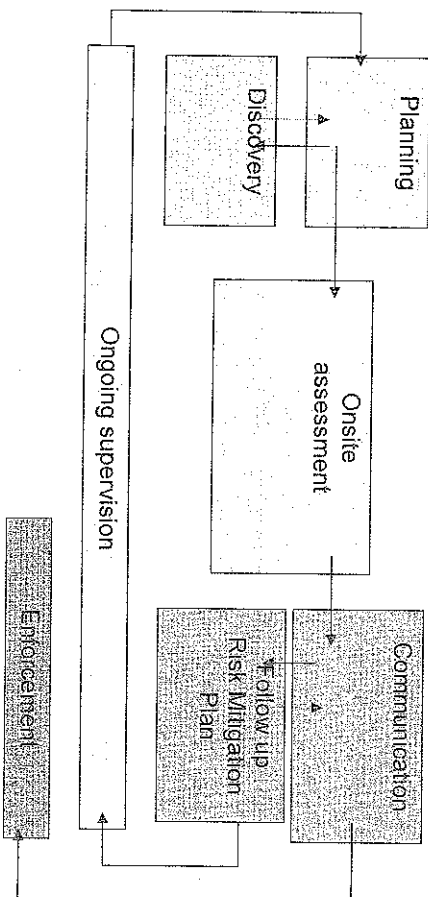


OVERVIEW OF RISK BASED SUPERVISION APPROACH

In terms of international regulatory requirements regulated entities should be visited regularly (at least every three years). Due to the fact that the FAIS Supervision Department supervises approximately 14 500 Financial Services Providers ("FSPs"), this is not possible. It was therefore decided to follow a Risk Based Supervision ("RBS") approach.

RBS is used in supervision of FSPs, whereby the impact of the FSP's businesses on the Financial Services Board's regulatory objectives is assessed on an ongoing basis and the regulatory tools relating to a specific FSP's supervision are determined. One of the regulatory tools used is onsite visits to an FSP's premises where a risk assessment of the providers' business is conducted. The following is a schematic illustration of the process that is followed:



One of the analysts will contact the FSP in order to set up a date and time for the onsite visit. Thereafter a first appointment letter will be sent to confirm the date and time. This letter will also contain the names of all the people that will be conducting the onsite visit. Please note that the visit might be for an entire day or two and in the case of large FSPs or a group of entities, it might even be longer period. In this letter the FSP will be requested to send certain information to our Offices prior to the visit to enable us to obtain background information on the FSP. This might include the following: Organogram, strategic or business plan of the provider, a list of all marketing material used, etc. This information will allow the analysts to effectively prepare for the onsite visit as well as acquire as much information as possible in order for us to understand what the FSP's business.

A second confirmation letter will be sent to the FSP after the requested documentation has been analysed. In this letter we will list the key persons that should be available for the interview. As well as provide a list of all documents that should be available for scrutiny during the onsite.

During the visit we will conduct interviews with the relevant role players in the FSP and scrutinise the information. The visit will be concluded with closing interview where certain important non-compliances might be highlighted and agreement on submission of outstanding information will be reached.

The outcome of the risk assessment is a Risk Mitigation Plan ("RMP") in terms of which FSPs undertake to address all areas of concern raised by the FSB's staff.

The RMP is a supervisory tool that is intended to highlight risk areas as well as any non-compliance issues with the FAIS Act and subordinate legislation identified during the onsite visit. All areas of concern will be addressed in detail and will refer the FSP to the applicable sections of the Act or subordinate legislation. For each area of the concern, we will also propose corrective action as well as a date for feedback from the FSP. In certain instances we will also address issues that are a concern in terms of good business practice or corporate governance. FSPs are obliged to implement the RMP by ensuring that the areas of concern are properly addressed by implementation of suitable solutions. Senior management's commitment is therefore vital.

The way in which you conduct risk management in the business will differ from the RMP issued by this Office as we only focus on certain areas in your business. It is, however, a tool that is used to highlight certain risk areas that we identified during the risk assessment.

At this stage the risk rating will have been finalised, but will not be disclosed to the FSP. The reason for this is that the FSB uses it as a regulatory tool for supervisory purposes only.

The RMP will be used to monitor the FSP's progress in the areas identified during the risk assessment process. The FSP will be required to provide written confirmation of the corrective action taken to mitigate the risk areas. The feedback from the FSP must include the specific steps taken, high level controls or other measures in place that were used to address the areas of concern. FSPs are welcome to include any comments and/or additional information that need to be brought under our attention.

It is vital to ensure that the FSP provide the information by the due date in order to prevent further regulatory action. Please note that the risk assessment is a "friendly" visit and that it is seen as a positive manner in which a relationship can be built between the FSB and the entities that we regulate. We do sometimes conduct visits in reaction to complaints received in this instance the FSPs will be informed of the matter and given an opportunity to comment and provide necessary documentation to support any issues raised. Most of the FSPs that we have visited in the past two years have found the visit helpful in determining shortcomings in their business processes and it has lead to better understanding of requirements imposed by FAIS.