

Risk Profiling with the Investment Planning Tool

Assessing suitability to risk

As an adviser, you'll want to be comfortable that both you and your customers understand how much risk they are willing and able to take and what the potential outcome could be. One way to do this is to use risk profiling.

At Distribution Technology, we use a four-stage risk profiling process to enable advisers and their customers to have quality conversations about their willingness and ability to take investment risk. Although every customer is unique; it is possible to categorise attitudes to risk, using psychometric profiling and this is the starting point.



Psychometric risk profiling

We have developed a 10 question risk profiling questionnaire for AXA Financial in conjunction with industry- leading psychometric consultancy, Oxford Risk (a company led by academics from the University of Oxford).

They take into account a number of factors known to be excellent predictors of attitude to risk, including:

- Risk sensitivity
- Desire for profit
- Tolerance for ambiguity
- Outlook
- Horizon
- Financial awareness
- Investment experience
- Suggestibility

Using risk profiling within the Investment Planning Tool allows you to:

- Place the customer on a volatility scale of 1 - 5 with regards their attitude to risk
- Highlight the potential financial upside and downside associated with that risk level

“Mapping funds with DT’s risk profiles means we can offer advisers an independent and well recognised benchmark to guide their selection process.”

Questionnaire results

test

Selecting a risk level

Click on the bar below to select an appropriate risk level

What the selected risk level represents

A Balanced Investor is looking for a balance of risk and reward, seeking higher returns than those available from a high street deposit account and willing to accept a certain amount of fluctuation in the value of their investments as a result. However, they would feel uncomfortable if their investments were to fall in value significantly in one year.

Current Portfolio Value	100,000.00 EUR
Potential loss in very poor conditions	16,744.77 EUR
Potential return in very good conditions	26,938.70 EUR

Risk questionnaire Report

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Providing a robust risk profiling process

The Investment Planning Tool provides a process that promotes good practice in risk profiling:

- Our psychometric risk profiling questionnaire can be completed on- and off-line
- Our ‘sense checker’ automatically summarises the answers and highlights inconsistencies, prompting further discussion that can be captured in the report
- In addition to the psychometric questionnaire, we capture additional information about the investment time frame, the customer’s capacity to tolerate losses and their potential liquidity requirements for the investment
- Once the questionnaire has been completed, the adviser and customer can validate the results and agree the risk rating to be used

Response discussion		
A number of the responses to the risk questionnaire seem to be out of alignment with the overall result. Assuming the client fully understood all questions, please document any discussions around the following questions:		
test		
Question	Response	Discuss?
1: I would be willing to risk a percentage of my income / capital in order to get a good return on an investment	Strongly disagree	?
2: To achieve high returns, it is necessary to choose high-risk investments	Strongly Agree	?
3: When I am faced with a financial decision I am generally more concerned about the possible losses than the probable gains	Neither agree or disagree	-
4: I would rather know that I was getting a guaranteed rate of return than be uncertain about my investments	Neither agree or disagree	-

The final report includes the responses for the attitude to risk questionnaire and the suitability questions, as well as any additional information the adviser captured in conversation with the customer. It provides a risk profile, a description of what that risk means, an indication of the likely range of investment outcomes over a 12 month period and quality graphics. This can be printed or e-mailed to the customer.

Integration with **Ygha YbhD`Ubbj[`Hcc`**

A core component of the Investment Planning Tool, risk profiling is integral to the investment planning processes. Completing a standard risk profile generates a target asset allocation, which can be then compared to the customer's existing portfolio. If required, the adviser can then continue and choose investment funds or portfolios that have also been mapped against the same risk profiling categories. This can help them ensure that their recommendations are suitable for that customer's risk profile.

risk profiling enables advisers to enrich their relationships with their customers by comparing current assets against the ideal risk portfolio

