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# BEST INTEREST DUTY

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# OUR RECENT BID SURVEY WITH COREDATA

- ➔ This Research Paper is based on responses to 56 questions which were sent to a broad selection of advisers across Australia with responses received from over 300 advisers.
- ➔ The questions were prepared by CoreData with input from HUB24, the AFA and preliminary interviews with 5 industry participants
- ➔ The paper examines how technology, including the use of platforms, has been used to support compliance with, and to meet the aims and objectives of, the Best Interests Duty.
- ➔ Additionally, the paper investigates the impact of the Best Interests Duty on aspects of providing advice on risk insurance – notably, on how frequently insurance needs are reassessed.

## Notes on the Royal Commission:

- ➔ Royal Commission recommendation: Safe Harbour provisions remain in place for the time being, with this to be reviewed by the Government (in consultation with ASIC) by 31 December 2022
- ➔ Royal Commission recommendation: Mortgage Brokers will fall under BID when acting in connection with home lending
- ➔ Royal Commission recommendation: Ongoing fee arrangements must be reviewed annually by the client

We acknowledge the FASEA Code of Ethics 2019 coming into effect 1 January 2020

# KEY FINDINGS

**Advisers have welcomed Best Interests Duty:**

**4/5**

Advisers agree that BID was necessary to raise industry standards

**66.3%**

Advisers agree or strongly agree that BID has led to better outcomes for clients

**When it comes to the use of platforms, the primary consideration in Best Interests Duty compliance is the features offered by the platform, followed by price.**



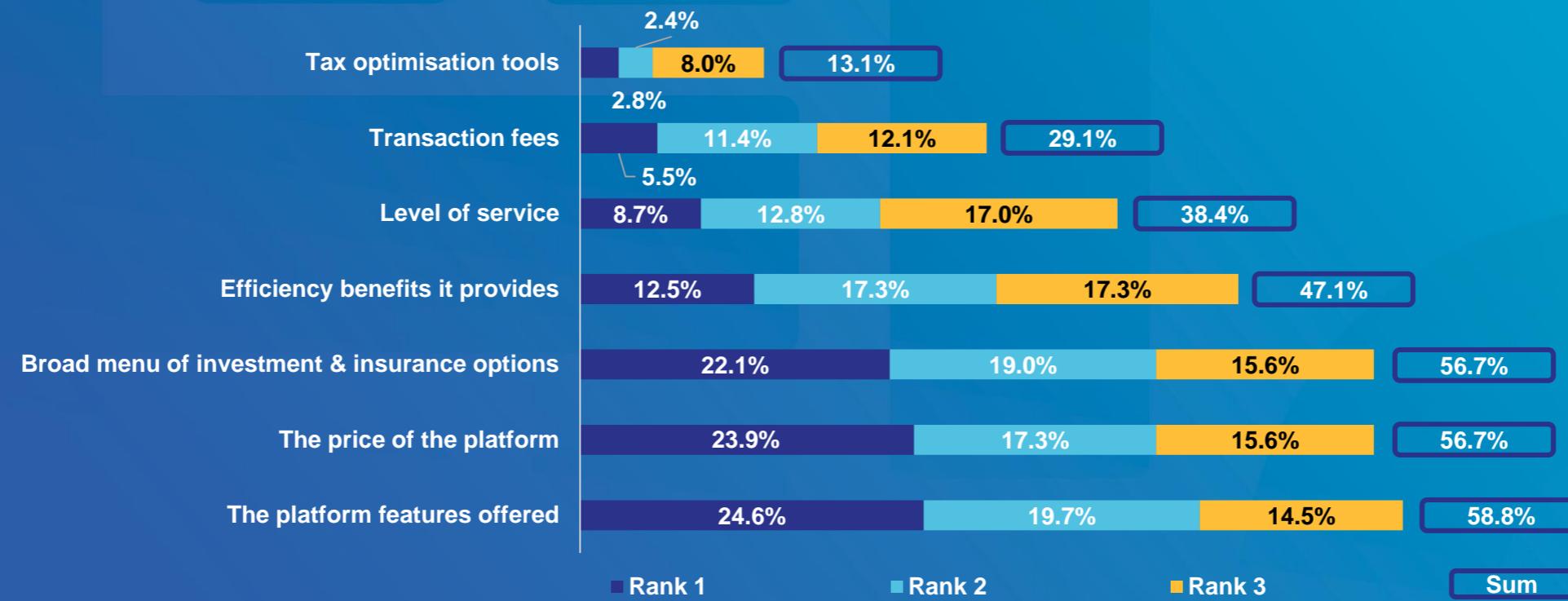
By far the most important issue in Best Interests Duty compliance when considering an investment product is whether or not the product matches the client's risk tolerance.

Just over a third of non-aligned advisers have implemented specific technology solutions/tools, including permitting detailed tax modelling and portfolio modelling, to help comply with the Best Interests Duty.

70.7% of advisers surveyed responded that they believe the Best Interests Duty has had no impact on the quality of advice they provide to their clients

# PLATFORM OFFERINGS

Thinking about your compliance with the Best Interests Duty, which of the following are most important in considering a platform solution?



# MAXIMISING THE BENEFITS OF MANAGED PORTFOLIOS

**Not all managed portfolios are equal**

- 1** Netting of assets when trading
- 2** Modelling CGT impact to help manager selection
- 3** Managed portfolios allow tax parcel optimisation at an account level
- 4** Managed portfolios allow advisers to determine which assets are sold or retained to control CGT

# OBSERVATIONS FROM HUB24

- Providing quality advice for clients **relies on understanding their specific circumstances**, but advisers also need a clear understanding how new products and features offered by contemporary platforms can enhance client outcomes
- There is **clearly demand from advisers for platform technology that supports them with achieving better client outcomes** such as assisting with active tax management of a client's investment portfolio
- The functionality, features and flexibility of **managed portfolio solutions provided on contemporary platforms are providing new opportunities for advisers to enhance their clients' outcomes**

PARAGEM

# A Licensee case-study

Nathan Jacobsen  
Managing Director, Paragem



# Introducing Paragem

## Paragem



Boutique licensee owned by HUB24 Ltd since 2014

## Sustainable fee for service



All revenue derived from licence fees to practice

## HUB24 competes on its merits



Paragem rate card benefits client, no licensee/adviser margin

## Genuine open architecture



Lonsec ‘Recommended’ or above, majority of client FUA on other platforms

## Managed Portfolios



Paragem advocates adoption of third-party managed portfolios, does not operate them

# Paragem supports managed portfolio adoption, but provides choice

- ➔ 40% of Paragem client FUA in managed portfolios
- ➔ Practices have flexibility to remain with models, use other platforms or adopt managed portfolios
- ➔ Most practices reach a point of scale where lack of investment management efficiency forces a decision point

## Where do I want to take my business?

What is my value proposition beyond designing portfolios?

How do I service the new generation of clients?

What is the right pricing?

How do I create capacity for growth with the compliance burden?

# Why practices choose managed portfolios



Access **professional investment managers** for clients at a lower cost



Deliver a **better client experience**



Free up time to **focus more on client goals** and strategic advice



**Deliver efficiencies** that offset rising compliance costs

# A case study

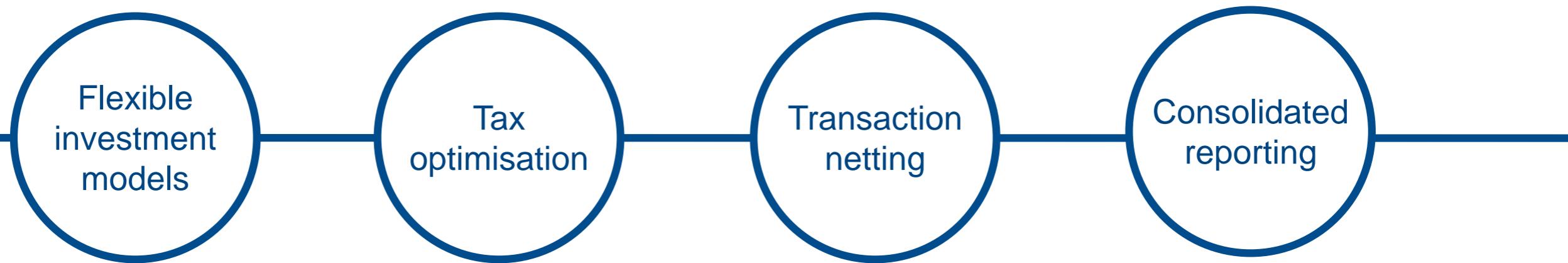
## Status quo

- ➔ Three advisers
- ➔ State capital, CBD location
- ➔ Authorised by Paragem
- ➔ Always looking to be cutting edge in investment solutions
- ➔ Originally used a core (managed funds) / satellite (direct shares) approach
- ➔ Post GFC moving to more of a risk-on / risk-off mentality
- ➔ Managed investments on traditional wrap platform

## The problem

- Portfolios began to diverge away from model
- Revenue plateaued due to capacity constraints
- Required more formality and better responsiveness

# Embracing the concept of managed portfolios



# Benefits were compelling

- ➔ Significant reduction in cost to client  
e.g. a \$1m balanced portfolio in a pension account went from a total cost of around 1.26% to 0.87%, **a reduction of close to 40 basis points**, with no payments or fee splits to the practice or their licensee
- ➔ More engaging conversations with clients and more time to develop quality advice
- ➔ Increased revenue - \$800k to \$1.2m in one year
- ➔ Increase in client referrals
- ➔ 44% reduction in adviser-to-admin staff ratio

Data relates to 2016, and was taken at a point in time. HUB24 contacted the referenced licensee in August 2019, and confirmed that the feedback is still applicable today.  
Original source: HUB24 Whitepaper pg. 9 "Managed Portfolios: A sound investment in your clients and your business"



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