

**WRAP COMMENT: Why pricing is a key consideration**

David Hazelton of Raymond James looks at why pricing comparison is key when it comes to distinguishing between different wraps and platforms and why planners must also look at service offerings too

There are a number of interesting points here. It is worth noting the distinction between the two categories of platforms. First, the fund supermarkets where charging structures are, generally speaking, more opaque. Second, the wrap platforms, which in most cases tend to take a more transparent approach to pricing. Each group meets client needs in different ways.

Transparency of pricing is a key marketing leverage for advisers as it provides clients clarity regarding the adviser's remuneration as well as the charges assessed by the platform for administration services. Wrap platforms can promote this aspect by unbundling their pricing so that the advisers and their clients know exactly what they are paying for and how the platform is being remunerated.

It is also important the total fund terms received by the platform are disclosed so advisers and investors are aware of the true cost of the services and how the platform generates its revenue. Furthermore, providing access to institutional share classes and low cost tracker funds allows



Hazelton: different approaches

**"Transparency of pricing is a key marketing leverage for financial advisers."**

clients access to investments at a lower cost and alleviates the need to receive, reconcile and rebate any trail back to the investors' accounts, providing a more efficient service and better client experience. However, where an institutional share class is not available, the platform should disclose the total fund trail that it receives from fund companies on the retail share classes and offer advisers the ability to rebate the trail back to the clients. Transparency of pricing is a key factor that will help advisers to drive down the overall cost to clients.

When advisers use multiple platforms, the key is client segmentation. If advisers can robustly segment their clients based on investment needs as well as service level requirements (for example, discretionary vs advisory), they will then be in the best position to determine whether one particular platform can meet the needs of all the clients in each segment.

Advisers also need access to a diverse range of pension and bond administrators. Tax wrappers do have different features, and advisers must be able to review alternatives available in the market and select the tax

wrapper most suitable for each client. To ensure RDR compliance, advisers also need to be able to select the most appropriate investments from a wide range of asset classes, ideally including securities (both bonds and equities), investment trusts, ETFs, retail and institutional funds (including tracker funds) and also potentially wider range investments, such as structured products and alternative asset funds. It is worth noting that as investment trusts and ETFs trade like a security, some platforms that are not LSE members may impose an additional charge which in turn could mean an increased cost to the client.

Open architecture platforms are essentially designed to provide an all encompassing solution. By offering advisers access to multiple tax wrappers from various providers, as well as a wide range of asset classes, this can reduce the need for advisers to look at multiple platform usage in order to meet individual client needs.

*David Hazelton, head of business development at Raymond James*

**WRAP COMMENT: RDR boosts the wrap and platform market**

Chris Smeaton of Santander Private Banking looks at the impact of the Retail Distribution Review on the wrap and platform sector and why it will shift the advice market towards leaner and cleaner services and offerings

The fund platform and wrap market has been boosted by the FSA's latest Retail Distribution Review paper which finally looks to move the financial services industry towards a cleaner and more transparent future.

However, too often we have seen policy get watered down such that the original purpose and aims are lost. Perhaps the forthcoming RDR will be different and we might see fresh new legislation that demonstrates common sense and holds the customer at the heart of policy changes.

One key element expected from the RDR will be the removal of embedded commissions from fund charges, which looks set to drive forward greater independence and greater transparency in the market and transform the balance of power between fund managers, platforms and advisers.

Such changes will be great news for the few platforms who already offer clean or 'unbundled pricing' but a major headache for the many platforms, providers and life offices that do not.



Smeaton: policy often gets watered down

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This group, the "old school bundlers", offer smoke and mirror discounts, allocations and commission enhancements to sell their propositions, with value for money coming down the bottom of their priority list. They have had many opportunities over the years to wean themselves off their over reliance of these behind the scenes margins, but they have proved just too tempting. Even now bundlers will be eager to create new and wacky methods and propositions to further confuse and obscure the reality of the costs.

The FSA needs to address this issue and has to take this opportunity with both hands and force the industry though the glue which is pulling it backwards and stopping it transforming into an industry of which we can all be proud.

In fact the benefits of a fully rebated fund platform are commonly misunderstood or underestimated. For the average managed equity fund with an annual charge of 1.5 per cent the typical rebate that a large platform would negotiate would equal 50 per cent, meaning a rebate of 0.75 per cent every year. If you take a typical client portfolio of £200k with 7 per cent net growth per annum the

benefit of the fully rebated model would exceed £60,000 over a 20 year period.

As well as a clear and simple offering that meets the FSA's RDR requirements, this style of platform also offers the end client excellent value for money. The Financial Planner, who would probably be taking some kind of percentage fee on the value of the client's holdings also wins.

Meanwhile, the less transparent offerings, while initially looking more attractive, are impacted by the ongoing issue of poor value fund charges that will eat into the portfolio leaving both Planner and client out of pocket.

The client proposition should be fair and simple, we need to know the cost of fund management from the fund manager, the cost of administration from the platform and the cost of advice from the adviser. Simple enough but it could be some time before the wrap and platform industry come clean.

*Chris Smeaton, head of funds at Santander Private Banking*