

winning outcomes

June 2009

Peter Jordan explains how Skandia is challenging the market on pricing clarity and making it easy for advisers to uncover true value for clients.



At Skandia we have taken a leading role in the platform charging structures debate – challenging those charging structures that we believe have for too long been marketed under the guise of ‘transparency’. Needless complexity and overly high costs have no place in the new world of advice, a factor that could well make some platform charging structures unsustainable over the medium to long term.

In July we are extending the coverage of our PriceWatch tool to include pensions and in anticipation of that enhancement, we would like to share some of our initial findings with you. It’s very clear that the complexity of some platform charging structures continues into pension propositions. In one instance a fund rebate payable back to the client within a £100,000 unwrapped investment with the platform, turns into an additional fund charge for a £100,000 pension. If platform and/or wrap pricing is not consistent across wrappers it risks complicating the ability to advise holistically.

charging considerations

We have identified nine factors that need to be considered when calculating client charges across six major UK platforms. It should be noted that some of these factors

are charges and some are rebates/discounts, but all need to be considered together in order to make an informed decision on whether or not your client is likely to receive value for money from their platform provider’s pension.

A glance at the table in [figure 1](#) immediately demonstrates that four platforms have relatively straightforward charging structures in terms of these charging factors. At the other end of the scale Platforms D and E look particularly complicated – and our research suggests this complexity is directly correlated to higher than average costs in comparison to other platforms.

platform pension pricing compared

To whet the appetite ahead of the introduction of pensions on PriceWatch, we have conducted our own pension charges comparison, as shown in [figure 2](#). In order to remain ‘fund neutral’ we have used the default fund portfolio that has been developed in partnership with Lipper FMI – based on the top selling funds of 2008 across the industry.

In the results graph we’ve combined the initial and annual charges to paint an overall picture of charges. In order to achieve a

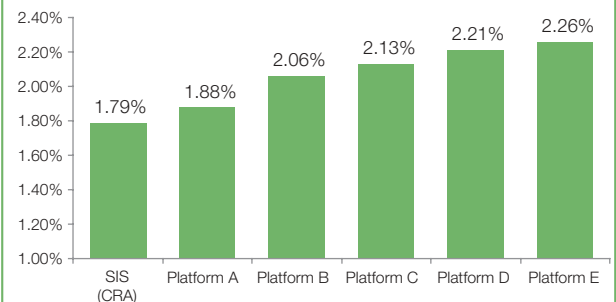
figure 1 – Pension/SIPP charging factors

	SIS (CRA)	Platform A	Platform B	Platform C	Platform D	Platform E
Fund TER	✓	✓	✓	✓	✓	✓
Fund rebate		✓			✓	✓
Fund additional charge						✓
Platform annual charge	✓	✓			✓	
Platform annual discount						✓
Annual wrapper charge			✓	✓	✓	✓
Platform switch charge*				✓	✓	
Annual drawdown charge	✓		✓	✓	✓	
Adviser annual remuneration*		✓			✓	✓
Number of factors to consider	3	4	3	4	7	6

Source: Skandia, as at May 2009.

*Assumes adviser has not selected additional fees payable as commission.

figure 2 – Pension/SIPP charges (Initial and annual costs combined)



Source: Skandia, as at May 2009. Scenario details: £100,000 investment, split equally between BlackRock UK Absolute Alpha, BlackRock UK Dynamic, First State Asia Pacific Leaders, Invesco Perpetual Corporate Bond, Invesco Perpetual High Income, Invesco Perpetual Monthly Income Plus, M&G Corporate Bond, M&G Recovery, Martin Currie North American, 0% initial commission, Natural trail commission, 20% annual switch activity, drawdown = yes, excludes short-term special offers.

combined charge figure, the initial charge is divided by 10 and added to the annual charge percentage. This will be added as an option within the results page of PriceWatch in July.

The figures demonstrate not only the pricing simplicity of Skandia's Investment Solutions platform, but also pricing competitiveness in comparison to the other major UK platforms. Advisers will be able to run this comparison on PriceWatch in July, so we will leave it to you to work out which platform is which next month.

assessing suitability

It is evident from our work in developing PriceWatch that pension costs vary significantly between platforms and that charging structure complexity is usually a good indicator of the more expensive platforms. Such propositions will undoubtedly counter with the argument that they offer access to a wider investment range to justify their higher charges. From an advisory perspective it is important to be very clear about how access to an even wider range of investments will generate extra returns for the investor, should the future need arise to justify the choice of pension provider in greater detail.

Last month in *informer* we discussed the FSA research on pension switching from December 2008 in connection with platform suitability assessments – a link recently commented upon by the regulator. It is worth revisiting that report with regard to the FSA's view on advisers recommending a more expensive provider on the grounds of a wider investment 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 a 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.

We had also intended to assess non-platform pension propositions within this article but subsequent research revealed that the Lipper FMI fund portfolio is only available via Skandia and two other traditional pension providers. This highlights the power of platforms in terms of offering a wide fund range but it does make it difficult to make robust comparisons with other non-platform pension providers.

powerful solutions

Platforms clearly offer significant benefits to advisers and clients and really do represent the future for providing financial advice. It is vitally important, however, to understand the cost implications of using platforms so that clients are able to benefit fully.

At Skandia we will continue to challenge the market to improve customer outcomes. PriceWatch is an example of how we're helping advisers to fulfil due diligence requirements and easily identify where the true value lies for their clients. ●

PriceWatch is available now at www.skandiapricewatch.co.uk
For further information on using Skandia's Investment Solutions platform contact your Skandia consultant or regional office.

www.skandia.co.uk

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

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