

CONFLICTS OF INTEREST AND TRANSPARENT DISCLOSURE POLICY

For

Denis Insurance Administrators (Pty.) Ltd. (DIA)

FSP 36026

SECTION 1 - CONFLICTS OF INTEREST

1. Underlying principles

- 1.1 In the financial services industry, conflicts of interest can be described as “circumstances where some or all of the interests of clients to whom an FSP renders financial services are inconsistent with, or diverge from, some or all of the interests of the provider or its representatives”.
 - 1.2 Adequate conflict management helps to minimise the potential adverse impact of conflicts of interests on clients. Without adequate conflict management, FSPs whose interests conflict with those of the client are more likely to take advantage of that client in a way that may harm that client and may diminish confidence in that provider and in the financial services industry as a whole.
 - 1.3 Adequate conflict management should also help an FSP to ensure that the quality of their financial services is not significantly compromised by conflicts of interest, situations that may arise in normal course of its business.
 - 1.4 While it is conceded that all potential conflicts of interest do not necessarily manifest themselves into actual conflicts, it is submitted that the very perception of bias is a negative one, and carries a negative impression of the industry.
 - 1.5 Conflict of interest management needs to be addressed in order to enhance the levels of professionalism and perceived professionalism of the financial services industry. Disclosure on its own is not always adequate. Management of conflicts as well as transparent, effective disclosure needs to be achieved.
 - 1.6 The same disclosure and avoidance of conflict of interest requirements should be simultaneously applied to all competing product types to avoid both inconsistency and the situation where less regulated industries profit at the expense of those whose practices have been curtailed.
 - 1.7 The FAIS legislation already requires an FSP to disclose conflicts of interest to its clients. The General Code currently requires an FSP to disclose to the client the existence *“of any circumstance which gives rise to an actual or potential conflict of interest, and take all reasonable steps to ensure fair treatment of the client”*. *“Non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier or any other person to the provider could be viewed as a potential conflict of interest”*.
2. A common understanding of what indirect benefits need to be disclosed, or how disclosure is to be carried out, is to be in place. Efficient conflict management policies are required within financial institutions. The absence of conflict management policies and a generic understanding of what conflict of interest is and the impact on a providers' behaviour can lead to unfair treatment of consumers and the rendering of inappropriate financial services by providers.

3. Disclosure of direct and indirect benefits is to be made to consumers in a consistent or transparent manner across the industry. Non-cash incentives and other benefits are to be disclosed in a manner which is not vague and/or inadequate.
4. Taking “all reasonable steps to ensure fair treatment of the client” *means* avoiding conflicts wherever possible, and managing and disclosing conflicts where avoidance is not possible or where conflicts may be perceived but not necessarily exist (and therefore avoidance is not necessary, but full disclosure allows a potential client to decide whether in his view, a conflict situation may indeed be biasing advice).
5. Clients in general do not understand the disclosure of conflict situation and how it might lead to bias advice by the FSP. It is therefore necessary to prohibit certain non cash incentive and other indirect conflict situations. The prohibition should be clear and coupled with awareness of product suppliers that inducements in all forms should be avoided.
6. The tendency of the industry to reinvent incentives schemes to induce or benefit FSPs where prohibitions have been introduced should be seen in a serious light and communicated to all relevant parties.

The standardisation of the conflict management policy will bring about a consistent manner of dealing with and disclosing conflicts.

Conflict of interest have become a serious concern of product suppliers in the design and offering of rewards, and has become a serious concern of intermediaries in the decision to accept rewards. As a result, *consumers will be exposed to fewer conflict situations*, and where there are conflicts, these will have been clearly disclosed.

The consumer will be better equipped to assess whether the advice given to him is being unduly influenced.

The same conflict management, disclosure and avoidance of conflict of interest requirements are to be simultaneously applied to all competing product types to avoid both inconsistency and the situation where less regulated industries profit at the expense of those whose practices have been curtailed.

Policy

The Conflict management policy is to be implemented and understood by everybody in the organisation and monitored on an ongoing basis.

Conflict of interest management can be categorised in the following four categories:

- a) Receiving non-cash incentives and benefits that are viewed as inconsequential benefits i.e. small promotional items reasonable entertainment in the course of business relationships and gifts to prescribed maximum and subject to disclosure in public register.
- b) Receiving non-cash incentives and benefits that are viewed as undesirable inducements which may not be received or offered.
- c) Receiving non-cash incentives and the benefits that are viewed as educational of nature
- d) The avoidance and or management of other indirect conflict of interest situations and structures. This includes but is not limited to the following:
 - i. Conflicts where advisors are part of large multi-disciplinary financial institution which can lead to the institution having a financial interest in investments endorsed by the advisor, e.g. a private client advisor in the wealth management division of a large institution may advise clients to apply for new share issues that another entity in the large institution is underwriting.
 - ii. Conflicts that may arise where entities in the same group of companies act in an independent advisory capacity as well as in the capacity of product supplier.

A list of such reasonable indirect benefits includes the following main categories:

Joint marketing exercises

Generic product literature, "freepost" envelopes for forwarding applications (if it is available to all firms that the supplier deals with) product specific literature, draft articles, news items and financial promotion's for publication in another firm's magazine if any cost is not more than market rate.

Seminars and conferences

May take part and participate in seminar organised third party if the participation is for genuine business purpose, the contribution is reasonable and seminar organised third party the seminar is open to participation by other firms.

Technical services and information technology

Training

May provide training facilities (lectures, venue and written material) only if it is available generally to all other firms.

Travel and accommodation expenses

Attend national events, participate in training, visit a product supplier's office to receive information on their administration systems

May receive gifts

Hospitality or promotional competition prizes if the receiving of this indirect benefit does not give a rise to a conflict with the recipient's duties that it owes its clients.

Senior management should be fully engaged in all aspect of conflict identification.

Senior management should take on a holistic approach in the entity's conflict management.

Senior management should review the performance of conflict mitigation.

Senior management should have policies and practises in place for compensation and training and the organisational culture should support conflict management and mitigation.

Below is a list of examples of non-cash incentives and benefits and how it is allocated to each category

Definitions relating to the suggested list below:

“Domestic” means within the Republic of South Africa.

“International” means outside the borders of the Republic of South Africa.

“material benefits” are any forms of non-cash incentives or benefits that are R1500.00 or more in value for any single item or part thereof, including benefits that are passed to the spouse, partner, family member, business associate or employee of a provider or provider's representative by a product supplier; and also includes such non-cash incentives or benefits that amount to more than R3000 per natural person from a single product supplier over any calendar year.

“Product supplier” includes collectively:

- the related, holding and subsidiary companies of the product supplier;
- companies in which the product supplier holds a percentage of shares which on its own or together with the percentage holding of other product suppliers, gives the product supplier or group of product suppliers as the case may be, effective control of such company; and
- companies within the same group; and
- another any other financial services provider that act similar capacity as a product supplier (e.g. discretionary and administrative FSPs).

First list:

Certain forms of non-cash incentives are not be permitted, for example:

- i) International “incentive trips”, educational or professional development conferences, accommodation and travel arrangements with which DIA and/or their representatives are rewarded by a product supplier or another FSP (e.g. an administrative or discretionary FSP), including any part payment towards these costs;
- ii) Domestic “incentive trips”, educational or professional development conferences, accommodation and travel arrangements with which DIA and/or their representatives are rewarded partially or exclusively for the volume of business placed with such product supplier, including any part payment towards these costs;
- iii) Sponsorships by product suppliers for DIA and/or their representatives to attend and/or hold international conferences.
- iv) Sponsorships by product suppliers for DIA and/or their representatives to attend and/or hold domestic conferences, where the sponsorships are granted subject to a certain volume of business having been placed or in anticipation of its being placed with such product supplier;
- v) Gifts that amount to material benefits;
- vi) Cash or gift vouchers;
- vii) Provision of motor vehicles;
- viii) Mortgage bonds and/or other loans on more favourable terms than those normally available in the market to the provider or provider’s representative;
- ix) Payment or provision of all or part of the costs of any business service or other business expense, including but not limited to:
 - i. Office rental;
 - ii. Computer hardware and commercial software;
 - iii. Provision of staff or payment of all or part of staff salaries.

Second list

Certain forms of non-cash incentives are permitted, but must be disclosed by both the giver and receiver, for example:

- i) Entertainment, tickets for sporting and other events with a value over R1500.00 per person per single item,
- ii) Domestic educational or professional development conferences, accommodation and travel arrangements that are awarded to the provider using selection criteria that are not partially or exclusively based on sales volumes, including any part payment towards the costs

- iii) Sponsorship of domestic provider events, including conferences, by a product supplier, which includes the purchasing of advertising and promotional space,
- iv) Accommodation and travel costs where the provider is invited as a speaker at a domestic conference/professional development event held by a product supplier, including any part payment towards the costs,
- v) Access to preferential, differentiated service and/or training and/or advice facilities, and the like (Intermediaries must ensure that they are aware that they are receiving a differentiated level of support.);
- vi) Shareholdings, equity entitlements, sales quota obligations or performance fee entitlements that they, or an entity in which they have an interest, have in the product suppliers of the products or administrative DIAs that the provider and/or its representatives recommend to clients;
- vii) The fact that during the preceding 12 month period, the provider received more than 30% of total remuneration, including commission from a product supplier;
- viii) Where a provider markets or gives advice in respect of the products of more than one product supplier, should the representatives of such provider be rewarded in any way that could, or could be perceived to, bias advice in favour of one product supplier over another, this fact must be disclosed;
- ix) Where a provider markets or gives advice in respect of the products of one or more product suppliers, should the representatives of such provider be rewarded in any way that could, or could be perceived to, bias advice in favour of one particular product or underlying product option over another, this fact must be disclosed; and
- x) Any other non-cash incentives that are material and are not specifically described in the Code.

Third list:

The following are examples of benefits that are permitted, with no requirement to disclose:

- i) Computer software linked to a product supplier's products, such as a product-linked advice tool.
- ii) Benefits that are not material and are not in the form of cash or gift vouchers.
- iii) Professional development conferences/courses that meet the following criteria:
 - a. The conference may be for no longer than three days and two nights
 - b. The professional development must account for at least 4 hours per day.
 - c. Flights and other forms of transport must be domestic only and must be the regular class (not for example, business or first class).

- d. The total cost of accommodation, meals and incidentals must not exceed R1750.00 per day.
- e. Only the DIA or representative may be paid for – not any spouse, family member or other person.
- f. The location of the conference/ course must be domestic.

Acceptance by an FSP of non-cash incentives that are prohibited will result in severe penalties and/or summary dismissal, because it could cause the loss of the FSP license.

Penalties such as the following will be considered for:

- a. In the case of non-disclosure of a category (a) item, a fine equal to the value of the non-cash incentive plus a multiple may be imposed depending on the circumstances in the sole discretion of the chairman of the disciplinary committee.
- b. In the case of the acceptance of a category (c) item, a fine equal to the value of the non-cash incentive plus a multiple may be imposed depending on the circumstances in the sole discretion of the chairman of the disciplinary committee, and summary dismissal will be mandated.

Non-cash incentive register:

The Register will be maintained by receivers of non-cash incentives. In terms of receivers, the Register will be kept in relation to payments and benefits received by shareholders, directors, key individuals and/or any other personnel of DIA in respect of themselves and their relatives.

The Register will contain details of date, type of non-cash incentive/s or indirect benefit/s, value of benefit and the name of the giver and the receiver.

The Register will be available for inspection on request by any person requesting it. A copy of the Register is to be provided within 7 days of written request.

The client is to be informed in writing at the commencement of the transaction of full details as to where and how the Register may be obtained.

The Register is to be updated on at least a quarterly basis.

Each FSP must appoint a designated person within the organisation whose duties will include monitoring adherence to the requirement to keep the Register, updating the Register and dealing with requests for the Register.

Requirement in the compliance report that the compliance officer monitor and report on the maintenance of the register.

Provisions in terms of the management of conflict of interest

DIA have developed and implemented this conflict of interest management policy as part of its risk management framework, which must contain at least the following:

- a) For this FSP, the person responsible for the identification and management of conflict of interest to is Paul Le Roy;
- b) This policy has been accepted as part of the general risk management of the business.
- c) This policy shall be reviewed annually on 31st of August;
- d) the policy and/or incentives will be holistic and will not solely concentrate on remuneration issues;
- e) The policy shall be audited and controlled in the following way:
 - 1. The responsible person shall check the register and ensure that it is updated on at least a monthly basis
 - 2. All benefits or gifts shall be declared to the responsible person, who shall make a decision as to which category it falls under, prior to the acceptance of such gift, and must give a written confirmation of his decision to the person who stands to receive the benefit and/or gift
- f) The policy will be reviewed on an annual basis by the compliance officer upon his/her request; and
- g) All employees will receive a copy of this policy upon commencement of service.
- h) This document forms part of the employment contract and induction training of all employees

With the exception of inconsequential and educational benefits no shareholders, directors, key individuals and/or any other personnel of DIA in respect of themselves and their relatives may receive any benefit whatsoever from a product supplier, any other provider or its associates directly or indirectly, other than cash remuneration payable directly to the financial services public provider.

Where shareholders, directors, key individuals and/or any other personnel of DIA in respect of themselves and their relatives receive educational benefits, the following must be recorded in a register:

- (a) name of the giver;
- (b) date;
- (c) details of the inconsequential or educational benefit; and
- (d) amount or value of the benefit.

Where shareholders, directors, key individuals and/or any other personnel of DIA in respect of themselves and their relatives receives inconsequential benefits from another FSP or its representatives, it must be recorded in the gifts register within 15 days;

SECTION 2 - TRANSPARENT DISCLOSURE

TRANSPARENT DISCLOSURE

There is a requirement to adequately and transparently disclose all types of fees that are earned by financial services providers.

Clients must understand the differences between the different fee and commission scenarios, which need to be clearly differentiated and transparently disclosed. Consumers should know how much they are paying – directly and indirectly, and to whom – and for which financial services. An agreement between FSPs and clients that stipulate the extent of the financial services and what fees the provider will receive.

Fees, commissions and any other money-based remuneration or benefit must be fully disclosed upfront. In addition, where it is not possible to disclose an exact amount, once the exact amount is known it must be disclosed - by way of a policy contract and/or policy schedule sent to clients within a reasonable time.

DECISION TREE
Non-cash Incentives Decision Tree

