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Suitability Report Writing Guide

Contents

Purpose of the guide

This guide offers you, as Paraplanners, some best practice guidance around what to include in a suitability report so that a client can make an informed decision.

What's the purpose of a suitability report?

To show how your recommendations meet your client's objectives. This means the client needs to:

- Actually read the report.
- Understand it, so they can make an informed decision.
- Trust us and our ability to do the right thing for them.

It's not to show the client how much work went into it or how knowledgeable you are. Neither is it to keep your compliance department happy by covering every eventuality (aside from a few key inclusions).

Your internal file on assessing suitability should hold much more detail than your report. The report should translate all that technical research into something simple and easy to read. We should avoid giving clients an education in financial jargon as part of the process.

Language and layout

Language and tone

Make sure you're writing with your client in mind. You'll need to tailor your approach from one person to the next, bearing in mind their circumstances, financial knowledge and experience.

However, there are some general rules which will improve any report.

Keep your reports easy to read and understand. Use a conversational tone and avoid overly formal wording. For example, don't write 'I will facilitate' if you would say, 'I'll help'. Writing in a similar way as you talk makes it easier to digest.

Avoid jargon - use plain English to explain industry terms instead. For example:

Bad practice	Good practice
This will trigger the Money Purchase Annual Allowance.	This will limit how much you can pay into your pension in the future.
ISAs are tax-efficient savings vehicles with no ongoing liability to income tax or capital gains tax.	ISAs let you build up savings with no income tax or capital gains tax to pay.

Further details could be included in an appendix, but the client shouldn't have to go through this to decode your advice.

Use client's own words (COWS)

If the client has made specific comments that are relevant to include in the report, use their words. This will make them feel heard and understood.

Use the active rather than passive voice.
For example:

Bad practice	Good practice
This should be done soon, so that the next part of the process can be started.	You should do this soon, so we can start the next part of the process.

Avoid generic wording about products and providers (the 'what'). Personalise your writing wherever possible, so the report is about the client (the 'why').

Language and layout

We want the report to be easy for anyone to read and digest.

Layout tips

- Use clear headings and sub-headings.
- Use colour to help break up the report. For example, coloured headings help show where certain sections start and end. The ‘Themes’ and ‘Styles’ tools within Word can help with this.
- Include visuals like diagrams and charts instead of words.
- Tables can be used to summarise numbers.
- It can help to leave white space at the end of the previous section with the next heading starting on a new page. Try the ‘page break’ feature within Word. This gives the client a natural place to pause and take in what they’ve read.
- Try not to split paragraphs or tables across pages, as it can make them harder to follow.
- You could use breakout boxes to highlight vital information.

Formatting tips

- Choose a clear sans serif font, such as Calibri or Verdana, for example.
- A font size that’s not too small is recommended, with 12pt plus as a font size so that most people can read it.
- Use different sized headings for sections and subsections of the report. Use point size 14 or bigger.
- Ideally sentences should be no more than 15-20 words long. It’s always possible to break up a long sentence and word it another way.
- Keep paragraphs short. Four to six lines is manageable for most people.
- Use bullet points for added clarity.
- Use ‘left alignment’ for your paragraphs as it makes the text easier to read.
- Line spacing of 1.5 helps make the text less dense and improves readability.

Good practice
At the start of a new section of the report, it can help to leave white space at the end of the previous section, with the next heading starting on a new page. This helps separate the sections and gives the client a natural place to pause and take in what they’ve read.

Avoid page after page of black text. Many of us struggle to take in large amounts of new information outside their usual areas of knowledge. This sort of layout and formatting can make things harder for people.

Language and layout

Structure

We want the report to be easy for the client to navigate. It should be in a logical order, flow naturally from one section to the next, and not be too long.

Make your report about the client from the start. Tell their story - the background that led them to seek your advice. This shows you understand them and their needs and is more likely to engage them.

Include a table of contents that includes only the main headings - this helps the client to see, at a glance, what's in the report.

Be upfront with the important information. The FCA minimum requirements are to include:

1. The clients' objectives
2. What's being recommended and why
3. The potential disadvantages

Structuring this information well can help the client to read it. Ideally, this will all be covered in the opening pages. Address one point at a time and break down complex ideas into separate points.

When recommending bonds, pensions, replacement business and Defined Benefit transfers more is needed by the FCA. This is covered later in this guide **(see page 10)**.

Having looked at structure, we'll now talk more about the content of the report.

Ensure that the information in the report flows logically from one section to the next. Each section should build upon the previous one, leading seamlessly to your conclusions and recommendations.

Content

Executive Summary

Many clients are time poor and so providing a one-page summary of the advice with key points helps them to read and understand the recommendations.

Introduction

It's important to set the scene. Here you can include the scope of the advice. Plus, information about the client that's relevant to the recommendation - for example that they're planning to retire next month.

Keep it short and to the point. Include some soft facts to help to make it feel more personal. Soft facts include emotions and reasoning behind goals which help to create more robust recommendations.

Avoid telling the client factual information about themselves (how old they are, whether they are married, and so on). This information should have been collected and confirmed as correct before any recommendations are presented.

Use bullet points, bold text, or other methods to highlight critical information. This makes important data stand out and ensures it is not overlooked.

Content

Objectives

Objectives are one of the fundamental elements of suitability.

If the objectives are good then the suitability of the recommendations can be clearly matched. If the objectives are poor, then it is much harder to show suitability.

It is generally accepted that using the **SMART** method will result in a meaningful objective:

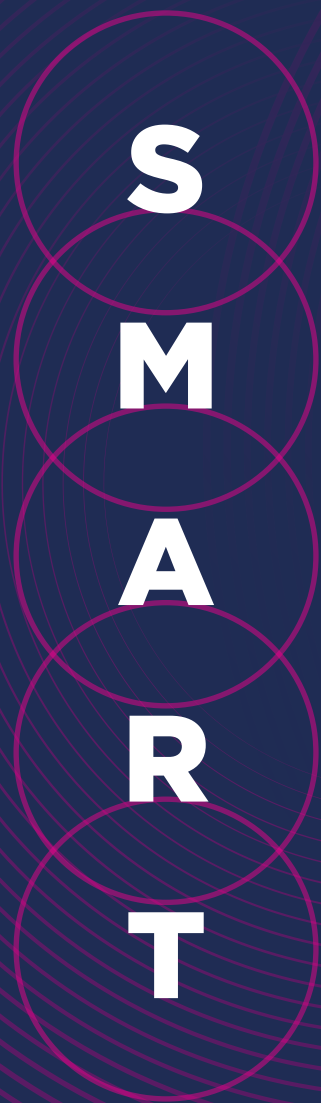
Specific
What is the target?
- Don't be vague
- Ask why

Measurable
Define the parameters
- Specific income or lump sum needed?
- Ask: "how do we know we have got there?"

Achievable
Can their resources realistically hit the future target? Is it attainable? This can be aided with cash flow or manual calculations.

Relevant
If the client wants to look at IHT Planning, but they don't have an IHT liability, or plan a round-the-world cruise when they can't cover their essential expenditure, these would not be relevant objectives.

Timebound
When does the objective need to be achieved by?



Content

In the real world, clients don't always know enough about their own objectives for them to be completely **SMART** every time. This is ok. The more of these areas that can be addressed, the better the objective gets. Sometimes it will take time to develop them fully.

Avoid making this common mistake: describing a solution not an objective.

For example, **"I want to invest £20,000 into my ISA"**. That is not an objective, it is a solution.

The objective is usually found by asking why until you get to the genuine answer. Why do they want to invest £20,000? What are they hoping to be able to do by investing this money?

Bad practice

- I want to take my tax-free cash.
- I want to make a pension contribution.
- I want discretionary fund management.
- I want to make sure my husband is ok if I die.
- I want to grow my portfolio.

Most of these are actually solutions. None of them have any measurable element or timeframe. Some are too vague. Growing a portfolio is fine as a starting point, but you really need to pin down why they want more money. We need to ask and understand: what is it for?

Good practice

- I want a new car next year; this will cost £30,000.
- I want to make sure my husband is ok if I die. He would need £85,000 income a year, after tax.
- I'd like £100,000 to be available to buy a boat when I retire at age 68.
- I'd like to retire at age 65 and have income of £45,000 a year, after tax.

Content

All of the good practice objective examples on the previous page are **Specific**, **Measurable**, and **Timebound**. Of course in this example, without an actual client, we can't assess if this is achievable, but it gives all the detail to assess if it is achievable given the client's circumstances and assets. You can then see if they're on track to meet this or need to take some action.

If you don't know how much they need or when they need it by, it is difficult to assess if they're on track or if they need to take any action to achieve it.

Often advisers will think they need to use exactly what the client has said to them **initially** as the objective. In reality, their objective will need to be teased out of them through questioning and discussion.

However, to help a client feel at the centre of this report, aim to use their own words in the **final** objectives.

You might need to discuss the case with them before you can get to work, especially if you don't attend meetings with clients. Where objectives are a little light on detail, try to agree a 'most likely' scenario as a starting point. It can always be updated, but at least this gives both you and the client a picture of where you're headed. For example, what size pot or level of income is likely to be needed, by when and for how long?

Also consider using cashflow modelling. It's difficult to develop and monitor a **SMART** objective for a pension or investment pot without cashflow modelling. Not all advisers use this type of software, but the more straightforward tools aren't too expensive – you can even use Excel – and this can add real value and clarity.

Where possible, include case studies or real-world examples to illustrate points more vividly. This can help in making complex information more relatable and understandable.

Content

Risk Profile

Assessing a client's attitude to risk is split into five key areas:

1. **Willingness to take investment risk.** This typically will involve a risk questionnaire coupled with some additional open questions and a discussion with the client.
2. **Capacity for Loss / ability to take investment risk.** This relates to how much risk a client can afford to take. It's best practice to run a cash flow forecast for the client to stress test how much they could lose and still maintain their objectives. This will inform their capacity to a degree.
3. **The need to take investment risk.** A client may have the willingness and capacity to take investment risk, but you still need to consider if they actually need to in order to meet their objectives.
4. **Knowledge and Experience.** Does the client have previous experience of losses? Of volatility? Of a market crash? How active have they been, have they invested outside of group pensions? Are they an experienced investor?
5. **Time Horizon.** Short time horizons may indicate that the client should not be investing. It can also shape the potential risk being taken, especially if there is a specific goal at the end of the time.

All these points should be assessed, discussed with the client, and agreed before a recommendation is put together. Although there's no requirement to include this information in the report, it's common to include a summary of the agreed results.

Incorporate feedback from stakeholders or peers into the drafting process. This can provide new insights, highlight areas that may need more clarification, and increase the overall quality of the report.

Recommendations, reasons why and disadvantages

This is where we tell the client what the recommendation is and why it is suitable. It needs to put the client in an informed position so that they can decide whether to accept or decline the advice.

Where there is a recommendation to surrender an existing investment, it should be justified before moving on to the recommendation for the new investment.

Recommendations

The recommended solution(s) should be clearly, concisely, and accurately stated. For example: **"I recommend that you contribute £30,000 gross into your XYZ SIPP."**

This may need to be laid out slightly differently for recommendations involving protection products or annuities. In this situation you may want to use a table which sets out the appropriate features and explains why each aspect has been chosen.

You don't need to detail here every step of research or every option that could have been recommended. The suitability assessment has been done and this is the chosen step or steps forward that we are recommending to them. This is the next step in the process and should be considered distinct from the preparation stage.

These are core FCA requirements for a suitability report. Any recommended actions need to be clearly detailed for the client, along with the reasons why they're being made and the potential disadvantages.

Recommendations, reasons why and disadvantages

Reasons why

How are you meeting the client's objectives? For example, where you are saying that a plan is cheaper, explain how this helps the client. Where you are saying that a provider is rated B+ for financial security – explain how that is relevant to the client.

Explain why certain features have been selected. For example, term of policy/sum assured with protection, to match a mortgage liability; life assured or capital redemption selected with a bond, or offshore jurisdiction, for the relevant benefits offered.

For certain types of advice there are specified points that must be included:

- For pension transfers/new pensions it is necessary to include why the recommended solution has been selected over stakeholder pension or workplace arrangements.
- When giving Defined Benefit pension transfer advice – a one page summary and a summary of the Appropriate Pension Transfer Analysis (APTA)
- Bond – must show why it is the MOST suitable (specific FCA rule).

Affordability – where recommending the client commits additional or new money to their investments or pension, point out they need to make sure they have enough cash for emergencies and short-term spending.

You then need to detail how much they will hold for emergencies following the recommendation, that this is enough for their needs and the recommended amount is affordable.

Make it crystal clear as to how the recommendations achieve the client's desired outcome.

Recommendations, reasons why and disadvantages

Potential disadvantages

The FCA expect you to give as much prominence to the disadvantages as to the advantages of the recommendation.

The disadvantages should also be personalised to the client, rather than generic templated content which often includes irrelevant content. For example, there is no need to say, ‘you can’t access your pension fund until 55’, when the client is already over 55. However, this is a relevant potential disadvantage if they are younger, as they’re locking their contributions away.

It’s important to explain why the recommendation is still the best route, EVEN if it causes any disadvantages. For example: the recommended investment is slightly more expensive than your existing one, but there are no options with your existing arrangement to meet your ethical investment criteria and risk profile. The recommended solution can, so we feel it’s worth incurring this added cost to meet your objectives.

If the advice is for the client to give up any guarantees, make the impact clear. Where the client could lose out because of the advice, we need to explain why it is still the right thing to do. For example, there may be a guaranteed annuity rate of 10% but this must be taken on a single life, level basis. If the client’s priority is to provide for their spouse, this may not be of value to them. Supporting rationale needs to be fully explained in the report.

Ensure that the recommendations are clear, actionable, and linked directly to the findings in the report. Avoid vague suggestions to ensure the report is practical and useful.

Risks

Disadvantages and risks are often merged but they are different.

A disadvantage is a **defined** outcome.

A risk is a **potential** outcome.

For example – if replacement business costs are higher, that's a disadvantage, as it's a defined outcome. The risk is that the portfolio may not perform well enough to cover the added cost.

To help the client make an informed decision, we need to convey both simply and objectively.

This risk section is not the place for lists of generic investment risks to be dumped in. If you have pages of bullets setting out every risk, this will be confusing and overwhelming, and the key risks may be lost or not taken seriously.

Risks should again be specific to the recommendation and the client. If you are using a template, ensure that anything that's not relevant is taken out.

Investment strategy

The recommended investment strategy should fall under the recommendation section of the report.

It should always meet client's risk profile and any specific requirements or exclusions (trading restrictions, active / passive / DFM (Discretionary Fund Management) preferences) and you should explain how this has been achieved.

Any relevant tax implications can be highlighted. For example, make clients aware they will be taxed on income from collective funds/dividends so that there are no surprises.

There is an increased focus on suitability of a DFM service because of the additional costs. Make sure if recommending a DFM you can link this back to client objectives and show a benefit from the service.

Likewise, where a client has ethical preferences, you will need to show how – or to what extent – these have been met with the recommended strategy.

You might want to include a comparison of performance for replacement business, but this is only needed if performance is one of the reasons for the recommended change.

Take care not to get too technical or try to teach the client about investing at this stage. You should focus on what the strategy achieves for the client rather than the details of asset allocation and underlying securities.

Charges

Technically, charges don't need to be included in the suitability report. This assumes that the client will be given an accurate illustration, which they'll read and understand. That's not ideal though, as even a short illustration will add 4-6 pages for the client to read.

Importantly, to meet MIFIDII requirements, the costs need to be aggregated and the longer-term impact of the recommendations needs to be shown. This is especially important if there are any initial charges.

The clearest way to present charges is in a table, broken down into each separate charge, in both £ and % terms. A total at the bottom will give the client a clear picture of the total cost, to help them decide if they want to go ahead.

Often an illustration can provide a calculation of the longer-term impact of the charges. It's important to check that the illustration includes all the charges, as some are better than others at showing the true cost and impact.

If the illustration isn't accurate (or it's a product that you can't get an illustration for) you will still need to include an accurate assessment of the longer-term impact, so you may need to do these calculations yourself, or use some software.

We would recommend always putting the charges clearly and prominently in the report.

Replacement Business

In terms of what needs to go into a report, the main section is a cost / benefit analysis. This means looking at any added cost the client will incur under the new plan and showing how and why it's justified.

Charges comparison

This means comparing all the charges for the current and proposed new plans, to see if there's any difference. This can be done by comparing the projected value of the pension pot at a fixed point in the future.

Alternatively, it can be done by comparing 'reductions in yield', which show the impact of the charges on returns. For a reduction in yield figure, you should make sure you include any one-off or initial costs incurred by the client that relate to the product.

As with the charges section, you should make sure any comparison is shown in both £ and % terms.

Any additional cost needs to be justified in terms of the benefit the client gets for this extra cost.

Replacement Business

Performance Comparison

You don't need to put a performance comparison in a Suitability Report. However, it would be relevant if poor performance is a reason for the recommendation to switch / transfer. If you do include one, make sure it is as relevant and accurate as possible, and includes the disclaimer that past performance is not an indication of future returns.

Good practice

- A range of timeframes is shown, with at least one longer-term (5 years plus).
- The risk ratings of the funds or portfolios being assessed is comparable.
- You compare the same timeframes for each fund.
- A peer group comparison is used for the existing and the proposed portfolio to highlight how they have done against similar funds. This is more informative than a direct comparison.

Poor practice

- Performance comparison includes only short-term performance.
- Performance comparison purposely selects timeframes that are favourable to your desired outcome and excludes those which are not.
- The risk of the funds or portfolios compared is not comparable, i.e., showing an equity fund performance versus cash.
- You should also be wary of comparing DFM portfolios as the underlying holdings will change frequently, so comparing past performance of current holdings will not be an accurate reflection of what they have held over the period. Software is available to avoid this problem, as it can include changes made to a portfolio over time.

Conduct extensive research to gather the latest and most relevant information. This ensures your report is authoritative and up-to-date, providing readers with reliable and current industry practices.

Replacement Business

Risk comparison

Compare on a like for like basis. Use the same measurements or framework so it is a fair and consistent. And always highlight whether the current portfolio meets the agreed attitude to risk.

Be wary of just using a single data point for framing. For example, two portfolios with the same equity content may have very different levels of risk when you look at the type of equity. For example, emerging market equity carries far more risk than developed market equity. Look for other types of risk as well, i.e. if there is a large property holding, there is an illiquidity risk.

Product features comparison

This is mainly relevant for pensions. You should be sure that you fully understand the features of the existing pension, especially in relation to income options and death benefits. If you are moving a pension for improved features, make sure that the client actually needs them.

Be on the lookout for Safeguarded Benefits too as these will need specialist advice.

Alternatives Considered

For pensions, you must include why you have **not recommended** a Stakeholder pension. This needs to be in the report as an FCA requirement.

You also need to discount an existing workplace scheme. Specifically, the recommended product needs to be “at least as suitable” as the workplace scheme. You should also check for any employer-matched contributions when recommending further pension contributions.

You should also have on file any other comparisons you have made or other products you have discounted. For example, why you chose a GIA (General Investment Account) over an investment bond or whether you have considered the different types of ISA that are available.

Appendices

To help make reports easier to digest, an appendix allows you to include more in-depth information for those clients that are interested, without over-complicating the main body of the report and obscuring the most important points.

For example, you might want to include a description of the client's risk profile. One approach would be to name the agreed risk profile in the report but put the description in the appendix. At this stage, it should already have been discussed and agreed, so it's not really needed in the report.

Some firms include a glossary in the appendix, which makes it easy for the client to look up what certain terms mean. A better approach is to avoid using that terminology at all. Our aim as paraplanners is to give the client the information they need to make an informed decision. We should avoid giving them an education in financial jargon as part of the process.

An appendix can be a good place to put any further details the client might be interested in knowing, but which doesn't need to be in the Suitability Report. A flexible approach can be taken with these. Bear in mind that some compliance departments might have specific rules on what can and can't be placed in an appendix.

Some firms include risk warnings in the appendix which isn't considered good practice. This is because it's a requirement the risks are detailed in the report. We don't want the client to think they don't need to read them.

Use signposting in the report e.g. see point 6 in appendix if you want to direct people to additional information.

Additional Tips

- If you identify a need for protection – even if the client has stated they don't want advice in this area, you still need to highlight and offer it.
- It is good practice to confirm the client's current position on wills and Lasting Powers of Attorney.
- Long Term Care products need specialist advice (including immediate care needs annuities).
- Consider any adjustments that you need to make following a vulnerability assessment.
- When you recommend Personal Pension/SIPP & Investment bonds provide illustrations.
- Save your research and make sure it is clear. It is important to have a tidy file and research that can be understood by anyone else looking at it.
- Make sure there are notes on any discounted products/annuity providers etc. These don't need to go into the report but need to be on file. This can include the rationale for not choosing a product and any research done, such as annuity quotes done (even if not recommending an annuity).
- When you have finished a report, before sending it to the adviser, take a short break from it, come back and do a thorough check through.
- Send the adviser a report you would be happy to be sent directly to the client.

Using call-outs or sidebars in your guide can effectively emphasize key points and offer quick insights. This technique highlights important information, making it more accessible and memorable for readers, thereby enhancing their learning and retention of the material.

Resources

Not all clients will have the same reading abilities. For example, it's estimated that about 10% of the adult population have Dyslexia[1] and 6% have Dyscalculia[2] which means they have difficulties with numbers.

Webinars

Get it Write

pfspower.org/webinars/get-it-write/

How to write in plain English

pfspower.org/webinars/how-to-write-in-plain-english/

FCA

handbook.fca.org.uk/handbook/COBS/4/2.html

fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty

Style Guide by British Dyslexia Association

bdadyslexia.org.uk/advice/employers/creating-a-dyslexia-friendly-workplace/dyslexia-friendly-style-guide

MIFIDII requirements

fca.org.uk/brexit/onshoring-temporary-transitional-power-ttp/key-requirements-firms

1 bdadyslexia.org.uk/dyslexia

2 bdadyslexia.org.uk/dyscalculia/how-can-i-identify-dyscalculia

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