A MARKETPLACE OF CONTENT

Where next for platforms in a post-RDR (and increasingly digital) world?

LONDON, JUNE 2013
“The television revolution that began half a century ago spawned a number of industries, including the manufacturing of TV sets, but the long-term winners were those who used the medium to deliver information and entertainment... Those who succeed will propel the Internet forward as a marketplace of ideas, experiences, and products - a marketplace of content.”

Bill Gates
Content Is King – 1/3/1996

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As investment platforms in all their guises continue their advance across the retail distribution theatre – what are the critical issues for those looking to shape the next generation propositions? This paper looks at the evolution of platforms in the UK and categorises the main types that have broken through.

Looking forward, what are the strategic challenges that need to be addressed and how will platforms reinvent themselves? What does success look like in a post-RDR world and to what extent will the convergence of regulatory change and the rise of ‘digital’ be joined in a battle for consumers’ attention through content whether that is the written word, video, tools, data or any of the other ways that we communicate with consumers.

Players in this market will need to commit to some fairly honest analysis about what the very role of a platform is and where they can really add value to clients and advisers alike.

The historical backdrop

Investment platforms have been used by UK IFAs since 2000 when Fidelity launched FundsNetwork, closely followed by Cofunds. The fund supermarkets were all about ease of access to multiple managers to manage a client’s ISA. At the same time, Transact, the young upstart with Aussie parents, was taking the wrap concept out to advisers wanting a more holistic service provider. The marketing message was given a boost by Abbey’s superior budgets when James Hay launched its wrap proposition in September 2003.

Over the last decade we have seen the platform market grow exponentially – across multiple delivery channels, or access points.

Recent history has seen an increased focus on margins and on core competencies of platforms. What are platforms for? What are they good at? And how can they differentiate from the competition? Most have identified that the front-end and service is where platforms should compete. This has presented an opportunity for efficient scale players to enter the market, outsourcing their core competencies to a group who needed them. Whilst the platform market is relatively new to financial services in the UK, the core competencies of trading and execution behind platforms are not.

The diagram overleaf illustrates some of the key players to enter the platform market over the last decade. It also highlights the relative explosion of propositions which have been launched over the last 2 years across multiple channels.
But it hasn't all been smooth sailing

For the last decade, the elephant in the room for many platform providers has been the operating costs. As AUA and revenues grew, with consultants’ charts showing lines obligingly heading to the top right-hand corner, costs have bitten hard as many processes have remained too manual and the Excel spreadsheet has played a greater role than it should.

Profitability has been an elusive goal for many and just as it appears on the horizon for a number of platforms, margins start to fall, we hear a revenue point of 25bps bandied about as the status quo and some platform bosses start to talk about suicidal pricing.

So what to do? Well, you don't need to be Einstein to figure out that you need to cut costs and preserve revenue as much as possible. What was once an entrepreneurial sector with a few large players and a smattering of independent niche businesses should now be focusing on “sticking with the knitting” and making sure that budgets are spent wisely.

Parallels can be drawn between the platform and the fund industry where large, scale players such as Citi, Bank of New York Mellon and IFDS have been running effective structures for some time.

“Fund accounting used to be done in-house by asset managers 10-15 years ago – now it tends to be done in a standardised way. The platform market requires the same level of efficiency (even if it means a loss of some variation at the back-end). Advisers often speak about their ‘relationships’ or ‘partnerships’ with platforms. This is where their strengths lie and technology and administration providers can prop up the less client-centric elements of the proposition.”

Nick Stebbing, Director, Head of Wealth Services EMEA, Citi Securities and Fund Services

Standard Life Investments (SLI) and Citi have been in partnership since 2003, with the latter providing fund administration, custody and other related services. We spoke to Mike Tumilty, Director of Investment Operations, SLI about how their decision to outsource has allowed the group to grow and develop; the decisions they made and the needs required of a third-party provider; how their experiences and learnings are applicable in the platform industry and what tips platforms who are considering outsourcing can learn from fund managers who have actively taken that path.

“Our decision to outsource came when we were looking internally at replacing some of our legacy systems including our fund accounting engine and installing a global trade order system. Replacing this tech ourselves was going to be expensive and take a lot of time.

Since 2003, we have been able to focus fully on our core strengths and services to facilitate growth in fund management and distribution on a global basis. One thing we’ve not had to spend time or money on is the non-client facing tools and materials – we leave this entirely up to Citi, but then enjoy the benefits of what they develop and the support you would expect from a global administration provider.
Figure 1. A timeline of the development some of the UK platforms
I don’t think platforms have anything to gain by competing on asset administration – there is no glory in that stuff. There are several groups out there who could do this more efficiently for them. Platforms can compete by offering an attractive client-facing proposition, supported by a solid foundation.”

Mike Tumilty, Director of Investment Operations, Standard Life Investments

So what advice would the fund management industry give to the platform industry as they start to consider outsourcing?

- “An industry standard”
  - Make sure everyone follows the same path
  - Be prepared to let go of some of the things you may have done yourself a certain way in the past in order to develop a more generic operating model.

- “Work hard with your service provider”
  - Be sure that any agreement you come to is articulated fully and documented accordingly in as much detail as possible
  - As well as being clear on what you want from your service provider, make sure you fully understand your obligations

- “Be demanding, but remember it is a partnership”
  - Maintain an on-going dialogue and revisit the agreement from time-to-time
  - Make sure any third-party can articulate their value to your business
  - In return, you should be willing to pay a fair price for a good service

As platforms juggle these issues around, we identify some fairly fundamental discussions out there about what exactly it is that a platform should do.

Just what is a platform in 2013?
What is a platform – and how many can the market support?

In attempting to answer this question we need to be clear about what we are talking about.

We identify five key types of platform in this discussion, namely:

1. IT and Admin suppliers e.g. Citi, FNZ, Bravura, GBST
2. Institutional platforms e.g. Cofunds Institutional, IFDL, SEI
3. Retail adviser platforms e.g. Aegon, Transact
4. Direct-to-consumer (D2C) platforms e.g. Hargreaves Lansdown, Sippdeal
5. Workplace savings platforms e.g. Standard Life, Zurich

At this point we refer back to our infamous Platforum Onion shown overleaf which illustrates the multiple layers of any platform proposition, from the core IT systems right up to the consumer-facing portal and the emerging ‘administration services’ layer.

A key change in behaviour we observe is that those customer facing platforms are increasingly forging alliances with outsourced IT and administration suppliers, or institutional platforms, as they try to focus on demonstrating value to the fee-paying customer.

“Surely we’ll see consolidation?” is the question we hear on daily basis. Well – we’re not so sure it’s a foregone conclusion over the medium-term. What we do think is inevitable is the consolidation of the “heavy lifting”. The brands at the epicentre of the Onion overleaf are unlikely to be the same brands in the Outer Layers come 2015 – with the exception of a very elite (read big) few.

It is true that other markets have consolidated around fewer platforms. There are 5 big players in the US. The Australian market has shrunk from 30 a decade ago to 10 today, with just 5 holding a 78% market share. Across Europe, the big 20 hold 82% of the platform market. But the UK is a highly retail market, with a pedigree of thousands on IFAs directing traffic. And that “I” stands for “individual”. The RDR, digital advancements, margin pressure – none of that changes a market overnight. These highly different, individual financial advisers, will require very different platforms for many years to come. Some will run discretionary asset management firms; others will join a restricted national; some will require ‘the plumbing’; others a full service, with technical stroking and SIPP excellence. It will be horses for courses. But absolutely none of this differentiation comes from the ‘back-end’.

We see no reason why there will not be hundreds of platforms in the market BUT these will likely be supported by just 5 or 6 core global IT and administration providers. These customer facing platforms of the future will also look different to today’s incumbent platforms which typically cost too much and do not deliver enough evident value to the end-customer.

“The time is right for a scale player to come into the platform market to take on some of the heavy lifting in terms of commoditised services in the back-end and to allow platforms to differentiate in the front end. Platforms need to focus on their core capabilities, especially, the customer experience and how to remain competitive and relevant, rather than on infrastructure and processing issues.”

Duncan Ross, Director, Head of Wrap Proposition EMEA, Citi Securities and Fund Services
Figure 1. The Platform Onion – the many layers of platform propositions
Time for some tough decisions

Having made the bold claim that the market could support hundreds of platforms, it is by no means an easy path and each platform has some key strategic challenges to address:

1. **The need for open architecture** – across Europe, the need for improved disclosures are in fact driving what some observe to be a return to closed architecture, as the dominant banks step back from open architecture and build proprietary funds-of-funds, allowing them to take a slice of the action. So being a gateway to thousands of funds isn’t really as exciting as everyone makes out.

   **Outcomes:** A reduction in advisers making investment decisions and an increase in the adoption of model portfolios and outsourcing to third-parties doesn’t bring an end to open-architecture in the UK, but it does mean a refocus for fund managers on where and how they apply their marketing efforts.

2. **What is my approach to technology?** – in the early days, the whole point of platforms was that they managed the transaction, custody and execution piece. The ‘grunt stuff’. At that time, outsourced options weren’t great. In 2003 most of the antipodean IT vendors didn’t even know what a SIPP was. These days the outsourced providers are better, bigger and smarter. M&G announced it will be working with CREST to make fund settlements as easy as listed security ones. The IT job of a platform is getting easier and commoditised. Skandia is the latest platform to announce it is in discussions about outsourcing its technology and administration.

   **Outcomes:** If platforms are increasingly looking to outsource administration and technology to a select number of groups, we could see a much more standardised process for running platforms’ back offices. The benefit to the adviser and the end investor here is that the platform can now focus its energy and resources on client-facing materials and services.

3. **The battle to be the adviser’s central relationship** – has been active for years, as platforms and adviser software have struggled for supremacy. Recently we see new emerging threats. The ever-popular Distribution Technology has partnered with platforms to date but where will its ambitions begin and end? Focus Solutions offer levels of aggregation. Will platforms need to become a hybrid of the old-style platform and customer-facing software?

   **Outcomes:** A little more unclear here. There will be some advisers who would be fully supportive of their adviser software portal adding transactional capabilities, removing a potential burden and of having to operate several administration systems. However, there are just as many advisers against the idea of adviser software providers playing in this space (typically they cite the lack of investment experience) and would be hesitant to put all their eggs in one basket.
4. **Nobody does it better… well, arguably they do.** When we look at the digital interface of platforms, the tools and the client communications, we see very little which will justify the on-going administration fee in a customer's head. This is less true in the direct platform market where we have seen greater innovation and customer appeal. Bestinvest ‘first’, which is shown below, is a free investment report that assesses your existing portfolio against a number of criteria including asset allocation and whether the constituent funds are highly rated. This customer guidance will be critical in winning certain types of customers who are confident and engaged.

Nutmeg was launched in 2012 and is an example of a digital discretionary fund manager. The screen grab below illustrates how the focus is on objectives. This is very different from the traditional interface between a customer and a DFM.

**Figure 4. Nutmeg portal**
Outcomes: Improvements to technology and the internet make accessing and obtaining information on financial services providers easier, quicker and often cheaper for the end investor. Investors have options today and a wealth of information at his or her fingertips. The interest a consumer has in their finances ranges from actively engaged and interested to not interested at all, with every shade of grey in between. The time investors have to spend on this usually ranges from ‘some’ to ‘none’ (very rarely ‘a lot’). Platforms, whether advised or direct, need to understand this in order to show value, and recognise that there are new players entering the market, who are targeting consumers by non-traditional means.

5. What is my core competency? – focusing on core strengths is going to be vital to remain successful in the platform space. Even after a long period of self-examination, any change applied to a business model can be a difficult step to take, but a worthwhile one if the potential for a long-term, positive outcome is there. Are 2013’s platforms about transactions or customer engagement? In a world of more transparent platform fees, we would argue that the focus needs to move to the latter.

Outcomes: Platform revenues are under increased pressure in the post-RDR environment. Margins are thin and profitability is difficult to maintain. If platforms don’t identify quickly where their core strengths lie and how they are valued by their advisers and advisers’ clients, ultimately we could see some casualties.

6. Economics – linked to all of the above. Margins in this market are thin. How can you build and package a solution at a cost the consumer will pay, for a service they actually want? With platform revenues stabilising at a ‘socially acceptable’ 25 bps over the next few years, few platforms have the budget to actually do anything about the above.

Re-invention

Clearly one of the major pebbles to be thrown in the platform pond has been the influence of the regulator. The RDR and platform paper PS 13/1 have completely turned this industry on its head by changing the revenue model at its heart.

Moving forward, platforms will be paid by the client, not by the fund manager. For some, this is less of a sea change than others but it does shine a greater spotlight on the value delivered to the end client than ever before.

This won’t work anymore and we hear some platforms starting to ring-fence IT budget for innovation and change. Over the course of 2011 and 2012, a common lament from any platform marketing manager was that they always sat second in the queue, behind regulation-mandated upgrades and change.

In the past, adviser platforms have played to the adviser gallery, the person who selected the platform but did not pay for it.

Reinvention is no small feat and not every group is capable of it. The platform market has seen its fair share of casualties over the years – Amex, UBS and most recently Macquarie – large groups who perhaps did not sufficiently reinvent themselves for a challenging and competitive market. The regulatory landscape in 2013 is tough. This isn’t a market where you can simply ‘muddle through’ and follow the herd. Over the past 13 years there have been over 30 platform launches looking to service the adviser market, and sustainable profitability is still elusive to many of these.
It's time to challenge some received wisdoms.

As we take our first steps into the post-RDR world, we think there is some significant soul searching going on about where platforms add value and what exactly they are?

As it stands, it is by no means certain that platforms have a guaranteed seat at tomorrow's financial table. The definition of a platform – what it does and who pays for it? - is under the spotlight.

#platformparadox1? Platforms evolved to support open architecture. In the UK we see a growing adoption of restricted advice models, of panels, of centralised investment propositions, multi-manager funds – in short lots of people are working from a core list of some 10 principal fund managers.

This is true at European level. In a recent survey conducted with The Fund Platform Group, we saw that more than 60% of flows are directed to just 10 fund managers

Could it be said that platforms evolved to support open architecture which no-one really ever wanted and no-one has ever really used? Although we can track global trends, there will always be different adviser models which require different levels of platform support.

Nucleus CEO David Ferguson makes the observation about the specific requirements that independent financial advisers have, which differ to the growing mass of those under a restricted mantle. “For example, 38 of our top 100 assets (by volume) are not available on [one of the UK’s leading platforms] who have obviously restricted choice to suit their own commercial agenda. It may be that we need open architecture and transparent agendas before the whole thing re-bundles around a more educated consumer but that is a different point (I think). A key reason the industry has such dismal connection with the public is that it has used its position to influence direction for its own interests rather than those of the customer. Which is not cool these days… and never should have been”.

The regulator also indicated an awareness of the trend back to vertical integration in PS13/1, suggesting they too felt it was ‘not cool’ for platforms to waive a fee for fund held in proprietary funds. So although we see concentration, the trend to full vertical integration has been stalled.

#platformparadox2? A decade ago, the principle job of a platform was to manage transaction, custody and execution. Today this role is increasingly being outsourced as platform shift their attentions further up the value chain.

Ascentric CEO Hugo Thorman draws the distinction between the more institutional platforms which provide back office support only, and the retail platforms which support both back and front office requirements. “There has been a debate about consolidation ever since 2003. There will be consolidation but it will be of back office custody, dealing and settlement not the provision of front office to adviser firms. Put simply the cost of maintaining a low cost robust custody system means that it is best shared among many platform providers.

“The point of differentiation for platforms in future will be front office experience and flexibility...this will continue to allow many participants”.
Platforms have been paid for by clients but designed for IFAs

Revised revenue models will raise the pressure on adviser platforms to deliver a good service for both the adviser and the end-customer.

In December 2012, AJ Bell bought publishing group MSM Media, accessing a firm with many years’ experience of producing investment content for end-consumers. Andy Bell, CEO of AJ Bell, believes that the pressure has always been there for platforms to deliver great content to advisers. He sees most change in the need to deliver content to non-advised customers.

“That any platform that develops its proposition to benefit the adviser at the exclusion of the underlying customer could be justifiably accused of being asleep at the wheel. But if the platform doesn’t work for the adviser then it doesn’t work and this logic will apply to most intermediated business models.

I don’t necessarily see the link between revised revenue models and pressure to deliver a good service. That pressure has existed as long as advisers have had a choice over which platform to use. We have surveyed advisers about what services they want for their customers and most take the view that the platform is a tool for them rather than the underlying customer. The view holds that a platform is a venue for transactions and generating reports - I have no doubt that a generation of being let down by big financial services providers seeking to cross sell to their customers fuels this understandably defensive position.

As for the content wars, I think that the main battlefield here is for the hearts and minds of non-advised customers. If a non-advised platform can create brand loyalty at content level, then it makes the transactional side of the relationship – when a content consumer is ready to invest almost a given. That does not mean that advisers should be ignored. Advisers need content, whether that is covering the platform market, tax wrappers, investment products, investment markets, tax, budget updates or planning ideas and the fewer places they can get this information in reliable form the better. Insurance companies have stopped providing this information over recent years and they have left a gap that needs filling”.

David Ferguson makes the final observation that content today should not be taken to simply represent what the providers feel like producing. He makes the important distinction between ‘pushed content’ and ‘user content’. “I agree that user experience is becoming more important than some of the back office stuff (and that this trend will continue). I’d suggest that user content will be more important than pushed-content (eg some direct platforms’ fund shortlists) as that just seems to be the way the world is turning - aside from seriously premium areas”.

There is a clear impetus for today’s "delivery mechanisms" to try and be more than just that, and the way we see this happening is through the delivery of content.
Delivering Content

John Blowers of FE, one of the key providers of data and content, contrasts *transaction capability* with *environment*:

“Transactions are vanilla - a hygiene factor - which bestows little value to the user experience. What investors crave is an investing environment, not a brand, that supports their needs and this environment is created from relevant design, personality, content and tools.”

He goes on to say that: “A great user interface and a credible ‘decision support’ environment will command a premium in tomorrow’s retail platforms. Nobody wants to invest in a vacuum.”

Innovation in the platform space has been stifled by regulatory reform. In 2012, we started to see some gradual innovations where new players focussed on digital innovation to deliver that “credible decision support environment” to clients.

The image below shows online pension guidance and investment strategy with Wake up your Wealth – the user builds their profile, with some guidance in validating choices across the categories, and builds an asset allocation pie chart and investment strategy ‘flight path’ to retirement. The investor is buying the guidance, the interface, the support. Of course the fine line between guidance and advice is one of the toughest paths to negotiate today.

**Figure 5. Wake up your Wealth pension wizard**
Conclusion

Any observer of the platform market will recall substantial amounts of navel gazing in the early 2000s as multiple PowerPoint presentations across the land pondered the difference between a fund supermarket and a wrap. Some 5 years after platforms emerged, a more comfortable acceptance of the definition emerged and the semantic debate calmed down.

As we head into 2013, we think this debate is opening up again. Just what exactly is a platform?

- Is it there to deliver open architecture? Well – we see a diminishing appetite for this at a pan-European level.
- Is it there as an IT solution? Would you buy any of today's platforms for their proprietary IT?
- What do platforms build internally, what do they outsource and what is their raison d'être?
- Is it a client-led information and reporting tool? At a push… possibly…
- What are they worth to the consumer? Not many people really know…

We see early signs that the growing expectations of this digital age are filtering through to customers.

A well-known and trustworthy company name is the critical consideration for investors but choice, tools and ‘guidance’ are increasingly important to the end-user.

Figure 6. Consumers’ considerations for investing online

*“How important are the following to you when choosing where to invest online?”*

As the non-advised channel both grows in importance and increasingly sits alongside adviser solutions, we see increased demand for guidance, for validation, for content. And some platforms are rising to the challenge. This is likely to be a major change in the direct market which to date has only really targeted the confident retired Range-Rover drivers from Surrey.

Over in the adviser space and the biggest complaint from financial advisers without exception has been the poor levels of integration with adviser software. Usability remains paramount for advisers (as seen in the chart below) and integration with back-office software is key for ensuring advisers run an efficient business supported by technology. Tiers are subjective and based on adviser feedback.

**Figure 7. Advisers’ fundamental ‘musts’ for a perfect platform**

Richard Allum from The Paraplanner agrees that usability remains key, but also highlights that it is not easy to achieve across the board. He also observes that advisers will want different levels of service from a platform. Whilst some want the very bare bones approach, there are others for whom content and service are key.

*“It’s fair to say that we would like to see more integration across all types of software advisers and paraplanners use. However, this is, in my opinion, going to be very difficult to achieve… There are so many integration points that to have all platforms connected to the majority of adviser software is going to be very difficult.”*
Not all of the content will be proprietary. Some will be user-driven, beyond the control of the platform. Some will be from third-parties, requiring an ever greater focus on integration. And premium content will require the resourcing of knowledge from experts on investments, tax, pensions and regulation.

“We see a new era of platforms emerging where the convergence of regulatory change and digital advances usher in a challenge to be relevant to the consumer. Those platforms that rise to this challenge will be those best positioned for future success. This requires some fairly honest analysis about what the very role of a platform is and where they can really add value to clients and advisers alike.”

Duncan Ross, Director, Head of Wrap Proposition EMEA, Citi Securities and Fund Services

Thinking back a decade, at the start of platform evolution in the UK, there was great debate about what a platform was. But this was semantics, and the focus was on the proposition. Was it a supermarket or a wrap? For the consumer, the one actually paying the fees, this argument was largely irrelevant and a case of financial services jargon and one-upmanship.

Today, with improved technology and greater clarity around fees, the consumer will be more aware of the platform than ever, and what value it actually delivers. With the provision of transaction, custody and execution being largely dismissed as ‘commodity’, we hear greater uncertainty behind closed platform CEO doors than ever, about what a platform actually is. Bells and whistles used to be aspirational. Now they are almost derided. Tools were the must-have, the tick-box on any RFP. Now many are not required. The game has moved on.


Platforms undoubtedly face significant challenges over the next few years and whilst content can certainly be used to capture and retain an audience, having a sustainable business model behind the scenes will ensure a sustainable model for the long-term.