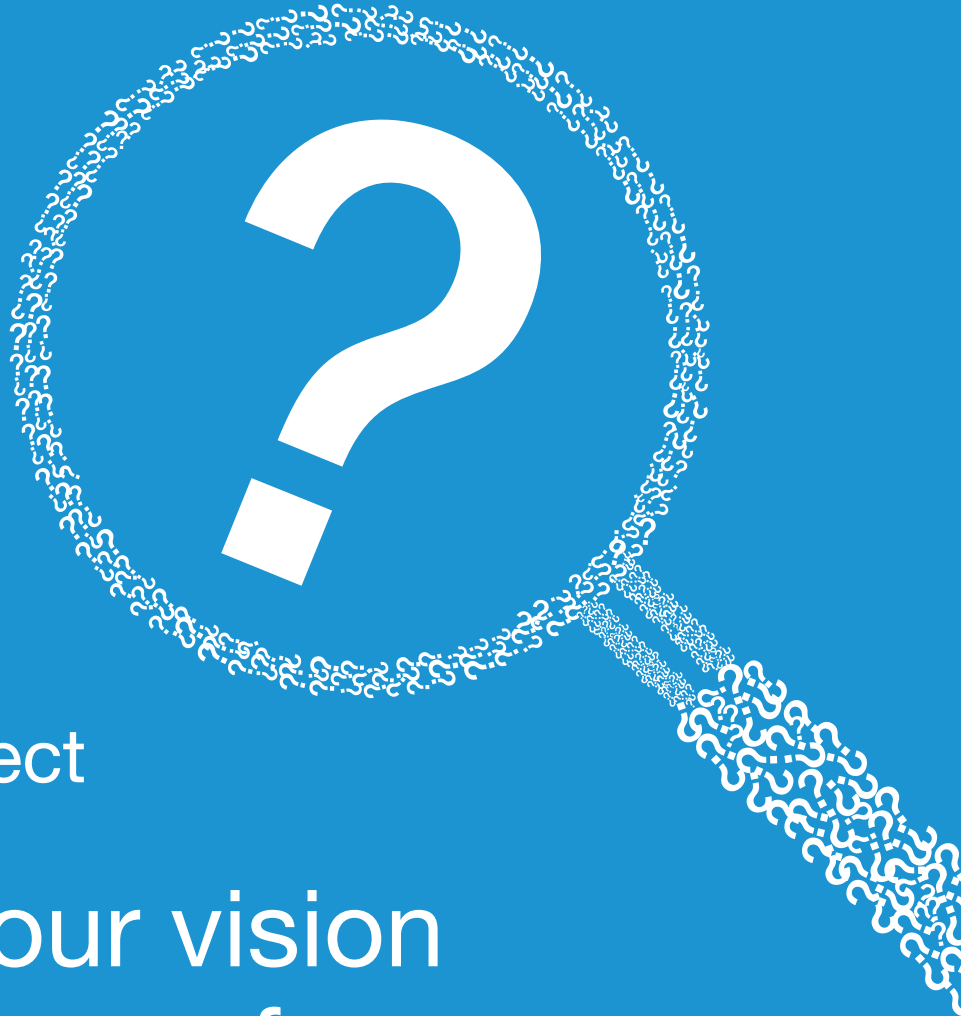


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The Ripoll effect

What is your vision
for the future of
financial advice?

What would you like to change?

PRICEWATERHOUSECOOPERS 

The Federal Government's proposals for the Future of Financial Advice will change the financial planning landscape. We see the industry delivering effective financial advice to more Australians.

The industry is already responding - organisations that have embraced the change and are able to integrate advice with product are well placed to develop a competitive advantage and increase market share.

In this perspective, we consider the key themes of industry change and how the industry will respond to the nation's elevated expectations.

We see three broad themes of industry change

1

Manufacturers with combined distribution will have a competitive advantage

There are a number of forces increasing the competitive advantage of combined manufacturers and distribution businesses including:

- customers are going to face the true cost of advice
- manufacturers offering a range of advice models can direct customers to the right model at the right price
- large manufacturers will be in a position to provide full-service advisers with comprehensive support services at a lower cost and even absorb other advice costs into product margins
- manufacturers with size and access to distribution will have a greater capability to build cost-effective single issue advice
- manufacturers can use related trustee vehicles to provide a low cost intra-fund advice model
- industry funds can leverage their current position to meet customer advice needs
- large manufacturers such as banks can leverage access to clients with salaried advisers.

To achieve this outcome, these businesses will need to make sure that they comply with their fiduciary responsibilities; this means they will need to provide both lower cost and full-service products, with the following outcomes:

- for low cost products, it is likely that they will become homogenous across the industry
- full-service platforms will need to increase their product offering to meet the needs of the sophisticated client customer needs
- platforms will need to differentiate on service, features and cost.

2

A regime that favours both the big and the boutique

Licensees face significant costs to change their systems and processes and to transition advisers under the proposed reforms. Big licensees will be better placed to provide a good level of support to their advisers and, as a result, will attract advisers from small businesses. Increasing pressures from a growth in commoditised advice will further challenge smaller licensees.

Boutique advice businesses servicing the high net worth segment should be able to rely on the capabilities of individual advisers and direct control over processes to avoid many of the transition and ongoing operating costs faced by larger businesses. Boutiques that service these clients successfully will be able to provide advice that is valued and suit fee for service.

3

Increasing rate of market commoditisation

Licensees providing full-service advice will be under pressure as consumers increasingly question the extra cost for the step-up from single issue advice. For the first time, the scene is set for this to become a prominent feature of the market given:

- more customers will get advice and most likely, for these customers, it will be single issue advice
- the ban on commissions and volume-related payments which will force clients to face the real cost of full-service advice
- advisers will need to consider providing all types of advice to meet their fiduciary responsibilities
- the “MySuper” recommendations that default fund trustees are required to provide single issue advice.

We see the market responding with cheaper advice models that will be valued by clients, particularly those with mid-market needs. Over time, single issue advice is likely to become a commodity.

Responding to the nation's elevated expectations

A consumer perspective

The future of financial advice looks to become even more consumer focused. Compulsory super means that most Australians are customers of our industry. To thrive in this world, we see three distinct consumer brand propositions emerging: “we’ll look after you”, “the one stop shop” and “we’re the experts”. Each proposition is strongly aligned with the needs of a large segment of the population. All three segments need to continue to lift their game to meet the public’s elevated expectations.

We’ll look after you

Dominated by industry funds, the employer superannuation segment has largely locked in access to members via default fund arrangements. These funds must excel at delivering financial security up to and beyond retirement to the mass market. There is an opportunity for funds to truly engage with members and proactively identify points in their lives where they most need help. Members need to be supported with delivery of simple education and advice using multiple media in a cost effective way.

To be successful there are a number of opportunities for super funds:

- develop scalable technology solutions that are integrated with internet, phone and face-to-face services
 - ensure that the benefit design of the fund dovetails with the way advice is delivered
 - build an identity with members, the public and advisers for providing advice.
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The one stop shop

Dominated by the major banks, a significant proportion of the mass and high net worth discretionary saving segments want to exercise some degree of control and choice over their finances. Leveraging customer data enables you to understand customers’ changing needs and provide the right advice, at the right time, to a large client base using multiple media. Banks have the opportunity to become trusted by those exercising choice.

To be market leaders in this you could:

- attract and retain the right advisers by providing first class adviser education, tools and support
 - develop intra-fund, single issue and full-service advice models that are effectively integrated to manage the financial needs of the majority of Australians
 - create distinctive product suites that match the needs of clients, either commoditised or high service.
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We’re the experts

Independents with deep specialist knowledge are well placed to service higher net worth clients, those with complex needs and self managed super funds. These advice businesses will need to combine a range of well articulated services including support for self managed super funds, insurance, wealth management, tax, investment strategy, broking and estate planning. Clients will value the depth of expertise and service.

The removal of commissions and similar payments is leading to a fork in the road for many independents: do they become the experts or compete as a one stop shop? In this segment, we believe there to be a first mover advantage in:

- building a clearly articulated advice proposition and recruiting the best advisers from the fall out of the regulatory upheaval
- developing the support services and advice processes to make your vision a reality
- identifying existing clients that fit with your service proposition and the new relationships that will be vital in growing your business.

There are things to do now

The overall challenge is to transition advisers from providing product and advice to selling advice as a professional service

What this means for advisers

Self-employed advisers

Adapting to the removal of commissions and increasing commoditisation of advice will present a number of implementation challenges including:

- developing a compelling fee-for-service advice story for clients and maintaining profitability of the business
- meeting new professional standards including fiduciary duty obligations
- adapting their advice process and systems to meet compliance requirements
- training and up-skilling support staff in the new requirements and procedures.

Salaried advisers

Enhancing their skills to meet the new professional standards and adapting to the new advice process.

Impact

Some advisers will adapt to the new professional standards; while others who are unable to transition to the new standards and sell advice as a professional service may leave the industry or move to other roles in the new advice model.

What this means for licensees

Managing the profitability of the business

The removal of complex remuneration structures will drive licensees to review their revenue streams and business model objectives including:

- determining the client segments that can be effectively serviced
- developing a compelling fee-for-service model that services those client segments
- updating terms with self-employed advisers to embed new revenue sharing arrangements
- ensuring that financial planning remains an attractive and rewarding career
- developing new targets and metrics to align them with business objectives
- maintaining adequate financial and human resources to meet licensing requirements
- aligned licensees will need to determine what they are going to charge for advice to maximise their competitive advantage and optimise group profit.

Maintaining compliance

Licensees need to understand the new compliance requirements and ensure adherence. To achieve this licensees must:

- update their advice process and systems
- review existing policies to ensure compliance
- re-examine the Approved Product List (APL) to support fiduciary duty obligations and ensure advice for non-APL products is compliant
- give advisers adequate resources and training to meet new professional standards
- review and maintain appropriate risk management systems
- review their monitoring and supervision programme including for example, considering e-based reviews, independent surveying of clients and “shadow shopping”.

Updating advice process and systems

A combination of documentation, process and technology changes will be required to deal with issues including:

- adapting requirements to meet fiduciary duties
- updating FSG to meet new disclosure requirements including remuneration arrangements
- reviewing Know-Your-Client, Statement of Advice and Record of Advice documentation to meet new requirements
- creating new processes to cater for client annual renewal requirements including record retention.

Intra-fund advice

Trustees will need to carefully consider expansion into new areas of advice. The higher level of technical knowledge required to provide retirement strategies advice must be considered in the context of the capabilities of existing advisers. Trustees will need to:

- ensure training and ongoing compliance programs for advisers
- develop appropriate tools to facilitate the advice process
- consider whether the fund’s product features and advice model work hand in hand
- determine the appropriate charging structure.

Summary

Developing and successfully implementing a transition plan to meet the challenges will be critical in:

- remaining compliant
- managing new risks related to fiduciary duty
- moving your business from providing product and advice to selling advice as a professional service
- protecting your business from the loss of clients and advisers
- aligning your people to the planned outcomes both in terms of vision and remuneration practices
- adjusting recruitment and selection processes to attract the right talent.

The Future of Financial Advice proposals are about to change the financial planning industry. Early adopters can help customers and advisers through uncertainty and position their businesses to take advantage of the one-off opportunities to meet those needs.

Choose your future. To position your business to thrive, plan now for the change that is coming: assess how the proposed reforms will impact your business, re-evaluate your client proposition and identify the changes you need to make to your capability to deliver.

Seize the opportunities. The legislation will bring transition and through transition, significant opportunity for manufacturers, licensees and advisers who can successfully:

- define and articulate their customer brand proposition
- align their business with that proposition
- migrate their people and their advisers to the new advice model
- execute the transition.

Review your alliances. You may need to review your alliances and business relationships to deliver on customer brand proposition. This may require you to develop new relationships or change the basis of old ones or consider outsourcing to meet the increased challenges around scale and efficiency.

Start now. Although the detail of the legislation is not certain, the direction of the industry and mood of the public is clear. Don't leave your competitors and stakeholders to take independent action. Articulate the vision for your business to provide certainty to your clients, staff and advisers and galvanise their support. Make the Ripoll effect an opportunity to enhance and grow your business.

The government has tossed the first stone into the sea of financial advice: how will the ripple reshape the financial services industry?

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