

Fintech, Financial Advice and FAIS

Presented by

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 **EasyEquities**



**FINTECH + FINANCAL ADVICE = ROBO
ADVICE**

What Is a Robo-Advisor?



WHO ARE OUR ROBO-ADVISORS IN SA? (*to name a few)



What is “Robo Advice”?

- Financial advice defined and regulated under FAIS
- Definition of “automated advice” - Determination of Fit And Proper Requirements for Financial Services Providers, 2017 - Bn 194/2017

“means the furnishing of advice through an electronic medium that uses algorithms and technology without the direct involvement of a natural person”

What does FAIS say about “automated advice”

- In summary:
 - have human resources who can –
 - understand the technology and algorithms used
 - identify the risks to clients arising from the automated advice
 - monitor and review the automated advice generated
 - establish, implement and maintain adequate policies and procedures-
 - to monitor, review and test the algorithms and the advice generated by it
 - to monitor, review and test the filters implemented to ensure clients for whom the automated advice is not suitable are filtered out
 - that set out the level of human review that will be undertaken on the advice generated

What does FAIS say about “automated advice”

- have appropriate system design documentation that sets out the purpose, scope and design of the algorithms and filters
- have a documented test strategy
- have appropriate processes for managing any changes to an algorithm and filters that include having security arrangements in place
- be able to control, monitor and reconstruct any changes to algorithms or filters
- review and update algorithms whenever there are factors that may affect their relevance
- have in place controls and processes to suspend the provision of advice if an error within an algorithm or filters is detected
- be able to frequently monitor and supervise the performance of algorithms and filters through an adequate and timely review of the advice provide

But practically what does this mean?

These are some of the questions which came to mind:

- Is “automated advice” a sub-category of advice that needs to be applied for, or if you are already authorised to provide advice may you simply start providing automated advice?
- Do you need to submit any documents for approval relating the systems used?
- Is an FSP only governed by these provisions? What about the other provisions relating to “advice” such as “suitability” found in the General Code etc

But practically what does this mean?

These are some of the questions which came to mind:

- Is “automated advice” a sub-category of advice that needs to be applied for, or if you are already authorised to provide advice may you simply start providing automated advice? **Yes – Form FSP2. If already authorised, submit within 15 days after change has taken place.**
- Do you need to submit any documents for approval relating the systems used? **Not stipulated – however, FSCA may request**
- Is an FSP only governed by these provisions? What about the other provisions relating to “advice” such as “suitability” found in the General Code etc

Applicability of the normal “advice” provisions

- Short answer is yes – but how?
- Para 8 of the General Code (Suitability)
 - appropriate and available information regarding the client’s financial situation, financial product experience and objectives
 - conduct the analysis
 - replacement products?
 - 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?
- But are these requirements practical and appropriate for robo-advice platforms?

Reliance on “partial advice” provision?

“where the provider has been unable to conduct such an analysis because in the light of the circumstances surrounding the case, there was not reasonably sufficient time to do so, the provider must fully inform the client thereof and ensure that the client clearly understands that-

- a full analysis in respect of the client referred to in subsection (1)(b) could not be undertaken;
- there may be limitations on the appropriateness of the advice provided; and
- the client should take particular care to consider on its own whether the advice is appropriate considering the client’s objectives, financial situation and particular needs”

Looking forward

- The application of RDR
- Will we see the rise or the demise of the robo-advisor?
 - Factors for: low cost, quick, easy
 - Factors against: lack of trust, lack of infrastructure, lack of understanding