The managed account landscape is cluttered with single-product solutions. These solutions loosely piece together different product offerings to address aspects of managing the investor relationship, such as proposal systems, rebalancing applications, and investor reporting. Wealth advisory firms often fill emerging needs with additional platforms or extend existing platforms to add capabilities that do not fit easily into the original architecture. While product offerings and platforms in the industry abound, the goal of technology enabling the service model as opposed to the service model adapting to the technology solution is most often elusive.
While the benefits of a single platform are intuitive, the approach to delivering such a solution is critical to its success in the eyes of the primary stakeholders: The firm, the advisor, and the investor. When thinking about how a next-generation platform should be delivered, for products what is often the focus, rather than the how. Focusing on the how is what leads successful wealth advisory firms down the road to a single, more adaptable platform.

Finding a more flexible solution

It is clear that a single platform is superior to the multi-platform approach, but what is the best way to think about a single platform to deliver diverse and often complex portfolios to investors that have many unique needs? Patching together multiple products on an aging technology platform provides only incremental improvement. A better choice is to look at how an advisor approaches portfolio construction to meet investor needs across a diverse book of business. This approach sheds light on how a platform solution can be constructed to provide breakthrough improvement for an advisor and create a framework for more automated compliance monitoring.

A patchwork solution

Early on in the evolution of managed accounts, wrap engines emerged to support mutual fund wrap programs. Additional products and services followed, often with the inability of these technology platforms to extend to accommodate these new products. Now we see wrap, separately managed account (SMA), unified managed accounts (UMA), unified managed households (UMH), rep as portfolio manager (rep-as-PM), rep-as-advisor, and tax optimization products supported by unique technologies, often with limited to no integration across products. This patchwork approach leaves the advisor to manage his/her business across multiple platforms. Once choosing what seems like the best silo for the investor’s portfolio, platforms tend to be either model-based with inherent inflexibility or wide open, leading to one-off portfolio management that is difficult to control. However, the limitations of this approach become more striking as investor needs change, making it an effort to move an investor from product silo to product silo with new investor portals and investor reports.

Firms and advisors are forced to balance the often conflicting priorities of offering new and enhanced products that may come with new platforms and the desire to simplify their operations onto a single solution in order to drive down cost, consolidate investor management, and streamline compliance oversight. As a result, progress can be two steps forward and one step back.

Portfolio construction tools

Advisors typically think of portfolios as a collection of mutual funds, ETFs, individual securities, SMA strategies, alternatives, and annuities within an asset allocation framework. However, the truth is that portfolios are a combination of two primary building blocks: Models and an asset allocation framework. Thinking about portfolio construction from this vantage point rather than a product vantage point promotes building a more flexible framework that delivers a wide variety of products. Let’s look at these building blocks in more detail.

- **Asset allocation**: An asset allocation is a portfolio construction component used to define the weightings for asset classes/styles with the goal to assign the appropriate asset allocation to a risk level appropriate for the investor. Firms and advisors will often draw on a set of asset allocations over the range of risk levels (e.g., conservative, moderate, aggressive, etc.) with other factors considered, such as taxability and time horizon. While an investor’s needs may be unique, it can be useful to begin with a particular asset allocation as a starting point in the portfolio construction process.
Models: A model is a set of holdings with assigned weights. Models often bear the connotation that the advisor is being steered into fixed models with limited or no flexibility, but here, a model is a very useful tool to define a basket of holdings or a mini portfolio that the advisor can define, slot into any asset allocation, or even include within another model.

Defining product in this common framework provides a number of compelling advantages:

- Having the flexibility to set up any number of models and place them within asset allocations directly or within other models allows the advisor to introduce scalability across his/her book of business. As a result, changes to the individual building blocks can cascade across all portfolios that contain the building block or model.
- By relying on a common intuitive model structure, the advisor can draw on any product framework, including funds, individual security(s), SMA models, traditional SMAs, and any new product in the future.
- Portfolio construction becomes much more flexible to fit the investor need. In addition to the scale benefits from defined models, the portfolio can now contain an appropriate mix of investment vehicles and products. It is no longer necessary to make the choice between wrap, SMA, or UMA. Product silos are removed with a single building block approach.
Investor portfolio construction and management

Providing an advisor the ability to set up and maintain the asset allocation and model building blocks is important, but the advisor also needs a framework that has the flexibility to address the specific and varied needs of each investor. Key elements to consider within the framework include:

- **Standard asset allocations** allow the advisor to create a starting point to construct a client-specific portfolio. From this starting point, the advisor should be able to customize the asset allocation targets within the overall asset allocation goal (e.g., moderate, balanced, conservative, aggressive, etc.) thresholds. For example, an investor may fit at the more aggressive end of moderately conservative allocation, but not at a truly moderate level. The advisor will then tilt the allocation more toward aggressive, within acceptable guardrails that the platform allows.

- **Managing legacy holdings** is a major source of the need to customize portfolios. Legacy holdings are very often accommodated through bespoke models or managed manually without structured portfolio targets. To ensure that the asset allocation and model building blocks can scale, legacy holdings should be considered as a separate element of a portfolio with specific tools to manage. Within an investor’s relationship, a legacy asset should be able to be tagged with information so that it can be automatically allocated properly against portfolio targets. Examples:
  - An advisor may recommend that an investor transition out of an asset over time, following a set transition schedule.
  - Investors with assets in a managed account that are segregated from the managed asset portfolio will not need to open an additional account.
  - An investor may wish to retain certain assets for a number of reasons that should be included in the portfolio targets. Low-cost basis holdings that will be transitioned over time are a common example. For example, if the legacy holdings are concentrated in the large cap value allocation, the advisor may want to have these assets “count” toward this allocation and only purchase the target large cap value recommendation(s) to the extent that the legacy holdings do not meet the recommended allocation percentage.

This framework allows the advisor to create portfolios customized to unique investor needs while benefiting from the efficiency derived through the maintenance of reusable portfolio building blocks. Efficiencies are further improved with the ability to integrate legacy holdings into portfolio targets without creating bespoke target portfolios that need to evolve as the legacy assets transition, creating the need for yet more non-reusable portfolio models. Finally, providing flexibility in asset allocation standard targets for specific portfolios allows for the building blocks to scale even further.
Compliance considerations

A single platform is a clear benefit for oversight, as investor information and portfolio detail are accessible from a single access point. This enables compliance oversight to better monitor businesses with varying degrees of customization, depending on the advisor’s investment process and the investor need.

By systematically implementing flexibility options as a component of a portfolio model, advisors can ease the portfolio review and approval process.

- **Legacy/transition holdings**: As presented above, legacy holdings and transition plans should be defined outside of the portfolio model. Compliance policy can then create acceptable hold lists for legacy assets. By separating the concept of legacy holdings, a clear delineation may be made between buy and hold eligible

- **Flexible portfolio targets**: Allowing some flexibility to alter asset class/style targets within thresholds allows the advisor to work with a smaller number of standard asset allocations and portfolio models, making monitoring more straightforward

With clearly delineated information around investor needs and goals, a single flexible platform has the information to construct the portfolio targets, inclusive of asset allocation targets, models, restrictions, and legacy assets. Compliance monitoring now becomes easier through a single platform and a single product architecture. This leaves firms better positioned to move toward a real-time and more comprehensive oversight program while still allowing tremendous flexibility to advisors within a well-controlled framework.

The complete managed account solution

An all-inclusive portfolio construction capability sets the stage to easily extend to a single end-to-end platform with common rebalancing, investor reporting, investor portal, and billing. This also leads to better advisor recruitment and retention by servicing investor needs across a wider variety of products and service options.

At the same time, regulatory oversight demands dictate the need for a strong risk management and compliance culture, which also benefits from a single-platform architecture. In addition, platform consolidation is an obvious target for rationalizing costs, but perhaps the most compelling reason for advisors to pursue a single platform is because it gives them the ability to continue evolving in a dynamic business environment. Indeed, the new products and services offered in a competitive industry are what fueled the patchwork environment that many advisors and firms live in today. However, by decomposing the product and portfolio construction into the key building blocks, the ability to innovate new products and readily extend the platform will give advisors a critical competitive edge.
About Genpact’s wealth management

Genpact provides wealth management platforms and solution to banks, broker dealers, insurance companies, wealth managers through OpenWealth®. OpenWealth® is an innovative managed account platform that offers award-winning unified managed household capabilities for a front-to-back solution that eases key operational and administrative burdens and lets wealth managers focus on building relationship and growing their business.

About Genpact

Genpact (NYSE: G) stands for “generating business impact.” We design, transform, and run intelligent business operations including those that are complex and specific to a set of chosen industries. The result is advanced operating models that support growth and manage cost, risk, and compliance across a range of functions such as finance and procurement, financial services account servicing, claims management, regulatory affairs, and industrial asset optimization. Our Smart Enterprise Processes (SEPSM®) proprietary framework helps companies reimagine how they operate by integrating effective Systems of Engagement™, core IT, and Data-to-Action Analytics™. Our hundreds of long-term clients include more than one-fourth of the Fortune Global 500. We have grown to over 68,000 people in 25 countries with key management and a corporate office in New York City. Behind our passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 16 years.

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