



Platform Profitability, Post Pandemic

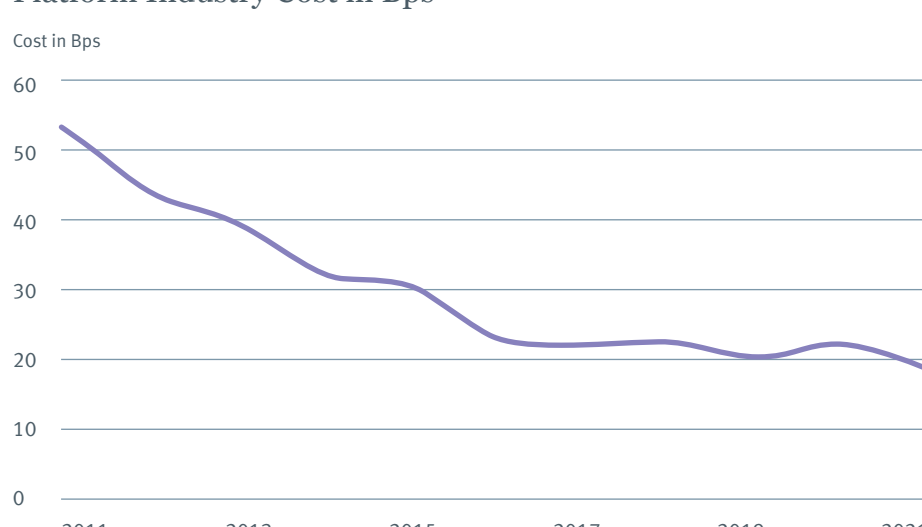
How did platforms fare during ‘the pandemic years’?

Platform run costs across the industry

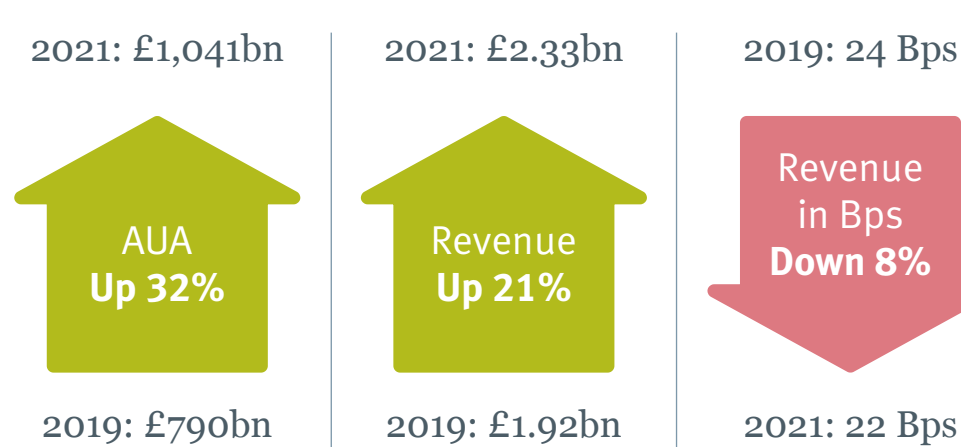
When we last visited the topic of platform profitability in our 2020 infographic things were looking up in platform land. What was still unknown at the time of publication, however, was what the impact of COVID 19 and its associated operational challenges would be on platforms’ bottom lines. So, just over 2 years on from our last analysis, we thought we’d take another look at the numbers and see how they fared during ‘the pandemic years’.

Once again, our analysis shows that the cost of running a platform, when expressed in bps per £AuA has continued to fall since 2019, sitting at 18.5bps at the end of 2021. This fall is however shallower than previous years, no doubt due in part to the costs many platforms experienced through the move to remote working and the forced adoption of digital processes.

Platform Industry Cost in Bps

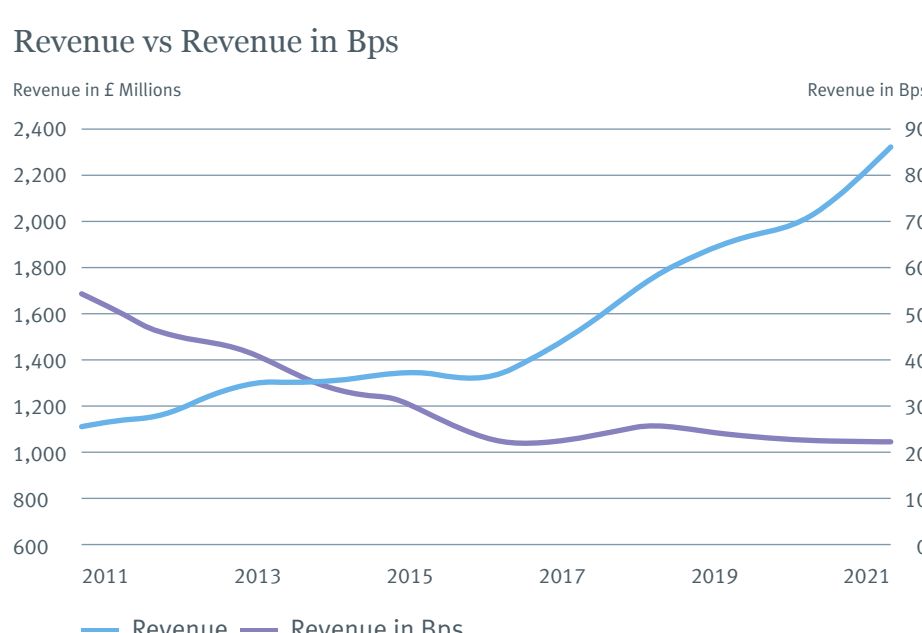
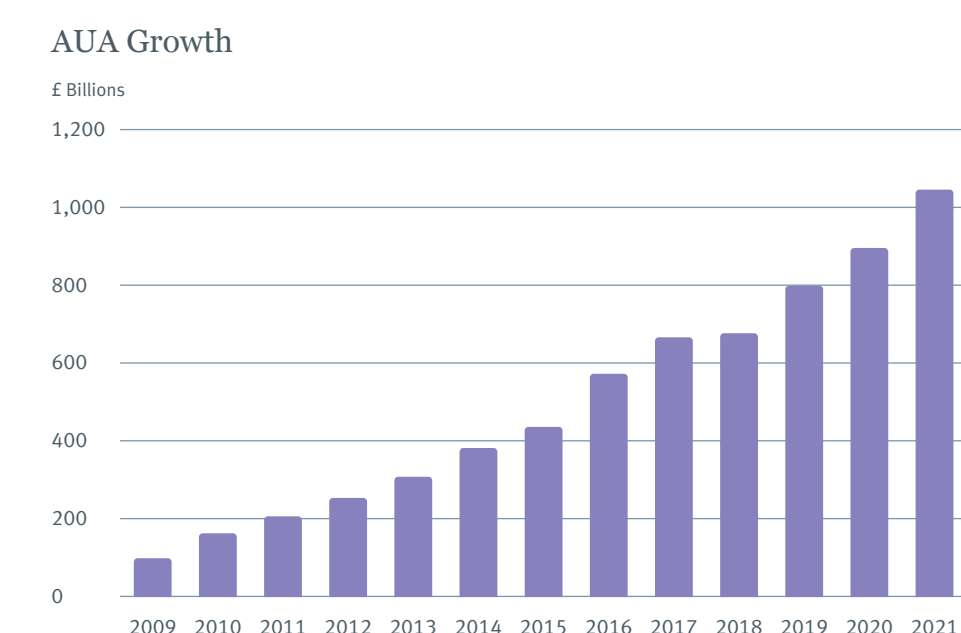


Total AUA has boomed, however revenue in Bps has continued to fall

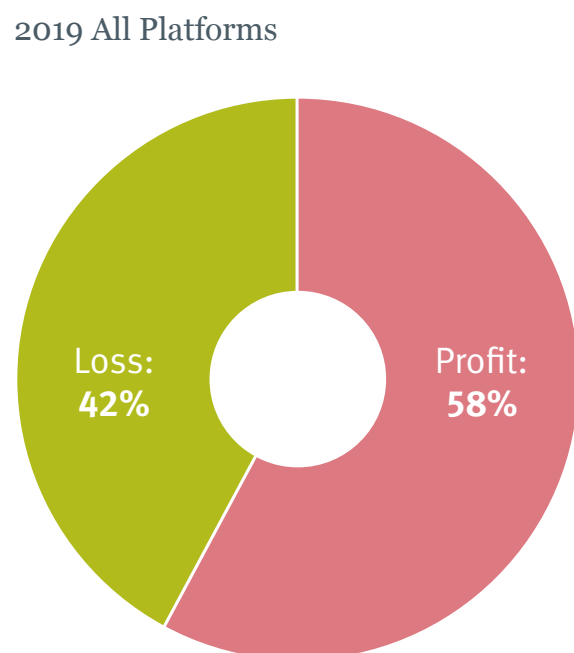


It’s been well publicised that the UK retail investment platform space was one of the sectors to benefit during the pandemic, for a host of reasons, with the value of assets sitting on them reaching north of £1trn by the end of 2021. Perhaps unsurprisingly though, revenue growth was unable to keep pace and once more we see revenue in Bps has fallen further since 2019.

Looking ahead, as the cost-of-living crisis plays out, it is understandable that retail investors, seeing a real-term reduction in their investible income, may look to divert funds from their platform wrappers. We could therefore realistically expect to see at least a short-term levelling-out of AuA growth.



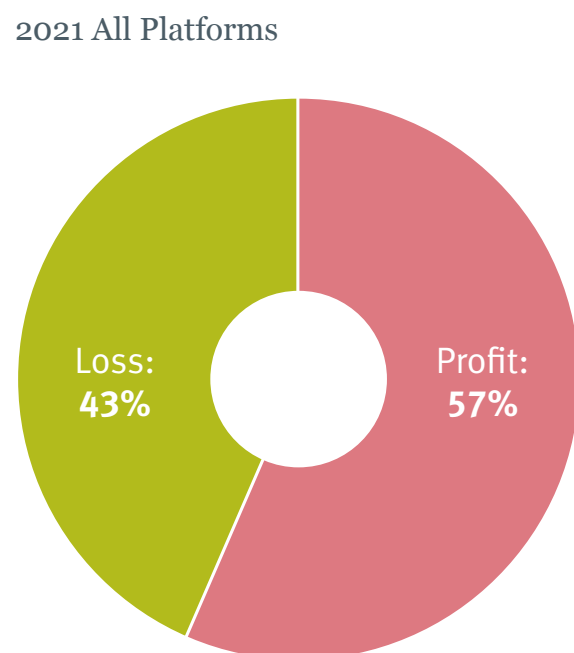
No change in overall platform industry profitability



Running a platform remains a low-margin business, and at the end of 2021, our analysis indicates still only 60% of platforms were reporting a profit. No change on the figure from 2 years prior.

For the most part, the benefits of flexible working and adoption of digital processes have now been fully embedded as part of BAU operations and change agendas have once again shifted back to strategic initiatives. But as platforms themselves face their own inflationary pressures, it remains to be seen whether this will be enough to keep costs at bay.

We may yet see the platform profitability progress we have witnessed since 2017 begin to reverse.



Key suppliers and participants in the platform market



There are a wide variety of platform market brands in the UK, and we’ve seen further consolidation over the past two years, largely driven by the continued PE interest in the sector. These platforms will be expecting to reduce cost across the industry, however, this may take some time to filter through as delivering business integration is not easy or cheap.

Building the cost picture

Through our structured industry reference models Altus have developed a robust approach to understanding the costs linked to all the activities needed to run a platform, and what this looks like across the industry.

Using the Altus reference capability framework as a canvas, cost is broken down across major capability areas giving a complete and comparable categorisation of wrap platform outlays.



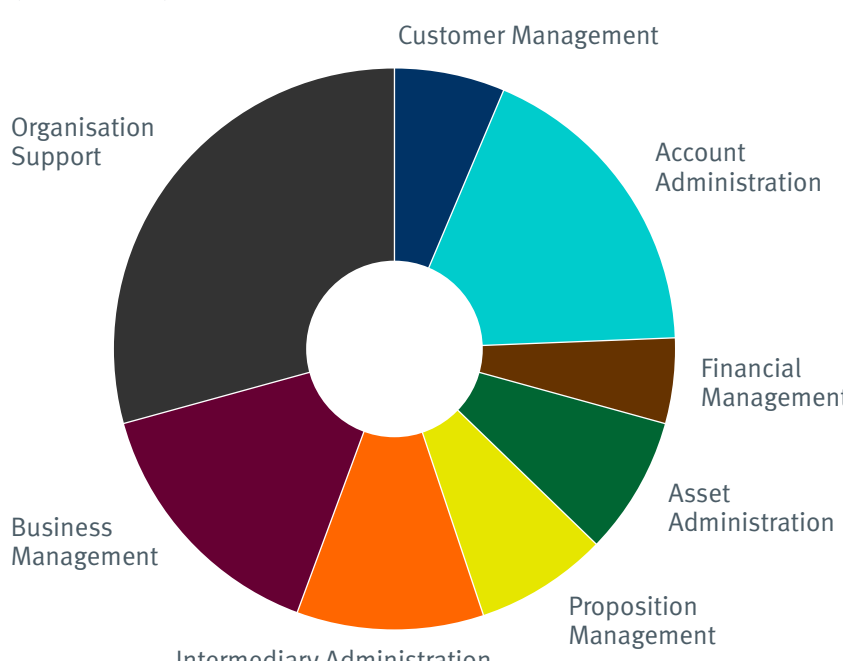
Typical platform cost breakdown

Platform efficiency is about more than just Operations. When Altus analyses costs for our platform clients, we typically find that operational processing accounts for less than half the total spend, especially where a platform has achieved significant scale.

The precise distribution of the non-operational costs varies, but the broad shape is summarised to the right. Some of the common hot spots include change, proposition, sales and, of course, IT. The latter can be stabilised, though not eliminated, however the remainder warrant a deeper investigation.

What Altus often observe is a significant amount of spend in terms of IT and core support activities (grey and burgundy) as well as expensive sales and support teams (orange), but much less spent on developing products and other areas of the proposition.

Benchmark Average Run Costs (as % of total)



To download our latest platforms whitepaper Platforms: who’s leading the charge?, please [click here](#).



People | Passion | Partnership

Altus Consulting | investments