The Actuarial Profession

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2004 Life Convention
7-9 November

Wrap Accounts

Bob Gibson

83% of IFAs are placing business with supermarkets: report

Adviser appetite for wraps rising

BY ED MONK

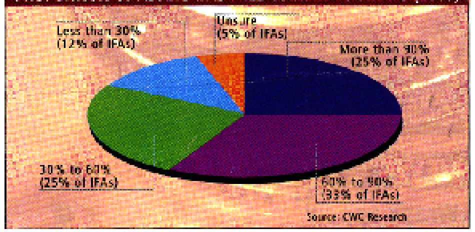
IFAS consider wrap products as the answer to growing cost and fee concerns, according to new research.

CWC Research interviewed 100 firms to test the appetite for wraps among IFAs. The research showed that 83 per cent of IFAs were placing appropriate business – investments excluding pensions – with fund supermarkets. The compares with 66 per cent last year.

CWC Research said that the launch of a wrap proposition by Abbey last year, the piloting of wraps from Amex to IFA firms – such as Thinc and Group 300 – and the intentions of Norwich Union and FundsDirect to finalise their wrap offerings later this year, had prompted new interest in wraps among IFAs.

Clive Waller, senior partner of CWC Research, said: "We are past the point of no return. If a provider does not have a wrap strategy, they will need a clear non-wrap strategy or be left in the cold.

"I expect to see wrap well established in the UK financial services market within two to five years."



PROPORTION OF ASSETS IFAS WILL COMMIT TO WRAPS (2003)

The CWC research showed that investment IFAs already use fund platforms – a precursor to wrap – for 75 per cent of their appropriate business. Overall, 95 per cent of IFAs said that wraps would grow considerably.

One of the most persuasive arguments in favour of wraps has been the savings IFAs can make on administration costs.

Mr Waller outlined the benefits, pointing out that back office costs could be reduced by up to 50 per cent. He said that IFAs had expressed frustration at the time it is taking to obtain valuations for client portfolios from separate providers.

As well as the savings from administration, CWC said that 75 per cent of IFAs favoured an asset-based fee model with total transparency.

Mr Waller said: "The latest attempt to drive a final nail into the IFAs coffin is to abolish trail commission. Labour MP John McFall, chairman of the Treasury select committee, wants to see it abolished where the IFA cannot demonstrate that it is earned.

"Wrap overcomes this problem. The client signs an agreement with the adviser whereby fees are paid on an annual basis plus initial or time based. The clients will receive consolidated reports annually, quarterly or monthly, whenever required."

The Ample survey reveals multiple supermarket usage by intermediaries

IFAs demanding more services on platforms

BY DEWI JOHN

ADVISERS are becoming more demanding of fund supermarkets, according to a survey from platform provider Ample.

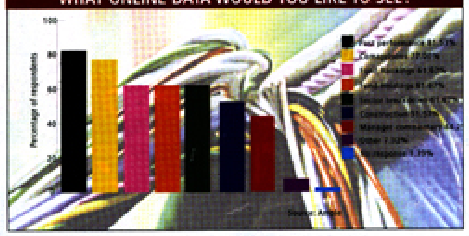
However, within the increasingly competitive market, a clear winner is still to emerge.

The most popular fund supermarkets were: FundsNetwork which 38.5 per cent of IFAs surveyed said they used, Skandia at 36.7 per cent and Cofunds at 36 per cent. There is a big gap to fourth and fifth places, with Transact at 9 per cent and Selestia at 8.7 per cent.

Some 22.4 per cent did not use a supermarket.

The total percentage of users came to 138 per cent, indicating a considerable degree of multiple platform usage by advisers. This may be because the entire fund universe is not available on one platform, necessitating a multi-platform route to all funds on offer.

WHAT ONLINE DATA WOULD YOU LIKE TO SEE?



But it is also partly explained by the fact that many advisers will use research and asset allocation tools on one supermarket, but transact on a second, for which there are no fees.

Risk profiling, performance charting and asset allocation were listed as the most valuable online tools, with fund selection, valuation and asset allocation reporting also featuring heavily.

Some 85 per cent of advisers research their fund choice online, so such tools are obviously invaluable, with the range and sophistication growing each month. However, paper-based research is still a key aspect of fund research, with, for example, just under half of respondents relying on Investment Adviser's monthly sister title, Money Management, for data.

Platform users were particular about what data they wanted. Past performance, comparisons, fund rankings, holding and construction, all appeared prominently, as did sector breakdown and fund manager commentary (see table).

Nearly two-thirds of advisers want the entire fund management offering to be available on a platform. However, just more than 20 per cent wanted the field narrowed, to between 11 and 30 fund providers.

A big demand, from 40 per cent of respondents, was for hedge funds to be available on platforms; no platform provides this service. The un-regulated status of this asset class, along with such funds' complex performance-related charging structures, militate against speedy progress in this area.

Alan Easter, group sales director for Ample, said: "Platforms are one dimensional and transactional. They must look to help completely change the distribution model to create efficiencies."

The study was collated from 362 advisers' responses, one of the largest surveys conducted on this issue, according to Ample.

Advisers ready to transfer millions

A MAJORITY of IFAs would look to transfer between £1m to £10m of assets to a platform that could satisfy all its business requirements, according to the Ample survey.

Some 53.5 per cent would look to transfer that amount to a suitable platform, with the majority of the rest indicating transfers in excess of this, up to hundreds of millions of pounds. The next largest survey section – 18 per cent – said they would expect to transfer between £10m and £25m.

Nearly a third of survey respondents said they expected such a migration to take between six to 12 months. A further 42 per cent expected the move to take between one and six months.

Necessary functionality for these advisers includes that it should interact with back office systems. Almost half use existing back office systems to provide client reports.

One third of advisers claimed to be writing £1m to £5m of single premium business last year, with the largest proportion – 42 per cent – writing up to £1m.

TRANSACTION CHARGES

What would be a realistic single transaction charge?

Preferred charge	Percentage of respondents
0.5%	46.54%
1.0%	16.59%
Other	9.68%
0.2%	8.76%
0.7%	4.61%
0.3%	4.61%
No response	3.69%
0.8%	2.30%
0.4%	2.30%
0.6%	0.92%

Source: Ample

Ample's Alan Easter said: "Why would sending business to a current platform be any different in essence than sending it direct to, say, Standard Life? It wouldn't.

"Selecting and using a platform at arm's length will not transform an IFA's business. Advisers need to go through a robust selection process for a platform. Once done, this must be core to business behaviour if it is to drive efficiencies for that IFA business."

SIM 'exceeds forecasts' as it sees in first year

Skandia Investment Management celebrated its first birthday last month, saying it has £1.25bn under management and that more than 2,500 IFA firms have placed business with the firm.

SIM, launched by Skandia last year, says it is the second-biggest seller of multi-manager funds and is in the top 10 for total net sales across the entire UK funds. Last September, SIM set up two income funds which it says have more than £70m assets under management.

During the year, SIM secured partnerships with fund managers Goldman Sachs and T Rowe Price. It has also developed links with leading UK intermediary groups, including Bates Investment Services, Inter-Alliance and Bradford & Bingley.

Chief executive Jamie MacLeod says: "Our first year has exceeded even the most ambitious forecasts and I am delighted to have been able to build a strong team."

'Wraps will eliminate providers from chain'

By Angela Henshall

Wraps could see product providers eliminated from the IFA distribution chain altogether, according to financial services software company Aquera.

Managing director Ed Holt believes the introduction of fully functioning wrap platforms will see providers made redundant.

He thinks big brands entering the market and bancassurers in the future will choose to access IFAs, other distributors and fund managers direct through wrap platforms.

Holt believes this might be one of the reasons that some providers have not embraced the wrap concept with as much enthusiasm as expected by technology companies.

Aquera, which has invested £7m in its own wrap platform, has worked with three providers to produce a study on the future of wraps. It examines the potential costs and benefits of different wrap options for providers.

The results show three different models for the market – the first would offer aggregations and valuations only, the second a portal service and the third a new entrant specialist wrap company.

Holt believes a holistic industry platform could be built within two years but would cost about £18m in incremental shared costs to establish.

He says he sees Sipps as the natural stepping stone to a fuller wrap proposition and will be an area to scan for potential new entrants to the wrap race over the next couple of years.

Holt says: "When compared to the cost of individual development of a full wrap platform, a shared model makes huge sense. The most radical of the three options considered was a new wrap company as it offers the most complete offering and lowest cost service to the market while changing the nature of the financial services value chain."

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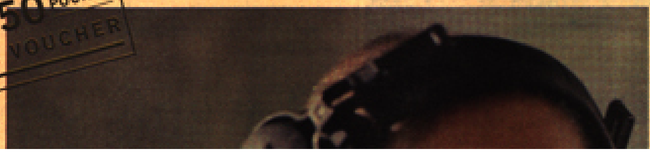


KEEPINGTHINGSUNDERWRAPS
WRAP ACCOUNTS HAVE TAKEN THE MARKET BY STORM IN THE US AND AUSTRALIA. BUT WILL THEY PROVE AS POPULAR WITH UK ADVISERS AND THEIR CLIENTS?
SEAN EWING

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The trend towards supermarket-style selling is spreading across the finance industry

GAIL MOSS

Supermarkets sweep up

Over the past few years, one of the most striking changes in the distribution of retail funds has been the rise of the fund supermarket. From a standing start three years ago, fund supermarkets now account for over half of all intermediary Isa fund transactions.

The biggest is still Skandia, which launched the whole multi-manager concept in 1984 within its life and pensions range. It later introduced its MultiPep supermarket for investment funds, and ...v runs £3bn-worth of client assets – ...ding MultIsa products and direct ...s – on the same platform.

...vay behind come Fidelity's ...

But there are other changes in the landscape as well, according to Rob Fisher, head of IFA marketing at Fidelity.

Mr Fisher said: "Multi-manager products are shifting from niche to mainstream recommendations for more IFAs looking to outsource fund research and selection. And there is a marked concentration in the funds and managers attracting retail assets. These might loosely be grouped as the managers who have experience and a track record of long-term delivery. The underlying causes are risk-aversion on the part of investors, and more in-depth quantitative and qualitative fund selection procedures at larger IFA firms."

... through the supermarket, instead of with the separate fund management houses.

Saving time

But why has the growth of the fund supermarket been so rapid? Rick Andrews, marketing director at Cofunds, said: "The increasingly difficult regulatory market has meant much more compliance work by IFAs. They can save time and energy by using supermarkets."

He said a further driver for the supermarkets was consolidation in the IFA market, which had seen IFA companies buying each other out, and groups such as The Money Portal embarking on a huge acquisition trail.

... and, in between, the consolidator (the supermarket). This has been brought about partly by depolarisation, and partly by cost pressures. Where a fund manager is dealing with a supermarket, it is operating as a wholesaler, with the supermarket carrying out the customer care function."

Mr Saunders pointed out one of the interesting developments over the past year had been the way IFDS – the UK's largest third-party administrator – had taken a stake in Cofunds.

The chief executive added: "This illustrates the way in which supermarkets are becoming contractors of back-office services as well."

Mr Andrews said: "Individual banks and life offices know they have to get ...

... market, there are two dominant supermarket platforms – Fidelity FundsNetwork and Charles Schwab. Many observers predict that a similar pattern of two dominant platforms will emerge in the UK."

The drivers for supermarkets and multi-manager products appear to be well-established, whatever happens on depolarisation. Consumers in nearly all markets now expect to be able to tailor products and services to their own needs. Once established, such propositions generally render existing ones obsolete."

Mr Williams was optimistic about the future of IFAs in this environment.

He said: "Markets are much more transparent than they were, and we will continue to see increasing pressure ...

Providers slam Pannell claims over house prices

By Alison Bone

Providers have hit back at Durlacher analyst David Pannell after he claimed in *Money Marketing* last week that house prices are set to fall by 30 per cent in the next two years and spark a flurry of misselling claims.

Norwich Union has hit out at Pannell's comments that the equity-release market is bound almost inevitably for a misselling scandal, saying that when equity release is sold properly, it is no more likely to provoke misselling claims than any other product.

Mortgage Express says it is strongly opposed to Pannell's view that the buy-to-let bubble is about to burst, saying the quality of buy-to-let lending is very good compared with residential lending and it is very comfortable with its position as the country's biggest BTL lender.

Product development manager Roger Hillier says: "We would be surprised if house prices corrected themselves by 30 per cent in the next two years. Based on our findings, we feel that the bubble is not about to burst and demand for rental properties is expected to remain strong."

NU marketing manager for equity release Simon McGuinness says: "This sort of comment does not help the equity-release market – it is specifically intended to grab headlines and equity release is an easy target."

Pannell says: "The problem that all the housing industry has is that they never expect house prices to fall. They do not know and I do not know what is going to happen but it will not work out as rosily as they expect.

"You never get misselling claims until something happens and I think things are going to change once house prices start to fall."

Prudential is set for return to CI market

By Sonia Speedy

Prudential looks to be taking its first tentative steps towards re-entering the critical-illness market in earnest after the pipeline drama that left it badly scathed last year.

Pru incurred IFA wrath after it raised premiums and withdrew guarantees on new and pipeline critical-illness business last April.

But following an apology to IFAs by UK chief executive Mark Wood last September, Pru is in talks with IFAs with a view to again becoming a force in the market.

Prudential spokesman Dar-

Ample to develop wraps as Carruthers focuses on IFAs

By Chris Duncan

Consumer fund supermarket Ample will be developed into an extensive wrap platform and rolled out to IFAs following its acquisition by Tomas Carruthers, the former chief executive of Interactive Investor.

Carruthers, who helped Interactive Investor through its 1991 acquisition by AMP and subsequent merger with Ample, has paid an undisclosed sum for the business which he intends to develop into an IFA-focused platform. This will involve building up an open architecture offering and developing wrap

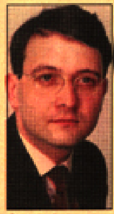
The move will be a radical departure for Ample which, although it has 1.4 million registered users and 400,000 portfolio holders, was put up for sale by HHG, the recently formed firm comprised of Australian giant AMP's UK businesses.

Carruthers says the Ample brand will remain for the foreseeable future but could be changed once the purchasing company, Carruthers Associates, completes its strategic review at the end of March.

The conclusion of the review will also mark the start of an aggressive push into the IFA market. Carruthers Associates

The firm, which Carruthers founded to acquire Ample, will use institutional backing to fund the expansion which will focus solely on intermediated services as the consumer side will remain the same. But Carruthers says that, until the outcome of the review is known, he does not know whether the business will be placed in direct competition with firms such as Cofunds.

He says: "We believe the advice market is the way to go and we will offer products and services to it. It will be a big push for us and we will have a great capability but it is too



Carruthers: 'The advice market is the way to go'

How Money Marketing broke the story of the

AMP review could see Ample being sold off

By Chris Duncan

AMP is believed to be seeking buyers for fund supermarket Ample as part of an overhaul of its UK business which has seen the scrapping of Pearl's 700-strong salesforce.

Ample, which was launched by AMP in June 2001 and then merged with Interactive Investor, was put up for review last December after the Australian giant conducted a wide-ranging investigation into its UK subsidiaries.

AMP classified Ample as a contemporary rather than mature company, which meant it was under review rather than set for imminent closure. But it is

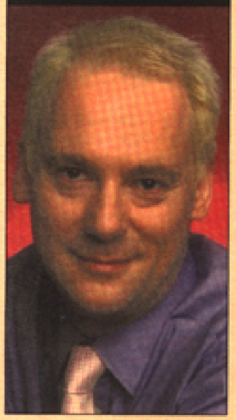
Global Investors into its main brand.

In Australia, AMP is restructuring its board in a move which will see the majority of the directors replaced. Changes include the immediate departure of chairman Stan Wallis and the retirement of directors Sir Malcolm Bates, Paul Mazoudier and Ian Renard in six months time. Just five of the current directors will remain.

Spokesman Stephen Hoffman says: "We have said Ample is up for review but we do not comment on speculation."

Cofunds sales & marketing director Rodney Aldridge says: "It is clear that over the last couple of years new entrants to the business to

IAN McKENNA



Wrap fails the test

Just because you have a superior product it does not necessarily follow that you will be successful. The technology world is littered with examples.

The solutions that were adopted were the ones that got their message across effectively to customers. The last time that I wrote about wrap in this column was in June of last year. I then questioned if the approach being taken by many wrap providers might result in wrap being the next big thing that never actually happened in the UK. Nearly a year later, the question looks even more valid.

It is hard to think of a subject that has had more exposure in the last 12 months. Many millions of words must have been written on the subject of wrap and all it can do for IFAs and their clients but how much impact has this had on the way that investments are managed?

The answer has to be very little. Transact recently ran an advertising campaign emphasising its position as the biggest player in the UK wrap market with £700m under management – a respectable sum for what is a relatively modest organisation but it is hardly changing the face of UK personal finance.

If one looks at potentially bigger players, Abbey has had the most high-profile wrap launch of the last 12 months but this hardly seems to have been a resounding success.

Funds Direct has promised much and delivered rather less. To be fair, one major IFA who saw what Funds Direct was planning late last year did describe it to me as "the nearest thing that we are likely to see to a decent wrap in the near future".

Since then, the company has announced a major partnership with Marlborough Stirling to provide the Funds Direct wrap over The Exchange and IBM has been appointed to rebuild its Fund Direct system. Clearly, any judgement on the quality of what Funds Direct can offer will have to wait until a service is actually delivered.

Tempting though it may be to fill the rest of this column with a long list of the wrap projects that have talked a good story but delivered somewhat less, let us focus on what can be done to make a difference.

There are many life office-inspired wrap projects doing the rounds. Hardly surprising, since if anyone can get wrap right there will not be a need for life insurers as we currently know them.

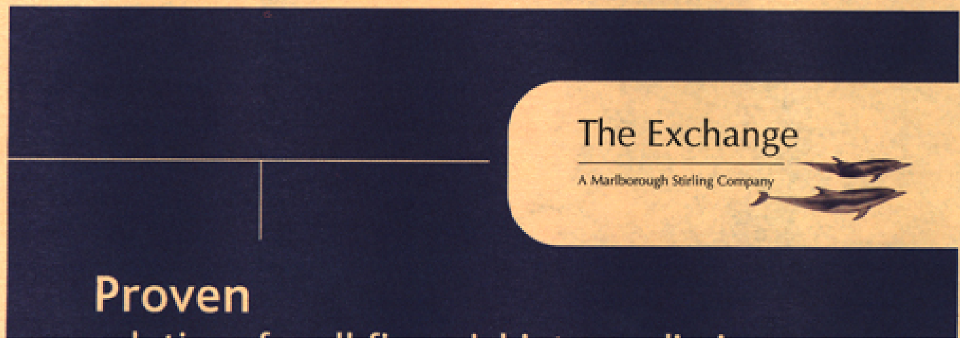
Many life offices recognise that getting into the wrap market is a survival issue.

several examples in action.

This is technology available today that can deliver real savings to advisers. More services are being launched every month so why are we not seeing all wrap propositions coming to market with a full range of integrations to electronic messaging for all a client's existing holdings? When are we going to see a wrap proposition come to market with integration to all the leading IFA CRM and back-office systems and the various messaging systems already in place?

Sadly, I fear the answer is, don't hold your breath. Yet without this, how can any wrap service be taken seriously by any client-focused, advice-orientated adviser? If you cannot include details of all a consumer's existing holdings how can you possibly hope to take a truly holistic approach to their investments? If a wrap can only look at a subset of a client's investments, is it really any more than a glorified fund supermarket?

Fund supermarkets have, in just a few years, transformed



Old contender in the mood to wrap up a complex UK market

Ivan Schouket, chief executive of American Express Financial Services Europe, talks to **Ellen Quinn** about its history in the UK adviser sector and its plans for the wrap market

FINANCIAL ADVISER: Amex had a previous attempt at the UK advisory market in the early 1990s which was short-lived. How will it be more successful this time around?
IVAN SCHOUKET: It would be inaccurate to say we are 're-entering' the IFA/wrap market. Acuma was completely different to our adviser-services business proposition. It offered proprietary products and was not a wealth-management oriented business.

That said, Acuma was flawed because it was probably too early for its time and too segmented for a market that was not ready. What we are doing today is not another attempt. We are following a transformation occurring in the UK. This will change the nature of the industry and we are being very cautious about it by starting slowly with the wrap account.

The wrap is a very different approach – a much more solid, longer-term and more committed type. This not a whole heap of Americans taking over. We really want to emphasise that. This is a much more cautious approach focussed on building a reputation

complexity, but more a phase – a stage in the development market.

FA: What attracted American Express to Group 300, Thinc and M2 Financial as business partners for the wrap offering?
IS: Group 300 and Thinc are organisations that are forward-looking in reshaping the series of financial advice firms to being more segmented and listening to customer needs.

They have very strong prophecies, are highly professional and very management-focussed.

They are geared towards affluent clients, and, moreover, have values that fit with American Express, which is very important to us.

M2 is a smaller firm

making them more transparent with financial advisers.

FA: Abbey currently holds the largest presence in the wrap market. What is different about your wrap platform? Do you intend to challenge their grip on the market?
IS: Actually, Abbey is not the largest. The largest in the UK is Transact. That said, I believe in some ways any increased competition is great. And like any increased competition, it is hard to have the players differentiate themselves.

Up until quite recently, many people were asking: what is a wrap and what is the difference between them? So to differentiate us from the others is not always so

"We are working for the future not the past – and the future is the

not the past – and the future is the reshaping of the pension industry, so we went for a self-invested personal pension. That is where the future and the government are moving and we will follow those movements with our wrap.

FA: How much budget and resources are you setting aside to ensure your technology is competitive?
IS: The technology capability we have is in itself a business within American Express that sells its services throughout the company.

It is not a piece of technology that simply sits in the UK, it is managed like a business.

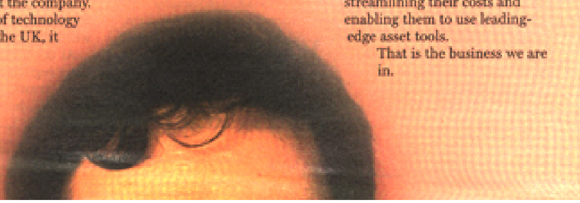
And this is not like a few hundred pounds, we are talking multi-million pounds here. What we are doing today

for it today, but watch this space because we are working on having one very soon.

FA: Many IFAs see having a wrap offering as vital to their survival and going forward. What is your view?
IS: It depends on what they choose to survive in. If they want to survive in a fee-based practice, a wrap is critical.

To me, it all depends on what model an adviser wants to evolve his practice on – and the models are opening up, the landscape is changing. IFAs that live on commission are going to be a thing of the past. Most of the players are struggling financially.

We are not saying the wrap is the magic bullet for IFAs to survive on. The wrap



has to be part of a reshape of how you manage your customers, your product selection, your people, processes and even your back room.

FA: Can you tell us about your plans for further integration in the IFA market?
IS: We are not actually integrating the market – that is not our ambition. I know people are looking at American Express thinking that we are going to swallow a whole heap of IFAs, but nothing could be further from the truth.

Financial advisers are the best at providing advice and the best at controlling their own practice.

We want to help them be successful in their business, providing quality advice, streamlining their costs and enabling them to use leading-edge asset tools.

That is the business we are in.

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In Depth

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Pre-funded care: Does Standle's exit from the market spell the end for this product? 37

Look before you leap into wraps

Wraps have been a major development, but there are several issues that must be addressed before embracing them

CLIVE WALLER

KEY POINTS

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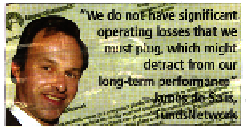
FundsNetwork hits out at rival Cofunds's charges in letter to fund managers

War of words hits platform industry



IA seminar talks wraps, platforms

Lifetime platform is delayed

BY HOLLY THOMAS

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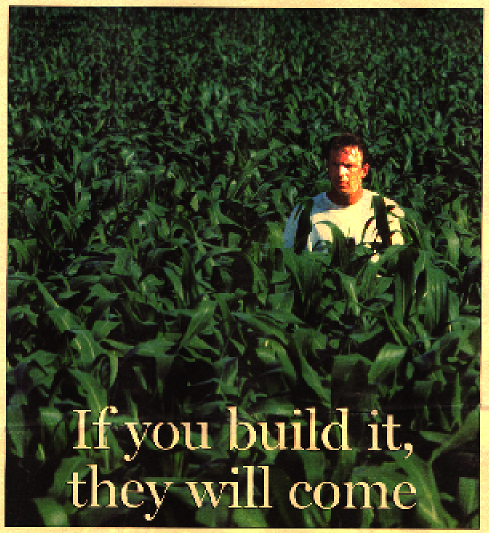
WRAPS **INVESTMENTS**

Debate about the pros and cons of wrap continues, but if you bite the bullet and provide the product, you will reap rewards

CLIVE WALLER



"The exponential growth of fund supermarkets and the development of these into wraps will result in more IFAs using wraps"

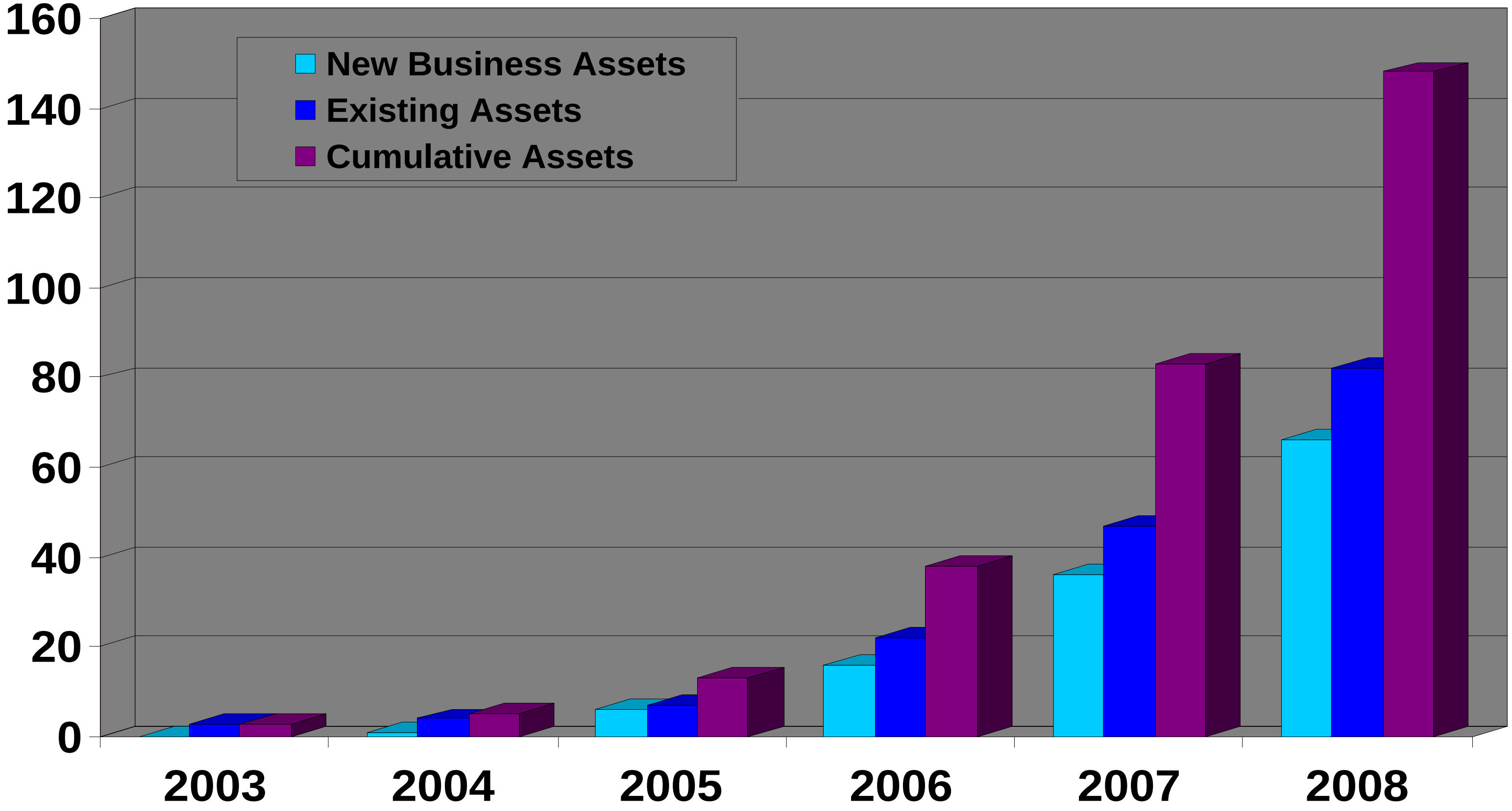
KEY POINTS

The potential for Wrap Accounts

- In 2002 80% of IFAs were unaware of Wrap (source Datamonitor)
- Today:
  - 95% of IFAs aware of Wrap
  - 92% believe Wrap relevant to their business
  - 90% believe Wrap will grow considerably
    (source: CWC Research for FundsHub, October 2003)
- IFA's want a Wrap Platform to:
  - Give investment into Equities, Bonds, UTs and OEICs, ITs, Cash, Property
  - Provide tax wrappers for ISA, PEP, SIPP, EPP and Offshore funds (almost all IFAs)
  - Provide mortgage and protection products on the platform (45% of IFAs)
  - Economically handle minimum contributions down to the single ISA investment level (45% of IFAs)
    (source: CWC Research for FundsHub, October 2003)

By 2008, assets held under wrap services will grow to £150bn

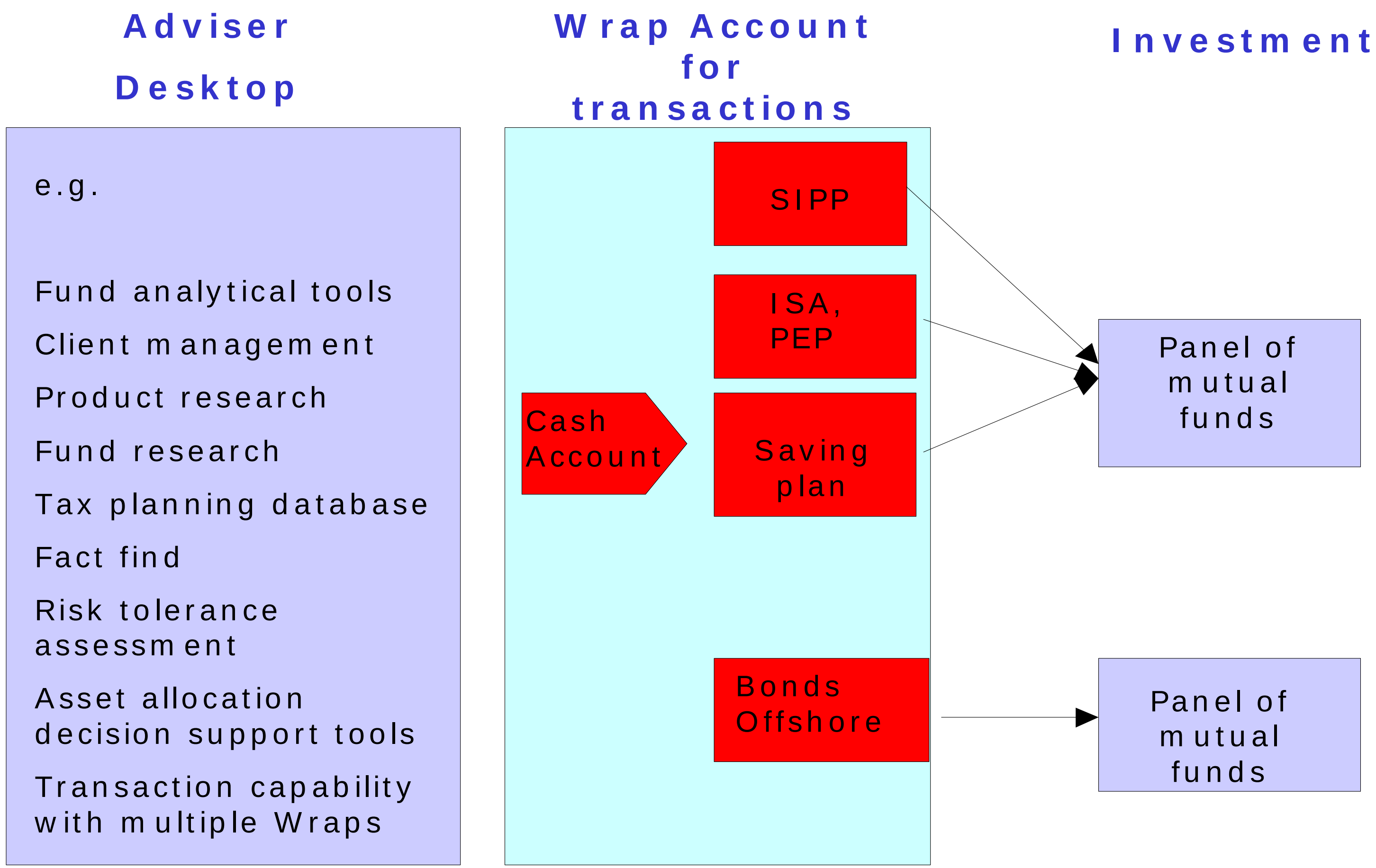
(Source – Datamonitor)



Agenda

- What are wrap accounts ?
- Who is going to buy wrap accounts ?
- What is the issue for life companies ?
- What is the US and Australian experience ?
- Who is doing what in the market ?

Example of a wrap company



What is in it for customers?

- Detailed and **consolidate investment view** available 24 x 7
- Increased **personal attention** from the adviser
- **Deep relationship** with adviser and wrap provider
- **Holistic portfolio management** customised according to view of risk
- A **single transparent charging** structure for new retail investments
- **Online statements** of an account history, and asset performance
- **Cash management service**
- Daily investment market **news**
- **Risk** based portfolio construction **tools**
- Online calculators and **illustration tools**

What is in it for advisers?

- **Reduced costs** in transactions with life, pensions and fund providers:
  40-70% of IFA costs are in back office administration
- **Recurring revenue** through commission based on funds under management
  - a different valuation model to base the sale of their business on?
- To get valuations and make other **transactions electronically**
  - without multiple linkages with providers
- To review their **customer's performance** relative to a plan, as well as any other holdings and benchmarks, at any time
- To facilitate **annual reviews** of investments and financial needs
- To get a source of legislative and tax **information**
- To easily provide information across product and providers to establish a **financial plan** on behalf of their customers

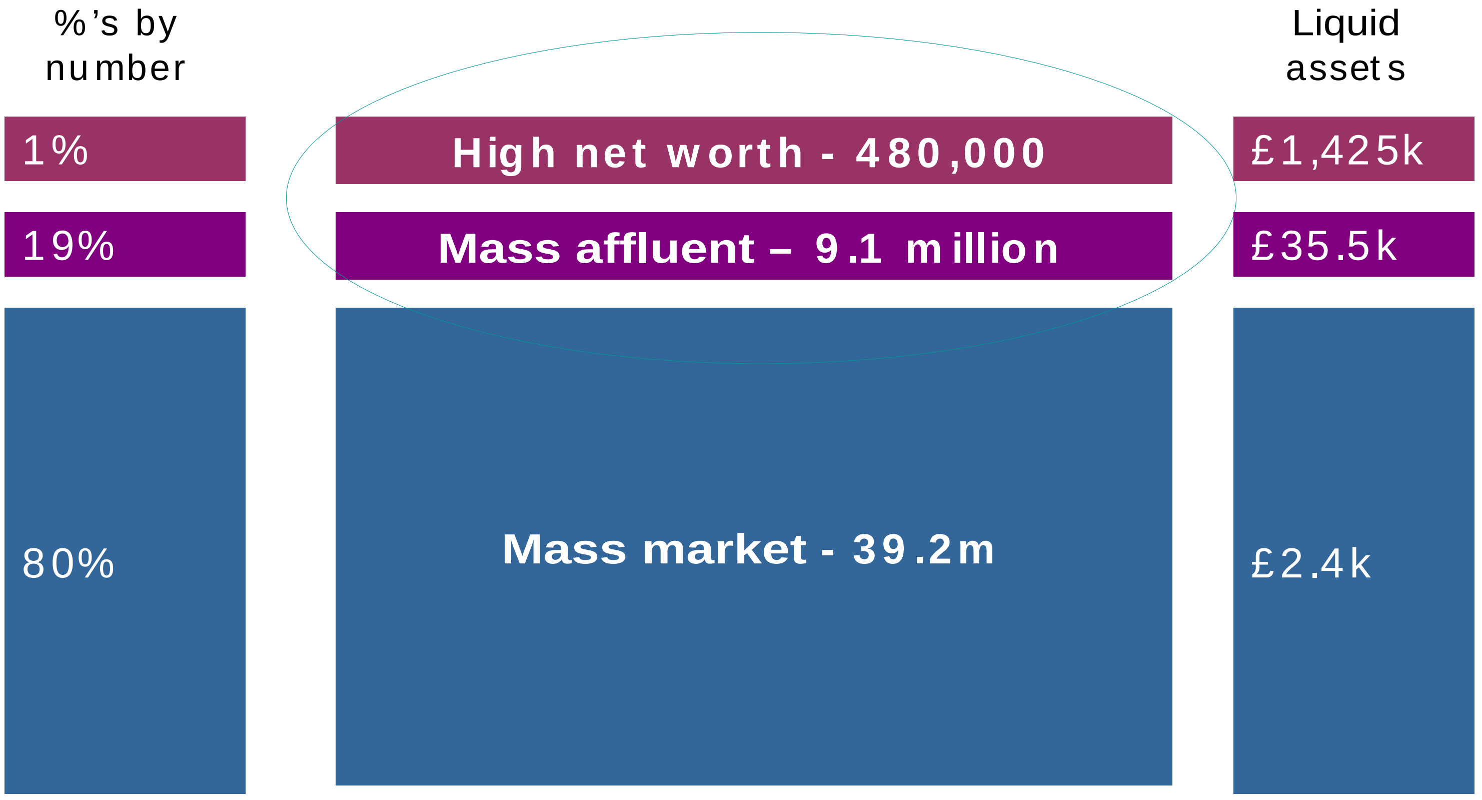
What is in it for the Wrap provider?

- Charges are based on assets under management
- Transaction charges are based on new money, and switches
- Customer persistency will be better because of the strength of the customer relationship
- The acid test is whether there is any cost advantage over traditional product wrapper providers through new technology
- The regulatory costs of operating a mutual funds saving scheme gives a price advantage over life company product wrappers.

Agenda

- What are wrap accounts ?
- **Who is going to buy wrap accounts ?**
- What is the issue for life companies ?
- What is the US and Australian experience ?
- Who is doing what in the market ?

Customer segments



Source: Inland Revenue 2002, Tulip Report, Marketing to the Wealthy 2003

Segment Characteristics

High income – above £35k liquid assets

- Require advice in framing and making investment decisions
- Desire to control their own affairs, constantly measuring themselves against personal and financial yardsticks
- Have a growing awareness and confidence in financial matters – they delegate to an advisor, but check rationale and keep track of performance, and use trusted advisors
- Keep performance largely at arms length
- Most likely to use an IFA for advice

Segment success criteria

- Broad product offering
- Highly skilled IFA based distribution
- Low cost advice less important – but still want access to stakeholder products

Source; ABI 2002, NOP Consumer survey 2001

Distribution landscape - current

Mono tied

- 12.5k in Bank sales forces
- 20k in direct sales forces
- Appointed Reps 8.5k

55%

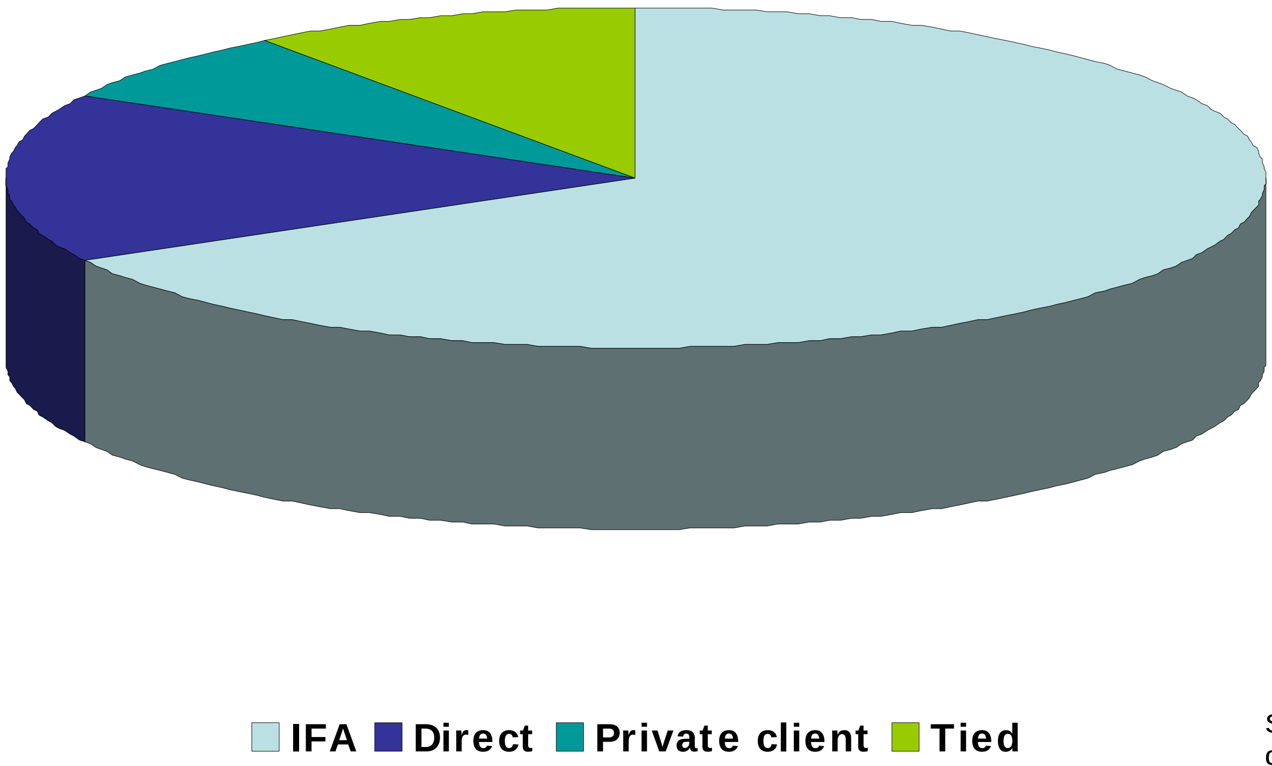
IFAs

- Approx 11k firms
- 49% in a network
- Claim 15m clients
- Approx 35k RIs
- 42K incl GI salesmen
- £3.4bn Turnover

45%

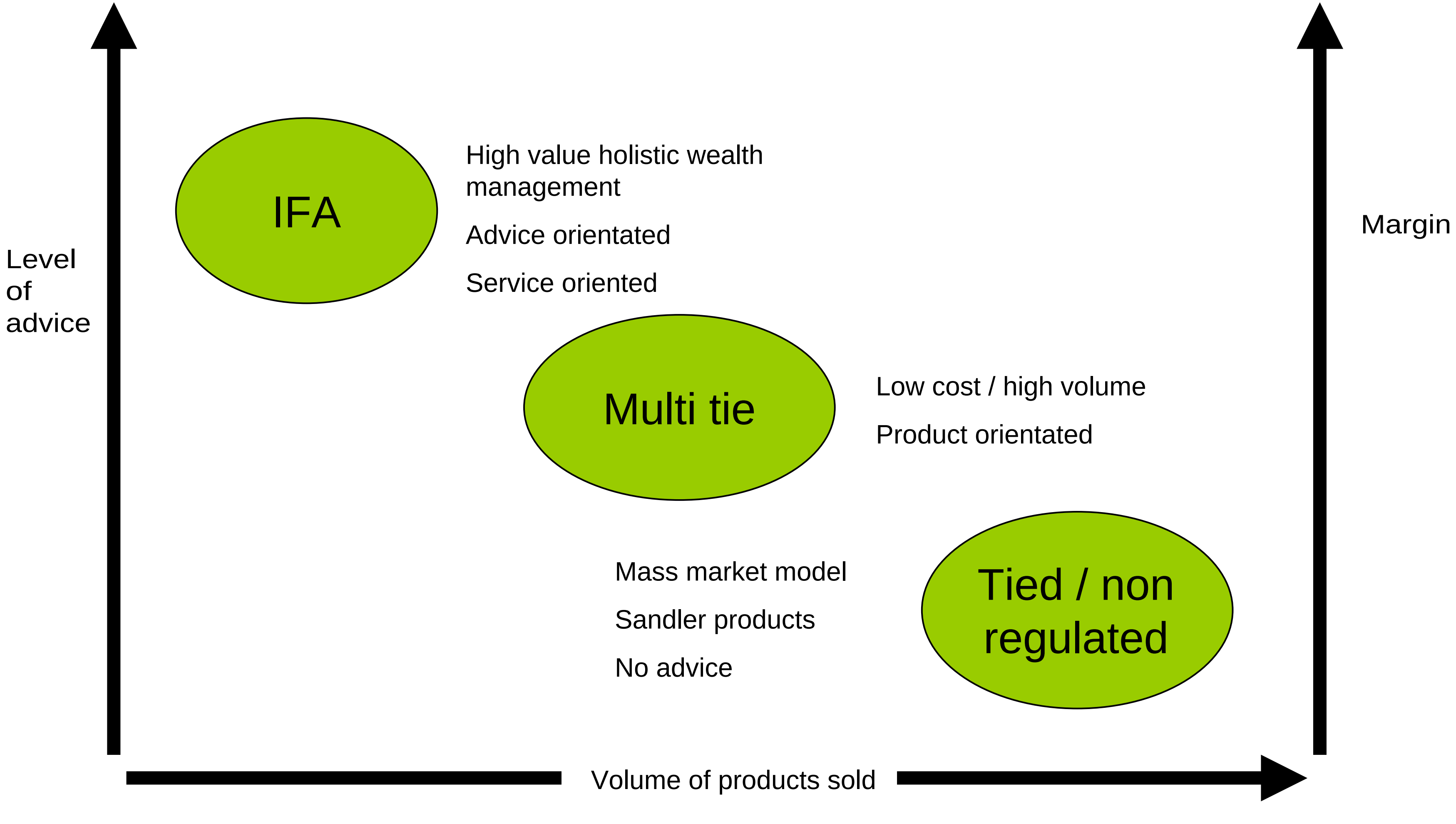
Source: Matrix Data 2003

Current market share of each distribution channel



Source;Matrix data 2003

The distribution landscape 2005 ?



Distribution landscape –future ?

Tied / Non regulated

- Information providers
- Non advice
- Product set extended by gap fills
- Stakeholder product set highly prescribed

20 – 30%

Multi tie

- Commission only
- 3 to 5 providers per panel
- May co-exist with IFA business

20 – 50%

- Limited advice

IFAs

- Approx 10 – 15 % of IFAs on fees
- 50% remain in a network
- Advice proposition

30 – 50%

Source: Matrix Data / KPMG 2003

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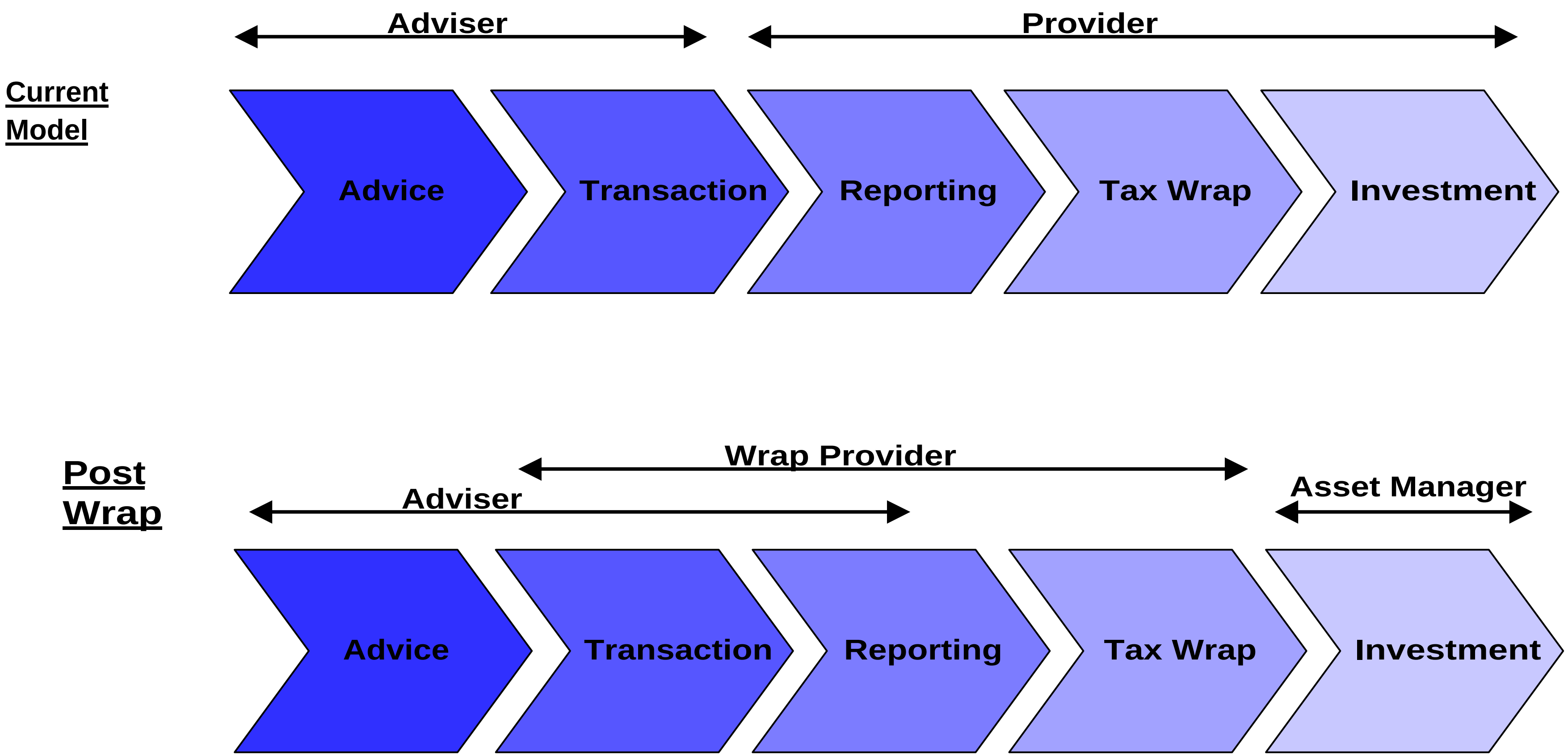
Product providers without wraps could be marginalised in the value chain



UK Customer charge example for proposed wrap vs current mutual fund…

CURRENT MODEL

Initial

- 5.25% bid/offer spread

Subsequent

- 1.5% annual management charge to fund manager

Jupiter Merlin Worldwide

WRAP MODEL

Initial

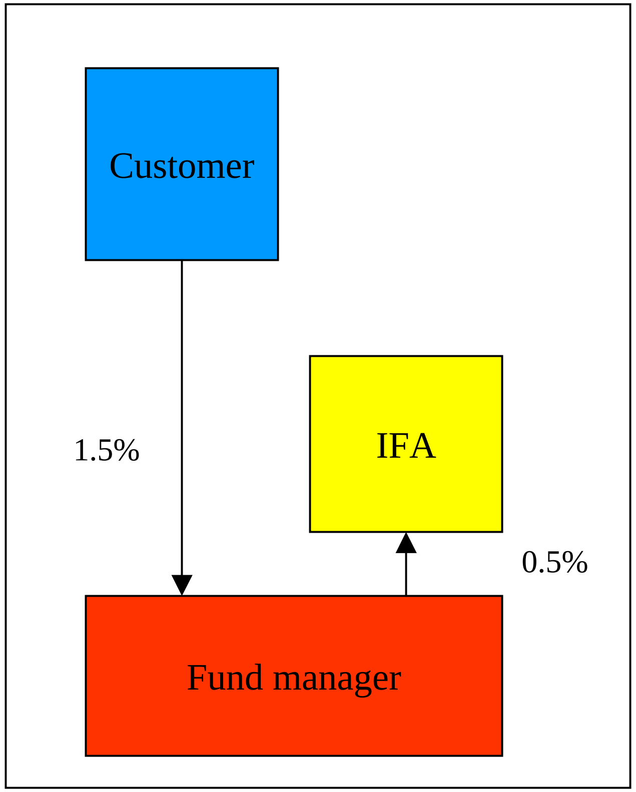
- 3.5% charge to IFA.
- 0.5% charge to Wrap provider

Subsequent

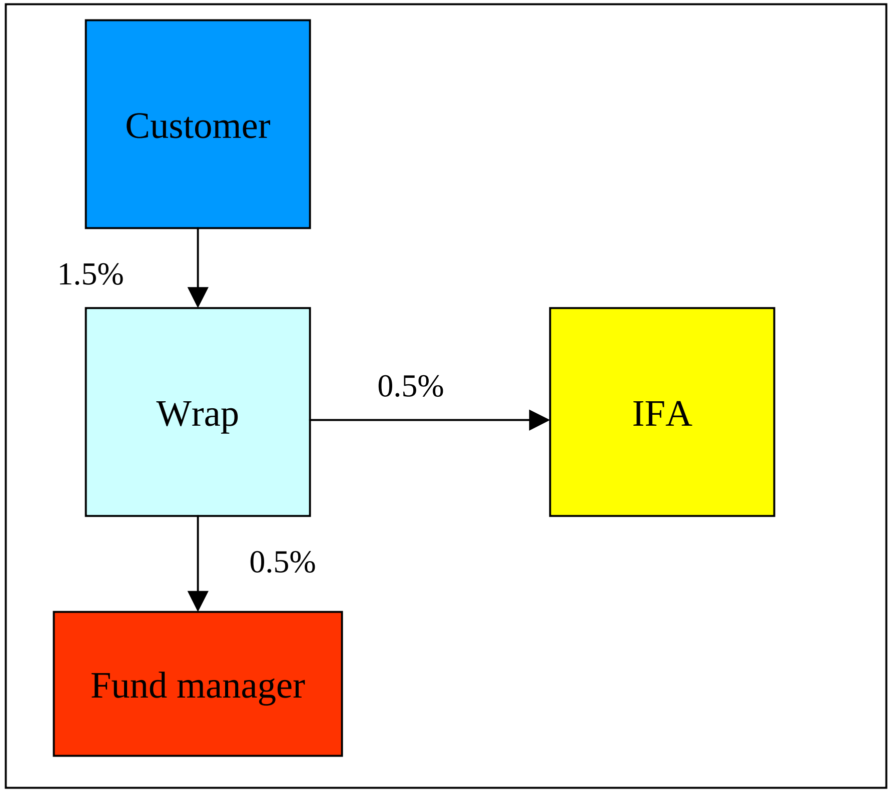
- 0.5% annual charge to fund manager
- 0.5% annual charge to Wrap provider
- 0.5% annual advice charge to IFA

UK Customer charge example for proposed wrap vs current mutual fund…

Current



Wrap model



What has changed?

- Investment advice and intermediary fees remain the same
- Investment managers fees are squeezed as they give up their distribution margin to the wrap – just as they did for fund supermarkets and life company open architecture
- Investment managers move to institutional charge levels
- The wrap manager has more work to do therefore he should get more charge
- Product wrapper costs remain the same!

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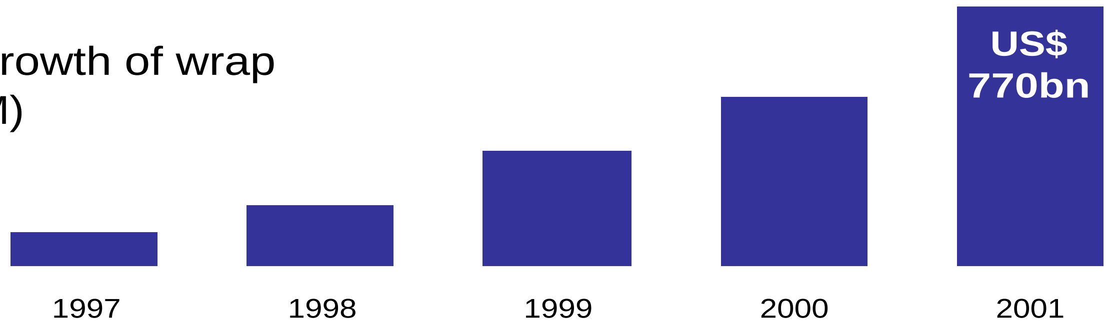
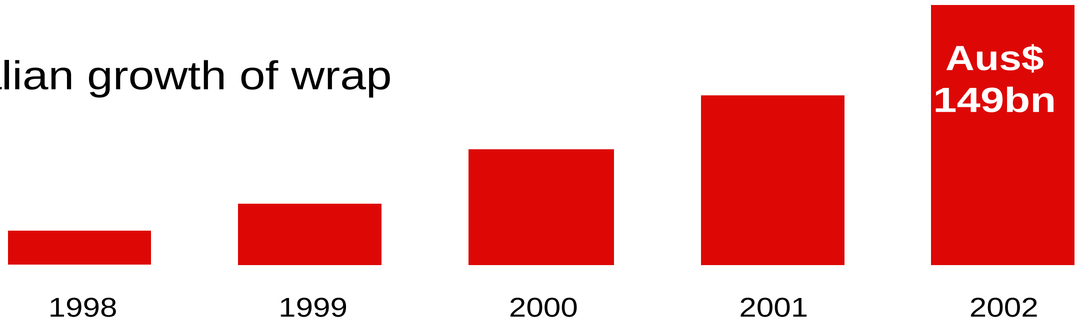
The growth of Wrap accounts in the US and Australia

US growth of wrap (AUM)



32% pa
for five years

Australian growth of wrap (AUM)



Top 5 accounted for 66% of the market

75% of new investments through wrap

The Australian experience

- Over 75% of new fund inflows currently going into wraps, with total assets under administration of £130bn
- Advisers sought to stabilise their revenue with movement away from initial commission to fees on a renewal basis
- Regulation demands e.g. disclosure requirements
- IT infrastructure development e.g. industry data feeds became available, adviser technology at POS moved on
- Rising customer service expectations
- The introduction of compulsory superannuation and self invested superannuation
- Competition differentiator – financial and administrative benefits to networks
- Wrap positioned to provide adviser back office platforms – and provided lower costs to them
- The market has consolidated to 5 major wrap players; AMP, Acquire, Asgard, AXA, Westpac

The US experience

- Emerged in the 1970s as consultant wraps aimed at individuals who manage their finances through intermediaries
- The wrap is based on the model of a separately managed account with several fund managers operating over a collective fund which forms part of the wrap service
- The minimum investment in these type of funds is typically $100k
- In the 1990's mutual fund wrap models emerged similar to the proposals for collective fund only wraps in the UK. These wraps typically have minimum investments $10k
- The US market has grown by around 40% pa since 1996, and assets under wrap currently stand at $750bn
- The largest players in the US market are; Merrill Lynch, Salomon Smith Barney, UBS Paine Webber, Morgan Stanley, Prudential Securities, and American Express

Differences between Australia and the UK

- Although many market characteristics are similar there are some differences
- The UK market is much larger, much more diverse and culturally much more entrenched
- Some components of the wrap proposition are already present in the market e.g wealth management services, fund supermarkets, adviser tools
- Most wealth management offers are focussed on asset gathering with limited managing of assets and liabilities holistically
- The most recent phase of distribution restructuring has seen provider owned direct sales almost wiped out, and individual advisers move from DSF to IFA distribution

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Wrap account offerings in the UK

Product wrappers	Abbey	Transact	AMEX	Selestia	7 IM
ISA/PEP	Yes	Yes	Yes	Yes	Yes
SIPP	Yes	No	Yes	Yes	Yes
PPPs/ Indiv stakeholder	No	Yes	No	No	Yes
Annuities	No	No	No	No	No
Onshore bond	No	No	No	No	Yes
Offshore bond	Yes	Yes	No	Yes	Yes
Protection	No	No	No	No	No
Directly held funds	900	All funds	1000	400	All funds

Who is doing what in the market?

- Distributors: Lifetime (NU and Millfield); Bankhall and Microsoft ; John Scott & Ptnrs ; Hargreaves Lansdown Vantage ; The Money Portal ; Raymond James
- Fund Supermarkets: cofunds; Ample; FundsNetwork ; Fundsdirect
- Banks: Barclays (through Barclay’s stockbrokers); HSBC (through HSBC Asset Management)
- Life companies: Winterthur ; CMG (HBOS) ; Skandia ; L & G (with cofunds)
- Technology led groups: Marlborough Sterling ; Capita ; IFDS ; Aqera ; Investment Sciences ; DSTi

Business Objectives

- Starting Participants – target 25 IFAs
- Starting Assets – target £1.5bn
- Critical Mass – approx £5bn of assets to provide
    - » Profitability of operation
    - » Funding
    - » Negotiating Power

What should it cost ?

Main System	Year 1	Year 2+
Licence(s)	0.5M	-
Bespoke Dev. (inc Gap)	0.5M	0.25M
Implementation	0.25M	-
Interfaces	0.25M	0.25M
Support	0.25M	0.25M
Management	0.25M	0.15M
	£2.0M	£0.9M

FSA Application Process

- Designated investment business
- Core details
- Business plan
- Compliance arrangements
- Systems form
- e-commerce form
- Financial resources
- Capital requirements

Conclusions

- Whole of life SP bond market under threat
- Speed of take up of wrap will be slowed by depolarisation and lack of investment capital in intermediaries
- Not all of the expressions of interest will lead to firm initiatives

The Actuarial Profession

making financial sense of the future

2004 Life Convention
7-9 November

Wrap Accounts

Bob Gibson