HARDMAN&CO.

Platform potential

How big is the potential investment platform market in the UK?

Jason Streets

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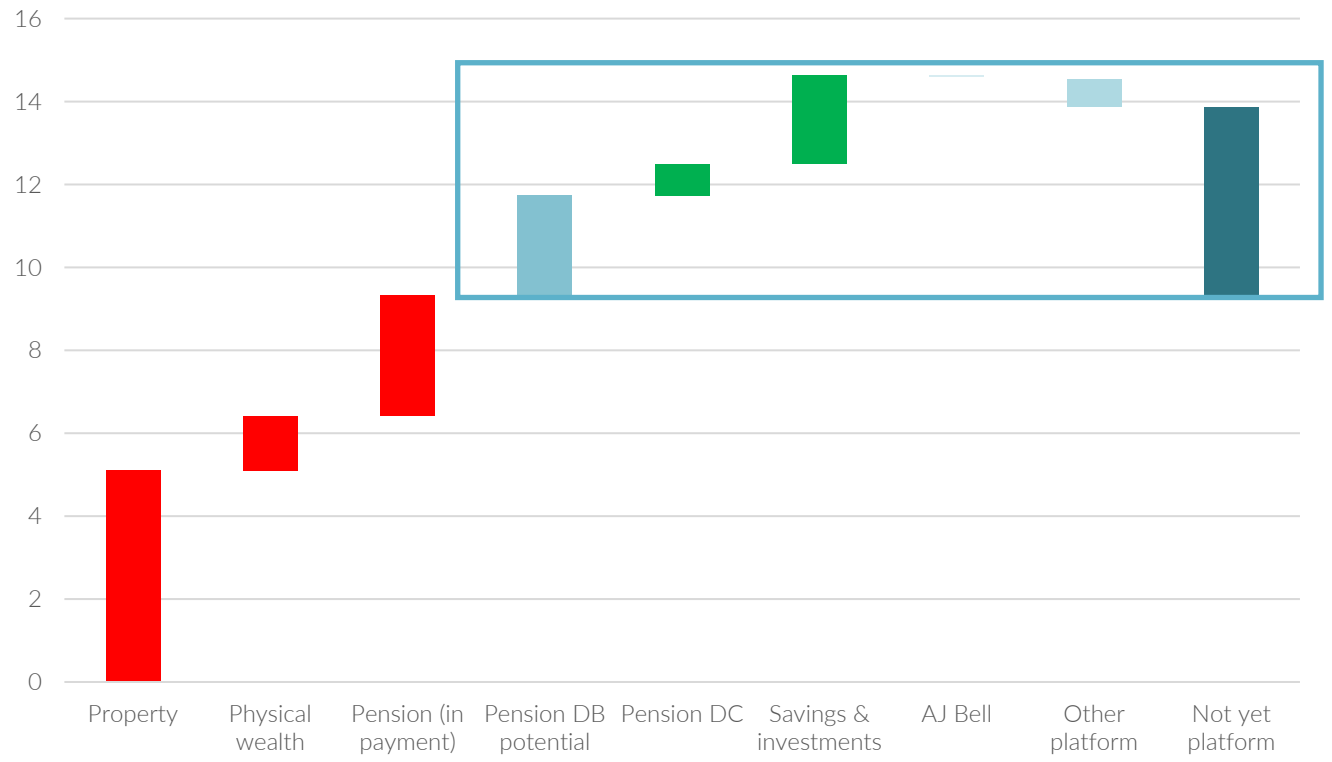
Executive summary

UK total wealth

The object of this report is to estimate the potential opportunity for the investment platform market in the UK: the total assets that could ultimately end up on platforms. The methodology is to take the overall wealth and first remove those assets which we believe will never be part of the platform market. This is the soft target market. Secondly, we then further remove those assets we estimate their beneficiaries will probably choose never to put on platforms. This remaining balance is the hard target opportunity set.

Total GB wealth was estimated by the Office for National Statistics (ONS) at £14.6tr as at March 2018. The first column in the chart below is property wealth (£5.1tr). Individual-owned property itself is never going to be held on investment platforms. It could potentially provide a source of future platform assets if, say, overseas investors bring cash into the market to acquire property and it is not then recycled straight back into other property. However, it does not form part of our "snapshot".

Chart 1: UK wealth target market (£tr), March 2018



Source: ONS, various other and Hardman & Co Research

The second column is physical wealth (£1.3tr). This covers everything from cars, to art to jewellery to furniture. This category is, quite obviously, never going to form part of the platform market.

The third column is pension fund assets that will never move to platforms (£2.9tr). This includes any defined benefit (DB) pensions already in payment.

Soft target

Once those three categories are removed, we are left with the soft target market of £5.3tr. This comprises current and deferred DB pensions, all defined contribution (DC) pensions whether in drawdown or not, and all the other savings and investments (colloquially "stocks and shares" and cash).

Table 1: Soft target market (£bn) and platform share

	£bn	share		£bn	share
DB pensions	2,414	45%	AJ Bell platform AuA	47	1%
DC pensions	768	15%	Other platforms	666	13%
Saving and investments	2,124	40%	Not yet on platforms	4,593	87%
Total	**5,306**	**100%**		**5,306**	**100%**

Source: Hardman & Co Research

Of the total soft target market of £5.3tr, only 13% is currently on platforms, and AJ Bell currently accounts for just less than 1% of the total (as at December 2019).

Hard target

To get from the overarching "soft" target to a more readily accessible "hard" target, we make various exclusions and adjustments.

DB pension assets

The £2.4bn of assets in DB pension schemes are only likely to come out very slowly (estimated at ca.1% per year), so we exclude them from our hard target.

Ultra-high-net-worth individuals

In this report, we argue that ca.£600bn of the savings segment should be treated as unapproachable as it belongs to the ultra-rich, who are likely to use other services than investment platforms. So that is excluded too.

Cash assets

There is more than £1.1tr of cash held by UK households. We estimate that approximately £250bn of that is "working capital" and therefore not strictly accessible by platforms, leaving £850bn as an opportunity.

Underreported assets

In our bottom-up analysis, we come to the conclusion that the top-down, survey-based ONS data probably understates total wealth quite significantly. We conclude there is probably a further £500bn more of approachable assets not included in our estimates above (see page 14).

From the soft target of £5.3tr, we subtract the DB pension element of £2.4tr, the assets of £600bn owned by the ultra-rich, and the cash working capital of £250bn, then add back the £500bn of estimated under-reporting.

Table 2: Hard target market (£bn)

Soft target market	5,306
DB pensions adjustment	(2,414)
Ultra-rich adjustment	(600)
Cash working capital adjustment	(250)
ONS estimated under-reported wealth	500
Total hard market	**2,542**

Source: Hardman & Co Research

We are then left with £2.5tr as the hard target market for investment platforms.

AJ Bell's share is currently less than 2%, and platforms as a whole have about 28% (£717bn).

Growth

Total wealth does not remain static. During the 10-year period to 2018, it grew at 5.7% annually and within that financial and physical wealth grew at more than 7% annually. Of course, this period starts near the bottom of the financial crisis and rises steadily, ending before the impact of COVID-19.

The dynamics of the growth drivers for the investment platform market are many and complex. They include demographics, the housing market and pensions. The ageing population (and the retiring baby-boom generation) provides forces in opposite directions – living longer requires living off savings for longer and so larger pools will need to be accumulated. On the other hand, the demise of DB pension schemes means they have been replaced with much smaller sums in DC schemes.

Home ownership has fallen rapidly, although obviously the number of properties hasn't. In the future, renters might build up pools of capital instead of owning a house (which might be more often owned by a corporate landlord whose shares might, in turn, be owned by the same savers). Or, they might simply consume their surplus.

The pension market shift to DC from DB is a clear positive for platforms. The sums may be smaller but they are increasingly widespread and will grow with time. The dynamic nature of the labour market also means that employees are likely to end up with separate pools of pension savings, which could be naturally consolidated on a platform for ease of monitoring and management online, via a platform's website or mobile application. There is also the possibility of cost savings with pensions consolidated on a platform rather than being left in legacy products.

The overall growth of wealth will be determined by nominal economic growth, which can be estimated to be ca.4% over the long term. We would expect the savings dynamics to add 1%-2% to this for platform ideal assets.

Notes

Total wealth in Great Britain was estimated to be just under £15tr as at March 2018. Where possible, we have used this date throughout the report. Some sources will refer to slightly different dates, and clearly the overall number moves all the time with financial markets; however, this report aims to produce a snapshot in time, which can be used as a base to estimate current or future levels.

The total wealth source is the ONS and is largely created via top-down, survey-based data, which has its own limitations. We have also looked at where that wealth is invested in order to crosscheck it from the bottom up. We found that, perhaps unsurprisingly, the ONS survey data seemed to underestimate the total wealth.

We have netted off £330bn of personal loans. Some of these, in practice, will effectively fund personal working capital freeing up cash to be invested. However, we believe that the vast bulk will be owed by people with insufficient assets to be a platform target.

The survey covers Great Britain. The platform market is more naturally thought of as covering the sterling area of the United Kingdom, which includes Northern Ireland. The economy of Northern Ireland adds another ca.2% to the Great Britain total. It seems reasonable to assume therefore that our figures for the GB opportunity could be scaled up by a factor of 102% when including Northern Ireland.

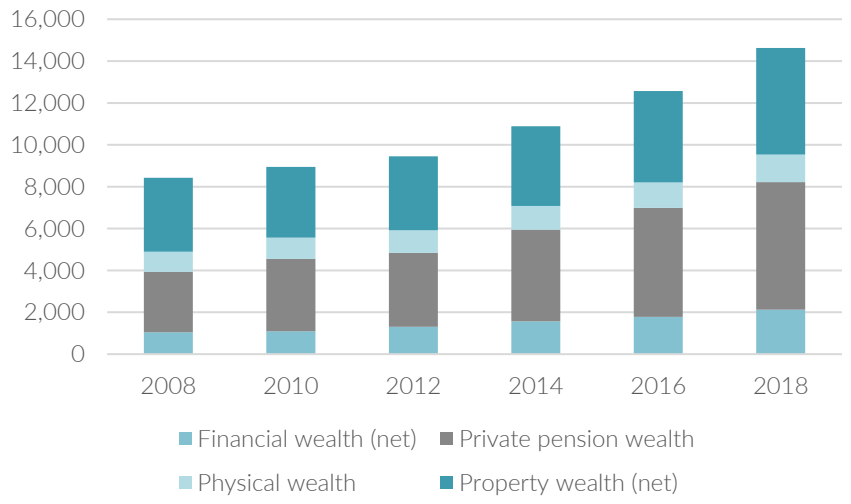
Coronavirus

This report was commissioned by AJ Bell and is based on data from 2019 and earlier years. It does not therefore include the impact on markets of Coronavirus. It is obviously too early to tell what the lasting impact of COVID-19 will be on wealth in the UK. As a broad indication we note in the report that in the first calendar quarter AJ Bell's clients' investment returns were, on average, -13% (advised clients) and -18% (DIY clients). This compared with the FTSE 100 Index falling 25%.

Total UK market opportunity

Total wealth in Great Britain, as at March 2018, was estimated by the ONS to equal £14.6tr in its 2016-18 *Wealth and Assets Survey*, published in December 2019. Wealth is split into four components: property, other physical assets, financial assets and pension assets.

Chart 2: Total wealth, Great Britain 2008-16 (£bn)



Source: Wealth and Assets Survey, Office for National Statistics

For the purposes of this report, we can ignore the property and other physical asset components and focus solely on the two financial components: pensions and financial assets. Excluding property is self-explanatory. "Other physical assets" includes everything from cars to jewellery to furniture; these assets are never going to be a target for platform providers such as AJ Bell.

Pensions

Pension assets split into several relevant categories. We are not interested at all in unfunded pension obligations, which make up the vast bulk of public sector pensions (£917bn), nor the £4tr of unfunded state pension liabilities[1]. There is a further £334bn of funded public sector employee entitlements, but these are unlikely to move into the private sector.

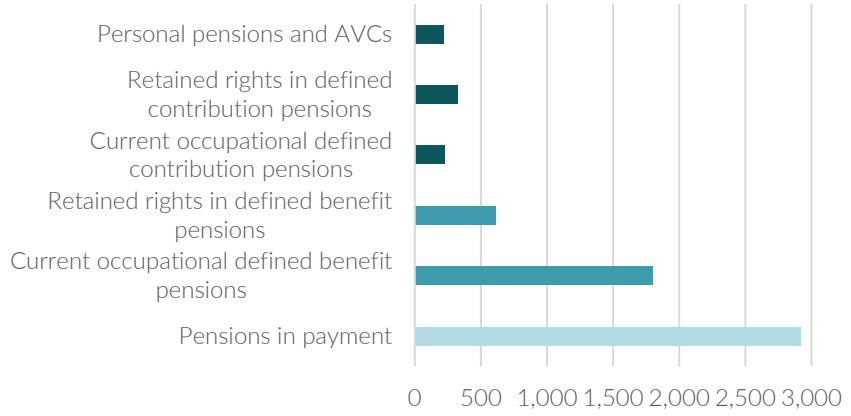
The wealth held in private sector pensions is estimated to be £6.1tr. Of this amount, just under half (£2.9tr) is in pensions that are currently being paid. We assume the vast bulk of this is in occupational defined benefit schemes and therefore highly unlikely to move. Of the remaining £3.2tr, £1.8tr is in current occupational defined benefit (DB) schemes and a further £613bn is in retained rights in DB schemes.

There is a further £226bn in current defined contribution schemes (DC) and more than the same again (£327bn) in retained rights in DC schemes, along with £215bn in personal pensions and AVCs. The DC pensions total is thus £768bn.

[1] From the ONS document, *Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations: 2010 to 2015*.

The chart below is shaded according to accessibility: the lightest shade is off limits; standard shade has the potential to move into an accessible category; and the darker colour represents assets which are already on platforms or could be moved straight away to platforms.

Chart 3: Private pension wealth (£bn) March 2018



Source: Wealth and Assets Survey, Office for National Statistics

The assets already in personal pensions are largely held on platforms already by either AJ Bell or its competitors. The assets in DC schemes, whether current or retained, are ripe to be consolidated onto a platform since they have no valuable additional characteristics like DB schemes.

Many of the older personal pensions and stakeholder schemes, typically held with large insurance companies, have higher costs than those incurred when investing via platforms. However, beneficiaries may perceive there to be a benefit from the enhanced buying power of leaving the underlying assets in a mingled pool with other current and former employees. Plus, there is inevitably a huge amount of inertia – it is easier simply to leave the assets where they are and not think about them. That said, as people move jobs so they will build up separate pools of pension assets, particularly following the introduction of auto enrolment. Platforms (whether advised or DIY) are therefore a neat way of consolidating assets all in one place, making it easier (and more transparent) to keep track.

Defined benefit transfers

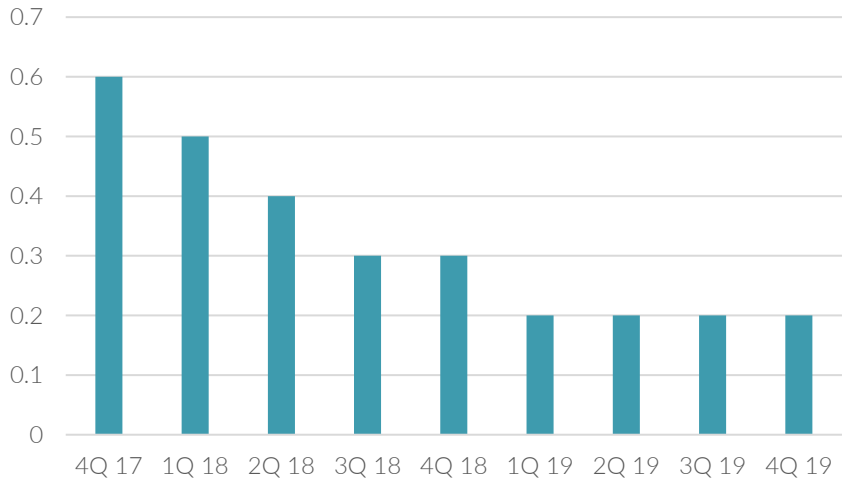
Beneficiaries have been moving assets out of DB schemes in large numbers as pension schemes have sought to reduce their long tail of future liabilities by offering apparently very generous transfer values. Moving out of a DB scheme foregoes some attractive benefits and the future pensioner will typically have to take advice before they are able to move their assets, but there are plenty of sound reasons for doing so.

The flood has slowed but is likely to continue at the lower levels into the future. According to the ONS, £33bn of DB money was transferred in 2018 down from £37bn the year before and ca.£6.3bn was transferred in 4Q18 down from £10.4bn in 1Q18. So, maybe a maximum of about £25bn, or 1% of the total, will move each year unless or until regulations change.

More recent aggregate data is difficult to find, but AJ Bell has split out the DB transfers it has received on to its advised platform. They came down sharply from the 2017 high, but were a consistent £0.2bn each quarter of 2019.

With its FY19 figures in December 2019, it commented that it expected DB transfers to continue at ca.£50m per month.

Chart 4: AJ Bell defined benefit pension transfers by calendar quarter (£bn)



Source: AJ Bell

Readily available market opportunity

According to Fundscape, at the end of 2019, there was £713bn invested on platforms. Of this, ca.£352bn was pension assets. That leaves a further £416bn in DC schemes that can be enticed over to personal pensions.

The DC market will continue to grow as the government scheme to encourage enrolment into pension schemes has been very successful. However, even with contributions (both employee and employer together) up to 8% of salary for most savers, this will still be a modest sum and is likely to be left with the company provider for a long time. Over many years, there will be substantial sums accrued and these will provide potentially rich hunting grounds for platform providers. And their younger, more tech-savvy beneficiaries will likely welcome the online service that platforms provide.

In addition, there will be future contributions to pensions already on platforms, partly offset by drawdowns by pensioners.

Financial wealth

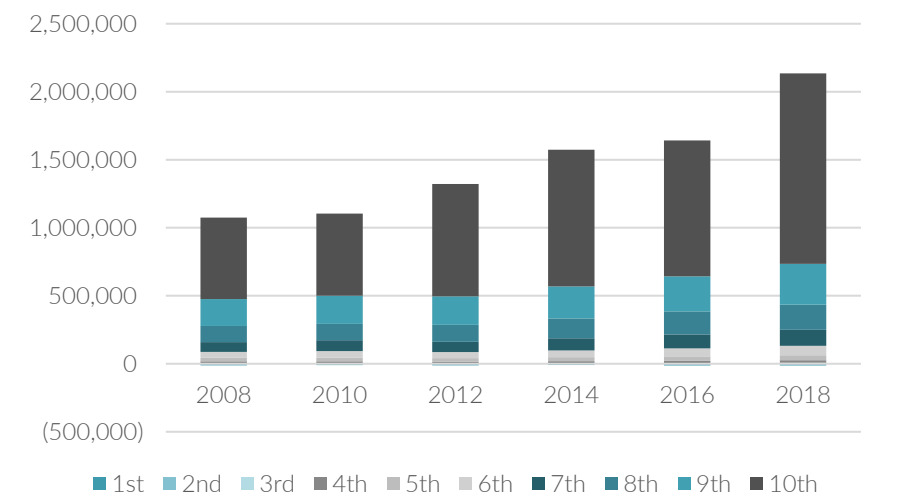
The second category of assets suitable for AJ Bell's services is "financial wealth". The ONS estimated this to be worth ca.£2.1tr in 2018. In theory, all of this pot could be a target. In practice, the limitations are at either end of the wealth scale. Financial wealth is the most unevenly distributed wealth: for more than half the population, there is simply not enough surplus wealth suitable for investment on a platform. That is not such a big deduction as, by definition, it is not a large pot of money and for a large proportion (23% of the population) the net wealth figure is actually negative.

At the upper end of the scale is a different problem and here the sums are substantial. For very wealthy people, there are two obstructions to them becoming a client of AJ Bell. First, at the very top end (say, financial assets in excess of £1m), they are likely to use a more specialist service provided by private banks or high-net-worth wealth managers. Secondly, for some, this wealth might be tied up in assets that are unsuitable for a platform – notably private company shares, or very large stakes in publicly listed companies.

Financial wealth by decile

Here, we look at the spread of financial wealth in Great Britain:

Chart 5: Financial wealth by decile 2008-18 (£m)



Source: Wealth and Assets Survey, ONS

The top decile accounts for the majority of financial wealth. In 2018, this proportion reached 66%; back in 2008, it was 56%.

The proportion of financial wealth held by the 5th to 10th deciles has stayed pretty constant during this period at ca.99.5%, although the proportion owned by the 5th to 9th deciles has fallen by 10% as the 10th decile has increased.

In 2018, the 5th decile owned £36bn of net financial assets. That rises to £70bn for the 6th, £117bn for the 7th, £185bn for the 8th, £300bn for the 9th and £1,400bn for the 10th.

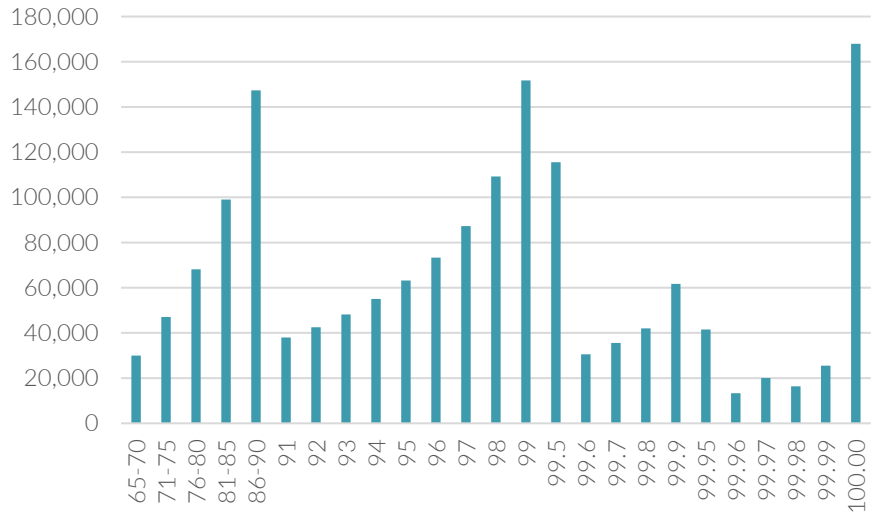
The median net financial wealth of the 5th decile is £14,000, for the 6th £27,000, for the 7th £45,000, for the 8th £72,000, for the 9th £116,000 and for the 10th it rises to over £540,000.

Based on this data, it is clear that the vast bulk of the target market is thus in the top four deciles: £2,000bn or nearly 95% of the total net financial wealth.

Top decile

Some data from the 2016 ONS[2] survey splits the financial wealth into very tiny increments, rising up the wealth curve. From this, we have produced a picture of the value of the assets at each five-decile grouping, and then percentile, 10th percentile and then, finally 100th percentile from 99.95th upwards.

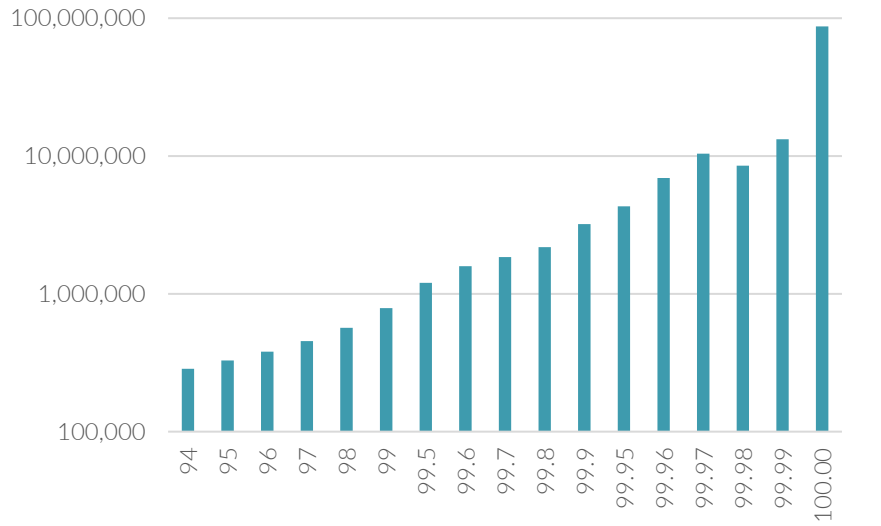
Chart 6: Financial wealth by deciles (and smaller increments) 2016 (£bn)



Source: Wealth and Assets Survey, ONS

Just subtracting the top one 100th of a decile reduces the 2016 total by nearly £170bn, or approximately 10% of the total net financial wealth for that year. If we convert those totals into wealth per household (and adjust for the 2018 total), we can see that halfway up the 99th decile, we reach £1.2m per household. (Note the log scale.)

Chart 7: Net financial wealth per household by decile 2016 (£)



Source: Wealth and Assets Survey, ONS

So, using the £1.2m net financial wealth as our cut-off point, removes £600bn and brings the accessible market down to £1.5tr.

[2] This has not yet been updated for the 2018 survey data

From the Fundscape data below, we can see there is ca.£360bn of non-pension assets on platforms already, primarily in ISAs or general investment accounts.

Table 3: Platform assets and flows 2019 (£bn)

(£bn)	Assets	Gross	Net	Assets	Gross	Net
ISAs	173.4	17.8	3.7	24%	16%	12%
SIPPs	305.9	43.0	22.7	43%	38%	77%
DC pensions	46.4	9.6	0.7	7%	8%	2%
Other	187.4	44.3	2.6	26%	39%	9%
Total	**713.1**	**114.7**	**29.7**	**100%**	**100%**	**100%**

Source: Fundscape

The gross opportunity for moving savings assets onto platforms which are not already there would then appear to be ca.£1.14tr.

The remaining assets, not on platforms already, are held elsewhere. A mixture of bank deposits, cash ISAs, shares and funds, etc. held directly or through a bank or broker or in the hands of the wealth management industry. Tracking them down is close to impossible as there are multiple sources with different dates, and different definitions. And large amounts of overlap in the counting.

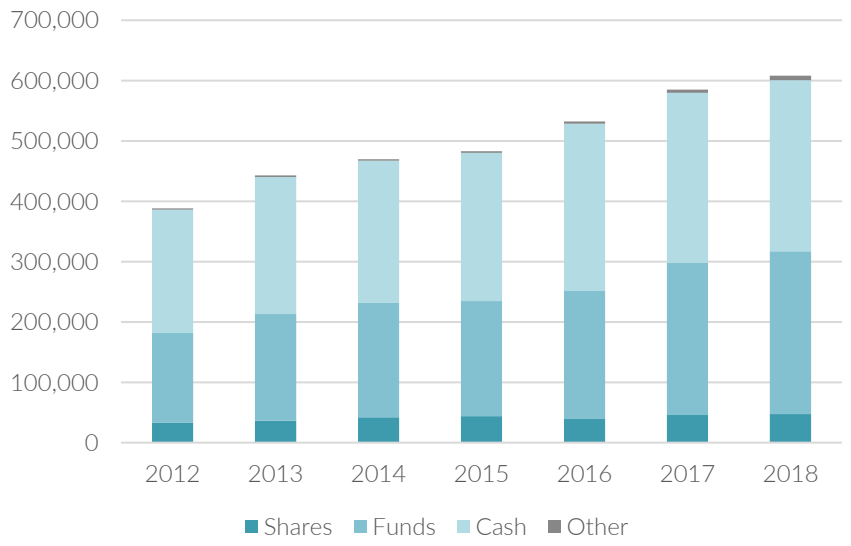
From a top-down analysis of the addressable opportunity for the investment platform market using ONS data, it seems evident that the *Wealth and Assets Survey* understates the total wealth in Great Britain. We attempt, therefore, to undertake a bottom-up analysis to estimate the addressable market in the following sections.

Cash

As at the end of December 2018, there was £1.35tr in cash deposits in the UK, of which £80bn is notes and coins and a further £170bn in non-interest-bearing accounts and can reasonably be thought of as "working capital". That leaves £1.1tr on deposit plus £280bn of cash ISAs. Again, a significant proportion of this money is likely to be owned by the ultra-rich and shouldn't be double counted and presumably some of it is owned by non-residents.

Cash ISAs

Chart 8: ISA investment split (£m)



Source: HMRC

Of the £600bn held in ISAs, about £280bn is held in cash ISAs, which are typically provided by banks and, as cash ISAs, are not directly relevant to AJ Bell's current product offering; however,, in theory, they be transferred to a general ISA, which AJ Bell does provide and which can hold an unlimited percentage in cash. However, there is only a proportion of this money that is ever likely to move away from pure cash, in our view, particularly as many UK savers tend to view cash as a "safe" asset and are nervous about investing in other asset classes.

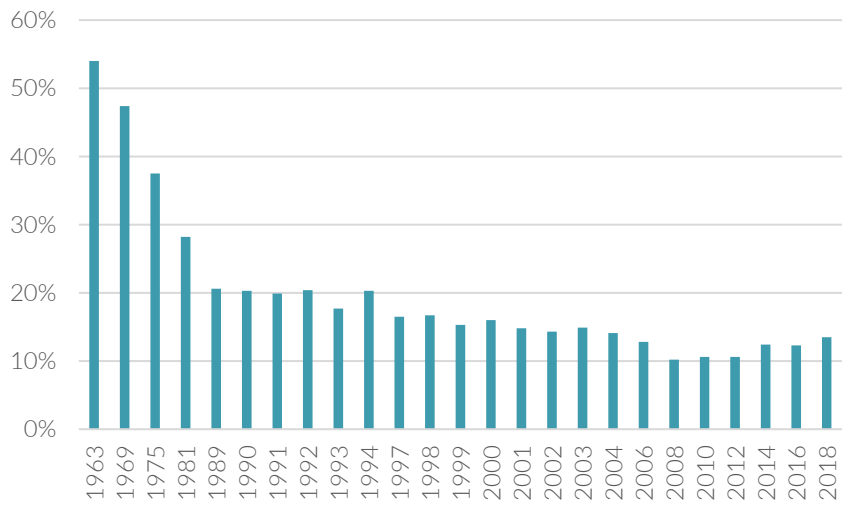
Other savings

There is £160bn of savings held in National Savings Products (NS&I).

Approximately £250bn of UK-listed shares are held by individuals, including a large proportion likely to be held by the ultra-rich. The latest data the Bank of England has for ownership of Gilts is for 2002 when it amounted to just £27bn. We have excluded these.

The value of UK-listed shares held directly declined steadily from 50% in the 1960s to 20% in the 1990s to 10% in 2010. Since then, it has crept up slightly. There is no obvious reason to assume the downward trend will resume.

Chart 9: Percentage of shares held directly by individuals



Source: ONS

If we combine these totals and add the £300bn of non-pension platform assets, as shown below, we get very close to £1.8tr, which is substantially below the £2.1tr of financial wealth from the ONS *Wealth and Assets Survey*, but we haven't included: directly owned funds, insurance bonds and the assets held directly by wealth managers

Table 4: Bottom-up estimate of wealth assets (£bn)

Bank deposits	1,350
Consumer loans	-330
NS&I	160
Individually owned shares	250
Platform (non-pension)	360
Total	1,790

Source: Hardman & Co Research

For some years, the vast bulk of mutual fund sales has been through either platforms or IFAs who use platforms, but there is still a proportion that is sold directly or bought by wealth managers who have their own administrative arrangements.

Insurance bonds and endowment policies used to be big business, but sales are now very low. These would not represent target assets for AJ Bell but should still be included in the total wealth assets.

Wealth managers

Then there are the wealth managers – that is managers of individuals' wealth as opposed to fund managers running investment portfolios for pooled or segregated accounts, which are accounted for either in individual or pension fund totals. According to Compeer's *UK Wealth Management Survey*[3], wealth managers held £663bn of assets and execution-only brokers held a further £161bn in 2016.

This combined total had reached £1.0tr by the second quarter of 2019, with £799bn in wealth managers and £202bn in execution-only stockbrokers.

We can assume that the assets held by the execution-only brokers are mostly included in our directly held £250bn (as at 2016) of UK shares, so should be excluded to avoid double counting.

The wealth managers' assets would include the ultra-rich discussed above, but then they were included in the £2.1tr survey too. It's possible that the wealth managers' assets include overseas residents who are not captured by the survey and are not obvious targets for AJ Bell either. Nevertheless, these figures suggest that the potential market is substantially bigger than implied by the *Wealth and Assets Survey*.

Combining the ca.£800bn of wealth management assets and the £1.8tr of cash and other investments from above, we reach a grand total of £2.6tr, or £500bn more than the *Wealth and Assets Survey*.

Table 5: Bottom-up savings market estimate (£bn)		
Cash	1,350	54%
NS&I	160	6%
Shares	250	10%
Platform assets (non-pension)	360	11%
Sub total	2,120	81%
less loans	-330	-13%
Total held direct	1,790	68%
Wealth managers	800	32%
Total savings market	**2,590**	**100%**

Source: Hardman & Co Research

True target potential

It would seem imprudent to suggest that money held in cash now when interest rates are so low is likely to be tempted into higher risk assets in the future, which could be held on platforms. It's possible, but it's also equally possible that money could flow out of higher risk assets as and when interest rates rise.

The main source of potential future assets for AJ Bell from these categories would appear to be shares held directly and from wealth managers.

Wealth managers might prove a more fruitful source of future clients. They tend to be quite expensive to use and there is always the possibility of disillusionment from poor administration to push clients towards either managing their own assets or moving to an IFA using a platform for its administration.

[3] This survey is quoted by the FCA in its Sector Views publication

Total opportunity

It is almost impossible to arrive at a single total figure due to the vagaries of the data. However, we have identified £768bn of DC pension assets that are readily suitable for being held on a platform, in addition to the £10-£20bn steady transfer from DB schemes.

There appears to be a further £2.6tr of private wealth assets, which are either held in cash, shares owned directly or managed by brokers/wealth managers and are not already on platforms. If we eliminate the £600bn we have attributed to households with financial assets over £1.2m, and £250m of cash we have ascribed to working capital, that leaves £2.5tr of potential assets to go after. Approximately £717bn is already on platforms.

The total estimated opportunity for the investment platform market, based on our analysis, is therefore in the region of £2.5tr, or a marketplace three-and-a-half times its current size. And growing…

Growth

Where is growth in the future going to come from? Financial assets tend to grow with the economy – driven by demographics and general economic growth. Within that general growth, different cohorts will grow at different speeds: wealth discrepancies vary both between age cohorts and between wealth deciles. Since the financial crash, financial assets have tended to grow faster than the economy and have accrued towards the wealthier deciles. At the same time, the housing shortage combined with low interest rates has driven up house prices, increasing wealth discrepancies between the generations.

The ONS wealth survey has only been going for 12 years and its start date is around the time of the financial meltdown in 2008, so it is a helpful start date for growth numbers. Since 2008, property assets have grown at 3%-4% p.a., as have physical assets. Financial wealth has grown at 7% p.a. and pension assets (driven especially by the implications of lower interest rates) have grown at 8% p.a.

Table 6: *Wealth and Assets Survey* 2008-18 (£bn)

	2008	2010	2012	2014	2016	2018	CAGR 2008-18
Property wealth (net)	3,537	3,379	3,528	3,806	4,516	5,090	3.7%
Financial wealth (net)	1,043	1,093	1,309	1,564	1,630	2,124	7.4%
Physical wealth	961	1,016	1,081	1,130	1,230	1,315	3.2%
Private pension wealth	2,886	3,459	3,530	4,385	5,354	6,098	7.8%
Total wealth	**8,426**	**8,946**	**9,448**	**10,886**	**12,730**	**14,628**	**5.7%**

Source: ONS

This covers a period of steadily rising asset prices from near the bottom of the financial crisis. The COVID-19 market disruption has obviously reduced these numbers, at least in the short term. For the longer term, it would seem to us that a growth expectation of 4%-6% would be reasonable.

Below, we explore at a high level the potential catalysts or impediments to longer term growth in the sector.

Demographics

The implications of demographics are complex. On the one hand, as the population continues to get older, so there will be more people relying on savings to provide income post-retirement. That implies that there will need to be larger pools of money for longer. On the other hand, with the decline of DB pension schemes, the rate of saving for future pensions is way below what it used to be (at least implicitly) even with the introduction of auto-enrolment.

With the need to provide for long-term elderly care, homeowners could resort either to equity release or to selling their property and investing the proceeds to provide supporting income. This latter route would provide additional potential assets for platform providers.

These driving forces have already been around for some years and so are possibly already reflected in the growth rates we have seen since 2008. And, while the sums might not be sufficient, it is difficult to predict that people will save more simply because they ought to.

A growing awareness from Government that there is an increasing savings gap might lead to future fiscal encouragements. The situation has not been helped by stagnant real wages that have been the norm since the financial crisis.

One more obvious solution is that people should retire later than they currently do. This too should be positive for platform providers as the sums of money would remain on the platform longer before they begin to be drawn down.

Housing

The UK has seen the number of owner occupiers decline significantly in recent years as houses have become unaffordable for younger generations. The Government has also made being a private landlord less attractive. The gap is likely to be filled by commercial landlords. The result should be that younger generations increase the amount of financial assets at the expense of property assets. This should be a good trend for AJ Bell, but it might be mitigated by the sums of money being relatively small per household and a possible tendency to keep the savings in cash or cash-like assets as they save for future home ownership.

Pensions

We would expect to see a continued move from DB schemes to DC schemes, albeit at the lower rate we are seeing in 2019 rather than the heights of 2017/18. More importantly as more pension assets are saved in DC schemes, so the proportion of pension assets held in this sort of asset class will increase and these assets are much more likely to be transferred over to platforms as they forego no valuable benefits in doing so.

At £10-£20bn p.a., this adds 1.5%-3% to the growth rate of the underlying assets held on platforms.

Auto enrolment should also help grow the pool of pension assets. This mostly has an impact at the lower end of the earnings and wealth spectrum and it may prove a long time before any of these asset pools are large enough to be attractive to move to platforms and make a significant impact.

New generation

Currently most of the wealth in the UK is in the hands of the baby boomers and pensioners (i.e. born in 1963 or before). As wealth flows down into succeeding generations it will fall into the hands of people who are very comfortable with technology and online transactions, who might never have even been into a bank or see the need to go into one. They are also far less likely to feel any loyalty to financial institutions and be happy to move their assets to wherever is most convenient for them. These trends should play into the hands of investment platforms and away from the traditional institutions such as banks and building societies.

Competitive advantage

AJ Bell has significant competitive advantage in its price and cost structure, which should help it continue to win market share and, thus, help it to grow faster than the overall market. Also, unusually, it covers both the DIY market and the advised market.

Many of AJ Bell's competitors are still going through changes to the technology underlying their platforms. This ends to increase the risk of client losses providing further fruitful pickings.

Downside risks

The potential negative impacts on the growth in the market include:

Fiscal regime

Arguably, the UK taxation regime, especially for ISAs, is overly favourable to the richer deciles of the population. Any restriction on ISA limits could have a slowing impact on growth. ISA sales have been between £60bn and £80bn each year since 2015, with approximately half going into cash ISAs. Platforms received gross £17bn of inflows in 2018 and a further £18bn in 2019, according to data from Fundscape. This is an important engine for growth, which could be hindered by changes in legislation.

Governments have successively reduced the amounts savers can claim against their tax liability. Any further reductions in these limits would likely have an impact, although the requirement to save for retirement would still be there.

Pension changes

It is only in recent years that savers have been able to transfer their pension entitlements to their own management. Inevitably, when large sums of money are being moved from one manager to another, there is the potential for poor (or worse) advice. There is a risk that the amount of assets subject to negligent or criminal advice could grow sufficiently large that the government made transfers much harder and reduced their flow significantly.

If interest rates rise, then the calculation of the future value of pension benefits will fall making transfers out of DB schemes appear less attractive. This could substantially reduce the flow of future transfers.

New competition/innovation

There is always the possibility of new competition within the sector and from outside the sector too. However, the barriers to entry are high (technology, regulation, technical expertise, financial strength, scale, etc.) and there have been very few successful new entrants to the platform market in recent years. Regulation changes to make transfers easier and cheaper could also lead to consolidation in the market. We do not see anything of particular concern, but the use of Artificial Intelligent systems to provide cheaper solutions may provide some new competitive threats. Cryptocurrencies like Bitcoin may suck assets away from more traditional investments, although if it became mainstream there would be nothing to stop AJ Bell offering cryptos through its platform.

Markets

We had rising or stable financial market for 10 years. A severe market shock obviously has a negative impact on the value of all non-cash financial assets whether they are on platforms or not. And that is what we have just witnessed with the COVID-19 outbreak. As a very simple indicator of the level of gearing to markets, AJ Bell's retail customers saw investment returns on average of -18% in the year to end-March 2020 and their advised clients were down 13% on average. The FTSE100 index fell 25%.

A silver lining to the virus cloud may see a new spur to growth in the platform market. The sheer speed of the downturn and huge increase in volatility in financial markets may encourage more people to use financial advisers who, in turn, are likely to use platforms.

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