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PROFICIO
NFB FINANCIAL UPDATE

NFB
PRIVATE WEALTH
MANAGEMENT

FROM THE CEO's DESK

I suppose it is reasonable to say that folk are inclined to show biases in their reaction to their environment and global events, particularly focusing on the here and now. This thought is based not on speculation, but on tons of research and experience around the world.

There are many biases which affect us, and I thought it appropriate to discuss one or two biases and big events, which are omnipresent in our lives. The importance of this editorial is to attempt to ensure we are not duped by short term craziness, reacting to the ever-present media, which is expected to create alarming headlines (these sell newsprint and attract advertisers), both traditional and online and the risk of falling prey to the modern disease I shall call "Apple-itis".

Currently topical is an ever-present Donald Trump. Running wild, I agree, but deep down, I wonder how many of his critics have not privately acknowledged how they have profited out of his crazy hirings and firings, global political and economic meanderings and his relationship with his Twitter feed.

We also have Emerging Markets misbehaving. Turkey is in the spotlight, with their President appearing to acknowledge the market is actually bigger than them! With rates at decade long highs, and in an attempt to rescue the remarkably weak Lira, they are staring down the barrel of a gun.

On the local front we have allegations of a plot against our new President! He is obviously upsetting some very important opponents and perhaps even allies. We also have a desperately clumsy process unfolding at home, dealing with one of the world's most fundamental rights, over which wars have been fought. This is the right to property. EWC, the amendment of the Constitution, etc. is very much the focus. The clumsy bit is how we all feel about it and what gives context to how we feel. There is little doubt that a lot of real estate exists which might be better managed, and which will serve to stabilise our food supply and potentially create a swathe of middle class and wealthy stakeholders. This is indeed a good idea. The issue is that the primary feed on the truth about this alarming development is the media, online rumour mills and not the government.

So, what is "Apple-itis"? Similar to Tinnitus, it is a nervous response to a ringing sound in our ears! In the former malady, it is from tones which the victim can choose and change. Hearing these triggers an auto response, where you grab for your NBF (Apple X phone) and in a blink, either know what the Don is threatening to do to Kim, Erdogan's latest interest rate, or boringly the Rand Dollar exchange rate up to a millisecond ago!

Many times, we have been recorded as saying time is everything, timing much less significant. This is mostly correct advice. It takes technical issues, human emotion, compound return theory and more into account, and provided the investment fairly matches long term needs, growth assets make the most sense. Critical to the evidence of longevity becoming a very real challenge to planning, the significant presence of growth assets in portfolios, the cautious and controlled drawdown of income, maximising tax efficiency (which helps the drawdown rate) and saving from earlier and as regularly as possible, make great sense.

Quite obviously, cautious clients who simply don't have the stomach for the volatility, which accompanies growth assets (such as Property and Equity) need solutions. Tax is the tricky issue which needs careful consideration. We have access to a few very tax effective solutions, focused on companies, individuals and trusts. Kindly engage your advisor should this type of solution suit your risk profile and should tax efficiency be a consideration. Of interest, we have used this very effectively in retirement planning, as mentioned earlier. This tax efficient income can reduce your aggregate tax rate, allowing for efficiency and lowering the drawing rate from pensions. Apologies for this fairly complex explanation. Please engage with us and we would gladly explain and see if this strategy is relevant for your portfolio.

Good advice starts with great understanding. Interestingly, I believe the investor 'coaches' the advisor at outset. Once we understand the big picture, and provided we remain appraised if anything material changes, we become able to match and blend investments, assets, currency and debt (where necessary). Tax and a few external issues have become very important as SARS and their global counterparts desperate

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Mike Estment CFP®
BA / Chief Executive Officer
NFB Private Wealth Management JHB

MONEY LAUNDERING, REVIEWED.....

In today's globalised economy, criminals generate huge sums of money through fraud, drug trafficking, arms smuggling and many other heinous crimes, and use financial institutions to hide the source of those funds. The Financial Intelligence Centre Act (FICA) was enacted in 2001 and has been continuously amended to align it to international law, making it more difficult for criminals to use our financial institutions to hide "dirty money". The last amendment to the act came into effect on 2 October 2017 with the aim to ensure transparency and integrity in South Africa's financial system and to prevent criminals abusing it for illicit purposes including money laundering, the financing of terrorism, corruption and tax evasion.

The definition of money laundering has been expanded to include juristic entities such as trusts and companies, which will make it harder for individuals to hide behind legal entities to evade tax or commit money laundering offences.

Accountable Institutions like NFB Private Wealth Management (NFB) are required to uphold certain duties and may only establish a business relationship or conclude a single transaction with a client once it has established the identity of the client.

IMPORTANT AMENDMENTS IN THE ACT

The Risk Based Approach

New processes have been introduced to ensure that as a financial services provider, we are able to determine if there are any Money Laundering or Terrorist Financing (ML/TF) risks associated with our clients. These processes impact not only on the taking on of new clients, but also on NFB's existing clients.

When welcoming new clients into the business, you want the client to understand the services you can offer them and at the same time you want to 'get to know' your client. To get to know our clients, we are required to gather sufficient information to recognise any risks associated with the client. NFB has adopted the risk based approach, and in terms of this approach we are required to gather and assess our client information and to risk rate our client in terms of High, Medium or Low, depending on the ML/TF risk they pose to our business. Where higher risks are identified, we are required to take enhanced measures (request more information) to manage and mitigate the risks. Simplified measures may be applied where lower risks have been identified.

Customer Due Diligence

The FICA Amendment Act has introduced a new concept called Customer Due Diligence ("CDD"). Previously, FICA referred to Client Identification and Verification ("CIV") or Know Your Client (KYC) which had a much narrower interpretation than CDD.

CDD relates to the knowledge that NFB has regarding its clients and the business the clients are conducting. Naturally we must still identify and verify our clients, but with CDD there is a greater responsibility to know who you are doing business with.

Obligations such as establishing beneficial ownership, verification of source of funds, ongoing due diligence throughout the term of the relationship with a client, what to do when we doubt the veracity of

Illustration by Igor Zakowski

previously obtained information and what to do when our customers are Domestic Prominent Influential Persons or Foreign Prominent Public Officials, or family and known associates, reside under CDD. As part of CDD, we are also obligated to do sanctions screening on our clients and in certain circumstances will be required to report to the Financial Intelligence Centre (FIC).

What does this mean for us and our clients?

In addition to the basics such as obtaining a client's identity document or the founding documents in the case of juristic persons, we are now required to establish our client's source of wealth and funds and take reasonable steps to verify the client's representations for the source of funds and wealth. The information that should be obtained for source of funds should give an indication as to the volume of the client's wealth and provide a picture of how it was acquired. The good news is that we are not required to request proof of funds with every transaction from the client if we have established source of funds at onboarding of the client – provided at that stage, we were able to determine the likelihood and source of future expected funds. FICA only requires that we monitor the client's transactions thereafter.

The problem now arises in terms of our existing clients prior to the introduction of this new legislation, where no source of funds was requested and there was no obligation to do ongoing due diligence on the client. To resolve this issue, NFB has established new processes and procedures to ensure a successful onboarding process in respect of new clients and re-verification of existing clients to ensure compliance with FICA, thereby reducing our risk exposure. If a client has not been verified in the past 5 years, new verification documents must be requested from the client accommodating all FICA requirements. However, if a client has been verified in the last 5 years, we will only need to re-verify the client by requesting the additional documents needed to comply with new FICA requirements whilst making sure that we have the latest updated information for the client.

Included in the scope of CDD is the identification of ultimate beneficial owners which requires the identification and verification of natural persons (who ultimately own and use legal structures, e.g. companies, trusts) to make tax evasion more difficult.

In addition to knowing our clients, NFB is thus now required to both understand the client's business through our identification processes and monitor the client's transactions, periodically obtaining fresh client information.

Conclusion

The FICA amendment has increased our onus to identify and prevent all illegal activities within our business as we now need to identify areas in our business that might open us up to being involved in ML/TF, as well as more closely assess our clients to see who might pose a risk.

While we understand that these requirements are onerous for our clients, they are unfortunately also very onerous and costly for NFB and non-compliance will result in significant penalties being imposed on the business. Adding to the importance of ensuring compliance, is the fact that the FIC, as the responsible regulatory body for enforcement, performs regular routine monitoring, and has been quite effective in the past in going after non-compliant businesses.

Through our new compliance processes and procedures, we have attempted to take a very complex piece of legislation and simplify it as far as possible to reduce inconvenience to our clients. Despite that, however, many of the requirements are unavoidable and onerous by nature and thus we request that our clients bear with us both through this adoption phase and on an ongoing basis. ■

Should you have any queries with regards our anti-money laundering process please contact the writer on the following number: (043) 735 2000.

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Phumla Chitwa
LLB, Compliance Management Certificate
Anti-Money Laundering Certificate
Group Compliance Officer
NVest Financial Holdings

FROM THE **CEO's** DESK

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to balance the books, change the legislation to support their need. Critical to the process is also keeping the long-term plan in clear focus.

By the way, I noticed something in writing this piece. NBF is an acronym my children use, and grandchildren will no doubt adapt. It actually represents a New Best Friend in online parlance. It is also remarkably similar to our company's initials, NFB. We intend remaining relevant, both in the progress to effective adoption of online communication and the effective use of technology to support our client's needs. We also strive to be friendly, accessible and user friendly. ■

IS YOUR **FINANCIAL PLAN** RECESSION PROOF?

Some financial planning basics that you must get right if your fire is to survive a storm.

South Africa's gross domestic product (GDP) growth rate declined by 0.7% in the second quarter of 2018 (Stats SA), following a decline of 2.6% in the first quarter of the same year. Two consecutive quarters of decline in real economic growth is a technical indicator of a recession. We last experienced a recession when we saw a decline in the fourth quarter of 2008 and the first two quarters of 2009, resulting in three consecutive quarters of decline in GDP.

The business cycle is typically forward-looking, and therefore, it is vital not to panic during periods of slow economic growth. Recessions are an inevitable part of the economic cycle and are typically followed by recoveries and booms. A recession is beyond one's control, but by having a proper financial plan in place, you can rest assured that you are prepared for any downturns throughout your financial journey.

The following are some of the financial planning basics that you must get right if your fire is to survive a storm. They will make your plan recession proof in order to achieve your long-term goals. Among others, these include:

1 Diversify your investment portfolio: During an economic downturn, not all asset classes, industries and sectors are slow growing - some actually perform well. Diversification within your portfolio allows you to spread your financial risk should one economic sector, asset class or industry take a knock. A properly diversified portfolio includes offshore asset classes which a local recession has less impact on.

2 Make sure your insurance is paid: It is important that your medical, disability, critical illness, home and household, auto, and life insurances are in-force. In uncertain economic times, insurance policies are one way of protecting your desired income and lifestyle. To avoid delving into your investments, insurance is your back up in times of financial emergencies.

3 Commit to your investment's contributions: Although opportunities are always present, the best times to add to your portfolio is when there is a downturn. This is a period in which most stocks and unit trusts are discounted. Historically, investors who continue to contribute to their portfolios through recession periods achieved high returns over the following years.

4 Review your financial plan: Having a review of your financial plan more than once a year and aligning it to changes in circumstances is important to prepare for all weather conditions. By having regular financial planning reviews with your financial advisor, you will not be over-leveraged in any aspect and your plan will be able to survive an economic downturn.

5 Have a budget and follow it: A carefully planned budget will assist you in investing surplus income.

When your financial plan is insulated to reduce the negative effects of a downturn, challenging economic times will not be anything to panic about. Instead, you can have peace-of-mind knowing that even though recessions are inevitable, your finances are under control and you are ready for any upcoming challenges and opportunities.

Should you believe that your financial plan needs reviewing, please contact one of our Private Wealth Managers on the following numbers: East London (043) 735 2000 Port Elizabeth (041) 582 3990 Cape Town (021) 202 0001 Johannesburg (011) 895 8000. ■

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Ivor Mudzengi
M.Com
Financial Paraplanner
NFB Private Wealth Management PE