Adviser Musical Chairs Report

Industry research on financial adviser and licensee movement
Quarter 3, 2021

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
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Key Findings

1.1%

Percentage decline in the advice workforce. Lowest value in more than 2 years!

75

Number of new advisers who entered the market.

53%

Percentage of ceased licensees from the limited licensee space.

60%

Percentage of current advisers operating under privately owned licensees.

42%

Percentage of current advisers with an 'exceptional' or 'very good' quality score.

61%

Percentage of the advisers who sat the July FASEA exam that passed it vs 88.5% overall for all exams.

16.5k

Forecast of number of advisers for start of 2022 after FASEA's exam regulation comes into play (-20% YoY).

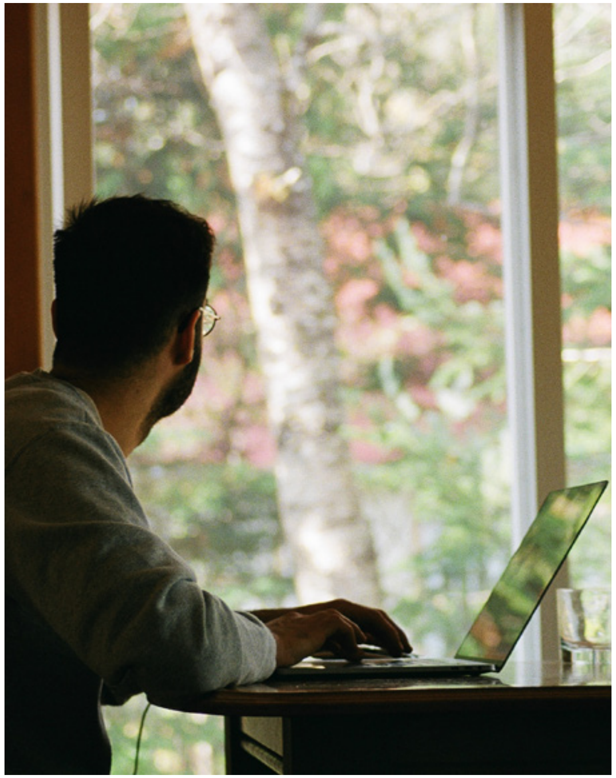
1. Source: FASEA

Industry Overview

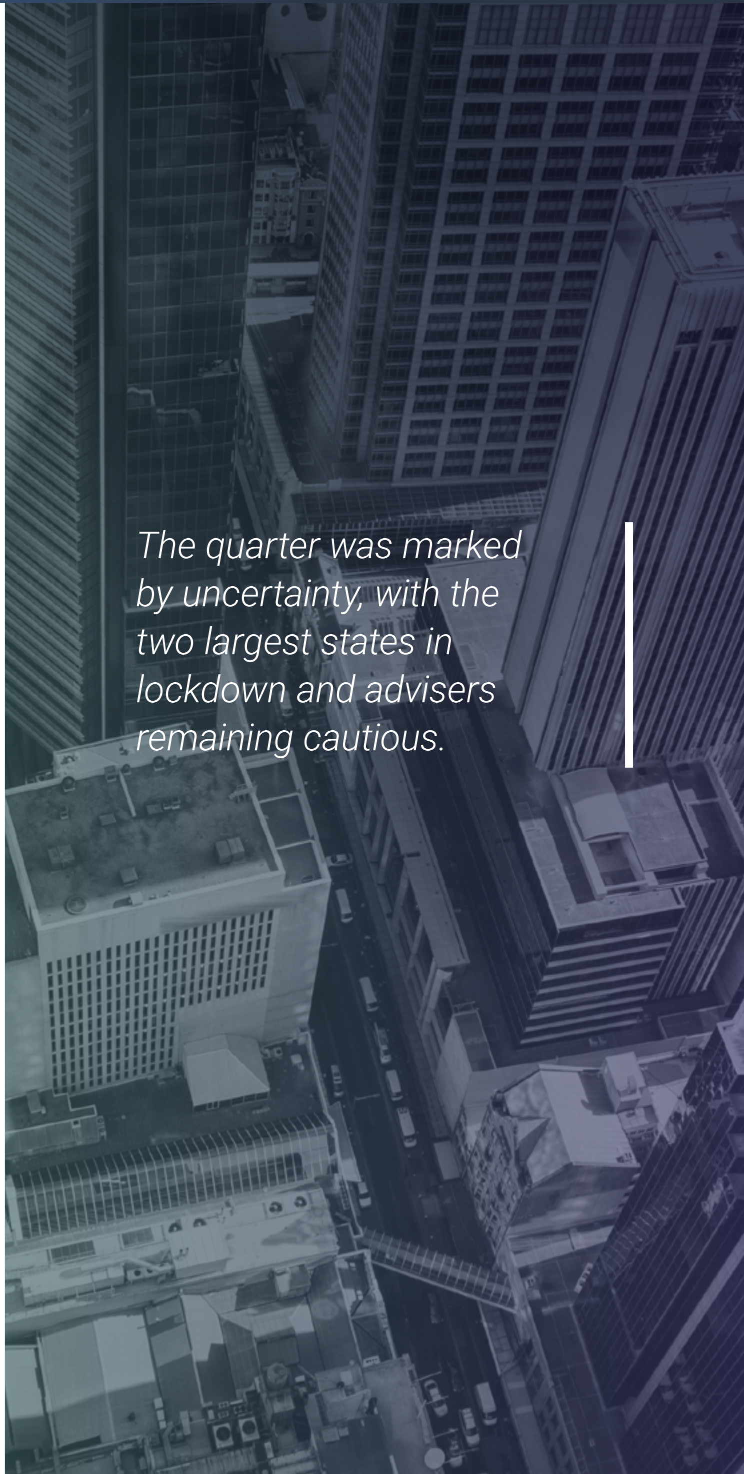
In a destabilising Q3 for locked-down Sydney and Melbourne, most advisers hit pause on musical chairs. There was little movement between businesses and licensees, which was not surprising given the two largest states were confined to work-from-home arrangements; advisers were largely unable to audition for new prospective homes.

It was a stark contrast to the previous quarter (Q2, 2021), during which almost 1,500 advisers departed. As we said at the time, the end of financial year is a popular time to exit for advisers who wish to beat the ASIC levy and often insurance renewals, too. In contrast, Q3 has historically been a quieter quarter for industry departures, and was again this year with only 505 advisers leaving the sector (net loss of 215).

The adviser workforce has now dropped below the 19,000 mark, which is getting closer to the number of advisers who had sat the Financial Adviser Standards and Ethics Authority (FASEA) exam by September (19,000). Around 9-in-10 – or 16,850 – have now passed their exam, the authority states. Nevertheless, only 14,630 out of those were recorded as active financial advisers on ASIC FAR at that time. As our special feature shows, trends are beginning to emerge around the types of advisers who are choosing to depart.

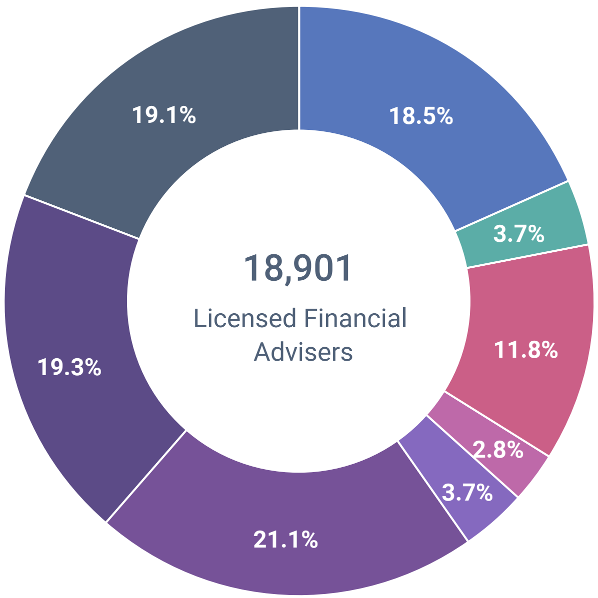


2. Source: Professional Planner



The quarter was marked by uncertainty, with the two largest states in lockdown and advisers remaining cautious.

Chart 1 - Industry overview Q3 2021



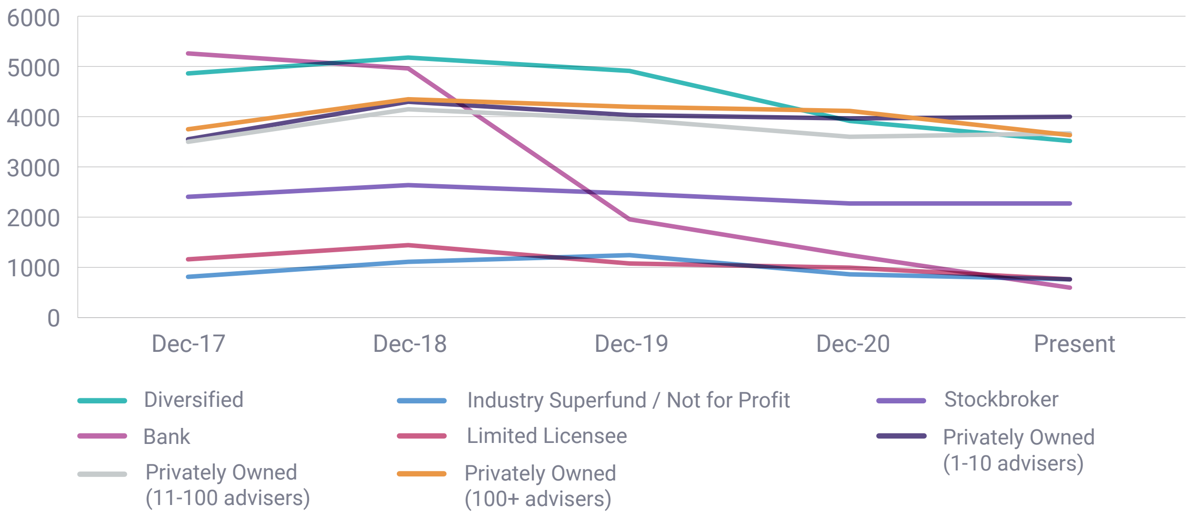
Diversified	18.5%	3,490
Industry Superfund / Not For Profit	3.7%	693
Stockbroker	11.8%	2,230
Bank	2.8%	539
Limited Licensee	3.7%	694
Privately Owned (1 - 10 advisers)	21.1%	3,991
Privately Owned (11 - 100 advisers)	19.3%	3,655
Privately Owned (100+ advisers)	19.1%	3,609

Across the board, pressures on advice businesses have continued to build, with advisers increasingly stretched to do more with less. An anticipated uptick in demand for advice services contributed to this, especially as businesses navigated support packages in locked-down states.

In terms of adviser sentiment, we're told the compliance burden remains a top concern, along with the cost of both sustaining and building profitability. There was some reprieve on the future costs front in August, when Treasury agreed to abandon the forecast ASIC levy hike. However, advisers still say they want more of a seat at the table as the government formalises the industry funding model.

As both Sydney and Melbourne begin to unwind their respective lockdowns and embrace the new COVID-19 normal, we expect the appetite for switching licensees to start to pick up. Once again, the anticipated winners will be smaller, private licensees, as advisers continue to flee larger institutions like AMP. Elsewhere, new advisers are slowly starting to trickle in, but the new talent pipeline is still dwarfed by exits.

Chart 2 - Number of advisers by licensee segment

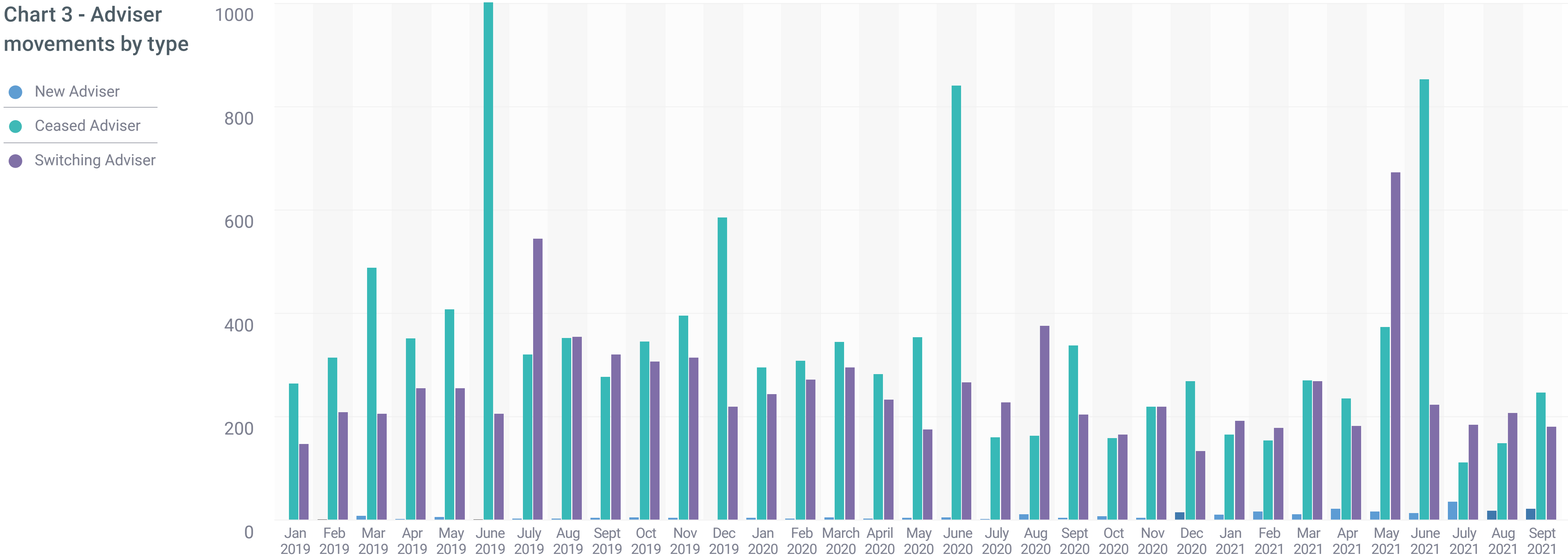


Adviser Movements

As noted, it's been a relatively subdued quarter for adviser movements, driven primarily by COVID-19 lockdowns across eastern Australia and the associated uncertainty. Compared with the same quarter last year, adviser exits were down 26 per cent. In fact, it was the quietest quarter for adviser departures in more than two years. However, it's far too early to perceive this as a sign of workforce stabilisation. Instead, it's most likely a combination of cyclical new financial year inactivity and the effects of the lockdown. We expect movement to accelerate in the coming quarter as the clock continues to tick on education standards deadlines.

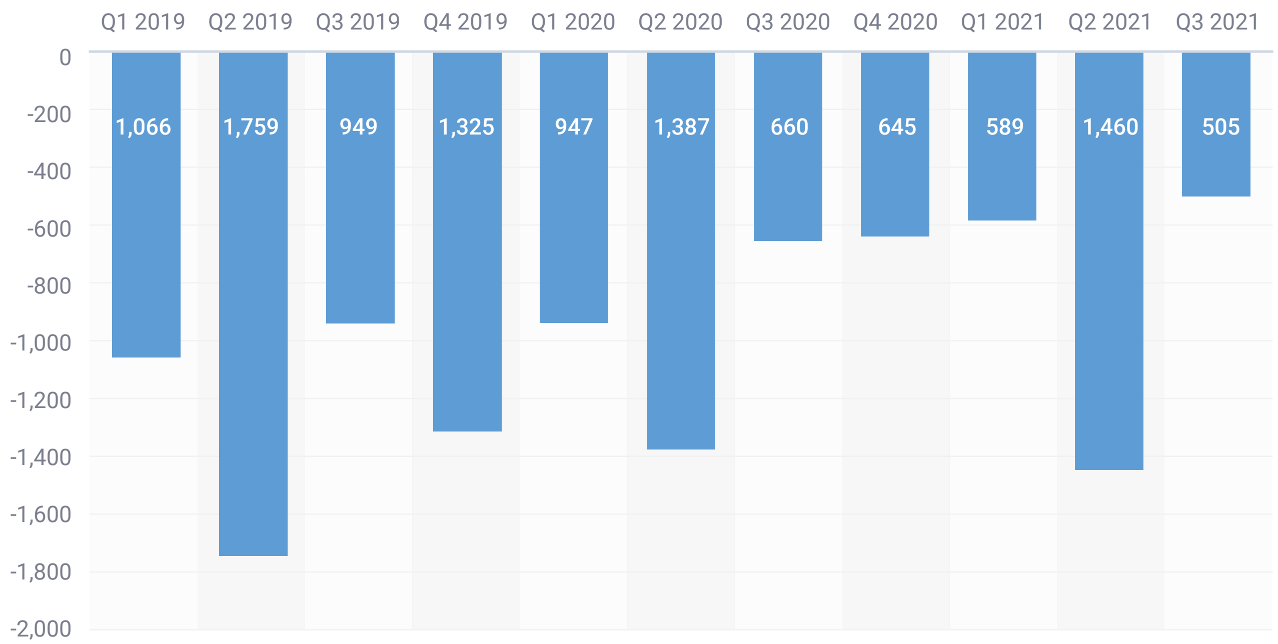
In a small sign of optimism, the quarter had the highest volume of market entrants in more than two years, with 75 new advisers joining. However, this will do little to compensate for the continued departures. Although Q3 was the quietest quarter for departures in more than two years, the rate of adviser exits was almost seven times higher than new entries. This matches the trend of the past few quarters, albeit at a slightly less pronounced rate.

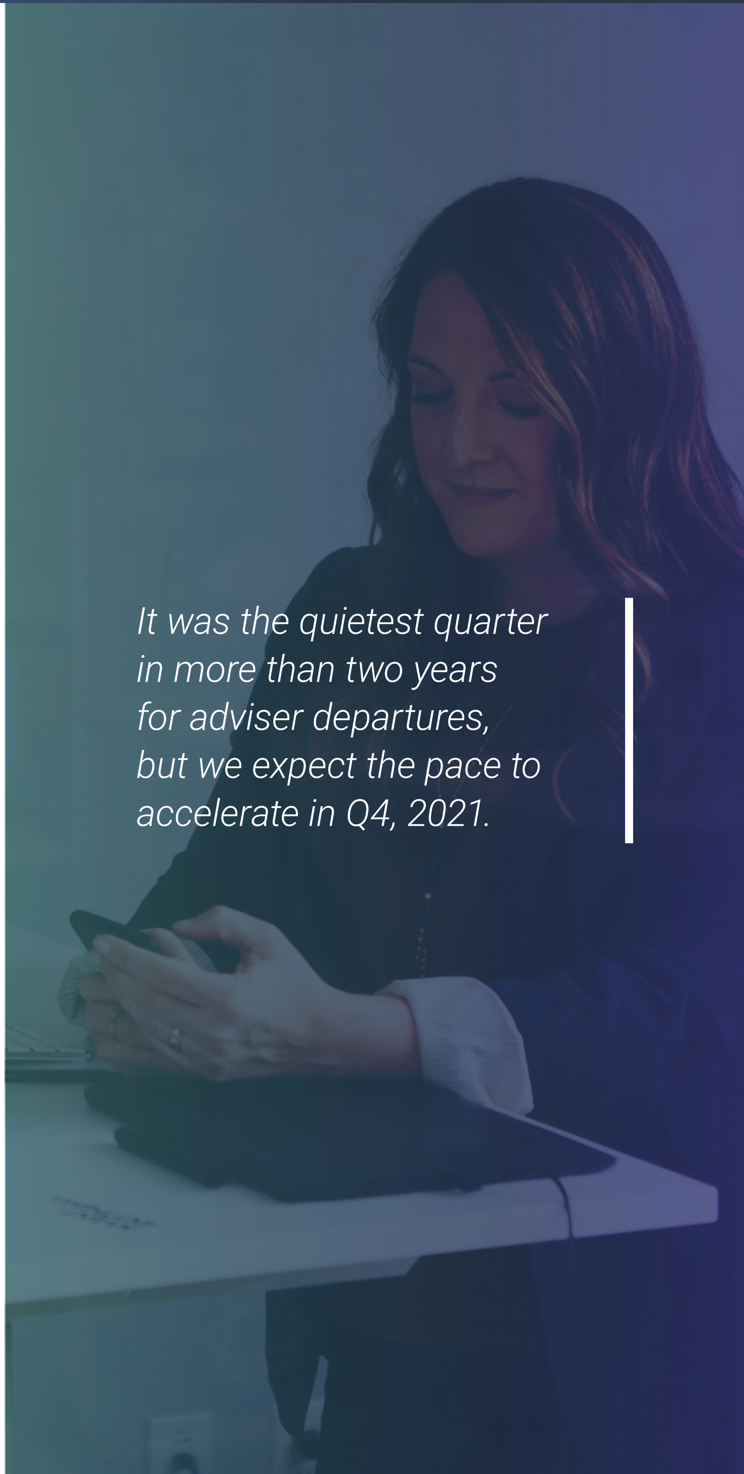
Chart 3 - Adviser movements by type



By October, 76% of active advisers on the Financial Advisers Register have passed the FASEA exam. For the time being, 320 advisers have exams booked in November 2021. However, our analysis finds exam completion doesn't always indicate intention to stay in the industry. Among advisers who left last quarter (Q2, 2021), 1-in-5 had successfully completed their advice exam. This trend seems to be in order to avoid further issues if deciding to join the industry back again during or after 2022.

Chart 4 - Adviser movements: ceased



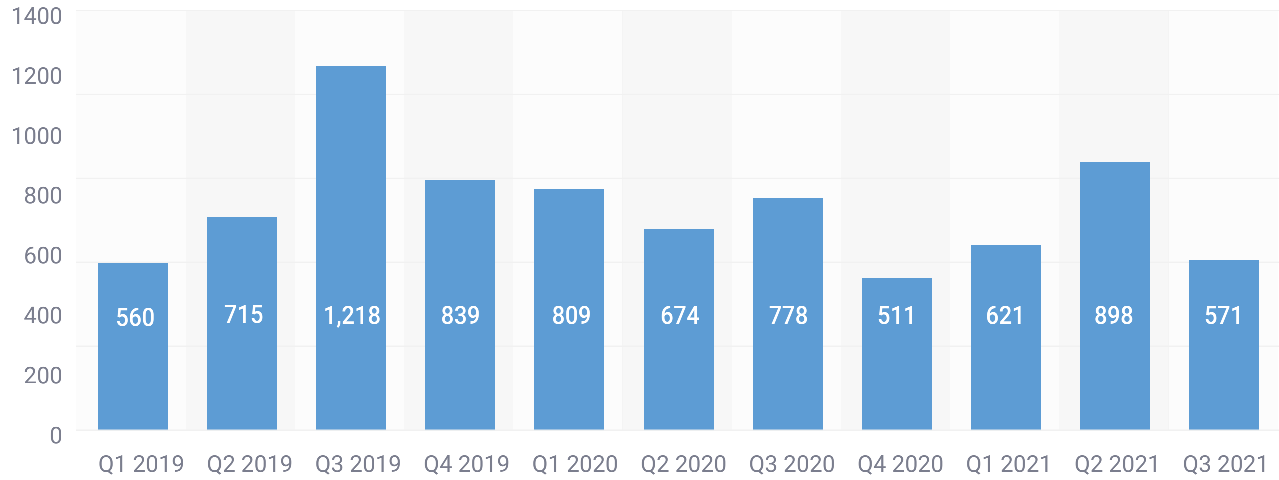


Switching Advisers

Unsurprisingly, we witnessed one of the slowest quarters for switching activity in the last few years. This was largely anticipated, in part due to the Sydney and Melbourne lockdowns, but also due to the slowing of institutional activity. The transition of NAB/MLC advisers into the IOOF family has naturally decelerated after the completion of the acquisition in the previous quarter. Therefore, we didn't see large groups of advisers emerging under new licensees like we did in Q2, 2021.

Instead, adviser movements in the most recent quarter were primarily solo advisers shifting to new licensees. The one exception was the lateral shift of 15 Clearview Financial Advice advisers under the Matrix Planning Solutions licence. At the end of the quarter, both Clearview advice arms – Clearview Financial Advice and Matrix Planning Solutions – had been acquired by Centrepoint Alliance.

Chart 5 - Adviser movements: switched



It was a slow quarter for adviser switches, but we anticipate that will change as Sydney and Melbourne come out of lockdown.

Special Feature – The Future Of Advice Looks Educated, But Depleted

The advice industry has undergone a colossal shift in the last few years, with regulators, consumers and advisers themselves demanding higher standards from the people who manage Australians' wealth.

Naturally, as part of this process, the new face of advice looks different to its earlier version. The advisers who chose to stay in the industry are largely better educated and many have shown their commitment to behave ethically.

It stands to reason, therefore, that the remaining advisers should collectively have the attributes to improve outcomes for their clients. To see if the data reflects this, we decided to analyse current and past advisers 'quality score' to see if the current remaining advisers behave in ways associated with quality advice.

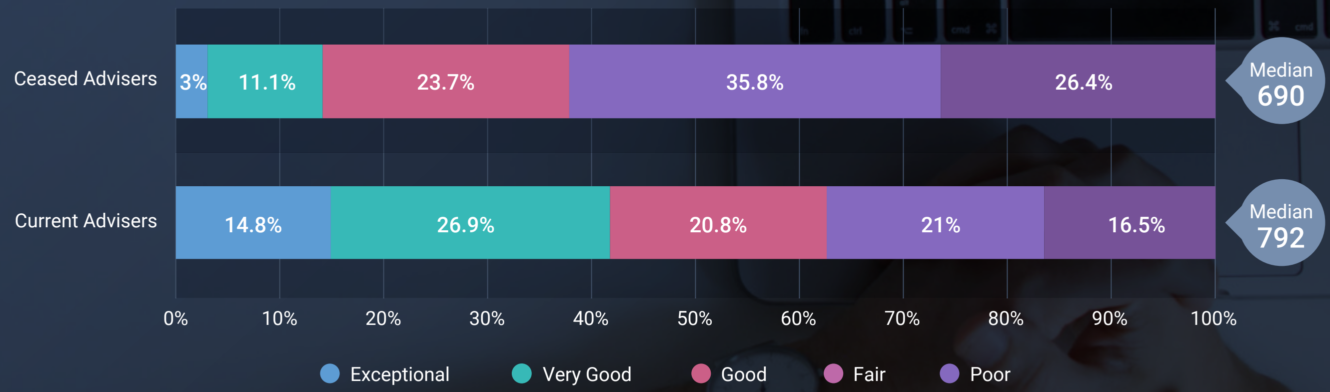
We know with the education standards deadline still on the horizon, several thousand advisers will depart the industry in the next few years. In fact, we forecast there are still close to 5,000 advisers who will depart before numbers stabilise. As such, we also decided to conduct 'flight risk' analysis, which shows the likelihood of advisers to depart the industry in the next two years. Some of the results may be surprising.

Quality scores: How current advisers compare

When compared with advisers who have left the industry, it's pleasing to see the current advice market has a greater number of advisers with high quality scores. Almost 15 per cent of current advisers have been rated as 'exceptional' on the quality metric (see Chart 6), compared with 3 per cent of those who have left. Meanwhile, 27 per cent of current advisers are rated 'very good', while only 11 per cent of advisers who have departed received the same score.

At the other end of the spectrum, 16.5 per cent of current advisers have a 'poor' quality score, compared with 26 per cent of the advisers who have left the industry. (For a breakdown of quality score descriptions, see Table 1.)

Chart 6 - Adviser quality score distribution by adviser status



Looking at current advisers, our analysis also shows a greater appetite from younger or less experienced advisers to get through the FASEA requirements well before the deadline. As Table 2 shows, almost three-quarters of advisers with less than 10 years' industry experience (or aged below 45) have started or completed their FASEA education journey, compared with 2-in-5 advisers with more than 30 years' experience (or aged over 55).

However, less experienced advisers also made up a high proportion of the group that has already exited the industry. In fact, 58 per cent of advisers who have departed had less than 10 years' experience, while 10.5 per cent had less than a year's experience.

Table 1 - Advisers' education level by age and experience

AQS	Rating	What the score means
<600	Poor	• Well below average • Certain statistical data mimic a high propensity for low quality advice
601-720	Fair	• Below average • Certain statistical data mimic a high propensity for lower quality advice than the average
721-840	Good	• Average adviser • Considered a stable adviser based on statistical data and who is likely to meet clients' advice needs based on the available data
841-960	Very Good	• Above average adviser • The data on this adviser correlates to behaviours and activity exhibited that is above average to other advisers in the industry
961-1,200	Exceptional	• Well above average adviser • The data on this adviser correlates to behaviours and activity exhibited that is well above average to other advisers in the industry

Table 2 - Advisers' education level by age and experience

FASEA Pathway Level	<45 years or <10 YoE		45-55 years or 10-30 YoE		55+ years or 30+ YoE	
	#	%	#	%	#	%
Approved	612	9.0%	746	7.6%	61	2.7%
Relevant Degree	4327	63.6%	5467	56.0%	874	38.5%
Non-relevant degree / No degree	1865	27.4%	3558	36.4%	1336	58.8%

Analysing advisers' flight risk

An adviser's 'flight risk' is their likelihood to depart the industry in the next two years. It is an assessment based on a number of factors, including behaviour, qualifications, age and personal intentions.

If we look at advisers who have already left the industry, more than half had a 'high' flight risk score, while a further 2-in-5 had a 'moderate' flight risk rating. Collectively, more than 90 per cent of those who have left showed some early indications that they were on their way out.

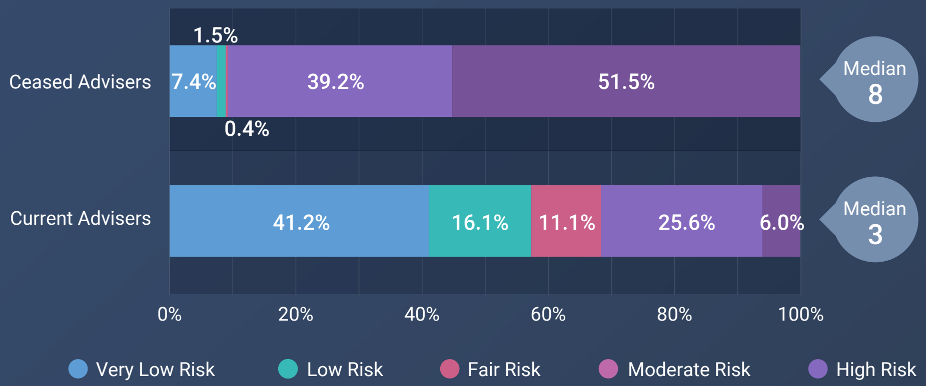
When we turn our attention to current advisers, 6 per cent – or roughly 1,100 advisers – have a 'high' flight risk. We are fairly confident these advisers will exit the industry in the next two years.

Meanwhile, a quarter of the remaining advisers – roughly 4,800 – are at 'moderate' risk of departure. These advisers have a higher propensity than the average adviser to depart the industry.

Putting it all together, more than 30 per cent of the current workforce is at least a moderate flight risk. In other words, almost a third of advisers (31.6%) are showing signs of potential departure.

While we don't expect flight risk to translate into departure in all cases, these early indications should raise the alarm. With an impending mass exodus on the cards in the next two years and just a trickle of new talent, many Australians in need of financial advice will struggle to find it.

Chart 7 - Adviser flight risk score distribution by adviser status



Almost a quarter of advisers are showing signs they may depart the industry in the next two years.

Table 3 - Flight risk score descriptions

AFR	Rating	What the score means
8-10	High Risk	• High propensity to leave the industry • A combination of age, behaviours, qualifications, adviser intent and statistical data mimic a high propensity for an adviser to leave the industry in the next 2 years
6-7	Moderate Risk	• A higher propensity than average to leave the industry • Statistical data suggests the adviser is more likely to leave the industry than stay within the next 2 years.
4-5	Fair Risk	• Some risk adviser will leave the industry • Statistical data suggests the adviser could leave the industry within the next 2 years
3	Low Risk	• Likely the adviser will stay in the industry • Statistical data suggests the adviser is more likely to stay within the advice industry for a reasonable period of time
2	Very Low Risk	• Highly likely the adviser will stay in the industry • Statistical data suggests the adviser will stay within the advice industry for a reasonable period of time

Corporate Activity

AMP Financial Planning continued to haemorrhage advisers in the quarter, with dozens of departures over the three-month period. In the calendar year to date, the licensee has lost more than 150 advisers (around 20% loss), as it continues to battle reputational damage from advisers – most recently associated with the class action from former aligned planners.

Elsewhere, the SMSF Advisers Network lost more advisers in the most recent quarter, building on a long trend of accountants exiting the advice space. There has been similar contraction in the limited licensee space.

On the growth front, there were few changes of note. Excluding the aforementioned shift of Clearview planners under the Matrix licence, Oreana Financial Services was the only licensee to lift its adviser numbers by double digits.

Chart 8 - Licensees with most adviser additions and reductions

	Licensee	Segment	Number of Advisers
MOST ADDITIONS	MATRIX PLANNING SOLUTIONS LIMITED	Diversified	17
	OREANA FINANCIAL SERVICES PTY LTD	Privately Owned (11 - 100)	15
	INTERPRAC FINANCIAL PLANNING PTY LTD	Privately Owned (100+)	9
	ASVW FINANCIAL SERVICES PTY LTD	Privately Owned (1 - 10)	8
	CAPSTONE FINANCIAL PLANNING PTY LTD	Privately Owned (100+)	7
	MACQUARIE BANK LIMITED	Stockbroker	6
	BRIDGES FINANCIAL SERVICES PTY LIMITED	Stockbroker	6
	ALLIANCE WEALTH PTY LTD	Privately Owned (100+)	5
	AXIES PTY. LTD.	Privately Owned (11 - 100)	5
	SYMMETRY GROUP PTY LTD	Privately Owned (11 - 100)	5
MOST REDUCTIONS	SYNCHRONISED BUSINESS SERVICES PTY LTD	Privately Owned (100+)	-14
	E.L. & C. BAILLIEU LIMITED	Stockbroker	-14
	CRAIGS INVESTMENT PARTNERS LIMITED	Privately Owned (11 - 100)	-14
	CONSULTUM FINANCIAL ADVISERS PTY LTD	Diversified	-15
	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Bank	-16
	CLEARVIEW FINANCIAL ADVICE PTY LTD	Diversified	-17
	COMMONWEALTH FINANCIAL PLANNING LIMITED	Bank	-17
	SMSF ADVISERS NETWORK PTY LTD	Privately Owned (100+)	-20
	LONSDALE FINANCIAL GROUP LIMITED	Diversified	-21
	AMP FINANCIAL PLANNING PTY LIMITED	Diversified	-40

Licensee Movements

After the steep hike in voluntary closures we saw at the end of last quarter, the new financial year heralded a return to parity between new and ceased licensees. The drop in discontinuations was expected and replicates the cyclical 'new financial year effect' we've witnessed in the past two years. Essentially, the end of financial year is the favoured time to close a licensee, to avoid renewal fees; while the new year tends to be associated with having the optimism to start or move licensees. As such, we tend to see a slight lift in registrations at this time each year.

More younger licensees (2-5 years) were discontinued than older ones, continuing a trend of the past few years. Similarly, more than half of the voluntary licensee closures were limited licensees, again representing accountants' departure from the once-coveted market.

Chart 9 - Newly registered licensees vs discontinued licensees

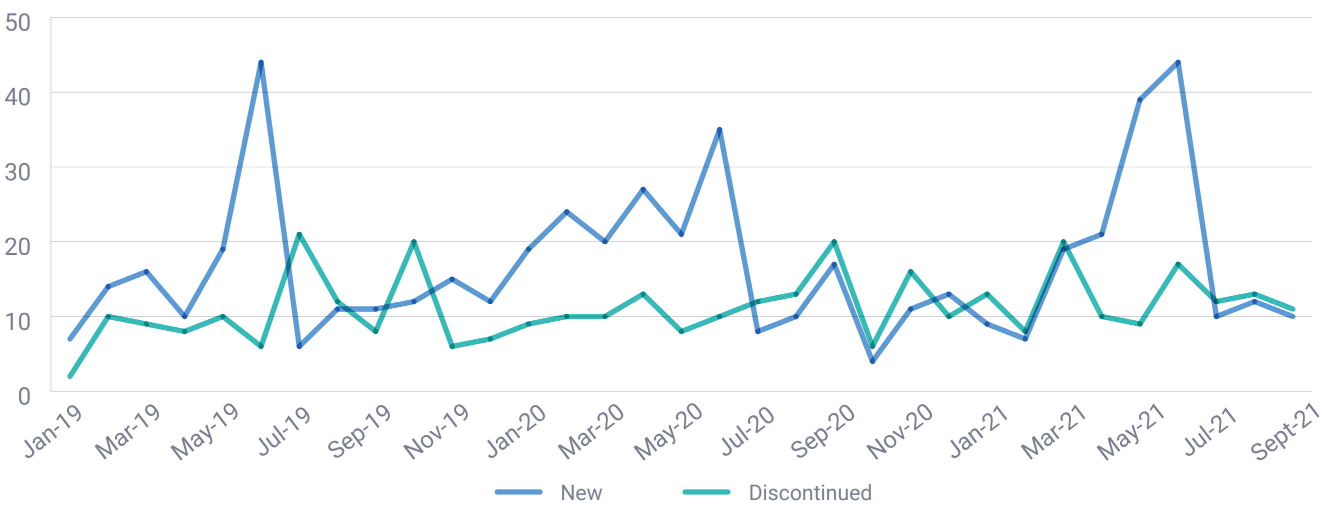


Chart 10 - Distribution of ceased licensees by age

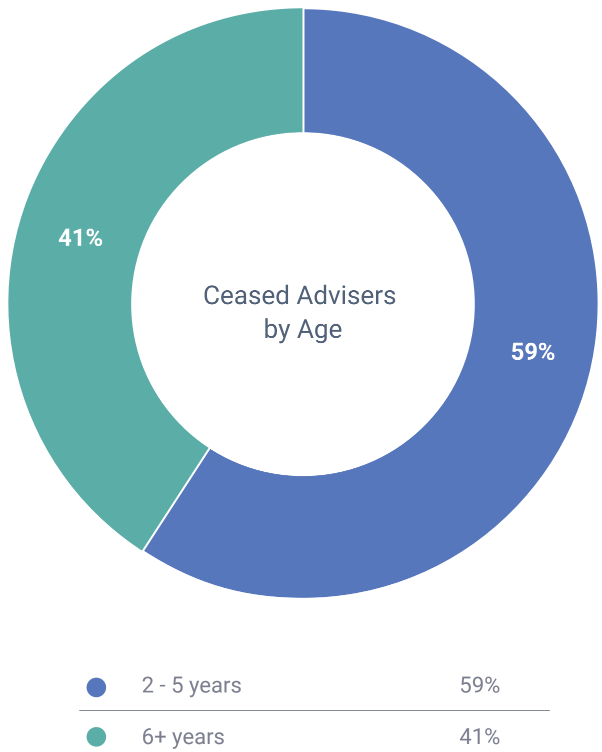
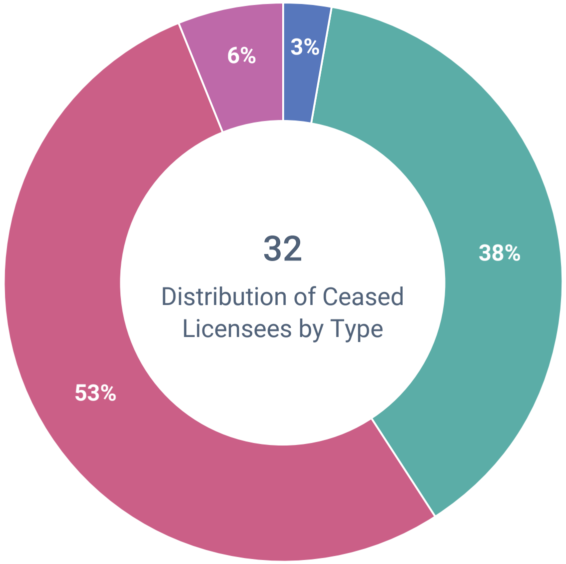
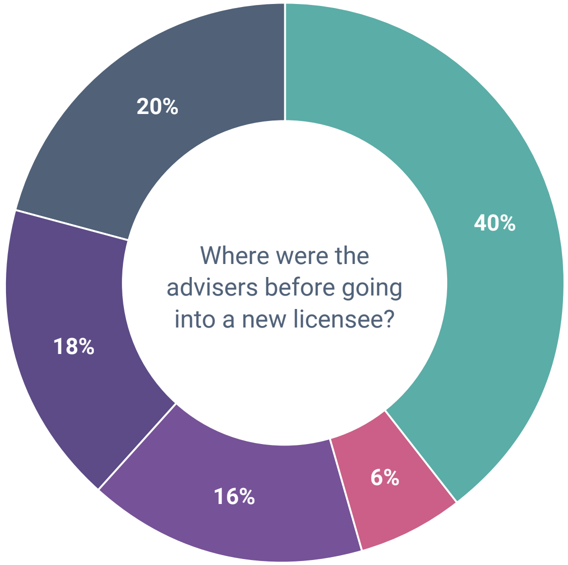


Chart 11 - Distribution of ceased licensees by segment

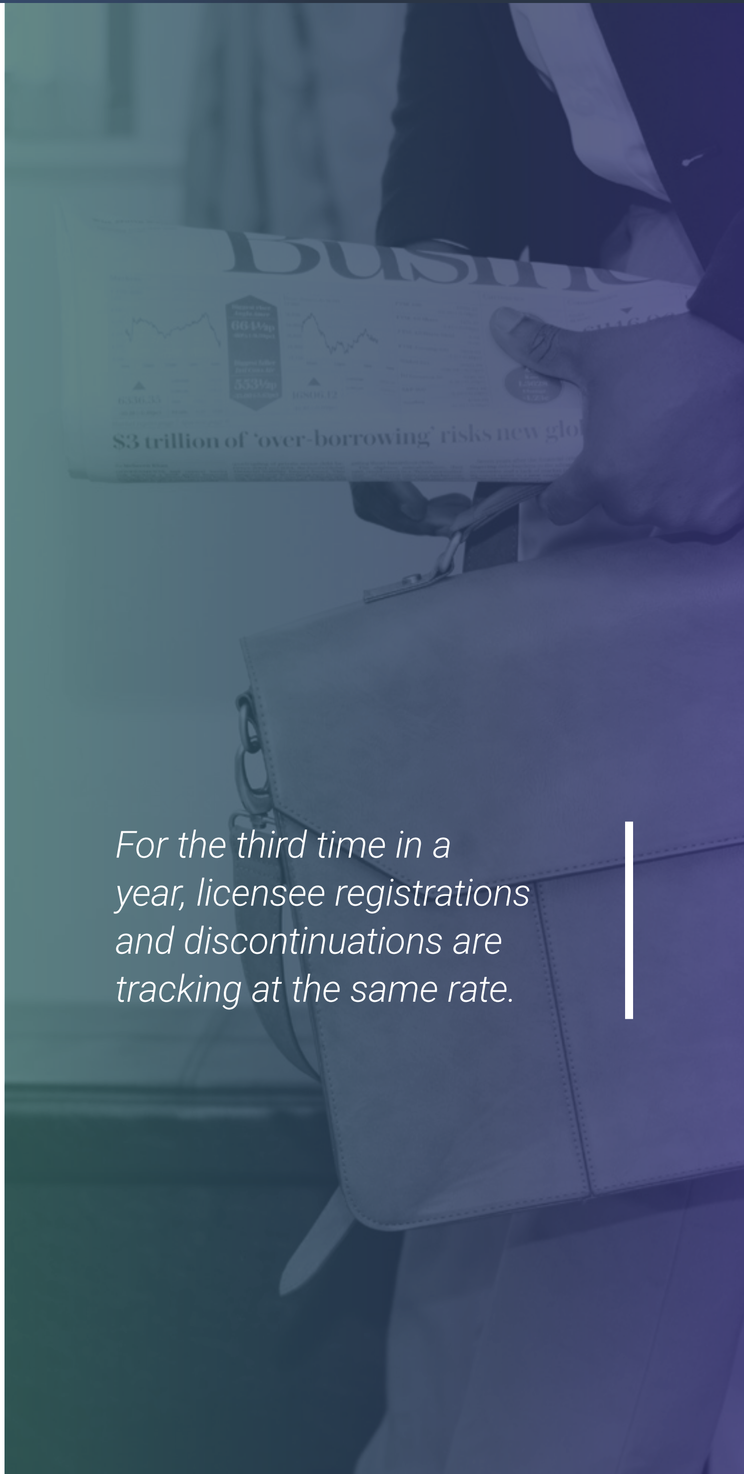


Diversified	3%	1
Privately Owned (1-10)	38%	12
Limited Licensee	53%	17
Industry Superfund / Not for Profit	6%	2

Chart 12 - Where advisers were before moving to a new licensee



Bank	0%	0
Diversified	40%	27
Stockbroker	6%	4
Industry Superfund / Not For Profit	0%	0
Limited Licensee	0%	0
Privately Owned (1 - 10)	16%	11
Privately Owned (11 - 100)	18%	12
Privately Owned (100+)	20%	14



For the third time in a year, licensee registrations and discontinuations are tracking at the same rate.

Quotable Quotes

JULY

"I'm confident that while the September quarter will be tough, as long as we're able to get on top of the virus, then we'll continue to see Australia's strong economic recovery."

Josh Frydenberg
Treasurer
—how Australia's economy will fare after protracted lockdowns in several states.

"I will forever be grateful to everyone who has supported the FPA, it has been both an honour and privilege to have served in this role."

Dante De Gori
Ex CEO
—announcing his departure from the CEO role at the Financial Planning Association.

AUGUST

"Over 18,140 advisers have sat the exam, with approximately 9-in-10 demonstrating they have the skills to apply their knowledge of advice construction, ethics and legal requirements to the practical scenarios tested in the exam."

Ethics Authority
—The Financial Adviser Standards and Ethics Authority on the number of advisers who had passed the exam in August 2021.

"It is time the government listened to the profession and the hard-working Australians it serves. Imposing yet another regulatory cost burden demonstrates a lack of awareness and understanding on the part of the government."

Helen Morgan-Banda
Association of Financial Advisers chief executive in a submission to Treasury
— on the compensation scheme of last resort.

SEPTEMBER

"There are so many oversight bodies in financial advice now I can barely remember them all."

Jane Hume
Minister for Superannuation, Financial Services and the Digital Economy
—speaking at the AFA Evolve conference on changes to regulatory bodies under the Better Advice Bill.

"ASIC has recently observed blatant attempts to pump share prices, using posts on social media to announce a target stock, a designated time to buy and a target price or percentage gain to be reached before dumping the shares."

The Australian Securities and Investments Commission
—warning about "pump and dump" trading.

Adviser Weekly Movements

Adviser Ratings has a weekly Adviser Movement video series that keeps you up to data with the latest statistics on advisers joining, switching and leaving the industry.

These videos are posted on the Adviser Ratings YouTube channel each Thursday / Friday. You can also find links to the videos below:

- July 1
- July 8
- July 15
- July 22
- July 29
- August 5
- August 12
- August 19
- August 26
- September 2
- September 9
- September 16
- September 22
- September 30

Glossary of Terms

ADVISER MOVEMENTS

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.

Note: Licensee type, and accordingly adviser type, is defined by its ability to authorise products and its ownership structure (we note many accountants reside in a full licence)

LICENSEE TYPES

Bank
Where a bank owns the advice licensee although advisers can be self-employed.

Stockbroker
Where stockbroking is the primary business line even if owned by a bank.

Industry Superfund / Not for Profit
Includes mutual building societies, credit unions and banks.

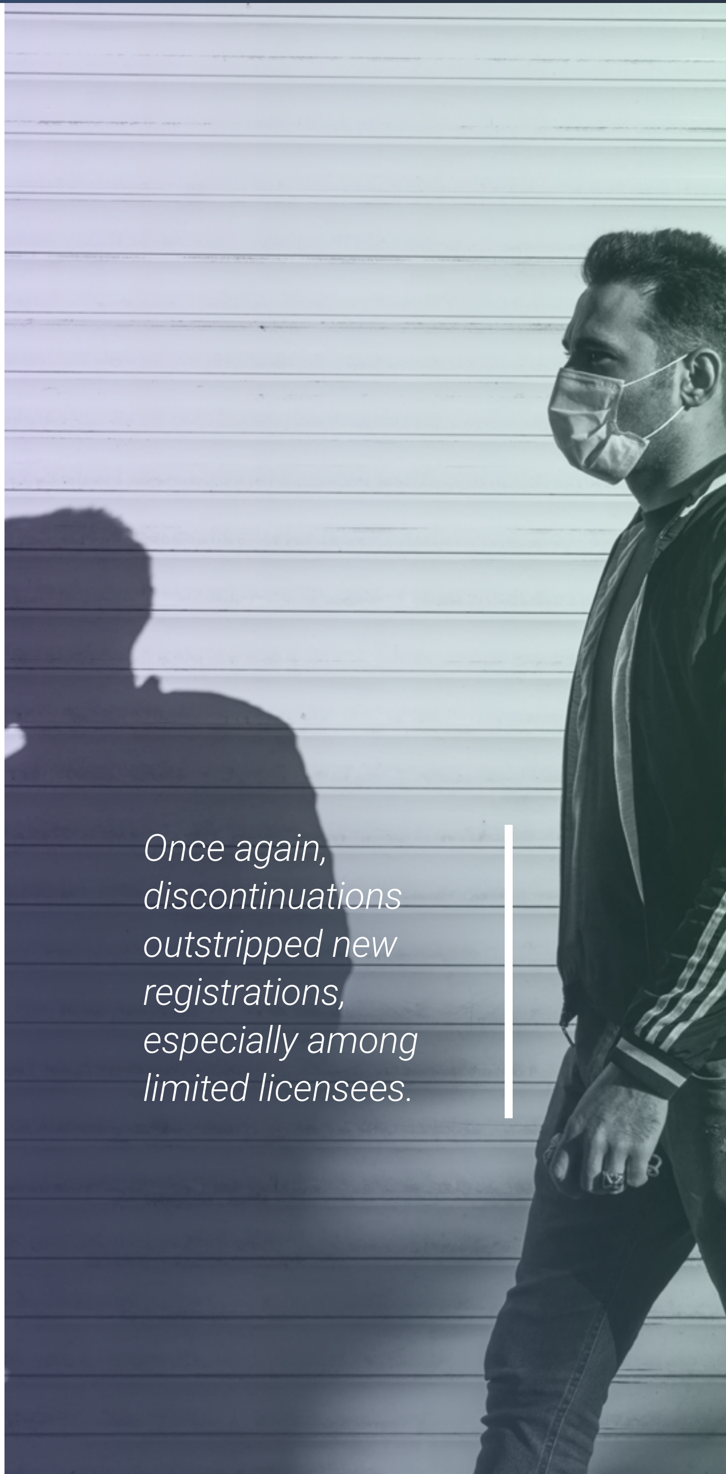
Diversified
Where other core business lines exist within the broader group.

Limited Licensee
As defined through their ASIC registration under specific "classes of securities".

Privately owned (100+ advisers)
Any firm not captured in the other categories with 100+ advisers.

Privately owned (11-100 advisers)
Any firm not captured in the other categories with 11-100 advisers.

Privately owned (1-10 advisers)
Any firm not captured in the other categories with 1-10 advisers.



AR data

AR data provides insights to the financial services eco-system. We operate as a stand alone service to assist fund managers, super funds, platforms, insurers, and other industry service providers reach advisers they want to work with.

Consolidating ASIC information with our proprietary methods, our data is the most valuable, up to date, and accurate in the market. Our Nightingale data service can be customised to any specific scope, including monthly reports on advisers switching, entering or exiting the industry.

Email us today for more information on our data services.

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