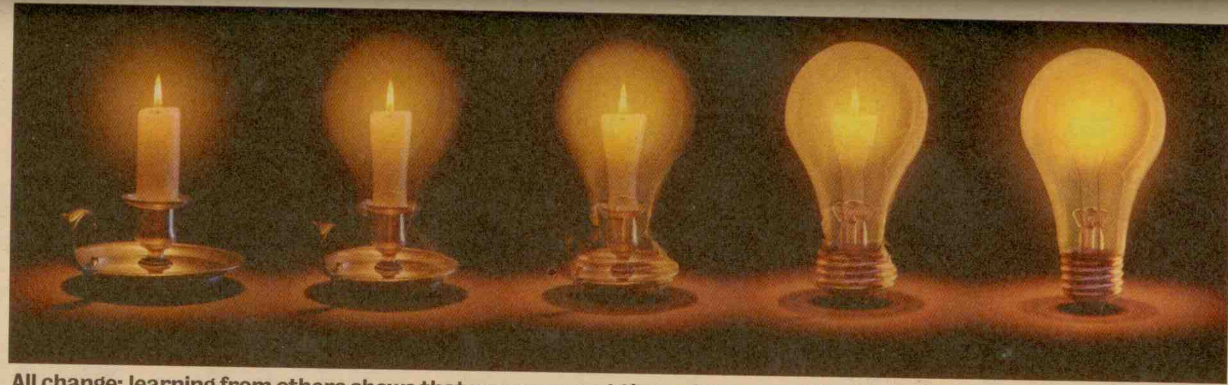
Separately managed accounts are the next level for wraps in the UK, but as they have been used abroad we can see what is in store



Pete Burtonshaw

Many are placing significant bets on the UK success of platforms, forecasting that the market will develop along the same lines as the Australian market, where intense competition has driven innovation in products and technology.

The Australian market has some significant differences to the UK, but enough similarities in distribution and growth of the wealth management market to support the basic premise. If you do accept the similarities, you should really look at what is happening now and recognise that platforms are not without their issues.

But, what were platforms trying to solve? Before the arrival of platforms, Australian financial advisers sold retail funds direct to their clients for a cost of about 1.5 per cent, excluding trail.

These products did exactly what they said on the tin; they provided access to professional investment management, enabling the adviser to focus on the relationship with the client. However, the multiplicity of providers made client-specific reporting an administrative nightmare and it was difficult for advisers to differentiate on price.

The first evolution of a platform, called a master trust, used purchasing power to squeeze the fund manager, creating the potential for an additional margin. This approach provided the consequential benefit of a platform that eased the financial adviser's administrative headache and provided a means of differentiation in service.

Theoretically, the master trust should have saved the investor money. However, it simply meant a different layer of fees – platform charges – was imposed. The cost to the client was still 1.5 per cent. The legal structure also meant that funds could not be transferred from one platform to another without a taxable event; good for the platform, less attractive for the individual adviser and his clients.

The second evolution saw wrap platforms that were developed to solve this tax problem. In removing the legal structure, while retaining the administrative and reporting tools, wraps improved portability and helped many advisers transform and build more value in their business.

Method

Interestingly however, the cost to the investor stayed at 1.5 per cent and although platforms continue to be the dominant method for administering managed investments in Australia, they are increasingly coming under fire for:

- **Failing to reduce the cost of investment for the client**
- **Having no demonstrable or quantifiable value to the investor**
- **Continued unnecessary opacity of fees**

A mystery shopper exercise conducted at the end of last year compounded these criticisms when it revealed that Australian investors who were offered platforms had no idea why or what they were being sold.

Perhaps this goes some way to explaining why most advisers now use three or four platforms in their business: the nirvana of one platform that suits all clients, holds all investments and supports the complete advice process still does not exist.

As a consequence of these issues and continued regulatory pressure, platforms are viewed as financial products and regulated as such. The regulator requires prospectuses to be issued for the wrap platform as it would for a fund, and that best advice should be demonstrated when recommending a wrap platform to a client.

Evolution

Separately managed accounts have now emerged as the next logical evolution of platforms, bringing together the best elements of the technology and investment product. A separately managed account provides access to a range of professionally managed models from a variety of providers, allowing tailoring of the solution to the individual, full transparency of charges so the investor can actually see who gets what, with a fully functional web-based client reporting platform which shows the investor exactly what he is invested in and how each element contributes to the performance of his portfolio.

Most significantly, by using technology to remove layers of administration and associated expense, separately managed accounts provide all of this at a lower cost than buying a retail fund through a traditional wrap platform.

These accounts have been designed to plug the gap between what traditional platforms deliver and what clients want.

> **Advisers in the US and Australia have embraced platforms as a fundamental part of the solution and there is every reason to expect the UK market to develop on similar lines**

All change: learning from others shows that wraps are not the end game and they are open to further improvements

GROWTH IN THE WRAP MARKET

Source: Adnitor

So clients may buy it, but do advisers sell it? One key attribute of separately managed accounts is that, like their predecessors, they can be white-labelled, enabling the firm to continue to build greater value in its business. Separately managed accounts allow advisers to control pricing, meaning they can choose to derive direct revenue from the product if they wish.

Since their introduction in their latest form to the Australian market, 20 per cent of financial advisers say they intend to use separately managed accounts in the next year, with nearly 50 per cent saying it is likely they will use them within the next two years.

So, will the UK follow a similar path? Different markets have different drivers, but the need to reduce administration time, demonstrate value-added to the ever sceptical investor and build long-term value in the adviser business is common the world over.

Advisers in the US and Australia have embraced platforms as a fundamental part of the solution and there is every reason to expect the UK market to develop on similar lines. Where UK providers and advisers have an advantage is in having the opportunity to learn from others' experience, recognising that wrap platforms are not the end game and using the latest developments in platform technology.

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