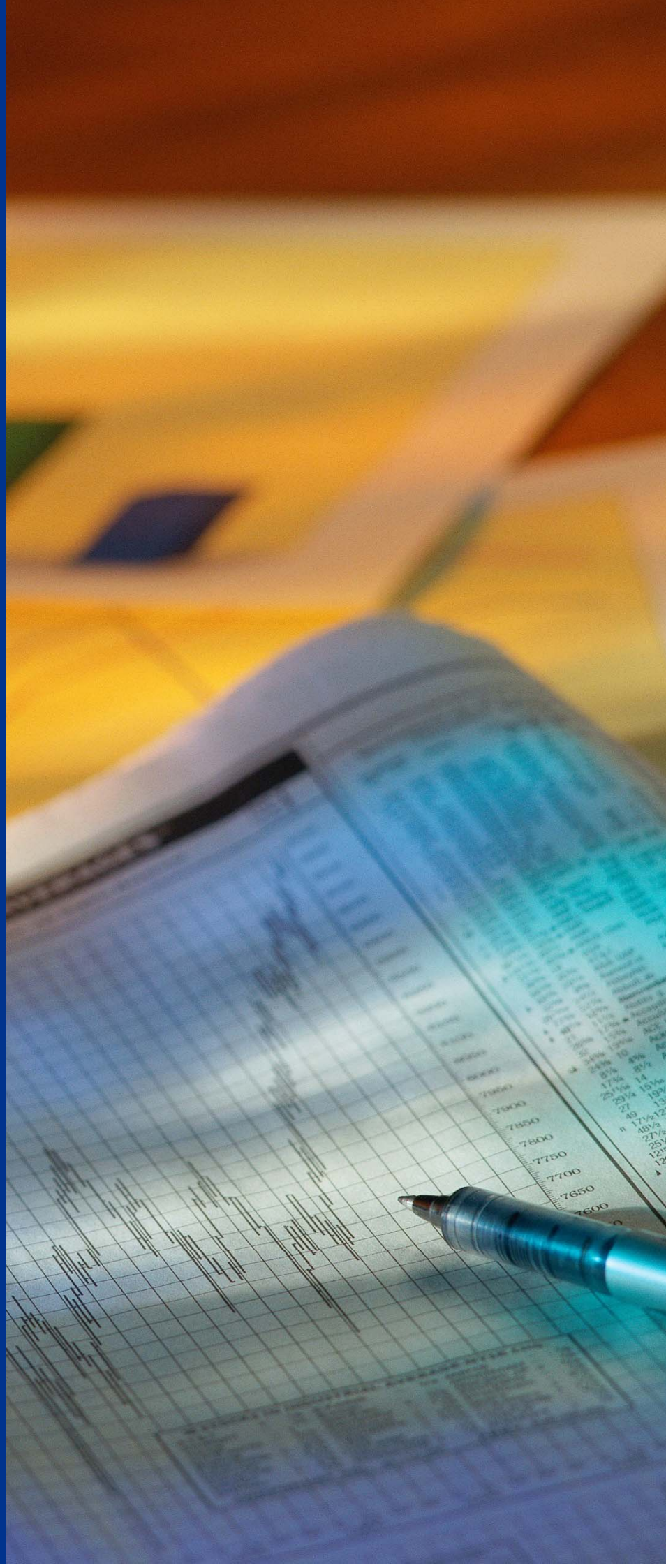




# Financial Services Board

RIA on proposed  
amendments to  
requirements for  
Financial Service  
Providers

September 2017



# Glossary

<b>APC</b>	Assessment of Professional Competence
<b>BASA</b>	Banking Association of South Africa
<b>CBA</b>	Cost Benefit Analysis
<b>CEA</b>	Cost Effectiveness Analysis
<b>CPD</b>	Continuous Professional Development
<b>CPI</b>	Consumer Price Inflation
<b>FAIS</b>	Financial Advisory and Intermediary Services Act
<b>FSB</b>	Financial Services Board
<b>FSP</b>	Financial Service Provider
<b>IoB</b>	Institute of Bankers in South Africa
<b>ISA</b>	International Standards on Auditing
<b>ISAE</b>	International Standards on Review Engagements
<b>ISRS</b>	International Standards on Related Services
<b>KIs</b>	Key Individuals
<b>KPMG</b>	KPMG Services (Pty) Ltd
<b>NQF</b>	National Qualifications Framework
<b>RDR</b>	Retail Distribution Review
<b>REs</b>	Regulatory Examinations
<b>RPL</b>	Recognition of prior learning

<b>SAICA</b>	South African Institute of Chartered Accountants
<b>SAIFM</b>	South African Institute of Financial Markets
<b>SAIPA</b>	South African Institute of Professional Accountants
<b>SARB</b>	South African Reserve Bank
<b>SAQA</b>	South African Qualifications Authority
<b>SETA</b>	Skills Education Training Authorities
<b>QCTO</b>	Quality Council for Trades and Occupations

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# Executive summary

According to the *Financial Advisory and Intermediary Services Act of 2002 (FAIS)*, all Financial Service Providers (FSPs), Key Individuals (KIs) and representatives must meet certain fit and proper requirements. The Financial Services Board (FSB) has subcontracted KPMG Services (Pty) Ltd (KPMG) to do an impact assessment on the proposed amendments related to these requirements, as published in the *Draft fit and proper requirements (2016)*. In particular, the study focuses on the proposed changes to the second level Regulatory Examinations (REs) and the Continuous Professional Development (CPD) requirements. At present, both are subject to a general exemption granted by the Registrar.

The study aims to understand:

1. Whether the formalisation of product training with a minimum industry standard is potentially a more cost-effective alternative to second level REs. In addition, the study explores the potential cost and capacity impacts on stakeholders resulting from the amended CPD requirements.
2. Current training taking place in the industry and whether the proposed class of business and how the proposed product specific training differs from this. The nature and cost of any gaps is also important to understand.
3. Where potential conflicts of interest lie, the extent of these conflicts and potential alternatives to managing them.

## Our approach to conducting the impact assessment

The assessment follows a mixed methods approach. This involves combining the results of a cost analysis, industry opinion through stakeholder interviews and desktop research.

The **cost analysis** refers to a Cost Effectiveness Analysis (CEA), which is an economic analysis tool that compared the relative costs and outcomes of different courses of action. A CEA is often used where it may be inappropriate to monetise the benefits of a course of action, or where it is difficult to assign a value to these benefits. Additionally, in situations where we do not expect benefits to differ between the various courses of action, a CEA could be used to determine the most cost effective intervention.

We conducted **stakeholder interviews** telephonically and in-person with a range of stakeholders. These included 25 insurance companies, banks, independent financial advisors, professional bodies and accreditation providers.

**Desktop research** entailed reviewing of stakeholder comments submitted to the FSB on the *Draft fit and proper requirements (2016)*, review of websites for current CPD activities, training programmes etc. as well as statistics and documents provided by the FSB.

## Understanding the proposed changes to the current legislation

### Current product knowledge requirements

At present, FSPs, KIs and representatives are required to write and pass the relevant level REs. There are a maximum number of four examinations which make up the first level REs that deal with the regulatory framework applicable to FSPs, i.e. the provisions of the *FAIS Act (2002)* and the *Financial Intelligence Centre Act of 2001 (FICA)*. In addition, the *FAIS Act (2002)* legislation refers to second level REs, which will be more product specific and will focus on the categories and subcategories in which the FSP, KI and representative is authorised to render financial services.<sup>1</sup> However, the

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<sup>1</sup> FSB, 2008. Board Notice 106 of 2008. *Determination of fit and proper requirements for financial services providers.*

Registrar extended a general exemption relating to the second level REs in June 2013 applicable to all FSPs, KIs and representatives by means of the *General Exemption from the Second Level REs requirements (2013)*.<sup>2</sup> At present, the *FAIS Act (2002)* does legislate that FSPs ensure that training for KIs and representatives regarding products are in place.

### Proposed product knowledge requirements

The proposed legislation refers to the replacement of the 26 product specific second level REs with class of business training and product specific training, known jointly as product training. Accredited providers, which are accredited by the relevant Skills Education Training Authorities (SETA) according to Quality Council for Trades and Occupations (QCTO) criteria, must provide class of business training. In contrast, anyone may provide product specific training, but these are likely to be product suppliers who have the necessary information and expertise. Furthermore, FSPs are responsible for recording all class of business and product specific training (provided both internally and externally) in their competence register, along with other competency requirements.

### Current Continuous Professional Development requirements

The objective of CPD is to maintain the required level of competency to render financial services. At present FSPs must track all competency requirements, including CDP, in a competency register. Specifically relating to CPD activities, the existing fit and proper legislation states that the 'outcomes' of any CPD activities must be recorded. In addition, it compels the FSB to accredit all CPD trainers, programmes and activities to develop and maintain a CPD database. However, the introduction of the *General Exemption from Continuous Professional Development Requirements (2012)* provided the FSB time to consider a more viable and sustainable implementation of the CPD process.

### Proposed Continuous Professional Development requirements

The proposed amendments require a professional body to track and accredit CPD activities. The South African Qualifications Authority (SAQA), according to the *Policy & Criteria for Recognising a Professional Body and Registering a Professional Designation in accordance with the National Qualifications Framework (NQF) Act*, recognises professional bodies. Other changes include the introduction of the minimum number of CPD hours, in place of professional best practice, and the removal of the requirement for the FSB to develop and maintain a CPD database of verified programmes and trainers.

### Summary of cost analysis results

The cost effectiveness ultimately compares the costs of various scenarios in the form of ratios. For the **product knowledge requirements**<sup>3</sup>, we compare two scenarios: second level REs and the combined costs of class of business training and product specific training i.e. product training.

To evaluate the cost effectiveness of each product knowledge requirements, we calculated the ratios using the overall cost to of each scenario to the industry and the number of advisors in the financial industry (total cost divided by the number of advisors).

The overall present value of second level REs is R5.9 billion, and we divided by number of candidates totalling 74 989. For class of business training and product specific training, we combined the costs of the two scenarios, which amounted to R4.7 billion, and divided by 138 045 representatives.

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<sup>2</sup> FSB, 2013. Board Notice 120 of 2013.

<sup>3</sup> Product knowledge requirements refer to the second level REs (also referred to as the current scenario) as well as product training (also referred to as the proposed scenario), which includes class of business and product specific training.

### Product knowledge requirements results

Product knowledge requirements	Ratio
Second level RE	0.33
Product training: Class of business and product specific training	0.03

The ratios above show that the industry incurs more costs to train financial advisors with second level RE. The ratio of 0.33 implies that the industry as a whole could incur about R330 000 for the training of one financial advisor. In addition, certain industry stakeholders have in place product training which may comply with the requirements of the proposed legislation, significantly decreasing their specific investment to ensure compliance.

The **product knowledge** scenarios present a ratio of 0.12, which means the industry incur about R33 000 to train 1 advisor. This ratio of 0.03 is significantly lower than the second level REs costs. Therefore, from a costing perspective, it is much more cost effective to implement the class of business training and product specific training options, as they are cheaper than the second level REs.

In the same manner, we compared the two **CPD requirements** options. The overall present value costs of the current CPD programme is about R2 412.4 million, while that of the proposed CPD is about R300.6 million. We used the number of financial advisors of 138 045. Dividing the costs by the number of financial advisors, we get the following ratios:

### CPD requirements results

CPD	Ratio
Current CPD ratio	0.032
Proposed CPD ratio	0.004

These results imply that it would be cost effective for the financial industry to implement the proposed CPD requirements.

We used a Cost Effectiveness Analysis (CEA) to evaluate the most cost effective training programme for the financial industry. A CEA can be used to evaluate a programme that is under consideration, but has not begun or to evaluate a programme during when it is already under way (both backward and forward looking). This means that by using the CEA, we have considered what is currently happening and what could happen in future in the financial industry.

### Understanding the qualitative benefits and costs of the proposed legislation

Some costs are difficult to quantify, subject to data constraints or do not display a strong enough correlation to the change in regulation. It is however important to take note of these costs, outside of the CEA. These are noted below.

### Cost and benefit summary

	Product knowledge requirements	CPD requirements
Costs	<ul style="list-style-type: none"> <li>— Technical expertise required for content development</li> <li>— Time spent by industry players to understand new requirements</li> </ul>	<ul style="list-style-type: none"> <li>— Appropriate people, processes and systems for SAQA recognition process</li> <li>— Time spent by industry players to understand new requirements</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>— Improved levels of consumer protection</li> <li>— A reduction in the amount of substandard training provided</li> </ul>	<ul style="list-style-type: none"> <li>— Improved levels of consumer protection</li> <li>— Higher level of industry professionalism</li> </ul>

	— Higher level of industry professionalism	
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### Important considerations and potential associated risks of the proposed legislation

The assessment also notes the potential associated risks with the proposed legislation. We have considered the extent of these risks as well as any potential alternatives. Where possible, we present ways to mitigate or manage the risks.

#### Summary of potential risks and possible mitigation strategies

Risk	Application	Explanation	Potential alternative / mitigation
<b>Understanding the nature of outcome based regulation and its success factors</b>	Product knowledge requirements	The proposed changes introduce new roles for market players. The FSB's role is more information provision and credibility related while industry players have a higher degree of autonomy. In light of this, concepts such as class of business training as well as the related definition of 'assessment' require clarification and discussion.	<ul style="list-style-type: none"> <li>— Ongoing educational sessions and information workshops</li> <li>— Quarterly sandbox session with an independent facilitator</li> <li>— Collaboration with other regulators</li> </ul>
	CPD requirements	Industry seems to have varied and, at time, opposing interpretations of the requirement that CPD be tracked by a professional body. The requirements also introduce a higher-level dependence on structural and cultural capacity of professional bodies.	
<b>Conflicts of interest</b>	Product knowledge requirements	One conflict of interest noted in the implementation of level two REs, is the requirement of product specialists contributing to question development, while also working closely with examination candidates in their day-to-day jobs.	<ul style="list-style-type: none"> <li>— Full-time hiring of product specialists</li> <li>— Further research into SAICA's approach to APC</li> <li>— Fostering a strong culture of separation internally</li> <li>— Investigating the impartiality standards as part of the ISO17 accreditation</li> <li>— Collaborating with SAQA to ensure that professional bodies are regulated to protect industry-wide interests</li> <li>— Continuous monitoring and evaluation</li> </ul>
	CPD requirements	<p>From stakeholder interviews, conflicts of interest as they relate to professional bodies both accrediting and providing CPD activities, are more perception based than proven. The concern centers on the fact that such a professional body will have the power to eliminate competition in the training provision industry to forward its own internal interests.</p> <p>Secondly, the principal of the proposed CPD requirements being a minimum standard, as opposed to industry standard or best practice creates a reliance to self-regulate a better level of CPD. It is also in the interests of these affected persons or organisations to</p>	

Risk	Application	Explanation	Potential alternative / mitigation
		minimise costs, including those paid towards accredited CPD activities.	
<b>Capacity in the industry</b>	Product knowledge requirements	Stakeholders raised concerns about the availability of class of business in the industry. According to them, it is important that the FSB allow enough time for prospective class of business training providers to amend their training in accordance with the proposed standards	<ul style="list-style-type: none"> <li>— An in-depth study of available class of business training should be done</li> <li>— Communication strategy for engaging with and informing industry</li> </ul>
	CPD requirements	Concerns about the potential capacity of professional bodies were also researched. At present professional bodies in the industry monitor of both members and non-members who participate in their affiliated CPD activities. Despite there currently being no charge associated with this, the number of non-members making use of this service is low. The concern is that professional bodies may not be able to meet demand, which will increase as a direct result of the legislation. It seems that this is not a high risk as the FSB has engaged professional bodies on the change, allowing them to prepare adequately for the changes.	<ul style="list-style-type: none"> <li>— Professional bodies have capacity in their system to track non-members. There is the potential for increased charges to accommodate this.</li> </ul>
<b>Exemption of simpler products</b>	Product knowledge requirements	The exemption of simpler products to first level REs and additional product training may lead to adverse effect on consumers. It is important that industry still offer diverse and complex products to clients and not focus on simple products, with lower product knowledge requirements.	<ul style="list-style-type: none"> <li>— Continuous monitoring and evaluation</li> </ul>
<b>Barriers to entry</b>	Product knowledge requirements	FSB should assure that the proposed amendments do not create additional barriers that may lead to reduced competition and increased prices for training in the industry.	<ul style="list-style-type: none"> <li>— Continuous monitoring and evaluation</li> </ul>
	CPD requirements	Since this element of outcomes-based regulation relies upon the discretion and processes of the professional body, this may create a barrier for certain CPD programmes and providers.	<ul style="list-style-type: none"> <li>— SAQA requirements of professional body may be sufficient in ensuring this is monitored and avoided. FSB should work in</li> </ul>

Risk	Application	Explanation	Potential alternative / mitigation
			collaboration with SAQA to ensure this.
<b>Complexity of tracking CPD</b>	CPD requirements	The majority of tracking in the industry seems to occur through professional bodies, namely FPI and IISA. For those not doing so through professional bodies, CPD tracking occurs at a very basic level, if at all. Most stakeholders stressed the complexity of such a system, with some going as far as suggesting that the FSB develop a platform for the industry.	<ul style="list-style-type: none"> <li>— Industry-wide education</li> <li>— Quarterly sandbox session with an independent facilitator to share experiences</li> </ul>
<b>Stakeholder perception of FSB</b>	Product knowledge and CPD requirements	Whether factual or not, stakeholder perception may be that the FSB is attempting to shift monetary costs of regulation and decision making responsibilities onto industry players such as the QCTO, INSETA and SAQA.	<ul style="list-style-type: none"> <li>— Ongoing educational sessions</li> <li>— Quarterly sandbox session with an independent facilitator</li> <li>— Collaboration with other regulators</li> </ul>

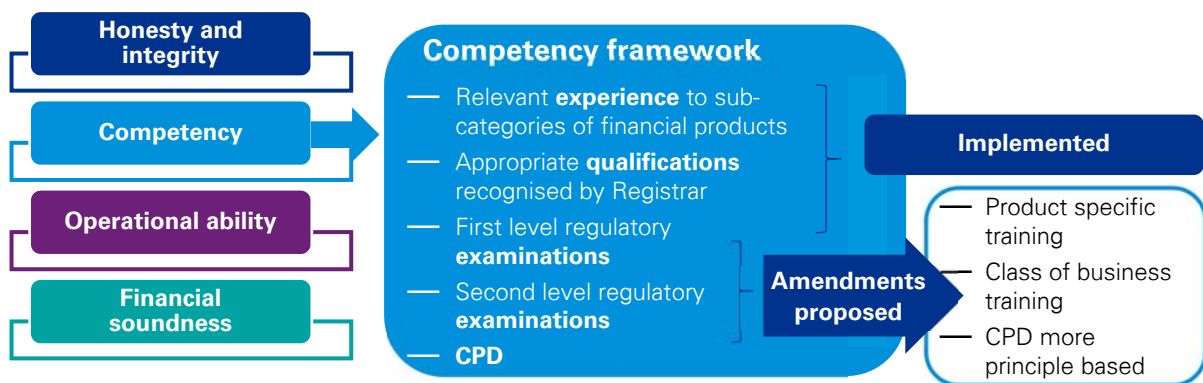
In conclusion, there are several effects and risks for the FSB to consider in implementing the proposed changes to the product knowledge and CPD requirements. The context is multifaceted, with the purpose of this impact analysis being to highlight these various aspects. Even though there is not a definite preferred option, the analysis highlights the key considerations and mitigation strategies associated with the risks. As the analysis reflects, regulation of competence in the industry is critical to protection of industry members and consumers but also requires investment of resources from all stakeholders. We hope that the FSB uses this report as a decision aid in weighing up these counteracting factors, to best shape regulation relating to this key component of the industry.

# 1 Aim, context and overview of product knowledge requirements and CPD legislation

## 1.1 Background to current product knowledge requirements and CPD legislation

The *Financial Advisory and Intermediary Services Act (FAIS) (Act 37 of 2002)* require all FSPs, KIs and representatives to meet certain fit and proper requirements. The government enacted the *FAIS Act (2002)* in November 2002 with the main purpose being to provide consumer protection in terms of financial products and professionalisation of the South African financial services industry. The *Determination of fit and proper requirements for financial services providers of 2008* sets out the four requirements as presented in Figure 1.

Figure 1: The fit and proper requirements for FSPs<sup>4</sup>



Source: FSB, 2016. Draft revised fit and proper requirements, 2016.

### Current progress on the FAIS Act competency framework

The FSB has, to date, implemented the first three sub categories under the competency framework (experience, qualifications and the first level RE). The cost analysis primarily focus on the proposed amendments on the second level REs and the CPD requirements that are currently subject to a general exemption granted by the Registrar.

The next phase of implementing the competency framework will focus on the implementation of second level REs and the CPD requirements.

### Considerations for next phase of FAIS competency framework

In February 2015, the FSB embarked on a review of the current competency framework. A series of workshops with industry, professional bodies, SETAs and even a comparative study of the SARS Tax practitioner model was done. At the 2016 annual FAIS Conference, the FSB aimed to provide the industry with an update of the review, in light of the potential move towards an outcomes principle based regulatory model. The update included the lessons learnt from the review as they related to product knowledge and CPD. Taking into account the lessons learnt from the level 1 REs, the

<sup>4</sup> Please note that only certain FSPs, KIs and representatives are subject to the proposed amendments

Regulator revealed that it was considering an alternative approach to ensure relevant product knowledge that<sup>5</sup>:

- Is practical, clear and cost effective
- Should cater for persons in multiple sub-categories
- Should cater for significant and/or on-going product updates
- Should take into consideration the relevant RDR requirements
- Involves product providers conducting product training and assessment
- Is risk-based and proportionate

It is important to look at the overall implementation effects of the previous phase in order to avoid or mitigate similar challenges. Based on a review of the competency framework, the Registrar has proposed some adjustments to the current legislation. The amendments were proposed as the previous requirement of 26 product specific examinations would put a large financial and regulatory burden on the industry. The amendments also aim to clarify the applicable requirements and to meet the consumer protection objective. The FSB has proposed that class of business training and product specific training, jointly known as product training, replace second level product specific examinations. Class of business training will focus on general product knowledge in relation to the line of business. Product specific training will focus on the specific products offered with features, benefits, and characteristics that are unique to that particular product.

Concerning CPD, some of the challenges identified as part of the review, and presented at the 2016 FAIS Conference include:

- the administrative burden of approval and recording of CPD providers
- the timely approval and re-approval after the expiry date of various CPD interventions
- the challenges of updating and maintaining approved CPD providers and programme
- the lack of support and information to identify CPD programmes and providers

## **Improved principles and processes for regulating product knowledge requirements and CPD**

In addition to the considerations above, industry required a more cost effective, clear and practical process. The Registrar aims to adjust the requirements to be more principle based in order to gain and maintain a certain level of competence. The proposed changes are considered to be an improvement on the current requirements, which are considered to be prescriptive and not focussed on ongoing maintenance of a relevant skill base.

Previous research done by KPMG shows that the number of advisors in the UK dropped after the Retail Distribution Review (RDR) implementation due to:

- not meeting minimum standards of professionalism
- increased cost of compliance
- cash flow challenges
- difficulty in articulating a compelling value proposition

It is worthwhile to consider the case of the UK, and other countries, as some strategic considerations will be relevant, yet it is necessary to emphasize that South Africa's case will be different. The FSB

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<sup>5</sup> Moonstone, 2016. Competency Framework review. Available: <http://www.moonstone.co.za/competency-framework-review/>

has implemented the first phase of these requirements; therefore, the expected drop in the number of advisors is anticipated to be less. The FSB has also published a common set of principles underpinning competence requirements based on international research. The countries included are Australia, the Netherlands, New Zealand, Singapore and the UK. As per a presentation by the FSB at the 2016 FAIS Conference, the four common principles that underpin competence throughout these countries include<sup>6</sup>:

- Knowledge and skills of the individual must match their role within the sector
- Individuals cannot undertake regulated activities unsupervised until they are assessed as competent (even though they may have passed the appropriate exam)
- Once an individual is deemed competent the FSP or product supplier must monitor them to ensure they remain competent
- Professional bodies play an important role in setting professional standards.

## **1.2 Purpose of this study**

The FSB has contracted KPMG to conduct an impact assessment on the FSP competency requirements amendments as they relate to class of business and product specific training as well as the accreditation and tracking of CPD activities. In particular, the aim of the study is to understand:

1. Whether the formalisation of product training with a minimum industry standard is potentially a more cost-effective alternative to second level REs. In addition, the study explores the potential cost and capacity impacts on stakeholders resulting from the amended CPD requirements.
2. Current training taking place in the industry and whether the proposed class of business and how the proposed product specific training differs from this. The nature and cost of any gaps is also important to understand.
3. Where potential conflicts of interest lie, the extent of these conflicts and potential alternatives to managing them

## **1.3 Acknowledgments**

We would like to express our appreciation for the time and cooperation provided by the FSB project team. In addition, we acknowledge the time and information generously provided by all stakeholders interviewed.

## **1.4 Disclaimer**

KPMG compiled this report for the sole and exclusive use of the FSB. It should not be quoted in complete or in part, by any party other than the FSB, without our prior written consent. KPMG's findings in connection with this report are intended solely and exclusively for the benefit, information and use by the FSB. No party, other than the FSB, may rely on the findings, either in whole or in part. KPMG (including its directors or employees or anybody or entity controlled, owned or associated with KPMG) accepts no liability or responsibility whatsoever, resulting directly or indirectly from the disclosure of our findings to any third party and/or reliance of any third party on the findings, either in whole or in part. KPMG's findings relate to prevailing conditions and information available at the time of issuing our report.

## **1.5 Limitations**

We have relied upon the sources of information referred to in this report. Except where specifically stated, we have not sought to establish the reliability of those sources. We have however reviewed

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<sup>6</sup> FSB, *FAIS Conference presentation: Part 3*, March 2016

the information and have sought explanations for key trends and salient features identified by us. We have also satisfied ourselves, as far as possible, that the information presented is consistent with other information obtained by us in the course of the work undertaken to prepare this report.

Our engagement does not comprise a due diligence review or constitute an audit or review, other assurance engagement or an agreed-upon procedures engagement, performed in accordance with International Standards on Auditing (ISAs), International Standards on Review Engagements (ISAEs) or International Standards on Related Services (ISRS). Consequently, an audit opinion or assurance conclusion will not be expressed nor will there be a report on factual findings.

As such, this report may not necessarily disclose all significant matters about the project or reveal errors or irregularities, if any, in the information and representations made to us and upon which we have relied.

Estimations made embody assumptions on the behaviour of factors in the macro and micro economy, and the project itself. These assumptions were based on evidence available as at the time of this report. Users of the forecasts may consider other assumptions to be more appropriate, which may materially change the outcome of the forecasts.

Please note that any advice, opinion, statement of expectation, forecast, or recommendation supplied by us as part of the service shall not amount to any form of guarantee that we have determined or predicted future events or circumstances.

## 1.6 Layout of this report

The layout for the rest of the report consists of the following sections:

- In **Section 1** we provide detail on the aim, context and the overview of the current and proposed product knowledge requirements and CPD legislation.
- In **Section 2** gives details about our approach towards the impact assessment.
- In **Section 3** we outline the product knowledge requirements. This section includes a detailed description of the current requirements, the proposed requirements as well as a cost analysis.
- In **Section 4** we outline the CPD requirements. This section includes a detailed description of the current requirements, the proposed requirements as well as a cost analysis.
- In **Section 5** we provide the detailed results of the Cost Effectiveness Analysis.
- In **Section 6** we provide a conclusion summarising the cost impact of the current and proposed scenarios. In addition, we include recommendations from the above analysis.

## 2 Approach to the impact assessment

In order to meet the objectives for this impact, we have selected a mixed-methods approach. This involves a combination of:

- a cost analysis,
- stakeholder interviews, and
- desktop research.

The **cost analysis** refers to a CEA, which is an economic analysis tool that compares the relative costs and outcomes of different courses of action. A CEA is often used where it may be inappropriate to monetise the benefits of a course of action, or where it is difficult to assign a value to these benefits. Additionally, in situations where we do not expect benefits to differ between the various courses of action, a CEA is used to determine the most cost effective intervention.

We conducted **stakeholder interviews** telephonically and in-person with a range of stakeholders. Our sample was selected in consultation with the FSB and covers a range of stakeholders from long-term insurers, professional bodies, industry institutions, regulators and individual financial advisors. In total 25 interviews were conducted. For the complete list of stakeholders, please refer to Appendix 1. Please see Appendix 2 for the detailed interview guides used as part of the stakeholder interview process.

**Desktop research** entailed reviewing of stakeholder comments submitted to the FSB on the draft legislation, review of websites for current CPD activities, training programmes etc. as well as statistics and documents provided by the FSB.

### 3 Product knowledge requirements

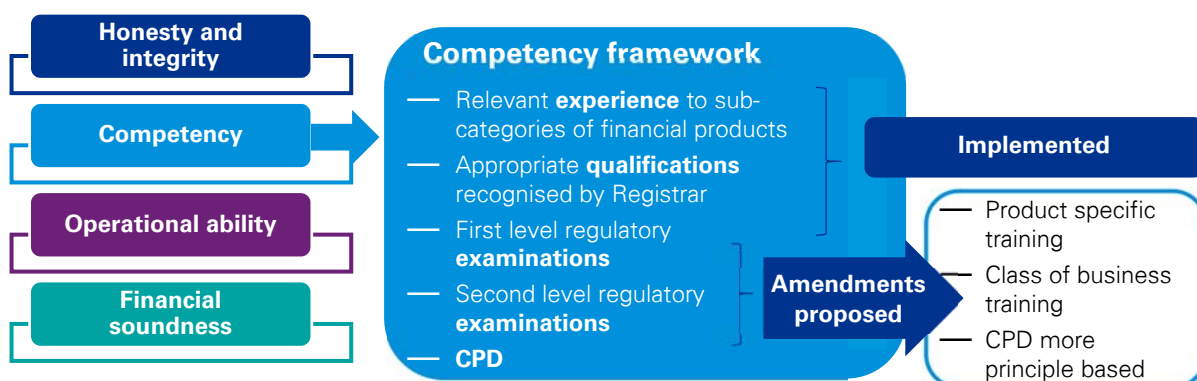
The *FAIS Act (2002)* requires all FSPs to meet certain fit and proper requirements. The competency requirements set out in the *Determination of fit and proper requirements for FSPs (2008)* aims to protect consumers while improving the competency levels of the industry.<sup>7</sup> This legislation is applicable to all FSPs, KIs and representatives.<sup>8</sup>

The Registrar first published the proposed amendments to the fit and proper requirements on 17 December 2015 and invited industry to comment until March 2016. A second publication of amendments on 21 October 2016 incorporated the consultations from the review process, which began in February 2015 and invited comments for a further three months. This is the present *Draft revised fit and proper requirements (2016)*, which aligns, more closely than the previous version, to the proposed outcomes based approach to industry regulation. Figure 2 shows the competency framework and the status of each component.

The proposed amendments as set out in the *Draft revised fit and proper requirements (2016)* primarily focus on<sup>9</sup>:

- An alternative to the introduction of the second level REs, which are currently subject to a general exemption granted by the Registrar.
- The introduction of amended CPD requirements, also subject to a general exemption

Figure 2: Competency framework<sup>10</sup>



Source: FSB, 2016. Draft revised fit and proper requirements, 2016.

#### 3.1 Current requirements

To date, the FSB has implemented the first three sub-categories under the competency framework, namely experience, qualifications and the first level REs. The current first level REs is divided as follows into five subcategories:<sup>11</sup>

<sup>7</sup> FSB, 2016. *Draft revised fit and proper requirements, 2016.*

<sup>8</sup>“FSP” means a financial services provider as defined in section 1(1) of the Act; “key individual” includes a key individual of a juristic representative of an FSP;

<sup>9</sup> Note that the term product training is used as an umbrella term to refer to class of business training and product specific training

<sup>10</sup> Please note that only certain FSPs, KIs and representatives are subject to the proposed amendments

<sup>11</sup> FSB, n.d. Regulatory Examinations. Available: <https://www.fsb.co.za/Departments/fais/Pages/Regulatory-Examinations.aspx>

Table 1: First level regulatory examinations

Regulatory examinations	Details	Affected persons
<b>RE1<sup>12</sup></b>	General examination consisting of 80 questions	All KIs and sole proprietors (Category I, II, IIA, III and IV) <sup>13</sup>
<b>RE2<sup>14</sup></b>	This examination has been suspended.  It applied to FSPs rendering Category I services that only deals with Assistance Business Policies and Friendly Society Benefit (this may in future fall within the Micro Insurance Legislation that will exempt from having to write any exams).	N/A
<b>RE3</b>	Addition to RE1 applicable on category II and IIA	All KIs and sole proprietors (Category II, IIA)
<b>RE4</b>	Addition to RE1 applicable on category III	All KIs and sole proprietors (Category III)
<b>RE5</b>	Representative examination	All representatives <sup>15</sup> and sole proprietors

Source: FSB, n.d. *Regulatory Examinations*.

The first level REs mainly deal with the regulatory framework applicable to FSPs, i.e. the provisions of the *FAIS Act (2002)* and the *Financial Intelligence Centre Act of 2001 (FICA)*. The second level REs will be more product specific and will focus on the categories and subcategories in which the FSP, KI and representative is authorised to render financial services.<sup>16</sup> According to the *Determination of fit and proper requirements for financial services providers (2008)*, certain categories would have been exempt from the second level REs as per Table 2.

Table 2: Categories exempt from second level regulatory examinations

Categories	Details	Subcategories exempt
<b>Category I</b>	FSP rendering all financial services other than category II, IIA, III, IV (19 detailed sub categories)	1.1 Long-term Insurance Category A 1.17 Long-term Deposits 1.18 Short-term Deposits 1.19 Friendly Society Benefits
<b>Category II</b>	Discretionary FSP	None
<b>Category IIA</b>	Hedge Fund FSP	None
<b>Category III</b>	Administrative FSP	None
<b>Category IV</b>	Assistance business FSP	All

<sup>12</sup> It is important to note that RE1 is not the same thing as first level regulatory examinations. RE1 is one of the 5 regulatory exams of that first level regulatory examinations consist of.

<sup>13</sup> These categories stay consistent in all the fit and proper legislation.

<sup>14</sup> The RE2 examination is not the same as the second level regulatory examinations that are proposed to be replaced by the class of business and product specific training. RE2 refers to the second of five examinations that form part of the first level regulatory examinations

<sup>15</sup> This excludes a person rendering clerical, technical, administrative, legal, accounting or other service in a subsidiary or subordinate capacity which does not require judgment or does not lead to a specific transaction in respect of a financial product in response to general enquiries

<sup>16</sup> FSB, 2008. Board Notice 106 of 2008. *Determination of fit and proper requirements for financial services providers*.

Source: FSB, n.d. Regulatory Examinations.

Relating to product training, at present, the *FAIS Act (2002)* does legislate that FSPs ensure that training for KIs and representatives regarding products are in place. In particular, it notes that:

*“An FSP must ensure that internal control structures, procedures and controls are in place which include... (i) training for all key individuals and/or representatives regarding the giving of advice and/or rendering of intermediary services by the provider”.*

### 3.1.1 Compliance timeline

The Registrar implemented the first level REs from November 2010. All KIs, reps and sole proprietors that were appointed, approved or authorised before 31 December 2010 were required to write the relevant exams at least once before the end of June 2012. Those that attempted the exams at least once but failed, qualified for an extension up to 31 March 2013, the final deadline for compliance with the first level REs.

Following the March 2013 deadline, all FSPs and KIs are required to write the relevant level one RE exams before being authorised or approved. In contrast, representatives must pass the relevant exams within two years from their date of first appointment. Until they have passed the relevant level one REs, they are required to work under supervision.

In relation to second level REs, the Registrar extended a general exemption in June 2013 applicable to all FSPs, KIs and representatives by means of the *General Exemption from the Second Level REs requirements (2013)*.<sup>17</sup> The second level REs have not been enforced as set out in the *Determination of fit and proper requirements for financial services providers (2008)* as the FSB aims to follow a gradual, phased-in approach to ensure that industry is prepared and the outcome of a higher competent financial services industry is achieved.

### 3.1.2 Drivers for change

The second level REs are likely to be more complex than the first level REs as it would comprise at least 26 product specific examinations (see Table 3). The first level REs consisted of only four.

Table 3: The proposed second level product examinations

RE No	Product Examination
RE 6	Category IV level 2 exam (Funeral Administration)
RE 7	Long-term insurance category B1 (risk)
RE 8	Long-term insurance category B2 (Investment)
RE 9	Long-term insurance category C and Retail Pension Benefits
RE 10	Collective Investment Schemes
RE 11	Health Care Benefits
RE 12	Short-term insurance: Personal lines
RE 13	Short-term insurance: Commercial lines
RE 14	Pension Fund Benefits
RE 15	Deposits (Short and Long-term)
RE 16	S & I: Shares Cat I
RE 17	S & I: Money markets Cat I
RE 18	S & I: Debentures Cat I
RE 19	S & I: Warrants Cat I
RE 20	S & I: Bonds I
RE 21	S & I: Derivatives I

<sup>17</sup> FSB, 2013. Board Notice 120 of 2013.

<b>RE 22</b>	Forex Investment business I
<b>RE 23</b>	Long Term Insurance category A
<b>RE 24</b>	S & I - General exam - Cat I & II & III
<b>RE 25</b>	S & I: Shares Cat II & III
<b>RE 26</b>	S & I: Money markets Cat II & III
<b>RE 27</b>	S & I: Debentures Cat II & III
<b>RE 28</b>	S & I: Warrants Cat II & III
<b>RE 29</b>	S & I: Bonds Cat II & III
<b>RE 30</b>	S & I: Derivatives Cat II & III
<b>RE 31</b>	Forex Investment business Cat II & III

Source: FSB, n.d. *Regulatory Examinations*.

The proposed alternative to the second level REs considers the lessons learnt from the implementation of the first level REs:

- The number of people required to write the first level examinations was not proportionate to the risk exposure in relation to the various license categories.
- This regulation by exemption lead to a high number of bespoke exam exemptions (approximately 63 056<sup>18</sup>). In addition, regulation by exemption is known to be subject to individual discretion and potential bias, increasing the risk of inconsistent regulation.
- Managing, maintaining, updating and quality assurance of examinations and related infrastructure proved complex and costly.
- Due to the first level REs, industry players began focusing on passing these examinations, at the expense of product specific training.

## 3.2 Proposed requirements

The Registrar first published the proposed amendments to the fit and proper requirements on 17 December 2015 and invited industry to comment until March 2016. A second publication of amendments on 21 October 2016 incorporated the consultations from the review process, which began in February 2015 and invited comments for a further three months. This is the present *Draft revised fit and proper requirements (2016)*, which aligns, more closely than the previous version, to the proposed outcomes based approach to industry regulation.<sup>19</sup> As mentioned, the proposed changes to the second level product specific examinations are class of business and product specific training, jointly known as product training. Figure 3 gives a graphic representation of the current product knowledge scenario in the industry whereas Figure 4 shows the proposed product knowledge scenario.

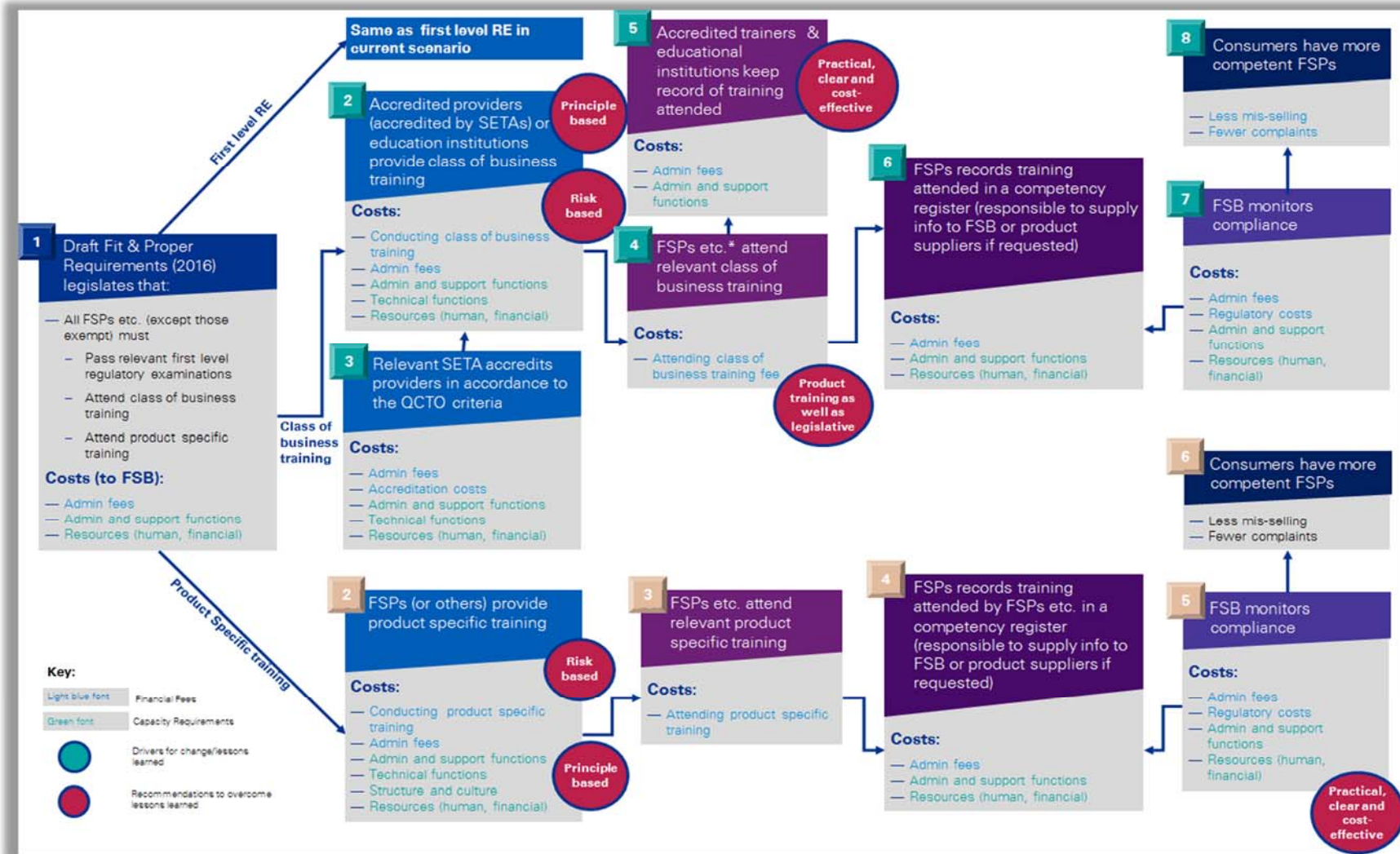
<sup>18</sup> Data supplied by FSB

<sup>19</sup> FSB, 2015. Explanatory memorandum for proposed amendments of fit and proper requirements for FSPs and representatives

Figure 3: Current product exam requirements flow diagram



Figure 4: Proposed product knowledge requirements flow diagram



### 3.2.1 Addressing lessons learned in implementing RE1

The proposed requirements aim “to achieve the required outcome, namely that persons who render financial services have adequate, appropriate and relevant, knowledge and expertise in respect of the financial services, financial products and functions that those persons perform and that they maintain their competency.”<sup>20</sup> Furthermore, the proposed CPD requirements (see Section 4) will assure that industry maintains this level of competence.

Table 4: Recommendations based on lessons learned

Lessons learned	Recommendations
— Number of people writing first level REs are not proportionate to risk exposure	— Proposed requirements to be <b>risk-based</b> and proportionate
— Regulation by exemption lead to subjective decisions and increased risk as it is discretion based	— Proposed requirements to be <b>principle based</b> (by doing away with ‘tick-box’ compliance approach)
— Managing, maintaining, updating and quality assurance of examinations and infrastructure was complex and costly	— Proposed requirements to be practical, clear and cost-effective
— Industry began shifting focus from product training to the passing of the first level REs	— Proposed requirements to be <b>outcomes based</b> (with the goal is that people are more competent)

Source: FSB, n.d. Regulatory Examinations.

### 3.2.2 Proposed exemptions

The proposed amended product knowledge requirements aim to be proportionate and fit for purpose. To achieve this, the legislation divides financial products into tier 1 and tier 2, with different requirements for each. Tier 1 comprises products that are more complex and thus require a higher level of product knowledge requirements than tier 2 products. Tier 2 products are simpler in that they are single need products. The FSB based this distinction on the previous exemptions.

<sup>20</sup> FSB, 2016. Explanatory memorandum for proposed amendments of fit and proper requirements for financial services providers and representatives, 2016.

Table 5: Financial products division between Tier 1 and Tier 2

Tier 1	Tier 2
Structured deposits	Short-term insurance personal lines A1
Short-term insurance personal lines	Long-term insurance subcategory A
Short-term insurance commercial lines	Long-term insurance subcategory B1-A
Long-term insurance subcategory B1	Long-term insurance subcategory B2-A
Long-term insurance subcategory B2	Friendly society benefits
Long-term insurance subcategory C	Short-term deposits
Retail pension benefits	Long-term deposits
Pension fund benefits	
Participatory interest in one or more collective investment schemes	
Participatory interest in a hedge fund	
Forex investment	
Health service benefits	
Shares	
Money market instruments	
Debentures and securitized debt	
Warrants, certificates and other instruments	
Bonds	
Derivative instruments	
Securities and instruments	

Source: FSB, 2016. Draft revised fit and proper requirements, 2016.

The proposed amendments ensure that more responsibility lies with the FSP in ensuring that it, its KIs and representatives have adequately completed the class of business training in which their products fall as well as product training for the financial products that they specifically offer. Prior to the rendering of any financial service, the FSP must ensure that training providers assess KIs and representatives on this content.<sup>21</sup> The requirements allow class of business training to be conducted together with product specific training or separately. Furthermore, it is legislated that an accredited trainer must provide class of business training, while any trainer or institution can carry out product specific training.<sup>22</sup>

Table 6 shows how the second level REs relate to the different classes of business while Table 7 shows the exemptions to class of business training and product specific training in comparison to the current exemptions to the second level REs.

Table 6: Second level regulatory examinations divided into the classes of business

Classes of business	Second level REs examinations <sup>23</sup>
Short-term insurance	RE12, RE13
Long-term insurance	RE7, RE8, RE9, RE23
Retirement	RE14
Deposits	RE15
Securities and investments	RE10, RE16, RE17, RE18, RE19, RE20, RE21, RE24, RE25, RE26, RE27, RE28, RE29, RE30
Forex investments	RE22, RE31
Health service benefits	RE11

<sup>21</sup> FSB, 2016. Draft revised fit and proper requirements- section 29(1) (b), 2016.

<sup>22</sup> FSB, 2016. Draft revised fit and proper requirements, 2016.

<sup>23</sup> RE6 Category IV second level REs (Funeral Administration) has not been classified to a class of business. All the other planned second level REs examinations (RE7 to RE31) has been matched to the seven proposed classes of business.

Source: FSB, 2016. Draft revised fit and proper requirements, 2016.

Table 7: Categories exempt from class of business training compared to those exempt from second level regulatory examinations

	Second level regulatory examinations (current)	Class of business (proposed)	Product specific (proposed)
Categories	Subcategories exempt	Subcategories exempt	Subcategories exempt
<b>Category I</b>	<ul style="list-style-type: none"> <li>— 1.1 Long-term Insurance Category A</li> <li>— 1.17 Long-term Deposits</li> <li>— 1.18 Short-term Deposits</li> <li>— 1.19 Friendly Society Benefits</li> </ul>	<ul style="list-style-type: none"> <li>— 1.1 Long-term Insurance Category A</li> <li>— 1.19 Friendly Society Benefits</li> <li>— Cat 1 Reps:               <ul style="list-style-type: none"> <li>1. Tier 2 products</li> <li>2. Execution of sales Tier 1 products</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>
<b>Category II</b>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— All exempt</li> </ul>
<b>Category IIA</b>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— All exempt</li> </ul>
<b>Category III</b>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— All exempt</li> </ul>
<b>Category IV</b>	<ul style="list-style-type: none"> <li>— All exempt</li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>	<ul style="list-style-type: none"> <li>— None</li> </ul>

Source: FSB, 2016. Draft revised fit and proper requirements (2016).

The proposed exemptions will also affect the number of individuals writing the first level REs. Since inception, the examination fees for the first level REs increased minimally. These below inflation increases in fees put pressure on the margins of delivering the examination in a professional manner. If the proposed legislation reduces the number of individuals that would be required to write the examination, the examination fees are likely to increase.

### 3.2.3 Record keeping

Examination bodies marking first level REs are also responsible for recording the results. Before the examination bodies issue results to candidates, the examination bodies upload the results onto the FSB database, after which the FSB reconciles them. This process ensures that the FSB has an accurate and updated database for monitoring and tracking purposes. Under the proposed requirements, second level REs would fall away, meaning that examination bodies will no longer have the responsibility of record keeping as it relates to second level REs only.

With class of business and product specific training FSPs, KIs and representatives are responsible for providing confirmation of training – provided both internally and externally. The FSP must record all the participants of any class of business or product specific training in the FSP’s competence register within 15 days after the participants completed the training. The FSP does not need to report this to the FSB, but the FSP is required to retain all the information and documentation for at least five years or for any other purposes as specified by the Registrar. When the FSB’s FAIS supervision team conducts site visits as part of their compliance monitoring, the competence register will form part of the monitoring process. The FSP will be required to provide evidence that the training is verified and took place. The FSP is also responsible for providing information from this competency register to the FSB or product suppliers when requested to do so.<sup>24</sup>

<sup>24</sup> FSB, 2016. Draft revised fit and proper requirements, 2016.

At present, some industry players keep record of the competency requirements that are currently implemented, i.e. experience, qualifications and first level REs. Going forward, we suspect the need to update these systems to track class of business and product specific training. This involves costs to the FSPs to update the capacity of their IT systems and modify the system to consider the extra criteria. Empowering staff that work with compliance to understand the new legislation would also add costs to the industry.

Across industry, stakeholder consultation showed that some FSPs are equipped to track training activities relatively easily, using more basic methods of tracking competency that differ by business unit. The higher costs of compliance will thus fall on the latter group who will need to dedicate time and additional resources to up scaling their current systems, ensuring interoperability and up skilling staff. Most FSPs seem to have very rudimentary systems in place, which often take the form of a simple Excel spreadsheet. According to those stakeholders who are aware of complying with current legislation, the effort to update and maintain this data seems to be disproportionate. One FSP mentioned that one experienced resource spends about 90% of their time on tracking training of 3000 representatives. This disproportionate amount of time has led many FSPs to consider partnering with professional bodies in future to ensure compliance with the proposed legislation. In addition, stakeholders mentioned that systems that are more sophisticated would be required to collect and search through data.

Professional bodies such as the IISA and the FPI have systems in place that currently track CPD. According to interviews, these professional bodies can easily extend and expand their systems to track class of business training and product specific training for FSPs, KIs and representatives. This will be at an additional cost to recover the basic administrative burden taken up by the professional bodies that are non-profit organisations. Using the IT systems of these institutions would be a suitable solution for industry players that do not have the necessary systems in place to comply with the proposed record keeping criteria. Both the FPI and IISA have confirmed that their systems have the capacity to track high additional volumes.

Accredited trainers are also required to keep records of the training. While this is not required in the *Draft revised fit and proper requirements (2016)*, it forms part of their accreditation requirements.<sup>25</sup> This means that training providers will also have to keep record of all class of business training as part of their accreditation requirements. Accredited trainers might also provide some, but not all, product specific training and thus records would be kept if this is the case. Since the *FAIS Act (2002)* does not regulate product suppliers and trainers, the proposed amendments cannot set the requirement that they must track product specific training. According to industry opinion, all trainers would not necessarily keep record of training if it were not a requirement. It is more likely that larger companies will do so, but industry consultation shows that the assumption that it is general standard practice for everyone to maintain records of training conducted is not the case.

### 3.2.4 Compliance timeline

Since the proposed amendments recognise prior learning, established advisers will not have to meet product knowledge requirements. Particularly, the grandfathering clause<sup>26</sup> states that:

“An FSP, key individual or representative, excluding representatives working under supervision, authorised, approved or appointed prior to 1 January 2015 is deemed to have completed the **class of business training**...” and “An FSP, key individual or representative excluding representatives working under supervision, authorised, approved or appointed prior to the commencement of this Notice is deemed to have completed the **product specific training**...”<sup>27</sup>

<sup>25</sup> INSETA, 2014. *Policy for the accreditation of training providers*. Available: [http://www.inseta.org.za/downloads/EPL002\\_INSQA\\_Accreditation\\_Policy\\_2014.pdf](http://www.inseta.org.za/downloads/EPL002_INSQA_Accreditation_Policy_2014.pdf)

<sup>26</sup> FSB, 2016. *Section 50 Transitional provisions of Chapter 7 of Draft revised fit and proper requirements (2016)*

<sup>27</sup> FSB, 2016. *Draft revised fit and proper requirements, 2016*.

Thus, the class of business training is only applicable to new entrants after 1 January 2015 and persons still working under supervision at this date. In contrast, the product specific training will only be applicable to new entrants and representatives under supervision at the time of publication of the notice. These individuals will have 12 months from 1 March 2017 (or an additional date given in section 51/52) to comply with the proposed class of business training.<sup>28</sup>

The compliance timeline is of concern to some industry role-players. One stakeholder was of the concern that the grandfathering clause will lead to two reporting systems that will have to be in place for a few overlapping years. This will be complex, unless the legislation treats everyone who is not competent yet as a new entrant. Another industry comment highlights the concern that the implementation timeline is too short: *"The budgeting process for 2017 has been completed and [we] have not budgeted for any development or changes that will follow in 2017 as a result of the amendments. Budgeting for the amendments will commence early 2017 or as soon as the amendments are finalised."*<sup>29</sup>

### 3.2.5 Specifics

This section gives details on the components of product training i.e. class of business training and product specific training.

#### 3.2.5.1 Class of business training

Class of business training refers to training that focuses on general product category knowledge in relation to the line of business. To assure the quality thereof, the proposed legislation suggests that only an accredited provider<sup>30</sup> or educational institutions<sup>31</sup> can provide class of business training.

The seven classes of business, as outlined in Figure 5 are each divided into sub-classes under which different financial products fall. FSPs, KIs and representatives attend the relevant class of business training in which they provide financial advice. Compared to the 26 second level REs, the seven classes of business should reduce the number of hours an advisor spends on meeting this particular product knowledge requirement.

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<sup>28</sup> Insurance Gateway, 2017. *Fias and the future of second level REs and CPD – July 2017*. Available: <http://www.insurancegateway.co.za/ShorttermProfessionals/PressRoom/ViewPress/Im=15872&URL=Fais+The+future+of+Level+2+REs+and+CPD++July+2017#.WWSR2BFdBYd>

<sup>29</sup> FSB, 2016. *Regulatory response to public comments received on the proposed amendments to the determination of the fit and proper requirements for FSPs and representatives*.

<sup>30</sup> An accredited provider is a body that is accredited by the relevant SETA in accordance to the criteria determined by QCTO.

<sup>31</sup> An educational institution has the meaning assigned to it in section 1(1) of the NQF Act

Figure 5: Seven classes of business



Source: KPMG analysis, 2017

SETAs (two of the industry’s most relevant and prominent being INSETA and BANKSETA) provide accreditation for trainers according to the criteria set determined by the QCTO. This accreditation process can be awarded based on any single or combination of the following delivery methodologies: conventional contact classes, recognition of prior learning (RPL), e-learning, distance learning and learnerships. Each methodology is associated with its own learning programme evaluation process. The accreditation process typically consists of the following phases:

- **Provisional accreditation:** The SETA awards this for one year and monitors the training provider. A verification report must be filled in to ensure continuous compliance.
- **Full Accreditation:** The SETA awards this when all the requirements of provisional accreditation have been met (i.e. a successful monitoring visit and a successful verification of learner achievements).

- **Re-accréditation:** At the end of the five years of accreditation, providers are required to undergo a monitoring process for the consideration of renewal of their accreditation status through a formalised re-accréditation process.<sup>32</sup>

This process may take up to two years to complete, but the length depends on the complexity of the application and the level of preparation by the applicant. Due to the administrative burden, many industry role-players are of the opinion that an influx of training providers seeking accreditation would not take place if the *Draft revised fit and proper requirements (2016)* is set in place. FSPs that are not accredited and choose not to do so, will leverage off existing accredited providers to provide class of business training to KIs and representatives. This will come at an extra cost to both the accreditation provider, the applicant as well as FSPs, KIs and representatives. The accreditation provider will accrue costs of accreditation, such as time to monitor, check compliance of documents, conduct site visits etc. The applicant will incur costs of getting the necessary documentation in place, compiling a verification report and preparing for the monitoring and verification process. FSPs, KIs and representatives will occur extra costs, as they will have to pay accredited trainers for class of business training.

At present, FSPs, KIs and representatives attend, and sometimes provide their own selected class of business training although the standards thereof vary considerably, based on interviews. In terms of independent advisors, one stakeholder mentioned that their company offers external class of business training in four classes (i.e. long term insurance (life and disability), short term insurance (personal and commercial lines), investments and medical aid). In addition, most candidates fall within two of these.

One stakeholder, an FSP that is an accredited trainer, indicated that they will do both class of business and product training together to save costs. Despite them having systems set up to conduct only class of business training, they will require two years to develop an integrated offering which includes the IT system development, the appointment of an independent assessor and a credible governance forum across their business. In terms of costing, one FSP stated that although class of business training for short term insurance commercial lines is outsourced, they did incur a once off fee of R78 400 for personal lines. As an indication, this FSP offers this training to external advisors at a cost of R2 500 to R5 500 dependent on the programme duration and detail. Because accreditation will not be the likely route for those FSPs currently providing in-house class of business training, this offering may likely fall away as companies simultaneously strive for cost efficiency and compliance with the new legislation. This remains true despite the fact that current class of business training by FSPs may well be compliant with the legislation.

When asking stakeholders about the specific requirements of class of business training as per the *Draft revised fit and proper requirements (2016)* guidelines, none of the respondents currently included in their training 'the impact of applicable economic and environmental factors such as inflation, exchange rates etc.'. Some, but not all stakeholders, addressed:

- 'investment and risk principles, options and strategies in respect of products in the class of business'
- 'the typical role players or market participants in respect of products in the class of business, including their legal structure'
- 'the impact of applicable legislation, including taxation laws, on products in the class of business'.

Stakeholders seem to have, as part of their current class of business training, all the remaining elements contained in the guidelines. Please note that this discussion related to the specific requirements of class of business training as per the *Draft revised fit and proper requirements (2016)*

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<sup>32</sup>INSETA, 2014. *Policy for accreditation of training providers*.  
[http://www.inseta.org.za/downloads/EPL002\\_INSQA\\_Accreditation\\_Policy\\_2014.pdf](http://www.inseta.org.za/downloads/EPL002_INSQA_Accreditation_Policy_2014.pdf)

guidelines refers only to those product suppliers who do currently offer class of business training, as some do not.

Although a more complete assessment on the capacity of training providers needs to occur, we have completed a high-level initial overview, which shows that there are courses available that could potentially be adapted to fit across all the classes of business. For more details on this, please see Appendix 3.

According to stakeholders, the time to comply with class of business training (excluding the process of getting accreditation) would vary. This would depend on the material they have that can be re-used and adapted to accredited class of business training. Stakeholder information indicates that system development could require six to 12 months, while planning and roll out of the training would require another 12 months. During this phase, an internal governance forum may be useful for collaborating with the learning and development counterparts of FSPs to ensure the appropriate standards are applied. Updating and programming the IT system to capture the new requirements is another cost that will require additional time, money and staff. With this forecast, a two-year period would be sufficient for implementing these requirements according to stakeholders.

INSETA has plans to develop class of business training course material in 2019 and provide it free of charge to applicants. This can potentially have a positive effect on industry if the quality and standard is in line with the FSBs requirements. The SETA providing this material free of charge might lead to competitors providing more in-depth training using new techniques and methods, for an additional charge. Alternatively, classes of business that the free material does not cover, might present additional costs in the industry. While the availability of free material reduces barriers in the industry, trainers may potentially abuse the system by obtaining this free content, and then charge a fee for the training without adjusting the content.

The cost involved in attending training would, according to industry opinion, range between R1 200 and R20 000. This will largely depend on the quality of the training provided, the level of competition between training providers, the requisite level of depth of the training as well as the standard of the assessment process. This cost will also vary between different classes of business depending on the complexity of each. For example, the R20 000 refers to training that would be permissible and forms part of a recognised undergraduate course. However, interviews have shown that despite guidelines within the *Draft revised fit and proper requirements (2016)*, stakeholders remain unsure of the exact requirements and hence the required level of compliance. This may be because of the many amendments and revisions to the draft legislation or the inclination of some industry players to wait for finalisation of the legislation before engaging more fully with the requirements.

The requirements for accredited class of business training state that the training should include assessments. The *Draft revised fit and proper requirements (2016)* require class of business training to cover the following elements:

Figure 6: Class of business training criteria



Source: KPMG, 2017

The FSB designed product training to combine product specific aspects with certain legislative requirements. According to stakeholders, this is positive as the requirements (such as tax consequences) in Section 7 of the General Code of Conduct can be integrated into the class of business training criteria. This will lead to a more coordinated and competent financial services sector where FSPs, KIs and representatives will be able to understand products themselves and the related legislation. Under the current requirements, first level REs focus on legislation and the second level REs on product knowledge. In the proposed product training this knowledge can be combined.

### 3.2.5.2 Product specific training

Product specific training will focus on the particulars of the individual products offered by product a supplier i.e. features, risks, benefits and characteristics. There is however, no requirement that an accredited provider provide product specific training.<sup>33</sup>

According to stakeholder opinion, product suppliers would be most suitable to provide product specific training, being the product experts. Due to different understanding and different business structures across the industry relating to the proposed standards and processes of product specific training, the estimated costs vary widely. Although all FSPs currently conduct product specific training in some form, costs that stakeholders communicated relate to training on new products or updates on existing products. In addition, several FSPs also referred to the revision of existing training to

<sup>33</sup> FSB, 2016. *Draft revised fit and proper requirements, 2016.*

ensure that the suitable level of compliance was achieved. Currently, all FSPs, KIs and representatives receive some form of product training, as they are required by the *FAIS Act (2002)* to have knowledge of the products they are selling. The proposed legislation looks to formalise this training and adds certain guidelines, to ensure that FSPs are suitably competent in the products being sold.

Product training seems to be conducted by FSPs, which they offer to both internal employees as well as external employees. Professional bodies do not offer product specific training but may provide a platform for FSPs to offer this training to a wider audience. One stakeholder offering online class of business training stated that while they do not plan on providing product specific training they do see roles in facilitating online portals for hosting such e-courses, tracking product specific training or providing as an assessor.

When asking stakeholders about the detailed requirements of product specific training as per the *Draft revised fit and proper requirements (2016)* recommendations, none of the respondents currently included in their training:

- 'the potential impact of abnormal or extreme market, economic or other relevant conditions on the performance of the product'
- 'any investment options or strategies within the product'
- 'the level of liquidity of the product or its underlying components'.

Some, but not all stakeholders, currently address the following as part of their product specific training:

- 'the impact of tax on the benefits or real return of the product'
- 'how the financial product and any underlying components of the product are structured and priced'
- 'the fee structure, charges and other costs associated with the product and their impact on the real return or benefits of the product'
- 'the nature and features of any guarantees and the costs associated with them'
- 'the identity of the product supplier and the providers of any underlying components of the product, including their good standing and regulatory status'

Stakeholders seem to have, as part of their current product specific training, all the remaining elements contained in the guidelines.

One stakeholder estimated that product specific training can cost up to R15 000 per product in terms of developing and conducting the training. Another stakeholder estimated the cost of developing product specific training to be in the range of R340 per person per day, explaining that it would depend on the complexity of the product and the method of delivering the training. Another stakeholder estimated that R2.2 million would need to be spent to update their current product specific training to be in line with the new requirements. This is more of a maximum amount and is likely to be relevant for stakeholders who have basic product training in place but do not comply with the majority of guidelines as mentioned in the *Draft revised fit and proper requirements (2016)*. The FSB licenses independent advisors directly, making it the independent advisor's responsibility to ensure that they acquire the correct product specific training, even though they are not directly linked to product suppliers.

Since product specific training can be provided in combination with class of business training, some product suppliers who are also accredited training providers plan to do so. One stakeholder commented that the estimated cost of combined training would be between R25 000 and R35 000. This refers to the cost of training for a single, new agent over two months, which comprises a month of theory and a month of practical training. In the case that the training is provided by different entities the costs would be higher. This is because both the training provider and FSP are required to keep

record. A large industry role player was of the opinion that product specific training could range between 2 hours and 2 days (possibly even longer) depending on the complexity of the products.

The proposed legislation states that product specific training does not count as a CPD activity. CPD only becomes a requirement after the individual has completed class of business and product specific training, to ensure that the level of knowledge is maintained. According to the *Draft revised fit and proper requirements (2016)* product specific training must include training and assessment on the criteria listed in Figure 7. This is relevant for the product itself as well as features of products, underlying components of products and the relevant class of business concerned.

Figure 7: Product specific training criteria

Characteristics terms and features, including complexities	Structure and price		Fee structure, charges and other costs	Impact of fees on the real return or benefits	The nature, features and costs of guarantees
	Associated risks	Impact of tax on the benefits or real return		Potential impact of abnormal economic conditions	Investment options or strategies within the product
Flexible benefit options within the product		Accessibility of benefits or funds and restrictions or limitations	Level of liquidity	Intended target market (also whom not suitable)	
Identity of product supplier		Particular disclosures, whether or not prescribed by legislation,	Lock-in periods, termination conditions, or exit options		Expected outcomes that will be achieved for clients

### 3.3 Cost analysis

We carried out the cost analysis for all scenarios for a period of 10 years, from 2012 to 2021, with 2016 being the base year. To extrapolate the costs to all the other years, we used the Consumer Price Inflation (CPI) as published by the South African Reserve Bank (SARB) to calculate the current/nominal prices from 2012 to 2015. For the future period, we assumed that costs would increase at an inflation rate of 6% per annum, which is in line with the inflation targeting policy of the SARB.

Table 8: CPI<sup>34</sup>

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CPI (2016=100)	0.80	0.85	0.90	0.94	1.00	1.06	1.12	1.19	1.26	1.34

<sup>34</sup> SARB

### 3.3.1 First level regulatory examinations

There are four examinations for the current first level REs and we based our calculation of first level REs on these four examinations. The purpose and inclusion of these costs is solely to extrapolate and estimate the proposed second level REs costs.

#### 3.3.1.1 FSPs Administration fee

In the context of this analysis, an administration fee is a financial cost incurred by an organisation to accurately manage, capture and maintain information about the FSPs, KIs and representatives.

We estimated the cost for this item for FSPs. We describe the process to estimate this cost below.

#### **FSPs administration fee**

This cost item was estimated for the process of managing first level REs. In consultation with the client, we used the following data and assumptions to estimate the administration fee per advisor, as represented in Table 9 and explained below.

Table 9: Weighted average administration fee per FSP

Item	Number of representatives <sup>35</sup>	Percentage distribution of representatives	Number of administrative staff required	Administrative staff annual salary	Time spend on administration issues	Weighted average administration cost per FSP
Number of FSPs with more than 300 representatives	53	0.5%	2	R 102 632	20%	R 193
Number of FSPs with less than 300 representatives (excluding Sole Proprietors)	9388	83%	1	R 102 632	10%	R 8 556
Total number of Sole Proprietors	1 820	16%	1	R 102 632	5%	R 829
<b>Total</b>	<b>11 261</b>	<b>100%</b>	<b>1</b>			<b>R 9 579</b>

- Annual salary of R102 632 for administrative staff<sup>36</sup>
- FSPs with more than 300 representatives would need 2 fulltime employees (informed by feedback from the stakeholder consultation process). However, the administration staff will only spend a portion of their time on examination related matters. Therefore, we assumed that about 20% of their time would be spend on matters related to examinations
- FSPs with less than 300 representatives would need 1 full time employee. Similar to the above point, we also assumed administrators would spend a portion of their time on examination related issues. Given the fact that there are fewer representatives, we assumed administrators could spend about 10% of their time on matters related to examinations
- Sole proprietors would need 1 full time employee, although they are likely to spend very little time on examination related issues, which we assumed to be 5%
- The above calculations result in an estimated weighted average admin cost of R9 597. Multiplying this by the 10 505 FSPs in 2016, the estimated total cost for all FSPs could be R 100 624 702
- We then divided R 100 624 702 by 611 350 to get an administration cost of R165 per representative. The 611 350 represents the number of sittings if all candidates pass at first sitting. We used the number of sittings and not the number of candidates required to write exams because the administration cost in incurred for each exam sitting, as shown in Table 10.

<sup>35</sup> FSB data

<sup>36</sup> Source: PayScale

Table 10: Administration fee per representative

Item	Costs
Number of FSP in 2016	10 505
Total administrative costs of FSPs in 2016	R 100 624 702
Number of sittings if all candidates pass at first sitting	611 350
<b>Administration fee per representative</b>	<b>R 165</b>

Using the administration fee of R165 as calculated above, the 10 505 candidates, 4 examinations and average number of sittings per exam of 3, the administration fees for FSPs come to about R 20.7 million in 2016.

Table 11: FSPs administration fee

Items	Costs
Admin cost per exam per advisor	R 165
Number of advisors	10 505
Number of exams	4
Average number of sittings per exam	3
<b>Total</b>	<b>R 20 748 753</b>

### 3.3.1.2 Training costs

It is pivotal for all financial advisors to acquire adequate training to ensure that services rendered are of good quality and that all rules and regulation are adhered to at all times. For purposes of this analysis, we assume that FSPs pay for the training costs of advisors.

To estimate this cost item, we used information collected from stakeholder consultations. From the interviews, we noted that training costs per advisor per exam ranges between R5000 and R7500 per advisor.

We estimated training costs using the following:

Table 12: FSP's training costs

Items	Costs
Training cost per exam advisor	R 7 500
Number of advisors	10 505
Number of exams	4
Average number of sittings per exam	3
<b>Total</b>	<b>R 787 875 000</b>

Based on these, the estimated training cost incurred by FSP's is R787.8 million in 2016.

### 3.3.1.3 Examination enrolment fee

This cost item is estimated for FSPs who provide training for advisors. The information collected from stakeholder consultations show that examination enrolment fee paid by FSPs was set at R1 100 per advisor per exam based on stakeholder feedback. We used the variables below to estimate this cost item.

Table 13: FSP's examination enrolment fee

Items	Costs
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Exam fee per exam advisor	R1 100
Number of candidates	10 505
Number of exams	4
Average number of sittings per exam	3
<b>Total</b>	<b>R 138 666 000</b>

Therefore, examination costs for FSPs amounted to R 138.7 million in 2016.

### 3.3.1.4 Regulatory costs

Time spent by FSB to ensure compliance by FSPs differs. This cost was estimated based using the following items:

Table 14: FSB regulatory costs

Items	Costs
Time spend on regulatory matters per FSP	0.5 hours
Average cost per hour	R 244
Number of FSPs	10 000
Total cost to regulate per annum	R 1 217 587

Average cost per hour was estimate by calculating the average, which consisted of the cost of a junior analyst at R338 162 and R519 019 for an analyst. As a result, the cost per hour was calculated by dividing the average (R 428 591) by the annual working days of 220, assuming an 8-hour working day.

### 3.3.2 Second level regulatory examinations

We calculated the costs for second level REs in a similar manner to those of first level RE, the differentiator being the number of examinations for second level REs (there are 4 examinations for first level REs compared to 26 for second level REs). However, candidates do not write all the exams for level RE examinations, with most writing 1 to 3 examinations. We therefore assumed that on averages, the number of exams per advisor would be 2.

#### 3.3.2.1 FSPs Administration fees

Administration fees refer to the costs incurred by FSPs in the process of managing second level REs. We used the administration fees for FSPs as of R165 per candidate per examination as calculated in Table 10 . We estimated number of candidates required to write second level RE examinations as follows:

Table 15: Number of candidates required to write second level RE examinations<sup>37</sup>

Items	Number
Total number of active representatives	138 045
Less total number of persons registered for the bespoke exam exemption	42 024
Less number of persons exempted from RE5 (bus-category 1.1 and 1.9)	21 032
Total number of representatives required to write second level RE examinations	74 989

<sup>37</sup> Source: FSB

Using an estimated 74 989 candidates, the average number of 2 examinations and the average number of sittings per exam of 3, the administration fees for FSPs come to about R 24.6 million in 2016.

Table 16: FSPs administration fee for second level regulatory examinations

Items	Costs
Administration fee per advisor	R 165
Number of advisors	74 989
Average number of examinations	2
Average number of sittings per exam	3
<b>Total</b>	<b>R 24 685 518</b>

### 3.3.2.2 Examination training fee

In most cases, FSPs pay for examination training for the advisors. Based on the information collected from stakeholder consultations, the cost of training differs across the industry, from a low of R5 000 to a high of R7 500 per advisor. We used R7 500 as training fee per advisor per examination. Based on the variables below, the estimated cost for examination-training fee is R3.4 billion per annum.

Table 17: Training fee for second level regulatory examinations

Items	Costs
Training cost per examination per advisor	R 7 500
Number of advisors	74 989
Number of examinations	2
Average number of sittings per exam	3
<b>Total</b>	<b>R 3 374 505 000</b>

We accept that some of the financial advisors do self-study, and this is not reflected in the training costs above. We could not estimate this information because of limited data availability.

### 3.3.2.3 Examination enrolment fee

Examination fee could be borne by either the FSPs or the financial advisors themselves. For purposes of this analysis, we assume that the FSPs fund the financial advisors to write examinations. We estimated this cost item using the exam fee per adviser and the number of advisors required to write second level RE examinations, as presented below.

Table 18: Cost of examination fee for second level regulatory examinations

Items	Costs
Fee per examination <sup>38</sup>	R 1163
Number of advisors	74 989
Number of examinations	2
Average number of sittings per exam	3
<b>Total</b>	<b>R 523 273 242</b>

The examination fee of R1 163 includes all the costs of developing and delivering examinations, as well as making the results available to the advisors. Based on the variables above, the estimated cost

<sup>38</sup> Stakeholder interviews

of examination fee is R 523.3 million per annum. It is important to note that we estimated this cost on the basis that each advisor passes an examination at third attempt.

### 3.3.2.4 Regulatory costs

Time spent by the FSB to ensure compliance by FSPs differs. The cost to regulate the industry is somewhat tricky to break down into various activities. As a result, the oversight costs are calculated taking into account average time spent on regulatory matters by FSB staff as well as the average cost per hour. To estimate this cost, we made assumptions stated below:

- Although time spent on regulatory matters differs, we used an average time of four and a half hours<sup>39</sup> per FSP.
- For first level REs we calculated average hourly rate based of R244. We calculated this rate by assuming that one analyst and one junior analysis will both spend time on compliance matter, at an annual salary of R519 019 and R388 162 for an analyst and a junior analyst respectively. We also assumed 220 annual working days and an 8-hour working day. For second level RE, the FSB could require two additional analysts and 1 additional junior analyst<sup>40</sup>, resulting in an average hourly rate of R878.
- With about 10 000 FSPs to regulate, the FSB's costs could be in the region of R4.4 million per annum.

### 3.3.3 Class of business training

#### 3.3.3.1 FSPs administration fee

We estimated the administration cost to the FSPs using the administration fee per advisor and the number of advisors required to do class of business training. We estimated the number of advisors required to do class of business training is 138 045. All representatives are required to do class of business training, and no exemptions apply.

Table 19: FSPs administration fee for class of business training

Items	Costs
Administration fee per advisor	R 165
Number of advisors	138 045
<b>Total</b>	<b>R 22 721 415</b>

Overall, the estimated administration fee for class of business training is about R 22.7 million in 2016.

#### 3.3.3.2 Conducting class of business training

Conducting class of business training is a cost applicable to the accredited providers and accredited FSPs. We estimated this cost using the number of accredited providers and the costs to develop conducting class of business training, which amounted to R 0.9 million in 2016.

Currently, there are 86 accredited providers in the financial industry. Of these, 11 are accredited FSPs. Based on our interactions with stakeholders, we noted that not all accredited providers conduct class of business training. Therefore, we assumed that about 25% (or about 20 accredited providers) would conduct class of business training.

<sup>39</sup> FSB

<sup>40</sup> FSB

Table 20: Conducting class of business training

Stakeholders	Items	Costs
Conducting class of business training: Accredited providers	— Accredited providers: 20	R 600 000
	— Development cost per accredited provider: R 30 000	
Conducting class of business training: Accredited FSPs	— Accredited providers: 11	R 330 000
	— Development cost per accredited provider: R 30 000	

### 3.3.3.3 FSPs training fee

We estimated how much it would cost the FSPs to train the advisors. We estimated the total training fee for FSP by considering the training fee per advisor and the number of advisors required do class of business training (inclusive of new entrants) in the financial industry.

Based on these assumptions, we estimated the training fee as presented in Table 21.

Table 21: FSPs training fee

Items	Costs
Training cost per advisor	R 2 500
Number of representatives required to do class of business training (including new entrants)	138 045
<b>Total</b>	<b>R 345 112 500</b>

Based on these, the estimated training fee for the financial industry is R 345.1 million per annum.

### 3.3.3.4 Regulatory costs

Time spent by FSB to ensure compliance by FSPs differs. The cost to regulate the industry is somewhat tricky to break down into various activities. As a result, the over sight costs are calculated taking into account average time spend on regulatory matters by FSB staff as well as the average cost per hour. To estimate this cost, we made assumptions stated below:

- Although time spend on regulatory matters differs, we assumed an average time of half an hour<sup>41</sup> per FSB.
- We estimated an average hourly rate of R878. We calculated this rate by assuming that four analysts and three junior analysis will both spend time on compliance matter, at an annual salary of R519 019 and R388 162 for an analyst and a junior analyst respectively. We also assumed 220 annual working days and an 8-hour working day.
- With about 10 000 FSPs to regulate, the FSB's costs could be in the region of R4.4 million per annum.

<sup>41</sup> FSB

### 3.3.4 Product specific training

#### 3.3.4.1 FSPs Administration fees

We calculated the administration fees the same way we did for class of business training. We estimated this cost using the administration fee per advisor (see Table 10) and the number of advisors in the financial industry of 138 035, as well as the number of advisors who change product lines.

Regarding the number of advisors who change product lines, interviews with stakeholders showed that between 1-5% of advisors change product lines every year. Therefore, we that 2.5% of representatives in the industry could change products.

The calculations show that the administration fee for the industry is R 47 254 139 per annum.

Table 22: Administration fee for class of business training

Items	Costs
Administration cost per advisor	R 165
Number of new representatives	138 045
New broker contracts	3 275
<b>Total</b>	<b>R 22 253 963</b>

#### 3.3.4.2 Conducting product specific training

Aspiring financial representatives, prior to providing financial services, are required to complete adequate product specific training. According to FSB, class of business training should cover:

- Range of financial products within the class of business
- General characteristics, terms and features of financial products in the class of business
- Typical fee structures, charges and other costs associated with products in the class of business
- General risks associated with investing, purchasing or transacting in the products in the class of business
- Investment and risk principles, options and strategies in respect of products in the class of business
- Appropriateness of different products or product features in the class of business for different types of clients or groups of clients
- Typical role players or market participants in respect of products in the class of business, including their legal structure
- Impact of applicable legislation, including taxation laws, on products in the class of business
- Impact of applicable economic and environmental factors such as economic and business environment and cycles, inflation, government monetary and fiscal policies; and interest rates and exchange rates<sup>42</sup>

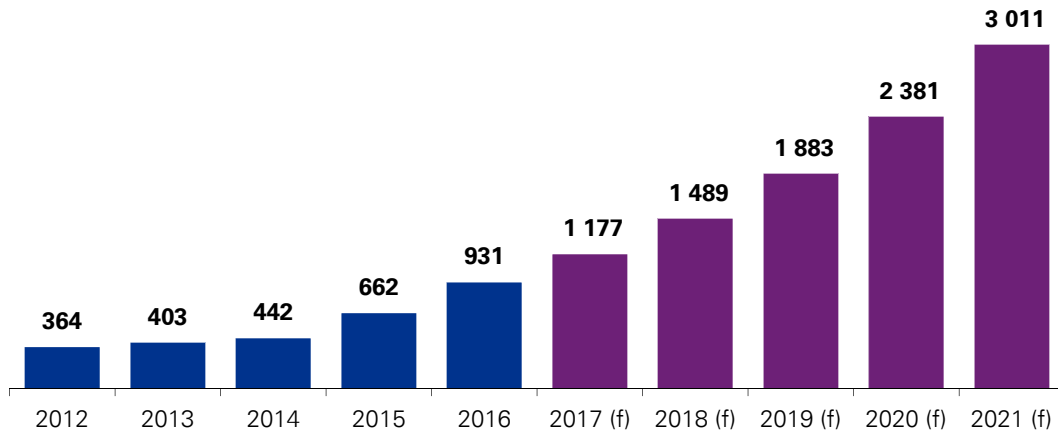
We estimated the cost to FSPs to train advisors to do product specific training using the training fee per advisor and the number of advisors doing product specific training. Product specific training is mandatory for new representatives and advisors who change product lines. We considered the number of advisors from two perspectives:

- First, the actual number of new representatives registered in the industry, and
- Second, the number of advisors who change business lines: it is required that any person who changes business/product lines has to attend product training.

<sup>42</sup> Caroline Dey da Silva.2016. Determination of fit and proper requirements for financial services providers,2016.<https://www.fsb.co.za/departments/fais/communication/documents/draft%20proposed%20amendments%20to%20fit%20and%20proper%20requirements%20-%20october%202016.pdf>. Date of access: 27 July 2017

Figure 8 is a representation of the number of new representatives registered in the industry. Between 2012 and 2017, the number of new representatives registered grew at 26% per annum. We forecasted the number of new representatives registered from 2017 to 2021 by assuming that the number of new representatives registered could grow at the same rate.

Figure 8: Number of new representatives registered



Regarding the number of advisors who change product lines, interviews with stakeholders showed that between 1-5% of advisors change product lines every year. Therefore, we used an average of 2.5% to estimate the number of advisors who change products. Based on these assumptions, we estimated the training fee as presented in Table 23.

Table 23: FSPs class of business training costs

Items	Costs
Training cost per advisor	R 2 500
Number of new representatives registered	138045
Number of advisors who change product lines	3 275
<b>Total</b>	<b>R 353 299 938</b>

The estimated training fee for the financial industry is R 353.3 million per annum.

### 3.3.4.3 Regulatory costs

The FSB would incur regulatory costs for purposes of monitoring the product specific training. We estimated the regulatory costs of the FSB as presented in the table below. First, we assumed that the FSB spends on average half an hour per FSP to monitor specific product training activities. We benchmarked this on the time spend on class of business training. Second, we estimated the hourly rate of the personnel involved in the regulatory process, which came to about R878 per hour. We estimated the cost per hour using the salaries of junior analysts and analysts of R338 162 and R519 019 per annum, respectively.

Table 24: FSB regulatory costs

Items	Costs
Time spend on regulatory matters per FSP	0.5
Average cost per hour	R 878
Number of FSPs	10 000
<b>Total cost to regulate per annum</b>	<b>R 4 390 003</b>

### 3.3.5 Qualitative costs and benefits

In this section, we discuss those costs and benefits associated with the proposed class of business and product specific training legislation. We have not included these elements in the quantitative cost analysis of section 3.2.5.1 either because they are, by nature, difficult to quantify, are subject to data constraints or cannot be linked through a strong enough correlation to the change in regulation.

#### 3.3.5.1 Benefits

**Improved levels of consumer protection:** One of the largest benefits of continued competence of FSPs, KIs and representatives is consumer protection. In theory, financial advisors who maintain their competence through accredited CPD activities are less likely to omit important information or missell products to their clients. While the cost of this is difficult to determine based on data constraints, information from a KPMG’s annual report on *Ombudsman for Long-term insurance* may indicate the extent to which this market failure is occurring in the long-term insurance market. In 2016, 30.1% of complaints to the Ombud related to ‘Poor communications / documents or information not supplied / poor service’, while a further 0.2% related to ‘Misselling’. Similarly, a presentation from the FSB notes a trend in complaints being ‘Unqualified representative’ and another in regulatory action regarding ‘Lack of competence’.<sup>43</sup> It is challenging to determine to what levels the proposed regulation may work to decrease such complaints, but the assumption is that they will exhibit a downward trend after implementation.

**Reduction in number of substandard class of business trainers / programmes:** A benefit that will accompany the fact that an accredited provider must provide class of business training by is a reduction in the number of substandard trainers. The fact that the accreditation process requires time and resources will be a barrier to entry for training providers that are short-term profit seeking. Industry can be confident that the training providers they choose have been through certain quality checks and are monitored, and that they will receive high value for the money and time they invest in training. This eliminates uncertainty in the quality of training provided and protects independent advisors from paying for substandard training. The trainers who go through the accreditation process will present training of a high standard and this will lead to a more competent financial services industry.

**Industry professionalisation:** One of the hallmarks of a profession is a high standard of competence by members. The legislating of product training provides a second layer of approval<sup>44</sup>, offering the profession more in-depth proficiency and knowledge of their products. This in-depth knowledge increases the reputation of financial advisors, which has its own benefits, including higher salaries and increased use of recognised financial advisors.

<sup>43</sup> Presentation by FSB HOD FAIS Compliance Department

<sup>44</sup> The first layer being overall legislation and oversight by the Regulator i.e. the FSB

### 3.3.5.2 Costs

**Technical functions:** There are qualitative costs involved in drafting the second level REs. Product specialists would need to be involved in the process of drafting examination questions to ensure that the examination assesses the product specific content correctly. This will lead to additional costs for question and examination development. Over and above this additional cost there is also a qualitative cost linked to product specialists being high in demand in the industry. As such, the cost study must consider the increased cost of attracting and retaining product specialists to fulfill this technical function.

**Time spent understanding requirements:** One of the clear observations from stakeholder interviews is the various, and sometimes opposing, interpretations of the proposed CPD legislation. In some cases, this stems from misinterpretations or lack of understanding. For industry players to understand correctly the objectives and practicalities of the legislation, time for consultation with the FSB, internal teams and external consultants and trainers will be required.

**Cost of leave days:** The time taken by advisors to attend training, prepare for and write examinations has cost implications for both the FSPs and the advisors. Whenever an advisor is not available to talk to clients, there is a financial loss of a potentially unsold product and if granted study leave, the FSP must bear this cost. The number of leave days granted to advisors varies between FSPs. Some grant two days (one day before examination and one on the day of examination); others allow two days of training, two days before examination day and one on the day of examination.

## 3.4 Risks and other considerations

### 3.4.1 Understanding the nature of outcome based regulation and its success factors

The proposed regulations, compared to the current regulations, are more principles based and infer a level of ownership onto the industry. While not completely regulating themselves, industry players now have greater responsibility and a higher degree of autonomy for deciding on the means of complying with legislation. The FSB's role is less prescriptive with more of a focus on oversight of the outcomes. Notwithstanding, the FSB's role in the new legislative framework now requires increased efforts to ensure that market players see the new framework as fair, efficient, and backed by a credible regulatory authority.

When compared to traditional compliance-based regulation, this type of regulation within the industry has the ability to:

- Introduce greater flexibility and adaptability, specifically with regards to changing technology
- Potentially lower compliance and administrative costs, particularly for the regulator
- Address industry-specific and consumer issues directly

However, the FSB should be aware that outcomes-based regulation might not always be a perfect substitute for traditional regulation. If the outcomes-based regulatory framework does not have well-defined or practical standards, it cannot effectively protect consumers or result in compliance from companies. One of the key findings through stakeholder consultation relates specifically to this point. Industry stakeholders have varied, in cases opposing views, of what class of business training should entail. Even though the legislation provides guidelines of what must be covered the general view in industry varies widely concerning the depth of this training. Some stakeholders have expressed that class of business can be stand-alone or form part of a qualification. Others are concerned about the level at which the training would be pitched and asked if it would need to be aligned with NOF levels or if guidelines would be given regarding the detail and content. Currently, industry players seem to be relying on professional bodies to provide clarity and advice on the legislation. Industry players also raised question as to the meaning of 'assessment' as the definition is vague. Some interpretation

includes formal examinations, observation while training and benchmark assessment. Other stakeholders inferred that although the *Draft fit and proper legislation (2016)* mentions assessments, their interpretation of industry discussion is that this would not necessarily be mandatory as long as a credible provider carries out the process in a credible manner.

One possible remedy may be ongoing educational sessions or campaigns once the *Draft fit and proper legislation (2016)* is finalised to ensure consistent understanding of the requirement within the industry. Alternatively, the FSB may consider hosting a quarterly or biannual sandbox session with industry players to share ideas and challenges regarding compliance. An independent facilitator may be required to ensure that the session is, at the same time, productive and compliant with competition legislation.

Lastly, stakeholder interviews have uncovered a perception that the FSB is attempting to shift the costs of regulation onto industry players. The concerns extend from the monetary costs to the regulatory responsibility with some stakeholders fearing that other bodies such as the QCTO, INSETA and SAQA have unduly acquired regulatory decision-making powers. This perception, whether accurate or not, has the potential to erode buy-in and hence undermine compliance relating to the proposed legislation. Information sessions inviting industry players to pose questions on the legislation may assist in mitigating this risk and depicting the FSB as the ultimate decision maker as well as a benevolent regulator

### 3.4.2 Potential conflicts of interest and their mitigation

The development of the second level REs questions by industry product specialists creates a conflict of interest as product specialists will be required as part of the process to ensure that product knowledge is appropriately tested. The FSB's in-house legal team has been able to fulfill this role with the development of the first level REs, due to its technical theme. There are, however, no product specialists within the FSB. The FSB will therefore need to sub-contract to assist in question development.

The very same product specialists that will be required to assist with question development are also subject to the legislation and are required to either write, or work with others who are required to write, the examination. This results in a 'marking one's own homework' type of conflict of interest. There are possible ways to mitigate this, which are complex and will be at additional cost. One possibility is for the FSB to hire a full time product specialist, subcontracting them to question developers such as Moonstone and FPI for more complete use of their time. Another possibility is further research into the South African Institute of Chartered Accountants (SAICA) processes for candidates writing their Assessment of Professional Competence (APC) examinations. These candidates may discuss the examination case study with other individuals who write the exam, but not with anyone in industry who has completed this examination.

### 3.4.3 Barriers to compliance

The proposed legislation may introduce higher barriers to entry, along with several more product knowledge requirements and additional CPD requirements to fulfil at a high standard. The fact that an accredited trainer must provide class of business training, could increase the price of training as only some trainers will be able to provide the training. High prices may result from decreased supply from fewer accredited trainers, creating a type of barrier to entry.

In addition, the time and effort involved in complying with the product knowledge requirements and CPD requirements could be a barrier to entry for some individuals. Yet, for an industry to assure members are competent, a certain standard must be in place to ensure that advisors who enter provide sound and fair financial advice. As one stakeholder commented, "*there is a fine line between barriers to entry and setting a standard to assure that staff in the industry is competent.*"<sup>45</sup>

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<sup>45</sup> KPMG, 2017. Stakeholder interviews.

In addition, sufficient financial resources may also disadvantage certain firms in favour of those with greater financial influence.<sup>46</sup> As a result, the FSB will need to introduce measures to ensure that certain industry players or a professional body does not control the system, so promoting interests of a select group rather than wider community interests. This may be a risk factor, considering the particular requirement that an accredited provider must provide class of business training. This might be a barrier for certain large industry role players who have the resources for complying with class of business training standards, but are unwilling to spend additional time and resources on becoming an accredited training provider. In many cases, the reason for this is that training provision does not form part of their core mandate.

Continuous monitoring after implementation is one way in which the FSB may ensure that the barriers to entry do not develop, leading to an uncompetitive market. A formal monitoring and evaluation framework, which forms the basis of a regular evaluation, may be useful in this regard. This monitoring and evaluation framework can form the basis of a communication strategy. Monitoring and evaluation can also make it possible to adjust regulation on an empirical basis if unintended consequences arise in future. Additionally, the FSB could propose a maximum price of training or guidelines to industry of what training should cost after doing research into the types of class of business training that exists and the depth that these training programs cover.

### 3.4.4 Availability of class of business training

Given that an accredited provider or an education institution must provide class of business training, the availability of providers should be taken into consideration. Stakeholders feel that it is important to allow enough time for prospective class of business training providers to amend their training in accordance with the set standards in paragraph 29(3) of the *Draft revised fit and proper requirements (2016)*. Furthermore, there should be sufficient time for accreditation of these programs.

A more complete assessment on the capacity of training providers needs to occur, with the aim of ensuring that industry has the necessary capacity to deal with the number of FSPs, KIs and representatives that must complete the training. Furthermore, the assessment should ensure that the available class of business training covers all seven classes of business. As detailed in Appendix 3 a high-level initial overview shows that there are courses available that could potentially be adapted to fit across all the classes of business.

The following comment expresses a wide-spread sentiment concerning this “*To our knowledge, FASSET (the Finance, Accounting, Management Consulting and other Financial Services SETA) offers only one accredited training programme which could potentially qualify as class of business training, i.e. National Diploma: Financial Markets. In the time available to comment, it was not possible to verify whether this programme would in fact meet the requirements of paragraph 29(3).*”<sup>47</sup>

Given that some industry role-players have varied and opposing views, detailed information and clarification relating to class of business training is essential. The FSB should look to ensure that all industry players and affected parties understand the necessary training that is currently available across all the classes of business. In addition, the requirements for developing class of business training are also essential. The FSB currently have committees and forums with stakeholders that can also form the basis of similar discussions to keep stakeholders informed. Another remedy may be ongoing workshops or biannual sandbox sessions with industry players to share ideas and challenges regarding compliance.

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<sup>46</sup> U.S Commissioner Maureen K. Ohlhausen, BBB Self-Regulation Conference, June 24, 2014. *Success in Self-Regulation: Strategies to Bring to the Mobile and Global Era*

<sup>47</sup> FSB, 2016. *Regulatory response to public comments received on the proposed amendments to the determination of the fit and proper requirements for FSPs and representatives.*

### 3.4.5 Adverse effects on consumer choice

Any person or institution, including the FSP or a product supplier, may provide product specific training. These may be the same entity. Since neither the training material nor the provider needs to go through an accreditation process, the impact on the consumer needs is key. Product suppliers may develop their own training material. This could lead to adverse effects as product suppliers potentially use training as a marketing platform and not a more nuanced understanding of the product. Product suppliers may also focus on the more basic products as the training requirements are less, rather than having to meet the full product knowledge requirements of more complex products. The following industry comment illustrates this through an example: *"A concern however still exists about the monitoring of consistent processes and assessment procedures being consistently applied across providers."*<sup>48</sup> IISA has been accrediting and tracking product training through their CPD programme for the past four years. IISA's professional standards committee took the decision that although this is not legislated, in order to provide a high quality of professional designation they would conduct this accreditation.

The Registrar is of the opinion that given the nature and content of product specific training, requiring accreditation of this training would be unnecessary and lead to over-regulating. However, it is important that the Registrar continually monitor the implementation and application of product specific training and reconsider the appropriateness of allowing anyone to provide product training if it detects unacceptable occurrences of abuse. This may potential occur through a monitoring and evaluation framework.

Furthermore, the proposed legislation exempts FSPs, KIs and representatives who only sell tier 2 products from first level REs and class of business training. This might lead to more representatives focusing on these simple products and redirecting consumers to these in place of products that are more complex. As such, the industry will be competent and compliant in selling simpler products but not necessarily competent in more complex products, which consumers actually might have a greater need for. Thus, this legislation might have the adverse effect that the consumer does not get financial advice on a variety of financial products.

One stakeholder was of the opinion that *"If the system allows simple products to be sold without adequate competency, then it is likely that more representatives will be selling these products which will have an overall negative impact on the consumer."*<sup>49</sup>

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<sup>48</sup> FSB, 2016. *Regulatory response to public comments received on the proposed amendments to the determination of the fit and proper requirements for FSPs and representatives.*

<sup>49</sup> FSB, 2016. *Regulatory response to public comments received on the proposed amendments to the determination of the fit and proper requirements for FSPs and representatives.*

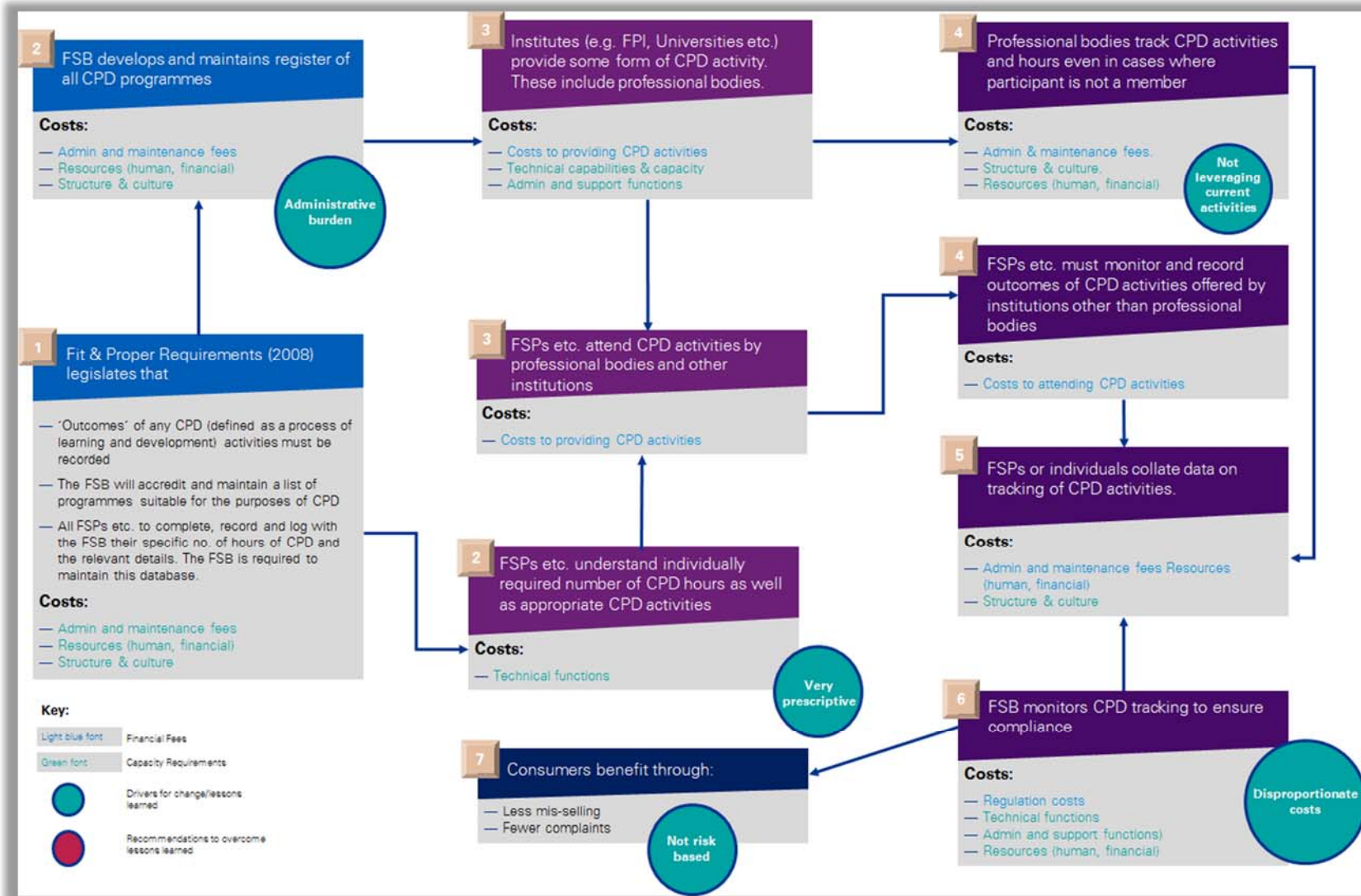
## 4 Continuous Professional Development requirements

The objective of CPD is to maintain the suitable level of competency required to render financial services. These requirements are distinct and separate from the product knowledge requirements of first level and second level REs, class of business training and product specific training.

### 4.1 Current requirements

At present FSPs must track all competency requirements, including CDP, in a competency register. Specifically relating to CPD activities, the existing fit and proper legislation states that the 'outcomes' of any CPD activities must be recorded. In addition, it compels the FSB to accredit all CPD trainers, programmes and activities to develop and maintain a CPD database. However, the introduction of the *General Exemption from Continuous Professional Development Requirements (2012)* provided the FSB time to consider a more viable and sustainable implementation of the CPD process. Figure 9 gives a graphic representation of the current CPD scenario in the industry.

Figure 9: Current CDP flow chart



### 4.1.1 Drivers for change

The current requirements for CPD are considered costly and burdensome. Other lessons learnt have also led to improvements in the form of the proposed legislation.

Table 25: Recommendations based on lessons learned

Lessons learned	Recommendations
— Administrative burden to FSB for accreditation and registration of CPD providers for CPD database	— Cost effective, clear, practical — Risk-based and proportionate
— Delays in approving and re-approving a multitude of different CPD programs	— Support and leverage what industry currently does
— Current low standards of record keeping	— Requirements for professional body to conduct tracking provides support services

Source: FSB, n.d. Regulatory Examinations.

The improved CPD tracking process looks to:

- Prevent challenges and overcome administrative burden relating to the FSB's accrediting, CPD providers, activities and programmes for the purposes of updating and maintaining a database
- Avoid different CPD programmes and activities being individually approved and reapproved by the FSB
- Provide support for affected persons relating to which legitimate CPD programmes and providers may be used
- Be cost effective, clear and practical
- Be risk-based and proportionate
- Increase compliance with regards to monitoring of CPD activities

## 4.2 Proposed requirements

The main principles of the proposed CPD amendments are for FSPs to establish and maintain:

- Policies on maintaining, updating and developing knowledge and skills
- Training plans ensuring that CPD is relevant, appropriate, addresses needs or gaps and improves professional standards
- Records of CPD hours and evidence of activities

The specific proposed amendments to the *Draft revised fit and proper requirements (2016)* that relate to CPD focus on the accreditation and tracking of CPD activities by a professional body. For this purpose, the new, amended definition of a CPD activity is one that is:

- (a) accredited and tracked by a Professional Body;
  - (b) allocated a hour value by that Professional Body; and
  - (c) verifiable,
- and excludes:
- (i) an activity performed towards a qualification; and
  - (ii) product specific training;

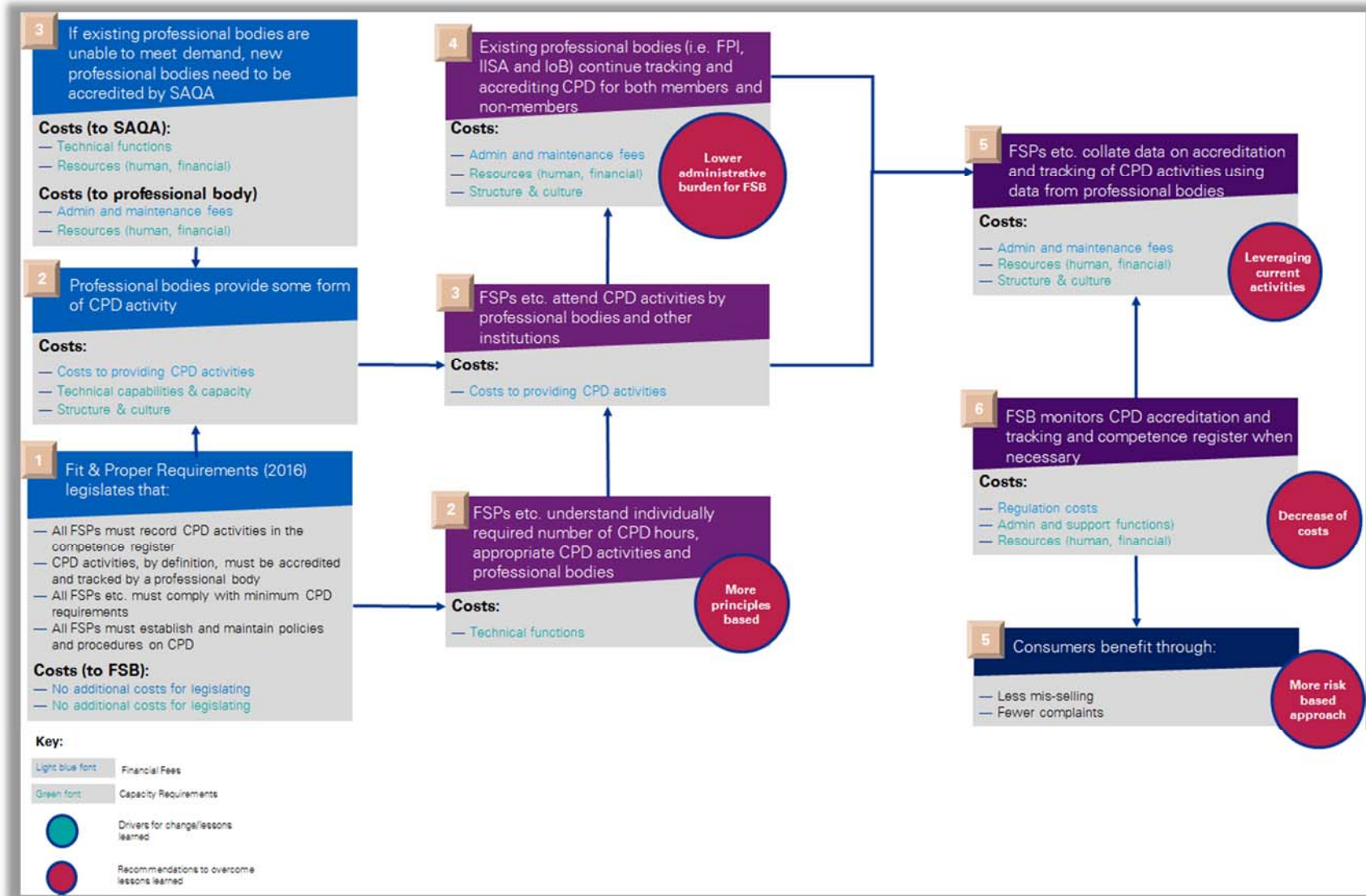
Professional bodies are SAQA-recognised, according to the *Policy & Criteria for Recognising a Professional Body and Registering a Professional Designation for the Purposes of the NQF Act*.

At present, professional bodies monitor both members and non-members who participate in their affiliated CPD activities. There is currently no charge associated with this, although stakeholder consultation suggests that this may change under the proposed legislation. This is because increased demand for professional bodies to track for affected parties to comply with the proposed legislation will require the upgrading of systems and additional allocation of resources.

Other changes include the introduction of the minimum number of CPD hours, in place of professional best practice. Section 33(1) of the draft regulations prescribes the minimum number of hours based on the number of subclasses of business applicable to an FSP, key individual or a representative.

Figure 10 gives a graphic representation of the proposed CPD scenario in the industry.

Figure 10: Proposed CPD flow chart



## 4.2.1 Exemptions

Under the *Draft revised fit and proper requirements (2016)*, CPD requirements do not apply to

- Category I representatives of Long Term Insurance subcategory A and/or Friendly Society Benefits
- Category I representatives of all Tier 2 products
- Category I representatives of some Tier 1 products (i.e. intermediary services only)

## 4.2.2 Compliance timeline

The hourly CPD requirements in a CPD cycle<sup>50</sup> differ based on the number of applicable subclasses:

- a single subclass within a single class of business must complete a minimum of 6 hours
- more than one subclass within a single class of business must complete a minimum of 12 hours
- more than one class of business must complete a minimum of 18 hours

## 4.3 Cost analysis

### 4.3.1 Current CPD requirements

The costing of the current CPD requirements deals with estimating costs incurred by relevant stakeholders to develop, provide and monitor CPD activities. We detail the costs relevant to this scenario below.

#### 4.3.1.1 FSPs costs to providing CPD activities

We assumed these costs are borne by the FSPs. We estimated this cost using two variables; the cost to provide CDP activities and the number of advisors. We benchmarked the costs to providing CPD activities on the costs charged by professional bodies to provide CPD activities. Currently, professional bodies charge R 850 and R 1 690 per advisor for online and annual refresher course respectively. Important to note is that not all courses are chargeable as some may be offered free. The estimated cost to provide current CPD activities is about R350.6 million in 2016.

Table 26: Costs to providing CPD activities

Items	Costs
Online costs	R 850
Annual refresher	R 1 690
Number of advisors	138 045
<b>Total</b>	<b>R 350 634 300</b>

We have only accounted for costs to provide CPD activities and excluded the costs to tracking CPD activities. Consultations with stakeholders revealed that tracking of CPD activities happens at basic level at present. In addition, tracking of activities is currently not mandatory.

#### 4.3.1.2 FSB charges FSPs to develop and maintain CPD register

Table 27 represents the costs charged by the FSB to develop and maintain the CDP register, per advisor. Table 28 presents the estimated total charges to for FSPs to develop and maintain CPD register of all CPD programmes and providers. Although this is not occurring at present due to an exception, this falls under the current legislation.

<sup>50</sup> "CPD cycle" means a period of 12 months commencing on 1 June of every year and ending 31 May of the following year;

Table 27: Costs to develop and maintain CPD register<sup>51</sup>

Items	Costs
Application for approval as a CPD provider	R 2 130
Application for recognition of a CPD programme	R 410
Application for recognition of a CPD activity	R 330
Application to record CPD hours other than through the prescribed electronic method	R 325
<b>Costs to develop and maintain CPD register per advisor</b>	<b>R 3 195</b>

Table 28: FSB charges to FSPs to develop and maintain CPD register

Items	Costs
Costs to develop and maintain CPD register per advisor	R 3 195
Number of FSPs	10 505
<b>Total</b>	<b>R 33 563 475</b>

#### 4.3.1.3 Regulatory costs

The FSB incurs regulatory costs for purposes of monitoring the CPD activities. We estimated the regulatory costs of the FSB as presented in the table below. First, we assumed that the FSB spends on average one hour per FSP to monitor CPD activities. We benchmarked this on the time spend on Class of business training and product specific training. Second, we estimated the hourly rate of the personnel involved in the regulatory process, which came to about R634 per hour. We estimated the cost per hour using the salaries of junior analysts and analysts of R338 162 and R519 019 per annum, respectively.

Table 29: Regulatory costs

Items	Costs
Time spend on regulatory matters per FSP (hours)	0.5
Average cost per hour	R 878
Number of FSPs	10 000
<b>Total cost to regulate per annum</b>	<b>R 4 390 003</b>

#### 4.3.2 Proposed CPD requirements

##### 4.3.2.1 Professional bodies charge FSPs to accrediting CPD programmes

Professional bodies plan to charge financial advisors R250 per year to accredit them for CPD programmes. All advisors would be expected to go through the accreditation process. Table 30 presents the estimated costs to accredit advisors for CPD programmes. The financial industry could incur R2.6 million per annum for this cost item.

Table 30: Costs to accrediting CPD programmes

Stakeholders	Items	Costs
Costs to accrediting CPD Programmes: FSP's	<ul style="list-style-type: none"> <li>— Cost per advisor: R 250</li> <li>— Number of advisors: 10 505</li> </ul>	R 2 626 250

<sup>51</sup> FSB

#### 4.3.2.2 FSPs costs to tracking their own CPD activities

We estimated costs to tracking CPD activities for FSPs who track some form of CPD activity. Currently, the level of CPD tracking in the industry is minimal, and has not been included in the analysis. For purposes of this analysis, we assumed that with the proposed CPD, the FSPs would only incur the incremental costs of tracking. The incremental cost of tracking is considered to be the difference between the current costs of CPD tracking and the costs of being compliant with the proposed regulatory CPD tracking requirements.

The current tracking cost is R700 per advisor for 10 hours of tracking, while the proposed cost of tracking is estimated at R1 000 per advisor for 18 hours of tracking. The differential cost of R300 per advisor forms the basis of the estimated costs of tracking for the proposed CPD.

The overall results are in Table 31. The financial industry could incur an additional R 41.4 million per annum to track for CPD activities.

Table 31: FSPs costs to tracking CPD activities

Items	Costs
Incremental costs to providing CPD activities per advisor	R 300
Number of advisors	R 138 045
<b>Total</b>	<b>R 41 413 500</b>

#### 4.3.2.3 FSB's regulatory costs

Regulatory costs were estimated for the FSB to monitor CPD activities. We based the calculations on the following inputs:

- Time spend on regulatory matters per FSP
- Average cost per hour
- Number of FSPs

Table 32: FSB Regulatory costs

Items	Costs
Time spend on regulatory matters per FSP	0.5
Average cost per hour	R 878
Number of FSPs	10 000
<b>Total cost to regulate per annum</b>	<b>R 4 390 003</b>

#### 4.3.3 Qualitative costs and benefits

In this section, we list those costs and benefits associated with the proposed legislation. We have been unable to include these elements in the quantitative cost analysis of Section 4.3 either because they are, by nature, difficult to quantify, are subject to data constraints or cannot be linked through a strong enough correlation to the change in regulation.

### 4.3.3.1 Benefits

**Improved levels of consumer protection:** One of the largest benefits of continued competence of FSPs, KIs and representatives is consumer protection. In theory, financial advisors who maintain their competence through accredited CPD activities are less likely to omit important information or missell products to their clients. While the cost of this is difficult to determine based on data constraints, information from a KPMG's annual report on *Ombudsman for Long-term insurance* may indicate the extent to which this market failure is occurring in the long-term insurance market. In 2016, 30.1% of complaints to the Ombud related to 'Poor communications / documents or information not supplied / poor service', while a further 0.2% related to 'Misselling'. Similarly, a presentation from the FSB notes a trend in complaints being 'Unqualified representative' and another in regulatory action regarding 'Lack of competence'.<sup>52</sup> It is challenging to determine to what levels the proposed regulation may work to decrease such complaints, but the assumption is that they will exhibit a downward trend after implementation.

**Industry professionalisation:** One of the hallmarks of a profession is a high standard of competence and CPD by members. The legislating the accreditation and tracking by professional bodies provides a second layer of approval<sup>53</sup>, providing the profession with increased credibility. This recognition of experience and competence increases the reputation of financial advisors, which has its own benefits, including higher salaries and increased use of recognised financial advisors.

### 4.3.3.2 Costs

**Appropriate people, processes and systems for SAQA recognition process:** While the CEA quantifies the time spent on the SAQA recognition process for professional bodies, this refers to time specifically spent on collating information and documentation for the full five-year audit i.e. 2 months. Prior to this correct people, processes and systems need to be developed to ensure that this information and documentation is generated and made available.

**Time spent understanding requirements:** One of the clear observations from stakeholder interviews is the various interpretations of the proposed CPD legislation. In some cases, this is based on misinterpretations or lack of understanding. For industry players to understand correctly the objectives and practicalities of the legislation, time for consultation with the FSB, internal teams and external consultants and trainers will be required.

## 4.4 Risks and other considerations

### 4.4.1 Current tracking and accreditation of CPD activities

The industry currently possesses two forms of CPD accreditation by professional bodies: pre-approval and post-audit approval. The former entails approving CPD programmes and activities prior to being tracked and uploaded while the latter requires a sample audit of all tracked and uploaded CPD programmes and activities. According to stakeholders, the pre-approval process seems to require fewer resources and contains more certainty in terms of the information that is uploaded.

At present, the majority of tracking of CPD activities of FSPs, KIs and representatives seem to occur through professional bodies, namely FPI and IISA. For those not doing so through professional bodies, CPD tracking occurs at a very basic level, if at all. Most stakeholders stressed the complexity of such a system, with some going as far as suggesting that the FSB develop a platform for the industry. From interviews with banks, the sector has not yet identified the relevant professional body for CPD tracking. According to their websites, the Banking Association of South Africa (BASA) does not conduct CPD tracking, although the banking industry's professional body, the Institute of Bankers in South Africa (IoB) does. Despite this, there seems to be confusion within the banking subsector regarding the appropriate body to conduct CPD tracking and approve CPD programmes. Professional bodies noted that industry players and affected persons must understand that although professional

<sup>52</sup> Presentation by FSB HOD FAIS Compliance Department

<sup>53</sup> The first layer being overall legislation and oversight by the Regulator i.e. the FSB

bodies may assist with tracking and approving CPD activities, completion and updating of the competency register remains the FSP, KI or representative's responsibility. In addition, there will likely need to be industry-wide education on the fact that it is not the responsibility of professional bodies to ensure the tracking and attendance of CPD programmes for all industry members.

#### 4.4.2 Understanding the nature of outcomes-based regulation and its success factors

The proposed regulations, compared to the current regulations, are more principles based and infer a level of ownership onto the industry. While not completely regulating themselves, industry players now have greater responsibility and a higher degree of autonomy for deciding on the means of complying with legislation. The FSB's role is less prescriptive with more of a focus on oversight of the outcomes. Notwithstanding, the FSB's role in the new legislative framework now requires increased efforts to ensure that market players see the new framework as fair, efficient, and backed by a credible regulatory authority.

When compared to traditional compliance-based regulation, outcomes-based regulation within the industry has the ability to:

- Introduce greater flexibility and adaptability, specifically with regards to changing technology
- Potentially lower compliance and administrative costs, particularly for the regulator
- Address industry-specific and consumer issues directly

However, the FSB should be aware that outcomes-based regulation may not always be a perfect substitute for traditional regulation. If the outcomes-based regulatory framework does not have well-defined or practical standards, it cannot effectively protect consumers or result in compliance from companies. One of the key findings through stakeholder consultation relates specifically to this point. The understanding of the requirement that a professional body track CPD may have been lost due to the many discussions and draft documents on the policy. One possible remedy may be ongoing educational sessions or campaigns once the *Draft revised fit and proper requirements (2016)* is finalised to ensure consistent understanding of the requirement within the industry. Alternatively, the FSB may consider hosting a quarterly or biannual sandbox session with industry players to share ideas and challenges regarding compliance. An independent facilitator may be required to ensure that the session is, at the same time, productive and compliant with competition legislation.

In addition, sufficient financial resources may also disadvantage certain firms in favour of those with greater financial influence.<sup>54</sup> As a result, the FSB will need to introduce measures to ensure that the industry or professional association does not exert undue control within the system, so promoting interests of a select group rather than wider community interests. This may be a risk factor, considering the particular requirement that a professional body accredit CPD activities, since it relies heavily upon the discretion and processes of the professional body and may create a barrier for certain CPD programmes. Continuous monitoring after implementation is one way in which the FSB may ensure that the actions of dominant players do not develop into anti-competitive behaviour. Input and engagement with the competition authorities may be useful in this regard.<sup>55</sup>

Lastly, stakeholder interviews have uncovered a perception that the FSB is attempting to shift the costs of regulation onto industry players. The concerns extend from the monetary costs to the regulatory responsibility with some stakeholders fearing that other bodies such as the QCTO, INSETA and SAQA will unduly acquire regulatory and decision-making powers. This perception, whether accurate or not, has the potential to erode buy-in and hence undermine compliance relating to the proposed legislation. Information sessions inviting industry players to pose questions on the legislation may assist in mitigating this risk and depicting the FSB as the ultimate decision maker as

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<sup>54</sup> U.S. Commissioner Maureen K. Ohlhausen, BBB Self-Regulation Conference, June 24, 2014. *Success in Self-Regulation: Strategies to Bring to the Mobile and Global Era*

<sup>55</sup> Hepburn, G., 2002. OECD report. *Alternatives to traditional regulation*.

well as a benevolent regulator. In response to such a concern, one stakeholder noted that these bodies are all, in some way or other, regulators. This implies that an efficiency will be realised since the FSB will not be recreating regulation already in place, but rather synergising regulatory efforts.

#### 4.4.3 Potential conflicts of interest and their mitigation

Several stakeholders have raised concerns regarding professional bodies, which are offering their own CPD training and activities. This centres on a possible conflict of interest of such a professional body, who is, under the proposed legislation, also legislated to accredit CPD programmes and activities<sup>56</sup>. In such a situation, the professional body may have access to CPD material from a competing CPD training provider, whom they are accrediting.

However, interviews with stakeholders suggest that the FPI in particular, has stringent systems in place to ensure that 'chinese walls' remain between the two divisions. The accreditation division of the FPI structure is a separate, ring-fenced reporting entity. In addition, their impartiality forms a part of the FPI's current ISO17 accreditation application. This is applicable to professional bodies who certify material and form important is key to the impartiality of its certification process. Other professional bodies are governed by boards of independent directors, professional standards committees, editorial committees, CPD committees etc., which ensure oversight of such conflicts. One professional body even remarked that only one CPD programme had ever been rejected because it covered a topic that was, by definition, product knowledge and not CPD. In addition, they provided limited CPD training, which was subject to strict standards on neutrality.

However, this level of effort committed to ensuring impartiality may not necessarily apply all professional bodies, as some may not be in good standing with SAQA or promote such a strong culture of impartiality.

A second conflict of interest relates to the principal of the proposed CPD requirements being a minimum standard, as opposed to industry standard or best practice. This creates a reliance on FSPs, KI's and representatives to self-regulate a better level of CPD. It is also in the interests of these affected persons or organisations to minimise costs, including those paid towards accredited CPD activities.

#### 4.4.4 Potential of insufficient capacity of professional bodies

At present professional bodies in the industry, in particular the FPI and IISA, monitor both members and non-members who participate in their affiliated CPD activities. Despite there currently being no charge associated with this, the number of non-members making use of this service is low. The professional bodies also provide accreditation of CPD programmes by tracking programmes, certain areas of financial training and programme providers. The FPI grants approval for 12 months and ensure that continuous relevance and standards are upheld.

According to both professional bodies, there is likely to be an increased demand for professional bodies to track affected parties, to comply with the proposed legislation. This in turn will require professional bodies to increase infrastructure and resources. At present, the FPI has upgraded its IT infrastructure and other systems to be able to handle the CPD tracking of the entire industry. Similarly, in anticipation of the legislation, IISA has spent roughly R1.5million upgrading their systems to be able to handle more than 100 000 people. To recoup the costs of such upgrades, professional bodies may impose a charge to financial advisors for the tracking of non-members going forward. This is likely to be a sliding scale of costs: the cheapest option will provide access to the system only to upload hours and the more expensive options will allow for the uploading of documents for the FPI to assess and approve the CPD activities themselves as complaint. At present, event organisers cover the costs for CPD tracking depending on the size of the event, although this may change if the increase in demand occurs.

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<sup>56</sup> Recall the new definition of 'CPD activity' in the *Draft revised fit and proper requirements (2016)* which, among other things, must be 'accredited and tracked by a Professional Body'.

In terms of the provision of CPD activities, the FPI facilitates and a range of activities as they relate to refresher courses and events, webinars and online training. In comparison, IISA functions more as a facilitator or platform for CPD activities, with their learning center restricted to 24 attendees.

According to interviews, the professional bodies likely have capacity to assist in compliance with the requirement to have CPD activities tracked by a professional body. It is key to note that the legislation does not make membership mandatory.

#### 4.4.5 Dependence on structural and cultural capacity of professional bodies

The proposed CPD legislation does not mandate the membership of members of the industry to a professional body. However, for professional bodies to accredit and track CPD activities for the entire industry despite membership will require two elements – structural and cultural capacity. Structural capacity relates to the foresight of the structure to evolve to address industry needs and enable both members and non-members to comply with legislation. Professional bodies in the industry have, thus far, attempted to design and plan systems and capacity in light of changing requirements. There is a limited capacity in which the FSB is able to regulate such behaviour. Cultural capacity relates to a professional body's core beliefs, values and conduct. In this context, the culture of a professional body to forward the industry and contribute to the well-being of members and non-members alike is key to the proposed legislation meeting its objectives. Professional bodies, largely as part of their mandate, currently foster a deep culture of professionalism, impartiality and industry-wide development.

In the absence of these, professional bodies may charge exorbitant prices for tracking and accreditation, which may create a barrier to compliance. The FSB does not have the mandate to regulate professional bodies, which creates a dependence on the professional bodies' structural and cultural capacity. However, given the SAQA recognition and the relating requirements, the FSB may consider working in collaboration with SAQA to ensure that the elements of structure and culture are included to the required standard.

#### 4.4.6 Implications of the current process of recognition of professional bodies

Dependent on the capacity of professional bodies to enable the tracking of CPD activities, the recognition of professional bodies is a key consideration. As mentioned, the SAQA recognition of professional bodies is in accordance with *Policy & Criteria for Recognising a Professional Body and Registering a Professional Designation for the Purposes of the NQF Act*. Stakeholders have noted the consistency of the proposed amendments with the NQF Act. However, the policy does not encourage multiple professional bodies within the same community of practice. This may be the case where healthy competition and freedom of association is necessary.

Currently, SAQA evaluates professional body applications for recognition and for the registration of their designations without charging any fee. However, the NQF Act, of 2008, does provide for SAQA to charge for services rendered. The process entails evaluating the application and supporting documents against the Policy. In particular, the process for the recognition of professional bodies entails the implementation of the following activities:

##### 1. Initial stage

This first stage of the recognition process comprises:

- Conducting workshops for new applicants
- Evaluating applications for recognition and preparing evaluation report
- Conducting site visit and preparing site visit report
- Gazetting the application
- Adjudicating applications by the Q&S Committee and making recommendations
- Presenting the Q&S recommendations to EXCO/SAQA Board for approval
- Preparing and issuing recognition and registration letters

— Preparing and framing recognition certificates

## 2. Monitoring Process

Two years after recognition, SAQA conducts a mid-term monitoring process to ensure continued compliance.

## 3. Re-Recognition Process

The professional body recognition is valid for five years. In the fifth year, SAQA conducts a re-recognition through the evaluation of a re-recognition application and a site verification visit. If this is successful, SAQA will extend the professional body's recognition for a further five years. One professional body notes that their team of five takes two months to conduct the bulk of their preparation for this 'audit'. Another stated that for four full time staff members they required one month to collect the same. In addition, recognised professional bodies may apply for the registration of additional designations.

Based on stakeholder interviews, which consider this process and its requirements, it seems unlikely that a large increase in applications for recognition of professional bodies will stem from the new requirements. According to one professional body, to remain in good standing with SAQA should be included in the legislation, as compliance requires much effort and resources. At present, the FPI and Insurance Institute of South Africa (IISA) serve as the main professional bodies. To a limited extent, ASSA and South African Institute of Professional Accountants (SAIPA) may serve to track the CPD of actuaries and accountants respectively that the proposed legislation affects. Other professional bodies, relevant for the purposes of CPD tracking, potentially include The IoB and South African Institute of Financial Markets (SAIFM).

One positive implication of SAQA recognising professional bodies is that it sets and enforces standards for both professional bodies and statutory professional bodies. The latter are in reality regulators and a SAQA recognition for all professional bodies ensures that the industry is compliant with the same standards, as the regulator would enforce.

## 5 Cost Effectiveness Analysis

Fundamental business rule is to maximise profits by using scarce resources efficiently and minimising costs at all time. Therefore, in order to evaluate whether a programme has performed successfully, programme objectives and the cost to providing that specific service be calculated to evaluate whether economic resources were utilised efficiently or not.

This is one of the most difficult and important problems in the evaluation or review of programmes and policies.

To evaluate how well these scarce economic resources are utilised, a Cost Benefit Analysis (CBA) may be used. A CBA is an economic analysis tool that provides a framework for evaluating the extent to which the benefits derived from a programme exceed the costs of producing them (i.e. the efficiency or cost-effectiveness of a programme). A CBA, therefore, may be used to assess whether the benefits derived from of a programme justify its associated costs.

In this analysis, the review team adopted a CEA tool. The two reasons for this are:

- The difficulty of measuring the benefits associated with each course of action as they relate to the REs and CPD requirements
- Whatever intervention is put in place, the benefits that accrue to society are unlikely to differ. These benefits include less miss-selling by the financial advisors and few complaints to the Ombud.

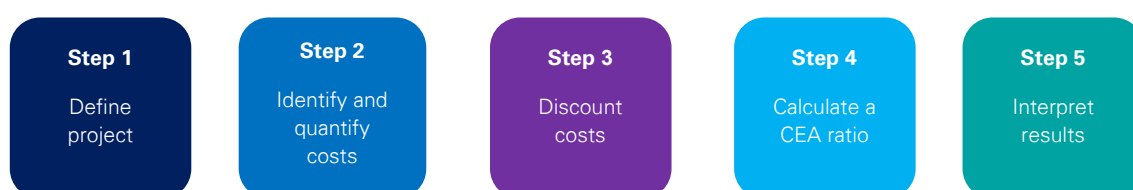
A CEA is an economic analysis tool that compares the relative costs and outcomes of different courses of action. Compared to a CBA, which assigns a monetary value to the benefits of the various courses of action, a CEA does not explicitly consider the economic benefits. A CEA is often used where it may be inappropriate to monetise the benefits of a course of action, or where it is difficult to assign a value to these benefits. Additionally, in situations where benefits are not expected to differ between the various courses of action, a CEA can be used to determine the most cost effective intervention. In the case of this assessment, a CEA is appropriate given the fact that the objectives of the FAIS Act (2002), by design, will remain the same despite the proposed amendments.

The CEA aims to provide information about the relative efficiency of alternative interventions that serve the same goal. The outcome of such analysis is a ratio that reproduces cost differences in relation to differences in the effectiveness of this intervention compared with other interventions that serve the same goal.

### 5.1 Methodology

Figure 11 summarises the steps taken through the CEA to determine the effectiveness of the various scenarios. An explanation of these steps follows.

Figure 11: Steps to execute a CEA



Source: KPMG, 2016

### 5.1.1 Step 1: Define project

Under Step 1, the objectives of the study are determined and an assessment of how a CEA should be used to evaluate the effectiveness of the programmes made.

### 5.1.2 Step 2: Identify and quantify costs

The review team then identify the costs that are directly attributable to each programme. A monetary value is then assigned to the costs identified. It is important to note that not all costs can be quantified because of limited data availability. These costs, however, are still an important aspect of the CEA and are discussed qualitatively.

#### 5.1.2.1 Costs

In order to obtain a reliable picture of all the costs associated with the second level REs and CPD programmes, the review team:

- Established a standardised framework for the identification and the allocation of the costs of the programmes.
- Included, as part of the stakeholder interview questionnaires, questions that helped to identify estimates for programme-related costs.

### 5.1.3 Step 3: Discount costs

#### 5.1.3.1 Discounting

The standard approach to placing a value on costs and benefits that occur in different periods assumes that:

- A Rand today would be worth more than a Rand tomorrow due to inflation. This means that immediate income is preferable to future income (i.e. social time preference).
- An investment always has an opportunity cost. This means that the investment could possibly earn a better rate of return doing something else if it was not locked in the current programme (i.e. opportunity cost).

The discounting approach, therefore, was used to value the stream of costs and benefits related to the programmes over a 10-year period (2012-2022) to a comparable amount in Rand prices. This amount is the present value (PV) of the future costs that are attributable to the programmes.

The formula for the calculation of PV of costs and benefits is presented below:

$$PV_{costs} = \sum_{n=0}^N \frac{C_n}{(1+r)^n}$$
$$PV_{benefits} = \sum_{n=0}^N \frac{B_n}{(1+r)^n}$$

Where:

- $C_n$  = cost in year  $n$  expressed in constant terms
- $B_n$  = benefits in year  $n$  expressed in constant Rand Values
- $r$  = real discount rate
- $n$  = time in years
- $N$  = number of years over which project is evaluated

### 5.1.3.2 Discount rate

The following assumptions were made in determining the discount rate:

- South Africa's inflation rate over the long-term will not be more than 6%<sup>57</sup> and
- A long-term real yield on capital of 6%<sup>58</sup> was assumed.

The CEA was conducted in current prices (i.e. nominal Rand values) at a discount rate of 12.36%<sup>59</sup> per annum, which reflects the current estimated cost of capital. The nominal discount rate calculation is in line with the criteria outlined in the CBA Manual for South Africa<sup>60</sup>, which recommends that if costs and benefits are measured in nominal (or current) Rand value terms, then a nominal discount rate (including inflation) should be used.

### 5.1.4 Step 4: Calculate a CEA ratio to determine effectiveness

Using the information collected, we consider the criteria that could be used to reflect the efficiency of the programmes. The criteria are in the form of ratios that reproduce cost differences in relation to differences in the effectiveness of this intervention compared with other interventions that serve the same goal. These criteria are the:

- Ratio of industry costs and the number of FSPs
- Ratio of industry costs and the number of advisors
- Proportion of costs borne by relevant stakeholders for each scenario

### 5.1.5 Step 5: Interpret results

This is the last step of the CEA process, and involved interpreting the outcomes or the results of the CEA.

## 5.2 Summary of results

In this section, we present the summarised results of the CEA. First, we present the product knowledge requirements costing results followed by the CPD requirements costing results. As previously stated, a CEA is an economic analysis tool that compares the relative costs and outcomes of different courses of action. We carried out the CEA over a 10-year period (2012 to 2021) at a nominal discount rate of 12.36%.

The criteria used in a CEA is a ratio that reproduces cost differences in relation to differences in the effectiveness of this intervention compared with other interventions that serve the same goal. Table 45 represents the outcome of the costing process.

### 5.2.1 Product knowledge requirements costing results

#### 5.2.1.1 First level regulatory examination results

The overall results for first level RE for the 2016 financial year are in the table below.

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<sup>57</sup> This inflation assumption is based on inflation targeting applied by the South African Reserve Bank, which currently is at a range of 3-6%

<sup>58</sup> The calculation has assumed the long-term repo rate will average 6%. With the current volatility of the Rand coupled with inflation rate, the real interest rate is likely to increase in the short to medium term but probably fall in the long term as the economic outlook improves

<sup>59</sup> The financial discount rate of 12.36% is based on a long real yield rate of 6% per annum, and inflation of 6% per annum has been. The following formula is used:  $((1.06) * (1.06) - 1) = 12.36\%$

<sup>60</sup> A Manual for Cost Benefit Analysis in South Africa with Specific Reference to Water Resource Development, Third Edition (Updated and Revised), Conningarth Economists for the Water Research Commission, May 2014.

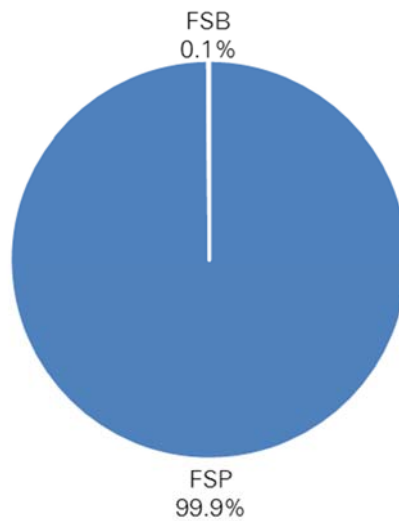
Table 33: Summarised first level RE results, Rand millions, 2016 prices

Cost item	FSPs	FSB	Total
Administration fees	R 20.7		<b>R 20.7</b>
Training costs	R 787.9		<b>R 787.9</b>
Examination enrolment fee	R 138.7		<b>R 138.7</b>
Regulatory costs		R 1.2	<b>R 1.2</b>
<b>Total</b>	<b>R 947.3</b>	<b>R 1.2</b>	<b>R 948.5</b>

Table 34: Detailed first level RE results, Rand millions, nominal prices

Role player	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FSP	R 5 940.8	R 583.1	R 647.4	R 723.1	R 812.1	R 947.3	R 1 072.7	R 1 214.6	R 1 375.4	R 1 557.4	R 1 763.5
FSB	R 7.6	R 1.0	R 1.0	R 1.1	R 1.1	R 1.2	R 1.3	R 1.4	R 1.5	R 1.5	R 1.6
<b>Total</b>	<b>R 5 948.3</b>	<b>R 584.1</b>	<b>R 648.5</b>	<b>R 724.2</b>	<b>R 813.3</b>	<b>R 948.5</b>	<b>R 1 073.9</b>	<b>R 1 216.0</b>	<b>R 1 376.8</b>	<b>R 1 558.9</b>	<b>R 1 765.1</b>

Figure 12: Cost distribution for first level regulatory examinations



Based on the results we observed the following key points:

- The costs to the financial industry for first level RE amounts to about R 948.5 million in 2016. FSP's accounts for 99.9% of these costs incurred by the financial industry, while the FSB incurs the least costs at only 0.1% of the overall industry costs
- Over the 10-year period of analysis, the present value of the costs to write first level RE examinations is about R5.9 billion
- The most significant costs for first level RE are the training fees, accounting for 83% of the costs for FSPs.

#### 5.2.1.2 Second level regulatory examination results

Table 35, Table 36 and Figure 13 present the overall results of results for second level RE. Table 35 presents the 2016 costs, Table 36 presents the costs over the 10-year period of analysis and Figure 13 shows the distribution of costs among the relevant stakeholders.

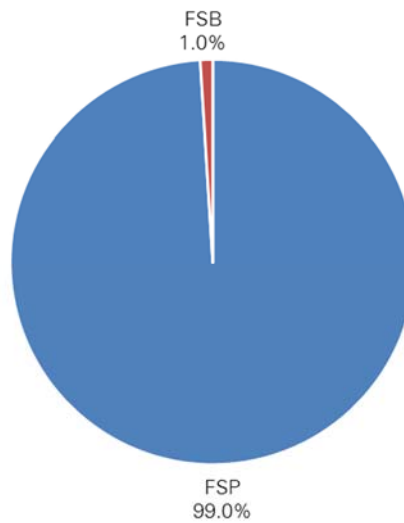
Table 35: Summarised second level regulatory examination results, Rand millions, 2016 prices

Cost item	FSP	FSB	Total
Administration fees	R 24.7		<b>R 24.7</b>
Training costs	R 3 374.5		<b>R 3 374.5</b>
Examination enrolment fee	R 523.3		<b>R 523.3</b>
Regulatory costs		R 39.5	<b>R 39.5</b>
<b>Total</b>	<b>R 3 922.5</b>	<b>R 39.5</b>	<b>R 3 962.0</b>

Table 36: Detailed second level regulatory examinations results, Rand millions, nominal prices

Role player	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FSP	R 24 328.0	R 3 144.4	R 3 324.9	R 3 529.4	R 3 689.8	R 3 922.5	R 4 157.8	R 4 407.3	R 4 671.7	R 4 952.0	R 5 249.1
FSB	R 245.0	R 31.7	R 33.5	R 35.6	R 37.2	R 39.5	R 41.9	R 44.4	R 47.1	R 49.9	R 52.9
<b>Total</b>	<b>R 24 573.0</b>	<b>R 3 176.1</b>	<b>R 3 358.4</b>	<b>R 3 565.0</b>	<b>R 3 727.0</b>	<b>R 3 962.0</b>	<b>R 4 199.7</b>	<b>R 4 451.7</b>	<b>R 4 718.8</b>	<b>R 5 001.9</b>	<b>R 5 302.0</b>

Figure 13: Cost distribution for second level regulatory examinations



Based on the results above, we observed the following key points:

- Second level RE cost the financial industry about R4 billion in 2016.
- FSPs incur the most costs, accounting for 99% of the total costs to write second level RE.
- The most significant costs for second level RE are the training fees, accounting for 85% of the FSPs costs.

#### 5.2.1.3 Class of business training results

The overall results for class of business training for the 2016 financial year, based on the calculations explained above, are in the tables below. Table 37 shows the overall costs for class of business training for 2016;

Table 38 presents the detailed results for the 10-year analysis period, while Figure 14 presents the distribution of costs among the stakeholders.

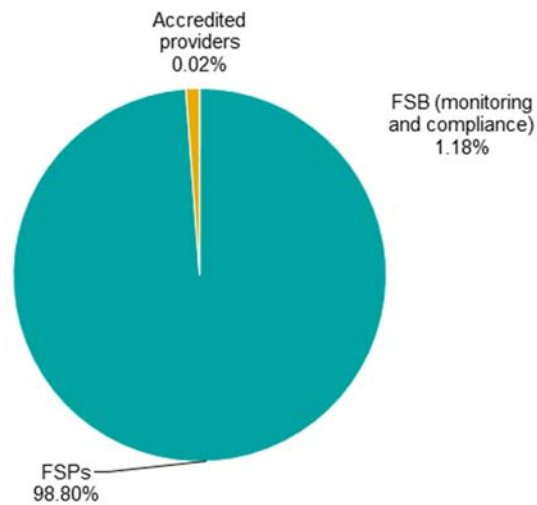
Table 37: Summarised results for Class of business training, Rand millions, 2016 prices

Cost item	Accredited providers	FSPs	FSB	Total
Administration fees		R 22.7		<b>R 22.7</b>
Conducting class of business training	R 0.6	R 0.3		<b>R 0.9</b>
Training fee (attending class)		R 345.1		<b>R 345.1</b>
Regulatory costs			R 4.4	<b>R 4.4</b>
<b>Total</b>	<b>R 0.6</b>	<b>R 368.2</b>	<b>R 4.4</b>	<b>R 373.2</b>

Table 38: Results for Class of business training, Rand millions, nominal prices

Role player	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Accredited providers	R 0.4	R -	R -	R -	R -	R 0.6	R -	R -	R -	R -	R -
FSPs	R 2 281.6	R 294.9	R 311.8	R 331.0	R 346.0	R 368.2	R 389.9	R 413.3	R 438.1	R 464.4	R 492.2
FSB	R 27.2	R 3.5	R 3.7	R 4.0	R 4.1	R 4.4	R 4.7	R 4.9	R 5.2	R 5.5	R 5.9
<b>Total</b>	<b>R 2 309.2</b>	<b>R 298.4</b>	<b>R 315.5</b>	<b>R 334.9</b>	<b>R 350.1</b>	<b>R 373.2</b>	<b>R 394.6</b>	<b>R 418.2</b>	<b>R 443.3</b>	<b>R 469.9</b>	<b>R 498.1</b>

Figure 14: Distribution of class of business training costs



Based on the above results, we noted the following:

- The cost for class of business training in 2016 amounted to R 373.2 million
- The most significant costs for class of business training is the training fee
- Over the 10-year analysis period, the present value of conducting class of business training amounts to R2 309.2 million, of which FSP's account for R2 281.6 million, representing 98.8% of the total costs.

#### 5.2.1.4 Product specific training results

The overall results for product specific training are in Table 39, Table 40 and Figure 15 below.

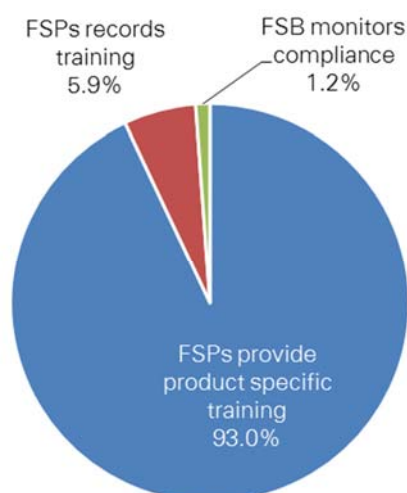
Table 39: Summarised results for Product specific training, Rand millions, 2016 prices

Cost item	FSPs	FSB	Total
Administration fees	R 22.3		<b>R 22.3</b>
Conducting product specific training	R 353.3		<b>R 353.3</b>
Regulatory costs		R 4.4	<b>R 4.4</b>
<b>Total</b>	<b>R 11.98</b>	<b>R 4.4</b>	<b>R 379.9</b>

Table 40: Detailed product specific training results, Rand millions, nominal prices

Action	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FSPs provide product specific training	R 2 191.2	R 283.2	R 299.5	R 317.9	R 332.4	R 353.3	R 374.5	R 396.9	R 420.7	R 445.9	R 472.6
FSPs administration fee	R 138.0	R 17.8	R 18.9	R 20.0	R 20.9	R 22.3	R 23.6	R 25.0	R 26.5	R 28.1	R 29.8
FSB monitors compliance	R 27.2	R 3.5	R 3.7	R 4.0	R 4.1	R 4.4	R 4.7	R 4.9	R 5.2	R 5.5	R 5.9
<b>Total</b>	<b>R 2 356.4</b>	<b>R 304.6</b>	<b>R 322.1</b>	<b>R 341.9</b>	<b>R 357.4</b>	<b>R 379.9</b>	<b>R 402.7</b>	<b>R 426.9</b>	<b>R 452.4</b>	<b>R 479.5</b>	<b>R 508.3</b>

Figure 15: Distribution of product specific training costs



Based on the above results, we noted the following:

- Overall, the 2016 costs to the financial industry to provide product specific training was R379.9 million
- Taking into account the costs over analysis period, the total costs to the industry could be R2 356.4 million over the 10-year period.
- FSPs incur the most costs accounting for about 93% for product specific training costs
- The most significant costs are the costs to conduct product specific training, accounting for 93% of the total costs.

## 5.2.2 Continuous Professional Development costing results

### 5.2.2.1 Current CPD requirements results

The results of the current CPD programme as represented in Table 41, Table 42 show the annual cost of the current CPD programme, the present value of these costs over the 10-year period of analysis and the distribution of these costs between the relevant stakeholders.

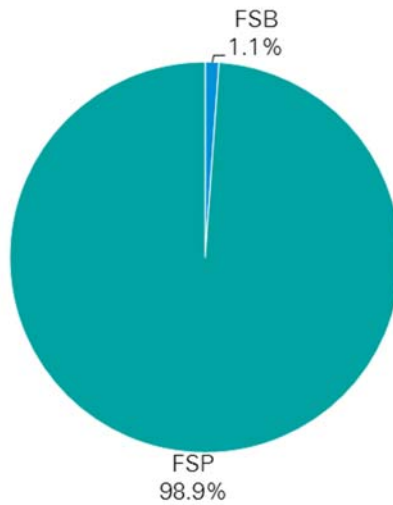
Table 41: Summarised current CPD requirements results, Rand millions, 2016 prices

Cost item	FSB	FSPs	Total
Costs to providing CPD activities		R 350.6	R 350.6
Regulatory costs	R 4.4		R 4.4
Costs to develop and maintain CPD register		R 33.6	R 33.6
<b>Total</b>	<b>R 4.4</b>	<b>R 224.0</b>	<b>R 388.6</b>

Table 42: Detailed current CPD requirements results, Rand millions, nominal prices

Role player	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FSB	R 27.2	R 3.5	R 3.7	R 4.0	R 4.1	R 4.4	R 4.7	R 4.9	R 5.2	R 5.5	R 5.9
FSP	R 2 385.2	R 301.7	R 320.2	R 341.1	R 358.6	R 384.2	R 409.7	R 437.0	R 466.3	R 497.8	R 531.7
<b>Total</b>	<b>R 2 412.4</b>	<b>R 305.3</b>	<b>R 323.9</b>	<b>R 345.1</b>	<b>R 362.7</b>	<b>R 388.6</b>	<b>R 414.3</b>	<b>R 441.9</b>	<b>R 471.6</b>	<b>R 503.4</b>	<b>R 537.6</b>

Figure 16: Distribution of costs of current CPD requirements



- The results of the analysis show that current CPD requirements cost the financial industry R338.6 million in 2016
- Over the 10-year period of analysis, it could cost the financial industry R 2 412.4 million to track the CPD activities of the advisors
- Most of these costs are borne by FSP’s accounting for R2 385.2 million over a 10 year period
- The most significant costs for current CPD in 2016 are the costs to providing CPD activities, which accounting for 98.9% of the total cost.

#### 5.2.2.2 Proposed CPD requirements results

Table 43 shows the costs incurred for proposed CPD requirements in 2016; Table 44 shows the expected costs over the 10-year period of analysis, while Figure 17 shows the distribution of the proposed CPD costs among the stakeholders.

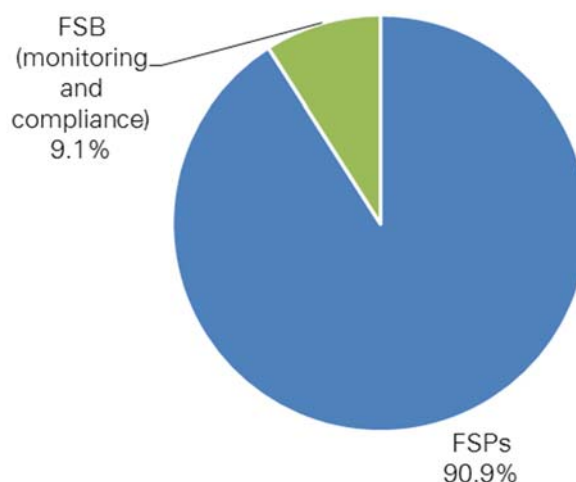
Table 43: Summarised proposed CPD requirements results, Rand millions, 2016 prices

Cost item	FSP	FSB	Total
Regulatory costs		R 4.4	<b>R 4.4</b>
Cost to accrediting CPD programmes	R 2.6		<b>R 2.6</b>
Incremental costs to tracking CPD activities	R 41.4		<b>R 41.4</b>
<b>Total</b>	<b>R 44.0</b>	<b>R 4.4</b>	<b>R 48.4</b>

Table 44: Detailed results for proposed CPD requirements, Rand millions, nominal prices

Role player	Present value	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FSPs	R 273.3	R 34.8	R 36.9	R 39.3	R 41.2	R 44.0	R 46.9	R 49.9	R 53.1	R 56.6	R 60.3
FSB	R 27.2	R 3.5	R 3.7	R 4.0	R 4.1	R 4.4	R 4.7	R 4.9	R 5.2	R 5.5	R 5.9
<b>Total</b>	<b>R 300.6</b>	<b>R 38.3</b>	<b>R 40.6</b>	<b>R 43.2</b>	<b>R 45.3</b>	<b>R 48.4</b>	<b>R 51.5</b>	<b>R 54.8</b>	<b>R 58.4</b>	<b>R 62.1</b>	<b>R 66.2</b>

Figure 17: Distribution of costs of proposed CPD requirements



Based on the results above, we observed the following key points:

- The results show that proposed CPD requirements could cost the financial industry R44 million in 2016.
- Over the 10-year period of analysis, it could cost the financial industry R300.6 million to track CPD activities. The bulk of the proposed CPD requirements costs could be borne by FSPs who account for R273.3 million.
- The most significant costs for proposed CPD are the incremental costs to tracking CPD activities, accounting for 85.5% of the costs.

## 5.2.3 Cost effectiveness results

### 5.2.3.1 Product knowledge requirements

The cost effectiveness ultimately compares the costs of various scenarios in the form of ratios. For the product knowledge requirements, we compare two scenarios: level examinations and combined costs of class of business training and product specific training.

To evaluate the cost effectiveness of each product knowledge requirements scenario, we calculated the ratios using the overall cost to of each scenario to the industry and the number of advisors in the financial industry (total cost divided by the number of advisors).

The overall present value of second level RE is R 5.9 billion, and we divided by number of candidates who are required to write second level RE examinations, totalling 74 989. For class of business training and product specific training, we combined the costs of the two scenarios, which amounted to R4.7 billion. We divided this cost by the number of representatives required to do class of business and product specific training of 138 045.

Table 45: Product knowledge requirements results

Product knowledge scenarios	Ratio
Second level RE	0.33
Product training: class of business and product specific training	0.03

The ratios above show that the industry incurs more costs to train financial advisors with secondary level RE. The ratio of 0.33 implies that the industry as a whole could incur about R330 000 for the training of one financial advisor.

The product knowledge requirement present a ratio of 0.03, which means the industry incur about R 30 000 to train one advisor. This ratio of 0.03 is significantly less than the second level RE costs. Therefore, from a costing perspective, it is much more cost effective to implement the class of business training and product specific training options, as they are cheaper than the second level RE.

### 5.2.3.2 CPD requirements

In the same manner, we compared the two CPD requirements options. The overall present value cost of the current CPD programme is about R 2 412.4 million, while that of the proposed CPD is about R300.6 million. We used the number of financial advisors of 138 045. Dividing the costs by the number of financial advisors, we get the following ratios:

Table 46: CPD requirements results

CPD scenarios	Ratio
Current CPD	0.032
Proposed CPD	0.004

These results imply that it would be cost effective for the financial industry to implement the proposed CPD requirements.

## 6 Conclusion and recommendations

In this section, we present the findings of our analysis of the FSB’s proposed amendments to Class of business and product specific training as well as the accreditation and tracking of CPD activities. To this end, the analysis comprised CEA, stakeholder consultation and desktop research. Our conclusions follow on from the specific aims of the study. In addition, we present recommendations on the implementation of the proposed amendments.

### 6.1 Conclusion

As mentioned, the conclusions in this section follow on from the objectives of the study as mentioned in Section 1.2. They remain a summarised version of the detailed analysis in the report.

#### 1. *Is the introduction of class of business and product specific training a better alternative to second level RE? What is the impact of the new CPD requirements?*

The cost effectiveness ultimately compares the costs of various scenarios in the form of ratios. For the **product knowledge requirements**, we compare two scenarios: second level REs and the combined costs of class of business training and product specific training i.e. product training.

To evaluate the cost effectiveness of each product knowledge scenario, we calculated the ratios using the overall cost to of each scenario to the industry and the number of advisors in the financial industry (total cost divided by the number of advisors).

The overall present value of second level RE is R 5.9 billion, and we divided by number of candidates who are required to write second level RE examinations, totalling 74 989. For class of business training and product specific training, we combined the costs of the two scenarios, which amounted to R4.7 billion and divided this cost by the number of representatives required to do class of business and product specific training of 138 045.

Table 47: Product knowledge requirements results

Product knowledge scenarios	Ratio
Second level RE	0.33
Product training: class of business and product specific training	0.03

The ratios above show that the industry incurs more costs to train financial advisors with second level RE. The ratio of 0.33 implies that the industry as a whole could incur about R330 000 for the training of one financial advisor.

The **product knowledge** scenarios present a ratio of 0.03, which means the industry incur about R33 000 to train 1 advisor. This ratio of 0.03 is significantly lower than the second level REs costs. Therefore, from a costing perspective, it is much more cost effective to implement the class of business training and product specific training options, as they are cheaper than the second level REs.

In the same manner, we compared the two CPD requirements options. The overall present value cost of the current CPD programme is about R 2 412.4 million, while that of the proposed CPD is about R300.6 million. We used the number of financial advisors of 138 045. Dividing the costs by the number of financial advisors, we get the following ratios:

Table 48: CPD requirements results

CPD scenarios	Ratio
---------------	-------

Current CPD	0.032
Proposed CPD	0.004

These results imply that it would be cost effective for the financial industry to implement the proposed CPD requirements.

Some costs are difficult to quantify, subject to data constraints or do not display a strong enough correlation to the change in regulation. These are noted below.

	Product knowledge requirements	CPD requirements
Costs	<ul style="list-style-type: none"> <li>— Technical expertise for content development</li> <li>— Time spent by different industry role-players to understand the new requirements</li> </ul>	<ul style="list-style-type: none"> <li>— Time spent by different industry role-players to understand the new requirements</li> <li>— Appropriate people, processes and systems for SAQA recognition process</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>— Improved levels of consumer protection</li> <li>— A reduction in the number of substandard training provided</li> <li>— Higher level of industry professionalism</li> </ul>	<ul style="list-style-type: none"> <li>— Improved levels of consumer protection</li> <li>— Higher level of industry professionalism</li> </ul>

## 2. Are the proposed class of business and product specific training different to what is currently underway in the industry? What is the nature and cost of any identified gaps?

Given that an accredited provider or an education institution must provide class of business training, the availability of providers is key to consider. Stakeholders feel that it is important to allow enough time for prospective class of business training providers to amend their training in accordance with the set standards.

Although a more complete assessment on the capacity of training providers needs to occur, we have completed a high-level initial overview, which shows that there are courses available that could potentially be adapted to fit across all the classes of business. Product training seems to be conducted by FSPs, which they offer to both internal employees as well as external employees. Professional bodies do not offer product specific training but may provide a platform for FSPs to offer this training to a wider audience.

When asking stakeholders about the specific requirements of class of business training as per the *Draft revised fit and proper requirements (2016)* guidelines, none of the respondents currently included in their training 'the impact of applicable economic and environmental factors such as inflation, exchange rates etc.'. Some, but not all stakeholders, addressed:

- 'investment and risk principles, options and strategies in respect of products in the class of business'
- 'the typical role players or market participants in respect of products in the class of business, including their legal structure'
- 'the impact of applicable legislation, including taxation laws, on products in the class of business'.

Stakeholders seem to have, as part of their current class of business training, all the remaining elements contained in the guidelines. Please note that this discussion related to the specific requirements of class of business training as per the *Draft revised fit and proper requirements (2016)* guidelines refers only to those product suppliers who do currently offer class of business training, as some do not.

Given the varied understanding of class of business training requirements, some product suppliers estimated that the process would cost about R 2 500 to R 5 500 for development costs per class of business. Another stakeholder mentioned that combining class of business and product specific training would cost between R 25 000 and R 35 000 per person.

Most product suppliers seem to provide product specific training, but mentioned necessary adjustments to comply with the specific guidelines provided in the legislation. One stakeholder estimated that once-off product specific training for its employees cost about R30 000 for both personal and commercial lines. A second stakeholder estimated that external advisors were able to attend such training at a cost of R 340 per person per day.

When asking stakeholders about the detailed requirements of product specific training as per the *Draft revised fit and proper requirements (2016)* recommendations, none of the respondents currently included in their training:

- ‘the potential impact of abnormal or extreme market, economic or other relevant conditions on the performance of the product’
- ‘any investment options or strategies within the product’
- ‘the level of liquidity of the product or its underlying components’.

Some, but not all stakeholders, currently address the following as part of their product specific training:

- ‘the impact of tax on the benefits or real return of the product’
- ‘how the financial product and any underlying components of the product are structured and priced’
- ‘the fee structure, charges and other costs associated with the product and their impact on the real return or benefits of the product’
- ‘the nature and features of any guarantees and the costs associated with them’
- ‘the identity of the product supplier and the providers of any underlying components of the product, including their good standing and regulatory status’

Stakeholders seem to have, as part of their current product specific training, all the remaining elements contained in the guidelines.

In terms of tracking of product activities, most FSPs seem to have very rudimentary systems in place, which often take the form of a simple Excel spreadsheet. According to those stakeholders who are aware of complying with current legislation, the effort to update and maintain this data seems to be disproportionate. One FSP mentioned that one experienced resource spends about 90% of their time on tracking training of 3000 representatives. This disproportionate amount of time has led many FSPs to consider collaborating with professional bodies in future to ensure compliance with the proposed legislation. In addition, stakeholders mentioned that systems that are more sophisticated would be required to collect and search through data.

**3. Where do potential conflicts of interest lie? What is the extent of these conflicts and are there any potential alternatives to managing them?**

Potential conflict	Extent of conflict	Potential alternative / mitigation
The development of the second level REs	The very same product specialists that will be required to assist with question development, are	— One possibility is for the FSB to hire a full time product specialists

<b>questions by industry product specialists</b>	also subject to the legislation and required to write the examination. This results in a 'marking one's own homework' type of conflict of interest, which may undermine the credibility of the exam process.	— Another possibility is further research into the SAICA processes for candidates writing their Assessment of Professional Competence (APC) examinations.
<b>Perceived conflict of interest in professional bodies accrediting CPD activities and providing their own CDP activities</b>	From stakeholder interviews, this is more perception based than proven concerns. The concern centers on the fact that such a professional body will have the power to eliminate competition in the training provision industry to forward its own internal training provider.	<ul style="list-style-type: none"> <li>— The FPI has dedicated efforts to fostering a strong culture of separation internally. The FPI has restructured their organisation such that the certification department and membership centre are separate ring-fenced entities. The two departments does not share physical space and additional securities are set in place, such as that they program access cards so that employees of different departments do not have access to one another.</li> <li>— In addition, the FPI are in the process of gaining ISO17 accreditation, which contains strict impartiality standards that will need to be adhered to.</li> </ul>
<b>Potential conflict of interest relating to proposed CPD requirements being a minimum standard</b>	This creates a reliance on FSPs, KI's and representatives to self-regulate for higher standards of CPD. It is also in the interests of these affected persons or organisations to minimise costs, including those paid towards accredited CPD activities.	— It may be necessary for the FSB to work with professional bodies to set the standards of accreditation of CPD activities.

## 6.2 Recommendations

In this subsection, we present recommendations that are based on the above analysis and conclusions.

### 6.2.1 Information and 'sandbox' sessions hosted by the FSB

Information and 'sandbox' sessions would differ based on the contributors of each. Information workshops would require the FSB to provide information in one-way sessions. In contrast, 'sandbox' sessions would rely on the contribution of industry players as part of a testing ground for their ideas of compliance. Information workshops allow the FSB strongly position itself as the owner of the regulation that is setting well-defined boundaries of the regulation. 'Sandbox' sessions provide a platform to build common industry interest, a vital element of success for outcomes-based regulation. It is also an opportunity for the FSB to manage the perception, valid or not, that the proposed regulation is shifting of costs and responsibilities from the FSB to industry players. While the FSB may subcontract the content and facilitation of the sessions, it is integral that the industry view the FSB as delivering and owning the process.

### 6.2.2 Collaboration in further developing understanding of class of business training

Stakeholder responses indicated opposing views and interpretations of class of business training. There is potential to work with INSETA, who will be developing class of business training in coming

years. The role of the FSB in the collaboration may be to provide the basic standards of class of business training that is expected. By setting class of business training at a specific NQF level, implementation may be clearer for industry players. In addition, the QCTO has previously worked with the Department of Transport, to develop the basic competencies and assessment criteria for traffic officers. While collaboration with both entities is an option, the FSB may need to be select on partner due to resource constraints and a perception of 'over involvement'. This approach also reinforces the collaborative element of outcomes-based regulation.

### **6.2.3 Collaboration with SAQA regarding standards for professional bodies**

One of the risks identified in the analysis is the dependence on the structural and cultural capacity of professional bodies. Although the FSB does not regulate professional bodies, there is potential for the FSB to collaborate with SAQA around the requirements from professional bodies' in the sector and subsectors to ensure certain behaviour. In particular, there may be requirements, which the FSB can develop with SAQA that ensure that industry-wide interests are placed above those of the professional body's members. Specifically to mitigate the conflict of interests regarding professional bodies both accrediting and offering CPD training, the FSB and SAQA may consider making elements of ISO17 accreditation relating to impartiality compulsory for all the sector and subsector professional bodies. As with the previous recommendation, this approach reinforces the collaborative element that is key for the success of outcomes-based regulation.

### **6.2.4 Developing monitoring and evaluation plan**

Many of the effects and risks described in the analysis are theoretical, and remain to be seen. As the regulator, the FSB should develop a monitoring and evaluation framework for tracking these and where, necessary, using it to adjust regulation going forward. The start of such a framework is a set of indicators to monitor potential effects such as levels of competition, maintenance of standards, evolution of costs and maintenance of conflicts of interest mitigation measures. At present, the FSB possesses an advanced database of statistics, which can be used as a baseline for an annual process evaluation. For this recommendation, the FSB may need to outsource a formal annual process evaluation to conduct the monitoring and evaluation.

### **6.2.5 Formal assessment of current availability of class of business type training programmes**

A more complete assessment on the capacity of training providers is required, with the aim of ensuring that industry has the necessary capacity to deal with the number of FSPs, KIs and representatives that must complete the training. Furthermore, the assessment should ensure that the available class of business training covers all seven classes of business. Our high-level, initial overview shows that there are courses available that can be adapted to fit across all the classes of business, but this is subject to an assessment of applicability and relevance.

In conclusion, there are several effects and risks for the FSB to consider in implementing the proposed changes to the product knowledge requirements and CPD requirements. The context is multifaceted, with the purpose of this impact analysis being to highlight these various aspects. The analysis shows that no choice is the clear, preferred option, with each containing risks and mitigation strategies. As the analysis reflects, regulation of competence in the industry is critical to protection of industry members and consumers but also requires investment of resources from all stakeholders. Going forward we hope that the FSB use this report as a decision aid in weighing up these counteracting factors, to shape regulation relating to this key component of the industry.

# Appendix 1

## Stakeholder interview list

<b>FSB interviews</b>
Stefanie Liebenberg
Lorraine van Deventer
Carolina da Silva
<b>Bank interviews</b>
ABSA
Nedbank
<b>Product supplier interviews</b>
Momentum
Santam
Hollard
Telesure
<b>Accreditation provider interviews</b>
INSETA
SAQA
QCTO
<b>Professional body interviews</b>
FPI
IISA
<b>CPD provider interviews</b>
Moonstone
Masthead
<b>Independent advisors</b>
Nine independent advisors

# Appendix 2

## Interview guides

### Core questions:

1. What are your feelings regarding the *Draft revised fit and proper requirements (2016)* gazetted in 2016?
2. Are there any particular aspects relating to product knowledge requirements and CPD requirements that you have considered in detail?
3. First level RE:
  - What lessons have you learnt through this process, which should be considered for future implementation?
  - What costs were associated with training for participants for the exams?
  - What costs are associated with distribution, venue hire, invigilation etc.?
4. Product training (class of business and product specific training):
  - What is your organisations' strategy regarding compliance with this proposed legislation? (this includes financial, capacity and administrative considerations)
  - What is currently happening in the market that is not yet legislated regarding this training?
  - What costs do you think will be associated with this requirement?
5. New CPD requirements of tracking by professional body
  - Does your organisation currently track CPD activities in any form?
  - What costs are currently associated for your organisation in this regard?

# Appendix 3

## Potential Class of Business training

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
<b>Short-term insurance</b>				
Personal lines: Accident and health policy	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP) 3. Alcarl Learning Centre (Pty) Ltd 4. BHUKULANI UMUSA TRADING AND PROJECTS 5. BRC SOLUTION CC 6. Damelin (Pty) Ltd 7. EJW Financial Services (PTY) Ltd 8. Executive People Development Solutions(PTY) Ltd 9. Faisit (Pty) Ltd 10. Indwe Risk Services (Pty) Ltd 11. Insurance Institute Of South Afica 12. Intec College 13. InvestmentWise 14. Isambulela Group Administrator Pty Ltd 15. Leon Liedeman and Associates 16. License to Skill 17. Masifunde Training Centre 18. NGT Training and Development Consultants 19. Old Mutual Life Assurance Company South Africa 20. Outsurance Insurance Company Ltd	Demonstrate knowledge and understanding of personal accident insurance :The qualifying learner is capable of: <ul style="list-style-type: none"> <li>— Explaining personal accident insurance. Differentiating between the categories of personal accident insurance.</li> <li>— Applying underwriting criteria to a personal accident insurance policy.</li> <li>— Demonstrating insight into other aspects that impact on personal accident insurance</li> </ul>
Personal lines: Liability policy	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP) 3. Alcarl Learning Centre (Pty) Ltd 4. BHUKULANI UMUSA TRADING AND PROJECTS 5. BRC SOLUTION CC 6. Damelin (Pty) Ltd 7. EJW Financial Services (PTY) Ltd 8. Executive People Development Solutions(PTY) Ltd	Apply knowledge of personal liability insurance: The qualifying learner is capable of: <ul style="list-style-type: none"> <li>— Explaining liability as a personal responsibility.</li> <li>— Explaining why people need personal liability insurance.</li> <li>— Investigating the personal liability cover in different policies.</li> </ul>

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
			9. Faisit (Pty) Ltd 10. Indwe Risk Services (Pty) Ltd 11. Insurance Institute Of South Africa 12. Intec College 13. InvestmentWise 14. Isambulela Group Administrator Pty Ltd 15. Leon Liedeman and Associates 16. License to Skill 17. Masifunde Training Centre 18. NGT Training and Development Consultants 19. Old Mutual Life Assurance Company South Africa 20. Outsurance Insurance Company Ltd 21. Ripple Effect 4 (Pty) Ltd 22. RJM Educational Consulting PTY LTD 23. RSC The Knowledge Network (Pty) Ltd 24. Sanlam Life Insurance Ltd. 25. Santam Limited	— Analysing the cover in a personal liability policy.
Personal lines: Miscellaneous policy	Yes	Level 6	UNISA	IISA Programme in Advanced Insurance Practice: Principles of Short Term Insurance (Elective) (PAIP02H)
Personal lines: Motor policy	Yes	Level 6	UNISA	IISA Programme in Advanced Insurance Practice: Motor Insurance (Elective) (PAIP06M)
Personal lines: Property policy	Yes	Level 6	UNISA	Programme in Short Term Insurance Associateship: Property insurances (PASTIPI)
Personal lines: Transportation policy	Yes	Level 4	1. Alcari Learning Centre (Pty) Ltd 2. BPL Academy 3. BRC SOLUTION CC 4. Centre for Logistics Excellence (Pty) Ltd 5. Damelin (Pty) Ltd 6. EJW Financial Services (PTY) Ltd 7. Executive People Development Solutions(PTY) Ltd 8. Faisit (Pty) Ltd 9. Global Maritime Legal Solutions (Pty) Ltd 10. Innovative Shared Services 11. Institute for Quality cc 12. Intec College 13. Interocean School of Shipping 14. Isambulela Group Administrator Pty Ltd 15. Leon Liedeman and Associates 16. License to Skill	Demonstrate knowledge and understanding of transportation insurance

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
			17. Masifunde Training Centre 18. METRO MINDS 19. NGT Training and Development Consultants 20. Outsurance Insurance Company Ltd 21. P and R Development and Training (Pty) Ltd 22. Ripple Effect 4 (Pty) Ltd 23. RJM Educational Consulting PTY LTD 24. School of Shipping 25. Skills Development Specialists 26. Yonke Education and Training Solutions	
Personal lines: Short-term reinsurance policy	Yes	Level 4	1. Alcari Learning Centre (Pty) Ltd 2. BRC SOLUTION CC 3. Damelin (Pty) Ltd 4. EJW Financial Services (PTY) Ltd 5. Executive People Development Solutions(PTY) Ltd 6. Faisit (Pty) Ltd 7. Intec College 8. Isambulela Group Administrator Pty Ltd 9. Leon Liedeman and Associates 10. License to Skill 11. Masifunde Training Centre 12. NGT Training and Development Consultants 13. Outsurance Insurance Company Ltd 14. Ripple Effect 4 (Pty) Ltd 15. RJM Educational Consulting PTY LTD	Explain reinsurance as it is applied in Short Term insurance :The qualifying learner is capable of: <ul style="list-style-type: none"> <li>— Explaining the role of reinsurance.</li> <li>— Describing the reinsurance market.</li> <li>— Explaining the different types of reinsurance.</li> <li>— Assessing the need for reinsurance.</li> <li>— Explaining the risk placing process.</li> </ul>
Commercial lines; Accident and health policy	No		n/a	n/a
Commercial lines: Engineering policy	Yes	Level 5	Milpark	Higher Certificate in Short-Term Insurance
Commercial lines: Guarantee policy	No		n/a	n/a
Commercial lines: Liability policy	Yes	Level 5	UNISA	Programme in Short Term Insurance Associateship: Liability insurances (PASTILI)
Commercial lines: Miscellaneous policy	Yes	Level 6	UNISA	IISA Programme in Advanced Insurance Practice: Principles of Short Term Insurance (Elective) (PAIP02H)
Commercial lines: Motor policy	Yes	Level 4	1. Alcari Learning Centre (Pty) Ltd 2. BRC SOLUTION CC 3. Damelin (Pty) Ltd	Apply technical knowledge and understanding of business motor insurance: The qualifying learner is capable of:

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
			4. EJW Financial Services (PTY) Ltd 5. Executive People Development Solutions(PTY) Ltd 6. Faisit (Pty) Ltd 7. Insurance Institute Of South Africa 8. Intec College 9. Isambulela Group Administrator Pty Ltd 10. Leon Liedeman and Associates 11. License to Skill 12. Masifunde Training Centre 13. NGT Training and Development Consultants 14. Outsurance Insurance Company Ltd 15. Ripple Effect 4 (Pty) Ltd 16. RJM Educational Consulting PTY LTD 17. Santam Limited	<ul style="list-style-type: none"> <li>— Differentiating between personal and commercial vehicle use.</li> <li>— Investigating the classes/types of vehicle that are insured under a business motor policy.</li> <li>— Applying different bases of quoting to a business motor policy.</li> <li>— Analysing the cover under a business motor policy</li> </ul>
Commercial lines: Property policy	Yes	Level 6	UNISA	Programme in Short Term Insurance Associateship: Applied insurance (PASTIAI)
Commercial lines: Transportation policy	Yes	Level 4	1. Alcari Learning Centre (Pty) Ltd 2. BPL Academy 3. BRC SOLUTION CC 4. Centre for Logistics Excellence (Pty) Ltd 5. Damelin (Pty) Ltd 6. EJW Financial Services (PTY) Ltd 7. Executive People Development Solutions(PTY) Ltd 8. Faisit (Pty) Ltd 9. Global Maritime Legal Solutions (Pty) Ltd 10. Innovative Shared Services 11. Institute for Quality cc 12. Intec College 13. Interocean School of Shipping 14. Isambulela Group Administrator Pty Ltd 15. Leon Liedeman and Associates 16. License to Skill 17. Masifunde Training Centre 18. METRO MINDS 19. NGT Training and Development Consultants 20. Outsurance Insurance Company Ltd 21. P and R Development and Training (Pty) Ltd 22. Ripple Effect 4 (Pty) Ltd 23. RJM Educational Consulting PTY LTD	Apply knowledge of insurance to the transportation of a consignment of goods. The qualifying learner is capable of: <ul style="list-style-type: none"> <li>— Explaining transportation insurance.</li> <li>— Identifying the different products that a transportation insurance company offers</li> <li>— Analysing the role of transportation insurance in international trade.</li> <li>— Identifying events in the news that could impact on goods that are in transit.</li> </ul>

Sub-classes of Business	Availability of Course	Lowest NOF Level	Institution Available	Course Description/Notes
			24. School of Shipping 25. Skills Development Specialists 26. Yonke Education and Training Solutions	
Commercial lines: Short-term insurance policy	Yes	Level 4	1. Alcari Learning Centre (Pty) Ltd 2. BRC SOLUTION CC 3. Damelin (Pty) Ltd 4. EJW Financial Services (PTY) Ltd 5. Executive People Development Solutions(PTY) Ltd 6. Faisit (Pty) Ltd 7. Intec College 8. Isambulela Group Administrator Pty Ltd 9. Leon Liedeman and Associates 10. License to Skill 11. Masifunde Training Centre 12. NGT Training and Development Consultants 13. Outsurance Insurance Company Ltd 14. Ripple Effect 4 (Pty) Ltd 15. RJM Educational Consulting PTY LTD	Explain reinsurance as it is applied in Short Term insurance. The qualifying learner is capable of: <ul style="list-style-type: none"> <li>— Explaining the role of reinsurance.</li> <li>— Describing the reinsurance market.</li> <li>— Explaining the different types of reinsurance.</li> <li>— Assessing the need for reinsurance.</li> <li>— Explaining the risk placing process.</li> </ul>
<b>Long-term insurance</b>				
Assistance policy	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. CENTRAL BUSINESS ACADEMY (PTY) LTD 3. COLLEGE OF CAPE TOWN 4. College of Cape Town - Central Office 5. Damelin (Pty) Ltd 6. Faisit (Pty) Ltd 7. Felix Risk Training Consultants 8. I-FUNDI 9. Intec College 10. Integrity Academy (Pty) Ltd 11. Isambulela Group Administrator Pty Ltd 12. Masifunde Training Centre 13. Mission Point Trading 69 14. MMI Group LTD	Further Education and Training Certificate: Long-term Insurance (SAQA). INSETA approved. University off Wits also offers an insurance and risk management course which focuses on <i>"key areas in which risk is manifest, namely the risk of loss or damage to property; injury, loss or death to people; illness; and living too long"</i>
Life risk policy	Yes			
Life investment, policy	Yes			
Fund policy	Yes			

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
Sinking fund policy	Yes		15. Moonstone Business School of Excellence (PTY) Ltd (previously known as PSG Konsult Academy) 16. University of Witwatersrand 17. North Link College 18. RJM Educational Consulting PTY LTD 19. Sanlam Life Insurance Ltd.	
Long-term reinsurance policy	Yes			
<b>Retirement</b>				
Rental Pension Benefits	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP) 3. BHUKULANI UMUSA TRADING AND PROJECTS 4. Boland Public FET College - Worcester Campus 5. CENTRAL BUSINESS ACADEMY (PTY) LTD 6. Damelin (Pty) Ltd 7. Faisit (Pty) Ltd 8. Intec College 9. Integrity Academy (Pty) Ltd 10. InvestmentWise 11. Leon Liedeman and Associates 12. Masifunde Training Centre 13. Moonstone Business School of Excellence (PTY) Ltd (previously known as PSG Konsult Academy) 14. Old Mutual Life Assurance Company South Africa 15. RJM Educational Consulting PTY LTD 16. RSC The Knowledge Network (Pty) Ltd 17. Sanlam Life Insurance Ltd. 18. Cape Peninsula of Technology	Further Education and Training Certificate: Wealth Management (SAQA). Cape Peninsula of Technology offers a course in Retirement funds and retirement options
Pension Fund Benefits				
<b>Deposit</b>				
Long-term deposits	Yes	Level 4	1. Absa Learning & Development 2. Cornerstone Performance Solutions (Pty) Ltd 3. Felix Risk Training Consultants 4. OnTrack Learning Solutions CC 5. Standard Bank Personal and Business Banking 6. The Facilitation Workshop 7. The Institute of Bankers in South Africa	Process Banking Transactions (SAQA); National Certificate: Banking Services Advice (SAQA NQF 5)
Short-term deposits				
Structured deposits				
<b>Securities and Investments</b>				

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
Shares	Yes	Level 4	<ol style="list-style-type: none"> <li>1. African Resources &amp; Financial Training (Pty) Ltd</li> <li>2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP)</li> <li>3. BHUKULANI UMUSA TRADING AND PROJECTS</li> <li>4. Damelin (Pty) Ltd</li> <li>5. Faisit (Pty) Ltd</li> <li>6. Intec College</li> <li>7. InvestmentWise</li> <li>8. Leon Liedeman and Associates</li> <li>9. Masifunde Training Centre</li> <li>10. Old Mutual Life Assurance Company South Africa</li> <li>11. RJM Educational Consulting PTY LTD</li> <li>12. RSC The Knowledge Network (Pty) Ltd</li> <li>13. Sanlam Life Insurance Ltd.</li> <li>14. Insurance Institute Of South Africa</li> <li>15. MMI Group LTD</li> </ol>	Describe different types of equity based investments (SAQA); Explain Equity Markets and equity market instruments (SAQA)
Money market instruments	Yes	Level 4	<ol style="list-style-type: none"> <li>1. African Resources &amp; Financial Training (Pty) Ltd</li> <li>2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP)</li> <li>3. BHUKULANI UMUSA TRADING AND PROJECTS</li> <li>4. Damelin (Pty) Ltd</li> <li>5. Faisit (Pty) Ltd</li> <li>6. Intec College</li> <li>7. InvestmentWise</li> <li>8. Leon Liedeman and Associates</li> <li>9. Masifunde Training Centre</li> <li>10. Old Mutual Life Assurance Company South Africa</li> <li>11. RJM Educational Consulting PTY LTD</li> <li>12. RSC The Knowledge Network (Pty) Ltd</li> <li>13. Sanlam Life Insurance Ltd.</li> <li>14. UNISA</li> </ol>	Explain money markets and money market instruments (SAQA). UNISA also offers an Advanced Programme in International and Central banking (HEQF Level of Module - 7)
Debentures and securitised debt	Yes	Level 4	<ol style="list-style-type: none"> <li>1. African Resources &amp; Financial Training (Pty) Ltd</li> <li>2. ALCARI 233 CC T/A ALCARI (Eversdal) (TP)</li> <li>3. BHUKULANI UMUSA TRADING AND PROJECTS</li> <li>4. Damelin (Pty) Ltd</li> <li>5. Faisit (Pty) Ltd</li> <li>6. Intec College</li> <li>7. InvestmentWise</li> <li>8. Leon Liedeman and Associates</li> <li>9. Masifunde Training Centre</li> <li>10. Old Mutual Life Assurance Company South Africa</li> </ol>	Investigate the range of options available for wealth management (SAQA); Demonstrate an understanding of the Principles of Project and Structured Finance (SAQA); Select and apply financing instruments in the valuation of a business entity and financial assets (SAQA level 6 not currently offered)

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
			11. RJM Educational Consulting PTY LTD 12. RSC The Knowledge Network (Pty) Ltd 13. Sanlam Life Insurance Ltd. 14. UNISA	
Bonds	Yes	Level 4	1. Absa Learning & Development 2. Cornerstone Performance Solutions (Pty) Ltd 3. Exam ready Financial Markets Consulting & Training 4. Felix Risk Training Consultants 5. Geometric Progression 6. Standard Bank Personal and Business Banking 7. The Academy of Financial Markets 8. The Facilitation Workshop 9. The Institute of Bankers in South Africa	SAQA course defined called: Further Education and Training Certificate: Real Estate (SAQA currently not offered); Perform bond market calculations (SAQA). UNISA also offers a programme in Investment Analysis and Portfolio Management (HEQF Level of Module - 6)
Derivative instruments, warrants, certificates or other instruments	Yes	Level 5	1. Absa Learning & Development 2. Cornerstone Performance Solutions (Pty) Ltd 3. Exam ready Financial Markets Consulting & Training 4. Felix Risk Training Consultants 5. OnTrack Learning Solutions CC 6. Standard Bank Personal and Business Banking 7. The Academy of Financial Markets 8. The Facilitation Workshop 9. The Institute of Bankers in south Africa 10. UNISA	Demonstrate an understanding of the core concepts of the money market(SAQA); UNISA also offers a programme in Investment Analysis and Portfolio Management (HEQF Level of Module - 6)
Securities and instruments	Yes	Level 5	1. African Bank Ltd 2. Cornerstone Performance Solutions (Pty) Ltd 3. Culhane Consulting 4. Felix Risk Training Consultants 5. The Academy of Financial Markets 6. The Facilitation Workshop 7. Milpark School of Financial Planning & Insurance 8. UNISA	Demonstrate an understanding of the Principles of Project and Structured Finance (SAQA); Occupational Certificate: Financial Markets Practitioner (SAQA NQF level 7 not currently offered); Milpark - Higher Certificate in Financial Planning (SAQA ID 62810, NQF LEVEL 5); National Certificate: Financial Markets and Instruments (SAQA NQF level 6). UNISA also offers a programme in Investment Analysis and Portfolio Management (HEQF Level of Module - 6)  UNISA also offers a programme in Investment Analysis and Portfolio Management (HEQF Level of Module - 6)
Participatory interests in one or more collective Investment Scheme	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. Faisit (Pty) Ltd 3. InvestmentWise 4. Masifunde Training Centre	National Certificate: Collective Investment Schemes (SAQA)

Sub-classes of Business	Availability of Course	Lowest NOF Level	Institution Available	Course Description/Notes
			5. MMI Group LTD	
Participatory interest in a hedge fund	Yes	Level 6	1. AFRICAN UNION SKILLS DEVELOPMENT (PTY)LTD 2. ALCARI 233 CC T/A ALCARI (Eversdal)(TP) 3. BHUKULANI UMUSA TRADING AND PROJECTS 4. Boland Public FET College - Worcester Campus 5. COLLEGE OF CAPE TOWN 6. College of Cape Town - Central Office 7. Damelin (Pty) Ltd 8. False Bay College 9. False Bay Public FET College - Westlake Campus 10. Intec College 11. Isambulela Group Administrator Pty Ltd 12. Leon Liedeman and Associates 13. Masifunde Training Centre 14. MMI Group LTD 15. North Link College 16. Old Mutual Life Assurance Company South Africa 17. Ripple Effect 4 (Pty) Ltd 18. RJM Educational Consulting PTY LTD 19. RSC The Knowledge Network (Pty) Ltd 20. Sanlam Life Insurance Ltd. 21. South Cape College 22. The Institute of Health Risk Managers 23. Universal Healthcare Services (PTY) Ltd	Apply knowledge of investment to hedge funds (SAQA)
<b>Forex Investments</b>				
No sub-class	Yes	Level 4	UNISA	Course in Share and Forex Trading: Introduction to investments (CFOREX1); Principles and Practices of Share Trading
<b>Health Service Benefits</b>				
No sub-class	Yes	Level 4	1. African Resources & Financial Training (Pty) Ltd 2. CENTRAL BUSINESS ACADEMY (PTY) LTD 3. COLLEGE OF CAPE TOWN 4. College of Cape Town - Central Office 5. Damelin (Pty) Ltd 6. Faisit (Pty) Ltd 7. Felix Risk Training Consultants 8. I-FUNDI 9. Intec College	Further Education and Training Certificate: Long-term Insurance (SAQA). INSETA approved.

Sub-classes of Business	Availability of Course	Lowest NQF Level	Institution Available	Course Description/Notes
			10. Integrity Academy (Pty) Ltd 11. Isambulela Group Administrator Pty Ltd 12. Masifunde Training Centre 13. Mission Point Trading 69 14. MMI Group LTD 15. Moonstone Business School of Excellence (PTY) Ltd (previously known as PSG Konsult Academy) 16. North Link College 17. RJM Educational Consulting PTY LTD 18. Sanlam Life Insurance Ltd.	

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