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## Managed Acct Fee Systems Are Frail: Study

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Managed account platform sponsors and money managers are likely to need improved fee management systems in the next five years to handle increasingly complex investment products and programs, asserts a new study from [TowerGroup](#)<sup>1</sup> of Needham, Mass. But the roster of outsourcers for these systems appears to have shrunk by one player as **Octavian**, one of four specialists on the market, ceased operations abruptly last month.

The study outlines how most sponsors and managers today have legacy homegrown or customized vendor-built revenue management systems that help them to calculate fees charged to clients for use of managed account products, as well as to support billing processes and ultimately assign payments to sponsors, managers, and advisors. The report states that Octavian, [Bonaire Software Solutions](#)<sup>2</sup>, [CheckFree](#)<sup>3</sup>, and [Redi2 Technologies](#)<sup>4</sup> control "less than 15% of the addressable market share, indicating that the industry has failed to acknowledge the growing problems of fee revenue management in managed accounts."

The biggest challenge facing managed account executives in charge of fee management is not a failure to recognize looming difficulties, says **Matthew Bienfang**, senior research director for brokerage and wealth management at TowerGroup and the report's author. He says these executives know their industry is embracing more complex multi-currency investments; "enterprise" fee structures that allow innovative pricing for preferred customers; and the consolidation of separately managed accounts and other funds into unified managed accounts (UMAs).

Instead, the problem for these executives is "selling" their superiors on the need to invest in improved systems, Bienfang says.

"The challenge that they have today is building the business case," he adds. "I just talked with one of the largest players in the managed accounts space directly serving retail and the [independent advisor] market, and he knows it's a problem – he knows what the fee slippage is. But he has a hard time selling it upstream within the organization. What they have today isn't broken yet."

The "Fee Management Solutions: The Who, What, and Why of Managed Account Fees" report predicts that wealth managers face a crisis if systems do start cracking under the pressure of added assets and more complex investments. [The report is available on TowerGroup's Web site by [clicking here](#)<sup>5</sup>.]

"TowerGroup expects fee revenue management to become more complex through 2013 as sponsors continue to grow assets under management and expand the breadth of their manager relationships," it states. "Additionally, TowerGroup believes that the minimum asset thresholds for accounts will continue to drop significantly, increasing the number of managed accounts that sponsors and managers control."

The collapse of Octavian adds more pressure, Bienfang says. He says it's unlikely the sector will add other players from scratch because it is "mature" in terms of technology development. The only way new players could enter the market would be if larger end-to-end technology providers such as [SunGard](#)<sup>6</sup> or [Broadridge](#)<sup>7</sup> decide to spin off fee-management offerings, Bienfang says.

Octavian shut its doors in July after venture capital funders backed out, says **James Penman**, a managed accounts industry technology veteran who was serving as the firm's chief technology officer since coming on board a year ago. He had previously designed managed account platform technologies at [Bank of America](#)<sup>8</sup> and [Wachovia](#)<sup>9</sup>, and is now working as a consultant through [Penman Consulting](#)<sup>10</sup>.

Bienfang says it's likely that Octavian's clients retained rights to the coding and systems, and were able to bring fee-management operations in house when it folded. Octavian had been founded in 2005, and was based in Israel, with its U.S. headquarters in Boston. It offered a suite of products for managed account providers, including account opening software. Bienfang says he heard rumblings about the firm's problems but nothing was confirmed before finishing his report.

Bienfang says while the need for better systems is prevalent, the cost of acquiring an outsourced solution – from licensing to implementation – easily hits six figures.

Most managers and sponsors consider fee management a priority, and are noticing it more as the impact of fee compression and competition takes hold, says **Chris Winn**, principal and cofounder of **MainStay Consulting Group**<sup>11</sup> in Boston. But fee-management technology often ties into so many other systems within a firm that it's difficult to launch a narrow upgrade, he says. "In a lot of cases, you're not just dealing with your managed accounts or your investment division," he says. "Sometimes it has to be an end-to-end solution."

The TowerGroup report pegs Redi2's Revenue Manager software and CheckFree's Advantage Fee program as having the strongest potential. "Redi2's Revenue Manager appears to have the momentum to capture additional market share in a market that is wholly underpenetrated, but CheckFree as the incumbent [separately managed accounts] vendor may not be far behind," it states. Bienfang says Redi2 and Bonaire have roots in the institutional fee management space, but have made efforts to tailor systems to the managed accounts world.

Penman of now-defunct Octavian says he expects many managed accounts industry players to make a transition to outsourcers. "The shift towards vendor solutions has been delayed only due to the recent turmoil in the financial services industry," he writes in an e-mail. "Bonaire, Redi2, and CheckFree Advantage are making traction, despite many financial services companies deferring purchases to preserve capital. I personally expect the acceleration of purchases of fee billing solutions in 2009 as UMA products become even more popular with advisors and investors."

The TowerGroup report states that while several portfolio accounting and other larger managed accounts operations providers have "baked-in" fee management tools in their systems, "for the most part, these solutions do not provide the level of customization and capability increasingly being demanded by advisors, sponsors, and managers."

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