

efficient for the future

October 2009

Highly efficient platform technology that complements the advice and service proposition will be key to thriving in the approaching regulatory environment. **Peter Jordan** gives details.

Following the release of the FSA's latest Retail Distribution Review (RDR) consultation paper in June of this year, debate has largely focused on the direct implications for advisers and the difficulties fund managers and wrapper providers will face in achieving factory gate price distribution. While these issues are clearly important, possibly the most significant factor is that the relationship between providers and advisers will fundamentally change.

Within the fund platform and wrap market, advisers are either paid commission for distributing wrappers and/or funds or charge a fee and offset that cost by reinvesting the commission that fund groups pay (commonly referred to as fund rebates). Both approaches will cease post-RDR, as it will no longer be possible to pay commission even if fully rebated to investors.

Instead, products will be presented without loadings for commission and advisers will agree their charges directly with clients. In this context it seems likely that advisers will start to look at providers very differently. Levels of commission and/or fund rebates, and whether or not a charging structure is bundled, will become irrelevant.

increasing business efficiencies

While there is a limited possibility that a platform or wrap may enable an adviser to operate higher advice charges (either due to

proposition costs

Function	Risk rated managed OEICs	Generic OEIC Portfolios	Bespoke Portfolios
Portfolio creation	Nil	Medium	High
Asset manager monitoring	Nil	Medium	High
Asset Allocation adjustments	Nil	Medium	High
Auto-rebalancing	Nil	Medium	Medium
Ad-hoc re-balancing	Nil	Medium	High
Periodic reporting	Low	Medium	High
CGT management	Low	High	High
Compliance risk	Low	Medium	High



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// more can be done to develop technology that drives down costs in an advisory business //

a lower factory gate price or access to a wider range of investments), the major area of added value is likely to be the extent to which the platform or wrap can expand net adviser margins by increasing business efficiencies and reducing operating costs. Within the potential environment of advice charges placing downward pressure on turnover post-RDR, the investment strategy adopted by advisers could play a significant role to minimise costs and drive efficiencies.

Historically, in the absence of automated processes, sophisticated propositions have been pursued to attract wealthier clients and justify charges for portfolio management. However, slowly but surely, it is possible to foresee a gradual but ultimately dramatic shift in proposition if costs can be managed to achieve better net margins without detriment to end outcomes for clients.

The initial impact of TCF and growing influence of the RDR means that regulatory guidance has made it abundantly clear that assessing attitude to risk and matching asset allocation are the foundations of delivering an investment experience in line with customer expectations. Furthermore, the renewed focus on passive investments could mean that the underlying components of each asset class become less significant. Indeed, it could be argued that overly sophisticated propositions may carry higher compliance risk that devalues the extra margin the proposition is designed to support.

The rapid development of automated processes within fund platforms means that less sophisticated propositions with lower gross rates of commission/fees can potentially produce higher net margins – particularly if the advice proposition is positioned to fully exploit the technology some platforms provide. A simple analysis of the propositions available through the Skandia Investment Solutions platform makes this clear. The [table](#) shows how the administrative activity and related costs rise as the sophistication level of the proposition increases. It suggests that even though greater personal service and more bespoke propositions may help to justify higher advice charges, it is important to establish whether the costs inherent in

running such portfolios might offset the gross benefit the proposition is designed to achieve.

offering choice

Importantly, the Skandia platform is built around offering advisers choice in terms of investment strategy. While risk-rated portfolio solutions such as Spectrum will not be suitable for all, it is possible to see how such propositions will become increasingly important to help advisers minimise costs and manage compliance risks in the approaching regulatory framework. This is achieved through a fully integrated process ensuring that funds are managed in line with attitudes to risk and that the advice provided by all registered individuals (RIs) is consistent and effectively discriminates between customers.

Where a more bespoke approach is appropriate, the extent to which the technology of the platform (through sophisticated risk profiling and fund selection tools) complements the advice and service proposition of advisers is crucial. This will impact on costs incurred by advisers and will be the key determinant of net margins given that the most popular funds tend to be common across all platforms.

technology is key

In previous *informer* articles I have outlined the risks of utilising platforms based on an 'extensive' investment choice, particularly if that wider fund range is based on underdeveloped and uncomplementary technology that gives rise to higher costs. Ultimately, given that the availability of funds on the periphery of the fund universe rarely results in improved customer recruitment or retention, but could compromise net margins and compliance risks, then what value is added to an advisory business focused on optimising future value?

This thinking is central to Skandia's platform development. We know there is more that can be done to develop technology that drives down costs and manages compliance risks within an advisory business – and it is this that will ultimately underpin successful advisory models post 2012 and beyond. ●

To find out more about how Skandia Investment Solutions can increase your business efficiency, contact your Skandia consultant or regional office.

www.skandia.co.uk

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