

Understanding the Business Considerations for Future Model-building in the Financial Industry

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Abstract

Various research areas use models to aid business decisions, but what is done less frequently is investigating and determining what business considerations should be used in building those models and why. Therefore, this paper focuses on discussing considerations that can have a potential impact on the medium to long-term business decisions made in the financial industry, with specific regards to Independent Financial Advisors (IFAs) in South Africa. Preliminary considerations are identified from literature including interviews with industry experts, business and academic literature as well as regulatory requirements. The preliminary considerations are tested and validated by four Financial Services Providers that differ in their business considerations. From the initial consideration, 11 primary and 8 secondary considerations were identified and discussed. Secondary considerations were identified as part of future research opportunities on the topic that can be completed when more quantitative data-gathering is completed. This study provides new academic insights into the complexity of the financial industry and the opportunities it holds.

Keywords

Enterprise Engineering, Financial Industry, Business Considerations, Framework and Regulation

1. Introduction and Objectives

The financial industry globally has seen various cycles over the past several decades, with the impact of globalization more evident than ever before. Therefore, it is crucial to make sure that decisions are made based on the best information available.

With financial crises in other parts of the world influencing local markets, such as the 1997 Asian financial crisis causing market unrest in the US, over the past several decades the devastating effect that the financial industry had, has become clearer to all global citizens, not merely to the affluent individuals of the world. This has led to an incredible push toward global regulatory standards in the finance industry in particular (Swart and Lawack-Davids, 2010, MacNeil and O'Brien, 2010, Mahavadi, 2013, Ugeux, 2014, Allen et al., 2018, Price, 2018, Tarullo, 2019, Truby, 2020, Yadav, 2020).

Globally it is clear that in some cases there is a disconnect between the problems as perceived by academia and the problems that are perceived by industry, the effect of not having proper alignment with industry could have led to lower levels of adoption. With the increased use of software systems over the past two decades there were other interesting findings. A study by Kim et al. (2012), found that 70 per cent of organizations that invested in CRM adoption projects, experienced an unnoticeable improvement in their business performance (Pedron et al., 2016).

The financial industry is faced with some general yet unique challenges when it comes to developing a strategy for a specific corporation. While it is crucial to understand the problems that the business currently faces, there is a fundamental problem that is introduced when possible future developments in an industry are not considered.

Topics such as FinTech have become increasingly more popular over the past couple of years. However, while FinTech 3.0 was primarily focussed on money transfer and automation of essential services, there is a new development in the Financial Industry related to regulatory technologies or RegTech (Barefoot, 2018, Arner et al., 2017a, Arner et al., 2017b). In most cases, FinTech start-ups focus on areas in the financial industry that provide them with the most promising opportunity that have less complicated regulatory requirements and fewer barriers to entry,

to ensure scalable and low cost per user, where economies of scale can be leveraged to reduce user cost while increasing market penetration.

While the advancement of technology is much appreciated, and innovation is continuous, various areas might cause frustration if not considered carefully. This is evident when the introduction of technology and the regulatory requirements might not be well established and could lead to non-compliance on the side of the technology user, as users might apply general tools and technological advances to their organizations without understanding the possible risk involved.

In a dynamic environment, it is impossible to identify all factors that may have an impact on a particular sector. Yet, this study aims to identify the primary factors that the financial industry in South Africa is facing and to ensure that insight is obtained on the business environment and considerations that could potentially influence the applicability and usability of future research within the financial industry. Throughout this paper, we use the word considerations as a collective word to represent design aspects to understand a sub-set of enterprises within the financial industry. Hoogervorst (2018) believes that enterprise (re-)design should start with an iterative process of extracting considerations (he uses the term design aspects), re-classifying these considerations into three broad categories, namely strategic context, design intentions, and design domains. His iterative inquisitive process (see Figure 1), starts with the strategic context to indicate certain areas of concern (alternatively defined as performance areas), whereas detail requirements are defined to deal with the areas of concern. Since requirements and areas of concern need to be addressed in design domains, it is possible to formulate design principles that will address the areas of concern if enterprise designers apply the design principles to one or more design domains. De Vries (2020) elaborates on the definitions of these concepts.

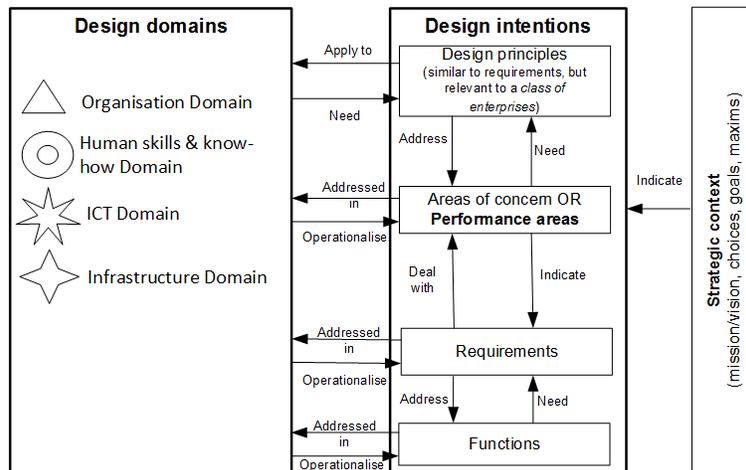


Figure 1 Iterative enterprise design approach, based on Hoogervorst (2018)

Using Hoogervorst’s iterative enterprise design approach, our study applies an iterative and incremental approach to understand existing considerations for a small sector within the non-banking financial industry. The purpose is to classify the considerations into a framework, in accordance with enterprise design concepts, providing a comprehensive understanding of the design context. This paper provides the results for a first iteration of extracting considerations from literature and industry participants.

In South Africa, the Financial Industry can largely be simplified to consist of various subsections, with the most notable being the difference between the Banking and Non-Banking industries. The Banking and large capital investment sectors have enjoyed substantial study in research over the past several decades, while the Non-Banking sector has received less attention in research in contrast. The Non-Banking industry can be further subdivided into Direct and Intermediated services, where direct clients work directly with the company, whereas Intermediated indicates an indirect link to the client, i.e. creating a link between the issuing company and the end client. Furthermore, Intermediaries can also be broken down into Independent Financial Advisors (IFAs) and Non-Independent Companies.

Figure 2 provides a basic visual representation of the financial industry overview, as found in South Africa. This research focuses on Independent Financial Advisors, as the researcher has contact with various individuals at financial advisory businesses.

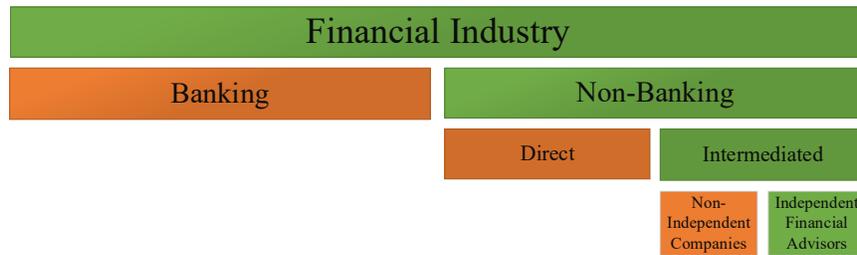


Figure 2 South African Financial Industry Breakdown

This study aims to seek an understanding of this specific sector of the financial industry, the environment, and the challenges that this sector faces, as well as the need to look at where the future of this sector is heading. The purpose is to ensure that future recommendations will be flexible and adaptive when new progression in technology occurs. The research objectives include understanding the business environment of an FSP and the various factors that can influence the strategic considerations that a company can make. Understanding the business considerations that can influence an FSP's decision, can have far-reaching consequences. While historic financial services research focuses on considerations that assist companies in providing better advice to their clients, this research focuses on the business-side more than on the clients they serve. It is also logical that any internal improvements from an operational point of view can have a direct impact on the services the clients receive. We position this paper with a strong focus on the South African context and a need to create a relevant solution within this context. However, we believe that the framework that will be designed can also be validated within a broader context in the future, increasing its generalizability.

The article thus has two main objectives:

- O1: Provide an overview of considerations that could be extracted from existing literature.
- O2: Test the list of considerations and their impact, via expert interviews with FSPs.

2. Literature Review

The literature search first identified existing SLR's, using the following keywords: SLR, Compliance, Finance, Insurance, and searching on the following platforms WorldCat.org, WorldCat, **since** 2000. There was no SLR found to be related specifically to the topic of compliance in the financial industry. A second iteration of keywords including the following was used kw:(slr OR "systematic literature review" OR "literature review" OR overview) AND kw:("Compliance" OR "Comply" OR "Regulations" OR "Requirements") AND kw:("Finance" OR "FSP" OR "financial industry" OR "Intermediary") AND kw:("FAIS Act" OR "FSB" OR "FSCA") AND kw:("South Africa" OR "Africa") AND kw:("Insurance" OR "Insurer" OR "Intermediaries"). The literature platforms included: WorldCat.org, WorldCat, since 2000. Within these searches, forward and backward snowballing was employed as described by Wohlin (2014). Forward snowballing was used to search for papers that have cited the study in question, and backward snowballing to search the reference list of the selected studies. Snowballing was repeated until no more relevant studies were found.

With the Financial Advisory and Intermediate Services Act (FAIS Act) being introduced in 2002 and coming into effect in 2004, the FAIS act has been with the financial industry for nearly two decades and it has been amended several times over the past decade with the introduction of regulatory examinations and other compliance requirements (Sham, 2019). The Financial Sector Conduct Authority (FSCA), previously known as the Financial Services Board (FSB) in South Africa, is similar to the Financial Conduct Authority (FCA) in the United Kingdom. In the United States, federal and state governments have a myriad of agencies in place that regulate and oversee financial markets and companies (Schmid, 2021). Understanding the business considerations that can influence an advisor's decision can have far-reaching consequences.

While most published financial research focus on the investment side of the financial industry, including models and considerations that companies provide better advice to their clients, this research focuses on the business-side more than on the clients they serve. It is also logical that any internal improvements from an operational point of view can have a direct impact on the services the clients receive.

A study conducted by Maree (2012) found that there were various troubling findings among FSPs, more specifically financial advisory businesses, in South Africa. They surveyed 567 participants and found that the average FSPs age was 54 at that time and the cost of compliance of the average FSP was R188 658 (\$13123), almost R16 000 (\$1100) per month. Based on base inflation over the past nine years, in 2021 these costs would be approximately R222615 (\$15485) or R18500 (\$1300) per month after having an inflation adjustment.

Although these costs seem insignificant when compared to Fortune 500 companies, there is a much larger number of Financial Services Providers that are not the money-making machines some assume them to be. A study conducted by Hoque and Peter (2016) found that over 50% of respondents earned less than R750 000 in 2013 and of those, approximately 31% earned between R250 000 and R500 000 per year, with merely 20% earning more than R1 000 000 (\$62500) per year. Since 2012 there has been an increase in the cost of regulations across the world (FSCA, 2018, FSCA, 2020).

From previous studies done on FSPs by Maree (2012), Hoque and Peter (2016), Schnetler (2019), Schnetler (2020) as well as the regulations on the financial industry by Brittz (2005), FAIS (2013), FSB (2013), FPI (2014), Sham (2019) multiple considerations were identified that are deemed significant in the research.

The following are some of the considerations that were identified during the literature review phase.

- Number of Independent Financial Advisors (IFAs)
- Number of representatives
- Number of administrative staff
- Monthly turnover
- Focus area of the business
- Focus area that clients make use of
- Average time that a focus area requires
- Whether the compliance officer is internal or external to the organization
- Whether business continuity planning is internal or external to the organization
- How long an FSP is planning on staying in the industry before selling the business
- What client segmentation is targeted
- The adoption rate of technology of the FSP
- The information system currently being used
- What the average administrative staff salary is
- Percentage commission split for IFAs
- Percentage commission split for representatives

Key concepts emerged from the literature review and need further discussion to provide more clarity about the identified considerations. The sub-sections that follow, provide more detail about these concepts as they relate to legislation in particular, as well as some of the findings from previous studies. We concede that the listed considerations are not exhaustive are subject to specific requirements and legislation in South Africa in particular. Given the push for regulatory standardization, there might be some similarities. The following discussion is not intended as a legal document or advice and should serve as a guide to researchers in understanding the regulatory requirements that should be considered. If an FSP is uncertain about how these concepts apply to their FSP in particular it is advised that they seek professional legal advice in these matters. That being said, the following categories should provide some valuable insights into why the considerations, as listed above, apply to the understanding of the business environment of the FSP, in South Africa in particular.

2.1 Representation

The concept representation can be defined as individuals who have passed their RE5 exams in South Africa and are registered with the FSCA (FSB, 2013, FAIS, 2013, FPI, 2014, FAIS, 2014). The literature review indicated that recommendations, such as the number of financial advisors and number of representatives, in many cases caused

confusion, since the FAIS Act, enforced by the FSCA, requires that all individuals who communicate with a client that is not in an administrative role, must be registered as a representative of the FSP. Confusion exists when financial advisors and representatives are considered as separate categories, therefore Independent Financial Advisors (IFAs) are used instead, as it describes a more specific group of financial advisors. IFAs are defined by the FCSA as individuals who can provide advice on a wider range of financial products (FAIS, 2013, FPI, 2014).

2.2 Administrative staff

The concept administrative staff can be defined as employees that function in a non-advisory role in an FSP (FSB, 2013, FAIS, 2013, FPI, 2014, FAIS, 2014). Administrative staff is essential, as well as their average salary, since different business structures and focus areas require more staff in some cases and other focus areas, less staff. This is again very specific to the organization and including these as a primary consideration could be valuable, as some focus areas are administratively intensive and other areas are less administratively intensive (Maree, 2012, Hoque and Peter, 2016). As an example, when considering short-term insurance as opposed to life or investments, with short-term insurance there are events, such as claims or inquiries regarding procedures that can be completed by administrative staff, while with life and/or investments, these events are client-specific and are mainly related to financial advice and most of the tasks will have to be completed by the financial advisor (FPI, 2014).

2.3 Business Continuity

The concept of business continuity can be defined as a proactive process to ensure that the critical advisory businesses' services or products are delivered during a disruption (Maree, 2012). FSPs in South Africa are required by law to ensure that they have a business continuity plan in place in case anything untoward should happen to the Key Individual (KI) of the FSP, as the KI is the person who holds the final responsibility for advice that was provided by any of the representatives of the FSP (FAIS, 2013). The current legislation in South Africa requires that there has to be a secondary KI that will take over responsibilities, the moment the primary KI becomes unable to complete their duties (FPI, 2014, FSB, 2013). This has caused some frustration in the industry as based on the legislation there can be no delay, as an FSP cannot exist without a KI (FPI, 2014, FAIS, 2013).

2.4 Compliance and Compliance Officer

Compliance is defined by FAIS (2013) as the process of ensuring that an FSP adheres to all requirements. In South Africa based on FAIS (2013), if there is more than one representative, the FSP is required by law to have an external compliance officer, but when the FSP has only one registered representative, it is acceptable to have an internal compliance officer, given that the internal compliance officer adheres to the requirements of being approved as a compliance officer by the FSCA (FPI, 2014).

2.5 Focus Area

The focus area of an FSP is important in understanding the environment that the FSP faces. An FSP can either be a specialist FSP that focuses on one area of financial advice, such as Investment, or an FSP can have a variety of financial advisory services that are provided to their clients (Maree, 2012, FPI, 2014). The broad categories are short term, life (long term commonly known as life assurance), investment, medical, and other specialist categories (FSB, 2013, FPI, 2014). This study intends to focus on FSPs that provide one or more of these broad categories or services, and more specifically focusing on Independent Financial Advisory Businesses. The purpose is to investigate the effect that considerations and their relationships can have on future recommendations to the FSP.

2.6 Internal Commission Agreements

The concept internal commission agreement can be defined as an agreement between any representative or IFA and the FSP. (FSB, 2013, FAIS, 2013, FPI, 2014, FAIS, 2014). What was found, is that at this point trying to go into detail regarding the percentage of commission split between the company and the IFAs and representatives adds a level of complexity that has no real value at this stage and will only become practically useful once more data is collected, as it can vary from one FSP to another. This is because FSPs have the ability to determine the percentage of commission that IFAs and representatives receive on the clients that they serve and bring to the FSP. The level of variation in FSPs are not well researched and the difference in the focus areas that these representatives or Independent Financial Advisors provide, as well as their qualifications, could influence the agreements between the different IFAs within a company.

3. Methods (Methodology)

Using the literature review as a foundation for further enquiry, several FSPs were selected that range in their business considerations to understand how the different business considerations can influence an FSPs strategic direction going forward. This section introduces the main data-gathering instrument that was used, namely structured expert interviews (Saunders et al., 2016), as well as the analysis method, i.e. structured coding. We also provide a list of interview questions that were used to structure the interview results in section 4.

3.1 Why these specific FSPs, and how they differ

For this study, four FSPs were selected with regards to how long they have been working in the financial industry, how many employees each FSP has and the size of the FSPs. We argue that a sub-set of the initial considerations (listed in section 2) could be useful to provide background about these four FSPs. The selection indicates that these FSPs represent a more comprehensive range of FSPs.

Figure 3 compares the FSPs in terms of years in the industry, years in company, and years before selling. As indicated in Figure 3, the relationship between the total time in the industry and how long the FSP expects to stay in the industry indicates that FSPs 1, 2, and 4 have been in the industry since before the current regulations have been imposed. It was interesting to see the effect that it has had on their view of these regulations. While FSP3 who still has several decades left in the industry, started when regulatory requirements were already imposed and worked at an insurer prior to starting as an FSP.

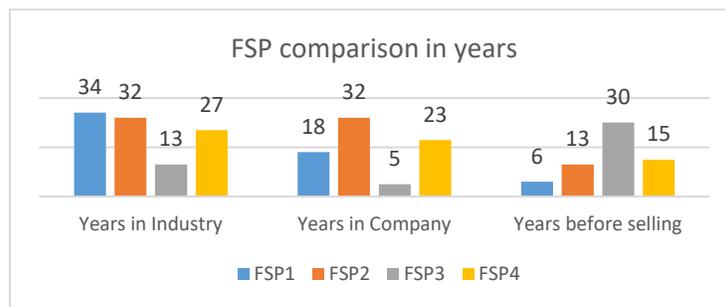


Figure 3 FSP comparison in years

FSP 1, 2, and 4 have been in the financial industry before the introduction of the FAIS Act and other subsequent regulatory and compliance requirements and provide insight into how the industry has developed over the past several decades from an operational point of view as well as serving on various advisory boards to the industry during the past two decades. FSP3 started in the industry by working for one of the large insurers in South Africa as a broker consultant before registering the FSP in early 2016, thus providing needed input from a slightly younger demographic in this study, as FAIS had already been a requirement since before FSP3 registered the company.

Figure 4 compares the number of employees between the four FSPs. The number of employees has a significant impact on the capacity to serve clients in various areas. FSP 1 and 2 provide multiple financial services to their clients, while FSP 3 and 4 provide only specific services, with FSP3 specializing in short term and FSP4 specializing in medical advisory services.

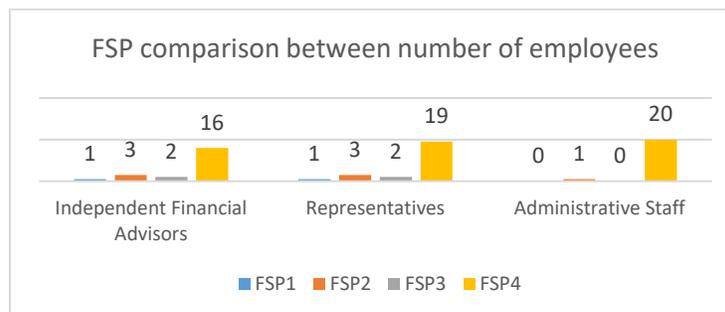


Figure 4 FSP comparison between number of employees

The current employee requirements at these FSPs, from the data suggests that FSP4 has a much larger administrative requirement as opposed to FSP 1, 2, and 3, operating with fewer employees.

Figure 5 is a side-by-side comparison of the size of the FSPs and adds a final summary of the differences between the earning of the FSPs and their potential. Although FSP4 has a monthly turnover of R1 000 000, its administrative expenses alone are R730 000 and the FSP has its own custom-built system and other fixed expenses. The profit margin of the other FSPs as a percentage is significantly lower, but these values are not necessarily translated into profits.

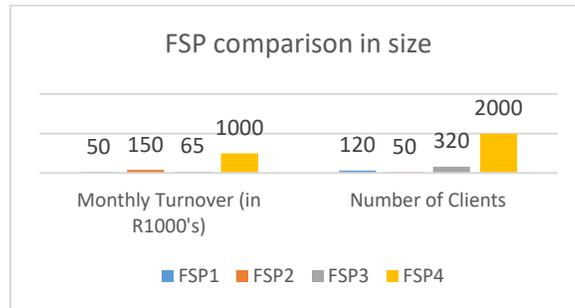


Figure 5 FSP comparison in size

Lastly, the FSPs range significantly in their monthly turnover and the number of clients that they service. The type of short-term insurance (commercial versus personal) moderates the relationship between turnover and the number of clients. While there could be fewer clients and more commission per client, the amount of administrative and time requirements for the FSP can differ quite significantly, as is noted with the client segmentation discussed in section 4. A sub-set of considerations used to provide background on the four FSPs that were sampled, already indicates that FSPs may have different strategic requirements, based on their context.

3.2 Data Collection

Based on the initial list of considerations that were extracted from literature (see section 2), expert interviews with four FSPs highlighted several primary business considerations. The expert interviews were used to find alignment between academic and business literature and what is experienced in the industry by the FSPs directly.

The interview questions were divided into three main areas, firstly general problem analysis, which was used to understand a number of fundamental concerns identified in Maree (2012) related to FSPs. Secondly, compliance-specific questions were used to understand the perspective of the FSP with regards to compliance requirements, which was also the focus of the study by Maree (2012) to determine if there have been any noticeable changes over the past decade. Thirdly, questions to identify additional considerations.

General Concerns of FSP

- IQ4: Is cyber security an area of concern in your organization?
- IQ5: Do you see ongoing compliance as an area of concern in your organization?
- IQ6: Do you see the number of acts that you have to adhere to as an area of concern?
- IQ7: Are you in an “audit ready” state at the moment?
- IQ8: How many employees do you have, and how many are you willing to consider employing in the future?
- IQ9: Is the succession plan that you are required to have practical if you, as KI (Key Individual), were to you go missing or pass away?
- IQ10: Will your additional KI (Key Individual) continue with the business and pay a fair price for the FSP (Financial Services Provider) or will your family be adversely affected because of it?

Compliance Requirements

- IQ11: Do you think that the solution that you have in your organization with regards to compliance is the best possible method available to use?
- IQ12: How did you decide on what the compliance system to use in your organization?
- IQ13: How many alternatives did you consider before selecting your system, Probe?
- IQ14: What are you going to do with regards to future expansion in your business, are you currently able to handle additional reps, admin staff or even clients, Probe?
- IQ15: What is the process that you follow when you are doing your compliance, Probe?
- IQ16: Do you have to do it manually by copying and pasting information, Probe?

- IQ17: Why did you decide on doing your compliance in this way, Probe?
- IQ18: Does compliance take a lot of your time and/or money, Probe?
- IQ19: Is the system you use costing you a lot of money or have you reduced the cost, Probe?
- IQ20: Is your current system able to be adapted to incorporate new regulatory compliance, Probe?

Additional Considerations

- IQ21: Number of independent financial advisors? (Currently and anticipated in the next five years)
- IQ22: Number of representative(s)? (Currently and anticipated in the next five years)
- IQ23: Number of administrative staff? (Currently and anticipated in the next five years)
- IQ24: Monthly turnover? (Currently and anticipated in the next five years)
- IQ25: Hourly rate? (Currently and anticipated in the next five years)
- IQ26: Focus area provide by FSP (Financial Services Provider) (i.e Short Term, Life, Investment, Medical, Other)? (Currently and anticipated in the next five years)
- IQ27: Client focus area (i.e Short Term, Life, Investment, Medical, Other)? (Currently and anticipated in the next five years)
- IQ28: Focus area allocation (as a %)? (Currently and anticipated in the next five years)
- IQ29: Focus area time allocation/requirement (as a %)? (Currently and anticipated in the next five years)
- IQ30: Daily available work hours? (Currently and anticipated in the next five years)
- IQ31: Compliance officer position (Internal or External to organization)? (Currently and anticipated in the next five years)
- IQ32: Business continuity position (Internal or External to organization)? (Currently and anticipated in the next five years)
- IQ33: Client segmentation (i.e Low-Value Low-Time, Low-Value High-Time, High-Value Low-Time, High-Value High-Time)? (Currently and anticipated in the next five years)
- IQ34: Current Information System used (i.e Outsourced Administration, Built-own system, Pay-per-use system, Free-to-use system, Legacy system)? (Currently and anticipated in the next five years)
- IQ35: Average administration staff salary? (Currently and anticipated in the next five years)
- IQ36: How long do you plan on staying in the industry before selling your business?

These interview questions were used to understand the business environment of the FSPs as well as understanding some of the critical considerations for Independent Financial Advisory business.

4. Results and Discussion

As a preliminary study, we expanded the list of considerations, extracted from literature, as a starting point for discussion with FSPs.

4.1 Numerical Results

This section addresses the second objective of this study, presenting results from the expert interviews, concluding with a discussion about the suitability and applicability of the initial list of considerations. The considerations were grouped into two tables to assist in the discussion process.

The data that is presented in Table 1 and Table 2 presents the data that was collected from the FSPs during the interview process, including the influence and limitations of these considerations as they relate to the FSPs. With most considerations, data was captured about current considerations of the FSP as well as what the FSPs expect in five years, to gain possible insights into the expected future state of the FSP.

Table 1, presents the data that was extracted from the expert interviews with the four FSPs that focus on the organization considerations in particular, with a discussion on the significance following.

Table 1 FSP organizational considerations from interviews

Consideration	FSP1	FSP2	FSP3	FSP4
How long do you plan on staying in the industry before selling your business?	6 years	13 years	30 years	15 years
How long have you been in the industry?	34 years	32 years	16 years	27 years
How long have you had your business?	18 years	32 years	5 years	23 years
Compliance Officer Position (Internal or External to organization)?	0-Internal 5-Internal	0-External 5-External	0-External 5-External	0-External 5-External

Business Continuity Position (Internal or External to organization)?	0-External 5-External	0-External 5-Internal/ External	0-External 5-Internal/ External	0-Internal 5-Internal/ External
Current Information System used (i.e Outsourced Administration, Built own system, Pay-per-use system, Free-to-use system, Legacy system)?	0-Legacy 5-Outsourced Administration	0-Legacy 5-Legacy	0-Free-to- use system 5-Free-to- use system	0-Built own system 5-Built own system
Client Segmentation (i.e Low-Value Low-Time, Low-Value High-Time, High-Value Low-Time, High-Value High-Time)?	0-All 5-All	0-HV-LT HV-HT 5-HV-LT HV-HT	0-LV-LT HV-LT 5-LV-LT HV-LT	0-All 5-All
Focus area provide by FSP (i.e Short Term, Life, Investment, Medical, Other)?	0-ST, L, I 5-ST, L, I	0-ST, L, I 5-ST, L, I	0-ST 5-ST	0-M 5-M
Client focus area (i.e Short Term, Life, Investment, Medical, Other)?	0-ST, L, I 5-ST, L, I	0-ST, L, I 5-ST, L, I	0-ST 5-ST	0-M 5-M

When looking at Table 1, the first three considerations relate to the amount of time the FSPs have been in the industry, to provide some perspective on the experience of these participating FSPs, but also to understand how long they plan on staying in the industry before retirement. Currently various small FSPs have either opted for becoming part of another FSP in the role of representative, that gave up a percentage of their commission and became an IFA under a different FSP. This trend seems to be largely due to regulatory requirements and compliance burdens.

Now the second part of the table is followed by the position of the FSPs compliance officer, and the business continuity position, which in layman’s terms is whether the person who will take over at the FSP when the primary key individual will leave the FSP. Thirdly, it is essential as it will indicate whether the company will continue to use their current systems at the time of transition of responsibility, or if the secondary key individual will convert the FSP to a different information system. That is once again the reason why it is essential to consider if a significant capital investment is feasible from a short-medium-term strategic point of view.

Fourthly, the client segmentation can influence the strategic decisions that will be available to the FSP, as any strategic considerations have to line up with the segment of clients that the FSP is focusing on. Clients that are in the high-value segment and the low-time segment could be clients that prefer personal contact with a Financial Advisor on an infrequent basis, where a high-value client in the high-time quadrant could require frequent contact on things such as market movements or changes in business environments and some of these requests, could be supplemented by the introduction of newsletters or an online dashboard. Thus, adding an additional consideration that could influence the applicability of strategic considerations if these are not taken into account.

When considering the data that was collected from the FSPs, the focus areas and the differences in business considerations are highlighted. The values are not particularly useful in this study at the moment, but it is important to note that these FSPs vary in particular considerations to ensure that a representative sample of FSPs was consulted to limit the effect of bias on the considerations.

Table 2, is the data extracted from the expert interviews that relate to the growth of the FSP in specific, with a discussion on the significance that follows.

Table 2 FSP growth considerations from interviews

Consideration	FSP1	FSP2	FSP3	FSP4
Number of Independent Financial Advisors (IFAs)	0-1 5-1	0-1 5-3	0-2 5-3	0-16 5-20
Number of Representatives (Rep registry)	0-1 5-1	0-1 5-3	0-2 5-7	0-3 5-
Number of Administrative Staff	0-0 5-1	0-1 5-3	0-0 5-2	0-20 5-20
Average Administration Staff Salary?	0-R0 5-R12000	0-R9000 5-R12000	0-R0 5-R12000	0-R30000 5-R35000
Daily available work hours?	0-10 hours 5-6 hours	0-11 hours 5-8 hours	0-8 hours 5-6 hours	0-8 hours 5-8 hours
Number of Clients	0-120 5-200	0-50 5-150	0-320 5-900	0-2000 5-3000
Monthly Turnover	0-R50000	0-R150000	0-R65000	0-R1000000

	5-R90000	5-R300000	5-R250000	5-R1500000
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From Table 2, data that relates to the number of IFAs, representatives, and administrative staff is provided and shows that some FSPs range in the number of individuals employed by the organizations and is the same data that was presented in section 3.1 on the selection of these specific FSPs. The discussion related to the data in Table 2 was already discussed in detail, with the exclusion of the anticipated change over the next five years. What is noticeable is the fact that the considerations can indicate if the FSP is planning on expanding on the number of employees as well as if the planned growth is anticipated to include an increase in the number of clients that are served by the current employees or if the increased capacity will be achieved through the introduction of additional capacity. All the FSPs indicated that they expect to have growth in the next five years, but the reality of if the FSPs will achieve the expected growth will have to be evaluated. What is evident is that these considerations provide valuable insights into what the strategic future of the FSPs will be and what they are anticipating over the next five years.

Finally, what assists in understanding this table further and how the FSPs differ is understanding how much the FSPs make in a month in terms of commissions received for the FSP in its totality. What presented a challenge was that individual commissions earned by a representative or IFAs, as that can range significantly and will provide an additional level of detail, that has limited practical use for this study. These individuals do not earn a fixed salary but are dependent on the commission they earn, which could change from month to month. This is why monthly turnover is considered for the entire FSP.

4.2 Validation and Proposed Improvements

Any research that is conducted in this area has stringent requirements, as knowledge of both the operational and regulatory requirements are absolutely crucial. Maree (2012) stated that more than 20 policies and procedures had to be implemented, documented, and updated regularly in an advisory business. These policies and procedures have merit and can add value in isolation, but they add a layer of complexity that can create an administrative burden to the individuals in the industry.

In some cases where regulations from different regulatory bodies are imposed, some requirements can introduce regulations that are contradictory and cause frustration to FSPs who must ensure that they comply with all regulations or risk being heavily fined, i.e. the Financial Advisory and Intermediary Services Act (FAIS Act) and the Protection of Personal Information Act (POPI Act), where these acts require a minimum duration for which records have to be kept (Theys et al., 2021).

Within the next several years it is aimed that further research can be done on the financial industry to understand the myriad of factors that can influence the recommendations that can be provided to the industry. Unfortunately, at this point, it is difficult to conduct quantitative research on topics related to Independent Financial Advisory Businesses as there is a lack of research in this field, with access to information and regulatory complexities being two of the main deterrents in this area.

Validation was completed with the use of four FSPs that were interviewed separately and then asked to validate the questions, considerations, and results for the other three FSPs results apart from their own. Thus, every FSPs response, recommendations, and observations were validated by three other, independent FSPs that have different business environments to ensure that these observations limit the influence of bias from a particular type of Independent FSP. The purpose of these considerations is to indicate to each of the four FSPs what they need to consider going forward with strategic considerations for the next five years, based on their responses in the interviews. This is to provide them with a framework for understanding the considerations that might influence their business decisions concerning internal business configuration to ensure that they can serve their clients as best as possible through the process.

Research is required on a broader range of FSPs to validate a standardized survey to receive more data for future research. While it is vital to collect information related to focus areas and hourly rates, it will be quite some time before such considerations will be able to be useable for both academia and regulators as clients of most FSPs are not yet willing to pay fees for advice. Advice is currently considered as the cost of gaining new clients and thus the FSP receives a commission from the premiums paid by the client to the medical aid, investment, or insurance houses. Thus, the FSP is not necessarily paid by their clients directly, where in the case of a fee structure, as proposed by the FSCA, the FSP will start to invoice the client for their time on top of their monthly premiums.

5. Conclusion and Recommendations

This research focused on discussing and evaluating what the current businesses environment for FSPs looks like in the South African financial industry in specific. What was found is that the considerations as identified from literature and previous studies do provide valuable feedback in understanding the business environment and why these considerations are applicable. It was also found that the initial considerations that were identified are applicable across different IFA businesses and that these considerations assist in understanding what needs to be accounted for in models for the financial industry related to the strategic decisions that are made related to the future of the FSP.

This research works towards finding agreement and consensus between academia and the industry regarding what the primary considerations are that can be used in the future, to provide guidance to FSPs in South Africa and possibly towards understanding it on a global level, given the global push towards global financial regulatory standards (Ugeux, 2014).

The study gained insight from past research, regulations, legislations, and business literature as well as current and future developments in the financial industry, which is deemed crucial as any future research on this topic will be heavily reliant on this foundational research.

From section 1, the main objectives of the research were, providing an overview of considerations that could be extracted from existing literature, which was completed in section 2 as well as enhancing the list of considerations and their impact, via expert interviews with FSPs as completed in section 4.

The primary considerations that were found was:

- Number of IFAs
- Number of representatives
- Number of administrative staff
- The average administrative staff salary
- Monthly turnover
- Focus area(s) provided
- Total number of clients
- Targeted client segmentation
- The information system currently being used
- Whether business continuity planning is internal or external to the organization
- How long an FSP is planning on staying in the industry before selling the business

The following were deemed as secondary considerations that can be useful in future research:

- Percentage commission split for IFAs
- Percentage commission split for representatives
- Whether the compliance officer is internal or external to the organization
- The adoption rate of technology of the FSP
- How long the FSP has been in the industry
- Daily available working hours
- Focus area(s) that clients require
- Average time that the focus area(s) require

The primary considerations should aid in understanding the business environment of an FSP before moving to secondary considerations that can be used to extend future research into the topic of model building in the financial industry.

The next phase in this research will be to use the feedback from the IEOM conference participants and perform an additional round of validation with the use of surveys, including more than 500 FSPs in South Africa as participants, ranging from size and focus area, to reach a point where there can be reasonable assurance that the most critical business considerations have been identified and agreed upon. Thus, academia, as well as a larger sample of participants, will validate the findings during a second data-gathering cycle, with multiple organizations that have preliminary agreed to assist in this process in distributing the survey to their relevant employees and/or members where applicable, such as the Financial Intermediaries Association (FIA), which is the most prominent voluntary associate in South Africa of its kind.

The considerations are not only important to the FSPs internally, but they can also assist regulators in understanding the business environments of the FSPs before new regulations are imposed. In some cases does not seem to be tested in the industry and how it will be implemented by the FSPs before the introduction of new regulations as well as a lack of best practices from the regulator that smaller FSPs can use as a guideline to assist in the introduction and adherence to new regulations (Barefoot, 2018). While regulations are crucial to the financial industry, there is a need to critically look from the regulators' side where preventative regulation is required and, rather than imposing regulations as a reactionary measure by possibly having collaboration between industry leaders, academia, and regulators.

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Biography

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Marne De Vries is currently a full-time associate professor at the Department of Industrial and Systems Engineering, University of Pretoria. She started her career at a management consultancy company and worked as a consultant for seven-and-a-half years. During these years she worked as a Business and Systems Analyst where she was involved in various projects. In 2003 she joined the University of Pretoria, lecturing on Engineering Statistics, Information Systems Design and Enterprise Engineering. She completed her PhD in 2012 within Enterprise Engineering and is currently involved and affiliated with the EACF (Enterprise Architecture Collaboration Forum) and the international network called CEEN (CIAO! Enterprise Engineering Network).

Dr. Wilna Bean is a senior lecturer at the Department of Industrial and Systems Engineering at the University of Pretoria, and a professionally registered Industrial Engineer with almost fifteen years' experience in supply chain engineering and optimisation. During her career she worked on a variety of supply chain management and optimisation research and consulting projects, spanning from modelling inventory management under uncertainty to supply chain benchmarking and analysis; and most recently logistics behavioural modelling in urban transportation systems. She studied at the University of Pretoria where she obtained a Bachelor's degree in Industrial Engineering. She also obtained her Honours, Masters and Doctorate Degrees in Industrial Engineering from the University of Pretoria.