

Know your client – that's at the heart of COFI

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At the recent Glacier Invest Summit 2023 hybrid event, Anton Swanepoel, financial industry expert, author and director at Trusted Advisors, unpacked the Conduct of Financial Institutions (COFI) Bill and how advisers should prepare their minds and practices for this industry-changing legislation. "Build COFI into your practice, and not the other way around", he says. "This means sharpening the fundamentals that you already have in place". A key point of COFI is regarding the issue of suitable advice, and tied to that is knowing your client and determining their risk profile.

What is COFI and when will it be implemented?

The COFI Bill is set to be tabled in Parliament before the 2024 national elections. Its aim is to incorporate (and consolidate) all of the principles of conduct held in the multiple pieces of legislation which currently govern the financial services sector. These include, among others, the Long-Term Insurance Act, the Short-Term Insurance Act, the Pension Funds Act and the Financial Advisory and Intermediary Services Act – more than 1000 pages of legislation in total. In simple terms, COFI will create one standard of market conduct across the industry. Under COFI, one standard will exist for advisers, product suppliers, linked investment service providers, discretionary fund managers, and so forth.

Know the importance of suitable advice.

Anton focuses on one of the six outcomes of Treating Customers Fairly – suitable advice – which is a key principle relating to COFI. One of the key factors within suitable advice is risk profiling, which many confuse with risk tolerance. Anton explains that advisers need to understand risk profiling very well and that it consists of three parts:

- Risk tolerance.
- Risk capacity.
- Required risk.

Each part plays a very important role in truly knowing the needs of your client, in your role as an

adviser, and in designing a financial and investment plan that serves them completely. These are established concepts and likely already incorporated.

Adopting COFI may require some tweaks.

Adopting COFI in your practice may require some tweaks in your practice, but probably not a complete overhaul. Here are six of Anton's tips:

1. Focus away from legislation and toward best practice principles. Don't be legislation-driven; continue to be business-driven. Rather than focusing on legislation and paperwork, redefine your game, like tightening your value proposition.
2. Go back to the fundamentals. The fundamentals of practice management have not changed in many decades, and if you're running a good practice, then you probably already have them in place. COFI will not change this. Review the fundamentals; sharpen your processes.
3. Limit paperwork. Under COFI, there is room to reduce paperwork, which brings you a step closer to ensuring a more pleasant experience for your client. Digitisation can help your practice, but the quality of your administration and record-keeping is sacrosanct.
4. Don't use outdated risk profilers. Risk profiling is critical, as is its link to record-keeping. So, know the relationship between the risk profiler you're using and the consequent conversations that you have with your clients.
5. Check yourself. How you lead in your practice and your attitude to legislation will determine how others around you adopt the changes, especially legislative and compliance-related ones.
6. Review your culture, values and governance principles. Your vision is to build a practice that is sustainable and serves the interests of your clients. Determine what culture, values and governance principles will get you there. If your culture is to build trust with your clients, then you'll automatically be dealing with them with honesty, competency, respect and skill, and aligning to COFI.

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