

A close-up photograph of a butterfly with brown wings and blue and white markings, perched on a bright orange flower. The background is a soft, out-of-focus mix of red and blue.

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**Adviser's
Guide**

NOVEMBER 2019

MANAGED ACCOUNTS

TRANSFORM YOUR BUSINESS

Managed accounts have come into bloom

Time is the new currency

Spend too much time on unproductive administration and you will struggle to give your clients the service they demand. Spend it on things they value and you will not only please existing clients but also attract new ones.

That's why you need to get serious about the only integrated Managed Account platform. You need to upgrade to Praemium.

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Welcome

Managed accounts

The majority of advisers don't use managed accounts. Those that do are significantly more successful. For the first time, this statement can be backed up by empirical evidence, thanks to some groundbreaking research by platform provider Praemium

IN THIS Adviser's Guide to Managed Accounts, we present a compelling narrative about the transformative powers that managed accounts provide to advice practices. The fact that only 35 per cent of advisers use managed accounts shouldn't come as a surprise, despite their overwhelming benefits. Integrating a managed account solution into your business isn't a quick-and-easy, bolt-on strategy. In many cases, it requires a rethink of how you run your business.

For this reason, we thought it imperative to provide you with the latest facts and figures on the managed account space to ensure you are well informed about your next major business decision.

Advisers are in a tough spot at the moment. The rising cost of compliance, higher licensee fees, moving to a new remuneration model and the further education requirements mean practices are under significant pressure. Carving out time and increasing the profitability of your business is essential in this environment. Thankfully, managed accounts have been proven to drive

productivity and profitability in advice practices across Australia.

The business case is beyond convincing. The difficulty advisers need to navigate is preparing themselves for a positively disruptive experience. Like I said, managed accounts are a transformative strategy for advice practices, which is why a trusted partner is essential to guide you through the integration process.

I hope you find in these pages something that will inspire you to take a closer look at your own business and see where it can be improved. Managed accounts are an innovative solution to many of the challenges that advisers are dealing with in the current environment. Those who take the time to understand their full potential may be surprised at just how powerful they can be. ●

Sincerely,

James Mitchell

James Mitchell
Editor, ifa
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News



Managed accounts attract \$9.3bn in 6 months

STRONG MANAGED account inflows over the first six months of 2019 are a vote of confidence for Australia's financial advisers.

The Institute of Managed Account Professionals (IMAP), in conjunction with Milliman, has released the latest data in its six-monthly Managed Accounts FUM Census series. The data shows managed accounts grew by \$9.26 billion for the first six months of 2019 as net inflows doubled.

As at 30 June 2019, funds under management (FUM) in managed accounts stood at \$71.38 billion, an increase of \$9.26 billion on the 31 December 2018 FUM total of \$62.12 billion.

The net funds inflow for 31 December 2018 to 30 June 2019 has doubled on the previous six-month period to \$4.43 billion, or a 7 per cent increase on total FUM.

"The FUM census results suggest that investors are working closely with and have confidence in their financial advisers, evidenced by the

steady inflows of new funds into managed account arrangements," Toby Potter, chair of IMAP, said.

Victor Huang, Milliman's head of capital markets, Australia, noted that the main features of investment markets for the first half of 2019 were improved confidence and volatility.

"The value of the ASX/S&P 200 Accumulation Index increased by 19.73 per cent over the six-month period, compared with a 6.83 per cent decrease in the six months prior," Mr Huang said.

While the MDA category remains the largest and is growing, platform-based SMAs are growing at a faster rate and closing in on the MDA total.

"This census provides a good, representative picture of the managed account market," Mr Potter said.

"Participants include the very large major platforms, banks and MDA providers as well as individual licensees who largely operate their service internally."



\$71.4 BILLION

Funds under management in managed accounts as of 30 June 2019, according to IMAP and Milliman



40 PER CENT

The expected growth of money invested by managed accounts a year for at least the next two years



87 PER CENT

Percentage of managed account users that reported reduced administration within their business



80 PER CENT

Percentage of advisers that said they either have basic or no understanding of managed accounts, according to a joint report by SSGA and Investment Trends



"THOSE THAT PROSPER WILL BE THOSE WITH A PROVEN TECHNOLOGY TRACK RECORD ... A CONSTANT DRIVE TO DELIVER NEW FEATURES AND SOLUTIONS"

Planner role to transform with managed accounts growth

A REPORT suggests that the growth of managed portfolios in delivering investment solutions to clients will greatly alter the fundamental responsibilities of advisers.

The report from platform provider HUB24, *The Future of Managed Portfolios*, suggested that the rise of managed portfolios is enabling advisers to tap into the expertise of fund managers and their capacity to innovate.

It said an adviser who chooses to take on the responsibility for creating investment solutions for clients will either be required to take on more of the characteristics of a professional portfolio manager or to hire-in that expertise in the guise of asset

consultants or from fund managers directly.

"A growing number of fund management firms are offering portfolio analysis services through managed portfolio providers to help advisers create the best risk-adjusted portfolios for clients that they can," the report said.

"If the ultimate aim of investing a client's money is to achieve the best return for a given level of investment risk, then it stands to reason that sophisticated analysis of the risk inherent in a client's portfolio is integral to achieving that outcome."

The report cited estimates from the Institute of Managed Accounts Professionals (IMAP) that money invested by

managed accounts will grow at around 40 per cent a year for at least the next two years, suggesting it will grow to more than \$115 billion by 2020.

Further, it said that an adviser's relationship with a client may conceivably last several decades, and advisers need to know a managed portfolio provider is committed to investing in the systems and technologies needed to ensure their offering remains efficient and constantly focused on improving client outcomes.

"The risks of choosing a provider that does not have a broad offer and enhanced functionality can result in an advice business having to move clients, reducing business efficiency and delivering substandard outcomes for some, not to mention the disruption caused if forced to move clients from one platform to another, and the possible CGT consequences for those clients," the report said.

"While the number of players in the managed portfolios space may proliferate in coming years, not all will be created equal, and many offers have only the basic functionality available.

"Those that prosper, and support advisers and their clients best, will be those with a proven technology track record, a proven ability to remain responsive to clients' and advisers' needs, and a constant drive to deliver new features and solutions."

News



Managed accounts enhance advice, says white paper

MANAGED ACCOUNTS drive better client engagement and improve the delivery of financial advice, according to a new white paper.

The white paper by Colonial First State showed that managed accounts were able to improve client engagement, provide better risk management and boost business performance. In fact, 87 per cent of managed

account users reported reduced administration within their business and 73 per cent reported improved client engagement.

Advisers that used managed accounts were spending 23 per cent more time in client appointments each, with 73 per cent reporting improved client outcomes and 70 per cent reporting improved risk control of client portfolios.

Colonial First State general manager of distribution Peter Chun said the white paper had taken knowledge that was anecdotal and provided clear figures.

“This white paper, *Managed Accounts: Building Your Future Business*, takes what we’ve known anecdotally and provides insights and clear data to support the benefits that managed accounts can bring to an advice practice,” he said.

Mr Chun said it covered 30 managed account practices benchmarked against 226 financial advisory firms and 45,000 clients. He said it was clear that managed accounts were of huge benefit to the advisers that used them for a variety of reasons.

“The results speak for themselves: whether it’s improving client engagement, providing better risk management or boosting business performance. What’s more, we can see these benefits continue to grow as managed accounts are further embedded into an advice practice over time,” he said.

The white paper was prepared by Business Health, which said the key benefit of managed accounts is in improved client engagement.

“Practices using managed accounts are now able to spend more time with their clients, whether it be through face-to-face meetings or simply communication touchpoints. This results in higher levels of client retention,” said Terry Bell from Business Health.

“It’s also clear from the research that these benefits accelerate over time as managed accounts are embedded into an advice practice.”

Platforms keeping up with managed accounts demand

NEW PLATFORM providers are catering to the growth in the use of managed accounts among advisers, new research has found.

According to Investment Trends’ *2018 Platform Benchmarking and Competitive Analysis Report*, adviser use of managed accounts has increased for the seventh consecutive year, with 35 per cent now recommending these solutions to clients, up from 16 per cent in 2012.

A major contributor to growth is the rising number of platforms that provide access to managed accounts functionality. In 2018, CFS FirstWrap, North and IOOF Pursuit joined the ranks of platforms using managed accounts.

Investment Trends senior analyst King Loong Choi said 16 platforms now provide managed accounts solutions.

“With more advisers and licensees running managed accounts, it is increasingly important for platforms to provide users with access to a dedicated model manager portal,” Mr Choi said.

“While many managed accounts platforms do provide model managers with access to a dedicated model manager portal, there is scope to improve the breadth and depth of functionality and reporting without sacrificing usability.”

The report also noted that the platform industry is driving forward in innovation and development of new functionality despite regulatory headwinds.

“Many improvements are made with the goal of helping advisers reduce their admin burden while lifting client engagement levels at the same time,” Mr Choi said.



Adviser education on managed accounts lacking

A SURVEY has found that over 80 per cent of advisers said they either have basic or no understanding of managed accounts despite its usage almost doubling in the last five years.

A collaborative report between State Street Global Advisors and Investment Trends found that, together with the 35 per cent of participants who recommended managed accounts – up from 30 per cent in 2018 – 31 per cent of planners intended to introduce managed accounts in the near future.

But 40 per cent of these potential users noted that client education was one of the main barriers to entry.

The head of SPDR ETFs

for Australia and Singapore at SSGA, Meaghan Victor, said the number of advisers recommending managed accounts reached the highest level ever in 2019.

“These potential users ... want to tap into the tangible benefits reported by current users,” Ms Victor said.

“These include improved investment performance, transparency, enhanced client engagement, cost effectiveness and less administration.”

Investment Trends CEO Michael Blomfield said those who use managed accounts recognise a wide range of client benefits, such as “increased investment returns and client engagement”.

You may have heard
that Managed Accounts
make advice businesses
more profitable.

Now read the proof.

Managed Accounts usage amongst advisers is becoming increasingly popular, almost doubling over the last 5 years with client in flows into managed accounts having tripled in the same period. There are some compelling reasons for this.

The advantages of managed accounts have been well documented, until now quantifiable advice business benefits have been far harder to validate. Not anymore.

86% of advisers report a reduction in administrative time and effort.
64% reported improved risk control of client portfolios with 47% having more time to spend with clients.

Advice firms that use Managed Accounts have greater profitability per client, typically taking on more clients and can generate revenues 20% higher than firms that don't.

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Welcome to the **upgrade**

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TRANSFORM YOUR BUSINESS

New research confirms that managed accounts do far more than boost productivity and client engagement. They also have a material impact on your bottom line

Story / James Mitchell

Managed accounts: An overview

Managed accounts have been growing from strength to strength. While traditional platform providers like Colonial First State and Macquarie still dominate the space, innovation is largely being driven by the likes of newer players like Praemium, Netwealth and HUB24.

A quick look at the latest figures from the Institute of Managed Account Professionals (IMAP) shows funds under management held in managed accounts

increased by \$9.26 billion to \$71.28 billion in the six months to 30 June.

Net fund inflows from 31 December 2018 to 30 June 2019 doubled on the previous six-month period to \$4.43 billion, a 7 per cent increase on total FUM.

"The FUM census results suggest that investors are working closely with and have confidence in their financial advisers, evidenced by the steady inflows of new funds into managed account arrangements," says IMAP chair Toby Potter.

"Although the MDA (managed discretionary account) category remains the largest and is growing, platform-based SMAs are growing at a faster rate and closing in on the MDA total."

However, despite their growing popularity, the majority of financial advisers in Australia don't actually use managed accounts. Research from Investment Trends shows that only 35 per cent of advisers use managed accounts and intend to continue.

50

PER CENT

of clients believe their adviser should offer a digital solution
(Source: Accenture)



Feature

While the use of managed accounts has almost doubled in the last five years, education remains a key issue in helping advisers understand the value that managed accounts can bring to both their practices and their clients.

Earlier this year, Investment Trends collaborated with State Street Global Advisors on a research report that found over 80 per cent of advisers have basic or no understanding of managed accounts.

The head of SPDR ETFs for Australia and Singapore at SSGA, Meaghan Victor, says the number of advisers recommending managed accounts reached the highest level ever in 2019 and there remains many more who are interested in the solution.

"These potential users have strong appetite to build their understanding further as they want to tap into the tangible benefits reported by current users," Ms Victor says.

"These include improved investment performance, transparency, enhanced client engagement, cost effectiveness and less administration."

Investment Trends Australia chief executive Michael Blomfield says those who use managed accounts recognise a wide range of client benefits.

"More than half believe transparency is the key attraction for clients and 30 per cent report that following the implementation of managed accounts, investment returns achieved by their clients have increased," he says.

"This is accompanied by 44 per cent of users saying client engagement has increased."

Productivity benefits

Platform provider Praemium, in conjunction with leading advice consulting firm Business Health, undertook research with advisers across Australia to define the quantifiable benefits for advice businesses who use managed accounts, relative to their peers who have yet to introduce managed accounts to their clients.

The analysis is based on 135 practices that completed the Business HealthCheck between 1 January 2018 and 14 August 2019. Of this, 72 advice practices who are currently using managed accounts as part of their investment recommendations were isolated for the purposes of comparing and contrasting the key dynamics of these businesses to their marketplace peers.

"As an investment solution, managed accounts offer investors many unique benefits: professional portfolio management, transparency across portfolio holdings and pricing information, the ability to customise portfolios, individual tax positions and beneficial ownership," the report found.

The productivity gains that come from using managed accounts are significant. Advisers are under increasing pressure to drive profitability in their businesses while also addressing new education requirements and compliance costs. In this environment, saving time is essential.

Praemium's research found that 86 per cent of advice accounts reported a reduction in administration time and effort. Importantly, 47 per

cent spent more time with their clients and 64 per cent achieved improved risk control of client portfolios. These are incredibly compelling results and reflect the clear business advantages of SMAs.

"Outsourcing to a managed accounts platform not only decreases the time spent on investment management, [but] platform automation can [also] significantly reduce the time spent on administration," the report notes.

"Client reports can be created easily and sent directly to a digital portal for clients to access. Industry statistics suggest that using managed accounts can equate to an additional 12-17 hours or more a week."

PRODUCTIVITY BENEFITS

Key productivity measure	Non-managed account users	Managed account users	% difference
Revenue per adviser	\$425,688	\$530,465	+24.6%
Revenue per client	\$3,516	\$5,778	+64.3%
Clients per adviser	214	226	+5.6%
FUM per adviser	\$53.6m	\$55.5m	+3.5%
FUM per client	\$478,625	\$696,744	+45.6%
FUM growth of 20%+	24%	32%	+33.3%
Profit per owner	\$252,573	\$308,056	+21.9%

Financial benefits

The bottom line is this: advisers who use managed accounts are significantly more financially successful than those who don't. This is perhaps the most compelling finding of Praemium's research and should give all advisers something to think about.

"While the advantages of managed accounts to the end investor have been well documented, until now quantifiable advice business benefits have been far harder to validate," the report has found.

"Advice businesses using managed accounts demonstrate significant increases in revenue per client and adviser, FUM per client and profit per advice business owner, relative to their non-managed user peers.

"Digging deeper into the research, there are many contributing factors to the outperformance, including on average significant reductions in administration time/effort, improved client engagement, improved client investment outcomes, improved risk

\$71.3

BILLION

in managed accounts as at 30 June 2019
(Source: IMAP)

control of client portfolios, more time available to spend with clients and client base growth."

The transformative powers of managed accounts are significant. But successfully adopting managed account structures within an advice business requires change to business processes.

"To fully realise the benefits managed accounts can deliver, advice business principals need a clear picture of where they are taking their business and what success looks like for them. Once a clear picture is formed, they will be well placed to make truly informed business decisions," the Praemium report notes.

Feature

"MY ROLE IS IN LOOKING AFTER CLIENTS, I CAN BE THE STRATEGIC ADVISER, RATHER THAN GETTING INVOLVED IN THE EVERYDAY ACTIVITY OF WATCHING THEIR PORTFOLIO"

"But to truly transform your business and achieve quantum gains, managed accounts need to become fully embedded into the practice. The firms that fully embrace the solution for the majority of their clients achieve the greatest uplift in profit. It is also not an immediate gain, with the real benefits delivered after three years."

Praemium's research found that 90 per cent of managed account principals have developed some form of longer-term strategic plan for their business. It also found that practices that have more clients invested in managed accounts are incrementally more profitable.

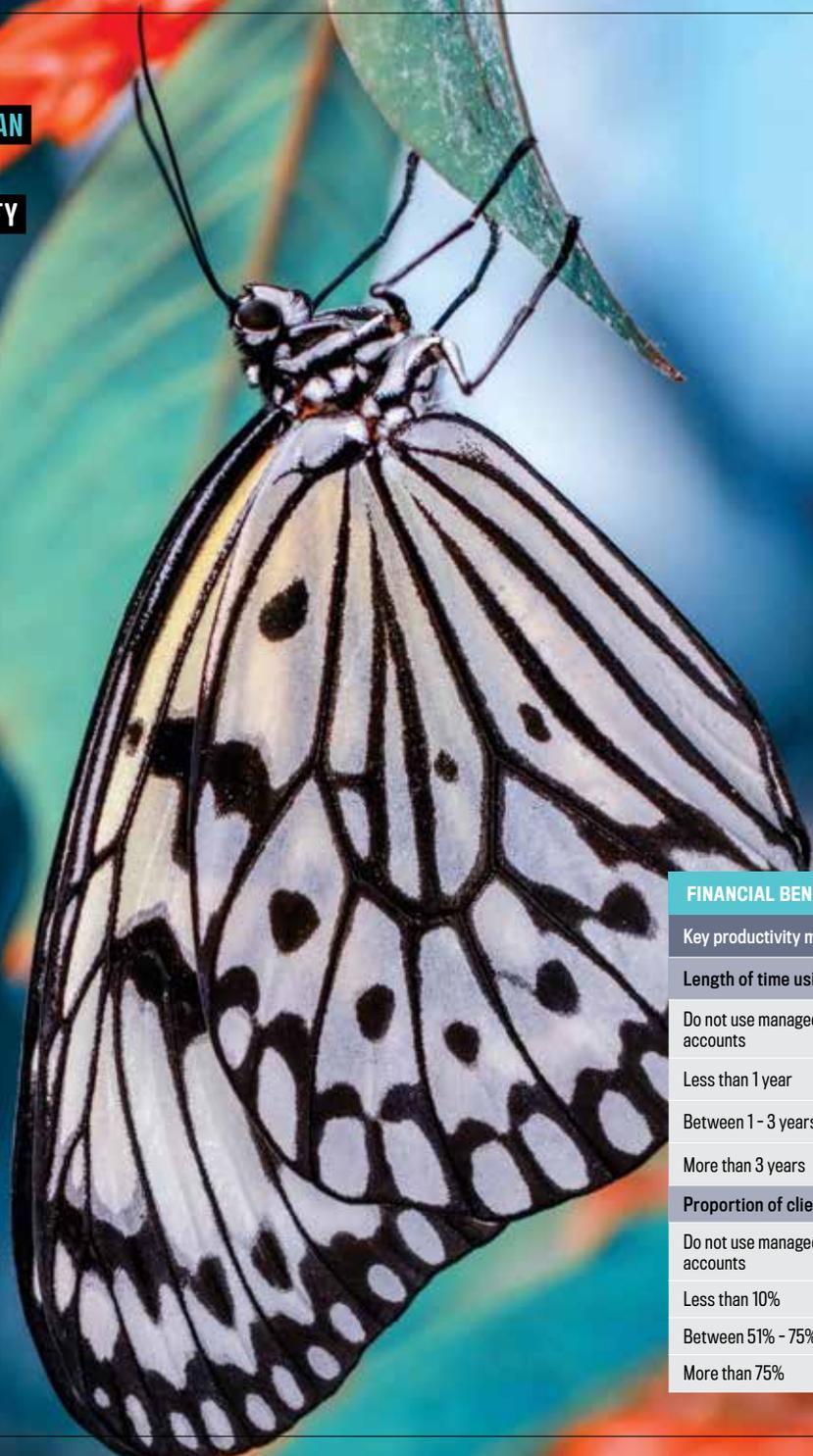
Businesses with less than 10 per cent of clients invested in SMAs are 9 per cent more profitable than those that do not use managed accounts. But practices with 51 to 75 per cent of clients invested in a managed account are 62 per cent more profitable.

The research shows that advice businesses with more than 75 per cent of clients invested in an SMA are 85 per cent more profitable than those who don't use managed accounts. This equates to a profit per principal of \$467,884 compared with \$252,573.

Client benefits

Productivity gains and greater efficiencies are perhaps the most well-known benefits of using managed accounts.

35
PER CENT
of advisers use
managed accounts



But what do these benefits actually look like within an advice business, and how do they positively impact the client?

Canberra-based adviser Zuraida Ariffin knows first-hand how valuable time is when it comes to providing financial advice.

The ifa Excellence Award winner has been using managed accounts for a number of years and says the biggest benefit to her business is not having to adjust a client's portfolio herself. Having an investment committee that decides the asset allocation based on a client's risk profile is key to the efficiencies that SMAs provide.

"There is no need for that extra step of providing a record of advice for portfolio changes," she says.

"In terms of what my role is in looking after clients, I can be the strategic adviser, rather than getting involved in the

everyday activity of watching their portfolio."

This cuts to the heart of where the true value of financial advice lies: helping Australians develop healthier money habits, plan for their future, and essentially becoming a guiding light in the challenging game of life. Unfortunately, few people realise that this is what financial advisers actually do.

It is arguably in the education of one's clients and the building of a trusted partnership, rather than the sale of products or the construction of portfolios, where an adviser's time is best spent.

"I do deep, strategic planning," Ms Ariffin says. "We are looking at the strategy we have in place for our clients. Let's say they are building a portfolio and paying off their mortgage. We have designed a plan for that and know where they need to be every month in order to achieve those goals. There is a lot to cover with the client in terms of what needs to happen.

"We are looking much more at the types of activities that our clients need to do to work on their goals. It's not just about the market. It is also about the client's habits - whether they are saving money or not, or if they are in debt."

Contrary to popular opinion, advisers spend a good chunk of time talking to clients about their personal matters, for these are inextricably entwined with their financial affairs. Is it time for them to consider setting some money aside for their children? Should they be putting more towards their mortgage? Are they in a position to take their family on a holiday?

These questions are often overlooked by those unfamiliar

FINANCIAL BENEFITS		
Key productivity measure	Profit Per Principal	Profit Uplift
Length of time using managed accounts		
Do not use managed accounts	\$252,573	-
Less than 1 year	\$228,128	-10%
Between 1 - 3 years	\$331,060	+31%
More than 3 years	\$337,298	+34%
Proportion of clients invested in managed accounts		
Do not use managed accounts	\$252,573	-
Less than 10%	\$276,359	+9%
Between 51% - 75%	\$408,171	+62%
More than 75%	\$467,884	+85%

Feature

with financial advice. The financial adviser portrayed by the media, particularly in recent years, looks nothing like this.

Ms Ariffin says she knows everything about her clients, when they are on leave, when they will be home, the names and ages of their children, and their hopes and dreams for the future. It is this human element that underpins the broader strategy.

"It's more than just looking at the portfolio," she says.

"The less time we spend talking about the portfolio, the more time we can spend

"A DIGITAL EXPERIENCE IS NOT A BONUS SERVICE TO THEM – IT'S AN EXPECTATION. TO ATTRACT AND RETAIN THIS GROWING GROUP OF CLIENTS, AN ENGAGING, INTERACTIVE DIGITAL SOLUTION IS ESSENTIAL"

discussing things like estate planning and budgeting. There is a lot of time spent checking and getting back to them and giving them action steps so that by the next review, hopefully, they would have done these things towards their financial goals."

The next generation

Ms Ariffin touches on an important point. Budgeting and cash flow management are becoming important value propositions for advisers and their younger clients. Interestingly, it is these younger clients who

see value in the face-to-face interaction they have with an adviser about these services in conjunction with a digital offering. It's worth noting that the first tranche of Millennials are almost 40. They are potential clients now, not some time in the future.

Praemium's report notes that this generation has grown up with technology, they are comfortable using it and are used to having information at their fingertips 24/7.

"A digital experience is not a bonus service to them - it's an expectation. To attract

and retain this growing group of clients, an engaging, interactive digital solution is essential.

"Some advisers may argue that their current client base generates a sufficient income for their business and therefore the Millennial segment is not important. However, we are in the midst of the greatest wealth transfer in history, of which Millennials are likely to be one of the larger recipients."

More than half (53 per cent) of Australia's wealth is held by Baby Boomers, who

will be passing it on to their children in the decades to come. Interestingly, 90 per cent of those who inherit do not stay with their parents' financial adviser.

This changing environment creates huge opportunities for financial advice businesses to focus on the retention of their current clients and the acquisition of new ones. The transformational benefits of managed accounts present a compelling case for advisers who are eager to lift their profitability and attract a new generation of clients. ■

CHECKLIST: CHOOSING THE RIGHT PLATFORM

- STRATEGIC ALIGNMENT**

 - Ownership
 - Philosophy
 - Values

Is the platform strategically aligned to how you want to run your business? Is the platform vertically integrated? Does it have a philosophy of providing choice and scale benefits to investors?
- SCALE**

 - Robustness
 - Innovation
 - Compliance

Does the platform provider have robust, scalable and innovative technology designed to run managed accounts and pass on the benefits of growing scale to your clients?
- CLIENTS**

 - Holistic view
 - Innovative engagement tools

Will the platform enable you to meet the needs of all or at least most of your clients? Will it provide you and your clients with a holistic view of their total wealth? And importantly, does it allow your business to offer an innovative, professional-looking digital service that will enhance your client engagement?
- BEST INTEREST**

 - Supports outsourcing
 - Strategic advice with choice
 - Competitive features and pricing

In today's environment, you want to ensure that the platform you are choosing for your clients meets your best interests duty. Competitive pricing is important, but that shouldn't be the only consideration. Does the platform support outsourcing and provide broad choice, features and functionality to underpin strategic advice strategies?
- GROWTH**

 - Scalable
 - Accurate functionality
 - Supporting different advice models and strategies

You don't want your business to be limited by your platform's functionality. Can the platform support a growing client base and range of advice models, retention strategies and your service model?
- PROFESSIONAL SUPPORT**

 - People
 - Education
 - Experience

Finally, you want to ensure you have the right support to get the most out of the platform. What is the onboarding and account management program and what ongoing training and education is offered?



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- Broad range of managed account solutions
- Comprehensive tailored reporting
- Market-leading corporate actions & tax management
- Cost-effective solutions whatever your portfolio size
- Market-leading digital client portal

Find out more at praemium.com/upgrade

Opinion

Why choosing a platform in future will be more of a strategic business decision

Adviser business models have remained fairly consistent in the last decade. This doesn't mean there haven't been significant changes to business processes, but the change has mainly been forced upon practices by legislation as firms worked through FoFA and the royal commission

by Martin Morris, head of distribution, Præmium

HOWEVER, WE continue to see a seismic shift in client needs and the expectations they have of their advisers that could equally impact a firm's bottom line. Investors can now access robo-advice solutions, providing low entry levels to those wishing to start investing. With 75 per cent of consumers preferring to self-solve their own customer service issue, providing a digital solution is becoming increasingly important.

An exciting opportunity is the well-documented fact that in the next three decades, \$3 trillion in assets will move from one generation to the next in Australia. In the US, the transfer is estimated to be well over \$30 trillion, and worldwide the figures are staggering. The question is, how well placed are practice owners to take

advantage of this wealth shift, given statistics show that 90 per cent of inheritors typically change advisers upon receiving their inheritance?

Managed accounts, and importantly the choice of technology platform partner, can help practices on this front. However, not all managed accounts platforms are the same. When business owners and practice managers research the market, they need to be very clear on the differences.

The platform landscape has changed significantly over the past 25 years. In the early 1990s, we saw the development of Master Trusts as the first platform structure to consolidate investment execution and reporting and simplify the investment experience for investors and their advisers. Next came wrap platforms, which facilitated broader

investment choice (e.g. listed securities), broader overarching reporting across super and ordinary investment savings, lower investor costs, greater advice fee collection functionality and the introduction of adviser- and dealer-level model portfolio functionality. In more recent times, many wrap platforms have, with varying degrees of success, attempted to add on SMAs and associated functionality.

The way has been paved for groups such as Præmium and others innovating at a fast pace to deliver deeper solutions such as the next-generation integrated managed accounts platform (see diagram), which caters for all managed accounts structures on a single platform to deliver more efficiency and client engagement than ever.

A next-gen integrated managed accounts platform includes simple and consolidated reporting of all investment assets (including custody and non-custody); broad investment choice with ease and flexibility to make changes; tailored solutions for every kind of investor; administrative accuracy and efficiency; and the benefit of platform scale in the form of very competitive fees at all levels.

The need to understand the complexity of each platform and understand how new systems will assist to increase profits, drive client engagement and minimise risk is imperative for practices. This is especially prevalent as institutionally restricted practices open up their APL opportunities and move to self or independent licensing environments and need to compare and assess next-gen solutions with their wrap counterparts.

Therefore, choosing a platform in future will irrefutably be more of a strategic business decision than a tactical investment solution. Should business owners and practice managers get it right, though, the effect on profits can be significant. ■

PLATFORM MARKET JOURNEY AND GENERATIONAL CHANGE

Integrated managed account platform

Evolution of the fifth-generation platform



Q&A

Q&A
 ifa features editor Adrian Flores sat down with Praemium's chief commercial officer, Mat Walker, to discuss how the platform provider has innovated its offering for advisers as well as how recent industry change has allowed managed accounts to come of age

Story / Adrian Flores



Mat Walker
 chief commercial officer,
 Praemium

Q. How would you explain managed accounts to an adviser using them for the first time?

A. Simply put, a managed account is really just a model portfolio of investments, managed by a professional investment manager on behalf of the investor. Advice firms can access them in a number of ways. The simplest thing for someone starting their managed accounts journey is to use a managed accounts platform that provides access to a broad range of professionally managed models.

Typically, these are separately managed accounts, or SMAs, and they're offered these days for non-super portfolios as well as super and pension portfolios. It's really as simple as that.

Just like advisers accessed various investment options on wrap platforms in the past, they can source integrated managed accounts platforms in the same way.

Q. What proportion of advisers are using managed accounts?

A. Investment Trends has said in one of their studies that about 35 per cent of advisers at the moment are using managed accounts, but there's also more than 30 per cent who have said that they are intending to use managed accounts in one form or another.

There's been significant interest in managed accounts in recent years because of the benefits that apply to both investors and advisers in terms of business efficiencies.

Q. Would I be right in assuming that SMAs are one of the more popular types of managed accounts that advisers use?

A. You're correct. If you look at the Institute of Managed Account Professionals, statistics showing significant growth of managed accounts, with SMAs being the biggest beneficiary. In addition to SMAs, you've got MDAs,

or managed discretionary accounts, and then you've got other various versions of managed accounts.

The reason SMAs, I believe, have been the most popular is their simplicity, because you're effectively outsourcing to a professional investment manager to manage the portfolio. For the investor, there's a number of inherent benefits including simplicity and transparency in terms of the underlying investment holdings and the fees.

SMAs tend to be provided at a lower cost to other traditional managed investment options like managed funds. There's other benefits too, for example investors get an individual

"THE SIMPLEST THING FOR SOMEONE STARTING THEIR MANAGED ACCOUNTS JOURNEY IS JUST TO USE A MANAGED ACCOUNTS PLATFORM THAT PROVIDES ACCESS TO A BROAD RANGE OF PROFESSIONALLY MANAGED MODELS"

Q&A

“THE DEEPER LEVEL OF ENGAGEMENT BECAME EVIDENT IN THE ANALYSIS OF CLIENT RETENTION RIGHTS, WITH OVER 51 PER CENT OF MANAGED ACCOUNT USERS REPORTING ZERO KEY CLIENT ATTRITION OVER THE PAST 12 MONTHS”

tax position instead of being pooled in a managed fund with other investors.

You also have the ability to customise a model portfolio. If there's a particular stock or holding that you don't want, you might be able to substitute it or exclude it from the model, allowing advisers to tailor portfolios to an investor's unique needs.

Outsourcing through the use of SMAs also delivers significant business efficiencies for practices, that allow advisers more time to focus on engaging with their clients and on their overall advice strategy.

Q. You've explained in quite some detail about client benefits and efficiencies. What can managed accounts achieve in terms of results for advice businesses and for clients?

A. We recently commissioned research with Business Health on both the adviser and client benefits. On the client engagement side of things, managed account users are able to spend more time with their clients during the review process. The stats show that 32 per cent of managed account users reported that, on average, each client interview meeting runs for at least 90 minutes, compared to just 14 per cent of

non-managed account advisers. This increased engagement does not come at the expense though of the number of client relationships, so that's an important thing.

The deeper level of engagement also extended to client retention, with over 51 per cent of managed account users reporting zero key client attrition over the past 12 months, compared to 39 per cent of non-managed account users.

In relation to advice business productivity, 86 per cent of managed account users reported a reduction in administration time or effort, 64 per cent achieved improved risk control of their client portfolios and 47 per cent spent more time with clients. On average, advice businesses using managed accounts are growing at a much faster rate and they're ultimately generating more revenue per adviser and client and higher overall profitability.

The longer the firm has been using managed accounts, the greater productivity and profitability benefits they get from it. Once they get beyond the first year and even more so when they get to about three years out, the benefits from the transformation on productivity and profitability are quite significant.

Q. You've seen the managed accounts space develop over a number of years. What's the most interesting development you've seen so far?

A. I'm obviously biased in this respect, Praemium released to market early this year an integrated managed accounts platform. To date platforms have typically been more investment administration services, where advisers build a portfolio themselves and then make changes every now and then and the platform provides the administration and reporting.

Managed account portfolios, like SMAs, are far more actively managed and regularly re-balanced. Bearing that in mind, you need different technology to be able to run managed accounts successfully.

With Praemium's integrated managed accounts platform, advice business can now provide any type of managed account to their clients on the one integrated technology platform. If they want to offer SMAs, because the simplicity suits a particular client, they can do that on the platform. If they want something a bit more bespoke, where they choose to have more involvement in the choice of individual investments as well, they could have an IMA or individually managed account strategy run on the platform.

They can also have other choices, like what we call a virtual managed account, where if an investor has got non-custodial assets that they need to report on, such as property and other SMSF investments they can do that.

Or if they want a unified view across all their custodial and non-custodial investments, the adviser can provide them with a unified managed account.

We think that's been the biggest recent industry development, and a key reason for Praemium winning the IMA Innovation Award a couple of months ago for developments in the managed accounts arena.

Q. What do you see happening with managed accounts over the next few years and where do you see Praemium going with its offering to advisers?

A. The continued expansion of investment options available, has also introduced access to international listed securities directly within managed accounts as well as international ETFs. Given the scale that some of the international ETFs have, one of the benefits this offers is that the ongoing costs or management fees tend to be a lot less than domestic securities. So that's something I think you'll see more of. It'll take a while before advisers and dealer groups embrace international securities and ETFs, however there's been significant early interest, however there's a reasonable level of education required before extensive adoption can take place.

The other big trend will be the provision of innovative tools for better client engagement. For example Praemium has developed a sophisticated adviser and investor portal. Not only can investors see rich and transparent information on their managed account portfolios on any device, but we're also looking to enhance engagement through developments like artificial intelligence. For example, on the Praemium platform we're now able to show advisers on what's happening in terms of investor activity, how many times they are looking at their information and what information they're looking at. We've now taken these insights further where, based on investor activity, we can point out to an adviser that a particular investor is demonstrating behaviours that might suggest they are in need of further advice.

That's important because there are cases where people may be nervous about markets, or there may have been a family event that may be causing financial anxiety. It could be anything, but if the adviser can be aware that their client may have an issue that's creating some stress, they can engage and respond quickly and more effectively to provide a better service. These sorts of things, I think, will be very useful for advisers and their clients in the future.

AN ADVISER'S PERSPECTIVE

Perth based-business Forrest Private Wealth introduced separately managed accounts for its clients 12 months ago, with it still in the process of rolling out the product across its client base. Among other benefits, director Peter Stevens reports managed accounts have brought efficiency, as well as keeping clients and advisers on the same page about investments

Story / Sarah Simpkins

Q. What have managed accounts brought to your business?

A. In short, I'd say simplicity and efficiency along with a broader communication set. The vehicle allows us to consistently implement our investment philosophy across our client base while clearly separating ongoing investment/transactional advice from planning advice. We sleep well at night knowing client portfolios are set and how we want them to be, allowing our planners to plan

and provide more meaningful council either day to day or at scheduled check ins. All the while our client is regularly kept abreast on the investment piece and their account through the year in easy to read updates and self-serve format. We're really happy in this space.

We knew it would be a good tool, however we were a bit overwhelmed with read rates and client feedback. Clients are regularly kept up to date on the investment piece between regular meetings – good, bad

or otherwise. The key benefit is when we do meet with our client the focus is purely on the planning and advice piece as the investment side is communicated and articulated regularly throughout the year. We've also got greater confidence going forward in our cost to service, allowing us to provide our client with a higher degree of certainty fees won't be rising anytime soon.

Q. What piqued your interest and led you to using managed accounts?



Peter Stevens
director, Forrest
Private Wealth



"CLIENTS ARE REGULARLY KEPT UP TO DATE ON THE INVESTMENT PIECE BETWEEN REGULAR MEETINGS – GOOD, BAD OR OTHERWISE"

A. Consistency and efficiency. Change is no longer predicated on how long it takes our client to return paperwork or when they can come in to see us, which means portfolios are, at all times, invested in alignment with our investment philosophy and recommended investment allocation. Importantly, planners can plan and provide advice without the admin build up and distraction associated with traditional account management.

Q. What was the process for implementing the use of managed accounts in your business, was it easy?

A. Yes. It's simply the natural evolution of the investment advice piece. Many of our clients have been with us for years and acted on the advice we have provided throughout the journey. At portfolio level, managed accounts simply improve the means to which we can better manage their accounts moving forward. ■

Opinion

The innovation and collaboration conundrum for advice firms

In an environment of high-profile legislation requiring stringent compliance oversight, business owners and practice managers can view regulation as a significant barrier to success

by Martin Morris, head of distribution, Praemium

HOWEVER, THE contingent continuing to grow their businesses are faced with the same legislative pressures, access to resources and available investor communities. While it is impossible not to sympathise with those feeling the pressure, the main difference between growth and stagnation is often the mindset of the principal or business manager.

The small-to-medium enterprise (SME) sector covers microbusinesses (1-4 employees), small businesses (5-19) and medium businesses (20-199), and makes up 98 per cent of all Australian businesses, producing one-third of the total GDP. The majority of the financial planning fraternity sits firmly within the micro and small business component of this sector, with some larger practices entering into the medium business category. There would therefore be many correlations between financial planning practices in Australia and the wider business community. One concerning theme is the challenge of innovation and/or collaboration.

According to the Global Innovation Index, Australia ranks 22nd in the 2019 list, behind much smaller economies. We need to seriously consider why that is the case. In the instance of the SME sector and relevant financial services business

owners, it could be suggested that, when a business owner or individual considers innovation, it is at a transformational level. Due to the enormity of activity that a business transformation requires, it often stymies any action at all. The requirement to focus on day-to-day activity just adds to this pressure, and business owners find themselves putting off change to a later date.

According to the ABS (*Innovation of Business, 2016-17*), Australia's slow move towards innovation is clearly demonstrated by the fact that:

- only 31 per cent of microbusinesses and 50 per cent of small businesses have actually introduced innovation; and
- only 13 per cent of microbusinesses and 22 per cent of small businesses introduced new or significantly improved operational processes during 2016-17.

The managed account industry has dramatically changed the technology landscape in recent times. Excitingly, innovations in API access, machine learning and new technology are driving daily change to solutions and services offered by incumbents and new entrants.

This is driving the need for practice owners and managers to partner with providers that can offer insight into best practice principles, help navigate the strategic landscape and assist in managing new legislative hurdles.

However, despite this opportunity there are some startling statistics that show:

- Only 18 per cent of innovative business owners collaborate with others around innovation;
- Only 5.5 per cent of overall microbusinesses collaborate outside their business; and
- Only 9 per cent of small business owners collaborate outside their business.

This is a surprising outcome and demonstrates that business owners face a real challenge to not only embrace change, but to source IP from alternate sources.

When you consider the isolation of many micro or small business owners, and their often lack of or limited access to resources with which to invest in infrastructure and people, it would make intuitive sense to source IP from external sources. Yet businesses that are rated as innovative by the ABS stated that there are factors preventing or limiting collaboration - 10 per cent stated that it was partly due to them seeing no value in collaboration and 20 per cent said it was partly due to a lack of time and funds. Unsurprisingly, 56 per cent stated that there were no factors affecting collaboration other than personal choice!

Choosing a technology partner that is not only right for a business today but in the future has never been more important. Tapping into the innovation insights, technology and market expertise the right technology partner can offer can support true business transformation. ■



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