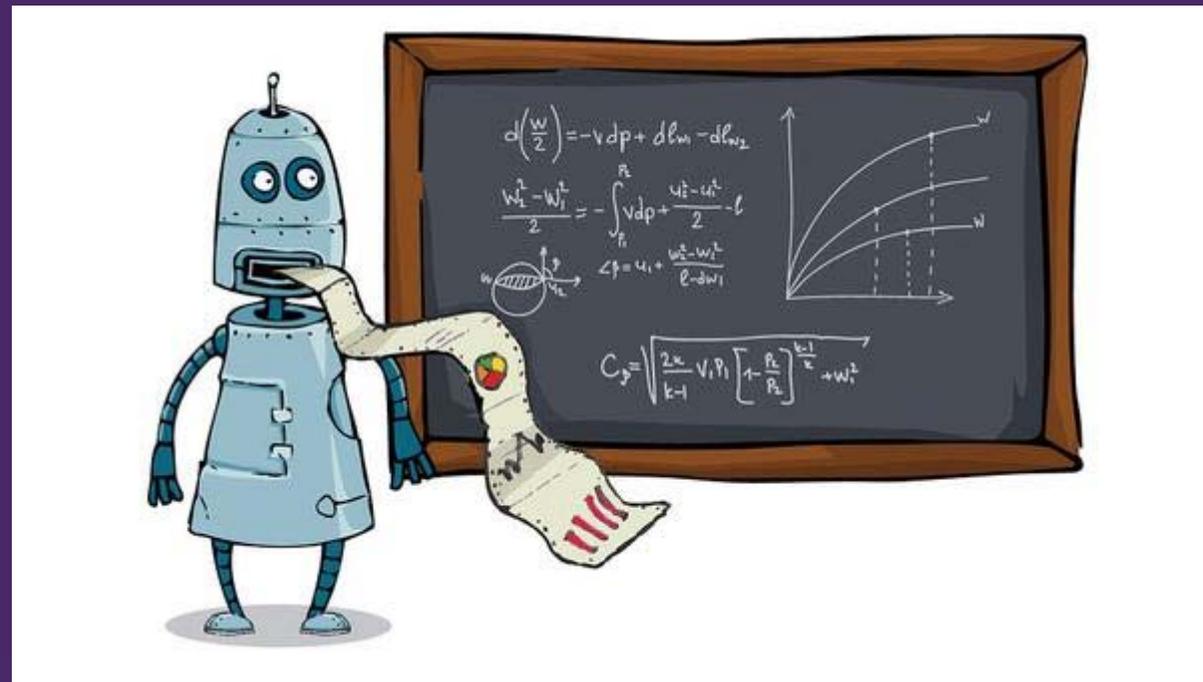


# Robo-advice and FAIS

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# Advice and FAIS

“**advice**” means, subject to subsection (3) (a), any recommendation, guidance or proposal of a financial nature furnished, by any means or medium, to any client or group of clients—

(a) in respect of the purchase of any financial product; or

(b) in respect of the investment in any financial product; or

(c) on the conclusion of any other transaction, including a loan or cession, aimed at the incurring of any liability or the acquisition of any right or benefit in respect of any financial product; or

(d) on the variation of any term or condition applying to a financial product, on the replacement of any such product, or on the termination of any purchase of or investment in any such product,

and irrespective of whether or not such advice—

(i) is furnished in the course of or incidental to financial planning in connection with the affairs of the client; or

(ii) results in any such purchase, investment, transaction, variation, replacement or termination, as the case may be, being effected



# Robo Advice

Wikipedia defines robo-advisors as “*a class of financial adviser that provides portfolio management online with minimal human intervention. ... currently most robo-advisors employ algorithms*”.

Investopedia says “*A robo-advisor is an online wealth management service that provides automated, algorithm-based portfolio management advice without the use of human financial planners*”.



# The new world of advice

- Fair access to suitable advice for financial services customers
- Transforming the financial sector into a more inclusive one
- More South Africans should be able to participate in the insurance sector, as suppliers on the one hand and getting the right insurance cover on the other



# Advantages of robo advice

- Mitigating the advice gap
- Cost
- Range of customers
- Quality of service
- Access



# Fais fit and proper requirements

- **‘automated advice’**: the furnishing of advice through an electronic medium that uses algorithms and technology without the direct involvement of a natural person
- Competence Requirements – FSP that provides automated advice must have at least one key individual who:
  - (a) meets the Category I FSP key individual competence requirements; and
  - (b) has technological knowledge, skills and experience to:
    - (i) understand the technology and algorithms used to provide the automated advice;
    - (ii) understand the methodological approaches and assumptions embedded in the algorithms and the rules underpinning the algorithms;



# FAIS fit and proper requirements

- (iii) identify the risks to customers arising from the automated advice; and
- (iv) monitor and review the automated advice generated by algorithms to ensure quality and suitability of the advice and compliance with the Act.
- Operational ability requirements -In addition to the requirements set out in section 38, an FSP that provides automated advice must-
  - (a) have adequate and appropriate human resources that have the required competence to-
    - (i) understand the technology and algorithms used to provide the automated advice; and
    - (ii) understand the methodological approaches, including assumptions, embedded in the algorithms;



# FAIS fit and proper requirements

- (iii) understand the preferences or biases that exist in the approaches referred to in (ii);
- (iv) understand the risks and rules underpinning the algorithms; and
- (v) are able to monitor and review the automated advice generated by algorithms to ensure quality of the advice and compliance with the Act;
- (b) establish, implement and maintain adequate policies and procedures
  - (i) to monitor, review and test the algorithms and the advice generated by them;
  - (ii) to monitor, review and test the filters implemented to ensure clients for whom the automated advice is not suitable are filtered out; and



# FAIS fit and proper requirements

- (iii) that set out the level of human review that will be undertaken on the advice generated;
- (c) in relation to the monitoring and testing of the algorithms and filters referred to in (b), -
  - (i) have appropriate system design documentation that sets out the purpose, scope and design of the algorithms and filters;
  - (ii) have a documented test strategy that explains the scope of testing, including test plans, test cases, test results, defect resolution, and final test results;
  - (iii) have appropriate processes for managing any changes to an algorithm and filters that include having security arrangements in place to monitor and prevent unauthorised access to the algorithms;



# FAIS fit and proper requirements

- (iv) be able to control, monitor and reconstruct any changes to algorithms or filters;
- (v) review and update algorithms whenever there are factors that may affect their relevance (such as market changes and changes in the law);
- (vi) have in place controls and processes to suspend the provision of advice if an error within an algorithm or filters is detected; and
- (vii) be able to frequently monitor and supervise the performance of algorithms and filters through an adequate and timely review of the advice;
- (d) have adequate and sufficient technological resources to-
  - (i) maintain client records and data integrity;
  - (ii) protect confidential and other information; and
  - (iii) meet current and anticipated operational needs, including in relation to system capacity.



# The solution?

- Outcomes based vs Rules based regulation
- Move away from reliance on detailed prescriptive rules, to high level, broadly stated outcomes that must be achieved
- Simplifies regulatory burdens and eliminates the one size fits all approach to regulation
- Enables operating under a tailored approach with focus on areas that hold more risk for customers
- Encourages innovation - solutions to achieve the outcomes in a way that adds value to the firm and its customers and avoids the unnecessary costs and effort of operating on the basis where rules, that are irrelevant in a given situation, must be complied with
- Where there are no irrelevant rules-based hurdles, it can potentially be a faster and simpler way to achieve outcomes or deliverables



# Questions

