leading on investments and savings

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SUITS YOU SIR

The FCA factsheet issued in September 2014 is still causing concern amongst providers and distributors. This is also reflected in TISA's Suitability working group, which has been running for some 18 months and is still working on detailed interpretation of the intentions from the regulator.

In the latest retail conduct risk outlook there is a clear signpost from the FCA on their views. The underlying message was originally based on exactly the same original ten TCF principles. In essence these were that firms must align their practices and govern themselves to ensure the fair treatment and wellbeing of customers. Failure to do so risks incurring investigation and clarification of actions from the FCA.

Advisory businesses need to focus on structural and behavioural factors, design structures and processes including culture and incentives to avoid consumer bias and potential mis-selling particularly those structures and behaviours that drive firms and consumers decisions. Concerns around ‘suitability’ have been raised broadly across the TISA membership, as the requirements clarify that firms have to provide suitability reports for every retail client and they essentially make a personal recommendation.

The regulator is preparing to provide more detail on how the industry is dealing with this issue. They have been visiting firms in 2014 and will publish a thematic review on due diligence in early 2015, encompassing suitability requirements. Existing demands are proving testing for wealth management firm's with some feeling the time pressure to fulfil the requirements.

Currently, a suitability report must specify a client's demands and needs, their attitude and capacity for risk as well as explaining why the firm has recommended a transaction and any possible disadvantages for the client. Firms must then maintain suitability records on this for several years.

However, in TISA's project work with the regulator they have continually stressed that suitability reports do not need to be overly complex and stressed they can be presented to clients simply. The suitability message is clear in that advisers should do more to understand the ‘soft’ facts about clients in assessing suitability. Typically, firms don't obtain necessary information by sending a questionnaire in the mail to the customer and can only obtain this by interviewing the customer and recording the meeting on the spot. Robert Reid of Syndaxi will tell you he conducts most meetings with an assistant present. The assistant takes the notes whilst Robert concentrates on the dialogue with the customer to avoid any distractions or misunderstandings.

Ensuring personalized objectives are documented in suitability reports through mechanisms such as free text input is the ‘best defence’ against regulatory action over centralised investment solutions, the FCA has confirmed recently. One area of concern is that there is the potential for increased standardisation in the process which results in a lack of personalisation. The regulator is looking for personalisation in suitability reports for each client.

In essence there could be standard objectives set across different clients which are solution-based rather than client-based, for example clients looking for an investment portfolio that is rebalanced on a regular basis or access to a wide range of funds to a platform.

Having ‘free text’ in the fact-finder documents to give clients space for that extra level of detail, as well as removing the template objectives in suitability reports, would meet the FCA's current requirements. In addition in terms of pricing, adviser charging and fee charging models, if something costs more to the client, there needs to be a good justification for that.

The TISA Suitability working group hope to publish a best practice note very shortly.

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