

**THE INFLUENCE OF FAIS AND FICA ON A MEDIUM SIZED LIFE INSURANCE  
COMPANY – ASSUPOL LIFE**

**by**

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## **Dedication page**

I would like to dedicate this dissertation to my family, especially to Alex Swart for his encouragement and support during my study years. All through my studies there were times when the encouragement and support of my wife, Marthie made the difference to persist and achieve the set goals. I would also like to dedicate this research to her for endless patience and support.

## Declaration

I declare that the research: *“THE INFLUENCE OF FAIS AND FICA ON A MEDIUM SIZED LIFE INSURANCE COMPANY – ASSUPOL LIFE”* is submitted solely for degree purposes at the University of South Africa and has not been previously submitted for degree purposes at any other educational institution. I further declare that except for acknowledged sources this is my own work and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

November 2010

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Signed: CJ Laidlaw

## **Acknowledgement**

Without the continued honest and invaluable feedback from the management team of Assupol Life this research project would not have been possible. The support of Mr. Wessels as Chief Executive Officer made it possible to have access to company information and obtain valuable insight into the company.

I would like to seize this opportunity to personally thank my supervisor, Mr. Jaco van der Bank for his support and understanding. His constructive and greatly appreciated criticism and feedback were invaluable to the research, writing and completion of this study.

## **Abstract**

As a medium-sized life insurance company Assupol Life provide life insurance products to clients within government departments, although the company entered the broader private market. The enactment of the Financial Advisory and Intermediary Services Act, 2002 and the Financial Intelligence Centre Act, 2001 impacted financial service providers and the research analysed the influence of regulation on managerial decision making, marketing and sales, finance, human resources, training and the structures within the organisation to comply with the legislation.

The study endeavoured to determine the influence of regulation on the company and the measures implemented by the management of Assupol Life. The research results confirmed that the primary challenge faced by the company is to find a balance between compliance, managing human capital and creating value for shareholders. The major impact of the legislation involves the human resource- and training functions and the study illustrated that other influences was less severe.

### **Key Terms:**

Influence

Impact

FAIS

FICA

Financial Services Board

Compliance

## **Abbreviations**

ASISA	Association for Savings & Investment SA
CPD	Continuous Professional Development
CEO	Chief Executive Officer
CO	Compliance Officer
CRM	Client Relationship Management
DCS	Department of Correctional Services
EE	Employment Equity
FAIS	Financial Advisory and Intermediary Services Act, Act 37 of 2002
FD	Financial Director
FICA	Financial Intelligence Centre Act, 2001
FNA	Financial Needs Analysis
FSB	Financial Services Board
FSP	Financial Services Provider
HIV/ AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HRD	Human Resource Director
HR	Human Resources
IFRS	International Financial Reporting Standard
INSETA	Insurance sector education and training authority
ILC	Isambulela Learning Company
KI	Key Individual
LOA	Life Offices Association
NQF	National Qualifications Framework
RE	Regulatory Examinations
SAPS	South African Police Services
SARS	South African Revenue Services

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## CHAPTER 1

### INTRODUCTION

#### 1.1. Overview

##### 1.1.1. Introduction to the research

This study focuses on the influence that the Financial Advisory and Intermediary Services Act, 2002 (FAIS) and the Financial Intelligence Centre Act, 2001 (FICA) have on Assupol Life as a medium-sized life insurer. Assupol Life is used as the population to identify and assess the influence that the legislation has on the operations, growth and functions of a typical medium-sized life insurance company.

According to Bester (2005:52) the objective of industry regulation is to improve economic welfare. Bester (2005:52) states that regulation is necessary due to real-world markets being imperfect and are characterised by market distortions, risks and externalities. The cost of these imperfections is carried by market participants, reducing their welfare and the welfare of the overall market.

Insurance is defined by Porteous (2004:20) as “the provision of cover against a defined risk event/s in return for the payment of a premium. This category includes conventional products such as life insurance, funeral cover, short -term insurance as well as membership of informal quasi-insurers such as burial societies. Note that insurance companies do not offer only insurance - many offer savings products as well.”

A PricewaterhouseCoopers survey, “Emerging Trends and Strategic Issues in South African Insurance” conducted in 2008 based on personal interviews with senior executives in twenty-five local short-term and long-term insurers – provides a useful benchmark for insurers. Ninety six percent of respondents believe that regulatory pressure on financial institutions will increase over the next three years; half of these think that the increase will be “substantial” while the other half believes that it will be “slight”. Ironically, regulatory complexity is considered to be the “greatest barrier in achieving first-rate compliance”.

Metcalfe (2008:21) conducted research amongst fourteen life insurance companies and the majority of the participants believed that regulatory pressure is due to increase over the next three years. Amongst the life insurers the industry expected a strong expansion in policy holders from 22.6 million in 2008 to 29 million in 2011. Although this represent a positive growth for the industry, the FAIS Act has already lead to broker consolidation and this is expected to continue. Metcalfe (2008:21) determined that regulatory issues were the second major driver identified by participants. The following are significant results obtained from the survey in 2008:

- two thirds of participants believed that governance legislation distracts management from pursuit of growth;
- compliance is dampening risk appetite and growth;
- participants does not believe that regulation have created a fairer playing field;

Participants believe that the enactment of the FAIS Act and FICA created a longer sales process, slower turnaround times, an increase in complexity and slower volumes.

### **1.1.2. The rationale for regulation in the financial services industry**

Bester (2005:52) further re-visits some of the assumptions underlying the theory of perfect markets, as this illustrates the ways in which markets can fail and thus provides the rationale for regulatory intervention:

- *Full information:* It is assumed that buyers obtained full information concerning the costs in the case of perfect markets. Little prudential risk exists with full information as the markets have all the necessary information to react to risks in a timely manner. The risk cannot be concealed. Further it is assumed that clients know what the balance price in the market is, and will not pay more than that for the product or service.

- *Homogenous products*: Product homogeneity guarantee that the price of products and services are comparable and that goods are fully substitutable, which ensures that providers compete on price and buyers have the choice between the products and services.
- *A large number of buyers and sellers of the service or product*: These conditions ensures that no single buyer are able to determine prices, and that market risk is low.
- *No entry barriers - no cost to entry into or exit from the market*: The absence of barriers to entry ensures that any change in the profitability of a market will result in providers entering or exiting the market. This ensures that resource allocation across the economy is optimised.

However, the theory assumes that goods are purchased and paid for on a once-off basis, which is quite different to the contractual nature of insurance products, for which premiums are paid over a long period of time. Applying the original theory to such products would require that there should also be no cost for the consumer to enter or exit an insurance contract.

- *Markets are in equilibrium*: the net result of the above assumptions is that markets are always in equilibrium. This means that supply equals demand at the equilibrium price, which ensures maximum economic welfare for providers and consumers, as well as optimal resource allocation.

This research was motivated by one primary factor, namely to determine the impact that the regulation has on the different functions and divisions of the company and researching the interventions of management to address the influences in order to maintain the company as an operational entity.

## **1.2. The present South African financial services market**

### **1.2.1. Accessibility of financial products to South Africans**

To understand the accessibility of financial products to the South African client, one must first comprehend the reality of present day economic circumstances of potential users of the products and services. Grundling (2009:4) states the following regarding the potential South African client in terms of the financial services industry:

- sixty nine percent of adults are from households that have at least one person who is unemployed and looking for work;
- a decline in the percentage of adults with formal as well as informal employment (28 percent of adults get money from formal employment whilst 16 percent earn an income from informal work);
- in terms of sources of money, South African adults illustrate a significant reliance on friends or family – 28 percent of adults get money from friends and family as a source of income;
- twenty five percent of adults get an income from Government social grants; and
- generally SA adults appear to be increasingly concerned about day-to-day living and expenses, increasingly more risk averse and not able to save.

The above circumstances seriously impacts on consumers as it influences the availability and affordability of financial products. A further impact is that clients may have less cover or no cover for specific risks due to the inability to pay premiums.

### **1.2.2. The availability of insurance products to South Africans**

According to Grundling (2009:4) the following represent the current state of insurance in the South African context:

- 45 percent of South African adults have some financial product covering a defined risk – i.e. life, burial, health and/or short term insurance products;



- 16.8 percent of adults have short term insurance products;
- 43.5 percent of adults have long term insurance products;
- young adults (younger than 30 years of age) are least likely to have long term insurance;
- adults with long term insurance are most likely to have funeral cover through a burial society (45 percent), life insurance or life cover (33 percent) or funeral cover from a shop/store (27 percent); and
- adults with long term insurance products are more likely to have a formal product (71 percent of those with long term insurance products) than an informal product (48 percent of those with long term insurance products).

It is significant that only 45 percent of South Africans have one or other type of insurance products. The rate of unemployment remains high and the other factors as described in 1.4.2 directly influence the affordability of insurance products. In most cases insurance companies are forced to decide upon the most suitable market, and concentrate in designing and presenting the most suitable and affordable products to that market.

### **1.3. Background to the legislation**

The FAIS and FICA legislation aim to provide the South African consumer with the necessary protection against dishonest financial service providers and also national and international threats in different disguises. Not only is the legislator attempting to protect the consumer against the traditional unscrupulous provider, but also to prevent the financing of terrorist activities and the laundering of money as a result of criminal activities.

#### **1.3.1. Objectives: Financial Advisory and Intermediary Services Act, 2002 (FAIS)**

FAIS requires the following from the financial services provider:

- determine the financial needs of clients;
- provide appropriate advice to clients after having established the relevant facts;
- assist clients to make informed decisions;
- establish an effective complaints resolution mechanism;
- ensure that intermediaries are competent; and
- ensure that product providers and financial service providers act with due care and diligence, and in the interests of the client.

### **1.3.2. Objectives: Financial Intelligence Centre Act, 2001 (FICA)**

The principle objectives of FICA are the following:

- assist in the identification of the proceeds of unlawful activities and the combating of money laundering activities;
- make information collected by the Centre available to investigating authorities, the supervisory bodies, the intelligence services and the South African Revenue Service to facilitate the administration and enforcement of the laws of the Republic;
- exchange information with bodies with similar objectives in other countries regarding money laundering activities, the financing of terrorist and related activities, and other similar activities; and

- supervise and enforce compliance with this Act or any directive made in terms of this Act and to facilitate effective supervision and enforcement by supervisory bodies.

### **1.3.3. Background to regulation of the financial services industry in South Africa**

The FAIS Act was enacted in 2002, primarily requiring financial service providers to become licensed through the Financial Services Board. The purpose of the legislation was to regulate the manner in which financial services was to be provided to consumers, and to ensure that providers are suitably qualified and experienced to ensure that advice and services are provided in a professional and responsible manner.

Access to financial services in South Africa was a major contributing factor for regulations to be enacted. According to Napier (2005:4) highlights from the FinScope SA 2004 survey included the following:

- 54 percent of the adult population are unbanked and 42 percent have never had a bank account;
- overwhelmingly, the unbanked cite lack of job or money as the reason for not having a bank account;
- physical access to banks is a major issue for the rural poor with only 5 percent of the 8.1 million people living on tribal lands saying they have a bank nearby;
- only 11 percent have a formal life insurance policy although 15 percent have a funeral policy and 20 percent (six million) use burial societies; and
- access to a cell phone is increasing rapidly – 46 percent have access in 2004 as against 37 percent in 2003.

These statistics are indicative of the level of availability and affordability of financial services to mainly the poor in the past at the time the legislation was enacted. Not only financial legislation impacted on service providers, in addition the Financial Sector Charter added a new dimension to the regulation of the financial sector in South Africa. The Charter itself was given regulatory status by being published as a Transformation Charter in terms of the Broad-based Black Economic Empowerment legislation (Bester 2005:78).

Bester (2005:78) states that the Charter contains specific targets for the promotion of access to financial services. In relation to funeral insurance in particular the parties to the Charter, which includes formal insurers, have committed themselves, by 2008, to make available appropriate products, affordably priced and through appropriate and accessible physical and electronic infrastructure such that a percentage (to be settled with the life assurance industry) of LSM 1 - 5 households have effective access to funeral insurance products.

LSM 1 - 5 are the poorer people in society; in 2004 there were approximately 19.4 million LSM 1 - 5 in South Africa 4,67 percent of the adult population (29 million over 16 years of age). 61 percent of the adult population earns less than R750 (US\$ 125) per month.

<b>Monthly personal income in Rand</b>	<b>Percentage in LSM 1 - 5 (percentage)</b>
No income	78.88
1 - 500	83.04
501 - 750	82.77
751 - 1,000	82.06
1 001 - 1,500	62.62
1,501 - 2,000	66.58
2,001 - 3,000	45.60
3,001 - 4,000	25.10
4,001 - 5,000	18.90

5,001 - 6,500	17.46
6,501 - 8,000	9.55
8,001 - 9,500	0.00
More than 9,500 per month	3.59
Refuse to answer	22.20
Do not know	52.75

[Source: Personal income to LSM: FinScope (2004:13)]

**Table 1.1 - LSM 1 to 5 results**

Napier (2005:7) asserted that the new legislation introduced to shape the vision of an “open economy” and policy development has been notable for its consistency, despite pressure arising from the negative impacts associated with global influences, notably exchange rate volatility amongst others.

It is important to address the above aspects to obtain a clear picture of the implications the financial service provider are faced with at the present time. Regulation of an industry normally leads entities within that industry to reconsider the different strategies in order to comply and to still be able to manage a company’s results to satisfy the requirements of all role players, most important of all the shareholders.

Assupol Life consists of a senior management structure which maintains the management of information, sales and compliance. As a subsection the compliance department is headed by a senior advocate and a team of legal experts. Within this structure compliance is not only the responsibility of this department, but of every person in the employment – or contracted to the company. This research includes all levels of the different role players, and information was obtained in this manner. This study further presents a view of the financial services industry and the improvements that were brought about by legislation introduced during the past eight years.

By regulating the financial services industry the government introduced a new era for amongst others life insurance companies such as Assupol Life. As is the case of all

life insurers, Assupol Life has evolved over the past eight years to adjust to legislation and strategically adapt its management strategy with regards to cost management, company structure, change management of the sales and marketing division and to ensure that its financial products remain as affordable as possible.

As a medium sized life insurer that mainly markets its products to lower income government officials but also to higher income private individuals, Assupol Life presents the study to determine and analyse the actual impact of compliance on the management strategy of the company.

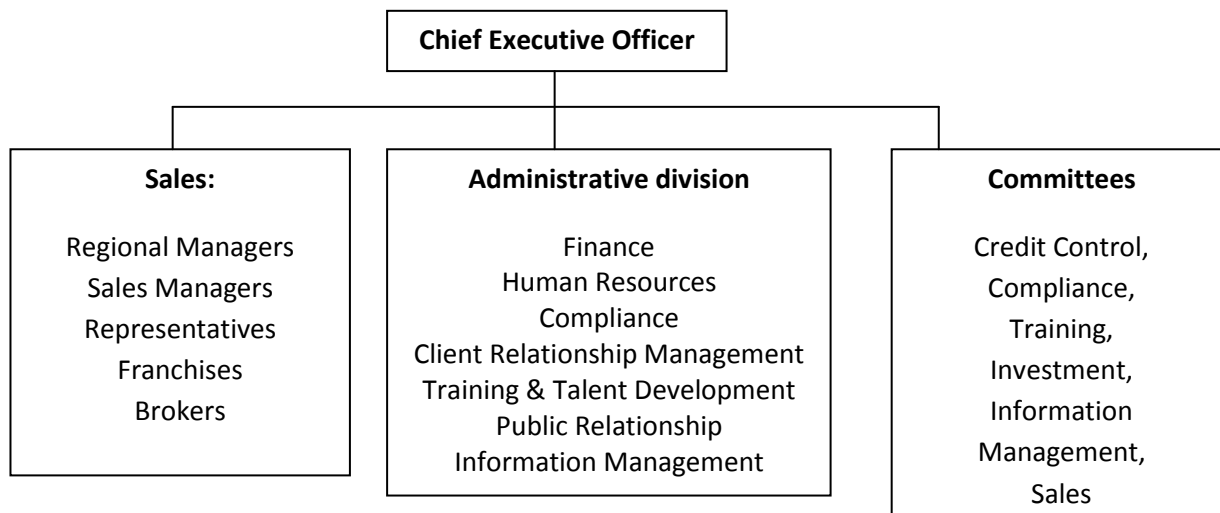
#### **1.4. Overview of Assupol Life**

Assupol Life is a mutual life insurance company that has been in existence since 1913. The company is a major role player in group business and specialises in providing affordable long term insurance products to mainly the government sector.

Assupol Life used to serve niche markets such as the South African Police Service, Department of Correctional Services and other government employees. Since the 1990 Assupol Life started to provide service to the general insurance market, according to the Assupol Life webpage.

The company primarily market its products on national level through a network of representatives, brokers, internal franchises and a direct marketing call centre. The head-office of the company is situated in Brooklyn Pretoria, but the company has a national branch-office structure located in all the major cities and larger towns. These offices are managed by office managers overseeing the administrative operations and sales managers that are responsible for the marketing and sales functions. The compliance department, client service department and all other administrative departments are located in Brooklyn, Pretoria.

The structure of the company is as follows:



[Source: Assupol Life (Company organigram)]

**Figure 1.1: Company structure of Assupol Life**

As a life insurer and registered financial services provider Assupol Life is obligated to comply with the FAIS Act and FICA.

### 1.5. Research question

Following on the above, the study aims at determining to what extent the introduction of FAIS and FICA influence financial services providers such as Assupol Life in respect of compliance to regulations, its strategic managerial approach to address the financial implications, the effect of increased obligations regarding the qualifications and experience of representatives and the impact on risk appetite and production?

Ernst & Young (2008:11) report that regulatory and compliance risk are identified as the most significant strategic challenge facing leading global businesses in 2008. The report identifies the top ten global risks across 12 of the world's most important business sectors, as well as the five fastest-rising threats that could have an important impact over the next three to five years.

The insurance sector was one of eight of the 12 sectors surveyed, that highlighted regulatory and compliance risk as the number one business challenge it faces. And, as companies become more and more global, the risk increases with companies

forced to manage diverse regulations in different markets. The Financial Services Board (FSB) was created in terms of the Financial Services Board Act (Act 97 of 1990). It is an autonomous, statutory, public body regulating and supervising the business of non-banking financial services.

The study will indicate the major impact on Assupol Life as a medium-sized life insurance company and management's interventions to address the different influences.

### **1.6. Purpose and aim of the study**

The main aim of the study is to identify and assess the impact of the FAIS Act and FICA on Assupol Life as a medium-sized life insurance company and research management's interventions to address the different influences.

### **1.7. Rationale of the study**

This research aims to determine the implication of the legislation on the company as a medium sized life insurer with particular attention to the managerial and cost aspects. The research attempts to provide a balanced view of all levels of this company in order to explain the change in managerial approach towards the compliance function, change management, management of costs and the influence on strategic and operational decision making which ultimately influence company performance and results.

### **1.8. Objectives of the research**

This study endeavours to determine:

- the influence of compliance to FAIS and FICA on the marketing function;
- the influence of the legislation on the length of the sales cycle;



- the impact of the compliance function on the company;
- the financial impact of compliance on the company;
- the influence of compliance to FAIS and FICA on the human resource function, staff turnover and quality of employees;
- the implication of compliance on the training function;
- the influence of compliance to the legislation on business performance;
- the impact on decision making within the company;
- to what extent the legislator succeeded in its intention to regulate the financial services industry; and
- Analyse the effect of the changes on Assupol Life.

## **1.9. Value and significance of the research**

The legislation had an enormous impact on businesses within the industry, as regulatory legislation was previously limited to specific product and service related fields. The study assesses this influence on Assupol Life, and specifically the management function within the company. It is important that the effectiveness of the legislation be measured against its initial aims as to compare with the results. The study is important both from a management and industry perspective due to the fact that no specific evaluation has been conducted to date, and no definitive analysis is available.

## **1.10. Research design**

### **1.10.1. Research approach**

A qualitative and quantitative mix approach will be followed and the study will be using primary and secondary information. Primary information will be collected by

means of structured questionnaires, which are quantitative by nature in order to obtain in-depth information regarding the operations of the company.

The study will be of a descriptive nature in order to describe the current situation regarding the impact of the legislation. In order to indicate the practises and interventions applied by Assupol Life an illustrative approach will also be applied.

In conjunction with the questionnaires interviews will be conducted with selected individuals in order to ensure that the questions are understood and where required to provide a clear framework of the question. Secondary data such as reports, annual audit reports and articles will be assessed and applied to the research problem and results obtained from the questionnaires. Feedback from the questionnaires will be analysed and assessed using techniques such as tabulation and correlation.

In terms of interviews Tellis (1997:4) states that it remains one of the most important sources of study information. An open-ended format will be used and comments will be asked in order to address the objectives of the study.

### **1.10.2. Population and sample**

The population consist of Assupol Life as a registered financial service provider. The company is used as a population to determine the influence of FAIS and FICA. The different divisions of Assupol Life were approached in order to obtain information from the basic level (representatives and staff) to the executive level (directors). The aims of the legislator shall be measured against the results obtained from Assupol Life. The positive and negative aspects are discussed in order to provide a realistic representation of the collected information. The sample will consist of:

- Chief Executive Officer - to obtain a clear framework of the strategic influence of the legislation.
- Financial Director - regarding the cost management impact of the legislation on the company.

- Human Resource Director - as the compliance function impacts on employees, training and development.
- Compliance Officer - the largest operational influence are managed by the Compliance Officer as appointed in terms of the legislation.
- Manager of Training and Talent Development - regarding cost and operational expenses.

The above questionnaires contain open-ended questions in order to obtain different opinions and viewpoints.

- Representatives of Assupol Life. A selection was made of representatives within the Gauteng region of the company.

A questionnaire containing closed-ended questions in the form of a Likert scale is provided for the participants to complete. According to Welman (2005:156) a Likert scale is at the moment the most popular type of scale in the social sciences as it is easier to compile than any of the other attitude scales such as those of Guttman and Thurstone. Welman (2005:156) describes the Likert scale as consisting of a collection of statements regarding the attitudinal object.

### **1.10.3. Delimitation of study**

The study will focus on the influence of the specific legislation on the company. The study is conducted within the following delimitations:

- legislation impacting the operations, growth and costs of the company was limited to FAIS and FICA. Other regulations and legislation were not taken into account, except to indicate the importance and cost of FAIS and FICA.
- direct costs were analysing for the purposes of the research, and detailed indirect costs were not included.

- costs and time spend on maintaining the requirements of-, and complying with the legislation was compared in relation to total costs and time spend on administrative matters in order to indicate an increase or decrease.

#### **1.10.4. Outline**

##### **Chapter 1 – Introduction**

This chapter provides an overview of the introduction of FAIS and FICA to the South African financial services industry. The influence of the legislation on the industry is broadly discussed. The problem statement revolves around the influence of the legislation on Assupol Life as a medium-sized life insurer. The research objectives are discussed and the current profile of the company is described.

##### **Chapter 2 – Literature review**

The chapter present an overview of the macro- and micro environments, value chain of the organisation and the managerial concepts of strategic decision making, finance, human resources and marketing and sales.

##### **Chapter 3 – The Life Insurance industry with reference to Assupol Life**

The enactment of regulations pertaining specifically to FAIS and FICA is discussed and a broad background is provided regarding different views on the regulation. The cost of compliance to the legislation is described and the benefits obtained from compliance to the regulations are discussed.

The role of Assupol Life as a medium-sized insurance company is discussed.

##### **Chapter 4 - Research design and methodology**

This chapter describes the manner in which data was obtained from the selection of interviewees. The experience of the candidates regarding regulation is discussed

and the available numerical data is analysed. The research was conducted using questionnaires and interviews.

The problems experienced in data collection are discussed as well as the techniques used in analysing the information.

## **Chapter 5 – Results: Presentation and findings**

The information gathered by means of the interviews and questionnaires are analysed and discussed.

## **Chapter 6 – Conclusion**

The chapter summarises the results of the research and provide an answer to the “how” and “why” questions. The influence of the FAIS and FICA acts on Assupol Life are discussed and outlined.

### **1.11. Conclusion**

The challenges faced by the financial services industry were described and the background of the legislation that was introduced was provided in Chapter 1.

The aim of the research was discussed and the objectives of the study were described. The legislation was introduced in order to change the financial services industry into a profession, and ensure that financial service providers conduct their business in a professional manner.

The protection of the client is given priority and the regulations are clear regarding the requirements from financial service providers.

Chapter 1 further described the research process that were followed and the limitations of the study.

Assupol Life is a financial services provider and is compelled to adhere to the provisions of the regulatory framework introduced. The following Chapter will provide the relevant literature applied to the research problem.

## CHAPTER 2

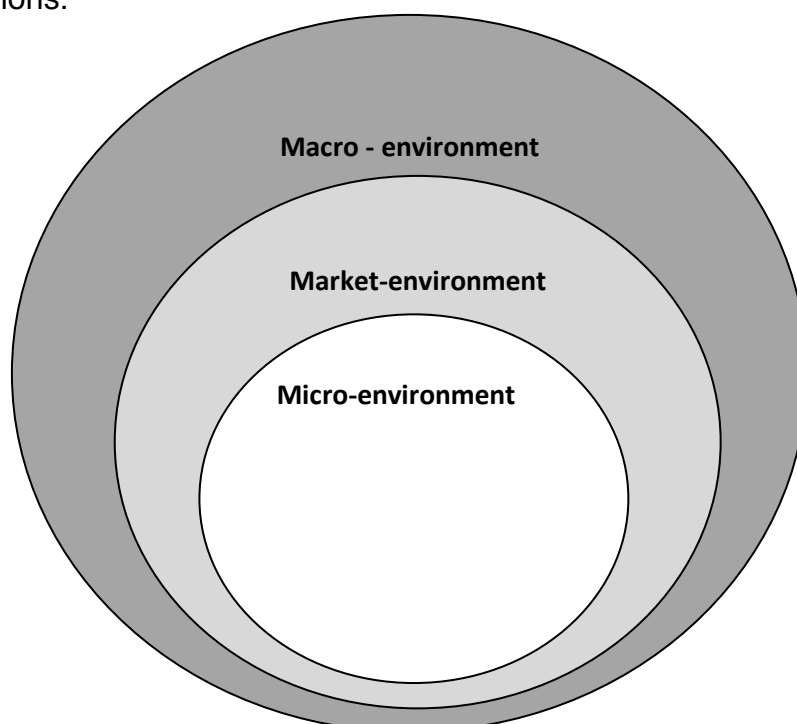
### LITERATURE STUDY

#### 2.1. Overview

##### 2.1.1. Background to the literature review

The topic of regulation and the introduction of FAIS and FICA to the insurance sector during the past eight years created a sense of panic for some and a basis in which to strategically align business for others.

Organisations function within a macro-environment that entails external influences that the organisation has no control over, and the micro-environment consisting of the different functions within the organisation. Smit (2010:67) describes the variables associated with the macro-environment as technological, economical, social, political, ecological and international. Figure 2.1 describes the environment of organisations:



[Source: (Niewenhuizen 2009:12)]

**Figure 2.1 – The business environments**

The research focuses on the influence of legislation in the form of FAIS and FICA on Assupol Life as an organisation. Legislation forms part of the political variable and influences the micro-environment of the organisation, which includes the activities of management, organisation, leading and control. Smit (2010:72) states that “as a component of the macro-environment the state influences the business environment and the organisation as a regulating force”. The macro-environment influences the micro-environment.

### **2.1.2. The value chain principle**

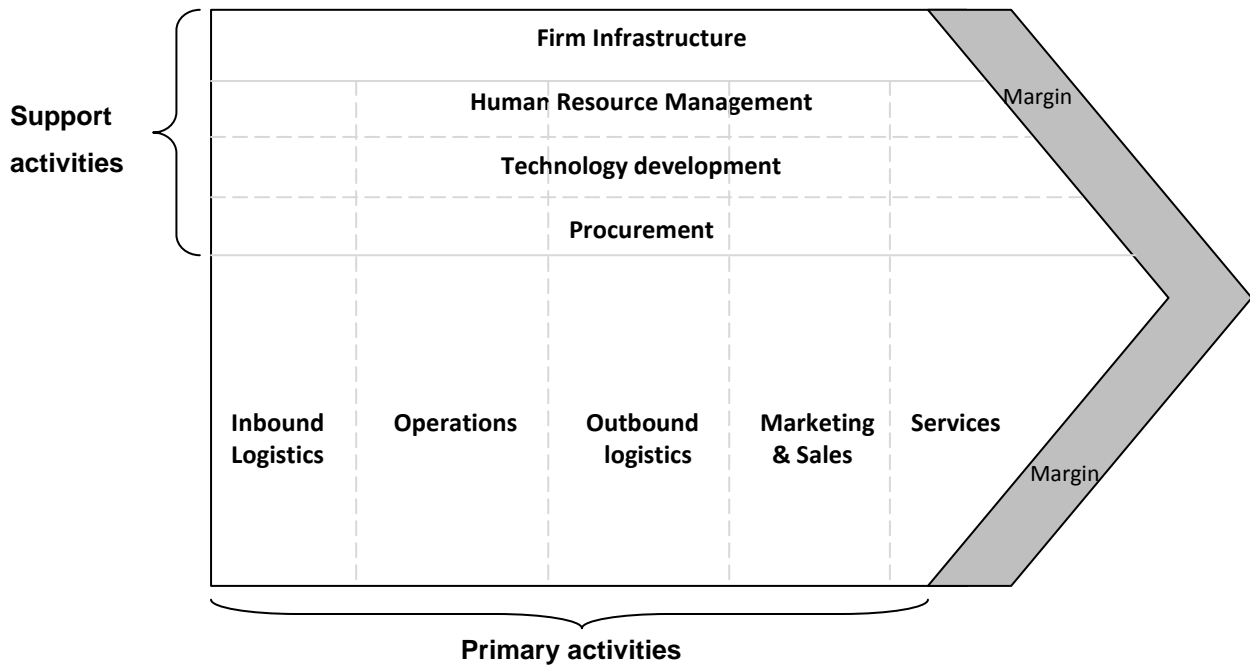
The value chain describes the activities within and around the organisation which together create a product or service. Johnson (2002:160) observed that the value chain consist of primary- and secondary activities. Primary activities are directly concerned with the creation or delivery of a product or service and can be grouped in five primary areas:

- Inbound logistics: activities related to the inputs to the product or service. In the case of Assupol Life this would include the actuarial function;
- Operations: compilation and packaging of the product or service;
- Outbound logistics: distribution of the product or service;
- Marketing and sales: activities whereby the client is made aware of the product or service. Within the circumstances of Assupol Life this would involve the marketing and sale department; and
- Service: includes the activities which enhance and maintain the value of the product or service. Assupol Life has a client service department rendering service to existing and new clients.

Johnson (2002:161) stated that each of these primary activities is linked to support activities. Support activities include procurement, technology development, human



resource management and infrastructure. Figure 2.2 depict the value chain of a typical organisation:



[Source: (Johnson 2002: 161)]

**Figure 2.2 – The value chain within an organisation**

The research focuses on the influence of the regulation on the value chain of the company, which exist within the micro-environment. Although it is rare of a single organisation to address all value activities, Assupol Life manages all activities in-house.

Stemming from the research problem and specifically to the influence of FAIS and FICA in terms of compliance, strategic managerial approach, the impact on risk appetite and production the following functions within the company are both directly and indirectly influenced and forms part of the research:

- *Strategic decision making* – the ability of the organisation to adapt to change in its environment and enabling its corporate strategy to dictate the manner in which the company addresses influences;
- *Management* – influences on the managerial function of Assupol Life;

- *Finance* – direct and indirect costs of compliance reflects as an expense. This related to the financial impact of compliance on the company, but specifically to expenses and the maintenance of compliance structures. The compliance structure resulted in increased costs, these costs were analysed;
- *Marketing and sales* – due to the responsibility placed on FSPs by regulation, all marketing processes must reflect compliance to the legislation. The objective is to determine the influence of compliance to FAIS and FICA on the marketing function. The company has a national network of representatives and a broker division, and the influence of the legislation on the marketing structure was determined. The introduction of the legislation resulted in a greater responsibility regarding disclosure to clients, the effect of the additional responsibilities on the length of the sales cycle was determined;
- *Human resources* – human capital and the retention of staff is important for a basis of compliance. The influence of compliance to FAIS and FICA on the human resource function, staff turnover and quality of employees was analysed;
- *Training and talent development* – FAIS and FICA was newly introduced, and due to the complexity thereof may lead to a high level of required training. The implication of compliance on the training function and answering the question if increased training necessarily lead to an increased level of service and advice;
- *Organisational structure* - The impact of the compliance function on the company and the specific structures and processes that had to be developed and which have to be maintained;
- *Business performance* - The influence of compliance to the legislation on business performance;
- *Decision making* - The impact on decision making within the company;

This chapter provides a framework to which Assupol Life will be compared to determine the influence of the regulation.

### **2.1.3. Background to FAIS**

The FIAS act was promulgated on 15 November 2002 and came into effect on 30 September 2004 (Swanepoel 2008:1). The Guidance Note: Intermediary Services and Representatives: Financial Advisory and Intermediary Services Act, 2002 (2002:1) explains “that the act in essence create a new type of functionary in order to ensure that every person empowered to render financial services to a client, is fully qualified to discharge this responsibility”.

The furnishing of advice and intermediary service is thus regulated, and the primary responsibilities of the FSP are the follows:

- Ensuring advice and service are rendered in a professional, accurate and responsible manner;
- Representatives of the FSP must be suitably qualified and experienced;
- Records pertaining to the advice and services must be kept;
- Complaints of clients must be addressed and dealt with in a professional manner; and
- Representatives must comply with the honesty and integrity requirement.

### **2.1.4. Background to FICA**

The act came in force on 1 February 2001 and has the following objectives:

- Accountable institutions must identify and verify a natural person; and
- The residential address of the person must be confirmed.

According to Swanepoel (2008:95) a person that carries on a “long-term insurance business” as defined in the Long-Term Insurance Act, 1998 is an accountable institution. Assupol Life is an accountable institution and must comply with the above requirements of the FICA act.

## **2.2. Strategic decision making**

Johnson (2002:4) found that the characteristics of strategic decision consist of the following:

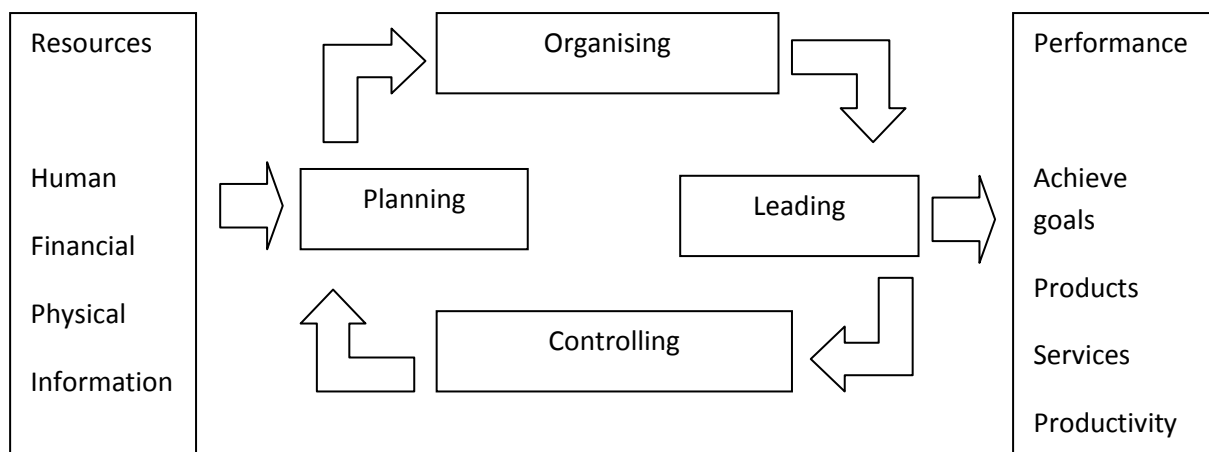
- Strategy is concerned with the long-term direction of the organisation;
- Strategic decisions are about attempting to achieve some advantage over competition;
- Strategic decisions are concerned with the scope of an organisation`s activities;
- Strategy can be viewed as the matching of resources and activities to the environment in which it exists;
- Strategy can be viewed as building or stretching resources and competences to create opportunities;
- Strategies can require major resource changes;
- Strategic decisions can affect operational decisions;
- Strategy is affected not only by environmental forces and resource availability, but also the values and expectations of the management.

The research concentrates on the impact of FAIS and FICA on the strategic decision making of the management of Assupol Life in order to address the changes. Strategy

is the direction and scope of an organisation over the long-term, which achieves advantage for the organisation through its configuration of resources within a changing environment and to fulfil stakeholder expectations (Johnson (2002:10). In the case of Assupol Life the strategic decision-making involves management, finance, human resources, training and compliance. The impact of the regulation in terms of FAIS and FICA requires strategic review of all the functions within the organisation.

### 2.3. Management

According to Smit (2010:8) management processes consist mainly of planning, organising, leading and controlling. These four fundamental management functions constitute the management process as indicated by Figure 2.3 below:



[Source: (Smit 2010:8)]

**Figure 2.3 – The four fundamental function of the management process**

According to Niewenhuizen (2009:39) the business world is described as a complex system of individuals and businesses which transforms limited resources into products and services to result in meeting needs and wants of people. It is the task of managers to attain the objective of exchanging these products and services for a profit. Assupol Life is a medium-sized life insurer, and its objectives are similar to that described by Niewenhuizen (2009).

The company compiles products that is marketed and sold by the sales division, and provides services pertaining to the products in exchange for premiums. In order to generate a profit the company requires a managerial structure that conducts its function by means of organising work procedures, products, structures and procedures, leading strategically, controlling processes and procedures and planning marketing and sales strategies towards attaining its objectives. Smit (2010:9) describes the interactive nature of the management process as follows:

*Planning* – the organisations` vision and mission is determined, goals are identified and strategies in order to achieve the goals are decided upon;

*Organising* – activities are grouped together, authority is established, resources allocated and delegation establish;

*Leading* – managers direct and motivate members of the organisation to achieve the mission and goals; and

*Controlling* – progress are monitored and corrective steps taken to reach the mission and goals.

Mullins (1999:166) states that management is a generic term and is subject to many interpretations. The term management is defined as:

- taking place within a structured organisational setting and with prescribed roles;
- directed towards the attainment of aims and objectives;
- achieved through the efforts of other people; and
- using systems and procedures.

Resources used in this process consist of human resources (employees, consultants and representatives), financial dexterity and skill, physical assets such as offices and information both regarding the industry and management of its own information and subsequent reporting structures. Smit (2010:9) portray the performance requirement as achieving goals, products, services, productivity and profit.

The performance related aspects are addressed by the research and the influence of FAIS and FICA is analysed. Sales targets form a primary objective of Assupol Life as new business is needed in order to create growth and to address and replace cancelled business.

Products and services form the basis for the sales and marketing efforts within the company and subsequently related directly to productivity and profit.

The research addresses the influence of regulation on these factors, and the effect it has on the managerial processes and structures.

#### **2.4. Finance**

One of the primary objectives of the research is to establish the financial impact of compliance on the company, specifically to expenses and the maintenance of compliance structures.

The fundamental responsibilities of the financial function of the company is best described by Niewenhuizen (2009:110) as the requirement of management for constant financial information in the form of financial progress reports, budget comparisons, income statements, balance sheets and cash flow statements that enables the managers to determine and evaluate the performance of the organisation. These functions also include the basic managerial and financial accounting responsibilities pertaining to the daily operations of the company.

Niewenhuizen (2009:110) further describes the purpose of financial management as wealth maximisation and therefore a need exist to identify favourable investment- and financing opportunities that add value to the business. Gitman (1994:4) noted that finance can be defined as the art and science of managing money. Virtually all individuals and organisations earn and raise money and spend or invest money. Finance is concerned with the process, institutions, markets and instruments involved in the transfer of money among and between individuals, businesses and governments.

Gitman (1994:11) further observed that the field of finance closely relate to economics and consist of the following key activities:

- Performing financial analysis and planning;
- Making investment decisions; and
- Making financial decision.

Expenses related to compliance are addressed by the financial department of Assupol Life. Budgets are drafted before the financial year in order to address the anticipated expenses. The financial department processes all related expenses.

Willemse (2003:58) describe three categories of cost of financial regulation:

- the 'direct' costs of paying for the financial services regulator and supervision, including examiner's staff salaries, staff training costs, administrative costs, off-site database set-up and maintenance costs as well as the costs of on-site visits;
- the 'indirect' costs of regulation, namely the incremental costs of compliance;
- the 'distortion' cost arising from the way in which regulation may change the nature of markets, may prevent or discourage firms from entering or using markets, may constitute new markets that would not exist in the absence of regulation, and may therefore have a significant effect on the nature and availability of the products provided by the financial services industry.

Financial control is defined by Niewenhuizen (2009:81) as the control over financial resources as they flow into the organisation such as revenues and shareholder contributions. These resources are held by the organisation as working capital and retained earnings and flow from the organisation through expenses such as salaries and operational costs. The influence of regulation on both the inflow and outflow of the financial resources of Assupol Life are analysed through the research.



## 2.5. Marketing & Sales

The objective is to determine the influence of compliance to FAIS and FICA on the marketing function and the sales process, specifically the length of the sales cycle.

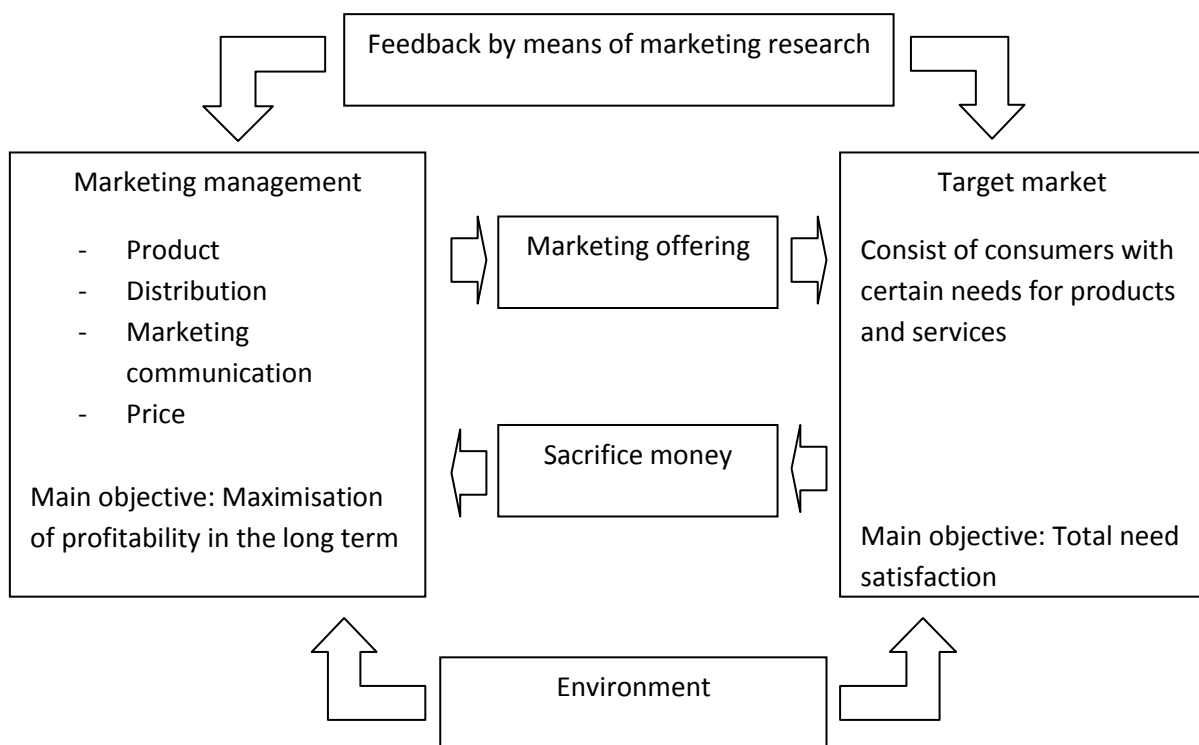
Smit (2010:14) suggests that the marketing function entails the marketing of products and services of the organisation and includes the formulation of a marketing strategy, segmenting the market and determining the target market and positioning of the organisation against its competitors. Smit (2010:15) further describes the responsibilities of the marketing function as:

- Planning the marketing department's activities including determining marketing goals;
- Organising marketing activities by allocating tasks to people in order to attain the set objectives;
- Leading marketing activities meaning motivating and directing marketing personnel to perform duties in pursuit of the goals formulated in the marketing plans; and
- Controlling marketing activities by ensuring that marketing goals are attained according to the marketing plan.

The main aim of marketing activity according to Niewenhuizen (2009:145) is to facilitate mutually satisfying exchanges between parties. The activities of marketing are described as the conception, pricing, promotion and distribution of ideas, products and services. According to Niewenhuizen (2009:188) four variables exist about which marketing-related decisions must be made: the product itself, the distribution of the product, the marketing communication methods to be used to inform the consumer and the price of the product. The research addresses these four marketing decisions as regulation influences the type of product, the distribution or location of the product as well as the method of communication.

The research will exhibit the requirements of the regulations on the price of the product and indicate the influence on the distribution methods and length of the sales cycle. The products of Assupol Life consist of life insurance policies in the form of funeral and full life policies. These policies are marketed as products to the public, and forms part of the financial service that the company render. The service also includes the client services provided after the point of sale such as amendments to existing policies.

According to Niewenhuizen (2009:188) the marketing offering is seldom directed at the satisfaction of one single individual but rather a group of people. Figure 2.4 describes the marketing process according to Niewenhuizen (2009:189).



[Source: (Niewenhuizen 2010:189)]

**Figure 2.4 – The marketing process**

In the context of Assupol Life the marketing offering is its products and services for which the consumer pays a premium. The research addresses the target market of Assupol Life and illustrates its operational – and marketing structure.

Niewenhuizen (2009:146) determined that both internal- and external influences on marketing exist. Organisations must be aware of these influences and address it as it affects the marketing efforts and strategy. In the case of Assupol Life regulation can be seen as an external influence and should be addressed through external scanning and the organisation must adapt on an ongoing bases.

## **2.6. Human Resource Management**

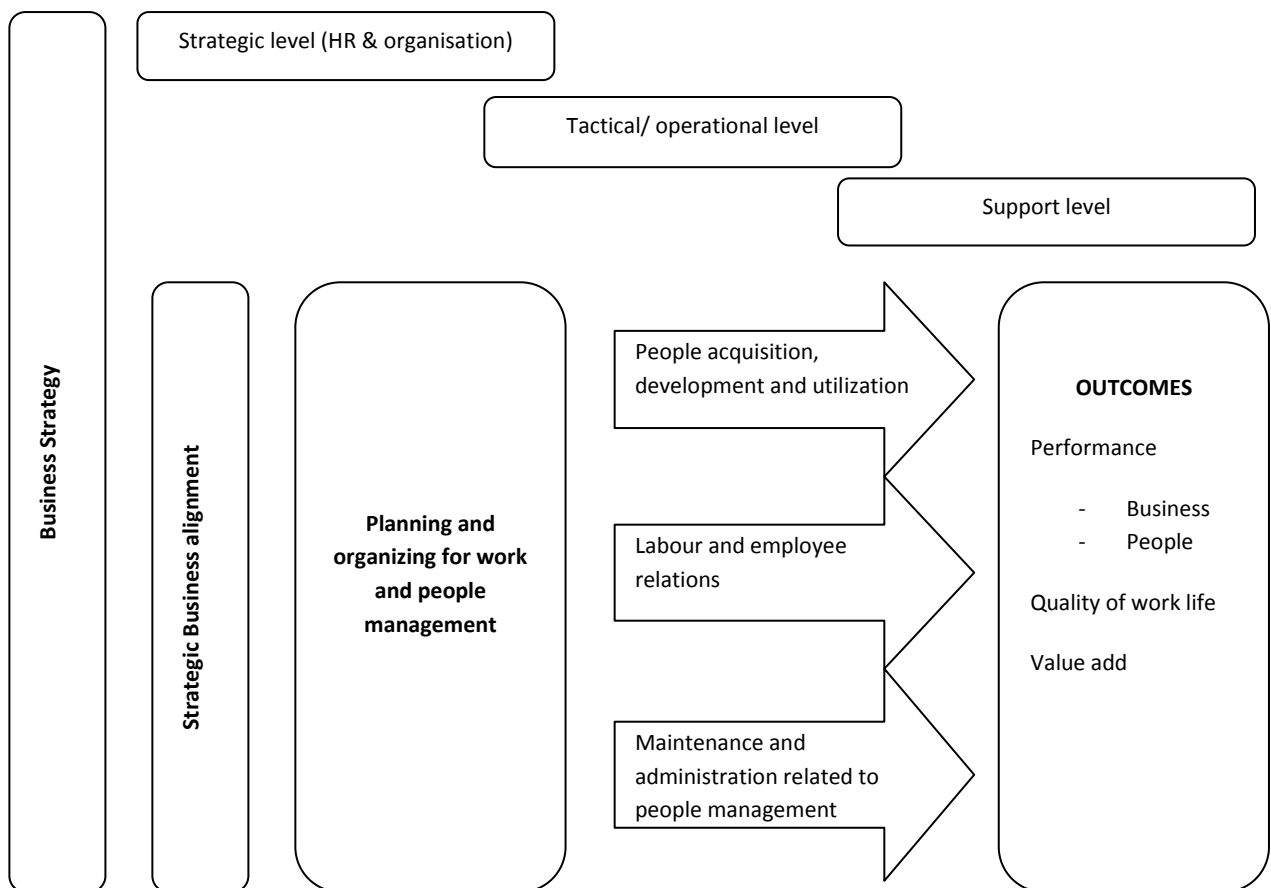
Human Resource management can be divided into four activities according to Cascio (1995:47):

- Staffing – comprises of identifying job requirements in the organisation, determining the number of staff and the skills requirements to conduct the duties and recruiting, selecting and promoting qualified candidates;
- Retention – comprises of the activities of reward, ensuring harmonious working relations and maintaining a safe, healthy work environment;
- Development – the function of preserving and enhancing competence through the improvement of skills, knowledge, abilities and other characteristics; and
- Adjustment – activities intended to maintain compliance with policies and business strategies.

The influence on the human resources of Assupol Life is established by the research. This includes the dedicated human resources function and the training function. The above four factors forms part of the human resources division of Assupol Life, and the effect of regulation are evaluated on each aspect. The company employees permanent employees in mainly the administrative departments and is some instances the marketing- and sales department. The company primarily utilise contractors and brokers to generate new business. Staffing requirements include recruiting of contractors and brokers with the necessary skills, knowledge and infrastructure (brokers).

Niewenhuizen (2009:81) describes human resources as one of main resources and should be controlled meaningfully. From a control point of view the performance of staff – and contractors – should be measured and compared with set pre-determined standards. The research endeavours to establish the influence of regulation on the performance of staff and contractors, especially in terms of performance, processes and structures. In the circumstances of Assupol Life performance standards consist mainly of sales targets on both a monthly and annual basis.

According to Niewenhuizen (2009:199) the process of human resource management can be defined as illustrated by Figure 2.5:



[Source: (Niewenhuizen 2010:199)]

**Figure 2.5 – The human resource management process**

The strategic level of the human resource management function relates to strategic alignment with the organisation in terms of all the other functions. This level includes the compilation of policies and practises and the planning and organising of work

and human resource management. These policies then need to be put in operation to obtain the correct staff and utilise these recruits. Support refers to the recruitment and development of people within the organisation.

The research addresses the influence of regulation on the human resource function of the company on strategic, tactical and support level. The strategic level influences include the impact on strategic decision making pertaining specifically to the human resource function and illustrates the changes required in terms of the business strategy.

The influence on the operational level is analysed as new administrative measures were introduced and the requirements relating to qualifications of representatives were evaluated. The influences in terms of support were analysed as especially the training responsibility of the department would be affected by the new requirements.

## **2.7. Conclusion**

In order to establish the influence of regulation in terms of FAIS and FICA the organisation structure and activities must be divided and explained. This chapter evaluated the value chain of organisations, with specific reference to the influence of the macro-environment on the micro-environment. Within the FAIS and FICA legislation is included a set of regulatory requirements that are discussed in the following chapter. The broader picture regarding the industry within which Assupol Life exists, is also described to provide an understanding of the insurance environment.

## **CHAPTER 3**

### **THE LIFE INSURANCE INDUSTRY WITH REFERENCE TO ASSUPOL LIFE**

#### **3.1. Enactment of increased regulation of the insurance industry in South Africa**

By critically evaluating and commenting on the introduction of regulatory legislation in the financial services industry, Benfield (1999:1) painted a dark picture in a paper presented to The Development Group of Southern Africa. Benfield (1999:1) demonstrating how South African insurance legislation grew over the past 100 years to increasingly gain more control over the business activities of insurers, at each step further inhibiting their decision making abilities and making insurance more and more expensive to administer. Benfield (1999:1) described legislation that was introduced in 1999 as without content and a major concern being the total absence of provisions to circumscribe the powers of the administering officials.

##### **3.1.1. Critical analysis of regulation of the financial services industry**

###### **3.1.1.1. Background to analysis**

Benfield (1999:1) observed that the granting of extensive powers to the Registrar may be viewed as contrary to the interests of the insuring public. The expression of concern by Benfield regarding the possible over regulation of the insurance industry is not overtly negative without reason. If the past eight years is evaluated and the new legislation applicable to the insurance industry listed, one would find that amongst others the following were enacted:

- Financial Advisory and Intermediary Services Act (FAIS), 2002 - To regulate and licence the activities of financial service providers and their representatives:
- Prevention of Organised Crime Act, 1998 - To criminalise racketeering and money laundering;

- Financial Intelligence Centre Act, 2001 - To impose duties on financial and other institutions to combat money laundering by verifying the identity of clients.

This legislation forms part of this research and the impact thereof on the business is analysed and measured. Benfield (1999:2) further referred to the Financial Advisors Act imposed on the insurance industry in Britain in 1984. This act is similar to the FAIS Act that came into effect in South Africa eighteen years later. He describes the manner in which this act was referred to in 1999 by the President of the Actuarial Society as dethroning the British life assurance industry as the world's leading and most innovative insurance market.

### **3.1.1.2. Availability of skills in the financial services industry**

Benfield (1999:2) asks the question why this legislation is at all necessary in South Africa as the Financial Services Board indicated that its own research shows that less than three percent of all life insurance policies sold are terminated as a result of perceived intermediary miss-selling. It is distressing that according to Benfield the number of career financial advisors in Australia decreased from twenty thousand to four thousand five hundred within three years after the introduction of regulatory legislation.

Financial services regulation enacted in the United Kingdom and Australia thus influenced both countries' financial services industries as it placed limitations on existing insurance businesses.

According to Blain (2009:8) a skills shortage already exist in South Africa's insurance industry. It is evident that in a highly regulated industry there are no room for human error. Blain (2009:8) lists the following as challenges that the industry face:

- *Pre-mature promotion into managerial positions* - It occurs that managers are promoted prematurely due to a lack of suitable candidates.

- *Lack of apprenticeship* - A culture of entitlement exists and no limited structures exist for apprenticeship within the industry.
- *Job hopping* – Employers increasingly obtain employees due to increasingly strict requirements.
- *Mergers* - Industry consolidation are conducted: Fewer of the traditional large multiline insurers which were previously regarded as the training platforms of generations are still active.
- *Lack of interest* - The insurance industry remains a foreign concept for the population and it is a less obvious career choice for school leavers. This may change increasingly due to the industry becoming more specialised.
- *Loss of status* - Many of the associations and professional bodies within the industry lost their status.
- *Modern technology* - Due to increased implementation of technology in underwriting functions and call centres, the human interaction are becoming more obsolete and the framework of reference for next generations are fading.

According to Blain (2009:10) regulation will enforce a higher level of skills on the industry, and the following statistics pertaining to positions difficult to fill in 2007/8 supports the fact that skills are becoming increasingly scarce in the insurance sector:

<b>Position</b>	<b>Number of vacancies</b>
Managerial	229
Specific professional	851
Financial investment	388
Marketing specialist	202
Claims assessor	66



Business analyst	48
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[Source: INSETA – Scarce and critical skills report for 2007/8]

**Table 3.1 – Positions difficult to fill (2007/8)**

Biddulph (2010:87) confirms that the number of financial advisors in South Africa has decreased. Biddulph (2010:87) states that Astute conducted a survey in the life insurance and investment industry and found that number of financial advisors decreased by 17 percent compared to the previous year. Of this the number of independent financial advisors reduced by approximately 1,400 persons. The number of advisors employed as agents by life offices and banks also declined, although not to the same extent.

### **3.1.2. Complaints and compliance**

In contrast to the view of Benfield (1999:2), the 2007 Annual Report of the Long-term Insurance Ombudsman indicated that a total of 44 percent of cases were resolved in favour of complainants (clients). There was also the largest-ever settlement of an individual claim by the office in 2007: R8,2 million. Clients won the majority of cases where the complaint was against poor communications or service (58 percent), or miss-selling (56 percent). The Annual Report of the FAIS Ombud 2008-2009 (2009:7) emphasise the following regarding complaints investigated by the department:

- An increase of 30 percent in complaints received;
- Cases including monetary compensation numbered 616 which is an increased of 27 percent compared to the 2007-2008 year;
- The quantum of settled claims increased from R14,1 million to R32,9 million which is an increase of 132 percent; and
- A total of 21 determinations were issued by the department.

These statistics is proof that the new complaints channels introduced by FAIS are effective in providing the consumer with venues to report unscrupulous financial service providers. The number of complaints that falls within its jurisdiction received by the FAIS Ombud escalated as depicted by table 3.2 (Annual Report 2009:11):

<b>Year</b>	<b>Number of complaints</b>
2005/6	666
2006/7	1,320
2007/8	1,133
2008/9	2,125

[Source: Annual Report of the FAIS Ombud: 2008-2009]

**Table 3.2 – Complaints received by the FAIS Ombud**

It is the responsibility of the FAIS Ombud to make determinations in cases where there was no settlement or a previously made recommendation was not accepted. Table 3.3 illustrate the number of determinations made per year:

<b>Year</b>	<b>Number of determinations</b>
2005/6	9
2006/7	15
2007/8	18
2008/9	21

[Source: Annual Report of the FAIS Ombud: 2008-2009]

**Table 3.3 – Determinations made by the FAIS Ombud**

The number of determination is increasing which illustrate the authority the FAIS Ombud has and that the authority is being applied in the industry. According to the Annual report of the FAIS Ombud 2008-2009 complaints relating to the Life insurance industry consisted of 27 percent of all complaints received.

### **3.1.3. Application of regulation of the financial services industry in South Africa**

In comparing the new legislation with that of other countries, Napier (2005:1) states that in a sense South African financial markets, as they adopt these international regulatory standards, are no less liberal than their developed world counterparts.

However, uplifting an already well-developed financial system to international standards could make it harder for policymakers to achieve the goal of universal service provision across a market which in many respects remains that of a developing country. According to Bester (2005:1) the funeral insurance business or assistance business as it is also referred to consist of a complex combination of services, providers and market dynamics. The providers of funeral insurance can be broadly categorised into four categories:

- burial societies
- funeral parlours
- administrators; and
- formal insurers.

Of the above only formal insurers such as Assupol Life are regulated in practice. Funeral parlours and administrators are usually considered to be intermediaries rather than providers of insurance.

The research by Bester (2005:1) however illustrate that, in practice, they often assume the position of a product provider. Up to 2005 little research has been undertaken on the funeral parlour and administrator market Bester (2005:1) particularly focuses on funeral insurance business. According to Van Aardt (2009:11) research confirms that funeral policies remain the popular choice of insurance product utilised by South Africans as a savings instrument. Table 3.4 illustrates the spread of instruments utilised.

<b>Reason</b>	<b>Yes (%)</b>	<b>No (%)</b>
Savings account – Mzansi	19.0	79.6
Savings account – other than Mzansi	61.8	36.2
Savings account/investment account	26.1	70.7
Unit trusts	5.4	90.6
Shares	10.0	86.7
Endowment/savings annuity policy	20.5	76.5
Funeral insurance	44.6	52.4
Life cover policy	29.6	69.4
Medical insurance	17.8	79.6
Stokvel/burial society	28.2	69.8
Retirement policy/pension fund	31.9	65.0
Educational plan/policy	9.0	89.0
Savings money at home	13.6	84.2
Government retail bonds	2.1	95.8

[Source: Van Aardt, C. 2009. *A consumer financial vulnerability index for South Africa*. Finmark Trust, 2009]

**Table 3.4 – Choice of savings tools**

Although savings accounts are mostly used by clients, funeral policies are popular but savings orientated life insurance products remains low at 29.6 percent, which could be attributed to the cost thereof. Benfield (1999:3) notes that the first insurance act was dubbed “Freedom with Publicity”, the second was the Long Term Insurance Act of 1943 that the Registrar himself called “Control Legislation”, and he foresees that the new legislation to be implemented may be known as “Regulation by Inclination” or “From Shepherd to Farm Manager”.

It was further reiterated by Benfield (1999:3) that although it is not the intention of the present incumbents at the Financial Services Board, the new developments regarding legislation may likely lead to a “steady deterioration in the quality of the relationship between the industry and the Financial Services Board”. In closing Benfield (1999:3) mention the words of Adam Smith:

“The Statesman who would attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with the utmost unnecessary attention, but assume an authority which could safely be trusted, not only to no single person but to no Council or Senate whatever, and which would nowhere be so dangerous as in the hands of a man who had the folly and presumption enough to fancy himself fit to exercise it”.

It would be naive to assume that the intention of the above legislation would not be to impose a set of rules prescribing to companies the manner in which business should be conducted, but it is important to keep in mind that the role of the legislator with regards to financial services is to protect the consumer and provide a framework of rules that is both fair and non-discriminatory. The question should not be if regulation should apply, but rather investigate in which the regulation is applied fairly and non-discriminatory, or is it inhibiting businesses from conducting normal business given the present and foreseeable circumstances within the country?

In part Benfield (1999:1) does appear to condemn the new legislation in South Africa as an iniquity, but it must be kept in mind that the good name of the financial services industry has been stained by the behaviour of unscrupulous individuals. The Fidentia scandal is still fresh in mind of the industry, and since the introduction of legislation some other entities has proofed that regulations in itself was indeed urgently needed. The fact that the regulation of the financial services industry in South Africa is here to stay is not in dispute.

Bester (2005:1) indicates however that legislation is only effective if applied to the industry as a whole. The introduction of the Financial Advisory and Intermediary Services Act, 37 of 2002 introduced a useful weapon into the Financial Services

Board's armoury but its effectiveness still depends ultimately on how well it is enforced. Clamping down on illegal insurance schemes is quite difficult as they are easy to conceal (for example, an administrator might place part of its book with a formal insurer while keeping the remainder secretly on its own books). This practice would be harder to hide if enforcement was co-ordinated with enforcement of tax regulation.

Bester (2005:1) states that the South African Revenue Service (SARS) has substantial capacity for enforcement and also has a direct financial incentive to enforce tax regulation on funeral parlours and other players in this sector. In the effectively unregulated components of the assistance business market, it is also reasonable to expect that the institutions involved will be prone to tax evasion. SARS have recently been involved in random inspections of funeral parlours for tax compliance. The information gathered by SARS could be cross-referenced with Financial Services Board information to identify illegal insurance schemes run by untaxed entities.

The life insurance industry in South Africa faces significant challenges, especially to rehabilitate and strategically manage its reputation to maintain the trust of its existing client base and target market. Insurers and intermediaries must highlight the available regulatory channels that clients may use if they are not satisfied, for example the Office of Ombud for Long term insurance and the FAIS Ombud. The regulator in effect provides the insurer with a base to provide its clients with peace of mind.

Confidence in a financial services provider is of utmost importance. The reputation of a provider is principal to the relationship. Napier (2005:1) states the example of one bank in particular, Saambou, suffering a loss of investor confidence as a result of the bad debts it incurred following the withdrawal of Persal that it failed in 2002, triggering a major banking crisis in the country. This is a clear reminder of what can result from ill-thought through, though well-intentioned government intervention.

It is very important however to note that every country has its own unique features, and economic and socio-economic factors plays a major role in the cost and

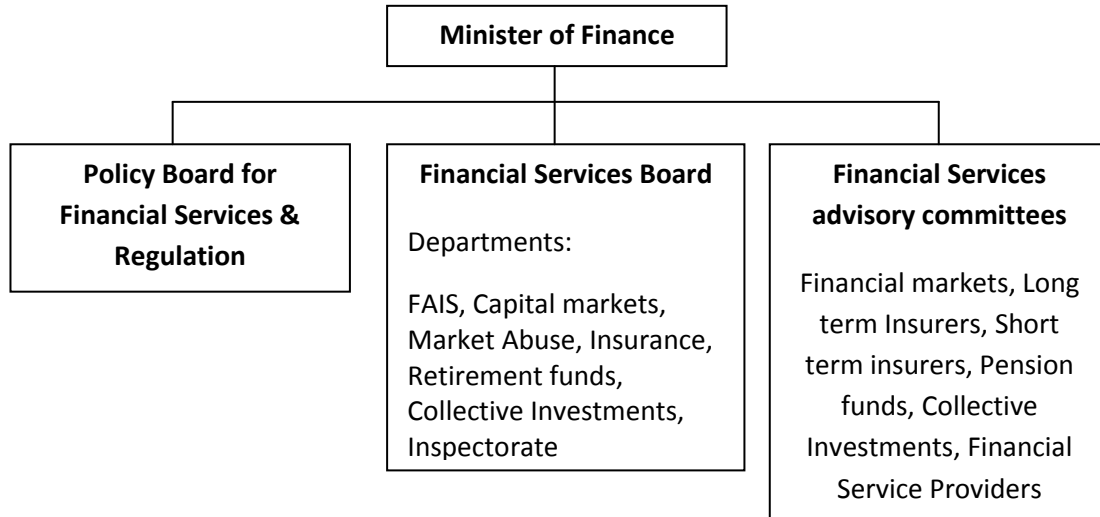
availability of financial service products. Regulation should not be seen as only an attempt of government to take control of business conduct, but rather a necessary part of society that must be strategically addressed by insurance companies. The most important aspect is that government must not in an attempt to protect consumers, inhibit and restrain companies to provide suitable and affordable financial products to these very people.

It is a reality that companies are increasingly experiencing strain, not only due to the international and national macro-economic influences, but also due to the unique influences in the country. South Africa is unique as it is only fifteen years since the democratic government was elected. Since 1994 companies had to adjust due to many new regulations and requirements being implemented e.g. Broad Based Economic Empowerment. All new regulations have an economic influence on a company, and put additional strain on the performance of the entity.

Resources need to be reallocated and in the process will apply pressure on companies and as a secondary effect may lead to increased unemployment and redundancies. Hawkins (2003:1) observed that the greater commitment to international standards (around corporate governance, market conduct and consumer protection, for example) has also led to an increased regulatory burden which could affect the extension of service provision.

According to Hawkins (2003:1) the Financial Advisory and Intermediary Services Act, 37 of 2002 has been introduced which has imposed a significant additional burden on insurance brokers, causing many to leave the market.

Once again the strategic thinking of companies is tested in their management of sales and controlling costs and the secondary effects of regulation. The current framework of regulation of the financial services industry is depicted in Figure 3.1 according to the researcher's interpretation.



[Source: information obtained from different sources]

**Figure 3.1: Structure of the regulation of the financial services industry**

### 3.2. The cost of compliance to the financial services provider

Is legislation applicable to the insurance industry in particular cohesive with the circumstances in South Africa regarding the level of affordability of financial products taking into account the cost of compliance? Genesis Analytics (Pty) Ltd (2005:1) provides a detailed requirement for life insurance companies in terms of the Long term Insurance Act that are summarised as per Table 1 below:

Regulation	Requirement
Registration capital	R10 million share capital upon registration
Capital Adequacy Requirement (CAR)	Greater of R10 million or 13 weeks` operating expenses
Public Officer	Must appoint a public officer
Auditor	Must at all times have an auditor
Actuary	Must at all times have an actuary
Fiduciary requirements	At least 90% of distributable profits must be allocated towards benefits payable under the policies
Compliance Officer	Must at all times have a compliance officer
Key Individuals	Must at all times have Key Individuals

[Source: information obtained from different sources]

**Table 3.5 - The cost of compliance for the insurer**



One of the most challenging aspects to manage in the insurance industry is the cost of premiums. If only the above costs – which do not include all compliance cost of the insurer – is taken into consideration, it is already clear that compliance as a cost component for the present insurer is a major contributing factor to the subsequent high cost of financial products.

According to Bester (2005:52) regulation is never cost neutral and the cost of compliance must be allocated to someone. In addition, regulation also has indirect and unintended impacts on the market and may in itself result in market failures and sub-optimal outcomes. These failures can be described as the following:

- 1) *Direct costs of the regulator*: designing, monitoring and enforcing regulations requires resources.
- 2) *Compliance costs*: the value of the additional resources (including cost of time spent) that would be used by firms and/or individuals to comply with regulation is known as the compliance cost.
- 3) *Quantity of products and services sold*: as regulation can increase or decrease the cost of bringing a product to market, it can also increase or decrease retail prices. This will then impact on the volume of sales. If regulation impacts differently on different products or providers, it will also affect relative prices and may, therefore, lead to market distortions.
- 4) *Quality of products and services offered*: typically, a large component of financial regulation aims to improve and monitor the quality of products supplied, by, for example, mandating minimum disclosure standards or product features.

However, the FSB explicitly does not regulate product features. Instead, by regulating only the intermediation process, it tries to allow market dynamics to regulate quality. This analysis will illustrate that there are several instances of inappropriate product features in the funeral insurance market. In the absence of

regulation of product features, the Financial Sector Charter may present an opportunity to affect product design.

- *Variety of products and services offered:* by influencing the cost of specific products within a general class, regulation plays a role in determining the variety of products available in that class. Regulation may also indirectly affect this, by imposing different regulatory costs on different types of intermediaries and institutions and, in so doing, biasing for or against the products normally sold by the respective institutions.

- *Efficiency of competition:* regulation plays an important role in determining how firms compete (for example, by affecting the level of entry barriers), and so influences whether competition creates value or wastes resources. In the South African system, this is achieved through a separate set of legislation and regulatory agencies focusing on competition.

According to Benfield (1999:2) similar regulatory legislation has done damage to the Australian insurance industry since 1993 to the extent that it is now almost impossible to purchase a life insurance policy from a broker for less than A\$200 (R800) per month. This is because the cost of compliance is such that the very segment of the population whom this type of legislation purports to protect can no longer afford to be serviced by the industry. It is believed that up to 25 percent of a broker's income in the United Kingdom is consumed by compliance cost (Benfield 1999:2).

Similar to Benfield, Jacobs (2006:6) provided a framework of the cost of regulating the industry. Using the financial services industry of the United States of America, he mentions that the Foreign Investment Advisory Service (FIAS) reported that an investor starting a business in a developing country may need to comply with as many as fifty three procedures that may take four hundred and forty three days and cost \$6,000 (often ten times the annual income of the average citizen of that country).

Jacobs (2006:7) further explains that the World Bank's Doing Business in 2005 report noted that businesses in developing countries face three times the administration costs and nearly twice as many bureaucratic procedures and delays as their counterparts in industrialised countries. Genesis Analytics (2005:3) found that one major bank in South Africa estimated the initial cost of anti-money laundering legislation compliance amounted to \$18.5 million with a recurring cost of at least \$1 million per annum. Although the financial institutions absorb these costs, it is inevitable that some costs are passed on to the users of the service.

In addition clients themselves bear direct compliance cost in terms of time spend, document acquiring and understanding a set of complex rules. Low income clients are more vulnerable to such costs than high income clients. Finmark conducted a survey in 2003 that indicated that a large segment of the mass-market is unbanked because they cannot afford banking services. The survey confirms that 19 percent of respondents indicated that they are unbanked because banks costs are too high.

### **3.3. Cost of compliance opposed to benefits for the financial services provider**

It should be noted however that regulation do not only incur costs, but certain benefits may also form part of the process.

Metcalf (2008:1) identified the following benefits from the research conducted:

- Participants believed that the FAIS Act and FICA improved the industry's reputation;
- The FAIS Act and FICA improved the quality of business; and
- The FAIS Act and FICA improved the value of products.

In addition to the costs depicted by Genesis Analytics (Pty) Ltd, the costs and benefits were identified by ECI Africa (2003). Table 3.6 provides a framework for the costs and benefits identified by the researcher.

<b>Costs</b>	<b>Benefits</b>
Increased administrative cost (staff, paperwork, management information, systems, security)	Increased legitimacy and credibility Stability
Reporting requirements produce regular and heavy workload	Access to deposits as sources of funds from the public
Increased internal bureaucracy; boards, internal auditors as well as preparation of required manuals	Access to other funding sources (financial apexes, financial markets)
Flexibility and speed of responses to market developments increases	Administrative and procedural rigor; fraud prevention
Minimum reserve requirements absorb liquidity	Organisational business culture potentially increases efficiency
Stricter provisioning may affect reported performance	Access to new and relevant information through credit information bureau
Fees to be paid to supervisor	Increased job security for staff in a formalised institution

[Source: information obtained from different sources]

**Table 3.6 - Costs and benefits of external regulation and supervision for a financial institution**

Melzer (2006:1) emphasised that the insurance industry requires the trust of those who purchases its products. Trust is a strategic aspect to manage for every insurer as clients may at any point in time cancel business with the insurer.

Regulation of the industry assists in creating a trust relationship with consumers. According to Melzer (2006:1) only 13 percent of adults in South Africa have life insurance and that only 30 percent of all adults aged 16 or more say that they trust life insurance companies to provide good policies when purchasing long term insurance. Awareness about life insurance is what the legislator would like to achieve amongst other goals. Melzer (2006:1) indicates that only seven percent of non-policyholders knew what the Ombudsman is, and only two percent have heard of FAIS legislation.

Awareness of regulatory safety nets and channels of recourse are key to the development of trust in the life insurance industry. Trust is a major benefit brought about by legislation introduced since 2001, and the life insurance industry should benefit immensely if more attention could be given to consumer education. This is a strategic issue to be managed by the life insurer as it forms part of the marketing and sales strategy, as well as the product development process.

### **3.4. Barriers that complicate the management of compliance**

Given the large number of the consumers that must be protected by the legislation living in unstructured areas, making amongst others permanent addresses difficult to confirm, is the legislation not only applied to the portion of the nation that live in formal housing?

This remains a major concern as it is increasingly difficult to comply with legislation such as the Financial Intelligence Centre Act, 2001 that require insurers to obtain proof of the residential address of its clients. A further problem that is experienced is the geographical circumstances as many consumers live in rural areas which are not easily accessible, but which will benefit from financial service products.

Anti-money laundering legislation for example presupposes the existence of formal systems and documents that financial institutions can use to verify client details. The international anti-money laundering standards were clearly formulated with developed countries in mind. However, developing countries often lack the systems and the documentation required, including the demographically “perfect” circumstances in which to apply the legislation.

Napier (2007:14) describes regulatory barriers as either inappropriate or absent on the one hand and regulatory stasis on the other. An example of inappropriate regulation is anti-money laundering legislation such as FICA that required clients to identify themselves by means of a physical address. This clearly is inappropriate for African clients who in many cases live on tribal land. Although Napier describes the circumstances of Africa, the same applies to South Africa where many clients live in remote places. Developing countries forced to adopt legislation based on first world models are put in an invidious position: their financial institutions may contravene the law (often with tacit approval of regulators and law enforcers); or they comply, with severe consequences in respect of financial exclusion of particularly the poor.

Do the different barriers that are experienced not position financial products beyond the reach of most consumers? Regarding the management of HIV/Aids as an example of a barrier in the insurance industry, Genesis Analytics notes that burial

societies manage their pool of premiums by varying or increasing contributions based on this risk, however it is limited by the fact that many burial society members are from poorer households where income is low and unemployment high. Increasing premiums may result in people withdrawing from the society as they cannot afford the premiums.

The same principle applies to insurance companies, leading to a situation where poorer people may not have access to financial products based on circumstances and the increased cost thereof, not assisted by the additional cost of compliance. Price is a serious consideration for most South Africans. Van Aardt (2009:12) states that “ it appears that South African consumers are generally financially vulnerable brought about by high poverty rates, income inequalities, slow job creation growth, job losses, low savings, expenditure outstripping income on a regular bases, too much debt and high debt servicing burdens.

Table 3.7 depicts the major reasons for households experiencing financial difficulty:

<b>Reason</b>	<b>Never (percentage)</b>	<b>Sometimes (percentage)</b>	<b>Often (percentage)</b>
Unexpected expenses	53.6	26.9	19.4
Rising interest rates	53.8	23.9	22.3
Too much debt	62.1	24.5	13.4
Low income	63.9	18.4	17.7
Major necessary expenses	64.7	22.2	13.2
Not sufficient savings to draw on	66.4	17.8	15.9
Spending more than is earned	66.8	21.5	11.7
Carrying debts of partner/spouse/family/friends	74.3	15.7	10.0
Not receiving a cash income	74.9	12.5	12.3
Drop in income	75.1	13.6	11.3

[Source: Van Aardt, C. 2009. *A consumer financial vulnerability index for South Africa*. Finmark Trust, 2009]

**Table 3.7 – Reasons for financial difficulty – households**

From the above it is clear that the average South African is experiencing financial strain and the major challenge for a life insurer is to create suitable and affordable products to access the market. In addition to the cost of compliance, other barriers add to the premium payable, which may – especially in the South African context – place insurance products beyond the reach of poorer South Africans. This research illustrates what Assupol Life has done in addressing products for the poorer market.

### **3.5. Qualifications and experience of representatives of financial service providers**

The FAIS Act prescribes minimum qualifications and experience of representatives of FSPs. Assupol Life is licensed at the FSB to render advisory- and intermediary services as a Category I FSP. According to Board Notice 30 of 2010 (FSB) (2010:6) the required experience of Category I FSP`s and representatives is the following:

- Long-term insurance subcategory A (funeral type business): 6 months.
- Long-term insurance subcategory B 1&2 (investment, disability, risk policies type business): 6 months.
- Long-term insurance subcategory C (savings type business): 1 year.

Regarding qualifications of representatives the following requirements is illustrated by Board Notice 30 of 2010 (FSB) (2010:6):

- Long-term insurance subcategory A (funeral type business): Recognised NQF level two qualification.
- Long-term insurance subcategory B 1&2 (investment, disability, risk policies type business): An appropriate NQF level four qualification.

- Long-term insurance subcategory C (savings type business): An appropriate NQF level five qualification.

The above requirements pertaining to experience and qualifications forms part of FAIS and if not complied with the representative may no longer act as representative. It is the responsibility of the FSP to ensure that representatives adhere to the requirements

Although Assupol Life are licensed for other category business, the above three categories primarily represent the type of products marketed by the majority of the company`s representatives. The prescribed experience must be adhered to and if the representative does not have the required experience all advisory activities must be conducted under supervision of an accredited and authorised person.

Qualification-related requirements pertain to the minimum level of education of representatives registered as such. Representatives are required to successfully complete regulatory examinations conducted by the FSB. An ongoing Continuous Professional Development (CPD) programme was created by the FSB and all registered representatives are required to acquire notional hours of development.

### **3.6. Conclusion**

The influence of FAIS and FICA on Assupol Life must be measured against factors such as limitations created, the different challenges faced in terms of regulation and specific individual influences on the operations of the company.

Considering the impact similar legislation that FAIS had on developed countries such as Britain and Australia, one could assume at least the same type of influences evolving in South Africa as a developing country. Apart from existing challenges such as poverty and the country type (mixture of urban but mostly rural), new challenges arose from the regulations. The impact of these challenges is discussed in the research.



The literature study confirmed that there exists a place for the legislation and that it does serve a purpose in the financial services industry. This chapter discussed the increased number of complaints to the offices of the Life- and FAIS Ombudsman and one must deduct that clients becomes increasingly aware of their rights in terms of insurance agreements and contracts. The influences of the above factors are discussed and analysed in this study. The cost of compliance is a major factor when measuring the influence of FAIS and FICA, and is also analysed. The influencing factors as discussed in this chapter warrants further research in order to determine the specific influence thereof on Assupol Life as a life insurer.

## **CHAPTER 4**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **4.1 Introduction**

The aim of the study is to identify and assess the impact of the FAIS Act and FICA on Assupol Life as a medium-sized life insurance company and research management's interventions to address the different influences.

Research is defined as "the process of finding solutions to a problem after thorough study and analysis of the situational factor" (Sekaran 2003:3). According to Welman (2005:2) research is a process that involves obtaining scientific knowledge by means of various objective methods and procedures. The term "objective" refers to the fact that these methods and procedures does not rely on personal feelings or opinions but that specific methods are used at each stage of the research process.

#### **4.2 Research background**

The research focuses on the influence of the Financial Advisory and Intermediary Services Act, 2002 (FAIS) and the Financial Intelligence Centre Act, 2001 (FICA) have on Assupol Life as a medium-sized life insurer. Assupol Life is used as a case study to identify and assess the influence that the legislation has on the operations, growth and functions of a typical medium-sized life insurance company. Assupol Life is a mutual life insurance company and is a major role player in group business and specialises in the government sector.

The company used to serve niche markets such as the South African Police Service (SAPS), Department of Correctional Services (DCS) and other government employees but has since started to provide service to the general insurance market.

### **4.2.1 Research problem**

To what extent did the introduction of FAIS and FICA influence financial services providers such as Assupol Life in respect of compliance to regulations, its strategic managerial approach to address the financial implications, the effect of increased obligations regarding the qualifications and experience of representatives and the impact on risk appetite and production?

Compliance to the regulations necessitates a strategic and detailed managerial approach by the financial service provider to address the above influences. Deriving from the essence of the problem statement, the following functions within the company are influenced both directly and indirectly by the regulation and forms part of the research:

- Management – regulation and compliance is part of the responsibility of all levels of management;
- Finance – direct and indirect costs of compliance reflects as an expense;
- Marketing and sales – due to the responsibility placed on FSPs by regulation, all marketing processes must reflect compliance to the legislation;
- Human resources – human capital and the retention of staff is important for a basis of compliance;
- Training and talent development – FAIS and FICA was newly introduced, and due to the complexity thereof may lead to a high level of required training.

### **4.2.2 Primary objectives**

The primary objective of the research is to determine the influence of FAIS and FICA on the relevant business functions of a life insurance company. The primary objectives relevant to FAIS and FICA are the following:

- 4.2.2.1 The objective is to determine the influence of compliance to FAIS and FICA on the marketing function. The company has a national network of representatives and a broker division, and the influence of the legislation on the marketing structure was determined;
- 4.2.2.2 The influence of the legislation on the length of the sales cycle. The introduction of the legislation resulted in a greater responsibility regarding disclosure to clients, the effect of the additional responsibilities on the length of the sales cycle was determined;
- 4.2.2.3 The impact of the compliance function on the company and the specific structures and processes that had to be developed and which have to be maintained;
- 4.2.2.4 The financial impact of compliance on the company, but specifically to expenses and the maintenance of compliance structures. The compliance structure resulted in increased costs, these costs were analysed;
- 4.2.2.5 The influence of compliance to FAIS and FICA on the human resource function, staff turnover and quality of employees; and
- 4.2.2.6 The implication of compliance on the training function and answering the question if increased training necessarily lead to an increased level of service and advice.

### **4.2.3 Secondary objectives**

The following propositions are identified and addressed in the research:

- 4.2.3.1 The influence of compliance to the legislation on business performance;
- 4.2.3.2 The impact on decision making within the company;
- 4.2.3.3 To what extent the legislator succeeded in its intention to regulate the

financial services industry; and

4.2.3.4 Analyse the effect of the changes on Assupol Life.

### **4.3 Research design and methodology**

#### **4.3.1 Introduction to research design**

Kerlinger (1986:279) describes the research design as the structure and plan of investigation so conceived as to obtain the answers to the research question. The purpose of this chapter is to describe the research methodology used, and will include the type of research, research method, information gathering, population and sampling techniques, data collection and analysis and the evaluation of data. These sections will be described and discussed in this chapter. The type of study used is an empirical type and a qualitative approach was followed. The study was conducted in the form of a descriptive case study using primary and secondary information.

#### **4.3.2. Primary data**

Primary data were collected by means of open-ended questionnaires to selected managers, unstructured interviews and structured questionnaires in order to obtain in-depth information regarding the operations of the company used as case-study. The primary data was evaluated and analysed in order to provide a concentrate on the influence of FAIS and FICA on the case-study.

#### **4.3.3. Secondary data**

Secondary data consists of literature material obtained and described in chapter 3.

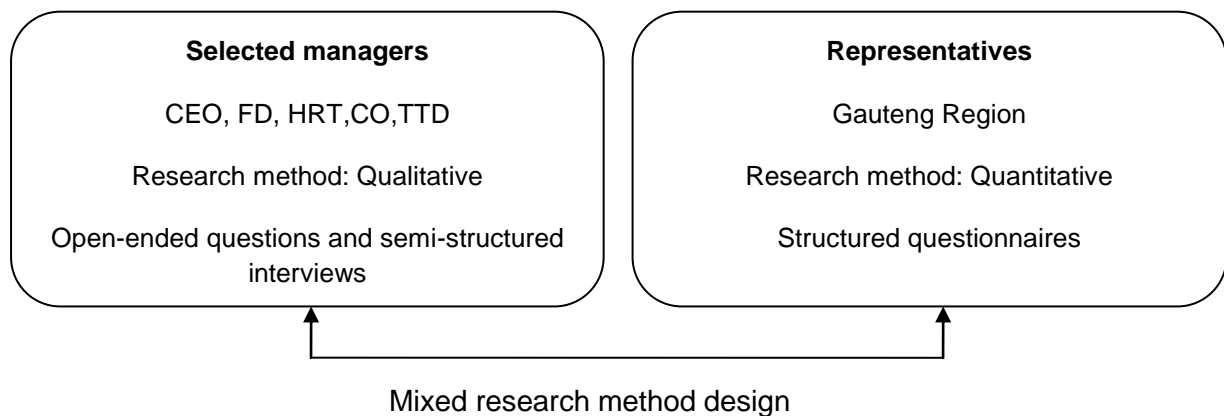
### **4.4. Research approach**

#### **4.4.1. The qualitative versus the quantitative approach**

Research methods used for studies can be classified as quantitative or qualitative. Pellisier (2007:23) describes the quantitative research method as a scientific method using objectively agreed criteria and procedures in order to obtain results that have statistical reliability. In contrast the qualitative approach is fundamentally a descriptive form of research (Welman, 2005:188). Qualitative research can theoretically be described as an approach rather than a particular design or set of techniques. Qualitative field studies are successful in the description of groups and organisations. Quantitative methods are more used in hypothesis-testing research.

When an institution is investigated, fieldwork is very often used to conduct the investigation on the spot under the natural circumstances of the specific case (Welman, 2005:193). A quantitative approach is one in which the investigator primarily uses post-positivist claims for developing knowledge (Creswell, 2003:19). Qualitative researchers study things in their natural settings, attempting to make sense of or interpret phenomenon in terms of the meanings people bring to them (Denzin & Lincoln 2000:3). Talking about the strategies associated to qualitative research, Creswell (2003:15) explains that case studies are those “in which the researcher explores in depth a program, an event, an activity, a process. The cases are bounded by time and activity, and researchers collect detailed information using a variety of collection procedures” (Creswell, 2003:15).

A mixed method research approach is followed in this study as it is descriptive using information obtained from the management of the different divisions within Assupol Life. The mixed method is described in figure 4.1:



[Source: compiled using own information]

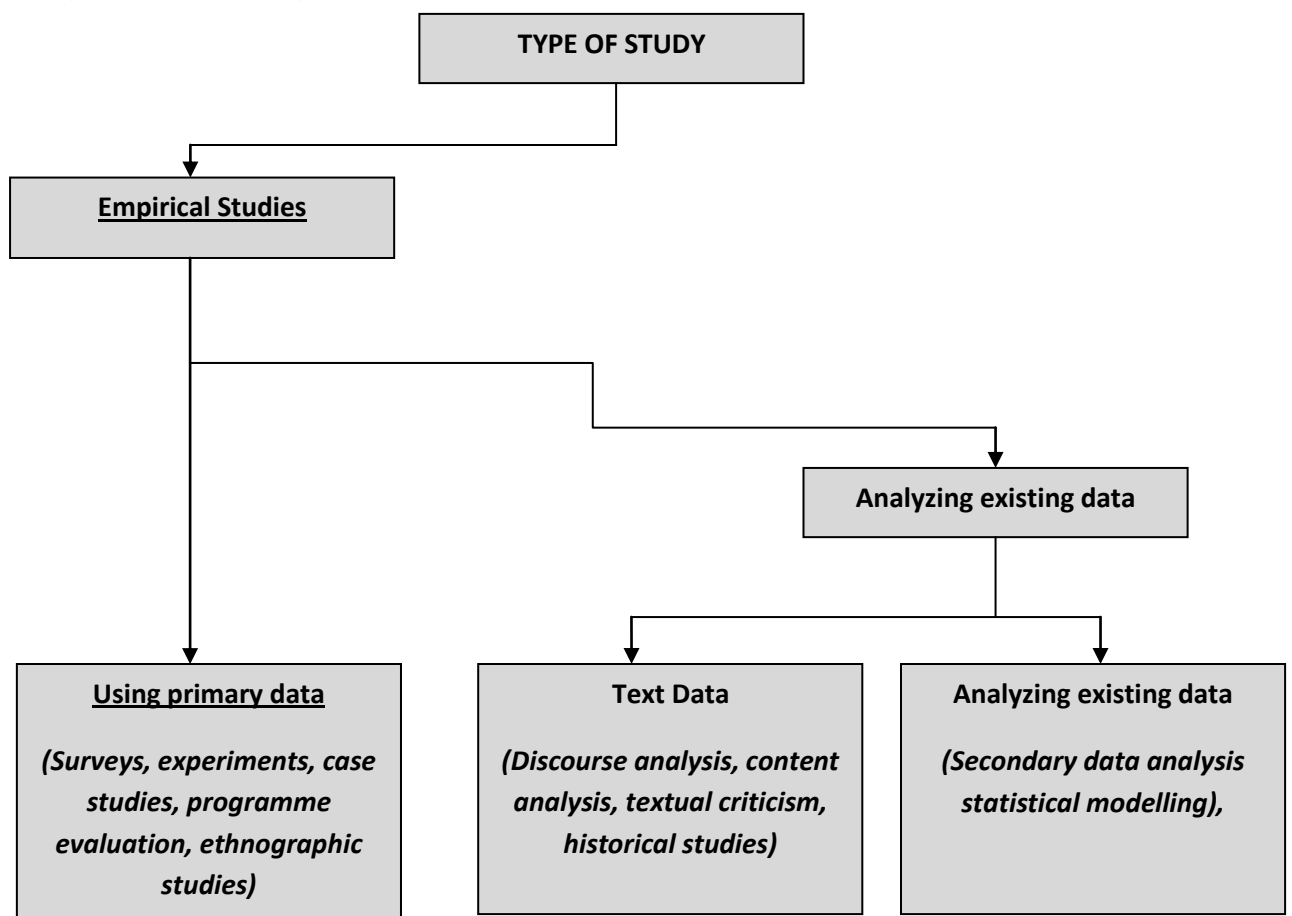
**Figure 4.1 – Mixed method research design**

## 4.5. Research strategy

### 4.5.1. Empirical study

According to Mouton (2001:55) a research design is a plan or a blueprint of how the researcher intends to conduct the research. The research design focuses on the end product and what result is aimed as an empirical study.

Following on the work of Mouton (2001:57), this research will follow the research design type as per figure 4.2:



[Source: Mouton: 2001:57]

Figure 4.2 – Type of design studies

## 4.6. Population and sampling techniques

### 4.6.1. Population

Welman (2005:52) describes the populations as the study object and consisting of individuals, groups, organisations, human products and events. The population is the full set of cases from which a sample is taken. For purposes of this research the population consist of Assupol Life as a medium – sized life insurer.

#### **4.6.2. Sampling**

To obtain the information referred to above, the sample consists of the management of Assupol Life and the sales representatives of the company, specifically in order to obtain the required information to establish the influence of FAIS and FICA on the company.

The sample will thus consist of:

- the Chief Executive Officer of Assupol Life;
- the Financial Director;
- the Human Resources Director;
- the Compliance Officer;
- the Manager of Training and Talent Development; and
- Sales representatives of Assupol Life

The size of the sample is indicated as  $n$ . According to Welman (2005:55) the selection of the sample is an important stage of the research. The population is a group of potential participants to whom the researcher wants to generalise the results of the study. The results of the research only have meaning beyond the limit setting in which they were originally obtained if the results can be generalised from a sample to a population.



Stratified random sampling is used to obtain the sample data. The results of research largely depend on the sample data (Pellissier 2007:32). Sampling can be divided into probability sampling and non-probability sampling. Probability sampling is used when the sample has a known probability. Non-probability consists of convenience sampling, judgement sampling, quota sampling and snowball sampling. Pellissier (2007:32) describes stratified random sampling as “elements are randomly selected after the population was stratified according to some characteristic”. Sekaran (2003:267) states that a sample size of between 30 to 500 is adequate for most research studies. The sample consisted of a total of 68 representatives ( $n=68$ ).

#### 4.7. Research instruments - questionnaires

##### 4.7.1. Open-ended questionnaires

The research instrument consists of questionnaires designed with the specific division in mind in order to obtain specific information. The questionnaires were developed with the objective of including all relevant aspects for the particular participant. Some questions included managerial issues as the participant is also a director of the company. Table 3.1. depict an outline of the compilation of the open-ended questionnaires.

<b>Participant</b>	<b>Subjects</b>
Chief Executive Officer	Managerial, sales, compliance
Financial Director	Managerial, financial
Human Resource Director	Managerial, human Resources, training
Compliance Officer	Compliance
Manager: Training and Talent Development	Training

[Source: compiled using own information]

**Table 4.1 – Participants and subjects: open-ended questionnaires**

In conjunction with the questionnaires interviews were conducted with the individuals in order to ensure that the questions are understood and where required to provide a clear framework of the question. Secondary data such as reports, annual audit reports and articles were assessed and applied to the research problem and results obtained from the questionnaires. An open-ended format was used and comments were asked in order to address the objectives of the study. Feedback from the questionnaires was analysed and assessed using techniques such as tabulation and correlation. In terms of interviews Tellis (1997:4) mention that it remains one of the most important sources of case study information.

The questionnaires consist of open-ended questions in order to obtain individual feedback from the samples to provide insight into the different experience of the divisions of the company. Due to the differences between the questionnaires presented to the participants, all questionnaires are attached to the study as appendices. The same standard of open-ended questionnaires was used for the management division, although not all questions were applicable to the particular participant. The format of the open-ended questionnaires is depicted in Table 4.2:

Participant	Number of questions	Managerial	Sales	Compliance	Client Relationship Management	Financial	HR	Training	General
CEO	28	3	7	2	7	0	2	1	6
FD	20	2	1	2	0	10	1	0	4
HRD	21	2	1	3	2	0	7	3	3
CO	18	1	0	9	5	0	2	0	1
Manager: Training and Talent Development	16	1	0	0	0	0	2	13	0

[Source: Own data]

**Table 4.2 – Format of open-ended questionnaires**

Certain questions were asked to more than one participant in order to establish if management agrees on these matters. The results of these particular questions will be discussed in chapter 5.

Questions were designed specifically applicable to the South African context and within the scope of the problem statement.

#### **4.7.2. Semi-structured interviews**

Interviews may vary from completely structured to unstructured (Welman, 2005:197). In this research unstructured interviews was used as the researcher could not anticipate a specific reaction from the participants.

Unstructured or semi-structured interviews are usually employed in explorative research for the following purposes (Welman, 2005:197):

- To identify important variables in a particular area;
- To formulate penetrating questions on them; and
- To generate hypotheses for further investigation.

Descriptive research assumes that the researcher already prior knowledge of the problem situation. Welman (2005:167) mentions that semi-structured interviews can be used when:

- The topics are of a very sensitive nature;
- The respondents come for divergent backgrounds; and
- Experienced interviewers are available.

Welman (2005:166) mentions that in during the semi-structured interview the researcher has a list of themes and questions to be covered, although these vary

from one interview to the next. The researcher structured the questions for the interviews according to the level of expertise of the interviewees. Appointments were diarised with the participants and the objectives were explained. In order to preclude questions that do not allow any room for revealing the feelings and beliefs of individuals, the unstructured interview purposefully do not make use of an interview schedule. Field notes were made by the researcher and these notes were incorporated in the final analysis of the information.

The following semi-structured interviews were conducted:

- the Manager of Training and Talent Development;
- the Human Resources Director; and
- the Financial Director;

The interviews were primarily conducted to obtain information regarding the financial influence of FAIS and FICA on the company.

#### **4.7.3. Structured questionnaires**

A structured questionnaire was developed and conducted involving the sales division of Assupol Life in Gauteng. A total of 70 questionnaires were distributed amongst the respondents at a provincial meeting during April 2010. A total of 68 questionnaires ( $n = 68$ ) were received as completed, which represents a 97 percent response rate. The questionnaires included the following information:

<b>Aspect</b>	<b>Number of questions</b>
Details of respondent	5
Sales	9
Compliance	10

General	4
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[Source: Own data]

**Table 4.3 – Format of structured questionnaires**

#### **4.7.3.1. Attitude Scales**

An attitude is a disposition towards a particular issue, the so-called attitudinal object (Welman, 2005:156). According to Welman (2005:156) the attitudinal object may refer to:

- A political, economical, or social issue;
- A custom;
- A group; or
- A single person.

The summated Likert scale was used in order to collect information from the sales representatives of Assupol Life. Different sales representatives were involved and the questionnaire was tabled at a regional conference. The participants varied according to the following:

- Gender;
- Production; and
- Employees or independent contractors

According to Welman (2005:156) the Likert scale is the most popular type of scale in the social sciences. A summated attitude scale consists of a collection of statements about the attitudinal object, in this case the influence of regulation in terms of FAIS and FICA on the sales division. Subjects have to indicate the degree to which they agree or disagree with its content.

The questions addressed in the questionnaires were compiled as follows:

Part	Description of statements
A	Details of respondent
B	Sales orientated questions
C	Compliance related
D	General

[Source: Own data]

**Table 4.4 – Compilation of statements (Likert Scale)**

Part B, C and D consists of statements made and the subjects had to select one option that best describes the response according to the five-point scale compiled as follows:

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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[Source: Own data]

**Figure 4.3 - Description of five-point scale**

Attempts were made to collect all questionnaires distributed, but all but two were collected. Respondents were requested to limited the selection of option three (“Unsure”) according to the Likert scale as the answer would be classified as neutral for purposes of the study and would not have a value. Only seven percent of all answers were neutral, thus limiting answers which would be classified as neutral.

#### **4.7.3.2. Frequency tables**

Interval measurement is applied in the form of frequency tables. Welman (2005:138) describes interval scale as having characteristics of nominal and ordinal scales, but

provides additional information regarding the degree of difference between individual data items within a set or group.

Frequencies are used to determine if the determination is even across the intervals or whether they cluster around one or two intervals (Welman, 2005:230). Within the structured questionnaire options one and two is used to describe the positive response, with option 3 as the neutral response and options four and five as the negative response. This measurement is used to determine if respondents tend to lean towards a side of the scale.

#### **4.8. Data analysis**

Once the data were collected the analysis thereof commenced. The feedback from the open-ended questionnaires were tabled and analysed according to the type of questions and the participant.

The origin of the data is information obtained from interviews with participants and questionnaires. The following fields were discussed in the interviews and specific questions were formulated in this regard:

- Managerial aspects of compliance to FAIS and FICA;
- The influence of compliance to FAIS and FICA on the marketing and sales functions;
- The impact of the compliance function on the company and the specific structures and processes that had to be developed and which have to be maintained;
- The financial impact of compliance on the company, but specifically to expenses and the maintenance of compliance structures;
- The influence of compliance to FAIS and FICA on the human resource function, staff turnover and quality of employees; and

- The implication of compliance on the training function and answering the question if increased training necessarily lead to an increased level of service and advice.

#### **4.9. Coding**

One of the primary sources of error may be that the researcher may be biased. In the case-study of Assupol Life, the researcher is not an employee of the company, and conducted the research as impartially and independently as possible in order to provide a justified depiction of the influence of FAIS and FICA on the company. The results of the study do not in any way impact on the researcher.

#### **4.10. Credibility and Quality of Research findings**

##### **4.10.1. Reliability**

Reliability is defined as the consistency or stability, whether measurement can be repeated and confirmed by further competent measures (Rosnow and Rosenthal 1996:124). Sekaran (2003:267) mentions that reliability refers to the consistency of an instrument with no error despite fluctuation of the candidate.

The sample of Gauteng-based representatives may appear to only represent a small number of the national sales division, but the 68 respondent represent 25 percent of the total sales division. Assupol Life maintains the same sales structure on a national level, including financial aspects, policies and procedures and training. The questions as compiled in the questionnaire include these aspects and present a reliable sample.

For the purpose of this study the influence of the legislation remains applicable to Assupol Life and is clearly specified.

- the researcher has no control over the event.



The researcher has no control over the event or events and will thus comply with this attribute.

- the internal validity of the findings of the study is provided by a credible causal relationship between a predicted and empirical pattern.

Internal validation is achieved by describing the relationship that exists between variables and the findings and relating it back to the hypothesis.

- external validity is achieved by clear specification of the applicable domain and research protocol.

#### **4.10.2. Validity**

The information is analysed by means of descriptive statistics. Welman (2005:231) describes descriptive statistics as concerned with the description of the data obtained from a group of individual units of analysis. A univariate analysis was conducted as only one variable is involved in the study. It is important to ensure that information is reliable and consistent. The data used for this study stem from the following:

- Open-ended questionnaires;
- Semi-structured interviews;
- Attitude scales;
- Numerical information obtained from the semi-structures interviews; and
- Available literature reviewed in terms of the implication of FAIS and FICA.

#### **4.10.3. Quality assurance**

Quality control can be in the form of keeping track of fieldwork (Mouton 2001:107). Record must be kept of main decisions and events during the fieldwork process, and a historical record of the process may be used to refer back in future.

Key decisions and actions include the following:

- Dates of access to the field;
- Dates when interviews was conducted;
- The length of interviews;
- Information on interviewers;
- Record of all who participated in fieldwork;
- Keeping track of aspects that influenced the fieldwork adversely; and
- Keeping track of refusal rates, response rates and reasons for refusals.

The researcher kept proper record of all fieldwork conducted for this study, and specific information regarding responses, answers to questionnaires, problems experienced with obtaining information and the process of fieldwork.

#### **4.11. Conclusion**

The research methodology used to investigate the influence of FAIS and FICA on Assupol Life was discussed in this chapter. Defining the problem and the research objectives were discussed in Chapter 1 of this study.

The research design and data collection methods were described in this chapter. A qualitative approach was followed and the study was conducted in the form of an empirical study. The collection of information was done in the form of open-ended

questionnaires, semi-structured interviews and structured questionnaires. Data collected was analysed, and the results are discussed in the following chapter.

## CHAPTER 5

### RESULTS AND DISCUSSION OF RESULTS

#### 5.1 Introduction

This chapter discusses the empirical research findings of the study of the influence of FAIS and FICA on Assupol Life as a medium-sized life insurer. The findings are based on the analysis of information obtained from the participants that were interviewed and the questionnaires that were completed. The findings are classified in terms of the different influences of FAIS and FICA on the company. The open-ended questions are described with the individual feedback recorded per respondent. The feedback regarding these questions is classified as follows:

- Market and sales;
- Client relationship management;
- Training and skills development;
- Compliance;
- Human Resource;
- Financial;
- Managerial decision making; and
- General

Secondly the information collected from the semi-structured interviews is examined. This information is mainly financial and numerical data that is statistically represented to indicate primarily the financial impact on the company.

The last section reflects the data collected by means of the structured questionnaires conducted amongst the sales division of Assupol Life. This information is divided into the following:

- Sales;
- Compliance; and
- General

## **5.2 Open-ended questionnaires**

### **5.2.1 Background**

Open-ended questionnaires were conducted with all participants and all responded positively and provided information willingly and in a participative manner. The participants are experts in the respective fields, and the questions were designed to obtain their view of the influence of the legislation.

All participants were willing to provide the researcher with data and numerical information required. Not all questions were posed to all respondents as the departments mostly function independent of each other, and the relevant managers are experts in their own fields, but not necessarily all fields.

### **5.2.2 Profile of respondents**

Due to the nature of the research, the respondents included the following:

- the Chief Executive Officer of Assupol Life (CEO);
- the Human Resources Director (HRD);
- the Financial Director (FD);

- the Compliance Officer (CO); and
- the Manager of Training and Talent Development (TTD);

### 5.2.3 Feedback from open-ended questions – Managerial

#### 5.2.3.1 Marketing and sales

The following table represent the questions and feedback regarding matters pertaining to the influence of FAIS and FICA on the marketing and sales function of Assupol Life:

<b>Part A: Marketing &amp; Sales</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
In what manner did FAIS and FICA influence the length of the sales process, complexity of sales tools (documentation, disclosures) and the turnaround time of finalising applications for products of the company?	Documentation was increased to adhere to the requirements; the influence on turnaround times is not great; the cost of the marketing process increased.	Not applicable	Not applicable	Not applicable	Not applicable
Assupol Life conduct ventures with brokers, how did regulation contribute to broker consolidation in your opinion, and do you think this will be a continuous pattern?	Regulation did influence brokers as they had to be licensed in terms of FAIS.	Not applicable	Brokers were definitely influenced and many did not apply for licenses as required by FAIS; based on the accreditation requirements many may not qualify to become licensed; it is a natural process to change the industry to a professional environment.	Not applicable	Not applicable
In what way does regulation influence flexibility and response to market developments?	The product type is limited; savings products are not affordable any longer to poorer people.	Not applicable	Not applicable	Not applicable	Not applicable
In what manner did FAIS influence the following:					
a) quality of new business	Assupol Life was not influenced as an FSP, but the quality of the representative is influenced.	Not applicable	Not applicable	Not applicable	Not applicable

b) value of products	Assupol Life manages quality and value itself; average cost per policy increased due to compliance cost.	Not applicable	Not applicable	Not applicable	Not applicable
c) volume of new business	Assupol Life is marketing in a niche market, no real influence on volumes, the economical influence is larger.	Not applicable	Not applicable	Not applicable	Not applicable
Time contemplated as spend by marketing management on regulation matters.	Not applicable	Recordkeeping and supervision takes a lot of time from sales, estimated at approximately 7-8 hours per month. Added more responsibilities to the Sales Manager.	Not applicable	Not applicable	Not applicable
Assupol Life mainly uses a national network of agents to canvass the products of the company. In what manner did legislation influence the marketing structure e.g. call centre.	Representatives must be qualified; training changed significantly; documentation was changed and increased; more detailed management approach was applied.	Not applicable	Not applicable	Not applicable	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.1 – Open-ended questions and feedback: Marketing and sales related influences**

From the results of the sales and marketing related questions as represented in Table 5.1 it is clear that administrative processes were increased in order to comply with the requirements of regulation.

Savings products (life insurance policies) did become more expensive although risk policies (funeral policies) remain affordable for the market in which Assupol Life conducts its business. This lead to more risk policies being sold than savings policies. The number of brokers in South Africa decreased due to the requirements for licensing in terms of FAIS. The average cost of insurance products was influenced due to regulation although value of the products is managed in-house by Assupol Life. The volume of new business is more influenced by economical influences than regulatory influences, but a more detailed management approach is required. Increased training of representatives is required to comply with regulation.

### 5.2.3.2 Client Relationship Management

The feedback obtained from the interviewees regarding the influences of FAIS and FICA on the client services function is depicted as per Table 5.2.

<b>Part B: Client relationship management</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
In your opinion, in what way does FAIS and FICA present clients with significant benefits in terms of service and advice?	Insurers pay more attention to clients; Assupol Life's priority is CRM; we believe all FSP's must be policed by the regulator and not only insurers.	Not applicable	Not applicable	Regulation i.t.o. FAIS protects clients and serves their best interest; it creates a sense of confidence in Assupol Life as well as awareness amongst clients; clients became more educated.	Not applicable
How did the introduction of FAIS and FICA influence the way in which Assupol Life make available its products and services to especially the lower income clients?	The FNA receives more attention; more information are provided to the client than before; geography is a problem as clients must be seen and cannot be consulted via telephone;	Not applicable	Not applicable	Not applicable	Not applicable
How did FAIS and FICA influence the cost of life and funeral products to lower income clients?	There is a definite influence on costs; regulation and the LOA codes as well as the impact of HIV/ AIDS are included in the price; certain questions pertaining to HIV/ AIDS had to be deleted.	Not applicable	Not applicable	Not applicable	Not applicable
In your opinion, did FAIS increase awareness amongst clients regarding the payment for products in order to have cover for risks, and in what way did Assupol Life experience any change in payment patterns since the introduction of the legislation?	Assupol Life is not influenced	Not applicable	Not applicable	Not applicable	Not applicable
Trust is an important part of any client relationship. How did regulation influence the trust relationship between Assupol Life and its clients? In your opinion, in what way did FAIS contribute to a lower lapse rate due to the prevention of over-selling and miss-selling as the legislation aim to achieve?	Regulation created awareness amongst clients; No influence on lapses is experienced, it occurs mainly due to economical reasons; miss-selling still happens as representatives chase sales numbers.	Lapses are more related to economic reasons and not regulation.	Not applicable	Not applicable	Not applicable



In your opinion, to what extent did FAIS empower clients to channel complaints to the Ombud as example? Please describe the influence this had on Assupol Life as insurer.	It does happen that clients complain to the Ombud, but regarding CRM matters (questions) rather than genuine complaints with substance. Ombud report those as part of its success rate, but it is not really a success and the insurer still pays the fee per compliant.	Not applicable	Not applicable	Clients are more aware of available channels; the media plays a role to create awareness; the FSB ensures that clients know the channels.	Not applicable
Are you of the opinion that FAIS and FICA and the relative increase in costs for the insurer put life insurance products beyond the affordable reach of clients? How did this impact on Assupol Life?	In Assupol Life`s market savings products are expensive; minimum premiums become out of reach for clients; the ratio is now 90% risk products and 10% savings, 2 years ago it was vice versa.	Not applicable	Not applicable	Not applicable	Not applicable
In your opinion, what does FAIS mean for consumers?	Not applicable	It gives confidence that the insurer must be licensed and professional; the insurer must disclose its credentials to the client and must now see the client on a regular basis.	Not applicable	Not applicable	Not applicable
In terms of client service, please provide a framework of the additional workload and responsibilities that FAIS and FICA prescribes, and the influence thereof regarding the following:					
a) Time spend	Not applicable	Not applicable	Not applicable	Substantial - advice takes time if it is correctly done; i.t.o. FICA the client`s details must be known and the representative must be able to identify suspicious activities, increased training is needed for branch-office staff and underwriting staff.	Not applicable

b) Administration	Not applicable	Not applicable	Not applicable	The application process increased so underwriting increased; all parties spend more time on compliance processes, from sales to underwriting.	Not applicable
c) Audit requirements	Not applicable	Not applicable	Not applicable	Additional audits are done internally on application forms and underwriting.	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.2 – Open-ended questions and feedback: Client relationship managements related influences**

It is agreed that FAIS contributed that the best interest of clients are the main focus and that regulation build a confidence on the part of clients. The relationship with clients is improved as more direct communication and consultation is required to adhere to the legislation. According to the feedback as tabled above in Table 5.2 payment patterns were not influenced by regulation.

Clients are more aware of channels available to complain, although it is evident from feedback that clients refer client service related complaints to the Ombud, which in return address the matters with the company but although not regulatory related complaints, report these as successes. Similar to the additional sales processes implemented as described above, additional administrative processes were required in order to comply to FAIS.

### **5.2.3.3 Training and Skills development**

The feedback regarding training and skills development matters are tabled as follows in table 5.3. Assupol Life acquired the services of Isambulela Learning Company in order to address the accreditation requirements of FAIS and to provide a basis for the skills development process pertaining to representatives.

<b>Part C: Training and skills development</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
In your opinion, does the Fit and Proper requirements limit the type of trainee the company may normally have obtained in terms of sales and marketing skills?	Not applicable	Not applicable	Not applicable	Not applicable	Representatives normally have sales skills but are not academically strong; this forces AL to look for better quality representatives.
Please explain the continuous training and accreditation required for current employees and contractors.	Not applicable	Not applicable	Not applicable	Not applicable	Regulator exams: - RE1 in 2011 and RE2 in 2013. From 2010 new appointees must have full qualification by 2015. CPD brought in as continuous training requirement; Assupol Life staff and representatives must know the products and frequent testing are conducted as well as an annual accreditation on products. If this is not passed the product may not be sold any longer.
In your opinion, has the legislator succeeded in transforming the financial services industry into a profession? Please elaborate.	Not applicable	Not applicable	Not applicable	Yes, although not 100% as there still unscrupulous FSP's; good representatives without qualifications are left out of the process; small FSP's cannot afford to operate due to the high cost.	Maybe at 50% level, move is towards financial planning, but this decrease the size of the sales group.
In your opinion, how did the introduction of FAIS and FICA prevent and address dishonesty and fraud in the industry amongst financial service providers, and did the legislation succeed in this purpose?	Yes in Assupol Life's market; fraud are committed by syndicates and not necessarily representatives; unregistered and unregulated FSP's remain a problem; larger companies operate according to legislation but smaller ones is the problem regarding non-compliance and fraud; policing must be improved	Not applicable	Not applicable	Not applicable	Not applicable

	regarding these operators.				
In what manner did FAIS and FICA influence the strategic approach of the training department?	Not applicable	Not applicable	Not applicable	Not applicable	A full-time trainer specialising in FAIS training was obtained; FAIS training uses a large portion of the annual training budget; 31% of budget is used for FAIS training currently. It is foreseen the percentage utilisation will remain at 30% at least. FICA related training is a small part of the training budget; material was drafted and is used for training sessions on FICA.
In what way did FAIS and FICA influence the training function of the company? Please elaborate regarding structure, responsibilities, testing and additional resources needed.	Not applicable	Not applicable	Not applicable	Not applicable	A person was appointed for FAIS projects. FAIS is a definite first priority for the department. The Umfundi training system was obtained at a cost of R91, 000 per annum. All representatives on national level had to be trained and continue to be trained; NQF5 level training has been outsourced and ILC was started specifically to address the accreditation requirements of Assupol Life.
What percentage of time and resources does FAIS and FICA consume as part of the responsibilities of the training department?	Not applicable	Not applicable	Not applicable	Not applicable	FAIS and FICA requires a full-time trainer; the manager spends 10% time on FAIS/ FICA and the department 20% to 30%.
In your opinion, what are the primary challenges faced by the training department in terms of FAIS and FICA?	Not applicable	Not applicable	Not applicable	Not applicable	The commitment of learners towards studies to become accredited; NQF5 requirements are high; regulatory

					exams starting in 2010 - up to now learners could be assisted, but now they are on their own as exams are conducted externally, this will pose a problem for the average representative.
How did FAIS and FICA influence the cost of training? Please elaborate regarding possible increase in cost and the cost of fully accrediting a trainee.	Not applicable	Not applicable	Not applicable	Not applicable	Regulatory exams will require on average 21% of the training budget; cost of accreditation of representatives is R5, 200 and Life 1 course (internal) is R9, 200 per learner.
Does Assupol Life consider the complexity of regulation to be a barrier for trainees? Please elaborate.	Not applicable	Not applicable	Not applicable	Not applicable	NQF5 level is high for most representatives; the department attempt to fuse practice and legislation; Regulatory exams is a challenge.
In what way did FAIS and FICA influence the entry requirements for new trainees?	Not applicable	Not applicable	Not applicable	Not applicable	Previously it was not a problem, but now in 2010 candidates must have had maths as a subject in Grade 12; mathematical aspects are brought in at an increased rate and not everyone will be able to cope.
In your opinion, in there a skills shortage in terms of the responsibilities prescribed by FAIS and FICA and how does Assupol Life address the matter?	Not applicable	Few people qualify as KI's; numeracy skills is strict and must be balanced with EE this must in return be balanced with business decisions.	Not applicable	Not applicable	Maths requirement creates a gap; the group of suitable representatives become smaller; on supervising level the same problem exists.
What are the consequences of non-compliance to the Fit and Proper requirements and how does Assupol Life manage the process?	Not applicable	Education is taken seriously by Assupol Life; disbarment with the FSB is the only viable option for representatives; staff is being handled according to the disciplinary code; in the case of brokers the agreements are cancelled.	Not applicable	Not applicable	Agents are moved to a lower category where requirements are not that strict or disbarment of the representative will be done.

<p>To what extent does FAIS specific training improve an employee's ability to render service and advice accurately and professionally? Does the legislation create a rush for credits and in the process lose the edge?</p>	<p>Not applicable</p>	<p>The industry does not have a good reputation and is seen as an inferior career choice; the majority of people see insurance as a 2nd or 3rd job; FAIS is changing that into a career or profession; Advice and service has improved and representatives now have the knowledge.</p>	<p>Not applicable</p>	<p>Not applicable</p>	<p>It was a rush for accreditation; a return on investment exercise was done during the 2008/9 financial year: production did decrease but not due to training related reasons but more economical reasons; learners did however indicate they understand regulation better.</p>
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[Source: Open-ended questionnaires conducted with respondents]

**Table 5.3 – Open-ended questions and feedback: Training and skills development related influences**

Table 5.3 indicates that the requirements of FAIS in terms of education are strict and Assupol Life find it increasingly difficult to obtain suitable representatives that is both academically competent and proficient with sales. It is experienced that older representatives that is sales orientated are being excluded as the academic requirements of FAIS is strict. The minimum entry requirements from 2010 for representatives are mathematics as a subject in Grade 12. These representatives must in terms of FAIS obtain a full qualification that is acceptable by the FSB by 2015.

A further requirement is that Regulatory Examinations are being introduced and is compulsory for representatives from 2011. These examinations must be passed in order for representatives to continue to be registered at the FSB. It is agreed that FAIS has not been successful to totally prevent unscrupulous financial businesses from operating. The CEO mentioned that a concern is that fraud is mainly committed by syndicates, and that improved policing are required to address these matters. A further concern is that the FSB may not have adequate capacity to apply the regulations.

The training department of Assupol Life had to be restructured as a full-time FAIS trainer was appointed.

### 5.2.3.4 Compliance

The following table represent feedback obtained regarding the influences of FAIS and FICA on the compliance function of Assupol Life. The compliance department was initiated to primarily manage compliance related matters pertaining to FAIS and FICA and to accommodate the internal audit duties.

<b>Part D: Compliance</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
Please provide a framework of the compliance function at Assupol Life.	Not applicable	Not applicable	Not applicable	Management is responsible for compliance to regulation; currently the CO plus 2 staff members manages the compliance function and assists the CO (includes the compliance function of 4 affiliate companies.	Not applicable
What are the challenges that Assupol Life face in terms of compliance to FAIS and FICA.	Not applicable	Not applicable	Not applicable	FAIS is expensive, compliance people is qualified people; representatives are expensive to obtain and retain; training is expensive and insufficient representative numbers remains a challenge; advice is required at both sales- and after sales (CRM); FICA - compliance is difficult in some cases due to geography.	Not applicable
How does the infrastructure of SA in particular pertaining to informal housing influence the responsibility of Assupol Life in terms of FICA.	Not applicable	Not applicable	Not applicable	Assupol's market is LSM 1-5. Large premiums not normally handled so confirmation is not required, in the case of a lump sum not exceeding R50,000 confirmations are not required.	Not applicable
What does the additional administrative responsibilities regarding FAIS and FICA entail and how did it influence Assupol Life's operations?	Not applicable	Not applicable	Not applicable	Compliance division started at cost; people had to be acquired with required skills and qualifications; additional	Not applicable

				reporting to FSB was created.	
In your opinion, how did the introduction of FAIS and FICA prevent and address dishonesty and fraud in the industry amongst financial service providers, and did the legislation succeed in this purpose?	Not applicable	Not applicable	Not applicable	The intention is to get rid of dishonest FSP's, Assupol Life does all in its power to address the risk of fraud.	Not applicable
How did FAIS influence the risk management structure and processes of the company?	Not applicable	Not applicable	The Credit control committee was established amongst the compliance structures; the compliance committee ensure compliance to licensing requirements.	Risk management is a sub-committee of the Board of Director's meeting; compliance was incorporated with the risk management process; the FAIS/FICA committee was started and the supervision structure implemented.	Not applicable
How does compliance to FAIS and FICA influence the costs of the company?	Not applicable	Question addressed in interview	Question addressed in interview	Annual fees: R380 per complaint is payable by the insurer, the cost of the FAIS Ombud is R1, 000 per complaint.	Not applicable
What are the biggest regulatory challenges that Assupol Life faces in terms of FAIS?	To accredit own and broker representatives over next 2 years.	Not applicable	Not applicable	Changes to legislation and the required retraining of compliance staff on amended issues.	Not applicable
Does Assupol Life consider the complexity of regulation to be a barrier in achieving first-rate compliance?	No, the process only became more expensive.	Complexity is only a problem regarding recordkeeping; Assupol Life does however cope.	Not applicable	No, not a barrier; Assupol Life have qualified CO's and comply to the letter of the Act; the compliance department obtain legal opinions where required.	Not applicable
Are non-compliance within the industry addressed in a satisfactory manner and with the necessary discipline in your opinion. Please elaborate.	Not applicable	Unscrupulous role-players are being eliminated; the FSB and the industry are involved in the process; Ombud - clients are increasingly becoming aware of their rights.	Not applicable	Not applicable	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.4 – Open-ended questions and feedback: Compliance related influences**



As per Table 5.4 a compliance department was initiated by Assupol Life to manage FAIS compliance as its main function. In addition different committees were implemented to address compliance related matters. The internal audit function was broadened in order to address the different sales and administrative process. Compliance to FICA is in certain circumstances complex as the geography makes it difficult to confirm residential addresses. Assupol Life do however not need to confirm addresses if lump sum payments does not exceed R50,000. Annual fees charged by the FSB increases the cost of compliance significantly. The impact thereof will be discussed later in this chapter.

### 5.2.3.5 Human Resources

Table 5.5 reflects the feedback obtain regarding the influence of FAIS and FICA on the Human Resource division and function of the company.

<b>Part E: Human Resource development</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
In your opinion, how did the determinations by the FAIS Ombud influence the operations and processes of Assupol Life?	Not applicable	Not applicable	Not applicable	The information is used for training purposes; it enables Assupol Life to be more proactive in its approach.	Not applicable
In your experience, did the prescribed complaints resolution process contribute to better client relationships between Assupol Life and its clients? Please explain.	Not applicable	Not applicable	Not applicable	Yes, Assupol Life's processes improved and clients has a better trust relationship with the company.	Not applicable
Similar legislation introduced in Australia lead to the number of career financial advisors declining from 25,000 to 4,500. In your opinion, to what extent did regulation influence the availability of suitable financial advisors i.t.o. Assupol Life?	It is a problem as there are very capable representatives that are above 60 years of age but does not qualified i.t.o FAIS. They are excluded due to qualifications requirements of FAIS. Young people do not view the industry as a viable career option.	Not applicable	The numbers definitely decreased; the requirements regarding application forms and FNA had an influence.	Not applicable	Not applicable

In what way does FAIS contribute to empower employees and contractors from the designated group?	Not applicable	Requirements for maths and accounting is a problem; Assupol Life implemented a fast-track training process for accreditation which is classroom based to assist learners; top agents are mostly from government employment background without qualifications; it is a challenge to get KI from the previously disadvantaged group, and Assupol Life rather work towards developing current staff; a sales management program was started to develop sales managers currently 7 candidates (6 African and 1 European).	Not applicable	Not applicable	90% of new trainees are from the designated group; the training provided is definitely empowered these individuals and levels of knowledge improved considerably.
In your experience, does the Fit & Proper requirements and subsequent training motivate trainees or is the training viewed as a necessary evil by these individuals? Please explain.	Not applicable	Not applicable	Not applicable	Not applicable	It is seen as a necessary evil as it is viewed as something that must be done.
In what way does the Fit and Proper requirements contribute to better quality employees and representatives?	Not applicable	New entrants must become accredited, this requires a sense of commitment; fear of disbarment exist; advice must be appropriate and correct.	Not applicable	Not applicable	Not applicable
What influence does regulation have on the hiring and training of suitable employees with specific reference to the possibility of a skills "gap" being created?	Not applicable	Basic education and numerical skills is a problem; Assupol Life has no other choice than to develop staff/ representatives themselves, which are basically the same skills that should have been taught at high school level.	Not applicable	Not applicable	Not applicable

Please describe the influence of the legislation on the recruitment of suitable employees and contractors.	Not applicable	It is a challenge as the requirements of FAIS is strict and the retention of reps is a problem.	Not applicable	Not applicable	Not applicable
What influence did regulation have on the staff turnover of Assupol Life?	Not applicable	Assupol Life does not have high turnover of employees in relation to other companies; regarding representatives the turnover is higher, head-hunting of representatives is a problem in the industry after the 2009 deadline for qualifications to be obtained.	Not applicable	Not applicable	Not applicable
Please provide an estimate of the cost of compliance to FAIS and FICA in terms of human resources.	Not applicable	Question answered in interview.	Not applicable	Not applicable	Not applicable
In your opinion, does regulation level the playing field between competitors within the industry, with specific reference to the availability of skills and competent employees?	Regarding marketing yes; staff and reps are being head-hunted by competitors.	Regarding qualifications - yes; skills transfer is key to have a balance and a culture of a profession must be created.	Not applicable	Not applicable	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.5 – Open-ended questions and feedback: Human Resources related influences**

The strict entry requirements of FAIS decrease the available number of potential representatives, also the candidates from the previously disadvantaged group. The feedback as depicted in Table 5.5 indicate that numerical skills of candidates are a challenge for the company and are addressed by means of in-house training and accredited courses. Some existing representatives are not committed to the accreditation process and they mainly work on a commission basis and increasing their disposable income is a priority over academic qualifications.

### 5.2.3.6 Financial

The influence of FAIS and FICA on the financial management function of Assupol Life was determined by specific questions formulated in terms of control, impact and company approach. The actual financial impact was established by means of the semi-structured interview conducted with the FD. The results of the questionnaire are depicted in table 5.6.

<b>Part F: Financial</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
Please describe the impact of FAIS and FICA in terms of increased internal bureaucracy, e.g. boards and committees, internal auditors as well as preparation of required documentation.	Not applicable	Not applicable	The following structures and committees were implemented or developed further: 1) Compliance department; 2) Compliance committee 3) Audit committee; 4) the Credit Control committee were further developed as a part of its work is driven by regulation.	Not applicable	Not applicable
Please describe the tax implication of compliance to FAIS, if any, and the subsequent responsibilities placed on financial services providers regarding disclosure.	Not applicable	Not applicable	Compliance cost is not a tax deductible; no impact was experienced other than legal expenses.	Not applicable	Not applicable
How did the increased cost of compliance influence commission paid to contractors and brokers?	Not applicable	Not applicable	Commission are regulated and was not impacted.	Not applicable	Not applicable
In what manner did FAIS and FICA influence the complexity of financial management and control?	Not applicable	Not applicable	Not influenced financial side; the company needed to implement a compliance rating.	Not applicable	Not applicable
Please indicate the average annual cost of compliance for Assupol Life.	Not applicable	Not applicable	Question answered in interview.	Not applicable	Not applicable
In your opinion, what benefits did the introduction of FAIS and FICA have for Assupol Life as a company?	Not applicable	Not applicable	Reputation to comply; compliance show that the company is a responsible corporate citizen.	Not applicable	Not applicable
In what way did regulation influence investment decisions of Assupol Life?	Not applicable	Not applicable	No influence was experienced.	Not applicable	Not applicable
Are you of the opinion that FAIS and FICA and the relative increase in costs for the insurer puts life insurance products beyond the affordable reach of clients? How did this impact on Assupol Life?	Not applicable	Not applicable	Savings products are placed beyond the affordable reach of the market as the minimum premium is higher.	Not applicable	Not applicable
In your opinion, do you consider regulation (FAIS) on the same level as changes to the financial reporting (IFRS) regarding importance and influence on the company? Please elaborate.	Not applicable	Not applicable	FAIS is more operational whereby IFRS is an international standard on a higher level i.t.o. actuarial and financial aspects; Both are however very important.	Not applicable	Not applicable

In your opinion, in what way does the cost of compliance reduce the uptake of savings products, and thereby reduce the propensity to save of the economy and of particular communities?	Not applicable	Not applicable	Markets react differently; exclude by implication certain sectors of the market due to high cost; Interest rates at banks are very low for savings accounts.	Not applicable	Not applicable
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[Source: Open-ended questionnaires conducted with respondents]

**Table 5.6 – Open-ended questions and feedback: Financial related influences**

As depicted in the above Table 5.6 savings products are beyond the reach of many clients due to increased costs. Due to these circumstances clients need to save by using other means such as savings accounts at banks. The interest rates on these accounts are less than the return through insurance-related savings products.

### 5.2.3.7 Managerial decision making

Strategic decision making is part of the responsibility of the management of the company and regulation influence decisions. The feedback obtained from managers regarding this influence on Assupol Life is reflected in table 5.7.

<b>Part G: Managerial decision making</b>	<b>CEO</b>	<b>HRD</b>	<b>FD</b>	<b>CO</b>	<b>TTD</b>
In what manner was the management approach of Assupol Life influenced by regulation?	Adherence to legislation is always priority to Assupol Life.	The Compliance department was initiated as well as relevant committees which represent all other departments within the company; proper monitoring was introduced by the Compliance department.	Assupol Life ensures that it has firsthand knowledge of the industry and stays up to date; Persal is a strategic advantage of Assupol Life.	Not applicable	Not applicable
In what way does FAIS and FICA influence the strategic direction of Assupol Life?	FICA - none; FAIS - broker accreditation and to find suitable representatives, negative media news, new entrants will be scarce; representatives do not want to work for commission want to earn salaries.	Not applicable	Not applicable	Not applicable	Not applicable

In your opinion, did the implementation of FAIS and FICA have a positive or negative influence on Assupol Life?	Positive - if regulation is applied correctly it impacts positively on the industry; there is a capacity problem at FSB to police sufficiently; Negative – the cost implication for the FSP.	Not applicable	Positive - the quality of advice and service improved.	Positive: a compliance culture was created in Assupol Life and best practise achieved.	Positive - continuous interventions leads to better qualified representatives; Negative – costs and infrastructure needed as well as the requirement for academically strong reps.
Why did Assupol Life decide to conduct its own compliance function and not outsource to external companies?	Not applicable	For control purposes; non-compliance has a huge impact on company and by conducting this duties internally proper control is ensured.	Not applicable	Not applicable	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.7 – Open-ended questions and feedback: Influences on managerial decision making**

The results as depicted in Table 5.7 indicate that strategically the requirement for competent representatives is a challenge for the company.

It is agreed that FAIS had a positive influence on Assupol Life and its relationship with its clients. A further positive influence is that a compliance culture was created within the company and that compliance forms an integral part of the company's management structure.

Although a challenge the strict entry requirements lead to better qualified representatives to market the products of the company.

### 5.2.3.8 General

General questions were included to address matters not asked in the sections above. The feedback regarding these questions is addressed in table 5.8.

<u>Part H: General</u>	CEO	HRD	FD	CO	TTD
During a PWC survey conducted in 2008 regulation was recorded as the 2 <sup>nd</sup> most pressing influence on long-term insurers. In your opinion, does this apply specifically to Assupol Life and to what extent?	Regulation yes; the company is compelled to plan and manage the process.	Not applicable	Regulation definitely, but now also micro insurance and commission regulation.	Not applicable	Not applicable

In your opinion, to what extent does regulation dampen risk appetite and growth?	Place damp on product innovation such as savings products; savings products now 10% of business, was always 40% of business.	Reputation of company may improve due to regulation as it cuts out unprofessional conduct and creates trust.	Not dampen, but must be managed; Growth - actions had to be doubled due to regulation; risk appetite - intermediary appointments are now screened and not anyone can now do sales.	Not applicable	Not applicable
How did regulation influence the use of technology within Assupol Life?	This is a continuous process. It is important to be at the forefront, but major changes were not due to regulation.	Not applicable	Not applicable	Not applicable	Not applicable
In your opinion, does the current process contribute to a better and improved relationship with regulatory bodies e.g. the Financial Services Board?	Not applicable	Yes, compliance is discussed at the ASISA board at every meeting; Assupol Life interacts with the FSB frequently; Assupol Life understands the impact of non-compliance; a common goal exists to create a professional industry.	Not applicable	Not applicable	Not applicable
To what extent does Assupol Life experience that emerging brokers are disadvantaged by the compliance responsibility?	Not applicable	The development of black entrepreneurs were not taken into consideration; Compliance cost is a barrier for upcoming brokers; Assupol Life deal with funeral parlours and appoint them as representatives as they do not have the means and capacity to become licensed on their own; Micro-insurance might become a viable option to small brokers.	Not applicable	Not applicable	Not applicable
In what way did regulation influence the development of the company's products?	Less innovation regarding savings products, more risk products are being marketed; a mind change was needed in terms of what sells and what not.	Not applicable	Not applicable	Not applicable	Not applicable

In what way do you anticipate the pressure of legislation to change over the next three years?	Assupol Life has to manage the impact of regulation, especially regarding commission as well as savings/ risk situation.	Not applicable	It will be an ongoing process; it is foreseen that regulation may be stricter implemented with banks considering the financial environment.	Will be an ongoing process.	Not applicable
How was the company's performance and results influenced by the introduction of FAIS and FICA?	Only the administrative function and salaries.	Not applicable	Profitability negatively influenced due to compliance cost, but not large percentage.	Not applicable	Not applicable

[Source: Open-ended questionnaires conducted with respondents]

**Table 5.8 – Open-ended questions and feedback: General Influences**

From the feedback as presented in Table 5.8 it was clear that regulation does not dampen Assupol Life's appetite for risk. The company manages the requirements of compliance and ensures that it remains informed of activity within the industry. Regulations lead to the company evaluating its products in order to decide which will be continued to be marketed.

The company's results was not directly influenced by regulation in terms of FAIS and FICA, although the additional costs did increase expenses on an annual basis.

The pressure of compliance is viewed as a continuous process that will be managed.

### **5.3 Semi-structured interviews**

#### **5.3.1 Background**

Semi-structured interviews were conducted with the following role-players of Assupol Life in order to obtain information regarding the cost-implication of compliance to FAIS and FICA:

- the Manager: Training and Skills Development;
- the Human Resource Director; and
- the Financial Director



All participants and all responded positively and provided information willingly and in a participative manner.

### **5.3.2 Financial influence**

#### **5.3.2.1 Direct costs**

Direct cost are defined as “Expenses that can be traced directly to (or identified with) a specific cost centre or object such as a department, process, or product”. (Business definitions, 2010). The influence of regulation is easier to identify and describe if the direct cost component is considered. Direct costs would in this case-study include the following:

- Compulsory regulatory fees payable to other parties;
- Office and operational expenses;
- Salaries of compliance staff;
- Training cost pertaining directly to FAIS and FICA training;
- Accreditation cost

#### **5.3.2.2 Indirect costs**

Indirect cost is “costs incurred in joint usage and therefore difficult to assign or identify to with a specific cost object or cost centre (department, function or program)”. (Business definitions, 2010). In the case-study of Assupol Life, indirect compliance cost pertaining to FAIS and FICA includes the following:

- Cost of committees and other structures implemented that also includes compliance related functions, but is not limited to compliance;

- Salary costs of staff that conduct compliance related duties, but whose responsibilities are not limited to compliance of FAIS and FICA; and
- Costs related to any function or department that includes part-time regulatory duties and such cost cannot be quantified.

### 5.3.3 Semi-structured interview: Manager: Training and Skills Development

The direct cost of FAIS and FICA training is depicted in Table 5.9. It is clear that the cost increased annually with the exception of 2008 when a decline occurred. During 2009 expenses increased significantly (by 127 percent compared to the previous year) due primarily to the 2009 due date for accreditation of representatives.

Financial year	Compliance related training cost	% of training budget	% change
2005	227,340	0	
2006	393,122	0	73%
2007	444,576	0	13%
2008	367,919	59%	-17%
2009	835,211	31%	127%

[Source: Assupol Life (Manager: Training and Skills Development)]

**Table 5.9 – Annual training cost: Assupol Life**

Training expenses increased by 267 percent from 2005 compared to 2009. The accreditation of representatives remains the duty of Assupol Life and it is foreseen that the costs of accreditation will remain at a level of 30 percent of the total budget of the training department annually.

### 5.3.4 Semi structured interview: Human Resource Director

The cost of compliance related salary expenses are depicted in Table 5.10. This cost only refers to staff that conduct direct compliance duties, and excludes indirect salary costs.

Financial Year	Compliance related remuneration (excl. commissions)
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2005	340,000
2006	890,000
2007	1,080,000
2008	1,270,000
2009	1,186,000

[Source: Assupol Life (Human Resource Director)]

**Table 5.10 – Annual salary cost: FAIS and FICA related duties**

### 5.3.5 Semi-structured interview: Financial Director

In order to establish the financial impact of compliance to FAIS and FICA a semi-structured interview was conducted. Compliance has a direct- and an indirect cost implication. Direct cost implications include expenses allocated to regulation in terms of FAIS and FICA per se does not include other compliance related expenses. These direct expenses are discussed hereafter.

<b>Cost of office space (monthly)</b>	5,160
<b>Cost of office equipment (annual)</b>	75,000
<b>Total annual office expenses</b>	136,920
<b>Total annual office expenses (2005 to 2009)</b>	684,600

[Source: Assupol Life]

**Table 5.11 – Expenses in terms of rent and office expenses (compliance department)**

Table 5.11 depicts specific expenses for the compliance department located at Assupol Life head-office. The office renders compliance services for the company. Historically mainly FAIS related compliance services were rendered by the office. The department was started due to the specific requirements of FAIS that every FSP must have a compliance officer.

This function may be outsourced, but Assupol Life has its own compliance department in order to maintain direct control over the compliance function.

Another reason is the risk of non-compliance to FAIS for Assupol Life as an authorised financial services provider. If the function is outsourced, the company still remains accountable in terms of the Act and as FSP licence forms the basis for its operations, it was decided to maintain its own compliance department. Table 5.12 represent the actual annual expenses regarding fees paid to the FSB from 2006 to 2009. The costs as described in Table 5.12 will be included to determine the total cost of the compliance function to Assupol Life.

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
105,161	177,847	159,350	283,307

[Source: Assupol Life]

**Table 5.12 Annual fees paid to FSB**

The costs as depicted in Table 5.12 represent the fees paid to the FSB on an annual basis. Due to the FSB being a self-funding institution, fees are levied on all FSPs on the following basis:

- Basic levy;
- Fee per registered key individual; and
- Fee per registered representative.

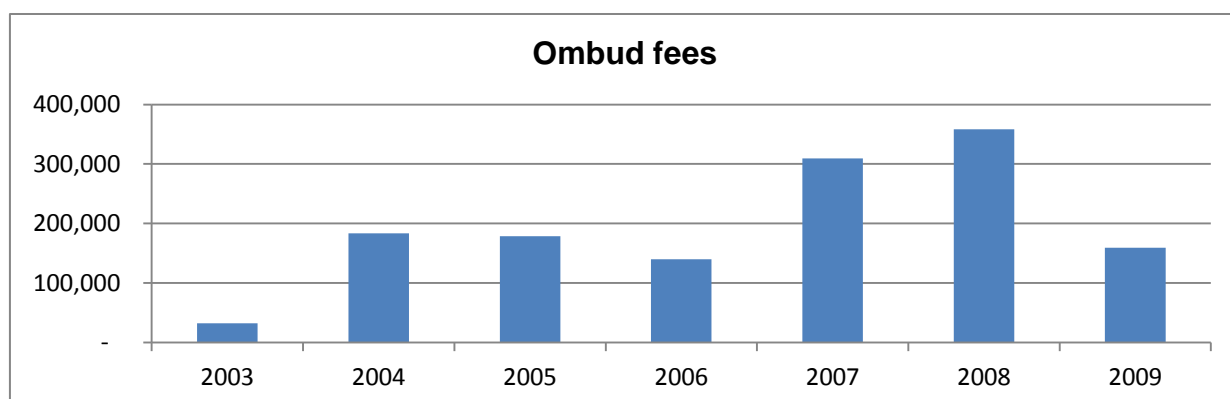
These fees will thus be dependent on the number of registered representatives and key individuals of the company. With the exception of the 2008 statistics the fees payable for Assupol Life increased as follows:

2006 – 2007: 69%

2007 – 2008: -10%

2008 – 2009: 78%

2003	2004	2005	2006	2007	2008	2009
32,287	183,391	178,441	139,978	309,144	358,222	159,146



[Source: Assupol Life]

**Table 5.13 Ombud fees**

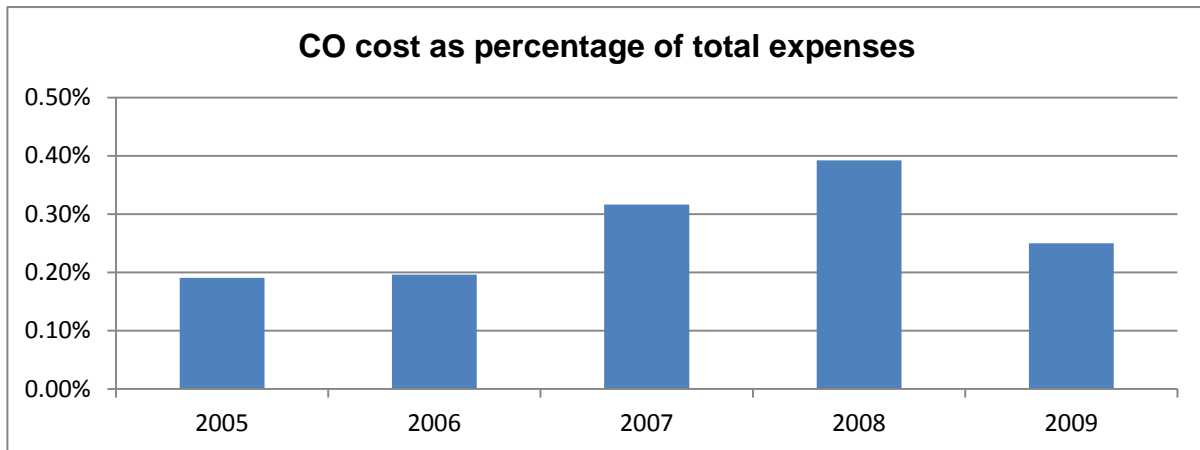
The expenses listed in Table 5.13 represent the fees payable to the Ombud (Long term insurance Ombud) and is largely made up of a set fee that the Ombud charges per complaint received by the office. This formation does not mean that the expense is purely due to the regulation in terms of FAIS or FICA. The office of the Ombud has been in existence before but FAIS made clients more aware of the channels of complaints.

In the experience of Assupol Life the office of the Ombud receives reports from clients that are of a client service nature e.g. change of address and per definition not a complaint. The Ombud nonetheless registers the rapport as a complaint and request the FSP to address the client's request. Upon completion of the request, the company is compelled to disburse the fee, irrelevant if the request was an actual complaint. The expenses as per Table 5.13 include these fees, and as can be noted, the costs increased significantly from 2003 to 2008 after which it does decrease.

In order to obtain an overall picture of the cost of compliance for Assupol Life, the total direct cost is represented as a percentage of total expenses of the company. These costs only include direct cost and exclude indirect cost that is not easily allocated to compliance to FAIS and FICA, but does have an impact on compliance

cost of the company. Table 5.14 represent the percentage of expenses that compliance to FAIS and FICA required since 2005.

2005	2006	2007	2008	2009
0.19%	0.20%	0.32%	0.39%	0.25%



[Source: Assupol Life]

**Table 5.14 – Compliance cost as percentage of total expenses**

The percentage will differ on an annual basis as other expenses of the company fluctuates, but it does provide an indication if the expenses increased. From the information as depicted in Table 5.14 it is clear that with the exception of 2009 the percentage of expenses increased on an annual basis.

## 5.4 Structured questionnaires

### 5.4.1 Background

The structured questionnaires were conducted amongst 68 employees and contractors from the sales division of Gauteng in order to obtain their feedback regarding compliance and the influence thereof on sales. The questionnaire consists of statements made and respondents were required to select the most appropriate answer that best describes the response according to the five-point scale. The feedback from the respondents was divided into three responses:

- Positive – options one and two on the statement response;
- Neutral – option three on the statement of response; and
- Negative – options four and five of the response.

For purposes of the research neutral answers are indicated but not discussed. The questionnaire was divided according to the following sections:

Part A: Demographic information of the respondents

Part B: Sales relates questions

Part C: Compliance related questions

Part D: General questions

## 5.4.2 Respondents – demographic information (Part A of questionnaire)

### 5.4.2.1 Contract type

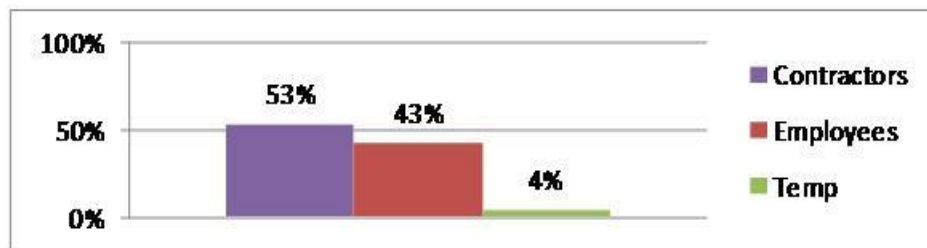


Figure 5.1 – Contract type with Assupol Life

Figure 5.1 above depicts the graphical representation of the contract type of the respondents. Contractors are classified as not permanent employees of Assupol Life and are primarily independent parties conducting sales for the company.

Employees are permanently appointed staff. Temporary staff refers to respondents that is either appointed on a fixed term or on a month-to-month basis.

It is observed that the majority (53 percent) of respondents are independent contractors, 43 percent are permanent employees and only four percent are temporary workers.

#### 5.4.2.2 Gender analysis of respondents

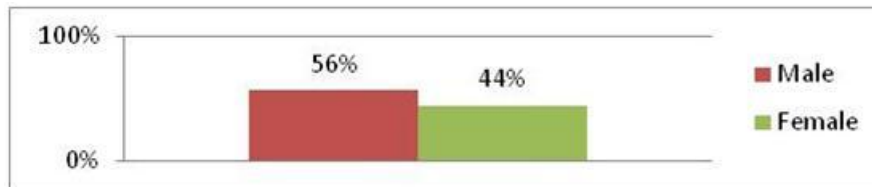


Figure 5.2 – Gender

Figure 5.2 above indicates that 56 percent of respondent were female and 44 percent was male.

#### 5.4.2.3 Age analysis of respondents

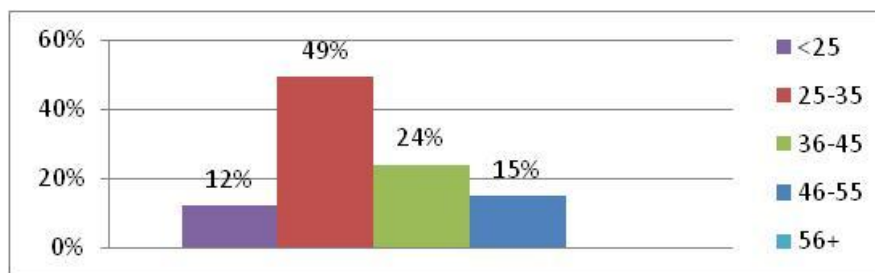


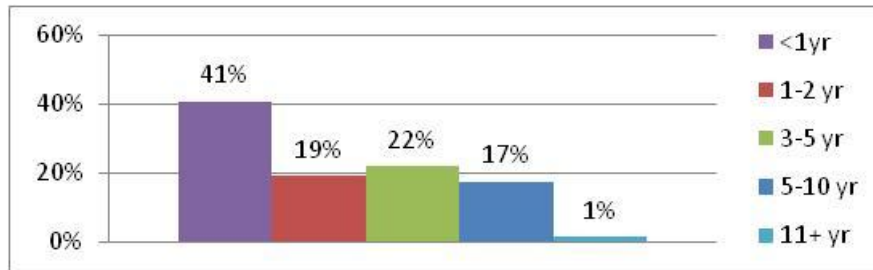
Figure 5.3 – Age analysis

The above Figure 5.3 depicts the age analysis of the respondents.

The majority of the respondents (49 percent) are in the age group 25 to 35 years; the second largest group is 36 to 45 years (24 percent), whilst the group younger than 25 years is 12 percent of the respondents and the oldest group of 46 to 55 years were 15 percent of the respondents. No respondents were older than 55 years.

#### 5.4.2.4 Period in service or contracted with Assupol Life

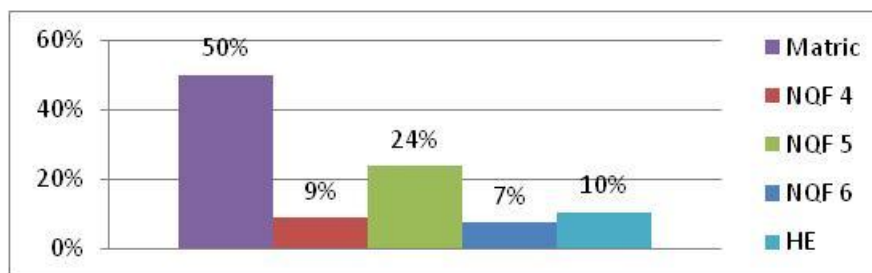




**Figure 5.4 – Period of contract with Assupol Life**

Figure 5.4 above represent the analysis of the contractual period with Assupol Life. It is clear that the largest portion of the respondents has been contracted with Assupol for less than one year (41 percent). The results represent that a total of 81 percent of respondents has been contracted for less than one year to five years. A total of 19 percent of respondents has been contracted for more than five years.

#### 5.4.2.5 Qualifications and accreditation levels of respondents



**Figure 5.5 – Qualifications and accreditation level**

The above Figure 5.5 portrays the results of the qualification and accreditation level according to the NQF levels. Of the total 50 percent only has a Grade 12 (Matric) qualification, nine percent has a NQF four qualification (equal to Grade 12), 24 percent has an NQF five qualification (the required level to market all life insurance products), seven percents has NQF six level qualifications and ten percent has higher education qualifications (national diplomas and degrees). The fact that half of the respondents have a Grade 12 qualification impacts on the further accreditation of representatives as Assupol Life would be compelled to assist these individuals with further education in order to retain them as representatives.

### 5.4.3 Respondent feedback

#### 5.4.3.1 Background

The questions as asked as part of the structured questionnaire are depicted as follows and the feedback from the respondents are represented and discussed per question.

#### 5.4.3.2 Sales (Part B of questionnaire)

##### Statement B1:

The implementation of FAIS and FICA decreased sales volumes.

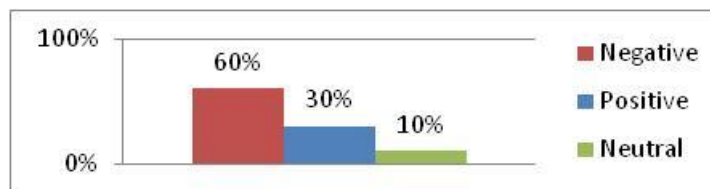


Figure 5.6 – Response to statement B1

The response to the statement is depicted in Figure 5.6. Of the total of respondents 60 percent is of the opinion that regulation in terms of FAIS and FICA did not decrease sales volumes. This response should be analysed keeping in mind that 40 percent of respondents were contracted when FAIS and FICA was enacted, meaning that the 60 percent of respondents that were contracted after FAIS and FICA was enacted, would not know the effect on sales prior to that period.

##### Statement B2:

The procedures that were put in place by the company due to the requirements of FAIS and FICA increased the length of the sales process.

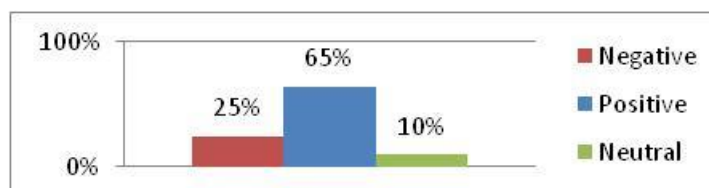
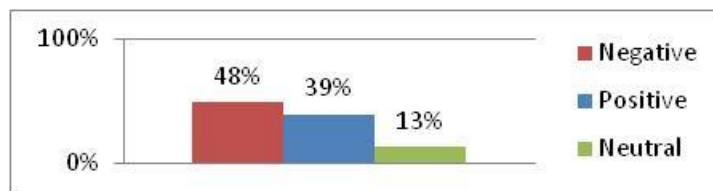


Figure 5.7 – Response to statement B2

Table 5.7 represent the response to the statement. A total of 65 percent of respondents is of the opinion that the procedures to address FAIS and FICA lengthened the sales process. 25 Percent disagrees and is of the opinion that the sales process was not lengthened due to compliance processes.

**Statement B3:**

The requirements of FAIS make it difficult to balance time spend on sales production and compliance.

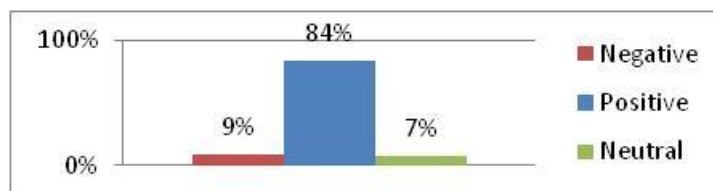


**Figure 5.8 – Response to statement B3**

The above Figure 5.8 represents the response to the statement. It is clear that 48 percent of the respondents if of the opinion that the requirements of FAIS and FICA do not make it difficult to balance time spend on production and compliance. 39 Percent of the respondents indicated that the requirements do make it difficult.

**Statement B4:**

Regulation positively influenced the quality of my new business.



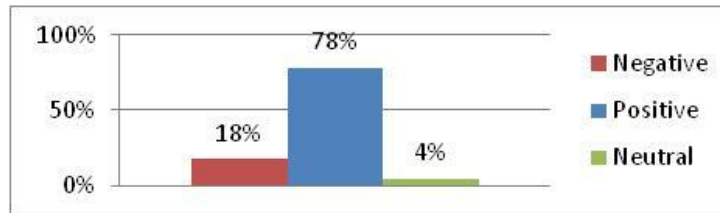
**Figure 5.9 – Response to statement B4**

Figure 5.9 indicates that a total of 84 percent of respondents indicated that regulation positively influenced the quality of their new business. Only nine percent indicate that quality was not affected positively.

This response represents a positive impact of FAIS and FICA and the indication by respondents in Figure 5.9 that although the sales process was lengthened, quality was affected positively.

**Statement B5:**

Regulation improved the value of products.

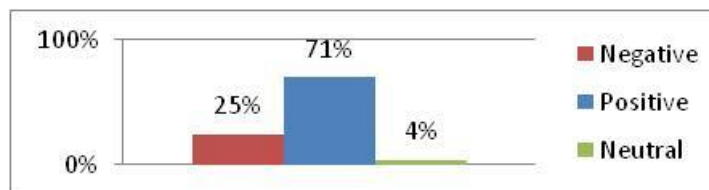


**Figure 5.10 – Response to statement B5**

The above Figure 5.10 depicts the results of the statement. 78 Percent of respondents stated that the value of products was improved by regulation. A total of 18 percent of respondents indicated that value was not affected.

**Statement B6:**

I am still able to provide lower income clients with affordable products after FAIS and FICA was introduced.

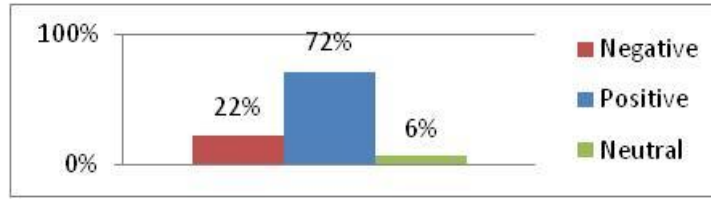


**Figure 5.11 – Response to statement B6**

Assupol Life`s market is the lower LSM level one to five. Figure 5.11 indicates that 71 percent of respondents stated that they are still able to provide affordable products to lower income clients. 25 Percent indicate that they are not able to provide these products.

**Statement B7:**

FAIS and FICA increased the complexity of sales tools (documentation, disclosure).

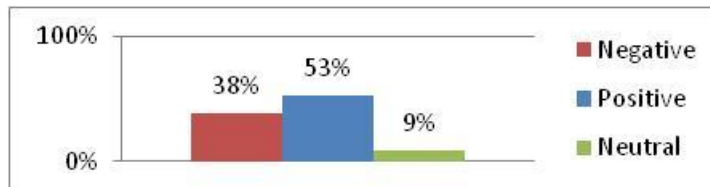


**Figure 5.12 – Response to statement B7**

Figure 5.12 indicates that 72 percent of respondents stated that FAIS and FICA did increase the complexity of the sales tools. 22 Percent disagreed with the statement.

**Statement B8:**

Regulation made the sales and marketing process more expensive for the sales person.

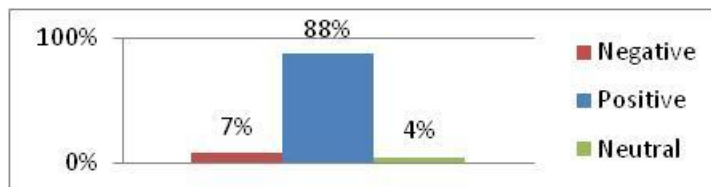


**Figure 5.13 – Response to statement B8**

The above Figure 5.13 reflects the response to the statement. A total of 53 percent of respondents indicated that regulation made the sales process more expensive. 38 Percent did not agree with the statement.

**Statement B9:**

FAIS and FICA turned the industry into a profession.



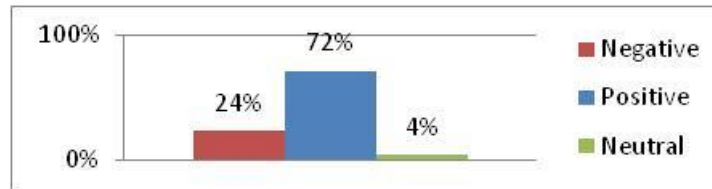
**Figure 5.14 – Response to statement B9**

A total of 88 percent of respondents is of the opinion that FAIS and FICA turned the industry into a profession. Only seven percent disagreed with the statement.

### 5.4.3.3 Compliance (Part C of questionnaire)

#### Statement C1:

Generally clients are more informed regarding the channels of complaints.

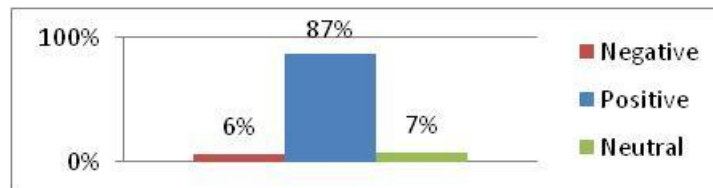


**Figure 5.15 – Response to statement C1**

The above Figure 5.15 indicates that the majority (72 percent) of respondents stated that clients are more aware of complaints channels. 24 Percent disagreed with the statement.

#### Statement C2:

In my experience the occurrences of fraud decreased after FAIS was introduced.

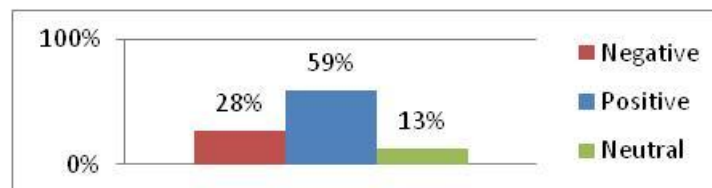


**Figure 5.16 – Response to statement C2**

The above Figure 5.16 states that 87 percent of the respondents are of the opinion that the occurrence of fraud decreased due to FAIS. Only a total of six percent disagreed with the statement.

#### Statement C3:

The complexity of compliance is a major barrier in the sales process.

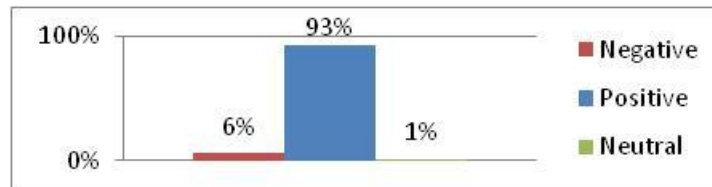


**Figure 5.17 – Response to statement C3**

The complexity of compliance was indicated as a major barrier by 59 percent of the respondents as per Figure 5.17 above. 28 Percent indicated that it was not a barrier.

**Statement C4:**

The training I received as part of accreditation i.t.o. the Fit and Proper requirements of FAIS made me better qualified to conduct my work as financial services provider.

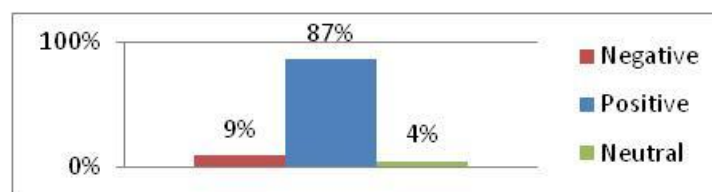


**Figure 5.18 – Response to statement C4**

The above Figure 5.18 indicates that an overwhelming majority of respondents (93 percent) is of the opinion that the training provided by Assupol Life enabled to improve their quality of work as financial service providers. Only six percent disagreed with the statement.

**Statement C5:**

Irrespective of the additional administrative processes and Fit and Proper requirements brought about by FAIS I still view the financial services industry as a viable career.

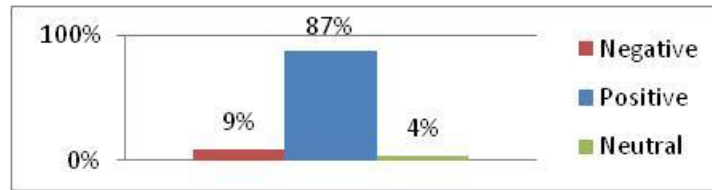


**Figure 5.19 – Response to statement C5**

The above Figure 5.19 states that 87 percent of respondents indicated that they still view the financial service industry as a career despite the additional duties of FAIS. Only seven percent disagreed with the statement.

**Statement C6:**

Bearing in mind the complications and requirements of FAIS and FICA I would still advise a family member or friend to make the financial services industry their career.

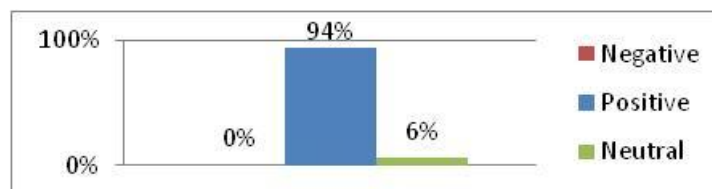


**Figure 5.20 – Response to statement C6**

The overwhelming majority of respondents (87 percent) indicated per Figure 5.20 that they would advise a family member or friend to consider the financial services industry as a career. Only nine percent indicated that they would not recommend the financial services as a career option.

**Statement C7:**

In my opinion FAIS and FICA provide better protection to clients.

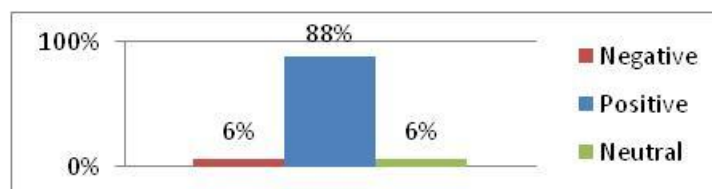


**Figure 5.21 – Response to statement C7**

The above Figure 5.21 indicates that a total of 94 percent of respondents agreed that FAIS and FICA provides better protection to clients. No respondents disagreed but six percent remained neutral.

**Statement C8:**

Administrative functions increased since the introduction of FAIS and FICA.



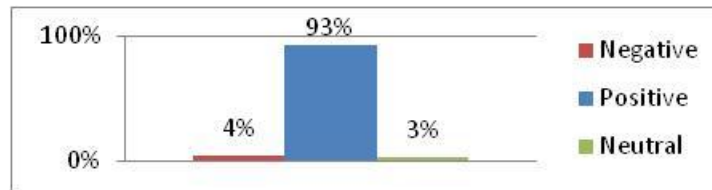
**Figure 5.22 – Response to statement C8**

Figure 5.22 states that 88 percent of the respondents agreed that FAIS and FICA increased the administrative functions. Only six percent disagreed. A total of six percent of the respondents disagreed.



Statement C9:

FAIS cause a positive trust relationship with clients.

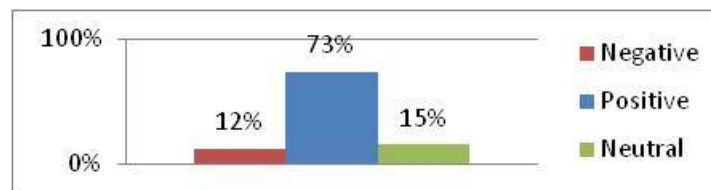


**Figure 5.23 – Response to statement C9**

An overwhelming majority of respondents (93 percent) agreed with the statement that FAIS caused a positive trust relationship with clients. Figure 5.23 indicates that only four percent disagreed with the statement.

Statement C10:

A positive change in payment patterns were brought about by FAIS.



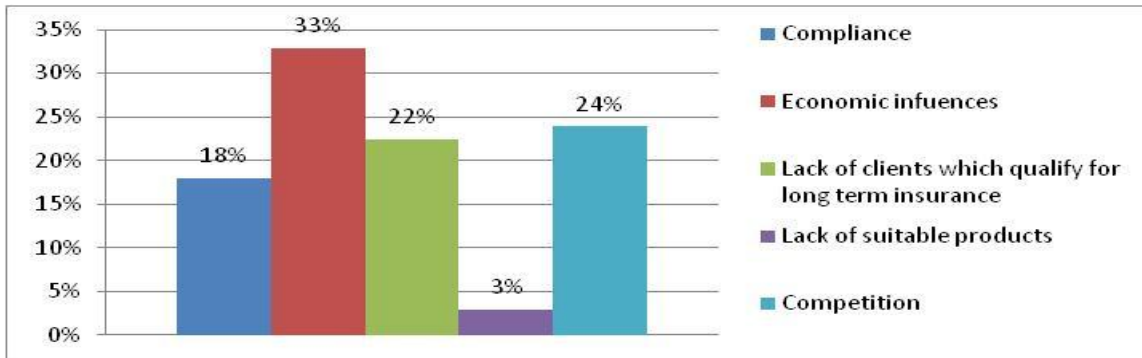
**Figure 5.24 – Response to statement C10**

A total of 73 percent of respondents indicated that FAIS brought about an improvement in payment patterns of clients. Figure 5.24 indicates that 12 percent disagreed and a higher 15 percent decided on a neutral response.

**5.4.3.4 General (Part D of questionnaire)**

Statement D1:

I view the following as the number 1 challenge for the future as a financial services provider:

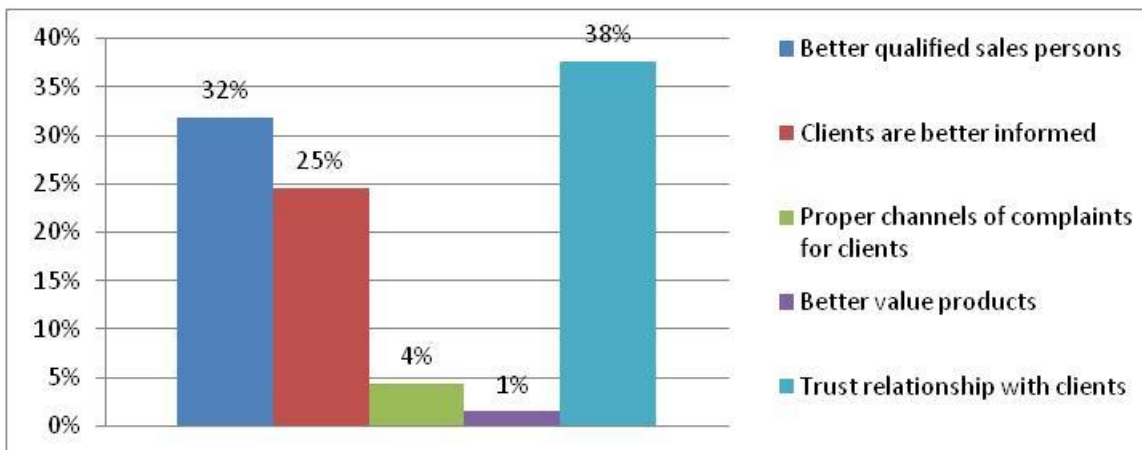


**Figure 5.25 – Response to statement D1**

The above Figure 5.25 states that 33 percent of respondents indicated economic factors to be the number one challenge to financial service providers. Competitors were the second highest factor at 24 percent with a lack of clients that qualify for life insurance products third at 22 percent. The next factor was compliance at 18 percent, and lastly a lack of suitable products in fifth place with three percent. Due to the respondents being in the sales environment competition will be a major challenge and due to the world-wide economic recession it is not surprising that economic circumstances would be prioritised above compliance as a challenge.

**Statement D2:**

The biggest success of FAIS is the following:



**Figure 5.26 – Response to statement D2**

Figure 5.26 depict the response to the statement. A total of 38 percent of the respondents indicates that the biggest success of FAIS is the trust relationship

created with clients. Better qualified sales persons were second with 32 percent, and thirdly a total of 25 percent indicated that clients are better informed.

A total of four percent indicated that fact that clients now had proper channels of complaints as the biggest success, and lastly one percent stated that better value products resulted from the introduction of FAIS.

## **5.5 Conclusion**

The results from the empirical study were represented in this chapter. The population in terms of the open-ended questions was the relevant managers of Assupol Life. The response of the managers regarding sales matters, managerial decision making, financial impact, training impact and the influence of FAIS and FICA on the human resource function of the company was presented. It was clear from the results that firstly FAIS and FICA has different influences on the company and that FAIS is the primary influence on all the departments. Secondly the influences on the departments differ in intensity and the level of strategic management of the impact.

The semi-structured interviews indicated that the financial impact on the different departments differs, but that the costs of compliance to FAIS and FICA increased since 2005, albeit with a slight decrease in certain financial years. It was evident from the interviews that compliance to FAIS and FICA has different components that influence all departments within the company, although the influence may be financial, increased administration processes or lengthened sales procedures.

Assupol Life mainly generates its new business from a national network of representatives. The structured questionnaires represent a large selection of these representatives and provide an indication of the influence of FAIS and FICA on one of the primary functions of the company. It was evident that most sales representatives are of the opinion that FAIS and FICA definitely had a positive effect on clients and the overall client relationship. This opinion also came to the forefront from the open-ended questionnaires conducted with the management of Assupol Life. The results from the empirical study are discussed in chapter five.

## **CHAPTER 6**

### **CONCLUSION AND RECOMMENDATIONS**

#### **6.1. Introduction**

The previous chapter presented the results of the open-ended questionnaires, semi-structured interviews and structured questionnaires. In summary the intention of legislator regarding FAIS is to ensure that unscrupulous financial service providers are removed, that financial service providers are suitably qualified and experienced, to ensure that consumers are served by professional financial service providers and that consumers are provided with accurate data to make informed decisions. FICA has the intention to identify proceeds of unlawful activities and the combating of money laundering activities, make information collected by the Centre available to investigating authorities, exchange information with bodies with similar objectives in other countries regarding money laundering activities and supervise and enforce compliance with this Act or any directive made in terms of this Act and to facilitate effective supervision and enforcement by supervisory bodies.

It is clear from the reaction of the industry as described in chapter 1 that the legislation has influenced the financial services providers and that compliance to the continued regulation is viewed as a priority. The primary AIM of the research is to identify and assess the major impact of the FAIS Act and FICA on Assupol Life as a medium-sized life insurance company and research management's interventions to address the different influences. Specific attention is given to the value chain describes in the sense of the activities within and around the organisation which together create the life insurance products and services rendered. The influences in terms of the macro-environment on the micro-environment is analysed and recorded in this chapter.

#### **6.2. Findings of the empirical research**

This study contributes to providing the findings that specifically outline the key influences of the regulation on the company as a medium-sized financial services

provider. In order to investigate the nature of these key influences, the researcher proposed primary and secondary objectives.

### **6.3. Conclusions in terms of primary and secondary objectives**

#### **6.3.1. Primary objectives**

6.3.1.1. The objective is to determine the influence of compliance to FAIS and FICA on the marketing function.

The research confirmed that regulation in terms of FAIS and FICA increased the administrative processes. The company was compelled to strategise regarding the requirements of the legislation especially in terms of the disclosure to clients. The application forms were restructured to incorporate the specific disclosures and requirements leading to a longer sales process from point of sale to closing. In terms of cost of products savings products (life insurance policies) did become more expensive although risk policies (funeral policies) remain affordable for the market in which Assupol Life conducts its business. This lead to more risk policies being sold than savings policies.

The researcher concluded that the average cost of insurance products was influenced due to regulation although value of the products is managed in-house by Assupol Life. The research determined that the volume of new business is more influenced by macro-environmental influences such as the state of the economical rather than regulatory influences. In Assupol Life`s market savings products are expensive and in many instances minimum premiums become out of reach for clients.

6.3.1.2. The influence of the legislation on the length of the sales cycle.

From the structured questionnaires the majority of respondents were of the opinion that the procedures to address FAIS and FICA lengthened the sales process.

The above-mentioned additional administrative requirements resulted in the sales cycle being increased in terms of time. Recordkeeping and supervision are

prerequisites of FAIS and takes a lot of time from sales, it is estimated at approximately 7 to 8 hours per month. These requirements also added more responsibilities to the sales manager in effect utilising time that would otherwise be used for marketing and sales. The financial needs analysis receives more attention and more information is provided to clients than before. Geographical location of clients is a problem as clients must be seen and cannot be consulted via telephone.

6.3.1.3. The impact of the compliance functions on the company and the specific structures and processes.

A compliance department had to be established and a compliance officer had to be appointed. Committees to manage the compliance risks were instituted and managed in accordance with set standards. It was clear from the research that clients are more aware of channels available to complain e.g. the complaints are forwarded to the Ombud of Life Insurance, which in return address the matters with the company.

Smit (2010:216) emphasised two types of responses by management to the need for change. The first response is reactive change and the second type is planned change. Reactive change happens when changes are unexpected. This change is usually hurried and poorly planned. The introduction of FAIS was conducted in such a way that potential FSPs received notice beforehand. Assupol Life conducted research and were able to address the change in a planned manner. This ability enabled the organisation to be pro-active and establish the required structures and processes.

6.3.1.4. The financial impact of compliance on the company, but specifically to expenses and the maintenance of compliance structures.

From the semi-structured interviews with the financial director it was determined that the company's results was not significantly influenced by regulation in terms of FAIS and FICA in relation to the company's total revenue, although the additional costs did increase expenses on an annual basis.

The following requirements increased expenses:

- additional costs such as that related to the committees and compliance department did affect expenses negatively;
- salary costs of staff that conduct compliance related duties, but whose responsibilities are not limited to compliance of FAIS and FICA;
- costs related to any function or department that include part-time regulatory duties and such cost cannot be quantified;
- the direct cost of FAIS and FICA training. It is clear from the research that training-related costs in terms of FAIS especially increased annually with the exception of 2008 when a decline occurred. During 2009 expenses increased significantly, primarily due to the 2009 due date for accreditation of representatives. The management foresee that training-related cost would increase in future;
- The FSB charges fees based on a basic levy, fee per registered key individual and fee per registered representative.

Table 6.1 provides the total financial impact pertaining to compliance-related costs from 2005 to 2009.

<b>Financial year</b>	<b>Compliance related training cost</b>	<b>Compliance related remuneration (excl. commissions)</b>	<b>Total annual office expenses</b>	<b>Annual fees paid to FSB</b>	<b>Ombud fees paid</b>
<b>2005</b>	227,340	340,000	Not available	-	178,441
<b>2006</b>	393,122	890,000	Not available	105,161	139,978
<b>2007</b>	444,576	1,080,000	Not available	177,847	309,144
<b>2008</b>	367,919	1,270,000	Not available	159,350	358,222
<b>2009</b>	835,211	1,186,000	136,920	283,307	159,146
<b>Total expenses</b>	<b>2,268,168</b>	<b>4,766,000</b>	<b>684,600</b>	<b>725,665</b>	<b>1,144,931</b>

[Source: Assupol Life Finance Division]

**Table 6.1 – Total compliance costs 2005 to 2009**

The management agreed that FAIS and FICA did not affect the financial position of the company directly to a major degree. It is agreed that smaller financial service providers may have been affected more but due to the size of Assupol Life the

influence of legislation on its financial results was not significant. Assupol Life's compliance expenses for the period 2005 to 2009 amounted to R9,589,364. Consensus amongst management was that regulatory costs would increase in future. For example only the Regulatory exams will require an average 21 percent of the training budget. Expenses not included in the above consist of the committees established to regulate the compliance function:

- Compliance committee
- Audit committee; and
- the Credit Control committee

The research established that compliance expenses utilised an average of 0.27 percent of total company expenses for the period 2005 to 2009. Administrative costs increased, but by managing the sales and marketing functions, real financial growth was not affected negatively.

6.3.1.5. The influence of compliance to FAIS and FICA on the human resource functions in terms of staff turnover and quality of employees.

The strict entry requirements of new representatives imposed by FAIS decrease the available number of potential representatives. This also affects the candidates from the previously disadvantaged group. Bigger emphasis is placed on numerical skills of candidates and this in itself creates a challenge for the company. In order to address this requirement the company utilises in-house training and accredited courses. It was found that in some instances existing representatives are not committed to the accreditation process as they primarily work on a commission basis and increasing their disposable income is a priority over academic qualifications. Assupol Life does not have a high turnover of employees in relation to other companies in the industry, although turnover regarding representatives is higher. It increasingly occurs that other financial services providers canvass representatives especially since the first due date of qualifications in December 2009. Due to the FAIS act prescribing requirements in terms of character, honesty and integrity, qualifications and experience of financial service providers, suitable staff and representatives are



becoming scarce. Also the retention of staff and representatives that are suitably qualified and experienced is becoming increasingly difficult.

6.3.1.6. The implication of compliance on the training function and answering the question if increased training necessarily lead to an increased level of service and advice.

It was found that it is increasingly difficult to obtain suitable representatives that are both academically competent and proficient with sales. Some representatives that are sales orientated have been working in the industry for a lengthy period and have the necessary skills, but are being excluded as the academic requirements of FAIS are strict. The training department of Assupol Life had to be restructured as a full-time FAIS trainer was appointed. From the structured questionnaires it was determined that 93 percent is of the opinion that the training provided by Assupol Life improved their quality of work as financial service providers. This is a positive influence as the regulation in terms of FAIS has proved to add value to the quality of representatives. Previously it was not a problem, but from 2010 candidates must have had maths as a subject in Grade 12. The subsequent accredited training as approved by INSETA does not necessarily lead to better quality service and advice.

One of the largest challenges faced by Assupol Life is to create and maintain a knowledge culture. In effect this means that the company as learning organisation must have the ability to emphasise individual learning. Smit (2010:438) states that the learning organisation culture supports continuous and shared knowledge. It is further stated that the profile of the workforce will rapidly change to fit the job requirements of the knowledge era. This is significant for Assupol Life as a number of jobs are already originating from the knowledge and service industries. Smit (2010:428) confirms that many new jobs require a much higher skill level than the jobs they are replacing.

### **6.3.2. Secondary objectives**

6.3.2.1. The influence of compliance to the legislation on business performance;

Assupol Life established a compliance department to manage FAIS compliance as its primary function. In addition different committees were implemented to address compliance-related matters. The internal audit function was broadened in order to address the different sales and administrative processes. The research confirmed that unpaid policies and subsequent lapses and cancellations are mainly due to economic reasons than any compliance-related reasons. Growth is not dampened or limited by FAIS and FICA, but the processes have to be complied, maintained and managed.

#### 6.3.2.2. The impact on decision making within the company;

It is agreed that FAIS had a positive influence on Assupol Life and its relationship with its clients. A further positive influence is that a compliance culture was created within the company and that compliance forms an integral part of the company's management structure.

It was found that FICA did not have a large impact on the business but that the accreditation of representatives in terms of FAIS leads to important business decision-making. Because representatives mostly earn an income on commission-basis, more and more entrants require as basic salary.

An important decision is to decide when and how to appoint the new entrants on a more permanent basis. Brokers as financial service providers in their own are also required to be accredited in terms of FAIS. Assupol Life can not conduct business with unlicensed brokers. A fine balance is thus required between accredited representatives contracted with Assupol and canvassing for new brokers.

#### 6.3.2.3. To what extent the legislator succeeded in its intention to regulate the financial services industry; and

The majority of representatives are of the opinion that regulation positively influenced the quality of their new business. This has a direct implication on the clients as they would be served with increased levels of client service and advice. Also the majority

of respondents of the structured questionnaires stated that the value of products was improved by regulation. Another objective of the regulation was addressed as the respondents were of the opinion that the occurrence of fraud decreased due to FAIS and that FAIS and FICA provides better protection to clients. Overwhelmingly 94 percent of respondents agreed with the statement that FAIS caused a positive trust relationship with clients.

Regulation provides clients with the confidence that the insurer must be licensed and professional. The insurer must disclose its credentials to the client and must now see the client on a regular basis. Compliance to FICA is difficult in some cases due to geographical reasons. Many of Assupol Life`s clients reside in rural areas without sufficient proof of residence.

The study concurred that in Assupol Life`s experience fraud is mostly committed by syndicates and not necessarily representatives and that unregistered and unregulated FSP`s remain a problem. Larger companies operate according to legislation but smaller ones is the problem regarding non-compliance and fraud. The development of African entrepreneurs was not taken into consideration with the legislation as compliance cost is a barrier for upcoming brokers. In order to address this situation Assupol Life conduct business with funeral parlours and appoint them as representatives as they do not have the means and capacity to become licensed on their own. Micro-insurance might become a viable option to small brokers in future.

FAIS ensure that the representatives of Assupol Life exercise their duties in a more professional manner, which creates an increased trust relationship with clients

#### 6.3.2.4. Analyse the effect of the changes on Assupol Life.

Regulation in terms of FAIS and FICA required Assupol Life to re-evaluate it`s priorities and establish new structures. In the case of Assupol Life the company was compelled to be innovative and subsequently aligned its business towards risk related products away from savings related products. Compliance to the legislation is unavoidable and the following aspects were addressed:

- Establishment of a different structures such as the Compliance department;
- Expanding the training division with a full-time FAIS facilitator;
- Establishing an accreditation database;
- Creating and reviewed recruitment structure;
- Retraining representatives and staff in FAIS and FICA;
- Creating a compliance culture amongst representatives and brokers; and
- Establishing risk management measures.

The researcher found that indirect influences weights more than the measurable financial influence. The non-tangible aspects that impact on the business are addressed by Assupol Life in a professional and effective manner. The influence of regulation in terms of FAIS and FICA as compliance component of the premium of a life insurance policy is not easily established as Assupol Life does not have a compliance component as part of its actuarial composition of the calculated premium.

#### **6.4. Recommendations based on conclusions**

FAIS and FICA is important legislative tools within the broader financial services industry, and each has its own objectives. Initially FAIS introduced basic requirements to the industry and firstly required all FSP`s to be licensed. Since 2004 these objectives were expanded with the Fit and Proper requirements becoming stricter. Based on the findings of the research it did have the impact of decreasing the pool of available talent and as a secondary effect lessening the opportunities for new entrants from the designated group within South Africa. Increased headhunting has resulted in this pool decreasing further as FSPs are increasingly searching for already accredited and experienced representatives.

The same principle applies to brokers, and it is foreseen that the number of brokers might decrease even further, in effect creating a restricted industry.

The legislator is obliged to keep important influences such as employment equity in mind as well as the increased cost of compliance for existing FSPs, not even considering the number of new brokers that rather consider other avenues of business. Financial service providers should invest in the search for innovative new

methods of identifying, recruiting and retaining new talent. Botha (2010:53) noted that knowledge and continuous learning are critical elements of success in the new economy.

### **6.5. Areas of future research**

Two recommendations for future study exist. The first of these is a quantitative comparative study which contrasts the influence of FAIS and FICA on the entire financial services industry. Such a study could have invaluable practical benefits insofar as it will provide a comprehensive understanding of the actual industry-wide impact of FAIS and FICA in comparison with the objectives of the legislator.

The second recommendation is for a qualitative study whose primary purpose is to determine the effect of FAIS and FICA on employment equity, job creation and the transformation of the industry into a profession within the financial services industry.

### **6.6. Conclusion**

It is clear from the results of the study that organisations need to invest in human capital, especially in the market that Assupol Life conducts its business. This market consists of lower income clients that is traditionally focussed on face-to face marketing and not direct marketing conducted telephonically. The company is obliged to focus its managerial strengths on the type of client and strategise its resources to find a balance between compliance to legislation, providing a suitable product and service, and creating value for its shareholders. Meyer (2010:74) noted that there should be a direct link between strategy, organisational design and the learning and development activities of an organisation.

Botha (2010:53) states: “The creation, sourcing, management and effective utilisation of knowledge, and the ability to combine knowledge into new products and services faster than the competition, are rapidly becoming the primary sources of value.”

The influence of FAIS and FICA on Assupol Life centres mainly on the human resource, training and structure and processes than the financial impact. As described the financial impact consist of both direct and indirect costs, of which the direct costs were evaluated primarily within the scope of the research. In concluding the research the financial influences are not substantial considering the size of the company and its overall income and expenses, but regulation does negatively influence the expenses from a year-to-year basis and it is foreseen that compliance-related costs will maintain its increasing trend with the implementation of stricter requirements.

It is however agreed that regulation in terms of FAIS and FICA did increase quality of products and service for clients. It also positively impacted on the reputation of the financial industry as clients are now assured that FSPs must comply with strict licensing requirements in order to maintain to its ability to render services.

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Annexure 1

Questionnaire

**QUESTIONNAIRE – THE INFLUENCE OF FAIS AND FICA ON ASSUPOL LIFE**

Please mark the appropriate box with an "X".

**Part A – Details of respondent**

**1. Type of agreement with company:**

- Permanent employment agreement – staff
- Permanent employment agreement – managerial
- Temporary employment agreement – staff
- Fixed term agreement
- Independent contractor agreement

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

**2. Gender:**

- Male
- Female

<input type="checkbox"/>
<input type="checkbox"/>

**3. Age in years:**

- Younger than 25
- 25 to 35
- 36 to 45
- 46 to 55
- 56+

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

**4. How long have you been contracted by Assupol Life (permanent or as representative)?**

- Less than 1 year
- 1 to 2 years
- 3 to 5 years
- 5 to 10 years
- 11+ years

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

**5. Qualifications and accreditation level:**

- Matric (grade 12)
- NQF 4 level
- NQF 5 level
- NQF 6 level
- Higher education

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

**Part B – Sales**

Please mark the box that most describe your opinion with an "X". Only 1 option must be selected.

1. The implementation of FAIS and FICA decreased sales volumes.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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2. The procedures that were put in place by the company due to the requirements of FAIS and FICA increased the length of the sales process.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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3. The requirements of FAIS make it difficult to balance time spend on sales production and compliance.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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4. Regulation positively influenced the quality of my new business.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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5. Regulation improved the value of products.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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6. I am still able to provide lower income clients with affordable products after FAIS and FICA was introduced.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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7. FAIS and FICA increased the complexity of sales tools (documentation, disclosure).

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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8. Regulation made the sales and marketing process more expensive for the sales person.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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9. FAIS and FICA turned the industry into a profession.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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### **Part C – Compliance**

1. Generally clients are more informed regarding the channels of complaints.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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2. In my experience the occurrences of fraud decreased after FAIS was introduced.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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3. The complexity of compliance is a major barrier in the sales process.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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4. The training I received as part of accreditation i.t.o. the Fit and Proper requirements of FAIS made me better qualified to conduct my work as financial services provider.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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5. Irrespective of the additional administrative processes and Fit and Proper requirements brought about by FAIS I still view the financial services industry as a viable career.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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6. Bearing in mind the complications and requirements of FAIS and FICA I would still advise a family member or friend to make the financial services industry their career.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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7. In my opinion FAIS and FICA provide better protection to clients.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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8. Administrative functions increased since the introduction of FAIS and FICA.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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9. FAIS cause a positive trust relationship with clients.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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10. A positive change in payment patterns were brought about by FAIS.

(1=Strongly disagree; 2=Disagree; 3=Unsure; 4=Agree; 5= Strongly agree)

1	2	3	4	5
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#### **Part D – General**

*Please mark the box that most describe your opinion with an "X". Only 1 option must be selected.*

1. I view the following as the number 1 challenge for the future as a financial services provider:

<b>1. Compliance</b>	<b>2. Economic influences</b>	<b>3. Lack of clients that qualify for life insurance</b>	<b>4. Lack of suitable products</b>	<b>5. Competition</b>
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2. I view the following as the least serious threat for the future as a financial services provider:

<b>1. Compliance</b>	<b>2. Economic influences</b>	<b>3.Lack of clients that qualify for life insurance</b>	<b>4. Lack of suitable products</b>	<b>5. Competition</b>
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3. The biggest success of FAIS is the following:

<b>1. Better qualified sales persons</b>	<b>2. Clients are better informed</b>	<b>3. Proper channels of complaints for clients</b>	<b>4.Better value products</b>	<b>5. Trust relationship with clients</b>
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----- *Thank you for time taken to complete this questionnaire* -----