Adviser Musical Chairs Report

Industry research on financial adviser movement

Quarter 3, 2019

This research report offers insights that will help key market players, such as fund managers, life insurers, platform and software providers, to identify key focus areas to improve sales and marketing strategies. The financial planning and investment advice industry has undergone significant changes over the past five years with the implementation of the Future of Financial Advice (FOFA) reforms and the creation of the Financial Adviser Standards and Ethics Authority (FASEA). More recently, the introduction of the new FASEA requirements on education and professional standards for financial advisers and the Royal Commission into misconduct in the banking, superannuation and financial services industry changed the industry dynamics substantially. Financial advisers continuously enter and exit the industry, as well as switch from one licensee to another. This report shows some of Adviser Ratings analysis and insight into these movements, for the benefit of those providing products and services to the industry.

AR data

AR Adviser Ratings

Key Findings

3%

Total adviser numbers contract further at about 3%.

5%

5% of all advisers in the industry went to new licensees in Q3 (5% has been the average annual turnover).

Almost three in five advisers (60%) are now licensed by privately owned entities.

Heightened regulatory qualification regime (FASEA) does not appear to be the primary cause of adviser reductions.

Q3 saw hundreds of advisers returning to the industry after previous record cessation.

93%

Closure of Big 6 licensee's increases industry fragmentation - 93% of the total number of licensees in the country authorise 20 or less advisers.

70%

There was a 70% increase in the number of advisers moving between licensees in Q3 compared to Q2.

"Muscled Up" ASIC likely to target 48 licensees who represent over half the nation's advisers.

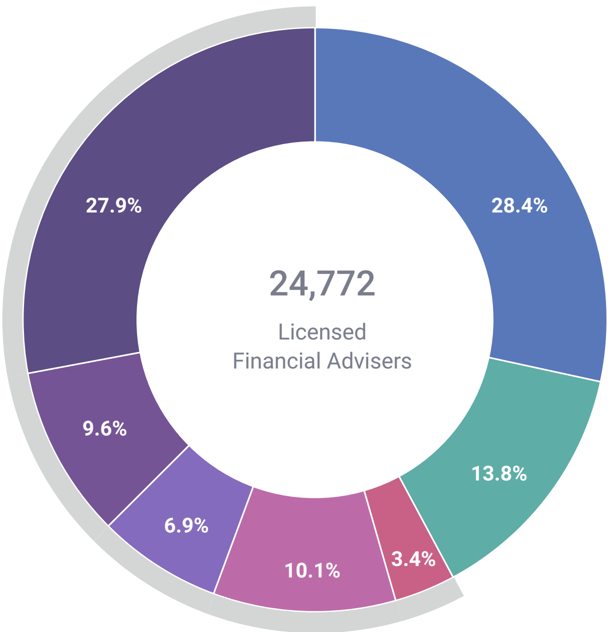
Industry Overview

Analysis of adviser movements in Quarter 3 of 2019 has revealed that the recent trend of declining adviser numbers has continued. Overall adviser numbers across the industry have declined by around 700 individuals. There were 24,772 people authorised to give advice at the end of Q3, down from 25,470 at the end of the previous quarter. This equates to a contraction of almost 3% of the number of people authorised to offer financial advice in the latest quarter.

The number of advisers represented in the institutionally owned and aligned space continues to wither, dropping a further 2.4% from Q2. Currently, just over 42% of advisers in the industry are authorised by institutionally owned or aligned licensee's, with the number authorised by privately owned licensees sitting on nearly 58%.

Adviser Ratings analysis shows that the proportion of advisers from institutions dropped from 14.5% in Q2 to 13.8% in Q3, aligned adviser numbers dropped from 30.1% to 28.4% and privately authorised advisers increased from 55.4% to 57.9% in the same period.

Fig 1: Industry overview in Q3



Aligned	28.4%	7,040
Institution	13.8%	3,409
Private (1 adviser)	3.4%	838
Private (2-5 advisers)	10.1%	2,500
Private (6-10 advisers)	6.9%	1,702
Private (11-30 advisers)	9.6%	2,367
Private (30+ advisers)	27.9%	6,916
Private - Total	57.8%	14,323

Figure 1 shows the Q3 breakdown of advisers according to licensee type. Because of the trend of increasing privately owned licensee's, we've found it useful to categorise this group into segments based on their number of advisers.

Interestingly, every one of the private segments grew in terms of their percentage proportion of the industry.

All Private Licensee Segments Growing in Percentage Terms

For the first time, more than 20% of the industry (5,040 individuals) is represented by advisers in licensees with 10 or less authorised representatives. Nearly 10% of advisers are in private licensees with 11-30 reps, while private licensees with 30 or more advisers grew further and remains the largest segment of private licensees, with almost 28% (6,916) of all advisers in the industry.

Though the largest single segment of advisers is still nominally the aligned adviser segment, with 28.4% (7,040) advisers, its numbers have decreased by over 30% since the start of the year.

> *Advisers have maintained their preference for private licensees as a destination of choice over institutional and aligned licensees, though given the extent of institutional restructuring at present, advisers have a somewhat restricted choice.*

Corporate Announcements and Movements

Exits and rationalisations in the institutional and aligned wealth space continue, with scores of former **Westpac** advisers now at **Viridian**, dozens already rushing for the door at **CBA's** soon-to-be closed **Financial Wisdom**, **IOOF** selling its 70% stake in **Ord Minnett** (250 advisers) to a consortium of staff and private investors and **AON's** management buyout in Q2 which was followed by nearly 70 advisers either ceasing to be authorised or switching to new licensees in Q3.

The Enforceable Undertaking on the **SMSF Adviser Network** (SAN) due to its significant increase in adviser numbers in a relatively short period of time and some questionable compliance to best duty obligations of some of its advisers may have played a role in around 100 advisers leaving the group since the start of the year – but the **SAN** remains one of the largest licensees in the country with over 950 advisers.

Q3 also saw **Westpac** and its aligned networks (**Magnitude** and **Securitor**) discontinue their services, meaning the remaining 450 advisers who were licensed with them at the start of the quarter either ceased their authorisations or move elsewhere.

AMP's announcement that it will rationalise its extensive network of advisers as part of the overhaul of its business model was followed by a net reduction in its adviser numbers of 44 advisers. Although AMP has refused to put a specific number on how many advisers it expects to cut from its operations, industry sources are estimating a 30-40% reduction, which means potentially hundreds more advisers will leave **AMP FP** in the coming months.

The strong trend away from institutions should see both aligned and institutional adviser numbers fall further. We would expect next quarter to show that the private licensee segment with 30+ advisers finally overtakes institutional and aligned to become the largest licensee segment by number of advisers.

Adviser Movements

Ceased Adviser Numbers

There were 949 ceased advisers in Q3 - a high number without question, but well down on the 1750 total ceased figure in Q2. There were only 10 "brand new" advisers registered, continuing these diminutive figures since the new regulatory requirements were introduced at the beginning of the year.

The difference between the 949 ceased adviser number and the overall reduction in adviser number of 698 is accounted for by hundreds of advisers transitioning back into advice land after being previously ceased.

Many of the advisers who ceased their authorisations in Q2 were re-licensed in Q3, which helped reduce the overall drain of advisers from the industry. There were **241 advisers who were ceased prior who then returned to being licensed in Q3**.

Switching Advisers Spike

This returning dynamic along with the continuing rationalisation of the industry led to a massive spike in adviser movements during Q3.

Fig 2: New and Ceased Advisers Numbers

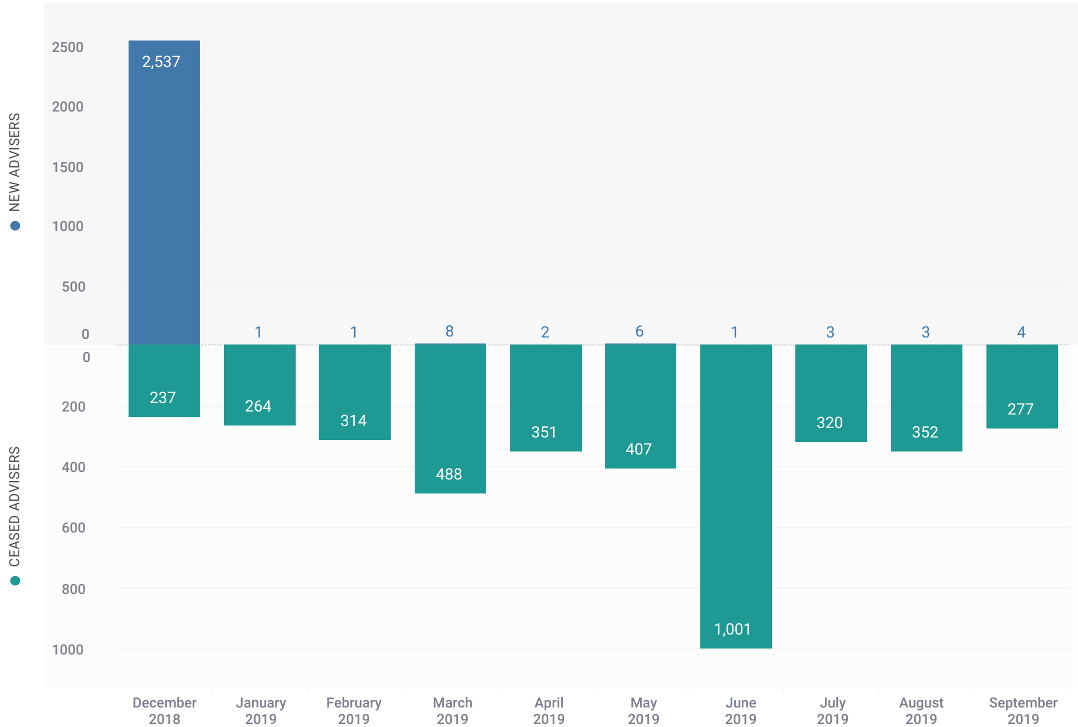
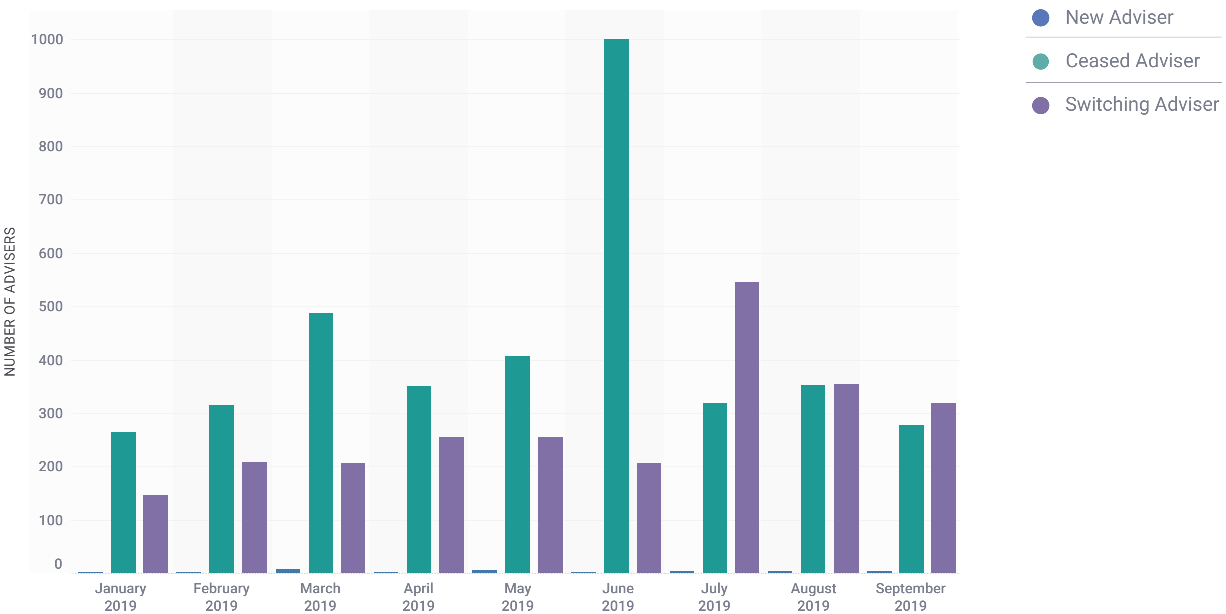


Fig 3: Adviser movement by types Q1-Q3 2019



Not Necessarily Gone For Good - The 'Returning Dynamic'

Figure 3 shows all new, ceased and switching adviser movements since the start of the year. We can see the massive spike in ceased advisers for the month of June, which coincided with the end of the financial year. This spike in cessation in Q2 was followed by an increase in switching advisers who have gone from one licensee to another (illustrated in purple), in Q3.

We can see for the first time this year, each month of Q3 saw more advisers switching into new licensees than there are ceasing. This illuminates a "returning dynamic" that we have not seen before and demonstrates that a large surge in ceased advisers does not necessarily equate to an acceleration of advisers leaving the industry. On the contrary, we might expect many of these ceased advisers to re-establish authorised status after a short hiatus.

Regulatory Changes Affecting Adviser Numbers – Educational Requirements

There has been much speculation that the new regulatory regime facing advisers, along with changing remuneration (including abolishing grandfathered commissions) may collapse total adviser numbers. Potential reductions of 30% to 40% of all authorised representatives have been suggested across much of the industry media.

While only time will tell if these predictions are correct, we take a closer look at how the new education obligations may influence the number of financial advisers in the industry.

Until recently, advisers were faced with completing the newly established FASEA exam by end 2020. This exam tests financial advice regulatory and legal obligations; applied ethical and professional reasoning; and communication and financial advice construction. In the medium term, advisers also faced a more strenuous mandatory qualification requirement: new entrants and existing advisers were required to complete a FASEA approved bachelor's degree (AQF level 7) or above or hold an equivalent qualification by Jan 1, 2024.

Regulatory Reprieve for Advisers

Q3 2019 saw the announcement of a reprieve for advisers – at least in terms of timeframes. After sustained lobbying from industry and member associations, particularly the Association of Financial Advisers (AFA), the new Financial Services Minister Senator Jane Hume announced a one-year extension to complete the FASEA exam. Arguably a more notable extension was also announced in that advisers registered prior to January 1 this year will have an extra two years to meet FASEA qualification requirements.

A two-year extension to become degree qualified could potentially act as somewhat of a handbrake on the rush of advisers exiting the industry, as it will give advisers debating their future more time to solidify their plans. While the FASEA exam requirement still needs to be completed by the end of 2021, that should be more of an "inconvenient formality" for most practising advisers. Early results from the exams already held indicate a pass rate of over 90%. Potentially the more formidable obstacle for 'under-qualified" advisers is having to achieve a bachelor degree qualification.

> *"Regulatory Reprieve – Q3 saw the government announce a one-year extension for advisers to complete the FASEA exam and a two-year extension to the FASEA qualification deadline"*

Our preliminary analysis indicates there are about 40% of advisers not currently qualified to that level, and many more without FAESA approved "relevant" degrees. The decision to take on a degree, which could take up to three or four years of full-time study, is certainly weighing heavily on many advisers – particularly those closer to retirement than their younger peers.

However, most advisers will not have to start from "scratch" and will get credit and recognition for prior learning. These advisers can obtain qualification through Recognition of Prior Learning (RPL) streams where their qualifications to date count for credits to waive the number of courses in the educational pathway. This means many advisers will not have to undertake a full bachelor's degree from beginning to end.

Adviser Qualifications: The Challenge

The million-dollar question being asked by the industry at present is “what is the actual state of educational readiness of the adviser community with regards to the new qualifications regime. It is a massive challenge to accurately portray these figures, primarily because of the poor quality of information submitted to ASIC by many licensees.

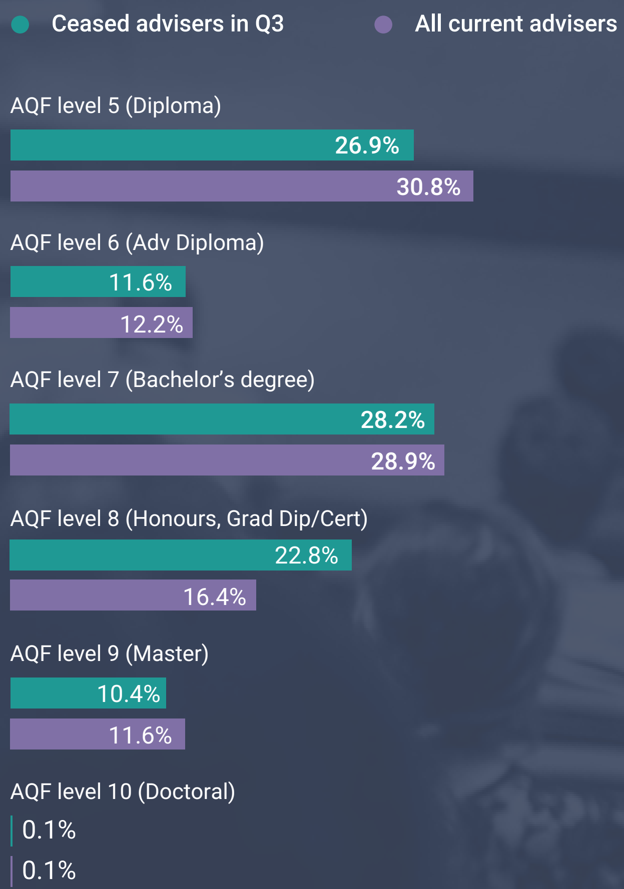
Adviser Ratings has and continues to undertake extensive analysis of adviser qualifications submitted to ASIC, including a monumental data cleansing regime that has seen over 50,000 data points amended in order to standardise the qualification data submitted to ASIC. Nearly 20,000 amendments to qualification names has shrunk the 9,000 qualifications listed on ASIC by almost 30% to less than 6,500 unique qualifications. Similarly, among over 30,000 changes to educational institution names submitted to ASIC, the actual number of providers was reduced by 11% and 200+ to 1615 unique names.

From Figure 4 we note that the distribution of education levels of the advisers ceased in Q3 are very similar to that of the rest of the existing advice community.

Adviser Ratings will continue to work on the evaluation of the FASEA qualification gaps of advisers, and will include updates in future Musical Chairs reports, as well as other projects including our Landscape report and Licensee Ratings initiative. We believe that through continued vigilance combined with our stakeholder relationships, we will be able to continue to overcome the conflicted and confused data presently available via ASIC, in order to maintain the quality and integrity of data that industry stakeholders expect.

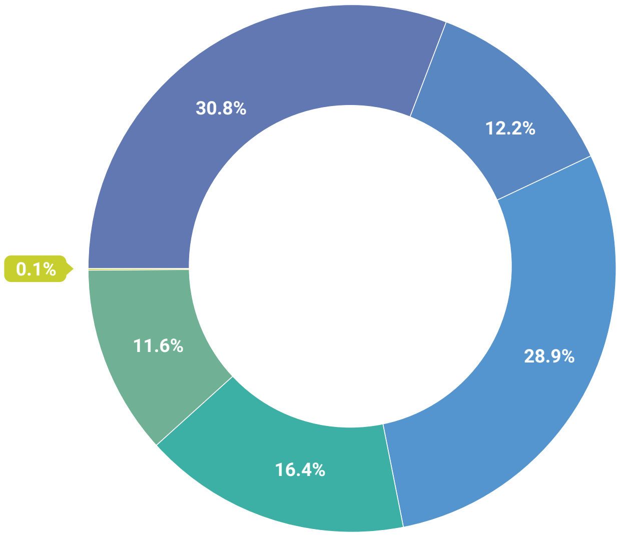
This project has allowed Adviser Ratings to maintain the most accurate and up-to-date data on adviser qualifications available across the entire advice industry. The following chart on the percentage of AQF level distribution is estimated based on this cleansed information from ASIC. The AQF levels here are considered equivalent AQF levels through FASEA accredited Recognised Prior Learning (RPL) streams.

Fig 4 Highest AQF Levels of Ceased Advisers in Q3 vs All Current Advisers



So, are the additional education requirements contributing to advisers leaving the industry? We've done some analysis on the educational qualifications of all the ceased advisers from Q3, and the result may not be what you expect.

Fig 5: Education Levels of Ceased Advisers Q3



AQ Level 5	30.8%	AQ Level 8	16.4%
AQ Level 6	12.2%	AQ Level 9	11.6%
AQ Level 7	28.9%	AQ Level 10	0.1%

Figure 5 shows that 57% of the 949 advisers who have ceased authorisations in Q3 were bachelor's degree qualified or better, leaving only 43% whose highest qualification was below the AQF level requirement. Now of course, it is to be noted that some, potentially many advisers may be "degree qualified" – but do not hold a FASEA approved "relevant degree". Our analysis of this quarters ceased adviser qualifications indicate that around 5-7% of these advisers hold a bachelor's degree that is NOT approved by FASEA.

> *Although recent trends show declining total adviser numbers, our analysis shows the reasons for this are manifold; the decline should not be attributed alone to the heightened regulatory qualification regime at this point*

This means that around half the advisers who ceased authorisation this quarter were appropriately qualified, and half were not. **These results on their own indicate it would be difficult to blame the heightened regulatory qualification regime exclusively for adviser cessation at this point.**

We must also factor in the exceptional transformation the industry is currently going through. With Institutional dominance evaporating before our eyes, migration of advisers from one licensee to the next is occurring at a greater rate than any time in the last decade. This means we cannot interpret ceased advisers' numbers as indicating advisers are leaving the industry for good. As we have seen with almost 250 advisers this quarter, many ceased advisers will return before long. We would expect the "returning adviser" dynamic to continue as more announced licensee shutdowns and mergers take place.

The other mitigating factor that stops us from reaching a definitive answer regarding the relationship between adviser cessation and qualification requirements in the deadline extension. The new deadline of January 1, 2026 is over five years away, giving advisers a two-year buffer to help determine whether whatever additional study they may have to undertake is worth their while. This reduction of time pressure may be just enough encouragement to keep many advisers who would have otherwise left the industry, engaged.

Switching Advisers – One Big Switch?

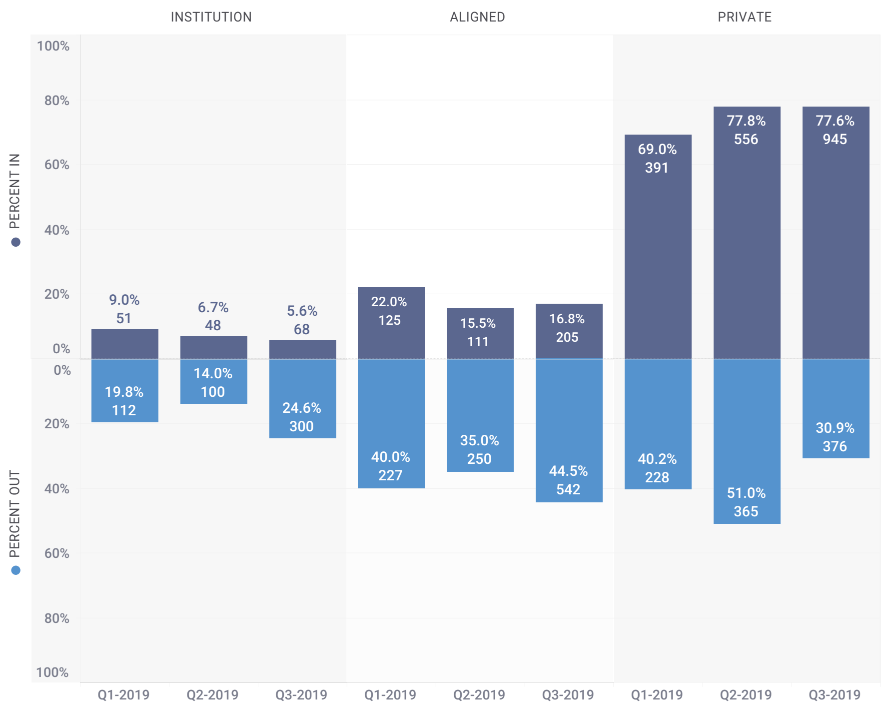
There was a 70% increase in the number of advisers moving between licensees in Q3 compared to Q2. While the increase in gross adviser movement numbers is a standout compared to previous quarters, it should be noted that proportionally, advisers' movements between institutional, aligned and private licensees has remained remarkably similar to Q2.

Figure 6 shows the breakdown of adviser movements between different licensee types, which again indicates nearly 80% of advisers are switching into private licensees. The other significant observation to note from **Figure 6** is that nearly 70% of all advisers switching in Q3 came from institutional or aligned licensees, while only 30% switched out of private licensees – by far the lowest figure for this metric this year.

These numbers represent a continuation of the established trend of advisers preferring for private licensees as a destination of choice over institutional and aligned licensees. Just a note of our use of the word "preference" here - the fact that institutional and aligned licensees are shutting down contributes to this trend so as the major players continue to exit the wealth space, the option to switch there is removed. You might say that rather than advisers "preferring" private licensees, increasingly, they have a restricted choice.

To see how much institutional licensee closures can affect gross adviser movement numbers, we can look to **Figure 7**. It represents the top ten licensees in terms of gross additions and reductions of adviser numbers. The gross additions are calculated as the sum of new advisers and switched-in advisers. The gross reductions are calculated as the sum of number of ceased advisers and switched-out advisers.

Fig 6: Comparison on licensee type of switching advisers Q1-Q3



Adviser Additions and Reductions – Top 10

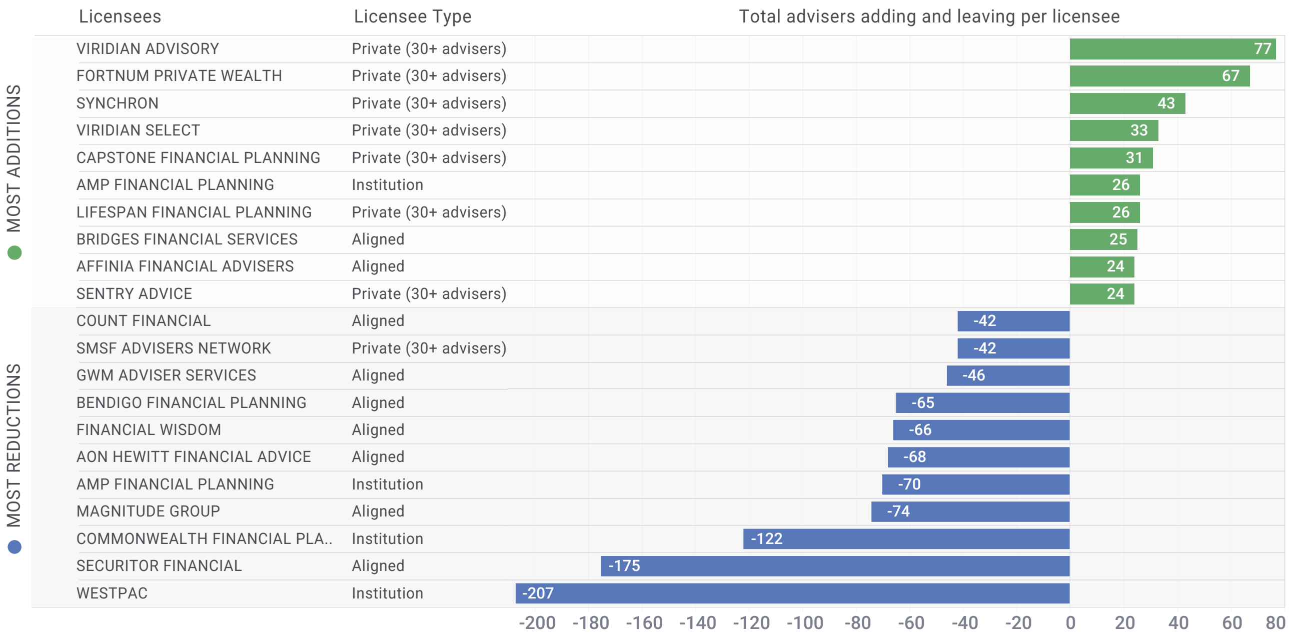
Westpac's Securitor and Magnitude adviser transitions to the Viridian licensees can be seen in the growth in adviser numbers of Viridian Advisory and Viridian Select. AMP FP have a foot in both camps, adding 26 advisers for the quarter, but losing 70 as well. Financial Wisdom has shed nearly a quarter of their remaining advice network in the last three months, following CBA's announcement that the licensee will cease offering services by June next year.

Similar to our Q1 observations, we can note adviser numbers in the top 10 licensees that are reducing adviser volume are far greater than that of licensees adding advisers. The top 10 licensees **adding the most advisers account for 377 advisers** in total, and seven licensees in this group are privates, making up over 80% of additions by proportion. In contrast, there is only one privately held licensee in the Top 10 list of licensees shedding advisers, accounting for just 4% of this group. **There are 935 advisers represented in the top 10 licensees reducing the number of advisers**.

The biggest contributor to these movements in this quarter was the closure of Westpac's licensees. Westpac aligned licensee brands Securitor and Magnitude were wound up at the end of September and hundreds of former Westpac advisers completed the transition to Viridian Advisory and a host of other licensees. At the beginning of this year there were over 700 advisers still licensed by Westpac and it's aligned licensees, now there are none.

It is prudent to note that despite recent announcements of increases in the cost of the major institutions' remediation expenses, it does not seem to be having an effect on advisers' ability to gain authorisations at other licensees. Announced provisions in this space from the Big 6 alone are nearly $8 billion, including around $1.5 billion from Westpac – yet 167 of 175 former Westpac aligned advisers from Securitor were successfully re-housed to new licensees in Q3.

Fig 7: Most adviser additions and reductions licensees in Q3



Fragmentation Illustrated – Westpac's Exit

To demonstrate the effect that closing down licensees of the major players has, and the contribution it makes to the continuing fragmentation of the industry, we can take a look at adviser movements for just one of Westpac's aligned brands – Securitor.

Securitor ceased providing licensee services on September 30, 2019. At the beginning of Q3, there were 175 advisers still licensed under the Securitor brand. During Q3 alone most of these advisers (167) found new homes, while eight remain without new authorisations at the end of the quarter.

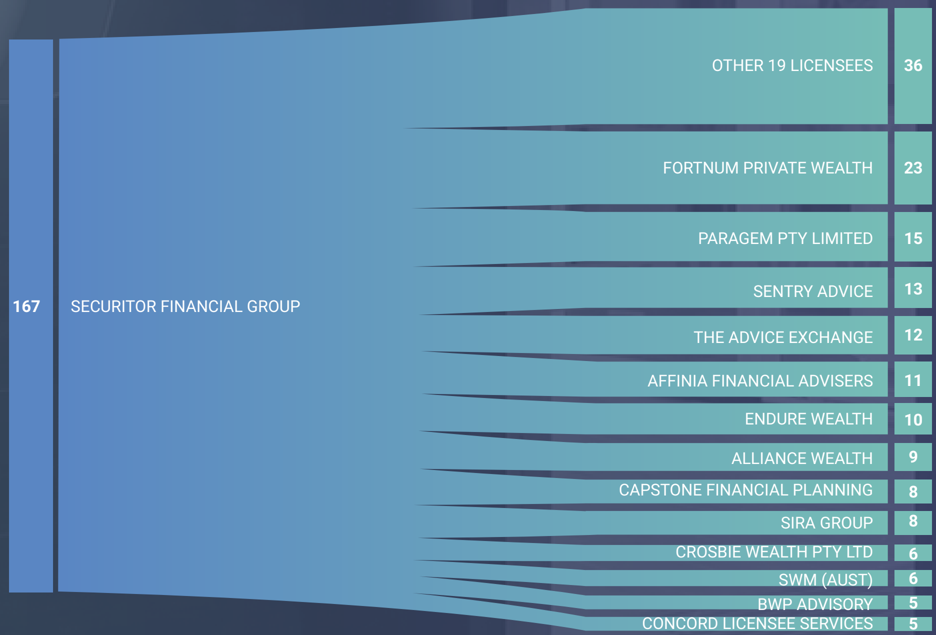
Outgoing Securitor advisers were housed at 32 different licensees. As an illustration of the advice industry's fragmentation, Securitor provides a characteristic example.

A total 131 advisers (78%) went to 13 different licensees, with the remaining 36 advisers (22%) being spread around a further 19 licensees. The largest proportion of Securitor advisers were rehoused at Fortnum, which took 23 advisers (14%). Figure 8 shows these movements in diagrammatic form.

The story is similar for the other Westpac licensees, with the 69 remaining Magnitude advisers going to 18 different licensees and 207 former Westpac Banking Corporation (WBC) advisers being spread across a total of 61 new licensees.

The scale of this re-distribution, and its effects on the stability of the industry should not be underestimated. Fully 5% of the country's advisers were housed in new licensees during Q3, meaning they will have to transition to different licensee obligations and adjust to alternative reporting and business practises while still trying to adequately maintain their core business of servicing their clients. The other side of the equation is of course the challenges faced by the licensees taking new advisers and managing their own licensee expansion. Mid-tier licensees taking on dozens of new advisers like Viridian, Fortnum and Sentry face the challenge of successfully integrating scores of advisers and the attendant due diligence obligations.

Fig 8: Destination of Securitor Advisers Q3



Regulation – ASIC's Future Focus

The regulatory and compliance burden facing growing licensees is perhaps, the X-factor that should not be underestimated. With the big guys exiting advice, there will be a renewed focus by ASIC on the "small end of town". This is the view put forward by the director of a specialist strategic risk and compliance management consulting company, Conrad Travers, in a recent piece in Professional Planner. Travers points out that ASIC were beaten up in the Royal Commission for their compliance performance and have had their budget increased by nearly 20%, to almost half a billion dollars for 2020-21. They have already signalled their "litigate first" strategy and are starting to use data analytics to target advisers. With the exit of so many of the biggest players, it is reasonable to expect that the smaller and mid-tier licensees will come under increased scrutiny. Travers' advice is that "businesses need to plan for the fact that ASIC could come into their business. Explaining something away or saying, "I haven't done that sorry" will no longer cut it when you run a licensee."

It would be naïve to think that even smaller licensee will not face scrutiny from ASIC as well. The new code monitoring body will be linked to ASIC and one single complaint could spark an investigation. It should be understood in the industry that ASIC will find a way to attempt to manage the hundreds of smaller licensees under their remit, particularly considering this licensee fragmentation is the direction the industry is continuing to head toward.

Fig 9: Licensee Growth 2015 – 2019

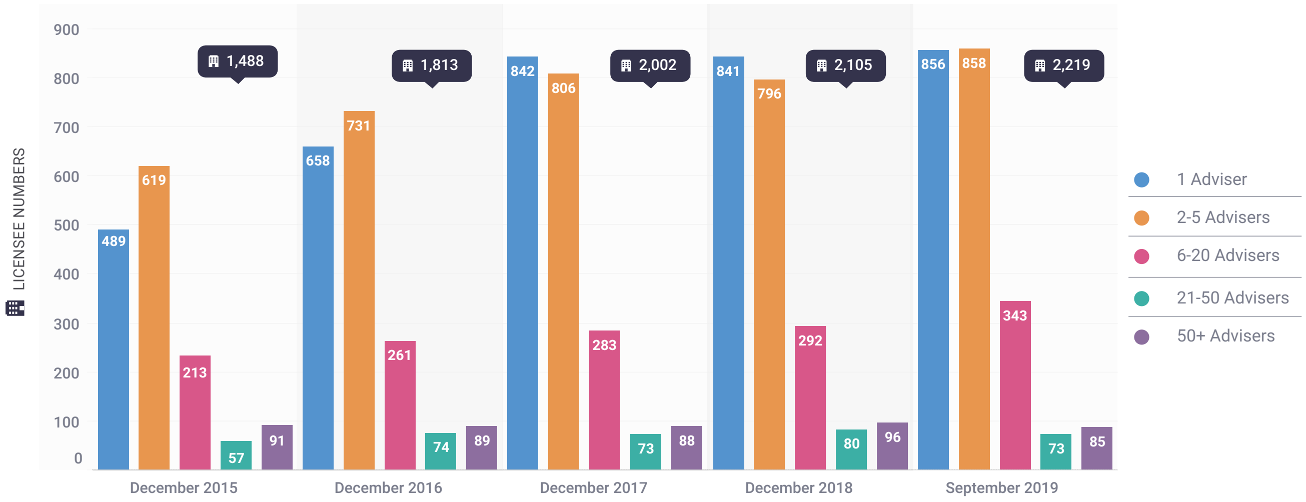


Figure 9 shows the continuing growth in the number of licensees authorising advisers over the last five years, and the breakdown of these licensees according to size.

Since December 2015, the number of licensees authorising advisers in Australia has grown by just under 50%, from 1,488 to 2,219. In the same period, the number of licensees authorising 20 or less advisers have grown by 55%, from 1340, to 2057. As it currently stands, nearly 93% of the total number of licensees in the country authorise 20 or less advisers.

In terms of adviser numbers, there are 158 licensees with more than 20 authorised representatives, representing just under 18,000 of advisers (73%), and just 48 licensees that have more than 100 advisers on their books. These 48 mid to large licensees represent 12,500 people -

just over half of all advisers (51%), and it's a fair bet that this group of licensees would most likely be the initial focus of any scrutiny from ASIC in the coming months.

Figure 10 shows that more new licensees have been registered than have ceased operation, reversing the situation from Quarter 2 which saw, for the first-time licensee shutdowns outnumber new licensees for the first time in almost five years.

In spite of the trend away from the institutions, we note that of the 147 licensees that have actually been discontinued since January 1 this year, the vast majority were privately help licensees. Only six licensees that were owned or aligned have closed so far this year and half of those were Westpac (including Magnitude and Securitor).

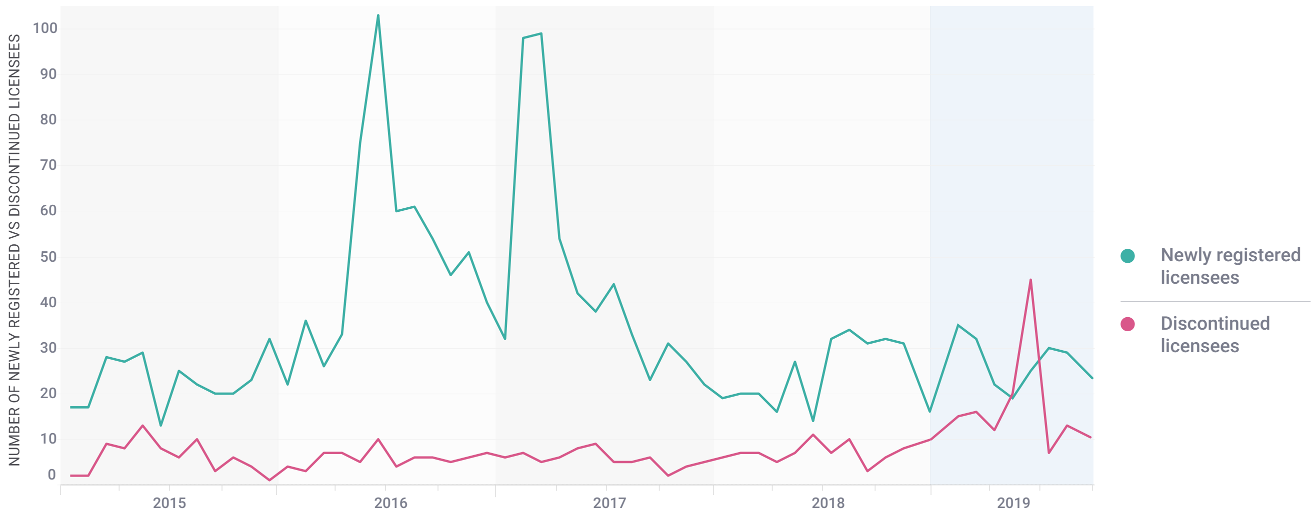
That most licensee closures are privately owned licensees is perhaps not surprising given that 2057 (93%) of licensees that operate in Australia authorise 20 or less advisers. There does however seem to be an uptick in newer licensees closing down. We have also done some analysis on the "shut down age" of licensees for those closed this year and compared them to the historical average.

Historically, in the last five years, 40% of licensee shutdowns have been licensees that are less than three years old. This year, that figure has risen to over 50%. Interestingly, the comparative figures for closures of licensee less than a year old is not what we might expect, historically being twice as high (12.2% of all Licensee shutdowns) than it is for this year (only 6.1%).

The difference could indicate that those seeking new licensees' authorisations are more committed immediately after their establishment but find continuation of their licensee too onerous after a few years. Historically 14.8% of closing licensees are between 2-3 years old, this year, that figure is almost doubled (28.6%).

With continuing fragmentation and our analysis showing the continued dynamism of the licensee market, these figures offer a timely reminder for all advisers to do their due diligence on prospective licensees if they are going to be looking for a new home.

Fig 10: Newly registered licensee vs discontinued licensee



Glossary of terms

New adviser
A new entrant who is newly registered as a financial adviser on ASIC's financial adviser register (FAR) in the sample period.

Ceased adviser
A financial adviser whose AFSL Authorisation with a licensee has ceased during the sample period.

Switched adviser
An existing or previously licensed financial adviser who has switched-in to a new practice/licensee in the sample period.

Returning adviser
A financial adviser whose AFSL Authorisation was de-registered prior to the sample period and has switched-in to a new practice/licensee in the sample periods.

Switched-in
Refers to the movement of an existing or previously licensed adviser moving to a new practice/licensee.

Switched-out
Refers to the movement of an existing or previously licensed adviser moving from a practice/licensee.

Moving adviser
A joint name of new, ceased and switched financial advisers.

Institutionally owned licensee
Organisations that are wholly owned subsidiaries of major "parent" institutions with diversified business models beyond providing financial advice only, where the advisers are directly employed. These institutions may be banks, super funds or stockbroking firms.

Institutionally aligned licensee
Organisations that are partly owned by or tied exclusively to a parent institution. Advisers are generally not directly employed but operate as authorised representatives.

Privately owned licensee
Organisations that are independent of any major institution. Advisers may be directly employed or authorised representatives.

AR data

AR data provides insights to the financial services eco-system. We operate as a stand alone service to assist platforms, insurers, and other product manufactures reach advisers they want to work with.

Consolidating ASIC information with our global partners and proprietary methods, our data is the most valuable, up to date, and accurate in the market. The musical chairs service consists of this report, and the underlying data on all advisers switching, entering, and exiting. (For example in quarter one 2019, this service captures 1600 adviser movements)

Email us today to access the quarter one underlying data.

Enquiries

Mark Hoven
CEO, Wealth

mark@adviserratings.com.au
0413 614 640

Contributors

Dr Yang Zhang
Data Scientist
yang@adviserratings.com.au

Inji Aly
Data Scientist
inji@adviserratings.com.au

Rodney Lester
Consumer & Adviser Services Director
rodney@adviserratings.com.au

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