



# The power of platforms in a consolidating world

*A flurry of recent consolidation in the platform market raises questions over the power this new era of mega-platforms could wield over fund managers. KRISTEN PAECH reports.*

In the 1990s, US research firm Cerulli Associates famously predicted there would only be five major platforms in the Australian market by 2004.

While this turned out to be premature, a bout of consolidation over the last six months has significantly boosted the market share of those who've gone on the offensive, and increased the dominance of the major market players.

Last year's merger between Westpac and St George, which brought the BT Wrap and Asgard platforms together under the Westpac umbrella, marked the start of what is not so much a trend but a development triggered by external forces.

In April, the Australian Wealth Management and IOOF Holdings merger, including the Skandia platform business recently purchased by IOOF from Old Mutual Group, was given the green light by shareholders. And more recently, NAB acquired Aviva Australia's wealth management business, counting its life insurance operations and investment platform, Navigator, for \$825 million.

The derailment of the sharemarket has seen platforms lose nearly one quarter of their funds under management over the past year; a tough business environment for providers that rely on asset-based fees.

According to statistics from Plan for Life Actuaries, the total masterfund market, comprising platforms, wraps and master trusts, fell 19.6 per cent over the year to 31 March, 2009 to stand at

\$328 billion.

Inflows of \$89.3 billion were well down on the previous year's \$148.2 billion, while outflows of \$75.2 billion were also down on the \$104.7 billion recorded in the year to March 2008.

Five companies hold more than \$10 billion in platform funds under management, led by Colonial First State (\$32.5 billion) and AMP Financial Services (\$27.3 billion), as at July 1 this year.

And one quarter of Australian financial planners now use the combined BT-Asgard platforms as their main platform, according to Investment Trends.

Investment Trends' October 2008 Planner Technology Report, which surveys 1400 advisers, put Aviva in third position (behind BT and Asgard), based on the number of adviser relationships, and MLC in sixth position.

But post-acquisition, Mark Johnston, principal of Investment Trends, says the combined MLC-Navigator platforms should poll second or third overall, depending on the number of adviser relationships MLC manages to retain.

The figures lend weight to the "bigger is better" argument often put forward by those on the acquisition trail.

"It really does reshape the markets," Johnston says. "Now you've got the combined BT-Asgard with the most relationships, you've got CBA - between First Choice, First Wrap and Avanteos - and MLC tied for second, then quite a large gap back to the remaining players. As expected, it leads to a lot of concentration and consolidation."

Scale is a definite advantage for platform providers, providing a larger distribution footprint in the planner market and hence broader access to

superannuation investors.

## RISE OF THE PLATFORM OLIGOPOLY

But what power will these mega-platforms wield over funds managers, and do fewer players mean bigger mandates for those who are successful?

Simon Solomon, managing director of Plan for Life, says consolidation is unlikely to have a huge impact on fund managers while funds under management remain depleted.

He admits that fewer platforms, or a "semi-monopoly", is more likely to see fund managers squeezed on fees than a highly competitive market, but says the sharemarket wipe-out has left little room for negotiations.

"If you end up with fewer platforms, you end up with a semi-monopoly where five or six platforms can basically call the shots and there's not much anybody can do about it," he says.

"But where you've got 30 or 40 of them and there's competition, the ones that are charging more have to keep looking over their shoulder to make sure they're not losing funds to the more economical ones.

"Bear in mind though [fund managers] have lost 30 to 40 per cent of the funds they had 18 months ago, so they've got a fair way to go before they even get back to square one. So to be offering any discounts at this stage would be more difficult for them to do, because they've lost a great deal of their margin and they have to try to get back there and hope that the market recovers in a reasonably short time. Any further discounting is not going to happen in the short term."

In the long term, however, Johnston from Investment Trends believes the



growing scale of platforms gives them more power to negotiate lower fees from the fund managers, and potentially reduce fees for investors.

“Gaining scale can potentially gives you more scope to cut fees, which can be important when there is a lot of downward pressure on fees across the industry,” he says.

On the flip side, Craig Lawrenson, national manager, product and strategy at BT Wrap argues consolidation offers benefits for fund managers, since they can have fewer relationships whilst targeting a broader market.

“A good example internally at BT is post the acquisition of Asgard, we

moved to a single fund manager governance unit, so we can have a single unit servicing fund managers that can then offer the distribution power behind our business through that single relationship,” he says.

“It certainly adds efficiency to the process and allows fund managers to have a smaller number of relationships delivering to a larger audience.”

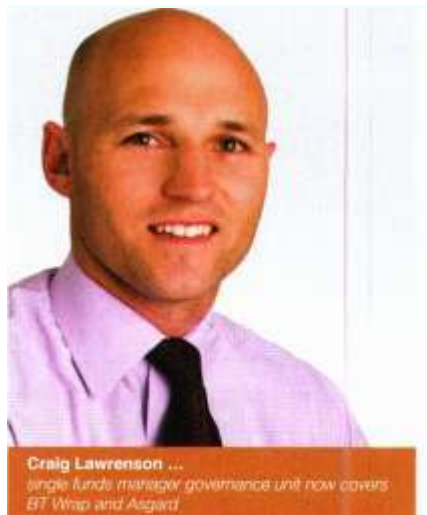
As an open architecture platform, BT Wrap offers more than 600 funds to investors, but does not pre-package products or hand out mandates to funds managers.

MLC, on the other hand, through

its multi-manager investment process, awards mandates to managers who sit on its MasterKey and MasterKey Custom platforms.

In theory, as platforms grow, the slice of the pie available to fund managers via mandates increases, however Michael Clancy, general manager, investment management division at MLC, says assets on MLC’s platforms are widely distributed, with the exception of MasterKey.

“MasterKey has had mandates in excess of \$1 billion for many years now, and that has nothing to do with consolidation,” he says.



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distribution power behind our businesses through that single relationship”



“Those [funds managers] with a competitive edge will be able to command whatever price they want. But in every market there are benefits of acquiring services at a large scale. As platforms become larger they can negotiate an attractive fee, at least for the incremental dollar.”

**INSURANCE TO BE  
 NEXT BATTLEGROUND**

A possible by-product of consolidation, particularly where life companies like Aviva are brought into the mix, is the proliferation of risk insurance products on platforms.

“Because more of this business is now transacted with a fair amount of involvement of life companies, we’ll probably see more products becoming available on the platforms. For example risk insurance, which does exist in a lot of these platforms but not to any great extent, could be pushed a lot harder,” Solomon says.

“So we could see a lot more variety occurring, not just investment options but insurance options of various kinds.”

Solomon says industry funds, which in a sense are platforms as well,

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 discounts at this stage**

would be more difficult for fund managers to do, because they’ve lost a great deal of their margin and they have to hope that the market recovers in a reasonably short time. Any further discounting is not going to happen in the short term.

have “already got a march on the retail platforms” when it comes to insurance, with many having expanded and improved the type of products available and increased the amount of cover being offered.

According to Plan for Life, industry funds’ group life in-force annual premiums totalled \$923.13 million as at 30 June, 2008, up from \$732.85 million the previous year and \$579.88 million in 2006.

In comparison, group life in-force annual premiums into platforms and

master funds totalled \$495.48 million (corporate) as at 30 June, 2008 and \$626.58 million (personal), up from \$478.43 million and \$496.58 million respectively the previous year.

Lawrenson says BT is making some improvements to its insurance offerings through the wrap platform as part of a three-pronged approach to improving functionality and efficiency, which also includes improvements to its direct equity capability and ensuring compatibility of the Wrap system data with the software used by accountants on behalf of self-managed super fund clients.

The mere presence of industry funds, and the deepening of their product offerings, should be enough to maintain healthy competition in the platform market, even if consolidation in the sector continues apace.

“The average account in the industry funds is about \$10,000 whereas retail funds it’s more like \$50,000 or \$60,000,” Solomon says.

“But with more growth in those funds, if they don’t change that formula, then they do become quite a threat to the retailers. Along the track that will push the retailers much harder into reducing their fees, certainly some of those upfront fees; the 1 per cent [entry] fee is the most vulnerable.” ■

