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COFI: ALL IN ONE

The Conduct of Financial Institutions Bill (COFI) Bill and ultimately the COFI Act, will replace or significantly amend key financial sector legislation with the aim of consolidating conduct related standards and regulations into one regulatory framework.

Some legislation will be completely replaced while other key pieces of legislation will be amended.

COFI does not eliminate financial sector legislation, its sole purpose is to codify and consolidate conduct rules for certainty and uniformity, to strengthen customer protection and improve accountability measures concerning Conduct Risk.

Acronym	Name
COFI	Conduct of Financial Institutions
TCF	Treating Customers Fairly
FAIS	Financial Advisory and Intermediary Services Act 37 of 2002
LTIA	Long-Term Insurance Act 52 of 1998
STIA	Short-Term Insurance Act 53 of 1998
CISCA	Collective Investments Schemes Control Act 45 of 2002
FSRA	Financial Sector Regulation Act 9 of 2017
FSCA	Financial Sector Conduct Authority

1. Main Objectives of COFI

A. Strengthen Consumer Protection

- End unfair practices: Prevent mis-selling, hidden fees, and reckless lending.
- TCF: Legally enforce transparency in financial products.

B. Consolidate Fragmented Laws

- Repeal the FAIS Act, LTIA, and STIA.
- Repeal CISCA: It may be repealed in its entirety, alternatively only the conduct-related provisions which will be placed under COFI.
- Amend the FSRA: Broaden and strengthen FSCA powers, expand definitions of financial institutions.
- Amend the Pension Funds Act 24 of 1956: Introducing new licensing requirements, bringing public sector retirement funds under the control of the FSCA, renaming the Act (Retirement Funds Act) and transferring the conduct regulations to COFI.
- Insurance Act 18 of 2017: amend existing conduct provisions in the act, mandate stricter consumer protection, claims handling standards. stricter executive accountability, single COFI license for conduct, FSCA conduct supervision of all insurers, agents and intermediaries.
- Banks Act 94 of 1990: Conduct related regulation/offences and consumer protections will be incorporated.
- Reduce regulatory ambiguities: Standardised conduct and compliance requirements by eliminating inconsistencies in existing legislation for the financial services sector.

C. Enhance Accountability

- Senior Managers' Liability: Hold executives and directors and key individuals liable for conduct failures.
- Stricter penalties: Fines up to R50 million or 10% of annual turnover for conduct breaches.
- Mandatory compensation: Affected (fraud, unfairly treated/deceived) consumers (e.g. refunds for mis-sold policies).

D. Promote Financial Inclusion

- Encourage and offer inclusive, accessible and affordable products for low-income earners (e.g. zero fee accounts, low premium policies).
- Implement faster and simpler dispute resolution, helping underserved consumers challenge denials or fees.
- Offer inclusive products (e.g. zero fee accounts, low-income group policies).
- Cap fees on essential services (e.g. funeral insurance, service fees) to keep them affordable.
- Innovation and digital inclusion (e.g. affordable mobile money, stokvel banking, and other inclusive fintech solutions).

2. Practical Implications

- Financial Institutions: Comply with one conduct legislation instead of multiple sources, enforced and supervised by the FSCA.
- Consumers: Clearer protections against mis-selling, ambiguity, unfair/hidden fees and fraud.
- Regulators: FSCA gains stronger controls to penalise misconduct and monitor compliance.

3. Summary of Key Changes

1. COFI replaces FAIS, LTIA and STIA, entirely, licensing and 'fit and proper' requirements all regulated by COFI.
2. Recommendation for CISCA to also be repealed by COFI.
3. Insurance Act's conduct rules merged, Insurers will now need to comply with COFI for conduct and comply with the Insurance Act for other laws e.g. solvency.
4. FSRA amendment, broader coverage and COFI also regulates banks and crypto, fintech which were previously not governed by FAIS/Insurance Act.
5. Hefty penalties, fines linked to turnover (e.g. a big bank could pay R500m+ for systemic misconduct), executives may incur personal liability.

Example Scenario

- Under FAIS: A bank's investment advisor mis-sells a product → FSCA fines the advisor only (R1m max).
- Under COFI: Same case → FSCA also fines the bank R50m+ and prosecutes CEO for negligence.

The Insurance industry will be greatly impacted by the implementation of COFI. The Bill significantly alters key Insurance industry conduct legislation while leaving some rules intact.

Existing conduct directives in the Insurance Act, FAIS, LTIA and STIA will be replaced by COFI, introducing stricter accountability, consumer protections, and compliance requirements.

4. Impact of the COFI Bill on Insurance Sector

A. Key Legislation Illustration for Insurers

Aspect	Current (Insurance Act/FAIS)	COFI Bill	Impact
Regulatory Framework	Conduct rules split between *Insurance Act* (insurers) & *FAIS* (intermediaries)	Single COFI rules for insurers, brokers, underwriters	Simplified compliance, but stricter oversight
Licensing	Separate licenses for insurers & intermediaries (FAIS)	One COFI license covering all conduct aspects	Reduced admin, but higher licensing standards
Consumer Protection	Treating Customers Fairly (TCF) weakly enforced	Legally binding TCF with harsh penalties (e.g. R50m fines)	Insurers must prove product fairness & transparency

Aspect	Current (Insurance Act/FAIS)	COFI Bill	Impact
Executive Accountability	Limited personal liability	Senior Managers (CEOs/CFOs criminally liable for misconduct)	Directors face jail for reckless underwriting or mis-selling
Dispute Resolution	Long/Short Term Insurance Ombud (rulings overlooked)	NFO with binding powers and enforced sanctions	Faster, enforceable resolutions for clients
Innovation & Fintech	Ambiguous rules for digital insurance (e.g. Insurtech)	Explicit conduct rules for digital products (e.g., robo-underwriting)	Insurtech companies must comply or risk fines

The COFI Bill mandates insurers to prioritise fairness over profits, issuing harsh penalties for non-compliance. Although this is likely to increase costs initially, it offers insurers the opportunity to regain public trust through ethical insurance practices and streamlined processes. This ultimately increases customer base and profitability.

B. Compliance Costs & Operational Shifts

- Higher staffing costs: Insurers may need conduct risk officers and legal teams.
- Tech upgrades: Systems must track TCF and conduct compliance (e.g. AI monitoring claims rejections for bias).
- Training: Advisors/brokers require COFI-specific certification (replacing FAIS credits).
- Instead of just ticking regulatory boxes, insurers must demonstrate that their actions result in fair customer outcomes.
- Result: Greater focus on customer experience, product suitability, and ethical sales practices.

- Insurers will need clear governance structures and must ensure that senior managers are informed and be accountable for misconduct or poor customer treatment.
- Boards and executives will face more scrutiny of conduct risks.
- Insurers must justify that their products meet the needs of specific customer groups and review them regularly. No more "one-size-fits-all" or overly complex policies sold to vulnerable consumers.
- Stricter rules on brokers and other intermediaries to ensure they act in clients' best interests.
- Insurers must provide clearer product information, avoid misleading advertising, and disclose fees and commissions transparently.
- "Treating Customers Fairly" is a legal obligation, not just a best-practice guideline.
- TCF includes fair claims handling, complaints resolution, and customer communications.
- COFI harmonises conduct standards and simplifies compliance for companies offering multiple products, but raises the bar for consistent, cross-sector conduct.
- Companies must proactively manage reputational and regulatory risk, penalties for misconduct are severe.

C. Recommendations for Insurers and Financial Institutions:

1. Implement a COFI readiness project.
2. Review existing products and policies for TCF compliance and conduct risk.
3. Train intermediaries, staff, management and executive on COFI's regulations and penalties.
4. Invest in tech-driven compliance tools like Corethix.
5. **Contact Cyclopedic Consulting for all the above.**

Contact Us at info@cyclopedic.co.za or visit our website www.cyclopedic.co.za for more information.

Innovate with us. COFI with us!

By **Adv. Sannah Pooe** 2025/05/14

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