



# Proving product suitability

*Strategies, evidence and client  
engagement*

*Presented by:  
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# The Challenge

- Giving tailored financial advice that truly suits a client



# Selling vs Advice

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- **Selling** focuses on pushing products or services
- **Giving financial advice** is based on empathy, understanding and integrity
- **Giving** not selling financial advice.



"I can't stop your investments from going down the toilet,  
but I know a guy who can sell you a nicer toilet."

**What are your  
obligations?**



# Your Regulatory Obligations

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- Duty to ensure the client **understands** the nature and scope of the advice (431J)
- Duty to give **priority** to client's interests (431K)
- And meet the Code Standards
  1. Treat clients fairly
  2. Act with integrity
  3. Give financial advice that is **suitable**
  4. Ensure that the client **understands** the financial advice
  5. Protect client information



# The FMA's guidance note on suitability



FEBRUARY 2023

## Reasonable grounds for financial advice about financial products

### Purpose

This guidance explains our approach to applying and enforcing Code Standard 3 of the [Code of Professional Conduct for Financial Advice Services](#) (the Code), in relation to financial advice about financial products purchased for investment purposes. It is particularly relevant to situations where it is difficult or impractical to access information to support reasonable grounds for financial advice on an investment product.

Code Standard 3 (see Schedule) requires that “[a] person who gives financial advice must ensure that the financial advice is suitable for the client, having regard to the nature and scope of the financial advice.”

The commentary to the standard explains that:

“Ensuring that the financial advice is suitable for the client should include having reasonable grounds for the financial advice. Reasonable grounds for the financial advice means those grounds that a prudent person engaged in the occupation of giving financial advice would consider to be appropriate in the same circumstances, such as those in relation to:

- any strategy supporting the financial advice
- any assumptions underlying the financial advice
- any financial advice product covered by the financial advice
- the client’s circumstances that are relevant to the financial advice, such as their financial situation, needs, goals, and risk tolerance.”

Consequently, whether financial advice is suitable for the client is context-dependent, based on the nature and scope of the financial advice and the circumstances.

This guidance notes the challenges financial advisers may face when giving financial advice about high-risk, complex or novel financial products where it can be difficult to access information to support reasonable grounds. For instance, those giving financial advice about IPOs or smaller market capitalisation stocks may not always have access to ‘expert research’.

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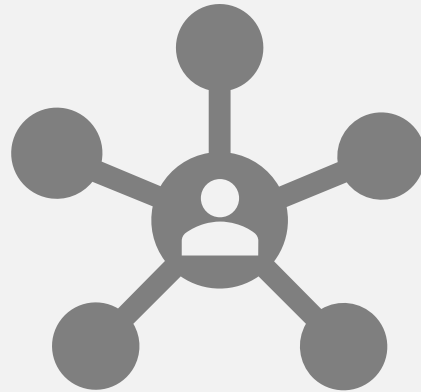
The commentary to the standard explains that:

“Ensuring that the financial advice is suitable for the client should include having **reasonable grounds** for the financial advice. Reasonable grounds for the financial advice means those grounds that a prudent person engaged in the occupation of giving financial advice would consider to be appropriate in the same circumstances, such as those in relation to:

- any **strategy** supporting the financial advice
- any **assumptions** underlying the financial advice
- any **financial advice product** covered by the financial advice
- the **client’s circumstances** that are *relevant to the financial advice*, such as their financial situation, needs, goals, and risk tolerance.”

Consequently, whether financial advice is suitable for the client is context-dependent, based on the nature and scope of the financial advice and the circumstances.

# How to assess the client's financial situation and objectives





# Sarah's tale

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- Wanted guidance to secure her financial future
- Adviser didn't understand her circumstances, goals and risk tolerance
- Placed in high-risk investments which plummeted





# Sarah's alternate reality

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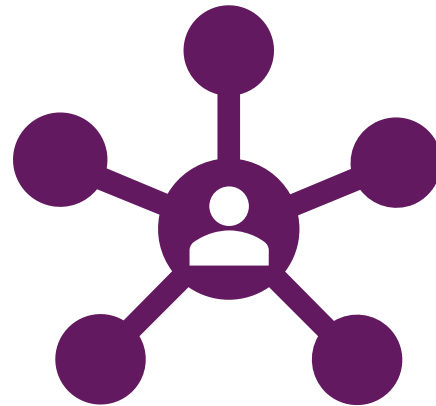
- Adviser takes the time to understand her aspirations, challenges and risk appetite
- Placed in diversified portfolio
- Matches risk tolerance and long-term goals
- Portfolio is resilient and aligned with her objectives

# The How

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## Ask good quality questions

Who is important in their world?



What is their current financial situation?

Explore future finances  
e.g. 5 years and 10 years

Lifestyle post full-time work  
e.g. 60s, 70s, 80s, 90s, 100

# Your Tools - Structured

## Fact Find Needs Analysis Questionnaire

PERSONAL DETAILS						
	First named			Second named		
Title						
First name						
Surname						
Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
Date of birth						
Nationality						
Smoker	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input type="checkbox"/> No		
Civil status	<input type="checkbox"/> Married	<input type="checkbox"/> Widowed	<input type="checkbox"/> Married	<input type="checkbox"/> Widowed		
	<input type="checkbox"/> Single	<input type="checkbox"/> Remarried	<input type="checkbox"/> Single	<input type="checkbox"/> Remarried		
	<input type="checkbox"/> Divorced	<input type="checkbox"/> Separated	<input type="checkbox"/> Divorced	<input type="checkbox"/> Separated		
	<input type="checkbox"/> Engaged	<input type="checkbox"/> Cohabitant	<input type="checkbox"/> Engaged	<input type="checkbox"/> Cohabitant		
Number of dependents						
	Name	Date of birth	Age	Name	Date of birth	Age
Dependent 1						
Dependent 2						
Dependent 3						

RETIREMENT PLANNING WORKSHEET					
SUMMARY					
Annual Retirement Income Required	\$ 10,900.00				
Estimated Social Security, Pension, and Other Income	\$ 42,000.00				
Annual Variance	\$ 49,100.00				
AGE					
Age Today	33	Years to retirement		32	
Age at Retirement	65				
RETIREMENT INCOME SOURCES					
	Weekly	Bi-Weekly	Monthly	Quarterly	Annually
Social Security Income	\$ -	\$ -	\$ 5,000.00	\$ -	\$ 60,000.00
Company Pensions	\$ -	\$ -	\$ -	\$ -	\$ -
Rental Income	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term Investments Income	\$ -	\$ -	\$ -	\$ -	\$ -
Annuity Income	\$ -	\$ -	\$ -	\$ -	\$ -
Other Retirement Plans	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	\$ 5,000.00			\$ 60,000.00	
HOUSING COSTS					
	Weekly	Bi-Weekly	Monthly	Quarterly	Annually
Mortgage or Rent	\$ 5.00	\$ -	\$ -	\$ -	\$ 260.00
Real Estate Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance and Repair	\$ -	\$ -	\$ -	\$ -	\$ -
Home Insurance	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	\$ 5.00		\$ 260.00		
PERSONAL EXPENSES					
	Weekly	Bi-Weekly	Monthly	Quarterly	Annually
Grooming	\$ 10.00	\$ -	\$ -	\$ -	\$ 520.00
Clothing	\$ -	\$ -	\$ -	\$ -	\$ -
Holidays	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Expense	\$ -	\$ -	\$ 500.00	\$ -	\$ 6,000.00
Auto Insurance	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	\$ 10.00		\$ 6,520.00		

## Cover Priorities

With any personal risk insurance plan, it is not always possible to implement the full level of protection recommended due to possible costs involved. Your priorities will help me prepare alternative options based on your budget and a plan can be established to review and complete the ideal plan over time.

Please indicate numerically (1 high- 3 low) your general priorities for changes or addition to cover (if full review completed).

Financial protection in the case of:	Name:	Client 1	Client 2
Loss of income through sickness or disability (Income Protection)		<input type="text"/>	<input type="text"/>
Untimely death (Life Insurance)		<input type="text"/>	<input type="text"/>
Suffering a serious illnesses, eg; heart attack, cancer, stroke (Trauma Cover)		<input type="text"/>	<input type="text"/>
A permanent and long term disability (Total and Permanent Disability)		<input type="text"/>	<input type="text"/>
Needing timely hospital or specialist treatment (Health Insurance)		<input type="text"/>	<input type="text"/>

*Use tools that work with your style and capture the important information.*

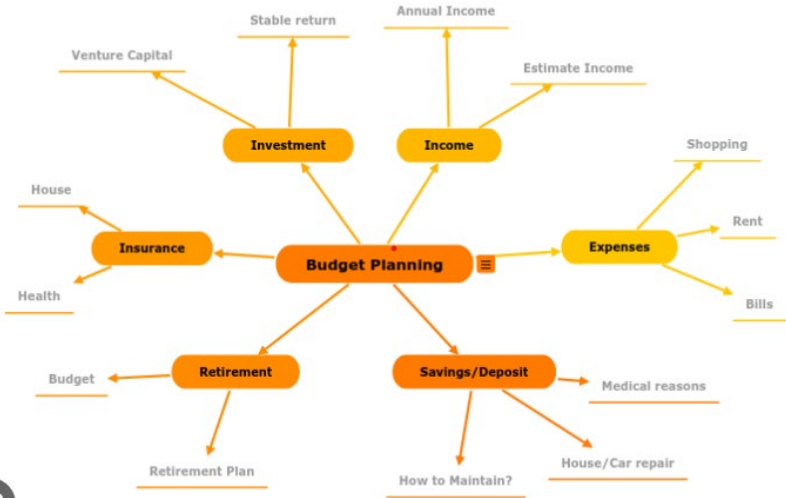
# Your Tools – Unstructured Approach

## What are you focused on?

Click twice for the most important, and for anything else just click once. Don't worry, you can always update these later.



Reset Save



Mind map  
Picture prompts  
Profiling tools

**Digital Advice Objectives builder**

Life event: All **CHOOSE**

- Buy a new car
- Buy a home
- Children's education
- Increase my super
- Maintain cash reserve
- Payoff Mortgage
- Protect my family
- Protect my family
- Reduce my tax
- Retirement**
- Review Centrelink
- Review my investment
- Risk profile
- Simplify my Super
- Start a savings plan

# Identify suitable products and strategies



# Good outcome

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- John, first homebuyer
- Consults with a knowledgeable and client-focused mortgage adviser
- Adviser thoroughly explains various loan options, including - interest rates, terms, and repayment plans.
- Ensures John has a clear understanding of the implications of each choice.



# The Poor Outcome

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- Meet Jane
- Adviser rushes through the process
- Recommends loan without explanations or considering risks
- High interest rate loan, inflexible payment terms
- Results in stress and frustration



# The Short Term Focus

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- Meet Mark
- Just received a sizeable inheritance
- Convinces Adviser to focus on the short-term returns
- Recommends high returns, based on speculative short-term products
- Initially Mark gets good returns
- Market downturn causes substantial losses and derails long term objectives
- Mark makes a formal complaint





# KiwiSaver Advice

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## Unsuitable

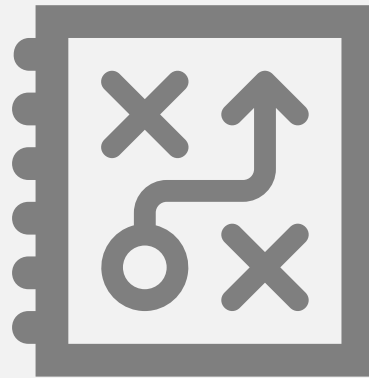
- Product led not advice led
- Focus is fees and returns
- Overly limited advice
- No advice given
- Goals and objectives not considered
- Can't reperform calculation



## Suitable

- Client needs analysis
- Explore needs/objectives
- Educate/risk profile
- Research schemes
- Recommend best option
- Assumptions explained
- Confirm needs will be met

# Document your suitability analysis



# Suitable Advice

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# The How

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- Analyse any existing products thoroughly
- Research other options
- Assess and compare products
- Assess and compare product providers
- Recommendations
  - Pros and cons of each option
  - Relate back to client's goals and objectives
- Highlight limitations, exclusions risks as well as features and benefits



# Conclusion – your challenge

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The background features a repeating pattern of question marks. Each question mark is rendered in a light gray outline and is centered within a dashed gray circle. The circles and question marks are arranged in a grid-like pattern across the entire page. The word "Discussion" is centered in the middle of the page in a dark purple, sans-serif font.

# Discussion