SIGNAL TO NOISE

BARRIERS TO TRANSFER BUSINESS

A RESEARCH PAPER BY

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WELCOME TO THE JUNGLE

Hello. You're very welcome to **SIGNAL TO NOISE: BARRIERS TO TRANSFER BUSINESS**. In this paper you will – and I don't want to spring this on you – find a bunch of analysis about transfers.

We'll look at adviser firms' regulatory responsibilities under COBS, PROD and MiFID II[1] – and how uneasily those responsibilities sit with current market practice. We'll break down the issues that get in the way of transfers and show how firms might deal constructively with them.

We'd hoped that the Investment Platforms Market Study (IPMS) might give the transfer market a shot in the arm with a lightening of the suitability load, but we were disappointed. Nonetheless, there are things the industry – from small adviser firms right through to the biggest providers – can do to increase the velocity of money moving round this market. That's good for competition and good for clients – and good for you too.

We've written this paper with advisers in mind but we believe it is also of value to a wider audience. As you'll see (and no skipping ahead please), everyone has work to do here – including the regulator.

No paper like this is the work of one person, and I'd like to thank in particular the 95 adviser firms that took part in a research exercise to help us understand more about what's going on. Of the topics we've tackled in recent years, this one feels more closely linked to real investor outcomes than most.

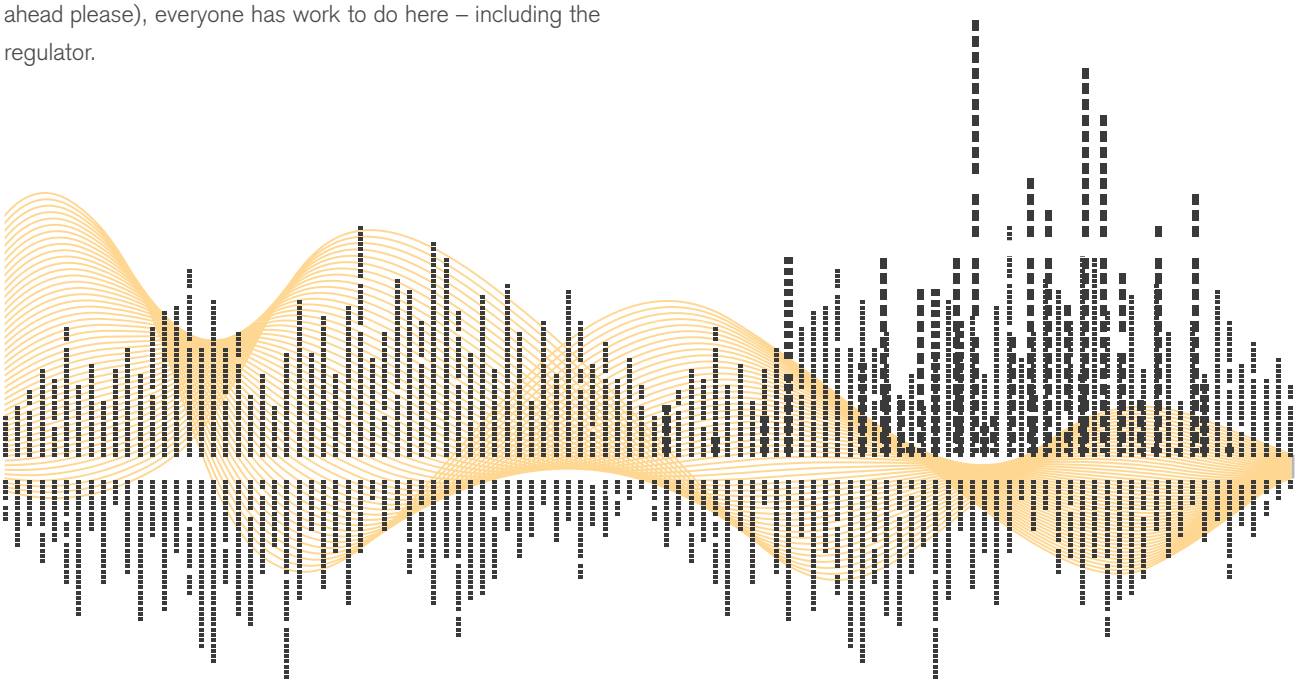
A huge vote of thanks is also due to both Rory Percival and Joel Adams of LIFT-Financial, who were kind enough to share their experience and opinions with us.

I don't think anyone believes that the transfer market for long-term savings and investment is working properly. I hope that this paper helps shed a bit of light on why, and that it is also of some assistance in unsticking some things that are definitely stuck.

Enjoy the read.

Mark Polson

founder, the lang cat



1. The Conduct of Business Sourcebook, Product Intervention and Product Governance Sourcebook and the second Markets in Financial Instruments Directive respectively. But you already knew that.

INTRODUCTION: IF YOU LEAVE ME NOW

It's undeniable that advisers feel constrained from recommending transfers, particularly between platforms. The reasons for this vary, but broadly speaking they fall into two main buckets:

1. **SUITABILITY** – many advisers feel that one product or platform is very much the same as another and so that there is little benefit in moving clients between them.
2. **PRACTICALITY** – even when transferring a client is the preferred option, the amount of work involved makes the transfer uneconomic for the firm. Most firms feel uncomfortable charging clients for what the FCA calls 'replacement business'.

Taken together, these two issues act as a brake on the velocity at which client assets move around the market. The exact amount of transfer business that should move but doesn't is unknowable; not even the IPMS managed to put a figure on it (although the interim report did note that 7% of direct platform customers had tried and failed to move platform – something many advisers might have some sympathy with).

So we have a market where the practical implications of transferring are so onerous that many firms simply can't make the case for it. As we'll see, this is problematic in lots of ways, not least because the regulations are clear on advisers' responsibilities for ensuring what the Financial Conduct Authority (FCA) consistently refers to as 'value for money' for clients.

As an aside, alongside the adviser research you'll read in this paper, we also talked to a number of platforms about what happens to the outgoing transfer business that they do write. Top of the list of 'regretted' business leaving (so not PCLS withdrawals, deaths and so on) was to vertically integrated propositions after an adviser had been acquired by a consolidator. It turns out that those pesky suitability issues can be readily dealt with when there is enough motivation.

We'll return to this topic in our case study, but for now we'll simply observe that some firms have worked hard at streamlining their transfer process and have done so successfully while still maintaining a clear focus on suitability.

SIGNAL TO NOISE

It's important to sort the real issues from the perceived ones. Or the signal from the background noise, depending on how conversant you are with sound engineering. No-one doubts that transfer business is too cumbersome from an administrative point of view. Even the FCA acknowledges this, as the quote from the IPMS final report on the right shows.

But the fact that it's difficult doesn't absolve advisers from their – your – responsibilities. It's easy to stick a pin in a transfer and not follow through. But the regulations require the work to be done and the client to be put in the most suitable venue, as we detail in the first main section.

> ***"We concluded that the work that an adviser needs to do, and the cost to the client, can act as a barrier to advisers reviewing whether their clients would benefit from switching platforms. Advisers that do carry out reviews may also conclude that switching is not in the interest of the client due to the complexity of the process and the associated administrative costs outweighing any benefits provided by an alternative platform. How far this is a barrier depends on the actual and perceived complexity of the work in each case."***
>
> **(MS17/1.3, p.30)**

The suitability argument gets you whichever way you come at it. If you believe that platforms and products generally (especially general accounts, ISAs and pensions) are commoditised, then there is a clear regulatory drive to ensure you are placing clients in the lowest cost proposition that is suitable. Price isn't the same as suitability – but within the cohort of solutions that *are* suitable, price is a key determinant of where the business should be placed.

The FCA has a statutory objective to consider whether competition works in the interests of consumers. This has resulted in a series of market studies. A market in which competition is not working well – as is the case with the advice market – is one in which there isn't the pressure or challenge from the market (consumers) to drive firms to provide good value for money services. This is a concern for the FCA, hence a range of regulations that, effectively, require firms to challenge themselves about their propositions and whether they offer value for money: PROD, SM&CR, and take a look at the rule COBS 9A.2.19 EU too.

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If you think there is clear blue water between propositions (which is what we believe at the lang cat), then it's self-evident that COBS, PROD and MiFID II require you to be active in ensuring your client is in the most suitable venue. This has profound implications for the platform market in particular.

So, much of it will come down to price. As we show in section one, there is plenty of differential in price in the platform space. Special deals are out there too – but your clients can only benefit from those if you are ready to move assets.

When we move over to the practicality side of things, we think most of the issues can be overcome. That doesn't mean it's simple – but there are firms that do this well without soaking clients. We take a look at one such firm on page 16.

As part of our research for this paper we profiled firms to see how much work and how much cost goes into a transfer; our findings put us towards the higher end of the range the FCA found when it conducted a similar research exercise. But as we'll see, it doesn't have to be that way. It's about making sure the spirit of the regulations drive you and then working to knock down the barriers that get in the way of better client outcomes and value for money.

A CHANGE IS GONNA COME

We think the market is glued up; sclerotic. That doesn't mean no transfers happen – we've seen providers self-identify that money does move. Advisers in our survey suggested that individual transfers are fine – but a large-scale transfer exercise such as one might encounter when changing a favoured platform is typically just too onerous to contemplate.

This all feels a bit like the bank account switching problem – what can we put in place to try and get the velocity of money to increase? As things stand, if advisers are allocating new clients to a new platform but leave existing ones in situ, those clients are undoubtedly experiencing what their advisers believe to be a sub-optimal outcome (and that's a polite version).

The truth is that the current practice just isn't going to cut it. It's not OK for new business flow to move around from place to place while existing clients languish where they are. The FCA feels your pain, at least in part – but there is no accommodation for firms who feel it's just too hard. We are going to have to get better at this; the question is how?

Let's get into the detail.

SECTION ONE: WHAT'S GOING ON – SUITABILITY

Transfers are a huge part of how the entire long-term savings and investment industry works. Depending on which platform you ask, the majority or even vast majority of inflows are transfer-based, dwarfing the amount of genuine new money that's entering the market.

When we think of money moving to platforms, most in-bound transfer business is from older contracts, particularly from lifecos. But some of it is from other platforms, as advisers take over new clients or find a genuine suitability requirement to move an individual client.

In fact, with over £370bn sitting on advised platforms at the end of 2018[2], it's safe to say that one of the biggest trends in the last decade has been transfer money moving to platforms from the lifeco sector.

But the rate is slowing. Advisers are identifying that transfers are getting harder, particularly between platforms. That latter point is important – with 18 years under the platform industry's belt, it's natural that market evolution and changing client circumstances will mean that some clients will be better served on a platform other than the one they were originally placed on.

We surveyed 95 firms for this report, most of whom are directly authorised, and asked them to describe the process of transferring between platform providers. More than half of firms said their experience varied significantly, and nearly 25% described it as either 'a huge undertaking' or 'absolutely brutal'. None said it was easy.

In the same survey, more than two-thirds of firms told us they'd felt constrained from recommending a transfer, mainly on grounds of either relative suitability (including cost) or administrative complexity.

It's clear from these results that, although some firms are managing to navigate transfers successfully, far fewer feel confident in bulk exercises, and there are many who aren't recommending transfers even where they would like to.

ASK FOR ANSWERS: ADVISER VIEWS

> *"Everything hinges on compliance, is it in the best interests of the client etc?"*

> *"I wonder if the regulator feels that we 'transfer for transfer's sake' so, on occasions, if the funds are on the current platform, even if there is a marginal cost benefit in the transfer, I recommend staying put as the hassle can be ridiculous."*

> *"I would recommend more but I don't have the time. So I have to pace myself."*

> *"It is time consuming, adds little obvious immediate value to the client, then there is the subject of who is going to pay for the time involved: adviser or client. Personally, I have transferred all clients from platform to platform at £0 cost to the client, otherwise I would feel I was churning with profit in mind."*

Does this matter? Whatever our individual opinions, our regulator says it does. We'll turn now to what adviser responsibilities really are in terms of transfers.

2. The lang cat Platform Market Scorecard, Q4 2018.

I FOUGHT THE LAW

Happily, sort of, this is quite clear. We need to turn to COBS and PROD for our reference material, which sounds painful but isn't really.

Before we do, though, it's worth just mentioning that the rules (and they are rules) inside these Sourcebooks aren't optional, and despite PROD being over a year old, few firms are complying with its requirements. A recent article from Rory Percival stated that less than 1% of firms are acting in accordance with PROD[3], which flows mainly from MiFID II.

Even if the real number is 50x that, it's still not great. So if you read this and find that you have some work to do, it's not something to ignore.

First, let's turn to the Conduct of Business Sourcebook[4]. We need to look in particular at sections 9 and 9A here; they cover non-MiFID and MiFID investment business and are most relevant for this paper.

The most important paragraph for our purposes is this one from section 9A on switching business.

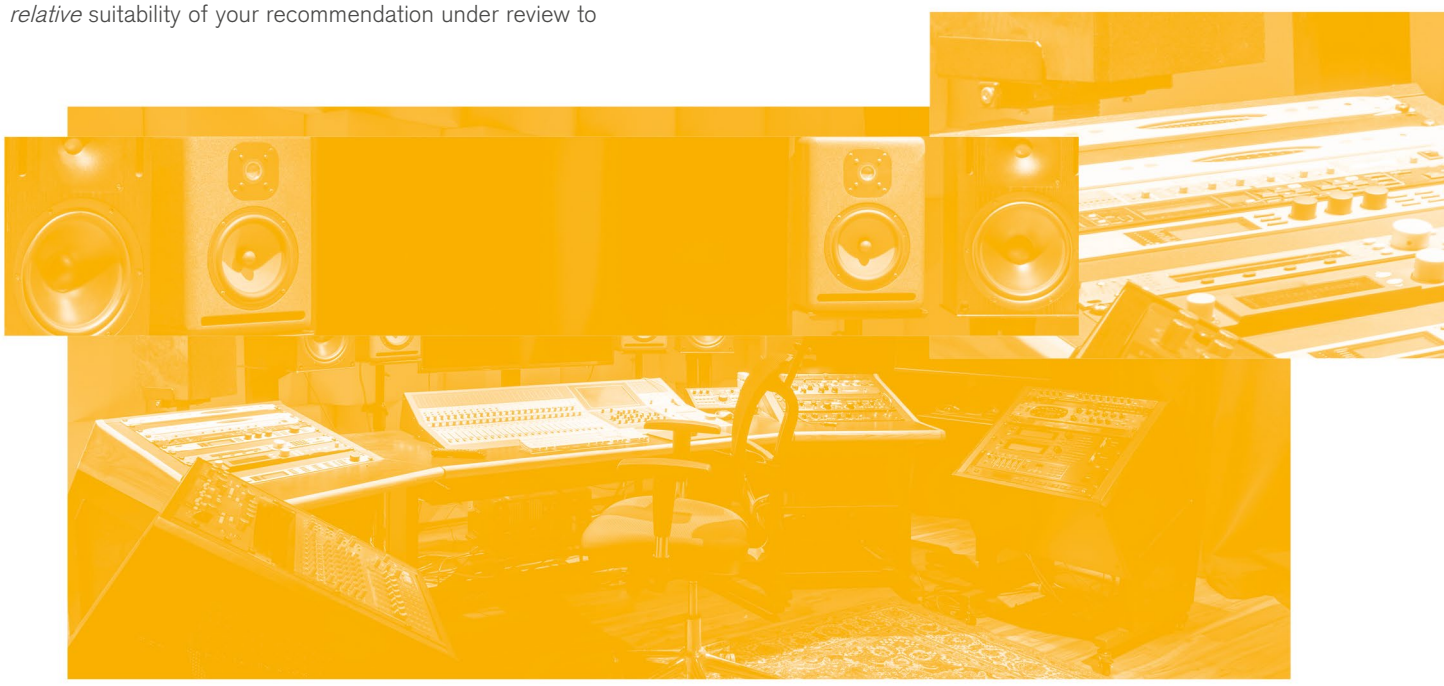
> ***"Investment firms shall have, and be able to demonstrate, adequate policies and procedures in place to ensure that they understand the nature, features, including costs and risks of investment services and financial instruments selected for their clients and that they assess, while taking into account cost and complexity, whether equivalent investment services or financial instruments can meet their client's profile."***
>
> **COBS 9A.2.19 EU**

It tells us a few key things:

- cost matters, as does the nature of the product;
- advisers must assess whether equivalent products can meet the client's requirements; and
- this isn't just at outset.

What all this means is that you, as advisers, need to keep the *relative* suitability of your recommendation under review to see if anything more suitable has come along. The fact that the initial recommendation may be your 'primary' platform which you prefer to use is neither here nor there.

This immediately brings us to what constitutes relative suitability, especially in the platform space where many firms judge there to be relatively little between offerings. We'll come back to that.



3. https://citywire.co.uk/new-model-adviser/news/fewer-than-1-of-advisers-are-complying-with-prod-rules-percival-warns/a1166338
4. https://www.handbook.fca.org.uk/handbook/COBS.pdf

Before we do, let's have a look at PROD[5]. Our mother's milk here is section 3.3, which is aimed at 'distributors' (which is what you're known as under MiFID – none of this 'profession' stuff).

3.3.10 (R) *"Distributors must identify the target market and their distribution strategy using: (1) the information obtained from manufacturers; and (2) information they have on their own clients."*

3.3.11 (G) *"In identifying the target market and creating a distribution strategy, distributors should consider: (1) the nature of the financial instruments to be offered or recommended and how they fit with end clients' needs and risk appetite; (2) the impact of charges on end clients; (3) the financial strength of the manufacturer; and (4) where information is available on the manufacturer's processes, how efficiently and reliably the manufacturer will deal with the end client at the point of sale or subsequently, such as when complaints arise, claims are made or the financial instrument reaches maturity."*

3.3.12 (G) *"The target market identified by distributors for each financial instrument should be identified at a sufficiently granular level."*

There's a lot in PROD which is useful in terms of defining suitability under MiFID. One of the core tenets is the idea of a 'target market' and judging suitability by that target market. This could lead you, for example, to decide that those pre-retirement are one target market and those post-retirement are another, and to judge suitability differently for each one – which might lead you to use a different platform for each.

When you see an (R) in PROD, it's a rule. When you see a (G) it's guidance to help you interpret the rule.

So in the guidance under 3.3.11, we see that you should consider the following:

- functionality and features
- cost
- financial strength
- service

That's handy stuff – certainly useful fodder for those undertaking platform due diligence. But what has this to do with transfers? Glad you asked…

5. https://www.handbook.fca.org.uk/handbook/PROD.pdf

3.3.15 (R) ***"(1) Distributors must have in place adequate product governance arrangements to ensure that: (a) the financial instruments and investment services they intend to distribute are compatible with the needs, characteristics and objectives of the identified target market; and (b) the intended distribution strategy is consistent with the identified target market. (2) Distributors must appropriately identify and assess the circumstances and needs of the clients they intend to focus on to ensure that their clients' interests are not compromised as a result of commercial or funding pressures. (3) Distributors must identify any groups of end clients for whose needs, characteristics and objectives the financial instrument or investment service is not compatible."***

3.3.16 (R) ***"Distributors must periodically review their product governance arrangements under PROD 3.3.15R and must take appropriate actions where necessary to ensure they remain robust and fit for their purpose."***

PROD wants you to review your suitability procedures and conclusions on an ongoing basis. COBS wants you to do the same. That should be enough for anyone.

GET OVER IT

Here are a few things the regulations **don't** say:

1. It's OK to not transfer a client to a more suitable venue because the admin is a nightmare.
2. It's OK to make a transfer uneconomic by quoting a level of fee for doing the work which makes the transaction self-defeating.
3. It's OK to direct new business to one venue and leave clients in the same segment (or 'target market') in a different proposition because it's easier.

If that sounds harsh, it's because it is. You are expected and required to ensure your client is in the most suitable venue for their needs. And if there are few superficial, propositional differences, then price, financial strength and service come into play. All this is set down for you – but of course you have to know where to look.

This is why we didn't see explicit instructions in the IPMS as to what you are expected to do. It's all taken care of in PROD. In fact, our friends in Stratford say as much:

Our final position

4.64 ***We consider the main barrier to switching is the time and complexity of the switching process itself. So we do not propose to issue additional guidance setting new expectations for advisers when reviewing whether clients should switch platforms.***

4.65 ***Although an assessment of suitability in each individual case is needed, suitability assessments (and reports) need only cover the main changes in the services proposed where this is part of an ongoing advice service*. We expect this to be straightforward in less complex cases, for example, where a client holds mainstream funds in an ISA.***

4.66 ***Advisers need to be able to demonstrate that their charges are fair, and our broader switching remedies should help to reduce costs. If ongoing advice charges do not cover the costs of assessing the benefits of switching, advisers need to be able to justify this.***

** Article 54(1) of MiFID Org Reg provides that: "Where an investment firm provides a service that involves periodic suitability assessments and reports, the subsequent reports after the initial service is established may only cover changes in the services or instruments involved and/or the circumstances of the client and may not need to repeat all the details of the first report." ESMA[6] guidelines state that "The principle of proportionality in MiFID allows firms to collect the level of information proportionate to the products and services they offer, or on which the client requests specific investment advice or portfolio management services".*

(MS17/1.3, p.31)

PROD is really important. In essence, it requires firms to consider their client banks (in practice you will need to segment your clients) and then map your investment proposition (CIP and CRP), platform and advisory services to the different segments. Firms have always done this, but usually not in the formal way PROD requires and frankly, often not very well (for example, segmenting clients by wealth, which is firm-centric rather than client-centric).

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We've quoted a lot of regulation. But it all comes down to this: you must be open to switching platforms for existing customers much more than you currently are. Yes, the admin is not where it needs to be, and the IPMS has a few ideas on that, especially to do with discounted share classes and any exit fees. But this is not an excuse. And when you read a veiled, barbed comment like ***"if ongoing advice charges do not cover the costs of assessing the benefits of switching, advisers need to be able to justify this"*** then you get a sense of what's really expected. And the FCA has a point here – if your ongoing percentage-based charge doesn't cover stuff like this, what does it cover?

Hopefully by now we've demonstrated that there is a need to review and potentially switch products and platforms as time goes by. The next question is: what constitutes a reason to switch? We'll look at this next.

6. The European Securities and Markets Authority.

PRICE I PAY

In our research for this paper we heard from advice firms that the benefits of moving clients from platform to platform are marginal at best.

> ***"…we have always shied away from platform-to-platform transfers – we are always concerned about the amount of work involved for us and the marginal benefits for the customer."***

We don't believe that's true – there are significant differences if you know where to look. We don't have space here to get into functionality: if you want to see how big the differences between platforms are then head over to the lang cat website and visit our free Platform Directory. You may be surprised.

But we do want to talk about price. It's the most emotive and most visible difference between platforms. And while price and suitability aren't the same thing (something cheap and unsuitable is still unsuitable[7]), it's certainly the case that within a cohort of suitable solutions, price differentials can be quite marked.

Let's imagine that you've identified four platforms, all of which you're convinced will do a cracking job for your client segment (because we are being nicely PROD compliant, of course). The segment is based on clients with some wealth (generally £250,000 to £1m), pre-retirement and with holdings across multiple wrappers. You like the investment range, the service, the functionality, the adviser support and the financial strength of all four providers. So how do we choose? This is where price comes into it.

> ***"There is so little between each platform and you only really know the issues (and they all have them) once you have started using one. We are going through the process of consolidating our platforms so we can become more adept at the ones we use."***

Our table below[8] shows how much it costs to hold a 20-fund model portfolio on a selection of the best known advised platforms. These are real platform figures, but the point of this paper is not to set one platform against another – it's about looking at the market as a whole. The calculations are based on:

- a mutual fund-only portfolio, which rebalances quarterly
- 50% in SIPP, 25% in ISA, 25% in GIA
- no special deals

	£250k	£500k	£1m
AJ Bell Investcentre	0.20%	0.20%	0.20%
Nucleus	0.35%	0.35%	0.26%
Standard Life Wrap (Core)	0.39%	0.36%	0.29%
Transact	0.33%	0.31%	0.26%
MARKET AVERAGE	**0.33%**	**0.29%**	**0.24%**

If we look at a client with £500,000 across their SIPP, ISA and GIA, we see a 0.16% differential from the lowest cost to the most expensive. To put this another way, it would cost your client £1,000 a year to hold this portfolio on AJ Bell Investcentre, and £1,800 a year on Standard Life Wrap, if you benefit from core terms. Both platforms are fully-featured, well respected and widely used. Is £800 a reason to move? And does that change if you charge a fee for so doing?

7. And something expensive and suitable is still suitable.
8. Correct at 1 March 2019.

The answer is, of course, in the arithmetic compounding of charges over the years. Let's look at the effects, including growth at 5%. Now, at this point it's important to be very clear that this table isn't based on actual platform charges and you certainly shouldn't rely on it as an illustration. There's no tiering or anything of that ilk. We've simply taken a range of flat percentages and dynamised them forward to show the effect of compounding over time. Our subject today is the power of arithmetic, and not AJ Bell versus other providers.

	0.20%	0.29%	0.31%	0.35%	0.36%
Year 5	£632,086	£629,377	£628,776	£627,576	£627,276
Year 10	£799,066	£792,231	£790,719	£787,703	£786,950
Year 15	£1,010,158	£997,223	£994,370	£988,686	£987,270
Year 20	£1,277,014	£1,255,259	£1,250,472	£1,240,951	£1,238,582
Year 25	£1,614,366	£1,580,062	£1,572,534	£1,557,582	£1,553,865
Year 30	£2,040,838	£1,988,908	£1,977,543	£1,955,001	£1,949,404

DIFFERENCE (LOWEST TO HIGHEST PRICE)	
Year 5	£4,810
Year 10	£12,116
Year 15	£22,888
Year 20	£38,432
Year 25	£60,501
Year 30	£91,434

We often hear that 'clients wouldn't move their mortgage for a 0.1% difference in interest rate' and that's true. But if you offered clients an extra £12,000 or so over ten years, they'd take it. Make it £90,000 over 30 years and it's a no-brainer. Our point is that very small percentage differences add up to relatively major monetary differences for clients. There is more clear blue water in pricing than is commonly believed.

It's not just the lang cat that says so. In the IPMS interim report[9], the FCA found that revenue declared by platforms for core charges (i.e. not including any investment element) varied from 0.22% up to 0.54% (although bear in mind that this covers both direct and advised platforms).

It all comes down to one thing: it's not OK to ignore price when you have a range of solutions which are suitable for your client. If a less expensive platform can do the job, it is starting to look less and less tenable to stay with a higher priced option – even if the process of transferring is difficult.

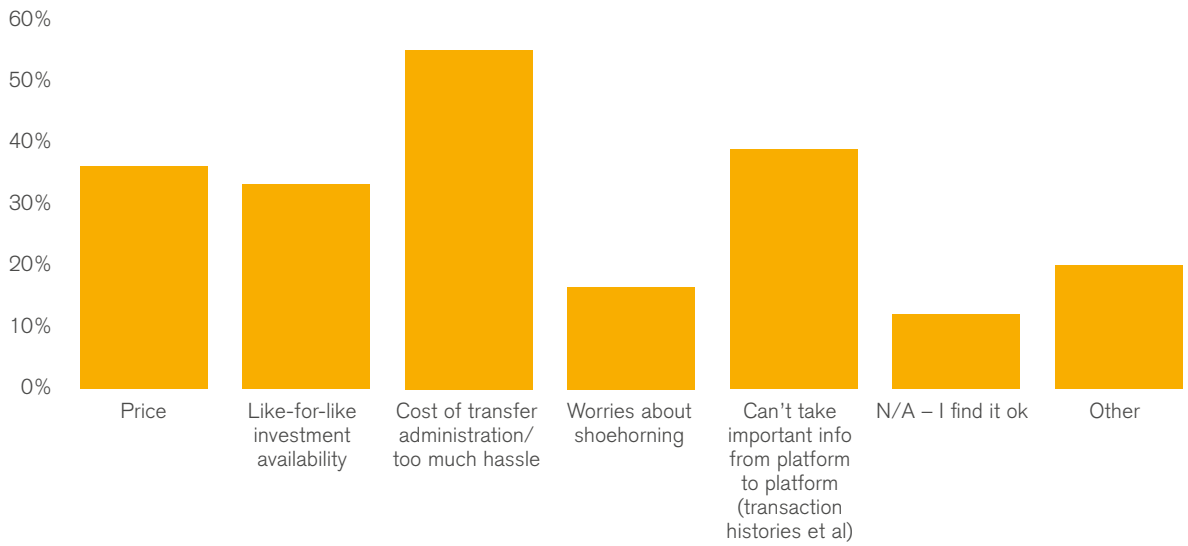
9. https://www.fca.org.uk/publication/market-studies/ms17-1-2.pdf particularly sections 4, 5 and 7.

SECTION TWO: CAN'T GET THERE FROM HERE – PRACTICALITY

We've looked at the regulatory landscape around transfers and found that holding back on transfer business (whether platform-to-platform or not) is problematic in all sorts of ways in light of COBS, PROD and MiFID. We are going to have to find a way to increase the velocity of money moving around this sector somehow.

The IPMS has some remedies: proposals to bring in requirements for share class conversion (to and from discounted share classes) and the potential removal of exit fees will each play their part.

But neither of these are the real story for firms. Let's go back to the adviser research we conducted for this report. We asked firms for the reasons they felt constrained them from recommending transfers and here's what they said:



We've already covered price, so let's have a think about the other big buckets there. Like-for-like investment availability and the lack of historic data portability are issues, but by far the biggest inhibitor is the cost of transfer administration.

The FCA's interim IPMS report suggested that the median administrative cost of a transfer was £700 (ranging from £150 to £1,835), and up to 15 hours work, based on feedback from 36 firms. Our 95-firm survey also took a close look at this and came up with higher figures of £1,155 and 20 hours of work per case. The difference between the two is down to different methodologies in the main and needn't detain us; the key thing is that it's too much.

> ***"It should be simple…'changing custodian' as the funds, adviser charge and DFM (if applicable) will remain the same. However, the onerous nature of a file that says "nothing is really changing" is the enemy of achieving better client outcomes."***

Let's return to that quote tucked away in a footnote on page 31 of the IPMS final report:

Article 54(1) of MiFID Org Reg provides that:

> ***"Where an investment firm provides a service that involves periodic suitability assessments and reports,* the subsequent reports after the initial service is established may only cover changes in the services or instruments involved and/or the circumstances of the client and may not need to repeat all the details of the first report."** ***ESMA guidelines state that "The principle of proportionality in MiFID allows firms to collect the level of information proportionate to the products and services they offer, or on which the client requests specific investment advice or portfolio management services."***

> ***"The suitability process can be very lengthy. It seems counter-productive to charge for a service that is intended mainly to reduce costs, and I have to balance up the needs of the business before embarking on a lengthy suitability process to recommend the switch."***

We've heard firms' frustrations loud and clear that having to do 'full suitability' for transfer business is a major factor in whether to recommend one. However, this suggests that going back to the start and doing a major review isn't necessarily essential – unless there have been major changes to the client's circumstances, which professional planners providing ongoing service would know anyway.

It may be the case that compliance teams are being (understandably) overzealous in their process for risk management purposes. We think it should be perfectly possible to create a streamlined advice process which satisfies regulatory requirements, controls risk for businesses, is understandable for clients and cost-effective for everyone involved.

In fact we know it's possible – because some firms are already doing it. We'll take a brief look at one of them in our case study on page 16. What it takes is a commitment to forming a process, standardising it and sticking to it.

In that spirit, here are some areas where we think a fresh approach might oil the wheels of the transfer bus:

SEGMENTATION	PROD wants you to work in target market segments. Can you identify groups of clients with similar needs for whom a particular solution might be most appropriate? If so, you can create repeatable or standardised sections for suitability letters.
RESEARCH	You don't need to start again with each case. Use the tools that are out there to help you (pro tip: try the lang cat's free Platform Directory). Make sure to do your due diligence by segment, not for your book as a whole.
FACT-FIND	This only has to cover changes in circumstances and needn't take long.
INDIVIDUAL CHECK	You'll know which clients a change works for in terms of pricing. A quick scan down the client list under consideration will quickly tell you if there are any reasons not to transfer based on individual circumstances.
GAINING AGREEMENT	No need to get in the car and drive to the client's house; this can all be done remotely, including any wet signatures required.
WRANGLING PROVIDERS	Is the receiving platform fully prepared for the exercise you're undertaking? And is the same true of the ceding provider? Open discussions may not be comfortable with the latter, but they will help bulk transfer exercises run much more smoothly.
CASH vs IN SPECIE	In specie is much more work and always will be if you're running 20-fund portfolios. It's worth weighing up whether out-of-market risk for cash transfers are worth it compared to the additional complexity of multiple in specie transfers. Oftentimes a transfer coincides with a firm reassessing its CIP approach in any event.

We can't take away the need for genuine suitability checks, and nor should we. Most firms wouldn't want that gone anyway. But it is possible, with a commitment and focus on these and other issues, to come up with a process which can take far less time. We suspect it could get down to something like three hours per client – and that's easily doable inside a typical 0.75% – 1% ongoing adviser charge for a core advised client.

If I was working for a firm, I would arrange for a client segment to switch platforms on a project basis. Yes, the advice must be suitable for each individual client, but there is nothing to stop you being efficient in providing advice. I would take a paraplanner out of normal duties for the necessary time, get him/her to create a spreadsheet of cost comparisons in light of individual client holdings (or use a cost comparison tool), create a template suitability report (signed off by compliance) and undertake a mail merge. Each letter/pack gets a once-over by the relevant adviser to ensure it's suitable before being despatched. Scheduled phone calls from the adviser to the client flag that it's not just another delivery of bumpf but will save them £X, as well as resolving any questions they may have.

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THIS IS HOW WE DO IT: CASE STUDY — LIFT-FINANCIAL

At LIFT we have conducted several big bulk platform transfer exercises. Every firm is different, but I think we have learned a few things that I hope will be useful to others reading this.

First, a word on our approach. We prefer to transfer in specie wherever possible, to remove out-of-market risk. This is a tougher approach from an admin point of view, but it's right for the client and so that's what we do unless there is a good reason not to (for example, if a client is in insured funds). We don't charge clients for transfers; it's all inside our ongoing charges.

Even with our scale and experience, we know that exercises like this aren't quick. They can take a long time, but equally it's worth taking that time to ensure things run smoothly.

Here are some of the key things we've learned:

- Treat the transfer exercise as a project. It should have a scope, an owner, and stakeholders. We treat both the ceding and receiving provider as key stakeholders and ensure they are involved from outset. We find that positive engagement works best – even ceding platforms, while they may be disappointed to lose assets, respond well to professionalism. Our Head of Business Change is an awesome project manager and makes sure everything runs as smoothly as it can.
- Map out the processes involved. For example, the new home or custodian won't know the base cost for the purchase of various assets, so that data will need to come over separately. Nothing need be a problem if you are prepared for it. Well defined processes avoid big mistakes. And put names in boxes – everyone needs to know what's expected of them. These are the basics of good project management.
- When it comes to suitability, we see these transfers as optimisation, and so we don't do a full suitability refresh. We disclose the things that are changing, along with all the regulatory information, and ask clients to approve that. It is demonstrably for their benefit, so we don't see a need to over-complicate the advice.
- We definitely don't visit clients as part of this and we try not to send letters either – we prefer to use the messaging function of the client portal provided by our back-office system. Clients can then tick to acknowledge they are happy to proceed and if they don't respond we can follow up by phone. Wet signatures may still be required, but that's easy to do once everyone is clear what's happening.
- We are pragmatic and realistic. We normally do transfer exercises in tranches. Tranche 1 might be ISA/GIA accounts, with SIPPs in Tranche 2 and drawdown accounts in Tranche 3. There are always some clients who get left behind, but life isn't perfect and we'll sweep them up later in the process.

In general, we think we're just here to do what's best for the client. It's our job to put them in the best position and make outcomes as good as we possibly can. In the back office we are all about making that as cost-effective as it can possibly be, but the idea of not optimising a client on the basis of administrative load is anathema to us.

Finally, we negotiate hard with platforms on behalf of clients and reassess our choices every year. We can do that with confidence because we know we've built the processes. So if we say that we have a certain amount to bring over, providers can have certainty that we will indeed do just that.

LIFT- Financial
Chartered Financial Planners


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CONCLUSIONS: BETTER THINGS

And so we come to the end of **SIGNAL TO NOISE**. It's time to look at what we can, collectively, do to make the platform-to-platform market less sclerotic; to de-fur the fiscal arteries and get the velocity of client money up to something which resembles respectable levels.

There are actions here for advisers, for regulators and for providers. Some are within our gift now. Others require more thinking.

1. ADVISERS

PRICING	Address the house view on replacement business and how much additional cost, if any, is acceptable in a transfer.
RESEARCH	Refresh platform market knowledge in detail, either as part of a due diligence exercise or general awareness. Ensure this is done at a client segment level rather than at a 'my business' level. Monitor the market quarterly and refresh in-depth knowledge either annually or bi-annually.
SEGMENTATION	Ensure clients are mapped to a segment with coherent and similar characteristics to allow for potential efficiencies.
PROCESS	Re-examine the transfer process and see if there are any efficiencies. Really get to grips with the regulation – it can actually help.

2. REGULATORS

GUIDANCE	Provide guidance and good practice on how advice firms can streamline suitability reports and analysis for platform transfers on a 'like-for-like' basis.
REGULATION	Create a specific advice exemption carve-out for bulk platform transfers which allows firms to give clients standardised disclosure and gain individual consent without the requirement for full suitability.

3. PROVIDERS

TECHNOLOGY ADOPTION	Ensure you're on the most recent and comprehensive versions of online transfer gateways and portals.
ADMINISTRATION	Set service standards on transfers out and publish progress against them. Commit to ensuring common share classes are available for re-registration.

Will these completely solve transfer woes? Maybe, especially if the FCA plays along. But even if a few come to pass, things will get better. There was a song about that once.

That's it for **SIGNAL TO NOISE**. We hope you've found it interesting, whether you agree with our findings or not. We particularly hope that you can use some of the methodology we've outlined here in your own business, and that some of the challenges we've thrown down about suitability and approaching transfer business in the right frame of mind have got you thinking.

SONG CREDITS

All through the paper we've used song titles as the headers. Here's the full list:

Signal To Noise | Peter Gabriel
Welcome to the Jungle | Guns N' Roses
If You Leave Me Now | Chicago (sorry)
A Change Is Gonna Come | Sam Cooke
What's Going On | Marvin Gaye
Ask For Answers | Placebo
I Fought The Law | The Clash
Get Over It | The Eagles
Price I Pay | Jane's Addiction
Can't Get There From Here | R.E.M.
This Is How We Do It | Montell Jordan
Better Things | Get Cape. Wear Cape. Fly

The playlist for the paper is available now on Spotify.

do what you love

www.langcatfinancial.com