Mark Johnston, Investment Trends

Mark is Executive Chairman and Founder of Investment Trends. He has been managing research in the wealth management space since 1999, and has been widely quoted in the media on trends in the industry. He is a Qualified Practicing Market Researcher (QPMR), a member of the Australian Market and Social Research Society (AMSRS), and the FPA. Mark holds degrees in financial administration and law from the University of New England, and was awarded three medals for excellence from the Australian Society of Certified Practicing Accountants.

Developing efficiencies via managed accounts

Managed accounts can save up to 14.4 hours a week

Mark Johnston

Financial advisers' use of managed accounts continues to grow from strength to strength. The perceived suitability of managed accounts continues to broaden, with more advisers saying they see these solutions to be appropriate for both their high-net-worth and lower balance clients.

Those who recommend managed accounts experience tangible benefits of doing so:

- time savings of 14.4 hours per week, on average, in administration and compliance work
- higher levels of FUA and a larger client base, which translates to additional revenue of $45,000 p.a. in ongoing client fees
- extra 4.8 hours per week freed up and devoted to long-term revenue enhancing activities.

Advisers increasingly see managed accounts as a whole-of-portfolio solution. The continued growth in adoption of managed accounts will be heavily influenced by non-users realising the benefits of these solutions to both their clients and their practice.

Introduction

Not only are advisers shedding both active and passive client relationships (resulting in a decline in average funds under advice per adviser), fewer are also reporting a year-on-year growth in practice profitability.[1]

This challenging business climate is pushing many advisers to evolve the way they run their planning practice, notably by adopting a more client-centric approach. To grow practice profitability, financial advisers recognise the need to service their existing clients more effectively and expand the pool of clients they serve.

The top focus areas of advisers in 2017 relate to:

- ongoing client engagement (61%)
- building efficiencies in the practice (53%)
- client acquisition/prospecting (45%).

Advisers seek to unshackle themselves from repetitive or mundane tasks that could otherwise be automated or outsourced. The goal of developing greater efficiencies in the practice is to free up time to focus on areas that matter to their clients.

Many advisers believe that managed accounts bring them closer to accomplishing these priorities, fuelling the growth in use of these solutions in recent years.

Financial advisers' use of managed accounts continues to grow, with usage increasing for the fifth consecutive year.[2] Over one quarter of advisers (26%) now recommend these solutions to their clients, up from 22% in 2016—the largest year-on-year increase observed. Looking forward, a further 20% intend to begin recommending managed accounts in the near future.

The rise of managed accounts corresponds to a decline in adviser appetite for recommending direct shares. A growing number of advisers acknowledge that stock picking is not their area of specialty, and more also find the work involved in monitoring stocks to be time consuming.

Across the wide range of reasons for recommending managed accounts, advisers are most enthusiastic about the solution's ability to provide:

- investment transparency (64%)
- greater practice efficiency (62%)
- access to professional investment managers (46%).

Those who intend to begin recommending managed accounts (potential users) are more likely to see the benefits as reduced administration and compliance burden (65%), and freeing up time for other tasks (48%).

Managed accounts users tend to recognise a wider range of benefits for using these solutions compared to potential users (3.8 benefits each, on average, vs 3.2), reflecting the stronger belief that users have in these solutions. Equally, potential users have yet to fully realise the extent of benefits these solutions provide, highlighting the importance of alleviating knowledge gaps in the industry.

In addition to an increasing adoption of managed accounts, there is a growing recognition that managed accounts are more suitable than a portfolio of direct shares across a broad spectrum of clients. Compared to 2016, more advisers see these solutions to be appropriate for high-net-worth (54%, up from 42% in 2016) and lower balance clients (42%, up from 34%).[3]

The wide range of managed accounts solutions currently available—from separately managed accounts to managed discretionary accounts—provide advisers with the flexibility to implement the service most appropriate for their clients.

When recommending managed accounts to their clients, the benefits advisers most often communicate relate to cost effectiveness (74%), transparency (71%) and access to professional management (69%).

When we surveyed investors who use managed accounts, these three factors also featured prominently among the benefits they recognise.[4]

The benefits of managed accounts extend beyond clients, and encompass the entire planning practice.

On average, managed accounts users experience time-saving benefits across 8.6 tasks in their practice. Since many of these tasks are performed not just by advisers themselves, but with the help of support staff, the time efficiency gains from using managed accounts benefits the planning practice as a whole.

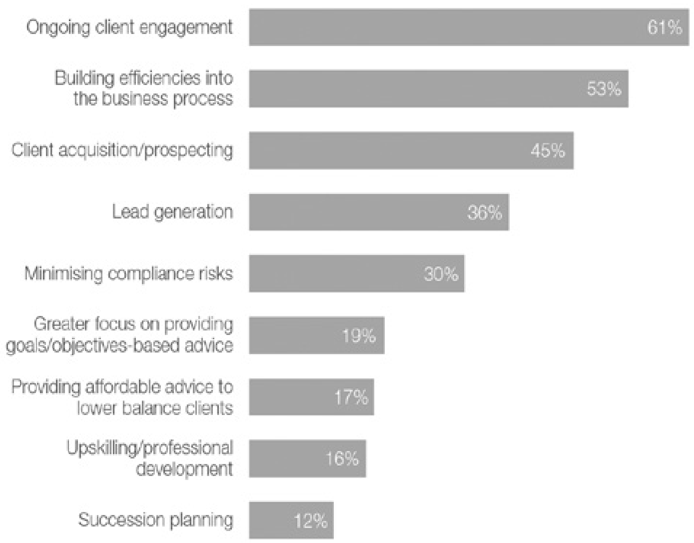
The most commonly cited time savings are selecting/researching investments (85% of users spend less time on this), constructing portfolios (84%) and monitoring underlying investments (83%).

The efficiency gains from implementing managed accounts is significant. On average, advisers (and their support staff) experience time savings of 14.4 hours per

The quote

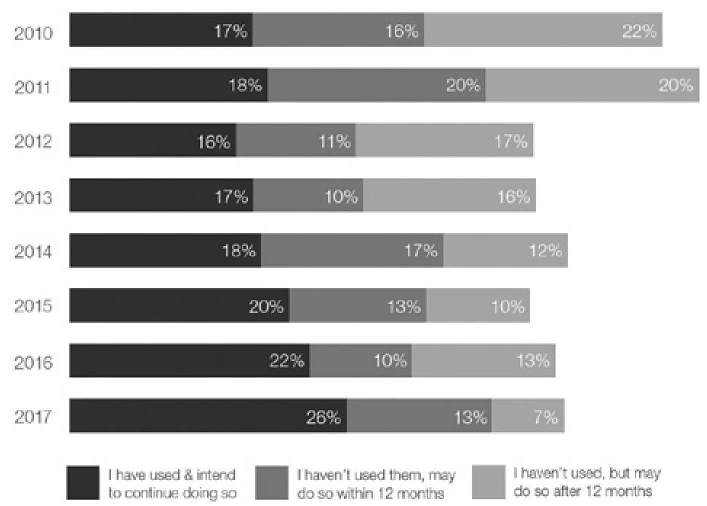
The perceived suitability of managed accounts continues to broaden, with more advisers saying they see these solutions to be appropriate for both their HNW and lower balance clients.

Figure 1. What are the key priorities for your business in 2017?



Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 2. Have you used managed accounts for your client investments?



Source: Source: BT/Investment Trends Managed Accounts Research Paper.

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Those who recommend managed accounts are in strong agreement with the tangible benefits of doing so.

week as a result of using managed accounts over other investment approaches.

The tasks where advisers experience the greatest time savings are constructing portfolios (102 minutes less per week, on average), selecting/researching investments (96 minutes) and preparing Records of Advice (ROAs) (86 minutes). Other notable areas where less time is spent include monitoring underlying investments (85 minutes), general administration work (81 minutes) and preparing Statements of Advice (SOAs) (81 minutes).

As a result of using managed accounts, advisers are directing time normally consumed by back office-related functions towards more productive activities. The use of managed accounts has allowed advisers to spend more time across 4.3 different activities each, on average.

Managed account users most often say they spend the additional time:

- meeting new and prospective clients (59% of users spend more time doing this)
- ongoing client engagement (59%)
- practice development/management (58%).

More than half (52%) say they spend extra time enhancing their personal skill set, while 49% spend more time on marketing activities.

On average, managed account users are devoting an additional 4.8 hours per week to revenue generating activities. This additional time is most often spent meeting new and prospective clients (66 minutes more per week, on average), on ongoing client engagement (53 minutes) and practice development/management (47 minutes).

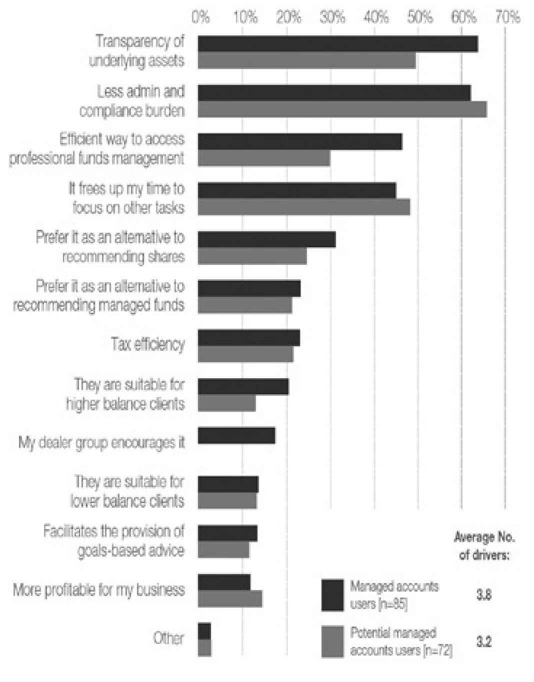
This extra time spent on client facing activities, marketing and professional development is a positive contribution to planning businesses—in servicing a wider range of clients, building stronger client relationships, and potentially, greater profits.

There are vast differences in practice dynamics between advisers who recommend managed accounts and those who currently do not. Managed accounts users tend to have higher levels of FUA ($65m, on average, versus $45m for non-users) and service a larger client base (114 active clients, on average, versus 101).

Servicing a larger client base leads to higher income—in this case, managed accounts users are potentially generating an additional $45,000 per year in revenue (based on the average adviser charging $3,500 p.a. per client in ongoing fees).[5]

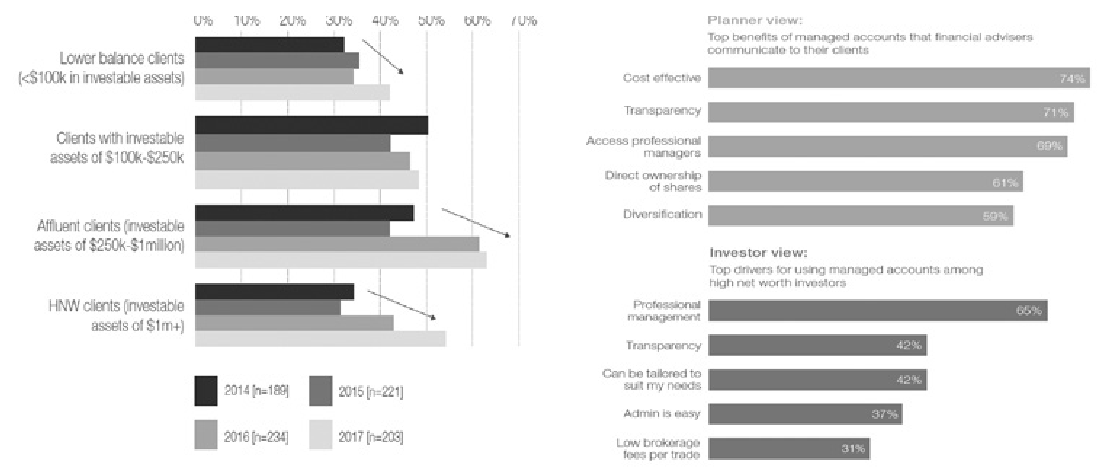
While these revenue gains are substantial, the opportunity to spend an extra 4.8 hours per week (or 250 hours

Figure 3. Why do you recommend managed accounts?



Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 4. For which groups do you see managed accounts as more appropriate than a portfolio of individual direct shares?

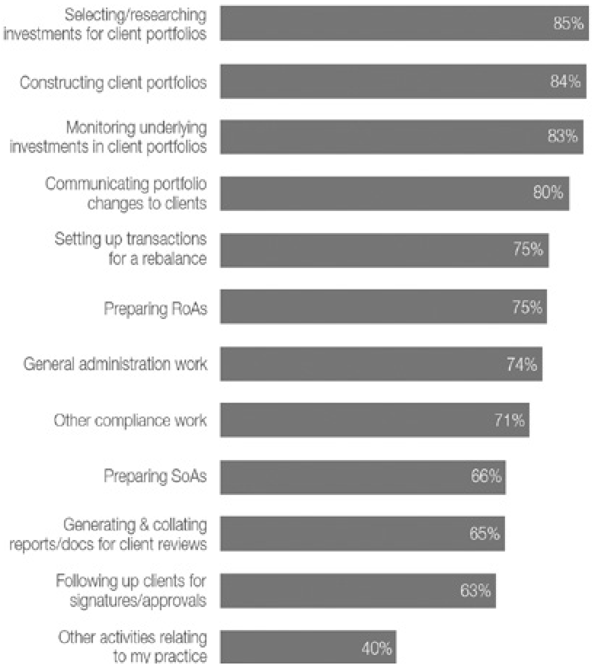


Source: BT/Investment Trends Managed Accounts Research Paper.

per year) on revenue-enhancing activities can have a compounding effect on earnings—extra time spent on marketing and prospecting increases the likelihood of more new clients, while time spent on professional development increases the quality of service provided to clients.

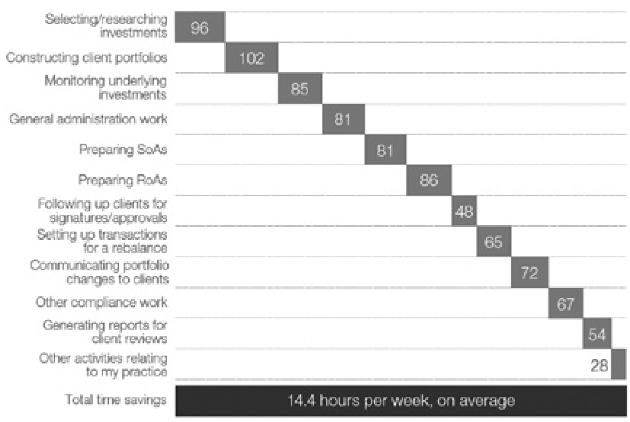
Advisers are recognising managed accounts as a viable whole-of-portfolio solution. Among those who recommend managed accounts, 22% say they use it for the entire client portfolio, and 31% say they would prefer to do so. Even advisers who intend to recommend managed accounts in the future recognise its all-encompassing po-

Figure 5. Proportion of advisers who experienced time-saving benefits from using managed accounts



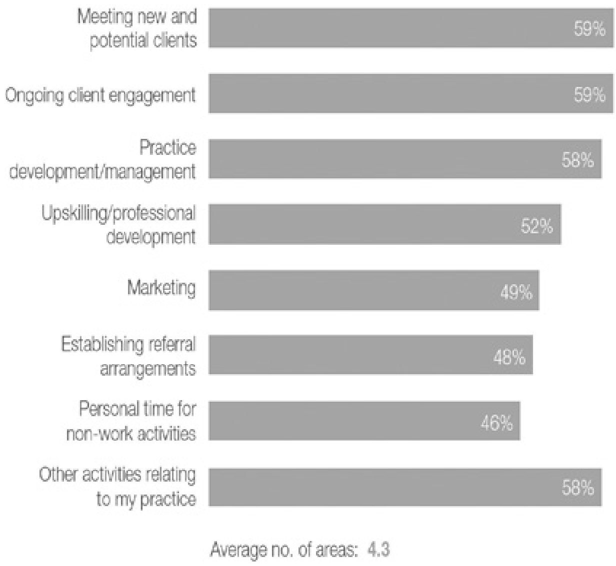
Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 6. In a typical week, how much less time is spent on tasks as a result of using managed accounts?



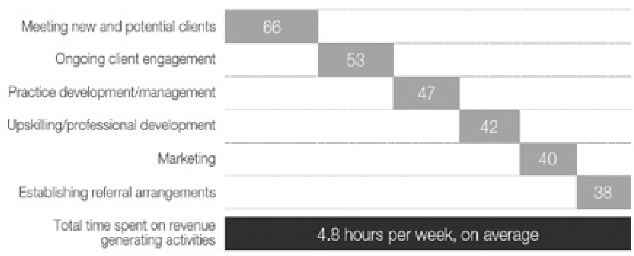
Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 7. Proportion of advisers who spent more time in each area shown as a result of using managed accounts



Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 8. In a typical week, how much more time is spent on the following tasks as a result of using managed accounts compared to other investment approaches?



Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 9. Advisers who recommend managed accounts

Source: BT/Investment Trends Managed Accounts Research Paper.

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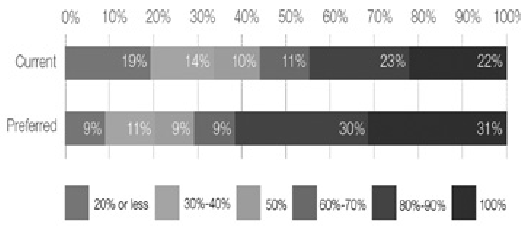
The opportunity to spend an extra 4.8 hours per week (250 hours per year) on revenue-enhancing activities can have a compounding effect on earnings.

Figure 10. Non-users

Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 11. About what proportion of managed accounts clients' total investable assets do you allocate [or would prefer to] to managed accounts?



Source: BT/Investment Trends Managed Accounts Research Paper.

tential—41% say they would prefer to use managed accounts for the entire client portfolio.

Even though managed accounts have been available in the Australian market for well over a decade, a lack of knowledge about these solutions still persists with 32% of non-users saying this is a barrier to recommending managed accounts.

It is, therefore, vital for the broader planning community to learn about the potential benefits of managed accounts not only to their clients, but also in lifting efficiency within the planning practice.

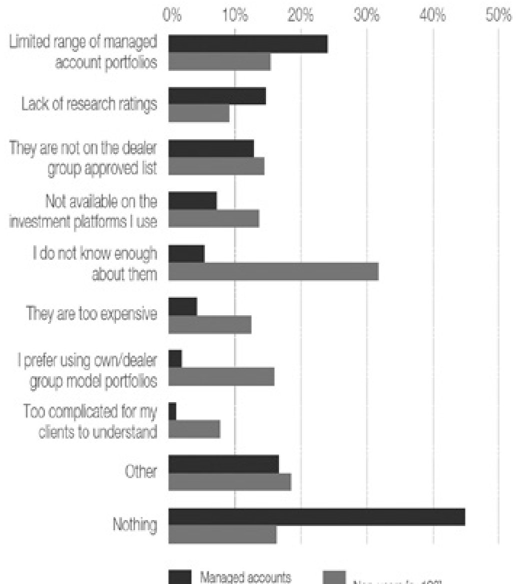
Other key barriers holding non-users back include a preference for own/dealer group model portfolios (16% cite this), limited range of managed account portfolios (15%) and lack of availability on their approved product list (15%).

For advisers who recommend managed accounts, the top barriers to using these solutions more extensively include a limited range of managed account portfolios (24%) and a lack of research ratings (15%).

More optimistically, the majority of non-users (75%) can be encouraged to start using managed accounts. These advisers most often seek further education through training courses (29% cite this), and want guidance on setting up/managing their own managed accounts (26%). Dealer group encouragement would prompt a fifth of non-users to implement managed accounts in their practice.

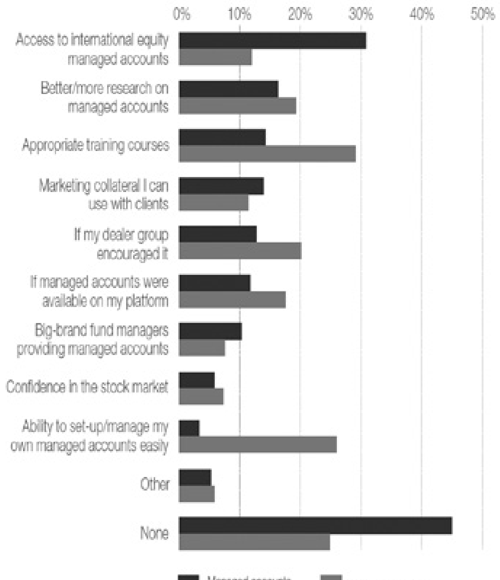
For managed accounts users, 55% can be encouraged to use these solutions more extensively. The top catalyst are access to international equity managed accounts

Figure 12. What prevents you from placing client investments in managed accounts?



Source: BT/Investment Trends Managed Accounts Research Paper.

Figure 13. What would prompt you to start/increase your involvement with managed accounts for clients?



Source: BT/Investment Trends Managed Accounts Research Paper.

(31%), better/more research (16%), training courses (14%) and client facing marketing collateral (14%).

Methodology

The BT/Investment Trends Managed Accounts Research Paper details the results of a short quantitative online survey of financial advisers conducted in July 2017. The survey examined the impact of using managed accounts on financial advisers' businesses.

Total responses after data cleaning and validation: n=233 financial advisers, including RG146 compliant accountants and principals/business owners who personally provide advice. The maximum sampling error (centre of the range) at the 95% confidence interval for this sample is +/-6.4%.

The breakdown of the total 233 respondents are as follows:

- managed accounts users: 85 financial advisers
- non-users: 148 financial advisers.

Note that analysis of smaller sub-groups will have a higher sampling error. Not all respondents were required to answer all questions. Some questions, therefore, have a small sample size for some segments.

Where relevant, we have drawn insights from a wealth of syndicated Investment Trends research, including the 2017 Planner Business Model Report and the 2017 Planner Direct Equities & Managed Accounts Report. **FS**

Notes

1. Investment Trends May 2017 Planner Business Model Report.
2. Investment Trends May 2017 Planner Direct Equities and Managed Accounts Report.
3. Investment Trends April 2017 Planner Direct Equities & Managed Accounts Report.
4. Investment Trends 2014 High-Net-Worth Investor Report.
5. Investment Trends May 2016 Planner Business Model Report.