

Be aware of what you offer clients

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The FAIS Act requires financial advisers to always act with due care, skill and diligence, yet this requirement is often found wanting in Ombud determinations and leads to rulings being made against advisers.

In light of recent property syndication collapses and failed venture capital schemes, the Ombud's message without exception is that the advisers involved performed little or no due diligence.

They failed to understand not just the products, but the inherent risks involved for their clients, and they relied on the marketing spin provided to them. The Ombud's rulings emphasise the importance of knowing exactly what you are offering before making recommendations to your clients.

A due diligence is the process one should follow to check products and their suppliers, just as one would request a roadworthy certificate when purchasing a vehicle. The first phase of a due diligence is to ascertain that the product you wish to present to clients is well designed and offers the value it asserts.

The second phase is to check that the product supplier is sound, applies appropriate governance principles and possesses the financial strength to be able to fulfil its promises.

By understanding the product, you will also know to whom you can offer it. For instance, by knowing that a debenture issued by an unlisted company is, by nature, a higher risk product, you should know not to offer it to older clients, irrespective of the

promise of guarantee or income. Generally speaking the newer the supplier in the market, the less familiar the product and the more risk involved in going (uniformed) with the investment, the higher your level of familiarisation and investigation should be.

If you choose to venture into the unknown and advise on niche products offered by unknown suppliers or unregulated products, the due diligence requirement expands exponentially.

When undertaken correctly, the due diligence process is a time consuming and potentially expensive exercise, as it requires advisers to evaluate financial statements and governance rules.

In many cases, advisers are not able to do this and would thus be well advised to limit their advice to established and well-known product providers that sell regulated products. In these circumstances, the due diligence requirement is limited to making sure you understand the product.

A product beyond your expertise should not be offered; alternatively, the client should be referred to somebody with the

appropriate proficiency.

In addition to the regulators, clients expect their advisers to do a due diligence as a duty of care.

Going through a due diligence exercise indicates that you have taken the effort to ensure the companies and products you propose will reasonably meet their expectations.

From an adviser's perspective, a due diligence offers peace of mind and also shows that you acted reasonably if a dispute arises in the future.

Masthead conducts thorough due diligences on product providers before including them on the Masthead platform. To help member advisors do their own due diligences, Masthead provides a series of questions and points that advisors should consider before supporting or promoting a company or product.

The organisation also tests ideas and processes with the appropriate regulatory bodies.

For assistance in conducting due diligences, please contact your nearest Masthead regional consultant or visit www.masthead.co.za

To obtain the right product and company information, an investigation needs to be far more than superficial inquiries or attendance at product launches. How deeply one should investigate depends on the product, as well as other factors such as your targeted clients' typical age, financial risk tolerance and experience in similar transactions

