



RDR Update

**Presentation for:
2017 Insurance Conduct of
Business Seminar**

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November 2017



Agenda

- Progress report on RDR Phase 1
- Next steps on the following themes:
 - Adviser categorisation and forms of advice
 - Investments
 - Risk insurance (long-term & short-term)
 - Sales execution and other intermediary services
 - The low income market
 - Consumer Education
- Further work in 2018



Progress report on RDR Phase 1



Overview of Phase 1

Key:

- ✓✓ Formal consultation at advanced stage. Implementation dates and transition periods communicated.
- ✓ Informal consultation underway, or first round of formal consultation.
- ✗ Consultation not commenced or at very early stages.



Overview of Phase 1

Proposal	Instrument	Progress
V. Insurance advisers limited to own insurer's policies	Insurance Regs	✓✓
Y. Advisers may not be rep on multiple licenses	To be confirmed	✗
Z. Restricted outsourcing to advisers	Insurance Regs; Investment sector proposals	✓✓ ✓
AA. Certain functions permitted to be outsourced	Insurance Regs; Further functions	✓✓ ✓



Overview of Phase 1 cont.

Proposal	Instrument	Progress
FF. Product supplier responsibility re customer data	Insurance Regs & PPRs; Other suppliers	✓ ✓ ✗
OO. Commission prohibited on replacement risk policies	Insurance Regs & PPRs (monitoring) FAIS GC (definition) Future remuneration	✓ ✓ ✓ ✗
PP. Legacy commissions and termination charges	Insurance Regs	✓ ✓
QQ. Remuneration on RA transfers	To be confirmed	✗



Overview of Phase 1 cont.

Proposal	Instrument	Progress
RR. Equivalence of Reward	Insurance determination Insurance Regs (future)	✓ ✗
UU. Remuneration on S-T insurance - s8(5) fee replacement	PPRs	✓ ✓
VV. Short-term insurance cancellations	PPRs	✓ ✓
ZZ. Binder fee caps	Insurance Regs	✓ ✓
AAA. Remove 22% credit scheme commission cap	Insurance Regs	✓ ✓



Specific instruments used for Phase 1 proposals

- LTIA / STIA Regulations and PPRs
 - As per earlier presentation
- FAIS General Code of Conduct (and Code for short-term bank deposits)
 - Published for consultation – consultation closes end Feb 2018
 - Effective on publication in Gazette, with transition periods for some provisions
 - Transition periods range from July 2018 to January 2019



Adviser categorisation & forms of advice



Adviser categorisation

Further consultation paper to be published end 2017 / early 2018 confirming the previously communicated two-tier model and requesting input on:

- Feasibility of allowing a product supplier agent (PSA) to act as the PSA of more than one product supplier in different, non-competing lines of business, and related controls
- Standards for allowing PSA's to refer customers to another product supplier in light of removal of "gap filling"
- Whether "gap filling" should be permitted for fixed interest annuities (current thinking is this is not necessary, can also be managed through referrals)



Adviser categorisation (cont.)

Planned consultation points (continued):

- Conditions for allowing a juristic entity to operate as a PSA (branding, permissible group structures, etc.)
- Detail on measures to otherwise disallow juristic representatives from providing advice
- Conditions for being able to describe advice as “independent”
- Product supplier responsibility for different forms of advice.



“Low” (simplified) advice

- We advised last year that we are considering two options:
 - a) No regulatory change, but publish regulatory guidance to clarify that the extent of suitability analysis required is flexible depending on complexity of customer needs
 - b) Formally defining and setting standards for a simplified advice process in specific circumstances
- We have decided on option (a)
- The draft FAIS General Code changes aim to provide greater clarity on the flexibility of current suitability analysis requirements
- Supporting regulatory guidance will follow once the FAIS GC changes are finalised



RDR related FAIS GC changes

The following proposed FAIS General Code changes should also be noted:

- Advisers not to recommend a product if they cannot advise on a suitable one
- Advice to take into account needs of end customers
- Strengthened “quality over quantity” standards for financial interest to representatives
- Strengthened remuneration principles and disclosure requirements – help pave the way for advice fee standards in due course



Investments





FAIS Cat I and II licences

Informal consultation is underway with the investment industry on:

- Defining “investment management” as a specific licensed activity
- The extent to which investment managers (as defined) should be licensed / regulated differently from “model portfolio providers” and other types of discretionary mandate holders
- Clarifying the contractual and business relationships between all entities in the investment value chain to mitigate risks of conflicted advice and conflicted discretion
- Third party outsourcing / “white label” models. We no longer propose to completely prohibit white labels being held by entities providing advice, provided conflict risks can be adequately mitigated



FAIS Cat I and II licences cont.

Consultation points (continued):

- The implications of the two-tier adviser categorisation in the investments space. In particular, when should an investment adviser be classified as a PSA (i.e. is there a role for “tied” advice in the investments sector?)
- The extent to which intervention in remuneration arrangements – over and above the prohibition of product supplier commissions – is appropriate to address risks

A public discussion document on these investment related proposals will follow in early 2018.



Risk insurance



Binders and outsourcing

Building on the pending new Regulations on binders and outsourcing, next steps include;

- Sharing the findings of our short-term insurance intermediary activity analysis by year end and testing application in the long-term insurance sector
- Consultation on standards for premium collection as an outsourced activity



Remuneration for risk insurance

Technical work on future commission models will continue, informed by –

- Intermediary activity analysis findings
- Actuarial commission testing model being developed in consultation with ASISA (for life risk products) – enables us to test impacts of changing quantum and incidence of commission payments; possible changes to replacement commissions; phasing in options
- Proposals for a special remuneration dispensation in the low income market (RDR Proposal TT).



**Sales execution &
intermediary services**



Non-advice sales execution

- New FAIS fit & proper competency requirements define the activity of “execution of sales” and set competency requirements for scripted sales models
- Change to the FAIS definition of “intermediary services” will close the previous gap whereby direct sales execution by product suppliers potentially fell outside the scope of FAIS



The low income market





Low income market

- This proposal is a subset of the broader financial inclusion strategy being formulated by the FSB and to be progressed by the future Financial Sector Conduct Authority
- A specific consultation paper on Proposal TT will be issued, taking into account the proposed micro-insurance product standards (next tranche of the PPRs)



Consumer education



Consumer education on RDR

Consumer testing will take place in early 2018 of –

- A consumer brochure highlighting the value of fair, quality financial advice and alerting consumers to the types of advice available and their rights in regard to advice
- Levels of understanding of different terms used to describe different types of advisers (to inform terminology to be used in the future adviser categorisation framework).



Additional future work



Further work in 2018 – not a closed list!

In addition to the next steps set out in the preceding slides, consultation on the following additional matters will take place during 2018:

- Criteria to use the designation “financial planner”
- Amendments to the applicable FAIS Codes of Conduct to effect “clean pricing” on LISP platforms
- Standards for product comparison / aggregation services
- Removal of commissions on single premium insurance investment policies – possibly subject to low income exceptions

We will continue to phase in changes through appropriate combinations of existing and future regulatory instruments.



Questions?



Comments or questions for clarification can be submitted by e-mail to FSB.RDRfeedback@fsb.co.za or by post to Ms Hannelie Hattingh, Senior Specialist: Market Conduct Strategy, Financial Services Board, PO Box 35655, Menlo Park, 0102.