The future of investment platforms

The advent of investment platforms around 20 years ago in the UK has changed the lives of financial advisers, along with the financial services industry, immeasurably. This was the view of Ian Taylor, Director at IntegraFin, during his talk at the recent Glacier IdeasLab 2020 webinar.

Financial advice after 20 years of platforms

In the past two decades we've seen that the price the average person pays for retail fund management has more than halved. Another significant change brought about by platforms is that open architecture is a standard feature for all wrapper products, providing a wide investment selection for investors and their advisers. Investors have benefited since they have instant and transparent data along with online access to their portfolios. Platforms have further facilitated inter-generational planning.

How has adviser behaviour changed?

Advisers today don't distribute, they are buyers for their clients and get paid by their clients rather than the product providers. Platforms are also not in the business of distribution, but act as custodians for their clients.

Plans versus products

The advent of platforms allows advisers to focus on selling financial planning, rather than products, as their core service. The products themselves are not "stand-alone" – they all have their own role to play as part of an overall financial plan which has multiple goals, tax-efficiency being one of them. Once the initial plan has been set up in accordance with the client's circumstances and risk profile in mind, the remaining ongoing decisions revolve around how best to allocate money within the plan and to push funds towards the most tax-efficient component. An investment platform is the perfect base from which to run a model such as this. In fact, it would have been impossible to do this before the arrival of platforms.

Investment alpha versus tax alpha

As we've noted previously, advisers no longer portray themselves as investment experts or distributors – their value proposition lies in financial planning and providing tax advice, allowing them to instantly demonstrate the practical value they add to their clients. This in turn takes away the pressure of stock picking and constant monitoring of funds.

Active versus passive

We've seen a considerable bias towards passive investing over the last few years as this presents a simple way to buy-and-hold funds – and it's comparatively cheaper than active funds. The implications of this for fund managers are also considerable and present an opportunity to offer long-term market exposure at a cheaper cost.

Single platform versus many platforms

Efficiency logic suggests that a single platform is the ideal, but risk and regulation pressures push advisers towards using multiple platforms. There are a number of reasons for this – it could be that a particular platform better suits the needs of a particular client or it could be a resistance to change, i.e. having always used certain platforms for particular reasons, the adviser continues to do so.

Result – A new market model

In the table below, which shows what the split between roles looks like today, anything other than advice and investment management will fall into the infrastructure category, which includes platforms.

Label	Activity	Providers
Financial advice	Provision of recommendations to define the financial plan	Financial advisers
Investment management	Provision of assets to meet the goals of the financial plan	Discretionary fund managers and fund managers
Financial planning infrastructure	Everything else – custody (including tax wrappers), trade execution and reporting	Everyone else (platforms, life companies, etc.)

Winners and losers

The winners of the future will be the holistic financial planners, making use of open architecture, multi-wrapper platforms underpinned by low-cost, rules-driven investment intellectual property (IP).

Ian concluded by saying “the future is bright for financial planning.”

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