

RETAIL DISTRIBUTION REVIEW

presented by

Aatika Kaldine



WHY RDR?

The Retail Distribution Review was published against the backdrop of the Treating Customers Fairly (TCF) approach to market conduct regulation in order to address the following risks

1. Lack of or insufficient Data
2. Distribution Channels
3. Lack of Training
4. Remuneration Structures

The RDR proposed regulatory reforms are aimed at ensuring distribution models that:

- Support the delivery of suitable products
- Provide fair access to suitable advice for financial customers;
- Informed customers and informed choices
- Enhance standards of professionalism;
- Enable customers and distributors to benefit from fair competition for quality advice and intermediary services;
- Support sustainable business models.

SPECIFIC REGULATORY INSTRUMENTS WHICH ARE TO GIVE EFFECT TO PHASE 1 OF THE RDR WITH REFERENCE TO SHORT –TERM INSURANCE:

1. DRAFT NEW FAIS FIT AND PROPER STANDARDS:

The amendments to the fit and proper standards support the implementation of RDR by:

- a) Recognising automated advice;
- b) Reducing the competence requirements of intermediaries who perform ‘execution of sales’;
- c) Requiring Product suppliers to monitor advice and distribution outcomes;
- d) Requiring Product suppliers to ensure that all advisers providing advice on their products have the requisite training;
- e) Providing for the paying of an additional fee to an intermediary by a policy holder above the commission, binder or outsourcing fees received by that intermediary from the insurer.

SPECIFIC REGULATORY INSTRUMENTS WHICH ARE TO GIVE EFFECT TO PHASE 1 OF THE RDR WITH REFERENCE TO SHORT –TERM INSURANCE:

2. SHORT-TERM INSURANCE REGULATIONS:

- Defines outsourcing and policy data administration services to avoid a duplication of remuneration for binder holders;
- Capping remuneration for policy data administration services at 2%;
- Disallowing Binder holders who have binder functions to enter, vary or renew policies of the insurer, from earning remuneration for policy data administration services as well.
- Binder fees payable to NMI's who are licensed under FAIS to provide advice (or an associate of such intermediary) will be capped at 2% of the premiums concerned per type of binder activity.

OVERVIEW OF THE STATUS OF SPECIFIC REGULATORY INSTRUMENTS WHICH ARE TO GIVE EFFECT TO PHASE 1 OF THE RDR WITH REFERENCE TO SHORT –TERM INSURANCE:

- Part 6 of the STIA Regulations (“current binder regulations”) has been amended:
 - ❖ Allowing insurers in respect of short term personal lines insurance policies to have a binder with an NMI who is licensed under FAIS to provide advice, for the binder activities of entering into, varying or renewing a policy or settling claims under a policy;
 - ❖ Disallowing an insurer in respect of Short-term commercial lines insurance policies, from having a binder agreement with an NMI who is licensed under FAIS to provide advice.
- **NB: Before finalising this proposed prohibition, the FSB will carry out further analysis of the type and number of commercial lines binder agreements in place with advisors and consult further on the impact of such a prohibition.**
- In most instances insurers are dealing with specialist niche providers who have expert knowledge in their respective fields
- The systemic impact on the industry will be a large one if non-mandated intermediaries are prohibited from binding insurers in the commercial space.
- May be seen to be anti-competitive as certain insurers will be excluded by default.
- Capacity of insurers to deal with the work is questionable if the work is returned to insurers.

WHAT ARE THE EXPECTED OUTCOMES?

- To ensure appropriate sharing of responsibility between product suppliers and intermediaries for fair customer outcomes;
 - ❖ Product suppliers must ensure that individuals providing factual information through non-advice models meet the requisite fit and proper standards including specific competence standards (class of business and product specific).
- Ensure that all intermediary remuneration must:
 - ❖ be reasonably commensurate
 - ❖ not result in duplication of remuneration
 - ❖ not be structured in a way that increases the risk of unfair outcomes to policyholders
 - ❖ not be linked to the monetary value of claims for policy benefits repudiated, paid or partially paid.

WHAT IS STILL OUTSTANDING TO BE DONE?

- The SAIA conducted an RDR workshop on the 3rd of April 2017. The following areas of concern were identified.
- Types of Advisors and types of advice:
 - a) Two-tier adviser categorization confirmed

The FSB are proposing a two tier model

 - Product Supplier agents (“PSA’s”): who will not be licensed in their own right to provide financial advice. They will provide advice as agents of a financial institution that provides financial products.
 - Registered Financial Advisors (“RFA’s”): who will be licensed in their own right to provide advice.

Current comments from Members:

The members are in support of the two-tier model.

WHAT IS STILL OUTSTANDING TO BE DONE?

b) Strict approach to “gap filling”

- Financial advisers who are PSA’s will need to limit the scope of their advice to those products issued by its home supplier or another supplier forming part of the home suppliers group.
- Arguments for relaxed approach by allowing PSA’s to gap fill by recommending products of other suppliers where the home suppliers products do not meet the needs of the customer have been submitted to the FSB.

Current comments from Members:

The definition of “group” should be in line with the Financial Sector Regulation Bill and Insurance Bill which both refer to the Companies Act.

WHAT IS STILL OUTSTANDING TO BE DONE?

c) “Low” (simplified) advice

To allow for simplified advice where the product is straightforward and/ or the full assessment of a customer’s personal circumstances is not necessary.

Question: Is it suitable to charge fees for such advice and to what extent?

d) Juristic Representatives:

The FSB is considering allowing PSA’s to be structured as juristic entities. The FSB is concerned about allowing an entity outside such group structures to be appointed as a juristic rep. In the case of non-advice models the FSB is considering where the juristic reps will be effective and appropriate.

Comments from Members:

Model should allow for more inclusivity and transformation initiatives.

RISK INSURANCE

a) Remuneration: Non-life (short-term) insurance:

- There is significant duplication and overlap in activities for which intermediaries are remunerated;
- Inconsistent interpretation of services as intermediary, outsourced activities and binder activities and other outsourced activities,
- Current remuneration levels for binders and outsourcing are largely based on prevailing market practice with little evidence of activity based costing.

RISK INSURANCE

b) Equivalence of Reward:

Is there a need to extend this principle to the Short-term insurance sector?

Current comment from Members:

Risk of poaching brokers into insurer's adviser model.

WHAT ARE THE TIMELINES, WHEN DO WE EXPECT EACH PHASE TO BE IMPLEMENTED

The FSB's intention is to align the implementation of the RDR reforms with broader changes to the Financial Sector legislative architecture under the Twin Peaks.

As such these are dependent on the timelines of these broader processes.

Phase 1:

- Dates will be confirmed once the inputs are reviewed.
- Ongoing technical work will inform the final regulatory position and transition periods.

Phase 2:

- To be implemented once the Financial Sector Regulation Act (FSRA) becomes law. The FSRA may be promulgated in the second quarter of 2017.

WHAT ARE THE TIMELINES, WHEN DO WE EXPECT EACH PHASE TO BE IMPLEMENTED

Phase 3:

- RDR changes in phase 3 are those that mainly affect the licensing status of regulated entities.
- This is targeted for implementation once the Conduct of Financial Institutions Act (COFI Act) is in place.
- Public consultation on the COFI Bill is scheduled to take place in 2017, with promulgation expected in 2018.
- The proposals in Phase 1 and Phase 2 which are currently using the existing regulatory instruments will also merge into the future overarching COFI regulatory framework as provisions of the COFI Act or as conduct standards.