

Conflict of Interest Management Policy 2019

The purpose of the "Conflict of Interest Management Policy" is to identify any potential conflicts and disclose how the conflicts will be mitigated if not avoidable.

Adoption of policy by the Board of Directors

The policy was adopted by the Board as per board minutes dated 10th October 2012.

Updated and accepted by the Board on 23 January 2019.

Background

The Financial Services Tribunal (**FSCA**) published amendments to the General Code of Conduct for Authorised Financial Services Providers (**FSP**) in Board Notice 58 of 2010 (Government Gazette 33133 19th April 2010).

These amendments introduced the following:

1. Principle based regulations to ensure better management of conflict of interest.
2. Prohibition of certain financial interests in addition to management responsibility to manage conflict of interests, which, according to the FSCA, were necessitated by the inherent culture of non-compliance.
3. Non-interference with employee-employer relationships.
4. Guidelines to ensure conflict of interest management.

The objective of this document is to:

1. Comply with the legislation;
2. Disclose any conflict of interest and how it is managed; and
3. Disclose the process of conflict of interest management

What Is A Conflict of Interest?

Any situation in which an FSP or a representative has an **actual or potential interest** that **may**, in rendering a financial service to a client;

- (a) influence the **objective performance** of obligations to client and/or
- (b) prevent the FSP or representative from rendering an **unbiased and fair** financial service to client or acting in the interest of that client

Including, but not limited to:

- (i) a **financial** interest
- (ii) an **ownership** interests
- (iii) any **relationship** with a third party

Objective - based on facts rather than thoughts or opinions - free of any bias or prejudice caused by personal feelings

Justice is (or should be) meted out objectively, without fear or favour, regardless of identity, money, power, or weakness

Summary of Requirements

Avoid or mitigate any conflict of interest and **Disclose** any conflict of interest including:

Measures taken to avoid or mitigate

1. Any ownership or financial **interest**;
2. Nature of any relationship with a **third party**;
3. **Limitation** on what **financial interest** may be received;
4. **Limitation** on basis of **representative remuneration**.

Adopt, maintain and implement a **Conflict of Interest Management Policy**

Avoid or mitigate

An FSP and representative **must avoid and where not possible mitigate** any conflict of interest between client and representative or FSP.

Disclose

Disclose to client in **writing** any conflict of interest in respect of that client including:

1. **Measures taken** to avoid or mitigate the conflict;
2. Any **ownership interest** or **financial interest** other than an immaterial one;
3. Necessary details of any **relationship with a third party** that gives rise to a conflict of interest in enough detail so that the client can understand the nature of the relationship.

Inform a client of the **Conflict of Interest Management Policy** and how it may be **accessed**

Positive duties imposed on the FSP and cannot be ignored or outsourced to another party.

The FSP must avoid conflict of interest and only if that is impossible then mitigate the conflict.

As it is a positive duty the FSP needs to explain why the conflict cannot be avoided.

Mitigate means "To make milder or more tolerable; reduce in amount or degree, as something objectionable, reprehensible, distressing, harmful, etc.; moderate; alleviate; assuage"

The FSP **must disclose the measures taken to avoid the conflict**. It is not adequate to state that the conflict cannot be avoided and then to try and mitigate - there must firstly be reasonable measures taken to avoid the conflict. Thus, if the FSP receives "illegal" financial interest it must be avoided by simply cancelling the arrangement. There is no impediment to avoidance.

Limitation on What Financial Interests May Be Received

An FSP or its representative may **only receive or offer** the following financial interest from or to a third party as per Section 3 A of the *Financial Advisory and Intermediary Services Act, 2002 (FAIS Act)*

1. **Commission** authorised under the *Long-term Insurance Act, 1998 (LTA)* or *Short-Term Insurance Act, 1998 (STA)*;
2. **Commission authorised** under the *Medical Schemes Act, 1998 (MSA)*;
3. **Fees** authorised under the LTA, STA or MSA if reasonable commensurate to the service being rendered;
4. Fees for rendering service i.r.o. which commission or fees is not payable if those fees
 - 4.1. Are **specifically agreed to** by client in writing;
 - 4.2. **may be stopped** at discretion of client;
5. Fees or remuneration for the **rendering of a service to third party** but reasonable
 - 5.1. **commensurate** to the service rendered;
6. Subject to **any other law** an **immaterial** financial interest and
7. Financial interest not referred to under (i) to (vi) for which the **FSP or representative pay** a consideration, **fair value** or remuneration at time of receipt such as receiving training for which the FSP pays.

Restriction on What Is Commensurate with Services Rendered

Any service rendered to a third party must be commensurate to the service rendered. This ties up with the binder agreements where the remuneration cannot include profit sharing or sliding scales based on performance but a **stipulated Rand value** plus a reasonable rate of return.

Only underwriting managers may receive profit sharing as they are removed from the client and thus not subject to a conflict of interest.

Restrictions on The Remuneration Basis of Representative

An FSP may not offer any financial interest to a representative of that FSP for:

1. Giving **preference** to the **quantity** of business secured for the FSP to the exclusion of **quality** of service rendered to clients;
2. Giving **preference to a specific product supplier** where a representative may recommend more than one product supplier;
3. Giving **preference to a specific product** of a supplier where more than one product of that supplier may be recommended.

Representatives May Not Be Rewarded Based on Quantity Only

The FSP must decide on the **criteria for rewarding** its representatives. The only way in which quality can be judged will be based on **diligent supervision** of the representatives as required by Board Notice 106 of 2008 Part VII Operational Ability Section 8 (8) regarding the giving of advice and intermediary services. Proof is needed.

The method of remunerating representatives **must be disclosed** in the Conflict of Interest Management Policy.

A product supplier may offer his representatives incentives other than the limited legislated rewards.
Only the quality versus quantity criteria applies

Adopt, maintain and Implement A Conflict of Interest Management Policy

Every FSP other than a representative must adopt, maintain and implement a conflict of interest management policy that complies with the provisions of the FAIS Act

An FSP must publish an up to date Conflict of Interest Management Policy

Summary of Conflict of Interest Management Policy Contents

A conflict of interest management policy must:

1. Provide for the management of conflict of interest (Col);
2. Mechanisms identification Col:
 - 2.1. measures for the avoidance of Col and
 - 2.2. where avoidance is not possible the reasons
 - 2.3. measures for mitigation of Col
3. Measures for the disclosure of Col:
 - 3.1. processes, procedures and internal controls **to facilitate** compliance with the policy
 - 3.2. consequences of non-compliance by the FSP's employees and representatives
 - 3.3. Specify the type of a basis on which a representative will qualify for a financial interest that the FSP will offer and motivate how that financial interest complies with section 3A(l)(b)
 - 3.4. Include a list of all associates;
 - 3.5. Include the names of all third parties in which the FSP holds an ownership interest;
 - 3.6. Include the names of any third parties that hold an ownership interest in the FSP;
 - 3.7. Include the nature and extent of the ownership interest.

The Policy must be **adopted by** the sole proprietor of an FSP, **the board of directors** or the governing body of the FSP.

Provider must ensure that its **employees, representatives and associates** are aware of the contents of the policy and provide for **appropriate training and educational material**.

Provider must **continuously monitor** compliance with its conflict of interest management policy and **annually conduct a review** of the policy.

Provider must publish its policy in appropriate media and ensure that is easily accessible for public inspection at all reasonable times.

An FSP or a representative **may not avoid, limit or circumvent compliance** with this section through an associate or an arrangement involving an associate.

The conflict of management interest policy must be drafted in an easily comprehensible form and manner.

Mechanisms for Identification of Conflict of Interest

a. Process followed to identify third parties and classify them

Definition: Third Party means any

- **Product supplier**
- **Another FSP**
- **Associate** of a product supplier or FSP
- **Distribution** channel
- **Any person** who in terms of an agreement or arrangement with anyone referred to in (a) to (d) **provides a financial interest** to an FSP or its representatives

Identifying Sources of Financial Interest

1. The account ledgers and bank statements for six months are scrutinised to identify every source of income and the sources thereof is pre-pared.
2. The list is then reconciled with the product supplier list (inclusive list of all FSPs we deal with) as attached (**Annexure A**) to ensure that we are aware of the source and that the source has been verified as required by Section 7 {3} of the FAIS Act and Section 4 of the General Code of Conduct.
3. Our accounting department will monthly supply a list of income sources and this must be verified by the appointed Key Individual (**KI**) with the list of third parties.
4. The KI must ensure that a document exists to verify the amount and nature of the individual income sources.

A clear audit trail exists from the amount received as per ledger/bank statement right down to policy level reflecting premium and financial interest payable to the FSP

Description of financial interest (income) received is indicated on each individual template being:

- (a) Administration fees paid by third party
- (b) Fees agreed and paid by client
- (c) Profit share
- (d) Other incentives

Relationships with Third Parties

Any potential conflict of interest has been identified by scrutinising the following:

1. Any staff also working for a third party or having any other relationship with a third party
2. Any staff/ director holding shares in a third party

Ownership Interest Identification Held by the FSP And Not Any of The Shareholders in the FSP

1. The balance sheet of the FSP has been analysed to identify any potential holdings in third parties.
2. All staff and directors had to disclose any relationship with any third party not limited to ownership interest and associates but including any personal relationship.

Avoidance of any financial interest that do not comply with Section 3A of The FAIS Act

1. The FSP will cancel any arrangement where a financial interest is received that do not comply with section 3A.
2. The process set out under **Mechanisms for identification of conflicts of interest** did not reveal any financial interest that does not comply with Section 3A of the FAIS Act.
3. **Mitigation** of financial interest that comply with Section 3A of the FAIS Act.

Mitigation will consist of (on binder facilities)

- a) Rate comparison in line with the FSP philosophy of "market related " rates and not the cheapest available as other factors are more important such as claims service, subject to client 's instructions and objectives
- b) Comparison of policy cover and wordings

- c) Suitability analysis as per **Annexure B**
- d) Comparison of insurer and underwriting manager service levels
- e) Full disclosure to client

Disclosure of Conflicts of Interest

Any potential conflict of interest is disclosed at **the first reasonable opportunity** which is usually when a quotation is presented to the client and recommendation of a product supplier is made.

This is obtained from the template for product suppliers or their agents/underwriting managers where full details of the financial interest are reflected. The client is supplied with a copy of this together with the quotation. Reference to the Conflict of Interest Management Policy is also contained in the "Information on FSP" form supplied to the client. See **Annexure C**

Facilitation of Compliance with Policy

Facilitation is achieved as follows and the procedures form part of the conflict of interest management roadmap

1. All staff are trained as to what constitutes a conflict of interest and the consequences of breaching the policy. This training takes place annually.
2. An initial declaration is obtained from all staff and directors that they are not aware of any conflict of interest about ownership interest, relationship or financial interest. This declaration also take place annually.
3. Facilitation is then done through the following processes
 - a) Declarations by all staff, representatives and KIs that:
 - (i) No financial or ownership interest has been received other than those sanctioned by Section 3A of the FAIS Act and all are declared
 - (ii) No relationship exists with a third party
 - (iii) All immaterial interests received in excess of R1000 has been declared and entered in the gift register. Interest could but not limited to lunches, gifts, discounted services, free services.
 - (iv) The KI needs to review and sign off
 - b) All new agency agreements must be authorised by a KI and entered in the register of third parties as per the "product supplier " template
 - c) The KI must sign off that any financial interest on the new agreement complies with Section 3A of the FAIS Act
 - d) The accountant must prepare a summary of all sources of funds, which must be signed off by a KI that the sources are all reflected in the product supplier register and the nature of the financial interest has been identified and can be verified via a bordereau or commission statement
 - e) All clients are advised of the existence of any potential conflict of interest at the earliest reasonable opportunity being with the initial quotation.
 - f) Quarterly review of policy covers to ensure suitability and market relatedness.
 - g) Representative remuneration and incentives are controlled as described under "remuneration model for representatives".

Consequences of Non-Compliance by Employees

In line with the FSP's own Code of Conduct any non-compliance will constitute a first written warning after a disciplinary hearing.

A second non-compliance will be a serious offence and can lead to the offender's employment being terminated.

Remuneration Model for Representatives

Method of remuneration

1. Representatives will receive a basic salary as the principal part of their remuneration.
2. Any additional incentives for new business acquisition will be based on quality, quantity and retention.
3. Compliance with the requirements of FAIS forms an important part of their key performance indicators, and performance reviews.

How quality is measured

Quality will be measured by determining whether the representative complied with the General Code of Conduct -

1. Disclosure in terms of Section 4, 5 and 7
2. The process of advice and suitability being -
 - a. Introduction (General Code of Conduct Section 5 disclosure)
 - b. Gathering of Information
 - c. Initial service agreement
 - d. Analysis of information
 - e. Selection of suitable financial products
 - f. Recommendation and motivation
 - g. Disclosure of Conflict of Interest (product supplier template **Annexure D**)
3. A monthly income statement reflecting payments made must be provided, any variances thereto for all representatives must be explained
4. Any incentive payment must be motivated, and quality highlighted from the files checked by the KI authorizing payment of the incentive.
5. Head of finance will check the remuneration payable to representatives to ensure that the procedures have been complied with.

Avoidance of preferential treatment of suppliers and/or specific products

The procedure above will equally apply to this section specifically where a binder in whatever format exists

Monthly Monitoring of Remuneration and Supervision of Transactions Leading to Additional Incentives

1. Finance must supply monthly report of the payments made to representatives, and any variance must be explained
2. Head of finance will check the remuneration payable to representatives to ensure that the procedures have been complied with and that files substantiating quality has been signed off.

List of Any "Associates"

Definition: As contained in the attached Board notice 58 of 2010 and the Binder Regulations in terms of the STA. Associate is defined for two entities being "natural" or "juristic" person.

If it is a natural person, it means:

- Spouse, life partner, child, adopted child, parent, stepparent, stepchild or spouse of any of the aforementioned.
- Curator of the natural person.
- Anybody in a commercial relationship with the person.

If it is a juristic person, it means:

- If a company it includes its holding company and subsidiaries.
- If a close corporation – any member thereof.
- Any person that may direct a company's board of directors.
- Any trust controlled by an associated person

FSP is a company (as defined) and thus the following details are provided

The FSP is part of a group of Insurance broking companies with a financial interest held by Econorisk Holdings (Pty) Ltd

- Econorisk (Pty) Ltd
- Econorisk Broker Consultants (Pty) Ltd
- Econorisk Corporate Solutions (Pty) Ltd
- Xonrisk (Pty) Ltd (Awaiting FSCA registration)

The shareholders in CIB (Pty) Ltd, which is a binder holder for Guardrisk Insurance, have an indirect financial interest in Econorisk. The board and management of CIB and Econorisk are independent from one another.

Third Party Listing and Type of Interest

All product suppliers are available in the business system and linked to the products that they supply; financial reporting is done on all identifying the premium payable and income generated from each supplier.

Accessibility of "Conflict of Interest Management Policy" and method of publication

The policy is accessible in electronic format and can be obtained by contacting our offices.

Attachments

Annexure A - Advice process

Annexure B - Information on FSP

Annexure C - Major product supplier details

Annexure D - Implementation of Conflict of interest management policy (Col)

Annexure E - Group structure/organogram

Annexure A - Advice Process

Required	Process
Gather Information	Take reasonable steps to gather information from the client regarding the following: <ul style="list-style-type: none"> • Client's financial situation • Client's financial product experience • Client's financial objectives Section 8(1) (a) of General Code of Conduct
Suitability Analysis	<ul style="list-style-type: none"> • Conduct an analysis, for the purpose of advice, based on the information obtained • Where the FSP is unable in specific circumstances to do a suitability analysis, the FSP must inform the client that no analysis was done and disclose to the client that there may be limitations to the appropriateness of the advice
Identify Financial Product	<ul style="list-style-type: none"> • Identify the products suitable to meet the client's risk profile and financial needs • Establish whether the financial product identified <u>would replace</u> an existing product • The financial products for which the FSP may render advice are limited to the restriction on its license as well as any contractual arrangements with product suppliers
Disclosure about the Financial Service	<ul style="list-style-type: none"> • Disclose all relevant information to the client • Where the financial product will replace another product, the actual and potential financial implications and consequences of such replacement must be disclosed • Ensure that the client understands the advice and is in a position to make an informed decision
Record of Advice	<ul style="list-style-type: none"> • Evidence must be provided by the client and kept on record by FSP if a transaction or contract in respect of a financial product is concluded by the client as a result of advice given • The client must be provided with a copy of the record of advice • The record of advice must contain: <ul style="list-style-type: none"> A brief summary of information and material on which the advice is based The financial products that were considered, and The financial products recommended, and An explanation of the reasons for recommending the product, and Why it is likely to meet the client's requirements needs and objectives

Annexure B Information on FSP

Information on Financial Service Provider (FSP)	
Full Business and trade names	Econorisk (Pty) Ltd (and other FSPs as per Organogram at Annexure F)
Registration Number VAT Number	2001/006290/07 4490193267
FSP Number	13231
Postal Address	PO Box 3428, Rivonia, 2128
Physical Address	356 Rivonia Boulevard, Rivonia, 2191
Telephone	+27 (0) 11 045 8555
Directors	AL Lilley AndrewL@econorisk.co.za MJ van den Heuvel MatthewV@econorisk.co.za
Legal and contractual status	Econorisk is registered FSP and contracted as an intermediary to various Insurers The suppliers accept no responsibility for the actions of Econorisk. Insurer details are always evidenced on all client policy quotes and contract
Compliance Department	Associated Compliance Pty Ltd Lakeview House, Constantia Park, C/o 14 th Avenue & Hendrik Potgieter, Weltevreden Park, Roodepoort, 1715 +27(0) 11 678 2533
Financial services	Econorisk Group is authorised under license 13231/38267 & 39796 to provide advice and render an intermediary service in the following categories: Category 1 - 1.2. Short term Insurance: Personal Lines 1.6. Short term insurance: Commercial Lines Certain general restrictions apply to Category 1 Service Providers (copy available)
Insurance	Econorisk holds Professional Indemnity Insurance, Fidelity Guarantee, Computer Crime, Directors & Officers, Cyber Crime and Employers Liability Insurance, and IGF Guarantee
Supervision	Reference is made to any person/s that might be rendering services under supervision
Exemptions	None
Complaints	Econorisk is committed to service excellence and values the relationship with clients. In terms of the FAIS Act a complaint may be lodged, we are committed to an effective and fair resolution of any complaints. Complaints can be directed to compliance@econorisk.co.za
Client responsibilities	The client must supply all information (this does not mean that you only need to answer the questions) that may affect the insurer's decision or the terms under which they agree to provide insurance. Any non-disclosure, misrepresentation of material information will prejudice the client as insurers may reject submitted claims or avoid the policy. You are the best judge of your own situation.

Premium Obligations	<p>The premium you must pay as well as the frequency and method of payment is reflected on the initial quotation and thereafter on the policy schedule.</p> <p>Insurers make allowance for a 15 days grace period for you to pay the premium, this however does not apply in the first month of inception of the policy.</p> <p>Non- payment of premium on the due date, subject to the 15-day period of grace, will lead to cancellation of your policy.</p> <p>If the premium is payable by debit order and the Insurer has made allowance for a second consecutive monthly premium, and it is not paid; the policy will be cancelled backdated to the first returned payment.</p> <p>This is an automatic process (contractual consequence) and cannot be stopped.</p> <p>It is the responsibility of the client to ensure payment of premiums on time.</p>
Excess	<p>The quotation/ policy schedule reflects the excess payable by you in the event of a claim.</p> <p>The client needs to ensure that the excess payable is affordable</p>
Commission and fees	<p>Broker Commission (included in the Risk Premium) is received at the legislated rate of 12.5% for Motor and</p> <p>Between 15% - 20% for Non-Motor classes and</p> <p>10% on SASRIA premium,</p> <p>A Binder Fee is received for administrative services performed by the Broker on behalf of the Insurer. These binder fees are regulated under the STA.</p> <p>Broker Fees are as agreed with the policyholder, fees are reflected on the quotation and thereafter on the policy schedule.</p>
Confidentiality	<p>Information provided by the client will be stored on databases and shared with other parties in the insurance industry in order to gather industry statistics, improve the quality of risk assessment and combat fraudulent claims.</p> <p>It is important to understand that this information will remain at the disposal of these parties, even after the policy is no longer in force.</p>
Conflict of interest	<p>We manage our business to avoid potential conflict of interest situations in order to ensure the client is always our priority. Our conflict of interest management policy is available on request in electronic format.</p> <p>We do not receive any financial interest other than commission and fees authorised under the STA thus avoiding any conflict of interest.</p>
Personal Interest	<p>Econorisk is not a shareholder in any product supplier and does not receive any non-cash incentives or any financial interest from any product supplier other than Commissions at legislated rates and contracted Binder Fees in terms of FSCA guidelines.</p> <p>Econorisk does not earn more than 30% of total remuneration from any Insurer.</p>

Annexure C

Major product suppliers' details

Econorisk has certain mandates with the following major South African product suppliers:

- Bryte Insurance Company Limited
- CIB (Pty) Ltd underwritten by Guardrisk Insurance Company Limited
- Hollard Insurance Company Limited
- Santam Limited

Econorisk is required to disclose relationships with product suppliers, which may cause conflicts of interest, which are detailed below, and which are managed to ensure the client is our priority at all times.

Econorisk does earn more than 30% of its commission income from any product supplier

Econorisk does not hold any shares in a product supplier.

Econorisk does all the administration work, such as the issuing of policies and handling of your claims, on behalf of the product suppliers. We get paid service fees, which includes a reasonable rate of return to reward us for our investment in supplying this service. The Rand amount of these commission and/or fees is disclosed on quotes and/or policy schedules.

Commission is included in the Risk Premium received at legislated rates of 12.5% on motor classes, between 15% - 20% on non-motor classes and 10% on SASRIA premiums.

Binder & Outsource Fees are included in the Risk Premium received at statutory rates agreed with the insurers of gross premium including VAT for administration services performed for the major product suppliers.

Econorisk has no allowances for return or profit-sharing arrangements.

Annexure D**Implementation of Conflict of Interest Management Policy (Col)**

1. Declaration from all staff members that -
 - a) They are aware of the contents of the Col;
 - b) Have received training on the contents;
 - c) They are not aware of any potential conflict of interest arising from -
 - i. a financial interest,
 - ii. immaterial financial interest or
 - iii. relationship with a third party
2. Annual confirmation of above.
3. Gift register.
 - a) Declaration of any gifts by all staff in excess of FSP's limit
4. Listing of all sources of income by the accountant from ledgers and/ or bank accounts.
5. Confirmation that an audit trail exists for every source of income such as bordereaux, debit order runs etc.
6. Comparing the list of sources with the list of product suppliers register and ensuring that a template has been completed for every source.
7. Updating the product supplier templates to ensure that details of the financial interest and potential conflict of interest is reflected on the template.
8. Monthly confirmation of:
 - a) Sources of income;
 - b) Reconciliation with supplier's register;
 - c) Signing off by KI;
 - d) All new agreements to be signed off by KI and/or technical committee.
9. Reviewing the management policy annually and review accepted by board.
10. Addendum to Letters of Appointment to provide for compliance with the Col (although already it contains a reference to compliance with the FAIS Act and sub ordinate measures).
11. Update own internal code of conduct to cater for non-compliance with the Col.
12. Publication of the Col and access thereto. Include a reference thereto on your website.
13. Advising all clients about the Col and how it may be accessed.
14. Disclosing any potential conflict of interest by supplying the client with:
 - a) A copy " product suppliers' template" for the relevant insurer at renewal or quotation stage
 - b) Ensuring that the " Information on FSP" is supplied to all new clients and at renewals

Annexure E
Group Organogram (as at 1st January 2019)

