

## News

### HANDLING CHANGE

By [Janine Mace](#) on 5 November 2010 [0 comments](#)

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'Follow the money': the old movie adage about money being the key to everything has never been truer than when it comes to the masterfund market at the moment.

With the financial advice industry facing a period of major change, each link along the value chain is re-examining its costs and inflows to ensure survival in the new environment.

Wraps, master trusts and platforms are responding accordingly and are seeking to ensure they continue to provide the products planners want — and at the price their clients are happy to pay.

For advisers and dealer groups, legislative reform is not the key priority, according to Investment Trends principal Mark Johnston, but rather coping with major shifts in existing business models.

"The changes are not being driven by regulatory reforms, but by the need to support changes in the remuneration model," he explains.

"We are seeing increasing use of asset-based fees and a decrease in trail commissions, and this is leading to changes which are making financial planning firms look more closely at their business models."

The 2010 Investment Trends Planner Business Model Report found planners were also expecting to see an increase in the use of fixed fees and asset-based fees.

The changing fee mix reflects the slow death of commissions and the major role they have traditionally played in a financial planning firm's profitability.

"As the industry moves away from commissions, it is leading to greater flexibility in the type of products that are offered by financial planners," Johnston says.

"There is increasing client demand for alternatives such as direct equities as there is greater fee sensitivity, so this is putting pressure on fees across the board."

#### Appeal of low costs

The changes in the industry's remuneration model are encouraging the retuning of masterfund products to match the new environment, with cost, simplicity and efficiency the main focus.

A significant trend in the past year has been the rollout of low-cost superannuation products without a built-in advice charge, according to industry analyst and managing director of research firm DEXX&R Mark Kachor. He points to AMP's Flexible Lifetime SuperEasy product (now the Core option within AMP Flexible Super) as an example of this type of low-cost offering.

"These products are designed to be sold as a low-cost products with a bolt-on advice charge, rather than having advice included," Kachor says.

While many in the industry see this as a major innovation in the platform market, he points out there were similar asset-fee-only products available in the ADF market back in the 1990s and notes "there is very little new under the sun".

The new product offerings appear to have struck a chord in the current market environment, with the AMP Flexible SuperEasy product being the fastest growing masterfund product in 2009-10 (see table 1). Since its launch in mid-2009, the product has grown 8,272 per cent to have over \$80 million in FUM by June 2010.

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Kachor expects many of the new products released into the masterfund market in the near future to be offered without a built-in advice charge.

"We will probably see more clones of the low-cost super products with no advice charge, as these can be used when rolling members out of employer super funds," Kachor says.

"They are valuable because they provide advisers with a low-cost option."

The new offerings are also providing opportunities for more effective competition with low-cost industry funds offerings. They also provide cover for movements around fee levels.

"We are seeing fees and charges declining slowly, but this is due to moving commissions outside rather than a significant decline," Kachor says.

"Platform fees are being driven down very slowly and incrementally, but if you add back in the typical commission level they are no cheaper. There has been an apparent decline in masterfund charges, as those stated in the [Product Disclosure Statement] exclude adviser fees."

He believes the uncertainty around the proposed Future of Financial Advice (FOFA) reforms is likely to see few major product innovations occur in the near future, with the major providers more likely to focus on cost competitiveness and business efficiencies.

"No one will be offering anything particularly different for a while until we see what happens with the reforms," Kachor notes.

### Drive for efficiency

One trend likely to receive more attention by the masterfund market is the desire by planners for reduced costs and greater efficiencies.

According to Johnston, if the FOFA reforms eventuate, 30 per cent of advisers will be looking for platforms that can help reduce their cost of doing business, while 25 per cent will look for lower cost platforms.

"Advisers are looking to platform providers to help them save money and they will be considering switching to lower cost platforms to help," he says.

Providers are well aware of these pressures and are looking at ways to respond.

Earlier this year, Colonial First State (CFS) announced a number of enhancements to FirstNet Adviser to help advisers manage client portfolios and "drive greater efficiencies in their business". This was followed in August with enhancements for self-managed superannuation fund clients and term deposit offerings. In early 2011, CFS plans to introduce model portfolios to its FirstWrap platform.

Other providers have also acted on the pressure for improved business efficiencies, with AMP Financial Services managing director Craig Mellow recently announcing the company was streamlining its corporate super product range.

The revamp was about "delivering efficiencies for the business and increased simplicity for customers," he said. "This is about ensuring our products remain competitively priced while representing good value for our customers."

In December, BT Wrap also launched a number of improvements to its platform products to address adviser demand for simpler products and greater efficiency. According to the head of BT Wrap, Chris Freeman, the changes were designed to meet adviser demand.

"Ultimately, advisers want their business positioned for long-term growth, so platform providers need to provide a simple solution that is adaptable ... and makes the adviser's job easier by reducing their administration time," he said.

This emphasis on pricing and efficiency reflects growing adviser concern about these issues, according to Johnston. "Financial planners are focusing more on costs and their business model."

Kachor agrees there is deep concern about the business environment within the planning industry, particularly in light of some of the FOFA proposals.

"While allowing clients to sign out of payments is a good thing in theory, the question then becomes: 'How are financial planners going to pay for the fixed costs of running their businesses?'" he says.

Johnston agrees the proposed annual client renewal, or 'opt-in', requirement is creating genuine concern.

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“Our Planner Business Model Report shows everyone is concerned about the impact of the opt-in rule. Two-thirds of planners are concerned about it and believe that 79 per cent of active clients will opt-in, but about 40 per cent of passive clients will not, so they will need to re-jig their business model,” he says.

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