

Choose a compatible wrap

Some back office systems already offer some of the benefits of wraps, so advisers should choose wraps that offer additional services and integrate with their back office systems

Wrap has been seen as part of an evolution whereby advisers shift their approach from being product driven to being more advice focused. But if you talk to a lot of advisers you will hear an increasing majority already claim that they are service professionals and not product shifters. So does wrap really offer anything new?

Wrap certainly offers a different and varying perspective on conducting business and providing advice. Some people think it's about technology, others believe it's a new type of financial product and there are those who think it's about administration. The reality is that it is a mixture of all these. The concept of a wrap is based on being able to provide aggregated reporting for clients in conjunction with a simple transactional approach, integrated valuations and a streamlined administrative process. Wrap

platforms are all online, as are most new technology platforms and back office systems. They offer electronic investment switching with online valuation statements. The effect should be that clients have a seamless view of all their investments.

The various wrap platforms around at the moment offer different product ranges and services, although there is some convergence and similarity. On the whole, wrap seems to work best for high-net-worth individuals where the process can become part of a bespoke portfolio management service. Some believe that different wraps will work better for different clients depending on their focus. Whatever the case, wraps are a growth area in financial services and Datamonitor estimates that by 2008 more than £150bn will be held in wrap accounts worldwide.

While wraps offer a different and potentially better way of servicing some clients, there are drawbacks. Wraps are essentially investment focused and it is difficult – if not impossible – to stick legacy products in a wrap. There is also an argument that many wraps can still be more expensive than buying the products individually and that some of them may not be comprehensive enough for all clients' needs.

In addition to that, some wraps are almost exclusively focused on higher-net-worth clients, but should include far more than mutual funds, for example, credit card accounts and mortgages. Flexibility is key to providing appropriate choice.

Furthermore, if you've got a sophisticated back office system, you can provide your clients with comprehensive aggregated reporting on their investments and other financial products, so it is debatable as to whether you need a wrap. Nevertheless we think that for some advisers wrap can be a very strong addition to the range of services on offer and can be integrated with back office and other systems. Back office systems are ideally placed to consolidate business from all avenues, including traditional life offices, fund supermarkets or newer platforms like wraps. Clients and their advisers want choice, so a back office system with strong links to the various offerings in the marketplace and a flexible structure is perfectly positioned to offer that choice.

A typical client may have existing policies such as a pension with Standard Life, an Isa with Skandia and a bond with Norwich Union. These products will have been chosen for different reasons and tax benefits. It is important that the adviser has the right tools to electronically value these products and produce a consolidated client report. Only a well designed back office can truly undertake this task without a conflict of interest and restricted coverage.

Life offices cannot ignore what wrap has to offer and many have built or are building their own platforms. Standard Life and Clerical Medical, for example, appear to be building strong and comprehensive offerings, while Norwich Union through Lifetime already has a good platform. Skandia is also well positioned in this market.

Companies such as Transact, FundsNetwork and Selestia offer strong solutions while 7IM, American Express and Cofunds are also of interest. While the market is still immature it is becoming clearer who the potential winners might be. Not surprisingly, they're all aware of the tangible and strategic benefits of linking in with the key back office systems on the market. A wrap that stands alone and cannot integrate is not going to be of much interest to advisers who already have other systems up and running. It will be interesting to see how many of these wrap platforms last the distance – the numbers simply do not seem to stack up to support more than around six.

Most benefits of a wrap for an advisory firm stem from the ability to streamline business processes. Wrap is just part of the picture as there are many aspects of an adviser's business that are simply not remotely connected with it. Some back office systems cover these areas already. An efficient business process is core to running an effective service for clients by ensuring that their affairs are efficiently managed, while freeing the adviser to do research and advise clients. Wrap, in conjunction with these back office systems will improve these efficiencies further. Therefore most distributors are focusing their attentions on selecting enterprise back office systems as the gateway to efficient business processes.

Although advisers may wish to use one wrap platform, it is likely they will use more than one system to give their clients the right choices and meet their different needs. Every wrap has to integrate with the rest of an adviser's business processes. Good back office systems are designed to drive efficiencies, improve compliance and keep administrative costs down. The best wraps – and the ones that will survive in the market – will integrate perfectly with other business processes, essentially the areas that wraps don't cover.

Wraps help to move transactions from paper to fully online making things more efficient for advisers, a key development for the industry. Advisers, providers and technology providers who do not get online will be left behind in the mission to drive costs down. The general trends emerging from wraps are directed to moving business online to provide better and more streamlined administration.

Nick Eatock, chief executive officer, IntelliFlo.

Key points

The idea of wrap is to provide aggregated reporting with a simple transactional approach, integrated valuations and a streamlined administrative process.

But it is difficult to include legacy products in a wrap, because wraps can be more expensive than buying products individually and some of them may not be comprehensive enough for all clients' needs.

Some back office systems already cover the areas that wraps do, however wraps can be a very strong addition to the range of services on offer.