

Financial Advisers



Platforms: using fund supermarkets and wraps

This factsheet is for personal investment firms who:

- Already use platforms; or
- Are considering using platforms.

It explains:

- What we mean when we refer to platforms; and
- What to consider when adopting and using platforms

In this factsheet:

Using Platforms 

Training and competence 

Suitability 

Independence 

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 to see and analyse a client's overall portfolio, and accordingly choose products for them. As well as arranging transactions, platforms generally arrange custody for clients' assets.

We use the term 'platform' throughout this factsheet to cover both wraps and fund supermarkets. Wraps and fund supermarkets are similar, but while fund supermarkets tend to offer wide ranges of unit trusts and OEICs, wraps often offer greater access to other products as well. Wraps also tend to support advisers that want to agree their own remuneration with their clients, instead of receiving commission.

[back](#) 

Using platforms – points to consider

Using platforms could improve your administration and, thereby, the services you can offer your clients. However, 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 customers:** if the platforms you are considering are not appropriate for all your customers, you may need to divide them into separate groups that you monitor differently;

Platforms:
using fund
supermarkets
and wraps

FSA factsheet for Financial Advisers

Continued: Using platforms – points to consider

- **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 to be relevant if you adopt a new form of adviser remuneration through a platform, and may mean you have to consider how to maintain the financial position of your firm.

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 customers to those you previously identified.

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

Questions to consider

1. Do you need to change your procedures for managing risk (e.g. your compliance, sales and training and competence procedures)?
2. 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 make an administrative cost saving should not lead to customers being recommended to use a platform when this is not in their interests.

Questions to consider

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

[back](#)

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;
- Particular types of investments - especially those which were not normally considered before adopting the platform;
- Asset allocation and portfolio construction;
- How to assess and explain the costs involved in using a platform.

Questions to consider

1. What training needs have you identified in relation to the use of platforms?
2. How will you address the training needs?
3. 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.

Platforms:
using fund
supermarkets
and wraps

FSA factsheet for Financial Advisers

Continued: Training and competence

These facilities may be of some use to firms who provide ongoing advice to clients on their portfolios, unless:

- You hold FSA permission for discretionary portfolio management;
- Your staff are qualified in investment management; and
- You have the client's authority

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 your client is 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:

About your business:

- 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 – e.g. fees, commission or a combination; and
- Your existing systems and procedures.

About the platform(s):

- The platform provider (for example, 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 (for example the ability to switch or re-register off platform or record legacy assets);
- Accessibility;
- Additional tools (for example, risk profiling and asset allocation tools); and
- Support services (for example, 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. Periodic reviews may be required.

Questions to consider

1. What procedures do you have in place for reviewing your choice of platform provider(s)?
2. 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 any strategic firm decisions 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.

Questions to consider

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

[back](#)

Platforms and independence

Being 'independent' means:

- You provide advice on packaged products from the whole market (or the whole of a named sector of the market); and
- You offer customers the opportunity of paying for advice through fees.

If you wish to call yourself 'independent', you must meet these requirements – whether or not you are using platforms.

**Platforms:
using fund
supermarkets
and wraps**

When considering whether to recommend a product through a platform, you may need to consider the advantages and disadvantages that may arise from using the platform, and the platform's terms and conditions, rather than considering the product in isolation. Overall though, you cannot assume that a particular product or tax wrapper (e.g. an ISA, life assurance bond or self-invested personal pension) available through a platform will be the best choice in all cases.

There is no limit on the amount of business you can place with one provider. You may find that the same packaged products are the most suitable choice for a number of your clients. However, you must make sure you rigorously assess which product is most suitable for each of your clients and record the reasons for your decisions.

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 customers.

- Using more than one platform – you could use more than one platform provider (for example, for different types of customers), although you may also need to consider the impact this will have on the efficiency of your support and administration services.

Questions to consider

1. 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

1. Have you reviewed your client communications in light of the adoption and use of platforms within your firm?
2. 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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[back](#) ◀