

# Investment Platforms Market Study

## A summary of the FCA's Interim Report

In July 2018, the FCA issued an Interim Report looking into the investment platform market in the UK (MS17/1.2). This Market Study looks at how competition is developing in this growing sector and puts forward how the regulator would like the market to develop.

It includes a number of interim proposals to improve certain aspects of the market which, in their opinion, could work better. As such, the majority of the study focuses on these areas of potential improvement. FundsNetwork welcomes this report and it is encouraging to see that the regulator recognises that the platform market appears to be working well in many respects, with high customer satisfaction.

Below we briefly summarise the key points from the study, although we recommend firms read the [full text](#) to see how they may be affected by potential remedies which could be implemented at the conclusion of the process. MS17/1.2 contains an Executive Summary on page 3 and is seeking views on the areas highlighted on pages 95-107 of the report. Interested parties, including platforms and advisers who use their services, have until 21 September 2018 to comment on the FCA's interim findings and proposals.



## The FCA's key findings and proposed remedies:

### The market appears to be working well in many respects for both advised and non-advised consumers

- Platforms are popular with investors and customer satisfaction is currently high
- Users of direct-to-consumer (D2C) platforms care about price and other features such as the product range and ease of use. Non-advised consumers who pay more for their platform tend to get greater functionality on average
- Advised platforms compete by offering services to advisers but are paid for by consumers. Most of these services directly or indirectly benefit the consumer, although there are some exceptions
- The financial performance of platforms does not suggest widespread competition concerns in the market.

### Competition is not working well for five groups of consumers:

#### 1. Consumers who would benefit from switching platform can find it difficult to do so

- The switching process for investors is complex and time consuming. For non-advised consumers who have switched over the last three years, the majority found the process easy. However, 11% experienced some difficulty during the process. A further 7% of non-advised consumers who tried to switch failed to do so because of the time involved, the complexity of the process and exit fees. About a quarter of advisers surveyed felt it is difficult – or very difficult – to switch
- The time it takes to switch between platforms varies considerably. It is generally completed in a couple of weeks to a few months, but can take longer
- While advisers update their platform lists for new investments over time, not many switch existing investments as the process is complicated. This means that even if there are better options which advisers use for new clients, they rarely switch existing investments across platforms

- Almost 50% of advisers said they were likely to charge clients an extra fee for switching in addition to their ongoing fee. This can cancel out the potential benefits of lower platform fees and act as an additional barrier to switching
- Advisers who charge an additional fee for switching do so because they consider it a full advice event which requires a suitability report. While the FCA recognise that advisers should be fairly paid for their work, it is not clear to them why meeting suitability requirements to switch platform should outweigh the benefits of switching.

*Proposed remedies and views sought:*

- The FCA believe the current industry initiative which is seeking to improve the switching process and reduce transfer times should, at a minimum, result in the following:
  - o The introduction of a maximum timescale for each step in the re-registration/transfer process
  - o Clear communication to customers from the receiving provider at the start of the switch. This should detail the transfer process, timelines and a point of contact for questions and complaints
- They also think a further positive step would be for the industry to publish data on transfer times so that comparisons can be made. This will allow pressure to be put on platforms to make improvements
- The regulator is also considering banning exit fees and improving switching between share classes
- The FCA are seeking views on how they can reinforce the industry initiative, such as using minimum standards to assess whether firms are complying with the rule which requires re-registration requests to be made 'within a reasonable time and in an efficient manner'
- They are also considering issuing new guidance to clarify their expectations for advisers charging for switching platforms.

**2. Non-advised consumers who are price sensitive can find it hard to shop around**

- It is difficult for consumers to choose a D2C platform on the basis of price. Most platforms have a large number of fees, different pricing structures and ways of setting prices
- The most price-sensitive consumers do not appear to be choosing the cheapest platforms more often than other consumers
- MIFID II cost disclosure provisions should help consumers compare the total cost of investing but there is scope for further improvement.

*Proposed remedies and views sought:*

- The FCA are conducting a supervisory review to assess whether providers and distributors are providing the charges information required by MIFID II and PRIIPs
- They are not proposing any additional cost and charges disclosure rules at this stage but wish to see innovation from platforms in the way they present MIFID II and charges data
- Alternative options include requiring platforms to give intermediaries more data on platform charges and performance.

**3. Consumers (and their advisers) using ready-made/model portfolios may have the wrong idea about the risk-return levels they face**

- The information platforms provide about similarly-labelled ready-made/model portfolios makes comparison difficult. Similarly-labelled model portfolios also expose investors to very different underlying assets and volatility in returns
- The fees for model portfolios vary significantly.

*Proposed remedies and views sought:*

- The FCA recognise that the issues they have identified with in-house model portfolios might also apply to those provided by wealth and asset managers and more to particular types of platform. They are doing further work to assess the scope of these issues
- Depending on what they find from their research, the FCA could explore measures to help consumers make better choices between model portfolios. This could include, for example, firms to use standard terminology to describe their strategy and asset allocation, as well as introducing the same disclosure requirements for model portfolios that currently apply to funds.

**4. Non-advised consumers on D2C platforms may be missing out by holding too much cash**

- Consumers using D2C platforms hold large cash balances (8.8% of assets under management compared to 3.9% for adviser platforms in 2017)
- Even where consumers make a conscious choice to hold cash, they may not realise the cost of doing so because of platform fees, potential lost investment returns or foregone interest.

*Proposed remedies and views sought:*

- The FCA will assess if existing rules on disclosure go far enough and whether further rules or guidance is required to ensure consumers are making informed decisions.

## 5. 'Orphan clients' who are no longer receiving advice face higher charges and lower service

- Orphan clients often have limited ability to access and alter their investments on adviser platforms and so are paying for functionality they cannot use
- Some platforms charge orphan clients extra fees on top of their pre-existing platform charges.

### *Proposed remedies and views sought:*

- The FCA are considering the following measures:
  - Tackling price discrimination between orphan and existing clients
  - Requiring platforms to have a process in place to switch these customers to a more appropriate proposition
  - Requiring adviser platforms to check, if there is no activity after a year, that their customers are receiving an advice service and to inform the FCA of orphan clients who are still paying for advice they no longer receive.

## Certain commercial practices may dampen competition on fund discounts

- The FCA recognise that consumers benefit when platforms negotiate discounts on investment charges from fund managers. However, discounts are concentrated on the largest platforms and, as to be expected, this potentially makes it harder for smaller platforms to compete
- Some arrangements between platforms and asset managers can disincentivise the asset manager from offering lower fees on other platforms. These include explicit contractual clauses relating to charges, time-limited exclusive discounts in return for the marketing of new funds and schemes to offer benefits to fund managers in return for deals on pricing.

### *Proposed remedies and views sought:*

- The FCA is seeking views from stakeholders on the positive and negative impact of pricing arrangements between platforms and asset managers.

## Platforms could improve the presentation of fund charges to consumers and advisers, which would strengthen competition between asset managers

- Platforms generally do not show advisers the individual and weighted average fund charges their clients are paying when they view client accounts. This means platforms are not facilitating advisers' ongoing assessment of whether the client is receiving good value for money

- Adviser platforms could help advisers monitor whether clients are receiving good value for money from their portfolios by showing the fund charges their clients are paying when they view client accounts
- Platforms could make fund charges more salient, which will encourage competition between asset managers.

### *Proposed remedies and views sought:*

- The FCA have conducted research that suggests presenting charges in a clear, understandable and prominent way can increase the attention investors pay to charges. They would like platforms to consider this research when they decide how to present charging information to customers so that they can make informed choices between products
- The regulator will assess how the industry is innovating in this area before introducing further remedies to improve the salience and comparability of fund charges.

## Potential areas of non-compliance with existing rules

- Some advisers use services, such as education and training courses, white labelling, bulk rebalancing and model portfolio management tools, which the FCA suggests are likely to benefit them but not necessarily their clients. The FCA considers that some of these services are likely to be 'non-monetary benefits' and so are likely to be caught by the FCA's inducement rules
- Advisers need to demonstrate that these benefits are acceptable minor non-monetary benefits (because, for example, they enhance the quality of the service to the client) and will not impair the firm's duty to act in the client's best interests
- Most D2C platforms offering stockbroking services do not have robust 'best-execution' monitoring and many make it difficult for clients to know when their trade will be placed.

### *Proposed remedies and views sought:*

- Both platforms and advisers should consider whether any non-monetary benefits comply with the FCA's inducement rules
- D2C platforms offering stockbroking services can do more to consistently achieve and demonstrate best-execution results for their customers.

## The regulator also flagged within the study that:

- While platform fee discounts in exchange for volume of business from advisers benefit the end consumer, they may also deter advisers switching or considering alternative platforms which may be better for consumers
- Financial arrangements to attract or retain advisers appear to be limited, but any such monetary arrangements need to comply with the applicable rules in COBS
- Platform tools and services, such as charge collection services, reporting and management information and CGT calculators, have tangible benefits for advised clients. However, the FCA are unclear on what benefit clients receive from other services, such as CPD/training, model portfolio management, bulk rebalancing/switching and white labelling
- The provision of training is likely to be a non-monetary benefit to advisers. However, training on the benefits of specific financial instruments or investment services can be provided by a platform and received by an adviser in compliance with the FCA's rules
- The provision of a white labelling service can, in principle, constitute a non-monetary benefit. While each case is different, the FCA believe that white labelling is unlikely to improve the quality of service to the end client. It can also impact on a firm's choice of platform if they want to switch
- Model portfolio management and bulk rebalancing and switching capabilities make processes more efficient for advisers. However, this doesn't generally result in lower adviser charges. These services can also act as a barrier to switching platforms
- The FCA stated that it is clear advisers benefit from using platforms. However, without further investigation of the adviser market, they cannot conclude whether these efficiency benefits are being passed on to consumers.

## Responding to the Market Study

As we have already mentioned, FundsNetwork very much welcomes this report. With respect to the areas of concern and the proposed package of remedies that were identified, we are in the process of analysing the findings and will outline our initial position in due course. We look forward to working with the regulator over the coming months to identify and implement practices that move the industry forward and improve customer outcomes.

Advice firms using platforms should also consider responding to the report (the deadline is 21 September 2018). Details on how to do so are included within [MS17/1.2](#).

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