Factsheet No.019

For investment advisers

Attitude to risk – an adviser prompt

This factsheet contains prompts to ensure you are considering all aspects of a customer's attitude to risk.

The prompts below are some of the issues firms have considered and discussed with customers when determining the level of risk the customer is comfortable with. You might consider some of the examples as a training tool to remind all advisers to consider carefully how they approach this important part of your Know Your Customer (KYC) process.

Questions to ask the customer

Customer hard facts	Customer soft facts
• **Financial resources** (assets, income versus expenditure, long and short-term commitments, emergency fund, existing debt, other investments and savings, protection and pension arrangements) • **Age of customer and any partner/dependants** (now and in the future) • **Tax status** (likely to change, Inheritance Tax liability etc) • **Objectives** (purpose of investment: amount sought, income or capital growth, investment timescale, accessibility etc)	• **Financial goals/aspirations/priorities and timescales** (fund dependant(s) through university, care for an elderly or sick relative, early retirement etc) • **Personal goals/aspirations/priorities and timescales** (career change, house move, holiday home purchase, will and estate etc) • **Ability to comprehend investment risk** (physical/mental ability to cope with potential capital loss. If the customer has previous investment experience, how did they feel about market fluctuations and gains/losses?)

Info copy or quote to be added here...

Analysis	Investment options
• **Current and projected economic conditions** (inflation, interest rates, investment returns, exchange rates, global outlook etc) • **Current and projected investment returns** (types of fund, their underlying portfolios, provider/manager strength and performance) • **The potential impact** on the customer's circumstances resulting from changes in economy/investment returns	• **Minimal capital risk** (inflation issue) • **Some capital risk** (perhaps a spread of low volatility investments and fixed interest securities) • **High capital risk** (perhaps a narrower spread of investments with high volatility and complex investment strategies)

Questions to ask yourself

1. **How do you explain the concept of risk in a way that your customer is likely to understand?**

2. **If you use a risk scale, have you discussed different investment types and agreed with the customer where they sit on the firm's risk scale?**

3. **When making recommendations, have you researched the choices for investment and the provider/manager market sufficiently and confirmed this to the customer?**

4. **Have you explained to the customer that external factors, such as a change in interest rates, property markets, equities, global economics etc can affect their financial situation?**

5. **Have you explained the risks attached to the product or action recommended in a way that your customer is likely to understand?**

For more information and the latest news, see the firms section of our website: www.fca.org.uk/firms