


WRAPS: Strategic imperative or just the latest fad?

David Lomas KPMG Financial Services

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Agenda




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- Market drivers will transform the UK retail distribution landscape
- New distribution models are already emerging
- How this might affect you – scenarios and options

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Wrap – a working definition



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“...an Internet-based, multi-product transaction and administration platform which aggregates deals and consolidates portfolio information for advisers and investors”

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Wrap – a working definition

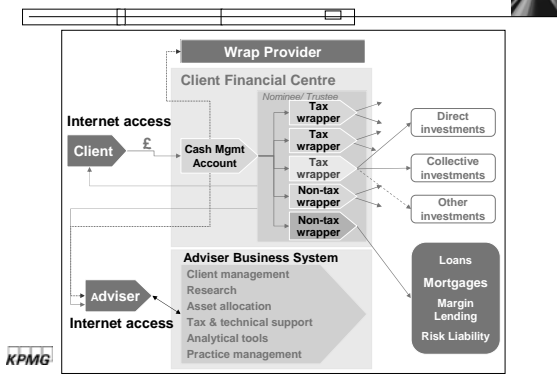
with additional features, including:

- Added value tools for advisers such as asset allocation and modeling tools, research and client management functionality
- Back office administration for advisory firms
- Contains both tax-wrapped and non-tax-wrapped products
- Transparent fees, often by category – adviser, administrator, investment manager



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Wrap – a working definition



What is driving change in the UK retail market?

1. Bear market has exposed weakness in current models
2. Product charge capping
3. De-polarization – liberalisation of distribution
4. With-profit regulation
5. Demand for simplicity



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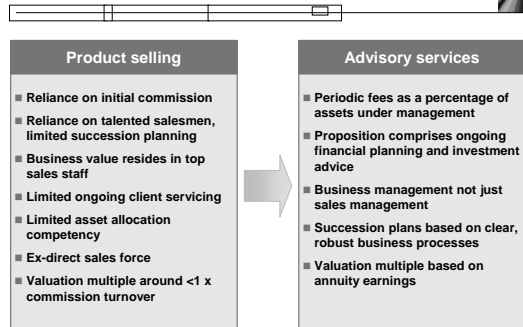
The impacts of change will hasten the adoption of wrap platforms

1. Increased margin pressure, requires low cost operations
2. Decline of "insurance-based" investment with high initial commissions
3. Consolidation among Independent Financial Advisors (IFAs) and providers
4. Providers' vertical integration into distribution
5. IFAs seek new business model to leverage exit valuation



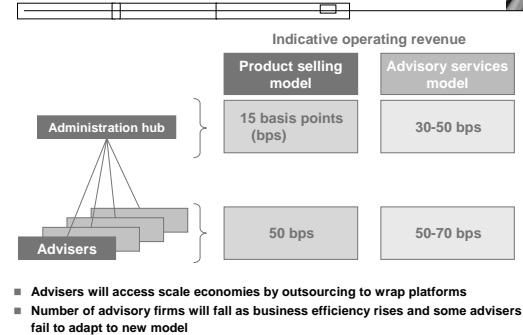
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A new advisory model is already emerging

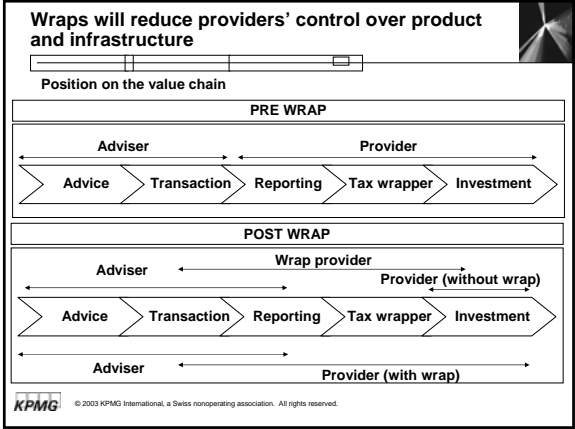


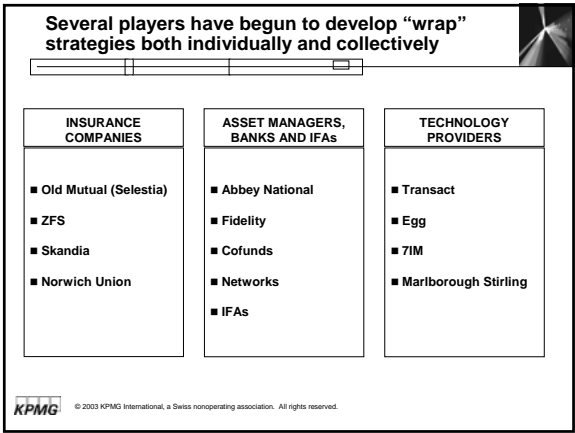
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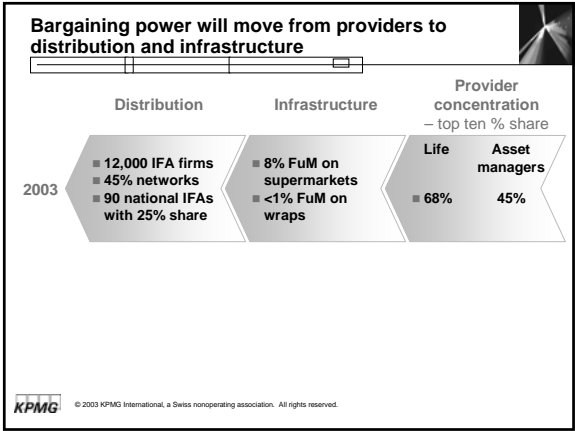
The service model is enabled by a wrap – both operationally and economically

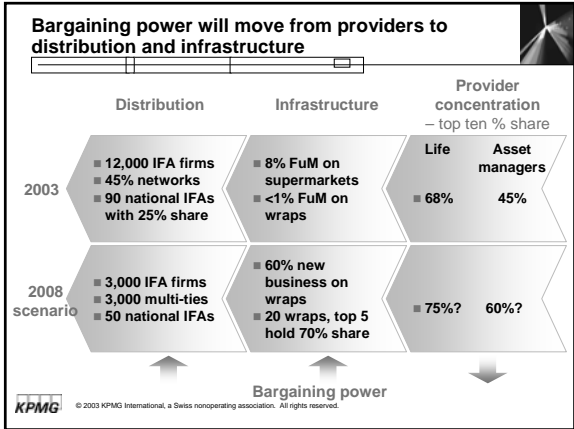


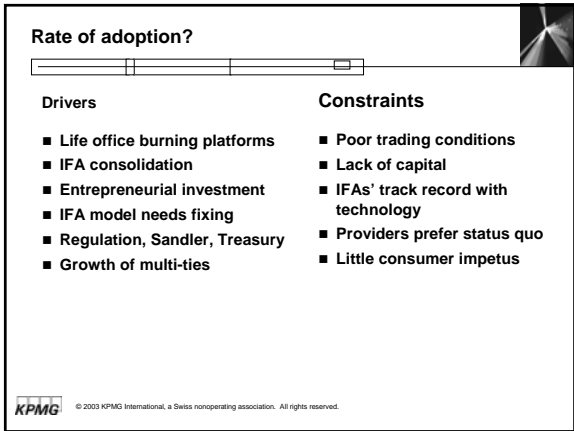
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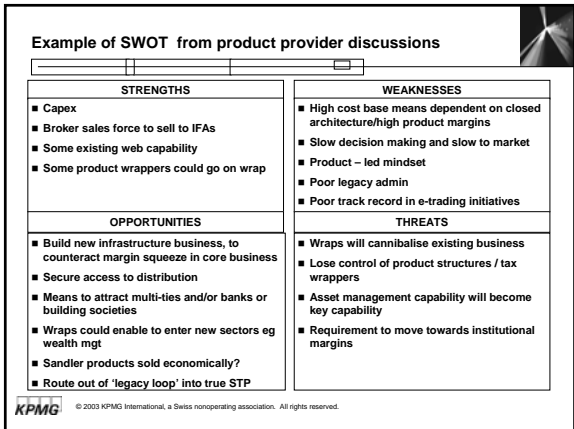












Example SWOT from distributor discussions

STRENGTHS

- Customer relationship ownership and knowledge of investor needs
- Degree of control of Ris
- Growing trend towards taking trail commission
- Limited competition from banks and DSF
- Sales Mgt capability to run multi-ties

WEAKNESSES

- Product focus not service philosophy
- Dependency on initial commission
- Inefficient and lack of capex to invest
- Inconsistent sales, compliance and advisory processes across firms and networks
- Scalability of business model, assets are people not processes

OPPORTUNITIES

- Means to move from reliance on initial commissions to annuity income
- Way to leverage valuation multiple
- Platform for consolidation /attracting talent
- Means to move to STP and avoid reliance on inefficient providers and raise productivity
- Means to hard wire compliance

THREATS

- Wrap based advisory firms capitalise on market drivers to take share from traditional IFA model
- Banks and life offices with deeper pockets move quickly into this space and gain control of distribution on a large scale
- Economic recession slows down adoption of wraps

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What does this mean for the actuarial profession

- In Australia traditional products and “smoothed return” products have little market share
- Innovative ways to limit volatility for customers
 - » Asset allocation
 - » Use of derivatives
 - » Mechanistic smoothing
- Move from pricing on a micro basis to macro basis – portfolio approach
- Modelling support for segmentation analysis
- Predictive modelling for sales effort, more sophisticated approach
- Asset allocation excellence for end customers
- Pricing the administration and commission structures
- Higher involvement in unit pricing
- Developing / integrating wrap based products with protection products

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Strategic options for Life Offices

- Do nothing, hope for the best
- Transformation into a wrap-friendly, low cost operator
- Secure access to distribution via investment in wraps
- Model the market, model your options

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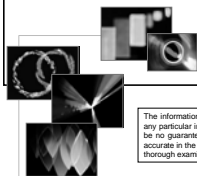


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David Lomas Financial Services	■ Telephone	+44 (0)20 7311 5930
	■ Mobile	+44 (0)77 8619 0696
	■ E-mail	david.lomas@kpmg.co.uk
John Jenkins Actuarial	■ Telephone	+44 (0)20 7311 6199
	■ Mobile	+44 (0)7801 077156
	■ E-mail	john.jenkins@kpmg.co.uk
Jeremy Oakley Strategic & Commercial Intelligence	■ Telephone	+44 (0)20 7311 6202
	■ Mobile	+44 (0)7710 744 378
	■ E-mail	jeremy.oakley@kpmg.co.uk



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