

# Suitability

Client Conference  
2023

Restricted



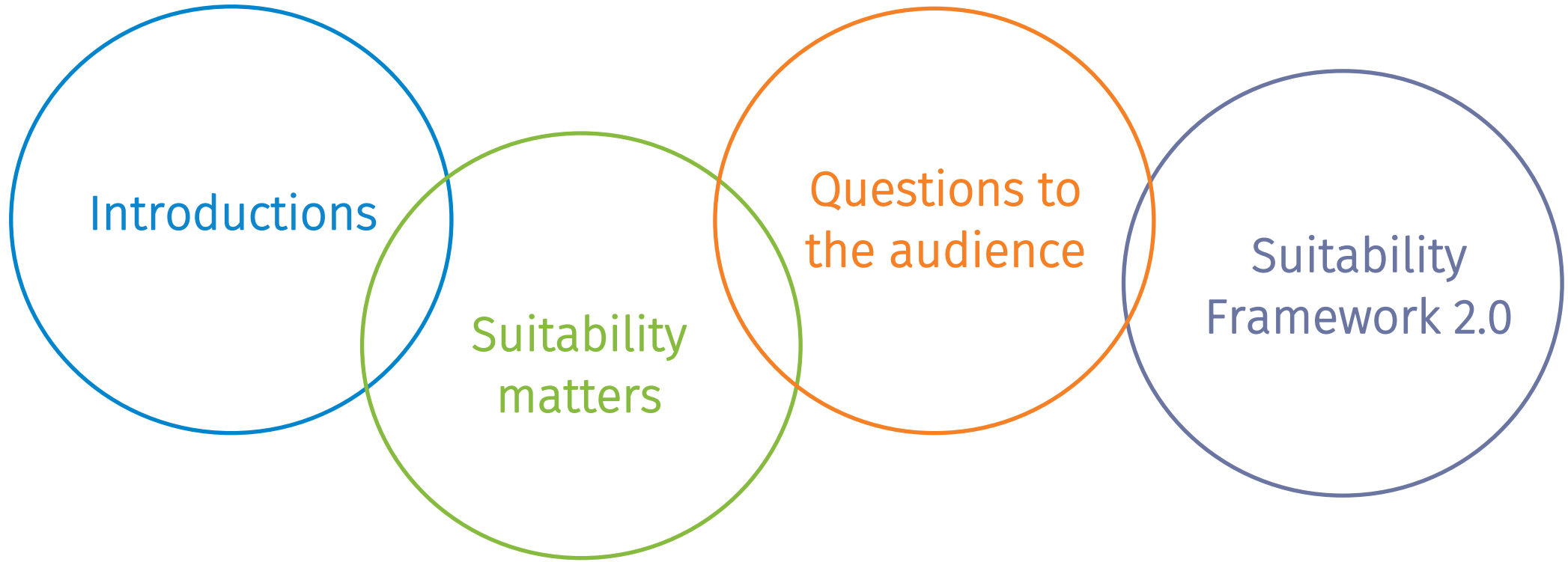
HELLO  
AND  
WELCOME

Ronald Janssen



Jochem van Grondelle





# Introduction



# Our mission and core values





*“Wealth managers — like their clients — are facing a **complex** and **uncertain** world. Economic and geopolitical instability is heightened, investment strategies are **evolving** at pace and industry practices are being **rapidly transformed** by **technology.**”*

Parameters

2,600

investors

Profile

	Wealth segments (assets)		Age
UHNW	US\$30m+	Millennials	21-41 years
VHNW	US\$5m-US\$29.9m	Gen X	42-57 years
HNW	US\$1m-US\$4.9m	Baby Boomers	58+ years
Affluent	US\$250k-US\$0.9m		

Varied respondents based on the following categories:  
Education, occupation, risk tolerance, behavioral and psychographic profiles

27

geographies

Regions

North America

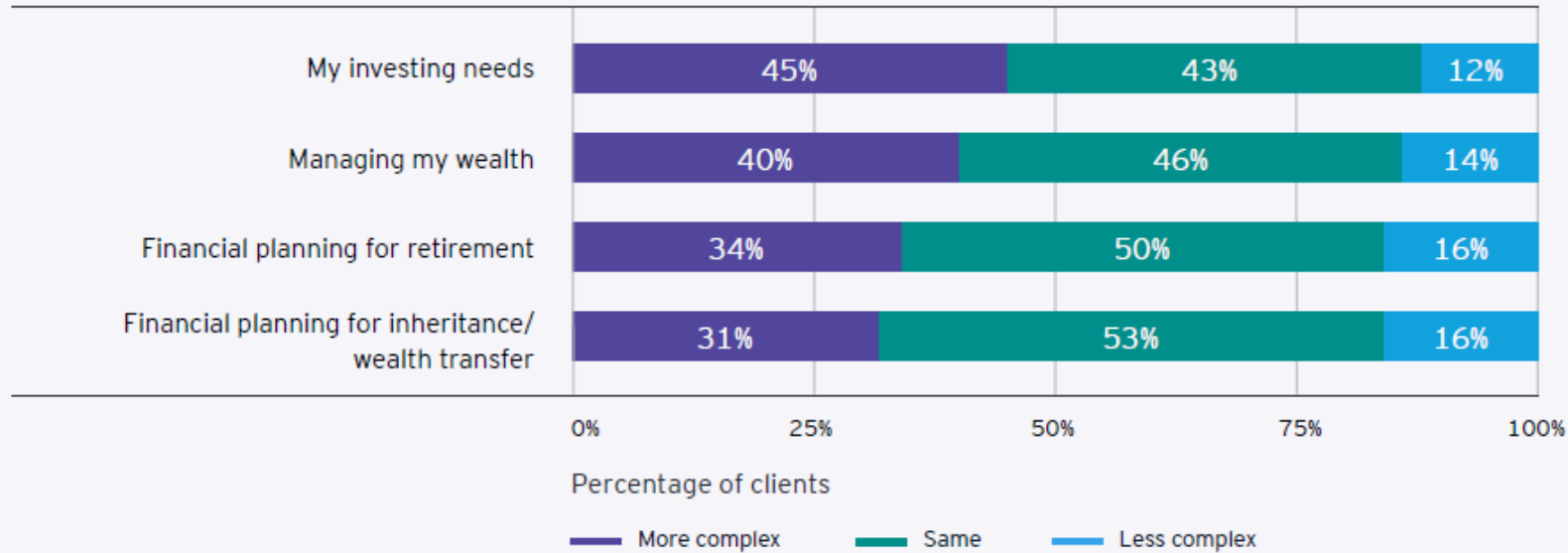
Latin America

Europe and Middle East

Asia-Pacific

# Perceived complexity has dramatically increased

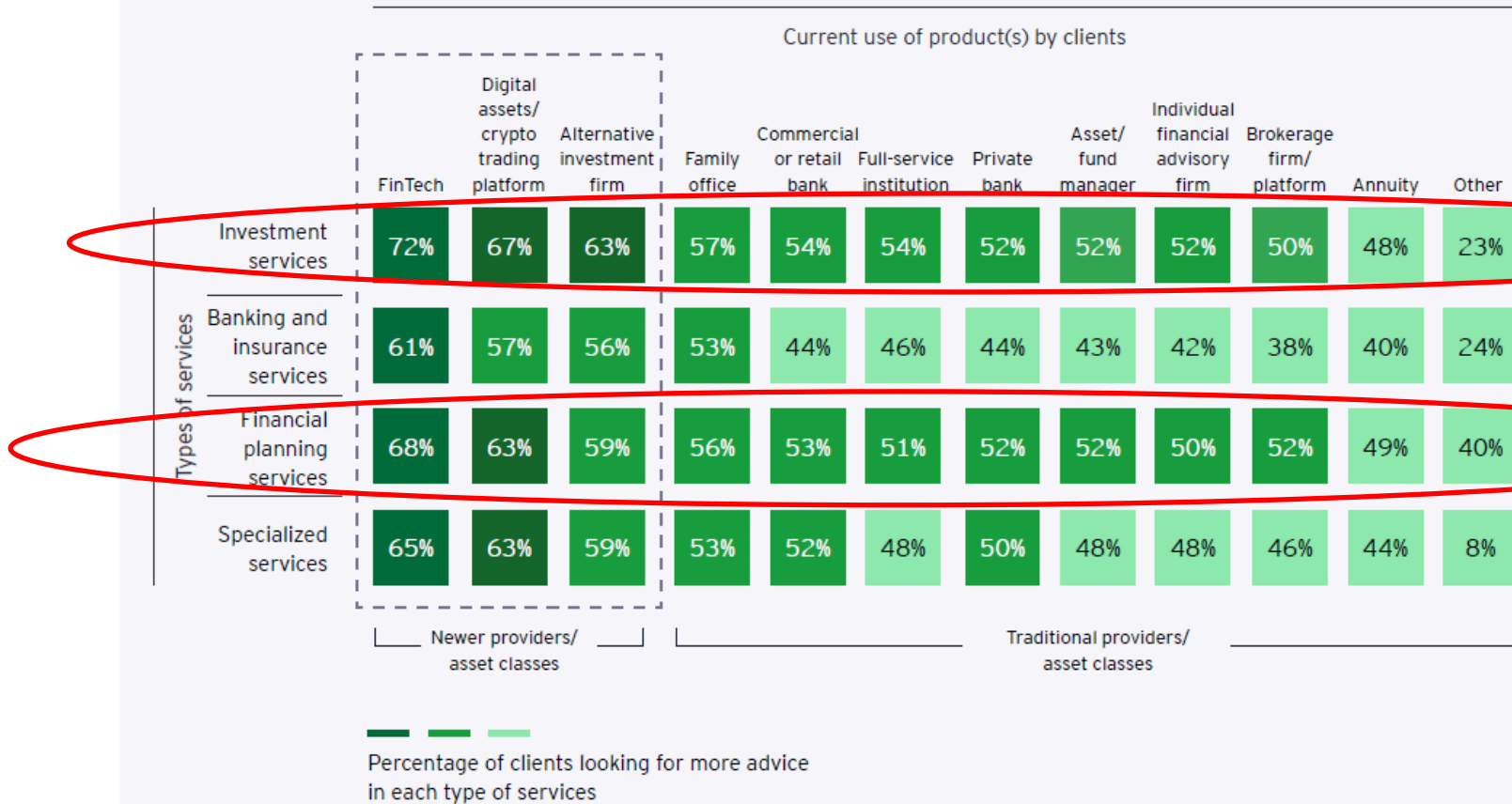
## Complexity in the last two years





# Clients seek more advice & through newer channels

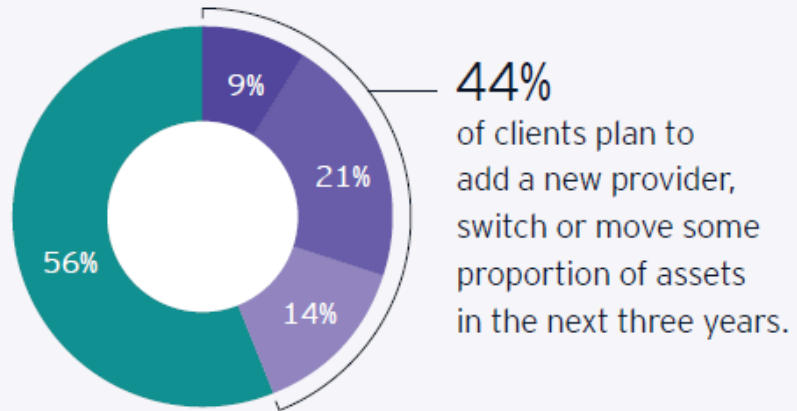
Clients looking for more advice



For both Investment Services and Financial Planning clients are seeking more advice than before

# 44% of clients plan to move assets in three years

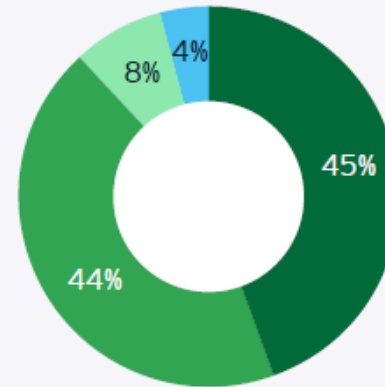
Percentage of clients who plan to switch, move or add new providers in the next three years



Percentage of clients

- Switching by closing a relationship with one provider and moving assets to another
- Moving a portion of money from one provider to another
- Adding a new provider
- None

Proportion of portfolio that clients are planning to switch or move in the next three years



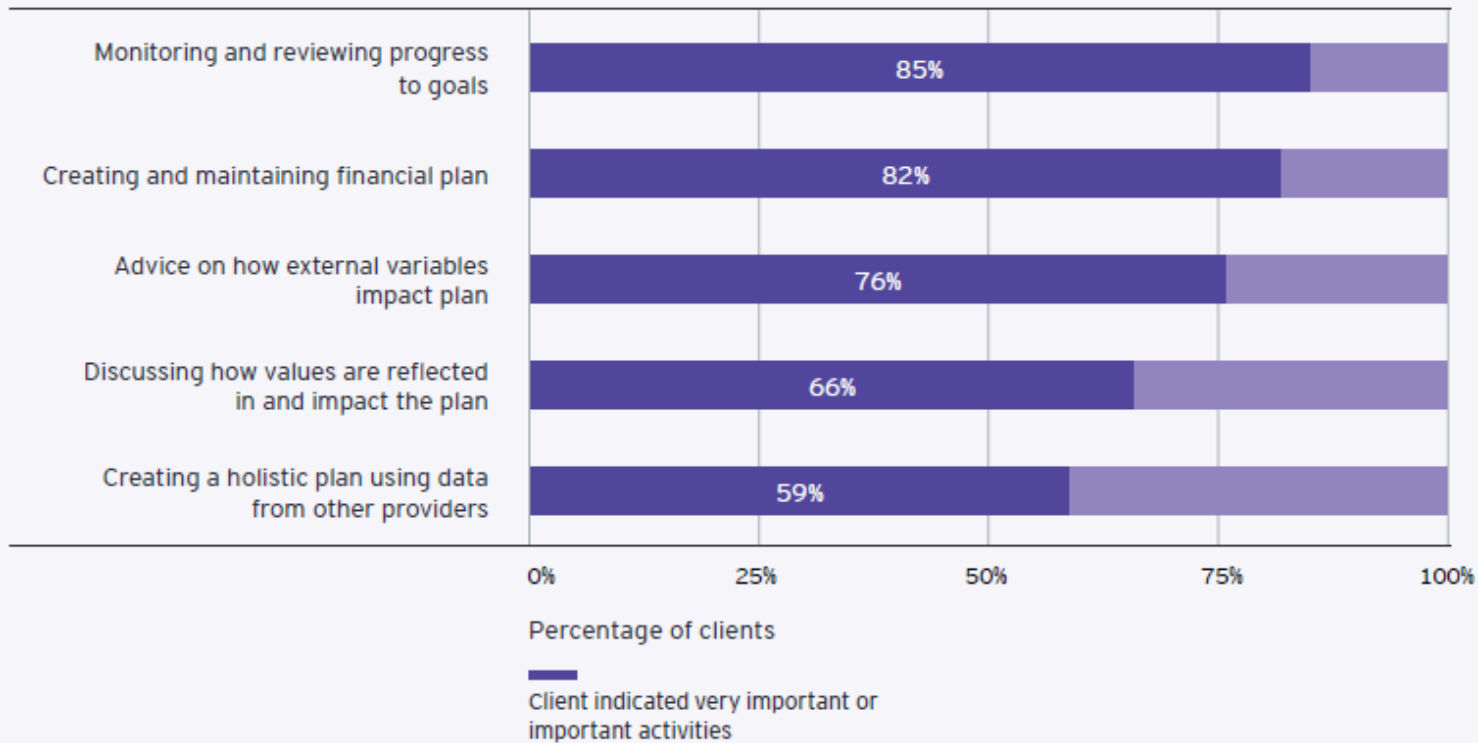
Percentage of portfolio

- 0%-25%
- 26%-50%
- 51%-75%
- 76%-100%

Millennial investors are more than twice as likely to switch (73%) than Boomers (29%)

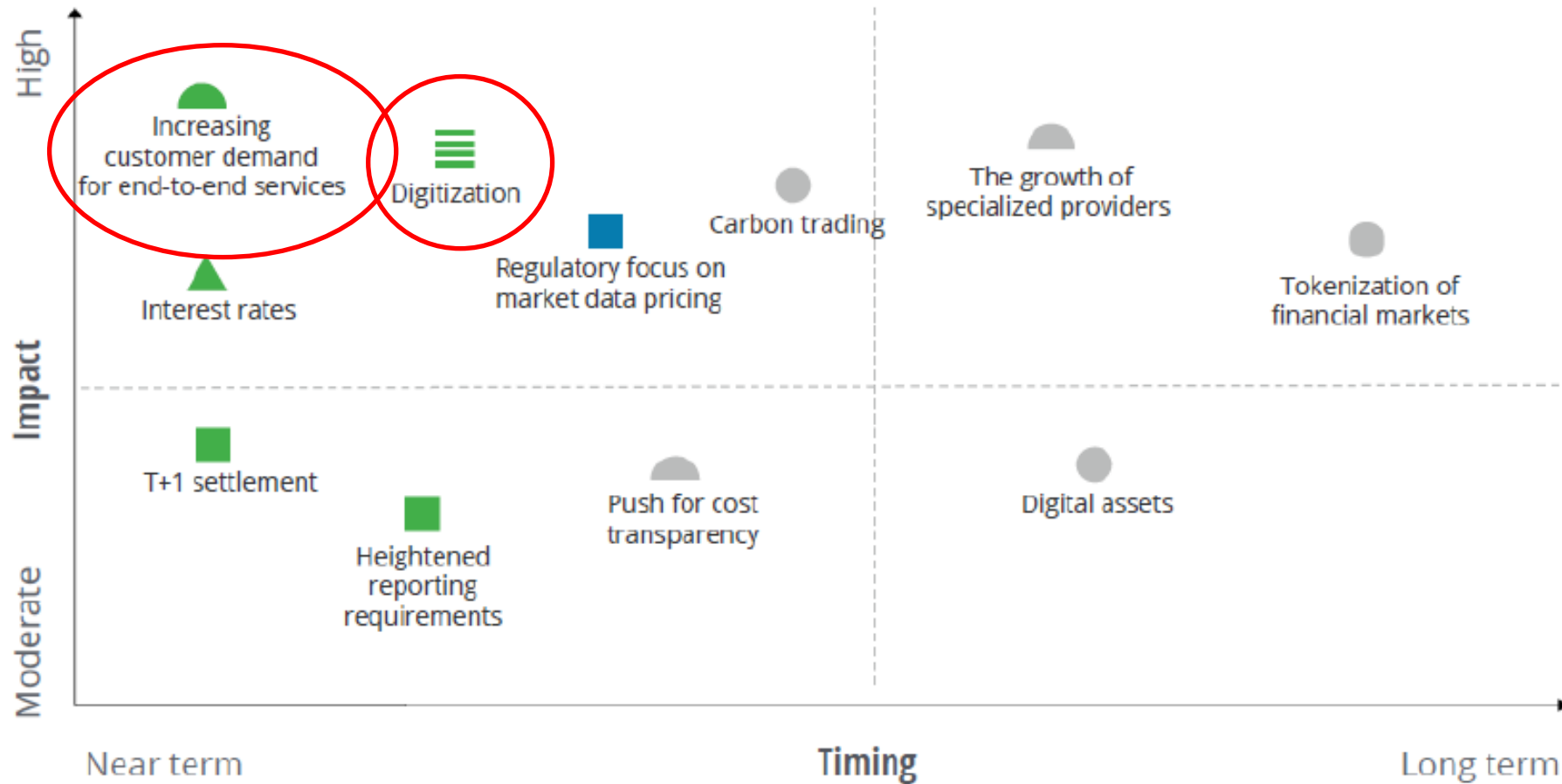
# Monitoring goals becomes increasingly important

Financial activities most important to clients



# Factors influencing the market infrastructure industry

■ Positive impact ■ Negative impact ■ Mixed impact



Source: Deloitte Center for Financial Services analysis.

# Developments Authority Financial Markets (NL)

MiFIDII, Europees, AFM FCA



Correct & complete information of investors

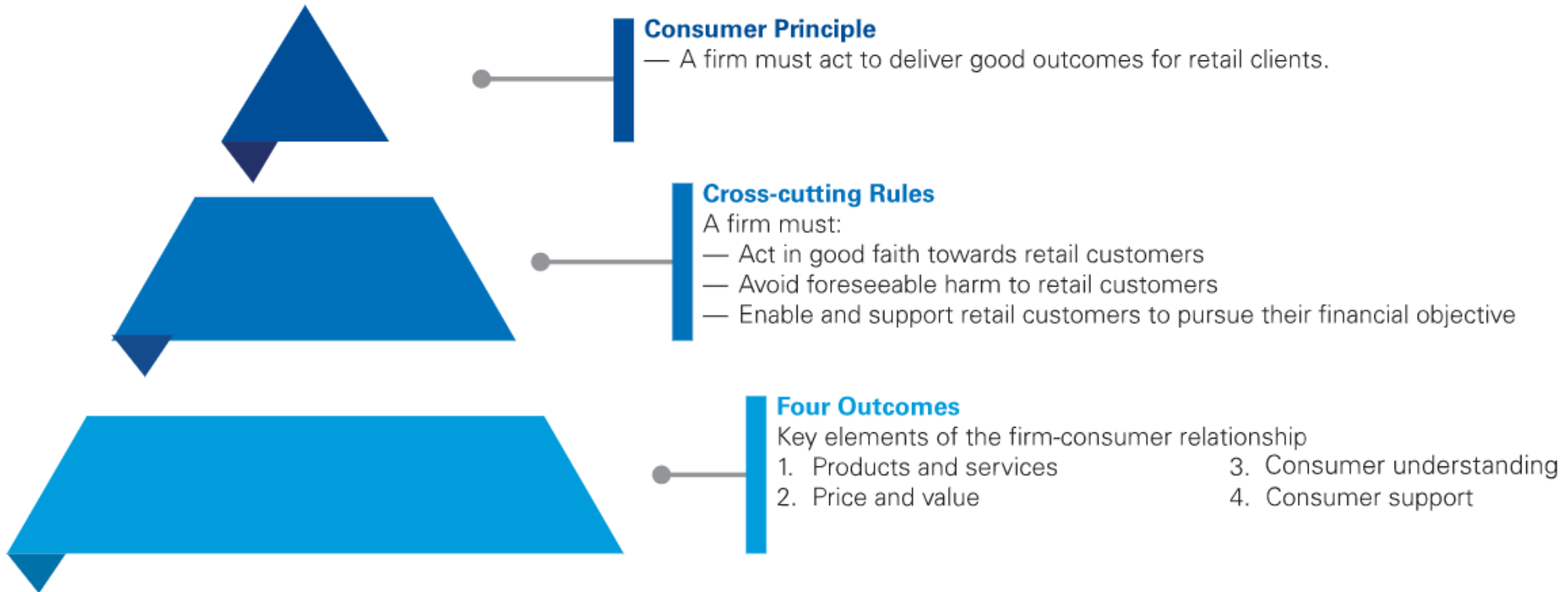
Realistic risk and return assumptions

ESG

Data quality

# Deliver good outcomes & avoid foreseeable harm (UK)

## The Consumer Duty



# What we do & who we are

We enable people to manage the complexity of investment decision making

Ortec Finance is a global technology and solutions provider



Mentimeter







# Q1

The questions we ask determine a risk profile on:

- a) Client-level
- b) Product-level
- c) The difference is not clear to me



## Q2

Are 'other' assets taken into account when determining a risk profile of an investment portfolio?

- a) Yes, other assets at own bank / organization
- b) Yes, also other assets at other banks / organizations
- c) No



## Q3

How do you use 'goals' when determining a risk profile?  
When answering, look at the most complex situation.

- a) 1 account, 1 goal
- b) 1 account, multiple goals
- c) Multiple accounts, multiple goals



## Q4

We inventorize the risk-questions in the following way:

- a) With advisor, without questionnaire
- b) With advisor, with questionnaire
- c) Online/digital, with questionnaire
- d) Other



## Q5

Is data exchanged between systems in which the investment decisions are made? For example, CRM systems, OPAL and portfolio management systems?

- a) Yes, between all (relevant) systems
- b) Partially
- c) No, we enter the data manually

# Research Papers



# Market situation, research implementation Suitability



## Pan-European Research: How is Investor Protection (MiFID II) implemented?

European practices around suitability

2021 | Tom Looen & Ronald Janssen

25 private banks in  
10 European countries



The current issue and full text archive of this journal is available on Emerald insight at:  
<https://www.emerald.com/insight/17506-1988.htm>

## Implementation of MiFID II investor protection provisions by private banks within the European Union

Tom Looen

School of Business and Economics, VU University, Amsterdam, The Netherlands, and

Ronald Janssen

Solution Owner Goal Based Planning, ORTEC Finance, Rotterdam, The Netherlands

MiFID II  
investor  
protection  
provisions

Received 23 October 2020  
Revised 11 March 2021  
Accepted 11 March 2021

### Abstract

**Purpose** – With the introduction of the Markets in Financial Instruments Directive (MiFID), financial institutions are faced with many investor protection requirements. This paper has a major impact on the day-to-day operations of private banks, which provide investment services predominantly small- or non-professional investors. The purpose of this paper is to determine the actual provisions regarding investor protection with respect to suitability implemented with in private banks.

**Design/methodology/approach** – Interviews with 25 representatives of private banks from 10 different European Union (EU) member states, the researchers have determined how these provisions are fulfilled and associated risks mitigated. Mapping out the suitability requirements of MiFID and comparing them with how these have been implemented, we arrive at the question of whether this leads to a level playing field and investor protection by different private banks.

**Findings** – Although MiFID is trying to achieve a level playing field between the EU member states, this study shows that this has not been achieved in all areas. Investor protection requirements from MiFID are interpreted and operationalized differently. Although these differences are sometimes small, sometimes they are larger and affect the way the investor is served and suitability determined.

**Originality/value** – This research provides a unique insight into the way private banks in Europe have implemented the MiFID II requirements and gives insight into best practices. For the future, this research can serve as a guide to in-depth follow-up research on the implementation of EU provisions.

**Keywords** – MiFID II, Private banks, European union, Investor protection, KYC, Effectiveness, Suitability, Investment

**Paper type** – Research paper

### Introduction

The Markets in Financial Instruments Directive 2014/65/EU (commonly referred to as “MiFID II”) undeniably plays an important role in the day-to-day business of banks servicing investors in the European Union (EU). This European directive is in service of the pursuit of a minimum standard within the EU focussing on strengthening investor protection leading to lower prices for retail services and a reduction in the traditional home bias (and poor diversification practices) shown by retail investors in selecting products and services (Heinemann and Jopp, 2002).

Authors would like to thank the private banks for their participation and Loes Meesters for her assistance.



Journal of Financial Regulation  
and Compliance  
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DOI: 10.1108/JFR-03-2021-0001

## Inconsistent risk profiles within pan-European private banks: Insufficient transparency for retail investors

Date:

### ABSTRACT

The Markets in Financial Instruments Directive (MiFID) must protect retail investors and increase risk transparency. To disclose and mitigate investment risks effectively, banks use standardized risk profiles. Through a scenario-based case study, we demonstrate that based on future risk-adjusted returns and volatility, these risk profiles of pan-European private banks significantly differ. Even though MiFID is not subject to bandwidth restrictions, differences could interfere with risk transparency and lead to significant differences in the risk, return and managed expectations of clients due to profile overlap. This study uses the risk profiles of twelve pan-European private banks. We found significant non-equality among three rebalancing strategies: buy-and-hold, yearly rebalancing, and bandwidth rebalancing. The impact of broader bandwidths in the rebalancing strategy results in a significantly higher return and return for investors due to greater flexibility in equity weights. Consequently, this study presents inconsistencies in private banks' risk profiles. Future regulations should address and reconstitute guidelines to mitigate risk discrepancies. The difference in risk and return within the pan-European private banks creates a lack of transparency and does not contribute to investor protection envisaged by MiFID.

**Keywords:** MiFID II, risk profile, Sharpe ratio, volatility, private banking, bandwidth

**JEL:** G21, G28

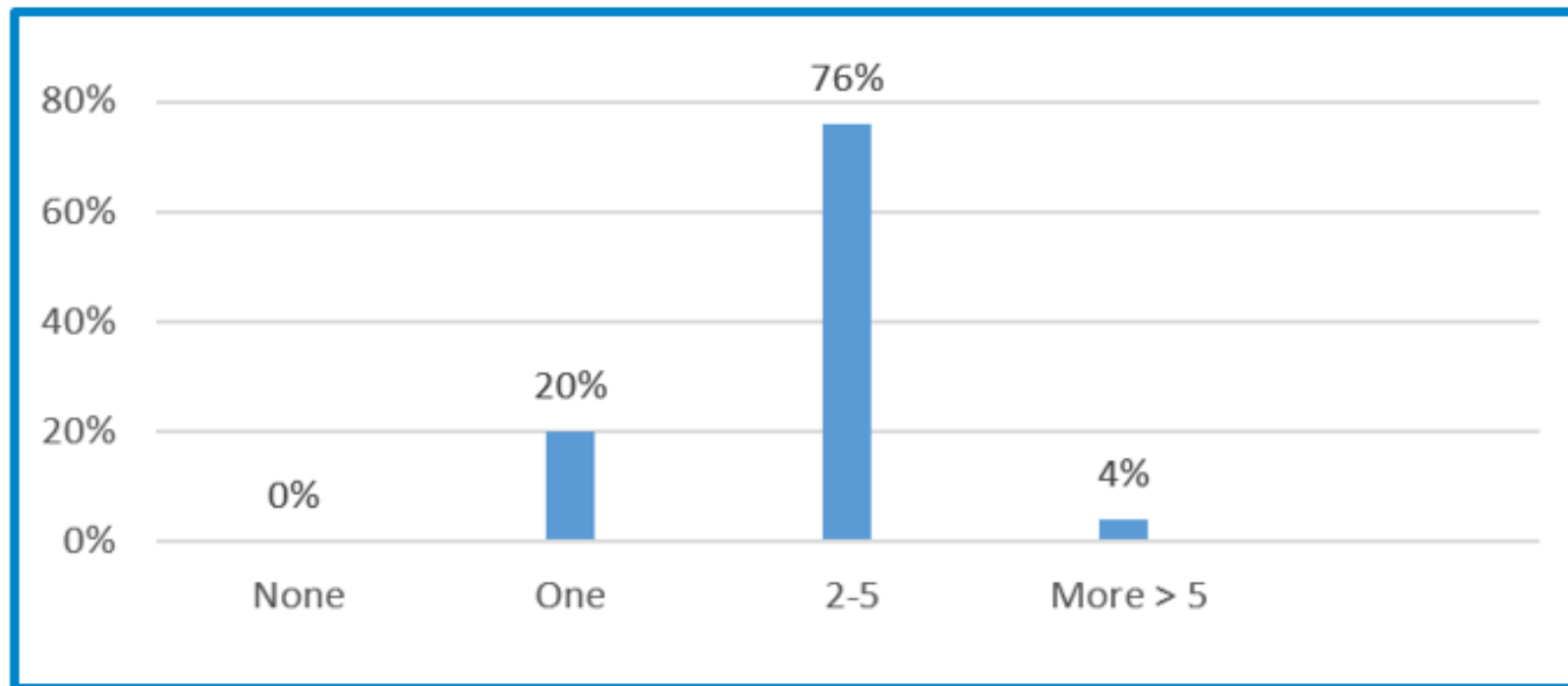
### Highlights

- Due to different strategic asset allocations and portfolio weights, risk profiles used by pan-European private banks are inconsistent in terms of risk-adjusted returns and volatility.
- The risk profiles used by pan-European private banks are inconsistent in terms of risk, measured as volatility. This is due to the differences in the weight of riskier assets, like equity, in the portfolio.
- The impact of wider bandwidths of riskier assets in a rebalancing strategy makes it more difficult to manage the expectations of investors because both expected risk and return can differ significantly. Even more so as retail investors have often insufficient understanding of investment-related information. The same seems to apply for mandated disclaimers.



# Intake KC & digitization

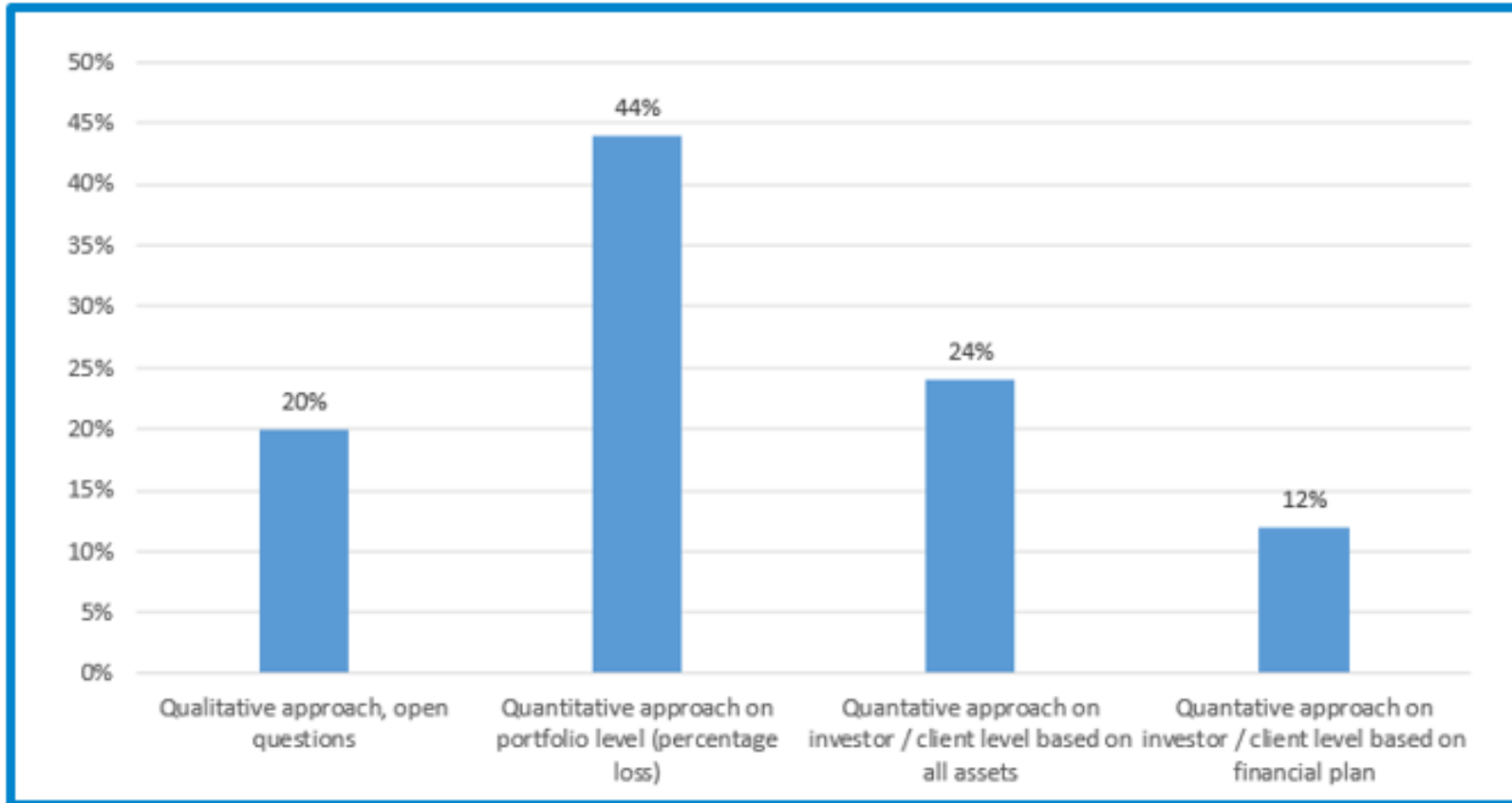
**Insight into the expected number of objectives of an investor  
=> Everybody has one or more financial objectives!**





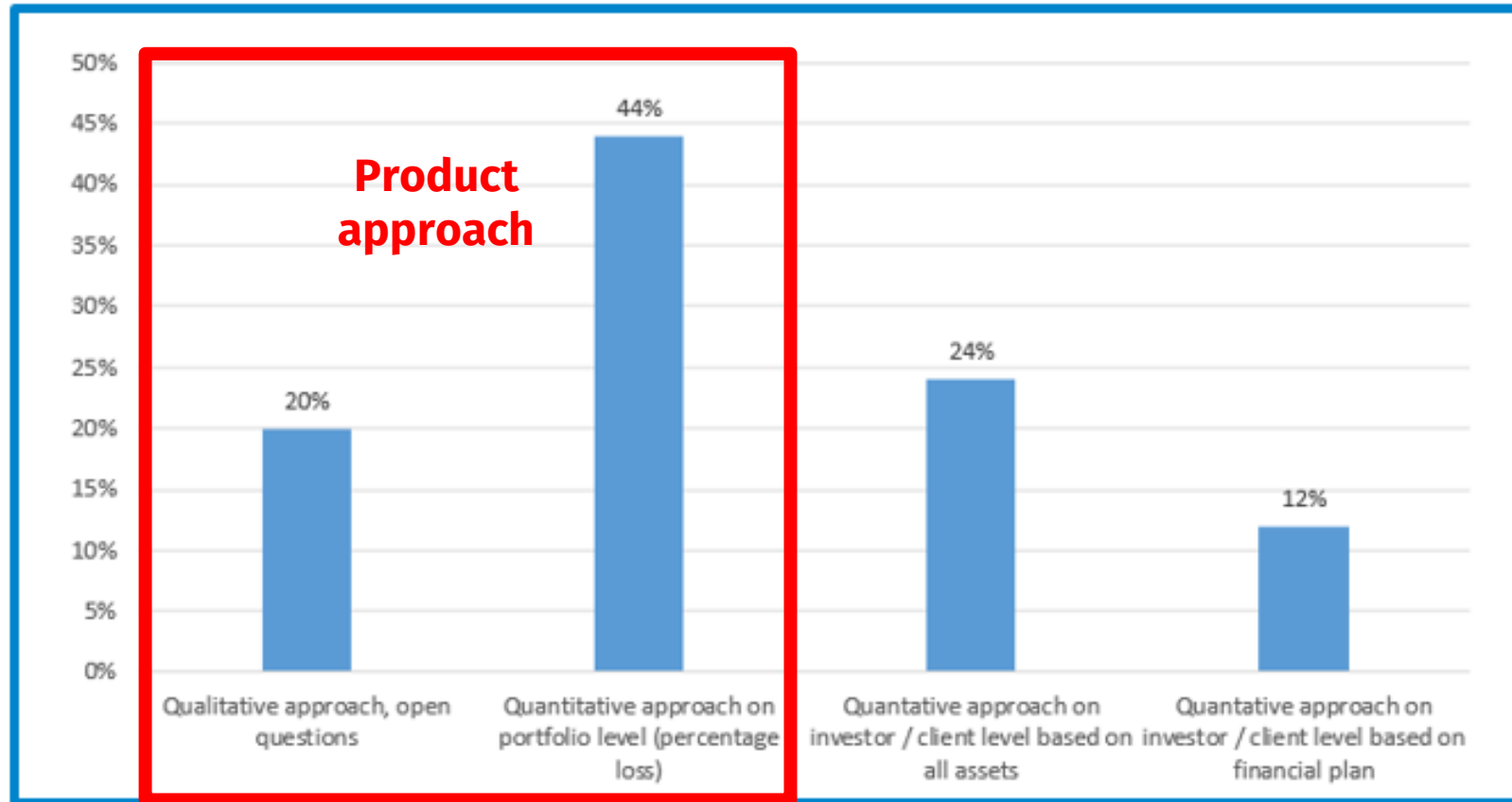
# Quality riskprofiling & suitability

## Different approaches to determine ability to bear losses



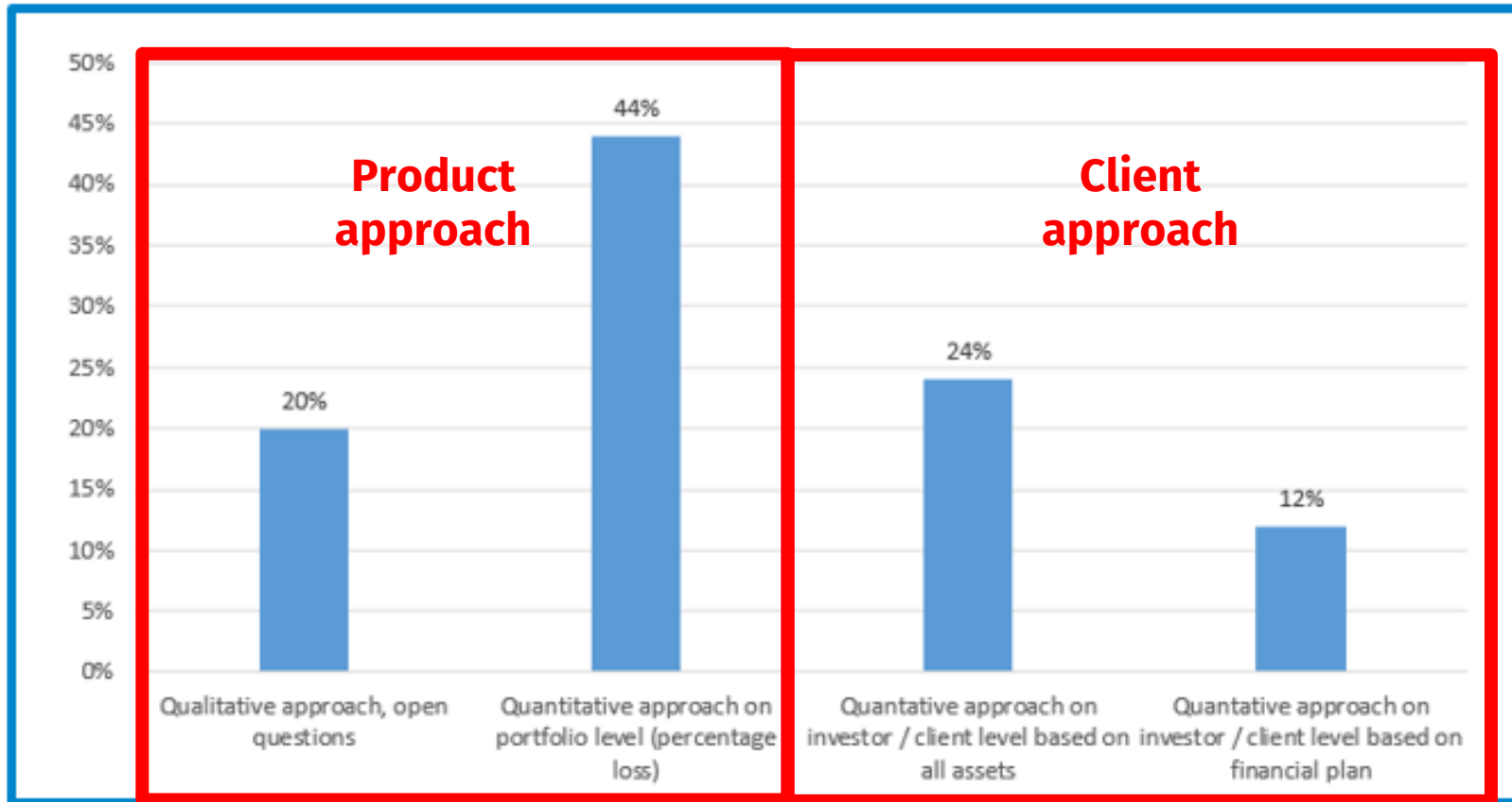
# Quality riskprofiling & suitability

## Different approaches to determine ability to bear losses



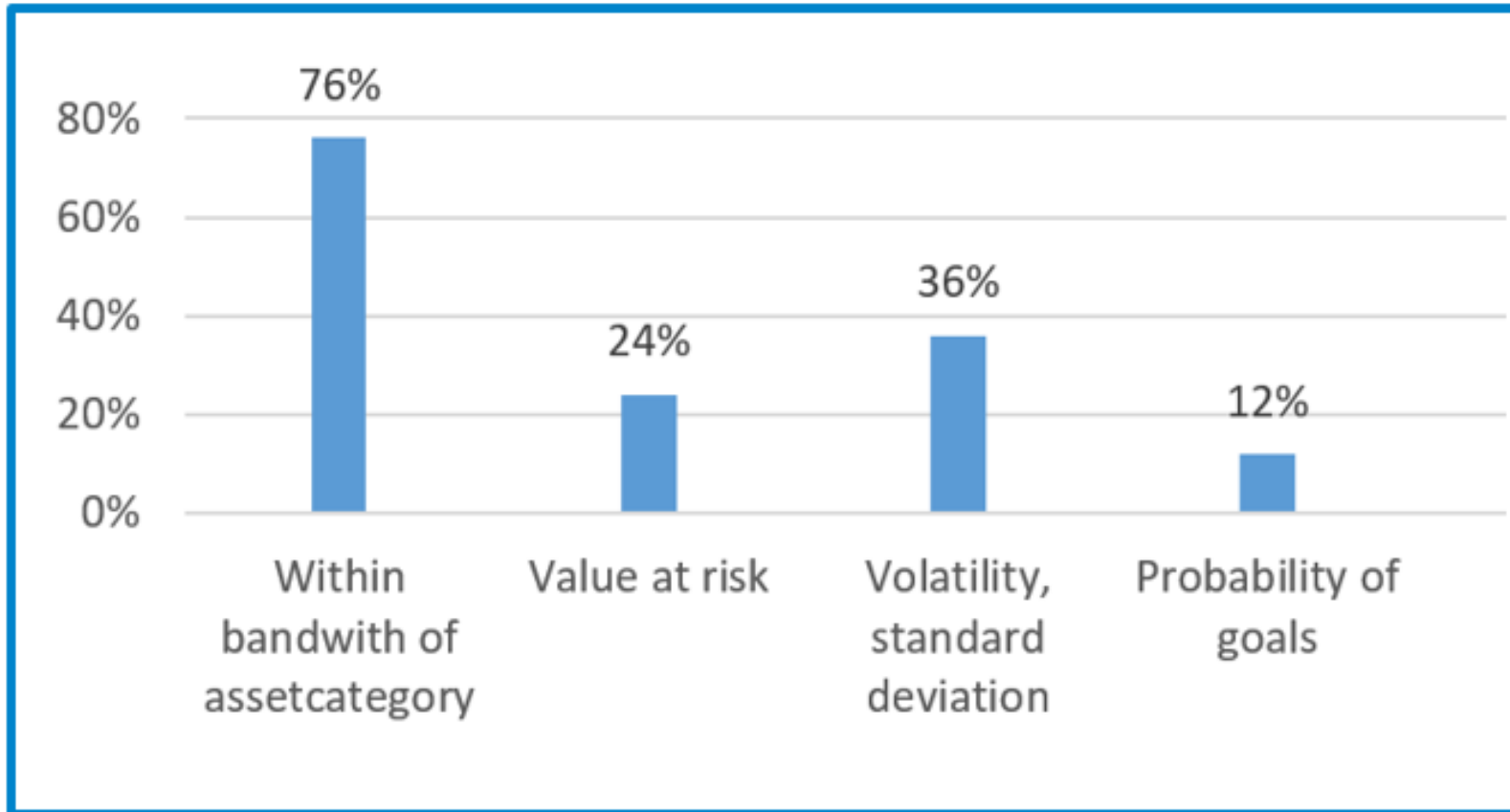
# Quality riskprofiling & suitability

## Different approaches to determine ability to bear losses

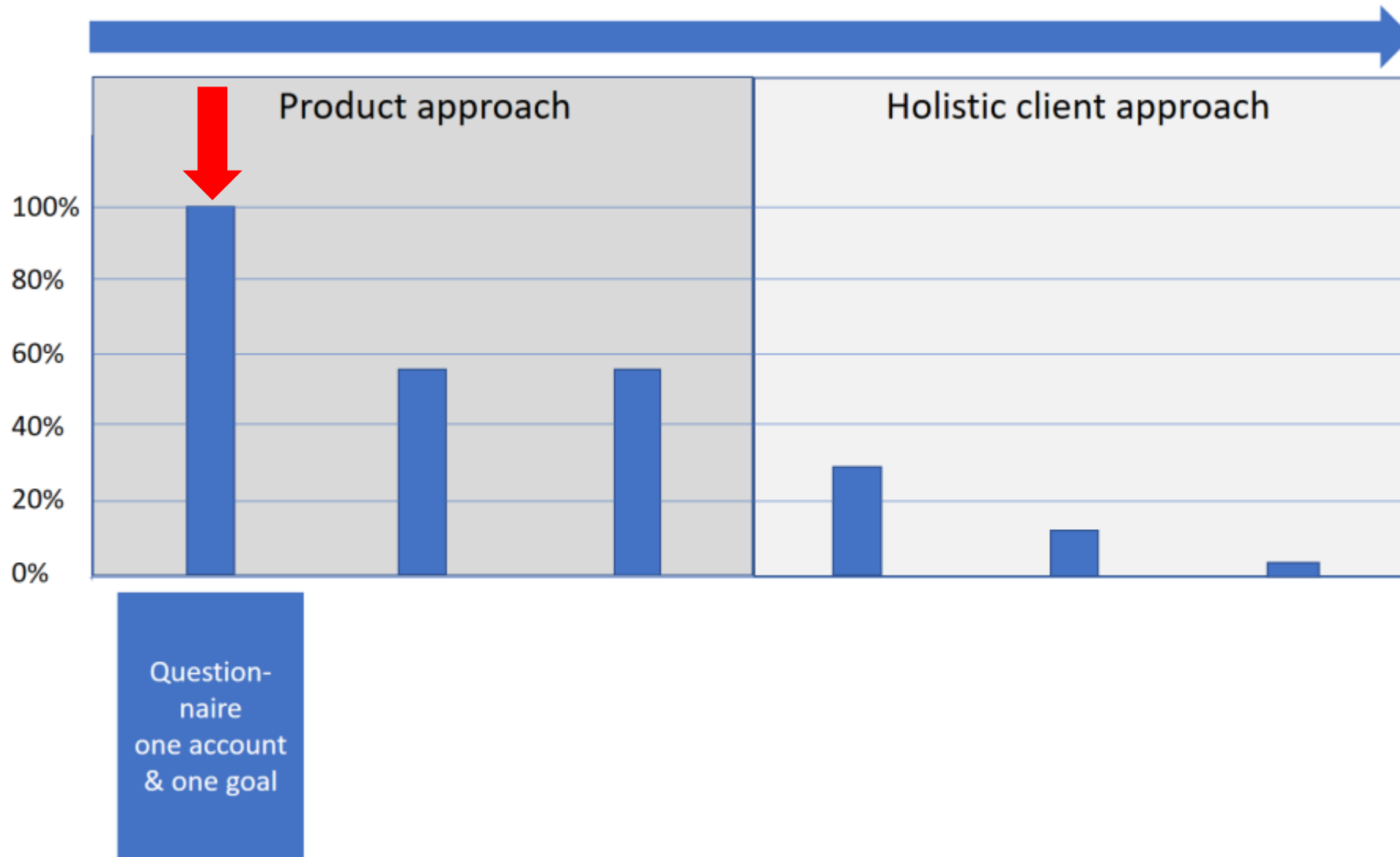


# Risk management

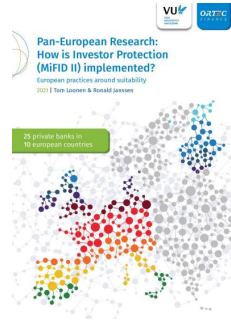
## Approaches to monitor risk of portfolios and objectives



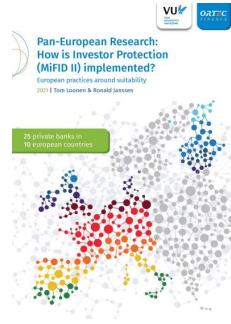
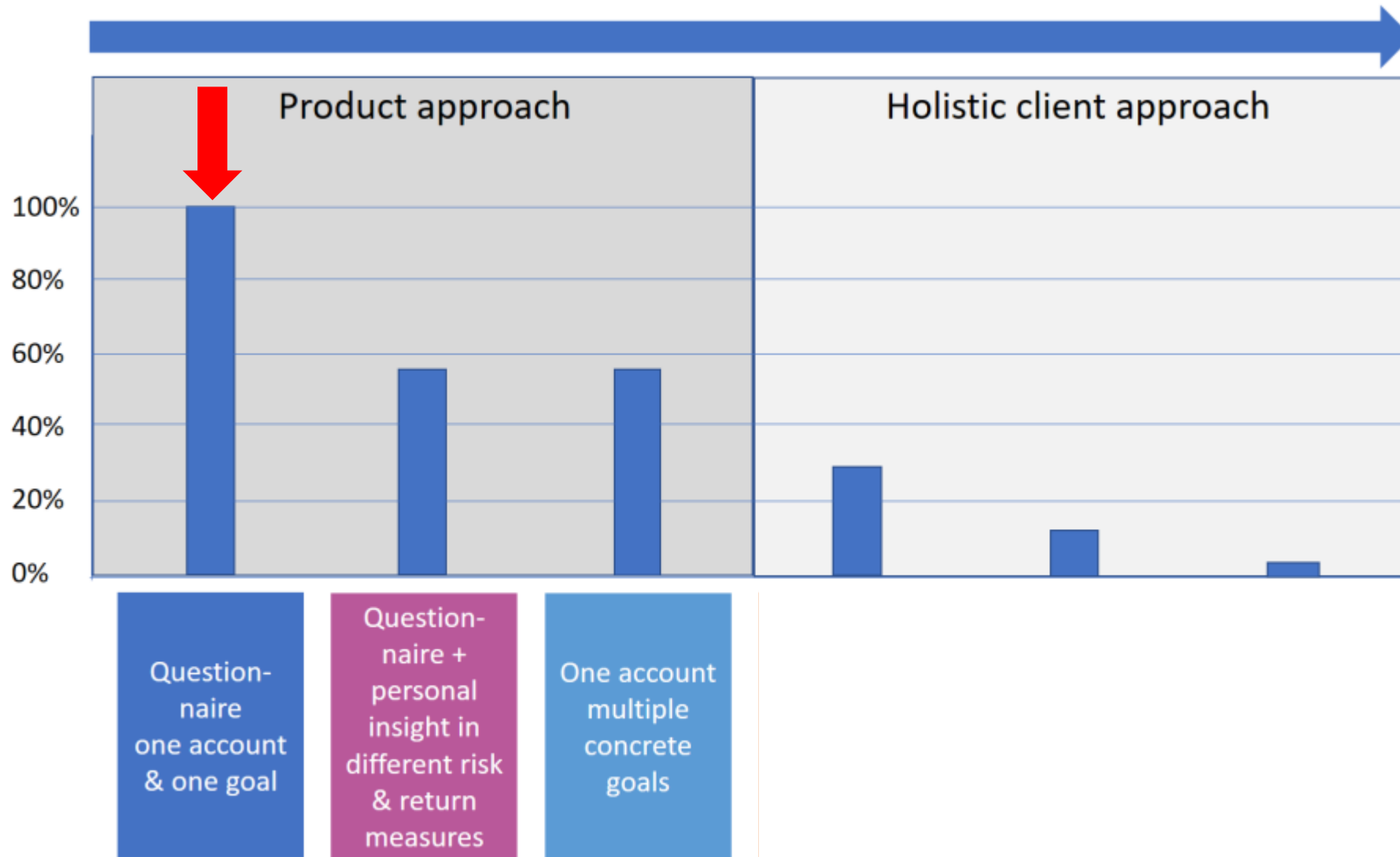
# Different stages in riskprofiling



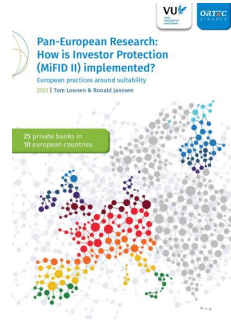
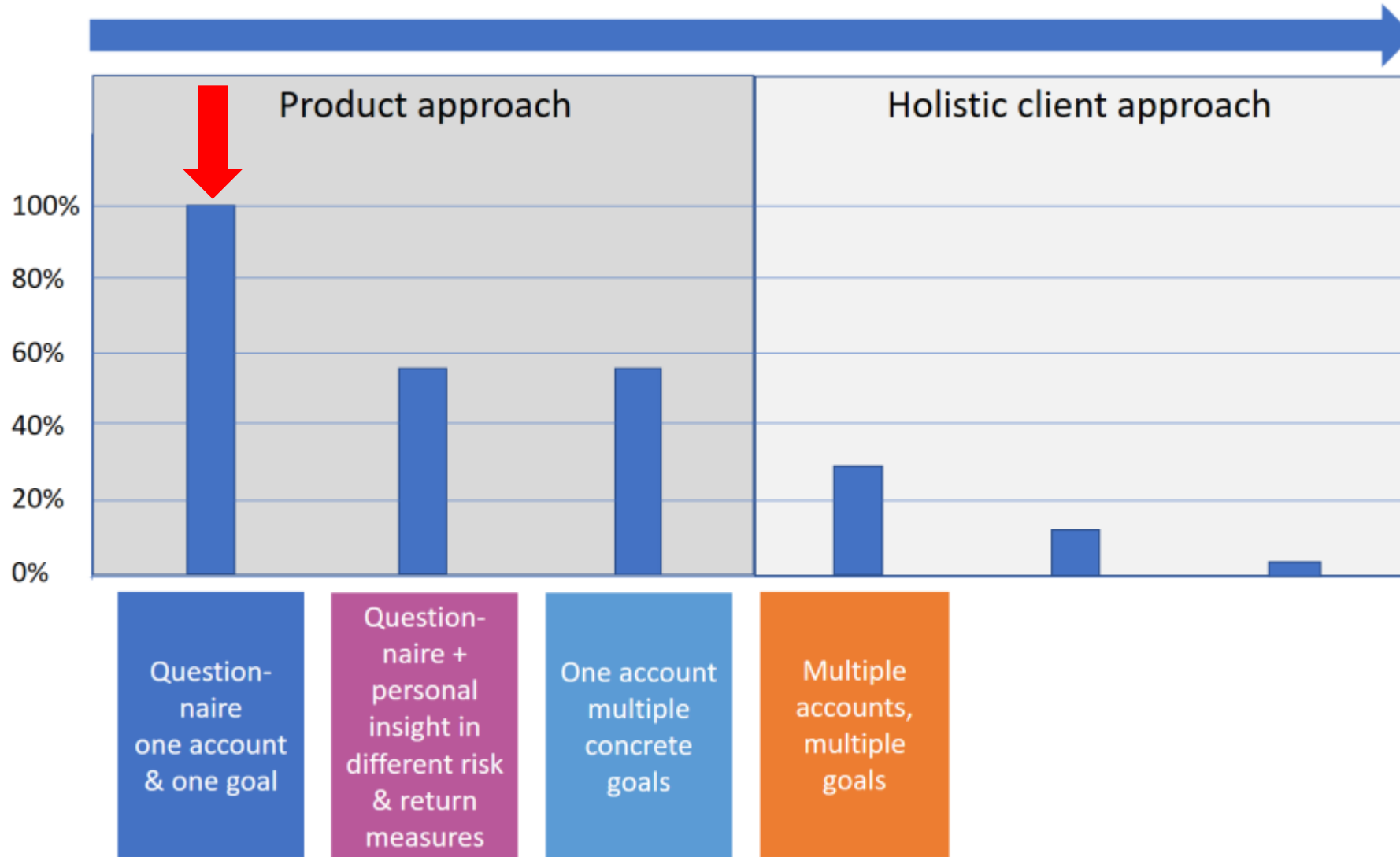
# Different stages in riskprofiling



# Different stages in riskprofiling

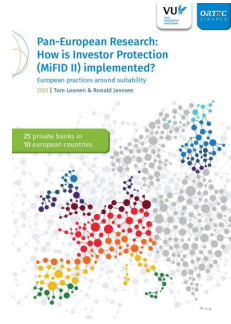
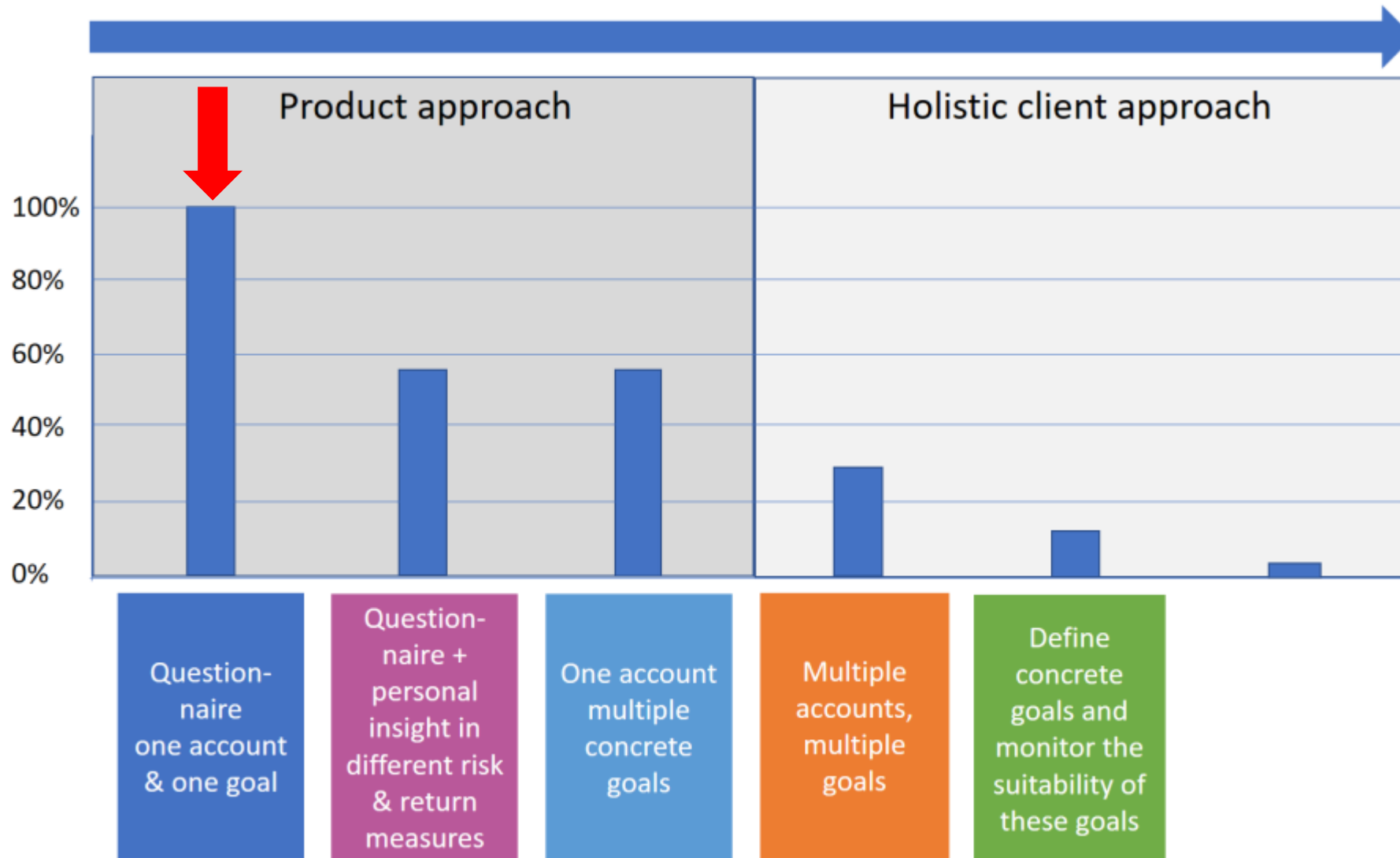


# Different stages in riskprofiling

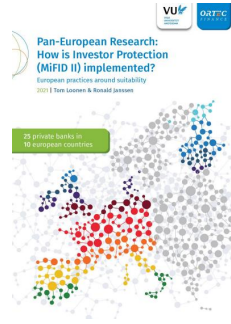
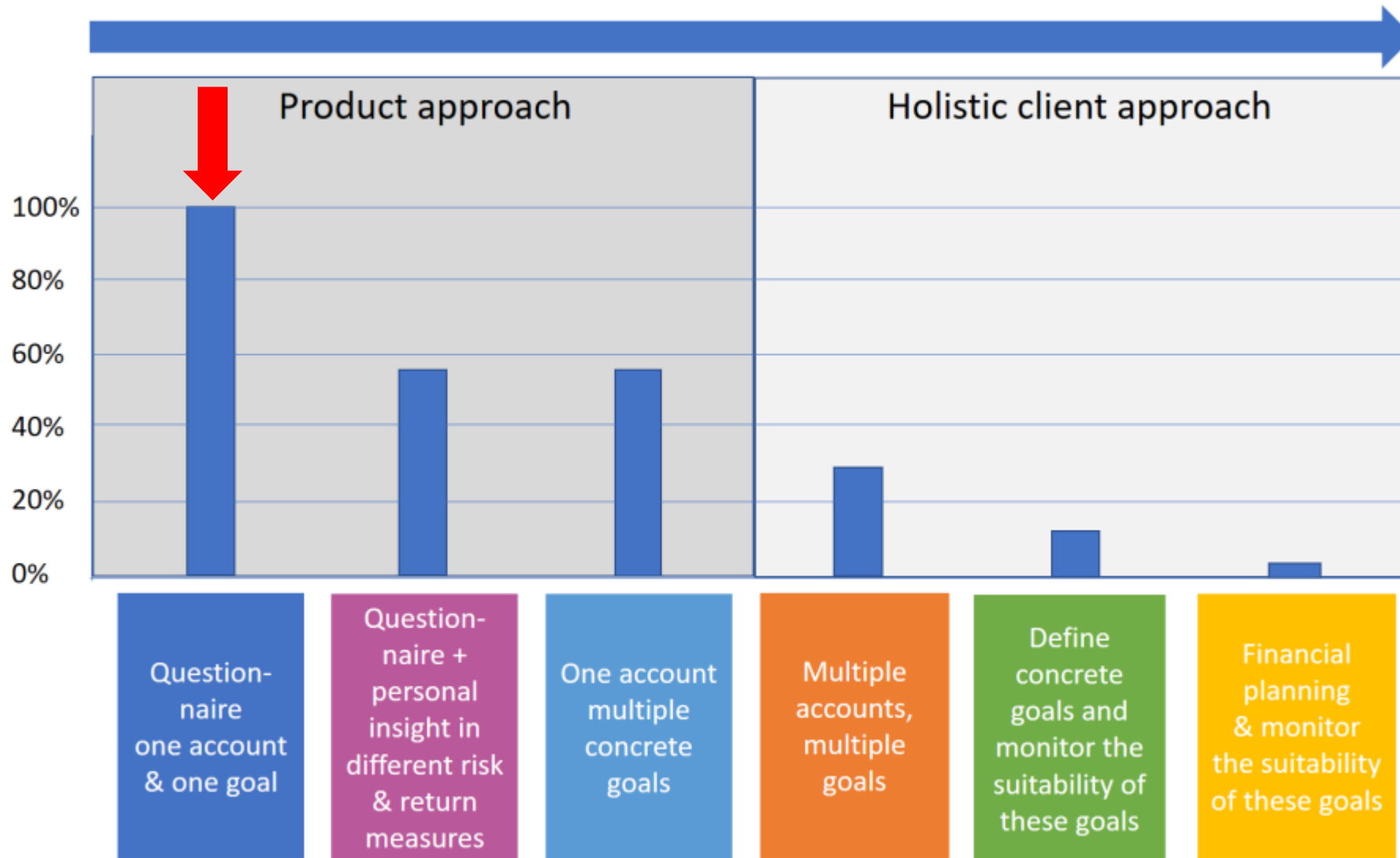




# Different stages in riskprofiling



# Different stages in riskprofiling



Goal of next level suitability



Why?

# Suitability by design!

Efficiency



Digitization



Regulation



Manage more clients



Deliver more value-add per client



Integrated advisor-client experience



Seamless integration with multiple platforms and add scale



Suitability



Monitoring products and goals

# Suitability Framework 2.0

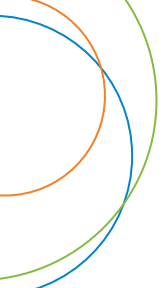




# Suitability framework 2.0

Client level

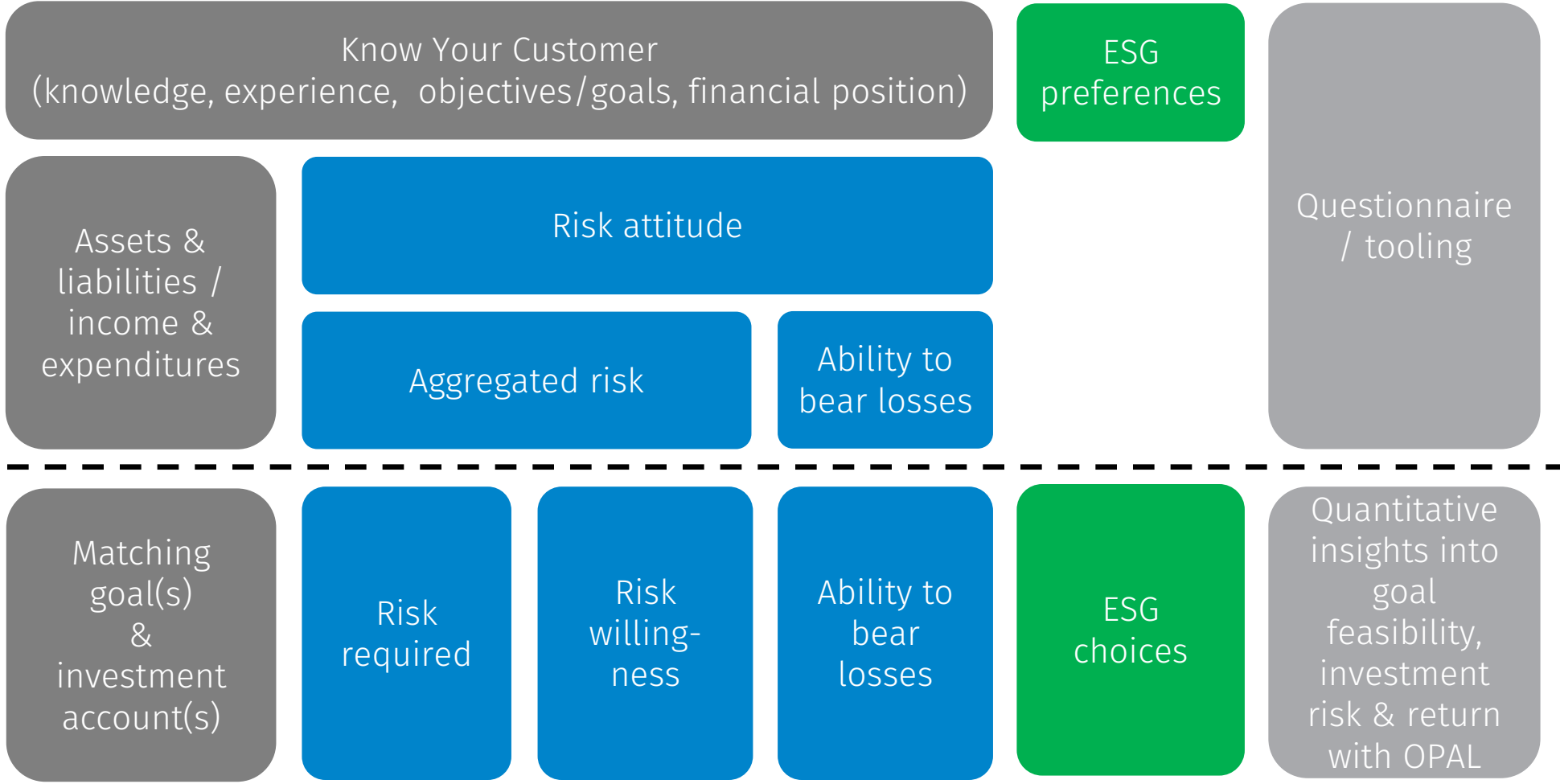




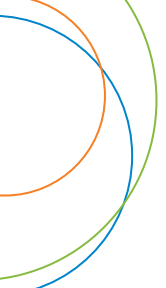
# Suitability framework 2.0

Client level

Product level

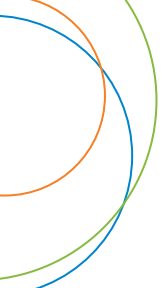


# Suitability framework 2.0

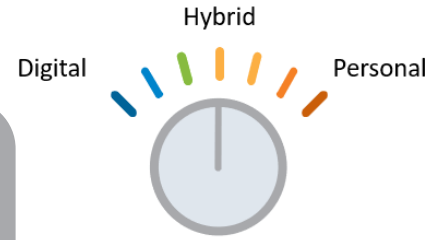


- **Risk attitude:** risk preference of the client independent of goals
- **Risk willingness:** risk a client is willing to take in relation to the goal(s)



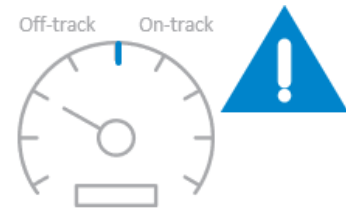


# Suitability framework 2.0



What can be done by the **client**?  
What will be done by the **advisor**?

**Monitoring:**



Know Your Customer  
(knowledge, experience, objectives/goals, financial position)

ESG preferences

Questionnaire / tooling

Client level

Assets & liabilities / income & expenditures

Risk attitude

Aggregated risk

Ability to bear losses

Product level

Matching goal(s) & investment account(s)

Risk required

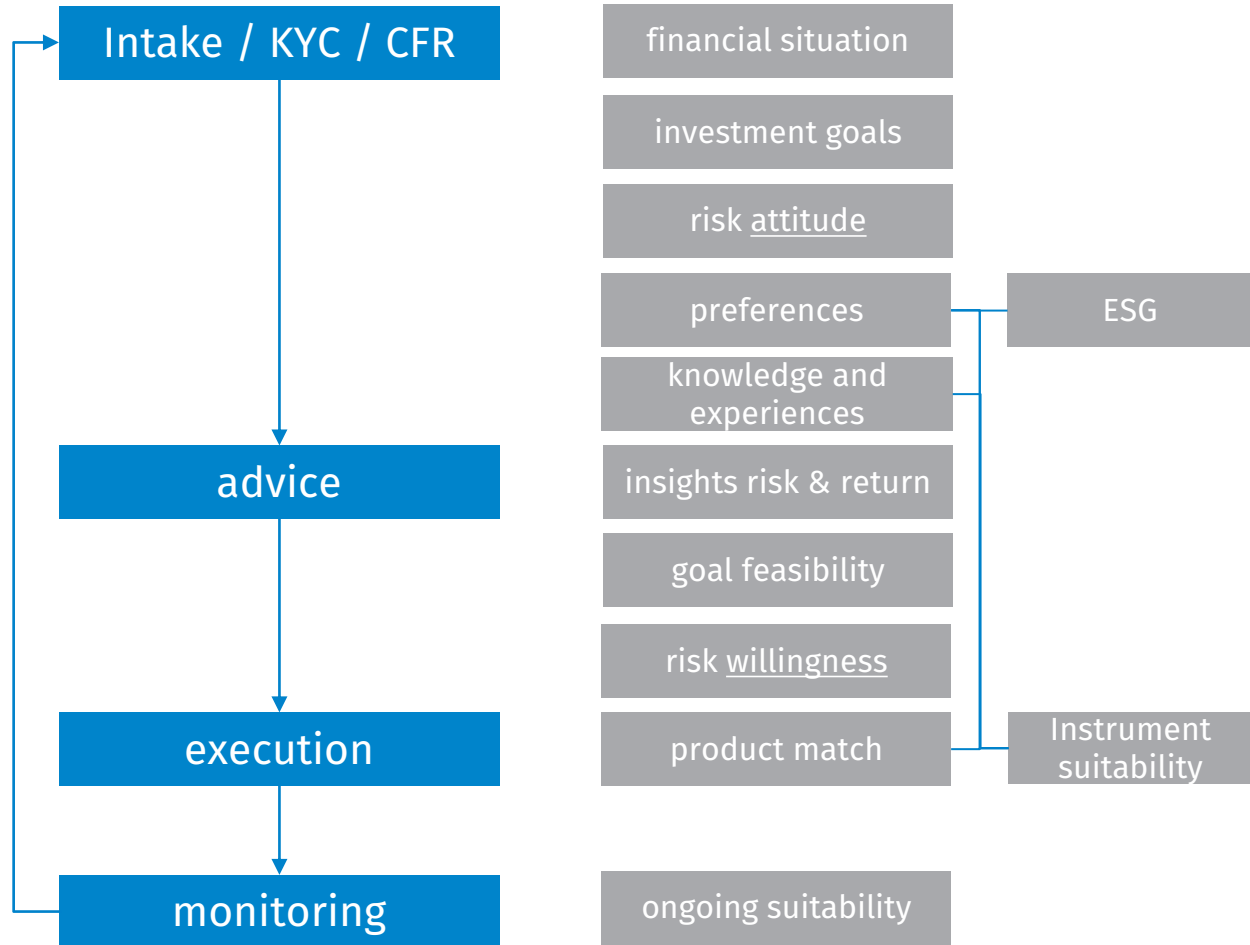
Risk willingness

Ability to bear losses

ESG choices

Quantitative insights into goal feasibility, investment risk & return with OPAL

# Process Suitability Framework 2.0



What can be done by the advisor, and what can be done by the client?

# OPAL examples

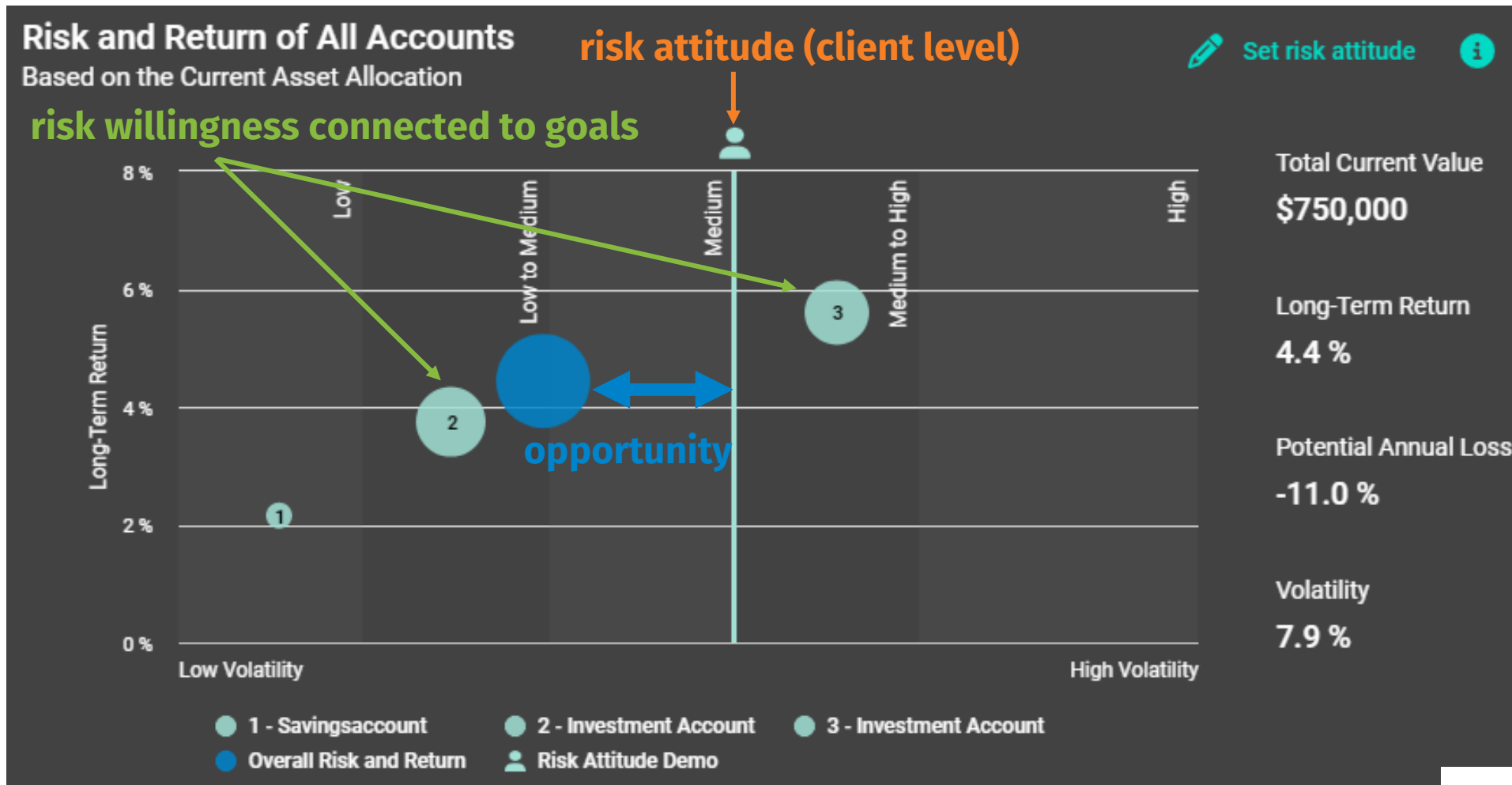


# Example: Client level => Risk attitude

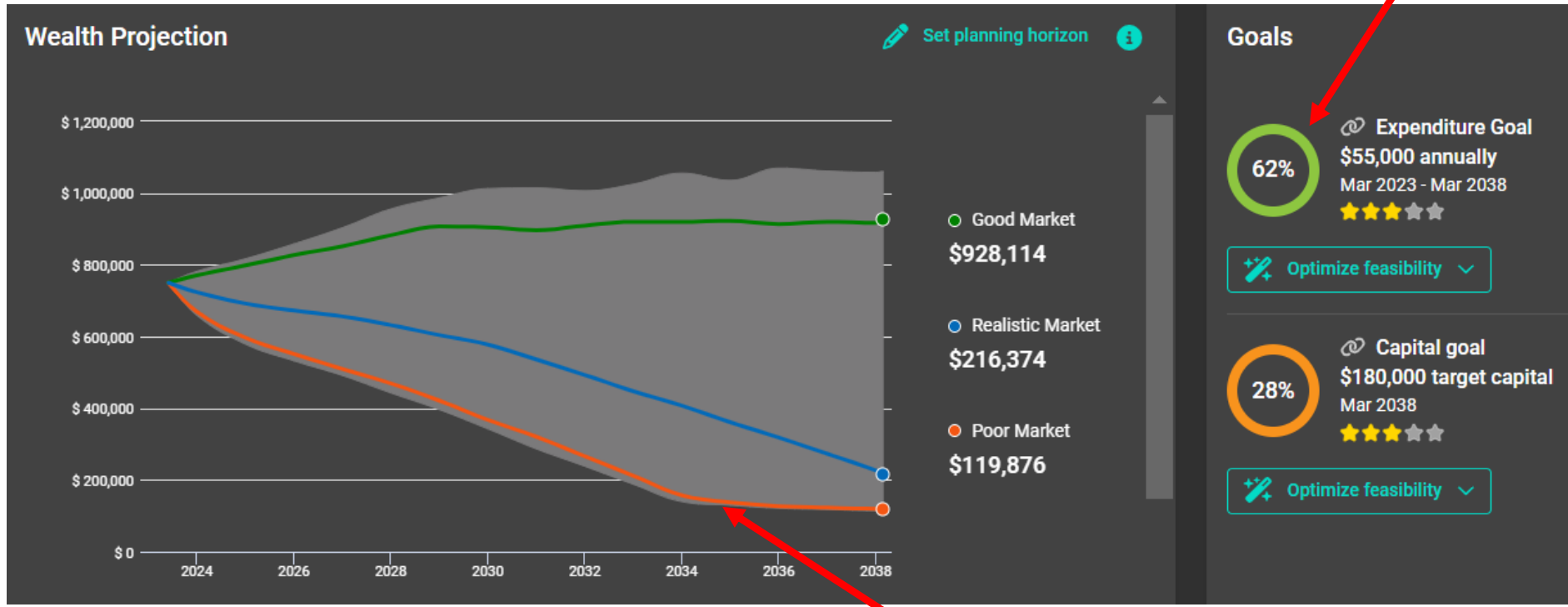
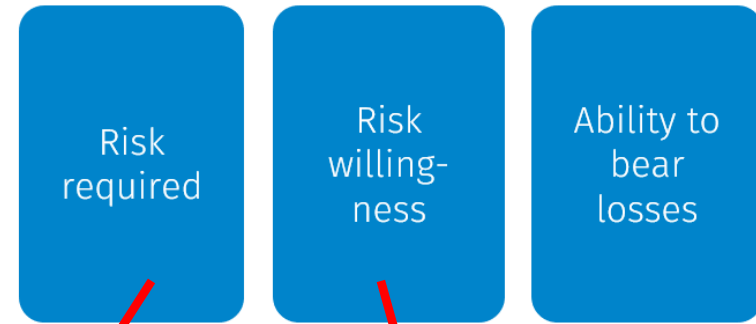
Difference between on product/goal level and on client level

Risk attitude

Aggregated risk



# Example: Product / portfolio level => Risk willingness

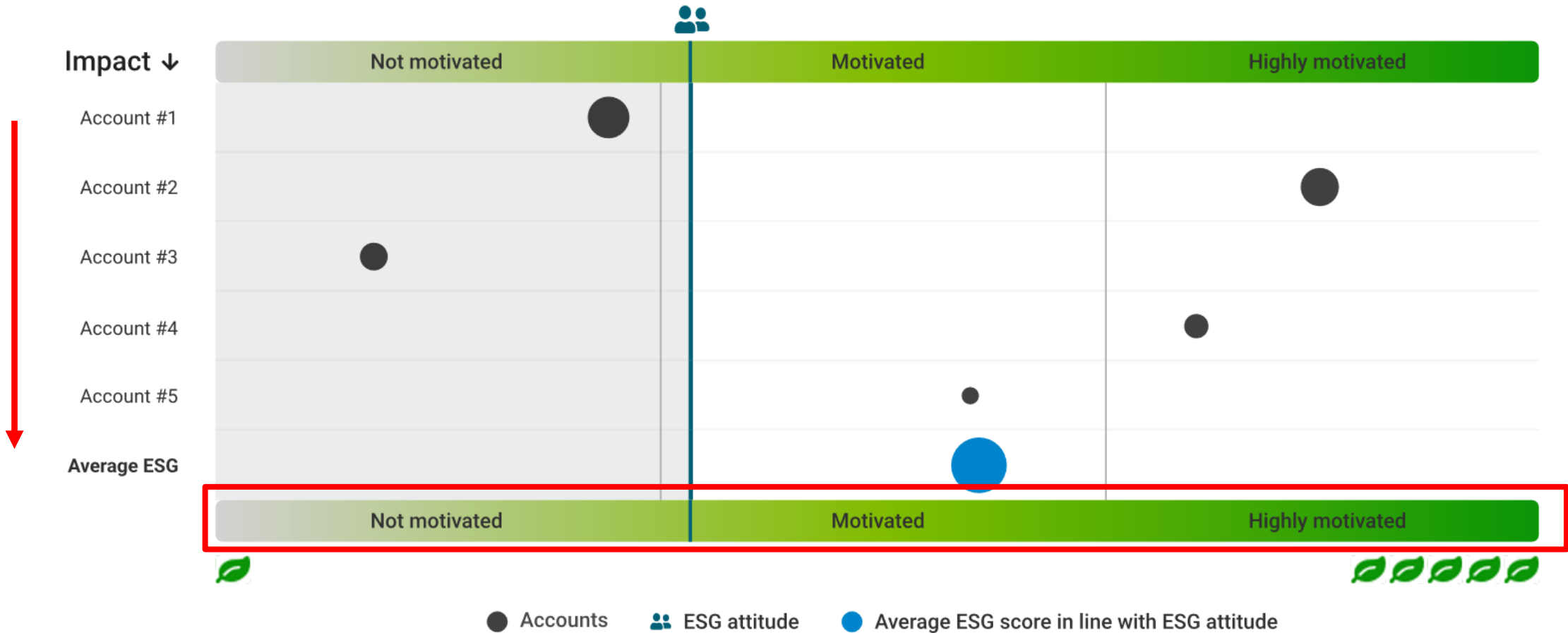


Goal feasibility  
Short term risk  
Long term risk

# Example: ESG Communication

ESG Preferences indication

ESG score



# Example: ESG Communication

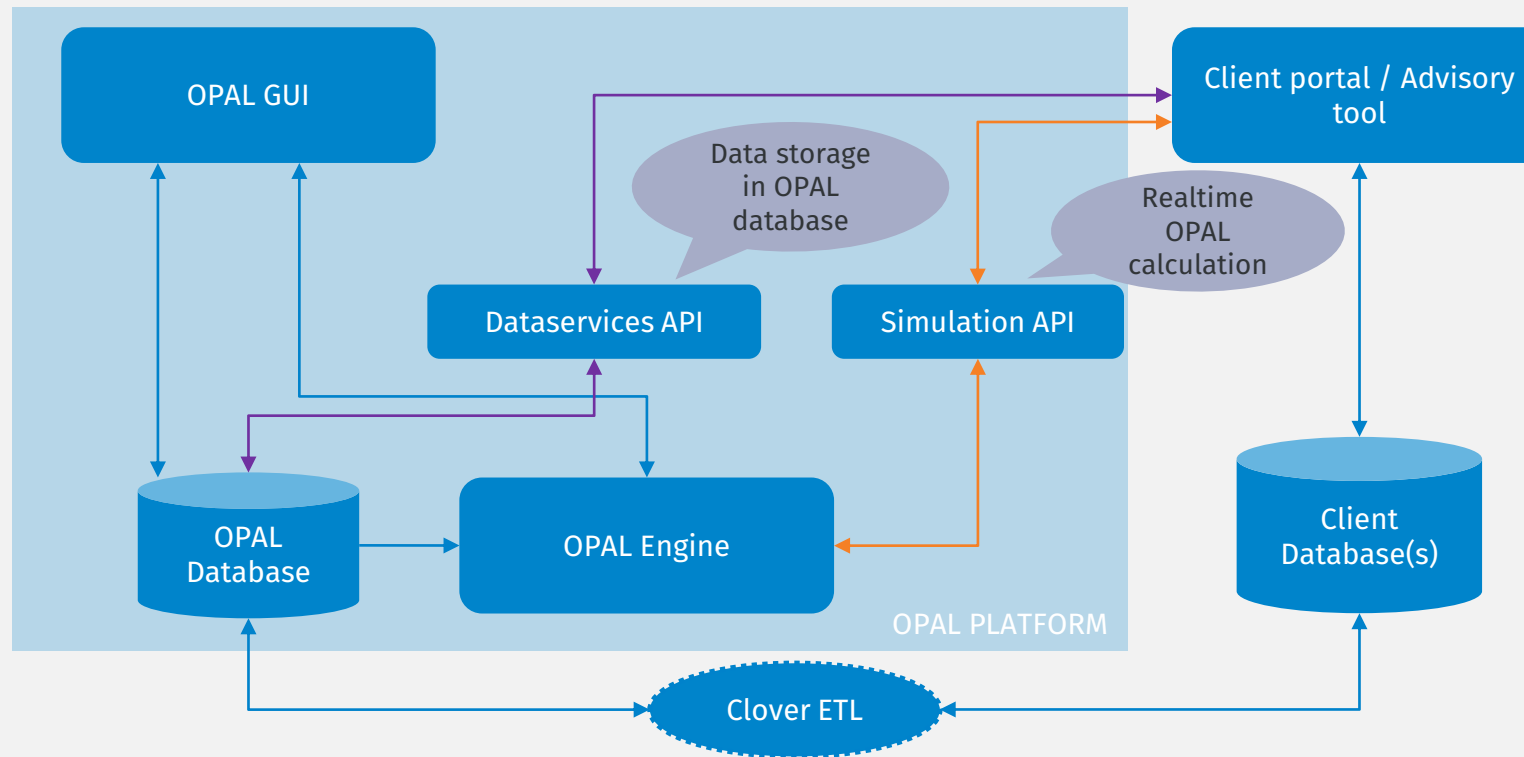


What's next?





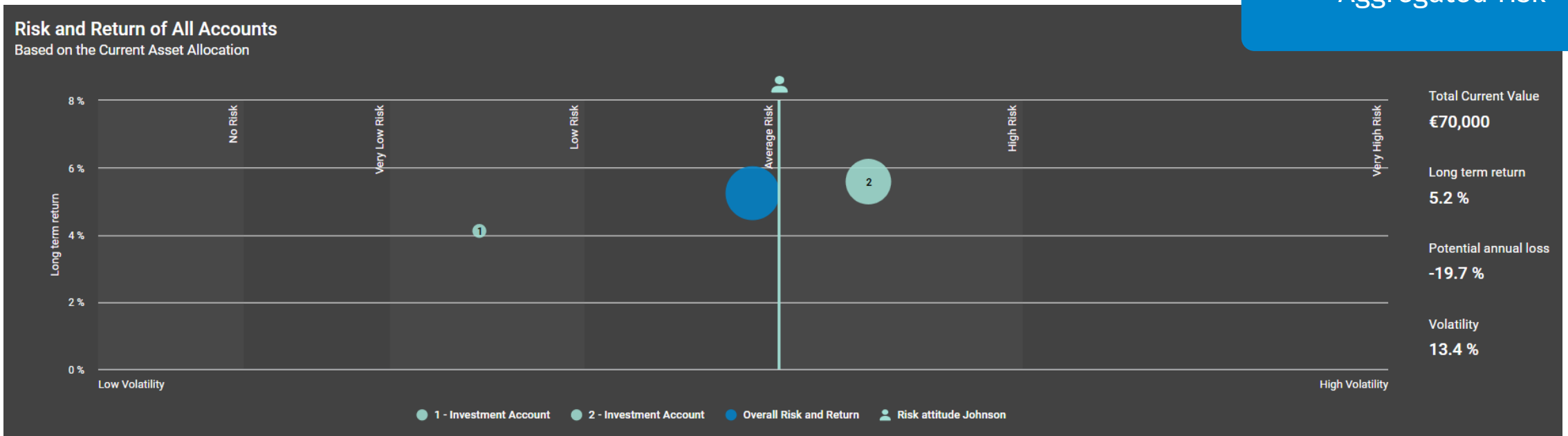
# Efficient data usage in suitability process



# Regulations in the coming years

- Goals of your **client**
- Financial position of your **client**: ability to bear risk
- Risk attitude of your **client**: what is the risk preference
- Relation between the objectives of your **client** and the risk attitude

Aggregated risk





# Why improve the quality of the Suitability process?

Holistic  
approach

A solid process for the analysis of 1 and multiple accounts and goals

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Client  
understanding

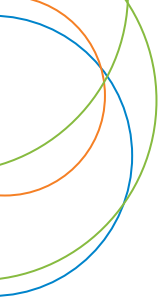
of the choices clients make regarding risk

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Monitoring

the choices that clients make, more efficiency and control

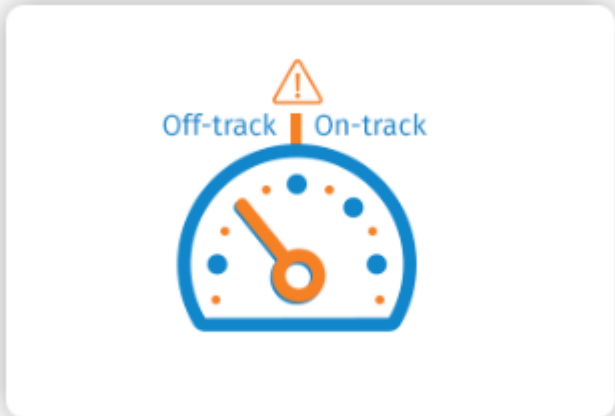
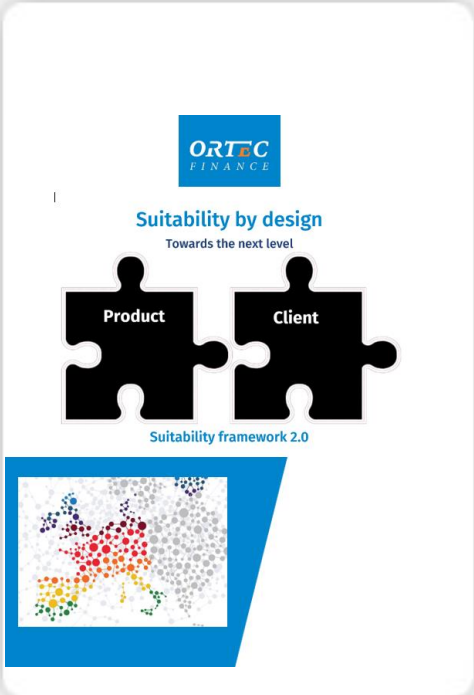
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# Thank you!

We **support** organizations with our Suitability Framework 2.0. & **help improve** the **process** of Suitability.

Contact your account-manager for a **brainstorm-session** and/or send an e-mail to get the **whitepaper**.



Thank you!

