EMC PERSPECTIVE

An IT Roadmap for Launching Unified Managed Accounts Services

Reader ROI

- The UMA offers more flexible, open fee-based options for financial advisors.
- However, UMA presents challenges to the IT departments of financial services firms.
- A well-designed roadmap is vital to the success of a UMA product launch

An IT Roadmap for Launching Unified Managed Accounts Services

Firms that have been offering separately managed accounts (SMAs) are evolving their services to offer unified managed accounts (UMAs). However, successful launch of a UMA platform will depend on clear goal alignment and an IT roadmap that addresses key business requirements.

A UMA account offers a single registration point for every vehicle in the investor's portfolio (i.e., stocks, bonds, mutual funds, hybrid vehicles, exchange-traded funds). The UMA sponsor offers a proprietary asset allocation model relying on individual managers within the firm and, in some cases, outside the firm. The client benefits from having each sleeve of his portfolio managed by a professional whose sole focus is aligned with that investment area.

In effect, a UMA offers a master account manager and sub-managers, each responsible for a piece of the portfolio in which all pieces are tied to one account. In most cases, the advisory firm implements the model to meet specific client planning requirements.

UMA structure

A sponsor firm can choose among several models for establishing a UMA program. We present two options as examples:

Firm A:

Firm A has an extensive retail distribution network and in-house sub-managers who take on the responsibility for managing the individual sleeves, each geared for a specific asset type within the UMA accounts.

Firm B:

Firm B is a regional investment advisory firm with an extensive retail and or banking distribution network. The regional advisory firm, acting as the master manager, oversees the overall management of the client portfolio, but sub-managers who are external to the firm are responsible for the individual pieces of the portfolio.

Starting down the UMA road

In the IT arena, the simple concept of a unified portfolio made up of multiple asset classes becomes challenging. Critical tactical issues need to be managed so that the client can be served in a unified fashion.

An IT roadmap can provide guidance for prioritizing tasks and integrating a UMA platform with existing systems. The roadmap begins with addressing initial IT challenges:

- Are the goals and timelines set by the business realistic?
- Can the UMA product be launched in phases with a gradual rollout of additional features?
- How will the new fee billing complexities affect the legacy billing system?
- Can the timelines be met while also leveraging the Depository Trust & Clearing Corporation's (DTCC's) planned managed account service? This service will automate the process of opening new accounts as well as streamline the flow of information required to maintain various types of managed accounts.
- What will be the process for adding to and/or removing from the platform any external managers?

Further down the road

A comprehensive roadmap will address other high-impact areas including system architecture (with specific attention to open messaging), modifications to the account-opening process, and transaction processing. Areas requiring attention include:

- **Client Performance Reporting**
  - Is it necessary to buy a composite engine for deriving composite returns for the UMA platform? How will this be integrated with the existing composite return calculations?
  - Do current systems and data hubs allow for sleeve-level and overlay manager-level reporting and performance? Or is an extension to existing data models and applications needed?
- **Trade and Order Management**
  - A reliable and secure straight-through-processing infrastructure for trading on these complex accounts is required. A full analysis should be undertaken to ensure seamless integration.
- **Transaction Processing**
  - A current-state/future-state analysis of the portfolio accounting system and its ability to handle sleeve-level trading is required to ensure correct nightly transaction processing.
  - An impact analysis on the generation of additional tax lots from account rebalancing and the direct impact of posting multiple sleeves of the same security on data storage needs to be undertaken.

Putting it all in place

UMAs provide benefits to clients and firms. There are opportunities for client-specific customization based upon client needs, security/industry restrictions, tax optimization, wealth preservation strategy, coordination of outside assets—all in one client statement. And one account-opening form and one paper trail for all products in the client portfolio improve efficiency and lowers costs.

Implementing a UMA program requires realistic expectations on the part of the business units along with forward thinking by the IT organization. Proper planning and a comprehensive roadmap can smooth implementation and boost competitive advantage in the volatile financial services marketplace.

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