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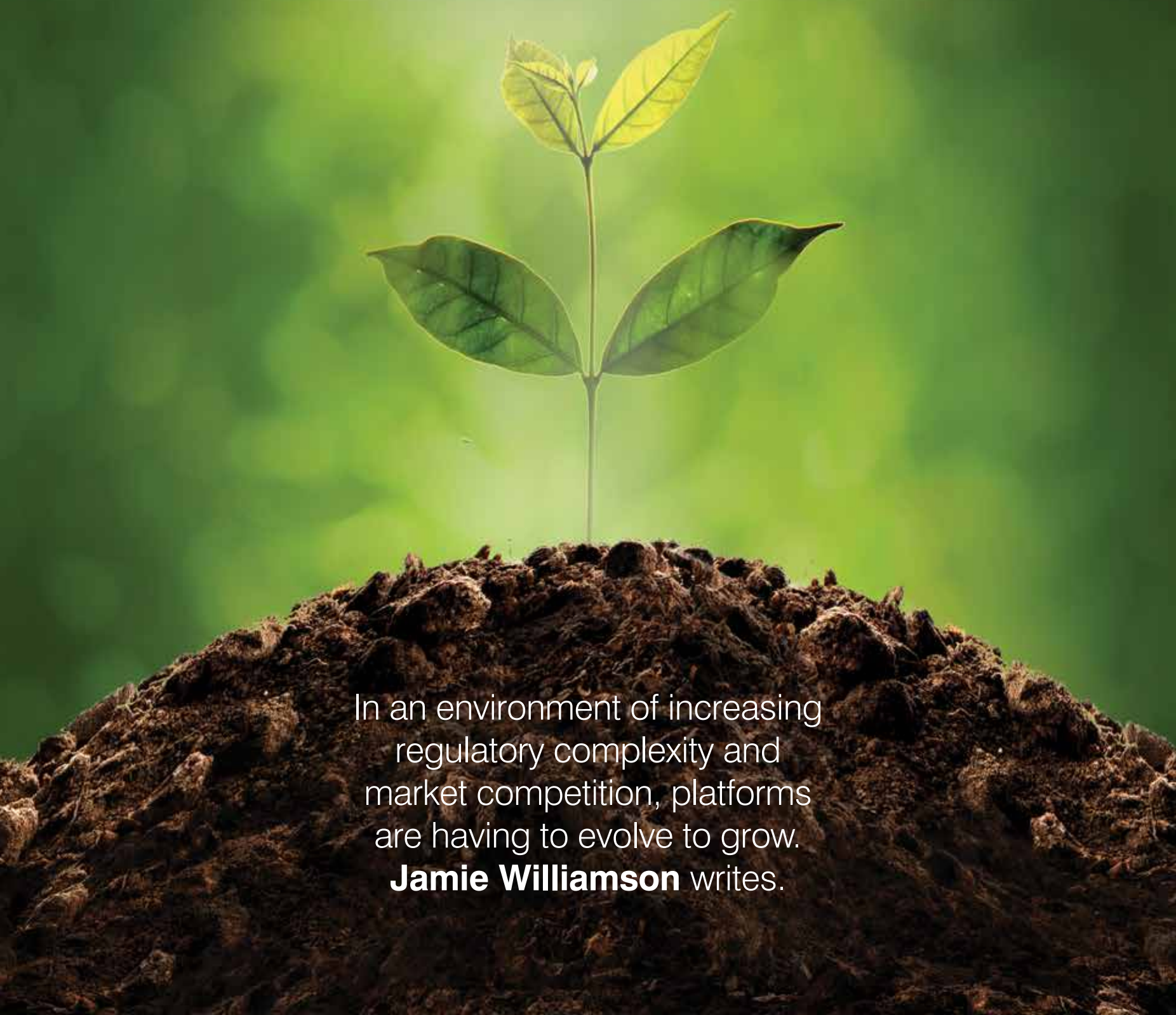
Platforms: Planning for the great growth story



In an environment of increasing regulatory complexity and market competition, platforms are having to evolve to grow. **Jamie Williamson** writes.

01:
Matt Heine
joint managing director
Netwealth

02:
Will Davidson
chief executive
Powerwrap

03:
Andrew Alcock
chief executive
HUB24

First, there was the proliferation of managed funds that saw the advent of master trusts. Then a surge in popularity of direct share ownership saw the creation of investment wraps that quickly infiltrated advice practices, promising efficacy and better business outcomes.

The major institutions, having long dominated virtually every aspect of financial services, soon did the same in the platform market. But, where they were once ahead of their time, offerings became homogenised and the supremacy lost.

In the last decade in particular, technological developments, legislative reform and the changing expectations of both consumers and financial advisers have given rise to innovation.

Enter the new players. Collaborating on practice management as opposed to simply delivering product, independent, specialist operators are transforming the humble platform into a whole of business solution – one that traditional providers simply can't or won't match.

Strategic Insights data from December 2017 shows the likes of Netwealth, OneVue, HUB24, Praemium and Powerwrap combined command less than 10% of the Australian market's total $821.4 billion in funds under administration. And, Netwealth only just scrapes into the top 10 with 1.9%.

The top five comprises Westpac/BT Financial Group (18.4%), AMP (17.6%), Commonwealth Bank/ Colonial First State (14.8%) and NAB/MLC (14.3%).

However, this domination is not reflected by net fund flows. Sitting just outside the top five with 9.8% of market share, Macquarie saw the greatest flows in the 12 months to December 2017, servicing 21.9% of the $21.3 billion generated in total net flows over the period.

Perhaps what's even more interesting though is Netwealth was hottest on Macquarie's tail with 21.2% of net flows – a number that is almost 11 times its market share.

The growth of smaller providers

The success is uniform across all of the key smaller providers, with Netwealth, OneVue, HUB24, Praemium and Powerwrap accounting for 40.8% of net flows in the 12 month period – almost five times the providers' combined market share.

"The tables have really turned and the trends driving this have really accelerated over the last three to five years," Netwealth joint managing director Matt Heine [01] explains.

The trends Heine refers to were those largely borne out of the Future of Financial Advice reforms and the consequent need for new revenue streams; the rise of the independent or non-aligned adviser and managed accounts.

Fresh Rainmaker data shows the number of advisers using non-institutional licensees increased by 11.9% in the 12 months to December 2017, while institutionally-owned licensees saw adviser numbers fall by 4.4%.

Year on year, the number of registered advisers in Rainmaker's scope increased by 1% to 22,558. While non-aligned licensees saw 877 new advisers added to their collective roster, 656 departed aligned counterparts.

As a result, the proportion of advisers associated with non-aligned licensees increased to 36%. The big-six advice groups – that is, the big four plus IOOF and AMP – saw their adviser numbers fall by 6% to 9205. Of that cohort, only IOOF saw an increase in its adviser footprint.

With the IFA sector now thriving, the size of the contestable market has effectively doubled in the past five years.

"When you're dealing with independents, over the years all of the specialist platforms have had to really fight for every dollar. We don't have the luxury of what is an effectively mandated use of an in-house platform," Heine says.

The luxury they do have however is that of an open-architecture approved product list, which is where independent advisers really flourish, Powerwrap chief executive Will Davidson[02] says.

"Advisers sitting within the vertically-integrated firms are very hamstrung by their APLs and they are under a lot of mounting pressure from clients to provide access to a wider APL," he says.

Powerwrap currently offers access to more than 240 professional investment managers and, if a particular fund manager isn't already available, Davidson says the provider will set about adding that manager as quickly as possible – typically within five to seven days.

An additional advantage for the $7 billion platform is it caters almost exclusively to high-net-worth investors via 'breakaway groups', meaning those advice groups that have broken away from larger institutions, such as Escala (formerly of UBS) and Koda Capital (formerly of JBWere).

"Our adviser groups have larger clients and so that higher average client size, which is about $1 million, means that our clients often require a different type of product, such as more sophisticated options…Sophisticated investors will generally allocate about 15% to the alternatives space, and those alternatives managers – largely hedge funds – generally don't appear on retail platforms," Davidson explains.

As such, about $1 billion or 15% of Powerwrap's total FUM is managed by those investment houses.

"We are very much an adviser-driven APL. That means that if one of our advice firms comes to us and says they really want this managed fund or that investment manager on the APL, we will turn that around…In previous roles, I have used other platforms and for some of them it would take three to six months to make a decision as to whether they were going to add something to their platform," he says.

HUB24 chief executive Andrew Alcock[03] says it isn't so much a move away from the vertically integrated world, but a move toward well-rated product that has demonstrated its ability to deliver value.

> *We don't have the luxury of what is an effectively mandated use of an in-house platform.*

Citing recent Investment Trends research that saw advisers rank Netwealth, HUB24 and OneVue as the top three platforms, he says: "It's not surprising at all the top three platforms are independent players. That research is based on adviser demand and need, so of course the independents are going to pick up business – they're adviser-led, meaning they're designing their offerings around what they know advisers want and need, so it just makes sense."

That said, there is also a great deal of healthy competition between the specialists, with Heine saying the broad feature sets showcased by the smaller providers are simply a matter of survival.

"We need to ensure that we are appealing to a very wide range of advisers. We are able to support an extremely broad range of business models…the thing about independents is that if they like your product they'll use it but therefore they have to consider it to be the best platform on an ongoing basis," he says.

"If they think there's a better platform out there, they won't let anything get in the way of them using it. So not only do you have to fight and offer something really special to win them, but you have to fight and offer something really special to keep them too."

The importance of competition

This is reflected by Majenda Financial adviser Geoff Taylor [04] who described his practice as platform agnostic, opting to use whichever platform achieves the best outcomes for clients.

"We wouldn't move our clients to a different platform than the one they're on unless there was a significant benefit to them to justify making the move. Our main focus is on considering the best interests of the client and it may be that a switch to a different platform is never going to be viable, providing the existing platform is upgraded regularly," he says.

This may mean more work for the platform's business development teams, but Heine describes the competition as "cultural."

"It's a part of our DNA and it means that we're continually and rapidly developing, which is actually what we enjoy and a challenge we like having," he says.

Key to this competition is the strategic partnerships the newcomer platforms have secured with dealer groups and non-aligned licensees, providing private-labelled versions of their offerings; an arrangement with benefits ranging from increased customisation to even greater cost-efficiencies via wholesale pricing.

Traditionally a wholesale provider, OneVue currently has 10 private labels with its biggest wholesale client being Madison Financial Group and its private label, WealthPortal.

OneVue head of platform services Lisa McCallum[05] says adviser groups want solutions that can add efficiency and scale to their business, as well as increased client experience.

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04:
Geoff Taylor
financial adviser
Majenda Financial

05:
Lisa McCallum
head of platform services
OneVue

"We find a lot of success in meeting with advice groups and bringing together our investment managers in finding the right solution that aligns with their client value proposition. Collaborating with advisers is vital to our business," she says.

McCallum describes the platform sector as "a bit chicken and egg" in the sense that it's often difficult to distinguish whether advisers seeking better outcomes are attracted to the increased innovation or if the increased innovation is a result of the advisers seeking those outcomes.

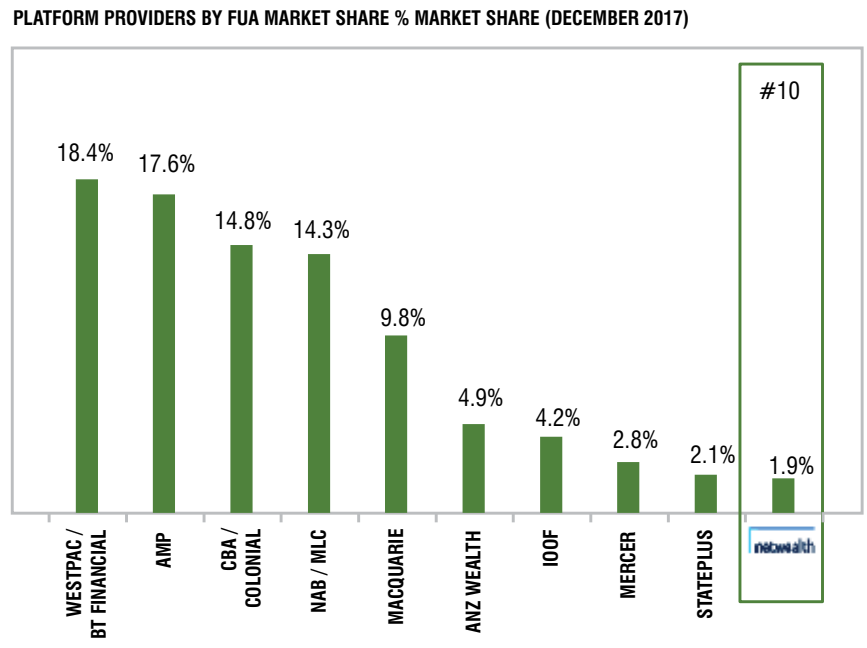
Reflecting this, Alcock says: "Global trends certainly influence our strategy but we also influence trends by way of our capabilities."

This is particularly true for the rise and rise of the managed accounts sector, for which there seems to be no end in sight. In 2016, Morgan Stanley predicted Australia's managed accounts sector would reach $60 billion by 2020. According to the Institute of Managed Account Professionals, the sector climbed 46% last year to total $57 billion by December 2017 – three times faster than any other part of the platform market.

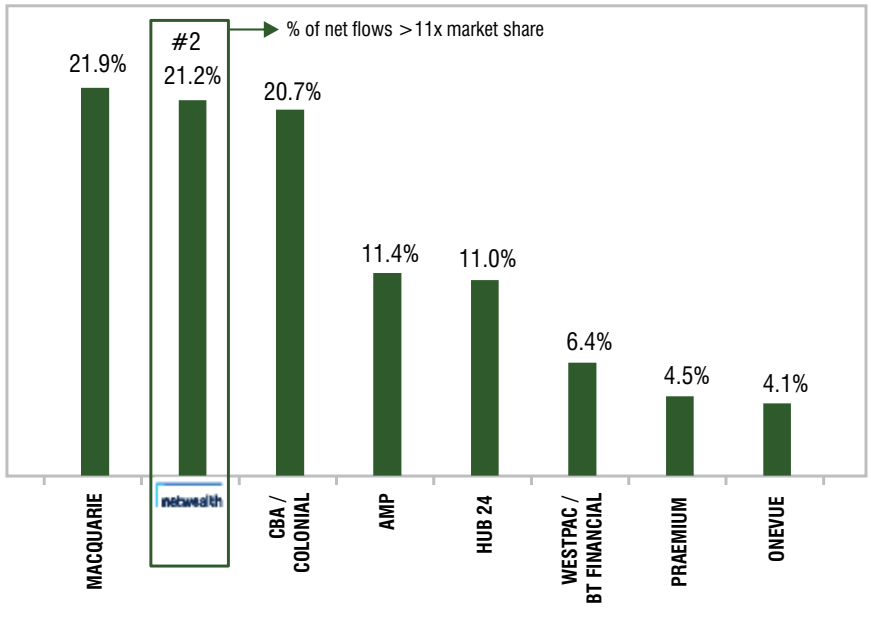
"We actually think it will be closer to two or even three times that number [by 2020]. We believe managed accounts platforms are the next comprehensive, forward looking solution that will transform the industry," Praemium head of product and marketing Mat Walker [06] says.

Enabling advice practices to transform into full-service wealth managers, managed accounts have not only attracted the new entrants but are also forcing the historically dominant platform providers to adapt, enhance and reconfigure.

Figure 1. Significant market opportunity for growth



Source: Source: Strategic Insight: Master Trusts, Platforms & Wraps (Dec 2017)
(1) Total industry retail FUA of A$821.4bn (as at Dec 2017)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Dec 2017)
(2) Total net flows of A$21.3bn (12 months to Dec 2017)

The number of advisers adopting or looking to adopt managed accounts is almost a complete inverse to what it was three or four years ago.

The growth of managed accounts

Regularly credited with kickstarting Australia's managed accounts market, the specialist platforms don't see themselves as pioneers, merely first responders.

For example, HUB24 was established in 2007 as a dedicated managed accounts platform. Of the $7.4 billion it holds in FUM, about $3.5 billion is in managed accounts.

"That was the driver of our growth and now we are a mainstream platform. Only half of our funds under management is in managed accounts now but we're seeing continued growth," Alcock says.

"If our managed accounts solution and the tools we have can save their clients a bucket load of tax or earn a higher rate of return that over the length of their accumulation horizon they accumulate more assets, we've done our job."

Then you have the reverse from the likes of Netwealth, which started out with a much broader business model and is now refining its offering to take greater advantage of the managed accounts boom. Of its $16 billion in FUM, about 10% is in managed accounts.

"If we look at our pipeline, certainly all of or the majority of the projects we're looking at are focused on that part of our business. This is because the number of advisers adopting or looking to adopt managed accounts is almost a complete inverse to what it was three or four years ago," Heine says.

In February, Netwealth sold its advice subsidiary Bridgeport to Australian Unity Investments and in April it offloaded its compliance business, Pathway, to IRESS.

The decision to shed Bridgeport in particular was motivated in large part by the huge amount of change Netwealth envisions the industry will go through in the wake of the Royal Commission into Banking, Superannuation and Financial Services.

"We don't think that the vertically-integrated space is the right place to be in the future so we made a decision to remove that potential conflict. It was also taking up a lot of management and administrative time to run, so now we can really dedicate 100% of our time to the areas of

06:
Mat Walker
head of product and marketing
Praemium

07:
Tim Townsend
private client adviser
Townsend and Cobain

the business that we see real growth potential," Heine explains.

Demonstrating this, and reflecting the trend of the wider advice industry, Netwealth has been extremely active in managed accounts for the last four years.

Heine says that the platform's long-term strategy is to build a brand presence strong enough to position Netwealth as the go-to platform for advisers curious about managed accounts.

"We work really hard to ensure that we are educating the market on how to go about identifying if a managed account is actually right for your business, what the different options available are, and also how to actually implement it in your business. So, I think now when advisers have reached the conclusion that they need a managed account or are looking at whether it's the right move for them, inevitably we will be short-listed as one of the top three," he says.

The opportunities – both advice and business-related – simply can't be matched by any other investment vehicle, Davidson says.

"Your average financial planner can't possibly cover off the 60,000 equity stocks that are out there. The big drive to newer platforms is coming because they facilitate managed accounts and thereby facilitate better outcomes for all involved," he says.

From a cost perspective, the average SMA will save an investor somewhere in the realm of 30 to 60 basis points in ongoing [administration and investment management] costs. The savings are even greater if the platform has negotiated wholesale pricing with investment houses.

"The cost differential between what a 'normal' client can get and what we can get is about 60 to 70 basis points and they are savings that therefore flow on to the end client," Davidson says.

Instos are catching up

Given it is now widely accepted that using managed accounts is beneficial for both the adviser and the client, it makes sense that the traditional providers commanding the bulk of the market share are entering catch-up mode.

The most recent to publicise its progress, Colonial First State, added such capability to FirstChoice in November 2017 and then FirstWrap in April 2018.

While it adds one more competitor, HUB24's Alcock views it through a positive lens as so many Australians receive financial advice via these institutions.

"I think they're hearing from their adviser clients that they need to update to stay relevant. They need to offer these products because if they can't deliver the best possible opportunities for clients to accumulate wealth and then drawdown their retirement income, then quite frankly they can't compete," he says.

"That said, I think the innovations we've made and plan to continue making will widen that gap even further. If we were to close off our ecosystem we too would be at risk of becoming tired and disrupted."

Davidson agrees that it's a positive step for the major institutions, however he believes a complete overhaul of their business models would be required to make the process viable in the long run, in a way echoing Heine's position on vertical integration.

"The majority are simply adding in-house managed products as managed accounts. The whole purpose of managed accounts is getting access to the best investment managers," he says.

Similarly, Praemium's Walker is sceptical that organisations that have so far thrived in the wrap platform space will be able to replicate the same success with managed accounts.

"The reality is that managed accounts are actually an entirely different beast to wrap platforms. To run managed accounts in a scalable way, you actually need to have quite different technology to the traditional platforms," Walker says.

Specialist managed account platforms are able to cater far better for active portfolio management, greater and more transparent reporting layers and choice of professional investment managers and investment options, he adds.

"While traditional platforms have been very good for advisers and investors in the past, when it comes to portfolio management and administration, they have tended to push the work out to advice firms…Wrap platforms have been good but rather basic for transacting and reporting and in some cases have introduced managed account features that are also quite limited or basic," Walker believes.

In this respect, the reporting capabilities of the non-aligned platforms are further advantaged by their virtually unlimited ability to integrate data feeds with that of whichever other software providers they see fit.

Recent integrations of note have been that of both HUB24 and Netwealth partnering with $17 billion private wealth platform MyProsperity, and also Praemium's recent alignment with BGL Simple Fund 360.

"Our view is that we're not always going to be good at everything so we are lucky that we can partner with new, emerging fintechs that are very niche and very specialised in particular areas…We are constantly getting feedback from clients and potential partners about how we can enhance that ecosystem," Heine says.

Also commenting, Alcock says: "The ability to connect a range of front-ends and create an open architecture environment and integrate with who we want to is really playing to global trends."

Taking this one step further, Alcock sees the future of the platform sector being a type of "choose your own adventure" offering.

"Clients want to own their data, they want to connect with who they want to connect with. What we're looking at now is an ability to select your own technology – choose your front-end provider or your robo-advice solution. If you want a particular financial planning software, we will integrate that for you because that's the nature of the game," he says.

> *Platforms must and will evolve to offer more services.*

For some advisers, however, increased functionality giving way to increased client engagement isn't always a positive. Majenda Financial's Taylor says you have to be aware of the extent to which added capabilities will actually benefit the client.

"Most of our clients don't need to see their portfolio balance on a daily basis via a handheld device. Our clients are generally more interested in enjoying their retirement than using the latest piece of technology," he says.

Townsend and Cobain private client adviser Tim Townsend [07] agrees, saying: "We're all pursuing maximum availability of technology but in my world, if you want me to show you a client that is dissatisfied, stressed and disturbed, they're a client looking at their portfolio 10 times a day."

New technology

OneVue's considerations for the future are a little different, though also focus on leveraging other technologies to maximise value.

"Platforms must and will evolve to offer more services. One that we're looking at with advisers is what we can do to help remove some of the friction points from the advice process. We don't necessarily have to deliver on all those key points, but that's what our existing and future partnerships will work to do," McCallum says.

"We're also really focused on cash and the movement of it so the New Payments Platform is really interesting to us in terms of how we use it to make investing cash a lot simpler. We're in the process of exploring what that could mean for us and our users."

Walker says at the end of the day, a platform's success comes from the quality of its work with advisers to provide the best possible service to their clients.

"That said, advisers are very busy and focused on achieving the best outcomes for clients so product design is all about anticipating their needs," he says.

Without a crystal ball, it's difficult to predict the trajectory of the platform sector in the months to come, let alone years. In a post-FOFA world, against a backdrop of a Royal Commission and a burgeoning IFA sector, change seems to be one of few certainties.

However, what is guaranteed is the days of platforms being just administrative record keepers are long gone.

"Among other things, platforms will become the custodians of data in as much as they've been the custodians of assets, and that will help clients get a holistic view of their retirement – a prosperous retirement that has been supported by the platform's involvement," Alcock says.

"If we build a connected world – and we're doing that across the board – we're actually creating a new market." **FS**