Factsheet No.012

For investment firms

Platforms: using fund supermarkets and wraps

This factsheet is for retail investment firms who already use platforms or are considering using platforms. We explain what we mean when we refer to platforms and what to consider when adopting and using platforms.

What are platforms?

Platforms are internet-based services used by intermediaries (and sometimes clients) to view and administer investments. They tend to offer a range of tools which allow advisers and clients to see and analyse portfolios. As well as arranging transactions, platforms arrange custody for clients' assets. There is a definition of a platform service in the Handbook Glossary.

Using platforms – points to consider

Using platforms could improve your administration and, thereby, the services you can offer your clients. But you need to make sure that this does not simply increase complexity and costs that are passed on to your clients, without giving them new services they value in return.

The key points to consider when adopting and using platforms are as follows:

Management and control

Changes to your business

You may need to make changes to your business operations to adopt and use platforms successfully. For example, you will need to identify the business areas affected, assess the potential impact upon them and manage the change. This can include:

- Segmenting clients: if the platforms you are considering are not appropriate for all your clients, you may need to divide them into separate groups that you monitor differently.
- Developing new service propositions: adopting a platform may mean providing a new type of service, such as regular investment reviews, which may need to be managed differently.
- Assessing and adopting new systems and processes: this will have implications for training and managing staff, both during the transition and afterwards.
- Managing changes of income and expenditure: this is particularly likely if you adopt a new structure of adviser charging and may mean you have to consider how to maintain your firm's financial position.

Find out about platforms and what to consider when using them

Questions to consider

1. **How will you manage the implementation of platforms within your business?**

2. **If you are using platforms, have you identified and managed the changes required to your business operations and management information?**

Risks in your firm

Adopting and using platforms may present different risks to your firm and clients to those you previously identified.

For example, your firm may be moving from offering one-off, transaction-based advice to providing an ongoing advice service, and so your current risk management procedures may no longer be appropriate.

Questions to consider

3. **Do you need to change your procedures for managing risk (e.g. your compliance, sales and training and competence procedures)?**

4. **What risks will the adoption and use of platforms pose to your firm and your clients? How will you manage those risks?**

Conflicts of interest

Be aware that platforms can create conflicts of interest – between the platform provider and your firm, your firm and your advisers, your advisers and their clients – which you need to manage appropriately. For example, a firm's desire to save on administrative costs should not lead to it recommending clients to use a platform when it is not in their interests.

Questions to consider

5. **What steps have you taken to identify and manage these potential conflicts of interest?**

Training and competence

Using platforms will have training and competence implications for your firm, advisers and other staff. In particular, you need to make sure that relevant staff understand:

- how to use the platform and associated tools
- your firm's new service proposition and what it involves for different staff
- any changes to firm procedures
- how to assess and explain the costs involved in using a platform
- when it is suitable to use – and not use – a platform

Questions to consider

6. **What training needs have you identified for staff using platforms?**

7. **How will you address the training needs?**

8. **How will you measure the success of the training provided?**

Asset allocation issues

Platforms (and associated tools) may make it easier for you to construct investment portfolios where your firm takes control of the asset allocation decisions. This is different to a managed fund or multi-manager fund where these asset allocation decisions are made by the product provider.

When considering your firm's approach to asset allocation you will need to take account of the resources required and the training needed to ensure all staff involved are competent in this area.

Some platforms offer the facility to identify all clients with a particular holding and subsequently, the ability to 'bulk switch' these clients from one holding to another.

These facilities may be of some use to firms who provide ongoing advice to clients on their portfolios but unless: you hold FCA permission for discretionary portfolio management and your staff are qualified in investment management and you must not switch clients from one holding to another without their express consent for each change.

Your approach to asset allocation may vary between clients. For example, if you are not providing an ongoing review service, you should consider if an investment solution that is self-rebalancing is more suitable for your client, or make sure they are aware of the implications of not re-balancing their portfolio regularly.

There are many tools available to help with the assessment of a client's attitude to investment risk, asset allocation and fund selection. Whichever tools you decide to use, your firm remains responsible for the advice provided.

Suitability

Suitability is not just something to consider regarding the particular investment you are looking at when advising your client. You must also consider the suitability of the platform service itself.

Choosing the right platform(s) for your business

We recognise that, to achieve administration efficiencies, firms may decide to only offer the services of only one, or a limited number of platforms. When researching which platform(s) to adopt, you might want to consider:

- your overall business model and the type of services you want to offer – which might differ depending on the type of client
- your typical target market and approach to client segmentation
- your remuneration model and
- your existing systems and procedures

About the platform(s):

- the platform provider (e.g. their reputation and financial standing)
- terms and conditions of using the platform
- charges – including actual cost, charging structure and transparency of charges
- range of funds, tax wrappers and other products available
- range of asset classes
- functionality (e.g. the ease of switching or re-registering off platform, or recording legacy assets)
- accessibility
- additional tools (e.g. risk profiling and asset allocation tools) and
- support services (e.g. help facilities and training

Developments in the market could mean that your chosen platform provider(s) may not remain the most appropriate option for your business or clients. You may need to carry out periodic reviews.

In addition, from April 2014 advisers need to take reasonable steps to ensure the platform they propose to use:

- only receives remuneration as permitted by the FCA rules (ie is paid for by clients rather than fund managers)
- presents its retail investment products without bias

Questions to consider

9. What procedures do you have in place for reviewing your choice of platform provider(s)?

10. If you decide to change platform provider(s), how will you deal with your existing platform-based clients to ensure they are treated fairly?

Which clients are platforms suitable for?

The suitability of any platform will depend upon the client's particular circumstances and requirements. Irrespective of your firm's strategic decision to use a platform, you must still consider whether a platform is suitable and meets each client's needs before recommending it. This includes recommending that existing clients move onto a platform.

Equally, you should be clear when using a platform is not suitable for clients, ensure all advisers and support staff are also clear, and that you monitor that the right advice is given to clients.

Questions to consider

11. Have you updated your monitoring procedures and standards to take account of the introduction of your platform(s)?

In the future, some products and wrappers may become more universally suitable (or "vanilla"), so that they can be recommended almost automatically. But at the moment products and wrappers such as life assurance bonds and self- invested personal pensions often vary greatly in terms of the assets they can hold (or give exposure to) and charging structures. Therefore, most advisers cannot rely solely on the product range available on one platform, if they want to give whole of market advice.

Ensuring you are giving whole of market advice might include one or more of the following:

- Considering products from outside the platform – if your platform only offers a limited choice of a particular type of product or tax wrapper, you are unlikely to be able to rely on it as a channel for purchasing that type of product. You may need to look at products off platform to be able to continue to provide a whole of market service.
- Using a platform with multiple tax wrappers and packaged products – some platforms support a range of tax wrappers and products such as life assurance bonds. Using these types of platforms may help you to meet the whole of market requirements, but you will still need to consider whether the products you have available are right for your clients.
- Using more than one platform – you could use more than one platform provider (for example, for different types of clients), although you may also need to consider the impact this will have on the efficiency of your support and administration services.

Questions to consider

12. If you are calling yourself "independent" and are using platforms, what steps have you taken to ensure you continue to meet our requirements?

Communications with clients

When using platform services you need to communicate information in a way which is clear, fair and not misleading. This applies to both verbal and written communications and includes:

- Explaining your service and how this involves the platform.
- Be clear with your clients as to what services are – or not – being provided. Whether verbally or in writing, if you commit to providing an ongoing review service, you should fulfil
- your obligations. You may need to revisit your monitoring procedures to ensure you check and carry out these reviews.
- Document why your recommendations involving platforms were suitable
- Communicate information about costs, including the cost of your services (initial and ongoing), any separate costs of the platform service itself and the cost of the underlying investments recommended. Your client should be in a position to clearly assess whether or not they are prepared to pay any additional amounts for the platform services provided.
- Explain the features, advantages and disadvantages of the platform service, including any restrictions or limitations of the service.

Questions to consider

13. Have you reviewed your client communications in light of the adoption and use of platforms within your firm?

14. How do you ensure your platform related communications meet the information needs of your clients and that they are clear, fair and not misleading?

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