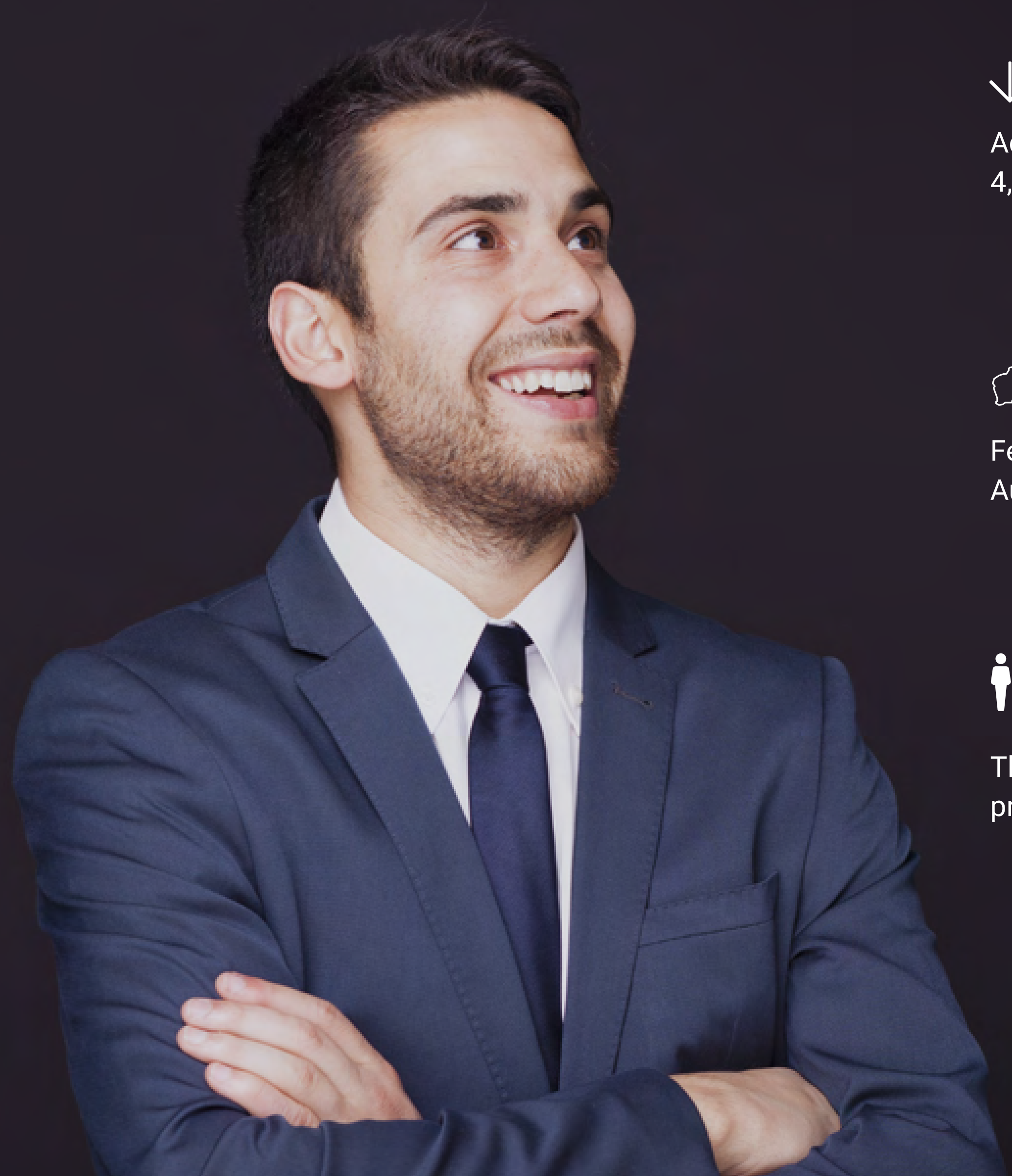
Adviser Musical Chairs Report

Industry research on financial adviser movement
Quarter 4, 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

Adviser Ratings



Key Findings

15.6%

Adviser numbers down 4,378 (15.6%) for year.

21%

"Micro-licensees" (10 advisers or less) grow to over 21% of the market.

Fewest number of advisers in Australia since December 2015.

30%

30% of the entire industry has been on the move (ceased or switched) in some form or another in 2019.

Three out of five advisers now privately licenced.

New licensee models emerge.

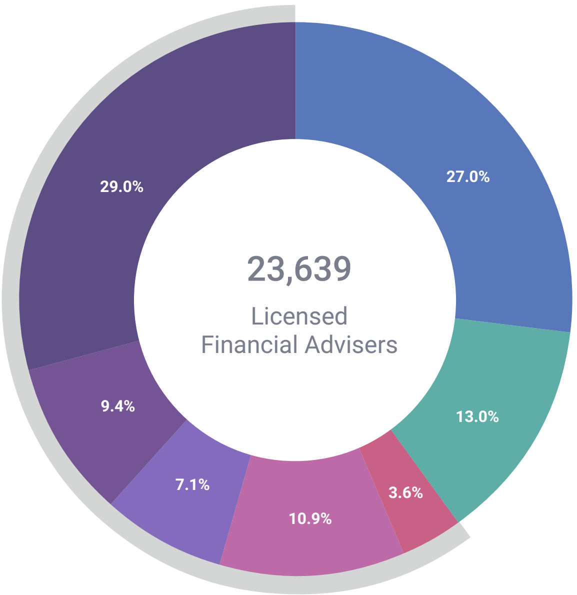
Industry Overview

Our year-end analysis of adviser numbers indicates a continuation of two key trends.

a) Overall adviser numbers have declined again in Q4, registering a drop of 4.6% (1,133 advisers). There are now 23,639 advisers which is the lowest overall number of advisers the industry has seen since December 2015. 2019 saw the industry shed a huge 4,378 advisers (15.6%) throughout the year.

b) The trend of increasing numbers of advisers being licensed by a privately-owned licensee continues. Privately licensed advisers as a percentage of all advisers rose from 57.8% to 60% in Q4. **Figure 1** shows the Q4 breakdown of advisers according to licensee type, with the private licensees also segmented by size. Once again, all the segments of the private licensee market have grown in percentage terms, except the 11-30 adviser group, which has slightly decreased from 9.6 to 9.4 percent of the entire market.

Figure 1 – Industry overview Q4 2019



Aligned	27.0%	6,375
Institution	13.0%	3,089
Private (1 adviser)	3.6%	856
Private (2-5 advisers)	10.9%	2,578
Private (6-10 advisers)	7.1%	1,669
Private (11-30 advisers)	9.4%	2,225
Private (30+ advisers)	29.0%	6,847
Private - Total	60.0%	14,175

Continued Growth Of Private Licensees

Looking closer at our segmented groups of advisers, the majority of advisers were shed from the institutionally aligned adviser segment, which lost 665 advisers (9.4%), decreasing from 28.4 to 27.0 percent of the total market. The loss was mirrored in the institutionally owned space, which had a net loss of 320 advisers (9.4%), shrinking from 3,409 to 3,089 advisers. Institutionally owned advisers now make up only 13% of the entire adviser market.

We also note a growth in the "micro-licensee" segment. Advisers licensed by small privately owned licensees of 10 advisers or less, grew both in terms of total numbers (from 5,040 to 5,103) and proportion of the market (20.4% to 21.6%). The other private licensee segments remain relatively static in terms of changes to adviser numbers, but the decrease in total industry adviser numbers meant that, effectively, most of their market share segments increased.

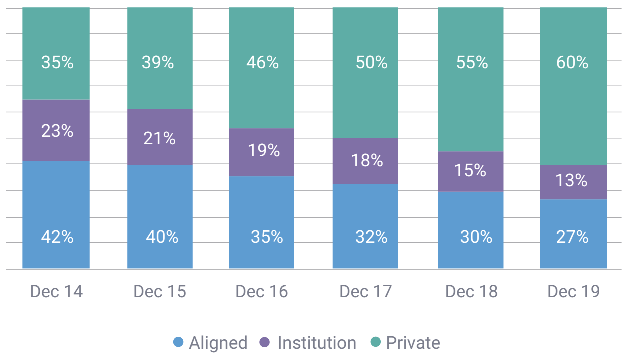
Annual Changes

With the industry as a whole shedding 4,378 advisers from its peak at the beginning of January 2019, the total number of advisers in each of our three broad segments has fallen this year. The annual change of adviser numbers from Dec 2018 to Dec 2019 indicates the institutional space has fallen by 1,229 from 4,318 to 3,089 (28.5%). In the same period, the aligned space has shed 1,958 advisers, going from 8,333 to 6,375 (23.5%). Number of advisers in private licensees have also fallen by 1,191, from 15,366 to 14,175 (7.8%).

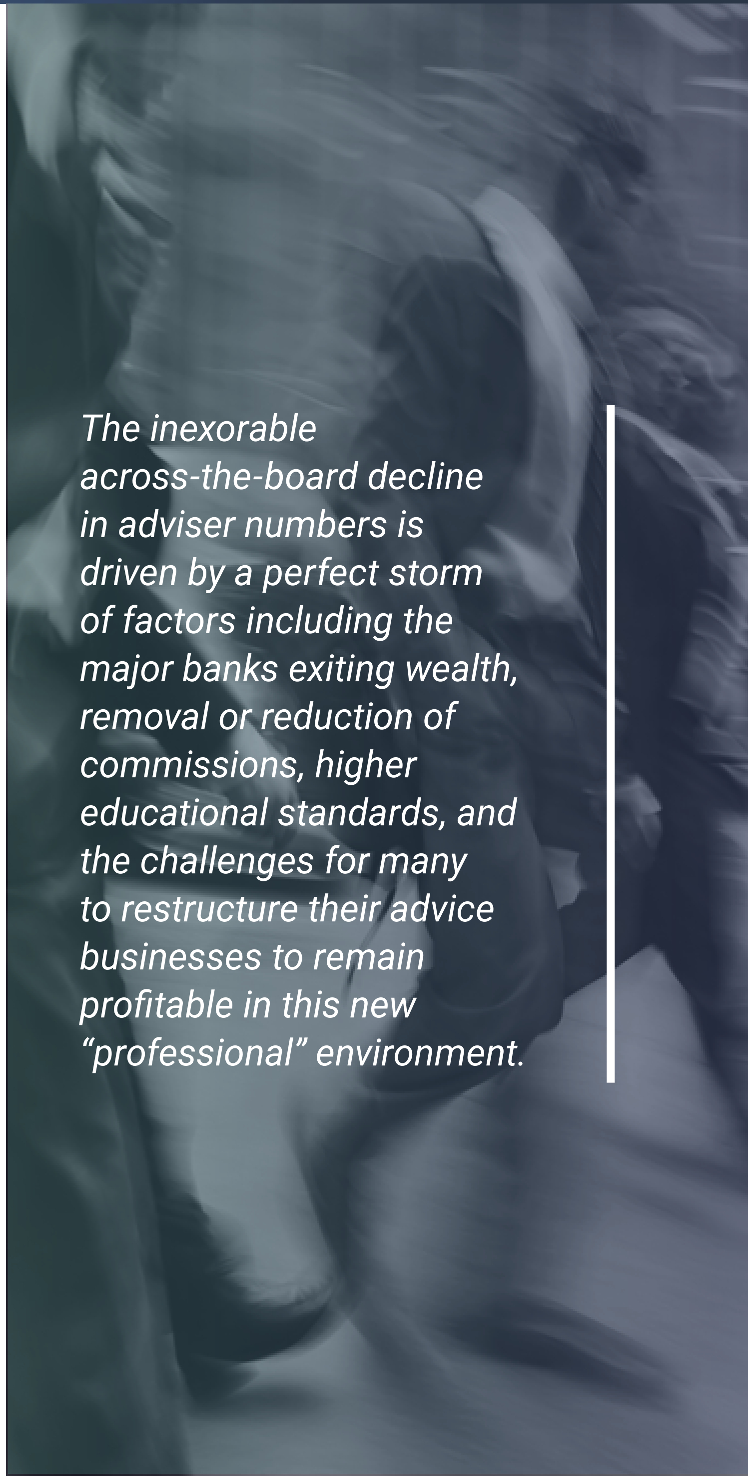
This inexorable across-the-board decline is being driven by a perfect storm of factors including the major banks exiting wealth, removal or reduction of commissions, higher educational standards, and the challenges for many to restructure their advice businesses to remain profitable in this new "professional" environment.

The smaller decline in the private space means that while total adviser numbers have been reduced, the proportion of total advisers in the private sector has continued its upward trend. The proportion of advisers from privately owned licensees has increased by over 5% this year alone, from 54.9% at the end of the Q1 2019 to fully 60% by the end of the year. The number of privately licensed advisers is now at its highest level in the last six years, as can be seen in Figure 2.

Figure 2 – Annual change in adviser distribution according to licensee type



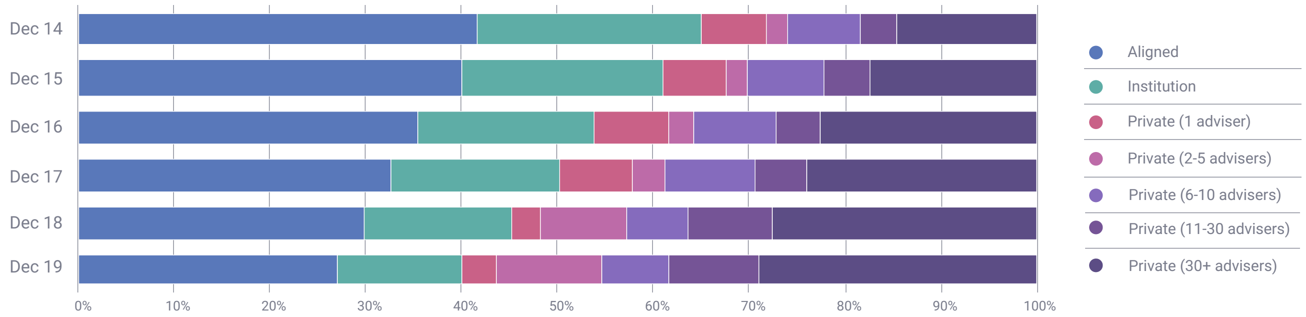
Six years ago, in 2014, the largest segment of advisers was in the aligned space, which made up 42% of all advisers. Since then aligned advisers have shrunk to 27% of the advice market. Institutional advisers made up 23% of all advisers in 2014, compared to just 13% now. This time period has seen the dramatic rise in the proportion of privately licensed advisers, going from 35% of the market to 60% today.


The inexorable across-the-board decline in adviser numbers is driven by a perfect storm of factors including the major banks exiting wealth, removal or reduction of commissions, higher educational standards, and the challenges for many to restructure their advice businesses to remain profitable in this new "professional" environment.

It is also worth noting the changing make-up of the privately owned licensee market. It is no longer appropriate to think of this sector as one homogenous group but rather a family of siblings each going through its own existential crisis. Figure 3 shows the breakdown of adviser numbers relative to the size of the licensee they are licensed by. We can see the number of self-licensed single adviser practices has dramatically decreased – going from over 1,500 to 856 in five years. The number of advisers covered by a two to five person licensee has exploded from 481 to 2,578 in the same period. Growth of this group is being fuelled in two directions – by the single adviser practices rolling up and others departing the institutionally owned and aligned sectors. There has also been a dramatic increase in the two larger segments of advisers licensed by privately owned licensees.

> *It is no longer appropriate to think of the privately owned licensee sector as one homogeneous group but rather a family of siblings each going through its own existential crisis.*

Figure 3 - Change in adviser distribution by licensee type and size 2014-2019



The last five years has seen growth in the 11-30 person licensee segment from representing 831 advisers to 2,225 advisers, while the 30+ segment has more than doubled from 3,258 advisers to 6,847.

The changing nature of the dominant licensees over the last five years represents a key transformation in the advice industry. It has a direct impact on at least two sections of the industry. Firstly, it has impacted advisers themselves, in particular how they access the adviser services they need to run their businesses. In the past these were provided and, in many cases, subsidised by licensees themselves, and through product cross-sub-sidisation. This is still the case, however, the regulatory-driven taint on vertical integration is compelling many advice businesses to reduce or eliminate dependency on product revenues. At the same time, licensees are raising fees to more accurately reflect true cost, contributing to this mad scramble of advisers between small and large licensees, looking for the right balance of support, independence, and profitability.

The second part of the industry directly affected by these licensee changes are the industry product providers who rely on advisers to distribute their product to Australian consumers.

The mass movement of advisers around the licensee world is creating dislocation in their own service and support models. They can no longer rely on their adviser client base to remain loyal as many advisers change product allegiances under new licensees that dictate different approved product lists and model portfolios.

Although many may assume the recent Royal Commission and the associated fallout has been the driving force of much industry flux, we can see from the trend in these licensee figures that large structural change has been steadily happening for at least the last half decade. FOFA was the initial catalyst, compounded by subsequent imposts represented by FASEA and LIF, among others. In short – traditional vertical integration, which saw product providers own and subsidise licensees and in turn advisers (who were expected if not required to favour in house products), has been replaced by fragmentation in the licensee market. Regulatory change such as best interest duty (BID) and changes to commissions and remuneration has complemented and most likely hastened these developments. Many business models will not be able to continue in their current configurations.

Some businesses, most prominently AMP, could be said to have been caught flat-footed. However, at the same time, the last few years has seen more pro-active companies establish alternative business models in the licensee space. Elements include: building closer equity-linked partnerships between licensee and practice; focusing on more specialised advice areas; embracing integrated service models that combine advice with accounting and mortgage broking; while the majority are re-thinking how they operationalise and resource their businesses.

Adviser Movements

Q4 of 2019 proved to be the second most fluid quarter in terms of adviser movements for 2019. Ceased adviser numbers were on the increase in comparison to the previous quarter though switching numbers were down. Figure 4 shows the last three months of the year saw the second highest quarterly number of advisers ceasing for the year, with 1,325 advisers ceasing their authorisation. This figure is inflated by scores of advisers from stockbroking and private banking firms such as Crestone Wealth Management, Dixon Advisory and Macquarie Equities. These moves reflect a recent trend where these firms are stepping back from servicing retail customers and the attendant regulatory protections afforded them, instead choosing to focus on HNW wholesale clients.

The total departures represent an increase of nearly 40% from the previous quarter. New adviser numbers were again negligible with only nine new authorisations registered over the entire quarter.

Figure 4 – Quarterly ceased adviser numbers 2019

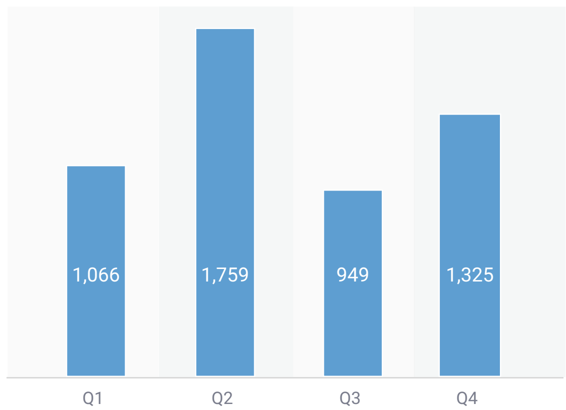
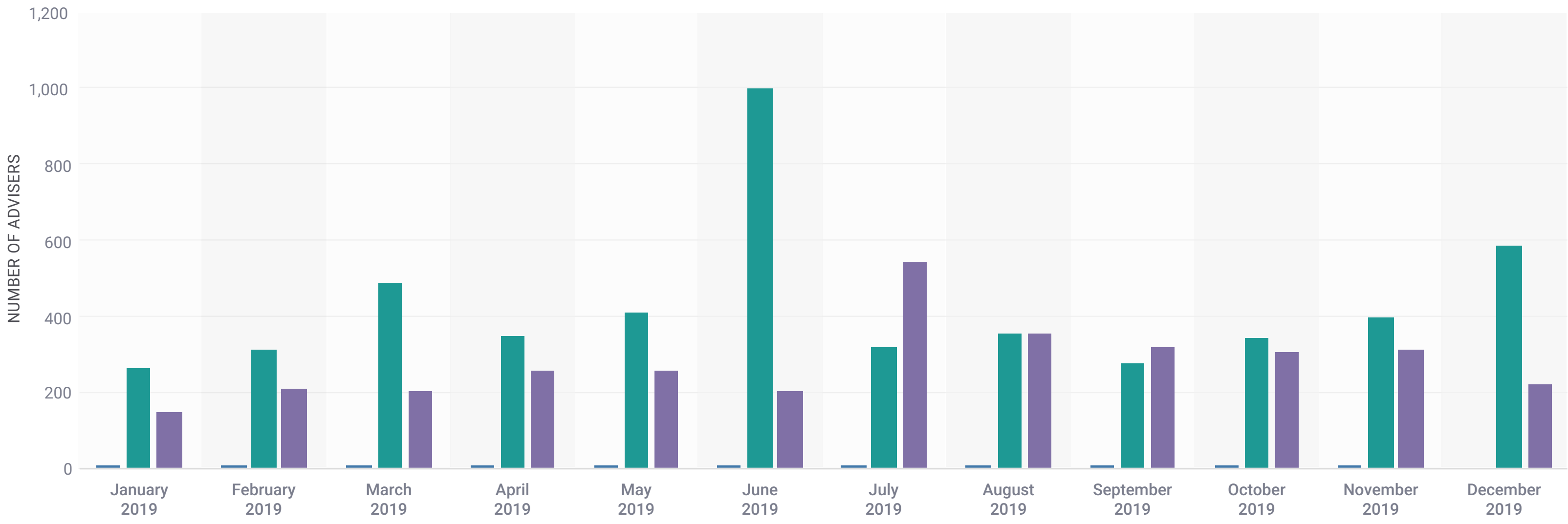


Figure 5 - Adviser movement by types 2019



There were 839 advisers switching into different licenses during the quarter, a decrease of 31% on the year high in Q3, but still the second highest quarterly number for the year. **Figure 5** shows all new, ceased and switching adviser movements for 2019. We can see the spike in ceased advisers for the month of June, which coincided with the end of the financial year, and a similar smaller spike in December leading into the end of the year. It may be that these prominent points in the business calendar provide a demarcation line for licensees and advisers to complete certain transitional movements. Q4 saw 240 advisers return to the industry after starting the quarter as ceased – many of these have simply been "offline" during a transition from one licensee to another. If the "returning dynamic" we identified in Q3 holds, we should see a larger number of returning advisers next quarter, following the larger number of adviser cessations in Q4 2019.

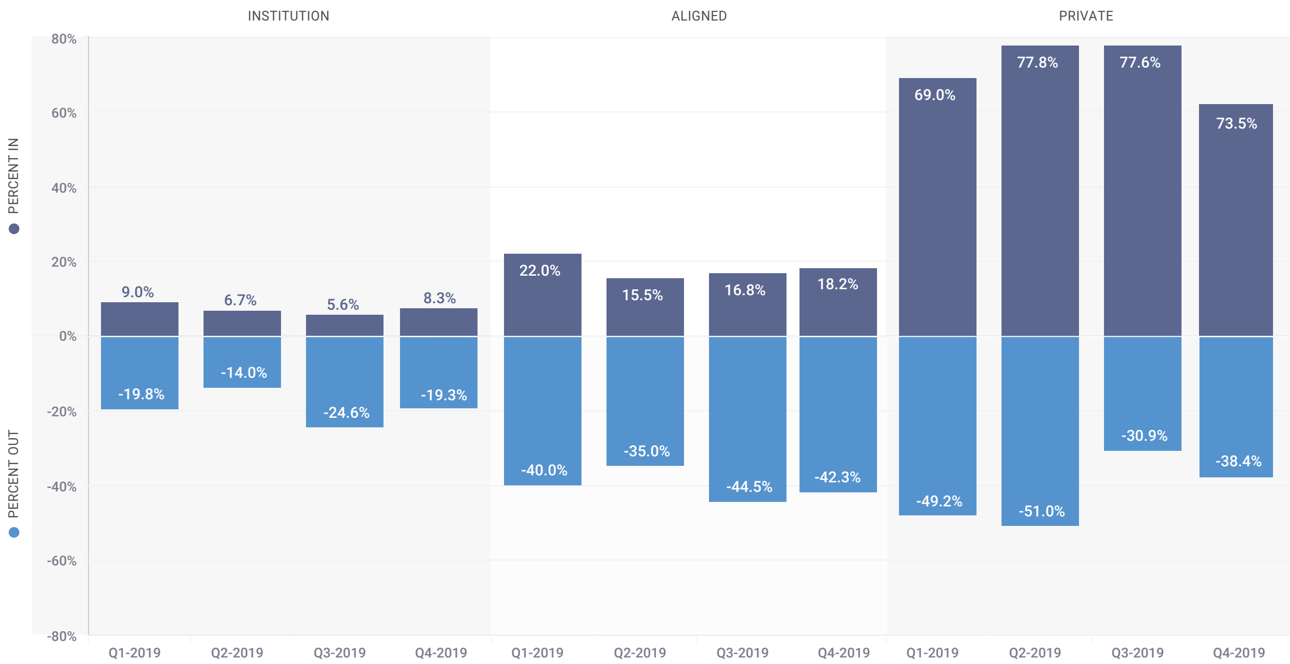
Overall 2019 was a massive year for adviser movements. Although the entire year saw only 38 new advisers added to the industry, there were over 5,000 adviser cessations registered during the course of the year and over 3,300 advisers switched licensees throughout the year. These numbers indicate that around 30% of the entire industry has been on the move – in some form or another in 2019. Did someone say the industry was in flux?!?!

> *30% of the industry has been on the move in some form or another in 2019*

Switching Advisers

Although the 839 advisers who switched into new licensees in Q4 was 31% down on the year high of 1,218 switchers in Q3, it still represented a more dynamic movement than Q1 (560) and Q2 (715). Once again, in **Figure 6** we note that proportionally, advisers' movements between institutional, aligned and private licensees has remained remarkably similar to the preceding three quarters of 2019 – particularly in terms of advisers switching into private licensees and switching out of the institutionally owned and aligned space.

Figure 6 - Comparison on licensee type of switching advisers 2019



Adviser Additions and Reductions – Top 10

At a granular level, the licensees adding and shedding the most advisers in Q4 tells a similar tale to the first three quarters of the year. **Figure 7** shows this continued trend of large institutionally owned / aligned licensees contributing the majority of departures, while the larger privately-owned licensees are onboarding most new advisers. In terms of the statistics, there are 700 advisers represented in the top 10 firms shedding, and just shy of 200 advisers represented in the top 10 firms accepting.

The discrepancy between the magnitude of the totals for additions (197) and subtractions (700) in this top 10 list again points to the continued fragmentation of the licensee market – something we've seen repeated throughout 2019.

Aside from this structural consistency regarding the numbers and types (private or otherwise) of licensees in each group, Q4 may provide some clues as to the much-anticipated direction that licensee business models may take, following the capitulation of the bank-owned vertically integrated distribution model.

Figure 7 - Most adviser additions and reductions licensees in Q4

Licensees	Licensee Type	Total advisers adding and leaving per licensee
ALLIANCE WEALTH PTY LTD	Private (30+ advisers)	40
FORTNUM PRIVATE WEALTH LTD	Private (30+ advisers)	29
AFFINIA FINANCIAL ADVISERS LIMITED	Aligned	23
CAPSTONE FINANCIAL PLANNING PTY LTD	Private (30+ advisers)	22
TOGETHR FINANCIAL PLANNING PTY LTD	Private (30+ advisers)	17
THE FINANCIALLINK GROUP PTY LTD	Private (30+ advisers)	16
ADVICE EVOLUTION PTY LTD	Private (30+ advisers)	15
LIFESPAN FINANCIAL PLANNING PTY LTD	Private (30+ advisers)	13
AUSTRALIAN UNITY PERSONAL FINANCIAL SERVICES LTD	Aligned	11
NSW COMPLETE FINANCIAL SERVICES GROUP PTY LTD	Private (30+ advisers)	11
SMSF ADVISERS NETWORK PTY LTD	Private (30+ advisers)	-32
COUNT FINANCIAL LIMITED	Aligned	-34
CHARTER FINANCIAL PLANNING LIMITED	Aligned	-43
GWM ADVISER SERVICES LIMITED	Aligned	-46
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Institution	-47
FINANCIAL WISDOM LIMITED	Aligned	-73
AMP FINANCIAL PLANNING PTY LIMITED	Institution	-83
AON HEWITT FINANCIAL ADVICE LIMITED	Aligned	-88
COMMONWEALTH FINANCIAL PLANNING LIMITED	Institution	-118
NATIONAL AUSTRALIA BANK LIMITED	Aligned	-136

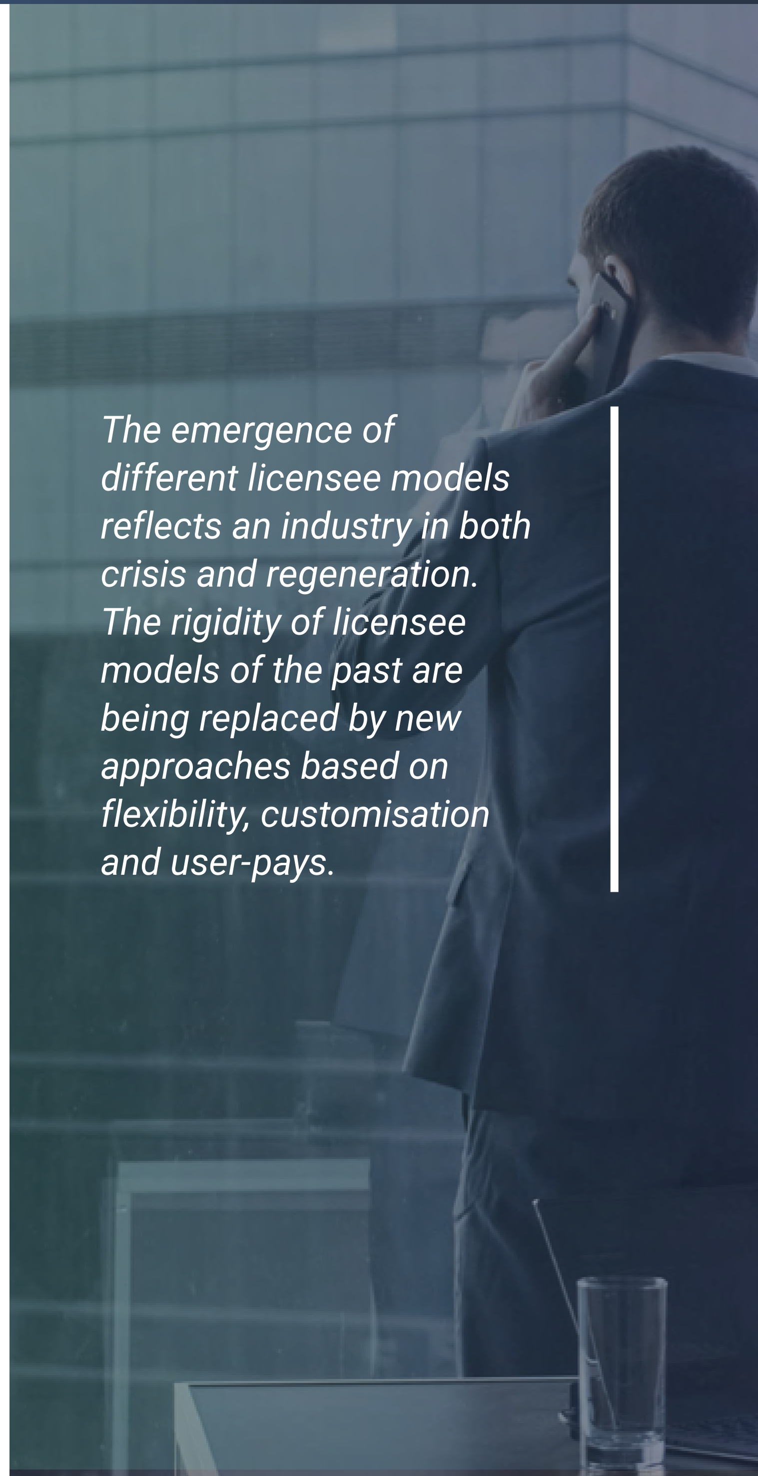
Licensee Business Model Changes

The emergence of different licensee models reflects an industry in both crisis and regeneration. The rigidity of licensee models of the past are being replaced by new approaches based on flexibility, customisation and user-pays. The better licensees at the vanguard of this change are also helping the industry professionalise, by removing product conflicts, building stronger technology backbones, and enforcing higher standards of behaviour and accountability.

The top two licensees adding advisers are Alliance Wealth and Fortnum. These two licensees are utilising "hub" licensee offerings, which if the numbers are anything to go by are proving popular with advisers. Alliance Wealth – part of the Centrepoint Wealth group, actually added 47 new advisers in Q4 (with seven advisers departing). They promote "self-licensee solutions" and offer tailored licensee services which proffer to give advisers "power in community and strength in numbers". The CEO of Centrepoint, Angus Benbow, says their offer to advisers is not just bundling up a licensee service for advisers – but rather making it easier to pick and choose which service they want (and what they don't) from a suite of offerings such as dealer group services, advice services, advice technology and others.

Fortnum Financial Group had the second most additions in Q4 adding 33 advisers (with four departures). Two-thirds of these came from the CBA aligned Financial Wisdom which has been haemorrhaging advisers since CBA announced it would be wound down by mid 2020. Fortnum's CEO and Managing Director, Neil Younger, says licensees will redefine how they support advisers to drive down costs and deliver high-quality, affordable advice. Rather than advice and licensee businesses existing as separate entities, Younger believes that it is inevitable that advice and licensing will co-exist in a single structure as they do in self-licensed firms, as the industry continues to separate product from advice and to remove the cross-subsidisation of licensee services.

What becomes the dominant business model in the advice/licensee space remains to be seen. There are of course other licensees developing alternative business models such as CountPlus with their 'owner-driver, partner' model which uses shareholder, employment and participation



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agreements between member firms and Countplus. In theory, this allows owners to retain day-to-day management, with CountPlus providing strategic support as well as access to IT systems, best practice HR programs, improved compliance and stronger risk management. They also offer the flexibility to change the ownership structure of any firm if required.

There is also Affinia, which experienced the third most adviser additions of any licensee. Aligned with TAL, Affinia housed dozens of ex-AON advisers under the new "Tribel" brand following their management buy-out in 2019. The licensee offers "Affinia Access" which starts with a base package including a white-labelled AFSL infrastructure and a range of extra service offerings that advisers can tailor to suit their needs such as licensee tools, advice and marketing support and other business resources.

Most of these emerging models offer flexibility in one form or another that was to a large extent missing in more traditional licensee models. The ability for advisers to tailor and select what they want, rather than be compelled to fit into a tighter licensee structure seems to be a feature of the emergent licensee model.

These changes have developed in part due to regulatory changes such as grandfathering removal and tightening of conflicted remuneration standards. Concurrently, licensee subsidies that were available when the system emphasised sales and distribution under the vertically integrated model utilised by the larger institutions are being phased out. This has had the effect of increasing the price advisers have had to pay for licensee services. This price pressure is ultimately a key driver behind the licensee business model changes which have emerged to include service selection and flexibility to the range of licensee offerings.

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 ecosystem. We operate as a stand alone service to assist platforms, insurers, and other product manufacturers 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.

Email us today to access the full Musical Chairs service.

Enquiries

Mark Hoven
CEO

mark@adviserratings.com.au
0413 614 640

Contributors

Nicolas Peña Mc Gough
Econometrician
nicolas@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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