



FSCA

Financial Sector  
Conduct Authority

# FIT AND PROPER REQUIREMENTS FOR FSPs

14 May 2018



# Board Notice 194 of 2017



# Overview

**Chapter 1 – Definitions (New)**

**Chapter 2 – Honesty, Integrity and Good Standing**

**Chapter 3 – Competency Requirements**

**Chapter 4 – Continuous Professional Development (CPD)**

**Chapter 5 – Operational Ability**

**Chapter 6 – Financial Soundness**



# Legislative Framework

## PRINCIPLES

- Proportionate
- Principle based
- Outcomes based
- Transformation & Inclusion



**“My mom says I have to go inside to take a nap.  
That’s the kind of over-regulation that  
is killing small business!”**



# Proportionate

## Factors taken into consideration:

- ❑ Risk – what type of products?
- ❑ Type of activity – Financial advice? Intermediary services? Work according to a pre-approved script?

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**“The bad news is, the market threw a wrench into your retirement plans. The good news is, you can probably sell the wrench for \$10 on eBay!”**



There is a better way...and it's called "Q"

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# Objectives of FAIS

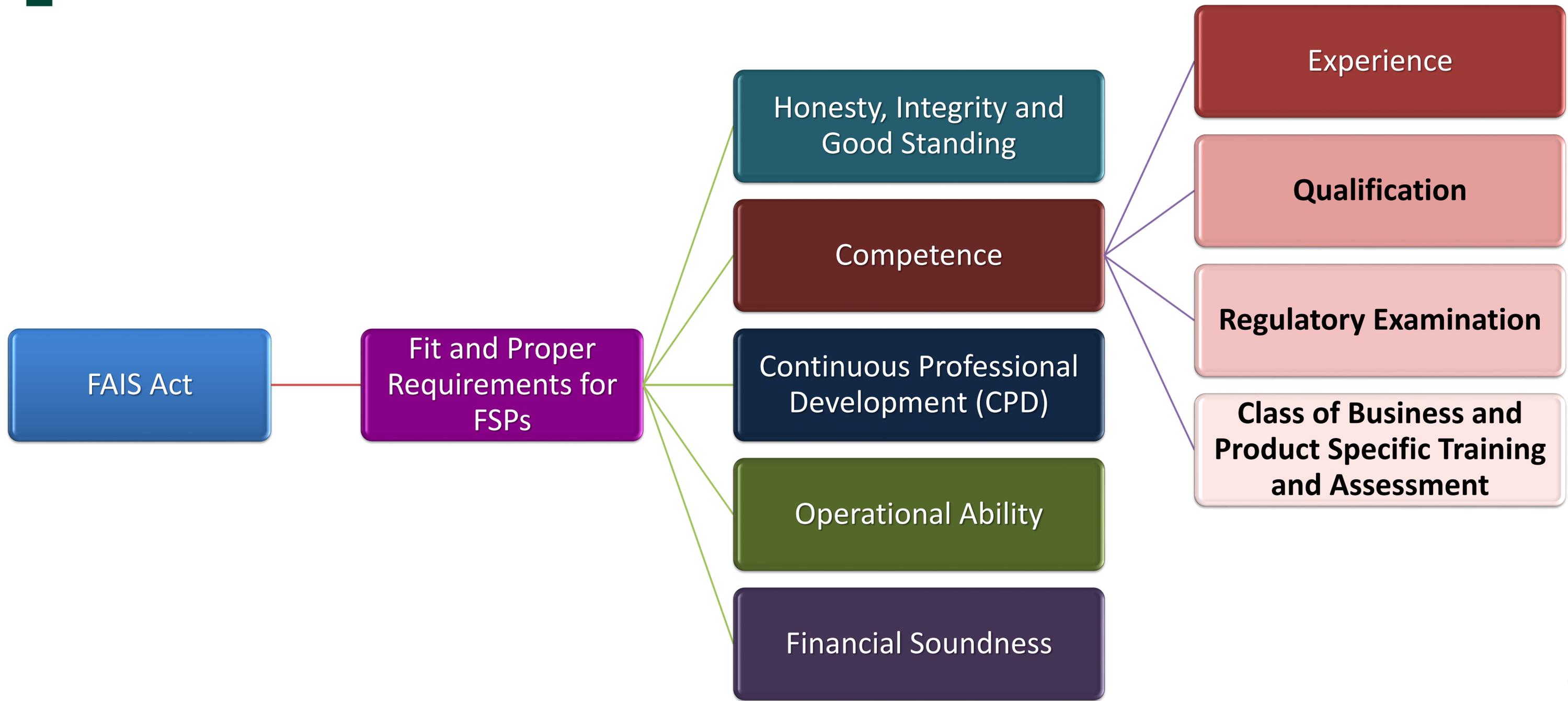


The FAIS legislation aims to achieve the following objectives:

1. Protect consumers;
2. Professionalise the industry i.e. improve the level of competence.

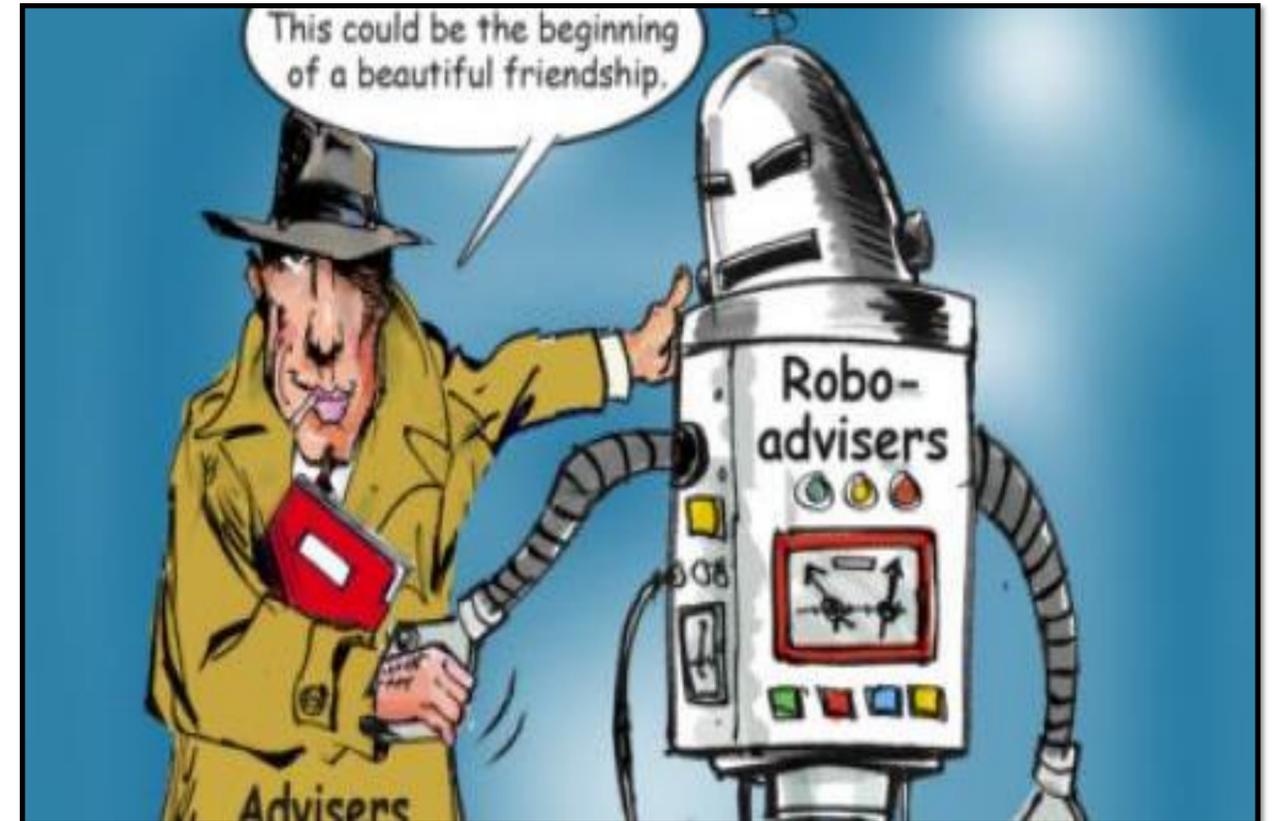


# Sub-ordinate Legislation



# Chapter 1: Amendments to the Definitions

- ❑ New product subcategories (i.e. structured deposits)
- ❑ Concept of automated advice
- ❑ Concepts for new competency requirements:
  - Tier 1 & Tier 2 products
  - Product Specific & Class of Business Training
  - RE Exams





# Chapter 3: Competence Requirements (General)

□ Principle based – can no longer rely on compliance with minimum requirements only

□ FSP must-

- Evaluate and review reps' and KIs' compliance with competence – must take the activities and context within which these activities are performed into consideration
- Maintain a competence register
- Notify Registrar of KI's non-compliance with competency requirements



# Chapter 3: Competence Requirements (General)

## □ New Concepts – Tier 1 Financial Products

- Structured Deposits
- Short-term Insurance Personal Lines & Commercial Lines
- Long-term Insurance subcategory B1, B2, C
- Retail Pension Benefits
- Pension Fund Benefits
- Participatory interest in one or more collective investment scheme
- Participatory interest in a CIS hedge fund
- Forex Investment
- Health Service Benefits
- Shares
- Money market instruments
- Debentures and securitised debt
- Warrants, certificates and other instruments
- Bonds
- Derivative instruments
- Securities and Instruments



# Chapter 3: Competence Requirements (General)

## □ New Concepts – Tier 2 Financial Products

- Short-term Insurance Personal Lines A1
- Long-term Insurance subcategory A
- Long-term Insurance subcategory B1-A
- Long-term Insurance subcategory B2-A
- Friendly Society Benefits
- Short-term Deposits
- Long-term Deposits



# Chapter 3: Competence Requirements (Experience)

- ❑ Principle requirement: adequate, appropriate and current experience
- ❑ Experience lapses if no service was rendered in respect of a particular product for 5 consecutive years
- ❑ Experience requirement higher for more complex products
- ❑ Key Individuals – experience is required in respect of the licence category





# Chapter 3: Competence Requirements (Product Training)



*Replaces the Level 2 Product Specific Regulatory Examinations that were originally introduced in Board Notice 106 of 2008.*



# Chapter 3: Competence Requirements

Class of Business is.....

<b>1.</b>	<b>Short-term Insurance: Personal Lines</b>
<b>Subclasses</b>	
1.1	Personal lines: Accident and health policy
1.2	Personal lines: Liability policy
1.4	Personal lines: Miscellaneous policy
1.5	Personal lines: Motor policy
1.6	Personal lines: Property policy
1.7	Personal lines: Transportation policy
1.8	Personal lines: Short-term reinsurance policy
<b>2.</b>	<b>Short-term Insurance: Commercial Lines</b>
<b>Subclasses</b>	
2.1	Commercial lines: Accident and health policy
2.2	Commercial lines: Engineering policy
2.3	Commercial lines: Guarantee policy
2.4	Commercial lines: Liability policy
2.5	Commercial lines: Miscellaneous policy
2.6	Commercial lines: Motor policy
2.7	Commercial lines: Property policy
2.8	Commercial lines: Transportation policy
2.9	Commercial lines: Short-term reinsurance policy

<b>3.</b>	<b>Long-term Insurance</b>
<b>Subclasses</b>	
3.1	Assistance policy
3.2	Life risk policy
3.3	Life investment, policy
3.4	Fund policy
3.5	Sinking fund policy
3.6	Long-term reinsurance policy
<b>4.</b>	<b>Pension Fund Benefits</b>
<b>5.</b>	<b>Short-term and Long-term Deposits</b>
<b>6.</b>	<b>Structured Deposits</b>

*Classes of Business*



# Chapter 3: Competence Requirements (Class of Business)

7.	<b>Investments</b>
<i>Subclasses</i>	
7.1	Shares
7.2	Money market instruments
7.3	Debentures and securitised debt
7.4	Bonds
7.5	Derivative instruments, warrants, certificates or other instruments
7.6	Securities and Instruments
7.7	Participatory interests in a collective investment scheme
7.8	Participatory interest in a CIS hedge fund
7.9	Retail Pension Benefits
8.	<b>Forex Investments</b>
9.	<b>Health Services Benefits</b>

*Classes of Business*

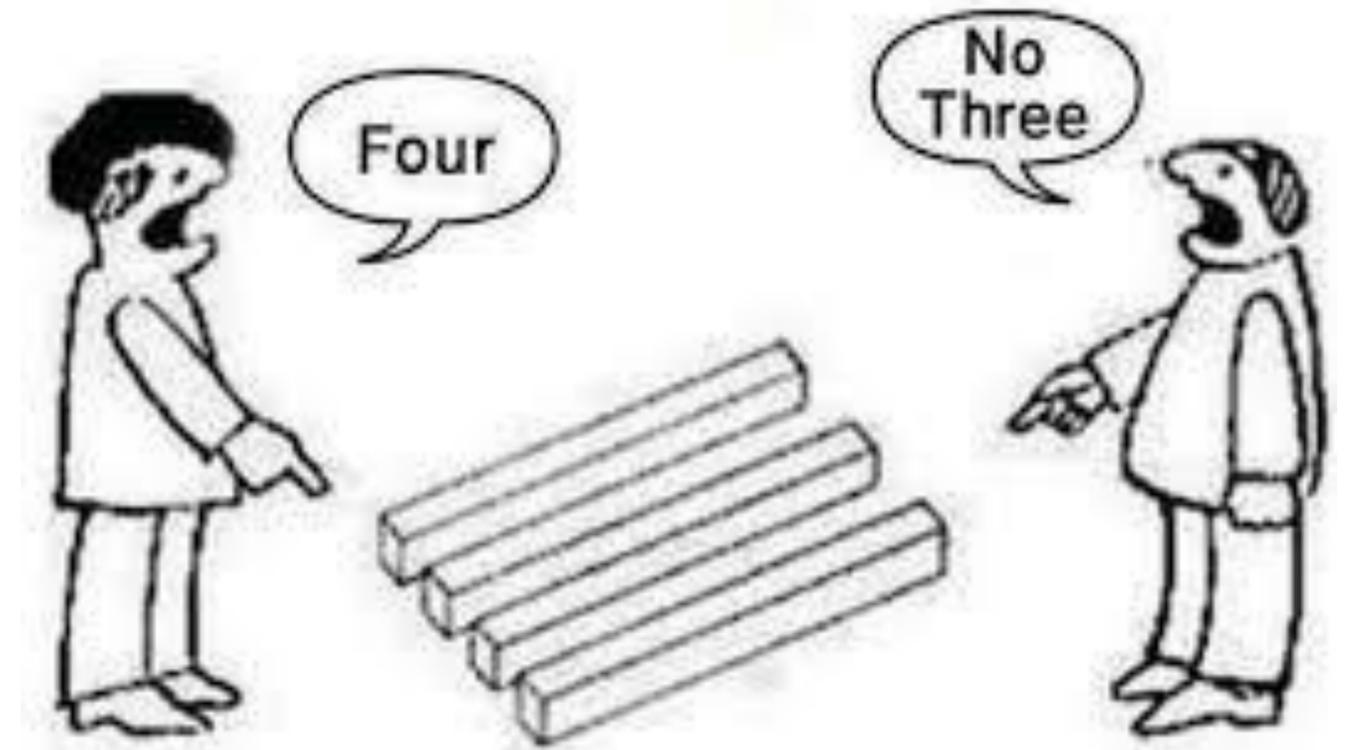
- There are 9 classes of business
- Class of business is regarded as “generic knowledge” in respect of a specific type of product – therefore it is once-off training in respect of that particular class of business
- The focus is on generic principles that apply to that particular class of business



# Chapter 3: Competence Requirements (Class of Business)

- Pass mark?
- What does “minimum requirements” mean?
- What must be covered in the training?
- How do we provide evidence of this?
- What record must the FSP be provided with that will be regarded as evidence of class of business?
- Does the duration of the training matter?

**It is really confusing!!!**





## Chapter 3: Competence Requirements (Class of Business)

- Must be provided by accredited training provider / higher learning institution – why?
- Does not apply to:
  1. Reps & KIs - funeral assistance business
  2. Cat I Reps - Tier 2 products
  3. Cat 1 Reps - Execution of sales – all products
- Record keeping requirements
- FSP must provide confirmation of training



# Chapter 3: Competence Requirements (Product Specific)

- ❑ Product specific training refers to the specific product in respect of which services are rendered that is unique to that particular product supplier.
- ❑ Product training includes product amendments:
  - Could be provided by any person
  - N/a to Cat II, IIA and III FSPs
- ❑ Record keeping requirements
- ❑ FSP must provide confirmation of training



# Competence Requirements: Summary

CATEGORY I							
PERSON	ACTIVITY	EXPERIENCE	QUALIFICATION	RE	COB	PS	CPD
Representative	Long-term Insurance subcategory A Friendly Society Benefits <i>(Advice and/or intermediary services)</i>	ADVICE: 6 months INTERMEDIARY: 2 months	N/A	N/A	N/A	YES	N/A
	Scripted Sales Execution: All products <i>(According to a pre-approved script under direct supervision of a KI)</i>	TIER 1 PRODUCTS: 1 - 2 yrs TIER 2 PRODUCTS: 6 months - 1yr	GRADE 12	N/A	N/A	YES	N/A
	Tier 2 products <i>(Advice and/or intermediary services)</i>	ADVICE: 6 months - 1 year <i>(Depending on the product)</i> INTERMEDIARY: 2 - 6 months <i>(Depending on the product)</i>	YES <i>(Refer to the list of recognised qualifications for Category I)</i>	N/A	N/A	YES	N/A
	Tier 1 products <i>(Advice and/or Intermediary Services)</i>	ADVICE: 1 to 2 years <i>(Depending on the product)</i> INTERMEDIARY: 6 months - 2 years <i>(Depending on the product)</i>	YES <i>(Refer to the list of recognised qualifications for Category I)</i>	RE5	YES	YES	ADVICE: YES INTERMEDIARY: NO
Key Individual	Category I: Management and oversight of financial services	MANAGEMENT & OVERSIGHT: 1 Year in respect of a Cat I FSP	YES <i>(Refer to the list of recognised qualifications for Category I)</i>	RE1	YES	N/A	YES

# Competence Requirements: Summary

CATEGORY II							
PERSON	ACTIVITY	EXPERIENCE	QUALIFICATION	RE	COB	PS	CPD
Representative	Tier 1 products Tier 2 products (Advice and/or intermediary services)	1 - 3 Yrs <i>(Depending on the product)</i>	YES: NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category II)</i>	RE5	YES	N/A	YES
Key Individual	Category II: Management and oversight of financial services	MANAGEMENT & OVERSIGHT: 1 Year in respect of a Cat II FSP	YES:NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category II)</i>	RE1 & RE3	YES	N/A	YES
CATEGORY IIA							
PERSON	ACTIVITY	EXPERIENCE	QUALIFICATION	RE	COB	PS	CPD
Representative	Category IIA financial services	3 Yrs	YES: NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category IIA)</i>	RE5	YES	N/A	YES
Key Individual	Category IIA: Management and oversight of financial services	MANAGEMENT & OVERSIGHT: 1 Year in respect of a Cat IIA FSP	YES:NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category IIA)</i>	RE1 & RE3	YES	N/A	YES

# Competence Requirements: Summary

CATEGORY III							
PERSON	ACTIVITY	EXPERIENCE	QUALIFICATION	RE	COB	PS	CPD
Representative	Category III financial services	3 Yrs	YES: NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category III)</i>	RE5	YES	N/A	YES
Key Individual	Category III: Management and oversight of financial services	MANAGEMENT & OVERSIGHT: 1 Year in respect of a Cat III FSP	YES:NQF Level 7 or higher <i>(Refer to the list of recognised qualifications for Category III)</i>	RE1 & RE4	YES	N/A	YES
CATEGORY IV							
PERSON	ACTIVITY	EXPERIENCE	QUALIFICATION	RE	COB	PS	CPD
Representative	Category IV financial services	1 Yr	YES <i>(Refer to the list of recognised qualifications for Category IV)</i>	RE5	YES	YES	YES
Key Individual	Category IV: Management and oversight of financial services	MANAGEMENT & OVERSIGHT: 1 Year in respect of a Cat IV FSP	YES <i>(Refer to the list of recognised qualifications for Category IV)</i>	RE1	YES	NO	YES

# Chapter 4: Continuous Professional Development (CPD)

- ❑ Principle – must maintain the required competence to render financial services
- ❑ Professional Bodies must approve CPD providers and CPD programmes
- ❑ FSP must establish and maintain -
  - policies on how to maintain, update and develop new knowledge and skills;
  - **training plans** to ensure CPD is relevant and appropriate, addresses any identified needs or gaps and improves professional standards.
- ❑ FSP must keep record of CPD hours and evidence of activities



Continuing  
Professional  
Development



# Chapter 4: Continuous Professional Development (CPD)

<b>Class / Subclass of Business</b>	<b>CPD Hours Required</b>
Single subclass within a single class of business	6 hours per CPD cycle
More than one subclass of business within a single class of business	12 hours per CPD cycle
More than one class of business	18 hours per CPD cycle



# Chapter 4: Continuous Professional Development (CPD)

- ❑ Persons appointed for a period less than 12 months in a CPD cycle – complete a pro-rated minimum number of CDP hours (formula to calculate this is provided)
- ❑ Reduction of CPD hours – continuously absent from work due to:
  - Maternity, paternity or adoptive leave
  - Long-term illness or disability
  - Responsibilities to care for a family member of that representative who has a long-term illness or disability
  - Formula to calculate this is provided

$$\begin{array}{l} n^{\text{th}} \text{ term} \\ t_n = a + (n - 1)d \end{array}$$

$$\begin{array}{l} \text{Mean difference} \\ d = t_{n+1} - t_n \end{array}$$

$$\begin{array}{l} \text{Sum of } n \text{ terms} \\ s_n = \left(\frac{n}{2}\right) [2a + (n - 1)d] \end{array}$$



THANK YOU