WHAT LIFE REALLY LOOKS LIKE WITH MANAGED ACCOUNTS

netwealth

First things first

Since their beginnings, the benefits of managed accounts have been well touted. Financial advisers in their hundreds told Netwealth in its 2019 AdviceTech research report of the trading efficiency, client engagement and tax efficiency outcomes they've enjoyed since taking on managed accounts in their practice.

Beyond the high-level benefits, and as the technology and investment options powering managed accounts develop, financial planners are testing the limits of what managed accounts can do in their practice.

In this article, we examine the features advice practices are focusing on to bolster their current offerings, optimise their business practices, attract new prospects and future proofs their market position.

Picking up pace: The adoption journey

Financial advisers' use of managed accounts has grown in consecutive years since 2011. According to research house Investment Trends, 35 per cent of financial advisers now recommend a managed account solution to their clients, which are up from 16 per cent in 2012.

A significant contributor to this growth is ease of access for financial advisers, particularly through platforms. Platforms are obviously integral to a modern advice practice, and the number of platforms that provide access to managed accounts continues to grow, with the majority of platforms now offering them.

"Previously, as an adviser, you would often have to go directly to a specialist managed account provider to administer a clients' managed account holdings," explained Investment Trends research director Recep III Peker.

"What we have seen over the last ten years is as more platforms have added managed accounts; advisers don't have to go to an alternative solution to get reporting. This has been a big part of this shift in take up by advisers. They are embracing managed accounts at pace," he said.

Of the advisers using managed accounts that Netwealth surveyed in its AdviceTech research report, over a quarter (27.4 per cent) used managed accounts for more than half of their client base.

Despite the growing list of features managed accounts present to financial advisers in 2019, the reasons for adoption remain relatively simple and stable, according to Investment Trends. Ultimately, financial advisers look to a managed account option to improve their business efficiency and their clients' experience, and to solidify their investment proposition.

"These financial planners say: I've made investment selection

piece a key part of my investment proposition to my clients," Recep said.

"The flexibility and control enables them to bring an investment function in-house. They can access a wider range of assets in a way that is scalable and effective," he said.

Money talks

Wins like streamlined reporting, trading and tax efficiency are relatively obvious to a practice when managed accounts are first brought in house. Investment performance, however, is another story entirely. This takes time and withstanding market pressures to measure.

Investment Trends' research indicates that advisers test the waters with investment performance before they dive in, and in time, most planners reported that investment returns either stayed the same or increased for their clients.

Importantly, financial advisers report more benefits the longer they have a managed account offering. The strongest piece of evidence to support this is that financial advisers gradually increase the proportion of their client base using managed funds in their first few years of use.

For planners using managed accounts for a year, about 20 per cent of their client base is in managed accounts. For those using it for five years, 50 per cent are in managed accounts, according to the research.

Eyes on asset allocation

On the investment front, financial advisers are not generally adopting managed accounts for the sole expectation of greater investment returns. Flexibility and access to market expertise are also drivers, with a bigger picture view to provide a more robust investment offering to current and prospective clients.

For advisers like FinAdvice Financial Planning managing director Ben Whitwell, he took on managed accounts with active asset allocation as a key driver.

"You don't need managed accounts to get active asset allocation, but as a whole combination, I found that worked better for my clients," Ben said.

"I wanted something that was more transparent and better priced for my clients. Also based on the assumption that investment managers are closer to the action than I will ever be, they should be able to do the better job around active asset allocation than I can," he concluded.

Managing market volatility is top of mind for Ben. For him, managed accounts are helping him future proof against what he thinks will be a rough few years in Australia.

"I am moving clients across. We are doing a switch, change or rollover, depending on the structure. I am talking to them about the fact that I am concerned at the way the markets are going, and I'm concerned about the way their portfolios are administered," he said.

This is consistent with the Netwealth experience, according to Netwealth's head of managed investment products James Mantella.

"As far as investment expectations go, de-risking is a priority in the post royal commission environment for financial advisers", he said.

The real-world impact of transparency

Almost 42 per cent of respondents to Netwealth's AdviceTech research report said a key business benefit of using managed accounts is that clients have an improved understanding of their investment portfolio. No doubt, this is due to the transparency of managed accounts, and the detailed access to underlying holdings, fees and transactions so investment decisions are visible to both advisers and clients alike.

Having transparent offerings for clients is an amplified necessity in the current market, given the scathing findings of the royal commission.

Advisers like Ben Whitwell have similarly noticed clients are more concerned in the current environment by a firm's reputation and alignment, and where their money is being invested.

"Talking to clients now… it becomes very clear that they have far less trust than what they used to," said Ben.

In that respect, transparency is increasingly becoming a prerequisite of a strong advice offering, as opposed to an additional or more peripheral benefit. Tools like managed accounts, are therefore working towards meeting current and growing market demands for transparency for the advice practices which are taking them on.

For those advisers looking to leverage new markets with managed accounts, Investment Trends explains that transparency is particularly important for clients classified by them as 'validators' or 'self-directed.'

"Clients that are validators are keen on the education piece and financial coaching, they like to know where their money is going and why things are changing," said Recep Peker.

"Self-directed investors, they are highly engaged with where their money is going. They don't always use advisers, but they do have unmet advice needs, and you need to be able to show them what their money is doing to win them over," he said.

Recep indicates however, that where the transparency piece will have the least traction is with 'delegator' clients, who are typically keen to outsource the entire investment process.

Further, clients with an uncomplicated learning style can find the transparency and expansive reporting of managed accounts overwhelming, according to Insight Wealth Planning director and senior financial planner, Tabitha Tworek.

"Not everyone is up for the managed accounts experience, and that comes back to the volume of information," Tabitha said.

Before those clients reject managed accounts entirely, Tabitha encourages the use of different viewing options

The quote

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which allow them to toggle between simple high-level portfolio holding views and more detailed views, where the individual assets can be interrogated.

A matter of time

Overwhelmingly, the most commonly cited business benefit from using managed accounts is improved efficiency, according to Netwealth's 2019 AdviceTech research report. Adviser practices reported 76.7 per cent efficiency, followed by trading efficiency at 50 per cent.

The team at Insight Wealth Planning are a classic example of how this efficiency is used to implement investment philosophy in an organised, scalable manner. For Tabitha, one of the primary benefits is being able to implement investment decisions across the board without having to go back to clients individually.

"Managed account allows us to effectively and efficiently make those decisions easy to implement," said Tabitha.

This benefit was particularly pronounced for Insight Wealth Planning when it completed an acquisition of 450 clients from a retiring financial planner. When they were rebalancing portfolios, it was "near impossible" to understand the methods used by the previous firm.

"We were dealing with messy outcomes for clients," she said. "We would have different make-ups for the same identical market conditions and timeliness," said Tabitha.

"The outcomes are now better and more consistent across client portfolios by using managed accounts. We can also have really strong integrity about our investment opinions and decisions. If we make a decision, we make it across the board without having to go back to individual clients, which is great," she added.

The time-saving component of managed accounts, particularly with an added 450 client files, is a critical and ongoing consideration for the Insight Wealth Planning team.

Change management considerations

Market research indicates that managed accounts are, typically, relatively easy to implement in an advice practice. For example, almost 53 per cent of managed account users responding to Netwealth's AdviceTech research report said it took them three or less months to implement a managed account solution.

Ben Whitwell suggests the internal and operational side of introducing managed account was relatively straightforward when they launched them at FinAdvice Financial Planning, but getting clients ready and willing for the journey creates a different set of considerations.

Ben recommends being clear, honest and direct with clients about why you recommend a switch to managed accounts. He sat down and discussed the direction of investment markets with his clients, explaining that he needed the conviction of a professional to navigate the volatility on the horizon.

"I'd then draft a formal recommendation, the client would come back to that, and we'd sign it off and make it happen. That whole process could take three to six weeks," he said.

Some clients will simply not be on board with the changes - whether they are justified or not. Often, they're comfortable in their current arrangements, and if they aren't seeing adverse consequences to market conditions, are hesitant to move. This is consistent with Netwealth's research, which shows those who are not currently using managed accounts most commonly cite being happy with managed funds and other structures. This accounts for 44.7 per cent of all non-users.

Who doesn't make the cut?

Based on the types of accounts being setup on the Netwealth platform, they are seeing that the capability of managed accounts is largely identical for most client balances and investment needs.

"Whilst historically limited to larger account balances, groups are now finding value in broader range of clients," explained James Mantella.

For advisers like Insight Wealth Planning, Tabitha Tworek, she feels the benefits kick in for clients that have at least $80,000 or above to invest, as the "the downside for very small balances is the transaction costs can creep up," she explained.

"We use a calculator approach to proof test to make sure underlying fees aren't going to blow out, to make sure it's the right fit. Beyond about $80,000 of invested funds, the pricing point becomes less of a problem," she added.

Further, on the adviser side, Tabitha believes those practices which take a less structured approach to investing won't get bang for buck out of a managed account offering.

"If you don't have an investment philosophy across your business, you might struggle," she said. "You have to know your purpose."

Further, James acknowledges that managed accounts are not for everyone.

"They are not really for simple investors and have costs that need to be factored in on top of the other costs applicable, such as platform fees."

Where to from here?

Managed accounts' pace of growth looks set to continue beyond 2019. Almost one in six (or 15.2 per cent) of advice firms plan to use managed accounts in the next 12 or 24 months, according to Netwealth's AdviceTech research report. In addition, a further 28.6 per cent of those surveyed believe managed accounts will have the greatest impact on advice firms in the next five years.

For platform providers like Netwealth, updates and advancements will continue to hit the market, to ensure advisers are equipped with a solution which betters their advice practice as a whole, and their market strategy.

"The industry wants to manage costs, provide a consistent level of service, and gain access to strong investment capability," said James Mantella.

"More and more advisers are using managed accounts to gain access to those features, to leverage them for different clients, and set themselves up for a whole of business solution," he said. **FS**