

A low-angle, close-up shot of a person's legs from the knees down. They are wearing dark blue denim jeans and white high-top sneakers with white laces. The person is standing on a dark asphalt surface with a white painted line. The background is a blurred city street with buildings and trees, suggesting an urban environment. The overall color palette is cool, with a strong blue tint.

# THE POWER OF PLATFORMS










INN 8





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## SHOPPING FOR THE RIGHT PLATFORM

Have you ever been in a shopping mall when you're under pressure to buy someone important a last-minute gift? Sales signs and specials cover every possible window, manipulating the shopper's attention to discounted products lauded as "that thing that you simply cannot live without!".

Frantic shoppers scurry, trying to get the last item that they need before the doors close - often forgetting about the person the gift was intended for in the first place. In 2004 the term "Paradox of choice" was unpacked by American Psychologist Barry Schwartz, referencing the increased inability to make choices as soon as a consumer is faced with too many options.<sup>1</sup> "Overchoice", as a similar concept, was first used by Alvin Toffler in 1970.<sup>2</sup>

We would like to use this overchoice frenzy analogy for the way financial advisers often feel when faced with the task of deciding on a retail investment platform to service their clients' needs.



# YOUR PLATFORM SHOPPING TO-DO LIST



Close your eyes...

Picture the endless options a shopping mall offers.

Now swap out the gifts on the shelves for the myriad of investment platforms that are popping up in the financial advisory marketplace. **Where do you even start?**

At the beginning...

- 1 Focus on meeting your clients' unique needs and optimising the performance of their investments
- 2 Due diligence requirements should be considered
- 3 Clients want transparency and ease when they require information
- 4 Choosing a platform is a decision not to be taken lightly
- 5 You might need to adopt a different platform for each of your client segments
- 6 Look at different aspects of LISP propositions
- 7 Prepare to get under the hood of any platform



1

As a financial adviser your sole focus should be **meeting your clients' unique needs and optimising the performance** of their investments on their behalf. A Linked Investment Service Provider (LISP) should help you achieve that goal, not fill you (or your assistant) with dread and frustration.

2

Choosing the right platform is a critically important decision for your business, but as investment platforms continue to mature and evolve in South Africa, so do the **due diligence requirements** that should be considered when making that choice.

3

Clients want transparency and ease when they require information.

4

Of course, the idea of a one-stop-shop for all of the investments you manage has obvious appeal: one company to call, one set of passwords to remember, one statement showing the current position of all investments. But if you are entrusting large sums of money to one firm, **which one to go with is a decision not to be taken lightly** as you don't want to be revisiting this choice more than once every three years.

5

You might perhaps even need to **adopt a different platform for each of your client segments**, once you have interrogated and understood their needs.

6

To find the real reason why Linked Investment Service Provider (LISP) providers are either loved or loathed, you must **look at different aspects of their proposition**.

7

So, roll up your sleeves and let's **get prepared to get under the hood** of any potential platform.





## SOUTH AFRICA

South Africa's Financial Advisory and Intermediary Services Act (FAIS) Act<sup>3</sup> requires authorised financial service providers and their representatives, to act honestly and fairly, with due skill, care, and diligence, and in the interest of clients and the integrity of the financial services industry. It does not, however, stipulate anywhere that multiple LISP contracts must be employed in order to be seen to be delivering on this requirement.



## UK

The UK Financial Conduct Authority (FCA) is interested in the due diligence that advisers undertake when choosing a platform and expect that different platforms may be needed for different segments of an adviser's client book, with specific needs around high-net-worth clients and retirement planning products. The regulator even launched an investigation into investment platforms in 2017 and published its final report on the matter.<sup>4</sup>

Functioning in a principle-based regulatory environment, South African advisers will never explicitly and prescriptively be told what to do regarding LISP-choices, but in the end you are always expected to put the needs of the client [the end-customer] above your need for administrative ease.





## THE CHOSEN PLATFORM AND YOUR CLIENT VALUE PROPOSITION: A HAPPY MARRIAGE?

As an adviser, you need to understand what it is you and your advisory firm stand for, as well as the unique characteristics and needs of the clients who turn to you to manage their assets.

For example, if I am a high-net-worth client, the following might be important considerations when I seek out a preferred adviser:



### INDEPENDENCE:

My adviser and all the solutions provided are independent. I can clearly and transparently see this through multiple levels of reporting and communication. It is clear that no rebates are being accepted for the solutions I'm invested in. This transparency builds trust between me and my adviser



### ACCESS AND CHOICE:

My adviser has access to the whole market (funds and products, offshore and local) so that I know I am being offered the best solution



### RELATIONSHIPS:

My adviser has a great relationship with all product suppliers and service providers - I definitely do not want to feel like a number going through a system

If I'm a client who is new to investing or is just starting out in my career, I may have different wants and needs. I may, for example, **value a brand** over sophisticated tools, along with **functionality such as no minimum investments**.

Taking all these diverse needs and requirements into consideration, as an adviser, you then need to establish if the investment platform aligns with the client value proposition you wish to offer. If you ensure that the features you require are incorporated and adopted in the platform of choice, you will build trust between you and your clients and are in for a friction-free experience. One thing that all clients want, which is often overlooked, is a speedy disinvestment process. When they want cash, they want it fast. Having this option at the ready is paramount to keeping your clients happy.





## WHAT TO CONSIDER WHEN MAKING THE CHOICE

When choosing a platform, the main factors we tend to focus on are price, fund range, and service. There is no doubting that these are all important to both you and your clients, but there are some other factors worth considering, too.



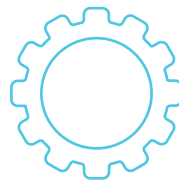
Value proposition and choice:



Ease of use / the technology and tools:



The people / service and support:



Safety and organisational resilience:



Business model-fit and regulatory compliance:





## Value proposition and choice:

Of course, you'd expect **fair and transparent pricing** along with a sliding-scale fee that reduces as a client and their family place more assets with the platform. But, as an independent adviser, you should also expect **flexibility and ample choice**.

There must be **no bias** or poorly hidden attempts at vertical integration. Also, when it comes to selecting funds from around the globe, clearly **independent research tools** and a **core range** selected by experts always make the job of finding the right fund for your client's portfolio a little easier.

In addition, if you use the services of a **discretionary investment manager (DFM)**, consider what the proposition is like for them and how easy is it for them to administer your clients' portfolios.



## Ease of use / the technology and tools:

There's nothing worse than tonnes of paperwork and having to fill in the same client information time and again. You will have your assistant tearing out their hair if the website they have to use to submit online applications is complicated and clunky.

It's important to ask yourself how your business processes will have to adapt to fit in with a way of working mandated by a platform or **is the platform flexible enough to work within your existing customer journeys**.

You will know you have chosen the right platform for your business; when you can feel the difference it makes to your [and your assistant's] day. When the chosen platform allows your assistant to be client-facing by freeing up admin time or when it allows you to **proactively work on your business** rather than in your business.

The best way to check out the ease of use is to try before you buy. There is a vast difference between the user experience you see in a demo given by a practised sales representative, which appears slick and easy, and what you will experience as a new user. A great platform will have a demo site that allows you to see – and feel – what it's like to create a new client quotation or submit an application.

Not only are you looking for a frictionless experience, but once you have bought into the platform, ask yourself how much time and effort the platform's team is willing to put in to help you and your team get up and running. Get written commitments on this front. All too often advisers and their assistants are paid sporadic visits from a sales rep and given login details, thereafter?





## The people / service and support:

As you would know better than anyone in the financial services value chain: **people do business with people**. Your clients choose you because they identify with what you stand for and because they feel listened to; at a basic level -they like your DNA. It's no different when choosing a platform. You have to **meet the people behind the sales people**, find out how they go about solving problems and how they think about innovation, and then ask yourself whether this aligns with how you think about things. This must be seen at all levels of the organisation -throughout the operational teams, the sales people, as well as the executive leaders of the business.



## Safety and organisational resilience:

Keeping your client's money safe comes down to various factors, such as IT security, the financial strength of the parent company, and regulatory compliance. By asking the right questions at the beginning of your engagement with a new platform provider, you can **find out how risk control is being embedded in the day-to-day operations**, how open you might be to a hacking attempt, and how good the platform's disaster recovery planning is.

If your business does not have a dedicated IT guru, you should enquire further about whether **emails are encrypted** to avoid hacking attempts and whether the platform sends out attachments or if **client data is held securely** in an online portal.

As your clients' investments are [hopefully] long-term decisions, having the confidence that your chosen platform will be **financially secure** with a **trusted provider** who has the financial strength to not only run a **sustainable business**, but to also afford to **re-invest in the platform technology** to continue to offer new features and products as the market evolves over time, is imperative to establishing a trust relationship. Ask your platform what percentage of their operational budget is ring-fenced for research and development (R&D) and developing IT improvements. This will give you a quick view of how innovative their strategy is and how sustainable it will be in the longer term. Or do you get a sense that every innovation is supported by another army of operational people holding aging technology together?





## Business model-fit and regulatory compliance:

There are plenty of LISPs and platforms you could choose from, and on paper they all roughly do the same job. What is, however, becoming increasingly vital recently is whether the **culture and vision** of the company fits with your own. Whether you are looking to grow your business by attracting new clients or want to embed sustainable value with a view to selling when you retire, your platform of choice should be able to be **tailored to your advisers and their strategic business needs**.

If the platform has not been purpose-built, meaning it was born out of an existing life insurance company or MANCO system, then it probably has **old technology which will constrain your advisory proposition**. If you can't trust that the platform's team is always aiming to find a win-win situation or you fear that they might be putting their business processes ahead of your clients' needs, then it cannot truly be aligned with your business model.

Whether your business is big or small, following **a documented due diligence process** when selecting an investment platform and reviewing your choice on a fairly regular basis is **good business practice**. Being able to justify your choice (with evidence) will become increasingly important to the regulator, as will the ability to prove you have acted in the best interest of your clients.







## TAKE A STEP BACK: FOCUS ON THE END-CLIENT

Before embarking on a due diligence exercise, you must have a clear understanding of the needs and requirements of your client segments in order to find the appropriate solution for each. Taking the time to understand and describe your typical client(s) is the starting point of any due diligence exercise.

Questions that can be employed when doing this include covering the basics, (such as age, gender and financial characteristics) to describing their employment status, retirement plan and investment goals. During this exercise you have to interrogate what type of investment products they will most likely be looking at.

The next set of questions should relate more to how you advise your clients on the management of their money and what habits and values you instil in your business. A thorough client segmentation may make it clear that you need more than one platform solution. It could very much be that one platform won't be able to cater for young, mass-affluent clients as well as for wealthy clients, with retirement in their immediate future.

The goals and concerns of these two groups are divergent. It might be difficult to find a platform that offers, for example, a light touch and low-cost service proposition for group 1 as well as a bespoke investment offering with a premium, high-touch service feel about it for group 2.

Whatever your final decision may be, starting with the end-customer in mind and then visiting each of the due diligence considerations set out in the previous section should help you make a more informed decision.

In the next section we offer a list of sample questions for each due diligence consideration that could be helpful to guide you through the process.



## CONCLUSION

The sample questions provided in this document and the due-diligence outline reflect the current platform landscape, but as it is ever-changing this is not meant to be a definitive list. It is one that at least assists you in making a more informed and rounded decision next time your platform choice comes up for review.

There is no specified timeframe for reviewing your platform choice, however if your business has grown significantly since you made your original choice or your business is planning for a significant transition or change then now might just be the right time!

With the outline and sample questions provided here we hope that you now have a roadmap that can assist with the overchoice-dilemma. Happy shopping!





## REFERENCES

1. Barry Schwartz (born August 15, 1946) is an American psychologist. Schwartz is the Dorwin Cartwright Professor of Social Theory and Social Action at Swarthmore College. In 2004 he wrote *Less is More*, in which the concept of a paradox of choice was dissected.
2. Alvin Toffler was (October 4, 1928 – June 27, 2016) was an American writer, futurist, and businessman known for his works discussing modern technologies, including the digital revolution and the communication revolution, with emphasis on their effects on cultures worldwide. He used the term “overchoice” in his book, *Future Shock*, published in 1970.
3. Act 37 of 2002, 16(1) In the final FCA Investment Platforms Study (March 2019) it was established that adviser platforms collectively administered
4. £311bn as measured in 2017 in the UK. <https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf>
5. The final FCA report references the risk of vertical integration in any investment platform - both to the client (often integrated 5 investment platforms push their own products) and as a barrier to entry for other market competitors.



## The end-client (defining your client segments)

- ☐ What are their personal and financial characteristics?
- ☐ Are they younger or older?
- ☐ Pre-retirement or at retirement?
- ☐ Are they male or female, married or single, with children?
- ☐ Are they working or not working?
- ☐ Employed or self-employed?
- ☐ Do they tend to have a significant number of legacy products and funds?
- ☐ What sort of products are they likely to need, now or in the future?
- ☐ How much money do they currently have? How much are they likely to be investing?

## Your client value proposition

- ☐ What do you stand for?
- ☐ Why do clients come to you?
- ☐ What is the typical persona of your clients?
- ☐ How are you advising clients to manage their money? Will the platform support this strategy?
- ☐ What sort of holdings do you tend to make use of?
- ☐ How often do you re-balance?
- ☐ How important is technology, service standards and error management?
- ☐ What is the role of cash management in your financial plan for your clients?
- ☐ Will you use model portfolio services or discretionary investment managers (DFMs)?
- ☐ How will you use the platform technology and functionality to deliver your client outcomes?

## Platform value proposition and choice

- ☐ Does the platform align with my client value proposition?
- ☐ Do you spot any signs of bias or poorly hidden attempts at vertical integration?
- ☐ Does the platform offer independent research tools to help you select funds?
- ☐ How will your business processes will have to adapt to fit in with a way of working mandated by a platform?
- ☐ Is the platform flexible enough to work within your existing customer journeys?
- ☐ How easy is it for DFMs to administer your clients' portfolios?



# QUESTIONS TO GUIDE YOU THROUGH PLATFORM DUE DILIGENCE



- ☐ Can DFM administration of portfolios be carried out online with same-day trading or are they hamstrung waiting for cumbersome manual operational processes to be complete?
- ☐ How long might your clients be locked out of the market or restricted from doing what they want to do because rebalancing is manual?
- ☐ Are you advising clients to hold onto existing investments and transition when the time is right? Or are you advising clients to change their investment strategies from mainly active to passive, or make use of in-house or out-sourced centralised propositions?
- ☐ Does the platform have a sliding-scale fee structure?

## Ease of use / technology and tools

- ☐ Can I apply online?
- ☐ Can I buy, switch, and sell online?
- ☐ What tools can I use in my advice process?
- ☐ Which wrappers, fee structures and asset classes are available?
- ☐ Where can I see the documents sent to my clients?
- ☐ Are reports in English and easily understandable?
- ☐ Does its quote and illustration tools fit from a flow perspective with how you run your own client meetings?
- ☐ Are you able to co-brand reports and correspondence?
- ☐ Does it have a speedy disinvestment process?
- ☐ Who is the supplier of the tech?
- ☐ What do you need to be compatible?
- ☐ Can it integrate with my client database or advice tools, and will it send a data feed to my existing systems?
- ☐ Does it work on different devices; laptop, tablet and smartphone?
- ☐ How can I track progress of my applications?
- ☐ Can I create a white labelled experience with my firm's branding?
- ☐ How will your business processes have to adapt to fit in with a way of working mandated by a platform?
- ☐ Is the platform flexible enough to work within your existing customer journeys?
- ☐ Does the platform have a demo site you can play with?

## The people / service and support

- ☐ Does the platform's team really listen to you and consider your opinions and suggestions for improvement?
- ☐ Does the platform's team set out to help solve your problems?
- ☐ How much time and effort the platform's team is willing to put in to help you and your team get up and running?

# QUESTIONS TO GUIDE YOU THROUGH PLATFORM DUE DILIGENCE



- ☐ Is the platforms' team as knowledgeable as you are about investments?
- ☐ Does the platform's team offer any added value to your business practice?
- ☐ Does the platform's team want to partner with you for mutual business and client benefit?
- ☐ Does how the platform's team goes about solving problems and thinking about innovation aligns to how you think about things?
- ☐ What training and support is offered and how?
- ☐ How do they keep me in the loop?
- ☐ Do they have a support service for book migrations of existing investments on other platforms, do they outsource the administration to others?
- ☐ What practice management services do they also offer?

## Safety and organisational resilience

- ☐ What percentage of the platform's operational budget is ring fenced for R&D and developing IT improvements?
- ☐ Are the emails they send encrypted to avoid hacking attempts?
- ☐ Do they send out attachments or is client data held securely in an online portal?
- ☐ How often are their systems updated with security patches from the main software vendors?
- ☐ Are they looking at upgrading their administration systems or website and how much disruption could this migration cause to you and your clients?

## Business model fit and regulatory compliance

- ☐ Is there an audit trail of all the transactions I have done?
- ☐ Can the platform be tailored to you and your strategic business needs?
- ☐ Can you trust that the platform operation is aiming to always find a win/win situation by putting their business processes ahead of your client's needs?
- ☐ Is the platform purpose-built?

## NOTES:

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