



Financial
SAFEGUARD



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Financial assistance:
Getting financial advice

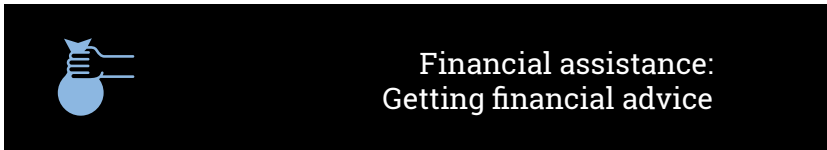
Introduction

Access to financial advice is easy but getting the right financial advice can be a hard. You wouldn't go to a person who fixes cars if you have toothache. So why would you seek advice from someone who is not qualified to give you advice?





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1. Where to get advice

1.1 Online advice

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

1.2 FSCA

The 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 we 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 and to protect financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. The FSCA will further assist in maintaining financial stability.

1.3 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.

1.4 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



2. Cost of Financial Advice

2.1 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 will focus 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 advisers
- The types of advisers 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 adviser credentials and ensure they understand the value proposition



Note: Financial advice received from a registered financial advisor comes at a cost.

2.2 Do you know what you are paying?

There are different ways that a financial advisor charges for their services:

- Commission
- Fees on investments managed
- Their time
- Activity-based
- A retainer

2.2.1. 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 adviser 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 rand's should be disclosed to you.

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

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

2.2.2. Fees on investments managed

Those advisers who have abandoned commissions in favour of fees have mostly asked 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 charged 0.5% of the value of your investments.



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

2.2.3. Time-based fees

Few South African advisers 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.

2.2.4. Activity-based fees

Advisers 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.

2.3 Annual/monthly retainer

Another rare bird: 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.



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

3. ROBO advice

Robo-advisors are digital platforms that provide automated, algorithm-driven financial planning services with little to no human supervision. A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey, and then uses the data to offer advice and/or automatically invest client assets.

The implementation is facilitated by instant access to application forms and easy-to-follow investment processes. Most investment strategies are based on low-cost passive, or index-tracking funds. Most robo-advisors offer access to a call centre if required, but the help provided is limited in nature.

Robo-advisors have been described as the Uber of the financial services industry and have been gaining steady ground internationally.

The benefits of robo-advisors are obvious:

- The concept of 'pressure sales' is eliminated. In the world of robo-advisors investment products are 'bought' rather than 'sold' – the age-old premise which underpins the marketing strategies of most financial services institutions.
- There is no urgency to make a decision. You can take your time, play with the input parameters and make your own decisions without the need to conform to someone else's timetable or 'sales' targets.
- You know exactly what you are paying, and once again, can make that choice actively without any embarrassment about the 'affordability' of the service.
- The robo-advisor provides the investor with a low-level financial plan which suits the requirements of many investors, particularly first-time investors and young savers who do not need life insurance, disability or estate planning advice.
- The robo-advisor provides investors with consistent advice, taking into account their personal circumstances and risk profiles, without any subjectivity.



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- The robo investment will not help you create a completely custom portfolio in a way that a (good) professional financial planner would but for most people – especially younger investors who would prefer to do it themselves – these types of online services are good enough.
- Robo-advisors operate well in the field of investments, rather than life insurance. They are limited in terms of how much explanation of different aspects of investments they can provide.
- They are also unable to offer the extent of advice required when an individual has left saving too late and needs to scramble to secure their financial future.
- They require a level of tech-savvy which many older investors do not have. In all such circumstances, the value of good financial planning advice cannot be underestimated.

However, for most people who simply want to put away some money in an easy, cost-effective and convenient way, with little risk of under-performance of the market, a robo-advisor might be the answer.