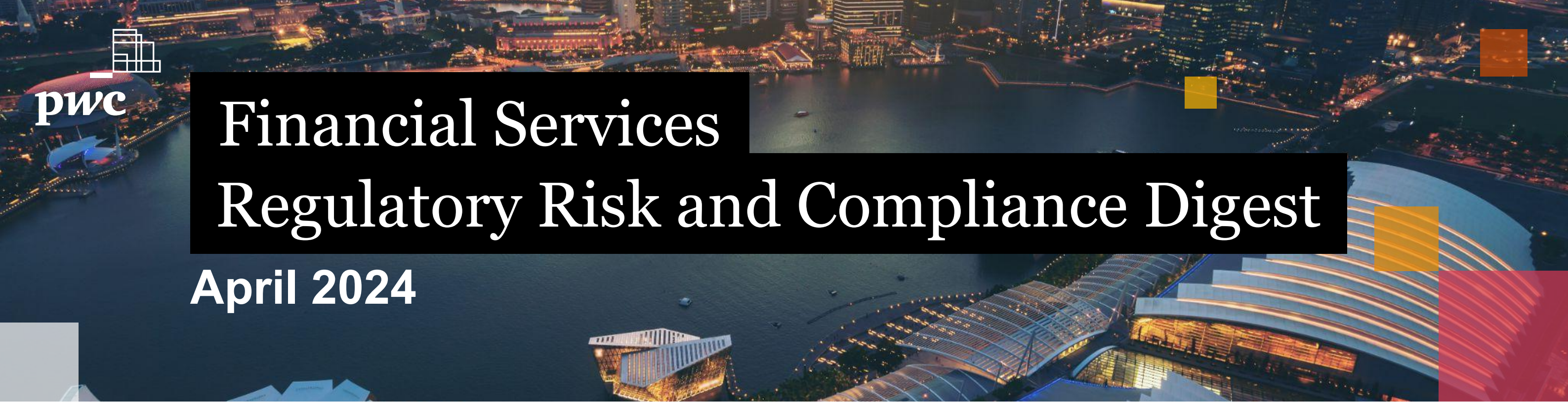
Financial Services Regulatory Risk and Compliance Digest

April 2024



Welcome!

This newsletter focuses on providing you with an update on key regulatory changes in the financial services industry in Singapore, covering banks, insurers and asset managers. We hope this summary will help you to keep abreast of these emerging themes, and we welcome any opportunity to discuss these with you.

Here's what you can expect in this edition:

No.	Topic	Description	Who it affects
1	MAS Outsourcing Notice	Risk management practices pertaining to the management of outsourced relevant services	Banks and merchant banks
2	Proposed Guidelines on Transition Planning towards Net Zero Economy	Preparation for risks and potential changes in business models associated when transitioning towards net zero economy	Banks, merchant banks, finance companies, insurers and asset managers
3	Proposed Enhancements to the E-Payments User Protection Guidelines (EUPG)	Alignment of industry-wide anti-scam practices, additional duties to improve scam detection and dispute resolution, clearer and fairer dispute resolution process, consumer education	Banks, finance companies, non-bank credit card issuers, payment service providers (responsible FIs) and consumers
4	Proposed Shared Responsibility Framework for Phishing Scams	Defining duties and responsibilities of financial institutions, telcos and consumers in relation to phishing scams.	FIs, telecommunication companies (telcos) and consumers
5	Proposed Enhancements to the Policy Owners' Protection (PPF) Scheme in Singapore	Changes are proposed to enhance coverage, simplify design, improve operational efficacy	Insurers
6	Proposals to Simplify Requirements and Facilitate Access to Simple and Cost-Effective Insurance Products	Reduce information collection by FIs on selected insurance products	FIs and consumers
7	Proposed Changes to the Complex Products Regime	MAS will initiate a more holistic consultation to address the diverse industry feedback from the original consultation in November 2021	Financial intermediaries

If you would like to learn more about what these regulatory updates mean for you, please reach out.

Warm regards,
Kwok Wui San
Partner, Regulatory Risk and Compliance Leader
PwC Singapore

New regulations issued

1. MAS Outsourcing Notice

Who it affects: Banks and merchant banks

In a nutshell

- On **11 December 2023**, the Monetary Authority of Singapore (MAS) issued new Notices on Outsourcing for banks and merchant banks, with a focus on the risk management practices pertaining to the management of outsourced relevant services.
- **Compliance by 11 December 2024** – except for arrangements for exempted Outsourced Relevant Services set out in Annex D of MAS Notices 658 and 1121.
- **All outsourced relevant services** – under the Notices, Banks and MBs are required to submit to MAS an inventory of outsourced relevant services semi-annually or upon request by the authority.
- **Material ongoing outsources relevant services (MOORS)** – for material ongoing outsources relevant services, Banks and MBs are required to comply with the latest requirements around due diligence, sub-contracting, service agreements, protection of customer information, independent audit, service termination and service provider that is an overseas regulated financial institution set out in the Notice.
- **Outsourced relevant services involving customer information disclosure** – banks and MBs are required to put in place measures that focus on safeguarding of confidentiality and integrity of customer information for outsourced relevant services that involve the disclosure of customer information.

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What this means for banks and merchant banks

1. Reassess the scope of third-party arrangements and the applicability of the current policies to manage and update their outsourcing register accordingly.
2. Perform a self-assessment of sufficiency of existing policies and procedures for material ongoing outsourced relevant services.
3. Identify and establish processes to manage non-material and non-ongoing outsourced relevant services that involve the disclosure of customer information.

On regulators' radar

This section covers key consultations proposed by the MAS affecting financial institutions. We provide a summary of the consultation paper and include our viewpoints to keep you on top of the regulatory agenda.

2. Proposed Guidelines on Transition Planning towards a net zero economy

Who it affects: Banks, merchant banks, finance companies, insurers and asset managers

In a nutshell

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- The MAS issued three consultation papers (CPs) in October 2023 to introduce a set of new Guidelines on Transition Planning (TPG) to guide the FIs' transition planning process. Separate CPs were issued for banks, insurers and asset managers respectively.
- The proposed TPG guidelines aim to supplement the existing Environmental Risk Management (EnRM) guidelines with additional granularity.
- These three CPs cover extensive recommendations over strategic business planning and risk management. It is highly recommended that FIs invest time to understand the implications of these proposed recommendations.
- The CPs have common principles on governance strategy, disclosures, implementation strategy and transition period across the three sub-industry sectors which are highlighted below.
- As it relates to recommendations over risk management, portfolio management and underwriting activities, there are nuances that are unique to banking, asset management and insurance sectors which will be covered in the next edition.

Deep dive: Applies for banks, insurers and asset managers

1. Definition of transition planning

The proposed definition of transition planning is "Internal strategic planning and risk management processes undertaken to prepare for both risks and potential changes in business models associated with the transition." It is broad and will have implications on the strategic and risk management processes for banks, insurers and asset managers. Below are some considerations for transition planning:

- Adoption of a multi-year view of climate change impact on their business models;
- Active engagement of customers, investee companies, asset managers and investees to avoid indiscriminate withdrawal of financing, investment or insurance coverage support and to manage short term fluctuations in financed emissions against longer term improvements in climate risk profiles;
- Revision of risk appetite statements to include actionable metrics to guide decision-making and implementation of transition plans;
- Inclusion of other environmental related risks e.g. biodiversity risk in transition planning and risk management; and
- Proactive communication and disclosure of transition planning process to stakeholders via various channels and platforms e.g. annual reports, sustainability reports, transition plans.

2. Proposed Guidelines on Transition Planning towards a net zero economy

Who it affects: Banks, merchant banks, finance companies, insurers and asset managers

Deep dive: Applies for banks, insurers and asset managers

2. Governance and strategy

It is proposed that the Board and Senior Management of banks, insurers and asset managers should evolve their risk appetite, framework and strategy accordingly to take into account the impact of the changes in the global transition towards a lower-carbon future on the FI's risk profile.

Considerations include:

- Robust governance process to tackle climate-related decisions;
- Clear tone from the top to address climate-related risk
- Clear lines of communication and escalation established across the FI to address risks that are cross-functional;
- Internal strategies and risk appetite statements are in line with publicly communicated climate-related strategies;
- Mechanisms to implement business strategies and align internal behaviour to address climate-related risks are established through performance measurement, remuneration policy and incentive structures as appropriate.
- Ability to continuously refine the approach to address climate-related risks.

3. Disclosures

It is proposed that the financial institutions make available the additional disclosures to enable their stakeholders to understand:

- How they are responding to material climate-related risks in the short, medium to long term;
- The governance around the processes to address these risks are in line with well-regarded international reporting standards and frameworks (such as the ISSB);
- Risk management strategies undertaken and the articulation of the impact of these approaches against their publicly committed climate objectives to manage any short term negative perception;
- Product-related information using well-regarded green and transition taxonomies in product disclosures and labelling; and
- Underlying factors, inputs, methodologies, material assumptions and dependencies impacting their disclosures for transparency

2. Proposed Guidelines on Transition Planning towards a net zero economy

Who it affects: Banks, merchant banks, finance companies, insurers and asset managers

Deep dive: Applies for banks, insurers and asset managers

4. Implementation strategy

It is proposed that as part of the implementation strategy on transition planning, financial institutions should:

- Embark on capacity building and training;
- Update internal governance and processes in a systematic manner to manage climate-related risks and;
- Develop a data strategy to build, maintain and effectively utilise relevant environment-related data to support effective decision making.

5. 12-month transition period

Across all the three sub-FS sectors, a period of 12 months after the issuance of the TPGs is proposed for the in-scope financial institutions to assess and implement the TPG as appropriate.

What this means for financial institutions

1. To meet these expected guidelines, FIs should do a gap analysis and develop a coherent and holistic operating model across governance structure, risk management processes, customer and industry sector engagement and using systems and data to enable decision-making, monitoring, reporting and communication to stakeholders.
2. Foreign FIs, branches and subsidiaries in Singapore may consider guidance from head office if the group's transition planning approach meets the MAS guidelines. A gap assessment should be done to assess if the group's transition planning approach meets MAS' expectations.
3. Investments in technology should be considered to enable transition planning given the multi-year horizon, new data sets, risk assessment and simulation, and reporting requirements that need to be in place to inform business decisions.
4. Capacity building efforts to get the organisation ready for transition planning and getting used to managing climate-related risks is critical.
5. Access and management of the relevant data sets to inform strategy, internal planning and risk management is another key input to enable transition planning.

On regulators' radar

This section covers key consultations proposed by the MAS affecting financial institutions. We provide a summary of the consultation paper and include our viewpoints to keep you on top of the regulatory agenda.

3. Proposed Enhancements to the E-Payments User Protection Guidelines (EUPG)

Who it affects: Banks, finance companies, non-bank credit card issuers, payment service providers (responsible FIs) and consumers

In a nutshell

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- On **25 October 2023**, the MAS issued a consultation paper to further enhance the EUPG guidelines issued in 2018 in response to rising scams.
- **Three focus areas** – considering the lessons learnt and prevalent scam typologies, the proposed enhancements are targeted at three areas:
  - Alignment of established anti-scam industry practices across the financial industry.
  - Additional duties of responsible FIs to facilitate prompt detection of scams by consumers and a fairer dispute resolution process.
  - Reinforcement of consumers' responsibility to take necessary precautions against scams.
- **Alignment of industry-wide anti-scam practices** – the enhanced EUPG proposes to have all Responsible FIs implement preventive measures over sending of clickable links and phone numbers, high-risk activities, cooling off period after activation of digital tokens and real-time outgoing transaction notification alerts and remedial measures on kill-switch, 24/7 reporting channel to report unauthorised transactions.
- **Additional duties for FIs to improve scam detection and dispute resolution** – include detective measures to provide customers with more information to validate transactions, notification alerts, details relevant to the high-risk activity and obtain confirmations before high-risk activities – such as adding payees, increasing transaction limits for outgoing payment transactions, disabling notification alerts, and changing account holder's contact information – are executed.
- **Clearer and fairer dispute resolution process** – a new section in the proposed EUPG details what Responsible FIs are expected to do in dispute resolution, namely by having a transparent, evidence-based process that is responsive to customers and adheres to stipulated time frames.
- **Consumer education** – Consumers are expected to do their part by exercising cyber hygiene practices, being vigilant by referring to official sources and reading pop-up risk warnings before conducting high-risk activities, knowing how to report and activate kill-switch in the event of unauthorised activities being detected.
- **Direct accountability to consumers stemming from failure to implement EUPG measures** - in parallel, the Consultation Paper on Shared Responsibility Framework (SRF) was also published in October 2023 to hold FIs and telecommunication operators (telcos) directly accountable to consumers for phishing scam losses if the prescribed measures in EUPG are not implemented. The SRF takes reference to the recommended prescribed measures in EUPG when assessing responsibility.

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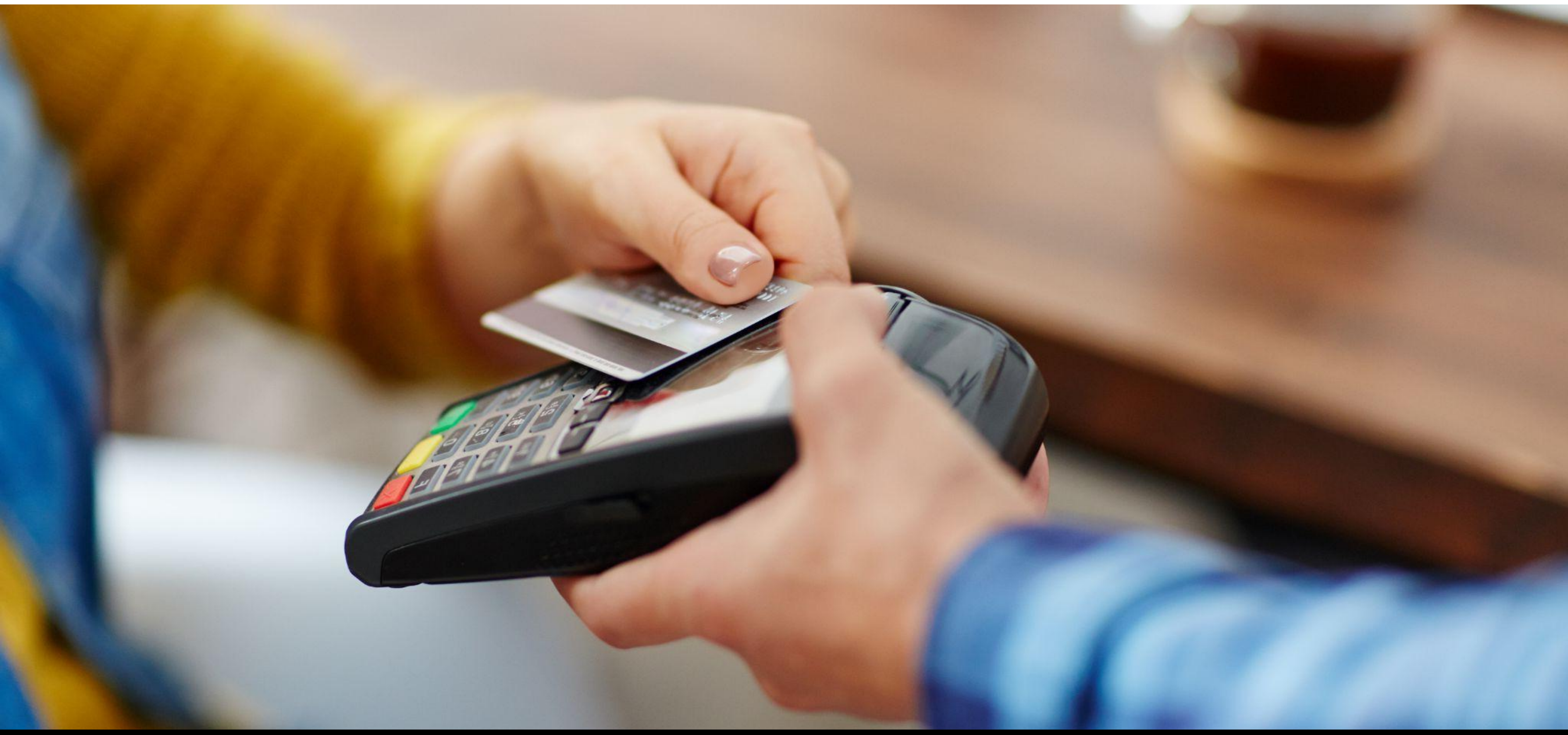
3. Proposed Enhancements to the E-Payments User Protection Guidelines (EUPG)

Who it affects: Banks, finance companies, non-bank credit card issuers, payment service providers (responsible FIs) and consumers

What this means for financial institutions

1. Responsible FIs, in particular the Finance Companies, Non-bank credit card issuers and Payment service providers with e-wallets issued to individuals, should review their existing anti-scam measures against the proposed enhancements for gaps and develop a roadmap to close the gaps. Consumer protection is non-negotiable, and we can expect rising regulatory expectations in this respect.
2. The proposed SRF adopts a waterfall approach in determining where responsibility lies and how losses arising from scams will be shared between FIs, Telcos and Consumers. The SRF leverages the EUPG in determining whether the FIs have fulfilled its duties as a fund custodian of the consumers. In this regard, failure to have these proposed EUPG measures in place may weaken the FIs position in event of dispute.
3. In addition to anti-scam measures, dispute resolution process will be a key focus going forward as scams will continue to rise. There is a need to have a robust, transparent and fair dispute resolution framework and process in place. Responsible FIs should review its current dispute resolution process against the proposed new guidelines and look to strengthen its dispute resolution process. FIs should see this as part of its responsibility as the primary custodian of fund custodian of the consumers.



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4. Proposed Shared Responsibility Framework for Phishing Scams

Who it affects: FIs, telecommunication companies (telcos) and consumers

In a nutshell

- The MAS and the IMDA have jointly published a consultation paper to seek feedback on a proposed Shared Responsibility Framework (SRF) for the sharing of responsibility between financial institutions, telcos and consumers arising from phishing scams.
- The consultation paper covers all full banks and relevant payment service providers that provide account issuance services where the payment accounts issued can store e-money.
- Types of transactions covered are unauthorised transactions with a digital nexus whereby the customers are tricked into clicking on a phishing link and divulged credentials unknowingly to scammers via a fake digital platform.
- Authorised transactions or scams whereby the customers are deceived into giving their credentials via other non-digital means and malware scams are not included under the SRF framework.
- A 'waterfall' responsibility sharing approach is proposed where the Fis are expected to payout, followed by the telcos and lastly the customers if they are found not being able to fulfil their SRF duties that are expected of them.
- The SRF duties for both FIs and telcos follow that in the E-payments User Protection Guide (EUPG). For the FIs, these duties involve real-time notification alerts of high risk activities to the customer, imposing cooling off period when a digital device token is activated, providing customers accessibility to a killswitch at all times and reporting channel for prompt reporting.
- SRF duties for telcos involve connecting only to authorised aggregators for delivery of SMS, blocking SMS from sender IDs that do not originate from authorised aggregators, effecting anti-scam filter over all SMS to block phishing links.

Read more

What this means for financial institutions, telcos and consumers

1. FIs and telcos should do a gap analysis against the proposed SRF duties and close out any gaps observed.
2. Periodic health-checks and testing should be put in place by FIs and telcos to ensure that SFR duties are being fulfilled and operating effectively to reduce risk of non-compliance.
3. Ensure that 'waterfall' approach is clearly understood and there is a structured operational workflow to facilitate the claim process.

This section covers key consultations proposed by the MAS affecting financial institutions. We provide a summary of the consultation paper and include our viewpoints to keep you on top of the regulatory agenda.

5. Proposed Enhancements to the Policy Owners' Protection (PPF) Scheme in Singapore

Who it affects: Insurers

In a nutshell

- On **7 December 2023**, the MAS issued a consultation paper to seek views on the proposed changes to the Policy Owners' Protection Scheme ("the PPF Scheme") to enhance its coverage, simplify its design and improve its operational efficacy. The closing date for industry response is 16 February 2024.
- **Clarifications on coverage** – the MAS proposes clarifications to the type of products that should be covered under the PPF Scheme given the evolving landscape of insurance products in the market. For example, some insurers would classify cover provided to sole proprietors as "commercial" lines which would not be covered under the PPF scheme. The MAS has clarified that PPF coverage should extend also to sole proprietors as they are considered natural persons.
- **More pragmatic approach** – the MAS proposes a more pragmatic approach for the calculation of refund premiums and payment claims for certain category of losses should an insurer go into liquidation
- **Tighter governance of policy and claims tracking** – the MAS proposes measures to be undertaken by the PPF Scheme members, such as annual internal audits or periodic external audits, on systems and processes relating to the tracking of policy and claims under the PPF Scheme to facilitate payments under the PPF Scheme in the event of liquidation.

Read more

What this means for insurers

1. The proposed enhancements by the MAS have underwriting, system, process and operations implications for PPF Scheme members. PPF Scheme members affected by the proposed enhancement will need to update their policy administration systems to correctly tag products that are covered by the PPF Scheme and those that are not.
2. For certain product types, PPF Scheme members will need to issue endorsements to split out risk components classified as different under the PPF Scheme as riders.
3. PPF Scheme members will need to enhance their internal controls and governance process in preparation for the requirement of annual internal audits and periodic external audits proposed by the MAS.

On regulators' radar

This section covers key consultations proposed by the MAS affecting financial institutions. We provide a summary of the consultation paper and include our viewpoints to keep you on top of the regulatory agenda.

6. Proposals to simplify requirements and facilitate access to simple and cost-effective insurance products

Who it affects: FIs and consumers

In a nutshell

- The MAS published a consultation paper on **2 February 2024** to seek views on the proposals to reduce information collection by FIs on selected insurance products in accordance with the Basic Financial Planning Guide ("the Guide").
- The Guide recommends the consumers to obtain insurance protection coverage of nine times annual income for death and total and permanent disability, four times annual income for critical illness and spend no more than 15% of take-home pay on their insurance protection.
- The Guide encourages consumers in considering selected term insurance policies to meet the consumers' protection needs in a simple and cost-effective manner.
- The Guide sets out the controls and safeguards required for the FIs on the collection of the reduced set of information for the selected insurance policies.

Read more

What this means for financial institutions and consumers

1. FIs which make recommendations on the selected types of term insurance policies are exempted from the full information collection requirements, instead replaced with a mandatory reduced set of client information set out in the consultation paper.
2. FIs relying on the exemption to collect the reduced set of information are required to institute controls and safeguards in accordance with the Guide.
3. FIs may expect increase in the demand of the selected term insurance policies under the recommendation of the Guide.
4. Financial advisors should take consideration of the recommended insurance protection coverage and client's budget allocation across different options of insurance products available.

On regulators’ radar

This section covers key consultations proposed by the MAS affecting financial institutions. We provide a summary of the consultation paper and include our viewpoints to keep you on top of the regulatory agenda.

7. Proposed Changes to the Complex Products Regime

Who it affects: Financial intermediaries[1]

[1]A financial intermediary refers to a licensed or exempt entity, and representatives of such entity, carrying on business in any regulated activity under the Securities and Futures Act (SFA), or providing any financial advisory service under the Financial Advisory Act.

In a nutshell

- **Wide-ranging feedback received** – The MAS received wide-ranging industry feedback to the Consultation Paper on Proposed Changes to the Complex Products Regime dated 3 November 2021.
- **Original scope of consultation** – Initially, the proposed changes were aimed at the classification of perpetual securities, preference shares and debentures as either Enhanced Investment Product (EIP) or Specified Investment Product (SIP), the streamlining of the complexity criteria for Collective Investment Schemes (CIS) and the removal of Customer Knowledge Assessment (CKA)/Customer Account Review (CAR) for unlisted and listed SIPs respectively.
- **A wider consultation is warranted** – Given the diverse views, the MAS will initiate a more holistic consultation, targeted to commence in the first half of 2024.
- **Interim changes** – In the meantime, the MAS has positively responded to
    - Remove the restrictions in relation to securities lending and securities repurchase to streamline the complexity criteria of CIS to focus on use of SIPs and;
    - Expand the EIP criteria to allow funds that invest in SIPs for sole purpose of replicating the CIS performance to be akin to an “acceptable index” (e.g. S&P 500, FTSE 100) to be classified as an EIP.

Read more

What this means for financial intermediaries

1. Expect the upcoming consultation on Complex Products Regime to be a holistic one to further calibrate retail investor protection versus increased accessibility to more investment products.
2. Expect the consultation to touch on enhancements to disclosure requirements in Product Highlights Sheet (PHS). This is by and large the position espoused by the respondents to the consultation on product classification.
3. Be prepared to initiate a review of product classification once the changes to CIS complexity criteria are put into effect and to notify the approved exchange and/or distributors of the CIS as appropriate, if there is a change in product classification.

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Any feedback or suggestions?

Let us know what you think of this edition and what you would like to see in the future, so that we can make this newsletter series more relevant to you.

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