



size matters



April 2009

Jeremy Mugridge reports on the latest platform industry data from Lipper FMI and highlights why scale and sustainability are so important.

Fund platforms increased their share of assets last year and now account for 18% of UK fund industry assets compared to 16% at the close of 2007, according to the latest data from Lipper FMI's 2008 UK Fund Platform Industry Report. The fact that fund platforms have been able to ride the current storm better than the fund industry as a whole is a clear sign of the increasing importance they are playing in the business models of many financial advisers.

Lipper FMI's report shows the platform industry is still dominated by the top three platforms; Skandia, Cofunds and FundsNetwork account for 74% of all platform assets, with Skandia maintaining its market leading position with a 35% share of all platform assets under administration.

platform sustainability

The continued dominance of the three leading fund platforms is an important consideration for financial advisers when deciding which fund platform to use. One of the due diligence factors that advisers must consider when selecting a platform is the financial strength and sustainability of the company that runs the platform. Platforms with size and scale will be able to negotiate better terms with fund groups and will generate higher revenues on their assets under management. This gives them a robust business model which will enable them to continually develop their services in line with the needs of advisers and their clients.

In a period of global economic turmoil and low investor confidence, speculation





Bella Caridade-Ferreira, Head of Market Research at Lipper FMI, comments:

“Platforms are a scale business and volumes are increasing as break-even levels rise. This presents a challenge for the smaller independent wrap providers emerging in the UK market.”

about whether certain platforms will be able to survive is likely to gather pace. New entrants could be badly hit if they don't have the backing of a large parent with the patience to wait for returns. The smaller independent platforms with low assets under administration could also struggle to secure the extra financial backing required to weather the economic storm while at the same time developing their proposition.

Financial strength and sustainability are two of the most important elements of due diligence in today's economic environment. Skandia UK Group holds capital reserves of 2.65 times the regulatory requirement, largely held in cash and government bonds to achieve liquidity and financial safety. Skandia UK's cash profitability is increasing and this is another factor that sets it apart from all other platforms.

In order to demonstrate the sustainability issues that smaller platforms could soon be facing we might consider the following scenario. Consider a hypothetical platform with assets of around £1 billion and annual revenue equivalent to 0.50% of assets. 0.50% is a generous assumption which means its annual revenue will be £5 million. This revenue needs to cover a number of things, including salaries, offices, IT infrastructure, sales and marketing and all other usual business costs. At the same time the platform needs to maintain the substantial levels of investment required in order to keep pace with platform development in the market. This is a platform which will need to grow very quickly in order to survive the current

market conditions, however rapid growth is unlikely at the moment.

fund choice

In last month's *informer* we demonstrated the differences in platform fund ranges and why a 'whole of market' fund range will generally come at a cost – meaning that some clients could be unnecessarily paying for a fund choice that they are unlikely to fully utilise.

The Lipper FMI platform report concurs with this view, stating that the top ten fund managers on platforms account for approximately 60% of all platform assets under administration. While a clear benefit of platforms is that they provide access to a large range of funds, the Lipper data suggests that having the right fund managers and funds on the platform is of greater importance than having the largest possible number of funds. This is why we believe Skandia's demand-driven approach to funds makes so much sense.

do your research

The Lipper Platform Industry report illustrates that platforms continue to represent a growing area of the financial advice market. While the future looks bright for platforms in general there are clearly some very important considerations for advisers when conducting platform due diligence.

These include the sustainability of the platform, the clarity of the charging structure and whether the fund range meets the needs of the end client in terms of choice and cost. ●

*As at 31 December 2008.

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