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Price differentials

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The current FSA thematic review on platforms will probably make this one of my most read articles, I'm not too proud to admit that, but there is no doubt that as platforms mature and the transactional functionality becomes more commoditised, price differentials will be one of the ways of differentiating platforms.

The problem is, it isn't that straightforward. Here are a few issues you may need to consider along the way when comparing price.

Bundled vs Unbundled

RDR may do us all the favour of ending this debate, as all platforms are forced to at the very least disclose fund manager income, if not rebate them back to the client. Until then the advisor has two models to choose from. Emotive commentators on this matter will often describe the bundled version as 'opaque' and the unbundled as transparent.

The transparent model has clear advantages in a post RDR world, but it is possible to be distracted by this and lose sight of the overall cost to the client when using an unbundled platform right now. In general, the benefits of the fund manager rebates will only outweigh the advantages of the transparent platform fee for clients with sizeable portfolios.

The precise amount depends on the platform used, funds selected etc, but for many platforms the tipping point can often be over £200, 000. Advisers with smaller portfolios, below £80, 000, residing on an unbundled platform could face future criticism because of the high overall cost of the platform, compared to an bundled platform. On the flip side, clients who have amassed significant wealth may be better off on an unbundled platform. Most platform have charging 'sweet spots' but few will be public about them.

I see no need to go through a full platform selection process on a client by client basis, but some analysis in this area based on different but typical client portfolios will facilitate your strategic decisions.

One platform?

This is the reason why a number of IFAs have aligned themselves to two or three platforms, who offer an attractive price point to different parts of their client bank. It does not prevent an IFA with a much more concentrated client bank, for example all with investable assets over £250, 000, from using one platform solution. This is why boutique wealth managers successfully use one platform, but many IFAs have too much 'difference' in their client bank to adopt just one.

And the rest…

You also need to look at any additional charges which may be incurred, which may or may not impact on costs depending on your business model. If you have a strategic, passive investment approach, then dealing charges incurred on fund switches may not be an issue to you. If you asset allocate on a tactical basis, and/or use active fund managers then the chances are you will get through more fund transactions and a low cost platform may start to look a little more expensive.

The risk adjusted price

Let’s throw another controversial thought into the melting pot. Transact isn’t expensive. Transact is correctly priced. The other platforms running at a lower cost aren’t making money, and their future is less certain than Transact’s. This may not be everybody’s view, but it is entirely reasonable to conclude that after 18 months of economic turmoil, a client may be more than happy to pay a few extra bps in exchange for a little greater security.

Making that value judgement is part of your job as an adviser, there is no right or wrong answer but remember, a client may still own the underlying investments managed on a platform, but I guarantee massive problems if the platform goes under.

The TER of advice

Something which I have picked up on more recently, especially when talking to smaller discretionary managers, is competition over the TER of advice. I have no doubt that the increasing use of passive investment instruments has pushed this along. It is already possible to service wealthy clients for 1.6 per cent using the right platform/fund manager combination, with the intermediary taking 1 per cent of this. Vanguard et al will drive this down further. One final word of warning. If you place great emphasis with your clients on the importance of price, you should be ready to justify your own.