

show me the money!

July 2010

Jeremy Mugridge takes a step back from the debate on bundled and unbundled charging to uncover a simple truth – clients just want to know what they're paying for.



I was recently with a large group of advisers in Newcastle and the subject of bundled vs unbundled charging structures cropped up. As you may already be aware, Skandia is developing an unbundled charging structure and the advisers in Newcastle saw this as very positive news.

Chatting afterwards to some advisers though, it became clear to me that many concerns around unbundling are due to its apparent complexity, and the worry that it leaves clients with a number of different charges to digest.

It occurred to me that now might be a good time to take a step back and sensibly articulate the differences between the two options. First and foremost, it's worth remembering that each structure gets you to the same end point – the total charge the client pays when investing their money.

So what are the key differences?

bundled

In the case of Skandia, bundled means the client pays the fund TER, which includes remuneration for the adviser, the fund manager and the platform – plus, they also pay Skandia a £52.32 annual investor charge. Unlike some other bundled charging structures, there are no fund manager initial charges nor a platform switch charge to contend with which simplifies things even more.

The customer is able to see exactly how much the adviser gets paid, however the precise amount the fund manager and Skandia gets paid is not explicitly shown. With bundled charging structures it's generally very clear what the total cost is because the calculation is relatively simple – TER plus £52.32 (see column A, below).

unbundled

Unbundled structures on the other hand enable the customer to see exactly how

much they are paying the adviser, the fund manager and the platform. The fund manager receives the fund TER minus rebates – all platforms negotiate these with fund managers. In an unbundled structure, rebates are paid back to the customer, whereas in a bundled structure they are used to pay the adviser and the platform. The platform provider then charges the client an explicit platform charge, or multiple charges in some cases, and the adviser agrees their initial and ongoing fees directly with the customer.

Within an unbundled charging structure, it's true that the client has a variety of charges to digest, but this is necessary for those clients requiring a higher level of detail. What doesn't make sense is why some platforms feel the need to overly complicate things with a multitude of platform charges – for example a platform initial charge, a platform annual charge, tax wrapper charges and a switch charge (see column B in the table).

bundled and unbundled – uncovered

A

'bundled' – Skandia

Fund TER
Investor charge

Total cost

B

'unbundled' – overly complicated

Platform initial charge
Fund TER
Fund rebate
Annual platform charge
Quarterly wrapper charge
Platform switch charge
Adviser remuneration


Total cost

C

'unbundled' – simplified

Fund TER
Fund rebate
Annual platform charge
Adviser remuneration

Total cost

A close-up photograph of a man with dark hair and glasses, wearing a white shirt and a dark tie. He is holding a black telephone receiver to his ear with his right hand and pointing his left index finger towards the camera. His mouth is wide open in a shout or yell, and his expression is one of intense frustration or anger. The background is a plain, light-colored wall.

This level of complexity adds no value from the client's perspective and is something that new entrants and established platforms currently developing their own unbundled charging structures must learn from (see column C). There is simply no need for unbundled charging structures to be so complex.

As I told the advisers in Newcastle, Skandia is building an unbundled charging structure capable of delivering both simplicity and value for money, which is great news for you and your clients.

After all, why shouldn't the client have the right to clearly understand what it is they're paying for?

The new charging structure will be launched in conjunction with a number of other client-centric platform enhancements, well ahead of the RDR implementation date and I will keep you up to date with those developments over the coming months in *informer*. ●●

For more information on platform charging structures and guidance on platform due diligence, please visit www.skandiaplatformwatch.co.uk

www.skandia.co.uk

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

Skandia provides you with access to its investment platform, known as Skandia Investment Solutions. Within this platform you can open an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited, a Collective Retirement Account and Collective Investment Bond provided by Skandia MultiFUNDS Assurance Limited and an Offshore Collective Investment Bond, distributed by Skandia MultiFUNDS Limited but provided by Old Mutual International (Guernsey) Limited.

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

All companies are authorised and regulated by the Financial Services Authority with FSA register numbers 110462, 165359 and 207977. VAT number for all above companies is 386 1301 59.

Skandia Investment Group is a trading name of Skandia Investment Management Limited. Skandia Investment Management Limited is registered in England & Wales under number 4227837. Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom. Authorised and regulated by the Financial Services Authority with FSA register number 208543, VAT number 386 1301 59.

Old Mutual International (Guernsey) Limited is regulated by the Guernsey Financial Services Commission and is licensed to write long-term business under the Insurance Business (Bailiwick of Guernsey) Law 2002. Registered number 2424. Registered Office at The Beehive, PO Box 121, Collings Road, St Peter Port, Guernsey GY1 3HE, Channel Islands.