

A Global Market But a World of Diversity

By Michael Fordham, Managing Director, Platform One Limited

Having run an international Wrap platform for the last three years, one thing is very clear to me - there is no “silver bullet” of a platform service to suit the needs of the global market because it is too diverse in its requirements. There isn’t even a single silver bullet for each jurisdiction.

This may seem obvious to most experienced offshore advisers. However, it is the range and diversity of these requirements that make the global market so demanding and yet so interesting.

At Platform One, we spent a good part of 2013 talking to advisers around the world in order to gain a better understanding of what they want from a Wrap platform. We have many advisers across the Far East, Dubai, Malta, Gibraltar, Spain, France, Africa and Brazil to thank for their input and for helping us to acquire a greater insight into what’s required.

The global market is best described as one that needs a range of different services to suit the varying combinations of tax environment, regulatory regime, target client type, individual client requirements and the advisers’ business models.

Ideally, there should be an arsenal of platform service options available to offshore advisers. Each adviser could then select the service options that best meets their requirements. This is our challenge at Platform One, and we are constantly developing our services to provide these options for international advisers.

A summary of our findings is provided **in the table to the right** and I’ll also outline some of the main requirements below.

The first choice is between client agreed adviser remuneration and a commission based service. Regulatory change is clearly the key driver here as certain jurisdictions, including the UK, Denmark and Holland, now require the former. The commission based service will remain the main option of choice for most offshore jurisdictions for some years to come. However, the regulatory drive to replace adviser commission with Client Agreed Remuneration or fee charging is spreading and will be adopted by other jurisdictions. This is often via a path of full disclosure and then for “independent” advisers, before being required for all advisers.

The Client agreed remuneration route is also being chosen by an increasing number of international adviser firms, particularly for their high net wealth clients. They are taking this route in order to create repeat revenues and to add long-term intrinsic value in their businesses. This echoes the development of the UK market where many advisers had already adopted a fee based business

model well before the Retail Distribution Review (RDR) made it mandatory.

The next big issue is the differing tax requirements of individual jurisdictions. Examples include France, Spain and Portugal, where only specific bonds qualify for tax purposes. As a result, the platform has to be able to offer a range of products and services to suit the tax needs of different jurisdictions. In fact, it needs to be a “whole of market” platform. Advisers in these jurisdictions will recognise these requirements.

Closely following tax are the authorisation requirements of the jurisdiction. In some countries advisers can be authorised to recommend certain types of investment products but not the underlying investments. In some they can advise expats but not locals, while in others there is no authorisation available for financial advisers. Advisers in these jurisdictions often advise on the products and recommend the investments to go in them. They then let the client purchase one or both on an “execution” basis. Any platform needs to provide this “semi-advised” service for these jurisdictions.

Finally, there is the “Introduced Execution Only” service required by offshore advisers for sections of their client base. Although this is a more complex service to provide, it meets a major market need.

A platform must pull these services together to offer advisers a single online view for all of their clients and investments and enable them to manage these effectively. This requires a secure, multi-currency, multi-investment, multi-product portfolio and dealing system with online access for advisers, clients, product providers, discretionary managers and trustees. These facilities should also be available via smart phones, tablets, iPads, etc.

It will take time before all the global requirements of advisers can be met by platforms, but it will happen. When this occurs, I expect that we will see the take up of platforms dominate the international adviser market as it has in the UK, Australia and the US.

Main international platform service requirements:

1. “Commission Based” and “Client Agreed Remuneration” service options.
2. Traditional “fully advised” service.
3. “Semi-advisory” service with the client purchasing investments.
4. “Introduced Execution Only” service for clients introduced by their adviser.
5. Whole of market choice for products, investments and discretionary managers.
6. Model portfolios with auto-purchase and rebalancing options.
7. Secure online access for advisers, clients, trustees, product providers, and discretionary managers.
8. Ability to record “off platform” assets (e.g. property, unquoted shares, art and bullion).
9. Access to back-end charged offshore funds for “commission based” service.

Note: This article is written for information only and is intended for professional advisers. The article was subject to editorial discretion of the publication ‘International Adviser’. Publication was May 2014.