

# Contracts customers comprehend

The main aim of pending consumer-protection legislation is to improve the standards of information passed on to consumers - and this brings with it a front-line role for financial intermediaries.

Intermediaries should ensure that consumers understand what they are buying and paying for, and that contracts are in plain language.

The legislation promotes fair business practices and protects consumers' rights - specifically guarding against unfair marketing or pressure selling. Pieter Cronje, an FIA director who chairs the employee benefits executive committee, says FIA focus primarily on financial advisers' or intermediaries' direct dealings with individuals.

Cronje says that at first glance it appears that the Consumer Protection Act has ushered in many changes to the old legislation. However, several of these are covered by existing legislation in the pension funds environment, and in the general code of FAIS (the Financial Advisory and Intermediaries Services Act).

## Ensure understanding

"But what will have to be taken into account from an intermediary perspective is specifically where brokers are direct sellers of umbrella or retirement annuity products. They will obviously have to examine their marketing processes, to ensure that they are fair and do not involve pressure selling and they will need to ensure that the people to whom they sell the product understand what they are purchasing.

"That in itself is a challenge because employee benefit products can be very complex. The onus will be on intermediaries to prove that they have unpacked the product in a manner that consumers will understand. The CPA also adds a new level of record keeping in the sense that intermediaries will have to keep records showing that they have drilled down to a level that consumers have understood."

## Fees disclosure

Among the issues on which intermediaries will also have to focus is that of fees disclosure. Cronje says the new legislation goes beyond FAIS on the disclosure of fees - intermediaries would be required to disclose the actual amount that the consumer will be paying.

And specifically with retirement annuity funds, the intermediary would have to disclose that the customer will not be able to make an early withdrawal before the age of 55. He says the FSB's "Treating Customers Fairly" initiative would probably have a bigger impact on product suppliers than intermediaries since intermediaries already treat customers' fairly.

"There may be new requirements for product suppliers to ensure that from the development stage of the product, customers needs are taken into account."

Reviewing the pending legislation as a whole, Cronje said: "There is no radical change in the manner of doing business, for those who are already doing business correctly."

*Source: Business Times*

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