



The future of financial advice

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The future of financial advice?

Chris Bowen – Minister for Financial Services, superannuation and Corporate Law announced important changes to our industry on Monday 26th April 2010:



Removal of rebates and volume based fees.



Ban on all commissions by 1 July 2012



Clients must agree to fees and annually renew (by opting in) to an advisers continued services.



- Increase in SG from 9% to 12% by 2019!
- Higher Concessional Contributions cap (\$50k) for some
- Earliest effective date for any changes 1 July 2012

Much water to flow before implementation including a Federal election so many changes yet possible.

Many recommendations in the Henry review still under consideration!

- Particularly annuities and broad tax discount on savings

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What does all this mean to the financial adviser?

Rebates will have to be replaced for many

Those with little engagement with their clients will lose a significant percentage of their clients

Clients will need to see ongoing value to continue to opt-in

Clients will be more critical in their assessment of the fees they are paying

Ban on commissions will not have much impact for most

What does all this mean to the financial adviser? *Cont.*

What is the value of a planning practice after all the changes?

Higher professional standards required will force many out.

Lower income levels as poor advisers lose clients will force many out.

Smaller practices without scale and efficiency will come under significant pressure.

Larger well managed practices need to enhance and communicate a clear client service offering and need to improve operating efficiencies

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What does all this mean to the financial adviser? *Cont.*

The days of set and forget of a clients portfolio are gone!

No more ongoing trail fees if no service to accompany the fees!

The advisers who survive the shakeup are the ones who can provide ongoing value to the client including:

- *Ongoing strategy review*
- *Ongoing portfolio management*

Advisers to become more like Accountants and Lawyers charging for actual time spent?

This does not mean any longer investing in a few managed funds and waiting for “the long term” to give the returns required.



It means being proactive in portfolio management.

- Direct equities
- Managed funds
- Syndicates
- Income securities (bonds, TD’s, bank bills etc)

Some facts:

- Worth noting here that most assets being managed by advisers are superannuation assets, whether invested in a super fund or through a self managed fund.
- **The adviser needs to differentiate themselves from the next guy.** If I can obtain the same product from any number of other advisers what value am I adding?
- One way to “own” the process is to own the investment process from the client perspective

A word on SMA's

We are not opposed to SMA's but:

- Believe they are better suited to the “small end” of the market
- Don't have the advertised flexibility!
- Don't differentiate you from the rest of the market
- Don't give you a cost advantage
- Don't give you a “manufacturing” margin
- And... netwealth will deliver an SMA in the future as part of our complete product offering!

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We are very supportive of the Individually Managed Account structure

–Bridgeport Financial Services – A case history

- Lower fees or better product offering?



–netwealth model portfolios

- S and P research
- S and P Investment strategy
- S and P quarterly reviews, commentary and analysis
- Regular review of investments

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How to deliver a cost effective, efficient, tailored IMA?

We saw the need to integrate software that was:

- Scalable and able to be highly tailored client by client.
- Could handle very large numbers of client portfolios being rebalanced at once
- Could integrate with all the other features of a full service Wrap for both Investment and Super accounts
- That had inbuilt management and compliance tools
- That suited advisers with discretionary as well as non discretionary business models
- That could handle all asset classes
- Where existing portfolios could be managed and progressively moved to the preferred model
- Where clients could invest in multiple models

Some of the “challenges” we faced....



Business rules were a huge challenge.....

- Frozen funds
- Funds closed to new investment but open to redemption
- Superannuation trustee restrictions
- Minimum cash requirements

We needed to retain flexibility and full function in relation to items such as....



- Dollar cost averaging
- Savings plans
- Reinvestment plans
- Pension payments and regular monthly withdrawals
- Advisers who required client authority to proceed
- Advisers who wished to manage the purchase and sale of equities through their own broker
- Full benefits of transacting and reporting of the existing wrap products

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Our solution was to integrate the software from Financial simplicity into the netwealth platform

- This gave us all the solutions we needed
- Took us longer than planned to integrate but **others have tried and failed**
- We worked with Financial simplicity to modify their software as required but most work done at our end

– We call it **SMART**

think **smart**
get **smart** enabled



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Discretionary v non discretionary adviser authority

- Case study – Financial Planning Services Australia



Financial Planning
Services Australia

The best models!

- In-sourced or outsourced?

Infrastructure

- Stand alone modelling software
 - Integration and admin issues
- In house admin
 - What is your business?
- Integrated software
 - Scalability
 - Provider capability
 - New players?

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Summary

- The market is changing and there is no turning back
- Do not underestimate the resolve of the government
- The planning industry needs to become far more professional
- Initial advice needs to be followed by ongoing value offering to retain client
- Who is going to “manufacture your model?”
- Discretionary v non discretionary?
- Ensure that your solution will be able to deliver what you promise!

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