

About Oxford Risk

Oxford Risk are a market leading provider of questionnaires and other instruments to assess the amount of risk clients wish to take with their financial investments. They provide services to Retail Banks, IFA Networks and Wealth Managers around the world, including risk profiling. In 2009, Distribution Technology appointed Oxford Risk to develop two robust questionnaires that tested attitude to risk, which can be used by individuals and couples.

About the questionnaires

Academic researchers at Oxford Risk compiled and developed the test using the following measures:

- **Item analysis.** To establish that the questions distinguish between consumer segments. Based on initial results, any question whose results were too skewed or too correlated with other questions was discarded.
- **Factor analysis.** To eliminate any questions that were not representative of only one underlying factor.
- **Construct validity.** To ensure results from the test were well correlated with more detailed questionnaires.

Validating the questionnaires and their accuracy

The initial set of questions were reviewed by six psychologist respondents. Each item was reviewed to ensure that it was clearly worded and easy to understand. Oxford Risk then compared the results from the Distribution Technology 10 and 20 question questionnaires to the results of the initial unabridged questionnaire (79 questions). Cronback's alpha was respectively 0.85 and 0.92, which means that there is a statistical accuracy in matching the consumer's attitude to risk of 85% for the 10 question version and 92% accuracy for the 20 question version of the questionnaires.

At Dynamic Planner, we continually collate statistics on the results and monitor them, to ensure they are appropriately distributed. At the end of 2011, 385,000 risk questionnaires had been completed.

Checks for answer inconsistencies

An inbuilt sense-checker within the risk profiling tool will highlight when answers do not fit within the risk level outcome. This allows advisers to document any rationale for the answers given by the client and to take this into account when selecting the final risk level.

Attitude to risk and how this can vary over time

As it is a personality trait, attitude to risk should remain relatively stable over time. However, the willingness to accept more or less risk may change depending on the time horizon, the need to preserve capital and the extent to which it should remain easily accessible. This is why we provide separate questions regarding capacity for loss, to capture the client's financial requirements. They facilitate an open-ended conversation, which can lead to the adviser and client to agreeing a revised rating based on this information.

Linking the questionnaire results to asset allocation

Dynamic Planner risk profiling provides a Plain English description of what the risk means, an indication of the likely range of investments outcomes and links to Risk Profiled Funds. Advisers can also build portfolios to match the risk level based on asset allocation models provided, and are then responsible for ensuring that these remain within the client's agreed risk level.