For adviser use only

How to ready your business for managed accounts

Implementing managed accounts in an advice practice involves much more than simply selecting the right provider. It's an opportunity to refine the practice's value proposition and align business processes behind it, as well as spearhead a better approach to client engagement and communication. Taking these steps will set up the practice to deliver the best possible outcome for clients and the business, and importantly get the most from managed accounts.

This is the first in a three-part series that explores the considerations advice practices need to make when introducing managed accounts.

Setting the scene

The events of 2020 have demonstrated why it's important to respond quickly on behalf of clients when critical events occur in financial markets. As advisers are only too aware, the initial correction happened across just six weeks. By contrast, the last major market correction, the 2007/2008 global financial crisis, took 18 months to play out. The COVID-19 pandemic is very different and in such a fast-paced world, advisers need to be as efficient as possible. Which is why managed accounts can play such a vital role.

Managed accounts allow advisers to play to their strengths and concentrate on clients and their goals. They streamline the statement of advice process and result in less ongoing to and fro with clients. At an even more granular level, they elevate the requirement to place multiple trades on several administration platforms for scores of individual clients to professional investment managers, whose sole focus is monitoring portfolios and investment markets.

This leaves advisers with much more time, which can be invested in deepening relationships and providing value. In fact, research by Investment Trends shows managed accounts can save advisers 13 hours a week.

Time saved through using managed accounts

13 hours per week*

- Preparing SoAs: **76 mins**
- Investment admin work: **110 mins**
- Selecting/researching investments **112 mins**
- Preparing RoAs: **101 mins**
- Generating and collating reports for client reviews: **76 mins**
- Communicating portfolio changes to clients: **84 mins**
- Following up clients for approvals: **72 mins**
- Other compliance work: **75 mins**
- Other activities: **72 mins**

**Source: Investment Trends, February 2020 Managed Funds Report*

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Many advisers acknowledge managed accounts' benefits. For Lane Financial, managed accounts allow the practice to make more efficient use of its resources. "We only have one adviser, no paraplanners and a client services manager so managed accounts help us be more productive," says senior financial adviser Morgan Collins.

Lane Financial has been using managed accounts for about two years. "We have around 150 clients and we're growing quickly. We have a loyal, local client base and advise a lot of small business owners who are often starting out with only a small amount of capital. Managed accounts allow us to use external expertise to manage a portfolio and focus on strategic and structural decision making, while keeping client costs down."

Additionally, Paul Bourke, a director of ID Accounting and Wealth Solutions, explains why managed accounts make sense for his business. "We originally built the practice on in-house portfolio management. But we found ourselves spending too much time on portfolio management and not enough time on strategic advice, which is where the real value lies," Bourke explains.

ID Accounting and Wealth Solutions has been using managed accounts for five years. Its practice focuses on providing strategic advice to pre-retirees and retirees.

Indeed, many advice practices with a bespoke or non-discretionary model management process have found managing 2020's challenges particularly daunting. Day-to-day tasks such as keeping up with markets, ensuring clients are well informed, processing trades and seeking clients' approval to rebalance their assets have become onerous. This is because while traditional ways of running an advice practice deliver transparency and the ability to tailor portfolios, they are not set up for speed or efficiency.

Advice practices in the non-discretionary environment are all too often bogged down in administration and are far less responsive to clients than they would like to be. They are not able to spend as much time as they would like with clients on their life goals and how to reach them. They can be so caught up in processes, they find it tough to ensure their clients are able to benefit from their best ideas and deliver the advice experience clients want and need. Managed accounts allow advisers to address these limitations.

By shifting to a managed accounts model, ID Accounting and Wealth Solutions has been able to reposition the business as a leader in strategic financial planning. It has allowed the practice to partner with expert portfolio managers who dedicate all their resources to their discipline.

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Start with the value proposition

Moving to managed accounts is an opportunity to optimise an advice practice. This starts with a goal-setting process. The first step is to think through what the practice wishes to achieve by implementing a change to its offer and process. Greater efficiencies, reduced investment leakage and the capacity to rapidly express investment ideas for clients are just some of the benefits managed accounts can deliver.

This will lead naturally to a re-assessment of the business's value proposition. This is what sets your business apart and should clearly articulate how the firm meets clients' needs. This process could involve considering how the business can support what really matters to clients. It requires an assessment of where the business wants to focus its and its clients' time and how to achieve any changes. This will also help determine new partners with which the business should form new relationships.

Bourke explains across the industry, advisers are becoming more comfortable articulating their value proposition when they are not managing the portfolio directly. "The industry is seeing a significant shift in mindset and advisers are putting more emphasis on providing strategic advice to put clients in a better financial position, rather than focusing on the value add of portfolio management. Portfolio management in itself is a huge task and if you do not dedicate the time and resources to it then the question needs to be asked whether you are providing your clients with an appropriate solution."

It's important to set clients' expectations through the managed accounts journey. Give them clarity about how the portfolio will be managed, the investment manager's role in running the portfolio and where to find information on their portfolio.

It's also an idea to ask them about what they want to focus on in their interactions with you. Above all, it's essential to ensure clients understand they will still have control, complete transparency over their account and insight into their portfolio.

Bourke communicated the changes one-on-one with every single client. "I spent the best part of two hours with each client, walking them through the changes involved in switching to managed accounts and their benefits. The key was being honest and explaining that we are the experts in strategic advice and managed accounts allow us to work with experts in portfolio management. We work very hard alongside our portfolio managers and meet them monthly to discuss portfolio updates, themes and challenges. It's all about working in clients' best interests."

Lane Financial took a similar approach. "We spent 18 months explaining to clients what we were doing and why, and the efficiencies involved and the fact it means less paperwork for them," says Collins.

But he stresses it's important to deliver the right offer for the right client segment. "Some clients will still want more granular control over their portfolio. Others will be happy to be led through the transition to managed accounts by the practice. What's important is to work out a model that works for the relationship. Managed accounts don't need to be one-size-fits-all."

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Internal change management

The business will need to go through a change management process for managed accounts to be adopted successfully. This is key, because team members' roles will evolve. Through this, it's essential to emphasise to the whole team why and how new processes will assist the business to achieve its strategic objectives. This will form the basis of the internal communication program. Be sure to emphasise managed accounts are an opportunity for career growth for employees.

During the transition, be transparent about the practice's strengths and weaknesses under the old and new models, where the business is presently and where it's headed. Be specific about steps that are required for the practice to reach its goals and the timeframe in which you believe everything will occur.

An essential part of the training process is ensuring staff understand and buy into the managed accounts investment philosophy. This includes understanding their role and the role partners such as investment managers play. It's vital to make it clear to the team how managed accounts fit into the overall service to clients.

Bourke says it took time bringing the team along the journey. "We spent months with the team helping them to understanding managed account structures. We had healthy debate and called in portfolio managers to assist us."

He emphasises what's required is a cultural shift for most practices. "Issues will arise if the whole team is not 100 per cent behind the switch to managed accounts. The transition was much easier once the team was able to collectively recognise the benefits and efficiencies and, more importantly, realise managed accounts mean a better service offering for the client. We now have multiple structured team meetings booked in the diary to discuss managed accounts, research updates, returns, risks and changes."

Transition tip

Help your team recognise the benefits for their careers, clients and the business.

Managing back-end systems and admin

As you transition to managed accounts, business processes should be re-engineered around the redefined client value proposition. This is because for most firms, having some clients in managed accounts and some clients in non-discretionary portfolios will lead to inefficiencies.

As such the practice may need to consider its administration partner and the platforms it uses, including whether it makes sense to use more than one platform. This deliberation means thinking through the value different platforms provide. During this part of the process, it's important to evaluate platform features, pricing, product range and the selection of assets available.

Bourke says the implementation process was relatively straightforward at ID Accounting and Wealth Solutions. "The beauty of running managed accounts is that the majority of them sit on a platform. They are re-balanced at a click of a button, reporting is streamlined and information is right there."

The business has internal spreadsheets to capture independent research on the underlying fund managers and monitors this data on a monthly basis. "We also independently monitor the monthly return numbers and reconcile with research to ensure accuracy."

As part of the push to create efficiencies for the practice, Lane Financial implemented three different client groups as part of the transition process. "When we communicate to clients we talk to one of three portfolios, which allows us to very effectively communicate to every client in that portfolio."

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A new advice process

When you introduce managed accounts it's likely you will need to re-engineer the advice process. The annual review is a good example. In the traditional structure, 50 minutes of the allotted hour spent with the client is taken up going over the performance of the portfolio, asset performance, what's worked and why. The client and adviser will dutifully and somewhat laboriously work through all that data. Some clients will value this. Others will go through the process because they think that's what the advice experience is, not because they are hugely invested in it. Only five minutes is spent talking about the client's short-term and long-term goals.

Shifting to managed accounts is about refocusing that discussion so 50 minutes is spent on goals and only five to ten minutes is spent on the portfolio. Importantly, this is not about having a less detailed conversation. It's about talking through the thinking behind the portfolio and its ability to help clients reach their goals, as opposed to justifying each decision about the portfolio for which client approval is required.

Practices will also need to re-design their client contact and client care program. Let's say you produce an SOA for a client once a year, including annual rebalancing. This is an extremely time consuming process for paraplanners.

Implementing managed accounts substantially reduces paraplanners' workload around this. No longer are they required to collect data about clients' investments from multiple sources such as fund managers and asset consultants.

Instead, advisers' time switches to be much more goal-focused; tracking how the goals are being met, as opposed to concentrating on individual assets. Instead of spending most of their time on admin, paraplanners can concentrate on engaging with the managed account provider, who will be able to deliver all the information the client needs about the portfolio and how it's positioned in light of their view of markets.

When it comes to ongoing client communication, advisers will need to decide where to source and store information and research. This allows the business to retool the paraplanning and operations team so it can produce more content and better engage with clients, instead of producing incessant SOAs and completing and administering endless trades on clients' behalves.

The efficiencies saved and time gained can be reinvested into better client experiences, which helps build longer lasting relationships. Better relationships also assists in generating new business because clients are happy to refer the practice.

Client reviews

Managed accounts switches the focus of client reviews from the data to the goals – of both the portfolio and your client.

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Achieving outcomes

Each practice will have its own set of desired outcomes, depending on what it wants to achieve by introducing managed accounts. They may include spending more time with clients, a reduced administration workload, being able to service more clients or more consistent client outcomes. Higher profits should be a consequence of all these steps. The goals you set going into a managed accounts relationship can also be used to measure the success of introducing managed accounts into the business.

In terms of outcomes, Collins says the practice benefits from a cost savings, client benefit and office efficiency perspective.

"We're less bogged down in the client service process and we can spend more time on what really matters to clients. Now, we let the research run the portfolio and we focus on communicating to clients around performance and portfolio changes. That way, we avoid costly ROAs, which ultimately benefits clients. We've also been able to streamline the admin team because all we need to do when the portfolio changes is email each member of the portfolio group."

ID Accounting and Wealth Solutions has also realised substantial benefits in the five years Bourke has been using managed accounts. "Our advisers have more confidence delivering the investment piece knowing the portfolios are independently researched and actively managed. Without a doubt this gives clients more confidence and ensures a more compliant business framework."

Results also speak for themselves, says Bourke. "Stress levels within the team have dropped and everyone is more confident in service delivery. Plus client retention has risen as a result of improved service, which has been fantastic."

Of course, managed accounts do have their limitations. "You're limited to the portfolio manager's direction, which is why having a solid relationship between the practice and the manager is so vital. You can have some influence, although this will be limited for smaller practices," says Bourke, who adds it can also be cost prohibitive to make changes with the manager.

"Rebalancing can also be frustrating at times. Some portfolio managers have blackout periods while rebalancing and this can cause issues for income and withdrawals. A lack of unitisation can make it difficult to track at times on a truly granular level."

Additionally, says Collins, advisers give up the investment mandate. "So you can't include any captain's picks. Plus if the manager makes a bad call you're on the hook."

These limitations are, however, typically minor compared to managed accounts' benefits.

Overall, while managed accounts have been around for many decades, they are coming into their own now, supported by technology and a desire by firms to streamline operations for client management and compliance purposes. Nevertheless, the process of introducing managed accounts into your business requires clarity, focus and energy. The practices that do this well, and their clients, reap many rewards over time.

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What are managed accounts?

A managed account provides investors with access to portfolios created and monitored by a professional investment manager via model portfolios.

The issuer of a managed account is typically a platform provider, who implements the model portfolios on behalf of investors based on the investment manager's advice.

In the next article in this three-part series, we explore how to choose your managed account provider.

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