

PwC Perspective

What does FAIR mean to your business?

A little over 12 years ago the Financial Advisory industry in Singapore received a shot in the arm delivered by the Committee on Efficient Distribution of Life Insurance. Arguably this kick started Bancassurance in this market which now accounts for 27% of new business.

The 28 FAIR recommendations similarly will act as a catalyst for change and (potentially) growth; for instance the introduction of an aggregator site in the Singapore life market will be the first such site used across South East Asia.

March 2013

The consultation paper was released on 5 March; 55 pages and 25 questions later, the MAS has signalled its broad support for the 28 recommendations made by the FAIR panel. It contains a detailed explanation of the rationale behind the MAS' support, sets out how the MAS view the changes working and finally the industry is given an indicative time line to comply.

Although the implementation date (ID) has not been announced most of the recommendations will have to be in place within 6 months of the ID. Starting the planning now is therefore the best course.

The full text can be found on the [MAS website](#). Written comments to the MAS should be provided no later than the 4 June 2013.

Key Issues

There are a number of key challenges that FAIR poses that you need to consider. Their impact will vary depending on the size and nature of your business, but they may include:

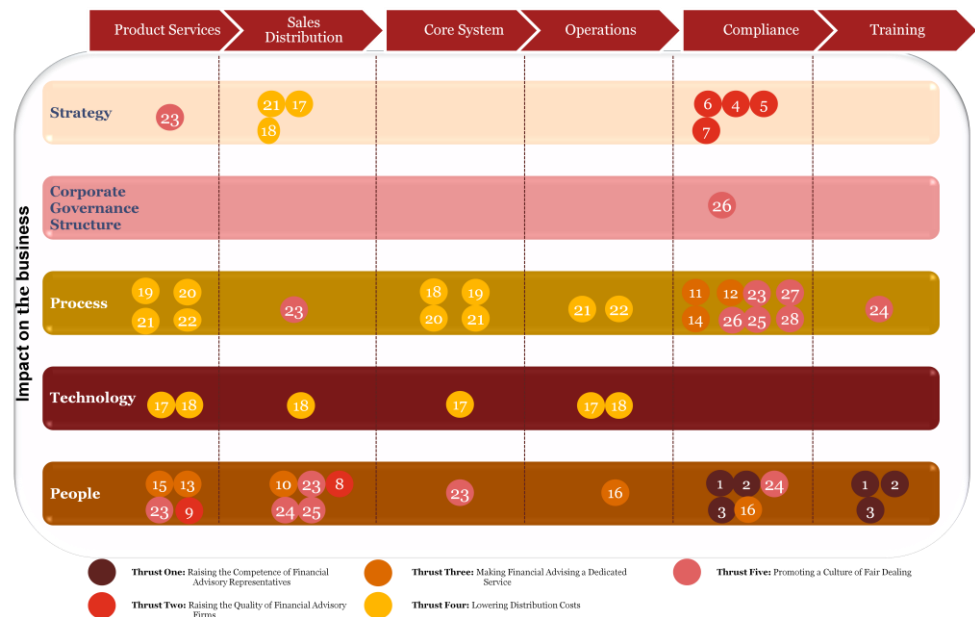
- Deciding on the most effective distribution strategy ;
- Establishing the right product set that will allow you to compete profitably given the increased transparency from the introduction of an aggregator site and greater product disclosure;
- Restructuring the remuneration of your FA representatives for a positive outcome;
- Ensuring the sales force is appropriately trained;
- Deciding on the most profitable market segments you will service as a result of the FAIR changes.

Our perspective

A closer look at the recommendations show there are both opportunities and challenges that will test the effectiveness of the strategy of every company operating in the FA industry in Singapore today.

This cocktail of new initiatives will undoubtedly impact front, middle and back office operations. In the diagram below we illustrate likely areas of impact across an Insurance Company.

Diagram 1 – Illustrative impact of the FAIR recommendations on an Insurance Company



The recommendations are best placed in three buckets:

New initiatives aimed at providing greater choice and transparency to the customer

The aggregator site, direct channel and illustrative un-bundling of bundled products are all new initiatives aimed at making it easier for customers to make the right choice for their individual circumstance.

Developing an effective technology response will be key. Companies may also need to look harder at the competitiveness of their products in the light of increased disclosure and maintain the effectiveness of their sales force.

Greater monitoring of existing Guidelines on Fair Dealing

The 5 core principles were introduced back in 2009. The MAS clearly feels that more still needs to be done in this area. The recommendations will drive the industry harder on the embedding of fair dealing and, will allow the MAS greater options to test their level of 'embeddedness'. Companies will need to demonstrate how they apply fair dealing throughout the business. This may not be an easy fix.

Further encouragement for FA representatives to put the interest of their customers first

The results of the mystery shopping exercise conducted by MAS during the FAIR review have contributed to the push to put customers' interest front and centre. This theme runs throughout the 28 recommendations; a carrot and stick approach is used to engender the right behaviour from FA representatives.

Greater levels of education, seen universally as a good thing, are perhaps diluted by the grandfather clause. The impact on sales force motivation of changes in remuneration patterns is complex. It will potentially alter the mix of sales and the overall sales force remuneration package will need to be looked at.

The use of the balanced scorecard changes the basis of sales representative reward. Companies that get this piece right may well end up with a more motivated, higher performing sales force. Those companies that get it wrong could see an erosion in their sales force.

How to get ready

In the diagram above we plotted each recommendation across some of the key departments in an Insurance company. We recommend that affected Companies make an assessment of the impact of FAIR across all areas of their business.

Doing this analysis and coming up with purely tactical remedies in our opinion may not be enough. Companies will also have to decide on how FAIR will impact their strategy in respect to channel, sales force, product and commission. To address this transformational change we recommend establishing a cross disciplinary task force to look at these issues. The task force can be structured to look at each 28 recommendations in isolation or can be structured around business issues. Whatever structure is put in place the interdependencies of the 28 recommendations must not be lost.

At PwC, we work with our clients on such complex transformational projects. Our unique role played in supporting the FAIR panel enables us to provide you with valuable insights which are also drawn from our colleagues who are working on similar regulatory developments, for example, the Retail Distribution Review in the UK and Future of Financial Advice in Australia. We would welcome the opportunity to discuss your response to the 28 Recommendations.

Contact us

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