

Opinion

Managed Accts Industry Needs Standardized Communication

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Separate account managers need to improve the way they work with program sponsors if they want to capitalize on the increasing amount of assets flowing to these products.

There are multiple issues holding managers back from scaling up their businesses. The absence of standardization across sponsors, multiple points of access, weak consolidated reporting and difficulty getting a complete overview of all the activities within a firm are creating major headaches for managers that handle trading themselves. And managers not responsible for trading, but instead participating in model-portfolio programs, suffer the same challenges with regard to the exchange, communication and reporting of model data to and from sponsors.

However, technology is now solving these challenges and providing an industry standard for trading and communicating across sponsor platforms. Rather than having to connect individually to multiple sponsors, managers are now able to use one point of access, which also makes oversight easier while reducing inefficiency and cutting the risk of transmitting the wrong information. As a result, wealth managers can gain entry into a much larger marketplace.

Why Connectivity Matters

Managed accounts are expected to grow at an average of 16% annually to more than \$7 trillion in assets under management by 2018, according to **Cerulli Associates**. The majority of that growth will be on the sub-advised separately managed and unified managed accounts side, with substantial gains expected in model portfolio growth. With that growth comes the need for better standardized digital connectivity in support of managed accounts and model delivery programs. However, the industry currently has too many inefficiencies. The absence of industry standard communication along with multiple sponsor platforms means that managers have to perform manual, repetitive processes across different systems. This has had an adverse effect on revenue and business growth.

Asset managers may feel this absence of standardized communication the most, as they trade with multiple sponsors on various platforms that have their own customized processes and file formats. And a fragmented distribution channel hampers growth for managers, because it takes more time to implement investment strategy changes, which could hinder revenue growth. A standardized process would reduce manual, repetitive processes, thereby streamlining asset managers' work.

A Digital Destination for the Wealth Management Industry

Data is driving the digitization of wealth management and promises to transform the industry over the next decade. Wealth management firms, investment advisors and investors are poised to benefit as technology moves from the back office to the front office, improving the user experience and functionality for current and future clients.

Model portfolio programs have lacked transparency for investment managers, especially in regard to measuring how a model strategy is applied by the sponsor. This lack of transparency into model portfolios often results in significant uncertainty about a model's performance, which is critical information that managers rely on to guide them in adjusting their investment and sales activities. Establishing new interfaces and connections between the growing number of participants has historically been the challenge for the industry due to closed systems and the cost of replacing them. However, technology has evolved to the point where new digitized networks and interfaces can be unbundled and accommodate new industry standards for open-source messaging and file transfer protocol supported by industry associations such as the [**Money Management Institute**](#) (MMI).

The industry is at a critical point where there is now an urgent need for greater efficiency, automation and communication between managers and sponsors regarding model portfolios. In previous attempts, the costs were too high to create a reasonable return, requiring users of network solutions to be full service clients. But due to advances in technology and the digitization of the industry, vendors are now able to decouple their network offerings, creating an attractive price point for participants and reducing the cost of connectivity. The timing is right, with the industry having evolved by creating data communications standards and technology offering much greater flexibility and reducing the cost barriers.

Today, we are seeing data, sponsors, managers, custodians and third parties coming together in a way that can allow managers to connect to multiple sponsor programs easily. The advantage of this simplicity for both usage and access is that it can enable participants to further enhance efficiency and reduce costs. This new network promises to provide comprehensive, real-time information to advisors to help them better manage investor assets – ultimately connecting the industry and participants together to create powerful and efficient financial experiences that enhance the way we live and work today.