



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 801

Series of 2013

Subject: **Revised Cross-selling Framework**

The Monetary Board, in its Resolution Nos. 849 and 907 dated 23 and 30 May 2013, respectively, approved the amendments to Section 1172 of the Manual of Regulations for Banks (MORB). The previous Section 1172 of the MORB is replaced by Section X172 of the MORB which contains the revised "Cross-selling Framework".

Section 1. The new regulation on cross-selling shall be applicable to all bank classifications.

1. Section 1172.1 (2008 – 1631) of the MORB on Statement of Principles is re-numbered as Section X172 of the MORB and amended to read as follows:

Section X172. Statement of Principles. The Bangko Sentral ng Pilipinas (BSP) recognizes that bank premises may serve as the point for the presentation and distribution of a range of financial products. However, this distribution mechanism can give an understanding that these financial products are directly supported by the bank and thus could lead to an impression that the bank ultimately bears the risks inherent to these financial products. As such, appropriate disclosures and relevant controls are necessary to mitigate the reputational risks to which banks are exposed to and to ensure that the public is aware of the implications of these transactions and is better positioned to make financial decisions.

2. The new Subsection X172.1 contains the Definition of certain terms as used in the Section.

Subsection X172.1 Definition. The following terms as used in this Section are governed by the following definition –

- a. Cross-selling means the presentation and sale of a financial product to a bank client inside bank premises through written or verbal communications.
- b. Financial conglomerate refers to a group of entities whose exclusive or pre-dominant activities consist of providing significant services in at least two (2) different financial sectors (banking, securities and insurance). A banking group, which is defined as banks related by common ownership and is engaged

predominantly in banking, is subsumed within the context of a financial conglomerate. In the case of universal/commercial banks, a financial product provider must have been disclosed and reported as part of the group structure pursuant to Section 6 of Circular No. 749 dated 27 February 2012.

- c. Financial product refers to items enumerated in Subsection X172.2 of the MORB. Financial products of a regulated financial entity should have been duly approved by the respective regulator, when necessary, before these can be presented and sold inside bank premises.
 - d. Financial product provider means a regulated financial entity which originates or produces the financial product and bears all the risks associated with its issuance. The financial product provider should be incorporated and domiciled in the Philippines including duly licensed foreign bank branches.
 - e. Bank premises refers to the premises of the head office and branches.
 - f. Investment risk refers to the risk, which is borne by the client, of loss of the principal amount (either full or partial) at maturity or risk of not achieving targeted rate of returns.
3. Section 1172 of the MORB which enumerates the financial products that may be cross-sold by banks is amended and re-numbered as Subsection X172.2. A revised set of financial products is contained in this Subsection which now reads as:

Subsection X172.2 Financial Products. For purposes of cross-selling, financial products of a regulated financial entity belonging to a financial conglomerate shall serve as a financial product of an allied undertaking under Section 20 of the General Banking Law.

Only retail financial products which do not create exposure to investment risks may be cross-sold inside bank premises. These include:

- a. Retail lending or loan products such as credit cards, home mortgage loans, personal loans, auto loans and other related retail loan products;
- b. Insurance products such as term insurance, traditional/whole life/endowment, non-life insurance and other related insurance products;
- c. Other retail financial products such as cash cards, debit cards and other related products;

- d. Other similar financial products as may be authorized by the Monetary Board.
4. The new Subsection X172.3 contains the relevant controls and governance mechanisms for cross-selling. The subsection is entitled as Governance which reads as:

Subsection X172.3 Governance. The board of directors of the bank (or its equivalent in the case of foreign bank branches) shall be responsible in the approval and oversight of policies relating to cross-selling arrangements.

The bank shall exercise due care and diligence in carrying out cross-selling activities. This process shall extend to both the financial products and financial product providers. The bank shall put in place a formal written policy to assess the nature of the financial product and its suitability for target customer segments. This written policy should, at the very least, enable the bank to reach an objective assessment of the suitability of the financial product to be cross-sold.

The bank shall ensure that a mechanism is in place to address any complaints that may arise from cross-selling transactions. This mechanism shall form part of the agreement between the bank and the financial product provider.

The bank shall periodically review all of its cross-selling arrangements. In particular, the bank shall take into account operational and reputational risks that may arise in the arrangement. The results of the continuing review shall be reported to the board of directors of the bank.

5. Subsection 1172.3 (2008 – 1631.3) of the MORB on the Minimum Documentary Requirements is renumbered as Subsection X172.4 and amended to read as:

Subsection X172.4 Minimum Documentary Requirements. The bank should maintain necessary documentation to support that cross-selling arrangements are properly reviewed and appropriate due diligence has been undertaken.

This shall, at a minimum, include the following:

- a. Approval of the board of directors of both the bank and the financial product provider to use the former's bank premises for the presentation and sale of the latter's financial products;
- b. Audited financial statements of the financial product provider for the last three (3) years;

- c. Detailed description of the financial product and proof of regulatory approval, if any;
- d. Registration and/or accreditation of the financial product provider from the respective regulator;
- e. Contract between the bank and the financial product provider;
- f. Sample of contracts between the financial product provider and its clients;
- g. Promotional materials; and
- h. Training profile and necessary license, if required, of representatives who will be handling the cross-selling activity.

These documents shall be made available when requested by BSP examiners.

- 6. The new Subsection X172.5 contains the conditions and arrangements that should be upheld by the bank when cross-selling. It reads as:

Subsection X172.5 Conditions on Cross-selling. To avoid any impression that products cross-sold within bank premises are guaranteed by the bank, the following shall be observed, at all times:

- 1. The role of bank employees in cross-selling shall be limited to the referral of bank clients to the representatives of financial product providers. Bank employees shall not assume any decision-making function, e.g., in relation to credit worthiness. Likewise, record-keeping and accounting of financial products shall be separate from the bank.
- 2. There shall be a form of segregation between representatives who sell the financial products and bank employees. These representatives must have distinct designations to reflect their roles.
- 3. The presentation and sale of financial products shall be conducted in an area within bank premises that is clearly distinguishable as a separate entity from the bank.
- 4. The bank shall manage the number of financial product providers inside bank premises. The bank shall ensure that the number of financial product providers inside bank premises do not constrict the normal flow of operations of the bank.

- 7. Subsections 1172.5 (2008 – 1631.5) and 1172.6 (2008 – 1631.6) of the MORB are consolidated and renumbered as Subsection X172.6 entitled Fair and Balance View of the Product. These are amended to read as:

Subsection X172.6 Fair and Balanced View of the Product. Advertising materials and contracts must give a fair and balanced view of the product. These materials may be considered fair and balanced when they are clear and easily understood; highlight the purpose and risks of the

financial product; and do not omit any material information if such omission would cause the materials to be misleading.

Promotional materials. The bank shall ensure that the identity of the financial product provider is prominently displayed in the relevant marketing and advertising materials. The relationship of the bank with the financial product provider may be reflected in the promotional materials as long as it does not create an impression that it is the product of the bank whose premises are used.

The promotional materials should explicitly state that the product is not a deposit. The information contained in any document used in the presentation and sale of financial products inside bank premises must contain, at a minimum:

The words *“financial product/s of (financial product provider) is/are not insured by the Philippine Deposit Insurance Corporation and is/are not guaranteed by the (name of bank)”*, as the case may be. This shall be printed in capital letters, black letters against light background/white letters against dark background with the following print size:

<u>Size of Promotional Material</u>	<u>Print Size</u>
Legal/letter size	12
15"X20"	24
19"X25"	36

Contracts. The following paragraph shall be printed at the end of the contract in the print size as the rest of the contract, or font size 12 whichever is bigger, in capital letters and in bold font:

“This contract is between (name of client) and (name of financial product provider). All transactions arising out of or related to this contract shall be binding only between these two (2) contracting parties. It is understood that this transaction is neither insured by the Philippine Deposit Insurance Corporation (PDIC) nor guaranteed by the (name of bank).”

8. The new Subsection X172.7 contains the requisites for a financial product provider.

Subsection X172.7 Financial Product Providers. The bank shall exercise due care and diligence in selecting financial product providers. The bank shall consider the integrity, operational capability, financial capacity and track record of the financial product provider. In particular, the bank shall ensure that the financial product provider has in place a mechanism to

resolve all queries, problems and other concerns arising from cross-selling activities.

It is the responsibility of the financial product provider to assess its representatives in terms of sufficient knowledge of the financial product, adequate training and necessary license, when required.

The BSP should be satisfied that the bank and the financial product provider belong to a common financial conglomerate before cross-selling arrangements may be allowed.

When the financial product provider is under the supervision of the BSP, the financial product provider must have a CAMELS composite rating of at least "3" or its equivalent.

9. Subsection 1172.2 (2008 – 1631.2) of the MORB on Prior Monetary Board Approval shall be renumbered as Subsection X172.8, amended and re-titled as Authority to Cross-sell:

Subsection X172.8 Authority to Cross-sell. Only those banks with CAMELS composite rating of at least "3" or its equivalent and without major supervisory concerns shall be given authority to engage in cross-selling activities.

The bank whose premises will be used in the presentation and sale of financial products shall secure the approval of the Monetary Board before it can engage in cross-selling activities.

The application letter shall be signed by the President, or the Country Officer in the case of foreign bank branches, and shall be submitted to the appropriate supervising department of the BSP. The letter shall contain an explanation of the relationship of the bank with the financial product provider in the context of the financial conglomerate, as defined. It shall also contain brief description of the financial products and justification of the cross-selling arrangements.

In addition, the bank shall submit an attestation signed by the bank's President or the Country Officer in the case of foreign bank branches and Compliance Officer attesting that –

- a. The bank has complied with all the requirements under Section X172 of the MORB;
- b. The bank has a written policy specifically intended for cross-selling activities;
- c. The bank has conducted appropriate due diligence on the financial product and financial product provider;

- d. The financial product is authorized for cross-selling under existing BSP rules and regulations;
- e. The financial product is approved by the respective regulator and is issued by a duly licensed financial entity, when required; and
- f. The promotional materials to be used inside bank premises comply with the BSP requirements.

The applications to enter into cross-selling arrangements is evaluated on a per financial product provider. Once approved, the bank may continuously undertake cross-selling activities of allowed financial products as long as the required CAMELS composite rating or its equivalent is maintained. When the required rating falls below the threshold in the most recent examination, the bank shall discontinue any cross-selling arrangements within twenty (20) calendar days from receipt of the report of examination. Likewise, when there are major supervisory concerns noted as part of BSP supervision, the bank shall be notified to discontinue any cross-selling arrangements within twenty (20) calendar days from receipt of said notice.

The bank may re-submit an application to enter into cross-selling arrangements only when the CAMELS composite rating or its equivalent is at least "3" in the latest report of examination of the bank or any noted major supervisory concerns have been satisfactorily addressed as determined by the appropriate supervising department of the BSP.

10. The provision on Complaints Handling shall be the new Subsection X172.9 which read as follows:

Subsection X172.9 Complaints Handling. The BSP Financial Consumer Affairs Group (BSP FCAG) shall receive all complaints from the public arising from cross-selling transactions. In the event that the complaint is directed towards the financial product provider, the BSP FCAG shall refer the complaint to the appropriate regulator of the financial product provider. The bank whose premises are used for cross-selling purposes shall acknowledge any complaints arising from these transactions. In the same manner, the bank shall monitor the final disposition of the complaint.

11. Subsection 1172.11 (2008 – 1631.11) of the MORB on Sanctions shall be renumbered as Subsection X172.10:

Subsection X172.10 Sanctions. Violations of the provisions of this Section shall constitute grounds for the imposition on the bank of any or a combination of the following:

- a. Monetary fine - Any amount as may be authorized by the Monetary Board not to exceed P30,000 a day for each violation from the time the violation was committed until it is corrected;
- b. Non-monetary penalties
 - i. Suspension of rediscounting privileges or access to BSP credit facilities; and
 - ii. Other sanctions as the Monetary Board may impose depending on the gravity of the offense.

12. Subsections 1172.4 (2008 – 1631.4) on Financial Ratios and Other Related Requirements, 1172.7 (2008 – 1631.7) on Training and 1172.8 (2008 -1631.8) of the MORB on Other Requirements are deleted.

Section 2. Transitory Provision

Existing arrangements inconsistent with this Section shall be unwound within two (2) years from the date of effectivity of this circular or end of the contractual arrangement between the bank and the financial product provider, whichever is earlier.

This circular shall take effect fifteen (15) calendar days following its publications either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



AMANDO M. TETANGCO, JR.
Governor

27 June 2013