

Article placed in Money Marketing

The fine line between aspiration and reality

November 2010

A friend of mine deals with requests from his doctor as to the number of alcohol units he intakes by seeking to determine whether it is the real or aspirational figure they are after. It is an excellent example of how aspiration and reality can be confused.

It's worth keeping this in mind as interested parties look to digest and respond to CP10/29 "Platforms: Delivering the RDR and other issues for platforms and nominee-related services". There is good reason to be positive about the content of the latest consultation paper from the FSA but with a variety of competitive pressures and market forces you can be sure that aspiration and reality will play a part in the opinions shared over the coming weeks. The really interesting question is how the market will react. Exploring how the key stakeholders may be affected lets you consider some of the possible scenarios.

Advisers

The paper contained no real shocks for advisers with firms that embrace the RDR. These firms will remain well positioned.

Clients

Clients are arguably no worse off. They probably would have been had the unbundling proposals been forced through. It is likely that clients will not feel the tremors of the RDR in the way that the industry will.

Fund supermarkets/platforms

The more traditional platforms will be delighted that the bundled pricing model will survive post RDR. One slight sting in the tail surrounds the question of whether such platforms can be considered acceptable as a "single" platform for a whole of market adviser firm. That is, unless their investment range is extended beyond those assets that pay a rebate to the platform. This in itself may drive such firms to widen their investment range on the back of a hybrid bundled (for assets that pay a rebate) and unbundled (for those assets that don't) charging structure.

Some will see the changes as an opportunity to seek increased margin on existing bundled structures, whilst others will embrace the FSA's challenge of operating within a more transparent market with lower costs to clients.

Unbundled wrap/platforms

There will be a hint of disappointment that rebates have been allowed to continue. They should however rejoice in the fact that they are ideally placed to offer the functionality required by many advisers without costly system upgrades. The negative is that with the advent of far more sophisticated software coming onto the market for advisers to compare platforms, price may become an even bigger barrier for some. A view one could take from this FSA paper is that cheapest equals best, which we all know is not always the case.

Fund groups

Many of the fund groups are of the opinion that the rules surrounding adviser charging make it impractical for them to offer it. Faced with stripping out the adviser cost and the underlying rebates, they will be faced with introducing new (and possibly multiple) share classes of funds. With increasing availability of open architecture, some advisers may find it easier to look wide of traditional retail funds when putting together their investment portfolios. The traditional fund managers have long held a stranglehold in this market; this will come under increased pressure.

Discretionary fund managers

With the wider and hence more complex range of investments, some advisers may choose to step back from offering investment advice. This could provide opportunities for specialist discretionary fund managers, particularly for higher value portfolios.

Execution only (EO) platforms

An example best explains the possible impact here. The RDR should drive AMCs on the typical OEIC from say 150bps to 100 bps. A reasonable assumption would see the 100 bps being split 75bps for the fund manager and 25 bps for

the platform. EO platforms have been in a position where they could benefit from the platform rebate and the element of the fund charge that provided for adviser commission. Some of the EO providers offer a rebate back to the client. However, this can vary from product to product and fund to fund. If the FSA do truly believe in outcome led regulation, it is reasonable to question whether an advised client should pay the same as a non advised client. EO platforms will have a number of choices to ponder.

- Do they only sell retail funds at 150 bps AMC and keep the 75 bps, whilst risking the ire of their clients and the financial press who know that the same funds are available at better value elsewhere?
- Do they pass back more to the client as a rebate? Remember, in the absence of advice this is still allowable.
- Do they sell the new style funds at 100 bps and replace the lost 50bps with a platform fee (on top of the 25 bps rebate they are already receiving)?
- Do they encourage or stifle movement between the two types of funds for existing clients?

The main players will make their views known over the period to 17 February 2011. The content of the paper can only further encourage healthy competition and further innovation with transparency, price, service and functionality key battle grounds. Even my friend mentioned above would drink to that.

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Please note this document is intended for trade and national press individuals.

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