

PIAS Framework and Guidelines on Premium Financing

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Purpose

1. The purpose of this Framework is to provide guidance to PIAS Representatives on the relevant standards relating to the recommendation of life insurance policy with premium financing arrangements.
2. Premium financing is an insurance funding arrangement whereby a customer purchases a life insurance policy and finances the payment of the premiums under the policy using a loan facility provided by a lender (usually a bank). The customer assigns the life insurance policy to the lender as collateral for the loan. In entering into a premium financing arrangement, a customer incurs the costs to service the loan facility (i.e., interest) in addition to the premium and fees under the life insurance policy and is exposed to risks associated with the loan facility which may adversely affect the insurance coverage and benefits to be received under the policy.
3. The MAS expects PIAS to have a framework or guidelines in place to guide PIAS Representatives with respect to the recommendation of insurance plans with premium financing arrangements, such as under what circumstances loan is recommended, the ratio or trigger point where such recommendation will become unsuitable:
 - a) PIAS Representatives should:
 - recommend products based on customers' needs at the outset (e.g., should not use premium financing to recommend a policy coverage/sum assured that is more than what the customer needs);
 - conduct proper affordability assessments (e.g. ensure that customers can afford the product even without premium financing, and that customers are able to service the premium financing repayments on a regular basis);
 - disclose the risks of premium financing and highlight the implications of various risk scenarios; and
 - document the above in the PIAS Financial Planner.
 - b) The Supervisors should review the documentation in the PIAS Financial Planner and assess if the sales transactions are appropriate.
4. This guidance note covers the following areas:
 - PIAS' role in premium financing arrangements;
 - Suitability and affordability assessment;
 - Disclosure of risks and other important matters;
 - Enhanced Monitoring on Referrals for Premium Financing Facilities;
 - Sales practice and training; and
 - Disciplinary Actions

PIAS' Role in Premium Financing Arrangements

5. Regulation 40D of the [Financial Advisers Regulations \(2004 Ed\)](#) prohibits PIAS Representatives from giving advice or providing any recommendation on any product or service in relation to any non-financial advisory service to the customer when making any referrals.
6. The roles of PIAS and the banks offering premium financing arrangements ["the Bank"] is described as below:
 - PIAS and its Representatives provide investment advisory and financial planning services to its customers which include providing recommendations on life insurance products.
 - The Bank offers retail banking facilities such as loans, credit facilities, insurance financing products and other banking products to its customers.
 - Pursuant to Regulation 40D of the Financial Advisers Regulations (2004 Ed), PIAS and the Bank have a referral arrangement.
7. In the referral arrangement, PIAS Representatives assesses the suitability of its customers and potential customers to obtain life insurance, and when requested by its customers, PIAS Representatives refers such customers to the Bank via the referral/consent form. The Bank will be responsible to obtain and verify all necessary information and/or documentation from the customers, i.e., the customer shall submit all necessary documents and/or information directly to the Bank and not channel these documents through PIAS and its Representatives.
8. The Facilities are provided by the Bank and PIAS and its Representatives does not have a role in the decision of the application by the Bank. Any advice, recommendation, and consideration on qualification and/or eligibility for the Facilities shall be given or made by the Bank.

Suitability Assessment

9. PIAS Representatives must have a reasonable basis for the recommendation of the life insurance policy. In particular, PIAS Representatives must give due consideration to the customer's investment objectives, financial situation and particular needs and comply with the following requirements set out in [MAS Notice FAA-N16 Recommendations on Investment Products](#):
 - Know your client;
 - Needs analysis; and
 - Documentation and record keeping.
10. The recommendation of such life insurance policy with premium financing arrangements are subject to the pre- and post-transaction checks under the balanced scorecard framework ["BSC"] on representatives and supervisors under [MAS Notice FAA-N20 Requirements for the Remuneration Framework for Representatives and Supervisors \("Balanced Scorecard Framework"\) and Independent Sales Audit Unit](#). PIAS Representatives are expected to provide quality financial advisory service and to meet the non-sales KPIs under the BSC.

11. PIAS Representatives are **not allowed to provide advice** to the customers on the suitability of premium financing arrangement for the life insurance policy. Any advice, recommendation and consideration on qualification and/or eligibility for the premium financing facilities will be solely given or made by the Bank. Generally, an opinion that is provided in a situation where the recipient is reasonably expected to rely on it in making an investment decision, is likely to be considered financial advice (e.g., PIAS Representative sharing with customer how premium financing can supplement the life insurance policy and that the customer ought to take up premium financing).
12. PIAS Representatives may only share with customers that premium financing arrangement is available for the life insurance policy being recommended and factual information about the premium financing facilities. Factual information refers to information which is objective, verifiable, and whose accuracy cannot be reasonably questioned, is generally not considered financial advice. This includes information that is general in nature and commonly known to most investors. See section on **Risk Disclosure** for more details.
13. PIAS Representatives should note that provision of factual information may be considered financial advice if the information is presented with the intention of inducing a person to buy, sell or hold a particular investment product or a class of investment products. E.g., presentation of factual information such as a comparison of the historical returns of two investment products without any mention of their relative risk profiles. This could induce a person to buy the product with the higher historical return.
14. PIAS Representatives are **not allowed** to recommend life insurance policy and refer premium financing arrangements to customers who fall under the definition of a Selected Client¹. For retirees or housewives who are not Selected Clients¹, PIAS Representatives may recommend life insurance policy and refer for premium financing arrangements only if the customer is able to demonstrate that they have the means to pay the total premium without premium financing arrangement.

Customers' Affordability Assessment

15. Premium financing is in substance a loan with the life insurance policy being used as collateral. Customers utilizing premium financing facilities would need to make loan repayments with interest which would invariably reduce the amount of disposable income or liquid assets of the customers when the required repayments fall due or upon request of the lender. The affordability assessment should therefore take this into account.

¹ A Selected Client is an individual who meets any two of the following criteria:

- i. Aged 62 years or older;
- ii. Not proficient in written or spoken English; or
- iii. Has below GCE O-Level or N-Level qualifications, or equivalent academic qualifications.

16. When assessing a customer's ability and willingness to pay insurance premium and/or service the premium financing facilities, the source of funds of the customer must be duly considered to ensure that the customer can afford the recommended product(s) throughout the entire duration of the premium payment term and/or tenure of the premium financing facilities.
17. Where the premium payment term and/or tenure of the premium financing facilities of the recommended policy will last beyond the target retirement age of the customer, PIAS Representative should assess whether the customer can afford the premium payment/loan repayment obligations after his/her retirement. Where the customer has indicated that premium financing is intended to be used, PIAS Representative must take that into account when assessing a customer's ability and willingness to pay premium payment/loan repayment obligations; i.e., PIAS Representatives should consider the impact of adverse market conditions on the premium payment/loan repayment obligations in assessing if the customer's affordability after his/her retirement.
18. It would be inappropriate to assess affordability based on the out-of-pocket premium (i.e., the premium payment/loan repayment obligations not funded by the premium financing facilities). Using this practice, instead of assessing the adverse impact that the premium financing facilities would have on a customer's affordability, the premium financing facilities is used to "support" the customer's affordability. There is therefore a danger that customers can over-leverage and, under these circumstances, if the Bank requests early repayment of the loan in full, the customer may not have sufficient liquid assets to repay the loan. To cover the outstanding loan and interest, the Bank may exercise its right to effect a surrender of the policy to the detriment of the customer.
19. In addition, assessing affordability using only out-of-pocket premium may be seen to be providing advice to the customers on the suitability of premium financing arrangement for the life insurance policy.
20. Checks should be made to see if the customer has any existing / in-force policies for which the customer was paying premiums and establish if those policies are serving as collateral assigned or acquired by premium financing. Such details, if any, should be documented in the PIAS Financial Planner under *Section 7. Existing Investments and Insurance*. The loan repayment obligations under the premium financing facilities used to purchase these existing / in-force policies should be taken into account in the affordability assessment for the new policies under consideration.
21. To discourage over-leveraging, PIAS Representatives should not proceed with the insurance application if the total premium of the proposed policy together with total interest payments under the premium financing facility, exceed a certain percentage of the liquid assets or (disposable income of the customer. For avoidance of doubt, the total premium refers to the single premium amount that the customer will pay if premium financing is not taken up, i.e., the single premium amount as stated in the policy illustration.

22. The matrix below shows the PIAS affordability assessment:

Key Affordability Assessment	Recommendation
<p><u>Liquid Assets</u>^a equivalent to at least 50% of the Total Premium Amount²</p> <p><i>For retirees/ housewives who are <u>not</u> Selected Clients¹:</i></p> <p><u>Liquid Assets</u>^a equivalent to 100% of the Total Premium Amount²</p> <p>Note: Under Section 11. Affordability, the documented budget should cover the Total Premium Amount².</p> <p>^a Refers to <u>Total Cash / Near Cash + Unit Trusts + Stocks + Bonds</u> under <i>Section 6: Assets and Liabilities</i></p>	<p>It is recommended that the Monthly loan repayment obligations under the premium financing facility is no more than 20% of the customer's <u>disposable income</u>^b</p> <p>Note: The monthly loan repayment amount shall be calculated based on the latest available interest rates at the point of sales.</p> <p>^b Refers to <u>Total Monthly Inflow</u> under <i>Section 5: Inflow and Outflow</i></p>

PIAS Representatives are not allowed to recommend life insurance policy and refer premium financing arrangements to any customers who fall under the definition of a Selected Client¹.

23. PIAS Representatives **must** request the customer to complete the sections in the PIAS Financial Planner pertaining to the customer's inflow/outflow and assets/liabilities. The customer must also give confirmation that he/she has sufficient cash to pay the total insurance premium amount and make any repayments for the premium financing facility before PIAS Representatives proceeds with the insurance application and referral to the Bank.

Risk Disclosure

24. As premium financing involves customers assigning their rights and benefits under the proposed policy as collateral in order to receive financing from the Bank, the customers should fully understand the relevant risks, limitations and consequences arising from collateral assignment before purchasing a policy through premium financing.

25. PIAS Representatives should provide factual information of the following risks in the recommendation of life insurance policy with premium financing arrangements:

- Definition of premium financing, and that the premium financing arrangement is not part of the insurance policy contract.
- Customer is subject to interest rate risk, i.e., the risk that the loan repayment obligations under the premium financing facility may fluctuate due to a change in interest rates, thus reducing the actual return. In particular, if the interest rates applicable to the facility exceed the rate of return generated by the insurance policy, the customer would suffer financial loss.

² For avoidance of doubt, the total premium refers to the single premium amount that the customer will pay if premium financing is not taken up, i.e., the single premium amount as stated in the policy illustration.

- c) Customer may also be subject to various risks (e.g., exchange rate risk, credit risk, early surrender risk, death benefit risk, risks of non-guaranteed benefit, risk of duration / payment timing mismatches, etc.) as a result of the use of the premium financing arrangement, which may result in financial loss or reduction in benefits.
 - d) The premium financing arrangement may also have impact on customer's rights to cancel the policy within the cooling-off period.
26. A risk disclosure statement containing the above disclosures should therefore be signed by the customer before purchasing a policy through premium financing. PIAS Representatives must use the **'PIAS Client Acknowledgement Form For Premium Financing Type of Products'** to explain the impact of premium financing arrangement on the life insurance policy the customer intend to purchase.
27. The **'PIAS Client Acknowledgement Form For Premium Financing Type of Products'** is a mandatory document for all applications on life insurance policy with premium financing arrangements and must be submitted as part of the sales documents to Business Support.

Front-End Enhanced Monitoring on Referrals for Premium Financing Facilities by Supervisors

28. PIAS Supervisors must review all the documentation and basis of every recommendation made to ensure that the referral by its Representatives adheres to the PIAS Framework and Guidelines on Premium Financing.
29. Where there is insufficient documentation or the referral is found to be unsuitable for the customer during such pre-transaction checks, Supervisors should perform one or more of the following:
- a) Conduct independent call back to the customer via a recorded line in respect of the recommendation and document the results in the Client Call Back form; and/or
 - b) Conduct Joint Fieldwork with the Representative in respect of the recommendation and document the results in the Client Service Recovery form.
30. Supervisors shall confirm that the Representative has given due consideration to the customer's investment objectives, financial situation and particular needs and allow the Customer to elect to modify or cancel the proposed transaction.
31. All relevant documentation evidencing the checks performed by the Supervisor must be submitted with the sales documents to Business Support.

Back-End Enhanced Monitoring on Referrals for Premium Financing Facilities

32. Business Support shall reject the case submission if the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products' is not submitted with the sales document.
33. RM&C shall conduct the following:
 - a) periodic checks to ensure PIAS Representatives and the Supervisors have met the mandatory training requirements for the referral of premium financing facilities; and
 - b) additional documentary review for recommendations by PIAS Representatives involving the referral of premium financing facilities.

Sales Practice and Training

34. PIAS Representatives must undergo a Mandatory Training on 'PIAS Framework and Guidelines on Premium Financing' before they can refer their customers for premium financing facilities. Supervisors of these PIAS Representatives are also required to attend the Mandatory Training on 'PIAS Framework and Guidelines on Premium Financing' before signing off on the PIAS Financial Planner.
35. PIAS Representatives are not allowed to bundle the premium financing arrangement together with the life insurance policy and advertise the bundle as if it was a banking product. The following words or its derivative, or expression in any language that is similar or closely associated with the following words should not appear on any marketing materials of life insurance policy with premium financing arrangements:
 - "Akin to fixed deposit"
 - "Capital-protected"
 - "Low-risk"
36. PIAS Representatives should not consider premium financing arrangement as a mere payment option for customers without fully considering the actual impact of premium financing facilities.
37. Customer must be made aware that the actual benefit receivable under a policy financed by premium financing might be less than the recommendation with regards to the level of target savings amount or the insurance protection attainable within the target protection period, since part of the benefit payments would be offset by the repayment of the premium financing facility. This shortfall could be significant especially in circumstances where the size of the loan under the premium financing facility is a relatively large portion of the total premium payments under the policies concerned.
38. PIAS Representatives shall only use PIAS published materials (such as '**Supplementary Illustration for Premium Financing**') and/or materials provided by the Bank providing the premium financing facilities for the sales advisory of life insurance policy with premium financing arrangements. Note: If the '**Supplementary Illustration for Premium Financing**' is used at the sales advisory, PIAS Representatives should submit a copy of the document as part of the sales documents to Business Support.

39. PIAS Representatives not allowed to create their own training and/or marketing materials on life insurance policy with premium financing arrangements without getting approval. All training and/or marketing materials on life insurance policy with premium financing arrangements must be submitted to the PIAS Marketing Review Committee for review and approval prior to use. Such training and/or marketing materials shall be submitted with the '**Marketing Materials Application form**' (available on DocuShare) to pias.marketingreview@singlife.com.

Disciplinary Actions

40. PIAS Representatives and/or Supervisors who are found to have violated the PIAS Framework and Guidelines on Premium Financing shall be subject to disciplinary actions.
41. Depending on the severity of the offence, the following disciplinary action may be taken against the defaulting PIAS Representative and/or Supervisor:
- a) Letter of Warning
 - b) Letter of Suspension
 - c) Letter of Termination

Frequently Asked Questions

PIAS PF Framework & Guidelines

1. Why is there a need for PIAS to have a framework & guidelines on premium financing?

The MAS expects PIAS to have a framework or guidelines in place to guide PIAS Representatives with respect to the recommendation of insurance plans with premium financing arrangements, such as under what circumstances loan is recommended, the ratio or trigger point where such recommendation will become unsuitable.

2. What are MAS' expectations on recommendations involving premium financing?

As PIAS Representative, you should:

- recommend products based on customers' needs at the outset (e.g. should not use premium financing to recommend a policy coverage/sum assured that is more than what the customer needs);
- conduct proper affordability assessments (e.g. ensure that customers can afford the product even without premium financing, and that customers are able to service the premium financing repayments on a regular basis);
- disclose the risks of premium financing and highlight the implications of various risk scenarios; and
- document the above in the PIAS Financial Planner.

For Supervisors, you should review the documentation in the PIAS Financial Planner and assess if the sales transactions are appropriate.

3. Is PIAS the only firm subject to such MAS expectations?

MAS assured the Company that the expectations is consistent across firms where complaints relating to premium financing have come to their attention.

Referral Role

4. What does it mean for PIAS to have a referral role between PIAS/its representatives with the Bank?

In a referral role, you shall only record the particulars of the customer who has expressed interest and provided consent to apply for premium financing facilities and forward the customer's particulars to the Bank. You may only provide factual information to the customer in relation to the availability of premium financing facilities.

5. Should I assist my customer to submit the supporting documents to the bank for the premium financing application?

You should only forward the duly signed consent form to the Bank. The Bank will be responsible to obtain and verify all necessary information and/or documentation from your customer, i.e., the customer shall submit all necessary documents and/or information directly to the Bank and not channel these documents through PIAS and its Representatives.

Mandatory Training

6. Why is it necessary for me or my Manager/Director to attend a Mandatory Training on 'PIAS Framework and Guidelines on Premium Financing'?

Premium financing facilities is not part of PIAS' business as a licensed Financial Adviser and PIAS Representatives are not allowed to engage in activities beyond PIAS' licence. Hence it is important to train our Representatives to be familiarized with the 'PIAS Framework and Guidelines on Premium Financing'.

Eligible Clients & Affordability Assessment

7. Can I refer all my customers for premium financing facilities?

You should not refer your customer for premium financing facilities if he/she meets the profile of a Selected Client. A Selected Client is an individual who meets any two of the following criteria:

- i. Aged 62 years or older;
- ii. Not proficient in written or spoken English; or
- iii. Has below GCE O-Level or N-Level qualifications, or equivalent academic qualifications.

8. Can I refer my customers for premium financing facility if it is a joint application and one of them is a Selected Client?

Yes, you may refer your customers if one of the joint applicants is a Selected Client. However, this is not applicable if the applicant is a Selected Client and the life assured is not a Selected Client.

9. Can I refer my customers for premium financing facility if he/she has declared himself/herself to be an Accredited Investor but meets the profile of a Selected Client?

No. Whilst Accredited Investors meet the assets/income requirements under the Securities and Futures Act 2001, Selected Clients fall under the vulnerable group and may be adversely impacted by the interest risk involved with premium financing.

A Selected Client is an individual who meets any two of the following criteria:

- i. Aged 62 years or older;
- ii. Not proficient in written or spoken English; or
- iii. Has below GCE O-Level or N-Level qualifications, or equivalent academic qualifications.

10. Is it mandatory for customers to declare their financial position in the PIAS Financial Planner if they wish to proceed with premium financing?

Assessing customer's affordability is one of the key assessments to which whether you can refer your customer for premium financing facilities, notwithstanding the bank will perform its credit assessment. In the event the customer chooses not to disclose such financial information, you should not refer your customer for premium financing facilities.

11. Why is there a different affordability assessment from the general guidelines of not more than 50% of customer's total assets or 20% of customer's total monthly inflow?

Whilst the availability of premium financing facilitates may aid customers in achieving their financial objectives, there may be adverse impact in the event of adverse market conditions or danger that customer can over-leverage.

12. Why are retirees and housewives subject to a higher affordability assessment?

Retirees and housewives generally do not have an income and are likely to be living entirely on their savings and/or CPF retirement fund, which are finite. Hence, there is a need for a conservative approach to handling customers who are retirees or housewives.

13. What is the premium amount to be used for the customer's affordability assessment?

You should be using the total premium of the proposed policy. For avoidance of doubt, the total premium refers to the single premium amount that the customer will pay if premium financing is not taken up, i.e., the single premium amount as stated in the policy illustration.

14. My customer does not wish to disclose his/her financial information in the PIAS Financial Planner, can I still refer my customers for premium financing facility?

No. You must be able to ascertain your customer's affordability to refer for premium financing facilities and comply with the affordability assessment in the PIAS Framework and Guidelines on Premium Financing.

Client Acknowledgement Form (Mandatory)

15. What is the purpose of the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products'?

The form contains important information on the customer's purchase of insurance product(s) with premium financing facility, which includes (not limited to):

- A clear explanation of the relationship between PIAS and the Bank which offers the premium financing facility is one purely of facilitation

- Applicable risk disclosures risks in the recommendation of life insurance policy with premium financing arrangements

16. Do I have to provide a copy of the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products' to the customer?

Yes, it is part of the point of sales document, and you must provide a copy to your customer with the PIAS Financial Planner.

17. Do I have to submit the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products' to Business Support for lodgement?

Yes. Business Support will reject/return the case submission if the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products' is not submitted for case submission involving premium financing.

18. How do I complete the mandatory 'PIAS Client Acknowledgement Form For Premium Financing Type of Products' for non-face-to-face sales advisory?

The form must be signed by the customer. For avoidance of doubt, you are not to write "See Supp Form" on the signature fields of the Client Acknowledgement Form.

Supplementary Illustration (Excel)

19. Is it mandatory to use the 'Supplementary Illustration for Premium Financing' in the sales advisory?

It is strongly recommended for PIAS Representatives to use the 'Supplementary Illustration for Premium Financing' in the sales advisory to provide customers with a fair and balanced presentation to illustrate the impact of premium financing facilities on the recommended life insurance policy payout/benefits. Note: If the 'Supplementary Illustration for Premium Financing' is used at the sales advisory, PIAS Representatives should submit a copy of the document as part of the sales documents to Business Support.

20. Can I create my own illustration for Premium Financing in the sales advisory?

You can only use PIAS published materials and/or materials provided by the Bank providing the premium financing facilities for the sales advisory of life insurance policy with premium financing arrangements. Should you wish to create your own illustrative materials, it must be approved by the PIAS Marketing Committee before use.

Suggested BOR

21. Is it mandatory to follow the suggested examples of BOR?

No, it is not mandatory to follow the suggested examples of BOR. In line with the referral role model, you can only provide factual information to your customer.

22. Can I write my own BOR?

Yes, you can write your own BOR. In line with the referral role model, you can only provide factual information to your customer.

Marketing Approval

23. Can I create my own training and/or marketing materials on life insurance policy with premium financing arrangements?

All training and/or marketing materials on life insurance policy with premium financing arrangements must be submitted to the PIAS Marketing Review Committee for review and approval prior to use.

24. Can I create my own illustrations to be used at one-to-one sales advisory with my customers for life insurance policy with premium financing arrangements?

All materials including illustrations on life insurance policy with premium financing arrangements must be submitted to the PIAS Marketing Review Committee for review and approval prior to use.

25. Are there any guidelines available if I wish to create my own training and/or marketing materials on life insurance policy with premium financing arrangements?

Materials prepared must be fair, balanced and not misleading. If there is any comparison made, the comparison is presented in a fair and balanced way and is meaningful. Please ensure that the training and/or marketing materials meets the following minimum standard before submitting them to the PIAS Marketing Review Committee for review and approval:

- a) is clearly identifiable, e.g., provision of full product name;
- b) is accurate;
- c) is of plain and comprehensible language;
- d) is balanced and, in particular, does not emphasize any potential benefits of a product or service without also giving a fair and prominent indication of any relevant risks;
- e) is sufficient for, and presented in a way that is likely to be understood by, the average member of the group to which it is directed, or by which it is likely to be received;
- f) does not disguise, omit, diminish or obscure important information, statements or warnings;
- g) contains the name of individual and Company; and
- h) inclusion of the statement "This document has not been reviewed by the Monetary Authority of Singapore".