Suitable for professional clients.

Quilter

Building an efficient investment process

There are a range of powerful commercial considerations that have made outsourcing portfolio management the best way for advisers to cope with the today's dynamic regulatory environment as Andy Miller explains.

Creating and managing an efficient in-house investment process is now more challenging than ever, thanks to the uncertain economic backdrop, and the ever-evolving needs of your clients. However, in particular, the introduction of the Consumer Duty, with the requirement to demonstrate that services meet the needs of each of your clients, deliver the right outcome, and provide value, has made running advisory portfolios much more challenging. As a result, the level of expertise, time, and resources required to manage portfolios now far exceeds what was required previously.

The commercial conundrum

To illustrate the current cost pressures on adviser firms, let's imagine you have a client with £150,000 in an advisory portfolio who pays an ongoing advice fee of 0.5%. That amounts to an annual fee income of £750. With a typical hourly rate for an adviser of, let's say, £150, this means that if you spend any more than five hours on this imaginary client, they will actually be loss-making for your adviser firm.

Faced with such realities, the next question becomes whether you can run an in-depth and efficient investment process, as well as provide a financial planning service, and - under your Consumer Duty obligations - demonstrate it is delivering appropriate client outcomes, all within the five hours allotted?

Mrs Jones has £150,000 in an advisory portfolio. Her adviser charges her an ongoing advice fee of 0.5%

- Average hourly rate: £150 per hour
- Client portfolio: £150,000
- Ongoing advice fee: 0.5% (£750 pa)
- 750/150 = 5

Anything more than five hours spent on Mrs Jones is loss making

The silver lining

Some advisers will, of course, have the resources and in-house expertise for this, but for many others, this simply isn't possible. The silver lining is that outsourcing the day-to-day investment management of your client portfolios can alleviate the mounting regulatory strain on you and your business and free-up your time and resources. This helps ensure your clients receive ongoing advice that's appropriate to their needs, and that's cost-effective and sustainable. This improves profitability and can help drive positive client outcomes for your clients.

You may be delegating your investment management process – but you are not delegating your responsibility to your clients.

Andy Miller, Lead Investment Director, Quilter

Client and adviser benefits

Finding the right investment manager to delegate your investment process to reduces the need for expensive in-house investment expertise as well as the analysis systems and regulatory costs that now accompany the management of client portfolios.

If you are still carrying these costs, outsourcing can deliver increased margins as well as a range of other operational, regulatory, and investment efficiencies. It can also deliver greater productivity by reducing the administration and research required to build, monitor, and report on your in-house portfolios.

A broader and more valued advice service

The prospect of outsourcing your investment services may be a cause for concern for you – especially if portfolio management was previously highlighted as a value-add service to your clients. You may be delegating your investment management process – but you are not delegating your responsibility to your clients. In fact, outsourcing creates greater opportunities to enhance the service you offer.

These ensure that the products and services provided align with client needs, and that the advice package delivers the right outcome. This can include holistic tax planning advice and support, behavioural coaching, and, of course, the work involved in reviewing existing goals, setting new ones, or using cashflow modelling tools to illustrate the journey.

Commercial benefits

Lower costs and increased margins

More time and greater productivity

Less risk and more value

Aligning interests

When done properly, outsourcing your investment service can be seen as a natural extension of your firm's advice service. It allows you to focus on aligning solutions with your clients' needs and helping them achieve their financial goals.

Outsourcing also enables your clients to benefit from an enhanced investment process. Whether that's better research capabilities, a wider range of investment options and asset classes, more developed responsible and sustainable investment options, or the attraction of tapping into a more robust due diligence process. Additionally, the requirements under the Consumer Duty, such as assessment of value, will be done for you.

All these elements ultimately help to deliver better outcomes for your clients, and rigorously demonstrate that you are doing so.

Also, where outsourcing proves its worth is in reducing the regulatory risks, helping to reduce costs, and to increase profitability.

For you and your clients, there's never been a more appropriate time to consider the right investment manager to partner with to manage your firm's investment process.

Published: April 2024
QI 26600/31/6692