



Research on behalf of the
Financial Services Consumer Panel

Implications of RDR Platform Proposals on Consumer Outcomes

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1 Executive Summary

This report was commissioned by the Financial Services Consumer Panel (“the Panel”) in order to form a view on whether CP10/29 would deliver good consumer outcomes. In forming a view, the Panel sought to take market soundings on the response to the paper using Bluerock Consulting to conduct the research. In order to create a framework for the research, those good consumer outcomes were identified as:

- widely available access to platforms for consumers,
- charges paid by consumer are clear, understood and understandable,
- information provided to the consumer is useful, enabling informed decisions to be made,
- choices available to the consumer are appropriate with no hidden bias,
- accountability (or not) of each of the service providers is clear and unambiguous and
- requirement for platforms to have a “living will” so that consumers interests are protected in the event of a platform ceasing trading.

The research was a combination of one-to-one interviews with providers and market commentators combined with desk based research. The research was conducted over a limited time period, during November - December 2010 so does not purport to give a comprehensive or in depth treatment of the issues. The timescales meant that there was no direct consumer research.

AFTER years of mis-selling scandals, the reputation of financial services firms in the UK was at rock bottom and the consumer had little trust in the industry. The commission-based remuneration structure of the industry was strongly suspected of giving rise to all sorts of bias or conflicts of interest and because of the complexity of many products, the perception was that financial products were sold rather than bought, which allowed the asset managers, through the rebate system to control much of the market. In most other retail environments, the success of a product is largely a function of consumer “pull”, rather than manufacturer “push”, so that the environment is effectively self-regulating. This is very different to the highly regulated financial services market. Following the landmark speech by Callum McCarthy at Gleneagles in September 2006, the Retail Distribution Review (RDR) was officially launched in June 2007 with the aim of changing the industry and to build the trust needed for the consumer to feel willing and able to engage with financial services.

The latest consultation paper from the FSA, “Platforms: Delivering the RDR and other issues for platforms and nominee-related services” (CP10/29), considers how platforms will assist in the delivery of the RDR. Platforms are relative new comers to the financial landscape, having been created as a commercial solution to the inefficiencies of a cumbersome paper based system for buying and selling investments. After a slow start, platforms have grown enormously now holding over £110bn of assets. Whilst this is significant growth, assets on platforms are still a very small percentage of £2trn, the estimated size of UK’s liquid wealth and many platforms are still struggling to realise a profit.

The use of a platform in the investment process is still invisible to the majority of consumers, whose financial investments are overwhelmingly dealt with by intermediaries. It is anticipated that platforms will continue to grow so that they become the dominant means of investing and holding investments in the future. Whilst it is anticipated that there will be significant growth in the number of consumers wanting to deal directly with a platform, the majority are expected to still deal with advisors as their primary contact for the foreseeable future.

It is critical that CP10/29 sets a framework for platforms to evolve in a way that will deliver the vision set out in the Retail Distribution Review and will allow all the types of consumers, including those who wish to deal directly, with a level playing field where the quality, suitability and cost of the financial products determine their success, rather than the amount of commission or rebate that is paid or the size of the marketing budget.

At this early stage in their evolution, Platforms have the opportunity to develop in a way that does not simply replicate the current market but actively removes the undesirable traits that currently exist in financial services and that were articulated in the original RDR paper.

Today platforms are not simply administration hubs. They also provide a wide range of additional tools and business solutions that are used by advisers and distributors to create the client proposition offering with advisers and distributors benefitting from the efficiencies that platforms can deliver. In some cases, platforms create an entire business model for the advisers yet the adviser does not pay for these added value services

The key findings from the research were that a number of the negative traits of the current financial services market have been carried forward into the platform market; the most important of these being a remuneration structure that can lead to bias and lack of clarity as the payments between parties are not aligned to those that benefits. Consequently the choice of product or fund can be driven by the needs of the market participants rather than the consumer.

Remuneration: It is well proven that incentives influence behaviours. From the outset, one of the key aspects of the RDR was to build a market free from incentive driven bias in order that the consumer could trust the advice being given and, by extension, the integrity of the industry.

Therefore in order to eradicate bias and deliver the appropriate consumer outcomes as dictated by the needs of the consumer, CP10/29 should:

- ban the payment of rebates from providers to ALL platforms; a consequence of this action will be to increase the likelihood that low cost platforms, such as fund supermarkets, offer low cost solutions such as ETFs and passive funds, which otherwise may not be offered by fund supermarkets as these investment vehicles do not have the margin to pay rebates. These types of low cost investment vehicles may be an important component of many consumers' investment strategies so a good consumer outcome will be to increase access to them and
- establish an environment where the consumer, along with their advisers, are determining which funds are available on platforms on the basis of suitability, performance and cost and that those costs are heavily aligned to promised outcomes.

Many platforms have stated that they would struggle to make significant change to their infrastructure within the RDR timescale. This should not limit the ambition of the FSA in delivering the objectives of the RDR. Instead, the FSA should set out a timescale by when platforms will be required to operate under a remuneration structure that removes all rebates giving platforms the opportunity to build these changes into their on-going development.

The ambition to deliver a remuneration system that builds a market free from bias and conflicts of interest must remain. The FSA must set out a timescale when this can be delivered.

Transparency: There is a fine dividing line between commercialism and conflicts of interest that can lead to bias. Developing and policing a market that eliminates all conflicts and bias would be extremely difficult and potentially expensive. In addition, it could be argued that bias is not always detrimental, as long as it is understood and transparent.

CP10/29 should focus on:

- the disclosure of conflicts of interests or bias that may exist as a result of advisers' using platforms or platform tools and
- the limits to platform proposition that impact on the recommendation such as the platform not offering all funds and investment vehicles

The manner of disclosure is vitally important and that, rather than adding to the volume of information that is available but often never read, CP10/29 should look at building a disclosure regime of short sharp and visible messages. An example of where this has been effective in another industry is prescription drug labelling, where a full description of the drug and its effects is contained within the packet but the pharmacist's label highlights specific concerns i.e. "causes drowsiness, do not drive". The FSA should be considering a similar style of disclosure.

Choice: Consumer choice should not be restricted by logistics. Recognising that platform propositions differ considerably and decisions on preferred platforms are often led by the adviser or bundled as part of a specific advisor proposition, the consumer should still have the ability to move between platforms easily, quickly and cheaply, with no detriment to themselves. The FSA should review its proposals in CP10/29 as some of them may have the unintended consequence of reducing choice for the consumer, such as:

- requiring all providers to facilitate adviser charging may result in a market where it is difficult to place business directly with the asset managers and
- the continuation of fund manager rebates may result in fund supermarkets not offering passive funds and other investment vehicles that do not pay rebates.

The FSA is right to prioritise re-registration between platforms and should continue the drive for it to be easy, fast and cheap.

Due to the wider RDR proposals, there are likely to be fewer advisors offering whole of market services with a consequence that more consumers will have no other option apart from "self-serve" using information and tools available on the internet. The FSA should be providing more encouragement for platforms to use their online capabilities to play a part in widening access to advice and/or financial products through a combination of information, tools and execution facilitates that enables consumers to plan for their future in an efficient manner.

Platforms, like teenagers, are in that "in-between" stage; young enough to change but currently spending more than they earn and lacking the resilience of older, more established providers. The FSA has the challenge to give the platform "teenagers" the space and leeway to develop into "fully mature" providers but also to ensure that they behave responsibly and do not harm others in the process.

In order to deliver the aims of the RDR in the platform market, the FSA should focus on delivering the foundation of:

- a new remuneration structure that removes bias and enables the consumer to have a clear understanding of the total cost of investing,
- a market that clearly identifies and declares conflicts of interest and potential prejudice and
- a market place that gives the consumer more choice and access to advice and financial products on platforms either through an advisor or direct, plus the freedom to move between platforms and advisers.

CP10/29 does not do enough to improve the consumer outcomes delivered by the platform market. The FSA is right to prioritise re-registration between platforms but the FSA should reviews its proposals on the remuneration structure and disclosure. Platforms have the opportunity to develop in a way that does not simply replicate the current market but actively removes the undesirable traits that currently exist in financial services and that were articulated in the original RDR paper. This should be the ambition of FSA and it should set out its intent and timescales to deliver these good consumer outcomes in the platform market.