

**FSB acts to prohibit sign-on bonuses for financial advisers**

Up front bonuses being offered by insurance companies to financial advisers to entice them to leave their current insurer and join them were prohibited by the Financial Services Board (FSB) in December 2014.

Caroline Da Silva, FAIS Deputy Executive Officer at the FSB says the reason for this decision was that these bonuses were invariably linked to how much business the adviser brought in for the new company, and the adviser risked having to pay the bonus back if they did not perform.

“While some product suppliers have argued that the sign-on bonuses were not performance linked, the outcome of this practice in almost every case was that the adviser churned clients to the new company by convincing the client that the new company’s policy or investment was a better option,” says Da Silva.

While the replacement policy is sometimes indeed a better option for the customer, it may be difficult for the customer to determine whether the adviser is really acting in their best interest and not in the best interest of his/her own pocket, swayed by the allure of the sign on bonus

Accordingly, the FSB is advising consumers who have been advised to move to another insurer to question if the adviser received a sign on bonus from the new company.

“If the answer is yes, then it is critical to interrogate the replacement you are being offered and the implications of cancelling your existing product”.

The FSB will be collating all the names and sales information of all advisers who received sign on bonuses both prior to and after December 2104. This will allow the FSB to identify any business that is a replacement, and interrogate this data to determine whether this was churn driven by the sign on bonus.

The FSB, under the FAIS Act, may take regulatory action against both the financial services provider and the adviser where they do not act with the interests of their clients or the integrity of the industry in mind. This action includes the ability of the Registrar to debar a person from working in the financial services sector for an appropriate period of time.

“The FSB takes incentive driven churn very seriously and will act against those brokers and companies who give poor advice to customers based on their own pockets and not the customer’s needs or interests,” says Da Silva.

**-ENDS-**

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