
February 2024

MAS Proposes to Simplify and Facilitate Greater Access to Insurance Products

The Monetary Authority of Singapore (“MAS”) has on 2 February 2024 published a consultation paper proposing a reduction in the amount of information collected by financial institutions from their clients when making recommendations for selected insurance policies. The MAS intends to do so by promoting the adoption of the Basic Financial Planning Guide (“**Financial Planning Guide**”) by the financial advisory industry.

In addition, MAS has proposed to introduce accompanying safeguards for the collection of a reduced set of information items.

1. Introduction

By way of background, this present consultation follows up from the launch of the Guide on 7 October 2023 by the MAS and MoneySense, in collaboration with the CPF Board, the Association of Banks in Singapore, the Association of Financial Advisers (Singapore) and the Life Insurance Association. This Financial Planning Guide outlines various rules of thumb to help individuals take proactive steps to address their savings, insurance and investment needs as well as to encourage consumers to consider simple and low-cost product options and government schemes to address their respective financial needs.

In this present consultation, the MAS is proposing the adoption of the Financial Planning Guide by the financial advisory industry. This would encourage the recommendation of simple and cost-effective products in accordance with the Financial Planning Guide, which could help to narrow insurance protection gaps. The MAS is also proposing to exempt financial institutions (“**FIs**”) who make recommendations on selected life or long-term accident and health insurance (“**A&H**”) policies covered by the Financial Planning Guide from the full information collection requirements (as explained below).

2. Full Information collection requirements

FIs who provide financial advice are required by section 36(1) of the Financial Advisers Act 2001 to have a reasonable basis for recommending any investment product. This would include a life policy. In addition, MAS Notice 120 on Disclosure and Advisory Process Requirements for Accident and Health Insurance Products (“**Notice 120**”) similarly requires that whenever advice is given in respect of A&H policies, the person giving the advice must have a reasonable basis for providing the advice. In determining whether there is reasonable basis for making a recommendation concerning an investment product, FIs are required to collect and document, among other things, information on the client’s financial situation and objectives, risk tolerance, employment status, source and amount of the client’s regular income and financial commitments.¹ Where advice is being given concerning A&H policies, there is a need to collect and document similar information about the client and additionally, to obtain information on any existing health policies of the client and any pre-existing medical conditions.² These requirements will collectively be referred to as the “**Full Collection Requirements**”.

The MAS is proposing to allow FIs to collect a reduced set of information if the financial advice is for a product that falls within the selected insurance policies covered by the Financial Planning Guide. In such a scenario, the MAS is also proposing that FIs institute safeguards to account for this reduction in the collection of information.

3. Reduced information collection requirements

The list of insurance policies recommended by the Financial Planning Guide are the following:

¹ Paragraph 11 of the Notice on Recommendations on Investment Products (FAA-N16).

² Paragraph 35 of Notice 120 in respect of A&H policies.

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- (a) term life insurance policies;
 - (b) standard critical illness (“CI”) riders sold with term life insurance; and
 - (c) standard standalone CI policies

The Financial Planning Guide also sets out the following rules of thumb in relation to obtaining insurance protection:

- (a) insurance protection coverage for death and total and permanent disability (“TPD”) should be for a sum equal to 9 times of a person’s annual income;
- (b) insurance protection coverage for CI should be for a sum equal to 4 times of a person’s annual income; and
- (c) no more than 15% of a person’s take-home pay should be spent on insurance protection.

The MAS is proposing to allow FIs who make recommendations on the aforesaid types of insurance policies to be exempted from the Full Collection Requirements. In place of the Full Collection Requirements, the MAS is proposing that such FIs be required to collect a more limited set of information comprising the following:

- (a) the objectives of the client;
- (b) the current insurance policies of the client that provide death and TPD, and/or CI coverage;
- (c) [For standalone CI policies and CI riders] any medical conditions that the insured may have; and
- (d) the client’s annual income.

The rationale here is that items (a), (b) and (d) would be necessary to ensure consistency with the rules of thumb set out in the Financial Planning Guide whereas item (c) would be required for underwriting purposes.

4. Safeguards to the reduced set of information collection requirements

Where an FI relies on the proposed exemption from the Full Collection Requirements, the MAS would require the FI to institute the following safeguards:

- (a) the rules of thumb in the Financial Planning Guide must be explained to the client and the client must be duly guided in terms of budget allocation to meet his key financial needs (such as setting aside sufficient emergency savings);
- (b) the FI must confine its recommendation only to term life insurance policies, standard CI riders sold with term life insurance policies, and/or standard standalone CI policies;
- (c) the FI must verify that the client’s total death and TPD coverage, and CI coverage, after taking into consideration his existing insurance policies and the recommended policy, does not exceed 9 times and 4 times of his or her annual income, respectively; and
- (d) the FI must verify that the client’s total annual outlay on insurance policies that provide death and TPD coverage, and CI coverage, after taking into consideration his or her existing insurance policies and recommended policy does not exceed 15% of his annual take-home pay.

The MAS has also recognised that consumers may have pre-existing bespoke policies which do not wholly fall within the list of insurance policies recommended in the Financial Planning Guide. As such, for such consumers, it may not be possible to achieve the insurance protection in accordance with the rules of thumbs in the Financial Planning Guide. For example, a person might have pre-existing bundled insurance coverage (such as an investment-linked policy) or non-standard CI policies where the premiums are generally higher. As a result, a recommendation of a policy may cause the client’s total annual outlay on insurance policies to exceed 15% of his or her take-home pay, or address certain insurance gaps but not others. In such scenarios, the MAS has said that the adviser should exercise more care when advising the client on ways to address his or her insurance protection gap, such as by allocating his or her budget across different financial needs, advising on available options and advising on the risks of switching products. In such scenarios, the MAS also indicated that the Full Collection Requirements might still be relevant when advising the clients and there might be less merit in reducing the information to be collected.

5. Conclusion

These proposals from the MAS to reduce the set of client information to be collected for eligible insurance policies are part of a wider effort to narrow insurance protection gaps in Singapore by enabling consumers to purchase simple and cost-effective insurance policies more easily.

The MAS intends to implement these proposals through legislative amendments to FAA-N16 and Notice 120. They are currently inviting comments from interested parties on these proposals. The consultation period closes on 15 March 2024.

A copy of the MAS Consultation Paper and its accompanying annexes can be obtained [here](#).

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