Thistle Initiatives

# Attitude to Risk Assessment

The Adviser's Blueprint
Best Practice Guides for Retail Advisers
04

**Every firm wants to deliver great advice. But consistency, evidence and oversight can make that harder than it sounds.**

**With Consumer Duty now firmly embedded and regulatory scrutiny increasing, firms are under growing pressure to evidence the quality and consistency of their advice. The challenge lies in turning those expectations into practical, repeatable processes that work in the real world.**

**These guides bring clarity to every stage of the advice journey by translating regulation into practical action. We want to help firms move beyond tick box compliance to effective practice, ensuring advice processes are compliant, well governed and truly client centred.**

**By focusing on what works in practice, The Adviser's Blueprint helps your firm to build stronger frameworks, enhance client trust and stay ahead of regulatory change.**

# 1. What's the Purpose?

To start with, it's important to understand that "attitude to risk" isn't just a box filling exercise in the fact find. It's the bridge between what a client wants to achieve and the level of uncertainty they're comfortable accepting along the way. If you get this wrong, you risk delivering a plan that's technically sound but emotionally unworkable for the client, and nothing undermines trust faster than that.

Attitude to Risk is about far more than getting them to complete a multiple choice questionnaire. It's about having an open, honest conversation to understand how they feel about volatility, potential losses, and the trade-off between risk and reward. Done well, this process builds trust, aligns expectations, and creates the foundation for a suitable investment strategy. Done badly, it can lead to mismatched portfolios, complaints, and even regulatory action.

# 2. What does Good Look Like?

Contrary to popular belief, the FCA doesn't insist you use a risk profiling tool to assess a client's Attitude to Risk. What they are interested in is how you, as the adviser, seek to understand the level of risk the client is genuinely willing and able to take, and how that appetite aligns with achieving their goals and objectives.

A shiny questionnaire with a neat "Balanced" or "Adventurous" label might look tidy in a file, but it's only a small piece of the puzzle. The FCA is far more interested in how you got there: what was asked, what was said, and how the conversation explored the client's feelings about potential losses, market fluctuations, and trade-offs.

**A good Attitude to Risk assessment therefore goes beyond proving that questions were answered. It creates a detailed record of a conversation in which:**

- You've unpacked how the client thinks and feels about risk, both in theory and in practice.
- You've related risk to their actual goals, timescales, and capacity for loss (with further detail signposted to the Effective Capacity for Loss guide).
- You've explored not just their tolerance for investment ups and downs, but how they might behave in difficult market conditions.
- You've tested their comfort level with relatable scenarios and real monetary examples, not just percentages.
- You've verified that they fully understand the implications of the agreed risk profile on their investment journey.

### I. Cross check ATR Questionnaire results with detailed conversations

Treat the risk profiler output as a starting point, not the final answer. Avoid a "computer says no" approach where the tool result is accepted without challenge. Use your discussion with the client to test whether the score truly reflects their comfort level both emotionally and in practical terms. Explore how they would feel about specific ups and downs in value, and use relatable examples in pounds and pence. If there's a mismatch between the questionnaire result and what the conversation uncovers, record the reasons and agree on an appropriate profile that genuinely reflects the client's views. Ensure the agreed position is documented in the client's own words.

## II. Consider past experience and behaviour

A client's stated risk appetite in a questionnaire is only part of the picture, as the theory can be very different from reality. People often overestimate how comfortable they'll be with investment ups and downs, or they may not fully appreciate what "risk" feels like until they've experienced it. This is why past behaviour is such a valuable cross-check. How a client has actually reacted to real market movements or financial decisions in the past can reveal far more about their true tolerance than a set of tick-box answers.

**Example**

If a client says they're comfortable with high risk but previously sold out of equities during a 10% market dip, this behaviour suggests they may in practice have a lower tolerance for volatility.

**By combining both stated preferences and observed behaviour, you create a risk profile that's more accurate, more defendable, and far more likely to result in a strategy the client can stick with over time.**

## III. Document the agreed risk profile in the client's own words

The record of a client's risk profile should feel personal, relevant, and reflective of the conversation you actually had, not just a copy and paste of a generic risk statement packed with technical terms. Long, standardised paragraphs full of jargon might look impressive in a file, but they add little real value and rarely demonstrate that the client genuinely understands their risk position.

Instead, focus on capturing:

- The key points discussed during the risk conversation.
- The client's own description of what risk means to them.
- How they feel about potential losses and gains in both percentage terms and pounds and pence.
- How this agreed level of risk links to your proposed solution.

By recording the client's understanding in their own words, you show that the profile is based on a meaningful, personalised discussion and not just a formality. This makes your file much stronger from a compliance perspective, improves clarity and understanding for the client if they review their documents in the future, and ensures there's a clear link between the risk agreed and the strategy recommended.

### IV. Review client risk appetite regularly

Risk appetite isn't a "set and forget" decision, it's something that can and should evolve as a client's circumstances, goals, and outlook change. At annual reviews, or when providing ad-hoc advice, it's not enough to simply note, "Client confirmed their risk profile remains unchanged." The FCA is clear that the responsibility for assessing whether the agreed level of risk is still suitable sits with you, the adviser, and not with the client.

A thorough review means actively revisiting the client's current situation, objectives, and financial position, as well as discussing whether their comfort with risk has shifted. This could be influenced by changes in employment, family circumstances, health, or investment experience over the past year. In many cases, you'll conclude the profile remains appropriate, but that conclusion must be backed up by a meaningful 3 discussion and clear evidence in your notes. The goal is to ensure that the client's risk profile isn't just the same on paper, but still truly reflects their needs, comfort level, and long-term objectives.

# 3. What Approach Should I Take?

The best risk assessments start broad and get specific. Use open questions to explore the client's investment history, comfort with fluctuations, and how they've reacted to market changes in the past. Then, introduce a structured risk profiler to provide a consistent framework.

Once you have a score or category, don't just accept it:  test it. Share examples of portfolio outcomes in different market conditions, or walk them through what a 15% drop in value might mean in pounds and pence. Watch their reaction. It can sometimes be more telling than their answers.

I. **Prepare Before the Meeting**
A good Attitude to Risk conversation starts well before the client walks in (or logs on). Review their existing records, any previous risk assessments, and pre-meeting questionnaires. Spot where information is missing, inconsistent, or outdated so you know exactly where to probe.

> **How to:** If the last recorded risk profile was "Balanced" but the client's circumstances appear to have since changed, e.g. they've retired or inherited money, make a note to explore whether that still feels right.

II. **Start with an Open Conversation**
Don't launch straight into a risk questionnaire. Begin with open questions that explore goals, timescales, and past investment experiences. This builds trust, gives context, and helps you pick up on clues about their real comfort level with market ups and downs.

> **How to:** Ask, "Can you tell me about any investments you've had before and how you felt when their value went up or down?" or "If your investments dropped in value for a while, how do you think you'd react?"

III. **Use a Structured Risk Profiling Tool**
Introduce a robust, FCA-compliant risk profiling tool as part of the process, but make it clear that it's just one input, not the final verdict. A tool provides consistency and structure, but your professional judgement and the client's own words are what make it meaningful.

> **How to:** Explain, "This questionnaire helps us structure the conversation and gives us a starting point for discussing your risk comfort level. It's not the whole picture and we'll review the result together."

## IV. Cross-Check Output

Discuss the results with the client, check whether they agree with them, and test their comfort level with real world examples. If there's a mismatch between the score and the conversation, record why and agree on a profile that truly reflects their feelings.

**How to:** If the tool says "Balanced," show them a scenario: "If you invested £100,000, it might grow to £120,000 in a good year but could fall to £85,000 in a bad year. How would you feel if that happened?" Watch for verbal and non-verbal cues.

## V. Record and Agree the Final Risk Profile

Document the agreed profile in the client's own words and explain how it links to their goals and timescales. Avoid copy and paste jargon. Include any key factors that influenced the decision such as past behaviour, recent market experience, or future plans. Confirm that it will be reviewed regularly.

**How to:** Write something like: "After the above documented discussion, Client agreed to take a balanced level of risk, saying: 'I want steady growth but don't want to see losses of more than £15,000 in a bad year.' This aligns with the plan to draw £25,000 a year in retirement."

# 4. How Can I Avoid Common Pitfalls?

## Spot the Contradictions

When a client completes an Attitude to Risk questionnaire, the resulting score or category is only the starting point. Most robust tools will also highlight where individual responses fall outside the expected range for the suggested profile. For example, where the overall result suggests a "Balanced" profile, but certain answers point towards a much higher or lower tolerance for risk.

These inconsistencies should never be ignored or brushed over. They are a clear prompt to revisit those questions with the client, check that they fully understood what was being asked, and explore why they responded as they did. Sometimes the cause will be a simple misunderstanding of the wording, while in other cases it may reveal that their feelings about risk are more nuanced than the score suggests.

**Example:** If a client scores "Balanced" overall but selects "Strongly Agree" to a statement like "I am willing to take substantial investment risk to achieve higher returns", this needs to be discussed. It could be they misread the question, or it could be that they are comfortable taking high risks in some contexts but not when it comes to retirement savings. Either way, the discussion and the client's explanation should be documented clearly in your file.

## Go Beyond the List

Owning investments doesn't automatically mean a client understands them. A stocks and shares ISA, a company pension, or a few employer shares might be in place simply because someone set them up years ago, not because the client actively manages or follows them. Dig deeper.

Ask how they came to hold these investments, how they keep track of them, what sort of performance they've experienced, and most importantly, how they've felt when values have dropped. By exploring the emotional side as well as the factual side, you'll build a far more accurate picture of their true knowledge and experience. This richer understanding not only strengthens your risk assessment but also makes your documentation far more robust.

## Just Because They Can, Doesn't Mean They Should

A client's risk profile isn't just about what they're willing or able to take, it's about what they actually need to take in order to achieve their objectives. It's easy to fall into the trap of simply accepting the score from a questionnaire, particularly if it points to a moderate or high-risk tolerance and is backed up by strong capacity for loss, good knowledge, and plenty of investment experience. But that score is only a starting point, not the destination.

**The key question is:** Does this client need to take that level of risk to achieve their goals?

Take, for example, someone with a secure, guaranteed retirement income from defined benefit pensions and state pension entitlement, plus a healthy cash reserve. They may score "Adventurous" on a risk tool and express a willingness to pursue growth, but if their objectives can be comfortably met with a lower-risk, less volatile approach, then exposing them to higher risk could be unnecessary, and potentially detrimental if markets fall sharply.

This is where the fact finding and the conversation matter most. By fully understanding the client's broader financial position, objectives, and emotional comfort with potential losses, you can recommend a risk level that serves their needs, not just matches their appetite. The FCA's focus is on suitable risk, not maximum risk, and documenting the reasoning behind a decision to lower a client's risk level despite a higher score demonstrates sound judgement and client centric advice.

Ultimately, the adviser's role is to align risk with the client's goals and circumstances, not simply to rubber stamp what a questionnaire says. A well documented discussion that explains why a lower risk profile was chosen, and how it still meets the client's objectives, is far stronger evidence of suitability than a score left unchallenged.

## Balancing the Three Risk Pillars

When assessing a client's attitude to risk, you can't look at willingness, need, or ability in isolation. All three carry equal weight and must be considered together before making a recommendation.

A client may be willing to take on significant investment risk and may even need to in order to reach their goals, but if they lack the capacity to absorb potential losses, that strategy could be unsuitable.

Capacity for Loss is explored in depth in the Effective Capacity for Loss guide, but it's worth reinforcing here: a sound risk assessment is about achieving the right balance between these three factors. Ignoring one could lead to unsuitable advice, even if the other two align perfectly. Your job is to ensure the client's risk profile works in the round, not just on paper.

# 5. Our summary

We've explored how to:

- ✓ Combine structured assessment with open, in-depth conversations and not just rely on a score.
- ✓ Consider willingness, need, and ability to take risk side by side before making a recommendation.
- ✓ Use past investment behaviour and emotional reactions as a reality check, not just theory.
- ✓ Challenge and document any inconsistencies between questionnaire responses and discussion.
- ✓ Avoid assuming knowledge or experience just because the client holds investments.
- ✓ Record the agreed risk profile in the client's own words, linked to their goals, and free from jargon.
- ✓ Complete individual ATRs for each client in joint cases and record how differences were managed.
- ✓ Recognise that just because a client can take a higher risk, doesn't mean they should.
- ✓ Keep ATRs fresh. Review them regularly and whenever circumstances change.

# 6. Our Checklist

Use this checklist to confirm that your Attitude to Risk assessment reflects a meaningful client discussion, sound professional judgement and clear evidence of suitability. It is intended to support consistency across advisers while meeting the FCA's expectations around client understanding, documentation and ongoing review.

- ☐ Prepared before the meeting by reviewing existing information and identifying gaps?
- ☐ Documented open conversation about goals, timeframes, and past investment experiences before using any tool?
- ☐ Used a structured, consistent method to assess risk, making it clear the tool is only part of the process?
- ☐ Cross-checked the tool output against your discussion, addressing and documenting any inconsistencies?
- ☐ Considered willingness, need, and ability to take risk side by side?
- ☐ Explored the client's past investment behaviour and emotional reactions to gains/losses?
- ☐ Agreed and documented the profile in the client's own words, linked to their objectives, and free from jargon?
- ☐ Completed separate ATRs for each person (if joint case) and recorded how differences were resolved?
- ☐ Avoided assuming knowledge or experience purely from existing holdings, instead exploring the emotive side?
- ☐ Ensured that the chosen risk profile is needed, not just possible?
- ☐ Made a clear plan to review the ATR regularly and update it if circumstances change?

## About the Author

**Paul Marriott,**
**Compliance Manager**

With more than 25 years' experience in financial services, Paul has dedicated his career to promoting compliance and regulatory excellence, helping firms operate securely and with strong governance. His background across retail and corporate advisory environments gives him a deep understanding of diverse financial needs and regulatory challenges.

Specialising in compliance oversight for complex, fast-evolving organisations, Paul develops practical solutions that align regulatory expectations with business objectives. A strong advocate for training and competence development, he helps individuals and teams understand how effective compliance supports sustainable success and long-term growth.