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Delivering exceptional client experience with managed accounts

A strong and differentiated client proposition is fundamental to financial advice success

Michelle Krig

The role of financial advisers is undergoing a profound shift, from technical specialist to relationship-driven coach covering broader strategic advice. To make this transition at scale successfully, advisers need a robust suite of digital tools—with managed accounts an increasingly important part of the toolkit.

At the height of market volatility in 2020, Macquarie saw prolonged trade volumes over a number of weeks. For many financial advisers, it was a true test of the managed accounts model. Those using managed accounts could quickly adjust strategies—across hundreds of clients simultaneously—without having to chase authorisation or choose who would benefit first. Advisers could also easily invest in new opportunities as they emerged, and had more time to be available for clients during a period of great uncertainty.

From a client's point of view, this ability to respond was more or less assumed. *Salesforce's State of the Connected Customer* report of October 2020 found that client expectations of technology use have accelerated, especially after experiencing new standards of digital service throughout the pandemic. This report and Macquarie's *Propensity Project* research have found that for some time, client satisfaction has been largely driven by proactive management of their portfolio to achieve the best risk-return outcomes.

As a streamlined investment implementation tool, managed accounts have evolved to become essential technology for financial advisers. It gives them the opportunity to resolve two underlying tensions for a growing advice business, namely to:

- sustain consistent client outcomes and experiences across a large volume of accounts
- enable deep relationships at scale.

This paper explores how managed accounts can support a strong and differentiated client value proposition for financial advice firms—with benefits for clients and the business from day one.

From managed portfolios to managed goals

The use of managed accounts accelerated in 2020, with the proportion of financial planners using them for client investments doubling since 2016.

A joint State Street Global Advisors (SSGA)-Investment Trends *2021 Managed Accounts* Report found that, based on a survey conducted from December 2020 to February 2021, of those who used managed accounts, 83% said it has strengthened their client value proposition, and 81% believed it was easier to demonstrate client best interests duty than with direct shares or managed funds.

The report also included the following findings regarding how users' client value proposition had changed as a result of adopting managed accounts:

- Greater focus on client financial and lifestyle goals: 39%
- Outsourcing portfolio construction to professionals: 36%
- Greater focus on educating clients as a financial mentor: 35%
- Distanced value proposition from investment returns: 29%
- Greater transparency: 38%
- Cost-effective investing: 32%
- More communications/improved availability: 26%
- Tax-effective investing: 18%
- Service more tailored to individual client needs: 27%
- Providing a broader range of products and services: 23%
- Other: 30%
- N/A, no change: 15%

Macquarie's Virtual Adviser Network research into high-performing advice firms identified that clients perceive their experience with any business through three lenses: success, effort and emotion. Can they achieve the outcome they want, how easy is it to do so, and how does it make them feel? With greater visibility over their holdings, managed accounts can make investors feel confident and reassured. Further, by freeing up adviser time and reducing the Record of Advice (RoA) paperwork requirements on both advisers and clients, it is simpler to achieve the right investment outcomes.

"We see managed accounts deliver superior portfolio outcomes for the majority of clients—consistently—over three to four years and beyond," Vincent O'Neill, chief executive of Stanford Brown said.

His firm began using managed accounts four years ago, and recently added Stanford Brown's separately managed accounts (SMAs) to the Macquarie Wrap platform to provide greater choice and flexibility to clients.

"I think in our industry there is a misconception that technology like robo-advice is a threat," O'Neill explained. "But we see technology—including managed accounts—as the perfect complement to our high-touch, high-engagement model. It's a way to deliver a superior service more efficiently, while also managing the compliance for rebalancing portfolios."

Let's take a closer look at how managed accounts help similar firms provide an experience defined by both consistency and customisation, at scale.

Consistent outcomes, customised to individual investors

Managed accounts can help advisers build a differentiated and personalised relationship with each client in a scalable, efficient and cost-effective way. Just as importantly, the SSGA-Investment Trends *2021 Managed Accounts Report* found that 83% of financial planners using managed accounts said they can also provide better client investment outcomes.

Defining a strong and differentiated proposition starts with a clear understanding of your ideal client and what matters most to them. Think how they might answer these three questions:

1. *Fix*—What pain points does your ideal client need to solve, and why?
2. *Avoid* —What obstacles and pitfalls do they want to avoid, and why?
3. *Accomplish*—What future ambitions and dreams are both realistic and aspirational, and why?

For example, Stanford Brown's holistic private wealth model tends to serve a more sophisticated high-net-worth client base. These investors seek to preserve capital and avoid conflict in intergenerational wealth transfer. They also value advice in areas beyond money management.

"We know everything about their world, and can have very open and frank discussions about those areas," O'Neill said. "There's probably nothing more complex or sensitive than families and money."

To manage this type of trusted relationship at scale, Stanford Brown needed an investment management tool that would provide the right wealth outcomes, along with the flexibility to personalise to different investor appetites and goals.

"Managed accounts are about half our client base in terms of assets under management. They're not 100% of any client portfolio, as we will also have less-liquid investments like private equity," O'Neill explained.

When Stanford Brown's investment committee has a house view on a trade move, that change can be automated across all affected clients within hours.

"If I think back to pre-GFC days, to get a client out of a specific investment we had concerns about, we'd have to send mail-outs and then follow up, and we wouldn't get RoA approval from everyone in time," O'Neill recalled.

The quote

Client expectations of technology use have accelerated, especially after experiencing new standards of digital service throughout the pandemic.

The quote

With greater visibility over their holdings, managed accounts can make investors feel confident and reassured.

As his business grows and new advisers join the firm, clients can still expect the same outcomes with a high degree of confidence no matter who they are dealing with.

"It's all about consistency in the quality of our advice, and client outcomes. We have to make sure we are maintaining the highest standards all the way through," O'Neill said.

By consciously designing an exceptional client experience, it is possible to improve client perception of success, effort and emotion. And if 90% of the process can be systematised, you can then focus more on making the experience feel tailored to the individual.

As a digital tool, managed accounts enable firms to automate a significant part of the technical aspects of portfolio management, while also allowing for a certain level of personalisation. At an individual investor level, you can select sectors or stocks not to hold, or not to sell. This may be for tax reasons, or because the investor has a conflict of interest. Most commonly, it is used to align with environmental, social and governance investment goals—removing tobacco or fossil fuel holdings from the portfolio design, for example.

At the same time, managed accounts also provide a higher degree of visibility, creating a sense of control. Investors have access to real-time data, seeing proactive trade changes made for them with no effort on their part.

Enabling deeper engagement with improved efficiency

Advisers have told us they save around 13 hours a week from the first day they start using managed accounts (Kamerakkas, E 'Managed accounts: Shaping the future of advice', 30 November 2020, Macquarie). They no longer need to spend time on back-office administration and chasing clients for paperwork. And instead of continually following up with clients about small details, or spending valuable time updating them on historic portfolio changes, advisers can focus on the bigger picture and the future.

The value of this efficiency gain cannot be overestimated. It is the key to delivering on your client promise—giving you more time to focus on client lifestyle goals, financial literacy and proactive communication.

"The biggest challenge for financial advice businesses is to deliver high-quality holistic advice, and do it at scale," O'Neill said.

"It can't just depend on the blood, sweat and tears of one or two people. Managed accounts are an important part of how we can meet our ambitious growth targets. it gives us the infrastructure to do what we do best."

Organic business growth depends on two things: more of the right types of clients, and more capacity to deliver consistently on your promise. Macquarie's *Propensity Project* research suggests the better the client experience, the greater the advocacy and managed accounts free up adviser time to create that capacity for serving more clients.

Consistently satisfying existing clients in the areas that matter most to them is the key to driving client advocacy and referrals.

Other drivers of client satisfaction identified by Macquarie's *Propensity Project* research consistently include proactive portfolio management, the right level of communication, access to relevant trusted experts, and improved financial understanding. These all provide that sense of proactive support, confidence and information that matters most to clients. The efficiency, transparency and flexibility of managed accounts can interplay to help keep clients happy across all these areas—and change the focus on adviser conversations from administrative tasks to strategic goals.

Clearly communicating the value of advice

It's clear financial advice is no longer solely an investment management function. Advisers are now more like a behavioural coach, guiding and educating clients to achieve their wealth and life goals.

This changes the value perception of financial advice in a fee-for-service environment.

Perhaps surprisingly, financial planners who don't use managed accounts said the biggest hurdle to implementing them is the impact on their ability to demonstrate their value proposition to clients. These planners typically rely on rebalancing investments as part of their service offering, and the reason for their ongoing service fee for advice.

According to the SSGA-Investment Trends *2021 Managed Accounts Report*, even for planners who do use managed accounts, 29% thought it hard to justify their value-add to clients.

O'Neill found that education plays a crucial role in the transition to managed accounts, not just for clients, but for the advisers in your team.

"We were fortunate we don't have anyone in our business that believes they are the stock picking king or queen," he said.

"But we still had to show how our relationship model, and the purpose of why we are here, is where we feel we add the most value. The adviser's role is partly delivering our investment capability to our clients, but also so much more. We've been successful because our clients value that relationship."

In turn, this clear understanding of Stanford Brown's value proposition to clients has helped improve employee engagement and advocacy.

"Advisers can see the opportunity to enjoy their work more. It's more satisfying to build those sorts of client relationships—and they are more likely to introduce us to other clients and family members," O'Neill said.

He also believed you cannot communicate too much with your clients:

"You need to continually remind them this is how it works, because while we are immersed in this world, they

have many other priorities. There will always be questions, and you need to be prepared to answer them."

For those advisers who are still concerned about justifying their fees when technology plays a greater role in investment management, consider how clients currently perceive success, effort and emotion with your firm. Some clients may wonder why they are paying an expert if they continually have to deal with ad hoc paperwork. Others are aware technology exists to automate stock positions—and in the event of a market issue, may question why it took them so long to execute a change.

When investment becomes a means to the goal, not the goal in itself, an adviser's value is in client conversations—not overseeing administration and transactions.

Importantly, managed accounts can create value for a wide range of investors, and different service offerings can be packaged up for specific investor segments.

For example, a client with more basic investment needs, whereas high-net-worth clients will need a more bespoke, purpose-led managed account as part of a broader service offering.

They are also appropriate for all types of advice firms, regardless of in-house capabilities, with the flexibility to buy SMAs from an existing platform menu, partner with an external consultant or build your own managed account solution. Because Stanford Brown already has a robust investment committee, it made sense to 'build' its own model using Macquarie SMAs. Other firms may choose to partner with a specialist asset consultant, or simply 'buy' the SMA solution off the shelf.

Putting advisers first in managed account design

Following are some best-practice recommendations regarding design, implementation, and improvement of managed account offerings:

- Put client experience at the heart of product improvements.
- Use human-centred design principles to guide every product decision.
- Ensure every feature enhancement better meets the needs of advisers and their clients.
- Do not second guess or assume these needs.
- Continually test and learn the impact of new functionality with a control group of advisers.

Supporting the shift at every step

The rapid adoption of managed accounts reflects an underlying shift in focus for advisers from numbers to people.

"We are in an inherently people-related business. So we need to look outward to our clients—to spend as much time in our day as possible focusing on and communicating with them," O'Neill said.

In terms of helping clients implement a managed account solution, it is important to work with advisers to understand how the solutions fit into their overall client value proposition, and how they position the change. This might include role plays to rehearse client conversations, helping advisers articulate the value of the technology for their ideal client. In essence, it enables them to say, 'We have spent time finding and building the right solution to serve you better.'

It is important to understand what it takes to implement the solution effectively into every model. This is not just a theoretical concept. It is a practical tool that can be put straight to work.

Ultimately, managed accounts can create deep client engagement and stronger relationships based on trust. This is where value is unlocked from day one. **FS**

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