Consumer Research 87

Financial Services Authority

The platforms market: consumer interaction

Qualitative research to investigate consumer use and knowledge of platforms

Prepared for the
Financial Services Authority
by NMG Consulting

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FSA®

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Authors & acknowledgements

This document reports the findings of a research project carried out for the FSA in October and November 2011 by NMG Consulting.

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Any errors in the report are the responsibility of the authors.

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Glossary

The report contains a number of industry terms and specific descriptions of participants.

Term	Meaning
Survey participants	
Consumers: customers and clients	Research participants who were all 'consumers' of platforms. Referred to as 'customers' in the context of specific brands and 'clients' in the context of their relationship with an adviser.
Advised consumers	Consumers whose platform is provided by an intermediary who also gives advice. Includes different platform models.
Direct consumers	Consumers who deal directly with the platform provider without any intermediary, i.e. on an execution-only basis. Includes different platform models.
Financially knowledgeable	Consumers who were assessed at interview to have a good understanding of financial terms and concepts. Around half of the study's respondents (31 out of 65) were allocated to this category, including nine who had previously worked in financial services. Further detail of the criteria by which individuals were assessed can be found in Section 2.3.4.
Other terms used in this report	
Adviser	Provides regulated advice to consumers including both Independent Financial Advisers (IFAs) and tied or multi-tied advisers offering advice on one/a limited set of providers' products only.
Bundled	Platform charging models that express charges as a total charge, without revealing the constituent parts.
Discount broker	Intermediary offering reduced charges and discounts on an execution-only (XO) basis (although they might also offer an additional advised service).
Fund manager	Firm providing management of collective investments.
Hybrid model	A platform that is only partly unbundled, for example in separating out the adviser fee from platform and fund management charges but showing the latter two charges in a bundled format.
Fund supermarket	A platform model offering a wide selection of funds and assets, usually within a bundled charging system.
Unbundled	Platform charging models that show separately the charges of the constituent elements.
White label	A platform marketed under an intermediary's brand name.
Wrap	A platform model offering access to a wide selection of tax wrappers, funds and other assets, usually within an unbundled or hybrid charging system.

Abbreviations

The report contains the following abbreviations:

Abbreviation	Meaning
FSA	Financial Services Authority
IFA	Independent Financial Adviser
OEIC	Open Ended Investment Company
RDR	Retail Distribution Review
SIPP	Self-Invested Personal Pension
TER	Total Expense Ratio
XO	Execution Only

Reporting conventions

The report makes use of three types of illustration to support the findings:

Verbatim comments
These are respondent quotations, based on interview recordings with only very minor editing. They are labelled by:

- the name of the platform held by the consumer;
- whether the consumer is direct or advised; and
- which of three segments the consumer was allocated (see Chapter 5 for segmentation details).

The respondent quotations demonstrate their own views and perceptions, and may not always be factually correct.

Counts
The number of consumers giving a particular response is shown in some report sections. Counts are provided to indicate the spread and balance of different behaviours or views among consumers who participated in the research. **The counts do not constitute quantitative data or imply any statistical robustness**.

Case studies
More detail has been given about the views and circumstances of some respondents to illustrate findings.

1. Summary

Policy background

The platform market has been growing rapidly. In Q3 2011, independent financial adviser (IFA) platform assets under management were £168bn[1] and those of direct platforms over £75bn.[2]

With more and more business conducted through platforms, the Financial Services Authority (FSA) believes that it is important that customers are clear what market participants (fund managers, platform providers and advisers) are charging. To achieve this, they believe that it is likely to be in the best interests of consumers that fund rebates to platform providers and cash rebates to consumers are banned. The FSA's policy statement on platforms (PS11/9: August 2011) states:[3]

> "We have decided that it would be desirable, in principle, to ban payments by product providers to platforms and to ban cash rebates to consumers. However, we accept that there could be possible unintended consequences which might arise that are not yet fully understood."

Consumer research on these possible 'unintended consequences' was required to inform policy development.

Objectives and methodology

The FSA commissioned this research to analyse the impact on consumers of the proposed policy changes and answer the following questions:

- Primarily: what are the unintended consequences for consumers of potential new rules to ban payments by product providers to platforms and cash rebates to clients?
- Are customers making informed choices – among platforms and, then, among products?
- How do consumers interact with platforms, and vice versa?
- What are the benefits/disadvantages to consumers of platform use, and are they aware of these?

Nine platform providers supplied randomly generated sample for the research drawn from their platform customers (details of these providers are in Chapter 2). The research involved 65 qualitative interviews with consumers with investments on platforms, mostly conducted in their homes and lasting around an hour. The interviews covered the different platform types (fund supermarket models, wrap platforms and hybrid models), direct and advised channels, and included consumers with a wide range of asset levels on the given platform.

[1] Platforum November 2011
[2] Platforum estimate December 2012
[3] http://www.fsa.gov.uk/pubs/policy/ps11_09.pdf

Key findings

Not all consumers are aware of what platforms do

This research indicates that consumers vary in their understanding of the platform's role in their investment and, as a result, their engagement and interaction with the platform.

All direct consumers and most advised consumers are aware their investments are held on a platform and understand that the platform provides administration, consolidation of their holdings and access to a wide selection of investments.

Direct consumers choose platforms so they can manage their own investments online and as a cheaper alternative to dealing directly with fund managers or advisers. Unlike advised consumers, they want to take responsibility and be more hands-on with their investments.

Platforms are recommended to advised consumers by their advisers to facilitate an investment solution. Although many advised consumers understand and value the role the platform plays in their investment, some do not differentiate the platform from the adviser's investment proposition and do not understand the platform's role. Those with less understanding of the platform's role are more likely to have smaller investment holdings, be less financially knowledgeable generally and to have held their investments for a longer period. As consumers with smaller investment portfolios are more prevalent among platform consumers generally than in this sample, lack of understanding of the role played by the platform is likely to be a larger factor in the platform market overall than in this sample.

Interaction with platforms is predominantly paper-based rather than online

All consumers still rely on paper communications from the platform provider and adviser. Online interaction with platforms is surprisingly limited:

- Direct consumers go online to look at information about markets, trends and funds as well as for valuations of their investments. Although some do this more often, monthly access is typical.
- Some advised customers go online for valuations but this is likely to be less frequently than direct consumers. Many do not go online at all, relying on their adviser and paper communications for all their information.

Consumers value being on a platform

Despite limited online interaction with platforms, consumers value having a platform. Most consumers who understand the role of the platform, believe that platforms provide multiple benefits with few disadvantages. Direct consumers gain control of their investments through selecting and monitoring their own investments using the online accessibility, access to a wide range of funds, and avoiding financial advisers and the cost of advice. Advised consumers value the single view of their investments, availability of online access (even if they are infrequent users) and better investment management. Those advised consumers who do not differentiate the platform from the adviser or fund manager proposition, value the single view of their investments, but associate this with the service from their adviser.

The relationship between the fund manager, platform provider and adviser is not widely understood

Direct consumers generally understand the relationship between the fund manager and platform provider in terms of cost and buying power. They believe platform providers exert pressure on fund managers, resulting in lower costs for customers.

Few advised consumers understand these relationships. Their own relationship is with their adviser and they are less familiar with, and often less interested in, the mechanics of platform structure. Their main focus is on their investment and its performance.

The specific platform model consumers have makes little difference to understanding platform structure. There is surprisingly little difference in the understanding of platform models between those with wrap, fund supermarket and hybrid models.

Few customers are aware of current platform charges

Consumers focus on the performance of their investment and are more concerned about overall charges and the effect these have on performance than on the breakdown of charges on the platform as between the fund manager, the platform provider and, as applicable, the adviser.

Few consumers are aware of their platform charges. The small number of direct consumers who have tried to compare charges between platforms and the few advised consumers who have tried to differentiate platform and adviser charges, have found it difficult to do so.

Whereas most consumers assume there is a charge for the platform itself, some direct consumers believe the platform is free. Platform charges presented to consumers in this research were, however, generally considered to represent good value for money.

Those consumers who currently have cash accounts on their platforms do not generally view the cash in these accounts as accessible money for them. Instead, they see the cash account as a mechanism that can facilitate purchase or sale of investments or payment of charges, i.e. to pay an adviser charge.

The proposed changes are likely to increase transparency

The proposed changes, if adopted, would have the intended consequence of making the platform charge more transparent. Many consumers would welcome this as an improvement in an opaque and complex market, although in the short term only a few direct consumers who are looking to compare platforms would be likely to benefit directly from this increased transparency. Most advised consumers rely on their adviser for platform selection and are likely to continue to do so. Whether these proposed changes might result in advisers being better able to compare platforms has not been examined by this research.

Some consumers expect to have more dialogue with their adviser on charges as a result of the changes. The focus of this dialogue is likely to be on the adviser charge because consumers' relationship is with the adviser and they believe there might be opportunities for negotiation. Platform charges will become more visible in such discussions, and we believe advisers will need to justify platform costs and seek out best value solutions to a greater extent than under current regulations.

Current documentation is often confusing and opaque on the nature of charges, even in supposedly more transparent wrap models. Achieving greater transparency will be dependent on the clarity of communication from platform providers and advisers.

There are concerns that the proposed changes may lead to unwanted consumer involvement

Consumers will be required to pay explicit adviser charges as a result of RDR legislation in 2013. If fund rebates are banned, consumers will also need to pay explicit platform charges. As most consumers prefer to pay charges indirectly through their investments, rather than directly, for example by cheque, most payments will be made through platform cash accounts. If cash rebates from platform providers to consumers are banned, cash accounts will not be 'topped up' by rebates. An unintended consequence of the proposed changes could be that some consumers may become (in their eyes) unnecessarily involved with their cash accounts. This could in turn lead to some anxiety if consumers worried about running out of money in their accounts or the opportunity cost of their cash not being invested.

We do not believe this is insurmountable as there are acceptable models in the current market where charges are not paid for wholly from cash rebates. Platform providers and advisers would need to develop appropriate mechanisms to maintain sufficient funds in cash accounts. They would also need to provide reassuring messages for those consumers whose models are changing and who will not want to have negative accounts, keep monies uninvested or pay for charges by cheque.

Consumers have doubts about fund management charges reducing

If fund rebates to platform providers were banned, some consumers doubt that fund management charges will reduce accordingly and are concerned that overall costs would in fact increase. Consumers often see fund managers as powerful and profit-orientated and unlikely to reduce their prices unless forced to do so.

Overall conclusions

The proposals will result in greater transparency and better informed choices for some consumers. Improved outcomes for a wider base of consumers will only be achieved with more consumer engagement and improved platform provider communications about the cost of the platform.

There will not be any significant disadvantage for consumers if the proposals are introduced, as long as fund management charges are reduced as expected, and providers and advisers communicate the breakdown of charges clearly and manage the transition, under the RDR, to consumers using the cash account.

We believe the proposals will result in more dialogue around charges in the advised sector and some more shopping around in the direct sector.

2. Research objectives and methodology

This chapter describes the business and research objectives set for this research and the methodology it adopted.

2.1 Business objectives

Primary objective:

- What are the unintended consequences for consumers of potential new rules to ban payments by product providers to platforms and cash rebates to clients?

Secondary objectives:

- Are customers making informed choices – among platforms and, then, among products?
- How do consumers interact with platforms, and vice versa?
- What are the benefits/detriments to consumers of platform use, and are they aware of these?

2.2 Research objectives

The research was designed to provide sound qualitative feedback to answer the project's business questions. Specific areas that the research had to address were:

- Awareness of platforms and route to being on a platform.
- Use of the platform and how much it is valued.
- Awareness of platform model and charges.
- Perceptions and value of transparency.
- Response to the proposed changes.

2.3 Research method

This section provides a brief overview of the method employed in this study. Full details of the methodology can be found in Appendix A.

2.3.1 Overall approach

The research involved 65 face-to-face depth interviews with platform customers conducted primarily in their homes (58) or their place of work or another convenient central location (7). Interviews were spread across England and Scotland and covered rural, town and city locations; they took place between 3 October and 4 November 2011. Respondents held investments on one of nine leading platforms, and they were recruited according to a number of non-interlocking quotas (see Section 2.3.3) from a sample provided by the nine platforms.

Interviews were around one hour in length and were recorded. They were conducted by one of a team of senior qualitative researchers familiar with investment platforms and the complexities of charging structures on investments.

2.3.2 Strengths and weaknesses of this approach

Qualitative research was appropriate for this research as it allows complex issues to be explored sensitively and in depth. It is particularly appropriate for examining consumer understanding of concepts and for assessing respondents in as wide a context as possible, for example their wider views about finance and investment and its role in their lives, alongside any formal categorisation into demographic groupings.

Qualitative research provides a detailed exploration of the issues but cannot deliver statistical data. Some 'counts' of responses are given in the body of this report to indicate the split of response on particular topics. These are indicative only and should not be regarded as statistical measures.

The research is not necessarily representative of all platform customers. Quotas were imposed to achieve sufficient cell sizes for analysis rather than to be representative. For example, we included a range of investment value in order to be able to explore the views of larger and smaller investors. The market is, however, biased towards the smaller investor with typical platform assets under management (AuM) being in the region of approximately £30,000.[4] The research is also dependent on the unbiased samples provided by the nine platform providers. However, these providers are the leaders in the platform market, and represent all the platform business models.

2.3.3 Quotas

Target quotas and the interviews achieved are shown below:

Figure 1 - Target quotas vs. achieved interviews for model type and brand

Model type	Bundled: fund supermarkets				Hybrid models		Unbundled: wraps		
Platforms	Cofunds	Fidelity	Hargreaves Lansdown	Skandia	AXA Elevate	Standard Life	Ascentric	Nucleus	Transact
Target	10	10	10	10	5	5	5	5	5
Achieved interviews	10	10	10	11	5	5	5	4	5

Figure 2 - Target quotas vs. achieved interviews for channel

Channel	Direct	Advised
Target	Min 15 / Max 20	Min 45 / Max 50
Achieved interviews	18	47

[4] Research conducted by Deloitte for the FSA , published at the same time as this report, indicates that 56% of the total platform market AuM rests with fund supermarkets for which the typical customer AuM is £38,000.

Figure 3 - Target quotas vs. achieved interviews for value of investments on the platform

Value of investments on platform	Under £50,000	£50 - < £250,000	£250,000 - <£750,000	£750,000 +
Target	16	17	16	16
Achieved interviews	17	16	15	17

Some brands (Fidelity and Ascentric) operate in both the direct and advised sectors. The split of direct and advised interviews for these brands is shown in Figure 4 below. The Cofunds platform is an intermediated proposition which is offered by brokers providing an execution-only (XO) service as well as full advice models. Our Cofunds interviews were equally split between customers receiving full advice from their advisers and those using an XO service.

Figure 4 - Distribution of interviews between direct and advised channels for the three brands which operate in both

Brands (Channels)	Direct	Discount Broker	Advised
Fidelity	6		4
Ascentric (Fundsdirect)	2		3
Cofunds		5	5
Total	18	5	12

2.3.4 Analysis

The analysis combined positivist and interpretive approaches, i.e. analysis based on the evidence of what people said together with interpretation of the underlying meaning and context. It involved some 'counts' of the answers to specific questions, grounded theory[5] analysis to develop hypotheses and compare findings from sub cells, together with observation and exploration of the language and stories used by our respondents.

In subgroup analysis, we examined whether responses varied according to a number of different variables. Qualitative research allows us to compare responses not only according to pre-defined market or demographic variables but also according to factors that arise through the process of analysis itself.

In this way, we were able to look at factors such as age, gender, life stage, platform brand, total assets, level and type of assets on the platform, and the platform model, together with more interpretive factors like attitudes towards investment, relationships with advisers and financial knowledge.

[5] Grounded theory was developed principally by Glaser and Strauss in 1967 and has been the leading analytical approach for qualitative research since then. "Grounded theory is an inductive, theory discovery methodology that allows the researcher to develop a theoretical account of the general features of a topic while simultaneously grounding the account in empirical observations or data" (Glaser & Strauss, 1967). Glaser, Barney G & Strauss, Anselm L, 1967. *The Discovery of Grounded Theory: Strategies for Qualitative Research*, Aldine Publishing Company, Chicago

Financial knowledge was particularly relevant to this analysis. Consumers were categorised into the following discrete subgroups:

- Highly knowledgeable, i.e. took an interest in financial matters, openly discussed financial concepts, and fully aware of all financial terms and concepts discussed. This group includes consumers with professional involvement in financial services (now or in the past).
- Some knowledge, but unsure of some of the financial terms and concepts discussed.
- Little or no knowledge of the financial terms and concepts discussed.

Specific differences between subgroups relating to any of these variables, where they arise, are discussed within the body of the report. If no specific references are made to differences between subgroups, no such differences are apparent.

MAIN FINDINGS

3. Platform awareness

All of our participants held investments on a platform. This chapter explores whether they were aware of having a platform and their understanding of its role. We deal with consumer understanding of platform models and relationships between advisers, fund managers and platform providers in Chapter 6.

3.1 Summary

Most consumers know that their investments are held on a platform and have some understanding of its role mainly in terms of administration and consolidation of their investments and access to a wide selection of funds. A few think it has a more active role in investment selection. Some advised consumers have little awareness of the platform's function. The recency and perhaps clarity of information from the adviser, the consumer's financial knowledge and portfolio size all influence levels of awareness and understanding of the platform's role.

3.2 A wide range of awareness and understanding of platforms

Whereas virtually all consumers interviewed knew the brand name of their platform, not all were clear about what a platform is and its role in their investment.

3.2.1 Most are aware that the platform is distinct from the adviser and fund manager

Although detailed knowledge of platform models and the relationships between advisers, platform providers and fund managers was varied (and will be dealt with in more detail in Chapter 6), most consumers knew that the platform plays a specific role in their investment.

These consumers viewed the platform as predominantly providing a consolidating and administrative service for their investments. Consumers often used the term 'umbrella' to describe the function of bringing together all their investments from different sources and providing consolidated paperwork.

> **"They [adviser] have got one of these platforms that you put everything on one piece of paper instead of getting a deluge of paper coming through the letterbox."**
>
> **(Advised: Cofunds: segment 2)**

> **"He sat down and explained Fidelity in detail. It's an umbrella. I can swap and change."**
>
> **(Advised: Fidelity: segment 2)**

Some consumers also saw the platform as providing a choice of investment funds, occasionally using the term 'fund supermarket'. Direct consumers were particularly likely to talk about the platform from this perspective but not to the exclusion of advised consumers, some of whom also described the platform as a source of investments.

"I'd say it was a convenient way of buying pension funds or ISAs."
(Direct: Hargreaves Lansdown: segment 2)

The platform played a mainly passive, administrative role in the eyes of most of these consumers. A few, however, felt it had a more active function in identifying and selecting the 'best' funds. In some cases, this appeared to be because the advised consumer had a model portfolio on the platform and assumed the platform was taking an active role in fund selection. Some direct consumers suggested that the platform researched fund managers on behalf of the customers.

"You've then got these so called investment companies like BlackRock etc. So then you've got people like Skandia who will work with them and say what they're looking for and identify certain areas that Skandia think is solid or growth orientated. They put that out to people like financial advisers to say this is what's available."
(Advised: Skandia: segment 2)

"My understanding is that they have market researchers who have meetings with the fund managers. I can narrow my choices down and look at companies that have been researched. Some of the companies change their fund managers, so by relying on them to give me that expertise, that really helps."
(Direct: Hargreaves Lansdown: segment 1)

3.2.2 A group of consumers are not aware of what platforms do

Some did not know the role the platform played in their investment. Among these consumers, the platform brand was sometimes seen as just providing the investment (i.e. as if it were the product provider or fund manager). Consumers would refer to the platform as their 'AXA investment,' for example. This was particularly likely if the provider was both a product manufacturer and a platform provider, and if the consumer had previously purchased the firm's products. Examples here include:

- A retired male respondent who had had a pension with Standard Life and had then consolidated other pensions into a SIPP sitting on a Standard Life Wrap. The respondent thought of his investment as a Standard Life pension. He was aware that the term 'wrap' was used but he did not know what it meant.
- A female consumer with a very small portfolio (under £50,000) who had held unit trusts / OEICs with different fund managers in the past through her adviser and was aware of taking out an investment with Fidelity, but did not perceive that Fidelity, in also running a platform, was different from other fund managers.

Of the 65 consumers interviewed, three respondents were unaware of their platform brand:

- One advised Ascentric customer whose adviser appeared to be using this platform on a white-labelled basis. Although the respondent was aware he was using a platform, he thought this was just provided by his adviser.
- Another advised Ascentric customer who was unaware of using a platform. This may have been another white-labelled platform, but the respondent did not know whether or not this was the case.

- A Cofunds platform user who had sourced a low-charged ISA from a comparison website and been directed to a discount broker site whose proposition involved using Cofunds. He was unaware of the Cofunds brand.

  Those with low levels of awareness were all advised consumers (including users of discount brokers as in the example above), more likely to have smaller portfolios on their platforms (<£250,000) and included those who were less financially knowledgeable. This group also included consumers who had had their investment for a long time with their adviser. In such cases, the adviser might have transferred assets onto a platform either without discussion with the consumer or (and we believe more likely) with the consumer having no recall/understanding of such discussions. As discussed in Section 2.3.3, this research under-represents those with small portfolios, particularly with fund supermarket models, which suggests there are likely to be more consumers with low awareness among all platform holders than in this sample.

4. Platform and product choices

This chapter explores consumer choice between platforms. Firstly, it examines what choices consumers make about whether or not to use a platform, how choices are made about which specific platform to choose and, finally, about which wrappers, funds and other assets are held on the platform. The summary draws conclusions about informed choice in this market.

4.1 Summary

Advisers drive platform use, which brand is selected, and fund and wrapper choice. They might justify their platform choice to their clients on platform merits such as service, cost and investment selection. Consumers accept this as part of the overall investment recommendation.

Although direct consumers actively choose to use a platform, in practice there is little awareness of competitive offerings and consumers are drawn to familiar brands and cost discounting claims when choosing a platform brand.

4.2 Active versus passive choice of platforms

Advised and direct consumers differed in platform selection. Whereas direct consumers made active choices, advised consumers delegated their choice to advisers. This is explored in detail in Sections 4.2.1 and 4.2.2 below.

4.2.1 Advised consumers make passive choices about platforms

Most advised consumers said that their adviser chose the platform, both in terms of recommending that a platform was used and a specific brand.

Advisers introduced and justified the recommendation to use a platform in various ways. Offering a platform as part of the investment solution appeared to be as much about the approach and business model of the adviser as about the changing needs of the consumer. Typical scenarios were:

- The consumer began a relationship with a new adviser who always recommended using platforms for investments.
- The existing adviser recommended using a platform – or moving to a different platform – because it would be beneficial for the client in some way (usually better administratively or cheaper).
- The consumer instigated changes or additions to an investment that triggered a recommendation to use a platform from the adviser.
- The consumer's investments were put onto a platform without making the customer aware of this.

Most frequently, consumers had just one platform brand introduced to them. Advisers often justified their choice of platform by introducing both generic benefits about platform use and specific benefits about the particular platform recommended.

"Two things. One was I got the impression that it'd reduce my costs for selling and buying investments by dealing with Transact rather than M&G etc. directly. The globalisation aspect – I could see it all in one place rather than keeping this ridiculous listing of investments and when this was going to happen or whatever. Putting it under the Transact umbrella helped to keep it in one place."

(Advised: Transact: segment 2)

In some cases, there was limited recall of the adviser's explanation or justification (if one had been made) – the platform was simply introduced as part of the overall investment proposition from the adviser, with no apparent detail of the role of the platform or its costs.

"I think one day my adviser said there was an organisation called Cofunds, who are taking over the admin of this and this. He said it makes no difference and I didn't have to do anything. It'll just say Cofunds on the top of the paper."

(Advised: Cofunds: segment 2)

A less frequent pattern was that advisers told consumers they had considered more than one platform and had recommended one specific platform either because it was better overall or better for that customer's specific needs on the basis of cost or availability of appropriate investments.

"The adviser did research on our behalf and came up with Skandia and Standard Life and I had already got insurance with Skandia and they seemed quite good."

(Advised: Skandia: segment 2)

The five Cofunds customers accessing their platform via a discount broker present a special case. Their choice of platform was passive like other advised customers even though some of them behaved more like direct consumers in other respects (see Sections 4.4.1 and 5.2.1). They chose to use a discount broker on the basis of reduced charges and the discount broker had selected a platform to facilitate their proposition. So the end consumer had not made an informed choice to select (in these cases) Cofunds.

4.2.2 Direct consumers make active choices about platforms

Direct consumers chose to use platforms because they facilitate self-investment and provide cost savings. These consumers preferred to choose their own investments because they believed they had the expertise to do so and could perhaps do a 'better job' than advisers. Many spoke of wanting to have the 'control' of their own investment choice and tracking.

"I used to use an IFA and I took a lot of advice from an IFA but over time, particularly since the electronic wrappers have been in place it has been much easier for people like me to control these things and know what is going on and be on top of them."

(Direct: Fidelity: segment 1)

Although platforms provide direct consumers with a convenient means of self-investing, their biggest draw is cost savings. Consumers believed that the platform route avoids having to pay both the initial charges associated with fund management and any adviser charge. Other charges, such as switching charges, were often believed to be cheaper on a platform than via a fund manager.

> **"It's just an administrative thing plus a cost saving thing because I'd have had to pay the initial charges if I'd bought it direct from the OEIC. So cost savings and administration and it appears to be all above board."**
> **(Direct: Hargreaves Lansdown: segment 1)**

Direct consumers often perceived platforms to be cheaper than the other routes because the 'buying power' of large platforms subsidised costs for the consumer. This could include the perception, for some, that the platform is free. See Chapter 7 for further discussion about this point.

Direct consumers made active choices about using a platform on the basis of cost or self-investment, but their choice of which specific platform brand to choose tended to be restricted. Although they knew that other platforms were available, they might only be aware of one or two brands. Indeed, a couple of our respondents mentioned that it was difficult to find out about competitive brands.

> **"I'm not aware of any others … largely because for me to become aware of it, you'd have to have media exposure."**
> **(Direct: Funds Direct: segment 1)**

Choices were conservative and made on the basis of the familiarity or strength of the brand. For example, consumers might have had an existing relationship with one of these brands, e.g. Fidelity, and be content to use Fidelity's platform without examining other propositions. Or they could be drawn to the advertising and low-cost claims of, say, Hargreaves Lansdown and be content to choose that route without any comparison with other platforms. Recommendations also played an important role.

> **"Just people I knew in the business said that it was a good platform. I looked at the platform, I like doing things online, I think it is a really good user interface; I think they have got that right. And I think their attitude to charges [is good] (at the time I made the decision I probably was more aware of the charging structure than I am now) so I satisfied myself that the charges were lower than I was paying in insured funds."**
> **(Direct: Hargreaves Lansdown: segment 1)**

> **"I know of other names but I haven't bothered looking at any because the deal I get with Hargreaves Lansdown suits me perfectly. The attraction for my mother was that she had half a dozen unit trusts and they were charging between 1*% to* 1.5% annual management charge and she was getting nothing back from it. Every now and again we would do a switch to improve her income and we would pay the front end charge of 4*%* to 6%. Once you are with Hargreaves Lansdown and you make a switch, they have done a deal with the managers who waive those front end charges and they get their remuneration out of that 1.5%."**
> **(Direct: Hargreaves Lansdown: segment 1)**

4.3 Multiple platforms and switching platforms

In total, 13 respondents had more than one platform (four were direct, two were XO with a Cofunds platform through a discount broker and seven were advised). Both of the XO/discount broker/Cofunds customers had an additional direct platform. In addition, three of our advised consumers had switched from other platforms.

4.3.1 Decisions to change platforms or to have more than one platform are nearly always adviser led

For advised consumers, changing advisers had sometimes led to platform switching or multiple holdings. The new adviser might have preferred a different platform and moved the client completely or just taken on an additional platform if he or she had been unable to move assets from one platform to another. In other cases, advisers had told their clients that one platform was cheaper or better in terms of administration or wider investment offer. The typical pattern for multiple platform holdings was of one platform being used for ISAs and another platform for pension and other investments.

> **"The Fidelity one is purely an ISA. All the ISAs are in that and the Standard Life is an OEIC, a unit trust … because [my adviser] said I should have two."**
>
> **(Advised: Standard Life: segment 2)**

An exception was that one financially knowledgeable consumer with a large portfolio on the platform (£750,000+) had instigated a comparison between platforms before switching. The comparison process was delegated to the adviser.

> **"We moved away from one platform about two years ago as there were some problems with it. The amount they were charging was much higher than Ascentric and that was a strict off the bottom line. It was a cost decision."**
> **What made you decide to go with Ascentric?**
> **"We looked at three or four and he advised me. I asked him to check them out. I took his advice. It was because the rates were less and they were providing a much better online service."**
>
> **(Advised: Ascentric: segment 2)**

One consumer had a direct platform to manage his own portfolio (more as a hobby) but his main portfolio was on an advised platform because he wanted to delegate the more serious investment decisions to his adviser.

4.3.2 Direct consumers add additional platforms for a number of reasons including cost and security

Direct (and the XO/discount broker/Cofunds) consumers with multiple platforms were again more active in their choices. They appeared to be more likely to take up a new platform than switch between platforms mainly due to the perceived effort of moving assets from one to another, but also because of security concerns.

The few with multiple platforms had decided to take this route for a variety of reasons:

- ***Cost comparison***. One very knowledgeable (ex-financial services) individual had tried a large number of platforms to determine which was most effective and offered best value for money. Similarly, one respondent had two platforms to compare the relative costs as he felt this was impossible to do on paper.

- ***Spreading the risk***. A few consumers were concerned about having all their investments in one platform on the basis of security. They felt it was a risk to have 'all my eggs in one basket'. One had split their holdings between two platforms for this reason.

  "I'm not putting all my eggs in one basket, so it's with Cofunds and Hargreaves Lansdown. It is split into about ten different OEICs. … I know they're all supposed to be in the name of nominees but you never know."
  (XO/discount broker: Cofunds: segment 1)

- ***Availability of assets***. One consumer had his pension assets on one platform and other investments on another. Another suggested that some funds were only available on a different platform.

4.4 Selection of funds, wrappers and other products

Consumers were most likely to have ISAs on their platforms. Some of the smallest portfolios only had ISAs on the platform whereas larger portfolios were more likely to have a range of tax wrappers. Some consumers had an 'ISA only' platform and other tax wrappers either on another platform or off platform.

Unit trusts / OEICs and pensions / SIPPs were also found frequently on platforms. Only a few (mainly direct consumers) held stocks and shares on their platform, and a few held cash savings on their platform.

Consumers demonstrated a range of risk tolerance for platform assets, through discussing their attitudes and holdings (see below) and/or by talking about their own scores from risk questionnaires administered by their advisers. Many were familiar with a ten point risk tolerance scale (where ten represents very high risk). If this was not the case, interviewers classified their responses into a ten point scale on the basis of their attitude to risk.

Risk tolerance was dependent on the consumer's age and life stage, how much reliance they had on their platform investments for their future livelihood and general 'attitude to risk' personality factors.

- Higher risk investors (classed as seven and above) tended to be more 'hands on' and generally more interested in investment. They were more likely to be direct consumers (but not all were). They might also have portfolios of stocks and shares. Some of those with experience of working in the financial sector came into this category. These investors were particularly focused on growth.

  "Most IFAs look at my portfolio and say it is a risky portfolio but I am in it for returns not for risk minimisation and I can afford to lose all my money in Fidelity."
  (Direct: Fidelity: segment 1)

- Most other investors came into a low to medium risk category (three to six). Some had a spread of different types of holdings, knowing some to be riskier than others but balancing these out with lower risk holdings. Some older consumers were now exposed to less risky investments than earlier in their lives, with the aim of preserving capital.
- Two consumers considered themselves to be very low risk (one to two) and were thinking about moving their investments into cash.

A few consumers were following a specific investment strategy (either self-directed or their adviser's strategy), for example investing in income bearing funds only or in passive investments. But again, we need to consider the advised and direct sectors separately.

4.4.1 Advisers select investments for consumers, often using a risk rated model portfolio approach

Advisers were largely responsible for product and fund selection. For consumers, informed investment selection was a key part of the adviser's expertise and often the main reason for choosing to use an adviser. Consumers varied in how much they wanted to be involved in the selection. Some wanted to have involvement in selection and to debate the merits of particular investments. Others wanted to delegate all selection and decision-making to advisers, claiming that they personally did not have the time, interest or the expertise to make investment decisions.

From the descriptions of the selection process and resulting portfolios, it appeared that many advisers had used a risk rated model portfolio approach. A pre-selected portfolio of mixed assets and funds was recommended according to the customer's tolerance to risk assessed by questionnaire. Consumers seemed to have either a model portfolio designed by the adviser (or third parties on their behalf) or provided by the platform. In these cases, consumers expected that changes could be made to individual holdings without their approval.

The special case XO/discount broker/Cofunds customers behaved more like the direct consumers in their investment selection.

4.4.2 Direct consumers select investments themselves, often using hints and tips

Processes used to select funds and individual shares were variable and highly individual. Most direct consumers selected on the basis of potential performance and some were more analytical than others in looking at past performance data either supplied by the platform, elsewhere on the internet (e.g. Standard & Poor's) or in printed media. Some took fund cost into consideration total expense ratios (TERs) and some had specific strategies such as following particular fund managers, specific sectors (e.g. emerging markets) or passive funds.

External ratings of the merit of funds (e.g. star or crown ratings) provided a short cut to decisions, avoided extensive research and provided helpful reassurance. Hints, tips and recommendations from platform providers and other sources were taken into consideration by most and leant on heavily by some. For example, Hargreaves Lansdown's Wealth 150, its list of 'favourite' funds, influenced consumer choice, as did tips and hints in newspapers, specialist investment publications and newsletters from discount brokers.

Those with larger portfolios were more likely to follow a structured approach based on their own strategies and have a wider selection of holdings. However, nearly all appeared to pay attention to hints and tips from platform providers and others.

Four case studies illustrating different types of investment selection among direct and Cofunds/XO/discount broker customers

Direct consumer with £30,000k on the platform divided between three funds chosen on the basis of following a star fund manager and newspaper suggestions	"The Special Situations and China Special Situations is because Anthony Bolton has a good background with many of the Special Situation funds. The multi asset was a fund that's invested in bonds, commodities and cash so if one is not doing very well, the others can back it up." **Did you use any tools to select …?** "I think [multi asset] is from the *Daily Mail*. They have a financial page. I think a fund came up. It started in 2004 and it had good reviews. It was a five year overview of the investment fund and I just thought it was a good thing at the time."
Direct consumer with a small ISA and SIPP portfolio (c. £50k) basing his initial selection on recommended fund lists	"I used the Hargreaves Lansdown Wealth 150. They can't recommend anything but they have certain funds they highlight like the Neptune Russia one. Then I looked at it in terms of other companies to see what they were highlighting and their performance over the last five years."
Discount broker/XO consumer with c. £600,000 of platform assets in income bearing funds, mainly influenced by investment reports in newspapers	"On the basis of newspaper research and their research [discount broker]… in the end it's gambling. You just do your best."
Direct consumer with £1m+ on direct platform. Takes a sector allocation approach with additional 'star' or core funds.	"I probably change about 20% of my portfolio a year. I divide them into sectors and look at 30% equity income, largely UK, 30% UK growth funds, emerging markets and commodities and other overseas markets. The overall allocation doesn't change greatly. Then I have probably got 30% to 35% in emerging markets and natural resources and Blackrock Gold." **Do you use the tools?** "When they [platform provider] feature funds I will look at them. I have those broad sectors and then have core funds which are solid and well respected and I will test drive new funds. I have always got more than one fund in a sector."

5. Do consumers value platforms?

This chapter considers the ways in which consumers engage with platforms and the benefits and drawbacks they perceive.

5.1 Summary

There is considerable variability in the ways in which consumers attribute value to platforms. Many do attribute a value to their platform as it provides them with one view of their investments and an easier way to deal with them. Direct consumers particularly value the perceived cost advantages, the means to carry out their own investment transactions and the online access provided. Some advised consumers appear to attribute a greater degree of investment management to the platform than it has. Few disadvantages are perceived.

Some consumers (segment 3), whose understanding and involvement with the platform is low, perceive few spontaneous benefits or disadvantages. These consumers rely very much on their advisers so it is not possible to conclude whether or not they are in fact deriving benefits from the platform. It could be, for example, that the adviser would be unable to provide the service they receive without using a platform.

Consumers do not recognise any issues of potential bias from platform use. Those few who believe platforms have restrictions – for example in offering access to a limited number of funds – do not see it as a problem. As we have seen earlier, a few consumers have multiple platforms that enables them to overcome the barrier to holding specific asset classes on particular platforms.

5.2 Engagement with platforms: a segmentation

There was considerable variation in consumer engagement with platforms. Whereas some value the contribution that platforms bring to investment management, others value platforms less because they have little understanding of their role. Similarly, some are 'hands on' while others are far less so.

To try to make sense of this and build a framework for subsequent analysis of response to the proposed changes, we have segmented the sample into three groups as follows:

Figure 5 – Segment framework for analysis

Segment 1	Segment 2	Segment 3
Platform is my tool	Platform adds value to adviser proposition	No added value/ not differentiated from adviser proposition
(21 respondents)	(28 respondents)	(16 respondents)

5.2.1 Segment 1 – Platform is my tool

Segment 1 is made up of direct consumers together with three of the XO/discount broker/Cofunds customers who behaved like direct consumers. As we have seen, these consumers were driven by cost and a desire to manage the investment themselves.

These people were inevitably more engaged and hands on with their investments and tended to be both knowledgeable and also confident to use that knowledge in investment selection. We found most of our financial services professionals in this group, many of whom were now retired. Although there was a similar range of total wealth to segment 2, this group was biased more towards those with larger equity portfolio sizes. Eight out of the 17 respondents with platform portfolios of £750,000+ came into this group.

5.2.2 Segment 2 – Platform adds value

Segment 2 is an advised segment. Consumers in this segment took an interest in their platform and found that it brought them additional benefits over and above their adviser's proposition such as consolidation and organisation of their assets. This segment includes some consumers who were very knowledgeable about investments but who generally wanted to be less hands on than in segment 1, either because they didn't have the time (for example because they were still working) or because they felt they did not have the expertise to select investments for themselves. The spread of their total wealth is similar to segment 1 but there is a more even spread of platform assets in this segment. Consumers in this group seemed more likely to have a spread of investments across cash and property investments in addition to their assets on the platform and other equities.

5.2.3 Segment 3 – Platform adds no value

Segment 3 is also an advised segment but these consumers were less engaged with their platform than the other two groups. This was either because they lacked interest in the more technical aspects of their investments (so really didn't care about how they were organised) or because they simply didn't recognise what the platform was or that it was adding any value to what their adviser did. The performance of the investment was important to them but the detail of how this was achieved was of lesser interest. They simply wanted to delegate investment selection and management to the expertise of an adviser.

> **"I don't know very much about Skandia. When we first invested, there was a booklet. I didn't take a great deal of interest in that."**
>
> **(Advised: Skandia: segment 3)**

The remaining two XO/discount broker/Cofunds customers are in this segment. In both cases, they were young investors who had sourced a low charge ISA through an Internet comparison site. They regarded Cofunds as just a good value route to an ISA and had not appreciated its platform functionality.

> **"There was no decision to use Cofunds. I am sure it was Money Supermarket.com who said cheapest ISAs and click on that and click set it up which took me to Cofunds."**
>
> **(XO/discount broker: Cofunds: segment 3)**

Overall, this group are less wealthy than segments 1 and 2 with most having a total wealth level of less than £500,000 and only a few with large portfolio sizes. The spread of platform portfolio size was towards smaller portfolio sizes. Seven of those 17 with the smallest portfolio size (<£50,000) are in this segment. They were less financially knowledgeable than the other segments and generally less engaged with financial matters. As the typical portfolio size on all platforms is around £30,000 (see Section 2.3.3), we suggest that segment 3 type consumers are likely to be more prevalent among platform consumers generally than in our sample and this should be borne in mind when considering these findings.

5.3 Interaction with the platform

The level of interaction with the platform varied greatly according to the segment so will be discussed separately.

5.3.1 Segment 1 are hands on

Segment 1 interacted most with their platform with the following types of activity:

- Valuations, keeping track of the portfolio.
- Selection and comparison of funds, purchase, some switching.
- General investment information from the platform provider.

> **"Their Investor Centre which has details on 1,200 funds and their fund evaluator, I use those a lot. At least once a month I will look at two or three funds and compare them."**
> **(Direct: Fidelity: segment 1)**

All these activities were carried out online but not exclusively so. Paper valuations were valued by many and functioned as a prompt to check the portfolio online. Information from paper sources such as newspapers, investment magazines and newsletters from platform providers and discount brokers also provided both general and specific investment information.

> **"That is another thing that is good; you get a monthly general newsletter and every six months you get a thing with all the funds in it and it is all in one place. You get emails with fund information and they have regular meetings with fund managers and they have videos online."**
> **(Direct: Hargreaves Lansdown: segment 1)**

Other online information was also used for investment research and general investment and market information. There was some (minor) comment that other sites provided more 'independent' and unbiased information.

> **"But also I have started reading other things because Hargreaves Lansdown have their own view and their focus is very much on unit trusts and OEICs not on investment trusts, and other areas where they have less commissions from the providers."**
> **(Direct: Hargreaves Lansdown: segment 1)**

Bloomberg was specifically mentioned as a good source of online information.

Overall, online interaction with the portfolio was surprisingly low even for this engaged group. There was little switching for most and some felt there was little need to monitor a long-term investment very frequently. So, although a good proportion of this segment claimed 'regular monitoring', this could mean as infrequently as monthly.

However, there were a few hobbyists in the sample who were involved in lots of online activity.

> **"It is all there in one place so it is really easy and easy to move stuff. I am often buying or selling ten or twenty things."**
> **(Direct: Hargreaves Lansdown: segment 1)**

There were also a few who were very infrequent online users and a few with internet accessibility or connectivity issues in this group, which resulted in lower interaction than they would like.

> **"You can go online and actually see how things are doing. I haven't looked at it since the last financial year when I made the £15,000 pension contribution – 7 February."**
> **(Direct: Hargreaves Lansdown: segment 1)**

One wealthy (£1m+ platform assets) retired direct consumer had face-to-face contact with his platform provider and enjoyed some hospitality and generic market information from the provider.

5.3.2 Segment 2 look mainly at valuations online – but often infrequently

These consumers usually knew they could access information about their investment online. Some valued this and chose to do so, but this, with a few exceptions, tended to be less frequent than for segment 1. Typically, they went online fewer than five times a year.

> **"The fact that if you want to you can have all your investments under one roof. You can log on to your account and see what was happening if you understood it, as it went across several spreadsheets. You had to understand it. I did get to grips with it in the end. He [the adviser] was very good and he did explain. I think it's a very good idea for people who have time to really look after their investments. It's in one place. You open one website and the whole lot is there."**
> **(Advised: Standard Life: segment 2)**

> **"I get copies of stuff from them via the adviser. I guess it's all there if I bother to go onto the Internet. I struggle, as I haven't got the patience or energy to remember all the names and codes to find it again. They're probably too big to help me quickly. I always hit a brick wall. I look at a previous email and print off the attachment to look at it next week … I feel guilty about not doing enough online. The money is meant to provide an income and I feel responsible to ensure it keeps arriving."**
> **(Advised: Fidelity: segment 2)**

The sense of guilt expressed in the above quotation was common in this segment. Consumers knew they could go online but did so infrequently even if they felt they 'should'. In reality, advised customers often preferred to delegate the effort of monitoring to their adviser, believing that the adviser would be in touch if anything needed to be addressed. In a volatile market, some did not want to find out how much their investment had fallen.

Information technology issues also came into the equation for this group. Lack of familiarity with the site, finding it difficult to use or simply not remembering their password were all reasons for lack of interaction.

The difference between those who regularly go online and those who did so infrequently tended to be a combination of personal preferences/ personality e.g. some liked to be more in touch than others, and the purpose of the investment e.g. some had a more immediate need/ plans for the money and were likely to look at the platform more frequently.

> **"It's purely laziness. It's a strange thing – there is a lot invested but you kind of leave it to other people as there are other things I have to do."**
> **(Advised: Skandia: segment 2)**

> **"It sounds really stupid but I don't need the money therefore I don't need to follow it."**
> **(Advised: AXA: segment 3)**

5.3.3 Segment 3 rely on paper valuations and interact via their adviser

Paper valuations and contact with the adviser were the main forms of interaction with the platform. Some were aware they could go online to view their investment but most had not done so because of their preference to delegate the responsibility of monitoring the investment to the adviser. Many consumers in this segment lacked confidence and/or understanding in financial matters and were unwilling to engage in complex materials without the guidance of an adviser.

> **"They send me a [statement] …How much is in here and there. They seem to know what they're doing so I'll not ask too many questions. I wouldn't know what to ask anyway. It's all this financial stuff – it's a bit over my head... I'd ask the adviser first and ask him to give me a layman's explanation. I haven't done so yet."**
> **(Advised: Standard Life: segment 3)**

> **"Something like Cofunds I am treating as a long-term thing so I have my finger less on the pulse than I do with my shares. It is how I am treating my pension as well. I got a statement a few months ago and I checked it a few months ago and that is about it."**
> **(XO: Cofunds: segment 3)**

5.4 What are the benefits of the platform?

We asked respondents what they thought the benefits of using platforms were. The responses indicated that those who were in segments 1 and 2 were able to voice a number of benefits spontaneously. Some of these were generic functional platform benefits and applicable to both types of user. In particular, reasons associated with making it easier to deal with investments were top e.g. having a single view of holdings online through the umbrella of the platform. A few praised the benefits of having a consolidated tax statement.

> **“What the platform does for me is keeps track of my investments and is able to report on my investment in a very succinct and easy way.”**
> **(Advised: Transact: segment 2)**

There were some differences between the segments as outlined below.

5.4.1 Platforms help segment 1 consumers to gain a sense of control

As we have seen, the ability to control their own investments is important to segment 1 consumers. Platforms helped them to have a sense of control because of the ability to select, view and manipulate their investments themselves without having to rely on, or pay, an adviser.

The perceived cost advantage was an important factor that also contributed to being in control. By avoiding initial charges, platforms helped them to beat the market and be less beholden to fund managers.

> **“The most important thing is that I am in control and it is as low a price as [possible].”**
> **(Direct: Hargreaves Lansdown: segment 1)**

5.4.2 Segment 2 derive organisation and reassurance from platform use

Segment 2 consumers view the same functional benefits in a slightly different way. They don’t want to have control as they look to delegate investment selection and monitoring to their adviser. They do appreciate the greater organisation of their holdings that platforms facilitate through having a single view of their investments within one paper communication rather than multiple communications from different fund managers. Although they might not go online very frequently, they generally appreciate that they could do if they wanted.

> **“They have got one of these platforms that you put everything on one piece of paper instead of getting a deluge of paper coming through the letterbox.”**
> **(Advised: Cofunds: segment 2)**

For one respondent with two platforms, the additional aggregation provided by the adviser was valued.

> **“I do get one page reports from them on a regular basis but I use this one as my operating manual because one of the main benefits of a building society is that you can see everything on one piece of paper. You know how much it is worth the last time you had your book updated and you don’t have to go through wads of paper. I can compare this page with the previous one. Fidelity is on one page and Cofunds is on the next. I can read across to see what the performance is.”**
> **(Advised: Cofunds: segment 2)**

As mentioned in Section 3.2.1, some perceived an additional layer of investment management provided by the platform, such as identifying the best funds and providing investment expertise, which we believe was as a result of using one of the platform's model portfolios. This was welcomed as an additional injection of expertise to the investment. Similarly, a few felt that having another company or brand involved in their investment provided support and reassurance to the adviser's recommendations.

Advisers had also introduced the idea of some benefits to their clients. In particular, some consumers believed that there were cost advantages in using the specific platform because this had been part of the adviser's justification for using the platform.

> **"The adviser had done an exercise and found out that the charges could be better. So we cashed in the whole lot and reinvested under this Nucleus umbrella and now we're not paying the higher charges."**
> **(Advised: Nucleus: segment 2)**

Some mentioned other features, such as ease of switching investments, that might make their adviser's work easier and which they would benefit from more indirectly because their adviser was able to manage and manipulate their investment more effectively.

> **"He has put it under a company called Nucleus where he has done a sort of wrap so my investments now have a better spread. When we looked at it they were all doing the same sort of thing so he thought it better that we went into the Nucleus Wrap where the money was put into gilts and bonds etc. but they can be moved if one area is not doing very well."**
> **(Advised: Nucleus: segment 2)**

> **"I don't get as much bumph and he can move things quickly. I don't know how important it is to move things at 24 hours' notice, I am not that savvy but he seems to think it is a good thing in that if he wants to change today he can move me out into something else tomorrow provided I have signed the bit of paper. It is probably convenient for him. It is maybe for his benefit as much as mine."**
> **(Advised: Standard Life: segment 2)**

5.4.3 Segment 3 are less spontaneously aware of benefits but recognise some advantages when probed

Those in segment 3, who valued the platform less, were not able to articulate many benefits until prompted by the interviewer with suggestions. Some agreed that it was an advantage to have a single view of their investment and the choice of lots of funds but many had little knowledge as they did not differentiate what the platform offered from their adviser's service.

5.5 What are the disadvantages of the platform?

Overall, consumers perceive few drawbacks from being on a platform.

Once again, segment 3 consumers had less to contribute because of their lower involvement with their platforms. The issues raised by consumers in segments 1 and 2 were consistently minor and similar in nature.

There were a few negatives based on a concern that involvement with the platform required too much time. This came from both direct and advised consumers and both from those with busy working and family lives and those who were simply less engaged with financial matters and not prepared to give up the time. Complex written materials were a disincentive for engagement for some less knowledgeable consumers.

A few mainly direct consumers were concerned about the security issues of using one platform. The main concern here was that the platform might fail financially or that security could be breached. Another minor issue was a question of whether the investments on one platform would be sufficiently diversified.

> **"I suppose there must be some risk that all the eggs are in one basket. If Skandia got into difficulties, there could be some risk there. One has faith that the companies are sufficiently regulated that I'm protected against that."**
>
> **(Advised: Skandia: segment 2)**

A couple of respondents suggested that fund choice might be limited on the platform, there might not be, for example, specialist or boutique funds. But this was not considered to be a problem or to disadvantage them in any way. Another respondent was surprised he was unable to move pension assets onto his (Cofunds) platform. While this was not felt to cause him any specific problem or real disadvantage, he would have just preferred the convenience of having all his assets in one place.

Of particular relevance to this study is the issue of cost. Before we introduced charges, a few direct consumers mentioned that they would like to compare prices across platforms but had been unable to do so because of lack of information.

A couple of advised consumers, who considered the platform to play an investment screening or management role, wondered whether there was any duplication of investment management between the adviser and platform – and therefore whether they were paying twice for the same service.

> **"I want to keep the costs down but it's what you get. That's the whole issue of how is the adviser paid. One of the things that concerns me is that you're paying the platform charges and the adviser charges."**
>
> **(Advised: Ascentric: segment 2)**

One segment 2 respondent taking pension income from his wrap had experienced administrative problems and had a poor view of the platform provider a result.

6. Consumer understanding of platform models

This chapter explores consumer understanding of the organisation of their investments through a platform and the relationship between the parties involved.

6.1 Summary

Although consumers generally understand what a platform does for them in terms of administration, consolidation and availability of funds, there is a lot of confusion about the relative roles of fund managers, platform providers and advisers, and how each is paid for their role in investment management.

Direct consumers have a more accurate picture than advised consumers concerning the relationships between fund managers and platform providers but they are also likely to focus on initial charges rather than ongoing charges and an appreciation of the power of the platform provider as a 'bulk buyer'.

Most advised customers do not know how it all works and might not be aware of the pivotal role of the fund manager, often believing that the adviser or platform provider plays a central role.

The system of fund rebates to platforms and cash rebates to consumers is broadly understood among direct consumers and is felt to provide consumer benefits. Consumers in the advised sector are far less aware of this, however, and while many are relaxed about how it works once this is revealed to them, some (particularly those in segment 3) express concerns about complexity and hidden charges.

6.2 Use of stimulus materials to explore understanding

We made use of stimulus materials to help respondents express their understanding of how fund managers, platform providers and advisers are paid for their ongoing role in investment management. This involved:

- An initial show card (card A1/F1) defining the roles of the fund manager, platform provider and adviser in their investment. This was to make sure that everyone had the same understanding at the start of the task.
- A show card (card A2/F2) showing the three parties (or two parties for direct models) alongside a box representing the respondent's investment. The respondent was then asked to use arrows and figures to draw in the financial relationship between the three parties.

After we had explored consumer understanding of their model in full, we introduced further stimulus material to demonstrate the structure of a model similar to their own.

Further details of stimulus materials can be found in Appendix B.

6.3 Do consumers understand the relationships between fund managers, platform providers and advisers?

As we have seen earlier (in 3.1 and 5.1), a good proportion of consumers understood what a platform was and valued its role. However, few consumers had a good understanding of how platforms are financed and the relationships between fund managers, platform providers and advisers. It was clear that some were simply not concerned with what they perceived to be the 'under the bonnet' mechanics of this (and had little interest in doing so). Instead, consumers focused primarily on performance and secondly on the total cost of their investment.

> **"The only way to view value for money is how the investment has performed. You'd be happy to pay 10% if they outperformed the FTSE. When you invest in this type of thing, it's a risk anyway."**
> **(Advised: AXA: segment 2)**

Direct consumers (segment 1) who were more engaged with platforms inevitably had a greater understanding of the relationship between platform and fund manager than advised customers.

We had expected that consumer comprehension of platform models might vary according to which model they utilised but this proved not to be the case. The underlying attitude of the consumer and their level of involvement with the platform affected their understanding to a much greater extent than any difference in model i.e. on the basis of whether they had a fund supermarket, wrap or hybrid model. The following quotations illustrate how, counter-intuitively, some wrap customers with an apparently 'transparent' model had little idea of structure and charges, while some 'bundled' fund supermarket customers had a better understanding.

> **"It goes to the fund manager who pays part of that to the broker. I don't pay two sums. I don't know how it's structured. I just pay 1.5% as a total figure."**
> **(Advised: Ascentric (wrap): segment 3)**

> **Did you look at other platforms?**

> **"There didn't seem to be much point. I know Skandia does a wide range and nobody else charges less than they do. 1.5% of which 0.5% goes to the IFA, 0.5% to the platform manager and 0.5% to the fund managers. It's a standard charging structure that they'll all charge – even Hargreaves Lansdown and the supermarkets. I'm still going to end up paying the same rate."**
> **(Advised: Skandia (fund supermarket): segment 2)**

> **"I couldn't quote the figures. I know I pay for the adviser so if anything new goes in, he gets his chunk and there is an annual fee on managing it. It is not amongst the highest as far as I am aware ... different funds have different charges. 1.6% down to 0.5%. Then pages of things. I don't think the fee specifically shows [it]. All sorts of fund management rebates, regular charges; you have got to be mastermind to work out what that is so, no, it's not easy to pick up."**
> **(Advised: Standard Life (hybrid): segment 2)**

> **"The only costs I'm paying are those annual costs within the fund, which form part of its portfolio. ... How do you go about finding out about charges? They're not in the portfolio report. You just assume them."**
> **(Direct: Fidelity: segment 1)**

We will now explore results from direct and advised consumers separately:

6.3.1 Direct consumers recognise a commercial relationship between platform provider and fund manager

As discussed earlier, the cost of investing has been a driving factor for many direct consumers in using a platform. The perception was that the platform was able to obtain cheaper fund prices from fund managers because of the buying power of the platform provider. The belief is that the consumer could buy more cheaply through the platform than directly from a fund manager.

On this basis, some direct consumers concluded that the platform was 'free', their logic being:

- They could buy funds more cheaply from a platform provider than from a fund manager
- The platform provider gave them access to the platform in addition to the cheaper fund prices
- So, effectively, they were not paying for the platform

> **"I don't think Fidelity charge me anything at all for the use of their wrapper or it's so minimal I don't notice. ... I think I only pay the charges embedded in the funds I invest in. ... I don't pay anything for their wrapper."**
>
> **(Direct: Fidelity: segment 1)**

> **"I pay Hargreaves Lansdown only in respect of a very few individual stocks and shares holdings. I don't pay anything else. Are you going to tell me I do? ... The unit trust managers will be paying Hargreaves Lansdown something and they will also get renewal commission so that's how they get their money."**
>
> **(Direct: Hargreaves Lansdown: segment 1)**

The concept of discounts (i.e. rebates) was therefore understood to be part of the relationship between the fund manager and the platform provider – but the belief was that the consumer was the beneficiary of such arrangements. The focus here was very much on initial charging rather than ongoing charges.

> **"I think they do offer discounts which you can't get if you go to them directly."**
>
> **(Direct: Fundsdirect (Ascentric): segment 1)**

As described in Section 6.2, direct consumers were asked to draw arrows onto a diagram to represent the payment of charges from their investment to the fund manager and platform provider. Direct consumers were relatively more likely to draw the correct pattern than those in the advised group – but half still 'got it wrong'.

A common misapprehension, as shown in Figure 6 below, is that the platform provider takes the payment and then pays the fund manager. This illustrates the perceived power of the platform provider, and perhaps also the consumer focus on initial charges and the purchase of funds, rather than ongoing costs.

Figure 6 - Direct consumer view of payment via platform

6.3.2 Few advised consumers understand the relationships between the three parties

Advised consumers saw the adviser as the main point of contact and the interaction with other parties as indirect and through the adviser.

Fund managers were regarded negatively by some and were the most remote party of the three for consumers. Often maligned with such terms as ‘fat cats’, individual fund managers were sometimes assumed to be the beneficiaries of large bonuses and generally associated with the ills and greed of the financial world. However, consumers did, of course, want the managers to achieve good investment performance.

> **“Everybody is against these fund managers, they get a bonus, I am going by the press. If the market goes up 10% they get a bonus and the market has gone up and they have done nothing. I think these bonuses that financial people get are ridiculous.”**
>
> **(Advised: Nucleus: segment 3)**

The role of the platform was generally seen to be one of administrator and ‘organiser’ of the individual investments, particularly by segment 2 consumers who were more informed and engaged with the platform. To some of these consumers, the platform was also seen to play the role of an investment gatekeeper by applying some quality-based entry criteria on the funds that were allowed on the platform and by setting model portfolios.

Only six of the advised consumers were able to draw an accurate picture of charges in the correct pattern. For the majority who got it wrong, there were similar misapprehensions of relationships between the parties from wrap, fund supermarket and hybrid models. The examples in Figures 7 to 10 below show some common misconceptions about how models worked.

Figure 7 shows a similar misunderstanding to that shown in Figure 6. Here consumers see the adviser as playing the pivotal role. This could be either because consumers give their payments to advisers or perhaps because some are aware of explicit charges to advisers nowadays.

Figure 7 - Advised consumer view of payment via adviser

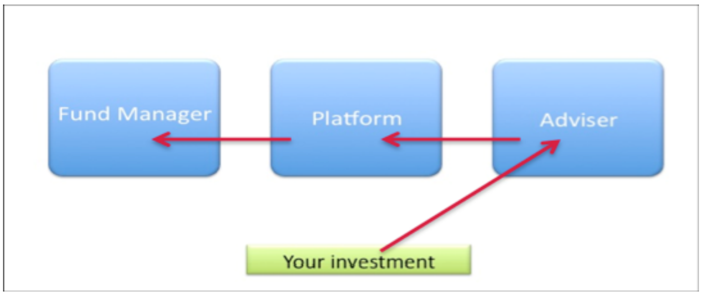


Figure 8 shows a common pattern of consumers seeing the platform as having the central role, passing on a commission charge to the adviser and payment to the fund manager.

Figure 8 - Advised consumer view of payment via the platform

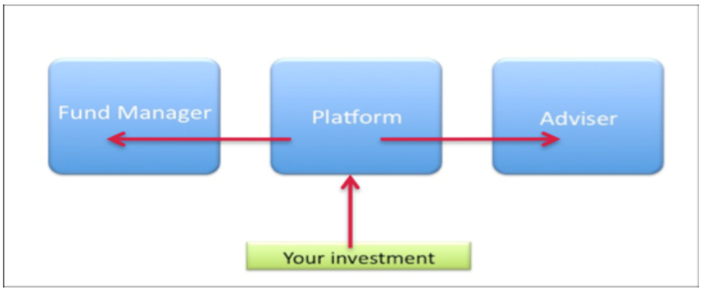
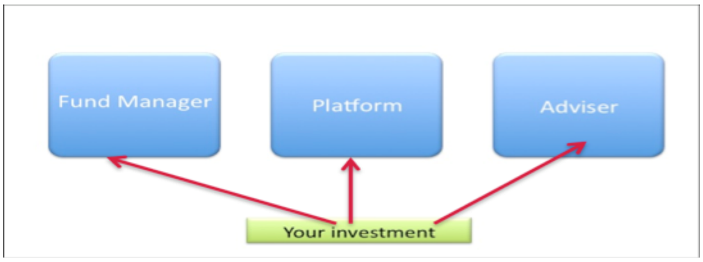


Figure 9 illustrates another pattern. Some consumers understand that the annual management charge is taken from the investment by fund managers and somehow ends up paying advisers. There was confusion about how it all works and how the platform fits in.

Figure 9 - Advised consumer view of payment to fund manager and platform

As Figure 10 shows, another common pattern was that all three parties took a charge directly from the investment.

Figure 10 - Advised consumer view of payment to each party



6.4 Are consumers aware of cash and fund rebates?

Some consumers knew about cash and fund rebates whereas others learned more detail when we showed them diagrams of the models. The following analysis splits out these responses.

6.4.1 Direct consumers are aware of both cash (and unit) rebates to themselves and fund rebates to platforms

Direct consumers were aware of cash and unit rebates from platform providers as these claims were often made in marketing materials. A few drew a rebate arrow into their model indicating a payment from the platform to themselves.

Cash and unit rebates appeared to contribute to the overall perception of the platform route providing good value. In practice, however, these had been less attractive than they sounded and some consumers who had received discounts had found them to be small and sometimes difficult to calculate from documentation.

> **"It [the unit rebate] is unnecessarily complex because I am not interested in income, unit rebates; I am just interested in the overall cost…. But it would make it necessary for me (if I cared) to subtract that to see how much it is costing me. It is not a sufficiently large charge to make that sort of thing worthwhile."**
>
> **(Direct: Fidelity: segment 1)**

The mechanism of fund rebates to platforms was conceptually understood more often as a system of discounts than rebates i.e. that the platform used its buying power to buy more cheaply from fund managers. The system via rebates was however understood and accepted when this was revealed via the models (see Section 6.5.1).

6.4.2 Advised consumers assume fund rebates exist in the form of commission and kickbacks but are less aware of cash rebates back to their investment

There was a general assumption that payments and 'kickbacks' feature behind the scenes in the financial world. This was mostly associated with commission payments to advisers rather than to platform providers. Most advised consumers were aware of the issues of adviser commission bias. Although this was a potential concern if it resulted in poorer investments, most felt that this was unlikely to apply to them because they trusted their adviser to recommend what was best for them and/or had had a discussion about adviser charging with the adviser and had been reassured.

A few advised consumers with wraps or hybrid models were familiar with the concept of rebates paid into their own investment. They might have heard of 'fund rebates' mentioned by advisers or seen on their paperwork but were usually unsure what this meant or how it fitted into their investment. These tended to be viewed as 'small print' or technical detail and of relevance / interest to the adviser rather than themselves. They were not necessarily seen as 'cash back' to investors in any way.

Only one consumer was fully familiar with the concept of a cash rebate going to his own cash account and being subsequently used to fund the adviser charge. This respondent, referred to again in Section 6.6 below, took an income from his investment so was motivated to keep an eye on the cash account. He was a segment 2 consumer with a Standard Life wrap (hybrid model).

6.5 How do consumers respond to cash and fund rebates?

Consumers were shown relevant platform models that prompted discussion about rebates.

6.5.1 Direct consumers understand and accept the current system as beneficial to themselves but lacking transparency

As discussed, the system of cash and fund rebates (and unit rebates for Fidelity) was generally accepted and understood by direct consumers and was often seen as beneficial to the consumer in providing a 'good deal' and benefitting from the buying power of the platform.

However, the illustration of fund rebates did highlight the lack of transparency for those direct consumers who would like to be able compare the costs of different platforms directly.

> **"I guess in an ideal world that what I pay for what I am getting should be more transparent. So if Hargreaves Lansdown attach a value to what they are providing to me, they should be saying 'We are charging you this for administration and the fund managers are charging this for the fund management.' That clear division should be much more explicit and shouldn't be wrapped up like that."**
>
> **(Direct: Hargreaves Lansdown: segment 1)**

6.5.2 Although some advised customers dislike the lack of transparency of current models, others are more relaxed about it

The model structures sometimes represented new information for advised consumers. Information about the existence of fund rebates to platform providers highlighted that there was much going on 'behind the scenes' that they were not aware of. It prompted some consumers to remark, similarly to the direct consumers, that the system was not transparent and it was difficult to find out what the consumer was paying for what. Others, particularly the less knowledgeable segment 3 consumers, felt the arrangement was complex, sometimes confusing and could be to the consumer's disadvantage.

> **"Where is the transparency there? That is what I would be worried about. I did not realise there was all this. I did not know these fund managers were paid out of my fees. Nucleus does not pay the rebate to the adviser; I pay the adviser so he is not gaining anything."**
>
> **(Advised: Nucleus: segment 3)**

> **"I'd imagine that the fund manager has an account manager and he goes to Transact and says, 'Look. Let's have an arrangement with you and we'll give you 50p for every £100 you take and let's have a lunch….I'll give you a decent rebate…' None of us want to consider that. The truth is too frightening. It's all bleeding your investments to pay the financial services industry. There is nothing we can do about it."**
>
> **(Advised: Transact: segment 3)**

But many advised consumers took a more relaxed view of the model structure and systems of rebates. They were happy as long as their investment was performing and their adviser was confident that the investment was best for them.

6.5.3 The mechanism of cash rebates from platform providers is unfamiliar to many wrap and hybrid model consumers

Prior to the interview, many wrap and hybrid model consumers were not aware that cash rebates from platform providers had funded their cash accounts.

> **"I didn't know about this rebate model. I thought the deal was between the fund manager and the adviser. This must be part of the same thing."**
>
> **Were you aware that you have a cash account?**
>
> **"Yes. I have a little bit of cash – not much. £2,000."**
>
> **Is that there to pay charges?**
>
> **"No. Sometimes the cash goes to zero so it can't be coming from that. It must be coming from one of the other charges. That might be what it is. It must go through the rebate into the cash account and then goes to the adviser"**
>
> **(Advised: Ascentric: segment 2)**

For most, this information simply provided clarification about how the models worked. For one or two segment 3 consumers, it just appeared to add complication.

> **"I'm not sure about that. It seems a bit daft as they can chuck it to there as opposed to put it through my account. A wasted step. ... So they say they take their bit and there is still a bit left over and they take it to where they need it to go. A pointless step if those things are the same."**
>
> **(Advised: Standard Life: segment 3)**

6.6 How do consumers view cash accounts?

Some models had cash accounts (wrap and hybrid accounts). Although advised consumers might be aware of these, they were often not spontaneously mentioned until model structures were shown. Consumers usually had little involvement with them and they were often treated as a technicality of the investment. They were not seen as being accessible money for them to use, rather an account in place to receive dividends, to hold money prior to investment, to pay income and, for one or two, to pay for adviser charging.

> **"I did not really bother. I tell you what I thought it was but I never queried it. I thought because you got dividends they had not re-invested it into further shares."**
>
> **(Advised: Standard Life: segment 2)**

> **"As far as I am aware, the cash account is money that is sitting there waiting to be invested. I am not quite sure how that gets there."**

(Advised: Transact: segment 3)

The lack of involvement with these accounts could also be due to difficulties in identifying them in the paperwork from platform providers – where they did not always appear to be distinct. There was also some confusion between cash account and cash funds within portfolios.

The exception was the consumer referred to above, who was taking an income from his wrap SIPP. He took more interest in the cash account than others, because it was the source of his income.

> **"It pays me an income. It is a convenient way for them to take money out of my investment. I keep about £10,000 in here [cash account] and it pays me £1,000 a month and I top it up every so often."**
>
> **(Advised: Standard Life: segment 2)**

7. Charges

This chapter focuses on consumer awareness and perceptions of charges generally and platform charges specifically.

7.1 Summary

Although charges are regarded as important and people are keen not to pay 'over the odds', there is lack of knowledge and confusion about specific charges. Consumers focus on total charges and although most assume that there is platform charge, there is little awareness of how much it costs.

The level of platform charges shown appeared reasonable to most.

7.2 The importance of charges

Although charges in general are regarded as important, consumers focus on two main aspects:

- **How charges relate to performance**. Charges overall represent a drag on performance but it might be 'worth it' to have higher charges if the resulting net performance is higher than for alternative investments with lower charges.
- **Is the consumer getting a good deal and, in particular, not paying 'over the odds'?** Seeking a good deal leads direct and other XO consumers to platforms, as we have seen. Advised consumers rely on their advisers to select well priced investments. Smaller investors and those less knowledgeable about investments (typically in segment 3) were particularly concerned about hidden charges i.e. being charged for something they didn't know about.

> **"I would like to know how much charges they are making and just how much interest I am making to see if it at least balances out. I want to know if I am getting diddled and if I am I will stop it."**
>
> *(Advised: AXA: segment 3)*

7.3 Some consumers are aware of changing charges

Some thought that there had been changes to charges recently. Specifically:

- Some were aware of changes to adviser charging either because their adviser had discussed it or as a result of media exposure.
- A few respondents suggested fund management charges had been increasing.
- A couple claimed to have received information from platform providers informing them that charges were changing – although they were not sure of the details.

7.4 There is only poor awareness and understanding of the breakdown of charges

Consumers' awareness and interest in charges is focused mainly on total charges.

Although most consumers assume they are paying for platform charges (this is dealt with in more detail in Section 7.5), they are generally not very aware of them.

Many advised consumers have had a dialogue with their adviser on adviser charges so these are salient for them. Given the choice, most consumers opt for paying the fees through the investment (through commission or via the cash account). So any separate charges are consolidated into a total charge.

There was a lot of confusion around charges and it was clear that some consumers have different perspectives. In particular, the direct and XO consumers (segment 1) focused on fund management charges but particularly on initial charging – which they believed they could avoid by using a platform.

Ongoing and initial charges could sometimes become confused for advised consumers too.

Awareness of charges and particularly the breakdown of charges is hampered by complex reporting from platform providers. Even when respondents had the paperwork in front of them, many of our respondents were unable to locate meaningful charge information.

> **"Will you ever get anyone who fully understands it? I don't think so. I know I can find it out and I know I've been told an incredible amount of figures over the years… commission, admin charges, annual charges, switch fees – there are a significant number of costs associated with doing it other than just the buying and selling… I can't give you a figure. I've got it in the files."**
>
> **(Advised: Transact: segment 2)**

It might be expected that consumers with wrap platforms would have a better understanding of the breakdown of charges than those with fund supermarkets because their models are 'transparent'. This did not prove to be the case. There was very little difference between the knowledge and understanding of costs in the different models.

Indeed, a couple of wrap respondents said that their advisers had told them their platform was more 'transparent' and this was a reason for its use. This association did not appear to translate into more understanding and awareness of specific charges for the individuals involved.

7.5 Knowledge of platform charges

Few knew what their platform charge was with any certainty. The following count (Figure 11) is based on consumers' remarks about their understanding of platform charges, before any charges were shown and before we encouraged those respondents who did not know what the charge was, to make an estimate.

Figure 11 - Counts of consumers showing knowledge of platform charge

Thinks platform is 'free' to investors & no charge is made	Not aware platform charge is separate	Assume platform charge is made but don't know detail / what it is	Assume / know platform charge is made but can only estimate charge	Definite knowledge of platform charge i.e. able to give an answer with confidence / certainty
7	13	23	13	9

Responses did vary – with the variation based both on involvement with the platform (i.e. their segment) and which specific model they had.

As discussed earlier, a small group of consumers thought the platform was free. All these consumers had direct platforms via either Hargreaves Lansdown or Fidelity. The logic was that they could not buy the fund more cheaply directly from the fund manager than they could from the platform provider – so the platform was effectively free to them.

Another small group was not aware that the platform charge was separate. These were more likely to be consumers from segment 3 (who did not derive any added value from the platform or did not differentiate it from the adviser offer).

The small group who had the belief that they had 'certain' knowledge of their platform charge[6] were most likely to be either direct customers or to have more transparent wrap models in segment 2. Whereas advised consumers with fund supermarket models in segment 2 were less likely to know what the platform charge was although they assumed a charge was made.

7.6 Comparison of knowledge of platform charges to other charges

Surprisingly few consumers had certain knowledge of the total charges they paid and even fewer were able to give the breakdown of the charges.

Although direct consumers appear to have relatively more knowledge of charges than advised consumers, it is interesting to see that many of them do not have certain knowledge of total charges, even though charges are a major driver for platform choice. Such consumers might be focusing more on initial charges, discounts and claimed lower costs from their platforms.

Figure 12 - Counts of consumers able to give 'certainty' on each type of charge

	Platform	Fund management	Adviser	Total charge
Total (65)	9	8	5	19
Advised (47)	5	4	5	12
Direct (18)	4	4	n/a	7

The count given above shows the number of respondents able to give an answer with confidence / certainty and excludes those who say with certainty that the platform is 'free'.

7.7 Estimate of charges

There was mixed awareness of total charge levels and how these broke down into platform, fund management and adviser charges.

Some of the more knowledgeable in segments 1 and 2 gave a clear and certain figure for the **total charge**. Others gave an approximate figure. Most estimates were in the region 1% to 2.5% with a few higher and up to 5% (suggesting some confusion with initial charges).

[6] NB. Given the nature of the study we were unable to verify the accuracy of the understanding of charges as reported by respondents.

Estimates for the **adviser charge** varied from 0.25% to 1.0% but the most common suggestion was 0.5%. Some recalled specific conversations about the level of this charge with their adviser.

There was a wider range of estimates for **fund management charges** and some less knowledgeable consumers were unable to give an estimate. More knowledgeable consumers were aware that charges varied by fund. Suggestions varied from 0.5% for tracker funds to over 3% for 'more expensive' funds such as emerging market funds.

Knowledge of the **platform charge** seemed less accurate than other charges. A few gave a stand-alone charge with levels given from 0.25% to 1.0%. Others gave a consolidated fund management / platform charge in the region of 0.5% to 1.5%.

> **"Anything between 0.5% and 2% platform charge is bundled in. That is lost in the overall number. My understanding is that the platform does not take another rake off themselves. That is all done by the unit trust provider."**
>
> **(Direct: Ascentric / Fundsdirect: segment 1)**

> **"My investment pays the fund manager and the fund manager pays the platform. That (fund manager charge) is up to 1.5%, maybe 1.75% and that (payment from fund manager to platform) I am not sure but it is a modest amount."**
>
> **(Direct: Fidelity: segment 1)**

7.8 Value for money

We introduced some 'typical' charges to consumers alongside their model structure, stressing that their own charges might be more or less than these, dependent on which funds they were invested in and any specific arrangements made for their platform.

There was a lot of 'nodding' among our consumers; the relative levels generally appeared acceptable and appropriate.

Some were surprised by the size of the rebates and this strengthened the perception that there seemed to be a great deal going on behind the scenes.

More detail on value for money is included in Chapter 8 when we discuss explicit charges in relation to the proposed changes.

8. Proposed changes

The proposed changes were presented to consumers on a written show card (cards A3 and F3) followed by a revised diagram of their model as it would be if fund and cash rebates were banned (cards A4 and F4). Explicit charges were then shown. To avoid biasing the response, we took a cost-neutral approach. That is, the overall cost of the investment remained the same before and after the changes, with fund management charges shown at 0.75%. This assumes, of course, that explicit fund management charges will come down to this level if rebates are no longer being paid.

8.1 Summary

The proposed changes are welcomed by the majority of consumers interviewed for the increased transparency they would bring to the platform market although only a few consumers would be likely to take advantage of this greater transparency, at least in the short term.

Some have doubts and a few are hostile to the changes. Lack of trust in fund managers led many to question whether the cost neutrality, as presented, would be achieved and there are more issues around the workings of the cash account and complexity.

To achieve maximum gains for the proposed changes, consumers need to be able to compare between platforms easily. Communications from platform providers would need to be considerably more transparent and understandable than they appear to be now.

Retail fund management charges would also have to decrease in line with disappearing fund rebates, otherwise consumers would be disadvantaged.

8.2 Overall response to the proposed changes

Responses can be separated into three main groups:

- **Predominantly positive**
  Consumers in this group believed the changes resulted in more transparency which they welcomed although acknowledging that the improved transparency would not necessarily change their behaviour. This group was made up of just over half the sample (33) and included consumers from all segments. Many of those making this response had been confused about charges so welcomed the opportunity for additional information. Segment 1 consumers in this category were positive about finding out just what the platform charge was and being able to compare platforms.
- **Had some doubts**
  Consumers in this group could see advantages but had concerns about some aspects of the new proposals. There were 23 consumers in this group, again from all three segments.
- **Hostile**
  A few consumers took a very negative stance, believing that the proposed changes were unnecessary or a retrograde step. Nine consumers came into this group, split between consumers from segments 1 and 2. These consumers included some of the wealthiest in the sample with all having (or estimated to have) total assets over £500,000 and several having total assets of more than £1m. Most of these individuals had either retired from, or were

still working in prominent roles in companies or institutions. They were articulate, took an interest in financial matters and had formed firm opinions about financial companies and the FSA. Some expressed their disapproval of the FSA before the discussion about proposed changes.

8.2.1 Predominantly positive group

These consumers liked the greater transparency resulting from the changes. This in turn could lead to more comparison between platforms for direct consumers and more dialogue with advisers about charges in advised models. A few of these consumers had questions about some aspects of the changes, e.g. the workings of the cash account, but their overall view was that the changes represented an improvement to the existing situation.

A direct customer who was frustrated at not being able to compare platforms made the following comment:

> **"It would enable me to at least understand the difference between what Fidelity are taking and what Fundsdirect are taking. And hence I can understand where that number is. The platform is taking some of that cash. I know they're taking it. It's part of what the annual charges are and it's also what some of the initial upfront charges are – in doing the switching. The problem is so much of it is wrapped up into the price of a unit. I've got no way of knowing how that price is worked out… You've just got to take that on trust - and regulation."**
>
> **(Direct: Ascentric (Fundsdirect): segment 1)**

The following quotations from advised customers are typical of the responses from this group. They could see advantages in transparency although they had not necessarily been concerned about lack of transparency in the past. They thought it was an improvement although their overall response was generally tempered.

> **"I suppose as a model it's better because it forces you to be more aware of what is going on and who is doing what. If we're paying directly we're going to be a bit more interested and make sure it's done when it should be."**
>
> **(Advised: Cofunds: segment 2)**

> **"It'd put meat on the bones of how much money is being provided to the three elements within the management of a portfolio. It is my money and I'm paying these people without realising … I think visibility is a healthier model."**
>
> **(Advised: Fidelity: segment 2)**

There is a danger in putting too much weight on such responses. Transparency is inevitably a 'nice to have' for many who have not been concerned about transparency hitherto. It represents most value, in the short term, for the relatively few who have been looking to compare platforms or work out the relationship between adviser and platform costs.

8.2.2 Had some doubts

The 'doubters' usually recognised that the proposed changes would lead to greater transparency but were either concerned about some aspects of the proposals or felt that the changes would not result in any overall advantage. Their concerns can be categorised into four main groups as follows.

- Doubt that fund management charges would be reduced. This concern was widespread among this group and the hostile group. The concern was that without the rebate system, fund managers would not be compelled to discount charges and would be free to charge what they wanted.
- Concerns about the workings of the cash account (dealt with in more detail in 8.3). Most (but not all) who were concerned about the future running of the cash account had fund supermarket models so were less familiar with cash accounts.
- Additional hassle and complexity particularly for the less involved and smaller portfolio segment 3 consumers. This could, of course, be something of a research effect. Those with fund supermarket models saw what appeared to be a simpler model (i.e. with fewer arrows) to represent the current situation (card B3) followed by a model with more payment arrows (card B4) to represent the post changes scenario.
- Concern that the proposals were concentrating on the wrong thing. Some felt that the proposals should be more concerned with getting a better deal for consumers and focusing on overall charge levels.

> **"I can see that funds will carry on charging the same percentage and I will get an additional platform fee on top of it."**
>
> **(Direct: Hargreaves Lansdown: segment 1)**

> **"I am not really that concerned about it. If they decide for transparency that this is the way to go, well OK as long as it doesn't make it worse; it should be better in all respects, transparency, but not siphoning money out of a fund and leaving it there stagnating when it could be sitting there working."**
>
> **(Advised: Cofunds: segment 2)**

> **"It is just playing with accountancy again. It is no different. I can't see any [financial] advantages at all. Whether it allows a closer regulatory approach I don't know. As far as I am concerned I am ending up with in the end a 1% charge and on the original thing I end up with a 1% charge total! If the FSA think there is an advantage and they think they can protect my money better, then I am happy with that."**
>
> **(Advised: AXA: segment 3)**

Similarly, from another AXA customer:

> **"Tokenism. I can't see it being hugely advantageous to me. If they were to restrict the total remuneration to 1% it would be an advantage. It seems that they are nibbling away at the edges and not doing much."**
>
> **(Advised: AXA: segment 3)**

8.2.3 Hostile

The main thrust of the argument from this hostile group was, like the doubters, that fund charges would not come down, although their stance was slightly more strategic and industry orientated. They believed that the current status quo in the industry would be disrupted unnecessarily resulting in negative effects for themselves.

In the view of these consumers, the current arrangement kept fund managers in check. Without rebates, platform providers would no longer be able to pass on discounts and consumers would have to pay for platforms. This changed the whole premise of the direct market, in their view. The FSA was, from this perspective, penalising the 'good guys' (platform providers) while giving free rein to the 'bad guys' (fund managers).

They believed competition between platform providers would be curtailed as they would no longer be able to compete on the basis of discounts. A few more knowledgeable consumers (many with a financial services background) suggested that platforms would still be able to compete between themselves but using a mechanism involving different share classes. But this was said to be unnecessarily complicated.

The following quotations provide a flavour of this hostility.

> **"It is my distrust of what goes on at the fund manager level and the FSA doesn't seem to have any handle on that."**
> **(Direct: Hargreaves Lansdown: segment 1)**

> **"That would mean that the platform provider would have to charge me. What would happen to the fund cost? On one level it wouldn't matter. In my experience when these things happen, the consumer loses. It is an opportunity for everybody to put prices up and confuse the consumer."**
> **(Direct: Hargreaves Lansdown: segment 1)**

> **"I don't see why you would want to ban them. I can understand why you would want to make it explicit what they are. I don't think there is any bad practice that would arise from it. There is a transparency issue maybe but it is not obvious to me why this benefits me. It is not obvious I am better off with this proposition. I don't object to these flows existing you just have to be explicit about what they are."**
> **(Direct: Fidelity: segment 1)**

> **"I think that's naïve. Unit trust managers are not going to reduce their management charges. Absolutely not. When has anyone ever reduced anything? Someone is living in cloud cuckoo land."**
> **(Direct: Hargreaves Lansdown: segment 1)**

This group usually went on to accuse the FSA of developing unnecessary proposals. Using metaphors like 'arranging the deckchairs on the Titanic' and 'fiddling while Rome burns' they suggested that the proposals were:

- Unnecessarily 'clunky', introducing regulatory complication when the system was working well.
- Inappropriate when the FSA had more pressing priorities elsewhere in the financial world to concentrate on – such as banking regulation.

8.3 The cash account following proposed changes

The proposed changes brought the cash account into focus. For fund supermarket models, the cash account introduced a new concept. For wrap models, the cash account became more prominent; it could introduce more consumer involvement because it would not be automatically topped up by cash rebates. For all models, the cash account would now need contributions from the respondent or from the investment. There are three main issues here:

- **The involvement it introduces for consumers potentially causes anxiety** as it would result in the account having to be topped up. Consumers were concerned about how this would work and what would happen if the account became negative.

  "Here I am paying someone to think for me and here I am having to think for myself. I think that the view we have always taken is that we know it is 1.5% and does it really matter where it is going beyond that?"
  (Advised: Skandia: segment 2)

- **The loss of investment earnings**. If money was kept in this account, it obviously meant that it would not be earning investment income. It was fully expected that any cash account would bear interest but the low interest rates currently available on other cash deposits reinforced the view of the potential opportunity cost that would result if a significant percentage of holdings are consistently held 'out of the market'.

  "That is just hassle. Why should I have to keep my money in an account because somebody wants me to be charged in a particular way? It does not benefit me. I have no problem with the fund manager paying for the platform."
  (Direct: Fidelity: segment 1)

  "If you had a lot of money, then you could have 2% sitting there making no interest. That wouldn't be very satisfactory."
  (Advised: Fidelity: segment 3)

- **Any costs incurred for selling units or tax issues** if a chargeable event is incurred by having to sell investments to top up the cash account.

  This issue is not necessarily a showstopper if it can be dealt with acceptably. For example, it appeared that three of the consumers in the sample had less going into the cash account than charges going out but had not experienced issues or anxiety. The main assets on their platforms were likely to attract little or no cash rebate e.g. trackers, other passive funds, gilts. Charges were still paid with little or no consumer involvement. One of the three suggested there was a mechanism built into the platform for this.

> **"I get a thing at the end of the financial year. This thing came through for selling and I said 'why are they selling?' and he [the adviser] said 'to pay the commission'. I was worried in case there were charges, like buying and selling shares but they have reassured me there are no charges for buying and selling."**
>
> **(Advised: Nucleus: segment 2)**

However, should the proposed changes go ahead, advisers and platform providers will need to address consumers carefully in their communications to ensure there is full understanding as well as processes to facilitate the smooth running of the cash account to avoid the potential consumer concerns outlined.

8.4 Do the charges represent value for money?

Individual charges become more explicit in the proposed new models.

Consumers judged that the adviser appeared have the best deal in terms of earnings for effort. Some suggested they might try to negotiate charges with their adviser. As discussed below, a few would like adviser charges to reflect the success, or otherwise, of their investment to a greater extent.

The platform charge (shown in the stimulus as 0.25% in advised models, 0.5% or 0.6% in direct models) on the whole appeared reasonable, although this is inevitably partly to do with it being the lowest charge against charges shown for the fund manager and adviser.

> **"I think to pay 0.25% a year for having a database and having staff to handle the fund managers and identify strengths and weaknesses, it's a reasonable amount."**
>
> **(Advised: Skandia: segment 2)**

There was some complaint that an explicit charge was 'wrong' for direct models, perhaps because it went against the grain of the concept of a free model or one that was funded by fund managers.

An explicit percentage charge did however make some think more deeply about what was involved with providing a platform. There was some suggestion that the cost and effort of providing administration would not vary greatly by portfolio size so should be charged as a flat charge. Although it is difficult to make firm conclusions as only a few consumers made this point, it appeared that an overall charge in £ '00s rather than £'000s might be more acceptable. This suggestion came, perhaps inevitably, from those with larger portfolios but also from more involved and knowledgeable consumers.

> **"An IT platform is useful but you wonder about the costs once it's set up. You can do that on a trading platform for £30 a year. They're useful but the amount of money these people must be making."**
>
> **(Advised: Ascentric: segment 2)**

Consumers did not make similar suggestions for adviser or fund management charges. Instead, respondents were more likely to suggest that these should be kept down or reduced as much as possible. A specific gripe was that fund management and adviser charges were still levied when investments were falling and there were a couple of suggestions that there should be more of a reward / penalty element to charges.

> **"They annoy me, I suppose they have to make a living but when some of them are quite substantial and they continue to charge them when the market is going down consistently… Then I am really annoyed about charges."**
>
> **(Direct: Fidelity: segment 1)**

One or two of the less knowledgeable segment 3 consumers were more uncomfortable about the explicit charges and wondered how they could avoid paying them. These consumers had smaller portfolios and were less familiar with investment charges generally. For example, a Standard Life segment 3 customer had avoided contacting his adviser when the advice arrangements on his platform changed from a bundled arrangement to an explicit fee.

8.5 What are the likely outcomes?

Many felt the changes would mean little to them – as long as the total costs of the investment were unaffected as had been shown in the stimulus.

Much depends on how the changes are communicated to them. Changes might not be noticed if communications continue to be opaque and/or no engagement with the cash account is required.

8.5.1 Platform shifts are likely in the direct market

In the direct market where cost has been a significant a driver, platform shifts are considered particularly likely should differences in platform pricing emerge. Consumers would need to know about other platform costs though. As this is an area of much brand loyalty, allegiance to the existing platform might dampen the likelihood of such moves. However, it could be quite a shock for some direct customers to discover that they were being charged for a platform they thought was 'free' and this might jolt them into action.

We believe there is likely to be more shopping around for platforms, particularly for new investments.

8.5.2 More dialogue is likely in the advised market

Advised consumers will continue to rely heavily on their advisers and will be guided by them.

But the proposed changes, if accepted, will be likely to introduce more dialogue and pressure on advisers in advised models. Although the focus will mainly be on the adviser charge (because this appears to be more negotiable to the consumer), platform charges might come into this dialogue in the future. Such conversations are more likely for the more involved consumers in segment 2.

> **"In the end you'll typically pay 1.5% so that doesn't change. At least if you've got these figures up front and you've got the ability with your adviser to say, 'You've got a lot of money with me and you should have seen that coming – I'm not happy with 0.5%. Can we talk about it?' Because it's upfront, you can then put pressure on them. He's not doing his job and is getting 0.5% for losing me money. If enough people say,**

then it might start to change things. That has to be a move in the right direction so you have a breakdown and visibility there."

(Advised: Skandia: segment 2)

Wealthier and more knowledgeable advised consumers might also seek flat charges and sliding charges for platforms if they think they are paying a percentage rate just for administration.

Our view is that advisers, in response to any likely challenge to their own charges, might be prompted to exert pressure in the market by selecting lower priced platform solutions.

The uninvolved segment 3 consumers would need to be engaged by provider or adviser communications for any changes in attitude or behaviour to result. But those most likely to be disturbed by information about charges are found in this group. The revelation of explicit charges of any type might result in disturbance but this is already likely to occur when the adviser charge is introduced in 2012.

8.6 What impact will RDR rules have?

We need to take into consideration that adviser charging will also be introduced in 2013.

We know from this research that some consumers have already had dialogue with their advisers about charging options. Should the introduction of adviser charging coincide with the ban of fund / cash rebates as proposed, the following seem likely:

- Dialogue around charges will focus on the adviser charge as the adviser is the main point of contact for the consumer.
- Consumers would prefer to pay for the adviser via their investment rather than from another 'pot' of money.
- Without a means of topping up the cash fund (via a cash rebate), some other means of paying for charges from the investment is likely to be sought by many in preference to paying by cheque from a separate pot.
- Paying for explicit platform charges will put more strain on the cash account.

Consumers will have to pay the adviser charge anyway. If a platform facilitates this, it is likely to be from the cash account on the platform. The issue raised is not particularly that they will also need to pay for the platform charge but over the means of financing payments without cash rebates from platform providers.

As long as there is an acceptable means of payment for consumers, preferably from their investment pot, the proposals are unlikely to introduce any more strain on the consumer.

8.7 Three case studies

The following case studies are provided to illustrate the variation in consumer responses to the proposals.

Circumstances	Male, late 50s Entrepreneurial / multiple business interests Portfolio of £750,000+ Direct platform Segment 1
Reactions to proposals	Liked transparency as it would allow him to make more informed decisions about platforms
Likely outcomes	Hopes platform charges will be pushed down as a result. Might look around / switch platforms (but loyal to current platform) *"If the charges are made more transparent and as a result it would be more possible for me to make informed judgements between platforms, then that competitive environment will hopefully cause those charges to be pushed downwards further in time."*

Circumstances	Male, late 50s Sold a business and now not working Advised fund supermarket platform – takes income from investments to supplement his final salary pension Portfolio of £500,000+ additional investment property Segment 2
Reactions to proposals	Felt transparency was a better model but no strong feelings
Likely outcomes	Nothing will change. Will not want to pay his adviser by cheque. *"It will be much as it is now but I won't want to pay him a cheque. I'll want him to take his cheque from the investment proceeds…"*

Circumstances	Male, early 70s, semi-retired in own business ISA portfolio (<£250,000) on a wrap platform Segment 3
Reactions to proposals	Had doubts as he felt it might cost him more. Concerned that fund management charges would not come down and he would have to pay the charges if there were no cash discounts. *"I preferred it before. No money comes out of my pocket. It comes out of my cash account. All the money for admin comes from within my cash account and I have nothing to do with it. I'm informed of it. I don't believe that the AMC will come down 0.75%. The money in the cash account comes from dividends and that will be depleted. That means the accumulation will be less and in time will buy fewer shares. It doesn't seem to be good for me."*
Likely outcomes	Would speak to his adviser

9. Appendix A – Methodological appendix

9.1 Sample source

A sample of approximately 150 customers holding assets on their platform was provided to the FSA by each of the nine platforms. The sample comprised an equal proportion of customers in each of four different bands based on total value of holdings on the platform.

9.2 Information provided

The customer sample provided included the following information:

- status: advised or direct;
- value of assets held on the platform: exact value or banded;
- name;
- address;
- telephone number (where known); and
- email address (where known)

There were some differences between the sample information provided by each of the nine platforms as follows:

Ascentric / Fundsdirect	Customers were either advised (under Ascentric brand or under white-labelled IFA brand) or direct (under Fundsdirect brand) Sample also showed if any activity in last six months
AXA Wealth / Elevate	All contacts advised Sample information included specific product wrappers held
Cofunds	All contacts advised[7]
Fidelity / Fidelity FundsNetwork	Customers were either advised or direct Might recognise the platform under the FundsNetwork name
Hargreaves Lansdown	All contacts direct
Nucleus	All contacts advised Sample included specific product wrappers held Also included a number where the customer is a trust or pension fund. These were not contacted.
Skandia	All contacts advised Sample included specific product wrappers held

[7] As noted in the report the Cofunds sample included customers who had acquired their platform both through IFAs and discount brokers .

	Sample also showed if any activity in last 6 months
Standard Life	All contacts advised – these were either advised by an IFA or by an adviser from Standard Life Wealth Management Service Exact investment amount not provided – shown as a range
Transact	All contacts advised A number of accounts were held in joint names (potential couples interviews) Some contact details included were for the IFA company Also included a number where the customer is a trust or pension fund. These were not contacted.

All files containing personal information were password protected throughout the process. The anonymity of respondents was strictly upheld. No personal information that would enable individual respondents to be identified was provided to the FSA.

9.3 Warm-up letters and opt-out process

Customers included on the sample lists were sent a letter from the FSA to let them know they might be contacted and invited to take part in the research. Some of the platform providers also sent their own covering letter direct to customers. Warm-up letters were sent between 26 August and 9 September 2011.

The warm-up letters mentioned the opportunity to opt out of the research and also provided an assurance of confidentiality. Any customers who contacted the FSA directly or via the platform with a request to opt out were removed from the sample list before the final sample was provided to NMG Consulting. Some providers also contacted the intermediaries representing the customers selected for the sample to inform them of the process and to provide them with the opportunity to opt out their customers.

An example of the FSA warm-up letter is provided below. Letters from the FSA sent later in the warm-up process explain that NMG Consulting will be conducting the research but earlier versions do not. [8]

[8] NB. The warm-up process was designed and letters drafted before NMG Consulting was appointed to conduct the research.

<Prefix><Firstname><Surname>
<AD1>
<AD2>
<AD3>
<P/c>

<DATE>

Reference: <Ref1>/<Ref2>/<Num>

Dear <Firstname>,

Research study about financial services

The Financial Services Authority (FSA), the regulator for the financial industry are carrying out an important research project to find out more about people's experiences when dealing with financial services products. The FSA regulates all providers of financial services in the UK and seeks to protect consumers when dealing with financial companies.

Your contact details were provided to the FSA as we are looking to understand better how people manage their investments. Please be assured that your contact details have only been provided for the purposes of this research project and will not be used for any other purpose. Your contact details with us will be destroyed when the research is completed.

We would be very grateful if you could help us by taking part in this important research. An interviewer, calling on behalf of a professional market research agency, will contact you by telephone within the next few weeks and he or she will be able to explain more about the study. If you are busy when the interviewer calls then it will be very easy for you to arrange for another time when it is more convenient. Any information that you give to the interviewer will be kept completely confidential in accordance with the Data Protection Act. **The interviewer will not ask you to reveal any detailed personal financial information.**

If you are happy to take part in this research and are selected to be interviewed we will compensate you for your time. I do hope that you will be able to take part in this important research. Should you have any questions about the project or decide that you do not wish to take part, please call the FSA on 0845 606 1234.

Thank you in advance for your help.

Yours sincerely,

Tim Burrell

Tim Burrell
Research Manager, FSA Research

Depending on the requirements and preferences of the platform providers involved and the timing of the mailings, the information differed slightly across the different customer groups as noted on the table below. The table also shows timing and key information provided in the warm-up process.

Provider	FSA Warm-up letter sent	Letter from provider	Provider specifically mentioned – in FSA letter / own covering letter	NMG mentioned in letter
Ascentric	6/9/11	NO	NO	NO
AXA Elevate	6/9/11	NO	NO	NO
Cofunds	12/9/11	NO	YES	YES
Fidelity	9/9/11	YES	YES	NO
Hargreaves Lansdown	6/9/11	YES	YES	NO
Nucleus	8/9/11	YES	YES	YES
Skandia	26/8/11	YES	YES	NO
Standard Life	8/9/11	NO	NO	YES
Transact	6/9/11	NO	NO	NO

Following the warm-up and opt-out process the total sample collated across the nine platforms included 1,309 customers. This sample was provided to NMG Consulting and formed the sample universe. Six customers opted out once the sample file had been provided and these were also excluded from the sample.

9.4 Recruitment process

Leftfield[9] conducted the recruitment, and Sarah Lawrie and Daniel Farrell supervised the team. The team all had specific experience of financial services research and of recruitment from customer lists.

Gerry Barwell of NMG Consulting conducted a detailed recruitment briefing on 22 September 2011.

Recruitment began on 23 September and continued until the end of October.

Customers were contacted by telephone to enquire whether or not they would be willing to take part in the research. The recruiters were able to target customers to fit the quota requirements based on the sample information. Once the customer had been contacted, the recruiter then completed a short screening interview. The aim of screening was principally to check that the

[9] 51 Clink Street Studios, Clink Street, London SE1 9DG – 0207 407 2546

customer was still holding the investment but also provided an opportunity to gather additional background information to ensure that there was a good spread of consumer types across the completed interviews. The following factors were monitored on this basis:

- Total assets – from screening (if disclosed);
- gender;
- region – to achieve a good spread across all the main regions of the UK. There was no specific need for the quota to cover the four nations;[10] and
- age (actual or estimated if not disclosed).

All respondents were taken through this screening process.

The screening interview included an assessment of the consumer's level of awareness and involvement with their platform investment. Care was taken to ensure that the screening process did not introduce words and phrases such as 'platform', 'fund supermarket' and 'wrap', where not first mentioned by the customer.

Where consumers were willing to take part in the research and were 'within quota', an appointment for the interview was agreed. This was confirmed in writing (by email or post). Consumers were also provided with a short pre-interview questionnaire that was intended to prompt them to think about their investments with the named platform (where they were aware of the platform) or of their investments generally (where they had limited awareness of the platform).

Copies of the screening questionnaire and pre-interview questionnaire are included in Appendix B.

Consumers were offered an incentive of £50 to take part in the research either as a cash sum, cheque from NMG consulting or as a contribution to a charity of their choice.

9.5 Achieved sample

Details of the achieved quotas can be found in the main body of the report (Section 2.3.3). The following tables provide details of the sample achieved by region, age, gender and total assets.

Region

Region	London	South East	South West	East & West Midlands	North West	Yorkshire and North East	Scotland
Achieved interviews	18	12	7	4	8	6	10

[10] Interviews were conducted across England and Scotland. There was insufficient customer sample provided for Wales and Northern Ireland to ensure any coverage in either of these nations.

Age

Age band	Under 40	40-49	50-59	60-69	70-79	80+
Achieved interviews	6	7	18	21	11	2

Gender

Gender	Male	Female
Achieved interviews	55	10

Total assets[11]
(including cash and property investments but excluding respondent's home)

Total assets	<£50,000	£50,000- <£250,000	£250,000 - <£500,000	£500,000 - <£1m	£1m +	Do not know / unable to assess
Achieved interviews	3	14	13	20	14	1

[11] This is taken from information at interview stage and in some cases includes interview estimates from the information provided

10. Appendix B: Interview materials

This appendix comprises copies of the main materials used as part of the recruitment and interviewing processes.

- **Recruitment screening questionnaire**

  The screening questionnaire follows a standard format for qualitative recruitment conducted by telephone. The overall aim was to check that the customer qualified for the research i.e. still held an investment with that specific provider and was willing to take part. In addition, the screener included questions to enable the recruiters to monitor progress towards specific quotas and to collect additional information of interest to the FSA. The recruiters were instructed to complete the screener as fully as possible but without causing any disturbance to customers. NB, the warm-up letter from the FSA included the following phrase – **The interviewer will not ask you to reveal any personal financial information –** so it was particularly important to undertake the recruitment with a light touch.

  The screening questionnaire was signed off by the FSA on 21 September.

- **Pre-interview questionnaire (two versions**)

  The pre-interview questionnaire comprises a short list of questions that was intended to prompt respondents to think about their investment in preparation for the face-to-face interview. This was sent to each respondent along with the confirmation letter or email giving details of the appointment. Where respondents had filled in the questionnaire, this was used during the interview to ensure that all these areas had been covered.

  Two version of the document were used. The first version was sent to respondents who were aware of the name of the platform. The second version was sent to those who were unaware or unfamiliar with the name of the platform e.g. where their investments were administered through an IFA white-labelled arrangement. Both versions are included here.

  The pre-interview questionnaire was signed off by the FSA on 21 September.

- **Topic guide**

  The topic guide shows the overall coverage and flow of the interviews conducted in this study. This was utilised in the context of a fully qualitative interview that involved some respondent-led discussion and was also designed to provide the interviewer with the ability to adapt the questioning to suit the level of understanding and awareness of individual respondents. The topic guide includes sections specifically for those who were aware / not aware of holding their investment on a platform and for those with either an advised or XO arrangement.

  The version included in this appendix was signed off by the FSA on 11 October following some final amendments made to the previous draft topic guide, which was used in the interviews conducted in the first few days of fieldwork (3 to 6 October).

Example stimulus materials

The stimulus materials were developed by NMG Consulting in consultation with the FSA team and with additional input from the nine platform providers.

Each respondent was only shown the stimulus materials that corresponded with the structure of their own platform. The full pack of stimulus materials included six variants covering three types of advised models (bundled, hybrid and wrap) and three types of execution-only models to reflect brand differences. Respondents were also told that the examples had been developed for research and their own charging model might be different depending on any specific arrangements made. Examples of each of the main models are shown in the appendix.

Each respondent was taken through the stimulus in the following order as prompted by the topic guide:

- Who is involved in managing your investment?
  - Explanation of the roles of the fund manager, platform and (for advised models) your adviser.
- How are they paid?
  - Respondents were asked to draw on this chart to show their understanding of the charging structure and flow of charges from their investment and between the fund manager, platform and (for advised models) the adviser.
- How are you currently charged?
  - A series of three or four cards were used to take respondents through the different elements in the charging structure for the relevant model. These showed the flow of charges but not the cost.
- How much does it cost?
  - Shows the charging structure in full showing the flow of charges between the different parties and the cost of each element. This also showed any rebates back into the cash account / investment where relevant to that model.
- Proposed regulation for platforms
  - Summary of proposed changes to fund rebates, cash rebates and (for advised models) changes to adviser remuneration.
- How you might be charged in the future
  - Example of the charging model that might emerge if the proposed changes to fund and cash rebates are adopted.
- How much this might cost in the future
  - Charging model showing examples of the cost of each element.
- Why are the FSA doing this?
  - Summary of the rationale that has prompted the FSA to propose the changes to fund and cash rebates.

The example charts included in this appendix were signed off by the FSA on 11 October following some final amendments made to the previous stimulus that was used in the interviews conducted in the first few days of fieldwork (3 to 6 October).

10.1 Recruitment screening questionnaire

Introduction

My name is __________. I am working on behalf of NMG, an independent research company. We are carrying out some research on behalf of the Financial Services Authority (FSA), the independent body that regulates the financial services industry.
You should have received recently a letter from FSA to let you know you might be invited to take part in the research.
[INTERVIEWER: check warm-up info table above **for details / dates letters sent – depending on the info they have received you can prompt with the provider name – some have already been told that NMG are conducting the research]**
The research involves talking to customers about managing their savings and investments.
If you are able to help with the research, we would arrange for one of the directors or senior interviewers at NMG to visit you to conduct the interview at a time that is convenient for you.

In appreciation of your time, we would like to offer £50 to thank you for your help and this, if you prefer, could be donated to a charity of your choice.

NMG is completely independent and the research is confidential. We will report only overall results to the FSA. Neither the FSA nor your investment provider will be told which customers have taken part in the research.

IF WILLING, PROCEED. EXPLAIN THAT WE NEED TO ASK SOME QUESTIONS FIRST TO ESTABLISH WHETHER THE INTERVIEW WOULD BE APPROPRIATE.

IF UNWILLING TO TAKE PART IN THE RESEARCH PLEASE ASK IF THEY WOULD BE WILLING TO ANSWER A FEW QUESTIONS ON THE PHONE NOW AS THIS WILL IN ITSELF PROVIDE SOME USEFUL FEEDBACK TO THE FSA. ANY INFORMATION PROVIDED WILL BE CONFIDENTIAL AND ANONYMOUS.

<u>**NB. IMPORTANT** THROUGHOUT INTERVIEW NOT TO INTRODUCE THE TERMS 'PLATFORM' OR 'FUND SUPERMARKET' OR 'WRAP' INTO CONVERSATION UNLESS USED BY THE RESPONDENT.</u>

Q.1 a) Please could you first tell me if you work currently for any financial services organisations, or work or have worked in journalism/ media/ PR?
b) IF WORK IN FSI: Are you a financial adviser? (IF YES – CLOSE)
c) IF WORK IN FSI: Do you work for a platform provider? (IF YES – CLOSE)
d) DO NOT ASK IF INDIVIDUAL ALREADY EXCLUDED at Q1a or Q1b/c: Does your <u>**partner/spouse/any other close relative**</u> work in journalism/ media/ PR or have they done so in the past?

IF RESPONDENT IS CURRENTLY EMPLOYED IN FINANCIAL SERVICES - OK TO RECRUIT BUT NO MORE THAN 10 DEPTHS IN TOTAL TO BE FROM PEOPLE IN FS SECTOR
IF RESPONDENT OR PARTNER/SPOUSE/OTHER CLOSE RELATIVE EMPLOYED CURRENTLY OR IN THE PAST IN JOURNALISM/ MEDIA OR PR – CLOSE

Q2 I understand that you currently hold some investments products held through [PROVIDER]. Is that still the case? [PROMPT WITH APPROX VALUE OF INVESTMENT IF NEEDED].

Yes	Go to Q3
No	CLOSE

[IF NO, CONFIRM THAT THEY HAVE HAD THESE INVESTMENTS BUT HAVE DISPOSED OF THEM]

[IF NAME OF PROVIDER IS NOT RECOGNISED, EXPLAIN THAT THESE ARE LIKELY TO BE INVESTMENTS WHICH THEY HAVE SET UP THROUGH THEIR ADVISER AND MAY BE MANAGED UNDER THE ADVISER'S OWN BRAND]

Q.3 When you are thinking about choosing financial products and services such as pensions and investments, which of the following statements best describes how you normally go about deciding which product to take out? **READ OUT**

I am the sole decision-maker (IF MENTIONED CAN BE WITH SUPPORT OF FINANCIAL ADVISER]	1
I decide jointly with my partner (IF MENTIONED CAN BE WITH SUPPORT OF FINANCIAL ADVISER]	2
My partner /someone else decides (ENSURE ANY 'CLOSE' HERE IS <u>NOT</u> BECAUSE THE 'SOMEONE ELSE' IS A FINANCIAL ADVISER)	3 - CLOSE
OTHER: Please specify	4 - CLOSE

ALL RESPONDENTS MUST BE <u>FINANCIAL DECISION-MAKERS TAKING RESPONSIBILITY FOR THE DECISION</u> I.E. ALL MUST CODE 1 or 2

Q4 Which of the following types of investment/ pension do you hold through [PROVIDER]?

1. ISA/ ISA portfolio
2. Unit trust/ OEIC portfolio
3. Personal pension/ Self invested personal pension (SIPP) holding a range of investments
4. SIPP (holding commercial property/ land)
5. Investment bond
6. Offshore investment bond
7. Stocks and shares/ share portfolio
8. Other (please specify)

Q5. Did you take out this investment through your financial adviser or set up the investment directly with [PROVIDER] without taking advice?

Through my financial adviser
Set up direct without taking advice

Q6. Are you provided with online access to the investments that you hold through [PROVIDER]?
YES
NO (GO TO Q8)
DON'T KNOW (GO TO Q8)

Q7. Do you go online to look at your investments and/or to make changes?

YES
NO

IF YES, PROMPT ON LEVEL OF USE, TO HELP CATEGORISE RESPONDENT INTO ONE OF THE AWARENESS/ INVOLVEMENT CATEGORIES AT Q8.

NB. IMPORTANT NOT TO INTRODUCE THE TERMS 'PLATFORM' OR 'FUND SUPERMARKET' OR 'WRAP' INTO CONVERSATION UNLESS USED BY THE RESPONDENT.

Q8. What is your understanding about how your investments are administered by [PROVIDER]? EXPLORE AND RECORD ANSWER – THEN CODE A, B OR C BELOW

____

[INTERVIEWER NOTE: We expect some respondents to have a good awareness that their investments are administered on a platform (wrap or fund supermarket). This should apply to all where they have set up the investment direct themselves (see sample) and for others who look at their investments online (likely to code YES Q7) or who receive statements and other communications from the provider. Others may not be aware that they have investments on this or any platform or may understand the platform to be part of the adviser administration.

INTERVIEWER TO CODE ASSESSMENT OF AWARENESS THAT INVESTMENTS ARE HELD ON A PLATFORM-BASED ON RESPONSES TO Q5 TO Q8.

A: Some/ a lot of awareness/ involvement in platform, e.g.
- Q5 Direct involvement in setting investment (direct/ execution only)
- Q7 Use online access regularly
- Q8 Specifically mention that investments are administered on a wrap or fund supermarket

B: Limited awareness/ involvement in platform, e.g.
- Q6 Know they have online access
- Q7 Do not use online access/ may have used once or twice
- Q8 Aware of [PROVIDER]

C: No awareness/ involvement in platform, e.g.
- Q6 Do not know if they have online access
- Q7 Do not use online access at all
- Q8 Have not heard of [PROVIDER]/ do not mention that investments are on a wrap or fund supermarket

Q9. (DO NOT ASK IF TOTAL INVESTMENT VALUE FROM SAMPLE IS £750K or above - THIS CAN BE CODED TO THAT BAND)
Thinking about the value of your total investments (including any pension savings but excluding the value of your home) which of the following bands do you fall into? READ OUT

Up to £50,000
£50,000 to under £250,000
£250,000 to under £750,000
£750,000 or above
Refused

CHECK AGAINST QUOTA AND RECRUIT. IF MARRIED/ LIVING WITH PARTNER AND WHERE DECISIONS ON THIS INVESTMENT ARE TAKEN JOINTLY WITH THEIR PARTNER, CHECK IF IT WOULD BE POSSIBLE TO INTERVIEW AS A COUPLE.

SAY THAT THEY WILL RECEIVE A LETTER/ E-MAIL OF CONFIRMATION FOR THE APPOINTMENT TOGETHER WITH A SHEET WITH A FEW QUESTIONS COVERING SOME THINGS WE WOULD LIKE THEM TO THINK ABOUT BEFORE THE MEETING.

CLASSIFICATION DETAILS [COMPLETE IN FULL IF POSSIBLE]

Q.1 OCCUPATION OF HEAD OF HOUSEHOLD: ______________________________
QUALIFICATIONS: ______________________________
TYPE OF INDUSTRY EMPLOYED IN: _____________________________

Q.2 WORKING STATUS OF RESPONDENT (IF NOT HEAD OF HOUSEHOLD):

FULL TIME	1-
PART TIME	2-
NON WORKING	3-
STUDENT	4-
RETIRED	

Q.3 OCCUPATION OF RESPONDENT (IF NOT HEAD OF HOUSEHOLD): _________________________
TYPE OF INDUSTRY EMPLOYED IN: ___________________________________

Q.4 SOCIAL CLASS:

A	-	1-
B	-	2-
C1	-	3-
C2	-	4-
D	-	5-
E	-	6-

Q.5 AGE OF RESPONDENT: _____

Q.6 MARITAL STATUS:

SINGLE	-	1-
MARRIED	-	2-
WIDOWED	-	3-
DIVORCED	-	4-
CO-HABITING	-	5-

Q.7	CHILDREN:	LIVING AT HOME: NOT AT HOME NO CHILDREN	1 ______ (AGES) 2 -______ (NUMBER) 3 -
Q.8	SEX OF RESPONDENT:	MALE 1 FEMALE 2	

NAME OF RESPONDENT: ____

ADDRESS: ____

____POST CODE_________________

HOME TEL: _____________________ WORK TEL: ________________________

DATE OF DEPTH: ____________________ TIME: __________________

INTERVIEWER'S SIGNATURE: ________________________ DATE: _________

INTERVIEWER'S NAME: ____

10.2 Pre-interview questionnaire (two versions)

For customers aware of platform name

Thank you for agreeing to help with the research we are conducting on behalf of the Financial Services Authority. In preparation for the research interview we would be very grateful if you could think about the following questions. If you are happy to make some notes under each of the headings that would be very helpful, or we can just cover these as part of the interview.

The following questions refer to the investments you hold through ______________________

When were your investments taken out?
How did you go about choosing to invest through this provider?
What, if any, changes have you made to your investments since they were set up?
How do you keep in touch with what is happening with your investments?
How much contact do you have with the provider?
What is your understanding of the charges on your investments?

During the interview you may find it useful to refer to your investment information if this is at hand. We will not ask to look at any confidential information about your investment.

For customers not aware of platform name

Thank you for agreeing to help with the research we are conducting on behalf of the Financial Services Authority. In preparation for the research interview we would be very grateful if you could think about the following questions. If you are happy to make some notes under each of the headings that would be very helpful, or we can just cover these as part of the interview.

Thinking about the different investments you hold, when were each taken out?
How did you go about choosing the different investment providers?
What, if any, changes have you made to your investments since they were set up?
How do you keep in touch with what is happening with your investments?
How much contact do you have with the investment providers?
What is your understanding of the charges on your investments?

During the interview you may find it useful to refer to your investment information if this is at hand. We will not ask to look at any confidential information about your investments.

10.3 Topic guide

Introduction (five minutes)

1. Researcher introduction, explanation of market research and explanation of project on behalf of the Financial Services Authority (FSA) looking at people's views about investments and how you manage those investments.
    - (Cell A/ B – aware of platform provider) We are talking to a wide range of people across the country including customers with investments with [PLATFORM NAME] amongst others.
    - (Cell C – not aware/ very limited awareness of platform provider) We are talking to a wide range of people across the country including customers with investment arrangements similar to your own.
2. NMG has not been given any personal information about your investments by your investment provider. All information has been provided in accordance with the Data Protection Act.
    - (If advised) Your financial adviser has not been involved and has not provided any information about customers.
3. Explanation that NMG is an independent research organisation that will not disclose who it has spoken to. The research is completely anonymous, we will pass on the opinions expressed, not who said what.
4. Explain that the conversation is being recorded as a record for the researcher only – for analysis purposes only. Explain videoing/ use of AV clips in presentations/ reporting – check for permission to use video.
    - [Use of AV materials and permission to re-contact for additional questions to be reconfirmed when completing signature sheet at the end of the interview.]
5. Explain course of the interview – it will start off with a little bit about you and your views on investment. We will then talk in a bit more detail about what you pay for these products.

INTERVIEWER: IMPORTANT THROUGHOUT TO DISTINGUISH RESPONDENT VIEWS ON PLATFORM FROM THEIR VIEWS ON ADVISERS

Background (five to ten minutes)

Demographics

Name, age, family

Current / previous working life – role / background

(If retired) When retired / (If not) When likely to retire

Interest in finances

Extent to which you want to be 'hands on' with investments / pensions, if at all

What do you prefer to leave to advisers / providers?

Range of investments and pensions held overall – types of products / providers

INTERVIEWER: NOTING ANY MENTIONS OF PLATFORM/ WRAP/ FUND SUPERMARKET HERE AS THIS WILL BE HELPFUL IN TACKLING THE NEXT SECTION OF DISCUSSION. ALSO ESTABLISH IF ONE OR MORE PLATFORMS USED.

Approximate value of **total** investments / pensions holdings (excluding home)

When / how where different holdings acquired

Role / importance of each

Use of financial advisers

How much contact have you had/do you have with advisers?

How used currently / any ongoing relationships

Role of advisers in savings/investments/pensions/retirement planning/assessing risk

Likely future use of advisers

Strengths and weaknesses of using an adviser

Use of direct/ XO platforms

(For all direct customers and any advised customers if also using XO platforms or using via advised channel but operating on XO basis)

How used – e.g. for all/part of holdings – alongside adviser use

Drivers for using a direct / XO platform

Awareness of range of XO platform offerings

Strengths and weaknesses of using XO platform

Investment held with [PLATFORM NAME] (15 minutes)

EXPLAIN: I WANT TO FOCUS ON THE INVESTMENTS YOU HOLD WITH [PLATFORM NAME]

This section to be carried out initially on the basis of respondent recall and/or pre-interview task (if this has been completed) – if respondent has product details to hand and is prepared to share them in the interview / go back to check out details after spontaneous recall.

- For all respondents other than those in Cell C (no/limited awareness of platform) refer to platform by name throughout
- For respondents in Cell C where the respondent is unaware that they are holding investments with [PLATFORM NAME] explore their understanding of the range of investments held **throughout this section** rather than focusing solely on the platform.

INTERVIEWER: THE LANGUAGE USED SHOULD REFLECT THE TERMS USED BY THE RESPONDENT – THE INTERVIEWER SHOULD NOT INTRODUCE ANY INDUSTRY DESCRIPTIONS OF THE INVESTMENT ARRANGEMENT *UNLESS FIRST MENTIONED BY THE RESPONDENT.*

Choice of platform

How did you come to have investments with [PLATFORM NAME] in the first place?

When were your investments taken out/set up?

What is the overall purpose of these investments?

How did you go about setting up these investments? (explore role of adviser/direct/provider)

What made you decide to put your investments with [PLATFORM NAME] rather than any other?

- (If advised) On what basis did your adviser recommend this? Did you look at/discuss any alternative providers/ routes to managing this investment?
- (If direct) Did you compare this with any other ways of investing / other providers?

Current level of contact with the platform

How much contact do you have with [PLATFORM NAME]?

(If advised) How much contact with [PLATFORM NAME] do you have via your adviser?

Have you kept in touch with what is happening with the investment? How frequently?

And, if so, how has this happened? Prompt on valuations, statements any other reporting from [PLATFORM NAME] / adviser (if advised)

How do you keep track of your investment information – either online / paper / delegated to adviser?

What information have you kept? Where do you keep this?

Choice of investments/ funds on that platform

What is your money invested in? (probe for knowledge of fund managers / funds / discretionary portfolios)

- (If advised) How much involvement did you have in selecting the funds?
- (If direct) How did you go about choosing which funds to invest in?

Explore any mention of any tools / research information / guidance from adviser / provider / risk assessment.

- What do you understand by risk in investment / for this investment?

Do you see / use any output from fund selection tools (on screen / paper)?

INTERVIEWER: LIGHT TOUCH IN EXPLORING TOOLS – MAY NOT HAVE ANY DIRECT ACCESS AS ONLY USED BY ADVISER

Changes to investments on the platform

What, if any, changes have you made to your investment since this was set up? E.g. adding to investments, changing investments, making withdrawals

[If they have made changes] How many changes/switches have you made since the outset?

- How many changes/switches are made on average each year?
- How has this been done? E.g. are instructions given by you/by your adviser?
- Are changes made online/by phone/post?

INTERVIEWER: FOR THOSE WITH DISCRETIONARY PORTFOLIOS/ ARRANGEMENTS SWITCHES/ CHANGES WILL GO ON WITHOUT THE CLIENT INVOLVEMENT SO THIS MAY NOT BE RELEVANT

Customer understanding of role / features of the platform

What is the arrangement you have with [PLATFORM NAME]?

Have you used anything like this before? What, if any, other types of platforms have you come across?

Have you heard of [OTHER PLATFORM NAMES]?

What do you like about the arrangement with [PLATFORM NAME]?

(If advised) What did your adviser tell you about the role of [PLATFORM NAME]?

(If direct) What did you expect the role of the platform / platform provider to be?

Features and benefits perceived / valued

How would you describe the platform?

What features or benefits are provided? (spontaneous) – then prompt with:

- A single view of your holdings
- The ability to switch holdings quickly and easily
- Cheaper fund price / lower AMC
- Access to a large number of products / funds
- Online tools to help you view investment performance in detail
- Online access
- Specific reports

Which features and benefits have you used?

- Which are most important to you?
- How satisfied have you been?

Overall, how much do you value these features and benefits?

Disadvantages or downsides to using a platform

Have you found any disadvantages / downsides in the arrangement with [PLATFORM NAME]?

(spontaneous) then prompt with:

- Awareness of charges
- How funds are presented by the platform
- Different investment options (are some investments not available on the platform)

Awareness / use of online services

What, if any, online services are available? Spontaneous then prompt with:

- Fund profiles and performance information
- Risk profiling tools
- Fund selection and comparison tools
- Tax calculators
- Planning tools
- Any others?

What have you used / plan to use?

INTERVIEWER: IF ONLINE USERS (AND ONLY IF TIME) CHECK IF IT WOULD BE POSSIBLE TO LOOK AT THE INVESTMENT SITE
INTERVIEWER: CHECK THAT EVERYTHING NOTED ON THE PRE-INTERVIEW TASK HAS BEEN COVERED (IF COMPLETED)

Awareness and recall of costs and charges (ten minutes)

Understanding of investment charges overall

Have you thought much about charges in relation to investments generally in the past?

How important a factor are charges in making investment decisions?

What do you know about costs and charges in financial products generally and with investment products specifically?

- How are these broken down / what are the elements?
- What parties are involved / what are they charging you for? (probe for any awareness of differences between product, service, admin and platform charge, investment / fund management charge, adviser charge)

If only aware of fund management charge / AMC (and adviser charge / commission if advised) – check if their understanding is that there are no other product / service charges.

Spontaneous understanding of charges for investment with [PLATFORM NAME]

What is your understanding of the charges on the investment with [PLATFORM NAME] – describe in your own words. (Then probe here for whatever the respondent can remember about any type of charges – allowing them to refer to literature if this is at hand.)

How would you go about finding out about charges on this investment?

- Where would you look (documentation/website)? Allow to look for this information in the documentation if this is at hand.
- Who would you ask (provider/adviser)?

What was mentioned about cost or charges when you were setting up the investment? (Probe according to channel, i.e. by the adviser/sales person/on the web/in the literature.)

- Were you happy with the way in which charges were explained to you?
- Did you/ do you have any questions on charges?

Is there a single charge or is the cost divided up in any way? If so what elements are there in the cost?

- Do you want to know the breakdown of the charges between different elements?
- Do you only want to know the total cost of the charges and not want the detail?

Have there been any changes in charges since taking out the investment?

Have there been any one-off charges since taking out the investment?

Structured questions on charges with [PLATFORM NAME]

Question	Probe
1. What, if anything, do you think [PLATFORM NAME] charges you for their involvement with this investment?	What is this for / how much / how is this expressed?
2. What, if anything, do you think the fund manager(s) charges for their involvement with this investment?	What is this for / how much / how is this expressed?
3. (if advised) What, if anything, do you think your adviser charges you for this product	What is this for / how much / how is this expressed?
4. What is the total cost of the investment with [PLATFORM NAME] excluding any charges which pay for advice (if advised)?	

Rating of value of platform service

How would you rate the service from [PLATFORM NAME] in terms of overall value?

- How do you judge value for money for this service?

Introduce charging models stimulus (ten minutes)

EXPLAIN: We are going to look at how the charges on investments such as the one you have with [PLATFORM NAME] are structured.

(Cell C: As we have discussed these may be investments which you have set up through your adviser which are under their own brand but which are administered by [PLATFORM NAME]

Who is involved in managing your investment?

Introduce CARD A1 (advised)/ F1 (XO)

EXPLAIN: We'd like to talk about the charges by representing the various parties involved by these boxes.

INTERVIEWER: ALLOW RESPONDENT TO READ AND CHECK THEY UNDERSTAND WHO IS INVOLVED – ESPECIALLY IF UNAWARE OF PLATFORM PROVIDER UP TO THIS POINT

How are they paid?

Introduce card A2 (advised)/ F2 (XO) (clean copy for each respondent to draw on)

EXPLAIN: We would like you to draw in some arrows to show how everyone gets paid for their services for your investment, for example which services are paid directly from your investment and how any other services might be paid for indirectly.

INTERVIEWER: ALLOW RESPONDENT TO DRAW IN ARROWS

Now please write in, or estimate the yearly charge.

SELECT RELEVANT SET OF CARDS FOR RESPONDENT'S MODEL TO SHOW THE STRUCTURE.

Model	Platform	*Cards seen*
Bundled	Cofunds/Skandia/Fidelity (advised)	B1 to B3 – How are you charged? B4 – How much does it cost?
Hybrid	Standard Life AXA (exc. bundled model)	C1 to C4 – How are you charged? C5 – How much does it cost?
Wrap	Transact/ Nucleus/Ascentric (advised e.g. excluding Fundsdirect)/AXA (explicit model)	E1 to E4 – How are you charged? E5 – How much does it cost?
Direct/ EO	Hargreaves Lansdown	G1 to G4 – How are you charged? G5– How much does it cost?
Direct/ EO	Ascentric (Fundsdirect)	H1 to H3– How are you charged? H4– How much does it cost?
Direct/ EO	Fidelity (direct)	J1 to J3– How are you charged? J4– How much does it cost?

How are you currently charged?

INTERVIEWER: TAKE RESPONDENT THROUGH STIMULUS FOR THEIR PLATFORM MODEL

What are your views about how the charges are organised?

- Any surprises?

What are the advantages for you / anything else you like about it?

What are the disadvantages for you/ anything you don't like about it?

What other information would you like to have?

If you had to pay the platform directly for its services, how much would you be willing to pay?

Cash account

(If cash account) Were you aware there was a cash account in your investment with [PLATFORM NAME]?

What do you understand the function of the cash account to be?

- o What advantages are there in having a cash account?
- o Any concerns?

EXPLAIN: For some models you will be able to pay any charges by direct debit from your bank account rather than holding money in a cash account.

- o Which arrangement would you prefer if you were offered the choice?

How much does it cost?

INTERVIEWER: NOW INTRODUCE RELEVANT CARD WITH PRICING

EXPLAIN: This is just an example developed for the research. Your pricing might be a bit different.

What are you views about the charge (s)?

- o Specifically about the level of the charges.
- o Specifically about the level of charges taken by each party.
- o How expensive/cheap do you think it is?
- o Do you feel you get value for money across the different elements?

Any surprises?

What other information would you like to have?

Potential changes to some charging structures (five minutes)

EXPLAIN: There may be some changes in the way that platform and advice charges can be taken in the future.

INTERVIEWER: KEY POINT IS THAT THE CUSTOMER WILL PAY AN EXPLICIT CHARGE FOR USING THE PLATFORM ASSUMING THE FSA GO THROUGH WITH PROPOSAL OF BANNING REBATES

NB. IMPACT OF CHANGES NEEDS TO BE VIEWED IN TERMS OF RELEVANCE TO THEIR PARTICULAR PLATFORM E.G. NUCLEUS ALREADY DOES ADVISER CHARGING

Proposed new regulations for financial products

INTRODUCE CARD A3 (ADVISED)/ F3 (XO)

What are your views about this?

- How is this different from the situation you are in now, if at all?
- What difference, if any, do you think it might make to how your investment with [PLATFORM NAME] is charged?
- What advantages might this change mean for you?
- What disadvantages might it mean for you?

How you might be charged in the future

INTRODUCE CARD A4 (ADVISED)/ F4 (XO)

EXPLAIN: This is how it could be structured

- What changes does this mean for how your investments are managed?
    - What will be better /improvements?
    - Anything that will be worse for you?
- How easy or difficult do you find this to understand in comparison with your existing structure (COMPARE)?

How much it might cost in the future

INTRODUCE CARD A5/ F5 OR F6

INTERVIEWER: F5 FOR HL/ ASCENTRIC ONLY – F6 FOR FIDELITY DIRECT MODELS

EXPLAIN: These are the charges

Now what are your views about these charges?

- Specifically about the level of the charges?
- Specifically about the level of charges taken by each party?
- How expensive/ cheap do you feel this is?
- What value for money does each party represent?

Any surprises?

What other information would you like to have?

(IF CASH ACCOUNT NOT COVERED EARLIER)

What do you understand to be the function of the cash account?

What advantages are there?

Any concerns?

ASK ALL

Would you expect to earn interest on the cash account, or not?

- How would the level of interest compare to savings accounts from High St banks?

What other information would you like to have about the cash account?

Overall views on platforms, charges and the FSA's proposed changes (five minutes)

Summary of your views

What do you expect platforms to do for you?

What is the most important thing to look for from a platform?

Will you look at charges in any different way after taking part in this research?

What are your views about the charges on [PLATFORM]?

Why are the FSA doing this?

What is your overall view about the FSA's proposed changes regarding payments to platforms i.e. the banning of payments from fund managers to platforms; and, the banning of cash rebates from fund managers to consumers? Spontaneous then prompt with card K

INTRODUCE CARD K AND ALLOW TIME TO READ

Level of agreement/ disagreement with each point

Which, if any, do you see as the most significant of these factors?

Which, if any, do you feel have an impact on you/ your investments?

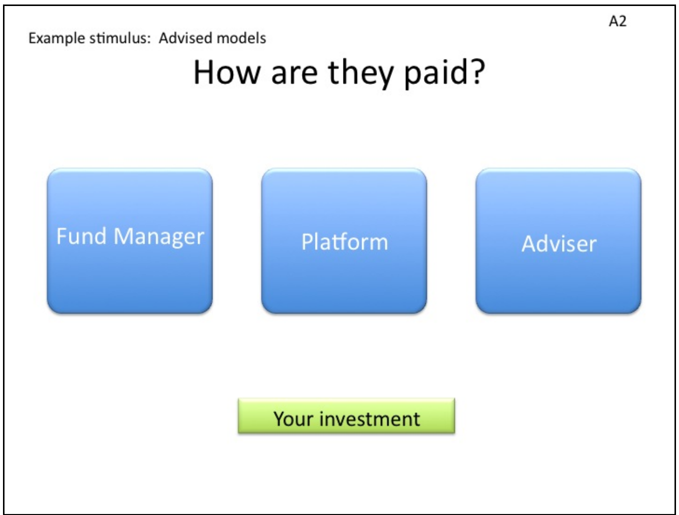
How do you think the proposed changes will affect how you choose investments?

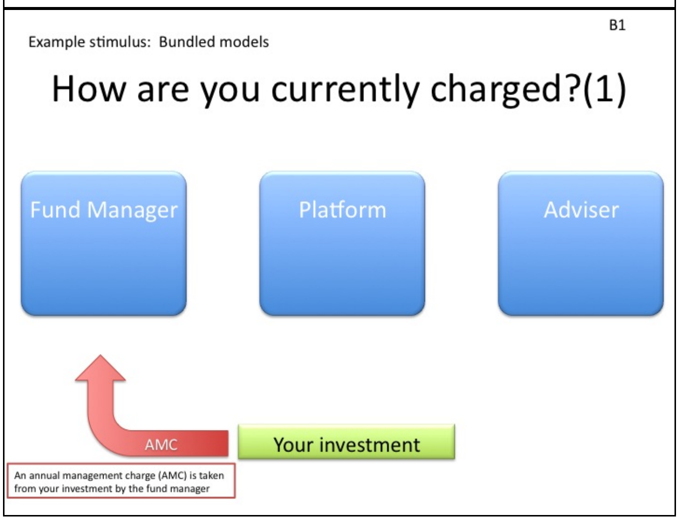
If you were choosing to make investments after the introduction of the proposed changes, what would you do differently?

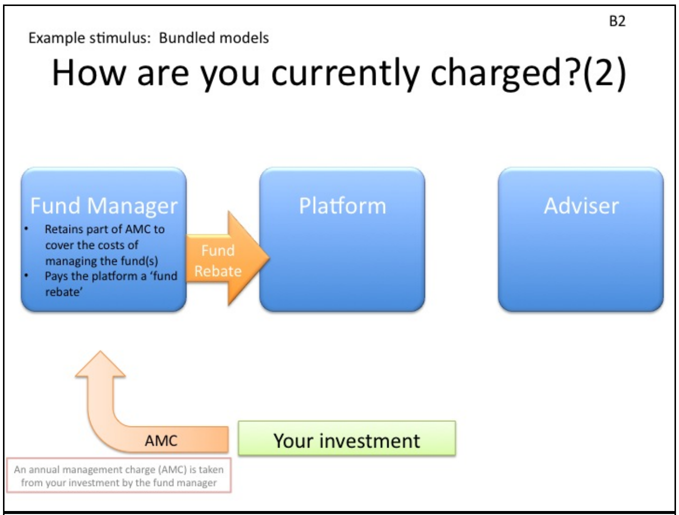
Thank and close – complete signature sheet making explicit reference to the wording on the use of AV material and also check if willing to be re-contacted.

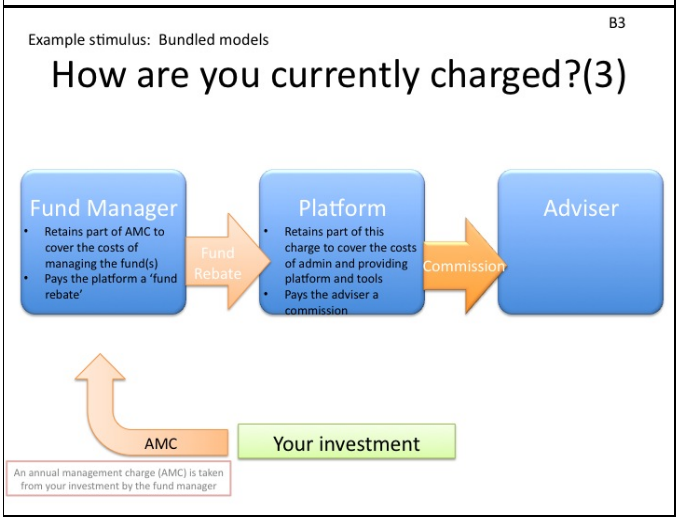
10.4 Example stimulus materials

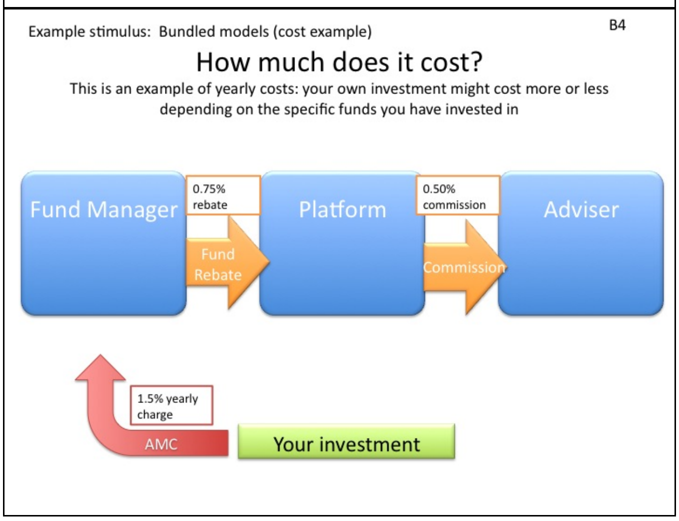
Advised models






B2
Example stimulus: Bundled models
How are you currently charged?(2)
Fund Manager
Retains part of AMC to cover the costs of managing the fund(s)
Pays the platform a 'fund rebate'
Fund Rebate
Platform
Adviser
AMC
Your investment
An annual management charge (AMC) is taken from your investment by the fund manager

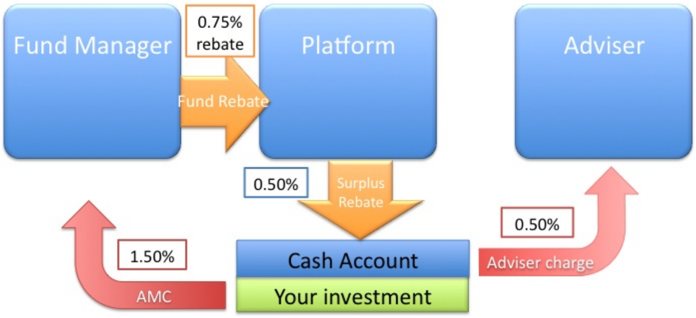

B3
Example stimulus: Bundled models
How are you currently charged?(3)
Fund Manager
Retains part of AMC to cover the costs of managing the fund(s)
Pays the platform a 'fund rebate'
Fund Rebate
Platform
Retains part of this charge to cover the costs of admin and providing platform and tools
Pays the adviser a commission
Commission
Adviser
AMC
Your investment
An annual management charge (AMC) is taken from your investment by the fund manager


B4
Example stimulus: Bundled models (cost example)
How much does it cost?
This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in
Fund Manager
0.75% rebate
Fund Rebate
Platform
0.50% commission
Commission
Adviser
1.5% yearly charge
AMC
Your investment

Example stimulus: Hybrid models (cost example) C5

How much does it cost?

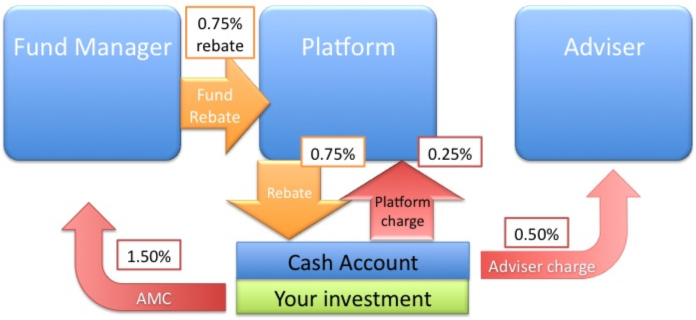
This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in



Example stimulus: Wrap models (cost example) E5

How much does it cost?

This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in

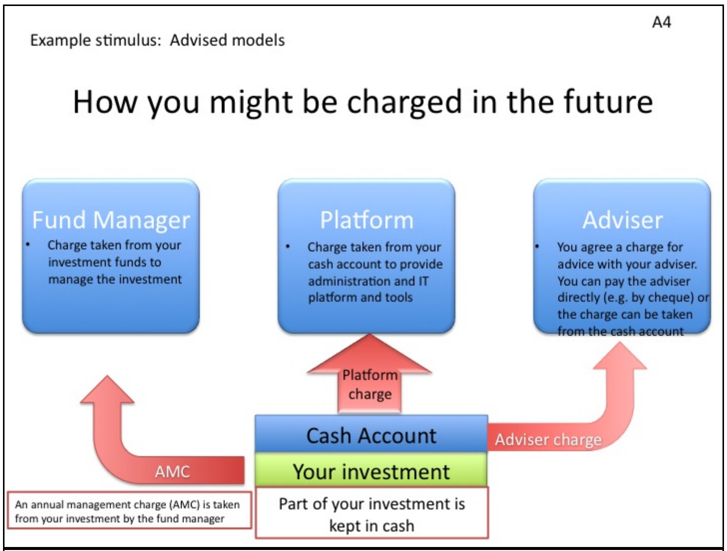


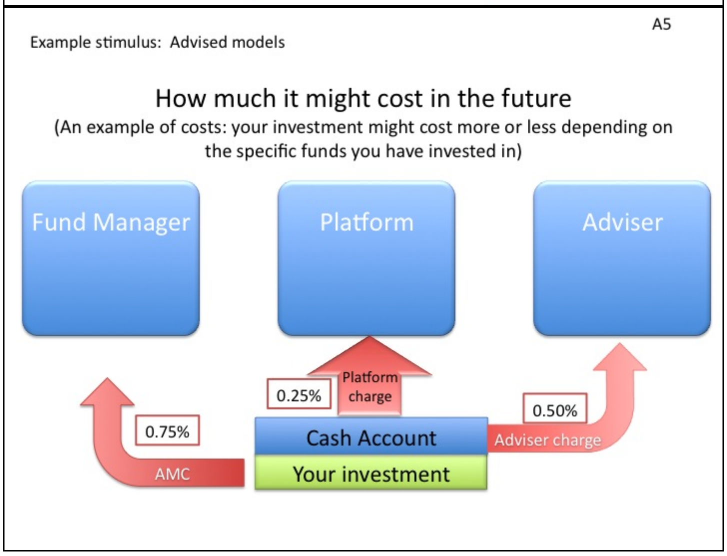
A3

Example stimulus: Advised models

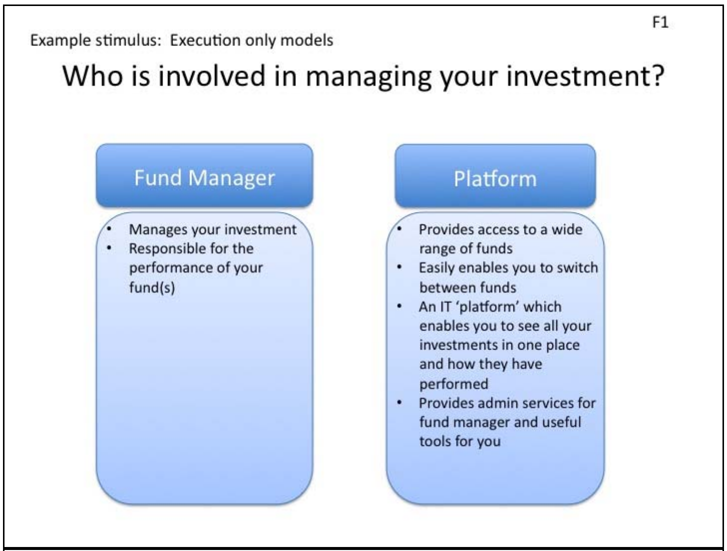
Proposed regulations for Platforms

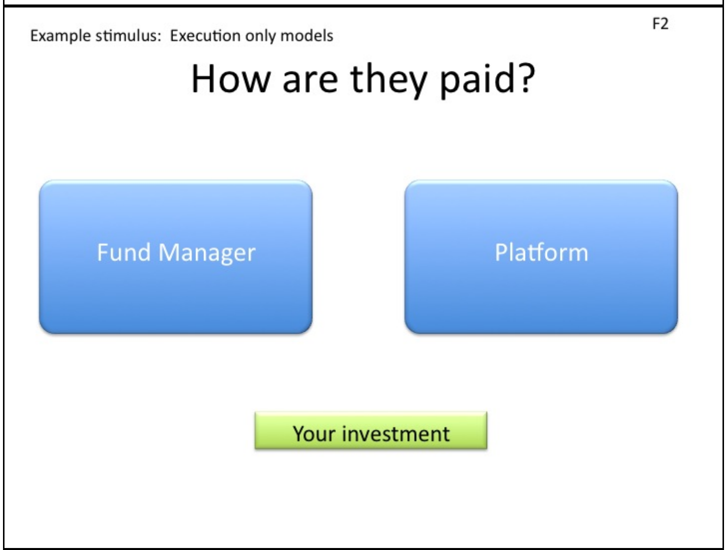
- The FSA is reviewing the way products are sold through platforms and is considering introducing new rules which would impact on how platforms are paid
- The proposed changes would affect investments held on platforms, like yours, in 2 ways:
  - ‘Fund rebates’ (payments to platforms from fund managers) would be banned. Platforms would then charge you directly by taking a fee from the cash account on the platform/directly from your bank account.
  - Rebates in cash from product providers to client’s cash accounts would be banned.
- The FSA is also going to ban commission to be paid to the adviser. This will mean you need to agree your adviser charge directly with your adviser including the best way to pay it, which could be a direct payment from your investment‘s cash/ bank account or by separate invoice

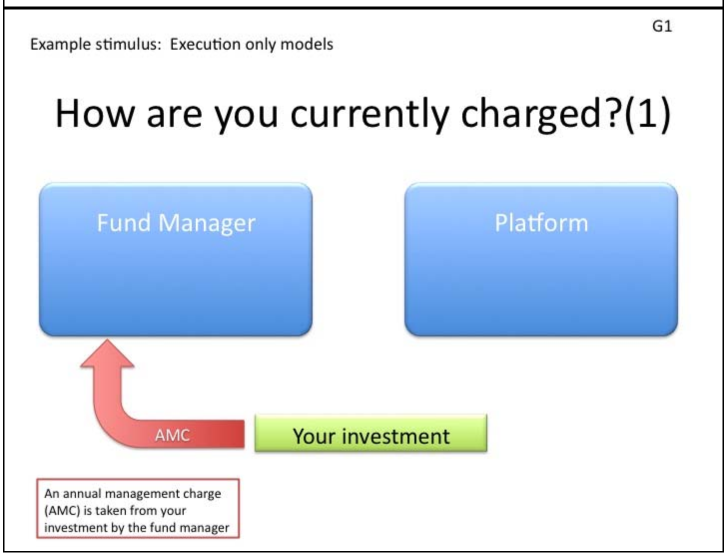

A4
Example stimulus: Advised models
How you might be charged in the future
Fund Manager
Charge taken from your investment funds to manage the investment
Platform
Charge taken from your cash account to provide administration and IT platform and tools
Adviser
You agree a charge for advice with your adviser. You can pay the adviser directly (e.g. by cheque) or the charge can be taken from the cash account
Platform charge
Cash Account
Adviser charge
AMC
Your investment
An annual management charge (AMC) is taken from your investment by the fund manager
Part of your investment is kept in cash

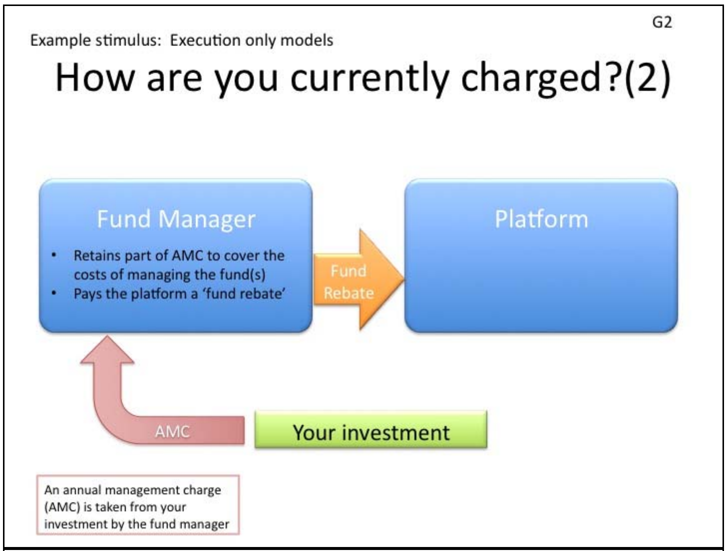

A5
Example stimulus: Advised models
How much it might cost in the future
(An example of costs: your investment might cost more or less depending on the specific funds you have invested in)
Fund Manager
Platform
Adviser
0.25%
Platform charge
0.50%
0.75%
Cash Account
Adviser charge
AMC
Your investment

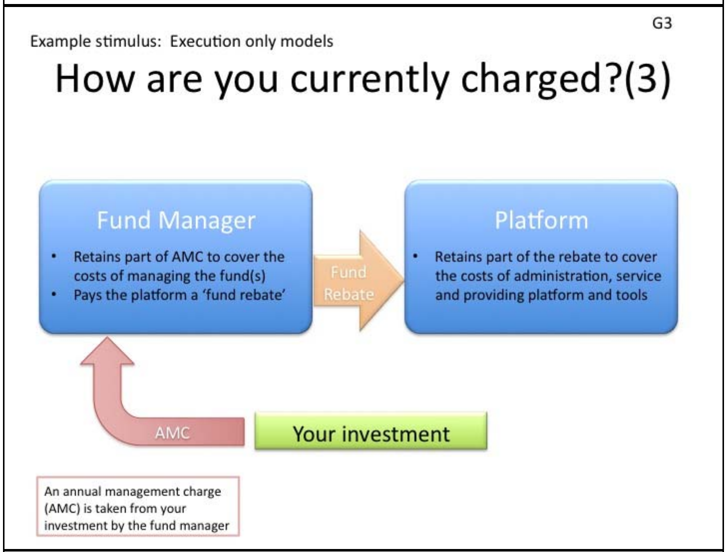
Execution-only models

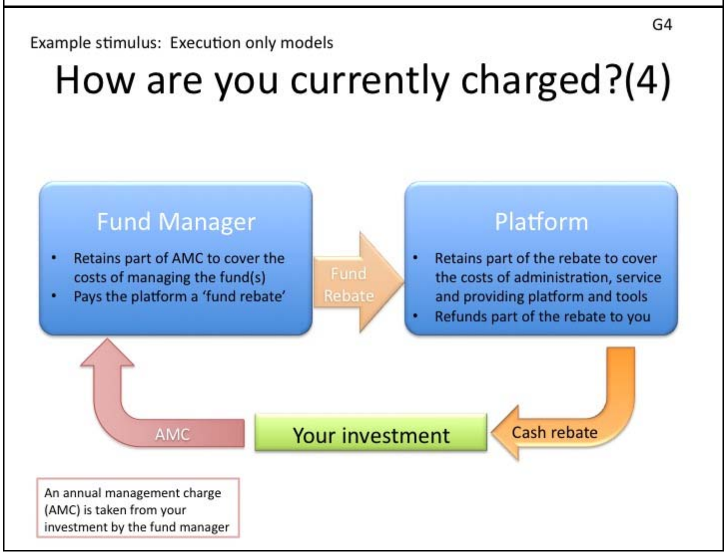







G2
Example stimulus: Execution only models
How are you currently charged?(2)
Fund Manager
• Retains part of AMC to cover the costs of managing the fund(s)
• Pays the platform a 'fund rebate'
Fund Rebate
Platform
AMC
Your investment
An annual management charge (AMC) is taken from your investment by the fund manager


G3
Example stimulus: Execution only models
How are you currently charged?(3)
Fund Manager
• Retains part of AMC to cover the costs of managing the fund(s)
• Pays the platform a 'fund rebate'
Fund Rebate
Platform
• Retains part of the rebate to cover the costs of administration, service and providing platform and tools
AMC
Your investment
An annual management charge (AMC) is taken from your investment by the fund manager

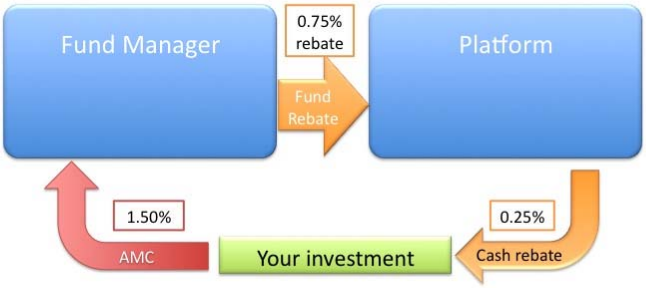

G4
Example stimulus: Execution only models
How are you currently charged?(4)
Fund Manager
• Retains part of AMC to cover the costs of managing the fund(s)
• Pays the platform a 'fund rebate'
Fund Rebate
Platform
• Retains part of the rebate to cover the costs of administration, service and providing platform and tools
• Refunds part of the rebate to you
AMC
Your investment
Cash rebate
An annual management charge (AMC) is taken from your investment by the fund manager

G5

Example stimulus: Execution only models (cost example)

How much does it cost?

This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in

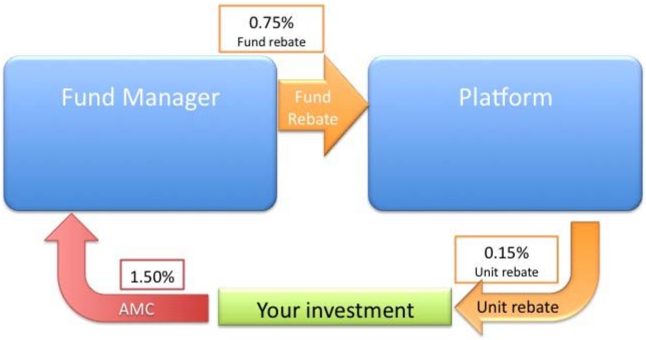


H4

Example stimulus: Execution only models (cost example)

How much does it cost?

This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in

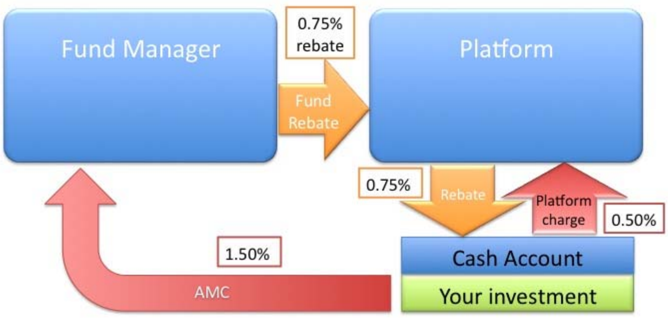


J4

Example stimulus: Execution only models (cost example)

How much does it cost?

This is an example of yearly costs: your own investment might cost more or less depending on the specific funds you have invested in



F3

Example stimulus: Execution only models

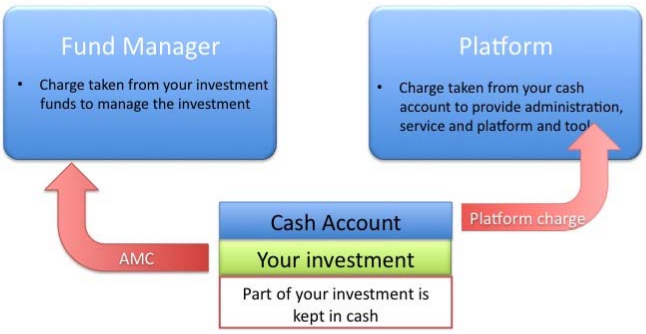
Proposed regulations for Platforms

- The FSA is reviewing the way products are sold through platforms and is considering introducing new rules which would impact on how platforms are paid
- The proposed changes would affect investments held on platforms, like yours, in 2 ways:
  - 'Fund rebates' (payments to platforms from fund managers) would be banned. Platforms would then charge you directly by taking a fee from the cash account on the platform/directly from your bank account.
  - Rebates in cash from product providers to client's cash accounts would be banned.

F4

Example stimulus: Execution only models

How you might be charged in the future



F5

Example stimulus: Execution only models

How much it might cost in the future

(An example of costs: your investment might cost more or less depending on the specific funds you have invested in)

All models

K

Why are the FSA doing this?

- The FSA feel that payments from fund managers to platforms hinder transparency for consumers as they feel consumers often do not understand how much a platform costs and find it hard to compare different platforms
- The FSA are also concerned that these payments may lead to bias existing in the market, as those funds which pay a higher rebate to a platform may be given greater prominence on that platform
- The FSA are concerned that consumer access to a wide range of investments is restricted if those products which do not pay a rebate are not available on a platform
- The FSA feel it is important to ban cash rebates to consumers. They feel fund prices should drop to reflect commission being banned rather than fund prices staying at the same level and the consumer simply receiving the cash value of the commission paid to the adviser as in the old model.

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