

Trustees - Now's the time to recalibrate your provider radar

Financial service providers including brokers, advisers, banks and investment managers have had to re-think business models, re-train, even decide whether they want to continue. They are now wrapped in new regulation, designed to protect investors and inform. They lose their ticket to attend the game if they fail to meet requirements.

Providers might claim, "If we meet compliance, surely any client should be satisfied. What other scrutiny could possibly be necessary?"

Actually - quite a lot!

Regulation seeks to reinforce fiduciary principles, protecting retail, unsophisticated investors. The regulators' tools address principles like 'duty of care' with minimum qualifications and 'duty of loyalty' with minimum disclosures. Really valuable, these give investors a start point, reducing unsavoury pure sales temptations and arming investors with information to enable astute questioning. Watch grey areas though, like 'wholesale' definitions.

Legislation will never require a specific service model, nor an absolute fiduciary requirement, and neither should it, not all investors even have fiduciary responsibilities. But two areas do scream for consideration by trustees.

1. Alignment

This is about the provider supporting governance. Do services match your sophistication, or is it more of a...*'trust me, we are good at what we do'* proposition? Will the provider work easily with other service providers or want to dominate? With the new Discretionary Investment Management Service (DIMS) regime, can they offer DIMS for part of a portfolio or only their model portfolios?

2. A high fiduciary standard

Definitely not for all providers, it's an option. Some won't jump this high, others don't want the risk of acknowledging a fiduciary role. This makes sense. Business models necessitate developing a value proposition, limiting the range of products one works with and fostering a limited number of alliances. But this in of itself means providers remain unique despite regulation, challengingly so.

So what is left to prudently consider? Quite a lot, including;

- Are Investment Policies written to guide client governance or record the provider's investment approach?
- Investment beliefs eg if a board prefers active management, a provider with index funds may not suit and vice versa.
- Do the investments align with the sophistication of the trustees ie do they understand them?
- Costs.
- Approach to diversification - strategic or tactical?
- Are direct securities or funds used? - Big issues here.
- DIMS or non-DIMS - this has huge implications for governance.
- The conflicts and constraints of provider alliances or ownership.
- Reporting standard to support governance.
- Performance versus ambitious claims.

Judging providers against a fiduciary standard is evidential by nature. Trustees need to challenge the provider value proposition and claims. Providers need to 'show and tell'. Undertaking due diligence is challenging, but then being responsible for others' investments does come with strings attached, including the increasing expectations and information demands of beneficiaries and in some cases donors to charities. Fortunately, the fiduciary focussed providers welcome the deeper questions, it gives them a unique chance to stand out.

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