



Financial Intermediaries Association
of Southern Africa

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24 March 2015

Ms Leanne Jackson

Head: Market Conduct Strategy
Financial Services Board

By e-mail: FSB.RDRfeedback@fsb.co.za

Dear Ms. Jackson,

Introductory letter to the FSB – Re the FIA’s RDR submission

The FIA would like to thank the FSB for affording it the opportunity to comment on the *Retail Distribution Review 2014* paper as released on 7 November 2014. It also thanks the FSB for the extension of time afforded it for completion and submission of said comments.

In working through the document and its various proposals – and in completing the response template – it was found that the differences in operating models in the Short-term and Long-term Insurance sectors were such that in order to present relative and clear comments it was necessary to comment on each sector individually, which submissions you will find attached.

Similarly, while we have included some comments around the employee benefits and healthcare sectors, we do not believe that the document addresses the unique aspects of these markets and it is our opinion that considerably more thought needs to be given to these disciplines.

There are, of course, many commonalities and principles that apply across all the disciplines which we detail below and which should be read and considered as part and parcel of our submission:

- The FIA is guided by the following principles as set out by the World Federation of Insurance Intermediaries of which it is a member:
 - Intermediaries have the right to be remunerated fairly;
 - Market agreements, limiting /imposing means of remuneration are an infringement of basic free market principles; and
 - Intermediaries should be allowed to charge fees in addition to commission with agreement of both parties.
- The FIA is committed to and support fair regulation that:
 - Creates consumer / client confidence and protection;
 - Sustains and creates opportunities for the small to medium-sized intermediary entities which play an integral part in the market dynamic;

H.A.B. Van Der Linde (Chairman), J. Ramsunder (Vice Chairman), W.D. Axford, L.G. Came, G.A. Fraser, R. Geldenhuys, J.M. Grefen, S.V.R. Casserly, M.A. Morris, H.J. Naudé, G.B. Setzkorn, B.S. Taylor, B.E. van Flymen, K.K. Walker

- Improves relationships between all stakeholders;
 - Encourages fair competition and protect the integrity of the market; and
 - Assists in ridding the industry of improper practices and practitioners.
- “Value” to the consumer / client is at the heart of the intermediary model and is entrenched in the FIA “Code of Conduct” and “Code of Ethics”.
 - Remuneration should be:
 - Relative to value added for advice and services; and
 - Create a competitive levelling of the playing fields between different business models in the market.
 - We support the principles of:
 - Free market enterprise;
 - The encouraging of self-regulation by product houses and intermediaries over “interventionist” regulation;
 - Anti-conglomerate;
 - Anti-Monopoly; and
 - Anti-price fixing

We therefore support the primary aim and objectives of the RDR proposals to ensure that financial products are distributed in ways that support the delivery of Treating Customers Fairly (TCF) outcomes; of promoting affordable and fair advice in the retail markets through sustainable business models; and in creating an environment in which all stakeholders are offered an equal platform from which to compete.

The intermediary market in South Africa goes back many decades in which time it has developed and evolved into a forceful sector that has and continues to introduce innovative product solutions and efficient delivery of services to a wide range of consumers and insurance buyers thus fulfilling its primary role of scanning the markets, matching client needs with insurance products and insurers who have the skills, capacities, risk appetite and financial strength to underwrite the risks, and then assisting clients in selecting the most appropriate solution.

The current FAIS Act and TCF have played, and will continue to play, a major role in enhancing the qualifications leading to professionalism, compliance, standards and disclosure on the part of the intermediary, all to the benefit of all stakeholders in the value chain. We support these pieces of regulation and encourage the Regulator to allow adequate time for these regulations to adequately bed down and achieve the purpose for which they were intended.

The FIA must to ask certain questions and raise a number of issues / areas of concern with regards the future well-being of its constituency, including:

- The following statements in the RDR paper, “poor customer outcomes”, “widespread miss-selling” and “market failures” are of concern, and we would question as to what facts inform these statements which position the industry in a very poor light.
- An over-abundance of regulation as is referred to in the RDR over and above the FAIS Act, TCF and Binder and Outsourcing Regulations will lead to the demise of innovation on which the intermediary thrives and survives and a “nationalising” of product, pricing and reward.
- Whether we are trying to regulate our way out of “conflicts” rather than managing and or mitigating same?
- Have the impacts and unintended / negative consequences to the intermediary channel been considered?

- We would also question as to whether an economic impact study has been carried out to determine the possible increase in costs, reduction in revenues and potential loss of human capital if RDR proposals are carried out in their current form?
- We are concerned that the extent (cost and complexity) of the regulatory framework will contribute to the potential demise of our smaller members (with consequent adverse implications on the national employment situation).
- We are concerned that the new regimen of regulatory controls will prove a barrier to entry of new, and in particular small to medium sized, entities.
- What will the benefit be to the consumer / client versus added benefits accruing to the product providers?

Clearly much time, effort and thought went into compiling the RDR document and equally a good deal of time has been spent in populating the feedback template. We do, however, note that there are still many unanswered questions with much of the detail in the proposal subject to review of the public submissions on RDR.

We welcome the FSB's comments that this is the beginning of a process of consultation, debate and "filling in of the gaps" in order to ensure that the ultimate benefactor (the consumer / client) will indeed receive sound advice and superior product offerings at reasonable prices in what will become a disciplined and sustainable market place for all stakeholders.

We look forward to participating in the ongoing deliberations and consultation in and around the RDR process.

Kind regards,

A handwritten signature in black ink, appearing to read 'Justus van Pletzen', with a stylized flourish at the end.

Justus van Pletzen
CEO