



# Investment platforms: approaches & challenges with orphan clients

March 2021



Dear Participant,

We are delighted to present the findings from our recent Orphan Clients Survey. Alpha FMC conducted research with a group of small and large sized UK adviser platforms, representing combined AUA of over £260bn. This report contains our survey findings supplemented with commentary, analysis and insights from Alpha's Subject Matter Experts (SMEs).

This initiative aims to provide participants with meaningful peer group data to assist with future planning and development of participant firms' approach to orphan clients, as well as providing some insights and shared challenges between firms in areas such as definition, identification and treatment of this population of clients. We hope that the report may prove particularly useful for firms currently reassessing their orphan clients strategy.

We would like to thank everyone that participated in this survey, without which this analysis would not have been possible. We hope you find the research insightful and would be delighted to discuss the results further with you and/or any colleagues. We look forwards to conducting further research and welcoming participants to our forums.

Yours sincerely

**Bruce Davies**

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## Contact Details

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## EXECUTIVE SUMMARY

The topic of orphan clients has been receiving an increasing level of interest from the FCA over recent years. To better understand how the industry is responding to this issue, Alpha surveyed a range of large and small UK adviser platforms to understand the size of this problem, as well as platforms' means of identifying and treating this population. Our respondents provided some insights which, along with the ongoing FCA guidance, provides something to think about for the market as a whole.

It is clear that this problem is not going away: our analysis concludes that the number of orphan clients is trending upwards, and the regulator has committed to conducting further analysis at firm-level where they may have concerns over an inadequate response to orphan clients. Whilst on paper, the industry is currently performing the right activities to deal with this client population, platforms must consider: if the regulator conducted a more thorough review of your practices today, would they walk away satisfied?

The industry trend is to deliver a reactive strategy, as opposed to proactively identifying and seeking a solution for orphan clients. On the whole, it appears that much more could be done to ensure that no clients are negatively impacted by being

orphaned. As the industry continues to evolve and adviser platforms start to deliver improved capabilities and experiences, the benefits will be felt by the end-customer. This ultimately not only helps the relationship between the platform and adviser, but also that between adviser and client.

The required response to orphan clients can therefore also be viewed as an opportunity, to increase the quality of both client monitoring as well as the ongoing communication methods with advisers. This functionality shouldn't be considered in isolation with this topic, but with the viewpoint that improvements to these capabilities would unlock wider positive business impacts beyond just the subject of orphan clients.

### ALPHA'S ORPHAN CLIENT SURVEY

To review how the industry is currently responding to these questions, Alpha have performed a study with a range of large and small platforms in the UK market.

The survey comprises a selection of quantitative and qualitative questions to explore:

1. How platforms are defining orphan clients
2. The size of platforms' orphan client populations
3. The approaches and responses adopted by the industry

All responses have been anonymised and collated.

We surveyed

**6**

UK Adviser  
platforms

A combination of

**large &  
small**

firms

Comprising

**£260  
billion**

AUM



## INTRODUCTION

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In an age where the outsourcing of processes within the investment industry has yet to reach full maturity, the adviser platform is a key success story, providing vast benefits for both advisers and their clients. Platforms provide a streamlined and efficient way for both parties to access and make decisions on a consolidated view of their investments. Ultimately, this allows the adviser to concentrate more on the holistic financial plan and enables more informed investment choices.

However, over recent years, the FCA has focused on certain categories of clients who may not be fully benefitting from platforms.

The Investment Platforms Market Study (MS17/1.3, 2019<sup>1</sup>) puts a magnifying glass on orphan clients and their treatment. It defines these clients as “consumers who **no longer** have a financial adviser”. This is a clearer definition from when study was initiated in 2017. As well as tightening up the definition of orphan clients, the regulator also articulates their expectations around the responsibilities that lie with platforms in ensuring that customers are treated fairly. Whilst the report does place the onus on the adviser businesses to ensure that platforms are aware of clients becoming orphans, the expectation is that platforms should have the right monitoring and governance in place to deal with this population. This issue has also been a hot topic in Australia, the birthplace of

the platform, so we can look beyond our home territory for lessons learned on how this topic might evolve.

The FCA estimated that the orphan client population comprises around 400,000 clients, holding greater than £10bn of assets on platforms. An estimated 10,000 of these orphan clients are paying additional charges, equaling £1.2m a year<sup>1</sup>. The FCA stipulates that platform businesses have a responsibility to ensure that no “unnecessary harm is caused to its clients”.

Although this group of clients are discussed regularly in industry forums, the same questions continue to be asked: How should orphan clients be defined? How should platforms be monitoring these clients? What should be the treatment strategy of this client population? Will there be further requirements for platform businesses to meet in the future for orphan clients?

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<sup>1</sup> FCA (2019) Investment Platforms Market Study Final Report – available at: <https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf>



# FINDINGS & INSIGHTS

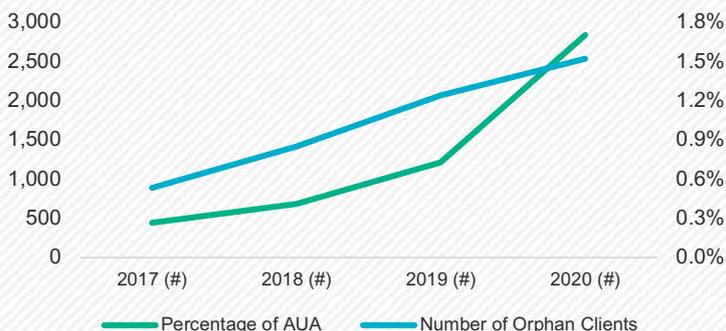
We have set out the key findings from our study in terms of (a) how firms are identifying and monitoring their orphan client population and (b) the treatment of said clients once orphaned.

## 1. Orphan Clients Definition & Identification

### Trends in Orphan Client Populations

All respondents to our survey stated an increase in both the number of orphan clients and the percentage of AUA it represents year-on-year. In 2020, this equated to an average of 1.7% of respondents' AUA.

Please provide the number of orphans (and respective percentage of AUA) for previous years:

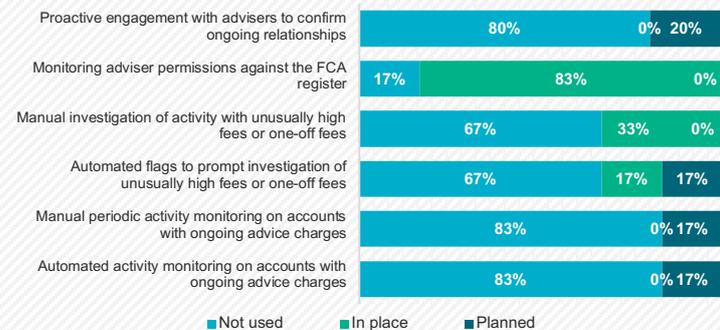


### Orphan Client Definitions

According to our survey, the core definition of what an orphan client is lies in the relationship between the client and the adviser (or former adviser). Whilst some respondents identified a broader set of scenarios as reason for identifying a client as orphaned (e.g. lack of communication for a certain

time period, loss of contact due to changing personal details), all respondents agreed that the cessation of the relationship would be cause for a client's status to change. This is in line with our expectations given the FCA's stance on defining this client population.

### Which processes/ controls are in place to proactively identify and monitor orphan clients?



In terms of orphan identification and monitoring, the most common process in place for our respondents is a periodic review of the FCA register and adviser permissions. Where an adviser or firm has had their permissions withdrawn or cancelled, the platform clients associated with that firm are then deemed to be orphaned. Only 20% of respondents to our survey cited planning proactive engagement with financial advisers to confirm that there is a continuing service in place. This creates a risk of enabling the ongoing collection of adviser fees from orphan clients given the limited visibility the platform has on the adviser relationship.

### WHAT IS THE IMPORTANCE OF PROACTIVE IDENTIFICATION?

Whilst the FCA Report does state that the ultimate responsibility lies with the adviser to ensure that the platform is made aware of these sorts of changes, it would be prudent – given the increasing attention on this topic – for platforms to put in place more robust orphan identification processes. The opportunity here is for the platforms to readily engage with advisers on this topic and ultimately, if required, be able to satisfy the regulator that they have been acting in the best interests of the client.

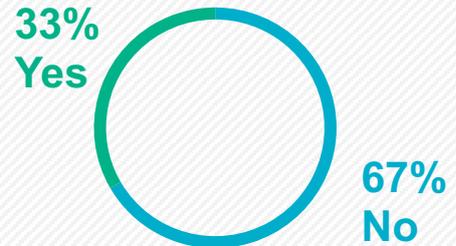
## 2. Treatment Strategies

### Communications

The vast majority of respondents to the survey have a communications strategy in place for orphan clients. These communications generally include: an explanation of any changes to the service as a result of being non-advised, the ability to appoint a new adviser (one respondent points the client to the online adviser search engine, Unbiased), and details of the communication channels available to them. However, in general, these communications do not state the financial implications of retaining assets on the platform as a non-advised client.

Further, only a third of respondents follow up with clients if they do not respond to the initial communication once orphaned. In future, we might expect to see 'orphan vs advised' financial implication documents as standard for recently orphaned clients.

If orphan clients don't respond to communications confirming their preferences, do you follow up with additional communications?



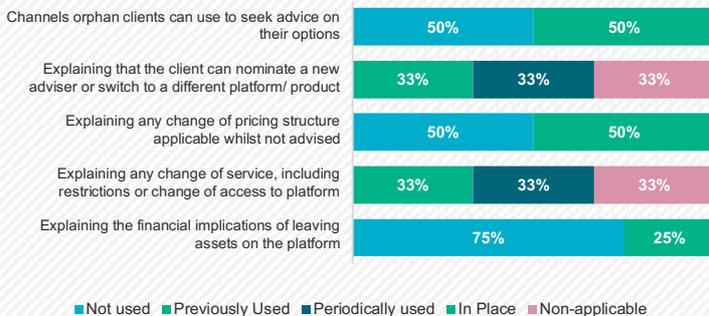
one automatically selling down any investments not available to orphan clients and another simply gating the investments until they are switched into the limited, non-advised fund range. At this stage, there is no wrong answer as to what should happen with a client's investments once orphaned, though it seems intuitive here, at least potentially in the eyes of the regulator, that the less action, the better.

Approximately 65% of respondents claimed to have put in place additional risk management and regulatory oversight processes as a result of their orphan client population. However, only a third provide any additional reporting to these clients over and above that which is provided to an advised client.

Only one of the respondents described a change in pricing for clients once they become orphaned, and in this case, the increase was only because of the removal of any negotiated adviser discounts.

We know that this is a hot topic within the industry into which the FCA has done extensive research. The regulator has stated that platforms can charge higher fees to orphaned clients, but only where there is evidence that they are Treating Customers Fairly. What this really means is that any increases in price have to be justified, e.g. because of the more onerous administrative or servicing requirements.

### Do you have tailored communications channels for orphan clients?



### Pricing & Service Models

All of the respondents who participated in the survey describe a change in the available services for orphan clients vs advised. In most cases, this includes a more limited investment range and the removal of some available actions (e.g. changes to drawdown arrangements). Respondent firms had different reactions to non-available investments, with



## EXPECTATIONS OF THE FUTURE & CONCLUSION

The findings of both the FCA survey and Alpha's report showcase that most industry players are meeting expectations, with the regulator reassured that firms have "appropriate policies and procedures for identifying orphan clients who may suffer harm if they are paying for advice they no longer receive"<sup>2</sup>. That said, upon concluding their investigation, the FCA also stated in their 2019 Market Study that "Platforms should consider their propositions for orphan clients, including whether current pricing practices are fair" and that they "will review if firms are treating orphan clients fairly, and proceed with supervisory action if appropriate".

### Alpha's Position

As the size of orphan client population moves in an upwards trend, it is safe to assume that the topic of orphan clients will likely remain top of the regulator's agenda in the years to come. Renewed focus may be given to individual firms' responses, with the possibility of more stringent firm-level review and requirements to follow.

Striking the balance between implementing processes that improve the controls and analytics capability available to a platform, whilst not disrupting adviser experience and consequently adviser relationships, is a fine line. However, it

appears that across the industry, platforms' responses to orphan clients are broadly reactive. We encourage firms to consider whether, if the regulator came to conduct a more thorough investigation, the robustness of the identification and response strategies would appear sufficient to provide comfort that there are "effective and appropriate controls in place to identify orphan clients"<sup>2</sup>.

There isn't currently a noticeable distinction amongst the strategies outlined to identify clear-cut industry leaders and laggards; however, the topic of how to reposition a firm's response to orphan clients is now securely on the radar across the platform market. There may not be safety in numbers here, and those seen to be doing more to ensure fair treatment for consumers will likely be looked upon favourably. Conversely, those who have been waiting out the regulator's final position and remaining comfortably within the pack to date, may see themselves quickly be left behind without taking action in the near-term – and as a consequence, on the receiving end of unwanted scrutiny.

As with any orphan strategy, the ultimate goal is to ensure the just treatment of all platform customers – hopefully our study has provided some food for thought in terms of dealing with this growing population.

### HOW SHOULD PLATFORMS RESPOND?

If Alpha were to recommend anything to increase the effectiveness of platforms' orphan strategies, it would be twofold:

1. **Increase the use of data and analytics to better identify orphans and ensure full oversight of the population**
2. **Proactively engage with the adviser community utilising the platform, ensuring a dialogue which will reduce the risk that orphan clients go unnoticed**

#### Indirect benefits of improving these two areas of the operating model:

- A better grasp on client data will be beneficial for the entire business, providing a window into the platform's demographics
- Analytics, or the use of an analytics engine, will typically benefit the wider business, bringing colour to KPIs and signposting where efficiencies should be made
- Transaction activity continues across the platform market and shifting orphan clients can be particularly tricky. Understanding where these clients actually sit will allow the business to put in place a targeted communications strategy for when M&A activity comes along
- Engaging the adviser community more readily enables platforms to keep a finger on the pulse of propositional requirements

<sup>2</sup> FCA (2019) Investment Platforms Market Study Final Report – available at: <https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf>



## THANK YOU - NEXT STEPS & CONTACT DETAILS

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Thank you once again for your participation in Alpha's Orphan Clients Survey, and we look forwards to discussing the findings of our research with you.

### An Invitation to the Alpha Community

We would be delighted to hear your views on future Alpha surveys. To make these valuable to the peer community the features include:

- Participant led approach on a current hot topic covering common challenges or exploring new ideas
- Based on the topics you tell us interest you most
- A report of the research findings including Alpha's observations on market developments, industry best practice and next steps

### Contact Us

Should you have any further questions on the information contained within this document, please contact Bruce Davies.

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### About Alpha

Headquartered in the UK, Alpha Financial Markets Consulting is a leading global provider of specialist consultancy services to the financial services industry. It has the largest dedicated team in the industry, with over 435 consultants globally, operating from 12 offices spanning the UK, Europe, North America and Asia



**12 OFFICES**



**435**

**CONSULTANTS**



**380**

**CLIENTS**



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