

UNIVERSITY OF KWAZULU-NATAL

**Factors impacting the sustainability of independent  
financial planners in KwaZulu-Natal**

By

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## Declaration

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## **ABSTRACT**

Multiple channels are used for the marketing, distribution and sale of insurance products. These include independent financial planners, tied and franchise planners, bank financial planners, call centres, telemarketing, mobile and online facilities. The predominant channel is the independent financial planner. However, a significant number of independent financial planners are leaving the industry permanently or joining alternative models. The aim of this study is to ascertain the factors affecting independent financial planners and the impact of these factors on the sustainability of independent financial planners. The study focussed on independent financial planners practising in the long-term insurance industry in KwaZulu-Natal (KZN). One hundred and fifteen (115) planners of the population of 525 completed electronic questionnaire, which was sufficient to draw inferences to the population. A quantitative method was used allowing the researcher to make generalisations from the respondents that completed the electronic questionnaire to the target population. Descriptive and inferential statistics were used to analyse the data. Legislation has been identified as a key factor affecting independent financial planners. Over 25% of respondents indicated that they had considered exiting the industry within the last five years with 73% (of this 25%) citing compliance legislation as the major reason. One third of respondents experienced a decrease in income over the last five years with 60% confirming that commission regulations negatively impacted on their income. Over 50% of all respondents agree that clients are using alternative channels for the purchase of insurance products. There must be a concerted effort from all stakeholders to professionalise the industry. Minimum qualifications required to practise as a financial planner will result in confidence and trust on the part of consumers in the profession and the planners practising in the profession. Independent financial planners need to incorporate social media and other forms of technology in their practices for the marketing, distribution and sale of products and services to retain and attract new clients. They need to differentiate themselves from the alternative channels by marketing themselves as selling advice and not products.

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## LIST OF ACRONYMS AND ABBREVIATIONS

Financial Advisory and Intermediary Act	FAIS
Financial Intelligence Centre Act	FICA
Financial Planning Institute	FPI
Financial Planning Standards Board	FPSB
Financial Services Board	FSB
KwaZulu-Natal	KZN
Long Term Insurance Act	LTA
PriceWaterhouse Coopers	PWC
Protection of Personal Information Act	PPI
South Africa	SA
Treating Customers Fairly	TCF
United Kingdom	UK
United States of America	USA



# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

There are two types of insurance products available to consumers – long term and short term. Long term insurance includes life, health and disability. This type of insurance pays out a benefit when the insured person dies, suffers a critical illness or becomes disabled (Department of National Treasury, 2011).

Product providers (insurance companies) design these products which are marketed, distributed and sold through financial planners or intermediaries (be they independent or affiliated to financial institutions or networks), amongst other channels. Intermediaries are used for these functions due to the vast number of products and perceived lack of consumer knowledge.

The financial planning industry in South Africa (SA) is in the process of evolving from a sales orientated industry to a fully fledged financial planning profession. In the past, a person selling insurance products only required product knowledge and sales skills. Today, the same individual has to be a financial planner providing financial planning advice to clients on estate, retirement, investment and business planning. Independent financial planners have to move from salesman to planners, educating clients and assisting them with financial planning decisions and purchases (Middleton, 2013).

Independent financial planners have been subject to various challenges in recent years. Costs to distribute insurance products through independent financial planners are viewed as high. Legislation implemented to regulate the industry is perceived as complex and voluminous. Consumer expectations and buying preferences are changing. The emergence of non- traditional or alternative channels like direct insurers, online sales, telemarketing and bank financial planners are challenging the market share of independent financial planners (Leary, 2013).

## **1.2 Motivation for the Study**

Independent financial planners are part of the small and medium business population in S A. These are individuals or businesses that sell financial products. They operate small businesses and are expected to give best advice when recommending products to clients.

Independent financial planners are a vital cog in the value chain of insurance products. They have a dual function viz. providing financial advice to consumers whilst providing a market for the purchase of insurance products. However, the independent financial planner as a channel for insurance products has become subject to various challenges. These range from regulation of the financial planning industry to servicing more educated consumers.

This study will have relevance for industry stakeholders like insurance companies and financial planners. It will add to the current body of knowledge relating to factors affecting independent financial planners. In addition it will shed light on the impact of these factors on the sustainability of independent financial planners. This will allow interested parties to assess the way forward to retain and maintain independent financial planners for the marketing, distribution and sale of insurance products.

## **1.3 Focus of the Study**

Financial services and products developed by insurance companies are distributed through various channels including independent financial planners, bank employed financial planners, direct insurers, telemarketers and online facilities. However, the focus of this study will concentrate on the independent financial planners operating in KZN. The 525 independent financial planners that have contracts to market, distribute and sell Old Mutual products and services were selected as the population. This population would ordinarily have contracts with at least two or more insurance companies as well, allowing them to maintain their independence.

## **1.4 Problem Statement**

The South African insurance broker industry is facing a potential crisis because a significant number of independent financial planners are leaving the industry permanently or joining alternative models. According to the Financial Services Board (FSB), there are approximately 12 000 licensed financial planners in SA with less than 20% younger than 35 years old (Coetzer, 2013). The average age of the South African financial planner is 54 years old and equates to more than 70% of the planners. Thus in the next five to ten years many of the financial planners in SA would have retired (Institute of Practice Management, 2012).

There is a decrease in the number of new entrants into the industry, according to Jacques Coetzer (2013), general manager of Sanlam Broker Distribution. This will put pressure on independent financial planners' succession and continuity plans. According to Field, Froser and Korlarl (2007), the broker market is declining due to the changing regulatory environment.

Internationally there has been a decline in the market share of independent financial planners around the world except the middle and east European countries. In the United Kingdom (UK), sales of insurance products by independent financial planners decreased from 90% to 73% over the first decade of the 21<sup>st</sup> century. Less than 60% of insurance products were sold through independent financial planners in 2005 in the UK (Gentle, 2007).

## **1.5 Research Questions**

- a. Is the existence of independent financial planners under threat?
- b. What are the challenges that could affect the viability of independent financial planners?
- c. Are there initiatives that can be implemented by relevant stakeholders to preserve independent financial planners as a channel for the marketing, distribution and sale of insurance products?

## **1.6 Research Objectives**

The following research objectives were identified to answer the research questions:

1. Determination of factors affecting independent financial planners in KZN
2. Investigation of the impact of these factors on the sustainability of independent financial planners in KZN
3. Recommendations to overcome these factors to retain independent financial planners for the marketing, distribution and sale of insurance products

## **1.7 Research Methodology**

A quantitative approach was adopted in this research study. The population was all independent financial planners (being 525) who have a contract with Old Mutual to sell Old Mutual products.

A self administered closed ended questionnaire was used to obtain information. The questionnaire was captured on the online survey programme, Questionpro. An e-mail invitation (including a Letter of Consent) was sent to all respondents to answer the questionnaire using the Questionpro link. Two reminders were sent to respondents that had not responded to the initial e-mail invitation. All respondents' responses were captured anonymously.

Data gathered from the questionnaire was analysed using descriptive and inferential statistics. It was presented in a clear and detail format. Tables and graphs were used to describe and analyse the data obtained from the questionnaire.

## **1.8 Limitations of the Study**

The population was limited to independent financial planners in KZN that have contracts with Old Mutual. This did not include all independent financial planners in the province as not all independent financial planners have Old Mutual contracts.

The population was limited to the independent financial planners that practise in the long term insurance industry. It did not include those practising in the short term insurance industry. These planners would face similar challenges as they are subject to the same factors affecting those that practice in the long term insurance industry.

## **1.9 Overview of the Study**

**Chapter One** introduces the reader to the background of the research topic the reason, motivation and focus of this study. The research problem, questions and objectives of the study are presented. A brief description of the research methodology and limitations of the study are provided.

**Chapter Two** provides a comprehensive overview of the literature review of the research topic. A discussion of the financial planning industry is provided. Factors affecting independent financial planners and the impact of these factors on the sustainability of these planners are discussed from international and local perspectives.

**Chapter Three** discusses the methodology used to obtain information to answer the research objectives.

**Chapter Four** presents, discusses and analyses the data and findings obtained from the questionnaires.

**Chapter Five** provides a conclusion to the research findings. Recommendations are discussed and limitations to the study are documented in this chapter.

## **1.10 Summary**

This chapter provided a summary of the reason for undertaking this study and the focus of this study. The objectives of the study are to determine the factors affecting independent financial planners in KZN, the impact of these factors on the sustainability of independent financial planners in KZN and recommendations to overcome these factors to retain independent financial planners for the marketing, distribution and sale of insurance products. A quantitative approach was adopted in the research study, where a self administered questionnaire was used to obtain information. Chapter Two details the literature review used to discuss factors affecting independent financial planners in KZN. Both local and international journals, articles and other studies were consulted to determine factors affecting independent financial planners and the impact of these factors on the sustainability of independent financial planners in KZN.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This chapter provides a discussion of the literature that was reviewed to identify the factors impacting the sustainability of independent financial planners in KZN. The focus is on the planners that practice in the long term insurance industry. Literature pertaining to legislation, technology and consumer behaviour, in relation to independent financial planners, was consulted. In addition, literature relating to the international insurance industry was also used to determine the factors impacting financial planners practising in other countries.

#### **2.2 Background**

The financial services sector impacts all citizens of SA. It stimulates economic growth and job creation. It fosters the building of infrastructure and sustainable development for SA. This sector facilitates daily economic transactions enabling people to save and preserve wealth for goals (Department of National Treasury, 2011).

According to the Department of National Treasury (2011), the financial services sector comprises banks, insurance companies, investment companies, pension funds, securities markets and regulators. In South Africa it comprises over R6 trillion in assets and contributes 10.5% of the gross domestic product of the economy annually. It employs 3.9% of the employed South Africans and contributes at least 15% of corporate income tax (Department of National Treasury, 2011).

The focus of this dissertation will be on the insurance industry of the financial services sector. In particular, factors impacting the sustainability of independent financial planners practising in the long term insurance industry will be discussed.

Insurance is important to the welfare of societies (Schiro, 2006). Insurance is a product where the insurer undertakes to compensate the insured in the event of a

predefined or predetermined event. This compensation is subject to agreed terms and conditions of an insurance contract (Cummins and Doherty, 2006).

Effective and efficient channels are essential for the marketing, distribution and sale of insurance products. Distribution channels allow organisations to interact with customers (Hughes, 2006). According to Pelton, Dutton and Lumpkin (1997), a distribution channel allows organisations and customers to engage with each other, enabling customers to acquire and consume goods and services of value.

Multiple channels are used for the marketing, distribution and sales of insurance products and for customer interactions. These include independent financial planners, tied and franchise planners, bank employed advisors, call centres, telemarketing, mobile and the internet. The predominant channel is the independent financial planner. Independent financial planners account for the distribution of more than ½ of the risk products and two thirds of investment and annuity products (Leary, 2013).

According to Botha, Rossini, Geach, Du Preez and Rabenowitz (2012) financial planners are integral to the economy and ensure that the financial needs of individuals and entities are addressed through appropriate solutions. Financial planners provide advice to people in respect of wealth creation and retirement planning (Hawkins 2003).

Jonathan Dixon, Deputy Director of the Financial Services Board (FSB), states that “A key element of adequate consumer protection is the value of good advice and the FSB places a high value on independent advice to consumers” (van Flymen, 2013, p.22). Independent financial planners help the public understand the investment and risk options available to meet their financial goals.

The absence of independent financial planners could affect the goals of wealth creation according to Hawkins (2003). Further, Melzer (2006) states that the lack of professional financial advice provided to consumers could result in inadequate provision for death, disability, retirement and general savings. This could place a strain on the financial resources of the government because people who have not saved sufficiently would become dependent on the government social old age pension. A sound financial plan prepared in consultation with an accredited



professional financial planner would prevent the public from becoming dependent on government social grants. The demise of independent financial planners could result inadequate financial planning services being available to the public and at an unaffordable cost.

The reasons identified for the decline of independent financial planners are (Stokes, 2012):

1. Legislation (compliance, education and commission)
2. Technology (mobile, internet and telemarketing)
3. Competition from direct insurers, tied or franchise planners and bank employed advisors
4. Customer perceptions and expectations of independent financial planners

The above reasons are substantiated by the Broker Confidence Index 2013 undertaken by CIB Insurance Administrators. This measures the confidence level of insurance brokers on a number of issues concerning the South African economy and the insurance industry. According to this survey, 31.9% of brokers view regulations as the biggest challenge for insurance brokers in South Africa. A further 28.3% cited direct insurers and 30.1% cited the economy (CIB Insurance Administrators, 2013).

## **2.3 Definition of terms**

### **2.3.1 Insurance Product**

According to Veena (2009), an insurance product is sold and purchased subject to terms and conditions of an insurance policy. This transaction involves the acceptance of a risk by the insurer for monetary compensation.

### **2.3.2 Financial Planning**

Financial planning is defined by the Financial Planning Standards Board (FPSB) (2009) as a process of developing plans for consumers to manage their financial affairs to achieve financial goals. According to Botha et al (2012), it is the process

that assists consumers to assess their ability financially to achieve those goals through the sound management of their financial resources. It allows consumers to identify and attain financial objectives through the proper management of their finances.

The financial planning process takes into account a person's personality and financial status. Further, the financial planner also considers the socio-economic and legal environments in the financial planning exercise. The end result is the implementation of strategies to achieve the financial goals of a consumer (Cull, 2009).

### **2.3.3 Financial Planner**

A financial planner (intermediary or insurance broker) is an individual who displays no, limited or complete independence from the insurer. The financial planner acts as a conduit between the purchaser and seller of insurance. Independent financial planners act as mediators between product providers and clients (Focht, Stiller and Richter, 2011).

A financial planner is "a professional who uses the financial planning process with integrated strategies to achieve financial and life goals and who has the demonstrated abilities, skills and knowledge outlined in the FPSB's Financial Planner Competency Profile" (FPSB, 2009, p.2). The Financial Planning Institute of South Africa's (FPI) definition of a professional financial planner is a "trusted advisor who works with clients to review all their options so that they are in a better position to make informed decisions about their financial situation at every stage in life" (FPI, 2011, n.p.).

This research will use the definition of Botha et al (2012). This definition states that a "financial planner facilitates the process of assisting clients to identify and achieve their life goals and objectives through the planning of their finances" (Botha et al, 2012, p.7).

### **2.3.4 Independent Financial Planners**

Independent financial planners are specialised intermediaries or advisers contracted to multiple insurers. These planners are arrayed across the continuum in terms of size, sophistication and the range of services offered. An independent financial planner has complete independence from the insurer (Cummins and Doherty, 2006). They function completely autonomously acting in the best interests of their clients (Maas, 2010). They offer financial services based on experience and professional abilities. They assist clients in the choice of insurance products by presenting them with alternatives (Dan-Constantin, 2008). This type of financial planner is the focus of this dissertation.

### **2.3.5 Franchise Agents and Tied Financial Planners**

Tied financial planners are exclusive agents who usually market and sell products on behalf of a single insurer. This represents the lowest level of independence of financial planners to insurance companies. They are remunerated by way of commission and may receive additional benefits (Maas, 2010).

### **2.3.6 Bank Financial Planners**

Through bank employed financial planners banks are able to distribute insurance products. This includes bancassurance, which is an arrangement between banks and insurance companies whereby insurance products are sold to bank customers via bank branch networks (Benoist, 2002). A bank serves as a product provider's marketing and distribution channel in addition to acting as an intermediary between the insurer and customers (Chiang and Cheng, 2009).

Bank employed financial planners are employed to market, distribute and sell risk and investment products of insurance companies and investment houses. These planners are employees of the bank who are compensated by way of commission and receive additional benefits e.g. medical aid and retirement benefits. The commission received is shared with the bank. This is for access or use of office space and equipment e.g. laptops and telephonic services.

### **2.3.7 Direct Insurers**

Direct insurance involves the marketing, distribution and sale of insurance products from product providers to customers without the intervention of brokers or intermediaries. According to Kotler and Keller (2006), direct insurers are able to interact directly with customers who can shop for products at their leisure. This view is supported by Bearden, Ingram and LaForge (2004) and Chiang and Cheng (2009). Direct insurance to consumer includes the sale of insurance products via the internet, telesales, mobile devices, infomercials, outbound and inbound call centres and direct mail (PriceWaterhouse Cooper - PWC, 2013).

### **2.3.8 Role of Financial Planner**

The independent financial planner facilitates the relationship between product providers and consumers (Cummins and Doherty, 2006). Independent financial planners are important for the financial planning message to reach consumers (Vlok, 2013). Financial planners are able to assess risk pertaining to clients and provide advice and information to consumers. They assist consumers to save and provide for retirement, and the capital and income shortfalls on death and disability. The role of the financial planner has changed from basic product knowledge and sales skills to holistic financial planning for clients based on value propositions and business principles (Middleton, 2012).

Tseng and Kang (2014) state that planners perform a dual function viz. the sale of insurance products on behalf of insurers and providing customers with appropriate and suitable products. They serve as “matchmakers between the supply and demand sides of insurance markets” (Eckhardt and Rathke-Doppner, 2010, p.667). Their core functions involve the marketing, distribution and sale of insurance products on behalf of insurance companies and providing advice for clients in respect of insurance needs, risk profiles and product choices (Eckhardt and Rathke-Doppner, 2010).

According to the FPI, Financial Planner Remuneration Discussion Paper dated 28<sup>th</sup> February 2014 (FPI, 2014), a financial planner provides three services to a client:

- Financial advice that is provided through a carefully constructed financial plan,
- Implementation of the recommendations contained in the financial plan, which could involve the sale of a financial product to satisfy a recommendation,
- Continuous advice relating to the financial plan including changes to and maintenance of the financial plan and solutions proposed and implemented.

Financial planners offer services to policyholders and on behalf of insurance companies. They assist consumers to understand the insurance products and to make the correct insurance purchase. The planner matches consumers with appropriate insurance products (Focht, et al, 2013). The planner does this by identifying consumer needs requiring financial attention. Therefore the planner must know his or her clients' needs, risk tolerance, tax status and investment objectives. This involves face to face advice and interactions with clients in order to meet their financial needs with appropriate products.

Planners are responsible for matching consumers with product providers that have the necessary skill, capacity, risk appetite and financial strength to assume the risk (Cummins and Doherty, 2006). The planner must have the ability to find appropriate insurers for all different types of risk and investment goals. Therefore they are responsible for the marketing and distribution of insurance products on behalf of insurance companies and the conclusion of insurance contracts between sellers and purchasers of insurance products (Eckhardt and Rathke-Doppner, 2010).

The independent financial planner network is important for the growth, retention and defence of an insurance company's market share. Independent financial planners also collect and provide risk information to insurance companies which prevents adverse selection (Schiller, 2009). Planners maintain competition amongst insurance companies i.e. business placed with insurers by planners is

indicative of pricing, products, features and benefits of different insurance companies (Focht et al, 2013).

## **2.4 Legislation**

The implementation of regulations is in response to market failures and to provide economic stability and consumer protection (Schiro, 2006). Regulations protect and benefit suppliers and end users of financial products (Edwards, 2002).

According to Uche (2001), the regulations are motivated by two theories namely, the capture theory and the public interest theory. In terms of the capture theory regulation is required by the industry itself and the implementation is for its own benefit. The public interest theory is based on public protection to eliminate inefficient and inequitable market behaviour (Uche, 2001).

Regulations allow governments to monitor financial transactions and control financial markets. This will ensure the protection of the “interest and rights of the less informed consumers from lemons’ problems and agency problems and suppliers from adverse selection and moral hazard problems” (Kwon, 2013, p.321).

The recent global financial crisis proved that an unstable financial system can have negative consequences for the wider economy. As a result, the South African government introduced legislation to regulate the financial services industry. The objective of legislation is to provide a safer financial environment, to ensure public protection and foster confidence (Department of National Treasury, 2011). A well regulated financial system is vital for financial stability and sustainable economic growth.

The South African financial services industry has become subject to various pieces of legislation. This legislation ensures that the public has access to financial services providers who are correctly licensed and registered. It also ensures that fees and commission payable are fair and transparent. The object of consumer protection requires professionalism in respect of the participants in the financial services industry.

Professionalism requires educated and qualified financial planners and compliance on the part of financial planners to relevant regulations. Educational and qualification requirements dictate that financial planners possess certain accredited qualifications to practise. Further, financial planners need to continuously up skill their knowledge and competencies to remain in practice (Botha et al, 2012).

#### 2.4.1 Applicable legislation

Table 2.1 lists the legislation regulating the financial services industry. This dissertation will be limited to the Financial Advisory and Intermediary Services Act, Protection of Personal Information Act, Treating Customers Fairly Principles and Retail Distribution Review and the impact of these pieces of legislation on the sustainability of independent financial planners.

Table 2.1 List of applicable legislation

Legislation	Acronym
Long Term Insurance Act 52 of 1998	LTA
Prevention of Organised Crime Act 21 of 1998	POCA
Financial Intelligence Centre Act 38 of 2001	FICA
Financial Services and Intermediary Act 32 of 2002	FAIS
Protection of Constitutional Democracy Against Terrorist and Related Activities Act 33 of 2004	POCDATARA
Protection of Personal Information Act 4 of 2013	PPI
Treating Customers Fairly Principles of 2014	TCF
Retail Distribution Review	RDR

Author compiled table

## **2.4.2 Financial Services and Intermediary Act (FAIS)**

The FAIS Act 37 of 2002 was promulgated on 15<sup>th</sup> November 2002. The Act regulates market conduct in the financial services industry to protect the financial well being of consumers. It regulates the activities and compliance of financial service providers including insurance companies and financial planners who provide advice and intermediary services to consumers.

Compliance is defined as conforming to or meeting the requirements of the laws, codes and standards that are clearly defined and relevant to a particular business sector (Botha et al, 2012). This means that financial planners must abide by or meet rules and regulations in terms of accreditation and the advice process.

From 30<sup>th</sup> September 2004 a person providing financial services, as defined, must have the correct category license to practise as a financial planner. The Act prescribes the required category license to market and sell different types of insurance products. According to section 8 of the Act, an authorised financial service provider is defined as a “person who has been granted authorisation as a financial services provider by issue to that person of a licence.”

Financial planners have to comply with licensing and competency requirements to be able to practise as financial planners. The Act ensures that professional standards in the financial services industry are upheld. An important objective of the FAIS Act is to set qualification standards for all financial service providers. A person may not carry on business by rendering financial services to clients if he or she is not registered to act as a financial planner. The Financial Services Board (FSB) grants the relevant licenses upon satisfaction that financial planners have met the fit and proper requirements.

### **2.4.2.1 Fit and Proper Requirements**

Financial planners must have personal characteristics of honesty and integrity and meet the competency (experience and qualifications) and operational requirements. To be deemed fit and proper a financial planner must in terms of the Board Notice 106, 2008 of the FAIS Act:



1. Meet experience and qualification requirements (Part IV). Financial planners need to be in possession of a National Qualification Framework level five qualification (NQF5) or higher. The qualification must be recognised by the FSB in relation to the planner's sphere of activity.
2. Complete the necessary regulatory examinations (Part VI). All persons in the financial services industry have to complete Regulatory Examinations level one and five (RE1 and RE5). These examinations test the knowledge relating to legislation governing the financial services industry e.g. FICA, FAIS. Financial planners who provide advice to clients need to also complete the Regulatory Examinations level two (RE2), which are product specific.
3. Comply with Continuous Professional Development (CPD) requirements. CPD ensures that financial planners maintain professional competence, knowledge and skill based on up to date developments in legislation relating to the financial services industry. This is required to provide clients with competent professional service.

According to a study undertaken by the Institute of Practice Management (2012), most of the experienced financial advisers do not have post-matric qualifications. According to the survey, 92% of the respondents have not furthered their education in their chosen careers (Institute of Practice Management, 2012).

#### **2.4.3 Treating Customers Fairly Principles (TCF)**

TCF was promulgated on 1<sup>st</sup> March 2014. It was implemented to promote consumer protection and market conduct. TCF is to ensure stakeholders in the financial services sector design and sell appropriate insurance products to the public (FSB, 2013). The principles of TCF were adopted from the equivalent UK legislation.

Table 2.2 lists the six outcomes of the TCF and the requirements that have to be met by financial service providers including independent financial planners to ensure compliance with TCF.

Table 2.2 Outcomes of TCF

Outcome	Requirements
Right culture	Fair treatment must be central to a company's culture
Right targeting	Products and services must be designed to meet needs of the targeted customer sector
Right information	Provision of clear information throughout sale process
Right advice	Provision of suitable and appropriate advice
Right delivery	Products must perform as products providers had led customers to believe they will perform
Right post sale treatments	No barriers must exist preventing customers from changing product providers, switching products or submitting claims

Source: Treating Customers Fairly Outcomes, Association of Savings and Investments of South Africa (2012)

According to the Association of Savings and Investments of South Africa (2012), the implications for independent financial planners are:

1. TCF has to be embedded in the culture of their businesses.
2. Products sold and services rendered must be suitable and appropriate to customers. Planners will need to have conducted the correct due diligence in respect of the products and services sold to customers.
3. Clear information in respect of products must be provided to customers. Product risks, limitations and charges must be fully disclosed to customers. Planners must be able to measure and validate the advice provided to clients.

4. Advice provided to customers must be suitable to customers taking into account their personal circumstances. Clients must understand the need for the insurance product and the actual purchase of the insurance product.
5. Planners must ensure that customers understand the reason for barriers.
6. Planners must assist to rectify situations where products sold do not meet expectations of customers.
7. Planners must track and monitor their complaints processes with sound feedback mechanisms within their practices.

#### **2.4.4 Protection of Personal Information Act (PPI)**

The PPI Act was signed into law on the 26<sup>th</sup> November 2013, effective from 11<sup>th</sup> April 2014. This Act regulates the collection, use, distribution and processing of personal data. It contains the requirements for dealing with and protecting client information (PPI Act, 2014).

All responsible parties in the insurance sector have to comply with PPI. A responsible party is defined as a public or private body or any other entity which alone or together with others is responsible for the reason and means for processing personal information (PPI Act, 2014). Financial planners fall within the definition of responsible party because of the intermediary services provided to clients. Planners can only use their client's information provided the client consents to its use and it must be for a specified purpose. The consent must be free and informed.

The financial planner will have to perform the following to ensure compliance (PPI Act, 2014):

1. Consent clauses must be included in all client documentation.
2. Processes and procedures relating to "lead sharing, prospecting and referrals" (PPI Act, 2014) must ensure that these activities are carried out with the client's consent.
3. Financial planners must inform the client at their first interaction of the source of the client information in his or her possession.

4. The client's consent is required for the distribution of marketing information by automatic calling machines, fax machines, short message texts or electronic mail. The client must be provided with the option not to receive the information each time communication is sent to the client.
5. Financial planners at retirement age or who are contemplating selling their practices must ensure consent is obtained from all clients (to transfer information to new planner) before disposal of the business to a third party.

#### **2.4.5 Impact of legislation – an international perspective**

Mazar (2011), an independent United Kingdom insurance institution undertook a survey to obtain views and opinions of financial planners in respect of the impact of regulation on the insurance industry. The survey revealed that financial planners believed that regulations were costly and did not add any value to clients. Financial planners viewed regulations as creating additional workloads. According to the survey, 81% viewed regulations as cumbersome involving additional administration work to meet regulatory requirements (Mazar, 2011). It was found that 81% of financial planners indicated that legislation did not improve consumer confidence in the industry. Further 51% did not believe that the TCF principles improved customer value and 53% stated that regulations had a negative impact on clients.

Regulations were also seen as negatively impacting on profit margins (Mazar, 2011). About 19% of respondents believed it impacted on at least 10% of profits. Benfield (2009) stated that legislation similar to FAIS introduced in the UK and Australia resulted in almost 40% of financial planners exiting the industry.

#### **2.4.6 Impact of legislation – a South African perspective**

Legislation has negative and positive effects on financial planners. There is a need for consumer protection and as such relevant legislation is required. It does ensure economic stability, consumer protection, transparent access to financial services and the assurance that entities and individuals operating and practising in the industry are correctly licensed and registered.

Negatively it will contribute to increased compliance costs necessitating the need for increased staff and resources that could be otherwise used for sourcing new businesses (Bird, 2014). According to the PWC survey (2012) financial planners viewed regulation and the retention of customers as the key issues affecting them. Planners viewed the insurance industry as being over regulated. It was found that the increase in compliance administration and legislation will impact on the profitability on the financial planner's business. Increased regulations in the industry have decreased the attraction of independent advice business as a career (PWC, 2012).

Coredata Research (2013) found that independent financial planners are exiting the industry due to increased legislation. Qualification and examination requirements coupled with increasing compliance and administration workloads related to TCF and PPI are proving insurmountable for some financial planners.

Financial planners have a wealth of industry experience but do not have the required financial planning qualifications. Many have stated that they will remain as financial planners for at least another two years. In the longer term, 15.7% will resign from their current roles but remain in the financial services industry in another role, 3.9% will exit the industry completely and 7.8% are undecided on their future (Coredata, 2013).

The Institute of Practice Management (2012) undertook a study amongst the financial planner fraternity in South Africa in 2012 to determine the compliance cost of financial advisory services. According to this study, compliance costs are defined as the direct costs to the financial advisory businesses performing various tasks associated with compliance of government legislation including RE and CPD requirements (Institute of Practice Management, 2012).

This study revealed that regulatory compliance costs are adversely affecting independent financial planners. The average cost of compliance per annum to an independent financial planner is R188 658. These costs include the employment of a compliance officer and completing the necessary examinations and attending workshops and seminars to obtain the required CPD points to remain in practice (Institute of Practice Management, 2012).

Compliance with FAIS regulations require independent financial planners to implement almost twenty policies and procedures. Planners have to regularly document, implement and update these policies and procedures. This involves the employment and appropriate training of staff and effective client communication. Compliance plans must be monitored by keeping track of changes in practices due to legislative changes (Institute of Practice Management, 2012).

According to this study, compliance legislation is negatively affecting the affordability of advice. Independent financial planners are finding it difficult to put client's interests first when profit margins are decreasing due to costs associated with compliance legislation. Time is spent on adherence to administrative duties and compliance rather than sourcing new business. This is compromising planners' profit margins and the growth of their businesses (Institute of Practice Management, 2012).

Further findings were that RE assessments could cost the financial services industry in the region of R1.28 billion (Institute of Practice Management, 2012). Financial planners have to pass these FAIS exams to remain in the practice. Majority of South African financial planners have successfully passed the RE1 and RE5 assessments. One quarter of the financial planners believe that the RE2 assessments will be a challenge over the next two years. A one year CPD cycle for all financial planners could cost the financial planning industry more than R120 million per year (Institute of Practice Management, 2012).

The researchers of this study conclude that the cost of compliance is adversely impacting independent financial planners. The commercial viability of independent practices is becoming unsustainable. As a result, independent planners may become employees of corporate institutions like banks, insurers and other corporate companies because of the in-house structures that assist with or take care of compliance requirements. Losing their independence will impact on the impartiality of advice and will not be in the best interests of clients. This is due to them being required to sell certain products once becoming tied agents of insurers, banks and other corporate institutions (Institute of Practice Management, 2012).

Legislation, as discussed above, requires independent financial planners to have succession plans (FAIS Act 32 of 2002). The traditional pipeline for new independent financial planners is the tied agents of the insurance companies. The insurance companies are retaining their agents and few are leaving to become independent financial planners. The PWC survey of 2013 revealed that the financial planner industry was aging due to there being little to attract new entrants. There was an indication of a skills shortage as 70% of financial planners did not employ new graduates and 50% felt that standards of the industry were dropping making the industry less appealing to new entrants (PWC, 2013).

In light of compliance legislation, few independent financial planners have succession plans. Compliance legislation requires an independent financial planner to have a successor who meets the FAIS Fit and Proper Requirements. As a result, alternative distribution channels involving monetary compensation to join tied agency models of product providers is becoming appealing to independent financial planners (Institute of Practice Management, 2012).

#### **2.4.7 Commission Regulations**

A financial planner is remunerated when the recommendations made to a consumer results in the purchase of a financial product. This is calculated as a percentage of the premiums paid on each policy or investment. Further remuneration is paid for continuous maintenance of the product purchased, limited to two years in respect of risk policies and referred to as trail commission in respect of investment products (FPI, 2014). According to Tseng and Kang (2014), the commission can be full commission paid on the sale of the product or levelled commission payable in installments.

Commission regulations have always featured high on the agenda of the FSB. The industry is regulated in terms of the fees or commission that planners can charge clients. Further, international developments have fuelled the FSB discussions on the implementation of the Retail Distribution Review.

#### **2.4.7.1 Types of remuneration:**

Commission compensation is related to the signing of a contract and conditional on the payment of a premium (Focht, et al, 2013). According to the FPI (2014), compensation payable to independent financial planners can take the form of one of the following:

1. Commission paid by the insurance company. This is based on the premium paid for the insurance product. This is the most common method of remuneration for financial planners.
2. Fee payable by the consumer. The financial planner will charge a time or activity based fee. The fee is offset against commission earned if a product is purchased. The client is still liable for the fee where no product is sold.
3. Fee only payable by the consumer. The financial planner is only compensated by a fee received from a client. No commission is payable in the event of a purchase or sale of a financial product.

#### **2.4.7.2 Commission debate**

The commission compensation is referred to as the “triangular association” (FPI, 2011). In terms of this, the financial planner provides the advice to the consumer but is paid by the insurer who recovers this cost from the consumer. This arrangement is criticised because the financial planner in this scenario cannot be viewed as independent.

According to Schwepker and Good (2010), monetary reward is viewed as a motivator that impacts on a salesperson’s actions and decisions. Lopez, Hopkins and Raymond (2006) found that salespeople were more motivated by increasing sales compensation than oral recognition.

Hunter (2004) states that commission paid to brokers that are dependent on the volume of business placed with a product provider results in inappropriate behaviour that is detrimental to the consumers. Financial planners may engage in mismatching uninformed consumers with inappropriate insurance companies. This will be done if it is profitable and increases payoffs (Focht et al, 2013). This could lead to a conflict of interest and ethical problems. The financial planner may be



biased towards a particular insurer or product where he or she is not remunerated for the advice provided to consumers but receives a commission from the insurer.

A commission system gives greater incentives to provide biased advice to unsophisticated consumers (FPI, 2011). Inderest and Ottaviani (2009) further substantiate this by stating that the sales of insurance products that pay high commission would result in wealthy brokers but may not meet the needs of customers.

Internationally, high commissions are paid to financial planners on the assumption that product provider will have the business on books for approximately 10 years. However, in some cases 50% of such policies lapse after 4 years and these policies will not result in profits (Gentle, 2007).

The Department of National Treasury (2008) published a paper entitled Contractual Savings in the Life Insurance Industry. This emphasis of this paper was the provision of suitable products for consumers. Financial planners receive full upfront commission on recurring premium retail products and secondary commission is paid in the second year. Thereafter no further compensation is paid to financial planners for advice to consumers (Department of National Treasury, 2008).

This discussion paper resulted in the promulgation of new commission regulations on investment policies and the capping of termination charges where investment policies were terminated prematurely. This became effective on 1<sup>st</sup> January 2009. The review of upfront commission on risk policies was also proposed (Department of National Treasury, 2008).

The commission payable on new investment policies effected after 1<sup>st</sup> January 2009 is now 5% per premium on recurring premium policies. Up to a maximum 2.5% is paid upfront and the other 2.5% is paid as and when the premium is received by insurer from the consumer. Payment of commission on risk policies has not being changed. Planners still receive upfront commission calculated in the first year and secondary commission is paid in the second year (LTA 52 of 1998 amended 2009).

However, the FSB believes that the reforms to the current remuneration models are not sufficient. The FSB has proposed changes to intermediary services in terms of both the FAIS Act and the LTA which has led to the Retail Distribution Review discussion papers.

#### **2.4.7.3 Retail Distribution Review (RDR)**

RDR is a South African government initiative to protect consumers by ensuring transparency in the financial services sector. The purpose of RDR is to ensure that consumers have confidence that the advice provided is honest and not motivated by financial gain. The objective of RDR is to promote the TCF principles (FSB, 2013).

Under RDR the definition of intermediary services and related remuneration structures will be reviewed. This will ensure that the financial services sector provides appropriate, affordable and fair advice, products and services to consumers. This will affect the sustainability of the financial services sector. It is hoped that RDR will eradicate undesirable behaviour perpetuated by the current remuneration models that allow for the payment of upfront commissions (FSB, 2013).

The FSB's proposal is a fee based remuneration model. Financial planners are expected to set out their own charges for advice and other intermediary services. The advice to consumers must be provided without interference or influence from insurers. The insurance companies will be able to facilitate the payment of fees. The customer could agree to have deductions made against his or her investment to pay for the financial advice. Thus customers would not have to pay the advice fee or ongoing fees upfront and in full (FSB, 2013).

#### **2.4.7.4 Impact of commission regulations – an international perspective**

The UK and Australia have implemented RDR or a version thereof recently (Future of Financial Advice in Australia). Australia and the UK have promulgated extensive amendments to the remuneration models which came into effect in 2012 and 2013 respectively. Both countries banned commission.

In addition, Finland and Denmark have also banned payment of commission by product providers to intermediaries. Germany implemented legislation that requires life insurance companies to disclose acquisition and distribution costs as part of the insurance premium (Focht, et al, 2013). Other European countries have a system that ensures that planners are not compensated by customers and product providers at the same time (Ladbury, 2007).

Financial planners have to set their own advice fees, uninfluenced by the insurance companies. The adviser fee is not prescribed and could be a fixed fee based on an hourly rate or a percentage of assets of the client. Insurance companies may offer customers the option to have their adviser fees deducted from their investments. Insurance companies cannot exert influence on the fees or provide financial planners with an advance on the fees from their own funds (Focht et al, 2013).

In Australia, Future of Financial Advice Reforms became law on 1<sup>st</sup> July 2013. This introduced a ban on conflicted remuneration structures, including commission. Intermediaries have to act in the best interests of clients providing them with fee disclosure statements. Clients have to agree to the fees and renew their acceptance every two years. Intermediaries can only levy ongoing advice fees if a payment plan has been agreed with the client (FSB, 2014).

In the UK, insurance companies will no longer be able to compensate financial planners by way of commission. Financial planners will not be able to receive commission from insurance companies for the recommendation of investment products to UK consumers. Financial planners will have to be compensated through “adviser charging” agreements entered into with clients. Planners will be compensated for advice and related services regarding recommendations and independent product selection. The RDR rules will allow insurance companies to facilitate the collection of planner fees by collecting the fee through the deduction of the fees from the premiums and paying it over to the financial planner. This must be agreed upon between the financial planner and client (Deloitte, 2012).

The Financial Services Authority (FSA) in the UK seeks to use the RDR to facilitate consumer protection and confidence in the financial services market. This entails changing the way in which investment products are sold to UK retail

customers. The RDR's objective is to ensure that customers are confident about the advice provided and the products proposed to satisfy their needs (Deloitte, 2012).

In terms of research conducted by Deloitte (2012) in the UK, it was found that consumers will either cease to use financial planners or find alternative sources of obtaining advice post RDR. About 32% of consumers will do their own financial planning, product research and administration with approximately 5.5 million customers stating that they will not use financial planners. Further, 24% would reduce their contact with financial advisors with 27% stating that they would purchase insurance products from direct insurers.

According to the analysis of the Financial Conduct Authority (FCA), the number of financial advisers in the UK has dropped from 35 000 in 2010 to 20 000 following RDR proposals. The FSA statistics show that there has been 20% drop in independent financial planners. The South African industry could face a similar fate (Deloitte, 2013).

#### **2.4.7.5 Impact of commission regulations – a South African perspective**

Changes to financial planner remuneration models will impact on the financial services industry. This may result in a decrease in financial planners. Almost two thirds of financial planners earn their income through upfront or trail commission (Coredata, 2013).

Research conducted by Coredata (2013) shows that less ½ of independent financial planners are planning for the implementation of RDR. The potential future remuneration legislation has led to uncertainty about commission payable to independent financial planners. About 58% of South African financial planners state that the biggest challenge they are currently facing is changes to remuneration legislation (Coredata, 2013). Only 12.8% work on a fee for advice based model that would require no adjustment post RDR. Of those advisers that have begun to make changes to their business models, 40.4% are modifying their fee structure in preparation for RDR (Zerbst, 2013).

Currently, the FSB is not proposing a change to the remuneration model for risk policies. The FSB has however raised certain concerns with up front commission

and has stated that in the longer term they support a shift to an as and when commission structure (FSB, 2013).

## **2.5 Technology**

Peter Todd, CEO at Mutual and Federal singled out technology as one of the major insurance trends of the 21<sup>st</sup> century (Stokes, 2013). Technology facilitates the free flow of information reducing the price of information and lowering transaction costs. This has implications for independent financial planners because it has become easier for consumers to engage directly with product providers. Technology is therefore a major driver of disintermediation (Stokes, 2013).

Other industries that have been subject to the same forces of competition and aided by technology have undergone far reaching shifts in their distribution models e.g. travel agents and retail banks. The use of digital channels in other industries overcomes poor customer experiences and provides transparency to compare products and executing transactions (Ernst and Young, 2012). Access to technology contributes to the changing preferences and desired experiences. Technology is being utilised extensively for customer interactions in other service sectors. Call centres and the internet are being used by local government bodies for consumer communication (Pang and Norris, 2002).

New technologies introduced in the insurance industry have permanently changed the landscape of the insurance sector. According to Daniel (2000), financial services products are designed for marketing, distribution and sale electronically. Digital commerce coupled with direct distribution is driven by active consumerism. Poor customer experience and lack of simplicity, clarity and any guarantee of service often found in other industries are now directly impacting client behaviour and decisions in the insurance industry. Consumers want transparency, choice and convenience. This was brought on by the global financial crisis and financial mismanagement. This global crisis led to mistrust in the financial services industry including financial planners. As a result, consumers prefer self service and new sources and types of advice (PWC, 2013).

Technology facilitates a client centric approach and will affect every stage of the buying process. It will affect existing distribution channels, particularly the financial planner model. Simple decisions will be made independently with automated guidance whereas personal advice will be sought for more complex decisions. Current digital models are being enhanced by mobile application and other new developments. New entrants and non-traditional competitors have recognised this as an opportunity and are attempting to challenge traditional organisations (Deloitte, 2013).

Channels such as call centres, internet (online) and mobile devices are becoming attractive for the marketing, distribution and sale of insurance products to the public. The internet, mobile devices and social networks have gained prominence over the past decade. This has contributed to the birth of a new generation of consumers who want simplicity, speed and convenience for their financial interactions. As such, consumers use online channels for the purchase of products (Ernst and Young, 2012).

### **2.5.1 Internet**

The internet is transforming consumer offerings in other retail industries and setting a new benchmark of how businesses interact with consumers. Industries ranging from consumer goods to airlines and hotels have had to respond to the widespread availability of internet price comparison and independent quality ratings (Ernst and Young, 2012). Consumers incorporate the internet in their day to day activities. Buying preferences of consumers are changing as they make use of the internet and smartphones in decision making and product buying process (Capgemini, 2013).

The internet is growing faster than any other distribution channel. In 2010, 50% of people used the internet for the purchase of insurance products whilst 23% used an agent (Accenture, 2010). A recent study by Mint shows that the online finance platform to be preferred choice of communication of wealthy millennials who are 35 years and younger (PWC, 2013).

The internet has made substantial inroads as a viable insurance distribution channel mainly because of Generation X and Y's expectation to fulfil their needs

online (Deloitte, 2010). Generation Y customers do not place value in things that are optional and are extrinsically motivated when making financial decisions. Baby boomers are intrinsically motivated when making financial decisions (Ciccotello and Yakoboski, 2014).

Whilst customers value agent's advice when buying life insurance products, they are increasingly using online channels to buy non life products. As such this medium has become attractive for product providers to advertise and distribute insurance products. Insurance companies are effectively using technology to better meet customer demands by integrating online technology with the different stages in the policy life cycle (Capgemini, 2013).

### **2.5.2 Smartphones and tablets**

Smartphones and tablets are spreading faster than any other technology in human history. A study by Kaplan (2012) shows that 90% of Americans currently have their own cell phone and a third of these are smartphones. This development is motivated by the need to have continuous access to the internet (Kaplan, 2012). A quarter of smartphone owners prefer to connect to the internet from smartphones rather than computers. Ownership of tablets doubled from 34% in 2013.

Smartphones have become popular due to their features (Chatterly and Chojecki, 2010). Advancement in smartphone and tablet devices combined with personalisation, location based services and touch based user interfaces are driving the frequency of clients' interaction (PWC, 2013). They have enabled the average consumer to gain faster mobile access. Consumers can access internet based communications and services like e-mail, web pages and social networking at any time due to features like high speed internet access and Wi-Fi (Kalkbrenner and McCampbell, 2011). (Conti, 2008).

With smartphones consumers can receive information in many forms through a single hand held device. This innovation is important for communication (Strauss, Bikson, Balkovich and Payne, 2010). Internet connectivity through smartphones allows customers access to multiple media and data (Loscri, Tropea and Marano, 2005). This facilitates access anywhere and anytime. This portability feature is of

benefit to organisations' communication strategies (Kalkbrenner and McCampbell, 2011).

According to a survey conducted by InResearch and Cambridge Investment Research (2014), 66% of customers below 45 years would want advisers to offer services online with the primary device for accessing information being smartphones. The increasing usage of smartphones and tablets have made social media more important (Yang, 2012).

### **2.5.3 Social media platforms**

The increased popularity of social media is expected to affect how consumers purchase insurance products. Social media is a growing phenomenon for the insurance industry. Media platforms such as Facebook, LinkedIn and Twitter have grown exponentially over the last few years. These platforms have functionalities that allow companies to connect and interact with consumers (Deloitte, 2012).

The growth of social networks will shift the balance of power from insurers and intermediaries to customers. An Accenture North American Insurance Distribution Survey Findings of 2011 found that 36% of respondents between 18 to 24 years and 37% of respondents between 25 and 34 years would use social media for insurance research (Accenture, 2011).

Facebook is a consumer-oriented network and has amassed almost 800 million users since it was launched (Palmer and Koenig-Lewis, 2009) (PWC, 2010). Users of Facebook log onto the site once a day and spend at least 32 minutes a day on the site (Park and Cho, 2012). According to a study conducted in 2009 more than ½ of Facebook users clicked on a company's Facebook page and 16% of them sent a message to a company (Palmer and Koenig-Lewis, 2009).

The power of Facebook as a distribution channel is strong as companies can reach millions of customers at great speed. Facebook allows customers to share their needs with the company (Strategic Direction, 2012). Companies are able to use Facebook to create dialogue and interactions with customers (Hansson and Wrangmo, 2013). Facebook operates like word of mouth due to information exchange amongst users of the internet (Park and Cho, 2012). It facilitates word of



mouth and traditional advertising to attract customers (Coulter and Roggeveen, 2012).

Companies use Facebook for marketing purposes to persuade consumers to purchase products and services through their product related pages. This is due to Facebook becoming part of consumers' lives. As such companies can match products with the correct customer due to information disclosed on Facebook about themselves (Lilley, Grodzinsky and Gumbus, 2012).

#### **2.5.4 Use of technology by consumers**

The ways in which consumers interact with the world around them has been completely transformed by the internet, mobile technologies, social networking and other technological innovations. The growth in mobile technology and social networks is shifting the balance of power towards consumers. This is driving a fundamental shift in consumer expectations in terms of the marketing, pricing and sale of products. This has resulted in a dramatic change in the way consumers prefer to interact with product providers as well as the quality of service they expect (Accenture, 2011).

Consumers use multiple channels to interact, communicate and transact with product providers. They have constant access to these platforms. The easy access to the internet via computers, mobiles, and other hand held devices allows consumers to use them for personal finance and investment purposes. Consumers use these devices to easily obtain information and updates on insurance products and services (Capgemini, 2013).

According to research conducted by PWC (PWC) 93% consumer use public search engines as initial point of information discovery, 83% suggest social channels are influential during the decision making process, 60% will use topical forums and discussion groups for purchase decisions, 70% cite consumer opinion as the most trusted source of information and 57% publish their brand and product experience to protect others from a similar experience.

Consumers' methods of researching and purchasing insurance products have changed over time. Consumers are less dependent on the financial services industry for knowledge and now use the internet to gather information on various

products and services offered by multiple insurers. This is made possible by improved browser capabilities and websites that help to create a better product illustration. This has provided consumers with choices and comparison and purchase of alternative financial products and services online is now straightforward and widespread. It has opened up a wide range of choices for consumer, some outside the boundaries of traditional services (Capgemini, 2013).

The internet is used for (Deloitte, 2010):

1. Research purposes as consumers search for information on insurance products online before approaching their agents or insurers;
2. To view policy details;
3. To pay premiums;
4. To contact agents;
5. To obtain sales related advice from friends, family and other contacts;
6. To gain feedback on products and services;
7. To communicate personal updates;
8. To explore options and points of view.

Many Generation X consumers (born between 1965 and 1980) and a majority of millennials (born after 1980) prefer conducting their own research and making their own investing decisions with infrastructure, partnership and support. Generation X and Y consumers will only interact through digital means (PWC, 2014). These generations have different wealth and personal finance preferences and client interaction expectations. Several insurance companies in USA and UK have already started using social media mainly to target Generation Y as a distribution channel for less complex products (Deloitte, 2010). Further, technological advances and an increase of choice are contributing to a growing number of young customers becoming internet savvy (Ernst and Young, 2012).

The emergence of social media in parallel with the rise of mobility has seen consumers rely on their peers for information and advice rather than financial experts. Consumers trust their peers as the role of the financial experts. Consumers leverage social media platforms to obtain product feedback from peers. Consumers rely on information and reviews from consumers who have already used the product than from financial experts (Seung, 2012). A study on

social network sites concluded that 64% of users visit an online site if they see a friend who has done the same (Palmer and Koenig-Lewis, 2009).

The PWC study (2014) found that 74% of affluent clients regularly use some form of social media whereas 52% did in 2008. About 7% of wealthy investors use social media have either changed or altered their relationship with an investment provider or reallocated actual investments because of something they read on social media (PWC, 2014). Consumers are more informed and savvy due to easy access to research, data and expert views. Social media has provided consumers with a voice. Stories of bad customer experiences rapidly spread through these media and often cause considerable damage to associated brands (PWC, 2014).

Consumers are increasingly demanding simplicity, transparency and speed in their transactions with businesses including agents and advisers. As more financial services become self directed consumers become more demanding of financial services companies (PWC, 2014).

This changing consumer behaviour, driven by technology, has led to a decrease in the number of traditional insurance financial planners. Consumers are using alternative channels because they facilitate compelling interaction, features and experiences. The adoption of mobile technology by consumers has added to the challenges faced by independent financial planners (PWC, 2013).

#### **2.5.5 Use of technology by insurance companies**

High costs in sales of insurance products by financial planners are prompting insurers to look for alternative channels. The costs of sale for many insurance products are significantly out of line with value provided to consumers. Distribution costs account for 38% of the total operating costs. Coupled with low persistency (poor customer loyalty) current face to face models which are primarily independent financial planners are running counter to underlying economics and value (Gentle, 2007).

According to research done by Deloitte (2010), it cost too much to sell insurance to the average retail clients who then do not hold the product as long as expected. The independent financial planner channel is inadequate, offering poor quality

advice and poor product penetration. As such, it is seen a costly way to acquire new business and poor persistency (Deloitte, 2010)

Stone, Kiran, Brew and Selby (2002) state that financial service companies have reconfigured their distribution channels due to profitability demands and target requirements. Information technology advancements have resulted in a very competitive financial services sector and its impact is evident across the entire financial sector. (Flier, van den Bosch, Volberda, Carnevale, Tomkin, Melin, Quelin and Kriger, 2001; Aitchison and Stone, 2002).

Financial services companies in the developed economies are implementing new low cost channels to counter competition (Durkin and Howcroft, 2003). The financial services industry has adopted these new channels through the developments in technology (Hughes, 2006). According to Moriarty and Moran (1990) organisations are using new channels and communication methods to extend their market coverage. A company's strategy in respect of distribution channels has become important as new channels allow for more customers to be reached at a lower cost (Easingwood and Storey, 1996).

This is further supported by Capgemini (2013) that states that the sale of insurance products through these alternative channels will enable product providers to keep distribution costs low. Technology reduces costs through cheaper computing and better processes.

Insurers are adopting multi-channels for marketing, distribution and sale of products and services because consumers are presented with a consistent experience across the web and mobile. They recognise that customers leverage multiple outlets as they research and buy products and services (Leary, 2013). Bearden, Ingram and La Forge (2006) state that companies are adopting multiple distribution channels to allow customers the flexibility of purchasing products and services at convenient times and places.

Technology allows an insurer to gain a single view of the customer in respect of all products sold. The availability of product information on the internet allows for transparency of costs. The internet allows product providers to provide a self

service portal for consumers that increases customer satisfaction whilst reducing operational workload (Capgemini, 2013).

Technological advancements help insurers develop these new channels that allow them to reach consumers directly bypassing traditional intermediary channels. It also allows insurers to automate certain processes. This is as a result of the increase usage by consumers to purchase insurance products using alternative channels (Capgemini, 2013).

Initially these channels were used to provide only product or policy related information and for advertisement purposes. However insurers now use these channels to directly communicate with customers and sell suitable insurance products. These platforms expose the industry to greater transparency and scrutiny (Capgemini, 2013). Technology also allows organisations to move away from mass marketing to a world where organisations can respond to the needs of individual customers enabling closer customer relationships based on effective two way communication (Winer, 2001; Sharpe, 1999).

Insurance providers are using the internet for communication and distribution of products at an increasing rate (Gidhagen and Persson, 2011). This includes client interaction and feedback. Insurers strive to provide a consistent consumer experience across all channels. Increased competition and changes in customer behaviour and preferences paved the way for growth of newer channels for marketing, distribution and sales of insurance products.

The popularity of mobile communication amongst consumers is forcing marketers to revisit their strategy to remain competitive. The use of Facebook and Instagram facilitates contact with more consumers in an efficient and interactive manner (Tansey, 2012).

Insurers use social media for mass marketing tool. Social media can be used to assess the needs of customers, solicit customer feedback, to resolve queries in real time, provide product updates and to launch media including new product launches. These platforms along with online channels can also help remove geographical limitations that agents face when serving their clients (Capgemini, 2013).

## **2.6. Alternative channels (competition) to independent financial planners**

The financial services markets across the world have changed with the emergence of direct insurers, telephone sales and internet based selling (Brophy, 2012). In addition, alternative ways of selling insurance products have been established through bancassurance (Hughes, 1994). The entry of these alternative channels is facilitated by partnership of these alternative channels with current insurers. Organisation's use of a number of distribution channels has is increasing (Friedman and Furey, 1990; Frazier, 1999). This has resulted in the decline of the market share of independent financial planners.

In the UK non-traditional channels have negatively affected the traditional independent financial planner channel. The market share of independent financial planners decreased from 90% to 73% and in 2004 over 60 billion pounds of premiums related to the life and pension industry were generated through alternative channels. Further less than 60% of life insurance was sold through independent financial planners compared to 93% in 2000 (Gentle, 2007).

### **2.6.1 Direct insurers**

Evolving customer preferences and intensifying competition in insurance markets have also contributed to the emergence of multiple low cost distribution channels. Many customers choose to use lower cost, more convenient distribution channels as an alternative to face to face sales. These new channels also allow customers to compare multiple products without much effort, helping them to choose the product that best suits their profile. These channels allow customers to make insurance purchases at their convenience (Wilkinson, McAllister and Widmier, 2006). This is supported by Capgemini's survey that states that direct insurance has increased customers' convenience when purchasing insurance products (Capgemini, 2013).

A Coverhound survey of 2010 (PWC, 2012) found that 32% of United States American consumers and 50% of consumers between 18 and 25 years prefer dealing with direct insurers. According to Peter Todd (Stokes, 2012), the rise of the direct insurance model resulted in reduced cost insurance offerings and

innovation. Further, direct insurers have invested millions of rand into marketing, thereby raising awareness of insurance among consumers (Stokes, 2012).

Technology and increased regulation play into the hands of direct insurers. Growth of these channels has been aided by technological innovations that facilitate the ability to illustrate product benefits quickly, shorten customer response time and simultaneously serve multiple customers (PWC, 2013). Direct insurers are becoming integral in product provider's channel strategy (Scovitti and Spiller, 2006). According to Thomas (2007), direct marketing is almost always more efficient than mass marketing.

The introduction of a direct link between provider and customer in the mid 1980s altered the way insurance was delivered, bypassing existing sales channel of independent financial planners. The benefits of direct insurance are simplification or standardisation of the underlying insurance product so that it can be sold without an advisor. Development of automated application processes and underwriting criteria that emerged created a more standardised product. This led to the introduction of alternative distribution channels like online sales. These non-traditional distribution channels capitalised on the bundling of service with selling (Deloitte, 2010).

The direct channels have allowed insurance companies to increase sales while keeping costs low. With the launch of direct channels insurers were able to manage the pre-sales, point of sale and post sales service activities and were able to provide a coherent customer valued experience across the life of a product. This was not possible when sales were primarily done through independent financial planners. It was only by orienting every distribution channel to serve customers rather than serving sales and financial planners that direct insurers were able to create and offer a low cost mix of features and services that was compelling enough to entice customers away from the traditional independent financial planner (Deloitte, 2010).

### **2.6.2 Telemarketing**

Telemarketing is the process of selling, promoting and soliciting a product or service over the telephone. Telemarketing has been used in the insurance industry for decades but it is now emerging as a prominent alternative distribution channel (Deloitte, 2010).

There are several advantages of telemarketing. The most significant is that involves human interaction, which facilitates two-way communication and gives immediate feedback. Moreover a telemarketing agent can handle a large number of customers in a day, which makes it a cost effective and productive marketing medium. Both non-life and life products are sold through telemarketing channels. In some countries like Australia and South Korea, telemarketing is more prevalent in selling non-life products. However, telemarketing is challenging in that it lacks face to face interaction that more easily facilitates the selling of complex insurance products. As such telemarketing tends to be used more as medium of lead generation in the sales process (Deloitte, 2010).

### **2.6.3 Bank financial planners**

The bank financial planner channel has emerged as an important channel across different regions. It is now among one of the most important channels in Europe and is third most prolific distribution channel after independent financial planners and the internet (Capgemini, 2013). This channel contributes 35% of premium income of the life insurance market. As a result of this channel, a customer driven approach to the delivery of insurance products has emerged (Capgemini, 2013).

This includes the concept of bancassurance which involves selling insurance products through a bank as a distribution channel and is prevalent in almost all countries (Deloitte, 2010). The strength of the banking brand is used to sell insurance products (Grice, Ouarbya, Rodriguez and Temple, 2008). Bancassurance can involve both the production and distribution of risk and investment products.

One third of all consumers own at least policy bought from their banks. Banks occupy a trusted position in the minds of consumers especially in comparisons to insurance companies. In countries with large rural populations and agricultural



economies, banks have helped to increase insurance penetration providing a trustworthy and cost efficient link to consumers (Deloitte, 2010).

The frequency of client interactions via banks is much higher. Approximately 38% of customers are contacted at least once a month by their bank which contrasts with 15% for insurers or their tied agents and 11% for independent financial planners (Accenture, 2011). According to a survey conducted by Accenture North American Insurance Distribution Survey Findings, consumers view bank financial advisors as a one stop financial shop for all financial services (Accenture, 2011).

## **2.7 Consumers' perceptions and expectations of independent financial planners**

Consumer expectations are changing and their expectations are being shaped by their experiences outside of the financial services industry where the content and features of interactions deliver an engaging and rewarding consumer experience. Today's consumers have come to expect multi channel marketing and distribution regardless of the product or service they are buying, including financial services (Leary, 2013).

Buyers of insurance are changing in many ways. Their demographics are shifting in age profiles and expectations. There has been a gradual change in consumer preferences around buying insurance products. Customers buying preferences have changed due to the introduction investment products and other marketing channels. They no longer purchase products through financial planners (Tsu-Wei, 2014).

This change has been both behavioural and attitudinal in nature and is more prominent among younger customers. (Accenture, 2010) Customers' education and sophistication is evident in the manner they purchase products and services for insurance needs. Customers want simplicity, transparency and speed in their interactions with product providers and intermediaries. This is being stimulated by technological advances in the internet and mobile spaces (PWC, 2010).

Expectations and perceptions of consumers towards financial planners can be determined by complaints lodged against financial planners with the Financial Advisory and Intermediary Services Ombud. The Ombud was launched in 2003 and is responsible for the protection of consumers; and maintaining and improving the integrity of the financial services industry (FAIS Ombud, 2013).

The Annual FAIS Ombud Report 2012/2013 indicates that during the 2013 year the Ombud's office received 9 949 complaints which was an increase of 13% from 2012. Of the complaints received just over 13.40% were from Kwazulu-Natal. More importantly just over 27.38% related to long term insurance products, representing the most complaints) (FAIS Ombud, 2013).

In a competitive environment, financial planners compete with each other to add value for clients. To retain clients, financial planners face a burden of proof that they have delivered value to their clients. Financial planners sometime negotiate fees with their clients in lieu of commissions (Cummins and Doherty, 2006)

In terms of a UK based study undertaken by the Institute for Financial Planning (IFP) in 2009, 24% of respondents confirmed seeking advice from a financial planner. A further 37% stated that they saw no value in using a financial planner and only 6% would use the service of a financial planner (FPSB, 2009).

According to Maas (2010), consumers were not satisfied with brokers' superficial information and their insufficient industry knowledge. A broker's strategy is often sales driven and focussed on insurance solutions instead of being customer orientated. All broker activities are still very distribution orientated. Customers require brokers' to enhance their problem solving capability. Intermediaries' knowledge of risk management is regarded as insufficient with respect to their consulting role.

While planners can be very knowledgeable about markets and investments, their recommendations are deemed merely incidental to product sales and is not advice (Millennium Investment & Retirement Advisors, LLC, n.d). Research undertaken by Deloitte (2006) shows that planners believe customers pay them for the advice on helping them to set priorities yet customers believe planners are paid to provide detailed information on product features and to find the best value products.

Consumers are prepared to pay 30% less than the planner's average required revenue per hour to cover costs. With such a value mismatch an increasing number of consumers will turn to other channels (telephony, mobile and internet) to make insurance purchases (Deloitte, 2006).

The underlying advice that sits at the heart of this model is neither valued nor desired by consumers. Financial advice of providing guidance to consumers throughout the sales process is the portion of the insurance market where the cost of the service is seen as unaligned with what consumers are willing to pay for in respect of that service. There are two competing definitions of advice: one embraced by insurance customers and the other by planners. Consumers want information about product features, require help with industry terminology and look for an opinion on the differences between providers. Planners believe that the value of their advice encourages consumers to save; it is an offering that helps with financial planning and allowing consumers to achieve their financial objectives. This highlights the divergent views of the value of advice (Deloitte, 2006).

This mismatch between perception of insurance consumers and financial planners has implications in determining what customers will pay vs. what planners will charge. Financial planners believe that they are entitled to the initial commission for the financial advice provided. Customers believe that the advice is free. Customers are hostile to paying for advice because they believe the advice is free (Deloitte, 2006).

## **2.8 Summary**

The viability of independent financial planners is impacted by various factors. Legislation including compliance and educational requirements to practise as a financial planner and commission regulations is resulting in a drop in income for independent planners and increased expenses in respect of compliance to remain in the industry. Competition from direct channels and bank financial planners is seen as a factor that could reduce an independent financial planner's client base and income. The use of technology by customers and direct insurers will have an

impact on independent financial planners because it allows customers to use various forms of technology for direct interactions with product providers. Customer perceptions' of the industry and independent financial planners has resulted in a decrease in the numbers of independent financial planners. Planners are exiting the industry and they are too few entrants into the industry. The survey forwarded to the independent financial planners in KZN will endeavour to ascertain if these factors are impacting on the sustainability of independent financial planners in KwaZulu-Natal. Chapter Three discusses the research method employed to provide answers for the research objectives.

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research facilitates the acquisition of knowledge. It follows a scientific and methodical approach. This involves a process of enquiry and investigation to obtain information on the research topic (Bradford University School of Management, 2007). Through research one is able to determine the reasons for the existence of a set of circumstances and the consequences of those circumstances can be determined. The continual occurrence of the same results allows the researcher to draw conclusive and make valid generalisations.

Research methodology is used to find a solution to a problem in a practical manner. The reasons for the research study, the manner in which the problem was identified and the reasons for a particular process will be documented in the methodology. Finally, a synopsis of the data collection process and analysis is provided (Sheffield Hallam University, n.d.)

### **3.2 Research Design**

The research design is governed by the “fitness for purpose” and as such will determine the methodology and design of the research (Cohen, Manion & Morrison, 2000, p.73). The research design allows the researcher to collect, measure and analyse the data obtained through the data collection instrument. In this chapter, the research design and method to obtain the data will be explained. The following will be discussed: type of study, study setting (location of study), sample process including population and sample size, data collection instrument, questionnaire design, pretesting and validation, questionnaire administration and analysis of data.

### **3.3 Type of Study**

According to Sekaran and Bougie (2009) the two paradigms of research methodology are quantitative and qualitative. Blumberg and Cooper (2008), state that the difference between qualitative and quantitative is based primarily on the type of information used to study a phenomenon. Quantitative research involves measuring data in numbers and figures. It analyses numerical data by measuring the scale, frequency and range of phenomena. Qualitative research is subjective and studies factors of the research subject like values, attitudes and perception. It relies on qualitative information like words, sentences and narratives (Bradford University of Management, 2007). The criterion for choice of method depends on the objective of the research.

A quantitative method was used in the research process. Concepts, variables, hypotheses, literature review and the collection and analysis of data were used in a quantitative method. A statistical analysis of the data was conducted that determined norms and averages. The Statistical Programmes for the Social Science (SPSS) (version 2.0) was used.

The quantitative method also allowed the researcher to describe the frequency, incidence and distribution of characteristics of an identified population or sample to explore relationships between variables. The relationship between variables was studied objectively (Leedy and Ormrod, 2005). Quantitative research allowed the researcher to make generalisations from the sample size to the target population and remain objective (Cresswell, 2008). This was then used to make inferences about the target population itself. As a result explanations and predictions obtained from this quantitative research can be generalised and applied to other situations (Sheffield Hallam University, n.d.).

### **3.4 Study Setting (Location of Study)**

The study focussed on the independent financial planners practising in the long-term insurance industry in KZN. Independent financial planners provide financial planning advice to consumers. This includes advice on estate, retirement, investment and business planning as well as on disability and dread disease

protection. The advice entails the sale of products to satisfy any shortcomings or gaps identified. Planners have to be licensed by the FSB to market, distribute and sell insurance products. The approval of the license depends on the planner possessing the appropriate qualifications and experience. Planners should have contracts with at least two or more insurance companies to justify their independence (otherwise they would be seen as tied agents of a particular insurance company). Further, independent financial planners require accreditation from the various product providers' to be able to sell these product providers' products.

### **3.5 Sample Process**

#### **3.5.1 Population**

The process of sampling starts with the definition of the target population. This takes into account geographical boundaries and time (Sekaran and Bougies, 2013). The population is a complete group of elements (people, event, objects) that are under investigation in the research study. The elements in the population share a set of predetermined specifications (Mouton, 2009,) (Sekaran and Bougie, 2013).

The population for this research study was the independent financial planners practising in the long term insurance industry in KZN. The population is 525 independent financial planners who have contracts to market, distribute and sell Old Mutual risk and investment products. The population was based on the computerised data base of independent financial brokers maintained by the KZN Regional Office of the Broker Distribution, Old Mutual.

#### **3.5.2 Sample size**

A particular number of elements of the population are selected for the study. This is called the sample size. This is a subgroup of the population but not necessarily a duplicate of the population. The sample selected should enable the researcher to make inferences in relation to the population (Sekaran and Bougie, 2013).

The sample size in this study was based on the model developed by Krejcie and Morgan (1970, as cited in Sekaran and Bougie, 2010). According to this model, a

sample size of 265 is recommended for a population of 550. The population in this study is 525 independent financial planners and as such the sample size of 265 was used. No sampling method was used in the study because questionnaire was distributed to the total population.

### **3.6 Data Collection**

Data collection methods must be evaluated before choosing the most appropriate one. The choice will depend on the questions and objectives (Saunders, Lewis and Thornhill, 2002). Further, the facilities available, the degree of accuracy required, the expertise of the researcher, the time span of the study and other costs and resources also determines the choice of method (Sekaran and Bougie, 2013).

The research design in this study took the form of a cross-sectional analytical survey in which questionnaires were sent to the 525 independent financial planners. This data collection method was most suitable to the research objective because of time and cost constraints as well as the length of the questionnaire. The measuring instrument was a structured self administered questionnaire containing closed ended questions.

### **3.7 Questionnaire Design**

The research instrument used in this study was a structured questionnaire (Appendix 2). According to Saunders et al (2002) the questionnaire is one of the most widely used survey data collection techniques. This technique is effective where there are standardised questions that all respondents will interpret in the same way. Questionnaires can therefore be used for descriptive or exploratory research. Objectivity was maintained as the respondents did not come into contact with each other.

The questionnaire was divided into five sections. The first section pertained to demographic and biographical details. The remaining sections pertained to factors identified as impacting the sustainability of the independent financial planner:



Section A: Demographic details of respondents

Section B: Factor One: Legislation

Section C: Factor Two: Technology

Section D: Factor Three: Alternative channels (competition) to independent financial planners

Section E: Factor Four: Clients' expectations and perceptions of independent financial planners (independent financial planners' perspective)

This questionnaire consisted of 62 questions where respondents selected one answer from a series of alternatives. The questionnaire had subjective and objective questions. Objective questions were single direct questions that had an ordinal scaled set of categories. Subjective questions looked at the "elements and dimensions of the concept" (Sekaran and Bougie, 2013, p.150). Classification data that was included pertained to demographic questions providing information on aspects like age, educational level, and income (Sekaran and Bougie, 2013). Quantity questions were used to collect attribute and behaviour data of the sample (Saunders et al, 2003). Other questions contained fixed responses providing the respondents with all possible responses.

The language of the questionnaire took into account the level of understanding of the respondents. The words used were based on educational level of the respondents and industry terminology. Closed questions were used providing the respondents with all possible alternative answers. This facilitated quick responses by respondents and coding of responses by the researcher for analysis. The order and flow of questions were logical to ensure ease of answering. Further it was simple with clear and concise instructions (Saunders et al, 2003). The questionnaire was accompanied by a letter of consent ensuring anonymity and the option not to participate (Appendix 1).

Likert-style rating/scale questions were used to obtain data (Saunders et al, 2002). The Likert scale was used to analyse and determine the extent to which respondents agreed or disagreed with factors impacting financial planners. This type of scale was easier to respond to and facilitated the interpretation of the data.

### **3.8 Pretesting**

A pilot questionnaire was distributed to the regional manager of Broker Distribution, KZN, two legal advisors and three independent financial advisors to reveal the weaknesses of the measuring instrument. It was prepared carefully to be effective in collecting relevant information. This was done to ascertain the duration of time that would be spent on completing the questionnaire. Further, improvements were made to the questionnaire on recommendations from the pilot study group.

The following were highlighted and corrected:

1. Additional demographic questions were added e.g. post-matric financial qualification
2. Additional questions were added to measure the impact of factors identified
3. Open ended questions were deleted due to time constraints
4. An alternative called "other" was added to certain questions to allow respondents to provide their opinions where necessary
5. Spelling and grammatical errors were identified and corrected
6. The questionnaire took approximately 15 minutes to complete

### **3.9 Validity and Reliability**

Validity tests the effectiveness of the instrument to measure the concept it intends to measure. It is concerned with whether the right concept is being measured. Reliability tests consistency of a measuring instrument in respect of the concept it is measuring. Different respondents being tested by the same instrument at different times should respond identically to the instrument (Mouton, 2009). According to Blumberg and Cooper (2008), a research study is considered as having a higher reliability if it gives the same results repeatedly, while low reliability gives a different result each time the study is conducted.

Validity and reliability was tested using the Cronbach's Alpha Coefficient. The Cronbach Alpha Test was performed to establish that the questionnaire's continuous study variables have internal consistency and reliability. In this study,

Cronbach's Alpha Coefficient was calculated at 0.821 which is higher than 0.7. This supported the quantitative approach to the study (Sekaran and Bougie, 2013).

### **3.10 Questionnaire Administration**

This questionnaire was electronically distributed to respondents using QuestionPro. A letter of consent accompanied the questionnaire. Two reminders were forwarded to respondents who did not complete the questionnaire after the initial e-mail invite.

### **3.11 Analysis of Data**

Descriptive and inferential statistics were used. Descriptive statistics facilitates the organisation and summarising of raw data to render it more comprehensible. Inferential statistics involves drawing inferences from sample data to the entire target population.

This primary data collected through the questionnaires was coded for statistically analysis using Statistical Programmes for the Social Science (SPSS) (version 2.0). The data was reviewed and coded in order to meet the requirements of a template design sheet in SPSS. Numerical codes were used for the coding and recording. (Saunders et al 2002).

Data was checked for spoilt responses and to ensure that data was imported correctly. Where no responses were provided to answers or data was not required, missing data codes were used (Saunders et al 2002). Data was reduced to manageable categories for coding. Specific values of individual questions were captured in a tabular format (Saunders et al, 2002).

Univariate analysis was used to analyse single variables. Each question in the data collected was analysed using descriptive statistics (Saunders et al 2002). Focus was placed on specific values and frequency of responses to establish independent financial planners' perceptions of factors impacting on their sustainability. Frequency and percentage tables, charts, graphs and statistical indices were used to examine a single variable at a time. Frequency tables

indicate the number of respondents that have the same responses to a given variable (Mouton, 2009).

The analysis of single variables was followed by a bivariate analysis of relationships between two variables. Cross tabulation was used for this analysis to establish the interdependence between the variables (Saunders et al, 2002). The Chi-Square test was used to determine if any significant relationships existed between variables. This test established whether the observed results in a cross-tabulation represented true population values. These relationships found in samples should be reflective of the population. It must be ascertained if frequencies reveal a true relationship between these variables in the population (Mouton, 2009). The findings can be interpreted based on the existing theory contained in the literature review. This can result in new questions for further research.

### **3.12 Ethical Considerations**

According to Sekaran and Bougie (2013) ethics relates to the researcher's conduct or expected behaviour while conducting research. Participation by respondents must be voluntary. Confidentiality and anonymity of respondents must be assured at all times (Babbie and Mouton, 2001).

Ethical clearance was obtained from the University of KwaZulu-Natal (Appendix 4). A gatekeeper's letter (Appendix 3) was obtained from the Regional Manager of Broker Distribution, KZN to use the Old Mutual's database of independent financial planners. The questionnaire was accompanied by a letter of consent (Annexure 1). Participants were advised of confidentiality and anonymity. Further, participants were allowed to exit the questionnaire at any stage.

### **3.13 Summary**

This chapter provides a discussion of the research methodology employed to answer the research objectives. A description of the type and location of study, population and sample size, data collection instrument and analysis of data was

provided. Reasons for adoption of different aspects of the research designs were discussed. Chapter Three will provide an analysis of the data obtained from the questionnaire and a subsequent discussion of the results obtained from the questionnaire.

## **CHAPTER FOUR**

### **ANALYSIS AND DISCUSSION OF RESULTS**

#### **4.1 Introduction**

This chapter presents, analyses and discusses the results of the data that was obtained from the survey sent to the identified target population. Descriptive (univariate) and inferential (bivariate) analyses were used.

Of the 525 independent financial planners that have Old Mutual contracts, 115 planners completed the questionnaire. According to the Krejcie and Morgan model (1970, as cited in Sekaran & Bougie, 2013), this is an acceptable figure to draw inferences to the whole population. Due to the questionnaire being in the form of an online survey, the percentage of respondents is acceptable to draw conclusions in respect of the population. The average time to complete the questionnaire was 15 minutes.

Data was presented in detail and in a manageable form. It was reported in more than one form. Categories were combined to provide for meaningful analyses e.g. “agree” and “strongly agree” responses were collated together. A neutral option titled “undecided” was provided. These responses indicate insufficient knowledge on the part of the respondents in respect of the question (Babbie and Mouton, 2001).

With univariate analysis a single variable was described by analysing the distribution of attributes for each question in relation to the variable. The analysis was done in terms of frequencies, measures of central tendency and dispersion. Graphs and charts (including bar and pie) were used to visually illustrate the frequencies.

Bivariate analysis provided explanations for relationships among the variables. The chi-square test was used to establish whether or not the observed pattern was due to chance. This test compared the expected frequency and observed

frequency. Degrees of freedom denote if a significant relationship exists between two variables (Sekaran and Bougie, 2013).

Pearson correlation matrix was used to determine the direction, strength and significance of a bivariate relationship. A perfect positive correlation between two variables is represented by +1.0 and a perfect negative correlation by -1.0. A significance of  $p=0.05$  or less is considered statistically significant (Sekaran and Bougie, 2013).

## **4.2 Objectives of the research study**

The survey consisted of questions that would answer the following research objectives:

1. To determine the factors affecting independent financial planners in KZN.
2. To investigate the impact of these factors on the sustainability of independent financial planners in KZN.
3. To make recommendations to overcome these factors to retain independent financial planners for the marketing, distribution and sale of insurance products in KZN.

The data is presented and discussed in terms of the:

- Individual factors affecting independent financial planners as identified in the literature review.
- Impact of these factors on the sustainability of independent financial planners.

## **4.3 Demographic Distribution**

Table 4.1 shows the summary of socio-demographic informations of the respondents. Results indicated that the independent financial planning industry in KZN is a male dominated industry, with over 88% of the respondents being male. The majority (77%) of the respondents are over 45 years with the average age of respondents being approximately 51 years. This supports the finding of survey conducted by the Institute of Practice Management (2012) that found that the

average age of planners was 54 years (the small difference could be attributed to the inclusion of tied agents and bank employed advisors in that survey). This supports the view of Bird (2011) that independent financial planning as a career was on the decline. This is a cause for concern as it indicates that the industry is an aging one with fewer people entering the industry or becoming independent financial planners.

Over 90% of the respondents are either white or Asian. More than half of the respondents have been practising as financial planners for more than 20 years. It was found that 67% of all respondents either possess a grade 12 secondary qualification or a one year diploma. The results indicate that a third of the respondents had a diploma as their highest educational qualification. This contrasts with the Institute of Practice Management survey (2012) that found that 92% of respondents did not further their post matric qualification. This could be due to this study being restricted to independent financial planners in KZN, whilst the former survey included all types of financial planners practising in the financial services sector throughout the country.

The majority of all respondents (31.19%) earned between R250 000 and R500 000 in 2013, whilst 26.61% of all respondents earned between R500 000 and R700 000. About 20.18% earned over R1 000 000 while 8.26% earned less than R250 000. The balance of 13.75 respondents earned between R750 000 and R1 000 000. In terms of the survey undertaken by the Institute of Practice Management (2012), independent financial planners' profit margins are decreasing due to legislative requirements.

Table 4.1: Demographics of independent financial planners in KwaZulu-Natal

Demographic	Characteristic	Percentage
Gender	Male	87.16
	Female	12.84
Age	25 and under	
	26 to 35	6.19
	36 to 45	16.81
	46 to 55	43.36
	56 and over	24.78



Race	Asian	44.95
	Black	4.59
	Coloured	1.83
	White	46.79
	Other	1.83
Years practising as a financial planner	1 to 5	12.04
	6 to 10	5.56
	11 to 15	13.89
	16 to 20	13.89
	21 to 25	17.59
	>25	37.04
Highest education qualification	<Grade 12	0.93
	Grade 12	32.71
	Diploma	33.64
	Degree	16.82
	Honours	8.41
	Other	2.80
Highest post matric financial planning education qualification	RF1	6.48
	RF2	12.04
	RF3	29.63
	CFP	34.26
	Advanced CFP	0.93
	Other	16.67
Annual income for the year ending 2013	>R250 000	8.26
	Between R250 000 and R500 000	31.19
	Between R500 000 and R750 000	26.61
	Between R750 000 and R1 000 000	13.76
	>R1 000 000	20.18

#### **4.4 Objective One: To determine the factors affecting independent financial planners**

##### **4.4.1 Financial Planning Practise**

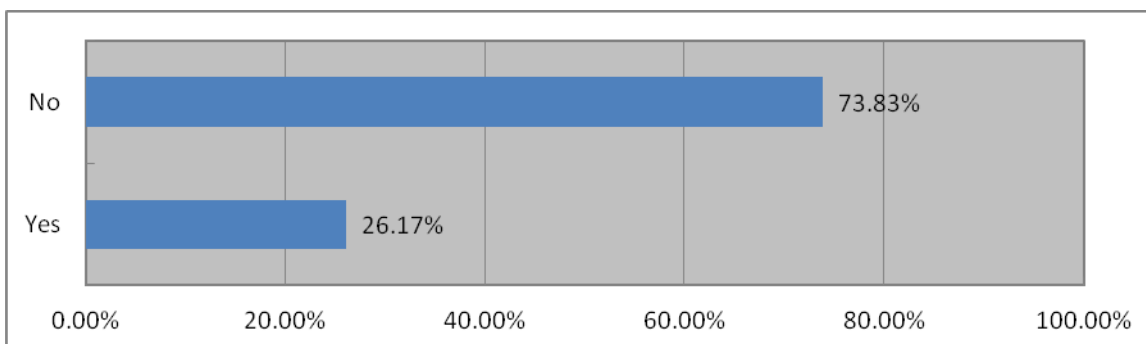
Table 4.2 indicates that over two thirds of respondents view the advice component of their job as the most important .Selling and marketing rank as the second and third most important functions in an indepedent planner’s praticise. This is in line with the requirements of FAIS legislation that requires planners to provide advice to clients before the sale or marketing of a product (Part VII of the General Code of Conduct For Authorised Financial Service Providers and Representatives - FAIS Act). The reason for administration and “other” being the least important could be due to these functions been performed by other staff in the practice.

Table 4.2: Rank of Main Functions

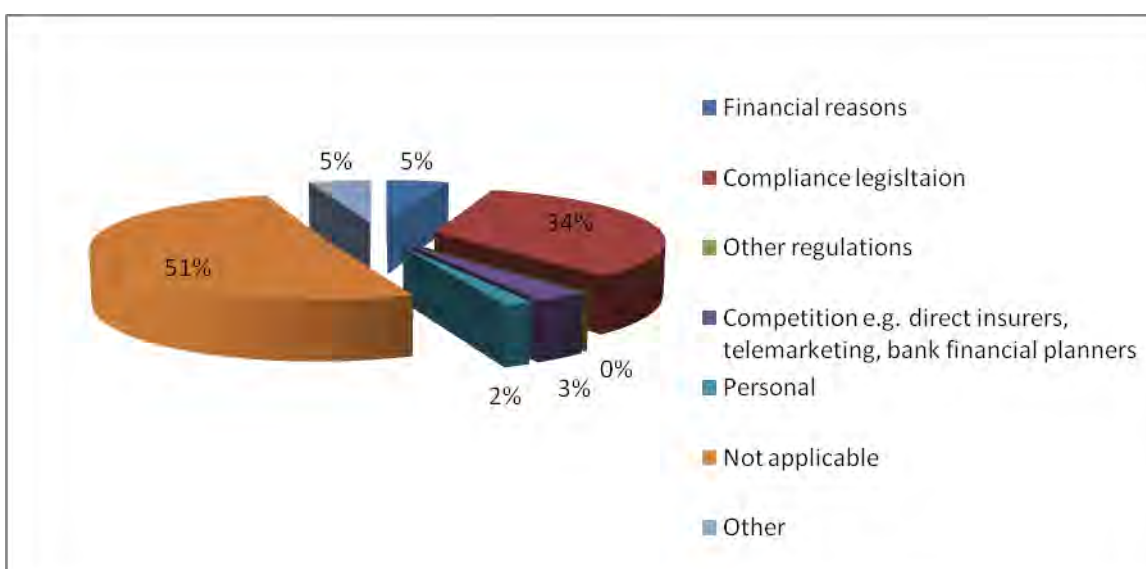
	Most important	2	3	4	Least important
Administration	3.85	15.53	29.41	47	8.05
Marketing	5.77	23.30	40.20	26	5.75
Selling	15.38	40.78	20.59	16	6.90
Advice	68.27	16.50	5.88	3	10.34
Other	6.73	3.88	3.92	8	68.97

##### **4.4.2 Exiting the industry**

Over one quarter of all respondents have indicated that they had considered exiting the industry within the last five years (Figure 4.1). Of those planners that considered exiting the industry, compliance legislation is cited as the most popular reason (73%) for exiting the industry (Figure 4.2). These findings are in line with Institute of Practice Management (2012) that found that regulatory compliance costs are adversely affecting independent financial planners. In addition the findings of this study are aligned with the findings of the Coredata survey (2013) where it was found that independent financial planners were exiting the industry because of compliance legislation.



**Figure 4.1: Considering exiting the industry in the last five years**



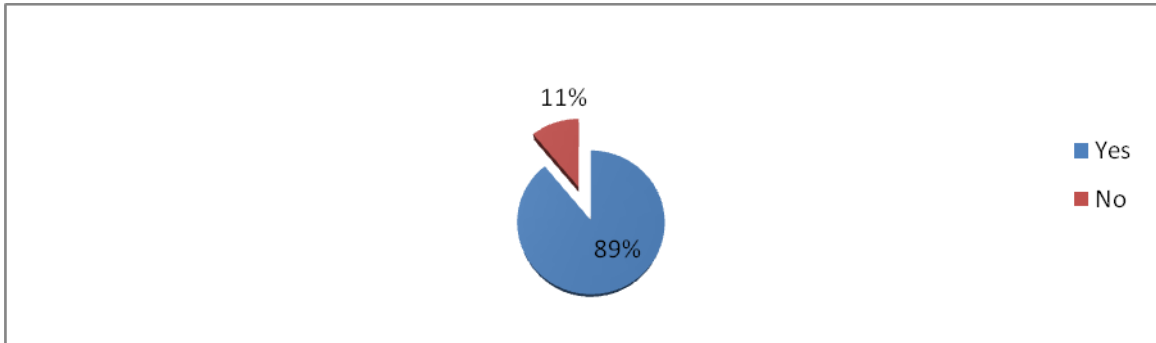
**Figure 4.2: Reasons for exiting the industry**

### 4.4.3 Legislation

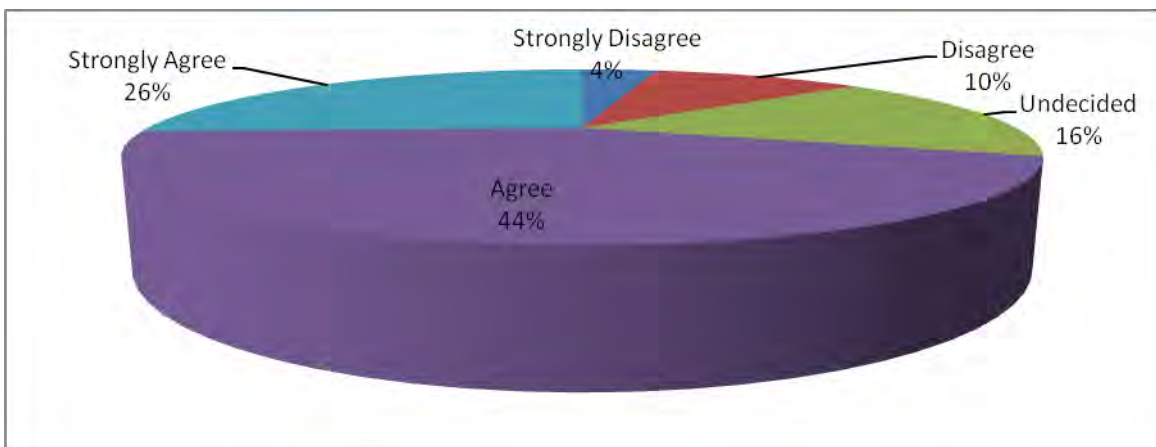
#### 4.4.3.1 Compliance legislation

The majority of respondents (89%) view FAIS and other compliance legislation as having a positive effect on the industry (Figure 4.3). Supporting the findings in Figure 4.3, Figure 4.4 shows that 70% of respondents either agree or strongly agree that compliance legislation has resulted in independent financial planners rendering an improved quality of service to clients. This is in line with the purpose of the TCF. TCF was implemented to ensure that all stakeholders in the insurance industry design and sell appropriate insurance products to the public (TCF Principles, 2014). This supports the literature review that found that compliance

legislation does promote consumer protection ensuring economic stability, as stated in the Department of National Treasury policy document (2011), “A Safer Financial Sector to Serve South Africa Better.”



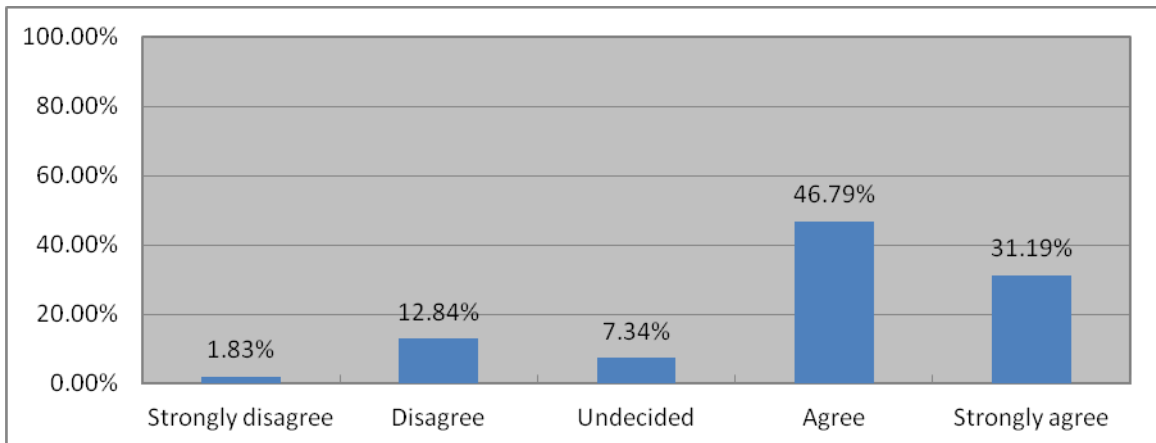
**Figure 4.3: FAIS and other compliance legislation have transformed the industry positively**



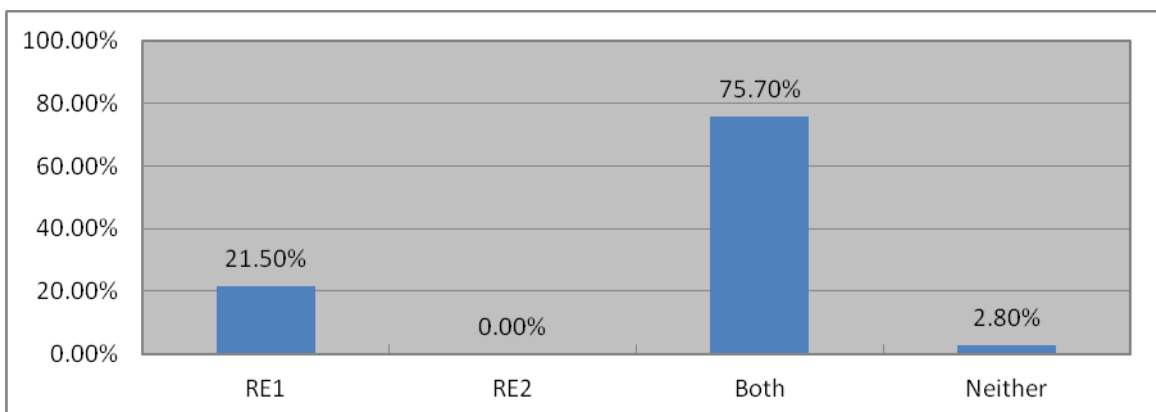
**Figure 4.4: Compliance legislation has resulted in independent financial planners rendering an improved quality of service to clients**

Over 75% of respondents either agree or strongly agree that the Regulatory Examinations and CPD requirements are required for the industry (Figure 4.5). Figure 4.6 confirms that three quarters of all respondents have passed both Regulatory Examinations as required by FAIS. Linked to the previous figure, almost 85% of respondents have continuously met the CPD requirements as indicated by Figure 4.7. In terms of the Fit and Proper Requirements (FAIS Act 37 of 2002) independent financial planners must meet the competency requirements

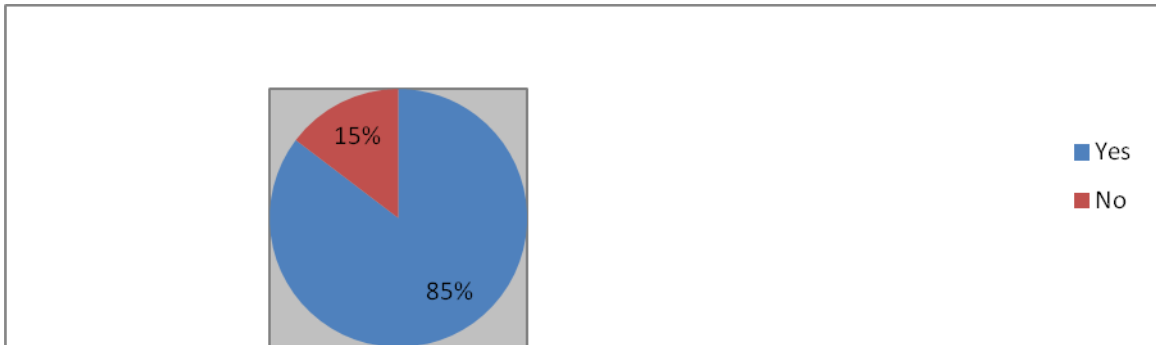
to practise in the industry. As such planners must complete the Regulatory Examinations (that tests the knowledge pertaining to the financial services industry). Further, planners need to maintain professional competence by acquiring the required CPD points.



**Figure 4.5: RE1 and RE5 examinations and CPD are a necessity in the financial services industry**

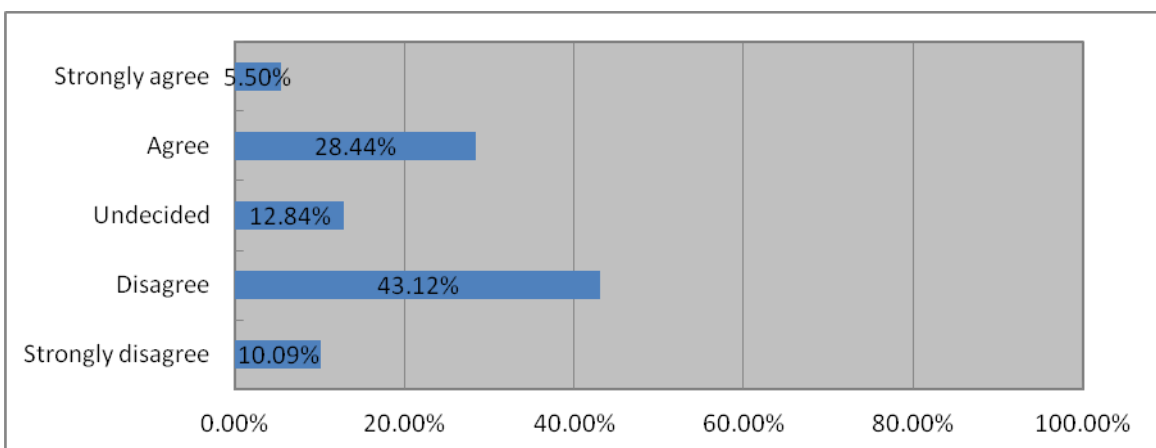


**Figure 4.6: Completion of the RE1 and RE5 examinations as required by the FAIS Act**

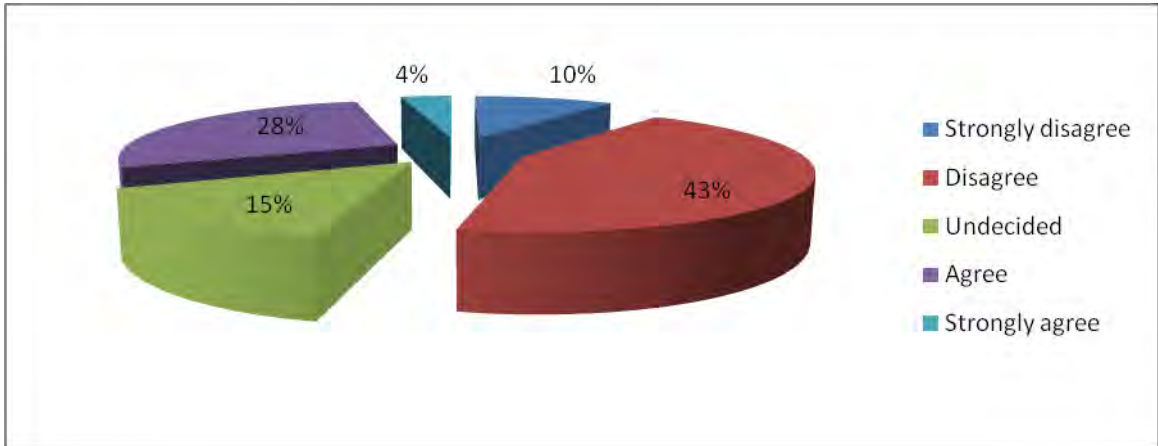


**Figure 4.7: Obtaining of Continuous Development Points (CPD) as required by the FAIS Act**

According to Figures 4.8 and 4.9, almost one third of all respondents either agree or strongly agree that the educational and experience entry requirements are stringent. This is in line with the results of the Coredata survey (2013) that found that planners have a wealth of industry experience but do not have the required financial planning qualifications. Further, the Coredata survey’s results confirmed that due to educational requirements 15.7% will resign from their current roles, 3.9% will exit the industry and 7.8% are undecided about their future. Financial planners have to comply with the fit and proper requirements (experience and educational qualifications) in terms of the FAIS Act to practise as a financial planner. However, it is evident that this compliance aspect of the FAIS Act is viewed as stringent by independent planners.



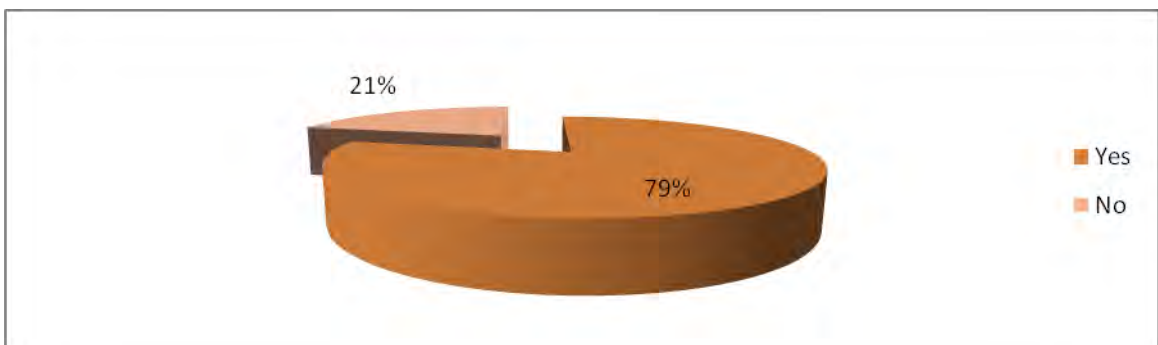
**Figure 4.8: The educational entry requirements into the financial planning industry are stringent**



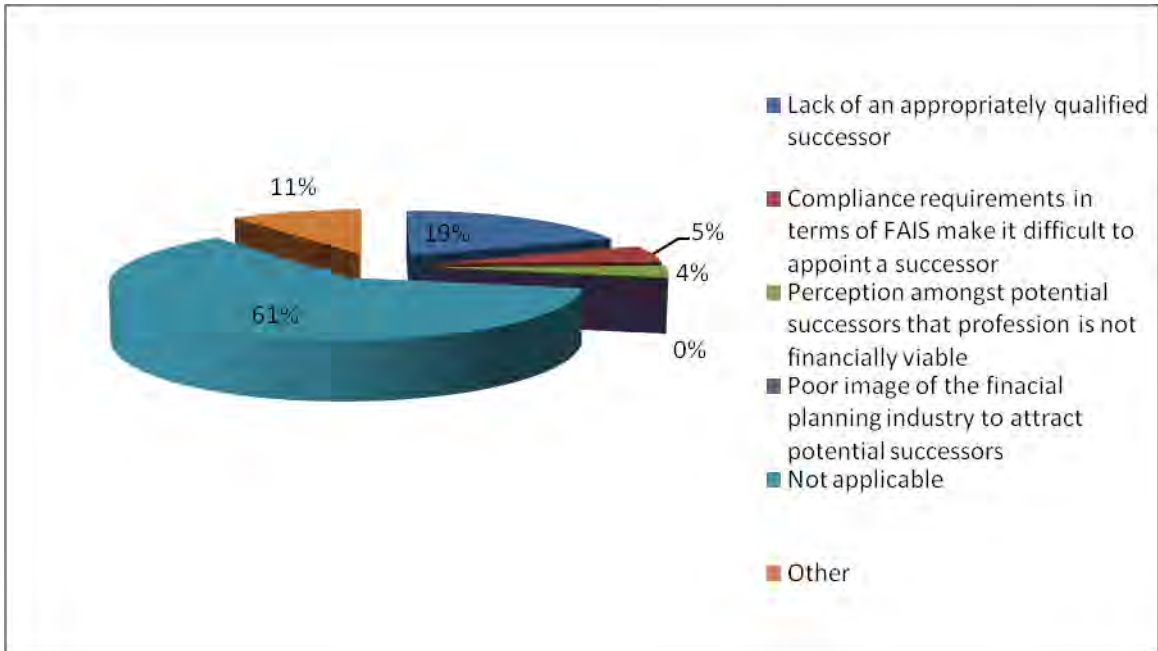
**Figure 4.9: The experience entry requirements into the financial planning industry are stringent**

#### 4.4.3.2 Succession planning

Most respondents (79%) have a succession plan in place as required by the FAIS Act 37 (Figure 4.10). Figure 4.11 illustrates that of the 21% that have no succession plan in place, 50% indicated a lack of a suitably qualified successor as the reason. This supports the PWC Survey of 2011 that found that the financial planning industry was aging due to a skills shortage as 70% of financial planners did not employ new entrants and 50% felt that the image of the industry was diminishing due to a decrease in standards. These findings support the results in Figures 4.8 and 4.9 and could impact the sustainability of independent financial planners due to absence of a succession plan.



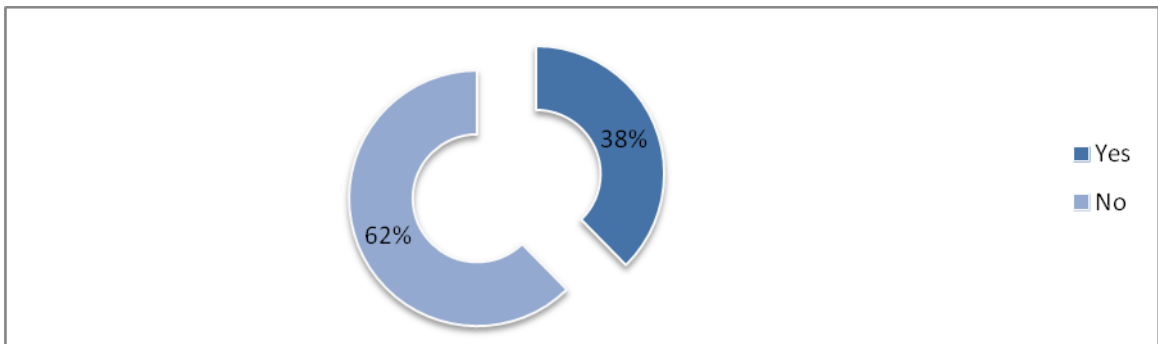
**Figure 4.10: Business continuity plan (succession plan) in place**



**Figure 4.11: Reason for absence of a business continuity plan**

#### 4.4.3.3 Commission regulations

Over one third of all respondents experienced a decrease in income over the last five years as per Figure 4.12. Sixty percent of all respondents positively reported that commission regulations have negatively impacted on their income (Figure 4.13). This is line with the commission regulations where commission payable on investments policies effected after 1<sup>st</sup> January 2009 is limited to 2.5% payable upfront and 2.5% paid as and when premiums are received (LTA). Further, these findings support the research conducted by Coredata (2013) that revealed that 57.9% of independent financial planners view commission regulation as their biggest challenge.



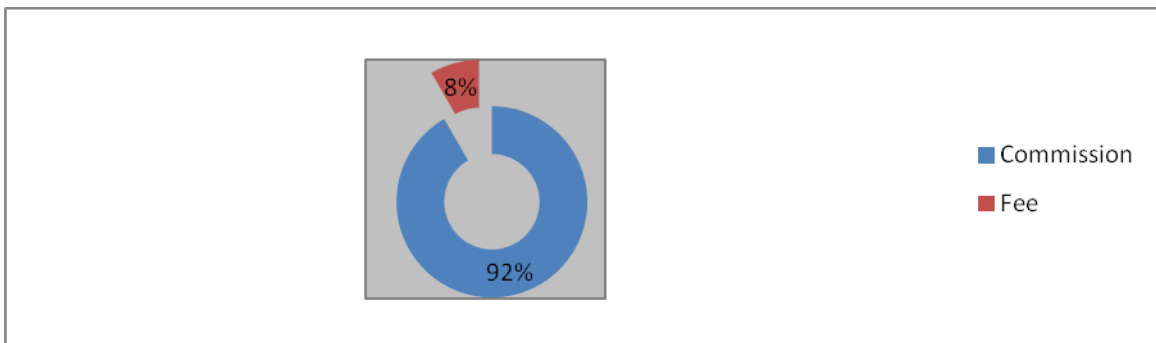
**Figure 4.12: Decrease of income over the last five years**



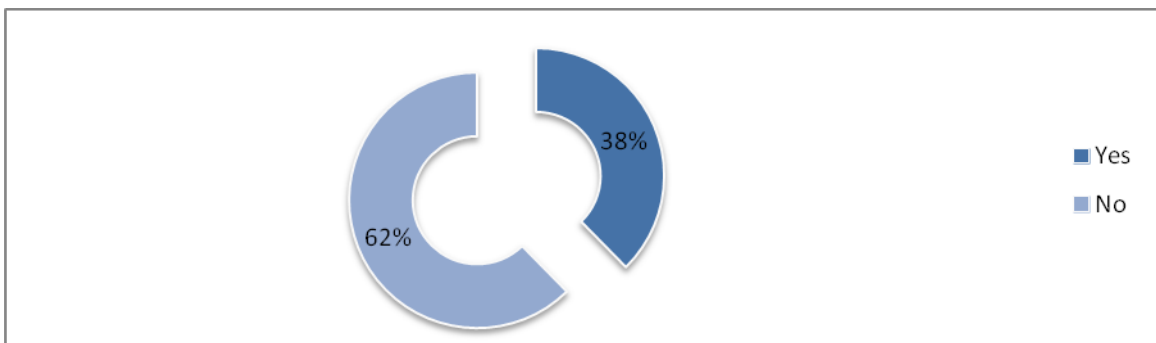


**Figure 4.13: Commission regulations have had an adverse impact on independent financial planners' income**

Figure 4.14 shows that under 8% of respondents have adopted a fee based practise, which may become a rule with the future Retail Distribution Review legislation. This supports the findings of the Coredata survey of 2013 where it was found that only 12.8% work on fee based model. Of the 92% commission earning planners, over one third (39%) only would consider changing to a fee based practise (Figure 4.15).



**Figure 4.14: Commission or fee based practice**

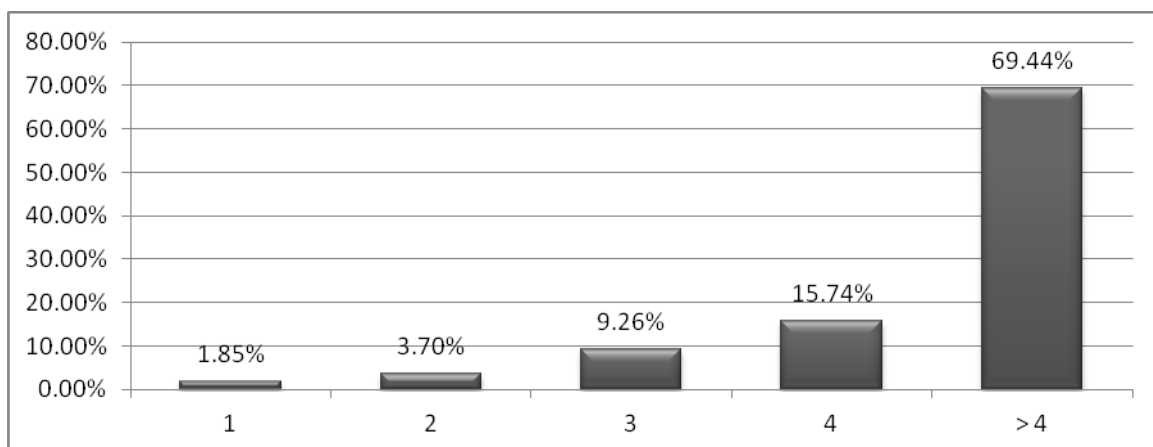


**Figure 4.15: Adoption of fee based model**

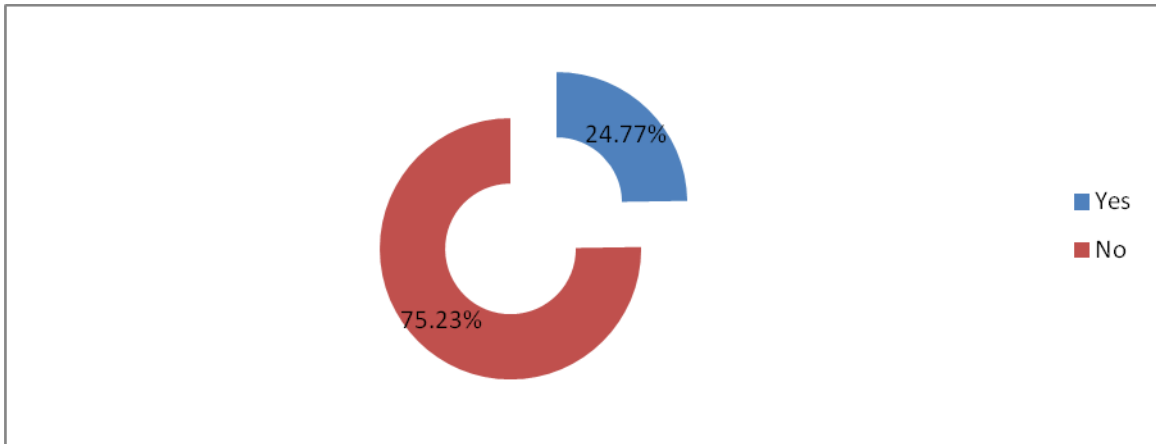
Almost all (95%) of the respondents were contracted to market, distribute and sell at least three or more insurance companies' products, as shown by Figure 4.16. This may be in line with good business practice requiring financial planners to provide clients with at least three quotes from different product providers. Although over 95% of respondents have contracts with more than three insurance companies, over three quarters of all respondents failed to meet the financial targets of insurance companies (Figure 4.17). Industry practice requires planners to sell a certain rand value of products of insurance companies to remain contracted to them.

Although three quarters of all respondents did not meet the financial targets of all insurance companies, over 55% would still want to be contracted to more than three companies as confirmed by Figure 4.18. This will allow them to provide clients with three quotes from different product providers. In terms of Figure 4.19 over 55% cite either high financial targets (34.78%) or compliance requirements (23.91%) of insurance companies as being a reason for requiring fewer contracts.

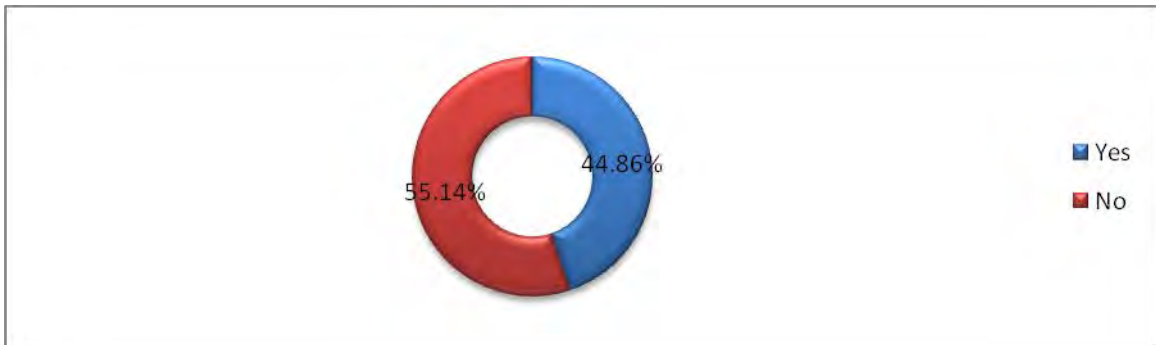
In terms of the General Conduct for Authorised Financial Services Providers and Representatives of the FAIS Act, a financial planner has to inform clients if he or she holds more than 10% of a product provider's shares and whether he or she received more than 30% of his or her total remuneration from a single product provider (Part III, 4(d)(i) and (ii)). If the above cannot be shown, they could be viewed as tied agents and not independent financial planners. As such providing three quotes from three different product providers and allowing clients the final choice demonstrates independence.



**Figure 4.16: Number of insurance companies contracted to in 2013**



**Figure 4.17: Achievement of financial targets of all the insurance companies contracted to, in 2013**



**Figure 4.18: Choice for fewer insurance contracts than currently have**



**Figure 4.19: Reason for fewer contracts**

Table 4.3 indicates that about 70% of all respondents have more than 4 contracts. Industry practice requires independent financial planners to present clients with a minimum of three quotes from three different companies. To remain contracted with insurance companies and to have a face to face business consultant service an independent financial planner, the planners have to write business of a set minimum amount (which differs from company to company).

In terms of Table 4.3, two respondents who had one contract were able to meet the financial targets of the company to whom they were contracted. Of the four respondents that had two contracts, 50% did not meet the targets of the companies with whom they had contracts. Only one of the ten respondents that had 3 contracts was able to meet the financial targets of the companies to whom they were contracted. Four of the seventeen respondents who had contracts with 4 companies were able to meet the financial targets in respect of these contracts. Over 76% of respondents that had more than four contracts were unable to meet the financial targets imposed by those contracts.

Table 4.3 indicates that the more contracts an independent financial planner has, the less likely he or she was to meet the financial targets of those insurance companies with whom he or she had contracts in 2013. This may be onerous. Thus independent financial planners are found wanting due good business practice determined by industry expectations.

Table 4.3: Association between number of companies contracted to and achievement of financial targets of companies contracted to, in 2013

	Number of insurance companies contracted to, in 2013						Chi-squared value	p-value
		1	2	3	4	5		
Achievement of financial targets of companies contracted to, in 2013	Yes	2	2	1	4	18	8.67	0.067
	No	0	2	9	13	59		

Table 4.4 indicates that almost 90% of respondents who did consider leaving the insurance industry in the last five years did not meet the financial targets of the all the insurance companies with whom they had contracts in 2013. Further, 71% of respondents who did not intend leaving the industry in the last five years did not meet the financial targets of all insurance companies with whom they had contracts in 2013.

Three respondents who met the financial targets of companies with whom they have contracts thought of exiting the industry in the last five years. In contrast 23 respondents who did meet the financial targets of the companies with whom they have contracts did not consider exiting the industry in the last five years. Twenty five respondents who did not meet the financial targets of companies with whom they have contracts did contemplate leaving the industry in the last five years. However 58 of the respondents who did not meet the financial targets of the companies did not consider exiting the industry in the last five years.

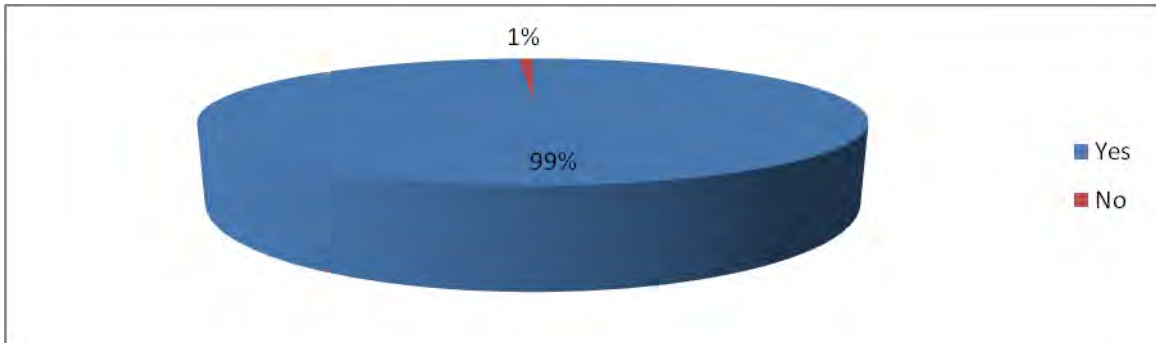
This table shows that financial targets of insurance companies has an impact of the exit of independent financial planners from the industry. Insurance companies include a financial target in the contract granted to an independent financial planner. If planners fail to meet this target certain services and benefits associated with having a contract with that insurance company are not provided. Industry practice dictate that independent financial planners provide clients with three quotes from three different companies. However, if they are unable to meet the financial targets of the companies, they face the risk of having their contract suspended, withdrawn or cancelled. This could lead to them exiting the industry due to them not having a minimum of three insurance contracts.

Table 4.4: Association between exiting the insurance industry in the last five years and the achievement of financial targets of companies contracted to in 2013

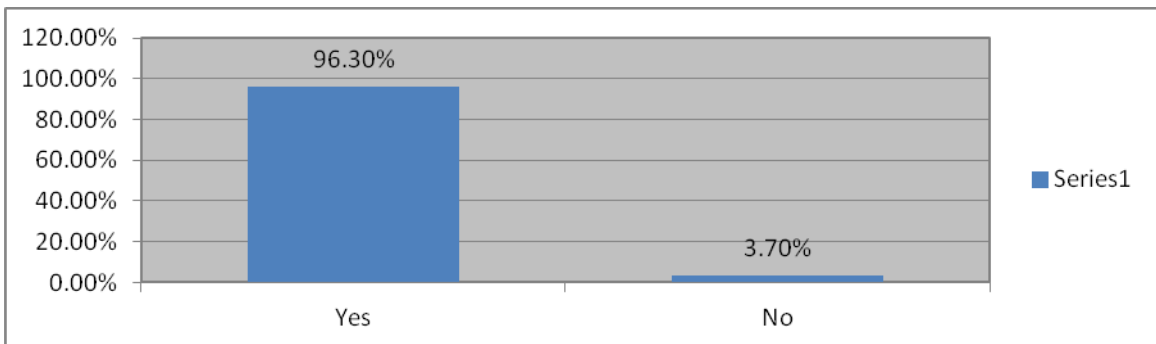
		Exiting the industry in the last five years		Chi-squared value	p-value
		Yes	No		
Achievement of financial targets of companies contracted to, in 2013	Yes	3	23	3.581	.046
	No	25	58		

#### 4.4.4 Technology

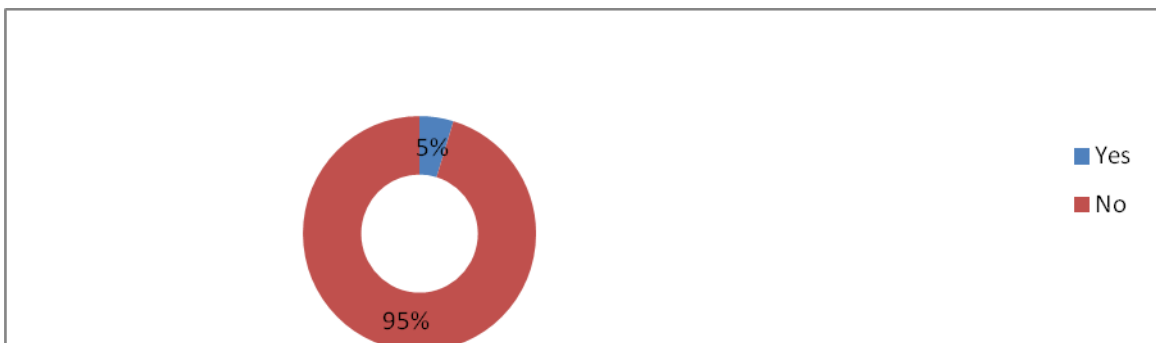
As per Figure 4.20, almost all respondents use some form of technology in their practice (99%). In terms of Figure 4.21, an overwhelming majority of respondents (96.30%) perceive technology as an enabler in their practices. This supports the view of Deloitte (2013) that states technology facilitates a client centric approach affecting every stage of the buying process.



**Figure 4.20: Use technology in practice (e.g. internet, online tools etc.)**



**Figure 4.21: Technology is an enabler in a financial planner's practice**



**Figure 4.22: Technology is a disruptor in a financial planner's practice**

#### 4.4.5 Alternative channels (competition) to independent financial planners

In terms of Table 4.5, over 56% of all respondents agree or strongly agree that clients are using direct insurers to purchase insurance products. Over 42% of respondents either agreed or strongly agreed that consumers were using online facilities to purchase insurance products. This supports the results of the Capgemini survey that found that customers now use the internet for research and purchase of insurance products (Capgemini, 2013). Further, according to a survey conducted by Deloitte in 2010, direct channels allow insurance companies to increase sales whilst keeping costs low. The findings also support the views of Stone et al (2002) and Easingwood and Storey (1996) who hold that insurance companies are using various distribution channels to keep costs low and to reach a wider market.

Almost 48% either agree or strongly agree that clients make use of telemarketing to purchase insurance products. This supports the survey of Deloitte in 2010 that found that telemarketing is emerging as a prominent alternative distribution channel. Over 86% of respondents agree or strongly agree that bank financial planners have access to a larger client base. This is in line with the Accenture survey of 2011 that found that one third of all consumers own at least one policy bought from their banks.

Table 4.5: Views in respect of alternative channels (competition) on independent financial planners

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Direct insurers e.g. Dial Direct, 1 Life Direct and Outsurance have resulted in clients using this facility to purchase insurance products	4.67	24.07	12.96	46.30	12.04

Availability of online facilities have resulted in clients using this model for the purchase of insurance products	4.59	32.11	21.10	38.53	3.67
Availability of telemarketing has resulted in clients using this model for the purchase of insurance products	2.78	32.42	16.67	42.59	5.56
Bank financial planners have access to a larger client base	0.93	2.80	9.35	49.53	37.38

#### **4.4.6 Clients perceptions and expectations of independent financial planners**

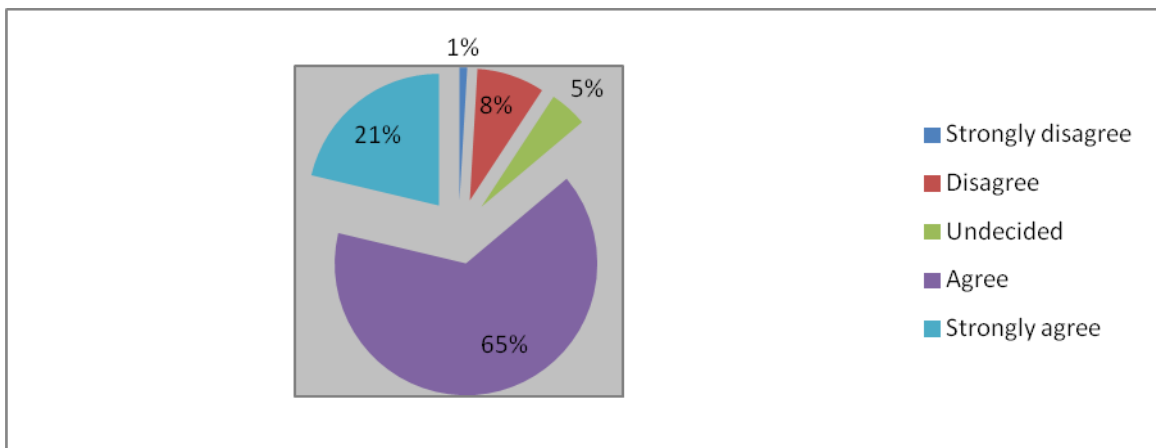
Approximately 86% of respondents either agree or strongly agree that clients are more financially literate (Figure 4.23). However, in terms of Figure 4.24, 62% of all respondents either strongly disagree or disagree that clients' buying preferences are changing (i.e. a move away from independent financial planners to online purchases). This contrasts with the Capgemini study (2013) that found that consumers prefer to use low cost more convenient channels to purchase financial products. Figure 4.24 shows that almost 88% of respondents perceived that clients view them as advice providers in respect of financial planning. According to Figure 4.25, about one third of respondents believe that clients see them as information providers only. An overwhelming majority of respondents (93.40%) believe that clients value the advice they provide to the clients (Figure 4.27).

This is in contrast to the Millennium Investment & Retirement Advisors, LLC (n.d.) and Deloitte's (2006) research that indicates that consumers view planner's recommendations as incidental to product sales and not advice; and that planners are paid to provide detailed information on product features and to find best value products. This is further supported by Maas (2010) who states that consumers believed that planners had insufficient and superficial knowledge and Tsu-Wei

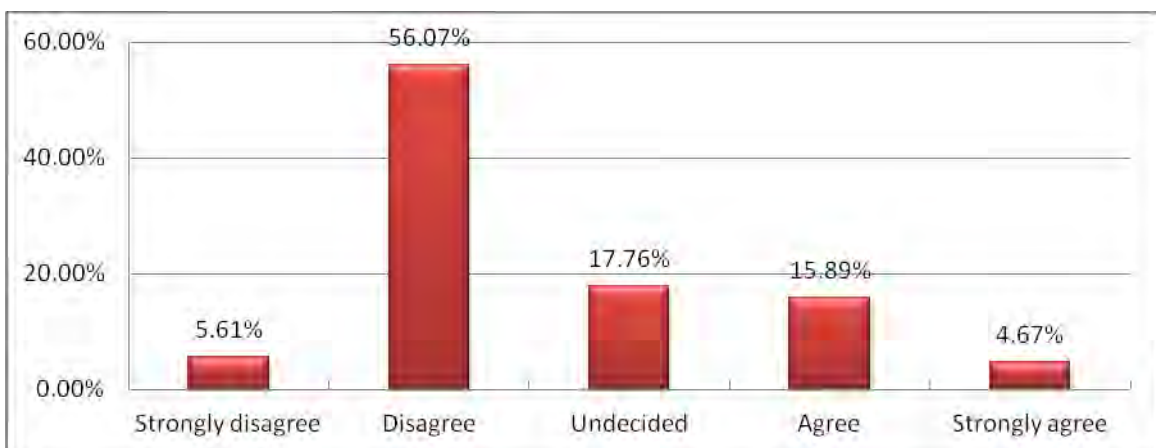


(2014) who states that customers buying preferences are changing and they are no longer purchasing products through financial planners.

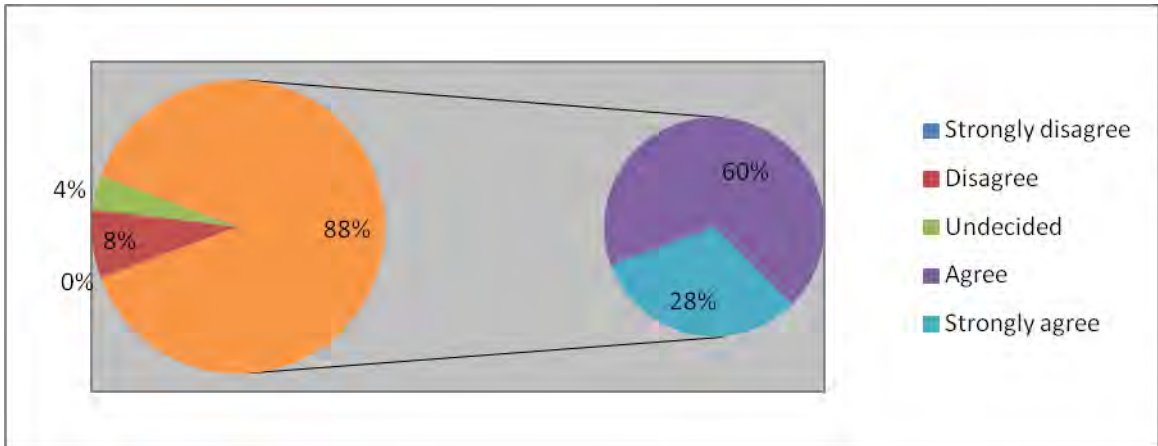
All of the above contradictions indicate the mismatch in perceptions of consumer and financial planners discussed by Deloitte (2006). Consumers want product information and planners believe that they are providing advice to help consumers with achieving financial goals. Further, the study conducted by the FPSB (2009) confirm that only about 6% of respondents (clients) will use the services of a financial planner.



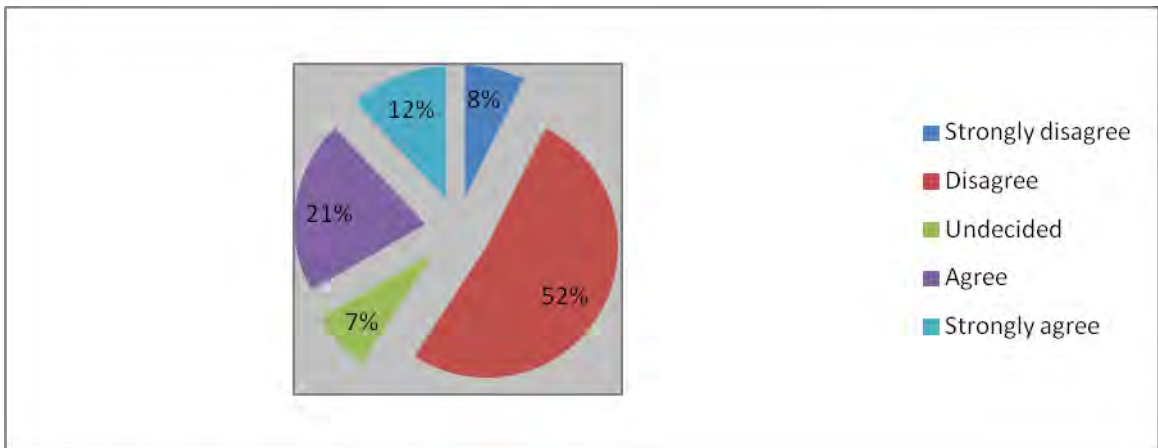
**Figure 4.23: Clients are more financially literate**



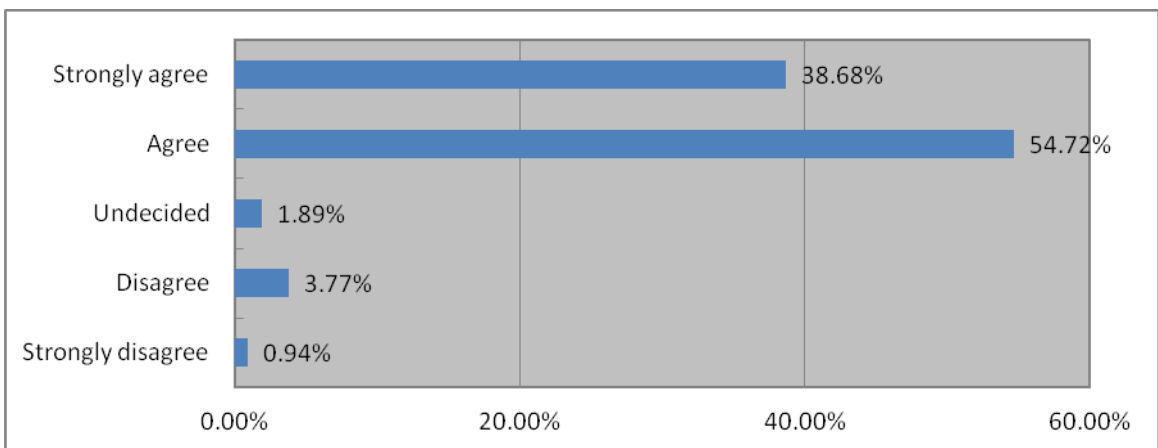
**Figure 4.24: Clients' buying preferences are changing i.e. a move away from purchasing insurance products via independent financial planners to online purchase**



**Figure 4.25: Clients view independent financial planners as advice providers in respect of financial planning**



**Figure 4.26: Clients view independent financial planners as information providers only (i.e. providing information on product features and benefits)**



**Figure 4.27: Clients value the advice that independent financial planners provide**

## **4.5 Objective 2: To investigate the impact of these factors on the sustainability of independent financial planners**

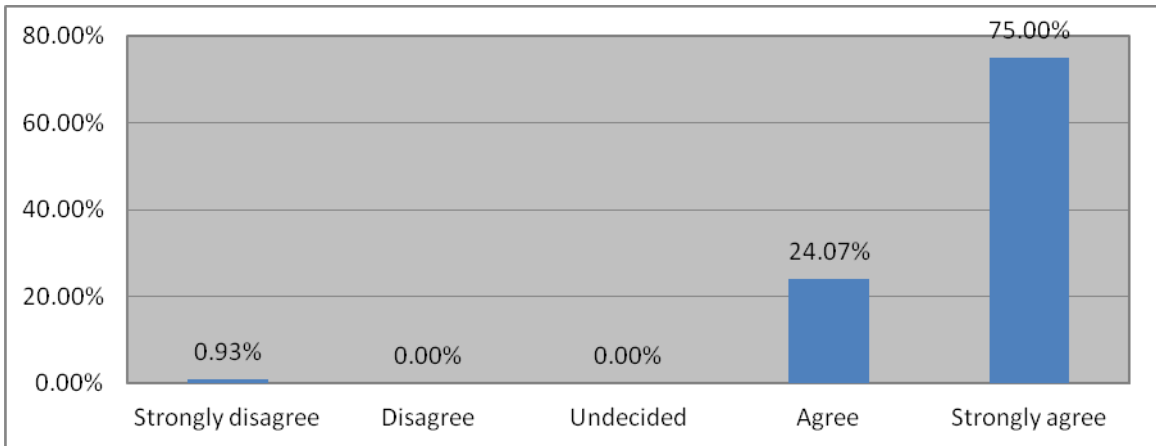
### **4.5.1 Legislation**

#### **4.5.1.1. Compliance legislation**

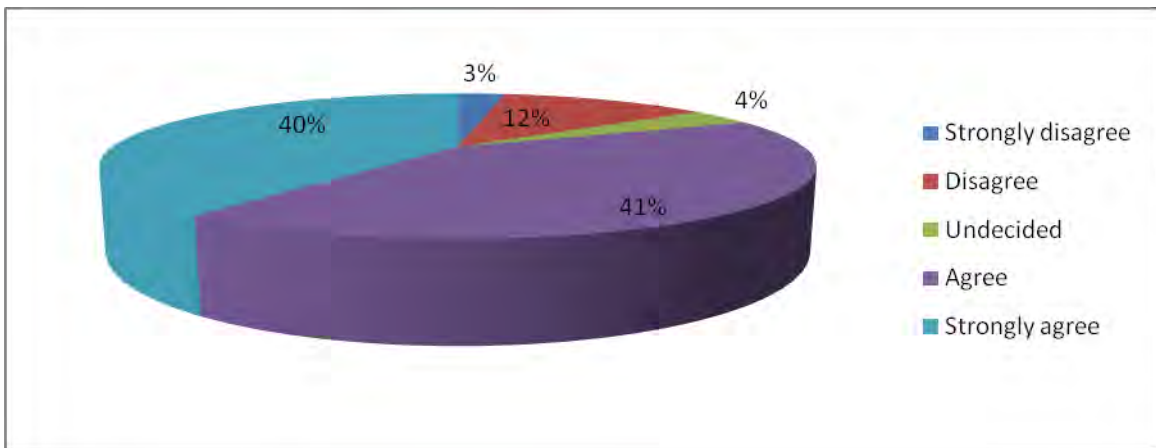
The majority of all respondents (99%) agree or strongly agree that compliance legislation has increased the workload of independent financial planners (Figure 4.28). Further, according to Figure 4.29, over 80% of respondents agree or strongly agree that compliance legislation is resulting in inefficiencies of time and cost for financial planners.

This supports both international and South African literature review. According to Benfield (2009) legislation resulted in almost 40% of financial planners exiting the industry in the UK and Australia. In South Africa, a survey undertaken by Coredata in 2013 revealed that independent financial planners are exiting the industry due to increased legislation. Further, the study by the Institute of Practice Management (2012) revealed that planners need to implement almost twenty policies and procedures in their practises, which supports the results in Figure 4.28.

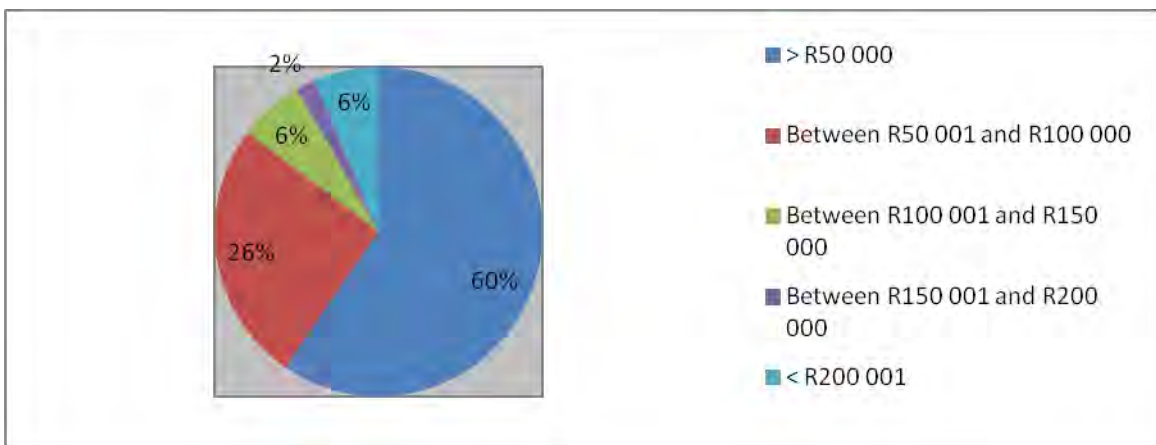
In terms of Figure 4.30, about 40% of all respondents spend between R50 000 and R200 000 on compliance per annum. However, the Institute of Practice Management study found that the average cost of compliance to independent financial planners is about R188 658. (Institute of Practice Management, 2012). This contrasts with the findings of this research where majority of the respondents (60%) spend less than R50 000 per annum on compliance. The difference could be attributed to independent financial planners performing their own compliance functions or obtaining the services of a compliance officer at a lower cost. Further the increase in compliance administration and legislation was viewed as impacting on the profitability of the independent financial planner's business.



**Figure 4.28: Compliance legislation has resulted in an increase in the administration workload of independent financial planners**



**Figure 4.29: Compliance legislation has resulted in inefficiencies of time and costs for independent financial planners**

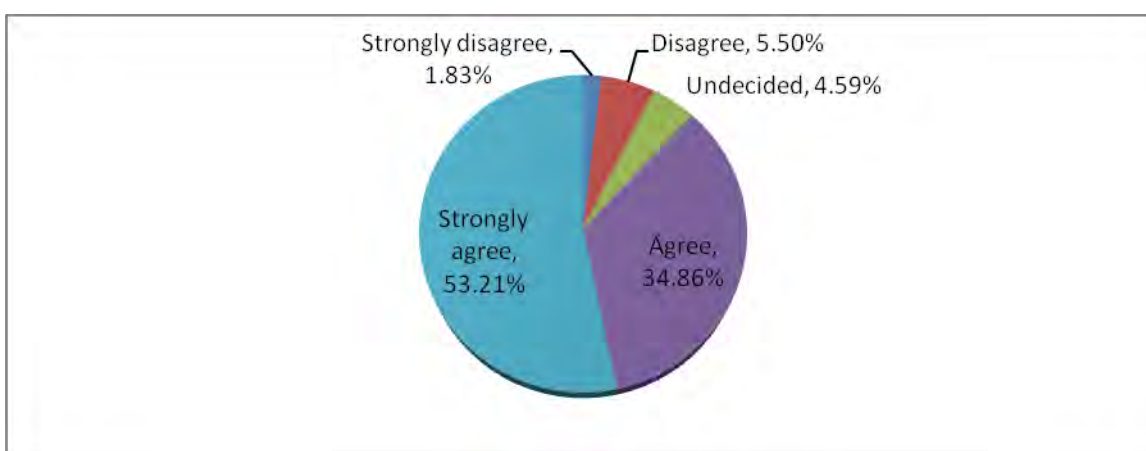


**Figure 4.30: Amount spent per annum on compliance (employment of a compliance officer, completing FAIS assessments, maintaining CPD points etc)**

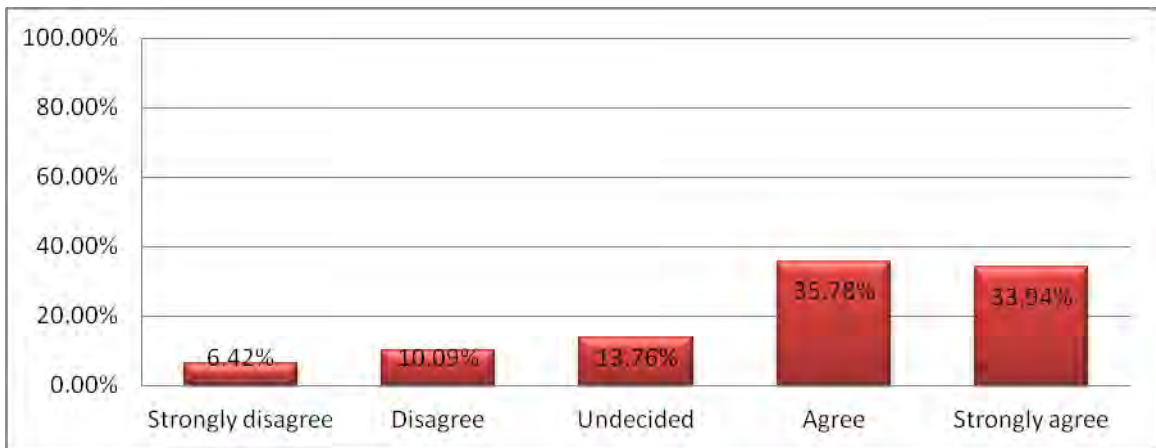
#### 4.5.1.2 Commission regulations

Figure 4.31 indicates that potential new regulations will impact on the income of planners with almost 88% either agreeing or strongly agreeing. This is higher than the findings of Coredata Research (2013) where 58% of financial planners cited remuneration legislation as their biggest challenge. Further, research conducted by PWC in 2012 found that independent financial planners perceived the industry as being over regulated. Commission regulations can be viewed as a major factor impacting independent financial planners.

Figure 4.32 confirms that almost 70% either agree or strongly agree that future remuneration dispensations will affect their income negatively. This supports the findings of Coredata Research (2013) that found that less than ½ of financial planners are planning for the implementation of RDR. In addition, these findings corroborate the analysis of the FCA of the UK that found that the number of financial advisors decreased by over 20% post RDR implementation (Deloitte, 2013).



**Figure 4.31: Potential new regulations e.g. compliance regulations will impact on independent financial planners' income**



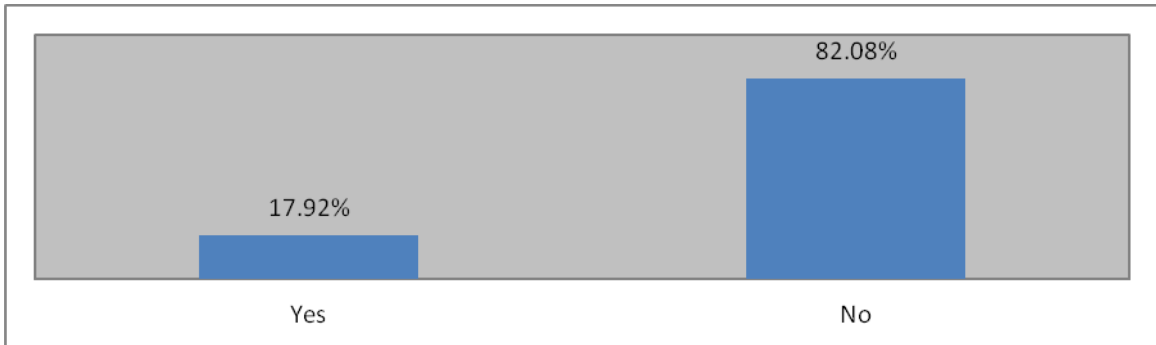
**Figure 4.32: Future remuneration dispensations will affect independent financial planners' income negatively**

#### **4.5.1.3 Becoming a tied agent**

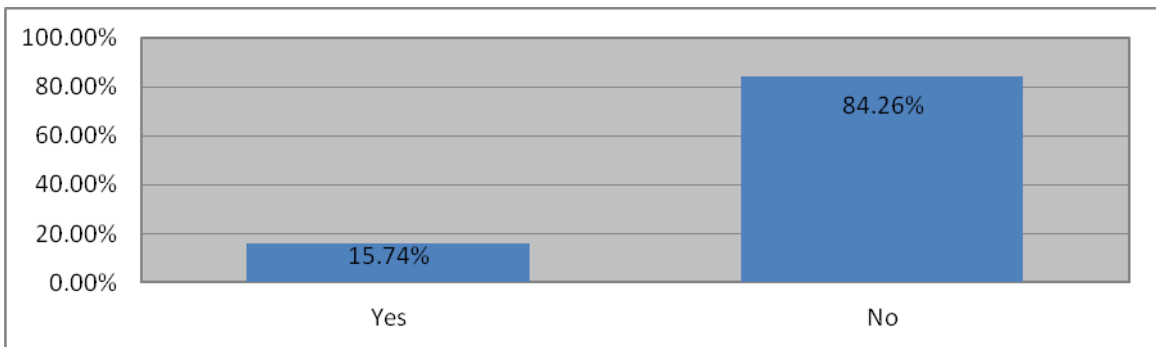
Almost 18% of all respondents have considered marketing and selling one insurance company's products only (Figure 4.33). In terms of Figure 4.34, about 16% of all respondents have thought of becoming an agent of an insurance company, bank or affiliated network.

Figure 4.35 indicates the reasons for becoming a tied agent. Almost 59% (of the 16%) would consider becoming an agent because of either compliance reasons (35.29%) or regulations (23.53%). This indicates that compliance legislation is a key factor affecting the sustainability of independent financial planners. Planners would forego their independence by joining a bank or affiliated network or insurance company because the compliance function and cost are borne the said company and not the planner.

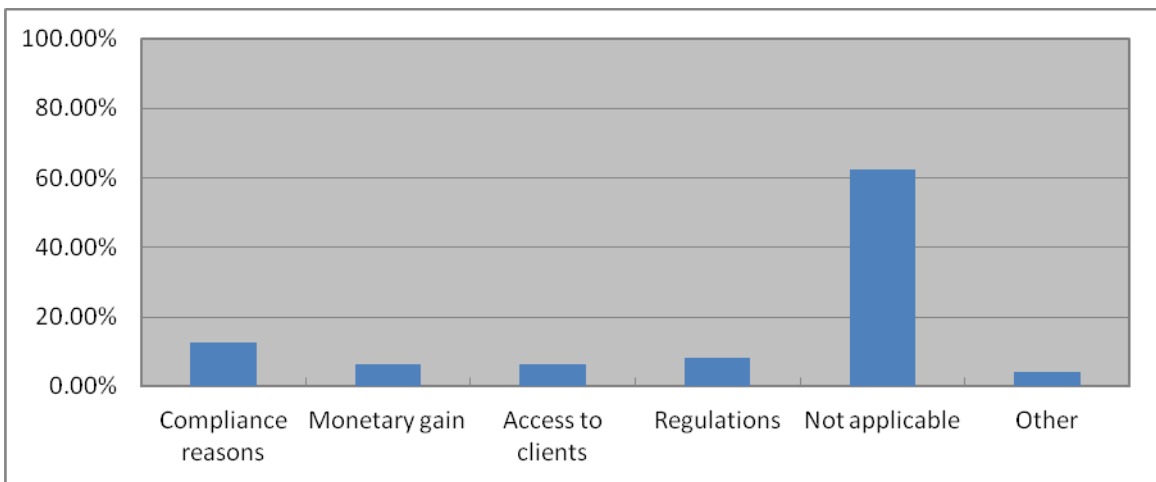
Further, 69% of respondents have been approached by these aforementioned institutions (Figure 4.36). Figure 4.37 illustrates that over three quarters of respondents have indicated that they were offered financial incentives to join the institutions.



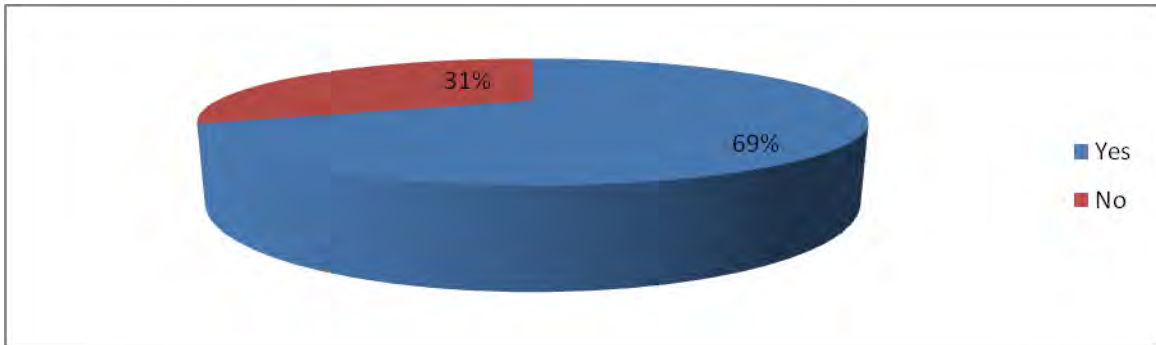
**Figure 4.33: Consideration to marketing and selling one insurance company's products only in the last five years**



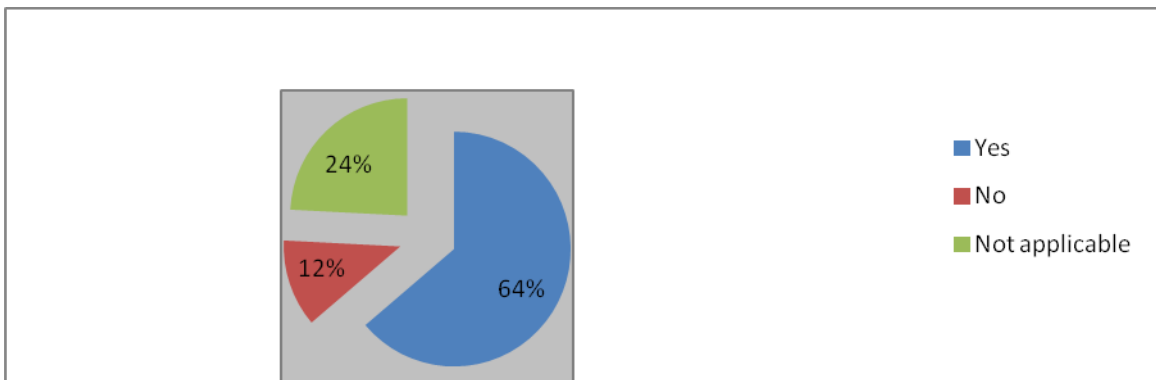
**Figure 4.34: Consideration to becoming a tied agent of a particular insurance company or bank or affiliated network**



**Figure 4.35: Reasons to become a tied agent of a particular insurance company, bank or affiliated network**



**Figure 4.36: Approached by a bank, insurance company or other financial network or company to join its institution in the last five years**



**Figure 4.37: Provision of financial incentives to join a bank, insurance company or other financial network or company**

#### 4.5.2 Technology

Over one quarter (26.85%) of respondents have not automated their manual processes in their practices (Figure 4.38). In terms of Figure 4.39, about 64% of respondents do not use social media and other forms of technology in respect of the marketing and sales function of their practices. This is of concern because 74% of all consumers use social media (PWC, 2013) and 83% view social channels as influential in making insurance purchase decisions. Further, 90% of Americans have their own cell phones and a third have smartphones which is motivated by the need to have continuous access to the internet (Kaplan, 2012).

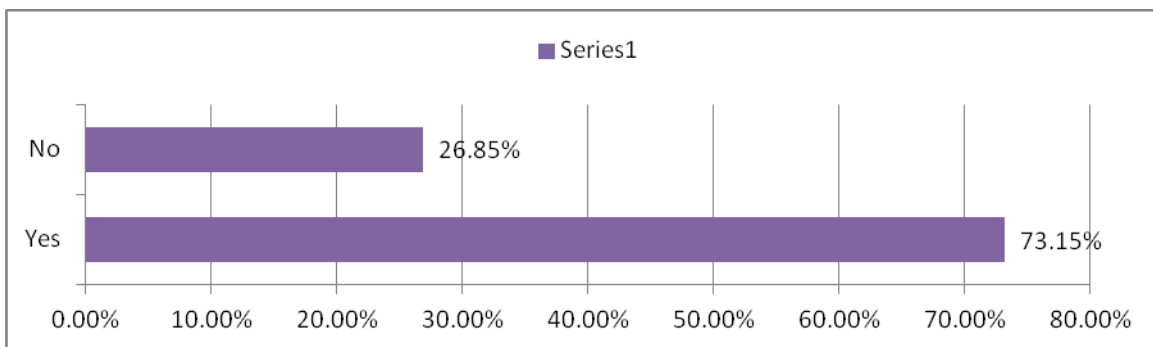
Although over 95% (Figure 4.22) see technology as an enabler, the use of technology for the marketing and sale of insurance products has not been widespread amongst planners. Technology can be seen as a factor that can



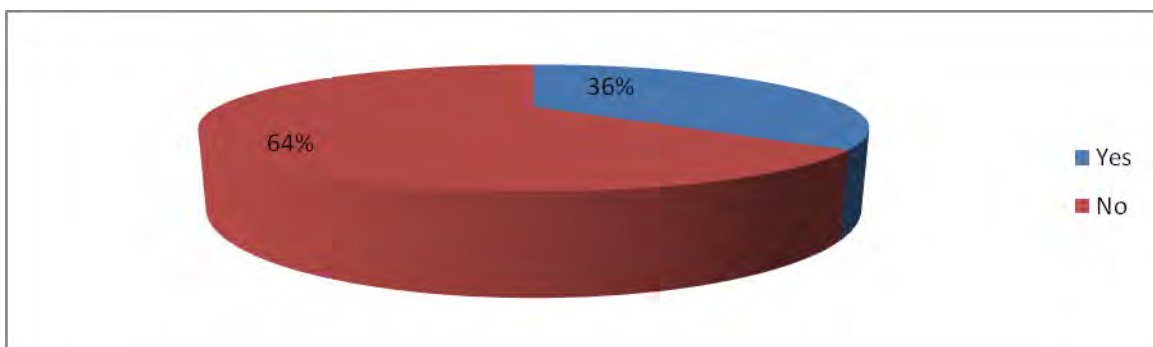
impact the sustainability of a independent financial planners negatively, if not embraced.

According to the InResearch and Cambridge Investment Research survey (2014), 64% of customers under 45 years old want financial planners to offer services online using smartphones. Further, more than ½ of Facebook users have clicked on a company’s Facebook page with 16% sending them a message. This illustrates the power of smartphones and Facebook as tools to market, distribute and sell insurance products.

According to Leary (2013) and Capgemini (2013), insurance companies are using technology in the adoption of multi- channels for the marketing, distribution and sale of insurance products due to high costs associated with sales via independent financial planners.



**Figure 4.38: Automation of manual processes in practice**



**Figure 4.39: Use social media and other forms of technology in the marketing and sales function of practice**

### **4.5.3 Alternative channels (competition) to independent financial planners**

In terms of Table 4.6, about 40% either agree or strongly agree that direct insurers have resulted in a decrease in their client base and that the presence of direct insurers have reduced their income. This is in line with the various studies conducted. Deloitte (2010) found that customers were using lower cost, convenient distribution channels as an alternative to face to face sales. The Coverhound survey (PWC, 2010) found that 32% of all American consumers and 50% between the ages of 18 and 25 years prefer dealing with direct insurers.

At least one third of respondents either agree or strongly agree that the availability of online facilities for the purchase of insurance products have reduced their client base and income. This is in line with the research conducted by Capgemini (2012) that stated that consumers methods for purchasing insurance products have changed as they now use the internet for this purpose. Further, the purchase of insurance products online is straightforward due to improved browser capabilities and websites (Capgemini, 2012).

Over one third of respondents state that telemarketing has decreased their client base and reduced their income. About 48% either agree or strongly agree that bank financial planners have resulted in a decrease in their client base. Further, almost 52% of respondents agree or strongly agree that the presence of bank financial planners have resulted in a decrease in their income. This is in line with Accenture survey of 2011 where it was found that bank financial planners was the third highest distribution channel for insurance products after independent financial planners and the internet. In terms of this research, one-third of all consumers owned a policy purchased from a bank financial advisor.

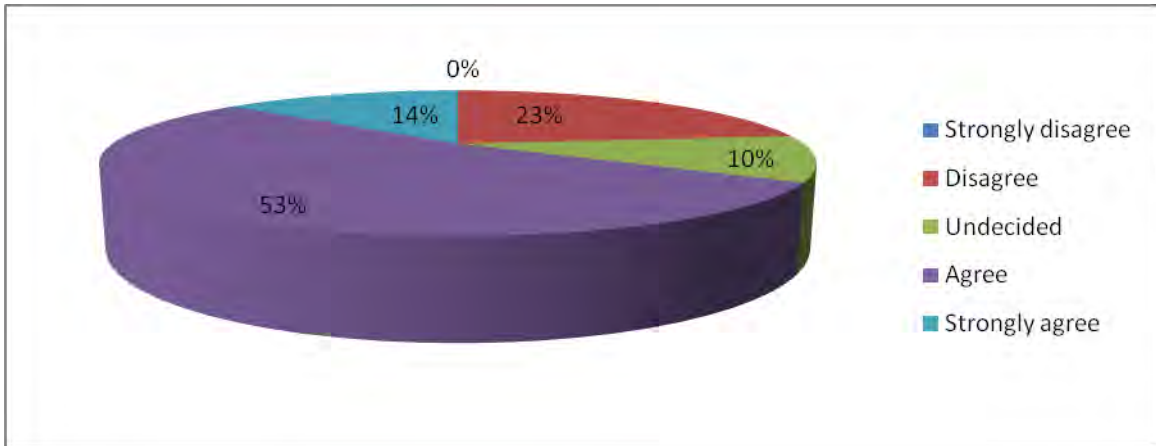
Table 4.6: Impact of alternative channels (competition) on independent financial planners

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Direct insurers resulted in a decrease in independent financial planners's client base	8.41	24.06	10.28	33.64	5.61
Direct insurers have resulted in a decrease in independent financial planners' income	8.49	38.68	11.32	33.96	7.55
Online facilities have resulted in a decrease in independent financial planners' client base	3.81	42.86	19.05	28.57	5.71
Online facilities have resulted in a decrease in independent financial planners' income	5.61	42.99	16.82	28.97	5.61
Telemarketing has resulted in a decrease in independent financial planners' client base	3.74	42.06	18.69	28.97	6.54

Telemarketing has resulted in a decrease in independent financial planners' income	4.63	41.67	16.67	31.38	5.56
Bank financial planners have resulted in a decrease in independent financial planners' client base	3.67	38.53	11.01	31.19	15.60
Bank financial planners have resulted in a decrease in independent financial planners' income	2.78	36.11	9.26	36.11	15.74

#### **4.5.4 Consumers perceptions and expectations of independent financial planners**

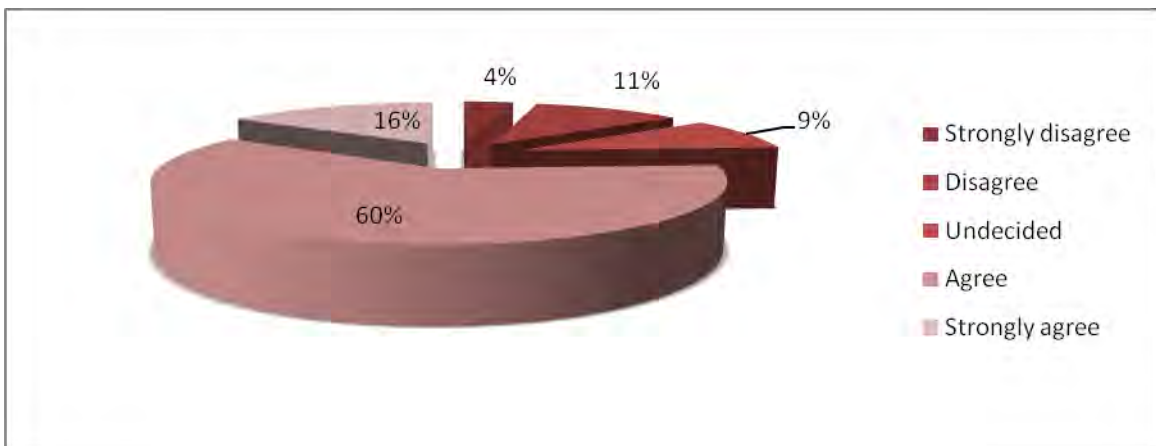
Over two thirds of respondents either agree (53%) or strongly agree (14%) that the financial literacy of clients has placed additional demands on their practice (Figure 4.40). This is in line with the increase in the number of complaints lodged with the FAIS Ombud – an increase of 13% from 2012 to 2013 with almost 28% being from Kwazulu-Natal (FAIS Ombud, 2013).



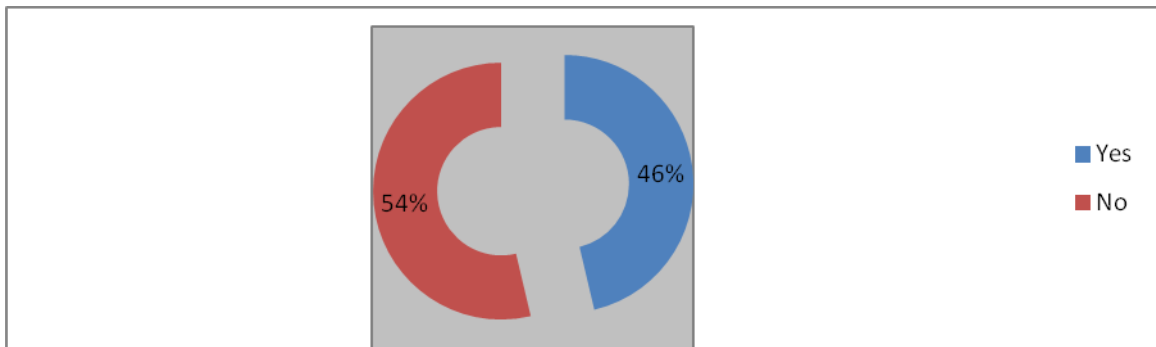
**Figure 4.40: Clients financial literacy has resulted in additional demands being placed on independent financial planners' practices**

According to Figure 4.41, more than 75% of the respondents either agree or strongly agree that clients believe that their fee or commission charged is justified in relation to their value added. According to 54% of respondents, clients do not expect a discount (Figure 4.42).

However research conducted by Deloitte (2006) found that customers believe that advice is free and are prepared to pay 30% less than the financial planner's average cost. This has caused consumers to use alternative channels for insurance purchases. Further, the results also show there is no consensus regarding the clients' expectations on the discounting of fees or commission.



**Figure 4.41: Clients believe that independent financial planners' commission/fee is justified in relation to the value that they add**



**Figure 4.42: Clients expect independent financial planners to discount their commission/fees**

#### **4.6 Summary**

The findings of the study are significant for stakeholders in the long term insurance industry. Legislation (compliance and commission) are impacting on the sustainability of independent financial planners and will continue to do so with the enactment of future commission regulations. Further, the availability of alternative channels for consumers to purchase financial products and services will also impact the future viability of independent financial planners. An active and educated consumer force is also placing demands on independent financial planners and their practices. Independent financial planners have to consider the impact of technology and how best to use this to their advantage.

From the findings discussed above, the researched will draw conclusion and propose recommendations in Chapter Five. Limitations that were outlined in Chapter One will be elaborated on and topics for further research will be suggested.

## **CHAPTER FIVE:**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

Insurance companies have used independent financial planners as a primary channel for the marketing, distribution and sale of insurance products. However, independent financial planners are under pressure to maintain their position as a primary, if not viable, channel for distributing, marketing and selling insurance products to consumers. Literature review has indicated that there are numerous factors affecting the sustainability of independent financial planners. This chapter will identify the key findings of this study in line with the research objectives identified in chapter one.

#### **5.2. Conclusion**

##### **5.2.1 Demographics and Financial Practise**

In this study, the total number of respondents was 115 independent financial planners. In Kwazulu-Natal, the financial planning industry as is a male dominated profession with almost 90% of respondents being male. Further, the profession is an ageing one with the average age of respondents being 51 years and over 55% of respondents been in practice for more than 20 years. Only 5% of the respondents are black (despite this population group being the biggest in the province). Almost 75% of all respondents have not furthered their education beyond grade 12 (matric) or a one year diploma. The above could be due to lack of understanding of the profession and low levels of literacy amongst people in respect of the need for financial planning. This could also indicate that the profession is not viewed as a lucrative one to pursue.

### **5.2.2 Objective one: To determine the factors affecting independent financial planners in KwaZulu-Natal (KZN)**

The findings of the study indicate that there are various factors that impact on the independent financial planners. The factors have varying degrees of impact on independent financial planners.

#### **a) Legislation**

Legislation has been identified as a key factor. The industry is viewed as being over-regulated. Current and future legislation are seen as affecting the independent financial planners' continuation in the industry. Of the 26.17% that did consider exiting the industry in the last five years, 73% cited legislation as the main reason. Whilst compliance legislation is accepted as a necessity for the image and professionalism of the industry, it is the main reason for independent financial planners exiting the industry (89% of all respondents cited as a reason for exiting the industry). This is due to administration requirements linked to ensuring compliance with relevant legislation. Compliance legislation is also seen as a barrier to effective succession planning, as 50% of the respondents that do not have a succession plan have stated that compliance legislation prevents them from finding suitably qualified successors. Regulations regarding commission are of concern to independent financial planners. Planners believe that current and future remuneration dispensations will affect their income negatively. Over 1/3 of all respondents (38%) have experienced a decline in their income due to commission regulations.

#### **b) Technology**

Technology is used by almost all respondents in their practices with 99% of all respondents using technology. An overwhelming majority of respondents (96.30%) viewed technology as an enabler in their practices.

#### **c) Alternative channels (competition) to independent financial planners**

Alternative channels that are used to market, distribute and sell insurance products are cited as a factor affecting independent financial planners. Over



50% of all respondents agree that clients are using direct insurers, the internet and telemarketing for the purchase of insurance products. The majority view amongst all respondents is that bank financial advisors have access to a larger client base (86% of all respondents agree or strongly agree that bank financial planners have access to a larger client base).

d) Consumer expectations and perceptions

Almost 86% of respondents believe that clients' financial literacy affects independent financial planners by placing additional demands on their practices. Respondents are divided on clients' expectations for their commission or fees to be discounted. One third of all respondents believe that clients see them as product providers only. This may be a biased perception because the literature review indicates otherwise in that clients view planners as providers of information relating to product features and benefits.

**5.2.3 Objective Two: To investigate the impact of the factors on the sustainability of independent financial planners in KZN**

a) Legislation (FAIS, TCF, PPI and RDR)

The key finding is that the relevant legislation, although a necessity, are placing a strain on the independent financial planners' practices. Planners are spending time to ensure compliance and the administration workload associated with compliance is insurmountable. The majority of respondents (99%) agree or strongly agree that compliance legislation has increased the workload of independent financial planners, with over 80% agreeing or strongly agreeing that compliance legislation has resulted in inefficiencies of time and cost for independent financial planners.

Regulations are seen as having an adverse impact on the income of independent financial planners. Future commission regulations like RDR are viewed as having the effect of reducing the income of planners. The fee model as advocated by RDR is not viewed in a positive light. This may result in independent financial planners exiting the industry due to consumers not willing to pay a fee for advice.

b) Technology

The key finding is that the relationship between the use of technology in financial practices and social media and other technology to market or sell the insurance products is inconsistent. Only one third of all respondents make use of technology for the marketing and sale of insurance products.

c) Alternative channels (competition) to independent financial planners

The key finding is that the sustainability of independent financial planners is impacted by the presence of alternative channels. Over 40% and 1/3 of all respondents indicated a loss in income and a drop in clients due to the presence of direct insurers and telemarketing respectively. With more customers using these alternative channels to make insurance purchases, the traditional channel to purchase products is being bypassed. This will result in planners' earnings decreasing and an exodus of planners from the industry.

d) Consumer expectations and perceptions

Consumer financial literacy is creating demands on the practices on independent financial planners. This may be due to active consumerism and the recent global financial crisis. A high percentage of respondents (46% of all respondents) are of the view that consumers have an expectation that fees or commission must be discounted. This illustrates that these clients' expectations are impacting on the sustainability of the independent financial planners' practices.

**5.2.4 Objective Three: To make recommendations to overcome these factors to retain independent financial planners for the marketing, distribution and sale of insurance products in KZN**

Tertiary institutions in the province could incorporate subjects or courses related to financial planning in the curriculum of applicable degrees or diplomas. The tertiary institutions in KZN could offer the Diploma and the Advanced Diploma in Financial

Planning as is offered by the Universities of the Free State, Stellenbosch and the Nelson Mandela Metropolitan.

There has to be a concerted effort on the part of all stakeholders to professionalise the industry. The legislation that has been enacted is a step in the right direction. The minimum qualifications required to practise as a financial planner will result in confidence and trust on the part of consumers in the profession and the independent financial planners practising in the profession.

Legislation regarding the fee based model (RDR) needs to be embraced by independent financial planners as means to professionalise the industry. This will give credibility and add value to the profession. Planners should charge for advice irrespective of whether a product is purchased or not. However, this comes with having a professional industry – one that is able to charge according to a regulated tariff. This means that qualifications and experience are essential. At present less than 35% of all respondents have the Post Graduate Diploma in Financial Planning (CFP). Independent financial planners should endeavour to achieve this qualification as it will assist with the public having more confidence in the planners and the in the industry itself.

Insurance companies in part have supported independent financial planners in respect of compliance regulations. Some insurance companies have offerings available to independent financial planners that assist with the compliance requirements of an independent financial planner's practice. However, independent financial planners are expected to write a certain amount of business in return for this offering. Insurance companies should partner with planners to assist with compliance without any expectations. This includes providing support and training in respect of compliance related issues at a cost to the financial planner, but not linked to any business that the planner writes for the company. This is line with the Retail Distribution Review legislation.

Professional bodies like the FPI are actively promoting and protecting the financial planners. However, joint initiatives between these bodies and government and insurance companies can promote and educate the consumers for the need of financial planning.

Consumers need to be made aware of legislation highlighting the financial planning process. Emphasis should be placed on educating consumers on the use of independent financial planners to better meet their financial goals. Further, consumers must be educated as to the impartiality on independent financial planners who are licensed to sell products of more than one insurance company.

Independent financial planners need to incorporate social media and other forms of technology in their practices for the marketing and sale of products and services to retain and attract new clients. The new generation of clients want a different form of interaction with planners and insurance companies – one that uses social media. Incorporating technology into their practices will keep independent financial planners relevant as a viable channel for insurance products. Independent financial planners need to develop their own websites and self help tools to assist clients in managing their financial affairs and to provide a comprehensive communication offering.

Purchasing of insurance products via direct insurers, telemarketing or the internet will continue to grow and will make it easy for consumers to purchase products. However financial planners need to differentiate themselves from the alternative channels. Independent financial planners together with financial planning bodies and insurance companies have to be more vocal regarding the differences between the independent financial planners and alternative channels, in line with RDR. Independent financial planners need to market themselves as selling advice and not products. Independent financial planners need to engage with consumers at grass root levels to promote the benefits of independent financial planners.

### **5.3 Limitations**

The identification of limitations will be beneficial for future studies relating to the financial services industry. There is a lack of academic literature on factors affecting the independent financial planners, particular in South Africa. This could be due to the fact that financial planning is a relatively new profession.

The population was limited to independent financial planners in KZN that have contracts with Old Mutual. This may not include all independent financial planners

in the province as not all independent financial planners have Old Mutual contracts. It did not include those operating in the short term insurance industry. These planners would face similar challenges as they are subject to the same factors affecting those that practice in the long term insurance industry.

#### **5.4 Recommendations for Further Research**

This study attempted to establish the factors that impact on the viability of independent financial planners who practise in the long term insurance industry. It is recommended that further research be conducted to include all independent financial planners in both the long and short term industry. The bank financial planners should also be included to determine if they experience the same challenges as independent financial planners. Research should be conducted amongst consumers or purchasers of insurance products to determine their perceptions and expectations of the financial planning industry. This will allow for a comparison between perceptions of planners and those of consumers. This will enable stakeholders in the industry to identify weaknesses and opportunities to improve the industry for betterment of all concerned. The actions or initiatives (including challenges) that insurance companies are employing to retain independent financial planners as a channel for insurance products and the effectiveness of these initiatives can be a further topic for research. In addition, the use of customer retention management strategies employed by independent financial planners could be studied.

#### **5.5 Summary**

Independent financial planners are part of the financial services industry. They perform a dual role namely to provide financial advice and services to customers and to market, distribute and sell financial products and services of insurance companies to customers. This channel has become subject to various challenges that may affect its sustainability.

The study has identified various factors that impact on the sustainability of independent financial planners. The impact of these factors varies in respect of the

degree of impact on an independent financial planner. The four factors identified as affecting independent financial planners in KwaZulu-Natal are legislation, technology, alternative channels (competition) to independent financial planners and customer perceptions and expectations of independent financial planners.

In respect of legislation, compliance and commission legislation were identified as major pieces of legislation impacting on independent financial planners. Compliance legislation is viewed by 89% of the respondents as having a positive effect on the industry and 79% viewed Regulatory Examinations and CPD requirements as a necessity for the industry. However, of the 26.17% who considered exiting the industry in the last five years, 73% ranked compliance legislation as the reason for exiting the industry, with 75% reporting that compliance legislation has increased their administration workload. Further, over one third of all respondents experienced a decrease in their income over the last five years and 60% of respondents stated that commission regulations have negatively impacted on their income.

Over 96% of all respondents view technology as an enabler in their practices. The literature review clearly indicated that customers are making use of technology in their interactions with the financial services industry. Further, customers expect independent financial planners to use technology in their communication with them. Product providers are also make use of technology in their organisations. Technology needs to be fully embraced to ensure that planners are able to deliver a comprehensive offering to consumers. Technology cannot be implemented in a piecemeal fashion.

Competition is an inevitable in any industry. Of all the respondents, 56% believe that customers are using direct insurers for the purchase of financial products and services, 42% state that customers are using online channels for the purchase of products and service and 48% of respondents agree that customers are using telemarketing for the purchase of insurance products and services. The impact of the presence of these alternative channels on the income and client base of independent financial planners varies with 40% of all respondents reporting a drop in their client base and income due to direct insurers, one third stated a decrease in their client base and income due to online facilities and telemarketing and 48%

agreed that bank financial planners resulted in a decrease in their client base. Independent financial planners need to market and differentiate themselves from competition. Independent financial planners need to develop a value proposition (with the assistance of financial planning bodies) that will set them apart from alternative channels used for the distribution, marketing and sale of insurance products.

Approximately 86% of all respondents agree that clients are more financially literate. Further, 67% reported that this financial literacy has placed additional demands on their practices. The research found that 75% of respondents agreed that clients believe that their fee or commission is justified. Deloitte's (2012) research found that consumers believed advice was free and were prepared to pay less than 30% of the planners' average cost. It is important for independent financial planners not to underestimate or misinterpret consumers' perceptions and expectations. Independent financial planners must heed the signals where customers are using alternative channels to purchase financial services products as it could relate to commission and fees charged them.

The independent financial planner is important for the distribution, marketing and sale of insurance products. However, to stay relevant in the industry the independent financial planner has to adapt to a changing environment. Factors identified as affecting the sustainability of independent financial planners must not be overlooked. These factors must be embraced and the benefits of the changing landscape in respect of independent financial planners must be harnessed to ensure the longevity of independent financial planners in the industry.

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# APPENDIX 1

## Informed Consent Letter

### UNIVERSITY OF KWAZULU-NATAL GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP

Dear Respondent,

#### **MBA Research Project**

**Researcher:** Keith Miles Peter (082 877 3828)

**Supervisor:** Muhammad Hoque (Office Telephone number)

**Research Office:** Ms P Ximba 031-2603587

I, Keith Peter, am a MBA student, at the Graduate School of Business and Leadership of the University of Kwazulu-Natal (UKZN).

You are invited to participate in a research project entitled "Factors impacting the sustainability of Independent Financial Planners in Kwazulu-Natal."

The aims of the study are: (1) To determine factors affecting independent financial planners in Kwazulu-Natal (KZN), (2) To investigate the impact of these factors on the sustainability of independent financial planners in KZN and (3) To make recommendations to overcome these factors to retain independent financial planners for the marketing, distribution and sale of insurance products in KZN

Through your participation I hope to understand the factors affecting independent financial planners, how these factors impact the sustainability of independent financial planners and how they can be overcome.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequences. There will be no monetary gain from participating in the survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about fifteen to twenty (15-20) minutes to complete. I hope that you will take the time to complete this survey.

Sincerely

Keith Peter

**This page is to be retained by participant**

## APPENDIX 2

### Questionnaire

1. What is your gender?

Male	Female

2. What is your age?

3. What is your race?

Asian	Black	Coloured	White	Other

4. How many years have you been practising as a financial planner?

1 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 - 25 years	>25 years

5. What is your highest education qualification?

<Matric	Matric	Diploma	Degree	Honours	Masters

6. What is your highest post-matric financial planning qualification?

RF1	RF2	RF3	CFP	Advanced CFP

7. What was your annual income for the year ending 2013

<R250 000	R250 001 – R500 000	R500 001 – R750 000	R750 001 – R1 000 000	>R1 000 000

8. Please rank your main functions from 1 to 5 with 1 being the most important to your job and 5 being the least important to your job

Administration	Marketing	Selling	Advice	Other (specify)

9. Have you considered leaving the insurance industry in the last five years?

Yes	No

10. If you answered “Yes” to the above-mentioned question, what would your reason be to exit the industry?

Financial reasons	
Compliance legislation	
Other regulations	
Competition e.g. direct insurers, telemarketing, bank financial advisors	
Personal	
Not applicable	
Other	

11. FAIS and other compliance legislation have transformed the insurance industry positively

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

12. Compliance legislation has resulted in financial planners rendering an improved quality of service to clients

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

13. RE1 and RE5 examinations and CPD are a necessity in the financial services industry

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

14. Have you passed the RE1 and RE5 examinations as required by FAIS?

RE1	RE2	Both

15. Have you obtained your Continuous Development Points as required by FAIS?

Yes	No

16. The educational entry requirements into the financial planning industry are stringent

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

17. The experience entry requirements into the financial planning industry are stringent

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

18. Do you have a business continuity plan in place for your practice?

Yes	No

19. If you answered "No" to the previous question, what is the reason for you not having one?

Lack of appropriately qualified successor	
Compliance requirements in terms of FAIS	
Perception amongst potential successors that profession is not financially viable	
Poor image of the financial planning industry to attract new entrants	
Not applicable	
Other	

20. Has your income decreased over the last five years?

Yes	No

21. Commission regulations have had an adverse impact on financial planners' income

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

22. Is your practice commission or fee based?

Commission	Fee

23. If you are a commission earner, would you consider the fee based model?

Yes	No

24. To how many insurance companies are you contracted?

1	2	3	4	>4

25. Did you meet the financial targets of all contracts that you have in 2013?

Yes	No

26. Would you prefer having fewer contracts than what you currently have?

Yes	No



27. If you answered "Yes" to the above question, what is your reason

Financial targets of various insurance companies been high	
Compliance requirements of various insurance companies been onerous	
Not applicable	
ther	

28. Do you use technology in you practice? (e.g. internet, online tools etc.)

Yes	No

29. Do you view technology as an enabler in your practice?

Yes	No

30. Do you view technology as a disruptor in your practice?

Yes	No

31. Direct insurers e.g. Dial Direct, 1 Life Direct, Outsurance have resulted in clients using this facility to purchase insurance products

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

32. Availability of online facilities for the purchase of insurance products has resulted in clients using this model for the purchase of insurance products

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

33. Availability of telemarketing for the purchase of insurance products has resulted in clients using this model for the purchase of insurance products

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

34. Bank financial planners have access to a larger client base

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

35. Clients are more financial literate

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

36. Clients buying preferences are changing i.e. a move away from broker purchase to online purchase

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

37. Clients view independent financial planners as advice providers in respect of financial planning

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

38. Clients view independent financial planners as information providers only (i.e. providing information on product features and benefits)

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

39. Clients value the advice that independent financial planners provide

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

40. Compliance legislation has resulted in an increase in the administration workload of financial planners

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

41. Compliance legislation has resulted in inefficiencies of time and costs for financial planners

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

42. How much do you spend on compliance per annum (e.g. employment of a compliance officer, completing FAIS assessments, maintaining CPD points etc.)?

>R50 000	
Between R50 001 and R100 000	
Between R100 001 and R150 000	
Between R150 001 and R200 000	
<R200 001	

43. Potential new regulations e.g. compliance regulations will impact your income.

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

44. Future remuneration dispensations will affect your income negatively.

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

45. Have you considered selling one insurance company's products only in the last five years?

Yes	No

46. Have you considered becoming a tied agent of a particular insurance company or bank or affiliated network?

Yes	No

47. If "Yes" to the above question, why would you move?

Compliance	Monetary	Access to clients	Regulation	Other (specify)

48. Have you been approached by a bank, insurance company or network to join its institution in the last five years?

Yes	No

49. If "Yes" to the above question, were any financial incentives provided?

Yes	No

50. Are the manual processes in your practice automated?

Yes	No

51. Do you use social media and other forms of technology in the marketing and sales functions of your practice?

Yes	No

52. Direct insurers have resulted in a decrease in financial planners' client base

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

53. Direct insurers have resulted in a decrease in financial planners' income

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

54. Online facilities has resulted in a decrease in the financial planners client base

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

55. Online facilities has resulted in a decrease in the financial planners income

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

56. Telemarketing has resulted in a decrease in the financial planner's client base

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

57. Telemarketing has resulted in a decrease in the financial planner's income

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

58. Bank financial planners have resulted in a decrease in financial planners' client base

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

59. Bank financial planners have resulted in a decrease in independent financial planners' income

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

60. Clients' financial literacy have resulted in additional demands being placed on your practice

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

61. Clients believe that your commission/fee is justified in relation to the value you add

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

62. Clients expect you to discount your commission/fees

Yes	No

**Thank you for taking the time to complete the questionnaire.**



## APPENDIX 3



**OLD MUTUAL**

EAST COAST REGIONAL OFFICE – BROKER DISTRIBUTION  
13<sup>th</sup> Floor, 303 Dr Pixley KaSeme Street (West Street), Durban, 4001.  
PO Box 2552, Durban, 4001, South Africa.  
Tel +27 (0)31 302 5048, Fax +27 (0)31 301 1771  
Sharecall +27 (0)860 004 633, [www.oldmutual.co.za](http://www.oldmutual.co.za)

Date: 1 April 2014

Student Name: Mr. Keith Miles Peter  
Student Number: 901 339 270  
Institute: University of Kwa-Zulu Natal  
Degree: Masters in Business Administration

Dear Mr Peter

**PERMISSION TO CONDUCT RESEARCH – OLD MUTUAL BROKER DISTRIBUTION (KZN)**

The above-mentioned refers.

Old Mutual Broker Distribution (East Coast Region) grants you permission to forward electronic questionnaires to the independent financial planners in KZN that have Old Mutual contracts. This is in respect of the research you are conducting for the completion of your MBA dissertation entitled "Factors impacting the sustainability of Independent Financial Planners in Kwa Zulu Natal."

Should you require any further information, please do not hesitate to contact me on 031-302 5048 or via email [ARaju@oldmutual.com](mailto:ARaju@oldmutual.com).

Thank you

Yours sincerely

ANAND RAJU  
(REGIONAL GENERAL MANAGER)  
BROKER DISTRIBUTION – EAST COAST REGION

To report unethical behaviour, call the Anonymous Reporting line  
0800 222 117 or visit [www.oldmutualanonymousreports.co.za](http://www.oldmutualanonymousreports.co.za)

Old Mutual Life Assurance Company (South Africa) Limited. Reg No: 1999/004643/06  
Licensed Financial Services Provider

PB Hanratty (Chairman) (Irish), RT Mupita (Chief Executive Officer), PC Boleyi, PC de Boyer,  
PW Feeney (British), Prof IA Goldin, Ms AA Maule, Ms CE Maynard, Ms R Murray (British), BM Rapiya,  
JVF Roberts (British), F Robertson, Mrs GT Serobe, AH Trikamjee, PGM Thuyens (Dutch) and  
GS van Niekerk.  
Company Secretary: RF Foster

F8076

## APPENDIX 4



07 April 2014

Mr Keith M Peter (901339270)  
Graduate School of Business & Leadership  
Westville Campus

Protocol reference number: HSS/0197/014M  
Project title: Factors impacting the sustainability of Independent Financial Planners in KwaZulu-Natal

Dear Mr Peter,

### Full Approval – Expedited

In response to your application dated 19 February 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Shenuka Singh (Chair)

/ms

cc Supervisor: Mr Muhammad Hoque  
cc Academic Leader Research: Dr E Munapo  
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