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Top Quote:
"The administrative load of compliance is the biggest business challenge facing advisers today."

Worth a read because:
The article explains why advisers and their respective firms are looking for products and services that create practice and compliance efficiencies, as well as enhance their value proposition and affirm their role as strategic financial advisers.

** Earn CPD Points by answering the short quiz at the end of this article.*

FUTURE PROOFING WITH SMAs

How separately managed accounts can give you a future advantage

Eylem Kamerakkas, Macquarie Bank

Currently Australians invest $62.1 billion through managed accounts – with uptake among financial advisers having doubled over the past five years. As advisers become more comfortable with these products, and as platform providers and product issuers continue to improve accessibility, flexibility and breadth of choice, there is little doubt that demand will keep on growing.

But how are managed accounts likely to change over the next few years – and what are the underlying forces contributing to this? In this white paper, we share insights from industry experts as well as the latest research, explore how managed accounts can best position advisers for the future – and what it will take to succeed in these times of change.

Growth in a new regulatory world

Managed accounts are increasingly embraced as a way to ensure trust amongst clients. More than ever before, trust is a non-negotiable feature for the longevity of any firm.

It's the propensity to inject trust that makes managed accounts more valued than ever before. Managed accounts offer transparency, efficiency and the opportunity for a far more personalised solution – it essentially removes undue friction between a client and everyone else in the advice value chain and helps clients quickly capitalise on market changes and investment opportunities. In turn, this helps advisers refocus on the things clients *truly value* – helping them achieve their personal and family wealth goals.

Sterling Shea, global head of wealth and asset management at Dow Jones and a driving force behind the Barron's top advisor ranking, says trust is vital for any adviser-client relationship, especially as they position more as 'wealth stewards'.

In a recent interview, he said, "If you ask me, 'What are the three factors that are going to differentiate winners from losers in the decade to come,' I'd say service, authenticity and trust." He believes the individual advisor needs to create a brand that is defined by values like trust, authenticity, understanding and empathy.

Scaling advice without compromising service

One likely and almost immediate impact of Australia's heightened regulatory requirements is a consolidation within the financial planning industry. The number of advisers in Australia dropped by 2825 between January and June 2019.

Yet at the same time, client numbers are not reducing – which poses an interesting growth challenge for advisers. How can fewer advisers properly advise more clients, without compromising on service?

As a proven platform for efficiency, this is where managed accounts can help.

"Managed accounts allow the practice to scale up," Paul Moran of Moran Partners told us. "Previously, if you were trying to run individual portfolios, you'd be capped at between 70 to 110 clients. But if you run an efficient practice with managed accounts, you could service as many as 150 clients per adviser – without compromising on client centricity, service and investment outcomes."

Moran runs four different Macquarie portfolios to cover a diverse range of client needs. He believes he can add up to 30 per cent more clients per adviser yet still provide holistic advice, "because you're saving so much time from the underlying investment management."

The latest Investment Trends survey supports this experience. It found advisers using managed accounts to leverage scale and efficiency benefits were able to service 30 per cent more clients.

Practice efficiency alone is not a strong enough case for using managed accounts. As former ASIC deputy chairman Peter Kell noted in a recent interview with the Institute of Managed Account Professionals (IMAP), "If planners and licensees can put their hand on their heart and say, 'This managed account solution is right for my client and is in their best interest', then that's terrific." However, things may go wrong "if a product is introduced primarily to benefit the licensee/adviser."

Dealing with the cost of compliance

The administrative load of compliance is the biggest business challenge facing advisers today. Moran believes it has already added 7% (as a proportion of revenue) to his costs. "Anything to improve efficiency at an operational level in the practice will free time for compliance, which is becoming almost overwhelming."

According to Investment Trends' 2019 survey, 49 per cent of current users of managed accounts say the time they spent on admin and compliance decreased. Advisers on average save 12.4 hours per week on portfolio management. That's more than a quarter of their working week that no longer needs to be spent on low value and highly manual tasks that detract from their client value proposition and service.

This also means changes can be implemented in a much more timely way – something clients simply expect as a given in today's highly connected digital world.

The other aspect of managing the increasing cost of compliance is re-thinking the advisory fee model. From a client's point of view, price becomes less important when you receive tangible value. We see this with every premium brand: when trust, transparency and client service are at the centre of everything you do, and when your values are evident consistently across every channel and touchpoint, clients are less likely to question fees.

The demographics of digital

Over the next 20 years, more than $3 trillion will be transferred from baby boomers to millennials – creating one of the most significant intergenerational wealth transfers in history.

As Dow Jones' Sterling Shea noted:"The client of the future is going to demand a rich digital experience that's predicated on their interaction with non-financial companies and lets them communicate with you and your team on their terms, not yours."

He believes technology can inject efficiency and ease of use, by automating repeatable processes and enhancing engagement between advisers and clients.

According to Shea, the future high net worth client base is likely to comprise of more millennials as well as a higher proportion of women. So, it will be increasingly important to have a diverse team, one that represents your client demographics and has an affinity with them. By being able to genuinely empathise, connect and understand

The quote

Practice efficiency alone is not a strong enough case for using managed accounts.

their needs and work as a team, you can provide holistic advice that's 'whole of firm' and even beyond by extending to a broader network.

Size of balance aside, clients of the future will expect a more human-centred approach to product and experience design. Client-centricity is crucial, particularly for millennials who measure their transactional experience against any other service provider they connect with, not just other financial service providers, and will steer clear of extensive paperwork and time-consuming approval processes.

Clients of the future will also expect more choice than ever before – and that's where managed accounts provide a plethora of investment options that would once have been out of reach for lower-balance clients.

Fintechs, and their venture capital investors, are certainly well aware of the opportunity this new demographic presents. By 2022 it is expected that at least one in two banking transactions is likely to flow through a range of digital ecosystems and other third-party interfaces, thanks to open banking and the rapid rise of digital channels.

At Macquarie, we understand this challenge and are about to launch leading cloud-based software as part of our portfolio management platform. With real-time capability, we can provide a simpler experience, increased efficiency and even more flexibility.

How will you adapt to the new investments landscape?

- advisers – may shift from a binary advisory to a multidisciplinary offer, helping clients solve more holistic wealth management opportunities by planning for personal and family goals. Advisers will embrace technology more than ever before to engage clients and build out a team that deeply resonates and connects with their client base.
- product providers – will develop more customised products to suit the needs of a varied and changing client base, client centricity and a human centred design philosophy will be core to any product evolution. We'll also see lower cost on- and off-platform solutions and a focus on reducing unnecessary 'key strokes' or 'clicks' for initial and all ongoing product interactions.
- investment managers and consultants – will provide multi-faceted investment management services that are tailored to the needs of advisers and their client base. An increasing number of traditional fund managers will also begin to enter the managed accounts space as they look to preserve margins, retain FUM and diversify their distribution network.
- platforms – will continue to invest heavily in technology and provide an open, secure, API-enabled platform or marketplace of financial services. There will be a focus on providing intuitive and integrated tech solutions - solutions that ultimately leverage AI to elevate (not replace) the human connection between adviser and client.
- clients– will expect more choice and transparency in their investments, and consistency and simplicity in their experience. They'll increasingly look to their adviser as a 'financial coach', a trusted adviser who can help them achieve their personal and family goals and if need be, connect them to other professionals for their broader needs.

The future of managed accounts: Re-thinking advisory

On-platform separately managed accounts (SMAs) are still the predominant model, used by 68% of advisers as it is the simplest option to manage with a lower amount of compliance and regulatory administration. However managed discretionary accounts (MDAs) are also beginning to gain traction, with 31% using third-party MDAs to reduce practice risk and 11% managing their own in-house MDAs.

"We see managed accounts continue to evolve, as the nature of their structure allows for efficient delivery or tailored investment strategies," says Mark Smith, whose firm Elston has used managed accounts for more than 10 years. "The ability for advisers to spend more time on value added work with the clients and less time on portfolio and investment administration will certainly be a positive, and help build more profitable, stronger client relationships for advice businesses."

He expects global trends, such as the shift towards more passive/index-style investments will also increase interest in managed accounts. Meanwhile, the ability of machine learning to lower the cost of managing multi-asset class investments will further improve access.

Here are three trends to consider as you set your advisory firm up for this future:

1. Democratisation of wealth management

Continual platform improvements will ensure retail or lower-balance clients are no longer left behind. With greater access to institutional-quality risk analytics and modelling, more clients can be supported with more accurate data driven advice and insights.

2. Get set up for an AI-led future

Platforms and tech providers are investing in machine learning to harness the full potential of managed accounts to tilt at an individual client level (such as making specific stock exclusions) and adapt to new market opportunities at a fund level. They will also be able to respond to individual tax management requirements, and further automate client reporting and engagement tools.

3. Take a 'multi-disciplinary' perspective

Macquarie's benchmarking report revealed high performing financial services firms share a 'growth mindset' that allows them to respond to change quickly – and 28 per cent are now providing a multi-disciplinary offer that includes wealth services such as debt advisory or insurance. We expect to see this idea continue to evolve, potentially into a hub connecting clients with relevant experts to manage a much broader set of needs.

All these things will only happen if we also broaden our focus beyond the benefits to advisers and their practice efficiency, or product manufacturers and profitability. And, only if the managed account of the future continues to put the client first – and continues to improve their experience and outcomes – will it continue to be a winning investment option.

Client case study

Embedding MAs into your practice model

Almost a third of advisers cite 'help in migrating clients' as one of the top hurdles to increasing their share of funds under management in managed accounts.

Like many advisers, Peter Stevens at Forrest Private Wealth told us he decided to switch to SMAs after being frustrated by the volume of paperwork that concluded every planning meeting with a client. As well as all the administrative build-up, the client left thinking the investment transaction was the only outcome – effectively devaluing the other 50 minutes spent providing advice.

Stevens wanted to refocus the client experience on the planning and strategy, and treat the investment changes as something that 'just happens' as a result.

Implementing managed accounts became the key to that shift in the conversation. It also allowed Stevens to reduce the impact of rising licensee costs on his business by improving efficiency.

Forrest Private Wealth is now transitioning clients to managed accounts using the Macquarie Wrap platform. Stevens says they started discussing the option with clients 12 months prior to the move so they were already warm to the idea.

"Every time we sign a client over to managed accounts, there's a weight that's lifted from my shoulders," Stevens told us. Having removed much of his repetitive low value administrative tasks and re-deployed staff to more value-adding initiatives, he and his colleagues can see clients more often and maintain ongoing dialogue around investment performance. This in turn increases client confidence when they do meet again – and the review conversation is once again on strategy rather than investment performance as that has already been covered.

"The interaction is far more meaningful as a result, as we can focus on planning and relationship building."

While we have seen advisers hesitate to use managed accounts in the past – believing it 'devalues their work or expertise' – it's clear there are now very few obstacles left to using these as a platform for efficient, compliant growth. **FS**

? CPD Questions

1. What benefits do managed accounts provide to clients and advisers?

a) Efficiency b) Transparency
c) Personalised service d) All of the above

2. What is cited as one of the biggest hurdles for advisers when trying to increase FUM?

a) The help required to migrate clients
b) The volume of paperwork
c) The administration involved
d) The high level of investment transactions

3. According to the article, advisers using managed accounts were able to service how many more clients?

a) 70% b) 30%
c) 45% d) 15%

4. With the increasing costs of compliance what other aspect of a practice needs to be considered?

a) A focus on administration tasks
b) Portfolio management
c) The advisory fee model
d) None of the above

5. It is propensity to inject trust into an adviser client relationship that makes managed accounts more valued than ever before.

a) True b) False

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