Professional investment advice:

Risk profiling as a component of Suitability

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INDEX

1. Preface
2. Introduction
3. Problem statement
4. Objective
5. Definition of risk
6. Definition of risk profile
7. Key components of a client's risk profile
8. Suitability requirements
9. Recommendations to industry
10. Conclusion
11. Appendix
12. Profiles of Workgroup members

1. PREFACE

Investment planning is recognised as one of the core financial planning components and the importance of providing professional financial advice based on sound investment principles cannot be overstated when it comes to investments and wealth management.

Understanding and appreciating the dynamics between risk tolerance (willingness to take risk) versus risk capacity (ability to take risk) when assessing a clients' needs and objectives are key building blocks of the investment planning and advice frameworks.

Unfortunately, these concepts have been approached in many different ways over the years, some approaches being sound, and others fundamentally flawed. The suitability of investment advice and poor client outcomes have been primary concerns of all the major industry bodies in South Africa for many years. It is time to have more focused discussions around sound investment advice frameworks that result in the delivery of sound professional investment advice provided by competent financial planners and advisers.

The Financial Planning Institute of Southern Africa NPC (FPI) and the Financial Intermediaries Association of Southern Africa (FIA) agreed that it is important to establish an industry framework for professional financial planners and investment advisers when determining the risk profiles of clients. The FPI and FIA subsequently established a joint-industry workgroup to debate the key issues pertaining to risk profiling and to give credibility to the workgroup, it was important to ensure participation by a diverse group of industry stakeholders. It was for this reason that the workgroup consists of a combination of relevant industry body representatives and industry role players, academics, experts in behavioural finance and selected top financial planning practitioners. The different perspectives of the participating members created an environment for robust debates and constructive input. This was necessary to establish a risk profiling framework that we believe will serve as a sound foundation for investment advisers and a sound point of reference for all the other stakeholders in the financial services industry.

It was acknowledged by the members of the workgroup that this paper needs to be followed by more detailed documents that will give more substance to the framework that was established in this report.

We sincerely thank every member of this workgroup who invested their valuable time and effort to make significant contributions to this paper, which is intended to provide sound direction to every person who provides professional investment advice in our industry.

Lelane Bezuidenhout CFP® CEO: Financial Planning Institute of Southern Africa	**Anton Swanepoel CFP®** Chairperson: Financial Planning Exco Financial Intermediaries Association of South Africa

2. INTRODUCTION

In order to offer suitable professional investment advice, financial advisers must understand their clients' financial circumstances, needs, objectives and risk profile. This paper is limited to addressing the main aspects regarding risk and risk profiling from a professional investment planning and advice point of view. The workgroup agreed upfront that this paper is *not* aimed at providing the industry with a compliance solution. It is aimed at providing a sound investment planning framework with a specific focus on investment risk and how it relates to the risk profile of investors. The framework seeks to provide for sound and consistent application in the investment planning and advice process that will enhance the suitability of advice to investors (clients) and limit "noise" or judgement errors.

ENVIRONMENT

Investment planning is a complex subject and an extremely onerous responsibility for any adviser. There are many variable factors that contribute to the complexity when providing investment advice, such as:

- The global economy
- Political influence
- Monetary and fiscal policy
- Business confidence
- Currency fluctuations
- Market sentiment
- Unforeseen events, such as the Coronavirus pandemic
- Valuation of asset classes

Factors that add to the complexity are:

- Not all investment advisers are equally educated in the field of investment planning, which leads to different perspectives and mixed messages from advisers that sometimes create confusion amongst investors
- In some cases, less knowledgeable or uninformed investment advisers are instrumental to poor outcomes
- There is sufficient evidence that shows that investors are often their own worst enemies because they find it difficult to stick to their long-term investment strategy and they tend to switch from one portfolio to the other depending on market circumstances

Investment planning is extremely onerous for the following reasons:

- Market conduct legislation has played a significant role in highlighting the importance of the suitability of advice.
- One of the main themes in the regulatory reform globally is that of treating customers (clients) fairly (TCF), which highlights the importance of rendering investment advice honestly, fairly, with skill, care, and diligence and in the interests of clients. Failing to adhere to these standards hold serious implications for investment advisers, which are evident from numerous FAIS Ombud determinations.
- The Retail Distribution Review has been instrumental to continuous amendments to market conduct regulations, adding to the onerous nature of providing investment advice
- Twin peaks paved the way for market conduct to be regulated under the Conduct of Financial Institutions Act (COFI Act), expected to be promulgated in 2021, which again contains onerous requirements when providing investment advice.

RISK PROFILE AS A COMPONENT OF SUITABILITY

Considering risk and establishing a client's risk profile is an integral part of creating an investment planning and advice framework aimed at rendering sound and suitable investment advice to clients. There can be no doubt that conducting a proper risk profile analysis enhances the suitability of professional investment advice.

It is important to note that, although this paper is written for professional financial and investment advisers, every principle discussed and debated by the members of the workgroup had the best interests of clients in mind. This is consistent with the first principle of the Financial Planning Institute's Code of Ethics and Practice Standards - placing the client's interests first is a hallmark of professionalism and is a core value of any profession. It requires financial planners and advisers to always act honestly and not place personal interest or advantage, in any form, before their clients' interests.[1] The FIA Code of Conduct also demands that its members engage with clients honestly, with integrity, fairly, with skill care, diligence and in the clients' interest and enhance the integrity of the financial services industry.[2]

In addition, the Code of Ethics' principle of professionalism demands a high standard of knowledge and skills from advisers, which you would expect from a person who is well trained in their particular field. This paper is therefore aimed at providing a sound and sustainable investment advice framework, which must also make provision for accommodating the recent amendments to the General Code of Conduct.

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[1] www.fpi.co.za

[2] https://www.fia.org.za/Media/static/FIACode_of_Conduct.pdf

The main concerns of clients are therefore frequently referred to as a departing reference point in this paper and the workgroup deliberately avoided a strictly academic starting point for purposes of this introductory industry document on the topics of risk and risk profiling. This paper therefore must ultimately provide simple, practical, and implementable guidelines for all licensed financial advisers who provide professional investment advice.

As a result, the workgroup relied heavily on the experience of the members who are practicing financial planners. They provide an important perspective from the financial client's point of view because they engage with their clients on a daily basis, which enable them to confirm first-hand what their clients' main concerns from a risk perspective are.

HOW TO USE THIS PAPER

This paper serves as a foundation on the topic of risk and the components of a risk profile. There are countless academic studies on 'risk' and each of the components of a 'risk profile' as referred to in this paper and whilst they are helpful, many of the studies are extremely technical and too complicated for the average investor. In some cases, academic studies are even too complicated for the average adviser and therefore it was deemed necessary to publish a basic, yet fundamentally sound paper that deals with the essential components of investment risk and the risk profile of investors. We propose that this guide be used as a basic introduction to investment risk from an investor's point of view and what a 'risk profile' means. It serves as a foundation for future editions to follow as we investigate the components as referred to in this paper in more depth in the years that follow. The workgroup wanted to avoid publishing a voluminous, highly technical paper at the outset and preferred to debate and agree on those few key aspects that have the greatest impact on the suitability of investment advice. For this paper, simplicity is key. However, it does set the stage for further papers to follow.

In addition, as a financial adviser, we acknowledge that you have your own client engagement and discovery process. This paper is not intended to disrupt that process, but rather to enhance it. Since the inclusion of a 'risk profile' in legislation, there has been much confusion as to what a 'risk profile' is. In many cases a simple 'risk tolerance' questionnaire is used and in others the questionnaire is ignored in favour of focusing on a client's investment objective alone. The reality is that both approaches could be correct while at the same time also be incorrect.

In this paper we seek to establish the components of a risk profile and how this can be used to provide suitable investment advice. We do not seek to dictate a process that a financial adviser must follow. What is most important is that after your client discovery process, all the elements of a risk profile should have been determined and considered in providing a suitable recommendation. The order and manner of determining the components of the client's risk profile is left to your professional judgement. Hopefully, the content of this paper will assist you with the process as applied in your practice.

3. PROBLEM STATEMENT

Traditional risk profiling seems to be a global problem due to uncertainty created by the countless number of opinions about investment risk and risk profiling, of which some are sound but others fundamentally flawed.

In a 2020 study of "noise" or inconsistencies in investment advice in South Africa, it was clearly shown that the constituents of a risk profile, namely "risk capacity" and "risk tolerance" contributed substantially to variable investment recommendations.[3] In many cases, advisers do not appear to possess a consistent mental model of how to apply these constructs when providing investment advice.

Over the years a great number of expert views have been published and some regulations amended, but these publications have not really contributed to solving the problem we face. Without a sound risk profiling philosophy and framework (the problem), financial advisers are often influenced by flawed methodologies when rendering financial services resulting in inappropriate advice and poor client outcomes. This has a ripple effect on the financial well-being of many consumers and in some instances lead to the complete wipe out of retirement savings and generational wealth[4].

WHY IS IT NECESSARY TO ESTABLISH A CLIENT'S RISK PROFILE?

1. Understanding a client's risk profile is fundamental to the suitability of investment advice, which is consistent with the principle of treating clients fairly.

2. It is important for advisers to understand how their clients define risk and whether their clients will be willing (speaks to risk tolerance) and whether they are able to accept (speaks to capacity) the risk(s) required to achieve their objective(s).

3. It enables advisers to recommend appropriate financial solutions or a blend of investment solutions (suitable portfolio solutions) in the client's circumstances in accordance with their investment needs, objectives, and risk profile.

4. Establishing a client's risk profile can assist to put him/her in a position to make informed investment decisions.

5. Establishing the risk profile of clients is a regulatory requirement and instrumental to providing appropriate advice.

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[3] Oxford Risk and Momentum Investments; Under the Microscope: "Noise" and investment advice, January 2020

[4] Various FAIS Ombudsman cases

6. It enables advisers to record agreements regarding investment advice between themselves and their clients more accurately.

7. It helps to manage client expectations pertaining to investment outcomes.

8. During the annual review process, or in extreme market conditions, the client's risk profile can assist advisers in educating and reminding clients that, although current market conditions may be volatile, it is likely their investment objectives may not have changed. It is therefore important to understand that their investment strategy, taking into account their risk profile, may also have to remain unchanged. When measured over the correct time frame, it is possible that all factors have been accounted for in the investment strategy.

4. OBJECTIVE

The objective of this paper is to highlight why the industry needs a fundamentally sound risk- and risk profiling framework that will enhance the suitability of investment advice. It was also agreed that the Workgroup will:

1. collaborate to define investment risk and investor risk profile from an investment planning perspective;

2. articulate a risk profile philosophy and framework that is based on sound principles, that is practical and simple to understand as well as simple to apply;

3. formulate a risk profile framework based on sound principles, whilst taking into account the regulatory requirements that will serve the industry as a whole and not only a certain segment of the financial planning community; and

4. publish a paper on this topic in 2021 to establish a sound foundation for risk profiling in South Africa and to elaborate on the topic in more detail in follow-up papers at a later stage.

5. DEFINITION OF RISK

It is worthwhile noting that the terms *risk, risk profile* and *risk profiling* are not defined in any South African financial services industry regulations other than in the Short-term Insurance Act, which states:

"risk" means a possibility that a particular event may occur during the period for which a short-term policy is operative.

The above definition is clearly not one that applies to investment planning and advice frameworks. Usually, where services are regulated, material terms are clearly defined in the legislation, and where they are not defined, it is common practice to revert to the normal meaning of the term(s). The FAIS Act regulates advice, and its General Code of Conduct makes specific mention of the terms, 'risk'[5] and 'risk profile'.[6] Although these terms are deemed relevant and material in the advice process, they are not defined in the Act or in the Code, which means that one needs to start with an analysis of the normal meaning of the words or terms as the basis for consideration. The definition of 'risk' in the context of investment planning is extremely important, because one can hardly do research on this topic or debate the fundamentals without agreeing on the definition of 'risk' and 'risk profile'. The following definitions in the Oxford Dictionary were the most helpful in the context of financial risk:

The Pocket Oxford Dictionary refers to risk as "expose to chance of loss."[7] The Oxford Business English Dictionary defines risk from a finance point of view as the possibility that an asset may rise and fall in value.[8] In the book, Investment Management, the authors assert that financial risk can be described as the probability of experiencing an event that has a negative financial implication, thus a loss.[9]

Our objective is to define risk from:

- a client (investor) point of view;
- a financial planning point of view; and
- a financial product point of view.

[5] See sections 7(1)(xiii) and 7(3)(d) of the Code
[6] See sections 8(1)(a)(i), (ii) and 8(1)(c) of the Code
[7] Pocket Oxford Dictionary, Oxford University Press, 5th Edition 1977, p 716
[8] Oxford Business English Dictionary, Oxford University Press, 2005, p 476
[9] Investment Management, Johan Marx - Editor, Raphael Mpofu, Gerhard van de Venter, André Nortjé, Van Schaik Publishers (2006), Page 7

From a client point of view, there are many risks, but for purposes of this exercise the following elements of risk from a client, a financial planning and investment advice point of view must be acknowledged, defined, and quantified:

1. **The risk of capital loss in nominal terms**

   Firstly, this risk refers to the loss of capital in nominal terms, which include the risk of:

   - Permanent capital loss; or
   - A ‘paper loss’, such as a drop in the client’s investment- or portfolio value

2. **The risk of capital loss in real terms**

   This refers to the risk of not matching inflation (after cost and tax) over the investment term

   - It was agreed that inflation is the appropriate, objective benchmark to be used to measure medium- and long-term investment returns. One of the reasons for using inflation is that it does not serve clients’ interests to invest money that does not at least maintain its purchasing power in the future;
   - Inflation is measurable and inflation-plus target returns are already recognised as a benchmark by most of the investment- and asset managers; and
   - It was agreed that it made sense to include reference to the need for investors to keep pace or outperform inflation on an after-cost and after-tax basis and it was proposed that investment planning software must make provision for calculations that takes net returns into account.

3. **The risk of loss relative to the goal that was set for the investment**

   This refers to the risk of:

   - not achieving a clients’ needs, goals, or objectives, and/or
   - income not being sufficient to sustain the client’s income needs.

   This can only be measured at the end of the full term of the investment.

In view of the considerations above we propose the following definition of risk from an investment planning and advice point of view:

‘Risk’ is the possibility of capital loss in nominal terms, real terms, and/or the possibility of not achieving a client’s investment objectives over an agreed investment term.

6. DEFINITION OF RISK PROFILE

As stated in the previous chapter, neither the regulator nor the financial services industry have officially defined the term 'risk profile' and as a result this term is often used very liberally. In some conversations financial advisers and other industry stakeholders refer to the term 'risk profile' when they actually mean to refer to 'risk tolerance' and sometimes the term 'risk profile' is used in the context of 'risk capacity' and vice versa. These terms are often used interchangeably and sometimes it even implies all the underlying components of a client's 'risk profile'. The liberal and interchangeable use of these terms lead to confusion. It is therefore important to establish a definition that is clear, sound and can be applied correctly and consistently by all stakeholders in the industry.

Historically, the financial services industry used the following general descriptions to categorise different investor profiles, when in fact these profiles refer to investors' risk tolerance:

- **Risk averse**

  Risk averse means "expose to chance of loss opposed/disinclined"[10] or simply opposed to chance of loss.

- **Conservative**[11]

  Conservative means "tending to conserve/averse to rapid changes/seeking to preserve parts as far as possible/moderate/cautious/avoiding extremes"[12] or simply *cautious and seeking to preserve.* The Oxford Business English Dictionary defines conservative as *not taking or involving unnecessary risk.*[13]

- **Moderate**

  Moderate means "avoiding extremes/low temperate in conduct or expression"[14] or simply *cautious and seeking to preserve.* The Oxford Business English Dictionary defines moderate as *neither very good/large etc. nor very bad/small, i.e., reasonable.*[15] Moderately means *to an average extent, within reasonable limits.*[16]

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[10] Sykes 1983:60
[11] See recommendation dated 28 February 2018: FAIS 07380/12-13/ MP 1, page 6 par 18.5 where the risk profile refers to Low to Medium without quantifying the level of risk.
[12] Sykes 1983: 200
[13] The Oxford Business English Dictionary, Oxford University Press 2005, p 111
[14] Sykes 1983: 650
[15] The Oxford Business English Dictionary, Oxford University Press 2005, p 353
[16] The Oxford Advanced Learner's Dictionary, Oxford University Press 2005, p 946

Note: What is reasonable for one person may be totally unreasonable for another. This is a subjective benchmark.

- **Aggressive**

Aggressive means "offensive/disposed to attack/forceful/self-assertive"[17] According to the Oxford Advanced Learner's Dictionary aggressive means *angry and behaving in a threatening way*.[18]

Note: This definition does not refer to a profile from a financial point of view. It implies emotional behaviour.

A definition that may be helpful is "aggressive growth fund" which is referred to as an investment fund that buys shares that are expected to increase in value very quickly but have a high risk, in the hope of making large profits.[19]

Note: The reference to 'shares' in the definition could potentially be replaced with growth assets. However, this definition refers to the investment and not the client.

The Workgroup agreed that traditional 'definitions' of client risk profiles, as highlighted above, are abstract, vague, subjective, open for interpretation and they do not include any of the other key components that form part of an investor's risk profile. We believe that it is necessary to define the client's 'risk profile' that gives more useful information to achieve the objectives of this paper. We have concluded that using traditional descriptions to categorise investors, such as conservative, moderate, and aggressive without clarifying and quantifying what it means from a financial risk (chance of loss) point of view is obsolete and needs to be replaced by a definition that is clear, relevant, objective and that includes all the key elements that constitutes a client's risk profile. Investment planning and advice, and the accountability that goes with it, have evolved over the years and we believe that the industry must keep up with changes that enhance the quality of advice and disclosures that will assist financial clients to make better informed investment decisions.

According to the Oxford Business English Dictionary, the definition of a 'risk profile' is a possible investment that considers how likely it is to result in a loss.[20] This is consistent with the definition of 'risk' as highlighted above, as it also refers to 'chance of loss'. Unfortunately, this definition refers to the risk profile of an investment, not the risk profile of the client.

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[17] Sykes 1983: 18
[18] The Oxford Advanced Learner's Dictionary, Oxford University Press, p 29
[19] The Oxford Business English Dictionary, Oxford University Press 2005, p 15
[20] Oxford Business English Dictionary, Oxford University Press 2008, page 477

The Code of Conduct specifically prescribes that a client's risk profile must be established, prior to providing a client with advice[21] and seek appropriate products in accordance with the client's risk profile and needs.[22]

According to Geoff Davey, co-founder of FinaMetrica, risk profile is the appropriate level of investment risk having regard to the investor's risk required, risk capacity and risk tolerance.[23] This definition is certainly helpful and implies that a 'risk profile' is a combination of these factors. From a suitability point of view, the following definition of a client's risk profile is proposed:

Risk profile is defined as the risks that an investor needs to take to achieve his/her objectives given his/her ability and willingness to accept those risks.

The Workgroup agreed that this definition includes three primary risks that are fundamental to provide suitable advice, namely:

1. Risk required
2. Risk capacity
3. Risk tolerance

These components of a client's risk profile are explained in more detail in this paper.

Note: It is important to recognise that it is possible for clients to have more than one risk profile, depending on their respective investment goals and associated investment terms.

Risk profiling

The Workgroup also agreed that it is necessary to differentiate between 'risk profile' and 'risk profiling' and propose the following definition:

Risk profiling is the process to determine a client's risk profile(s).

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[21] See section 8(1)(a) of the General Code of Conduct
[22] See section 8(1)(c) of the General Code of Conduct
[23] FinaMetrica

7. KEY COMPONENTS OF A CLIENT'S RISK PROFILE

The Workgroup decided to focus on the following key aspects of 'risk profile' as defined in the previous chapter of this paper:

1. Risk required;
2. Risk tolerance; and
3. Risk capacity.

It was recognised that a few other risks could also be considered as well, such as risk propensity, to name one, but the Workgroup agreed to keep things simple for purposes of the first paper, and to focus only on the three primary risks listed above. Worth noting is that all three risks as highlighted have been recognised and recorded by the FAIS Ombud's Office in various Ombud determinations over the years. Extracts of some of these determinations have been included in chapter 8 of this paper for ease of reference. The three primary risks as highlighted above have also been included in the 2020 amendments to the FAIS General Code of Conduct, which are also covered in chapter 8.[24]

In view of the fundamentals of sound investment planning and advice, the interpretation of the principles by Office of the FAIS Ombud and the inclusion of these risks in the General Code of Conduct, we are confident that the following key components of any client's risk profile must be considered when determining a client's risk profile:

1. Risk required

Risk required is the risk associated with the investment return required to achieve the client's agreed needs and objectives over a suggested investment term with the financial resources the client has available. The risk required to achieve the expected return must be established and quantified. Again, it must be recognised that the client may have more than one investment goal, which may imply different levels of risk that will be required to achieve the different objectives.

[24] See section 8(1)(a)(i) and (ii) of the general Code of Conduct

Investment term / time horizon

The investment term or investment time horizon plays a key role in the determination of a financial client's risk profile as defined in this paper. It impacts all the risk components as not one of them can be properly quantified without taking the client's investment term pertaining to each goal into consideration. The investment term provides a point of reference to determine a realistic return expectation, which will form a sound basis of establishing the risk required to achieve the return expectation.

Required investment return

Financial planning involves a structured process aimed at meeting a client's financial objectives. In terms of investments this is achieved by applying a discounted cashflow based approach which considers the following:

- The client's accumulated savings and investments
- Quantifying what amount of assets the client will need to acquire at a future date based on various assumptions (e.g. cpi inflation, contributions, investment term, longevity)
- Any additional lump sum and/or recurring contributions that are required to meet the objective
- Contributions that are possible within the limits of what the client's monthly cashflow/budget allows
- The return that will be required to meet the objective given the term, current savings and the additional contributions that can be made

In determining the future value of savings or investment required inflation needs to be considered as the biggest enemy; i.e. one always need to think about the future outcome for the client in real money terms. CPI is the most common indicator used in order to be able to express the rate at which the 'cost of living' increase and at what rate a client's assets will depreciate in real terms. While the inflation basket may be unique for each consumer most of the elements contained in the inflation basket is applicable to all consumers (and investors) most of the time. With the government having a long-term inflation target of 3-6% it would be prudent to use 4.5% as the midpoint of the target range for the purpose of expressing the real returns required in meeting a client's financial objective.

Once the required assets at the end of the term have been quantified and the required return has been determined by means of the discounted cashflow model then the appropriate combination of asset classes needs to be determined that has the highest probability of achieving that specific return.

All asset classes carry a specific risk premium relative to the risk-free rate of return (cash). Inflation will fluctuate over time and so too will the risk-free rate from a monetary policy perspective given the Reserve Bank's primary objective and mandate to ensure price stability. As the risk-free rate change the premiums of asset classes will automatically adjust the returns required from the various asset classes relative to the inflation number.

The ability of various combinations of asset classes to achieve certain return outcomes can be expressed in real terms by stating them relative to cpi inflation (e.g. cpi+3%, cpi+4%). In this way each ASISA category, as defined by specific asset class limits, can be matched to a real return objective based on historic return data.

An adviser can use any preferred portfolio as a solution provided the portfolio solution can be matched back to the appropriate ASISA category for the real return required. Key is to then make each investor aware about the associated risks that is implied with the relevant portfolio solution to meet the agreed objective. This can be done by means of using the best and worst median rolling nominal returns of each ASISA category over the past 12 months as well as the minimum term required to meet the real return objective (this could also be extended to show the best and worst real returns by just deducting cpi inflation). In this way the required outcome originally determined by means of the discounted cashflow model is brought back to a required return in real terms and the appropriate combination of asset classes to be invested as per the ASISA fund categories and what each of the funds/portfolios represent from a risk perspective in the short term as well as over the minimum suggested investment term over which the outcome should be measured.

It is necessary to establish the investment return required to achieve the client's objective over a specified investment term for the following reasons:

- ✓ It is implied in the definition of 'risk profile':
  The risks that an investor needs to take *to achieve his/her objectives (required return)* given his/her ability (risk capacity) and willingness to accept those risks (risk tolerance).
- ✓ It is impossible to establish the level of risk required without a clear, measurable understanding of the investment return that will be required to achieve the client's investment objective over a specified term. It is therefore necessary to quantify the required investment return to determine the level of risk that is required for the client to meet his/her objective; and
- ✓ To establish (quantify) the client's needs and objectives is a specific requirement in terms of section 8(1)(a) of the FAIS General Code of Conduct.

For these reasons, the following basic objectives are used as examples to explain the principle:

Investing for a specific goal

A client invests money to accumulate capital for a specific purpose, such as:

1.1 Funding a child's education over a period of 5 years;

1.2 Saving to go on an overseas trip in 3 years from now; or

1.3 Saving to provide sufficient capital at retirement, which is planned 20 years from now,

Financial planning professionals and advisers usually determine the amount needed at the end of the agreed investment term and calculate the required investment amount and the required investment return that will be required to meet the client's objective. Therefore, the following basic calculations are necessary:

- Future value: This refers to the capital required in the future in nominal or real terms to fund the client's need(s).

- Investment term: This refers to the agreed future date when the capital required must be available for the specific purpose that was agreed to.

- Investment premium: This refers to the capital in nominal or real terms (lump sum or recurring) that will be committed to the investment.

- Required investment return: This refers to the investment return in nominal or real terms that will be required to achieve the client's objective over the agreed term.

Note:

To determine a *realistic* return expectation over the investment term is of fundamental importance. There are various studies that provide guidance in this area.

Planning at retirement

The recommended best practice starting point in the investment planning process is to obtain all the relevant client information that will enable you to conduct a cashflow analysis for clients at and beyond retirement. In the cashflow analysis it is recommended to use the following basic information and assumptions:

- The client's investable capital (current and future)
- Other provisions such as rental or consulting income
- The client's required annual income
- The client's annual income increase requirement (income usually increases with inflation annually)
- Future capital withdrawals
- An inflation rate assumption
- An investment return assumption (an "inflation plus" projected return)

The financial planning practitioner members of the workgroup use various financial planning software tools to assist them in ascertaining whether the client's investments will be able to sustain their future income needs during retirement. This exercise ultimately guides investment planning professionals to establish the required investment return on capital that a client needs to achieve his/her objective.

Investment projection

What follows on the next page is an example of how investment planning professionals determine the required return that an investor would require to achieve his/her objective.

Years & Age		Period	Withdrawal	Growth	Investment amount	Nominal	Real	Growth
0	69	2019			7 270 109	7 270 109	7 270 109	
1	70	2019/2020	- 331 114	687 333		7 626 327	7 194 648	9.66
2	71	2020/2021	- 332 241	719 910		7 994 062	7 114 687	9.64
3	72	2021/2022	- 333 405	753 382		8 372 830	7 029 990	9.63
4	73	2022/2023	- 334 609	787 676		8 761 982	6 940 311	9.62
5	74	2023/2024	- 335 852	822 711		9 160 688	6 845 399	9.60
6	75	2024/2025	- 336 933	858 376		9 568 172	6 745 184	9.59
7	76	2025/2026	- 338 327	894 520		9 982 770	6 639 112	9.57
8	77	2026/2027	- 339 763	930 976		10 402 868	6 526 888	9.55
9	78	2027/2028	- 341 243	967 545		10 826 524	6 408 203	9.53
10	79	2028/2029	- 342 768	1 003 992		11 251 417	6 282 732	9.51
11	80	2029/2030	- 344 339	1 040 041		11 674 799	6 150 138	9.48
12	81	2030/2031	- 345 958	1 075 367		12 093 435	6 010 067	9.45
13	82	2031/2032	- 347 625	1 109 596		12 503 541	5 862 148	9.42
14	83	2032/2033	- 349 343	1 142 289		12 900 708	5 705 996	9.39
15	84	2033/2034	- 351 112	1 172 944		13 279 822	5 541 206	9.36
16	85	2034/2035	- 352 934	1 200 979		13 634 974	5 367 357	9.32
17	86	2035/2036	- 354 810	1 225 728		13 959 359	5 184 009	9.27
18	87	2036/2037	- 356 743	1 246 431		14 245 163	4 990 705	9.22
19	88	2037/2038	- 358 733	1 262 217		14 483 436	4 786 964	9.16
20	89	2038/2039	- 360 782	1 272 098		14 663 954	4 572 290	9.10
21	90	2039/2040	- 362 891	1 274 952		14 775 063	4 346 165	9.02
22	91	2040/2041	- 365 064	1 269 507		14 803 513	4 108 050	8.94
23	92	2041/2042	- 367 300	1 254 322		14 734 256	3 857 388	8.83
24	93	2042/2043	- 369 602	1 227 776		14 550 243	3 593 598	8.71
25	94	2043/2044	- 371 973	1 188 054		14 232 204	3 316 084	8.57
26	95	2044/2045	- 374 413	1 133 129		13 758 404	3 024 235	8.39
27	96	2045/2046	- 376 924	1 060 710		13 104 342	2 717 421	8.18
28	97	2046/2047	- 379 509	968 303		12 242 519	2 395 006	7.89
29	98	2047/2048	- 382 170	853 513		11 142 498	2 056 423	7.52
30	99	2048/2049	- 384 909	742 215		9 799 126	1 706 127	7.29
31	100	2049/2050	- 387 728	615 287		8 187 501	1 344 837	7.00
Total Return: 9.01%								

Required return

The required investment return is then expressed in "inflation plus" or real terms. In this example the CPI inflation is assumed to be 4.5% p.a. and the average expected / required real investment return over the investment term would be 4.51% p.a.

Note: Although this example includes income withdrawals at retirement and beyond, determining the required return to accumulate sufficient funds for a specific goal over a specified investment term can be done on the same basis.

It was agreed that the projection that includes all the relevant financial information and establishes the required return is the fundamental starting point of determining the client's required risk. When the investor's required investment return is established, it lays a sound foundation for everything else that follows in the risk profiling process. Consistent with the definition of 'risk profile' as proposed in this paper, this would mean that risk required to achieve the investment objective relates to 'exposure to potential losses' in the value of the investment from time to time over the investment term. Following the workgroup's discussions, the risk required to achieve the client's required investment return must be expressed in measurable terms, which can be illustrated in the following **Risk/Return Table** as an example:

Category	Minimum term	Best return over any 12 months	Worst return over any 12 months	Best return over the minimum investment term per annum (rolling return over time horizon)	Worst return over the minimum investment term per annum (rolling return over time horizon)
Cash	1m – 12m	12,01%	4,04%	n/a	n/a
SA–multi asset income	2 years	11,41%	4,31%	9,94%	5,88%
SA-multi-asset low equity (Inflation +2% p.a.)	3 years	17,26%	-3,10%	11,75%	2,71%
SA-multi-asset medium equity (Inflation +4% p.a.)	5 years	24,18%	-12,91%	13,98%	1,98%
SA-multi-asset high equity (Inflation +6% p.a.)	7 years	30,65%	-14,75%	12,55%	4,42%
SA Equity	10 years	48,54%	-32,20%	12,19%	5,09%
International equity (ZAR)	10 years	52,17%	-34,54%	16,95%	7,45%

Data source: Morningstar (31/10/2007 to 30/06/2021)

Data:

Cash = (ASISA) South African IB Money Market
SA Equity = (ASISA) South African EQ General
International Equity = (ASISA) Global EQ General

The workgroup agreed to provide a more balanced view of returns and potential losses over the various investment terms and not to focus only on short-term performance or loss. As a result, risk and returns are expressed over a 12 month period and over the minimum holding period / suggested investment term.

Another example of highlighting the risk of capital loss is provided by FinaMetrica. The table below provides a summary of the risk and return profile of 11 representative sample portfolios, using monthly index proxies, across the risk spectrum from 0% to 100% growth assets. These portfolios are designed to help advisers explain performance patterns to clients and to illustrate the change in these patterns as one moves from low risk/return to high risk/return.

Historical Portfolio Performance for FinaMetrica's Illustrative Portfolios

South Africa v3.0

Worst Fall	-3.3%	-8.4%	-10.4%	-12.3%	-13.9%	-18.4%	-21.2%	-25.3%	-29.3%	-33.1%	-38.5%
Best Rise	154.4%	50.3%	28.0%	31.7%	30.6%	28.3%	29.3%	30.7%	31.7%	33.1%	34.4%
Multiple of Rate from Bank Deposits	1.09	1.16	1.23	1.29	1.35	1.42	1.44	1.49	1.51	1.54	1.55
10yrs Real Annualised Return	4.2%	4.8%	5.4%	5.9%	6.4%	7.0%	7.1%	7.5%	7.6%	7.8%	7.9%
10yrs Real End Value of R1,000	R1,535	R1,630	R1,717	R1,804	R1,889	R1,990	R2,017	R2,083	R2,102	R2,163	R2,178
	0%	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**

GROWTH ASSETS

Source: Morningstar

2. Risk tolerance

Investment return and investment risk are inseparable. They are two sides of the same coin. In simple terms, the higher your required investment return, the higher the level of potential losses and the longer the investment term required to achieve the required investment return, which is highlighted in the Risk/Return Table (above). It is important to establish a realistic balance between risk, return and time and it should always be part of an investment discussion with a client, because advisers must ultimately establish whether the client is comfortable with the risk/return trade-off.

'Risk tolerance' is not defined in our legislation, and therefore the starting point is to refer to the normal meaning of the word. The Oxford Dictionary refers to risk as "expose to chance of loss"[25] and tolerance as "willingness to accept something".[26] If we put these concepts together, the normal meaning of risk tolerance refers to a financial client's willingness to be exposed to chance of capital loss. Alternatively, risk tolerance, in the context of financial risk means a financial client's willingness to expose his/her capital to potential losses over the selected investment term.

According to Rory Percival, former technical analyst at the Financial Conduct Authority (FCA), part of the client's risk profile is the client's willingness to take risk, which is also referred to as their risk appetite or risk tolerance. It is their subjective feeling about risk, mainly the perceived risk or actual loss of capital.[27]

Quantifying potential capital loss

Advisers are confronted with the following question: 'Can a client make an informed investment decision without knowing by how much his/her investment can potentially decline in value during the investment term?' The FAIS Ombud, for one, has already confirmed that it is not possible.[28] Therefore, it must be established how much capital loss or decline in the value of the client's investment he/she will be willing to accept or tolerate to achieve the required investment return over the proposed investment term.

The purpose of the Risk/Return Table, as highlighted above, is to illustrate how advisers can disclose and explain the targeted returns and quantify the risks (potential losses) associated with the different investment return options or objectives available to them. The objective is to quantify the risk/return trade-off based on historic evidence that will enable investors to make informed investment decisions.

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[25] Pocket Oxford Dictionary, Oxford University Press, 5th Edition 1977, p 716

[26] See Oxford Advanced Learner's Dictionary, Oxford University Press, 7th Edition 2005

[27] See Rory Percival Training and Consulting Paper, September 2017, page 42

[28] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 51

'Risk tolerance' is a psychological trait and often leads to emotional decisions that are detrimental to client outcomes. It is for this reason that it is important that financial clients are made aware of potential losses over the short term, but also reminded that these losses must be considered in the context of their medium to long term objectives.

Investment term

As highlighted earlier, the investment term is an essential component in determining the client's financial needs and objectives and it plays a key role in the evaluation of the client's risk profile as defined in this paper. The required return over the investment term that was selected must always serve as a reference point and a reminder to clients that, if they want to achieve their stated objective(s), they must be willing to accept the potential decline in value of the investment over the investment term, especially over the short term.

Additional considerations

The members of the Workgroup acknowledge that there are numerous studies on the subject of risk tolerance and that clients' risk tolerance may vary from time to time, based on a variety of aspects such as personal circumstances and subsequent emotional responses and market conditions. However, for purposes of this first paper, it was agreed that we will focus only on 'risk tolerance' in its most basic form by establishing the risks a financial client is willing to take when the investment is made. It is the intention to elaborate on this subject in future papers.

Agreement

It is recommended that the client's risk tolerance must be established and agreed to between the adviser and client before an investment is made, because advisers are accountable for their advice at the time of the investment. Investors have been known to change their willingness to accept risk when their investments lose value and therefore it is important to record the client's risk tolerance. Recording the agreement is necessary because it would be unfair to hold advisers accountable for a client's risk tolerance that changes for psychological reasons during the investment term when market conditions change.

3. Risk capacity

Again, 'risk capacity' is not defined in the legislation and, as a start, we therefore revert to the normal meaning of the words. We know now that the Oxford Dictionary refers to risk as "expose to chance of loss"[29] and capacity is defined as the ability to do something.[30] If we put these concepts together risk capacity means the ability of a financial client to expose his/her investment(s) to the possibility of capital loss.

The members of the Workgroup agreed that risk capacity speaks to both financial ability as well as emotional ability. Emotional capacity is briefly referred to at the end of this chapter.

Financial ability

In his award-winning paper on risk capacity the author, Shawn Brayman, defined risk capacity as how much risk the client can afford - but what does that mean? First, he writes, the concept "afford to take" means we have a specific goal in mind to provide context. According to Brayman it is not possible to measure "afford to take" unless we have this.[31]

Investment goal

The specific goal that Brayman refers to speaks to the investment needs and objective and the required return to achieve the objective over the applicable investment term.

Investment term

Again, it is clear that investment term or time horizon plays an important part in determining the client's financial needs and objectives and it plays a key role in the evaluation of the client's risk profile as defined in this paper.

Ability to absorb falls in the value of the investment

In his study he referred to a guidance paper by the FSA in the United Kingdom to provide more clarity:

By 'capacity for loss' we refer to the client's ability to absorb falls in the value of their investment. If any loss of capital would have a materially detrimental effect on their standard of living, this should be taken into account in assessing the risk that they are able to take.[32]

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[29] Pocket Oxford Dictionary, Oxford University Press, 5th Edition 1977, p 716
[30] See Oxford Advanced Learner's Dictionary, Oxford University Press, 7th Edition 2005, p 209
[31] Defining and Measuring Risk Capacity by Shawn Brayman (2011)
[32] Defining and Measuring Risk Capacity by Shawn Brayman (2011), page 2

Risk capacity refers to the risk that a client can afford to take when investing his/her capital. It means that, given the client's financial position and financial resources it must be established whether the client has the capacity or ability to bear financial losses or a temporary reduction in the market value of his/her portfolio from time to time.

By "capacity for loss" we refer to the client's ability to absorb temporary or permanent declines in the value of his or her investment. If any loss of capital would have a materially detrimental effect on the client's standard of living, this must be considered in assessing the risk that the client is able to take.

In its most basic form, we must ensure that there is sufficient income, cash and/or liquid investments available that can "buy enough time" for the client to wait for those investments that are subject to market volatility when markets are under pressure to recover. The risk that advisers must prevent is that, due to some unforeseen event or cash flow constraints, the client may be forced to liquidate or "sell out" from an investment portfolio at a time when the market value of the investment(s) declined and the client locks in a financial loss.

The following investment instruments can play an important role to create capacity for the client to take on the required investment risk to achieve the client's objective:

- ✓ *An emergency fund*
- ✓ *Alternative sources of income*
  Income from sources, such as employment, other investments, consulting, and/or rental income for example.
- ✓ *Sufficient cash or low risk investments that can be liquidated easily without penalties*

Recurring investment contributions

Risk capacity is also relevant when a client is making recurring investment contributions towards a specific goal. Unforeseen retrenchment, unemployment, or a reduction in income for a period may result in the cancellation or even liquidation of the investment. If, due to some unforeseen event, the client can no longer afford the premiums, he/she may be forced to cease paying premiums, which may also incur penalties.

If this happens while the portfolio value is below the purchase value, the client will lose money because of the lower market value as well as potential penalties that may be incurred from withdrawing his/her capital. These risks must be considered when the loss of the client's income and potential loss of capital has a materially detrimental effect on the client's ability to pay premiums and/or the client's standard of living.

Investing during retirement

At retirement, risk capacity is a component of a client's risk profile that is especially relevant during a bear market (a period when investment markets are under pressure and declining over a considerable period of time) when a client may have to liquidate the investment from a portfolio that is declining in value. If this should happen, the client will be selling more units from the investment portfolio to maintain his/her required income level, which will have a negative effect on the projected cashflow, even when markets do recover at a later stage.

In the cashflow analysis, financial provisions such as current and projected income, other investments and whether the client can fund his/her income to accommodate falls/reductions in the value of his/her investments from time to time needs to be considered. In its most basic form, financial advisers must ensure that clients have sufficient income and/or liquid investments available that can sustain their retirement income when markets are under pressure and that they can "buy enough time" for those investments that are subject to market volatility to recover.

Emotional capacity/ability

To establish whether a financial client will have the emotional ability to expose his/her investments to potential capital loss when it actually happens is extremely difficult. It happens frequently that clients make investment decisions without paying sufficient attention to the potential risks that their investments may be exposed to and when they experience capital losses, they make emotional decisions. In some cases, they may even have agreed to tolerate or accept risks and potential capital losses at the time of the investment, but when they see a significant decline in the market value of their investment, they realise that they do not have the emotional capacity or ability to see it through and stick with their initial strategy. Clearly there is more work to be done in this field.

8. SUITABILITY REQUIREMENTS

The purpose of this chapter is to highlight the provisions of the FAIS Act and the General code of conduct that apply to advice, risk, and risk profile and to illustrate how the Office of the FAIS Ombud interprets these provisions.

DEFINITION OF SUITABILITY

According to the Oxford Advanced Learner's Dictionary *suitable* means (to do something) right or appropriate for a particular purpose or occasion.[33] Synonyms for suitable are appropriate, right, fitting, and proper. Appropriate means suitable, acceptable, or correct for the particular circumstances.[34] In terms of the aforementioned definitions, suitable advice to investors simply means to provide appropriate (right, correct, and proper) recommendations, give appropriate guidance, or make appropriate proposals to investors in their circumstances for a particular purpose. Although the main objective of the Workgroup is *not* to provide a compliance solution to the industry, but to promote sound investment advice in the interest of investors, it is very important to consider the provisions in the FAIS Code of Conduct that refer to advice, risk, and risk profile.

The FAIS Act differentiates between financial planning and advice. The latter specifically refers to any recommendation, guidance, or proposal in respect of any financial product. In view of the amendments to the suitability provisions in section 8 (1)(a) of the General Code of Conduct in June 2020, as highlighted below, it is very clear that this topic is of more fundamental importance than ever and leaves no room for interpretation of its relevance. It simply must be addressed to guide advisers appropriately.

(1) A provider must, prior to providing a client with advice-

(a) obtain from the client such information regarding the client's needs and objectives (required return which determines the risk required to achieve the return)[35], financial situation, risk profile (risk required, risk tolerance, risk capacity)[36] and financial product knowledge and experience as is necessary for the provider to provide the client with appropriate advice, which advice takes into account-

(i) the client's ability to *financially bear* any costs or risks associated with the financial product;

[33] Oxford Advanced Learner's Dictionary, Oxford University Press 2005, p 1480
[34] Oxford Advanced Learner's Dictionary, Oxford University Press 2005, p 61
[35] Workgroup emphasis
[36] Workgroup emphasis

(ii) the extent to which the client has the necessary experience and knowledge to understand the risks (risk required, risk tolerance and risk capacity)[37] involved in the transaction; and

(b) conduct an analysis, for purposes of the advice, based on the information obtained;

(c) identify the financial product or products that will be appropriate to the client's risk profile (risk required, risk tolerance and risk capacity)[38] and financial needs, subject to the limitations imposed on the provider under the Act or any contractual arrangement.

Note: According to provisions of the Code makes it clear that appropriate advice is based on needs and risk profile. It is not the one or the other.[39] It was also recognised by the members of the Workgroup that the amended suitability requirements (above), as published in section 8 of the Code of Conduct, demands a comprehensive understanding of the client's risk profile.

In addition, the following key provisions in the General Code of Conduct also deserve consideration:

Section 2

A provider must at all times render financial services honestly, fairly, with due skill, care, and diligence, and in the interests of clients and the integrity of the financial services industry.

Note: It is clearly an obligation of advisers to demonstrate skill, care, and diligence, and acting in the interests of clients. Therefore, there must be evidence in the record of advice of how risk required, risk tolerance and risk capacity have been considered by advisers in the advice process.

Section 7

(1) Subject to the provisions of this Code, a provider other than a direct marketer, must-

(a) provide a reasonable and appropriate general explanation of the nature and material terms of the relevant contract or transaction to a client, and generally make full and frank disclosure of any information that would reasonably be expected to enable the client to make an informed decision;

Note: We would argue that a client's risk profile is material in the product advice process and disclosure of the risk that is required to achieve his/her objective(s) is necessary to enable a client to make an informed product decision.

[37] Workgroup emphasis
[38] Workgroup emphasis
[39] See CS Brokers CC v James Bruce Wallace, Appeal No. FAB 5/2016, par 24

(c) in particular, at the earliest reasonable opportunity, provide, where applicable, full and appropriate information of the following:

(vii) concise details of any special terms or conditions, exclusions of liability, waiting periods, penalties, restrictions or circumstances in which benefits will not be provided;

(viii) any guaranteed minimum benefits or other guarantees;

(ix) to what extent the product is readily realisable or the funds concerned are accessible;

(x) any restrictions on or penalties for early termination of or withdrawal from the product, or other effects, if any, of such termination or withdrawal;

(xiii) any material investment or other risks associated with the product, including any risk of loss of any capital amount(s) invested due to market fluctuations;

Note: The obligation to disclose any risk of loss of any capital amount(s) invested speaks to our primary definition of risk 'chance of capital loss'.

Section 8

(2) The provider must take reasonable steps to ensure that the client understands the advice and that the client is in a position to make an informed decision.

Note: We would argue that a client's risk profile is material in the investment planning and advice process and disclosure of the risks that an investor must take to achieve his/her objectives (risk required) given his/her ability (risk capacity) and willingness to accept those risks (risk tolerance) are necessary to enable a client to make an informed decision.

FAIS OMBUD

This section of the paper highlights many valuable lessons that financial advisers can learn from the reports and determinations that have been published by the Office of the FAIS Ombud. The process of risk profiling is a contentious issue, which is evident from the Ombud's annual report in 2012:

1. *The Ombud's office frequently encounters a disconnect between a complainant's risk tolerance, as calculated according to questions laid out in a risk profile document and the complainant's actual circumstances;*[40]

2. *Risk profile questionnaires can be interpreted in several ways and are not always specific or relevant to the investment at hand;*[41]

3. *Risk must be disclosed and in clear unambiguous language;"*[42]

Note: The proposals in this paper are aimed at solving these problems.

Another valuable principle was highlighted by South Africa's first Ombud for Financial Services Providers. During a Retail Financial Services Africa Conference held on 30 March 2006, hosted by the *Institute for International Research* at the Hyatt Hotel in Rosebank, the late Mr. Charles Pillai, made the following significant statement:

- ✓ *Cases are won or lost based on facts.*

- ✓ *If we have the right evidence, chances are slim for us to find against the financial services provider.*

- ✓ *Poor record-keeping is at the center of our determinations.*

Note: To ignore these insights from the late Mr Pillai would be very short-sighted and part of this paper is dedicated to ensure that the quality of record-keeping during the advice process is enhanced. To record the risks that were disclosed by the adviser and agreed to by the client is of great importance as part of the adviser's record of advice.

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[40] FAIS Ombud's Annual Report of October 2012

[41] FAIS Ombud's Annual Report of October 2012

[42] FAIS Ombud's Annual Report of October 2012

FAIS OMBUD DETERMINATIONS

The extracts from the FAIS Ombud determinations in the case studies that follow highlight the interpretation of the Ombud when they deal with risk, risk profile and risk profiling. The Workgroup agreed that due consideration must be given to these determinations as they confirm some of the key concepts that we must address as an industry.

Capital loss

The following extracts from FAIS Ombud determinations highlight that client complaints are mostly inspired by a loss of capital.

The respondent's advice caused the loss.[43]

What complainant needed to know is the fact that he stood to lose a substantial portion of his investment during market downturns but on an upswing, substantially more could be made. There is no explanation found in the respondents' evidence of the possible extent of an equity downturn or its impact, particularly whilst drawing an income.[44]

Neither defense prevails, in that quite simply, they both breached section 2 of the Code in failing to render financial services with the requisite due skill, care and diligence, leading to the complainant sustaining losses in the market downturn.[45]

According to the complainant it is as a result of the respondent's actions that he has suffered a substantial financial loss.[46] The complainant has asked that respondents compensate him for the damage he has suffered as a result of their actions, which, complainant states, were in violation of the FAIS Act.[47]

Respondent further undermined the result of his own risk assessment, which indicated that complainant had no tolerance or capacity to lose his retirement savings and invested the funds in the two high risk funds.[48]

By the time that Linda switched complainant back to conservative portfolios, his total investment value had dropped by approximately R570 000. This amount represents about

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[43] Rusaan Van Staden vs Dovetail Trading 509 CC t/a Legacy Invest; FAIS 00119/11-12/ FS 1, p 16
[44] Botha vs R & S Walsh Investment Consultants CC; Case number: FAIS 06019/08- 09/EC1 / 06507/08-09/EC1, par 46
[45] Botha vs R & S Walsh Investment Consultants CC; Case number:: FAIS 06019/08- 09/EC1 / 06507/08-09/EC1, See par 51
[46] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 13
[47] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 14
[48] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 52

a 57% drop in investment value in a space of 12 months.[49] According to the complainant it is as a result of the respondent's actions that he has suffered a substantial financial loss.[50] The complainant has asked that respondents compensate him for the damage he has suffered as a result of their actions, which, complainant states, were in violation of the FAIS Act.[51]
In the absence of such evidence, it constitutes a breach of the Code and if this breach was instrumental to providing inappropriate advice to the complainant and he or she suffered a financial loss as a result, the Ombud normally finds against the adviser.[52]

Note: If the risk of capital loss is not explained and agreed to upfront when the investment is made, it poses a great risk to advisers.

Risk profile assessment

The following extracts from FAIS Ombud determinations make it clear that the Ombud's office will investigate whether a risk analysis or assessment was done.

Two critical documents are central to this inquiry; they are, the record of advice and the risk profile assessment. The record of advice is maintained by providers to meet the demands of section 9 of the General Code for Authorised Financial Services Providers and Representatives, (the Code) while the risk profile is provided for in section 8 (1) (c).[53]
No risk analysis or assessment was carried out by second respondent.[54]
No risk assessment was carried out to establish her risk tolerance, nor was there any needs analysis done to establish her needs.[55]

Note: In terms of the amended provisions of section 8(1) of the Code, conducting a risk profile analysis is required in the advice process before a client makes an investment. If investor risk profiling is not done properly, it can be instrumental to inappropriate advice and it attracts significant risk to the adviser in the advice process.

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[49] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 12
[50] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 13
[51] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 14
[52] See Craig Steward Inch v Impact Financial Consultants, FAIS 04971-12/13-MP 1, page 8, par 26
[53] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 37
[54] Elizabeth Maria Catharina Van Schalkwyk vs Investiplan (Pty) Ltd, Case number: FAIS 04143/12-13/ GP 1; Par 28.6
[55] Natalina Natali vs Impact Financial Consultants CC; FAIS 04032/12-13/ WC1, par 4.4

It is evident from the number of FAIS Ombud determinations that risk profiling questionnaires and the subsequent selecting of financial products pose a real threat to financial advisers. Not only does the FAIS Ombud investigate whether a risk profile was conducted, the Ombud also examine *the manner* in which a client's risk profile was conducted as to determine whether such analysis was appropriate.[56] The Ombud even considers the form and its content.[57]

It is worth noting that the FAIS Ombud refers to risk profile questionnaires or risk assessments where many, if not most, questionnaires speak to risk tolerance.

Suitability

Section 8 of the Code, which pertains to suitability of the advice requires, inter alia, that the provider identify the product or products that will be appropriate to the client's risk profile and financial needs. These were funds inherited by an individual during matric, which that had been earmarked for tertiary studies, yet it is clear that no attempt was made to identify a suitable product.[58]
No needs analysis was carried by the second respondent;[59] Respondents did not carry out any analysis to ensure that the proposed product was suitable for the client, bearing in mind the latter's needs and financial risk profile. Respondents were in breach of Section 8 of the Code;[60] In the absence of such evidence, it constitutes a breach of the Code and if this breach was instrumental to providing inappropriate advice to the complainant and he or she suffered a financial loss as a result, the Ombud normally finds against the adviser.[61]
FAIS Ombud determinations frequently refer to the provisions of section 8(1)(c) of the Code, which specifically require that the provider identify the financial product or products that will be appropriate to the client's risk profile *and* financial needs.[62]

[56] The matter between Venesh Mohanlal and Raj Chutterpaul and Raj Chutterpaul Brokers CC; FAIS 05679-09/10 KZN 1 page 21 par 72

[57] Venesh Mohanlal and Raj Chutterpaul and Raj Chutterpaul Brokers CC; FAIS 05679-09/10 KZN 1 page 22 par 74

[58] The matter between Teddy Maditse and Magajana Trading and Projects CC and Lindiwe Mtasa Magajana: CASE NO: FAIS 04946/15-16/ GP 1, par 17.4

[59] Elizabeth Maria Catharina Van Schalkwyk v Investiplan (PTY) Ltd (and another) FAIS 04143/12-13/GP 1 (page 8 par 28.5)

[60] Elizabeth Maria Catharina Van Schalkwyk v Investiplan (PTY) Ltd (and another) FAIS 04143/12-13/GP 1 (page 10 par 33.5)

[61] Craig Steward Inch v Impact Financial Consultants, FAIS 04971-12/13-MP 1, page 8, par 26

[62] Craig Steward Inch v Impact Financial Consultants, FAIS 04971-12/13-MP 1, page 9, par 27

Note:

From the provisions in section 8 of the Code and from the FAIS Ombud determinations it is clear that suitability flows from considering clients' needs and risk profile.

The client's required return

In the matter between Melcolm Arnold Birken and Fidentia Financial Advisers CC, the FAIS Ombud issued a determination in favour of the provider on the following provisions in the agreement between provider and client:

- ✓ The client's investment objective was clearly defined;[63]
- ✓ There was agreement on the expected return (benchmark);
- ✓ The investment term was defined;[64] and
- ✓ There was agreement on the fact that the investment capital and target return could not be guaranteed was disclosed to the client and agreed to.[65]

As highlighted before, the risk that is required to achieve a financial client's objective can only be determined when the required investment return to achieve that objective is quantified.

The client's ability to take risk

Appropriate advice demands that relevant and available information be sought by the provider from the client. In order to appreciate how much risk a client can afford to take reference must necessarily be made to what the client has by way of assets and financial arrangements. To put it in simple terms the client must be in a position to understand what he or she is letting themselves in for.[66]
In this case the emphasis is on due skill, care, and diligence, and in the interests of clients as it takes all those qualities to give appropriate advice to clients who may have needs, but who can ill afford to take on too much risk. Consideration must also be given to the level of risk that clients can tolerate and risk they can afford to take.[67]
There is no evidence suggesting that complainants' circumstances were considered. This flows from the fact that there is no document wherein one can find details of complainants' financial standing/ assets.[68]

[63] As required in terms of par 8(1)(a) of the General Code of Conduct
[64] As required in terms of par 7(1)(c)(vii) of the General Code of Conduct
[65] As required in terms of par 7(1)(c)(xiii) of the General Code of Conduct
[66] Godfrey Frederik Botha and Elizabeth Helen Botha versus R & S Walsh Investment Consultants CC, FAIS 06019/08- 09/EC1 06507/08-09/EC1, par 45
[67] CS Brokers CC v James Bruce Wallace, Appeal No. FAB 5/2016, par 24
[68] Botha vs R & S Walsh Investment Consultants CC; Case number:: FAIS 06019/08- 09/EC1 / 06507/08-09/EC1, par 29

Upon perusal, it immediately becomes clear that the document lacked vital information such as, complainant's assets and liabilities, income and expenditure and other relevant personal information that would have enabled respondent to better appreciate complainant's capacity and tolerance for risk.[69]
Respondent further undermined the result of his own risk assessment, which indicated that complainant had no tolerance or capacity to lose his retirement savings and invested the funds in the two high risk funds.[70]

The client's risk tolerance

No risk assessment was carried out to establish her risk tolerance, nor was there any needs analysis done to establish her needs.[71]
Upon perusal, it immediately becomes clear that the document lacked vital information such as, complainant's assets and liabilities, income and expenditure and other relevant personal information that would have enabled respondent to better appreciate complainant's capacity and tolerance for risk.[72]
He failed to ensure that his client invested in a product that was appropriate for her needs and consistent with her tolerance for risk.[73]
Clearly, the entire exercise of going through a risk analysis was a mere formality performed to comply with the formal requirements of the FAIS Act.[74] In breach of the FAIS Act and the General Code, the adviser completely ignored the results of the risk analysis and invested the complainant's money into a high-risk investment.[75]

The FAIS Ombud's Office tend to pose the same fundamental questions to providers when investigating client complaints in terms of section 27(4) of the Act. These questions include:

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[69] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 38

[70] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 52

[71] Natalina Natali vs Impact Financial Consultants CC; FAIS 04032/12-13/ WC1, par 4.4

[72] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 38

[73] The matter between L Landman and JC Mostert, Case No: TPM FAIS 00493/13-14/KZN 1, page 19, par 69.4

[74] FAIS 02202/09-10/KZN/1 Page 14 par 46

[75] FAIS 02202/09-10/KZN/1 page 14 par 47

What actually led you to conclude that the risk inherent in the product was suitable to your client's risk tolerance?[76]
Respondent further undermined the result of his own risk assessment, which indicated that complainant had no tolerance or capacity to lose his retirement savings and invested the funds in the two high risk funds.[77]
Given the complainant's circumstances and aversion to risk, the advice to invest in a high-risk investment such as MGHDC was inappropriate.[78]
Consideration must also be given to the level of risk that clients can tolerate and risk they can afford to take. The Code makes it clear that it is not the one or the other. Appropriate advice is based on needs and risk profile.[79]

Note:

In view of the FAIS Ombud's determinations in this regard, it is clear that the Ombud always pays due regard to the risk tolerance of the complainant and the level of risk (level of capital loss) that the client was willing to accept. This cannot be established without quantifying the downside risk as per the Risk/Return table.

Disclosure

The respondents failed to disclose to the complainant the risks associated with the products into which his funds were invested. As such, the complainant was not put into a position where he would make an informed decision about the advice given to him.[80]
The respondent failed to disclose the risk involved in the investment, in violation of section 7(1) of the Code.[81]

Evidence

In the absence of such evidence, it constitutes a breach of the Code and if this breach was instrumental to providing inappropriate advice to the complainant and he or she suffered a financial loss as a result, the Ombud normally finds against the adviser.[82]

[76] Craig Steward Inch v Impact Financial Consultants, FAIS 04971-12/13-MP 1, page 22, par 74
[77] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/GP 1, par 52
[78] Aletta Roos vs Johan Dudolph Kunneke t/a Johan Kunneke Brokers; FAIS 05015/12-13/MP1, par 31
[79] CS Brokers CC v James Bruce Wallace, Appeal No. FAB 5/2016, par 24
[80] Schutte vs R & S Walsh Investment Consultants CC, FAIS 03984/09-10/EC1, par 51
[81] Rusaan Van Staden vs Dovetail Trading 509 CC t/a Legacy Invest; FAIS 00119/11-12/ FS 1, p 15
[82] Craig Steward Inch v Impact Financial Consultants, FAIS 04971-12/13-MP 1, page 8, par 26

However, despite being afforded ample opportunity to do so, respondent has failed to provide any documentary evidence of any compliance with the FAIS Act and General Code in respect of either of the investments.[83]

Record of advice

In particular, documentation required in terms of sections 8 of the General Code which speaks to the appropriateness of the product in terms of his clients' risk profile and financial needs; a record whereof is required in terms of section 9 is absent.[84]
Third respondent goes on to state that the Second respondent informed the clients that this would be much more volatile, but he firmly believed in this approach. It is apposite to point out that there is not a single record on file of complainants' having been so informed. As such, this would mark a violation of the General Code, (the Code) as complainants would not have made an informed decision about the move.[85]
There is no record of advice in respect of the November 2007 investment which would in any way indicate to the complainants the potential risks or the options to moderate such risks, particularly given their income drawdown.[86]
The record of advice is a four paged document. Upon perusal, it immediately becomes clear that the document lacked vital information such as, complainant's assets and liabilities, income and expenditure and other relevant personal information that would have enabled respondent to better appreciate complainant's capacity and tolerance for risk.[87]
What is further concerning is that nowhere in this document is there any indication that complainant was made aware of the high risk involved in the underlying investments. [88]

Note:

These findings pertaining to the importance of the record of advice speak for themselves.

[83] Stephanus Malcolm van der Merwe, Charl van der Merwe vs Johan Willem van der Walt; FOC 00688/07-08 KZN 1, par 35

[84] Stephanus Malcolm van der Merwe, Charl van der Merwe vs Johan Willem van der Walt; FOC 00688/07-08 KZN 1, par 35

[85] Botha vs R & S Walsh Investment Consultants CC; Case number: FAIS 06019/08- 09/EC1 / 06507/08-09/EC1, par 19

[86] Botha vs R & S Walsh Investment Consultants CC; Case number: FAIS 06019/08- 09/EC1 / 06507/08-09/EC1, par 47

[87] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 38

[88] Renier Lombard vs Pioneer Financial Planning (Pty) Ltd, Case number: FAIS 03366/13-14/ GP 1, par 39

9. RECOMMENDATIONS

What follows is a proposed philosophical framework for discussion. The idea is to guide financial advisers through a sound financial planning and risk profiling process. Historically, advisers completed a 'risk profile' questionnaire and if the client's score categorized him/her as conservative, the client would be invested in a conservative portfolio, which ignored his/her needs and objectives. These risk tolerance questionaries typically ignore the dynamics between risk tolerance and risk capacity. It is proposed that this disconnect be formally challenged by proposing the following framework:

1. ***Required investment return***

   It is only possible to establish the client's required investment return after considering the client's financial position, needs and objectives. The required return pertaining to a specific goal is established by conducting a cashflow analysis and projection with the help of financial planning software to determine whether the client will meet their stated investment needs and/or objectives over a specific timeframe(s). The required return will be expressed by referring to a specific investment term and by using inflation as the reference point to determine an appropriate real return benchmark. In most cases the success of a client's plan is dependent on a CPI inflation plus (1 – 6) projection. It is proposed that the required investment return agreed to between adviser and client should always be point of departure when providing investment advice.

   The Workgroup acknowledges that this advice may be limited by the client's risk capacity and/or risk tolerance, but it is proposed that advisers must always start by providing advice based on clients' needs and objectives. To determine the required return is the point of departure because it is instrumental in quantifying the required risk that the client will have to take to achieve his/her objective(s). This is a financial planning issue and advisers must be guided how to include this component in their process of gathering information and conducting a proper financial needs analysis calculation.

2. ***Risk required***

   Determining the required return clients need to match or outperform inflation, requires a quantification of the level of potential downside risk associated with the required investment return. Investment specialists, like Morningstar, for example, can provide advisers with statistics that will enable them to express the potential downside/drawdown risk associated with their clients' required returns. The risk required to achieve the expected return must be established and quantified in some form or another. Please refer to the Risk/Return table as a potentially sound method of risk disclosure.

3. ***Risk tolerance***

By disclosing the risk that is required to achieve clients' investment return, the client's risk tolerance must be established and agreed between adviser and investor. This must be quantified to avoid uncertainty and confusion. The client's risk tolerance can be established by means of a risk tolerance questionnaire. However, it is important for the questions to be well formulated and relevant. Historically, many so-called risk profile questionnaires contained fundamentally flawed questions that were not relevant to the subject.

4. ***Risk capacity***

To establish clients' ability to absorb a temporary or permanent depreciation in the value of their investments means that advisers must determine whether their clients have sufficient financial resources to provide income and liquidity to absorb/accommodate a drop in the value of their investment portfolios. If any permanent loss of capital in their portfolios would have a materially detrimental effect on the client's standard of living, this must be considered in assessing the risk that the client is able to take. This is a financial planning challenge and advisers needs to be guided on how to include this component in their information gathering process.

A proper needs analysis must be conducted, which include an understanding of clients' circumstances, investment needs, risk profile, and their investment constraints, such as liquidity needs, income/cashflow needs, time horizon, inflation, and taxes.

- ✓ The investment returns a client requires to achieve his/her objectives must be established.
- ✓ The investment return associated with the required investment return(s) must be quantified and agreed.
- ✓ The risk associated with the client's required investment return must be articulated and quantified.
- ✓ Ideally, the client's risk tolerance must match the risk that he needs to take to achieve his financial objectives. However, seasoned advisers will tell you that this is seldom the case, and this is one of the reasons why sound advice is so important.
- ✓ Advisers must further establish whether the client can afford to take the risks required and whether he/she has the financial capacity to take the risks necessary to achieve his/her objectives.

- ✓ If there are discrepancies between the client's required risk and the risk that he is willing to take (quantified), it must be highlighted, and the implications should be clearly explained.

- ✓ Like a good doctor sometimes recommends a painful medical procedure to heal the patient, a good financial adviser should not simply recommend a specific low risk investment just because the client does not want to take any risk. Just as a serious operation may be required to save a patient's life, taking risk may be necessary for a client who needs to achieve his/her financial objectives over the long term.

- ✓ The client ultimately must decide whether he/she is going to take on the risk required to achieve his/her financial objectives or whether he/she prefers not to take on the risks and accepts that he/she will not necessarily be able to achieve his/her objectives.

- ✓ Just like a doctor cannot force a patient into accepting the advice to undergo an operation, an adviser cannot force a client into accepting the risks required to achieve his his/her investment objectives. However, the implications of the patient's and client's decision must be fully explained, so that the patient and client can make an informed decision.

- ✓ Clients must understand that there is always a trade-off between taking the risk to achieve their objectives or not taking the risks and accepting the certainty that they will not achieve their objectives.

- ✓ Like a good doctor will recommend to his/her patient to undergo the operation, regardless of the short-term discomfort (perhaps even pain), a good adviser will recommend to a client to take on the risk of up and down movements to achieve his/her objectives, regardless of the discomfort of market volatility. Should the client accept the risks, it should be recorded as such. Unfortunately, when things do not go according to plan in less favourable markets, clients forget what were discussed and agreed at the time of making the investment. The recording of the agreement will go a long way to refresh even the weakest memory. However, if the client does not accept the potential downside, be sure to record it as well, because to accept risk ultimately remains the client's decision.

Note:

We must consider a consistent standard or guideline to be used to prevent FSPs to be inconsistent or selective with their disclosures in this regard. Using different reporting periods may have a significant impact on the credibility of the disclosures. In the Risk/Return Table below data from 31/10/2007 to 30/06/2021 was used but the figures can potentially differ significantly if other periods are used.

Category	Minimum term	Best return over any 12 months	Worst return over any 12 months	Best return over the minimum investment term per annum (rolling return over time horizon)	Worst return over the minimum investment term per annum (rolling return over time horizon)
Cash	**1m – 12m**	12,01%	4,04%	n/a	n/a
SA–multi asset income	**2 years**	11,41%	4,31%	9,94%	5,88%
SA-multi-asset low equity **(Inflation +2% p.a.)**	**3 years**	17,26%	-3,10%	11,75%	2,71%
SA-multi-asset medium equity **(Inflation +4% p.a.)**	**5 years**	24,18%	-12,91%	13,98%	1,98%
SA-multi-asset high equity **(Inflation +6% p.a.)**	**7 years**	30,65%	-14,75%	12,55%	4,42%
SA Equity	**10 years**	48,54%	-32,20%	12,19%	5,09%
International equity (ZAR)	**10 years**	52,17%	-34,54%	16,95%	7,45%

Data source: Morningstar (31/10/2007 to 30/06/2021)

10. CONCLUSION

From the robust discussions between the members of the Workgroup we concluded the following:

1. The concept of 'risk' is fundamental to investment planning and advice and the importance of risk profiling when doing financial planning cannot be overstated. It is also a regulatory requirement.

2. The concept of 'risk profile' is also fundamental to investment planning and advice. In addition, it is a regulatory requirement to determine the client's risk profile before rendering a financial service and to select a financial product that is suitable in accordance with the client's risk profile and needs.

3. Incorporating a definition of 'risk' or 'risk profile' into legislation must be avoided because they are broad concepts, and these terms mean different things to advisers who render investment advice opposed to advice that relate to long-term insurance, non-life insurance, and health care insurance for example.

4. The perceptions of 'risk' can be very broad and the definition of risk from a client's and investment planning perspective as recorded in this paper can go a long way to simplify the key elements of the concept for advisers and investors alike. From a regulatory perspective it is important for advisers to understand, and disclose, risk appropriately.

5. There is always a trade-off between risk and return and it is important to quantify this risk/return trade-off and to present investment proposals in the context of the fundamentals as referred to in this paper, aimed at enabling investors to make more informed investment decisions.

6. Using traditional terminology such as conservative, moderate, and aggressive to define investors' risk profiles is outdated and only refers only one of the components of an investor's risk profile, namely 'risk tolerance'. In addition, these terms are abstract and open for subjective interpretation. These outdated models of risk profiling and their inherent flaws lead to inconsistency, non-compliance with regulatory requirements and appropriate advice.

7. Traditional terminology such as conservative, moderate, and aggressive, without clarifying and quantifying what it means from a financial risk (chance of loss) point of view must be replaced by a definition that is clear, objective and includes all the key elements that constitute a client's risk profile.

8. In its most basic form, clients' risk tolerance must be quantified.

9. The outcome of traditional risk profiling questionnaires imply that clients have one generic risk profile. This is evident from the FAIS Ombud's determinations. In reality clients can have more than one risk profile depending on their specific investment need(s) and the applicable investment term(s).

10. Investors generally have the choice between the following risk/return options:

    10.1 Achieving their selected investment objective over the recommended investment term and holding period is more important to them than volatility (up and down movements) and the potential reduction in value of their investment portfolio over the short-term. As a result, they need to agree that they are willing to accept the best/worst-case scenario of the option selected in the table above to achieve their stated required return;

    10.2 It is more important to investors not to have up and down movements and a potential decline in the value of their investment portfolio over the short-term than achieving a return required to achieve their objective. As a result, they instruct that their money must be invested in accordance with their risk tolerance and therefore they need to accept that they will not necessarily be able achieve their stated investment objective(s); or

    10.3 They select a combination of the aforementioned options (a trade-off) and accept the best/worst case scenario of the option selected in the Risk/Return Table above. In making this decision clients must accept that they still might not achieve their stated investment objective(s).

11. The key aspects of risk from a client's perspective are:

    11.1 The risk of losing capital in nominal terms.

    11.2 The risk of losing capital in real terms over the investment term.

    11.3 The risk of not achieving the client's income or investment objective(s).

12. The concept of 'risk profile' can be very broad and to avoid confusion, industry stakeholders must clearly distinguish between a client's 'risk profile' and its underlying components, namely:

    12.1 Risk required;

    12.2 Risk tolerance; and

    12.3 Risk capacity.

13. The amendments to the FAIS Code of conduct in 2020 imply the adoption of these underlying components as part of the risk profile of clients.[89]

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[89] See section 8(1)(a) of the FAIS General Code of Conduct

11. APPENDIX

TREATING CLIENTS FAIRLY (TCF)

As highlighted above, the suitability of advice is a key component of desired TCF outcomes as referred to below. For ease of reference, the six outcomes are summarised below.

Outcome 1:

Clients are confident that they are dealing with firms where the fair treatment of clients is central to the firm culture.

Outcome 2:

Products and services marketed and sold in the retail market are designed to meet the needs of identified client groups and are targeted accordingly.

Outcome 3:

Clients are given clear information and are kept appropriately informed before, during and after the time of contracting.

Outcome 4:

Where clients receive advice, the advice is suitable and takes account of their circumstances.

Outcome 5:

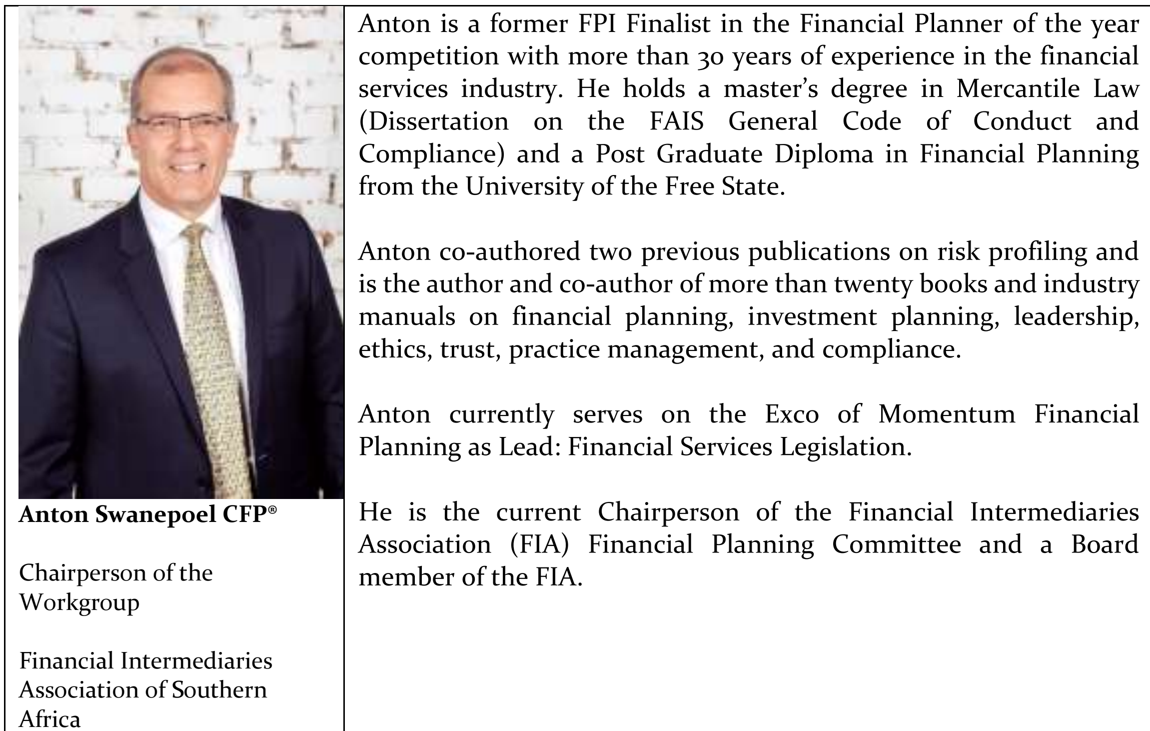
Clients are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect.

Outcome 6:

Clients do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

All these TCF outcomes have been incorporated in the COFI Bill and financial advisers can count on it that the suitability of advice will remain of fundamental importance in their advice process. From a regulatory perspective, all eyes are on advisers when it comes to advisory services to ensure that their advice to clients is suitable.

12. PROFILES OF WORKGROUP MEMBERS



Anton Swanepoel CFP®

Chairperson of the Workgroup

Financial Intermediaries Association of Southern Africa

Anton is a former FPI Finalist in the Financial Planner of the year competition with more than 30 years of experience in the financial services industry. He holds a master's degree in Mercantile Law (Dissertation on the FAIS General Code of Conduct and Compliance) and a Post Graduate Diploma in Financial Planning from the University of the Free State.

Anton co-authored two previous publications on risk profiling and is the author and co-author of more than twenty books and industry manuals on financial planning, investment planning, leadership, ethics, trust, practice management, and compliance.

Anton currently serves on the Exco of Momentum Financial Planning as Lead: Financial Services Legislation.

He is the current Chairperson of the Financial Intermediaries Association (FIA) Financial Planning Committee and a Board member of the FIA.

Lelane Bezuidenhout CFP®

Financial Planning Institute of Southern Africa

Lelane has been in the financial services industry since 1999. She started as a clerk in a back office of a large insurer in the "disbursements" team. Over the years she has studied, as a working mom, to become a CERTIFIED FINANCIAL PLANNER®. She is extremely thankful to those who assisted her and mentored her over the years. Her strengths are positivity, developer, connectedness, leader, and relator which explains her passion for people and fixing broken processes and connecting the dots that are not always seen by all.

After 11 years she left the large insurer to join the office of the Ombudsman for Financial Services where her learning journey continued. As a case manager she investigated mostly property syndication cases and prepared matters for determination in close consultation with the members of the then adjudication team. In dealing with some of the matters it became clear that there is a lot more that the industry can do to ensure that we have competent financial advisers serving the public at large. This is where her journey at FPI began.

Lelane is the current CEO of the FPI where she hopes to continue to make a difference in the lives of all as best she can in serving the FPI's vision "Professional financial planning and advice for all". We have a great profession that is yet to achieve its fullest potential!

 Solani Baloyi CFP® Financial Intermediaries Association of Southern Africa	Solani Baloyi, is a CERTIFIED FINANCIAL PLANNER® practitioner by profession, She is currently the Rand regional manager at the Financial Intermediaries Association of Southern Africa (FIA) and holds the globally recognised CFP® designation. Solani has extensive experience as a professional financial planner, which she attained while working for large financial services providers, such as Alexander Forbes, Liberty and ABSA. She is well-versed in Market conduct issues through the experience gained while working for a professional body and the FIA. Solani holds a BCom (Hon) Economics, Postgraduate Diploma in Financial Planning and is currently completing her MCom in Investment Management. She believes personal financial planning is an important tool for personal mastery and economic freedom. In her current role Solani was responsible for the development of the Consumer education framework and successful implementation of the project. She volunteers for pro-bono consumer education work in her spare time.

 David Kop CFP® Financial Planning Institute of Southern Africa	Like many in South Africa David got into financial planning by accident. Twenty-two years ago, while on the path to becoming a Chartered Accountant, he applied for what he thought was an accounting job but was actually a service clerk at an insurer. This began a 20 year plus love affair with financial services. David then switched his study pathway to pursue the respected CFP® designation. During his career David fulfilled many roles including telephone sales, personal assistant, administration manager, tied financial adviser, para planner and lecturer, as well as owning his own financial planning practice David is a CFP® professional and Certified Financial Educator Instructor. In his current role as Director for Relevance at the FPI enjoys engaging with members and representing member and consumer interests at the regulators and policy makers. David's goal is to ensure that financial planning can be viewed as a profession alongside the traditionally recognised professions.

Wouter Fourie CFP® Ascor Independent Wealth Managers	Wouter Fourie, CFP® is the CEO of Ascor® Independent Wealth Managers, one of the first multidisciplinary practices in South Africa. Wouter is an Advanced Post Graduate Qualified Financial Planner (Investments and Estate planning) with more than 24 years' experience in the field of comprehensive financial planning and Wealth Management. He is also a qualified Professional Accountant (SA) with postgraduate qualifications in advanced taxation. Wouter Fourie, CFP®, won the 2015/2016 FPI Financial Planner of the Year award sponsored by Personal Finance, which honours the most proficient professional financial planner in the profession. He was named on the IA100 list (2018 and again in 2019) by the International Adviser magazine as one of the 100 most influential individuals in the Financial Planning industry, globally. Wouter is actively involved in financial literacy education and served on the FPI Board of Directors and as Chairman of the FPI Centre for Professional Development until 2018. In 2018 Wouter co-authoring the best seller "The Ultimate guide to Retirement in South Africa", with Bruce Cameron (and updated in 2019) and "Secure your retirement" (2020).

Johan Gouws Sasfin Wealth	Johan is the Head of Advice at Sasfin Wealth and is responsible for all Category 1 advice activities, which includes Personal wealth advice, Fiduciary services, Asset Consulting and Healthcare. He has 26 years financial services industry experience and has a B.Com (Hons) Investment Management (RAU) degree, an MBA (Wits Business School) degree and a Post Graduate Diploma in Financial Planning (University of the Free State). Johan also attended Harvard Business School, Insead and Duke University for executive development purposes. Johan established Absa Multi Management which received two Raging Bull Awards and was then appointed as Head of Absa Asset Consulting which provided investment advice to retirement funds on assets of R70 billion. Johan then joined Sasfin Wealth in September 2017 as Head of Advice. He regularly features in the press and on television and radio where he comments on economic, investment and retirement industry developments.

  Natasja Hart CFP® GCI Wealth	For over two decades, Natasja Hart has been driving financial wellness for her clients, through developing and growing a leading mindset in the financial planning sector. With the knowledge built through a Bachelor of Commerce from the University of Pretoria she later continued her studies and attained her Post Graduate Diploma in Financial Planning from the University of the Free State. Natasja then specialised further by obtaining a double Advanced Diploma Financial Planning. It's her deep entrenched knowledge of the industry that has placed Natasja at the forefront of her field. In 2010, Natasja was only the second woman to receive the prestigious Financial Planner of the Year award from the Financial Planning Institute, she was also asked to act as one of the judges for this annual award again proving her commitment and drive to the sector. She served on the Institute's board and chaired its audit committee and volunteered on various sub-committees to ensure those who follow in her tracks live up to the high standards set before them. From working with organisations like Citadel, Consolidated Financial Planning and Sasfin, Natasja found her home in GCI Wealth in April 2016.

 Peter Hewett CFP® Hewett Wealth	Peter has operated in the financial services industry for 30 years within trust and fiduciary services, lending, financial planning and advisory, portfolio management and senior executive and board roles within various corporates. Peter holds a B. Econ, a CAIB(SA) and a CFP™ and he is also a winner of the FPI Financial Planner of the Year Award. In 2016, Peter established Hewett Wealth and Independent Investment Solutions, as a totally independent financial services businesses, which currently have branches in Johannesburg, Pretoria, and Cape Town. The businesses have grown significantly and currently advise on and manage assets in excess of R2 Billion Rand. He has also recently launched AdviceTech, an advisory technology platform designed to support advisory, financial needs analysis and compliance processes.

 Janet Hugo CFP® Sterling Wealth	Janet Hugo – CFP® professional and 2018/19 recipient of the coveted Financial Planner of the Year award bestowed by the South African Financial Planning Institute (FPI) in recognition of excellence in professional standards & practice, industry contribution and service to the broader community. Janet currently serves as a director of Sterling Private Clients. Her wealth management practice provides investment and financial planning advice and implementation services on a bespoke basis to clients in Johannesburg and the Cape. Janet holds a Post graduate diploma in financial planning as well as advanced post graduate diplomas with a focus on investment management and estate planning from University of Free State. She is a prominent and active member of the financial planning sector as official, consultant, media contributor and conference speaker

 Paul Nixon Momentum	Paul heads up behavioural finance for Momentum Investments. He established an applied behavioural finance capability for the business after experiencing both client and adviser investment behaviour for nearly 20 years with various South African insurers and Barclays Bank. He recently completed a masterclass in behavioural science at the renowned iNudgeYou Institute in Denmark. Paul holds an MBA (with distinction) from Edinburgh Business School and is currently completing a Master's degree where he is researching risk behaviour at Stellenbosch University. Paul is a contributing author on neuroeconomics to the "Theories and Practices in Financial Therapy" textbook and is a registered member of the Swiss-based Global Association of Applied Behavioural Scientists (GAABS) where he co-leads the Middle East and Africa region.

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<td>

Henco van Schalkwyk CFP®

University of Pretoria</td>
<td>Henco is an Associate Professor in Investment Management at the University of Pretoria. He is a CFA charter holder and a non-practicing CFP® professional. Henco holds a BCom Honours in Investment Management and a Master's degree in Economics from the Rand Afrikaans University as well as a PhD in Finance from the University of Johannesburg with a thesis titled 'Member choice in a defined contribution pension plan: decision-making factors'. He also completed a Post Graduate Diploma in Financial Planning at the University of the Free State. Henco has 28 years lecturing and extensive consulting experience, mostly in the areas of finance and investment management.

His research focuses on consumer financial decision-making, risk profiling, behavioural finance, and retirement finance. Henco is a trustee of the University of Pretoria retirement funds as well as the ATKV's death fund. He is also a member of the investment committee of the UP Council and the investment committee of the UP retirement funds.</td>
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Jacomien Visagie

University of Pretoria</td>
<td>Jacomien is a CA(SA) and holds a Master's Degree in Financial Management. She is a senior lecturer in Investment Management at the University of Pretoria and her research areas include retirement finance, financial risk profiling behavioural finance as well as consumer finance.</td>
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