



Platforms: who's leading the charge?



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GBST



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Introduction

In the automotive industry, as with the platform industry, we find two markets in a state of transition.

For the former, the gas-guzzling era of the internal combustion engine (ICE) is finally running out of road after nearly 140 years, with vehicle manufacturers and policymakers turning their attention to electric vehicles (EVs). Every international automaker is introducing battery cars, and plug-in hybrid options are increasingly part of model lines.

As a result, there were 10 million electric cars on the world's roads at the end of 2020, following a decade of rapid growth.

The acceleration towards EVs as the cars of the future has been driven by many practical, social and environmental factors. None more so than the dwindling supply of the fossil fuels required to support today's gas guzzlers and a collective social conscience on what the use of polluting vehicles is doing to the planet.

The driving force of these factors in the automotive industry has been supportive regulatory frameworks. Global lawmakers are strengthening

key policies such as CO2 emissions standards and zero-emission vehicle mandates. By the end of 2020, more than 20 countries had announced bans on the sales of conventional cars or mandated all new sales to be zero emissions. The UK is set to ban, by 2030, the sale of new internal combustion vehicles that run exclusively on petrol or diesel.

Similarly, regulation has also been driving platform evolution and pricing. The Consumer Duty, due to be implemented in April 2023, states that a company must act to deliver good outcomes for, and in the best interests of, retail clients. As a result, all firms, including platforms, must put the customer at the heart of everything they do, offering products and services they know (and can demonstrate) are fit for purpose and represent fair value.

This won't just be an enormous practical exercise for many firms but a cultural, attitudinal and behavioural shift. Therefore Consumer Duty is arguably the most critical piece of regulation to impact the platform and financial services markets

since the RDR, and may prove to be the primary accelerator for further change in how platforms operate and deliver services.

In addition to the regulator driving change, we note a transformation in sentiment and social acceptance towards the high-charge model as an additional factor.

The platform technology evolution has meant the end of the traditional "gas-guzzling" product providers and life companies offering only their own expensive and opaque products, run on a hotchpotch of ancient legacy policy administration systems.

However, even today's platforms, once in pole position for delivering retail financial services, are starting to cough and splutter. As a result, platform engines from FNZ, GBST, SEI, Bravura et al. have needed to develop and evolve their technology to keep platforms on the road and avoid breakdowns.

We have seen platforms, back-office systems and tool providers investing time and capital in becoming technology integrators through bespoke connections and APIs, with mixed success in addressing some of that inflexibility.

In the last 2 to 3 years, we have started to see the emergence of modular or componentised technology solutions, often delivered via the cloud from the likes of FinoComp and others. As we go to press, Novia, a platform powered by GBST is

looking to add scalability to its proposition through its emerging microservices ecosystem.

Secll, Hubwise, Fundment and Multrees are also redefining the "adviser as platform" model - rebuilding platforms from the ground up by giving advice firms more control in putting together the stacks of technology they use to serve clients.

This model also has its challenges and still operates within the fringes of the existing platform landscape; the operating model does come with some increase in risk, regulation, and client responsibility. Very few IFA firms will be comfortable accepting accountability for CASS and custody responsibility for client monies. From a cost point of view, it will be challenging for the majority of adviser businesses to hold custody more cheaply than on current platforms.

No industry can afford to stand still. Throughout this paper, we will examine the factors that will influence the platform market's transition (or not) to a more modern and efficient industry.

New money has already dramatically shifted market dynamics, none more so than the recent rise of Private Equity interest in the market. What impact will PE have? And will they be gone in sixty seconds, or are they investing for the long-term?

Finally, we will examine how platforms can remain fast through improvements in operational efficiency and avoid any furious customers.

Car Market Transitions



Combustion Engine

Traditional gas guzzlers that have dominated are now running out of road

Toyota, VW, Ford, Honda, BMW, Mercedes, Audi



Hybrid Engine

Combining fuel power with an electric motor, HEVs benefit from improved fuel economy but are still lugging around a combustion engine

Toyota, Honda, Hyundai, Lexus



Fully Electric

Cheaper to run, cleaner and quieter; the direction of travel is taking us towards a world where fully electric vehicles dominate

TESLA, POLESTAR, BMW, Mercedes, Audi, Porsche, VW

Platform Market Transitions



Single asset tech

Expensive, opaque and clunky, the days of siloed PASs built on legacy tech are firmly behind us

Traditional LifeCos



Single platform tech

More transparent but still relatively expensive, the traditional core platform tech providers remain in a dominant position

FNZ, GBST, Bravura, SEI, Proprietary



Specialist component tech/service

Challenge to the current model is emerging from both a price and flexibility perspective but what will it take to make this the norm?

FinoComp, Secll, Multrees, Fundment, Hubwise

Figure 1: The evolution of the modern car engine

Figure 2: Platform market technology model transitions

Drive to survive

The current state of the platform market

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The automotive industry in the UK (and across the globe) is set for a significant shake-up as new cars and vans powered wholly by petrol and diesel will not be sold in the UK from 2030. Regulatory change is also coming to the platform market in the form of Consumer Duty, and new technologies are looking to disrupt the platform landscape.

But are the actions of the regulator and the emergence of new technology providers enough on their own to enact change?

The current climate in the platform market looks as healthy as ever. Despite the challenges of current macro world events such as COVID-19 and the war in Ukraine, the investing landscape looks to be performing well.

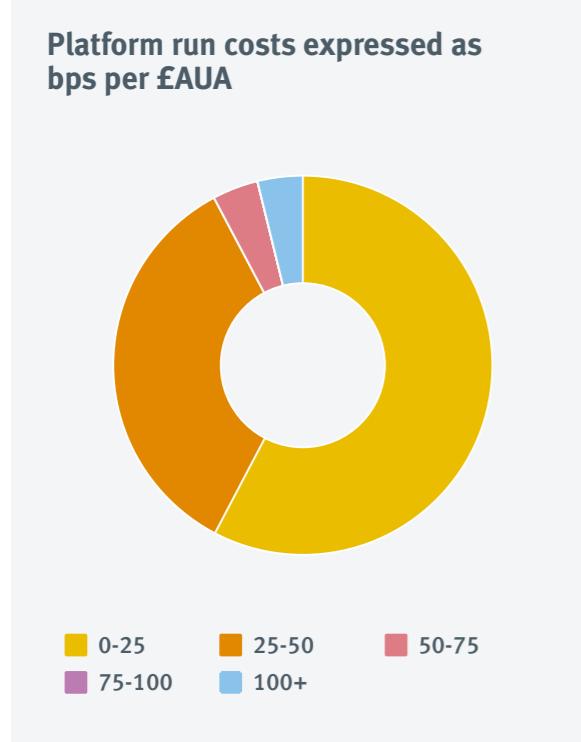


Figure 3: Platform firm run costs in bps across a range of cost bands

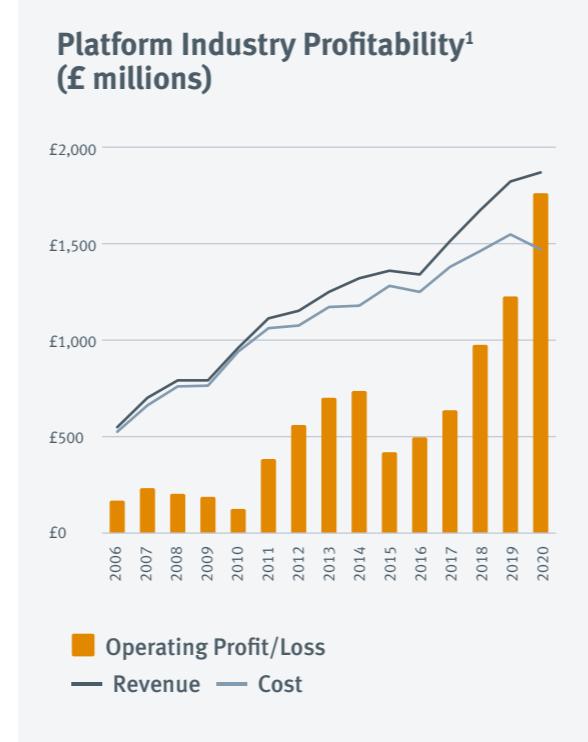


Figure 4: Revenue against cost across the platform industry

Watch for the overtake?

For those unfamiliar with the motorsport, NASCAR not only is it the most financially lucrative spectator sport in the United States, it is also very straightforward in its design. Competing cars race around an oval track in an anti-clockwise direction for approximately 200 laps.

NASCAR's relative financial stability gives it significant support, much like the platform market.

Still, any firm that stays out on the track doing identical laps for too long runs the risk of breaking

down and being overtaken by a new fleet of technologically advanced electric supercars. These electric vehicles will be readily equipped to survive future market challenges if they can be delivered.

But delivering viable platform alternatives is a significant challenge. Most financial advisers choose to work with established providers, even if that might mean paying a higher rate. Current tech, while not perfect, is still functional and continues to evolve. The existing players are shifting through the gears, and an overtake will take a lot of work.

Current Landscape

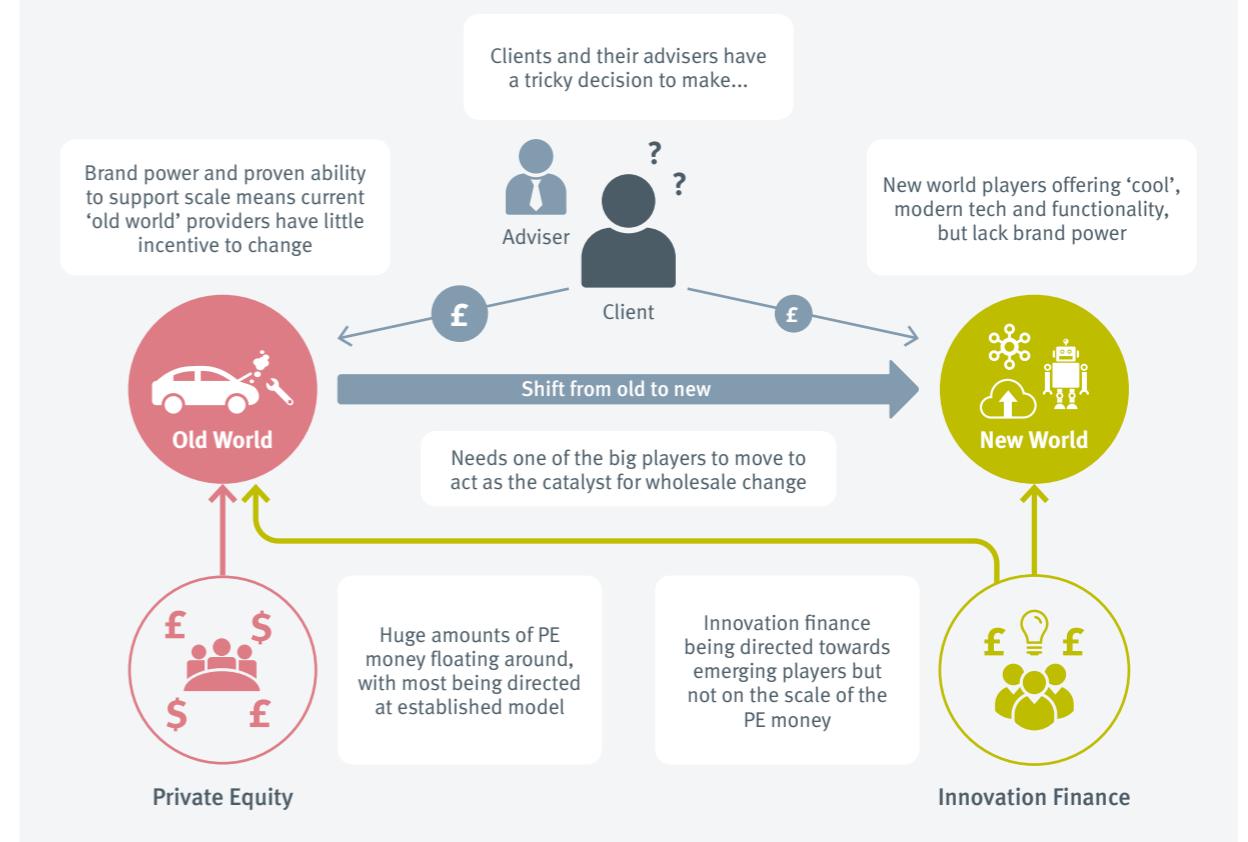


Figure 5: Current platform market dynamics

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Drive to survive (cont.)

The current state of the platform market

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This begs the question, “where is the incentive to change?” when the current platforms still pass their MOT.

Shifting through the gears



1st gear: Technology stability

The software providers that underpin the platform market have been doing so for over twenty years. While significant upgrades and maintenance of these tools and services have occurred, much of the core underlying functionality hasn't changed.

Further still, there is a significant manual and administrative effort from the mechanics of the platform operators and their technology partners to keep the wheels turning. These processes can be inefficient, time-consuming and expensive. Moreover, errors or a complete breakdown of the platform reflects poorly on platform “drivers” – the financial advisers acting as chauffeurs for the end customer.

However, the mechanics are highly skilled at keeping the engines ticking over and getting the car underway, albeit with the occasional backfire and smoke coming out of the exhaust.



2nd gear: Service levels

The success and skill of the platform and tech groups' mechanics allow current propositions to shift into second gear. Generally, advisers can be assured that when they need refuelling or even a tire or front bumper replaced, the service they receive is mostly reliable. As with car manufacturing, the more prominent platform brands have extensive teams of mechanics and engineers, from customer service and implementation experts to change managers and technical specialists. These groups all ensure that advisers are back on the road again quickly.

However, even when the wheels come off or there is catastrophic engine failure, drivers are hesitant to change brand. In the platform industry we've seen this during upgrade projects, and so while flows into troublesome platforms can take a hit, advisers are still not moving assets off or switching cars en masse.



3rd gear: Big brand domination

The top five platforms by AUA still account for over fifty per cent of the total market share in the advised platform space. However, that figure has declined over the past fifteen years when it was initially closer to 100%. While new players have brought diversification to the market, the big, domineering muscle cars continue to pull away from the more miniature roadsters. This is partly due to a healthy fuel injection of PE capital in some instances.

Can the smaller cars, with their more minor but technologically advanced battery-powered engines, support scale? Unfortunately, it is currently unproven as no large brands have wholly backed microservices or componentisation at scale. However, getting these highly tuned electric motors into a muscle car of their own would be the catalyst for change, and the likes of Hubwise, Secll, Multrees and Fundment are trying very hard to reach this destination.



4th gear: Asset flows

The platform market has also been excellent at maintaining a racing line for positive asset flows. As a result, despite the recent global macro turbulence, assets on platforms have continued to rise.

The latest figures show that across 2021, assets rose to over £930bn despite the challenges of the COVID-19 pandemic and further economic uncertainties. It is now not uncommon for top-performing platforms to routinely record net sales of over £1bn.



5th gear: The role of PE

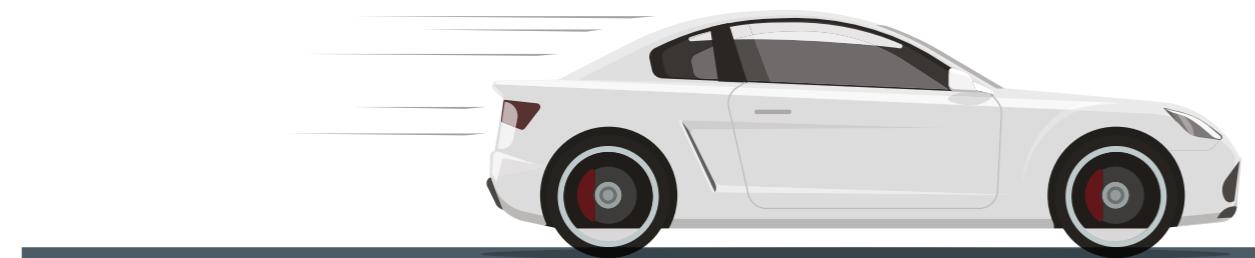
Private Equity has more recently kept existing players on the road, and we explore the impact of PE on the market in a later chapter. First, however, it is important to mention the turbo-charge of money these firms have poured into the market.

Much of this money is directed at the existing and established V8 muscle cars, keeping them fuelled and competing with newer and nimbler rivals.

There are alternatives for funding in the platform market. One of them is the Innovate Finance initiative, an independent industry body that directly supports the next generation of technology-led innovators. Innovate Finance's membership ranges from seed-stage start-ups and global financial institutions to investors, professional services firms, and international FinTech hubs. However, this is yet to have the same capital impact in the platform market as the PE money.

The investment being made by our Private Equity owners Anacap means we have been able to accelerate plans to further modernise the Novia platform. Our key technology partnerships with GBST and FinoComp are essential in allowing us to develop the platform and meet our customers' needs, in addition to entering this new phase of growth and development.

Lynzi Harrison,
COO, Novia Financial



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Charging the future

What does ‘fully-electric’ look like in the platform industry?

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The challenge to the internal combustion engine is underway in the platform market. However, we are still very much in the hybrid development phase, with very few businesses trying to push the fully electric boundaries. But as the previous chapter has shown, this isn’t happening fast enough, and existing practices continue to strengthen rather than be threatened by new transformations.

There are some particular areas where the market needs to improve to put out a truly, fully electric supercar of the future.

STP and seamless integrations

A platform that properly integrates with an adviser’s entire tech stack has been the panacea for a long time. Unfortunately, however, this has remained almost entirely unobtainable.

The implementation of technology solutions is often clumsy. Somewhere down the change management line, mistakes can be made or requirements missed. This is perhaps not surprising – how many small to medium-sized advice firms can you expect to have a dedicated Chief Technology Officer?

The result of poor systems integration and provider ‘bridging work’ – where labourious, bespoke connections have to be manually coded between two or more applications – leads to a lack of comprehensive interoperability between those systems. Therefore technologies that prioritise seamless integrations with other tools and providers over additional functionality are likely to do very well.

Modern Tech/APIs

A fundamental part of delivering the electric platform of the future is fully utilising the power of modern technology, particularly the Application Programme Interfaces or APIs.

Google Maps, an example of a single-source system that integrates seamlessly with other systems, effectively killed off the sale of personal navigation devices for cars from TomTom and Garmin when it introduced turn-by-turn directions in 2009.

Not too many years ago, having a working understanding of APIs was restricted purely to techies. Now it is common parlance among the entire financial services sector.

As code that allows one set of software to talk to another effortlessly, integration is at the heart of an API’s core functionality. APIs are so important because they dramatically lower the barriers to innovation – you no longer have to rebuild what is already there.

However, a look under the technological bonnet of the plug-in hybrid platforms of today shows that bespoke builds and bridging work between systems are commonplace. Providers have focused on a few connections through APIs rather than being genuinely open and plug-and-play. But the market is moving in the right direction, with a more significant shift to open data standards and interoperability. As a result, an investment platform infrastructure built in a modular, API-first way should be easier to maintain, automate, integrate, and continuously improve in the future.

Legislative and regulatory changes are speeding this process along, with Open Banking already with us and the Pensions Dashboard now looking far more confident of delivery.

Fixed price, componentised charging model

The notion of having a fixed price levied for platform services isn’t a new one. In the D2C market, there used to be a few examples of providers offering a fixed fee to customers to use the platform. Today there is only Interactive Investor, the second-largest direct platform on the market. In addition, we have seen the fixed fee model in the advised platform space from Alliance Trust Savings, which was subsequently acquired by Interactive Investor and then sold on again to Embark, which Lloyds Banking Group now owns.

However, what we haven’t seen yet in the platform market is a genuinely componentised charging model, where advisers or other platform users are presented with a menu of features, tools and services and pay only for what they use. Instead, advisers and clients today pay for the entire scope of a platform’s systems and services, whether they use them or not.

From a platform and technology provider point of view, few individual firms can expect to control the end-to-end value chain, no matter how large. So instead, more firms are specialising in areas where they command an absolute advantage in the marketplace or build out a suite of components for businesses to stitch together.

Putting specialisation into practice with a suitable operating model requires firms to think differently about the construct of their solutions and the interrelationships of the technology components they rely on to provide value to the marketplace.

How far off is “fully electric” in the platforms industry?

There is a variation in readiness to go fully electric in the platform and supporting tech space as with the automotive industry. However, the speed of change is where the two sectors potentially differ.

Many manufacturers like BMW and Mercedes still see a significant and robust market for traditional ICEs and HEVs, for many years to come. However, these same groups are still clear a shift to battery-powered electric vehicles is the inevitable and right future. For example, BMW, a vocal supporter of ICEs, already has plug-in hybrid versions of its top-selling models.

Like the internal combustion engine, the underlying, core policy administration systems that support the platform market have also branched out into their own hybrid world. For example, GBST’s “Evolve” update programme for its Composer platform was designed with APIs in mind, putting them front and centre to drive new systems development and adapt those that already exist.

Similarly, Bravura, through the acquisition of FinoComp, can deliver component microservices to both new and existing clients to support its core Sonata platform. The likes of SEI, FNZ and other core platform technology firms constantly update their systems to remain competitive. However, we don’t think anyone has quite cracked “fully electric” yet when it comes to platforms – let alone claim to be bringing hydrogen power to the market. There is too much legacy for a Tesla equivalent to come into the platform space and ultimately disrupt the market, although the likes of Secc1, Multrees, Hubwise and Fundment are getting closer.

Today, most existing platform models sit in the hybrid or plug-in hybrid camp. In addition, these platforms are built around a chassis provided by a single policy administration system. Some will then supplement with a range of tools and other components.

Building new services to create the platform industry’s own electric cars will take time, knowledge and appropriate investment support. However, as the next chapter shows us, much of the money flooding into the market is about supporting what exists today rather than developing what might be possible tomorrow.

We are on a mission to modernise the investment experience for advisers and their clients, with a proposition that is digital by design. Thanks to our proprietary technology and integrations with the key tools and technologies used by advisers, we are helping to make the advice process as smooth as possible.

Ola Abdul
CEO, Fundment

Gone in 60 seconds?

The impact of M&A and Private Equity

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We have already noted the increase in Private Equity activity in the platform market in the chapters above. So here we look at what impact this could have on the market, how it has shifted ownership dynamics, and what's driving interest?

Impact of activity

The last few years have seen a period of heightened corporate activity, with platforms changing hands, splitting and being welded back together again.

Many commentators expected that the big platforms would buy up the smaller ones, but that hasn't happened. Instead, we've moved away from LifeCo-ownership (prevalent in the late 2000s and early 2010s) towards asset manager and public ownership, and PE houses buying small and medium-sized platforms and crashing them together.

Although Private Equity houses have been involved in the advised platform market in a small way for several years, M&A activity has seriously ramped up of late.

For a lot of these deals, it's very early days, so correlating any direct impacts with the change to PE ownership is challenging. However, as we have seen, platform flows remain strong, and the trade press titles aren't reporting any stark differences in adviser sentiment towards the affected platforms.

What's driving PE investment interest in the Platform market?

The advice market has stood up well to the challenges of COVID-19. It has even been an opportunity for many firms to reengage with clients in new and digital ways. The UK's ageing population continues to push people into retirement, and the intergenerational shift of assets is also underway, leading to an increase in advice demand.

Moreover, providers are starting to look more seriously at using technology to bring accurate financial advice to a broader range of customers, rather than just the high net worth market. Therefore, a growing advisory sector means more opportunities for the platform industry that supports it.

The platform market is now firmly in the mature development phase: there are some new entrants, but most of the established players have been around for ten or more years. Private Equity firms have looked at the market and seen an opportunity to profit by building scale by bringing together a range of small to medium-sized providers.

What remains to be seen is what these PE firms will do with their new businesses in the medium to long term. Of course, they will look to realise their assets at some point in the future, but how long they are willing to invest in this market is hard to call.

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The recent purchase of GBST by Anchorage Capital Partners has allowed us to fast-track both our in-flight and strategic technology development plans, cementing the close partnerships we have with existing platform clients as well as allowing us to explore new opportunities to support the industry as it continues to modernise.

David Simpson
Head of EMEA, GBST



Figure 6: Recent M&A activity in the platform market

Gone in 60 seconds? (cont.)

The impact of M&A and Private Equity

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What does this mean for the underlying tech?

The welding together of platforms also impacts the underlying technology and administration system providers, as many of these mergers have resulted in a re-platforming or other upgrade exercise.

When these projects go wrong, and there have been some notable and very public fiascos, platform providers are unlikely to want to undertake other such large-scale technology projects in the future. CTOs at platforms are not readily willing to bet their careers on a once-in-a-generation platform upgrade. Instead, they will consider other options, with limited or mitigated risk, to build and develop propositions in the future.

Data from the FCA shows that change-related incidents are consistently one of the top causes of failure and operational disruption. For example, an FCA report from 2021 indicates nearly 1,000 material incidents were reported to the regulator across 2019, 17% of which were attributed to change activity. Furthermore, changes deemed by firms to be 'major' (such as switching technology providers) were over twice as likely to result in an incident compared with other change types.

But even with the possibility of something going wrong with a platform change project, PE firms don't appear to be deterred and are not just on the lookout for a new, "electric" opportunity. Growth remains good, and they are under no obligation to address the advice gap, so experimenting with new models holds little appeal.

When M&A goes wrong – lessons from the automotive industry

The automotive industry has seen a significant increase in M&A throughout the years, a development that has undoubtedly been influenced by technological advancement.

What we learn from looking at some of the most high profile mergers out there - Daimler-Benz and Chrysler, Fiat and Chrysler, VW and Porsche – is what might start as a marriage made in heaven can sometimes stall even before leaving the dealership.

The most prominent example of this is Daimler and Chrysler in the US. This merger was beset with quarrelsome lawsuits from investors about whether the deal was indeed one of equals or whether, in reality, Daimler was fully taking over the Chrysler brand. With expensive lawsuits biting into the company share price, Daimler subsequently offloaded the Chrysler business nine years after its acquisition. Chrysler went on to make mass redundancies, filed for bankruptcy and eventually found itself snapped up by Fiat.

While there have not been any such dramatic fallouts from acquisition deals in the platform market, we have seen examples of platforms being bought and subsequently sold on again, e.g. Parmenion's sale to Preservation Capital Partners from Abrdn. Nonetheless, the Daimler example is a valuable reminder that bringing two or more businesses together can be a complicated process with many moving parts.

Staying fast, not furious

Driving operational efficiency

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The financial services market is often accused of being a laggard industry when employing modern and deeply functional technology coupled with high-end service to deliver ever-expanding customer expectations. And there is undoubtedly some truth to that indictment, where an ageing technology infrastructure has hampered business modernisation projects and delivery of a compelling customer experience.

Platforms are by no means the worst offenders though. Even with 20+ years of operation, platform tech is relatively fresh compared to the legacy systems that dog the banking and insurance industries. For some of these systems, an internal combustion engine would be a dramatic improvement. Instead, we are still in an era of bedraggled horses pulling carts with wonky wheels and uncomfortable seating, all held together by a ragged old harness and a whip that ran out of bite years ago.

In Formula E, the all-electric cousin of Formula 1, the secret to success is not just about racing hard. Instead, it's about managing energy to have the power available when it counts. As a result, only the teams with the most efficient powertrain designs and the best energy strategies will make it to the end of a race.

So how can platforms best manage their race? Here, COVID-19 has created an unexpected opportunity. Over the past two years, firms have been allowed to reassess, reevaluate and ultimately make tweaks to their operating models through digitisation to keep things running smoothly.

Opportunities and challenges



Operational efficiency: EVs are thought to be two to four times more efficient than conventional internal combustion engine models



Sustainability: Reduce reliance on oil and reduce greenhouse gas emissions



Technologically advanced: EVs are driving advances in battery technology – a vital issue for industrial competitiveness in the transition to clean energy



Cost: The capital outlay for buying a fully electric vehicle is still somewhat prohibitive for them to be mass market today



Infrastructure/scalability: A lack of charging points for EV vehicles means currently limited scope to scale



Lack of choice: Manufacturers continue to expand the number of EV models available to customers

Figure 7: Key opportunities and challenges faced by the automotive industry

Staying fast, not furious (cont.)

Driving operational efficiency

What are the benefits of being operationally efficient?

The benefits of delivering a more efficient business model show themselves through the following metrics: cost savings, risk management, customer experience, and operational practices and processes. The following are just a few examples of this in practice. While we include models in specific categories, the reality is that some will have an impact across multiple brackets.

Operational practices and processes

- Simply put, this is about driving out wasted or inefficient tasks from a business.
- When platforms launched, their modus operandi was to improve a financial adviser's or an investor's access to the funds market.
- This is still the goal today, and both platforms and adviser practices will make changes to their business models to ensure this is done in the best way possible.
- Advice firms can find operational efficiency by reducing time spent onboarding and servicing a client. It is a platform's role to facilitate an adviser firm's processes and practices to allow them to do this.

Risk

- Rising operating expenses, compounded by regulatory fines and increasing regulatory requirements, have acted as a drag on performance and delivered sub-optimal client experiences.
- A platform that allows an advice firm to operate within a standard operating model dictated by that same firm will dramatically reduce the likelihood of a customer experiencing a different level of service because they saw one adviser over another at the same firm.

Customer experience

- If an investment platform and the advisory firm that uses it are more efficient, then there is a more significant opportunity for a wider pool of investors to access financial services which previously were limited by charges or a capacity to serve.
- Customers expect efficient advice delivery, with remote servicing becoming the norm. As a result, advice firms must ensure they can support customers effectively without meeting face-to-face.

Cost savings

- When it comes to cost savings, these are most readily a direct result of improvements made across the three other categories. For example, reducing or removing the time humans spend on low-value tasks that are better completed by technology and automated processes should substantially save time and money.

Using new and enhanced technologies from both Bravura and Altus, the M&G Wealth platform has been able to significantly improve transfers processing. The first phase has delivered straight through rates of over 50%, reducing transfer times significantly. We are investing further to fully digitalise our key processes, so improving the quality and speed of the service to remove friction and improve the customer experience.

Richard Denning,
CEO, M&G Wealth Platform

Customer experience

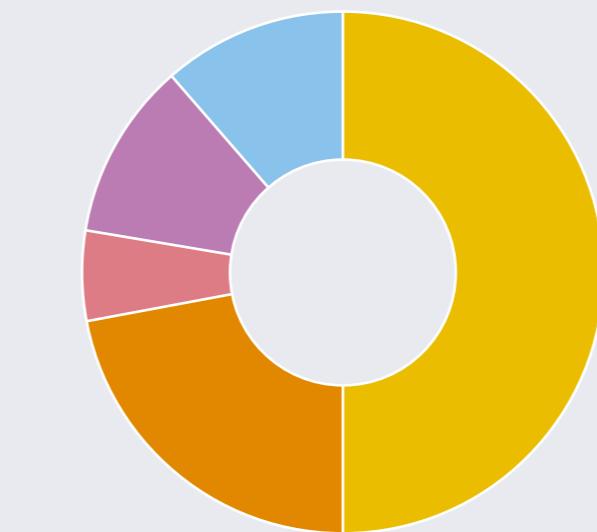
Delivering a great and efficient digital customer experience in the days of the horse and cart was all about addressing cumbersome platform websites and services that did not render on mobile by building a half-decent app with a great user experience.

Today, most platforms have moved on significantly in their user experience journey. In the D2C market, firms have spent a lot of time and money offering full mobile functionality with best-in-class design principles. Great UX is now the norm, the ICE on the evolutionary scale, albeit with some platforms more successful than others in this space.

However, there are numerous opportunities to enhance the customer or adviser experience across platforms and financial services. Personalised financial planning, anti-money laundering checks, and automation of customer operations are just some of the ways that platforms and their technology partners are already bringing customer experience into the electric era today.

Much of this change is being powered by better use of artificial intelligence. For example, AI applications are helping make chatbots, voice response systems and processes far more intelligent and sophisticated than before, improving the quality of automated customer interactions and seamlessly integrating and orchestrating multiple interaction channels. Similarly, predictive AI is being used to improve customer experience by engaging with customers more thoroughly and effectively throughout their entire lifecycle, from personalising marketing campaigns and promotions to recommending individualised actions and plans. We have already seen some of this technology in the D2C and robo-advice space. Still, we could expect to see more in the advice market, perhaps for those advice firms developing self-serve onboarding journeys and other services for sections of their clients.

Digital transformation priorities



- Client comms & reporting
- Back-office processing
- Recruiting new customers
- Producing recommendations
- Fact finding

Figure 8: Source: Altus survey of UK financial planning businesses, March 2021

Staying fast, not furious (cont.)

Driving operational efficiency

How can technology make financial services more efficient?

In Formula 1 racing, even the most subtle performance improvements can lead to victory – improvements are made to the car and across a race team's entire organisation.

Successful racing teams rely not just on exceptional drivers to stay ahead of the pack but also on advanced data analytics that keeps on top of a Formula 1 car's 80,000 components. These components are too much for humans to service efficiently on their own. Formula 1 teams rely on automation to support these operations.

Automation is a suite of technology options that sets out to accomplish tasks that a human would typically complete. As a result, it is a critical component in delivering operational efficiency across financial services.

At one end of the scale is Robotic Process Automation (RPA). RPA is “entry-level” automation, where simple software “bots” perform repetitive tasks quickly with minimal human input. These are widespread across the financial services sector today. Their use can be found across customer onboarding, AML and KYC checks, workflow processes, contact centre optimisation and automated report generation.

Moving further up the complexity scale is Intelligent Automation (IA). IA takes the tasks from RPA and improves upon them using cognitive capabilities like artificial intelligence or machine learning and human intelligence. IA is often used to tackle more complex tasks like data analysis and decision making.

Implementing different intelligent automation technologies enables processes to be automated end-to-end with multiplicative benefits that touch on the four categories identified above. As a result, there has been an industry charge towards implementing IA into business models across the financial services spectrum.

And then you come to Autonomous Intelligence – the self-driving cars of the automation space. AI does not need human intervention and still complies with risk and rules. However, while the technology might be there today, there are significant barriers to getting these out onto the road, much like the self-driving car. Regulation in both markets is pumping the breaks on giving too much power over to a machine. These regulators must be satisfied that problems can be easily identified when things go wrong. That creates a considerable amount of red tape and is why autonomous intelligence in retail financial services and the automotive industry is still struggling to get out of the garage.

What's stopping the market from becoming more efficient?

Adopting new technologies and orienting a business around efficiency and componentisation are also complex cultural changes. Firms face a real challenge in identifying a compelling enough business case to start their automation journey. As we have seen, platforms, product providers and other financial services firms are still seeing positive inflows and profit levels – whether they are efficient or not. And if money becomes more efficient at flowing in, it can be more efficient at flowing the other way. So why change?

However, there is still a question about how sustainable that approach is. No company in any market in the world can afford to stand still for very long. Today's dominant incumbent can quickly become tomorrow's abandoned dinosaurs if they are hesitant to change. Blockbuster to Netflix. Kodak to Facebook. Even the noble horse didn't see the car coming.

As challenger platforms start to leverage new technologies, incumbents will ignore them – and the efficiency they bring – at their peril. If they don't adapt, they will almost certainly get left behind.

Role of outsourcers

“If there is a thing that we cannot do more efficiently, cheaper or better than a competition, there is no point in doing it further – we should hire the one who does it better than we do.” This quote, allegedly from Henry Ford was delivered over a century ago but rings true today in almost any sector.

No matter the industry, be it cars, investment platforms or financial advice firms, no firm is expected to be entirely self-sufficient. Businesses can always look for help to achieve operational efficiency.

Many firms are either already or soon to be seriously looking at outsourcing their investment administration function in the platform market. This is the platform equivalent of turning to an engine manufacturer like Mercedes, Ferrari or Renault. Not all Formula 1 teams can afford to build their engines or have a desire to do so. Operating at a significant scale, these manufacturing partners can provide the engines of the industry, often at a fraction of the cost.



Figure 9: Key suppliers and participants in the platform market

Staying fast, not furious (cont.)

Driving operational efficiency

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Furthermore, outsourcing core policy administration systems (PAS), or a car's chassis, is commonplace. While chassis can be distinguished by structure and design, they fundamentally do similar jobs. They are usually made from either carbon steel or aluminium alloys, and there is a minimal call for anything fundamentally different unless you're lucky enough to own a supercar. Is the world really ready to pop to the shops in something made almost entirely of carbon fibre?

In more recent history, the platform market has broadened its reach in search of differentiation. The market has matured and begun outsourcing some smaller components to more specialist providers. This would include brake disc manufacturers, interior design, or specialist wheel and tire providers in the car world. For platforms, it has been these bolt-on platform services that have helped advisers manage capital gains tax calculations, regulatory burdens such as MiFID II's 10% drop notifications, and manage model portfolios quickly and effectively.

Outsourcing your investment administration is an increasingly attractive proposition for many firms. As we have seen from the above, this is where much of the repetitive and data-driven work happens and where humans provide little extra value. It covers tasks such as trade execution, settlement, asset servicing, transfers, reconciliations, and CASS administration.

Outsourcing the investment admin function is often justified on cost alone. Still, it will most likely also increase operational efficiency within the organisation, with cost savings coming from the successful integration of these services.

Modern-day cars do this very well, and what were once optional extras or premium products (think in-car sat-nav or cruise control) are now provided as standard.

As we have seen, platform integrations are not yet relatively as seamless. This is a critical success factor that the industry will have to get right to move sometimes "furious" adviser users onto truly "fast" and efficient platforms.

Platform predictions roundabout

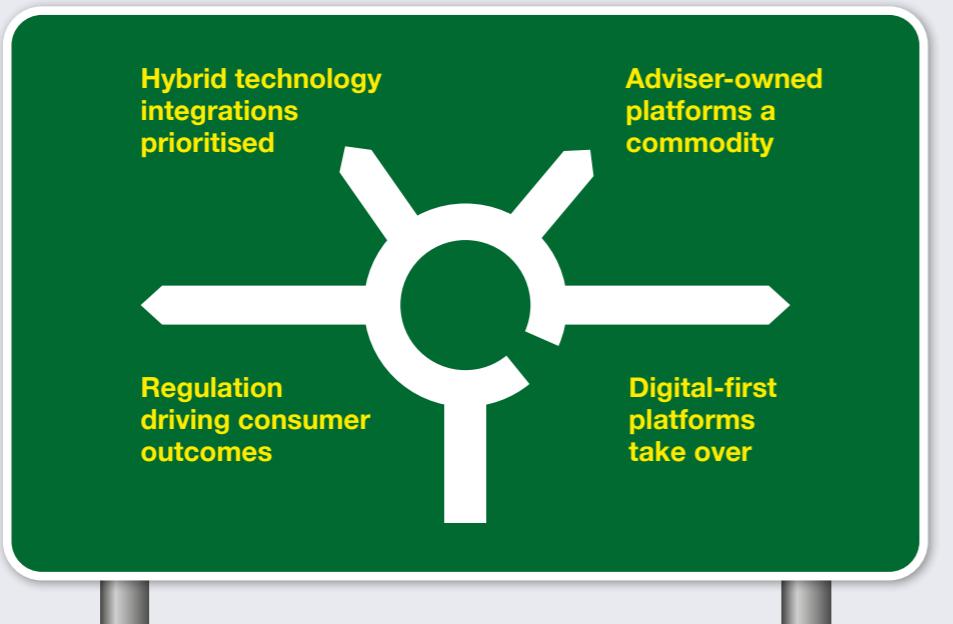


Figure 10: Potential platform developments leading up to 2030

Keep your foot on the pedal Predictions for the future

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We can see that both the automotive and platform markets are at a crossroads. They are both markets in transition, yet the future of the car feels more clearly mapped out at this stage with the dominance of the internal combustion engine coming to an end, with the 2030 ban on new sales of cars running on purely diesel or petrol a marker for the UK market. Legislation is driving change.

In the platform market, the path ahead is not yet as clear. There are no hard stops, and we don't expect any handbrake turns on current practices soon. Instead, the evolution to fully electric power will be much slower and much more organic unless the regulator steps up with Consumer Duty and similar initiatives. Just look how slow improvements to transfers have been since RDR without the FCA stepping in.

However, Platforms are well out of the ICE age, and there are many examples of firms operating more like the HEVs of the automotive industry. They might also be looking at building better integrations with best of breed services, even if these integrations are by no means perfect, at least not today.

In the next five to ten years, we can expect a greater flow of assets to the likes of Secc1, Multrees, Hubwise and Fundment and the businesses they support. As customer expectations evolve, we think there could be an accelerated flip towards this model, where advisers hold more influence over platform manufacturing and input into engine development, becoming the norm, ushering in a new electric generation for platforms.

However, just like BMW, Audi and Mercedes in the automotive market, the established and incumbent technology 'engine' providers are not in evolutionary cruise control. GBST, FNZ, Bravura and other traditional providers invest heavily in their technology capabilities. Each of these groups has proven scale, a sizeable balance sheet, and an enviable set of clients. All have evolved their products to be more open and inter-operable with microservices and API solutions.

But the move from petrol power to electric does not change the primary function of a car – getting us from A to B. The move to electric does have other connotations, though, with human beings expecting their vehicles to be more efficient and sustainable than today. There will also likely be fewer cars per household, and therefore they will have to perform multiple functions equally well. The same vehicle will be expected to do the daily commute, a school drop off, screech its tires on a track day, or drive the length of the country GT style.

Likewise, the move to electric in the platform market doesn't fundamentally change a platform's function. A platform service will still involve arranging, safeguarding and administering investments and distributing products from multiple providers. However, we might expect "electric platforms" to deliver more and become the one-stop shop for everything in our financial lives, enabling a truly holistic view of our wealth, something they were perhaps always meant to be. Historic limitations, such as the ability to manage annuities, insurance, and an addiction to funds, must be left behind in the scrapyard.

The platform of the future is currently still being charged up. Only time will tell how long we'll have to wait until it can be unplugged and unleashed on the market.

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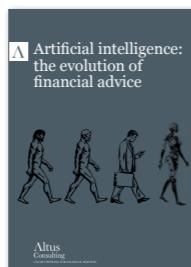
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