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Narrowing the HNW advice gap

IFA Cover Story

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Australia's pool of affluent investors is expanding, thanks to the nation's decades-long stable employment landscape and economic growth. However, the number of advisers available to guide their investment decisions is too small, leaving private banks and dealer groups scrambling to boost their numbers without sacrificing quality.

Australia has the ninth largest population of millionaires of the 71 countries surveyed for the Capgemini and Merrill Lynch 2011 World Wealth Report. Their total wealth over the year rose 12 per cent to US\$582 billion.

However, if that category is expanded to include high net worth (HNW) individuals - those with at least \$1 million in investable assets, excluding the family home, cars and other consumer durables - their wealth reaches about \$1 trillion, according to Investment Trends' 2010 High Net Worth Investor Report.

The Investment Trends report was based on a survey of nearly 2000 HNW investors, but included ultra-HNW individuals, which the financial services market research company defines as those with \$10 million or more in investable assets. Analyst Recep Peker says people with up to \$60 million to invest took part in the survey.

Peker says the survey threw up several notable shifts in attitude from the same report a year earlier.

"In terms of sentiment or goals when investing, high net-worth investors are saying: 'Look, I'm going to be focusing less on capital growth. Instead, I'm going to be doing more wealth preservation or other things that work towards building a sustainable income stream.' So there's a shift from growth as an investment goal to income and wealth preservation," he says.

He says the shift has occurred over the past year and stemmed from volatile markets. The sentiment was not age-related because the survey sample was widespread, he says.

However, the most notable shift was an increase in the number of HNW individuals who said they wanted more advice.

"More people are saying they would like additional advice to what they are already receiving. That advice is to review their investment portfolio or investment strategies

and look at some asset-protection strategies," Peker says.

In 2009, 38 per cent of affluent people surveyed said would like more advice, he says. In 2010, the figure rose to 45 per cent.

The report also showed those who got advice were happy about it. "Those who currently use a financial planner feel that their advice needs are better met than those who use other types of advisers," Peker says.

The finding is a reversal of what the Investment Trends report turned up two years ago as the global financial crisis shook even the wealthy. In 2009, the survey showed HNW investors seeking quality, objective advice were frustrated with their options.

Hillross Financial Services managing director Hugh Humphrey says the wealth management group estimates a majority of HNW investors need financial advice, but aren't getting it.

"Certainly, there's a lot of opportunity there because there'd still be, we think, about 57 per cent of high net-worth investors who have unmet advice needs, that is, there's a need for advice and they're currently not getting those needs met with a financial adviser," Humphrey says.

"On a normalised basis, the market is certainly growing, albeit there are certainly some unserved clients in there as well."

Humphrey, who took over the helm of AMP-owned Hillross late last year, says the number of HNW investors who seek out an adviser is just short of double the national average.

As a result, private banks and other wealth managers are looking to expand their numbers.

Finding foot soldiers

Bendigo Wealth, the private banking arm of Bendigo and Adelaide Bank, has about 70 advisers and about \$4 billion in funds under management.

Just over two weeks ago, head of wealth markets Alexandra Tullio unveiled a team of seven to frame the adviser expansion, including two regional managers to lead the distribution team as well as three manufacturing chiefs and business development managers for New South Wales and Western Australia.

"These new appointments are pivotal to enabling the distribution, business development and manufacturing areas to deliver on expectations within the Bendigo Wealth division," Tullio said at the time.

Bendigo and Adelaide Bank launched Bendigo Wealth earlier this year. It includes the bank's cash, investment, margin lending and managed funds operations, as well as Sandhurst Trustees.

Last year, Macquarie Private Wealth found its chief, Eric Schimpf, in the United States

at Bank of America-Merrill Lynch, where he looked after ultra-HNW clients in the country's south-east from his base in Atlanta.

At Macquarie, when it came to assembling his executive team, Schimpf's old stomping ground has proved a rich source of recruitment. In January, Schimpf named Natasha Yeoh as chief operating officer. Yeoh joined from Merrill Lynch Global Wealth Management in New York. More recently, Schimpf appointed Merrill Lynch managing director of foreign investment Jay O'Neil as head of Macquarie Private Bank.

O'Neil, set to join from Merrill Lynch in New York, will oversee the 75 or so private bankers who advise clients with at least \$5 million to invest.

Asked whether he plans any further executive appointments, Schimpf says: "Our team is pretty well set now."

But what about the foot soldiers, the advisers? Wealth managers are increasing there, too.

"Certainly, we have plans to increase that number. I would like us to get to about 100 in 18 months or so," Tullio says.

UBS Wealth Management managing director Clark Morgan says he plans to increase the team of 115 advisers, including six advisers added in the last quarter of 2010.

"Our plan is to grow that out to about 150 advisers over the next three to four years, so it's not huge annual growth," Morgan says.

"I know some of our competitors are looking to double the size of their adviser base over a shorter period of time, but that's not what we're about."

He says the UBS model is based on that of its Swiss parent - building solid relationships.

"Until we get to a position where we actually understand what it is the client is trying to achieve, which can in fact take some time, a number of meetings, a number of discussions with their existing advisers - legal and accounting - that means you are spending time building a relationship rather than transacting and getting revenue," he says.

Relationship skills are key, so UBS looks at behaviour and other signs that a potential adviser would make a good cultural fit with the wealth manager, he says.

"We organically move around the market and select people that we'd like to join the team and talk to them, rather than going out in a wholesale fashion and just bringing in anyone who might be able to write revenue. The revenue side of it is important, of course, but the behaviours and culture are far more important and drive our decision. With that kind of philosophy, we're not going to be hiring 40 or 50 advisers a year," he says.

Potential advisers also need to understand markets with a view to constructing sophisticated portfolios, which can include cash, fixed interest, domestic equities,

international equities and alternative investments, he says.

And he adds one other thing: "They need to be - and I would hope everyone in the industry would say this - of the highest ethical and compliance standards."

Humphrey says the dealer group is looking to expand its network of about 300 advisers in 112 practices around the country, but has no specific target.

"We are expecting growth right around the country but as to quite what that growth would be, we don't think there's a magical number," he says.

"We do see some opportunities, particularly in Victoria, for some additional practices and additional advisers."

One of the fastest ways to expand adviser numbers is through acquisition, a strategy AMP used to its benefit with the \$4.2 billion acquisition of Axa, including Hillross.

Luckily, Hillross and its practices have access to that same crack mergers and acquisitions (M&A) team within parent AMP.

"The M&A team is continually scanning the market and keeping an eye out for good opportunities," Humphrey says.

"They do a lot of work with our existing practices to support their growth ambitions. A lot of our practices, given that they're relatively mature businesses, have built corporatised businesses that are able to support more practices and more advisers."

He says buying another practice is often a good way to grow, but the criteria are strict.

"In the last year, Hillross has moved to a fee-for-service model. That's a prerequisite for practices that want to join us; they need to adopt that. Almost half of our advisers are [certified financial planners] and that's an important designation for us. Hillross advisers need to be a member of a professional association and we have the Hillross professional promise, which is akin to a fiduciary duty-type approach that says our advisers promise to put their clients' interests ahead of their own," he says.

"When we spot practices that meet those hurdles and are accretive to our network, we would engage them in specific conversations," he says, adding the group has a "rolling number" of conversations at any given time.

Schimpf says he has about 360 advisers at Macquarie Private Wealth and is looking to expand the team.

"But it's all about quality," he says, adding the process of maintaining and expanding a world-class team of advisers is aided by the group's training and research capabilities.

He says technology is also key.

"We just upgraded our technology offering at the end of 2010. In the end, technology is productivity," he says.

NAB Private Wealth southern states general manager Tim Chilvers says the group is

aggressively hiring, but declined to give numbers.

Asked what the group looks for in a private banker or adviser, Chilvers says: "We find that in this private client space, there's one background that equips you for serving all clients.

"For that reason, we look for people who have high degrees of service ethic, ability to work well with clients, and offer a quality of worldliness brought about by diverse backgrounds and understanding of issues that might affect a wide range of clients.

"Clearly, technical expertise is required, but we find that those other three things are harder to teach. The technical skill is something that we are well able to equip our people with."

He says NAB Private Wealth draws its people from a range of backgrounds, including accounting, law and other professional services, as well as banking.

"We've got people who have come from global wealth shops, so investment banks and the like, we've got people who have grown up within retail banking franchises, or corporate or institutional banking, like me. Then, we've got a range of people that we've sourced from specialist private-client businesses around the world," he says.

Asked whether any particular part of the world was a good hunting ground for prospective recruits, he says Europe, where private-client businesses are mature, is good, as is the US to a lesser extent. However, the main demographic is Asian.

"Increasingly, the people we have serving our clients have to reflect the demographics of those clients. Of recent times, we've supplemented our team with Asian language and culture-sensitive people," Chilvers says.

By way of example, he cites Vera Ou-Young, who won outstanding new private client manager of the year just over a month ago from Australia's Private Banking Council. Malaysian-born Ou-Young speaks five Asian languages and has a background in tax planning with Ernst and Young.

What's driving demand?

Chilvers says the increasing numbers of affluent people in Australia - which in turn is driving demand for HNW advisers - is due to the twin qualities of the nation's prosperity and the entrepreneurial spirit of its people.

"We've had very low rates of unemployment - particularly low in that middle-income band of people who've enjoyed continuity of employment up until their retirement years. There are still many private business owners who are enjoying continued profitability during this time. A lot of high net worth people have originated in that private-business ownership space," he says.

"We find about a third of our clients are entrepreneurs who own private businesses; about a third are corporate executives or professional services practitioners; and about a third are family money/professional investors - people who largely live off their money or make investments in operating companies from time to time."

Morgan says market uncertainty has spurred demand for advice.

"But also because we've gone through a period where personal balance sheets have been repaired and people are looking at setting themselves up. 'What are the underlying principles and platforms that I need to move forward over the next five and 10 years? How much debt should I repay? How much should I leave to invest? What returns can I expect? What structures should I be using?'" he says.

What clients want

Asked why wealthy clients seek guidance, advisers' answers differ.

Humphrey says asset allocation, investment strategy, portfolio review and retirement planning are the main areas of client demand at Hillross.

"We're doing a lot of review of portfolios at the moment and assessing different options, particularly in light of different risk appetites in a post-GFC world," he says.

"Particularly in the high net worth space, things like retirement planning are really important and that's a specialty of Hillross advisers."

Chilvers says NAB Private Wealth advisers regard their main role as helping clients bring their goals into sharp focus.

"Something that's consistent right across the wealth tiers is the need to have very clear objectives and goals. Large wealth brings with it the need to plan even more systematically because the number of choices you can make becomes greater," he says.

Asked whether HNW clients are looking mainly for advice on creating wealth or preserving it, Morgan says it depends, but one thing is fairly constant.

"The truth of the matter is it's all of those things. I haven't yet met a client who shouldn't have some percentage, even a tiny percentage, in growth assets, so it's about understanding where the person is in their lifecycle and understanding whether their exposure to growth should be 5 per cent or 50 per cent. Or if they're young and aggressive, should it be 75 per cent?" he says.

However, he says the adviser's real goal is ensuring they are on the same page as their client.

"You need to make sure the portfolio construction is in line with the client's end objectives. Quite often, when those two don't match, that's when you get conflicts and difficulties," he says.

