



FAIS: Conflict of Interest

What is a 'conflict of interest' in terms of the Financial Advisory and Intermediary Services Act?

In terms of the Financial Advisory and Intermediary Services Act, the Code of Conduct defines a conflict of interest as any situation in which a provider or a representative has an interest, which, when rendering a service to the clients, influences the representative in the:

- Provision of his or her obligations to the client objectively
- Prevention of the representative's rendering of unbiased and fair financial services to the client.

Why was this amendment introduced?

- To prevent a situation in which you have an actual or potential interest that may influence your advice to your client
- To prevent the rendering of an unbiased and fair financial service to them and therefore not acting in your client's best interest
- To ensure that a financial adviser gives appropriate advice to a client at all times.

What interests are referred to in 'Conflicts of Interests'?

The Code defines three types of interests:

- Financial interest is widely defined. This includes cash, gifts, vouchers, sponsorships, services, advantage or benefit, or any other incentive or favourable consideration
- Ownership interest refers to any equity (eg shareholding) or proprietary (e.g. property) interests for which fair value was paid at the time of acquiring that interest, and includes dividends and profit sharing
- Immaterial financial interests refer to any financial interest with a single or aggregated value that does not exceed R1000 per annum, received by a representative for his direct benefit.

What is meant by immaterial financial interest?

With regards to 'immaterial financial interests', the purpose of allowing spend of up to R 1,000 per annum per independent financial adviser (i.e. non-Paradigm Risk Consultants representatives) is to allow for the day-to-day business activities such as the provision of beverages or food during meetings, the supply of branded goods, and so forth. This spend must not be used for the purposes of incentivising the financial adviser - this means that it cannot be used to send the adviser for a day at the spa, or pay the fees for a day on the golf course. The provisions prohibit the aggregation of the immaterial financial interest per brokerage - that is, Paradigm Risk Consultants cannot spend an aggregated R 10,000 on ABC Brokers, who employ ten brokers that sell Paradigm Risk Consultants products.

What relationships are affected by Conflict of Interests?

The relationships that are governed by the Conflicts of Interests provisions is the part of the Code that impacts the relationship between Paradigm Risk Consultants (as the provider), and the financial adviser (the brokers), as well as the relationship between Paradigm Risk Consultants and its own representatives. The intention of the provision is to ensure that the clients receive unbiased and objective advice that is not influenced in any way by any incentive or interest offered by a provider to a broker. The Code does not attempt to interfere with the relationship between the client and the provider.

Independent Financial Brokers (Non-Paradigm Risk Consultants representatives)

From 19 October 2010, all providers may only provide the following to independent financial advisers (the brokers):

- Commission, as regulated in terms of the Long Term, Short Term and Medical Schemes Acts
- Fees authorised in terms of these Acts
- Fees agreed to between the client and the provider, in lieu of commission, where such fees are agreed to in writing, and may be stopped at the discretion of the client
- Fees for the rendering of a service, which fees are regarded as appropriate for the provision of such service
- Immaterial financial interests
- Financial interests for which the recipient of such interest, paid fair value.

The above is applicable to the relationship between Paradigm Risk Consultants and its brokers.

What does this mean for Paradigm Risk Consultants?

Paradigm Risk Consultants may not provide financial interests to its brokers, other than those noted above. This means that certain actions are prohibited, for example:

- Provision of gifts and vouchers to brokers
- Payment of accommodation and travel costs for brokers under any circumstances
- Presentation of spot prizes to brokers at road shows
- Golf days to which brokers are invited, where the fees are paid solely by Paradigm Risk Consultants
- Financial interests offered to brokers as part of any loyalty programme.

This list is not exhaustive, but it serves to indicate those types of activities that fall foul of the Conflict of Interests provisions. It must also be noted that these provisions not only refer to the financial interests provided by Paradigm Risk Consultants, but also apply to any interest received by any Paradigm Risk Consultants representative.

What changes are there for Paradigm Risk Consultants' Representative?

Effective from 19 July 2011 - Disclosure of conflicts of interest to clients

- You have to disclose what conflicts of interest exist and the measures taken to avoid or mitigate the conflict
- The interests include but are not limited to: commission, advice fees (agreed with client), golf days, sporting events accommodation, travel, hospitality, business courtesies, sponsorships, discounts, incentive trips, unit trust options secretarial and other allowances, etc.

Effective from 19 April 2011 - Paradigm Risk Consultants will only be able to offer you any financial interest if we do the following:

- Look at the quality and quantity of the business you submit
- Not give preference to a specific product supplier
- Not give preference to a specific product.

Effective from 19 April 2011 – Disclosure must be made to clients that Paradigm Risk Consultants has adopted a Conflicts of Interest Management Policy, which is available for the client to view:

- It provides for the management of conflict of interests
- the mechanisms used to identify such conflicts
- the measures for avoidance and disclosure
- processes and procedures for compliance with the Policy, and
- the consequences of non-compliance to the Policy.
- Paradigm Risk Consultants has also amended its standard FAIS Forms to include the above disclosures, so please download the new forms from the website.
- The changes to the standard FAIS Forms are the material you will have to use in new disclosure letter when introducing yourself to new clients and you will have to re-introduce yourself to existing clients when you see them again.