MANAGED ACCOUNT

PERSPECTIVES

TRANSFORMATION REVOLUTION

MARIE-ANNE LAMPOTANG AND FINTECH INNOVATION

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IMAP
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PERSPECTIVES

REGULAR

FEATURE

Managed Account Perspectives is the official publication of the Institute of Managed Account Professionals Ltd (ABN 57 125 794 274).
IMAP was formed to act as the nexus in this increasingly important part of the advice profession. Our aim is to bring together advisers, managers, platforms and other managed account service providers to help build a better industry.

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CAN CONFLICTS OF INTEREST AND DUTY BE MANAGED?

Much of the Royal Commission's approach appears to have been built around the question which is among the first the Commissioner poses in the Interim Report – Can conflicts of interest and duty be managed?

As Professor Sunita Sah notes in a background paper prepared for the Royal Commission, not all conflicts stem from corruption.

Actual or potential conflicts of interest may arise for advisers, advice licensees or managed account providers. Those conflicts include, through the recommendation of managed accounts, preference for a managed account product or service in which:

- the advice licensee or a related party has a financial interest in the managed account service, the underlying investments or associated transaction revenue ('in-house product'); or
- The adviser benefits from operational benefits and consequent practice efficiencies to the adviser; or
- The managed account service is offered as part of a broader service by a key service provider, such as a platform, but has an investment selection which is of necessity a subset of all available investments.

Each of these representative conflicts gives rise either to a direct financial interest on the part of the adviser or advice licensee, or an indirect benefit through an improvement to the operational efficiency of the advice business.

The Treasury Submission on Key Policy Issues 13 July 2018[1] identifies three generic sources of conflict:

- The remuneration structure of financial advisers...;
- Financial advice business models, and incentives to create ongoing advice relationships with customers; and
- Integrated business models that combine financial advice with other financial products and services.

Conflicts arising from a need for a more efficient advice process are examples of the third issue identified by Treasury.

Substantial work has already been undertaken by ASIC and other Government agencies to identify and address conflicts, and the way these are treated by advisers and financial product manufacturers. These include the FoFA reforms, the Royal Commission, ASIC 2018 Report 562 'Financial Advice: Vertically integrated institutions and conflicts of interest', increased powers for ASIC, and impending changes to Design and Distribution obligations.

As a result of this work and the way it has been express in regulation, in recommending managed accounts, there are more protections for retail investors than apply in other areas of retail financial services. These include:

- Fiduciary standard Best Interest obligations for responsible entities and MDA providers;
- Best Interest Duty obligations of providers of personal advice to retail clients;
- Extensive disclosure of fees under RG97, both initially and on an annual basis; and
- Obligations on superannuation trustees to review products offered through their platforms.

In their papers, Treasury note[2] that the actions taken to date and heightened awareness by AFS licensees, "act to mitigate the misconduct risks involved".

Well developed managed account programs lead to better advice outcomes for clients, and better more sustainable businesses for advisers. ASIC needs to be careful that the response to the Royal Commission's Final Report doesn't lead to less informed advisers providing poorer quality advice.

Toby Potter
Chair

1. https://financialservices.royalcommission.gov.au/publications/Documents/Treasury-background-paper-24.pdf paragraph 166

2. Ibid paragraph 205

MDA SERVICES ARE COMPLICATED!

the fold LEGAL

We know because we've helped IMAP consult with ASIC and shape the MDA regulatory framework.

As Honorary Counsel to IMAP, a regular presenter of MDA Responsible Manager Masterclasses and author of a complete MDA Toolkit, we understand what your regulatory obligations are and know how you can manage them.

WE'LL HELP YOU:

- Understand the MDA regulatory requirements
- Apply for appropriate MDA AFSL authorisations
- Prepare your MDA Contract, Investment Program and SOA templates
- Review your MDA policies and procedures
- Implement our template MDA Toolkit
- Identify and manage MDA conflicts of interest
- Liaise with ASIC if needed

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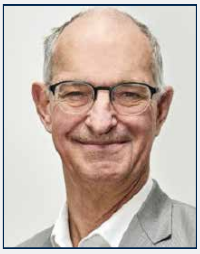

Toby Potter

ROYAL COMMISSION QUESTIONS INDUSTRY

On Friday 28 September, Commissioner Kenneth Hayne handed down the interim report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry. And while the report didn't provide any recommendations, it did raise a number of key questions for the industry.

In its response to the interim report, IMAP's submission specifically referenced five of the 'particular issues' raised by the Royal Commission regarding financial advice and the use of managed accounts as services that:

- are likely to improve client outcomes;
- lead to a more efficient and sustainable advice profession, the benefits of which are demonstrably passed on to clients in lower costs; and
- support the separation of roles, which encourage specialisation and professionalism.

Following is IMAP's response to the five issues raised by the Royal Commission.

1. CAN CONFLICTS OF INTEREST AND DUTY BE MANAGED?

IMAP acknowledged that actual and potential conflicts of interest may arise for advisers, licensees or managed account providers. Those conflicts may include: remuneration, product selection, platform biases and incentives.

However, IMAP believes substantial work has already been undertaken by ASIC and other Government agencies to identify and address conflicts, and the way these are treated by advisers and financial product manufacturers. These include the FoFA reforms, the Royal Commission, ASIC 2018 Report 562 'Financial Advice: Vertically integrated institutions and conflicts of interest', increased powers for ASIC, and impending changes to 'Design and Distribution' obligations.

As a result, IMAP believes managed accounts provide more protections for retail investors than other areas of retail financial services. This is achieved through:

- Fiduciary standard best interest obligations of responsible entities and MDA providers;
- Best interest duty obligations of providers of personal advice to retail clients;
- Extensive disclosure of fees under RG97, both initially and on an annual basis; and
- Obligations on superannuation trustees to review products offered through their platforms.

"We note that Treasury is of the view that the actions taken to date and heightened awareness by AFS licensees, 'act to mitigate the misconduct risks involved'," says IMAP Chair, Toby Potter.

"Given the extensive consumer protections in place, we maintain that, in regard to managed accounts, conflicts of interest and duty can be effectively managed."

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2. HOW FAR CAN, AND HOW FAR SHOULD, THERE BE A SEPARATION BETWEEN PROVIDING FINANCIAL ADVICE AND MANUFACTURE OR SALE OF FINANCIAL PRODUCTS?; AND

3. SHOULD FINANCIAL PRODUCT MANUFACTURERS BE PERMITTED TO PROVIDE FINANCIAL ADVICE?

According to IMAP, ASIC already provides AFSL authorisations to issue financial products – registered managed investment schemes, MDAs or IDPS – to those AFSLs that have adequate resources to provide these services, and whose staff have appropriate knowledge and experience, and which meet other conditions, like net tangible assets.

On this basis, IMAP does not support restricting the rights of an appropriately authorised AFSL to provide personal financial advice to retail clients in respect of managed accounts with which it, or a related entity, might be associated. IMAP bases this view on:

- the structural advantages of managed accounts and the benefits this type of service provides to clients; and
- managed accounts being viewed as a way of implementing advice, rather than an investment in their own right, even though the law considers a managed account as a separate financial product from the underlying investments.

"To the extent that structural separation is mandated, managed accounts should be exempt because of the benefits they provide clients in the implementation of the advice received," Potter said.

4. SHOULD AN AUTHORISED REPRESENTATIVE BE PERMITTED TO RECOMMEND A FINANCIAL PRODUCT MANUFACTURED OR SOLD BY THE ADVICE LICENSEE (OR A RELATED ENTITY OF THE LICENSEE) WITH WHICH THE REPRESENTATIVE IS ASSOCIATED?

According to IMAP's response to the Royal Commission's question, an AFSL that is appropriately authorised to issue interests in a managed account is bound by explicit best interest obligations in respect of the operation of the managed account.

"We are not aware of regulatory action over the 14 years since the MDA regulations were issued resulting from these obligations being breached by MDA providers or responsible entities in regard to managed accounts," Potter said.

"The adviser and advice licensee are already bound by obligations in making the recommendation, which include demonstrating how the recommendation is appropriate given the client's objectives, a comparison with the client's current circumstances and consideration of other alternatives. Where the managed account is an in-house product, the best interest duty obligations require a clear demonstration of the 'additional benefits' of that product."

As such, as a result of the existing protections in place for retail investors, IMAP believes that, in respect of managed account services, an adviser should be permitted to provide personal advice on a service with which the advice licensee is associated.

5. IS STRUCTURAL CHANGE IN THE INDUSTRY NECESSARY?

The Treasury submission to the Royal Commission notes that there has been substantial work by regulators in eliminating the potential for conflicts of interest to lead to poor consumer outcomes. Treasury noted that structural changes in the advice industry and recent or imminent reforms, heightened awareness, and increased attention by ASIC, meant that the misconduct risk arising from vertical integration should be mitigated.

IMAP supports Treasury's view, adding that there are substantial protections available through the current law which apply, in particular, to the provision of managed accounts to retail investors.

Instead, IMAP believes that structural separation of advice from product manufacture, at least in relation to managed accounts, would likely be counterproductive for several reasons. These are:

- Encouragement of 'General Advice' models, resulting in a substantial deterioration in the quality of advice being offered;
- Reduction in the efficiency of implementation of advice, with a subsequent deterioration in the outcomes for clients; and
- Reduction in the ability of advice organisations to develop service models that meet client needs or meet the costs of technology development.

"For these reasons, IMAP believes that banning AFSLs that provide personal advice from also being associated with or directly implementing that advice through a managed accounts, would result in poorer outcomes for retail investors," Potter said.

In October, IMAP surveyed members in relation to the interim report's findings, with the feedback helping shape IMAP's submission in response to the report. The Royal Commission will be conducting a further round of public hearings before handing down its final report in early 2019.

To read IMAP's full submission to the interim report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, go to imap.asn.au.

DEVELOPING MODEL DATA DEFINITION STANDARDS

With the rapid growth of managed accounts, model data is being electronically distributed between all industry participants. However, currently no standard is in place for the definition or format of this data.

While platforms and other managed account structures have developed proprietary approaches to the provision of model data, investment managers report finding it difficult to meet these varying data requirements.

These challenges will only increase as the number of managed account services increases.

Other industries have already developed standard data transfer formats, with planning software being an example of widespread adoption of a single industry wide standard. So, since managed accounts are still a relatively new market, this seems the right time to establish a common standard.

IMAP has convened a representative working group from interested parties in order to deliver efficiencies to the industry, which is being co-ordinated by Robert Corben.

Representatives from approximately 21 organisations have been participating in meetings, have supplied relevant information and documentation, and have been actively reviewing working papers from this IMAP initiative. Each member of the working group is able to ensure that the business use of model data within their organisation is considered in the development of the standard.

While the standard will not be binding, it will provide a useful incentive to prevent further proliferation in proprietary specifications.

OBJECTIVE

The objective of the Data Standards Working Group is to gain agreement from key industry participants – including platforms, research providers, investment managers and technology providers – of common data specifications and processes relating to managed accounts.

CURRENT STATUS

The working group has met several times since September to ratify a proposed data standard for model portfolio 'creation'.

The standard includes:

- creator (issuer) registration standards;
- model code registration standards; and
- field validation and business process rules.

"The outcome is to ensure we provide creators with efficient and robust model portfolios that they can distribute to multiple platforms to avoid having to conform to each platform's bespoke process and validation rules," Corben said.

"The November meeting was the second meeting engaging on feedback to the standard. Each meeting brings a new version to the standard and brings the group closer to a common set of fields, rules and processes."

Once all feedback has been processed, Corben said a final 'genesis' version will be published for wider industry feedback, which is expected to occur before the end of 2018.

"Following on from this standard are some early breakout discussions around delivering standards for model portfolio performance reporting," Corben said. "However, this stream is early in its development but will take form over the coming months."

ADVISERS BULLISH OVER MANAGED ACCOUNT INFLOWS


Russell Brinckley

With year-on-year growth of 31 per cent, managed accounts continue to grow in popularity among advisers and their clients. BT has confirmed this trend by reporting a 250 per cent increase in funds under administration (FUA) on its Panorama managed account solutions over the same period.

According to research by Investment Trends, this growth shows no signs of abating, with 71 per cent of advisers who currently use managed accounts for their clients, saying they intend to further increase their use of managed accounts over the next three years. In fact, the share of new client inflows advisers place in managed accounts rose to 10 per cent over the year, and advisers expect this will double over the next three years

Commenting on the trend, BT National Manager Product Development, Russell Brinckley, said: "There is no doubt managed accounts continue to increase in popularity and the benefits for advisers using managed accounts are now well understood, with business efficiency and transparency some of the most commonly cited advantages."

However, Brinckley added that it was the benefits to clients that was the key to the growth in managed accounts.

"In an environment where clients want greater visibility of their investments, being able to provide access to

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investment expertise with daily monitoring and regular rebalancing, within a structure where clients also own the underlying assets, managed accounts have become a key driver of client engagement for advisers," he said.

According to Investment Trends research, advisers using managed accounts said their clients most valued transparency (64 per cent), diversification (59 per cent), direct ownership of shares (49 per cent), access to professional managers (49 percent) and cost effectiveness (47 per cent).

Advisers identified their top reasons for using managed accounts as being: an efficient way to access professional fund management (56 per cent), less administration versus holding direct shares (52 per cent), and enabling clients to see shares held in their portfolio (51 per cent).

The research also showed that advisers were saving on average 12.4 hours per week on portfolio management tasks, such as communicating portfolio changes (81 per cent less time), seeking approvals (89 per cent less time) and preparing ROA documents (75 per cent less time).

According to Brinckley, since the addition of BT Managed Portfolios to BT Panorama in March 2015, interest has steadily built. In the past 12 months, BT has launched seven licensee Separately Managed Accounts (SMA) arrangements, contributing $241 million in new flows.

"Overall, the number of managed portfolios investment options increased by 48 across eight investment managers and licensees. Funds under administration has increased by 250 per cent and the number of active clients has increased by 195 per cent," he said.

BT also recently launched an external responsible entity (RE) SMA capability on the Panorama platform, which also allows licensees to partner with a licensed external RE and leverage BT Panorama's managed portfolio solution to deliver bespoke SMA arrangements.

GOOD ADVISER RELATIONSHIPS WITHSTAND MISCONDUCT REVELATIONS

Matt Lippiatt

Honesty and trustworthiness are the top attributes consumers and small business owners look for in a financial adviser, with consumers who have established trusted relationships with their adviser saying the Financial Services Royal Commission will have no impact on their advice relationship.

These were some of the key findings of new research released by MetLife Australia.

The *MetLife Adviser-Client Relationship Report 2018* is based on a survey of consumers who currently use an adviser, consumers considering seeing an adviser in the next two years, and SMEs with up to 20 employees.

MetLife Australia Head of Retail Sales, Matt Lippiatt said there were marked similarities between all three groups.

"Across the board, consumers and SMEs want to establish a genuine relationship with a financial adviser they can trust," he said. "They clearly value the adviser who goes the extra mile to listen to them, understand their needs, and communicate regularly and clearly."

Transparency and experience also rank as key reasons for selecting an adviser. Once the adviser-client relationship has been established, consumer and SME clients expect their adviser to genuinely care about them, speak to them in easy to understand language, and maintain honesty and trustworthiness with them.

The MetLife research also examined consumer and SME attitudes to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

When asked about the Royal Commission, just over half of consumers (56 per cent) and over one-third of SMEs (37 per cent) said it would have no impact on their advice relationship. Further, 38 per cent of SMEs and 20 per cent of advised consumers said it would make them even more likely to visit their financial adviser.

"What's clear from these numbers is that the Royal Commission has put the spotlight on the need for quality advice and its enduring appeal," Lippiatt said. "Given that as many as four in 10 consumers and SMEs have been with their adviser for more than five years, it seems that many clients have established a high level of trust and confidence in their adviser's integrity and abilities."

Overall, the MetLife research shows that Australians are reasonably happy with the service they're receiving from their financial adviser, with 61 per cent of consumers and 59 per cent of SMEs rating their adviser 'excellent' or 'very good'. Just 13 per cent of consumers and 11 per cent of SMEs rate their adviser 'poor' or 'fair'.

"We've seen a lot of negativity about financial advice in the media, but consumers and SMEs are both telling us that there are good advisers who are doing a great job," Lippiatt said.

"However, given that the majority of Australians currently don't have an adviser, the challenge for the industry is to make financial advice more affordable and accessible to the people who need it."

Managed Accounts Zone at FPA

From 21-23 November, IMAP rolled out its Managed Accounts Zone to financial planning professionals attending the annual FPA Professionals Congress in Sydney. Delegates showed great interest in the IMAP stand, with the key providers stationed at Managed Accounts Zone kept busy showcasing their specialist capabilities.

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Lukasz de Pourbaix

PORTFOLIO CONSTRUCTION IN TROUBLED TIMES

Investment markets in 2019 are shaping up to present more potential risks than investors have experienced over the last, and more favourable, few years. This was the collective view of a panel of investment experts, who shared their insights at the IMAP Investment Forum in October.

According to Lonsec Chief Investment Officer, Lukasz de Pourbaix, the risks facing investors and investment managers over the coming 12months seem to lie in every corner of the market, including market valuation, geopolitical instability, doubts about economic growth, trade wars and liquidity.

"Through Quantitative Easing (QE), we've seen governments pumping a lot of liquidity into the markets. So, from a bottom-up perspective, companies have been able to easily access cheap debt. But that's changing," de Pourbaix said.

"And while geopolitical issues have always been around, the trade war between the US and China will have an impact on markets. Undoubtedly, the US tariffs on China will have a significant effect on the growth of the Chinese economy, which is primarily an export economy."

Another potential risk concerning de Pourbaix is the fact that market growth has considerably outstripped value, which he believes investors have taken for granted.

"During these uncertain times ahead, investors really need to be looking more closely at portfolio and asset class diversification, including intra-asset class diversification," he said.

It was a view supported by Antares Equities Director Institutional Distribution, Richard Close.

And while Close agreed that investors were facing potentially many risks ahead – including the North American Free Trade Agreement, China trade tariffs, geopolitical instability, BREXIT, and the Australian property market – he added that market risks were nothing new when it came to investing.

"You need to remember that markets are forward looking," he said. "But there is always a measure of uncertainty when looking forward, and this means risk."

Instead, he believed the major risk currently facing investors was rising interest yields, after a 36-year bond bull market.

MANAGING RISK

But how do investment managers manage risk when that risk has yet to materialise in the market?

As a bottom-up stock picker, Close said Antares' approach to managing risk was by having a deep understanding of the companies it invests in. "This, along with diversification and valuation, are the strongest risk management tools you can have," he said.

Whereas Lonsec's approach to managing risk is focused on: valuation, market cycle and momentum. For example, looking at market liquidity, de Pourbaix saw some risks starting to emerge, like rising interest rates.

At Private Investment Consulting, Senior Investment Consultant, Con Mancuveni said that during times of market uncertainty, the manager favoured managing market risk by using active managers.

"When you're late in the market cycle, we believe active managers tend to outperform," Mancuveni said.

The IMAP Investment Forum is a community of interest for dealer group researchers, investment teams and independent researchers, where they can hear and learn from specialist portfolio managers and chief investment officers of advisory businesses. These experts and advisory professionals provide their insights on the practical issues involved in implementing managed accounts in an advice business.

INVESTMENT FORUM PRESENTATION


Jonathan Shead

AHEAD OF THE CURVE: INCOME IN ACTIVE RETIREMENT

The financial services industry needs to shift the conversation with clients from total wealth accumulation to drawing an income in retirement.

"There's no silver bullet when it comes to helping consumers better understand retirement products or strategies. Simplifying often complex subject matter is a challenge, but one thing we can do to assist consumers with their retirement income planning is to encourage them to think of income in dollar terms, not percentage terms," said State Street Global Advisors, Head of Retirement Solutions – Australia, Jonathan Shead.

This was one of the key messages from Shead, as he redefined the stages of life, the transitions between them and the resources consumers needed to better plan their income throughout their active retirement phase.

Speaking at IMAP's Investment Forum in October, Shead said retirees at age 70 today, can expect a life expectancy of another 20-30 years, meaning their income in retirement needs to last much longer.

"With people living longer and more active lifestyles, the whole structure of the economy will change. However, this will have long-term implications for planners," Shead said.

"Issues around longevity will require planners to deal with major new risks, such as clients outliving their retirement income or early incapacitation of clients and the effect that will have on their income.

"And as we live longer, there will be changes to traditional family structures, with the emergence of four generation households. This includes issues around intergenerational wealth transfer."

RETIREMENT EXPECTATIONS

However, according to Shead, research from State Street showed that most Australians now understood that they "owned" their own retirement and would need to be less reliant on the Government to meet their income requirements in retirement.

But even with this realisation, Shead said only 20 per cent of Australians were confident about their retirement planning, with one-fifth of the working population (23 per cent) seeking financial advice.

"Most Australians think they need about $500,000 to adequately retire on, but even if that amount is invested in the market and generates, say, 5 per cent per annum, that's only $25,000 to fund their retirement income needs. That's probably not enough for most people, who can expect to live a longer, healthier and more active lifestyle than their parents' generation," he said.

"Not surprisingly, 42 per cent of people surveyed said they expected to work longer and retire later in life."

GENERATING INCOME

According to Shead, the Government's decision to support the development of more efficient retirement income products provided opportunities for the industry to develop Comprehensive Income Products for Retirement (CIPR).

He suggested a possible integrated retirement income product might comprise of three age/lifestyle stages, as follows:

- **Age 20-65 - Accumulation phase.** Saving for retirement starts at age 20.
- **Age 65-80 - Decumulation phase.** At age 55, begin allocating to income, and at age 65, purchase a deferred annuity.
- **Age 80 onwards** - Guaranteed lifetime income phase. Purchase of a guaranteed lifetime annuity.

"While I don't think we're going to see a sudden rush of people taking out annuities, I do believe annuities will provide a part of the overall CIPR strategy for clients. So, it's important that planners don't ignore the CIPR debate."

GETTING AHEAD OF THE CURVE

For planners wanting to get ahead of the curve in retirement income planning, Shead offered four tips:

1. Learn how the retirement workforce is changing;
2. Understand people's lack of confidence when it comes to retirement planning;
3. Recognise that the industry is not structured around 'income'; and
4. Investigate new products and solutions, which means not ignoring the CIPR debate.

"There is a need for advice and a willingness by consumers to pay for it," Shead said. "But we need to shift the conversation away from total wealth accumulation, to drawing an income in retirement. That means thinking of income in dollar terms, not percentage terms."

STANFORD BROWN CRACKS WINNING FORMULA

Ashley Owen

Jonathan Hoyle

What does it take to build a winning managed account program? Undoubtedly, part of the formula is the time required to do it, the expense involved, the resources needed and the commitment by a business to see the process through.

Stanford Brown - the 2018 winner of the IMAP Licensee Managed Account Award - is a good example of an advice business that has successfully navigated the managed accounts implementation pathway with its Lunar Managed Accounts offering.

Speaking at the IMAP Investment Forum in November, Stanford Brown's CEO, Jonathan Hoyle, along with Head of Private Wealth, Vincent O'Neill and Chief Investment Officer, Ashley Owen, shared their insights in how the business rolled out its SMA offering.

"Before going down the managed accounts path, there are a couple of key questions that any business should ask itself," O'Neill said. "As an advice business, where do you add value? Are you a specialist money manager? What is your investment philosophy? What is your value proposition?"

O'Neill said these were some of the questions Stanford Brown asked itself before heading down the managed accounts route, adding that an effective communication strategy, both internally for staff and externally for clients, was invaluable in ensuring that all stakeholders - including the platform operator and custodian, the responsible entity, the investment committee, asset consultants, research providers, as well as staff and clients - were involved in the journey together.

"Don't underestimate the time it will take to implement managed accounts into your business. It's a long and arduous process requiring stakeholder involvement."

Today, the business runs its Lunar Managed Accounts offering on two platforms - Netwealth and BT Panorama.

And while managed accounts have provided numerous benefits to clients, advisers and the business since being rolled out at Stanford Brown, O'Neill did concede that when establishing a managed accounts solution, there were some specific areas that businesses needed to be particularly aware of.

"Firstly, advice businesses need to understand that establishing managed accounts is a time intensive and expensive undertaking. There are the costs to consider of having a well resourced investment committee."

Other factors to review include:

- Increased scrutiny of your investment process from the responsible entity, regulators and clients;
- The increased compliance burden with running managed accounts; and
- The need for an extensive internal and external communications strategy.

Stanford Brown's Chief Investment Officer, Ashley Owen agreed, emphasising the importance of implementing a robust communications strategy as a means of explaining portfolio rebalancing or decisions from the investment committee to clients and staff.

For example, the Lunar Group client communications strategy comprises three elements:

- A quarterly review - this is a comprehensive review of markets, investment performance and positioning;
- Monthly Top 5 - an in-depth analysis of pertinent investing issues; and
- TW3 - A weekly publication covering relevant current affairs.

"If you don't have an effective communications strategy in place, then clients will go elsewhere for their information and advice. It's as simple as that," Owen said.

Stanford Brown CEO, Jonathan Hoyle confirmed that the business will be offering its Lunar Managed Accounts offering externally to other advice businesses in 2019.

To read more about Stanford Brown and its investment processes, refer to the Spring 2018 issue of IMAP's *Perspectives* magazine.

2018 IMAP MANAGED ACCOUNT AWARDS

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Is your platform costing advisers and clients more than you think?

In a post-Royal Commission world, Nicholas McGarrigle believes advisers will need to think critically about their technology needs across all steps of the planning process.

NICHOLAS MCGARRIGLE
Head of Institutional Research and Senior Research Analyst, Ord Minnett

Platform technology has come a long way in the last five years. What was once an administration and reporting engine is now often the nexus around which investment strategies are implemented and client engagement is built.

Platform enhancements, such as separately managed accounts, online reporting, open APIs and broader investment menus, provide a richer experience for clients, and can often boost adviser efficiency and practice profitability.

Much has been made of pricing movements among incumbent platforms in 2018, but administration fees form just one component of the overall 'cost' of a platform. Traditional administration costs are borne by the client, but there are a range of opportunity costs borne by advisers using 'old world' systems. These opportunity costs will rise in coming years for a number of reasons:

> The last best experience that anyone has anywhere, becomes the minimum expectation for the experience they want everywhere.
> – BRIDGET VAN KRALINGEN

1. **Practice efficiency:** With adviser education standards likely to precipitate adviser retirements and potentially crimping the flow of new advisers to the industry, those advisers who remain will have to be increasingly efficient to effectively service clients who still require advice. We expect the need for advice to grow, but the number of advisers providing this advice will shrink. Cumbersome technology and investment structures require advisers to engage in manual processes, which take time away from client engagement and business development, which can be ill afforded when average client numbers per adviser grow.
2. **Service standards:** Service quality and client outcomes will become more dispersed as good technology gets better and old world technology ages. This is typified in a quote from IBM's Bridget van Kralingen: "The last best experience that anyone has anywhere, becomes the minimum expectation for the experience they want everywhere." This means that it's not just modern advice technology driving

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a new service standard, it is any technology that a client interacts with that drives expectations. Advisers sticking to antiquated technologies will be 'shown up' in comparison with their more tech-savvy peers.

3. **Investment outcomes:** Understanding a client's goals and risk appetite to formulate an effective financial plan is a serious undertaking. The design and implementation of multi-asset investment strategies requires a vastly different skill set to that required to formulate a financial plan and manage a client relationship. Modern technology provides efficient access to professional and dynamic investment management. Under traditional financial planning investment implementation, an adviser's clients may experience a diverse set of outcomes for no other reason than friction in the advice provision process and compliance structures.

Modern platforms that work collaboratively with the industry to design and invest in functionality enhancements, reduce these costs through features such as:

1. **Managed accounts:** Incumbent and disruptor platforms alike provide managed account functionality for both professional asset managers and advice practices to offer investment management. Rather than implementing investment strategies on a client-by-client basis, a managed account can allow a client to opt in to a strategy that is managed professionally, thereby providing the adviser with more time to engage with the client and provide an overall improvement in investment results for the client. However, not all managed account functionality is created equal, with some providers doing a better job at optimising tax parcels, minimising trade costs through netting and facilitating fund switches better than others – all factors which can boost client outcomes and drive adviser efficiency.
2. **Client logins and online reporting:** Platforms were once the domain of the adviser, with clients receiving limited access to online reporting. In an age of increased transparency, clients demand better connectivity with their finances. Mobile apps, desktop logins, regular performance updates and visualisation tools are all table stakes for client interaction. Quality platform interaction is now held to be the benchmark of the client's last best technology experience. Does your platform offer a client portal experience akin to Uber or Expedia?
3. **Open APIs and bank feeds:** Having a holistic view of a client's financial position is vital for an adviser and for clients. Not all assets or liabilities can or will be held in custody on a platform, increasing the need for open-architecture and a spirit of data sharing to provide the most complete view, and therefore management, of a client's finances. This can relate to data feeds from platforms into third party software providers, or platforms capturing data from accounts held off-platform.
4. **Broad investment menus:** Integrated product margins provided a high degree of cross-subsidisation in some old world platforms, but post-Royal Commission, both clients and advisers are questioning the appropriateness of such investment menus. Incumbent and disruptor platforms alike have evolved to much more open investment menus that facilitate a more customised provision of advice and effective implementation of investment strategies.

While we provide research on the disruptor platforms at Ord Minnett (Netwealth and HUB24), we see many of the incumbent platforms making much-needed investments in their offering, both in technology and the investment menu.

Advisers will need to think critically about their technology needs across all steps of the planning process, partner with thought leaders who are investing in technology, and embrace modern solutions to drive efficiency in their practices to avoid bearing these expensive opportunity costs.

Nicholas McGarrigle is Head of Institutional Research and Senior Research Analyst at Ord Minnett.

"However, not all managed account functionality is created equal, with some providers doing a better job at optimising tax parcels, minimising trade costs through netting and facilitating fund switches better than others – all factors which can boost client outcomes and drive adviser efficiency.

– NICHOLAS MCGARRIGLE"

The transformation revolution

Stone & Chalk's Marie-Anne Lampotang talks to Jayson Forrest about the transformation of financial services, which is being spearheaded by fintech innovation.

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There's been a lot of talk recently about financial technology – or 'fintech' as it's more commonly known. Buzzwords like 'artificial intelligence', 'bitcoin' and 'blockchain' seem to make the media headlines on a daily basis.

Today, fintech impacts the entire financial services value chain; from front-office to back-office, wealth management and superannuation, retail banking, credit and debit.

In fact, technological innovation is all pervading – not only on business but in the lives of all Australians. And for businesses to thrive and survive in tomorrow's future, technology will be key.

It's a view supported by Marie-Anne Lampotang, the General Manager – Sydney at Stone & Chalk – an independent, not-for-profit innovation hub that helps foster and accelerate the development of fintech start-ups.

"There's so much more to fintech than first meets the eye," Marie-Anne says. "Fintech is a movement to bring transformation to financial services, by applying new and emerging technologies to address consumer needs. It involves anything from client-facing activities to the back-office operations that affect the delivery of a financial product or service."

And when it comes to talking about fintech, Marie-Anne knows a thing or two. She brings considerable depth of experience and knowledge of the superannuation and wealth industries to her role at Stone & Chalk.

"It's exciting to leverage my 20 years in financial and professional services to help fintech start-ups grow from small businesses to global leaders."

FRIEND OR FOE?

While Marie-Anne agrees there are some fintech businesses that are competitors to traditional financial services companies, on the whole, she doesn't believe fintechs are a huge threat to the wider financial services sector.

"Through their platform offering, Hub24 and Netwealth are good examples of competitors and disruptors to traditional financial services organisations, but not every fintech is disrupting financial services incumbents.

"In fact, most fintech start-ups are actually enablers to the incumbents, providing them with the necessary products and solutions to help them with their technology transformation.

"And while some fintech companies are going directly to consumers with their offering, like selling loans, I think the general fear factor emanating from within the industry that every fintech is out to get them, is unwarranted."

"Most fintech start-ups are actually enablers to the incumbents, providing them with the necessary products and solutions to help them with their technology transformation."

In fact, Marie-Anne is particularly excited by the opportunities fintech solutions can provide to the established financial services industry.

"Firstly, fintech is helping with the transformation of financial services," she says. "There are a lot of fintech solutions for the back-office that planners can use to digitise their operations and make data collection, as well as the preparation of SOAs, more efficient. This is not something to be fearful of, but if planners don't embrace this type of technology, they will be left behind."

She says this includes the much criticised robo advice offerings.

"Some traditional financial planning businesses might see automated advice offerings as being competitors, but most of these offerings are not targeting the typical clients of planners," she says.

"If you think about the type of clients that financial planners want, they tend to be relatively affluent people. Instead, robo advice offerings are targeting other groups of people who wouldn't traditionally be able to afford professional advice or are not ready to seek the help of a professional."

Instead, Marie-Anne believes affordable advice solutions, like robo advice, might actually be a future pipeline for people requiring the services of a planner.

"So, I see these types of fintech solutions as an opportunity, rather than a threat to the industry."

WATCH THIS SPACE

When you ask Marie-Anne to pinpoint the trends she's most excited about in the fintech space, she finds it a challenging request. However, when pressed, she identifies artificial intelligence, open banking and blockchain technology as being three areas to watch.

"The use of artificial intelligence and machine learning is revolutionising financial services in areas like 'chatbots',

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"Open banking will allow consumers to direct their data to be sent to other banks, financial institutions and authorised organisations when they want to. The consumer controls who holds their data and how it's used."

which is hugely exciting," she says. "I also see 'open banking' as a massive opportunity for other competitors to join the marketplace."

Open banking, which will begin on 1 July 2019, is a fintech initiative that will enable financial institutions to exchange data with each other. Essentially, open banking provides consumers with greater control of their own data that banks and other financial institutions hold on them.

"Currently, it's difficult for people to access their full financial data, and for banks and other financial institutions to send that data to each other. This makes it costly, difficult and time-consuming for consumers to find the best product or service for them, and also to switch products and services," Marie-Anne says.

"Instead, open banking will allow consumers to direct their data to be sent to other banks, financial institutions and authorised organisations when they want to. The consumer controls who holds their data and how it's used."

According to Marie-Anne, open banking will allow consumers to have better access to their data, enabling them to make more informed choices about the financial products and services that are right for them.

"This should also drive competition within the financial services sector, promoting innovation and allowing new and improved products and services to be developed."

The third trend Marie-Anne identifies is blockchain technology.

Blockchain was originally developed as the accounting method for the virtual currency, Bitcoin. Put simply, blockchain is a public ledger where transactions are recorded and confirmed anonymously. It's a record of events that is shared between many parties, and importantly, once information is entered, it cannot be altered.

Today, blockchains – which use what's known as distributed ledger technology – are appearing in a variety of commercial applications. The technology is primarily

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used to verify transactions within digital currencies, although it's possible to digitise, code and insert practically any document into the blockchain. Doing so creates a permanent record that cannot be changed; furthermore, the record's authenticity can be verified by the entire community using the blockchain, instead of a single centralised authority.

THE RIGHT SOLUTION

With the diverse range of fintech solutions popping up in the market, sorting the wheat from the chaff can be difficult. So, how can planners identify the right type of solutions for their businesses?

"It's a good question," says Marie-Anne. "If a planner wants to know what's happening in the wider innovation space, I recommend they attend events and conferences, where a lot of information is disseminated and shared. They should also subscribe to fintech newsletters - the ecosystem is prolific, with start-ups looking to share what they are doing, so they are always in the industry press."

But what if the planner or business is not particularly tech savvy? In this instance, what should the planner be considering when appraising a potential fintech solution for their business?

"It all comes down to the type of problem they are trying to solve," says Marie-Anne. "Usually, it's an exisiting problem they are trying to find an innovative way of solving. So, it's all about identifying the problem and finding the right solution for that problem."

Marie-Anne believes one of the best ways of finding that solution is by partnering with Stone & Chalk to run an innovation program.

"At Stone & Chalk, we have the privilege of working with large organisations to help solve their real business problems. And we are finding an increasing appetite for these larger organisations to bring innovation inside their business by working with start-ups. Problems are often solved more quickly and cost-effectively than they would otherwise be in-house, when you're battling internal processes and approval stage gates.

"These are probably the best places to start," she says. "Given the size and sophistication of our super industry, there are solutions here in Australia that can solve some of the problems of the wealth sector."

In fact, Stone & Chalk is privy to many fintech start-ups, but the types of companies it chooses to work with depends on a strict vetting process. This begins with an application process to ensure the company is at a particular stage of development that Stone & Chalk can put it in front of potential clients.

"So, we don't tend to take early stage start-ups. Instead, we work with start-ups that have already developed a product or are at the testing stage of that product.

"The value proposition we offer to these business-to-business start-ups is to help them grow and commercialise their offering. And we can offer them exposure to our 27 partners that we have an ongoing relationship with, which can potentially become clients for them."

Two examples of companies that have made good use of Stone & Chalk's innovation hub are Map My Plan and QuietGrowth.

Map My Plan (mapmyplan.com.au) is a website that provides consumers with the necessary tools to formulate their own financial plan, based on where they are now and where they want to get to.

"This website its targeted to the person who probably isn't ready yet for a planner. But as more people become comfortable with the financial planning process and aware of the importance of planning for their future financial wellbeing, this website will probably become a great source of leads for planners."

Another company Marie-Anne points to is QuietGrowth (quietgrowth.com.au) – a robo advice platform that offers users a low fee, automated, online investment management service for optimised returns.

THREATS ON THE HORIZON

In recent years, there has been an increasing number of fintechs taking root in Australia, with a number of non-bank lenders entering the market and beginning to gain scale. Examples include: Prospa, SocietyOne, RateSetter, Moula, Spotcap and MoneyPlace – the latter three are either alumni or current residents of Stone & Chalk.

Whilst none of these fintechs have yet supplanted a major bank, they are certainly increasing the size of the SME and consumer market, providing these markets with a source of affordable finance that is approved in a matter of days or, in many cases, hours. In the case of SMEs, that's something that many of the larger institutions are still far from being able to do.

However, Marie-Anne believes these types of fintechs are the innovation tonic the financial services industry needs, accelerating the transformation of the industry by applying new and emerging technologies to address consumer needs.

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And while there is a lot to be excited about with the constant development of innovative fintech solutions, Marie-Anne concedes that government regulation is a constant threat facing this burgeoning sector.

"We operate in a heavily regulated environment, so this is a constant challenge for companies operating in the fintech space," she says.

"Unlike the big banks that have the resources available to respond to changes in regulation, fintech companies are much smaller and face greater challenges responding to Government regulation."

However, that said, Marie-Anne doesn't actually foresee any major regulatory change on the horizon for fintechs, although there will continue to be ongoing scrutiny of payday lenders. Instead, she believes the findings from the Hayne Royal Commission will provide more upside than downside for fintech providers.

"The Royal Commission is a gift to fintechs,"she says. "It has highlighted failures in some of the larger organisations; failure in terms of operating systems and processes, which has created the level of distrust we are now seeing in them by the wider Australian population.

"This has created a massive opportunity for companies in the business-to-business space, enabling them to take their services to the big banks and financial services companies to help them better streamline their businesses.

"This has also provided significant opportunities for companies operating in the business-to-consumer space. So, if you're thinking of creating a fintech company, now is a great time to be doing it."

Marie-Anne Lampotang was the Master of Ceremonies at IMAP's InvestTech 2018.

"The Royal Commission is a gift to fintechs. It has highlighted failures in some of the larger organisations; failure in terms of operating systems and processes, which has created the level of distrust we are now seeing in them by the wider Australian population."

2023: The future of investment management

The investment management landscape is evolving quickly. Martin Morris and Matt Heine consider what this means for advisers in five years' time.

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Q: How does your managed account offering and platform structurally perform in a scenario when the market, say, closes the day down 25 per cent, broadly equivalent to the 1987 crash?

Martin Morris: In that type of scenario, you'll find the managed accounts sector and managed account platforms will come into their own. In that type of environment, you want to be able to react very quickly to the market. You want to be able to reduce the impact of trading, because you want to keep costs to a minimum. That's because there has already been a very large impact on the portfolio returns, and clients start worrying about price.

In the managed accounts world, portfolios managers have very quick access to information. For example, they can watch what's happening with our portfolio. They can make changes overnight or on a daily basis, which is rebalanced daily. They can take advantage of the netting within the platform, so they are able to minimise their transaction costs.

And with constant improvements in technology and reporting tools, we will see higher levels of communication, real-time reporting and real-time information exchanged between adviser and client. This will improve the trust between clients, advisers and portfolio managers, who are managing the investments.

In the past, lack of transparency resulted in clients worrying about their portfolios. But if they receive information in a timely and cost efficient manner, then we should be able to roll through these storms, like the 1987 crash, quite seamlessly.

Matt Heine: If we are looking at what managed accounts will be in the future, I have no doubt that in the next couple of years, we will see managed accounts introducing intra-day trading, so you can trade in the morning and in the afternoon.

However, it's important to remember that the managed accounts market does not just comprise one asset class, like Aussie equities.

For example, our managed account offerings are primarily diversified models. About 60 per cent of our portfolios are actually international funds, domestic funds, alternative assets, fixed interest – all the usual asset classes. People are investing directly into international markets using direct equities. So, you've only really got 20-25 per cent exposure using direct Aussie equities.

In the event the market goes into a meltdown situation, it's going to affect all asset types, not just the managed accounts that are driving them. But at least with managed accounts, managers have the opportunity in the morning to hit the 'stop' button and to nett off at the client level, and also to communicate with their clients about what's going on.

Q: Other than possible market-related issues, what is the biggest risk you see that could impact the growth and success of managed accounts over the next five years?

Martin Morris: I really don't think there will be much that might impact managed accounts. Remember, a managed account on its own is just an investment solution.

However, technology will continue to be a big trend in managed accounts. Improvements in reporting tools, client communication and efficiency of trading are all transformational for the industry.

The sector is adapting to what the consumer wants, which is

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> If you also look at what drives referrals, it's when clients receive consistent and reliable experiences. And is there any better, consistent and reliable experience than a managed account?
> – MATT HEINE

greater transparency and more control of their investments. If we keep the consumer at the forefront of what we're doing, then technology will continue to adapt and change for the better.

Instead, the question should be: What will technology be doing in five years' time? And have we kept up with the changing dynamic of the consumer?

If the industry fails to keep up with increasing demands by consumers in how they use and interact with technology, then that's a significant threat to the industry.

Matt Heine: At Netwealth, we have started talking about automated investment services. We're building technology that supports MDAs, SMAs, IMAs and even bespoke portfolios. This technology will enable users to actively managed client portfolios efficiently, regardless of the legal structure that sits above it.

The lines are certainly blurring between what used to be an IMA and an SMA, because ultimately, the algorithms that sit below it (the model manager portals that allow you to load up and manage portfolios) are all the same. So, this is actually providing a massive opportunity for all businesses, regardless of whether they want to be under an RE structure or an MDA structure.

And, if you look at some of the big trends happening overseas, it's interesting to see that some of the big wealth managers in the U.S.A. outsource everything.

So, what managed accounts do is allow us to work with skilled investment professionals and consultants to access the best investment intellectual property, and then deliver that to clients. As an industry, the opportunities are enormous.

Martin Morris: Our U.K. counterparts say exactly the same thing. They also outsource. They know where they add value and that's what they focus on, which enables them to spend more time with the client.

Q: What are some of the other big trends you are seeing overseas that have yet to take off in Australia?

Matt Heine: These trends are all around the client engagement piece. For example, if you look at the U.S.A, managed accounts have been there for many decades. They have primarily been equities based but are starting to evolve. There is also huge growth in the ETF market and you've got many robo advice offerings with ETF managed account portfolios.

And because advisers have outsourced all their investment requirements, they're now able to focus on how they better service their clients. So, they are looking at technology as a good way to engage with their clients outside of the review period, while also adding value through things such as aggregation of banking fees and looking at what wealth they manage and don't manage, and how they can deliver additional services to their clients.

In the U.S.A, advisers' time has been freed-up, enabling them to put the client at the centre of what they do.


Martin Morris

Martin Morris: Before coming to Australia, I was an adviser in the United Kingdom. And one of the things that surprised me when I arrived in Australia was the complexity of the advice on offer. But the average adviser is not an investment consultant. That's not what most people go to their adviser for. Instead, average families visit their financial adviser to get holistic and goals-based advice.

So, even back then, the industry trend centred on technology. It was about using technology to get more referrals and to provide an improved service offering to clients.

Indeed, one of the big issues for successful businesses is their ability to get referrals. That's the major part of growing a business, and that's what we need to be focused on.

Because our industry is so technical, we tend to get caught up on all the regualtory technicalities, like the SOA. But at the other end of that spectrum, is the consumer, who isn't as concerned about the SOA or complexities. Instead, they want an experience, and they only refer positive experiences. They don't refer complexities or technical information.

So, I think that's where we are seeing a difference in overseas markets. They don't have some of the regulatory complexities that we have in Australia, which has held this industry back somewhat. We need to bridge that gap.

Matt Heine: If you also look at what drives referrals, it's when clients receive consistent and reliable experiences.

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And is there any better, consistent and reliable experience than a managed account? Every client is receiving a similar experience and accessing the same investments, but it's also an investment structure they can tweak and tailor to their own needs.

Ultimately, clients are receiving a very consistent implementation process, where they are not just getting rebalanced at their review, 12 months after the bigger clients have been rebalanced. I think that's really important, particularly as we delve down into the findings of the Royal Commission and best interest duties.

Q: How do you see the efficiencies of managed accounts changing over the next five years?

Martin Morris: From a technology perspective, the industry is in a bit of a cultural change. Platforms are a business-to-business solution that were primarily designed to enable a business to become more efficient. When advisers are looking at managed account technology, I think there's still a hangover from that perception.

Advisers are asking: What's that going to do for my business and how am I going to use this to make my business more efficient?

But the question should be: Where does the consumer fit into this decision-making process?

If you add value in a service, you should get paid for it. And as an industry, we shouldn't be embarrassed by that. Where you add value for a client, is where you can charge them for it.

Often in the advice world, advisers don't charge enough for where they add value, so this is subsidised by the areas where they don't add value.

I think the Royal Commission's findings will rationalise areas, such as remuneration and eliminating conflicts of interest from a business. So, the biggest issue for our industry is working out what 'conflicts' really means in this type of

> "One of the big issues for successful businesses is their ability to get referrals. That's the major part of growing a business, and that's what we need to be focused on. – MARTIN MORRIS"

environment. And that's one of the biggest headaches for advisers. There's always conflicts, so the issue here is: How do you manage those conflicts?

Matt Heine: If you go back three or four years ago, Netwealth had a couple of false starts. We set up models with licensee fees that were probably there just to replace rebates that were being lost. Not surprisingly, those managed accounts got very little traction, as advisers saw straight through them, and we wound them up. So now, we're very conscious of that.

Moving forward, the last four private labels we've set up haven't had fees attached to them. So, advisers just aren't looking at managed accounts to deliver incredible efficiencies for their back-office, but they are also seeing them as a great cost-effective way to implement portfolios for their clients. I think a big trend for the industry will be where advisers aren't adding additional fees for their clients.

However, we're working with a number of firms that have invested in building an investment capability within their business, and therefore, they should be able to get paid for it. I think that as long as the fee is appropriate, and it needs to be under an RE structure, then they will stand up well in the future.

I think the key points for SMAs are: firstly, within an SMA environment, it's actually Netwealth issuing the product,

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> If you look at some of the big trends happening overseas, it's really interesting to learn that some of the big wealth managers in the U.S.A. outsource everything. – MATT HEINE

not the adviser. So, there is no real product conflict there. Secondly, any fee that is associated with that managed model (the SMA) is actually a client-directed advice fee. This means the client has agreed to the fee upfront; they've consented; it's transparent; and they can see it on an ongoing basis. It's no different to a strategy fee.

In that respect, I think this type of arrangement will be acceptable moving forward. Again, if you're doing something and you can justify it, then you should get paid for it.

Governance standards are increasing, so as an RE for our SMA, we've got a lot of responsibilities. Therefore, any group that is going to act as an investment manager needs to be able to display that they've got the required investment capability; that they've got the resources to run the models or to choose the investment portfolio.

So, from that perspective, you're going to see a lot of advisers not being able to pass through these gates.

Instead, from a governance perspective, they're going to have seek independent investment consultants or somebody who is an expert on asset allocation to sit on their investment committee, to enable them to build out their capabilities that otherwise they don't have. So, that's a really interesting trend we're seeing. And in other cases, they are simply outsourcing everything to consultants, like Evergreen and Lonsec.

In terms of building their own philosophies, they've still got input into the design of these portfolios, but they've got professionals running it.

Martin Morris: There is a misnomer that all these IFAs are running out and setting up their own models. That's simply not true. The corporate governance at the likes of Netwealth and Praemium are very strong. They have to go through a steering committee. They have to go through an investment committee. There is a full due diligence process that looks at who is managing the money, what's the risk framework, what's the PI, and what's the corporate governance. It's about isolating yourself as a model manager and thinking like a fund manager separately to that of being an adviser.

So, if you're a model manager, you go on a platform, where other people will be investing. As an RE, we have to make sure you have the credibility and experience to manage that money. This process means we knock back more advisers than we take on.


Matt Heine

Matt Heine: It's actually quite a good process to go through. At the end of it, what's great is you sit down with the client, or the adviser can sit down with their client, and show them the process. If the client is interested, they can show them how they filter stocks out, the various valuation targets and all those sorts of things. So, it actually builds out a really robust philosophy that can be used as a marketing tool.

Q: What are your thoughts on the Royal Commission?

Martin Morris: The Royal Commission is the next extension from FoFA. It's all about consumer protection and transparency. Unfortunately, what the industry does suffer from at times is apathy. So, some of the things that have come out of the Royal Commission are issues like delayed reviews of client complaints, and people paying fees they shouldn't have been charged for. So, it can only be good for our industry that there has been a shake-up.

However, most of the industry does do the right thing by its clients. So, in that respect, we shouldn't be too defensive about the Royal Commission's findings. Instead, we should be positive and reassure our clients that we're not that segment of the market with the issues. We're not the bad apple.

In fact, there is much greater scrutiny in the corporate governance and monitoring of investment portfolios of managed accounts, than compared to an adviser selecting managed funds on a platform every 12 months, following their licensee's audit of funds.

So, I think it's this type of efficiency and corporate governance that is creating a better level of protection for consumers. It's also making us more aware that if we want to be a profession, then we need to be more proactive in doing what's best for our clients.

Martin Morris is Head of Distribution at Praemium and Matt Heine is Joint Managing Director at Netwealth.

InvestTech 2018: Technology, transformation and innovation

For the second consecutive year, IMAP's InvestTech conference showcased the latest technology offerings and solutions for the managed accounts sector.

With managed accounts at the forefront of technological change in financial services, over 215 people attended IMAP's InvestTech 2018 conference on 8 November.

Delegates heard from industry experts about the latest developments in technology, which is transforming the way in which advisers and licensees produce and deliver advice.

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Michael McQueen

THRIVING IN AN AGE OF DISRUPTION

How do you avoid a similar fate to the likes of once mighty brands like Kodak, SAAB and Borders Books, while remaining relevant and visible in today's increasingly digital world?

This was the question that social researcher and author, Michael McQueen asked delegates at the IMAP InvestTech 2018 conference on 8 November.

"How do you avoid disruption to your brand and ensure you survive and thrive into the future?," McQueen asked. "You can't outrun the future if you don't see it coming."

With the rapid rise of artificial intelligence, McQueen said established industries and technologies are coming under increasing pressure, including the financial services sector.

"Technological innovation, like chatbots, are becoming all pervasive. We're already seeing this happening in financial services, so now is the time to start gearing up for technological change. In fact, the time to reform a business is when business is good, not when it's bad and you become reactive."

McQueen warned financial services businesses not to make the mistake of looking at conventional competitors as being their main threat. Instead, he said the biggest disruption to business will come from unconventional competitors that are "fuelled by technology".

"Your main competitors will be the ones who own good data and client insights, like Amazon, Google and Virgin. They are tapping into a new generation of clients, like the Millennials."

McQueen added that automated investment services, like Wealthfront, are appealing to an entirely different demographic.

"Millennials are a different generation and so, different things appeal to them. As a sector, you need to engage with them differently," he said.

"That means understanding their needs. Sixty-seven per cent of Millennials would rather receive advice in digital format, while 50 per cent of high-net-worth Millennials view digital advice as being more independent than that given by human advisers."

To assist advisers to remain relevant in an age of digital disruption, McQueen offered the following three tips.

1. Focus on friction

"You need to remove the complexity, red-tape and confusion of what you do with your clients. This means simplifying your processes, and that's where technology can help. By implementing the right technology solutions to your practice, you can streamline your business and

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improve your client engagement."

2. Think revolution, not evolution

"While there is a place for evolution in business, if you get stuck with the evolutionary process, you will become disrupted very quickly. Instead, business requires revolutionary thinking. We need to change the very paradigm of how we operate."

3. Foster healthy paranoia

"It's a harsh reality but only the paranoid survive in business," McQueen said. "Healthy paranoia provides a business with the hunger to succeed and the humility to do so. Both are necessary to remain relevant and to stave off complacency and arrogance. They keep you at your A game."

FINTECH AT INVESTTECH

InvestTech 2018 showcased a number of leading fintech companies that are offering cutting-edge solutions to financial advisers and advice practices. The following showcases five of these companies.

FINCAST
Automated Investment Forecasting

Fincast provides financial advisers with practical and easy to use, real time portfolio management and goal-based advisory tools, enabling them to deliver more robust and customised advice.

Its client facing applications use adaptive advice algorithms to help advisers meet ASIC's 'Best Interest' duty by assisting them to more easily create tailored, goal-based investment recommendations that are based on the latest research, products and prevailing market conditions.

financial/simplicity

Financial Simplicity provides a Portfolio Service Delivery Platform to enable wealth managers to:

1: Offer a personalised portfolio service tailored to each investor's unique investment circumstances;

2: Have an efficient process to ensure each unique portfolio is aligned with the investor-defined mandate at all times;

3: Easily create advice documents (ROA) for investor approval and orders that can be sent to an executing broker; and

4: Manage order bulking and allocation processes for MDA providers.

Practifi

Practifi is a business management platform for financial advice. Built with a single-minded focus on supporting growth, Practifi's platform helps advisers and licensees manage clients, partners, providers and centres-of-influence. Backed with powerful workflow automation, endless integration possibilities, deep management reporting and global insights, Practifi is the new benchmark for CRM-based systems in financial advice.

WEALTHO2

WealthO2 is a new technology driven, unconflicted managed account software platform partner. WealthO2 empowers advisers and their clients both technologically – through innovative efficient solutions – and commercially, enabling recovery of margin and control of the value chain. WealthO2's suite of solutions includes MDA, automated ROA, APRA Super and portfolio management for all entities.

CCUBE
INTEGRATED WEALTH

CCUBE is a next generation financial planning and wealth management solution designed to support financial advisers drive efficiency and productivity in an increasingly client centric world.

Key features include: Out-of-the-box content, enabling rapid deployment and easy personal tailoring; simple but powerful visual workflows with process automation; dynamic drag and drop document and template management; and a dedicated secure client portal to enable real time collaboration. Visit www.ccube.com.au to find out more and/or book a demonstration.

SAVE THE DATE: ADVISER ROADSHOW 2019

- 12 March 2019 – Brisbane
- 14 March 2019 – Sydney
- 19 March 2019 – Melbourne

Stay up-to-date with what's happening in the industry by attending the **Adviser Roadshow 2019**. For more information, go to imap.asn.au/events or contact Jenny Phimleut at jenny.phimleut@imap.asn.au

Trend setting at InvestTech 2018

Over 215 delegates enjoyed 11 technical sessions at InvestTech 2018, which showcased the latest innovation, insights and trends in managed accounts. The following images captured some of the highlights from InvestTech 2018.

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IMAP

Digital rising: The future of advice

Euan Sneyd considers what the rise in digital technology will mean to financial advisers and their clients, while also exploring some technology tools that can be implemented within an advice practice to streamline its offering.

In the world today, digital is the norm, and it's how clients expect to interact with financial advisers.

Clients expect to have the same digital experience they are already having in many other areas of their lives, such as with social media platforms like Facebook, the ease of ordering a car through Uber, through to online shopping. This increasing ease that clients are now experiencing in their everyday lives, is becoming the norm of what they expect with services today, including their expectations with financial advice.

When looking at industry research (*Deloitte Digital and Salesforce Financial Services: Restoring Trust in Financial Services in the Digital Era, 2018*), clients are telling the financial services industry that we are not meeting or exceeding their expectations. In fact, only one in three clients say their interactions with advisers is exceeding their expectations.

Overall, when it comes to the financial planning process, clients have high digital expectations. According to the research:

- 53% of clients believe the digital experience with their financial providers needs to be improved;
- 45% expect to be able to access customer services via text or social channels;
- 59% expect to receive proactive advice and alerts from their financial provider; and
- 45% prefer chatbots as their primary mode of communication for basic enquiries.

WHY GOING DIGITAL MAKES SENSE

In addition to client expectations that digital is now the norm in their overall client experience with the financial planning process, there are two key areas for advisers to consider when looking at the digital offering within their business.

Firstly, your digital offering needs to be about a positive client experience. Clients are expecting a richer experience with their adviser that extends beyond face-to-face interaction, or via traditional modes such as the telephone or email. By using digital platforms, advisers can offer a more personal experience to their clients by better understanding what their clients want.

Secondly, a digital offering provides greater operational efficiency to the planning business. Technology and digital solutions offer the ability to improve the ways in which advisers have traditionally done things within their business.

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> The biggest group of advice practices that have taken up this digital solution are newly established businesses that are 10 years or younger. In contrast, businesses that are older than 10 years are recording a much lower uptake of these digital tools. - EUAN SNEYD, CFS

From these two key areas emerge a range of by-products, such as improved compliance, better quality advice, more resilient business performance and increased profitability, which will be discussed further on.

TECHNOLOGY: FRIEND OR FOE?

Financial advisers should consider technology as an opportunity for their business, rather than a challenge.

Currently, there are two types of advice businesses operating in the market:

1. Those businesses that are the early adopters and are looking to improve their operational efficiency, improve the client experience, and are exploring the availability of technology, particularly low cost technology, to implement within their business; and
2. Those businesses that typically hold back and wait for others to test emerging technology and business solutions, before implementing them within their own business.

What gives these early adopters the advantage is they are setting the benchmark for what the base client experiences. They are also dictating the direction of what is going to be delivered to clients in the future.

In contrast, with the second group sitting back, they are waiting for the perfect solution to be developed. However, in reality, no technology solution is ever going to be perfect for a business. While these solutions will do the vast majority of what an adviser wants, there are always going to be gaps with these solutions.

However, I believe this second group really needs to move faster in their adoption of these technology solutions. By holding off, we are starting to see a disconnect between the 'haves' and 'have nots' in terms of how many businesses in the marketplace are actually performing more efficiently and profitably.

ADVICE BUSINESS TECH TOOLS

The following are examples of technology tools that can be easily implemented within an exisiting practice.

Emails, newsletters and marketing automation

What can you do with it?

- **Segment and target specific types of clients.**
- **Run marketing campaigns triggered by a specified event.**
- **Track, report and analyse client activity.**

Only 51% of advice businesses actually personalise their broadcast communications to their clients, such as beginning with 'Dear Sally…'. Simple things, like personalising your communications, is an easy way of improving the client experience.

In terms of business communications, there are solutions available in the market that allow advisers to segment their client base, enabling them to specifically target who they are wanting to talk to. For example, during periods of market volatility, you can send out emails to clients who need an update, or when you are doing managed account changes, you can communicate to clients though these platforms.

When you consider the most recent findings in Business Health's *Future Ready VII Report*, which was released last year, the report found that only two-thirds of advisers are communicating to their A list clients, who are their high value clients, less that 10 times per year. Only one-third of advisers are communicating to their A list clients over 10 times annually.

In times, like now, where the industry is receiving a lot of negative coverage by the media and the markets are somewhat volatile, clients are potentially more unsettled and are seeking reassurance from their trusted adviser. An effective communication strategy is a great way of getting in front of clients more often and to demonstrate your value.

For those advisers who are communicating with their clients more than 10 times per year, they are recording a 31% increase in profit. So, communicating with clients more often is a very important way of demonstrating your value and ensuring that trust is maintained with your clients.

Communication tools include:

- *MailChimp.*
- *XPLAN.*
- *Campaign Monitor.*

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Virtual meetings

What can you do with it?

- **Meet with clients anytime, anywhere.**
- **Satisfy your time-poor and tech-savvy clients.**
- **Store meetings for compliance purposes.**

There has been a strong uptake by advisers with video conferencing tools for clients. Video conferencing is a quick and easy way to have a catch-up or review meeting with clients at anytime and anywhere.

Virtual meeting tools offer a range of services, such as screen sharing, enabling advisers to more easily collaborate with their clients.

Approximately one-third of advice businesses are offering video conferencing with their clients. Zoom and Skype are examples of video conferencing tools. However, the biggest group of advice practices that have taken up this digital solution are newly established businesses that are 10 years or younger. In contrast, businesses that are older than 10 years are recording a much lower uptake of these digital tools.

Virtual meeting tools include:

- *Skype.*
- *GoToMeeting.*
- *Zoom.*
- *SuiteBox.*

Surveys, reviews and ratings

What can you do with it?

- **Get to know your clients better.**
- **Capture client feedback.**
- **Benchmark your service levels against other providers.**
- **Identify areas for improvement.**

Surveying your clients also goes to the heart of effectively communicating with your clients. It's about understanding what your clients are thinking.

According to the Business Health *Future Ready VII Report*, only one in three advice businesses are actually asking their clients for structured feedback. Of the 33 per cent of businesses that are taking feedback from their clients, 79 per cent are using surveys, like SurveyMonkey, to directly ask their clients for feedback. By doing so, these businesses are recording a 27 per cent increase in practice profitability.

> "This increasing ease that clients are now experiencing in their everyday lives, is becoming the norm of what they expect with services today, including their expectations with financial advice. - EUAN SNEYD"

This profit increase is a result of those businesses getting to know their clients better. They're understanding and positively responding to the feedback their clients are giving them; they are benchmarking their service level from year to year; and they are also targeting and fixing problem areas identified within their business.

Digital tools, like SurveyMonkey, are a great way for advice businesses to set up regular surveys to better understand their clients needs and expectations.

In addition, many advice businesses are also rolling out post implementation and post meeting/review surveys, where clients are encouraged to provide feedback on their experiences with the adviser and business. This can be a valuable way of receiving an independent assessment of how the business is tracking with its clients.

Survey tools include:

- *SurveyMonkey.*
- *Adviser Ratings.*
- *Google reviews.*

Client portals

What can you do with it?

- **Have a central point of information for clients.**
- **Improve client engagement.**
- **Help with compliance and sharing secure documents.**

Client portals are invaluable in enabling clients to access their information and to interact more closely with their adviser during the advice process.

Approximately 60 per cent of advice businesses are currently either using some form of digital tool to directly demonstrate planning strategies to clients or are offering a portal for their clients to access shared information, as opposed to emailing information to their clients.

An example of such a tool is myprosperity. Powered by live data feeds, it allows clients to manage everything from cashflow to budgeting, property, tax and estate planning.

Client portal tools include:

- *FinPal.*
- *myprosperity.*
- *Xeppo.*

Cloud storage and shared technology

What can you do with it?

- **Work on files anywhere.**
- **Simplify document sharing and collaboration.**
- **Download to computers or mobile devices.**

Instead of emailing through unencrypted ROAs or SOAs, another way to share information with clients is through cloud sharing. However, the ability to cloud share will depend on the licensee. While some licensees allow it, others have much more restrictive standards about where an adviser can store client information.

Currently, 37 per cent of advice businesses are doing some form of cloud sharing. Again, it tends to be advice businesses that are 10 years or younger that are leading the adoption of cloud sharing.

Cloud storage allows advisers to share files and documents both internally within the business and externally with clients. It enables real time collaboration of documents and allows clients to easily download files when they need to, compared to searching for an email or a mailed hard copy document.

Dropbox is a common tool used by advisers, with others including Google Docs and myprosperity.

Cloud storage and shared technology tools include:

- *Dropbox.*
- *Google Docs.*
- *myprosperity.*

Digital workflow and integration

What can you do with it?

- **Link systems together to improve business efficiency.**
- **Analyse workflow and create reports.**
- **Capture notes or ideas on any digital device.**

While 69 per cent of advice businesses have some form of way where they can set up and track their internal workflow processes, only 32 per cent of those businesses have that workflow integrated with other parts of their business.

Linking and integrating your systems is key for business success today. By doing so, it will help you to better analyse your workflows, it will assist you to create reports, and help you to understand the trends happening to your business and with your clients. In addition, digital workflow and integration will also help with the training and management of your staff.

Zapier is an example of a web automation app, which sits across various applications that businesses are using, to help automate parts of an adviser's business. Zapier supports hundreds of apps, and enables businesses to mix and match triggers and actions to automate just about anything.

Digital workflow and integration tools include:

- *Zapier.*
- *Evernote.*
- *IFTTT.*

Project, activity and task management

What can you do with it?

- **Communicate more effectively with your team.**
- **Get greater transparency of projects.**
- **Optimise resource allocation and delegate tasks.**

When it comes to project management, the key to doing this in a streamlined way is using the right technology solution that allows you to do it in a smarter way.

An effective project, activity and task management technology solution will enable you to more effectively communicate with your team, provides greater transparency in what you are doing, and allows you to better manage the projects you are working on.

Slack is an example of a cloud-based system that offers a single place where your team can come together to collaborate, where important information can be found by the right people, and where your tools pipe in information when and where you need it.

Project, activity and task management tools include:

- *Slack.*
- *Trello.*
- *Evernote.*

Managed accounts

What can you do with it?

- **Enhanced client engagement.**
- **Improved client investment outcomes.**

- **Reduction in back-office administration.**
- **Improved risk control.**

Managed accounts are an investment solution that has enabled many advice businesses to improve their operational efficiency and the overall client experience.

Managed account tools include:

- *Managed accounts on platforms, like FirstChoice.*
- *Financial Express.*

WHAT WILL THE FUTURE LOOK LIKE?

With so many different technology solutions available to advice businesses, how do planners successfully navigate the range of choices available?

The following are my top five tips for advice businesses to implement technology changes within their practice.

1. Stay up to date

Attending relevant technology and industry conferences, as well as subscribing to quality newsletters and publications, is one of the best ways for advisers to stay up to date with what's happening in the industry.

However, as a word of caution, don't get too excited when you learn about something new and are keen to implement it immediately. Instead, start a process of 'test and learn'. Firstly, gain a full understanding of what the technology does and can provide to your business. Then test the technology out on a reasonably small scale before you roll it out across your business.

By doing so, you can make an informed decision and iron out any problems, before fully implementing the technology in the practice.

2. Encourage your team

When it comes to technology, younger staff members are likely to be more technology savvy than older staff. Therefore, younger team members will be the key to successfully implementing any technology solution within a business.

So, ensure these younger staff members are part of any projects and empower them to find the right technology solution for your business, including how to implement that new solution within the practice.

As a business owner, don't try to be all things to all people within your business. The key is to delegate these types of tasks, and importantly, use delegation as a way of encouraging younger staff to step up.

3. Set clear outcomes

This is all about setting clear outcomes and expectations of what you want the technology to do. It's about having smart goals. Be specific in your expectations, ensure you appropriately measure the outcomes of the technology, and have a clear timeframe for the implementation of new technology.

And remember, you need to continually assess the benefits of your systems. You can expect that every five years or so, you will be replacing whatever system you are using, unless it's had a significant upgrade. Technology changes rapidly, so you need to keep up with these changes.

4. Be client-centric

Being client-centric is all about keeping the client at front-of-mind of everything you do. Make sure your business outcomes are client-centric. Ask yourself: 'How will this change serve my clients better?'

5. Integrate solutions

Ensure your systems are integrated. Currently, many advice businesses are running isolated technology solutions. So, if you can't get your technology solutions to integrate with others, then look for technology solutions that will.

Euan Sneyd is National Manager - Institutional Solutions at Colonial First State.

> We are starting to see a disconnect between the 'haves' and 'have nots' in terms of how many businesses in the marketplace are actually performing more efficiently and profitably.
> – EUAN SNEYD

The client-centric approach to planning

In the wake of damaging revelations uncovered at the Royal Commission, technology can play an important role in helping the financial services sector renew trust with existing and new clients, writes Martin Morris.

The last decade has seen an enormous amount of upheaval and challenge across the financial services sector, and few established participants and stakeholders have emerged without impact.

After grappling with volatile markets and client uncertainty through the Global Financial Crisis, five years later, the industry had to navigate through the Future of Financial Advice (FoFA) legislation.

The industry then entered a period of 'normality', as FoFA was established and markets settled. But, as the decade comes to a close, this period of normality was short lived, with the wide reaching impact of the Royal Commission touching all parts of the industry.

Whether a licensee, practice owner and/or an adviser, to successfully navigate the last decade and emerge confidently, or at least with a view to a positive future, has required focused resilience.

Disappointingly for those advisers who have demonstrated this resilience, industry and government research continues to highlight a large proportion of unmet advice needs within the Australian community and a continued lack of trust in the sector.

With 47% of customers (Source: Deloitte) still not trusting their financial services provider, it's a statistic that cannot be ignored. Even more worryingly, regarding this segment of customers, is that 69% were aged 35 or above and surprisingly, 43% were aged 50 and over – arguably the most valuable prospect base for wealth management participants.

This position will not be helped by the high visibility of the Royal Commission and the ensuing media focus on the negative behaviours demonstrated by certain industry participants.

However, while this may paint a gloomy outlook, there will be many advisers who would argue that this is not reflective of their own client base.

Investment Trends research states that '90% of planners' clients say that their financial adviser had a positive impact on them'.

Arguably, Australia has a very robust, valuable and ethical financial planning community that is negatively impacted by a system that sometimes is abused or mismanaged by a small number of institutions or advisers. Therefore, the 47% of distrusting consumers may not actually have a bespoke relationship with an individual adviser.

In the face of a barrage of press projecting a negative image of the planning industry and continued challenges that are often out of their control, how does the planning industry build trust with the unadvised investor, increase referrals and increase the percentage of the population approaching financial advisers for advice directly?

And it's not just financial advisers experiencing challenges. Licensees have had their fair share of adversity and price pressure also.

EVOLVING THE LICENSEE-ADVISER RELATIONSHIP

Whilst not a blanket position, it has long been accepted that licensee profitability cannot rely on the current level of authorised representative fees alone.

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> A consistent theme underpinning most fintech propositions is a focus on client engagement and consumer experience. Developing solutions that address the tech buzzword of the moment, 'friction', are high on the agenda.
> – MARTIN MORRIS

In fact, many licensees are making a loss on pure authorisation fees. This is not helped by a large portion of advisers in Australia seeing their licensee as a compliance requirement, even those who rate their licensee highly, rather than a value-adding discretionary business-to-business service.

Being licensed is a major cost to a financial planning business and a cost that is non-discretionary, which removes control from a business owner to decide whether it is a service, such as marketing, HR support or business coaching they wish to pay for. This forces the licensee-adviser relationship to be one of compromise, as opposed to a mutually beneficial arrangement.

Finding a price point that sits comfortably with both parties is also a challenge; the practices paying as little as possible and the licensee charging a discounted fee model, where the fee is at a level that can be offset by alternative revenue sources. This price point is rarely met successfully and can often set a false picture of what it costs to be licensed and the risk return fee required for a licensee to provide authorisations.

This leaves a strange dilemma. Advisers still don't accept or recognise the discounted licensee fee as a value-based model and are often equally distrusting of their licensee's perceived additional conflicted revenue sources, which they have introduced to offset their loss on authorisation fees.

Vertical integration is one licensee solution, which has been a hotly debated topic before and through the Royal Commission. The fundamental premise of vertical integration is to gain supply-chain efficiencies that can be passed on to consumers.

Unfortunately, however, there are cases across the industry where vertical integration has been used to reduce pricing transparency and maximise revenue streams, often to the detriment of customers, leaving many legitimate models tarnished by those who abused the opportunity.

Interestingly, this leaves the industry with a single recurring problem, whether it's a licensee-adviser or adviser-client relationship. The problem being a service provider offering services to a current or prospective client base, which is largely distrusting and does not see complete value in the services provided.

Whilst there are pockets of success, until we fix the broader problem, the statistic of 47% of customers not trusting their financial services provider is likely to grow.

FINTECHS FREED FROM FRICTION

Whilst licensees and advisers have had to navigate significant business challenges and barriers over the last decade, the fintech sector has really taken hold.

KPMG reports a five-fold increase in the number of fintech start-up companies in Australia over the past five years. Investment in the Australian fintech sector has subsequently risen significantly from US$53 million in 2012 to over US$675 million in 2016.

The number of fintech start-ups in Australia has increased from less than 100 in 2014 to over 650 companies today.

The Financial Planning Association's (FPA) whitepaper titled, *Mapping fintech to the financial planning process*, states that 117 fintechs are active in the advice process, but only 54 of those are designed to support financial planners in delivering advice to their clients. That means a greater number are direct to consumer and present a potential threat to the advice community.

A consistent theme underpinning most fintech propositions is a focus on client engagement and consumer experience. Developing solutions that address the tech buzzword of the moment, 'friction', are high on the agenda.

Friction being the factors that adversely affect decision-making, or the act of purchasing, by over complicating processes and/or lack of simplicity in providing key information to a decision-maker. Advances in technology are not only reducing friction and cost, they are changing consumers' expectations, as they become more comfortable with 'self-serve' solutions and expect real time access to financial information.

As 69% of distrusting consumers are aged 35 or over, they are clearly not a young generation. They are a diverse, educated, demanding and progressive segment of the population. They are a segment that is experiencing digital excellence in many facets of their lives and cannot understand why this is not transferring more readily to the financial services sector.

PwC has stated that research shows 50% of high-net-worth

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investors believe their relationship with their adviser should include a digital experience, but we know anecdotally that a large portion of advisers haven't developed a strategy to meet this need.

ADDRESSING TRUST WITH TECHNOLOGY

Transparency and accessibility are two factors that breed trust, both of which can be achieved through the adoption of appropriate technology. If trust is a major factor in the industry being viewed as a profession, then technology can play a leading role in helping the financial services sector renew trust with existing customers and attract new ones.

For licensees, practice principles and financial advisers, meeting this consumer need is imperative to future proofing their businesses.

It is only a matter of time before the fintech and robo advice sectors develop new offerings that focus not only on low value investors, but also target the digitally minded, high-net-worth investor, who prefers to self-serve and who, in turn, will find these new fintech offerings compelling enough to negate the need for advice.

Of the 80% of the Australian population who do not obtain advice, there will always be a segment who cannot afford personalised advice and those who don't want it for one reason or another. The quandary is how many of the remaining prospective consumers will be left for the advice industry to access, or will advisers and licensees always be behind the technology curve in serving the Australian population and leaving fintech providers to take the lion's share of new business?

TIME TO TRANSFORM

We are entering a transformational era for financial services and its participants. For licensees, practice principals and financial advisers, developing a clear understanding of the technology available to deliver a specific value proposition, will be imperative to survival over the coming decade.

To remain relevant, licensees will need to reposition themselves as technologically driven business-to-business service providers. Deciding whether to adopt a broad or specialist approach will be required of each licensee.

However, the one constant factor will be that technology will need to play a major part in ensuring any services provided are cost-efficient, easy to deliver and scalable in a way that the advice community will willingly consume and, importantly, see value in.

Practice principals and advisers will need to reposition the client, and their needs, at the centre of their universe, rather than the business. Development time will need to be refocused on creating and delivering more client-centric solutions, rather than purely solving business issues. Those firms or advisers who have not yet considered how they will use technology more effectively with their clients, will continue to see their model move further away from consumer needs.

The result is that licensees and advisers will need each other to pool resources and design targeted solutions to answer specific client needs and demands. Advisers will need to understand their customer's digital needs and licensees will need to use this information to develop solutions that assist the adviser with attracting new clients and building greater levels of trust. This in turn will ensure that advisers finally see true value in their licensee.

The good news is the technology is already available, with many established fintechs willing to work with financial advisers. Data sharing environments are central to ensuring multiple technology platforms can work harmoniously together, reducing the cost to licensees and advisers in building individual solutions or connecting directly to in-house solutions.

Developing and implementing a strategic technology plan can be achieved without significant infrastructure or development cost, giving industry participants the ability to develop a robust plan that will enable them to not only successfully navigate the next decade, but deliver a better wealth management experience for their clients.

Martin Morris is Head of Distribution at Praemium.

> "If trust is a major factor in the industry being viewed as a profession, then technology can play a leading role in helping the financial services sector renew trust with existing customers and attract new ones.
> – MARTIN MORRIS"

Mapping the customer journey

By mapping your clients' journey to the advice process, you can ensure your clients are getting optimum engagement at all their interactions and touchpoints with your business. Here are some tips from Netwealth for mapping your clients' journey.

In 2018, your customers no longer rate you against other financial planners or the banks, but against companies that are masters of customer engagement.

Whether they are ordering a pizza from Domino's, buying a movie on Netflix or getting consumer credit through Afterpay, customers now expect every experience to be user-friendly, friction-free and intuitive, because this has become the new normal.

If you are competing against the world's customer experience experts, then how can you match them? A starting point is to understand the customer journey of your typical advice customer and identify touchpoints and points of pain in that journey, with a view to fix and innovate against those.

> "Every business is different, so it's important to map your own clients. Having this in-depth understanding of your client's experience is a vital step to growing your business."

Let's consider a high level customer journey for a financial advice customer, typically it will involve the following 'journey' steps and associated points of friction or 'pain'.

- **Prospect**: When people have financial needs or problems, this is the beginning of their journey to seek out advice. Some of the touch points at this stage could include a referral partner, advice from a friend, your website, a phone call, Google, social media, online directories or meetings (in-person or virtual).
  This is where first impressions are critical. Google yourself (you know you want to) and see what kind of impression you are making.
  Some of the pain points customers may experience can include feeling overwhelmed with too much information, perceiving your business lacks credibility due to a poor looking website, finding it hard to find time for an appointment and finally, a reluctance or anxiety to take the next step.
- **Discovery**: This step involves the collection of information and data about the person. This can be through the use of online tools, risk questionnaires, calculators, budgets and the collection of bank statements, as well as old-fashioned methods like face-to-face meetings.
  The main pain point to note here is that the customer

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can easily become overwhelmed. Collating data can lead to frustration, as can asking for sensitive data.

- **Advice**: The core of your business. This is where you share your recommendations with your clients through the statement of advice (SOA) document and presentations. These presentations not only need to have all the relevant information but they also need to be easily digested by the client.
  Areas of friction or pain points are often through the use of jargon and excess legal speak, and a lack of clarity in linking the person's objectives with the advice strategy.
- **Implementation**: This is the point where the customer signs off on documents to accept your strategies. These forms can include execution documents (account application forms, rollover forms and insurance documentation).
  Pain points at this step can include documents that require more than one person to sign and incomplete documents leading to rework. Even printing is hard for many people, as they often don't have a printer at home.
- **Engagement and education**: Ongoing communication is vital with your clients and this can be achieved through client portals, reports and dashboards, meetings, educational content and calculators.
  While this ongoing flow of information provides value to your clients, there are pain points, which can include the client not understanding the status of the strategy, not understanding what certain events will mean for them, and feeling forgotten if they haven't heard from you in a while.
- **Annual or periodic reviews**: This step is similar to the discovery process again, where you are looking to freshen up your understanding of the client's objectives, information and data. As such, similar pain points exist as already mentioned.
- **End of financial year**: EOFY is a critical time for your clients and they will need statements, advice and information to be properly prepared. There will be face-to-face meetings during this process, and the actual lodging of the tax return and audit of SMSFs.
  The pain points here may include the many confusing documents that need to be signed by multiple people.

Map your customer journey and innovate

Every business is different, so it's important to map your own clients. Having this in-depth understanding of your client's experience is a vital step to growing your business.

Simple techniques exist to map your client's unique journey with your business. For example, at Netwealth, we have developed a *Customer Journey Mapping workshop* as part of the *Netwealth Innovative Toolkit* for this purpose.

By using a customer journey map approach, you will be able to analyse the journey to ensure your clients are getting optimum engagement at all their interactions and touchpoints with your business.

By identifying the pains and joys customers have at different touchpoints, your firm can make the client experience smooth and memorable, encouraging repeat business and positive word of mouth promotion.

This will enable your business to remain nimble and ready to meet all challenges along the customer journey. It can help evolve your strategy by improving engagement at all times, in turn delivering greater customer satisfaction and perhaps improved profitability.

To create your own customer journey map unique to your business, download the Customer Journey Mapping workshop at www.netwealth.com.au/innovation.

> “…customers now expect every experience to be user-friendly, friction-free and intuitive, because this has become the new normal.”

2019 IMAP EVENTS

2019 is shaping up as another busy year for IMAP, so make sure you mark these events in your diary now!

JANUARY

- 29 January 2019
  Investment Forum – Sydney, Melbourne, Brisbane
- 30 January 2019
  Webinar

FEBRUARY

- 13 February 2019
  Webinar
- 21 February 2019
  Managed Accounts Central, SMSF Conference

MARCH

- 12 March 2019
  IMAP Adviser Roadshow – Brisbane
- 13 March 2019
  Webinar
- 14 March 2019
  IMAP Adviser Roadshow – Sydney
- 19 March 2019
  IMAP Adviser Roadshow – Melbourne

APRIL

- 10 April 2019
  Webinar
- 17 April 2019
  Investment Forum – Sydney, Melbourne, Brisbane

MAY

- 8 May 2019
  Webinar
- 20 May 2019
  Responsible Manager Masterclass – Sydney

JUNE

- 27 June 2019
  IMAP Managed Account Awards

AUGUST

- Portfolio Management Conference – Sydney and Melbourne

NOVEMBER

- 6-7 November
  InvestTech 2019
- 11 November
  Responsible Manager Masterclass – Melbourne

Dates and events may change. Venues still to be confirmed.

For more information, go to imap.asn.au/events or contact Jenny Phimleut at jenny.phimleut@imap.asn.au

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