



Financial
SAFEGUARD



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Financial assistance:
Financial advisors

Introduction

An Authorised Financial Advisor is a professional who helps you make informed decisions about your money, assisting in creating plans to achieve financial goals such as saving for retirement, investing, or managing debt. Financial Advisors are representatives of Financial Services Providers (FSP's). They are authorised to provide financial advice to clients and assist in providing financial products.

These advisors can either earn commission on product sales or charge a fee for advice. Some advisors work for specific companies, offering products from those businesses, while others are independent, providing a broader range of options. By working with an Authorised Financial Advisor, you can gain access to their extensive knowledge and guidance on which financial products best suit your needs and budget.






1. Seek advice

It is very important to manage your money well. You need to understand financial products, services and all elements of finance (budgeting, estate planning, etc.) so that you can reach your savings and investment goals.

Asking for financial advice can make a big difference.

 **NOTE:** Financial wellness means being in charge of your finances, rather than letting money worries control your life. It's about having peace of mind that you're able to pay your bills on time, being prepared for unexpected expenses, and making smart financial choices that give you the freedom to manage your money as you see fit.

1.1 Reasons for financial or investment advice

The right kind of financial advice can help you:

- Set financial goals and make sure they are realistic and achievable.
- Stay on track with your goals.
- Make your money work for you.
- Avoid costly mistakes.
- Assess if existing policies and investments still serve your needs and goals.
- Protect the things that you own.
- Reduce complexity.
- Secure your standard of living.
- Protect your income.

Financial advice can show you that your goals are achievable. If you are not on track to achieve your goals, it can help you to take the right steps to get back on track or to update your goals, making them more realistic and achievable.

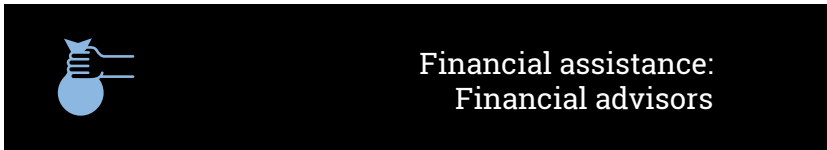
1.2 When advice is a good idea

There will be times in your life when asking for financial advice might help you. For example:

- If you've just got your first job or a promotion.
- If you're considering buying a car or your first home.
- If you're thinking about getting married.
- If you're thinking about starting a family.
- If you're thinking about your children's education.
- If you've inherited or won some money.
- If you've been retrenched.
- If you're opening your own business.
- If you're approaching retirement.
- If you're wanting to reduce your debt.



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2. Where to get advice

2.1 Online advice

There is a lot of information online that can help you with questions about your finances.

2.2 FSCA

FSCA is the market conduct regulator of financial institutions, which provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators, and market infrastructures.

What they do

The Financial Sector Conduct Authority (FSCA) is responsible for market conduct regulation and supervision. FSCA aims to enhance and support the efficiency and integrity of financial markets. It also protects financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. Further, FSCA assists with maintaining financial stability.

2.3 Banks

Bank staff can also be a good source of free factual information about ways to save, such as savings accounts and term deposits. This might be all the information you need if your main financial goal is saving for a home or building an emergency savings fund. Remember to shop around and compare products.

2.4 Employee retirement fund

Your employee retirement fund can provide factual information, including

- Investment options within your current fund
- Saving for retirement
- How to make extra contributions to your current fund
- Consolidating multiple funds
- Insurance options within your current fund

3. Financial Advisors

As explained previously, an Authorised Financial Advisor helps you to make informed financial decisions and create plans to achieve goals like retirement savings, investments, or debt management. They are experts in financial products and can offer advice on investments and insurance. Advisors may work for specific companies or be independent, providing a range of options to suit your needs.

3.1 Different types of Financial Advisors

Role	What they are	What they do	Why you need them
Financial Advisor	A professional providing advice on financial products to suit your needs. Often involved in managing investments and creating estate plans.	Assist with financial tasks such as managing investments and creating comprehensive plans. May work for specific companies or be independent.	For personalised advice on managing finances and investments to align with financial goals.



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Financial Planner	<p>A type of Financial Advisor specialising in long-term financial plans. Often certified (e.g. CFP) and focused on investments, taxes, retirement, and estate planning.</p> <p>A Certified Financial Planner® is a financial advisor who has an undergraduate or postgraduate qualification in financial planning from an education provider approved by the Financial Planning Institute of Southern Africa (FPI).</p>	<p>Gather financial information to draft a comprehensive plan. Identify areas needing attention and may refer to specialists.</p>	<p>To create tailored plans for achieving long-term goals, such as retirement or purchasing a house. Provides holistic financial guidance.</p>
Broker	<p>Typically a tied agent selling financial products such as life insurance, short-term insurance, investments, or funeral products. Specialises in specific products and may work for a single company.</p>	<p>Facilitate the buying and selling of securities, earning commission in the process. May only offer products from their company.</p>	<p>For the quick purchase of specific financial products, though advice may be limited.</p>
Tied Advisor or Agent	<p>Employed by or affiliated with a financial institution. Primarily recommends products from that institution.</p>	<p>Sell products from their affiliated company, earning a salary plus commission based on sales targets.</p>	<p>For convenience if already using services from their institution, though advice may be biased.</p>
Independent Financial Advisor	<p>Operates independently, not tied to any specific institution. Can recommend a wide range of products.</p>	<p>Provide unbiased advice across various financial products. Responsible for their own advice and often have professional indemnity insurance.</p>	<p>For unbiased advice across multiple products, helping you make informed decisions without being limited to specific company products.</p>



3.2 Financial Advisors versus Financial Planners

Let's explore a practical example to compare the difference between a Financial Advisor and Financial Planner.

Example 1: Financial Advisor

Thabo, a young South African, recently received a lump sum from an inheritance. He wanted to invest this money wisely but wasn't sure where to start. Thabo needed advice on managing his investments to achieve short-term financial stability.

Thabo consulted an Authorised Financial Advisor who specialised in investment management. The advisor assessed Thabo's financial situation and goals, then recommended a diversified investment portfolio that included stocks and bonds. The advisor helped Thabo set up the investments and explained how they would work.

Thabo was pleased with the personalised advice and felt confident that his investments were aligned with his short-term goals.

Example 2: Financial Planner

Ntombi, a middle-aged South African, was nearing retirement and wanted to ensure she had enough savings to live comfortably. She also hoped to purchase a house for her children. Ntombi needed a comprehensive plan to achieve these long-term financial goals.

Ntombi consulted a certified Financial Planner (CFP) who specialised in retirement and estate planning. The planner gathered detailed information about Ntombi's income, expenses, and financial objectives. They created a tailored plan that included strategies for maximising retirement savings, investing wisely, and setting aside funds for the house purchase.

The planner also identified areas where Ntombi could optimise her tax benefits and referred her to a tax specialist for further advice. With this holistic plan, Ntombi felt secure about her financial future and was confident she could achieve her long-term goals.

In summary, the Financial Advisor helped Thabo with immediate investment decisions, while the Financial Planner assisted Ntombi with creating a comprehensive long-term financial strategy.


4. Steps to find an Authorised Financial Advisor


4.1 Where to look for an Authorised Financial Advisor

One of the best ways to look for a Financial Advisor is through word-of-mouth. Speak to friends, family and colleagues, but be careful of get-rich-quick schemes. If it sounds too good to be true, it probably is.

The Financial Sector Conduct Authority (FSCA) also has a list of all the Financial Advisors that are authorised by them to sell financial products and services. This list also specifies which products and services they are authorised to sell. Not all advisors can give advice on every type of financial product.



 To find an Authorised Financial Advisor visit the FSCA website.
Contact details provided in the FSCA MMLS contact list.

 To find a Certified Financial Planner visit the Financial Planning Institute (FPI) website.
Contact details provided in the FSCA MMLS contact list.

4.2 Choosing a good Financial Advisor

When choosing a Financial Advisor, do not invest with just anybody. Consider the following:

- Are they authorised by the Financial Sector Conduct Authority (FSCA)?
- Do they represent a reputable company?
- Check their experience and qualifications.
- Can you communicate with them?
- Do they understand your needs?
- Are they explaining things to you simply?

Here is a list of questions you could ask before you sign up with a Financial Advisor:

Are you experienced, qualified and authorised?

- When choosing a financial services provider (FSP), it's important to check their authorisation. Ask them what categories they are licensed to provide financial advice in. For instance, they might only be allowed to sell short-term insurance products and not long-term insurance products.
- A good advisor should have qualifications like a Certified Financial Planner (CFP) from the Financial Planning Institute (FPI). Other valuable qualifications include a post-graduate diploma in financial planning.
- Check how many years of experience they have in providing financial advice.
- Ask to see a copy of their certificates and authorisations.

 **NOTE:** For more information, visit the FSCA website. Contact details provided in the FSCA MMLS contact list.

Are you licenced?

- Advisors must have the right licences to give advice on specific products. For example, they need a category I licence for life assurance or collective investments.
- Ask to see a copy of their licences.

Are you working under supervision?

- Someone working under supervision does not meet one or more of the four competency requirements (experience, qualification, regulatory exam and class of business) and requires guidance, instruction and oversight by a supervisor. For example, a call centre agent working for an authorised FSP may be working under supervision.

Do you have references?

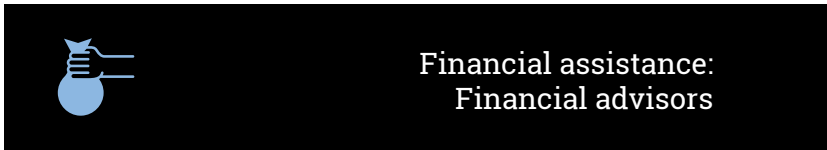
- A referral from a friend or family member is often a good way to choose a good Financial Advisor. You're looking for a professional who truly wants to help you achieve your financial goals.

Do you follow the six-step financial planning process?

- Most financial planning follows an internationally recognised six-step process to identify your current financial situation, knowledge, needs and goals. The gap between your current situation and your needs and goals is what will create your financial plan.



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 Refer to the Financial Safeguard Theme, sub-topic Financial Plans, for more on the six-step financial planning process.

How often will I meet with you?

- Your personal circumstances change. You should meet with your Financial Advisor at least once a year to review your plan.

Do you have someone who can step into your shoes?

- If something happens to your advisor, is there someone else who can take over the relationship?

Which companies do you deal with?

- Your provider should be connected to well-known service and product providers. Do they receive training to keep them up to date with industry changes, and do they have access to other financial planning experts (e.g. estate duty, taxation and trusts)?

Why is this financial product or service right for me?

- The financial product/service must meet your needs, so make sure you understand its benefits, fees, terms and any restrictions on claims or withdrawals.
- Ask them if they will provide quotes from only one company or quotes from many companies.
- Ask them how they will prove that the financial products/services recommended are right for you.


 Refer to the Financial Protection Theme, sub-topic Safeguard your finances and information, for more on laws that govern financial services.

What do you charge, and what will you provide for this fee?

- It is important to understand how your advisor earns an income. Find out how this will affect and benefit you. Make sure that you are going to get value for money.
- Financial Advisors can charge for their services either as part of the financial product they sell you or separately. Deciding this can be done through a process of engagement and negotiation.

Cashing out and investment

Ask about the terms and conditions related to the financial product you have purchased. Especially request information on cashing out your investments, including the process, fees and if any penalties apply for early withdrawal. Another consideration is tax on the income earned through your investment product.

 NOTE: If you can't afford a Financial Advisor, start by saving until you have a manageable amount, like R5,000. Then, you can consult an advisor on how to grow your savings. Alternatively, visit a financial institution for free factual information on available options.

5. The cost of a Financial Advisor

5.1 Retail Distribution Review (RDR)

RDR has been designed to end retail investors receiving bad financial advice. If the client is paying for advice, then bias will be eliminated because the Financial Advisor will not be pushing a product that pays more commission.



It focuses on:

- The value of fair, quality financial advice and the risks of not getting advice
- The levels of service and skill to expect from financial advisors
- The types of advisors and advice available, who they can hold to account for poor advice, and recourse mechanisms
- How they will pay for financial advice in future (compared to how they are paying now)
- Their responsibility to check advisor credentials and ensure they understand the value proposition

5.2 Do you know what you are paying?

There are different ways that a Financial Advisor charges for their services:

- Commission
- Fees on investments managed
- Based on their time
- Activity-based
- A retainer

5.2.1. Commission

Commission is calculated as a percentage of the amount you commit to investing or paying towards an investment or policy.

Commission is paid to your advisor by the financial product provider, so although it appears as if the advice you get is free, it is actually recouped in your premium or contribution. The commission in Rands should be disclosed to you.

Most financial advisors earn their money from commissions, particularly for life assurance policies against death, disability and severe illness.

Advisors are also paid commission on investments sold, particularly by tied agents who work for a financial services company.

5.2.2. Fees on investments managed

Those advisors who have abandoned commissions in favour of fees mostly ask for payment calculated as a percentage of the value of what you have invested on their advice. The industry refers to this as “the assets under management fee”. Most South African consultants charge 0.5% of the value of your investments.

The fees are deducted from your investments by the investment house and paid to your advisor.

5.2.3. Time-based fees

Few South African advisors charge a fee based on a predetermined hourly rate for their advice. Those who do so may collect the money from any commission paid on any policy or investment, or they will send you a bill.

5.2.4. Activity-based fees

Advisors who charge activity-based fees will have a menu of activities, for example, drawing up a full financial plan, planning your estate or drafting a will, with a set fee for each activity.

5.3 Annual/monthly retainer

In this case, you would regularly pay an agreed amount to your adviser to cover all fees, regardless of the time those tasks take to complete and how many tasks there are.

6. Robo advisors vs. self-advice

- A Robo advisor is an online platform that provides automated financial advice and investment management. It uses algorithms to recommend and manage investments based on the information you provide. Robo advisors may be cost-effective and accessible, offering automated recommendations ideal for simple financial goals, but they lack personalisation and emotional support.

 **NOTE:** Some financial institutions do not require data to use their automated app. However, some do require data.

- Self-advice is when you manage your own financial decisions without the help of a professional Financial Advisor or Financial Planner. You rely on your own knowledge, research, and judgement to decide how to save, invest, or handle your money. Self-advice provides control and no fees, but the risks are high. Uninformed decisions and no expert guidance can lead to costly mistakes. While younger individuals often avoid Financial Advisors due to perceived high fees, relying solely on self-advice can leave them vulnerable to significant financial risks without a safety net.

6.1 Pros and cons of robo advisors

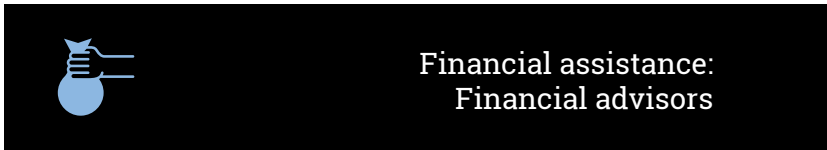
Pros	Cons
Possibly cheaper than using a human Financial Advisor.	Limited personalisation for complex financial needs.
Easy to use and accessible anytime.	No human support during market ups and downs or other life events.
Provides automated, data-based recommendations.	Relies on algorithms, which may not consider unique situations.
Ideal for simple and straightforward financial goals.	May not build trust or understanding like a human advisor can.

6.1.1. Pros and cons of self-advice

Pros	Cons
No fees, so it's cheaper than using a professional.	Risk of making mistakes due to lack of knowledge or experience.
Full control over your financial decisions, with no expectation to purchase simple financial products like life cover.	There is a different process when it comes to investment products like money market instruments, as there are fees that need to be paid upfront or monthly.
A chance to learn and improve your knowledge about finances.	No expert support to guide you through challenges or complex situations.
	Can be time-consuming to research and manage on your own.



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6.1.2. Pros and cons of Financial Advisors

Pros	Cons
Personalised advice tailored to your unique financial situation.	Payment is required for financial advice
Expert guidance for complex financial goals or investments.	May not be suitable for people with smaller budgets or simple needs.
Emotional support and reassurance during market ups and downs.	Risk of poor advice if the advisor lacks experience or has conflicts of interest.
Access to a wide range of professional tools and resources.	Dependence on the advisor for decisions can limit personal learning.
They review your finances at least once a year.	Some Financial Advisors are Tied Advisors, meaning they can only provide you with financial products or services from one Financial Services Provider (FSP).

Myth: There is a misconception that using Brokers or FSP's costs more than going directly to the product provider. The cost of the policy will remain the same whether there is a middleman or not. This applies to simple financial products.

7. The complaints and recourse process

If you're unhappy with the service, financial product or advice received from a Financial Advisor, follow these steps:

- **Make contact:** First, try to resolve the issue with the Financial Advisor or their company (Financial Services Provider (FSP)). They should have a complaints process in place.
- **Gather information:** Collect all relevant documents, contracts, and correspondence related to your complaint.
- **Submit your complaint to the FAIS Ombud:** If the company cannot resolve your issue, you can submit your complaint to the FAIS Ombud. This service is free and independent. You can lodge your complaint online or by contacting them directly.
- **Follow up:** The FAIS Ombud will investigate your complaint and may award compensation if your claim is valid.



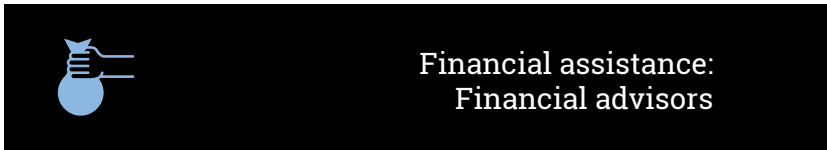
NOTE: Remember, the FAIS Ombud can only assist with complaints against Authorised Financial Services Providers.



NOTE: For more information, visit the FAIS Ombud website or contact them directly. Contact details are provided in the FSCA MMLS contact list.



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