



News

PLATFORM INDUSTRY CONSOLIDATION

By Janine Mace on 10 February 2011 0 comments

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Viewed from the outside, the platform market bears a striking resemblance to a bunch of sumo wrestlers grappling each other to a standstill in search of some small advantage. And with the latest [Plan For Life](#) statistics showing the total masterfund market (platforms, wraps and master trusts combined) was worth \$417.5 billion at the end of the September 2010 quarter, it is certainly a prize worth fighting over.

It is also a very significant battle given the integral role platforms play in the modern planning practice. Platforms play a key role in channelling inflows into the investment funds on the platform menu, so reducing the number of providers has an impact.

As [Investment Trends](#) analyst Recep Peker explains: "In 2006 the top five owners held 58 per cent of the primary adviser relationships, but this has now grown to 74 per cent. Advisers place 75 per cent of all new client fund inflows with their primary platform, so the primary relationship is very important."

The latest [Investment Trends](#) data indicates the platforms with the biggest share of the primary adviser relationship for new inflows are [BT Wrap](#) (16 per cent of inflows), Colonial First State First Choice (14 per cent), [Macquarie Wrap](#) (8 per cent) and Navigator Wrap (8 per cent).

Less obvious consolidation in the platform market has also occurred at the desktop, with planners reducing the number of platforms they use. "In 2009 financial planners were using 3.9 platforms each, but now they are down to 2.9 platforms," Peker says.

According to the [Investment Trends](#) report, this is occurring for a variety of reasons, including poor service (30 per cent), platform fees being too high (33 per cent), lack of flexibility (20 per cent) and a desire to reduce the number of platforms used (18 per cent).

The executive general manager of [MLC Investment Platforms](#), Michael Clancy, accepts growing concentration is an issue. "The broader platform market is very consolidated," he says.

The reduced number of players has also left behind the tricky issue of legacy products.

"In the wake of consolidation, the question is what happens to existing portfolio products," notes [Investment Trends](#) principal Mark Johnston.

"There might be consolidation at the ownership level, but it is difficult to almost impossible to switch off the old products, so it is not consolidation in product numbers."

This market situation is unlikely to change any time soon, according to [Praemium](#) managing director Arthur Naomidis. He believes any major new entrants are likely to come from offshore rather than from local companies interested in gaining a foothold in the market.

"Australia looks attractive to outside players and they are likely to enter by buying a smaller player to begin building their presence in the Australian market," he says.

Johnston agrees it would be difficult for a local entity to enter the market. "The barriers to entry are quite high due to the large functionality on existing platforms and the need for a very high spend to compete with that," he says.

"Ownership of the distribution channel is also a major obstacle. To launch a portfolio without distribution would be very challenging."

Consolidation leads to influence?

Despite their increasing hold on the market, Naomidis argues the big platforms do not have the market sewn up.

"At the moment the big banks own 80 per cent of everything and the new guys are playing for a share of the other \$200 billion, but this is a big enough pie to create lots of innovation and is worth working for. However, with the introduction of fiduciary duty, it opens up the other 80 per cent," he says.

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Naomidis claims Praemium is now the only "non-institutionally owned platform" in Australia. He believes many planners and clients are uncomfortable with a high level of provider concentration in the post global financial crisis world — particularly given the potential for influence that could be exerted by platform providers.

The trend to consolidation has certainly led to increasing debate within the industry about the potential for bias and conflict of interest.

Naomidis believes platforms exert "heaps" of influence when it comes to the products and advice provided by the planners using them. "Platforms are instrumental in influencing the choices made by the financial planner," he says.

"They are institutionally owned platforms favouring institutionally owned products. They are supermarkets which restrict what is on the shelf to their own home brands and a few other well-known things like Vegemite."

[Paragem Dealer Services](#) managing director, Ian Knox, also has concerns about the question of influence. After a long career in this market, including a stint as CEO of Sealcorp and its Asgard platform, he understands only too well the potential for bias in the platform market.

"The traditional view is that providing the underlying investment is not biased, then there is not a bias and that may be fair enough. But if the owners of the platform are providing reimbursement to advisers for supporting the product, then there is an issue," he says.

However, Knox's real concerns rest with the issue of clients being locked into a platform, which makes it hard to argue the platform is simply a 'tool' rather than a 'product'. (The argument that platforms are merely neutral administrative tools is one of the key areas of debate in the Future of Finance Advice lobbying process.)

"The real issue when you are investing money on a platform — especially in super — is that if you move from that platform you are forced to pay capital gains tax [CGT] and can't always do in specie transfers, so it has aspects of 'product lock'. It is a challenge to argue it is not a product," Knox says. "Seventy to 80 per cent of platform money is in super, so by using a platform you are locking down the product."

This is definitely an issue with planners, according to Peker. His research for the 2010 Investment Trends Planner Technology Report found several platforms were responding to planner demands for better functionality in this area.

"A few platforms have been trying to improve their back-end to increase efficiencies for financial planners. There is a significant focus on administrative efficiency," Peker says.

Johnston agrees financial planners are concerned about this issue.

"A degree of flexibility is very important in platforms and hence the interest in CGT and in specie transfer functionality," he says.

Concerns about the potential for platforms to exert undue influence have also been fanned by the decision of several platforms to reduce their investment menus. For example, [BT](#)'s move to winnow down its platform menu to 110 investment funds is often cited as an example of increasing platform provider influence.

"They are making the decision to limit what planners can access and offer to clients," Naomidis says.

He believes this is at odds with the trend elsewhere, with the UK market moving towards a whole-of-market approach where platforms offer all products. "It is strange that in the UK they are moving to whole-of-market, but in Australia we are moving to restrict it."

According to Johnston, product choice is very significant to planners.

"Most financial planners see themselves as having a degree of independence and having a wide choice of products to offer clients is very important," he says.

More restrictive investment menus may also have an impact on the broader funds management industry and the development of new products.

"If planners can't get access to new funds, how can new funds get up and running?" Naomidis asks.

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