

The changing nature of financial advice

Trends impacting how financial services providers could be regulated

By: Caroline da Silva, Divisional Executive of Regulatory Policy at the Financial Sector Conduct Authority (FSCA)

South Africa's financial services sector is fast-paced and enjoys rapid change when necessary. This pace was further accelerated for both financial services providers and those regulating them during COVID-19 as the pandemic emphasised the importance of having the ability to not only adapt and respond but to also study the emerging trends driving the need for agility.

"The operational resilience of the financial sector was put to the test through COVID-19 and the sector responded impressively," says Caroline da Silva, Divisional Executive of Regulatory Policy at the Financial Sector Conduct Authority (FSCA).

"Many organisations had been considering moving to a new world of work, relying on remote capability for some time, but could not pull the trigger on implementation. COVID-19 and the subsequent lockdown created an urgency for this implementation and the move to remote working was implemented even better than anticipated."

While companies within the financial sector were mostly able to adapt and adopt remote working, this was not always true for their customers. Remote working highlighted the risk of technology creating further exclusion for customers, which resulted in institutions applying for protocols to be introduced to enable face-to-face visits to customers who were not remote-enabled and therefore at risk of not being able to access financial services, products and advice.

"Overall, while we saw some increases in the adoption of online banking and banking apps, as well as a reduction in the use of branches, it has highlighted the need to enable and support customers to mitigate the risk of exclusion," says da Silva.

What has also been highlighted is what humans value. This new world of chaos and uncertainty makes everyone feel vulnerable and more in need of professional advice. Demand for advice and assistance in navigating this complex world has increased, but it is not just about access to advice – the nature of advice will change.

The changing nature of financial advice: making the complex simple and honest

For a long time, the industry has talked about simpler language, simpler products, and meaningful disclosure. The pandemic has sped-up the need for this change and proven that this issue needs to be taken more seriously to drive this much-needed change.

Many of the sector's customers faced significant financial hardship brought on by the lockdown – and although the industry responded by putting in place debt relief, premium and payment holidays to alleviate the pressure on customers, these efforts were largely overshadowed by the fact that products sold to customers, by advisors, did not always respond the way customers expected. This included business interruption, credit life, and income protection policies.

As such, advisors will no longer be expected to just advise customers on the most suitable product based on their needs, but rather to do so in such a way that customers truly understand how it will perform.

“Modern customers are savvier, organised and connected because of social media. During level five of lockdown, social media was abuzz with complaints around product response rather than compliments around the efforts that the sector’s institutions were making to support the economy,” says da Silva. “It became clear that there was a large issue around understanding and expectations that could not be delivered on. This has impacted customer confidence and will shift the nature of advice going forward.”

Increasingly, advice is going to be about helping customers, in simple language, to understand complex products. It will, however, also be about putting pressure on product providers to simplify products that are impossible to explain.

Advisors are going to have to start being honest about the bad news, making clear to customers how and when the product in question will respond. If this impacts sales, they will then have a duty to engage the product supplier about how customers are responding and why they believe certain terms are unfair.

Wordings may be changed as a consequence of Reinsurer appetite to make it clear that particular risks are not covered, such as economic losses, or that if they are deliberately covered, they will be priced appropriately. This will help manage customer expectations, but on the flip side could also lead to a protection gap with certain covers no longer being available or affordable.

Ultimately, the ability and willingness of financial services providers and regulators to respond to these trends will ensure that the industry does not overpromise and underdeliver – helping safeguard and promote fair customer treatment, driving access to financial services for all South Africans and providing them with critical financial education and literacy.

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