

clearer choices

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Peter Jordan explains why platform switch charges cannot be ignored when assessing platform suitability.

Over the past few years the UK financial advice market has witnessed huge growth in the use of platform offerings. This has been fuelled by the impressive number of benefits that platforms offer to both advisers and their clients.

Fund choice, portfolio planning tools and the ability to switch funds in an efficient and cost effective way are key selling points of a platform-based investment, and essential factors for advisers to consider when selecting a platform provider. Each serves to support the crucial processes of ongoing client reviews and subsequent portfolio management activities, including:

- **Aligning attitude to risk**

As a client progresses through the various stages of life the level of risk a client is prepared to take is likely to change and as a result the client may require a different balance of funds within their portfolio.

- **Monitoring fund performance**

According to Financial Express, of the top 50 funds five years ago only eight retain their top 50 ranking. In addition, the top ranked life fund in September 2003 had fallen to 516th in the rankings by September 2008.* Clients' portfolios may need to be re-assessed in order to transfer out of any underperforming funds.

- **Portfolio drift**

It's possible that a portfolio set up five years ago, which originally matched the client's risk profile, will not have the same

risk profile today. Funds within a portfolio will exhibit different growth rates and over time a portfolio is likely to become overweighted by the funds that have performed particularly well. This could influence the overall risk profile, ultimately leading to discrepancies between the portfolio's risk rating and the client's appetite for risk.

the cost of switching

Following an analysis of the charging structures across the platform market we believe switch charges are big business for some providers. If 15% of the total funds under management for Cofunds, FundsNetwork and Transact were to be switched annually, an income of at least £13 million** could be generated every year for these platform providers.

The impact of these switch charges can cause unintended outcomes. Our analysis even shows that advisers holding client money in cash with one of these providers may find it is better value for their client to switch to Skandia's Selestia Investment Solutions investment platform when they decide to move back into funds.

An adviser using Cofunds will pay a switch charge of at least 0.25% when switching into a fund which has a fund manager initial charge. The FundsNetwork position is similar, however if the client initially invests in the platform's Cash Park and then switches into a fund with an initial

charge they will need to pay this initial charge in addition to the 0.25% switch charge. In the case of Transact, advisers performing a switch will generate a 0.20% switch charge for their client plus any fund manager initial charge if one exists.

improving customer outcomes

We have examined the Key Features Documents of all these platforms and it is virtually impossible to determine what impact switch charges will have on an investment. Clear disclosure rules need to be put in place to ensure switch charges are clear, fair and not misleading.

At Skandia we do not make an administrative charge for fund switching because we are committed to providing advisers and clients with a clear, simple and competitive charging structure. Our aim is to improve customer outcomes within the platform market and our switching stance is just one of many areas where we lead the market. ●

To view previous articles and podcasts from Peter Jordan on platform charging visit www.informerlive.co.uk/mysearch and select Peter in the 'Speakers' menu.

* Source: Financial Express, 30 September 1998 to 30 September 2003 and 30 September 2003 to 30 September 2008, bid to bid prices and net income reinvested

** Calculation is as follows: Funds under management (FUM) Cofunds: £15 billion + FUM FundsNetwork: £14.6 billion + FUM Transact £6.6 billion = Total FUM of £36.2 billion. Total FUM of £36.2 billion x total assumed switch volumes of 15% = £5.4 billion. £5.4 billion x switch charge of 0.25% (Cofunds & FundsNetwork) and 0.20% (Transact) = £13 million.

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Skandia fund platform gives you access to MultiISA and MultiFUND provided by Skandia MultiFUNDS Limited and to products provided by Skandia Life Assurance Company Limited.

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