Wraps and Platforms in the Post-RDR World

Wrap evolution – consolidation or specialism?

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Agenda

- Characteristics of the platform market
- Current position
- Intermediary views
- Looking ahead - market dynamics and scenarios for the future

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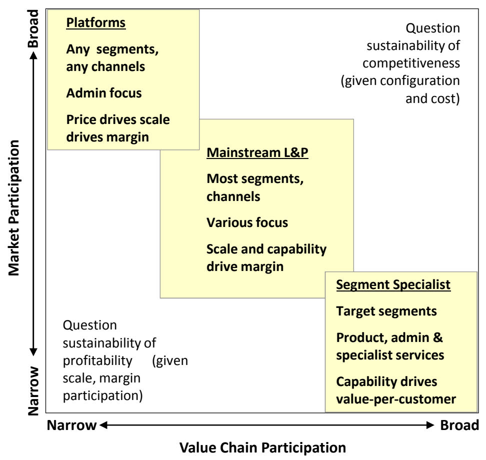
CHARACTERISTICS OF THE PLATFORM MARKET

Platform characteristics

- Business model oriented around broad market participation (supporting scale) and narrow value chain participation (flexibility)
- Assumed client/ distributor 'stickiness' leading to aggressive pricing to secure accounts and drive scale
- Low revenue margins leading to focus on scale and configuration driving unit cost
- Operational (IT) capital intensity rather than risk capital or commission capital intensity



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Drivers for platform take-up

	Indicators	Rationale
Explicit support for personal savings	► Mandatory/ Auto Enrolled savings ► Tax-incentives ► Associated complexity	► Increases market size and depth (scale) ► Supports demand for third-party administration of tax/ preservation rules
A developed broker channel	► Established IFA/ panel bancassurance channels ► Focus on advice/ service ► Distributor consolidation/ corporatisation	► Distributor demand for cost-efficient open architecture solutions ► Distributor demand for alternative participation models
Progressive distribution regulation	► Price disclosure ► Fees for advice ► Clear obligations of distributor firm	► Limits scope for insurance wrapper value add ► Supports demand for increased visibility and compliance controls on licensed reps
An open-architecture, investment culture	► Investment into mutual funds/ unit trusts ► Familiarity with concept of open-architecture ► Investor familiarity with asset management brands and active management/ returns	► Limits scope for insurance wrapper value add ► Increases customer demand for open architecture (and distributor demand for third-party admin solutions)

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CURRENT POSITION

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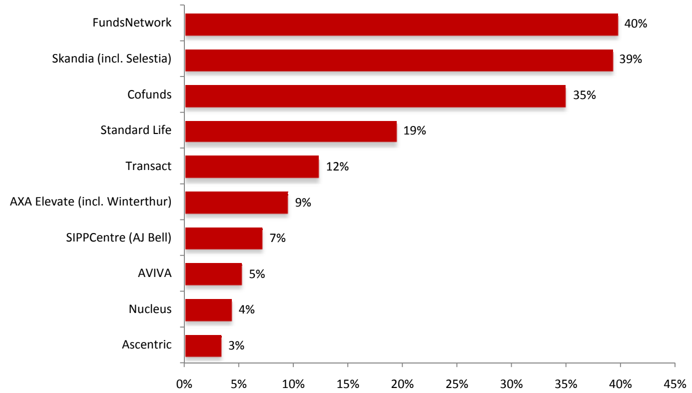
Penetration in the adviser channel

Larger players have achieved scale through extensive penetration of the IFA channel

Usage by % of IFAs during past 12 months (top 10)



Source: NMG IFA Census May 2011

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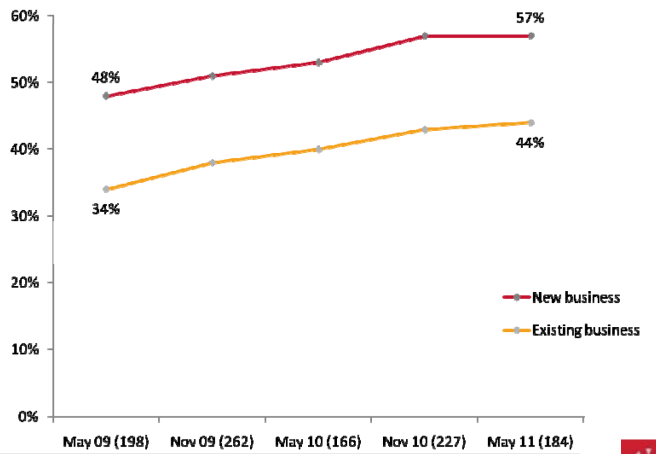
Average proportion of business on platforms

Over 90% of advisers use platforms and over half of new business is now placed on them



Source: NMG IFA Census

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INTERMEDIARY VIEWS

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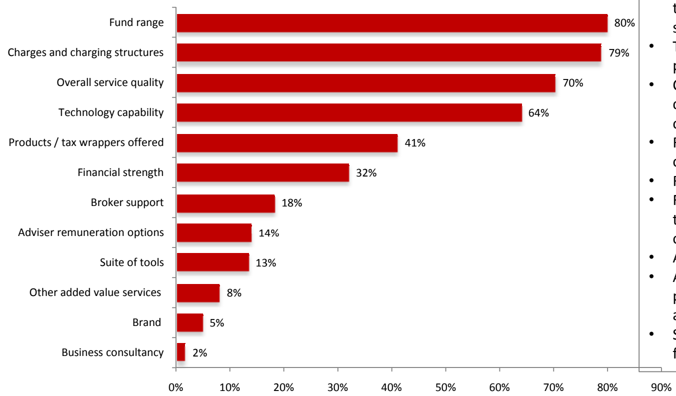
Drivers for platform selection

FSA has issued its 9 key criteria – IFAs are telling us that funds, charges and overall service quality are the key drivers

Drivers of platform selection amongst advisers



FSA's 9 criteria for platform selection
- The platform provider (for example, their reputation and financial standing);
- Terms and conditions of using the platform;
- Charges – including actual cost, charging structure and transparency of charges;
- Range of funds, tax wrappers and other products available
- Range of asset classes
- Functionality (for example the. ability to switch or re-register off platform or record legacy assets);
- Accessibility;
- Additional tools (for example, risk profiling and asset allocation tools); and
- Support services (for example, help facilities and training).

Source: NMG IFA Census May 2011

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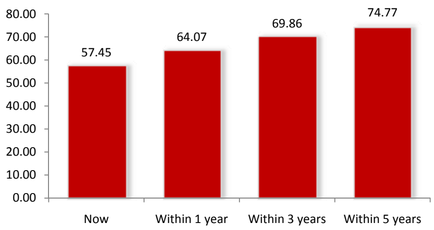
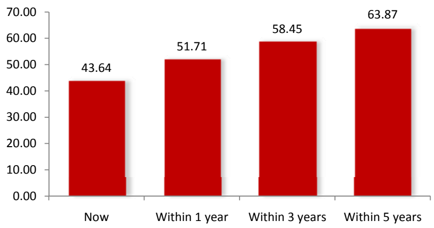
Future usage

Advisers anticipate steady growth in platform assets under management across both new and existing business

% new business to be written on to wrap platform



% existing business to be consolidated on to wrap platform



Source: NMG IFA Census May 2011

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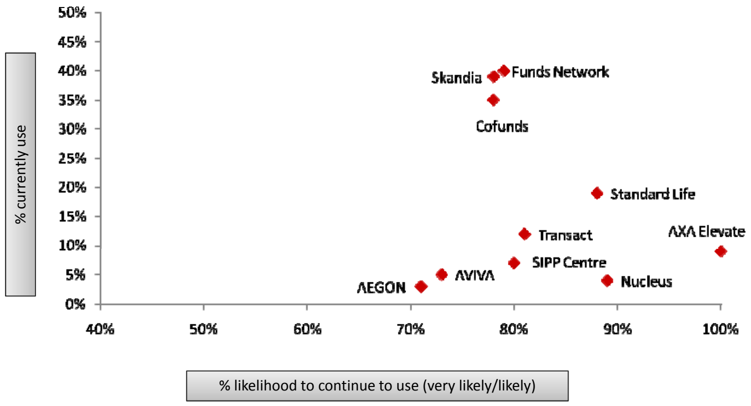
Current use vs likelihood to continue

The larger platform providers find high use is accompanied by high loyalty, however some smaller providers have a more loyal base



Source: NMG IFA Census May 2011

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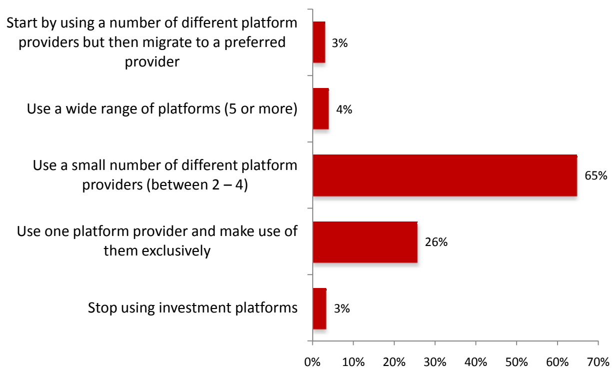
Changes in platform usage

Advisers expect to maintain multiple relationships with a small number of platform providers, primarily to fit the differing needs of different client types



Source: NMG IFA Census May 2011

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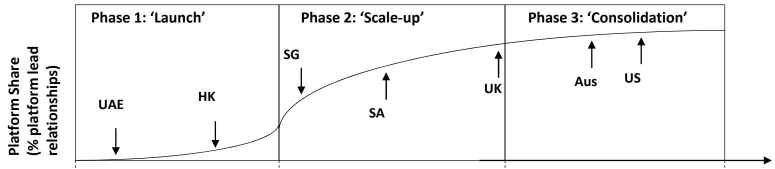
LOOKING AHEAD

Phases of platform take-up



	<5 yrs	5 – 10 yrs	10 yrs+
Avg platforms used	As available	2 – 3	1 – 2
Lead platform share	< 20%	40 – 50%	60 – 80%
Dominant proposition	Integrated/ Distributor House Platform	Wrap/ Badge	Badge
Platform revenue margins	>80 bps (varied)	50 – 75 bps	30 – 50 bps
Platform focus	Core administration/ fees Distributor recruitment	Investment scope Distributor recruitment/ share	Margin Cost reduction
Implications for non-platforms	Growing competition for lead positioning; pressure on retail pricing; demand for streamlined retail service	Pressure on pricing; demand for platform integration	Shift to institutional positioning & pricing; demand for customisation/ exclusives

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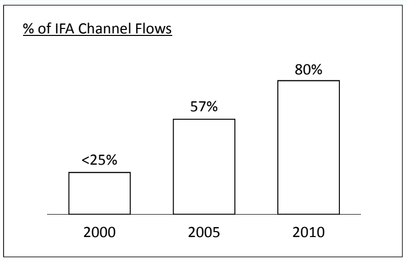
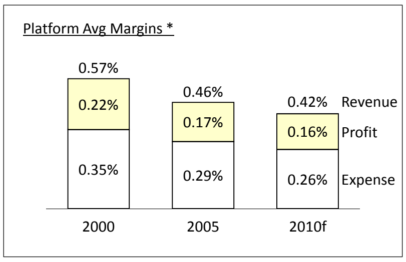
Impact of platforms (Australia)





Phase	▪ Phase 3 (consolidation)
Market Summary	▪ A highly concentrated, corporatised IFA channel ▪ Largest IFA firms use 1 – 2 platforms only (typically on a badged or semi-badged basis) ▪ Platform consolidation complete: top-3 account for >100% of net retail flows (ex. industry funds) ▪ Primary threat is new software/ FP desktop packages offering platform-like functionality however IFAs are unwilling to shift client assets ▪ Insurers now focused on life risk and annuities; fund managers are primarily wholesalers
Learnings	▪ Platforms arose as providers adapted existing UT products or registry functions to meet demand ▪ Competitive strategy in Phase 2 trumped first mover status ▪ Software/ FP providers can substitute platform functionality (though not once entrenched) ▪ Non-platforms have been forced to focus on risk management activities

Source: Plan for Life; analysis of company account/financials for BT Wrap, FirstChoice, ASGARD, Macquarie

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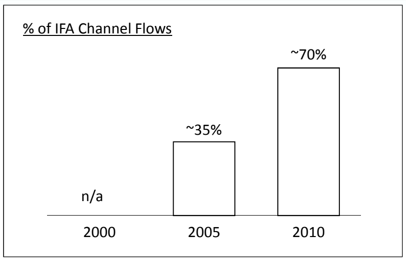
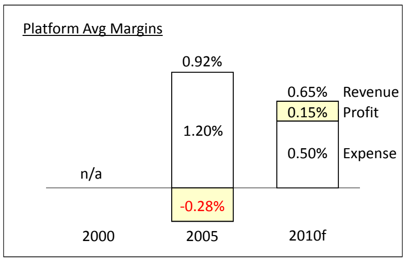
Impact of platforms (UK)





Phase	▪ Phase 2/3 (scale-up, moving into consolidation)
Market Summary	▪ IFA channel moving to consolidated/ corporatised ▪ Largest IFA firms still use multiple platforms though 'lead' provider captures 50 – 60% of flow ▪ Top-3 platforms are ~30% of flow but now at-scale and with flexibility to price to grow share ▪ Second-tier continue to invest however pace of platform new entrants will slow ▪ Emerging polarisation between risk-focused and platform/asset-focused insurers (SLW, Skandia)
Learnings	▪ Suppliers built platforms (having 'seen the future' in Australia and the US) ▪ Smaller platforms are unlikely to achieve an adequate return on investment ▪ Life companies adjusting their strategies and for some, Auto-Enrolment provides a different source to capture assets

Source: NMG BQM Wealth Management (UK) study; analysis of internal financials and company accounts

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Recent developments

Recent announcements provide further insight into where the future of wraps may be heading….

Product extension….

- **Aviva** is integrating its wrap and adviser web portal into a single platform that will **include annuities and protection products**
- **Fidelity** adds **annuities** to platforms in post-retirement push

Segment specialism…

- **AEGON**, focusing on 'at retirement' and workplace savings will enter the platform market later this year, supported by Novia
- **Barclays Wealth** launching an **intermediary wealth management platform**, with SEI powering it – due later in 2011

Direct to consumer….

- **Close Asset Management** launching advisory and **direct-to-consumer** platforms powered by technology provider FNZ
- **Bestinvest** launching a new **execution-only platform**, branded Select and powered by SEI

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Market dynamics

Regulation

- RDR: Adviser remuneration, qualifications & solvency
- Auto-enrolment: semi-compulsory pension scheme
- Simplified advice: potential for new models
- Platform specific: rebates, number of platforms

Providers

- Profitability challenges
- Search for scale and/or differentiation
- Substitutes & new entrants
- Solvency II: insurer capital requirements
- Platform consolidation

Evolving Platform Landscape

Consumers

- Demographics: baby boomers at retirement, ageing population
- Increased financial literacy & self provision
- Focus on price vs. value
- Increasing propensity to transact on-line

Intermediaries

- RDR: pressure to transform business models
- Advice model economics: consolidation and corporatisation
- Service and support: requirements / expectations
- Number of IFAS vs restricted advice
- Relationship consolidation

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Future scenarios (1)

Consolidation

Scenario 2: "Back to the future"
- Financial security / longevity of provider outweighs "independence"
- Breadth of proposition, support, training etc. attracts greater number of IFAs
- Life Cos (and banks?) dominate, adapt their propositions by channel

Potential winners: Standard Life, AXA, Skandia (Aviva, Zurich, AEGON); the banks ?

Scenario 3: "Platform as utility"
- Large firms / networks seek to create scale on white-labelled platforms
- Platform provision becomes a large scale / low margin "infrastructure " play, differentiated on price
- Scale players expand propositions to protection, legacy assets , integrate better with other admin systems and tilt proposition to different channels

Potential winners: IFDL, SEI

Advisers favour financial strength and support

Advisers favour independence

Scenario 1: "Brave new world"
- IFAs favour non-life company platforms
- Independent wraps achieve scale and continue to grow; new ones continue to launch
- Platforms seek to differentiate on proposition, specialising in e.g. SIPPS, "at retirement", passive investments

Potential winners: Transact, Novia, Nucleus, (Ascentric)

Specialisation

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Future scenarios (2)

And, irrespective of these intermediary-focused scenarios, we expect to see …

- Growth of corporate wraps
- Growth in D2C platforms
- GI aggregators expanding their propositions (simplified fund propositions)
- Perhaps, cut price platforms e.g. "Tesco" proposition for mass market
- Globalisation of platforms? (probably the most difficult to attain)
- **Those that achieve scale efficiency; are well capitalised; operate sustainable models; and can tilt their proposition to suit different Distributor types - will be winners**

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