



# **Unitrans Insurance Ltd**

**FINANCIAL SERVICES**

**AND**

**DISCLOSURE**

**POLICY AND PROCEDURES**

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# 1. INTRODUCTION

The purpose of this document to ensure that UNITRANS INSURANCE LTD FAIS representatives obtain, records, processes, summarizes and explains all information relevant to the products on offer. The representative is required to disclose any information that would be expected to affect the client's decision on the purchase or otherwise of a product on offer as well as any conflict that may have an impact on the client due to the sale of said product. This type of information needs to be disclosed and noted prior, during and after the sale of the mentioned products to ensure absolute transparency. In following these procedures the client will be well informed in order to make an educated decision.

The Advice Giving and Disclosure Procedures have specifically been designed to comply with Sections 4, 5, 7, 8 and 9 of the General Code of Conduct. UNITRANS INSURANCE LTD anticipates establishing full compliance with these requirements and will monitor the level of compliancy based on the findings during the quarterly compliance monitoring visits.

## 2. NEEDS ANALYSIS AND ADVICE GIVING PROCEDURE

The F&I's duty is to identify the risks and exposures that a consumer will assume when entering into a credit agreement and properly explain them. Having explained them, the F&I's task is to show how the client can minimise or even eliminate those risks and exposures through the purchase of insurance.

To conclude, the F&I must fully explain exactly what is covered and what is not covered by insurance instruments, highlight the exact costs thereof and disclose certain salient facts to the client.

To be able to do this it stands to reason that the F&I has to first gather certain information from the client, analyse it and then identify the type of insurance products that will the client's needs. Remember, not every person takes the same approach to risk and exposure. Some clients will be more risk averse than others and it is the F&I's duty to ascertain the risk tolerance of their clients. Here 'risk tolerance' has a similar meaning to the level of 'risk aversion' but also takes into account the client's financial capacity to take risk.

Only when this information has been obtained can the 'selling' process begin.

Whilst complex, this task is not as onerous as it would appear. There is no need for the F&I to dig deep into the risk and insurance profile of the consumer. The client is planning to buy a vehicle on credit, and the information required should only relate to that risk.

The first part of Section 8 of the Code of Conduct makes the advice giving procedure very clear. It states that

Prior to providing a client with advice, the advisor must:

- \* Take reasonable steps to seek from the client appropriate and available information regarding the client's financial situation, financial product experience and objectives to enable the advisor to provide the client with appropriate advice;
- \* Conduct an analysis, for purposes of the advice, based on the information obtained;
- \* Identify the financial product or products that will be appropriate to the client's risk profile and financial needs, subject to the limitations imposed.

With regard to the gathering of information, each part is dealt with separately hereunder.

## 2.1 GATHERING APPROPRIATE AND AVAILABLE INFORMATION REGARDING THE CLIENT'S FINANCIAL SITUATION

Most of the financial information required will already be in the possession of the F&I, because it is likely that a credit application has been completed. But there is some additional information that might be required. For example, the credit application will show how much rent the client pays, but it probably won't say if a partner shares the rent.

This type of information will also help to identify whether or not a joint life insurance is required.

There is no need to 'interrogate' the client – a few simple questions which lightly tap the client's lifestyle will suffice and the answers will quickly inform the experienced F&I as to the financial situation of the client.

Warming questions such as "Have you built in the cost of servicing and insurance in your budget, we certainly don't want you over committed?" and "If something horrible happened to someone at home, would you still be able to pay the instalment?" are very useful discussion triggers.

The answers may result in the need for further questioning, but the whole idea is for the F&I to obtain appropriate information without antagonising the client.

## 2.2 GATHERING APPROPRIATE AND AVAILABLE INFORMATION REGARDING THE CLIENT'S PRODUCT EXPERIENCE

The client may or may not be familiar with insurance products, and specifically credit protection products. Explanations will take a different form for clients that have no idea about insurance.

Simple questions like "Have you bought a car on credit before?" and "The last time you bought a car did the F&I explain the risks you are taking on and how you can avoid them?" will not only interest the client, but the answers will help the F&I to ascertain the extent of explanation required.

## 2.3 GATHERING APPROPRIATE AND AVAILABLE INFORMATION REGARDING THE CLIENT'S OBJECTIVES

This is the most important part and will determine what products should be sold. The discussion should not take the form of a 'sales session', but must be informative. It is preferable for insurance products to be bought rather than sold.

The client must leave the meeting with a complete understanding of the risks and exposures assumed and fully informed about the insurance covers available.

Questions that trigger conversations are the best, such as "If something horrible happened to you, like death or permanent disability, what would you want to do with the car?" The client might want to keep the car in the family, or he might not. Naturally if he wants to keep the car in the family the next question would be "When your financial advisor helped you develop your financial plan, was the cost of a car taken into account?"

If yes, the next step would be to ask if the pay-out would be immediate or if it would be paid into the estate. If the latter, it might be appropriate to offer the credit life package anyway.

It is not uncommon for a bachelor with no dependents to buy a car. Not only will the car be disposed of in the event of death, but moreover the bachelor may have group life and accident covers in place anyway. In this instance, it is unlikely that credit life cover will be required, but the client might be concerned about retrenchment and/or temporary disability.

If the credit protection cover can include retrenchment and temporary disability, questions such as “would you be able to keep up the instalment if you were retrenched or if you had an accident and were laid up for a few months?” are very useful discussion prompts. The answers usually clarify whether or not insurance cover is needed.

The size of the deposit will determine whether top-up and/or deposit protectors should be in the bouquet of offerings, and if so should be aggressively sold.

Questions such as “How long do you think you will keep the car for?” will provide information as to whether or not an extended warranty should be offered. Similarly, a client’s preference for knowing exactly how much is to be spent on servicing each month will determine whether the client needs a maintenance plan or otherwise.

A brief summary of answers to all questions must be noted on the record of advice, which must be given to the client when the F&I concludes the transactions, even if the client decides not to buy any insurance products.

## 2.4 ANALYSING THE INFORMATION AND IDENTIFYING THE CORRECT PRODUCTS

The next step is for the F&I to use the information gathered to identify the products that the F&I believe the client should consider.

These products should be clearly listed on the record of advice under the heading “Products identified that will satisfy the needs of the client”. The list of recommended products has no bearing on whether they are bought by the client or not. These are the products that the F&I think the client should buy having completed the analysis. They should relate directly to the notes that the F&I made during the information gathering stage.

If there is a complaint, the FAIS Ombud will want to read the notes to see whether or not the F&I did a proper job in determining what products should be sold.

## 2.5 SELLING THE PRODUCTS

In selling the products, the F&I must take reasonable steps to ensure that the client understands the advice and that the client is in a position to make an informed decision.

It is at this stage that all salient features must be disclosed, so the F&I must have a thorough knowledge of the products on offer. All the important exclusions and conditions must be fully explained.

*The Code of Conduct is quite explicit. It states that an F&I must:*

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

- \* whenever reasonable and appropriate, provide to the client any material contractual information;

In particular, at the earliest reasonable opportunity, provide full and appropriate information of the following.

- \* Name, class or type of financial product concerned;
- \* Nature and extent of benefits to be provided;
- \* Nature and extent of monetary obligations assumed by the client, directly or indirectly, in favour of the insurer, including the manner of payment or discharge thereof, the frequency thereof, and the consequences of non-compliance;
- \* Nature and extent of monetary obligations assumed by the client, directly or indirectly, in favour of your company, including the manner of payment or discharge thereof, the frequency thereof, and the consequences of non-compliance;
- \* Nature, extent and frequency of any incentive, remuneration, consideration, commission, fee or brokerages (“valuable consideration”), which will or may become payable to you or your company, directly or indirectly, by the insurer or any person other than the client, or for which you or your company may become eligible, as a result of rendering of the financial service, as well as the identity of the company or person providing or offering the valuable consideration;
- \* Concise details of any special terms or conditions, exclusions of liability, waiting periods, loadings, penalties, excesses, restrictions or circumstances in which benefits will not be provided.

The F&I must further inform the client in regard to the completion or submission of any transaction requirement

- \* That all material facts must be accurately and properly disclosed, and that the accuracy and completeness of all answers, statements or other information provided by or on behalf of the client, are the client’s own responsibility;
- \* That where the F&I completes any document on behalf of the client, the client should be satisfied as to the accuracy and completeness of the details;
- \* Of the possible consequences of the misrepresentation or non-disclosure of a material fact or the inclusion of incorrect information;
- \* that the client must on request be supplied with a copy or written or printed record of any transaction requirement within a reasonable time.

The F&I must not request any client to sign any written or printed form or document unless all details required to be inserted thereon by the client or on behalf of the client have already been inserted.

Many complaints are received regarding age exclusions, pre-existing health conditions, the extent of cover and sum insured limitations, where the complainant states that these were not pointed out at the time of the discussion. An F&I cannot rely on the client reading the policy or signing a statement that full explanations were provided.

Evidence that full explanations have been provided must be on record, and available for presentation to the FAIS Ombud when called for.

It is not easy to provide evidence, but experience has shown that when describing products to a client, the client often asks a number of questions. If a summary of these questions and answers are recorded, it provides evidence that the F&I is properly following the Code of Conduct and this will be held to his credit in the event of a “he said, I said” dispute.

## 2.6 CLIENTS THAT WILL NOT CO-OPERATE

There are always clients that are really not interested in buying insurance, usually because they have had a bad experience in the past or because they are happy to assume the additional risks involved.

In addition, some clients refuse to provide all the information requested and sometimes the F&I is unable to conduct an analysis because, there is insufficient time to do so.

Where this situation arises, the F&I must ensure that the client clearly understands that:

- \* A full analysis could not be undertaken;
- \* There may be limitations on the appropriateness of the advice provided;
- \* The client should take particular care to consider whether the advice is appropriate considering the client's objectives, financial situation and particular needs.

The reasons why a proper analysis could not be undertaken must be noted on the record of advice.

## 2.7 CLIENTS THAT DO NOT BUY THE RECOMMENDED PRODUCTS

Where a client elects to conclude a transaction that differs from that recommended by the F&I, or otherwise elects not to follow the advice furnished, or elects to receive more limited information or advice than the F&I is able to provide, the F&I must alert the client as soon as reasonably possible of the clear existence of any risk to the client, and must advise the client to take particular care to consider whether any product selected is appropriate to the client's needs, objectives and circumstances.

The reasons why the client does not follow the F&I's advice must be clearly shown on the record of advice. Statements such as "I'm not interested" are not adequate, and the F&I should try to encourage the client to be more explicit. For example, in terms of the credit life, one sentence descriptions will suffice, examples being:

- \* It's already part of my financial planning;
- \* I'd like to buy the cover elsewhere;
- \* I don't like all the exclusions/conditions;
- \* The age restrictions are prohibitive;
- \* I don't buy insurance;
- \* Pre-existing conditions will stop me from claiming;
- \* The car will not be kept in the family;
- \* I have enough life insurance;

If a complaint is received on the basis that the F&I should have sold a product but didn't, this note will provide sufficient evidence that the client chose not to buy. The signing of a form which states "I confirm that certain products were offered and I chose to decline buying them" will not suffice.



## 2.8 COMPLETING SERITI

Seriti is a platform specifically designed to assist the representative in conducting a proper Needs Analysis and providing the client with advice relevant to the client's needs. It is imperative that this system is used to its full potential and that all information is noted in a plain language relevant to the client's level of expertise and/or exposure to products on offer. A guidance note on the type of information that needs to be noted under each section is stipulated below.

### Information Gathered

#### Client situation

Can the client afford the financial product? **NOT THE VEHICLE!!!**

Based on what do you make this statement?

#### Client's Product Experience

How well does the client know the product?

Based on what do you make this statement?

In how much detail did you explain the product/s?

Does the client understand the risks involved?

Can the client make an informed decision?

**Please relay the information to a client in a plain language.**

#### Client's Objectives

Why do YOU, the product expert, think the client would benefit from a product?

Why do YOU, the product expert, think the client would NOT benefit from a product?

**This is based on information obtained from the client either noted on the finance application or by having a general discussion with the client.**

**Based on the information obtained in Needs Analysis, identify products which YOU think the client would benefit from.**

**NOTE THAT THIS SECTION IS NOT RELEVANT TO WHAT THE CLIENT WANTS, BUT TO WHAT THE CLIENT NEEDS.**

**Do NOT identify ALL the products if the client does not need it.**

**If you have identified a product, ensure that you have a substantiating note under the Client Objective section.**

**If you have not identified a product, ensure that you have a substantiating note under the Client Objective section.**

**If the client declines a product, the following must be noted under the **CLIENT PRODUCT FEEDBACK** section:**

- The reason for declining the product;

- The risk of not accepting the product;
- The fact that the client understands the risk and agrees to take it upon him/herself.
- The fact that the client understands that should he/she changes his/her mind, they can contact the F&I or any other product supplier that offers the specific product for guidance.

If a client **accepts** the product, ensure that the following information is noted under the **CLIENT PRODUCT FEEDBACK** section:

- all the disclosures, terms and conditions are made and noted;
- The client knows what is covered;
- The client knows what is NOT covered.

In order to do this, you need to **KNOW YOUR PRODUCTS.**

## 3. DISCLOSURE PROCEDURES

### 3.1 THE IMPORTANCE OF DISCLOSURE

The primary purpose of FAIS is to protect consumers not only by regulating the selling and advice-giving activities of FSP's but also to ensure that consumers are provided with adequate information about the financial products they use, and the people and institutions who sell them the products.

There can be no doubt that this is the 'age of the consumer' and that the consumer must be in possession of all material facts prior to buying any financial instrument. This means that a FSP must disclose all salient features of the product and details of the participants in the delivery chain, as well as details as to how to make complaints and the recourses the consumer has against FSPs.

These disclosures must include:

- Information regarding the product suppliers;
- Information regarding the FSP;
- Information about the financial service and product(s) being offered, including the remuneration received by the FSP; and
- Any conflicts of interest or potential conflicts of interest (see separate explanatory notes on conflict of interest and the disclosures required).

**The impact and requirements regarding the disclosure rules on the FSP including the disclosure requirements regarding product suppliers, product suppliers acting as FSPs and financial services.**

Where a representative renders a financial service to a client, he/she must at the earliest reasonable opportunity furnish the client with certain particulars, some of which are of a general nature and others relating to the specific contract.

This can be achieved by providing either a formal disclosure notice or alternatively a welcome letter, the choice depending on which method best suits the representative's operating style. If the information is provided in a welcome letter, it normally relates to 'general' information only, with the more specific information being included with policy and premium details.

The following particulars relate to both types of information and, where such information is provided orally, a representative must confirm such information within 30 days in writing.

The following information must be provided in respect of the FSP:

- The full business and trade names, registration number, postal and physical addresses, telephone and, where applicable, cellular phone number, and internet and e-mail addresses as well as the names and contact details of appropriate contact person or offices;
- Concise details of the FSP's legal and contractual status with the relevant insurer, to be provided in a manner which can reasonably be expected to make it clear to the client which entity accepts responsibility for the representative's actions in the rendering of the financial service involved and the extent to which the client will have to accept such responsibility;
- Names and contact details of the FSP's compliance department;
- Details of the financial services that the representative is authorised to provide in terms of the FSP's license and of any conditions or restrictions applicable thereto;
- Whether or not the FSP holds guarantees or professional indemnity or fidelity insurance cover;
- Whether the representative is rendering services under supervision as defined in the Determination of Fit and Proper Requirements.
- The representative must present their Section 13 Certificate/mandate and disclose their fit and proper status to the client prior to providing the client with a financial service.

The following information must be provided in respect of the product supplier (insurer):

- Name, physical location, and postal and telephone contact details of the insurer;
- The contractual relationship the FSP has with the insurer, and whether the FSP has contractual relationships with other insurers;
- Names and contract details of the relevant compliance and complaints departments of the insurer;
- The existence of any conditions or restrictions imposed by the insurer with regard to the types of financial products or services that may be provided or rendered by the FSP;
- Where applicable, the fact that the FSP
  - Directly or indirectly holds more than 10% of the relevant insurer's shares, or has any equivalent substantial financial interest in the insurer;

- During the preceding 12 month period received more than 30% of the FSP's total remuneration, including commission from the insurer.

This information is usually provided by the insurer by way of a statutory notice which each representative must provide to the client. If it is the insurer's normal practice to include this information in the policy wording, it is the FSP's responsibility to ensure that it gets to the client within 30 days.

In providing information, the representative must give a reasonable and appropriate general explanation of the nature and material terms of the relevant contract or transaction to the client, and generally make full and frank disclosure of any information that would reasonably be expected to enable the client to make an informed decision.

Whenever reasonable and appropriate, the representative must provide to the client any material contractual information and in particular, at the earliest reasonable opportunity, must provide full and appropriate information of the following:

- Name, class or type of financial product concerned;
- Nature and extent of benefits to be provided;
- Nature and extent of monetary obligations assumed by the client, directly or indirectly, in favour of the insurer, including the manner of payment or discharge thereof, the frequency thereof, and the consequences of non-compliance;
- Nature and extent of monetary obligations assumed by the client, directly or indirectly, in favour of the FSP, including the manner of payment or discharge thereof, the frequency thereof, and the consequences of non-compliance;
- Nature, extent and frequency of any incentive, remuneration, consideration, commission, fee or brokerages ("valuable consideration"), which will or may become payable to the representative or the FSP, directly or indirectly, by the insurer or any person other than the client, or for which the representative and/or FSP may become eligible, as a result of rendering of the financial service, as well as the identity of the company or person providing or offering the valuable consideration;
- Concise details of any special terms or conditions, exclusions of liability, waiting periods, loadings, penalties, excesses, restrictions or circumstances in which benefits will not be provided.

The representative must fully inform the client in regard to the completion or submission of any transaction requirement that all material facts must be accurately and properly disclosed, and that the accuracy and completeness of all answers, statements or other information provided by or on behalf of the client, are the client's own responsibility.

It must also be explained that if the representative completes any document on behalf of the client, the client should be satisfied as to the accuracy and completeness of the details.

The possible consequences of misrepresentation or non-disclosure of a material fact or the inclusion of incorrect information provided by the client must also be explained in detail.

Where a financial instrument is marketed or positioned as an investment or as having an investment component there are specific additional disclosures that must be made. These are:

- Concise details of the manner in which the value of the investment is determined, including concise details of any underlying assets or other financial instruments;
- Separate disclosure (and not mere disclosure of an all-inclusive fee or charge) of any charges and fees to be levied against the product, including;
- The amount and frequency thereof;
- The identity of the recipient;
- The services or other purpose for which each fee or charge is levied;
- Where any charges or fees are to be levied in respect of investment performance, details of the frequency, performance measurement period (including any part of the period prior to the client's particular investment) and performance benchmarks or other criteria applicable to such charges or fees; and
- Where the specific structure of the product entails other underlying financial products, disclosure must be made in such a manner as to enable the client to determine the net investment amount ultimately invested for the benefit of the client;
- On request, information concerning the past investment performance of the product over periods and at intervals which are reasonable with regard to the type of product involved including a warning that past performances are not necessarily indicative of future performance;
- Any rebate arrangements and thereafter on a regular basis (but not less frequently than annually): Provided that where that rebate arrangement is initially disclosed in percentage terms, an example using actual monetary amounts must be given and disclosure in specific monetary terms must be made at the earliest reasonable opportunity thereafter: Provided further that for the purposes of this subparagraph, "rebate" means a discount on the administration, management or any other fee that is passed through to the client, whether by reduced fees, the purchase of additional investments or direct payments, and that the term "rebate" must be used in the disclosure concerned, to describe any arrangement complying with this STAATSKOERANT, 14 MEI 2008 No. 31054 5 definition, and the disclosure must include an explanation of the arrangement in line with this definition; and
- Any platform fee arrangements, which may be disclosed by informing the client that a platform fee of up to a stated percentage may be paid by the product supplier to the administrative FSP concerned, rather than disclosing the actual monetary amount: Provided that for the purposes of the sub-paragraph, "platform fee" means a payment by a product supplier to an administrative FSP for the administration and/or distribution and/or marketing cost savings represented by the distribution opportunity presented by the administrative platform, and may be structured as a stipulated monetary amount or a volume based percentage of assets held on the platform, and that the term "platform fee" must be used in the disclosure concerned, to describe any arrangement complying with this definition, and the disclosure must include an explanation of the arrangement in line with this definition.

## 3.2 DISCLOSURE OF CONFLICT OF INTEREST

Representatives will disclose all conflicts of interest and potential conflicts of interest to clients in at least one of the following ways:

1. By declaring them verbally during the selling process;
2. By declaring them in writing as soon as practicably possible following a sale.

In selecting one or both of the above, representatives will take into account the type of conflict and the impact it might have on the client's decision to purchase or decline the offered products/services. All allowable incentives will be disclosed at the point of sale, as will the responsibilities of each and every financial services provider in the service delivery chain.

### 3.2.1 ASSOCIATE COMPANIES AND/OR RELATIONSHIPS IN RESPECT OF THE SERVICES THAT ARE PROVIDED BY REPRESENTATIVES

*Cell Captives– 100% owned by juristic representatives.*

Certain juristic representatives provide insurance products which are placed in cell captives. The policy types include, but are not limited to credit life and ancillary covers, deposit protection, credit shortfall and extended warranty insurance. Where this occurs, the representative will ensure that this is disclosed verbally prior to sale, and in writing thereafter.

*Ring-fenced Profit Shares.*

Certain juristic representatives provide insurance products which are placed with insurance companies that provide profit sharing incentives to the placing representative. The policy types include, but are not limited to credit life and ancillary covers, deposit protection, credit shortfall and extended warranty insurance. Where this occurs, the representative will ensure that this is disclosed verbally prior to sale, and in writing thereafter.

*Transactions with associated companies*

Possible conflicts arising through the use of associated companies such as those that are appointed by juristic representatives to administer the insurance policies of their clients. The policy types include, but are not limited to credit life and ancillary covers, deposit protection, credit shortfall and extended warranty insurance. Where this occurs, the representative will ensure that this is disclosed verbally prior to sale, and in writing thereafter.

## 3.3 CLIENT CONFIDENTIALITY

Our staff shall observe the confidentiality of all information they obtain by way of the services they render to clients, unless a legal obligation to disclose such information appropriately exists or should arise. Information obtained as a result of an appointment shall not be used for personal or company gain other than that fully disclosed to and agreed upon by clients.