

An Emphasis on Suitability

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What is Suitability?

Suitability is defined as the degree to which the product or service offered by the financial services provider matches the retail client's ongoing financial situation, investment objectives, level of risk tolerance, and financial need

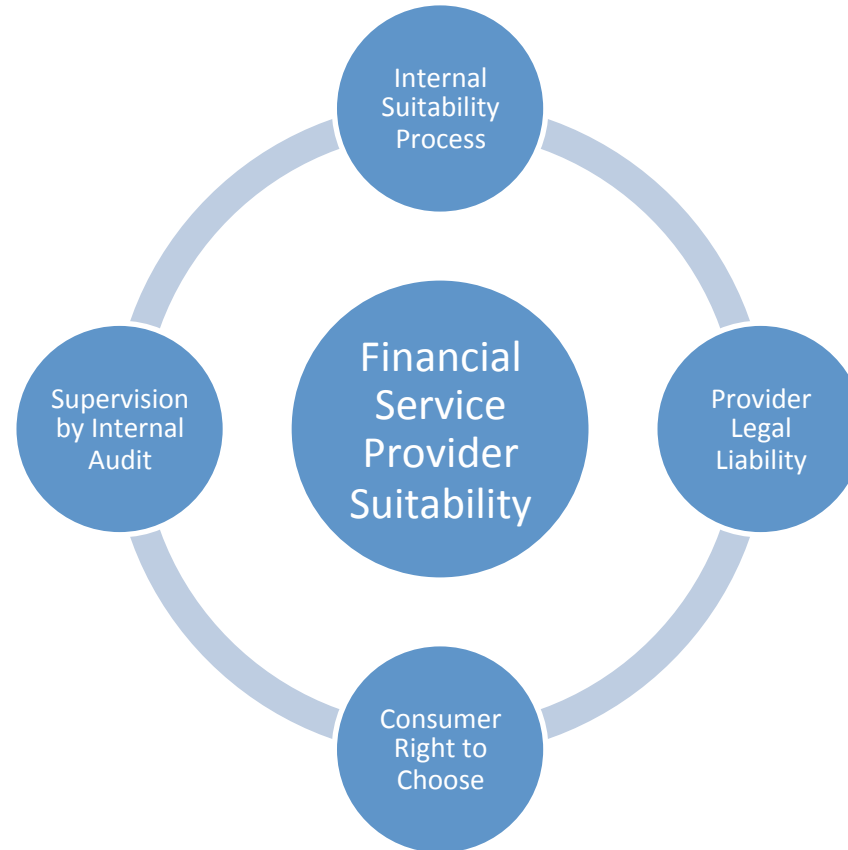
Adapted from Basel Committee on Banking Supervision

Why is Suitability essential for India today?

- Inappropriate distinction between “simple” and “complex” products
- Understanding interaction effects critical
- The “expertise” challenge for consumer protection
 - Service provider is expert
- Onus for consumer protection must be on service provider
 - Buyer Beware → Suitability

What does Suitability entail?

- Financial service provider has greater expertise and information and therefore the ability to determine the suitability of products for consumers



How will Suitability work in a market driven by innovation?

- Suitability will drive socially useful innovation
 - Overcrowding in “naturally suitable” segments
 - Innovate to survive and expand into other segments
- Increasing innovation and complexity
 - Increasing asymmetry and potential for mis-sale
 - Incentive alignment through suitability
- Inseparability of Advice and Distribution
 - Interaction Effects
 - Advice implicit in sale

How does Australia implement Suitability?

- Suitability for “Personal” Advice
 - Consumer circumstances
 - Subject matter investigation
 - Appropriateness of advice
- “Best Interest Duty” in Future of Financial Advice



What Should our Legal and Regulatory Approach be?

- Legal Reform
 - Right to suitability
 - Case law based interpretation of suitability

- Regulatory Reform
 - Non-interventionist regulatory attitude towards product innovation
 - Enable provision of integrated financial services
 - Burden of proof for regulations
 - Research function