



# FinSA - Investor Protection

## Beyond regulatory requirements of suitability and appropriateness

Increasing product comparability and transparency requirements for end clients have been one of the key topics under recently revised investor protection regulations. When proposing or offering financial products, financial service providers must ensure that the recommendations are in line with the client's investment profile and distribution rules. Therefore, various European as well as local Swiss investor protection and product documentation rules need to be considered, particularly in terms of future developments in the area of suitability and appropriateness requirements.

In a nutshell, the following regulations are applicable and rudimentarily outlined in the next sections. The focus of this paper is to underline the areas that will most probably be put under scrutiny in the next review of the suitability and appropriateness framework.

### APPROPRIATENESS

FinSA (Financial Services Act)

### SUITABILITY

FinSA (Financial Services Act)  
MIFID II and MIFID II Delegated Regulation

The Swiss Investor Protection Regulation **FIDLEG** ("Financial Services Act - FinSA") came into force beginning of 2020, setting new obligations relating to investors protection and enhanced requirements to product management and advisory duties. Of particular importance are the obligations to carry out appropriateness and suitability tests. The rules that were set out are intended to ensure that financial service providers abide by their obligation to assess whether the services and/or products offered are suitable for the client.

Time has come for financial service providers to **focus on suitability** as a value driver and address ever increasing investor protection requirements in a pragmatic way, focusing on the interplay between clients, investment products and risk management. To lower compliance costs and time to market for new products, service providers must focus on solutions that can ensure future scalability.

This paper addresses the areas where disclosure requirements are expected to tighten. For a description of current obligations please consult FINSA Client Information Duties. Beside the expected regulatory developments, this paper also provides an overview of **LPA's automation software solutions**, integration and transformation capabilities enabling compliant, efficient, flexible and future proof client disclosure and reporting.

## Review of risk methodologies

It is expected that the Swiss regulator, following the practices of other European counterparts, in their assessment of suitability and appropriateness practices, will start to focus their efforts towards **reviewing the risk profiling methodologies** employed by financial service providers. Taking into account the **increasing focus on investor protection** practices, a tighter regulatory landscape around investment suitability and appropriateness must be expected.



The overview below summarizes the areas that are expected to fall under regulatory scrutiny, as well as a short introduction to LPA's automated in-house documentation platform **LPA Digital Advisory** enabling compliant, efficient, flexible and future proof risk profiling methodologies.

## Regulatory Outlook – Risk profiling

- **Improvement of scoring models** embedded in questionnaires, to avoid inappropriate interpretation of results. In particular, the risks of having over sensitive or attribute inappropriate weighting must be avoided, as it could potentially lead to inaccurate investment selections.
- **Stringent control** over how the client's risk tolerance is reflected in the portfolio decisions: while the risk tolerance should be considered as one of the primary determinants for investment selection, all other elements of the risk profiles must be accounted for in the advisory process.
- **Review of each risk category** for all investment strategies (asset allocation) including how parameters defining the investment selection are considered in the tools used.

## Best practices

- **Risk profiling techniques** take into consideration how clients choose to invest in specific instruments and what the determining factors in a buy /sell decision are.
- **Investor's attitude** towards specific types of risk, as well as their awareness of the wide range of market circumstances that could affect the portfolio are evaluated and consistently documented.
- **Service providers have robust methodologies** in place to assess client's capacity for loss - client's loss bearability, time horizon, liquidity and overall investment objectives are closely monitored.
- **Updates on suitability and appropriateness** are conducted regularly and whenever there is reason to know that a change in a client's circumstances might affect their existing risk profile.

## ▶ LPA Digital Advisory

We assist our clients with efficient and tailored regulatory documentation. Our flexible tools stream-line your workflows and are embedded within your existing processes.

### Our one-stop-shop solution

**Customer profiling:** Interactive capturing of the client's situation, through trade specific scenario analysis.

**Analytics Module:** Track client's behavior, register and statistically evaluate user actions in the digital presentation and during the questionnaire.

**Interactive scenario calculator:** Ad-hoc pricing & recalculation considering adjustments and inputs by the client.

**Tool assisted product selection and risk disclosure:** Successively narrow down towards the final product selection based on a central mapping of the product catalogue with all decisions made along the sales process.

## Your benefits

- ✓ **Cost savings thanks to straight-through processing throughout the entire advisory process.**
- ✓ **Low maintenance efforts due to a centralized database for products, documents and processes.**
- ✓ **Effortless regulatory and legal compliance with centralized database to minimize operational risks.**
- ✓ **In-house solution for scalable growth of products and documents using your existing workforce.**

# Review of investment selection practices

Being faced with the intricacies of the new instruments that are being marketed to the wide public, regulators are expected to focus on defining stricter rules to address the need of **increased levels of client protection**. We anticipate the development of stricter controls to address the use of complex products in clients portfolios. **Service providers will face additional pressure** to improve their approach towards risk management and to ensure that the systems and controls currently in place are fit for purpose and effective in mitigating the risk of unsuitable client investment outcomes. The overview below summarizes the areas that are expected to fall under regulatory scrutiny, as well as a short introduction to LPA's automated in-house documentation platform **LPA Digital Advisory** enabling compliant, efficient, flexible and future proof investment selection.

## Regulatory Outlook - Investment Selection

- **Requirement for intermediaries** to identify and intervene in unsolicited transactions in complex products by providing relevant information to clients and/or by considering the riskiness and complexity of them against the relevant client profiles.
- **Implementation of safeguards** to address situations where customers fail to provide sufficient information as well as processes to mitigate the risk of delivering unsuitable advice to clients.
- **Enhanced product due diligence** - accurate and comprehensive instrument classification and clarity over the product's characteristics, the target market's objectives, and the intended distribution strategy.

## Best practices

- **Use of central investment propositions** is fully aligned to the risk descriptions and outputs from the risk profiling tools the financial service providers employ.
- **Portfolios are periodically reviewed** and rebalanced to ensure that the balance of assets does not deviate from the initially recommended asset allocation.
- **Concentration limits for client portfolios** when distributing complex products are available and considered in the appropriateness and suitability evaluation.
- **Staff is educated and trained** on a continuous basis, to ensure a detailed understanding of the products offered, the risk they entail and how to best advise clients with achieving their investment goals.

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**Consistent & appropriate outreach** given complete process and system integration.

**Scalable digital sales** with a modern, interactive and individually designed customer experience.

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Leverage our automation and transformation capabilities as a single vendor front-to-back

## ► LPA Contacts

We and our team are committed to partner with our clients to enable system integration & business transformation in a compliant, efficient and digitized way.

**Our interdisciplinary team** brings along significant expertise in regulatory transformation programs, including topics such as **MiFID II, FinSA & PRIIPs**. Due to our direct relationships and consulting roles with financial supervisory authorities as well as market associations, we can provide you with the latest trends and activities in terms of regulatory needs and directions. This gives you the opportunity to discuss regulatory changes and implementation measures with only one solution provider. Furthermore, we are able to support you in performing health checks, gap and impact assessments, defining as well as integrating business and technical implementation measures throughout to Go-Live.



**Philippe Andermatt, CFA**  
Partner, LPA Zurich

EMAIL [philippe.andermatt@l-p-a.com](mailto:philippe.andermatt@l-p-a.com)  
MOBILE +41 (0) 79 947 02 64



**Robin Trommsdorff**  
Manager, LPA Zurich

EMAIL [robin.trommsdorff@l-p-a.com](mailto:robin.trommsdorff@l-p-a.com)  
MOBILE +41 (0) 79 576 22 33



**Elena Fasic**  
Senior Consultant, LPA Zurich

EMAIL [elena.fasic@l-p-a.com](mailto:elena.fasic@l-p-a.com)  
MOBILE +41 (0) 76 366 86 38



Founded in 1999, LPA has been an industry leader in the Capital Markets Technology and Advisory space for two decades, effectively combining innovative software solutions with deep subject matter expertise across interest rate and currency management, regulation, risk and new and emerging technologies. As the European market leader in capital markets technology solutions LPA has a proven track record of working with international banks and financial institutions to improve client experience, drive efficiencies and increase profitability to ultimately deliver against stated business strategies.