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STUDY OF THE RULES IMPLEMENTED BY BANKS FOR MATCHING CLIENT PROFILES WITH PRODUCTS AS PART OF AN INVESTMENT ADVISORY SERVICE

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Study of the rules implemented by banks for matching client profiles with products as part of an investment advisory service

SUMMARY

Compliance with the requirements of MiFID 2 has required significant investment by investment services providers (ISPs) in their information systems. The "management rules" introduced have automated client profiling and the suitability and verification tests carried out to ensure that a client's profile is consistent with the target market for the products being recommended.

This study looks at the processes implemented by banks to ensure that their investment advisory services are suited to their clients' profiles.

The objective of this study is not to check whether these processes comply with the regulations, but to understand how institutions have implemented these rules and gauge the impact these rules have had on the range of financial investments offered to clients.

It is the findings from this work that are presented in this document.

The main finding is that the management rules introduced by the banks that were surveyed do not have a negative impact on the diversification of clients' savings.

The tools implemented differ from one institution to another. They all recommend, to varying degrees, the diversification of clients' savings into risky assets. They do this by issuing guidance that is applied to the client's financial assets by setting an average target risk level, often combined with a typical asset allocation.

Another finding is that, by using the guidance provided by the tools and taking into account all the information regarding their clients' objectives and situation, advisers retain a significant responsibility in determining the investment recommendation.
Despite the development of more comprehensive tools, their role in providing explanations and support, and their skills, remain invaluable when it comes to giving investment advice.

STUDY OBJECTIVE AND METHODOLOGY

Mystery visits carried out by the AMF allow it to observe how systems for gaining knowledge about clients and tailoring recommendations to their particular profiles actually work in bank branches. The main findings are shared with ISPs in a spirit of dialogue and learning.

With the same objective in mind, the AMF wanted to understand how the tools introduced by banks could have an impact on their investment advisory services.

In particular, it wanted to ascertain the extent to which retail investors with varying risk appetites and sufficient guaranteed and liquid savings overall were given recommendations to diversify into risky assets.

To achieve this, the AMF asked five banking groups, representing seven retail banking chains, to provide information on their rules for determining client profiles and for matching these profiles to investment universes (financial instruments).

The following information was requested:

- ☐ A description of client profiling methods used (algorithms or management rules).
- ☐ A statistical distribution of client profiles and a description of client segmentation based on age and financial criteria.
- ☐ Simulations of investment recommendations made to typical clients defined by the AMF.

This information was requested solely for the purposes of this study and not for checking the compliance of the procedures in place.

The information provided resulted in an outline description of the rules implemented to determine both the client profile and investment recommendations.

The simulations provided were relatively comprehensive. They helped to improve understanding of the rules implemented to profile clients and arrive at an investment recommendation.
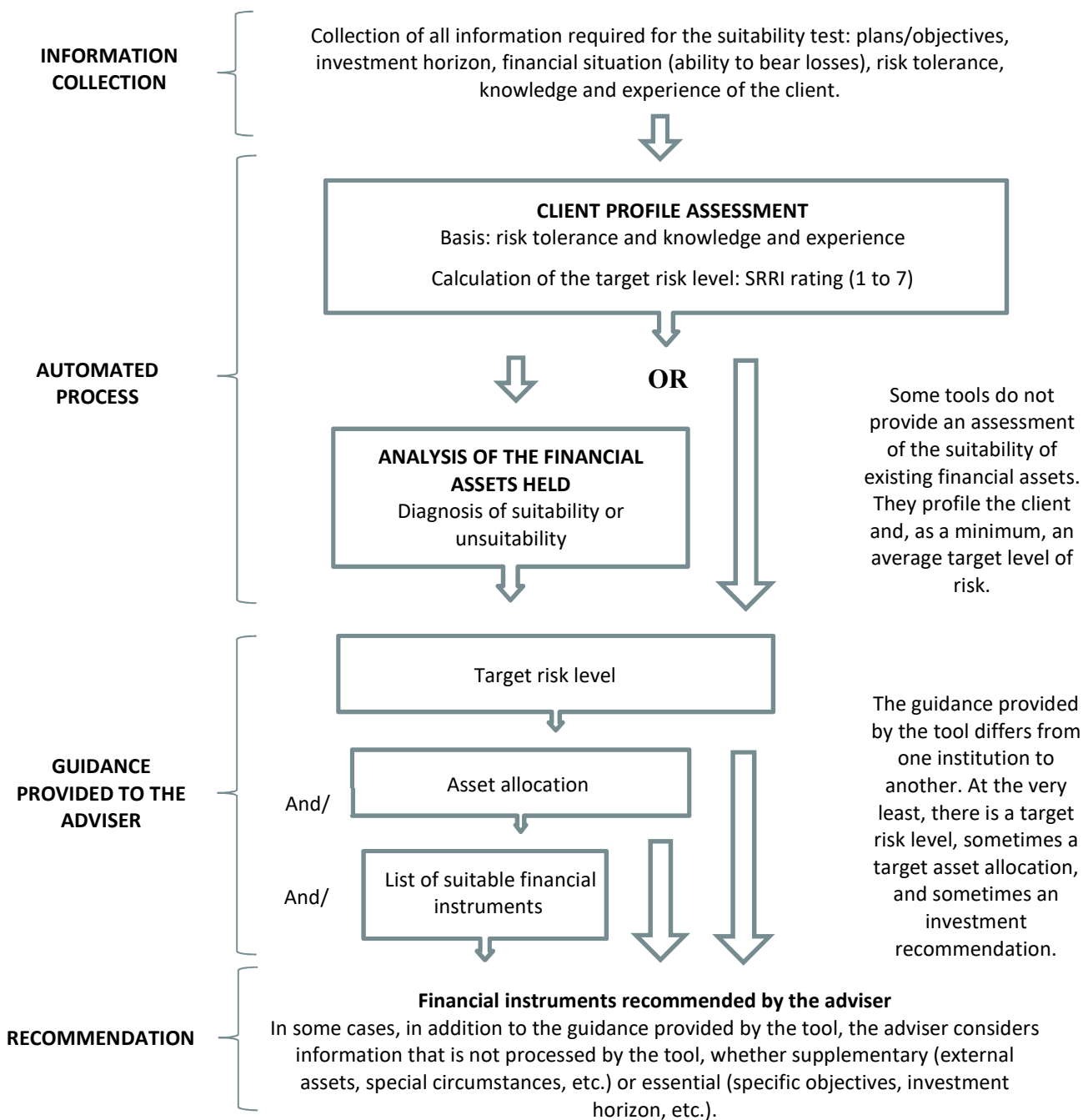
Suitability requirements
Article 25(2) of Directive 2014/65 EU ("MiFID 2") stipulates that when an investment firm provides investment advice, it must obtain the necessary information regarding clients' knowledge and experience, their financial situation and their investment objectives so that it can recommend to them the investment services or instruments that are suitable for them. The same Article of MiFID 2 states that when the firm verifies its client's financial situation, this must take into account their ability to bear losses, and when it reviews their investment objectives, this must take into account their risk tolerance. Article 54(2) of the Commission Delegated Regulation (EU) 2017/565 requires investment firms to obtain from their clients the information necessary for determining, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended is suitable given the clients' situation. Accordingly, the transaction must meet the clients' investment objectives and, in particular, their risk tolerance, their financial situation and their experience and knowledge in understanding the risks involved in the transaction. In this regard, pursuant to Article 54 of the MiFID 2 Delegated Regulation, investment firms must, in particular, enquire about the source of their clients' income, the length of time the investment is to be held, their preferences regarding risk taking, their risk profile and the purpose of the investment.

1. INVESTMENT ADVICE: SIMPLIFIED VIEW OF THE PROCESSES IMPLEMENTED BY BANKS

Banks provide their advisers with a computer-based tool whose main function is to profile clients, mainly according to their risk tolerance and level of knowledge and experience. This tool provides guidance in various forms depending on the institution, which may include target risk level, typical asset allocation and recommended financial instruments. This guidance enables advisers to issue an investment recommendation.

ADVICE PROCESS AT THE INSTITUTIONS SURVEYED

INFORMATION COLLECTION

Collection of all information required for the suitability test: plans/objectives, investment horizon, financial situation (ability to bear losses), risk tolerance, knowledge and experience of the client.

AUTOMATED PROCESS

CLIENT PROFILE ASSESSMENT
Basis: risk tolerance and knowledge and experience

Calculation of the target risk level: SRRI rating (1 to 7)

OR

ANALYSIS OF THE FINANCIAL ASSETS HELD
Diagnosis of suitability or unsuitability

Some tools do not provide an assessment of the suitability of existing financial assets. They profile the client and, as a minimum, an average target level of risk.

GUIDANCE PROVIDED TO THE ADVISER

Target risk level

And/

Asset allocation

And/

List of suitable financial instruments

The guidance provided by the tool differs from one institution to another. At the very least, there is a target risk level, sometimes a target asset allocation, and sometimes an investment recommendation.

RECOMMENDATION

Financial instruments recommended by the adviser
In some cases, in addition to the guidance provided by the tool, the adviser considers information that is not processed by the tool, whether supplementary (external assets, special circumstances, etc.) or essential (specific objectives, investment horizon, etc.).

DESCRIPTION OF THE PROCESSES IMPLEMENTED AS PART OF AN INVESTMENT ADVISORY SERVICE

We distinguish here three phases: a client discovery phase, a phase for assessing the suitability of the product or service based on the client's experience, knowledge, risk attitudes and investment objectives, and a recommendation phase.

CLIENT KNOWLEDGE AND PROFILING

The meeting between the adviser and the client is an opportunity to update the information held about the client, in particular with regard to their tolerance to investment risk and their level of knowledge and experience.

Information collection

MiFID 2 lists the information to be collected about the client under three main headings: the client's investment knowledge and experience, their investment objectives (including their risk tolerance) and their financial situation (including their ability to bear losses).

One or more questionnaires are used to collect this information. The main focus of these questionnaires in profiling the client is on assessing their risk tolerance and knowledge and experience (K&E).

The client's objectives are also detailed, including their investment horizon. The other information required, relating to the client's financial situation and existing financial assets, often obtained from the information system (information on the financial situation and existing financial assets), is updated with the information from the questionnaire.

Knowledge and experience

To assess the client's knowledge, the questionnaires distinguish between questions relating to knowledge and those relating to experience. Depending on the bank, they contain between three and 18 questions for both areas. Some banks also include questions that assess the client's knowledge of complex products. These questions are not displayed for less knowledgeable clients.

With regard to the assessment of experience, the questions often cover several aspects: the value of past investments, their frequency, and the length of time or type of products held.

Risk tolerance

To assess the client's risk tolerance, institutions ask between one and seven questions. Most institutions offer their clients a choice of several theoretical risk/return levels illustrated using graphical visuals. They also assess risk behaviour based on the responses selected by clients to a series of fictitious scenarios.

Investment objectives and investment horizon

The client generally has to choose from a predefined list (generate additional income, prepare an inheritance, finance the children's education, prepare for a real estate venture, prepare for retirement, reduce taxes, etc.). Between seven and ten objectives are suggested to clients.

The same applies to the investment horizon for the desired investments: Three or four horizons are suggested. The investment horizon is sometimes supplemented by a question on the future capital expected by the client.

Financial position and ability to bear losses

To measure the maximum loss that the client's assets can bear, institutions collect information on the client's financial situation: the value of their real estate, financial and banking assets, their financial commitments, their income, their expenses and whether they own their home.

Client profiling

The information collected is most often entered into an automated tool, which provides, as a minimum, the output from its client profiling process.

The information collected about the client is used in the profiling tool using weightings that vary from one institution to another.

For the banks that took part in this study, the profile provided by the tool is largely, or entirely, determined by the client's risk tolerance and level of K&E.

Banks usually come up with between four and six investor profiles, from the most risk-averse ("safe" or "cautious") to the most risk-loving ("dynamic" or "aggressive").

The first profile is often the one assigned to clients who do not wish to take any risk.

In terms of assessing knowledge and experience, four banks mix the information collected on risk tolerance and the level of K&E to arrive at a single investor profile.

However, two banks define a K&E profile that is separate from the risk profile, using a scale of three or four profiles ranging from "beginner" to "experienced" or "expert". These separate profiles are used to adjust the risk tolerance profile to arrive at the overall investor profile. Risk tolerance is therefore the profile's main determining factor.

For one institution, the two profiles are assessed separately (and shared with the client), and the combination of these profiles with the other information (e.g. financial situation and objectives) leads directly to an investment recommendation for one or more financial instruments of a particular format (life insurance, PEA, etc.).

In practice, the rules for profiling clients consist of segmenting the client population into homogeneous categories, usually based on information collected by the institution on the knowledge and experience of clients and their risk tolerance. These categories are associated with target risk levels, typical allocations and product categories that are considered to be compatible, according to the management rules determined by each institution.

Main factors determining the investor profile

The main criterion for determining the investor profile is the risk tolerance level. The K&E level is used to adjust this up or down. The client's age is also an important consideration for one institution. For another institution, however, the K&E profile has a greater bearing than the risk profile on determining the client profile. This bank also includes the client's age, investment objectives and investment horizon in its profiling.

For another institution, the tool assesses the risk and K&E profiles in parallel. They are combined with information on the family's financial situation to determine the overall investor profile.

> In most cases, other information about the client and their objectives, and in particular their investment objectives, is not taken into account when determining their profile. This information may be used later in the computer-based process or will be taken into consideration by the adviser when making the recommendation.

A target risk level and/or a typical asset allocation is assigned to each profile. A suitable risk level (using the Synthetic Risk and Reward Indicator, or SRRI), or sometimes a range of risk levels, is provided to the client via the suitability report.

> Client profiling is not a regulatory requirement but is used by institutions in their drive towards automating the process of verifying that the products recommended suit the client profile. This is a practical way of implementing the provisions concerning suitability, which consist of segmenting the client population into homogeneous categories, usually based on information collected by the institution on the knowledge and experience of clients and their risk tolerance. These categories are associated with target risk levels, typical allocations and product categories that are considered to be compatible, according to the management rules determined by each institution.

Risk levels associated with different profiles

The number of profiles varies from one institution to another (from four to six), as does the level of risk associated with each profile. The boundaries between the risk levels are not the same across institutions.

For some institutions, the first segment is for clients who do not accept any risk (they are not reported here). For others, these clients are not recorded in the risk profile segmentation.

SRRI risk level ranges for each profile

Safe	Cautious	Balanced	Dynamic	Aggressive
1 to 2	1.5 to 3	2 to 4	2.5 to 5.5	5 to 7

ASSESSING THE SUITABILITY OF EXISTING FINANCIAL ASSETS

Once the information has been collected, two institutions carry out a computer-based comparison between the average risk level of existing financial assets (taking into account bank savings, life insurance and financial instruments held) and the risk level resulting from the client's investor profile (target risk). In such cases, the tool provides the adviser with an assessment of whether the client's existing financial assets are overexposed or underexposed to risk. It also provides a target asset allocation.

One institution considers the existing assets without providing an assessment of over- or underexposure. Instead, the tool simply provides the adviser with a typical target allocation.

For the other two banks, there is no automated assessment of the risk level of existing assets. The adviser is responsible for assessing the average risk level of the existing assets.

For one institution, as part of the advice given in connection with new capital to invest, profiling is carried out only at the level of the investment associated with the new capital.

The scope of the client's assets taken into account varies from one institution to another.

Two institutions take into account assets held with competitors if the client has declared them.

For another bank, the approach is different: the bank looks at the suitability between the capital available for the investment and the calculated investor profile.

Taking precautionary savings into account

Two banks explicitly include in their process keeping in reserve an amount of precautionary savings that are excluded from the general asset allocation process. At one bank, the adviser asks the client how much should be kept as liquid assets so that it is not taken into account in the investment proposal.

At the other bank, precautionary savings are set up prior to any investment advice being given.

Generally speaking, it is up to the adviser to include this in their recommendation.

> Assessing the suitability of existing assets is not mandatory under MiFID 2 requirements and is not implemented by all institutions. It makes sense for institutions providing advice that covers all or part of their clients' assets (and does not constitute one-off advice on a defined amount of money). Practices vary in terms of how assets and precautionary savings are taken into account.

Guidance provided by the tool to the adviser

The computer-based tool provides advisers with guidance that helps them make a recommendation. This guidance may take the client's existing assets into consideration. The tool always provides an investor profile with a target risk level (sometimes expressed as a range), and the financial instruments recommended should reflect this. It may also provide a typical target asset allocation and, in addition to this asset allocation, an investment recommendation.

For 3 banks, their tool only provides an indication of the target risk. The adviser must apply the other criteria that are essential to making a recommendation (investment objectives, investment horizon, ability to bear losses, etc.).

For one bank, the tool provides the adviser with a target asset allocation by risk class by comparing the average risk of the existing portfolio with the average level of risk to be achieved as a result of the target allocation. The adviser must recommend those products that are consistent with the target allocation.

For another bank, the tool provides the adviser with an asset allocation to recommend to the client and a list of instruments to recommend as a result. To be able to do this, the tool takes into account all the necessary information (investment horizon, objectives, knowledge and experience profile and ability to bear losses).

INVESTMENT ADVICE AND THE ADVISER'S ROLE

The adviser's role is to build on the guidance provided by the tool. The adviser may therefore recommend a reallocation of the client's existing financial assets. In the case of a new financial contribution, investing this money can be used to help achieve the target risk level. Investing this new contribution can also, if necessary, be combined with arbitrage on existing financial assets.

The tools provide the adviser with varying degrees of freedom.

In one case, the adviser supports the recommendation provided by the tool, which selects the appropriate products to achieve the target asset allocation.

At three institutions, advisers gather all the necessary information themselves (objective, investment horizon, ability to bear losses, etc.) to provide a recommendation of financial instruments to their clients.

At another bank, advisers choose which products to recommend based on the client's expected objectives.

> Product governance requirements limit the amount of freedom advisers have in making recommendations. Investment recommendations must consider the target market, and investments are either prohibited (negative target market) or permitted on an exceptional basis (positive target market) to ensure asset diversification and maintain an appropriate average level of risk. A product recommendation to a client who does not fall within one of the criteria of the target markets may therefore be permitted for diversification purposes.
>
> The purpose of this study was not to determine how the banks surveyed comply with regulatory requirements on product governance. The answers provided by the participating banks do not therefore allow us to conclude that product governance rules do ultimately have an automated impact on access to products.

For all banks, regardless of the features of the tools implemented, the adviser's role is still an important factor in selecting financial instruments. Where the tool determines the financial instruments to be recommended, the adviser may deviate from the tool (while remaining consistent with the target risk level and ensuring suitability to the client's profile). The adviser's recommendation may also lead to the target risk level not being met, given the client's specific situation. Advisers are required to justify their recommendations.

> This flexibility ensures that advisers retain control over their recommendations and the relationship with the client. For the banks surveyed, it allows them to put their investment advisory skills to use.
>
> At some banks, to comply with the suitability principle, the adviser must take into account criteria not covered by the tool implemented, such as the investment objective and the investment horizon.
>
> Advisers' knowledge and experience is crucial if they are to play the role assigned to them effectively. This knowledge and experience must be adapted to the characteristics and needs of their clients, who may be more or less well-off and/or more or less experienced.

2. BANK RECOMMENDATIONS: SIMULATIONS BASED ON FOUR TYPICAL CLIENTS

We asked the banks to simulate the recommendations made to various typical clients who were in a position to make long-term capital investments for their retirement.[1] The purpose of these theoretical simulations was to improve our understanding of the rules implemented to classify clients and arrive at an investment recommendation. They also allowed us to observe whether clients who were willing to take a little risk with their savings and who had a long investment horizon were offered diversification into risky assets.

CLIENTS A AND B

These two typical clients, both 45 years old, own their main residence and both have €40,000 in financial savings entirely invested in guaranteed investments (passbook savings account and a non-unit-linked guaranteed-capital life insurance policy).

They have new capital to invest (€20,000), can save up to €300 monthly and wish to prepare financially for their retirement.

Client A is somewhat "risk-averse", although he does accept that a small part of his savings may fluctuate. Client B has more knowledge and experience, has a balanced risk profile and is moderately "risk-loving".

The initial position of Clients A and B is a fully invested, risk-free asset base with a high level of liquidity.

Profiling of typical clients and recommendations for diversification into risky assets

Client A was profiled as "cautious" or "moderate".

It was recommended that he invest part of his new capital, representing one third of his financial assets, in risky assets (SRRI level >1).

The recommendations varied from one institution to another. The proportion of new capital invested in risky assets ranged from 10% to 90%, increasing the proportion of total assets invested in risky assets to between 5% and 30% (0% before the advice).

Client B was profiled as "balanced" or "dynamic".

The proportion of new capital invested in risky assets ranged from 30% to 100%, increasing the proportion of total assets invested in risky assets to between 25% and 50% (0% before the advice).

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[1] Descriptions of the client profiles are provided in the annex.

The table below describes how each institution categorised these typical clients and the extent to which they recommended diversifying into risky assets.

Non-risky assets are bank savings products and guaranteed-capital life insurance.
In these simulations, the scope of existing financial assets is identical from one bank to another.

Bank	Client A	Client B
1	• Profile 1 of 4 • Diversification proposal: o New capital investment: 60% risky/40% risk-free assets o Proportion of risky assets increases to 30% of financial assets	• Profile 3 of 4 • Diversification proposal: o New capital investment: 100% risky assets o Proportion of risky assets increases to 50% of financial assets
2	• Profile 2 of 4 • Diversification proposal: o New capital investment: 90% risky/10% risk-free assets o Proportion of risky assets increases to 18% of financial assets	• Profile 3 of 4 • Diversification proposal: o New capital investment: 100% risky assets o Proportion of risky assets increases to 50% of financial assets
3	• Profile 3 of 6 • Diversification proposal: aim for financial assets with a maximum SRRI risk level of 3 of 7	• Profile 4 of 6 • Diversification proposal: aim for financial assets with a maximum SRRI risk level of 4 of 7
4	• Profile 1 of 5 • Diversification proposal: o New capital investment: 10% risky/90% risk-free assets o Proportion of risky assets increases to 3% of financial assets	• Profile 3 of 5 • Diversification proposal: o New capital investment: 30% risky/70% risk-free assets o Proportion of risky assets increases to 23% of financial assets
5	• Profile 2 of 5 • Diversification proposal: o New capital investment: cautious management (75% of new capital); equity funds (20%) o Proportion of risky assets increases to 30% of financial assets	• Profile 3 of 5 • Diversification proposal: o New capital investment: balanced management (50%) + dynamic management (50%) o Proportion of risky assets increases to 50% of financial assets

In terms of overall risk levels

Client A		Client B	
Average SRRI before advice given: 1			
Target SRRI resulting from profile allocated	Average SRRI after investments	Target SRRI resulting from profile allocated	Average SRRI after investments
1 to 3	1 to 1.9	2 to 4.5	1.5 to 3.3

Financial institutions' investment recommendations by product risk level
(in K€ and %)

	Client A			Client B		
Existing assets	40 K€ (100% SRRI 1)					
New contribution	20 K€					
SRRI	1	2-4	5-7	1	2-4	5-7
Arbitrage on existing assets	-	-	-	-3.5 K€	-	3.5 K€
Financial contribution	7.25 K€	8 K€	4.75 K€	3.5 K€	5.5 K€	11 K€
New assets (existing assets + new contribution = 60 K€)	47.25 K€	8 K€	4.75 K€	40 K€	5.5 K€	14.5 K€
	79%	13%	8%	67%	9%	24%

Interpretation: For Client A, the banks recommended an average investment of €8,000 in medium-risk assets (SRRI 2 to 4), and €4,750 in risky assets (SRRI 5 to 7), bringing the total risky portion to €12,750 (21% of total financial assets).

The recommendations vary from one institution to another: Client A retains a guaranteed portion of his known financial assets ranging from 70% (three banks) to 97%; Client B retains a guaranteed portion ranging from 40% to 77%.

This theoretical simulation exercise shows that:
1. The banks surveyed would recommend diversification into risky assets to our two typical clients.
2. The differentiation between the two typical clients in terms of risk tolerance and level of K&E is reflected in the recommendations: Client A is offered moderate diversification and Client B is offered greater diversification.

OTHER SIMULATIONS PERFORMED

A simulation was also performed for Client C, who is older (70 years old) and has larger amounts to invest (€60,000). He has expressed a desire to put money aside for his later years. His investment horizon is 10 years. Like Client B, he is described as having a balanced risk profile and has some investment knowledge.

Unlike Client B, his portfolio already includes 20% risky assets.

Lastly, he has substantial liquid savings (up to 15% of his existing assets).

Typical Client D, 45 years old, similar to Client B in terms of risk tolerance and knowledge but more well-off, has €100,000 to invest for his retirement. He already holds €200,000 in financial assets, 25% of which are risky assets.

Liquid investments (passbook savings accounts) represent 25% of his existing financial assets.

Investment recommendations made to Clients C and D

Bank	Client C	Client D
1	The proportion of risky assets in the portfolio increases to 55% through an arbitrage proposal to switch part of the assets held in life insurance from non-unit-linked to unit-linked assets. The new financial contribution is entirely invested in risky assets.	The proportion of risky assets in the portfolio increases from 25% to 50%. The new financial contribution is entirely invested in risky assets.
2	The proportion of risky assets in the portfolio increases to 53% via an arbitrage proposal to switch part of the assets held in life insurance from non-unit-linked to unit-linked assets. 65% of the new financial contribution is invested in risky assets.	The proportion of risky assets in the portfolio is increased to 60% through an arbitrage proposal to switch part of the assets to the unit-linked fund. The new financial contribution is entirely invested in risky assets.
3	The client's profile is "balanced". The adviser is free to choose the appropriate products up to an average risk level of 4 for the financial assets.	No change to the client's profile. The adviser is free to choose the appropriate products up to an average risk level of 4 for the financial assets.
4	The proportion of risky assets in the portfolio is maintained at 20%. 20% of the new financial contribution is invested in risky assets.	The proportion of risky financial assets increases to 30%. 40% of the new financial contribution is invested in risky assets.
5	The proportion of risky assets in the portfolio is maintained at 20%. 50% of the new financial contribution is invested in risky assets.	The proportion of risky assets in the portfolio is increased to 75% through an arbitrage proposal to switch part of the assets to the unit-linked fund. The new financial contribution is entirely invested in risky assets.

Investment recommendations by product risk level (in K€ and %)

	Client C			Client D		
Existing assets	125 K€ (80% SRRI 1)			200 K€ (75% SRRI 1)		
New contribution	60 K€			100 K€		
SRRI	1	2-4	5-7	1	2-4	5-7
Arbitrage on existing assets	-17.2	0.0	17.2	-32.5	25.0	7.5
Financial contribution	24.8	13.7	21.5	15.0	31.7	53.3
New assets	132.6	13.7	38.7	132.5	56.7	110.8
	72%	7%	21%	44%	19%	37%

Interpretation: For Client D, the banks recommended investing an average of €31,700 in moderately risky assets (SRRI 2 to 4), €53,300 in risky assets (SRRI 5 to 7) and switching €32,500 from the currently held life insurance policy's non-unit-linked fund to its unit-linked fund, taking the total risky portion of the assets to €167,500 (56% of total financial assets).

For Client C, the proportion of risky assets is kept unchanged at three banks. However, it is increased at two banks as they consider his initial position to be underexposed. The client's age (70) results in one bank not increasing the risky portion. As a result, the risky portion of the client's assets is increased only slightly (from 20% to 28%).

For Client D, the recommendations result in more diversification into risky assets.
The banks significantly increase the proportion of risky assets in the portfolio (from 25% to 56%).

> **Recommended investment vehicles**
>
> The banks that fully simulated the investment recommendations for our typical clients recommended accessible investment vehicles within their unit-linked life insurance offers (including retirement savings plans, known as PERs) and PEAs (share savings plans).
>
> The funds were risk-profiled diversified funds, equity funds (including SRI funds), real estate investment funds (SCPI/OPCI) and structured products.

To simulate the recommendations, the institutions surveyed used the descriptions provided by the AMF to determine the responses of typical clients to the questionnaires they had developed.

The simulations revealed that the banks surveyed made a variety of recommendations. On the basis that they considered the initial positions to be underexposed to risk, they all proposed riskier allocations.

It is worth noting that, despite the implementation of a variety of methods, the profiles assigned to the same typical client differ little from one institution to another. The target risk levels are similar, despite the differing client profile names and grids with their resulting threshold effects.

We provided institutions with guidance on how these typical clients should be positioned in the institution's grid with respect to their risk tolerance and K&E levels. This information is the main criterion taken into account in the profiling performed by these banks.

The varying interpretations of the simulated responses of these typical clients, based on questionnaires that were themselves different, were not enough on their own to generate different profiles.

The investment recommendations made were consistently based on client profiles.

However, although the banks established similar profiles, these recommendations varied in terms of the level of risk. Each institution has its own grid of what to recommend for each profile.

The simulated recommendations also show that multiple combinations of products are possible in order to shift a portfolio towards a target risk level.

The banks' approach consists of proposing asset allocations that include relatively risky investment vehicles (SRRI of 5 and above) in order to shift the portfolio towards the average risk level defined by the client's specific profile.

Since the processes were not fully automated, the institutions surveyed had to interpret the client's family and financial situation and the appropriate response to the client's objectives when making their investment recommendations, as an adviser would have done during a meeting at their offices.

This assessment is left to the adviser: although constrained by the client's profile, it is the adviser's responsibility to decide on the appropriate asset allocation (for some banks) and the appropriate products (for all banks).

We also asked the banks to provide us with the statistical distribution of their profiled clients, providing us with further insights into the diversification recommendations made to these clients.

Analysis of the profiles of the banks surveyed
These statistics apply to clients who have been profiled, i.e. all clients who have benefited from investment advisory services. They represent a variable proportion of retail clients.

The statistical breakdowns provided by the banks participating in this study indicate that the majority of clients are profiled as "cautious" or "balanced".

Average statistical breakdown provided

Safe	Cautious	Balanced	Dynamic	Aggressive
16%	36%	35%	12%	2%

Comparing these statistics with the average risk levels provided by the banks, it can be seen that a large majority of clients profiled at these five banks have been assigned ranges of risk levels between 2 and 4, i.e. a relatively low average risk level.

The clients profiled by the banks are encouraged to diversify to a reasonable extent into risky assets. These clients are the most financially well-off among the banks' client base and are those who accept that at least a small part of their savings may not be guaranteed.

The differences in the statistical breakdowns are due partly to different segmentation methodologies used and partly to the fact that the characteristics of the client bases are different.

The figures provided by the institutions also indicate that the average amounts held by clients correlate with the profiles defined for those clients. For example, those clients with an "Aggressive" profile hold a much higher level of financial assets than those with a "Cautious" profile. For institutions that have assessed a K&E profile, it appears that clients holding relatively large amounts of assets are more often assessed as knowledgeable and experienced.

Similarly, it appears that older clients are more often profiled as "Aggressive" or "Dynamic", which is consistent with their holding higher amounts of assets and also with the assessment of their K&E.

The differences in the statistical breakdown from one bank to another can also probably be explained by different average amounts of financial assets.

CONCLUSION

The objective of this study was to analyse the impact that the tools made available to advisers by the banks surveyed, as part of an investment advisory service, had on their diversification recommendations.

The AMF asked banks to simulate the recommendations made to typical clients with low investment levels who have substantial guaranteed and liquid savings but are relatively risk-tolerant and have long-term investment objectives (retirement).

The approaches vary among the banks surveyed. However, the tools implemented do enable their advisers to recommend, to varying degrees, diversification of these clients' savings into risky assets.

The automated profiling tools do not appear to limit access to risky investments.

The general approach of the institutions that took part in this study is to define an average target risk level for the total financial assets held by profiled clients and to propose asset allocations in which financial instruments are mixed in proportions appropriate to the overall target level of risk.

These observations are consistent with the findings of the AMF's most recent mystery visits.

Despite the development of more comprehensive automated tools that are even able to propose a recommendation, advisers still have considerable room for manoeuvre. The banks have expressed a willingness to let them manage the relationship with their clients and the investment advice they provide. Their level of knowledge and experience is therefore a major challenge, as is their annual review. This is an important area of attention for regulators.

Another area where regulators need to pay close attention is with regard to older clients. This study shows that, with the tools implemented, the client's age does not in fact constitute a barrier to accessing risky investment products, which is understandable. However, a relatively elderly client is often profiled as "dynamic", given their overall financial wealth and experience. These clients may, however, express a need for liquidity in their assets, even with a relatively long investment horizon, which the adviser should examine and take into account.

As the need for long-term and very long-term savings becomes increasingly important, the adviser's role in supporting the diversification of their clients' assets remains paramount.

They must demonstrate their ability to explain to their clients the impact that determining their profile has on the recommendations they make.

They must also provide detailed information on the main characteristics of the products they recommend.

For their part, clients must read the regulatory documentation provided, which must primarily be used to educate them about risk, liquidity and performance in relation to the recommended investment horizons.

Finally, where major investments are concerned, clients should not hesitate to compare the recommendations made by different banks. These recommendations vary from one bank to another and, within the limits of the rules implemented, from one adviser to another.

Annex

Typical client profile descriptions

Client A and B

Investment amount	
Financial capital available for a new investment	€20,000
Savings capacity	€300 per month
Personal information	
45 years, employed, permanent contract, married, 2 children, separation of property regime	
Financial situation	
Monthly income	Salary €3,000 / Spouse €3,000
Real estate assets	Owner of main residence (value €250,000); mortgage loan outstanding: €150,000
Loan repayment	€2,000 per month
Savings	Livret A passbook account (€20,000), unit-linked life assurance policy: €20,000 invested in the guaranteed-capital fund
Objectives	
He wants to prepare financially for his retirement and dedicate part of his savings for this purpose. His investment horizon is 20 years.	

Client A

Knowledge and experience
The client is not knowledgeable about investing and has never invested in financial securities or through investment funds. *Place the client at the lowest level on your knowledge and experience scale.*
Risk tolerance
The client may be willing to allow a portion of his savings fluctuate a little each year, but he remains cautious. *Place the client at a level below the median level on your risk tolerance scale.*

Client B

Knowledge and experience
The client is reasonably knowledgeable about investing and has held units in collective investment funds in the past. *Place the client at the median level (or higher level if the scale is even) on your knowledge and experience scale.*
Risk tolerance
The client has expressed an interest in risky investments. He would be willing to allow more of his savings to fluctuate. *Place the client at the median level (or higher level if the scale is even) on your risk tolerance scale.*

Client C

Investment amount	
Contribution for a new investment	€60,000
Savings capacity	€1,000 per month

Personal information
70 years, retired, married, 1 child, separation of property regime

Financial situation	
Regular sources of income	Salary €3,000/Spouse €3,000
Real estate assets	Owner of main residence (value €500,000); no outstanding mortgage.
Savings	Livret A passbook account (€20,000), unit-linked life assurance policy: €80,000 invested in the guaranteed-capital fund and €20,000 invested in equity investment vehicles. He also hold a securities account which contains a few shares valued at €5,000.

Objectives
Concerned about the risk of losing his independence, he is keen to make his capital grow so that it can be used later by him or his wife if one or both of them becomes dependent. With this in mind, his investment horizon is at least 10 years.

Knowledge and experience and risk tolerance
The client is reasonably knowledgeable about investing and has held units in collective investment funds in the past. *Place the client at the median level (or higher level if the scale is even) on your knowledge and experience scale.* The client has expressed an interest in risky investments. He would be willing to allow more of his savings to fluctuate. *Place the client at the median level (or higher level if the scale is even) on your risk tolerance scale.*

Client D

Investment amount	
Contribution for a new investment	€100,000
Savings capacity	-

Personal information
45 years, employed, permanent contract, divorced, 2 children

Financial situation	
Monthly income	Salary €6,000
Real estate assets	Owner of main residence (value €600,000); mortgage loan outstanding: €400,000
Savings	Passbook savings accounts (€50,000), a life insurance policy: €100,000 invested in the guaranteed-capital fund, a PEA (€50,000 invested in cautious mixed collective investment funds)

Objectives
He wants to prepare financially for his retirement and invest part of his liquid assets for this purpose. His investment horizon is 20 years.

Knowledge and experience and risk tolerance
The client is reasonably knowledgeable about investing and already holds units in cautious mixed collective investment funds. Place the client at the median (or higher if the scale is even) level on your knowledge and experience scale. The client has expressed an interest in risky investments. He would be willing to allow more of his savings to fluctuate each year. *Place the client at the median level (or higher level if the scale is even) on your risk tolerance scale.*