



Institute of Actuaries of Australia

# 5th Financial Services Forum

*Renovating the Financial System*

# 2010

13 and 14 May 2010 – SYDNEY

## **Financial Planning & Advice: (R)evolution to a new operating model**

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## Key message

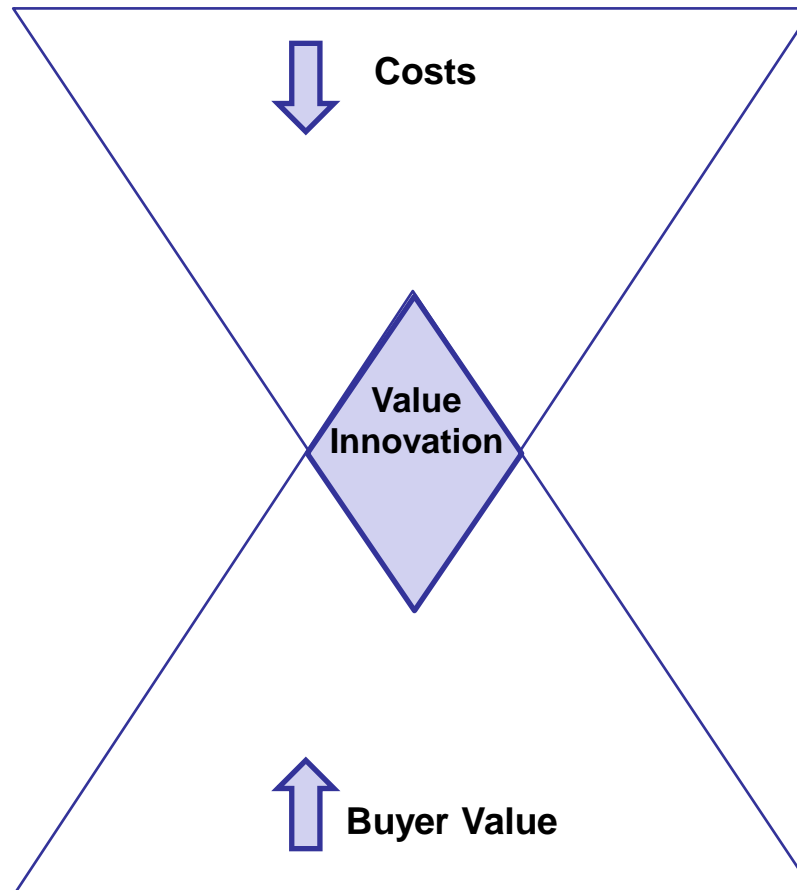
A “blue ocean” is emerging for provision of financial advice:

- the millions of members of superannuation funds who need education and limited personal advice – mainly about their super
- this needs a totally different, massively lower cost delivery mechanism
- their needs are largely unmet under the current system

Simultaneously the traditional financial planning delivery model is under threat:

- from regulatory change to abolish commissions and conflicts of interest
- from industry forces wanting to move to a more professional financial planning industry (FPA, IFSA)

# Blue Ocean Strategy: Value Innovation



The Simultaneous Pursuit of Differentiation and Low Cost



# THE WINDS OF CHANGE





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## Forces at play

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### ASIC RG 200

- Rise of intra fund advice
- Simple SOA production

### Ripoll Inquiry

- Chris Bowen announcements April 2010
- The Future of Financial Advice

### Cooper Inquiry

- Advice & fees
- Efficiency in super
- SuperStream
- Role of SMSF's
- MySuper

### Henry tax review

- Increase SG to 12%
  - Contribution limit changes
  - Support for low income earners
  - Quite a few recommendations deferred
  - Several proposals rejected
-



## Recent developments

### Cooper review – MySuper proposals

- Access to general and intra-fund advice at no charge
- Exclusion of bundled advice
- No trailing commissions or ongoing advice payments;
- Basic insurance but with no commission or like payments

### Chris Bowen – “The Future of Financial Advice”

- Removal of conflicted remuneration structures
  - Commissions
  - Volume bonuses
  - Shelf space fees and dealer rebates
- Introduction of product neutral adviser charging regime
- Advisers agree fees with clients with full disclosure
- Statutory fiduciary duty for financial advisers
- Requirement to act in best interests of client
- **Expansion of simple intra-fund advice to super fund members**
- Review of professional standards in financial advice industry

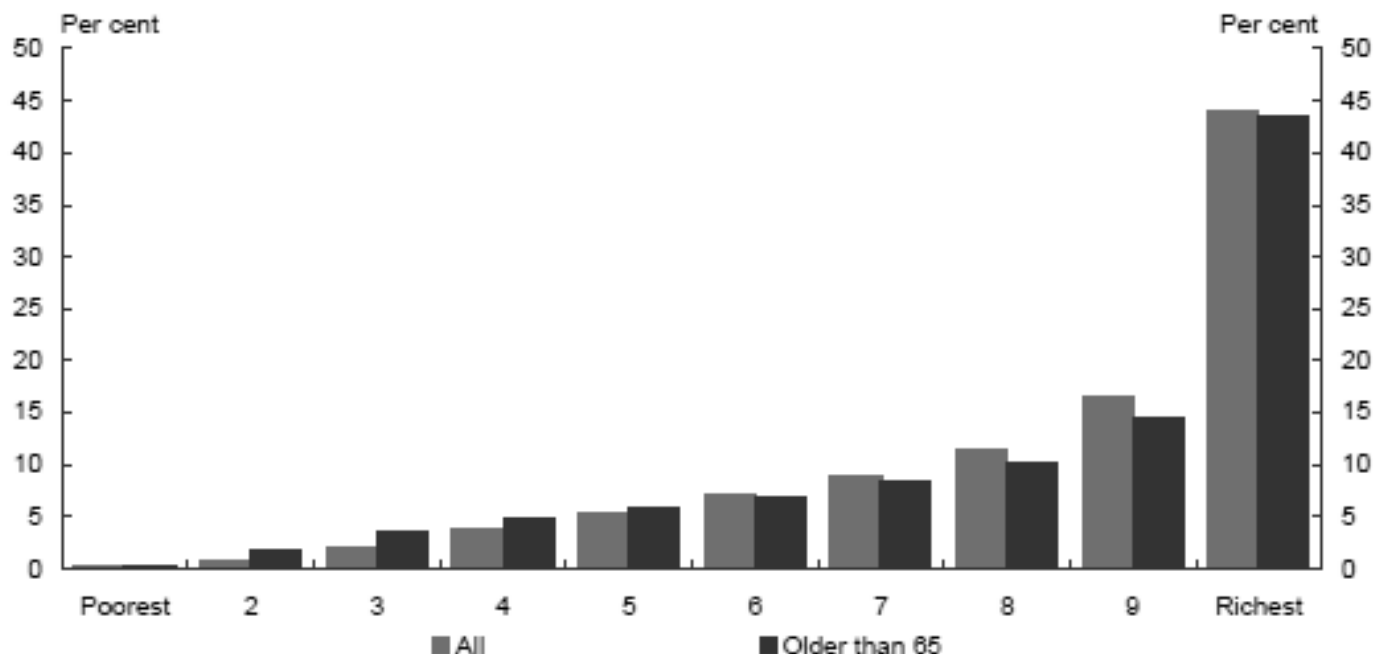


Social and demographic dimensions

# THE NEED FOR ADVICE

## Significant inequality in household wealth

Chart A3–1: Percentage of total household wealth by wealth decile, Australia, 2005–06



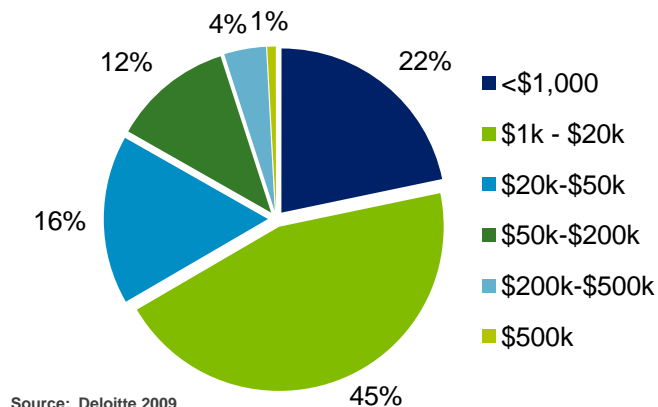
Note: 'Older than 65' denotes households headed by a person at least 65 years old. 'Older than 65' figures show the distribution of wealth held by older households.

Source: ABS 2007, unpublished data.

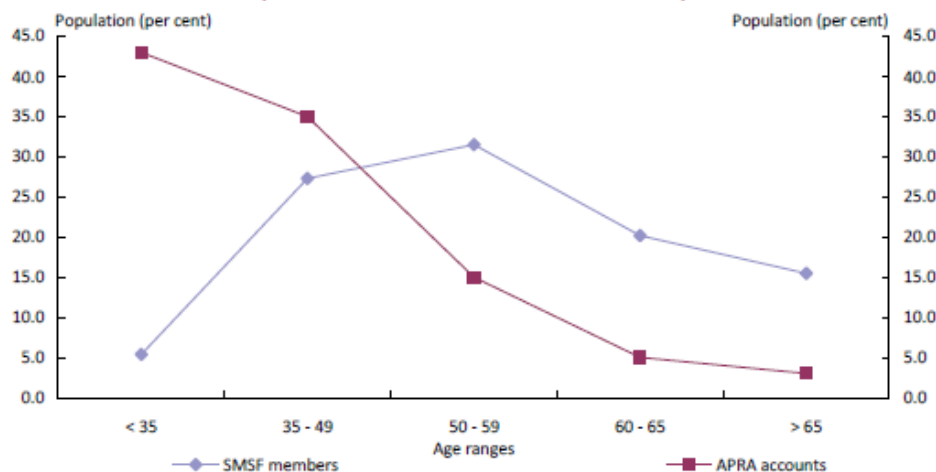


## ... and significant differences in access to superannuation

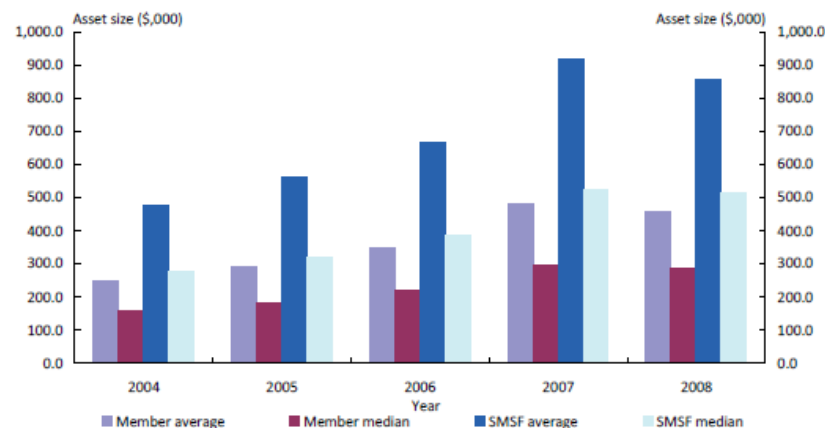
Member account balances by size



Age distribution of SMSF members and APRA account age ranges (for funds with more than four members)

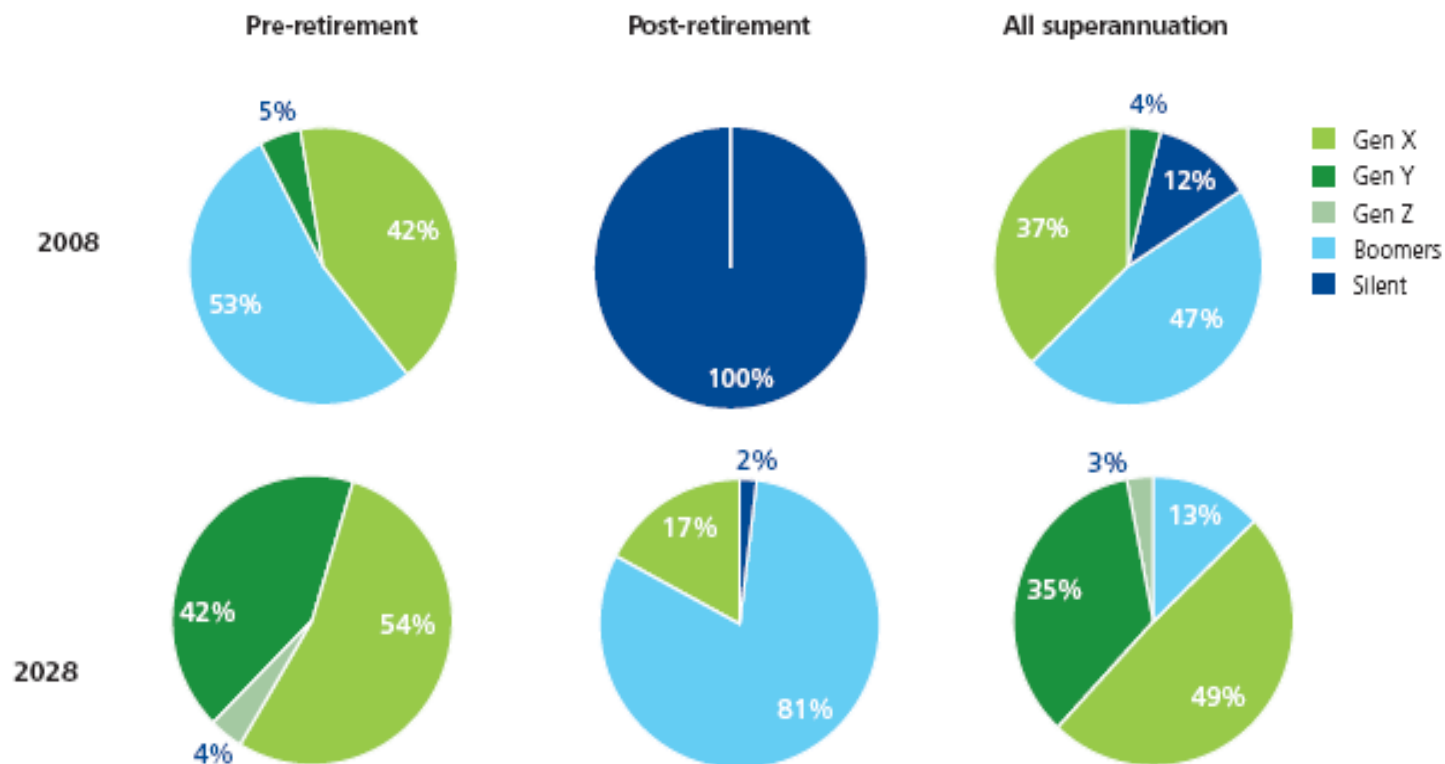


SMSF and member asset sizes



# Member demographics are changing rapidly

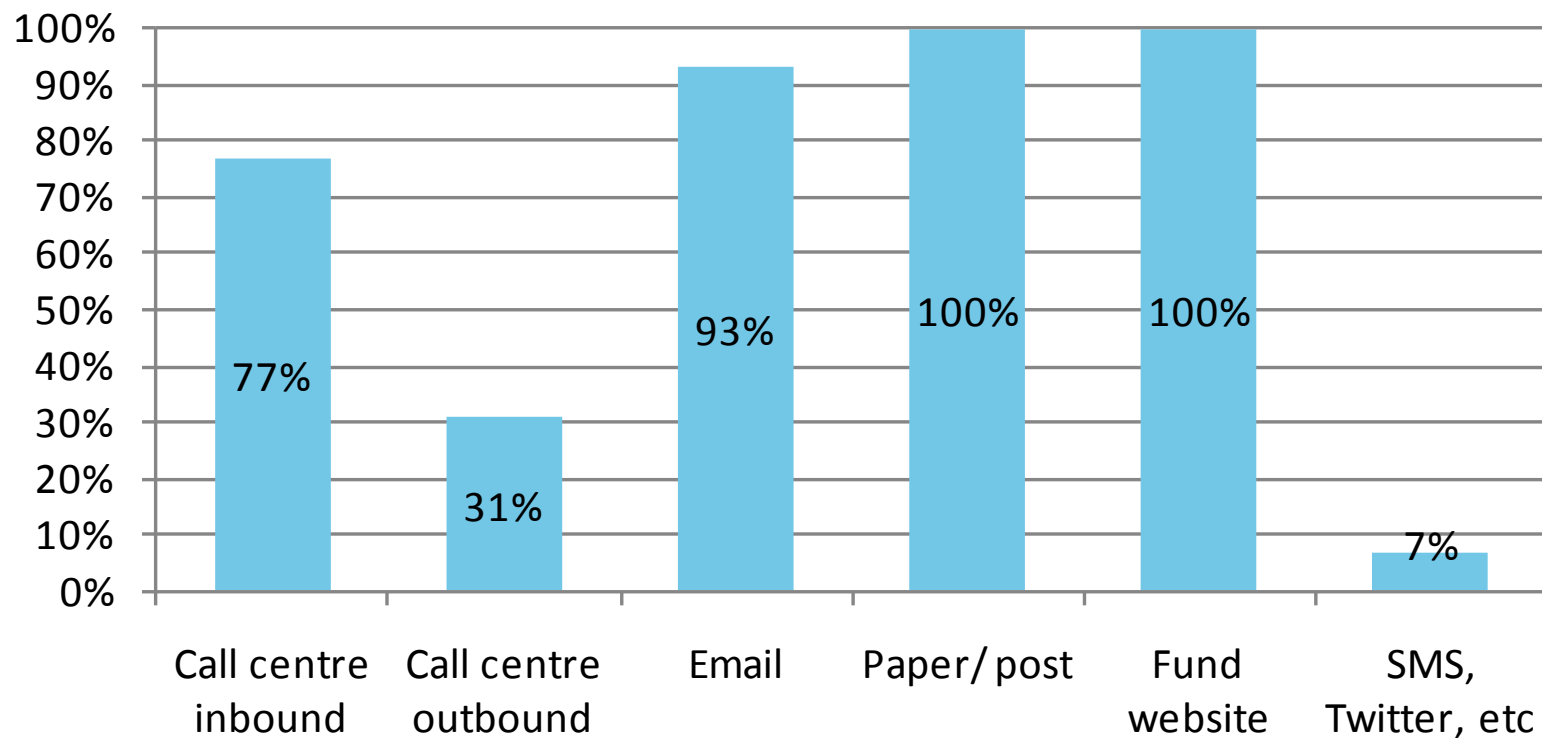
## Superannuation assets by generation



Source: Deloitte Actuaries & Consultants, 2009

## ...but communication methods are lagging

Respondent use of communication channels  
General communications





## The need for advice

**Majority of households only have super and/or their house**

- advice needs to be focussed on super

**Younger people are majority of members**

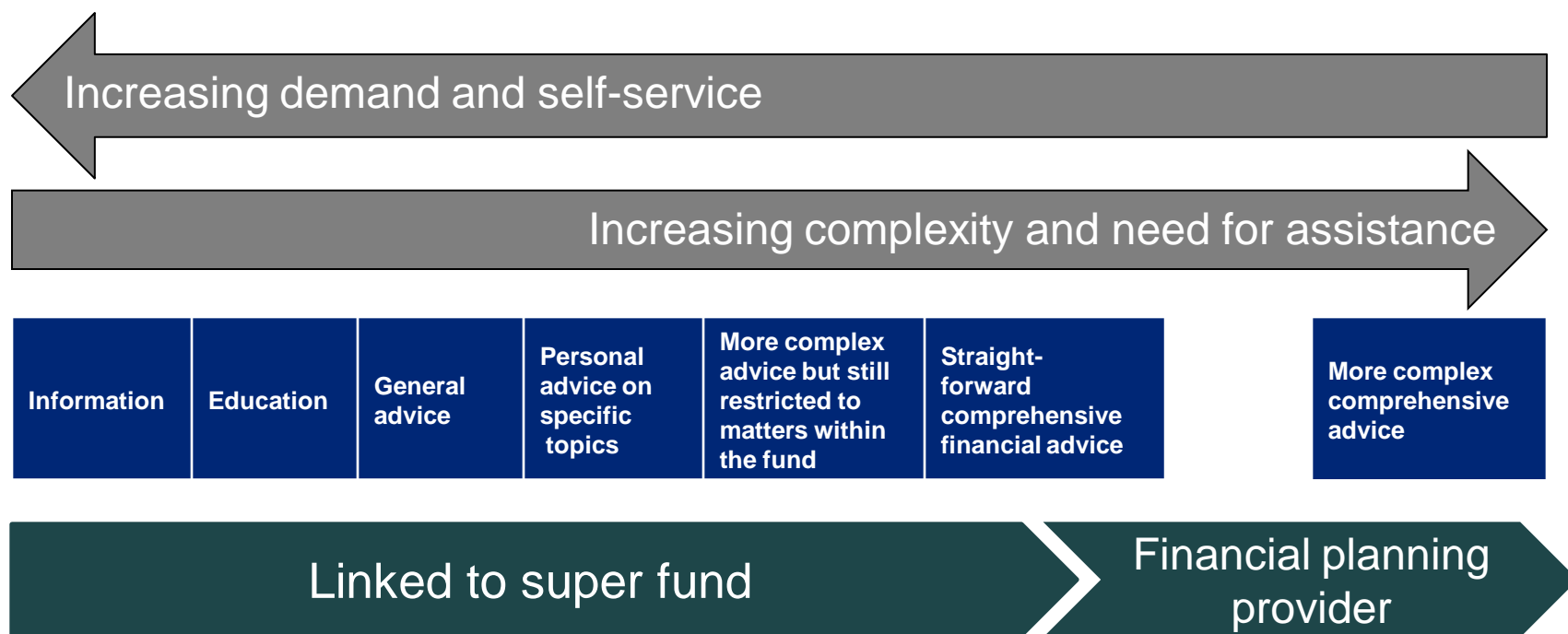
- simple advice on specific topics
- delivered in real time
- and at low or no cost

**As age and/or wealth increase**

- more comprehensive advice required
- but with varying levels of complexity/sophistication
- and varying levels of cost



# The financial advice continuum







# A NEW OPERATING MODEL?



# Implications for Advice Business Operating Model

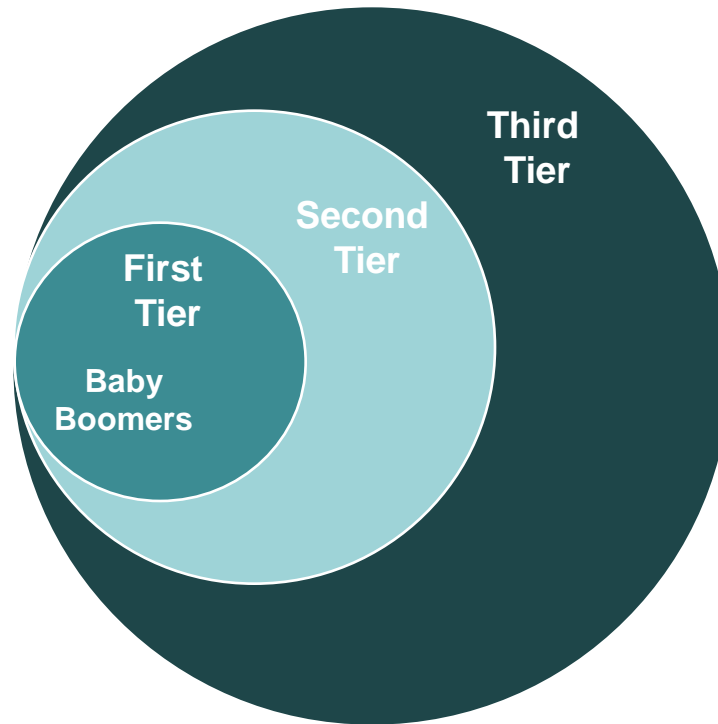


Traditional Financial  
Planning –  
Comprehensive Advice



Wholesale delivery of  
simple/intra-fund  
information and advice

## Operating model: customers



First Tier: “Soon-to-be” noncustomers – members who know they need advice, but do not have time or want to pay

Second Tier: “Refusing” noncustomers – Generation X members

Third Tier: “Unexplored” noncustomers – Generation Y members



## Operating Model: Advice “Product”

### Retirement Income

- How much will I have?
- How much do I need?

### Contribution Strategies

- Salary Sacrifice
- Co-Contributions
- Spouse Contributions

### Investment Strategy

- Default option
- Other choices

### Insurance

- Death
- Total & Permanent disability
- Income protection

### Nomination of beneficiaries

- If offered by fund

# Operating model: multiple delivery channels

	Web-based	Email	Telephone	Video conference	Fax/post	Face-to-face
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Wholesale services:  
Intra-fund and limited  
personal advice



Comprehensive advice



Rating scale:



Primary



Appropriate



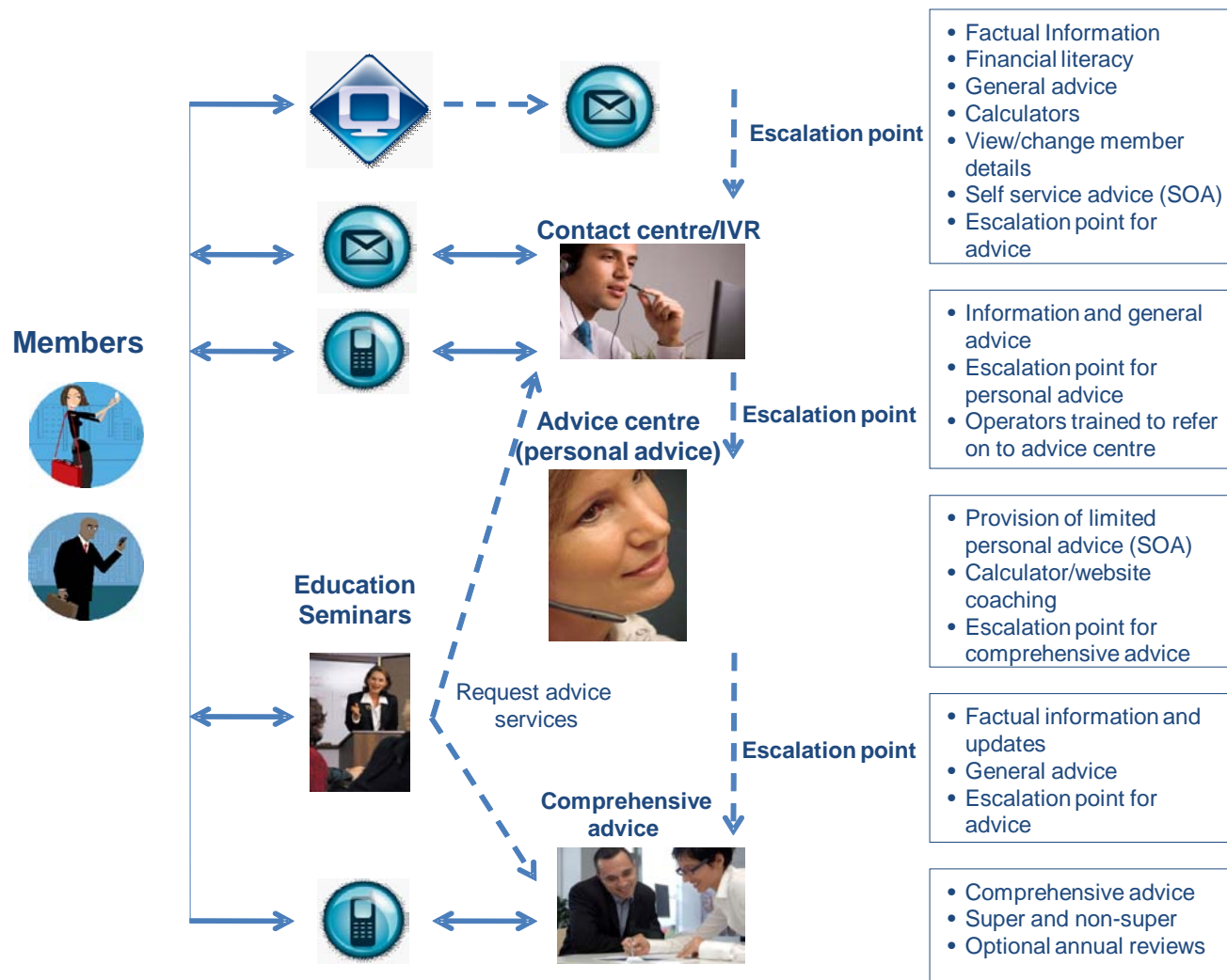
Somewhat appropriate



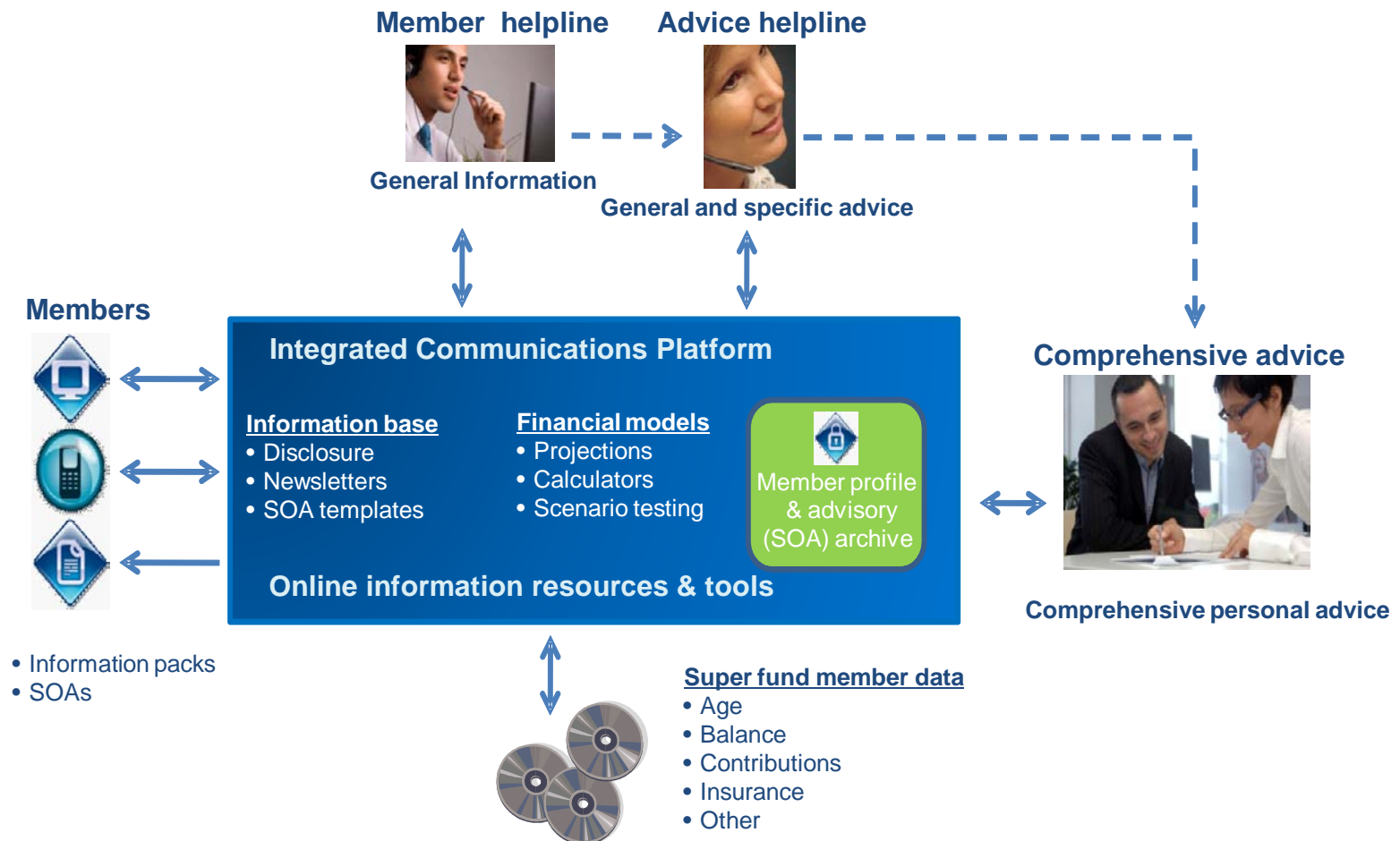
Not appropriate



# Conceptual super fund delivery model



# Operating model: Integrated technology and communications





# BLUE OCEAN ECONOMICS



## Demand generation - role of the fund

### **Member engagement activities**

- Use of social media
- Data mining and segmentation of members
- Induction of new members
- Call centre referrals

### **Seminar invitations**

- Members can be identified by generation (Gen Y, Gen X, baby boomers)
- Benefit size
- Level of engagement
- Postcode

### **Promotional letters and flyers , SMS and social media**

- New members
- Members who are receiving a benefit payment
- Members who have previously received advice
- Members who are within 12 months of their early/ normal retirement age
- Members reaching age 60/ 65/ 67



# Wholesale advice – some financial levers

## Wholesale advice - adviser utilisation

Weeks worked	42
Daily utilisation (minutes)	340
Time per GA call (minutes)	10
Time per Intra-fund SOA (minutes)	35
Time per LA (multiple topics) SOA (minutes)	60
Time spent on GA	17%
Time spent on Intra-fund advice	58%
Time spent on LA	25%

## Adviser salary + bonus

\$150,000

## Direct cost per call/SOA

GA	\$21
Intra-fund	\$74
Limited advice (multiple topics)	\$126

## Cost per unit of advice

Self service advice/general advice	\$40
Intra-fund advice	\$150
Limited advice (multiple topics)	\$250



## MySuper cost estimates for intra-fund advice

Estimated operating costs for MySuper products of varying sizes  
(as \$ per member per annum)

Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership	4,000	20,000	40,000	80,000	200,000	400,000	800,000

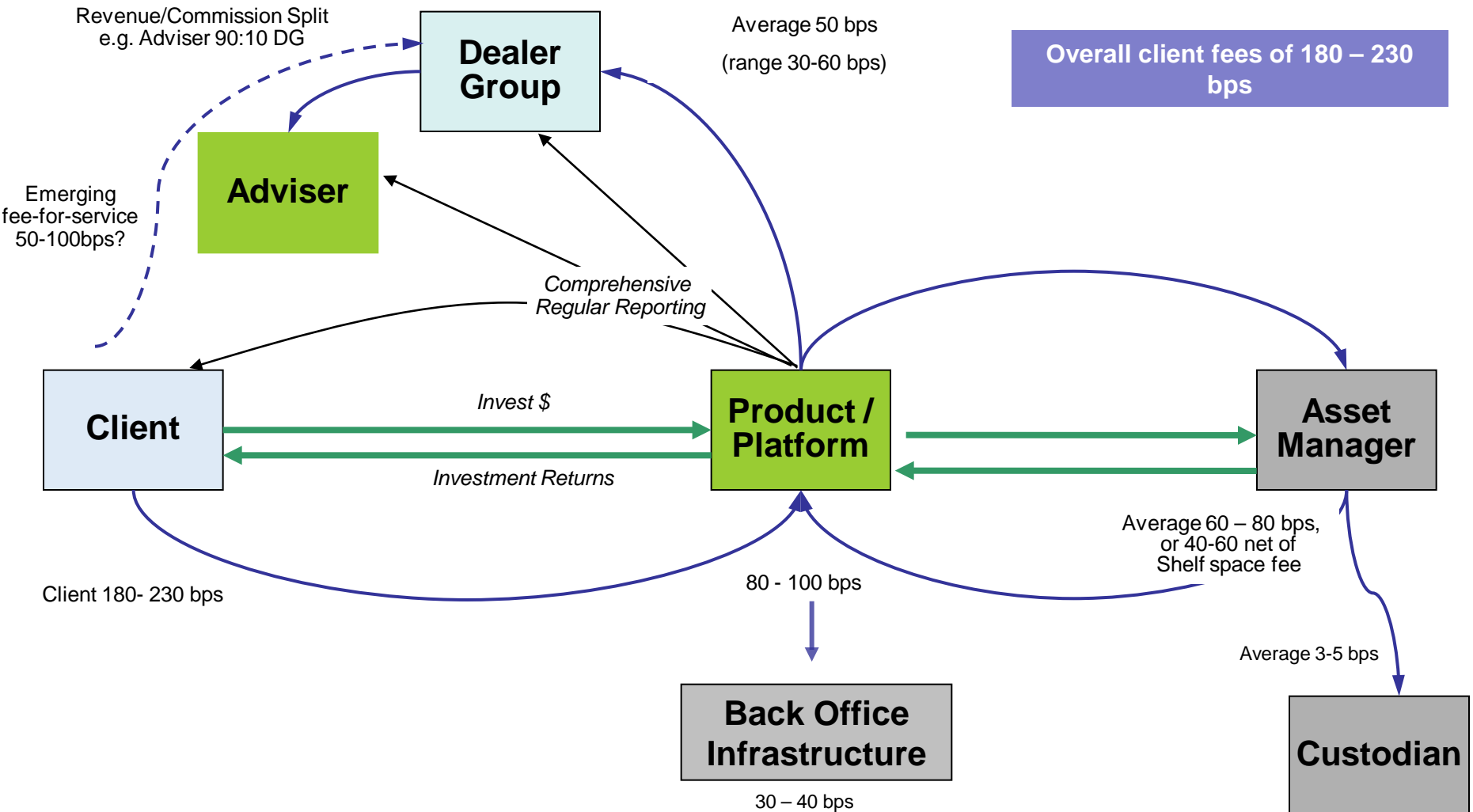
(Assuming average account balance \$25,000)

Third party administration fees	\$124	\$90	\$78	\$68	\$57	\$49	\$43
Trustee office	\$120	\$105	\$71	\$46	\$31	\$28	\$23
<b>Total operating costs (excl. advice)</b>	<b>\$244</b>	<b>\$195</b>	<b>\$149</b>	<b>\$114</b>	<b>\$88</b>	<b>\$77</b>	<b>\$66</b>
Intra-fund advice	\$18	\$15	\$13	\$11	\$10	\$9	\$8
<b>Total operating costs (incl. advice)</b>	<b>\$262</b>	<b>\$210</b>	<b>\$162</b>	<b>\$125</b>	<b>\$98</b>	<b>\$86</b>	<b>\$74</b>

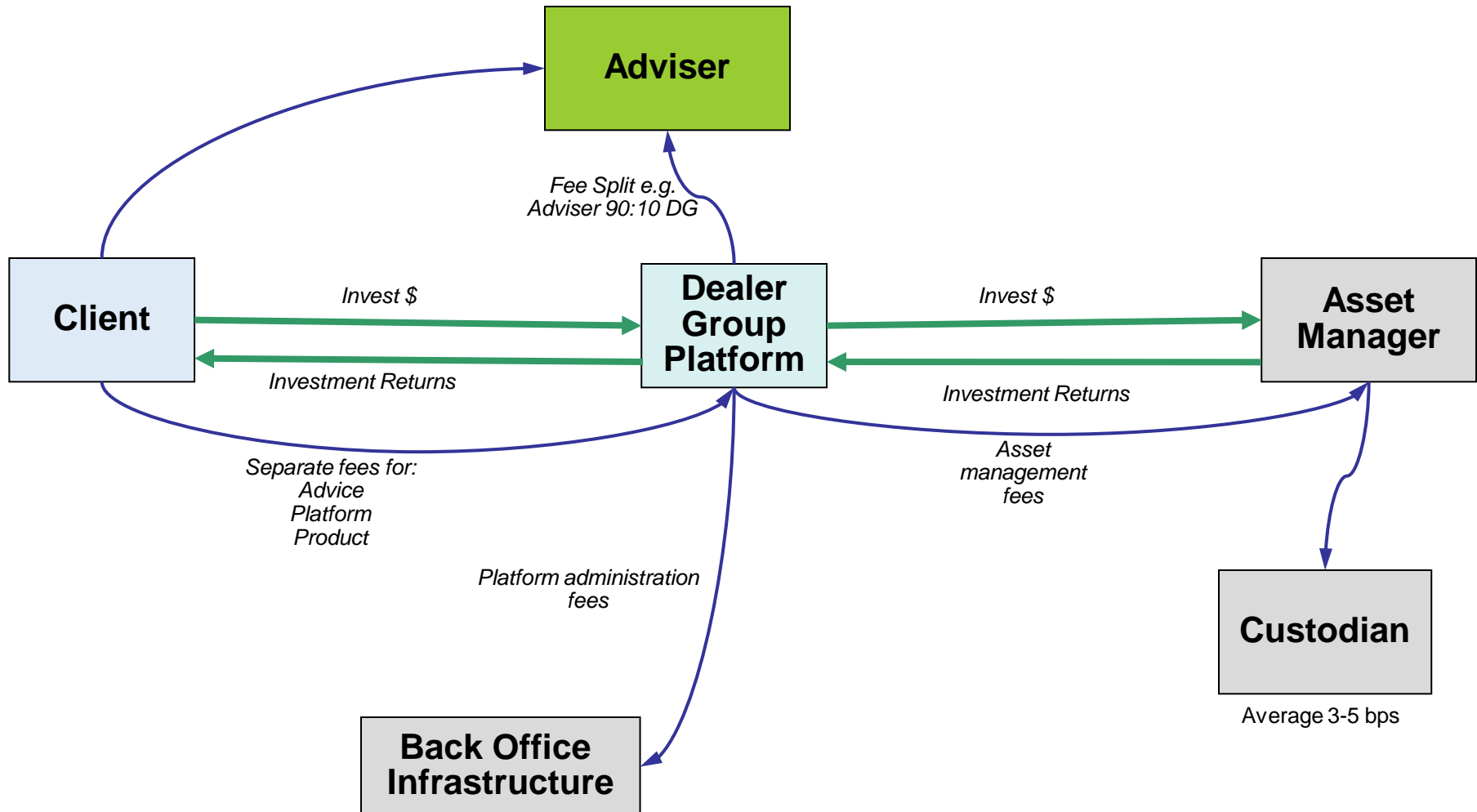


# THE RED OCEAN

## Retail value chain



## Retail value chain?





## Time for a revolution?

- Regulatory initiatives driving demand
- Technology enabling lower cost delivery
- Emergence of new competitors in wholesale advice space
- Disruption to traditional advice delivery
- A blue ocean with millions of generation X and Y consumers