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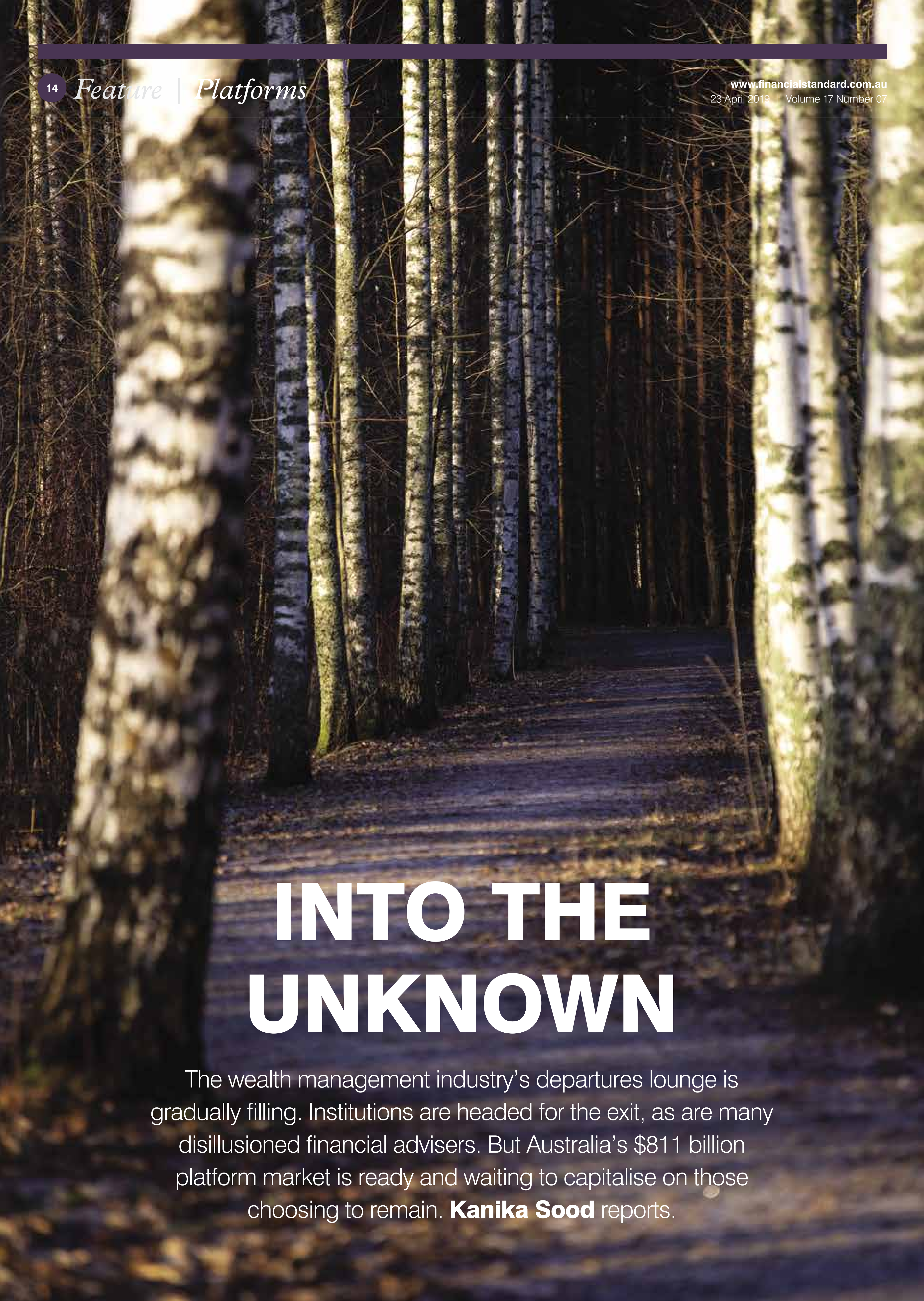


INTO THE UNKNOWN

The wealth management industry's departures lounge is gradually filling. Institutions are headed for the exit, as are many disillusioned financial advisers. But Australia's $811 billion platform market is ready and waiting to capitalise on those choosing to remain. **Kanika Sood** reports.

01:
Deborah Kent
financial adviser and director
Integra Financial Services

02:
Matt Heine
joint managing director
Netwealth

03:
William Davidson
chief executive
Powerwrap

Deborah Kent[01] is a financial adviser with three decades of experience and remembers a time before platforms became a mainstay for advisers.

"Everything was manual," Kent says.

"You had to phone the fund manager to get the unit price every time that a client wanted to know the value of their investments. The offices were full of files, full of paper."

Then platforms, though not as we know them today, burst onto the scene in the 1990s.

Advisers could now check unit pricing quickly from portals and when tax season rolled around, it was easier to generate consolidated reporting.

In the 20 or so years since, platforms, wraps and master funds have amassed more than $811 billion of advised assets under their umbrella.

Over the years, different models and features sprung up. As the playing field expanded, more players entered.

Today, many advisers use more than one platform to service their clients (see Figure 1).

And it is easy to see to why the industry grew so quickly. It had something to offer to both the advisers and fund managers. It also had something to take from both parties – fees.

"If you were an adviser in the late 80s, you did the asset allocation to your client's needs and then you used managed funds to design the portfolio as direct shares were limited to stockbrokers," Kent recalls.

"The wholesale funds charged lower fees than retail ones but they had minimums of $100,000 back then. If a client had $300,000 in assets at retirement, it was considered a lot of money but the wholesale fund minimums were still too high to diversify their investments."

Platforms, or master funds which kicked off the industry, solved the problem for the advisers.

They clubbed together multiple investments to give them access to the cheaper wholesale rates and saved time by automating many manual tasks such as mail collection, reporting and portfolio valuation.

For fund managers, the industry provided an excellent source of diversifying their investor base. Historically they had raised large amounts from institutional investors.

But this came with risk: their cost bases could balloon if even one investor pulled out. Platforms essentially combined many advised-investments to create an institutional-sized client, thereby diffusing concentration risk.

Over the past few years, ASX-listed platforms have emerged as an attractive sector in the small caps market with investors such as IFM Investors taking stakes in HUB24, Netwealth and soon-to-list Spitfire.

But now the industry faces a moment of reckoning as the Royal Commission amps up the expectation for financial services vendors to meet community expectations, technology leaps ahead, competition pushes down fees and the Financial Adviser Standard and Ethics Authority's new professional requirements threaten to shrink adviser numbers.

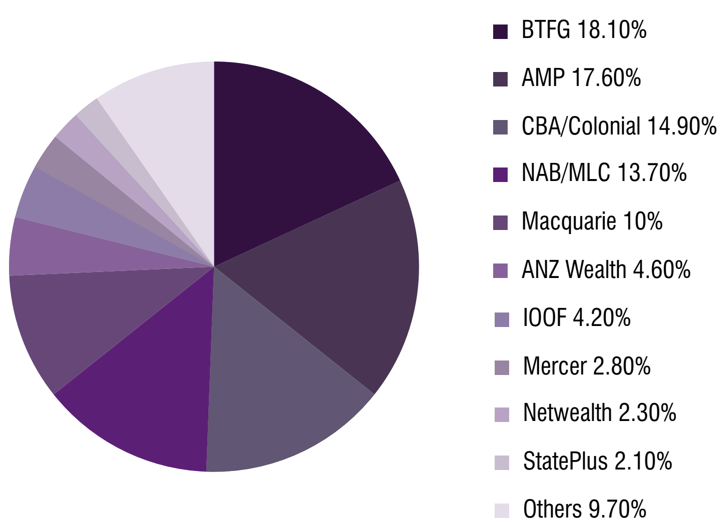
A shifting adviser landscape

The primary client for platforms in Australia are advisers. While they have moved to make the experience for the end client better by giving them logins of their own, the typical investor still comes through an adviser.

Adviser numbers sat at 27,795 at April start, down 721 from January's big influx of adviser registrations, according to Rainmaker analysis of the ASIC Financial Adviser Register.

It is hard to pin down if the number of advisers, and hence the user-base for platforms, will shrink or rise in the coming years.

Figure 1: Market share in platform, wraps and master trusts market



Source: Strategic Insight, at December 2018

> *For whatever reason, platforms have become more expensive over the years.*
> **Deborah Kent**

On one hand, qualification requirements for advisers set by FASEA have been predicted to push out almost half of the advisers currently operating in Australia.

On the other hand, the big banks are trimming their wealth and advice businesses and non-aligned platforms like Netwealth and HUB24 are holding their breath for the departing advisers to come their way.

Additionally, it remains to be seen how the wealth advised by departing advisers will be redistributed in the industry.

A report last year from Adviser Ratings predicted 50% of advisers could leave the industry and $900 billion of wealth could become available for management as FASEA and Future of Financial Advice-like Royal Commission changes stir the landscape.

Netwealth joint managing direct Matt Heine[02] says, based on anecdotal evidence, the company believes 35 to 40% advisers could leave the industry in the next two to three years.

Yet, it is bent on staying hinged to advisers, in line with its competitors.

"We are an adviser-focused business. About 95% of our business comes from advisers and 5% from non-advised clients most of which were previously attached to an adviser but decided to stay on the platform after the advice relationship ended," Heine says.

In a future where advisers numbers are projected to fall, the company is betting on advisers that leave the big four institutions and their aligned platforms to come its way, hastening the preference for independent or structurally-separated platforms that they have shown in recent years.

"Absolutely, we have never seen so much enquiries," says Heine in response to whether it is hearing from more advisers post-Royal Commission.

Fellow structurally separated platform provider Powerwrap, which specialises in advising bigger-ticket clients with an average of about $1 million in assets, is also positive about the coming months.

Its chief executive Will Davidson[03] has his eyes turned towards teams leaving large investment banks.

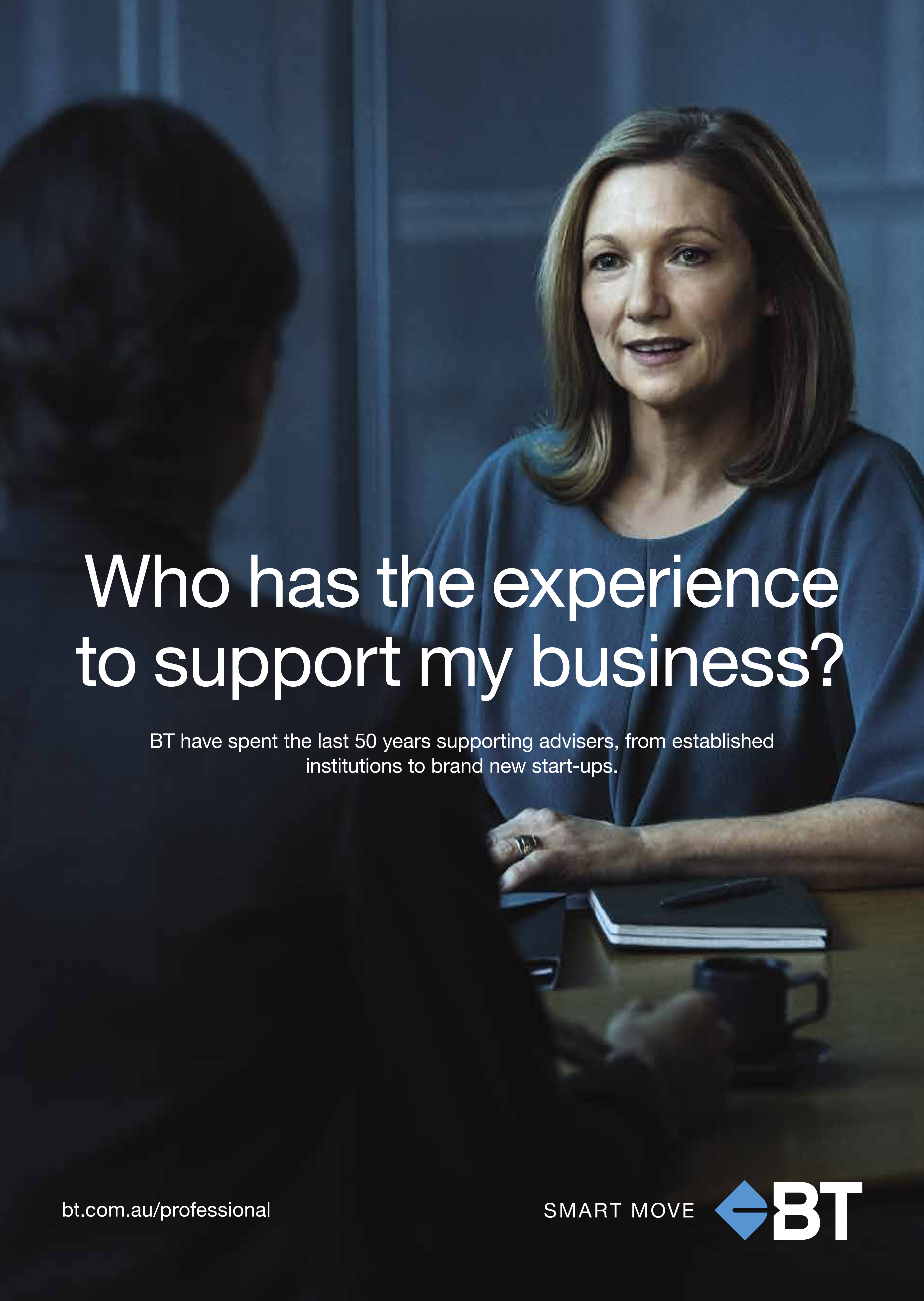
The bigger players like BT Financial Group and Colonial First State are also anticipating inflows over the next year and they say the new inflows will come from independent or non-aligned financial advisers.

"We are looking at a very strong pipeline for the year," BTFG general manager platforms and investments Kathy Vincent[04] says.

At CFS, only 20 to 30% of the adviser base using its platforms is CBA aligned while up to 70% are independent.

Praemium chief executive Michael Ohanessian[05] is perhaps the best at calibrating his response to the future of the industry.

"It's a bit too early to say where they are going to go," says Ohanessian, who thinks the post-Royal Commission changes and the move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SMART MOVE
BT

Building the financial practice of the future.

In a rapidly changing regulatory and technological landscape, financial advice practices have never been under greater pressure to adapt. But exclusive research from Investment Trends shows that some practices have been successful in responding to this fast-moving environment, laying the foundations for the emerging practice of the future.

Why business as usual is no longer enough.

We all know that financial advice businesses are dealing with an environment of almost unprecedented and unrelenting change. So how do you prepare your practice to thrive and grow in this new and very different world?

To help answer that question, Investment Trends analysed data from a comprehensive qualitative survey of practices across the country, searching for the features that make Australia's top-scoring practices stand out. In doing so, Investment Trends found that despite the challenges, a small number of advice businesses are already finding new growth opportunities and laying the foundations for the emerging practice of the future.

What will your new business model look like?

Recep Peker, Research Director at Investment Trends, oversaw the BT Financial Practice of the Future research.[1] "We started by giving each practice a combined score, based on three key indicators – revenue per planner, client acquisition and profitability growth," he explains. "Then we looked at the characteristics that differentiated the top-scoring practices from the rest."

"What emerged was a complex picture, with many different elements coming together to drive success. We also see practices pursuing a variety of different business models, from multi-disciplinary to specialist. But what does seem clear is that many of top-scoring practices have been willing to embrace change and begin re-engineering their processes in response to an altered industry environment."

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The research suggests that top-scoring practices have driven performance in three key areas:

1. Creating productive workplaces.

   Top-scoring surveyed practices are harnessing the power of efficiency to service a large number of active clients. The Investment Trends research also shows that planners in top-scoring surveyed practices are more productive than others, managing 40% more active clients (148 per planner, versus 87) and generating on average annual revenue of $690, 000, versus an average annual revenue of 210,000 for bottom-scoring practices.

2. Embracing the digital era.

   Top-scoring practices are an enthusiastic adopter of new technologies, particularly those that create a seamless and engaging client experience. They are also the most likely segment to use dedicated CRM software (35% versus an average of 29%), automated marketing campaigns (37% versus an average of 24%) and digital signatures to streamline client service (21% versus an average of 16%). They are also keen to create new efficiencies through further automation or outsourcing of key processes.

3. Engaging with clients.

   Top-scoring surveyed practices excel at client acquisition and use a variety of channels to regularly engage with clients. They are also more likely than other segments to use digital methods of engagement with their clients, such as providing them with online access to view their financial position (49% versus an average of 33%), sending regular email newsletters (63% versus an average of 56%) and using interactive modelling in client meetings (32% versus an average of 20%).

[1] The *BT Financial Practice of the Future* report is based on a comprehensive quantitative survey of 345 financial advice practices conducted by Investment Trends in May 2018.

04:
Kathy Vincent
general manager platforms, investments and operations
BT Financial Group

05:
Michael Ohanessian,
chief executive
Praemium

06:
Cameron Garrett
head of wealth intermediary
Macquarie

to managed accounts will be two big themes of the year.

"If it's a smaller adviser base, we can still be competitive. Imagine a world without wraps, people will need them," he says.

Investing in technology

Platforms are essentially composite pieces of software. And, like any software, they need regular maintenance and can be built up at the back-end to deliver new client-facing functions and features.

Macquarie is currently transitioning its 20-year-old wrap platform's technology to a new cloud-based portfolio management solution with Swiss fintech Temenos.

"What that means is that over the next two to three years, we will be transitioning our whole back office onto our new tech. This will allow us to remove much of the complexity that we have in the tech in our business today and remove many of the interfaces.

"All of this means we will be able to achieve much more scale and we will be able to support much more scale in our business," Macquarie's head of wealth intermediary Cameron Garrett[06] says.

It is also working on digital advice solutions that streamline manual tasks such as advice automation and allow natural language searches with a simple input like, 'Show me all of my tax-payments for last 12 months.'

"It's the same technology and tools that Netflix use to be able to personalise their client experiences so that is the capability that we have now been able to leverage in wealth already for our clients in the digital portal and in the year ahead we will be providing the same for our advisers," Garrett explains.

Macquarie's platforms are fortunate in that they have the bank's balance sheet to support its investments. And its retail bank has already made inroads into things such as natural language search from which it can leverage expertise on how to store and use its data.

At BTFG, the focus this year is around perfecting its online business management solutions.

"We are focused on human-centric design and figuring out how advisers and end clients interact with our tools," Vincent says. "The customers are now using the mobile app four times a week."

BTFG has an in-house adviser think tank that it leverages to identify development points for its platform systems.

Fees are falling

Ongoing investment in technology aside, platforms can be expensive to use for certain clients.

"I am very cost conscious. For whatever reason, platforms have become more expensive over the years, perhaps fund managers' indirect cost ratios have gone up" Kent says.

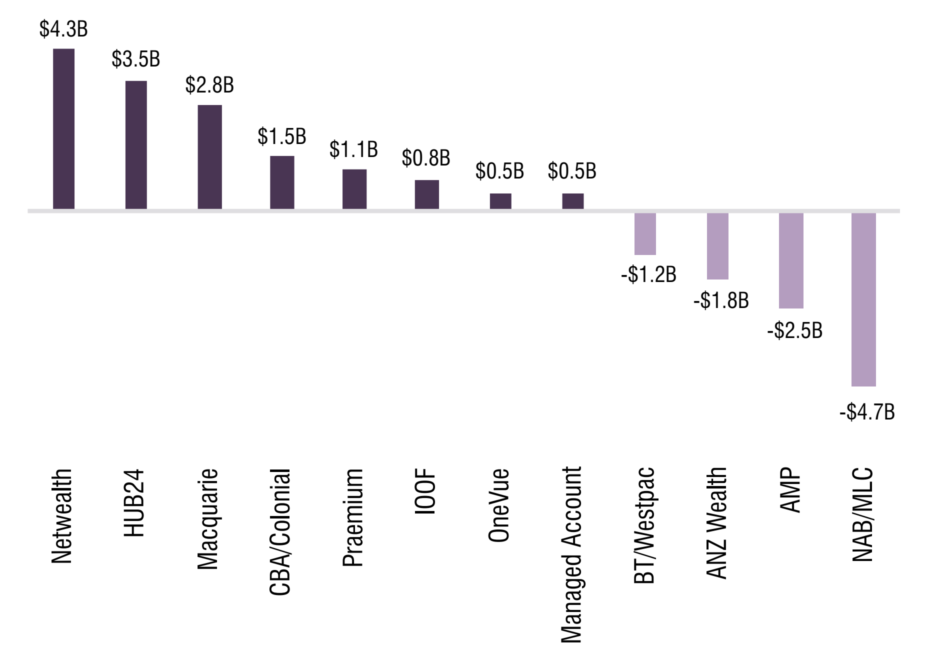
But a cost correction in the industry seems to be underway.

Last year, BTFG made a splash when it announced a cheaper version of its BT Panorama platform.

The compact version gave advisers access to a smaller investment menu while charging a smaller yearly flat fee and the same asset-based administration fee.

"We made a very specific move away from differentiated pricing. We believe that fee structures should be simple, transparent and effective," Vincent says.

Figure 2: Net inflows market share in $'billions



Source: Strategic Insight, 12 months to December 2018

"

We are focused on human-centric design and figuring out how advisers and end clients interact with our tools.
Kathy Vincent

The same month, HUB24 launched a low-cost option in its investor-directed portfolio service and superannuation products.

At Macquarie, which attracted the third-highest inflows after Netwealth in the latest Strategic Insight report (see Figure 2) the platforms fees are currently tied either to assets under administration or number of assets in the portfolio.

"It is very sensible to consider the kinds of platforms and the fee arrangements that are required for different solutions to be attractive to different segments of the clients," Garrett says.

"And so we certainly put a lot of thought into that. We do have a solution in the market today, the Macquarie Accumulator which does not have admin fees and so in many ways that is currently often used for those with lower investible sums. Certainly, as we look into the future, we are putting a lot of thought into how we support different client needs."

At Colonial First State, acting general manager of product Peter Labrie[07] says the market is competitive and a percentage-based fee is better than a fixed dollar fee or a subscription-style fee.

"We are reviewing our fee proposals," Labrie says. [Editors note: CFS cut fees by $63m as this issue went to print.]

"The fees are trending down. It is hard to tell but 50 or 60 bps is still a long way to fall," Ohanessian says. "It doesn't matter if your total assets are growing."

Earnings reports filed by ASX-listed players show that platforms are a profitable industry.

Netwealth, for example, turned out a net profit of $16.3 million from $48.2 million in revenue – a net profit margin of nearly 34% in 1H19.

One fee-racking avatar of platforms that is definitely on its way out is white-labelled solutions that don't add any value, but fees.

"There is a definite trend away from white-labelling. It makes sense where there is a clear customer benefit, or for example, when a licensee is building a customised solution based to suit specific client needs," HUB24 chief executive Andrew Alcock says.

Building the investment menu

Theoretically at least, investment menus on platforms are limitless.

In reality, approved product lists are fenced by research ratings, stability of the investment team, performance track records and other options already on the platform.

"We are constantly thinking about providing an effective level of choice," Labrie says.

"A part of fee structures is also that there is a strong trend towards passive investments. We are looking to expand our range there. But it's not all about just lower fees, the funds must have a strong history of outperforming and should add differentiation to our current offering."

07:
Peter Labrie
acting general manager of product
Colonial First State

08:
Andrew Alcock
chief executive
HUB24

09:
Tony Nejasmic
head of distribution and marketing
Xplore Wealth

CFS is seeing the most demand in directional global equities and a bit of demand in impact investments such as social housing and microfinance. The appetite for emerging markets remains subdued among its clients.

At Praemium, managed funds, ETFs and bonds are highly in demand.

"The demand is driven by private wealth clients who seem to have more exotic needs. There is some demand for emerging markets," Ohanessian says.

All providers regularly preen their platforms to keep the investment options useful to the clients. CFS reviews its manager lineup quarterly but will take off investments immediately if there is a risk.

Deratings, manager departures and structural issues are the most common reasons.

Praemium dabbled in structured products and derivatives in its investments lineup but booted them out after the company found there was no demand for them.

Platforms have also made a bid to bring more under their purview by adding capabilities to report on off-platform assets.

"On the non-custody side or virtual managed accounts there is no limit to what portfolios can hold through platforms," Ohanessian says.

Netwealth is working on enhancing individual report customisation for such assets among its key developments later this year.

Another boost could be on the horizon, if the Government's push for default retirement income products actualises and more providers like Challenger look to get their annuity-style products onto platforms.

If not platforms, then what?

Platforms remain the dominant tool for advisers to manage their clients' investments but there are other options.

"Platforms have their place but they are not right for everyone. I only use them when there is a very good reason to do it. Sometimes, I think there is an overuse of platforms," says Kent, who uses them primarily for clients who want bespoke portfolios.

Parallel to the development of the platform industry, SMSF and financial planning software advanced too.

They can now provide reporting on investments, link it to a bank account and capture capital gains tax, just like platforms.

However, they may not be able to collect mail on behalf of the investor or generate consolidated tax reporting. But this does not deter advisers like Kent.

"I find that accountants will still go through the full consolidated tax report when they audit it," she says.

Another challenger to platforms as the de facto marketplace for advised investments is the ASX's listed managed funds. Exchange-traded funds and listed investment trusts and companies have swelled their assets under management rapidly in the last few years.

Yet active ETFs still command a small part of the market and may not meet the reporting support that advisers or clients may look for.

An adviser could skip platforms, financial planning software and exchange-traded vehicles by going directly to a fund manager to invest in a fund. However, the latter does come with some peril.

Onboarding a new client requires due diligence like anti-money laundering and know-your-client checks, and then ongoing servicing. This may mean the fund managers essentially outsource the functions to a platform to save time, money and regulatory headaches.

Too many players?

For years, watchers have speculated that surely so many competitors can't all survive and the industry will go through a consolidation at some point.

"There has been a lot of talk about consolidation for 10 years. We all remember that Cerulli report that came out in the 2000s [predicting consolidation] but it hasn't happened at the same level," Xplore Wealth head of distribution and marketing Tony Nejasmic[09] says.

"A good question to ask is who will be buying the platform businesses? The natural buyers would have been the big banks but they are getting out of advice."

For the ones that are staying more broadly in wealth management, like BTFG, acquisitions are not top of mind.

"It is a genuinely competitive marketplace and it does need a lot of continued investment. Given our strength of our business we are in a privileged position to be able to make that investment, and we will continue to focus on being competitive," Vincent says.

> *The fees are trending down. It is hard to tell but 50 or 60 bps is still a long way to fall.*
> **Michael Ohanessian**

The merger and acquisition activity in the segment has come from relatively smaller players.

In 2016, HUB24 acquired its vendor Agility Applications which provided hosting, management and reporting technology solutions for stockbroking clients. A year later, OneVue bought a small a superannuation administrator that was already integrated with its services.

Xplore Wealth, which started as a managed discretionary accounts service, bid $42.5 million to acquire a competitor – Linear – to add wrap functionality to its business. Last year, it picked up superannuation businesses and Nejasmic says there is always an appetite for more if it's a natural fit.

For Powerwrap chief executive Will Davidson, acquisitions were one of the pulls of taking the company public, in addition to giving its investors liquidity.

Acquisitions are hard work in tech-focused industries such as platforms. Nejasmic says Xplore Wealth [formerly Managed Accounts Holdings] decided to keep its wrap acquisition's technology untouched to ensure continuity to customers.

A team directed by its chief operating officer, is currently looking at potentially merging back-end functions of the two platforms into one.

"You have to ask what system is the platform on, can it be migrated, how much work does it need to maintain, is it easy to modify, do the interfaces of the two platforms work together?" Nejasmic says.

"And that is not enough, you need to go through the process of how do you actually merge the platforms, how do you move the clients?"

Consolidation or not, most bosses are not afraid of the average adviser using another platform in addition to theirs.

"It is not an unhealthy thing, some platforms do certain things better than others. Ultimately, it is about the end client," Ohanessian says.

Praemium last year, vetted a potential acquisition target but abandoned it, the company's earnings report shows.

"You have to think it's two pieces of software coming together, there is a lot of work there," Ohannesian said in response to potential consolidation in the industry. FS