# moneymeets' Response

to the Consultation Paper
"Guidelines on certain aspects of the MiFID II suitability requirements"

Cologne,
October 11, 2017

# A. Introduction:

moneymeets GmbH
moneymeets is a German FinTech company founded in 2012 by Dieter Fromm and Johannes Cremer, two former bankers with more than 25 years of experience in the financial sector each. Today, moneymeets is one of the leading personal finance management portals in Germany offering an all-encompassing overview of accounts, deposits, and insurances to their members.

WHU – Otto Beisheim School of Management
WHU – Otto Beisheim School of Management was founded in 1984 as a German business school and stands for excellence in management education. Today, it has campuses in Vallendar and Düsseldorf and a high national and international reputation, which is regularly confirmed by accreditations and ranking results.

VikoDiA (Visualisierungskonzept für digitale Anlageberatung)
VikoDiA is a cooperation project between moneymeets and WHU's Center of Asset and Wealth Management. The project has been selected by the CreateMedia.NRW program to receive EU funding. It has the goal to develop a new and innovative concept for digital financial advice. The creation of a digital, MiFID II conform, risk profiling process is thus one pillar of the project.

Altogether, we appreciate the efforts of ESMA to align client profiling practices in Europe through the MiFID II regulation. Furthermore, we especially honor the efforts to clarify the application of MiFID II in digital advice processes (robo-advice). However, after extensive research of regulatory positions, current practices, and academic foundations, some questions remain unclarified.

# B. General Comments

In our eyes, MiFID II is and will be the foundation of a necessary alignment of client risk profiling processes in the European area. We thus appreciate the goal of ESMA to establish fair, transparent, and comparable rules for client profiling in the advisory process. However, we see that ESMA's alignment process is challenged by new technical developments: digitalization enters the financial sector through FinTechs as well as technical developments in the traditional finance industry.

We generally agree with the MiFID II regulation and its objectives. But, as digitalization transforms the entire sector, we see the need for certain clarifications. Being thankful for ESMA's opportunity to express our thoughts from the perspective of a FinTech-Academic cooperation, we put our remarks into the answers to the questions below. We ask for your understanding that we restrict our answers to questions 1-3 due to scarce capacity despite of knowing the whole consultation paper.

# C. Comments to Questions

| *Q1. Do you agree with the suggested approach on the information to be provided on the suitability assessment and specifically with the new supporting guidelines on robo-advice? Please also state the reasons for your answer.* |
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| **moneymeets Response:**<br>We completely agree that the lack of personal interaction must be considered in the robo-advice environment. We also agree that robo-advisors should inform their clients as clearly as the traditional industry about the purpose of the suitability assessment and about the eventual use of algorithms. We also agree with the list of parameters (e.g. goals, preferences towards risk…) that MiFID II requires to be assessed during the suitability assessment.<br><br>However, the current guidelines leave room for interpretation about the way the suitability assessment shall be performed. Whilst the traditional industry mainly relies on questionnaires, alternative ways for a digital suitability assessment are not yet clearly defined in the MiFID II regulation.<br><br>We thus considered academic research to find convincing answers. We found that economic and behavioral research suggests the use of interactive graphical simulation tools to effectively measure clients risk preferences (e.g. Goldstein et al. 2008, Kaufmann et al. 2013, Bradbury et al. 2014 or Lusardi et al. 2015). The use of interactive illustrations of investment risk is proven to reduce decision biases, to increase the clients understanding and informedness, to improve financial literacy and satisfaction with profiling results compared to conventional assessment methods.<br><br>We are convinced that digital suitability assessments could make good use of such academically validated tools. As a result, the assessment quality could be significantly increased – particularly from the client's perspective. However, we must admit that fully digital and interactive suitability tools are only recent developments for which no long-term validation history exists. Therefore, we recommend ESMA to implement short- and long-term studies to analyze the positive as well as the negative effects of completely digital assessment processes. The results of these studies should allow ESMA to clearly define in its guidelines which tools and approaches should be used in the context of the suitability assessment. Only then the comparability of the suitability assessment's results can be guaranteed. |

***Q2. Do you agree with the suggested approach on the arrangements necessary to understand clients and specifically with how the guideline has been updated to take into account behavioural finance and the development of robo-advice models? Please also state the reasons for your answer.***

**moneymeets Response:**

We agree with ESMA that robo-advice depends on the client's answers even more than traditional advice. We also agree that language, layout, format and frequency of the assessment may influence the client. Further, we accept the line of argumentation of ESMA acknowledging recent research (e.g. De Palma and Picard (2010)) criticizing the varying quality of many assessment questionnaires. Despite the original intention to measure the same construct, traditional questionnaires often lead to significantly different results and hence to a significantly different classification of the client.

We thus believe that ESMA's highlighting of the findings of behavioral research as well as the statement concerning good and bad practices increases the awareness of potential behavioral biases in the assessment method. This knowledge is of utmost importance for everyone in the financial industry who wants to implement a (new) suitability assessment under the MiFID II regulation.

Nonetheless, we think that ESMA's current approach still leaves too much room for interpretation. Some of the required concepts (especially latent constructs such as risk tolerance or preferences towards risk) are used ambiguously by practitioners and academics alike. As a result, the same individual might still receive different recommendations depending on the construct used by the respective financial services provider.

If the creation of a conform and consistent profiling approach is a key aspect of ESMA's future regulation practice, we suggest that ESMA provides more exhaustive descriptions of the assessment parameters (e.g. experience, knowledge, risk tolerance…) as well as of their mapping to asset or portfolio choices. We think that a more comprehensive framework is of special importance in the robo-advice context because it relies solely on algorithms to match the client's profile with the investment solution.

| ***Q3. Do you believe that further guidance is needed to clarify how firms should assess clients' ability to bear losses?*** |
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| **moneymeets Response:**<br><br>We think that ESMA includes the relevant parameters defining an individual's ability to bear losses (e.g. regular income, assets, financial obligations, etc.) in their guidelines. Certainly, these numbers can easily be measured throughout the assessment process, independent on whether the assessment is performed in a digital or non-digital world. However, ESMA does not yet provide any guidance on how to match the information about a client's ability to bear losses with the characteristics of suitable investment strategies.<br><br>Again, we think that the lack of detailed guidelines on how to tackle the matching issue leave room for interpretation and could lead to inconsistent profiling approaches throughout the industry. We would thus appreciate ESMA to provide more details on how to exactly measure the relevant variables, on how to implement the measurement process (including alternative methods to the traditional questionnaire), and on how to map the assessed parameters to investment solutions. As a result, we expect a significantly higher quality of the suitability assessments – especially in the context of automated advisory solutions. |

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