CREATING A WINNING OFFERING IN A FAIR WORLD

The Zurich Best Practice Report

January 2014

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FOREWORD

Financial services across the world have been going through a process of change. This has been led, in most cases, by local and cross-border regulatory reforms, with a far-reaching impact on each market's banking and insurance sectors.

Singapore is no different. And one of the most significant developments since early 2012 – and continuing today – has been the Financial Advisory Industry Review (FAIR).

Perhaps the most important factor driving reforms is customer centricity. Notably, this is at the core of the value proposition at Zurich Global Life Singapore.

FAIR is a good place to start in achieving this objective. Given that the financial industry tends to be a complex environment, it is important to embrace initiatives which simplify products, enhance accessibility, lower costs and improve services for customers.

Yet FAIR is just the first step by the Monetary Authority of Singapore (MAS) in outlining its expectations of the broader financial services industry. There is no doubt that there is more to come on this journey.

On behalf of Zurich Global Life Singapore, I am delighted to present this report we produced in collaboration with Hubbis. As a key player in the insurance industry in Singapore, Zurich wants to help the community understand the implications of changes brought about by FAIR – and to support and encourage distributors as well as customers.

I hope you enjoy the insights this publication offers. We welcome the opportunity to work with you and your clients in this ever-changing world.

Peter Huber
Chief Executive Officer
Zurich Global Life Singapore

EXECUTIVE SUMMARY

The insurance industry in Singapore is set for a shake-up as a result of various expected changes to business and advisory models, processes and infrastructure in the wake of the Financial Advisory Industry Review (FAIR).

The final outcome is not as far-reaching as many advisers initially thought it might be. But FAIR will be the catalyst for a new playing field that will mean fewer firms offering, in theory, higher-quality advice, and serviced by a more responsive and technology-savvy group of insurance companies and other product providers.

"FAIR will be the catalyst for a new playing field that will mean fewer firms offering, in theory, higher-quality advice."

Those firms which have taken it seriously from an early stage, and have prepared themselves accordingly, are set to emerge as the winners.

Yet for the wider market – and certain groups of consumers – the danger is that at the lower- to mid-affluent end of the customer segment the protection gap will remain unplugged as these individuals are under-served.

This is expected to occur given that some of the less competent and less committed advisers will exit the market. A higher level of knowledge and professionalism will prevail.

Further, success for advisory firms is more likely to come from focusing their efforts on the upper end of the market, where there is a greater chance of recurrent income from clients with a higher amount of assets.

More typical retail clients are smaller and there is less of a chance that they will pay a fee; they are therefore more likely to get left behind.

Some of expected outcomes, and consequences, relating to FAIR are based on recent experience in the UK. Not only is the introduction of the Retail Distribution Review (RDR) in January 2013 a timely benchmark – but this new regime has resulted in an exodus of advisers and an "advice gap". (More details are in Section 3.)

FAIR timeline: a snapshot

March 2012

- The Monetary Authority of Singapore (MAS) announces the launch of FAIR
- It is aimed at raising the standards of practice in the financial advisory (FA) industry and improving the efficiency in the distribution of life insurance and investment products in Singapore

April 2012

- A panel, chaired by MAS and comprising representatives from industry associations, consumer and investor bodies, academia, media, and other Stakeholders was formed to conduct the review

January 2013

- The FAIR Panel submitted its recommendations to MAS on under five key thrusts
- The thrusts were: raising the competence of FA representatives; raising the quality of FA firms; making financial advising a dedicated service; lowering distribution costs; and promoting a culture of fair dealing
- The recommendations were opened for public consultation from March to June 2013

September 2013

- MAS issued its response to the public consultation on the recommendations of the FAIR Panel
- Of the FAIR Panel's 28 recommendations, MAS fully accepted 19, modified eight and dropped one
- Three key initiatives reflect MAS' view of what would lift standards of practice in a meaningful and decisive way: a balanced scorecard remuneration framework; a direct sales channel for "basic insurance" products at a nominal fee' and a web aggregator to enhance comparability amongst life insurance products

A "go big or go home" future

Many practitioners are adamant that the future of advice in Singapore's insurance sector is all about scalability.

In general, this seems inevitable given the significant cost-income pressures advisory firms now face – including their commitment to compliance requirements, and the need for technology and systems, along with other operational and process-related infrastructure.

Further, those advisers who strive for the highest standards will gravitate towards firms which have the framework and culture in place to support them.

This is similar to what has happened in other markets. Larger firms get bigger and stronger, and some smaller firms merge or disappear.

Practitioners will also need to commit to doing more professional development to ensure they maintain and enhance their levels of knowledge as the market gets more transparent around products and pricing.

On the flipside, there is a question-mark over the number of capable and experienced advisers in Singapore going forward. Judging by the UK's experience, some of them will leave the industry altogether, unable to keep up with the demands of the more professional environment being created.

Or, perhaps more pertinently, will there be an excessive amount of mass affluent clients who are under-insured and poorly positioned from a long-term investment and insurance perspective?

At the same time, some of the niche, or boutique, advisory firms will flourish. They will stand out for the specific service or product they offer, or for focusing on specific areas – for example, graduates advising graduates, or working specifically in the medical field.

Those firms which are stuck in the middle – neither large nor nimble – face the biggest challenge. A lot of them are set in their ways and their key advisers and leadership are not driving change.

"Will there be an excessive amount of mass affluent clients who are under-insured and poorly positioned from a long-term investment and insurance perspective?"

"How insurance providers and other product manufacturers respond to the need for greater levels of support through more user-friendly technology, a more streamlined client experience and product innovation will determine who can win greater market share going forward."

Evolving distribution

In terms of the new distribution dynamics, advisory firms are in need of more support to deal with today's more challenging landscape.

Transparency means allowing clients to compare products and prices. As a result, online activity will increase: aggregators and online distribution platforms will emerge as bigger channels over time.

The conversion rate of these online companies – in terms of people finding out about the products online and then buying them – is quite impressive and gives hope that over time these platforms will grow. It also implies that the cost is much lower than distribution via classic channels.

Another potential area for change is in the overall client engagement and customer experience.

How many times has an insurance agent called a client and said something like: "The claims for your car damage have been paid and everything's been settled"? Usually when claims have been paid, the only communication is via an impersonal letter – there is no personal conversation or proper contact.

People might view their insurance company in a different light if they had a relationship with their agent – especially when damage happens.

How insurance providers and other product manufacturers respond to the need for greater levels of support through more user-friendly technology, a more streamlined client experience and product innovation will determine who can win greater market share going forward.

Context and background to this report

This best practice report has been written against the backdrop of the long-awaited outcome of FAIR.

Given the extent to which the insurance industry in Singapore is grappling with the potential impact on the look and feel of advice – and with who can adapt and evolve their models to emerge as the winners going forward – this report seeks to provide insightful research and commentary on the business implications, issues, opportunities and challenges arising from the new regime.

Zurich and Hubbis identified 30-plus relevant chief executive officers, product gatekeepers and advisers at the top 20 IFAs (local and expat), as well as consumer banks and other distributors in Singapore.

The interviews were conducted between late-September and late-November 2013, on an off-the-record basis.

The objective is to enable all participants in this market to explore many aspects of their business – enabling them to benchmark themselves in relation to their platform, processes, client experience, fees, products and overall service.

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Some of the key topics discussed with interviewees included:

- What is the real impact of FAIR, both on the distribution model and on the product offering?
- Does FAIR go far enough in terms of transparency and disclosure around fees? Where next?
- How is the role of insurance companies and products changing within the new look of the wealth management industry?
- How is the mix between the different distribution channels developing – IFAs, brokers, banks, agency forces?
- How are models likely to evolve in the next few years under FAIR?
- What is the prospect for a level playing field for all distribution channels, including access to products/platforms and regulation?
- What are the opportunities for insurance companies and product manufacturers as the distribution channels evolve?
- How are the expectations of clients likely to evolve?
- What needs to be done to drive innovation, such as in enhancing the customer experience and product platform?

SECTION 1

Assessing the implications of FAIR

Following the MAS' response to FAIR in late September 2013, the proposed measures aren't as onerous as many industry participants thought they might be.

For instance, while FAIR appeared insistent on introducing fee-based advice, this hasn't been enforced – possibly due to too much "noise" from the market and those consumers in most need of insurance not being ready for this type of payment structure.

In general, industry players have welcomed the objectives relating to raising standards among financial advisers in Singapore: improving transparency in terms of both product features and pricing; driving down distribution costs (thereby improving product pricing); improving knowledge among advisers and raising the standard of advice; and ensuring that practitioners are dedicated to delivering a good service to clients.

The MAS is also sensitive to the fact that firms will need some time to implement internal changes to adjust to the new regulation – and so it will be phased in.

Yet, the compliance requirement is still likely to lead to a relatively large amount of consolidation in the market.

This is expected to happen as smaller firms without a specific niche, nor the ability to absorb the higher costs – for example, around capital management and cash flow management – plus greater expectations from clients, regulators, customers and staff now associated with operating under the FAIR regime, are likely to find it difficult to maintain a viable business.

"Following the MAS' response to FAIR in late September 2013, the proposed measures aren't as onerous as many industry participants thought they might be."

Benefiting from needs-based selling

In general, FAIR has been rightly designed to enhance transparency and the process of buying insurance-related protection and investment.

Indeed, there is a growing sense of urgency in Singapore to get more people protected; and in theory FAIR should help consumers better understand what they are buying, make a choice and then purchase the relevant policy – whether for protection or investment purposes.

The limited penetration to date, however, stems from how the products are distributed and bought. The industry has evolved this way because insurance products do need to be sold – customers generally don't approach advisers to buy insurance. FAIR, therefore, should try to avoid making the process any more challenging overall.

The need for higher levels of education, training and advice will make it easier to identify poor advisers who try to work with clients using an out-dated mind-set.

It will no longer be possible for advisers to be successful by approaching clients by focusing on the products they are pushing this month, and working out how they can fit this product to the client.

An "excellent" adviser, on the other hand, is going to say to their client: "This is what I deliver for you, this is how I add value to you and this is how much it costs." These individuals take a long-term approach with the client, continuously asking them "what are your goals?", rather than promoting a particular product.

"It will no longer be possible for advisers to be successful by approaching clients by focusing on the products they are pushing this month, and working out how they can fit this product to the client."

This way of operating requires advisers to focus on a client's needs, spend more time gathering information, and then provide solutions that are very much advice-based. These should be accompanied with a range of service propositions and fee structures.

Advisers might need some time to move from product-based selling to needs-based selling. But the benefits over the longer term include more loyal and satisfied customers.

One of the examples highlighted during the research process was of an international advisory firm which in some jurisdictions faced very transparent disclosure fees, but not in others.

After senior management voluntarily decided to introduce similar practices in all branches, the firm suffered an immediate 30% drop in volumes.

However, when the volumes started increasing again, they did so with a much richer product mix – more profitable products, more complex products and more cross-selling. The profitability overall was much higher, too.

Essentially, the moment it became needs-based selling and there was greater disclosure, the advisers had to take the time to understand client needs, engage more in a debate around these, and do more analytics around the potential right mixture of savings, accumulation, drawdown, etc, as part of the solution.

So while it might take time to adapt to new requirements, in the long run it has the potential to unlock a level of sophistication in the product offering.

Being more open

For example, in terms of fee disclosure, once advisers start conversations with a customer about what the provider is earning, is it always going to encourage the sale to happen?

Even though greater transparency is good, especially as this breeds trust with customers, advisers being forced to tell customers how much they are getting paid and effectively how they are running their business would not be a productive or fair situation especially when compared with almost any other industry.

Many industry practitioners point to the fact that there are very few industries where the consultants are required to disclose their commissions and profit margins at point of sale.

“So while it might take time to adapt to new requirements, in the long run it has the potential to unlock a level of sophistication in the product offering.”

While there is undoubtedly a need for consumer protection, some players have called for further debate about the experiences of disclosure in other markets, and how it could impact overall distribution in Singapore.

Part of the problem is clarity about how things should be disclosed. Just because information is disclosed does not necessarily mean that all consumers will know how to correctly interpret it.

Ultimately, the focus should be on the quality of advice being delivered, not the fee being paid. The performance and service should justify the fees.

Readying for greater competition

As FAIR recommendations promote cross-industry convergence, where tied agencies, FAs, independent wealth managers and IFAs increasingly operate under a similar framework and target more similar clients, players will experience increased levels of competition.

In response, the more proactive organisations are reconsidering the key principles by which they operate and reviewing the value proposition they provide to their clients.

SECTION 2

Improving the quality of advice

The insurance industry in Singapore will no doubt benefit from the higher levels of advice that FAIR is striving to promote.

Better-quality advice will mean customers get what they actually need – the ultimate goal of the new regime. It will also mean that the market will filter out those individuals who are not up to the task.

To help drive this race to the top, the industry's leaders are particularly excited about the introduction of a balanced scorecard remuneration framework under FAIR. (See the box for further details.)

While some of the details relating to how it will be implemented are still being finalised, rewarding the provision of good quality advice with consideration to a wide variety of factors and measures that relate to all-round sustainable advice will align the interest of the financial adviser with that of the customer.

And in making clearer for the industry what is acceptable and what is not – it will also create a (much-desired) more level playing field.

Further, the best-practice behaviour which it will drive among advisers will ensure they become more cautious.

For example, they will do more paperwork to evidence the quality of advice given, therefore creating a more formal audit trail, which is particularly relevant if customer complaints arise – the number of which are accounted for in the balanced scorecard evaluation.

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What a “balanced scorecard” means in practice

The MAS has embraced the FAIR Panel’s recommendations for FA firms to adopt a balanced scorecard (BSC) approach – with the aim of better aligning the interests of FA representatives and their customers.

The framework incorporates non-sales key performance indicators (KPIs) in the remuneration structure for FA representatives and their supervisors. The FAIR Panel believes that this will motivate FA representatives to provide quality advice and good after-sales service to their customers.

The types of non-sales KPIs that the MAS has proposed FA firms develop to measure the performance of their representatives include:

- Quality of advisory and sales process – whether there is sufficient fact-find conducted to understand the circumstances and needs of the customer
- Suitability of recommendations – whether the product recommended is suitable for the customer based on his or her financial objectives, investment horizon, risk profile, financial situation and particular needs
- Adequacy of information disclosure – whether the representative has highlighted and explained all material information to the customer
- Customer complaints – the number, nature and severity of substantiated complaints against the FA representative for misconduct relating to the provision of financial advice and poor after-sale services

Where representatives fail to meet any or all of the non-sales KPIs, their remuneration will be deducted accordingly.

Raising competency and adviser standards

In looking at where to start when trying to improve adviser quality, the question is whether to focus on individuals or the organisation itself to develop the right framework, policies and investment infrastructure.

It is impossible to equip every adviser with the knowledge and tool-kit that takes years to accumulate, so the organisation needs to play a driving role.

As part of this, organisations need to first go through a rigorous and systematic process of identifying the right profiles of advisers that suit their business model and objectives.

The markers which show who can provide the right type of advice are likely to become clear quite quickly.

For example, in many advisory firms, people with a business background and four to five years of experience within the same advisory environment tend to perform much better.

In addition, it is often all about the first 18 months, as it will generally be obvious within this timeframe whether the individual will be successful. Therefore, all the support structures need to be focused on this initial period.

In terms of the types of interventions required during the training period, the most effective approach is doing it on-the-job to improve standards and applying the knowledge and skills.

"It is impossible to equip every adviser with the knowledge and tool-kit that takes years to accumulate, so the organisation needs to play a driving role."

“Advisers inevitably want to work with firms where they see they have a better platform, hopefully spurring firms to put in place the framework and infrastructure that will enable them to be successful.”

A new breed of advisers

Advisers inevitably want to work with firms where they see they have a better platform, hopefully spurring firms to put in place the framework and infrastructure that will enable them to be successful.

That requires the firm to build the right practice – which is not about product sales, but rather a systems-based, process-led way of advising and selling to customers.

This includes, for example, enabling an established adviser to move their book of business and immediately be able to earn more money.

That can be achieved through automation of systems to enhance efficiency and productivity when advisers are processing documentation, transactions, portfolio reviews, and other customer communications and administrative tasks.

The new breed of advisers with the best chance of being successful are also increasingly likely to be those individuals who have worked within a more regulated environment, so are used to some of the requirements underway in Singapore.

They are less reliant or expectant of up-front commissions, and instead they are more focused on building up funds under management while offering clients a service which includes a quarterly portfolio review within a framework of holistic financial planning.

More broadly, a critical success factor for advisers will be their ability to reinvent themselves in terms of the way they operate and interact with clients.

Essentially, this means an offering which is advice-centric, not product-centric.

SECTION 3

Learning from others: The impact of the UK's RDR

Assessing the UK's new advisory regime provides a useful benchmark for Singapore – even if it is not a direct comparison given that RDR goes further than FAIR, for instance in relation to the banning of inducements.

However, the types of implications of the two new frameworks in each jurisdiction are very closely aligned – namely, the potential advice gap and the decrease in the number of advisers.

In the UK, these fears seem to have manifested themselves in the following ways since RDR was introduced on the first day of 2013:

- Nearly 25% fewer advisers in the 12 months leading up to the start of RDR
- A higher average age of remaining advisers, at 55
- An advice gap as a result of a lack of engagement by consumers of financial advice

A slimmer adviser base

In particular, there were far-reaching predictions that advisers would be forced to exit the market as a result of being unable or unwilling to match up to the new weight of regulatory expectation.

The regulator estimated that RDR would lead to 6,000 advisers leaving the sector. That was an under-estimation.

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Drivers for RDR

RDR was set up by the FCA in the UK with the aim to: improve clarity for people who are looking to invest; raise the professional standards of advisers; and reduce the conflict of interest which is found in remuneration for adviser services. It aims to ensure that:

- Consumers are offered a transparent and fair charging system for the advice they receive
- Consumers are clear about the service they receive
- Consumers receive advice from highly-respected professionals

To achieve this, the rules require:

- Advisory firms to explicitly disclose and separately charge clients for their services
- Advisory firms to clearly describe their services as either independent or restricted
- Individual advisers to adhere to consistent professional standards, including a code of ethics

The most concrete numbers that the FCA (formerly the Financial Services Authority, or FSA) pulled together on the current size and shape of the UK adviser market reported 31,132 individuals on the first day of RDR. That includes IFAs and tied advisers who had attained the required level of qualification under the RDR rules and thus received their statement of professional standing in time for the new regime. Given that the FSA had estimated 40,566 advisers at the end of 2011, this showed the impact of RDR as a reduction in total advisers of 23% over 12 months.

The departure of roughly one-in-four of any community within a year is significant, whatever the reason.

Further, RDR has already led to the average age for advisers being raised to 55 years old. Younger advisers are understood to have said that it is not worth their while to enter the industry because it is so much more difficult to build a career.

In addition to the reduced numbers of advisers, a recent study by Cass Consulting for BNY Mellon also showed that financial advisers massively overestimate their ability to generate enough clients post-RDR and "substantially under-estimate" the threat from direct-to-consumer business.

What these market participants need to start focusing on is transforming their operating models to promote "relational-driven advice" – rather it being transactional.

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A closer review

RDR has been central to the UK regulator's agenda of customer protection and creating structural change throughout the retail investments industry to give consumers confidence that the advice they are given, and products they are sold, are best suited to their needs.

The impact on adviser numbers seems, therefore, to be at odds with the goal of RDR in the first place.

Another of the unintended consequences of RDR has been the emergence of an advice gap in the market. That comes from a lack of engagement by consumers with financial advice. While people can go online to buy a car, for example, the same doesn't apply to financial advice.

More specifically, consultancy firm Deloitte found that potentially 5.5 million people in the UK fall into this gap where they either can't afford to pay – or don't want to pay – for advice, because they don't value the service.

Given the huge reduction already in the numbers of advisers post-RDR, it is expected that the FCA will launch an investigation into the impact of the RDR and whether it has damaged access to advice.

Some optimism

Meanwhile, after speculation about the impact of RDR on investment companies, a report commissioned by the Association of Investment Companies (AIC) using Matrix Solutions' Financial Clarity showed a 53% increase in adviser and wealth manager investment company platform purchases in the first six months of 2013, in comparison to the same period in 2012.

It is important to state, however, that despite the short-term pain and dramatic statistics, it remains far too early to determine the medium- to long-term impact of RDR against its goal of a fairer, more transparent consumer-centric market for financial advice.

SECTION 4

Evolving Singapore's distribution model and product offering

As the industry continues to assess the various implications of FAIR, the changing distribution dynamics are a source of much debate in Singapore – and are being closely watched.

Distribution channels

There are various paths for the industry. A notable trend among the majority of insurers is their shift away from agency forces as a key distribution channel.

Instead, bancassurance is a priority with many firms looking to boost their market share in this segment. Plus, the FA channel is a key focus.

In terms of direct channels, practitioners agree that it is still early days, and they don't foresee them as a not seen as a significant part of the distribution for at least the next five to 10 years. And although they could become a significant avenue for pure term insurance, it is less likely for the more complex products.

However, in terms of engaging the next generation, the direct channel presents the greatest opportunity going forward – assuming the products being sold are simple.

Further, as younger people get more and more educated – there is more self-direction when accessing and buying insurance products. Web-based systems are focused on this.

"In terms of engaging the next generation, the direct channel presents the greatest opportunity going forward – assuming the products being sold are simple."

“Core affluent and HNW clients who also use insurance platforms don’t necessarily want to be forced to buy only model portfolios.”

Dealing with larger players

For insurers looking to boost their accessibility and penetration in the FA sector, the consolidation within this segment that most practitioners foresee will be a positive development.

From a regulatory perspective, for example, having larger organisations should make compliance and KYC easier to manage. Investment processes can be more formulaic and there will be less scope to go “off plan”.

However, core affluent and HNW clients who also use insurance platforms don’t necessarily want to be forced to buy only model portfolios. These clients often want more tailored and sophisticated solutions which the boutique firms have been able to provide.

In terms of the banking sector, and especially when it comes to private banks, insurance products have not been as popular among customers as they could be.

More specifically, insurance penetration in the high net worth (HNW) segment is about 1% to 5% of customers, and about 5% to 8% in the mass affluent space.

This is due to the fact that the approach has been more investment advice-driven, rather than advisers taking a holistic wealth planning approach, especially in relation to HNW customers. There also hasn’t been much innovation in the insurance space in recent years.

Growth has been impeded because insurance has been a “one trick pony” for a long time, with Universal Life really being the only main product suitable for wealthy individuals. In addition, the broker-intermediated model has prevented some critical understanding developing inside the banks – most advisers haven’t formed the skills to give proper advice.

Further, while there is growing realisation about the profitability of insurance and the contribution it has the potential to make, a lot of banks are still figuring out how best to structure the model and gear up their advisers to deliver the products and solutions to customers.

The fact that many relationship managers (RMs) only see insurance products through the lens of Universal Life also limits their take-up. This is because of the skew of the objective of Universal Life products is towards investment and legacy transfer; plus it is a result, in general, of a failure by the industry in educating RMs.

More tailored offerings

As a result, the market will require a greater approach to segmentation – from UHNW to HNW to mass affluent.

Clients are looking for greater options and want to ensure the product they get is well-designed.

They are also looking for related products to cover various risk areas, including global health insurance, protection for assets like art and jewellery, and even kidnap-ransom insurance.

For those advisory firms which are viable and can meet the standards, there is also appetite for securing unrestricted terms of business with multi-channel product providers.

Increasing insurance penetration

The lure of Singapore's under-insured population is attracting more and more product manufacturers looking to develop relationships with local distributors.

However, there hasn't been any real growth in the number of local FAs, so the market is witnessing different types of payment methods and incentives being offered to advisers.

The manufacturers are also finding that they need to be a bit more creative in wooing distribution partners. Some of them are, for example, hosting specialised training seminars on specific products, or working with the distributors to develop marketing initiatives to bring in more business from end-customers.

Broadly, there needs to be greater differentiation in terms of viewing insurance as protection, meaning mainly critical illness and life cover, and for investment-linked purposes, such as long-term savings schemes and portfolio bonds. In those cases, the insurance element of the product is rarely part of the discussion.

This involves helping distributors by giving marketing dollars to contribute to brochures, printing banners or sponsoring seminars. In turn, distributors need to be more selective about which manufacturers they work with.

"The manufacturers are also finding that they need to be a bit more creative in wooing distribution partners. Some of them are, for example, hosting specialised training seminars on specific products, or working with the distributors to develop marketing initiatives to bring in more business from end-customers."

There is, however, some concern that there are too many products. For instance, there seems little point having 150-plus third-party funds available on a platform. It creates complexity and doesn't add value, especially when advisers cannot talk with sufficient expertise about each one.

Probably 10 to 20 funds are enough for most investors to achieve their investment objectives. For example, with an automatic investment strategy, four to five funds can serve the whole lifecycle of some investors.

A more simplistic product offering would also benefit FAs as they strive to have a clearer understanding of the strategies and goals of various funds. In turn, this means the FA can provide more relevant advice to individual customers.

The challenge of differentiation

The challenge from the manufacturing side for insurance providers is that there isn't much differentiation in terms of the product range. And neither do advisers expect there to be.

As a result, providers need to differentiate themselves by being smarter with innovation in the way they service clients on an ongoing basis, fulfill certain niches and create the right type of client experience.

This also includes identifying how to capture the opportunity from the use of mobile and digital channels.

It is notable – and well-recognised by the adviser community – that life insurance companies lack the systems to create proper CRM and make the client experience as smooth as it should be.

A lot of providers have huge legacy infrastructure, for instance, so have had to rely on manual fixes to ensure the system can fulfill certain tasks more quickly.

More so than non-life insurers, life insurance companies also suffer from the economics of their business. Given that a lot of differentiation comes from specialisation, this is a challenge for life insurance firms.

Some things which can help, for example, include having a good underwriter in-house, a health concierge e-service and a dedicated call-line.

A big issue is that while distribution margins are rich, manufacturing margins are poor, so how can insurance companies make the right investment?

"Probably 10 to 20 funds are enough for most investors to achieve their investment objectives. For example, with an automatic investment strategy, four to five funds can serve the whole lifecycle of some investors."

Putting greater emphasis on technology

An important goal for many insurance providers is developing their technology, even though many practitioners doubt there is a replacement for face-to-face advice when talking about insurance and investment.

The insurance industry has not typically paid enough attention to, nor invested enough in, the client experience.

This is partly because, say the providers, life insurance policies are complicated, and there are a lot of ways clients can make mistakes and concepts can be miscommunicated. Selling them, therefore, relies on a professional who is able to communicate the concepts effectively and accurately.

Providers can, however, have a big impact by bringing the whole wealth management process online and offering 24-7 access – from the adviser giving advice to the client, doing research and building model portfolios, to straight through processing (STP) when the investment product or solution is confirmed, to the confirmations and communication.

As an example, such front-end portals need to enable clients and advisers to go online and undertake a number of new business and servicing functions, ranging from actually submitting new business to switching on a regular savings plan to changing address information to placing deals on a portfolio bond.

Another advantage of using these types of systems is meeting the various regulatory requirements around source of funds and origin of wealth.

Further, if all the required data fields are not completed then the policy cannot be issued.

One of the key drivers behind new technology will be the MAS' proposed introduction of a web aggregator to feature information about insurance products, as well as pricing.

This is expected to provide more transparency around costs and also in terms of what the products will help them to achieve.

"The insurance industry has not typically paid enough attention to, nor invested enough in, the client experience."

“Many practitioners agree that it will remain a relationship business, especially when talking about relatively large amounts to invest or insure.”

New licensing

One option for FA firms – and something that some organisations are already pursuing – is to get a CMS licence.

Such a licence is required by any corporation that carries on a business in any regulated activity in Singapore. It enables firms to: deal in securities; trade in futures contracts; do leveraged foreign exchange trading; advise on corporate finance; and engage in fund management. It also allows for real estate investment trust management: securities financing; providing custodial services for securities; and providing credit rating services.

Applicants must have an established track record in the proposed activity to be conducted in Singapore or in a related field, for at least the past five years. Further, the applicant must satisfy the MAS that it will discharge its duties efficiently, honestly and fairly, and its officers, employees, representatives and substantial shareholders are fit and proper, in accordance with the criteria set out in the MAS Guidelines on Fit and Proper Criteria.

All about people

Long term, the key differentiator has to be about people. Many practitioners agree that it will remain a relationship business, especially when talking about relatively large amounts to invest or insure. Consumers are unlikely to conduct these types of transactions over the phone or online; they want to know that they are able to talk to an expert and get answers to specific questions that are relevant to them as an individual.

This will increasingly be the case in a post-FAIR world as some advisory firms look to bring in in-house specialists to be able to offer specific advice on tax planning, trust structuring or other relevant aspects of a customer’s long-term financial planning needs.

Feedback - Although FAIR and its implications are still unfolding, and there will be further steps along this journey towards customer centricity – we welcome your feedback on this report, as well as on the developments in Singapore. Please contact editor@hubbis.com