

Future of advice: boutiques for some, robo-plans for the rest

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Westpac chief executive Brian Hartzler says the growing cost of providing personal financial advice, including sky-rocketing regulatory costs, is creating a bifurcated financial advice market, with specialist boutiques serving customers willing to pay more for bespoke plans, while banks – sensitive about their reputations following the Hayne inquiry – shift to an automated model supplying general advice to the masses.

[After Westpac announced it would no longer provide personal advice](#), leading wealth advisers also said the traditional model of major banks seeking to provide cheap, personalised advice funded by cross-selling products was now dead, following the royal commission, and agreed "robo advice" would emerge as the way of delivering financial advice at scale.

However, before banks are comfortable rolling out automated solutions, they need clarity from legislators or courts on the definition of "general" advice, which allows advice to be given without having specific regard to customers' personal circumstances.

The costs of providing bespoke personal advice have soared over the past five years, the result of higher professional standards for advisers and requirements to produce comprehensive statements of advice. At the same time, the Future of Financial Advice reforms put pressures on revenues by limiting commissions. Mr Hartzler said this meant "fewer customers have become attractive to serve under the old model".

Westpac said on Tuesday it would shift 90 salaried advisers and as many as 10,000 customers to Viridian, a boutique financial advice business with a staff of 130.

Mr Hartzler said the deal represented "a bifurcation [of the advice market], where, at the higher end, smart planners will develop targeted propositions to meet the standards and run their business successfully".

"But at the lower end, we need to find a cost structure that can support the available revenue, and I think the answer to that has to be some form of general advice and robo advice," he said.

However, Westpac, which is [fighting the Australian Securities and Investments Commission over the definition of "general advice"](#), wants the dividing line between personal and general advice more clearly defined. Many customers without complex arrangements "just want to know they are on the right track, and that's where robo models can help – if we have the right clarity around the legislation," outgoing BT Financial Group chief executive Brad Cooper said on Tuesday.

Robo advice involves investors plugging their investment goals, time frames and risk appetite into an online platform, which generates a recommended investment portfolio typically based on low-cost exchange traded funds.

Will Hamilton, chief executive of Hamilton Wealth, said the banking royal commission had revealed it was no longer feasible for traditional financial advice to be provided by large financial institutions focused on pushing their own products.

"I think for the large financial institutions providing a scalable solution cost effectively, and most importantly in compliance with the law, can only be done with robo advice," Mr Hamilton said. "I don't see any other way they can continue to provide large-scale advice."

Korda Capital chief executive Paul Heath said the industry would fundamentally change following the royal commission, agreeing that "a model where advice is subsidised by products is finished". He said there was a significant opportunity for technology to play a role in reducing compliance costs when assessing clients and preparing financial advice statements.

"The industry needs to figure out how to deliver the best advice to clients which is compliant with the law. Advisors need true independence and to give advice in a client's best interest," he said.

Patrick Garret, chief executive of robo adviser Six Park, said banks had not been able to figure out how to deliver cost-effective advice to clients with less than \$1 million to invest.

"They can't reach and actually can't serve the enormous portion of the market," he said.

Robo advice is "product agnostic" and, for those customers who don't require "high touch" tailored advice to manage their wealth, Mr Garret said robo advice would deliver that more efficiently. "The future is a hybrid model, where advisors are able to use the equivalent of a robo-like service as part of their offering for clients," he said.

Bespoke and comprehensive financial plans were not required by many advice customers, Mr Hartzler said.

"Someone who is a standard PAYG employee, who is 45 years old with a mortgage and doesn't have a complex family situation – the sort of things they need to think about is fairly straightforward. But someone who has a lot more money or different assets and a lot more complex family situation may find value in paying for a more comprehensive plan."

But with Westpac this month launching an appeal against a Federal Court decision in order to get more clarity on the definition of general advice, Mr Hartzler added: "There have been some questions in the industry and with regulators about what constitutes general advice and what constitutes personal advice, and we need to get certainty around that so we, as an industry, can build models that work for the industry and providers."