

excessive choice

Are clients helped or hindered by a very broad fund choice?



March 2009



Jeremy Mugridge explains why platform fund ranges must be structured to offer quality and value for the end client.

Over recent months we've been busily developing PriceWatch, our online platform price comparison tool which launched at the end of January 2009. We've made two interesting observations since launching PriceWatch. The first is that it is already being used by advisers in their platform due diligence process. Over 4,000 individual advisers visited PriceWatch in the first month since launch and general feedback has been extremely positive. The second is that the funds available on each of the major platforms are really quite different from one another – which could prove significant in terms of platform suitability.

quality or quantity?

We know the three biggest platforms tend to offer a similar *quantity* of funds. Skandia

offers 900+ funds, FundsNetwork 1,100 and Cofunds 1,200.

When we developed the blueprint for PriceWatch we knew the tool would initially focus on our 200 top-selling funds as these generally account for 90% of new business. While we expected this to be a relatively straightforward exercise, we found that over 20% of our top 200 funds were not actually available across all the platforms featured on PriceWatch. We even had to exclude 21 of the top 200 because not enough platforms offered them (see [figure 1](#)).

The top 10 funds alone on Skandia's Investment Solutions platform accounted for over 25% of sales in quarter 4 2008.

[Figure 2](#) shows how many of these popular funds are also available on some of the other UK platforms.

At Skandia we aim to offer a fund range that meets the needs of both advisers and their clients – which doesn't necessarily mean offering the most amount of funds. Skandia's Investment Solutions fund range is demand-driven, which means it will evolve to meet the needs of clients. This is illustrated by the recent strengthening of our passive fund range, including funds from Pictet and 7IM.

The key point here is that by moving from one platform to another on assumption of 'wider choice', may mean that some preferred funds are no longer available.

For instance, the low correlations with FundsNetwork may have much to do with its preference to channel 'cash' into a cash park facility rather than offer advisers the same choice of cash funds that Skandia makes available. The fact that a number of cash funds make it into Skandia's top 10 indicates that advisers and clients appreciate the choice in this area.

value for money?

Transact and Standard Life Wrap on the other hand promote a 'whole of market' fund range which sounds appealing at face value, but may prove less so from a cost perspective. The phrase 'whole of market' is often used to justify expensive charging structures. While a wide fund choice is undoubtedly important, quality and cost/benefit to the end client cannot be ignored.

The FSA articulates this point very clearly in its guidance notes to those advisers thinking of recommending a more expensive provider on the grounds of a wider fund choice:

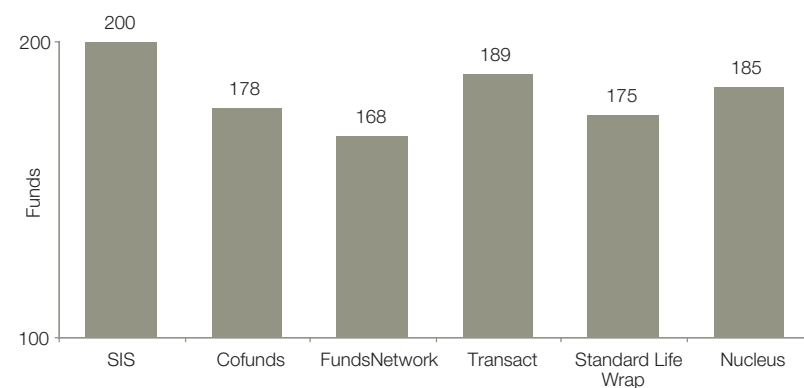
"The customer must have a clear need for those funds and receive a real benefit from having them. You should look to see that the benefit to the customer of the additional fund range outweighs the additional charges."

Source: Financial Services Authority. 'Using the FSA's pension-switching advice suitability assessment template', February 2009.

Transact have a practical offering for those clients whose portfolios can benefit from a very diverse investment mix. On the other hand PriceWatch indicates that for those

figure 1

availability of Skandia's top 200 selling funds on other UK platforms



Source: Skandia MI - top 200 selling funds on Skandia's Investment Solutions platform (Q4/08).

figure 2

availability of Skandia's top 10 selling funds on other UK platforms

Rank	Fund	Cofunds	FundsNetwork	Transact	Standard Life Wrap	Nucleus
1	BlackRock Cash	✗	✗	✓	✓	✓
2	Invesco Perpetual High Income	✓	✓	✓	✓	✓
3	Invesco perpetual Corporate Bond	✓	✓	✓	✓	✓
4	M&G High Interest	✓	✗	✓	✓	✓
5	Jupiter Cash	✗	✗	✓	✗	✗
6	Premier UK Money Market	✓	✗	✓	✗	✓
7	Skandia Spectrum 6	✗	✗	✗	✗	✗
8	Skandia Spectrum 5	✗	✗	✗	✗	✗
9	BlackRock UK Absolute Alpha	✓	✓	✓	✓	✓
10	M&G Gilt & Fixed Interest	✓	✓	✓	✓	✓
Total		6	4	8	6	7

Source: Top 10 selling funds (Skandia MI) Fund availability Quarter 4 2008 (www.skandiapricewatch.co.uk)

clients investing in retail funds only, Transact could be viewed as expensive. Some clients could be paying unnecessarily for an investment choice they just don't need.

The structure of Standard Life Wrap's fund range is driven largely by rebates. The funds that pay the biggest rebates go into its 'Core' fund range, the funds offering smaller rebates go into the 'Platform' fund range and all other funds are described as 'rest of market'. It is worth noting that access to 'rest of market' funds through Standard Life Wrap will cost the investor between 0.6% and 0.8% in additional charges each year – something that clients must be clear about.

look beyond the headlines

The important point from an advisory perspective is that the headline number of funds promoted by platforms in their

marketing material is just one side of the story. In order to make informed choices about a platform's fund range, it is important to also consider which funds are actually available and also whether or not the costs of accessing these outweigh the benefits to the end client.

Skandia's Investment Solutions platform enables intelligent investment choice and value for money – two significant reasons why we continue to lead the platform market in the UK. ●●

PriceWatch is available now at
www.skandiapricewatch.co.uk

www.skandia.co.uk

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

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