Rayner Spencer Mills
Research & Financial Consulting

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A Guide to UK Adviser Platforms

April 2013

Contents

Financial Services Authority (FSA)

With effect from 1st April 2013 the FSA became two separate regulatory authorities – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

We have retained reference to the FSA in this Guide but for reference purposes the new website is now fca.org.uk

Introduction

Our first guide to wraps and platforms back in 2006 commented on the greater use of fees for the provision of advice, and looked at which platform providers were genuinely in this market for the long term and importantly had the resources to back them – seven years on and these are still key issues.

There continues to be much discussion and press coverage on the benefits of adopting a platform and in some cases a platform is seen as the panacea to many of the issues that have beset our industry. Of course a platform is not the sole answer – any more than moving adviser remuneration to fee charging is the answer to stopping inappropriate advice being given. A platform can however play a part in helping firms to re-position their business model by improving their service proposition, streamlining the provision of data across a number of differing products and developing more efficient administrative processes.

Of course, the regulatory landscape has changed over the last seven years and 2013 saw the implementation of the Retail Distribution Review (RDR). There are still unanswered questions affecting the platform space particularly around the longer-term impact of the ban on cash rebates on advised business and we look more closely at the regulatory environment later.

We have always maintained that the financial resources available to back a platform business is a key factor in the selection process and we include information on a platform operator's financial strength through the analysis completed by AKG. We acknowledge their permission to use the ratings which are shown in the guide and on the individual factsheets and we would recommend that full reports are obtained for your shortlisted platforms; these are available from AKG at www.akg.co.uk

Finally, if there is one constant through all this change it is the continuing need for Advisory firms to adopt a robust and structured selection process with thorough due diligence. The FSA have indicated they will apply closer scrutiny to authorised firms that adopt a platform and they expect firms to complete a structured due diligence approach when making the decision on the right platform for their business. Firms must also ensure that any decision is continually monitored in the light of market developments or a change in the firm's own strategy or client proposition. We hope this guide and our due diligence template will help advisers achieve this although we are happy to assist with your selection and due diligence process, just contact us.

Geoff Mills
Rayner Spencer Mills
April 2013

Content & Scope

The guide

The guide is split into three sections as follows:

- The Market and Regulation – here we consider the main issues currently facing the platform market, particularly from a regulatory perspective.

- The Platforms – here we look at the propositions from the main platform operators, providing tables and analysis in key areas, together with summaries of a number of different aspects of the platform to assist with comparisons. All these areas are covered in more detail in our individual factsheets which are available as separate free downloads from our website.

- Selection and Advice Process – finally we look at how a platform might be selected and incorporated into the advice process.

We also have a number of additional documents that may help you in this area, which can be downloaded from our website:

Platform Factsheets for the propositions listed below
Platform Due Diligence Guide
FSA Factsheet.

All downloads are accessible from www.raynerspencermills.co.uk

Platforms Reviewed

The platform market is still undergoing significant development and enhancement particularly in response to the evolving regulatory landscape. We are aware of a number of additional propositions in various stages of development.

Our guide and platform factsheets provide information on the current platform propositions available for the UK advisory market. The platform operators included in this issue are:

- Ascentric
- Aviva
- AXA
- Cofunds
- Fidelity FundsNetwork
- James Hay
- Novia
- Nucleus
- Raymond James
- 7IM
- Skandia
- Standard Life
- Transact

We are also aware of propositions from the following and comments are included to explain why they are not covered in this guide:

Alliance Trust –we are awaiting return of our questionnaire and will then arrange a site visit.

Avalon – the company operates a small niche platform with around £250m of AUA as far as we can establish. They lack size and financial strength to influence the market. Our questionnaire and factsheet have not yet been returned.

Hubwise –we are aware of the impending launch of this new proposition and are in dialogue with Hubwise. Once details are agreed we will add a fact sheet and include details in the relevant tables.

Parmenium – the company operates a small niche discretionary investment management platform with around £300m of AUA as far as we can establish.

SEI – the SEI platforms is provided by SEI Investments Company a US-based company and is looking to partner with larger advisory firms who aspire to a 'white labelled' proposition and as such will focus on this sector of the market.

Zurich – the company has launched its proposition powered by FNZ. Our questionnaire and factsheet have not yet been returned.

The Market & Regulation

The continuing development of the platform market has gone 'hand-in-hand' with the developments in the regulatory environment. Of course, RDR has been a continuing theme, and other issues have been raised more recently, so in this section we look at some of these issues and give pointers as to how you can avoid some of the potential pitfalls whilst maximising the opportunities presented by the use of a platform.

Due Diligence

The FSA state that a number of firms have successfully implemented a platform solution in their business and the latest papers provide additional areas for action that, if implemented, could prevent future regulatory censure. These documents should be studied in detail both by firms who have yet to adopt a platform, and by those who have already adopted a platform into their advice model where they are considering a post implementation review.

One thing that is clear is the continuing focus placed by the FSA on the selection process and appropriate Due Diligence.

Comments from the FSA reinforce our long held view that charges have been opaque and that key disclosure documentation has not been clear and easy to understand. Reading through the FSA's 'Good and poor practice reports' will provide areas where firms should focus when making their selection and completing their due diligence.

The FSA have highlighted areas of risk to customers and unacceptable practices and as a result they will continue close regulatory supervision in the future. Where the FSA find unsuitable advice and weak systems they will take tough regulatory action.

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Our Platform Due Diligence Guide considers some of the business and selection issues that firms should address and also provides a simple 5-step process that can be adopted to form the basis of your selection and due diligence documentation.

All downloads are accessible at www.raynerspencermills.co.uk

Retail Distribution Review (RDR)

The RDR moves the UK Advisory sector to an advice-led model and a platform offers the means by which a firm can change its business model and transition to a recurring income model whilst also 'transforming' back-office processes.

This creates the foundations to build value in the Advisory firm, encourages the development of ongoing reviews and helps achieve longer-term financial sustainability and as such addresses some of the key issues of the RDR.

Through its numerous papers on the RDR the FSA set a timetable for working with the industry and other stakeholders to identify and tackle recurrent problems in the distribution of retail investment products in the UK. Of particular note are the areas clarifying the role of advice and services to consumers, adviser remuneration, professionalism and the long-term sustainability of Advisory business models.

The key tenets of the RDR are to:

- improve the clarity with which firms describe their services to consumers
- address the potential for adviser remuneration to distort consumer outcomes and
- increase the professional standards of advisers.

The key components of RDR took effect from 31st December 2012.

FSA Papers – a timeline

Some of the papers issued by the FSA in this area include the following:

DP 10/2 – **March 2010**

In March 2010 the FSA issued its Discussion Paper 10/2 ***'Platforms: delivering the RDR and other issues for discussion'*** and as its title suggests this paper covered specific 'platform-related' issues arising from the FSA's intention to ensure adviser firms will not continue receiving commissions, profit shares and other remuneration determined by product providers and other third parties.

Specifically it covered:

- how platforms should be remunerated for the services they provide in connection with advised sales once RDR comes into effect at the end of 2012
- the delivery of Adviser Charging through platforms and
- the use of platforms by advisers providing independent or restricted advice.

In this Paper the FSA proposed a ban on fund manager rebates paid to platforms. The proposal required the fund supermarket model platforms to 'unbundle' their charging structures and this saw a period of intense lobbying in an effort to make the FSA rethink its proposed ban. The FSA responded by saying a further consultation paper would be issued.

In addition the DP raises issues such as re-registration, platform capital adequacy and the range of investment funds accessible on platforms.

CP 10/29 – November 2010

In November 2010 the FSA issued their Consultation Paper 10/29 ***'Platforms: Delivering the RDR and other issues for platforms and nominee-related services***' and this restated the FSA's key outcomes as a consequence of the RDR as they affect platforms, as follows:

- platforms should not undermine the RDR objectives, especially concerning adviser charging
- platforms should not provide incentives to adviser firms, which results in customers incurring additional costs from unnecessary switching of investments onto or between platforms
- customers should not suffer detriment from how platforms are remunerated, for example, incentives may restrict choice, and
- customers to be provided with a clear description of platform charges and the services they receive.

This Paper saw the FSA bow to pressure from the fund supermarket model platforms by accepting that platforms could continue to receive fund manager rebates but they must be fully disclosed. This suggested that the 'bundled' charging concept could continue.

In addition, the FSA proposed a ban on cash rebates paid from fund managers to investors amid concerns they could disguise the adviser charge and distort one of the key RDR objectives. This stance saw further lobbying and discussion in the market and in February 2011 the FSA gave the platform sector two weeks to respond to a request for further information to help it decide on the rebate issue.

PS 11/9 – August 2011

In August 2011 the FSA finally issued their Policy Statement PS11/9 ***'Platforms: Delivering the RDR and other issues for platforms and nominee-related services'*** which saw the FSA in another U-turn as they announced that it will go ahead with the original proposal to ban fund manager rebates. The FSA also stated that it would proceed with its ban on cash rebates but a ban on both forms of rebates would be delayed until further research was completed.

CP12/12 – June 2012

In Consultation Paper CP12/12 ***'Payment to platform service providers and cash rebates from providers to consumers'*** the FSA proposes that the consumer (investor) should pay an explicit fee for the platform service, and payments from product providers to platforms should be banned.

In an earlier Consultation Paper (CP10/29) the FSA provided draft rules covering this proposed ban on the rebate of product charges in cash to retail clients for all advised sales of retail investment products, not just products sold through a platform. The FSA has not changed its view that cash rebates hinder transparency and potentially provide a mechanism for commission to continue to be paid. This approach however would not prevent rebates being made through additional investments into the product via unit rebating.

In PS11/9 the FSA accepted that any rules on unit rebating would not come into effect until after the introduction of the RDR. The larger platforms are already introducing unbundled pricing models so it is expected that no further significant systems development will be required. The FSA has indicated an effective date of 31st December 2013 for these changes.

Platform Remuneration & Adviser Charging

The FSA is keen to ensure that any platform remuneration does not undermine the RDR objectives on adviser charging. Currently, platforms have varied and complex charging structures and the FSA's review has uncovered poor examples of disclosure of charges and as a result they are actively encouraging platforms to improve their standards.

The FSA has produced detailed analysis of the pros and cons of the present ways that platform remuneration manifests itself and wants to ensure these do not impede the ending of product and provider bias. They also want to ensure that remuneration does not restrict choice or influence the prominence of different products (or wrappers) on a platform. This also includes influencing the composition of model portfolio or guided architecture solutions.

Having addressed the risk of product and provider bias with the introduction of adviser charging the FSA do not want to see platform operators giving monetary or non-monetary benefits that might result in unnecessary switching onto or between platforms. Neither do they want to see platforms becoming a channel for commission-like payments from product providers – especially as many of the platform operators are themselves product providers or are owned by product providers.

Existing rules on inducements are already in place and the FSA want to see clear, fair and not misleading descriptions of any services provided to Advisory firms such as training, consultancy services and investment planning tools and also manage any potential conflicts of interest concerning investment planning tools when their own products or funds are involved.

Advisers need to consider any potential bias by an adviser having a financial interest in a platform and the FSA will expect firms to manage this conflict and this will be an area that the FSA will continue to monitor.

Until now, the costs associated with buying funds, including advice and platform charges plus the fund manager's own costs have been bundled together meaning it was very difficult to determine how much each component cost; equally, realistic comparisons were very difficult.

These combined or bundled charges are now being 'un-bundled' to make it easier to understand and be more transparent.

A number of fund management groups are launching so called 'clean share classes' often designated 'R class'. These don't include commission, however, be careful in any comparison as there is yet no standard for these 'clean share classes'!

The FSA want to ensure that if platforms are used to 'facilitate' the move to adviser charging that there is no consumer detriment and that platform operators administer such charges to the same standards as product providers.

Using cash accounts could be one way of dealing with adviser charging yet it is important to ensure consumers are aware of how much they are paying for such functionality and that Advisory firms do not make additional charges without additional benefits when recommending the use of a platform to a client.

During this period of ongoing change advisers should obtain the best idea of costs, but remember that the regulator is not necessarily expecting advisers to adopt the cheapest platform, but the one that allows the adviser to deliver 'best value' to their clients.

In the words of the FSA it is all about 'establishing a resilient, effective and attractive retail investment market that consumers can have confidence in and trust at a time when they need more help and advice than ever with their retirement and investment planning'.

Independence and the use of Platforms

This all revolves around the issue of whether an Advisory firm providing independent advice should be able to use a single platform or whether use of multiple platforms is necessary. This is potentially the most complex of areas and maybe the most controversial, yet the FSA feel they have dealt with these issues in earlier papers. The FSA's position on suitability is unchanged and is covered in their Principle 9 – 'a firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement'.

In the early days it may have been logical for an Advisory firm to use a number of platforms given that the functionality then offered was not as broad as it is today. However, as the numerous propositions have evolved and new providers have entered the market competitive pressures have improved the level of functionality on offer, making the case for the use of one solution much more defensible and logical from a business perspective.

Naturally, at the next level down, we would expect that firms have a robust investment selection process to apply an agreed set of methodologies to the various products and funds it wishes to recommend to customers. Adopting such an approach will allow a firm to meet their TCF requirements as it applies to suitability and appropriateness of the product and underlying fund choice.

In their November 2010 Consultation Paper (CP10/29)

Chapter 2.11 the FSA state:

'Assuming that use of a platform is in line with the client's best interests, and leads to advice that is suitable (and it is crucial to note that use of a platform will not be the right solution for every client), we accept that an independent firm may be able to use a single platform for the majority of their clients'.

'This does not mean we expect a platform that is used extensively by an independent firm to hold every retail investment product in the market. A platform may not be able to, or wish to, hold some investments and it is important that an adviser continues to consider off-platform investments where appropriate.'

In their August 2011 Policy Statement (PS11/9) Chapter 2.14 the FSA state:

'*It is important to bear in mind that, when advice is being given, it is the adviser who is giving that advice and dealing with the client and not the platform. It remains important for the adviser to take responsibility for that advice. The adviser needs to take into account whether being on a platform is in each individual client's best interests and ensure any personal recommendations to invest via a platform is suitable. It is important to stress that this will not always be the case........ ....We expect an independent adviser to be able to demonstrate why using a particular platform is suitable for an individual client, and this involves not just looking at one platform over another, but also looking off platform when appropriate to do so.'*

'Regarding the use of a single platform by an independent firm, we would be concerned if some firms took CP10/29 as a green light to make extensive use of a single platform, without thinking through the implications of this approach. Firstly, as we say above (and in CP10/29), it is important to bear in mind that using a platform will not be the right solution for every client, and using a platform needs to be in the best interests of the client, not the adviser.'

'.........we continue to recognise that one of the key benefits that a platform provides an adviser is being able to see its client's holdings in one place. Clearly, the more platforms that an adviser firm uses the more this benefit will be diluted. We therefore still believe that an independent firm may in theory be able to use a single platform for the majority of is clients, but that it needs to consider very carefully its choice of platform and the impact this has on the firm's ability to meet the independence rules.'

So the position is clear – don't attempt to shoehorn all your clients into one solution either through a fund list, product panel or platform; have 'off-list', 'off panel' and 'off platform' processes in place to utilise where appropriate.

As the UK platform market continues to develop, more and more firms have made the decision that adopting such an approach fits their business needs and strategy and are looking to make the decision and move to implementation and maximise the benefits for their business and its clients.

Consequently, the recent FSA papers should be considered in detail by any firm looking to adopt a platform solution in their business. However, please do bear in mind that there are a number of factors to be considered in any due diligence process; agreement of your business strategy, how do you feel about platform ownership and what is your investment ethos and process.

Only when you have answered these big strategic issues should you start to look at the functionality and costs of the platform.

Capital Adequacy & Financial Strength

In the event that a platform is closed, any process to 'wind-down' that business and transfer assets will be both costly and time consuming. In its comments on capital adequacy the FSA wants to ensure that there are sufficient capital resources to be able to wind that business down in an orderly manner – this is known as the Internal Capital Adequacy Assessment (ICAA).

These details are contained within the Capital Requirements Directive and the FSA in their draft ICAA guidance want firms to consider:

- the likely period the firm believes it would take to wind-down its regulated activities;
- the likely costs incurred by the business during this period including any additional 'closure' costs;
- realistic cash and fund in-flows and out-flows during the wind down period; and
- additional losses or liabilities that could crystallise during the wind down period.

These concerns have been raised previously by the FSA and they restate that under FSA Principle 10 'a firm must arrange adequate protection for clients' assets when it is responsible for them'. The FSA will continue to assess the adequacy of protection provided by firms and make it clear that this applies to platform operators.

This aspect has led us to include additional information on a platform operator's financial strength and we thank AKG for access to their financial strength analysis and we would recommend that full reports are obtained for your shortlisted platforms. These reports are available from AKG at www.akg.co.uk and we consider these should form a key part of any due diligence process.

Main Platform Operators (Table 1)

Platform	Owner	Date Started	AUM £ (Note1)	No of Firms registered
Ascentric	Royal London Group (75%), founding IFAs (25%)	2007	£5.2bn	1,030
Aviva	Aviva UK Life	2010	£1.3bn	3,926
AXA	AXA UK	2008	£5.3bn	1,200
Cofunds	L & G (100%Wef March 2013)	2001	£47.6bn	n/d
FundsNetwork	Fidelity International	2000	£40.0bn	19,903
James Hay	IFG Group PLC	2003	£850m	350
Novia	White River / Future Capital Partners, David Royds & David Mackinnon of Matrix Securities	2008	£1.5bn	915
Nucleus	IFA users (51%), Sanlam 42.5%,	2006	£4.8bn	150
Raymond James	Raymond James Financial Inc (USA)	2006	£3bn	74
7IM	Allied Zurich (49%), AEGON (15%), 7IM staff (36%)	2001	£4.5bn	n/a
Skandia	Old Mutual	2000	£38.2bn	n/a
Standard Life	Standard Life	2006	£12.2bn	1,100
Transact	Integrated Financial Arrangements plc	2000	£12.5bn	3,302
Notes: 1. Time periods may differ – see factsheets for details		**Total**	**£176.95bn**	

Ownership / Brand

As can be seen from Table 1 the truly independent 'adviser-led' proposition is in the minority and the large life insurance companies and fund management groups are dominating the list of owners.

Some IFAs are distrustful of the life and pension provider owned platform feeling they will naturally have a bias towards their own tax wrappers as well as their own funds. Others see their involvement as crucial to the development of the market and see this as a natural evolution towards them becoming 'asset mangers' in the widest sense.

Whether such concerns are founded is for each individual business to decide but given the high set-up and ongoing IT development costs, plus the increasing spotlight on capital adequacy it is difficult to see another source of funding other than these large corporate entities.

Another issue for firms may revolve around branding and white labelling. Again this is a question for individual businesses and their own view as to whether their own branding is stronger than the platform provider's brand or their own brand risks dilution in the eyes of their clients, particularly where online client access is being provided.

Technology Infrastructure

A key issue for the platform providers is to find ways in which they can increase the functionality they offer users whilst seeking to operate more effectively.

Some improvements in efficiency are already being seen, however there is still some way to go before the platform becomes the all-encompassing asset management platform which was initially envisaged.

Of course, the ability to deliver these enhancements relies upon increasing revenue through attracting higher levels of funds onto the platform.

The following table provides high-level details of the IT systems supporting the numerous platforms and further detailed discussion should take place to determine the integrity/scalability and back-up process during the due diligence process.

IT System Support for Main Platforms (Table 2)

Platform	IT System
Ascentric	All IT Is owned by Ascentric. Core service, technology and administration are all provided in-house by them.
Aviva	Talisman software from Bravura Solutions Ltd, with Citi (based in Glasgow) providing systems and administration outsourcing.
AXA	FNZ leading IT software company.
Cofunds	Contour bespoke software, developed, supported and hosted internally, together with FAST software supported by IFDS
Funds Network	In house platform called GFAS.
James Hay	Proprietary system.
Novia	GBST – Australian based global IT company. GBST bought InfoComp in August 2007 and this now forms core of the GBST Wealth Management division both in Australia and increasingly in the UK. GBST Composer is the software developed to administer the main UK tax wrappers available on UK platforms.
Nucleus	Talisman software from Bravura Solutions Ltd in Wilmslow, with Citi (based in Glasgow) providing systems and administration outsourcing.
Raymond James	Own in-house technology.
7IM	Propriety system developed in-house.
Skandia	Skandia's platform based on Tibco and Oracle products supported in-house.
Standard Life	FNZ joint development.
Transact	Own in-house technology based on company's experience in Australia.

Product Tax Wrappers

The availability of product tax wrappers can be an important part of the selection of a platform; if volume onshore bond business is written, then it makes sense to consider a platform which offers this option.

Given that platforms are designed to be a way of aggregating a client's assets into one place, enabling more straightforward transactions and reporting, it is perhaps surprising that some still do not offer a full range of product/tax wrappers. The following table summarises the current availability of the different wrappers, but please refer to our factsheets for full details.

Product Tax Wrapper Range (Table 3)

Platform	ISA	Mutual Funds	Onshore Bond	Offshore Bond	Personal Pension	SIPP	Inv Trust	ETFs	Stocks & Shares
Ascentric	✓	✓	✓	✓	✗	✓	✓	✓	✓
Aviva	✓	✓	✗	✗	✓	✓	✓	✓	✓
AXA	✓	✓	✗	✓	✓	✓	✓	✓	✓
Cofunds	✓	✓	*	✓	✓	✓	✗	✗	✗
FundsNetwork	✓	✓	*	✓	*	✓	*	✓	✓
James Hay	✓	✓	✗	✓	✗	✓	✗	✗	✗
Novia	✓	✓	✗	✓	✗	✓	✓	✓	✓
Nucleus	✓	✓	✓	✓	✗	✓	✓	✓	✓
RJIS	✓	✓	✓	✓	✓	✓	✓	✓	✓
7IM	✓	✓	✓	✓	✓	✓	✓	✓	✓
Skandia	✓	✓	✓	✗	✓	✗	✗	✗	✗
Standard Life	✓	✓	✓	✓	✗	✓	✓	✓	✓
Transact	✓	✓	✓	✓	✓	✓	✓	✓	✓

* See separate factsheets for full details

Funds

The fund ranges that are accessible also vary, often with the product wrappers that are offered and more information is available in each operator factsheet.

Other Assets

Platforms were first positioned as a way of holding, valuing and reporting on a clients entire portfolio, including equities, and other less mainstream assets. The reality is that there is still some way to go before the market is anywhere near this cohesive approach.

A number of the operators offer a share dealing facility, generally at an additional cost; however any other assets would generally only be noted on the platform with the adviser or the client providing updated values. More information can be found in our factsheets.

Pre-sale Tools

The range of services offered by the different platform operators is still quite diverse. Whilst a number of the less developed ones have instigated development in this area, there is quite a substantial difference in terms of functionality and support services offered.

Further detail is provided on our detailed factsheets.

Pre-sale tools can be an important consideration in selecting a platform. Putting aside any potential constraints of legacy systems and business, it would, at least theoretically, be possible to run an IFA practice using a platform without the need for any additional back office systems.

The reality of course is that most IFAs have existing systems which they need a platform to integrate with. In this situation, it is important to consider which elements of pre-sale planning are already established and working well, and which could be easily sourced from a platform.

Where platform tools are used, it is essential that an Adviser can understand and explain to the client how the tool works, and how the outcome has been arrived at. This should include an understanding of the assumptions on which the tool is based, and the impact of these assumptions on the outcome and the eventual advice. This is particularly true of the risk assessment and asset allocation tools which are fundamental to the final recommendation.

The table below summarises the availability of the key pre-sale tools which are available on the different platforms.

Pre Sale Tools (Table 4)

Platform	Factfind	Risk Profiling	Asset Allocation	Fund Selection	Model Portfolios
Ascentric	✗	✓	✓	✓	✓
Aviva	✗	✓	✓	✓	✓
AXA	✓	✓	✓	✓	✓
Cofunds	✗	✓	✓	✓	✓
FundsNetwork	✗	✓	✓	✓	✓
James Hay	✗	✗	✗	✗	✓
Novia	✗	✓	✓	✓	✓
Nucleus	✗	✗	✗	✓	✓
RJIS	✓	✓	✗	✓	✓
7IM	✓	✓	✓	✓	✓
Skandia	✗	✓	✓	✓	✓
Standard Life	✓	✓	✓	✓	✓
Transact	✗	✓	✓	✓	✓

Model Portfolios

In the table above we refer to preset model portfolios which have been constructed for the adviser. Those platforms with pre-sale functionality often have the ability to store portfolios inputted by the firm.

The ability to input bespoke portfolios onto the platform to then be used with appropriate clients can make the platform a very useful business tool, giving the adviser the ability to have a smoother end-to-end sales process. This does, of course, depend on the quality of the portfolios and the robustness of the approach taken to their construction.

'If an adviser firm is going to use services such as guided architecture or model portfolio tools we would expect the adviser firm to take steps to ensure that these tools are unbiased'.

FSA CP10/29 Chapter 2.11 – page 14.

In April 2012, the FSA published Consultation Guidance on ***'Assessing suitability: Replacement business and centralised investment propositions'*** and then in July FG12/16, containing its final guidance. A detailed review of this Guidance is recommended but in essence it considers:

- The factors a firm must consider when deciding whether a recommendation to switch a client's investment is in the client's best interests;
- The steps firms should take when designing or adopting a centralised investment proposition (CIP);
- The FSA's expectations of firms to ensure that individual recommendations to invest into a CIP are suitable.

PORTFOLIOS

If you want help developing bespoke portfolios tailored to your firm and your clients rather than rely on 'off the shelf' model portfolios just contact us on 01535 656 555 or email enquiries@rsmgroup.co.uk

Post Sale Reporting

Post sale reporting and client valuations are generally done very well, with a wealth of information available to the adviser. Valuations are available easily and at any time and these are generally provided in a format which could be sent direct to a client.

Most platforms include some form of fund performance tool, enabling the performance of the client's portfolio to be tracked and demonstrated to a client.

Management information is readily available, with most reports being easily downloaded in Excel or CSV format. The detail that is available does however vary, with some offering the most complex breakdown – with the ability to summarise the information by every variable, and others having more standardised reports.

Portfolio factsheets are available from many of the platforms which can clearly be useful as part of a client review. The length and complexity of these, however, may require some detailed explanation in order for a client to understand.

Full details of what is offered by each platform operator can be found in our platform factsheets – www.raynerspencermills.co.uk

Selecting a platform is a complex decision. In looking at this market, an Advisory firm should start from the point of considering their own business model and advice process, then find the platform that best fits with this and will fit with any planned changes. This requires a full understanding of the platforms available and the functionality that is included within each.

What is right for my business?

The first point to consider is whether or not a platform will be appropriate for use at all. This will depend largely on the business model, business mix and client type. There are a number of benefits of using platforms, both for the client and the adviser. These can be summarised as follows:

Consumer Benefits

- Improved service from the Adviser through enhanced professionalism and improved confidence;
- Access to a wide range of tax wrappers & investments;
- Single view of investments;
- Transparency of charges & access to low-cost switching of funds.

Adviser Benefits

- Reduced administration costs;
- Ability to manage an adviser charging business model;
- Access to asset allocation and portfolio planning tools;
- Improved management information to aid and control business planning.

Business Model

A platform is an ideal solution to facilitate the provision of high-quality ongoing advice, yet to be effective, this model must involve the development of a clear and documented client service proposition.

A business strategy and plan must be agreed before the decision is taken on which platform to adopt – the strategy must drive this decision and not the other way.

Client base and business mix

Some degree of segmentation will allow a better understanding of the client bank and therefore enable a firm to determine if a platform is going to be of value to their business.

If a reasonable proportion of clients have significant investments in pensions/SIPPs, bonds and mutual funds and would benefit from a more focussed and 'holistic' on-going service approach then these clients will form the bedrock for the new business model.

If, however, the client bank is predominantly mortgage related, protection based and low value investment business currently with little scope for an ongoing service proposition, the needs are clearly different. Here the development of a broader business plan is probably of greater importance, considering alternative avenues for business to move the client profile. Of course a firm may just decide it's not for them per se and that is where they make that business decision rather than trying to shoehorn their business into a process that doesn't fit.

Moving to a Platform

Having decided that the business model and client base are right for considering a platform further, some high level analysis of what is currently available in the market is needed.

Initially, firms need to satisfy themselves on three key issues:

- **SCALE** – Does the platform operator have the scale, resources (both financial and technical) to be a long-term player?
- **SUPPORT** – Can they provide the support needed during the critical transitional and implementation period?
- **FUNCTIONALITY** – Do they provide the range of tools and functionality that are required to embed into the new business model and help the adviser deliver their enhanced service proposition?

All of these are key considerations. Clearly without the scale and resources to be a long-term player one would have to question the future availability of the platform and therefore the support given to those clients who use it.

The support given during the transitional period is also crucial. If an adviser is moving to a new business model based more around client service and ongoing support then they need to ensure that this transition is made as smoothly as possible. Some platform operators offer support to help to transfer clients onto the platform, perhaps by re-registering or consolidating existing investments. If there were large numbers of existing clients with existing investments that would want to be included on the platform then the support that can be obtained as part of this process would be valuable.

Given the complexity of some of the asset allocation and investment tools included on the platforms, consideration should also be given to available training on these aspects to ensure that all advisers understand the inputs, assumptions and outputs and can adequately explain these to a client.

The range of tools needed to embed into the firm's business model will depend entirely on the advice process. If an adviser intends to maintain the existing fact finding, risk profiling, and asset allocation and fund selection processes that they already have in place then clearly they need not discount those operators who do not offer this functionality. Similarly if they prefer to maintain a paper based process then the ability to submit business online without the need for a 'wet' signature is of little importance.

What is important here is to have a clear understanding of what support and functionality is required from the chosen platform and then consider the platforms that offer this. Only by doing this, can the platform be fully integrated into the sales process thereby giving access to the true cost savings that platforms can offer.

What does the Platform offer?

All of the platforms have different strengths and will suit different advisory firms. As mentioned above, deciding which features are important has to be the starting point in selecting a platform and analysing how these will benefit both clients and firm.

The following are some points to consider:

Does the platform provide a comprehensive portfolio summary?

- Is it possible to see a client's total portfolio?
- Can other assets be added such as with profit bonds, property?
- How is portfolio information displayed?
- Are graphics used?
- Is it easy to download or print the information for distribution to clients?

What tools are available?

- Are there the tools required to help with risk profiling, asset allocation and fund selection?
- What supports them and how will they fit with the existing advice process?

Does the platform include all the tax wrappers that are required?

- What tax wrappers are essential for your business and clients?
- What plans are there to 'fill' any gaps and what are the timescales?

Model Portfolios

- Some platforms provide model portfolios where the funds to be used are pre-selected. If this is the case, are the model portfolios provided by independent quantitative and qualitative research?

Is there a transparent charging structure

- How easily will clients understand the charging structure?
- Can it be demonstrated that clients are not paying 'over the odds' for the platform service?

How easy is it to transfer off the platform or from one platform to another?

- This is a requirement from 31st December 2012.

Client report and suitability letter

- Will the platform produce a professional client report and aid the compliance record keeping?
- Is a full audit trail maintained of all transactions?

MI reporting

- Does it provide a full suite of MI reporting to aid the management of the business?
- Some platforms offer data mining tools to help make the most of an existing client base – are these offered and what detail can be 'mined' on?

Links to back-office systems

- What back office systems does the platform link to?
- How is information transferred?
- Is this easy to do?

Selecting the right solution is complex. Just as an adviser would research the market before recommending a product or fund to a client the same should be done here. This is a key decision and getting it right first time is also a key business imperative to avoid having to make a subsequent change with the disruption that would cause.

PLATFORM DUE DILIGENCE

A comprehensive Due Diligence guide and pro forma can be found on our website at www.raynerspencmills.co.uk

Conclusion

The platform market continues to develop and new entrants, together with developments by the more established providers demonstrate that this is a dynamic market and will no doubt continue to be so for some time.

Selecting a platform in the current market is not easy, with more intangible aspects such as IT resource and commitment to the market being important considerations, yet this should not be used as an excuse for firms to delay their decision making. The benefits offered by platforms in terms of supporting a focus on client service in the new world of adviser charging make it a compelling argument and we believe that over time consumers will accept an adviser charge / fee based approach.

Any decisions on using platforms must be led by the advisory business itself, taking account of how the business operates and its client base. Only by starting from this point will advisory firms find the best solution for their clients and their business and therefore be in a position to make the most of the opportunities presented to them.

The right solution has the potential to transform a business by helping to deliver an enhanced level of service to new and existing clients, transforming the business and its capital value, all of which meet the main objectives of the RDR.

All supporting documents can be downloaded from our website where you will also see the range of services we offer for advisers.

Finally, if you want to discuss any aspect of this guide please email or contact us – our details are on the back page.

We hope you find this guide useful as you continue to develop your business.

Geoff Mills
Rayner Spencer Mills
April 2013

Appendix – About the Authors

Rayner Spencer Mills

www.raynerspencermills.co.uk

Our fund ratings and our investment analysis and research services are now being used by over 10,000 advisers in the UK. Check our our website for full details or give us a call on 01535 656555

Our services include:

- Rated Fund Service
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- Competitor analysis and market research for providers

Factsheets

Due Diligence Guide

All documents can be downloaded from our website

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