

Money

A platform for growth

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Investors who use a financial adviser tend to have no idea what happens to their money. That is, the actual process of money movement, the directions and routes it takes from your bank account to the investment itself.

The most important “middle man” in the investment process is the largely unseen investment platform. A recent poll by consultancy Investment Trends found investor awareness of platforms was low. The firm’s 2009 Small Self-Managed Super Fund Investor Report found 72 per cent of investors who were actually using an investment platform said either that they didn’t use one or did not know what they were.

Yet just about all monies directed by advisers are routed onto a platform. For instance, if you’re a client of NAB Financial Planning, Garvan, Godfrey Pembroke or Apogee (all well-known financial planning groups) they are all part of the MLC/NAB umbrella, and your money will almost invariably end up on an MLC-run platform.

It is not just the NAB/MLC. The platform market share is dominated by the big six: the big four banks, Macquarie and AMP.

So just when you think you’re getting independent advice, you find that the adviser works for a group which controls the platform which controls the range of investments.

What happens to money in a platform? When it leaves you, it is clipped by three different entities. First the underlying fund manager’s fees, then the platform’s administration fee and last (but not least) the adviser’s fee.

If you buy a fund direct from a fund manager you could pay a fee of about 1.5 per cent but on platforms you get wholesale prices – about 0.9 per cent to 1 per cent. Sounds good? But then there’s the platform fee – anything from 0.3 per cent to 1 per cent, charged directly to you.

Wrap platforms, as they are known, wrap everything into a consolidated bundle, making it easier for the adviser to see the entire portfolio and to handle the accounting. If you have six different funds on the platform plus shares, you will get one consolidated tax report each year. The platform can also streamline corporate actions such as share splits and rights issues and it offers advisers investment and risk tools which would otherwise be unaffordable. That’s what the platform fee pays for.

Have we forgotten a fee? Yes, there’s the adviser fee as well, the one everybody gets hung up about. Commissions to the adviser are often more than 1 per cent. So the cost of being on a platform is possibly in excess of 3 per cent per year for the average investor, with all fees included.

What about doing it yourself, without an adviser? It’s all built in. Some platforms even deduct an adviser fee for the adviser that hasn’t even been used. Best to check the fine print.

Aren’t commissions and so-called volume-based incentives banned come 1 July 2012? Well, maybe not. They are now being quietly replaced by a new term, the ‘asset-based fee’.

Glen Killen, director of Strategy Financial Consulting, describes this as a case of pure semantics. “The asset-based fee is a percentage charge on assets,” he says. “It is a commission by any other name. All they’re doing

is linking a fee to the amount invested, and then saying that that's not a commission."

The government, says Killen, seems to be happy as long as the 'c' word is never mentioned after 1 July 2012. Advisers have even been proactive, getting ready ahead of time. Killen says he knows one case where an adviser's 0.66 per cent commission has morphed into a 1.1 per cent asset fee.

Investment Trends principal Mark Johnston says there has been growth in this kind of asset fee at a far higher rate than the more transparent and up front fee-for-service arrangement. Yet at the same time he says there is evidence people are eschewing platforms or simply using different assets such as index funds and exchange traded funds from it, which attract the lower wholesale costs.

"Our research indicates the regulatory changes will prompt many advisers to seek lower cost platforms for their clients, as well as moving towards lower-cost investment options such as exchange traded funds and index funds within the platforms," says Johnston.

Killen says the 2012 regulations offer one saving grace. Advisers will be forced to ask all investors to "opt in" to the arrangements every year.

"The changes won't be huge," says Killen. "But clients will have a degree of power to turn off the adviser's fees if they wish. That's the best thing to come out of this."

