

Investment Platforms Market Study Terms of Reference

Market Study

MS17/1.1

July 2017



How to respond

We are asking for comments on this report by 8 September 2017.

You can send them to:

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takes you to helpful abbreviations

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1 Executive summary

Introduction

- 1.1** This Terms of Reference marks the start of the Investment Platforms Market Study. It sets out the scope of the study and the topics we will explore. The Market Study will consider both platform service providers¹ and other firms that allow investors or their advisers to access retail investment products through an online portal.
- 1.2** Retail investors and their financial advisers use investment platforms to access information and tools to inform their investment choices, to execute, review and potentially change their investments.
- 1.3** Platforms are an increasingly important part of the retail distribution landscape. The platform sector has steadily grown over the last eight years, with assets under administration (AUA) increasing from £108 billion in 2008 to £592 billion in 2016.² Combined with £100 billion from firms offering similar services, this accounts for 78% of the retail investment market.³ Although intermediated platforms, which investors can access through their advisers, still take up a larger market share, direct to consumer platforms, which investors can access directly, are becoming a more important way for consumers to access retail investment products.
- 1.4** Consumers across all household income bands use platforms.⁴ It is important, therefore, that platforms compete to offer services which add value and meet the expectations of retail investors and financial advisers who may be acting on their behalf.
- 1.5** Platforms can add value through the way they provide access to investment products and exposure to markets. Through this study we will explore what impact platforms have on overall charges investors pay for their retail investment products. We will analyse whether platforms use their bargaining power to negotiate good deals for investors and, in turn, then compete on their own distribution costs.
- 1.6** The platforms market is becoming increasingly vertically integrated, with commercial relationships existing between platforms, asset managers, discretionary investment managers and financial advisers. These relationships have the potential to distort competition by encouraging platforms to compete in the interests of those with which they have commercial relationships rather than in the interests of the consumer.

1 The FCA defines a platform service as a service which involves arranging, safeguarding, administering investments and distributing retail investment products which are offered to retail clients by more than one product provider. The service is neither solely paid for by adviser charges nor ancillary to the activity of managing investments for the retail client. See the FCA Handbook here: www.handbook.fca.org.uk/handbook/glossary/G2892.html

2 Adviser/intermediated platforms have grown around 1.5 times faster than direct platforms. Platform *UK Adviser Platform Guide Issue 29*, Figure 10 (March 2017).

3 The retail investment market excludes all workplace saving schemes, regardless of whether a direct marketing relationship exists between provider and employee.

4 Although we found in the Asset Management Market Study that consumers with greater assets to invest are more likely to use a platform than investing directly with a retail investment product provider.



Through the market study we will assess what impact these relationships are having on competition and whether they are working in the interests of investors.

- 1.7** The information, tools and investment solutions platforms make available have the potential to help consumers make informed investment decisions. We will assess whether investors and advisers can assess the value for money of investment propositions, including investment products and platform services, from the information platforms make available. Platforms are also increasingly offering investment solutions such as 'model portfolios'⁵ through which consumers can access a selection of retail investment products which meet their risk tolerance and investment objectives. Through the market study we will diagnose whether platforms' tools and investment solutions are meeting investors' expectations in terms of the way they are explained and the value they offer.
- 1.8** In November 2016 we published the Asset Management Market Study's interim report. In the report we highlighted a number of potential competition issues in the platforms sector and asked stakeholders whether we should conduct further work. Respondents were broadly supportive and highlighted the complexity of charges, increasing vertical integration between platforms, advisers and asset managers and the value for money of 'model portfolios' as areas worthy of further exploration. As a result, in our final report published in June 2017 we outlined our intention to take forward further work in the platforms sector.⁶
- 1.9** This market study supports the FCA's Mission. As outlined in our Mission, we promote competition by using our diagnostic tools, including market studies, to make judgements on whether competition is working well as a result of the way markets are structured and/or the relationships between consumers and providers in the market.⁷ This market study will enable us to diagnose whether competition between investment platforms is working well for consumers.
- 1.10** Whilst we are not formally consulting on the Terms of Reference, we welcome feedback on the topics we propose to explore. Please send your views to Investmentplatformsmarketstudy@fca.org.uk by 8 September 2017

Scope of the study

- 1.11** The FCA defines a platform service as a service which offers access to third party investment products. However, we recognise that platforms are part of a wider distribution landscape which includes wealth managers, insurance firms, banks and asset managers with a direct route to market. Some of these firms offer similar services and functionality to platforms as they provide consumer access to retail investment products through an online portal. Similarly to platforms, they may also help investors make investment decisions by offering tools through which they can assess their risk profile and find investment products.
- 1.12** It is important that our analysis takes the wider landscape into account. Doing so will enable us to assess whether issues that apply to platform service providers also apply

5 A model portfolio is a collection of funds or a selection of asset managers which aim to match a client's risk level and/or investment objectives to a set portfolio.

6 www.fca.org.uk/publication/market-studies/ms15-2-3.pdf

7 Our Mission 2017: how we regulate financial services available here: www.fca.org.uk/publication/corporate/our-mission-2017.pdf

more broadly across the distribution landscape, and how much competition platforms face from wealth managers and other distributors.

1.13 Platforms also form one part of the value chain, alongside asset managers, other product providers and financial advisers. We will seek to understand whether other parts of the value chain affect the willingness and ability of platforms to compete in the interests of consumers.

1.14 Our analysis will, therefore, cover:

- platforms and other firms that offer access to retail investment products through an online portal.⁸ This is likely to include financial advisers, wealth managers and other distributors.
- retail investors who access retail investment products through an online portal
- intermediaries, including financial advisers and wealth managers who use intermediated platforms to access different retail investment providers on behalf of their clients
- product and wrapper providers who use platforms to distribute their products
- technology providers to whom platforms outsource services, and
- fund ratings and data providers whose information platforms use and distribute

1.15 We recognise that not all of the potential issues set out in this Terms of Reference will apply to firms included in the wider distribution market. We welcome feedback on the extent to which the issues we have set out are likely to apply more broadly across the distribution market.

⁸ Other distributors could include financial advisers, wealth managers, discretionary investment managers, life companies and banks who provide retail investors services which are similar to that offered by a platform, but without necessarily providing access to third party investment products.

Topics we will cover

- 1.16** To assess whether competition between investment platforms works in the interests of consumers our study will explore the topics outlined in Figure 1 below.

Figure 1: Topics to be explored through the Investment Platforms Market Study



- 1.17** **Competitive outcomes:** We will explore how platforms compete to win new and retain existing business. In doing so, we will analyse the extent to which there is a typical distribution of price and quality in this sector, with some firms competing to offer a more comprehensive service at higher cost, and others offering a reduced service at lower cost.

- 1.18** Platforms, in line with advisory firms and asset managers, are increasingly competing by designing and promoting investment 'solutions' such as model portfolios, their own discretionary investment management services and in-house multi-manager funds.⁹ These solutions and services have the potential to simplify the investment process by using an automated process to assess investors' risk tolerance and allocate assets and underlying investments based on their risk profile.
- 1.19** As these investment solutions are likely to form a core part of a firm's offer to retail investors and financial advisers, we will analyse the extent to which these solutions offer investors value for money.
- 1.20** **Barriers to entry and expansion:** If we do not observe platforms competing on price and quality, including the value for money of their investment solutions, we will explore the reasons why.
- 1.21** Platforms are likely to incur significant IT and infrastructure costs which may mean they have to reach a certain scale in order to compete effectively. We will assess whether such economies of scale exist, whether they protect existing platforms from competition and whether they get passed on to consumers in the form of lower prices. We will also assess whether platforms have to overcome other barriers to entry or expansion, including any impact of outsourcing to third party technology firms.
- 1.22** We will also explore how competition is affected by the regulatory framework. As discussed above, platform providers (as defined in our handbook) are likely to compete alongside wealth management firms, discretionary fund managers, life companies and asset management firms that offer direct access to their products. Some of these firms operate outside our platform rules and we want to understand whether and how this affects platforms' ability to compete.
- 1.23** **Commercial relationships:** Platforms potentially have the ability to influence and be influenced by other parts of the value chain which, in turn, may influence the value for money consumers receive. The way in which platforms negotiate with product providers may affect the outcomes consumers receive from their investment products. Some platforms are vertically integrated with adviser networks and asset managers.¹⁰ Others may negotiate with and enter into commercial relationships with product and wrapper providers and discretionary investment managers. Platforms also rely on research firms whose data and research they may use to decide which products to list and which to put into model portfolios and best buy lists.
- 1.24** We want to understand how platforms interact with other parts of the value chain, what commercial relationships exist and how this may affect platforms' incentives, the products they promote, the choices investors make and ultimately the value for money they receive. In doing so, we will compare the impact platforms have on investment products with the impact of firms offering similar services to platforms.
- 1.25** **Platforms' business models and product profitability:** Platforms generate revenue by charging a fixed or percentage based fee on the assets they administer on behalf

⁹ Multi-manager funds are funds that allocates its assets between several fund managers, each of which invests its part of the assets with the aim of achieving the fund's overall objective. Out of 41 platforms in our preliminary review, nearly half offer investment solutions. Eight offer model portfolios only, and an additional seven platforms offer both model portfolios and multi-manager funds.

¹⁰ Six of the ten largest direct platforms (Hargreaves Lansdown, Barclays Stockbrokers, Fidelity Personal Investing, Alliance Trust Savings, AJ Bell Youinvest and HSBC Invest Direct) and six of the ten largest adviser/intermediated platforms (Cofunds/Aegon, Fidelity Fundsnetwork, Old Mutual Wealth, Standard Life, AJ Bell Investmentcentre and Zurich) are vertically integrated, i.e. having their own upstream asset managers.



of investors, through interest forgone on cash accounts, through trading charges and potentially from additional services such as advice, wrapper provision or discretionary management of the portfolio. Some platforms also have their own or linked asset management businesses. We will analyse the drivers of platform revenues and profitability, how this affects the factors over which platforms compete and how they may influence platform behaviours.

- 1.26 The impact of financial advisers:** When consumers receive financial advice, their financial adviser may also recommend a platform to use or may choose a platform on behalf of their clients. A principal-agent relationship therefore often exists between the consumer and their adviser. We will assess how this relationship affects the competitive dynamic between platforms. We will explore what factors advisers prioritise when choosing, reviewing and deciding whether to switch platform, and whether platforms consider the end investor when competing to win business from advisers. We will also consider whether advisers pass the benefits of competition between platforms onto investors in the form of lower adviser and platform fees.
- 1.27 Consumer preferences and behaviour:** For the retail investment market to be functioning effectively, consumers should be able to make informed choices which reflect their preferences. We want to understand the extent to which consumers are choosing platform services and products on platforms which reflect their preferences. We will explore the reasons for any significant differences between what consumers' value and the outcomes they want, the choices they make and outcomes they receive. Potential reasons could include investors not being able to access the information they need to make informed choices,¹¹ platforms leading consumers to make certain choices, or because there are real or perceived barriers to switching. We will assess whether there are barriers preventing firms providing consumers with the information, guidance and advice they need to make informed investment decisions.

Next steps

- 1.28** We are conducting this market study under the powers given to us by the Financial Services and Markets Act 2000 (FSMA). We aim to publish an interim report by summer 2018, setting out our analysis and preliminary conclusions including, where practicable and appropriate, possible remedies to address any concerns identified, followed by our final report.
- 1.29** If we find that competition is not working well, we may intervene to promote more effective competition. We can do this in a number of ways, including: rule-making, publishing general guidance, proposing enhanced industry self-regulation or introducing firm-specific remedies or enforcement action (under FSMA or the Competition Act 1998). We could propose removing existing rules that create disproportionate barriers to entry, expansion or innovation. We could also refer one or more issues to the Competition and Markets Authority for further investigation – this is known as a market investigation reference.
- 1.30** We may also decide to take no further action. This could be because we do not identify any concerns that can be proportionately addressed by regulatory intervention, or

¹¹ In doing so, we will further explore a concern highlighted in the Asset Management Market Study that charges are complex and it is potentially difficult for investors to make informed investment decisions.

we consider that any concerns we identify are likely to be addressed by upcoming legislative measures or action by the relevant firms. In such cases, we may continue to monitor the market in case our concerns are not addressed.

- 1.31** For more information on our market study powers and procedures please see our market studies and market investigation references guidance.¹²
- 1.32** We welcome feedback on the topics. If you have views please send them to Investmentplatformsmarketstudy@fca.org.uk by 8 September 2017.

12 www.fca.org.uk/publication/finalised-guidance/fg15-09.pdf

2 Why are we doing a market study into investment platforms?

Why we decided to look into investment platforms

- 2.1** We are launching a market study into investment platforms to further assess the potential competition issues outlined in the Asset Management Market Study interim report and in our 2016/17 Retail Investment Sector View. The platform sector was not the main focus of the Asset Management Market Study and did not look at competition between intermediated platforms.¹³ We are, therefore, conducting further work to assess the extent to which these potential issues may be causing consumer harm.
- 2.2** Platforms are a significant and growing distribution channel. They have the potential to add value to consumers through the way in which they provide access to investment products. By pooling investors' money, platforms could, in principle, use their buying power to negotiate with product and wrapper providers to lower the price consumers pay. In the Asset Management Market Study we assessed the range of headline charges, the ongoing charges figure (OCF), on a number of funds sold through platforms. We found that for platforms which actively secured discounts these were secured on a relatively small proportion of funds and the discounts were not generally very large.
- 2.3** The analysis we conducted was of a small sample of funds and platforms. The analysis did not compare platforms to other forms of distribution (such as buying direct) and did not consider other fees (such as entry and exit charges). We want to therefore explore further the impact platforms and other forms of distribution have on the overall charges investors pay and any factors which may hinder platforms being able to negotiate on behalf of investors.
- 2.4** The information, tools and investment solutions platforms make available have the potential to help investors and their advisers make informed investment decisions. However, in response to the Asset Management Market Study, respondents raised concerns that charges are unnecessarily complex, making it difficult for consumers to make informed investment decisions.¹⁴ As a result, through this market study we will assess whether advisers and consumers can make informed decisions about their choice of whether to invest through a platform, which investment product to choose and, in turn, whether firms compete to add value for consumers.
- 2.5** We also want to explore a number of other issues through the market study. This will include the impact of commercial relationships between platforms and other parts of the distribution landscape and whether platforms' investment solutions offer value for money especially when compared to firms offering similar services. We will also explore whether economies of scale exist and, if so, if the benefits are passed onto consumers

13 Advisor platforms were broadly out of scope.

14 www.fca.org.uk/publication/market-studies/ms15-2-3.pdf

and the impact financial advisers have on competition between platforms. We set out these issues in Chapter 4.

Benefits of effective competition between platforms

- 2.6** Platforms can make it easier for consumers to invest and manage their money if they compete to provide access to investment products investors want, information, tools and guidance which help inform their investment decisions and improve the ways they can monitor their investment portfolios. Consumers would further benefit if platforms who offer their own investment solutions compete so that these solutions are used by consumers who need them.
- 2.7** In addition, consumers would benefit if platforms compete on the whole cost of investment over which they have influence and control. Platforms could help put pressure on product margins which can result in a more competitive price for consumers. Where they compete over their own costs, investors may benefit by being able to access markets at a competitive rate.
- 2.8** Through the market study we will explore the extent to which consumers are receiving these potential benefits from healthy competition between platforms.

The powers and procedures we will use to conduct the study

- 2.9** As noted in our market study guidance,¹⁵ we may carry out market studies either under our powers under FSMA or under our concurrent competition powers set out in the Enterprise Act 2002 (EA02). We have a choice regarding which procedure to follow, and decide on a case by case basis. We are also able to switch between our FSMA and/or EA02 powers when conducting market studies, if this is necessary.
- 2.10** We have decided to conduct this market study using our FSMA powers. We intend to use our FSMA powers to gather information in relation to regulated activities and the related unregulated firms platforms use to provide their services.
- 2.11** We will shortly begin gathering information from stakeholders. This will include data, information and/or views from platforms, financial advisers, wealth managers and technology providers. We will also host a number of roundtables and/or bilateral meetings with stakeholders to hear their views on the topics set out in this document. Stakeholders can also use these sessions to raise other issues for discussion.
- 2.12** We aim to publish an interim report setting out our analysis, preliminary conclusions and, where necessary, practicable and appropriate, proposed solutions to address any concerns identified, by summer 2018. This will provide stakeholders with an opportunity to comment prior to publishing our final report.

15 FCA 15/9 Market studies and market investigation references: a guide to the FCA's powers and procedures
www.fca.org.uk/publication/finalised-guidance/fg15-09.pdf



2.13 As set out in our market study guidance, if we conclude that competition is not working well and there is a need to take action, we may intervene to promote effective competition using a number of possible measures including:

- market wide remedies, such as:
 - rule-making, including changing or potentially withdrawing existing rules
 - publishing general guidance
 - proposing enhanced industry self-regulation.
- firm-specific remedies. This includes using own initiative variation powers or own initiative requirement powers, cancelling permissions, public censure, imposing financial penalties, as well as filing for injunction or restitution orders
- where we identify potential infringements of other laws, such as competition law we may open an investigation accordingly, or refer the matter to other enforcement agencies, and;
- making a market investigation reference to the CMA

2.14 Alternatively, we may decide to take no further action for the time being. This could be because any issues we may identify are likely to be satisfied by upcoming legislative measures, action by the relevant firms or other circumstances. We would continue to monitor the market in case our concerns are not addressed.

3 Scope of the study

- 3.1** In scoping the study, we recognised the importance of our analysis taking the wider retail distribution landscape into account. Doing so will enable us to assess whether issues that apply to platform service providers also apply more broadly across the distribution landscape, and how much competition platforms face from wealth managers and other distributors.
- 3.2** Platforms also form one part of the value chain, alongside asset managers, other product providers and financial advisers. We will seek to understand whether other parts of the value chain affect the willingness and ability of platforms to compete in the interests of consumers.
- 3.3** Our analysis will, therefore, cover:
- platforms and other firms that offer access to retail investment products through an online portal¹⁶
 - retail investors who access retail investment products through an online portal
 - other intermediaries, including financial advisers, wealth managers, discretionary investment managers, life companies and banks who provide retail investors services which are similar to that offered by a platform, but without necessarily providing access to third party investment products
 - product and wrapper providers who use platforms to distribute their products
 - technology providers to whom platforms outsource services, and
 - fund ratings and data providers whose information platforms use and distribute
- 3.4** We recognise that not all of the potential issues set out in this Terms of Reference will apply to firms included in the wider distribution market. We welcome feedback on the extent to which the issues we have set out are likely to apply more broadly across the distribution market.

The distribution landscape

- 3.5** Retail investors can access a platform directly. Alternatively, their financial adviser or wealth manager may choose an investment platform on their behalf. Platformum estimates that in 2016 £170bn assets were administered on platforms accessed directly by investors¹⁷ and £422bn was administered by intermediated platforms.¹⁸

¹⁶ These other distributors could include financial advisers, wealth managers, discretionary investment managers, life companies and banks who provide retail investors services which are similar to that offered by a platform, but without necessarily providing access to third party investment products.

¹⁷ Platformum *UK Adviser Platform Guide*, Figure 10 (March 2017).

¹⁸ Platformum *UK Adviser Platform Guide*, Figure 10 (March 2017).



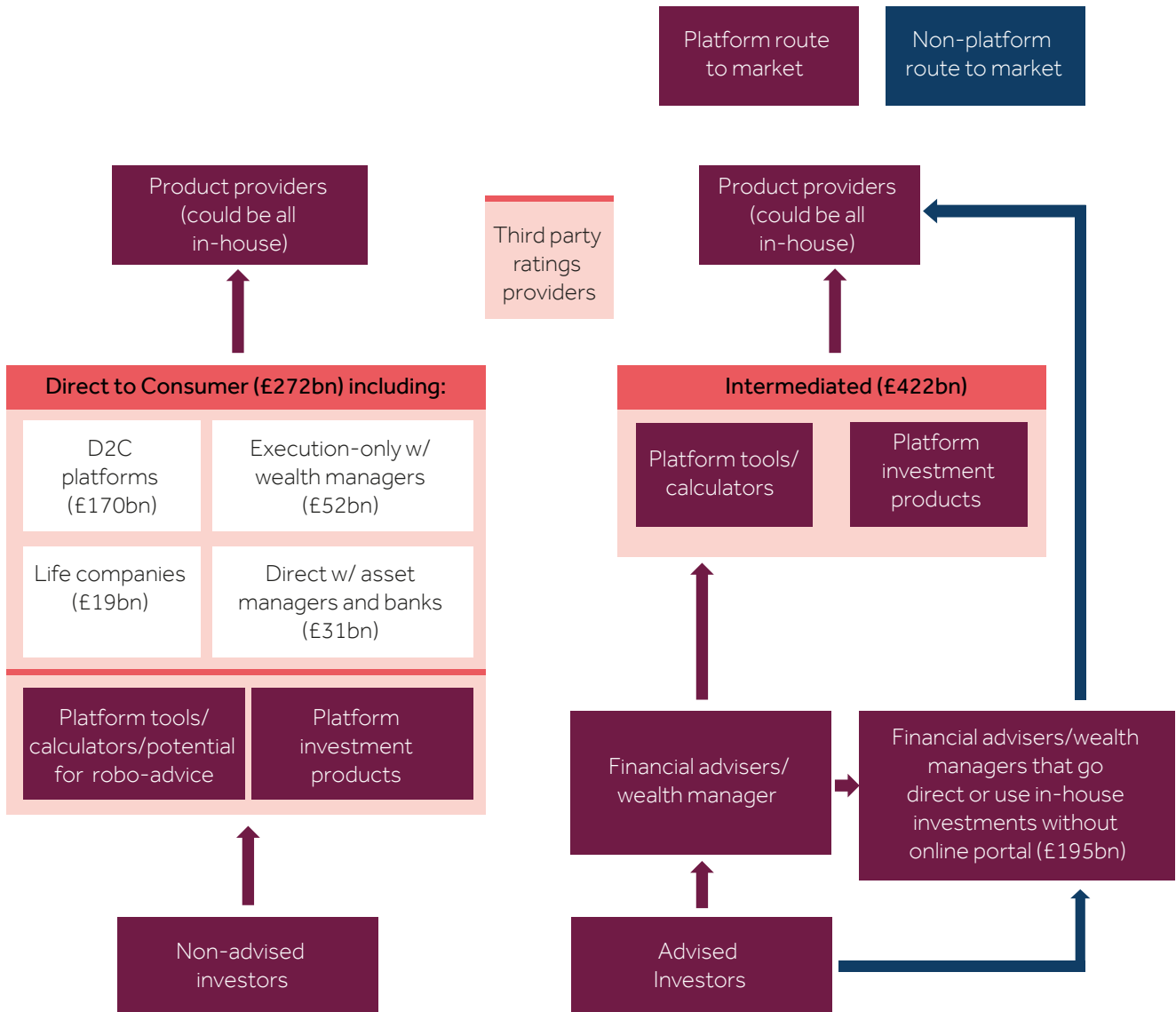
- 3.6** Platforms act like a supermarket, allowing consumers, financial advisers and wealth managers to select a range of different third party or in-house retail investment products and/or to gain direct exposure to stock markets.
- 3.7** Many platforms also seek to help investors make investment decisions by offering information, guidance, tools and investment solutions. The investment solutions platforms offer are typically called a 'model portfolio' and aim to simplify the investment process by matching consumers to a portfolio of assets and investment managers within the relevant asset class(es) according to the risk the consumer wishes to take. Some platforms have a business model which expands into other regulated activities such as offering regulated advice, discretionary investment management and in-house asset management.
- 3.8** Retail investors are not required to access markets through a platform. They can go directly to an asset manager or insurance firm who will invest on their behalf. Similarly, their financial adviser or wealth manager can invest directly in their in-house asset management offer or go directly to a provider. Platform estimates that in 2016 execution-only assets managed by wealth managers were approximately £51bn.¹⁹ Another £195bn assets were invested by financial advisers directly without going through a platform.²⁰

19 Platform *UK D2C Guide: Market Size and Structure*, Table 1 (March 2017). This includes robo-advice firms and non-advised non-discretionary service of wealth managers accessible through online portals.

20 In 2016, £422bn was administered by intermediated platforms. Platform *UK Adviser Platform Guide*, Table 5 (March 2017) estimates that 68-69% of volume of business through advisors was written on platform. It indicates that around £195bn assets were written off-platform by advisors.

3.9 Figure 2 below set outs out the services and firms we will examine as part of our market study.

Figure 2: The retail distribution landscape²¹



21 The figure for life companies (£19bn) includes directly marketed personal pensions, non-advised drawdown and direct with SIPP specialists. It excludes all workplace savings schemes. £196bn here includes financial advisers who go direct or use in-house investments without online portal and discretionary direct business from wealth managers.



3.10 In this chapter, we set out below the elements of the value chain we will focus on in the market study, and which areas we will not be considering. In summary, we are including in scope:

- **Platform customers** including advised and non-advised retail investors.²² We want to understand whether consumers, their financial advisers and wealth managers are driving competition between platforms and whether platforms are responsive to consumer needs.
- **Platform service providers**, including both advised and non-advised platform service providers. We want to understand how these platforms compete to deliver value for money to retail investors.
- **Other distributors** which offer similar services to platforms and may be considered interchangeable by investors. This includes firms that offer access to retail investment products through an online portal and investment solution which provide similar outcomes to those offered by a platform. We want to understand if platforms face competition from other distributors and whether issues in the platforms sectors are more widely applicable.
- Parts of the **value chain** which may affect the value for money platforms offer. This includes asset managers, discretionary investment managers hosted by platforms, third party rating firms and technology service providers.

3.11 In the sections below we provide more background on those parts of the market in scope. As the market study progresses we may narrow down our scope if evidence suggests that topics or areas of the sector do not warrant further investigation. Equally, the scope may broaden if stakeholders suggest other areas that are intrinsically linked.

Platform customers

3.12 Retail investors and their advisers or wealth managers use platforms to access markets, either by using the platform to directly invest in stocks and shares or to access funds or other retail investment products. In doing so, they may use the 'wrappers' platforms make available – such as an ISA or a self-invested personal pension (SIPP). Consumers are likely to be using a platform to meet different investment goals. Some will be saving for retirement, others will be investing for specific future life events and others may want exposure to stock markets without necessarily having a specific investment objective.

3.13 The use of direct to consumer platforms is significant, although other forms of distribution remain popular, with 33% of non-advised retail investors having used a platform in the last year, compared to 30% who went direct to a provider and 26% who used a financial adviser (who in turn could then have used a platform).²³ For consumers considering a new investment, 23% would do so with the help of an adviser, whereas 32% would invest themselves through a platform.²⁴

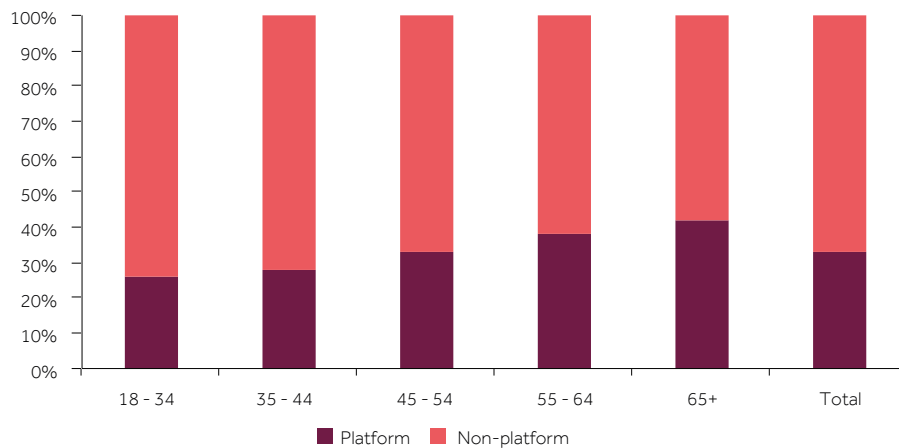
²² See paragraph 3.12 for our explanation of advised and non-advised retail investors.

²³ *Platform Consumer Insights*, p.17 (January 2017)

²⁴ *Platform Consumer Insights*, Figure 18 (January 2017)

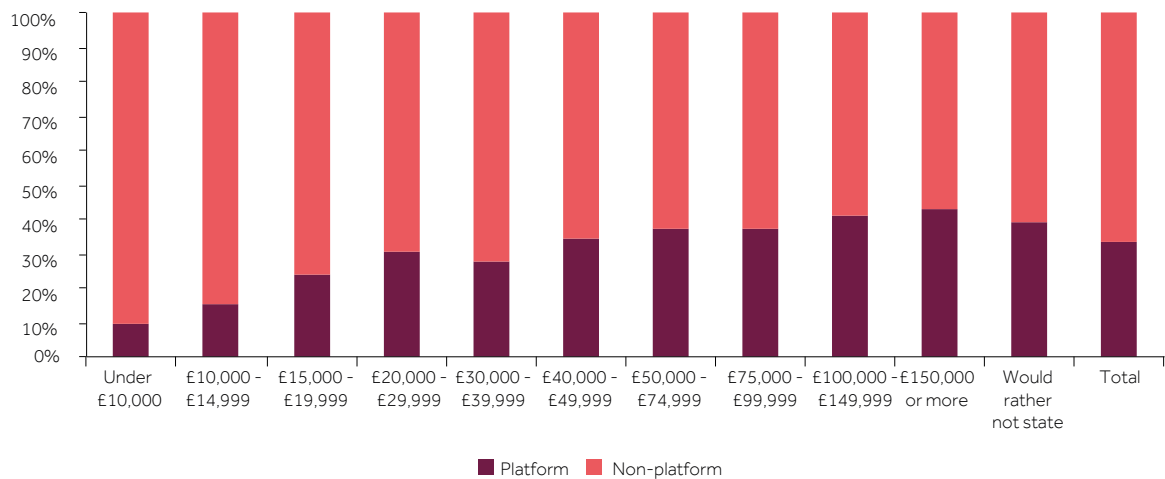
3.14 Direct to consumer platforms are used by non-advised consumers of all ages. As part of the Asset Management Market Study's research into non-advised investors, we found that older consumers were more likely to use a platform than younger investors.²⁵

Figure 3: Percentage of consumers using platforms compared to investing directly in with a provider such as a bank, life company or asset manager²⁶



3.15 We also found that consumers across all household income bands use platforms (Figure 4), although as illustrated in Figure 5, consumers with greater assets to invest are more likely to use a platform than invest directly with a provider.

Figure 4: Gross annual household income bands of consumers using platforms compared to investing directly with a provider such as a bank, life company or asset manager²⁷

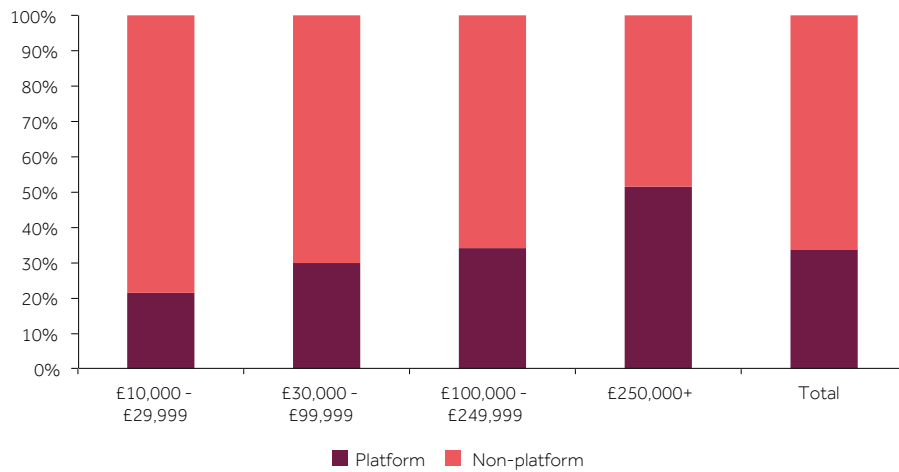


25 Responses to question 'Thinking about when you took out your [MOST RECENT PRODUCT], which of the following best describes the type of company or channel you invested with or invested through originally? (Bank or Building Society, Life and Pensions Company, Online investment website/platform/fund supermarket offering funds from different providers, directly with the fund provider or via their website offering their own funds only.'

26 Taken from the consumer research conducted by NMG in 2016 for the Asset Management Market Study.

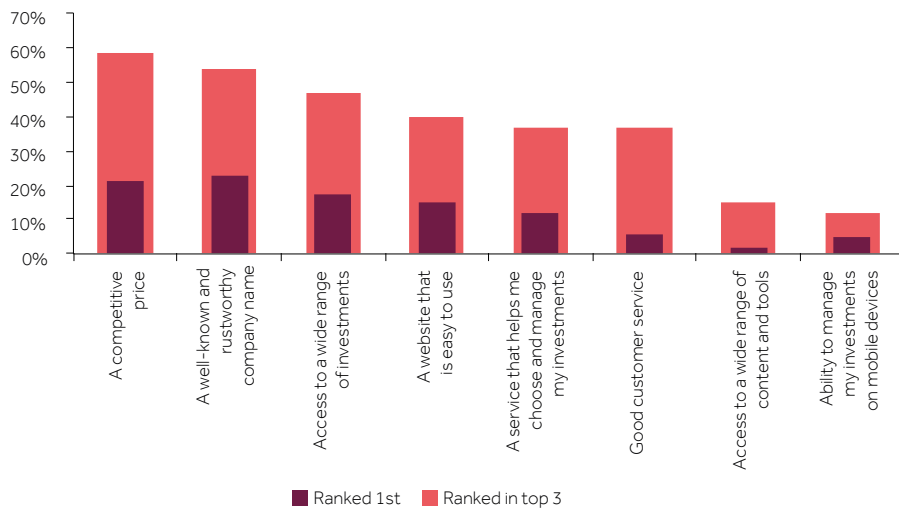
27 Taken from the 2016 consumer research conducted by NMG for the Asset Management Market Study.

Figure 5: Consumers total investable assets using a platform compared to those consumers investing directly with a provider such as a bank, life company or asset manager²⁸



3.16 As illustrated in Figure 6, Platform have conducted research which suggests that a competitive price is the most important factor consumers consider when selecting a platform, although a number of other factors drive decision making.

Figure 6: Factors consumers take into account when choosing a platform²⁹

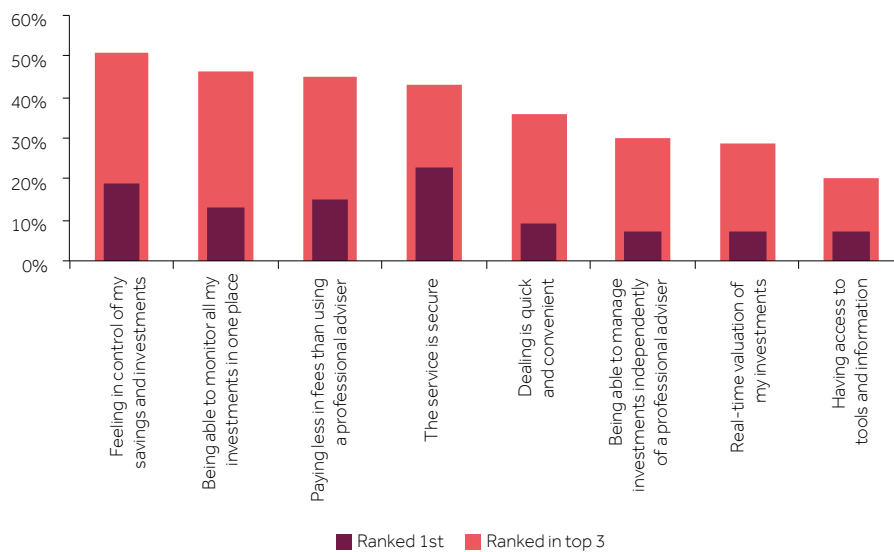


3.17 As illustrated in Figure 7, consumers value platforms because they offer a feeling of control over consumers' savings and investments, the ability to be able to monitor all their investments in one place and being able to pay less in fees than using a professional adviser.

²⁸ Taken from the 2016 consumer research conducted by NMG for the Asset Management Market Study.

²⁹ Platform Consumer Insights, Figure 28 (January 2017)

Figure 7: what consumer most value from using a platform³⁰



3.18 Through the market study, we will assess whether platform customers are able to make informed choices and the extent to which platforms face competitive pressure from consumers who are willing and able to switch providers. We will consider consumers' interactions with both advised and non-advised platforms and set out our focus in more detail in Chapter 4.

Platform service providers

3.19 The FCA defines a platform service as a service which involves arranging, safeguarding, administering investments and distributing retail investment products which are offered to retail clients by more than one product provider. The service is neither solely paid for by adviser charges nor ancillary to the activity of managing investments for the retail client.³¹

3.20 Platforms are typically categorised as 'advised' or 'intermediated' – meaning that the financial adviser or wealth manager recommends and primarily uses the platform on behalf of the investor - and 'non-advised' or 'direct to consumer' – meaning that the investor chooses and uses the platform. We intend to assess how both advised and non-advised platform service providers compete to provide services to retail investors.

3.21 The platform market has steadily grown over the last eight years, with AUA for both adviser and direct platforms increasing from £108bn in 2008 to £592bn in 2016 (see Figure 8).³² Although intermediated platforms still take up a larger market share, direct platforms are becoming more important in the distribution chain for retail investors.

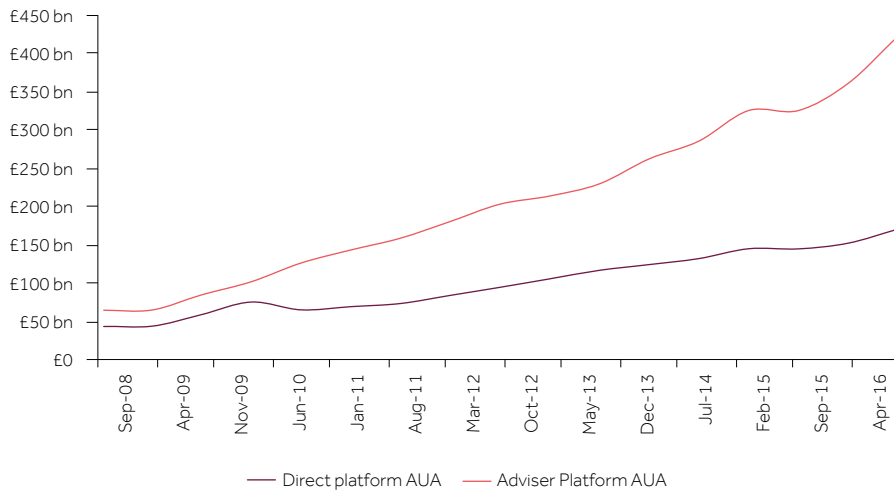
³⁰ Platform Consumer Insights, Figure 42 (January 2017)

³¹ See the FCA Handbook here: <https://www.handbook.fca.org.uk/handbook/glossary/G2892.html>

³² Adviser/intermediated platforms have grown around 1.5 times faster than direct platforms.

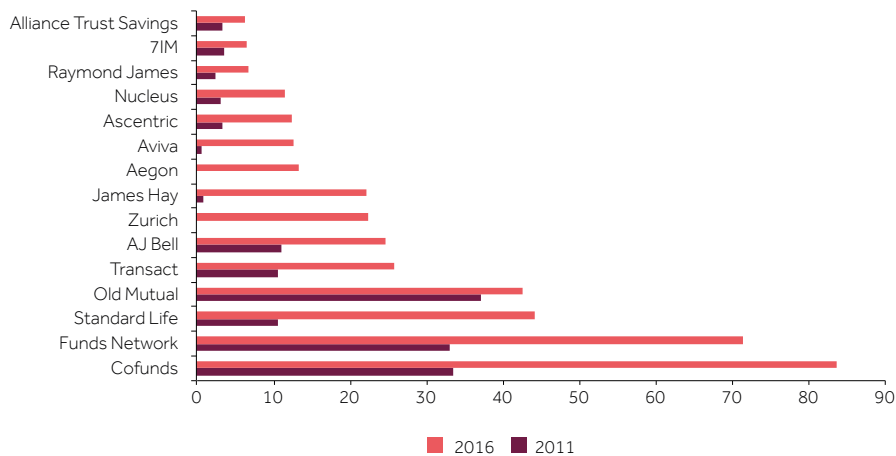


Figure 8: Adviser and direct platform AUA over time³³



3.22 As illustrated in Figures 9 and 10, the growth in the market has resulted in firms across the market increasing their assets under administration.

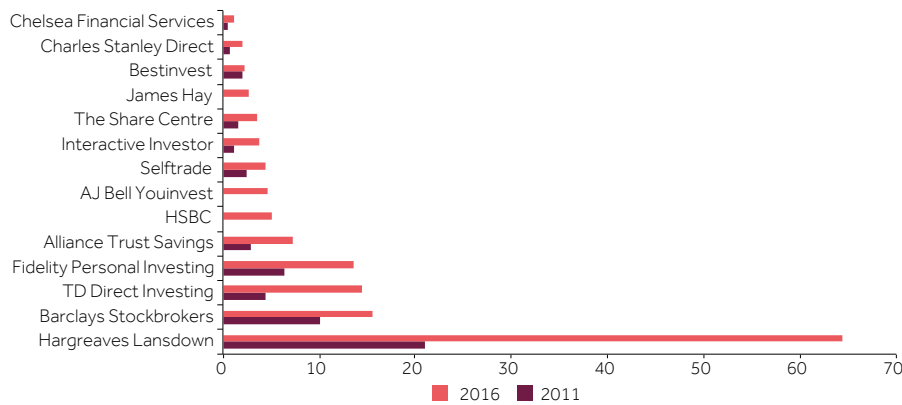
Figure 9: The AUA (£bn) held by advised platforms in 2011 and 2016³⁴



³³ Platform UK Adviser Platform Guide Issue 29, Figure 10 (March 2017).

³⁴ Taken from Platform reports in 2011 and 2017, platforms with under £5bn AuA in 2016 have been excluded and some figures are estimated. Cofunds are now owned by Aegon, for the purposes of comparison we have kept separate in the graph.

Figure 10: The AUA (£bn) held by non-advised platforms in 2011 and 2016³⁵



Other distributors

3.23 We recognise that platforms are likely to compete alongside other forms of distribution. As illustrated in Figure 2, in 2016 around 30% of gross retail sales of funds were distributed through alternative, non-platform distribution channels. Execution-only service with wealth managers³⁶ and pension/insurance providers had approximately £70bn in assets while direct channels to asset managers and retail banks held a smaller market share at around £31bn.

3.24 To assess whether issues that apply to platform service providers also apply more broadly across the distribution landscape and how much competition platforms face from wealth managers and other distributors, we will include a sample of firms that offer a similar service to consumers using a platform. We are likely to include a sample of wealth managers, insurance firms, asset managers with a direct route to market and discretionary fund managers which offer similar services despite not being captured by the FCA's platform definition.

Other firms in the value chain

3.25 Platforms are part of a value chain which includes asset managers, technology firms, fund rating firms and financial advisers. We recognise that the influence platforms may have over parts of the value chain and the influence parts of the value chain may have over platforms could affect the value for money investors receive. As a result, we want to understand the relationship between platforms and the following parts of the value chain.

Product and wrapper providers

3.26 Platforms have the potential to use their scale to negotiate with investment product providers and achieve value for money for investors. We want to understand what impact platforms have on upstream investment charges, whether there are barriers which prevent platforms from negotiating in the interests of investors and whether commercial relationships between platforms, advisers and product providers affect the products platforms promote.

³⁵ Taken from Platform reports in 2011 and 2017, platforms with under £1bn AuA in 2016 have been excluded and some figures are estimated.

³⁶ Only includes non-advised non-discretionary service accessible through online portals and robo-advice business.



3.27 We will consider all retail investment products, irrespective of their legal structure, when distributed through a platform. This will include actively and passively managed pooled investment funds, investment trusts, and insurance-based investment products available through a platform. We will also include providers of wrappers through which consumers invest, such as SIPP wrappers which are operated by a third party and hosted by the platform.

Financial advisers and wealth managers

3.28 Financial advisers used platforms for around 68-69% of their new business in 2016,³⁷ with advised platforms holding twice as many assets as non-advised platforms in 2016.³⁸ Advisers choose platforms on behalf of their clients who in turn pay for the platform service. Advisers may therefore have bargaining power and influence regarding platform fees and services, which in turn may be passed onto investors if competition is working effectively.

3.29 We will consider how advisers select and use platforms, how platforms compete to win business from financial advisers and the competitive pressure advisers are able to exert on platforms. This will include adviser firms which white label a platform, or use their own platform.

3.30 This market study will not focus on competition between financial advisers and we will not assess whether advisers compete on price and quality when offering financial advice services. The suitability and value of advice will not therefore be within the scope of the market study. We recognise the importance of the advice market working in the interests of investors. The FCA has recently published the findings of its Assessing Suitability Review which found positive results for the sector, concerning the suitability of advice, which we believe are a result of the successful adoption of RDR by advisers and reinforced by our previous supervisory and enforcement activities.³⁹ We will also conduct a review of the outcomes from the Financial Advice Market Review in 2019.⁴⁰

Third party ratings providers

3.31 Most platforms provide information to help inform investor and adviser investment choices. In doing so, they use research and ratings from third party providers.

3.32 Respondents to the Asset Management Market Study suggested that some fund rating providers do not offer a whole of market review and expressed concern regarding the conflict of interest where an asset manager agrees to pay the rating firm for a licence to use their ratings. We have also heard from asset managers who do not pay for a licence fee that this means that their funds will not be rated. We want to understand what impact third party research providers' business models have on platforms' ability to construct tools which help consumers and financial advisers choose investment products that meet investors' needs.

Technology service providers

3.33 Platforms typically outsource the technology needed to run and support the platform and many are currently in the process of switching their third party technology provider

37 Platform *UK Adviser Platform Guide Issue 29*, Table 5 (March 2017).

38 Platform *UK Adviser Platform Guide Issue 29*, Figure 10 (March 2017).

39 The Assessing Suitability Review: results (May 2017)
www.fca.org.uk/publication/multi-firm-reviews/assessing-suitability-review.pdf

40 More information about the Financial Advice Market Review can be found here:
www.fca.org.uk/firms/financial-advice-market-review-famr

or moving from proprietary technology to outsourced technology. By the end of 2016 there were approximately £206bn assets due to be moved to a different technology provider which represented approximately 54% of the advised platform market share and over 2.4 million clients. Once these re-platforming projects are completed, at least 73% of the advised market share will be held on third party provider technology.⁴¹

- 3.34** We want to understand the competitive dynamic that exists between platforms and the firms to which they outsource technology services. In doing so, we will explore whether technology providers create barriers to entry and prevent platforms from being able to compete to innovate and offer value for money to consumers.

Products in scope

- 3.35** Retail investment products⁴² held on platforms will be the primary focus of the market study. We want to understand how platforms influence investors' choices of investment products through the way in which they promote products, through the tools and investment solutions they provide and through the impact they have on upstream investment charges.
- 3.36** In addition, we want to understand whether the investment solutions and products offered by platforms meet investors' expectations. We recognise that model portfolios offered by platforms are becoming more popular amongst both advised and non-advised retail investors. As illustrated in Figure 11 below, whilst multi-asset funds continue to be the most popular type of fund in which to invest among both self-directed and advised consumers (46% and 39% respectively), model/ready-made portfolios account for 24% and 38% of funds invested in respectively. We will explore how the model portfolios designed by platforms are constructed, explained to investors and whether they perform as investors expect.

41 Platform UK Adviser Platform Guide Issue 29, Table 5 (March 2017)

42 The FCA defines retail investment products here: www.handbook.fca.org.uk/handbook/glossary/G2763.html



Figure 11: Percentage of self-directed and advised private investors currently invested in each fund type, by number of investors⁴³



3.37 In order to understand platforms business models we will also assess the revenue streams platforms generate from other products or services such as stockbroking services and from cash accounts held on the platform.

3.38 We will not review products which are not generally currently available for sale, such as with-profits products. Occupational pension schemes are also not within scope of the market study given they are not widely available to retail consumers through an investment platform.

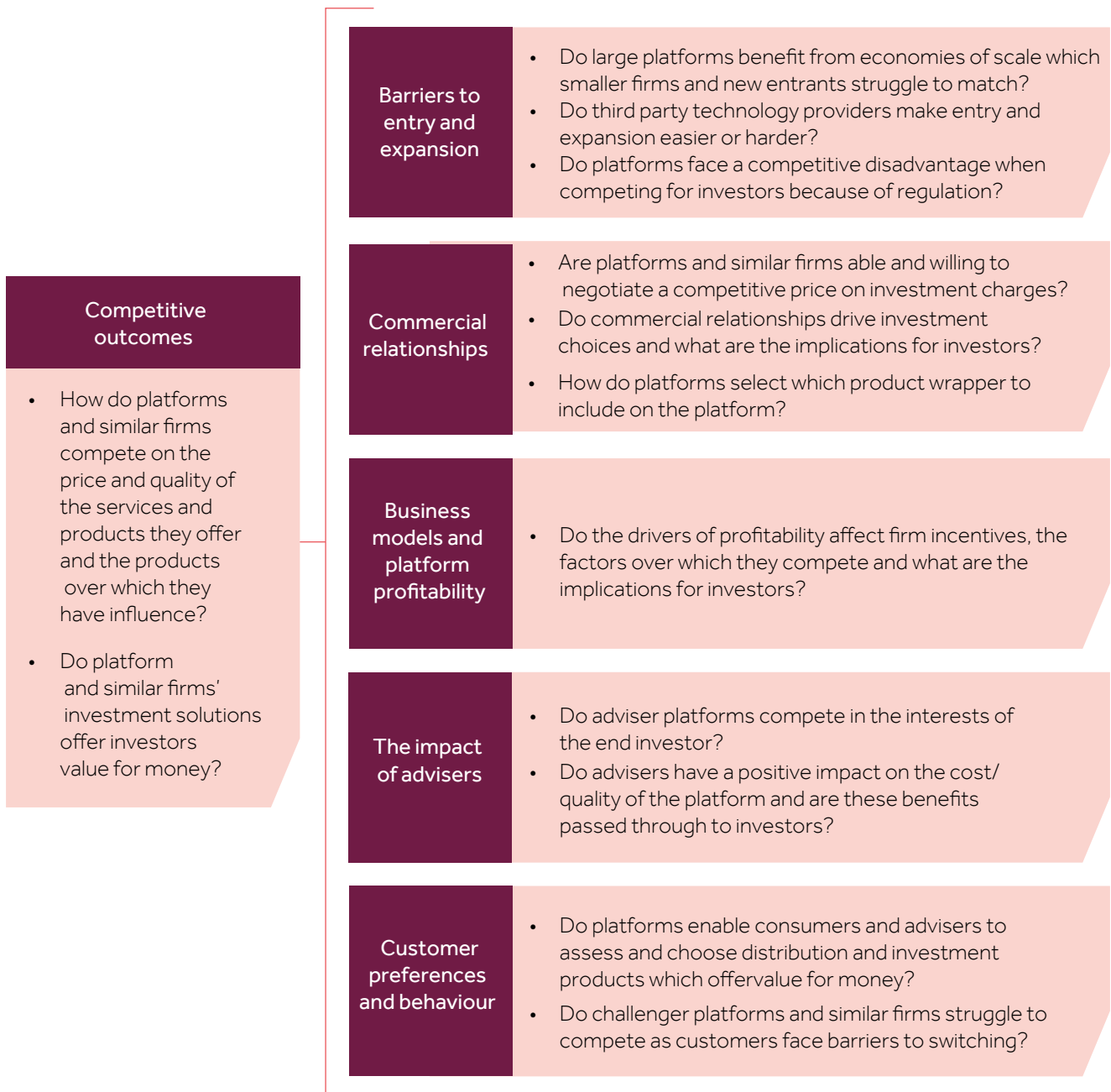
⁴³ Platform Consumer Insights, Figure 22 (January 2017)

4 Topics we will explore

4.1 The market study will assess how well competition between investment platforms and firms offering investors and their advisers access to retail investment products through an online portal is working in the interests of consumers. Competition will be working effectively if firms are competing to offer services which meet investors' expectations and if firms help investors get a good deal from other parts of the value chain.

4.2 Figure 12 below sets out the main topics we will consider and the questions we will be seeking to answer.

Figure 12: Topics to be explored through the Investment Platforms Market Study





- 4.3** In this chapter we explain the topics we will explore through the study. The topics we explore may develop during the course of the market study and/or based on feedback from stakeholders we receive. It is important to note that whilst we set out what we are proposing to explore, we have not reached any conclusions at this stage. We welcome feedback on the topics. If you have views please send them to Investmentplatformsmarketstudy@fca.org.uk by 8 September 2017.
- 4.4** We will collect evidence from platforms, firms in the wider distribution landscape, consumers, trade and consumer bodies and advisers to enable us to fully explore the topics under consideration. Please note when we discuss advisers in this chapter we are also referring to wealth managers.

Competitive outcomes

- 4.5** In order to assess whether competition is working well, we will assess how platforms and firms offering similar services to platforms compete to win and retain customers. We will do so by exploring the following question:
- How do platforms and similar firms compete on the price and quality of the services and products they offer and the products over which they have influence
- 4.6** We will explore whether firms compete on the price of their own services and the price of the investment products over which they have influence. To do so, we will look into the dispersion of both platform fees and product fees for similar investment products across platforms. We will then want to match differences in prices to data which tracks money moving in and out of platforms, including moving from and to firms offering similar services to platforms. The movements of funds, along with platforms' market shares, will provide us with evidence of whether there is strong price competition between platforms.
- 4.7** In addition, we will analyse how the cost of investment differs when using platforms versus investing directly with an asset manager or when investing through alternative distribution channels. Doing so will allow us to assess whether investors receive markedly different outcomes for access to similar investment products depending on how they invest in the market.
- 4.8** We recognise that platforms may be competing on quality and tailoring of the services that they offer. Platforms could differentiate themselves from their competitors by targeting different investor groups and/or by offering different services. We will consider whether platforms compete on quality by considering several features of platform quality, informed by our consumer research. We will look to conduct case studies looking at the impact changes in quality has on fund flows and market shares.
- 4.9** Our assessment of the dispersion of price and quality, fund movements and platforms' market share will allow us to determine how platforms compete and whether consumers react to changes in price and/or quality of service offered by platforms.

4.10 In addition to exploring how platforms compete on price and quality, we will explore:

- Do platform and similar firms' investment solutions offer investors value for money?

4.11 Many platforms have developed their own investment solutions, including model portfolios and multi-manager funds.⁴⁴ These investment solutions can be used by non-advised investors looking for a route to investing without using a financial adviser, or can be used by financial advisers and wealth managers.⁴⁵ A survey by Platform found that ready-made portfolios and multi-manager funds are currently used by a third of retail investors (31% and 30% respectively).⁴⁶

4.12 We will look to understand if platforms are competing to provide investment solutions which offer value for money. In doing so, we will assess similar solutions offered by other firms such as wealth managers, life companies and some banks.

4.13 We will look at three elements of the potential value offered by platform specific investment solutions. First, we will assess whether investors are being guided to products⁴⁷ that are too complex for their knowledge and experience. In this context, the FCA's appropriateness rules require firms offering execution only services relating to complex products to determine whether such products are appropriate for a client. Where the complex product is determined not to be appropriate for the client the firm must warn the client against investing in complex products when the client does not have the necessary knowledge and experience to properly understand the risks associated with the complex product. We will investigate whether complex, high-risk products are used to construct portfolios with various risk levels and the amount of fund flows into these products. We will seek further insights from platforms regarding the underlying consumer groups for these products if there is indeed an increasing flow of funds into them over time.

4.14 Second, we will assess whether platforms' risk profiling tools match investors to a portfolio suited to their risk level.⁴⁸ We will look at how investors' risk profiles are created (including their attitude to risk and capacity for risk), what the asset allocations are for different model portfolios⁴⁹ and how investors are assigned to portfolios across platforms. Our findings will then be matched against investors' understanding of the process.

4.15 Third, we will explore if investment solutions meet investors' expectations. To do so, we will assess how platforms' investment solutions are advertised and communicated to investors. We will also explore the extent to which there are information gaps which prevent investors from making informed decisions. We will then assess whether investment solutions perform in line with investors' expectations. Our focus will be on identifying any persistently over and under-performing solutions on a gross and net basis, relative to the relevant objective or benchmark.

4.16 In doing so, we will focus on the role of platforms in managing these solutions. For example, if we observe gross underperformance, we would explore whether this is because the platform has not removed underperforming funds out of the portfolios,

44 A multi-manager fund is a fund that allocates its assets between several fund managers, each of which invests its part of the assets with the aim of achieving the fund's overall objective.

45 Out of 41 platforms in our preliminary review, 14 offer model portfolios only, and an additional 6 platforms offer both model portfolios and multi-manager funds.

46 Platform *Consumer Insights*, Figure 21 (January 2017).

47 Such as contract for difference (CFD), futures and other over-the-counter derivatives.

48 From our preliminary review, 4 out of 13 direct platforms with model portfolio offering provide some type of risk profiling for investors.

49 In particular, the use of complex and high-risk products in model portfolios.

not rebalanced (if relevant) and used underperforming in-house funds in their portfolios. If net performance is poor, this may be because the platform has not negotiated upstream charges or put more expensive in-house funds in the portfolio. Doing so will help us to determine whether consumers receive markedly different outcomes depending on their choice of platforms and whether performance or cost drives these differences.

Barriers to entry and expansion

- 4.17** To the extent we observe weak competition on price and quality, including the quality of investment solution offered by firms, we will assess the reasons why. Our demand side analysis will allow us to assess whether investors and their advisers are able and willing to put competitive pressure on platforms. We outline this analysis in the consumer preferences and behaviour section below.
- 4.18** To complement our demand-side analysis, we will also explore the following question:
- Do large platforms benefit from economies of scale which smaller firms and new entrants struggle to match?
- 4.19** If existing platforms benefit from significant economies of scale, meaning their costs fall as the size of the firm increases, they may be able to operate more cheaply than new entrants, smaller platforms and other distributors, making it difficult for such firms to compete.⁵⁰ Consumers may benefit if the cost savings are passed on in the form of lower prices and/or higher quality service. We will examine the relationship between platforms' assets under administration and their operating costs. We will then consider whether the fees paid by investors to different sized platforms and for different sized investment pots are consistent with our findings on economies of scale and the level of service and functionality offered.
- 4.20** In addition, we will explore:
- Do third party technology providers make entry and expansion easier or harder?
- 4.21** Most platforms purchase their technology from third-party providers. The technology market appears to be concentrated meaning that platforms may not have many providers to choose between when purchasing their underlying technology.⁵¹ We want to understand if, as a result, new entrants to the platform market are faced with high technology costs and constraints on the quality and innovation they can offer.
- 4.22** We will also explore whether the regulatory environment affects the competitive dynamic. We will consider the following question:
- Do platforms face a competitive disadvantage when competing for investors because of regulation?
- 4.23** There are specific regulations which apply to investment platforms but not to other firms which offer similar services and similar outcomes to platforms.⁵² This may create an unlevel playing field and give firms competing with platforms a competitive

50 Economies of scale exists if long-run average costs of platforms decrease with the size of platforms measured by their AUA or number of customers.

51 Bravura, FNZ and GBST are the three largest outsourced platform technology providers, with IFDS and JHC Figaro gaining popularity, based on Lang Cat April 2016.

52 The relevant FCA rules can be found in COBS 6.

advantage. We want to understand whether this is the case and, if so, the impact it is having on the market.

Commercial relationships

- 4.24** Platforms have to interact with a range of different firms in order to deliver services to their customers. In order to provide access to funds and investment products, platforms have to interact with asset managers and third party wrapper providers. In order to decide which funds and products to list on the platform and to help investors make informed choices, platforms interact with firms specialising in research into investment funds.
- 4.25** We want to understand the extent to which platforms can influence and are influenced by their commercial relationships and the impact these relationships have on consumer outcomes. Our assessment will include relationships which exist where the platform is part of the same group as another firm in the value chain. We will also look at relationships between platforms and third party product and wrapper providers.
- 4.26** Competition may be working effectively if platforms use their relationships to compete on the size of the discount they offer, the quality of the products they list and the effectiveness of the tools they provide to help enable consumers and advisers to make decisions. If platforms are not able or willing to use their position in the market to obtain a better deal we will explore the reasons why.
- 4.27** To enable us to understand the impact platform relationships have on competition we will consider the following question:
- Are platforms and similar firms able and willing to negotiate a competitive price on investment charges?
- 4.28** We will assess the ability of platforms to negotiate on upstream investment charges by comparing how different funds are priced on different platforms and other distribution channels. This will include taking into account the cost of the platform and the overall investment cost relative to other distribution channels.
- 4.29** Platform relationships may not work in the interests of consumers. If relationships influence the selection of products due, for example, to a conflict of interest which is inadequately managed, the consumer may invest in a product which benefits the platform, adviser or third party tool and research provider at the expense of the consumer. We will therefore explore the following question:
- Do commercial relationships drive investment choices and what are the implications for investors?
- 4.30** We will assess the commercial relationships that exist between advisers, product providers and platforms, the impact on the flow of funds and outcomes for consumers. We also assess how reliant platforms are on third party rating agencies and how conflicts of interest are addressed.
- 4.31** Our assessment will include how often product wrapper providers are reviewed and the extent to which any commercial relationships play a factor in the choice. We will therefore explore the following question:
- How do platforms select which product wrapper to include on the platform?



- 4.32** Platforms also interact with financial advisers. We will explore the impact of the relationship between advisers and platforms under the 'impact of adviser' topic discussed below.

Business models and platform profitability

- 4.33** Platforms generate revenues from a number of sources, including fees charged to the consumer, interest the consumer forgoes on cash, other services the firm offer (such as stockbroking services) and specific product charges where the firm also offer their own products. We want to understand:

• Do the drivers of profitability affect firm incentives, the factors over which they compete and what are the implications for investors?

- 4.34** We will do this by conducting a financial analysis of the drivers of firms' costs, revenues and profits, the extent to which particular services and products contribute to firm profitability and how this differs across different types of business model. In doing so, we will also include a sample of other distributors offering similar services to platforms.

The impact of advisers

- 4.35** We will complement our analysis of supply-side issues by exploring how the interaction between consumers, their advisers and platforms affects competition. In doing so, we will explore the impact financial advisers have on competition between platforms.

- 4.36** As we set out in the previous chapter, advised platforms account for much greater assets under administration than non-advised platforms. Consumers pay for both advised and non-advised platforms. However, with advised platforms the consumer may not directly engage with the platform and may instead pay their adviser, through the adviser charge, to deal with and manage their investments through the platform. This may be because consumers prefer to leave their financial matters to their adviser, or because the platform limits consumers' access to the platform. In either case it is likely the adviser's preferences will be a key determinant in the selection of the platform.

- 4.37** We will therefore explore the impact this has on competition between platforms by exploring the following question:

• Do adviser platforms compete in the interests of the end investor?

- 4.38** To win business from advisers, platforms may compete by offering tools and services which meet the needs of the adviser. Competition may be working effectively if this dynamic results in advisers being able to offer better or more efficient services to investors. However, consumer harm may arise if the interests and choices of the adviser and investor are not aligned. To understand whether advised platforms compete in the interests of the end investor we will assess the factors which determine why advisers choose a platform on behalf of their clients, the access platforms allow consumers, any restrictions they impose and the reasons for these. We will also consider the typical use consumers make of advised platforms which will include how advised platforms deal with consumers who no longer have an adviser.

4.39 In addition to affecting the competitive dynamic between platforms, financial advisers may determine the extent to which consumers receive the benefits of competition between platforms. We will therefore explore the following question:

- Do advisers have a positive impact on the cost/quality of the platform and are these benefits passed through to investors?

4.40 We want to assess the impact advisers have on platform costs and quality, understand whether the benefits advisers secure from their platform are passed onto investors and how use of a platform has affected adviser charges.

4.41 Considering these factors should enable us to draw conclusions as to the impact adviser firms are having on the platform market, how platforms tailor their offering to advisers and whether this is resulting in effective competition in the interests of consumers.

Consumer preferences and behaviour

4.42 We will explore how consumer preferences and behaviour affect competition between platforms in both the advised and direct to consumer sectors.

4.43 In a well-functioning market, platforms would compete to offer consumers and advisers services and access to investment products that consumers want and at a price they are willing to pay.

4.44 There is a range of factors that could determine why consumers might prefer one platform over another. Consumers may value security of assets, usefulness of information, the ease with which they can access their investments and the platform's customer service. They may also value platforms' investment solutions which they would not be able to invest in elsewhere.

4.45 Our work will assess the value consumers place on their platform compared to alternative options and, in turn, whether they make choices which reflect their preferences. We will conduct consumer research across both advised and non-advised platforms and other distributors. This analysis will be supported by our assessment of how platforms compete on quality and price. To the extent we observe any disconnect between what consumers value and choose we will explore the reasons why.

4.46 Consumers and their advisers may not choose products that are in line with their preferences if relevant information about platforms and the products they list is not available, accessible or not used, or if platforms' tools do not help consumers to make informed choices. We will therefore explore the following question:

- Do platforms enable consumers and advisers to assess and choose distribution and investment products which offer value for money?

4.47 The Asset Management Market Study highlighted that consumers using direct to consumer platforms can incur charges for the on-going platform service, investment service, to trade and potentially to enter and leave the platform.⁵³ The consumer research we undertook as part of that study also found low levels of awareness

53 [MS15/2.2 Asset Management Market Study: interim report
www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf](http://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf)



amongst platform users that they were incurring platform charges.⁵⁴ This study will build on those findings by assessing whether the way in which financial and non-financial information is presented to consumers and advisers is complete and enables them to make informed decisions.

4.48 In addition to assessing the information available to consumers, we will also explore the impact the tools platforms offer have in helping consumers and advisers to compare/evaluate products and services across different platforms (and more broadly) and whether tools help consumers assess their own needs and preferences. In addition, we want to understand whether there are barriers preventing platforms developing advice propositions.

4.49 Consumers and advisers may face other barriers which prevent them from making effective choices. We will therefore explore the following question:

• Do challenger platforms and similar firms struggle to compete as customers face barriers to switching?

4.50 We want to look into the existence of barriers to switching and their effects on consumer choice making. In doing so we will take account of initiatives which may improve competition between platforms. For example, in a recent consultation paper, which we welcomed, several trade bodies from the pensions, insurance and investment industries have called out for providers to take proactive and collective decisions to improve the transfers and re-registrations of investment and pension assets.⁵⁵

4.51 This document marks the start of the Investment Platforms Market Study. We welcome feedback on the topics and questions set out in this chapter. If you have views please send them to Investmentplatformsmarketstudy@fca.org.uk by 8 September 2017.

54 MS15/2.2 Asset Management Market Study: Interim Report Annex 3 – Consumer Research, November 2016
www.fca.org.uk/publication/market-studies/ms15-2-2-annex-3.pdf

55 Improving Pension and Investment Transfers and Re-registration: consultation paper issued by the Association of British Insurers, the Association of Member-Directed Pension Schemes, the Association of Professional Advisers, the British Bankers' Association, the Investment Association, the Tax Incentivised Savings Association, the UK Platform Group, the Wealth Management Association.



Annex 1

Abbreviations used in this paper

AUA	Assets Under Administration
EA 02	Enterprise Act 2002
FSMA	Financial Services and Markets Act 2000
OCF	Ongoing charges figure
CFD	Contract for difference
COBS	Conduct of business sourcebook
SIPP	Self Invested Personal Pension

We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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