



**FORTNUM**<sup>™</sup>  
PRIVATE WEALTH

# **The inevitable advice journey**

**Where professional  
advisory firms are  
set to land**



# Introduction

## By Ray Miles

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What do super stars like Ash Barty, Emma McKeon and Tiger Woods have in common?

Razor sharp focus.

They focus on doing one thing really, really, really well and it also happens to be something that they are naturally good at and enjoy doing.

That *one thing* has made them extremely successful and wealthy.

Similarly, entrepreneurs like Bill Gates and Warren Buffet have mastered one core skill.

They surround themselves with great people and teams to enable them to focus on developing and executing that one skill.

The advice industry can learn from this.

Advisers who are serious about delivering the best service and advice to their clients and building a great business need the right staff and business partners around them.

Importantly, they need to trust their people to perform.

Unfortunately, many advisers struggle to let go.

Like many small business owners, they double as administration, human resources and accounts payable. Some do all this while running their own AFSL.

This is partly to minimise costs and partly because they don't have the right people and partners.

But advisers need to smash that small business mindset and start thinking bigger.

They need to get out of the back office and give their full attention to seeing clients and delivering excellent advice.

It is happening.

In pockets of the industry, large, corporatised firms are emerging.

As financial advice accelerates its journey from cottage industry to bona fide profession, more will appear.

Some will become household names in the future.

To secure this bright future, strong, experienced licensees are critical.

Licensees with industrial strength governance, effective systems and scale can add enormous value and release advisers to focus on their one thing.

## From entitlement to enlightenment

The history of financial advice can be split into three distinct eras:

- Dark ages (1970s and 1980s)
- Age of entitlement (1990s to 2018)
- Age of enlightenment (2019 on)

Dealer groups started to emerge in the 1980s.

In 1989, I led a group of nine financial planning practices and 13 advisers to form Associated Planners.

The premise behind Associated Planners and the industry's first dealer groups was to gather like-minded advisers and provide structure and support so they could spend more time seeing clients.

Arguably, that premise has not changed in 40 years, although it has been diluted and polluted by some along the way.

Things started to go off course in the late 1990s, spurred by St George Bank's \$272 million acquisition of Sealcorp.

Advisers and licensees who used Sealcorp's Asgard platform felt entitled to share in the spoils and aggrieved to be left out.

That deal sparked a string of platform launches, only this time advisers and licensees wanted to clip the ticket.

They started negotiating volume bonuses, badging platforms and distributing product. Instead of focusing on the needs of advisers and their clients, and pressuring manufacturers to sharpen their rates and lift service standards, they got distracted by margin.

During this age of entitlement, licensees failed to adequately invest in technology, governance and risk management, and they missed opportunities to pursue scale and sustainable growth.

When the regulatory landscape shifted in 2017, coinciding with the Financial Services Royal Commission, many business models collapsed.

But this is a new era.

An enlightened era that will reward well-structured, properly resourced advice businesses and licensees.

## What lies ahead?

The stage is set for a heated contest between industry funds and the private advice sector.

Advisers can't win this battle alone.

Despite offering a superior *product*, the private advice sector is fragmented and uncoordinated. The majority of businesses are unsophisticated.

Industry funds, on the other hand, are mammoth ideologues with deep pockets and enviable connections.

They want *carte blanche* to offer superannuation, investment and insurance products and services to Australian workers and retirees.

Licensees must set their advisers up to win.

They must enable advisers to compete effectively by helping them deliver high quality personal advice faster and cheaper.

In the context of this upcoming battle, current debates about the right licensing regime, i.e. individual or self-licensing, are noise.

While the authorisation, supervision and monitoring of advisers are still core tenets of the licensing function today, those activities are just the baseline for the future state.

If, like the legal and accounting profession, advice follows the self-regulation path (which makes sense in some respects given the risk in advice sits in advice businesses), advisers will still need the right business partners.

Consider the accounting experience. There are thousands of suburban accountants, which are broadly akin to self-licensed advisers.

However, most successful accountants work for corporates or medium-to-large accounting and professional services firms, supported by internal resources and external service partners.

In the future, licensees will more closely resemble mid-to-large tier professional services firms. They will provide, either internally or through partnerships, the support services needed to enable advisers to focus on providing advice.

This paper examines the advice firm of the future including its core components.

It provides a clear picture of what good will look like.

We believe that licensees with capability and scale will play a critical role in assisting advice businesses to grow, corporatise and achieve their goals.

If you're assessing the value your current licensee or potentially looking for a new partner, I hope this paper helps you understand the factors that matter most.



**Ray Miles is  
Founder and  
Director of Fortnum  
Financial Group.**

# Preface

## By Neil Younger

In financial advice, we hear the word corporatisation a lot. We're told that businesses need to be corporatised to succeed, but what does that really mean?

Traditionally, the term has been used to describe the process of turning a government-controlled organisation into an independent, commercial enterprise.

While the advice context is different, the theme is arguably the same.

Historically, the *success* of advice businesses (including licensees) has been underpinned by lax regulation, third-party subsidies and ongoing commissions, which shielded them from many commercial realities.

Advisers did not need to speak to clients regularly and invoice them to get paid so they didn't have the structure, strategy and disciplines that most other businesses have such as a clear understanding of their cost to serve, a compelling value proposition and robust systems and processes to ensure the consistent delivery of that value proposition.

But to do well in the emerging advice profession, advice businesses need to run like sophisticated well-oiled machines.

That requires an effective business model, the right people in the right roles and an industrial-strength governance framework to ensure output matches expectations, accountability and prudent capital management.

In other words, they need to be corporatised.

Being corporatised should not be seen as a burden but rather a benefit.

The long-term advantages include greater efficiencies, fewer mistakes, less risk and higher profits.

Ultimately, it increases a business' value.

This paper looks at how advisers can corporatise their business. The overarching message is, don't try and do it alone.

In the same way enterprises, mutuals and other non-profit organisations lean on management consultants and experts to help design, manage and execute their corporate transformation journey, advisers need to leverage the skills and resources of experienced business partners to take their business to the next level.

Fortnum is a key business partner to almost 100 member firms housing 230 advisers. In addition to providing traditional licensing services, which are just a ticket to the game, we work closely with advisers to understand their challenges and priorities, and provide solutions to help them grow and achieve their goals.

The group's collective buying power enables us to negotiate scale discounts and effectively manage costs, which supports our mission to make professional advice more accessible.

This paper provides a snapshot of what we believe an excellent advice business looks like.

It explores the opportunities that await corporatised businesses with scale.

While businesses of any size can benefit from corporatisation, it will be larger businesses that stand to gain the most.

Against the backdrop of swelling superannuation balances, record household debt and increasing complexity, they will have the capability and capacity to service a larger number of clients; recruit and train the best talent; and drive fees and costs down.

Like the mid-tier firms in the accounting and legal profession, the impending advice mid-tier will be perfectly positioned to grow their

market share, build their brand and post mega profits.

It will be increasingly difficult for small generalist practices to compete against them for people, clients and capital.

For advisers who have made the decision to complete the necessary study and stick around, they must now decide to build for the future.

Education, professional standards and compliant systems and processes provide a solid foundation but it's the stuff that goes on top that really matters.

At Fortnum, a key part of our role is to aid the success of our member firms by providing services that help them achieve their objectives.

My background working in a variety of roles from distribution to advice inside large banking and financial services institutions, combined with my more recent experience leading Fortnum, gives me a unique understanding of the advice industry.

My years in the industry reinforce to me that advice is an area that is constantly evolving, which requires businesses and business leaders to continuously adapt.

This paper draws attention to important trends and developments that are shaping the advice landscape. It encourages you to think big and chart an ambitious course for the future.

If you've already started your journey, I hope it confirms that you're on the right track. For those who are yet to begin, I hope it provides insight into which way to go.



**Neil Younger is the Group CEO and Managing Director of Fortnum.**



## Section 1

# Foundations are about professionalism

**Any discussion about the future of professional advice businesses assumes that financial advice becomes a recognised profession.**

**The foundations of tomorrow's advice firm must be rooted in professionalism. Only then can businesses make significant progress and achieve meaningful success.**

**Professionalism brings with it many benefits such as the ability to form house views and exercise professional judgement. Advisers are ready to claim these benefits.**

**This section explores the advantages of professionalism for practitioners and their clients.**

Competency, high standards of conduct, ethics and accountability are the hallmarks of a profession.

Based on that criteria, many advisers already pass the *professional* test yet they still can't officially claim the title and associated privileges.

Admittedly, there are still some who do not possess the requisite criteria but a profession can't be held back by lowest common denominator thinking.

The rights and benefits of professionalism will come and they will be significant. The foundations they sit on are critical.

Under FASEA, advisers must demonstrate competency, comply with standards and values set out in the Code of Conduct and, by 2026, all must hold a qualification equivalent to an approved degree. Many already do.

Advice is also entering a new era of accountability with changes to breach reporting coming into effect on 1 October 2021. Under this regime, AFSLs are obligated to report to ASIC serious compliance concerns about financial advisers, mortgage brokers and other AFSLs.

This will significantly increase the reporting obligations on licensees.

Yet advisers still do not enjoy professional privileges like the ability to form educated opinions and use their professional judgement.

Under the Best Interest Duty (BID), they must consider a client's personal situation, needs and goals. In addition to meeting BID, they must prove it too by investigating and documenting multiple strategies, stress testing them against multiple scenarios, and detailing the basis of their advice.

This expensive, time-consuming process is behind the rising cost of advice. BID also prohibits systems and tools that may help reduce costs, such as house views.

It is only a matter of time before advisers have access to the same benefits as other professionals.

### Claiming professional benefits

Any experienced professional who has been doing their job for any meaningful period of time will have developed general rules of thumb that help them efficiently perform their role.

For example, GPs know that in most circumstances the best remedy for the common cold is plenty of rest and fluid.

An accountant will tell you to keep receipts for everything, however, if your record keeping is lax, there are shortcuts they can take to estimate deductions.

Financial advisers have rules of thumb too. For example, people with a mortgage and dependents probably need life insurance, young people can accept greater investment

## Section 1: Foundations are about professionalism *continued*

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risk and retirees prioritise income and capital preservation over capital appreciation.

The human tendency to form rules of thumb is centuries-old and has a scientific name: heuristics. In ancient times, much like today, heuristics helped people navigate complex conditions and make decisions quickly such as the safest route home.

For decades, rules of thumb helped financial advisers to assess a client's needs and determine a satisfactory course of action.

Similarly, in fields like banking, asset management and economics, companies form high level house views.

A house view describes a company's position on macro-economic issues like the direction of interest rates, currencies and asset valuations, which is used to inform decision-making, portfolio management and client recommendations.

That view is their professional opinion, based on their collective knowledge and experience. It is not static. It is updated regularly in light of new developments. It is communicated to clients and, in some cases, publicly. It is part of their unique competitive advantage.

Asset managers also have strict investment parameters as part of their governance and risk management framework. For example, no single stock can represent more than 10% of the portfolio.

Together, their views, philosophy and rules form the foundation of their approach to money management. It gives investors confidence that they're benefiting from the wisdom and experience of a large team, backed by robust systems and processes.

But house views should not be restricted to the economy and investments.



***Given advisers are not schizophrenic, they're spending a lot of time ruling out options over and over again in order to come to the same conclusion they would have had they been able to exercise their professional judgement.***

In advice, it could extend to a group's general position on commonly-raised scenarios such as the minimum account balance required to establish a self-managed superannuation fund or individually managed account.

Consider the perennial debate about stepped versus level premium. Theoretically, a level premium option should be cheaper in the long run.

Stepped premiums start off cheaper and increase with age (sometimes significantly), reflecting the higher probability of a potential claim as people get older.

Level premiums are not age-linked. They start off more expensive because premiums are averaged out over a number of years but they aim to offer a smoother, more stable ride.

But in recent years, level premiums have acted like stepped premiums, rising steadily year-on-year, despite providing no improvement to features and benefits.

If an adviser's analysis is that level premium arrangements are no longer appropriate, then their analysis should inform their recommendations and act like a house view.

A client still needs tailored personal advice to ensure they have the right type and level of cover to meet their specific circumstances, objectives and budget but advisers should be able to rely on a house view to recommend a premium structure, given recent trends.

However, BID requires advisers to be completely open-minded and rule nothing out. It effectively discounts years of experience.

Under the best interest duty, advisers must consider a client's personal situation, needs and goals.

The best interest rule is designed to stop advisers from disseminating generic cookie cutter advice.

It aims to strengthen consumer protections but it has led to some unintended consequences. For starters, it is a roadblock to advisers being recognised as genuine profession and being able to claim professional benefits.

Professional financial advice and house views should not be mutually exclusive.

With the right systems and governance in place, advisers should be able to form and broadly apply house views across their clientbase, where appropriate.

This approach would have advantages for consumers and advice businesses including a more consistent client experience, greater transparency and practice efficiencies. It would go some way towards keeping the cost of delivering advice down.



***It is time that advisers had access to the same benefits as other professionals. In the future, licensees should assist advisers to form and apply house views, as part of the governance, monitoring and supervision of advice.***

An experienced, well-resourced licensee can add value by assisting advisers to form and articulate views on the key issues to support the efficient delivery of advice.

A medical analogy is a doctor who diagnoses an infection and tells the patient to take a course of antibiotics to get better. That patient may be given a choice between a brand-name drug and a generic option, and the doctor may have a general opinion on that matter, but their original diagnosis is personal.

Similarly, advisers have knowledge and experience about the types of products that will suit most people in most circumstances. Historically, they didn't need go to market and conduct due diligence for every client.

These *short-cuts* helped to keep the cost of advice down and within the reach of the average Australian.

### Removing the roadblocks

Storm Financial turned advice into a generic product. Every client got the investment equivalent of Panadol, regardless of their personal circumstances.

But what Storm did was not completely dissimilar to what was happening across the broader industry, only it was dialled up to the extreme.

Inside many advisory firms, advice almost always leads to a preferred product or vehicle. The best interest duty admirably aims to ensure clients receive advice that meets their unique circumstances and objectives but, under the current rules, advisers are being forced to consider every possible advice permutation.

Given advisers are not schizophrenic, they're spending a lot of time ruling out options over and over again in order to come to the same conclusion they would have had they been able to exercise their professional judgement.

Admittedly, many of the deficiencies in advice documents are not about the recommendation or the work done to justify that recommendation but what hasn't been done. The problem is not so much what a file says but what it doesn't say. This is bought to the fore if there's a client complaint.

In the context of ASIC's new breach reporting regime, and higher consumer and regulatory expectations in general, licensees are ideally positioned to pre-empt client complaints and gripes to protect their eco-system.

As the entity responsible for supervising and monitoring multiple advice businesses, they have access to a lot of data and information.

Licensees are learning instruments with rich data-driven insights.

They see every breach and complaint in their group, and the outcome of each case.

This enables them to identify gaps in the advice process and systemic issues such as inadequate training on certain subjects. They can then form a view and strategy on how best to address deficiencies.

An experienced licensee with a sharp focus on governance and risk management will put systems and procedures in place to stop the same problems from popping up in other businesses.

Similarly, where they see processes, solutions and technology that are working, they can implement them across their eco-system to drive practice efficiencies and productivity.

## Section 2

# Leveraging expertise to expand your value proposition



*If the biggest indictment on the industry to date has been fees-for-no-service then the next big test for advisers will be demonstrating value for service.*

**No matter how compelling and competitive a business' value proposition, it will still need support to ensure the efficient, if not excellent, execution of that service. Here are some key observations.**

A compelling value proposition is the cornerstone of business success.

When evolving your value proposition, there are two critical aspects to consider.

1. Share of wallet: The broader your value proposition, the greater relevance your service has to a client.
2. Depth of value: Value cannot be superficial. It must be supported by evidence of capability, continuous improvement and superior outcomes.

Where both these elements exist, businesses perform strongly.

Not only do advisers need to articulate and demonstrate the value they deliver to clients, they must also be prepared to prove the effectiveness of their philosophy, processes and systems if requested by the regulator.

This is particularly important in relation to investment advice, given 84 per cent of financial advisers spend the majority of their time providing strategic advice on superannuation and investments, according to the 2020 Investment Trends Planner Risk Report.

As such, a critical component of any professional advice business is the capability and capacity to provide an effective, compliant investment advice solution.

This is especially pertinent, given the government's focus is likely to shift to strategic investment advice, once it has completed its Quality of Advice and Life Insurance Framework (LIF) review.

This is likely to coincide with the inevitable end of Australia's near three-decade record run of economic prosperity and the retirement of millions of baby boomers.



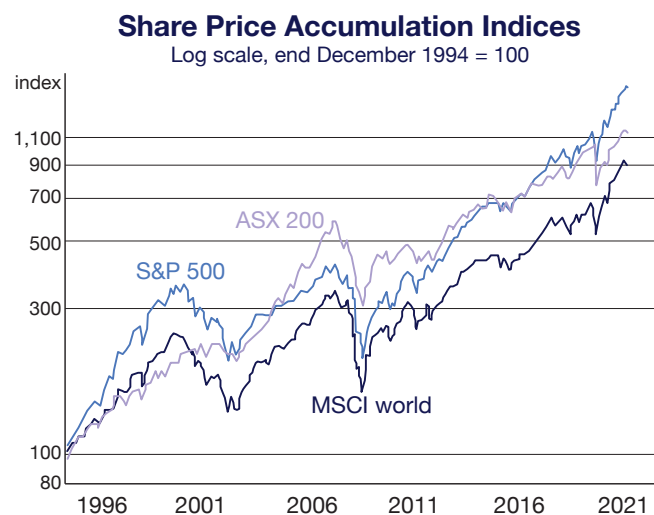
### ***From a regulatory perspective, there must now be greater alignment between a practice's value proposition and the fees charged.***

Advisers should prepare for hard questions about their approach to managing other people's money. They must be able to articulate and demonstrate the robustness of their investment philosophy, processes and performance including how they build and customise portfolios, how they manage risk and how they monitor and measure ongoing performance.

For some advisers, luck has undoubtedly played a significant role in their success to date. Critically, this represents a major risk going forward.

For the past 20 years Australian equities, which make up roughly 21 per cent of the average MySuper fund, has returned over 8 per cent per annum.

Over the past decade, global equities, which represent 29 per cent of the average MySuper fund, has delivered 8.6 per cent per annum.



Source: Bloomberg; RBA

Performance attribution analysis of the average advised portfolio would probably reveal that market movement (not skill), generated the bulk of returns. A rising tide lifts all boats.

That's not to discount the importance of diversification and asset allocation, which one study (Brinson, Singer and Beebower, 1991) suggests accounts for more than 91.5 per

cent of a portfolio's return. However, it questions if strategic asset allocation or – for that matter – stock and manager selection and market timing are part of the strategic advice proposition.

In most cases, these are inputs into the investment process.

### **A structured approach**

There is no standard approach to managing superannuation and investments in the financial planning industry. Every practice does things differently.

Some rely heavily on research and recommendations from their licensee to construct portfolios. Some have developed their own rules and systems to manage money.

Others adopt a laissez faire approach.

In some cases, there are no formal processes and written manuals but rather information exists only in the head of a practice principal or employee.

When it comes to managing other people's money and being a profession, this approach is unacceptable. It does not pass any test.

A key benefit of belonging to a licensee is the investment support available.

This support takes four key forms:

- 1) Guidance on asset allocation;
- 2) Investment product research (for managed funds and shares etc);
- 3) Approved product lists (APLs); and
- 4) Model portfolios, which advisers can replicate, reject completely or cherry-pick what they like.

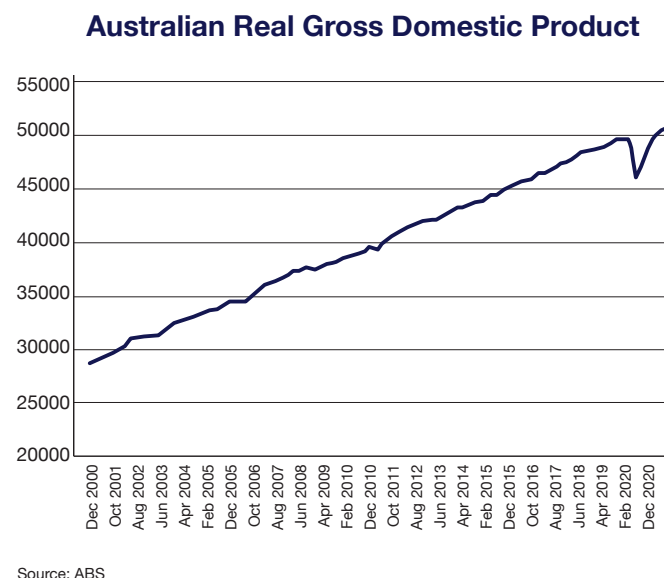
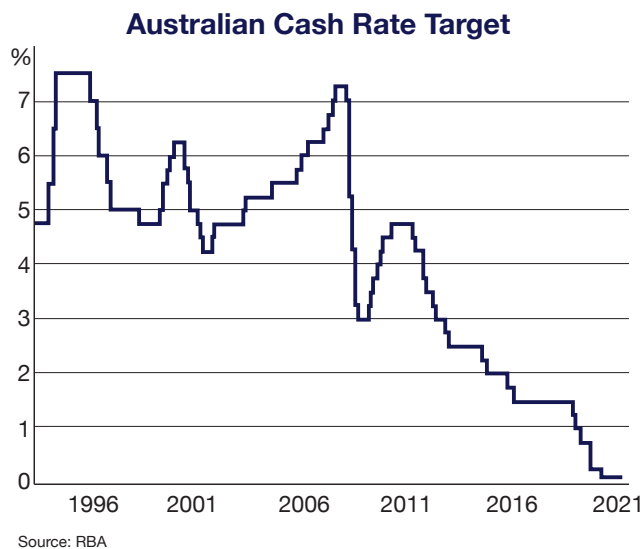
As long as advisers operate within the prescribed asset allocation and APL boundaries, they are more or less left to provide strategic investment advice as they see fit. This statement does not imply judgement but honest assessment.

This traditional approach is under pressure for two main reasons.

## Section 2: Leveraging expertise to expand your value proposition continued

### 1. Global economic uncertainty and political unrest, exacerbated by COVID-19

The strong historical performance of Australian equities and property has masked loose investment processes inside some advice practices.



It is against a future outlook of subdued economic growth, extreme market volatility and prolonged ultra-low interest rates that advisers will need to demonstrate their worth and justify their fees.

### 2. Greater focus on the value of advice

The shift to fees paid directly by the client is placing greater emphasis on value for money.

It is more important than ever for advisers to refine their value proposition and be clear about the services they do and do not provide.

For example, it might be tempting to take credit for asset allocation in the good times but consistently picking the best performing asset classes is very difficult. Advisers must accurately represent their services, after all they are not fund managers or asset consultants.

They do not set asset allocation targets, conduct in-depth manager and stock research or actively trade.

Advisers provide personal strategic advice. As part of their role, they leverage external insights and inputs to construct customised portfolios to meet a client's unique needs, objectives and risk appetite.

As such, the performance benchmarks that some advisers use are not conventional but they still need to be relevant. This is necessary for demonstrating that strict governance and risk management controls are in place.

Too many advisers use outdated benchmarks that don't pass the pub test. For example, if CPI plus 2 per cent is their benchmark and they delivered CPI plus 4 per cent, they believe they outperformed even if the rest of the market delivered CPI plus 7 per cent for the same level of risk and fees.

This is fraught with danger for all involved.

If the biggest indictment on the industry to date has been fees-for-no-service then the next big test for advisers will be demonstrating value for service in their investment proposition, especially if clients are being separately charged for that service.

### Building an effective, robust and compliant advice investment service

The focus of regulatory and consumer action to date has been on the quality and appropriateness of advice rather than *value* for service.

In the face of imminent harsher market conditions, advisers will need to demonstrate value for money.

With the comfortable retirement of millions of Australians at stake, this won't be a routine exercise.

Advisers may be called on by the Australian Securities and Investments Commission to produce hard evidence of their ability to provide high quality investment services to retail clients.

This will likely include appropriate qualifications and experience, documented processes, efficient systems, and formal risk management and governance controls.

A practice may not have proof of such things readily available.

The most effective way to satisfy these critical responsibilities is to formally engage the required expertise: be that an internal resource, external asset consultant or support from an experienced licensee.

### Three critical features regulators expect to see

If and when the appointed time comes, there are three must-haves for advice businesses.

#### 1. Customised advice and solutions

The biggest problem with Storm Financial was that every client got the same solution. They all got the investment equivalent of Panadol, regardless of their needs, circumstances and objectives not to mention point-in-time asset valuations and market conditions.

Similarly, the main criticism of the vertically-integrated model is that it revolves around product rather than the customer. Both these roads lead to an in-house product sales construct (whether by design or inadvertently).

Despite it being more than a decade on, the memory of Storm Financial is still fresh in the regulator's mind so it will be compelled to look for evidence of thoughtful, bespoke advice in each and every client situation.

They want to see advisers acting as fiduciaries because that leaves no room for predetermined outcomes.

There is also no appetite for arbitrary fees. In the past, it may have been okay for practices to have a medley of active and inactive clients with some, for example, paying \$6,000 and others paying \$1,000 but everyone more or less receiving the same homogenous solution.

Commercially, and also from a regulatory perspective, there must now be greater alignment between a practice's value proposition and the fees charged.

It is an adviser's fundamental duty to understand a client's unique needs, circumstances and goals. Then, based on that information, customise solutions to maximise the probability of them achieving their agreed goals.

#### 2. An efficient execution model

While advisers should be guided by a consistent investment philosophy and steadfast principles, personal advice starts with the individual. Advisers need to be able to articulate their philosophy, systems and processes, evidence their veracity and demonstrate how it meets best interest.

Advisers need a model that can accommodate a client's personal preferences even if they conflict with their own.



### *Advisers should prepare for hard questions about their approach to managing other people's money.*

For example, investors may want to bring existing funds, assets and insurances with them. If they use a particular administration platform or don't want to use a platform at all, flexibility in solutions would be required to satisfy their needs.

Advisers need a model that can facilitate efficient access to a broad range of direct and managed options; capture timely investment opportunities; adjust portfolios as required; dump and replace underperforming managers; and continuously track, measure and report performance.

They need to be able to do this across multiple clients without any administrative delays as they progress through the advice process.

#### 3. Requisite scale or the potential to achieve requisite scale

Value and price are inextricably linked.

Theoretically, the higher the fee, the greater the value add.

Importantly, the underlying cost for advisers to service clients is rising, due largely to mounting compliance requirements and the end of passive income streams.

Practice profitability is under increasing pressure. Many advisers have been forced to increase fees.

However, in a post-Hayne world, pulling that lever requires advisers to justify their fees and demonstrate a commensurate increase in value.

A business with scale is in a stronger position to manage costs, meet their compliance obligations and keep fees steady than a small practice (see Section 3).

As such, the regulator will want to see profitable, scalable businesses or at least businesses on the right trajectory. After all, quality bespoke advice and effective systems are irrelevant if businesses are not around to fulfil their obligations to clients, staff and other stakeholders.

To secure these three critical elements, advisers need not reinvent the wheel. A licensee with the requisite capability and capacity can assist advisers to establish, articulate and execute investment advice services for the benefit of clients.

### Wealth protection observations

The pioneers of financial planning in Australia started out as passionate life agents. This industry is built on a legacy of life insurance sales yet, for the past decade, advisers have been distancing themselves from risk advice.

Wealth protection is becoming a smaller and smaller part of their value proposition.

In 2020, risk-related revenue represented less than a quarter of the average practice's income, compared to 32% in 2012, according to the 2020 Investment Trends Planner Risk Report.

Only 16% of advisers are considered risk specialists (those that derive 50% or more of their revenue from risk), 47% are risk generalists (those that generate 20-49% of their revenue from risk) and the rest are considered superannuation and investment specialists.

This dilemma has come about for a number of reasons:

- The rising cost and complexity of delivering risk advice;
- A greater focus on superannuation and investment platforms;
- Falling commission rates and the unwillingness of consumers to pay a fee for insurance advice;
- Higher product-related costs and premium increases; and
- Poor underwriting and claims experiences.

The culmination of these factors has put risk advice in the too hard basket, even though adequate life insurance is the foundation of prudent wealth management.

The question then is how can advisers offer a compelling risk advice proposition and execute it efficiently.

Based on my observations, the businesses that are doing this well offer advice on life insurance as part of a broader end-to-end wealth protection strategy that encompasses estate planning.

Given households come in all different shapes and sizes, of which the traditional nuclear family is increasingly rare, specialist advice on estate planning and life insurance is critically important. Add to the mix Australia's impending intergenerational wealth transfer, and advisers who can connect the dots can add considerable value by foreshadowing the likely outcome of poor planning, addressing key concerns, developing and implementing a wealth protection strategy and saving their clients stress, pain and money.

Since the inception of Australia's life insurance industry, life has become more complicated. Second and third marriages are increasingly common, as is mental illness. When looking after a client's estate planning needs, advisers must manage difficult, sometimes messy, situations such as children who are alcoholics, have a gambling addiction and live under the constant threat of divorce.

Increasingly complex lives requires more sophisticated advice solutions. A dynamic proposition that changes as a person's circumstances and needs change, and considers a person's life insurance needs in the context of their broader wealth management and wealth protection needs is required. Life insurance advice is still critical but it has to go beyond simply facilitating access to the right products.

While investment specialists are often perceived as more sophisticated advisers, life insurance is one of the most complicated aspects of financial planning. There are so many possible scenarios and preferences that need to be explored and life insurance products are complex with many variables and moving parts.

Addressing issues properly elongates the advice process and adds to the cost.

Licenses can help their risk specialists and risk generalists deliver advice more cost effectively by creating efficiencies. That means investing in technology to automate manual, repetitive processes and speed up processing times.



## Section 3

# Creating economic value: Pulling it all together

### So you've laid the foundation for an epic advice business and your clients love you. Now what?

To build an attractive, resilient advice business of meaningful value, advisers need to go beyond the obvious.

Obviously, they need a compelling value proposition; systems, processes and strategic business partners to ensure the efficient execution of that value proposition; and a robust governance and risk management framework but that is not enough.

Once the obvious elements are in place, advisers who want to boost profits and capital asset value need to do more.

To create real economic value, they need sufficient scale.

When thinking about the standout businesses in any industry - or even just the ones that others want to buy or partner with - they tend to be a meaningful size.

That is because size and scale deliver many financial and non-financial benefits. Those benefits translate into economic value. Among them include:

- **Cost advantages:** Fixed and variable costs can be spread across the business to reduce the cost to serve and increase profitability.
- **Purchasing power:** Instead of being an order taker, big businesses become order makers. They can negotiate sharper rates and higher service standards. This pricing advantage can take the form of cheaper product-related fees and reduced business expenses, contributing to a better deal for clients and a stronger bottom line.
- **Specialist skills and competencies:** In small businesses, staff often do a little bit of everything from administration to marketing to IT support. Well-run,

large businesses are better resourced with qualified staff in dedicated roles. Large advice businesses commonly have a dedicated CEO and specialist capability in areas like risk insurance, aged care and estate planning.

- **A stronger employee value proposition:** Larger businesses are better able to attract and retain talent because there is greater opportunity for training and development, and career progression plus a collegial, diverse work community.
- **Greater share of wallet:** Large, integrated advice businesses with a broad value proposition can offer multiple services to the same client such as retirement planning, accounting and tax services and mortgage broking.

### Why the one-stop-shop experiment failed

At the turn of the century, there was a lot of talk about the one-stop-shop model.

Advisers expanded into areas like accounting and tax services, portfolio construction, and superannuation and investment administration, to grow their share of wallet and ring fence their clients against other professionals.

Similarly, a wave of suburban accountants launched financial planning arms either by upskilling, hiring a dedicated adviser in-house or in partnership with an existing practice.

However, many of these businesses were treated like *side hustles*. They were never properly integrated.

## Section 3: Creating economic value: Pulling it all together continued

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Keeping things separate made sense for some business partners and licensees, who didn't want to contaminate their core interest, but it did not make sense for clients.

Clients wanted holistic advice that provided a consolidated view of their entire financial position and took care of all their financial needs. They wanted their advisers to talk to each other and make their life easier by connecting the dots to deliver a superior financial outcome.

Unfortunately, the majority got standalone financial advice and standalone tax and accounting services. The ancillary offer was usually treated as a poor cousin and lacked proper support, which put the overarching client relationship at risk.

The one-stop-shop experiment failed because most of the businesses that tried it were simply too small. They didn't have the resources to invest in the systems, processes and people required to expand their value proposition and efficiently execute.

They didn't have scale.

Entrepreneurs who want to significantly increase the capital value of their business need scale or a strategy to achieve scale.

The quickest and most obvious way to achieve scale is through M&A, although most businesses don't have the internal capability and capacity to identify a suitable target, secure capital, negotiate price and terms, and integrate a business to maximise synergies and drive capital value.

To develop and execute a scale strategy, advisers need to leverage the expertise of experienced business partners, be they a licensee, capital partner or consultant.

Businesses with scale are ideally positioned to attract the right business partners, negotiate favourable lending terms and, if they choose to sell, achieve the best possible price and terms.

Even those with no intention of selling or participating in M&A should look to build capital value and scale because they reduce a business' vulnerability to shocks.

A shock can take many forms, for example, regulatory change, litigation, loan repayment increases or the loss of a major client. It could be something completely left field like a business partner suddenly deciding to exit.

Inevitably, businesses that are around for long enough will experience an external attack of some kind. They can't ride tailwinds forever. At some point, they will face headwinds and when they do, they better be big enough to stand firm.

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***Even those with no intention of selling or participating in M&A should look to build capital value and scale because they reduce a business' vulnerability to shocks.***



Conclusion

## What will good look like?

**Advice businesses, including licensees, need peripheral vision to anticipate the future needs of their future clients.**

Wayne Gretzky, the former professional Canadian ice hockey player often referred to as hockey's GOAT (greatest of all time), famously attributed his success to his ability to "Skate to where the puck is going to be, not where it has been".

While Gretzky's 1982 quote has become an overused corporate cliché, it is still relevant today, particularly in the context of professional financial advice.

Advice businesses, including licensees, need to look to the future and ask, where to next?

After decades of regulatory and structural change, the advice profession is *budding*.

It will bloom in the next three to five years.

From a cottage industry with many sole practitioners operating from their lounge rooms and garages, modern advisory firms are well structured, well run operations.

Many offer a broad range of services.

And they're getting larger.

For example, in 2016, the average business inside Fortnum had 1.2 advisers and \$750,000 in annual revenue. Today, it's 2.5 advisers and over \$1.2 million in revenue.

Our larger businesses have 15+ advisers and revenues approaching \$10 million.

The changing face and nature of advice businesses have significant implications for service providers to the sector including product manufacturers, technology companies and licensees.

They will need to change too in order to remain relevant.

For licensees who are used to dealing with small, relatively unsophisticated practices, they'll need to understand the vastly different requirements and challenges of larger, sophisticated businesses.

At the top end these businesses will look like the mid-tier in accounting and professional services.

The licensing solution, operating framework and management style that has served advisers for the past 50 years won't survive the next five.

Consider the reversal of the value chain in just three short years.

Historically, product flowed through the licensee to the adviser to the client. Many licensees used their network to increase the scale and profitability of an institutional parent or partner.



***Licensees who are used to dealing with small, relatively unsophisticated practices will need to understand the vastly different requirements and challenges of larger, sophisticated businesses.***

## Conclusion: What will good look like? continued

Today, the client is firmly in the driver's seat. Advice is based on their needs, goals and priorities, which may or may not involve product.

Licensees skating to where the puck is going will build scale for the benefit of advisers and clients.

Scale will enable them to drive down costs, support the delivery of affordable advice, and invest in research and development.

This is a significant paradigm shift.

### Enabling quality advice

The perception of licensees as a necessary evil; a mere ticket to the game is fading.

It originally came about because the existence and core functions of a licensee; the authorisation, supervision and monitoring of advisers, was and is rooted in regulation.

Unfortunately, many licensees *enabled* poor practices.

In the same way, psychologists use the term enabler to describe a person who aides someone's addiction, licensees enabled product manufacturers to peddle average products.

However, licensees skating to where the puck is going will only enable the efficient, profitable and sustainable delivery of good advice.

While the authorisation, supervision and monitoring of advisers are still core tenets of the licensing function, those activities are just the baseline for the future state.



***The licensing solution, operating framework and management style that has served for the past 50 years won't survive the next five.***

As a utility, licensees need to supply the essential tools and resources to drive operational efficiency and business growth including scale, management consulting, and investment and technology solutions.

Above all, they need an industrial strength governance framework.

Skating to where the puck is going will require licensees to have the insight and peripheral vision to anticipate the services that make sense for large, professional advice businesses.

To perform their function effectively, they will need to be flexible, responsive and innovative.

In doing all of this, they must be careful not to lose the comradery and intimacy that has been part of the industry's fabric since inception.



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