



Have We Got Wraps Covered?

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Hot on the heels of the success of wrap accounts in the US and Australia, the momentum of interest in wraps is beginning to gather pace in the UK. 2006 saw an explosion in the number of wraps platforms available in the UK and a series of new wrap launches are planned for 2007, with major players staking their claim on this fast-evolving market. Developments such as the increased adoption and progression of e-commerce and the increase of people holding a number of investments, has had a significant influence on the uptake in the UK market.

So what is the driver behind wrap products? Individual investors in Europe are becoming more and more sophisticated, using multiple providers for a variety of savings, pensions and investment accounts. This trend in the investment arena has created a need for investment advisors to provide their customers with wrap accounts. The ethos behind the wrap product is the provision of an online administrative system that allows people to manage all their investments in a single account. The accounts can hold anything from mutual funds, equities and tax shelters, to personal pensions.

The wrap account industry is starting to boom in the UK with a number of major financial services organizations offering the service. Last summer, Standard Life announced that a wrap project was a key element of its strategy; building a new technology platform which would enable all savers to hold all savings, pensions and investments, including those with other firms, in one Internet location.

As the uptake of these accounts increases so too do the issues surrounding processing, and operational headaches for providers. In a world fraught with business risk, technology can often be the Achilles' heel of an organization. Now, with the introduction of wrap accounts in the financial services industry, pensions and investment advisors and individual investors are depending more and more on IT. An example of this is the change in the relationship between financial advisors and their clients. They are now much more reliant on technology for an effective relationship than in the past.

Complex Relationships

Managing the relationships between the different investment providers is one of the most difficult elements of managing a wrap account. Each provider may have a different relationship with the investor and therefore require different information and documentation. They may also rely on different forms of communication, from email and fax through to data downloads.

As wrap accounts are an online service, the information on all products gets updated in real time, allowing users to see the status of any of their investments at any time they choose. When introducing a system so heavily reliant on technology for success, organizations need to ensure that the system is secure. This is paramount in financial services as they are dealing with vulnerable and sensitive information and the system must be capable of accommodating constant changes in government regulation. From implementing a new infrastructure to something as seemingly innocuous as the application of a security patch, technological hitches can cause serious problems. Any glitch in the system which affects the operating relationship with the advisors and investors and the many financial organizations could cause the system to fail. With a number of people contributing information and changing the details of the wrap account, it becomes difficult to ensure that all the details within the account are compatible and that all the information is secure and accessible only to the correct people.

The UK market, until recently, was filled with a number of scattered platforms and pre-emptive wrap models. This presented a major technology issue to the financial services industry when it came to updating and changing the wrap models.

Wrap products were created in order to bring the customer flexibility and accessibility to each of their accounts; but the providers are struggling to make this happen. The more customized and flexible the account, the harder the account is to manage. Not all financial service providers operate on a common platform, which can cause inefficiency when running wrap accounts. As all data needs to be shared across a number of systems, if one provider changes their model they have to log on to every other provider's system and change it from that end as well. As this is a manually intensive process, it is very prone to error. Organizations need to ensure that when a change, enhancement or version upgrade is required, the system is tested thoroughly in order for it to be a success.

Systems collapsing can have catastrophic fall out for companies operating in the finance sector. Customer discontent caused by inefficiencies in a system are never good PR for an organization; but failures that are caused by holes in what should be standard practice procedures can be disastrous. They can cause deflated consumer confidence in the company, significant reputation damage and can be extremely costly problems to rectify.

Managing the Risk

So how are financial services organizations able to manage the risk of offering a wrap account? One element that crops up again and again in discussions of technology disasters is that of quality assurance and 'risk based' testing.

Risk based testing addresses the need for companies to move quickly and focuses attention on business critical activities whilst assuring a consistent level of quality across the whole of a system. Using this approach, the planner identifies the business processes that are at the greatest risk of failure and those that present a high risk to the business if they did fail. With this information, the financial organization can decide on the optimum quality and testing assurance strategy given the budget, time available and quality objectives. Risk based testing and quality assurance means resources will be focused on mitigating risk, which saves time and headaches in the long run.

So does a lack of testing and quality assurance cause widespread problems? Many of the high profile issues that arise in Financial Services could be avoided with a different approach to testing. Testing is often considered an operational function when it should be about the verification and validation of a solution to fit the business: it is not simply checking that the system works. Companies are under pressure to push systems out on time so testing can be compressed into a reduced timeframe to decrease delays in implementation. As part of any financial organization's risk management strategy and procedures, testing and quality assurance should feature as a high priority and be driven by the business when, in actuality, they are often treated as a low priority and left to IT to cover. With wraps, where

systems are loosely integrated with many other systems, the risks are high as contact with customers is through the wrap product. In this circumstance testing becomes critically important.

To achieve this verification and validation "in-house" requires significant management of people and processes, coupled with clarity and visibility of communications and information. For example, wrap accounts manage different information from a variety of financial service providers operating over a number of platforms. This significantly increases the challenges and risks for financial services organizations. Whilst the single account creates efficiency and flexibility for investors, the increased complexity that comes with wrap accounts can be a painful issue for the financial organization.

A wrap is a far more complicated investment vehicle to administer than other funds offered by financial organizations, and demands a far greater degree of partnership and interest articulation than the traditional banking wealth management distribution model entails. Advisors will constantly want innovation; partners will demand guarantees, and consumers will not settle for less than excellent service. On the flip side, the potential gains from this model are enormous.

The wrap is definitely the next evolutionary step in the world of finance. However, the fact that pensions and investment companies will be so heavily reliant on technology to enable effective delivery of these services will leave them open to risk. From a technological point of view, risk minimization will be driven through the testing and quality assurance approaches around these products. If the technology does not stand up, customers will be seriously unhappy.

Graham Smith is Vice President, AppLabs, Southern Division (UK), the largest independent global provider of quality management, testing and certification services. For more information go to AppLabs.com