

RISK SUITABILITY FACTSHEET

Psychometric risk questionnaires

An integral part of giving advice is taking into account the risk profile of the individual and their financial goals. Advisers need to have in their armoury a robust method of identifying the risk tolerance of their clients to ensure the best possible advice can be given. A psychometric risk questionnaire can give a starting point for discussions about the risk and reward that clients are prepared to take, as well as providing an audit trail for decisions reached. The eValue questionnaire has been validated by experts in occupational psychology and psychometric statistics.

FREQUENTLY ASKED QUESTIONS

How does the risk questionnaire link to the efficient asset classes?

The number of risk categories has to match the number of portfolios. However, the risk levels also need to take into account descriptions of assets and risk used in the questionnaire.

How is the number of questions determined?

The number of questions is kept as low as possible to give the best customer experience, but needs to be sufficiently high for the results to be reliable. The more levels of risk the questionnaire has to identify, the more questions are required to keep the results reliable.

How should the risk questionnaire be used?

A robust risk questionnaire is only part of the process. Every investor has a different definition and understanding of risk, and indeed one individual can have many acceptable levels that vary with their objectives.

The results of any risk profiler should therefore be considered in conjunction with the individual's specific needs and goals during the advice process and as the starting point to an in depth discussion. Stochastic modelling, showing a range of outcomes, is an excellent tool to aid further understanding of an individual's willingness to take financial risk.

MORE INFORMATION OR REQUEST A DEMONSTRATION?

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HOW EVALUE QUESTIONNAIRES ARE VALIDATED

Stage 1: Filter the question bank

Review the bank of questions available to ensure suitability for the expected user base:

- ambiguities - to reduce the risk of customers interpreting questions differently
- links of content to situation - the content should be linked to the expected customer base
- ease of understanding - for expected customers
- technical terminology - ensure jargon is removed
- clarity of expression - reduce risk of being misunderstood

Stage 2: Run questionnaire pilot

Questions are trialled with investors receiving financial advice. To avoid bias the questions are presented with no explanations from an adviser. A range of question types are covered:

- emotional - how the individuals feel about taking risks
- self-assessment - how risky the individual considers themselves
- past behaviour - what previous investments has the individual made
- scenario setting - what the individual's reaction is in a given situation

Stage 3: Assess questionnaire validity

Statistical checks are used to check validity, answering key questions:

- Do the questions sufficiently measure attitude to risk?
- Do opaque questions work as successfully as obvious ones?
- Are the outcomes as expected for those with particular knowledge or skills?
- How reliable is each question?
- Are the results suitably correlated?

Stage 4: Select questions

The length of questionnaire needs the right balance between long enough for reliable results and short enough to ensure a good customer experience. Questions are chosen to ensure that they:

- have a good spread of each type of question;
- have good reliability;
- have a wide spread of scores; and
- give strong results from statistical checks

Stage 5: Allocate scoring

Several independent groups of financial experts allocate answers to each question to the expected risk levels in order to produce the scoring boundaries between the categories. Consensus among the results was then achieved using a cautious approach.

Final boundary scores are then allocated to the categories and the results retested to ensure statistical robustness.

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