PLATFORM PRICING PROPHECIES: PAST, PRESENT AND PHUTURE

A WHITE PAPER BY the lang cat

INTRODUCTION

It's you! You're looking…well. Have you lost weight? No, didn't think so. Anyway, come away in. Very nice to see you again and welcome to **PLATFORM PRICING PROPHECIES: Past, Present and Phuture:** our analysis of the past, present and future of advised platform pricing.

If you're a friend (or frenemy, you're equally welcome) of the lang cat and have followed our journey over the past few years you'll no doubt be aware that one of the things we're known for is documenting and analysing the charges that apply to platforms in the advised market.

We estimate that flows into platforms now account for around 83.72% of advised retail investment so we're pretty confident that platform pricing is a vital issue to monitor. We've been doing this for the best part of five years now, and the industry has gone through a huge amount of change in that time. With that in mind, we reckon now is a good time to take a backwards glance at how platform pricing has evolved through this period.

But this isn't just a retrospective. Common industry opinion seems to be that platform pricing has a) pretty much halved and b) will bottom out in the not too distant future, and there's an emerging consensus as to exactly where that might land. So as well as market price analysis, we've had a dive into platform financials and we're going to put the boot into some commonly held perceptions. That'll be fun for us.

We'll also put our necks on the line with some predictions, giving you the chance to check back every few years to see just how stupid we look. That'll be fun for you.

We think that if you have one of those jobs in a platform business where future pricing trends matter (like marketing, finance and whatnot), you're an adviser, you write about the sector or you have an interest from a fund group distribution perspective, then you'll find the content both interesting and informative.

This paper has been co-written by Steve Nelson and Terry Huddart, who are #delighted and #excited in equal measure (note we're not telling you exactly how delighted and excited, merely that the quantum of each is equal) to present its findings. Don't worry about who wrote which bit. Try instead to imagine this being narrated by the twain speaking in perfect harmony. Like Simon and Garfunkel. With calculators. And without the perms.

Throughout the paper, we'll be making various assumptions as we carry out our calculations and analysis. In the interests of transparency, we've included a big list of these assumptions at the back as an appendix. Feel free to get in touch to challenge us about any of this. We'd be pleased if you did, because it would mean you're paying attention.

But for now, let's dive in.

Steve Nelson & Terry Huddart

PART 1:

2011-2015: THE EVOLUTION OF CUSTODY COSTS

We're going to analyse things at a market level and assess what REAL PEOPLE – the poor bags of meat and icky bits who fund all of our lifestyles one way or another – have been paying. This isn't about displaying what every platform has been charging at each and every portfolio size or for each wrapper (although you can ask us if you need that, reasonable rates...). We think we've covered all the required angles, but would love to hear from you if there's anything additional you'd like to see.

IN THE BEGINNING (OR 2011)

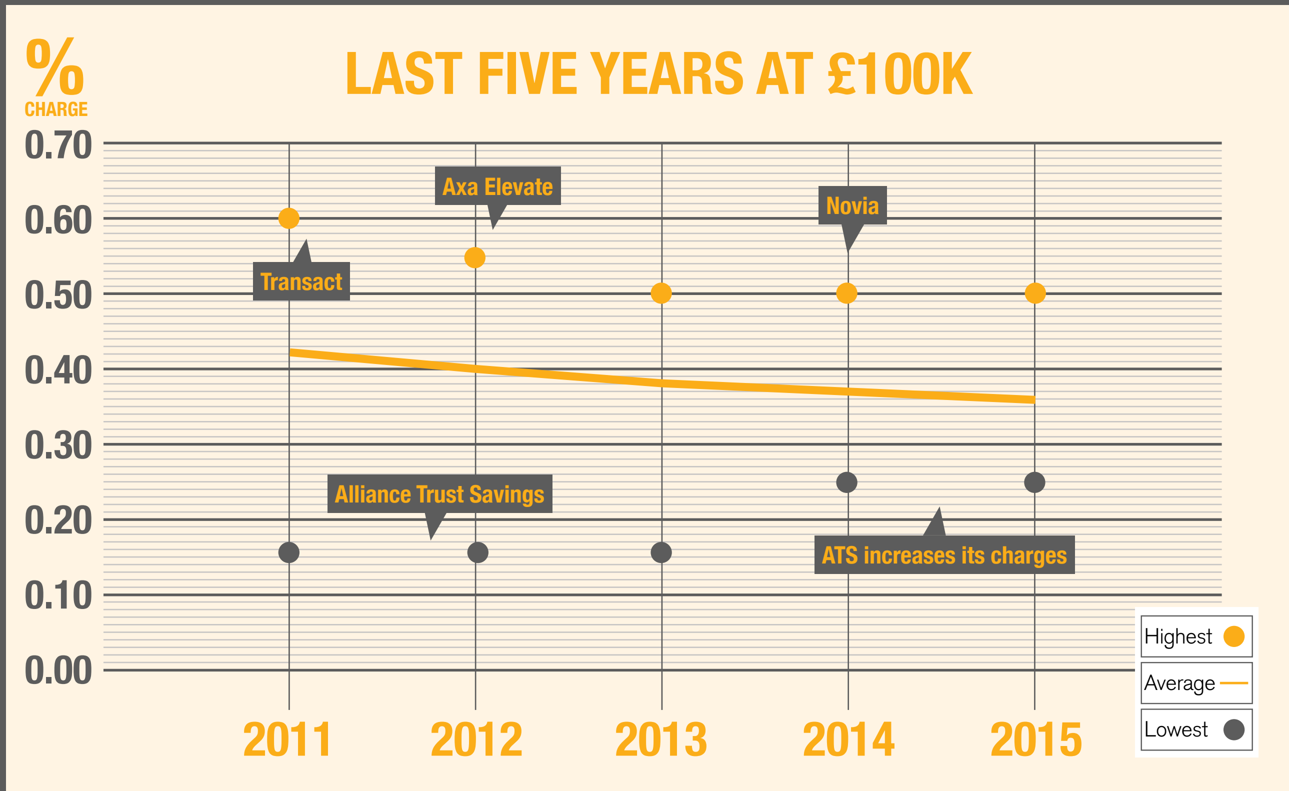
The starting point is 2011 because a) this is when the lang cat began putting together pricing tables and b) it's just before things really started to change. The market was divided in those halcyon days into two diametrically opposed camps that really seemed to hate each other – and would have arguments on twitter all the time. We long for those wild, crazy, beautiful times.

In the red corner were the fund supermarkets (and a few life company platforms, and one or two others) that lived off fund manager rebates. The client 'charge' was underneath several cloaks, composed of the portion of the fund manager rebate retained by the platform.

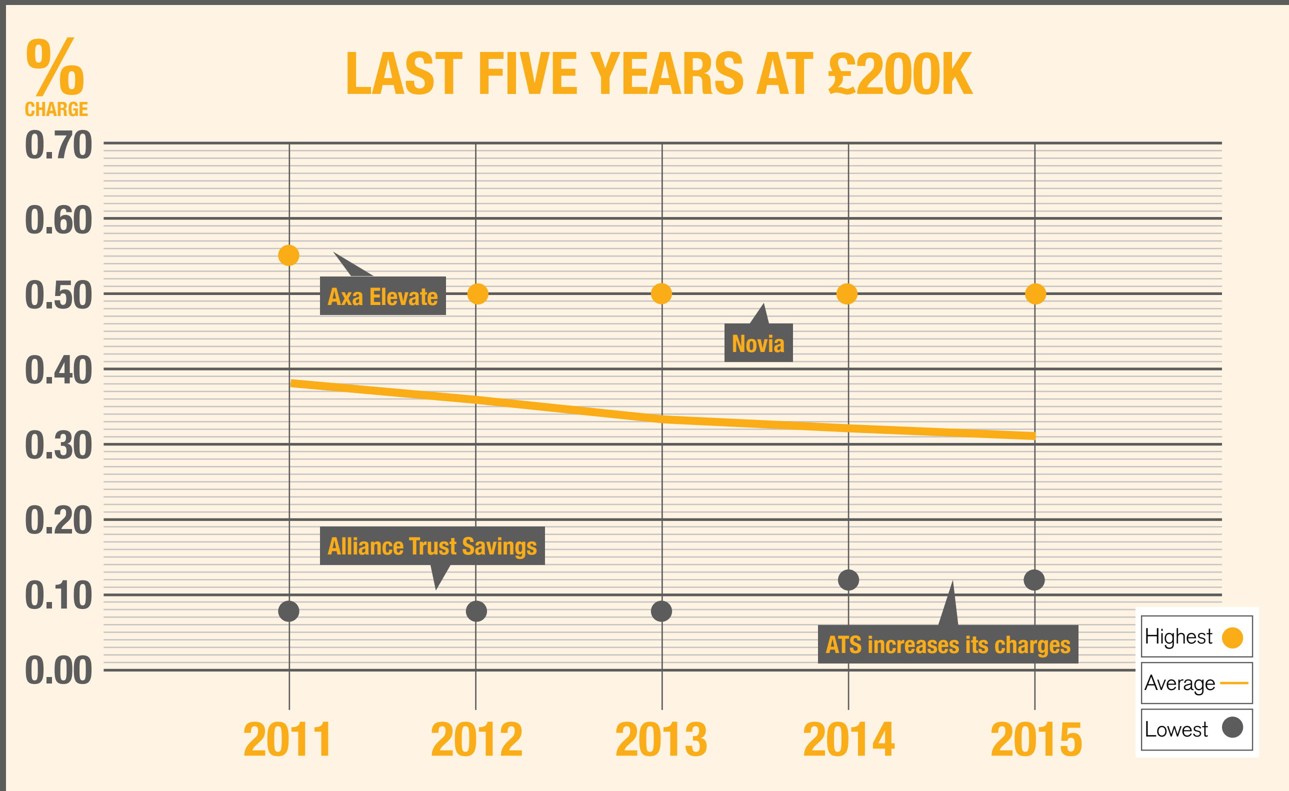
In the blue corner you had wraps, which charged explicitly and referred to rebates as 'kickbacks' in order to noise up the other factions.

By the end of 2012, however, both camps had remodelled their charging to an explicit basis (for new business at least).

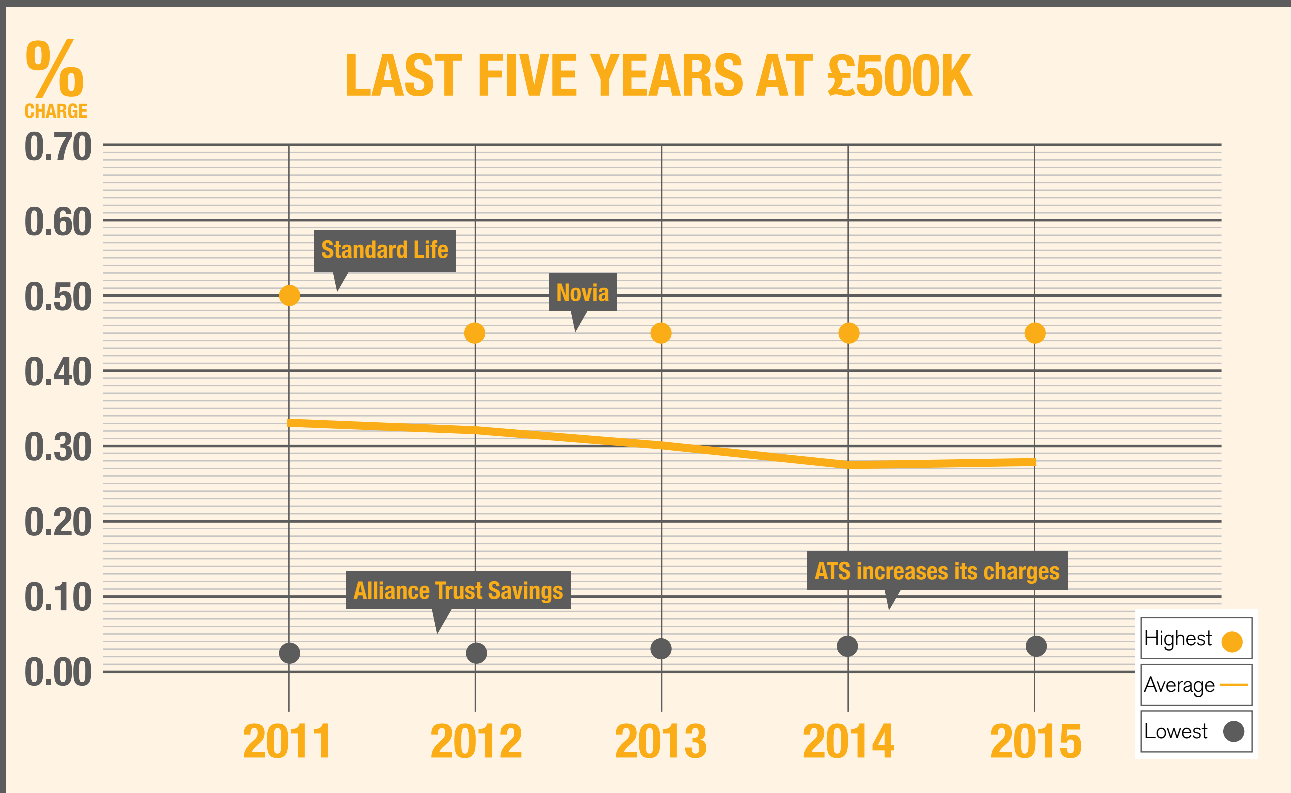
In the years since, most providers have remodelled and fine-tuned their charges. So we're going to begin the analysis part of this paper by taking a look at the aggregate effect of these changes. To do so, we'll assess the lowest, highest and average advertised charges at £100K, £200K and £500K price points. Let's start at the lower end.



- £100K is round about the mean average portfolio size.
- The average cost across the market for a £100K portfolio has come down from 0.42% to 0.36%. So a 6bps reduction in the market rate.
- The change at the 'most expensive' point is slightly bigger, with a 10bps drop from 0.60% to 0.50%.
- It's worth mentioning that AXA Elevate and Novia, two of the outliers at the top end, have been active in granting special deals. We'll tackle the composite effect of this later on in our Basis Points Revenue (BPR) section. Transact has never really gone for deal-making of this type.
- And at the lower end, it's a 9bps jump in the other direction, going up from 0.17% to 0.26%; this being specifically because of Alliance Trust Savings' (ATS) price increase in early 2014.
- Overall then, we can see a pretty clear trend that platforms are moving closer together in the pricing stakes whilst the average cost is coming down.
- The drop in the average price, which we think is the most important trend, equates to a 14% reduction in the market rate.



- £200K is close to the current non weighted average portfolio size, which we peg at around £190K. But everyone loves round numbers, so we're going with £200K and we don't care what you say.
- Here it's a similar trend to that at £100K; the top, bottom and average are moving closer together with the average on a downward trajectory. This time the typical cost has dropped 7bps from 0.38% to 0.31% – a reduction of 18%.
- We see a slightly larger percentage drop than at £100K, showing that platforms have been a little keener with their competitive positioning at this crucial area. This is the market behaving as we'd expect. Well done, market.
- 'Highest cost' has come down 5bps from 0.55% to 0.50%; Novia takes the accolade of most expensive in our peer group, closely followed by Standard Life who narrowly avoids a mention in the Graph Of Shame. See earlier comments about deal-making, though.
- AXA Elevate's 2013 re-price took it from being an outlier right into the pack, playing a big role in both the highest and average costs coming down.
- And at the lower end, ATS's fixed fee structure really starts to look inexpensive, despite the aforementioned 2014 price jump, which works out at a 4bps increase for this portfolio size.

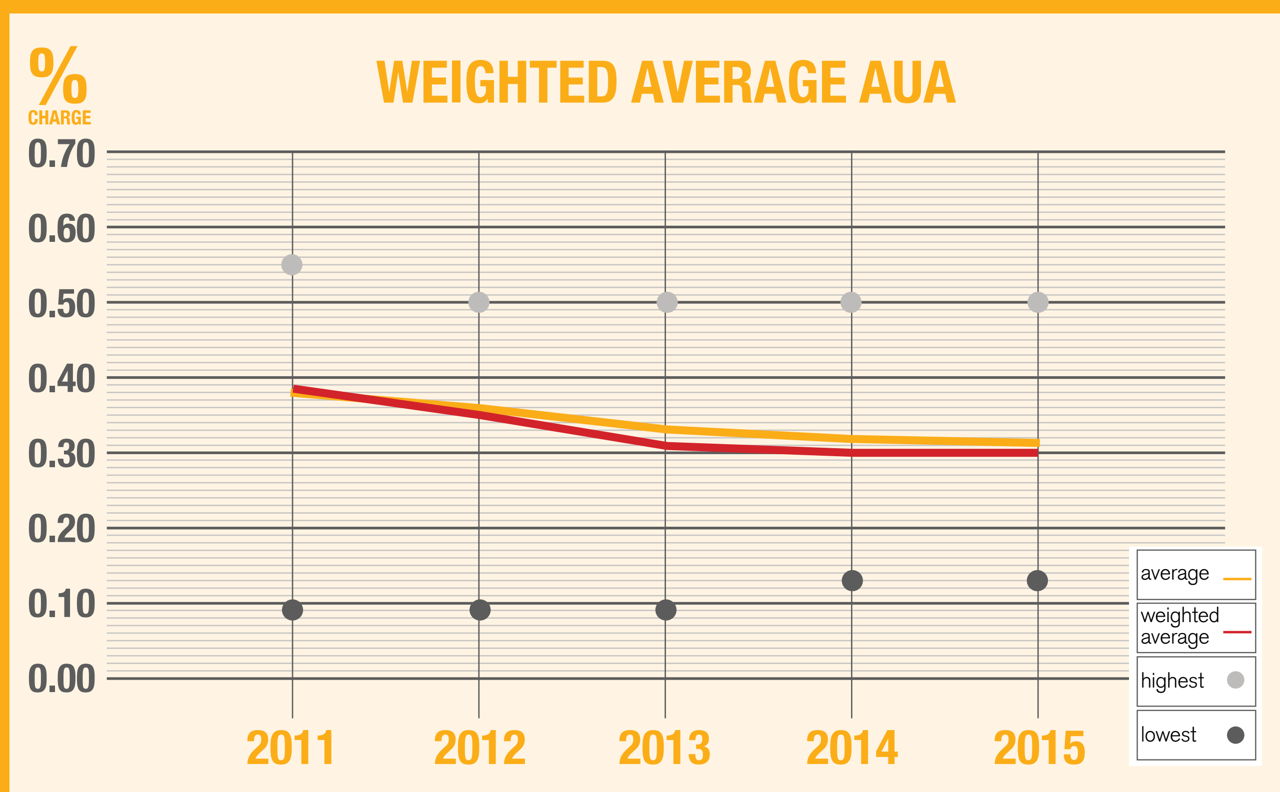


- We're looking at slightly fatter cats now. And guess what? The trend is a similar one, but with a more pronounced plateau on the average charge front, indicating that the battle for fat cats isn't the highest priority for platforms.
- The all-important average drop this time is 5bps, which is 16%. Highest drops from 0.5% to 0.45%, and lowest increases from a miniscule 0.04% to 0.05% (this is the ATS fixed fee increase having an even smaller impact on bigger pot size).

FINE-TUNING THE EXAMPLE

Here's a different way of looking at things. Assessing average cost is all well and good, but in order to get a truer reflection of market charges we've built in a weighted average based on AUA market share over the period (we've taken the AUA of each platform at end of Q2 each year). This gives an even better view of what REAL PEOPLE have been paying because the average is weighted towards where assets were actually held.

With future proofing in mind, we've chosen £200K as the pot size to project on from here on in. We think this is the right level for 'illustrative purposes' but there's a whopping great databank we could interrogate in lots of different ways if you'd like us to. Or not, if you wouldn't.



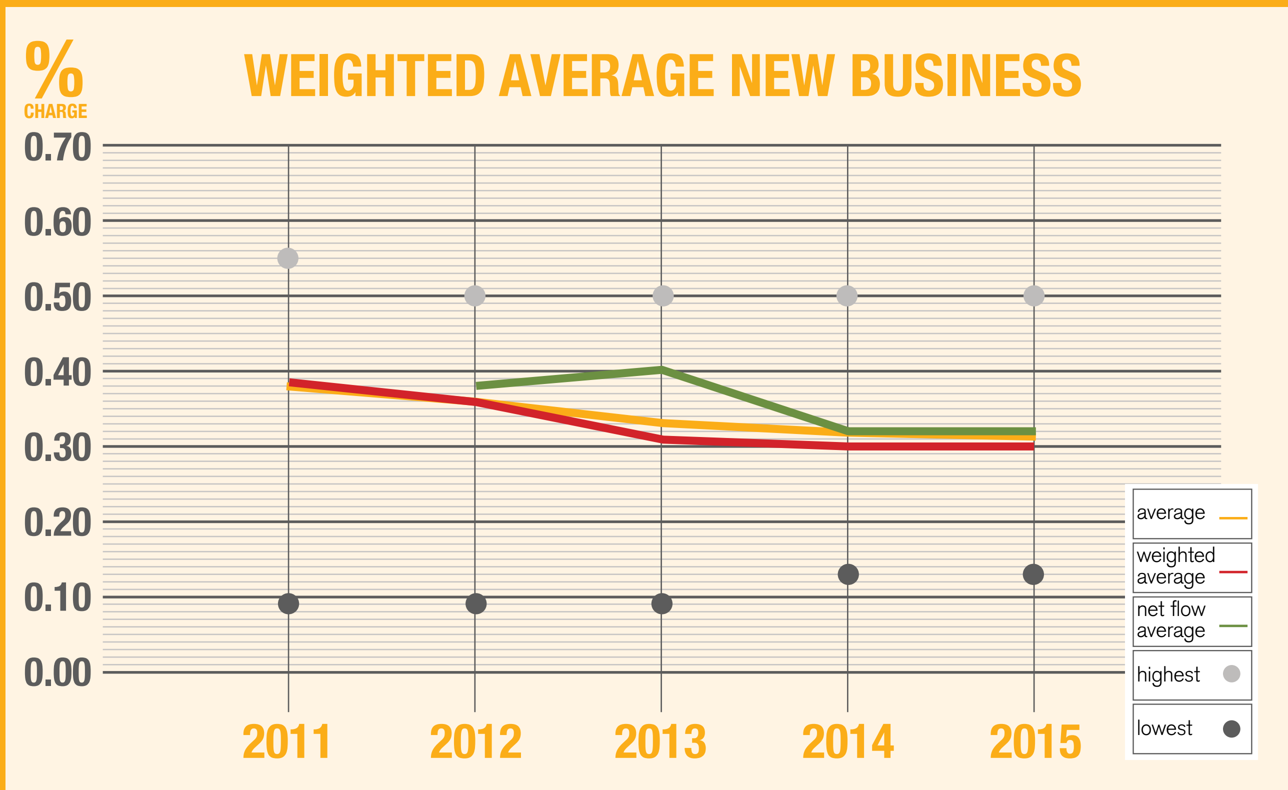
- We think this is pretty interesting. The weighted average closely tracks the non-weighted average. It shows an 8bps decline from 0.39% to 0.31%, or a 21% drop.
- Here's why we're not surprised by the outcome:
  - Focusing in on 2015, two of the biggest platforms in AUA[1] terms are Cofunds (~£39bn in retail assets) and FundsNetwork (~£30bn in retail assets). And at the £200K portfolio size, both cost 0.27%, a bit below 0.31% average.
  - However, the other big uns – Old Mutual (£33bn), Standard Life (£23bn) and Transact (£19bn) – are more expensive than average, at 0.34%, 0.44% and 0.35% respectively. This has the effect of pulling things back up the way.
  - It also means that there's no money sitting in one or two behemoths that significantly influences the weighted market rate in one direction or the other. And that right there is a learning point.

1. Lang cat estimates of retail assets as at July 2015

EVEN MORE FINE-TUNING

We were concerned that the previous chart was too skewed towards the traditional fund supermarkets, each with huge established AUA. So, we decided to test out another angle and instead look at a weighted average based on the year-on-year AUA shift.

What this does is allow us to look at the rate that new money (that is new business to each platform regardless if it's arrived from another platform or retail) is paying.



And the result is…very interesting. For, 2012, 2014 and 2015, it's almost an exact copy of the AUA analysis. The trend is bucked in 2013 by Transact and Standard Life Wrap, as both sit above the market average price but put on significant assets in that year.

We believe this is by far the biggest learning point yet. Why? Because it indicates that while there's apparently a price war on – and despite millions of unsuspecting pounds being spent on analysis, development and promotion – **there's no real evidence here pointing to a disproportionate amount of assets flowing into cheaper propositions.** Quite the opposite; for a time it was going slightly more towards more expensive ones and has now evened out right on the average.

This suggests that advisers are, on the whole, choosing solutions for what they pay based on factors other than price, which we'll call 'suitability' here. Clearly, this isn't concrete proof. However, our strong belief is that advisers don't just randomly move client money around without figuring out (via due diligence) that it's the right thing to do for their clients and their own business requirements.

What it also proves, we think conclusively, is that price is a poor determinant of new business volume. This finding should be of interest not only to platforms, but to those who invest in platform businesses and who are wondering about downward pressure on composite revenues.

IN SUMMARY

REAL PEOPLE are paying typically **seven or eight basis points** less in custody costs today than they were in THE BEGINNING (pre RDR). Or **18% less.**

Here's our thoughts on how this has all panned out:

- It's been an historically tumultuous period; pricing has been subject to a unique range of downward forces (RDR + competitive pressure + focus on due diligence process + significant migration of assets to platforms). If all that doesn't combine to cause a drop, nothing will.
- During 2011 and 2012, the RDR in particular triggered a bunch of significant changes as the fund supermarkets introduced explicit charging which (in most cases) meant substantive cuts in order to compete with the existing explicit structures; the cumulative effect was a drop in the market rate of 6bps between 2011 and the end of 2012.
- Since then, things have slowed down with a net drop of 0.02% or 2bps in the market rate, despite there being a veritable slew of pricing announcements.
- It means that in the past three years, price cuts have been more about moderate strategic adjustments than ground-breaking market shifts.
- Many of the cuts have reduced or removed event-driven charges (again, minor adjustments) which has contributed towards a false perception – there's been lots of cuts, but mostly around the edges.
- The pricing competition between platforms – and regulatory guidance from PS13/1 – has re-focused some platforms onto asset charges (discounted funds/sub-advised mandates) as a way of strategically positioning on price.

WHAT THIS MEANS FOR MRS JOSEPHINE AVERAGE

For pounds and pence fans, Mrs Average has saved:

Or with £200K being close to the average portfolio size, the Daily Mail headline might be something like 'RDR IN SAVING INVESTORS £140 A YEAR SHOCKER: IMMIGRANTS BLAMED'.

INTERMISSION:

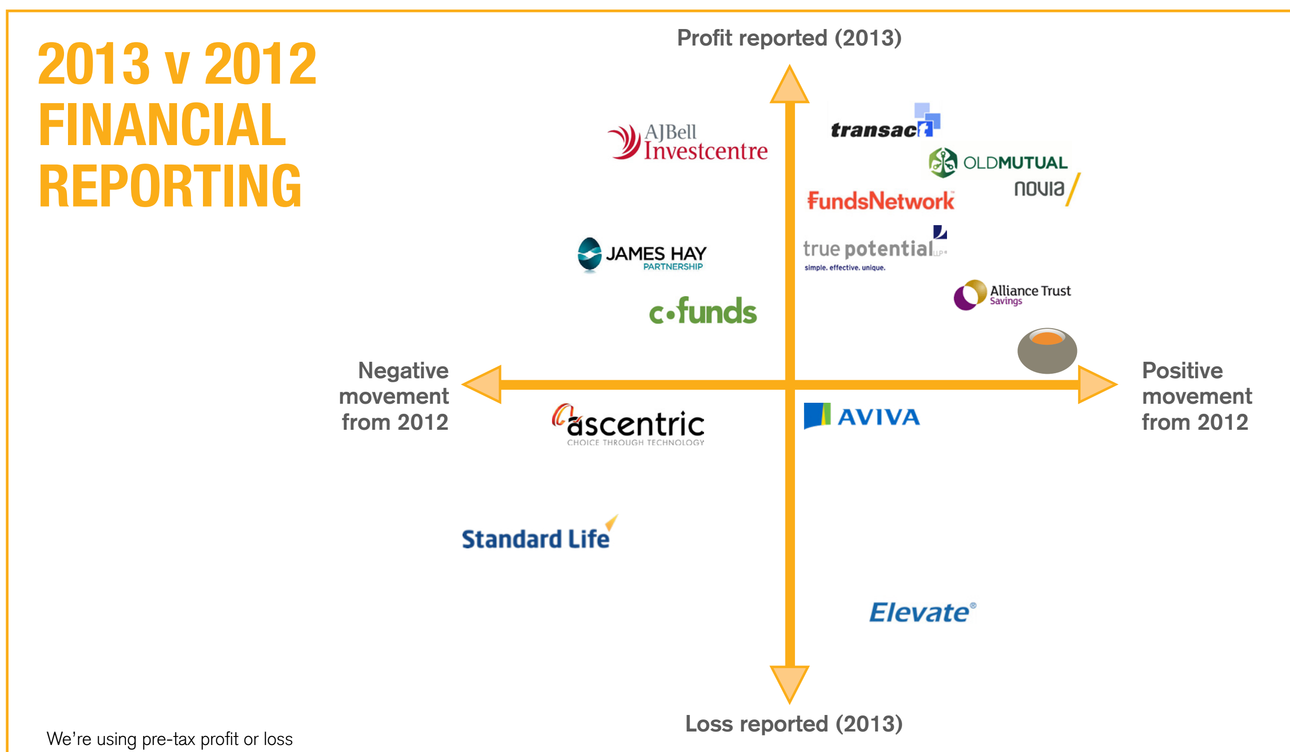
FOCUS ON COMPANY FINANCIALS.

PLEASE FORM AN ORDERLY QUEUE FOR THE TOILETS.

We're approaching that section where we reveal what our analysis tells us about future pricing in the platform market. But we'll get more out of that if we first look briefly at profit and loss. We've taken a deep(ish) dive into Companies House and had fun with profit/(loss), revenues, margins and costs.

VIEW 1: PERCEPTUAL MAP

This is a simple but, we think, effective view of platform profit trajectory. Profitability is always a huge (albeit not the only) consideration when a platform looks at price changes. And for the fixed charging cohort, that could mean having to take the decision to put prices up rather than down.



We're looking here at 2013 v 2012 because a few platforms had yet, at the time of writing, to declare their financial results for 2014. Our rules of engagement mean comparing like-for-like.

This chart tells us clearly that a) the majority of the market is now in profit and b) a similar majority are doing better in 2013 than in 2012.

We've got a platform-by-platform analysis bit at the end where we've recognised 2014 profit/(loss) where it's available. Our website will be updated to incorporate the 2014 figures when they're out, so keep an eye out for that.

Note on the map

We've used all of the relevant platform business accounts. In some cases (with larger organisations) the platform is accounted for within a larger structure (although is generally the biggest business unit within that). Prominent examples of this are Standard Life Wrap (within Standard Life Savings) and Elevate (within AXA Portfolio Services). There's a few others and we could probably write a whole paper about the corporate structures, which we don't want to do…and you don't want us to. But if there's anything about this you'd like to discuss or clarify, get in touch.

VIEW 2: BASIS POINT REVENUE (AND SOME MARKET LEVEL FINANCIALS)

Let's take a slightly deeper dive into the accounts and see how the market as a whole is doing.

A note first: when we talk about **BASIS POINT REVENUE (BPR)** we're dividing the turnover in a given year by the average AUA. To arrive at a like-for-like comparison with advised charges, we also use a range of assumptions to isolate revenue for advised business (because we think that's fair). This presents a view on how much a platform would need to charge in basis points in order to derive the same level of income from its customers. It's not the only way to look at things, but it's one way to get a slightly different view of what the various platforms are charging behind the advertised price – are there any hidden nasties?

<table>
<tr><th>Measure</th><th>2012</th><th>2013</th><th>YoY change</th></tr>
<tr><td>Total revenue</td><td>£826m</td><td>£937m</td><td rowspan="2">13.4%</td></tr>
<tr><td>Average revenue</td><td>£59m</td><td>£67m</td></tr>
<tr><td>Total profit/(loss)</td><td>£37.1m</td><td>£56.7m</td><td rowspan="2">52.7%</td></tr>
<tr><td>Average profit/(loss)</td><td>£2.65m</td><td>£4m</td></tr>
<tr><td>Average basis point revenue</td><td>0.37</td><td>0.33</td><td>-9.9%</td></tr>
</table>

You'll notice here that everything is on a positive trajectory. The margin measures are a bit skewed by a few who present a warped picture, mainly because their accounts structure is intertwined with others from a parent company. If we're doing bespoke exercises we sometimes strip these out, or present multiple scenarios with/without, but this is a free paper so you can, frankly, lump it.

In a nutshell then, BPR is, like charges, on the way down. We're pretty happy about this, because a different picture would suggest that something was going on in the background.

The conclusion, then, is that platforms are deriving less revenue from each customer. No shocks there. But because they have more customers they are getting more revenue. All present and correct so far. The upward tick in the markets has also had a bearing – at least for those with ad-valorem charges (which is most).

All of this is resulting in better profitability even though margins are coming under pressure from rising operating costs. Phew.

IMPORTANT NOTE ON PROFIT/(LOSS)

Although we're seeing a clear shift towards profitability by the platform sector, making a loss is not necessarily evil. Losses or falling profits can be a result of a mixture of things, with prudent re-investment and capital expenditure often the culprit. If you're an adviser reading this, our main tip when looking at this stuff as part of platform due diligence is to check if the business is on track with its business plan. Then take your own view on the overall picture and other business performance measures such as financial strength, market share and capital adequacy.

PART 2:

THE FUTURE OF CUSTODY COSTS

Right. Now we've looked at the past and present state of custody costs and had a quick peek at the financials, we can ask that question: where is all this going in the future?

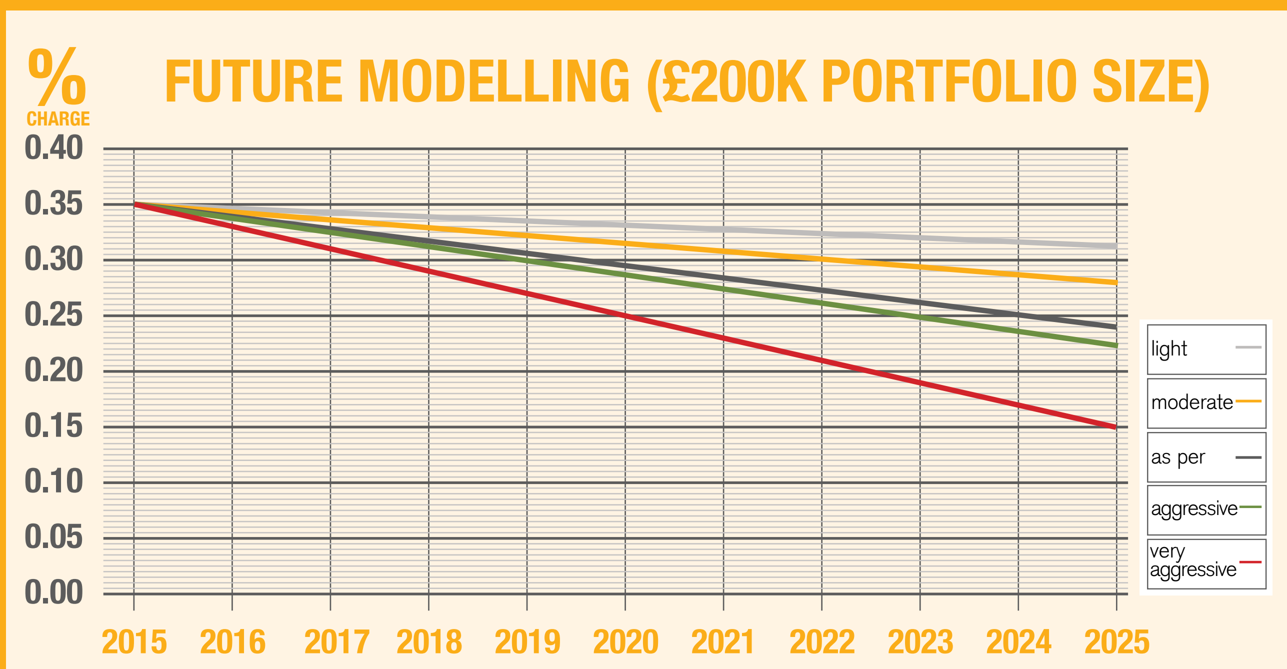
There's a widely held perception that you may have heard, which goes something like this – custody costs will eventually level out at 0.15% in 'the future'.

That's just a perception. But we're curious cats and big fans of relying on actual data supported by actual analysis, and not-so-big fans of just following received wisdom. So we thought we'd do some modelling.

Here's what we've done:

- Established that costs have dropped by 18% over the past 5 years (see previous section).
- Taken the 18% figure, and also modelled what would happen in the event of further 5%, 10% or 20% market reductions in price every 5 years.
- We've also modelled what a smooth drop to 15bps in 10 years would look like, due to the aforementioned belief that this is where custody costs are going to level out at.
- We've only modelled price drops because we don't think the market will either stand still or that prices will go up – companies are sensitive to adverse media around price and there's too much competition. That said, neither do we think it's too ridiculous to entertain the idea of prices stabilising.
- We've used the same set of assumptions as in **PART 1.**
- As before, we've used a portfolio size of £200K for consistency. We concede that customer mileage will vary depending on the size of their pots.

And the results:



Having done this analysis we are now pretty convinced that 0.15% isn't in sight. That would require a 57% drop in the existing market rate. We wouldn't go as far as to say that it's impossible, but for such a scenario to play out there would need to be a dramatic change. We're not anticipating that.

The past 5 years has seen an 18% drop and this was during a period where legislation and a competitive bloodbath combined to produce a 'price war' that has since plateaued. A further 57% drop therefore looks unlikely in the next decade.

Platforms, after all, are businesses, or at least try to be. They have boards and shareholders. Do any of them think that they can sustain revenue levels if charges are slashed by more than half? Do they have the risk appetite to lose significant revenue in the short-term in order to try and build a much bigger customer base for the future? We're going to put 1 of our 9 lives on the line here and say that even a repeat of recent history – an 18% market level reduction – is unlikely to be repeated over the coming 5-year period.

Here's why:

- The margins left for continued price cuts are not huge – there's a fine balance on display. Profitability, for so long the Holy Grail for many in the industry, is too precious to gamble. Commercial wiggle room is not at a premium. And we don't see anyone likely to artificially move the bar to buy market share, and if they did we think it wouldn't work.
- Looking at 2013 specifically, our peer group derived around £60m profit from revenues of around £900m. A drop of anything around 5% of revenue or above would all but wipe out industry profit.
- There is unlikely to be a catalysing event, like the RDR, that forces prices downwards[2]. Furthermore, our industry is clinically hooked on tinkering with the rules, so if anything we would envisage more regulatory spend in the near future, eating into profits and limiting the scope for price reductions.
- Apart from a few outliers we're seeing price start to move ever so slowly towards homogenisation. There's only really ATS banging a different drum with its fixed fee structure. Aegon hinted at following suit at some point in 2015, but it's all gone a bit quiet on that front (feel free to prove us wrong, lads).
- We challenge the assumption that it's a given that prices have to constantly come down. What if price in this sector is starting to find its natural, sustainable level?
- Basis point revenue across the industry is naturally on a consistent downward trajectory in tandem with custody costs yet, for a number of reasons (see below), operating costs are on the increase. This means that scale (more AUA from which to derive revenue) does not guarantee more profit, and our graphs illustrate this.
- There is likely to be more focus (rightly in our opinion) on the suitability of propositions to both the advisory firm and clients. We think this is already showing in that there is no evidence to suggest that a disproportionate number of clients are being moved towards cheaper propositions.
- The re-platforming thing. Everyone is doing it and it costs lots of money. You can be sure that 2015 accounts and beyond are going to evidence this fact, and it won't be pretty.
- We're not hearing much adviser grumbling about a 35 basis point charge. Few are shouting that it's too much. Some industry commentators (including us) occasionally make a case for advisers paying a share of platform costs, but that's a different argument.
- We think that if there are further significant savings to be made for customer Total Cost Of Ownership (TCO), then it will come from asset management charges (and let's be honest, there is more fat to cut here).
- We expect a continuation of the current trend of platforms with related fund management houses going down a vertically integrated (or pseudo-vertically integrated) route in order to influence asset flows within the same parent company.
- The Sunset clause. However you dress this up, the shadow of April 2016 looms large and brings challenges for the three former fund supermarkets (Cofunds, OMW and FundsNetwork) by shifting their source of revenue from fund groups exclusively to the customer. At best this will prove to be revenue neutral, but we suspect 2015/16 accounts might prove the change to have been a bit more painful. If revenues are falling it's very difficult to cut your prices further.

2. Although we're with John Maynard Keynes on that one if the facts change

THE OBLIGATORY BIT ABOUT AD VALOREM AND FIXED CHARGING

Pretty much all service industries, over time, put their charges up. They have to because their costs increase in line with inflation.

Ad valorem platform charges are unique in that, as AUA grows along with markets – and over time it pretty much always does – the customer's portfolio grows even without additional contributions and the platform generates more revenue from the customer. You could call this a 'natural' price increase – it means platforms don't necessarily have to increase the ad valorem charge even as their costs rise.

Fixed charges are different. The rules of any other service or product apply – eventually they have to go up. We've seen this recently with both ATS and James Hay.

There's a lot of talk that fixed pricing is a route that more platforms will go down. If they do, however, it means having to deal with the tricky marketing message of price increases, whereas ad valorem avoids that issue. One strategy that we expect to see more of is a price cap, a la Aegon (and many in the D2C market). A halfway house of fixed and ad valorem – you can keep getting more bunce from a customer if their portfolio grows, but only to a point. Then there's a ceiling. And that means, if the cap is pretty low, that eventually you're going to have to look at putting prices up. Costs don't stand still.

So price capping has issues that need careful consideration. It's true that servicing a customer with £5m doesn't cost 50 times as servicing one with £100K. But how a platform arrives at the conclusion about how much revenue is enough is an interesting question. And, a platform will always need to have a high proportion of customers below the cap level to allow for revenues to increase – because if they're all above that level you are effectively doing fixed charging and in a cul-de-sac.

TROLLING THE INDUSTRY – OUR VIEW OF THE FUTURE

Here we look at what to expect from the main players over the next two to three years. Please don't hate us.

Platform	Current pricing competitiveness	Profit/ (loss) 2014 v 2013	Outlook
AJ Bell	Fair	↓	AJ Bell Holdings Ltd posted a pretty impressive pre-tax profit of £16.1m in 2014. Which, although down on both 2013 (£23.9m) and 2012 (£26.5m), is still one of the biggest in the sector. At 27bps for a blended portfolio, AJB is comfortably under the market average and we don't anticipate price to be a major concern.
Alliance Savings Trust	Depends	↓	Increased the flat charge on both SIPP and ISA in 2014, but despite that remains ultra-competitive from £100K upwards. In the process of upgrading to GBST which is expected to significantly widen the available functionality. We don't see a price change on the horizon but after posting a loss of £3.7m for 2014 (albeit on the back of a run of healthy profits) a similar result in 2015 might force a shake up.
Ascentric	Fair	To be announced	The new inclusive structure (from January 2015) is at the sharp end so we don't anticipate anything major soon, nor do we think it's likely to be needed. Ascentric is however in a financial position to allow them to tinker if they want to. Migrating all clients over to inclusive is something we could see happening.
Aviva	High	↑	Aviva already comes in below the market average and introduced price cuts in both 2013 and 2014. The platform isn't yet washing its face (although 2014 losses {£1.6m} are down on 2013) but, as one business as part of a behemoth and in a growing market, we don't think that rules out more price cuts. The structure also has three different shapes on the pension side – all in all there's plenty here to play with. Don't be surprised to see tinkering.
AXA Elevate	Fair	To be announced	Although AXA Portfolio Services – the company that Elevate is part of – has been making losses (albeit 2014 results aren't out yet) we don't think that in itself rules out cuts given the strength of financial backing and the group is in profit. Elevate already sits just below the market average, special deals are part of its strategy and the proposition has depth. No real pressures to change.
Cofunds	High	↑	Cofunds is already a low-cost option so, on the face of it, there does not appear to be any need to compete in that area. 2014 profit is up on 2013 albeit re-platforming to Bravura isn't going to come cheap. As we write, L&G is reported to have placed Cofunds up for sale and if we know anything about new ownership, then strategic change will be afoot.

Platform	Current pricing competitiveness	Profit/ (loss) 2014 v 2013	Outlook
FundsNetwork	High	↓	Already keen on the pricing front after much activity in recent years has seen wrapper and event-driven charges systematically stripped out. We don't anticipate movement on the current 25bps plus £45 p.a. FundsNetwork is a proponent of SUPERCLEAN™ and we expect to see more focus on asset charges as part of the overall pricing positioning. In profit with a further £7.6m pre-tax in 2014.
James Hay Modular iPlan	Fair	↓	James Hay remains competitive even after a recent slight increase in the modular iPlan service charges, especially over £195K when the £195 p.a. admin fee on iSIPP is waived. With a full SIPP as part of the armoury, the proposition already looks fairly well priced and the profits are healthy (£5.8m pre-tax in 2014). Fixed charges may naturally rise with inflation but we don't anticipate core charge increases.
Novia	Low	↓	Whatever way you cut it, Novia is pricey at a starting rate of 50bps. It has steadfastly – and admirably – held firm, but it must feel under pressure. Even though 2013 accounted for £7m from the Aegon deal (which must be one of the smartest pieces of business in platform history) the core business has tended to make money from a small base of AUA, albeit Novia will be smarting from the £800K loss in 2014. We think it looks ripe for a re-price but wouldn't be surprised if it doesn't.
Nucleus	Fair	↑	Nucleus has always been especially competitive in the typical portfolio sweet spot of £100K – £180K. However, as that's now nudging upwards the structure is under some pressure from £200K to £500K, despite a 2013 reduction for customers with >£500K. There is only the core charge to play with, however, because Nucleus has a structure that's clean. Profitability jumped to £2.5m in 2014, so there are some options.
OMW	Fair	↑	The OMW platform is in the black financially (2014 saw a further £19m pre-tax profit), the custody costs are slightly above the market average and the last movements were to remove the £99 minimum fee and drawdown charges, so there's room for manoeuvre. However (if using it) WealthSelect does bring down TCO, which is likely to temper any thoughts OMW might have of further lowering custody costs.
Standard Life Wrap	Low	↓	Standard Life Wrap does, of course, have two charging structures – normal (more expensive) and core (cheaper). Yet even core comes in at 45bps for a £200K SIPP. So not cheap and the level of charges, coupled with strong market share, suggests something could well happen. However, Standard Life Savings (which the wrap is part of) continues to make losses (although they are getting smaller) and the desire to reach sustained profitability will be a factor.
Transact	Low	↑	Has always been unashamedly expensive at the low to medium end and has the awards to back up a 'premium service for a premium price' position. That said, Transact has undoubtedly felt the competitive heat and has been very active in recent years with lots of little cuts. In the top tier of profitability and canny financial husbandry has played no small part in this. 2014 saw a whopping £17.8m pre-tax profit being recorded.
True Potential	Fair	↑	Although at a flat 40bps the platform might appear expensive, this comes with an integrated back office. We think that's value and users clearly agree. True Potential, similar to OMW, has a range of in-house portfolios using sub-advised mandates and if using these, the TCO comes down compared to open-market assets. All-in-all then, we don't anticipate much movement being required on the 40bps. The caveat here is that the company is posting increasingly strong profits (£5.4m pre-tax in 2014) so has the financial clout to move if the market dictates.

PLATFORMS HATE THIS: 10 WEIRD CONCLUSIONS (NUMBER 6 WILL BLOW YOUR MIND!)

So that's your lot. We think we've demonstrated lots of stuff in this paper and so here are our top 10 conclusions. It's like Buzzfeed except with fewer pictures of celebrities getting out of cars.

1. We think price is a bad determinant of potential flow. That said, we think it is hard to generate considerable new flow without being 'on the market' if not leading the market.
2. We don't think that average charges are likely to bottom out at 15bps in the next 5 to 10 years and question whether that will ever be sustainable.
3. Moderate reductions are likely, settling on somewhere around 30bps in 5 years, and 25bps in 10 years. Or, in other words, the pattern from 2013 to now (a year on year market drop of about a basis point and a half to get to the points suggested above) looks much more likely.
4. We expect an escalation of the trend for platforms with related fund houses to get into vertical (or pseudo-vertical) integration in order to influence asset flows within the same parent company. This will have a greater impact on TCO than custody charges.
5. We expect more pressure on asset costs as opposed to platform custody costs. There is more margin to cut into here.
6. New flows have been going to the 'market rate' not below it, so platform switching has been less about price than getting a different (or better) solution.
7. There will be structural tweaks here and there; more platforms will follow Alliance Trust Savings into some degree of fixed fees.
8. We think the advised market will ape the D2C market and start to introduce price caps and other 'fairness' mechanisms.
9. Special deals are likely to continue as a mechanism to win specific pieces of business, and these also act as a balance against core custody charges coming down.
10. We'll be here, winding folk up by analysing it all.

Thanks for reading our paper. We hope it's been useful. If you liked it, we do lots of bespoke work around all this stuff and we'd love to talk about how we can crunch scenarios and numbers for you. If you didn't like it, then we would simply refer you to our Mums, who will help you understand just how wrong you are.

APPENDIX

OUR ASSUMPTIONS

When we refer to **CUSTODY COSTS** throughout the paper, here's what we're **INCLUDING**.

Core platform charges. Whether they be ad valorem (tiered or stepped) or fixed, they're in.

Wrapper mix. We assume 50% in an ISA and 50% in a pension

Wrapper charges. If you're charged a fixed annual cost to hold an ISA or pension, then it makes the cut too.

Dealing costs. A few providers charge a fixed fee per trade. So we add those in too. For clarity, we assume 10 charging events. That's typically 5 buys and 5 sells.

Here's what we have decided to **EXCLUDE** and why:

Setup charges. In practice these are often waived, and over time (from an arithmetic point of view) are meaningless. Including them skews the picture and amortising them (posh) causes everyone a headache. So out they go. Whoosh!

Ongoing investment costs. We assume investment in funds, but ignore the ongoing annual cost as we view it as uniform across the piece and remember that we're interested in core platform revenue here.

ETF/securities. Only a minority of AUA is held here (in contrast to the direct market), so we focus on funds instead.

Cash interest retention. Firstly, let's face it, the rate on cash in on platform operational accounts sucks. Secondly, the difference in charging between an explicit and interest retention basis is negligible for a normal case.

Event-driven charges. Tonnes out there – drawdown, offline dealing, model portfolio to name a few. We don't get into specific scenarios here, instead focusing on core charges that affect the majority of customers.

And here are some other **ASSUMPTIONS** we've made along the way.

Platform choice. We would have loved to include absolutely everyone, but this is a free paper, and we had to strike a balance. We didn't want to simply include an arbitrary top ten. So, after something approaching an existential crisis – we settled on the top 13 providers. This gives us around 90% coverage of the market, which ensures our research is valid.

Portfolio size. £100K and £200K give a good coverage of the average portfolio size over the period (it's risen from £120K to £180K), so whatever way you want to look at it, we think this gives a clear view on 'what people have been typically paying' for their platform. We've also added in a higher one (£500K) to illustrate how things have gone for your fatter cats.

Cohorts used. We agonised long and hard about this for each section. In the end, our criteria started with having access to 2011 pricing data. For the financials part, we had to be able to get hold of the relevant financial data and historic AUA so that we could calculate Basis Point Revenue. On all measures, we cover >90% of the market in terms of AUA market share. If you'd like to be included in any future updates, just get in touch and we'll work with you on getting the relevant data for next time.

And a closing statement. There isn't anywhere in this paper where we are taking a view on value for money or suitability. We look at market rates, average costs and who the cheapest and most expensive are in certain areas, but we know that all of these platforms are different in many ways, each with its own proposition. We know that advisers and clients have different requirements and that each one can serve a different need, which our findings demonstrate.

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