The future of financial advice is forked

The old model of financial advice is crumbling leaving those seeking help with two options. One of them is a robot and the other might be out of your reach.

James Frost*Financial Services Writer*

Mar 23, 2019 — 12.00am
Australian Financial Review (AFR)

When a large shipping vessel sounds a prolonged blast of its horn every two minutes it’s a signal that all other craft in the area should pay attention.

That’s what Westpac did earlier this week when it announced it would be exiting the personal advice segment for good from July 1.

Westpac’s CEO Brain Hartzer said the bank was withdrawing from advice because costs were rising and revenues were falling. Personal financial advice was a high-risk, loss-making business and Australia’s second-largest bank could no longer make it work.

The departure of Westpac will have real and immediate consequences for the 713 advisers who will be looking for a new job, the 8000 other staff members who are expected to leave, and the 10,000 customers who will no longer receive advice from someone wearing a Westpac badge.

But the implications go way beyond Westpac. The bank's decision shines a light on the choppy conditions that Australia’s 25,000 financial planners find themselves in and poses some serious questions for the millions of Australians who require some form of financial advice.

Scott Pape is an author and licensed financial adviser. His *Barefoot Investor*books have sold close to 1.5 million copies in a few years. His simple and down-to-earth advice has spawned a legion of frugal followers known as barefooters.

Pape is critical of the fee structure that allowed some advisers to cream as much as 1.5 per cent from customers for doing very little and says they were bound to come under pressure as returns got harder to eke out.

Paying outlandish fees for irregular advice is one of the main arguments for robo-advice, or advice delivered by a computer, typically asset allocation advice given in response to a questionnaire. So it is perhaps counter-intuitive that Pape sees considerable value in expert advice.

“I’m not quite sure anyone has nailed robo-advice yet,” Pape says.

“Advisers play a vital role when you are making that transition to retirement. When markets are really rocking and rolling and you need to make a decision, that’s when you really need to talk to a real person.”

AMP has the largest network of ‘real person’ financial planners in the country. Figures from Core Data show AMP has 2654 planners, that's almost twice as many as NAB/MLC, which has 1408 planners and is the fourth-largest player in the space.

After hiving off its life insurance arm, AMP has doubled down on its financial advice business. However the company says it is no longer seeking growth for growth’s sake. AMP’s wealth management CEO Alex Wade admits AMP doesn’t have all the answers.

“The challenge we face as an industry – and as a business – is coming up with a solution to deliver compliant and affordable advice to all Australians during a period of regulatory upheaval and market dislocation,” Wade says.

AMP believes financial advice should be available to all and not just the wealthy. Wade makes the point that those who need advice are often those who can least afford it.

While AMP is making investments in technology, it believes the future of personal financial advice will be delivered in person. It sees some utility in robo-advice to reach customers in remote areas but does not believe this will replace face-to-face advice.

Others are not so sure.

Will Hamilton is a veteran financial adviser with Hamilton Wealth Management, a boutique financial advisory that does not and never has charged commissions. He sees the pace of change accelerating.

“I think the industry will look very different in two years,” Hamilton said.

Surveys from the likes of research house Core Data and the Association of Independently Owned Financial Professionals suggest anywhere from 17 per cent to 40 per cent of advisers will leave the industry in the next few years.

It's the altered economics of financial advice that is tipping many advisers out of the market. The Future of Financial Advice laws banned conflicted remuneration but grandfathered trailing commissions from conflicted remuneration.

This grandfathering allowed any financial adviser who had built a big book of business to live off the trails. But now there is bipartisan support to end grandfathering, those trails will come to an end. And just as they are being hit at the revenue end, advisers are going to be expected to hit the books, with the introduction of new education standards requiring some to go back to study.

“The industry needs to become a profession. I have to do few subjects and I’m a bit grumpy about it too, but if it helps the industry that’s a small thing,” Hamilton said.

Press enter for financial advice

Chris Brycki is the CEO and founder of Stockspot, an online investment platform or robo adviser. Customers fill out an online questionnaire about their goals and risk tolerance and are provided with a tailored investment plan to match their circumstances.

Brycki has an accounting and finance degree but before launching Stockspot, the only formal requirement was that he complete a diploma of financial planning known as RG 146.

“It was a bit of a joke really. It took me two weeks at home, lots of multiple choice questions, it was enormously inappropriate.”

Brycki says the diploma included material on how to make a client comfortable in your office but spent very little on key tenets of investment theory.

“I don’t understand how someone can be a financial adviser and not understand how a bond is priced or how insurance works.”

Stockspot says it has several thousand customers but won’t disclose its funds under management. Brycki says customers have anywhere between a couple of thousand dollars to a couple of million dollars invested in the platform. The business is seeing 5 to 10 per cent growth in FUM each month.

Brycki says there is no question that the financial advice model will change in the next few years and quite radically so.

“It’s clear to me that a lot of these advisers who charge their clients $2000, $3000 or even more for a very basic plan can’t possibly continue to exist. There are few people that can afford that and fewer of them may even need that,” Brycki says.

Brycki says the old model, where one adviser would have perhaps 100 customers, was unlikely to work in the future. In his view, in the future advisers are more likely to have hundreds of customers whom they would charge less for slightly less personalised advice.

Depending on the service provider, today people pay somewhere between $2500 and $6000 for a statement of advice or SOA. There are early signs that rising costs is seeing the price of SOAs go up.

But Brycki says few Australians will ever need a complex SOA and, under his model, where advisers have hundreds of customers, the cost could be a fraction of what it is now.

“You can automate those processes. For most people, the advice they need is quite uniform. That’s our model and the evidence is there that low-cost, indexed investment is good for 95 per cent of the population.”

Brycki says that investors have woken up to the fact that advisers will try to push products manufactured by their employers because it’s profitable for them to do so and not because it is in their customers' best interests. He says advisers will need to evolve beyond product sales to survive.

“My vision is that advisers will need to become very specialised in niche areas like estate planning. If they are going to be generalist operations they will need to be curators of best-in-breed products in services and they will need to be independent to do that.”

Custom-made advice

Mike Chisholm is the CEO and founder of Crestone Wealth Management. Crestone was formed through a management buyout of the Australian wealth management arm of UBS in 2015 and opened its doors the following year.

Crestone focuses on providing advice to high-net-worth clients. It has 80 advisers, 120 support staff and $17 billion under advice. It operates a partnership model with its advisers. Products and platforms are manufactured by third parties.

Chisholm says it was clear to him from early on that products had to be separated from advice.

“There was just no possible way we could manufacture our own products,” Chisholm said.

“Businesses often say we can manage those conflicts but there is always an element of doubt, because the employee knows the business will do a lot better if you are selling your own product. We needed to take a white-on-white approach,” Chisholm said.

While they focus on different ends of the market, the respective strategies of Crestone’s Chisholm and Stockspot’s Brycki (both former UBS employees) are complementary in many ways.

Chisholm says advisers can either work with large numbers in the retail market or with a small number of high-net-wealth clients but not both.

“If you are doing both you are compromised in some way,” Chisholm says.