

# CONSULTATION PAPER

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

MAS

Monetary Authority of Singapore

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## 1 Preface

1.1 Participating insurance policies represent a significant proportion of the life insurance business in Singapore<sup>1</sup> and are widely used to meet policy owners' investment and protection needs. They offer a combination of guaranteed and non-guaranteed benefits payable upon death, surrender or maturity (in the case of endowment products).

1.2 Non-guaranteed benefits are made out to policy owners of Participating funds ("Par Fund") through distribution from the fund in the form of bonus payouts<sup>2</sup>. Such distribution depends on the actual performance of the Par Fund in respect of its investment, mortality, morbidity, lapse and expense experience. For instance, if the investments of an insurer offering Par products have been performing well, or if the insurer has incurred fewer claims than expected, there will be more funds available for bonus distribution. Conversely, 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.

1.3 Section 17(4) of the Insurance Act requires all income and expenses of the insurer to be properly attributable to the business to which the insurance fund relates, and the assets comprised in the insurance fund must be applicable only to meet such part of the insurer's liabilities and expenses which are properly attributable to it. Aligned with this intent, MAS Notice 320 (Management of Par Life Insurance Business) ("the Notice") requires an insurer to manage its Par Fund in accordance with its internal governance policy ("IGP"). The IGP is approved by the insurer's board of directors ("the Board") and must be reviewed annually to ensure its appropriateness. Currently, in terms of charges and expenses, an insurer must, among other things, in its IGP:

- a) describe the expenses that are incurred, and charges that can be allocated to the Par Fund; and
- b) describe the method used for the allocation of common expenses between the Par Fund, other insurance funds and the shareholders' funds.

1.4 From past inspections of the insurers, the Monetary Authority of Singapore ("MAS") has observed instances of inappropriate charging of expenses to the Par Fund. Through this consultation paper, MAS is looking to clarify our expectations regarding

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<sup>1</sup> In Singapore, Par policies represented 45% of weighted new business premiums in 2018 and 60% of in-force regular premiums of the life insurance industry as at end 2018.

<sup>2</sup> Shareholders are also entitled to share in the distributions from the Par Fund but their share is limited to a maximum of one-ninth of the distributions to the policyholders. There are various forms of distribution, such as bonuses or dividends. For the purpose of this paper, "bonus payouts" refer to all forms of distribution that are declared and paid out of the Par Fund to Par policy owners.

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insurers' charging of expenses to the 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.

1.5 MAS invites comments from interested parties on the proposed requirements. All comments should be submitted to MAS by **9 March 2020**.

**Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like their whole submission or part of it (but not their identity), or their identity along with their whole submission, to be kept confidential, please expressly state so in the submission to MAS. MAS will only publish non-anonymous submissions. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.**

1.6 Electronic submission via [online submission form](#) is encouraged. If you have any queries, please email [jd\\_registry@mas.gov.sg](mailto:jd_registry@mas.gov.sg).

1.7 For non-electronic submissions, you may submit your comments to the following address –

Insurance Department  
Monetary Authority of Singapore  
10 Shenton Way, MAS Building  
Singapore 079117  
Fax: (65) 62203973

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## 2 Introduction

2.1 MAS plans to revise the Notice's requirements in the area of expense charging and allocation as follows:

**a) Roles and responsibilities of the Board, senior management and appointed actuary**

MAS holds the Board and senior management to be ultimately responsible for proper governance of the insurer's Par Fund, which includes allocation of expenses to the fund. To achieve this effectively, we will set specifically, the roles and responsibilities for the Board, senior management and appointed actuary in the area of expense charging and allocation. MAS will place onus on these parties to ensure that charges and expenses are allocated in a manner that is fair and reasonable to the insurer's Par policy owners.

**b) Requirements on expense charging, expense analysis and loading of expenses for pricing of Par products**

MAS has observed that insurers have adopted differing practices on whether certain expenses can be charged to the Par Fund, e.g. marketing allowance given to the insurer's related financial advisory ("FA firm")<sup>3</sup> which are not directly related to the actual sales of the insurer's Par products. There are also varied practices in the way insurers carry out their analysis to allocate expenses to the insurance funds and shareholders' fund as well as how expense assumptions affect the pricing of their Par products. To enhance consistency and the robustness of controls, MAS proposes to introduce requirements in the following areas:

- i) allocation of charges and expenses to the Par Fund;
- ii) analysis of charges and expenses allocated to the Par Fund; and
- iii) loading of expenses for pricing of Par products.

These areas are inter-related as inadequate controls over the allocation and analysis of charges and expenses allocated to the Par Fund can affect the pricing or re-pricing its Par products.

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<sup>3</sup> For the purposes of this consultation paper, FA firm 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).

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**c) Non-exhaustive list of non-chargeable expenses for Par Fund**

Based on the requirements to be introduced, MAS has identified a list of charges and expenses which must not be charged to the Par Fund. The list of expenses is not exhaustive and will be updated as and when MAS finds it necessary to do so.

2.2 Please see Annex B for the proposed revised Notice.

**3 Meeting policy owners' expectation of what will be 'fair and reasonable'**

3.1 Policy owners' Reasonable Expectation ("PRE") usually refers to what policy owners can minimally and reasonably expect of the insurer's conduct and practices, the benefits given out by the insurer on a policy, or how an insurer administers the policy. Policy owners will typically form their PRE through what was communicated to them by their insurer, the insurer's annual reports and other publicly available material.

3.2 MAS expects insurers to meet PRE in a fair and reasonable manner and when applied to allocation of charges and expenses to the Par Fund, to mean:

- a) such allocation is not to the detriment of Par policy owners' interests; and
- b) the allocation is necessary for the ongoing management of the fund.

3.3 There may be instances where charges or expenses allocated to the Par Fund are material, and may be viewed as potentially detrimental to Par policy owners' short-term interests, even though it is deemed as ultimately favourable for Par policy owners' long-term interests. An example would be amortisation costs related to the upgrading of a major IT system used to administer par policies, which can bring greater efficiencies, among other things, in respect of such policies. Under such circumstances, MAS will require the appointed actuary to opine whether the allocation is justifiable and document this accordingly.

**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.

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

### Board's responsibilities

4.1 According to the current Notice, an insurer which has established or will be establishing a Par Fund is required to put in place an IGP to clearly document the processes and controls in the management of its Par business. The insurer must manage the Par Fund in accordance to the rules and guiding principles set out in its IGP. The insurer must also ensure that the IGP is approved by the Board and is reviewed annually by the Board to ensure that the IGP remains appropriate.

4.2 MAS looks to the Board to exercise effective oversight and ensure that there is a strong compliance and ethical culture in the insurer's management of its Par Fund. To facilitate the Board's effectiveness in carrying out this responsibility, MAS proposes to require the insurer to bring to the Board's attention any past material deviations from the insurer's IGP in managing the Par Fund when the Board conducts any review of the IGP.

4.3 MAS observed that while the Board typically approves the IGP on an annual basis, the review usually did not include expense charging and allocation to the Par Fund. MAS proposes for the insurer to ensure that its Board assesses the proposed charging and expense allocation to the Par Fund for each year, at least annually, to ensure that the allocation is fair and reasonable to the Par policy owners. The Board may delegate these responsibilities to a Board-level committee, which must comprise at least 2 members of the board of directors.

4.4 The current Notice requires the insurer to state in the IGP the frequency of review of expenses that are incurred and charges that can be allocated to the Par Fund to ensure fairness of its ongoing allocation of common expenses. However, MAS observed instances where IGPs are broadly worded and may not provide sufficient information on how the Board assesses that the insurer's expense allocation methodologies are fair and reasonable to the Par policy owners. MAS proposes to require the insurer to inform the Board of the following when the Board assesses whether the proposed allocation of charge and expenses to the Par Fund is fair and reasonable:

- a) any proposed change to the categories of charges or expenses to be allocated to its Par Fund, including a reclassification of charges or expenses; the inclusion of new categories of charges or expenses; and the removal of existing categories of charges or expenses;
- b) any one-off charges or expenses proposed to be allocated to the Par Fund;

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- c) any charges or expenses to be allocated to the Par Fund that has been determined by the insurer's appointed actuary to be exceptional ; and
  - d) any proposed material change to the existing charging and expense allocation methodology, including the reclassification of charges or expenses, and changes to the drivers in allocating common expenses that affect the Par Fund.

#### Senior management's responsibilities

4.5 The key responsibility of senior management, in the area of Par Fund management, is to establish adequate controls and processes to ensure effective implementation of the Board-approved IGP. In relation to the expense charging requirements, MAS proposes for the senior management of an insurer to be responsible for setting and implementing clear policies and guidelines on the allocation of charges and expenses to the Par Fund<sup>4</sup>. At the minimum, the policies and guidelines must:

- a) set out the basis for the allocation of charges and expenses to the Par Fund, consistent with the basis as approved by the appointed actuary;
- b) set out the type of charges and expenses which can be allocated to the Par Fund, consistent with the appointed actuary's advice; and
- c) provide that whenever there is any ambiguity on whether a charge or expenses can be allocated to the Par Fund, the appointed actuary's advice must be sought.

4.6 Senior management is also responsible for implementing safeguards to satisfy the proposed requirements set out in the Notice, and to ensure appropriate allocation of charges and expenses to the Par Fund<sup>5</sup>.

#### Appointed actuary's responsibilities

4.7 Managing a Par Fund involves a wide range of functions from pricing of Par policies and investing Par Fund assets, to allocating bonuses and managing the overall solvency of the Par Fund. Most of these functions require the appointed actuary's technical expertise and guidance. As the appointed actuary plays a key role in the

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<sup>4</sup> For example, the insurer's reimbursement policy should clearly state the types of charges and expenses and criteria for which staff are entitled to reimbursement, and prescribe the corresponding claim reimbursement limits.

<sup>5</sup> For example, staff should be required to state the purpose of a policy owner's claim so that the claim amount can then be apportioned appropriately to the respective funds; and in the case of staff expenses, there should be robust monitoring of expense claims to ensure that these staff personal expenses are not wrongly claimed as corporate expenses and erroneously charged to the Par Fund.



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appropriate charging of expenses to the Par Fund, MAS proposes to explicitly recognise this role in the Notice, by delineating the appointed actuary's responsibilities in the following:

- a) Recommending a set of guidelines to the Board for allocating charges and expenses to the Par Fund in a way that is fair and reasonable;
- b) Reviewing the guidelines mentioned in sub-paragraph (a), at least annually or whenever there are material changes to the insurer's circumstances, including when the insurer sets up new sub-funds, combines existing sub-funds in its Par Fund, or closes the Par Fund to new business, and where necessary, recommending changes to the guidelines mentioned in sub-paragraph (a);
- c) Highlighting to the Board and senior management whenever material charges or expenses have been inappropriately charged to the Par Fund;
- d) Highlighting to the Board and senior management where any charges or expenses have been allocated to the Par Fund and such charges or expenses are material, viewed as potentially detrimental to Par policy owners' short-term interests even though it is deemed as ultimately favourable for the Par policy owners' long-term interests, and provide an opinion in writing whether such an allocation is justifiable;
- e) Approving the detailed basis for allocating charges and expenses to the Par Fund and any changes to the basis, aligned with the guidelines mentioned in 4.7(a); and
- f) Advising on the type of charges and expenses which can be allocated to the Par Fund.

4.8 The appointed actuary must document and bring to the Board's and senior management's attention, as appropriate, whenever he has material reservations regarding the allocation of charges and expenses to the Par Fund. Where such reservations cannot be satisfactorily addressed, the appointed actuary must alert MAS of the concern within 30 days from the time that the matter has been brought to the appointed actuary's attention.

**Question 2.** MAS seeks comments on the proposed roles and responsibilities of the Board, senior management and appointed actuary.

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## 5 Requirements on expense charging, expense analysis and loading of expenses for pricing of Par products

5.1 MAS proposes to introduce requirements in the areas of expense charging, expense analysis and the loading of expenses in the premiums for Par products. These requirements underscore MAS' intent for insurers to treat Par policy owners fairly and equitably by only charging or allocating legitimate and reasonable expenses to the Par Fund.

### 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.*

5.2 MAS views this as a fundamental principle underlying the management of the Par Fund. Insurers need to establish robust processes to ensure that expenses charged to the Par Fund comprehensively considers policy owners' interests and are necessary for the ongoing management of the fund. Some examples of expenses that are not deemed as fair and reasonable to be borne by Par policy owners are set out below:

- a) Fines or penalties meted out by MAS or any other regulatory authority, whether in Singapore or elsewhere, must not be charged to the Par Fund. Par policy owners must not be made to bear costs incurred by the insurer due to preventable lapses or regulatory breaches;
- b) Expenses in relation to overriding benefits payable by an insurer to individuals outside of the three tier structure as set out in paragraph 7 of MAS Notice 306 (Market Conduct Standards for Life Insurers Providing Financial Advisory Services as defined under the Financial Advisers Act); and
- c) Costs incurred by the insurer to market its non-Par or investment-linked products, as these costs are not related to the ongoing management of the Par Fund.

**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<sup>6</sup> is commensurate with the goods or services provided by the related party.*

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<sup>6</sup> "Related party", in relation to an insurer, means any of its associates or subsidiaries, its holding company or any subsidiary of its holding company

5.3 An insurer may need to pay its related party, such as its parent company or regional office, for services and support rendered to the insurer. In line with the intent of Requirement 1, insurers must ensure that any charges or expenses incurred by reason of any payment paid or payable to its related party, are commensurate with the goods or services provided by the related party, before allocating them to the Par Fund.

**Question 3.** MAS seeks comments on the proposed Requirements 1 and 2.

**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.*

5.4 For avoidance of doubt, an insurer can differentiate remuneration to different FA firms as outlined in its distributor agreement with each of them. However, Requirement 3 disallows the insurer from charging to the Par Fund any remuneration or incentives paid selectively to certain representatives over others under the same FA firm, or certain tied representatives over others of the same tier, rank and scheme in its tied agency channel. Insurers must also not charge to the Par Fund any remuneration or incentives paid to a representative more than what it would normally have to, to other representatives under the same FA firm or of the same tier, rank and scheme in its tied agency channel.

5.5 MAS notes that distributor agreements are typically set between the insurer and its FA firm based on projected sales, and it is not necessary for an insurer to remunerate or incentivise certain representatives from the same FA firm differently. As for tied agency channels, insurers currently design their remuneration packages and incentives based on different tiers, ranks and schemes, and apply these fully across the relevant tier, rank and scheme. For some insurers, distinctions are clearly made among the different schemes based on career aspirations.

5.6 Remuneration and incentives paid either on a selective basis, or that are above the norm paid to representatives over others under the same FA firm, or certain tied representatives over others of the same tier, rank and scheme in its tied agency channel, can lack transparency and accountability. The entitlement or qualifying criteria for them can be subjective, questionable and become inconsistent over time. Left unchecked, they can lead to favouritism and hidden inducements, as well as result in the insurer's remuneration and incentive packages becoming increasingly complex and challenging to administer.

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5.7 For the purpose of Requirement 3, an agency scheme refers to an arrangement where standard contracts are formulated to apply to all tied representatives under the same tier and rank of that scheme.

5.8 Where the insurer currently has and expects to have more than one existing scheme as at the effective date of the Notice, the insurer cannot allocate any charge or expense to the Par Fund on or after the effective date of the amendments to the Notice, that is incurred by reason of any payment made to any tied representative that is a participant of a second or subsequent scheme.<sup>7</sup> Insurers should engage MAS early, where they are unable to consolidate the schemes or it is operationally impractical to have only one scheme, before the effective date of the amendments to the Notice.

5.9 Some examples of disallowed expenses under Requirement 3 are set out below:

- a) expenses incurred from organising contests which are only open to certain agency units when others can also fulfil the qualifying criteria set;
- b) expenses incurred as a result of a higher override scale offered to a particular Tier-3 manager compared to his peers of the same tier, rank and scheme;
- c) retention bonus to certain individuals or units, but not others of the same tier, rank and scheme, to ensure they stay longer with the insurer; and
- d) recruitment packages to encourage representatives of another FA firm to join or sell for the insurer.

5.10 An exception to Requirement 3 is made for new representatives joining the insurer's tied agency force 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. Such new representatives contribute to the organic growth of an insurer's tied agency force, which in turn is typically deemed necessary to sustain the insurer's Par business in the long run. It may also indirectly benefit the Par Fund, as the larger pool of new business brought in by the new representatives may help to share in the fixed overhead cost of the insurer over time. As a result, the actual cost borne by the Par Fund may become lower.

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<sup>7</sup> "second or subsequent scheme", in relation to a tied agency channel, means a scheme that exists as at the effective date of the amendments to the Notice that is not a first scheme. "first scheme", in relation to a tied agency channel, refers to—

- (a) a scheme that exists as at the effective date of the amendments to the Notice; and
- (b) of all the schemes that exist as at the effective date of the amendments to the Notice, is a scheme that was established first in time.

**Question 4.** MAS seeks comments on the proposed Requirement 3.

**Question 5.** Under what circumstances would an insurer expect to operate more than one agency scheme?

**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,

- (a) what are the key factors which differentiate the schemes?
- (b) what challenges, if any, inhibit the reduction in number of 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.*

5.11 Marketing-related charges and expenses, where they are not directly related to the sales of the insurer's Par products, do not contribute to the improvement in the future sales of the insurer's Par products or growth of the insurer's Par Fund. Therefore, it is neither fair nor reasonable to allocate such costs to the Par Fund.

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, including how these are shared between the insurer and the FA firm which the insurer has appointed to distribute its products, as well as the rationale and methodology for apportioning these charges and expenses to the relevant funds.

5.13 An exception to Requirement 4 is made for insurers to allocate the cost of branding campaigns to the Par Fund. Such campaigns typically relate to the overall branding of an insurer's corporate image. For example, an insurer puts up a corporate advertisement to promote its overall brand. Such campaigns help 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. However, insurers should ensure that these costs are allocated in a fair and reasonable manner to the Par Fund.

5.14 Some examples of disallowed expenses under Requirement 4 are set out below:

- a) fixed monthly marketing allowance paid or payable to the FA firm's representatives, which is not directly related to the sales of the insurer's Par products;

- b) reimbursement of marketing allowance to an insurer's staff for expenses incurred in entertaining an FA firm's representatives; and
- c) reimbursement of the costs incurred by the exempt FA firm, such as a bank, on a marketing event to promote the insurer's investment-linked products, since it is not directly related to the sales of the insurer's Par products.

**Question 7.** MAS seeks comments on the proposed Requirement 4.

**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.*

5.15 An FA firm owned or appointed by an insurer, being a separate legal entity, is responsible for its own set of operating expenses. It is not reasonable for the Par Fund to bear the operating expenses of the FA firm when the firm is already being remunerated for sales of the insurer's Par products.

5.16 On the other hand, a tied agency force is not a separate legal entity, and mainly promotes the insurer's products. The insurer is typically responsible for funding the operating costs of its tied agency force, e.g. office rental costs and training expenses, so that the tied representatives could perform their sales and distribution activities effectively.

**Question 8.** MAS seeks comments on the proposed Requirement 5.

**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.*

5.17 Requirement 6 is aligned with MAS' position in disallowing the charging of sign-on incentives<sup>8</sup>, part of which are usually paid upfront by the insurer to the representatives

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<sup>8</sup> MAS had communicated to the Life Insurance Association, Singapore ("LIA") on 28 Nov 2017 that any costs incurred by an insurer specifically to recruit representatives from another firm cannot be charged to the insurance funds. Subsequently, in MAS' consultation paper on "Measures to address the risks posed by the use of sign-on incentives in the recruitment of financial advisory representatives" dated 7 March 2018, it was highlighted that the sign-on incentives offered by an insurer to recruit FA representatives from another firm to join the insurer or its related FA firm cannot be charged to the insurance funds as an expense. If the insurer disburses sign-on incentives, the amount must be borne by the insurer's shareholders.

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recruited from another firm, to the insurance funds. In addition, such upfront costs do not guarantee future sales will happen as projected. Given the uncertainty of future sales, it is neither fair nor reasonable to allocate the costs to the Par Fund. Moreover, the insurer can choose to remunerate as and when sales occur.

5.18 To ensure there is no circumvention of MAS' intent, amortisation of the upfront costs cannot be subsequently charged to the Par Fund, even if the amortisation is associated with future sales volumes.

5.19 An example of costs that must not be allocated to the Par Fund based on Requirement 6 would be facilitation fees<sup>9</sup> paid to an exempt FA firm, such as a bank, when an insurer enters into an exclusive tie-up with the bank. Arrangements where an insurer decides to bear the upfront facilitation fees from its shareholders' fund initially and recover the expenses from the Par Fund subsequently when actual sales take place will not be allowed, as the amounts to recover from the Par Fund may not be set out upfront and are subject to the discretion of the insurer.

5.20 MAS notes that there may be instances where an insurer has already entered into an exclusive tie-up with an exempt FA firm, such as a bank, to distribute its products with the understanding that it could subsequently recover some of the facilitation fees from the Par Fund based on the fact that the fees are directly tied to actual sales volume by the bank, which include sales of Par products. MAS proposes to grandfather existing agreements with facilitation fees, provided the insurer is able to demonstrate to MAS that it has adequate controls to ensure that Par policy owners are not disadvantaged by such recovery. For example, the insurer does not remunerate the bank in excess of the usual compensation paid to other distribution channels, and any charges to the Par Fund in excess of the expected total distribution costs illustrated to the Par policy owners at the point of sale would remain borne by its shareholders' fund.

**Question 9.** MAS seeks comments on the proposed Requirement 6.

**Question 10.** MAS seeks comments on the proposed approach for existing agreements with facilitation fees to be grandfathered.

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<sup>9</sup> Typically, this is a lump sum paid upfront to the bank premised on the bank selling exclusively for the insurer over an agreed period.

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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.*

5.21 It is important for an insurer to ensure the analysis of charges and expenses incurred under the Par Fund, conducted as part of its expense study, is up-to-date and objective. This affects the pricing of future Par products and decisions on allocation of costs to the Par Fund and respective Par product classes. Expense studies must therefore be conducted at least annually.

5.22 Insurers must also ensure that the methodology for conducting the expense study is in accordance with actuarial practices issued by the Singapore Actuarial Society, the Institute and Faculty of Actuaries (UK) or the Society of Actuaries (USA). Where an insurer uses a methodology that is issued by any other actuarial body, the insurer must notify the Authority of the methodology that the insurer proposes to use prior to using the methodology and the insurer may only proceed to use the methodology if the Authority does not issue any written objection within 30 days of receiving the insurer's notification. The methodology and any subsequent changes must be clearly documented. Insurers must carry out back-testing prior to effecting any changes in the methodology to ascertain robustness of the methodology and assess reasonableness of the impact on the Par Fund.

5.23 Insurers must also ensure the methodology provides for a reasonable classification of charges and expenses in accordance with their nature, type and purpose in its accounting system. This is to ensure that the expenses can be apportioned appropriately to the various insurance funds and shareholders' fund.

5.24 The methodology for conducting the expense study must be audited by an independent party at least once every 3 years, or whenever there is a material change in the basis of the expense study. The independent party may be the insurer's own internal auditor, a consulting firm or an external actuary, as long as the party is independent and has the necessary expertise.

**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.*

5.25 There is a need to ensure how charges and expenses are allocated to the Par Fund for the purpose of an expense analysis, are fair and reasonable, for instance, when the insurer decides on a new driver to allocate expenses or makes a change to the



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grouping of expenses. Documentation of the basis and justification for the allocation as well as any changes to them is necessary for audit trail purposes. Such documentation must minimally establish how decisions are arrived, the considerations thereof and the stakeholders involved in effecting the decisions.

5.26 The insurer must obtain the appointed actuary's prior approval for any change in basis on allocating charges and expenses to the Par Fund, as mentioned under paragraph 4.7(e).

**Requirement 9:** *An insurer must consider tracking the asset shares<sup>10</sup> 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.*

5.27 In line with the intent for Requirement 1, where charges and expenses are materially different, either across different groups or classes of products or across different sub-funds, insurers must consider separately tracking the asset shares. Otherwise, cross-subsidisation across product groups or sub-funds can occur, which may become significant over time and adversely affect the bonuses to be declared to policies under product groups or sub-funds with lower costs.

5.28 Some examples of such expenses are set out below:

- a) a set of charges and expenses which belongs to a specific distribution channel, and the aggregate running cost of this channel is significant relative to the Par Fund's aggregate charges and expenses; and
- b) expenses specific to a new tranche product, and is significant relative to the Par Fund's aggregate charges and expenses.

5.29 If the insurer decides to not separately track the asset shares even though their charges and expenses are materially different from one another, it must clearly document the reasons for such decisions and the controls to mitigate cross-subsidisation across different groups or classes of products or across different sub-funds.

**Question 11.** MAS seeks comments on the proposed Requirements 7, 8 and 9.

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<sup>10</sup> Asset share for a product grouping at a given point in time is the accumulation of the premiums received plus investment income from the inception of the policies, less deductions due to benefit payments, commission, expenses, tax and transfers to shareholders.

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**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.*

5.30 Without properly accounting for all relevant expenses or by using expense loadings which materially deviate from the expense study assumptions, an insurer runs the risk of under-pricing its new Par product. The existing Par policy owners may be disadvantaged as such under-pricing will likely result in these policy owners subsidising the charges and expenses incurred by the new Par product. As a result, the bonus payouts distributed to the existing Par policy owners may be reduced.

5.31 Insurers must ensure any deviation between the expense study assumptions and expense loading is clearly documented and justified. There must also be proper monitoring to confirm consistency between the expense loading and actual charges and expenses allocated to the relevant Par product.

5.32 When actual charges and expenses materially deviate from the expense loading or exceeds expectation due to insufficient business volume, the insurer must take prompt actions, such as repricing or withdrawing the affected Par products.

5.33 For insurers which have newly set up a Par Fund, an exception is made for deviations between the insurer’s expense loading and expense study assumptions during the first 3 years following the launch of its first Par product. During the initial years, newly set-up Par Funds can be expected to incur significantly higher expenses as they strive to achieve economies of scale. Further, this aligns with the provision under MAS Notice 319 (Notice on Valuation of Policy Liabilities of Life Business) which states that any allowance for improvement in projected management expenses to not extend beyond 3 years from valuation date when making valuation assumptions. Beyond the first 3 years of operations of the Par Fund, the insurer must notify MAS of its intention and provide justification to continue with such deviation.

**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.*

5.34 MAS strongly discourages the practice of deliberate under-provision of expense loadings in the pricing of Par products as it may disadvantage the existing Par policy owners. Some insurers may resort to such actions in order to capture market share or to be able to reflect higher sales for a particular period. In such instances, the cost of any

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under-pricing must not be borne by the Par Fund, in order to be fair and reasonable to Par policy owners.

5.35 Some examples of deliberate under-provision of expense loadings are set out below:

- a) expense loading does not fully account for all variable and fixed costs that the Par product would reasonably be expected to bear, on the pretext that they can be absorbed by the in-force block of Par business;
- b) expense loading does not fully provide for potential higher remuneration scales payable to certain FA firms; and
- c) expense loading assumes a significant portion of sales to come from the distribution channel with the lowest remuneration, when past sales figures do not bear this out and there are no compelling reasons why the assumption will materialise.

5.36 Similar to Requirement 10, an exception is made to Requirement 11 for insurers which have newly set up a Par Fund during the first 3 years following the launch of the insurer's first Par product, for the reasons indicated earlier. Beyond the first 3 years of operations of the Par Fund, the insurer must notify MAS of its intention and provide justification to continue with such deviation.

**Question 12.** MAS seeks comments on the proposed Requirements 10 and 11.

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

6.1 MAS proposes the following non-exhaustive list of items which insurers are disallowed from charging to the Par Fund. MAS may amend the list in the Notice from time to time.

- a) Fines and penalties meted out by MAS or other regulatory authorities, whether in Singapore or elsewhere.
- b) Charges or expenses, incurred, paid or payable in relation to:
  - i) activities in breach of the Authority's or any other Singapore authorities' requirements; or
  - ii) items which the Authority has conveyed in writing to the insurer or the industry's association to be non-chargeable to Par Fund.

- c) Overriding benefits payable by an insurer to individuals outside of the three tier structure as set out in paragraph 7 of MAS Notice 306 (Market Conduct Standards for Life Insurers Providing Financial Advisory Services as defined under the Financial Advisers Act).
- d) Allowance given to representatives of an FA firm or another insurer to subsidise their cost of doing business, such as transport costs, phone bills or meals etc.
- e) 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.
- f) Operating expenses incurred by any related party of the insurer which distributes the insurer's products.
- g) Costs incurred for advertising non-Par or investment-linked products.
- h) Costs incurred for corporate restructuring including mergers and acquisitions, demerger, changes involving shareholding structure and management buyout, but excluding internal reorganisation of the insurer's processes or workforce.
- i) Tax on shareholders' entitlement in relation to Par bonus distribution.

6.2 MAS will update this list if it comes across unacceptable or egregious practices, as well as any practice that is likely to significantly impair the reputation of the industry.

**Question 13.** MAS seeks comments on the proposed list of non-chargeable expenses for Par Fund.

## 7 Implementation effective date

7.1 MAS proposes for all changes to take effect from 1 April 2020. Given that insurers typically carry out their expense study and effect changes to charges and expense allocation decisions towards the end of the year, the proposed effective date is intended to give insurers sufficient time to put in place controls to ensure compliance with the proposed requirements.

**Question 14.** MAS seeks comments on the proposed effective date for implementation of the changes.

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**Annex A**

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**Annex B**

**Notice No. : MAS 320**  
**Issue Date : 29 June 2007**

Last revised on ~~29 June 2018~~ effective date of the amendments to this Notice

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**MANAGEMENT OF PARTICIPATING LIFE INSURANCE BUSINESS**

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**Introduction**

1. This Notice is issued pursuant to section 64(2) of the Insurance Act (Cap. 142) (“the Act”).
2. This Notice applies to all direct insurers licensed under the Act to carry on life business.

[MAS Notice 320 (Amendment) 2018]

3. The Notice (with the exception of paragraph 9) ~~shall~~takes effect on 1 January 2008. Paragraph 9 ~~shall~~takes effect on 1 March 2008.

[MAS Notice 320 (Amendment) 2020]

**Definition**

4. For the purposes of this Notice, unless the context otherwise requires –

“holding company” has the same meaning as in section 5 of the Companies Act (Cap. 50);

[MAS Notice 320 (Amendment) 2020]

“member of the senior management”, in relation to an insurer, means –

(a) a person for the time being holding the office of chief executive, and includes a person carrying out the duties of any such office if the office is vacant;

(b) a person for the time being holding the office of deputy chief executive or an equivalent person of the entity, and includes a person carrying out the duties of any such office if the office is vacant; or

(c) an executive officer that has been entrusted by the insurer with any of the responsibilities as set out under paragraph 8G;

[MAS Notice 320 (Amendment) 2020]

“policy illustration”, in relation to a life policy which is a participating policy, has the same meaning as in paragraph 2 of the Notice on Market Conduct Standards for Direct Life Insurer as a Product Provider [MAS Notice 318]; and

[MAS Notice 320 (Amendment) 2018]

“product summary”, in relation to a life policy which is a participating policy, has the same meaning as in paragraph 2 of ~~the Notice on Market Conduct Standards for Direct Life Insurer as a Product Provider~~ [MAS Notice 318].

[MAS Notice 320 (Amendment) 2018]

[MAS Notice 320 (Amendment) 2020]

“related party”, in relation to an insurer, means any of its associates or subsidiaries, its holding company or any subsidiary of its holding company;

[MAS Notice 320 (Amendment) 2020]

“sub-fund” means a part of a participating fund for which the insurer adopts a different strategic asset allocation in accordance with the investment objective for a particular group or class of products;

5. The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Act.

5A. For the purposes of this Notice —

(a) the allocation of charges or expenses to a participating fund is “fair and reasonable”, if —

(i) the allocation is not to the detriment of the participating policy owners’ interests; and

(ii) the allocation is necessary for the ongoing management of the fund;

(b) a person, A, is an associate of another person, B, if —

(i) A is a body corporate that is, or a majority of the directors of which are, accustomed or under an obligation whether formal or informal

- to act in accordance with the directions, instructions or wishes of B;
- (ii) A is a person who is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of B;
- (iii) A is a subsidiary of B;
- (iv) A is a body corporate in which B, alone or together with other associates of B as described in sub-paragraphs (i), (ii) and (iii), is in a position to control not less than 20% of the voting power in A; or
- (v) A is a person with whom B has an agreement or arrangement, whether oral or in writing and whether express or implied, to act together with respect to the acquisition, holding or disposal of shares or other interests in, or with respect to the exercise of their voting power in relation to, a corporation;
- (c) a reference to voting power in a corporation is a reference to the total number of votes that might be cast in a general meeting of the corporation; and
- (d) a person holds a share if —
- (i) he is deemed to have an interest in that share under section 7(6) of the Companies Act (Cap. 50); or
- (ii) he otherwise has a legal or an equitable interest in that share, except for such interest as is to be disregarded under section 7(7), (8) and (9) of the Companies Act.

[MAS Notice 320 (Amendment) 2020]

### Internal ~~G~~governance ~~P~~policy

6. An insurer which has established or will be establishing a participating fund ~~shall~~ must put in place an internal governance policy on the management of its participating life insurance business.
7. The insurer ~~shall~~ must include in the internal governance policy the items in Appendix A (Information to be contained in the ~~i~~internal ~~G~~governance ~~P~~policy).
8. The insurer ~~shall~~ must ensure that —



- ~~(a) the internal governance policy is approved by its board of directors;~~
- ~~(b) the internal governance policy is reviewed annually by its board of directors to ensure that the internal governance policy remains appropriate; and~~
- (c) the participating fund is managed according to the rules and guiding principles set out in the internal governance policy.

[MAS Notice 320 (Amendment) 2018]

[MAS Notice 320 (Amendment) 2020]

### Roles and responsibilities

[MAS Notice 320 (Amendment) 2020]

#### Responsibilities of the board of directors

##### 8A. An insurer must ensure that:

- (a) the internal governance policy is approved by its board of directors;
- (b) the internal governance policy is reviewed at least annually by its board of directors and that the board of directors is satisfied during each review that the internal governance policy remains appropriate;
- (c) its board of directors assesses, at least annually, that the proposed allocation of charges and expenses to the participating fund for each year, is fair and reasonable, based on the guidelines recommended by the appointed actuary in accordance with paragraph 8H(a).

8B. An insurer must ensure that its board of directors is informed of any past material deviations from the internal governance policy in the management of the participating fund when the board of directors conducts any review of the internal governance policy in accordance with paragraph 8A(b).

8C. An insurer must inform its board of directors of all of the following matters when the board of directors conducts the assessment in accordance with paragraph 8A(c):

- (a) any proposed change to the categories of charges or expenses to be allocated to its participating fund, including a reclassification of charges or expenses, the inclusion of new categories of charges or expenses and the

removal of existing categories of charges or expenses;

(b) any one-off charges or expenses proposed to be allocated to the participating fund;

(c) any charges or expenses that have been determined by the insurer's appointed actuary to be exceptional and which are proposed to be allocated to the participating fund;

(d) any proposed material change to the existing charging and expense allocation methodology, including the reclassification of expenses or charges, and changes to the drivers in allocating common expenses that affect the participating fund.

8D. The board of directors may delegate its responsibilities under paragraph 8A(c) to a board-level committee. The board-level committee must comprise at least 2 members of the board of directors.

8E. An insurer must clearly document its board of directors' deliberations in its review of the internal governance policy in accordance with paragraph 8A(b) and assessment of the proposed allocation of charges and expenses to the participating fund for each year in accordance with paragraph 8A(c).

#### Senior management's responsibilities

8F. An insurer must:

(a) set clear guidelines and policies on the allocation of charges and expenses to the participating fund, which must –

(i) at the minimum—

(A) set out the basis for the allocation of charges and expenses to the participating fund;

(B) set out the type of charges and expenses which can be allocated to the participating fund; and

(C) provide that whenever there is any ambiguity on whether a charge or expense can be allocated to the participating fund, the appointed actuary's advice must be sought;

(ii) be consistent with the basis for allocating charges and expenses to the participating fund as approved from time to time by the appointed actuary under paragraph 8H(e); and

(iii) be consistent with the appointed actuary's advice under paragraph 8H(f) on the type of charges and expenses which can be allocated to the participating fund;

(b) implement the guidelines and policies referred to in paragraph (a); and

(c) implement safeguards to satisfy the requirements set out in this Notice and ensure appropriate allocation of charges and expenses to the participating fund.

8G. All the members of the senior management of an insurer must be responsible for setting the guidelines and policies mentioned in paragraph 8F(a), implementing the guidelines and policies in accordance with paragraph 8F(b) and implementing the safeguards mentioned in paragraph 8F(c).

#### Appointed actuary's responsibilities

8H. An appointed actuary of an insurer must:

(a) recommend a set of guidelines to the board of directors for allocating charges and expenses to the participating fund in a way that is fair and reasonable;

(b) review the guidelines mentioned in sub-paragraph (a) at least annually or whenever there are material changes to the insurer's circumstances, including when the insurer sets up new sub-funds, combines existing sub-funds in its participating fund, or closes the participating fund to new business, and where necessary, recommend changes to the guidelines mentioned in sub-paragraph (a) to the board of directors;

(c) highlight to all the members of the senior management and to the board of directors whenever material charges or expenses have been inappropriately charged to the participating fund;

(d) highlight to all the members of the senior management and to the board of directors whenever any charges or expenses have been allocated to the participating fund and such charges or expenses are:

(i) material;

(ii) detrimental to participating policy owners' short-term interests; and

(iii) necessary for participating policy owners' long-term interests,

and provide an opinion in writing whether such an allocation is justifiable;

(e) approve the basis for allocating charges and expenses to the participating fund and any changes to the basis; and

(f) advise on the type of charges and expenses which can be allocated to the participating fund.

8I. An appointed actuary must document and bring to the attention of all the members of the senior management, and board of directors, as appropriate, whenever he has material reservations regarding the allocation of charges and expenses to the participating fund. Where such reservations cannot be satisfactorily addressed, the appointed actuary must alert the Authority of the concern, within 30 days from the time that the matter has been brought to the appointed actuary's attention.

**Requirements relating to the allocation of charges and expenses to the participating fund**

[MAS Notice 320 (Amendment) 2020]

8J. An insurer must ensure that any charge or expense allocated to the participating fund is fair and reasonable.

8K. An insurer must not allocate any charge or expense that comprises, directly or indirectly, any charge or expense specified in Appendix D.

8L. Without prejudice to the generality of paragraph 8J, where an insurer allocates to the participating fund any charge or expense incurred by reason of any payment to any related party, the insurer must ensure that such charge or expense is commensurate with the goods or services provided by the related party.

8M. An insurer must not do any of the following:

(a) subject to paragraph 8P, allocate any charge or expense to the participating fund that is incurred by reason of any payment made to any insurance agent operating under a written agreement entered into pursuant to section 35M of the Act where such a payment—

(i) is not made to all other insurance agents from the same distribution channel and of the same tier, rank and scheme; or

(ii) is more than what the insurer pays to any other insurance agent from the same distribution channel and of the same tier, rank and scheme;

- (b) allocate any charge or expense to the participating fund that is incurred by reason of any payment made to any representative of any licensed financial adviser or exempt financial adviser that is not the insurer, where such a payment—
- (i) is not paid to all other representatives from the same licensed financial adviser or exempt financial adviser; or
  - (ii) is more than what the insurer pays to any other representative from the same licensed financial adviser or exempt financial adviser.
- (c) allocate any charge or expense to the participating fund that is incurred by reason of any payment made to any insurance agent operating under a written agreement entered into pursuant to section 35M of the Act where:
- (i) the insurance agent belongs to a distribution channel, where there exists more than one scheme on **effective date of the amendments to this Notice**; and
  - (ii) the insurance agent is a participant of a second or subsequent scheme.
- (d) allocate any charge or expense to the participating fund that is incurred by reason of any payment made to any insurance agent operating under a written agreement entered into pursuant to section 35M of the Act where:
- (i) the insurance agent belongs to a distribution channel, where there exists only one scheme on **effective date of the amendments to this Notice**;
  - (ii) the insurer adds an additional scheme under that distribution channel on or after **effective date of the amendments to this Notice**; and
  - (iii) the insurance agent is a participant of the additional scheme referred to in paragraph (ii).

8N. For the purposes of paragraph 8M —

“first scheme”, in relation to a distribution channel, refers to—

- (i) a scheme that exists as at **effective date of the amendments to this Notice**; and
- (ii) of all the schemes that exist as at the **effective date of the amendments to this Notice**, is a scheme that was established first in time;

“second or subsequent scheme”, in relation to a distribution channel, means a scheme that exists as at **effective date of the amendments to this Notice** that is not a first scheme;

“scheme” means an arrangement between an insurer and one or more insurance agents, under which the contractual terms of the written agreement entered into for the purposes of section 35M of the Act, between the insurer and every insurance agent—

- (a) with the same tier and rank; and
- (b) that is a participant of the arrangement,  
is in the same form.

8O. To avoid doubt, an insurer must comply with paragraphs 8M(c) and 8M(d) in addition to paragraph 8P(a).

8P. Subject to an insurer satisfying the conditions in paragraph 8Q, an insurer may allocate a charge or expense described in paragraph 8M(a) to the participating fund where such charge or expense is incurred by reason of any payment made to an insurance agent operating under a written agreement entered into pursuant to section 35M of the Act, and who, prior to entering into the written agreement with the insurer:

- (a) was not a representative of any licensed financial adviser or exempt financial adviser for the period of 2 years prior to the insurance agent entering into the written agreement; or
- (b) had less than two years of experience, in aggregate, as a representative in the insurance industry.

8Q. The conditions mentioned in paragraph 8P are:

- (a) a payment must only be made during the period of 2 years from the time the insurance agent enters into the written agreement with the insurer;

(b) the charges or expenses must be fair and reasonable; and

(c) the insurer must document the basis and justification for the payment.

8R. An insurer must not allocate any marketing-related charges or expenses to the participating fund, where such charges or expenses are not directly related to the sales of the insurer's participating products.

8S. Where an insurer allocates any marketing-related charges or expenses to the participating fund, the insurer must clearly document the basis and justification for such allocation, including how the marketing-related charges or expenses have been shared between the insurer and the licensed financial adviser or exempt financial adviser which the insurer had appointed to distribute its products, and the rationale and methodology applied in apportioning the marketing-related charges or expenses between the relevant funds.

8T. To avoid doubt, an insurer may allocate the cost of campaigns which relate to the overall branding of the insurer's corporate image to the participating fund, so long as this is done in a fair and reasonable manner.

8U. An insurer must not allocate to the participating fund any operating expenses incurred by any other distribution channels other than its agency force comprising insurance agents each operating under a written agreement entered into pursuant to section 35M of the Act.

8V. Subject to paragraph 8W, 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 any licensed financial adviser or exempt financial adviser, to the participating fund. To avoid doubt, amortisation of such costs is prohibited.

8W. An insurer may allocate to the participating fund, the upfront charges and expenses related to the –

(a) setting up or acquisition of a distribution channel that was set up or acquired before **effective date of the amendments to this Notice**; or

(b) tie-up with any licensed financial adviser or exempt financial adviser that was entered into at anytime before **effective date of the amendments to this Notice**.

where it has notified the Authority of the proposed allocation of such charges and expenses and the Authority gives approval in writing of the allocation of the charges and expenses.

**Requirements relating to the analysis of charges and expenses of the participating fund**

[MAS Notice 320 (Amendment) 2020]

8X. An insurer must ensure that it conducts an expense study on the participating fund, at least annually, and that all of the following requirements are satisfied:

(a) the analysis of charges and expenses under its expense study is current and objective;

the methodology for conducting the expense study is in accordance with actuarial practices issued by the Singapore Actuarial Society, the Institute and Faculty of Actuaries (UK) or the

(b) Society of Actuaries (USA). Where an insurer uses a methodology that is issued by any other actuarial body, the insurer must notify the Authority of the methodology that the insurer proposes to use prior to using the methodology and the insurer may only proceed to use the methodology if the Authority does not issue any written objection within 30 days of receiving the insurer's notification;

(c) the methodology for conducting the expense study, and any changes to the methodology, are clearly documented;

(d) back-testing is performed prior to effecting any changes to the methodology for conducting the expense study;

(e) in the conduct of the expense study, there is reasonable classification of charges and expenses in accordance with their nature, type and purpose; and

(f) the basis and justification of the expense study is properly documented.

8Y. An insurer must engage an independent party to audit the methodology for conducting the expense study at least once every 3 years, or whenever there is a material change in the basis of the expense study.

8Z. An insurer must ensure that the allocation of charges or expenses to the participating fund, for the purpose of any expense study, including any changes to such allocation, is fair and reasonable.

8AA. Where charges or expenses are materially different across different groups or classes of products within the participating fund, or across the different sub-funds, the insurer must—



- (a) consider tracking the asset shares separately for each group or class of products or sub-fund;
- (b) document the reasons for any decision not to track the asset shares separately for each group or class of products or sub-fund; and
- (c) document the controls in place to mitigate cross-subsidisation if it had decided not to track the asset shares separately for each group or class of products or sub-fund.

**Requirements relating to the loading of expenses for pricing of participating products**

[MAS Notice 320 (Amendment) 2020]

8AB. An insurer must ensure that the loading of expenses for pricing of a participating 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. In particular, the insurer must:

- (a) clearly document and justify any deviation between the expense study assumptions and expense loading;
- (b) implement proper monitoring to confirm the consistency between the expense loading and actual charges and expenses allocated to the relevant participating product; and
- (c) subject to paragraph 8AD, take prompt actions, to the satisfaction of the Authority, to mitigate situations where actual charges or expenses:
  - (i) materially deviate from the expense loading and are not likely to be one-off; or
  - (ii) exceed what was expected based on the expense loading, due to insufficient business volume.

8AC. Subject to paragraph 8AD, the insurer must not allocate the 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 participating product, to the participating fund.

8AD. Paragraphs 8AB(c) and 8AC do not apply to an insurer in relation to any newly set up participating fund, for the first 3 years following the launch of its first participating product.

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## Disclosure

### Point-of-sale disclosure

9. The insurer ~~shall~~must include in the product summary for each of its participating policies, the information specified in Appendix B (Information to be disclosed in the Product Summary).

[MAS Notice 320 (Amendment) 2018]

### Post-sales disclosure

10. An insurer ~~shall~~must prepare an Annual Bonus Update in relation to the period ending 31 December 2007 and any subsequent period, containing the information required in Appendix C (Information to be contained in Annual Bonus Update).

11. The insurer ~~shall~~must send to every policyholder of a participating policy annually, the Annual Bonus Update by a date in each policy year as specified by the insurer in the policy or any other document.

[MAS Notice 320 (Amendment) 2018]

12. The insurer may send to the policyholder of a participating policy, the Annual Bonus Update in parts provided that —

- (a) the insurer has informed the policyholder of the scheduled period in which the parts of the Annual Bonus Update will be sent; and
- (b) all the parts of the Annual Bonus Update are sent to the policyholder by the date in each policy year as specified by the insurer in the policy or any other document.

13. The insurer may send to the policyholder the Annual Bonus Update in electronic form where the written consent of policyholder has been obtained.

### \*Notes on History of Amendments

1. MAS Notice 320 (Amendment) 2009 with effect from 20 February 2009.
2. MAS Notice 320 (Amendment) 2018 with effect from 2 July 2018.
3. MAS Notice 320 (Amendment) 2020 with effect from [effective date of the amendments to this Notice].

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## Appendix A

### Information to be contained in the ~~I~~nternal ~~G~~overnance ~~P~~olicy

#### Section 1 – Introduction

- 1.1 State the purpose of the internal governance policy.
- 1.2 Briefly describe the participating fund and types of business that can be written in it.
- 1.3 Where there ~~are~~is delegation of any responsibilities by the board of directors (for example, to ~~chief executive, senior management~~any member of the senior management, and appointed actuary), to state the nature and type of each responsibility and to identify the person(s) responsible for that delegated responsibility.

[MAS Notice 320 (Amendment) 2018]

[MAS Notice 320 (Amendment) 2020]

#### Section 2 – Bonus ~~D~~etermination

- 2.1 Describe the insurer's objective(s) in managing the participating fund (for example, whether it is to provide stable medium to long term returns to participating policyholders).
- 2.2 Describe the existing bonus series, including the underlying participating product classes, for in-force participating policies.
- 2.3 Describe the considerations that the insurer takess into account when exercising its discretion in bonus determination, for example:
  - (a) ensure fairness and equity to participating policyholders;
  - (b) maintain the solvency of the participating fund; and
  - (c) ensure consistency with the objectives set out in paragraph 2.1, particularly smoothing of bonuses.
- 2.4 State the controls and processes in place, such as risk sharing mechanism, bonus allocation process and reserving for future bonuses, to help the insurer ensure that the considerations stated in paragraph 2.3 are met when the insurer exercises its discretion in bonus determination.

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- 2.5 Describe the risk sharing rules, including how the following key risks are shared for each product class:
- (a) investment risks;
  - (b) expense risks;
  - (c) mortality risks;
  - (d) dread disease risks;
  - (e) other morbidity risks;
  - (f) lapse and surrender risks; and
  - (g) business risks, e.g. riders and non-participating policies written in the participating fund.
- 2.6 Describe the methodology used to derive the value of assets backing participating product classes, including:
- (a) formula used to reflect all relevant cash flow items, i.e. income and outgo, for each product class;
  - (b) treatment of items that are product class specific, e.g. premium income, commissions and maturity benefits;
  - (c) treatment of items for which the risks are shared, e.g. investment returns and management expenses.
- 2.7 Describe the bonus allocation process, in particular:
- (a) state that the bonus allocation must be approved by the board of directors after taking into account the written recommendation of the appointed actuary;
  - (b) describe the approach adopted for smoothing of annual (e.g. reversionary) bonuses;
  - (c) describe the approach adopted for smoothing of terminal bonuses;
  - (d) describe the treatment of interim bonuses and vesting of bonuses;
  - (e) explain the use of market value reduction (“MVR”), if applicable.
- [MAS Notice 320 (Amendment) 2018]
- 2.8 Describe the reserving process for future bonuses, in particular:
- (a) state that the policy liabilities of participating policies include appropriate reserves for future bonuses;
  - (b) describe the approach adopted for smoothing of future bonuses, if applicable.

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### Section 3 – Investment of **p**Participating **F**und **A**ssets

- 3.1 State the investment objectives of the participating fund.
- 3.2 State the strategic asset allocations of the participating fund, and where applicable, the sub-funds.
- 3.3 State whether the insurer fully manages, partly manages or does not manage at all, the assets of the participating fund itself. Where the insurer does not manage or partly manages the assets of the participating fund, state the identity of all the external fund managers appointed by the insurer to do so.
- 3.4 State the roles of the board of directors and the investment committee in the investment of the participating fund assets.  
[MAS Notice 320 (Amendment) 2018]
- 3.5 State the frequency of the review of the investment strategy.
- 3.6 Describe how the strategic asset allocation of the participating fund and where applicable, the sub-fund, is determined.
- 3.7 Describe the insurer's policy on the use of derivatives.
- 3.8 Describe the insurer's policy on making a loan to, or investment in, any other related corporations.
- 3.9 Describe the insurer's policy on investment in new asset classes.

### Section 4 – Risk **M**anagement

- 4.1 State the business risks to which the participating fund is subject to.
- 4.2 Briefly describe how the insurer manages and controls such risks.
- 4.3 State the frequency of the review of such risks.

### Section 5 – Charges and **E**xpenses

- 5.1 Describe the expenses that are incurred, and charges that can be allocated to the participating fund.

- 
- 5.2 Describe the method used for allocation of common expenses between participating fund, other insurance funds and the shareholders' fund.
  - 5.3 State the frequency of the review to ensure the fairness of the ongoing allocation of common expenses.
  - 5.4 State any significant outsourcing arrangements and the structure of charges for such arrangements.

#### **Section 6 – Circumstances under which to Cease Taking New Business**

- 6.1 State the circumstances under which the participating fund may be closed to new business.
- 6.2 Describe what may happen upon the closure of the participating fund to new business.

#### **Section 7 – Shareholders' Profits and Responsibilities**

- 7.1 State the insurer's policy on allocation of profits to shareholders. In cases where the insurer's policy is to distribute to its shareholders an amount of less than one-ninth of the value of bonuses allocated to participating policyholders, highlight this point explicitly.
- 7.2 State that the shareholders are responsible for meeting any shortfall in the solvency requirements of the participating fund.

#### **Section 8 – Disclosure Requirements**

- 8.1 Describe the processes that the insurer has put in place to ensure compliance with the disclosure requirements to policyholders as set out in the regulations and industry guidelines.
- 8.2 State the mandatory items that need to be disclosed.

## Appendix B

### Information to be disclosed in the **P**product **S**summary

#### Provider of the **P**plan

1. State the name and address of the insurer.

#### Nature and **O**bjective of the **P**plan

2. State that the plan is a participating life insurance policy and that it allows the policyholder to participate in the performance of the participating fund in the form of bonuses that are not guaranteed.
3. Describe the objective of the participating plan.

#### Benefits under the **P**plan

4. Describe the benefits provided under the participating policy, such as death benefits, disability benefits, critical illness benefits, surrender value and maturity benefit, as well as the distinction between guaranteed and non- guaranteed benefits.
5. Describe the different types of bonuses that may be paid, and the frequency in which the bonuses are determined and allocated to the participating policyholder.
6. Highlight that all guaranteed benefits, including bonuses which have already been allocated to the participating policyholders will be provided for regardless of the performance of participating fund.
7. Highlight that future bonuses of this plan which have yet to be allocated to the participating policyholder, are not guaranteed and the insurer will decide the level of bonus to be declared each year as approved by the board of directors, taking into account the written recommendation by the appointed actuary.

#### Investment of **A**ssets

8. State the investment objective of the combined assets backing the plan.
9. Describe the investment strategy including the broad investment mix for the participating fund, or where applicable, the sub-funds.

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10. State whether the insurer fully manages, partly manages or does not manage at all, the assets of the participating fund itself. Where the insurer does not manage or partly manages the assets of the participating fund, disclose the names and addresses of all the external fund managers appointed by the insurer to do so.
11. State the current investment mix of the participating fund or sub-funds where applicable.
- [MAS Notice 320 (Amendment) 2018]
12. State the following information as may be applicable to the participating policy:
- (a) in respect of the sub-fund to which the policy belongs or, in the absence of a sub-fund, the participating fund:
- (i) the annual net investment returns for the past 3 years; and
- (ii) the average annual net investment returns over the past 3 years, 5 years and 10 years,
- where the net investment return is computed in accordance with the industry standards issued by the Life Association of Singapore (“LIA”); and
- (b) in respect of the participating fund or the sub-fund to which the policy belongs:
- (i) the annual total expense ratios for the past 3 years; and
- (ii) the average annual total expense ratios over the past 3 years, 5 years and 10 years,
- where the total expense ratio is the ratio of the total expenses incurred by the participating fund or the sub-fund (as the case may be), including investment, management, distribution, taxation and other expenses, to the assets of the participating fund or the sub-fund (as the case may be), as computed in accordance with the industry standards issued by the LIA.

Highlight that past performance is not necessarily indicative of future performance.

[MAS Notice 320 (Amendment) 2018]

### **Type of Risks Affecting the Level of Bonuses**

13. State the key factors affecting the performance of the participating fund.
14. Highlight that the insurer would determine the level of bonuses taking into account the current performance as well as future outlook for the participating fund.



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### Sharing of **R**isks

15. Describe how key risks (for example, investment, mortality, and morbidity), and expenses of this plan are shared with other plans.
16. Describe how the insurer determines the assets available to support the group or class of products that the participating policy belongs to.

### Smoothing of **B**onuses

17. Describe how the smoothing of annual (e.g. reversionary) and terminal bonuses will be carried out over the duration of the policy.
18. State the annual (e.g. reversionary) and terminal bonus rates for this plan for the past 3 years. If it is a new bonus series, indicate explicitly that there is no past experience available. Highlight that past performance is not necessarily indicative of future performance.

### Fees and **C**harges

19. Describe, by giving examples, the types of expenses that can be incurred and the charges that can be allocated to the participating fund to cover the expenses.
20. Highlight that the fees and charges have been included in the calculation of the premium and will not be separately charged to the policyholder.

### Adjustments in **P**remium **R**ates

21. Where the premium rate is guaranteed, the insurer ~~shall~~must explicitly state so. If not, highlight that the premium rate is not guaranteed and may be adjusted based on future experience.

### Impact of **E**arly **S**urrender

22. Describe the penalty, if any, on early surrender of the plan.
23. Highlight that buying a life insurance policy is a long-term commitment. An early termination of the policy usually involves high costs and the surrender value may be less than the total premiums paid.
24. Make reference to the policy illustration to highlight the loss or low returns on surrendering the plan early.

[MAS Notice 320 (Amendment) 2018]

**Update on Pperformance**

25. Describe the documents that the policyholders can expect to receive from the insurer to provide information about the performance of their policies.

[MAS Notice 320 (Amendment) 2009]

26. State when the policyholders can expect to receive these documents.

**Conflict of iinterests**

27. Describe any conflict of interests that may exist or may arise in relation to the participating fund and its management. Where there are conflicts of interest to state the manner in which they will be mitigated or resolved.

**Related Pparty Ttransactions**

28. Describe transactions between the insurer and its related parties, if any, the significance of such transactions and how the insurer ensures that the transactions are done at arms' length.

**Free iLook Pperiod**

29. Explain the free look provision.

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## Appendix C

### Information to be contained in Annual Bonus Update

1. Where there is a sub-fund for different groups or classes of participating products in the participating fund, the information in this Appendix ~~shall~~ must be in respect of the relevant sub-fund.

### Purpose of the Annual Bonus Update

2. State the purpose of the Annual Bonus Update as:
  - (a) informing the participating policyholders of the performance of the participating fund over the previous accounting period and of the bonuses allocated to them for the year; and
  - (b) setting out the future outlook based on the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act and updating the participating policyholders on any changes in future non-guaranteed bonuses.

### Past ~~P~~performance and ~~F~~future ~~O~~outlook

3. Describe the participating fund performance over the previous accounting period, with specific comments on key factors affecting bonuses to be allocated in this accounting period such as investment, mortality, morbidity, expenses and surrender experiences.
4. Describe the future outlook for the participating fund, in particular, any changes in outlook on the key factors affecting future non-guaranteed bonuses.
5. Explain how the past experience (including accumulated experience from previous years) and future outlook will impact the bonus allocation and reserves for future bonuses.
6. Provide an explanation where the information provided in paragraphs 3 to 5 is inconsistent with the latest actuarial investigation of policy liabilities of the participating fund carried out under section 37(1) of the Insurance Act.

### Bonus ~~A~~allocation

7. Highlight that the bonuses allocated to the participating policyholder for the previous accounting period were as approved by the board of directors, taking into account the written recommendation by the appointed actuary.

8. Provide a clear explanation where the bonuses approved by the board of directors differ from the recommendation made by the appointed actuary.
9. State when the bonus allocated will vest in the participating policy of the policyholder.
10. State the bonus rates allocated for the participating policyholder for the three years immediately preceding the accounting period under review. Where such information is not available, the insurer ~~shall~~must explicitly state the reason(s) for the unavailability.
11. State clearly that a full policy illustration is available to participating policyholders upon request.

[MAS Notice 320 (Amendment) 2018]
12. The full policy illustration ~~shall~~must be based on the insurer's best estimate of the investment rate of return as shown to be supportable by the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act, but ~~shall~~must not exceed the industry's best estimate, at that time, of the long-term investment rate of return.

[MAS Notice 320 (Amendment) 2018]
13. Where a full policy illustration is provided to the participating policyholder, state clearly that the actual bonuses declared in the future may turn out to be higher or lower than those illustrated.

[MAS Notice 320 (Amendment) 2018]

**Update on ~~C~~changes in ~~F~~future ~~N~~non-guaranteed ~~B~~bonuses**

14. Whenever there is, or will be a change in bonus rates, state the following figures to the policyholder of the participating policy:
  - (a) in relation to endowment plans —
    - (i) an illustration of the revised total maturity benefit (maturity value); and
    - (ii) the impact of the bonus rate revision on the maturity value;
  - (b) in relation to whole of life plans —
    - (i) an illustration of the revised total surrender value; and
    - (ii) the impact of the bonus rate revision on the total surrender value,

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shown at a particular age or duration as specified in paragraph 15.

[MAS Notice 320 (Amendment) 2009]

[MAS Notice 320 (Amendment) 2018]

15. Where a policyholder whose current age is less than 45 years, show the values required in paragraph (b) above at age 65. Where a policyholder whose current age is between 45 and 79 years inclusive, show the same values in 20 years' time. Where a policyholder whose current age is between 80 and 99 years inclusive, show the same values at age 99.

16. The illustration of benefits for the purpose of paragraph 14 above ~~shall~~must be based on the insurer's best estimate investment rate of return as shown to be supportable by the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act, but ~~shall~~must not exceed the industry's best estimate, at that time, of the long-term investment rate of return.

[MAS Notice 320 (Amendment) 2018]

17. State clearly that the actual bonuses that may be declared in the future may turn out to be higher or lower than shown in the illustration of benefits for the purpose of paragraph 14.

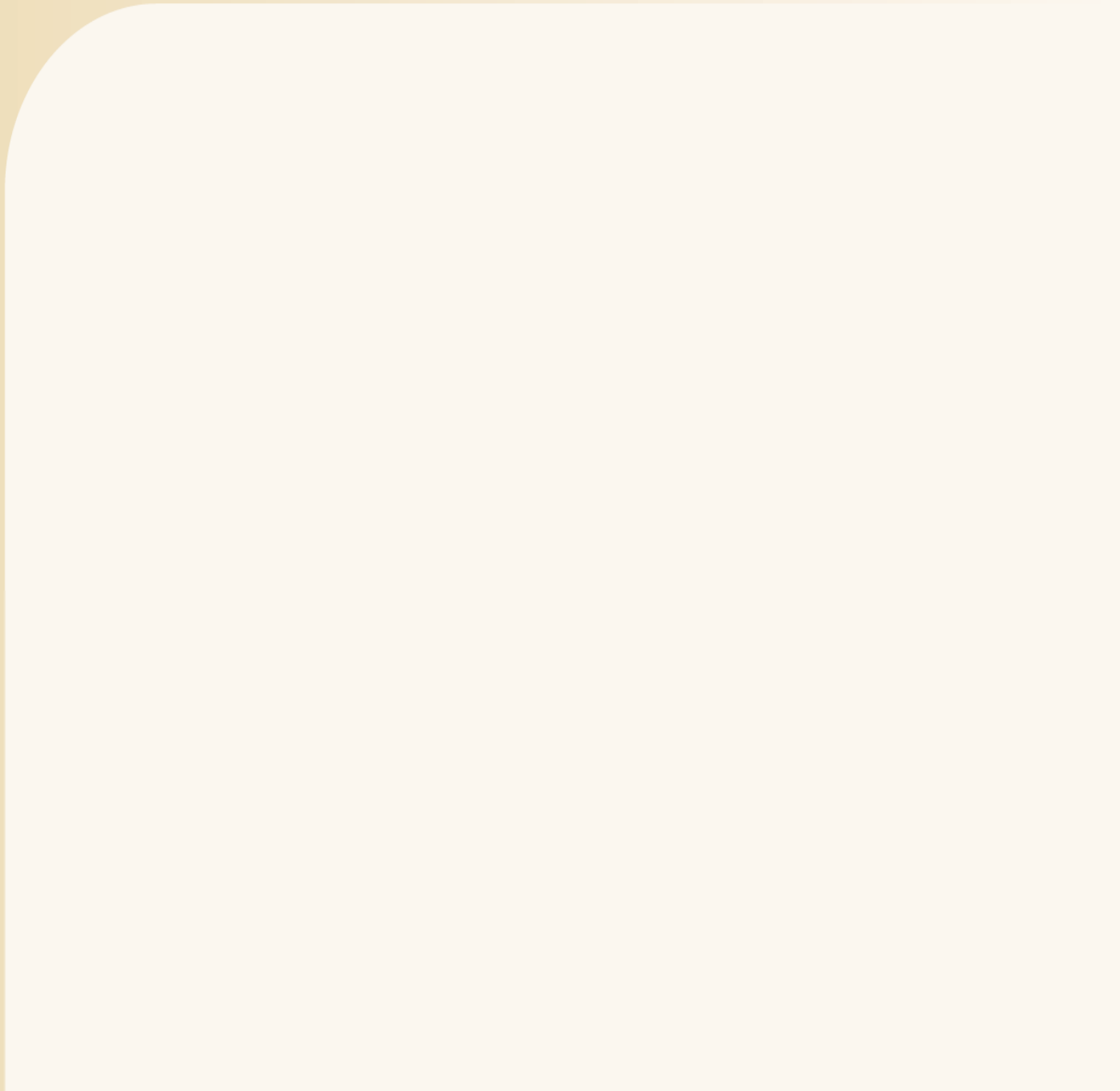
[MAS Notice 320 (Amendment) 2018]

**Appendix D**

[MAS Notice 320 (Amendment) 2020]

**Charges and expenses that must not be allocated to the participating fund**

1. Fines or penalties meted out by the Authority or any other regulatory authority, whether in Singapore or elsewhere.
2. Charges or expenses, incurred, paid or payable in relation to:
  - a) activities in breach of the Authority's or any other Singapore authorities' requirements; or
  - b) items which the Authority has conveyed in writing to the insurer or the industry's association to be non-chargeable to Par Fund.
3. Overriding benefits payable by an insurer to individuals outside of the three tier structure as set out in paragraph 7 of MAS Notice 306 (Market Conduct Standards for Life Insurers Providing Financial Advisory Services as defined under the Financial Advisers Act).
4. Allowance given to a representative of a licensed financial adviser or exempt financial adviser, other than the insurer, to subsidise the representative's cost of doing business, including transport costs, phone bills or meals.
5. Prizes or incentives offered to a representative of any licensed financial adviser or exempt financial adviser, which have an element of probability and do not have a direct relation to the sales of participating products or the ongoing management of the participating fund.
6. Operating expenses incurred by any related party of the insurer which distributes the insurer's products.
7. Costs incurred for corporate restructuring including mergers and acquisitions, demerger, changes involving shareholding structure and management buyout, but excluding internal reorganisation of the insurer's processes or workforce.
- ~~8. Costs incurred for marketing non-participating or investment-linked products.~~
9. Tax on shareholders' entitlement in relation to participating bonus distribution.



Monetary Authority of Singapore