Platforum's top 6 things to consider in platform due diligence

The regulator expects advisers to undertake serious due diligence processes but for many advisers, platform due diligence is a pain point. Platforum research suggests that 86% of advisers conduct platform due diligence at least once per year with most reviewing at least 6 platforms. Give yourselves a gold star – you clearly take this seriously.

Whilst some of you may sympathise with the adviser who told us last quarter that the reason he liked his primary platform was because it offered 'an excellent red,' platform due diligence should be a useful exercise. It helps you to reconsider the firms you are partnering with to help you grow your business. But what should you be asking to make this a useful process rather than a simple tick box exercise? The answer is of course – it depends!

Whether you dread due diligence or whether your inner platform geek glows with excitement at the prospect, rather than making it '10 things I hate about you', (cue groans) we've prepared this top 6 list to help get you started.

1. How good is the service?

Advisers tell us the most important reason to move assets away from a platform is service. Cost comes second. Tread carefully! TR16/1 Assessing suitability: research and due diligence of products and services published in February 2016, finds that advisers are prioritising their own needs ahead of their clients: *"in some cases, firms placed the level of service they received ahead of the level of service received by the client."*

Service can be an important factor in driving the overall efficiency of your business and your costs will in the end be passed to clients. We get this – but make sure you can justify any additional fees for the client's benefit, not yours.

Ask the platform for error rates, error resolution processes and tap into independent reviews of the service offered (such as Platforum's leaderboard).

2. How much will it cost your clients?

While poor service can lead advisers to take the difficult decision to transfer assets off a platform, low costs is the top factor driving advisers to choose a new platform.

But looking at which platform is the cheapest on average won't help. We recommend running a few scenarios to reflect your typical customers. The main variables to consider are size of portfolio, level of portfolio turnover as a result of buying and selling funds, types of tax wrappers used, and availability of special deals.

But don't consider cost in a vacuum. This should be considered with service. Low costs can come back to haunt you if corners are cut that lead to mistakes.

3. Financial sustainability

You should try to choose a platform that will survive for the foreseeable future. This may seem like platform due diligence 101 but it is harder to determine than it might seem at first glance. It is tempting to use profitability as a key criterion, but this is usually hard to pin down.

Some platforms have large, prosperous parents and this could provide you with a degree of comfort about their future. But as we have seen, while some large companies are prepared to sustain losses for several years whilst building a platform business, others lose patience. Commitment from the parent is often more important than profitability, and this level of commitment can change.

Rather than focusing on any single measure of profitability, we recommend focusing across several. These include:

- Size (of the platform or parent company)
- Market share
- Growth in AUA
- Profitability
- Continued investment (in technology or in an extensive salesforce)
- Gross and net sales (to assess flows in to the platform and also flows off the platform)

4. Does the platform support the investment proposition you provide

Most advisory firms now use model portfolios (in-house or from DFMs). If your firm is one of them, you ought to check that any platform you use is set up with models and can facilitate switching and rebalancing easily.

If you are using a DFM, make sure the manager is already on-board or can be on-boarded easily. On-boarding new DFMs can take time so best to check first. You might want to ask your DFM which platforms they prefer to work with.

5. Segment your client base before doing platform due diligence

It will help to select the platforms most suitable to your business once you have segmented your client bank. We estimate that 40% of advisers (mostly those with less than £100m AUA) don't formally segment their client bank. Segmenting helps to make platform selection much easier. Portfolio size is the most obvious segmentation and this can have a dramatic impact on the fees paid to different platforms.

6. Culture

Too often culture is ignored in business but it can have a critical impact on the long-term success of your relationship with the platform. And it's not just about your BDM support becoming your next BFF (to quote Paris Hilton). Make sure your interests are aligned and that you respect the people you will be working with. It's also worth remembering that the FCA is critical of advisers who place their own needs above the client. Is the culture going to help or hinder you meeting your clients' needs?

Platform due diligence can be a pain but by thinking first about your business needs and priorities, you can get further to forging a partnership that will last for years. In our book, that just about tops an 'excellent red.'

Heather Hopkins, Research Director, Platforum

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