

What does the future hold?

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- **Understanding the drivers of change and what this means for Financial Planners (FPs)**
- **International Regulatory Trends**
- **What could happen in SA?**
- **How to respond?**
- **Conclusion**

“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

John F. Kennedy

- **A crisis always brings a wave of new regulations until the next time**
- **Regulatory responses are now global**
- **Being part of global regulatory system means our Regulator is hardly going to swim against the tide**
- **Sound prudential and improved market conduct regulation should largely be positive for professional advisers**

- **Market Conduct**
 - **Putting Consumers First and TCF**
 - **Building Trust and Confidence**

Building Trust - the Trust Equation

$$\text{TRUST} = \frac{\text{C} + \text{R} + \text{I}}{\text{S}}$$

C = Credibility

R = Reliability

I = Intimacy

S = Self orientation

Source: Green, 2005

Evolution of Advice

Sales Era	Rise of Consumerism	Industry Self-regulation	Regulatory Intervention	Advice Era
<ul style="list-style-type: none"> • No regulation • Sales driven • Company Adviser/friendly products • High commissions • No disclosure or documentation • Low barriers to entry • Large numbers • Industry bodies - sales focused 	<ul style="list-style-type: none"> • Increasing education of consumers • Media sensationalism • Industry attributes remain same - ostrich syndrome for companies & advisers • Agency focused • Emergence of IFAs and early professional bodies 	<ul style="list-style-type: none"> • More strident consumerism • Clients “seek advice” • Industry on the defensive • Code of practice • Lip service to regulation from agents - denial • No impact on numbers • Government expresses interest in formal regulation 	<ul style="list-style-type: none"> • Regulation formulated and introduced • Consultative approach • Emphasis on advice rather than sales • Minimum qualifications • Ongoing professional standards • Formation of professional bodies 	<ul style="list-style-type: none"> • Regulator finds teeth - examples made • New generation of advisers • Formal education • Lack of sales capability? • Low commissions • Client-friendly products

- **Forced changes to remuneration models to better align the interest of the adviser with the client**
- **Status disclosure of the intermediary so the public know who they are dealing with and what their expectations should be**
- **Disclosure and Transparency**
- **Product Regulation and Simplification**



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2005 8 9

- **Ban on all commissions (upfront and trail) on retail investment and pensions business**
- **Does not apply to pure risk business (yet)**
- **Replaced with adviser charging system**
- **Fees not prescribed and can be recovered from the investment**
- **Independent v restricted advice**
- **“Opt in” system for on-going advice fees**

- **Moving away from volume incentives**
- **Best interest duty**
- **Regulation of platforms**
- **Review of Statutory Compensation Schemes**
- **Other examples (India and Holland)**

To ensure that the definition of intermediary services and related remuneration structures in the insurance sector :

- promote appropriate, affordable and fair advice and services to potential and existing policyholders
- support a sustainable business model for financial advice.

What's happened so far?

- **Started in 2006 NT discussion Paper Contractual Savings in the Life Insurance Industry**
- **FAIS Code of Conduct strengthened in 2010 to deal more specifically with COI**
- **FSB letter 2011 to industry associations requesting contributions / inputs to assist the FSB in formulating a comprehensive discussion document which will form the basis for extensive public consultation.**
- **ASISA members formed a Working Group which had robust discussion around the issues and submitted their views in March 2012 to the FSB.**

- **Follow international best practice**
- **Define exactly what intermediary services entails**
- **Consider how to support advice to low -income sector**
- **Change the way commission is paid on risk products**

- **Advice is valuable and needs to be paid for - new regulation needs to ensure it remains accessible**
- **Single premium investments: Fee based arrangement is appropriate**
- **Recurring premium: Flexibility should be allowed - fees or commission or combination of both, depending on client requirements and always with clear, transparent disclosure to and agreement with client**

- **Legislation needs to make it clear that advice and other services can be remunerated**
- **However, we agree that there should not be payment for same work twice**
- **Low income market: needs special, separate consideration**
- **Risk commissions should not be re-structured**
- **NOTE: In several instances, there were divergent views. All views were communicated to FSB**

- **Move from DB to DC retirement funds**
- **Surveys on retirement show the need is growing**
- **ASISA Survey's on Insurance Gap show South Africans are underinsured**
- **Research on the value of advice**
 - * **Irrefutable evidence that there is growing need for advice and that good advice makes a difference**

- ❑ Sanlam, Old Mutual and Alexander Forbes conducted surveys during 2010
- ❑ The survey results show
 - 12% of RF members retire reasonably okay
 - 6% of South African's can afford to retire
 - Goal is a NRR of 75%
 - 71% of RF members have a NRR of less than 45%
 - 77% of South Africans are worried about their retirement
 - 30% believe the government will look after them

Advice need around retirement

Reference: Old Mutual, Sanlam, Alexander Forbes

- ❑ 160 000 income earners will die in 2011
- ❑ 52 000 earners will suffer T&P disability
- ❑ 212 000 families will suffer distress
- ❑ Average underinsurance R600 000 (death) and R900 000 (disability)
- ❑ Typical family will lose 50% or more of the household income subsequent to a tragedy

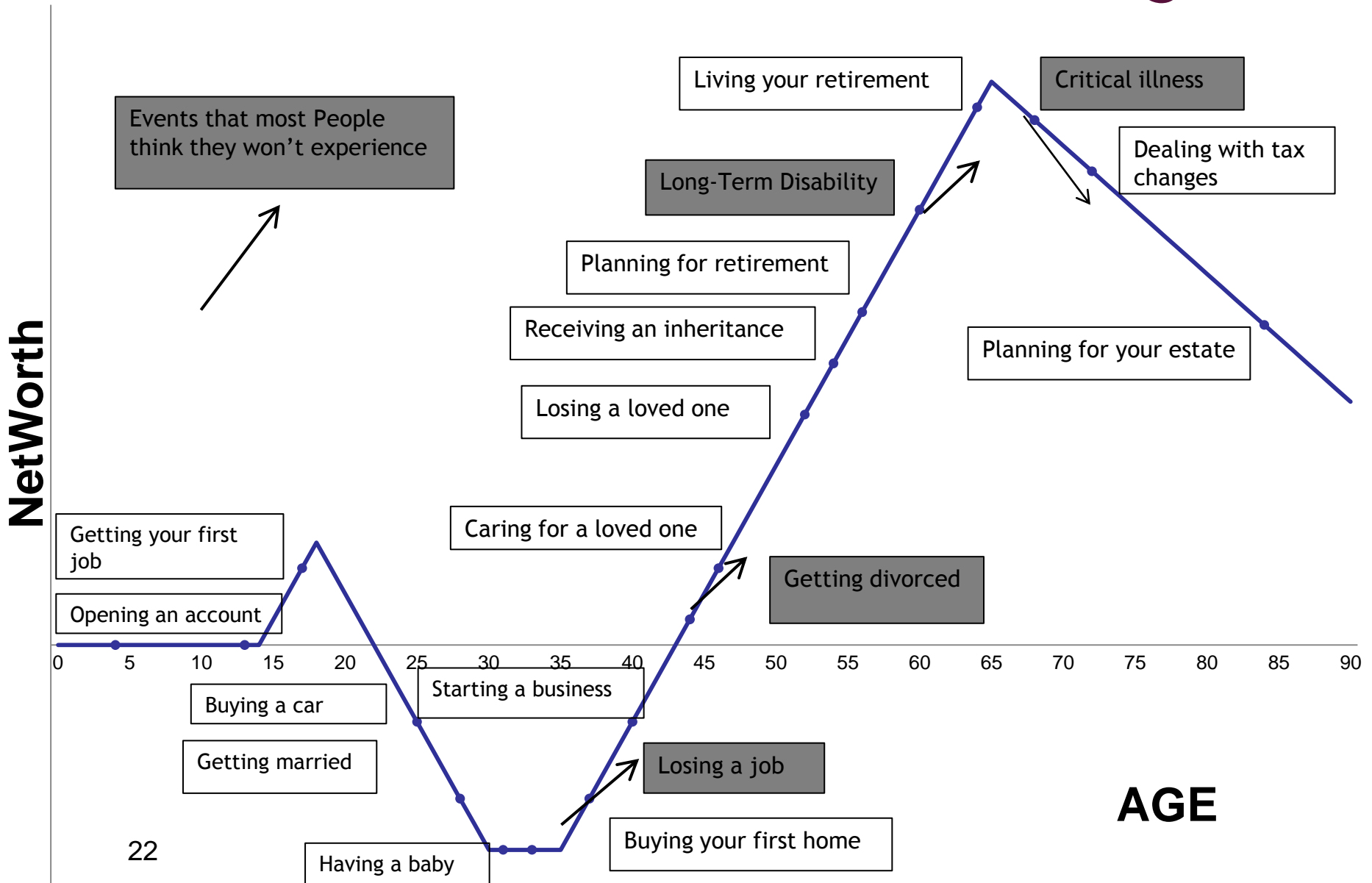


Untapped Market

Reference: ASISA, Lifewise/University of Canberra

- **Understand that State safety net is very limited**
- **Planning industry is professionalizing (good for reputation)**
- **Risk product commissions are intact globally at present**
- **Impact of living longer and inflation on retirement provision**
- **Cost of health care, particularly post retirement**

Advice is for all life stages



Main changes for FPs?

- The focus has shifted from being a salesperson or simple product order taker to running a business
- Is moving slowly but surely to fee based financial planning as the preferred business model
- This requires new skills and expertise and higher levels of professionalism
- The most important survival strategy will be to assess where your skills lie, focus on these skills and get business partners to support you for the rest



- **Asset Manager v Financial Adviser**
- **ROI v ROL**
- **CEO and CFO**
- **Financial Fitness Coach**

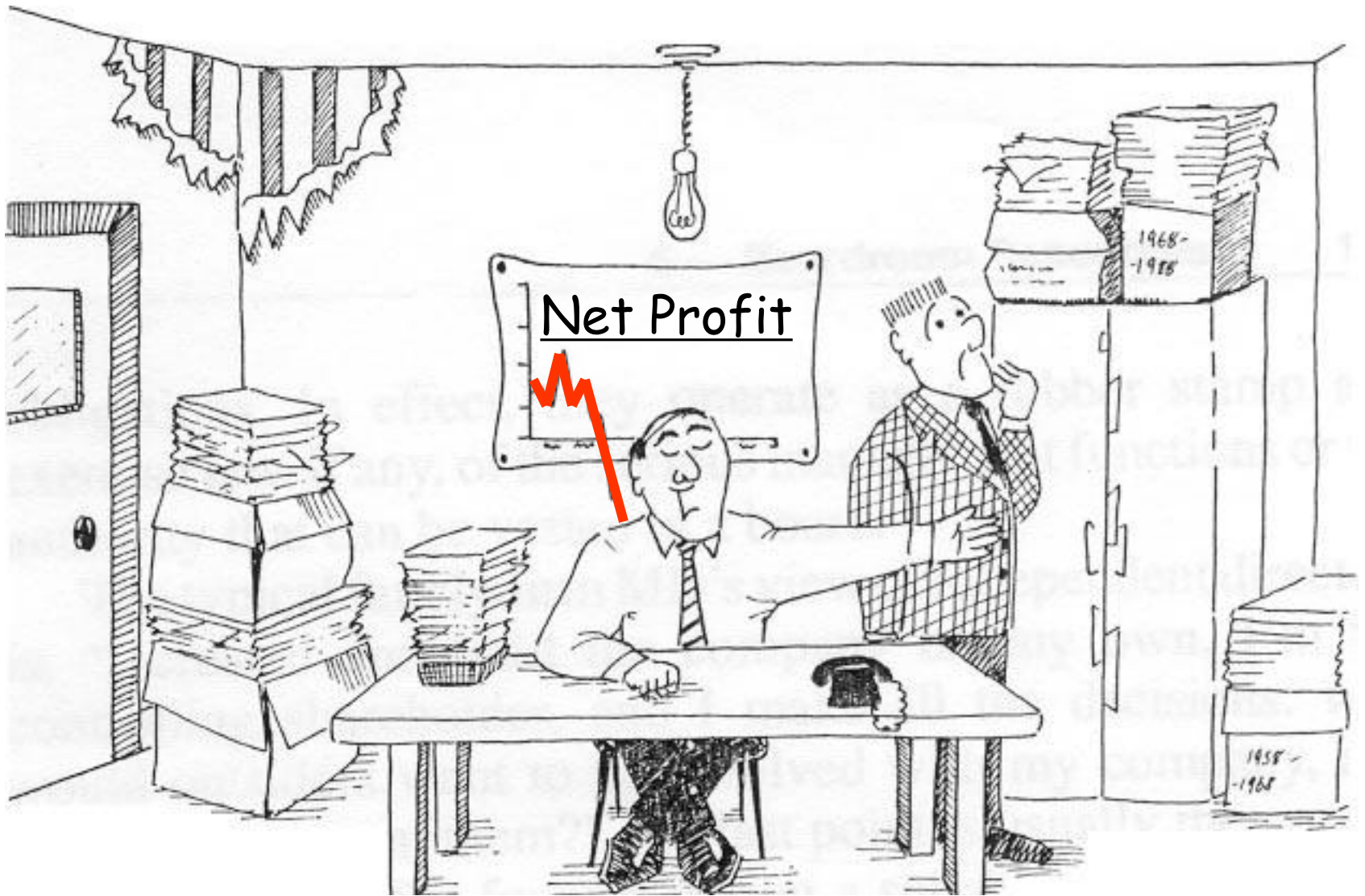
What should FPs be doing?

- Professional standards will be in place
 - Prepare properly for all F&P exams and focus on upgrading your knowledge and skills continually
- Ruthlessly relook your business model
 - Service offering
 - Client segmentation and take on
 - Service level agreements
 - Charging basis
 - Advice process
 - Develop and implement standardised procedures

- Don't try to do it alone
 - Learn from successes elsewhere (See e.g. Charter Wealth Solutions)
 - Broker networks
 - Find a mentor and or create an Advisory Board
- Clearly think through and set out your value proposition - simple but explicit

- **Look at high value activities from the client's perspective and outsource the rest**
- **Look at your product mix**
- **Look to slowly moving to charging fees to supplement commission**
- **Follow the six step in financial planning model**
- **Keep proper records and manage the advice risk**
- **Look at your professional indemnity cover**

- **Manage costs**
- **Comply with all Regulations**
- **Ask for referrals**
- **Look at the para-planner model. Build a back-office team**
- **Succession Planning**

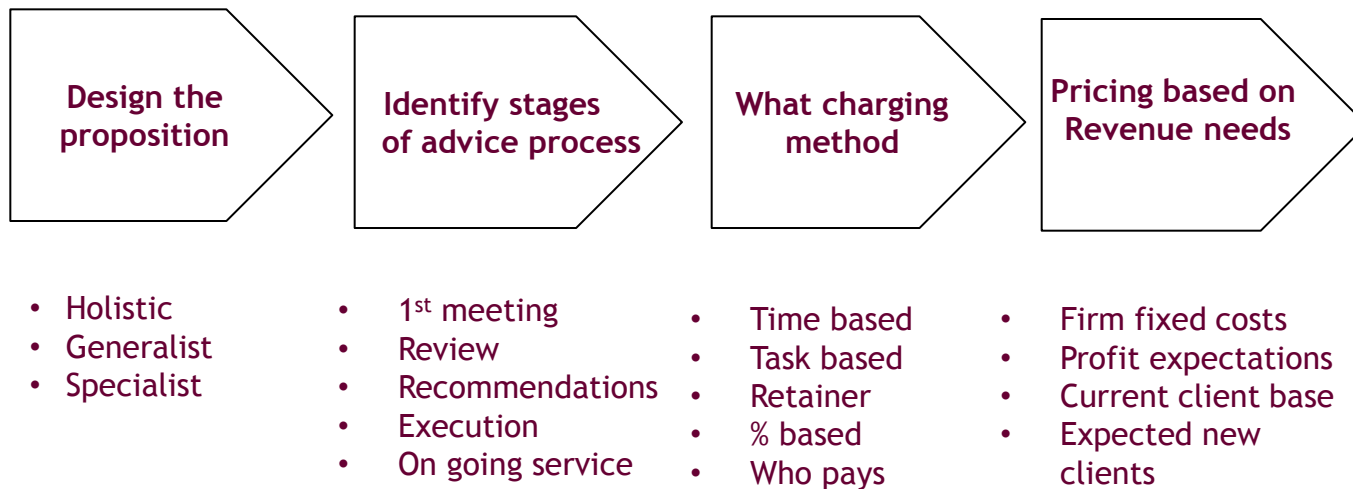


Just think son, someday all this will be yours...

Measure Your Success?

- **Growth factors**
- **Attrition factors**
- **Staff productivity**
- **Client productivity**
- **Average account size trends**
- **Net new accounts and net assets under management**

Adviser Charging - an example



Success?

- I knew I was successful when I stopped worrying about my clients and my clients started worrying about me
- They became more concerned with my retirement plans than their own

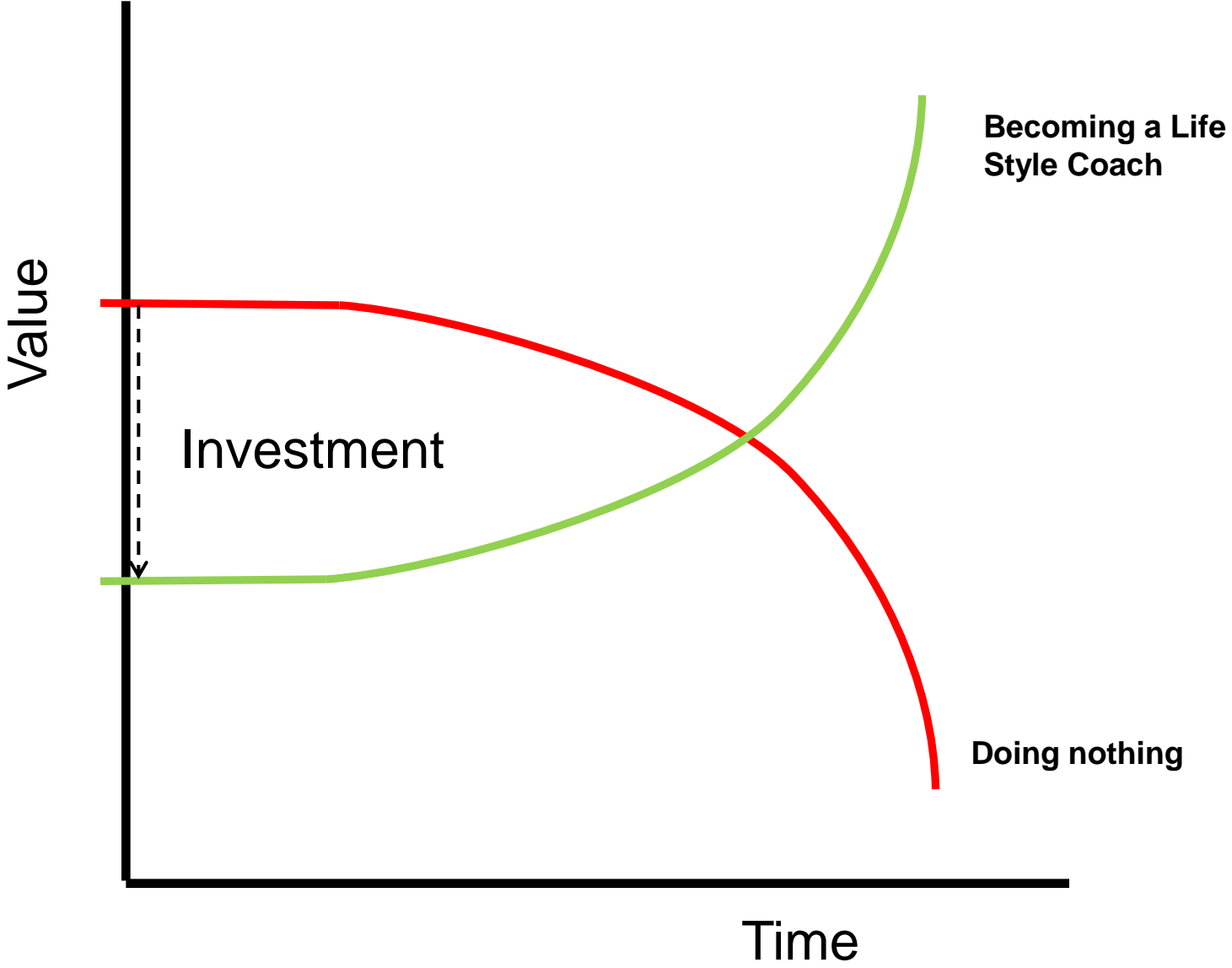
Financial Planner

- Einstein said “*Out of difficulty comes opportunity*”
- Churchill differentiated optimists as “*those that see the opportunity in the difficulty*” and pessimists as “*those that see the difficulty in the opportunity*”.

What's your mindset going to be?

- Resist and fight change?
- Slowly adapt to change?
- The real winners will be those who proactively embrace these changes, identify the opportunities it brings and align themselves with this beforehand

- **There will be casualties**
- **Adviser consolidation will happen due to regulatory pressure and disintermediation**
- **There should be a rosy future for those that can make the transition successfully from product order taker, to adviser, to financial planner to life style coach**
- **But the changing environment is forcing advisers to make hard choices**



ASISA

THANK YOU

QUESTIONS?