riaa Responsible Investment Association Australasia

ADVISER GUIDE: CLIENT INTERVIEW PROCESS

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More and more investors are wanting their money to be invested in line with their interests and values. At the same time, government bodies are laying down standards and requirements for advisers to engage their clients around responsible investing. So how do you talk to your client about the environmental and social themes that they care about? Asking the right questions is crucial to ensuring that you are delivering advice that meets their needs.

Finessing your client interview process is one of the most fundamental steps in providing quality responsible investment advice that takes into account your client's values and their interest in different social, environmental and corporate governance themes.

We have all heard the stories where the client didn't raise the topic of responsible investment because the adviser didn't ask and the adviser didn't ask because the client didn't raise it. This guide aims to provide you with a step by step process you can use as the basis for crafting your own client interview process.

DID YOU KNOW?
86% of Australians believe that it is important that their financial adviser asks them about their interests and values in relation to their investments.

1 Client profiling questionnaire

Sometimes in life, it's about how you ask the question, more than the question itself and here it is no different. Rather than simply asking "*Would you like to consider the environment in your investments?*", you may like to consider including a statement in your client questionnaire which sets the scene, and outlines why you as the finance professional, believe it's important to think about responsible or ethical investing.

For example, "*We believe considering environmental, social and governance issues related to companies being invested in is critical in managing financial risk and increased opportunities for diversification, whilst also allowing you to address issues that have a direct impact on the environment and society in which we live*".

You can then ask a question of your client such as: "*Are there any specific environmental, social, governance or ethical themes that you would like me to consider with your investments?*"

This line of questioning means that you won't necessarily preclude recommending responsible investment options if they are appropriate for achieving the client's objectives, in the event they may not have any specific social or environmental themes they would like to focus on. It also allows you to lead into educating the client on responsible investing.

TIP: Including a question like this meets the RI Certification Program criteria of asking every client if they would like to consider responsible investing.

2 Educate your client

It's likely that your client understands some topics that they read about in the news such as live animal exports, or renewable energy. However they probably are not as familiar with responsible investing as a concept and how it can be integrated into their investments. Now is your time to shine a light on and educate the client on responsible and ethical investing.

Start by outlining what all this means in lay terms. Responsible investment is the umbrella term capturing a broad array of strategies. It's a holistic approach where social, environmental, corporate governance and ethical themes are considered alongside financial performance when making an investment.

Responsible investment covers many of the terms that you may have heard of, like ESG integration, negative screening and impact investing. Try to use tangible examples in your explanation that the client can relate to by showing how you can both avoid harmful activities - such as tobacco, gambling or fossil fuels - as well as seek out companies that achieve positive outcomes like social housing, renewable energy and health care.

Depending on your client, it may be helpful to visually represent responsible investment and the strategies which investors use (often several at once), such as showing RIAA's Responsible Investment Spectrum.

TIP: See our Introduction to Responsible Investing Fact Sheet for a more detailed explanation of responsible investing and the different strategies responsible investors use.

You may want to discuss financial performance of responsible investments with your client. Some investors hold the out-dated view that to invest responsibly means sacrificing returns despite a plethora of evidence to the contrary.

Each year, RIAA releases data which compares the performance of responsible investment funds against mainstream funds in Australia and New Zealand. Year on year, it shows that responsible investment typically outperforms mainstream funds across most timeframes. Using our research and your own, you can hopefully demonstrate that investing responsibly doesn't have to cost the client in returns.

TIP: See RIAA's annual Responsible Investment Benchmark Report for the latest data around the financial performance of responsible investment funds in Australia and New Zealand

3 Identify specific areas of concern

Once you have taken the time to educate your client on what responsible investing means and how it can benefit their investments, it is time to consider using a supplementary fact find to further explore the areas of concern which may be important to the client. Some clients may come to you and specifically call out an industry or activity which they would like to avoid, while others may need help to understand the issues before they make a decision.

Using a supplementary fact find like RIAA's RI Fact Find, you will be able to step through a top level list of issues. These issues can be used as simple talking points where you can then discuss with the client in greater detail to understand how deeply committed the client is to a certain area.

TIP: If you are a RIAA member, you can download the RI Fact Find from our Member Resources Portal. Using a fact find is a key criteria for Financial Advisers to achieve RI Certification.

As the adviser you will need to have an understanding of each of the issues on the fact find (and broader) to ensure that you can properly engage in these conversations. RIAA has a series of fact sheets on the topics included on the fact find so you can ensure that you have the requisite knowledge of the issue and how it could impact the client's investments.

DID YOU KNOW?
6 out of 10 New Zealanders with KiwiSaver and other financial investments say it's important that financial advisers are knowledgeable about responsible investment options and maximise returns on investments.

4 Analyse exposures and consider options

Once you have determined the client's areas of interest or concerns and how deeply committed they are to different themes, you will then be able to consider how this may look compared to their current portfolio and holdings.

Take the time to explain to the client how different approaches could look from a portfolio perspective so the client has a clearer understanding what is important to them and what they are happy to be pragmatic about. You can then consider strategies with your client where there may be misalignment between the social and environmental themes they care about and their current holdings.

Strategies may include:

1. monitor for exposure,
2. transition over time, or
3. move immediately into alternative investments.

5 Finding alternative investment options

When alternative investments options are needed, as a starting point consider using RIAA's Responsible Returns online tool to find products that have been certified by RIAA.

Certified products have been assessed against the strict criteria of the RI Certification Program to ensure that they are delivering on their responsible investment claims. Use the information contained on Responsible Returns plus your own research to understand the suitability of the investment for your client's objectives, both from a responsible investment perspective and part of their overall objectives.

TIP: Use the symbols on the RI Fact Find your client completes to match products on Responsible Returns.

Is the final solution offered in the best interests of the client given that you now know some of the client's broader interests? What are the limitations if there are any?

Rarely will you be able to find products which tick every box, but it's about understanding the pros and cons of each and ensuring your client is comfortable with and understands the proposed solution.

DID YOU KNOW?

Considering the broader long-term interests of the client and whether recommendations should be limited to responsible and ethical products is now a part of FASEA's Code of Ethics, as is the requirement to ensure your client understands the benefits and risks of any advice given.

6 Ongoing relationship

Over time you should revisit Steps 2–4 to continue to build your understanding of the client's needs, values and priorities. The client's awareness and understanding of the different investment options will also change over time as different controversies occur around different companies and social, environmental and governance themes. Attitudes to particular issues can also change as you continue to educate your client or as societal attitudes shift.

Continuing the discussion with the client at regular intervals will help you to ensure that the investment solution continues to match their needs and in turn help to foster a deeper relationship and understanding between yourself and client. That means more satisfied clients for you.

To find responsible investment products that have been certified as true-to-label, have full or partial negative screens for fossil fuels and/or are investing in solutions, visit: responsiblereturns.com.au