

BETTER BUSINESS TECHNOLOGY REVIEW

# Alico – the genesis of a new product range

AT8's Mark Loosmore continues his tour of product providers taking him this week to Alico Wealth Management



I was looking forward to this review as the tools have only recently been released. The tools have been created with the support of Morningstar and while we know and respect the tools Morningstar provided directly to distributors, we are less familiar with what they offer to product providers.

Alico as a brand is not as well known as other providers in the market. It has a substantial heritage and worldwide market presence. Through a network of over 40,000 agents, brokers and financial institutions, along with 12,500 employees across 54 countries, Alico services 20 million customers worldwide and has been operating in the UK for 85 years. Alico provides a comprehensive range of products including ISAs, Onshore Investment Bonds, Retirement products and Qualifying Life Policies.

### RDR compatible

Alico's UK focus is the distribution of financial products sold solely through the IFA market and it is wholly committed to supporting an advised sale. It is very aware of the changes RDR is bringing to the advised market and 12 months ago decided to revisit their offerings to make them RDR compatible. Indeed, when speaking to Jon Sandler, its head of pensions, he stressed that its products were genuinely factory-gate priced ahead of time.

As mentioned previously, the technology Alico is deploying to help the advisers sell its funds has been provided by Morningstar. In fact, Morningstar has provided more than a technology solution by getting involved right at the genesis of a new range of products being developed, helping to support the product creation with its own industry domain expertise. Morningstar's involvement was instrumental in helping create

a new approach to the model portfolios they manage through its controlled volatility methodology, which gives a genuinely differentiated product in the market (more of this later).

### A quick and painless process

The planning tool itself follows what, in many ways, is a standard process, but executes this with simplicity and elegance. First, the adviser enters the current portfolio of their client, which is a free standing

verse of funds. Given the ease of data collection we do not see the lack of pre-population as a major inhibitor in the short term.

Having entered the current position, clients are then taken through a Risk Tolerance Questionnaire (RTQ) – as would be expected. They are not tied to the Morningstar's RTQ and can use a third party product, although they will need to translate any outcome to the Alico five risk categories to use the tool effectively. In keeping with

attitude to risk score is most affected by the Time Horizon and as long as this is addressed fully, there are diminishing benefits to asking additional questions to the point that they become meaningless.

### Risk rating

The RTQ process produces a risk rating from five risk bands, each with a description for the adviser to use with the client to confirm that it is a fair description of their attitude to risk. AT8 are of the firm belief that the confirmation process is key in the overall advice process and having RTQ technology solutions should never be seen as an excuse to avoid discussing and explaining risk with a client, double-checking any technology recommendation.

Once the attitude to risk is identified, there are three approaches to selecting the funds using:

- The Morningstar Controlled Volatility Model Portfolios
- The Alico Portfolio of funds
- Self Selection of Funds

Only the approach appropriate to the risk rating is displayed.

The Morningstar Controlled Volatility Portfolio is an exciting development and Alico tell me there is no equivalent product in the UK, although it is aware that a similar approach is taken in Italy. In short it is based on the principle that equities go through cycles where there is an inverse correlation between volatility and performance – when the market is falling, volatility is high, when it is climbing, it is low. By understanding the correlation, they have built a model that adjusts the exposure of the portfolio (ie the ratio of equities to bonds) to meet predicted volatility.

Also, the self-selection of funds is effectively executed with a target portfolio created from the risk category and a list

from which appropriate funds by relevant sector are selected. A running total for each fund type is shown against the target enabling the adviser to see how the portfolio is building up in comparison to the target.

### Proposed portfolio report

At the end of fund selection, either via a model portfolio or self-select, the application produces a PDF report. The report documents the initial portfolio and the proposed portfolio highlighting the breakdown of funds through the Morningstar® Portfolio X-Ray® approach. The breakdown is shown in various dimensions including Asset style, Stock Sector and World Regions. Fund Factsheets of every fund selected are also included. AT8 have long been fans of the design of the Morningstar reports which are laid out professionally. The reports always appear to be built with the end client in mind and written so they can understand it and not just the adviser. In this way they are adding value to the client/adviser relationship. We would like to have seen the reports available in other formats as we know many advisers have their own reporting tools that they would like to cut and paste graphs and report sections into. Alico has decided not to make this available in order to provide a clear audit trail but it does lose a degree of flexibility we feel the market would welcome.

The Alico technology solution is well executed and easy to use but it is innovations such as the controlled volatility overlay on some of their model portfolios caught our interest. It appears to be a genuine innovation and that will provide real benefit to many clients.



process, though we would like to see the data pre-populate from leading back office solutions. The process is quick and painless and with Morningstar's access to fund data, the data collection is fast – selecting from lists of funds using the fund ISIN / name or by utilising an intelligent search tool to search from the complete UK open ended and life and pension uni-

the simplicity of the solution, the RTQ is only eight questions long, split into three sections; the time horizon, long term goals and the short term attitude to risk. Many offerings in the market have more detailed RTQs but it is both Alico's and Morningstar's belief that it is important to keep this process as non-intrusive as possible and that the majority of the overall

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