

**Advertorial****Having completed the second FAIS audit, its time to take stock of your business**

# A cost and benefit analysis of FAIS

**B**y the time you read this, says Peter Dempsey, Masthead Managing Director, "the second FAIS annual audit season will be behind us. For most, it will have created little disruption and resulted in the satisfaction of knowing that all is well."

Come to think of it, the initial implementation of FAIS caused a flurry of nerves and the butterflies took off again a year later when the industry experienced its first wave of FAIS audits. Today it is simply a way of doing business for most advisors.

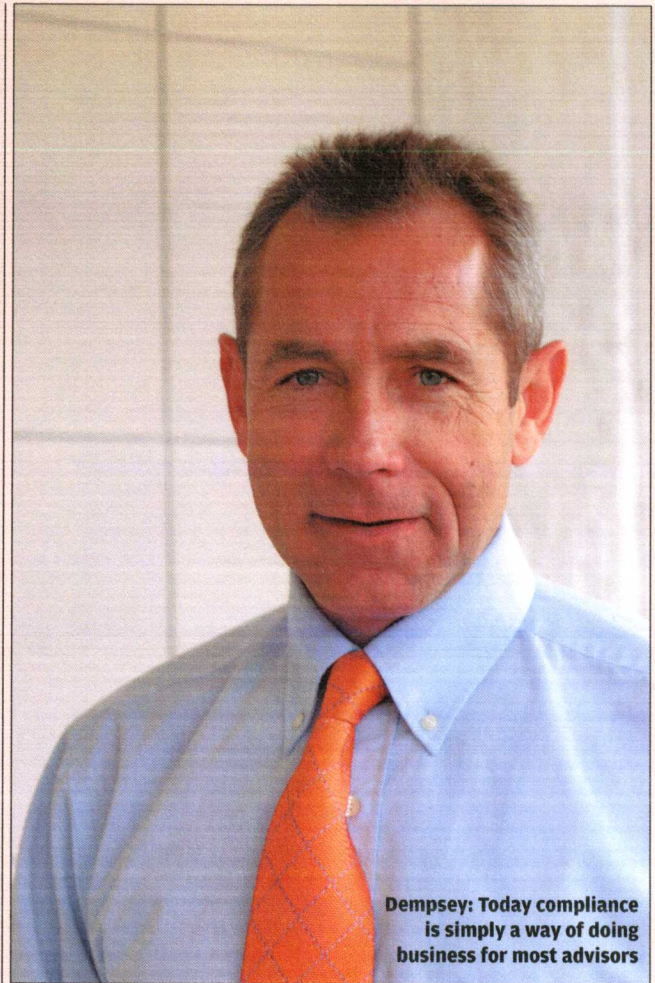
Dempsey believes that we should take stock of FAIS and consider, in particular, who benefits from and who pays for FAIS compliance. He suggests that the debate is ongoing in terms of costs in our present environment, but there are three clear FAIS beneficiaries.

Firstly, the financial services industry has benefited. Clarification, a greater measure of standardisation and a reasonable degree of prescription have seen the industry stabilise in terms of advice givers. Early indications are that the now entrenched requirements will govern the quality of advisor entering the industry and that, together with other qualifications (AFP, RFP and CFP, for example) should positively influence the overall standard of advice being given. FAIS certainly appears to plug a gap that existed where self-regulation failed to uphold the industry reputation.

Secondly, the client has benefited on two scores. On one hand, the structuring of the advice process (through FAIS and related legislation) has entrenched consumer rights, making litigation more straight forward where appropriate. On the other hand, the same structured approach has resulted in a more thorough approach to financial planning through the encouragement of a full needs analysis (FNA), for example. Protection of interests balanced with an enhanced advisory service amount to definite client benefits.

The third beneficiary is the financial advisor. Adopting the FAIS approach to advice giving by making use of an FNA and obtaining alterna-

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tive quotes, for example, has resulted in three specific benefits to advisors:

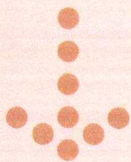
- The approach lends itself to business relationship building and an ensuing improvement in client retention.
- It also ensures that the full extent of a client's needs are exposed, frequently resulting in the sale of additional products.
- By regularly reviewing a client's portfolio, relationships are further cemented and other business emanates as circumstances and requirements change.

The costs of compliance with FAIS fall into two categories. The direct cost of a Compliance Officer is measurable and can range from between R400 and R2 500 per month, per key individual or representative, depending on the FAIS licence category and services required. The indirect cost of compliance related to the time and effort involved in ensuring adherence to a structured, professional approach to advice giving should not be measured. It should be a non-negotiable, transparent component of

performing the role of a financial advisor.

That brings us to who pays for compliance. Dempsey argues that amongst the select few advisors who currently charge their clients a fee for advice, it would be possible to incorporate a cost of compliance and pass it on to the client. For the vast majority of advisors who depend entirely on commission from product sales, the cost must be borne by the advisor.

Masthead makes Compliance Officer services available to its members through its business partner, Celestis.



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