FINANCIAL CONDUCT AUTHORITY

MS17/1.2: Annex 6

Market Study

Investment Platforms Market Study

Interim Report: Annex 6 – Assessment of platform non-price features and platform fees

July 2018

Annex 6: Assessment of platform non-price features and platform fees

Introduction

1. To assess how effectively platforms are competing in the interest of consumers we needed to understand how platforms differ in terms of the non-price features they offer. In response to our information request, platforms told us that they compete on price and non-price features, such as research and content to aid investment decisions. Platforms with higher fees could represent good value for money if they offer more extensive non-price features than platforms with lower fees but more basic features, if we assume that some consumers prefer and are willing to pay for greater platform functionality.

2. In this annex, we set out our analysis of how price and non-price features differ across platforms and the relationship between price and non-price features in this market.

3. We cover:
   - how we analysed the way platforms differentiate themselves by their non-price features
   - platform charges and how they differ between platforms. We set out differences in the level and type of fees charged across platforms by simulating total fees charged for a variety of typical consumer scenarios
   - how non-price features offered compare to prices charged, platform size and market share

How do non-price features vary between platforms?

4. We used 3 main data and information sources to assess the range of tools, features and products offered by platforms:
   - firm submissions as part of the Investment Platforms Market Study data request, covering tool, feature and product availability for 22 Direct to Consumer (D2C) platforms as of June 2017
   - platform demonstrations and/or access to dummy accounts from 15 D2C platforms during November 2017 to March 2018[1]
   - consumer research (see Annex 2 and 3) done in December 2017 by NMG as part of the market study, providing data on non-advised consumers' preferences of platform tools and features

5. We considered the following groups of non-price features on D2C platforms:
   - availability of customer support
   - usability - look and feel of the website and availability of mobile app

[1] For firms that have migrated their customers from an old platform to their newer platform, we had access to the newer ones and excluded the older platforms from our assessment.

- tools and features to help investment decisions
- research – the range of information available on investment choices and products
- tools to manage existing investments
- product range, including wrappers and investment products
- ready-made portfolios and lists of suggested funds

6. The focus of our assessment was on D2C platforms. However, we also discuss our insights into adviser platforms' non-price features using the limited data available to us.

7. In the sections below we first set out how the availability of non-price features differs between platforms. We then set out our qualitative assessment of how certain non-price features vary between platforms.

Availability of non-price features on D2C platforms

8. In our information request to firms we asked firms to state which tools and features they offered. We asked firms to select the non-price features they make available under the following groups:
   - availability of customer support
   - usability - look and feel of the website and availability of mobile app
   - tools and features to help investment decisions
   - research – the range of information available on investment choices and products
   - tools to manage existing investments

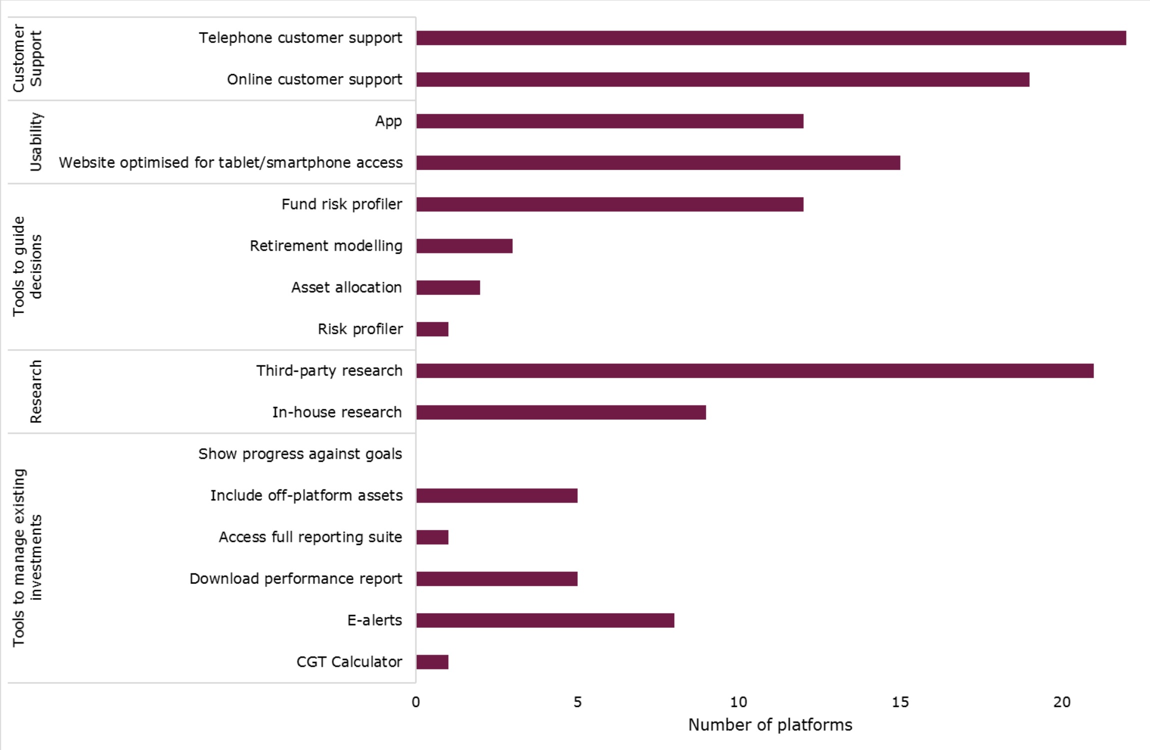
9. We crosschecked these data with our own reviews of platform and public websites. Using this information, we could assess the variation in platform features – do some platforms consistently offer more or fewer tools than other platforms, and are certain features more common or rare than other features?

10. As illustrated in Figure 6.1 below, we found that some features were offered by nearly all 22 D2C platforms in our sample. Customer service support including telephone and online support was offered by nearly all platforms. Just over half of platforms offered fund risk profilers to aid investment decisions, although other tools were less frequently provided. Almost all platforms provided access to third-party research, but a small number provided their own in-house research.

11. Other features were provided by only a small number of platforms. For example, only 2 platforms offered an asset allocation tool.[2] We saw some variation in the availability of tools for managing existing investments. Downloadable performance reports were offered by 5 platforms and a Capital Gains Tax (CGT) calculator by only 1. There was further variation in tools to guide investment decisions. For example, retirement modelling tools were available on 3 platforms only.

[2] Asset allocation is a tool to help research and select assets, including building model portfolios and rebalancing, taking into account the client's risk profile.

Figure 6.1: Availability of non-price features across D2C platforms



Source: FCA analysis of firm submissions to our information request

12. We also considered the breadth of investment choice offered across platforms. This was an area that our consumer research highlighted as an important consideration for consumers' choice of platform. We looked at:

- whether platforms had an ISA, SIPP and GIA
- whether platforms had funds, shares and other exchange-traded products

13. The majority of platforms provided 2 to 3 wrappers. Most had their own GIA accounts and ISA wrappers, and many also provided their own SIPP wrapper. Around a third offered access to a SIPP provided by a third party instead.

14. We observed more differentiation in the range of investment choices (eg funds, shares and other exchange-traded products) offered across D2C platforms. Many offered all 3 types but a significant minority offered funds only. Some platforms offered only a smaller, selected list of investment products.

15. We found variation in the availability of platforms' ready-made portfolios, which were offered by over half of D2C platforms. Less frequently available were lists of suggested funds, which were available on 9 platforms. Only 7 platforms offered both ready-made portfolios and lists of suggested funds.

Variation in non-price features

16. The analysis above captures whether platforms offered a given feature. For some tools and features, it was not possible to examine the extent of variation across platforms by only looking at the availability of features. Therefore, we undertook an in-depth review of the following tools and features to further understand how platforms differentiate themselves:

- performance report: how platforms choose to present to consumers their performance reports, including the type of information included, visualisation used and any additional capabilities
- 'look and feel' of the website and platform: while look and feel is a subjective matter in platform assessment, we focused on how information was presented and to what extent a structured consumer journey was available
- range of information available on investment choices and products (including both in-house and third-party research materials): the type of information available and the medium used
- availability of online customer support: how consumers can access online customer support

17. Our methodology of this in-depth review was as follows:
    - For each feature, we compiled a checklist that covered both the most common elements of the feature seen across platforms and less common elements that could indicate a higher level of functionality. To ensure that the checklist was appropriate and representative of elements that are important to consumers, we cross-checked with third-party reviews of platforms.
    - For each feature, we identified and categorised elements in our checklist into 3 groups, 'Basic', 'Standard' and 'Extensive'. 'Basic' contains the fewest elements and 'Extensive' the most.
    - For each platform, we matched our descriptions of the features to the relevant checklist and assigned a category (Basic/Standard/Extensive) based on our definition of the categories.

18. **Performance report** was graded against the criteria outlined in Figure 6.2. The most common grade across platforms was Standard, followed by Basic. We inferred from this that a significant number of platforms offered a comprehensive and interactive view of consumers' investments via the platform interface.

Figure 6.2: Performance report criteria

Extensive	Stock value, cash value, action button, infographics, allowances, performance charts, offline assets
Standard	Stock value, cash value, change in value, action button, infographics, allowances
Basic	Stock value, cash value, change in value

Source: FCA analysis

19. **Look and feel of the website** was graded against the criteria outlined in Figure 6.3. We found that most platforms provided accessible resources and information that were straightforward to find. However, the 'look and feel' of the website is likely to also be influenced by factors such as tone of language and visual style, which were not captured by our assessment.

Figure 6.3: Look and feel criteria

Extensive	Accessible information, visual presentation of information, intuitive website sections, limited click-through, structured consumer journey, detailed information available
Standard	Accessible information, visual presentation of information, intuitive website sections, limited click-through
Basic	Accessible information, visual presentation of information

Source: FCA analysis

20. **Range of information available on investment choices and products** was graded against the criteria outlined in Figure 6.4 below. While most D2C platforms provided third-party research material, often in combination with in-house offerings, we found greater variation in the style of material provided. We found that most platforms' level of research was in the Extensive category, with Basic the second most common grade. There is differentiation across platforms in terms of the detail or quantity of research provided by platforms.[3]

Figure 6.4: Research provision criteria

Extensive	Thematic articles, market news, market indicators, experts' opinion pieces, videos, podcasts, videos, downloadable guides
Standard	Thematic articles, market news, market indicators, experts' opinion pieces
Basic	Thematic articles, market news

Source: FCA analysis

21. **Availability of online customer support** was graded against the criteria outlined in Figure 6.5 below. Nearly all platforms offered both telephone and online customer support. We found greater variation when we looked at the degree of online support offered. Some platforms offered just secure messaging, or email or webchat, while others offered a combination. Most platforms provided email and secure messaging support, with webchat found on only 2 platforms.

[3] However, most of the research content is publicly accessible via platform public websites so consumers of 1 platform could access the research content of a different platform. However, we do not know how common such behaviour is.

Figure 6.5: Online support criteria

Extensive	Email, secure messaging, webchat
Standard	Email, secure messaging
Basic	Email

Source: FCA analysis

22. Overall, we found variations in non-price features across D2C platforms in terms of the type of non-price features that are available. Further variations between platforms were also highlighted by our in-depth review of the 4 features described above.

Availability of non-price features on adviser platforms

23. Adviser platforms compete to offer functionalities to meet the needs of both advisers and advised consumers. We identified the tools aimed at both groups, while acknowledging that some tools provided for consumers using adviser platforms may only be accessible at the discretion of advisers. In our assessment, we did not distinguish which features were aimed specifically at either advisers or their customers, nor which tools consumers of adviser platforms were restricted from using.

24. Compared to D2C platforms, we found greater provision of tools to view and manage investments. CGT calculators were provided by more than half of 26 adviser platforms, while nearly half allowed for off-platform assets to be included in online reporting.

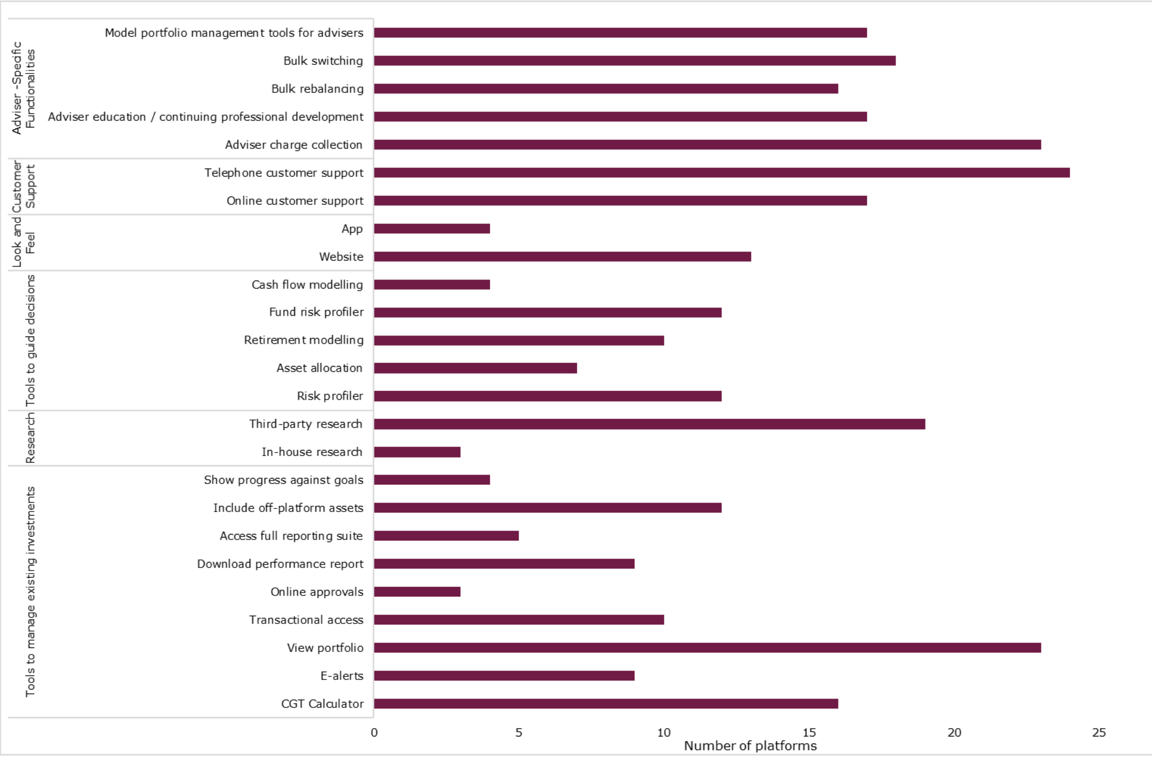
25. There was, however, less variation across adviser platforms. Features that were less frequently provided are those that we would not necessarily expect adviser platforms to provide. They include features that would allow consumers to manage their investments, such as 'show progress against goals'.

26. We found a relatively better provision of tools to guide investment choices on adviser platforms than on D2C platforms. However, fewer than half of adviser platforms provided a risk profiler or fund risk profiler separately, potentially because advisers use third-party financial planning tools believing them to be more independent. 8 platforms offered both a risk profiler and fund risk profiler.

27. Research material was slightly less frequently provided by adviser platforms than by D2C platforms. Third-party research was more commonly provided than in-house, provided by 19 and 3 adviser platforms respectively. We also found some differentiation in the support offered to advisers and consumers of adviser platforms. Almost all adviser platforms offered telephone customer support, but just over half offered online customer support. However, we did not have information to distinguish which platform customer support was available to advisers and advised consumers

separately. We found that there was minimal differentiation with regard to adviser-specific tools,[4] which were available on the majority of adviser platforms.

Figure 6.6: Non-price features offered by adviser platforms



Source: FCA analysis of firm submissions to our information request

28. In addition to our own review of the data received from firms and platform websites, we cross-checked our findings with existing reviews of platforms by the third-party firm the lang cat.[5] The lang cat platform market scorecard covers a range of non-price feature categories.[6] We considered the categories that most closely match our areas of interest: prefunding, portfolio management, keeping client informed, in-retirement functionality, and planning tools.

29. This functionality assessment from lang cat provided a deliberately simplistic approach to quantify non-price features available on platforms, and thus may not reflect consumer preferences and needs. It is however consistent with our usage of these data at the aggregate level.

30. The lang cat scores confirmed our findings that adviser-focused portfolio management tools, found on over half of adviser platforms, were more prevalent than tools to guide investment decisions, and all tools in this category were found on less than half of adviser platforms. Lang cat scores for planning tools are low across all platforms while portfolio management scores are consistently high for the majority of adviser platforms.

31. The difference between D2C and adviser platforms in terms of the functionality offered reflects the difference in type of service provided and in the expected needs

[4] These include adviser charge collection, adviser education / continuing professional development, bulk rebalancing, bulk switching, and model portfolio management tools for advisers.

[5] We were unable to take a similar approach for D2C platforms because there are currently no external comprehensive reviews of these platforms.

[6] 'lang cat platform market scorecard Q1 2017', p. 13, graded 18 adviser platforms across different categories from 0 (lowest) to 4 (highest), using data collected in Q1 2017.

of its users. We found that D2C platforms were more likely to provide basic functional tools such as performance reporting and a greater provision of online support, relative to other customer support channels, aiming to meet the expected needs of a non-advised consumer. On the other hand, adviser platforms offered more extensive planning tools, such as a risk profiling tool, or a retirement planning tool.

32. Overall, there were greater variations in functionalities across D2C platforms than across adviser platforms.

Assessing D2C non-price features based on consumer preferences

33. To understand the relationship between price and non-price features, it was important to consider consumer preferences across the range of non-price features that we analysed so that we could give greater weight to the tools and features that consumers value most.

34. To take into account consumer preferences in our analysis, we incorporated how consumers ranked the relative importance of each group of non-price features. Our consumer survey asked consumers of D2C platforms[7] to:

- choose up to 5 features that are most important to them based on the way they used their platform and that most influenced their decision to invest through their platform
- rank the chosen features in order of importance, where 1 is the most important

35. We used this information on consumers' ranking of different non-price feature groups to obtain percentage weighting. We then used these weights to give greater consideration to those non-price features that are more important to consumers when categorising platforms' non-price features.

36. The number of times a given feature was chosen was multiplied by its adjusted average rank of importance.[8] That means the more times a feature was chosen or the higher rank it received, the higher overall number it obtained. Therefore, consumer preferences for each feature were based on their responses to these 2 questions, relative to other features. The figure below shows consumer preferences for each non-price feature relative to others, with the higher percentages indicating more important features and the total summing up to 100% across all features considered. These sets of preferences are an average across our sample of consumers from the 11 largest D2C platforms and not limited to a specific platform.

Figure 6.7: Consumer relative preferences for platforms' non-price features

	When consumers choose a platform	**When consumers use a platform**
The breadth of investment choices (eg large number of funds, access to shares)	18%	17%
The look and feel of the online system	13%	15%
The range of products on the platform (eg ISA, Personal Pension)	16%	13%

[7] These survey questions covered consumers of D2C platforms, both non-advised consumers who only use D2C platforms and multi-channel consumers who use D2C platforms for some of their investments and go through advisers for other parts of their investment. See section 6.13 in Annex 3.

[8] We converted the rank to 5 being most important and 1 being least important.

	When consumers choose a platform	When consumers use a platform
Tools to manage existing investments (eg investment performance reports, alerts, tax calculators)	9%	12%
Availability of telephone support	10%	9%
Availability of online tools to guide my investment decisions	9%	9%
Ready-made fund portfolios or lists of suggested funds that simplify my investment decisions	9%	8%
Availability of online support	8%	8%
The range and/or relevance of information provided on different investments, including blogs	5%	5%
Availability of a mobile app	4%	5%
Total	100%	100%

Source: FCA analysis of NMG consumer research

37. There were few differences between the 2 sets of consumer preferences, based on how they chose their platform and how they used their platform. In addition, we found that consumer preferences were consistent across groups of consumers on D2C platforms with different usage frequencies and segmentations produced by NMG.[9]

38. We then weighted our analysis of platform functionalities by consumer preferences for different groups of non-price features. In doing so, we ascribed an overall categorisation of platforms' non-price features.

39. We assigned 16 D2C platforms which we had sufficient data and information to 3 groups – 'Basic', 'Standard', and 'Extensive' – based on their tool, feature and product availability weighted by consumer preferences.[10] These groups can be described as follows.

40. Platforms with an *extensive* level of non-price features tend to have:

- a full range of wrappers and products in addition to ready-made solutions
- extensive and detailed research materials updated frequently in a wide range of formats
- limited click-through as part of a structured consumer journey
- a very wide range of tools to manage investments and guide investment decisions
- multiple channels provide consumer support, including webchat

41. Platforms with a *standard* level of non-price features have:

- a mostly full range of wrappers and products in addition to some ready-made solutions
- a mix of simple and more detailed research materials in a range of formats.
- some click-through in a consumer journey
- a wide range of tools to manage investments and guide investment decisions
- several channels providing consumer support; online support is usually limited to either email or secure messaging

[9] See Annex 2 for more details on NMG consumer research.

[10] The 'extensive' group has 6 platforms, while the 'basic' and 'standard' groups have 5 platforms each.

42. Platforms with a *basic* level of non-price features generally have:
    - a mostly full range of wrappers and products with a few exceptions and limited ready-made solutions
    - basic research materials updated infrequently, offered in a few formats
    - click-through and sometimes circular user journey
    - a wide range of tools to manage investments and fewer tools to guide investment decisions
    - limited channels providing consumer support, mostly restricted to telephone or email only

43. This categorisation of D2C platforms based on their non-price features allowed us to assess how platforms' non-price differentiation can be mapped against their prices charged to consumers. We discuss this distribution and consider alternative ways to understand the distribution in later sections of this annex.

44. Our platform categorisation was based on our assumptions of average consumer preferences for groups of non-price features, taken from our consumer research. We found that these preferences were consistent across groups of consumers on D2C platforms with different usage frequencies and segmentations produced by NMG.[11]

45. We considered only 'vertical differentiation' in non-price features, meaning that we only looked at the availability of features and variation in the functionality between 2 or more platforms offering that feature. We did not, however, consider 'horizontal differentiation' – how a platform may appeal to consumers with specific needs more than other platforms of the same 'vertical differentiation' level.

Price simulation analysis

46. Price is an important factor that firms compete on. In this section, we set out our analysis of how and the extent to which platform prices differ. Our analysis covered:
    - type of platform fees
    - platform fee structures
    - fees paid in different consumer scenarios

47. There are many charges available on platforms which can be significantly complex and contingent on consumers' usage. Our analysis focused on a group of prices that we considered the main platform fees which are relevant to most consumers.

48. We undertook a detailed analysis using stylised scenarios of 9 consumer profiles. The profiles were based on the size of their investment, wrappers and products held and trading activity and other factors which allowed us to simulate and compare the total platform fees paid across platforms.

49. From this, we created a ranking for all D2C platforms based on the simulated total platform fees across all relevant scenarios. This ranking was then cross-checked with the actual price paid by consumers, proxied by total revenue from platform retail business divided by total assets under administration (AUA) in retail investment on the platform.

[11] See Annex 8 and chapter 7 for further analysis of consumer preferences.

50. The data on platform fee structures used in this analysis were from the market study data request covering 19 D2C platforms.[12] All fees were current as of June 2017.

51. The analysis has been done for D2C platforms only. We did not include adviser platforms in our analysis because we did not have information on discounts on platform fees available on adviser platforms. Given that these discounts may significantly affect the fees paid by advised consumers, a similar analysis using simulated prices would not accurately reflect the actual price paid by advised consumers.

Types of platform fees

52. To compare simulated prices across platforms, we focused on the following fees which we considered to be the main fees charged by platforms:

53. **Headline platform fee** – The headline platform fee is sometimes described as an investor, service or administrative charge and is the ongoing general administration fee for accessing platform. By comparing platform fee types and levels, we gained an insight into how consumers may perceive headline price differences across platforms. The fee included in our analysis was the headline platform fee applicable for total investment on platforms, investment in ISA/SIPP/GIA wrappers and/or in funds/shares/other exchange-traded products. We did not consider the platform fee charged on non-standard accounts, inactive accounts or on more specialised products, such as property.

54. **Wrapper fees** – We considered the fees for the 3 most common types of wrappers separately. These may be charged in addition to the headline platform fee, or in place of the headline platform fee.

- **ISA fee** – ISA fee is the ongoing administration fee relevant for an ISA account. This fee may vary with the type of product held within the wrapper – depending on whether it is held in funds or in shares, for example. We considered only the ISA fee on ISA accounts, which excluded ISA fees charged on Junior ISA (JISA), Lifetime ISA (LISA) or Individual Development Account (IDA) accounts.
- **SIPP fee** – SIPP fee is the ongoing administration fee relevant for a SIPP account. This fee may also vary with the type of product held within the wrapper. We considered SIPP fees charged on simple SIPP accounts only. SIPP fees charged on more specialised SIPP accounts (SIPP accounts held in property only), fees charged on Child SIPP accounts, early-depletion SIPP fees, or fees on SIPP accounts that hold off-platform assets were not included in the analysis.
- **GIA fee** – GIA fee is the ongoing administration fee relevant for a GIA account. This fee may also vary with the type of product held within the wrapper. We considered only GIA fees charged on a GIA account, excluding GIA fees charged on IDA accounts.

55. **Dealing charge** – This is the administration fee from the sale or purchase of an investment product, which is sometimes referred to as a trading fee. This fee may vary depending on the products dealt (funds/shares/other exchange-traded instruments), the amount dealt, the type of dealing (online/phone/paper/automatic) and the frequency of trading. The main dealing charge we considered was the standard online dealing charge for funds, shares, and exchange traded instruments. This excluded dealing charges for property trades, specialist investments, express trades, dividend reinvestment/automatic trading, and others.

[12] The total is 21 D2C platforms; however, we excluded 2 platforms that have been replaced with new platforms from the same firm.

56. **Cash interest** – This is the amount platforms pay to consumers on the cash balance they hold on platforms and is subtracted from our total platform fees calculation. Cash interest is often expressed in fixed percentage amounts, but can also be tiered by AUA. In some cases, platforms specify a percentage amount below the Bank of England base rate. It may apply to the total cash balance on the platform or to the cash balance for a given wrapper.

Platform fee structures

57. The headline platform fee was predominantly ad valorem but could also be presented as a flat monetary amount. Tiered structures based on the invested amount were common at around 0.2% to 0.4% for the first £250,000 in most cases. Some of these tiered structures applied marginal rates where the total investment is not all charged at 1 rate but at many rates as it moves across the marginal fee rate schedule. Other platforms had a fixed percentage fee structure that does not vary based on the amount invested. This fee structure was mostly applicable to accounts holding shares separately.

58. The types of fees platforms applied to specific assets and investments differed between firms. For example, some platforms had different fee levels for different investment products (funds vs. shares/ETFs), product ranges, wrappers (or combination of wrappers). Some charged this headline platform fee on cash if held in certain wrappers while others charged fees on a quarterly/monthly basis instead of per annum. Most platforms had separate platform fees for different wrappers while a few had separate wrapper fees in addition to the headline platform fee instead.

59. There was significant variation in both the structures and levels of dealing charge across platforms. Most charged a value in pounds for each trade but with a tiered structure based on the number of trades incurred in a given period (the first tier is around £11 per trade) while others charged a fixed amount per trade (from £3 to £6 per trade, up to £27) or a fixed percentage fee based on value of trade (varying from 0.1% to 0.9%). The tiered fee structure may make it cheaper for consumers who trade relatively frequently. However, to take advantage of the lower-fee tiers, consumers would most often need to trade at least 10 to 30 times per year. Dealing charges were similarly complex to the headline platform fee. For example, there were often different tiers levels depending on the product - funds vs. shares/ETFs.

Fees paid in different consumer scenarios

60. Given the complexity of fee structures and levels, we simulated the levels and range of platform prices for a number of hypothetical consumer usage profiles. To generate scenarios which reflected how consumers use platforms we examined consumers' actual usage patterns. Below is the summary of usage patterns we have found on average across platforms:[13]

- Consumers of D2C platforms tended to hold more shares, averaging around 40% of their investments while it was only 2% for consumers of adviser platforms.
- Investments, on average, were spread relatively evenly across 3 wrappers ISA, SIPP and GIA, with around 33% held in ISA.
- Among D2C consumers, 44% had investment pots of less than £5,000. More broadly, 86% of investment pots held by non-advised consumers were less than £100,000.

[13] This summary was based on firm data as of June 2017, submitted in response to our data request.

- On the other hand, consumers' investment pots on adviser platforms tended to be larger, with only 16% less than £5,000. In addition, 22% was in pots of size between £100,000 and less than £500,000. This was in contrast to the 8% for consumers of D2C platforms.
- Trading activities on funds and shares were relatively limited among consumers of D2C and adviser platforms. 57% of both consumers of D2C and adviser platforms had zero fund trading activity per year, and 54% for share trading. Only 10.3% traded in funds once or twice per year; and 5.9% traded in shares.
- There were generally more trading activities among consumers of D2C platforms than consumers of adviser platforms, especially in share trading. Consumers of adviser platforms tended to trade more in funds than in shares. On average across both types of platforms, consumers held 16% of their investment in shares and 5.5% in cash.

61. Based on the usage patterns described above, we developed 9 scenarios with pot size ranging from £5,000 to £500,000 to reflect various profiles of both non-advised and advised consumers. In particular, we incorporated the following dimensions:

- Pot sizes of £5,000 and £13,000 only have ISA accounts while large pots have investments in all 3 wrappers (ISA, SIPP and GIA) with investments in ISA accounting for 35% (except for the case of £40,000 pots with £20,000 in ISA).[14]
- Number of trades (both shares and funds) varies from 0 to 3, which accounts for around 70% of consumers, with 1 scenario of high trading frequency (scenario 7 with 30 trades in total per annum). Scenario 7 mirrors closely the usage patterns of the top 10% of traders in the consumer research sample who paid more than £100 in trading charges (more than 25% of the total platform fees paid).[15]
- Investments in shares vary from 15% to 50%, assuming that active traders tend to hold more shares. Scenarios with the largest pots of £250,000 and £500,000 mirror closely profiles of advised consumers with minimal share holdings of 2%.
- Cash accounts for 5% of total amount, except for the smallest pot with zero cash.

Figure 6.8: Scenarios for price analysis

Scenarios	1	2	3	4	5
Descriptions	- £5,000 - ISA only - No trading - 3 holdings	- £13,000 - ISA only - 15% in shares - No trading - 5 holdings	- £13,000 - ISA only - 40% in shares - 2 share trades and 1 fund trade - 8 holdings	- £40,000 - Use all 3 wrappers - 15% in shares - No trading - 8 holdings	- £40,000 - Use all 3 wrappers - 40% in shares - 2 share trades and 1 fund trade - 10 holdings

Scenarios	6	7	8	9
Descriptions	- £100,000 - Use all 3 wrappers - 15% in shares - No trading - 10 holdings	- £100,000 - Use all 3 wrappers - 50% in shares - 10 share trades and 20 fund trades - 20 holdings	- £250,000 - Use all 3 wrappers - 2% in shares - 10 fund trade - 15 holdings	- £500,000 - Use all 3 wrappers - 2% in shares - 10 fund trade - 15 holdings

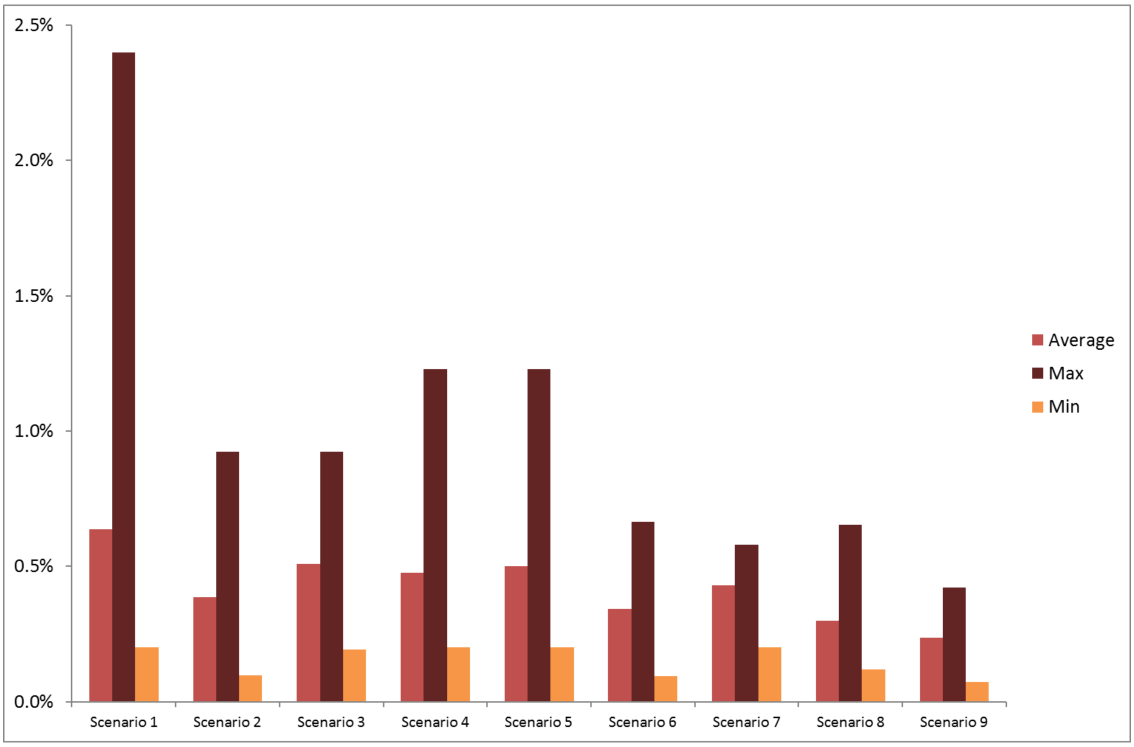
Source: FCA analysis

[14] All platforms included either did not have a minimum investment requirement or had the requirement of less than £5,000. The wrapper splits here do not reflect the 20% of advised consumers from our consumer research sample of the largest platforms who had only a SIPP on the platform the consumer was sampled from.

[15] From total platform fee and trading fee data provided by investment platforms for consumers in our sample.

62. We simulated the fees (including the headline platform fee, dealing charge and wrapper fee and subtracting any interest paid if available) for these 9 scenarios, assuming constant pot size throughout the year. For platforms that offer funds only, we used the same simulated scenarios. The only difference was our assumption that all investments were held in funds, instead of splitting investments held between funds and shares. In addition, platforms that do not have SIPP were ranked for scenario 1 to 3 only (where total investments are held in an ISA). The figure below shows the range total platform fees that can be charged for each scenario on D2C platforms.

Figure 6.9: Price scenario analysis: total platform fee relative to amount invested for D2C platforms



Source: FCA analysis of firm submissions to our information request

63. Across all D2C platforms, there was a wide range of charges for a given scenario, with the maximum fees being 3 to 12 times higher than the minimum across the scenarios. This means that a consumer with a given usage profile could be paying many times more on some platforms compared to other platforms. We observed the largest variation in platform fees for the smallest pot of £5,000, from 0.2% to 2.4% and averaging at 0.6%. Average charges across all D2C platforms for a given scenario were around 0.3% to 0.5%, for most scenarios.

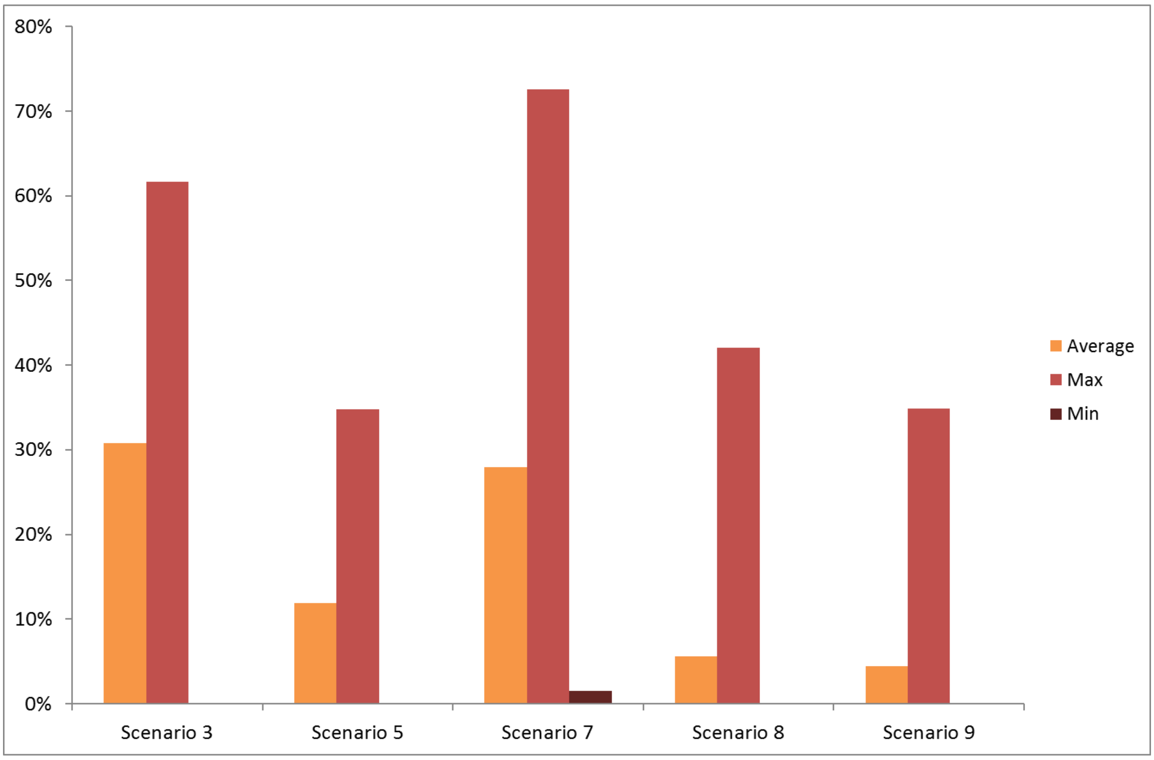
64. For a given scenario, other than the level of charges, the main drivers of the simulated price differences between platforms are:

- flat fee structure with a fixed amount in pounds for either the headline platform fee or wrapper fee, at the current levels, and depending on pot size, makes some platforms significantly more expensive than platforms with ad valorem pricing
- platforms fee structures with some applying certain charges (eg a separate wrapper fee) while others do not
- variation in fee levels also contributes to the variation in total platform fees

65. We have explored what drives price differences across different scenarios, and we found that pot size and wrapper choice are key determinants of the simulated total platform charges consumers pay. If we compare Scenario 1 of £5,000 pot to Scenario 2 of £13,000, the fees as a proportion of pot size reduces by 2 to 2.6 times, driven by the fact that some platforms have a flat fee structure.[16] Pot size, therefore, can be one of the most important drivers of the charges amount consumers pay as a proportion of their total investments. In addition, SIPP accounts are generally more expensive than ISA and GIA accounts, as illustrated by comparing total platform fees for Scenario 2 (without a SIPP account) and Scenario 4 (with a SIPP account).

66. Dealing charges are also an important component in explaining the differences between total platform fees in different scenarios. Dealing charges can represent a significant proportion of total platform fees. This is the case not only for consumers who trade frequently (Scenario 7) but also for those who have smaller pots and trade occasionally (Scenario 3). On average, dealing charges account for around a third for these 2 scenarios, compared to 12% or less on average of total platform fees for all other scenarios with trading activity.

Figure 6.10: Price scenario analysis: simulated total platform fee relative to amount invested for D2C platforms



Note: Only scenarios with trading activities (scenario 3, 5, 7, 8 and 9) are included.

Source: FCA analysis of firm submissions to our information request

67. Our price scenario analysis highlights that platform fees may vary significantly across platforms for the same customer usage pattern. It appears that pot size, product wrapper and fund and share trading frequency can make the most difference to the overall platform fees. The different charging structures and the resulting overall

[16] This is because with flat fee structure, consumers pay the same fixed amount in pound regardless of their investment size. Therefore, consumers with a larger investment pot pay a smaller proportion of their investment in platform fees, if compared to consumers with a smaller pot.

simulated fee levels highlight that some consumers may be better off on some platforms than on others, depending on their usage.

Matching price with non-price features

68. As part of our analysis of the value for money offered by platforms, we mapped out price against level of non-price features and assessed how this differs across platforms. Platforms with higher fees could represent good value if they offer more extensive non-price features than platforms with higher fees but more basic features.

69. We assessed several metrics to understand how platforms compare in terms of price and non-price features:

- For price, we used revenue per £ AUA as an approximation for actual price paid by consumers (see paragraph 71 below, Chapter 7 and Annex 4).
- We also looked at the ranking of D2C platforms in terms of simulated prices as described below in paragraphs 76 – 77.
- For non-price features of D2C platforms, we used metrics summarised in paragraphs 40 – 43 above, which capture the more quantifiable aspects of platform functionalities. For adviser platforms, we used lang cat scores as described above in paragraphs 29 – 30. As a sensitivity check we also looked at Net Promoter Scores from our consumer research (see Annex 2 for more details)

Analysis based on revenue data

70. In order to aggregate the numerous different fees and charges paid by consumers we created a "price proxy" for platforms based on their total retail revenue divided by average AUA[17] for each year (see Annex 4). Despite some limitations,[18] the price proxy we calculated is a useful indicator of average overall price paid by consumers, inclusive of headline platform fees,[19] wrapper charges, transaction fees, retained interest on cash and other miscellaneous charges.[20] Our analysis is based on a sample of 24 platforms (14 adviser and 10 D2C platforms).

71. Figure 6.11 below shows the mapping of price proxy and non-price features for D2C and adviser platforms. For the 10 D2C platforms for which we have revenue data available, we can see that the more expensive platforms tend to have a higher level of platform functionality. Larger platforms tend to be at the more expensive and higher functionality end of the spectrum. For the 14 adviser platforms in our sample, there is a similar pattern, although some larger platforms are more expensive than some other platforms with a similar level of platform functionality.

[17] A simple average figure (Start year AUA + end year AUA) / 2.

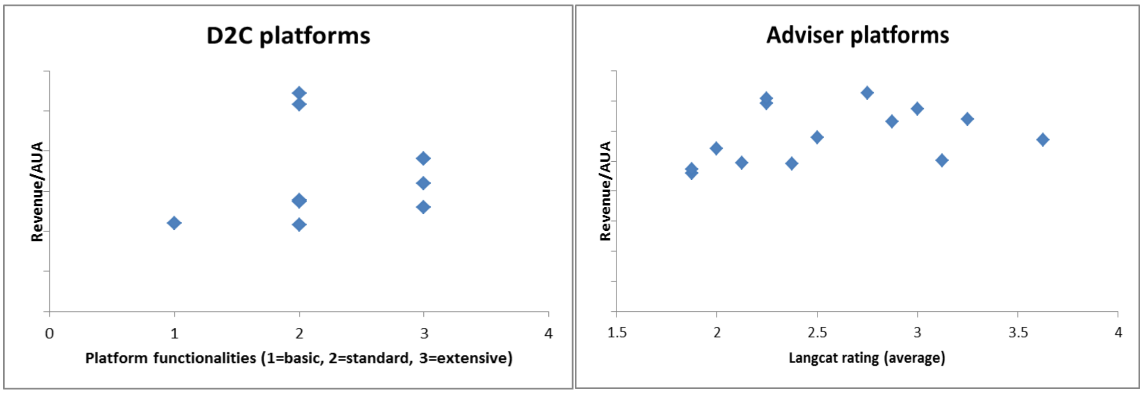
[18] Simple average AUA figures assume linear AUA growth rather than money weighted figures and so could yield misleading price proxy figures. If for example, all the AUA growth occurred in the first month of the year then taking a simple average would understate the AUA on which the revenue was earnt and would yield a price proxy which is higher than the true figure. In short, the denominator for our equation would be too small and the result too high.

Also, by design the price proxy assumes a single average consumer in order to yield a single price. In reality, we know that the actual prices paid by consumers will depend on their investments, circumstances and behaviour, not all consumers will be subject to, for example, SIPP charges but where a firm makes a proportion of its revenue from SIPP charges our price proxy assumes all consumers bear this cost proportional to their AUA. So, in generating a single consumer price figure for each platform we have no quantification of the range of prices paid by different consumers on that platform.

[19] For earlier years we included fund manager commission rebates as retail revenue to ensure comparability across years and firms.

[20] This calculation only includes fees and charges levied by the platform for its services and therefore does not include other charges payable across the value chain such as advice or fund management fees (fund charges).

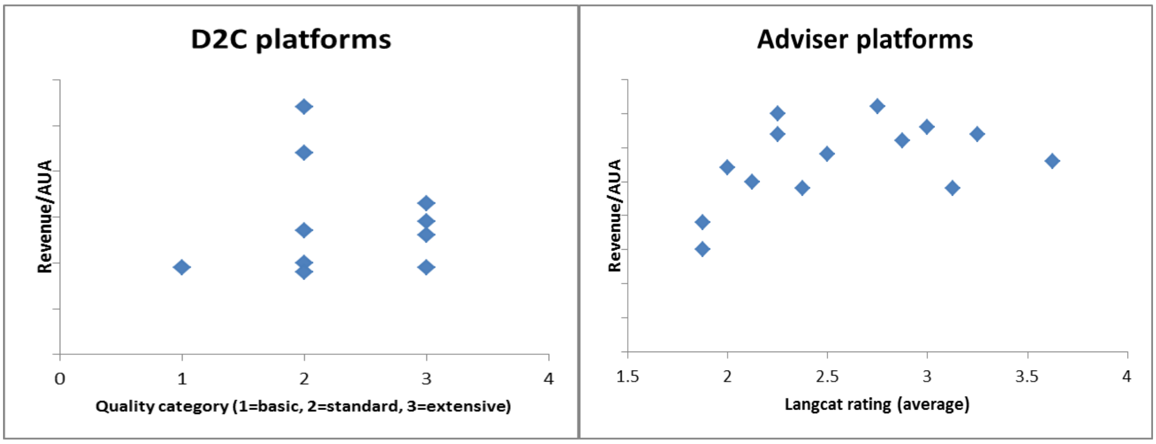
Figure 6.11: Platform non-price features vs. actual price paid proxy



Source: FCA analysis of firm submissions to our information request and lang cat ratings

72. We checked whether we observe a similar pattern if we exclude interest retained by platforms from the revenue figures (see Annex 4 for further details). Figure 6.12 below shows that the mapping is similar.

Figure 6.12: Platform non-price features vs. actual price paid proxy (excluding interest retained)



Source: FCA analysis of firm submissions to our information request and lang cat ratings

73. We carried out sensitivity analysis for D2C platforms using Net Promoter Scores (NPS). NPS were calculated for 11 D2C platforms as part of our consumer research, which is outlined in further detail in Annex 2. The consumer research analysis surveyed a sample of representative platform users. NPS is the difference between the number of platform users who would recommend their platform to a friend, 'promoters',[21] and others who would not recommend it, 'detractors'.[22] This difference is expressed as a percentage of the total number of platform users in the sample. NPS aims to capture consumer satisfaction with platform services; however, this may depend on the type and level of service consumers expected from platforms which is not captured in NPS.[23]

74. Figure 6.13 below shows that there is an overall positive relationship between platform NPS and actual price paid proxy. This indicates that generally the higher priced platforms score better in terms of consumer recommendations, indicating

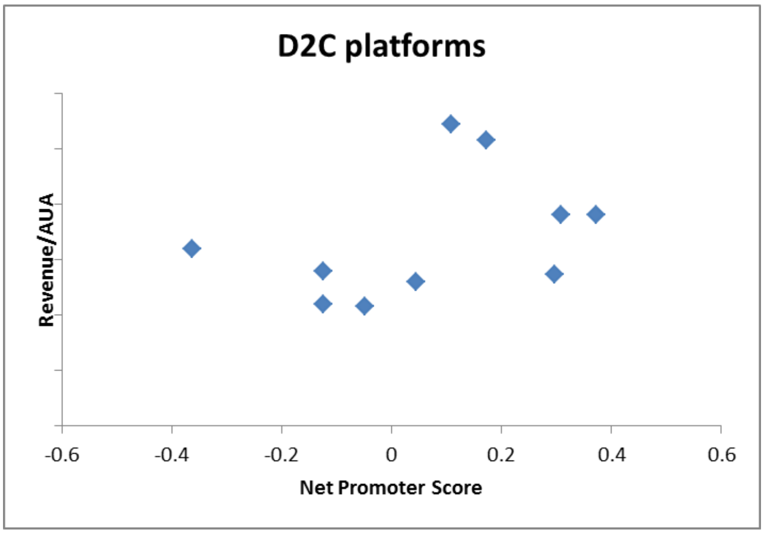
[21] Promoters of a platform rate their likelihood of recommending the platform to a friend as a 9 or a 10 (highest likelihood score of 10).

[22] Detractors rate their likelihood of recommending the platform to a friend between 0 and 6 (lowest likelihood score of 0).

[23] See Annex 2 for more information on Net Promoter Score.

non-price features are important in consumer satisfaction. There are, however, a couple of instances where platforms with relatively low NPS are more expensive than some other platforms with a better NPS.

Figure 6.13: NPS against Revenue/AUA



Source: FCA analysis of firm submissions to our information request and NMG consumer survey data

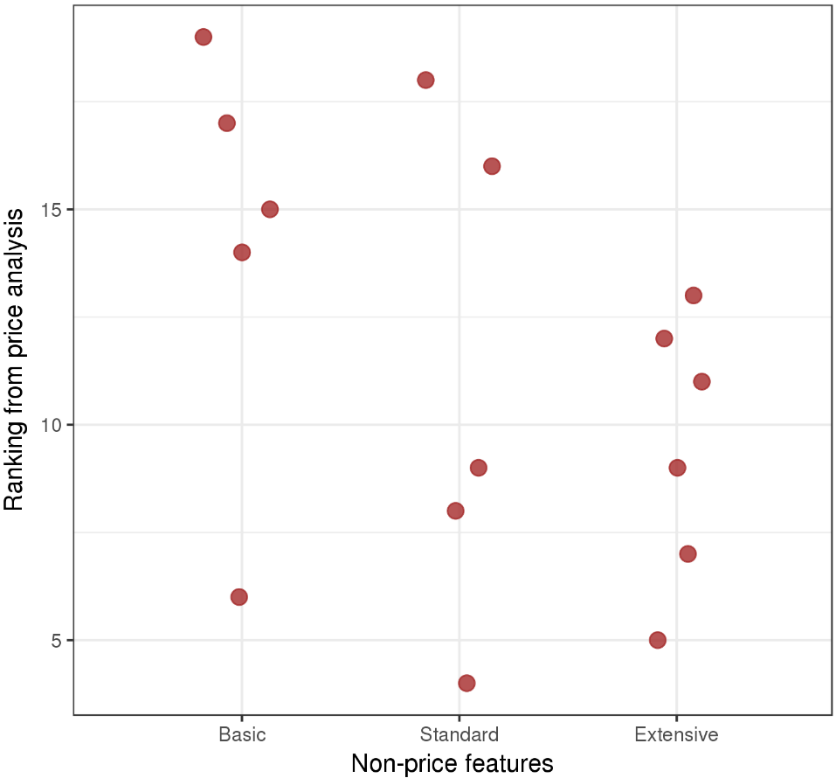
Analysis based on simulated prices

75. From the simulated price analysis described above, we calculated the total platform fee for each scenario on each of the 19 D2C platforms. Each platform was ranked from 1 (cheapest) to 19 (most expensive) for each scenario.

76. We calculated the average ranking each platform received across scenarios 1 to 7 and used it as the overall ranking of D2C platforms. We have excluded scenario 8 and 9 in the overall ranking of D2C platforms because the pot size and amount held in shares is closer to an advised consumer than a D2C consumer.

77. The figure below is broadly consistent with our previous finding that the more expensive platforms tend to have a higher level of platform functionality. One exception is that we found here a group of platforms in the top left corner with basic functionality and higher simulated prices. However, these platforms take up only a small market share.

Figure 6.14: Platform non-price features and ranking from simulated price analysis for D2C platforms

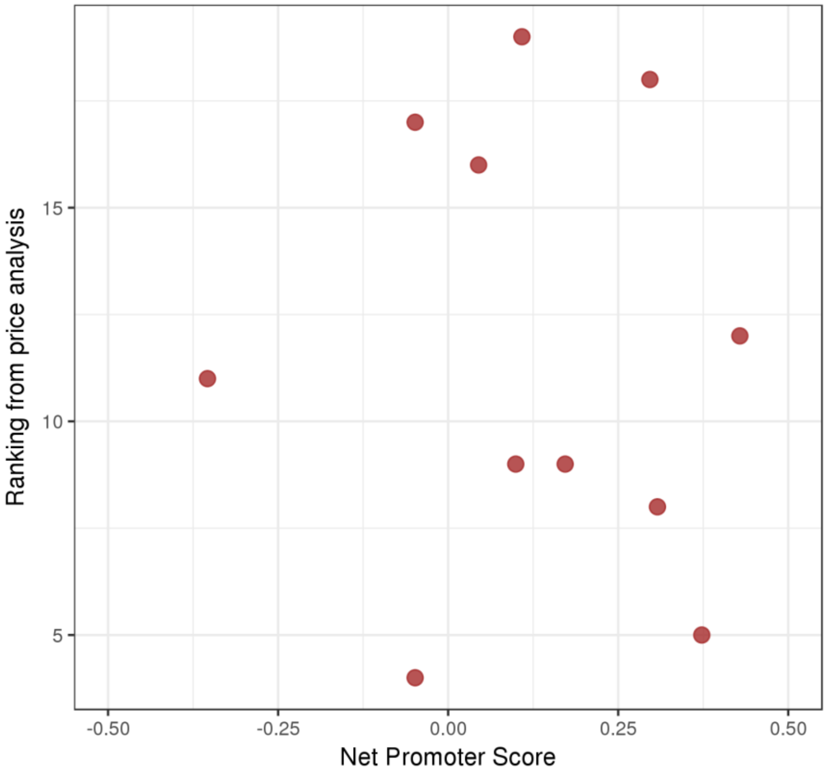


Source: FCA analysis of firm submissions to our information request

Note: Ranking from price analysis: 1 is cheapest and 19 is most expensive.

78. We also performed sensitivity checks using NPS and found similar result as before. Given that NPS is available for the largest 11 D2C platforms, the figure below illustrates the mapping of the market for larger platforms only.

Figure 6.2: Platform non-price features and ranking from simulated price analysis for D2C platforms



Source: FCA analysis of firm submissions to our information request and NMG consumer survey data

Conclusion

79. We undertook an assessment of both platform non-price features and platform fees to understand how D2C platforms differentiate themselves by these dimensions. We found some variations in non-price features across platforms, most noticeably among D2C platforms. This allowed us to assign a level of non-price features to each platform.

80. Our assessment of platform price level involved constructing consumer scenarios, pricing D2C platforms for each of these scenarios, and producing an average ranking for each platform from this simulated price analysis. We also considered a price proxy based on revenue data.

81. We mapped our price measurements against the level of non-price features offered by platforms. Overall, we found that more expensive platforms tend to have a higher level of platform functionality. This finding is consistent with the mapping of our price measurements to the NPS instead of to our level of non-price features.

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