OPEN DOOR POLICY

BUILDING PROPOSITIONS

Open Door Blog #2:

FG11/5. It's over 10 years old.

What was happening in 2011?

In April 2011 an estimated two billion people watched the wedding of Prince William and Catherine Middleton at Westminster Abbey.

In the financial world the European Union agrees to a €78 billion rescue deal for Portugal, and they also announced an agreement to tackle the European sovereign debt crisis, including a writedown of 50% of Greek bonds.

The main UK political party leaders were David Cameron (Con), Ed Miliband (Lab), Nick Clegg (Lib Dems), obviously the centre of their own universes, but not as much as the planet Neptune. It completed it's first orbit since it was discovered in 1846. That's 165 years to go once round the sun.

September saw the twentieth anniversary re-issue of Nirvana's Nevermind causing sales to increase by 647%, and we had the likes of Bruno Mars, Adele, Olly Murs and One Direction accompanying us in kitchens across the country.

The Regulator release their Finalised Guidance FG11/5 and to give it it's full title (deep breath), Finalised Guidance FG11/5 Assessing Suitability: Establishing The Risk A Customer Is Willing And Able To take And Making A Suitable Investment Selection

Not exactly groundbreaking news and definitely niche. Some would say dull, others might say impenetrable, however some might even say useful. Whatever your thoughts, it's been over 10 years and I believe it's still as relevant now as it was then. FG11/5 gave guidance with regards to:

- Establishing, assessing and checking the risk a customer is willing and able to take
- Understanding the underlying risks in an investment selection
- Adopting third-party tools

It's a great publication, but the use of ambiguous language made it a difficult read. Open Door Policy has reviewed FG11/5 to make it easier to understand what the Regulator was getting at. The Regulator did not prescribe what route a Firm should take but gave guidance with the aim of working towards good client outcomes, and FG11/5 was the 'risk' bit.

Rummaging

So what was in it? A lot of stuff to rummage through and find the meaning. The document itself covered several key areas.

- Obtain all relevant information
- Client has the experience and knowledge
- Have clear, well worded questions
- Customer can financially bear any financial risk
- Risk descriptions are clear, fair and not misleading
- Clearly defined risk categories
- Understand the risk profiling / research tool
- Diversification
- Tools can be a useful starting point
- Due diligence and research
- Recommendation is suitable
- Recommendations are consistent with risk descriptions
- All relevant suitability factors are properly taken into account
- Act in the client's best interest
- Have a clear robust process that is fit for purpose
- Have a clear process for updating a client's risk assessment

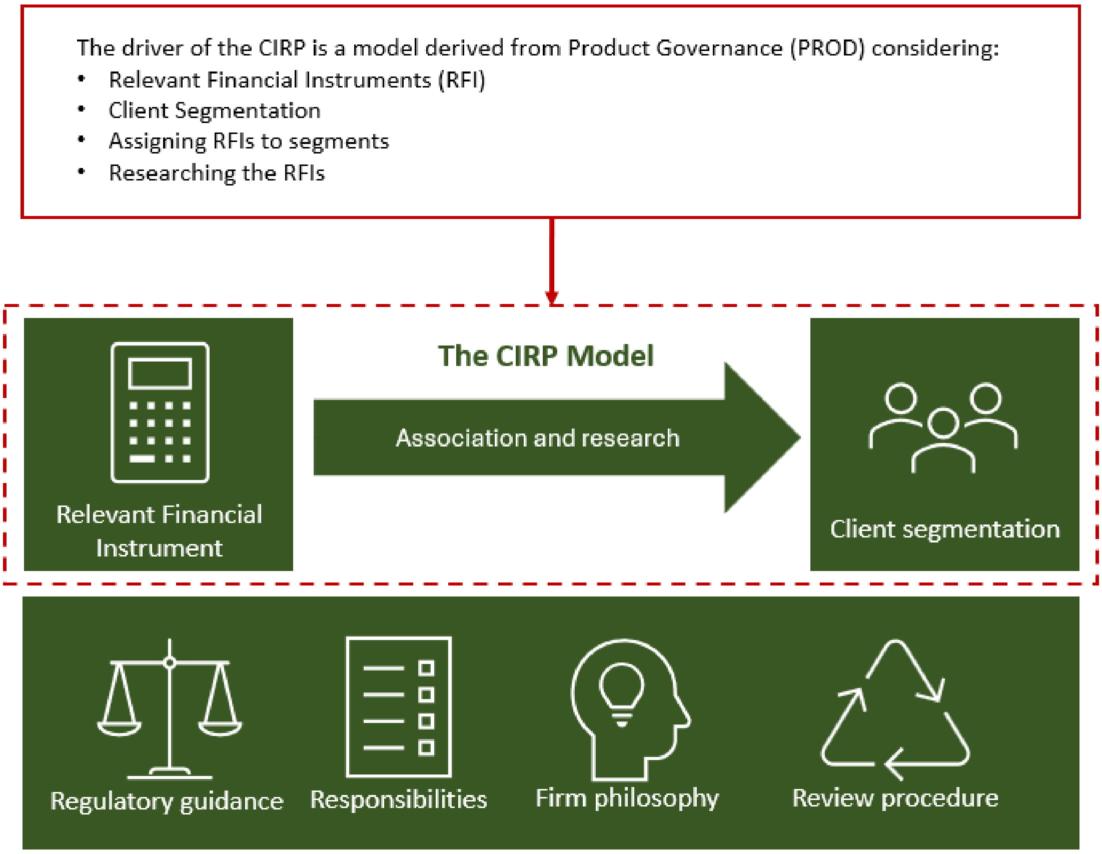
This can be further condensed into the afore-mentioned soundbites, so here are the six key areas to look at when managing risk in your advice process

- Know your clients
- Understand client investment experience
- Understand any software you use to measure risk
- Explain things well
- Ensure solutions match the agreed client risk
- Create a robust process that does all of the above

Great you might say, excellent. But how is that useful, is this just another tick box exercise? Not quite, let's take Regulator guidance and make your advice process bigger and stronger by building it into your Centralised Investment and Retirement Proposition. This demonstrates that you're taking on their guidance and addressing specific areas of concern whilst working towards delivering good client outcomes.

PROD as the Driver

Here is a graphic representation of the CIRP from Open Door Policy, its main driver is PROD, segmenting clients and managing Relevant Financial Instruments.



Underlying this is building in risk management by formulating your client risk under 'Firm philosophy' and formulating your investment risk when deciding which financial instrument you will use and how they manage risk within the product itself. And there is a few areas you would need to explore when conducting research and due diligence, such as auto rebalancing, maintaining a specific strategic asset allocation, risking against certain benchmarks to name but a few.

Risk management is an important area within the advice process, and it's clear the Regulator also believes that. It would be prudent to document exactly how your business manages risk and building it into your CIRP is a good place to put it.

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