

The Financial Conduct Authority (FCA) has voiced concerns over the use of risk-rated funds, arguing they cannot be used as a short-cut to determine investment suitability.

The regulator's view is that the following three factors need to be considered to provide a wider context than just simply mapping a risk rated fund solution to an individual's attitude to risk score:

- capacity for loss
- client knowledge and experience
- the term of investment

We fully concur with these views.

Distribution Technology's Dynamic Planner offers advisers the choice of attitude to risk questionnaires that can be used to accurately predict a client's tolerance or willingness to accept the risk of loss of capital. In fact over 5000 Attitude to Risk questionnaires are completed each month via Dynamic Planner – a testament to their design & efficiency.

However the vital additional steps of properly understanding capacity to **withstand actual losses** are also specifically addressed in Dynamic Planner.

Introduction Risk questionnaire Consistency **Capacity** Risk level Notes Risk summary Next step

Risk capacity

Additional considerations

Investment timeframe
When do you intend to use the invested money? * [Please select] ▼

Your capacity for loss
How much of this investment could you stand to lose without having a significant impact on your future standard of living? * [Please select] ▼

Investment liquidity
If you needed sudden access to a lump sum, how likely is it that you would need to encash this investment? * [Please select] ▼

[Please select]

Short term (0 - 5 years)

Medium term (5 - 10 years)

Long term (10+ years)

No fixed term

[Please select]

None or very limited losses

Small / medium losses could be tolerated

Large losses would have a low impact on future lifestyle

[Please select]

I have other savings and investments which I can use for most needs

I may need this investment if I needed access to a significant amount of money quickly

I would almost certainly need access to this investment

We believe this equips the adviser with the correct prompts to draw out the impact of potentially unfavourable investment outcomes on key financial priorities, standard of living, whether they would cause undue emotional stress and what impact investment term might have on the ultimate selection of a suitable fund solution. The embedded goals forecasting tool also provides a clear visual interpretation of what 'good' or 'bad' outcomes might look like for various risk profiles and investment perspectives.

Our user experience to date indicates that advisers will use both the Attitude to Risk questionnaire score and the client responses to Risk Capacity in order to agree the most appropriate and agreed Risk Score before a portfolio recommendation is made. This is information that can all be recorded and secured in a fully auditable environment within Dynamic Planner.

With over £50 billion of funds under management now being regularly monitored, our market leading Fund Risk Profiling service continues to provide a valuable oversight service for advisers to complete their due diligence. The initial and ongoing quarterly evaluation of a suitable fund risk profile follows a multi-dimensional approach whereby we carefully consider factors such as historic asset allocation trends and past performance volatility to get to a best fit solution within Dynamic Planners risk profiles 1-10.

Dynamic Planner provides a very powerful and holistic set of tools to help the adviser hone the best recommendations once all factors such as risk tolerance, capacity for loss, term and experience are taken into account. We call this individual risk and capacity profiling.

Our Fund Risk Profiling service is an important constituent part of the process of fund selection, to be used alongside other qualitative and quantitative research available in the retail market. However in line with FCA thinking, these need to be carefully positioned in the best interests of the client and should never be seen as being the single 'answer' to suitability.