

Press Clipping

Client: Parmenion
Source: Investment Adviser
Date: 14 July 2008
Page: 28

PLATFORMS There are several questions investors should ask of platforms before making a decision on service and value

Searching for the right platform



Mind the gap: investors need to do their homework before choosing a platform that best suits their needs



RICHARD MEIN

There has been much written about the criteria for choosing a platform and many of the questions proposed are obvious: how many funds can I access, when is commission paid, what administration services are offered, does the platform offer me the capability to improve my business model, are there sufficient tax wrappers, what asset allocation tools are available and so on. In fact, the number of questions you could ask are limited only by your imagination.

Of course, the platform services must be valuable to your clients, and so some of the client-facing issues should be taken as read, that the enhancement to the services your firm offers or is seeking to offer justifies the costs of the platform, that compliance issues are addressed and that reporting and access are adequate.

So, partially as a sleight and partially to avoid repeating much that has been written before, this should be approached solely from a different angle. Is it possible to create an exclusion process with a few questions which absolutely, and without exception, must be answered positively? It is possible to try and pose one question, from each of five core business areas, regarding the services of a platform which can only be answered yes or no. A failure to respond positively to any question should exclude that platform from further consideration.

Implementation

One piece of research indicated the average adviser had funds under influence of £30m. If you and your colleagues are going to entrust a sum perhaps in excess of £100m to a platform, then it is entirely reasonable to ask what assistance they will offer. This is a mutually rewarding business partnership and both benefit from making it happen.

While some actions must be your responsibility – a platform cannot give advice on your behalf – others actions may reasonably be shared with the platform. But the process of defining an investment process, contacting clients, completing transfer instructions, re-registering or disposing of inappro-

propriate or legacy holdings are procedures with which a business partner may choose to assist.

The movement of client assets to a platform is a project that should be managed by all involved. It is entirely reasonable to ask: "Will you appoint a project manager to assist my firm through the implementation process?"

Cost transparency is a key client justification in the use of platforms and must be embraced as part of the move to the new business model. The concept of factory gate pricing, whereby the costs paid by the clients are directly attributable to the recipients of the services being supplied, is extremely powerful and probably inevitable. It is a huge advance from times when commission was concealed within the calculations of life company actuaries.

As an extension of this ethos, platforms must be fully open as to their sources of revenue. It is not acceptable for platforms to conceal their own charges by negotiating rebates with underlying fund managers. This can easily create the misleading impression of a "free" platform service whereas in reality it simply means the input and ongoing cost to a client is paid at fund level rather than explicitly charged by the platform.

A non-negotiable question for the platform: "Will you guarantee to disclose to me and my client the full extent of your remuneration and the impact that has on the total charges incurred by my clients?"

It is often forgotten that platforms are first and foremost custodians for client assets. Clients may choose to use and pay for such custodians for ease of execution, administration and reconciliation. Or they may choose not to. It is quite unacceptable for a platform to place cash-only restrictions, surrender penalties or other exit obstacles upon clients who wish to withdraw their assets.

From the client perspective, the primary justification is about building better portfolios, risk controlled, asset allocated and managed effectively across a range of portfolio types. Without this the whole consolidation process becomes questionable. Anyone recommending a platform to a client as a custodian of these investments must, at the very least, demand the right to move these assets as and when the adviser and client think necessary.

No rational investor would consider holding assets with a custodian who would restrict the right

of withdrawal. The practice of restricting withdrawals to cash only – of forcing the liquidation of assets in the event of a client deciding to move from one custodian to another – is completely unacceptable.

A firm question therefore for the platform is: "Will you irrevocably guarantee that my client's assets may be transferred either for no charge, or at cost, to another custodian should we so instruct?"

Bespoke arrangements

Some financial advisers do not sufficiently value the importance of branding. The consolidation of client assets provides an opportunity to reconsider.

The value of your business is inextricably linked to its brand image. It is the brand which enforces client and adviser loyalty and, in so doing, contributes towards the durability of recurrent revenue. Branding is a significant determinant in determining business value and should be a core part of your platform planning.

The business value of your funds under management should not be allowed to leak to your service suppliers; always take the white-label option.

Some platforms can also offer significantly greater levels of individual tailoring. While it may be appropriate to adjust your business model to the capabilities of the platform, you may wish to adjust the platform to meet your own demands. In addition to client-facing areas, reports, recommendations, risk profiling and investment models may require bespoke to your own requirements. A question for the platform then: "Can you supply me with a platform branded and bespoke to my firm's specific requirements?"

And here, at last, is the big question. How to meet the investment management demands of your firm

and clients is without doubt the biggest question a progressive firm has to face. Ultimately this decision will determine almost everything else – compliance risk, administration burden, staffing levels, recurrent revenue and business value.

Whether your chosen investment management process includes in-house investment management, partial outsourcing through, say, multi-manager funds, or fully outsourced, your investment process must be consistent, TCF compliant and scalable.

Scalability is a vital point and too often overlooked. Some early adopters of the platform business model are now hitting capacity constraints, mostly obviously with pre-defined or model portfolios. The ability to apply a model portfolio to a client categorised within a certain level of risk is one of the biggest advantages of using a platform.

Problems arise when client numbers increase. It is hard, if not impossible, to ensure that all clients receive a consistent portfolio and therefore achieve the same approximate returns for any given level of risk. This is because of two reasons, one that, bluntly, many advisers are not experienced with the disciplines of modelled investment management and recommendations change for new clients without the same trades being effected for old, and two, that with an advisory mandate client permission is required before executing a fund switch.

There is little point in moving to a new business process which fails the test of scalability, so here's a last question, not for the platform but for you: "Could this platform enable me to consistently apply my firm's investment process to large numbers of clients?"

Richard Mein is managing partner at Parmenion Capital Partners

main points

Choosing a platform is not always easy, with a variety of options, each with different pros and cons

An adviser should ask what assistance a platform is going to offer and what services it will provide and whether this will be scalable as the platform grows

With the average adviser having funds under influence of £30m, they should be confident in demanding answers before using a platform