



A2Risk

ATRQ System: Accumulation Version

Questionnaire to measure Attitude to Risk

Questionnaire to measure Capacity for Loss

GUIDE TO USE

for Advisers and Financial Planners

with clients who are accumulating investments



Introduction

This document offers guidance on the roles that A2Risk's ATRQ System is intended to play in the financial planning process.

This guide covers the ATRQ System: Accumulation Version which consists of an Attitude to Risk Questionnaire for and Capacity for Loss Questionnaire for use with investors who are accumulating investments.

It also describes how the ATRQ system was developed, how it is kept up to date, and its applicability to the Financial Conduct Authority's regime for financial planning in the UK.

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Overview: What is the ATRQ?

The ATRQ System is designed to help advisers assess his or her clients' attitude to investment risk and capacity to take risk (capacity for loss).

This version of the ATRQ System is designed to assess attitude to risk during investment accumulation. The separate decumulation version of ATRQ should be used for clients who are decumulating assets.

The ATRQ system consists of two short questionnaires that should be used together:

- 1) The Attitude to Risk Questionnaire is a short series of questions that capture key aspects of the client's attitude to risk and provides an attitude to risk score and category that summarises the client's attitude to risk.
- 2) The Capacity for Loss Questionnaire measures the financial capacity of client's to invest and to accept financial losses and is assessed through the facts of the client's personal circumstances

Together, the questionnaires provide a structured means of having a dialogue between the adviser and client about how much risk the client is willing to take. Importantly, the ATRQ System is not a substitute for that conversation, but a tool that provides a starting point for the discussion.



Risk tolerance: Role financial planning

Risk tolerance is the measure of how much investment risk the client is willing and able to take.

Attitude to risk – is the client’s psychological willingness to take risk

Need to take risk – is the client’s need to take risk to earn their required return based on their investment goals and time horizon

Capacity for loss – is the client’s financial ability to bear risk and cope with adverse outcomes. It relates to investment horizon, and the level of income, assets and liabilities.

All of these factors are important in the financial planning process. A2Risk’s ATRQ System measures attitude to risk using psychometric assessment. The system measures capacity for loss through financial fact finding questions. Need to take risk is measured by the advisers themselves by evaluating clients’ investment goals, time horizon and the financial resources at their disposals.

Reconciling attitude to risk, capacity for loss and the need to take risk is a key role of the adviser, and an area where substantial value can be added.





ATRQ Attitude to Risk Questionnaire: Guide to use

The ATRQ Attitude to Risk Questionnaire comprises a set of 12 plain English statements to which the client is asked to respond, stating the extent to which they agree or disagree with each statement. We estimate it takes less than six minutes to complete and no specialist investment knowledge is required.

ATRQ Questions

- 1 People who know me would describe me as a cautious person.
- 2 I feel comfortable about investing in the stockmarket.
- 3 I generally look for safer investments, even if that means lower returns.
- 4 Usually it takes me a long time to make up my mind on investment decisions.
- 5 I associate the word "risk" with the idea of "opportunity".
- 6 I generally prefer bank deposits to riskier investments.
- 7 I find investment matters easy to understand.
- 8 I'm willing to take substantial investment risk to earn substantial returns.
- 9 I've little experience of investing in stocks and shares.
- 10 I tend to be anxious about the investment decisions I've made.
- 11 I'd rather take my chances with higher risk investments than increase the amount I'm saving.
- 12 I'm concerned by the volatility of stockmarket investments.

The questions cover a number of factors related to attitude to risk:

- Investment knowledge – more knowledgeable clients tend to be more risk tolerant
- Overall comfort with risk – some clients are simply more comfortable with risk in general
- Investment preferences – client's perceptions on the risk of particular kinds of investments
- Regret – clients prone to regret tend to be less risk tolerant

The response scale (known as a Likert Scale) is:

Strongly agree / Agree / Neither agree nor disagree / Disagree / Strongly disagree

The client's responses are converted into an ATRQ Score using a proprietary calculation developed in our research. The ATRQ Score ranges from 0-100, with higher scores indicating higher willingness to take risk. The score is mapped to an ATR Category, which has a description of the typical characteristics of clients in that category.

It is important to bear in mind that the ATRQ Score and ATRQ Category are relative rather than absolute. An ATRQ Score of 50 indicates an average level of willingness to take risk in comparison to the UK adult population (referred to as the norm group).

The adviser should provide the client with his or her ATRQ Score and ATRQ Category and discuss the extent to which the client is comfortable with that assessment. The adjacent categories can be discussed with the client and the client may choose to opt for a higher or lower category than assigned by the ATRQ. The discussion and agreed category should be documented by the adviser.



The ATRQ Score and ATRQ Category provides a starting point for suggesting a portfolio and level of investment risk that might be suitable for the client. The final recommendation needs to take account of not just the ATRQ Score, but also other aspects of the fact find, and an assessment of the client's capacity for loss in relation to the recommended portfolio. This can be done by discussing with the client the range of possible outcomes from the recommended portfolio, and the implications of possible adverse outcomes for the client.

[sub-head] ATRQ Attitude to Risk categories and descriptions

The client's ATRQ Score is mapped to an ATRQ Category. Each category covers a range of scores and has a written description of the typical characteristics of clients in that category.

The description is based on 'playing back' to the client the types of responses they would have had to have made to the ATRQ statements in order to get a score that fits in that category. The descriptions are necessarily 'broad brush' and they won't match any particular client exactly.

The ATRQ was developed based on five categories, reflecting a balance between differentiating between different levels of risk tolerance, while acknowledging that a questionnaire can only capture broad aspects of personality.

ATRQ Category descriptions

Description: Very Cautious and Cautious Investors

Cautious Investors ... tend to regard themselves as cautious people and view risk negatively rather than as a source of opportunity. They typically have little or no experience of investment and do not find investment matters easy to understand. They can take a long time to make investment decisions and tend to be anxious about any investment decisions they have made. They typically look for safer investments rather than seeking higher returns. They are not comfortable about investing in the stockmarket and typically prefer bank deposits to riskier investments.

Description: Moderately Cautious Investors

Moderately Cautious Investors...tend to regard themselves as quite cautious people and are inclined to view risk negatively rather than as a source of opportunity. They typically have limited experience of investment and do not find investment matters particularly easy to understand. They can take a fairly long time to make investment decisions and can be somewhat anxious about investment decisions they have made. They are inclined to look for safer investments rather than seeking higher returns. They are not particularly comfortable about investing in the stockmarket and tend to prefer bank deposits to riskier investments. They may be willing to take some risk, once the relationship between risk and higher returns has been explained to them.

Description: Balanced Investors



Balanced Investors...do not particularly regard themselves as cautious people and have no strong positive or negative associations with the notion of taking risk. They will typically have some experience of investment and a degree of understanding of investment matters. They will usually make investment decisions reasonably quickly and don't tend to be particularly anxious about investment decisions they have made. They can be inclined to look for safer investments rather than higher returns, but understand that investment risk may be required to meet their investment goals. While they will take investment risk, they are still not particularly comfortable with investing in the stockmarket and get more comfort from bank deposits than riskier investments.

Description: Moderately Adventurous Investors

Moderately Adventurous Investors...do not typically regard themselves as cautious people and are inclined to view risk as a source of opportunity rather than as a threat. They generally have significant experience of investment and find investment matters fairly easy to understand. They tend to make investment decisions relatively quickly and are not usually particularly anxious about the investment decisions they have made. They typically look for higher returns rather than safer investments. They are reasonably comfortable about investing in the stockmarket and typically prefer riskier, but higher returning, investments to keeping money in bank deposits.

Description: Adventurous and Very Adventurous Investors

Adventurous Investors...do not typically regard themselves as cautious people and usually view risk as a source of opportunity rather than as a threat. They generally have substantial experience of investment and find investment matters easy to understand. They tend to make investment decisions quite quickly and are not generally anxious about the investment decisions they have made. They typically look for higher returns rather than safer investments. They are comfortable investing in the stockmarket and prefer riskier, but higher returning, investments to keeping money in bank deposits.

Robustness checks

The ATRQ has been designed to be easy for clients and advisers to use. Nonetheless, in the advice process it is important to be confident that the client has understood the questionnaire and that the answers given are a good reflection of the client's risk tolerance.

We have built a number of robustness checks into the ATRQ to capture areas where the client has given inconsistent answers, and cases where the client has given a high number of "Neither agree nor disagree" responses which may indicate some discomfort with the questions. The robustness checks provide a prompt for the adviser to have an in-depth discussion with the client. This is in line with FCA guidance on ensuring the suitability of investments for a client.

Note, however, that some degree of inconsistency in the answers is reasonable – each question focuses on a different aspect of risk tolerance and clients will approach each differently. The important point is that the issues are discussed and the discussion documented.

Attitude to Risk robustness checks		
Specific Response	Allocated	Prompt

	category	
Gives 6 or more "no strong opinion" responses	Any	"You answered [N] questions as "no strong opinion". If you found the questions difficult to answer or understand, or have any other reservations about the [Category] investment approach, you might want to consider whether this category really is right for you. You may wish to discuss this with your adviser.
Strongly disagrees with "I feel comfortable about investing in the stockmarket"	"Balanced" or above	"[Category] investors typically have portfolios that involve some stockmarket investments. However, you strongly disagreed with the statement "I feel comfortable about investing in the stockmarket." You might want to consider whether this category really is right for you. You may wish to discuss this with your adviser."
Strongly agrees with "I generally look for safer investments, even if that means lower returns."	"Balanced" or above	"[Category] investors typically have portfolios that involve some investment risk. However, you strongly agreed with the statement "I generally look for safer investments, even if that means lower returns." You might want to consider whether this category really is right for you. You may wish to discuss this with your adviser."
Strongly agrees with "I generally prefer bank deposits to riskier investments."	"Balanced" or above	"[Category] investors typically have portfolios that involve some higher risk investments rather than bank deposits. However, you strongly agreed with the statement "I generally prefer bank deposits to riskier investments.." You might want to consider whether this category really is right for you. You may wish to discuss this with your adviser."
Strongly agrees with "I'm concerned by the volatility of stockmarket investments"	"Balanced" or above	Show category and explanation. Show text "[Category] investors typically have portfolios that involve some stockmarket investments. However, you strongly agreed with the statement "I'm concerned by the volatility of stockmarket investment." You might want to consider whether this category really is right for you. You may wish to discuss this with your adviser."



ATRQ Capacity for Loss Questionnaire: Guide to use

It is vital to consider not only the client’s attitude towards volatility and investment risk, but also their capacity to invest and to accept financial loss. This is largely based on the customer’s personal financial situation. Capacity for loss (CFL) is best measured by facts and circumstances rather than the psychometric measurement of attitude to risk. As a result our CFL questions are designed for use by advisors. They have been developed through experience and testing in focus groups rather than statistical scoring on a sample of the population.

CFL relates to the customer’s ability to recover from a fall in their investments. The higher their capacity, the greater the investment risk they can actually afford to take. Conversely, the lower the capacity, the lower the risk they can afford to take. Customers have a lower capacity for loss when some or all of the following apply:

- Have no way to replenish their capital (for example, no longer earning)
- Rely on the investment for income in order to meet expenditure
- Have a short investment horizon (losses are unlikely to be recouped prior to crystallisation)
- Are exposing a large part of their available assets to the risk of a fall

A2Risk provide the following CFL questions.

CFL Question	Rationale
What is your investment horizon?	A longer investment horizon supports capacity for risk, because you have longer for markets to recover and more scope to save more to make up for past investment losses.
How high is your income relative to your spending needs?	The more surplus income you have the more you will be able to cope with any investment losses
What is the value of your assets (housing; investments; business etc) relative to your liabilities and spending needs?	The higher the value of your assets relative to your liabilities and spending needs, the more you will be able to cope with any investment losses.
How easy would it be for you to reduce the amount you spend?	The more flexible your spending, the more you can adjust to cope with any investment losses.
How flexible is your intended retirement date?	If you are saving for retirement, flexibility over when you will retire can help you cope with any investment losses.



Scientific grounding: How the ATRQ System was developed

The A2Risk ATRQ System is designed according to the established principles of psychometrics, that is, the science of measuring individuals' attitudes.

The questions have been designed to be easy to use by a wide range of clients. We have created clear and straightforward statements to which investors can respond. We have avoided questions that present complex investment scenarios or require calculations or working with mathematical concepts such as percentages. Many clients would be uncomfortable with such questions. We have also sought to avoid questions that are vague or deal with issues that people might not be familiar with. All of the questions in the ATRQ have been tested and validated.

The effectiveness of the process can be gauged in some key quality statistics:

The Alpha of the ATRQ – a measure of the reliability of a psychometric questionnaire – was 0.85 for the 2018 update – which is classified as being “Good”.

Update process: Two-year cycle

We update the ATRQ every two years, in a process that has two parts.

Firstly, we review the questions including taking feedback from users of the questionnaire. We assess whether any questions need to be improved, or whether replacements are required. We do not expect to make many or frequent changes, but believe it is important that the ATRQ can evolve.

Secondly, we update the norm group analysis to which client's ATRQ responses are compared. We commission YouGov to get responses to the ATRQ from a sample of over 2000 people representative of the UK adult population. We assess the average ATRQ score and the distribution of responses.

We do not expect the range of scores to vary much from update to update, but we do want to assess whether there has been any shift in overall levels of attitude to risk in the population. Attitude to risk is a fairly enduring psychological characteristic, but can be shaped by experience. For example, overall risk tolerance may decline following a period of market or economic crisis, which makes investment risk salient to the wider population.



FAQ: The practicalities

How long will the ATRQ process take?

We estimate that completing the questionnaire will take less than six minutes. However, the adviser needs to explain how the ATRQ fits in the financial planning process and discuss the ATRQ results with the client, which means the overall time required could be half an hour or more.

Does my client need to be experienced in investment to use the ATRQ?

No, the ATRQ was specifically designed to be easy to use for the broadest range of clients. We have tried to minimise financial jargon and avoid complex investment questions. Instead, we focus on broad aspects of the client's personality and perceptions in how they view saving and investing.

Should I recommend a portfolio for the client based on the ATRQ Score and Category?

No, the ATRQ is only one of several inputs required for portfolio selection. The recommendation should also consider the client's objectives (and the return required to meet them), their capacity for loss, and other unique circumstances that they have. The ATRQ can, though, be used as a starting point in the discussion of what a suitable portfolio might be. Often the ATRQ is used alongside modelling software that can show the possible range of outcomes from an investment.

My client says the category description doesn't sound right for them – what should I do?

You should discuss with the client why they think that, and review the answers given to the ATRQ. You can show the client descriptions of adjacent ATRQ categories and consider if one of these is more appropriate. The aim of the discussion is to agree an appropriate category with the client, and it is important that the discussion is documented carefully.

My client is surprised that she has been put in the Balanced category – she regards herself as quite risk averse?

The ATRQ score and category expresses how risk averse a client is relative to the wider UK population. Most people in the UK are quite risk averse with investments. Your client may not be aware that her attitude to risk is fairly typical of the UK population. The question of what portfolio is appropriate for that client then hinges on the ATRQ result and the need to take risk to earn the returns required for their objectives, and the capacity for loss.

How often should my client do the ATRQ?

The ATRQ is a key part of the financial planning process and should form part of each major portfolio review. Attitude to risk is quite enduring and is unlikely to change quickly. It can change in response to experience and changing circumstances, such as life events, or experience with existing investments. There is no set frequency for review, but at least once every three years would seem reasonable.

You have just released an update of the ATRQ – do I have to put all my clients through it again?



No, the basic structure of the tool is the same, and the vast majority of clients would get the same score. You should redo the ATRQ with the client in line with the agreed portfolio review schedule.

Can I change the questions/categories/scores in the ATRQ?

No, the ATRQ has been developed following rigorous research and has been tested on a sample representative of the UK population. Our regular updates are also researched and tested. We have no way of knowing how ad hoc adjustments would affect the results. We do, though, value feedback and if you have ideas for improvement we can input these into our research.

The FSA (now FCA) criticised risk profilers and some advisers have been fined for using them – is the ATRQ one of the tools that was criticised?

The FSA did not say which tools it had looked at. It highlighted that vague and imprecise questions could be problematic and that is important for advisers to understand the tools they use, and to use them as part of a structured advice process rather than blindly following the results.

Our questions were designed to be clear and rigorously tested. We have always described the ATRQ results as the start of a conversation about risk rather than a final answer. We did, however, introduce the robustness checks described above as a result of the FSA comments, to aid that conversation.

Please see the following section for a full response.

Who provides the ATRQ?

A2Risk Limited, which is a specialist research company focused on tools for incorporating assessment of risk tolerance in the financial advice process. The ATRQ was developed by academics from Cass Business School and the University of Edinburgh, who are the principals of A2Risk.



Regulation: How the ATRQ systems complies

Comments in response to FSA Guidance Consultation

“Assessing suitability: Establishing the risk a customer is willing and able to take and making a suitable investment section”

The FSA has published a consultation on guidance on approaches to assessing customer risk profiles and making suitable investment selections. This note evaluates the points made in the guidance in relation to use of attitude to risk questionnaires (ATRQ), with specific reference to the A2Risk ATRQ.

The FSA notes that poor outcomes can occur if firms use tools which are not fit for purpose; do not understand how a tool works or its limitations; or fail to mitigate a tool’s limitations within the suitability assessment process they use.

The A2Risk ATRQ has been designed carefully following detailed research on risk-profiling. Used carefully, it can play an important role in suitability assessment. In the guidance materials that accompany the ATRQ, we explain how the ATRQ was developed and how it works. The ATRQ is licensed with a support service and we are happy to answer questions from users as they arise, so that firms can meet FSA expectations in terms of careful and considered use of the ATRQ.

Assessing the risk a customer is willing and able to take

The FSA report notes that “establishing the risk a customer is willing and able to take with their money is a key part of the suitability assessment.” It also noted that “where [risk profiling questionnaires] are used within a suitability assessment process [they] can help to provide structure and promote consistency and so can usefully support the discussion a customer has with their adviser or investment manager.”

Finally, the FSA cautions that “ tools may not provide the right answer in all circumstances. So where firms rely on tools, they need to ensure they consider risk and actively mitigate any short comings or limitations through the suitability assessment and ‘know your customer’ process.”

We agree that an ATRQ can contribute positively to the financial planning process by bringing structure and consistency. Like any model, the ATRQ has limitations and needs to be used carefully. Our preferred situation is for the ATRQ output to be used as the basis for discussion between a customer and an adviser. Where the ATRQ is used in a context where there is no adviser present, it is best positioned as an educational tool, to help the customer understand risk and his or her attitude towards it.

While the FSA notes the potential for problems where an ATRQ is used without appropriate care, this does not mean the ATRQ is the source of the problem. The FSA notes “similar weaknesses and limitations are identifiable in non-tool approaches.”



Risk attitude and risk capacity

The FSA notes that “although most firms consider a customer’s attitude to risk, often they do not consider other factors such as the customer’s capacity for loss.” The FSA identifies as good practice the approach of using one process to consider attitude to risk and a separate process to consider capacity for loss.

The A2Risk ATRQ considers only attitude to risk. We think it is important to consider both willingness to take risk and ability to take risk, but to do so separately. An important role for the adviser is to help the customer reconcile any conflict between willingness and ability to take risk. This reconciliation is unlikely to happen where a tool is used that considers both issues together and produces a single score.

Where an adviser is not present, the ATRQ should be accompanied by clear written explanation of the difference between risk attitude and risk capacity, and a discussion of the factors that drive risk capacity, such as investment time horizon and the balance between assets and liabilities.

Using poor questions in risk assessment questionnaires

The FSA notes that risk profile “questions that are not clearly worded, or where the content is unlikely to be understood, can result in customers not giving answers that accurately reflect the risk they are willing and able to take.” In particular, the FSA notes potential problems from vague questions and use of double negatives or complex language. There are also concerns about questions that require financial knowledge or mathematical ability, and multi-part questions that only allow a single answer.

The A2Risk ATRQ comprises a series of short, simple statements designed to capture different aspects of attitude to risk. The statements were constructed to avoid double negatives and complex language. The statements do not require mathematical ability, or any detailed financial knowledge. Each statement makes a single point, so there are no sub-questions.

The 12 questions used in the A2Risk ATRQ were selected from an initial list of 50 questions, which were subject to a pilot test. The test was designed to allow respondents to flag questions they had difficulty with and these questions were dropped from the final ATRQ. The questions were also analysed psychometrically and poorly performing questions eliminated. We believe the questions used in the A2Risk ATRQ stand up well to the FSA’s requirements for clarity and ease of use.

Inappropriately interpreting customer information

The FSA criticises a case where the risk category is effectively determined by the answer to one question within a longer questionnaire. The output of the A2Risk ATRQ is driven by all 12 questions on an equally-weighted basis. This avoids the result being overly sensitive to any one question. It is important to explain to customers that the risk category is driven by the aggregate result of all the questions, not any single question or subset of questions.



The FSA also notes a potential problem where a customer selects the middle option on a scale - “neither agree nor disagree” - for a significant number of questions and is allocated to a middle risk category. The concern is that the customer may have intended a “non-answer” rather than expressing indifference to risk.

The A2Risk ATRQ will assign a “Moderately Adventurous” risk category to customers who choose the middle option for most of the questions, the score being just above the top of the balanced category. The average respondent in our norm group makes some risk averse responses to the questions, so a respondent with all neutral responses is placed above the average risk attitude score.

We agree with the FSA that it is good practice to highlight potential inconsistencies in responses when discussing a customer’s risk category allocation. Where a high proportion of “neither agree nor disagree” answers are given, our suggestion would be to report the risk category, but also note the high proportion of middle choices and ask the customer if they had any difficulties in completing the questionnaire. In cases where an adviser is not present, the risk category report can highlight this issue and suggest the customer contact an adviser if difficulty was experienced.

A similar process can be followed where responses to some questions are at odds with the overall score and category. The customer can be alerted to the inconsistency and the implications discussed.



About A2Risk: Risk profiling tools

A2Risk is a specialist research company dedicated to providing tools to help financial services firms assess the risk tolerance of their clients, and hence better meet their investment needs.

We operate on a business-to-business basis, working with investment firms and intermediaries to incorporate risk tolerance assessment into the financial advice process. We do not offer generic risk questionnaires direct to consumers, but rather work with firms to implement tools that are specific to their advice process.

A2Risk's ATRQ System has been used by UK financial services firms since 2006. Long-standing users of the ATRQ system include Vanguard, Royal London, Moody's Analytics (Barrie & Hibbert), Defaqto and Capita Financial Services.

The system is now translated and tested for use in other markets, and has been adopted by two large banks in continental Europe.

Our aim is to provide our clients with robust tools that fit within their advice framework, together with a high level of service and support.

The ATRQ was developed by Dr Alistair Byrne and Professor David Blake in 2006, and the business was transferred into A2Risk in 2013.



Alistair Haig, Executive Director

Alistair Haig, CFA is a Director of A2Risk and a research fellow at the University of Edinburgh Business School. He has 15 years' experience in quantitative investment research, investment analysis and investment risk with Kames Capital, UBS and Baillie Gifford.



Professor David Blake, Scientific Advisor

A2Risk's Scientific Adviser, Professor David Blake co-developed the company's core ATRQ tool as part of the original Byrne and Blake research project. Among his roles, Dr Blake is Professor of Pension Economics at Cass Business School, City University London; Director of the Pensions Institute; and Chairman of Square Mile Consultants, a training and research consultancy. Professor Blake has an international reputation for research on pension issues and is the founder of the Pensions Institute, the UK's leading retirement research organisation.





Contact us

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