

Suitability Solution Case Study



Risk Profiling is not the same as Suitability

The regulator's message over investor suitability continues: advisers' reliance upon 'tick-box' attitude-to-risk tools combined with incomplete record-keeping remains a concern.

The ensuing debate following publication of the regulator's thematic review appears to confirm that there remains a high degree of confusion by many firms and advisers that risk profiling and suitability are one and the same thing. They are not.

Volatility is not a proxy for risk

To help clarify matters for wealth management and financial planning firms, the regulator has repeatedly stated that 'volatility is not a proxy for risk'. Unfortunately, many firms continue to ignore or simply misunderstand the



regulator's message. Make no mistake, risk profiling it is no substitute for assessing client investment suitability.

Harbour – assessing investor suitability

Harbour's design was based on three guiding principles: the regulator's handbook; help raise the level of compliance by firms; and make life easier for advisers, compliance managers and business owners.

Within Harbour resides one straightforward process that encompasses suitability questionnaire, assessment, profile recommendation, adviser override, branded report generation as well as dynamic generation of MI.

It couldn't be simpler with Harbour.



"As a regulated firm, we demand a robust investor suitability process that goes beyond the basic functions of a simple risk profiler. Today, Harbour is an intrinsic part of

ARIA's proposition to advisers and their clients and has helped our successful expansion offshore." says Matt Brittain, ARIA's managing director.

"A questionnaire should probe beyond someone's attitude to risk. As absolute return investors, we want to provide as much, by way of educational tools and materials, as we can to inform both our intermediaries and clients. Harbour is an excellent delivery medium for achieving our objective.

"At ARIA, we perceive suitability in a broader context than solely a client's attitude to risk so working with Harbour to develop a dedicated questionnaire was important. This approach combined with Harbour's flexibility allows us to promote a wide ranging conversation with the client about the multi-dimensional aspect of investment suitability rather than simply ascribing a quantitative risk score which, in our opinion, is overly simplistic.

"Harbour helps ARIA to further enhance the 'joined up thinking' between us and the adviser to the benefit of the client. It helps us meet their financial objectives so that all aspects of our service and multi-asset class investing are covered comprehensively.



"Harbour helps strengthen our relationships with intermediaries as well as providing them with strong audit chains in their suitability processes too. From both compliance and service points of view, I wouldn't be without it!"



Matt Brittain, ARIA Capital Management

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ARIA Capital Management comprise a team of twelve operational and admin personnel, portfolio managers, operations as well as support and admin staff.

With offices in Richmond, Surrey and Dubai, ARIA Capital Management serve investors, both onshore and offshore, with investment portfolios based on absolute return principles.

Risk profiling – a risky blunt instrument

The danger with risk profiling, particularly when used at the start of a client's investment discussions, is that it places the focus on attitude to risk when other factors such as investment objectives, needs, circumstances and timescales are of much greater importance. This approach appears to be as flawed as travel agents asking what level of accident fear a holidaymaker has before discussing their preferred type of holiday and location, manner of travel and cost. If accident fear is irrelevant to holiday choice then attitude to risk is similarly the least important factor in advising clients on investment choices and strategy.

Who's next for the regulator's embrace?

The regulator has probably displaced any complacency amongst the big names in the investment and wealth management sector through its use of Section 166s. It is now highly likely that the regulator will start to turn its attentions on smaller firms and networks.

Business owners in particular are at most risk when regulatory guidelines and controls are not followed and record-keeping inconsistent. For Barclays Wealth or Santander, an S166 is costly in time and money but not life threatening. For a small firm with fewer lines of revenue, regulatory intervention will be catastrophic and could mean closure.

Management Information is essential

The days when the regulator was happy to go through manual files must be virtually over although a computer system is not mandated. However, the expectation will be for increased use of dynamically generated management information (MI) as evidence that a firm's management and CF10 is in control. MI will alert firms to emerging issues and promote proactive management.

The last word

The final say should come from the regulator after all, they hold all the cards. The following is an extract from a media publication; the words are theirs, not ours.

In a bleak reminder to the wealth management industry in October 2013 following the Suitability Review which started back in 2010, FCA chairman John Griffith-Jones added "Our thematic work suggests there is still work to be done in this area. The idea of suitability remains a live issue for us going forward."



Why we like Harbour's approach to investor suitability

ARIA has used Harbour since 2011; initially for onshore business and, since January 2014, for its offshore



business. ARIA was Harbour's first customer and the DFM contributed its expertise into Harbour's design

Suitability Methodology

As a regulated DFM receiving business via offshore intermediaries, we need a robust and consistent approach to suitability. We also have needs particular to the offshore sector. Harbour has given ARIA the ability to produce a dedicated questionnaire and scoring matrix that we control.

Questionnaire

Working closely with the Harbour team, ARIA's portfolio manager and CF10 developed dedicated questionnaires for our Onshore and Offshore business, the scoring and weighting.

Suitability Profiles

In order to avoid accepting investment monies from short term and risk-averse investors, we were able to create an additional profile – *Restricted* in addition to Harbour's default suitability profiles,

Consistency

With business coming via onshore and offshore intermediaries, it is important for us to have confidence in the business we are receiving and, from a regulatory viewpoint, investor suitability is being coherently and consistently applied.

Linking Suitability Profiles to Investment Strategies

The suitability profile generated by Harbour's questionnaire links directly with our investment strategies. Investor suitability profiles are used to select those most suitable for investors' objectives.

Business Efficiency

Harbour generates a single PDF document that carries ARIA's branding, explains the issues around suitability and attaches portfolio literature including T&Cs and related documents for signature.

Compliance

We and our intermediaries have complete records of the Harbour suitability process. All details of the assessment including the generated PDF are retained. Our clients' put great store in our FCA authorisation and doing things professionally and properly is vital.

"Introducing Harbour into our business has proved a sound decision. I recommend that investment advisory and management firms consider the Harbour as their investor suitability solution."

Matt Brittain, ARIA Capital Management