



# question time

August 2009

Are you asking the right questions when it comes to platform due diligence? **Jeremy Mugridge** offers some practical guidance.

The FSA has made it clear that advisers need to give careful consideration to suitable platform partners for their business. This means you need a robust and structured approach to analysing platforms and your findings must be documented so that you are able to fully justify your choices.

The importance of platform due diligence and suitability has been plainly addressed in recent FSA papers (see panel opposite). It is clear that suitability is no longer simply something to consider regarding particular investments when advising clients – it is now essential to consider the suitability of the platform service itself.

### unnecessary confusion

The issue of platform suitability and due diligence can be confusing and unnecessarily complex. There are growing numbers of platform consultants helping adviser firms choose the right platform – and while many will provide a thorough approach, it is a service that only a small proportion of advisers will have the resources to employ. So how can advisers conduct a robust platform due diligence process to satisfy their business requirements and those of the regulator? Well, it need not be an overly complex process.

## the regulator on platform due diligence:

‘Due diligence would normally cover a wide range of issues, including the nature of the services, costs and financial information. We believe that intermediary firms should undertake due diligence and agree that the nature and extent will depend on the firm. This applies equally to small firms...’

Source: FSA feedback on DP 07/02 ‘Platforms and more principles-based regulation’, March 2008

‘The suitability of any platform will depend upon the client’s particular circumstances and requirements. Irrespective of any strategic firm decisions to use a platform, you must still consider whether a platform is suitable and meets each client’s needs before recommending it.’

Source: FSA factsheet ‘Platforms: using fund supermarkets and wraps’, September 2008

A sensible and straight-forward approach would be to follow the FSA’s suggested platform due diligence structure which is outlined in its September 2008 Platform factsheet, as follows:

1. The platform provider (eg reputation and financial standing)
2. Terms and Conditions of using the platform
3. Charges – including actual cost, charging structure and transparency of charges
4. Range of funds, tax wrappers and other products available
5. Range of asset classes
6. Functionality (eg the ability to switch or re-register off platform or record legacy assets)
7. Accessibility
8. Additional tools (eg risk profiling and asset allocation tools)
9. Support services (eg help facilities and training)

Source: FSA factsheet ‘Platforms: using fund supermarkets and wraps’, September 2008.

### cutting through confusion

Even when armed with this checklist, the specific questions you need to ask a platform provider are not obvious. At Skandia, we are in the process of developing a series of questions we believe you should be asking, along with the relevant response to each question with regard to the Skandia Investment Solutions platform.

For example, the FSA states that the first factor to consider is the reputation and financial standing of the platform provider.

Under this element of the FSA’s platform checklist, we suggest putting some or all of the following questions to your shortlist of potential platforms:

#### 1. The platform provider

- a. How is your platform financed?
- b. Is your platform profitable?
- c. How financially secure is your platform?
- d. What is your credit rating?
- e. Describe how your platform has a sustainable business model.
- f. Is your platform proposition the core business for the owners of the platform?
- g. How good is your reputation when it comes to service?
- h. Do you own your platform technology?
- i. If you don’t own your platform technology, please answer all of the above questions on behalf of the company you use.

### simple process

While due diligence is an extremely important process and as such cannot be completed at the click of a button, it need not be an overly complicated process. At Skandia, we have recognised that due diligence is a concern for many advisers and aim to do all we can to support you in this process.

We are currently developing a due diligence template which you can use to assess the Skandia platform and other platforms in the market. Please speak to your regional business consultant for further details on how we can help you conduct your platform due diligence. ●

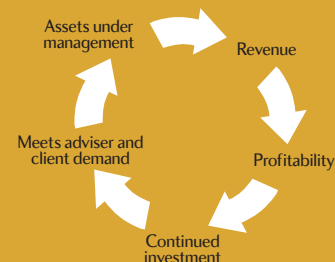
Let’s take a closer look at one of the questions and an example Skandia Investment Solutions response.

#### Q: Describe how your platform has a sustainable business model.

**Skandia response:** There are a number of elements that enable a platform to be sustainable. Skandia’s platform has £26.4 billion assets under management (as at 30 June 2009), which enables us to generate revenue that is able to deliver the level of return our various stakeholders expect.

Skandia’s profitability allows us to invest in our platform so that it continues to meet adviser and client needs. By continually meeting these needs we are able to attract more assets to our platform, giving us a sustainable business model.

#### Skandia’s sustainable business model



## recognising value

Why not also incorporate a platform price comparison within your due diligence as well, so that you can really get to the heart of where the true value lies for your clients? Visit [www.skandiaplatformwatch.co.uk](http://www.skandiaplatformwatch.co.uk) to see how easy we’ve made it to compare platform prices.

[www.skandia.co.uk](http://www.skandia.co.uk)

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