

The evolution of platform research and due diligence

A quick refresh on the requirement for, and benefits of, due diligence

It is in the best interests of adviser businesses to carry out robust, repeatable and recordable research and due diligence exercises when selecting partners for their business, including platform operators.

These exercises should be done to facilitate best practice within the adviser business and, crucially, to support the delivery of good customer outcomes. Furthermore, the regulator remains keen to see evidence of deeper and more engaged due diligence being carried out by advisers.

In a market experiencing great change and challenge, due diligence will continue to increase in importance and is something which, in an ideal world, needs to be done when first identifying and selecting partners, and then revisited on a regular basis.

Platform fit – a balancing act

Most things in life are about striking the right balance, right? And at a high level, finding the right platform fit is also a balancing act, where the aim is to identify and corroborate the choice of platforms which can:

1. Support the delivery of your customer services proposition and optimise customer outcomes (across different customer segments/types where relevant).
2. Work in collaboration with your adviser business, its staff, technology, structure and processes.

Contextualise against evolving market

Adviser businesses should also seek to contextualise due diligence exercises, and key considerations for their customers and their business, against the backdrop of an uncertain economic, regulatory and political landscape, allied with an ever-changing financial services marketplace.

Here are some of the contextual items for consideration by adviser businesses at present:

- How has the platform responded to the pension freedoms changes and is it providing comprehensive drawdown capability and functionality?
- How has the platform prepared for and responded to the implementation of MiFID II (and is it gearing up for GDPR)?
- Has the platform been impacted, directly or indirectly, by corporate level M&A activity (and if so how is it responding)?
- How is the platform getting on with 'future proofing' its core technology and furthering its digital capability?

Platform agility

Because of the various challenges, platform operators need to illustrate agility in their business and in their proposition, including the technology/digital component. This isn't necessarily all about size and resource, although capital reserves and ongoing investment will inevitably be required, but displaying an ability to respond to key market changes and developments while keeping abreast of evolving adviser and customer requirements. Platform survival is a marathon, not a sprint, although with various obstacles to success in place perhaps steeplechase would be more appropriate!

Reason to review

It would be fair to say that there has been plenty of water under the proverbial bridge since adviser businesses started to utilise investment platforms in the UK. And hence in the real world (we mentioned the ideal one earlier), relationships with one, or several, platform operators are already likely to be in place.

But the requirement to carry out comprehensive research and due diligence exercises to support platform partner selection and/or retention remains. And hence there is likely to be an element of reflection when carrying out ongoing review work which accommodates the sentiment of the adviser business towards the proposition, service etc. being delivered by existing platform partners.

Similarly, some beliefs and approaches within the adviser business might have changed in this intervening period, for example the composition and delivery of investment proposition for customers. Ensuring the fit of existing and/or new platforms in terms of determining their ability to service this investment proposition may therefore be relevant.

Boiling it down to three key areas

Adviser businesses can, quite rightly, develop long lists of questions and considerations for research and due diligence exercises when assessing/re-assessing their platform options, but it often serves well to come up for air and look at things from an overarching perspective.

We've done this earlier in the feature by underlining the balancing act required when considering platform fit and compatibility, i.e. seeking to sensibly and practicably satisfy the needs of customers and of the adviser business.

Here we look at three core components, and present example items within each, which should represent key due diligence areas for consideration when selecting and re-appraising platform partners.

1. Proposition

- The right blend of products, tax wrappers and investment options to meet adviser business and customer segment requirements.
- A charging structure which can dovetail with the adviser business's customer charging framework.
- Tools and services which can support the delivery of advice and wealth management servicing.

2. Operational

- Strong risk and governance culture with associated structure and processes in place.
- Safe custody of customer assets and customer data security.
- Functional interaction with external third parties, including adviser back office systems, asset managers and DFMs.
- Reliable and timely delivery of helpful online and offline adviser/customer tools and services.

3. Strength and Sustainability

- Ability to invest in continued platform improvements, including infrastructure and technology.
- Strong and resilient key business performance indicators.
- Brand and distribution reach/traction.
- Clear business growth and development strategy in place, short and longer term.
- Well blended Senior Management Team with grasp of regulatory and legislative direction of travel.

On the front foot

By adopting robust due diligence processes, adviser businesses will put themselves on the front foot with regards to establishing and sustaining winning relationships with platform operators, delivering positive customer outcomes and being able to better respond to change and challenge.

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