



Financial Intermediaries Association
of Southern Africa

(NPC) Company Reg No: 1999/002724/08

27 February 2017

COMMENTS ON THE PROPOSED CONDUCT OF BUSINESS REPORT

FIA Submission

We welcome the opportunity to comment on the proposed Conduct of Business report on behalf of members of the FIA. The FIA is a representative body that represents the interests of mostly small- and medium-size financial services providers in the Category 1 space as well as larger broking firms. We have invited our members to submit their comments to the FIA and those are incorporated herein. Our corporate members will submit their own comments through their respective legal departments and compliance officers.

The comments below are largely aimed at Category 1 FSPs.

Comments on specific questions

Question	Comments
1.1.2	Is this information available on the license certificate and/or on the FSB website? If not, will info be updated from report?
1.1.3	Including sole proprietor FSPs who are natural persons? Will data be updated from this report?
1.1.4a	Including sole proprietor FSPs who are natural persons?
1.1.4b	Does the question relate only to foreign domiciled entities?
1.1.4c	Does this question relate to 1.1.4a and b above or other local entities?
1.1.5a	Clarity is needed on what "source" is defined as? Many long practising FSPs may not have detailed information at hand depending on what is meant by the question.
1.1.5b	"Main source" may be too wide, especially with large group structures.
1.1.9	Is this question related to foreign FSPs? If not, the question can be at the beginning of the report and data can be updated on the FSB systems.
1.1.10	May be problematic for natural person and sole proprietor juristic FSPs to answer. The term "committee" may not be applicable in all instances. Clarity is sought on what information is expected under "social and ethics".
1.2.1	1.2.1f – it will be a complicated exercise where short-term insurance books are moved. 1.2.1h – clarity is needed on what is included under "top-up" transactions. Potentially complicated exercise where other new business of a client is placed with another insurer. Many FSPs may not have the appropriate systems to gather all the data required.

Question	Comments
1.3	Is “Risk management” related only to the FAIS Act and its subordinate legislation? This will need explaining in the report as there are differing views on this concept. Is enterprise risk management included?
1.5	Should a question not be added where no conflicts of interest situations arose and where no changes were made to the policy after revision?
1.6	Compliance function – provision should be made for FSPs without compliance officers where some questions are not applicable.
1.7.2	The answer will be difficult to formulate meaningfully. Many FSPs base their cover on cost, and the absence of meaningful guidelines on the appropriate value of cover is also influential in decision making.
1.7.3	At best a lengthy process to get these documents from insurers unless this is an accommodating and standard annual practice on the side of insurers. Can data of FSPs not be collected electronically from insurers?
2.1.3	To what does percentage of business relate – number of clients, premium, commission or the like? It will be a complicated and time consuming exercise for FSPs who do not have sophisticated systems to capture the required data. Percentages will probably change on a regular basis and become problematic to keep track of.
2.3.1	<p>Careful guidance is needed on the categories mentioned. Ratios will be near impossible to measure due to clients having different businesses or needs. Many FSPs are licensed for a variety of financial products they offer to a single client.</p> <p>Customer segments – the segment titles are not familiar in short-term insurance :</p> <ul style="list-style-type: none"> - Retail – assume this to be personal lines - Professional (high nett worth clients) – the words in brackets suggest that this category is for personal lines clients who are professionals. <ul style="list-style-type: none"> • What is the purpose behind breaking this out of personal lines? • Should it rather be high nett worth personal lines clients (whether professionals or not)? • May not always know whether a client is a professional or not. • For professionals who are sole practitioners is this in respect of their personal insurance or their practice insurances? • What about professionals who work for a professional firm? - Wholesale – term not used in short-term insurance. Does it mean insurance sold to companies for the benefit of employees – e.g. Group PA, Group Travel? - Institutional – term not used in short-term insurance. Does it mean anything which is not personal i.e. commercial? <p>Typical segmentation in short-term insurance is:</p> <ul style="list-style-type: none"> • Personal lines • Commercial SMME • Commercial middle to large market • Corporate including global and public enterprises

Question	Comments
	However there needs to be engagement with the industry on appropriate segmentation and definitions. Without clarity as to purpose and definition, information provided will not be reliable and will more likely be misinformation.
2.3.2	Nature of services – this concept is far too wide. We can probably envisage answers ranging from a single word such as “Broker” to a “two page essay”. Who is going to read and interpret and correlate the answers and will they have time to do this for 12 000 or so STI brokers, let alone other reporting entities? And to what purpose?
2.4 Advice	Advice – we do not understand why the questions are so procedural rather than of a compliance verification nature (that would be confirmed by the compliance officer)? Again how is it seen that the thousands of disparate answers will be interpreted and aggregated? And to what end?
2.4.7	<p>What is meant by “replacement products” (it will be necessary to state clearly which definition is to be used) and does this refer to long-term and short-term insurance?</p> <p>Replacement products – not nearly as applicable to short-term insurance as to long-term insurance. Short-term insurance products are usually for an annual term and are often replaced at renewal so as to ensure the best coverage at the best price. This is seen as unnecessary in STI reporting.</p> <p>Many FSPs will not have systems to capture the relevant data.</p>
Focus area 3	Many FSPs and intermediaries use advertising media of insurers and rely on the authenticity of such media. Sign-off processes may not be known to them.
5.2	The purpose of this requirement is not clear, nor how this supports regulation. There is considerable resistance to what is seen as inappropriate “intrusion” and further clarity would be appreciated.
5.3	It is felt that there is a need to explain in more detail what exactly is required here, especially the part about linkages between earnings.
5.4	As things stand lead generation is an activity which is purely a business transaction and not subject to regulation.
6.4	The annexure should ideally include details of representatives and dates of terminations for cross checking purposes.
6.5 to 6.7	Juristic representatives – we understand that in terms of the proposed regulatory amendments, representative may only be natural persons.
6.13	<p>This question is probably too wide as it addresses a variety of business issues. Perhaps it could be narrowed down to ask for only the information that is specifically required for better regulation?</p> <p>It is thought that the focus areas given are unnecessarily detailed in that they require information at representative level whereas any conflicts that may exist would probably be at a higher level. Aggregated information would therefore suffice.</p>
Focus area 8	Binders and outsource agreements – much of this information will already be held by the regulator as required from insurers when entering into and terminating such arrangements.
10.2	Many intermediaries will have several agreements in place in which case the statement should read, “If yes, provide a copy/copies of the agreement(s).”
10.4	Intermediaries could have several agreements in place in which case the statement should read, “If yes, provide a copy/copies of the agreement(s).”

Question	Comments
13.1	There could have been several changes and some of them may have been approved by the Registrar with others still awaiting approval. This section may have to be reworded.

General Comment

We question the need for the extent of the massive amount of detail required and what purpose will be served by reporting on non-material information in terms of regulatory oversight?

Has the Industry participated in the investigating and drafting of these proposals?

How much of the data now required is already held by the Regulator where re-submission creates additional and unnecessary work.

Has a study been done on the additional costs involved and the proportionality of the costs versus benefits? These costs will need to be factored into a cost to end customer in terms of gross premium/fees and cannot be wholly absorbed by the intermediary who is already under severe regulatory pressure in terms of the perceived purge on remuneration.

What regimens are in place to secure the sensitive customer and intermediary information from a competitive and strategic view point?

Has consideration been given to the excessive volumes of information required in the context of a barrier to entry into the industry by smaller/SMME players? Is it practical in the light of proportionality and/or materiality?

Should "Compliance" (internal and external) not be the first line of defence with the Regulator exercising oversight through the Compliance and Governance function? The Regulator should look more to harnessing its network of compliance officers and rather adopt a process of exception reporting and aggregation to monitor compliance and market conduct to the extent possible.

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On behalf of the Financial Intermediaries Association of Southern Africa (FIA)

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