the lang cat

RISING TO THE CHALLENGE OF PRODUCT COMPARISON AND PROJECTIONS IN THE POST-RDR WORLD.

APPLES, PEARS AND THE RDR

PREPARED FOR:

CAPITA
FINANCIAL SOFTWARE

Edinburgh, November 2013

ABOUT THIS DOCUMENT

Capita Financial Software Ltd (CFSL) commissioned the lang cat to write this document. In it we give our view of the challenges for advisers around product comparison and projections in the post RDR world. We conclude with the extent to which CFSL's Synaptic Comparator⁺ product delivers benefits to advisers and paraplanners in that regard.

CFSL checked we'd got the facts right on Comparator⁺. It also supplied us with some other bits and pieces that we've highlighted as we go along. But the views given are all our own.

At the lang cat we stake our reputation on our independence so – as always – we don't say here anything we wouldn't say if we weren't being paid. You'll just have to trust us on that.

CAPITA FINANCIAL SOFTWARE

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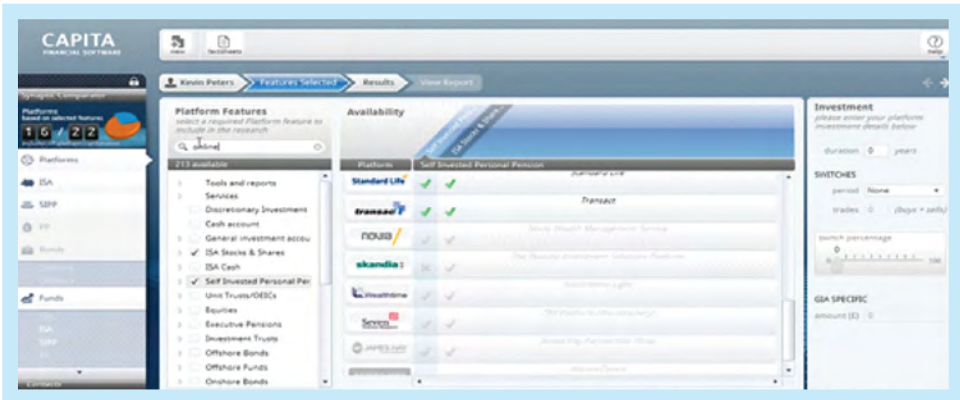

"Comparator gives our network members confidence that their clients will not only get the best terms possible for their recommended investment portfolio, but that they will also be able to write the business with the right share classes or mirror funds, whether an on or off platform solution is most suitable. Its ability to show the client and adviser the cash value of adviser charges also supports our desire as a network for transparency and integrity in all aspects of our client relationships. It's saved us more hours of time than we can count."

Les Lee, Managing Director, Network Direct

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INTRODUCTION

Recommending products suitable for each individual client is at the core of what advisers do, and an absolute fundamental from the regulatory point of view.

The range and complexity of pension and investment products available to advisers is on the up, and now almost universally overlaid with the structural complication of platform delivery. So systems that offer practical support through the product comparison process are a must-have tool in the adviser kit bag.

What makes a "comparison system" depends on your exact need, point of view and business proposition as an adviser, but on our assessment there are at least 7 systems in the market today that fit under that umbrella term. And, as we'll see from the issues outlined in this paper, increasing sophistication and flexibility is the name of the game for those systems looking to survive and add real value in the longer term.

O&M Pension Profiler	Allows users to compare pension products both on and off platform. Focuses primarily on charges although users are able to filter out plans based on a range of product features. New iterations of the system are integrated with its Investment Profiler system (fund research). Also recently launched a drawdown comparison tool.
SelectaPension	Like O&M, allows users to compare pension products that are both on and off platform. Also focuses on charges and has a range of product feature filters – but this is significantly less extensive than O&M. Also has a drawdown comparison tool.
Adviser Asset	The system has a charge comparison tool that compares the cost for access to funds via platforms and wrappers, a platform due diligence tool, that compares how well platforms meet the bespoke requirements of each adviser and a pension switching analysis tool. A share class analysis module was also recently launched.
Synaptic Research	Allows users to compare a wide range of products (both on and off platform) across a variety of product genres. Focuses on product features.
Synaptic Comparator	Allows users to compare generic aspects of the on and off platform market including features, funds, tax wrappers and projections, enabling comparison of the overall portfolio cost for each option, using bespoke adviser charges.
Defaqto Matrix	Allows users to compare a wide range of products (both on and off platform) across a variety of product genres. Focuses on product features.
Defaqto Engage	Uses the same data as the Matrix tool but is designed to be client-facing. Allows users to compare a wide range of products (both on and off platform) across a variety of product genres. Focuses on product features.

The implementation of RDR on 1 January this year, combined with the associated PS13/1 changes to platform regulation coming into force in 2014, has been a game changer on many levels, including for comparison systems and the way advisers use them.

In this paper we focus primarily on

- the impact of adviser charging to research and projections
- the impact of the mushrooming number of share classes
- the potentially significant impact of, what are at face value, small variations in pricing assumptions.

As we do, we'll consider how CFSL's Comparator+ system, which has been specifically designed to meet the demands of the post RDR product selection process, rises to the associated challenges. This won't be a traditional technology review, although we have spent lots of time playing with Comparator+ and forming opinions on it. It's much more about the issues themselves, and we'll see how the system shapes up as we go.

But first, let's set the scene.

SETTING THE SCENE

RDR CHANGED THE GAME

RDR fundamentally altered the foundations and structure of the advice relationship and the product comparison and projection (and so selection) process. It is not quite a year since RDR was implemented and so, realistically, the full scale of the impact is still to be understood. What is clear are the core principles that the regulator sought to drive: appropriately qualified advisers, advice free from bias and costs to customers clearly communicated.

Three of the immediate implications of this for the advice relationship and process are:

STATUS	A product comparison and projection process must be flexible and appropriate for the adviser's status (restricted vs independent)
VALUE	It's vital to demonstrate the value of the advice process for clients who now pay fees, consistently and in terms the client will understand
VALIDATION	Documenting an unbiased product comparison, projection and selection process helps meet FCA requirements

While these present challenges for the product comparison and projection process, there are also opportunities. Most important is that a valid, transparent process will benefit and strengthen the advice relationship. A secondary important factor for those designing or indeed choosing systems is that the ability to carry out all product comparison research and projections for a client on one system, rather than making separate individual comparisons, is more time and cost effective for the adviser. It also helps to ensure comparisons are made using consistent assumptions and reduces the chance for user error.

THE CHANGING PRODUCT COMPARISON LANDSCAPE

Prior to RDR product comparison research and projections was broadly split between portals and standalone product comparison systems (often known as "best advice" systems).

Portals and best advice systems

Portals (like Assureweb and Webline) were essentially quote-driven transaction engines, allowing business to be submitted directly once comparisons were done and a selection made, this being their main advantage. But this concept of the portal was developed in a simpler world when insured funds were the norm alongside default funds, a 1% AMC for research purposes, standard commission and traditional (off-the-shelf, limited fund choice, not distributed through platforms) packaged products. Fast forward to today and there is nothing standard. It is all about bespoke options to suit personal requirements, something that the portals of old simply did not have the functionality to work with.

The "best advice" systems (like O&M Pension Profiler and the current version of Comparator) tended to be more feature rich, allowing for more sophisticated analysis and comparison of products. But they have also faced challenges to accommodate more bespoke analysis, particularly with the increasing prominence of platforms.

On platform or off platform?

As well as the specialist platform businesses like Transact, Cofunds, Novia and Nucleus, the majority of life companies now have a platform proposition. But there are still some, including Scottish Widows, Scottish Life and Metropolitan Life, that provide "off platform" products with features, specialist funds or guaranteed risk rated portfolios that aren't available on any platform.

The suitability rule looms large here. Carrying out an off platform check is important. The FCA are clear that advisers must have sound reasons for recommending a platform based product to their clients, especially if there is a more cost effective off platform alternative.

A solution based approach

However, in our experience, advisers taking an holistic management approach for their clients tend to think more about the best overall "solution" rather than focusing on individual products. Both on and off platform wrappers need to be in the mix for that to happen.

Where that is the case it's beneficial for advisers – both in terms of client understanding and to meet the FCA's good practice standard – to be able to show (and compare) all of the charges that might apply as a single Reduction in Yield (RIY) figure, as well as in cash (£xx) terms.

All of this means we think there is no longer a strong argument for separate product comparison and projection processes but rather one which is fit for purpose to take account of all the client's assets as well as any special commercial or process arrangements an adviser may have with a particular platform.

MEETING REGULATORY EXPECTATIONS

There is a clear regulatory expectation that product comparison and projection processes should be thorough-going, well documented and presented in a way that customers can easily understand.

For example, in July last year, the FSA published guidance (FG12/16) to firms setting out their expectations around recommending replacement investments and Centralised Investment Propositions (CIPs). It centred on the requirement for firms to ensure that:

- any advice given is suitable for the client's own individual circumstances
- costs (particularly any additional costs compared to those of the existing arrangement) are in the client's best interests; and
- are presented in a way the client is likely to understand
- the firm can **demonstrate** the advice given was in the client's best interests with reference to the previous arrangements they had in place

being able to demonstrate suitability through comparison has been a consistent theme with the regulator

This emphasis on being able to demonstrate suitability through comparison has been a consistent theme with the regulator, and one that comparison and projection systems can and have had a role in addressing.

Back in 2009, the FSA identified two main concerns around pension switching – essentially that the existing arrangement may not be adequately considered in making the recommendation to switch and that a new arrangement could be recommended with unjustified additional costs. These were valid concerns, aimed at protecting the customer's interests, but brought with them the FSA's solution – an eight page template to document and validate the process. A number of comparison systems rose to this challenge by embedding the ability to complete that template in their comparison processes.

HOW ADVISERS ARE IMPLEMENTING RDR

Another consideration for the product comparison process came in the form of the FCA's TR13/5 paper. Published in July 2013, it was a 'health check' on how effectively adviser firms are implementing RDR. It highlighted the importance of customers being given a clear breakdown (i.e. in £xx, not just %, as we touched on above) of the cost of advice in a durable format and in good time ahead of having to make any decisions.

The same principle can be extended to disclosing the costs and charges involved in product selection; this is another area in which comparison systems can add value by helping to clearly demonstrate charges and their potential impact on the investment to enable informed decision making by both adviser and customer.

GROWTH RATES – THEMES AND VARIATIONS

There are complicated technical challenges too, when it comes to product projections. Back in 2009, the FSA issued a Dear Compliance Officer letter emphasising their expectation that providers should, rather than defaulting to the FSA's own standard rates, use growth rates in projections that reflected the realistic growth potential of the particular funds a customer had chosen. They were particularly concerned at the time about growth rates for cash and fixed interest funds being too high.

As with many things intended to improve life for customers, the result has been comprehensive confusion. With each provider having its own view on the likely future performance of a fund, and therefore projection rate, the straightforward process of comparing one fund across a range of provider products is now anything but. Helping advisers pick through these complexities is another challenge to which comparison systems must rise.

THE SOPHISTICATION OF MODERN PRODUCTS

With the many challenges of regulation, it's easy to forget how vibrant the market is in terms of product and technology advancements. However, although – as the table below illustrates – absolute product numbers have dropped since RDR, the scale of choice, and now the sophistication of many products further complicates the comparison and projection process.

A good example of this is in the rapid development of the SIPP market. Once the preserve of the high net worth investor, SIPPs are increasingly presented as an option for clients with less sophisticated needs. But is additional functionality and fund choice worth the additional charge? It reminds us of the need for the type of personalised research that product comparison and projection systems must now support. The 'best product' on features alone may not actually be best for that client. Could this be the end of the functionality arms race?

In the case of SIPPs, we think a sensible compromise has been achieved through the development of 'SIPP lite' products (and we're sorry about the 'lite'). Functionality and costs are limited but with the scope to evolve the product alongside the client's assets and sophistication, mainly in the form of open architecture around fund choice, meaning an adviser can tailor a client's portfolio to her particular risk and reward requirements.

Product numbers for comparison, pre and post RDR (supplied by Capita, from Comparator+)

Product type	May 2011	May 2012	October 2013
Hybrid SIPP	24	24	13
Full SIPP	199	102	96
Personal Pension	45	36	22
Offshore Bond	249	117	62
Onshore Bond (unit linked)	88	57	18
ISA (Stocks & Shares)	54	78	76

WHAT DOES THIS ALL MEAN FOR THE COMPARISON PROCESS?

In today's market, making a like for like comparison of individual products using traditional desk based research, recording the process and presenting the outcome to the satisfaction of the FCA is complicated, time consuming and a bit of a minefield. As RDR continues to bed in, new issues arise and new risks are identified there are a few questions we should ask ourselves.

Is my current product selection and projection process

In line with letter and spirit of current FCA requirement?	In customer interests and communicated clearly, fairly and in a way that isn't misleading?	Demonstrably unbiased?	Future proof?

We'll now move on to look at some specific challenges in more detail, before considering how Comparator+ rises to meet them.

COME AND GET YOUR ADVISER CHARGING

We've already noted that advice free from bias was one of the core drivers behind RDR, the banning of commission and the introduction of adviser charging. So naturally the FCA is very clear that product or provider selection must not be influenced, or be seen to have been influenced by, a provider's ability to facilitate a particular shape of adviser charging.

ROLL UP ROLL UP…

This is a difficult subject. The FCA is seeking to protect consumers, and rightly so. Whether a provider facilitates adviser charging is not in itself core to consumers' best outcomes. However, while in theory it is right that it shouldn't be an influence on product choice, can it in practice be completely excluded from the product comparison and projection process?

If client and adviser agree at the outset on an adviser charging profile and an amount, with the customer understanding and accepting the impact on their investment, then it is a logical extension that the appropriate product will be one that facilitates that payment. To do this, adviser charging has to be a part of the comparison and projection process, but without influencing it.

Quite aside from the question over influence on decision making, there is the basic issue of how to make comparisons between products when the playing field is anything other than level. The most straight forward option is for the client to pay the adviser a separate upfront fee, which would have no impact on the product or projections. This often won't be acceptable to clients though, so what then?

Factoring in adviser charging to the product comparison and projection process means the impact of different profiles can be compared, both against each other and the payment of an upfront fee. But it does build in – once again – additional complexity.

COME AND GET YOUR LOVELY ADVISER CHARGES

Adviser charging can be taken before or after investment and consist of a one off payment before the purchase of any units, payments in instalments or a mix. Amounts may be expressed as a % or in a £xx fixed amount. Instalments may be ongoing, or they may be taken until a £xx amount is reached, or for a set number of months.

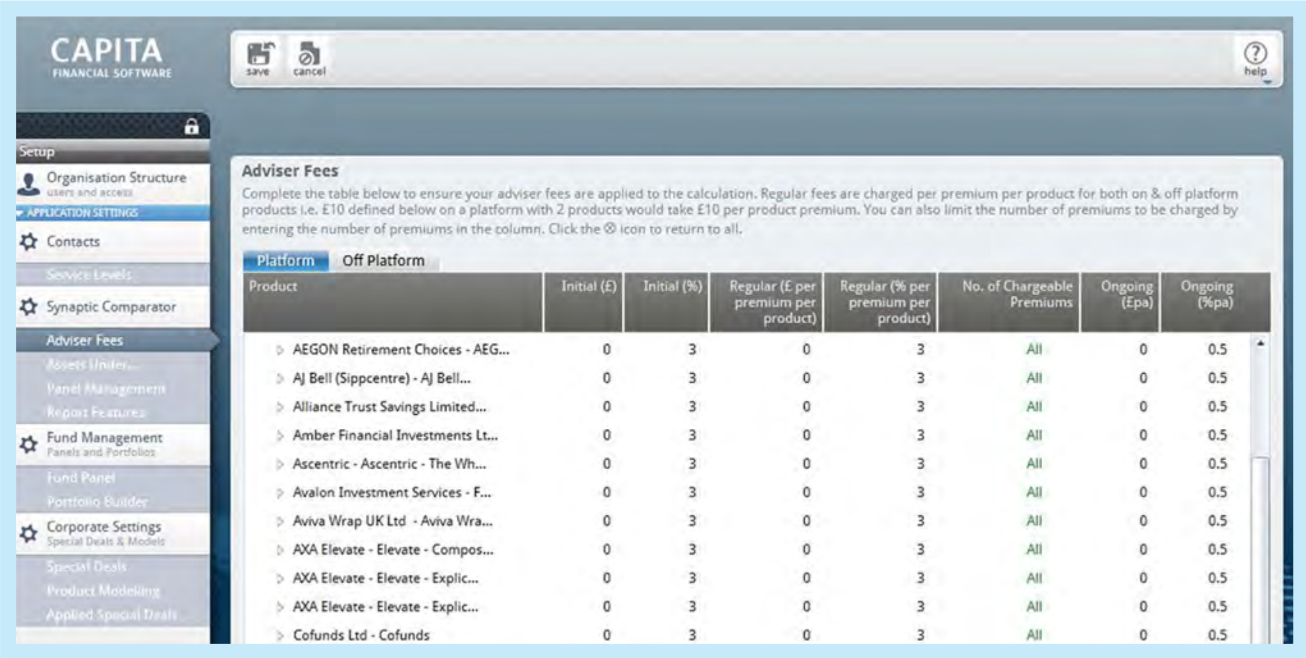
Without going into the maths of it all, and if you're an adviser we don't need to tell you this anyway, the various options will impact on the investment to varying degrees and it's essential to be able to analyse these options, document the outcome and discuss them with the client in a way that is accessible and transparent. Don't forget the FCA want to see total costs, including adviser charges, disclosed as a cash amount (£xx).

CFSL supplied this table from Comparator+ to show the range and complexity of the adviser charging options available today

All 23 contracts - 0 manually excluded

Company	Contract	Adviser charges supported	Initial fixed amount	Regular premium fixed amount	Capped regular premium fixed	Fund based fixed amount	Capped fund based fixed amount	Fund based tiered fixed amount	Initial percentage	Regular premium percentage	Capped regular premium percentage	Fund based percentage	Capped fund based percentage	Fund based tiered percentage	Ad hoc charge
AEGON Retirement Chi	AEGON Retirement Choices	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
AJ Bell (Sippcentre)	AJ Bell Sippcentre	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Alliance Trust Savings	Alliance Trust Savings i.nvest	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Amber Financial Invest	The Amber Wrap	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ascentric	Ascentric - The Whole of Market Wra	Yes	Yes	Yes	No	Yes	No	No	Yes	No	No	Yes	No	No	No
Aviva Wrap UK Ltd	Aviva Wrap	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
AXA Elevate	Elevate - Composite Charge	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
AXA Elevate	Elevate - Explicit Charge	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Cofunds Ltd	Cofunds	Yes	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes	No	No	Yes
FundsNetwork	FundsNetwork	Yes	Yes	Yes	No	No	No	No	Yes	No	No	Yes	No	No	Yes
FundsNetwork	FundsNetwork Account Fee	Yes	Yes	Yes	No	No	No	No	Yes	No	No	Yes	No	No	Yes
James Hay Partnership	James Hay Partnership Wrap	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	No
Novia	Novia Wealth Management Service	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Nucleus	Nucleus	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	Yes	No	No	Yes
Platform One Limited	Platform One (UK)	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Raymond James Inves	Raymond James	Yes	Yes	No	No	Yes	No	No	Yes	No	No	Yes	No	No	No
Seven Investment Mar	7IM Platform	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Skandia Investment Sc	The Skandia Investment Solutions Pl	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Standard Life Assuranc	Standard Life	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Transact	Transact	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Wealthtime	Wealthtime Light	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	No	Yes	Yes
Zurich Intermediary Pl	Zurich Intermediary Platform	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	Yes	No	No	Yes
Avalon Investment Ser	Freedom Portfolio Range	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No	No	No	No

CFSL also provided this screenshot, to show how adviser charging is captured in Comparator+.



Product	Initial (£)	Initial (%)	Regular (£ per premium per product)	Regular (% per premium per product)	No. of Chargeable Premiums	Ongoing (£pa)	Ongoing (%pa)
AEGON Retirement Choices - AEG...	0	3	0	3	All	0	0.5
AJ Bell (Sippcentre) - AJ Bell...	0	3	0	3	All	0	0.5
Alliance Trust Savings Limited...	0	3	0	3	All	0	0.5
Amber Financial Investments Lt...	0	3	0	3	All	0	0.5
Ascentric - Ascentric - The Wh...	0	3	0	3	All	0	0.5
Avalon Investment Services - F...	0	3	0	3	All	0	0.5
Aviva Wrap UK Ltd - Aviva Wra...	0	3	0	3	All	0	0.5
AXA Elevate - Elevate - Compos...	0	3	0	3	All	0	0.5
AXA Elevate - Elevate - Explic...	0	3	0	3	All	0	0.5
AXA Elevate - Elevate - Explic...	0	3	0	3	All	0	0.5
Cofunds Ltd - Cofunds	0	3	0	3	All	0	0.5

£XX FOR AS MUCH AS YOU LIKE OR PAY BY THE POUND

How adviser charging (and in fact any other pricing) is structured i.e. in basis points (bps, expressed as % to the client) or as a fixed fee (£xx) can make a significant difference to the client's fund and overall outcome, with fund size a key factor.

Charges in bps mean that, in cash (£xx) terms, a regular adviser charge goes up and down with the size of the client's fund. Fixed fees mean they stay static at the pre-agreed level.

The smaller a client's fund, the more likely that fixed fees will put them at a disadvantage. The larger the fund, the more likely fixed fees will be of benefit.

On the flipside, bps applied to a larger fund could be hard to justify when put into cash terms. In our own platform market analysis at the lang cat, we see a developing trend of mixing the two. Bps may currently dominate but fixed fees are gaining ground, particularly as the proud owners of large funds start asking questions about what exactly their bps pay for, and whether it really costs twice as much to run a £500k portfolio as a £250k one.

A BASIS FOR NEGOTIATION

Thinking back to our scene setting chapter and the regulatory focus on the quality of cost disclosure to the customer, the key point here is that it is vitally important to document not only the comparison process itself but which adviser charging (and other pricing) options have been included and excluded from the parameters of that comparison.

With that information available, a client is in a position to negotiate with or question their adviser on anything they are not comfortable with. That's fundamental to any relationship of trust.

FUNDS, FUNDS, BEAUTIFUL FUNDS

Investment choice used to mean a limited smattering of internally managed insured funds, with perhaps some with-profits on the side. The modern retail investment product now typically has access to many thousands of funds, lifestyle strategies and risk rated model portfolios.

While that brings opportunity and choice for both customers and advisers alike, it also poses a considerable research challenge.

WOULD YOU LIKE APPLES OR PEARS?

Share classes are a hot industry topic at the moment, as providers in the platform space (which, according to some sources, now accounts for over 90% of all new retail business written today) move to comply with both the banning of trail commission for new business under RDR and the new PS13/1 platform regulations from April next year. The PS13/1 rules will also ban rebate payments from product providers to platform operators, and the payment of cash rebates (beyond de-minimis levels) by platform operators to their customers. The result has been the rise of 'clean' share classes for funds, with the commission and rebate elements stripped out, and we're beginning to see more than one potential model pop up, as outlined in the table below.

There has already been a lot of talk in the press about the complexities this may introduce for the re-registration of assets between platforms (something that might potentially be involved if you are taking on a client from another adviser). It's also a relevant consideration for brand new business.

Our point? It's vital, when carrying out any comparative research, to first fully understand what it is that you're researching and then ensure any comparison and projections system you are using is able to support that. You want to be comparing apples with apples, or pears with pears, but not apples with pears.

THE LANG CAT GUIDE TO PLATFORM SHARE CLASS MODELS*

Dirty. Typically charged at 1.5%. Old-school bundled classes with trail commission and platform rebate built in.

Clean. Usually 0.75%. Trail and platform charge stripped out

Superclean. Like clean, but with a negotiated lower charge due to the buying power of the platform in question.

Hyperclean. Pricing similar to an institutional fund with a constant fund AMC but with platform-specific charge on top. See Zero below in terms of the availability of these so far.

Zero. As per hyper, but with only the platform charge. There are few if any of these in circulation at the moment – but watch this space.

*of course, you won't actually see share classes called Dirty, Clean etc in comparison systems, you'll have to work out for yourself just how 'clean' a Class A share (or some other name of similar ilk) actually is.

AND AGAIN … APPLES OR PEARS?

We've already noted the FCA's position on illustrations and their push to encourage providers to give a better indication to customers of the realistic growth potential of each of the particular funds they offer for investment through their products.

Different projection rates for the same fund

While differentiating expected returns based on different asset mixes is a sensible move, providers have the freedom to choose their own rates provided these don't exceed the regulator's own maxima. This has created a quite absurd situation where a projection from provider X could (and in our experience often does) use a different set of rates from provider Y **for the same underlying fund.**

Remember, projections should also reflect the charges of the actual share class a client will be investing in. Platforms and providers tend only to have one active share class for clients to buy, with perhaps another for in specie re-registration, making this another potential comparison trap for the unwary. It is possible to find that each platform or provider's projections for the same "parent" fund are different as they're actually using charges for different share classes.

The challenge of packaged investment solutions

Then there is the increasing prevalence of packaged investment solutions. Model portfolios and old style Retirement Investment Strategies are relatively easy to compare where asset allocations are either static or known in advance for future years and involve commonly available funds. But the more engineered fund solutions (like Standard's MyFolio, Scottish Life's Governed Portfolios and Aegon's Select Sector Portfolios) that see asset allocations change dynamically over time across funds that are sometimes not generally available for direct investment, can be more complex.

We understand that part of the whole point for product providers is that their managed investment solutions have elements that are unique to their own propositions and don't easily compare with others. That makes the sales team's job easier. But, unsurprisingly, it makes the adviser's job in comparing options a good deal more complex.

In short, real care has to be taken when comparing investments.

In short, real care has to be taken when comparing investments. Comparison and projection systems can provide tools and techniques to help, by stripping out areas of difference and replacing them with standard assumptions to help ensure apples remain suitably separate from pears. As this is such an important issue, in the next chapter we'll look specifically at what Comparator+ has to offer in this area.

THAT COMES TO A TOTAL OF…

In recent years, product providers have taken to quoting additional expenses within their illustrations, adding this to the shelf-price of the fund to form a Total Expense Ratio (TER). It's therefore important to bear this in mind when comparing funds side by side. It doesn't end there though. Not unlike the growth rate issue, we see many instances of providers quoting different TERs for the same underlying funds. This is often simply due to different reporting schedules for additional expenses, but it does create a headache for research.

One thing to be careful of is that insured funds mirroring those of external fund managers (so the ABC Life XYZ Global Advantage Fund as opposed to the XYZ Global Advantage Fund itself) within life company products can also be priced differently. They may have a pay away to the life company, who will buy at institutional price. They may also not be "true" mirrors if, for example, the life company controls the liquidity of the fund in a slightly different way to the fund manager.

Other elements of pricing have, of course, to be factored in to comparisons and projections to come up with a clear picture of the total potential costs for a client – including the charges levied by any platform provider.

SO TO SUM UP …

1. Clean v Dirty	2. Growth Rate	3. Total costs
Are you comparing funds from the same share class?	Look out for different growth rates being used from provider to provider.	Watch out for the total costs. Are the TERs for the same underlying funds uniform?

PAUSE FOR THOUGHT: TWO EXAMPLES

Now we've looked in theory at the particular issues around adviser charging and funds, we thought it would be helpful both to illustrate and drive these home with a couple of simple examples.

What these show are the way that apparently quite small variations can make a significant difference to the sorts of projected figures that may be used to make product comparisons for clients.

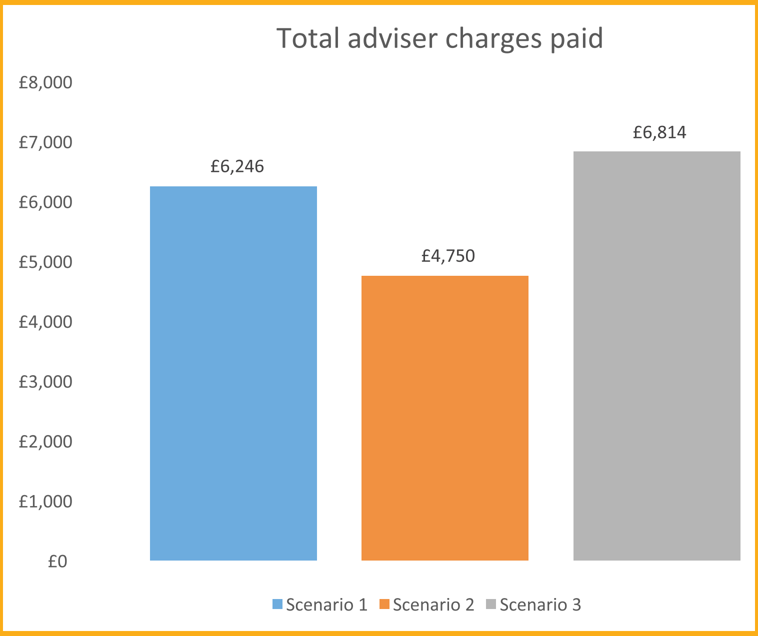
DIFFERENT CHARGING SHAPES

In this example we compare:

- **scenario 1:** an ongoing annual adviser charge of 0.8% [1]
- **scenario 2:** an initial fixed fee of £750 for set up, and an ongoing fixed fee of £200 a year for ongoing 'routine' account maintenance (with scope for additional one-off fixed charges to be taken in future, but we haven't complicated things with that for now)
- **scenario 3:** an initial fixed fee of £750 combined with an ongoing adviser charge of 0.8%

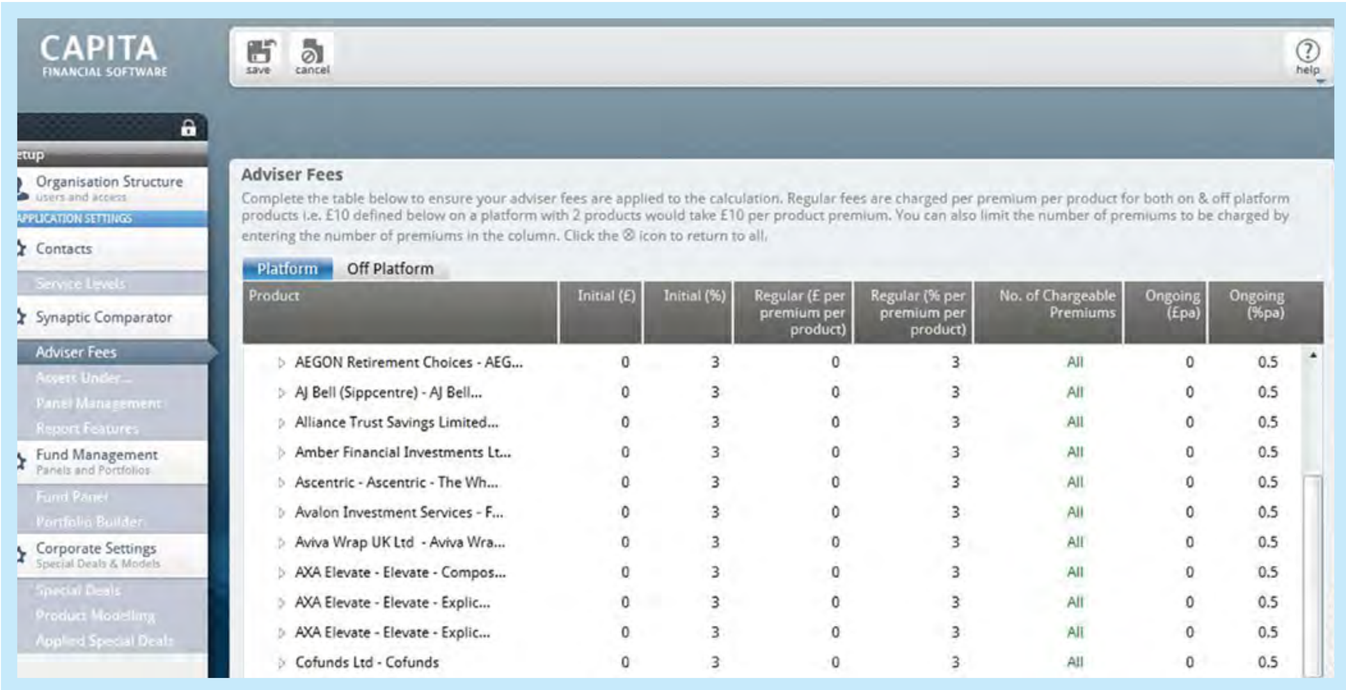
To keep things simple we've assumed a £25,000 investment in a fund with a TER of 0.7% projected over a period of 20 years at a growth rate of 6%. We haven't allowed for inflation or any platform charges, which would of course have to be overlaid where appropriate.

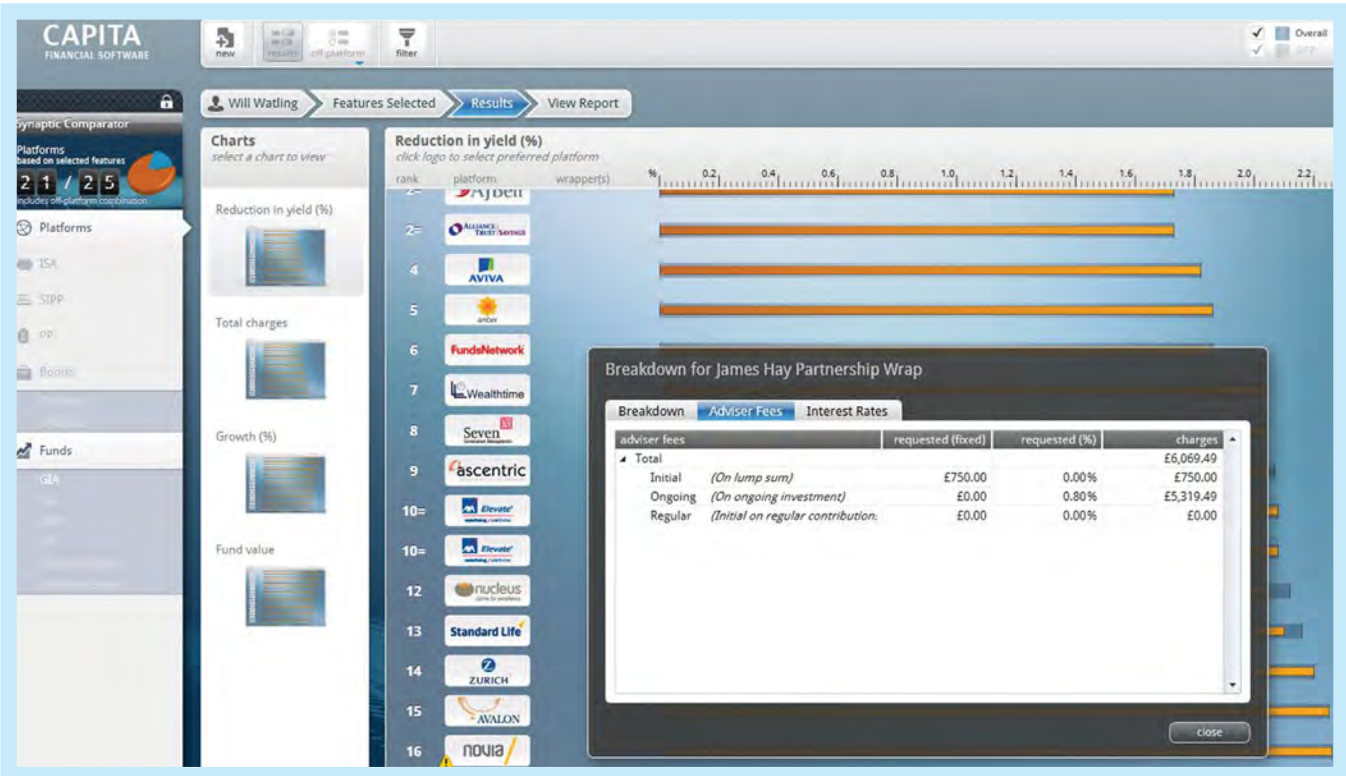
It really is a minefield and the output from comparison and projection systems potentially has a real role here in helping to present different scenarios in an accessible and clearly laid out way.



1 We picked this figure based on a December 2011 report from BDO (in conjunction with NMG) that showed 0.8% as the likely average cost of adviser support for an individual client post RDR (*RDR Could Result in Higher Consumer Costs: Research Into Adviser Charging*)

The screen grabs below have been supplied by CFSL and give an idea how scenarios like this are run on Comparator+. They cover scenario 3 in our example on p15.





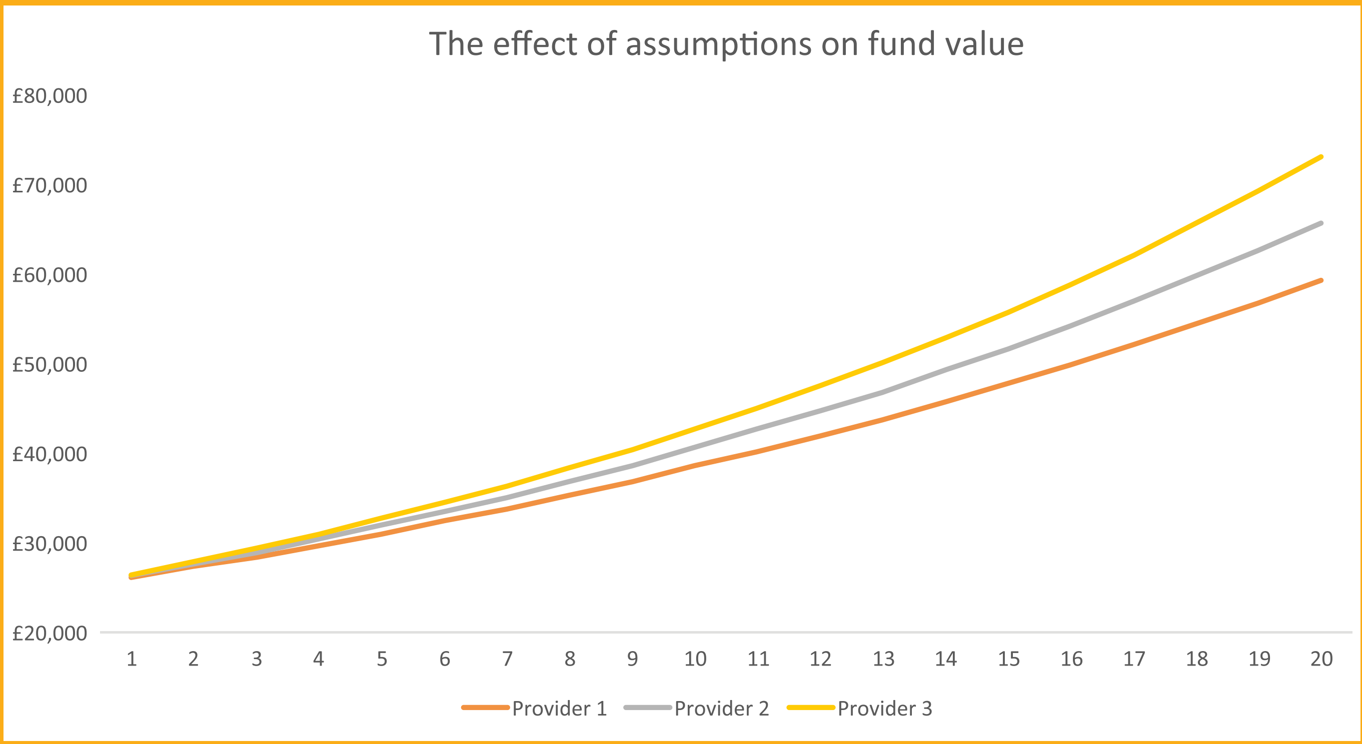
DIFFERENT GROWTH RATES AND TERs

Here we take scenario 1 from the example on P15, and assume:

- **provider 1**: assumes growth at 6.0% and currently illustrates on a TER of 0.75%
- **provider 2:** assumes growth at 6.5% and currently illustrates on a TER of 0.70%
- **provider 3:** assumes growth at 7.0% and also currently illustrates on a TER of 0.65%

You can see here how the differences made by charging shapes could be compounded by underlying differences in fund specific growth and charge assumptions – the problem of comparing apples with pears, and a problem that is exacerbated the larger the client funds concerned.

The ability to strip out variations like this from the equation helps to simplify what is already a complex picture so that key issues for client recommendation and decision can be isolated and brought to the fore. The ability of Comparator+ and other systems to support this process is of real benefit here, making it possible to focus on the underlying differences that other charges levied by platforms and product providers have on projected outcomes for the client.



We'll take a closer look at how Comparator+ handles this particular challenge in the next chapter.

RISING TO THE COMPARISON CHALLENGE

In this paper so far we've looked at how the art and science (and we do think, increasingly, it is both) of product comparison and projections is changing in response to the RDR, the rise of platforms, regulatory expectations and the growing sophistication of the products and services on offer in financial services today. In fact, at least for those advisers specialising in a portfolio management-led service, there is an argument for saying that – other than in defined circumstances, such as researching annuity prices under the open market option – product comparison and projections in its purest, traditional form, is effectively dead.

We'll conclude now by taking a closer look at the comparison systems themselves, and the role they can play for both advisers and clients in the advisory and decision making process. To put some structure around this let's go back to our key issues table from *Setting the Scene.*

STATUS	A product comparison and projection process must be flexible and appropriate for adviser status	Reliance on the product-driven portals of old seems now most likely to be appropriate for advisers giving relatively restricted and clearly defined advice (for example, I want an annuity, which one?) Putting portals aside, each comparison system from our table of 7 at the start of this report has different capabilities, strengths and weaknesses: it is difficult to say which is 'best' – much like which platform might be the best strategic fit, we think that depends on the particular needs and proposition of each adviser firm
VALUE	It's vital to demonstrate the value of the advice process for clients who now pay fees	Comparison and projection systems have a clear role here in helping to demonstrate the depth and sophistication of research required to make a recommendation, as well as producing outputs that can form the basis of client meetings and reports The ability to make sure apples are compared with apples and to run different scenarios with relative ease can help build trust and an open dialogue between adviser and client, vital foundations for an ongoing relationship in the longer-term
VALIDATION	Documenting an unbiased product comparison, projection and selection process helps meets FCA requirements	Comparison systems can support advisers here in generating a research audit trail and meeting regulatory requirements, for example in the case of pension switching, supporting the completion of the FCA's record keeping template and being able to compare the multitude of different providers' growth rates and adviser charges

So we can see quite clearly here that comparison and projection systems can, and do, add value for advisers. In this paper we haven't got into comparisons of the systems ourselves. We think there are other sources more appropriate for that and, in any case, that the judgement on what comparison system to go with is one that only an individual firm can make based on its particular proposition and processes.

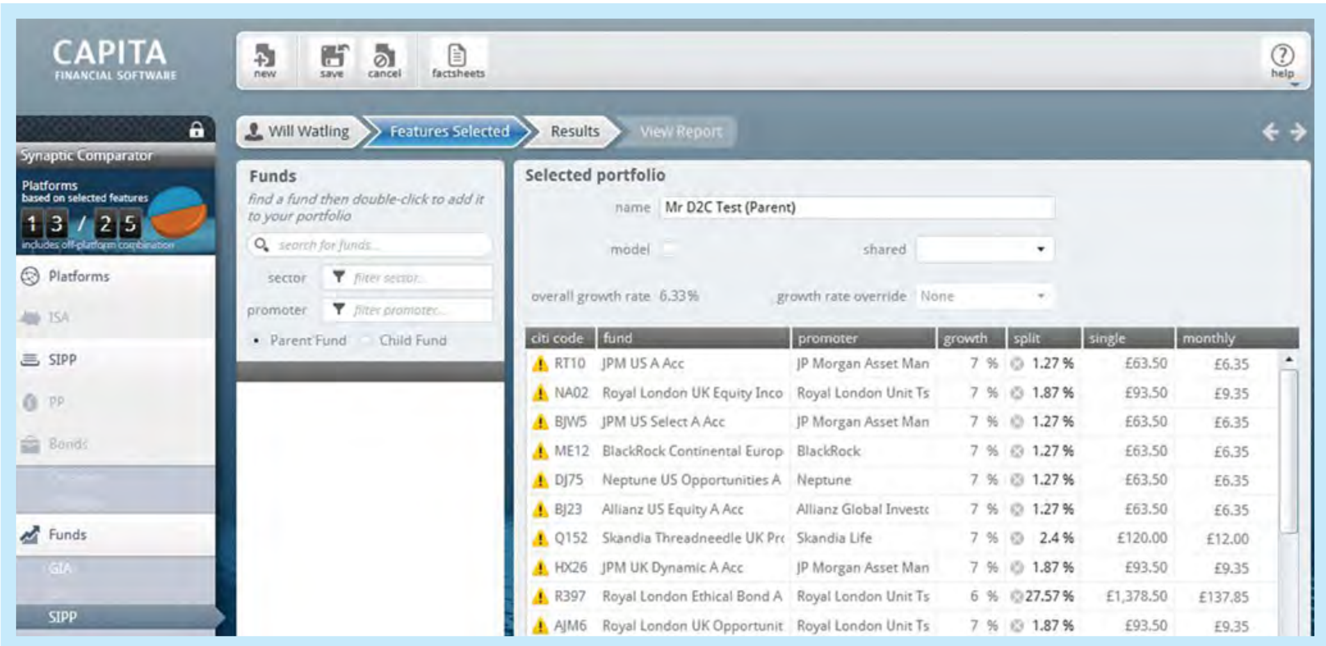
HOW DOES COMPARATOR$^+$ RISE TO THE CHALLENGE?

But what about CFSL's Synaptic Comparator$^+$ system, the reason we took a look at this subject to begin with? Let's start by taking a look at how it responds to a couple of the specific challenges highlighted in earlier chapters. Then we'll go back to our issues table and consider how the comparison needs of advisers today relate to the overall functionality of Comparator$^+$.

NAVIGATING THE SHARE CLASS MINEFIELD

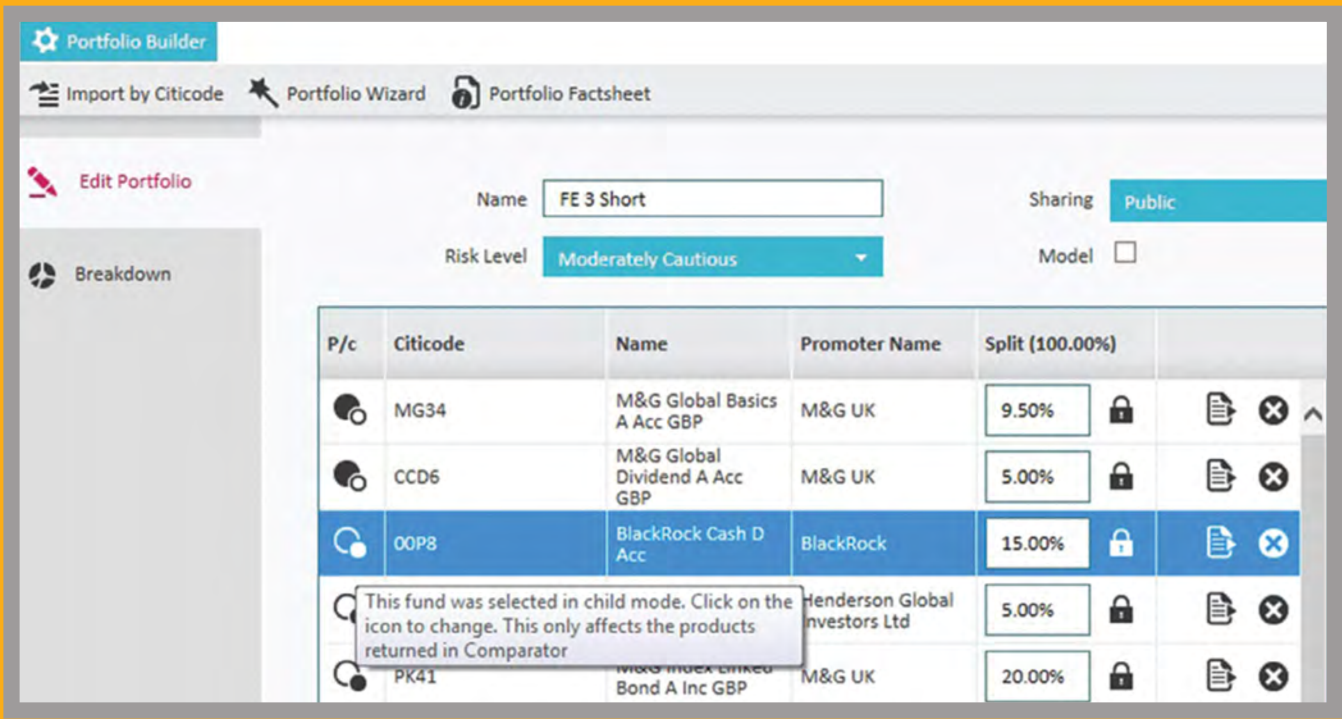
For any fund, Comparator$^+$ knows which platforms or providers can trade each available share class (or insured mirror fund). When a portfolio is loaded to the system, instead of looking just for exact matches, Comparator selects the most appropriate share class for each platform or provider, reducing the number of platforms or providers that would otherwise be deselected and letting advisers make value judgements within a broader context. That's a lot more difficult than it sounds, and in our time with the system we were impressed at its ability to think beyond a pure match.

The screen grab below shows how little yellow triangles clearly alert users where there is no exact match available for the requested share class. CFSL tells us that – at the moment – only 13 out of 25 platforms on their system can offer every available share class in a particular fund, so this feels like some useful flexibility to us.



It's worth noting that Comparator$^+$ also offers a companion tool, Portfolio Builder, that lets you model portfolios using information from your fund research partner (someone like Financial Express) and then toggle the portfolio between different share classes and the parent fund. You can use these to complete projections for different combinations in Comparator until you've found the best one (for example, in terms of keeping the widest number of platforms and providers in contention as possible). Then you can save your portfolio down into Comparator to support future research, along with the parent fund version too, if you like, as long as it is saved with a different name.

Here's another screen grab from CFSL, this time taken from the Portfolio Builder tool, to give you an idea how the toggling functionality works.



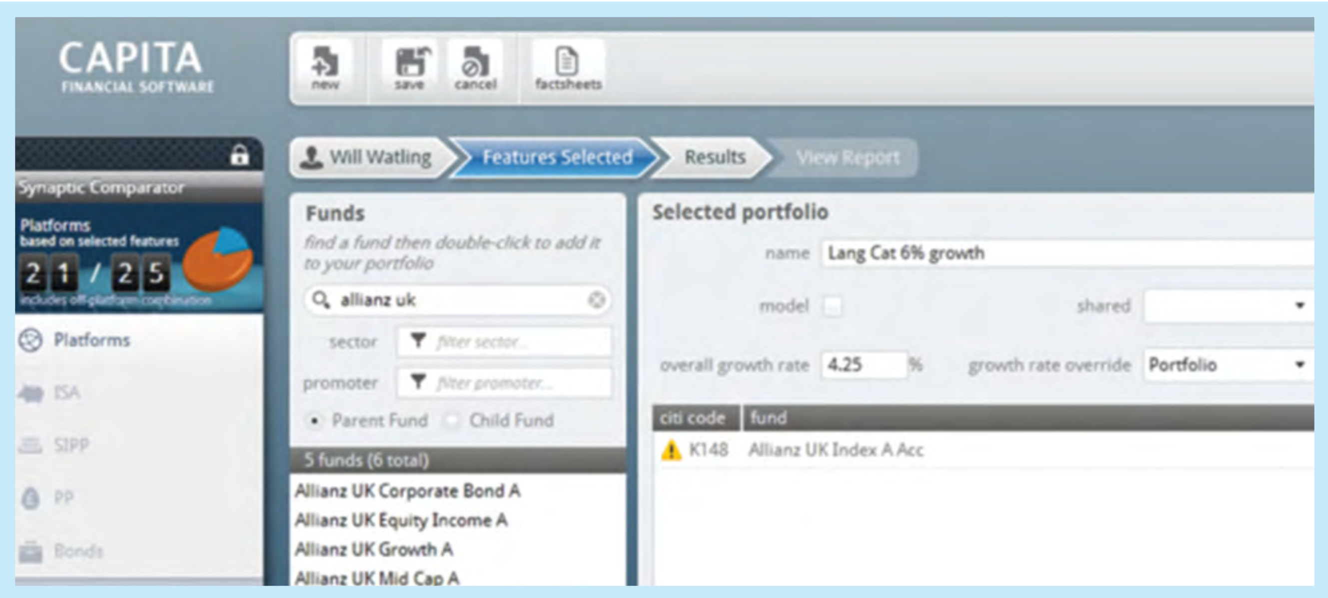
COMPARING APPLES WITH APPLES

When it comes to provider specific growth rates, Comparator+ lets users override system generated growth rates and TERs for comparison purposes. So you can, for example:

- use the same rate(s) to project a future portfolio as were used in a provider's transfer illustration
- choose a single growth rate to compare equivalent products across platforms or providers
- choose a single TER for the same purpose

We think this is helpful. Of course, the actual TER rates for funds through any particular platform or product provider will be an important factor in making final recommendations. But in terms of taking clients through a decision making process, having the option to strip out fund specific variables at an appropriate stage to compare apples with apples does make life easier. It lets an adviser show the specific underlying (that's tax wrapper and platform specific) range of costs for a client solution across the market, and then compare these to the costs of a client's existing product(s).

This screen grab from Capita shows how the overall growth rate can be altered manually in Comparator+. The fund shown would normally be projected at 6%.



LOOKING AT THE BROADER PICTURE

So we've found some useful features in Comparator⁺. But in bigger picture terms, how does it measure up against our key issues? For any of you looking for the more traditional technology proposition review, incidentally, this table is where you'll find most of it.

STATUS	A product comparison and projection process must be flexible and appropriate for adviser status	Comparator⁺ is aimed squarely at advisers working both on and off platforms – which should be most It runs single solution cost based comparisons (with calculations signed off by each platform and provider), not just individual product comparisons It covers 25 platforms, as well as 13 SIPPs, 5 personal pensions, 5 onshore bonds and 2 offshore bonds on an "off platform" basis, all with active provider support for calculations and providing data updates For those operating CIPs or making repeated use of model portfolios, it allows for the creation of comparison templates that can be used with multiple clients
VALUE	It's vital to demonstrate the value of the advice process for clients who now pay fees	Comparator⁺ documents the comparison and projection process in a flexible output form that can be used to compile reports for clients It can handle a range of adviser charging (and other pricing) options on either ad valorem (%) or fixed fee, or a mix of both When projecting, it lets the user set time and financial parameters for regular adviser charges It can produce information for over 85,000 funds, including TERs and access to past performance information It allows the use of a standard growth rate across multiple providers, making it possible to compare apples with apples for a client It lets provider specific growth rates be overridden to help in making transfer and switching comparisons. It lets the term for projections be set in months rather than whole years, to more accurately reflect client needs
VALIDATION	Documenting an unbiased product comparison, projection and selection process helps meets FCA requirements	It can pivot between on and off-platform products when making comparisons, to validate which is the best option for any client or client segment Comprehensive reporting, outlining reasons for client recommendations, designed to support client decision making and aid firms in meeting their regulatory requirements

We've spent a long time in this paper talking about regulatory and practical issues – and looking at how Comparator+ meets or tries to meet them. It will be clear by now that we think its feature set is comprehensive and that there are some specific areas where we think it offers really valuable support. Overall we are impressed with the system – indeed, we probably wouldn't have written this paper if we weren't.

Nonetheless, no-one gets out of an independent review from the lang cat without being given some areas to concentrate on for the future. Having watched the development of the system and the wider Fusion suite of which it forms a part, we think the team at CFSL has (rightly) been focused on getting the functionality, the hard sums and the provider participation nailed. Now that that is all but done, we think CFSL's attention needs to turn to usability. Once you know what you're doing with Comparator+, it's OK to use, but it is a system that needs some getting used to. Certainly an administrator or paraplanner wouldn't find it easy to dip in and out of without some training. Some complexity is inevitable – that's what happens when you have systems that can do a lot of things – but it would be great to see the big brains at CFSL now trained on making the system a lot easier and more intuitive to use.

Otherwise, we see Comparator+ as a sound comparison and projection system with all the basic functionality you would expect, and some useful, flexible features as already highlighted. It is developing well to support the changing market landscape, in particular the rise of platforms and the implementation of RDR.

About the lang cat

We're a small but noisy consultancy based in Edinburgh, specialising in platforms, pensions and investments. We spend about half our time on advisory work with providers and advisers. Lots of proposition development, lots of take-to-market consultancy, lots of pricing and competitive positioning analysis. The rest of our time we spend on delivering very high quality, technical copywriting and marketing services. We also publish an annual Guide to Platform Pricing. To find out more just visit www.langcatfinancial.com

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