Media Release

EVOLUTION OF FINANCIAL ADVICE

Regulators must get broker remuneration right to ensure wider access to financial services products

Johannesburg, 19 September 2014: Hundreds of independent financial advisers (IFAs) gathered at an industry summit in Rosebank, Johannesburg yesterday hoping to find out how proposed regulatory interventions may impact the sustainability of their livelihood and their ability to adequately service their clients. South African IFAs are preparing for a first look at the Financial Services Board's Retail Distribution Review paper due out in September.

At the Independent Investment Intelligence (i3) Summit, jointly hosted by Sanlam's investments cluster* and Glacier by Sanlam, the evolution of financial advice in South Africa was debated by industry experts with consensus being reached that local regulators should closely tap lessons learnt in Australia and the United Kingdom when developing a new model for remuneration.

Nersan Naidoo, CE of the Investment Core of Sanlam's investments cluster, said the regulator should not be doing anything that leaves a large part of the market without valuable advice. "South African advisers are in a fortunate position because our regulators closely follow developments in the UK and Australia. We therefore have a chance to factor in the consequences of interventions in those markets."

UK-based Stewart Cazier, MD – Global Distribution at Henderson Global Investors and David Ferguson, CEO at Nucleus Financial Group, said there was enough evidence from the UK that an ill-thought through remuneration model could result in an 'advice gap' in South Africa's middle income market, among other concerns.

In his presentation on the impact of regulatory change in Australia, Peter Chun, GM: Product & Investments at Colonial First State revealed that tighter regulation had resulted in consolidation within the Australian financial advice sector without necessarily reducing the overall advice fees paid by consumers.

Higher advice costs and the removal of subsidies previously contributed by product suppliers had led to the decimation of Australia's middle market for financial advice. "Research shows 75% of surveyed Australians think a comprehensive financial plan should cost less than AUS$1000 versus only 10% who would pay the AUS$2500 that it actually costs," said Chun.

Jean Lombard, Head – Business Integration at Glacier by Sanlam, said that specialisation and the ability to maximise clients' objectives over the long term would prove crucial going forward. He also warned that fee-only practices could gravitate towards high-net-worth clients, potentially leaving the middle income market unadvised.

South Africa's IFAs have embraced regulation and thereby addressed many of the negative perceptions that financial services consumers hold about the advice profession. "Advisers accept that regulation is here to stay and will seek out new opportunities and business models that ensure the sustainability of their practices within the regulatory environment," said Lombard.

He urged all industry stakeholders to be cognisant of the long-term consequences of regulatory intervention and for advisers to approach pending changes proactively rather than waiting for product suppliers to address the issues.

Caroline da Silva, Deputy Executive Officer: FAIS at the Financial Services Board (FSB) said that the regulator had indeed learned from the consequences of remuneration changes elsewhere. "We understand that the lower end of our market is unique and that we may have to explore alternative solutions in this space," she said.

This would be achieved without veering from the FSB's primary objectives of protecting the consumer, providing greater access to financial services products and ensuring the sustainability of the industry.

"Financial advisers hold the savings and investments of a nation in their hands," said Johan van der Merwe, CEO of Sanlam's investments cluster. "They are responsible for providing financial peace of mind and a dignified retirement for their clients.

IFAs are painfully aware that a review of remuneration is just the tip of the regulatory iceberg. “The local financial service industry is faced with a tsunami of regulation and acronyms such as FATCA, POPI and SAM as well as TCF and RDR will affect our respective businesses,” said Van der Merwe. “It is not the biggest or the fittest that will survive, but those that are most adaptive to change.”

About Sanlam Investments Cluster

*The Sanlam investments cluster consists of the following authorised Financial Services Providers: Sanlam Investment Management (Pty) Ltd (“SIM”), Sanlam Multi Manager International (Pty) Ltd (“SMMI"), Satrix Managers (Pty) Ltd, Graviton Wealth Management (Pty) Ltd, Graviton Financial Partners (Pty) Ltd, Radius Administrative Services (Pty) Ltd and Blue Ink Investments (Pty) Ltd and has the following approved Management Companies under the Collective Investment Schemes Control Act: Sanlam Collective Investments (RF) (Pty) Ltd and Satrix Managers (RF) (Pty) Ltd.

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