is entirely owned by the insurer to the Par Fund. This includes expenses relating to direct marketing, in-house sales team and digital channels. Where the insurer operates a distribution channel, such as bancassurance, under a distribution agreement with another FA firm, only the operating expenses incurred by the insurer to the extent that they are necessary and reflective of its own portion for sales or servicing of Par products, can be allocated to the Par Fund. Paragraph 8U of the draft notice will be updated to reflect this.

4.25 To avoid doubt, as explained under paragraph 5.15 of the Paper, operating expenses incurred by standalone FA firms which are subsidiaries of, owned or appointed by the insurer, must not be charged to the Par fund given that these are separate legal entities responsible for their own set of operating expenses.

*Requirement 6: An insurer must not allocate any upfront charges and expenses related to the setting up or acquisition of a distribution channel, or tie-up with FA firms, to the Par Fund. For avoidance of doubt, amortisation of such costs are prohibited.*

4.26 Most respondents agree with Requirement 6.

4.27 One respondent proposed that insurers be allowed to allocate the set-up costs of new distribution channels to the Par Fund, as long as the basis and justification for such allocation are clearly documented. Another proposed that a portion of the amortised costs be allowed if the insurer can demonstrate long term benefits to the Par Fund. Another respondent suggested that operational and system set-up costs should be chargeable since they are for the benefit of the Par Fund.

*Grandfathering of existing agreements with facilitation fees*

4.28 Respondents expressed varied views on grandfathering insurers' existing agreements with facilitation fees. Those who disagreed pointed out that:

- a) since MAS had already communicated to the industry over the past number of years that such fees should not be charged to the Par Fund, allowing for grandfathering now will not be fair or reasonable to the Par Fund;
- b) grandfathering goes against the principle of fairness to Par policy owners; and
- c) this will create an uneven advantage for insurers with existing agreements over those which do not have any or may have future exclusive tie-ups with banks.

For (b), the respondent suggested that minimally, amortisation of amounts already capitalised should not be allowed to be charged to the Par Fund. For (c), one respondent suggested phasing out arrangements with facilitation fees over a period of time so as to be fair to insurers with future tie-ups. The respondent suggested that MAS should allow facilitation fees, so long as the insurer can demonstrate adequate controls to ensure Par Fund is not disadvantaged.

4.29 A respondent enquired if MAS will allow the continued grandfathering of existing agreements with facilitation fees that were extended to a longer period in the future, provided the insurer can demonstrate that Par policy owners will not be disadvantaged.

MAS' Response

4.30 For reasons already indicated in the Paper, set-up costs for distribution channels must not be charged to the Par Fund, including any portion of amortisation of such costs. This is because such new distribution channels do not guarantee future sales will happen as projected. Neither will it necessarily benefit existing Par policy owners. As indicated under Requirement 5, insurers can allocate operating charges and expenses incurred by these distribution channels, to the Par Fund, provided other relevant requirements proposed in the Paper are satisfied. Where an insurer upgrades its back-end systems used for administering Par products, amortised capital expenditure on these systems can be allocated to the Par Fund in a manner that fulfils Requirement 1.

4.31 In providing for grandfathering of existing agreements with facilitation fees, MAS had considered that affected insurers may be caught between the legal obligations of their existing agreements and having to meet MAS' requirements.

4.32 Further upfront fees payable in the future, arising from an intention to extend the current in-force agreements with facilitation fees, must not be charged to the Par Fund. Otherwise, existing agreements can run indefinitely, and this is not in line with the policy intent of disallowing such charging. The grandfathering arrangement allows insurers with current in-force agreements to maintain the status quo, provided there are adequate safeguards, such as not remunerating the FA firms the insurers have such arrangements with, in excess of the usual compensation paid to other distribution channels.

4.33 Existing agreements with facilitation fees have involved the insurers discussing with MAS beforehand, to seek concurrence whether recovery of the facilitation fees can be made from the Par Fund. For such cases, MAS has been provided with sufficient information and has been assured that controls are adequate to ensure the Par Fund is not disadvantaged. This is unlike other arrangements disallowed by MAS, where facilitation fees were either fully charged upfront or amortised to the Par Fund without demonstrable justification why Par Fund would not be disadvantaged. Once facilitation fees under existing agreements are no longer allowed to be charged to the Par Fund, all insurers will be put on a level playing field.

## **5 Requirements on analysis of charges and expenses of the Par Fund**

*Requirement 7: An insurer must ensure that it conducts an expense study on the Par Fund annually.*

*Requirement 8: An insurer must ensure that the allocation of charges or expenses to the Par Fund, for the purpose of any expense analysis, including any changes to such allocation, are fair and reasonable.*

*Requirement 9: An insurer must consider tracking the asset shares separately, where charges and expenses are materially different across different groups or classes of products within the Par Fund, or across the different sub-funds.*

5.1 All respondents were generally in agreement with Requirements 7, 8 and 9. Feedback was received in the following areas:

- a) Back-testing of changes made to the expense study methodology should only apply to major changes, such as switching from a methodology promulgated by one actuarial body to another, and not for every change.
- b) Changes made to the expense study methodology are intended to apply prospectively. Back-testing of the changes may not be meaningful.

- c) 'Material difference' referred to in Requirement 9 was not defined. This may lead to different interpretations and inconsistency in compliance by the industry.
- d) Operationally, it is difficult to accurately allocate indirect management expenses into the asset shares of each product class. Typically, such allocation is only made when there are material differences between the product classes.
- e) Expense variances tend to have immaterial impact to the Par Fund. To track expense variances at the product group or sub-fund level may increase the cost of managing the Par Fund, without much value-add to benefits to Par policy owners.

5.2 Regarding Requirement 7, one respondent suggested that comprehensive expense studies be conducted once every 3 years, whereas a smaller scale study could be considered on an annual basis.

5.3 In relation to the concerns raised under paragraph 5.1(e), one respondent proposed that the tracking of asset shares be made consistent with the expense sharing rules set out in the insurer's IGP. Expense variance should only be taken into account for asset share tracking purposes if the variance is material between the expected and actual asset share.

5.4 Another respondent asked for clarification on whether the costs of conducting the expense studies and independent audit of the expense study methodology can be charged to the Par Fund.

### MAS' Response

5.5 MAS agrees that back-testing is to be carried out only when there are material changes made to the methodology for conducting the expense study. Materiality may be assessed in terms of the resulting change in the allocation of costs to the Par Fund and product classes. Even though such changes are meant to be applied prospectively, back-testing will allow the insurer to assess robustness and reasonableness of the changes to be made, having assessed the impact to the Par Fund. Where the insurer considers that such back-testing is not necessary, the reasons for not doing so must be clearly documented in the expense study.

5.6 As to the frequency of the expense study, MAS requires this to be conducted at least annually. It is for the AA to advise the insurer how the expense study should be carried out, such as under what circumstances will a comprehensive study be required, or when a smaller scale study can be considered instead. Among other things, the

methodology used must be in accordance with recognised actuarial practices, as indicated under paragraph 5.22 of the Paper.

5.7 Under Requirement 9, MAS would like to clarify that an insurer must consider, but not necessarily carry out, separate tracking of asset shares where charges and expenses are materially different either across different groups or classes of products or across different sub-funds. Requirement 9 is intended to ensure fairness across different groups or classes of products or across different sub-funds, where the differences may affect the bonus distribution to the relevant Par policy owners. Where the insurer decides not to separately track the asset shares for such material differences in charges and expenses, it must clearly document the reasons for doing so and where relevant, the controls to mitigate cross-subsidisation across different groups or classes of products or across different sub-funds, in the bonus investigation report.

5.8 The cost of expense studies and audit of the methodology are considered part and parcel of operating expenses for the Par Fund. Insurers must ensure allocation to the Par Fund fulfils Requirement 1, as expense studies may involve other products not in the Par Fund. The cost of expense studies for these other products must not be charged to the Par Fund.

*Requirement 10: An insurer must ensure that the loading of expenses for pricing of a Par product ("expense loading") is consistent with the assumptions derived from its latest expense study ("expense study assumptions"), and all relevant expenses have been accounted for.*

*Requirement 11: An insurer must ensure that differences between the expense loading and actual charges and expenses incurred, due to any deliberate under-provision of expense loading in the pricing of its Par product, is not borne by the Par Fund.*

5.9 Most respondents agreed with the proposed Requirements 10 and 11. Three respondents were concerned that limiting deviations between the insurer's expense loading and expense study assumptions compared to actual charges and expenses incurred, to the first three years following the launch of its first Par product, may hinder new players from offering Par products. The three-year timeframe may also not coincide with the insurer's intended business plans or strategies.

### MAS' Response

5.10 MAS had explained in the Paper that allowance for deviations between an insurer's expense loading and expense study assumptions must not exceed three years

and this is aligned with the provisions under MAS Notice 133<sup>4</sup>. MAS discourages insurers from aggressive pricing in order to gain market share and hence, assumptions should be realistic and empirically derived based on facts and available data. As highlighted in paragraph 5.33 of the Paper, an insurer which is able to justify why the deviations should remain, will need to engage MAS prior to charging the deviations to the Par Fund. Otherwise, it must bear the deviations from elsewhere.

## **6 Non-exhaustive list of non-chargeable expenses for Par Fund**

6.1 Most respondents were supportive of the list given that it served as a valuable starting point that enhances clarity regarding MAS' expectations.

6.2 One respondent was concerned if paragraph 6.1(e)<sup>5</sup> of the Paper meant that insurers would need to be responsible for how an FA firm incentivises its representatives, when insurers do not directly remunerate these representatives. It sought clarification whether insurers could still charge to the Par Fund, a fair share of the cost of prizes or incentives, even if these involved an element of probability, but tied to eligibility criteria of the tied representative having incepted at least one Par policy during the qualifying period. The same respondent also pointed out that lucky draws were typically an effective way to motivate representatives to sell policies within a fixed budget.

6.3 Another respondent proposed for insurers to be allowed to charge part of the cost of mergers and acquisitions<sup>6</sup> to the Par Fund, given that there may be circumstances when such mergers and acquisitions may benefit the Par Fund by providing it with economies of scale.

### MAS' Response

6.4 The list of non-chargeable expenses indicated under paragraph 6.1 of the Paper relates to the expenses incurred by the insurer. Specific to item (e), where the prizes or incentives are not offered by an insurer to representatives of an FA firm, the insurer will not be held responsible for them. As for prizes or incentives offered by an insurer that have an element of probability, they do not definitively reward sales performance to representatives in a transparent manner. Such prizes and incentives have in the past

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<sup>4</sup> MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers) incorporates the guidelines from MAS Notice 319 which was cancelled effective 31 March 2020.

<sup>5</sup> Paragraph 6.1(e) of the Paper lists the charging of expenses related to prizes or incentives offered to representatives of an FA firm, which have an element of probability and do not have a direct relation to the sales of Par products or the ongoing management of the Par Fund, as an item to be disallowed from charging to the Par Fund.

<sup>6</sup> As listed under paragraph 6.1(f) of the Paper.



resulted in negative publicity to the industry, particularly when these incentives were perceived to be excessive. Such practices can hence impair the industry's image and reputation. Given the above reasons, MAS has reconsidered its position and will disallow insurers from charging such costs to the Par Fund.

6.5 As for mergers and acquisitions, these are typically entered into principally with the intention to benefit shareholders at the outset. Benefits to the Par Fund are less obvious as they are neither explicitly tied to sales of Par products nor are such sales guaranteed to materialise. As such, MAS will prohibit these costs from being apportioned to the Par Fund.

## 7 Implementation effective date

7.1 The original proposed effective date of the revised MAS Notice 320 was 1 April 2020. Most respondents requested for the proposed effective date to be deferred. They highlighted that insurers' resources were very stretched from dealing with RBC 2 and IFRS 17 implementation. Moreover, the COVID-19 pandemic has significantly impacted insurers' operations across the board. Time and resources are also needed to operationalise the proposed changes.

7.2 Most respondents requested for the effective date to be 1 January 2021.

### MAS' Response

7.3 MAS acknowledges the significant extent of changes and time needed to operationalise the proposed requirements, especially in light of the COVID-19 pandemic. MAS will adopt 1 January 2021 as the effective date for the proposed requirements.

## 8 Other updates

8.1 MAS received subsequent feedback from one respondent regarding the current stance of MAS Notice 320 on the form in which the Annual Bonus Update may be sent to policy owners. Recognising the increased familiarity of policy owners with the use of electronic media, MAS will amend paragraph 13 of MAS Notice 320, such that an insurer may send to its policy owner the Annual Bonus Update in electronic form unless the policy owner specifically requests for hardcopy.

8.2 The proposed revision would be as follows:

"13 ~~The An~~ insurer may send ~~to the a~~ policy owner, the Annual Bonus Update in electronic form. ~~where the written consent of policyholder has been~~

obtained. Where an insurer sends a policy owner the Annual Bonus Update in electronic form, the insurer must give the policy owner an option to make a request for a hard copy of the Annual Bonus Update, within one month from the date that the Annual Bonus Update is provided to the policy owner.

14 Where a policy owner makes the request referred to in paragraph 13, the insurer must make available, or cause to be made available, a hard copy of the Annual Bonus Update to that policy owner within two weeks of receiving the request.

15 An insurer must allow a policy owner to request, at any time, for all Annual Bonus Updates that are sent at any time after the date of the request, to be sent to him in hard copies, and the insurer must comply with the policy owner's request at no cost to the policy owner.

## **MONETARY AUTHORITY OF SINGAPORE**

16 November 2020

**Annex A**

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON  
PROPOSED REQUIREMENTS ON INSURERS' CHARGING OF  
EXPENSES TO THE PARTICIPATING FUND**

1. Aviva Ltd
2. AXA Insurance Pte Ltd, which requested for confidentiality of submission
3. CFA Society Singapore
4. China Taiping Insurance (Singapore) Pte Ltd
5. Etiqa Insurance Pte Ltd, which requested for confidentiality of submission for Question 12
6. Manulife (Singapore) Pte Ltd, which requested for confidentiality of submission for Question 8
7. Pearlyn Koh
8. Tokio Marine Life Insurance Singapore Ltd
9. Respondent A, which requested for confidentiality of identity and submission
10. Respondent B, which requested for confidentiality of identity and submission
11. Respondent C, which requested for confidentiality of identity and submission
12. Respondent D, which requested for confidentiality of identity and submission
13. Respondent E, which requested for confidentiality of identity and submission
14. Respondent F, which requested for confidentiality of identity and submission
15. Respondent G, which requested for confidentiality of identity and submission

Please refer to Annex B for the submissions.

**Annex B**

**SUBMISSION FROM RESPONDENTS TO THE CONSULTATION PAPER ON  
PROPOSED REQUIREMENTS ON INSURERS' CHARGING OF  
EXPENSES TO THE PARTICIPATING FUND**

S/N	Respondent	Responses from respondent
1	Aviva Ltd	<p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable' manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>Relating to 3.3, the analysis of short-term/long-term interests might be unnecessarily complicated as long-term interests might be intangible at the point of assessment. In addition, many enhancement projects are unlikely to be necessary for the ongoing management of the fund at the point of assessment. The obvious evidence is that the Par Fund is managed on an ongoing basis, prior to the implementation of these projects. This might lead to undesirable implication on the management of the fund.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>We agree with the recommended roles. As a matter of clarity, materiality is mentioned but not defined, this might lead to inconsistency across the industry as every insurer will have their own interpretation. Thus, having some guidance on how to define materiality will be useful.</p> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p> <p>No comment.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>Relating to 5.10, an exception to tied agency force seems peculiar as any new representatives would contribute to the organic growth of the insurer and deemed necessary to sustain the insurer's Par business in the long run. The favoured suggestion on tied agency</p>

S/N	Respondent	Responses from respondent
		<p>force will disadvantage any insurers who compete mainly in the non-exclusive distribution landscape to the detriment of Singapore consumers. Our suggestion is to allow this for any type of channel.</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>No comment.</p> <p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b>  <b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>No comment.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>Requirement 4 proposes to disallow reimbursement of marketing allowance to an insurer's staff for expenses incurred in entertaining a FA firm's representative. Our suggestion is to disallow all entertainment across all channels to be charged to Parg Fund.</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>Requirement 5 specifies all tied agency expense to be chargeable to the Par Fund. We believe that other channels such as direct marketing, digital platform, employee sales force should be allowed the same treatment as tied agency. If we were to stretch it further, there should be no differentiation between tied agency and owned channels including subsidiary FA firm as their nature of business are similar.</p> <p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>No comment.</p>

S/N	Respondent	Responses from respondent
		<p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p> <p>All existing agreements should be grandfathered instead of limiting it to facilitation fees only.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>We agree with the recommended roles. As a matter of clarity, significance is mentioned but not defined, this might lead to inconsistency across the industry as every insurer will have their own interpretation. Thus, having some guidance on how to define significance will be useful.</p> <p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>No comment.</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>No comment.</p> <p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>No comment.</p>
2	CFA Society Singapore	<p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable' manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>CFA Society Singapore welcomes MAS initiative to garner feedback on allocation of charges and expenses to policy funds for the benefit of policy owners.</p> <p>We agree that there is a need to ensure that interest of policy owners need to be safeguarded against unfair back-of-house allocation of expenses. Allocation of charges and expenses must be justified, and reasonable in its nature and amount.</p>

S/N	Respondent	Responses from respondent
		<p>As stated under MAS consultation paper paragraphs 2.1 (b) and (c), MAS' intent to be more prescriptive on expenses charging and non-chargeable expenses should help insurers in discharging fiduciary responsibilities to its policy owners. MAS' requirements are transparent on what expenses policy owners should bear and ultimately, addresses paragraph 1.2 that "if expenses are inappropriately allocated to the Par Fund, the distributable bonuses for Par policy owners may be reduced and can disadvantage the policy owners".</p> <p>Where MAS requirements on expenses allocation are more prescriptive and transparent, they would shape policy owners' expectations of what is fair and reasonable and also allow for a more common practice amongst insurers.</p> <p>Given that Par Fund, investment-linked plans (ILPs) and collective investment schemes (CIS) (e.g. REITs and unit trusts) and even fund management share common savings and investment objectives, and fiduciary requirements, MAS should take a more holistic approach to harmonize its supervisory policy on how expenses are to be allocated across all investment products and basis for discrepancies.</p> <p>This is more so when insurance companies offer products which are effectively collective investment schemes with an element of protection. Should more policy owners view that this is indeed the case, more scrutiny will be placed on how a Par policy works, how returns are generated, and what goes into expenses.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>We agree with the proposed roles and responsibilities of the Board, senior management and appointed actuary, which reinforce their fiduciary roles to the policy owners.</p> <p>Consistent with our comments under Question 1, MAS should review whether these proposed roles and responsibilities are consistent with those applicable to ILP and CIS.</p> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p>

S/N	Respondent	Responses from respondent
		<p>We agree with Requirement 1 and 2.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>There is a general agreement with regards to Requirement 3.</p> <p>One approach is to only allow a standard distribution charge to be allocated to the Par Fund which should be fully disclosed.</p> <p>There is however another school of thought. In principle, distribution remunerations, including design of agency schemes are business decisions. Where businesses are likely to appreciate business dynamics better, MAS may wish to be mindful that its regulatory prescriptions do not unwittingly disrupt business dynamics and market competition. Alternatively, as a start, MAS can consider disclosure-based approach and leave the policy owners and governance advocates to assess whether the insurers' distribution incentives are fair and reasonable, including ex-gratia ones outside the distribution agreements.</p> <p>With regards to levelling playing field, and reinforcing our recommendations to take a holistic view on all investment products, we note that MAS does not regulate how unit trust managers compensate their distributors.</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>Diversification source of new business and seeking a lower distribution cost (which will benefit policy owners) are justification for insurers to operate more than one agency scheme.</p> <p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b>  <b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>6(a) A key factor is the committed amount of new business by distribution channel via contracts. The committed new business and remuneration will depend on the size of the sales force.</p>



S/N	Respondent	Responses from respondent
		<p>6(b) Contractual agreement between insurer and distribution channel may inhibit the reduction in number of schemes.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>There is a general agreement with regards to requirement 4, and its rationale.</p> <p>There is however another view as per response to question 4. Design of marketing campaigns is a business decision. Classifying marketing expenses as being directly or indirectly related to the sales of the insurer's Par products as stated under paragraph 5.11 is also a judgment call.</p> <p>The examples under paragraph 5.14 can be re-positioned as corporate branding and fit the purpose stated under paragraph 5.13, i.e. "to build customer loyalty and may improve the insurer's retention of its existing business or the sales of new business over time. This could indirectly benefit the Par Fund as the fixed overhead cost will be borne by a bigger group of policies."</p> <p>Consistent with a disclosure-based approach, we agree with paragraph 5.12 - "Where an insurer allocates any marketing-related charges and expenses to the Par Fund, the insurer must clearly document the basis and justification for such allocation". How and why marketing-related charges are borne by policy owners should also be disclosed in the annual statement to policy owners, including sales and marketing material.</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>There is a general agreement with regards to Requirement 5.</p> <p>Nevertheless, distribution incentives received by individual FA representatives from insurers through their FA employers (as a company) can be substantively same as those received by tied agency representatives directly from insurers. To underline the point on form over substance between FA and tied agencies, with reference to paragraph 5.15, if an FA firm were not to receive distribution incentives at firm level, would it be entitled to insurers' reimbursements of its operating expenses similar to tied agencies?</p>

S/N	Respondent	Responses from respondent
		<p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>We agree with Requirement 6.</p> <p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p> <p>Adjusting existing partnership contracts may pose more harm than good for the exempted FA and insurer's operation.</p> <p>Should the MAS proposal be implemented, insurers must provide rationale for its action and provide full disclosure.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>We agree with Requirement 7, 8 and 9.</p> <p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>We agree with Requirement 10 and 11.</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>We are in agreement with items on the proposed list. The list is an excellent starting point.</p> <p>However, should the items on the list not permitted to be charged to Par Fund, we seek clarification from MAS as to whether it should be more specific that shareholders' funds should bear these expenses.</p> <p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>Hardware and/or software changes requiring time to implement can be taken into account for time extensions but implementation date should remain 1 April 2020.</p>
3	China Taiping Insurance	<p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable'</b></p>

S/N	Respondent	Responses from respondent
	(Singapore) Pte Ltd	<p><b>manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>No comments.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>No comments.</p> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p> <p>No comments.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>No comments.</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>No comments.</p> <p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b>  <b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>No comments.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>No comments.</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>No comments.</p>

S/N	Respondent	Responses from respondent
		<p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>No comments.</p> <p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p> <p>No comments.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>No comments.</p> <p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>Referring to paragraph 5.33 and 5.36, we believe that each newly set-up Par Fund would have its own business plan and strategy, and would have different timelines for expense loadings to catch up with actual expenses. Hence, our view is that the 3 year “grace period” may not be appropriate to be applied to all new Par Funds as it may not necessarily coincide with their respective business plan/strategy.</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>Could MAS elaborate/give an example of incentives “which have an element of probability”? (Refer to paragraph 6.1 e)</p> <p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>Once the final new MAS Notice 320 is issued in April 2020, insurers would need some time to analyse, identify and implement the necessary enhancement to systems and processes. After which, insurers would need to relook at the expense already incurred in 2020 and reprocess them through the new processes/systems which could be a very time consuming work in a period where insurers are quite resource constrained due to large projects like IFRS17, and RBC 2 YE2019 parallel run.</p>

S/N	Respondent	Responses from respondent
		<p>May we propose that the new requirements be effective from 1 Jan 2021 (i.e. 2021 is the first year Par allocation is based on the new requirements) so that insurers have lead time to make the necessary enhancements, and there will be a clean start.</p>
4	Etiqua Insurance Pte Ltd	<p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable' manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>Nil.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>We would like to clarify if a separate guidance will be provided by MAS on:</p> <ul style="list-style-type: none"> <li>- policies and guidelines for the allocation of charges and expenses to the Par Fund</li> <li>- methodology for conducting expense study</li> </ul> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p> <p>Nil.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>We would like to clarify, if there is such expenses above the norm that is incurred specifically for Par products, can such expenses be charged directly to Par Fund?</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>NA.</p> <p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b></p>

S/N	Respondent	Responses from respondent
		<p><b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>NA.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>We would like to clarify, for joint marketing efforts (i.e. incurred for both Par &amp; Non Par products), can these marketing expenses be allocated to both funds using appropriate allocation drivers?</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>We would like to clarify whether salaries/sales incentives paid to distribution partners who sell all types of products such as in-house agents can be allocated to the Par Fund based on appropriate allocation drivers?</p> <p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>NA.</p> <p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p> <p>NA.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>Nil.</p> <p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>(Confidential)</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>Nil.</p>

S/N	Respondent	Responses from respondent
		<p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>We feel that the timeline is too tight for companies to revamp current expense study framework and implement changes to charges and expense allocations in the accounting system.</p>
5	Manulife (Singapore) Pte Ltd	<p><b>Overall comments:</b></p> <p>While we agree that it is important to allocate expenses fairly and reasonably to Par fund, a prescriptive way to define what is chargeable to Par fund will not be fair to the shareholders of the company where expenses are incurred to help to achieve economies of scale for Par fund through the sale of Par products from various activities carried out by the company. There is already a very restrictive control through the 90/10 gating for Par fund with the effect of rendering the return on investment for Par products to be below that of other products. An approach based on charging fully for direct expenses, and charging through apportionment method for indirect expenses would seem to be a fair and reasonable approach. This can be complemented by the proposal to make sure that over time pricing allowance would be broadly aligned to the charging to make sure that Par fund can operate as a standalone entity without subsidising the shareholders to grow the other lines of business. Beyond that, any prohibition to charge expenses to Par fund is deemed unfair to shareholders who provided the platform and capital for Par policy owners to enjoy the scale that is accorded by the other lines of business in the company.</p> <p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable' manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>We welcome the added clarity on the principle of "fair and reasonable" for allocating expenses and charges to the Par Fund. We see this emphasis on the "fair and reasonable" principle as an enhancement to existing requirements where insurers are expected to exercise proper discretion when allocating bonus to policy owners, taking into account the need to ensure fairness and equity among different classes and generations of policy owners and to maintain the Par Fund's overall solvency. We also agree on the need for Par Fund pricing to reflect the charges expected to be</p>

S/N	Respondent	Responses from respondent
		<p>incurred by the fund to avoid misleading customers who purchase the products from the fund. However, we would urge that the approach to the charging of Par Fund should reflect the fair expenses that are incurred to manage the Par policies both in terms of acquisition as well as maintenance. Otherwise, it would be detrimental to the development of this line of product which continues to serve customer needs for partial guarantee. If the prescriptions for Par Fund management became onerous and unfair to the shareholders, especially since the profits attributable to the shareholders is already subject to the 90/10 rule, and is commercially low for taking on long tail risk of such products, the shareholders may not support the development and maintenance of Par products.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>We seek to clarify the start date of the 30-day period for Appointed Actuary to report to MAS in the event Appointed Actuary assessed management action to address material reservation to be ineffective or inadequate. The 30 days set out in point 4.8 may be too short if it starts from the time the Appointed Actuary identifies a material reservation because time is needed for internal management to address any material reservations raised by Appointed Actuary. We propose that the reporting timeframe be 48 hours after the Appointed Actuary ascertains that a material reservation cannot be adequately addressed.</p> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p> <ol style="list-style-type: none"> <li>1. For point 5.3, related party transactions are currently already being governed by transfer pricing rules which ensure that the price we pay commensurate with the goods or services provided as well as benchmark with the market. Would MAS view this as adequate in fulfilling the proposed Requirement 2?</li> <li>2. We propose that MAS allows a certain percentage of overheads expenses/cost of organising events for tied agency channel to be allocated to the Par Fund (according to product mix and contributions towards the sales and maintenance of these policies) as only then that it is fair to both customers as well as shareholders. These expenses would have contributed to the growth of the</li> </ol>



S/N	Respondent	Responses from respondent
		<p>insurer's Par Fund as well as other funds. Hence, it is not unreasonable or unfair to charge them proportionately to the Par Fund.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>There are instances where insurer organises contests for certain representatives / agency units who have the potential in achieving greater sales. Such contests could potentially contribute to the improvement in the future sales of the insurer's Par products or growth of the insurer's Par Fund. Similarly, for recruitment challenges, certain agency units have greater ability in recruiting new representatives which could help in the growth of the insurer's agency force. A uniform approach in incentivising or remunerating all branches or all representatives of the same tier would not necessarily be effective in driving productivity and quality.</p> <p>Therefore, we propose that MAS allows insurer to allocate such expenses to the Par Fund as long as the basis and justification for such allocation, as well as the rationale and methodology for apportioning these expenses to the Par Fund are clearly documented.</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>Nil.</p> <p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b>  <b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>Nil.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>Currently, marketing allowance is paid or payable to FA firm and or other distribution channel which could be used to drive the sales</p>

S/N	Respondent	Responses from respondent
		<p>of insurer's Par products. It is not transparent to the insurer on how the FA firm or other distribution channel uses such allowance. However, the purpose of providing marketing allowance is to promote sales, hence attributable in part to benefiting Par product sales.</p> <p>We seek MAS' concurrence to allow insurers to allocate such allowances to the Par Fund as long as the basis and justification for such allocation, as well as the rationale and methodology for apportioning these charges and expenses to the relevant funds are clearly documented.</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>(Confidential)</p> <p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>Expenses related to the setting up or acquisition of distribution channels would benefit the insurer in the long run. Such benefits would include the growth of the insurer's Par Fund.</p> <p>We propose that MAS allows insurers to allocate such expenses to the Par Fund as long as the basis and justification for such allocation, as well as the rationale and methodology for apportioning these charges and expenses to the relevant funds are clearly documented.</p> <p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p> <p>Nil.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>We propose that the full expense study on the Par Fund to be performed once every 3 years. FIs could on an annual basis, perform analysis of charges and expenses of the Par Fund on a smaller scale.</p>

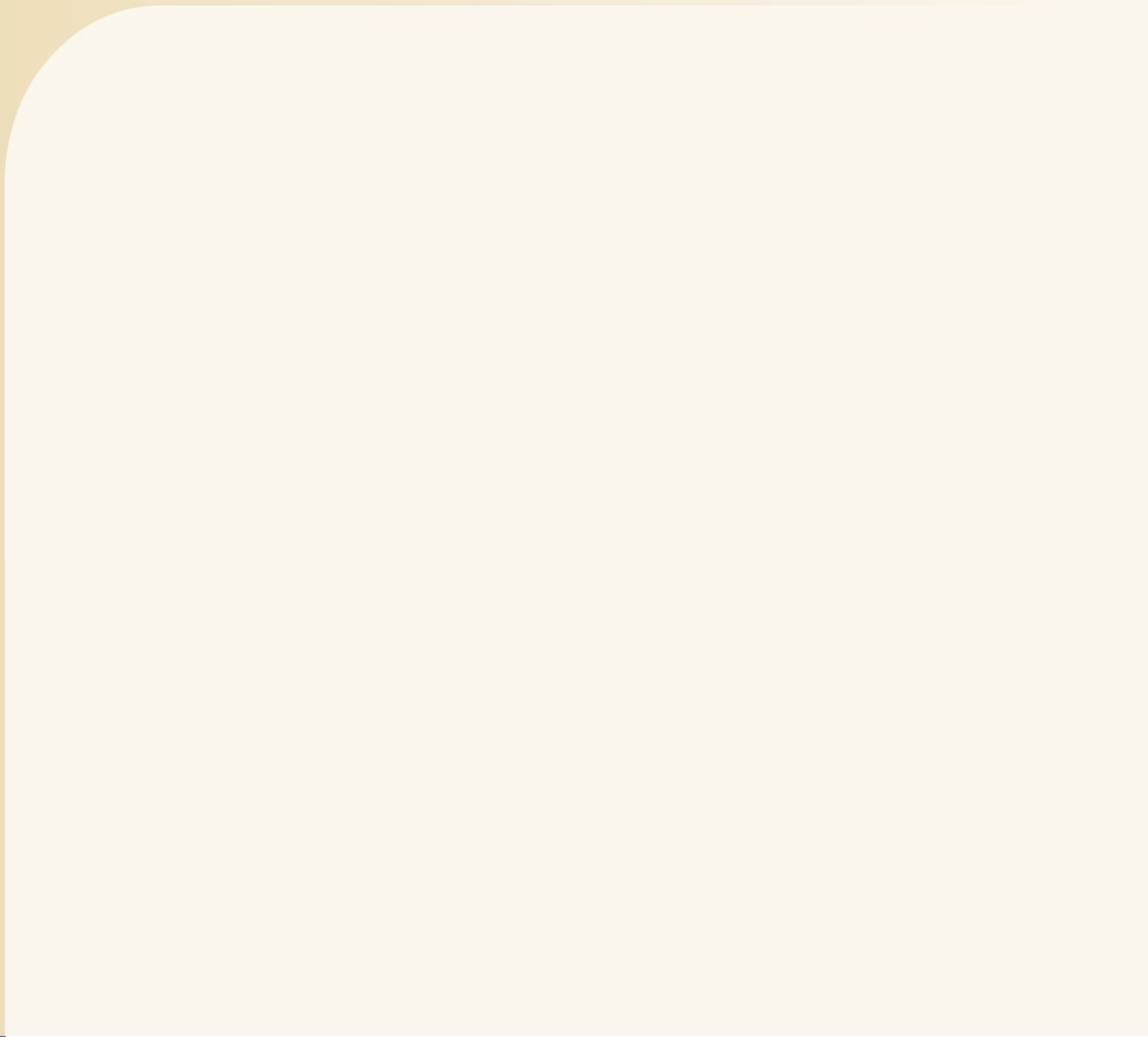
S/N	Respondent	Responses from respondent
		<p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>Nil.</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>Nil.</p> <p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>We require additional time and resources to conduct internal reviews, enhance policies and procedures, secure senior management and Board approval for policy enhancements. Hence, we propose that MAS gives FIs a transitional period of up to 31 December 2020 so that all FIs will commence operations in 2021 on the same footing.</p>
6	Pearlyn Koh	General comments made, not specific to any of the listed questions.
7	Tokio Marine Life Insurance Singapore Ltd	<p><b>Question 1. MAS seeks comments on the need for insurers to meet policy owners' expectations in a 'fair and reasonable' manner, particularly when it comes to the allocation of charges and expenses to the Par Fund.</b></p> <p>Agree with the principle to meet the policy owners' expectations in a "fair and reasonable" manner. We would like to seek clarification if material charges or expenses (e.g. such as the illustration found in para 3.3) require the Appointed Actuary's opinion to be communicated through publicly available material.</p> <p><b>Question 2. MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.</b></p> <p>Suggestions:</p> <p>1. To combine 8C(b) and (c), as they seem duplicative, to "any material one-off charges or exceptional expenses that is proposed to be allocated to the Par fund"</p>

S/N	Respondent	Responses from respondent
		<p>2. For 8I, as it may take some time to get all stakeholders to agree and address the matter satisfactorily, 30 days from the time it was brought to the Appointed Actuary's attention is too short of a timeframe to get the necessary discussions completed by. We suggest the following rephrasing of the last line: "Following this escalation to the senior management and board of directors, and the decision taken does not satisfactorily address the appointed actuary's reservations, the appointed actuary must alert the Authority of the concern within 14 days from the date of the decision."</p> <p><b>Question 3. MAS seeks comments on the proposed Requirements 1 and 2.</b></p> <p>Requirement 1: Agree in principle. To help the industry understand the "Out of Bound" markers better, it will be useful for MAS to provide more examples of expenses that are not deemed as fair and reasonable. For instance, IFRS17 costs are charged to insurance funds as it is a change in international accounting standard that will provide greater Financial Statement transparency and comparability. The costs can vary significantly depending on the degree of compliance. If some companies choose to minimally comply while others choose to fully comply, would it be fair and reasonable for the additional cost, i.e. in excess of the minimal compliance, be charged to Par fund?</p> <p>Requirement 2: Agree.</p> <p><b>Question 4. MAS seeks comments on the proposed Requirement 3.</b></p> <p>Agree in principle. To help ensure a level playing field in the industry, guidance on what constitutes "above the norm" should be provided. This can, for example, be done via a survey (by an independent party) of payments to representatives, so that benchmarks or industry norms can be distilled.</p> <p><b>Question 5. Under what circumstances would an insurer expect to operate more than one agency scheme?</b></p> <p>Although we do not have more than one agency scheme, we would like to check if full-commission and salaried agents are considered as different schemes.</p>

S/N	Respondent	Responses from respondent
		<p><b>Question 6. For insurers presently having more than one agency scheme, and the insurer is of the view that it is operationally impractical to consolidate them,</b>  <b>(a) what are the key factors which differentiate the schemes?</b>  <b>(b) what challenges, if any, inhibit the reduction in number of schemes?</b></p> <p>Although we do not have more than one agency scheme, we are of the view that the key factors differentiating schemes would include salary vs variable commissions, the product focus (e.g. life vs general insurance), legacy issues (e.g. grandfathering of older schemes vs newer schemes), etc.</p> <p><b>Question 7. MAS seeks comments on the proposed Requirement 4.</b></p> <p>The current phrasing of Requirement 4 is too restrictive, if the intent is to allow exceptions (e.g. para 5.13). Suggested rephrasing: "An insurer should only allocate marketing-related charges and expenses to the Par Fund if they are related to the sales of the insurer's Par products".</p> <p><b>Question 8. MAS seeks comments on the proposed Requirement 5.</b></p> <p>This requirement is too wide and restrictive, as Banca and direct channels may be involved in the sale of Par products too. There will also be some charges that an insurer may need to bear, due to the cost of running a Tied-FA (e.g. general oversight, administrative support, shared resources, etc). It will not be fair to restrict all forms of operating expenses, apart from tied agency force, from allocation to the Par Fund. MAS should state its supervisory concerns more clearly for the industry to better understand the risks, as well as the practices that need to be avoided.</p> <p><b>Question 9. MAS seeks comments on the proposed Requirement 6.</b></p> <p>No comments.</p> <p><b>Question 10. MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.</b></p>

S/N	Respondent	Responses from respondent
		<p>It will not be fair to allow grandfathering of existing facilitation fees, as it creates an uneven playing field, especially for players that may have future exclusive tie-ups with banks. Alternatively, existing arrangements can be phased out over time, in order to be fair to all industry players. From a policyholder's point of view, it is also not fair to have facilitation fees charged to insurance funds. MAS should allow some of the practices if the insurer is able to demonstrate it has adequate controls to ensure that Par policy owners are not disadvantaged by such recovery.</p> <p><b>Question 11. MAS seeks comments on the proposed Requirements 7, 8 and 9.</b></p> <p>Requirement 7: Agree. We would like to clarify if such expense studies, as well as the independent party at least once every 3 years, can be charged to the Par Fund. In addition, we also like to clarify the "back-testing" that is required before effecting the change only apply to major change in methodology such as switching from a methodology under SAS to another methodology not listed in 5.22. If it is refinement of methodology, other approaches can be taken.</p> <p>Requirement 8: Agree. The fair and reasonable allocation of expenses into par fund should also include direct expenses, not just indirect expenses.</p> <p>Requirement 9: Agree with the intent. However operationally it is difficult to charge indirect management expenses accurately into the asset shares of each classes of product. This differentiation will only be carried out if the charges or expenses are materially different from other classes of products. The level of materiality should be decided by the AA.</p> <p><b>Question 12. MAS seeks comments on the proposed Requirements 10 and 11.</b></p> <p>Requirement 10: Agree in principle. To ensure that the industry interprets "consistent with the assumptions", can guidance (e.g. from SAS or LIA) be provided in this area? In addition, consideration should also be given to less established Par funds that may not have the economies of scale on expenses. By limiting the time to 3 years, it may impact the ability of insurers with smaller Par funds to compete in the market. We also like to understand how the three years was arrived at.</p>

S/N	Respondent	Responses from respondent
		<p>Requirement 11: Agree in principle. However, would like to check that it does not apply to operation overrun/underrun in any year that does not relate to deliberate under-provision in pricing.</p> <p>Taking a step back, deliberate under-provision of expense loading in the pricing of Par product can also benefit Par policy owners if it results in attractive pricing, which increase the Par New Business and In-Force portfolio, and hence lowering the fixed costs per policy of the Par Fund. Hence would like MAS to consider other forms of exceptions, not just to newly set up Par funds, but also to funds that are less established and are trying to establish economies of scale.</p> <p><b>Question 13. MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.</b></p> <p>We would like to clarify if 6.1d includes office rental.</p> <p><b>Question 14. MAS seeks comments on the proposed effective date for implementation of the changes.</b></p> <p>2020 is a transition year into RBC2 and companies are still conducting dual reporting (i.e. YE19 on RBC1 and 1Q20 on RBC2), firming up their understanding under the new reporting framework, including Matching Adjustment requirement. As such, we would like MAS to consider giving the industry 12 months to operationalize the requirements, i.e. for the implementation to come into effect 1 Apr 2021. This will provide insurers more time to engage MAS on areas that need further verification and to allow insurers time to review their expense study, IGP, expense charging, update Board etc. to ensure compliance under the new requirements.</p>



Monetary Authority of Singapore