Now, due diligence is difficult, and here's why.

Late last year – seems longer – we did a bit of work for Capita on how product comparison and projections fare in the post-RDR world. Once our phone had stopped ringing from models of our preferred gender trying to fling themselves at us as a result, we wrote this up into a paper which I'm pretty sure you can still download from the Capita website.

Among our findings were that:

- share classes are a mess
- comparing on and off platform products is a b***er
- adviser charging capability varies hugely between platforms
- packaged investment solutions make things even harder and don't even start us on DFMs
- all this can make a big and negative difference to a) your client and b) you

At the time of writing the paper, we'd not long had a Thematic Review from the FCA on how advisers were implementing the RDR. TR13/5 – for that was its name – shone an admittedly fairly weak light on adviser charging and reinforced the need to show adviser charges in pounds (by the time you read this I think we'll have had the Scottish independence referendum, so if you're north of Berwick please substitute 'poonds', 'euro', 'bawbees' or 'groats' as appropriate) rather than in percentages, which it appears no-one understands.

If we don't, and I mean right now, completely overhaul the teaching of arithmetic in this country…well, that's for another day.

We found stuff in TR13/5 which we were able to extend into adviser platform or product selection processes. We came up with four tests you need to be able to ask yourself:

> Is my current product selection and projection process:
>
> 1. in line with the letter and spirit of current FCA requirements?
> 2. in customer interests and communicated clearly, fairly and in a way that isn't misleading?
> 3. demonstrably unbiased?
> 4. future-proof?

Those tests have been at the front of my mind recently as we had the chance to provide a little input to the next FCA thematic review comin' atcha from the fun-boys at Canary Wharf. This TR will be on 'due diligence' (horrible term) and adviser processes thereto (posh).

Now, if you're reading this – and if you're not we're in some very strange self-reflexive conversation – then we assume you are smarter than the average bear and you have a comprehensive, well-organised and WRITTEN DOWN due diligence file for your primary, secondary and possibly tertiary platform relationships. If not, now would be an excellent time so to do. You may choose to use third-party systems to help you with this.

Now, due diligence is difficult, and here's why. If you were simply selecting stuff that you were going to use as an adviser firm, you'd have a tough enough time. The age of being able to compare and select platforms based on a comprehensive functionality tick-sheet is long gone (and if this is your model, it's time for a trip to the due diligence file shop). Most platforms do most things now, and in a very welcome development, those who don't tend to be pretty upfront about it. Skandia doesn't offer equities. Alliance Trust Savings doesn't have a rebalance function (it's on the way). And so on.

A while back, the regulator published a helpful factsheet, which gave 9 key areas for you to think about:

5. The platform provider
6. Terms and conditions of using the platform
7. Charges – including actual cost, charging structure and transparency of charges
8. Range of funds, tax wrappers and other products available
9. Range of asset classes
10. Functionality
11. Accessibility
12. Additional tools
13. Support services

Providers and due diligence salesfolk fell hungrily on this, and 1001 questionnaires based on 'the 9 tests' (give me strength) started circulating. However, even this isn't as much help now – it's a starting point, no more. As we found in our paper for Capita, the advent of preferential share classes has knocked everything into a cocked hat, and even if that doesn't affect you, we think the water has been muddied by what we know of the forthcoming TR and also the recent Guidance Consultation 14/3 (GC 14/3), which concerned itself with the provision of information about financial services to customers.

Mark Polson

Principal
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As part of this work the FCA commissioned research into how customers experience and engage with this information. And, surprise surprise, it turns out that customers want:

- the 'must know' facts in easily digestible nuggets of plain English
- a clear and consistent format for 'must know' facts and for charging to help comparisons
- telephone support, with easy to find details
- clear information at purchase on recourse
- reminders of the key points of purchase before the final decision is made

Where does customer disclosure come in the pecking order for selecting platforms? If platforms (whisper it) aren't all that good at providing customer-friendly information on what it is they do, then does that burden fall to the adviser? How much failure demand does that put on the firm and what are the resource implications?

Tied up in all this is the old saw about who pays for platforms and who benefits. Based on our discussions around the place and our spidey-sense, we think that any quality due diligence file which would measure up to the inevitable examples of 'best practice' in the forthcoming thematic review will have to demonstrate suitability for the customer first, and the adviser practice second. In our experience, due diligence files we've seen are generally the opposite way around, if the client is mentioned at all. I think platforms will have to get much better very quickly at articulating why what they do is worth the client's coin.

And with that, we're back to cost comparisons and their wily ways. It's almost as if there were a plan to this article, isn't it? Anyone who doubts that cost to client is a completely fundamental part of suitability for the FCA – see earlier point on functionality now being mainly commoditised – needs their bumps felt. You can whine and moan as much as you like about BMWs versus KIAs, the price of everything and the value of nothing, or that clients don't care, or whatever you want, but if you don't know the total cost of holding a portfolio over time on your chosen platform or platforms, and how that compares to the market generally, you're not where you should be. No-one says you have to use the cheapest option. Of course they don't. But where you're not, you had better be clear, in writing, why your chosen option is firstly more suitable for the client and secondly more suitable for your practice in terms of delivering your well-documented client service proposition than the cheaper options available.

Life's about to get harder again. Don't worry. I'm yet to meet an adviser who doesn't try to do the right thing by his or her clients. But think of this as passing your driving test rather than actually driving – get everything squared away, written down and sorted in a way which helps someone looking into your business from the outside. Once that's done, you can get on with the important stuff.

CAPITA

Financial software

The Synaptic Guide to Compliance

Eric Armstrong looks at how Synaptic software can underpin compliant advice process

Eric Armstrong
Provider & Platform Relationship Manager
Capita Financial Software

There is a lot of discussion within our industry about the shortcomings of regulatory framework within which the adviser community works, with the seemingly extortionate cost of regulation to firms at the fore, with advisers scratching their heads as to why they should be funding the FCA, FOS, FSCS, MAS, Guidance at Retirement and at the same time working with ever greater constraints.

Given what is at stake for firms in respect of regulation, it is essential that they do not fall foul of compliance requirements. This sounds trite, but some firms we work with have only come to us because they have been criticised or fined by the regulator. Of course we welcome them, but they could have put more robust compliance process in earlier and saved themselves a lot of heartache.

The FCA, through its consultation, guidance and policy papers, makes the areas of their concern well known. At the time of writing, suitability of pension switching, or 'Enhanced Transfer Values' is back under scrutiny. A third of cases in the recent review were deemed 'not suitable'. Those firms could be in trouble, and some will need to go back to their clients to 'offer redress' as well as facing the prospect of fines. The FCA was quoted as saying 'It is disappointing .. All firms should think very carefully about the quality of the advice process and assurance framework required to deliver fair customer outcomes'.

This article will look at some of the ways that the Synaptic Research suite supports advisers in their two core objectives: providing excellent advice and maintaining a bullet proof compliance regime.

We should remind ourselves of the background to this. Advice based businesses have survived countless initiatives to reorganise their world, the RDR being the last of a long line of interventions that would have destroyed a less resilient industry many times over. It is clear from countless surveys that overall advisers do in fact know very well how to maintain relationships with their clients and assist them in reaching their objectives.

Here are some general discussion points to start with:

Integration of tools

- A back office is a place you keep your client data, manage client interaction, commission flows and administration. It is not always healthy to allow your business model to be dictated by the processes built into your back office. Back office providers are not necessarily experts in facilitating research.
- One of the key criticisms is that advisers are not combining different tools correctly, and often do not understand tools (and their limitations) as well as they should. Tools need to be correctly deployed. It is no use having a questionnaire from one provider, a risk rating from another and a range of investment solutions from elsewhere, without thorough checking to establish correct alignment, and independent research to verify the underlying assumptions.

- The Synaptic Research suite has been built to work as a unit or as modules. You can use our tools to examine actual holdings and produce research to establish suitability, using shared data, without suffering catastrophic errors from 'mis-alignment'.

Independence must be cherished

- Reliance on 'free to air' tools on platforms and provider extranets does not help you affirm your independence. If you are going to rely on these, you need to do separate research to show that your choice of solution is not constrained by the convenient access to online Risk or other analytical tools.
- You can independently configure your own Attitude to Risk, strategic asset allocations, risk categories and investment solutions using Synaptic Research.

Evidencing suitability of investment recommendation

- Support from Providers cannot be unbiased, almost by definition, and you will need to apply some independent rationale to decisions you make. This will include evaluation of an investment based on risk assessment of client and investment, as well as 'Whole of Market' comparisons to prove suitability and value for money, and your own assessment that the recommendation is likely to meet the investment objectives.
- The Synaptic Research suite will provide the client and investment risk assessment, and accurate competitor based cost analysis to support a compliant recommendation.

Audit trail

- The market leading Synaptic Product and Fund Research tool provides a full audit trail of the decisions that lead to a recommendation, including a suitability letter that will demonstrate that the whole of market has been considered.

Let's end this section with words from the FCA's technical officer:

"If your starting point is reviewing the whole of market across actively managed, passive, Oeics, ETFs and investment trusts etc and then end up with a shortlist you are independent."

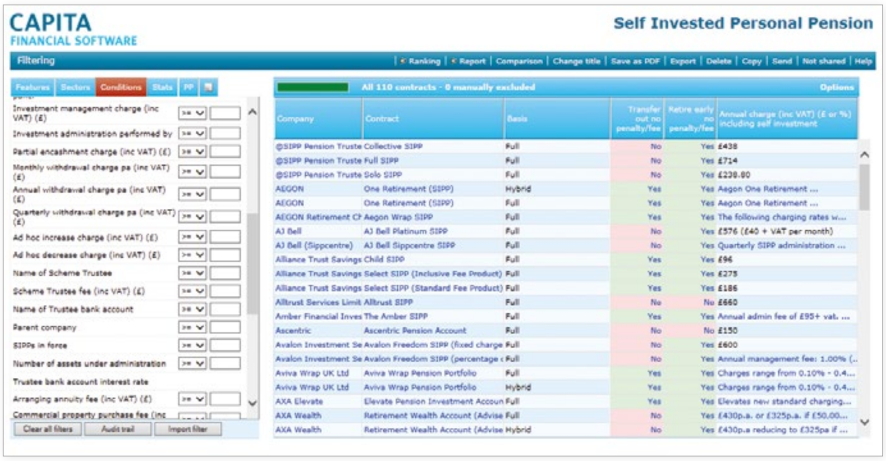
Rory Percival. MM Dec 2012.

The following provides a snapshot of the key components of an independent, Synaptic software compliance solution.

1. Synaptic Product and Fund Research: Evidence of Whole of Market

- This is the cornerstone of compliant advice. Synaptic Product and Fund Research has a 3 step methodology to get to the right contract in seconds. Filtering where non suitable options are removed from the research, Ranking, where a short list is put in order of suitability and Report, where the final report is created.
- Over 6,000 UK firms are reliant on this formidable assist to advisers and paraplanners. Pensions (Savings and Income), Investment (including platforms, funds, bonds and ISAs), Protection and Offhore are all covered.

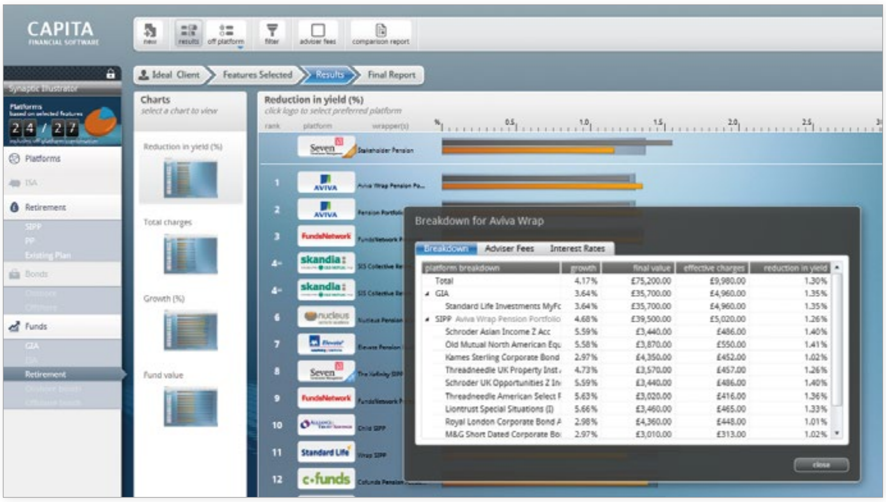
The screen below shows a typical piece of (SIPP) where the user is building a grid of information to assist in the filtering process.



2. Synaptic Comparator: Comprehensive price analysis, including accurate R.I.Y. calculations

- Cheap imitators to this compliance 'must have' are available, but unlike Comparator their charging information is not supplied and verified by the providers, and cannot accurately track the correct share class by product in the way that Comparator can.

The screen below shows results for research looking at GIA and SIPP investments for a client. A R.I.Y figure is returned, as well as detailed breakdown of fund charges, fund value and adviser charging.



RE. Thematic Review 13/5. Questions to ask.

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Mark Polson, Aug 2014

3. Synaptic Illustrator: Pension and Investment switching analysis

- An inexpensive upgrade to Comparator, Illustrator allows you to produce comprehensive illustrations to match or improve on those obtained from Providers.
- Flexibility means that you can match or reset assumed growth rates, calculate 'critical yields', 'matruity values' and 'initial investment amounts' as well as work with 'generic fund' and 'ceding scheme' details.

4. Synaptic Modeller: Managing investment risk in the advice process.

- Take seconds to produce client and case specific analysis of client risk profile using the built in Attitude to Risk Questionnaire (ATRQ) and risk rate funds and portfolios, including using actual holdings information.
- Is fully configurable so you can use your own / preferred ATRQ, Risk Categories and Strategic Asset Allocations.
- 'Risk framework is provided by Moody's Analytics' (formerly Barrie + Hibbert) stochastic engine.

The screen below shows results from Modeller – where 3 different investment scenarios are throwing up three different risk and return profiles. The adviser can use the 'Capacity for Loss ' quotient represented by the 'min gain' to ensure that the client is comfortable with the risk indicated by the stochastic model.

5. Synaptic Webline: Protection and annuity quotes and e-apply.

- The industry's most technologically advanced portal is undergoing a series innovations, including 'feature driven quotes', social reassurance' and brand new user interface, accessible from log on on the new website.
- At the CFSL company website, you can also use the automated form to register (or reregister) for the service.

CAPITA

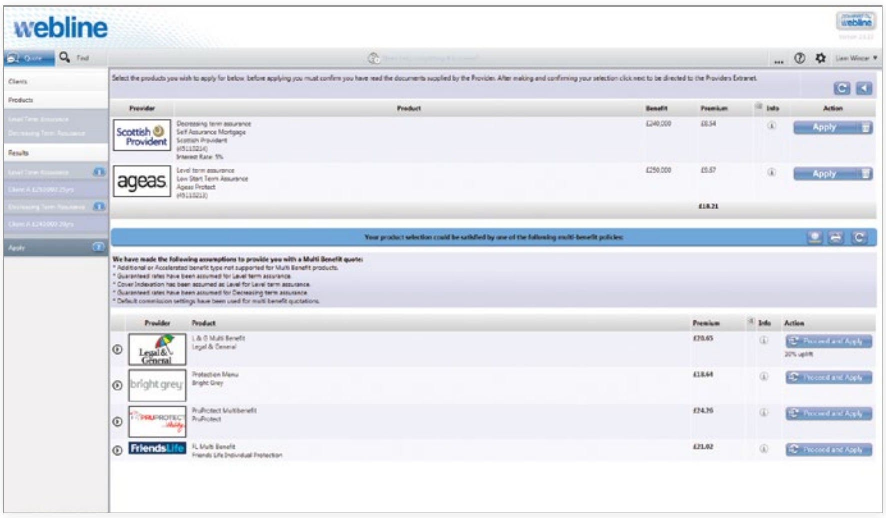
If you don't know the total cost of holding a portfolio over time on your chosen platform or platforms, and how that compares to the market generally, you're not where you should be.

Mark Polson, Aug 2014

6. Synaptic Risk Rating Service: Managing client's exposure to risk

- This service is offered free to all Synaptic and CCD customers, visit the dedicated Risk Service website at **synaptic-risk.capitafinancialsoftware.co.uk**
- Service includes online access to the Synaptic ATRQ as well as the Ratings table and the Fund / Portfolio Risk Fact Sheets showing the participating providers.

The screen below shows the new Webline interface, that can be accessed through the new **www.capitafinancialsoftware.co.uk** website (from the log on area).



The content in this article will be available on the Capita Financial Software site if you wish to download or share.