MS17/1.2: Annex 8

Market Study

Investment Platforms Market Study

Interim Report: Annex 8 – Gap Analysis

July 2018

Annex 8: Gap Analysis

Introduction

1. One measure of whether this market is working well for consumers is whether consumers are choosing platforms in line with their preferences. Consumers may face difficulty choosing a platform in line with their preferences, particularly where products and pricing are complex or lack transparency, or where they face significant search or switching costs. Consumers may also face difficulties choosing where they lack knowledge, experience or confidence in decision making or where they are not sufficiently engaged.

2. To estimate the extent to which consumers are making choices in line with their preferences we need to obtain measures of:
   - consumer preferences
   - the choices that consumers make
   - appropriate benchmarks to consider whether consumer choices are aligned with their preferences

Estimating consumer preferences

3. There are 2 broad ways of estimating consumer preferences: through revealed preference and through stated preference. Revealed preference techniques infer consumer preferences from individual consumer choices. In doing so, they assume that consumers are rational economic agents that always make choices in line with their preferences.[1]

4. This family of techniques is not suitable for our analysis as we want to test whether there might be a "gap" or misalignment between consumer choices and their preferences. Such a "gap" may arise for many reasons, including where consumers have insufficient information, financial knowledge or engagement to make good decisions or where products and product pricing are complex. In these circumstances consumers may make what appear to be random selections, such as choosing the first product that they become aware of, or choosing from a restricted set of products or services.

5. We have therefore chosen to estimate consumer preferences directly from a consumer survey using a stated preference technique known as choice based conjoint analysis. This technique asks consumers to choose which product (out of a restricted choice of usually 2 or 3) they prefer. Consumers are asked to make a series of such choices, with products selected from a predetermined set. These products are often hypothetical in nature and are designed so that they vary with respect to important price and non-price features or attributes.

6. From these choices, consumers' individual utilities or preferences for different platform attributes can be estimated. Unlike standard stated preference techniques,

[1] Other factors contribute to consumer choice including the consumer's budget and their individual search and switching costs.

consumers are compelled to make trade-offs between the different price and non-price attributes.

7. Choice based conjoint analysis provides a simplified framework of consumers' decision making. The context – making rapid choices between hypothetical products in a laboratory type setting – can clearly be very different to consumers' real world decision making. However, this abstraction can also be a strength as it allows us to observe, for example, how consumers make choices when prices are less complex, more transparent and more salient than they may be in practice.

8. While choice based conjoint analysis is a potentially powerful tool for estimating consumer preferences, we need to take care in the inferences we draw. Choice based conjoint analysis – like any stated preference technique – only provides an estimate of consumer preferences. How good this estimate is depends largely upon the study design, including the ability to capture the attributes that are most important in consumer decision making (discussed below). More fundamentally, it presumes that consumer preferences are measurable and stable whereas in practice consumer preferences may change over time, be context specific or even be unknowable.

9. Platforms have multiple price and non-price attributes. To implement choice based conjoint analysis we have to simplify and select the ones that are likely to be most relevant for consumers. To do this we used consumer feedback from our qualitative consumer research together with emerging evidence from our study on how platforms differ and what platforms themselves see as the important drivers of consumer demand.

10. As outlined in Figure 8.1, we selected 6 different attributes. These were brand, ease of use, range of investment options available, reporting, research and price (annual charge). For each attribute we then selected different levels to allow consumers to choose between high and low priced platforms, and between platforms with different levels of value-adding features. For more detail on how these levels were selected and the implementation of the choice based conjoint analysis please see NMG's technical annex.

Figure 8.1: Conjoint attributes and levels

Attributes	**Levels**				
Brand	Well known financial organisation	Established specialist in investment platforms	New brand in the market, specialist in online investment services	A brand unknown to you and new to market	
Ease of use	Simple design showing just what you need to know, quick to learn, reduced choice of	Standard design, some learning involved to use the various options, some choice	Sophisticated design, many options, ability to customise, takes some time to learn		

	options	of options			
Range of investment options available	Choose from a small selection of pre-set portfolios, graded on risk	Choose from a shortlist of funds platform presents as best in class	Build your own portfolio from a wide range of funds and / or shares	Choose from a broad range of investment options including pre-set portfolios, a wide range of funds/shares and best in class lists of funds	
Reporting	View investment holdings and transactions	Compare performance of investments [Compare your investments' performance over time to that of other funds or benchmarks]	Access a range of online financial planning tools [e.g. to calculate retirement income requirements]		
Research	-	Quarterly investments magazine [Featuring news stories and articles on topical issues to do with investments]	Regular market news updates [Updates on new fund launches, market commentary and the most popular funds]	Online library of investment content [e.g. Educational material on the theory of investing, library of investment terminology]	On-line videos with opinions of leading fund managers
Annual Charge	0.30%	0.35%	0.40%	0.45%	0.50%

Source: NMG

11. The consumer responses to the choices over different hypothetical platforms were used to estimate utilities using Bayesian hierarchical regression models.[2] These utilities – which are estimated separately for each individual consumer – provide an estimate of each individual consumer's preference for different individual price and non-price attributes (as well as different levels of each attribute).

12. We measure individual consumer preferences for different attributes (and levels of attributes) in 2 ways: the relative valuations (utility) of each of the 6 attributes

[2] Utilities were estimated from the responses to the conjoint response using a proprietary software programme. The programme is based on individual-level logit demand and the parameters are estimated using Bayesian hierarchal regression models.

(expressed as a %), and the attribute which is estimated to provide the consumer with the greatest utility. The former provides more information about an individual consumer's preferences, but the latter provides an arguably better indication of which attribute is most valued by individual consumers.

Estimating actual consumer choices

13. In the quantitative survey consumers were generally asked to respond to questions with respect to a specific and named platform. This was the platform that had provided us with the initial customer details.

14. One potential issue with this approach is that some consumers multi-home so that, in principle, their preferences may need to be interpreted in the context of all of the platforms that they currently use rather than a single platform. A particular issue may arise where consumers use different platforms for complementary purposes.

15. In our sample, 37% of respondents used more than 1 platform. The main reasons for the use of multiple platforms were the diversification of risk (38%), and opening up a new platform account for new money (21%). Although a wide range of reasons were given for multi-homing, comparatively few consumers (8%) cited the desire to obtain a specific service as a reason for multi-homing. This suggests that, for the overwhelming majority of consumers, platforms are not being used for complementary purposes.

16. Other responses to the questionnaire suggested that multi-homers as a group were more sophisticated and informed than other consumers. So, while it would have been possible to exclude this group, the large size of this group relative to the sample, their particular characteristics, and the evidence that, for the most part, platforms are not used for different purposes, we chose to include this group.

17. A further issue is that choices of platforms are made historically whereas we measure consumer preferences at the current point in time.[3] This may cause difficulties in interpreting the evidence where preferences have changed over time. In our sample, 46% of respondents have been on their existing platform for more than 5 years[4] so certainly it is plausible that consumer preferences may have changed. However, if consumer choices have become misaligned with their current preferences, and consumers, for whatever reason have not switched, this is itself an important finding.

Appropriate benchmarks for assessing whether consumer choices are in line with their preferences

18. To test the extent to which consumers are choosing platforms in line with their preferences we adopted 2 broad approaches:
   - on aggregate, do consumers with different preferences choose different platforms?
   - do individual consumers make choices in line with their preferences, focussing on price in particular?

[3] Note that as many platform decisions had been taken over 5 years ago it was not practical to ask consumers to make choices in the context of their actual platform decision.

[4] Based on data provided by individual investment platforms.

19. Our first approach examines whether consumers with different preferences are choosing different platforms. Are, for example, consumers who value brand most highly more likely to choose a different platform to consumers who have strong preference for portfolio choice? If consumers are making choices in line with their preferences then we would expect consumers with different preferences types to be more likely to favour 1 platform over another (unless platforms were homogenous both with respect to their pricing and their non-price attributes).

20. This approach does not provide evidence on whether individuals or groups of individuals make "good" or "bad" choices. But it has a significant advantage in that it does not require us to make judgments on which individual platforms are higher and lower priced or the level of quality offered by each platform.

21. Our second approach compares the actual choice of platform made by each individual consumer with their preferences. This requires us to make an assessment of how platforms rank in terms of their price and non-price attributes. That is, which platforms offer (relatively) low price, and which have the most valued non-price attributes.

22. Obtaining objective and quantifiable measures of how platforms rank in terms of the non-price features they offer is difficult not least because consumers differ in how they value particular attributes. For example, the responses to the choice based conjoint analysis indicated that while consumers often placed a high value on the "range of investment choices" attribute, some valued simplicity and restricted choice, while others preferred having access to a wider range of funds.

23. Due to the inherent difficulties in ranking platforms by each of the non-price attributes, we instead restrict our analysis to price. Ranking platforms by price is not straightforward as the price a consumer pays depends upon a number of factors including how much is invested on the platform, wrapper charges, and the extent to which consumers trade. We therefore constructed 9 different scenarios (8 of which are relevant to the direct to consumer channel) each of which represents a hypothetical consumer profile. Of these 8 scenarios, we have a single scenario for investment pots of £5k and £250k respectively, and 2 scenarios each for investment pots of £13k, £40k and £100k. Where there are alternative scenarios for a given investment pot size these differ with respect to, amongst other things, the type of investments held and trading patterns. Please see the discussion of scenario pricing in Annex 6.

24. In each scenario we simulated the overall price charged by each platform, including headline platform fees, wrapper fees, dealing charges less interest earned on cash balances, if any.

25. Our data on consumer profiles allow us to observe their investment pot size but not other usage patterns such as holdings of different wrappers and trading patterns. This means that we can only allocate consumers to scenarios on the basis of investment pot size. To facilitate this, where there are 2 scenarios for a given investment pot size we take the average price charged by individual investment platforms across the 2 scenarios.

26. We then allocated platforms into "low", "medium" and "high" price categories depending upon whether the price charged was lower than 90% of the median price, between 90% and 110% of the median price, or higher than 110% of the median price respectively.

27. As can be seen from Figure 8.2 below, whether a platform is deemed to be high or low priced depends upon the investment pot size of the consumer. No platform is in the "high" category for all consumer types, and only 1 platform is in the "low" price category for all consumer types.

Figure 8.2: Platform price categories

	Scenario 1	Scenario 2/ Scenario 3	Scenario 4/ Scenario 5	Scenario 6/ Scenario 7	Scenario 8
Investment pot size	**£5k**	**£13k**	**£40k**	**£100k**	**£250k**
Platform 1	HIGH	LOW	LOW	LOW	LOW
Platform 2	HIGH	HIGH	HIGH	HIGH	LOW
Platform 3	MEDIUM	MEDIUM	MEDIUM	MEDIUM	HIGH
Platform 4	MEDIUM	MEDIUM	HIGH	MEDIUM	MEDIUM
Platform 5	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM
Platform 6	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM
Platform 7	HIGH	HIGH	MEDIUM	MEDIUM	HIGH
Platform 8	LOW	LOW	LOW	LOW	LOW
Platform 9	HIGH	HIGH	HIGH	HIGH	LOW

28. We next need to estimate whether a consumer has chosen a "high", "medium" or "low" price scenario given their investment characteristics, ie how much a consumer has invested on a platform, which assets have been selected and how much trading they engage in. As discussed above we are only able to identify consumers in terms of their pot size[5]. However, as sensitivity we excluded consumers who we identified as "high traders" (defined as those whose trading charges are both greater than £100 and account for greater than 25% of their total platform charges). As the price in each scenario is estimated for a specific investment pot size only we place consumers into the scenario which it is closest to them in terms of their pot size.

29. The above analysis allows us to estimate whether each individual consumer has chosen a "high", "medium" or "low" price platform given their investment pot size. We next need to find a suitable benchmark to help us judge whether these choices are in line with consumer preferences. This is intrinsically difficult for a number of reasons. In particular, price is not the only criteria for choosing a particular platform and, for many consumers it may not even be the most important criteria.

30. Despite this complexity, all things being equal, if consumers are making choices in line with their preferences we would expect those consumers who place the highest value on low prices ("price-sensitive" customers) to be more likely to choose a lower priced platform than other consumers. We compare the choices made by price-sensitive consumers against 2 main benchmarks: the choices made by the sample population as a whole, and the choices of non-price sensitive consumers.

31. We define "price-sensitive" consumers as those consumers whose valuation of the importance of low prices places them in the top 25% of respondents to our conjoint study. Similarly, we define "non-price-sensitive" consumers as those whose valuation of the importance of low prices places them is in the lowest 25% of respondents. For

[5] We are able to identify which consumers have SIPPs, ISAs and GIAs but not the proportion of their investments that is held in each. Similarly, while we are able to identify whether a consumer trades, and how much they incur in trading charges, we cannot identify the quantity of trading that they conduct.

some comparisons we also look at “super” price and non-price consumers, which we define as those whose valuation of the importance of low prices places then between the 90th and 100th and the 0th and 10th percentile of respondents respectively. For consumers in the “price sensitive” group, the average valuation of the price attribute is 45% and the average valuation of the highest non-priced attribute is 23%. For “non-price sensitive consumers, the average valuation of the price attribute is 13% and the average valuation of the highest ranked non-price attribute is 36%.

32. As alternative benchmarks, we consider whether “price-sensitive” consumers in more narrowly defined groups such as consumers with relatively high and low pot sizes, those who are the most and least knowledgeable and engaged, and the extent to which consumers search (including using price comparison websites). This allows us to compare the responses of customers that are similar in 1 respect (e.g. knowledge) but differ with respect to the valuation of the low price attribute. Comparing consumers that are more similar can help isolate the impact of “price sensitivity” on consumer choices. However, by putting consumers into smaller groups, we lose some statistical power in testing whether there are any statistically significant differences between “price sensitive” and “non-price sensitive” consumers.

Data

33. We used 3 main sources of data for our analysis:

- Quantitative individual consumer data provided by investment platforms. This data included the total assets held on the platform, the type of assets held, the different charges levied on the consumer in the last 12 months, how long the consumer had been a customer on the platform, whether they had switched from another platform, and log-in frequency.
- Quantitative data on the level and type of investment held on the platform, consumer attitudes (including investment strategy), characteristics (including knowledge and price awareness), preferences and behaviour, from a quantitative survey conducted by NMG. These data included information on investment strategy, platform choice, multi-homing, switching, financial knowledge, price awareness, and relationship with adviser (if any).
- A choice based conjoint study, conducted by NMG, together with the estimation of individual consumer utilities based on consumer responses to the conjoint questions.

34. The consumers who were asked the quantitative consumer survey questions (including the Conjoint Analysis questions) were drawn from the consumers whose details had been provided by the investment platforms. Consumers from the former were given an anonymised identifier. This allowed us to match the responses of consumers to the questionnaire to the details provided by the investment platforms providing us with a comprehensive data set at the individual consumer level. Overall, there were 2894 usable responses from the conjoint study.

35. For the first part of our analysis where we examine consumer preferences in general, we use information from all 2894 consumers. Responses were weighted to provide a more representative sample (see NMG technical annex for more details). In the second part of our analysis where we focus on whether consumers are making choices in line with their preferences we consider D2C customers only. We use

weighted responses where we consider the sample population and the D2C sample population as a whole. For narrower segmentations we use unweighted responses.

36. We were unable to identify with precision whether consumers were D2C or advised. From the data provided by the investment platforms we were able to identify whether a customer was from a firm that provides D2C only platforms, advised only platforms, or both. For customers of a firm that had both advised and D2C investment platforms we allocated them to the D2C group if, in their survey response, they indicated that they had not made their platform decision with the assistance of an adviser.

37. In our sample there are 10 D2C investment platforms. However, for the purposes of our "gap" analysis we had to restrict this to 9 platforms due to data issues.

38. The responses to the quantitative survey and the data provided by the firms allowed us to separate consumers into groups. In choosing how to segment consumers, a trade-off has to made between having smaller groups with more similar consumers and larger groups with more statistical power. In practice we chose to separate consumers into groups of 2-4.

Figure 8.3: Consumer groups used in analysis

Group	Definition	Data source
Lower wealth	<£100k of assets invested on platform	NMG survey
Higher wealth	>£100k assets invested on platform	NMG survey
High knowledge	Highest 33% ranked consumers (self-identification)	NMG survey
Low knowledge	Lowest 33% ranked consumers (self-identification)	NMG survey
High price awareness	Estimated total platform charges between 50% and 150% of the actual price charged	Platform charges provided by firms, prices estimated from NMG survey
Low price awareness	Estimate of total platform charges <50% or > 150% of actual price charged	Platform charges provided by firms, prices estimated from NMG survey
High Engagement	Login average once per month or more	Platforms
Low Engagement	Login average once per month or less	Platforms
High trader	Trading fees >£100 and 25% or more of	Platforms

	total platform charges	
Low trader	Other traders	Platforms
High search	Searched 2 or more platforms	Platforms
Low search	Searched 1 platform only	Platforms
Non-price sensitive	Consumers with lowest 25% estimated utility of low prices	NMG
Super non-price sensitive	Consumers with lowest 10% estimated utility of low prices	NMG
Price sensitive	Consumers with highest 25% estimated utility of low prices	NMG
Super price sensitive	Consumers with highest 90% estimated utility of low prices	NMG

Key findings (and robustness)

39. As set out above, to test whether consumers are choosing platforms in line with their preferences we adopt 2 approaches:

- On aggregate, do consumers with different preferences choose different platforms?
- Do individual consumers make choices in line with their preferences, focussing on price in particular?

On aggregate, do consumers with different preferences choose different platforms?

40. If consumers have different preferences, and platforms differ in their product offerings (different prices or pricing structure and/or different non-price features) then if the market is working well we would expect to see different platforms attracting different consumer types.[6]

41. Our conjoint study suggested that there are very significant differences in preferences amongst different consumers. For example, each of the 6 attributes presented to consumers in the conjoint study was the most highly valued attribute

[6] As discussed above, consumer preferences are an important, but not the sole driver of consumer choice.

for some respondents (see Figure 8.4 below). The majority of consumers (61%) selected non-price attributes as being the most important, with brand (32% of respondents) scoring particularly highly. Price was however the most important attribute for over a third of respondents (39%).

Figure 8.4: Most important attribute for individual D2C consumers

	Brand	**Range of investment options**	**Ease of use**	**Reporting**	**Research**	**Price**
All consumers	32%	19%	4%	2%	3%	39%

42. The strength of consumer preferences also varied widely between consumers. For example, for those who valued brand most highly, on average brand was valued more than twice as highly as low prices. Similarly, for those who valued low prices the most, the price attribute was valued at more than twice the value of any of the other attributes.

43. There is also clear evidence that platforms differ in both their prices and pricing structure. For example, in our scenario pricing analysis (see figure 6.9 Annex 6) of the 9 direct to consumer platforms in our sample, the highest priced platform charges were between 8.1 and 58% and 700% higher than the lowest priced platform depending upon the size of the consumers' investment, where their funds were invested, and the level of trading. Platforms also differ in non-price features.

44. To test whether consumers with different preferences are likely to choose different platforms we first grouped consumers into 6 different types depending on which of the 6 attributes presented in the conjoint analysis is the most important to them. We then compared the proportion of customers of each type on each of the platforms. Our analysis revealed:

- Consumers who value price most highly were relatively evenly distributed across platforms with no platform attracting a statistically higher or lower share of these consumers (see Figure 8.5 and Figure 8.6 below).
- In contrast, there was more variation in the distribution of consumers who valued brand and range of investment options most highly across platforms. For example, the proportion of a platform's customers for whom brand is the most important attribute ranged from 12% to 41%, while the proportion of consumers for whom range of investment options is the most important attribute accounted for between 9% and 40% of an individual platform's customers.

Figure 8.5: Distribution of consumers across platforms in terms of their main preference

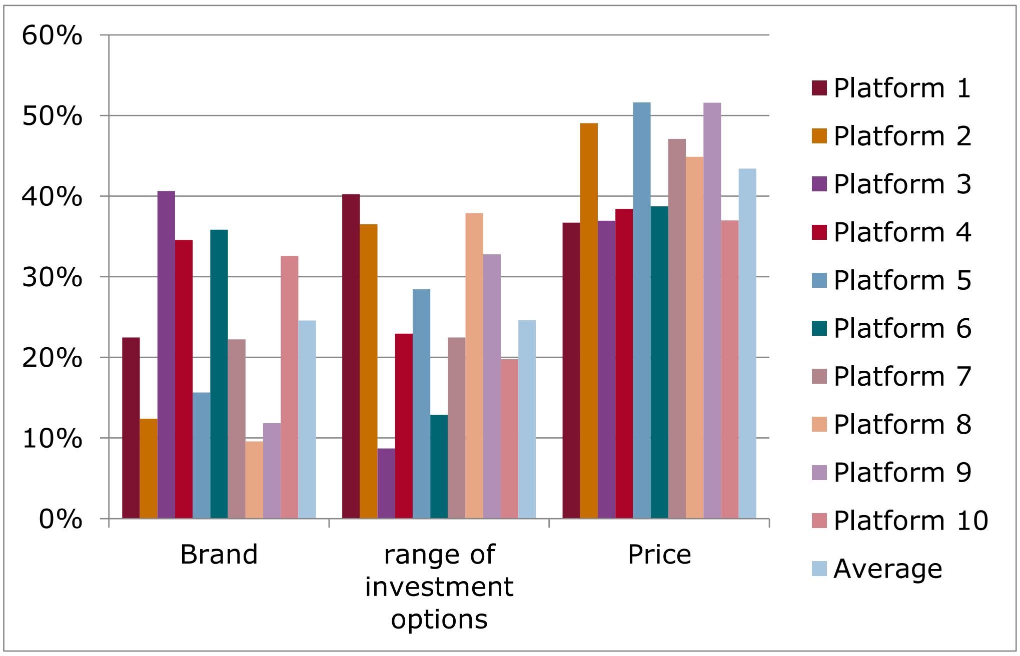


Figure 8.6 Distribution of main consumer preference across platforms

	Brand	**Range of investment options**	**Ease of use**	**Reporting**	**Research**	**Price**
Platform 1	22%	40%*	0%	0%	0%	37%
Platform 2	12%*	37%*	1%	1%	0%	49%
Platform 3	41%*	9%*	6%	4%	4%	37%
Platform 4	35%*	23%	1%	1%	2%	38%
Platform 5	16%	28%	4%	0%	0%	52%
Platform 6	36%*	13%*	3%	7%*	3%	39%
Platform 7	22%	22%	3%	2%	4%	47%
Platform 8	10%*	38%*	5%	3%	0%	45%

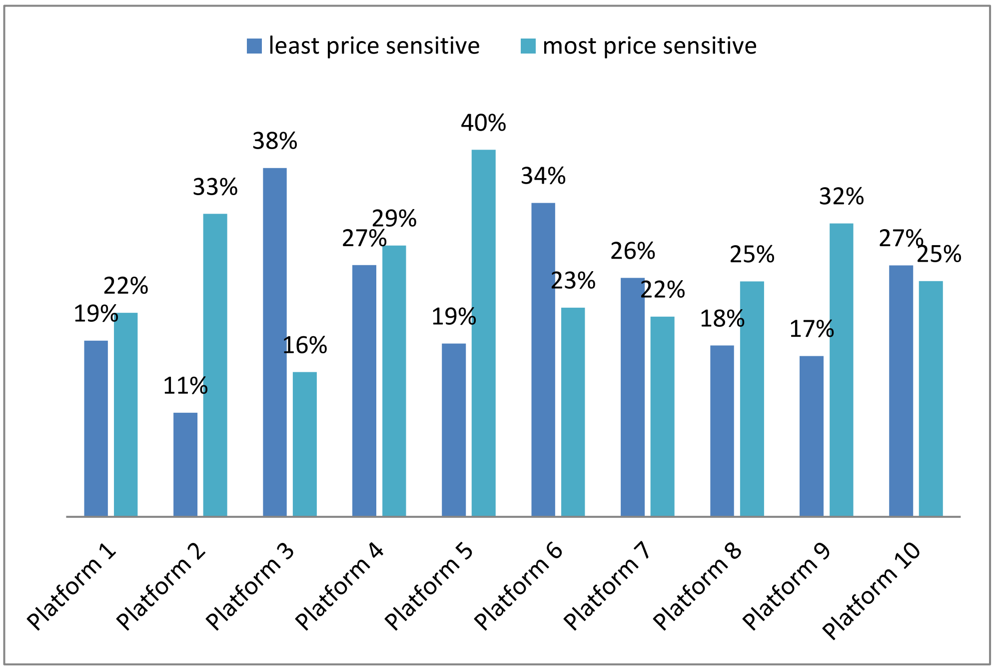
Platform 9	12%*	33%*	1%	0%	3%	52%
Platform 10	33%*	20%	5%	3%	3%	37%
Average	**25%**	**25%**	**3%**	**2%**	**2%**	**43%**

*Statistically different from the mean of the sample population at the 5% level of significance

45. We next looked at whether there are any significant differences in the choices made by consumers who have the highest ("price sensitive") and the lowest (non-price sensitive") preferences for low prices (see figure 8.7 below).[7] We find that all platforms contain significant proportions of the most price sensitive of customers in our sample – no platform has less than 16% of customers in this group compared to an average of 25%. `

46. However, there are some differences in the distribution of price and non-price sensitive consumers between individual platforms. Notably 1 platform contains 3 times as many price sensitive as non-price sensitive consumers, and 2 have twice as many.

Figure 8.7: Distribution of price and non-price sensitive consumers across platforms



47. Taken together this evidence suggests that consumers with different preferences make different choices. These effects appear to be greatest for consumers who have strong preferences for brand or portfolio choice, and less so for consumers with strong preferences for price.

[7] Consumers were ranked according to how highly they valued low prices. Those customers whose ranking places them in the top 25% we define as "price sensitive", while those whose ranking puts them in the bottom 25% we define as "non-price sensitive".

Do individual consumers make choices in line with their preferences?

48. The above analysis found some evidence that consumers with different preferences make different choices. But, is there any evidence that those consumers are making "better choices"?

49. To address this question we define "better" in terms of consumers making choices that are more closely aligned with their preferences. Due to the difficulties associated with ranking platforms in terms of non-price characteristics (as discussed above), we limit our analysis to the choices made by those consumers who have the strongest preferences for low prices ie price sensitive and super-price sensitive consumers as defined above.

50. We use 2 metrics to assess whether an individual price sensitive consumer makes a "good" choice: avoiding a higher priced platform (defined as a platform with prices that are greater than 10% above median prices); and choosing a lower priced platform (defined as a platform with prices that are more than 10% lower than median prices). For both metrics a low and high price platform are defined with respect to the size of the individual's investment pot (as described above).

51. Price is only one of several factors that may be important in making a "good" choice, even for price sensitive consumers. However, if the market is working well for consumers, we would expect that price sensitive consumers would be more likely to choose a lower price platform than (1) non-price sensitive consumers and (2) the sample population as whole. We use both of these benchmarks to test whether price sensitive consumers are making "good" choices.

52. The results of our analysis are summarised in Figure 8.8 below. Although the proportion of price sensitive consumers avoiding higher priced platforms (68%) is larger than either non-price sensitive consumers or the sample population as a whole (both 64%), these difference are not statistically significant at the 5% level of significance. We are not therefore able to conclude that price sensitive consumers are more likely than others to select low priced platforms. Even if we restrict our focus to "super" price sensitive consumers – those whose high preference for low prices places than in the top 10% of the sample population – the same conclusion holds. However, when looking instead at how likely consumers are to choose a lower-priced platform (rather than avoid a higher-priced one), price sensitive consumers are more likely than non-price-sensitive consumers to do so.

Figure 8.8: Conjoint analysis: platform choices based on price, by consumer price-sensitivity

	Avoid a higher price platform[8]	Choose a lower priced platform
All consumers	**63%**	**17%**
Super price sensitive consumers (top 10% in terms of preference for low price)	67%	17%
Price sensitive consumers (top 25% in terms of preference for low price)	68%	19%

[8] That is, choose a lower or medium priced platform, but not a higher priced one.

Intermediate consumers (middle 50th in terms of preference for low price)[9]	61%	18%
Non-price sensitive consumers (bottom 25% in terms of preference for low price)	62%	12%*
Super non-price sensitive consumers (bottom 10% in terms of preference for low price)	65%	9%*

*Statistically different from the price sensitive group at the 5% level of significance.

53. We also examined whether consumers who have similar attitudes, characteristics and behaviours but who differ with respect to their price sensitivity make similar or different choices. One of the advantages of this approach is that it allows us to compare the choices of consumers are more similar than they are at the aggregate level. For example, we can contrast the choices of 2 groups of financially knowledgeable consumers, one of which is price sensitive, the other non-price sensitive. However, this more disaggregated analysis does result in some small group sizes which reduces the power of our statistical tests.[10] In some instances this can make it more difficult to draw statistically valid conclusions. The output of this analysis is summarised in Figures 8.9, 8.10 and 8.11 below.

Figure 8.9: Probability that price sensitive consumers will avoid higher cost platforms (non-price sensitive consumers provide a benchmark)

Group characteristic	Customer type	Number of consumers	Consumers avoiding higher cost platforms
High Search	price sensitive	59	64%
	non-price sensitive	49	65%
Low Search	price sensitive	12	58%
	non-price sensitive	23	65%
High Engagement	price sensitive	57	70%
	non-price sensitive	70	61%
Low Engagement	price sensitive	91	38%*
	non-price sensitive	178	59%
High Knowledge	price sensitive	62	79%*
	non-price sensitive	52	71%
Low knowledge	price sensitive	47	57%
	non-price sensitive	47	53%
High confidence	price sensitive	107	76%*

[9] More specifically, consumers whose preferences for low prices ranks them between the 25th and 75th percentile in the sample population.

[10] One reason why some sample sizes are small is that certain consumer attributes such as low confidence and confidence are more prevalent amongst advised consumers than D2C consumers. This analysis considers D2C consumers only.

	non-price sensitive	111	62%
Low confidence	price sensitive	13	85%*
	non-price sensitive	17	53%
Price awareness – high	price sensitive	20	85%*
	non-price sensitive	13	54%
Price awareness – low	price sensitive	92	63%
	non-price sensitive	69	59%
Wealth – low	price sensitive	173	65%
	non-price sensitive	195	63%
Wealth – high	price sensitive	157	71%*
	non-price sensitive	132	62%
Use PCW	price sensitive	41	63%
	non-price sensitive	23	70%

*Choices of price and non-price sensitive consumers are statistically different from the sample mean at the 5% level of significance. Significant consumer attributes also highlighted in bold.

Figure 8.10: Percentage of consumers avoiding higher cost platforms

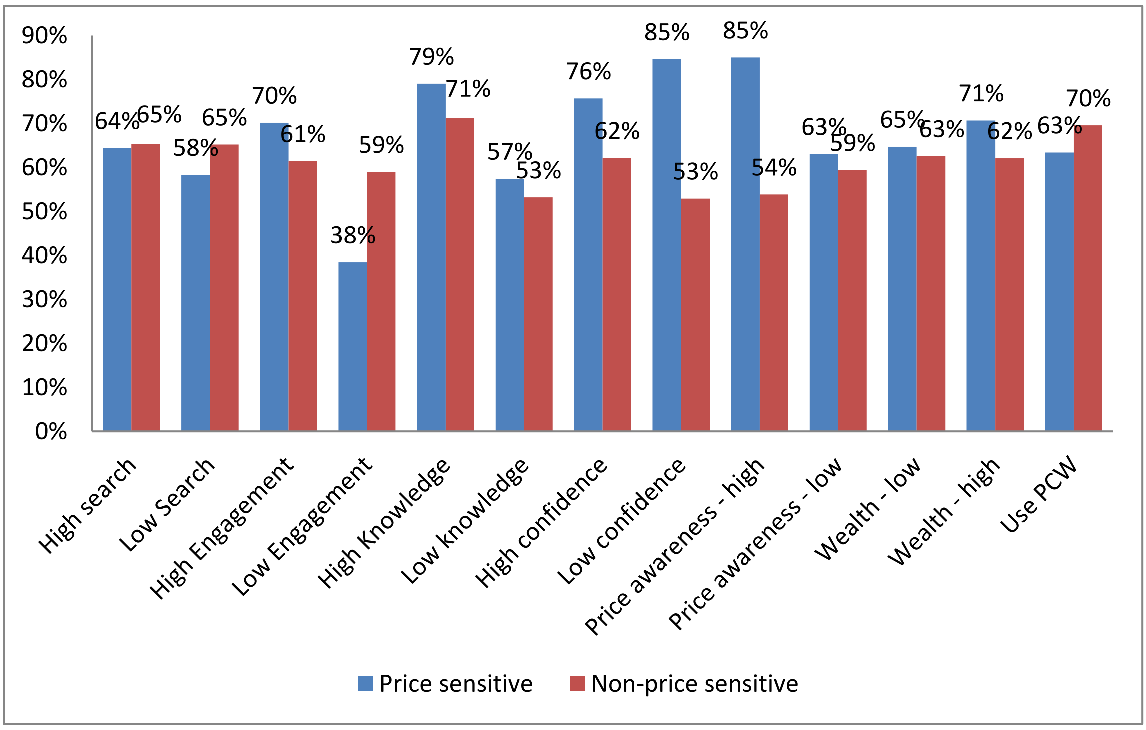
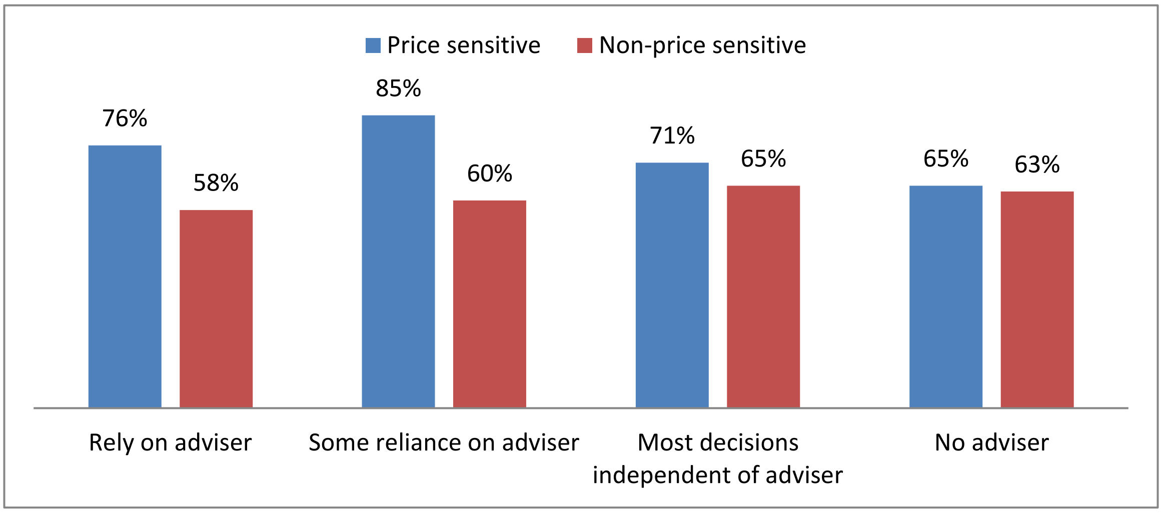


Figure 8.11: Percentage of consumers avoiding higher cost platforms



54. There are 2 aspects to this analysis. First, looking at price sensitive consumers only helps inform which groups tend to be better at selecting lower priced platforms. Second, it allows us to compare the outcomes of price sensitive and non-price sensitive consumers for different groups. This provides a benchmark for appraising whether price sensitive consumers are making "good" choices in line with their preferences.

55. The price sensitive groups that do best at avoiding higher price platforms are those with high knowledge, high confidence and high price awareness (best at estimating how much they are paying in platform charges). However, there is no evidence that price sensitive consumers who engage in high levels of search, including those making use of price comparison websites, achieve better outcomes than the sample population as a whole. This may suggest that searching is complex or it could also be that consumers who search are not primarily focused on low prices.

56. The worst performing group are price sensitive consumers who have low engagement with only 38% of them managing to avoid a higher priced platform compared to 63% for the sample population as a whole.

57. Having a financial adviser and a consumers' relationship with them may also be important in avoiding higher priced platforms. Price sensitive consumers who rely or place some reliance on the advice of their financial adviser appear to be better at avoiding higher priced platforms than non-price sensitive consumers. However, the sample sizes are small (we are considering D2C consumers only) and the results are not statistically significant.

58. Taken together our evidence suggests that while consumers with different non-price preferences, particularly brand and portfolio choice, sometimes make different choices of platforms, we have been unable to uncover any evidence that consumers are choosing between platforms on the basis of price. In particular, the choices made by price sensitive and non-price sensitive consumers are very similar overall. One contributory reason for this might be that consumers as a whole do not tend to choose lower priced platforms. Indeed, only 19% of price sensitive consumers in our sample chose a lower priced platform whereas we classified approximately 33% of all platforms as lower price. There is also no evidence that consumers who search the

most or are the most engaged obtain better outcomes which perhaps emphasise the complexity and costs associated with searching in this is market.

59. Prices are typically one factor that firms compete on. Throughout this Market Study we assessed whether platforms compete on price, how complex are prices, how far platforms offer value for money (matching prices charged with the non-price features provided), and the total difference in price that consumers can expect to pay across platforms.

Scope of the analysis

60. As discussed in Chapter 6, there are a large number of charges available on platforms which can be significantly complex, depending on consumers' usage. Our analysis focused on a group of prices that are commonly found across platforms, so that we might easily compare the difference in prices charged for certain wrappers or products across platforms.

61. We then undertook more detailed analysis using stylised scenarios of different types of platform users (based on AUA, wrappers and products held and trading activity and other factors) which allowed us to compare the expected total price paid across platforms.

62. We grouped platforms by the overall level of the prices they charge (considering the platform fee, wrapper fee, dealing charges, exit fee, and transactional charges where applicable) – Low, Medium, High.

Inputs

63. We focus on the following fees which are considered the main fees on platforms, to allow us to be able to compare prices across platforms:

64. **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. Our consumer research findings show that this is the fee that consumers are most aware of, and sensitive to. By comparing platform fee types and levels, we gain an insight into how consumers may perceive headline price differences across platforms. To compare platform fees across platforms, we considered the headline platform fee charged for a range of wrappers offered by the platform. We did not consider the platform fee charged on cash.

65. **Wrapper Fees** – We considered the fees for the three most common types of wrappers separately. These may be charged in addition to the platform fee, or as a standalone fee (with no platform fee).

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