Platforms They Are A-Changin…

I doubt Bob Dylan ever imagined that the lyrics of his 1964 classic would find their way into an article on investment platforms. I'm sure he'd be horrified but it is rather apt to describe what is going on in the platform sector.

Come gather 'round people

Wherever you roam

And admit that the waters

Around you have grown

And accept it that soon

You'll be drenched to the bone

If your time to you

Is worth savin'

Then you better start swimmin'

Or you'll sink like a stone

For the times they are a-changin'.

In the last year alone, we've seen the demise of three platforms. There are new owners in place at Cofunds, Elevate and Avalon.

The reality is that very few platforms make any money at all. Even fewer make money from providing platform services as opposed to say investment management.

My economics is a bit rusty but it's good enough for me to understand that if a business can't turn a profit doing what they do, it's living on borrowed time.

We've been banging on about this point for some time now in our annual advised platform profitability report. I'm afraid the picture isn't any less grim as our latest report casts doubt on the long-term viability of many platforms.

- Adviser platforms sank back into the red in the year-ending 2015, reporting a pre-tax loss of £19 million on a combined revenue of £1.07 billion. This represents a 371% decline when compared to its pre-tax profit of £7million in the year ending 2014. Having turned a profit for the first time in 2012, the platform industry seems to have taken one step forward and two backward.
- Of the 26 platforms covered in the report this year, only 15 of them reported any profits at all in their latest year end. And only 11 out of 26 platforms have positive cumulative retained earnings. Some 15 platforms are sitting on a combined cumulative loss of £735million in their P&L Account Reserve. This indicates that most platforms are yet to recoup their development costs since inception, let alone be in a position to pay dividends to their shareholders or contribute to their parents' bottom line.
- Add to this the impending cost of re-platforming which is likely to cost the platform sector nearly £1billion. The sector is in for a difficult time ahead and we expect more shareholders to cut their losses on unprofitable ventures.

But Mrs. Miggins doesn't care, right?

There are serious implications for clients as many are being passed from pillar to post as consolidations gather pace. While clients may not readily voice their concerns, increasing consolidation in the platform market brings back memories of Lifeco consolidation, and clients become a pawn in providers' games. Invariably, service standards drop and product terms change, often for the worse. Costs also go up, as we have seen in the case of Standard Life's acquisition of Elevate. These are the realities of consolidation. Anyone who contests these facts will only need to look at what's happening with closed books. Phoenix Life, anyone?

Over £200million of client assets are in transit as re-platforming gathers pace. Providers are missing deadlines for completion, which they set themselves in the first place - some of the projects have no end in sight. Old Mutual Wealth is decoupling from its parent company amidst a £450m re-platforming project that's expected to cost nearly three times the initial budget and take twice as long. ATS recently stopped accepting new business on its shiny new platform to allow the migration of assets across to the platform. Pray for light at the end of this very dark tunnel.

Repeat after me: profitability is good for the client!

Contrary to popular belief, there is no correlation between pricing and profitability of platforms. Platforms that are profitable are no more or less likely to have below average pricing than those who are loss-making.

The key driver of profitability is the ability of the platform to rein in their cost base. Accordingly, profitability isn't a dirty word. On the contrary, it's actually in the client's interest. Profitable platforms are far more likely to be sustainable and more likely to pass cost-savings to clients in the long run. We do want to see prices on platforms come down further – and indeed some of the more profitable platforms are amongst the most keenly priced. In the near future, we are less likely to see massive adjustments in price; any changes are likely to be driven by financial performance and sustainability, rather than grabbing asset and market share at all costs.

Some platforms are facing existential crisis, and adviser due-diligence has never been more important in choosing the right platform.

Abraham Okusanya, Founder, FinalytiQ

AJBIC/PTAC/20170131