What financial advisers need to know about the CoFI Bill

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"The Conduct of Financial Institutions (CoFI) Bill is being put in place to "reshape the future conduct regulatory framework by consolidating the conduct financial sector laws into a single overarching piece of conduct legislation." ~ Financial Sector Conduct Authority (FSCA)

Hayley Brown, Head of Business Solutions at Glacier Invest, helps us understand some details of the Bill, what it means for this sector, and how choosing the right discretionary fund manager (DFM) can ease the burden.

CoFI defined

CoFI's key objective is to improve customer outcomes by regulating how financial advisers conduct themselves. It will formalise the application of Treating Customers Fairly (TCF) principles and encompasses a wide spectrum of criteria including products and services that are developed and implemented; operational expertise; capital requirements, as well as business culture.

1. It's designed to protect customers.

From a customer perspective, CoFI will promote financial inclusion, while ensuring customers' fair treatment and protection. It's also intended to promote trust and confidence through financial products and services and by ensuring transformation in the financial sector.

2. It ensures fair treatment and promotes trust and confidence.

This is achieved through increasing compliance and governance. At the same time, it will require financial institutions to have robust systems and operational processes, and it will require them to have adequate operational capital.

This is relatively easy in big companies, but it will be considerably more difficult for small brokerages that do not have the necessary skills and resources.

3. It's changing the industry.

- CoFI is intended to consolidate and strengthen market conduct laws in the financial services industry, and once legislated, it will cancel many of the financial sector laws that we're accustomed to.
- It will impact all financial institutions, such as financial services providers (FSPs), banks, insurers, credit providers, and discretionary fund managers.

What CoFI means for advisers

If you have an FSP license, then CoFI is going to disrupt your world. The CoFI Bill will have an impact on three main areas in your practice:

1. Your operational processes (systems, reporting, compliance)

Under CoFI, there will be even more focus on compliance regarding conduct standards and fair customer consequences. To comply with this, practices will be obligated to have strong systems and robust processes in place.

This may not be problematic for larger businesses or those that have implemented proper customer relationship management (CRM) systems and that use comprehensive tools. It is likely that smaller businesses will be most severely affected. Often smaller practices may not have the skills and resources to implement these robust and detailed systems and processes.

2. Your operational working capital

Operating capital can be understood as the most critical asset in any business, as it allows a company to stay open. The capital condition in terms of CoFI is quite onerous relative to current legislation because it states that all adviser practices will need to be sufficiently capitalised to cover *"the risks to which it is exposed or is likely to be exposed to in the future."*

This CoFi stipulation will impact both larger and smaller businesses, with the exception being those that are already sufficiently capitalised, as well as those who may have wealthy shareholders who may be willing to make additional investments.

3. Your transformation plan

CoFI gives the FSCA meaningful power to effect transformation in our industry. To this end, it requires that all adviser practices with an annual turnover exceeding R10 million, have a transformation plan that will lift them to a minimum of a level 4 B-BEEE contributor. If a practice fails to show progress in this light, they could face substantial fines.

The R10 million threshold means that initially, bigger practices will be impacted, but it won't take long for small firms that join, to reach the threshold as well. It will be increasingly difficult for larger one- or two-person practices, who have not transformed, to comply.

Important to note that the pressure will not only come from the regulator. Product providers will be scored on their procurement spend. This implies that they will be negatively impacted by paying commission to untransformed brokerages.

It's not about ticking boxes

Most firms will need to make changes to fulfil the conduct requirements to ensure good outcomes for clients. However, adviser practices need to consider the real-world implications that CoFI will bring to their day-to-day lives and beyond.

The implementation of the CoFI Bill means that regulation no longer serves to be a tick-box type legislation. At the heart of it, CoFI serves to ensure that customers are treated fairly. This means that broadly CoFI aims to ensure customer outcomes are achieved by requiring advisers and/or providers of financial services to have processes and controls in place.

Be ready with a strong partner

During the last few years, increasing regulatory pressures and a ballooning collective investment industry have meant that some advisers have found the changes too difficult to comply with and proactively chose to exit the industry, while others simply cannot adapt and exit the market.

The same is likely to happen in the case of CoFI, which creates a huge opportunity for advisers who can adapt. Now more than ever, advisers need to consider the need to partner with a reputable DFM that has the skill and technology to bring the necessary discipline and rigour to your investment offering. As we wait for the implementation of the CoFI Bill, advisers need to consider their next steps.

Glacier Invest – what we do in a nutshell

- We draw on the full expertise and capabilities within Sanlam Investments Multi Management.
- We bring you a world-class portfolio management and consulting value proposition which will simplify the way you work and help you manage risk in a new world where change is the only constant, and adaptation is key to survival.
- Not only do we blend world-class investment capability and offer revolutionary technology to our advisers, but as part of a leading administration platform, Glacier Invest has significant operational capability and we offer holistic adviser support.

CoFI can be viewed as 'disruptor' legislation that affects everyone with an FSP license, ranging from insurers and banks to discretionary fund managers and adviser firms. There could be instances where business models that are currently flourishing will be severely disrupted. It is almost certain that the "adviser market" will consolidate in some shape or form.

As advisers, this is the time to consider who we will partner with, to thrive in the new world.

Sources

1. Fairbairn Consult, Guy Holwill
2. *The fundamentals of practice management for representatives*, Anton Swanepoel

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