



**Mat Walker, Praemium**

Mat Walker is Praemium's chief commercial officer. He has extensive experience with financial advice practices in a career spanning over 30 years, including one of the first major investment platforms introduced in Australia. Mat has also launched and run a major dealer group and other AFSL businesses.

# Enhancing the advice value chain

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**T**he global pandemic emphasised many things, not least of which was the importance of financial advice for investors. As markets peaked and troughed in a matter of weeks, those investors guided by the steady hand of a financial adviser were most likely reassured to take a long-term view. Investment decisions were made with the considered approach of experience and not a kneejerk reaction to market volatility.

Yet while the need for financial advice has never been greater, the cost of delivering that advice continues to be a challenge. For many businesses, the focus is on reducing cost, and many progressive advice firms have already moved to a flat fee-for-service model (beneficial during the COVID-19-induced market volatility), in conjunction with outsourcing as much of their back office as possible.

However, managing costs is not the only key to achieving business success. Having worked with many advice practices over the past three decades, my experience shows that the most successful firms have all had a clear and well-developed approach to a number of aspects that make up the advice value chain.

Getting these aspects right can help practices create sustainable business models that are focused on delivering high-quality, cost-effective and scalable advice.

This paper outlines five key factors to enhance the advice value chain and achieve the aforementioned goals.

## 1. Clearly defined investment proposition

Establishing a simple to understand, client-friendly investment proposition that can be easily articulated to clients, and implemented in an efficient and scalable way, is a crucial link in the advice value chain. The most successful advice businesses have a common attribute—they are able to take complex concepts and simplify them as much as possible to provide ongoing confidence and peace of mind for their clients.

A clearly defined investment proposition can lead to:

- better alignment of investment returns to client lifestyle objectives
- more time to engage with clients about their goals and how to achieve them
- improved transparency, understanding and assuredness for clients, particularly through difficult times as experienced lately
- A clear strategy for selecting investment partners that are aligned to the investment proposition
- improved practice efficiency and reduced risk as all investment decisions are consistent and aligned with the investment proposition.

## 2. Defined client segments

Successful practices have defined the client segments they want to target and created an overall advice proposition with associated client pricing for each segment. In doing this, they ensure that the most appropriate investment partner and platform technology are selected to deliver the proposition to each client segment. This is a key factor in meeting client best interests duty.

The importance of this will be underlined further in 2021 with the

introduction of new regulations (product design and distribution obligations) where financial services products will need to have further disclosures in relation to how the product is appropriate to targeted investors.

Having clearly defined client segments makes the development of the practice's client engagement model and the delivery of efficient advice processes easier to achieve. Which brings us to the next point.

### 3. High-quality client engagement model

The traditional, annual face-to-face client meeting does not really cut it with today's investors in a progressively digital world. Investors have increasingly higher expectations from all service providers, advice included, and they want to feel involved in their wealth management.

It is important to have a clear client engagement model and to understand how innovative technology can underpin it. A digital service which delivers reports, portfolio information and notifications is increasingly important to investors and will lead to greater transparency and awareness of how their portfolio is tracking to meet their financial goals. This allows time spent with clients to be more focused on strategy or other planning elements where you can add real value to the relationship.

### 4. Well-documented and understood advice processes

Having clearly articulated and documented processes ensures everyone in a practice is delivering a consistent, high-quality experience for clients. This includes everything from the initial and ongoing engagement model with clients for advice and reviews, the advice documentation development and generation processes, through to the investment portfolio implementation process via platforms or other outsourced administrative solutions.

### 5. Cost-effective and integrated platform technology

Platform partner selection is also a key aspect in enhancing the advice value chain. It should be a strategic decision, not entirely made on the basis of cost. While the platform must be cost-effective, it is also important that your platform partner is aligned with your strategic objectives and can support your business for years to come.

Ideally, firms need an integrated platform that underpins their service delivery and can cater for all client segments and all the investments required to meet their investment proposition. Importantly, the platform should have an open architecture to share data, where appropriate, with any other systems underpinning advice processes.

### How managed accounts can enhance the advice value chain

More and more advice firms are transitioning to the use of managed accounts to deliver the investment compo-

nent of advice strategies for clients. The business efficiencies in doing this are widely espoused, but there are a number of other benefits that can enhance the advice value chain by making it easier for advice firms to:

- create defined client segments and tailored advice, investment and cost propositions for each segment
- implement these in an efficient and scalable way using managed accounts model portfolios
- build a client service and engagement model that is underpinned by modern technology—the rapid shift to digital advice models as a result of COVID-19 has also been much easier for those firms already embracing managed accounts
- streamline their documented advice processes.

Those firms that have made the transition to managed accounts as a 'whole-of-business approach'—that is, embedding managed accounts into their advice and investment propositions and their client engagement model—have seen the greatest uplift in profit.

Praemium's research [published in its *The future is bright when you're prepared: The real truth about managed accounts* report of September 2019] with Business Health showed that advice practices with more than 75% of their clients transitioned to a managed accounts approach for more than three years, experienced a profit uplift around 80% per adviser compared to firms that do not use managed accounts.

The research also showed that:

- 86% of the businesses that had made the transition in recent years, reported a material reduction in administrative time and effort; typically, more than 12 hours per week as a minimum
- 64% of the businesses reported improved risk controls over client portfolios
- almost 50% spent more time engaging with their clients.

### Conclusion

Strengthening key aspects of the advice value chain provides clarity around how many clients a practice can service, their cost base for delivering their advice services and an appropriate price for their advice service.

Transitioning to managed accounts is often a successful route to addressing some key components of the advice value chain by:

- enhancing business efficiency, which reduces costs
- supporting high-quality client engagement
- providing technology to underpin a digital advice model
- most importantly, supporting the delivery of better client investment outcomes in line with their financial goals.

This increases the ability of firms to grow their number of 'ideal clients' in a scalable way and, in turn, enables greater business scale to negotiate improved pricing and other terms with their platform, product and technology suppliers to further benefit their clients. **FS**



#### The quote

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