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Rayner Spencer Mills
Research & Financial Consulting

Platform Due Diligence Guide

Contents

Financial Services Authority (FSA)

With effect from 1st April 2013 the FSA became two separate regulatory authorities – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

We have retained reference to the FSA in this Guide but for reference purposes the new website is now fca.org.uk

Introduction

There continues to be much discussion and press coverage on the benefits of the Advisory community adopting platforms and in some cases a platform is seen as the panacea to many of the issues that have beset our industry.

Of course a platform is not the sole answer; any more than moving adviser remuneration to fee charging only is the answer to stopping inappropriate advice being given to consumers. It can however play a part in helping firms to re-position their business model by improving their service proposition, streamlining the provision of data across a number of differing products and developing more efficient administrative processes.

Determining which is the right platform for an Advisory firm needs a plan and our **Guide to UK Adviser Platforms** and factsheets are intended to help with the decision making process, ensuring that a robust approach is taken at an early stage and that the process delivers the agreed business benefits whilst enhancing the client value proposition.

The FSA have indicated they will apply closer scrutiny of authorised firms that adopt a platform and they expect firms to complete a structured due diligence approach when making the decision on the right platform for their business.

Our Guide plus supporting platform factsheets are available to download from our website and we hope it provides you with a structured approach to your decision making process.

Background

Given the needs of an advice-led model particularly amongst wealth centric Advisory firms, a platform offers the means by which a firm can change its business model and transition to a recurring income model whilst also 'transforming' the back-office processes.

This recurring income creates the foundations to build value in the advisory firm, encourages the development of ongoing reviews and helps achieve longer-term financial sustainability all of which fit with the FSA's long term aims for the sector outlined in the RDR.

The RDR has brought significant change to the UK Advisory market as firms adopt new business models and acquire additional qualifications and these dynamics will continue to impact over the coming years.

So the outcomes from the RDR and the continued development of platforms appear to us to be inextricably linked and as the UK platform market continues to develop, more and more firms have made the decision that adopting such an approach fits their business needs and strategy and are looking to make the decision and move to implementation and maximise the benefits for the business and its clients.

FSA Statements on Platforms

If there is one clear message from the FSA amongst all the statements and papers on platforms, it is:

'There is widespread agreement that due diligence is necessary and important.'

Due Diligence

The FSA have highlighted issues around the complexity of the expanding number of platform propositions and the costs of transacting business specifically the transparency of those costs and charges.

The FSA emphasise the need for firms to complete due diligence and reiterate the importance of intermediary firms undertaking a formal approach to the selection of a platform for their business and to ensure a robust process is followed, including initial and continuing due diligence.

Suitability

We see the choice of platform as a business decision akin to the choice of the IT hardware and software on which to run traditional business applications or back-office systems.

In the early days it may have been logical for an advisory firm to use a number of platforms given that the functionality then offered was not as comprehensive as it is today. However, as the numerous propositions have evolved and new providers have entered the market competitive pressures have improved the level of functionality on offer, making the case for the use of one solution much more defensible and logical from a business perspective.

Naturally, at the next level down, we would expect that firms have a robust investment selection process to apply an agreed set of methodologies to the various product and fund areas in which it wishes to make recommendations. Adopting this approach will allow a firm to meet the TCF requirements which apply to suitability and appropriateness of the product wrapper and underlying fund choice.

Summary

Whilst obvious, these decisions and processes are central to principles-based regulation. The FSA have indicated they will apply closer scrutiny of authorised firms that adopt a platform and they expect firms to complete a structured due diligence approach when making such decisions.

It would be easy to conclude that a platform is the future for all distributors, and that all business should be transacted through a platform. This does not however take account of the stage of development of the UK platform market or more importantly the different business models used in the UK distributor sector.

So if you are about to embark on the process to adopt a platform for your business, following this simple yet thorough 5-step approach and addressing some key questions should see you meeting your Regulatory requirements, whilst building a stronger and more valuable business, together with an attractive and effective client service proposition.

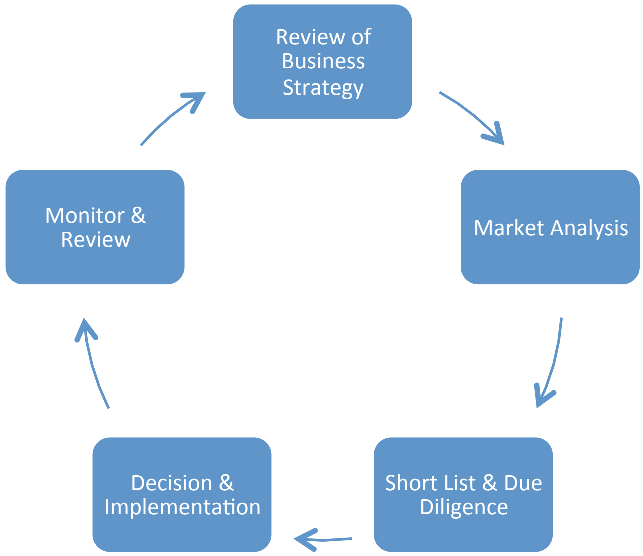
All documents are available as a free downloads from our website – www.rsmgroup.co.uk

The Path to Success in 5 Easy Steps

Our research suggests that many Advisory firms are looking for a logical process to follow which will allow them to decide on two important points; is a platform right for their business and if so, which is the right one!

The process starts with a review of business strategy and this step will help determine whether a platform solution is suitable to achieve the longer-term business objectives.

The following diagram illustrates the whole process following this initial strategic review:



Step 2 requires an analysis of the whole platform market to find out what platform options are available, what tools and support they offer and how the different propositions compare.

Once that analysis is completed, Step 3 allows for the creation of a short list, matching the functionality available with the needs of the business, now, and also for the medium and longer-term. Formal due diligence now needs to be completed on the short-listed providers and part of this process should involve a 'beauty parade' of the short listed firms so that detailed questions can be answered.

From there it is decision time! Documenting this process is essential and work can then begin on a detailed implementation plan.

Finally, an ongoing process of monitoring and reviewing the chosen platform should be put in place. This process should include a review of both the business strategy – to ensure that the business continues to move forward in line with the strategic objectives – and of the platform market – to ensure that the chosen platform continues to provide a competitive service, both at adviser and client level.

These 5 steps are now covered in more detail and in conjunction with the proforma in Appendix A should allow you to progress your plans.

Step 1 – Review of Business Strategy

The starting point for considering whether implementing a platform is right must be to review the current business strategy to determine how the use of a platform would fit in with and enhance the business and advice process.

A platform is an ideal solution for an Advisory business that is either using, or moving to, a model based less on initial commission and more on increasing the recurring revenue through the delivery of high-quality ongoing advice. To be effective, this model must involve segmentation of the client base and the agreeing and documenting of the service proposition.

Put simply, you must agree your business strategy and have a plan before you decide which platform to adopt – your strategy must drive this decision and not the other way round.

It is essential that processes and disciplines put in place to meet the FSA's Treating Customers Fairly (TCF) initiative are not diluted but enhanced by any decision to adopt a platform within the firm.

Consideration must also be made of the FSA's Principles for Business, particularly around due skill, care and diligence, management and control and treating customers fairly.

In addition, getting the financials right is fundamental to any business success. There are a number of key benefits to the IFA business in implementing a platform strategy.

These include:

- Reduced administration costs;
- The ability to change your business model so the firm can take a trail fee rather than upfront commission;
- Access to asset allocation and portfolio planning tools as part of the overall functionality of the system;
- Improved management information to aid and control business planning and monitor the firm's TCF measures.

All these can positively impact on the finances of the IFA firm and again relate to the FSA Principle of maintaining adequate financial resources.

Your client service proposition is at the centre of any decision and the type of client and the nature of their relationship with the firm will be a key determinant of whether or not a platform solution is appropriate.

If your clients are generally higher net worth, and form a longer term relationship with the firm then the service benefits offered will be seen, both by the firm in terms of providing an improved service in a cost effective way, and by the client in terms of the quality and speed of the information that the Adviser can now provide and this should form part of your review.

In summary, the key client benefits brought about through the use of a platform include:

- Improved service from the Adviser through enhanced professionalism and improved confidence;
- Access to a wide range of tax wrappers and investments;
- Single view of investments;
- Transparency of charges and access to low-cost switching of funds.

Step 2 - Market Analysis

Having made the decision that a platform is right for the business and its clients, the next step in the process is to analyse the market.

The starting point should be to have a broad overview of all the main players in the platform market, looking at what is offered from each and should include consideration of the following:

Product & Fund Range

It makes sense to only consider using those platforms that have the entire product and tax wrappers that are used on a regular basis. With regard to fund choice, whilst whole of market coverage would appear more attractive, in reality those with a more limited fund range may include all the funds that are generally needed.

A number of the platforms have the ability to include other assets such as existing funds or alternative investments such as property or other assets. Whilst the ability to include these assets in the clients overall wealth is useful, consideration should be given to how these assets are valued as most of the platforms that include this facility require the adviser to provide and maintain the information – either the valuation, or the number of units held etc.

If pre-set portfolios are used, then the availability of the portfolio funds should be considered together with the ability to set up and administer the portfolios on the platform.

Pre-Sale Tools

The value placed on the pre-sale tools will depend on which tools are relevant within the sales process. For example, if a factfind and risk rating process is already in place and working effectively, then it may be unnecessary for the platform to provide this. As well as considering the availability of pre-sale tools, how they actually work is also important, particularly in the area of tools to assist with fund selection as there is quite wide variance in how these operate and the information that can be used in selection.

Typically, the pre-sale tools available will include some or all of the following:

- Factfind;
- Risk profiling tool;
- Asset allocation tool;
- Fund selection tool;
- Pre-set model portfolios.

Online Functionality

The online functionality available differs quite substantially with the different platform operators. One of the key aspects to consider is whether funds can be bought, switched and sold online, and whether rebalancing is available, and perhaps more importantly how this works as automatic rebalancing may not always be appropriate.

Post Sale Reporting

One of the key benefits of a platform is the ability to provide consolidated client valuations and reports. Platforms generally provide these at any time and in a client friendly format, however some of the reports are rather lengthy and may not be suitable for all clients.

The availability of management information should also be considered, with the requirements of the business determining what is important in this area. MI reports currently available do vary quite widely and are evolving at great pace.

Ownership & White Labelling

You may also wish to consider whether the platform ownership is an important issue and whether you want the ability to ‘white label’ the service.

Use our guide & factsheets to help you with this part of your business planning review.

Step 3 - Shortlist & Due Diligence

From this market information a short list should be compiled. This should be based on matching the services offered by the platform operator with those required by the business and the client base.

Once the short list is in place, we would suggest that full due diligence is completed on each of the shortlisted operators. There are a number of key areas that should be looked at in the due diligence process, these include:

Financials

A number of the platform operators are yet to move into a profit making situation, so the financials need to be carefully considered to ensure that the proposition is sustainable and that the operator has the financial capital at its disposal to continue future developments.

The ownership of the platform should be looked at, and where it is owned by an insurance company, the stance taken by them should also be considered to determine whether they are totally committed to continue to back the proposition.

Also see the Platform Financial Strength Ratings from AKG which are included on our factsheets.

Service Support

The levels of service and support vary quite substantially between the different operators, and it is important to understand what support is available, particularly in the transition onto the platform, in order that this can be matched with what you require. Ongoing support should also be determined, whether this be face to face, or telephone based, to ensure that it will meet the needs of the business, together with exact support and training provided during the set-up and implementation process.

It is at this stage that Service Level Agreements (SLA's) should be discussed and agreed.

IT Support & Development

This is clearly a developing market, and IT is at the centre of it. It is therefore important for the selected provider to have sufficient IT support in place not just to deal with the day to day running of the platform, but also to continue developing it to keep pace with the market. It is also advisable in this area to understand what some of the medium and longer term developments are likely to be on the chosen platform.

Due Diligence Proforma

Use our proforma to help you with this part of your business planning review.

Appendix A to this report contains a series of questions which should be included as part of the due diligence process. This is available as a separate Word document so that you can 'cut & paste' into your own Due Diligence Report retaining this for audit purposes.

Step 4 - Decision & Implementation

Taking all this information together, you should now be in a position to make a decision as to which of the available platforms will be best suited to the needs of your business and your client base.

Once this decision has been taken, we then move into the implementation stage.

Implementing a platform can mean simply a straightforward change in the advice process, i.e. deciding the client circumstances in which a platform will be considered, or it can be a fundamental change to the business involving putting in place a new advice process. It is in this second scenario where, we feel, the benefits of a platform will most clearly be seen.

Assuming that the second option is chosen, and that the platform is to be at the core of the advice process, then there are certain steps that should be taken:

- Segmentation of clients (see separate guide to this);
- Agree and communicate service proposition for each client segment;
- Agree remuneration package for each client segment;
- Move existing clients onto chosen platform as appropriate.

We would expect the chosen platform operator to offer support during the implementation process and they should be challenged to provide evidence and testimonials of successful implementation with similar sized firms so that this can be verified.

Always seek testimonials and contact firms to seek comments on their experiences.

Step 5 - Review & Monitor

The final stage in the process is the review and monitor step. Clearly this part of the process is ongoing but it is often useful to set a specific time to review the progress of an initiative such as this.

The review should consider the business objectives and strategy which were considered in step one and any changes that have been made to them in the intervening period and should determine whether the chosen platform proposition continues to be the right approach to meet the objectives and to fit with the agreed business strategy.

The second stage of the review is to look again at the platform market, and at the developments that have taken place to ensure that the chosen platform operator remains competitively positioned in the market, and continues to develop the overall proposition in line with expectations.

Finally, the service experience should be reviewed. There are two aspects to this – firstly, and arguably most importantly, the service experience of the client. The review should consider whether the service improvements that have been made are well received by clients, and how successful any migration onto the platform has been. As part of your TCF strategy you will already be seeking feedback from clients and their experience since the adoption of your chosen platform should now form part of that feedback, with any issues in these areas being highlighted and resolved.

Secondly, review the service from the platform operator and if there are any issues here, then clearly they need to be taken up with the operator and an action plan put in place to resolve them.

As previously stated all these points will contribute to the firm's adherence to the FSA's Treating Customers Fairly initiative.

Need more help?

We hope our guide helps you progress your plans. Remember to document your reasons along the way and you will have a robust audit trail if your decision is challenged at any time.

When completing steps 2 & 3 you may wish to use our Adviser Guide and detailed factsheets. The Guide covers market and regulatory issues with tables and summaries to aid analysis. The detailed factsheets will also provide easy reference for comparison of areas such as functionality, IT support and charges.

All documents are available for FREE download from our website – www.rsmgroup.co.uk

Also, as your advice model evolves we can help you with Asset Allocation, Fund Selection and Bespoke Portfolios. Full details of our services are on our website.

Just contact us for a chat – we are here to support your business along the path to even greater success!

Appendix A – Platform Due Diligence Template

This template is intended to help you adopt a structured approach to selecting a platform by listing a number of questions that should be addressed at each stage of the process. You should also refer to the FSA website and their Factsheet on Platforms at www.fsa.gov.uk/smallfirms (a copy is also on our website to download).

Review of Business Strategy

This section should record the issues considered in reviewing the current business strategy, such as:

- Have your reviewed your strategy and is this documented?
- What is the current focus of the business?
- What is the current client profile?
- Do you have a client service proposition?
- What approach are you taking regarding your investment research analysis and fund selection?
- Do you have adequate and qualified resources or should you consider outsourcing?
- How the business is currently financed and what is the impact on your remuneration?
- How do you manage your adviser charging or fee structure?
- How would a platform help with this change?
- How will you manage the changes and associated risks in areas such as Operations & IT, Compliance, Training and Recruitment?

Market Analysis

Here you should document the review completed of all the propositions in the market. This should include consideration of the following:

- Product & fund range;
- Pre-sale tools;
- Online functionality;
- Post sale reporting;
- Service support & helplines;
- Charges;
- Ownership & white labelling;
- Potential conflicts of interest.

Use our Adviser Guide and factsheets to assist here.

Short listing & Due Diligence

A short list should be developed following the above market analysis and then more detailed discussions arranged with each of the short-listed platform operators.

The same approach should be adopted with each operator so that comparison and the final decision-making process is fair and robust. All this information should be documented to support the decisions made. Again use our factsheets to aid your discussions.

Areas to cover would be:

- **Financial Assessment** – this could be covered by an assessment of the financial rating of the company, e.g. from S&P or AKG, or you could request and study the latest Report & Accounts. The existence of any parent company should also be considered, together with any guarantees in place to back the subsidiary.
- **Organisation & Structure** – this section should determine that the overall management structure and resource is adequate to support the business. A copy of the current management structure should be obtained. You should also determine who has accountability for delivery of customer service and support.
- **Adviser Support** – you should ensure that an appropriate level of support is in place, both during the implementation phase and on an ongoing basis. Ask for references of local firms of a similar size so that you can speak to them to ensure they are delivering what they say they will!
- **IT/Operations & Customer Services** – here you need to ensure that the resource is in place to support and develop the system. Consider asking for an overview of the IT & Operational support area. Also find out whether the IT is outsourced or provided in-house and what back-up is in place / what is the business continuity plan? Are SLAs in place – what are they and what penalties are paid in the event they fail to be delivered?

Some of these details are included in our factsheets but there is no substitute to asking these questions face-to-face and watching the body language!

Decision

Once all the information has been compiled, and the discussions with the shortlisted operators have been completed, you should be in a position to make your decision. Here you should document the factors on which the decision was based, and of course the final decision.

Implementation

Here you should document the implementation process, and any steps that need to be taken to ensure a smooth transition. You should also assess the impact upon the administration team, staff recruitment and training plans for both existing and new staff.

You may also decide to communicate the decision to clients and promote your new service proposition perhaps including a formal review service. If so, ensure procedures are in place so that you carry out such reviews.

Any change in costs or charges to the client should also be communicated together with an explanation of the features and benefits, advantages and disadvantages of your new service.

Monitor & Review

Finally you should set a date for a formal review of the whole process. You should also agree and document the criteria by which you will measure the success of the platform and ensure this feeds into your TCF process covering:

- Financials & remuneration;
- Advice Process & recommendations made;
- Business Quality & Compliance;
- Customer Service;
- Staff Training;
- Recruitment;
- Complaints.

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