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FCA 'Investment Platforms Market Study' 2019

– What financial advisers need to know.

Objectives centred around consumers and charges:

- Can consumers make informed decisions about their choice of platform, the investments they choose on the platform and do firms compete to add value for consumers?
- Explore the impact that platforms have on the charges paid by investors to fund managers. Also any factors which may hinder platforms' incentives and ability to negotiate discounts on behalf of their consumers.
- To make it easier for consumers and financial advisers to shop around and more easily switch to firms that better meet their needs.

The difficulty of shopping around between platforms:

- **Charges** – complex fee structures and the language used to describe them mean consumers cannot easily take account of all charges, calculate the total cost of investing or easily compare different options.
- **Disclosure of fees** – there are some positive signs of this improving since the introduction of MiFID II. However, the UK Platform Group (UKPG) will be working to identify improvements to support consumer understanding and enable easier platform comparison.

Persistent obstacles when switching platforms:

- Concerns that consumers and advisers who want to switch platforms find it difficult to do so because of time, complexity and the cost of switching. Barriers to switching may result in consumers staying on platforms which no longer meet their needs or offer them poor value for money.
- **Making the switching process more efficient** – STAR, a not-for-profit joint venture, is in the process of implementing a frame work which sets expectations for end-to-end standards, customer communications, and provides oversight and transparency.
- **Exit fees** – these can act as a barrier to switching and add to the complexity consumers face when choosing between platforms. The FCA proposes to restrict exit fees on platforms and firms offering comparable services to remove barriers to switching and strengthen competition.
- **Unit class conversion** – switching can be particularly difficult for investors who are in 'superclean' unit classes which have been discounted and created specifically for a particular platform. Where a new platform does not host the same unit class, an investor may be forced to cash out of their holdings during the switching process despite wanting to stay invested in the same fund. The FCA proposes that the ceding platform must offer clients the option to convert the unit class to one which the receiving platform can accept and complete the switching process as an 'in-specie' transfer. Where a 'superclean' unit class is available on the receiving platform, the client should be given the option to re-register into the discounted unit class.

Challenges for adviser platforms:

- **Reviewing platform choices** – while advisers update the list of platforms they consider for new business over time, the level of switching for existing clients is low due to the length of time it takes to switch, complex processes and the lack of standardisation.
- **Non-monetary benefits** – platforms largely compete on the services they provide to advisers and most services offered, directly or indirectly, benefit consumers. However, the FCA also found that some platforms may still provide services to advisers which may inappropriately alter their incentives, and conflict with their duty to act in the best interest of their clients.
- **Orphan clients** – when a client is no longer advised, there is a risk that competition for these clients is weak. Where platforms charge their orphan clients additional annual fees they should be able to demonstrate that they are treating customers fairly. Platforms do not proactively identify orphan clients and the FCA are concerned that consumers can suffer harm if they are paying for an advice service they no longer need.

Helping consumers make informed investment choices:

- **Funds** – in 2017 two thirds of the total assets held on platforms were invested in funds. Well-functioning platforms should make it easier for consumers to make informed choices between funds. Where platforms manage and promote their own funds, consumers should be able to fairly assess the value of these funds compared to alternatives.
- **Model portfolios** – there has been steady growth in the use of model portfolios, with platforms increasingly offering their own in-house solutions. Consumers who use model portfolios tend to be less active platform users, younger and less affluent. The FCA found that similarly labelled model portfolios expose investors to different underlying assets and volatility of returns. These inconsistencies make it difficult for consumers to compare model portfolios offered by different platforms. During 2019 the FCA will be conducting a review into the outcomes of RDR and FAMR to look at whether consumers can make informed choices between model portfolios across the retail investment sector.
- **Investing in securities** – in 2017 two-fifths of AUA on D2C platforms was held in directly owned equities. The FCA found that some platforms can improve their order handling procedures and carry out more comprehensive best execution evaluations.
- **Cash** – there is over twice the amount of cash held on D2C platforms (8.8% AUA) than adviser platforms (3.9% AUA). The FCA is concerned that 43% of the cash held by consumers on platforms is in pension wrappers. To address the potential harm, they have proposed new rules so that drawdown consumers must make an active decision to invest wholly or predominantly in cash.

Entry, expansion and commercial relationships:

- Interim findings state that barriers to expansion – particularly customer acquisition – are more significant than barriers to entry into the platform market. The switching remedies proposed in this market study should help to reduce barriers to expansion by helping firms win customers from their rivals when their proposition better meets consumers' and advisers' needs.
- Platforms should be free to enter, expand and compete by negotiating with fund managers to secure discounts on fund charges. Larger platforms which have greater influence over investor choices tend to be more successful in negotiating discounts. Some platforms have commercial arrangements with fund managers which may affect how funds on other plat forms are priced.