

The best thing since sliced bread?



“The difficulty with the UK market is that wraps are so new the market hasn’t even decided exactly what a wrap is.”

Hands up who would like an online, integrated platform that allows you to maintain and transact all of your client’s investment portfolio from one place? Everyone.

Hands up who thinks they are likely to see such a system in their lifetime? Ah, nobody.

Well, independent financial advisers are well used to expectations falling far short of reality when dealing with their financial services providers, but there is something new that could start a revolution in the retirement planning and high net worth markets.

The thing is, you already know what it is called, although you probably do not use one. It is a wrap. And according to some, it’s the best thing since sliced bread.

So, what is a wrap? Its genesis was in the new world – Australia and New Zealand to be precise and it has been developed in the US – where it has evolved out of the ‘master trust’ of the 1980s.

The wrap was designed to be a tax-efficient

wrapper for an individual’s complete investment portfolio. So – in theory – in addition to gathering all the client’s elements into one place, it is run off a single platform, thus making life simpler for the provider, the client and his adviser.

The difficulty with the UK market is that wraps are so new the market hasn’t even decided exactly what a wrap is.

Ian Thomas, investment marketing manager at Skandia, says: “There is a lot of confusion as wraps are still in their infancy. However, there is rapidly emerging a consensus of what they are.” He may say that, but it is not easy to discern from the definitions we received from the companies in the survey.

Table two on page 12 shows just what is and isn’t covered by the different offerings on the market. Not one of the providers offers a wrap that covers all the pension options, annuities, bonds, protections or mortgages. Directly held funds also has patchy coverage, with some enabling segregated management portfolios,

Table one: Product details

Company	Product name	Launch date	No. IFAs registered to product	Funds under management	No. technical support operatives	No. regional locations	Paper-based applications	Electronic applications	Data import	Online validation	Policy documents sent out	Frequencies covered	Payment methods	Funds invested	List of individual investors	List of individuals' fund values	view individuals investments	What-if quotations
Abbey	Abbey Wrap	Sep 2003	250	nd	48+ ¹	6	✓	✓ ²	XML	✓	within 5 days	monthly, quarterly, annually, single	cheque, bank transfer, asset transfer	same day	✓	✓	✓	✓
American Express Financial Services Europe	Adviser Service	March 2004	nd	nd	nd	nd	✓	✓	n/a	✗	next day	nd	DD, linked bank account, asset transfer cheque	same day	✓	✓	✓	✓
Cofunds*	Cofunds Consolidation Service	January 2001	4,000+ IFA firms	£2.7bn	nd	nd	✓	✓	XML	✓	24 hrs	nd		at next valuation after instruction	✓	✓	✓	✗
Fundsdirect	Adviser Platform	Q4 2004	under review by 6 IFA firms	n/a	n/a	n/a	✓	✓	nd	✓	next day	nd	cheque, debit card, settlement monies	same day	✓	✓	✓	✓
Integrated Financial Arrangements	Transact	August 2000	1,000 RIs	£850m	75	1	✓	✓ ³	various, inc CSV	✓	next day	all RP & SP	cheque, DD, TTs, CHAPS	same day	✓	✓	✓	✓
Lifetime	Lifetime Portfolio	2004	nd	nd	nd	nd	✓	✓	nd	✓	nd	nd	cheque, DD, wire, debit card	nd	✓	✓	✓	nd
Raymond James	The Gateway	June 2003	68(UK) ⁴	£1bn (UK) ⁴	nd	1	✓	✓	Excel, CSV, XML	✓	same day	monthly, quarterly, semi-annual, annual	monthly, quarterly, semi-annual, annual	same day	✓	✓	✓	✓
Selestia	The Selestia Platform	November 2001	5,000	£500m	nd	nd	✓	✓	XML SQL	✓	next day	nd	DD, cheque, CHAPS	same day	✓	✓	✓	✓
Seven Investment Management	Seven IM Wrap Account	January 2002	nd	£360m	20	2	✓	✓	nd	✓	in 3 days	nd	DD, from portfolio earnings	weekly on receipt of monies	✓	✓	✓	✗
Skandia	Skandia Wrap	June 2003	nd	£17.4 bn	nd	9	✓	✓	n/a	✓	nd	monthly, annual, single	cheque, DD	on receipt of monies	✓	✓	✓	✗

Abbreviations – n/a: not applicable; nd: not disclosed; RP: regular premium; SP: single premium
 Notes: 1. Abbey – call centre; 2. Abbey – (funds transactions, initial applications in development); 3. Integrated – electronic application not available for transfer as a signature is required; 4. Raymond James – US: 6,000 financial adviser registered and FUM of \$50bn; * Cofunds has no wrap, but is in the process of developing one, so has been included as it is likely that the existing model would be used as the basis of the new product

while most do not. So why should we assume that IFAs would be interested in an embryonic market that is in a state of confusion?

Thomas adds: “Funds supermarkets have made IFAs aware of 10 to 15 fund manager groups with a single PEP or ISA wrapper. What they gave up in terms of choice, was far outweighed by the simplicity and access. The decline of with-profits has also introduced manager of managers to many who did not use it before.”

One aspect of the wrap has been the development of an integrated multi-provider platform that allows the planner to obtain real time online valuations and transact switches through his chosen wrap platform. This can make the platform a very powerful planning tool for an IFA.

A lack of online planning tools may seem like

a trivial matter, but it cuts to the heart of the matter. Providers all believe that wraps will become a popular investment format in a short space of time and they will be seeking to develop loyalty from their IFAs. After all, once an IFA has access to a platform that allows true all market access, he is only likely to move away if the

“In the event of wanting to move an investor’s portfolio to another platform provider, the IFA may be forced to liquidate those investments and reinvest”

provider seriously drops the ball.

There is also a school of thought that come depolarisation next year, the vast majority of truly independent advisers will be looking for

greater autonomy from financial services providers. Such a platform should offer this level of freedom.

On the matter of moving away, IFAs had better be certain they know where they stand if they should, further down the line, consider changing providers.

We have not asked about it in this year’s questionnaire, but we believe that not all providers permit re-registration of investments. In the event of wanting to move an investor’s

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Table two: Functionality

Company	Product	Particular providers for any tax wrappers?	P tax wrappers (providers/funds)	Sipp (providers/funds)	PPPs/indiv SHPs	EPPs/S32s	Annuities	onshore investment bond	offshore investment bond	protection policies	mortgage offset	directly held funds (providers/funds)	cross product cash account (interest rate)	Stocks and shares		Valuations &	
														direct share portfolio	segregated management portfolio	real-time valuations	other valuations available
Abbey	Abbey Wrap	✓	✓ ¹	✓ ¹	✓ ¹	✓ ¹	✗	✓ ¹	✓ ¹	✗	✗	¹	✓ (4.375%)	✓	✓	✓	monthly ✓
American Express Financial Services Europe	Adviser Service	✓	(self/900+)	(self/950+)	✗	✗	✗	✗	✗	✗	✗	39/1,040, all external	✓ (BoE)	✓	✗	✓ (shares only)	portfolios close of previous day
Cofunds	Cofunds Consolidation Service	✗	✓ (51/760+)	✗	✗	✗	✗	✗	✗	✗	✗	51/760+	✗	✗	✗	✗	valuations at T-1
Fundsdirect Platform	Adviser	✗	✓	✓	✗ ³	✗	✗	✗ ³	✗ ³	✓	✗	80/1,500	✗ ²	✓	✗	✓	nd
Integrated Financial Arrangements	Transact	✓	✓ (all)	✗	✓	✓	✗	✗	✓	waiver of premium	✗	all Uts, Oeics, LSEshares, offshore bonds	✓ (4%)	✓	✓	✓ (not L&P policies)	✗
Lifetime	Lifetime Portfolio	nd	nd	nd	nd	nd	nd	nd	nd	nd	nd	nd	✓	nd	nd	✓	⁴
Raymond James	The Gateway	✗ ⁶	✗ (all)	✓	✗	(James Hay/Winterthur)	✓	✗	✓	✗	✗	c.20,000 onshore/offshore/retail/institutional funds	✓ (less or equal to base rate)	✓	✓	✓ (15 min delay)	monthly, annual
Selestia	The Selestia Platform	✗	52/546	52/546	✗	✗	✗	52/545	52/546	✗	✗	53/562	✗	✗	✗	✓	✗
Seven Investment Management	Seven IM Wrap Account	✗	✓ 1/unltd	✗ 6/unltd	nd	✓ 1/unltd	nd	✓	✗	✗	✗	unltd external managers	✓ (base rate minus 0.5%)	✓	✓	✗ (close of prev day)	quarterly, ad hoc as required
Skandia	Skandia Wrap	✓	✓ (1/350)	✗	✓ (1/357)	✓ (1/357)	✗	✓ (1/381)	✗	✓ (1/381)	✗	20/360+	✓ (3%)	✗	✓	✓	✗

Notes: 1. Abbey – whole of market offered; 2. Cofunds – Cofunds can accept directly held funds held within these types of trusts; 3. Fundsdirect – capability to be available in 2005; 4. Lifetime – users can register non-wrap-able assets in a private investment portfolio; 5. Raymond James – other than self-select PEP/ISA; 6. Raymond James – 1st software & Sipp providers back office

portfolio to another platform provider; the IFA may be forced to liquidate those investments and reinvest, rather than being able to transfer them across. A considerable market and business risk lies in the IFA having their hand forced in such a way, so they should be very careful to read the small print before signing up.

There is also an reasonable argument that some investors – and IFAs – will not want or need complicated models and so the less sophisticated offerings will have their own place in the market.

Tim O'Connor, director of sales and marketing at Raymond James, feels this is a situation that is unlikely to change overnight: "Many advisers still have a bias towards products with fewer moving parts and are hesitant to embrace such a scale of change, while those that have moved to supermarkets and wraps have rela-

tively limited experience of managing client assets and are seldom able to exploit the wider discretionary control and administrative efficiency that nominee held assets offer."

Clearly the different offerings (tables one and two) have different levels of flexibility, which is

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likely to increase in time, but Andrea Dean, director, sales and market development at American Express Financial Services, says at the moment it is less about the what the providers than what the IFAs can do with them.

"Advisers will have to see the value of wraps

to their business model and client relationships. It is not just about streamlining processes and reducing costs, but transforming the advice model to derive revenue from the ongoing services they provide to their existing clients. Advisers have always provided this service, but

with the wrap, they can now start charging for it. Clients must also perceive the added value from ongoing fee-based advice."

David Harris, a director of Tor Consulting and an expert on wraps, agrees: "The trajectory over the last six months has changed. Many

Switching		Advisory tools									Trust deeds				Integration		
real time transactions	other timeframe transactions	asset allocation planning	asset allocation reporting	performance reporting	client risk reporting	portfolio risk reporting	fund selection	capital gains tax planning	capital gains tax reporting	absolute or bare trust	interest in possession trust	accumulation and maintenance	discretionary trust	IFA back-office	CRM applications	other	
✓	24hr turn-around	next release	next release	next release	next release	next release	✓	2005 release	2005 release	✓	✓	✓	✓	✓	✓	✗	
✓, shares, funds (STP)	✗	✗	✗	✗	✗	✗	expected autumn 2004	✗	✗	✗	✗	✗	✗	✗	✗	✗	
✗	✓ for transfer tracker	✓	✓	✓	✓	✓	✓	✗	✗	2	2	2	2	✓	✓	✗	
✓	✓	✓	✓	✓	✓	✓	✓	✗ ³	✗ ³	✗	✗	✗	✗	✓	✗	✗	
✓ (cleared funds)	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓ (1st)	✓	✗	
✓	✗	nd	✓	✓	nd	✓	✓	nd	nd	nd	nd	nd	nd	✓	✓	✗	
✓	international markets (shares,FX)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗ ⁶	
✓	✗	✓	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓	✓	✓	✓	✓	
✗	✗	Q4 2004	Q4 2005	Q4 2006	Q4 2007	Q4 2008	Q4 2009	✓	✗	✗	✗	✗	✗	✗	✗	✓	
✗	✓ (switching and redirecting choice daily)	✓	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓	✓	✓	✗	✗	

financial services entities now recognise the potential of wraps and to some extent, it is inevitable that they will arrive.”

He says that firms from Australia and New Zealand with wrap platforms are already developing their systems for the UK and wider European market.

“The value chain is being dismantled and the role of the IFA or financial planner is changing. The UK is at the point Australia was in 1995/96, but it is going to learn much faster over a period of only three to

five years. The licensing of existing systems takes out risk and alters the business proposition greatly.”

This particular position has all the providers shaking their heads and sucking their teeth. There is a widely held belief that a multi-product, multi-provider platform cannot be constructed for the UK market, at least until A-day, when the number of tax regimes will be reduced.

“Multi-provider logic doesn’t stack up in our view,” says Steve Conley, head of wrap devel-

opment at Abbey. “Prospective entrants have underestimated the size of build for a full wrap operation.”

Certainly, providers have had difficulty – Amex had to build its own system, because it felt that there wasn’t a suitable model that could be imported.

Abbey has spent £20m developing its own system, with figures being banded about of potential build costs of £50m for those looking to enter the market now.

Stuff and nonsense, says Jonathan Hicks,

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Table three: Charges and minimum investments

Company	Product	minimum investment	fixed-rate charge	direct property charges	other charges	IFA commission rates				
						initial	trail	level	fund-based	other
Abbey	Abbey Wrap	n/a	1	acq £550 + legal fees, disbursements, £500pa management	n/a	3% max	1% max	1% max	1% max	1% max
American Express Financial Services Europe Cofunds	Adviser Service	n/a	nd	nd	nd	nd	nd	nd	nd	nd
	Cofunds Consolidation Service Adviser Platform	£1k per fund, £50 per month	n/a	n/a	initial and AMC of funds 0.25% switch charge	varies	varies	varies	varies	varies
Fundsdirect	Platform	nd ²	X	n/a	n/a	3	3	3	3	3
Integrated Financial Arrangements	Transact	£5k sp or £1k + £200 month	nd	nd	nd	4	4	4	4	4
Lifetime	Lifetime Portfolio	£1k sp, £50 month	nd	nd	nd	5	5	5	5	5
Raymond James	The Gateway	market min size	15bps custody fee	n/a	£25 trasaction charge	6	6	6	6	6
Selestia	Selestia Platform	£2.5k ISA/PEP £10k bond	initial varies 5-6%	X	FM and Selestia amcs	3% ISA/PEP & onshore bond, 4% offshore	0% – 0.6%	n/a	n/a	n/a
Seven Investment Management Skandia	Seven IM Wrap Account Skandia Wrap	£150k	n/a	n/a	1.4% to 1.9% portfolio value	3% max	0.5% max	n/a	n/a	n/a

Notes: 1. Abbey – first £250k 0.5%, then 10bps reduction for each £250k to > £1m 0.1%; 2. Fundsdirect – pricing being finalised for launch, but likely to be individual product charges; 3. Fundsdirect – depends on fund and product; 4. Integrated – IFA commissions are agreed between adviser and client as instructed from the client portfolio. Transact has non input into determining rates; 5. Lifetime – commission rates set by adviser; 6. Raymond James – entirely flexible; 7. Skandia – as per current product minimums and charges – do not charge extra for wrap

Table four: Investor access

Company	Product	data security at front end	update name and address	update investment details	add single premium	paper-based statements	online valuations in real time	online fund prices in real time	online transactions in real time	online information	online support for investors	helpline or other support for investors
Abbey	Abbey Wrap	n/r	read only n/r	X	X	✓	n/r	n/r	X	n/r	n/r	✓
American Express Financial Services Europe Cofunds	Adviser Service	✓	X ¹	X	X	✓	✓	X ²	✓	✓	✓	✓
	Cofunds Consolidation Service	X	X	X	X	✓	X	X	X	X	X	X
Fundsdirect	Adviser Platform	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³	n/a ³
Integrated Financial Arrangements	Transact	✓	✓	✓	✓	✓ (pdf)	✓	✓	✓	✓	✓	✓
Lifetime	Lifetime Portfolio	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Raymond James	The Gateway	Q1 2005	X ⁴	X ⁴	X ⁴	✓	X ⁵	X ⁵	X ⁵	X ⁵	X ⁵	X ⁵
Selestia	Selestia Platform	nd	nd	nd	nd	nd	nd	nd	nd	nd	X	X
Seven Investment management	Seven Investment management wrap Account	X	X	X	✓	✓	X ⁶	X ⁶	X ⁶	✓	✓	✓
Skandia	Skandia Wrap	✓	X 2005	✓	X	✓	✓	✓	X ⁷	✓	X	✓

Abbreviations – n/r: next release
 Notes: 1. Amex – for security only via client services in writing; 2. Amex – quotations close of business day; 3. Fundsdirect – not applicable, as won't be available until phase two of product development; 4. Raymond James – adviser has full capability via internet; 5. Raymond James – via adviser only; 6. Seven IM – valuations from close of previous day; 7. Skandia – switching day after receipt of instruction

business development manager at Infocomp, Australia's market leader for wrap platform providers. He says that his company has already developed its systems for UK market and is in final discussions with potential licensee clients.

"We have spoken to a wide range of organisations and have found a mixed understanding of the wrap concept and how they would see it working in their business. In terms of why they cannot do it themselves, it seems as though a number have tried to modify other systems they have and others have tried to build something

from scratch without really understanding the market they are trying to build for. We have heard some very scary numbers for IT budget spends."

Harris is also a believer in the powerful argument that a near half-century of collective experience among the big Australian wrap platform providers will mean that they will be able to support the UK market.

Whatever their view of an Australasian invasion, the market seems to be very upbeat about the potential for development of wraps in the

UK. Pippa Russell, head of corporate communication, Selestia: "Factors such as greater adoption of e-commerce, increasing regulation and a move towards holistic financial planning will continue to drive wrap volumes in the UK for the foreseeable future."

Conley says: "I expect wraps to follow the growth of Sipps and fund supermarkets and be similar to the hockey stick curve of platform adoption in Australia. It will start slow, but then will experience high growth and penetration."