

Wraps New directions and challenges for platform development

July 2008



Reliable solutions for today and tomorrow

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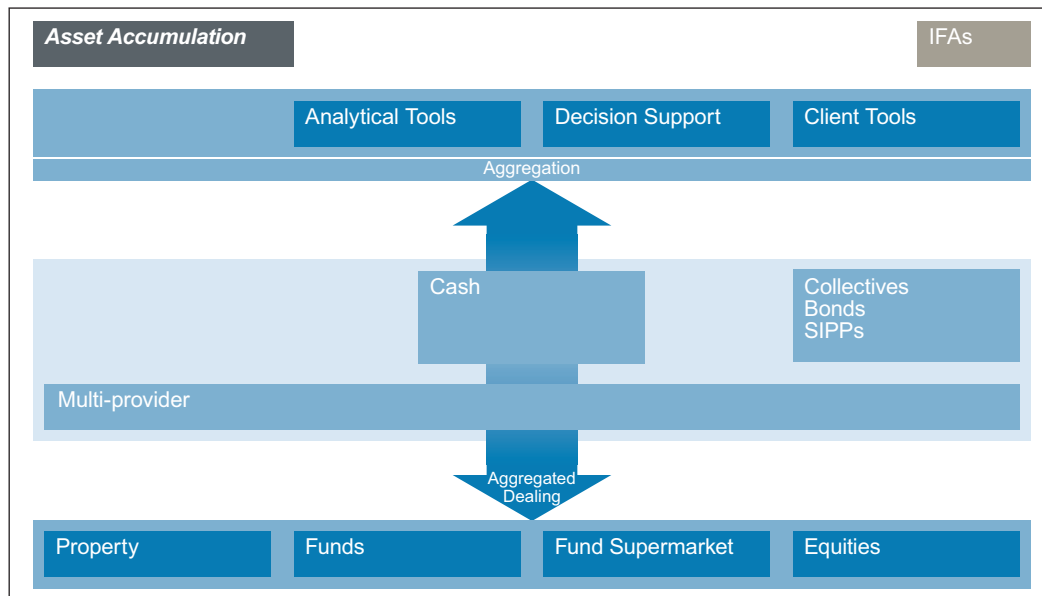
Best of breed solution for Life and Pensions within a Wrap

About *aquila*

Note: this brief insight relates to Wraps as a technology platform, and not as potentially a regulated proposition in its own right.

Current Market

Investment Wrap



Wraps today are a service led investment proposition for IFAs targeting High Net Worth clients and the top end of the Mass Affluent market. In line with Sandler’s 2002 review of the savings market, asset allocation is by far the most important factor in determining long term returns, and Wraps focus heavily on this aspect.

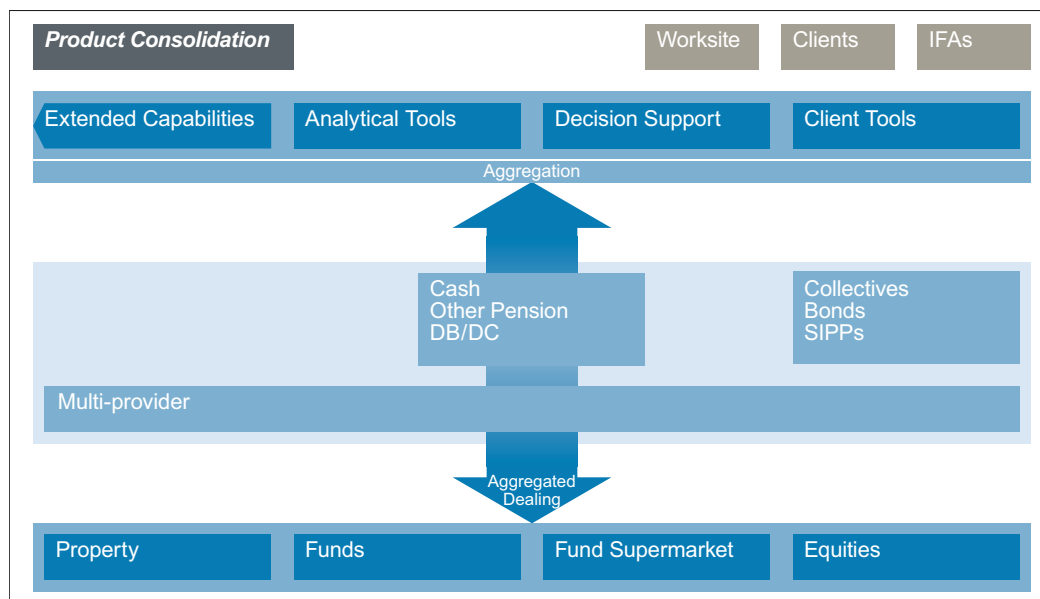
Currently, providers are investing in Wraps that offer tools at the front end driving asset allocation decisions through a small range of basic investment products. Although SIPPs have started to come into this proposition, the administration is often outsourced to a specialist provider and the level of integration within the Wrap is limited. SIPPs are now fully regulated and need much greater flexibility in the post A-day world, which increases the technology challenge significantly.

This form of platform is limited to the top end of the market for clients who are willing to hand over a collective portfolio to IFAs that is of a significant size – typically at the level at which a discretionary fund manager would have an interest.

aquila’s view is that the Wrap model will be extended in a number of directions to become more relevant to a wider audience.

Wraps

Product Consolidation



Growth in Collectives on platforms will continue through access to a broader range of funds and asset classes. But a more significant market is available from the conversion of Investment Bonds and transfer of pensions.

Changes to the Investment Bond market have reduced their tax efficiency. This provides the opportunity to direct the assets elsewhere when they come to maturity or earlier.

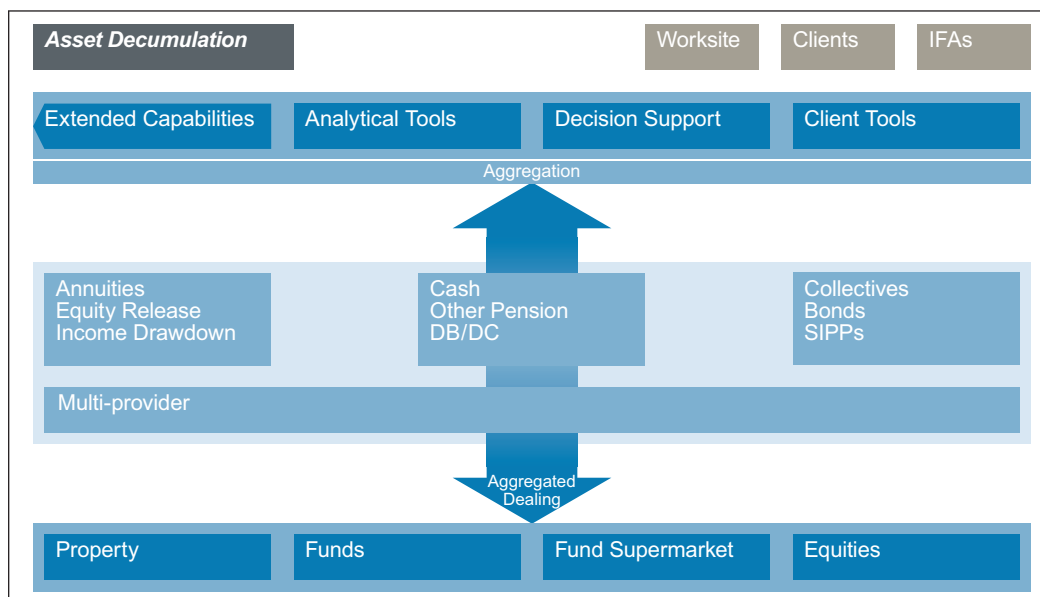
There is even more potential in the assets from pensions. Since April 2007, a common regulatory framework for all pensions makes comparison and differentiation easier through investment choice, pricing and special product features. This makes it more feasible to create arrangements on platforms that could be used to consolidate existing pensions.

There remain some limitations to pension transfers since older pension contracts may offer advantageous terms that would not be on offer today; however, the older products also often have punitive charges and limited investment choices. Even if a pension is not transferred, the potential exists to provide a single view of pension assets with the platform mirroring the underlying contracts and providing a means of aggregation.

These developments will not only gain increasing attention of HNW individuals but will also be attractive to a large section of the mass affluent.

With this wider audience and wider product base on platforms, the planning and decision making tools will become more sophisticated. Rather than just modelling returns, spreads and risks through asset modelling, the tools will need to consider a clients target ambitions for retirement and other life events.

Decumulation

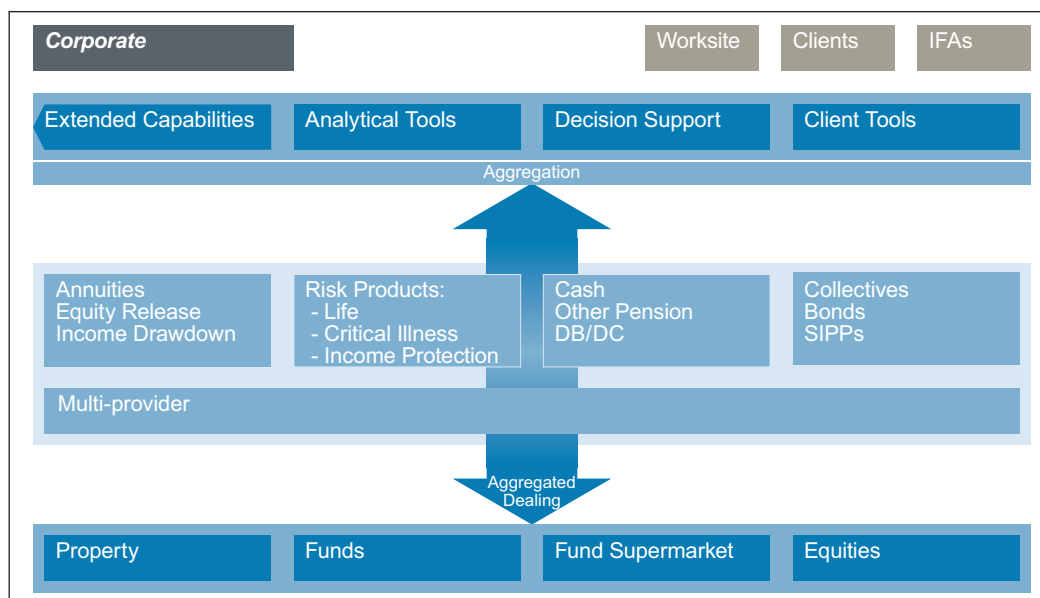


In the coming years, we will see providers fully leverage the flexibility brought about by pension simplification by offering new retirement income propositions. With the age 55+ generation looking at an average lifespan of another 30 years, their financial needs will cover complex management of a combination of asset accumulation and asset decumulation products, not catered for in today's Wrap market. These propositions will use the full range of income generating products.

Front end modelling and analytical tools will be used to determine the appropriate choice of underlying assets and the choice of income based products, and from which assets to take that income.

This will then become the 'Asset Decumulation' Wrap.

Corporate



A number of providers, who are strong in the corporate market, already provide value added services that include the provision of front end tools in support of flexible benefits. Worksite distribution propositions that embrace wraps can give a provider a competitive edge if they can deliver a comprehensive offering.

The scope and drivers for Corporate Wraps are far wider than the retail space. With the demise of Final Salary pensions and fall in company stock prices (in relation to share schemes), employee benefits are perceived to be deteriorating. Corporate Wraps could be pivotal in changing this perception and fully leveraging the value of employee benefits (without the employer bearing additional costs).

There is considerable scope for innovation here with a diverse range of product wrappers supported on a Corporate Wrap, including Save As You Earn schemes, Corporate ISAs, Group Pensions and Group Risk products.

By collectively making all these product wrappers available on the platform, employees will get a much greater sense of the total benefits package. More so, with the appropriate support tools, an employee can be in a much better position to make timely decisions and to diversify their risk. This in turn will add value to the employee.

Making choices will require the ability to transact on the platform including moving assets between the various wrappers. Corporate Wraps could well go beyond the immediate employee benefit products and allow for the transfer and consolidation from legacy pensions.

Behind the savings wrappers will be the need for open architecture investment administration in real time. Employees becoming more engaged with their investment decisions will expect to transact in a real time environment securing unit prices when they make their decisions.

Additionally, risk based products on the platform evidence the full benefit they derive from their employer. There may also be additional risk benefits on offer that the individual could purchase themselves through the platform.

Success in the Market

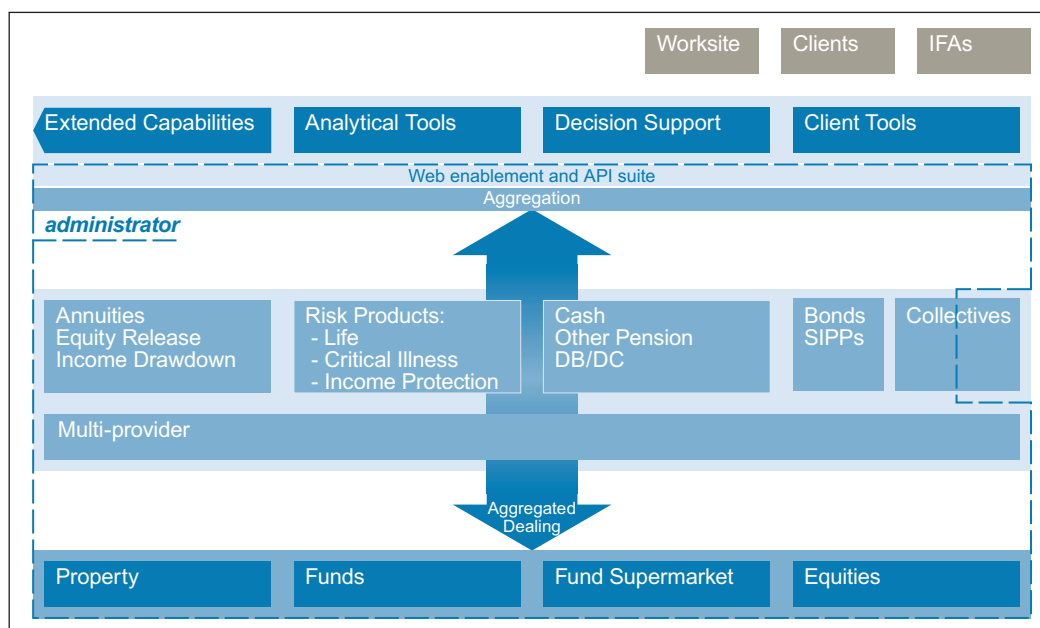
Competitors in the Wrap market are emerging from across the value chain leveraging strengths in distribution, service or investment management. Some are offering the full flexibility of multi-provider Wraps in order to maintain product independence and/or recognising product differentiation will continue to be important. *aquila's* view is that the Wrap platforms that will be most successful in terms of volume will be those that become product 'supermarkets' – a one-stop shop stocking own-brand goods alongside specialist labels.

Overall the Wrap market will become increasingly sophisticated and complex. Our view is that many platforms being built today (as Investment Wraps) will not have the capability to broaden into the areas described above.

In particular in the Corporate Wrap space, the additional complexity of an employer layer is one that can only be handled by vendors with a proven track record of group business. The increasing prominence of retirement products within a Wrap creates significant processing complexity which current investment based platforms will be unable to deal with. Whilst some Investment Wraps may sustain a good hold on part of the market, newer more sophisticated platforms with retirement propositions supported will be able to attract volumes of business that are much greater.

administrator

Core components for administration of Wrap platforms



From its very first origins as a TPA platform, *administrator* has been designed to cope with complex product structures.

aquila's core competence has always been (and remains in) administration software, which is our offering in a Wrap architecture. We integrate and collaborate effectively with the range of specialist tools that exist on the market, for example, flex benefits and asset modelling.

At the back end, we comprehensively manage contribution processing, allocation of assets to individuals, unit holdings and claims processes in a real time STP environment. *administrator* is deployed across the breadth of regulated Life and Pension products.

Products can be managed within a client entity, linked to an open architecture for multiple asset choices and dealing. The regulatory processing associated with such products, where much of the complexity lies, is managed within *administrator*.

administrator also provides a degree of support for product features within the collectives market (that is, ISAs, Unit trusts, OEICS); currently our clients use their existing collective systems, such as FAST, alongside *administrator*.

Wraps

New directions and challenges for platform development

Automated investment processing in a regulated environment

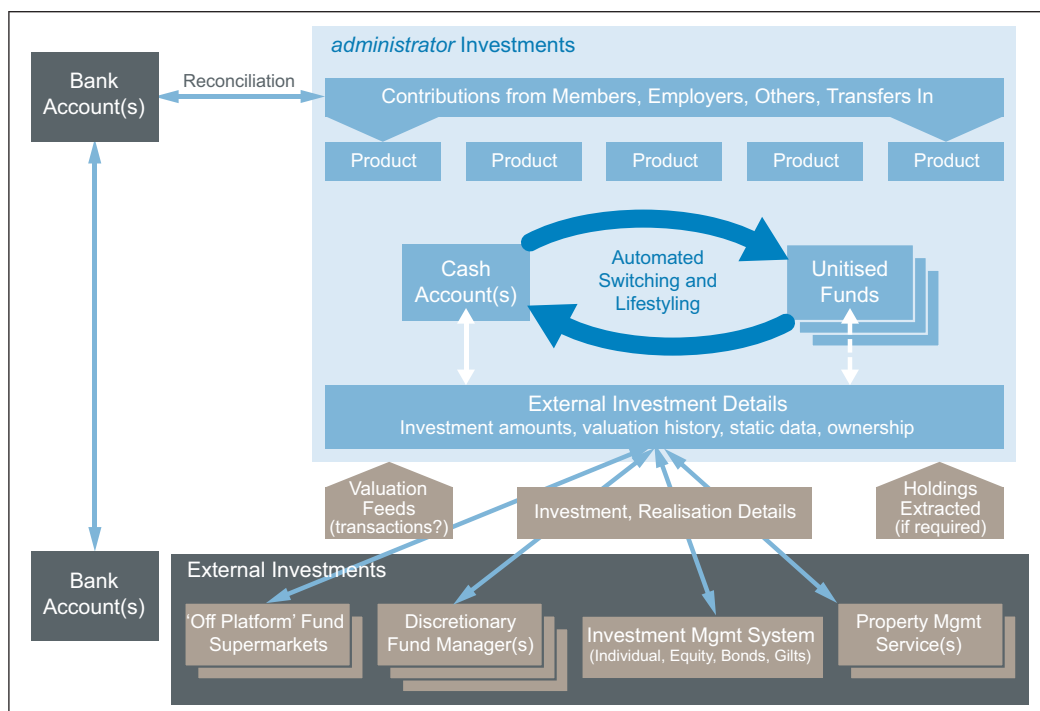
administrator's investment processing capability provides cohesive support across multiple sources of money, products and asset classes.

A client can have numerous products with contributions received from a range of sources. *administrator* can recognise and manage each source of money and where it needs to be applied.

Contributions received can be recorded as 'on platform' assets or managed externally to the system as 'off platform' assets.

For example, in a SIPP context, a product provider would run their managed unit linked funds (which may include guest fund managers) 'on platform', with full unit transactions and associated buy, sell and switch processing. Specialist assets, such as stocks and shares or property, would be traded 'off platform' on stock broking systems or property management systems, with *administrator* maintaining summary records of trades and valuations.

This summary data then allows *administrator* to properly manage the complex processing required for income withdrawal, retirement events, regulatory limit checking and so forth, where the total assets and holdings must be known to properly manage these activities.



Wraps

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Best of breed solution for Life and Pensions within a Wrap

administrator provides full regulatory support for life and pensions products.

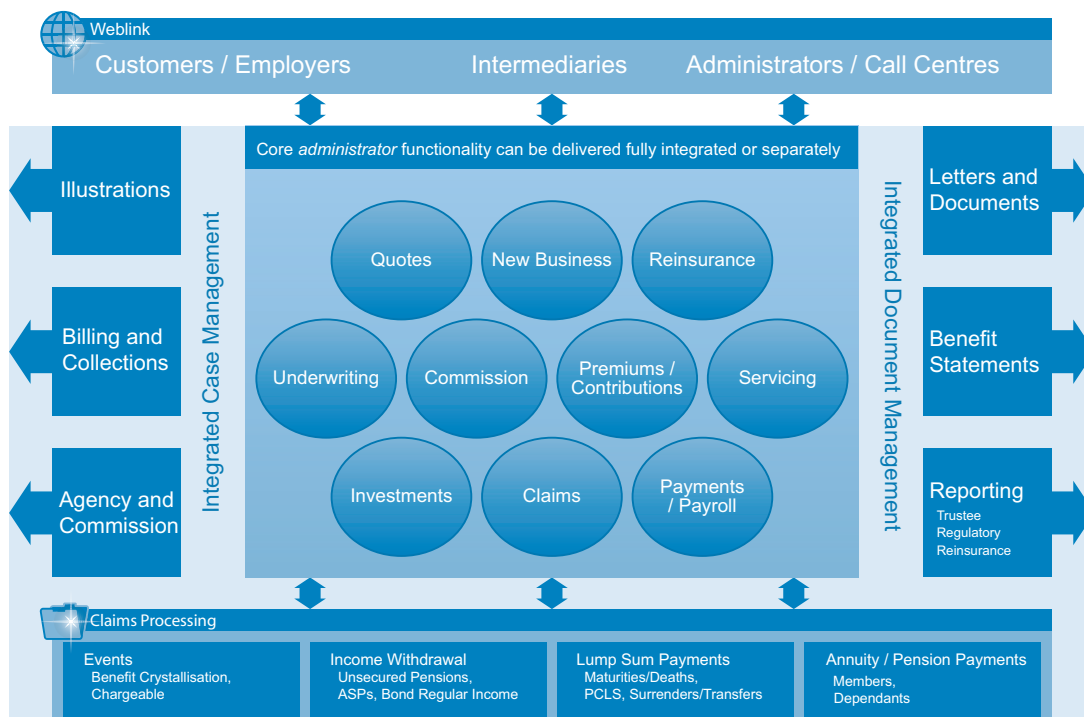
A number of specialist Wrap solutions hailing from overseas markets have weak support for regulated products, particularly in pensions; the huge flexibility now required for the 'at retirement' market would require an enormous investment (and is a significant risk for those contemplating using these solutions). For *administrator* these areas are provided for out-of-the-box.

In addition to the comprehensive product and investment support, *administrator* provides:

- extensive web self-service capability through Web Services that support access to the full range of business functionality by policy holders, employers, scheme members and agents
- full support for all relevant regulatory processes
- savings, income and risk products combined
- integrated illustrations, contribution processing, commissions, outputs and reporting suites
- workflow driven, image enabled, real time processing for efficient administration
- SOA compliance for ready integration with other specialist tools

administrator is very 'enterprise aware', and has been integrated into many complex platform architectures within our financial services customer base.

With this range of capability we are confident that a Wrap proposition with *administrator* at its core will be the fastest route to market, be scaleable for the future and support the strongest possible service based offering.



Wraps

New directions and challenges for platform development

About *aquila*

Aquila Group Holdings Limited, consisting of *aquila* and *heywood*, supports more than 200 clients with 9 million members/policies administered on our solutions, including around 20 million payments per year generated through our systems. We are the largest supplier of pensions related administration software in the UK and Ireland.

aquila is an independent, financially strong organisation. In 2008, turnover was £36.3 million, continuing average annual growth in excess of 20%. The balance sheet includes over £26 million of cash with no debt. Product investment has continued to be significant (year on year consistently more than 15% of turnover).

Our client base includes some of the most significant players in the Financial Services market, including Prudential, Aviva, Aegon, Scottish Widows, AON, IFDS, JLT, Fidelity and F&C.

For more information go to www.aquilauk.co.uk

