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Eyes on Aviva as competition concerns grow

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INVESTORS are expected to be front of mind for the competition watchdog when it deliberates on National Australia Bank's proposed takeover of Aviva Australia Holdings, as there are concerns further consolidation within wealth management could disadvantage them.

For the past few years, consolidation has gathered pace throughout the industry and the economic downturn has only accelerated this.

The bigger players know acquisition is a sure-fire way to increase market share, while for the some of smaller ones competing against the big four banks can be an uphill battle.

Westpac owns Asgard and BT, ANZ has a joint venture with ING Investment Management, Commonwealth Bank owns Colonial First State and NAB owns MLC.

When Westpac flagged its acquisition of St George last year, Citi analysts predicted it would spur further consolidation within wealth management. They were right.

A few weeks ago NAB announced that it had agreed to purchase Aviva's wealth management business, including its life insurance operations and investment platform Navigator, for \$825 million.

If approved by the Australian Competition and Consumer Commission, the deal will make the bank a leader in the wealth management space alongside Westpac and the Commonwealth Bank, and will give it considerable scale in the independent financial advice market.

But some believe it is only the beginning, especially considering the industry is rapidly moving towards fees for service.

The cynics say that without the lure of commissions -- an industry tradition that looks likely to be eventually phased out -- fund managers will use acquisitions to boost their financial planner base.

If the Treasury's proposal for easier product rationalisation is enacted, consolidation also will become much more straightforward.

But Australian Investors Association vice-president Scott McKenzie has observed trends associated with consolidation that he believes do not bode well for investors.

"First, across the industry as a whole, (there is) a move from customisation towards mass marketing as the smaller groups get gobbled up by the larger groups," he explains.

"(Another is) the extraordinary increase in the conflicts of interest that occur as one goes through consolidation where the huge fund managers have licensed dealerships under them and there is, of course, the tendency to recommend their own funds."

Netwealth executive director Matthew Heine warns that further consolidation, particularly within the platform industry, could lead to less choice for investors.

Platforms help financial planners manage their clients' portfolios by taking care of the administration hassles on a fairly cost-effective basis.

Financial services market researcher Investment Trends says that at the end of last year, one in four financial advisers used Westpac-owned BT or Asgard as their main platform providers and about 16 per cent used a CBA-owned platform. Sixteen per cent used NAB's or Aviva's platforms.

Once the NAB-Aviva deal goes through, Netwealth believes it will be the only independent platform, meaning it is not aligned to a bank or institution.

"What this means is consumers are becoming more and more limited by choice, so where they had the option to walk into a bank and they knew they were going to be sold bank products, they now go to what appears to be an independent organisation but is actually owned by a bank," Heine says.

However, not everyone agrees that investors will lose out from further consolidation. Association of Independently Owned Financial Planners executive director Peter Johnston believes it can mean investors will not have to pay as much in fees.

"Consolidation will definitely drive cost down, no doubt," he says.

"What we see is a consolidation of funds in Australia which will give them scale."

Johnston says economies of scale, combined with ongoing pressure from industry superannuation funds and the public, will force platforms and fund managers to reduce their fees.

The only ones who may miss out on this benefit are existing investors who move across with the merger if the fund manager decides not to reduce the fees on its legacy products.

But Heine disagrees with the economies-of-scale argument.

"Most people would automatically jump to the conclusion that it will ultimately reduce costs," he says.

"What it means, we think, is that costs will either stay the same or in some cases go up because there is less competition and less need for them to compete on price because all the institutions will be aggressively trying to maintain their margins rather than drive them down."

Investment Trends principal Mark Johnston says if financial planners and investors are concerned about being disadvantaged by consolidation, they should vote with their feet.

"What we are finding is the willingness of the advisers to change the platform they are using has been increasing over the last couple of years," he says.

"Advisers are relatively mobile in terms of where they put the money and they are quite demanding in terms of what they need from the platforms, so there is an inherent driver that forces the platform owners to continue to innovate and improve their service offerings and keep the pressure on fees."

BT Financial Group chief executive Rob Coombe says there are several things investors should consider if their product provider announces a merger, things such as: "Am I going to be able to still deal with the same brand that I knew and trusted before and the people (who) worked there? What other benefits are there for me; do I get a better range of products and services, which can sometimes happen through consolidation? And are there any kind of costs savings it will pass on to investors?"

Says Coombe: "One of the things we -- the Westpac team -- made a commitment to when acquiring St George ... was to not lose a customer of St George as a result of the merger."

"Most other mergers that I have seen in financial services don't have that as a goal."

"They are mostly about: 'How do we get costs synergies and savings?'"

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