

# Legacy assets - opportunity or threat?

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Smart solutions made simple



**John Baxter Head of Veracity Asset Transformation Service writes about the benefits to both clients and advisers of transitioning legacy assets into model portfolios, and a more fully developed model of financial planning.**



The advent of wrap platforms has enabled planners to utilise model portfolios and deliver an institutional class investment experience to their clients.

When you add in the huge administrative benefits to a client of having a comprehensive view of their portfolio, the ability to switch investments in a timely and cost effective manner, consolidated reporting together with rebalancing tools it is easy to see why the use of wrap platforms has become such a compelling option for clients to consider. The empowerment to planners afforded by wrap platforms over the arrangement and ongoing management of a client's investment and pension affairs should facilitate a very desirable client proposition that is certainly worth paying for.

Unfortunately, not all clients come with the convenience of having the money available in a bank account from which they can simply write a cheque. Many of the new clients you take on will have historically treated their investment programme like a shopping trip. They will often have purchased flavour of the month products, usually the year after any meaningful performance has been achieved (and subsequently lost), from advisers whose business models were primarily built upon the sale of new products in exchange for indemnity commissions.

The salvation offered by properly qualified, proactive, serviced-based planners is the reason this part of the advice sector is flourishing. The dilemma caused by the legacy assets of new and existing clients is one that requires careful consideration. On one hand, there is no doubt that transforming the investments from the old world to the new world can bring significant benefits to both the client and the firm but on the other the process that must be undertaken can be time consuming, subject to great rigour and potentially problematic for the unaware.

The FSA acknowledges that a large proportion of legacy assets *could* be more appropriately held on wrap platforms but has also issued clear guidance of the issues that must be taken into consideration to ensure that the clients' best interests are protected. In particular the FSA highlights three areas of concern that they would like to see addressed.

- Is any increase in costs offset by a commensurate increase in benefits?
- Does the transition involve complexity that affects the client's ability to make an informed decision?
- Does the adviser have the competency to deliver the new investment proposition being offered?

In the recent pension switching review 79% of cases that failed the regulator's scrutiny did so because 'the switch involved extra product costs without good reason'.

The above points can all be considered under the FSA's Principle 8 – Managing Conflict of Interest, which is increasingly being quoted with reference to firms approach to platform adoption. As previously stated, the FSA acknowledges that the transformation could bring significant benefits to both the client and the adviser firm but they do want to see firms evidence due process to ensure the client's best interests are being protected.

The benefits for firms are as compelling as the benefits for their clients. Firms adopting a strategy of organising their clients' investments in appropriate model portfolios hosted and serviced via wrap platforms find that in doing so, they have introduced a means of managing risk and a framework within which predictability of future income streams can be protected. This can potentially feed through to more sustainable profitability and ultimately enhanced valuation of the practice (subject, of course, to other broader factors in tandem). Perhaps one of the most attractive advantages of using wrap platforms (on the practice management side as a solution for hosting clients' investments, is the ability for the planner to better align their fee income with the ongoing service-based nature of their future client relationship.

So, in conclusion, the transformation of a client's legacy assets into model portfolios hosted and serviced via wrap platforms can be hugely beneficial to both the client and the planning firm but only if a robust process to assess the suitability of each individual client's circumstances is adopted.

John Baxter heads Macquarie's Veracity Asset Transformation Service. Veracity helps good businesses become great businesses by using the transformation of legacy client assets as the catalyst for the journey.