Raising the Standards of

Investment Advice for Retirement Planning

The Singapore Story

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1. SINGAPORE COUNTRY OVERVIEW

1.1 Economic Demographics

The following statistics provide an overview of the economic demongraphics of Singapore:

Population and & Area	**2004**
Population ('000)	4.240.3
Singapore residents ('000)	3,486
< 15 yrs ('000)	702
15 – 64 yrs ('000)	2,506.0
> 65 yrs ('000)	278
Annual growth	1.3%
Population density	6,066 per sq km
Land area	699 sq km
Demographics	
Live Births	37,292
Deaths	15,857
Life expectancy at Birth (yrs)	
Males	77.4
Females	81.3
Life expectancy at Age 65 (yrs)	
Males	16.6
Females	19.0
Employment	
Labour Force ('000)	2,183.3
Employed Persons ('000)	2,066.9
Unemployment Rate (%)	4.3
Labour Force Participation Rate (% of population aged 15 yrs & over)	64.2
Male	75.6
Female	54.2
Economic Indicators	
Gross Domestic Product GDP)	
At current market prices ($m)	180,554.4
Per Capita GDP ($)	42,581.0
At 1995 Market Prices ($m)	180,496.0
Annual Growth (%)	8.4
Productivity and Inflation	
Annual Growth in Labour Productivity (%)	6.7
Annual Inflation Rate (%)	1.7
Source: Dept of Statistics	

1.2 Insurance Industry Overview

	2001	2002	2003
Total Industry Assets* ($m)	59,696.7	66,789.0	77,406.4
Insurance Development:			
Per Captia Expenditure ($)			
- Life Insurance	4338	3641	2963
- General Insurance	542	660	682
As % of GDP			
- Domestic Life Sums Insured	184.6	198.1	198.2
- Domestic Life Premiums	9.4	7.9	6.4
- Domestic General Premiums	1.2	1.4	1.5
- Domestic Life Fund Assets	31.2	34.7	40.0
- Domestic General Fund Assets	2.8	3.1	3.3
Source: MAS Annual Report 2003			

* comprise assets of Singapore Insurance Fund, Offshore Insurance Fund and Shareholders' funds of local companies

2. THE CENTRAL PROVIDENT FUND (CPF)

2.1 Central Provident Funds Structure

The Central Provident Fund (CPF) is a comprehensive social security savings plan that provides working Singaporeans with a sense of security and confidence in their old age.

Working Singaporeans and their employers make monthly contributions to the CPF and these contributions go into three accounts:

Ordinary Account

The savings can be used to buy a home, pay for CPF insurance, investment and education.

Special Account:

The savings are for old age, contingency purpose, and investment in retirement related financial products.

Medisave Account: The savings can be used for hospitalisation expenses and approved medical insurance.

Self-employed persons make contributions to their Medisave Account. This provides for the healthcare needs of their families and themselves.

The CPF contribution rates are as follows:

Age group	Employer's contribution (% of salary)	Employee's contribution (% of salary)	Total Contribution (% of salary)	Credited into... Ordinary Account	Special Account	Medisave Account
35 years & below	**13**	**20**	**33**	**22**	**5**	**6**
Above 35 to 45 years	**13**	**20**	**33**	**20**	**6**	**7**
Above 45 to 50 years	**13**	**20**	**33**	**18**	**7**	**8**
Above 50 to 55 years	**11**	**19**	**30**	**15**	**7**	**8**
Above 55 to 60 years	**6**	**12.5**	**18.5**	**10.5**	**0**	**8**
Above 60 to 65years	**3.5**	**7.5**	**11**	**2.5**	**0**	**8.5**
Above 65 years	**3.5**	**5**	**8.5**	**0**	**0**	**8.5**

CPF savings earn interest. Savings in the Ordinary Account earn a minimum interest rate of 2.5% per annum, while savings in the Special and Medisave Accounts earn an additional interest of 1.5 % above the prevailing Ordinary Account interest rate.

When the CPF member turns age 55, his CPF savings can be withdrawn subject to setting aside a minimum sum in the Retirement Account.

2.2 CPF Membership

Total No. of Members	3.0 million
Total No. of Active Members[1]	1.3 million
Total No. of Active Employers[2]	77,953

As at 31 December 2004

[1]Active Member refers to a person who has at least one contribution paid for him for the current or any of the preceding 3 months. The figure excludes self-employed who are not employees concurrently.

[2]Active Employer refers to employers who had made payment for last month's CPF contributions.

2.3 CPF Account Balances

Total Members' Balance	S$111,873.8 m
Ordinary Account	S$57,024.5 m
Special Account	S$17,725.6 m
Medisave Account	S$32,109.3 m
Retirement Account and Others	S$5,014.4 m

As at 31 December 2004

2.4 CPF Scheme Usage

The overall scope and benefits of the various CPF schemes serve the primary purpose of providing for the working Singaporean's old age needs.

In Singapore, life expectancy is rising. At age 65, a Singaporean can expect to live another 15 to 20 years. Number of 65 or older is 278,000 now. In 2030, it will be more than 795,000.

Today, 10 economically active persons are supporting one elderly. By 2030, only 3.5 persons will be supporting one elderly. Therefore, it is important for Singaporeans to plan carefully for their old age.

However, CPF funds are also used as follows:

Home Ownership

CPF savings in the Ordinary Account savings can be used to buy a home under the CPF housing schemes - a HDB flat under the Public Housing Scheme, or a private property under the Residential Properties Scheme.

Family Protection

CPF has two insurance schemes to provide financial protection for the person and his family against the unexpected.

The Home Protection Scheme protects the person and his family from losing their home. This scheme is applicable to all CPF members who use their CPF savings to buy an HDB flat. Should the insured member become permanently incapacitated or die, the CPF Board will pay the outstanding housing loan based on the amount insured.

The Dependants' Protection Scheme, an optional term life insurance scheme, provides financial help to tide over the first few years in the event of an insured member's permanent incapacity or death.

Healthcare

CPF savings in the Medisave Account can be used to pay a person's own or his dependants' hospitalisation expenses. It can also be used for certain outpatient treatments like chemotherapy and radiotherapy treatments.

Medisave savings can be used to pay the premiums for MediShield or MediShield Plus. These are catastrophic medical insurance schemes. They help to meet the high medical costs of prolonged or serious illnesses. For older CPF members, there is ElderShield, an affordable severe disability insurance scheme that provides insurance coverage to those who require long-term care

Retirement: CPF Minimum Sum Scheme

This CPF Minimum Sum Scheme was introduced in January 1987 to help CPF members provide for a basic monthly income when they retire.

CPF savings can be withdrawn when the member turn 55, after setting aside a CPF Minimum Sum. This Minimum Sum can be used to buy life annuity from a participating insurance company placed as a fixed deposit with a participating bank or left in his Retirement Account with the CPF Board.

From age 62, he will receive monthly payments from the CPF Minimum Sum to help meet his basic needs in retirement. If a life annuity is bought, he will receive the monthly income for life. If the CPF Minimum Sum is left with a participating bank or with CPF Board, he will receive the monthly income until the CPF Minimum Sum is exhausted.

The CPF Minimum Sum is currently set at $84,500 and will be raised gradually until it reaches 120,000 in 2013.

2.5 Asset Yield Enhancement - CPF Investment Scheme

Members who wish to enhance their CPF savings for their retirement can do so through the CPF Investment Scheme (CPFIS).

The CPFIS is intended to give CPF members more options in investing their CPF savings, while meeting the long term objective of financial security in old age.

The CPFIS comprises the CPF Investment Scheme-Ordinary Account (CPFIS-OA) and CPF Investment Scheme-Special Account (CPFIS-SA).

CPFIS-OA
As at 31 December 2004

No. of Members[7]	**741,679**	
	Amount	**Percentage %**
Total Amount Invested	**S$24,126.3 m**	**100**
Stocks + Loan Stocks	S$6,486.5 m	26.9
Insurance Policies	S$15,014.0 m	62.2
Unit Trusts	S$2,521.2 m	10.5
Others	S$104.6 m	0.4

CPFIS-SA
As at 31 December 2004

No. of Members[8]	**432,965**	
	Amount	**Percentage(%)**
Total Amount Invested	**S$4,628.6 m**	**100**
Insurance Policies	S$3,991.5 m	86.2
Unit Trusts	S$632.2 m	13.7
Others	S$4.9 m	0.1

CPFIS - Total Funds Still Available for Investment
As at 31 December 2004

CPFIS-OA	S$56,118.0 m
CPFIS-SA	S$17,516.7 m

[7]*No. of members with Investment Account. However, they may or may not hold any investments in their CPF Investment Accounts.*

[8]*No. of members with investment holdings.*

Instruments available for investment under CPFIS-OA and CPFIS-SA are different.

CPFIS-OA	CPFIS-SA
Full Ordinary Account savings can be invested in:	Full Special Account savings can be invested in:
Fixed Deposits	Fixed Deposits
Singapore Government Bonds	Singapore Government Bonds
Statutory Board Bonds	Statutory Board Bonds
Bonds Guaranteed by Singapore Government	Bonds Guaranteed by Singapore Government
Annuities	Annuities
Endowment Insurance Policies	Endowment Insurance Policies
Investment-linked Insurance Products	Selected Investment-Linked Insurance Products*
Unit Trusts	Selected Unit Trusts*
Exchange Traded Funds	Selected Exchange Traded Funds*
Fund Management Accounts	
Up to 35% of investible savings can be invested in:	
Shares	
Property Funds (or real estate investment trusts)	
Corporate Bonds	
Up to 10% of investible savings can be invested in:	
Gold	

*classified under the Lower Risk, Low to Medium Risk and Medium to High Risk categories of the CPFIS Risk Classification System. Investments in Higher Risk category products are not allowed under CPFIS-SA.

2.6 CPF De-Regulation History

The following summarises the key events that have impacted on CPF and its associated de-regulation over the years:

No.	EVENTS	DESCRIPTION	DATE

1	Approved Investment Scheme (AIS) implemented	Members are allowed to use up to 20% of the gross savings in excess of the Minimum sum for investments. Approved Investments include trustee stocks, convertible loan stocks, approved unit trusts and gold. Only up to 10% of the investment limit is allowed for gold investments.	1 May 86
2	Approved Investment Scheme renamed as Basic Investment Scheme (BIS)	Under the BIS, a member may use up to 80% of his savings after setting aside the minimum sum ($34,600) to invest in trustee shares, loan stocks and unit trusts. 10% of the member's investible savings may also be invested in gold and non-trustee shares.	1 Oct 93
3	Enhanced Investment Scheme (EIS) implemented	Under the EIS, a member may use up to 80% of the CPF savings in excess of the $50,000 cash balance in his Ordinary and Special Accounts for investments approved under the BIS. In addition, members may also invest in shares listed on SESDAQ, government bonds, bank deposits, fund management accounts and **endowment insurance policies.**	1 Oct 93
4	Basic Investment Scheme (BIS) and Enhanced Investment Scheme (EIS) to be merged into the CPF Investment Scheme (CPFIS) Implementation Date: 1 Jan 97	Labour Minister Lee Boon Yang announced during the budget debate that BIS and EIS will be merged into CPFIS. The rationale behind this move was that CPF investors were generally prudent in their CPF investments and CPF investment rules can be liberalised further. In addition, the minimum sum will soon surpass the $50,000 cash reserve. It would make more sense to merge the 2 schemes.	1 Jan 97
5	Renaming of CPFIS	CPFIS was renamed as CPFIS-Ordinary Account (CPFIS-OA) and CPFIS-Special Account (CPFIS-SA). Members are allowed to invest their SA savings in lower-risk financial instruments that are suitable for retirement.	1 Jan 01

3. SINGAPORE REGULATORY INVESTMENT ENVIRONMENT

3.1 Distribution Channels

In Singapore, protection and savings/investment products are sold primarily through three channels.

1. Life insurance agents (*Exempt FA representatives*) 66% of new business sales of life insurers
2. Bank personnel (*Exempt FA representatives*) 29%
3. *Licensed FA representatives* 4%
4. Others (direct mail, Internet) 1%

3.2 The Financial Advisers Act (FAA)

With the increasing convergence of investment products and common distribution channels, there is a need to harmonise the regulatory regime for similar activities across investment products. The FAA streamlines the laws governing the provision of financial advisory services in respect of investment products, including securities, futures and life insurance, into a single piece of legislation. It provides a more flexible and integrated regulatory framework for entities engaging in financial advisory activities.

In addition, *having a common set of requirements and regulations that is applicable for all market intermediaries engaging in financial advisory services will help maintain consistent professional standards across the industry*.

<u>The following financial advisory services are regulated under the FAA:</u>

(a) Advising others concerning any investment product1, other than advising on corporate finance;

(b) Issuing or promulgating analyses or reports concerning any investment product;

(c) Marketing of any collective investment scheme including unit trusts; and

(d) Arranging of any contract of insurance in respect of life policies

1. "Investment product" means (a) any capital markets product as defined in section 2(1) of the Securities and Futures Act 2001 (e.g. securities, futures contracts, contracts or arrangements for the purposes of foreign exchange trading, contracts or arrangements for the purposes of leveraged foreign exchange trading); (b) any life policy as defined in the First Schedule to the Insurance Act (Cap. 142); or (c) any other product as may be prescribed.

<u>Licensed FA</u>

Only licensed financial advisers and exempt financial advisers who are exempt under section 23(1) or (2) of the FAA are allowed to conduct financial advisory services under the FAA.

<u>*Licensed FA representative*</u>

Individuals providing financial advisory services on behalf of licensed financial advisers are required to be licensed as representatives.

Exempt FA

Banks, merchant banks, finance companies, *insurance companies*, insurance brokers registered under the Insurance Act, and holders of a capital markets services license under the Securities and Futures Act (Cap 289) are exempt from holding a financial adviser's license to act as a financial adviser in Singapore in respect of any financial advisory services.

Exempt FA representative

Individuals who provide financial advisory services on behalf of such institutions are exempt from holding a representative's license.

3.3 One-representative-one-financial adviser rule

A representative can only act for one financial adviser. (The only exception is if a representative acts for two or more financial advisers which are related corporations.)

Objectives

(a) to secure clarity for investors about the status of representatives, the financial advisers they represent, and more importantly, where responsibility rests for complaints and redress; and

(b) to ensure that the financial advisers closely monitor and supervise their representatives at all times.

The one-representative-one-financial adviser rule does not restrict the product range that a financial adviser can market or give advice on. Financial advisers such as banks, fund managers, securities firms and insurance companies that distribute life insurance products and unit trusts are free to enter into contracts to sell one another's products and, hence, expand the range of products they can market or give advice on.

As an exempt financial adviser, a life insurance company must closely monitor and supervise its agents, and be responsible for the conduct of its agents in respect of their provision of advice and distribution of investment products offered by other financial institutions.

3.4 Business Conduct Requirements in the FAA

The FAA spells out certain business conduct requirements which licensed financial advisers and exempt financial advisers are required to comply with. These may be found in Part III of the FAA.

Some of them are highlighted below:

(a) Section 25 requires a financial adviser to disclose to its clients information relating to an investment product that is recommended by the financial adviser.

(b) Section 26 makes it an offence for a financial adviser to make, with intent to deceive, certain false and misleading statements, or material omissions, regarding a contract or a proposed contract in respect of any investment product.

(c) Section 27 prohibits a financial adviser from making a recommendation with respect to an investment product when it does not have a reasonable basis for doing so.

(d) Section 29 requires a financial adviser to provide information about any matter related to its business carried on in Singapore or elsewhere to the MAS when requested.

(e) Section 32 regulates the use of insurance broking premium accounts to be established by a financial adviser which provides financial advisory services in respect of life policies.

(f) Section 33 prohibits a financial adviser from negotiating any contract of insurance with an insurer, whether directly or indirectly, except with a registered insurer.

3.5 Business conduct requirements for exempt financial advisers

Section 23(4) of the FAA lists out the relevant sections of the FAA that apply to exempt financial advisers. The applicable sections are sections 25 to 29, 32, 33, 34, 36 and 70.

The relevant sections that apply to representatives of exempt financial advisers are listed in section 23(5) of the FAA. They are: sections 12, 25, 26, 27, 29, 33, 34, 36 and 70.

In addition, exempt financial advisers and their representatives are required to adhere to the relevant provisions of the FAR as well as the Notices issued pursuant to the FAA which are applicable to them. They are also expected to adhere to the Guidelines issued pursuant to the FAA which are applicable to them.

3.6 Licensing of Financial Advisers

Licences Administered under the Financial Advisers Act (FAA) include:

- Financial Adviser's Licence
- Financial Adviser Representative's Licence

In assessing an application for a financial adviser's licence, MAS takes into consideration, inter alia, the following factors:

(a) the track record, management expertise and financial soundness of the applicant and its parent company or major shareholders;

(b) ability to meet the minimum financial requirements and professional indemnity insurance requirements prescribed under the Financial Advisers Act;

(c) strength of internal compliance systems; and

(d) business plans and projections.

3.6.1 Admission Criteria for Financial Adviser Representative's Licence

In assessing an application for a financial adviser representative's licence, MAS takes into consideration whether the applicant satisfies the following requirements:

(a) be at least 21 years old;

(b) satisfy the minimum academic qualification and examination requirements as prescribed in the Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers (Notice No. FAA - N07); and

(c) satisfy the fit and proper criteria set out in the Guidelines on Fit and Proper Criteria issued by the Authority (Guidelines No. FAA -G02). [Reproduced at end of section.]

In determining the suitability of a person to be granted a representative's license, MAS will take into account, amongst others, the applicant's:

(a) financial status and solvency;

(b) educational/professional qualifications and work experience;

(c) ability to perform his functions efficiently, honestly and fairly; and

(d) reputation, character and integrity.

3.6.2 Admission Criteria for Exempt Financial Adviser Representative

Exempt financial advisers are responsible for ensuring that the representatives they appoint to conduct financial advisory services are fit and proper, and that they possess the necessary qualifications. They should ensure that their representatives meet the standards spelt out in the Guidelines on Fit and Proper Criteria.

3.6.3 Fit and Proper Test

The Authority will have regard to a number of factors when assessing if a financial adviser or representative is fit and proper, key among which are:

(a) honesty, integrity and reputation;

(b) financial soundness; and

(c) competence and capability

Failure to meet a specific criterion may not necessarily render a financial adviser or representative not fit and proper. The Authority will consider the significance and relevance of the failure to meet a specific criterion, having regard to the duties to be performed and responsibilities to be assumed by the financial adviser or representative. In general, the Authority will regard an offence involving fraud or dishonesty as a serious offence.

In assessing whether a financial adviser is fit and proper, the Authority will take into consideration whether the substantial shareholders, officers and employees of the financial adviser satisfy the fit and proper criteria stated in paragraphs 8, 9 and 10 of these Guidelines, where relevant.

3.6.4 <u>Honesty, Integrity and Reputation</u>

In determining the honesty, integrity and reputation of a financial adviser or representative, the Authority will consider, among others, whether the financial adviser or representative:

(a) has been convicted of any offence, in Singapore or elsewhere, or is being subject to any pending proceedings which may lead to such a conviction;

(b) has been issued a prohibition order under any Act administered by the Authority or has been prohibited by other regulatory bodies from operating in other financial services markets;

(c) has not performed, or has led the Authority to believe that it or he will likely not perform, the functions of a financial adviser or representative efficiently, honestly or fairly;

(d) has not acted, or has led the Authority to believe that it or he may not act, in the best interests of the client, having regard to its or his reputation, character, financial integrity and reliability;

(e) has been, or is involved with a corporation which has been, censured, disciplined, suspended or refused membership or registration by a securities exchange, futures exchange, securities market, futures market, or regulatory authority of any business or profession;

(f) has knowingly or negligently aided or abetted other persons in breach of any laws or regulations, exchange rules or codes of conduct;

(g) has been the subject of any investigations or disciplinary proceedings or been issued a warning by the Authority, other regulatory authorities, exchanges, professional bodies or government agencies;

(h) has not been truthful or cooperative in any of its or his dealings with any regulatory authority;

(i) has not demonstrated a willingness to comply with regulatory requirements or to uphold professional and ethical standards;

(j) has had any judgment (including a finding of fraud, misrepresentation or dishonesty) given against it or him in any civil proceedings in Singapore or elsewhere or is a party to any pending proceedings which may lead to such a judgment; and

(k) has failed to satisfy the Authority that its or his conduct of business as a financial adviser or representative, as the case may be, would not be contrary to the public interest, having regard to its or his reputation, character, financial integrity and reliability.

3.6.5 Financial Soundness

In determining the financial soundness of a financial adviser or representative, the Authority will consider, among others, whether the financial adviser or representative:

(a) has unsatisfactory financial standing;

(b) has, whether in Singapore or elsewhere, entered into a compromise or scheme of arrangement with it or his creditors, being a compromise or scheme of arrangement that is still in operation;

(c) is the subject of a judgment debt which has been returned unsatisfied, either in whole or in part;

(d) in the case of a financial adviser:

  (i) is in the course of being wound up or otherwise dissolved, whether in Singapore or elsewhere;

  (ii) a receiver, receiver and manager, judicial manager, or such other person having the powers and duties of a receiver, receiver and manager, or judicial manager, has been appointed, whether in Singapore or elsewhere, in relation to, or in respect of any property of, the financial adviser; and

(e) in the case of a representative, is an undischarged bankrupt in Singapore or elsewhere.

3.6.6 Competence and Capability

In determining the competence and capability of a financial adviser or representative, the Authority will consider, among others:

(a) in the case of a representative, whether the representative has satisfactory educational qualification or experience, having regard to the nature of the duties he is to perform, and has satisfied the requirements stipulated in the Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers [Notice No. FAA-N04] issued by the Authority, where applicable;

(b) in the case of a licensed financial adviser, whether its officers and employees, who perform duties in connection with the financial adviser's license, have satisfactory educational qualification or experience; and

(c) whether the financial adviser or representative has satisfactory records of past performance or expertise, having regard to the nature of the financial adviser's business or the duties of the representative, as the case may be.

4. TRAINING OF REPRESENTATIVES

4.1 Minimum Entry Requirements

The relevant FAA Notices and Guidelines provide that:

Any person who acts as or holds himself out to be a representative of a licensed financial adviser or exempt financial adviser must:

(a) be at least 21 years old;

(b) satisfy the minimum academic qualification requirements;

(c) be a fit and proper person for the purpose of providing financial advisory services; and

(d) comply with the examination requirements.

4.2 Minimum academic qualification

For an applicant who sat for GCE 'O' Level Examinations before or during 1980 -

(i) qualifications higher than or equal to at least 4 GCE 'O' Level credit passes; or

(ii) qualifications higher than or equal to at least 2 GCE 'O' Level credit passes and a pass in the Basic Competency Examination administered by the SCI; or

In any other case, qualifications higher than or equal to at least 4 GCE 'O' Level credit passes.

4.3 Examinations

Individuals employed by licensed financial advisers or exempt financial advisers to provide financial advisory services are required to pass the relevant modules of the Capital Markets and Financial Advisory Services Examination (CMFAS Exam), which comprises modules on rules and regulations for financial advisory services and product knowledge and analyses.

The CMFAS Exam, which commenced on 1 Dec 02, comprises 9 modules, of which Modules 5 to 9 are applicable under the FAA.

CMFAS Exam

Rules & Regulations

Module 1 Rules and Regulations for Dealing in Securities

Module 2 Rules and Regulations for Trading in Futures Contracts

Module 3 Rules and Regulations for Fund Management

Modules 4A Rules and Regulations for Advising on Corporate Finance

Modules 4B Rules and Regulations for Advising on Corporate Finance (Solely Debt Securities)

Module 5 Rules and Regulations for Financial Advisory Services

Product Knowledge & Analysis

Module 6 Securities Products and Analysis

Module 7 Futures Products and Analysis

Module 8 Collective Investment Schemes

Module 9 Life Insurance and Investment-Linked Policies

The Institute of Banking and Finance ("IBF") administers Modules 6 and 7 whilst the Singapore College of Insurance ("SCI") administers Modules 5, 8 and 9.

Individuals employed by licensed financial advisers or exempt financial advisers to provide life insurance advisory services are required to pass Modules 5 and 9.

The contents of Module 5 include information on the insurance schemes of the Central Provident Fund (CPF), namely: Minimum Sum Scheme (MSS); CPF Investment Scheme (CPFIS); and Supplementary Retirement Scheme (SRS).

(Under MAS Notice 117, individuals employed by licensed financial advisers or exempt financial advisers to provide medical insurance advisory services are required to pass the Certificate in Health Insurance issued by SCI.)

4.4 Continuing Education Requirements

Under FAA Notice No. 7, MAS expects representatives engaged in the provision of financial advisory services to keep abreast of developments in the industry and acquire new skills and knowledge relevant to their activities. In this regard, representatives are expected to undergo continuing education.

In addition, representatives providing advice on or arranging life policies or providing both types of financial advisory service are expected to observe the *Guidelines on Company's Training and Competency Plan and Guidelines on Continuing Professional Development Requirement for Life Insurance Advisors issued by the Life Insurance Association of Singapore*.

MAS expects exempt financial advisers to ensure that their representatives adhere likewise to the requirements of the Notice.

4.5 LIA T&C Guidelines and CPD Guidelines

The following training and competency guidelines are applied in Singapore:

- *Coaching by supervisor of representatives*

LIA Training & Competency Guidelines provide as follows:

The key duties are prescribed below and may not be delegated by the supervisor but must be personally performed.

The duties apply to every person, regardless of designation, who has the responsibility of supervising representatives.

Key duties have been set out in some detail in view of the historical absence of any such requirements, and therefore the need to build up an acceptable minimum standard across the industry.

A clarification and implementation of such basic roles will significantly enhance the quality and professionalism of representatives, the advice rendered to customers and the productivity of representatives.

Conduct coaching sessions, meetings and sales activities with their representatives as follows:

(a) For new representatives

- Accompanying new representatives on their first three closed sales

Explanatory comment: The spirit of the rule is clear. We want to encourage more active field involvement by supervisors at every level of agent, but in particular, would want to lay down a minimum standard for new representatives in their first three months.

"Supervised" is not enough as all sales are now in fact supervised, in that the supervisor must check the Fact Find and Needs Analysis for appropriateness, for every representative.

The supervisor is required to be present at the first three sales made. As Fact Finding is not the sale, but just information gathering as preparation for a sales proposal, and as fact finding competency is checked and signed off by the supervisor, the supervisor need not be present at all initial fact find (first) interviews for new representatives.

The supervision rules would mean that, as a standard process, the supervisor would be reviewing the Fact Finds, helping in needs analysis and in the design of the product(s) to be attempted to be sold at the second, presentation meeting. It is expected that the supervisor would attend every presentation interview of a new representative until at least three sales have been completed.

The clear effect of this is that, for a new representative, there will be no one-interview sales allowed, unless accompanied by the supervisor at every stage.

- Weekly coaching of new representatives on a one-to-one basis (with evidence) for their first three months.

- Weekly meeting, totalling three hours, with new representatives on a one-to-one or group basis (with evidence) for their first three months.

(b) For existing representatives

- Monthly coaching on a one-to-one basis (with evidence)

(c) For all representatives

- Monthly meeting with all representatives (with evidence)

- Reviewing and signing off on all representatives' needs analysis cum product recommendation form

Conduct coaching sessions and meetings with other supervisors reporting to them as follows:

(a) For new supervisors

- Weekly coaching with new supervisors on a one-to-one basis (with evidence) for their first three months

(b) For all supervisors

- Monthly meeting with all supervisors (with evidence)
- Reviewing and signing off all supervisors' needs analysis cum product recommendation form in respect of the supervisor's personal sales

Coaching session focuses on personal development and may include the following activities:

- Assessing performance measurements (e.g. production, persistency, customer service, complaints)
- Reviewing training activities, how well they have been applied and discussing future training required
- Reviewing issues around unsuccessful sales presentation
- Reviewing outstanding issues arising from previous coaching session, etc.

Meeting session may include the following activities:

- Informing of issues affecting financial services industry, company or representatives
- Assessing company/unit/agency performance
- Reviewing training activities, needs and plans
- Reviewing issues affecting the company/unit/agency
- Reviewing outstanding issues arising from previous meeting session

Be well prepared for coaching and meeting sessions.

Ensure representatives, supervisors under their supervision and they themselves are competent.

4.6 Competence Assessment

Competency requirements and/or levels (for the different areas, e.g. skills, knowledge) for each group should be defined and the frequency and methods (e.g. multiple choice questions, group assignment, etc.) of assessment specified.

There should be regular reviews of the Plan's systems and methodology. It is therefore encouraged that the T&C Plan be revised on an annual basis to allow for updates of components.

4.7 Continued Professional Development (CPD)

LIA CPD Guidelines provide as follows:

1. The aim is for all life insurance representatives to attain minimum industry standards of competence and professionalism.

2. Training activities conducted under the CPD programme must be substantively related to life insurance knowledge and / or skills.

3. The representatives will be able to provide professional advice and service in the best interests of the insuring public.

4.7.1 <u>Minimum training requirements and hours</u>

The company should identify its training needs according to own requirements and specify the training hours required to fulfil these needs.

However, the specified training hours must not be less than the minimum, set out below:

(a) <u>For new representatives</u>

Minimum 30 initial training hours to be completed within the first 6 months of appointment, and minimum 10 CPD hours to be completed within the following 6 months.

The following are counted towards the minimum 30 hours within the first 6 months:

- Compulsory CMFAS Module 5 examination hours only (counted once only upon passing)
- Compulsory CMFAS Module 9 examination hours only (counted once only upon passing)
- Compulsory Agency Development Programme, ADP (number of hours decided by the company)

Broadly, ADP covers the following topics:

  - company's philosophy
  - ethics course
  - company's products
  - company's underwriting, policy servicing and claims processes
  - company's sales practices
  - anti-money laundering processes

- Training on and application of knowledge and skills in meetings and dealings with clients (number of hours decided by the company)

(b) <u>For new supervisors</u>

Minimum 30 CPD hours per annum.

Before a new supervisor is allowed to supervise and coach life insurance representatives, he/she must first undergo the following training:

- Compulsory "Professional Agency Management Programme", PAMP

  Clarification: PAMP is only an acronym for a compulsory training requirement; it does not refer to any particular training course.

  Broadly, this compulsory training requirement should cover the following needs:

  - equips the newly-promoted supervisor to plan, budget, monitor and develop the agency's resources; and
  - helps the newly-promoted supervisor to be competent in his/her roles and responsibilities.

  It is for the insurer to identify what training courses would meet the above needs. The insurer decides what courses are acceptable to the company to fulfill this training requirement. Any course is acceptable as long as insurers can demonstrate to the regulator that the supervisors are competent in their roles and responsibilities.

  For instance, if the company is primarily focused on life insurance business, the Diploma in Life Insurance (DLI) is relevant in building competency of a prospective supervisor. Companies providing varied financial advisory services may find other financial planning / financial services courses more relevant for their supervisors. There are internationally recognised courses available in Singapore.

- Training on and application of knowledge and skills in meetings and dealings with life insurance representatives and clients (number of hours decided by the company)

Others:

- Discretionary Pre-Management Orientation (PMO) programme (number of hours decided by the company)

(c) For existing representatives / supervisors / industry-experienced individuals

Minimum 30 CPD hours per annum, to include:

- Maintenance and updating of knowledge and skills appropriate to their activities and responsibilities
- Development of new knowledge and skills to assist their current or future roles

4.7.2 Knowledge on Skills Scope

Each CPD Plan should specify the knowledge and skills for each of the 5 groups of persons stated above.

Skills must relate to the practice of insurance sales or sales management and may include, among other things, prospecting, fact-finding interview, personal financial analysis and planning, problem solving, interpersonal communication, counselling, negotiation, etc.

Knowledge may include, among other things, insurance law, personal taxation, estate duty act, the regulatory requirements relating to representatives' or supervisors' professional obligations (including, confidentiality, disclosure of material information, persistency, etc); the company and industry guidelines (including the delivery of proposal forms and record-keeping obligations)

4.7.3 Accreditation of training activities and CPD hours in the T&C Plan

The T&C Plan should incorporate a complete list of training activities, whether in-house or externally provided.

The list should specify for each activity:

- Basic description
- Objectives
- Training hours accredited and the percentage apportionment between knowledge and skills content.

For externally provided activities that are accredited by the LIA, companies are required to credit the training hours as prescribed in the "LIA List of CPD Courses", posted on its website.

The company is required to keep a proper record of the CPD hours earned by each representative or supervisor after verifying their attendance at the CPD-accredited activity.

5. FINANCIAL EDUCATION OF CONSUMERS

5.1 Moneysense Overview

Launched by the then Deputy Prime Minister and Chairman of the Monetary Authority of Singapore (MAS), Lee Hsien Loong, on 16 Oct 03.

MoneySENSE brings together industry and public sector initiatives to enhance the basic financial literacy of consumers.

The impetus was a sense that information on how to manage money had been inadequately available to the general public. The MoneySENSE national financial education programme comes in to fill the gap. The MoneySENSE programme is intended to help ordinary people gather knowledge and develop skills to manage day-to-day budgets, plan for the long-term, and invest carefully so as to add to retirement savings.

The MoneySENSE programme covers 3 tiers of financial literacy:

Tier I - Basic Money Management - which covers skills in budgeting and saving, and provides tips on the responsible use of credit

Tier II - Financial Planning - to equip Singaporeans with the skills and knowledge to plan for their long-term financial needs

Tier III - Investment Know-How - which imparts knowledge about the different investment products and skills for investing

Industry associations, community organisations and consumer bodies are involved in developing activities and programmes for MoneySENSE. These include organising community talks and workshops and distributing educational guides to consumers. MoneySENSE also uses various channels to reach out to different segments of the community.

The life insurance sector falls under Tier II.

5.2 Financial Education Steering Committee (FESC)

The Financial Education Steering Committee (FESC), which oversees the MoneySENSE programme, comprises representatives from the public sector, namely, Monetary Authority of Singapore; Ministry of Community Development, Youth and Sports; Ministry of Education; Ministry of Manpower; Central Provident Fund Board; and People's Association.

5.3 Inaugural National Financial Literacy Survey 2005

FESC is conducting a national financial literacy survey from 19 Mar to 30 Apr 05.

The purpose of the survey is to benchmark the current level of financial literacy among Singaporeans. This will enable the Committee to develop and deliver financial education programmes that better meet the needs of different segments of the population. The survey will involve face-to-face interviews with a representative sample of 2,000 persons in Singapore. The information collected from the survey will be compiled to ensure anonymity.

5.4 MoneySENSE Industry Working Group (MIWG)

The MIWG reports to the FESC. LIA is represented on this Working Group, which is chaired by Shane Tregillis, Deputy Managing Director, Market Conduct, MAS.

Other bodies represented on the WG are Ministry of Community Development, Youth and Sports; Central Provident Fund Board; Association of Banks in Singapore; Consumers Association of Singapore; Financial Planning Association of Singapore; General Insurance Association; Insurance & Financial Practitioners Association of Singapore; Investment Management Association of Singapore; and Singapore Exchange.

The MIWG is formed to foster greater collaboration between the public and private sectors in financial education. It is to identify projects which encourage crosscollaboration across sectors with the aim of reaching out to all segments of the population more effectively.