

‘Platforms and the Financial Planner’

A summary for IFP members by Melony Holman, Compliance and Training Ltd.

Following a review of client files across twelve firms, the FSA issued their findings alongside a discussion paper on how wrap platforms and fund supermarkets are used in March 2010 (DP 10/2 Platforms: delivering the RDR and other issues for discussion). Their findings showed that out of 147 client files looked at, 16% were considered to be unsuitable advice whilst 28% were considered to be unclear. The FSA stated that ‘In light of the risks to customers and unacceptable practices identified, platforms advice will form a supervisory priority in the future. And where we find unsuitable advice and weak systems and controls we will take tough regulatory action’.

Considering the amount of firms which use a fund supermarket and/or a wrap platform they cannot afford not to give consideration to the FSA’s findings and assess whether adjustments or improvements need to be made on how these facilities are used. As a starting point, it is recommended that firms look at the FSA’s ‘Investment advice and platforms: Good and poor practice report’.

When looking at suitability, the main concern is that the client is being placed into a contract which may be unnecessarily more expensive and sophisticated than it needs to be. Whilst it means that it is easier for the Financial Planner or adviser to manage the portfolio, is the client getting the most out of the platform or would they be better served being placed into a simple structure for a lower fee? This is the conflict which firms need to monitor and supervise, providing direction to the adviser as to when these types of facilities would be considered suitable for a client.

In terms of disclosure, until platform providers make their charges easier to understand by the client, it will fall on the Financial Planner to ensure that the client understands what they are paying and what they are getting for it. An example of clear disclosure would be confirmation as to how fees and charges will be paid when the cash account has been depleted. If units need to be cancelled from investments, which investment will be used first and from which fund? How will this be monitored in light of any potential CGT liability? This type of disclosure encourages firms to have a clear client proposition which outlines the services available to the client and at what cost.

Whilst the FSA is not requesting firms to conduct an internal review on how these facilities are used, the message is clear - firms should be comfortable that their planners and advisers are using platforms appropriately and when it is most suitable for the client.

A few quick wins to help demonstrate that your firm is taking into account the FSA’s guidance include:-

- Ensure that your planners and advisers understand the firm’s client proposition and when a platform is suitable to be used.
- Segment the firm’s customers into groups with similar needs and circumstances to help assess the suitability of the services offered by the platform operators.
- Once a platform(s) is chosen, ensure that a regular review of platform operators is conducted to ensure that this is the most suitable for the client’s circumstances. For example, does the platform being used have competitive charges against other providers?

Do they offer the functionality that your clients require? Are they sufficiently solvent? Do they have a programme for development in place?

- If only one platform is used and a very defined client proposition is offered then the firm must ensure that it can demonstrate that they will turn clients away if the platform and/or client proposition is not suitable for them.
- Ensure that 'know your client' data is adequately recorded whether the data is collated by a fact find or by way of planners' notes. This includes soft facts about the client and what is important to them in terms of their portfolio i.e. is keeping costs low a primary objective? Is tax efficiency a top priority? Is it important to the client to have access to online valuations?
- Ensure that the client's attitude to risk is properly ascertained. There are a number of tools to assist in establishing the client's risk tolerance but these are to be used as a starting point only. Consideration as to the client's time for investment must be given as well as assets that may not be placed onto the platform. Where there is a conflict in results between the risk profiler and what is eventually recommended this should be confirmed to the client in their suitability report.
- Ensure a full cost benefit analysis is conducted, using the planner fees to be charged before switching over funds onto a platform.
- Use the FSA's 'Suitability & Disclosure Assessment Template' as part of your firm's monitoring procedures.
- Provide Management Information on the use of the platform which is reviewed by your management team on a regular basis i.e. how many clients have been placed onto the wrap during the quarter? How many of these cases were reviewed using the FSA's assessment template? How many were considered to be unsuitable or unclear?
- Ensure that your support staff understands how to use the platform.
- Have adequate internal systems in place to ensure that any online fund switches and products conducted by the firm are bought correctly and in a timely manner.

By conducting an internal review in light of the points raised in the discussion paper and associated documents this will help to demonstrate that you are a forward thinking firm which is eager to improve, and not waiting for the issue to be forced upon you.