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Singapore: MAS Defines Direct Insurance Products Under FAIR

After working with consumer groups and industry associations actively for the past 10 months, the Monetary Authority of Singapore (MAS) released an announcement on 30 July 2014 that sets out guidelines for the direct distribution of zero-commission life insurance in Singapore. This development is one of the key initiatives under the Financial Advisory Industry Review (FAIR), which is aimed at lowering the cost, and improving efficiency, of life insurance distribution.

From the start of 2015, all insurance companies catering to the retail market will be required to offer the following ‘direct purchase products’, defined by the MAS as life insurance products that consumers can ‘purchase directly from insurance companies, without incurring commissions’:

a. Term life insurance products with Total Permanent Disability (TPD) cover
b. Participating whole life insurance products with TPD cover
c. Optional critical illness (CI) rider attached to term life or whole life insurance products

In view of the substantial set up costs and requirements to manage participating business on an ongoing basis, those companies that currently do not offer participating business will not be required to establish a new participating fund. Furthermore, the defined market segment players (branch license players who are restricted to write business with minimum case sizes) will not be required to meet these requirements.

Welcoming the move from the MAS, the Life Insurance Association of Singapore (LIA) has announced that it will work closely with the regulator to ensure a smooth roll-out of the initiative. Notwithstanding the direct nature of such products, the MAS and the LIA recognise the continuing need for financial advice for customers who are unfamiliar with financial products.

Further details on the direct purchase product features that have been prescribed by the MAS are as follows:

i. Term life insurance with TPD

For term life insurance products, three policy coverage term options will be available, to cater to various short to long-term protection needs, including five-year term (with renewability feature), 20-year term and term-to-age 65. The sum assured will range from a minimum of SGD 50,000 to a maximum of SGD 400,000. Definitions for TPD will follow current market standards.

ii. Participating whole life insurance with TPD

For participating whole life insurance products, customers could select premium payment periods of up-to-age 70 or up-to-age 85, to reflect two options typically seen in the market. To encourage healthy customer behaviour of purchasing adequate insurance protection within one’s means, the MAS has set SGD 200,000 as the maximum sum assured for whole life insurance products. The minimum sum assured is to be at least SGD 50,000, in line with market norms.

iii. Optional CI rider

Customers could choose to attach CI riders to the two direct purchase products above. Similar to TPD, definitions for CI will conform to current market standards, with coverage term of up to age 65. Premiums charged for accelerated CI benefits will be non-guaranteed, as per industry practice.

For all direct purchase products, the minimum entry age is 18, as typically seen in the market, while the maximum entry age is 65, based on the current official re-employment age cap.

Observations/Implications

In general, the direct purchase products have been designed with the aim of reducing the well-publicised ‘protection gap’ in Singapore, starting with a suite of basic protection insurance products. The standardisation of product features for these products should help customers’ understanding, and it is hoped that customers will buy these basic insurance coverages without requiring advice from a financial adviser or an insurance agent. Face-to-face advice is still expected to play a key role in selling more sophisticated insurance products, including those with high investment elements.

With the MAS requiring all insurers serving the retail customer segment to set up a direct distribution channel selling a broadly standardised suite of products, price competition is expected to increase, as customers would have easy access to direct purchase products from various insurance companies. In addition, the web aggregator, another initiative emerging from FAIR, will emerge soon in the form of an online platform enabling customers to compare insurance products from different insurance companies. Once launched, this is also expected to provide further transparency of product features and benefits.

Conclusions

In conclusion, this announcement is an important step towards expanding and developing the direct channel in Singapore. As has been the case with other regulatory developments in the territory, this may prove the catalyst for regulators in other markets to follow suit, encouraging the development of direct channels. For example, Bank Negara Malaysia, the insurance regulator of Malaysia, recently (in January 2014) issued an industry consultation on the Life Insurance and Family Takaful Framework that would make it compulsory for life insurance companies to set up direct channels to sell pure protection products free of commission.

It will be interesting to see how successful sales of these direct purchase products prove to be, and how they impact sales through other channels, as well as overall new business margins.

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