

# a clear, robust structure

September 2008



Skandia's new platform pricing structure is based around complete clarity for the consumer, while helping to meet the challenges set out by the regulator. **Peter Jordan** gives details.

Over the past few years the UK financial advice market has experienced rapid growth in the use of fund platforms. As a result this has attracted a large number of new providers that have sought to capitalise on this exciting area of the market.

While many of these new entrants have talked in great depth about transparency and improved value for money, the reality has been quite different. New providers have typically developed propositions with complicated charging structures rather than seizing the opportunity to innovate and add real value for financial advisers and their clients through the introduction of simpler structures with keener prices.

## introducing simplicity

It is clear that the FSA intends to use the Retail Distribution Review (RDR) to create greater clarity and simplicity to improve customer outcomes. We believe platform providers have a clear obligation to review their propositions and embrace the inevitable period of change within the market.

To respond to this challenge Skandia's Investment Solutions fund platform has launched a simpler, clearer and better

value charging structure for the benefit of all existing and new clients. The following enhancements were introduced on 15 September 2008:

- The initial fund platform charge has been reduced to 4.5%, making it cheaper for clients to invest.
- The 4.5% initial charge has been equalised across all products on the platform, removing potential for any bias in commission payments and associated initial charges.
- The entire initial charge will be used to fund adviser commission so that Skandia will no longer receive any income from client initial charges. If you choose to select a lower level of commission than 4.5%, the initial charge will be reduced on a one-for-one basis. Rebate your 4.5% in full and your client's charge reduces to zero.
- For the majority of clients the only charges over and above any initial commission will be the Investor Charge (currently £50 per client each year) and the underlying fund TER\*.
- Revised terms will apply to both new and existing customers.

- The rate of interest on cash deposits will be increased to 4.6%\*\* from 1 October 2008.

The impact of these changes on the Initial Charge, the Initial Commission and Skandia's Initial Margin are detailed in **table 1**. This enhanced pricing structure is designed to position Skandia's fund platform as the best value for money proposition in the UK financial advice market. **Table 2** shows the 10-year Reduction in Yields for Skandia and four other leading platforms, based on a portfolio investing equally in the top selling funds of Q1 2008. When benchmarked against the competition, it is evident that the newly enhanced pricing structure does deliver real value for money.

The table includes the £50 investor charge, but if we were to exclude the charge from these figures (by assuming it has already been accounted for within another of the client's investments on Skandia's fund platform), any further unwrapped investments would have an impressive flat-rate RIY of just 2.10% under the new pricing structure.

table 1 – impact of the new pricing structure

Product	Pricing structure pre 15 September 2008			Pricing structure post 15 September 2008		
	Initial Charge	Maximum Commission (average)	Skandia Initial Margin (average)	Initial Charge	Maximum Commission	Skandia Initial Margin
ISA, Onshore Bond, Unwrapped Funds	5.0%	4.2%	0.8%	4.5%	4.5%	0%
Pension	5.2%	4.2%	1.0%	4.5%	4.5%	0%
Offshore Bond	6.0%	5.2%	0.8%	4.5%	4.5%	0%

table 2 – fund platform Reduction in Yields

Investment amount	Skandia*	Cofunds	Standard Life	FundsNetwork	Transact
	10 year RIY	10 year RIY	10 year RIY	10 year RIY	10 year RIY
£7,200 yearly	2.25%	2.22%	2.22%	2.27%	2.65%
£50,000	2.20%	2.22%	2.22%	2.27%	2.65%
£100,000	2.15%	2.22%	2.22%	2.27%	2.60%

Source: Skandia, August 2008. Based on a portfolio investing equally in the top selling funds from quarter one 2008. Please note: the investment is outside of a tax wrapper and based on the adviser taking 3% initial commission and 0.5% yearly, trail commission/fee.

\*Skandia RIY takes into account the £50 annual investor charge.

The competitive positioning of Skandia's proposition is further enhanced when you consider that **table 2** does not take account of the fund switching charges levied by other platforms. Skandia does not charge clients for switching, allowing a client's portfolio to be regularly rebalanced or, in the case of unwrapped funds, periodically rebased to take advantage of the annual capital gains tax allowance without additional cost to the investor.

To put this into context, a 0.25% switch charge would cost the client a further £250 on a £100,000 portfolio switched in full. This is an important consideration when benchmarking the charging structures of the various UK platforms.

## driving efficiencies

The substantial improvement in Skandia's platform charging structure has been made possible through a combination of factors. These include the cost efficiencies achieved through high levels of online new business submissions (currently over 70%), and levels of fund rebates that only a market leader can command.

Being able to take full advantage of the cost efficiencies associated with online new business submissions is an integral part of being able to radically enhance the Skandia pricing structure. As a consequence and with effect from 1 January 2009, Skandia will not accept paper applications for Selestia Investment Solutions where the functionality exists to submit online applications.

We will continue to use these efficiencies to drive the development of Skandia's platform proposition – further demonstrating our long-term commitment to build upon relationships with advisers as you review your platform requirements. ●

For further details on Skandia's Selestia Investment Solutions investment platform, please contact your Skandia consultant or download the adviser brochure from the Skandia literature library.



## future developments

Although the improved Skandia proposition already delivers many Customer-Agreed Remuneration (CAR) features, we have further plans for continued development in this area. We believe, however, that it would be unwise to implement these plans until the precise CAR framework has been finalised and it becomes clear how the market will react to the new rules.

This next phase will take place during the second half of 2009 – actual timescales will depend on how long it takes for the required regulatory changes to emerge. This further period of development activity is likely to include the following initiatives:

- Refine the current charging structure so that it becomes a market-leading unbundled proposition. This will require all advice payments to be customer-agreed.
- Improve the disclosure of fund rebates by providing real transparency regarding the proportion of fund rebates that Skandia retains. This will enable customers to clearly see how they benefit from Skandia's market-leading rebate agreements.
- Develop a white-labelling and/or co-branding facility for advisers who wish to embed Skandia's platform proposition within their own business model.
- Continue to progress our wealth management proposition by making a wider range of direct investment holdings available to clients.

\*Automatic withdrawals from the Collective Retirement Account have an annual charge of £51.82 and the Offshore Bond has a tiered fund-based annual charge of between 0.15% and 0.70%.

\*\* This rate will vary from time to time with general market interest rates.

[www.skandia.co.uk](http://www.skandia.co.uk)

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, a 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.

Skandia Life Assurance Company Limited, Skandia MultiFUNDS Limited, Skandia Investment Management Limited and Selestia Life & Pensions Limited are registered in England & Wales under numbers 1363932, 1680071, 4227837 and 4163431 respectively. Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom.

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