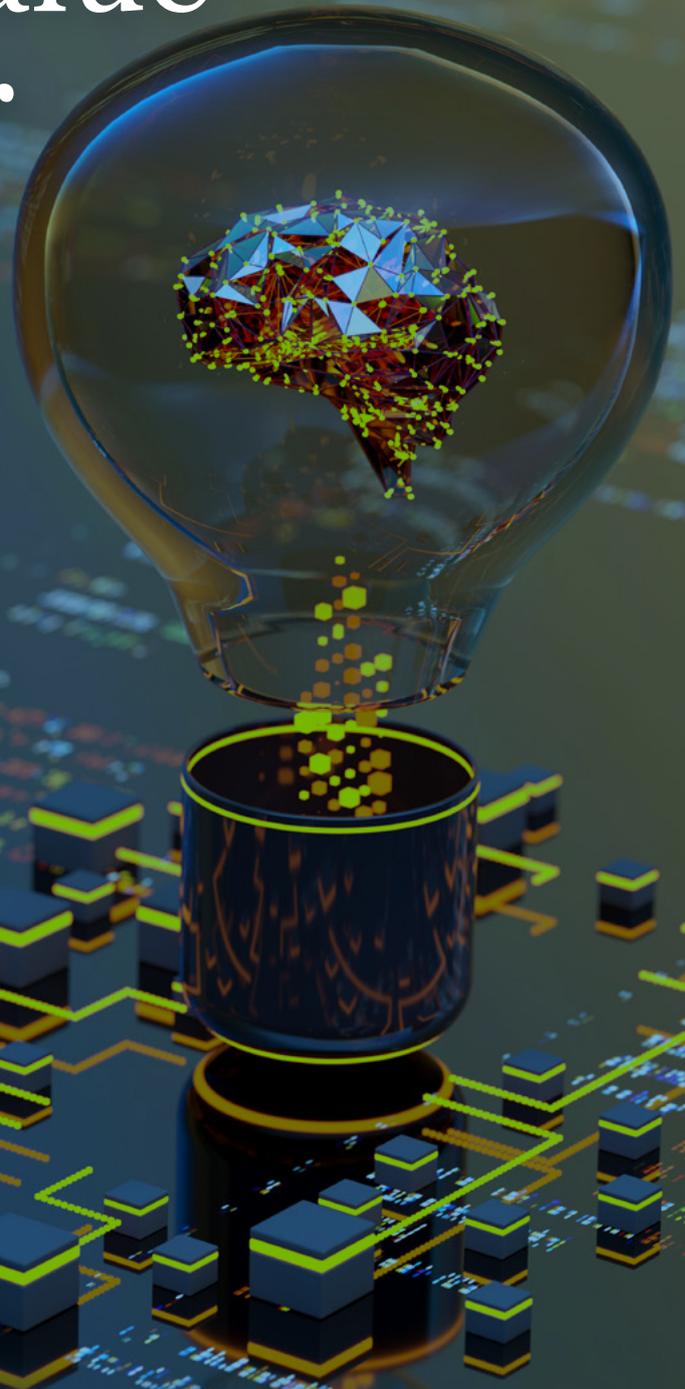




Getting value from your platform

Thinking outside
the tick box



Altus

MAKING FINANCIAL
SERVICES FASTER

In association with

Parmenion



Altus Consulting is a specialist provider of consultancy services to the Financial Services sector.

We help clients achieve operational excellence and improved returns through a combination of proven industry models, technology expertise and market insight.

For more details of these services please visit our website altus.co.uk.

Contents

About us

Introduction

The role of the financial advice business

Consumer Duty: No one wants to be in an
unhappy marriage

Do I want to run my own platform?

The future of platforms

Altus whitepapers

Introduction

After 25 years of trying to reform the UK investments industry via a combination of disclosure rules, adviser titles and process controls, the Financial Conduct Authority (FCA) finally went nuclear in December 2012 with the Retail Distribution Review (RDR).

A total ban on commission and mandatory professional qualifications to advise on investments transformed the advice market and thrust platforms into the spotlight. Whilst a few brave advice firms were already pioneering whole-of-market, fee-based advice using a new breed of wrap provider, RDR was the catalyst which led to the explosion of the platform market¹.

10 years on, we have witnessed a succession of FCA reviews of the investment value chain, complex rule changes such as Pension Freedoms and MiFID2, plus a digital revolution that has touched almost every corner of our lives. With Consumer Duty just around the corner, there is undoubtedly more change to come.

So, after two decades of being heralded as a bright new world, where does that leave adviser platforms? Have they lived up to their promise? In this paper we will break down the role a platform plays in the advice and investment process and answer the question, 'How do you get value from your platform?'.

In doing so we will look at the role of financial advisers, what they need from a platform, how this has changed, how it's likely to change further and some of the frustrations with current offerings. We challenge the level of detail and due diligence advisers should undertake on their platform partner and ask why an advice firm might consider operating their own platform, look at some of the pitfalls, and offer our views on how platforms might add more value for advisers in future. We hope you find the contents interesting and do let us know if you disagree with any of our conclusions – progress comes through debate.

¹ According to Fundscape over 80% of retail investment business now flows via investment platforms.

The role of the financial advice business

Financial advice firms come in different shapes and with varied focus, but the core purpose of financial advice has not materially changed. The objective of every good financial adviser and planner is to help a client work out their life’s priorities and plan their finances to achieve their goals. The investment platform is a tool that facilitates the delivery of the outcome.

How advisers select platforms, however, has changed significantly since the advent of RDR. In the early days, platform selection centred on making an adviser’s life easier via the fundamentals of service, price, and functionality. Over time, the fundamentals of tax wrappers, investment options, features and tooling became increasingly homogenous, and commercials emerged as the key differentiator in platform selection. Then, in 2016, the FCA introduced the Product Intervention and Product Governance Sourcebook (PROD) which formalised platform selection, after TR16/1 concluded that “the poor quality of an advisory firm’s research and due diligence is one of the three root causes for poor consumer outcomes”. Third-party research and due diligence tools reaped the benefit as advisers sought a solution to due diligence at scale,

but it inadvertently drove homogenisation as platforms tuned their propositions to avoid being filtered out. In parallel with the requirement to consider the consumer’s perspective, advisers were becoming increasingly frustrated with several aspects of platform performance. Hugely delayed and over-budget re-platforming exercises locked advisers into end-of-life systems, promised integration with adviser software has been slow, the pandemic exposed ageing support technology, and serial changes in ownership have bred uncertainty around financial commitment as platform margins thinned. These pressures have all combined to elevate due diligence above functionality and features, and to compel adviser firms to delve deeper into aspects of a platform business that could negatively impact their business and their client relationships.

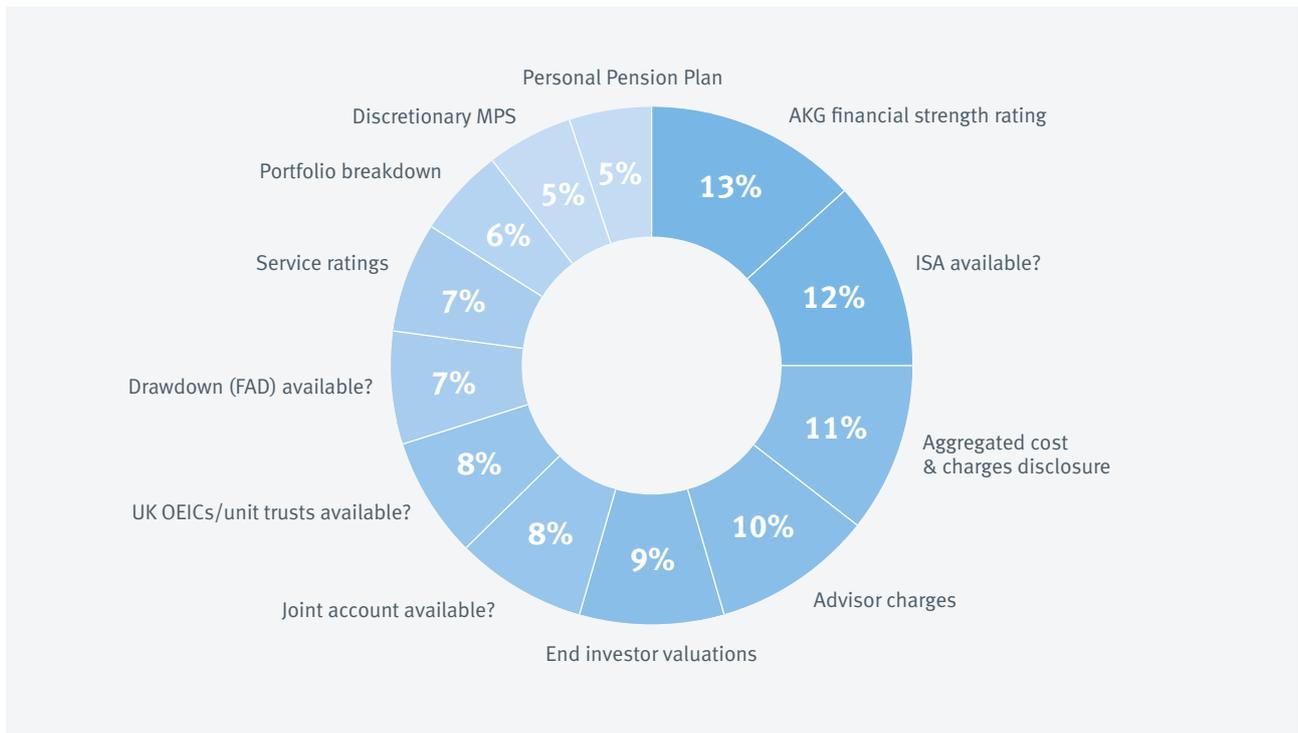


Figure 1: Top 12 filtered searches through DD|hub – 2021-2022

Source: DD|hub

The role of the financial advice business (cont.)

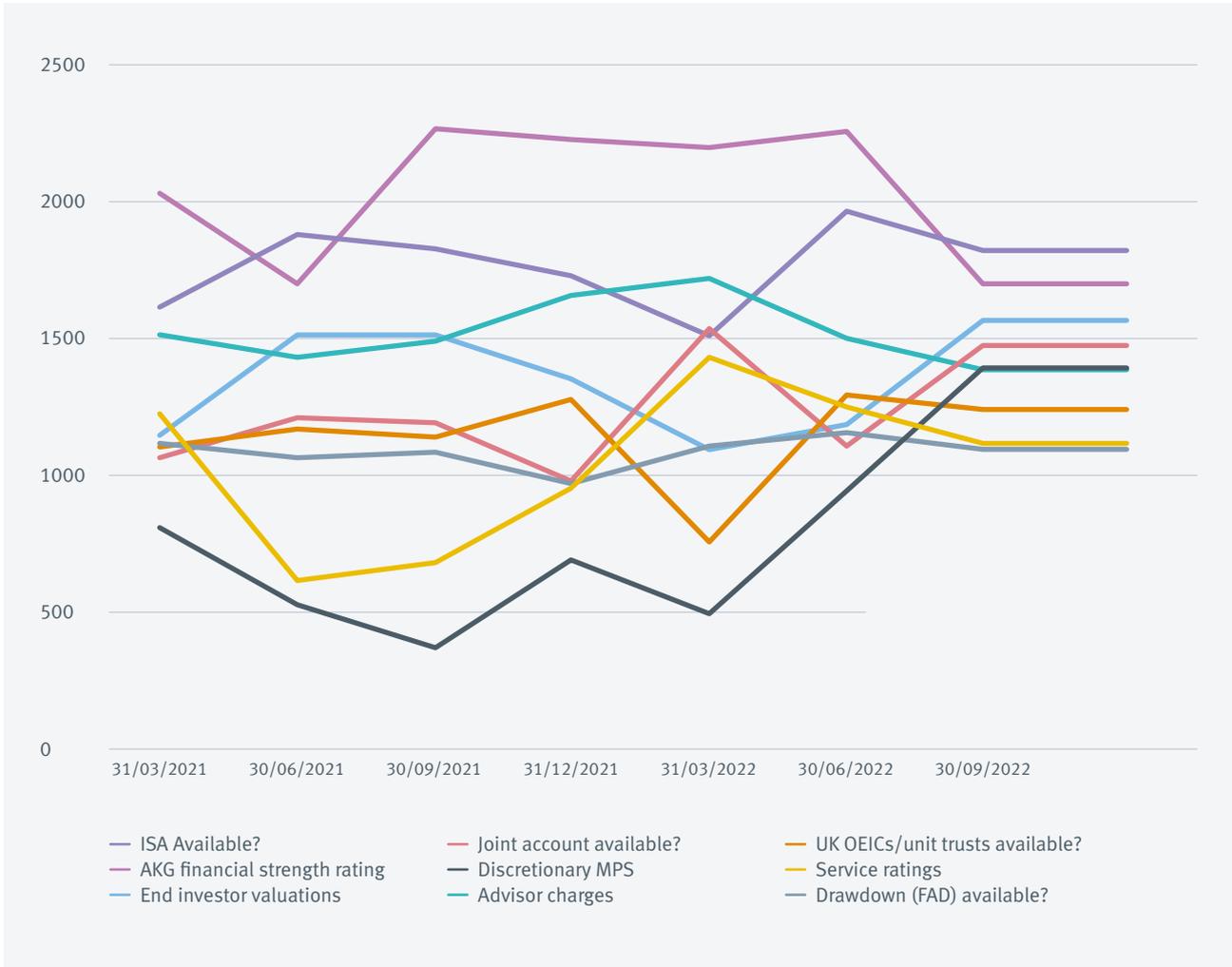


Figure 2: Changes in adviser filter searches through DD|hub – 2021-2022

Source: DD|hub

DD|hub Platform Due Diligence Service data highlights that AKG Financial Strength ratings are a core part of research that advisers undertake on potential platform partners, with searches on fee and charge functionality also in the top filters used.

The standout growth in due diligence searches though is clearly around their Discretionary Model Portfolio Service. This tallies with wider research findings around the continued growth of MPS² as advisers have decided to focus on financial planning rather than investment management; reducing risk, simplifying the proposition, and retaining greater control over their client relationship. Most platforms have added some level of MPS functionality whilst some, like Parmenion, were designed around that concept from the outset.

²Fundscape research found that around 70% of retail platform investment is flowing into MPS.

Service and technology factors

The basics of service and technology remain front of mind for financial advice firms. Consumer Duty reinforces the fact that the constituent parts of the value chain do not work in isolation. Platforms have a material impact on both the outcomes retail customers experience and the overall customer experience and if they fail to deliver, if only partially, it reflects poorly on the adviser and damages trust with the client.

Tough market conditions and Consumer Duty will see even more focus on outcomes, efficiency and costs, so it's good to see that technology to support the financial planning process continues to evolve. In recent years we have witnessed the emergence and sophistication of advice engines and wider tooling that now automates many parts of the advice process across fact finds, risk profiling, capacity for loss, cashflow forecasting and back-office/CRM. Financial advisers can remove cost from their business, a welcome opportunity against a backdrop of escalating regulatory, professional indemnity and other fees. Technology and automation also promise more consistent client outcomes. However, there is still friction at the boundary between these tools and platforms.

In the early days, platforms and back-office systems fought it out to become the adviser hub; a contest where back-offices prevailed but which led to calls from the advice sector for deeper integration. Today, the potential of advice technology remains frustratingly unfulfilled because most of it operates standalone, restricting both efficiency gains for advisers and outcomes for clients; we have all the pieces of a fantastic jigsaw, but we can't put them together.

This lack of integration and interoperability is a thorn for advisers as many key platform processes continue to be manual and resource intensive. The requirement to rekey data into the platform from the back-office and vice versa remains a core frustration, but the barriers are well documented:

- **Cost:** who would benefit, and therefore who should absorb the cost to both build and maintain the (two-way) integrations?
- **Volume:** rarely do two advice firms look the same, so a platform would need to support two-way integrations into multiple different back-offices, CRMs, and tools.

- **Data standards:** integration hubs are emerging, attempting to provide a one-to-many solution; but without a common data standard, the hubs may simply add another layer of fragmentation, cost, and complexity.
- **Technology expertise:** many technology vendors promote APIs as a panacea for integration but the reality, particularly for advice firms without a dedicated technology function, is more complicated.

Despite the threat that some platforms may perceive of being reduced to a commodity safekeeping and custody service, those that move first to embrace integration and open interoperable standards are likely to reap significant benefits in attracting progressive advice firms.

“All advisers know that ‘research’ and ‘due diligence’ are important, but we often find there’s misunderstanding about what each of these mean. The FCA were clear in TR14/5 and TR16/1 that these are two separate stages of the selection process: stage one is researching the market to find solutions which will meet a client’s needs. Once you’ve narrowed the field, you then ‘conduct detailed due diligence on the recommended solutions’ and ‘establish whether [advisers] believe it appropriate to entrust the provider with client assets’. Advisers are generally good at the research part, but ‘detailed due diligence’ can be difficult and time-consuming, so we find few firms that evidence this well.”

Chris Jones,
DD|hub

Consumer Duty: No one wants to be in an unhappy marriage

As if the Adviser/Platform relationship wasn't already complicated enough, the new Consumer Duty is about to add another level of complexity in what many view as the biggest overhaul of UK financial services regulation since the Retail Distribution Review.

Whilst confirming that 'firms are responsible only for their own activities and do not need to oversee the actions of other firms in the distribution chain' the Duty places a renewed requirement on firms that co-exist in the value chain to revisit their relationship in the context of the outcomes they collectively deliver.

Financial advisers hold the clearest oversight of the customer's overall position, but the platform has a material impact on the outcomes retail customers experience. What happens if either conclude that another constituent of the value chain, or the value

chain as a whole, is not delivering against the Duty? What if they feel compelled to whistle-blow to the Financial Conduct Authority? Could Consumer Duty fracture the relationship further?

Light the due diligence touch paper, as financial advisers (and platforms) face the requirement to elevate their scrutiny of the firms they work with. Different approaches will emerge as interpretations vary under a principles and outcome-based regulation and there is no right answer. However, these are the implications we foresee across the four outcomes, and beyond.

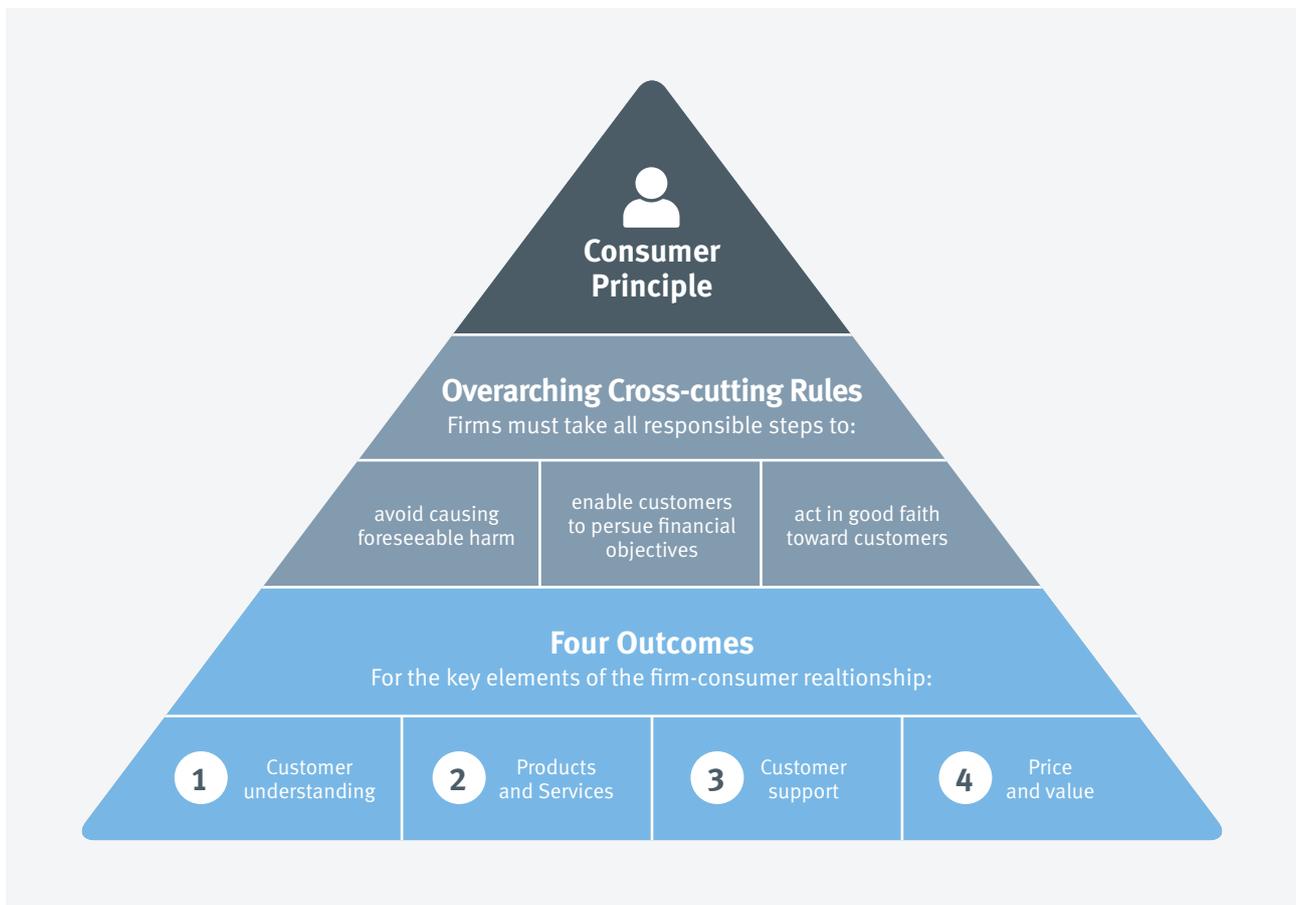


Figure 3: The Consumer Duty structure. The Financial Conduct Authority, CP21/36

The impact across the four outcomes and beyond



Price and value

The final guidance states that ‘firms are responsible only for the prices they control and are not required to re-do, or challenge other firms’ value assessments’. Yet there is contradiction here. Advisers have oversight of the total charges across the value chain and need to satisfy themselves that fees cumulatively represent fair value. Conversely, platform providers are required, where they are the final firm in the distribution chain, to consider the overall impact of the remuneration added by each actor in the chain.

The Investment Platforms Market Study found the market worked well and profitability was not excessive. It is therefore difficult to envisage advisers concluding that platforms are not value for money given the value they add in exchange for the typical platform fee. The outcome is unlikely to have a material impact, outside of closer scrutiny across the fence. Price disrupters with efficient operating models could garner favour as advisers refocus on the total cost to serve, but advice firms need to be mindful of focusing on price over value, if it compromises outcomes and compliance with the Duty. Factor in low margins and the fact that Bravura, GBST and FNZ technology underpins much of the sector, and a price disrupter feels unlikely, certainly among traditional platforms.

Value is a subjective measure and will be more difficult to quantify and evidence. A debate has continued, post the Retail Distribution Review, as to who is the main beneficiary of the investment platform – and therefore, who should pay for it. The end investor, or the adviser? The truth is that it benefits both, but complexity in deriving value arises from a bundled set of services being labelled as a single service, the ‘platform’. In the absence of unbundling the charges, robust research, due diligence and cost transparency are critical.



Consumer understanding

Consumer understanding could be a thorny issue. A financial adviser does not absolve platforms from needing to communicate with clients at key decision points through the product lifecycle, in a manner that ‘gives them information they need, presented in a way they can understand’.

The tightrope platforms tread when communicating with advised clients could be tested. Platforms do not hold a holistic view of the client’s overall wealth or goals, to interpret what is a good outcome. What will platforms do, and who will the regulator hold accountable, if a client’s income drawdown rate would see the pot exhausted? Will platforms refine their asset range to a tighter definition of their target market. What if ongoing advice charges are being taken but the client’s model portfolio has not been rebalanced? And finally, what happens if the client and their adviser part company? Closer ties, open communication, and the strength of the relationship between the advice firm and their platforms will be key.

The missed opportunity of Consumer Duty is that it could have gone further to strip away the sheer volume of information and disclosures clients are overloaded with, often to the point of bewilderment and paralysis. Ironically, much of the verbiage is prompted by regulation. Progressive firms will reflect on the culture of protecting the firm first, particularly in product literature and work together to align how they communicate with clients.



Customer support

Poor service is the main reason advisers leave platforms, so advisers will welcome that they (and their clients) can expect platforms to revisit their service delivery. The platform revenue model places focus on onboarding, but the regulator made it clear that an objective test for firms is to ensure comparable resourcing and standards in generating sales and revenue vs. ongoing servicing. An obvious test would be whether service centres and transfers out are resourced and processed with the same vigour as business development and transfers in. As part of due diligence, financial advice firms could assess metrics such as call wait times, achievement against service levels, complaint numbers, unplanned downtime etc. How this impacts platform pricing could be an unintended and unwelcome consequence for the regulator, advisers, and their clients.

Critically for platforms that have outsourced their administration, they remain responsible for meeting the Duty rather than the outsourcer. Platforms adopting this model will need to revisit their outsource service model and due diligence to ensure it complies with the Duty. Financial advisers should be scrutinising this as part of their due diligence.

Consumer Duty: No one wants to be in an unhappy marriage (cont.)



Products and service

Platforms are convenient but also functionality and feature-rich, which poses the question of whether they outstrip client needs. There will be many platform features that are never used. If simpler, lower-cost options could fulfil their needs, is putting a client on platform a good outcome? This reawakens the debate around who benefits most from a platform. Consumer behaviour from other industries is interesting because we regularly and willingly pay for services we don't utilise fully. Few of us use all the apps prebuilt into our smartphone, or watch every channel available on television, but we do buy vehicles capable of speeds far above the maximum speed limit. Advisers just want the platform to work, which is where platforms should focus their effort, before developing value add functionality for their target market.

The target market definition was introduced under PROD, but could Consumer Duty see the investment platform market segment to service a narrower target market? The regulator's statement that intermediary platforms may have to build direct-to-consumer propositions to service orphaned clients is an example of the idiosyncrasies in financial services. In air travel, if British Airways ceased operating, nobody would expect Boeing to fly passengers to their destination! Platforms, however, will need to think about how they address this problem. Transferring the client to a direct-to-consumer proposition, or the appointment of another financial adviser, seem most obvious, but suffers from limitations in customer understanding when they have been sold a complex product or service by an expert that has fallen away.

Platforms may need to refine their proposition to be modular, gated and seek deeper relationships with a tighter group of advice businesses, based on alignment of target market and ethos.

Management information and data

Firms need to evidence that good outcomes are not an accident. Access to data will be critical but in complex value chains it can be difficult to obtain relevant information to see the complete picture. A tension exists across the market as the value of data has led to reticence to share and exchange it. We expect the flow of data to increase with Consumer Duty, as advisers and platforms look to each other to help understand the broader context.

Data is however inconsistent and varies from firm-to-firm and between software vendors, so improving access is only the first part of the puzzle. The more complex task, in the absence of an interoperable data standard, is combining the data to be able to draw meaningful insight.

Governance and due diligence

We have already discussed the need for financial advisers to elevate their platform due diligence: a move away from research on features and functionality to stability, financial strength, ownership, strategy, cyber security, and culture. Leadership and governance are a vital part of due diligence but are also a core tenet of Consumer Duty. Are advice firms satisfied that Consumer Duty is central to the platform ethos, embedded throughout the organisation and reflected in training, competence, and reward structures, as well as supported at board level? Platforms and advisers would do well to create a relationship between the firms' board-level champions.

Do I want to run my own platform?

A broadening of responsibilities under Consumer Duty to consider the whole client experience may prompt adviser firms to question their current platform arrangements. While established platforms and adviser firms have developed a symbiotic relationship, it is not always harmonious.

Advisers often experience a disconnect between the support for new business versus ongoing service, a potential hangover from pre-RDR when advisers were seen as a distribution route for products, rather than the end-customer's representative. Platform revenue growth is driven by net inflows and, in good times, market growth. In combination with how disruptive and complex it is for advisers to transfer a sizeable book of business off a platform, it is no surprise to see many platforms focus on onboarding.

There is also frustration with the speed of development. In the early days of platforms, margins of 150bps were not uncommon, but as technology and processes matured it has become a progressively lower-margin business, particularly in the intermediary space. Platforms have faced margin pressure from fee suppression, heightened end-user expectations, and regulation that increased the cost of doing business. Pure platform operating margins thinned and drove vertical integration, particularly into the investment part of the value chain. In October 2022, Transact revealed their margin to be 12bps from a yield on their funds under administration of ~25 bps. AJ Bell's 2021 annual report gives them a profit margin of 8 bps. It is still possible to make money, but these examples provide a barometer of the scale required to do so.

As a natural consequence, margin pressure has drawn investment away from proposition development and service delivery, toward operational efficiency. Minimal bandwidth exists to acquiesce to the calls for better service or integration. Like taxation, everyone wants better public services, until it comes to conversations about the cost to deliver it.

Advisers, who are closer to the customer, feel the fallout from these shortcomings more acutely than platforms, and are naturally beginning to ask whether it might be better to take responsibility for platform services themselves. In response, we have seen the emergence of an 'adviser-as-a-platform' model, powered by new technology entrants like Seccl, Hubwise, and Multrees. This model typically offers a front-end portal with trading and custody, while the adviser retains the client management, front-end administration, client support and some or all the regulatory permissions.

In our 'Platforms: who's leading the charge?' whitepaper we suggested that over the next five to ten years, an increased share of investments would flow to the likes of Seccl, Hubwise, and Multrees and the businesses they support. With the promise of more control over the client experience, not to mention an additional revenue stream from a platform fee, it is easy to see the appeal of this model to an adviser firm. We've recently seen a high-profile example of this with the tie up between Fairstone (who administer £13Bn of assets for their clients) and FNZ who want to join the party.

Is the insource platform model a genuine opportunity for better, or born out of frustration with the traditional platforms? What are the pros and cons of the new model and what should "traditional" platforms do to compete?

26,000

complaints against
platforms in 2021, FCA.



Do I want to run my own platform? (cont.)

Why would an adviser insource their platform?

The ‘adviser-as-a-platform’ suppliers claim to address many of the problems of technology, service and price as previously discussed. They are typically underpinned by modern technology and have adopted an open approach to their data and services. This new technology offers the chance to do things differently with a focus on mobile, integration and automation, enabling financial advisers to deliver an experience to match customer expectations and simultaneously reduce administration costs.

Financial advisers have long been critical of providers who blur the lines on ownership of the client relationship. In most cases, the client has minimal recognition of the platform brand, which therefore has a tangible impact on the client’s perception of the adviser firm. This inevitably amplifies frustrations where service delivery falls short, as much of the reputational risk falls on the advice firm. Taking on the role of platform operator is therefore understandably appealing, as the advice firm can take sole ownership of the client relationship and control more aspects of client experience, and interaction.

The opportunity for greater control, and perhaps more importantly continuity, is key. The platform market is in a state of churn in terms of ownership. Many are changing hands frequently, including an increasing share of the market under private equity control. AJ Bell and Transact have become publicly owned, as did Nucleus before being taken private again. Change to ownership can bring migrations and disruption for advisers and clients and means due diligence lines must be redrawn. The custody, trading and technology vendor could also change hands, but operating your own platform feels like it might offer advisers better continuity and stability.

The final driver is the opportunity to cover more of the value chain: achieve higher margins to enhance profitability, pass the savings onto the client, or a combination of the two.

Why would an adviser continue to use traditional platforms?

Appealing as this picture may sound, there are plenty of pitfalls with the ‘adviser-as-a-platform’ model.

Firms wanting to become a platform operator will need to apply for, and hold, the appropriate regulatory permissions, either as an appointed representative or by being directly authorised. The permissions required differ according to the platform model and the application process can take 6-12 months. Furthermore, this is not a one-off activity; firms become solely responsible for maintaining their regulatory status on an ongoing basis. This upfront work is compounded by the effort connected to administration, compliance, legals, governance, oversight, and reporting.

There are also initial and ongoing FCA authorisation fees based on the category of firm. While absorbing the effort into existing headcount may be viable for some firms, many will need to bring people in to create the capacity and the required skill sets, knowledge, and experience. These are costs that may be better used focusing on the core purpose of financial planning and growing revenue through expanding the firm’s client base.

As firms explore running their own platform, it becomes apparent that costs and benefits do not always stack up. The margins are low, and it is difficult to operate at the level of efficiency and cost base that the traditional platforms have achieved, where profitability is often derived from scale that very few advice firms possess. Professional indemnity cover and excesses would rise to cover the regulatory, operational, and reputational risk premium incurred and any appeal of extra basis points gained from the value chain can very quickly be eroded.

Firms also need to be mindful of the operating capital required under the new Internal Capital Adequacy and Risk Assessment (ICARA) regime and Overall Financial Adequacy Rule (OFAR). The requirements are particularly challenging for highly geared organisations (e.g., consolidators who have used debt to buy up advice firms) who will need to hold the relevant capital to cover any borrowing. The rules span the entire corporate structure too, which means they can't be avoided via opaque offshore holding companies! This is capital tied up and cannot be withdrawn or reinvested in the core activity of the firm.

The established platform market offers advisers whole of market choice, enabling clients to be matched to different platforms based on suitability, and negating any potential for conflict of interest. The decision to outsource the platform, or investment solution to a third party DFM or investment manager, is one that has been taken by many advisers to de-risk the business, making it possible to replace providers that are failing to meet client needs and expectations. It is difficult to 'hire and fire' an unsatisfactory platform if you are the platform: if the client decides to cease taking advice, the advice firms will be confronted with the complexity of having to offboard the client, not only from advice but also from the platform itself.

It is important that an advice firm considering running their own platform fully understands the scale of the work involved. If we return to the core tenet of financial advice, the focus is helping clients work out their priorities, plan their finances and achieve better outcomes linked to their financial goals. Taking on the role of running a platform distracts from this purpose if it is not architected and managed correctly.

We have seen examples of advice firms opting to run their own platform only to change their mind; the Tenet and Hubwise deal being the most notable, after Tenet relinquished day-to-day operation of their platform to allow them to concentrate on their core business.

(1) A firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

(a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and

(b) the firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Source: MIFIDPRU 7.4.7 Internal capital adequacy and risk assessment (ICARA) process: overview and baseline obligations

Do I want to run my own platform? (cont.)

To insource, or outsource?

There is no ‘one size fits all’ solution, and lots will depend on the context of the advice firm. The Altus Platform model describes over 1200 distinct capabilities required to operate a platform and a significant number of them will fall to the advice firm under an insource model, so it’s not a decision to be taken lightly.

Managing the conflict between independence and running your own platform is not straight forward and is something firms should consider carefully.

The technology makes this easier, given much of it is modular, and the advice firm can define the services they do and don’t need for their clients.

Consumer Duty will mean the advice firm has to be clear about the target market for the platform proposition, both at onboarding and throughout the client lifecycle. They will also need to evidence compliance across the new Principle, cross-cutting rules and four outcomes.

This makes the tie-up between FNZ and Fairstone an intriguing market development. We see it as a defensive

move against attrition, given rising demand for insourced or white labelled solutions, particularly from consolidators and large firms. But how this dynamic plays out remains to be seen, with FNZ trading a very fine line between powering existing clients and cannibalising their own business.

Very recently, Ascot Lloyd have also decided to adopt this model and selected Hubwise to power their platform, no doubt hoping to learn from Tenet’s experience along the way. Meanwhile, other proponents of the insource model are having success with a more targeted approach. Multrees, for example, are powering several family offices, while Seccl have found a niche with advisers who want to integrate with a range of other tools. Finding a partner that shares your vision, values and focus is arguably even more important in light of Consumer Duty and not limited just to the insource model. Platforms like Transact, 7IM and Parmenion regularly do well in adviser surveys precisely because they have honed their services to suit their target client base.

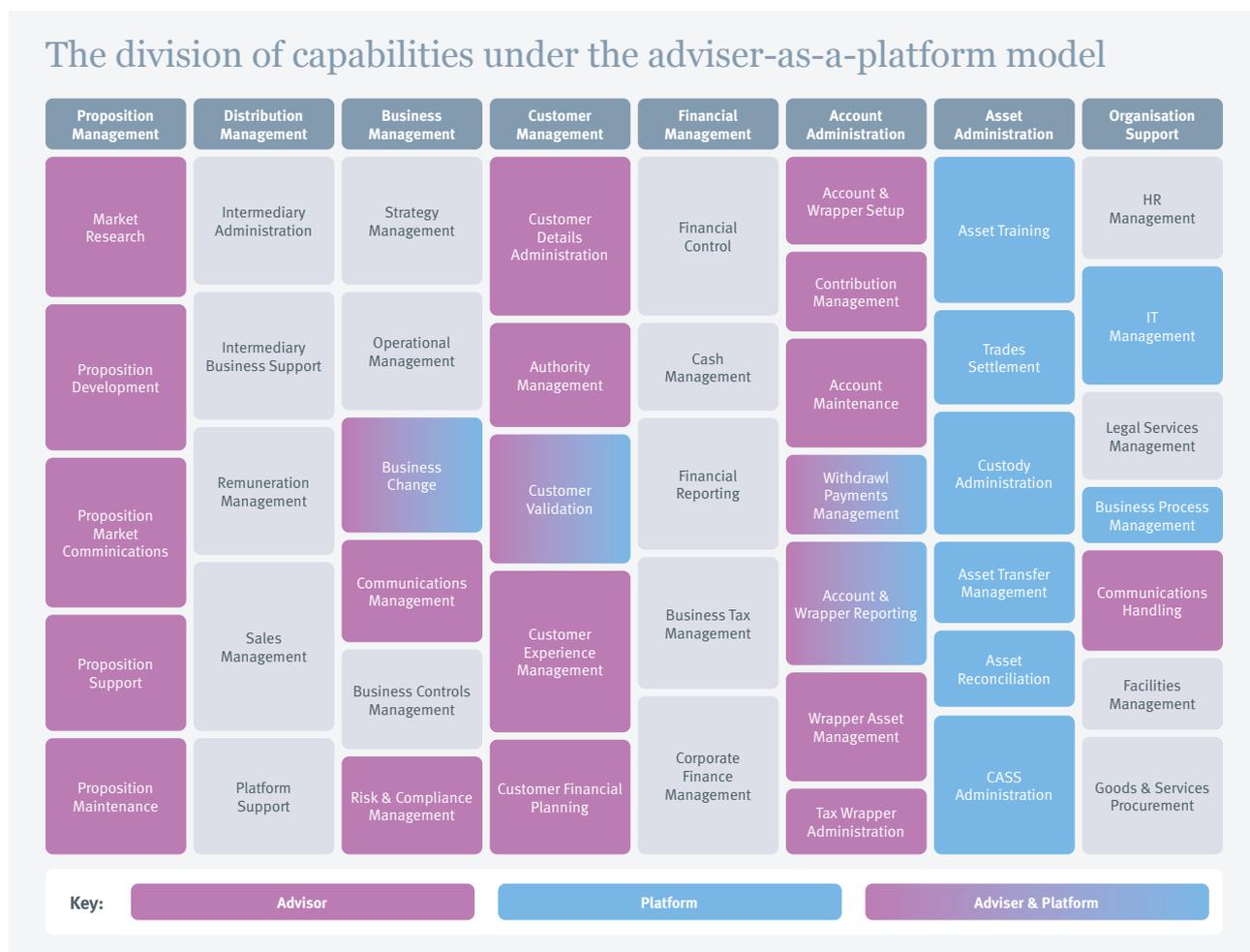


Figure 4: The Altus Platform Capability Framework

The future of platforms

In the introduction to this paper, we asked ourselves the question: How do advisers get the value they need from platforms, and after twenty years, has anything changed? Put very simply, the role of a platform is to take money in, look after it and pay it out.

Doing that efficiently ought to be table stakes, but bluntly there are still far too many examples of delay, duplication, and waste across the industry. The potential reward for platforms who address adviser frustrations and that inefficiency, in a way that makes life better for both advisers and consumers, is still significant. Take the rebalancing of model portfolios for example.

As we saw earlier in this paper, MPS is an increasingly important part of the investment landscape, and around half of those models are managed on an advisory basis. The way advisers go about obtaining client consent, communicating that to platforms and subsequently executing a rebalance is, in most cases, extremely laborious and repetitive. These characteristics make that a classic candidate for automation, but technology investment is required to manage the three-way authentication between platform, adviser, and client.

The MPS example is just one of many. Inflexible pension payments processing, slow, manual and paper-based transfers out, and inconsistent fund data are all areas that can be improved and where technology solutions already exist. None of them are glamorous or head-turning but they offer the kind of incremental improvement in efficiency and consistency that enables the adviser to focus on their core purpose of giving advice.

In our view, smart technology investment will be the key to further success in the platform sector. Hargreaves Lansdown, whilst a direct-to-consumer platform, announced a £175m investment into their digital strategy, a core aim of which is to ‘automate the hell out of everything’ to improve service and cost efficiency. Traditional platforms will need to follow Hargreaves Lansdown’s lead as commoditisation and fine margins will drive a need for ruthless efficiency. Platforms that achieve an efficient operating model will have the bandwidth to redirect resources and find the right blend between automation and delivering great service, outcomes and B2B relationships.

“Change is the only constant in life. One’s ability to adapt to those changes will determine your success in life.”

Benjamin Franklin

The future of platforms (cont.)

The trends toward portability

The advice-led demand for integration is an attempt to make the advice eco-system exponentially more automated based on data portability. Open banking, while not as disruptive as prophesied, is maturing toward open wealth. Add in the imminent arrival of pension dashboards and there will be growing impetus to empower consumers with their own data.

The investment platform was built on the value of convenience; one provider offering access to wrappers, investments, and modern functionality. Open wealth will erode this value if data can be seamlessly integrated into adviser back-offices or a CRM and displayed in the front-end as a consolidated service. Financial advisers could then shift to best-of-breed providers within an eco-system, for example by using a pension specialist for the SIPP and a separate provider with strong tax planning tools for the ISA or unwrapped assets.

We have come far with open standards and electronic transfers and, in our view, it is only a matter of time before the industry is forced to fully address the portability of assets. Consumer Duty and the regulator's ongoing pursuit of enabling consumers to 'shop around' should see the culture and practices around transfers change. Innovations such as the tokenisation of assets and distributed ledger technology could revolutionise the settlement, reconciliation, custody and portability of assets.

Which model do I want?

After 20 years of development, it seems clear that there is no single ideal model for an investment platform. Several variations have emerged and there are no perfect implementations of any of them. The right answer for your firm will require difficult trade-offs between coverage, price, functionality, service, and technology amongst others. Due diligence tools can help but they need to be used wisely.

Through changing market dynamics of commoditisation and regulation, the value of a platform increasingly depends on strong alignment between the advice business and platform service. Poor service is the number one reason advisers leave platforms, yet it is eighth on the list of filters when advisers carry out research on platforms; below threshold platform capabilities such as ISA availability, adviser charging and asset availability. Poor service represents a huge, unforeseen cost that clients pay for, and advisers need to scrutinise service more to reduce these costs.

Platform due diligence needs renewed focus on areas such as ownership, strategy, financial strength, connectivity, CASS, fraud and scam prevention, and governance. Probably the most crucial question though, lies beyond the scope of any due diligence tool: culture. Consumer Duty will force advice firms and platforms to work even closer together. Successful advice firms will foster deeper relationships with platforms and develop a mutual understanding of the outcomes they are jointly targeting, which will in turn permeate everything they do.

This is not a one-way street either; investment platforms need to refocus their approach to aligning with advice firms based on target market and ethos. The days of giant platforms offering universal services may be numbered; successful platforms will focus on serving more tightly defined niches and orienting development towards adding value to those firms, as well as getting the small things right. Those that can ensure both the repetitive administration and complex development demands of our industry are kept beneath the surface, leaving advisers to deliver for their clients, will be the most successful of all.

Acknowledgements

DD|hub: We would like to thank DD|Hub for making aggregate data and analysis from their platform due diligence tool available for use within the paper.



Altus whitepapers

With our focus firmly on the regulatory, strategic, propositional, operational and technological challenges our clients face, Altus understands the most pressing issues for financial services. We publish market insight, industry commentary and are at the forefront of industry debate.

AUTOMATING ADVICE



The Buy, Build or Integrate Debate

The second in our “Reimagining Financial Advice” Series – “The Buy Build or Integrate Debate” examines what the emergence of global best-of-breed CRM tools means for the UK advice tech landscape, how achievable the curation of an ecosystem comprised of specialist tools is, and whether all-encompassing practice management solutions still have their place.

LIFETIME MORTGAGES



Learning to Ski

This white paper sets out to quantify the scale of the savings gap for baby boomers and how equity release will inevitably have to be used to help make up the shortfall. We then describe some of the challenges the industry must solve to make equity release more affordable for customers and as sustainable as possible for providers.

REDEFINING THE CONSUMER



Bringing in the Harvest

‘Bringing in the Harvest’ explores innovation in financial services and discusses how direct platform propositions will evolve in the future.

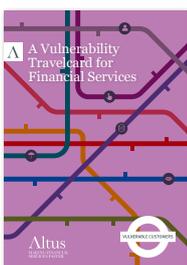
ADDRESSING COSTS



Giving your Platform Wings

‘Giving your platform wings’ is an uncompromising look at the challenge facing investment platforms as they continue to seek sustained profitability.

VULNERABLE CUSTOMERS



A Vulnerability Travelcard for Financial Services Industry

“A Vulnerability Travelcard for Financial Services” represents some of the most interesting facts and insights from industry experts discussed during our Vulnerable Customers Webinar Series, hosted in 2020.

REGTECH



Regulation is eating the world

‘Regulation is eating the world’ examines how firms currently deal with the growing volume of regulation, some of the challenges involved and how new technology might help.



Bath Quays South
1 Foundry Lane
Bath BA2 3GZ

+44 (0)1225 438 000
altus.co.uk

Copyright © Altus Ltd 2022. All rights reserved.

Altus
MAKING FINANCIAL
SERVICES FASTER

In association with

Parmenion