

## Distribution

# A riddle WRAPPED in a mystery?

A great opportunity for customers and providers alike, or just another great white hope? Ambrose McGinn sheds some light on the enigmatic wrap platform.

Kylie Minogue, Vegemite sandwiches, Rolf Harris and Rugby World Cup trophies are just some of the things that have come from Australia and made it big on these shores. If the financial services marketers are to be believed, the next big thing to come up from down under will be wrap platforms, with some even predicting that their impact on our lives will eclipse Kylie's rear. Others are more realistic, and simply<sup>1</sup> say that wrap platforms will change for ever how we organize our investments and work with advisers to manage our wealth.

So what are wrap platforms? And why do nine out of ten of the IFAs who completed a questionnaire from Abbey last year say that they expect to see them as part of their everyday business within the next three years<sup>2</sup>, when research from Datamonitor and CWC<sup>3</sup> had suggested a year earlier that 80% of IFAs interviewed were unaware of wraps?

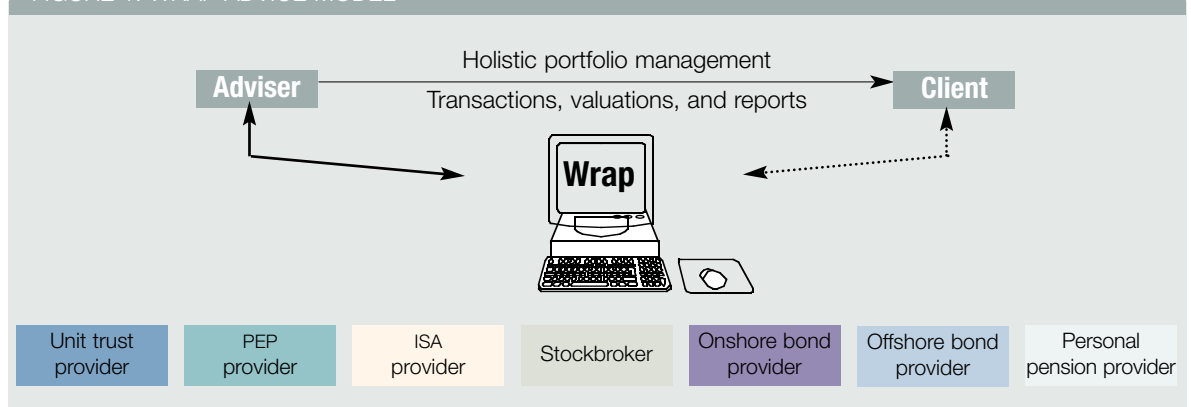
The essential and holistic wrap model is illustrated in Figure 1. Wraps allow IFAs to arrange transactions, and report and manage a client's entire investment and pension portfolio, from a single web page. Through an

Internet-based platform, advisers have access to a single up-to-date view of their client's investment portfolio, which is often scattered across a range of companies, and includes investments such as shares, bonds, unit trusts and pensions. The valuations of the investments are always up-to-date, and they can be bought and sold online. It is the ability to transact online that sets wraps apart from account aggregation, and this is just one reason why they should succeed where account aggregation has manifestly not. But is that enough?

### Frustration

There is no doubt that everyone could benefit from consolidated administration of their financial affairs, as anyone who has tried to work out "how much they are worth" at any given time can testify. Who doesn't know the frustration that comes from trawling through years of accumulated paperwork held in shoe boxes and dusty old files, not to mention the hassle of getting up-to-date valuations from investment houses? Wraps signal an end to that particular paper chase.

FIGURE 1: WRAP ADVICE MODEL



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The step-change in attitudes to wraps over the past year, however, owes as much to the prevailing investment climate and the resultant economic pressures on the intermediary or adviser channel's cashflow as it does to any innate desire to reinvent the business model for the twenty-first century. Abbey's internal estimates suggest that the increase in operational efficiency from wraps could reduce administration costs by as much as 40%.

Wrap services have been around in Australia since the early-1990s, and have developed significantly, now accounting for 70% of new fund inflows.<sup>4</sup> The actual impact for an Australian financial adviser who has used wraps in his business since 1998 is detailed in Figure 2. This shows the scale of change and profitability that can be achieved through a successfully-implemented wrap service.

What has not yet been proved is that this experience can be replicated in the UK, or that the benefits will be like-for-like in a country with a population more than three times the size of Australia's – and with a rather different demographic and financial mix.

## Legitimate fears

The marketing of the wrap concept must address the fear factors that will necessarily exist amongst IFAs about adopting this new business model. The marketing and promotion must acknowledge that the **integrity and trust** of the providers who enter the market will make or break the case for wrap. The **quality of the platform** has to be assured: advisers need to be confident that they are entrusting their clients' portfolios to an industrial-strength platform that is able to handle transactional traffic and reporting on his behalf, but without loss of **control of the business**. And alongside the need for a robust platform is the absolute requirement for **consistency of delivery** every time, to build the confidence that means the IFA will be prepared to adopt a new way of working and make the **time to do it**.

If IFAs are best described as fearful, then customers are almost certainly sceptical about wraps. They need to be persuaded of the benefits *for them* of adopting wrap for their investments, as – on the basis that information is power – there is a *prima facie* case that wraps cede enormous power to the adviser. Yet the customer benefits are clear. At its simplest, the wrap

screen provides them with a timely and consistent view of their various products, from which **consolidated reports** can be produced. At a glance, they can see **all their financial affairs in one place**, but with the reassurance of not having all their eggs in one basket. The once-complicated task of **monitoring a diverse portfolio** is transformed through the single point of contact that wrap delivers. Wrap users can adjust their investment strategy quickly: making timely switches and taking advantage of lower pricing from wholesale

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offers means **higher net returns**. Lastly, and certainly not least, wrap allows **increased personal attention** from the adviser, who can concentrate on looking after his clients' best interests – rather than running the valuation paper chase.

Wrap providers argue that the intermediary channel should embrace them as the antidote to increasing costs and falling revenues. The cynics say that low awareness and the conceptual difficulties of moving from a product-driven existence to an advice and wealth management model may be a step too far for some advisers. But those who *can* make that shift must demonstrate to prospective clients how they can combine all of these individual solutions to maximize income and minimize tax liabilities throughout the life of the product – not by so-called product solutions, but through a holistic approach. ➤

FIGURE 2: THE WRAP EFFECT

1998	2003
• 700 clients	• 430 clients
• 3% fee-paying clients	• 68% fee-paying clients
• A\$32m assets under management	• A\$135m assets under management
• 12% profitability	• 34% profitability
• 16% recurring revenue	• 79% recurring revenue
	• Over 300% increase in gross income

The experience of Peter Leggett Financial after the adoption of wraps in 1998.

# The unfettered open architecture of proprietary wraps should be the preferred and informed option.

But the conventional means of marketing a new product or service are just not up to this job. Wraps can be head-bangingly difficult to take in when first encountered; they are so different from everything that has gone before that all conventional thinking about the role of an adviser and the expectation of a client has to be put aside.

That doesn't mean that we throw away advertising campaigns and PR. Far from it – they remain a fundamental part of the mix, but seminars and presentations, conferences and meetings must be used to a much greater degree as educative tools.

## FIVE KEY BENEFITS FOR CUSTOMERS

- Consolidated reports.
- Financial affairs in one place.
- Effective monitoring.
- Higher net returns.
- Increased personal attention.

The first sale, whether to an IFA or his client, will never be a wrap – it must always be the *concept* of wrap itself, and the clear demonstration of the benefits that it brings. Only when *that* sale has been made and successfully closed can the *real* discussion begin about which wrap to choose and from whom. This process will start with the assurance that the unfettered open architecture of proprietary wraps should be the preferred and informed option.

There are already several wrap offerings in the market, but how do you spot the impostor from the real deal? The test of a full wrap account will be its ability to provide:

- Intermediaries with an Internet-based transaction platform allowing them to administer, report and transact across a client's entire portfolio.
- Comprehensive valuations of a client's total assets, including those that are not held within individual tax wrappers.
- Asset allocation tools to assist with building and monitoring the investment strategy for both the overall portfolio (horizontal asset allocation) and the individual tax wrappers (vertical asset allocation).
- Tax-planning tools to ensure that the client's income is taken in the most tax-efficient way from the

individual tax wrappers, without compromising his overall objectives.

- Total transparency of all charges – including those levied by the wrap provider and the investment manager, and the cost of the advice given by the intermediary. This can only be achieved if the wrap provider rebates all fees received from collective investment managers, not only on the initial purchase (often called discounts) but also those arising from the annual management charge.

Wraps, properly presented, deliver clear and demonstrable benefits to both adviser and client alike. Through wrap, an adviser can once and for all demonstrate the value he adds to the management of his clients' wealth, with those clients getting higher net returns at a lower cost. It is early days yet, and there is much work to be done – but, implemented properly, wraps offer the opportunity to revolutionize the development of financial planning in the UK as a recognized and respected profession, just as they have done in Australia.

## FIVE KEY IFA FEARS

- Integrity and trust of provider.
- Quality of platform.
- Control of my business.
- Consistency of delivery.
- Time to do it.

Like Australian wine, wraps have come a long way, and like the wine they have travelled well. Just how well remains to be seen, but like that other Australian import, the boomerang, you just can't throw them away away. □

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<sup>1</sup> And modestly! Ed

<sup>2</sup> Survey based on 285 feedback forms returned by intermediaries attending roadshows between 25 September and 16 October 2003.

<sup>3</sup> Published in *Money Marketing* 13 November 2003.

<sup>4</sup> *Financial Services Distribution* June 2003.