BETTER. STRONGER. FASTER.

HOW DO WE REBUILD CENTRALISED INVESTMENT PROPOSITIONS FROM HERE?

A market insight report from the lang cat

July 2020

THE LANG CAT

SIX MILLION DOLLAR STATISTICS

82%
of firms operate a centralised investment proposition

53%
of firms outsource asset allocation

0.81%
is the average ongoing advice charge

2010
– the year we first read a regulatory document with CIP in it

47%
of firms outsource investment selection

1.7% to **2.3%**
is the total cost of ownership for a typical advisory model CIP, held on platform

89%
of firms use percentage-based charging for ongoing service

38%
of firms say that developing client communication is a priority

0.5%
is how much we think total cost of ownership could come down

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BEFORE WE GET GOING

This paper was commissioned by Intelliflo to look at the history and potential evolution of centralised investment propositions and explore how advisers can use technology to create alternative investment strategies that deliver the 'value for money' and suitability demanded by regulations such as MiFID II and PROD.

As a specialist financial services software provider Intelliflo has a clear interest in this area of the market. However, while this is a sponsored analysis, it is completely free of any influence or editorial control by Intelliflo. The fine people there didn't get to check or challenge any of our data, our analysis, our view of the market or our proprietary research.

Organisations hire us for papers like this because of our independence and for the honest, direct and sometimes difficult opinions that come with it. We will never compromise on that.

A NOTE ON RESEARCH

The majority of the data in this paper are based on research we carried out in May 2020 with 110 financial advice professionals from our lang cat research panel. A screening question made sure only firms which use CIPs responded.

Other data are taken from our second annual *State of the Adviser Nation research*. This was conducted across October and November 2019 with 404 firms taking part.

We are hugely grateful to everyone who took the time to participate.

INTRODUCTION

Hello and welcome to **Better. Stronger. Faster.**

Centralised investment propositions (CIPs) are the way business is done in the advised investment market. According to our latest *State of the Adviser Nation* research, 82% of firms operate one.

WE HAVE THE CAPABILITY

CIPs are so central now that they can determine the efficiency of your advice business and the quality of outcome your clients receive.

Given that fund managers, platforms and back office providers all contribute to the CIP cost pie[1] alongside advisers, we wanted to understand how total costs of ownership (TCO) break down in 2020. To assess whether something is of value (for money), you first need to know what it costs. For the client, this is the total cost of investing; for the advice firm it's the cost of delivery. We take a close look at both.

We also examine the theory that advances in technology have the potential to not only improve the service and experience the client is receiving, but also create a more cost effective, less risky business model in the process. How close is this win-win scenario to becoming a reality?

BUT DO WE REALLY?

As you'll see, most firms are comfortable with the outcomes their CIP is generating from an investment point of view. However, the operational side and overall client experience are in need of some TLC.

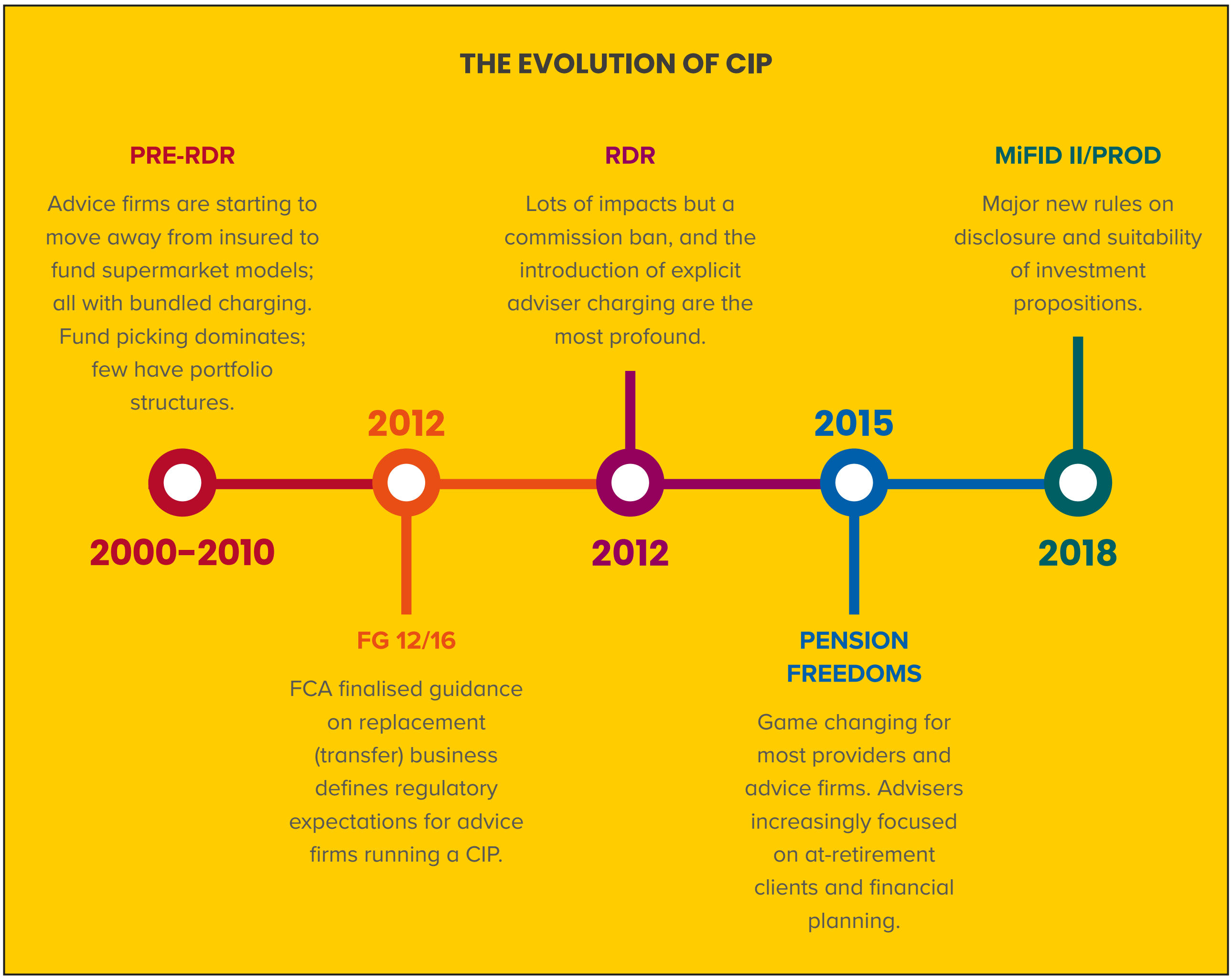
A properly designed and managed CIP delivers benefits to the advice firm and their clients. Many such CIPs have been running successfully for a number of years. However, things have changed. MiFID II (the Second Markets in Financial Instruments Directive) raised the bar with regards to how portfolios need to be managed on an ongoing basis. And of course, at the time of writing we are currently going through a period where the importance of digital connections and communications has never been greater.

With this in mind, how do CIPs need to evolve so that technology does more of the heavy lifting? Are we on the verge of the bionic CIP? Read on to find out...

1. Surely the most disappointing pie of all time.

HOW WE GOT HERE (AND WHERE THAT IS)

Before we look forward, let's take a look back to see how the market for platform hosted investments has evolved.



The first regulatory guidance specifically about CIPs came in the form of 2012's *Assessing Suitability: Replacement business and centralised investment propositions*[2]. FG12/16 set out examples of good (and poor) practice for firms looking to implement their own CIP. It's over eight years old but most of the guidance still stands and has most recently been embedded as rules via the Product Intervention and Product Governance Sourcebook (PROD).

2 https://www.fca.org.uk/publication/finalised-guidance/fg12-16.pdf

Evolving regulation

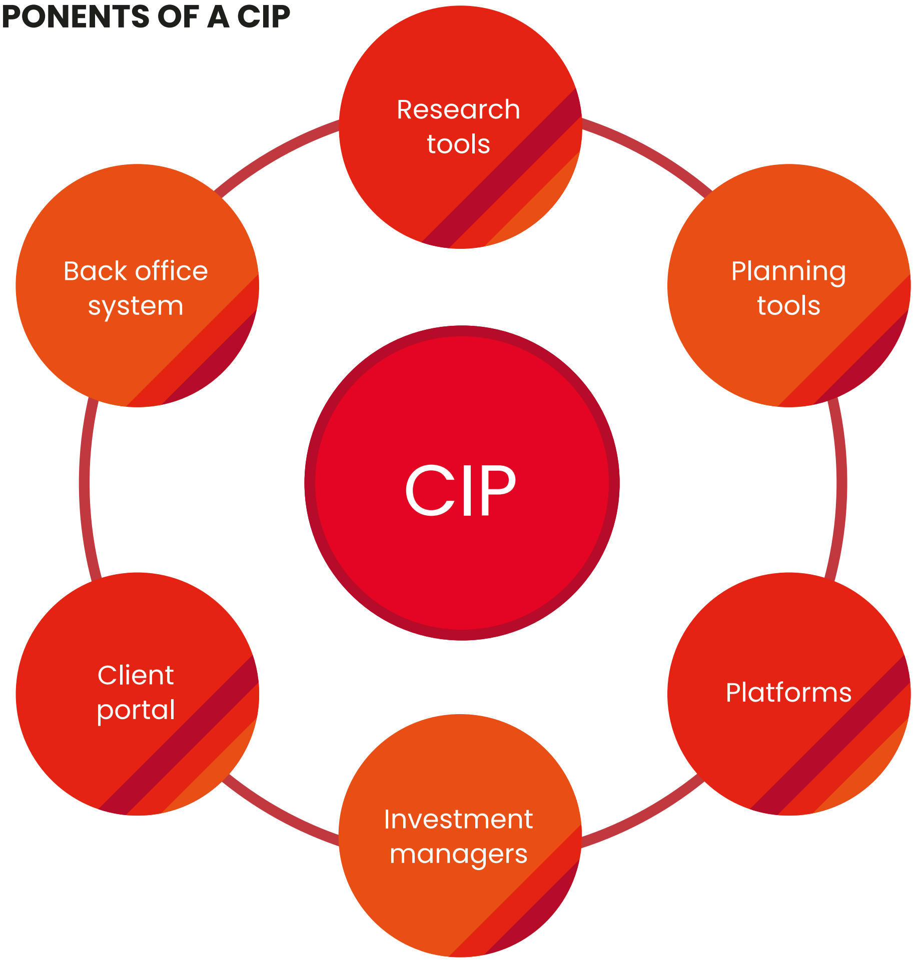
The Retail Distribution Review (RDR) also drove the use of CIPs, thanks to its focus on professionalism, consistency and suitability. With the introduction of adviser charging, many advisers found the client conversation easier if they were discussing a portfolio (containing a wide range of funds) as opposed to one managed fund.

Just as advice firms started to get comfortable in their post-RDR skins along came the Pension Freedoms, exploding the need for later life planning. This increased the demand for outsourced investment solutions, with advice firms concentrating on planning clients' income and cashflow.

Most recently, the PROD rules set out how a CIP needs to be designed and managed, while MiFID II raised the bar in terms of suitability and disclosure. The need for greater personalisation of information created an admin headache for firms running a CIP, with customised cost and charges disclosure and discretionary portfolio clients having to be notified within 24 hours of losses of 10% or more.

All this has made the technology powering a CIP critical to ensuring the advice business can continue to meet its regulatory requirements.

COMPONENTS OF A CIP



A CIP, then, is wider than just a set of funds. It's a bringing together of different systems, providers and tools:

- planning tools for engaging with clients and developing the financial plan, such as cashflow modelling, risk profiling and asset allocation tools.
- research tools and provider information to identify the investment solution, with the PROD handbook setting out regulatory expectations.
- ongoing communication with clients through an online client portal or via paper documents.
- the back-office system to hold all the client data.

WE HAVE THE TECHNOLOGY

So that's our history lesson done. Let's dive in and examine what our research tells us about current adviser practice when it comes to running CIPs – and where they'd like that practice to go in future.

Meet the firms

- All our firms run CIPs.
- Over half of our 110 respondents are business owners, with the remainder split between adviser or paraplanner roles.
- Just under three quarters (71%) work in an independent advice firm, with a further 15% independent sole traders.
- Over half are advising on over £50m of assets.
- Firms have been running for an average of 15 years and have five advisers, three paraplanners with six admin and other support staff.
- Our average firm serves around 400 clients.
- A third (30%) have no minimum account size for their services. For those that do, the average minimum is £230k.

Initial fees

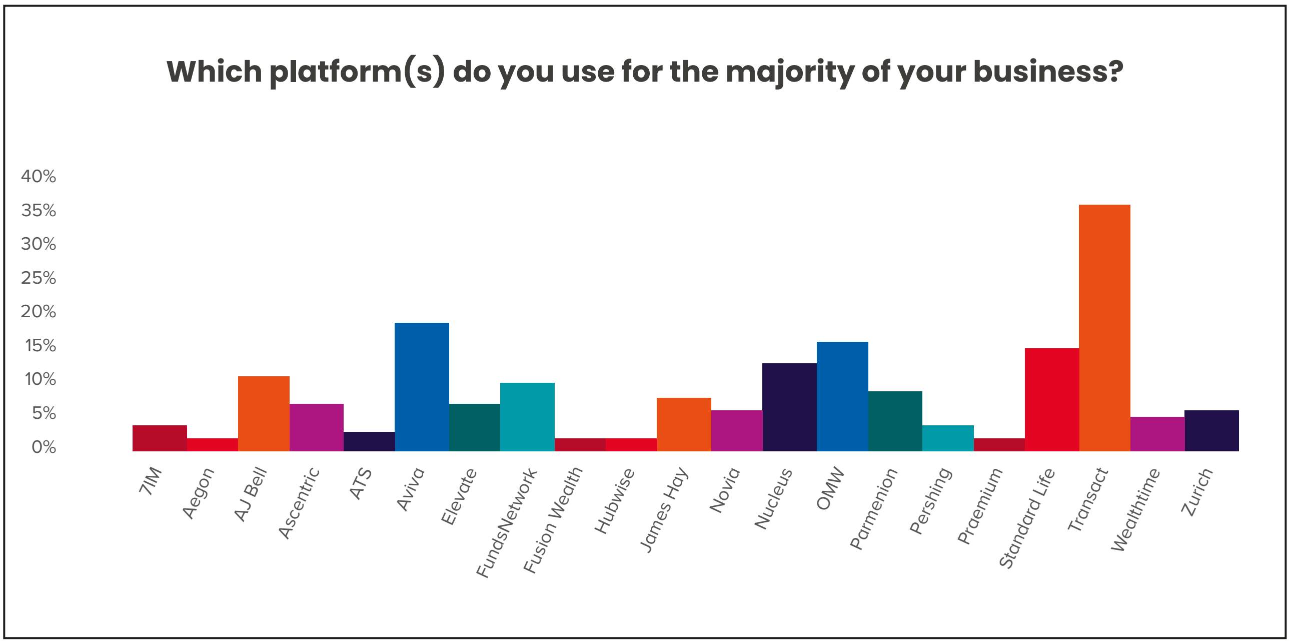
Just under half (45%) favour percentage-based, with 35% preferring a fixed fee and 16% using a combination (including fixed planning with percentage implementation or a capped percentage).

Ongoing fees

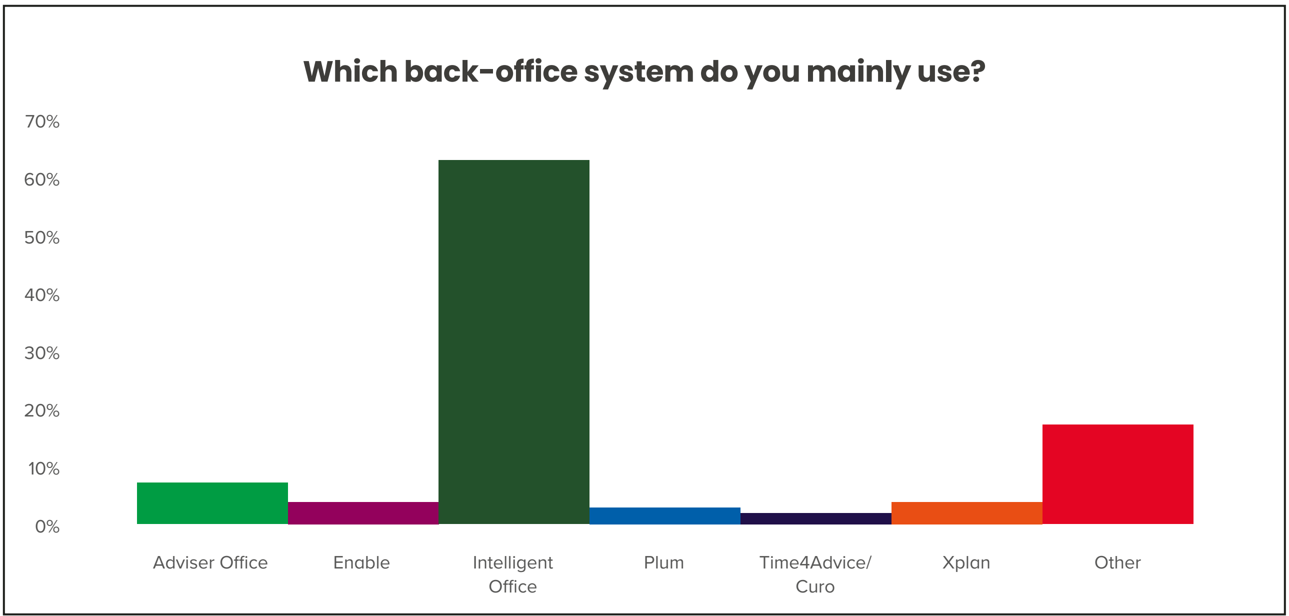
There's an even stronger showing for percentage-based here with only 11% favouring a fixed fee. These percentage fees range from 0.25% to 1.25% with an average of 0.81%. For those using fixed fees, the average is £2,876 per annum.

Systems

Our respondents use a wide range of platforms, with Transact and Aviva the most popular.



The usage pattern for back-office systems is more concentrated, with over 60% of firms using Intelliflo's Intelligent Office[3].



CIP methodologies

As part of our *State of the Adviser Nation* research we looked at what is inside a typical CIP.

Most firms have a range of approaches, designed to meet the needs of a range of client segments. When it comes to forming those segments, 41% of firms in our sample favour portfolio value.

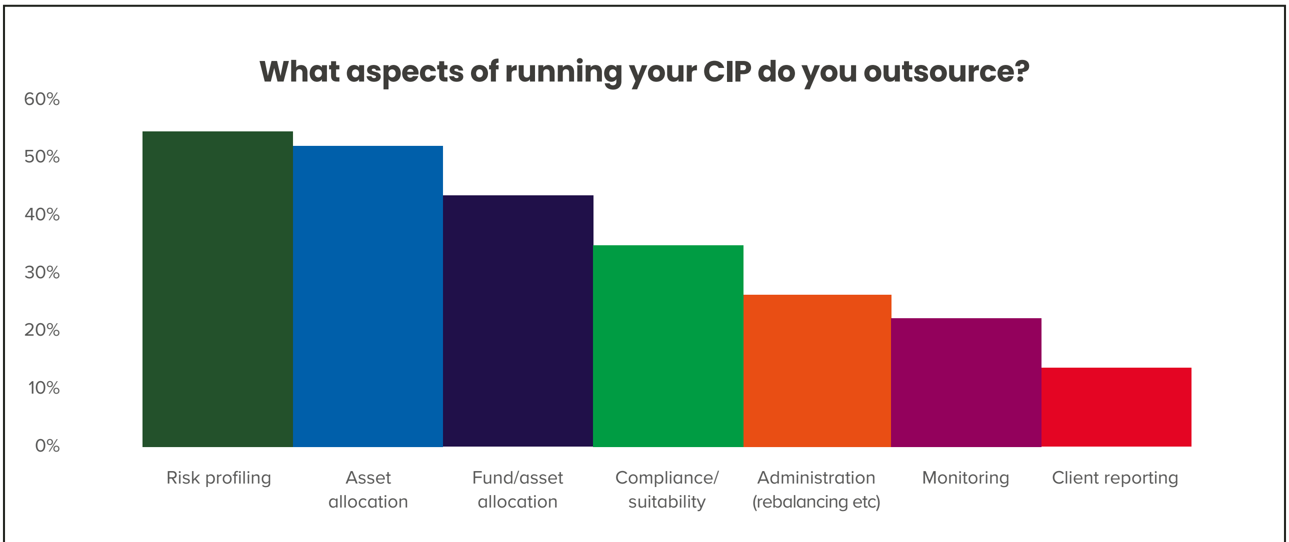
Within these segments, firms typically use a number of investment solutions, such as model portfolios, multi-asset funds, and discretionary solutions. In-house model portfolios (run on an advisory basis) are the most frequently used, both in terms of availability and new business flows.

Three quarters (77%) of the firms we questioned for this paper run their CIP on an advisory basis.

Investment solutions

Almost every firm (93%) uses open-ended funds in their CIP with cash second at 56% and non-fund options lagging far behind.

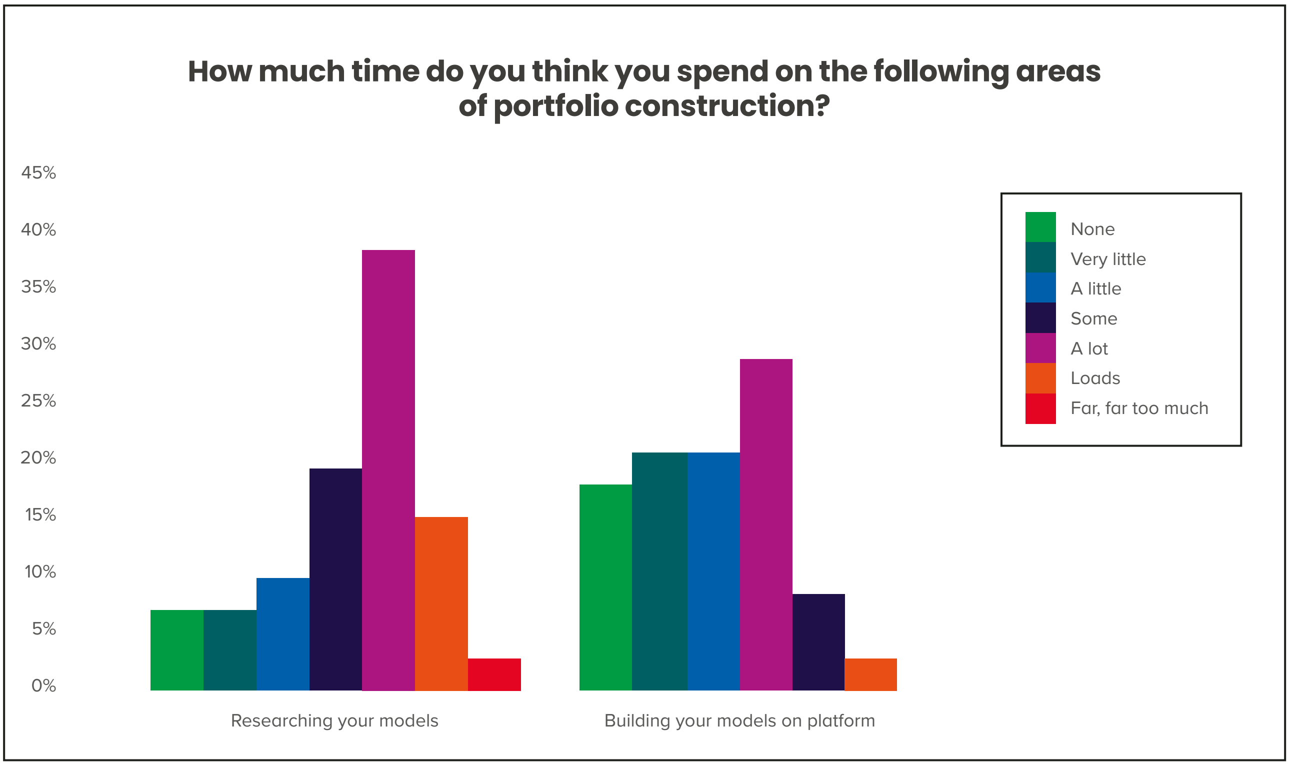
It's interesting to note that, while over half of firms use a third party for either risk profiling and/or asset allocation, the client contact points, particularly client reporting, tend to be managed in-house. Advisers understandably want to be able to control and deliver CIP reporting as part of a wider client offering.



3. Use of IO wasn't a criterion in our research despite Intelliflo's sponsorship of the paper. So there.

Building and maintaining CIPs

Now that we know what's inside CIPs, let's take a look at how advisers build and maintain them.



The creation process

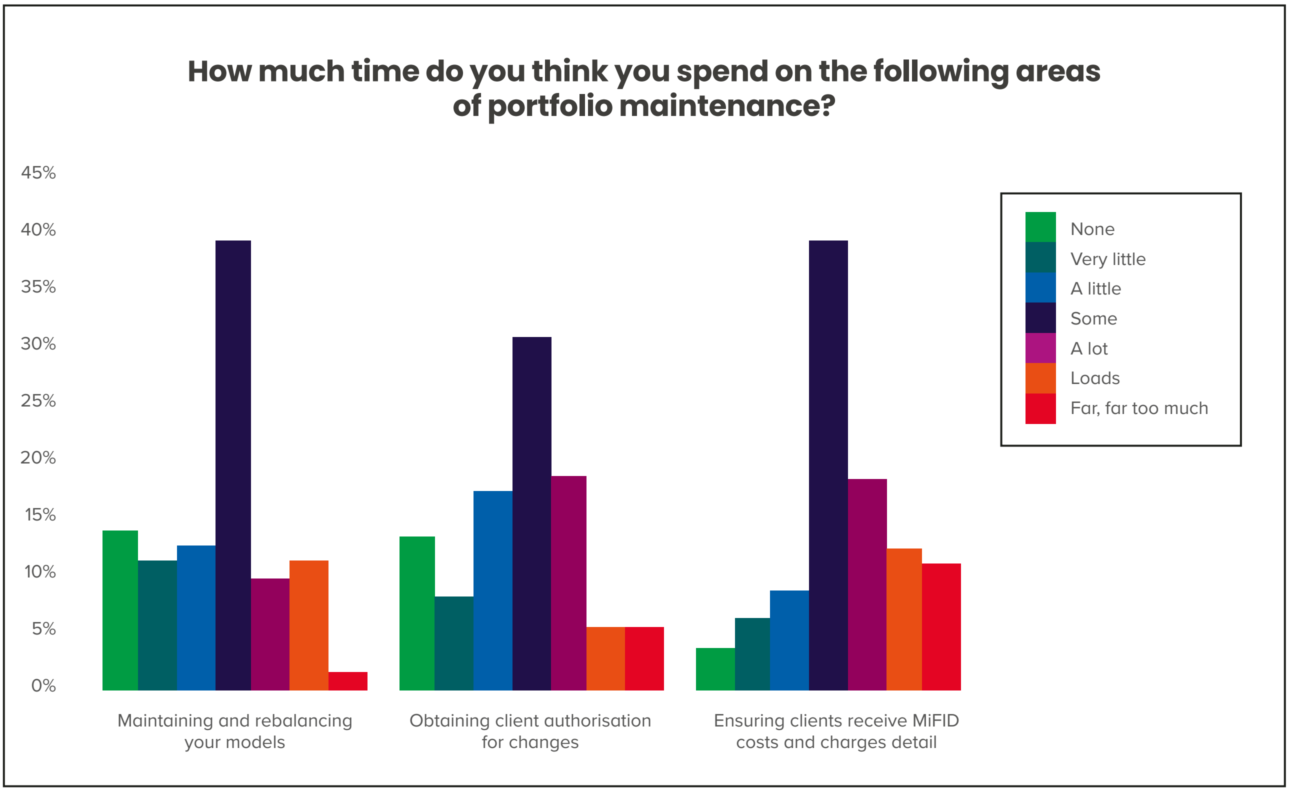
Researching and creating portfolios demands considerable time but most advisers see this as time well spent with one respondent describing it as *"an essential element for which there is no shortcut."* That said, many expressed frustrations at the difficulties faced in obtaining information, with several highlighting a need along the lines of *"an easy-access directory of all DFMs in the market."*

Having researched and constructed the portfolios, the next step is to build them on the platform(s) of choice. Again, most respondents were broadly happy with how long this takes, with only 11% in the unhappy columns. There were, however, a number of comments about the fiddly nature of the process and many felt that more automation and integration between platforms, research tools and back office systems would help.

"We enjoy this and do bring in external experts, but it does take a lot of work."

"We have 11 models including ethical variants so it can be fairly time consuming especially over multiple platforms. Some form of standardised update would be useful."

Ongoing maintenance



Our firms are markedly less satisfied with this half of the process – obtaining client authorisations (for any advisory changes to the portfolio) and cost and charges disclosure are particularly painful. It is worth noting that for both these stages, MiFID II introduced additional requirements at the start of 2018. A process that might have been working well before that point suddenly got a lot harder.

For client authorisations, the regulatory requirement to obtain client approval every time the portfolio needs to be changed and/or rebalanced creates an inevitable overhead. This can be especially problematic for firms running bulk model portfolios.

"[The problem of] delayed responses means that we are running a range of models. [It] also potentially impacts upon client outcomes."

This pain is keenly felt by most firms running these models, and there appear to be two distinct solutions emerging. For some, the answer is to take on their own discretionary permissions, removing the need for client authorisations every time the portfolio changes. Others are looking for technology to do the heavy lifting with secure messaging, platform hosted solutions and client portals.

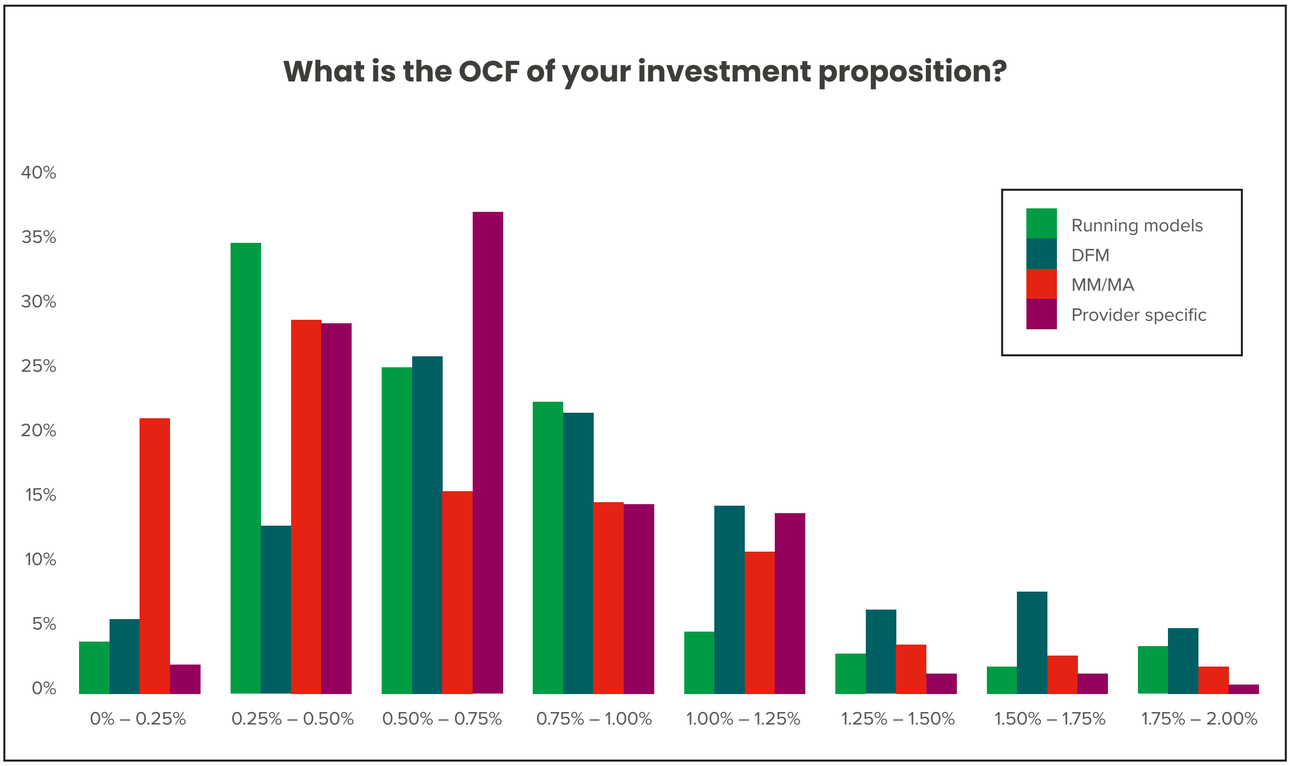
"[Obtaining client authorisations] has been significantly better since adopting a secure message system to communicate with clients, reducing the need to post letters and the time lag of awaiting confirmation."

Cost and charges disclosure proved to be the most unpopular requirement, with over 40% of firms saying they were spending at least "a lot" of time on the task. This isn't helped by the belief that the information isn't actually of value, with a typical comment being: *"FCA mandate paperwork that in reality most clients will not read."* This appears to be an area where advisers are crying out for platforms and technology providers to make things easier to manage and provide information that will be more useful to clients.

"Information provided varies between platforms rather than a standardised industry approach."

Counting the cost

We saw earlier how firms are charging for their advice services, but what about the cost of the investment proposition itself? As part of our *State of the Adviser Nation* research, we asked firms to price their most commonly used mid-risk portfolio for each of the main CIP solutions.



A glance at the left-hand side of this chart makes it clear that most low-cost investment offerings are based on multi-asset funds. Vanguard Lifestrategy was frequently mentioned here, which should come as a surprise to no-one.

Moving to the right and most advisers claim their own models are between 0.25% and 1% in terms of ongoing charges figure (OCF) (that is, excluding platform and adviser charges). The very high estimates of 1.5% come with the caveat that we suspect some firms may have confused OCF with the total cost of investing.

The pattern for discretionary fund manager (DFM) models is broadly similar; more adviser models shift to the left than the right, but both groups have a strong presence between 0.5% and 1%. Provider-specific models are a bit higher, but of course these include the wrapper charge as well – Royal London's Governed Portfolios being a prime example.

By the time you add in advice and platform fees, a TCO in the range of 1.5% to 2% becomes the norm. Obviously, this will vary. However, one thing that almost certainly won't is the charging method. Percentage-based charging rules, with only the advice fee having any fixed element.

Looking to the future

Most firms are unlikely to change their underlying investment solutions or back-office system, either because they are happy or because it's too difficult. However, many see room for improvement in the client experience, as one respondent explained: *"Performance is not the key to client satisfaction, knowing that the plan is on track is".*

"To allow us to send more documents to clients electronically, via a client portal – for efficiency and reduced cost."

Does your firm have any plans or ambitions to make the following changes?

	Yes, it's a priority	Yes, but it's not a priority	No
Adopt improved client portal for investment monitoring and review	38%	33%	29%
Seek deeper integration with back-office system, platforms and research tools	37%	37%	27%
Use different technology solutions to serve different client types	38%	30%	32%
Outsource investment management	11%	10%	79%
Adopt a new back office system	7%	21%	72%

Nearly four in ten rate client portals as a priority. For firms with these systems already in place, the priority is to source deeper integration with external tools and platforms, to make the CIP operate more efficiently.

When we asked what the ideal TCO should be, one adviser commented: *"[The question is] a tricky one as that's a finger in the air scenario. Each company should charge what they need to as a business. Then it's up to the market to determine whether that's right."*

Some felt that the cost should reflect the services on offer, which might mean paying extra in some cases: *"For ESG portfolios, a higher TCO would be appropriate (currently)".* However, for those who gave a figure, a 2% total cost seemed to represent the tipping point between costs being reasonable value and too high.

"Personally, I think any TCO in excess of 2% is too much. Ideally I think we should be looking to get this down to around 1.25%."

So, what's the problem?

Our adviser research highlights two clear issues, both of which have been building up in recent years.

1. Obtaining client authorisations

An overwhelming 82% of firms say this is a major issue. Firms running advisory models are required to ensure any trades or rebalance instructions are authorised by the client before the transaction takes place. Failure to do this could mean the firm is acting outside of its permissions. This challenge gets incrementally harder as life goes on: the more clients invested in the model portfolio, the more instructions need to be collated. It also has a knock-on impact on the portfolio itself, with different versions needing to be maintained to account for clients who are returning authorisations (or not responding) at different times.

2. MiFID II disclosure

The requirement for cost and charges disclosure, showing the pre- and post-trade position, as well as a more detailed annual statement of costs, massively increased the time many advice firms spent running their CIP. A whopping 83% of respondents in our survey share this pain.

Advisers are looking to technology to solve these problems and do much more of the heavy lifting.

CAN WE REBUILD IT?

So, we've seen how advisers are building and running their CIPs, and their priority areas for improvement, but is there a better way of doing things? How ripe is the CIP sector for disruption, and in what form might these changes come through?

Let's take a look at each element of the CIP to find out. For each, we'll summarise where it's at, think about what disruption might look like in terms of both proposition and price, and then talk about what some of the inhibitors might be. We'll mention some interesting firms and propositions to watch along the way.

We'll then rate each element for how much movement we think there will be over the next five years, and how much impact that movement will have.

INVESTMENT SOLUTION

Where we're at

This is the beating heart of the CIP. Whether it's an insourced advisory model or any of the many other flavours out there, there are obviously a number of factors that firms will use to select any investment solution.

As we saw earlier, models of one form or another are overwhelmingly favoured at the moment. What we *aren't* seeing is a great hunger for a fundamental shift in how these structures work. That's not surprising; firms have had plenty to deal with through RDR, MiFID II and PROD, and further disruption to something as fundamental as how the money works isn't likely to be a priority right now.

What would disruption look like?

There are all kinds of possibilities here. In terms of propositions, we have only just started to see what technology can do for investment construction. Here are some of the structures we think we might see in our market in the short to medium term:

- Propositions which look to micro-segment end clients to segments of one and create unique liability-driven portfolios on the fly which match cashflow models. Increasingly sophisticated algorithms backed with machine learning do the maths; the rest is about making the management happen at a commercially viable rate.
- Propositions which learn from the DC world and blend segmented mandates, direct investments, funds and strategies to create structures for groups of clients inside which managers can be appointed and removed without the heartache and the paperwork.
- Propositions which look beneath fund structures and enable clients to invest directly in underlying assets at scale without the complication and expense of funds.

All these exist now or will do shortly – which is of course a different thing to them becoming widely adopted.

In terms of price, we're already seeing a race to the bottom for the managing and provision of portfolio structures. Vertically integrated propositions are routinely charging either a zero or very low fee for MPS management; they make their coin from the underlying assets themselves.

Perhaps more excitingly, we see firms starting to think about what they're buying in when they buy a model, or a multi-asset fund. Some of that is execution, to be sure, but a lot of it is intellectual capital. That's a natural thing to rent, mark up and pass on, in just the way that firms do with cashflow modelling. So we have seen new suppliers spring up who don't manage the money themselves, but do provide the order sheet for what the portfolio should be investing in – of course, firms like Dimensional have been doing that for a long time already.

We also see just one or two fixed-fee propositions coming into the market. There is a debate to have around cross-subsidy and the merits of percentage-based charging, but few would argue that a client with a half million pound SIPP wouldn't be better off paying a 'rental' of £20pm plus VAT for their third-party MPS than having a DFM camping out on their portfolio for 0.3% plus VAT (the arithmetic, by the way, would leave the client over £1,500pa better off). And given who's sponsoring this paper, we'd better mention that Intelliflo's Integrated Model Portfolio Service (iMPS) currently gives advisers access to two model portfolio providers, both operating on a fixed fee basis. Invesco's models are £1 per client per month (up to a maximum of £70 per firm per month). Sparrow's models are 8bps per annum capped at £16 per client per month.

What's less clear is whether the fund world itself will change. Propositions such as Orbis try to rebalance the risk/reward equation more equally, and there have been some interesting developments in terms of performance fees from Fidelity and others. But this is a trillion-pound industry and it will, inevitably, be the last thing to change.

What are the inhibitors?

There are genuine obstacles to major change. On the proposition front, technology needs to move on not just in the disruptor firms themselves, but throughout the 'stack' of technologies advisers use in their normal course of business. Platforms, investment analysis systems and practice management systems need to be able to deal with the kinds of innovation mentioned above; that all needs paid for and unless advisers show overwhelming love for challengers who can accommodate new ways of working, the impetus won't be there and things will take longer.

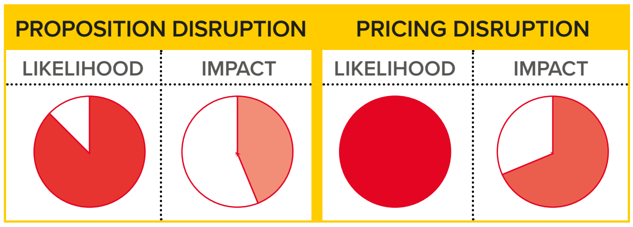
Price innovation in terms of fixed fees and other structures for portfolio management are, we think, a given. In five years' time we would be surprised if a reflexive 'thirty plus VAT' structure receives anything more than a roll of the eyes from most firms.

And, as mentioned, the hardest nut to crack is asset management itself. We see no signs of the asset management industry moving away from percentage charging. There is a saying about certain birds and certain winter festivals…and a sector which is making profits of thirty-six percent has little incentive to do anything but spin its wheels.

Ones to watch

For innovation in portfolio management, we think **Portfoliometrix** is really interesting. We are looking forward to the launch of **Nucleus**' IMX proposition. And while the portfolios themselves are relatively traditional, the highly integrated nature of **iMPS** is a genuine step forward.

For price innovation, it's **iMPS** again. **Sparrows Capital** partners iMPS but has a standalone fixed fee DFM MPS service too – and even the challenges to VAT from **Tatton** and others are worthy of note here.



The lang cat's prediction

We could see price pressure bring solution management down to close to zero; perhaps 0.05% or so from its current 0.36% standard, and with no VAT too based on the Tatton ruling[4]. At the same time, the fund industry will end up absorbing some pressure and so underlying investment instrument costs will fall from an average of about 0.85% in adviser portfolios to 0.65% or so.

4. Citywire – Tatton boosted by £1.7m tax refund after HMRC rules MPS VAT exempt – 16 June 2020

PLATFORM

Where we're at

Platforms have successfully positioned themselves as being the best place to power a CIP. However, advice firms are now looking to their back-office system to do more of the heavy lifting, especially with regards to client reporting and authorisations. This, in turn is leading advisers to reassess what functionality they, and more importantly their clients need from a platform.

What would disruption look like?

If platform(s) are playing less of a role in researching, administering, and reporting on CIPs, that's not to say they are obsolete. There are still critical services that platforms are best suited to provide. Payments, wrappers, and safe custody are all important and complex.

That said we are starting to see the platform market fragment. Alongside established services we are seeing low-cost stripped-back solutions enter the market. These providers offer core platform functionality but with none of the bells and whistles for portfolio tools. Integration with back-office systems is a key feature, and most encourage, if not mandate, a completely paperless advice process.

Price will be a big factor. Platform fees obviously vary, but in ballpark terms a reduction of something in the region of 15 to 20bps is achievable. In the mix are 'adviser pays' models, which are attractive in one sense, but which transfer considerable risk to the firm.

One thing we don't see much future for are fixed fee models – when Alliance Trust Savings closed up the last and only fixed fee player left the advised side of town. There are a couple of capped models, but it's slim pickings in terms of different structures beyond that.

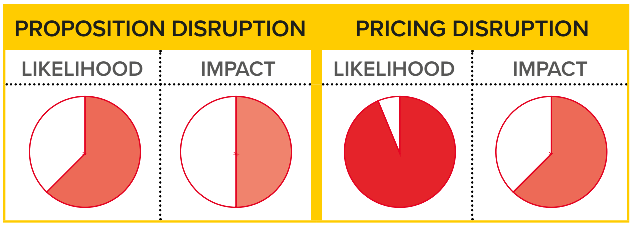
What are the inhibitors?

Price isn't the only way advisers select platforms. They are required to make their selection via a full due diligence process. The big challenge for new entrants is to convince advisers that they can deliver on core platform needs. No matter how good your technology looks it can be difficult to get advisers – and risk-averse clients – to make the leap from the trusted big platform brands.

Sadly, the other inhibitor to these technology rich solutions is legacy technology elsewhere. Full integration, with straight through processing initiated from within the back-office can, and does work with this new breed of platform providers, but in the real world an advice firm is not going to be able to move anything like the majority of their clients assets into the new solution without considerable work.

Ones to watch

Adalpha isn't live yet but has a mobile-first proposition that is genuinely exciting; **Fundment** is similar but is a bit further down the tracks. **Seccl** has a white-label proposition for larger firms, and an initial implementation with **P1** which looks set to do some damage; **IFDL's** white label proposition with its new owner **M&G** also has some game here, as does **Hubwise. Multrees** brings genuine family-office, multi-custodian global flexibility to the retail space for the first time, and **Praemium** mixes signatureless and paperless processes, really nice client reporting and innovative AI features in a way we think others will follow in time.



The lang cat's prediction

The platform market feels like a market that is poised to fragment, as opposed to full on disruption. There will still be a place for the established brands and propositions, not least since many advice firms are happy to work this way. However, the demand for lower cost 'no frills' services, integrated with the back-office system and client portal is growing, and on the supply side there are a number of new entrants poised to meet the demand.

The current 'average' platform charge for a £250k portfolio split across wrappers is in the region of 0.32%. We think this will fall to around 0.25% in the next five years.

ADVICE

Where we're at

The final part of a CIP is advice. In terms of external factors, whilst there is little evidence of the end consumer becoming price sensitive, there are an increasing number of low-cost advice services, such as EQ Investors and OpenMoney. The regulator is also starting to take a closer interest in the suitability of advice fees, especially with regards to ongoing charging.

What would disruption look like?

Whilst it is likely to be a slow/gradual process, we think disruption for advice fees will take place over two stages:

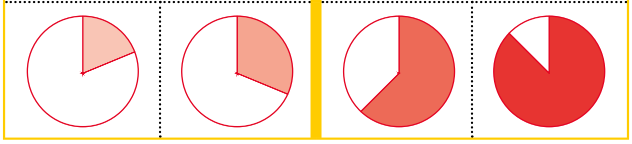
1. Short/medium term structural changes to fees. As the regulatory pressure on ongoing percentage-based fees increases, we expect the number of firms offering a fixed or capped servicing fee to increase. The actual amounts being charged will remain; the structure will evolve.

2. Long term reduction. If client fees are going to fall, the cost of delivering advice needs to fall as well, otherwise advice firms will be reducing their own margins. As we have said, one way to mitigate the impact is to ensure the advice process and CIP are as integrated and slick as possible. An exercise of process mapping advice and ensuring each element is as cost effective as possible can also help with the move to fixed fees. By understanding the true cost of delivering their services firms can price accordingly, allowing for a reasonable margin.

What are the inhibitors?

The big unknowns for all of this are client behaviours and the regulator. In the main, clients show little sign of becoming price sensitive. The two market leaders (in terms of AUA and flows) in the advised and direct investing channels are by no means the cheapest. And whilst the regulator is starting to take an interest, it's going to take several years for this work to reach its conclusion, with the Assessing Suitability 2 work now delayed until February 2021.

PROPOSITION DISRUPTION		PRICING DISRUPTION	
LIKELIHOOD	IMPACT	LIKELIHOOD	IMPACT



The lang cat's prediction

A slow burn. The simple fact that advisers define the total cost of investing inevitably means they will look to other elements of the CIP to reduce costs, before turning to their own advice fees; this makes sense. However, whilst the external headwinds might also be slow burning, we would urge advisers to keep a close eye on the regulatory direction of travel, and to at least position themselves accordingly.

Averages aren't our friend here, but we think firms will gradually slide ongoing adviser charges down from an average of 0.81% to perhaps 0.60% in the next five years, with an eventual long-term price anchor of 0.50%.

SO HOW MUCH WILL CLIENTS SAVE?

The big question with any of these potential changes is how much each might impact the end client. Investment outcomes and service experiences are difficult to measure, not least since they are often aligned to the client's own expectations and circumstances. It is, however, easier to show how these changes could make a difference from a cost point of view.

	Current	Future?
Investment solution (incl. transaction charges)	0.85%	0.65%
Investment management	0.30%	0.05%
Platform	0.32%	0.25%
Advice	0.81%	0.60%
TOTAL	**2.28%**	**1.55%**

This is always going to be controversial. There are plenty of firms shipping CIPs at under 2%; some get close to 1% by focusing on passive management. That said, we do see propositions cross our desk regularly at this high level – and higher. Those who insource advisory portfolios get to escape the 0.30% – but equally we don't see firms that run portfolios charging more than those that don't.

The investment management element is where there is a noticeable change. By moving away from a percentage-based model (charged directly to the client), to a fixed fee model (charged to the advice firm) we can remove this from the client's direct cost.

Based on the above, we're looking at a 0.73% saving to the end client, with the advice firm still maintaining its previous level of charging. That might not seem a lot, however, as a MiFID II cost and charges disclosure will tell you (and your clients), for a £200,000 case size this represents a difference of over £30,000 in expected growth (at 6%) over 10 years. The compounding effect of charges is indeed a powerful force.

CONCLUSIONS

CIPs aren't a part of what advice firms offer. They *are* what advice firms offer. While it's easy to think of a CIP as a portfolio, or a multi-asset proposition, it is really the fundamental proposition an advice firm offers its long-term savings and investment clients. When implemented well, a CIP delivers consistency of advice, a more efficient business operating model and, most importantly, superior client outcomes.

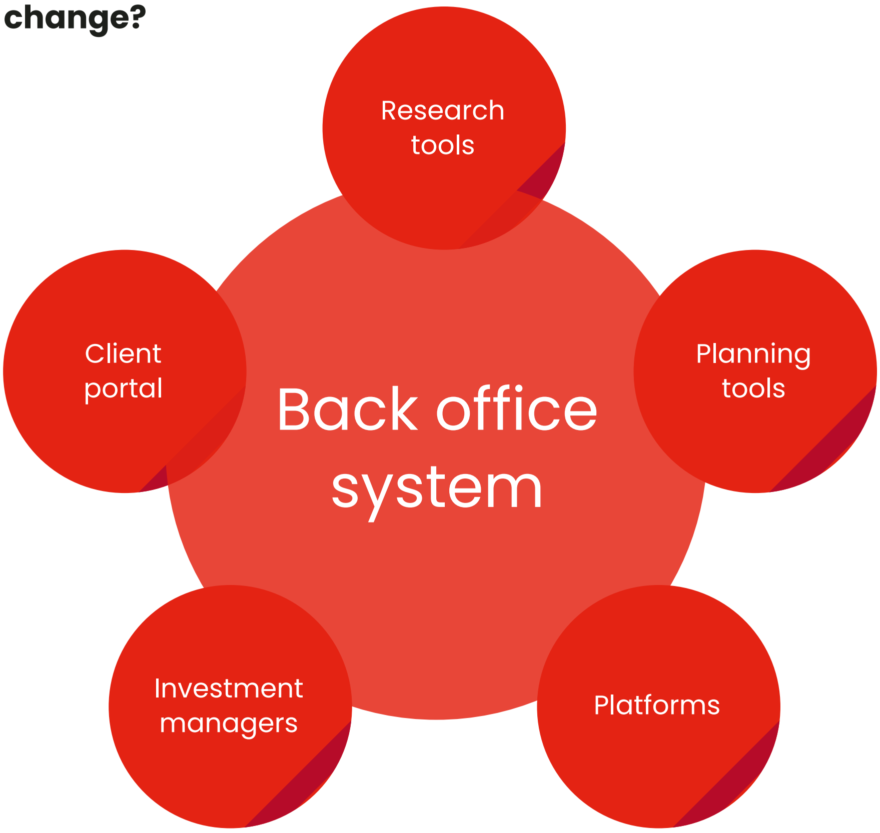
Good news and bad news

The good news from our research is that most firms appear to be comfortable with the outcomes their investment solutions are generating. For those operating an outsourced model, there is a wide range of providers and solutions to choose from. And, despite some frustrations with the accessibility and quality of information to help make a comparison, firms are satisfied with the investment outcome. Advisers running portfolios in-house are equally happy, with only 11% suggesting a move to outsourcing is on the agenda.

However, the bad news is that most firms feel there is a great deal of room for improvement from an operational point of view and in terms of client experience. MiFID II significantly increased the time advisers spend running a CIP; tasks that could previously be completed for multiple clients at the click of a button now require more detailed, personalised disclosure and assessment.

For many, these issues of scalability and sub-optimal client experience are getting incrementally worse every time the firm takes on a new client. As a consequence, we think firms need to reassess how their CIP is being deployed, questioning whether the experience can be improved for all concerned. With better integration of technology, a lot of CIPs could be run more efficiently and with less business risk along the way. And our research showed that almost 40% have identified an improved client portal as a priority development.

What needs to change?

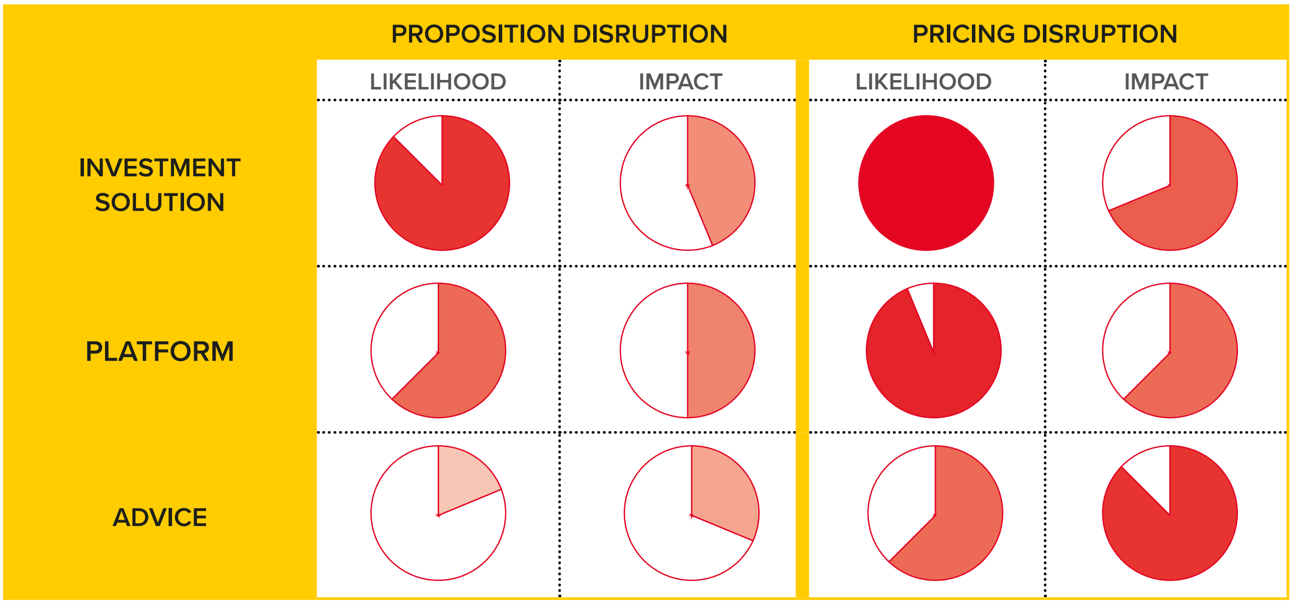


For advisers, we believe integrating each element of the CIP, including research and planning tools, investment management and the platform, with each other and the back-office system is a far more effective way of delivering the proposition than the siloed solution most firms currently use. Only by integrating fully with the back-office system can firms improve the efficiency of their processes, and crucially, start to benefit from implementing a client portal.

The adoption of a client portal should be a win/win for both the firm and its clients. For both parties, the current post-MiFID process of having to deal with client authorisations via email or paper is time consuming, risky and a poor customer experience. A client portal can address all these issues, enhancing the customer experience and making the business more efficient. With widespread adoption of digital services accelerating post-Covid, we anticipate that an increasing number of clients will expect to be able to interact with their adviser electronically.

Bring on the disruption

Everyone loves a summary diagram, so here's a handy reminder of what we see happening in the market over the next five years in terms of how likely real change is and its potential impact.



If your firm is considering remodelling its CIP, PROD gives you the framework to undertake the change. These rules (amongst other things) require firms to ensure their services are designed to meet the need of their target clients with appropriate governance arrangements in place.

This exercise of process mapping your CIP is not only worthwhile from the perspective of PROD compliance, but it also allows you to assess where inefficiencies and/or sub-optimal experiences might lie. We think this a sensible exercise for all firms to undertake. Even if you have no plans to change any aspect of your external proposition, it not only ticks the PROD box but it will ensure the cost of delivering your existing services is as low as possible. But for anyone considering changes, it becomes essential.

Finally, a word on costs. As we previously stated, a CIP needs to represent value for money for both the advice firm and the client. For every aspect of the CIP there are an increasing number of emerging propositions that can alter the way your clients are charged. If firms are to realise the full benefits of adopting these services, the cost of delivery needs to be fully understood. This, in turn, creates a win/win disruption – the advice firm becomes more efficient, and more importantly the client experience and outcomes are improved as well.

Based on our work, we think the TCO for clients could drop by nearly a third in the next five years – while delivering a better experience for clients and better commercial outcomes for adviser firms.

If that isn't an argument for rebuilding our sector to be better, stronger and faster then we don't know what is.

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