

Platforms develop a split personality

Matthew Smith

The platform market is diverging. On the one hand there are the high-touch wrap and master trusts that boast greater flexibility, more investment options, and a greater choice of functionality - compared to their relatively new, stripped down, low cost, limited choice counterpart. This trend comes as no surprise to advisers who have watched the rise of low cost platforms over the past couple of years.

A quarterly research report on the wealth management market produced last month by Citigroup Smith Barney observes the divergence that has seen a "fault line" emerge in the platform market between full service platforms and those platforms providing limited functionality, minimal service and low fees for the mass market. Until fairly recently, the report states, the "mass market" has been largely ignored because providers have spent their money and time developing full service platforms designed to cater to advisers with a sophisticated investor base vying for the high net worth client dollar.

"[The problem is] none of the market's current generation of platforms [a couple of years ago] met the demands of the many. We see the recent emergence of the baby

wraps and other similar types of lighter platforms as explicit recognition that, to expand the target market for platforms to those with smaller amounts to invest and less sophisticated investment needs, lower cost offerings to full service platforms to full service platforms were required," the Citigroup report states.

One of the drivers of the trend that has split the platform market into two distinct segments is the realisation by administration providers that platforms, by their nature, need scale to run efficiently. Full service master trust and wraps don't even break even until they hit a critical mass - which can sometimes be as high as \$8 billion. According to the Citigroup report, St George has nominated its break-even point quite low at around \$2 billion, where as Aviva estimates its critical mass to be around \$4.5 billion and Macquarie estimates \$5 billion.

So platforms have put a lot of effort in the past couple of years to expand their target market to those with smaller amounts to invest and less sophisticated investment needs.

Researchers have high a expectation for the future growth of fund flows into

investment funds via administration platforms. Plan for Life, for example, expects investment platforms to enjoy the largest growth over the next 10 years, increasing funds under advice (FUA) by five times - from its current size at \$29 billion, to \$180 billion. Over the same period, it expects corporate super master funds to triple and personal superannuation master funds to quadruple. Researcher DEXR&R has similar expectations suggesting FUA in retail master funds to quadruple over the next 10 years. According to Plan for Life data there was \$197 billion FUA invested via platforms in the Australia as at December 31, 2003.

While none of today's administration alternatives necessarily satisfies all of the market demands, Citigroup is bullish on the continued growth and importance of the platform market to investment managers and advisers.

"The overwhelming size of funds flows into platforms could see money moving into pure retail funds recede to a mere trickle.

"Such a concern seems to be one of the key reasons why a number of fund managers have recently entered the platform space... to protect the cannibalisation of [their] pure retail funds base."

The report points to Perpetual's WealthFocus and a Credit Suisse Asset Management's plan to launch a platform this year as decisions driven more by necessity than choice.

The natural holders of platforms are the banks and life insurance companies that benefit most from owning a platform because of their ownership of distribution. Plan for Life statistics suggest that 60 per cent of fund flows are retained by in-house managers. This "double clip of the ticket", according to Citigroup, is a powerful reminder why companies are keen to go to the expense of developing their own platform.

"For example, Axa claims a triple clip of the ticket on some FUA sourced through

Figure 2. The top 10 platform administrators by FuA (administrator's view) (A\$m): Dec 2003

	FuA 31/12/2003 A\$m	Market Share %	FuA 31/12/2002 A\$m	Market Share %	Growth in FuA %
1 NAB/MLC	31,804	16.1%	29,139	17.1%	9.1%
2 BT/Westpac	22,893	11.6%	19,609	11.5%	16.7%
3 CBA	21,379	10.8%	18,669	11.0%	14.5%
4 AMP	19,737	10.0%	18,514	10.9%	6.6%
5 ING	17,623	8.9%	16,693	9.8%	5.6%
6 St George	15,545	7.9%	12,796	7.5%	21.5%
7 AXA	11,948	6.1%	11,467	6.7%	4.2%
8 Aviva	9,500	4.8%	8,826	5.2%	7.6%
9 Macquarie	9,087	4.6%	6,754	4.0%	34.5%
10 Mercer	6,864	3.5%	232	0.1%	2858.6%
Total	166,380	84.4%	142,699	83.9%	16.6%
Other	30,762	15.6%	27,297	16.1%	12.7%
Total Industry	197,142	100.0%	169,996	100.0%	16.0%

Source: Plan for Life.

ipac where it receives the advice fee, asset management fee and administration fee.”

Colonial First State's FirstChoice, the leader in the scaled-down platform market segment, recorded \$1.7 billion net inflows during the six months to December 2003.

“The product has automated investment choices to keep down costs and steer (funds under management) FUM into CBA products. In addition, the platform has allowed CBA to keep making money as the rest of its funds management business nears capacity - retaining fees on funds that were, in any case, likely to be placed with external fund managers,” the report states.

Interestingly, Citigroup goes into the platform providers that are the “least successful” in retaining funds in the same way as Axa and CFS/CBA have been able to do.

These providers include Macquarie, St George, BT and Aviva, which now have a medium sized funds management business

but no active “funds steering” mechanism. The Australian Securities and Investments Commission (ASIC) is aware that some platforms have a tilt towards proprietary products (see story page 30) but the regu-

lating body is competing aggressively in the low cost platform space.

Oasis is winning clients by partnering with dealer groups and providing online front-end functionality for free to advisers.

Oasis claims it can break even at a mere \$1.6 billion FUA. Skandia argues its biggest competitive advantage is its ability to leverage from its global parent and says it benefits from its parents' funds management relationships.

Fund flows into platforms fell in the December quarter in line with the drop in confidence in the equities market. Interestingly, according to Plan for Life, large banks lost market share in the quarter while Axa, AMP and smaller banks such as St George made the biggest gains in the tough environment. Citigroup attributes these groups' success in badging their platform for the maintenance of inflows. It notes, the badged BT wrap continues to attract strong flows and St George is now

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lator doesn't admit to know anything about 'fund steering'.

Outside the banks and insurance companies, the report points to the “odd administrators out” that have no traditional tied distribution and rely solely on relationships with independent financial advisers include Navigator and Mercer. Other providers include Oasis, which is a 'virtual' online platform with \$1.8 billion under advice, and SkandiaOne, that has around \$3 billion under advice and is

