

**M A N A G E D  
A C C O U N T S**

**BUILDING YOUR FUTURE BUSINESS**

**A N A N A L Y S I S O F M A N A G E D  
A C C O U N T P R A C T I T I O N E R S**

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# C O N T E N T S

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# 01

## EXECUTIVE SUMMARY

I'm often asked why managed accounts have sky-rocketed in popularity over the last few years. And while sometimes it can be difficult to pinpoint why certain investment solutions suddenly gain traction, in the case of managed accounts it's very clear.

The investment benefits offered to clients have been key drivers behind the growing interest in managed accounts. These benefits are generally well understood and, depending on the managed account structure, they include:

- transparency of underlying assets within the portfolio
- beneficial ownership for clients over the underlying assets
- individual tax outcomes.

Based on my conversations with advisers and licensees, there are three other main reasons why managed accounts are increasingly being adopted within advice businesses:

- greater administration efficiency
- improved risk control
- the opportunity to drive better client engagement and business performance.

This whitepaper, *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. 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.

Take a look for yourself, and if you'd like to learn more about how you can use managed accounts in your business, get in touch with your local Colonial First State Business Development team or visit [www.colonialfirststate.com.au/managedaccounts](http://www.colonialfirststate.com.au/managedaccounts)



**Peter Chun,**  
General Manager, Distribution  
Colonial First State



Peter Chun, Colonial First State

02

# BACKGROUND AND METHODOLOGY

**This analysis has been prepared by Business Health Pty Ltd with insights derived from the IMAP Business HealthCheck diagnostic tool.**

The *HealthCheck* tool is an innovative web-based application that enables financial advisory practice principals to effectively and efficiently gauge the ‘health’ of their businesses.

The *HealthCheck* report provides a comprehensive analysis of the firm’s key business areas. It also includes a host of practical ideas and actions designed to help further enhance the business and address any issues of concern.

Using the experience, expertise and market knowledge of Toby Potter and the Institute of Managed Account Professionals (IMAP), a tailored version of the *HealthCheck* has been developed specifically for financial advisory practices that use managed accounts as part of their investment recommendations.

## ABOUT THE DATA

**30**

MANAGED  
ACCOUNT PRACTICES



**226**

FINANCIAL  
ADVISORY FIRMS



**45,000+**

CLIENTS



Information was collected through the *HealthCheck* process during January and February 2018. The *HealthCheck* combines a mix of both qualitative and quantitative measures. The depth and breadth of the data collected allows us to not only benchmark the key financial ratios, but also quantify, in terms of actual bottom line profitability, the return that successful principals are receiving on their investment in building stronger, more sustainable practices.

After thorough validation of all the *HealthCheck* data, this analysis is based on data from 30 practices currently recommending managed accounts<sup>1</sup>. We compared the results with the Business Health *Future Ready VII* marketplace insights paper, which incorporates 226 financial advisory firms.

Among these 226 advice practices, while most offer a holistic range of advice solutions across wealth accumulation, protection and retirement planning, there are also specialist practices represented. There is a diverse mix of AFSL holders, ranging from large institutionally aligned groups through to boutique and self-licensed firms.

All of the data obtained through the *HealthCheck* process is provided by the practice owner for the purpose of obtaining an accurate and objective assessment of their business. None of the data in the benchmarking warehouse has been collected through broad marketplace survey projects.

To add deeper insight to this analysis and to complement the *HealthCheck* data, we have also overlaid the key benchmarks from the 45,000+ clients who completed our *CATScan* client satisfaction survey. This provides a truly unique and multifaceted picture of today's marketplace, which we hope you find of interest and value.

## FIND OUT MORE

For more information about Business Health and our suite of services, visit [businesshealth.com.au](http://businesshealth.com.au)



<sup>1</sup> Results represented in this report were calculated by using individual practice-level averages for the 30 practices surveyed in the *HealthCheck*, then averaging these across the data group.

## MANAGED ACCOUNTS: THE BENEFITS

Firms who have adopted a managed account solution have reported the following benefits.

### KEY BENEFITS OF USING MANAGED ACCOUNTS

Advisers recommending managed accounts identified these as the top benefits to their business.

Reduced administration	87%
Improved client engagement	73%
Improved client investment outcomes	73%
Improved risk control of portfolios	70%

### BUSINESS PERFORMANCE

Practices recommending managed accounts produce better business outcomes across a range of measures.

	INDUSTRY	MANAGED ACCOUNTS
Clients per adviser	285	336
FUM per adviser	\$50.8M	\$64.0M
Gross practice revenue	\$1.2M	\$1.5M
Notional practice profitability*	27%	34%

\*All 'notional' profit and salary calculations in this report assume a notional \$100,000 salary for each principal working in the practice.

# 03

# DRIVING CLIENT ENGAGEMENT

**Using managed accounts can improve client engagement and help increase the number of touchpoints throughout the year.**

Of the managed account users surveyed, 73% reported an improvement in client engagement. This is largely because these practices are now able to communicate more frequently and meaningfully with each client.

## METHODS OF ENGAGING CLIENTS

Client Value Proposition



10+ 'A' client contacts per year



Quarterly client reviews



20+ pieces of relationship building data



Appointments per week



■ Managed account users  
■ Industry average



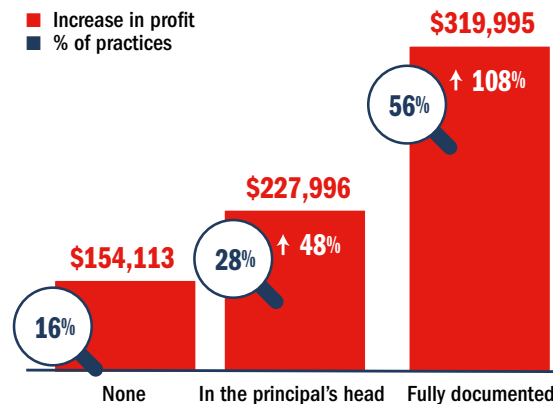
# 3 . 1

## DEMONSTRATING VALUE TO CLIENTS

Drilling down further into the drivers of client engagement: first and foremost, advisers who clearly and succinctly articulate the value they are able to deliver to their clients are more likely to achieve deep and lasting levels of engagement.

73% of the firms using a managed account solution reported that they have a documented Client Value Proposition (CVP) – well ahead of the industry average of just 56%. And from the graph below we can see the average profit per principal reported by the 56% of practices (industry wide) with a fully documented CVP compared with those that don't.

### CLIENT VALUE PROPOSITION COMPARED WITH PROFIT PER PRINCIPAL



Around one-in-three (30%) managed account users also stated that they have changed their CVP as a result of adopting this investment solution. Some of the business improvements reported by these firms include:

- becoming more client focused than investment focused
- developing a new ongoing service offering
- increasing their emphasis on strategy delivery and enhanced portfolio management
- discussing their investment philosophy and how it can be achieved using managed accounts
- implementing more targeted investment portfolios.

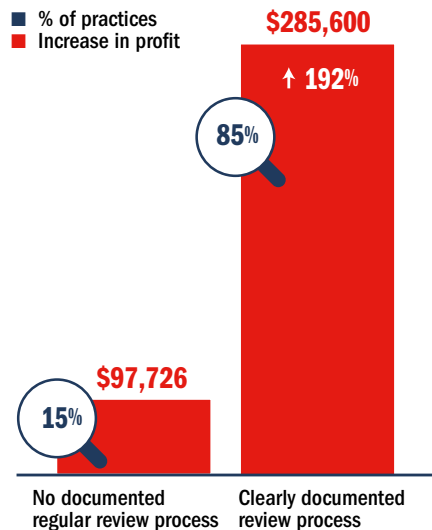
# 3.2 ADOPTING A THOROUGH REVIEW PROCESS

The review process is a critical element of any adviser’s service offering, and one that has a dramatic impact on their levels of client engagement. Over three-quarters (78%) of firms using managed accounts reported that they have a thorough review process in place. This means they follow consistent, fully documented steps and involve more than just the adviser, thereby reducing the risk of key person dependence.

While this is in line with the broader industry average, those advisers using managed accounts are able to meet more frequently with their most valuable clients to review their personal situation. Over a third of managed account users (37%) reported that they meet with ‘A’ clients at least quarterly, compared to the marketplace benchmark of 28%.

We also know that a well-structured review process that addresses a broad range of issues can create mutually beneficial, long-term relationships with clients. This is clearly demonstrated in this chart.

**CLIENT REVIEW PROCESS  
COMPARED WITH PROFIT  
PER PRINCIPAL**



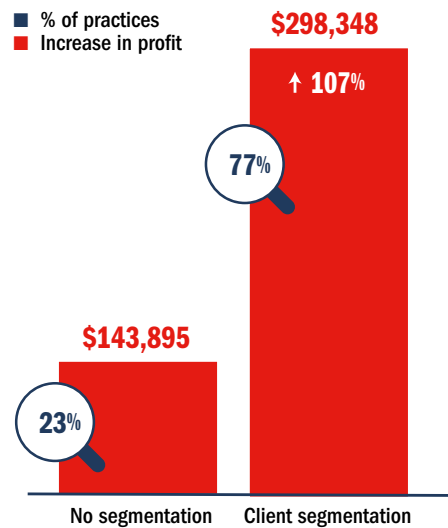
# 3.3 CLIENT SEGMENTATION

Interestingly, 90% of the firms using managed accounts reported that they formally segment their client base (versus the industry average of 77%). All these firms also offer a differentiated level of service to their most valuable clients.

While implementing an effective client segmentation model into a financial advisory practice makes a great deal of sense, to be of real business value it must deliver a tangible result – in other words, segmentation should not simply be an academic exercise.

The following chart clearly demonstrates the average bottom line value that the practices in our database have been able to derive from segmenting their client base.

CLIENT SEGMENTATION  
COMPARED WITH PROFIT  
PER PRINCIPAL



# 3.4 REGULAR CLIENT COMMUNICATION

With less time required for administration tasks and regular communications from their managed account portfolio managers, managed account users are also able to contact their most valuable clients more often. This includes written, electronic or phone contact, as well as group functions and face-to-face meetings.

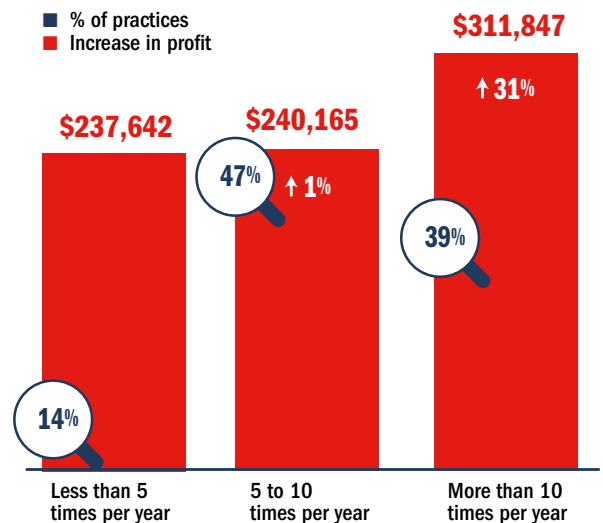
Almost half (47%) of advisers who used managed accounts reported that they contact their most valuable clients at least 10 times per year, compared to the industry norm of 39%.

Of clients who invest in a managed account:

- **50%** receive a quarterly or semi-annual report prepared by the portfolio manager
- **43%** receive a monthly or quarterly letter or other communication from the adviser or practice
- **40%** receive a monthly or quarterly newsletter from the portfolio manager
- **30%** receive a notification before and/or after a portfolio change is made.

This is important to note as our analysis reinforces the direct correlation between client communication and referral business. Where clients score the communication they receive from their adviser highly, they are far more likely to have already referred new clients to the business and they also have a much higher propensity to do so again in the future.

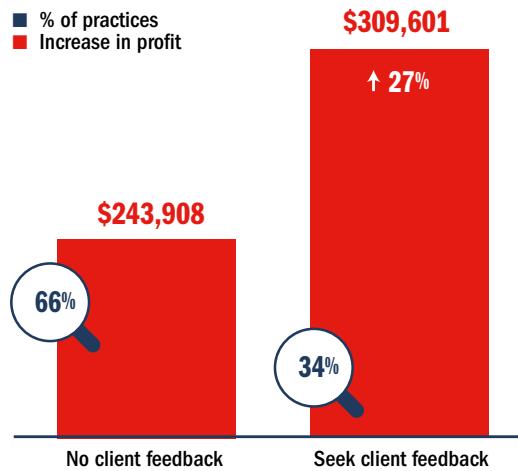
**'A' CLIENT TOUCHPOINTS  
COMPARED WITH PROFIT  
PER PRINCIPAL**



# 3.5 ACTIVELY SEEKING CLIENT FEEDBACK

The ultimate judge of the value of any adviser's service offer is the client. Half of the managed account users in our survey reported that they have recently sought their clients' opinions on the services they are receiving. Advisers should be encouraged by the key findings. These results clearly show that by asking clients for their feedback, these advisers not only strengthened their client relationships, but also generated (on average) a 27% increase in bottom line profit.

CLIENT FEEDBACK COMPARED WITH PROFIT PER PRINCIPAL



# KEY TAKEOUT

**Advisers who use managed accounts are finding it easier to demonstrate value to their clients and keep them engaged throughout the advice process by way of regular touchpoints and reviews. Clients vote with their feet: if their expectations are not being met, they will leave. It's therefore pleasing to note that 59% of managed account users reported key client attrition of less than 3% over the past 12 months compared to the industry average of 44%.**

# CASE STUDY

## CALDER WEALTH MANAGEMENT

**Calder Wealth Management is a full-service planning firm based in Adelaide. The business has been operating for over 35 years, and currently employs six advisers and eight support staff.**

**Practice principal Ben Calder has been part of Calder Wealth Management for 20 years. During that time, he has steadily developed the business from a traditional insurance practice to a full-service firm offering financial planning, investment advice and lending.**

### THE CHALLENGE

Over the years, Calder's client base has evolved to include a growing number of business owners and clients with more complex needs. As a result, the firm's client base is now larger than the industry average. In terms of client engagement, the Calder team aim to establish a broad relationship with each client's whole family group.

"We've concentrated on developing a complete relationship with our clients – assisting with their business and personal borrowing, as well as their wealth management," Ben said. "The downside of this type of client base is that they can be very busy people, and managing the relationship can be more challenging."

## THE SOLUTION

Around seven years ago, Ben had the option to adopt a managed account service. After taking on the service for his own clients, Ben encouraged other advisers within the practice to do the same, but didn't make it mandatory.

## THE OUTCOME

Since adopting a managed account solution and leveraging its benefits, the business has experienced rapid growth – without needing to recruit more support staff. Without a managed accounts platform, Ben believes the firm would need an additional 1.5 FTE staff to keep up with their workload.

“The move has been a real success for us, with over 70% of our clients now migrated to managed accounts,” said Ben. “The advisers who didn't adopt this approach right at the start have become converts and wished they'd started earlier.”

Some of the benefits Calder Wealth Management have experienced include:

- greater efficiency, without the need for back office staff to enter data
- certainty that all clients are in the right portfolios at all times
- consistency among clients of similar risk profiles
- an overall reduction in business risk.



Ben Calder,  
Calder Wealth Management

# KEY TAKEOUT

**“Because we’re not worrying about the mechanical side of advice like chasing up forms, we can get on with the things that matter to clients, like their goals and cash flow planning – what’s really important to them.”**

**Ben Calder**

Practice Principal  
Calder Wealth Management

# 04

# HARNESsing THE BENEFITS

**Financial advice practices are unlocking real financial benefits as they adopt and embed managed accounts.**

**Despite the number of seemingly diverse factors in play, our findings reveal one common thread: the benefits of using managed accounts accelerate over time as they become increasingly entrenched within the practice's business systems and processes. What also becomes more interesting is the overlay of profitability across these various managed account services.**

# 4.1 PROFIT GROWTH

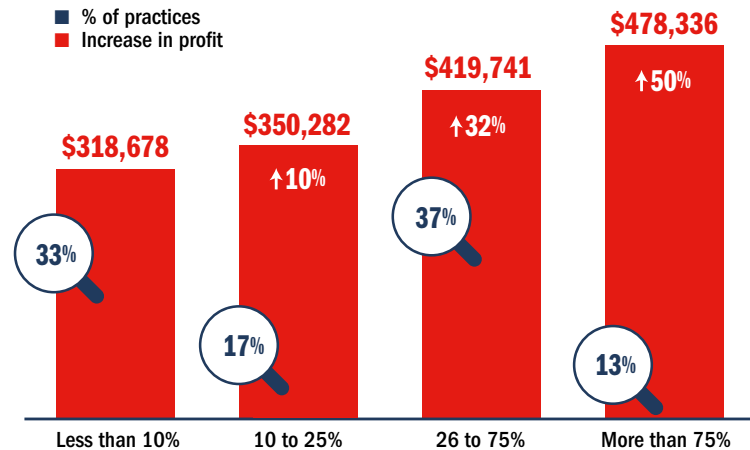
While the type of managed account service is important, the number of clients who are invested through managed accounts has a greater impact on practice profitability.

Those firms that have more than 75% of their clients using a managed account solution were delivering 50% more profit per principal compared with those who have fewer than 10% of their clients in a managed account.

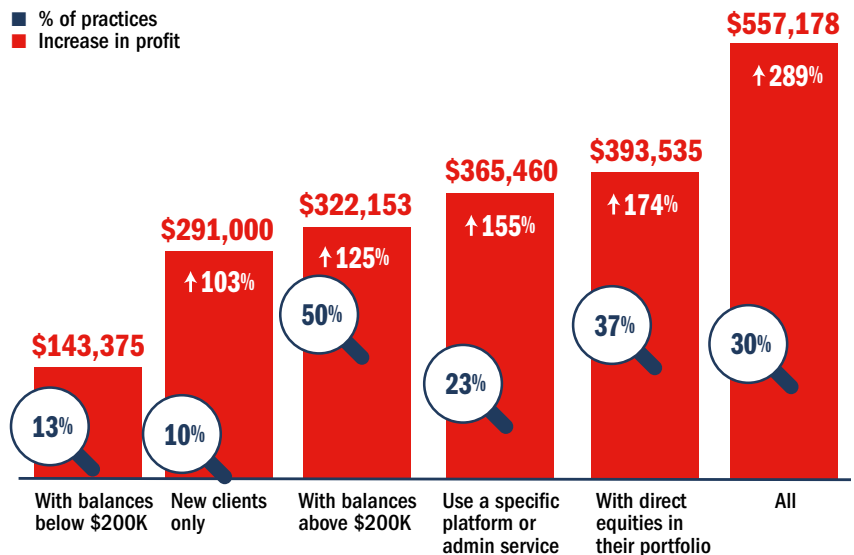
It has long been suspected that the more managed accounts are embedded into a financial advisory business, the better the returns. These profitability findings not only confirm this theory, but also quantify the impact on the business bottom line.

However, if there was still any doubt, the following graph clearly shows how firms that embrace managed account solutions as a fundamental pillar of their portfolio management process are benefiting in terms of profit results for their business.

CLIENTS INVESTED IN MANAGED ACCOUNTS COMPARED WITH PROFIT PER PRINCIPAL



TYPES OF CLIENTS WHO ARE RECOMMENDED MANAGED ACCOUNTS COMPARED WITH PROFIT PER PRINCIPAL



# KEY TAKEOUT

**Practices that have a long-term vision for their use of managed accounts are seeing the benefits accelerate over several years. The most significant outcomes are achieved when managed account systems are deeply entrenched in the business and offered to the maximum number of clients possible.**

# 05

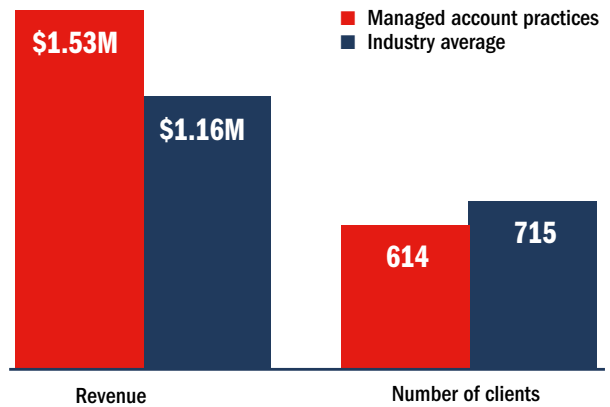
# ENHANCING REVENUE

**Practices using managed accounts are generating more revenue than their competitors – even though their client base tends to be smaller.**

On average, these practices are generating 32% more revenue than their marketplace colleagues. The average revenue for the managed account practices is \$1.53 million versus the marketplace average of \$1.16 million.

Interestingly, while revenue is higher for managed account practices, this is being generated from a smaller client base: the average managed account practice is servicing 614 individual clients compared to the general marketplace of 715.

REVENUE COMPARED WITH SIZE OF CLIENT BASE



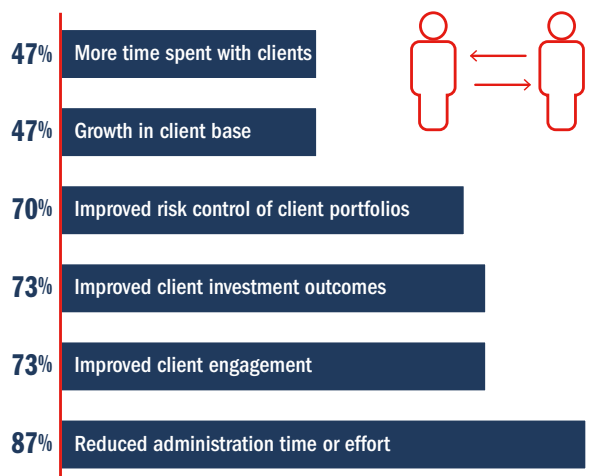
# 5.1 CONVERTING REVENUE INTO PROFIT

While top line revenue is an important indicator, the more critical business measure is of course, profit. Not only are the practices using managed accounts generating more revenue, they have seemingly also been able to convert this into an increased profit margin.

The average notional profitability of managed account practices was 33.5% compared to 27.0% for the broader advice community. In terms of dollars in pocket, this converts into notional profit per principal of \$380,998 compared to \$266,998 – an increase of \$114,000 or 43%.

While there are many contributing factors to this profit result, there can be no doubt that the following benefits reported by the managed account users have had a direct impact on the bottom line profitability of these practices.

## BENEFITS REPORTED BY MANAGED ACCOUNT USERS



## 5.2 DELIVERING ON THE CVP

Another key contributor to this increased profit result is the fact that just 3% of the managed account users reported that they do not charge to produce a Statement of Advice. This compares very favourably to the broader marketplace average of 13% and is perhaps reflective of the increased confidence these managed account advisers have in their ability to deliver on their Client Value Proposition.

It also appears that the use of managed accounts allows advisers to effectively and efficiently service a larger number of clients (336 clients per adviser versus the marketplace average of 285), manage more assets (\$64.0 million of funds under management (FUM) per adviser versus \$50.8 million) and work with clients who have more investable assets (\$453,081 FUM per client versus \$363,948).

## 5.3

# FOCUSING ON HIGH-VALUE ACTIVITIES

Our findings also revealed practices using managed accounts averaged 7.4 client appointments per adviser per week compared to 6.0 for their marketplace peers. Additionally, two-thirds of the managed account businesses stated that less than 10% of their revenue is generated from clients who they do not have regular contact with – that is, clients to whom they only provide reactive service. This is significantly ahead of the 53% industry average.

It also appears that the managed account advisers have been able to direct the time they are saving into successful new client acquisition activities. In fact, 60% of the managed account firms reported that they added more than 20 new clients into their business during the past 12 months compared to the 48% marketplace average.

# KEY TAKEOUT

**Managed account advisers are not only generating more revenue, they are successfully raising the bottom line of their business. But increased profitability is just one of a myriad of benefits reported, including improved client engagement, investment outcomes, risk management and reduced administration.**

# CASE STUDY

## RACQ FINANCIAL PLANNING

**RACQ Financial Planning has been providing advice for over 30 years and has been a managed account user for the past eight years.**

### THE CHALLENGE

RACQ Financial Planning has 1,500 clients, with over \$405 million in funds under advice, who are serviced by eight advisers and four support staff. The practice needed to find a solution that would help them meet the needs of their clients with more complex investment requirements.

### THE SOLUTION

RACQ Financial Planning acts as an external Managed Discretionary Account (MDA) adviser on its client portfolios for a managed portfolio service offered by a third-party MDA provider. RACQ has since recommended 730 of their clients to move to their managed account service. As a very model-driven business, adopting a managed account didn't represent a loss of involvement for RACQ advisers.

## THE OUTCOME

Since adopting the MDA-based managed account service:

- RACQ Financial Planning has expanded its client base without significantly increasing the overhead cost of delivering the service their clients expect
- clients have confidence that their portfolios are being continuously managed
- advisers can focus on helping clients achieve their goals during review meetings, rather than using this time on administration or asset allocation
- advisers spend less time handling transactions and more quality time in front of clients
- all administration happens centrally
- risk control for the business has been significantly improved.



## KEY TAKEOUT

**“Clients want to talk about real-life issues, not the performance of this or that investment. The system gives you confidence that you deliver what you promise.”**

**Sloan Wilkins**  
General Manager,  
RACQ Financial Planning

**06**

# **PLANNING FOR GROWTH**

**Using managed accounts can help practices grow by making them more scalable and improving their risk management.**

## 6.1

# STAFFING AND WORKLOADS

Perhaps directly attributable to their use of managed account solutions, of the firms surveyed only half plan to achieve their projected growth by increasing the number of third-party referral partners or centres of influence that refer clients to their practice. This is dramatically down from the marketplace norm of 61%.

Similarly, most of the managed account businesses believe they have capacity within their existing infrastructure to support this growth without a corresponding increase in staffing levels. Only 37% expect that they will need to add more support staff to deliver on their growth goals, compared to the industry average of 46%.

Importantly, just 3% of managed account users believe they will need to work more hours per week to achieve this uplift. They strongly believe that through the use of managed accounts they have built a business model capable of delivering scalable growth.

# 6.2 MANAGING RISK

Of course, any growth needs to be managed within the compliance frameworks that exist in the business – growth at any cost is a recipe for business failure. To this end, it was extremely pleasing to see that the owners of the managed account firms were more confident than their marketplace peers that their internal processes adequately reflect their regulatory obligations.

## RISK MANAGEMENT CONFIDENCE LEVELS

Managing conflicts of interest appropriately



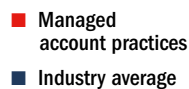
Breach identification, assessment and reporting procedures



Appropriate training for themselves and their staff



Monitoring and supervising their staff



# KEY TAKEOUT

**Advisers using managed accounts are confident and optimistic about their practice's growth potential and risk management capabilities. At the same time, they're less likely to anticipate a corresponding increase in staffing and referral partnerships.**

**07**

**B U S I N E S S  
P E R F O R M A N C E**

**This snapshot indicates the average key attributes of the practices surveyed, based on data collected during the *HealthCheck* process.<sup>2</sup>**

	<b>FUTURE READY VII MARKET AVERAGE</b>	<b>MANAGED ACCOUNT USERS AVERAGE</b>	<b>MANAGED ACCOUNT USERS WITH &gt;50% CLIENTS INVESTED IN MANAGED ACCOUNTS</b>
<b>REVENUE AND PROFIT</b>			
Gross practice revenue	\$1,164,737	\$1,531,146	\$2,199,888
Notional profit per principal*	\$266,998	\$380,998	\$627,220
Notional practice profitability*	27.0%	33.5%	47.3%
<b>FUNDS UNDER ADMINISTRATION</b>			
Total FUA	\$137.0m	\$164.9m	\$234.6m
FUA per client	\$363,948	\$453,081	\$671,173
FUA per adviser	\$50.8m	\$64.0m	\$82.3m
<b>CLIENT / STAFF RATIOS ^</b>			
Number of clients	715	614	815
Number of staff	5.6	6.1	8.1
Clients per adviser	285	336	348
Clients per support staff	302	186	162
Support staff per adviser	1.3	1.7	2.0
<b>CLIENT TOUCHPOINTS</b>			
Face-to-face client meetings per adviser per week	6.0	7.4	7.5
10+ touchpoints per year with key clients	39%	47%	44%
<b>PRACTICE PLANNING</b>			
Documented Client Value Proposition	56%	73%	78%
Not charging for plan/ Statement of Advice	13%	3%	0%
Actively seeking client feedback	34%	45%	50%

<sup>2</sup> The above results were calculated by using individual practice-level averages for the 30 practices surveyed then averaging these across the data group. This approach produces a far more meaningful result and explains the apparent discrepancy if some of the key practice attributes are simply multiplied or subtracted from each other.  
<sup>\*</sup> All 'notional' profit and salary calculations in this report assume a notional \$100,000 salary for each principal working in the practice.  
<sup>^</sup> All staffing ratios have been calculated on a full-time equivalent (FTE) basis.

# 08

# ABOUT THE AUTHORS

## **BUSINESS HEALTH PTY LTD** (ABN 32 095 039 277)

Business Health was established in 2000 with the primary intention of providing practical, proven support to the owners of financial advisory practices, to enable them to get a feel for the 'health' of their practice and how it compares to the broader market.

Since then we have regularly, and deliberately, expanded our suite of services (a process which continues to this day) to the point where today we believe we offer the most comprehensive range of practice management solutions in the marketplace. In Australia, we have also developed diagnostics for other markets including mortgage brokers, accountants and the generic 'small business' market.

Apart from Australia, Business Health has operated for a number of years in the United States and most recently in Canada. We have also worked in South Africa, the UK, New Zealand and Hong Kong.

Our experience in the financial services environment, enhanced by an extensive up-to-date knowledge of international factors and trends, positions us to offer significant expertise in the area of business development.

## **INSTITUTE OF MANAGED ACCOUNT PROFESSIONALS LTD** (ABN 57 125 794 274)

IMAP is the principal industry body concerned with the development and promotion of managed accounts usage for Australian investors. IMAP hosts conferences, investment forums, webinars and publishes magazines and other material designed to assist advisers and AFS Licensees in implementing managed accounts in their practices. [www.imap.asn.au](http://www.imap.asn.au)

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