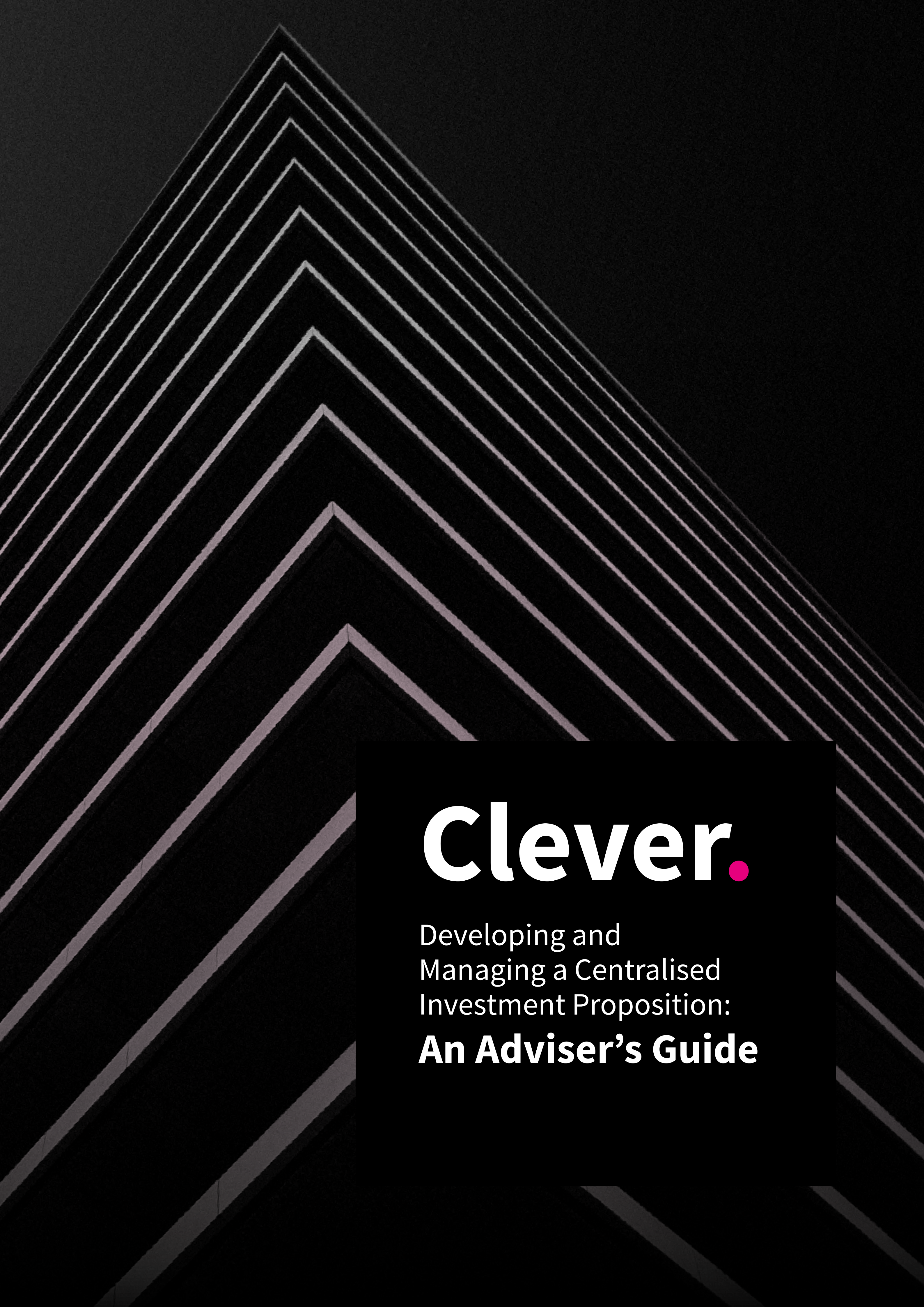

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Developing and Managing a Centralised Investment Proposition:

An Adviser’s Guide

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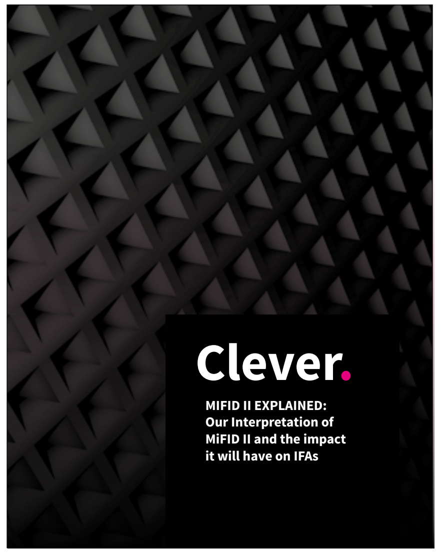

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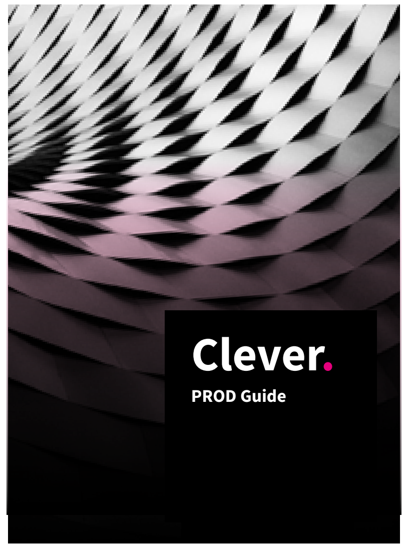

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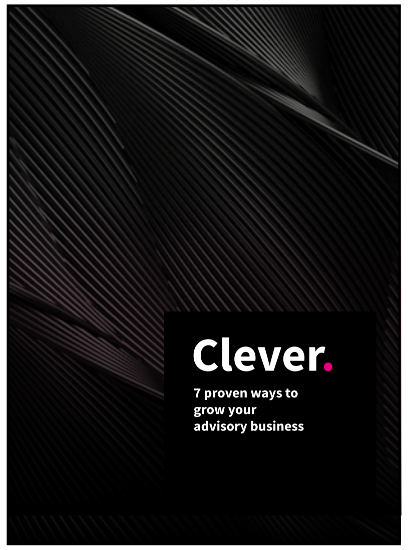
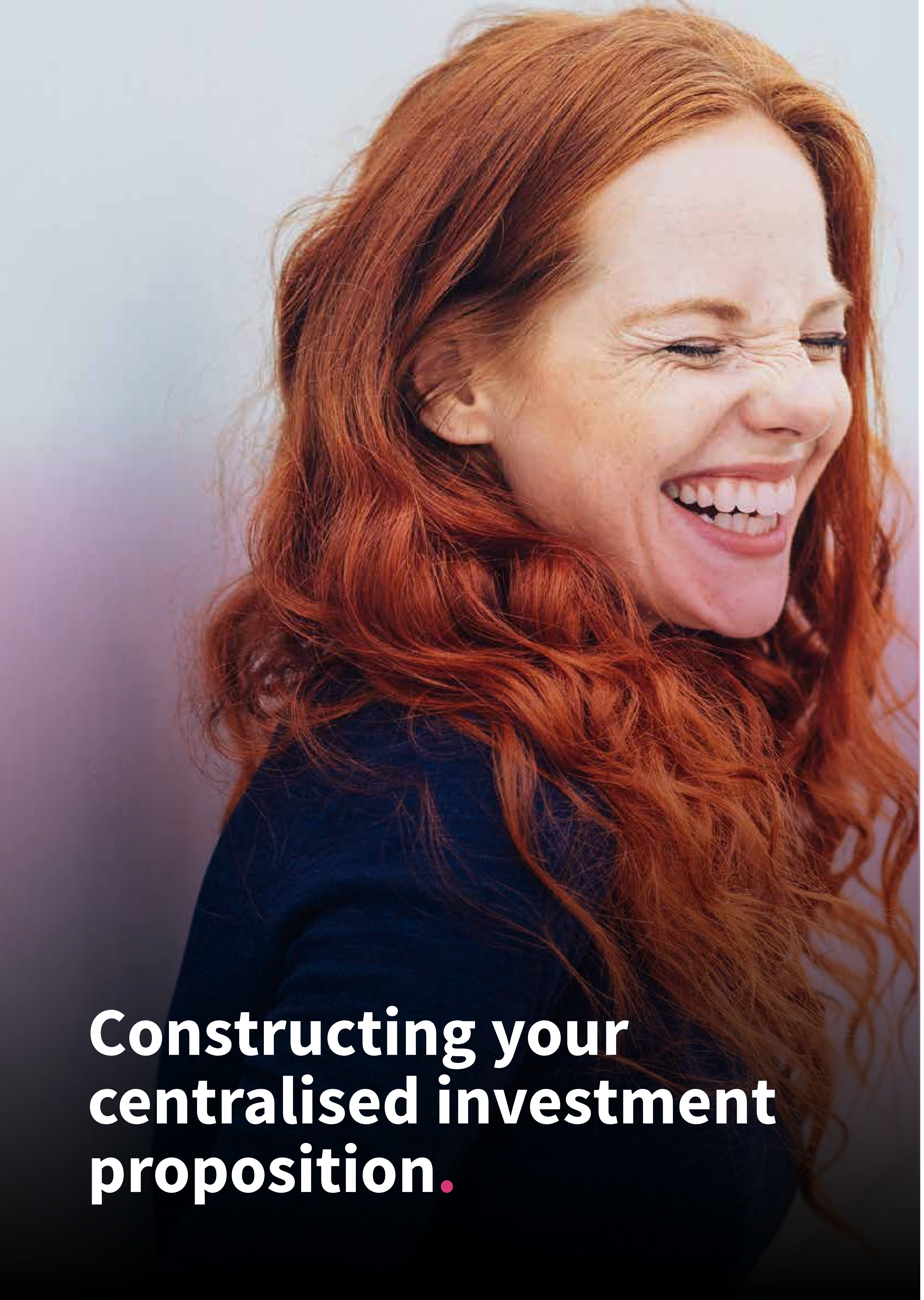


7 proven ways to grow your advisory business

Contents



Constructing your centralised investment proposition.

Over recent years many advisory firms have been changing their business models as a result of the Retail Distribution Review (RDR). Whilst initial focuses from 2012/2013 onwards may have been to do with qualifications and meeting minimum standards, focuses have now turned to constructively engaging with the FCA's regulatory guidance and ever-changing industry best practice.

In many cases firms are looking to develop a Centralised Investment Proposition (CIP), driven by the desire to create additional value for clients and a sound basis on which to run a financially viable financial planning business. A well-constructed CIP can and will deliver benefits to both the client and the firm. Clients will benefit from a more visible, repeatable and structured process. Additionally, the firm will benefit from efficiencies in administration and the management of risks associated with aligning the 'risk the client is willing and able to take' with the investment recommendations. A good CIP can adhere to the FCA's rules, propel a firm's proposition forwards, so that it can offer new clients and old a unique investment and planning opportunity.

Furthermore, this can establish a business mandate which can be continued long into the future. Developing a CIP will often go hand-in-hand with a firm reviewing and altering its overall service proposition. This can be a big change for a firm to undertake but, as discussed above, completed successfully, can be the launching pad for a firm's future. This guide will set out the important points to consider so that the changes can be successfully implemented.

A well-constructed CIP can and will deliver benefits to both the client and the firm. Clients will benefit from a more visible, repeatable and structured process.

Where to start.

It's important to think about how much involvement and control you want to have, and whether this will vary for different client segments.

The construction of a CIP can seem a daunting task for any firm. The success or failure of your design and implementation will, as ever, reside in your planning. To get your firm started, we think there are five main considerations to answer during the planning stage, which will later come to shape your CIP.

1. Begin with your why.

The first place to start is to get a clear understanding of why you are looking to establish a CIP.

What benefits are you wanting to deliver to your clients, and to the firm? As a firm, what is important to you?

Those questions might appear quite general, but understanding your firm's mantra is important to understanding your desired structure of a CIP. Depending on your favoured approach to financial advice, certain elements common in other firm's CIPs may be explicitly left out of your own. Carrying out some work on your firm's reason for being, its core message to clients, will help you to develop an understanding of the components of your CIP and allows you the easiest assessment method you could ask for: does every component you have designed fit with your ethos as a business?

2. How much centralised control do you want? What tools will you use?

Next, consider how much control you want to have, and what tools you use (or want to use) within your firm. With a number of potential investment solutions to consider, ranging from multi asset funds to model portfolios through to a DFM solution, it's important to think about how much involvement and control you want to have, and whether this will vary for different client segments. This can even go as far as deciding whether you want to design the CIP yourself, or adopt one created by a third party?

Technology too can play its part. You should research investment and portfolio management platforms, in order to assess whether they fit in with the plan for your CIP or can be excluded on the basis that they do not. Due diligence is discussed briefly in a later section, but is worth bearing in mind now. Consider things you have ruled out previously and ensure that they are still 'off the table', before proceeding down a pre-determined route.

3. How structured is your advice process? How does your cost structure work?

Client segmentation is key to ensuring the most appropriate investment solution is delivered to each client, and to avoid any issues with "shoe-horning". When creating your CIP you should also consider how your wider advice process fits with the investment proposition, and also assess whether the costs are charged appropriately and fairly.
As mentioned during the introduction to this guide, implementing a CIP is not only a chance to revisit your core business structure and processes, but doing so is probably in the 'must have' list of CIP requirements. Any problems with your existing advice structure could undermine your CIP. Vice versa: a new CIP will likely require an alteration in your advice structure, to take account of individual client requirements, if nothing else.
A well-implemented CIP can also change your cost base, which in turn may impact your client charges. Whilst a desire to see a reduction in cost is a perfectly valid position from which to approach CIP implementation, it is important to remember that you will also have a requirement to ensure cost suitability for clients. Considering all of these elements at one time is your best chance at implementing business wide structures which really work for you and your clients.

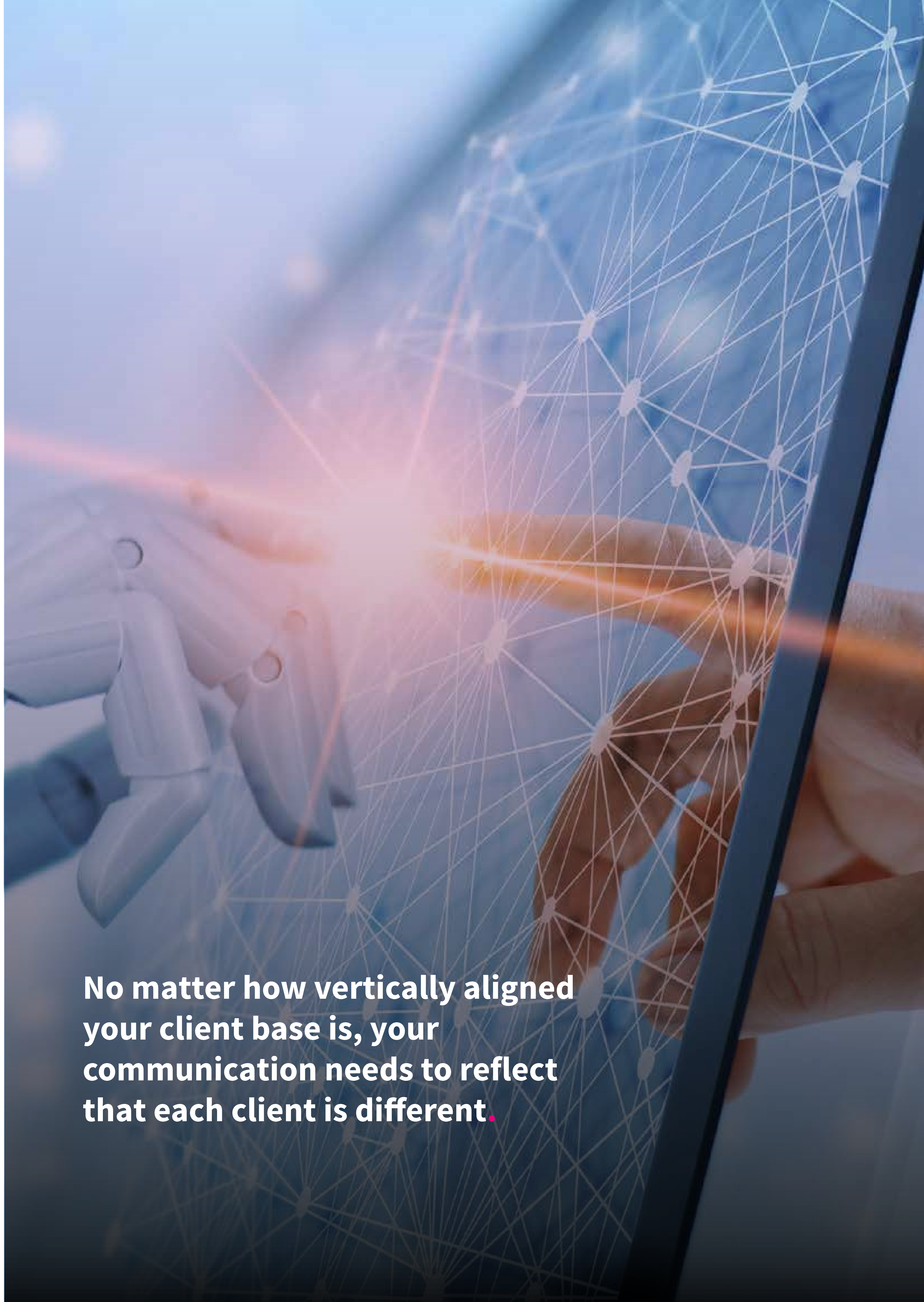
4. What biases do you have on investment style?

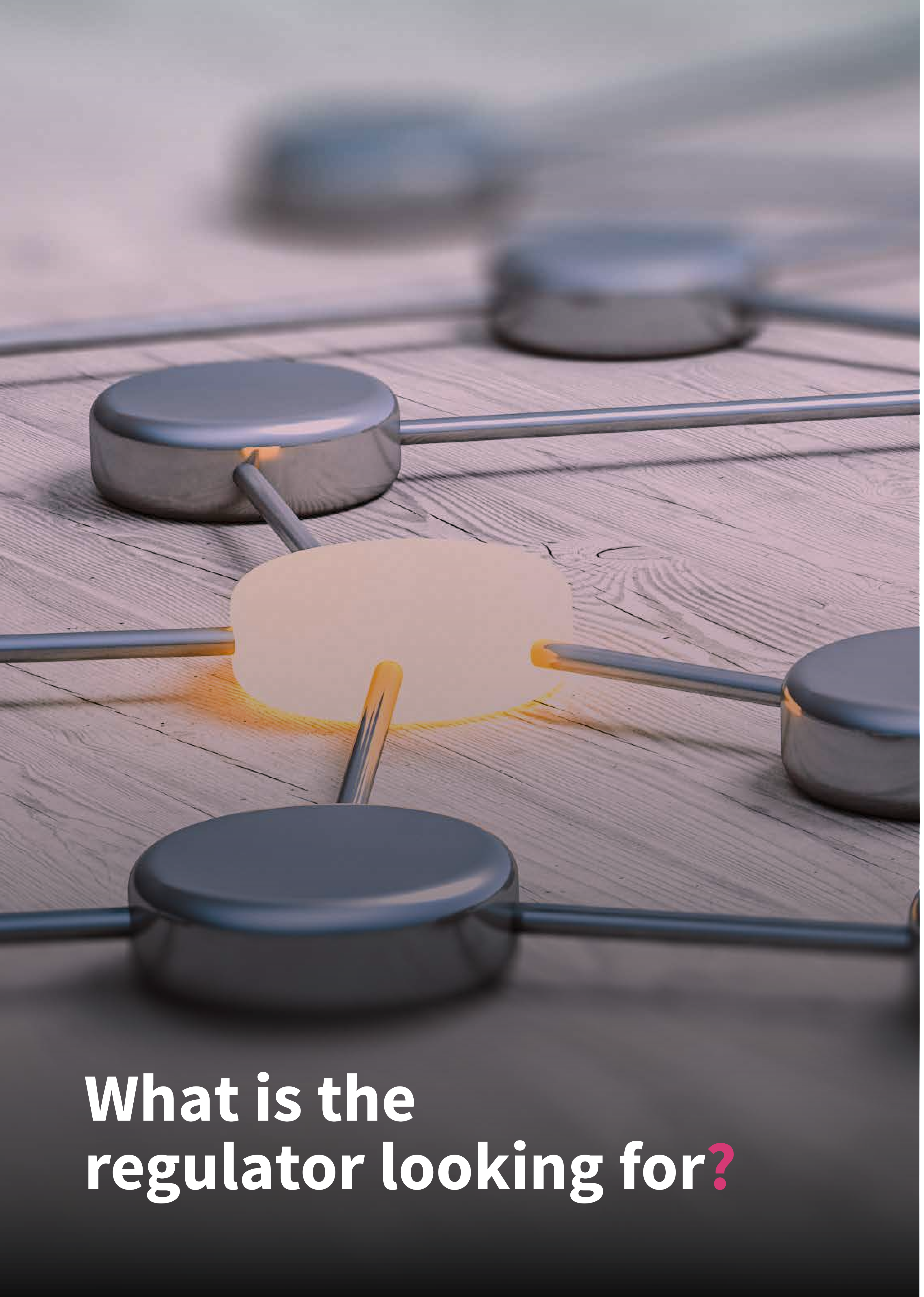
Depending on the level of control you are wanting to retain it's also important to consider your house view on investments and asset classes. For example, are you wanting to offer your clients access to active or passive management? Are you wanting to use ETFs and/or Investment Trusts within any portfolios, or can you meet your clients' needs with unit trusts/OEICs?

Your decisions here will not only impact the investment proposition, but should drive the platform(s) used to deliver the proposition. Again, as with everything mentioned already, it is important that these discussions are had at the planning stage, lest they require changes to the business which will impact your CIP.

5. How, and how often, do you communicate with clients?

Finally consider how, and how often, you are planning on communicating investment matters to your clients. Are they wanting a 'hands on' or 'hands off' approach? How will you be utilising tools & technology to deliver these reports, and will this vary by client segment? It's very important to remember here that, no matter how vertically aligned your client base is, your communication needs to reflect that each client is different, has different requirements and is treated as such by your firm. If you are not going down the route of securing discretionary permissions yourself, then client instructions will be needed.
Clear communication at this point, and around ongoing management and charges, is crucial to the success of your CIP. Client communication matters not only from a business standpoint (clients who are communicated with often tend to be more engaged, loyal and happier clients), but also from a regulatory one.





What is the regulator looking for?

The final guidance (FG 12/16) for Replacement Business and Centralised Investment Propositions was issued in July 2012. It shows the steps that firms should take when designing or adopting a CIP. Additionally the regulators expectations of firms ensure that individual recommendations into a CIP are suitable for each specific client, as well as examples of good and poor practice.

The notion regarding suitable advice is a particularly important one. The use of model portfolios, for example, if not handled correctly, risks presentation of the CIP as a 'catch all' bucket for your clients. Structure and process are important but so is individualised advice and being able to evidence that you provide the same.

The regulator highlights, in particular, that poor outcomes can occur if firms fail to:

- consider the needs and objectives of their target clients when designing or adopting a CIP;
- consider whether the CIP is suitable for each client on an individual basis; and
- establish a robust control system to mitigate risks which might arise from the CIP.

Words of wisdom from FG12/16

Client agreements

"The discretionary manager treats the advisory firm as its client, which is acting as the agent of the end investor. In this case we expect the advisory firm to explain the position clearly to its clients."

Shoe-horning

" When the CIP solution is not suitable…a firm must either recommend an alternative suitable solution or make no recommendation to the client. It is not acceptable to shoe-horn clients into the CIP solution."

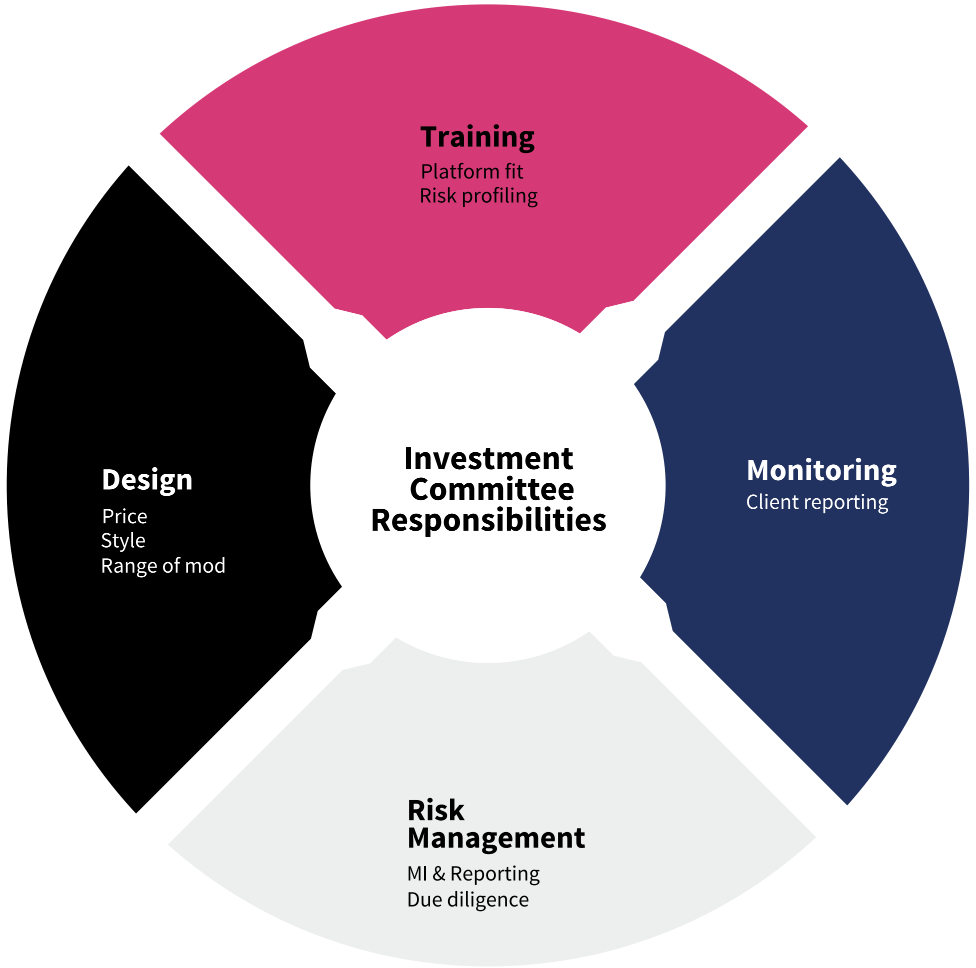
Monitoring

" Firms should have a robust file review process in place which… should provide challenge to advisers on suitability matters… Firms should train file checkers on the CIP and ensure they are competent."

Risk modelling

" Where a firm uses risk-rated portfolios…it must ensure the portfolios align accurately with the risk descriptions and outputs from any risk-profiling tool… It is the responsibility of the firm to ensure this alignment."

In order to ensure compliance with the regulatory guidance set out within FG12/16 many firms choose to create an Investment Committee to oversee the construction, management and monitoring of their CIP.



Depending on the solutions adopted, and the range of client segments, the level of involvement required by the Investment Committee could vary, however it will remain a crucial element to ensure the success of the CIP. In every instance it is vital to monitor the ongoing performance of the CIP to ensure it is still meeting the needs of your clients. The Investment Committee will help ensure this is the case.

There is no formal recommended structure for your Investment Committee, but a typical structure may revolve around a dedicated investment expert, or head of investing, an independent external resource, some or all of your financial advisers and some or all of your board members.

Whilst the structure of the Investment Committee will be down to you to decide, the important part of it is to be clear on the roles within it and the duties it must perform. Communication of both of these things to the regulator and to your clients is extremely important.

The role of the investment committee.

Assessing risk.

During this guide we have discussed the need to assess clients on an individual basis and, indeed, assessing each client's attitude to risk and exposure to risk is a hugely important point of the implementation of your CIP. There should also be some level of assessment of the commercial risk for your firm and its compliance with the regulations, as part of the new structures and processes you put in place.

It is vital to consider how the processes and structures of your CIP will be monitored and reported on, and how your advisers will be trained on those processes and structures.

Elements you may wish to consider in this area include the following;

- A standardised, well-evidenced, consistent CIP should make your firm more compliant with various directives. At point of implementation, as a final test, consider carefully whether this is the case. Expert external compliance assistance could be considered.
- Larger firms in particular carry a risk with a CIP that more clients receive the same answer regarding their investments. This is potentially fine, but only if the answer is the right one. The risk of systematic mis-selling otherwise is present.
- In order to avoid the above point, it is vital to consider how the processes and structures of your CIP will be monitored and reported on, and how your advisers will be trained on those processes and structures. Do they understand your proposition, can you show evidence of this and do they turn their knowledge into correct delivery for clients?

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Taking Your Centralised Investment Proposition Forward.

The decision for firms beginning the CIP journey will rest on the need or desire for either internal control, or outsourcing to an external partner. Both are eminently possible and can result in the creation of CIPs which meet both investor needs and firm business model requirements.

It is important to remember, at every stage of this process, that it is the client requirement which should inform your decisions. The communication of these decisions is equally important.

Writing in their paper:
'A Centralised Investment Process: Joined up Investment thinking', professors Andrew Clare and Steve Thomas from CASS Business School, City University London highlight that; 'Breaking the process down into its component parts and offering transparent and rigorous solutions at each stage would seem the very least a customer is entitled to: from financial planning (required return), risk profiling (capacity for loss and risk tolerance), through to portfolio construction/asset allocation, to choice of assets/funds – joined up investment thinking'.

This joined up investment thinking is a concept which should rule every aspect of your CIP; from initial research, to modification, to implementation, to compliance.

The final one of those elements is once again worth highlighting for firms establishing their CIP. The risk of establishing a process which becomes a 'catch all bucket' for clients, and therefore a compliance headache for firms, is a very real one and a very hot topic with the regulator. Whilst a well-designed CIP should allow you to grow as a firm and your clients to do likewise, it should also allow flexibility, and of course individuality amongst plans and clients.

Good luck on your journey to establishing your firm's own CIP. With proper execution and joined up investment thinking, we have every confidence that your firm's CIP will revolutionise your financial planning, for your firm and your clients.

Breaking the process down into its component parts and offering transparent and rigorous solutions at each stage would seem the very least a customer is entitled to.

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