

# RE 7: Second Level Regulatory Examination: Long Term Insurance Category B, Long Term Insurance Category C And Retail Pension Funds

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All representatives performing financial services in relation to category I, subcategory 1.3 Long Term Insurance Category B, 1.4 Long-term Insurance Category C and 1.5 Retail Pension Benefits are required to complete a first level regulatory examination, based on the qualifying criteria as it appears in Section 6 and a second level regulatory examination based on the qualifying criteria in Section 4 and Section 7 of Board Notice 105 of 2008

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## RE 7 - SECOND LEVEL REGULATORY EXAMINATION - LONG TERM INSURANCE CATEGORY B, C AND RETAIL PENSION FUNDS

- (1) All representatives performing financial services in relation to category I, subcategory 1.3 Long Term Insurance Category B, 1.4 Long-term Insurance Category C and 1.5 Retail Pension Benefits are required to complete a first level regulatory examination, based on the qualifying criteria as it appears in Section 6 and a second level regulatory examination based on the qualifying criteria in Section 4 and Section 7;
- (2) Examination bodies have the discretionary powers to offer a combination examination for representatives working with Long Term Insurance Category B, Long Term Insurance Category C and Retail Pension Benefits where such representatives may choose to complete one examination that addresses the qualifying criteria as it appears in Sections 4 and 7;
- (3) The qualifying criteria in Section 4 and Section 7 serve as the criteria against which qualifications will be evaluated for inclusion on the list of recognised qualifications.

### **Task 1 Establish and define a professional relationship with your client.**

Knowledge Criteria	Skill Criteria
Describe how the FAIS Code of Conduct is applied when providing financial advice to a client.	Provide disclosures to clients.
Discuss the disclosures that should be made to clients, both upfront and ongoing.	

### **Task 2 Gather information in order to conduct a basic needs analysis for a client.**

Knowledge Criteria	Skill Criteria
Discuss the importance and purpose of Personal Financial Planning	
Discuss the importance and purpose of Investment Planning	
Discuss the importance and purpose of Risk Management	
Discuss the importance and purpose of Retirement Planning	
Discuss the importance and purpose of Estate Planning.	
Discuss the information required when gathering information for a risk profile and needs analysis.	Gather relevant information by completing a questionnaire/asking relevant questions where applicable.
Discuss the different types of client risk profiles.	Determine the client's risk profile (including age and affordability).

**(Continued) Task 2 Gather information in order to conduct a basic needs analysis for a client**

Knowledge Criteria	Skill Criteria
Discuss the importance of cash management strategies, including but not limited to an emergency fund, debt management, etc.	Gather data in terms of capital and income requirements (excluding the resultant rate) in order to define personal and financial goals of the client by determining: <ul style="list-style-type: none"><li>• the client's ability to save;</li><li>• the client's attitude towards debt;</li><li>• the client's assets and liabilities, cash flow, income, net worth and budget;</li><li>• the client's tax position.</li></ul>
Discuss how financial statements are interpreted.	Gather data in terms of investing for growth and/or income (including existing portfolios) by: <ul style="list-style-type: none"><li>• determining the client's current assets;</li><li>• identifying cash flows available for investments;</li><li>• determining the client's experience and attitude towards investments;</li><li>• determining the client's investment objectives;</li><li>• determining the client's tolerance for investment risk,</li><li>• identifying the client's expectations in terms of return;</li><li>• identifying the client's time horizon.</li></ul> Gather data in terms of risk management including death and/or disability and short-term insurance, by: <ul style="list-style-type: none"><li>• collecting details of the client's existing insurance coverage;</li><li>• determining the client's risk management objectives;</li><li>• determining the client's tolerance for risk;</li><li>• determining the client's lifestyle and health issues.</li></ul>
Describe the impact of the life cycle of an individual on the financial needs analysis process.	Gather data in terms of retirement planning by collecting information: <ul style="list-style-type: none"><li>• on potential sources of retirement income;</li><li>• details of estimated retirement expenses;</li><li>• on the client's retirement objectives;</li><li>• regarding the client's attitude towards retirement.</li></ul>
	Gather data in terms of estate planning by collecting information on: <ul style="list-style-type: none"><li>• legal agreements and documents impacting on estate planning;</li><li>• the client's estate planning objectives;</li><li>• business relationships and family dynamics that impact on estate planning.</li></ul>

**(Continued) Task 2 Gather information in order to conduct a basic needs analysis for a client**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
	<p>Conduct a basic needs analysis for a client in terms of:</p> <ul style="list-style-type: none"><li>• Personal Financial Planning</li><li>• Investment Planning</li><li>• Risk Management</li><li>• Retirement Planning</li><li>• Estate Planning</li><li>• Business assurance (where applicable);</li><li>• Health care.</li></ul>

**Task 3 Analyse and evaluate the client’s financial status as part of a basic needs analysis.**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
<p>Explain what is meant by “time value of money”.</p>	<p>Perform time value of money calculations when analysing a client’s capital and income requirements (excluding the resultant rate formula).</p> <p>Perform basic cash flow calculations.</p>
<p>Describe the tax implications for the client when analysing and evaluating the client’s capital and income requirements (in accordance with the Income Tax Act, 1962) including but not limited to:</p> <ul style="list-style-type: none"><li>• Fringe benefits</li><li>• Accruals from Annuities</li><li>• Lump sums from termination of employment</li><li>• Dividends and Interest</li><li>• Contributions</li><li>• Donations</li><li>• Deductions</li><li>• Exemptions and Exclusions</li><li>• SITE and PAYE</li><li>• Capital Gains Tax</li><li>• VAT</li></ul>	<p>Analyse income tax implications and calculate tax efficient solutions (by performing basic tax calculations).</p>
<p>Discuss the capital needs and income requirements in the event of death, disability and dread disease including but not limited to:</p> <ul style="list-style-type: none"><li>• Repayment of capital amounts</li><li>• Replacement of income</li><li>• Provision for last expenses</li><li>• Medical expenses</li></ul>	<p>Determine the client’s capital need in the event of death, disability, retrenchment and/or retirement in order to provide for capital requirements and income requirements (excluding Capital Gains Tax).</p>
<p>Discuss the implications of the Life Officer’s Association Codes of good Practice in Disability Insurance when determining the client’s capital and income requirements.</p>	<p>Calculate the tax on lump sums when determining the client’s capital and income requirements in the event of death, disability, retrenchment and retirement.</p>
<p>Discuss the implications of the Estate Duty Act, 1955 when determining the client’s capital and income requirements in the event of death.</p>	<p>Calculate the tax deductibility on premiums when determining the client’s capital and income requirements in the event of death, disability, retrenchment and retirement.</p>

**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

Knowledge Criteria	Skill Criteria
Discuss the implications of the life cycle of an individual capital and income requirements.	
Briefly describe financial markets and instruments in terms of investments including: <ul style="list-style-type: none"><li>• Capital market</li><li>• Money Market</li><li>• Equity Market</li><li>• Property Market.</li><li>• Hard Assets</li><li>• Derivatives</li></ul>	Calculate the required rate of return to reach the client's investment objectives.
Explain the basic investment principles including but not limited to: <ul style="list-style-type: none"><li>• Income versus capital growth</li><li>• Risk versus return</li><li>• Tax efficiency</li><li>• Time Value of Money</li><li>• Economic Indicators including but not limited to inflation rates, CPI, interest rates, GDP, currency, exchange rates and their affect on investments</li><li>• Benchmarks and indices</li><li>• Economic principles (buy and sell, economic cycles, supply and demand, etc.)</li><li>• Foreign / international investments</li><li>• Market Expectations and Investment Risk</li><li>• Active versus passive management</li><li>• Rand Cost Averaging</li><li>• Compound Interest and reinvestment of income</li><li>• Diversification</li></ul>	Interpret and communicate economic indicators and their effect on a client's investment portfolio.
Describe the main asset classes in terms of structure (including risk vs. return, volatility attached to each asset class) as it relates to: <ul style="list-style-type: none"><li>• bonds,</li><li>• equities,</li><li>• property / alternative investments and cash investments.</li></ul>	
List the relevant industry role players in investments and describe their functions including but not limited to: <ul style="list-style-type: none"><li>• CIS Manager (Management Co)</li><li>• Trustee / Custodian</li><li>• Registrar</li><li>• ASISA</li><li>• Administrative FSPs</li><li>• Pension fund benefit administrators</li></ul>	

**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

Knowledge Criteria	Skill Criteria
<p>Analyse a client's current portfolio of assets in terms of:</p> <ul style="list-style-type: none"><li>• Tax effectiveness</li><li>• Risk</li><li>• Conditions</li><li>• Liquidity</li><li>• Impact of inflation</li><li>• Maturity Dates</li><li>• Diversification</li><li>• Cost</li><li>• Rate of Return</li></ul>	<p>Determine a client's investment needs in terms of investing for income and/or growth, based on the client's risk profile, including advice on existing investment portfolio's and implications of portfolio restructuring.</p>
<p>Discuss the different types of investments including but not limited to:</p> <ul style="list-style-type: none"><li>• Collective Investment Schemes</li><li>• Equities</li><li>• Interest-Bearing Investments</li><li>• Linked and Market-related investments</li><li>• Endowments</li><li>• Tank Containers</li><li>• Hedge Funds</li><li>• Foreign / International Investments</li></ul>	
<p>Describe the different types of investments in terms of:</p> <ul style="list-style-type: none"><li>• Purpose</li><li>• Structure and Classification</li><li>• Characteristics (Price, Fees [including upfront costs and termination penalties as well as switching fees], Term, Underlying Portfolio, Risk and Return, tax, volatility, liquidity etc.)</li><li>• Benefits</li><li>• Limitations</li><li>• Policy provisions</li></ul>	<p>Match the appropriate investment products with the client's risk profile and investment needs.</p>
<p>Discuss the legal requirements associated with investments.</p>	<p>Describe the different types of investments and explain the differences to the client in plain language and in accordance with the client's existing knowledge in order to assist the client make an appropriate investment decision.</p>
<p>Describe the estate duty implications for the client when analysing and evaluating proposed investment options (in accordance with the Estate Duty Act, 1955).</p>	
<p>Describe the transfer duty implications for the client when analysing and evaluating proposed investment options (in accordance with the Transfer Duty Act, 1949).</p>	

**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

Knowledge Criteria	Skill Criteria
Describe the implications of marriage and divorce when analysing and evaluating proposed investment options (in accordance with the Matrimonial Property Act, 1988).	
Describe the implications of the Pension Funds Act, 1956 when analysing and evaluating proposed investment options.	
Discuss the classification of collective investment schemes as described in the Association for Savings and Investment for SA (ASISA) Code of Practice relating to Fund Classifications for SA Regulated CI Portfolios.	
Describe the impact of the Long-Term Insurance Act 1998 on investments, including: <ul style="list-style-type: none"><li>• Surrender values;</li><li>• Insolvency and policies;</li><li>• Premium escalation;</li><li>• 4 Fund approach;</li><li>• 20% Rule;</li><li>• Foreign Exchange Control Regulations.</li></ul>	
Describe the impact of legislation on business assurance in terms of: <ul style="list-style-type: none"><li>• Law of Contract</li><li>• Matrimonial Property Act, 1988</li><li>• Income Tax Act, 1962</li><li>• Estate Duty Act, 1955</li><li>• Deferred Compensation, Preferred Compensation</li></ul>	Identify the areas of risk to which the client is exposed, and determine the client's need for business assurance.
Discuss the various business entities, and their business assurance requirements.	
Discuss the role of business valuation and loan account cover in determining a client's need for business assurance.	
Discuss the need for business contingency plans in determining the client's need for business assurance.	
Discuss how the buying and selling of stock/products affects the need for business assurance.	
	Identify the areas of risk to which the client is exposed, and determine the clients need for life assurance, short-term insurance and health care insurance.

**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

Knowledge Criteria	Skill Criteria
<p>Explain the principles of insurance including the concepts of insurable interest, insurable risk, duty of disclosure, indemnity, average, compensation, subrogation, proximate cause, contribution, law of contract.</p>	<p>Establish the client's:</p> <ul style="list-style-type: none"><li>• insurable interest,</li><li>• previous claims loss history,</li><li>• previous insurance</li><li>• current insurance coverage</li><li>• the implications of changes to the current insurance, and</li><li>• personal financial status</li></ul> <p>in order to prioritise the client's risk management needs.</p>
<p>Describe the different types of life assurance and disability insurance, short-term insurance (commercial and personal lines) and health insurance in terms of:</p> <ul style="list-style-type: none"><li>• Purpose</li><li>• Structure</li><li>• Characteristics (Rates, Costs, Term, Underlying Portfolio, Tax etc.)</li><li>• Benefits</li><li>• Limitations,</li><li>• Restrictions, Exclusions &amp; Waiting Periods</li><li>• Premiums &amp; Contributions Policy provisions &amp; Scheme Rules</li></ul>	<p>Match the appropriate insurance products with the client's risk profile and investment needs.</p>
<p>Discuss the implications of the Medical Schemes Act and the impact on medical schemes and insurance products.</p>	
<p>Describe the implications of marriage and divorce when analysing and evaluating proposed retirement options (in accordance with the Matrimonial Property Act, 1988, Divorce Act 1979, Maintenance of Surviving Spouses 1990, and Pension Funds Act, 1956).</p>	
<p>Explain what is meant by a retirement annuity.</p>	<p>Assess financial requirements at retirement date.</p>
<p>Explain what is meant by a preservation fund.</p>	<p>Determine whether the client's retirement objectives are realistic.</p>
<p>Explain what is meant by a living annuity.</p>	
<p>Explain the difference between an annuity and a savings policy.</p>	<p>Develop financial projections based on current position, and assess the impact of changes to assumptions on financial projections.</p>
<p>Discuss the different types of retirement options including but not limited to (benefits, contributions, tax etc.) in terms of:</p> <ul style="list-style-type: none"><li>• Living annuity</li><li>• Joint life annuity</li><li>• Retirement annuity with life and disability cover</li><li>• Retirement annuity without life cover</li><li>• Retirement annuity linked to an investment</li></ul>	<p>Consider potential retirement planning strategies for a particular client.</p>



**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
Explain tax minimization / relief (retirement annuities and leases).	
Explain the basic rules pertaining to the taxation of retirement funds.	
Discuss the maximum contributions for retirement funds.	
Explain existing employee benefits in terms of the impact of the: <ul style="list-style-type: none"><li>• Pension Funds Act, 1956</li><li>• Pension Fund Rules</li><li>• Maintenance of Surviving Spouses, 1990</li><li>• Divorce Act, 1979</li><li>• Income Tax Act, 1962</li><li>• Long-Term Insurance Act, 1998</li><li>• Group Risk Benefits</li></ul>	Analyse a business client's employee benefit provision and requirements
	Interpret the pension funds statement.
	Analyse an estate in order to propose an appropriate financial solution, (excluding resultant rate), including: <ul style="list-style-type: none"><li>• Net worth at death</li><li>• Potential expenses and taxes owing at death</li><li>• Specific needs of beneficiaries</li><li>• Liquidity of the estate at death</li><li>• Potential estate planning strategies</li></ul>
Explain the impact of the following Acts on an estate, where residue may be bequeathed to spouse and where a client may be married (with or without accrual), and with or without community of property: <ul style="list-style-type: none"><li>• Estate Duty Act, 1955</li><li>• Matrimonial Property Act, 1988</li><li>• Intestate Succession Act, 1987</li><li>• Wills Act, 1953</li><li>• CGT / Income Tax Act, 1962</li></ul>	Perform a basic estate duty calculation (including executor's fees), where residue may be bequeathed to spouse and where client may be married (with or without accrual), and with or without community of property (not taking CGT into account).
Explain the impact of the following Acts on the liquidity of an estate: <ul style="list-style-type: none"><li>• Estate Duty Act, 1955</li><li>• Matrimonial Property Act, 1988</li><li>• Intestate Succession Act, 1987</li><li>• Wills Act, 1953</li><li>• CGT/Income Tax Act, 1962</li><li>• Divorce Act, 1979</li><li>• Pension Funds Act, 1956</li><li>• Maintenance of Surviving Spouses, 1990</li></ul>	Perform a basic estate liquidity calculation (not taking CGT into account).
Discuss the concept of a trust and its benefits in estate planning.	Identify the suitability of a product to meet the client's needs.

**(Continued) Task 3 Analyse and evaluate the client's financial status as part of a basic needs analysis**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
	Select the most appropriate products in order to meet the client's needs.

**Task 4 Develop and present a financial plan with recommendations and alternatives.**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
Explain the need to save for retirement and the implications of not having saved for retirement.	Educate the client in terms of the need to provide financially for retirement.
	Recommend structures and products to address a client's financial, retirement, risk, investments, estate planning needs and business assurance needs.
Explain how financial products are linked to a client's needs and circumstances.	Communicate product features and benefits to a client in simple and easy to understand language in order to enable the client to make an informed decision. (Including economic concepts, events, indicators, CPIX, etc.)
Discuss basic investment principles.	Advise the client on the income tax implications (including Capital Gains Tax), transfer duty and estate duty of existing and proposed investments.
Discuss the basic components of an investment strategy including: <ul style="list-style-type: none"><li>• Wealth creation</li><li>• Income generation</li><li>• Wealth protection</li></ul>	Advise the client on the benefits of offshore diversification as part of an investment plan (including currency risk)
Describe an active vs. a passive approach to Fund Management.	Advise clients on existing investment portfolios.
Describe the tax implications for the client when analysing and evaluating proposed investment options (in accordance with the Income Tax Act, 1962).	
Discuss the features and benefits of insurance products.	
Explain the different types of cover (including self insurance) available and the implications and benefits thereof.	
Explain the policy wording/s including the concept of excess, underwriting criteria and types of perils.	
Describe client specific contractual obligations of the various products.	
Provide a basic explanation of annuities.	Advise clients on the impact of divorce, marriage and maintenance orders on estate and retirement planning.
Describe the donations tax implications which may be or become applicable to a client's financial plans/actions (business).	Interpret and explain the pension funds statement to the client.

**(Continued) Task 4 Develop and present a financial plan with recommendations and alternatives**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
Discuss the implications of a beneficiary nomination on a policy, resignation and withdrawal, winding up of a fund.	Explain existing employee benefits to an individual client.
Describe the implications of a beneficiary nomination on a policy, resignation and withdrawal, winding up of a fund, including: <ul style="list-style-type: none"><li>• Tax implications</li><li>• Pension Funds Act, 1956</li></ul>	Advise a client on the implications of a beneficiary nomination on a policy, resignation and withdrawal, winding up of a fund.
	Structuring of a portfolio (low, medium and high risk) in accordance with the client's needs.
	Structure policies to maximize tax benefits.
	Advise clients on the implications of restructuring existing investment portfolios.
	Produce a comprehensive and understandable financial planning report for a client.

**Task 5 Implement the financial plan and recommendations.**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
Discuss the relevance of disclosures, record of advice and the FAIS code of conduct when developing a financial planning report.	Prioritise action steps to assist a client in implementing a financial plan and recommendations.

**Task 6 Monitor the financial plan and recommendations.**

<b>Knowledge Criteria</b>	<b>Skill Criteria</b>
Discuss the reasons for reviewing and monitoring a financial plan including but not limited to: <ul style="list-style-type: none"><li>• Changes in personal circumstances of the client</li><li>• Changes in client goals and objectives</li><li>• Changes in legislation</li><li>• Introduction of new products and services</li></ul>	Adjust recommendations in accordance changes in the client's life cycle and personal circumstances.
	Rebalance portfolios as required in order to meet the client's changing needs.

**Task 7 Advise client on a Will**

Knowledge Criteria	Skill Criteria
Explain the implications if a client do not have a valid Will.	Explain to the client the implications of his/her will and how the will may be updated/improved.
	Explain to the client the implications of the clauses of a standard will.
Discuss the implications of the clauses of a standard will, taking into account: <ul style="list-style-type: none"><li>• Trust Company Control Act, 1988</li><li>• Administration of Estates Act, 1965</li><li>• Companies Act, 1973</li><li>• Close Corporations Act, 1984</li></ul>	Draw up a standard Will for a client.