harbour

Insight:

Suitability Intelligence

Welcome to Harbour *Insight* April 2018. Here we share Harbour's quarterly data analytics together with a background commentary on what is revealed by the data.

So what, in essence, is Investor Suitability

The financial services sector is constantly exercised by debate on invester suitability driven by the FCA's thematic reviews and constant commentary and, more recently, over DB pensions transfers.

Most consumers have some familiarity with the Sale of Goods Act and its replacement, the Consumer Rights Act 2015. In our view, Investor Suitability is simply this act put into the context of investment advice.

What does this mean in practice? The consumer can expect that the investment advice is fit for purpose, delivered with reasonable care and for the costs agreed and, because a firm is offering an ongoing service, that this is reviewed periodically, typically annually, to ensure that the advice is fit for purpose.

Aggregated Usage Analytics

One of the powerful features, particularly appreciated by multi-adviser firms, is the Harbour KPI & MI Report. This tool gives Harbour the ability to produce aggregated analytics that are insightful and go far beyond that which ATR tools are limited to.

Without any doubt, Harbour users have the best investor suitability oversight and management reporting available in the financial planning industry.

David Roberts, April 2018.

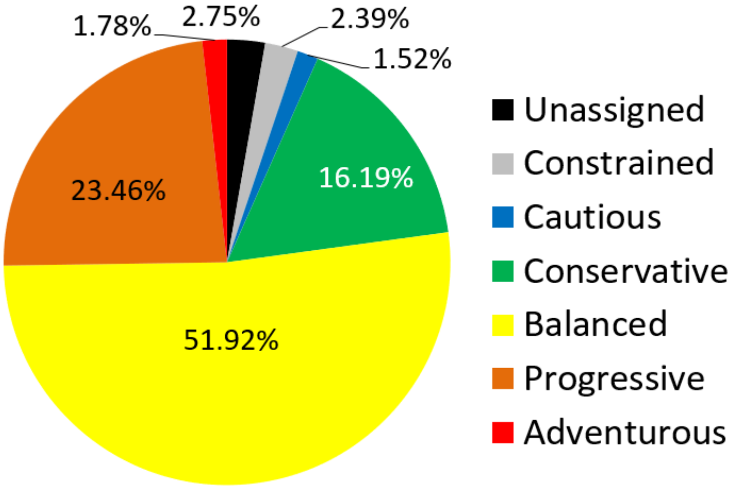
"We instantly liked harbour and decided to build it into our advice process. Its questionnaire gives confidence to our clients that we are serious, it helps our advice and paraplanning process, we value its MI reporting and it's easy to link to our centralised investment proposition."

wealth management at mittenclarke

Paul Darley, director
Mitten Clarke Wealth Management, Staffordshire.

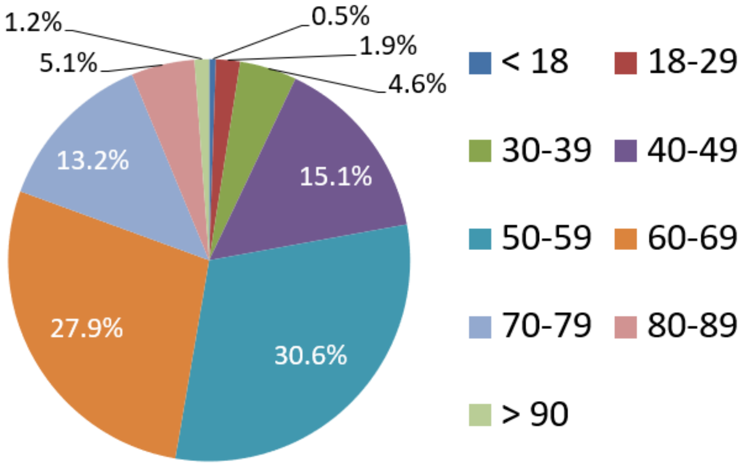
Suitability Profile Distribution

Harbour's suitability distribution is recorded after the adviser has exercised the in-built profile override, if deemed necessary. The profiles are self explanatory although two may need clarification: *Unassigned* refers to incomplete assessments; *Constrained* refers to those clients for whom investing is unsuitable for reasons of timescales, return expectations, capacity for loss or fear of loss - in other words, no-risk clients.



Investor Distribution by Age

Investor age distribution is critical to business sustainability and maximising value from a business exit. Firms achieving little progress in acquiring new clients in younger age groups will, without alternative strategies face future challenges of sustainability.



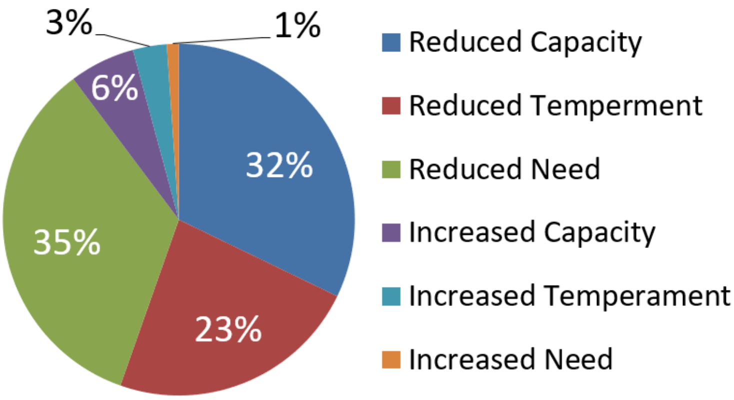
Aside from a 1% increase in the 50-59 age group, changes in other age ranges, although encouraging, are small. In my opinion, the UK government needs to undertake significantly more to encourage saving.

Adviser Override Use by Category

In an era where need-for-risk is absolute, advice processes that don't allow for, manage or audit an override are flawed:

- factors such as liabilities, career or marriage uncertainty and even unexpected windfalls demand intelligent advice rather than box-ticking;
- unexplained and uncontrolled changes in suitability risk leaves firms exposed to regulatory intervention as well as challenges by clients.

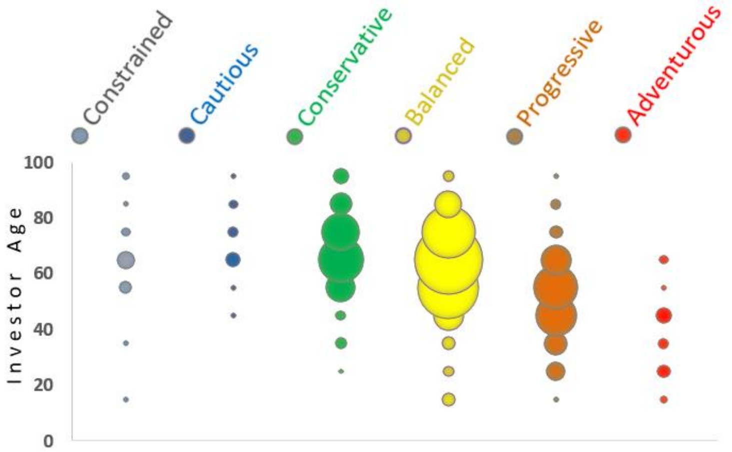
Harbour's *Adviser Override* has been used in 22.8% of completed assessments. The following graph shows *Adviser Override* use by primary category: e.g. those profiles that have been downgraded for risk as well as upgraded for greater risk tolerance.



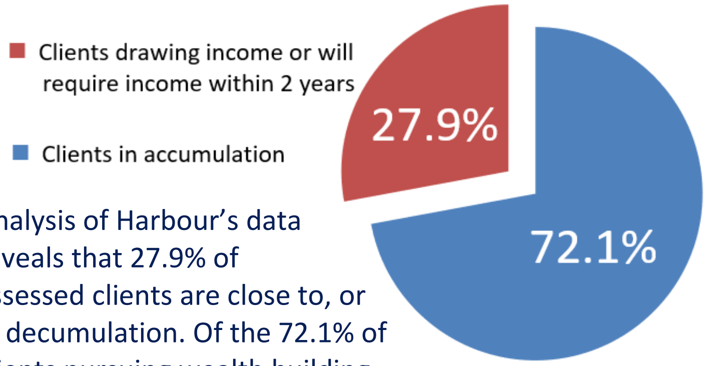
Suitability Profile Concentration by Age

The link between investor age and investment suitability is well known: the highest concentrations of wealth occur in the 50 - 80 age range. This group includes those who have ceased accumulating and are starting decumulation through drawdown as well as for reasons of inheritance and tax planning. Typically, their need for investment risk diminishes.

Conversely, those in early and middle career years have longer investment timescales that enables these investors take greater risk with the ability to ride out short and even medium term market volatility.



Clients in Decumulation vs Wealth Accumulation

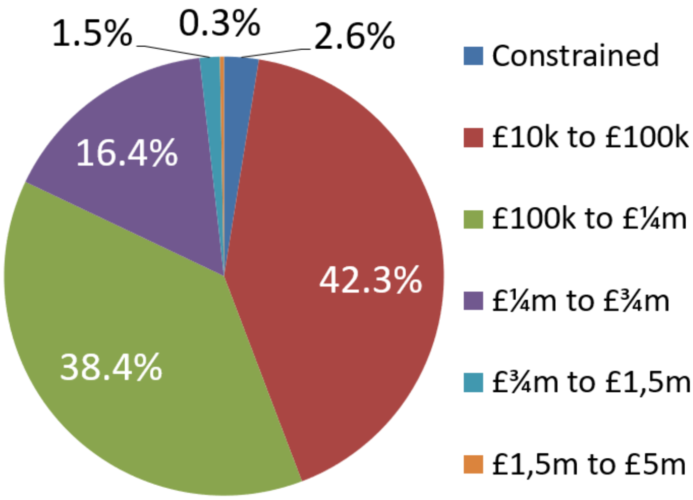


Analysis of Harbour's data reveals that 27.9% of assessed clients are close to, or in decumulation. Of the 72.1% of clients pursuing wealth building strategies, approaching half of these clients are in the final decade preceeding retirement.

Add those in their final decade before retirement with the 27.9% in decumulation, the result is that two thirds of a typical firm's clients will need robust decumulation and life planning strategies to enable them to see out, what will be, an increasingly long period of retirement.

Investor Distribution by Invested Amount

Understanding the demography of investors by the size of their investments is important information to firms' owners and managers. All too often this information is buried rather than being accessible quickly and easily.



Profile Boundary Risk

All risk profiling scoring systems results in some client scores in close proximity to profile boundaries. Small changes in personal circumstances, market volatility or changes in the fund can result in the investment profile being invalidated. Harbour spotlights clients within 5% of the profile score boundary. It's another Harbour feature that helps firms raise client service levels and reduce risk.