

Is a Platform a springboard to success?



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At the recent Capita User forum held at Kempton Park, AT8 did a couple of presentations to the respective investment and mortgage sessions. As these were mid to late afternoon, my initial concern was that I may not be too popular as I was the only thing standing between the audience and the evening meal and entertainment. In the end, it was a fire alarm in the kitchen that caused a rapid and mass exit rather than my presentation (thankfully the meal was unscathed!)... and a good attendance was maintained throughout the sessions.

The subject of the presentations was to give our view of what the current market issues were and how things like RDR and e-commerce were affecting distribution (and to a lesser extent manufacturing). One area of particular interest was the topical subject of Platforms. I must confess that the mortgage audience was less interested in this subject but we did have an interesting discussion about how one adviser ended up 'bartering' his fees for a side of beef... this introduced a whole new approach to Adviser Charging!

Anyway, back to the Platform issue. With the growth of Platform Operators in the UK to over 20 (more to come) and Assets under Administration (AUA) of over £100 billion (due to reach £300 billion by 2012), the interest in Platforms is especially high. Add to this the fact that the FSA has carried out its thematic review and published its Discussion Paper – DP 10/2 in which it raised a number of concerns

and it is clear that the selection and operation of Platform is not as simple as people may have thought a few years ago.

One of the hotly debated issues is still whether it is acceptable and right to select a single Platform to meet the needs of a distributor's clients. We have heard Platform Operators and some consultants say that it is possible to select just one Platform. The FSA has been asked the same question and we have had people tell us that they have also confirmed that it is acceptable. However, when you question these people in detail and look at the justification that is needed to select a single Platform, it requires a significant and detailed segmentation, analysis and matching exercise on clients. The segmentation should certainly go beyond the often quoted banding of clients by 'worth' eg, £250k, or £500k of assets which we believe is too simplistic. A true and valid segmentation needs to take into account the clients' needs, experience and understanding of investing in a range of assets, along with the size and frequency of transactions and their risk appetite. In addition, the adviser needs to consider which Platform offers the best pricing strategy for that client and the route to 'best execution' (which remains a regulatory requirement)–t..

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There are some people who have quoted the words used in the FSA Discussion Paper as 'confirming' the acceptability of single selection:

"although we do not expect firms to review the platform market for each client, we do expect firms to consider which platform(s) are appropriate for their client bank – or segments of their client bank – in general terms and **then ensure the recommendation is suitable for individual clients...**".

The first part of the paragraph could be interpreted as such; the second part makes it less clear/certain...

There are some parties that are talking about a 'Restricted' status meaning that an adviser can then justify a single or small selection of Platforms but the following extract from the FSA Discussion Paper firmly dismisses this notion.

"Some advisers may decide to switch from independent to restricted advice. If they do so, they should remember the description applies to a range of products the adviser can recommend. A platform is not a product, and restricted advisers are equally bound by best execution for the collective investment schemes they arrange."

Capita has produced Synaptic Comparator that has worked with the Platform Operators to help advisers to identify which Platforms may best meet a client's needs. Capita have

run a series of scenarios through Comparator, each representing a very specific and granular potential client segment. These scenarios are then illustrated in a 'heat map' that colour codes how each platform performs in each scenario. The 'Heat Map' clearly shows a surprisingly disparate picture as to which Platform is better than another, with no one Platform leading in multiple groups of scenarios (or client segment) – effectively bringing into question the viability of selecting a single Platform for anything other than the most tightly defined client segments.

The exercise shows a substantial difference in the costs associated with different scenarios for different clients – in some scenarios the difference in reduction in yield (RIY) over a 20 year period could be measured in tens of thousands of pounds I know that there are arguments about the benefits of having a 'single view of assets' etc., but with such significant RIY differences, the value that a customer may place on some of these other benefits may be challenged.

Despite some of the comments above, I do actually believe that Platforms are good and that they can offer customers a good service at a competitive price. However, I do not yet believe that they are a universal panacea and the potentially competing motives of adviser and clients need to be carefully reconciled.

The process of determining IF a Platform strategy is right for an adviser's business is as important as the due diligence process for selection. Indeed, it could be argued that Platforms are now such a potentially important part of the client service proposition, that all advisers will need to consider Platforms to show that they did so and both why and what conclusion was reached.