A future industry structure

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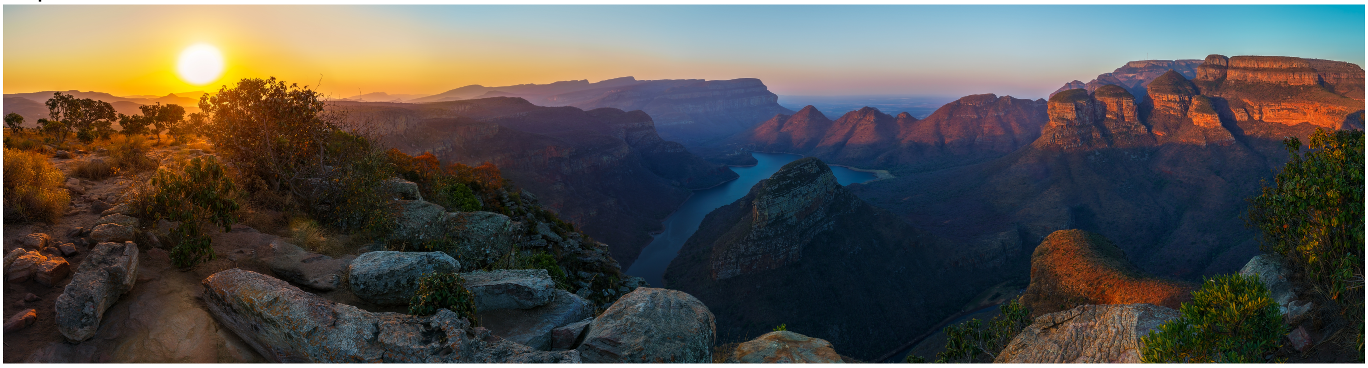

To date, financial advice has largely been an all-or-nothing affair.

Advice propositions today are largely based on providing consumers with comprehensive advice (considering a wide range of the consumer's financial needs, circumstances and products) on an ongoing basis and consumers have either accepted that or not engaged at all.

While more recently we've seen some small pockets of highly specialised advice, the typical approach continues to be focused on comprehensive advice and too expensive for many.

The Quality of Advice Review was set up to improve the availability and quality of advice. The recently released consultation paper looks to replace this barbell approach with something that allows consumers much more flexibility in where and how to get advice. The recommendations, if well implemented, should be of significant benefit for many Australians.

Comprehensive advice gets much needed enhancements

The first observation about the consultation paper is that it gives some much-needed relief for comprehensive advice while continuing its shift to a true profession. Shifting the focus away from documentation, disclosure, and process, and onto doing the right thing for consumers with suitable professional standards recognises the way most financial planners already run their business.

However, while those changes will result in some efficiency in advice processes and increase the capacity for client-facing time, they won't significantly reduce the advice gap nor reduce the cost of advice on their own. The major contributor to both of those has been the ongoing reduction in the number of advisers, and there is nothing in the review that will address that recent decline nor support any significant increase of new advisers in the near to medium term.

Comprehensive advice is not the only advice solution

Instead, to tackle the advice gap, our second observation is that the review has taken the view that not everyone needs (or can afford) comprehensive advice. Therefore, rather than trying to shift all advice into a profession, the review is creating a personal advice spectrum, and broadening the ways advice can be provided to consumers. For example:

- Super funds will be able to advise members (and their families) on a broader range of topics (without advisers necessarily needing to be a relevant provider). Over the long-term, this may provide super funds with the ability to train staff into future advisers, providing a potential way to increase the future supply of advisers.
- Wealth firms will be able to engage with their significant client books without needing to rely on comprehensive advice which they need to do today. This should provide options for a solution to the growing number of "previously advised clients" (and also gives banks an option to re-enter the market and advise on (bank-owned or distributed) financial products).
- FinTech / Finfluencers will have increased clarity on how they can provide digital advice offers (even where they don't involve product recommendations.

Of course, any potential advice providers still have plenty of strategic questions to consider, including: what's the breadth of the advice proposition, how large is the target market for that proposition, the business case (lifetime customer value based on product retention and revenue), and not least of all, how to make sure it is good advice.

Risks & Opportunities for industry participants

For asset managers, platforms and insurers, these changes also create a number of strategic questions to consider, including:

- Is an internal advice proposition a genuine distribution opportunity – while likely to be the domain of a handful of large players (with existing retail brand presence), the ability to provide simplified advice on in-house products will be a new strategic opportunity for some.
- How much of your current business is at risk as the industry transitions into the future state, how do you retain it (or transition it to another solution), and what are the implications on your legacy and contemporary product range.
- To what extent can insurers and asset managers participate in the small number of, but potentially large, partnership opportunities with wealth firms and FinTechs where they have capability gaps.
- Will the simplified advice rules see consumers receive strategic advice without product recommendations, effectively solving one of the core issues in a direct distribution strategy (customer acquisition and needing to create awareness of why consumers need to consider your product).
- Are you in a position to provide product to and partner with employers who take advantage of the new rules to provide financial service advice as an employee benefit (eg employer and/or voluntary insurance cover).

Where to from here?

There's still plenty of water to flow under the bridge before meaningful changes are implemented: consultation responses, recommendations to be finalised and put to government in December, and a response & implementation by government over the year(s) ahead. Plus, the not insignificant complication of how the regulators will regulate the new industry structure to prevent customer detriments which would be likely to occur without clear guidance.

However, that said, it's clearly worthwhile starting to think about what the strategic implications may be and how you will respond. It’s clear a new industry structure will emerge from the proposed changes.

Note: To step through our view of the most likely implications and opportunities for providers in a bit more detail, we are hosting our annual Strategy Event in mid-October in Melbourne and Sydney. Please reach out for details.

By Lachlan Reardon