



## **ABI RESPONSE TO THE FCA CONSULTATION ON INVESTMENT PLATFORMS MARKET STUDY REMEDIES (CP19/12)**

**June 2019**

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### **About the Association of British Insurers**

1. The ABI is the voice of the UK's world leading insurance and long-term savings industry. A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation. The UK insurance industry is the largest in Europe and the fourth largest in the world. It is an essential part of the UK's economic strength, managing investments of over £1.8 trillion and paying nearly £12bn in taxes to the Government. It employs around 300,000 individuals, of which around a third are employed directly by providers with the remainder in auxiliary services such as broking.
2. Our member firms administer a range of both Direct to Consumer (D2C) and advised platforms, as well as comparable services in products and distribution. The ABI represents a growing number of investment platform firms, including some of the largest financial services firms in the country.

### Executive Summary

3. The ABI welcomes the opportunity to provide feedback on the FCA's findings in its final report on the study on the investment platforms sector, and on the package of remedies being proposed. We are pleased that, overall, the FCA found that the market is working well in many ways for both advised and non-advised customers. We also appreciate that some of the key positions from the ABI's response to the market study's interim report from last year were taken on board in the FCA's final findings.
4. It is encouraging that the FCA has found that platform customers are, overall, satisfied with their platform, and that, typically, customers who pay more can access a greater range of features, showing that it is a competitive market. The FCA acknowledges that profitability in this sector does not appear to be excessively high and that platforms also appear to help customers and financial advisers make informed investment decisions, which suggests that platforms are competing in the interests of customers.
5. On switching, it is our position that customers should have access to timely and efficient transfers, regardless of their product, provider, or the regulator. We are pleased that the FCA welcomed the progress being made across the industry through the STAR initiative, in which the ABI has played a key role. We will continue to engage with the FCA on this work to further improve the efficiency and speed of transfers.
6. The ABI is supportive of the FCA's proposals on unit class conversions and we believe that, if they are implemented correctly, they could lead to good outcomes for customers. When writing the rules for unit class conversions the ABI recommends that the FCA should also seek to ensure the development and adoption of standards and automation for



transfers, which should take into account the work that the Transfers and Re-registration Industry Group (TRIG) has done and that STAR is taking forward.

7. Alongside this, the fund management industry plays a vital role in the process of unit conversions and we urge the FCA to specify requirements on fund managers to aid the smooth transfer and re-registration of assets. We would also like to see the FCA encourage the fund management industry to sign up to voluntary initiatives like STAR to further increase automation within the industry.
8. On exit fees, if the FCA is to go ahead with the removal of platform exit fees on new business, we would advocate for a ban rather than a cap. It is important that the ban is applied to new business consistently across the market, and that it includes providers of comparable services to ensure there is a level playing field which benefits consumers across these markets. If a ban does not cover the entire market it may skew the market away from platforms.
9. It is important to also bear in mind the differences between advised and D2C platforms and how these platforms are used. Broadly, we believe that advisers are responsible for the decisions behind the costs and charges that they incur on behalf of their clients and it is possible that, even with a ban on exit fees, this will not hugely impact switching in the advised space.
10. We look forward to continuing to engage closely with the FCA on these issues.

#### Consultation questions: Unit conversions

11. **Q1: Are you aware of any material obstacles firms may face in implementing the proposed requirement that consumers moving investments in units in funds common to the ceding and receiving platforms should be given the option of an 'in-specie' transfer (in addition to other options the platform may offer)?**
12. The ABI welcomes the FCA's proposals on in-specie transfers and we believe if implemented correctly, they could lead to increased competition and good outcomes for customers. To ease implementation the FCA should further support standards for transfers to be developed and adopted, including the need for automation of transfers and the speed at which a transfer must happen, including within the fund management sector.
13. Automation of the transfer process is key to making a success of the rules the FCA has proposed. To improve transfers, the process of how they happen needs to be harmonised across the financial industry, therefore all transfers and re-registrations should be automated. Harmonisation should build on the work that TRIG has done, and that STAR is taking forward. Membership of STAR is aimed at everyone involved in the transfer process, including fund managers as they have a crucial part to play in relation to unit conversion. The FCA should make clear its expectation that automation should be the norm and should take steps to encourage the use of automation.
14. The rules on transfers should specify where the responsibility lies for ceding and receiving platforms. They should be written as wide as possible and include platforms as well as transfer agents, fund managers and fund manager administrators. The fund management industry clearly plays a vital role in the process of unit conversions and we urge the FCA to consider the role of fund managers when finalising the rules on unit conversion.

15. Rules should also cover 'comparable services' offering re-registration off-platform, including other savings vehicles and tax wrappers which hold funds in a similar manner.
16. **Q2: Are you aware of any material obstacles firms may face in implementing the proposed requirement that ceding platforms should request conversion on behalf of consumers, where this is necessary to support the customer's request to transfer their units to a new platform on an 'in-specie' basis?**
17. If the same fund units are available on both the ceding and receiving platforms there are no obvious obstacles to preventing 'in-specie' transfers. However, platforms that offer lower priced funds – "super clean" share classes – may not hold the standard share class, which would prevent customers and advisers from requesting a unit conversion into the standard class ahead of an 'in-specie' transfer. For an in-specie transfer to be possible there needs to be a common/standard share class available on both platforms, the ABI recommends the FCA to consider rules that compel fund managers to make a standard/common share class available to all platforms they support with funds.
18. **Q3: Are there any circumstances where platforms would not be able to take the necessary steps to bring about the conversion of unit classes to enable an 'in-specie' transfer? For example, would our rule need to apply to other firms that may be involved in the process?**
19. As our responses to questions 1 and 2 reflect, there are issues when it comes to share classes and the automation of the transfer process that could complicate an 'in-specie' transfer. Further to this, it might be the case that fund managers do not make all share classes available across all providers and/or platforms. The reasons for this may be related to distribution agreements or the inability of fund managers to secure availability across a broad selection of platforms. Other reasons for a share class not being available across all platforms could be because of the specialist nature or structure of the fund in question, for example some platforms may chose not to offer a specific share class if there are performance related fees attached to it or if the funds trading days are limited.
20. A platform may also choose not to hold all share classes available to them because of the administrative cost of holding several share classes or because there is no demand from customers and advisers for a specific share class. Therefore, a common/standard share class needs to be available to all customers and advisers, otherwise in-specie transfers will not be possible. The FCA therefore needs to compel fund managers to make such a share class available to all platforms they support with funds.
21. We recommend that the FCA considers the role and responsibilities of fund managers who are involved in the transfer process to ensure that the rules capture them and specify their role in the process. It is vital that fund managers fulfil their duties by converting in a prompt and efficient manner, rather than in bulk transfers at specified times.
22. **Q4: Do you agree that receiving platforms, as part of the transfer process, should give consumers the option to request conversion of their units into a discounted unit class, where this is available to them at the receiving platform? If not, why not?**
23. The ABI welcomes the FCA's proposals on unit class conversion as this could result in improved customer outcomes, however, we do not support this proposal. The proposal may lead to standardisation, and if that is the case, could restrict competition to the



detriment of consumers. It is also possible that costs associated with converting units could be passed on to customers in the form of higher overall fees.

**24. Q5: Do you agree with the planned implementation date of 31 July 2020? If not why not, and what alternative timeframe would you suggest?**

25. The ABI believes that this implementation timeline is likely to be challenging for industry. We encourage the FCA to keep in mind that firms currently have several new rules to implement, including the Retirement Outcomes Review and investment pathways which will come into force around the same time. Rules on unit conversion will also need the support of fund managers as well as the platforms industry. Any rules on unit class conversions should also take into account the work that STAR is undertaking on transfers and re-registrations and the timeline which that group is working with. A more realistic timetable for complying with the new rules would be June 2021.

26. The ABI believes the proposed rules would benefit consumers and increase mobility and competition. We believe a delay to implementation would further benefit consumers as their provider could focus on better implementing rule changes in stages instead of in one go.

Discussion questions: Exit fees

**27. Q6: Do you agree that an exit fee should be defined as in paragraphs 4.10-4.11, and should include all charges associated with consumers' exit from the service?**

28. We agree with the FCA's definition that an exit fee for platforms and comparable services is a fee or charge imposed on a client in connection with a request to exit the platform service or transfer to another service provider (with the exception of any charge for advice provided in connection with the exit or transfer, and/or any other third party costs incurred such as stockbroking fees), and this should include fees that have the same impact as a barrier to switching. We do not think it is likely that consumers will differentiate an 'exit fee' from a cost borne as part of accessing their money.

29. It is important that the rules are not able to be circumvented by firms adding any type of monetary barrier to a customer leaving a 'product'; rather than the 'platform', noting that the ban on exit fees is for new business contracts at a future point in time. Any costs borne to the consumer related to exiting must be made fully transparent and should be proportionate to the costs incurred.

30. However, care must be taken with charges that are intended to protect other customers in a fund and this may require a different approach. We note that certain charges of this nature were excluded from the measures on early exit charges on pensions introduced by the FCA and DWP in 2016/17.

**31. Q7: If you do not agree with our proposed definition, what charges should be excluded and how should exit fees be defined?**

32. The definition of exit fees requires detailed consideration, in order to (1) be sufficiently broad to capture comparable services, but (2) avoid including charges which:
- (a) may arise on exit but which are not because of the exit (such as administrative costs paid to third parties), or
  - (b) are specifically to protect other members of the fund (such as market value adjustments).

To achieve this, we suggest that the FCA publishes guidance, so that the rules are not overly complex. The FCA's definition and approach should draw on the legislation and rules from the previous ban and cap on early exit charges on pensions but should not rely solely on these because the platforms market context differs to the pensions market.

**33. Q8: To what extent would the banning of exit fees mitigate barriers to switching in relation to platforms and firms offering comparable services.**

34. We agree that, if exit fees are charged on platforms, this can act as one of the barriers to customers who may wish to transfer to a different platform provider, especially on the D2C side. We therefore believe that the removal of exit fees for new business on platforms going forward could improve outcomes for customers, particularly on D2C platforms.
35. If some platform providers charge disproportionate exit fees for regular transactions that are predictable and that every customer will do at the point at which they cease to use the service of the platform, the ABI does not believe this delivers fair value for customers. For this reason, if the FCA is to take action here, we would advocate for a ban on exit fees for new business rather than a cap, to ensure consistency across the market.
36. We also believe that a ban on exit fees for new business for platforms and comparable services would be a positive step towards making charges simpler and more comparable for customers more generally.
37. However, it must be noted that few advised platforms operate exit fees in the market and there is little evidence to suggest this impacts the levels of switching that takes place with regards to advisers moving clients to alternative platforms. Broadly, we believe that advisers are responsible for the decisions behind the costs and charges that they incur on behalf of their client, and there may be other factors that can influence advisers' decision making, such as lengthy processes and time considerations, as well as costs, for them to assess against the benefits for the consumer. It is therefore possible that, even with a ban on exit fees, this will not hugely impact switching in the advised market.
- 38. Q9: If we introduce a ban or cap on exit fees, should it apply to firms offering comparable services as scoped in para 4.16? If not, what are the reasons why a ban/cap should or should not apply to particular types of firm or service?**

39. We agree that, if the FCA is to implement a ban on exit fees for new business going forward, it should apply to all firms that offer comparable services to ensure there is no competitive distortion between firms offering these services.
40. Our position is that a comparable service should include all services that are not either purely fund management or financial advice. The FCA should supervise practices in fund management and advice accordingly to make sure that they do not serve as a barrier to switching.
41. **Q10: If your firm is in the wider scope of comparable firms as described in para 4.16, do you currently apply any exit fees associated with these services? If so, please describe the nature of these fees.**
42. NA
43. **Q11: If your firm currently charges exit fees (as defined in paragraphs 4.10-4.11) what would be the impact of a ban on these fees? For example, do you envisage that other charges would be implemented or raised to compensate for the loss of income?**
44. If there were a ban it is possible that fees would increase elsewhere, however, not to a problematic extent. As noted in the IPMS final report, there is a possibility that the removal of exit fees could lead to cross subsidisation by those who do not choose to switch, for those who do. However, we regard this would be minimal.
45. **Q12: If your firm is a product manufacturer as well as a distributor as defined, what exit fees are applied within the products and services you offer to clients? If such fees exist, please provide a rationale for this charging model.**
46. NA
47. **Q13: How might a ban on exit fees be defined in such a way as to avoid a 'waterbed effect' whereby firms are able to replace them with new product/wrapper-related exit charges?**
48. It is possible that fees may be marginally increased elsewhere to recover any costs that may be incurred as part of the switching or exit process. However, we do not think that costs would increase dramatically or that this would be very problematic for customers.
49. **Q14: How prevalent are cases where product-related exit fees pose a similar or greater barrier to switching in the investment platforms and comparable services market?**
50. Product-related exit fees on new business are not widely prevalent among ABI members, but they do exist in the market, and customers of platforms or comparable services would not differentiate between a platform exit fee and a product exit fee. We agree that if exit fees are charged on platforms, this can act as one of the barriers to customers who

may wish to transfer to a different platform provider. We therefore believe that the removal of exit fees for new business on platforms going forward could improve outcomes for customers, particularly on D2C platforms. We recommend this includes product fees so that the rules cannot be circumvented.

51. However, it must be noted that few advised platforms operate exit fees in the market and there is little evidence to suggest this impacts the levels of switching that takes place. It is therefore possible that this would have little impact in the advised market, although we agree with the need to make the rules consistent across the market.
52. Our position is that any associated costs of exiting platforms should be transparent and can be fully understood by consumers, i.e. line by line trading costs, withdrawal costs and costs to move into pension drawdown.

**Q15: What is your view on the IPMS final report's conclusion that a ban on exit fees would be more appropriate than a cap? If you disagree with the proposal, please provide your reasons.**

53. We agree that if exit fees are genuinely felt to be a barrier to switching then removing them would be a way forward. We agree with the FCA's finding that a ban on platform exit fees for new business would more likely have a positive impact in reducing barriers to switching than a cap. Furthermore, to ensure consistency across the market, if one were to be imposed, we would advocate for the introduction of a ban rather than a cap. Where some platform providers charge disproportionate exit fees for regular transactions that are predictable and that every customer will do at the point at which they cease to use the service of the platform, the ABI does not believe this delivers fair value for customers. A ban would also be a small further step forward in improving the ability for customers and advisers to compare different platforms given the volume and complexity of different charge types.

**54. Q16: What is your view on the reasonableness of allowing the recovery of third party costs?**

55. We support increased transparency of costs and charges for customers, so it is important to note that any associated costs of exiting platforms should be made transparent and can be understood by consumers.
56. We believe that where additional costs are incurred, it is appropriate that platforms and/or fund managers are permitted to recover them. However, where costs are incurred and passed on the consumer through fees, our position is that these should be proportionate to the costs incurred to the platform. This also links to the consultation questions, where fund managers may charge for unit class conversion – either it should be possible to pass on this third-party cost, or the ban should also apply here.

**57. Q17: Do you agree with our cost benefit analysis? If not, please explain why and provide details.**

58. The costs as outlined in the FCA's cost benefit analysis are fairly broad at this stage, and there remain a number of unknown costs associated with the suggested remedies that



the FCA proposes. We therefore believe this should be reviewed again once there is greater clarity of the impacts of these proposals on platforms.