SAIFAA

SOUTH AFRICAN 'INDEPENDENT FINANCIAL ADVISORS' ASSOCIATION

A Key Voice of the Independent Financial Advisor with the Public, the Industry, the Regulators and the Media

SAIFAA Mission

To promote the value of independent financial advice in a modern financial services market and the critical role of independent advisors in delivering this advice, to the public at large, the media, the regulator and the industry.

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21 ULTIMATE 'CLIENT-AGENDA' QUESTIONS

that need to be asked when conducting 'due diligence'
on an independent financial advisor (IFA).

The FSCA, during December 2019, distributed a Discussion Paper on the RDR process on the future of the Independent Financial Advisor (IFA). The aim is to try to clarify the difference between a Product Supplier Agent (PSA) and a Registered Financial Advisor (RFA) incorporating Independent Employee Benefits Advice.

These **21 ultimate client-agenda** 'due diligence' questions have been designed to provide clients and their appointed Independent Financial Advisors (IFAs) with an opportunity to review a comprehensive range of suitable contractual answers and solutions that will engender the building of a long term financial advisory and guidance relationship!

These questions are an excellent basis and foundation for conducting a 'Due Diligence' on reviewing an existing or appointing a new Financial Advisor as well as becoming the 'differentiator' between an IFA and a PSA.

THE 21 Ultimate Questions... and Why

as commented by Derek Smorenburg, CEO and Founder of SAIFAA

Questions 1 - 6 are general questions about the adviser, while questions 7 - 21 dig down into the adviser's business and what it provides.

1. How can I be sure that you will put me and my family's best interests first and how do I know you are the right adviser for me?
   The way in which this question is answered is a great start!

2. Do you have the relevant experience and knowledge to deal with our specific situation?
   It is imperative that this question is answered!

3. What is your appropriate experience and your suitable qualifications as a financial adviser?
   You need to know how long the adviser has been in practice and the extent of his qualifications or whether he or she is working under supervision. For example, the Certified Financial Planner (CFP®) certification is internationally recognised, and may only be conferred on someone with a relevant university degree, a Postgraduate Diploma in Financial Planning and several years' experience. The world first SAIFAA Certified Post Retirement Professional (CPRP®) Registered or Graduate certification is a valuable proof of putting the Client and Families first!

4. What ongoing educational and updating processes do you partake in annually to ensure that your advice and guidance is appropriate?
   A professional adviser will constantly keep up to date with developments in the industry and legislative changes. The adviser may be required by the professional body to which he or she belongs to earn ongoing CPD (continuous professional development) points.

5. Are you registered with the Financial Sector Conduct Authority for the services offered to me and my family?
   This is essential. Your adviser must be registered and have a valid financial services provider (FSP) licence, as required by the Financial Advice and Intermediary Services (FAIS) Act. There are different levels of licence according to the types of products an FSP can give advice on. The Act also contains a code of conduct, to which FSPs must adhere.

6. Do you belong to a relevant industry body that indicates a certain competency level?
   Bodies include SAIFAA, the Financial Planning Institute (FPI), the Financial Intermediaries Association (FIA) and the Institute of Retirement Funds Africa (IRFA).

7. What is the full range of services you and your practice provide?
   Some practices are more specialised than others. Make sure you fully comprehend exactly what the full range of services is that you may wish to engage.

8. Do you represent a wide range of insurance companies' products and a variety of investment houses, which ones and why?
   A Product Supplier Agent (PSA) will, generally, represent only his or her employer's products, although the employer's investment platform is likely to carry a wide range of underlying investments from an array of asset managers. An Independent Financial Advisor (IFA) should be able to offer products from a range of suppliers. Their calling card and letterhead will be a good guideline.

9. How will our relationship work, how often will we meet, and will this be based on a written agreement?
   Smorenburg says a service level agreement should be easy to understand and fully explained. You may also require the adviser to invest on your behalf, and this would need an investment strategy agreement mandate signed by you.

10. How do you get paid?
    The adviser may receive a commission from the product provider on the products you buy. Otherwise, he or she may charge a fee based on a percentage of your assets, or a time-related fee according to an hourly rate. This important aspect of your long term contractual relationship needs to be clearly explained and understood.

11. Who is your employer?
    In the case of a PSA, this would be the product supplier. An IFA may be self-employed or work for an advisory practice. Again this needs to be explained.

12. Do you or your practice have any direct or indirect interests in any third-party administrators or financial services providers, and would this create conflicts of interest?
    Smorenburg says the adviser may be a shareholder or a subscriber in a third-party company providing an investment service (DFM) to the practice, from which he or she may receive dividends. The arrangement may also result in an additional layer of fees. There may be benefits to you – for example, the adviser may be aligned with a discretionary fund manager (DFM) to invest on your behalf at a low institutional rate instead of the higher retail rate. But these business relationships must be fully disclosed so that you can be the judge of whether or not they conflict with your interests.

13. What are the all-in costs of products and services, including and excluding advisory fees?
    It is a requirement of the FAIS Act that all costs – which would include investment costs, administration costs, commissions and adviser's fees, as well as any possible penalty charges on the early termination of contractual endowment policies and retirement annuities – are fully disclosed to you. If the adviser is aligned with a DFM or using a third-party investment platform such as Glacier by Sanlam, there may be an extra layer of costs. All early termination costs/penalties need to be explained and recorded!

14. To what degree and how often do you conduct a "due diligence" of the products, services and companies that you recommend?
    Again, this is a requirement of the FAIS Act. Product supplier agents would have backing of their employer organisation, which would be responsible for such assessments. IFAs would need to do such work on their own, particularly on "alternative" types of investments that may carry higher risks. The Ecsponent case is an example of failure in this regard on the part of advisers.

15. What happens to our investments and services when you retire or sell your business?
    Smorenburg says IFAs often don't give enough attention to succession planning. Your adviser should be able to tell you how you will be served if he or she is no longer there to do it or if the business changes hands.

16. Can I obtain references from two other happy clients?
    References from other clients are as essential as employer references from a prospective employee.

17. Have you been sued or have any reported legal actions against you or your practice, and what recourse do we have if something goes wrong?
    The protection you have in the case of loss owing to negligence is dependent on the adviser's professional indemnity cover. You need to ensure that the adviser has such cover in place.

18. What are your views on investments?
    What is your investment philosophy, what asset allocations will you be using, and what investment benchmarks do you use? Investment strategy and asset allocation should vary from client to client depending on each client's risk profile and investment horizon. Many IFAs use excellent risk profile tools available from the world's most academically-validated psychometric risk tolerance assessment process such as FinaMetrica/PlanPlus.

19. Who are your compliance companies/service providers and are they independent from your practice?
    Large advisory practices may have internal compliance officers, who ensure that the practice is adhering to regulations. However, this function is increasingly outsourced to external compliance firms. Knowing that your IFA runs a well-structured practice including suitable compliance protocols is important.

20. Do you subscribe to the Treating Clients Fairly (TCF) principles?
    These are the outcomes on which current reforms in financial services legislation are based. All Advisors are required to be able to prove that they endorse the TCF principles. Your Adviser should not only be aware of them but actively promoting them and putting them into practice, Smorenburg says.

21. How would you answer the following: "Is your client's money your client or is the client your client?"
    Smorenburg says an adviser who has your best interests at heart will look at more than just your finances, with a holistic approach to you and your family's well-being. For example, if you are close to or in retirement, an IFA who has completed SAIFAA's Certified Post Retirement Professional (CPRP®) programme would be able to guide you on lifestyle issues such as post-retirement accommodation and your mental and physical health in retirement.

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