

Moving the supermarket upmarket

AT8's Mark Loosmore kicks off a series on platform providers with a look at Cofunds



One of the most frequent issues AT8 gets approached about is the creation of a platform strategy. What role should the platform play in a business? Should firms operate more than one platform? How do distributors segment their clients and match which segments go on which platform. How do they decide and check that individual clients and individual transactions should be on a platform or platforms? How can the platform integrate with advisers' IT infrastructure? And of course which are the leading platforms in the market (and who will survive long-term)?

We plan to use the coming weeks to explore some of these issues in this column, each week profiling one of the platform operators.

The first platform we are covering in the series is Cofunds. Cofunds is one of the longest running platform solutions and one of the few that is profitable in their own right (i.e. not subsidised by other products). It has been a long journey to get to this point as having been formed in 2001, profitability didn't come until 2007. A potential warning to the many new entrants in today's market.

Size matters

In the 10 years since foundation, Cofunds has built up some considerable scale. As of the 31 October 2010 they had over £28bn assets under administration (AUA), with a turnover of £45m and a profit of over £2m. They also employ over 500 people.

In preparation for this article we spoke to their Head of Proposition, Verona Smith, to gain a deeper understanding of how Cofunds is likely to develop over the coming months and years. Unsurprisingly, RDR is a major driver for Cofunds and considerable investment is being made to ensure they have a service to help their adviser firms transition to the new world long before the start of 2013.

Cofunds is already well established in supporting the various different distribution models that operate –

from execution-only brokers, through restricted advice panels to the whole of market IFA. Through having a B2C interface which enables end clients direct access to agreed elements of the system and by providing a modular approach to allow functions to be switched on/off to support different models, Cofunds has one of the best multi-channel solutions we have seen.

For the wealth manager who wants to maintain full control of every aspect of the advice process there is a very functional adviser component to the system and the client need never have access to the system. For other advisers that see client access to the platform as a value add (to get up to date portfolio valuations for example), the end client can be allowed to view their information but have the transaction capability switched off. For the execution-only broker, they can point the client to Cofunds (which can be integrated to the company website or operate standalone) and the client can go through the whole transaction process unassisted.

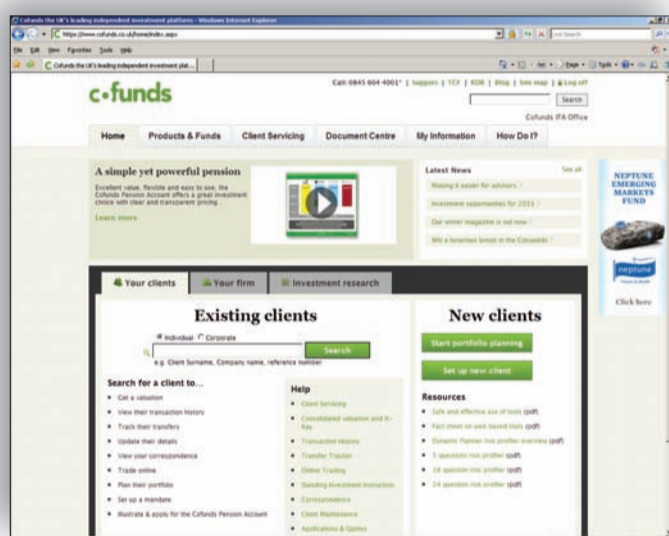
Cofunds integrate their client access component in two ways. The first is hosted by Cofunds with Cofunds' own screens which can be customised so they look and feel like the distributor's own screens – Willis Owen and Scott Moncrief operate in this manner. In the second mechanism, Cofunds is the processing engine for the third-party – serving and processing data to the third party where the third party creates and controls the whole user interface.

Although some may prefer the greater control of the latter approach, we are very impressed with the Cofunds screens and user experience to the extent that we would question the value of the extra cost of building one's own screens. Chelsea Financial Services has adopted the self-development approach, but has done so since before the flexibility of Cofunds configuration mechanism was available.

It is worth pointing out

even with the execution-only implementation a distributor still has to be involved and a consumer cannot use the site without an introduction by a distributor. The client is then logged against that distributor's FSA number and

sufficient money to take the fees and in these cases the adviser simply doesn't get paid (although the fee 'debt' is rolled forward and paid when funds are available). Cofunds is now enhancing its system to provide the automatic sell-



commission paid to the distributor (of course even post RDR, commission can still be paid for execution-only business). If the client breaks their ties with their distributor they must get another introducer before they can continue to use the system. The pro third party distribution stance is an important part of Cofunds' market positioning. In an environment where some are arguing over who owns the client, Cofunds can give distributors comfort that they believe the distributor does.

The system is highly configurable to support the advice/non advised models described above and panels of funds can be controlled by the adviser, the distributor firm or the network. Model portfolios can be built that are specific to the distributor or they can use model portfolios supplied by Cofunds (which are designed independently by OBSR).

RDR ready

Another area into which Cofunds is investing heavily is to be ready for RDR fee management via its cash accounts. Cofunds has supported taking fees from its cash account for some time but frequently the cash account may not have

down of assets should the cash account hold insufficient funds to cover adviser fees. If this function is selected, the client and adviser agree the basis of the sell-down up front (which funds should be sold, should it be in proportion with a model portfolio etc) and then the cash account is kept sufficiently funded to protect the adviser fees.

Cofunds released an update in September this year and demonstrated some of the new functionality to us. Our initial impressions of the system were positive and we liked the cleanliness of the layout and the simplicity of the processes it drives. The platform sticks to what it does best: research, transaction and reporting of funds. It doesn't get confused with trying to compete with the Front-Office and Back-Office tools in the market, although there are some areas of overlap such as the provision of portfolio tools which are supplied by Distribution Technology (DT), including the Attitude to Risk (ATR) and asset allocation tools and the integration of the Research Centre which is powered by FundsLibrary and holds ratings and information from a range of other respected sources.

If we are being picky, it is the integration of these third-party tools that is the least elegant part of the system. In the case of the DT tools they are embedded in a Cofunds container within the solution and while this gives a consistent feel to the branding, it introduces a new navigation mechanism and looks a bit clunky. The Cofunds Research Centre powered by FundsLibrary operates in a different way, it opens a separate window with another new navigation mechanism.

A particularly impressive part of the system was the Management Information reporting. The platform has a series of 'data-cubes' for Assets and Clients. These data-cubes can be queried interactively, with a simple drill down/drill across capability with a drag and drop capability to add new filters and queries. We were extremely impressed with the speed a user can get key information to manage risk, maximise opportunities and improve customer service.

A major force

Cofunds plays heavily on its support for the distributor and its independence (although some product providers have shareholding, it is spread quite evenly across a number of parties including investment organisations). We were impressed with what we saw of Cofunds (financially and technically) and its ability to deal with a scale of business few others can manage. Its solution is well executed and we expect them to continue as a major force in the market for many years.

KEY INSIGHTS

- The platform market is the subject of ongoing regulatory discussion
- Platforms need to change to respond to user demand, RDR requirements and competitive pressure
- There are a lot of platforms and although there are more new entrants to come, consolidation is likely to follow
- Strength and experience in the market is going to be very important