

platforms :

BEWARE!

UNCLEAR CHARGING STRUCTURES

WHILE THERE ARE CLEAR BENEFITS TO BE GAINED FROM THE EFFICIENCIES OF PLATFORMS, THE DEGREE TO WHICH THEY ARE PASSED ON TO FINANCIAL ADVISERS AND THEIR CLIENTS CAN VARY GREATLY.

PETER JORDAN
EXPLAINS...



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The rise of investment platforms has been one of the most positive developments in the financial advice market for many years. Platforms deliver benefits to both financial advisers and their clients; however in today's economic climate it is becoming increasingly important for financial advisers to clearly demonstrate these benefits to their clients. To enable this, Skandia is committed to ensuring that our prices are not only competitive, but also that they are simple and consistent across all our tax wrappers, so that they can be easily understood by clients.

The sheer scale of Skandia's global fund holdings means that we are able to negotiate dealing terms with fund managers that few rivals can match. Our ability to simplify and reduce our charges

is underpinned by our global buying power as well as the way in which we harness technology to deliver cost efficiencies. We're committed to passing these benefits back to your clients, which is why in September 2008 we chose to give up our initial margin on our Selestia Investment Solutions platform. Combine this 0% front end margin with our 0% switching charge and you have the cleanest and most cost-effective proposition in the market.

The only remaining issue in this context has been the small number of funds on our platform with a fund manager initial charge. We are delighted to announce that from January 2009 all funds on the Selestia Investment Solutions platform will have a zero fund manager initial charge.* The cost implications of all of

these changes will be enormous for your clients.

unnecessary complexity

It is clear that those platforms substantial enough to benefit from economies of scale will do so, and will also be attempting to employ new technology to drive cost efficiencies into the business. Unfortunately the majority of these platforms are choosing not to pass on these cost efficiencies to end investors in the form of more competitive charging structures. In reality, new entrants and existing players have tended to think up ever more complicated charging structures and in many cases the end client ends up paying more for the privilege of giving the platform their money rather than seeing their charges fall.

// ...clients investing through these platforms could be paying a staggering £58 million in unnecessary platform charges. //

the cost of fund manager initial charges

ISA	SIS	FundsNetwork	Cofunds	Transact
Average fund manager initial charge	0.00%	1.21%	0.88%	0.23%
Number of funds at zero %	100%	16%	20%	48%

Collectives	SIS	FundsNetwork	Cofunds	Transact
Average fund manager initial charge	0.00%	1.21%	0.96%	0.25%
Number of funds at zero %	100%	26%	17%	44%

Sources: Skandia platform market analysis and platform sales estimates. Cofunds and FundsNetwork fund lists downloaded on 22 October 2008 and Transact fund list dated 18 September 2008. Skandia figures current as of 1 January 2009.

* Please note that on all platforms the spread of dual priced funds will be greater than the initial charge and so clients may still bear some establishment/buying costs.

In last month's *informer* I shared Skandia's analysis of charging structures across the platform market to reveal how fund platforms and wraps could be making at least £13 million each year from switch charges alone.

We've now taken this analysis one stage further and have examined the fund manager initial charges via the same three platforms. We estimate that Cofunds, FundsNetwork and Transact are likely to have a combined ISA and unwrapped collectives new business figure of around £4.7 billion for 2008 (this figure excludes re-registration business). If our 2008 new business estimates are correct, clients investing through these platforms could be paying approximately £45 million in fund manager initial charges (see table), which when added to the switch charges totals a staggering £58 million in unnecessary platform charges.

A FundsNetwork client investing into either an ISA or unwrapped collective will pay an average fund manager initial charge of 1.21%. In the case of Cofunds a client will be liable for a slightly lower average fund manager initial charge of 0.96%. Investing through Transact is

cheaper in terms of fund manager initial charges (0.25%) but do not forget that the client will also suffer a 0.50% charge, which is triggered when a client first moves money from cash into an investment (we have excluded this 0.50% from our analysis).

complete clarity

The existence of fund manager initial charges on platforms and their interaction with switch charges is anything but clear. At Skandia we no longer take an up-front margin, we do not charge for fund switching and as I stated earlier, we will completely eradicate fund manager initial charges in January 2009. We operate in this way because we want to provide you and your clients with a clear, simple and competitive pricing structure.

Many of the more ambiguous and expensive platforms/wraps have attempted to trivialise the impact of additional costs such as fund manager initial charges, however we should be under no illusion that price does not matter. In an economic environment where we are likely to see a period of low returns, every penny counts and price

most certainly will matter. The use of more expensive platforms will need to be clearly justified to clients and the performance of the client's investments will need to be sufficient to cover the additional cost.

improved outcomes

We have repeatedly stated that our aim is to improve customer outcomes within the platform market, and our stance on switch charges and fund manager initial charges demonstrates that we are leading the market in this area. ●

In support of our aim to provide charging structure clarity, Skandia is launching a 'Price Watch' tool in January 2009. Price Watch covers six major platforms and will enable financial advisers to clearly evaluate the initial and ongoing costs to their clients of investing via any of these providers. There will be further details on Price Watch in next month's *informer*.

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Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Selestia Investment Solutions investment platform gives you access to an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited, Collective Retirement Account and Collective Investment Bond provided by Selestia Life & Pensions Limited and an Offshore Collective Investment Bond distributed by Skandia MultiFUNDS Limited for Old Mutual International (Guernsey) Limited.

Skandia fund platform gives you access to MultiISA and MultiFUND provided by Skandia MultiFUNDS Limited and to products provided by Skandia Life Assurance Company Limited.

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