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### A new platform approach

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One of the downsides of travelling a lot is that you often miss your kids' sports days. My ten year old son informed me that this year's sports day was not one to be missed. Trusting his intuition I arranged my diary to make sure that I could attend. The background to his advice was that he was running in the school long distance race and, to quote him, "he fancied his chances". He was a good bit younger and smaller than most in the race so his confidence was admirable, what he lacked in age he made up for in being lean and hugely competitive. My decision to attend proved a good one as he stretched his legs in the run in to win by a comfortable margin. All of this made the more surprising because my school running exploits had more in common with a large hippo reversing into a water hole. What's this got to do with SIPPs and platforms? More later.

Over recent years there has been a flurry of activity in the SIPP market. Increased popularity amongst advisers and investors has led to challenges in the shape of new entrants and an increased regulatory focus.

This has been excellent news for SIPP adopters as it has driven continued evolution of the market with increased use of technology by some providers. This has led to very positive changes to charging structures and the range of permitted investments available.

Over the last few years online products have developed that are both low cost and offer the vast majority of the investment flexibility available to full SIPPs. These are adviser led products, where the majority of money typically ends up either in unit trusts/oeics via a platform or invested by a panel discretionary investment manager. However, the range of other investments available includes external cash deposit facilities, Gilts, corporate bonds, shares, ETFs, insurance company trustee bonds and commercial property. In essence you are getting an open architecture type range of investments at a competitive price. Importantly, the client only pays for increased flexibility that they use.

Our own Sippcentre proposition competes in this area. Research we carried out with advisers identified the features and benefits that drive their suitability decisions. The top four reasons identified, in order of preference, were low charges, service, online control/functionality and the range of investments.

In some ways the increase in SIPP popularity has mirrored the popularity and growth of platforms. Low cost, online solutions have allowed advisers to build bespoke investment solutions with costs that compete head on with the other pension solutions available in the mainstream market. It is probably not a coincidence that the FSA's CP10/29 made mention of other nominee services in the title "Platforms: Delivering the RDR and other issues for platforms and nominee related services".

Looking across the platform and wrap market the following areas are often used to differentiate the huge variety of propositions available:

- bundled or unbundled charges
- range of tax wrappers
- range of investments
- investment tools
- management information tools
- client valuation capability
- online functionality
- straight through new business processing
- reputation and financial standing

With all of this in mind it is understandable that our own platform developments seem to have raised a little interest from others in the platform world. We set a course over three years ago to deepen and broaden our service, without compromising our core proposition whereby we do not provide financial advice or manage money. This has manifested itself in us now having our own execution only in-house institutional and retail stockbroker, enabling us to offer dealing, settlement and custody services. This satisfied the deepening part of the strategy, whilst the broadening part has been

satisfied by the launch of an ISA and Dealing Account (or General Investment Account) to complement the SIPP on our Sippcentre platform.

We believe that, whilst many advisers will continue to value many of the areas listed above, the main differentiator will remain price. But with layered menu pricing unavoidable in the platform market, it is difficult to make simple comparisons. To achieve this I would suggest looking at the platform market in a rather overly simplistic way, which will no doubt leave myself open to challenge. This in itself is part of the fun.

Funds platforms have a simple bundled charging structure that is good value, but many advisers seem to be suggesting that their investment range needs widening, ironically to include those assets that do not work well in a more traditional platform model.

Wrap platforms, with their open architecture approach and transparent charging structure, would appear to be the ideal model, but for the acknowledgement that price pressure is possible.

We believe that there is a position in the market for something more akin to a hybrid platform. There is demand for a hybrid between a funds platform and a wrap platform, offering the pricing benefits of a funds platform where clients invest in retail funds and the investment functionality of a low-cost wrap platform where they invest wide of this. This gives the benefits of fund platform pricing to those clients whose investment strategy is satisfied by mainstream OEICs and unit trusts. For those clients who require a wider range of assets, a greater choice of investments is available.

Whether this approach gives the best of both worlds remains untested, only time will tell. Any platform that can combine low charges and an extensive range of investments with a strong service and value proposition should prove to be attractive to many in the adviser community.

When looking at how the competitive landscape will evolve for platforms it is impossible to forget to mention the RDR. We all await the results and outcome of CP10/29 "Platforms: Delivering the RDR and other issues for platforms and nominee-related services". As time marches on there are some issues that you might consider of interest but there are some that run the risk of becoming a touch controversial.

### **Funds 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, failing a massive u turn, rebates will be allowed to continue. They should however be ideally placed to offer the functionality required by many advisers without costly system upgrades. The negative is that with the advent of more sophisticated software coming onto the market for advisers to compare platforms, price may become a barrier for some.

### **Fund pricing**

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 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. However, we must remember that Execution Only (EO) platforms and at least one adviser based proposition 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. Any platform operating this type of business model will have a number of choices to ponder.

- Do they only sell retail funds at 150 bps AMC and keep up to 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?

## Cash rebates

It has been suggested that this is one of the thorny issues sitting behind the CP10/29 delays. The challenge in this area could be summarised with a simple question. Should you base your lobbying on the system functionality you already have in place i.e. the ability to make unit deductions or focus more on what investors are likely to need and want? I can't help but feel that this is one area where simple will be best and unit deductions and multiple share classes will be anything but simple. The simple solution, as suggested by many in the industry, is improved disclosure to ensure that the investor fully understands what is paid where and for what reason.

The platform market is busier than ever and the pressure to succeed will be greater than ever. As with all things in life there will be winners and losers. Who will win is likely to be the subject of much debate. For what it's worth I believe there is a strong case to be made for any firm that can prove that they are lean, can maintain their service proposition and operate profitably and competitively under continued margin pressure. After all you wouldn't want to be likened to a hippo reversing into a water hole!

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

## Notes for Editors

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