



Suitability Risk Measurement for Complex Financial Products

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Executive Summary

Why suitability for complex products becomes a portfolio-level measurement challenge under stress

Suitability risk assessment for complex products depends on how the client's portfolio behaves under stress, not on a single trade. Even with strong trade-level controls, banks can still face adverse client outcomes when portfolio interactions and stress-driven liquidity requirements are not visible and consistently governed across service models and booking centres. If these dynamics are not effectively quantified, aggregate exposure can move beyond the client's agreed risk profile before it is detected, increasing reputational, and supervisory risk.

Beyond control and escalation, the same portfolio-level stress insights should strengthen the quality of advice and client communication, enabling earlier, better-informed recommendations and more defensible suitability conversations.

The need is for a client portfolio view that links complex exposures to stress scenarios and quantifiable outcomes, supporting consistent suitability decisions across the organisation. A defensible control approach rests on two principles. First, complement qualitative judgement with forward-looking downturn scenario measures alongside explicit client eligibility criteria. Second, assess outcomes and eligibility at client level, not trade-by-trade, to capture interaction effects and incremental exposure.

Across discretionary, advisory and execution-only, the front-line question is whether incremental complex exposure stays within client objectives, constraints, loss and liquidity capacity, and knowledge and experience. Product classification and client eligibility should be applied at portfolio level to prevent individually compliant trades creating unsuitable aggregate exposure.

Portfolio-level signals only help mitigate risk when embedded in a clear operating model with a minimum common taxonomy, consistent triggers and escalation tiers, and explicit ownership and decision rights across the lines of defence, service models and booking centres, enabling timely action and an audit-ready evidence trail under stress.

Supervisory expectations increasingly focus on auditable evidence that suitability and appropriateness controls remain effective under stress and are applied consistently. A client-level assessment anchored in stress outcomes and liquidity profile provides a coherent basis for those decisions.

What management should expect to see

For oversight, management reporting should allow executives to see, consistently across the organisation:

- Which clients are approaching/breaching suitability parameters under defined stresses
- What is driving the move (top contributors, concentrations, time horizon)
- Which escalation tier applies, who owns it, and by when actions must occur
- What actions were taken (or are pending), with a minimum evidence pack suitable for challenge and audit
- Where inconsistencies exist across booking centres and service models, and how they are justified and controlled



Executive takeaways

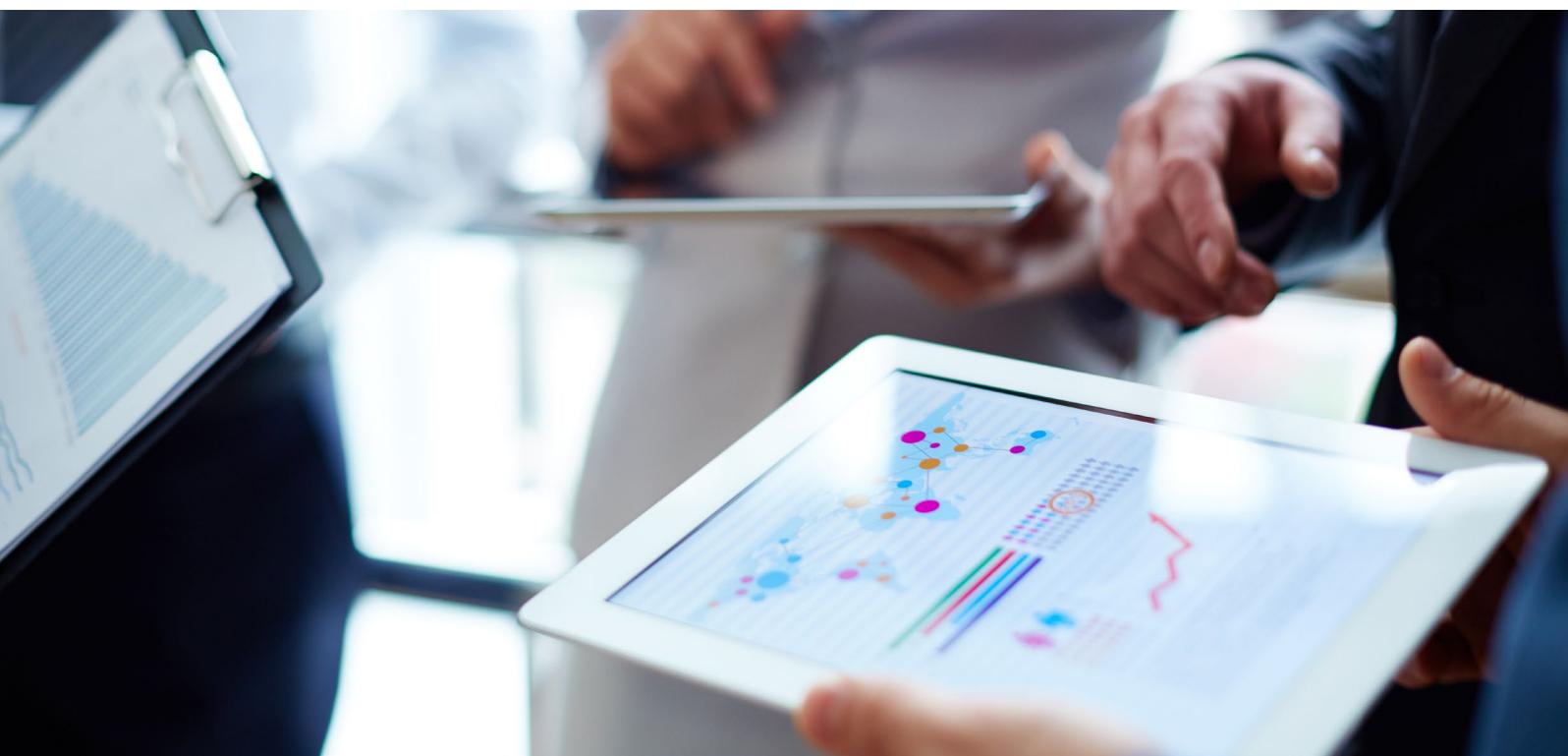
- **Suitability for complex products must be evidenced at portfolio level under stress**, including liquidity capacity and concentration in time—not only trade permissibility at execution.
- **A consistent control standard is required across service models and booking centres**, even if execution workflows differ; signals and triggers should not vary by platform.
- **“Good” means repeatable outcomes and a defensible audit trail**: clear indicators, clear thresholds, clear decision rights, and documented actions that demonstrate client outcome protection.
- **Front-line ownership with effective 2LoD challenge**: the front-line must act on signals; 2LoD must be able to test evidence quality and consistency.
- **Advanced analytics/AI can be a differentiator**, but only if governed, explainable, and embedded into escalation and decision making.

Where the control gap typically sits

Which drivers of suitability risk are missed by static classifications

The control gap arises when point-in-time controls are used to manage risks that materialise at the client portfolio level during stress. Front-line controls typically validate suitability at execution using product classifications and trade-level checks. For complex products, risk is non-linear and path dependent; stressed markets outcomes are often driven by margin, collateral, and liquidity demands rather than the payoff at maturity. Trade-level controls can therefore confirm process compliance for each transaction while providing limited visibility on whether aggregate exposure remains within the client's loss and liquidity capacity under stress.

This is often not a policy gap. Most frameworks already set the right principles, including suitability and appropriateness, documented client understanding, and product governance. The gap is measurement and embedment. These principles are not consistently translated into forward-looking, portfolio-level quantification that is usable in front-line decisions and aligned with independent second-line oversight.





Common baseline controls in wealth management

Large global wealth managers typically operate a layered control framework aligned to risk appetite. In practice, baseline controls usually include:

- **Client profiling and service-model classification** (objectives, constraints, knowledge and experience).
- **Product governance and risk classification**, including look-through and key risk drivers.
- **Risk appetite limits and approvals at position and client portfolio level**, including concentration limits by issuer, underlying, currency and maturity.
- **Trade lifecycle controls**, combining pre-trade checks with post-trade monitoring and portfolio stress scenarios to capture non-linear and portfolio effects.
- **Margin, collateral, and liquidity controls** where relevant, including margining terms, collateral buffers, and escalation triggers.

These controls are necessary but may not be sufficient for complex products. Correlated concentrations and margin-driven liquidity demands can push portfolio stress outcomes beyond the client's documented loss and liquidity capacity even when each trade is permissible at execution.

How the gap shows up operationally

Operationally, the following patterns emerge:

- **Advisory value deteriorates** under stress because the bank cannot provide timely, evidence-based recommendations or explain drivers of risk in a way clients can act on, undermining trust and increasing conduct risk.
- **Front line decisions rely on judgement under pressure** because portfolio stress outcomes are not available in a consolidated client view, leading to late detection and delayed client engagement.
- **Second-line challenge is inconsistent** because it relies on different definitions and signals, resulting in delayed escalation.
- **Management reporting is fragmented or incomplete** across platforms or booking centres, reducing visibility of aggregate exposure and risk-driver concentrations.
- **Client communication becomes reactive** because the bank cannot clearly explain what has changed, why it matters, and what options are available.

This reflects missing or inconsistent measurement, not intent.

Making suitability risk for complex products visible and actionable

Signals must be observable early enough to act before markets force decisions

An effective measurement layer translates complex exposures into portfolio indicators that are explainable, comparable, and decision-ready for front-line use across service models. Where indicators are not comparable across platforms or booking centres, escalation becomes inconsistent and often comes too late, when options are already limited.

The following illustrates measurement outputs that can help make suitability risk actionable under stress.

Consolidated client exposure with look-through

Effective control requires a consolidated client portfolio view with look-through across accounts, mandates, and booking centres, available to the front-line and the relevant first- and second-line risk and control functions.

At minimum, it should show gross and net exposures, highlight non-linear or state-dependent risk, and flag positions and key date windows where portfolio behaviour can change sharply.

Portfolio stress outcomes against client constraints

A defined set of stress scenarios producing client-level outcomes versus documented loss capacity and constraints, over relevant horizons. Indicators should quantify stress outcomes and liquidity demand and attribute them to main drivers, so results are explainable and actionable. The control intent is early warning: breaches vs client parameters should trigger review, escalation, and, where relevant, client communication.

Liquidity demand and horizon of action

A liquidity indicator estimating peak margin/collateral calls and funding needs by horizon and driver, compared to readily available liquidity under conservative haircuts and liquidation assumptions. The output is a funding gap view: amount, timing, and main drivers, flagging when forced action becomes likely.



Suitability-relevant concentrations

Concentration should be assessed by what drives stressed outcomes at client level, across risk drivers and key dates. Indicators should highlight dominant exposures by underlying, currency, industry or region-based risk factors, maturity, and concentration in time (key product dates/windows). Output should show which drivers explain the largest share of stressed outcomes, so portfolios with concentrated or highly correlated exposures are visible even when the position list appears diversified.

Consistent evidencing across service models

The same portfolio signals should apply across discretionary, advisory, and execution-only. What differs is the evidencing and response, not the underlying indicators. Escalation should follow common indicators and thresholds across booking centres and platforms.

Complexity as a control condition for suitability

Complexity should translate into explicit expectations for monitoring and evidencing client understanding, grounded in observable features (non-linearity, number of material risk drivers, valuation uncertainty, path dependency). Complexity should drive monitoring intensity, escalation sensitivity, and the evidencing standard.

AI-enabled suitability interrogation and stress analysis

In fast markets, analytics/AI can help scale suitability interrogation by converting market events (central bank communication, corporate downgrade, or a volatility regime shift) into controlled stress assumptions and highlighting the most exposed client segments for timely review. This should be done within a defined governance framework: model ownership, change control, validation/testing, explainability, and audit-ready evidence (inputs, assumptions, outputs, and decisions). AI should inform escalation; it must not introduce unreviewable “black-box” triggers.

Accountability, decision rights and escalation standards

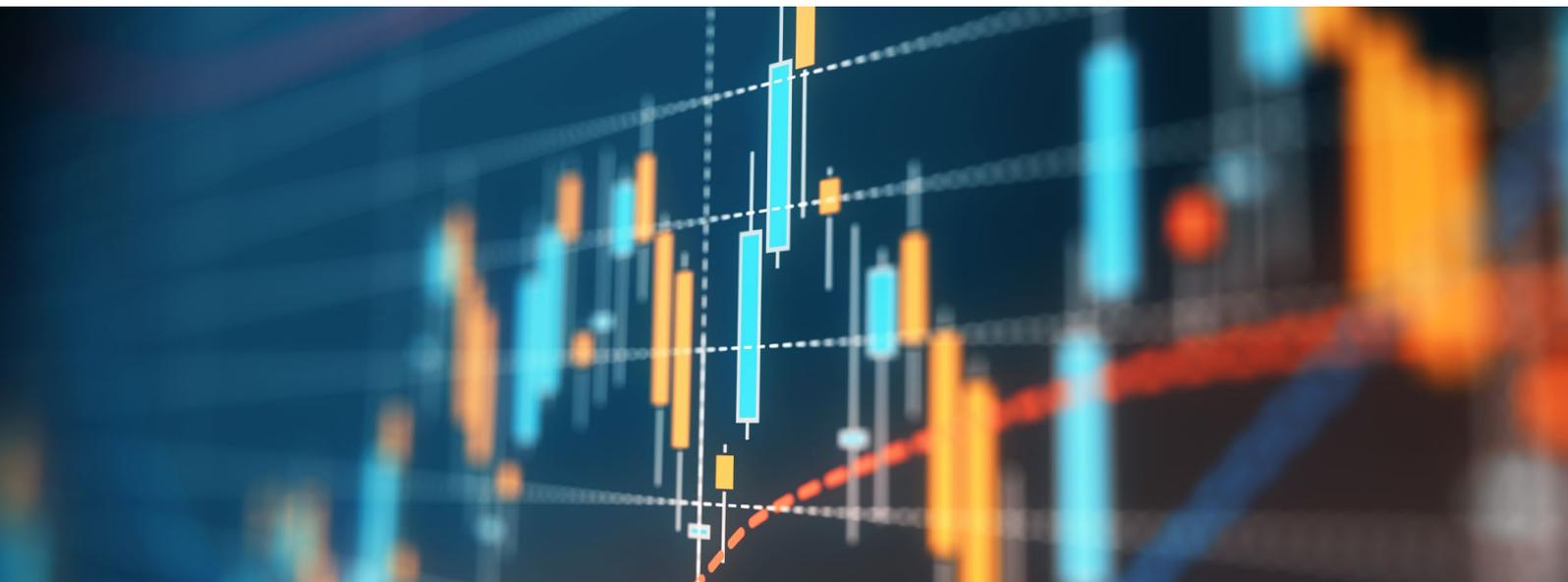
Portfolio-level signals reduce risk only if they translate into consistent escalation and timely action. In practice, issues arise when roles, definitions, scenario sets, and trigger logic vary across booking centres and service models beyond justified local constraints.

Are definitions and escalation logic consistent across the organisation

The front-line, first line risk oversight, second line challenge, and management reporting should operate on a minimum common taxonomy for exposure, stress outcomes, and trigger thresholds. Fragmentation typically shows up as inconsistent look-through rules, scenario set, and trigger logic. The result is uneven escalation and an evidence trail that is harder to support under stress, particularly when market conditions require rapid, repeatable decisions.

Operating expectations

- **Minimum common taxonomy:** shared definitions for exposure, look-through, stress outcomes, liquidity demand, trigger thresholds, and escalation tiers.
- **Clear ownership and decision rights:** explicit accountability for monitoring, escalation, constraint-setting (within delegated authorities), and client outreach, with documented handoffs across service models and booking centres.
- **Repeatable response path:** triggers lead to defined review timelines, documented decisions, and an evidence trail to a minimum standard.



How PwC can support you

From principles to proof: strengthening suitability oversight

Management may consider a structured approach to strengthening suitability oversight for complex products, typically covering:

- an assessment of current measurement and escalation processes versus supervisory expectations
- agreement on minimum control principles and evidence standards (“what good looks like”)
- definition of a concise set of portfolio-level indicators and triggers linking stress outcomes and liquidity demand to client constraints
- standardisation of key definitions and reporting logic across service models and booking centres
- clarification of ownership, decision rights, escalation governance, and 2LoD testing to ensure consistent execution and an audit-ready evidence trail.

Typical outputs (scalable)

- A **board-ready assessment** of suitability measurement capability and key risks (what can fail under stress and why).
- A **prioritised roadmap** with quick wins vs structural fixes (including data and governance dependencies).
- A **prototype MI pack** (portfolio-level signals, thresholds, escalation logic) and an **evidence checklist** suitable for oversight and audits.
- A clear set of **management questions and oversight tests** (what ExCo/ Board should expect to see and challenge).

Detailed scope and outputs are available on request.





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