

BETTER BUSINESS TECHNOLOGY REVIEW



A true comparison

AT8's Mark Loosmore finds how Capita's Synaptic Comparator tool could become a reference point for advisers when comparing platforms

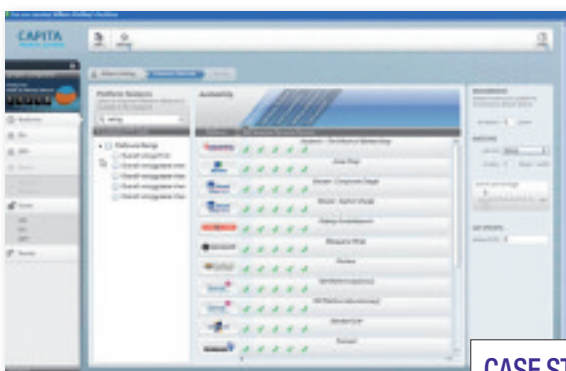
Over the past few years, platforms and fund supermarkets have become a key part of the infrastructure for many IFAs. However, as platforms have developed and their roles and influence widened, increasing concern has been raised about whether the use of platforms is as transparent as it should be, and whether it is right to adopt 'a one solution fits all' approach.

The FSA set out its thinking and 'direction of steer' for the use and regulation of platforms in *Discussion Paper 10/2*. Advisers who have chosen to use one or more platform may have to revisit whether or not their due diligence processes and conclusions were correctly and comprehensively carried out. Platforms offer many benefits to advisers and customers. But failing to manage their selection and ongoing use in respect of each customer could carry a ticking time bomb of potential claim, litigation and regulatory sanction. Conversely, if managed properly, platform use could be a major strategic asset to an adviser's business and improve customer outcomes.

Platforms stepped up

The number of platforms is still increasing, as is the functionality they offer (directly or through partnerships). However, four fund supermarkets – Cofunds, Fidelity FundsNetwork, Skandia and Hargreaves Lansdown – dominate the overall market with 85% of assets under management.

Unsurprisingly, not all plat-



forms are the same, and with the new entrants and evolving nature of existing solutions, it can be difficult for advisers to select which individual platform or number of platforms to use. There are a number of comparison tools available, but with the launch of Capita's Synaptic Comparator product there is now a tool that has the backing of the platforms themselves.

Unlike some of the other comparison initiatives, Comparator has obtained direct detailed data and actuarial validation from the platform operators. With the FSA focusing on platforms and the importance for customers of selecting the most appropriate investment, advisers should ensure their due diligence and analysis is robust and accurate. There is a risk that acting inadequately in haste could also breach or invalidate PI Policy conditions.

Will Watling, business development director at Capita Financial Software, gave us a demo of

the Synaptic Comparator solution. It has been designed in a way that will be standard to other products from Capita, such as Synaptic's product and fund comparison tool and its back-office solution CCD as they become replaced by a single integrated system. Users will be able to subscribe to one or more services and access them from the same system interface. Our normal bug-bears of poor navigation structures and lack of breadcrumb trail have been addressed. In short, it is a robust, usable system.

Comparator is a clean and simple system to use, capturing basic personal details and offering advisers a number of ways to initiate and manage comparisons for the client. As with Synaptic, advisers can start with fund comparisons and their selection, then move on to identify product and platform availability, or start at the products and move on to funds, or work through the process starting with platforms. The ease of doing so seemed straightforward. Watling said after the initial setup, it would be possible for advisers

to carry out the relevant analysis within about five minutes.

We believe the initial setup should allow a firm to reflect the criteria it wants to apply to its business and advisers, selecting and deselecting products, funds or platforms with a clearly recorded explanation of why they had done so for future audit. It can incorporate the Platform rating of service feedback from advisers. It also allows the firm to reflect

CASE STUDIES

CASE STUDY ONE:

A £10,000 ISA over five years with no switching and the same fund choice.

- Showed the RIY of the two top platforms was 1.23% and 1.26% respectively.
- The difference between the RIY of the best and worst platforms was 1.23% and 2.06% (a £500 difference for the client).

CASE STUDY TWO:

A £50,000 GIA, £10,000 ISA, £50,000 transfer and a £100,000 SIPP over 25 years with no switching and the same fund choice.

- Showed the RIY of the two top platforms was 1.19% and 1.31%, respectively (a difference of £22,000 for the client).
- The difference between the best and worst platforms was 1.19% and 2%, respectively (a difference of £143,000 for the client).

the different charging deals that it has managed to negotiate with different platform operators, and to include the range of volume related charging tiers.

The tool could be used not only on client-specific comparisons

but also for due diligence, and to reflect the conclusions a firm reaches. It would also allow for periodic reviews and amendments, as well as enable a client-by-client verification to be recorded.

Comparatively easy

What struck us when we looked at some examples of cases of client investment and charging choices being assessed in the system, was the potentially huge variations on reduction in yield (RIY) of the benefits for clients in choosing particular funds, products and management criteria along with charges. Until now, the ability to compare the variety of criteria across the funds, products and platforms was not readily available or easy.

Indeed, the FSA papers DP10/2

and Project Findings published in March this year raised serious concern about the failure to explain adequately the type and amount of costs. The FSA seems to favour the use of RIY or total expense ratios (TER) as a means of identifying the implications of costs on the investment recommendations so comparisons can be made and explained.

The ability to see and influence the results of rating criteria graphically and numerically in Comparator was impressive. Capita has done an exercise whereby it created a range of 100 scenarios to validate the accuracy of projections, then compared which platforms were best. Interestingly, the pictorial map of results, checked by the platform Operators, is inconclusive in showing a clear winner for all scenarios and market segments, a point that Watling believes reinforces the value of using Comparator.

We looked at a few example cases excluding advice charges (see box) to see how big a difference there was between the same scenarios on different platforms:

Such differences are material and, as such, are likely to influence advisers to check what is right for customers and will certainly be one of the checks the FSA audit team will carry out and judge accordingly, as we saw from the Thematic Review it carried out at the end of last year.

There is a range of graphical views and analysis tools, as well as fact sheets. Although an adviser may carry out the research work, we expect to see day-to-day use of the tool being used by those carrying out paraplanner roles, too.

The platform market has been criticised for its lack of transparency. There is no doubt that it is improving and we expect that to continue with or without regulatory pressure. Comparator is potentially a product of its time and could be a great help to advisers as they wrestle with the choices for themselves and their customers. It is especially relevant to those who choose to be 'independent' (whole of market).

However, it is also relevant to those who use the restricted advice route, as they will need to show they have carried out initial due diligence and should reassess their position on a regular basis, even if only to remain happy with their choice staying competitive.

KEY INSIGHTS

- Timing of launch is very relevant;
- Built on tried and tested research and comparison experience with Synaptic;
- Engaged with the platform operators directly;
- Uses detailed, directly obtained, charging calculations, rather than 'guesstimates';
- A tool that is relevant to a range of parties: advisers, platform operators and maybe the regulator;
- While some want to limit platform use to a single choice, the variety of choices and the difference in consumer returns from different scenarios mean Comparator may reduce the risk of mis-selling with the associated costs, disruption and the damage to reputation that follows.



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