



Briefing Paper

The Aqera Wrap Platform

## 1 Introduction

The concept of Wrap is in its infancy in the UK, but is receiving considerable coverage as the 'next big thing' in Financial Services. Aqera, a leading UK software provider, has produced this paper in order to:

- provide a view on the market dynamics, potential business models and software solutions for Wrap Platforms in the UK, and
- outline Aqera's approach to developing the Aqera Wrap Platform.

Wrap has made a significant impact on overseas markets – notably the US and Australia. In the UK there are a number of different categories of organisation vying to become wrap providers – including distributors, product providers, fund supermarkets and new entrants. It remains unclear as to who will succeed. In an uncertain market, Aqera proposes that the best way to manage the risks involved in entering Wrap is to:

- implement systems and processes in an incremental manner
- ensure that each increment delivers tangible benefits in its own right
- ensure that the systems implemented are appropriate to the Wrap provider's business model rather than dictating it.

The Aqera Wrap Platform has been designed specifically for the UK market and UK regulatory environment - it is not a reimplementations of an Australian or US package. The design principles underpinning the Aqera Platform are:

- Support for Multiple business models – from Aggregation at the simplest level through Multi-tie Management to full Wrap
- An 'Open Architecture' to support aggregation of assets held in other systems
- Customer-centric presentation of portfolio of assets
- Straight-through processing wherever possible
- Integrated front-end tools for analysis and asset management
- Auto commission calculations and processing
- Auto production of documentation and reports
- Investment management – auto deal aggregation to issuing deal instructions
- Auto dealing and cash reconciliation.

## 2 What is Wrap?

By aggregating an individual's financial requirements, assets and liabilities, advisers can take a holistic approach to financial planning and advice. Financial products are not sold in isolation, but as part of a portfolio that meets the overall needs of the customer, taking account of their individual circumstances, preferences and attitude to risk. Traditional product wrappers (pensions, ISAs, etc.) are utilised within a wrap to provide tax-efficiency, and investment advice can be

separated from product advice. Wrap facilitates improved advice, based on access to complete information and planning tools.

Aqera believes the following features best describe a Wrap proposition:

- Retail 'private client' portfolio management service
  - Client investments as a single portfolio
  - All savings and investments, irrespective of tax vehicles
- Flexible investment choice
  - Selection from a range of providers/fund managers
  - Discretionary and non discretionary
- Financial planning with advice
  - Typically fee based (normally related to value of assets)
  - Single charge across multiple products
- High service levels
  - Consolidated tax and performance reporting on whole portfolio
  - Investment performance, what-if projections, asset allocation analysis, risk profiling support
- Straight Through Processing
  - Integrated Back Office Administration
  - Exception Management

A Wrap Provider is a new category of organisation in the Financial Services value chain – but could well be an organisation already operating as a distributor or product provider. Multiple variants of the Wrap proposition are likely to evolve, and their characteristics will depend on the Wrap Providers' business models.

A key feature of Wrap is the separation of investments from products. Investment selection and product selection are two separate, but inter-dependent activities – the product being the tax-wrapper that encompasses the investments.

An aggregated view of a client's investments within the Wrap is essential. Front-end tools to assist with client servicing, risk profiling and asset allocation should support that aggregated view. The ability to transact business on-line, using straight through processing will also be required.

Key features of Wrap are the ability to charge clients across all holdings within a Wrap not just at product level and the facility to move investment holdings between tax wrappers.

As well as holding and managing as many assets as possible on the Platform, it is essential to allow integration with third-party provider systems where existing assets may reside, and also to support data entry, storage and reporting of other valuable assets such as property.

### 3 Wrap in the UK

The drivers in the UK are different from those in the US and Australia. What works in different parts of the world may well not work here. The current economic climate is also significantly different to that in the US and Australia when their wrap markets emerged.

Changing distribution models in the UK – depolarisation and the emergence of multi-tie arrangements - will require changes to the interaction between provider and distributor. Where a distributor organisation ties to multiple providers, then it will require close integration with those providers, but may also require the ability to change the providers it has arrangements with.

The manual and often laborious interaction between distributors and product providers in the UK causes huge inefficiency in the advice and servicing of financial products. Wrap has the potential to change the economics of distribution and administration by delivering real-time interaction, straight-through processing and self-service.

The wrap concept also has applicability for provider organisations that have been through mergers and acquisitions. Many such organisations have been unable to implement a ‘customer view’ of products across their subsidiary organisations. Aggregation and wrap has the potential to provide such a facility.

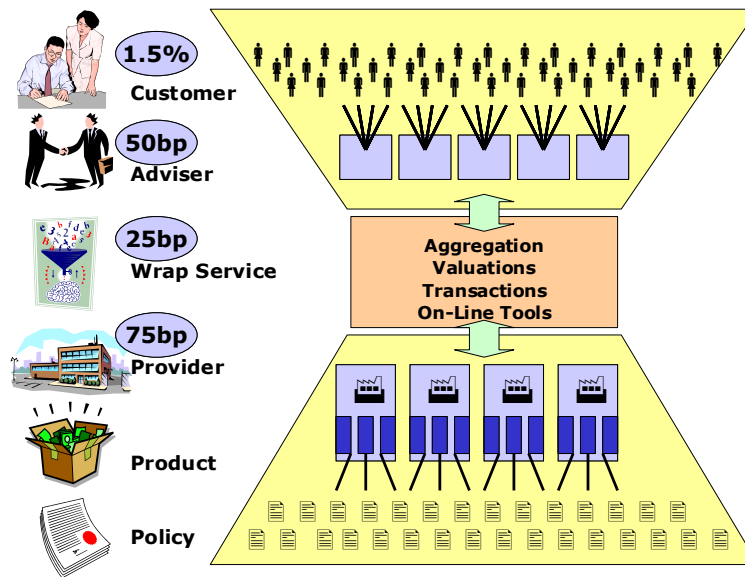
One of the restrictors to rapid market change is the current lack of investment funds available to UK financial services organisations. Estimates for the development of the systems required for a wrap platform vary from £5m to £50m. A robust business case is essential in the current economic climate, and with the immaturity of the Wrap model, this perceived risk and uncertainty has held back ‘first movers’.

A cost-effective, incremental approach is proposed by Aqera – allowing organisations to achieve business benefit through incremental build, and to prove the business case along the way.

## 4 Changing Value Chain

Wrap has the potential to significantly alter the value-chain for UK financial services. The potential exists for a shift of power from manufacturer to distributor – depending on who takes the role of Wrap provider.

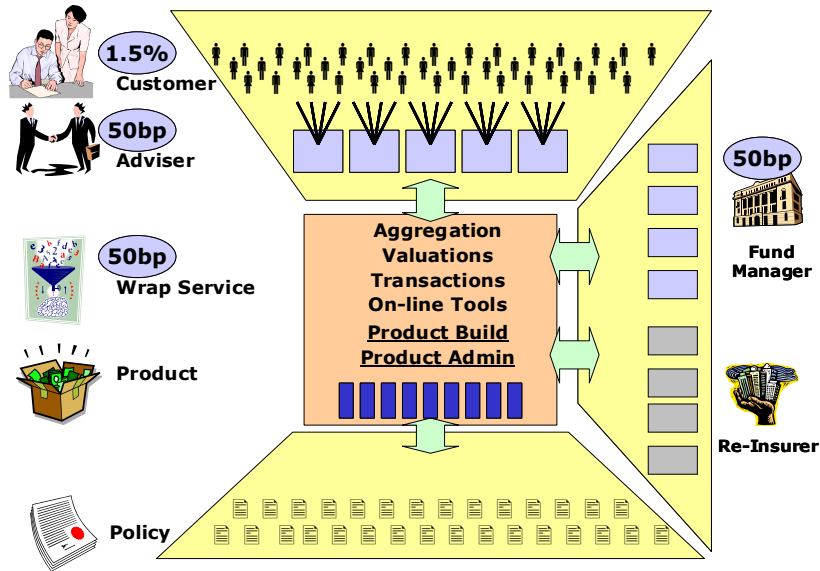
Below are two possible scenarios:



### Economics of Wrap, Current Players

The **Current Players** scenario is based on the continued involvement of today's distributors and product providers. The Wrap service is a hub that sits between the two categories of organisations, providing customer-centric aggregation, transactions and on-line tools. Significant process efficiencies are introduced as a result of the automated interaction between distributors and providers.

Providers and distributors would not expect revenue much less than current levels – although significant efficiencies could be achieved through automation and self-service. If, for example, total charges equated to 1.5% Annual Management Charge (AMC) then this would leave approximately 25bp for the Wrap provider. In isolation this level of wrap provider revenue is unlikely to be viable – but if delivered by an existing provider or distributor, as an extension to their current service, then together with the efficiencies gained through automation and self-service, this could be very attractive. Improved customer service, leading to increased market share and increased 'share of wallet' of existing customers would also have a positive impact on the business case.



**Economics of Wrap, New Model**

The **New Model** is based on the disaggregation of today’s product providers, with a significant shift of power to distributors and/or fund managers. The Wrap service is not just a hub – but also allows for the build and administration of products. Through involvement of fund managers, distributors can design their own white-labelled products.

Bancassurers are well placed to benefit from this model due to their access to customers. Fund managers may become wrap providers in order to protect revenue share. New entrants, such as retailers or technology providers, may also enter the market.

This model would leave at least 50bp for the Wrap provider – a far more viable proposition in isolation. If the distributor and Wrap provider were one and the same organisation, then total revenue could be at least 1% of Funds under Management.

The potential impact on the value chain, as described above, will cause some organisations to see Wrap as an opportunity to increase their power, margin and ‘share of wallet’. Others will see Wrap as a threat, and their future involvement in Wrap initiatives will be defensive. These business drivers are further explored in the next section.

## 5 Key Business Drivers and Benefits of Wrap

### 5.1 Business Drivers

The key business drivers for different types of organisations launching Wrap Platforms are set out in the following table:

Organisation	Business Driver
Distributor	<ul style="list-style-type: none"> <li>• Facilitates the advice process - provides an automated, aggregated view of each individual's financial portfolio, including up to date valuations, with minimal manual intervention.</li> <li>• Presents information about both tax wrappers (pensions, ISAs etc) and the underlying investment product, allowing advice to be provided on both tax efficiency and asset allocation.</li> <li>• Enhance the distributor's position in the value chain – move power and margin to the distributor.</li> <li>• Enables white-labelled products to be designed, launched and managed by the distributor.</li> <li>• Removes dependence on providers' service delivery to provide information and deal with transaction requests for new and existing business.</li> <li>• So reducing manual intervention and costs, and increasing customer service levels</li> </ul>
Product Provider	<ul style="list-style-type: none"> <li>• Defensive proposition: maintain the Provider's position in the value chain – protect power and margin.</li> <li>• Additional wrap provider stream of business and associated revenue.</li> <li>• Exploit brand and current channel relationships</li> <li>• Reduce operational cost through automation, straight-through processing and self-service.</li> </ul>
Bancassurer	<ul style="list-style-type: none"> <li>• Opportunity to exploit new depolarised distribution regime.</li> <li>• Enhance the bancassurer's position in the value chain – increased power and margin.</li> <li>• Enables white-labelled products to be designed, launched and managed by the bancassurer.</li> <li>• Additional wrap provider stream of business and associated revenue.</li> <li>• Increased customer retention, increased 'share of wallet'.</li> <li>• Exploit brand.</li> </ul>

Organisation	Business Driver
Fund Manager	<ul style="list-style-type: none"> <li>• Defensive proposition – protect margin.</li> <li>• Increased funds under management.</li> <li>• Enables fund manager to provide white-labelled products direct to the distribution channel.</li> <li>• Additional wrap provider stream of business and associated revenue.</li> </ul>
New Entrant	<ul style="list-style-type: none"> <li>• Opportunity to enter new market, through delivering to new distribution models, unencumbered by legacy products, legacy systems and legacy thinking.</li> <li>• Wrap provider stream of business and associated revenue.</li> <li>• Exploit brand.</li> </ul>
Technology Provider / Portal	<ul style="list-style-type: none"> <li>• Increased revenue from Financial Services sector.</li> <li>• Opportunity to deliver new solutions, designed for new distribution models, to replace legacy systems.</li> <li>• Wrap provider stream of business and associated revenue.</li> </ul>

## 5.2 Adviser Benefits

The key benefits to advisers of **using** a Wrap platform are:

- Having the ability to pull all of a clients’ holdings and investments together in a single view with up to date valuations will enable distributors to operate more efficiently and offer a more responsive and professional service to their clients.
- The ability to generate fee income out of existing business by charging across all the holdings in the Wrap.
- Provides tangible evidence of the embedded value of the adviser’s business.
- Provides accessible information to help manage and project cashflow and profitability.
- Provide a better service for clients, increase market share, and increase ‘share of wallet’.
- Less administration, more time to provide advice.
- Improved profitability through reduced cost of operation.
- Access to better information to manage the business

## 5.3 Benefits to Consumers

The benefits to consumers of engaging with an adviser using a Wrap platform include:

- An improved service from the adviser; with access to a complete financial picture of requirements, assets and liabilities.
- Hence a more balanced, relevant and tax-efficient investment portfolio.

- Portfolio Management not just new product advice.
- Improved tax planning and reporting.

## 6 The Need for a New Platform

There are a number of options available to would-be wrap providers in the UK:

- Build a new platform based on US or Australian technology
- Build a new platform from scratch
- Collaborate with other organisations in the definition and build a new platform
- Wait until another organisation build a platform, then licence or rent that platform

In order to be viable, a wrap platform must be designed to deliver straight-through processing and self-service. The wrap service will be utilised by multiple organisations in the value chain, including consumers, advisers, providers and fund managers. Each must have their own perspective on the information held within the service, and will have different rights and permissions over access to data and tools. This requires a platform designed for collaboration. It also requires a platform designed for new and emerging business models. Distribution is changing as a result of depolarisation, products are changing as a result of the Government's focus on charges and transparency and the regulatory environment is changing as the FSA expands its remit and seeks to further protect consumers.

Whilst the option of US or Australian technology would appear to be attractive, early indications are that the UK environment, products and tax regimes are sufficiently different to require significant re-engineering of such products.

Estimates for the development of the systems required for a wrap platform vary from £5m to £50m. As discussed earlier, the current lack of investment funds available to UK financial services organisations has delayed the creation of such platforms.

Aqera believes that a new platform, designed specifically for the UK, to support emerging business models in an efficient way, is essential. Aqera has significant elements of that platform available today, and is seeking to work with the industry to complete that platform through incremental delivery.

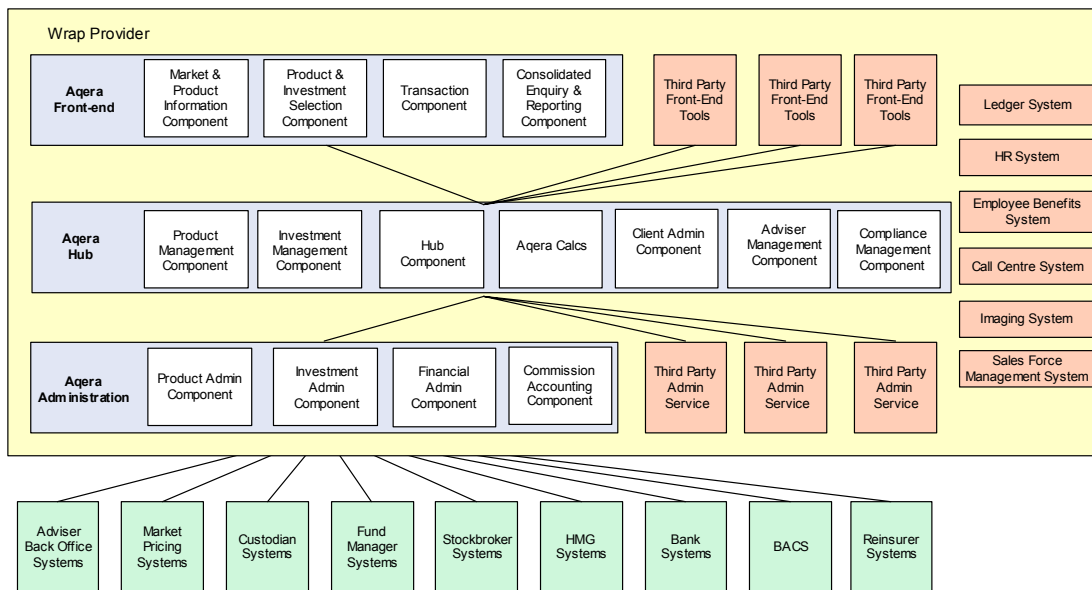
## 7 The Aqera Wrap Platform

### 7.1 Scope

The diagram below highlights the separation of three layers of Aqera functionality:

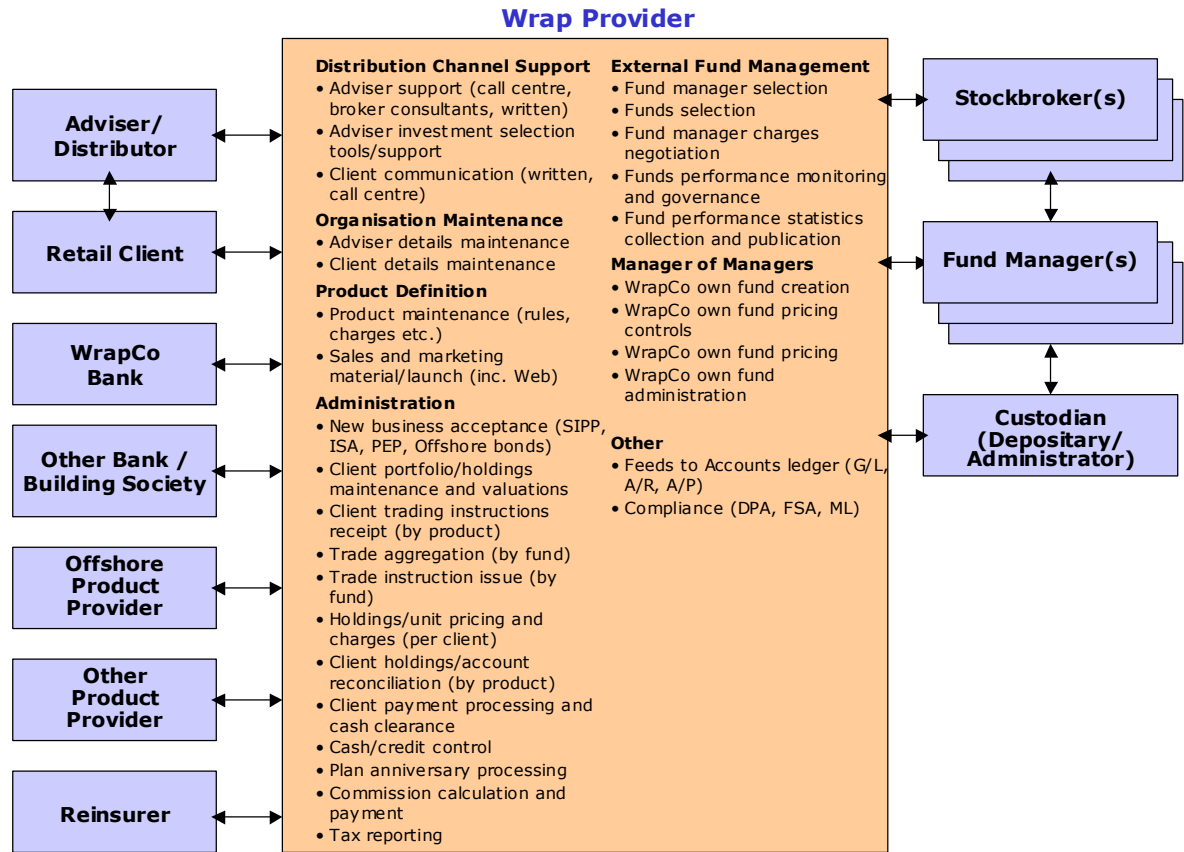
- Aqera Front-end: tools for advisers and customers.
- Aqera Hub: the heart of the platform, linking multiple front-ends with multiple providers.
- Aqera Administration: providing an administration and product management platform for new products designed for the Wrap environment.

### The Aqera Platform: System Overview



The hub layer is the essential component that facilitates Wrap. The hub has been designed to interface with multiple existing front-end systems and multiple providers' administration systems. The hub can be implemented without the other components. Optionally, the front-end and administration components can also be deployed to deliver increased efficiencies and improved customer service – bringing the 'end to end' process onto a single platform.

The Wrap provider functions and links to external organisations are set out in the diagram below:



## 7.2 Connectivity

Ease of integration with other systems is crucial for a successful delivery of a Wrap Platform. Aqera's Wrap Platform is designed for such integration.

### Links with Adviser Systems

Many advisers have back office systems that they want to integrate to rather than replace. Advisers have front-end tools, point of sale tools and modelling tools they want to keep using. Aqera's software integrates with back-office systems and front-end tools via XML messaging. Full interfaces with leading adviser systems are a standard feature; bespoke integration with back-office systems can be configured as part of the implementation.

### Links with Provider Systems

This is a key part of Aqera's (already demonstrable) aggregation service. Origo standard messages (from providers that support these standards) and customised interfaces are provided. Both batch and real-time messaging is supported.

Straight through processing is key to successful and efficient operations and therefore Aqera's platform provides transactional capability with providers' systems for existing business as well as illustrations and new business processing.

### **Links with other Aqera Services**

The Aqera Wrap Platform delivers a number of 'value added' services to users, providing Advisers with the necessary information and tools to service the customer better. Examples of these other services include Aqera Calcs (the Universal Calculations Engine), Aqera Interactive Pensions and the Aqera Business Review System. Advisers and consumers can utilise Aqera's 'What if' modelling tools to iteratively model different investment scenarios and to create projections for existing and new business. Additionally aggregation across other pensions systems (including the DWP State Pension) is provided, delivering a 'composite' view of all assets, not just pensions.

Aqera's Business Review System is a software package built by Aqera to meet the compliance requirements of UK regulated product providers and distributors. Designed to accommodate varying rulebooks and workflows, Aqera BRS supports both new business validation and complaint investigation. It provides full case management and workflow functionality, and delivers risk-based sampling and full auditability.

### **Links with Other Third Party Systems**

Aqera will work with clients to build links with other system providers and financial data service providers in the areas of for risk profiling, asset allocation etc.

## **7.3 Aggregation / Valuations**

An essential foundation of the Aqera platform is the aggregation of an individual's entire financial portfolio, and the provision of an up to date valuation of that portfolio.

Good financial advice is dependent upon the availability of a complete picture of an individual's financial requirements, assets and liabilities. Access to such information is currently patchy, time consuming, and involves contact with multiple organisations.

By making use of the increasing number of 'contract enquiry' provider gateways, the Aqera platform collates product and valuation information from multiple sources, and presents that information online and summarised in a paper document. The aggregation system supports the differing implementations of contract enquiry messages by different providers, and recognises differing service levels in the provision of such information.

Importantly, the aggregation service presents information about both tax wrappers (pensions, ISAs etc) and the underlying investment product, allowing advice to be provided on both tax efficiency and asset allocation.

The Aqera aggregation system is not just processing messages – it interprets the messages, and stores all information for subsequent analysis. This facilitates the presentation and analysis of all data relating to multiple customers. Advisers have access to reports detailing all of their clients' investments, and adviser firms have access to views of their total business, across all advisers and clients.

## 7.4 Products

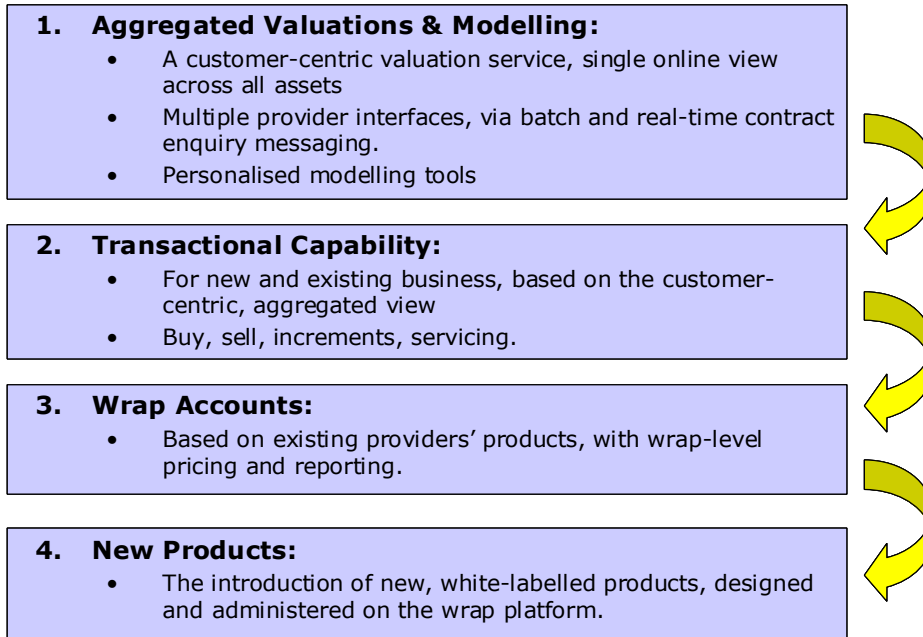
The table below highlights the product types included within the Aqera platform:

<b>Product Classification</b>	<b>Origo Product Type (risk benefit type)</b>
Personal Pensions	Individual PP, Individual SHP, SIPP, Section 226 Retirement Annuity, APP, GPP, GSHP
Occupational Pensions	Section 32, Free Standing AVC, EPP, SSAS, OMPS, GSHP
State Pension	Basic, SERPS, S2P, Graduated
Other Pensions	DB, Public Sector, FURBS, UURBS
Investment (annuity)	Compulsory Purchase Annuity
Investment (annuity)	Immediate Vesting PP
Investment (deposit)	Income Drawdown
Investment (deposit)	Phased Retirement
Protection (insurance)	Life assurance, Waiver
Protection (insurance)	PHI/permanent disability, Accident Sickness and Unemployment, Whole Life, PMI, Endowment, Investment Bond, Guaranteed Bond, Broker Bond, GDIS
Investment (equity/deposit)	Unit Trust, PEP, ISA, OEIC, Investment Trust, Shares
Investment (deposit)	Corporate Bond, Share Option Schemes, Convertible Bond, National Savings, TESSA, Index Linked Securities
Investment (gilts)	Gilts
Investment (annuity)	Purchased Life Annuity

## 8 An Incremental Approach

### 8.1 Phasing

As mentioned previously, Aqera proposes an incremental approach to Wrap deployment. The number and nature of phases will depend on each organisations business model and priorities, and an example four-phased approach is provided below.



### 8.2 Progress to Date

Aqera is developing the platform to support this incremental approach and can already demonstrate model 1 (Aggregated Valuations) working, with provider data.

Aqera has significant components of the full Wrap platform available for deployment immediately.

### 8.3 Timescales

Aqera estimates that the phased deployment of a full platform can be achieved in the following timescales:

Functionality	Timescales
1. Aggregated Valuations & Modelling: a customer centric valuation service, with online reporting and personalised modelling tools	Demonstrable now; Live Pilot deployable within one month; full Aggregation Service live in three-six months.
2. Transactional Capability for new and existing products, based on the customer centric, aggregated view	Within six months.
3. Wrap Accounts, based on existing providers' products, with Wrap level pricing	Within twelve months.

Functionality	Timescales
4. New Products: The introduction of new, white-labelled products, designed and administered by the Wrap provider.	Within eighteen months.
5. Other Aqera Services: Aqera Calcs Aqera interactive Pensions Aqera Business Review System	Available now, deployable within one to three months.

## 9 Economics

### 9.1 Economics of Wrap

The key financial benefits of operating within a wrap platform are:

- The wrap provider will receive a proportion of the total commission received for products sold and held within the wrap service.
- Costs of distribution will be significantly reduced through immediate availability of customer information and planning tools.
- Costs of administration will be significantly reduced through a platform designed for straight-through processing and self-service.
- Increased market share through improved customer service.
- An opportunity to enhance relationship with end-customer and increase 'share of wallet'.
- An opportunity to expand the range of products provided.

### 9.2 Impact of the Aqera Wrap Platform

The key benefits to our clients of working with Aqera are:

- Huge cost and 'Time to Market' benefits
- A Wrap platform designed specifically for the UK market
- A Wrap platform based on currently available and demonstrable components
- A Wrap platform designed for incremental deployment, with incremental business cases
- A platform designed to support different business models, from Aggregation within / across Groups through Multi-tie to full Wrap
- The opportunity to shape and prioritise the Wrap platform.

## 10 About Aqera

Aqera is a wholly owned subsidiary of HISL Ltd. HISL is an independent UK software house formed by a Management Buy Out from AT&T ISTEEL where the team constituted the software 'Centre of Excellence'. Over the past 20 years, the team has delivered many enterprise and shared Industry-wide solutions in Finance, Manufacturing, Health and Government.

Examples of these large collaborative projects delivered successfully include:

- ClearNet (National Health Service clearing system between Health Agencies)
- Transpoll (Credit Card Transaction Aggregation)
- UK-Wide Travel Reservation Service

Our experience in building shared industry-wide, value-chain solutions, coupled with the huge development quality and productivity of our 'e-Business Engineering' approach, offers Aqera and its Partners significant strategic benefits:

- Very rapid time to market for large collaborative applications and e-Services
- Easy and low-cost enhancement as business and regulatory changes require
- Choice of hosted e-Service or in-house package deployment

In the past 12 months the company has conceived, designed, developed and delivered the following major applications, all designed for the Internet and customer-centric self-service:

- Compliance (Business Review) System for new business monitoring and endowment complaints
- Aqera Calcs – providing compliant calculations for all DC pension, savings, investment and protection products. Including new business illustrations (CP170 compliant), annual illustrations (SMPI compliant) and annuity/drawdown calculations
- Interactive Pensions – online SMPI-compliant Annual Statements and What If modelling for all DC pension products, plus online DWP Combined Statements
- Middle Office System – an order management and settlement system for one of the world's largest electronic brokers
- Aggregated Valuations – a subset of Aqera's Wrap platform, delivering a customer centric valuation service, across multiple providers, with online analysis and reporting.

The company is well funded, having received a significant capital injection in 2001, and is focusing its unique skills, tools and experience on the delivery of large, shared, collaborative industry solutions such as those offered by Aqera.

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