Robo-advice and boutique advisers to fill the void

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- 12:00AM MARCH 26, 2019
- THE AUSTRALIAN

The announcement by Westpac Banking Corporation that it will exit its financial advice business — together with related activities at rival banks — represents a line in the sand for financial advice in our market.

The era of the big four banks providing financial advice is now effectively at an end.

The actions of the banks considered together with the Hayne royal commission affecting the advice industry, the educational and professional reforms arising from the Financial Adviser Standards and Ethics Authority (FASEA), and disruption being brought on by new technology reinforce a broader picture of seismic change.

Indeed, what is happening is both major disruption and rationalisation of Australia's financial advice industry.

This is occurring right now.

In announcing the sell down of the Westpac financial services advice business, Westpac chief executive Brian Hartzer painted a picture of a financial advice marketplace where boutique providers will look after clients wanting and requiring a bespoke offering and an automated model supplying general advice.

In other words, the expectation is that so-called "robo-advice" will be an emerging factor in the mix for Australia.

As a financial advice services sector practitioner with a national client base, I do believe Hartzer is correct in his prediction about robo-advice becoming more prevalent and servicing a sector of the market.

I would say that I am surprised robo-advice is not already broadly available as a daily part of retail advice for the simple reasons that it can provide financial institutions with a ready solution enabling them to:

● Scale to the size of their client base;

● Provide cost effectively for the client;

● Deliver cost effectively for the institution; and

● Deliver an outcome that is, most importantly, compliant.

Having said this, my view is that we have seen — and will continue to see — boutique financial advice firms flourish as advisers spin out of large institutions during the divestment period.

Wealth managers who are small and have a bespoke offering are in a good position.

Examples include good businesses such as Escala Partners and Viridian Advisory where their foundations come from larger institutions but where the business has evolved.

Due to their size these groups are not boutiques but true wealth managers and employee-owned.

Whether it is about an individual adviser, boutique, or a big brand, the challenge for all practitioners in this space — including myself — is to be able to meet the bespoke needs of clients in a market where service is a crucial differentiator among the boutiques and larger firms. In addition, this service bar continues to be raised.

Looking to the stockbroking sector, we have seen some relevant moves by the larger firms that still hold large legacy stockbroking or brokerage books.

Firms such as Morgan Stanley and Crestone Wealth Management have already moved to service only wholesale or sophisticated investor clients.

As reported in *The Australian* last week, JBWere has also announced the imminent closure of its general advice call centre.

While debate has raged over grandfathered commissions because of the Hayne royal commission, transparency over how fees are charged is ongoing.

As we are operating in a lower-return environment for clients and wealth management fees have seen margin compression. The only way forward is not via a fee based purely as a percentage of funds under advice but a flat dollar-based fee for clients.

After many years, we are also seeing a significant decrease in the funds management, management expense ratios (MERs). Those that continue to resist this move down in MERs and don't follow suit will face extinction.

What does concern me is the possibly of contrary fee hikes. Only last week I heard of one Melbourne adviser who had contacted clients advising them of an increase in fees, citing both the removal of grandfathered commissions and increased costs through FASEA as the justification. One inevitable outcome of the new demands and evolutionary changes under way is that the advice industry will contract.

Surveys suggest that anywhere between 17 per cent and 70 per cent of current industry participants will leave because of FASEA.

My estimate would be closer to 25 per cent.

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