



Reformatting the software sector

In the wake of the global financial crisis the financial software industry remains in a state of upheaval, with innovation relentless, competition fierce and smaller practices stepping into the domain of the major providers, writes BENJAMIN LEVY.

Looking at financial planners and their relationship to software this year, it quickly becomes clear that the normally steady financial software sector is in a state of flux.

Some of the traditional customers of the financial software companies, the dealer groups, have become software providers themselves, creating their own software and adding features and functions to programs that cater to their specific needs. In some cases they are marketing that software to other dealer groups, creating new

competitors for software companies from within their own market.

At the same time, other major software providers have not been quiet. Midwinter has developed and launched new risk insurance software tools, Macquarie subsidiary Coin Software has bought out Olicc Technologies, while research house Canstar Cannex has partnered with software providers to release risk premium comparison software.

It is clear from the last 12 months that the financial software space is changing, but the full extent of those changes

and how they will affect technology into the future remains unclear.

DIY software

Small financial planning practices and dealer groups have been developing planning solutions software that have functions which suit the needs of their client bases and work processes. They have now begun marketing these programs to other dealer groups.

Fiducian Portfolio Services began marketing its internal software tool to other dealer groups in August this year, while several other financial planners have told *Money Man-*

agement they have created their own programs because of frustrations with existing software.

Those planners who have created their own software have claimed that existing programs are unwieldy and don't cater to financial planners' specific needs.

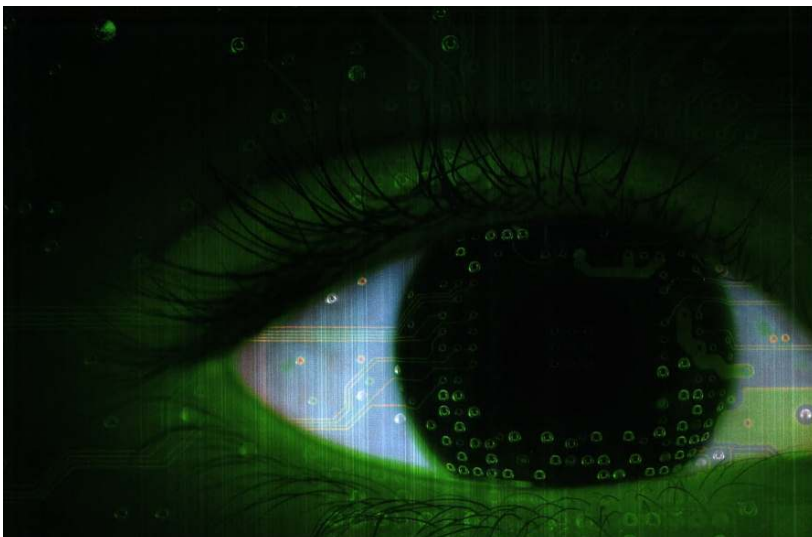
Matrix Planning Solutions director, adviser services and development, Allison Dummett said the more an end-to-end software system tries to do, the less nimble it becomes, and the slower it is for advisers to create an investment strategy and compare it. Matrix built its own internal

program, Prospera, in 2004.

Midwinter general manager, strategy and technical services, Matthew Esler said planners were frustrated with not being able to use the available software themselves and having to rely on tech-savvy co-workers to operate it for them.

"The generalist customer relationship management, portfolio management [and] advice calculation software tools are very, very cumbersome," Esler said.

The shortcomings of software tools are





reflected in the fact that the average time it takes to produce a Statement of Advice (SOA) remains stagnant at approximately seven hours, he said.

In fact, the time it takes these clunky systems to produce a SOA is actually preventing financial planners from bringing clients onboard, Esler added.

However, Mark Johnston, principal of Investment Trends, said over the last four years financial software has moved away from technology geared towards producing SOAs and become much more focused on helping to run an adviser's business.

Alan Dunne

Johnston said while it was true that the larger software systems were becoming more comprehensive as time passed, they were also creating simpler tools that advisers could use to perform a single task.

"If all you want to do is a super switch or a transition to retirement, some of these newer, template-driven tools make that a little bit easier."

Unrealistic expectations

It is also clear that much of the dissatisfaction with established software products comes down to unrealistic expectations about what the software can accomplish, according to Fiducian's head of technology, Alan Dunne.

"I've seen some commentary from people ... where they've tried a couple of software packages and been disappointed. [But] I think their expectations of something that you just install, like Microsoft Office, are unrealistic," Dunne said.

Because of these unrealistic expectations, financial planners often choose the wrong programs for their planning businesses and are then disappointed when they do not measure up.

Coin Software managing director Darelle Jenkins commented in a *Money Management* article earlier this year that financial planners needed to make sure that the software they choose fits their job requirements – sentiments

echoed by Dunne.

"Some of the larger systems cater for very big dealer groups, and I don't think those systems are necessarily ideal for the small to medium businesses," he said.

"It's a fairly large job for a small business to take on, and you've really got to devote your resources to doing it ... if you want to get any efficiency out of it.

"The larger systems require quite a lot of effort," Dunne said.

According to Johnston, it is not appropriate to compare dealer group created software to the applications created by the large software providers.

While there are a small number of dealer groups creating applications that are good at particular things, they

could not afford to build large software programs like Xplan and Coin, he said.

"The issue is that if you look at Xplan, Coin or VisiPlan, these are very, very big, evolved pieces of software, and the cost to replicate all of the functionality that's been

built is on a very different order of magnitude," Johnston said.

Software revolution

The financial crisis has also had an impact on financial software, spurring the development of new software programs, enhancements to existing programs and expansion by providers into new areas.

One of the areas software providers are moving into is risk modelling. As the financial crisis has pushed financial planners into writing more risk advice, software providers are moving to create new risk insurance and premium comparison software.

Midwinter released risk insurance comparison software in March this year with the aim of allowing advisers





becoming as worried about reducing their debt levels as they are about increasing the value of their investment.

Johnston said Investment Trends was beginning to see new products emerging from software providers that are based around debt reduction strategies.

“What we’re seeing in the pipeline ... are improvements around debt, they are starting to broaden the product set a little bit,” he said.

Cancelled subscriptions

Financial planning software providers have not been immune to the financial crisis. Wealth management companies have been cutting back on software subscriptions, with a high number of cancellations through the first half of 2009.

IRESS Market Technology was one of the companies affected, reporting a contraction

reporting a contraction in the division responsible for planning software in the 2008-09 financial year.

According to IRESS’ financial year results released in August, software cancellations were overwhelmingly due to its customers downsizing or ending their software subscriptions, with monthly subscription revenues dropping by approximately \$250,000 since November 2008.

Esler said many financial planners had cancelled software subscriptions entirely, saving themselves up to \$15,000 a year.

But there are signs this trend will be short lived, with some software companies already reporting a jump in subscriptions. Coin’s licence numbers have risen by 50 per cent in the last 18

months, while Midwinter’s subscriptions have jumped even higher, 150 per cent compared to last year. AMP Financial Planning rolled out Coin to its advisers in March this year, while dealer group Centric Wealth switched its software to Xplan in August.

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Despite the economic turmoil, Johnston said huge falls in software subscription numbers were unlikely.

“There remains a fairly high level of churn in the planning industry. People are changing the

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basis for advice.

“With the insurance comparators that historically existed, they’re all based on a ratings system, and that has nothing to do with the client, which means by and large a ratings system is non-compliant because it’s not looking at the needs and objectives of the client,” Esler said.

Compliance managers of various dealer groups were crying out for new risk software that was not based on a ratings system, he added.

“We wanted to bring out an insurance comparator that was ultra compliant but also enabled advisers to produce insurance comparisons inside and outside of super, and on platforms,” Esler said.

Research house Canstar Cannex has also taken advantage of the increased focus on risk insurance, combin-

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Allison Dummett



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software that they're using, but they can't cancel or stop using planning software altogether. It's far too central to their business now," he said.

It is also clear that despite the financial crisis, software companies have not been quiet.

Coin has continued to roll out upgrades to its products, including introducing a marketing campaign module for advisers, while Midwinter is planning to introduce an 'investment clarity' module to help clients accomplish research-based and product-specific investment switching.

Competition and the future

With dealer groups and financial planning practices creating their own software solutions, there is more competition in the software market than ever before, and providers are unsure how the software indus-

try will change as a result.

"The next big move in this landscape is you'll find those specialists in the areas of CRM [customer relationship management], portfolio management and advice starting to link together, and we're seeing that already," Esler said.

"What we're finding is that [advisers] are maintaining their CRM, they're using the wraps and the master funds as portfolio management tools, and they're using a specific advice generator to generate the advice," he said.

However, Dunne said existing competition would prevent various specialists linking together to offer a combined version of their tools.

"There are some niche players out there that have built their software around specific scenario modelling ... The trouble is that those stand-

alone kind of players really can get knocked out of the market quite easily if the bigger players decide they'll introduce [something similar]," he said.

Dummett said the need for flexible software would ensure ongoing competition in the sector.

"Even though you will always see consolidation of the end-to-end software systems, you will also have niche providers offering quick, nimble software alongside it," she said.

The need for further enhancements to financial software will also provide more opportunities for competition in the sector.

Paul Williams, the head of Charter Financial Planning, which uses the niche software systems Draft and Intelledox to help grade and improve the quality of its SOA documents, said he wanted to see enhancements

that helped achieve greater interaction between existing software and CRM tools.

"[Planners are] always looking for more efficiencies, [such as] less time to produce a SOA, or less time to look up client information," he said.

"[Planners] also want to be able to tailor communication to their clients' needs by accessing information easily on a database – that's really important," Williams added.

However, Johnston believes future opportunities in the software market are increasingly limited.

"The main planning software providers have a bit of a finite market that's becoming a bit saturated. There is, in one sense, a limit to growth opportunities because there's only so many planners and paraplanners in Australia."