Factsheet No.020

# For investment advisers

## Assessing your customers' needs

**This factsheet is for you if you provide financial advice to retail clients. It outlines examples to help firms consider their own processes for assessing customers' needs.**

### Customer information

When making a personal recommendation, you must understand the essential facts about the customer that relate to the nature and extent of the service being provided. As well as getting the basic customer details, you should consider the:

- Financial situation – do you gather details of their income/expenditure, assets/liabilities and savings/investments?
- Investment objectives – do you assess their risk profile and establish the purposes of investment and period for which they wish to hold the investment?

### Assessing needs and objectives

When assessing a customer's needs before making a recommendation, you should consider the:

- Areas of advice/need – if the customer has more than one need, do you highlight and advise on all their needs, or do you stick with the need the customer has asked about? How do you warn them of advice being limited to one or more needs and the potential consequences of this? Do you assess the customer's affordability of the needs identified?
- Risk profile – do you have a consistent way of assessing a customer's risk profile? Is the definition of risk categories you use clear and meaningful to the adviser and the customer? Do you explore the customer's attitude to risk across their different objectives? Do your advisers understand how to use a customer's risk profile in practice when recommending a product and any underlying funds for investment?
- Change in circumstances – when reviewing an existing customer, do you ensure information you hold on them is up to date to reflect any changes in their circumstances such as employment, income, tax status, health, investment objective, attitude to risk? Do you consider whether previous recommendations remain suitable after these changes?

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## Examples of good practice

- Firm A's policy was for its advisers to complete a new fact find at every meeting with customers to ensure that information on their customers was consistently kept up to date. This enabled advisers to re-evaluate the customer's holdings and reassess their affordability and continuing suitability each time.
- The customer initially questioned the need to divulge full details of her personal and financial circumstances to the adviser at Firm B, saying she only wanted a 'one-off thing'. But the adviser effectively overcame her objections by stressing the importance of knowing a customer's financial situation in full, even if they only wanted advice in one specific area, so he could take into account their full circumstances.
- Firm C did not solely rely on existing investments to assess a customer's attitude to risk (ATR) as the firm was aware the customer may have been poorly advised in the past. Instead it fully reassessed the customer's ATR during all interviews, and referred to their existing investments to establish whether their ATR had changed or there were discrepancies between the reassessed ATR and the existing investments.
- The adviser at Firm D made sure he understood the customer's needs and objectives, including their importance to the customer and timescales for achieving them, so he could evaluate all options. Before making a recommendation he obtained full information about the customer's credit status and loan information so he could consider repayment and consolidation of loans as part of a savings strategy.

## Examples of poor practice

- Firm E had no clear policy on how ATR should be established; it used a scale of 1 to 10, without a clear definition of the categories. One adviser said he would deem 'low risk' to be between categories 1 to 3 and another adviser said he considered it to be between categories 1 to 4. The firm's compliance officer confirmed they were aware of inconsistencies with advisers' understanding of the ATR scale but had done nothing to address this.
- The customer approached the adviser at Firm F seeking advice on whether to invest a lump sum of £50,000. The adviser assessed the customer's attitude to risk by asking the client: '1 = Gilts, 10 = China, so where do you see yourself?'
- The adviser at Firm G failed to adequately explore all areas of financial needs with the customer, who had approached him with £300 per month to invest for growth. The adviser asked a number of questions about the customer's circumstances but failed to adequately record that information at the time. Instead the adviser gave the customer a copy of the fact find to complete at the end of the second interview, after making his recommendation to take out an ISA and a Critical Illness Cover policy.

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