Suitability Framework 2.0

Moving beyond compliance

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Author

Mr. R.A.M. (Ronald) Janssen, MSc, MFP
Managing Director Goals-Based Planning

Ronald.Janssen@ortec-finance.com
in https://www.linkedin.com/in/ronald-janssen-ortec-finance/

Ronald Janssen studied Econometrics at Erasmus University in Rotterdam. After graduation Ronald worked as a financial planner for private clients in the high-net-worth segment. During this period, he designed and developed goals-based financial planning software. Upon joining Ortec Finance in 2002, he further realized his vision which resulted in OPAL, Ortec Finance's Goals-Based Advisory solution. As managing director Ronald Janssen is responsible for the further development of goals-based advisory solutions for the international wealth and asset management market.

Besides his work at Ortec Finance Ronald Janssen lectures at the Erasmus University and works together with the University of Maastricht. In addition, he has written a book about Goal(s) Based Investing and regularly contributes to professional journals including The Journal of Wealth Management, Expert Magazine Financial Planning, and Investment Officer.

Expert Contributors

Arnoud Brons
Managing Consultant

Arnoud.Brons@ortec-finance.com
in https://www.linkedin.com/in/arnoudbrons/

Dewi Posthuma
Business Consultant

Dewi.Posthuma@ortec-finance.com
in www.linkedin.com/in/dewiposthuma

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Foreword

It's no surprise that financial organizations are among the world's most heavily regulated areas of business. Also, the complexity of the operating environment for banks, wealth and asset managers, insurers and other financial services firms is arguably greater today than at any point in the past few decades.

Regulatory changes are both a reflection of these challenges and sometimes a complicating factor. However, by understanding the regulatory landscape and potential changes in the near- to medium-term and embracing the implications for their businesses, firms can unlock new areas of growth and reinforce competitive advantages.

In recent years, the European and UK financial markets have been impacted by two key sets of regulation to make them more transparent and to better protect investors: MiFID II in Europe and more recently the Consumer Duty Act in the UK. Both regulations are raising the bar to provide clear standards of consumer protection across financial services, requiring firms to empower and protect investors to achieve good customer outcomes. Both the MiFID II and Consumer Duty legislation demonstrate a paradigm shift in how the financial authorities regulate the financial sector.

For some firms these regulations are the continuation of the evolution of processes and have systems already in place. For others, however, this is more of a revolution and requires significant resources to implement. Every step of the customer journey throughout the product/service lifecycle needs to be considered, including communications and customer service, to assess any areas which may give rise to customer harm.

Financial organizations should be proactive, asking themselves whether their products and services actually meet the needs of those they are sold to. Still, many firms are considered reactive in response to these regulatory requirements, with a "tick-in-the-box" approach.

This paper is not an overview of the regulations, or a "to do" list. Rather, we believe it is helpful to highlight some areas financial services firms will need to manage in complying with the new regulations and to profit from digitization opportunities, including realizing more efficiency and increase advice quality. Not only does it provide the basis for a strategic discussion within your organization but provides you with a framework for building a better foundation for your financial advice and suitability requirements.

Ronald Janssen
Managing Director Goals-Based Planning
Ortec Finance

Executive Summary

New regulations including MiFID II and Consumer Duty have been introduced to make financial markets more transparent and to better protect investors, leading to 'suitability' – or appropriateness of advice –become a key focus area.
While many investment firms have taken a first step towards a broader client and portfolio analysis, an important next step is to convert client data into truly suitable advice.

No goals, no direction = where on Earth are we going?
A goals-based approach breaks down the client's objectives into a very specific set of goals, spread over their various accounts and taking the different timeframes into consideration. Monitoring performance of investments against the objectives and adjusting investment strategies where necessary should be an integral part of the process.

Financial firms should use increased compliance demands to their advantage.
Risk profiling forms the foundation of sound financial advice. By designing "valid and reliable" tools, firms can increase the trust their clients place in them and positively differentiate themselves from their competitors, thus enhancing the client's experience with the firm.

Clear and uniformly understood risk definitions are a prerequisite for suitable advice.
Risk can be perceived differently in the market, and even more among clients. Managing risk without having clear definitions, that are uniformly understood by the market, may lead to unsuitable advice and unexpected outcomes.

The Suitability Framework takes an unambiguous approach to formulating sound wealth advice, integrating the client and aggregated risk perspective, the product perspective as well as the sustainability perspective.
The framework assures compliancy throughout the whole advice process and beyond, helping financial firms move from product-oriented counsel to a more holistic, client-centric advice.

The future of financial firms being digital-first, leading firms embrace change and use the available tools & technology to distinguish themselves from the competition.
When operating at the speed, scale and complexity of financial firms, complying -and proving compliance- with increasingly high standards will require the use of technology. Firms embracing technological change will also achieve secondary benefits of greater operational efficiency, data insight and client satisfaction. These front runners will be able to move beyond compliance and turn this into an opportunity to serve clients' true needs and build relationships that last.

Beyond compliance: embrace change to create new business opportunities

Setting the stage

The world of personal finance has long been focused on investing and returns. While making money will always be a priority for investors and investment advisors, there are no guarantees in the financial markets and generating returns requires some level of risk taking. Therefore, the journey is as important as the results. A proper suitability process should account for this dynamic process, so advisors put clients in investments that 'suit' them and their situations.

To make financial markets more transparent and to better protect investors, new regulations have been introduced, including MiFID II and Consumer Duty. As financial firms must take all reasonable steps to ensure that a client's investments align to their objectives and personal circumstances, 'suitability' – or appropriateness of advice – has become a key focus area.

> *Many firms still fail in their approach to implement risk-based and client-centric suitability assessments. A key reason for this failure is the shortcomings of the current methodology.*

In recent years, many investment firms in Europe have taken a first step towards a broader analysis, trying to convert all client data into truly suitable advice. This implies answering the following questions:

- To what extent does the data collected contribute to an optimal match between investment products and client profile?
- Does this result in 'suitability' according to the regulations in place like MiFID II and Consumer Duty?
- How can processes and systems be implemented in such a way that 'suitability' is automatically guaranteed in case of a 'Goals-Based' investment advice?

Today many firms still fail in their approach to implement effective risk-based and client-centric suitability assessments. A key reason for this failure is the shortcomings of the current methodology. This approach is no longer sufficient in client-oriented, holistic advisory processes, nor does it always demonstrate compliance with legal requirements like MiFID II and Consumer Duty. As an answer to this gap the Suitability Framework 2.0 is introduced, based on the following key principles:

- A more holistic approach – setting up a solid process for both the analysis of one account / goal, and for multiple 'pots' or 'accounts' / multiple goals.
- The client really must have a deep understanding why he made a certain investment decision.
- Once an investment decision has been made, it should be monitored for pro-active client management, high-quality risk management and efficiency.

Limitations of the current methodology

For many advisors, a questionnaire is still the go-to method to determine the risk tolerance of clients1. A scoring model translates the answers into a risk number. This number is usually the standard deviation and fits a certain model portfolio. The questionnaire is adapted to each investor account and a risk profile is determined for each individual portfolio. This method has several limitations and points of concern.

Accounts and risk appetite

The main limitation is that many clients have multiple accounts and/or multiple goals. However, with most questionnaires it is only possible to define one goal. In addition, clients do not always want to run the same risk for each goal. The horizon is an important variable in determining the risk. In addition, buying a boat can have a different risk approach compared to savings for retirement.

Capacity for loss

Another limitation is that the questionnaire only identifies how much risk the client is willing to take? This does not indicate whether the client realistically is able to take the risk (ability to bear losses). Does the client have insight into his assets in a poor economic scenario? What are the consequences if, for example, the client has no or limited assets to manage the risk to supplement income? Is it necessary to supplement the assets to achieve the desired minimum expenditure, or are the assets intended for additional expenditures?

Neither MiFID II nor Consumer Duty describe how the ability to bear losses should be assessed. However, the aforementioned study shows that there are many different approaches, either at product or at client level. Advisors often record how they carried out the assessment and what the role of any other assets is.

No concrete goal, no direction

As a final remark, most questionnaires cannot specify concrete goals. If a client has no clear idea of their goals, it is impossible to determine how many assets they need to achieve them, and how realistic the goals are.
The client does gain insight into the impact of the risk in the short term, often translated into volatility with a horizon of one year. What the client lacks, though, is an understanding of the consequences of their choices and of the long-term downside risk and/or feasibility of the goal.

The current questionnaire-only method is no longer sufficient to achieve a client-oriented advisory process and does not sufficiently comply with regulations.

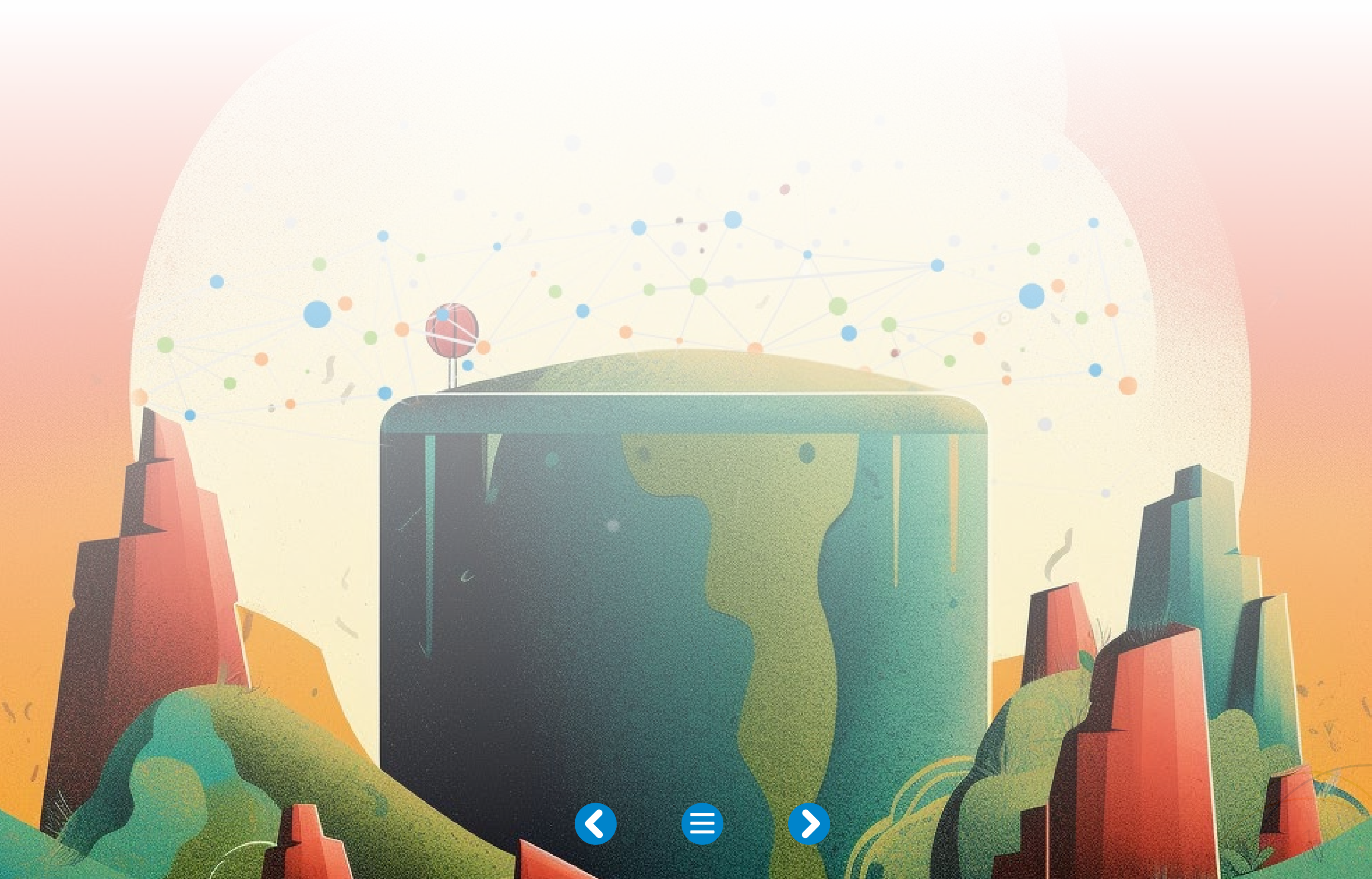
Concrete goals: the basis for good advice

When investing money, the main objective is to multiply the amount invested as quickly as possible or make profits. The concept of goals-based planning is quite a contrast to this traditional mindset. As the name suggests, goals-based advice is translating the client's specific financial goal -or combination of goals- into an optimal investment strategy, reflecting personal ambitions and preferences, cash flows and risk appetite. The investment options are also chosen considering various factors, including required returns, the time when the funds are required and the purpose of investing.

Goals-based advice: focus on the outcome

With goals-based advice, the outcome is the focus and not the method or the tools. Goals can be myriad - ranging from achieving retirement by the age of 55 and saving for children's education to buying a boat or a second home. The customer's aspiration and not a mere generic capital growth objective is now at the center stage. A goals-based investment approach enables financial advisors to build a truly personal investment portfolio for their clients, which should be delivered within the right context of a client's financial, emotional and personal goals.

While investing goals provide structure and purpose, clients often need to be guided through the process of setting them. A client may be after just one specific goal, though often the situation is more complex, and the advisory process should allow for a client with one or multiple accounts and one or multiple goals.



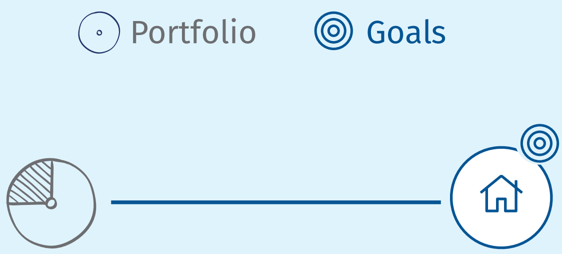
Perspective

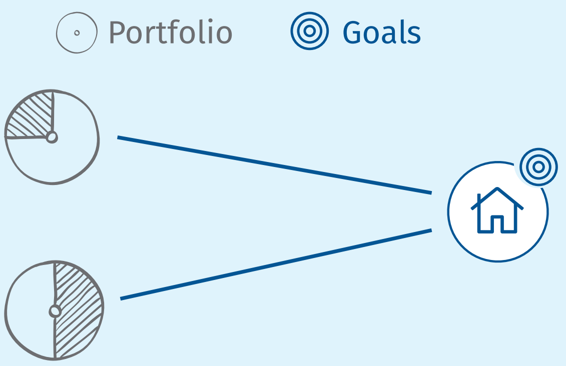
Handling different goals and/or accounts

A client may be after just one specific goal, though often the situation is more complex, and the advisory process should allow for a client with one or multiple accounts and one or multiple goals. Also, when a client has multiple goals, prioritizing them is important.

One goal, one account

Most intake processes and questionnaires currently support the following situation: the risk profile is in line with the result of a questionnaire and is determined for one investment account. An important point of attention is how other assets, with other goals, of the client are considered.



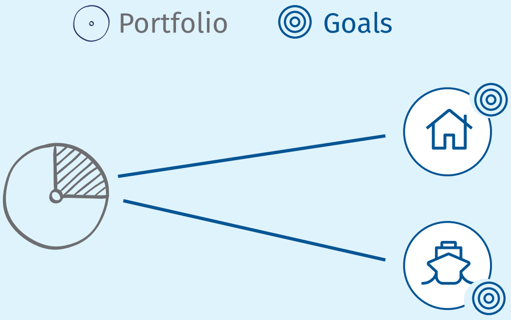


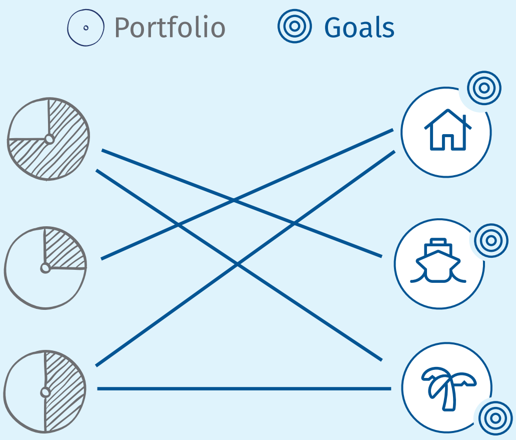
One goal, multiple accounts

There are situations where a client's goal can be achieved with various assets. For example, a client who saves for a good retirement income and saves for this goal through various pension products. Or a client who wants insight into the impact of inflation in order to maintain the real value of the total assets.

Multiple goals, one account

Here the key question is which risk profile fits the various goals. If a client is saving for retirement, they generally tread carefully. If the goal is to invest a small portion of his assets to maximize the return, he would want to invest more aggressively. Even when the goals have a similar risk profile, the moment of achievement may be different. These may be reasons for spreading assets between two investment accounts.





Multiple goals, multiple accounts

This situation is more complex, but nonetheless occurs in actual practice. In this situation the data availability is greater, the engagement with your clients is higher and the insight into their financial goals and how to contribute to these goals is at an optimum. In this situation prioritizing goals and linking the right accounts is especially important.

Goals-based advice as a value add for the adviser and client

Per the Consumer Duty and MIFID II regulations, a client's financial position and financial goals must be identified. The key question is: how do these relate to each other and how do you arrive at a realistic, honest and feasible advice based on that information?

Success can be measured. To make things more grounded, transparent and realistic, the customer needs to know the probability of achieving his goals and the actions needed to optimize the chances to stay on-track.
For the client, goals-based advice can help to reduce uncertainty and increase confidence in their financial future. By having clear specific prioritized goals, the client is more in control of his financial situation due to ongoing monitoring of the advice and more confident in his ability to achieve his goals. This improves financial wellbeing.

> *Goals-based advice is about trust. It is a process supported by sophisticated tooling that promotes the development of trust between an adviser and a client, and most importantly, it is a process that enables clients to trust their own financial decisions.*

For the wealth manager and financial adviser, goals-based advice can increase client retention and loyalty. By understanding the client's financial goals and tailoring the advice to achieve them, the adviser will ultimately build a stronger relationship with the client based on a deep understanding of his objectives. The result is that the client feels heard because the wealth manager or adviser starts a conversation with the client about his financial objectives rather than about his portfolio's performance as a standalone objective – thus upping client satisfaction levels which, in turn, can lead to higher revenue through increased assets under management and client referrals.

And ultimately, goals-based advice is about trust. It is a process supported by sophisticated tooling that promotes the development of trust between an adviser and a client, and most importantly, it is a process that enables clients to trust their own financial decisions. By focusing on outcomes rather than the process of accumulating wealth, clients learn to trust their priorities as well as the advice.

The main role of risk

Delivering financial advice suitable to a client's individual circumstances and meeting their objectives has always been the focus of financial advisors. Unfortunately, even financial advisors don't have a crystal ball and no guarantees are given. No one could have foreseen what was on the horizon a few years ago: a global pandemic, the invasion of Ukraine and the following war, the energy crisis, the steep increase in cost-of-living.

> *Risk profiling and managing expectations of clients should be at the heart of wealth and asset management.*

Regardless of the uncertainty and economic climate, investors will look for ways to make the most out of their money and, even more important, to ensure they have enough when needed.

In a world where change is the only constant, how can advisors 'avoid causing foreseeable harm' to clients? What is the best approach to deliver the best possible outcome for investors? It is not possible to predict what will happen, nor are experiences from the past always a good indication of the future. To deliver suitable advice, advisors not only need to understand their client's attitude toward risk, but also gain a uniform understanding of the different risk definitions.

Risk profiling

Risk profiling and managing expectations of clients should be at the heart of wealth and asset management. Without proper knowledge of the investor's goals, time horizon, liquidity needs, and risk aversion, it is impossible to recommend suitable investments or build efficient long-term investment strategies for that investor.

Despite the central role of risk profiling in current processes, what constitutes an adequate, accurate risk profile -and a suitable investment advice based on it- remains an open question. Suitability is matching the characteristics of the investor with the characteristics of the investment solution.

The capacity for loss

An important focus of financial regulators is determining a client's maximum capacity for loss. This means that investment firms need to determine not only the risk appetite, but also the ability to bear losses. At this moment, it is not entirely clear yet how such a determination is to be made. It is clear, however, that a **qualitative** assessment alone is not enough. A **quantitative** analysis will also be required to give insight into possible risk. This raises several questions:

1. What does the 'capacity to bear losses' relate to? Does this concern one investment portfolio or should other assets be included?
2. Does it concern the capacity for loss in one year or over several years?
3. How to take account of multiple accounts and multiple goals?
4. To which goal does the capacity for loss relate? Is there a difference between the various goals? For example, does the goal of 'supplementing retirement income' outweigh a goal such as 'maintaining assets' or 'buying a boat'?

Definitions of risk profiling

In order to comply with the above requirements, the concept of 'risk profiling' and what it relates to needs to be agreed on. This clarity is currently lacking in the market. Various definitions are used for the concept 'risk' and 'risk profile'. These terms should be more clearly defined, not just for a better understanding in the financial sector itself, but above all to be clear to the client. Advice only has value when a client understands the content. Below is a first attempt at moving towards a more unambiguous interpretation of the concept of 'risk profile'.

Risk profile 2.0

As more and more advisors provide client-oriented advice and 'know your client' has become the norm, goals increasingly take center stage in advice. As the previous examples have shown, this has implications for determining the risk profile. Consequently, it also affects the definition of the concept of 'risk profile'. There are three possible kinds of risk:

1. The risk of the investments (account level)
2. The risk of the feasibility of the goal (goal level)
3. The risk that a client wants and/or can take (client level and account level)

Choosing one of these definitions has a significant impact on the identification and advisory process. For a profile at account level, a client must fill out a questionnaire multiple times in case of multiple accounts, as opposed to one time for identification at client level. A risk profile at goal level – which involves using multiple accounts to achieve the goal – should also look at the profile across all accounts. It is also possible a client must fill in one questionnaire for multiple goals and multiple accounts, in which case it is the question how to make the translation of risk to the different accounts related to different goals.

In reality, advisors use different methods. It is fair to say that a questionnaire also assumes a risk profile per goal, but with a maximum of one account. There are several parties that specialize in determining the risk attitude. The question is how to integrate the risk profile at client level into the advisory process.

Generally, you can say that the advisory process should consider both the risk a client is willing to take with the investment in relation to the goal and overall risk attitude of the client. A client who acts based on 'mental accounting' and has a separate account for each goal goes through a different advisory process than a client who finds that less relevant and works with only one account for multiple goals.

Transparent processes and communication

Besides the fact that it is important for a client to know the principles of advice, it must also be clear what is meant by ‘risk’ and ‘risk profile’. Here are a few definitions and guidelines when giving advice:

- The principles underlying the advice are clearly defined.
- It is clear from the advice whether the risk profile considers part or all of the client’s assets, or only the account based on which the investment profile is determined.
- In case all the client’s assets, the advice should make it clear how this has been taken into account.
- The way the client’s risk attitude – and if applicable, the partner’s – is considered is fully transparent.
- The advice specifies the short and long-term investment risk and the feasibility of the goal(s).

In addition, the following definitions may be relevant for unambiguous and clear communication with clients:

- Risk attitude of the client: the overall risk attitude of a client, independent of products and goals.
- Risk that a client is willing to take: the short and long-term (downside) risk that the client accepts, which may vary per goal.
- Risk profile of investments: the volatility/standard deviation of the investment portfolio/strategic asset allocation.
- Risk profile of the goal: the risk that a client with one or more investment portfolios wants and can take to achieve the goal.
- Ability to bear losses: in case the downward risk happens, is the client able to manage this risk.

While there are nuances to the above definitions, the aim must always be to make communication with the client more clear and more transparent.

Risk profiling forms the foundation of sound financial advice to investors. Even if it now has become an integral part of the client journey, regulations require an absolute focus on good client outcomes and minimizing harm to consumers. Although financial regulators remain unclear in some areas about the exact implementation of risk profiling, it is certainly possible to improve the suitability process. The proposed Suitability Framework 2.0 can play a central role in this.

The Suitability Framework 2.0: a holistic approach

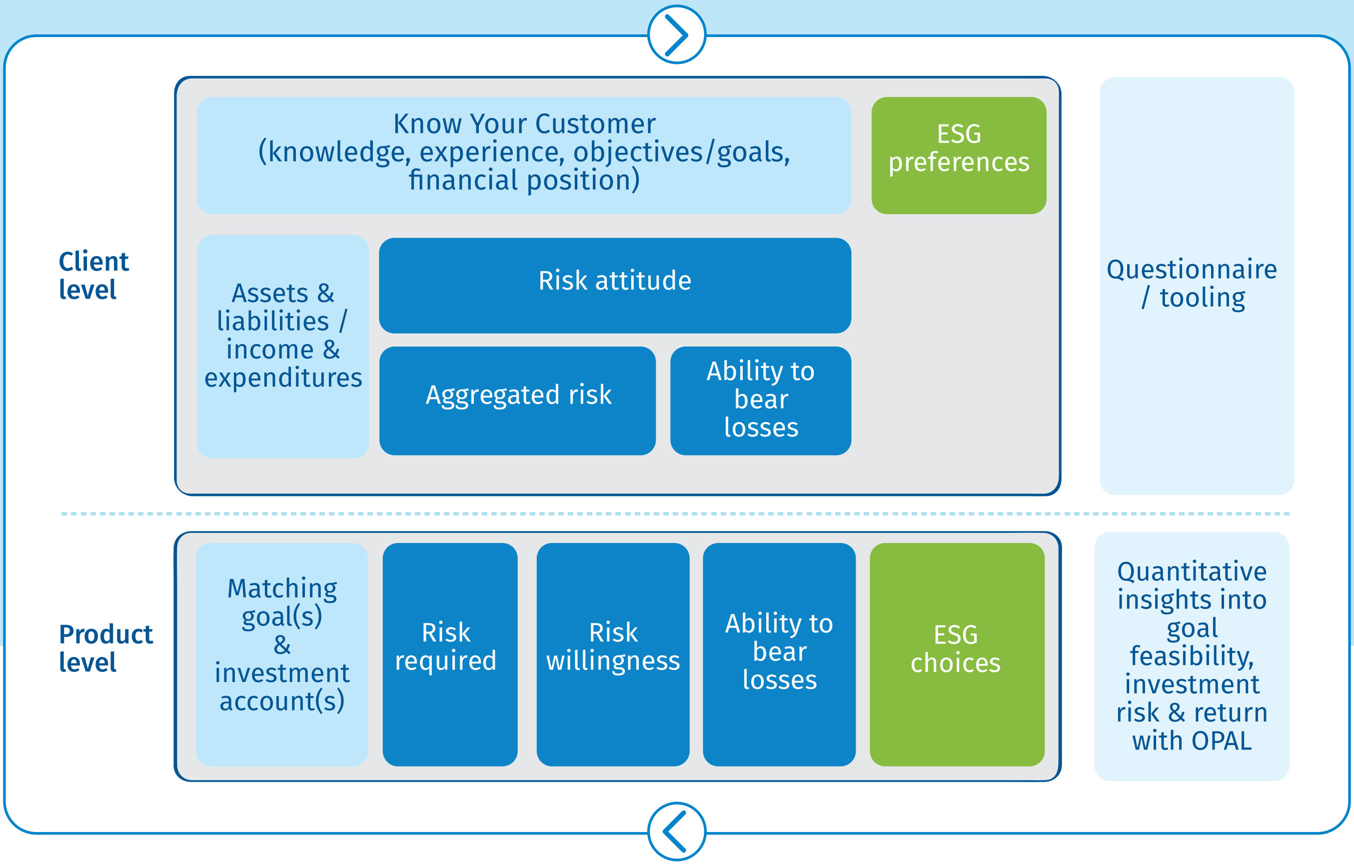
Of the many regulatory topics that continue to challenge banks, 'suitability' has been one of the key topics that most banks struggle to handle effectively. With regulators issuing directives on suitability standards, many financial advisory firms have resorted to tactical solutions to address these suitability requirements, resulting in additional administrative overheads and complex control structures.

Suitability being such a key component of the advisory process, the only right way to effectively deal with suitability is to fully integrate it eventually. If implemented the right way, this holistic approach to suitability can generate business opportunities for the advisors to have discussions with their clients about their existing investments and re-balancing across different portfolios, and thus be able to manage more AuM and clients. By knowing the client's investment preferences, knowledge and experience banks can recommend products that are suitable for the client. In addition, a deep understanding of the regulatory requirements, investment products and risks is required when implementing a suitability framework into the advisory process.

> *Suitability being such a key component of the advisory process, the only right way to effectively deal with suitability is to fully integrate it.*

The suitability framework is designed to provide a holistic approach. It looks at the advisory process from both the client and the product perspective, integrating all the different aspects, which are interconnected.

The Suitability Framework 2.0



The different elements on both the Client Level and Product Level are specified below.

Client level

The client level integrates all the client information and preferences, including the level of knowledge and experience and the goals set. Depending on how the information is used in the subsequent process, a client's current assets and liabilities as well as his income and expenditures can be catalogued and linked to his risk profile.

Know your customer:

- **Knowledge and experience:** questionnaire depending on products and services.

- **Goals:** multiple goals can impact each other, which can be tested together for feasibility and suitability in line with one or more product(s)/portfolio(s).

- **Financial position:** the 'assets & liabilities' and 'income and expenditures' can be catalogued at a high level, aggregated or in more detail, depending on what you want to do with this information in the subsequent process (total assets, total liabilities, assets and liabilities breakdown, total per investment, per risk profile, per asset category or instrument level etc.). Or should the list be even more extensive to be able to make a financial plan because the client wants insight into his pension and a good retirement income? The client's goal is the decisive factor in the choices.

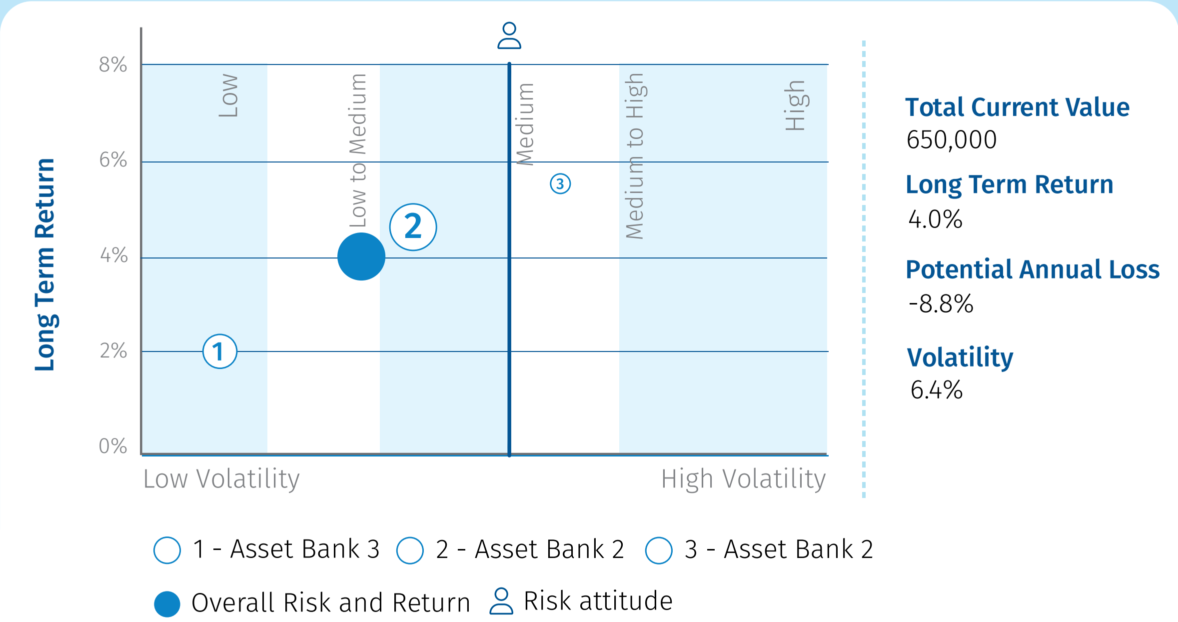
Risk attitude: identifying a person's risk attitude – different methodologies possible depending on, among others, client preference, segmentation.

Ability to bear losses (on a client level): gaining quantitative insight based on the available data on a client level, considering the risk and return metrics of all products, portfolios, and different risk profiles (goal/product/client).

Aggregated risk: an area of risk profiling often overlooked by advisers and organizations. Being a holistic approach, it enables to look at the average risk of a client's portfolios, including liquid and illiquid assets, linking it back to the risk attitude of the client itself. An advisor usually looks at the risk per individual portfolio. If suitability is well organized, however, the specific portfolio risk should be linked to the total risk of all assets.

The graph below shows the client risk tolerance in relation to the risk of the individual accounts of the client, as well as the aggregated risk profile. The blue circle indicates the average (aggregated) risk of the various investments. This can be compared with the risk attitude at the client level. This gives you more holistic insight while allowing you to determine the 'risk willingness' at product level.

For this client, the aggregated risk is within the risk tolerance; there is even some room left to take more risk. The individual accounts can show a risk profile deviating from the risk tolerance, dependent on the required risk and return per goal.



Product level

From a product perspective the framework integrates all the risk measures like short-, medium- and long-term downward risk of a product, enabling clients to examine the feasibility of their goals. Having the optimal understanding of a client's goals and investment accounts, we can define metrics such as risk required and risk willingness.

Risk required: what risk the client must take to have a reasonable chance to achieve their personal goal.
Risk willingness: what risk does the client want to take with this product in relation to the goal. Translating this risk into the personal situation ensures that the client feels involved in the information provided. The following risk measures may be considered: short-term downside risk, long-term downside risk and the feasibility of the goal. For example, in the case of a pension product, the following situations will be assessed differently:

- Client (40 years old) makes a deposit in an annuity for the next 25 years.

- Just before the retirement date, the client (now 65 years old) must choose how to invest his substantial assets.

In the first situation, the client can take much more risk than in the second situation.

Ability to bear losses: what risk can the client bear regarding the specific portfolio? The client can assess this based on an understanding of the risk of the portfolio in relation to the associated goal or goals.

Sustainability preferences

Against the background of climate change and a multitude of social issues, sustainability has rightfully risen high on the regulatory agenda. Per the current MiFID II regulations, a client's environmental, social and governance (ESG) preferences must be fully integrated into the investment conversation, and therefore in the suitability process, rather than viewed as a separate adjunct to the primary investment strategy. Whilst these rules only directly affect firms operating in the EU, the FCA is working on sustainability preferences rules for the UK. The principles and motivations behind the European and UK sustainable finance regulatory frameworks are similar.

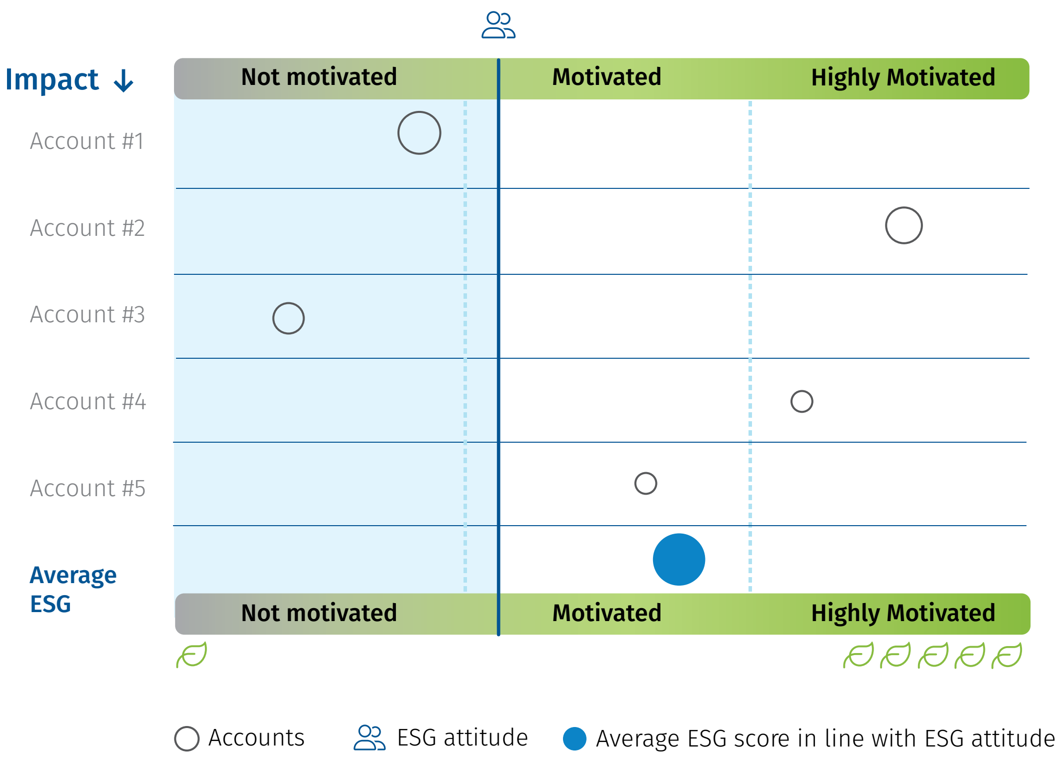
Financial firms need to decide upon their own overall sustainability strategy. They need to strive for consistency between internal processes, research for determining ESG classification and external marketing of ESG products, including any misperception of greenwashing.

Financial advisors then face challenges in explaining the environmental, social and governance aspects and the scope of the suitability exercise to clients in plain language and obtaining their preferences at a suitably granular level by asking the right questions. To be able to provide a credible range of performance scenarios for clients' ESG investments, advisors will need to recognize, and explain to clients, the limitations of current ESG-related data, their complexity and associated uncertainties of modelling future events.

The suitability framework clarifies how **ESG preferences** have been considered alongside the clients' existing preferences to arrive at decisions on specific transactions or advice on a product level, thus the **ESG choices** in the framework.

The chart below shows the 'sustainability level' of a client's various portfolios. The blue circle indicates how sustainable the investments are in relation to the total liquid assets. When the blue circle is on the right side of the client's ESG attitude, it is in line with or exceeds the client's preferences. The graph thus combines and visualizes a client's ESG preferences and selected investment portfolios while allowing to determine the 'risk willingness' at product level. It supports the advisor in showing clients the impact of their decisions.

For this client, the aggregated sustainability level of the different accounts is more than aligned with the client's ESG preferences.



Suitability by design

The ESMA guidelines state that financial advisors should give their clients a clear and simple explanation of the purpose of the assessment and highlight to them the importance of gathering complete and accurate information in order to be able to recommend suitable products and support the investment decision with the right information.

Not only does the framework help clients gain more insight into risk and return, but it also increases their understanding of why they choose a specific product or portfolio with the associated risk profile. This includes, for example, insights into results of other risk profiles and developing a picture of various future economic scenarios. This is called 'suitability by design'.

Modular approach

The different components of the suitability framework can be used in a modular way, allowing for a phased implementation and bringing the process in line with the organization's priorities. It also implies means that some components can be replaced and retain components that work well. Different modules can be used for specific services and products, as well as for different countries taking into consideration the different speed of adaptation and culture. In addition, as certain parts of the advisory process are digitized, the client can handle more and more components on his own so that processes can be completed more efficiently.

Updating of suitability

Although seen as time consuming on a standalone basis, suitability can be a value driver for relationship managers and the clients if shaped in the right way. Suitability is established at a certain point in time – but it is by no means static. With change being the only constant, it is obvious the financial advisory process is a dynamic one. Every aspect of the process needs to be monitored and reviewed continuously, and adapted to changed investor goals, risk and sustainability preferences and market conditions.

The suitability framework aims to take an unambiguous approach to formulating sound advice, which automatically complies with laws and regulations – not just when an investment product is purchased but also during the investment horizon, which is also known as updating of suitability.

Technology as an enabler

It is clear the wealth and asset management landscape rapidly evolves from a regulatory point of view. At the same time, client demographics and expectations are shifting dramatically, especially in the digital area. Demographic flux sees wealth transferred to younger, more tech-savvy generations and traditional, face-to-face wealth manager relationships are under threat. The future of financial services is digital-first: clients now demand personalized services and expect access to them through their channel of preference, anytime and anywhere.

However, this is not the doomsday scenario it appears. Indeed, through the integration of technology and automation in the advisory process, it represents a phenomenal opportunity of increasing operational efficiency, proving compliancy, and improving the customer experience.

At all stages of the client journey, technology-driven solutions will be essential to meet these challenges effectively: from the onboarding process and goals-setting, going to risk profiling to portfolio matching, to advice and reporting. Technology makes it possible to have real-time analysis of the progress, potential corrective actions in case of divergence, instrument options and availability, risks, costs etc. Besides helping deliver good client outcomes, the clear audit trail will also demonstrate compliance with any applicable legislation.

> *The integration of technology and automation in the advisory process represents a phenomenal opportunity of increasing operational efficiency, proving compliancy, and improving the customer experience.*

Moving beyond compliance: key takeaways

Financial firms have entered a period of accelerating transformation. From rapidly evolving technical possibilities to a changing regulatory landscape and fundamental demographic shifts, multiple trends are converging to drive significant changes in how organizations will operate in the finance industry.

As the last months of 2023 come into sight, many financial institutions reflect and start planning for change to business plans and operating models. Here are a few overarching actions for decision makers to consider in their quest for moving beyond compliance, toward operational excellence.

Scan your existing suitability process

Analyze your current advisory process, strive for a holistic approach, combining client- and product-level suitability. Focus on what really matters embrace open innovation and partners' contributions to unlock the scaling power of the ecosystem.

Build an open technological foundation

Linked to the changing client, business and regulatory landscape, the opportunity and challenge are to develop an open platform architecture where business, technology and compliance work together seamlessly to deliver compliant hybrid investment advice through a combination of human and digital capabilities. Apply open standards to increase the interoperability of future systems. Also, implement intelligent workflows and leverage exponential technologies, such as AI and automation to align the front-end experience with back-end systems.

Reimagine workforce experiences

The advisory business is a people business. The now required suitability assessment with all its different perspectives put a lot of pressure on the advisor. Technology can assist in this process and support the advisor in being more efficient.

About Ortec Finance

Ortec Finance is a leading provider of technology and solutions for risk and return management. It is our purpose to enable people to manage the complexity of investment decisions. We do this through delivering leading technologies and solutions for investment decision making to financial institutions around the world. Our strength lies in an effective combination of advanced models, innovative technology and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return tradeoff and thus better results.

Related Reports

1 Pan-European Research: How is Investor-Protection (MiFID II) Implemented? (2021)
R. Janssen, T. Loonen

2 MiFID II: Suitability and appropriateness, practical guidelines for investment services (2016)
R. Janssen, A. Kilian, T. Loonen

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Suitability Framework 2.0

Towards the next level

contact@ortecfinance.com | www.ortecfinance.com

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