



Difference & Differentiation:

What next for investment platforms?



Altus
Consulting

People | Passion | Partnership



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	02
Difference & Differentiation: What next for investment platforms?	04
Tackling the dabbit: What is a product provider & what is a platform?	06
Same same, but different: Using service to stand apart.	10
Who is he (and what is he to you)?	13
Players gonna play. Prognosticators gonna prognosticate.	16
The journey of a thousand miles...	20
Altus Consulting whitepapers	23

Difference & Differentiation: What next for investment platforms?

It is nearly a quarter of a century since the concept of investment platforms, online customer-centric hubs for financial products, arrived in the UK. The nascent idea was that an adviser could see, and manage, all their clients' holdings in one place – supplying slick and transparent servicing, simplifying reporting, and streamlining fee management.

The first iteration in the UK was the fund supermarket, a move by a few fund providers to take control of distribution, soon followed by the 'wrap platform' which aimed to help advisers challenge the dominance of life companies in investment product provision. Both models attracted progressive 'new model' advisers and started to draw business away from established product providers.

It wasn't long before those established providers followed suit and moved towards this new way of engaging and serving advisers. As A-day came and went, the life companies moved towards a SIPP offering and the SIPP providers and wealth managers converged on platforms. RDR was the catalyst which led to the explosion of the platform market as a way for advisers to access whole-of-market investment solutions and simplify payment of advice fees. This new model had disrupted the market to give advisers nearly everything in one place.

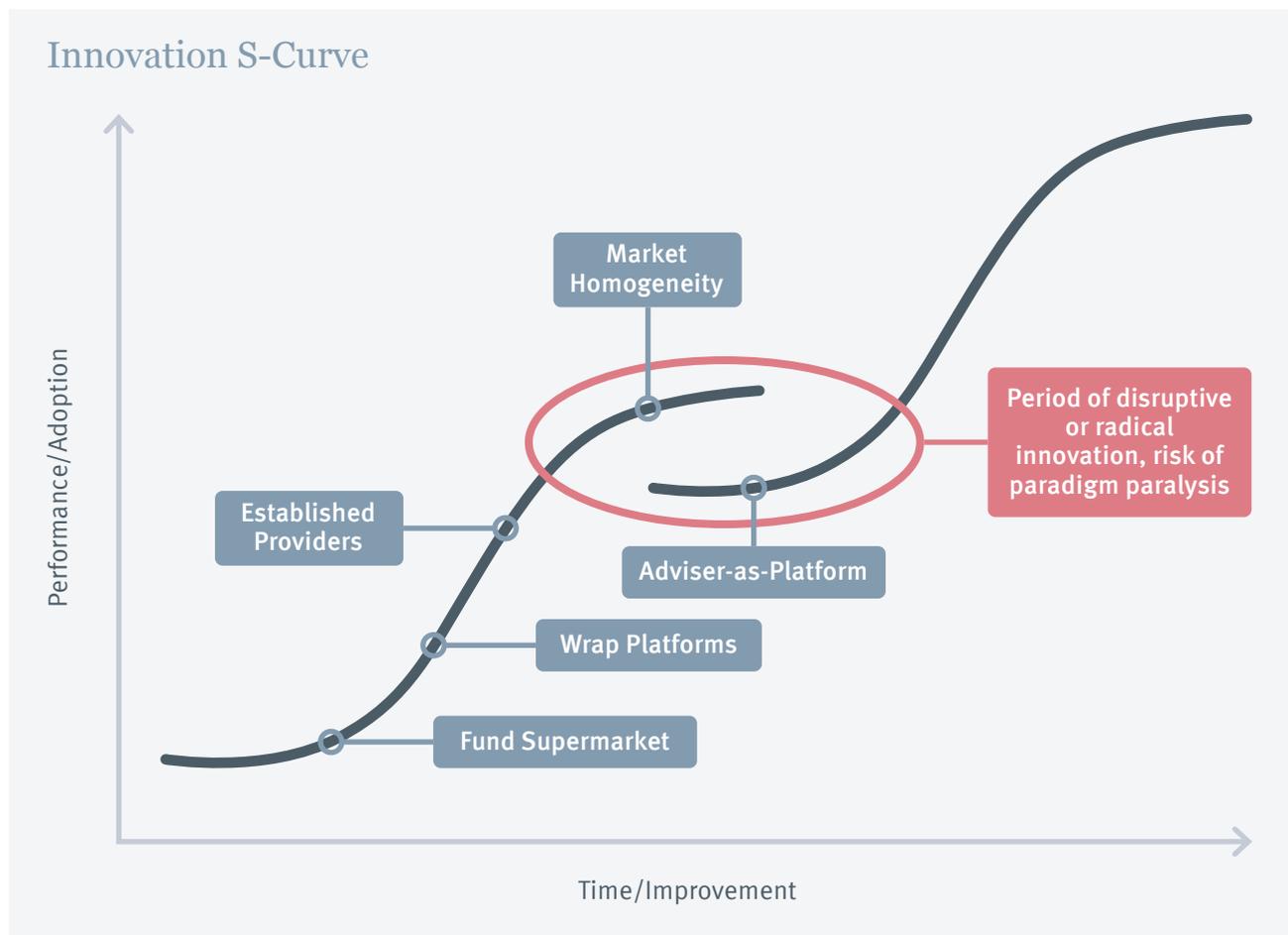


Figure 1: Innovation S-Curve

As we near the top of the innovation s-curve (Figure 1) we need to be considering what the next period of disruptive or radical innovation looks like. Is it 'adviser-as-platform', integrated hybrid advice solutions, or something else? Where does the regulatory landscape fit with this? Where are the next group of consumers coming from and what do they expect? And how do we embrace that and avoid our own Kodak moment?

Innovation is a broad term that can apply to all aspects of the organisation from product and service, through to business model, technology, strategy and more. Innovation can often be mischaracterised as only encapsulating breakthrough, disruptive change, but many are micro, sustaining innovations; building continuous improvement through refinement in technology, operations, and process to remain competitive on an ongoing basis.

The competitive landscape continues to intensify. The rate of change organisations confront is constant as technology lifecycles go exponential. Consequently, great emphasis has been placed on 'innovation' as senior leaders have tried to develop creative organisations with an innovative culture. From 'labs' to 'garages' and 'design thinking' to 'creative problem solving', organisations want to adopt a start-up mindset to both respond to, and instigate, change in the market.

Delivering truly disruptive and radical innovation in a heavily regulated environment isn't the easiest thing to do and it has taken a global pandemic to properly shift gears and improve adoption of technologies that have been available for quite some time. The pace of change over the last 20 years for platforms hasn't necessarily matched the level of innovation we've seen in other areas of financial services; new technology has been adopted and implemented but, as Henry Ford suggested could be the case without some serious innovation, have we just ended up with faster horses?

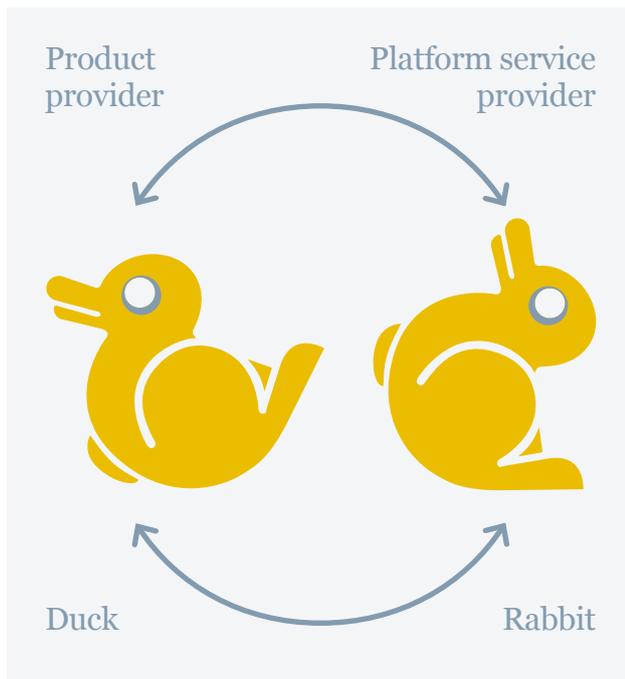
Radical innovation will either require, or trigger, some sort of regulatory reform; the current rules around platform service providers evolved from the fund supermarket definition, which was created in 2005. The FCA has proposed, in CP22/24, to look at 'core investment advice' and announced a further detailed review of advice & guidance in conjunction with HM Treasury. The stated scope and objective for this review is from a 'blank page' and consumer focused; it is important that within this review there is an acknowledgement of progress over perfection when considering how best to protect consumers and enable access to advice and investments for the mass market.

With more retail investment solutions being delivered through this platform model, it prompts us to ask some key questions: what is the difference between a platform and a product provider? Is the market becoming homogenous and how do you differentiate? What will the next 20 years hold?

Tackling the dabbit:

What is a product provider & what is a platform?

Often the best place to start with any ‘what is a’ question is to look for established definitions. Fortunately, as a regulated industry, the FCA has built up a glossary of terms to help navigate the myriad sourcebooks of rules and guidance.



Fundamentally, it looks like the distinction is that the product provider makes or operates a ‘thing,’ and the platform service then makes a bunch of those ‘things’, from different product providers, available to retail clients. If we did dig into some of the definitions a bit further though, we discover that one of the ‘things’ covered by ‘retail investment products’ is a personal pension scheme.

So far, so boring. What does this mean in the real world?

The investor is unlikely to consider this distinction particularly relevant; where they use a D2C platform they will consider HL, Fidelity, or AJ Bell to be the product provider. For an advised client, it would be a similar perception for names such as Nucleus, Embark, or M&G. From an adviser perspective the distinction is around the products offered: a ‘platform’ is typically where new liquid investment business is placed, the ‘provider’ is where some of the less liquid and more mature products are found – those policies with guarantees, alternative assets, or some life protection elements for example.

As we look across the market today, over a decade since the handy definition of a platform service provider was introduced, we can see that the vast majority of ‘platforms’ could be classed as both a platform provider and a product provider; largely from provision of their own SIPP but also where there is life company or asset manager ownership for some collective investment schemes. We can also see this in the acquisition path of the last year – the tie up of Nucleus, James Hay, and Curtis Banks confirming the blend of platform and pension provider. In fact, there may only be a handful of pure ‘platform service providers’: those who may be an ISA Manager but run a SIPP white-labelled from a third-party product provider.

It is, though, the life company or asset management ownership that generates so much excitement in the retail adviser platform market and the perceived threat of vertical integration, but it might be helpful to think through this segmentation and what it means in practice.

The FCA Glossary tells us that a Product Provider is a firm which is:

- (i) a long-term insurer;
- (ii) a friendly society;
- (iii) the operator of a regulated collective investment scheme or an investment trust savings scheme; or
- (iv) the operator of a personal pension scheme or stakeholder pension scheme.

If we look for a platform definition there’s a wealth of choice, but the one that stands out is Platform Service Provider. The helpful definition here is “a firm providing a platform service.” This platform service is then defined as a service which:

- (a) involves arranging and safeguarding and administering investments; and
- (b) distributes retail investment products which are offered to retail clients by more than one product provider;

but is neither:

- (c) solely paid for by adviser charges; nor
- (d) ancillary to the activity of managing investments for the retail client.

If we take three broad segments for platform ownership/parentage, then maybe we see:

- Asset Manager Platforms | a platform operating under the brand of, or entirely owned by an asset manager/fund provider. I might think of Fidelity, you might think of Abrdn.
- Life Company Platforms | a platform operating under the brand of, or entirely owned by a life & pension provider. I might think of Aviva, you might think of Aegon.
- Wrap Platforms | a platform operating with no material connection to an asset manager or a life company. I might think of Transact, you might think of Nucleus.

Not an exact science, and plenty of space for disagreement as to who fits into which bucket, but a pragmatic view across the sector. If we look at 2022 AUA numbers from Fundscape, then just over 40% of platform AUA is sitting on 'wrap' platforms, see Figure 2, admittedly bolstered by the mighty Hargreaves Lansdown, who represent over 10% of the sector AUA, and over half that counted as execution only.

If we look back over the last decade, Figure 3, we see that the 'wrap' share of market has been eroded from a high of 60% a decade ago and accelerated over the last 5 years where firms have changed hands, such as Abrdn picking up Interactive Investor and Elevate previously.

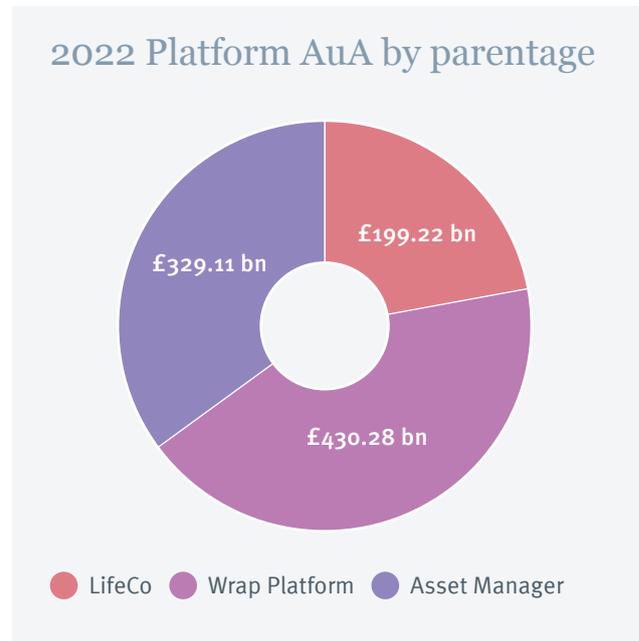


Figure 2: Proportion of AUA by Parentage

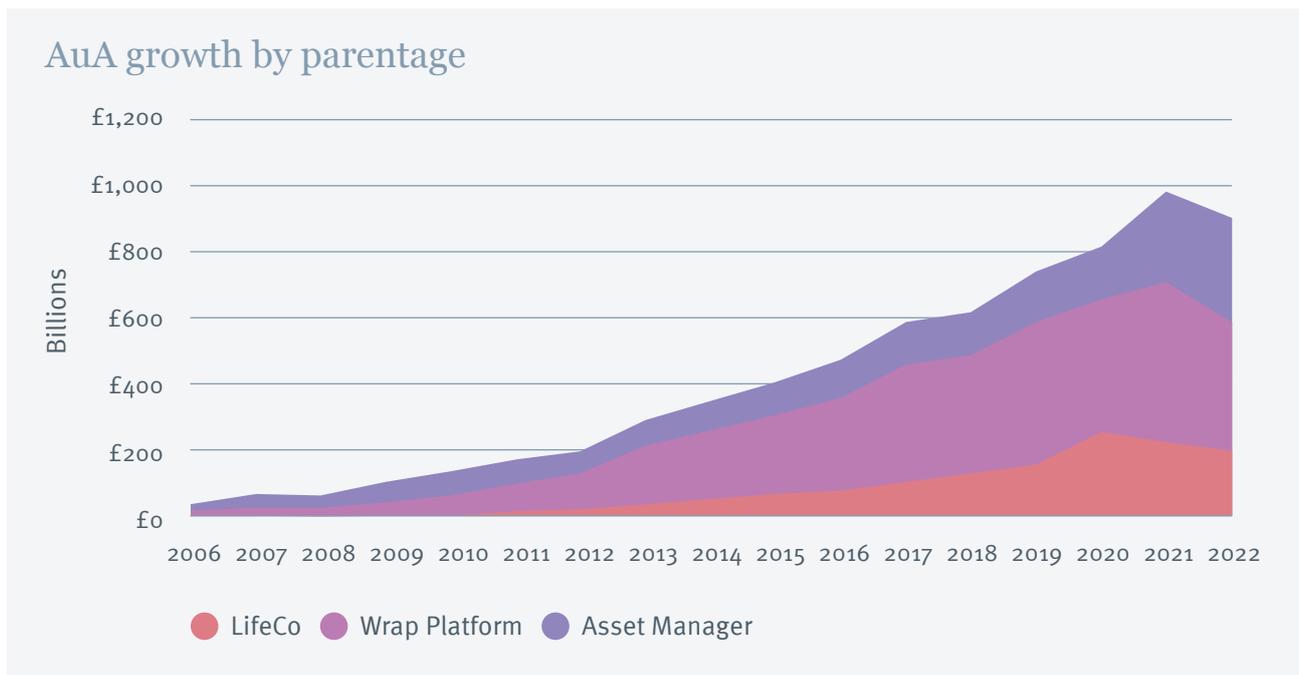


Figure 3: Growth of AUA by Parentage

Tackling the dabbit:

What is a product provider & what is a platform?

As we see more AUA falling under the stewardship of life company and asset manager platforms, a natural question to ask is: why is this taking place? Some argue it is a drive to capture more of the value chain and control distribution of their product (asset/unit/pension) but how does that stack up against the flow of investments?

Looking across the top 10 holdings by AUA for advised platforms [Table 1] we can see a big chunk of assets sitting with Vanguard, almost twice that of Quilter and Fidelity. Vanguard also comes out on top when we look at where buy orders are being placed, slipping behind HSBC and LGIM for net flows. [Based on 2022 AUA and flows data provided by Finscape]

If we apply the broad platform parentage classification to the Finscape data, then with the lion's share of AUA sitting with 'wraps', we will look there first to see where some of that might sit [Table 2]. Vanguard come out strong in both level of holdings and proportion of inflows. The interesting entries in this view are Omnis and Seven IM, which point to the position of multi-asset and risk-based solutions in the open architecture mix for retail advised platforms. Valu-Trac adds another interesting dimension where, as an ACD for smaller fund managers, wealth managers, and a platform, they show that a movement of assets and inflows are moving beyond the big names, or in an echo of how platforms have become providers, model portfolios are becoming unitised funds.

All Platforms

Asset Provider	Proportion of Client AUA	Proportion of Inflows
Vanguard	9.38%	10.10%
Quilter	4.76%	2.25%
Fidelity	4.53%	5.16%
BlackRock	4.07%	7.32%
LGIM	3.85%	5.08%
HSBC	3.08%	3.88%
Liontrust	3.05%	2.27%
RLAM	2.90%	3.68%
Omnis Investments Ltd	2.89%	1.90%
Abrdn	2.51%	2.04%
The Rest	58.98%	56.31%

Table 1 - Market AUA by Asset Provider

Wrap Platforms

Asset Provider	Proportion of Client AUA	Proportion of Inflows
Vanguard	10.09%	12.94%
Omnis Investments Ltd	9.55%	4.97%
BlackRock	4.58%	8.58%
Fidelity	3.53%	5.54%
LGIM	3.30%	5.73%
Dimensional	3.15%	5.09%
Valu-Trac Investment Management	3.03%	1.75%
HSBC	2.45%	3.88%
Baillie Gifford	2.44%	1.18%
Seven Investment Management	2.05%	0.73%

Table 2 - 'Wrap' Platform AUA by Asset Provider

For asset manager owned platforms [Table 3] we again see that Vanguard take the top spot for both AUA and inflows. Quilter holding off Fidelity from second through their long-standing ‘advice-platform-asset’ model.

Turning the lens onto life company backed platforms [Table 4], we still see Vanguard with a strong showing as an asset provider of choice. Unfortunately, we can’t see behind the veil of the Aviva and Aegon insured funds, but the other top 10 asset providers will be under their respective hoods, and the migration of legacy books to platform technologies also narrows the platform/provider distinction.

All this suggests that within each of our segment cohorts while there is an inclination of assets towards the funds of the owner/provider there is a greater inclination towards Vanguard who are also near top in relation to net flows. It also indicates that advisers are not directing flows towards the provider behind the platform but are using the de facto standard of open architecture across the platform sector. It’s at this point we should refer to SJP and True Potential who don’t feature in the above data sets, but with £17bn of

inflows and FUM of £148.4bn for SJP and TP reporting £6.7bn of inflows and £23.3bn AUM (£20bn in their own portfolios) they would feature in these tables regardless of how they were categorised. With ~£40bn of flows into MPS solutions over the last year and that number expected to rise it could be that advice firms building out asset management capability is where vertical integration will be taking place.

With broadly the same wrappers available and the same asset providers dominating across our cohorts there is something other than asset universe that draws advisers to a platform. Part of this may be in the strength of relationship and ‘trust’ between the adviser and client. Advising a client to put their life savings in products or a platform run by a known, recognisable, brand – perhaps one they’ve seen sponsoring a sports event or the arrival hall of an airport – would be a different conversation to one where the provider has little or no presence in the public consciousness.

Another factor will be what we call ‘service’ – the ‘how’ that turns the ‘what’ into something engaging and delightful. Not at all easily done.

Asset Manager Parents

Asset Provider	Proportion of Client AUA	Proportion of Inflows
Vanguard	8.04%	7.85%
Quilter	7.09%	4.68%
Fidelity	5.11%	5.12%
BlackRock	3.82%	7.25%
Liontrust	3.62%	2.45%
Abrdn	3.55%	2.91%
LGIM	3.30%	4.57%
RLAM	3.01%	3.84%
HSBC	3.00%	3.56%
Dimensional	2.53%	1.52%

Table 3 - ‘Asset Manager’ Platform AUA by Asset Provider

Life Company Parents

Asset Provider	Proportion of Client AUA	Proportion of Inflows
Vanguard	11.86%	10.62%
Aviva	6.03%	3.83%
LGIM	5.83%	5.20%
Fidelity	4.24%	4.68%
BlackRock	4.10%	5.52%
Quilter	4.09%	0.17%
HSBC	4.01%	4.59%
Aegon	3.76%	-
RLAM	3.64%	4.04%
Liontrust	3.42%	3.03%

Table 4 - ‘Life Company’ Platform AUA by Asset Provider

Same same, but different: Using service to stand apart

When platforms first arrived in the UK, the vision was for the technology to be the major player, facilitating the provision of personal, impeccable service to both advisers and investors alike.

The Australian dream of an integrated technology stack without the requirement for manual human intervention was born and, rightly so, the UK market was excited. Platform providers envisioned a client base who would adopt a self-serve mindset, technology that would integrate smoothly with back-office and third-party solutions, and a simple operating model that would allow them to manage by exception and focus on maintaining a relationship with their client. A stark contrast to the prevalent life company operating model of the day, built around monolithic, siloed policy admin systems and within which paper forms were a mainstay. For the most part however, this hasn't really materialised over the last 20 years, but why?

It wouldn't be unjustified to say that not all advisers have wholeheartedly bought into the concept of self-serve, or at least as much as it was imagined they might. Some of this will be behavioural, with advisers unable, or unwilling, to move away from old habits, or from providers who will just 'sort it' by doing whatever is needed to secure new business. Much of the time, though, it's limitations with the technology that inhibits the adviser from transacting in the seamless way promised; for an adviser, some activities are less self-serve than 'perform twice' when they've already captured information and transactions in their own back-office systems. Where time is normally a healer, in the case of platform technology time is a nuisance, with defects or workarounds becoming more complex with the more clients and more time that passes.

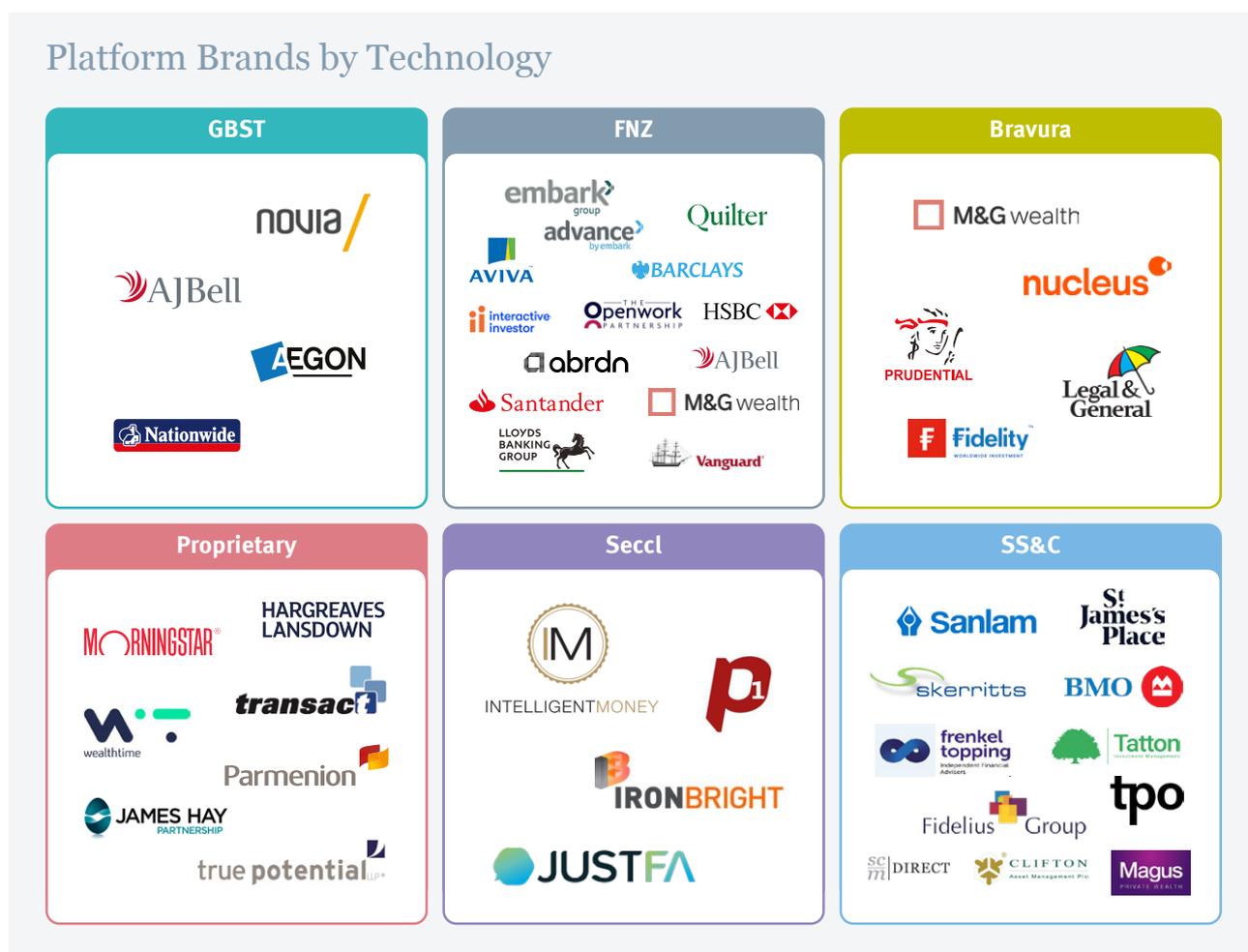


Figure 4: Platform Brands by Technology

The limitation of the technology means manual intervention is required to bridge this gap, with SME's in back-office servicing teams ensuring that the client doesn't receive a substandard experience. Platform providers therefore have client servicing or front-office teams bigger than any of them would have thought, acting as the analogue glue between different digital solutions.

We know the main players in the platform technology market, and we would all agree that they each have their flaws. However, the intricacies required within the technology to support products and investments to make the platform appealing is a lot more complex

than anyone imagined; the ability to get this right has been a challenge for everyone and represents a significant cost of doing business. Having clearly defined business and technical architecture that connects day-to-day operations to strategy and the target operating model are things we see as essential for financial services business to deliver effective change; robust frameworks against which cost and service measures can be assessed, and where regulatory impact can be understood.

The technology challenge is represented by the distribution of technology providers; proprietary solutions are still a sizeable proportion of platform technology, with FNZ picking up a quarter of the market (Figure 5).

If we consider the £billions of AUA, then 70% of market is shared across Bravura, GBST, and FNZ in a reasonably even manner (Figure 6). Should one be inclined to separate Aegon Institutional or include adjustments such as the planned James Hay & Nucleus merger, then the scales tip further towards FNZ for both platform numbers and value.

The cost of investing in, and adapting, a technology solution has often been higher than expected. The operating model needed to support this type of change is more complex than imagined, and the charging model must remain low to be competitive against other platform providers, whilst also remaining lower than the original product providers to differentiate. From our business capability driven cost benchmark work across the platform sector, we see on average ~40% of expenditure given to Organisation Support and Business Management; the logical home for technology and change capability (Figure 7).

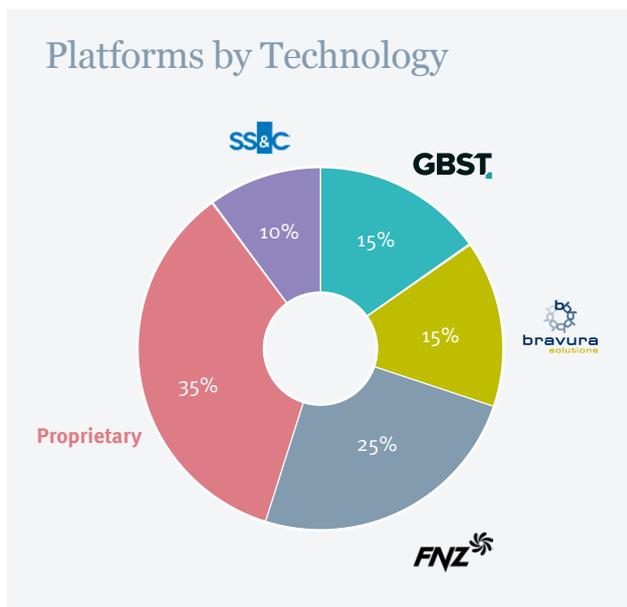


Figure 5 - Platforms by Technology Provider

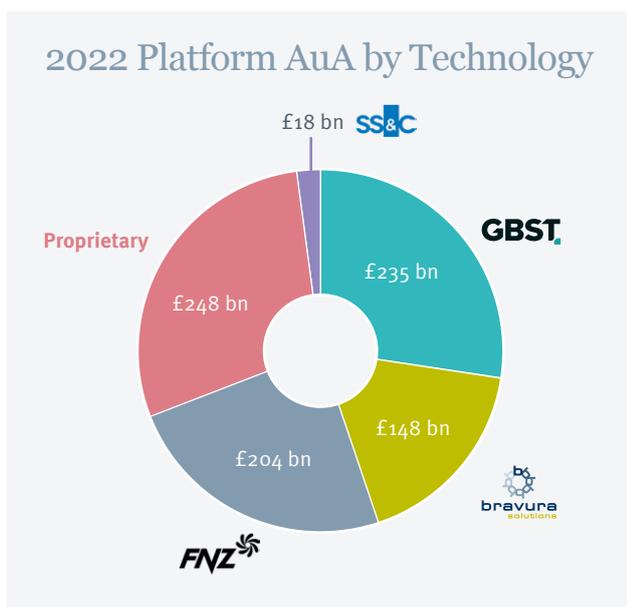


Figure 6 - Platform AUA by Technology Provider

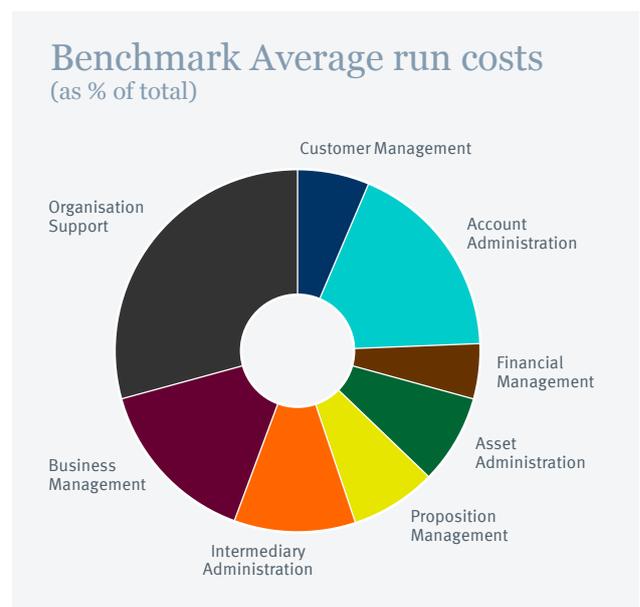


Figure 7 - Altus Consulting Platform Cost Benchmark Average

Same same, but different: Using service to stand apart

The cost challenge has seen both product providers and platform providers seek lower cost models, and therefore cheaper ways to service their clients. We have seen redundancies within the industry repeatedly over the years, particularly hitting distribution personnel, only for a recruitment drive to take place a few years later, maybe even hiring the same people back!

As providers have reviewed their operating costs, there has also been consideration of the business model they want to adopt, as well as how best to deliver commodity services and where the points of differentiation can be found. The maturing of the platform market in this way echoes how the earlier life & pensions market matured, with the large providers seeking to consolidate and reduce operational cost, sometimes through use of outsource partners.

Outsourcing has, in some form, been part of the platform market for several years, with firms outsourcing some responsibility for their technology solutions to specialist third-party system providers. A few, with FNZ being the largest, also offer some form of administrative service alongside the technology. But over the last few years, the outsourcing of these services has started to wash through the industry, with technology providers increasingly offering a broader range of operational functions for platforms to consume.

These days, platforms will have remarkably similar technology stacks sitting behind their businesses and because of that, terribly similar approaches to how products are administered. Platforms are trying to keep their identity and independence by retaining their digital front end, the front-office staff and those who provide what they believe to be that personal touch, but how easy is it to really be different when you share the same underlying technology and back-office administration as your peers? For an online, digital proposition you would hope that your customers would never need to speak with your front-office team, as that suggests something has not worked as expected or just simply gone wrong.

The impeccable service model has therefore often taken a backseat when it comes to a platform's ambitions, due to the time and cost of all the above. However, with the consolidation of technology providers, and the vast similarities of each platform's product offering, proposition and cost models, service models have really shown themselves to be the only true differentiator.



Figure 8 – Distribution of Platform Brands, Service and Technology Providers

Who is he?

(and what is he to you)?

Over the years there has been an imbalance or assumed primacy of relationship across the retail investment sector that many providers have struggled to properly understand, in part due to the slightly uneasy relationship between adviser and provider, and notions of client ownership.

There have been many instances where advisers have bemoaned providers for ‘stealing clients’ when the provider has communicated directly to customers about a product, has actively taken steps into the world of advice, or launched/acquired a D2C proposition. Each party considers themselves the centre of the universe; advisers have a relationship with a client about goals, ATR, tax wrappers, investment choices, and suitability; providers have a relationship with a client about money in, money out, product administration, and keeping their assets away from harm. With the predominant business model being based on taking a slice of what the client has, then keeping hold of that customer becomes ever more important.

There is an argument that the world is shifting from a product-centric society to a service-centric one; where organisations become ‘value facilitators’ rather than ‘value producers’ in that they will not only supply the product but also facilitate and offer value in its use. This ‘as-a-service’ value proposition may drive the next phase of innovation in the industry.

For a market where some participants are trying to cover all the bases, vertically integrated from advice to asset, or with advised and direct propositions, how might our platform categorisations respond to this?

Advice as an Asset...

The cost of delivering advice makes it a service typically taken up by the wealthier proportion of society; only 3.7m people, or 6% of the adult population, have an ongoing advice relationship, according to FCA figures¹. Research by Royal London² suggests there are 9.4m people who are not advised but are open to advice. With advice in its current form, we could see this separation persisting into the future, however, regulatory reforms and technology improvements can change that.

M&G have been well publicised in their move towards hybrid advice in their work with both Ignition and Moneyfarm, and the origins of robo-advice lend themselves to the idea of an asset manager supporting individuals in finding the right investment. Fidelity has both an advice arm, and a strong direct book, as do Abrdn, so delivering efficiency into those advice businesses through digitisation and hybrid advice tooling, combined with a restricted advice proposition seems sensible. However, as has been seen with Vanguard, getting that proposition right is essential and there is significant work in brand positioning needed to draw in new customer segments and reach a viable scaled advice business.

That’s Life...

The future strength of our life company platforms could lie in their parents’ credentials; the differentiation may come from more innovative products, or bringing older products to a new market, as we see with moves to bring with-profits and smoothed funds onto platform by both M&G and LV=. Application of experience in the world of insured and blended funds could bring an evolution to MPS and CIP propositions.

With a growing savings imperative coming from auto-enrolment, the life company platforms could also be well positioned to build on the workplace connection; having a slick, automated, transfer service to consolidate disparate pensions ready for retirement would be of interest to both advisers and employees approaching retirement. Some sort of dashboard where you can see all your pensions is probably a good place to start.

¹ <https://www.fca.org.uk/data/retail-intermediary-market-2021>

² <https://adviser.royallondon.com/globalassets/docs/adviser/misc/br4pd0007-exploring-the-advice-gap-research-report.pdf>

Who is he? (and what is he to you)?

That's a wrap...

In the wrap segment we might see the application of technology to streamline client-adviser-provider interactions and facilitate the value of financial advice by delivering wrapper, cash, and custody services with the flexibility that meets the varying needs of the adviser/client relationship. Something the proponents of the 'adviser-as-platform' model are actively backing and progressing through open APIs and integration options. It will require an attitudinal shift on the role they play in the value chain and for advice firms to walk the regulatory walk for permissions, governance, and oversight, and how these same firms will improve price and value considerations for consumers.

We could then see a distillation of the platform market where the independent wrap platforms support advised clients as we currently define them, and asset manager / life company backed platforms push further into the customer segments open to

advice; often with a more vertically integrated offering including digital/hybrid advice as well as their own investment solutions and unique product features.

We need to talk...

The desire for better integration is a key expectation of platform users. An FE Fundinfo survey suggested 90% of advisers³ felt integrations were important to the planning process. Recent Altus Consulting research carried out with adviser firms identified some clear priorities (Figure 9):

- Minimise rekeying between the adviser back office system & the platform and remove/consolidate paper from the onboarding process.
- Supply timely, accurate data for valuations and transaction history.
- Advisers want to own client communications.

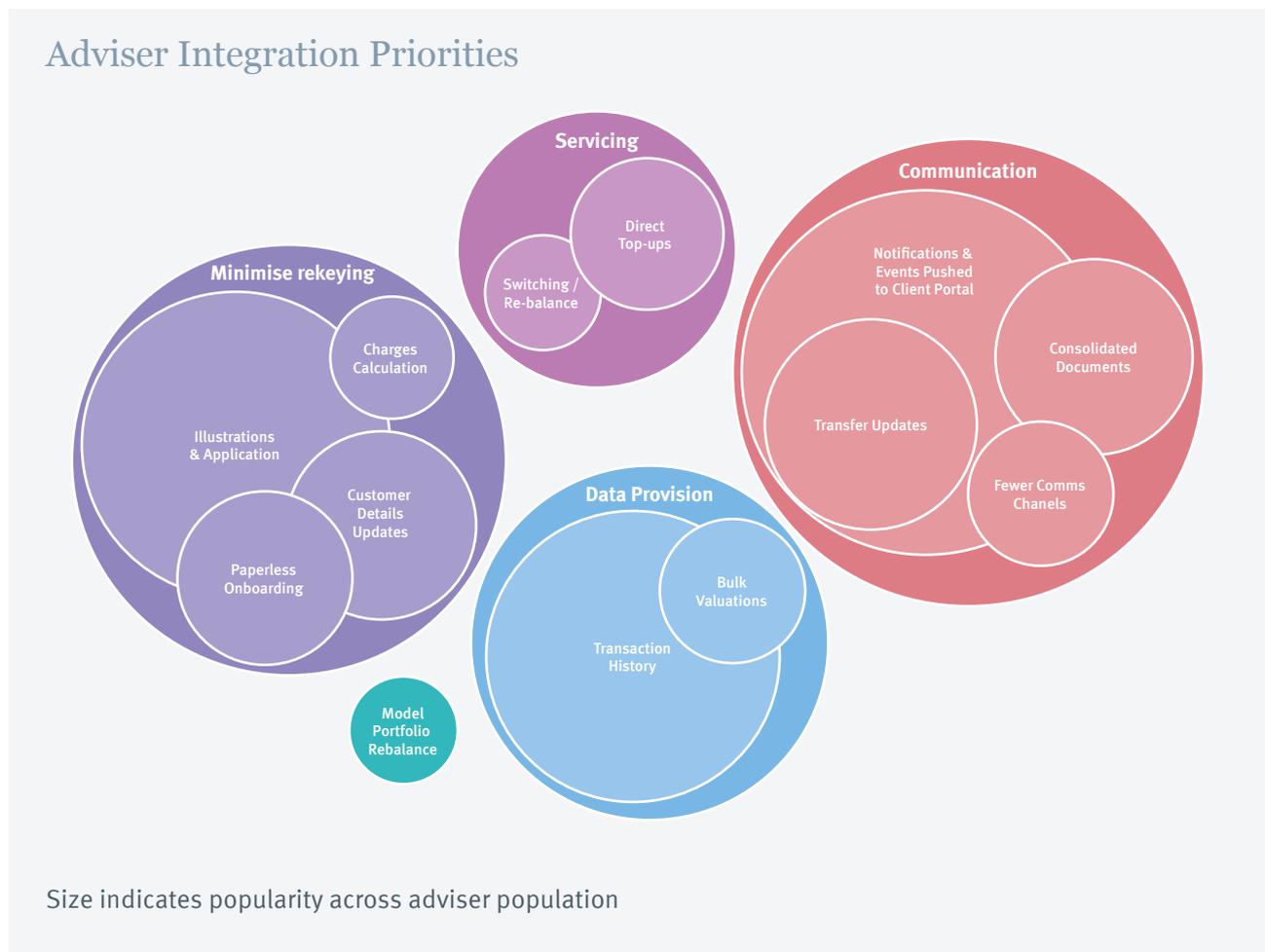


Figure 9 - Relative priority for integration, independent Altus Consulting research with Advisers

³ <https://www.ftadviser.com/your-industry/2023/04/17/under-a-third-of-advisers-have-active-system-integration/>

There is already a move from large, monolithic, enterprise solutions that look to supply everything a business needs, to a microservice-based architecture. The premise is that, by breaking down a large application into smaller, more discrete, components, there are then benefits around scalability, flexibility, and resilience – each service component can be handled independently and should allow a business to orchestrate services from different providers to deliver the outcomes they want. The cautionary note here is in the added complexity that brings in planning and managing those services. Setting out an architecture based on a clear and robust business capability view allows for a common language and understanding of the ‘what’ and ‘why’ for each service, that both business and technology users can grasp to enable better decision-making and communication. Something that is especially important where third-party solution providers are involved.

Digitisation of processes will continue and as integration between adviser and platform solutions improves, driven by a desire to improve efficiency within platform operations and to use this as a differentiator to adviser firms, then platforms fall even further into the role of utility service provider.

As access to, and availability of, data becomes even slicker and ubiquitous, we may find that the platform market fragments, as advisers are better able to handle multiple product providers whilst maintaining a consolidated client view from within their own CRM and advice systems. The platform market not only comes full circle in platforms-as-providers, but also advisers going to multiple providers to deliver better client outcomes.

A platform, as we currently understand it, may disappear and instead become the digital framework and infrastructure that brings multiple parties together, working to offer connected services and value exchange – the vehicle by which customers are connected to advisers, tax wrappers, and investment solutions. Proliferation of APIs and microservices should allow construction of personalised journeys and best-of-breed solutions, whether for a self-directed investor or an adviser working for a client. To compete in this world, a clear vision of business purpose (who you are) and how you support your customers (what you are to them) is essential.

Players gonna play. Prognosticators gonna prognosticate.

So, what might the platform look like 20 years from now? Will commoditisation and 'platform-as-a-service' finally see retail brands consider investment propositions in the same way they've approached insurance and credit?

Given the technological and societal trends towards service over product, what could we expect platforms to be doing for different customer segments in another 20 years?

The Altus Consulting team have given some thought to what they might expect to see:



Nicola Flannigan:
Kids today...

When Nicola Flannigan was asked to think about platforms in 20 years, she instinctively thought about her young daughter. Here Nicola explores her own behaviours, how this influences the next generation and the areas she believes platforms really need to focus on to continue to be successful in 20 years.



Mike Barrett:
Planning for later life
in 2043...

Through thinking about platforms in 20 years' time, Mike Barrett's thoughts immediately went to his day-to-day routine and how they could improve this experience. Within this section, Mike has displayed his thoughts on how platforms could potentially develop the customer experience in this area and also how platforms can enhance individuals' knowledge when entering this time of their lives.



Chris McCullam:
Spending my pension
in 2043...

Thinking forward to when he's 64 (well 67), Chris McCullam asks is it feasible to expect to be running his financial life with a single financial platform? Something that can seamlessly connect day-to-day spending, regular commitments such as utility bills, etc. with his invested retirement savings. When he wants to spend some money on something, could this be deducted from his 'platform cash account' rather than needing to move a specific amount from one digital ledger to another at a specific point in the month?



Nicola Flannigan: Kids today...

Do I think platforms will still be around 20 years from now? Yes, I do!
Do they need a tremendous amount of forward thinking and innovation to ensure they remain fit for purpose? Absolutely!

When I think about the next 20 years, I automatically think about my daughter; she is just turning 7. As a parent, I always reflect on the behaviours and actions that can be impressionable to her, and it was a few months ago that I realised something, following a mother-daughter shopping day.

I grew up in a household where ‘cash was king.’ My parents and grandparents always paid in cash, and at a push, cheques were used to pay bills or for birthday presents. These behaviours instilled a belief in me that this was the best way to transact. It wasn’t until I started showing an interest in the subject, and opened a bank account at 13, that I concluded cash wasn’t necessarily king after all.

Nowadays my life is very much cash-free. During our shopping trip, my daughter watched me make purchases on both my watch and my phone; she rarely sees a debit or credit card day-to-day, let alone cash payments. Transactions are quick, easy, no pin is required, and I do it with the flick of my wrist!

My actions and behaviours have installed a trust in technology-enabled payments within my daughter and she expects nothing else now and looks at me weirdly should I pay by cash.

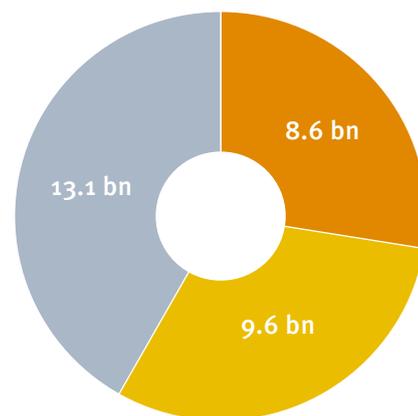
Her experiences now mean that her expectations in 20 years’ time will be for a very fast (she has no patience!) easy, convenient way to transact, with the ability to be more trusting than I, or my parents, ever were of technology-based transactions and advice. She really is the next generation, and where the vision of Financial Services should be focussed.

My thoughts instinctively then turn to ‘brand.’ Many of the current product and platform providers market their longevity, nostalgia, and history as a reason for customers to transact with them. My opinion is that this will no longer appeal to the next generation within the next few years. A brand’s success is no longer measured by its length of time within the market or consumer awareness. Success is now determined by an individual’s research into the offering of the product and the return on their time and investment.

As a population, we are much less risk averse when it comes to technology than 20 years ago. We have a trust in the tech and a regulator that means we are more trusting of new and innovative products and providers, and I do not see that regressing. Within Financial Services I believe that companies need to consider this carefully and move with the times; really exploring what is important to its customer base and how it can appeal to them. Standing behind the notion ‘we are 100 years old’, now feels dated and doesn’t provide the assurance that it once did.

Platform and product providers in the next 20 years will really need to innovate and consider accessibility, simplicity, with comprehensive instantaneous data for a customer to view their position in all products instantaneously.

Total number of contactless transactions⁴



● 2019 ● 2020 ● 2021

Figure 10: Total number of contactless transactions

⁴ <https://www.ukfinance.org.uk/press/press-releases/average-contactless-payment-increases-almost-30-cent-new-%25C2%25A3100-limit-was-introduced>



Mike Barrett:

Planning for later life in 2043...

As a ‘younger’ adult (at least that’s what I keep telling myself...), I have used various savings accounts in the last 20 years, from my first ‘in-branch’ only card, to accessing my mortgage via my mobile today. The platforms for these products have moved on as supporting technology has evolved. But that’s what we as adults contend with – various platforms for various products.

My view of a typical day, as someone in their late 20s, who is married without any children, is as follows. I get the train to work, perform my job, grab some lunch and then get the train home. At each stage of this process, flexibility in payment has developed, and is encouraged, which has meant most individuals have moved with it to using mobile offerings. What are my expectations of current platforms and products during this process? I expect my mobile to be able to quickly make a payment upon request from my available product and I expect the other platforms to be able to engage with this. To bring together all those different entities and programs to deliver a service which is easily delivered multiple times daily. Is this always possible? At this moment in time, no it isn’t. In the future will this become more of a necessity as more providers become cashless? Absolutely.

So, what about this scenario in 20 years’ time when I’m a ‘proper grown-up’? How will the platforms we use further increase that flexibility and usability?

I’ll still be getting the train to work, grabbing some lunch, and working but what might have changed? Could you no longer need to pay using a separate app for the train? Could you have one platform which will pay for all these day-to-day interactions for example? Could a merger of the platforms (a day-to-day platform as it were) become available? Is there a way that all the different ‘everyday’ providers could create platforms which speak to each other to make that experience quicker and more efficient? This fluidity and experience for the ‘grown up’ individual would be a welcome enhancement. But then again, will we have the same platforms but they ‘just work a little bit better’ with the only difference being I’ve now got my house, and my future children are grown up, and I’m looking ahead to later life?

But what else will I be concerned with at this point of my career? As someone 20 years on in their 40s and 50s, many say this is when you are at your maximum earning potential. At this stage, I will have a large focus on how my life will change over the following years, as I move towards starting to think about retirement. I may be looking to engage with financial advice or looking to understand how best to use my money. But what would I want from a platform in this position of my life, and how might this work? When I think of saving during this period, I want ease. I want a platform to make saving easy and give lots of flexibility, whilst allowing me full access to understand my options. Am I asking for too much? Could this be something which is led by the workplace? Can the workplace create and evolve a platform which will give me ease and flexibility with my pension contributions, and be the driver behind education for individuals moving towards this period of their careers and lives, without the need for financial advice for those not able to do so?

Median annual earnings for full time male employees in the UK in 2022⁵

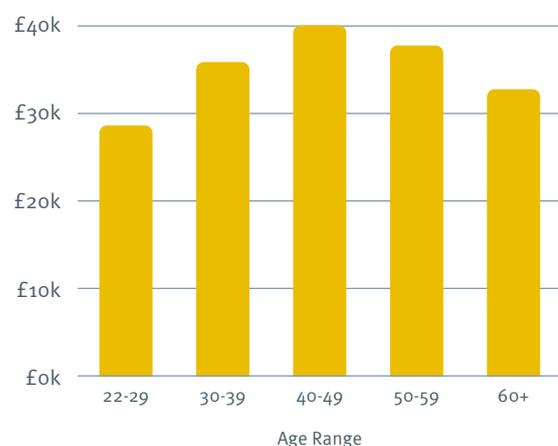


Figure 11 - Median annual earnings for male employees in UK

⁵ <https://www.statista.com/statistics/802183/annual-pay-employees-in-the-uk/>



Chris McCullam: Spending my pension in 2043...

In 2007 contactless payment technology was introduced to the UK market, at the time, for credit cards only. 14 years later, according to UK Finance⁶, debit cards accounted for 48% of all payments in the UK and 32% of all payments were made by contactless methods. Projections for 2031 suggest over 2/3rds of card transactions will be contactless (Figure 12).

Adoption of Open Banking is also expected to increase the prevalence of account-to-account payments rather than use of a card or similar.

Against this backdrop then, when I'm 64 (well 67), is it feasible for me to expect to be running my financial life with a single financial platform? Something that can seamlessly connect my day-to-day spending, my regular commitments such as utility bills, etc. with my invested retirement savings. When I want to spend some money on something, could this be deducted from my 'platform cash account' rather than needing to move a specific amount from one digital ledger to another at a specific point in the month? Algorithmic assessment of my spending patterns and cashflow forecast could also then do a respectable job of working out how much I need to disinvest, and when, to meet my regular obligations and the predicted irregular spending.

The early steps and building blocks are falling into place to allow this. Banking infrastructure services such as Clear.Bank provide virtual accounts at client level to platforms now; Hargreaves Lansdown have built a cash-hub to connect different savings institutions with their platform, and providers such as HyperJar allow segmenting of balances and linking of payment services. An extension of Open Banking into broader financial sectors would mean that my personal financial platform will do the heavy lifting of connecting my different savings and investment vehicles together and give me that central, holistic, view of my net worth and where it is going. Could this be delivered to me by a single 'product provider'? Quite possibly. Would I want it from a single provider? I'm not sure.

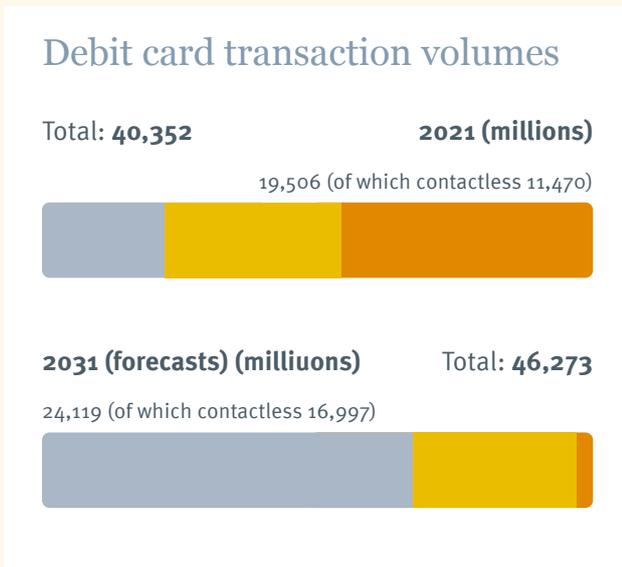


Figure 12 - Debit Card Transaction Volumes

By 2014 you could make contactless payments using both Android and Apple mobile devices. UK Finance estimate 32% of the adult population were registered for at least one mobile payment service in 2021 (Figure 13).

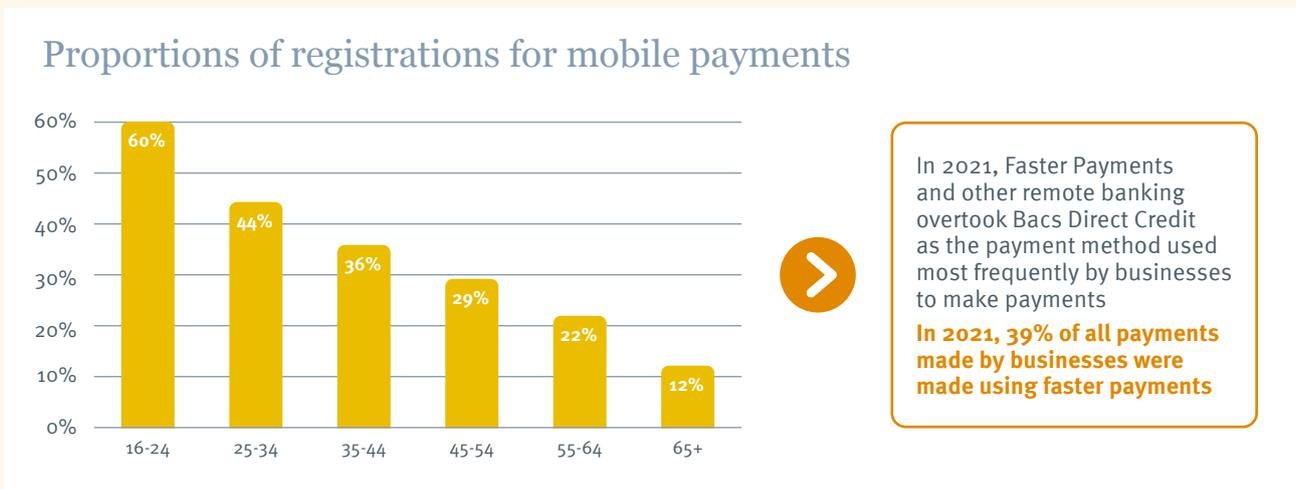


Figure 13 - Proportion of registrations for mobile payments

⁶ <https://www.ukfinance.org.uk/system/files/2022-08/UKF%20Payment%20Markets%20Summary%202022.pdf>

The journey of a thousand miles...

2043 is a long way off and there will be many twists and turns in the road as the platform sector moves into its middle years. There are some very real near-term hurdles to overcome, but also some very real opportunities to be at the forefront of future market changes.

The regulatory landscape never stays still for long, rather it reacts and evolves alongside the market, ideally to promote transparency, competition, and safety. It is this consumer protection aspect that can create the most difficulty for innovation. A cynic may also suggest that incumbent providers will want to protect the value chain and their place in it, especially where they have a degree of market dominance.

The DeFi (Decentralised Finance) movement is setting itself up to challenge the centralised closed network of transactional asset exchange. While focused on currency and lending services now, the use of distributed ledger and smart contracts will have a lasting impact on trading, custody and reconciliation capabilities for platforms, fund groups, and investment managers. But this does rely on different commercial enterprises moving to a different competitive model, especially where their current point of differentiation is in that custody and investment administration space. With the challenges experienced by the Australian Stock Exchange in moving to a DLT solution, it is likely to be some years before this approach becomes mainstream – in the meantime, initiatives like the SEC requiring T+1 settlement are moving the industry in the right direction for a consumer base who are now used to seeing cash movements happen within hours. We should hear the initial findings of the UK's Accelerated Settlement Taskforce by December 2023 and recommendations the year after.

As Government and regulators get to grips with what these technologies mean for society, it does remind us how legislation can drive forward innovation; regulations like Open Banking have opened the door for new financial services and driven innovation around payments architecture as well as accessibility of information. The extension of this into Open Finance should allow similar in the investments space. Rapid, robust, and reliable data exchange standards go a long way to democratising access to the market and encouraging new fintech solutions to attack longstanding problems, levelling the playing field to enable competition, and helping drive down costs for consumers. This will start us on the pathway to our digital platform as FinTechs can reimagine the adviser/investor experience, sitting atop an 'as-a-service' provider.

As it stands, a charge could be levelled at the retail advice/retail investment market that it largely works to make wealthy people wealthier. Even with digitisation and streamlined services, the biggest area of innovation to make a meaningful impact on the retail investment landscape must surely be in financial education. The FCA Financial Lives Survey, in October 2020, highlighted that 14.6 million UK adults (28% of the total) said they had low confidence in managing their money, while 17.7 million UK adults (34%) had poor or low levels of numeracy involving financial concepts. As an industry, we have yet to capitalise on support for individuals who aren't in the position to have an adviser, or for those who will be the next generation of investors, either from intergenerational wealth transfer or just having worked hard. For many individuals, outside of property, the pension is the largest source of wealth, and continued engagement and education in this area seems a good approach to inform, educate, and improve financial behaviours. Data from the Family Resources Survey shows that 54% of working age adults actively participated in a pension in 2020-21; this was 80% for employees and 19% for the self-employed, so clearly a population who are at least notionally involved with investing.



Figure 14 - Consumer confidence in managing their money, FCA Financial Lives Survey⁷

⁷ FCA FLS April 2017/FLS Feb 2020/Covid-19 Survey 2020

Innovation does not need to be a single disruptive event; working to combine existing technologies can deliver innovative results. Behavioural science has already demonstrated the power of nudges to change activity, so with the explosion of natural language processing AI at the start of 2023, the availability of standardised data through Open Banking connections, and AI's ability to process vast amounts of data to spot patterns and make predictions based on that data, we are offered an interesting route to deliver financial guidance, or advice, to people across all income and wealth brackets. How the industry integrates and exploits this when technology does democratise finance is something to keep an eye on moving forward.

The UK Financial Services sector has embraced fintech and digital innovation, recognising the potential benefits to their businesses and customers. Some long-established businesses have formed partnerships with fintech firms to drive innovation and improve their services. How those services are strung together is important, making sure all the unique widgets, tools, and services blend for a coherent, recognisable, end-to-end proposition and aren't a duck-billed-platypus of composite parts. Much like in the world of financial advice, the watchword is suitability. The selection and application of innovative technologies must be appropriate for our businesses, they must connect with and advance our strategic objectives. We need to be clear on the problems we are trying to solve. With that strategic vision understood, and the target operating model defined, we are in a better position to navigate the sea of change.

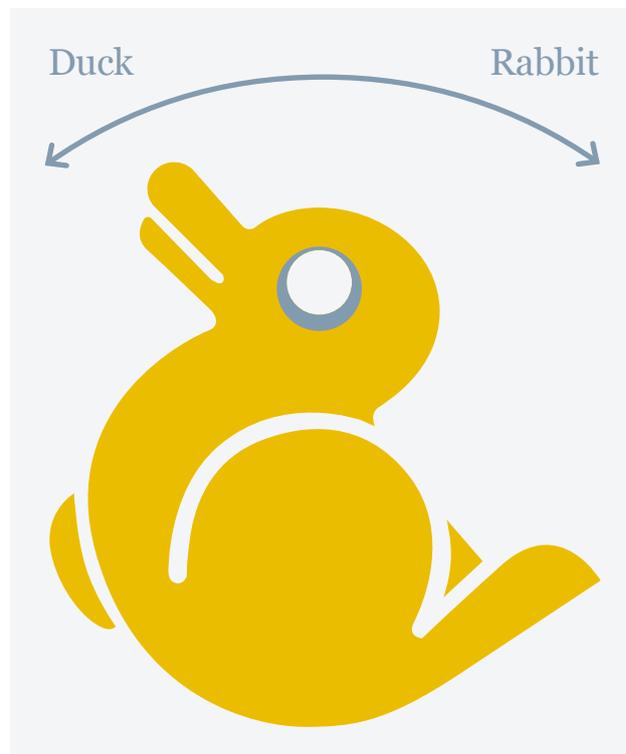
Regulation is one of the biggest drivers, but is also a barrier for change within our industry. The volume and nature of regulation can stifle innovation as there are significant additional costs and bureaucratic hurdles which mean any new entrants may need deep pockets to bring something to market. A quick glance at published accounts for the new entrants taking a fresh look at platform service & technology show businesses that are running with operating costs of £3m-£6m and at least 50% of the workforce engaged in software development; something that won't necessarily go away as firms keep pace with the inexorable march of technology and regulatory change. Some rudimentary maths suggests those firms will need to be supporting upwards of £5bn AUA to break even, based on current pricing structures within the market. Whether those pricing models persist remains to be seen.

Even established businesses, as seen recently from the uncertainty over GBST following their brief acquisition by FNZ, Gaudi's insolvency, and the Bravura fund-raise, are not immune to disruption and the ripples this creates can be significant in a narrow, thin-margined, market. Increasing scrutiny of operational resilience, building on the work around

Important Business Services, means firms who use a third party for anything from tools and calculators through to administration platforms and outsource servicing will need to have a very clear view on how those services are provided, how they are governed and overseen, as well as how any exit plan would be handled by one or more alternate suppliers should the worst happen. This is already a significant undertaking where firms use only a handful of solution providers, and where governance could increase materially in a highly integrated microservice world. Again, having that clear view of our composite business and technical architecture aids us in knowing who is providing what service for us.

There is no doubt in the role technology will play in how financial services are delivered to customers, and although the pace of change hasn't been stellar, a momentum is building as the application of distributed ledger, micro-services, generative AI, and good old-fashioned data integration become part and parcel of business-to-business and business-to-consumer propositions.

How quickly and well this translates into market innovation relies very much on the flexibility of the regulator and the appetite for change within the industry itself. If we can't deliver compelling, efficient, accurate and timely digital services from our platform/provider dabbit, someone else will, and the end customer won't give a duck.



Contributors



Chris McCullam

Investment Platforms Director,
Altus Consulting

✉ chris.mccullam@altus.co.uk



Nicola Flannigan

Consultant,
Altus Consulting

✉ nicola.flannigan@altus.co.uk



Mike Barrett

Consultant,
Altus Consulting

✉ mike.barrett@altus.co.uk



Jack Berrisford

Consultant,
Altus Consulting

✉ jack.berrisford@altus.co.uk

FINSCAPE

We would like to thank Finscape for making aggregate data from their platform available for use within the paper.

Finscape is an end-to-end solution that helps investment providers streamline their market intelligence needs, save time and reduce costs.

Altus Consulting whitepapers

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

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.

AUTOMATING ADVICE



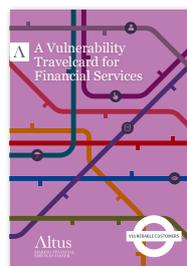
The Buy, Build or Integrate Debate
The second in our “Reimagining Financial Advice” Series – “The Buy Build or Integrate Debate” examines what the emergence of global best-of-breed CRM tools means for the UK advice tech landscape, how achievable the curation of an ecosystem comprised of specialist tools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

INVESTMENT PLATFORMS



Platforms: who's leading the charge?
‘Platforms: who's leading the charge?’ provides an in depth analysis of what is a massively complex and commercially active market and explains how existing and newly developed technologies can be harnessed to ensure the future viability of the brands we know and love.

VULNERABLE CUSTOMERS



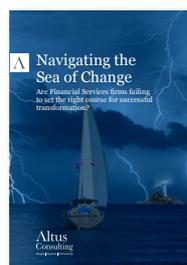
A Vulnerability Travelcard for Financial Services Industry
“A Vulnerability Travelcard for Financial Services” represents some of the most interesting facts and insights from industry experts discussed during our Vulnerable Customers Webinar Series, hosted in 2020.

RETIREMENT OUTCOMES



Shooting for the Moon
‘Shooting for the Moon’ provides an in-depth analysis into latest initiatives – the Consumer Duty, Pensions Dashboards and Value for Money (VfM) in DC pensions – in the Regulators’ attempt to deliver a truly mass market pensions system designed to deliver good outcomes for all.

CHANGE STRATEGY



Navigating the Sea of Change
Embarking on any change journey can be a daunting prospect. In this Whitepaper, we provide practical insights for organisations facing the mounting pressure of delivering ambitious and complex change programmes in today’s dynamic business environment.



Bath Quays South
1 Foundry Lane
Bath BA2 3GZ

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

Equisoft Limited trading as Altus Consulting.
Copyright Equisoft Limited 2023. All Rights reserved.

Altus
Consulting

People | Passion | Partnership