

The Australian

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Flight of the Navigator: Navigator investment platform

- Simon Hoyle
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THE Navigator investment platform has been named Australia's best in a comprehensive review of the sector by market research group Investment Trends.

Navigator, launched by the Norwich insurance group but owned by National Australia Bank, knocked off the Advanteos platform (owned by Commonwealth Bank) after a development program that Investment Trends says makes it "the No 1 full-function platform".

Investment Trends' review of the platform market last year has found that a development hiatus -- caused first by significant legislative changes in 2007 but then extended by the global financial crisis -- has well and truly ended, giving way to a full-tilt "arms race" between platform providers to improve their services.

Platforms -- the catch-all term for master trusts, master funds and wraps -- are essentially administration services that enable planners to efficiently administer clients' investment portfolios. They permit a single investment to be spread among a wide range of different underlying investments, and produce consolidated reporting on the performance, value and tax status of those investments.

Andrew Knox, an analyst at Investment Trends, says a platform provides access to an average of 40 underlying fund managers and 140 managed fund options.

"Clients in platforms tend to have higher account balances, are more engaged in their superannuation and tend to want to have a say over investment selection," Knox says.

He says that as advisers strive to demonstrate that they can add value for clients, platforms have developed accordingly. He says the Investment Trends research has identified platforms' ability to allow investors to invest directly in equities as a key area of development last year. A growing number of platforms also offer access to term deposits.

The platform market can be broadly divided into three: superannuation, investment and pensions, reflecting the sort of money to which they cater. Platforms are aimed principally at planners, although some do allow individual investors to take full control of their own investments. Strictly speaking, platforms are a class of investment vehicles known collectively as investor-directed portfolio services.

Knox says changes to the tax treatment of superannuation and pensions in 2007 caused platform providers to suspend product development and divert attention and resources to adjusting systems to cope with the new rules. As that work came to an end, the GFC began, causing ongoing development plans to be shelved or scrapped.

But as investment markets recovered, investor confidence improved and fund flows returned to health, the development race kicked off again. That is good news for anyone whose planner uses a platform to implement, monitor, review and adjust their investments, and that's a large number of clients and a lot of money.

At the end of the September quarter last year (December quarter figures were not available at the time of writing), research firm Morningstar said there was more than \$360 billion invested via platforms. The figure had increased by almost \$40bn during the September quarter alone.

The platform industry peaked in September 2007, when platforms collectively administered about \$425bn; the GFC saw the figure fall to about \$300bn. Morningstar said that at the end of September last year the figure was "almost back to December 2006 figures". The figure is certain to have increased during the December quarter last year and most likely again since then. Knox says investors need to understand why their financial planner uses a particular platform; and it's not necessarily a bad thing if a planner uses a platform that is owned by the same financial institution that owns the planning firm. In some cases, the platform provider uses its relationship with those planners to tailor the platform to their specific needs.

Knox says that on average, financial planners each use 3.5 platforms, selecting each for its ability to cater to the needs of a particular group of clients. Not all platforms are equally good in all areas; there is a degree of specialisation, dictated by the demands of the planners that use them.

Investment Trends analysed the 25 most significant platforms in the country, and assessed 430 elements of the services and functions the platforms offer, before naming Navigator as the country's best.

Knox says platforms' renewed focus on development and innovation generally means greater efficiency, and greater efficiency in turn may lead to lower costs and more face-to-face time for planners and clients.

In past years, platforms have competed against each other according to how much they paid planners to use them. If a planner places investments on a platform, the platform may charge the investor, say, 80 basis points (0.8 per cent of the value of the investments) for the admin service, but then pay the planner a cut of this fee. The more business planners put on a platform, the bigger the slice they get. This additional slice is called a volume rebate or volume bonus.

An investor-directed portfolio services is not classified as an investment product. This means they are not formally included in industry moves to phase out product commissions. Consumers will have to rely on market forces to stamp them out.

Knox says platforms are much less likely to compete for planner business by offering bigger and bigger volume rebates, competing instead on service quality and specialisation. Platforms can cater to planners regardless of how planners charge for their services, whether it be a percentage of assets under advice, a schedule of fees, an hourly rate or other method.

"I guess they are fee agnostic," Knox says. "They really need to cater for all financial planners. A platform needs to accommodate that and back it up with functionality."

DRILLING DOWN

Australia's best platforms (Ultimate owner in brackets)

Navigator (NAB)

FirstWrap -- Advanteos/Colonial First State Customer Solutions (Commonwealth Bank)

Macquarie Wrap (Macquarie Bank)

Asgard eWrap (Westpac)

netwealth (privately owned)

Source: Investment Trends

Simon Hoyle is editor of Professional Planner magazine.

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