# BETTER FASTER STRONGER

Advisers are adapting to regulatory changes, cost pressures and changing consumer expectations. Technology is offering a headstart in the race to catch up. Once considered competition, robo-advice and AI are even offering a helping hand. **Elizabeth McArthur** and **Karren Vergara** write.



**01:**
**Rod Finch**
managing director, wealth platforms and products
AMP

**02:**
**Mat Walker**
chief commercial officer
Praemium

**03:**
**Jack McCartney**
chief, financial advice
UniSuper

Financial advisers across Australia are facing an uphill battle when it comes to keeping their advice affordable. In a recent *Financial Standard* poll, 86% of advisers said they are worried about how they will be able to keep their advice affordable in the current climate.

Increased compliance and regulatory requirements and the need to go back to study to meet Financial Adviser Standards and Ethics Authority standards are all factors driving up the cost of doing business for an adviser.

Amid this climate, technology is stepping in and the industry is finding innovative ways to adapt.

For AMP managing director, wealth platforms and products Rod Finch[01] it's clear the advice industry is leaning on technology to adapt.

"Technology in advice is only going to become more critical," he says.

Separately managed accounts (SMAs) are a focus of Finch's offering at MyNorth. Where the likes of Six Park offer advisers a low-cost, low-touch alternative – SMAs are promising advisers a lower-cost alternative for high-touch holistic advice clients.

Finch says advisers like the efficiency that comes with an SMA – but also the transparency and governance.

The fact that SMAs, which have product disclosure statements by necessity, have strong outsourced governance and compliance is a huge factor in why Finch and AMP believe they will continue to be a growth area.

"One of the advantages of SMAs is the transparency of fees – advisers get paid for advice, investment managers having transparency around their fees and the administration fees. Having that clarity around what the client is paying in terms of advice, investment management and administration is a really key value add of the offering," he says.

Implementing SMAs means an adviser doesn't have to produce a Statement of Advice or record of transaction for every account. It streamlines the investment process and the administration burden.

Finch says in an ideal world technology means that: "Advisers can focus on the client and the advice they're providing, the investment manager can just focus on delivering the investment strategies and the administration platform can just focus on bringing together the technology."

Elliot Watson, managing partner and financial planner at Elliot Watson Financial Planning, has a growing advice business – but that doesn't make him immune to industry discord..

Watson is trying to recruit advisers at the moment and says people are hesitant to leave licensees and struggling to break into the industry, which in turn makes it harder for him to grow his business.

To illustrate the kinds of pressures advice businesses are under Watson shared a story about working with a new adviser who had a background in property management.

"He couldn't believe how much work we had to do," Watson says.

"He was dumbfounded by all the compliance and all the paperwork… He eventually left the industry and his final comments were 'You can build a building that will fall down on people's heads and it's so much easier than what you guys have to go through.'"

But, he sees technology as the real key for keeping advice profitable and helping advice practices flourish – keeping businesses lean, he says, is essential and technology is the most practical way to achieve that leanness.

He uses technology to streamline his business wherever he can and has created his own online forms for clients to complete to promote more efficient compliance.

Mat Walker[02], chief commercial officer at Praemium, says advice businesses have historically struggled to innovate, mostly simply due to the fact that they are small businesses with limited resources.

"The biggest change in the way advisers are using technology is in the way they are using it to drive client engagement," Walker says.

In his work, Walker sees advisers looking to outsource as much as possible through technology so that they can focus on meaningful client engagement and strategic planning.

"Advisers are looking for better client engagement tools and long and short form reporting options," Walker says.

"They also want access to APIs for reporting and to integrate with other systems they're running in their businesses."

And while technology works to alleviate some of the downward pressure on advisers, the sector is also facing pressure in the form of increased competition.

UniSuper chief of financial advice Jack McCartney[03] sees a bright future for advice within industry funds.

"At UniSuper, we see an emerging trend of funds hiring their own in-house financial advisers over the potential risks of engaging third parties who may not be culturally aligned. By this very nature, we believe more advisers will be aligned with funds moving forward," he says.

"This is certainly what is playing out at UniSuper and we have continued to increase our in-house adviser numbers, creating much-needed opportunities for both experienced professionals and new graduates to the industry."

However, the issue of affordability is not new, he says.

"As the regulatory and structural change flows through the industry, the costs of operating a financial advice business continues to rise. Ultimately, this means the financial advice model will need to continually evolve to respond to cost pressures," he says.

> *The biggest change in the way advisers are using technology is in the way they are using it to drive client engagement.*
> **Mat Walker**

And, of course, McCartney sees super funds as being able to help solve the affordability problem. He says the broader industry understands that intra-fund advice costs can be covered from within the fund, but Australians who need accessible advice aren't aware of that benefit.

## Are the robots here yet?

Rainmaker research shows Australian robo-advisers are failing to reach the scale of their US counterparts as a result of higher bas fees, complex fee structures and fewer investments options.

Currently, Australia is home to six key robo-advice players. In comparison, the US has 16 robo-advisers catering to 4.3 million clients and holding $320 billion in assets.

If it were to mature and develop in population terms to match the US market, Australia's robo-advice sector could grow to $25 billion, the research suggests.

Despite this, Walker sees a growing role for artificial intelligence in the advice industry.

"AI may be used in the future to work out when a client needs engagement. This is something we've been piloting at Praemium with certain advice firms," he says.

While robo has a role to play, it's more in supporting advice as opposed to being a direct to consumer offering, he says.

"The demand is high for immediate access to information on any device, but we think it goes a lot deeper than that. The Royal Commission has highlighted the need for higher quality advice," Walker says.

Walker believes advisers should look to partner with technology providers who can provide cost savings that can then be passed on to the client.

According to Six Park chief executive Pat Garrett[04], it was a moment like the current one facing Australia that spurred on the development of robo-advice in the US.

Garrett likens the response of financial institutions in the US following the Global Financial Crisis to some of the ways the Australian finance industry is being forced to re-think things following the Royal Commission.

"Overseas, in the wake of the GFC people realised that their best interests were not being looked after. It became clear that a lot of people who needed a service weren't getting it," Garrett says.

"That, coupled with technology advancements and the explosion of the ETF market, predicated the birth of robo-advice."

Here, following the Royal Commission, Garrett says financial institutions are looking at digital offerings that can serve the mass market with inbuilt compliance measures.

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AMP

**04:**
**Pat Garrett**
chief executive
Six Park

**05:**
**Quyen Truong**
general manager of advice and distribution
WA Super

**06:**
**Emily Chen**
product executive wealth management
IRESS

Six Park offers robo-advice to individuals who fall into the "advice gap" – particularly focussing on the top quartile by net wealth of those that are unadvised.

It estimates approximately two million Australians fall into that gap. To get to that number Six Park looked at Australian Bureau of Statistics data and data from the Banking Royal Commission.

Through ABS data it was able to determine the top quartile of unadvised Australians by income and by net wealth, then through Royal Commission data Six Park could understand how many Australians were advised but not actually receiving a service.

With a team of less than 10, Six Park is able to offer robo-advice to the mass market.

In October last year, $3.8 billion superannuation fund WA Super joined forces with IRESS to offer its 60,000 members a new digital advice solution, SuperClick Advice.

Backed by IRESS's Acurity platform, SuperClick allows members to set retirement objectives, review projections, as well as receive automated advice for wealth protection, savings and debt management.

Nearly 10 months since it was rolled out, WA Super general manager of advice and distribution Quyen Truong[05] says the fund has recorded 3000 unique members who use SuperClick.

In total, there have been 6640 SuperClick Advice journeys with 570 members reaching the end, she says.

"Of those who get to the end, 30% have actively done something with their super. For example, commenced additional contributions and/or made an investment switch, which is higher than what we were originally targeting," Truong says.

Comparing member activity of six-month periods pre- and post-SuperClick, the fund has seen members increase contributions above the minimum super guarantee by $160,000.

The fund initially assumed its younger demographic would be more actively engaged with the tool.

But as it turns out, nearly 50% of users are male aged over 50 with an average super balance of $250,000, Truong says, but notes that SuperClick overall has been well received.

"We've also had a great response in the external market with Treasury, east coast funds and international pension funds contacting us to get more information on our tool," she says.

When it comes to what users are frequently asking while using SuperClick, Truong says she has not come across a regular pattern of queries.

"We haven't received specific questions about super, investments or retirement, which we consider to be a positive reflection of the tool's ability to help members intuitively understand these elements," she says.

Emily Chen[06], a product executive in wealth management at IRESS, says automated advice takes different forms, but it comes down to creating efficiency in the advice offering.

Goals-based, scaled advice for example, aims to create efficiency and ensure it is compliant and looks at the customer's situation guided by an adviser.

The offering to WA Super members on the other hand is fully automated advice, Chen says.

"The client can interact with the automated, personal advice solution, and step through the entire journey without having to interact with the human," she says.

But if at any stage of that process they need to talk to someone or want to ask a few more questions before they proceed, they can contact the adviser, who will take them through the rest of the process, she explains.

After surveying a small number of members who use SuperClick, WA Super found 79% are "likely" or "very likely" to recommend it to others.

In terms of how easy it was to use, users rated it 8.3 out of 10, says Truong.

Looking to the future of advice, Chen sees more customers interacting with technology, either through a super fund or what advisers provide, particularly as the automation of workflows becomes more consistent and efficient.

The education content that IRESS provides online and the advice capabilities in the cloud portal can also help advisers streamline processes within their advice model, Chen says.

Ultimately, the client needs to understand why they're having an advice conversation, and throughout the entire advice journey they are undertaking, they should be educated and engaged, she adds.

## Lean but hopefully not mean

Financial planner Nicole Heales[07], who established her practice Nicole Heales Financial nearly 14 years ago, recently outsourced several back-office functions to dedicate more time to her clients.

Heales likes the autonomy of running her own business and being independent. As she advocates working from home or remotely because it is conducive to greater output and productivity, she found the outsourcing path to be the right fit.

On top of these factors, she says financial advice has become increasingly complicated in that it requires extra time for administration work, compliance and 'ticking the boxes' that could otherwise be assigned to clients.

Administration duties for the Melbourne-based practice eventually engulfed more of Heales' part-time staff member, who was employed 20 hours per week.

At the same time, the assistant decided to embark on a career change and left the financial planning industry, leaving Heales to consider outsourcing the administrative tasks on a full-time basis.

> *It's really important not to become a faceless employee even through outsourcing.*
> **Danielle Cornelissen**

After talking to acquaintances in the industry, Heales came across Danielle Cornelissen[08], founder and chief executive of 5 ELK, an outsourcing solutions firm based in Cebu, Philippines.

Heales outsources administration and marketing, website management services to 5 ELK, while paraplanning is outsourced to Clear Planning, another provider based in the Philippines.

From the first meeting with Cornelissen, which involved discussing business objectives, workflows and processes, until compliance was signed off, Heales says the transition took about six to eight weeks.

Desiree, who is now Heales' full-time admin assistant, was interviewed and trained by Cornelissen to ensure she was the right fit in terms of skills and personality.

"Outsourcing is a commitment that goes both ways – you need to invest time and energy into the team member from a communications perspective. It's really important not to become a faceless employee even through outsourcing," Cornelissen says.

In a typical day, Desiree inputs data into Xplan after Heales collects information from clients; uploads third-party authorities; contacts superannuation funds and insurance companies; obtains insurance quotes, conducts due diligence and market research; helps rebalance portfolios and proofread SOAs. Post-implementation, she conducts file audits and invoices clients.

Heales has been able to save between 50% to 70% on a full-time worker that would typically earn $60,000 to $70,000 plus superannuation per annum.

Even with the two-hour time difference between Melbourne and Cebu, Heales says this does not pose a barrier to workflow.

Heales sees outsourcing becoming mainstream in the future, as it is a way of taking the pressure off advisers, particularly sole practitioners.

"I wish I had outsourced years ago. A one-person band will need to outsource to run a profitable business," she says.

Cornelissen points out that post-Royal Commission, what often gets lost is the impact that it is having on support staff as well.

She believes outsourcing is the way forward – not just for financial advisers.

"The big corporates have been doing it for years. With the explosion of cloud computing for example, this has opened up to many businesses, which was not available in the past. It's the norm moving forward," Cornelissen says.

For those who aren't quite ready to outsource overseas but are looking to automate as much as they can software providers have solutions on offer.



**07:**
**Nicole Heales**
financial planner and mortgage broker
Nicole Heales Financial

**08:**
**Danielle Cornelissen**
founder and chief executive
5 ELK

**09:**
**Kevin Liao**
chief executive
YTML

YTML is an advice software specialist. The business offers a financial advice app store, websites designed specifically for the needs of advisers, the ability to convert Microsoft Excel tools to apps, software to manage financial templates and software to create enterprise documents.

YTML chief executive Kevin Liao[09] explains that failing to streamline technology can cost advisers time and money, by implementing a more complete technology plan those practices can effectively end up outsourcing a portion of their work to automation.

One of the key areas where YTML offers advisers cost savings is compliance.

"I believe transparency between advisers and AFSLs has to be a lot more than it was in previous years, the transparency of fees between adviser and client needs to be as clear as possible as well but when it comes to transparency in sharing data – that's not always a good thing," Liao says.

Liao thinks client needs and expectations will continue to drive the development of the kind of technology YTML offers.

"Technology can allow advisers to amplify their proposition and what they can offer clients," Liao says.

"I see client expectations driving the way advisers use technology. My opinion is that to keep advice profitable and manage clients effectively advisers need to have a clear technology strategy."

## Evolution with no end point

Co-founder and financial adviser at Fox & Hare, Glen Hare understands the importance of having a voice online.

He and his business partner Jessica Brady have targeted young clients who typically have never seen an adviser before – so social media and internet marketing savvy is essential to reaching their demographic.

"Our generation won't trust a brand without a strong online presence. And trust is everything," he says.

Hare also understands the value of an informed digital strategy. Fox & Hare have invested in outsourced focus group sessions to find out exactly what their target demographic wants from an advice and why the industry may not be meeting their needs.

The focus groups have allowed Fox & Hare to create a marketing strategy that reaches this group – they start conversations about financial concepts online and run events to create a community of likeminded financial advice seekers.

Walker argues that adviser will have to back up online marketing with a technology offering digital natives will be able to engage with.

"By 2025 three quarters of the workforce will be millennials, most millennials will want to engage at least partly digitally and will want to partner advice with an element of self-service," Walker says.

He predicts that platform technology will continue to evolve to meet this new demographic – as platforms are already offering investor portals that can be accessed on any device, Walker sees that becoming essential and co-existing with face to face advice.

"I think advice firms can transform to meet this challenge," Walker says.

For Garrett in the robo world, he has seen the eagerness of advisers to adapt their businesses to keep up with the environment and ahead of the completion.

"Twelve months ago when we would talk to advisers they would say they want to customise it and they would say we are cutting their lunch," Garrett explains.

"Of course, we weren't cutting their lunch because we're servicing customers they can't service and they shouldn't want to customise it because then you're getting away from that low-cost, low-touch offering and closer to a holistic offering."

Now, the ways advisers can incorporate robo into their businesses is resonating and he is coming up against those arguments less and less.

XY Adviser head of growth Clayton Daniel knows as well as anyone the challenges facing advisers.

XY started as a blog in July 2013 and has grown into a community of advisers who share tips and insights online through a Facebook group.

> *We try to democratise the information from the heads of thousands of awesome advisers – we believe that collectively leads to the best outcomes.*
> **Clayton Daniel**

The Facebook page gets 70,000 unique visits a month.

The group will shortly launch an app that will allow advisers to customise the kind of information they receive.

Daniel says he has heard from several advisers that XY is the only reason they've been able to stay in the industry.

Those advisers have found the resources the group offers useful in practical ways, but have also found support from a community that understands the challenges they are up against.

"Our view is that rather than advice getting better from the top through legislation and regulation, we think the best advisers could share what they do and raise the industry up," Daniel says.

"Our goal is not to grow the biggest thing in the world. It's focused on the experience of the advisers – if that means it's tiny, so be it."

What XY has developed is a new way of thinking about continuous education and professional development, one that seems to really resonate with younger advisers.

However, creating an online community comes with inherent risks.

"It's a symptom of online communities that the crazies are always the loudest," Daniel says.

"We walked into what we do with our eyes wide open to that reality. We try to democratise the information from the heads of thousands of awesome advisers – we believe that collectively leads to the best outcomes."

Daniel is endlessly positive about the advice industry because he's seen the side of the industry through XY that many others aren't privy to.

One of the things he points out is that there are many people in the XY group looking to hire and grow their businesses.

"There's a lot of noise out there and there always will be, but I know a lot of advisers who are flourishing," Daniel says.

You should see how many advisers in our network need staff."

Advisers in Daniel's network and beyond are using technology and education not just to survive - but to thrive, and to grow flourishing businesses. **FS**