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Frugality vs Functionality

IFA Cover Story

Wouter Klijn

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Standing at the beginning of a new decade, the global financial crisis or GFC has become the bogey man a generation of young professionals will use to threaten their spendthrift children in the years to come.

The realisation that the boom years did not represent a new norm, but rather formed an exceptional moment in the global economic cycle has turned even the most frivolous hedonist into a more conservative homo economicus, if not a penny-pinching recluse.

Australia has not been as severely affected by the crisis as most developed economies, but financial planning practices and dealer groups certainly got a good scare when their funds under advice dropped by a third. A tightening of corporate belts was the logical and responsible answer.

The idea that this new-found frugal mindset would lead planners to search for low-cost software systems would seem to be a reasonable one. Yet, it is wrong nonetheless. Investment Trends research indicates that during 2009 comprehensive software system providers Coin and IRESS continued to gain market share.

Investment Trends' 2009 Financial Planner Technology Report shows the firm increased the market share of its flagship product Xplan, the most widely used system in Australia, from 30 per cent in 2008 to 34 per cent in 2009.

And although this gain was partly offset by a decline in market share of its desktop-based VisiPlan system, which experienced a decline in market share from 13 per cent to 10 per cent, IRESS booked a net gain in market share. Macquarie-owned Coin also expanded its reach, with the share of planners using the program as its main system growing from 18 per cent to 20 per cent last year.

"Coin continues to be strong with enterprises and IRESS continues to be strong with IFAs (independent financial advisers). It is still down those two lines," Investment Trends analyst Andrew Knox says.

"If you combine the IRESS applications, Xplan, VisiPlan and Proplanner, and you combine them with Coin, then two-thirds of planners in Australia use an IRESS or Coin application. If anything, they have increased their dominance in the space."

The reason for the limited uptake of cheaper software systems could be found in the nature of financial planning systems.

Once in place they are interwoven with most activities of a practice, from client and portfolio management to practice management. The implementation process of such a system is cumbersome and to get the full benefits out of it involves finetuning a practice's modus operandi over several years.

Victorian practice Banksia Partners has been a keen user of Xplan since 2002 and Banksia director Raymond Page is meticulous about getting the most out of the system.

"We spent something like three years just getting our SOA (statement of advice) generation tools working to the degree we want them to," Page says.

"I use the analogy of buying a house built to lock-up stage: the roofs and the walls are up and the door is in, but you've got to do everything else. You really have got to design the whole functionality in it. It is not a turnkey operation where you buy it and plug it in and away you go."

Page continues to streamline the practice to the system and among his next projects are optimising workflow and trying to run a truly paperless office.

The search for more functionality

As the implementation process requires so much time, effort and money, practices are reluctant to switch systems on a whim, and this reluctance partly explains the increasing market share of the dominant players. However, many financial planners also realise cheaper systems do not always lead to lower overall costs.

"We have seen a big emphasis being placed on business efficiency during this challenging period for advisers, but without compromising on quality," Coin head of product and technology Robert McCabe says.

"To assist with this we have been focused on assisting advisers to create efficient statements of advice, which maintain industry best practice standards."

Coin also launched a marketing tool in March 2009 to assist planners with the promotion of their businesses.

"The campaign management module we released was in direct response to advisers requiring effective and efficient marketing campaigns that would assist them in promoting their business to not only new but also existing clients. The feedback on this module has been very positive to date and we believe it has added value to advisers' businesses," McCabe, who took over the helm at the company in November last year from Darelle Jenkins, says.

Coin is also planning new module releases with a focus on superannuation, mortgage comparison and additional functions to its client relationship management (CRM) program.

"As with all of our product enhancements, these have been developed in response to adviser feedback," McCabe says.

The demand for more functionality often leads a practice straight to the dominant

software providers. An illustration of this can be found in the feedback dealer group Centric Wealth got from its planners when it was running a tender process for a licence agreement for 200 staff members.

Centric Wealth had been using Xplan, VisiPlan and Coin and was keen to switch to a single system, but it never considered a product outside these three.

"Talking around the company we didn't feel there was a really strong contender that was likely to meet our needs and be robust enough and a proven piece of software over a number of years, which is the level of commitment that a company of our size needs," Centric Wealth business systems and technology manager Kevin Kendall says.

Centric Wealth eventually settled on Xplan. The agreement does not translate in direct cost savings in terms of licensing prices, Kendall says, but he does expect to see efficiencies in the long term.

"From a support perspective, we will have some savings because we don't have to support all the different systems," he says.

"We expect that we will have a better business model with everybody working closer to the same way. We will have more ability to move staff from one to another and make things more efficient."

Niche players

The dominance of Coin and IRESS might remain unchallenged when it comes down to the use of the systems as the primary software. But there is much more movement in the secondary market, where software companies are developing tools that cater for a specific niche in the market. Midwinter Financial Services flagship product Reasonable Basis focuses solely on the advice generation process and is increasingly gaining recognition for delivering a smooth super-to-pension switching functionality, saving many hours of paraplanning.

According to Investment Trends, 12 per cent of planners in Australia are using Midwinter's program in addition to other systems, while 3 per cent use the program as its main system.

This means 15 per cent of the planning industry is using Midwinter in some shape or form, more than the 10 per cent market share VisiPlan has; an impressive achievement given the firm has only been operating since 2007.

"That greater awareness of cost control as a result of the financial crisis has certainly helped us a great deal," Midwinter strategy and technical services general manager Matthew Esler says.

"Just looking at 2009, adviser demand has increased dramatically as a result of that environment, because of the time in advice generation being reduced with using Reasonable Basis."

Esler says it takes half an hour to produce an SOA with Midwinter software compared to an average of 7.5 hours when using other programs.

"The important thing in 2009 for us was that we not only doubled our subscriber base, but we also saw huge organic growth from our existing client base. We saw them take on multiple licences and terminal server licences, which enable more of their paraplanning and advice staff to use the software. This is because it went from a nice-to-have to a have-to-have scenario," he says.

He says it is likely Reasonable Basis will continue to be used in addition to another major planning system because it only focuses on advice generation and does not include other management tools, such as CRM.

"Our market share could be potentially 100 per cent, because we don't try and replace a Coin, Xplan or VisiPlan. Because we are the only specialist advice generation software, we don't have any competition in that regard."

But there are companies that do aim to replace the current dominating systems entirely. Adviserlogic is getting traction with a number of dealer groups after initial trials have resulted in paying subscribers.

"We have the main application and we've got an application which is a special feature on the insurance side," Adviserlogic managing director Gundeep Sidhu says.

"Combined we will have probably 200-plus users now. Most of them are now paying users, but a few of them are in various stages of coming onto the system."

Sidhu says the company has also benefited from a heightened focus on cost control. "In the last six months we have seen people revisiting their operations and how they are doing business, and their focus goes towards technology," he says.

Yet there are other reasons than price why planners decide to switch to his system. Ease of use is one of the main attractions of Adviserlogic, Sidhu says. "[Some planners] never understood how to use the previous technology. [These systems had] too many features, but not actually usable features," he says.

Competition

IRESS managing director Andrew Walsh says he takes competition from these smaller companies seriously.

"We keep a close eye on those and always respond appropriately and competitively, based on client demands," Walsh says.

"They are around, they are very active, they are noisy and we are not complacent at all. But our assessment is that the dealer group is looking for something that is comprehensive and well integrated across the spectrum of advice that they deliver."

He does not believe the industry has become more competitive as a result of the financial crisis. The loss of market share of the company's VisiPlan system should not be seen as a consequence of a tougher competitive environment. It is the result of an increasing demand for web-based systems, such as Xplan, as opposed to desktop-based systems, like VisiPlan, in an effort to reduce cost and increase accessibility.

"The challenge for a dealer group wanting to operate on a lower cost distribution model with rich functionality leads you to that conclusion," Walsh says.

"There is a trend to web-delivered systems. We also see this around the world in financial planning software markets that we operate in, like New Zealand and South Africa."

The operation of a web-based system is also more cost effective for IRESS, as its staff do not have to visit companies and install the software on every individual desktop computer.

This has sparked speculation that IRESS is looking to phase out VisiPlan in favour of Xplan.

When Centric Wealth sent out requests for tenders from software providers to supply a system to its staff members, IRESS did not offer them the VisiPlan product.

"They didn't offer us VisiPlan; they only offered us Xplan. I thought they still may have offered us both and let us choose which one," Kendall says.

"They are obviously sending the message that Xplan is their future."

But Walsh says VisiPlan is still very much part of the company's offering, although he does admit Xplan is better suited to most new clients. "From time to time we have new people using VisiPlan. They tend to be those that are already using VisiPlan. Our approach in RFTs (request for tenders) is to provide the product to solve the problem being asked of us. If the solution was VisiPlan, then that's what we would come up with, but more often than not, given the breadth of requirements and the distributor model of dealer groups, the web-delivered application is the solution," he says.

Integration

The financial crisis has also highlighted the importance of integration with other IT systems. Investment Trends has collected feedback from users on the systems and found integration with investment platforms is high on the agenda, especially for planners using just one platform.

St George's in-house system, Advisernetgain, rates especially well in this area, with 75 per cent of users giving it the thumbs up.

"The Holy Grail for us is integration. It was what advisers were looking for out of software applications," BT head of dealer groups and Licensee Select Neil Younger says.

Taking the route of developing a system from scratch will certainly help with that, Younger says.

"There is no doubt that the major advantage is that you customise the application to your specific requirements. Developing it initially for a business like Securitor and for St George financial planning, we were able to cater specifically to the needs of those businesses," he says.

He argues that the financial crisis has put even more emphasis on integrated systems.

"To have one system to run their whole business forces advisers to look very much at the cost of their business and build into their business better efficiencies to drive down those costs," he says.

Advisernetgain was developed with the Asgard platform in mind and is used throughout St George financial planning, Securitor and a number of Licensee Select franchises. But the merger between Westpac and St George means the combined business now runs two systems, as Westpac Financial Planning and dealer group Magnitude are making use of Coin.

Younger says that for the time being both systems will remain in place, but he does admit this situation is unsustainable in the longer term.

"I think there is probably a natural time when we will explore what is the right application for those businesses to use," he says.

"At this stage, it's a big thing to move software applications when they are embedded in businesses. We don't have any firm or fixed plans to change Westpac Financial Planning into using Advisernetgain. But we are certainly exploring what is the benefit of making a decision like that: of them transitioning to Netgain."

The first step is to integrate BT Wrap into Advisernetgain, a process currently underway. "Once we have done that, that then gives us a platform to review those decisions going forward," Younger says.

Developing your own system requires a considerable investment, but it is not just the domain of institutional players. New South Wales self-managed superannuation fund specialist Bailey Roberts is not the largest practice, but it has developed its own integrated system, Midas.

"When you go to an adviser, you expect your adviser to be a gatekeeper for your investments, and we have tried to meet client expectations and said 'yes, we will be the investment manager, we will be the portfolio administrator and run the self-managed super fund'," Bailey Roberts principal Ian Bailey says.

To integrate all these aspects of the business in a way that makes sense, Bailey, who was a computer programmer in his previous life, started to build his own solution.

"We wanted to develop software that gave us something to manage assets very efficiently," he says.

"The other thing is to account in a manner that is very efficient for self-managed super funds."

There are still quite a few planners who do not use integrated systems. HLB Mann Judd wealth management director Jonathan Philpot uses the firm's accounting software APS for managing client details, platforms BT Wrap and MLC MasterKey Custom for managed fund investments and Praemium software for direct equities.

But for advice generation he relies on the good old Microsoft suite of office tools, because he has never come across a program that satisfied his demands.

"We do all the plans just out of Word, because it is all so individual. We find it very difficult to have the template plans," Philpot says.

"Software for projections and super caps and all those sort of things, we've just done them all ourselves out of Excel."

Yet, he says he does keep an eye out for programs that might help in creating further efficiencies and he has set up a meeting with Midwinter to see what Reasonable Basis has to offer.

The impact of fee-for-service

The financial service industry is currently undergoing significant changes and the expectation is that this will only increase in the coming years.

Software systems need to anticipate these changes in order to remain relevant. One of the most far-reaching changes is the move away from commissions towards a fee-for-service model, and although it does not create direct technological challenges, since most systems have catered for this payment method since the start, it will emphasise the need to control costs even more.

"It's a good thing overall. It makes businesses like ours cost their services more carefully. You start working out what the actual cost of delivery is and, therefore, you can carefully structure your pricing and get a clear value proposition," Page says.

"We presume most clients are profitable, but we are still servicing some clients that are not profitable."

The adjustments required will not constitute a major overhaul of the system, he says, and is more likely to be an administrative exercise.

"We're going to look at what exactly the revenue derived of a client is and then work out whether we need to change the fee structure to make it profitable or offer them a different suite of services, so they can choose which way they want to go," he says.

IRESS has received a number of requests to help with the process of costing, Walsh says.

"Many groups and advisers want to get an eye on the revenue being produced by a client, whether that is from a commission, percentage of assets or a fee for service. [They want to have] a view of that inside their advice platforms so they can compare and contrast the cost to deliver that advice to what they are remunerated for. There has been a lot of discussion with our clients around that," he says.

He expects the move to fee-for-service to increase the demand for tools that estimate costs more accurately, rather than taxi meter-style programs that convert time into dollars billed to the client.

There are some providers that believe the change to fee-for-service will separate the planning industry into two parts: large institutions that will compete on scale and the small consultancy-style advisers who will compete on quality of service. Boutique software

provider Syncrm aims for this last section of the market.

"As old-fashioned 'ticket clipping' dealer groups lose their override subsidies and get replaced by either vertically integrated institutions with protected line profits and loss leading distribution or by smaller, nimble value-add specialists, we are pitching our service at the value-add specialists," Syncrm principal Robert Cummings says.

The company currently has 40 people using the system, spread across 18 businesses.

"Syncrm believes it will slowly build a small collection of smaller groups of advisers of an independent nature. This will not be a quick or easy process," Cummings says.

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