

# HUB<sup>24</sup>



## THE STOCKBROKER REVOLUTION: A NEW ERA OF BUSINESS TRANSITION

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Financial Adviser Use Only



# CONTENTS



4

Introduction

6

Executive Summary

8

The Opportunity

10

Different starting points  
for the journey

12

The argument for staying  
in your comfort zone

15

What's needed to make  
the move

16

Challenges along the way

18

Managed portfolios' role  
in the journey

21

Lessons learnt along the  
way

22

What does success look  
like?

24

Acknowledgements

# INTRODUCTION

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The trend for stockbrokers to move into wealth management to broaden their business model and client base, has entered a new era.

Shaped by advancements in technology and accelerated by the belief it is a necessary business transition, the case for change is clear.

Low barriers to entry and the trend for clients to have multiple brokers has made it difficult for traditional stockbroking services to grow and differentiate their business.

Meanwhile, the growth of international funds, a greater variety of investments to choose from, the Global Financial Crisis (GFC) and a cooling of the resources boom, together with a push for greater portfolio protection, has tapered demand for a direct equities-only offering.

What has emerged is a new business model which brings together high-quality investment implementation capability with strategic and holistic financial advice.

But while the business case and service offering may be strong, the reality of running dual business models and infrastructure systems while melding together the two worlds of stockbroking and financial advice, is a significant shift.

Redefining an established and proven business model to introduce a new service with its own systems and business professionals, takes business stamina and commitment.

The challenges and upsides of this journey are highlighted in the case studies of three stockbroking businesses – Patersons, Euroz Securities and Ord Minnett.

Three very different journeys occurring at different points in time with unique market conditions. However, the motivation for the change is similar across all three – a decline in fees, rising costs, market changes, digital disruption, increases in regulation and the changing needs of client bases – a confluence of trends demanding a business rethink.





## EXECUTIVE SUMMARY

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The future of some stockbroking firms in Australia is being rewritten following their move into wealth management.

These firms are seeking to future proof their businesses by transitioning to provide a broader wealth management service to a wider customer base.

Efficient and cost-effective wealth management services are now being delivered to more Australians who traditionally looked to stockbroking houses for assistance with direct equities.

Today, these businesses are providing assistance with superannuation, insurance, estate planning, pre and post retirement advice and portfolio diversification.

A renewed interest and level of activity in the business transition has been sparked by improvements in technology and the ability for it to provide integrated solutions.

While not perfect, stockbroking firms report the recruitment of more financial advisers to manage the expected business growth.





"Stockbroking will always exist and there will always be a need for it but at a much smaller level than what it is now."

**JANE TANDY, PATERSONS**

# THE OPPORTUNITY

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Bringing together stockbroking and advice was complimentary for Euroz Securities – an established stockbroking business with strong Equity Capital Markets (ECM) heritage operating in a historically tightly regulated industry, matched with the highly personal and relationship based financial advice.

To realise this opportunity, it had to get its skillset up to speed, its infrastructure in place, recruit financial advisers, and enhance its technology.

“We could then go and have a different conversation with our existing clients,” said Chris Webster, Head of Private Clients, Euroz Securities.

For Ord Minnett, moving into wealth management was an efficiency play.

First and foremost an investment house, the business found itself asking how it could best translate its investment ideas into portfolios to maximise returns over the long term?

“The issue for us was how do you better align the interests of the client and the adviser and how do you ultimately get a better outcome in terms of wealth creation for the client and what is the best structure?” explains Tim Gunning, Chief Executive Officer, Ord Minnett.

For Patersons, providing a better service was important.

“Essentially we are looking after fewer clients better but with the higher touch and for greater value,” said Jane Tandy, Chief Operating Officer, Patersons. “It’s really about providing better service.”

She said the demands and desires of Paterson’s clients changed considerably after the GFC and a cooling-off of the early naughties resources boom.


“It came to light it was important that we were reviewing more broadly our clients’ overall financial position rather than just advising on stocks.”

Webster agrees: “A portion of our clients that were traditionally attracted to the equity capital market type transactions we offered became more conservative as they approached retirement and we needed to become more focussed on wealth protection than wealth creation.”

The problem was the business did not have an adequate offering to service this need. Euroz Securities traditional client base had been equities focussed, however with the accessibility of international markets to fund managers and multi-asset portfolios, there was now an opportunity to manage these portfolios through the investment cycle.

“Our clients were starting to seek advice around superannuation and how their superannuation is structured heading into retirement, estate planning, diversifying their current investments,” said Webster.



A close-up photograph of a person's hands interacting with a silver laptop. One hand is pointing at the screen, while the other is typing on the keyboard. The background is blurred, showing a person in a white shirt and a bright, sunlit office environment.

"It's been a really important part of our growth strategy. It's allowed us to provide the sorts of services that typically we find difficult to deliver to particularly smaller clients."

**TIM GUNNING, ORD MINNETT**

## DIFFERENT STARTING POINTS FOR THE JOURNEY

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Of the three stockbroking businesses, Patersons was the first to start on its wealth management journey. It needed infrastructure and support systems to support both a traditional stockbroking model and its new wealth model.

"You're taking an established business and trying to shift what we have always done. It would be different if you were starting a new business and had those procedures in place," said Tandy.

Meanwhile, Ord Minnett has been running investment portfolios for a long period of time and was looking to better use technology to support this and its customers.

"That's where we arrived at the whole IMA/SMA concept and then we decided if that is what we want to do, what is the best product/technology piece to enable that to happen?" said Gunning.

For Euroz Securities, it was looking to evolve its stockbroking business as clients' needs and the financial services landscape changed.

"We were creating a whole new operating team focussed on strategic advice that could work with our stockbrokers as opposed to changing those Advisers into Financial advisers", explains Webster.

The collaboration between HUB24 and its integrated technology provider Agility Applications, meant it could do this to provide a suitable solution to broking clients.

Webster explains: "Our stockbroking business hasn't really changed at all. It's always been pretty straight-forward based on quality research and ECM opportunities. All we've done is brought a much wider investment universe into the mix via the HUB24 platform and because Agility have been able to explain stockbroking and get it back to the HUB24 people, we've been able to add that to the mix rather than change the mix."

Tandy believes a stockbroking business looking to make the transition now would have a considerably different experience.

"We started in 2009 and that was a different environment than we are in now. You've got different technology platforms at different costs. You've got different SOA (Statement of Advice) software and regtech software, but you've also got a different regulatory environment."

She said the current regulatory environment in advice is making it quite unattractive for business to offer personal advice to retail clients, so they are looking for alternatives.

"If someone wants to do it now, I don't think it would be [as long] because there is different demand and people's businesses are being faced with different challenges."





"We knew what the need was from clients and we were getting that demand from clients, so we set out to find it. We had been watching the market looking for it. HUB24 at the time was unique hence the relationship."

**TIM GUNNING, ORD MINNETT**



# THE ARGUMENT FOR STAYING IN YOUR COMFORT ZONE

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Humans instinctively don't like change being thrust upon them.

If you overlay this with the current environment of change that characterises the financial services industry, making fundamental changes to the way you do business, becomes significant.

"We are working in an environment where it is coming from all angles," said Tandy. "Technology changes, regulatory changes and then business model changes on top of that, it can be very overwhelming for people."

However, when the business case stacks up and the commitment to change is there, it makes sense to do so. For Ord Minnett, it did not approach the decision to move into wealth management with a business case mentality.

Rather, it was about making the business more efficient.

"The issue for us was how do you better align the interests of the client and the adviser and how do you ultimately get a better outcome in terms of wealth creation for the client and what is the best structure?" said Gunning.

Patersons decisive approach was a direct response to changing business conditions and its business survival.

"If we hadn't gone down this path, our business would be very different for the negative, so it was the right decision for us to make," said Tandy.

The decline in fees, digital disruption and increases in regulation, made the business reconsider its business model and what actually worked for it and what didn't.

The case for establishing a fee-for-service business where clients would pay more for services they wanted, was strong.

"When we first started, we were offering more of a bespoke, still more equities-based service and now we will be broader than that."

Integrating wealth management into the business has given Patersons more strings to its bow.

"We have also looked at things like the HUB24 platform because there is more interest from our clients in managed funds for example, whereas before it was not something we would have looked at."

According to Webster, not making a change would have meant saying no to where its client base was starting to lead it.

"Our clients were starting to look for better advice around superannuation and how their superannuation is structured, heading into retirement, estate planning, diversifying their current investments," said Webster.

He adds: "That generation had been very much an Australian equities generation. All of a sudden we have access to all the international markets, to fund managers, to fixed income products, to move to a multi-asset portfolio that can be managed from a risk perspective through the cycle."



The strongest impediment to the change is people. For Euroz Securities, there was a generation of financial advisers, some of whom may not be able to make the change, because it was too different.

“It’s the next generation of advisers coming through that will effect that change but you’ve got to make sure as a business, you’ve got the right platforms for them to actually do both,” said Webster.

## CHECKLIST: Top 10 challenges

1. Bringing advisers up to speed on the offering
2. Getting advisers to team up with a strategy specialist
3. Making advice affordable
4. Pricing advice correctly
5. Achieving scale in the business
6. Removing product commissions (which leads to a repricing of advice)
7. Ensuring CRM meets regulatory requirements
8. A longer client onboarding process
9. A delay to revenue
10. Access to institutional grade asset allocation and investment strategy





# WHAT'S NEEDED TO MAKE THE MOVE

Making sure that the broader management team understand the move and have buy-in into the change, is critical from the start.

This can be hard when you are effectively asking the business to slow down in the short to medium term.

"It's at the detriment of time that could be spent on quicker fix income," said Tandy. "Although it's a more stable income over the long term, it's a difficult slow build."

This buy-in also extends to the financial advisers who are running a successful transactional broking business and do not have a lot of incentive to change.

While the business transition itself precedes Tim Gunning's appointment at Ord Minnett, and Euroz Securities had actively taken steps down this path prior to Webster's appointment, Tandy (Patersons) managed the transition process herself.

This involved managing the tender process for platforms, bringing in the financial advisers, overseeing communication and education materials internally and externally and keeping things on track.

"Its future-proofing your business but slowly," said Tandy.

It took Euroz Securities approximately six months for the tender process, 12 months to get through the platform and SMA information and to understand the different structures operated, and then 18 months implementation after that.

"I was learning by doing," said Webster. "I didn't realise how much I didn't understand until I was actually in request for proposal process."

## CHECKLIST: WHAT'S NEEDED?

1. Commitment and buy-in to the change
2. Financial advisers with a complimentary mindset
3. A platform to work in both HIN and Custody environments
4. Ability to participate in S708 Placements and settle to the custody solution
5. Specialists (SMEs) in each part of the process
6. Strong compliance function
7. Strong platform who understands both advice and stockbroking

# CHALLENGES ALONG THE WAY

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Appointing the right personnel was a key challenge for Patersons.

Tandy explains, it was hard to know who would have the right skill set to manage such a transformation. The bringing together of the stockbroking and advice functions required an appreciation of both pieces of the puzzle.

"You've got heads of, who are incredibly good heads of private client business books, who may not have had the exposure to the wealth area," said Tandy.

"But as a crossover you can't just take someone out of financial planning firm and expect them to thrive in a stockbroking environment. It is a very different game than that."

This is why Patersons chose to upskill its existing people and asked them to train other people. To do this, Patersons made a few management changes internally and identified advisers who had been doing more wealth management themselves and were happy to work with other advisers to give them guidance and direction.

Fee arrangements have also been a challenge in the transition. The differing fee structures of stockbrokers and financial advisers created consideration in a business model where you were combining the two services under wealth management.


Clients' comfort levels around fees have been disrupted with the introduction of platform fees, fund manager fees and performance fees.

"They're comfortable with transactional brokerage because they feel like they are only paying you when a change to the portfolio occurs," said Webster. "They are resistant to moving to an ongoing fee arrangement even if quantum of the ongoing fee works in their favour."

Meanwhile, on the advisers' side, they are similarly uncomfortable with trying to charge clients an annual fee as opposed to a transaction-based brokerage fee.

Euroz Securities are able to explain that managed portfolio fees are for the additional services provided.

"The platform fee is the easiest to explain you are going to get full custody which leads to great reporting with a great trading engine through the HUB24 platform," said Webster. "The harder fees to discuss are adviser remuneration and then the charges of the actual fund manager themselves."



"You need to have the right staff and you need to have the right systems. You can't just force a bunch of brokers to be something they are not."

**JANE TANDY, PATERSONS**



# MANAGED PORTFOLIOS ROLE IN THE JOURNEY

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Both Ord Minnett and Euroz Securities knew they needed an SMA solution at the outset, so a managed portfolio solution was always part of the transition.

For Ord Minnett, they were looking at the efficiencies that they could bring to the business – having investment portfolios that were efficient and cost effective for both the adviser and client were key.

“That’s where we arrived at the whole SMA concept and then we decided if that’s what we want to do, what is a high-quality product/technology piece to enable that to happen?” said Gunning.

Although Ord Minnett had an existing platform, bringing in the HUB24 platform with a custodian at the back-end, opened up possibilities around scalability.

“As your business grows you’ve got to be more efficient and effective in terms of how you run it right,” said Gunning. “We have advisers who are growing in terms of numbers of clients, in terms of productivity and they were increasingly demanding these sorts of solutions.”

While Euroz Securities had its own platform, it didn’t offer the scale, functionally or the level of tax optimisation that is now possible via an SMA.

“We started down this pathway in 2014 when we thought we needed SMAs - they are efficient, they are going to give us scalability of our business, and for a subset of clients they are going to achieve better outcomes in achieving their goals and objectives,” said Webster.

Being able to offer a superannuation solution that could invest in direct shares but wasn’t a Self-Managed Superannuation Fund was another important consideration, as it allowed the business service to access a different type of client outside of what was being catered to by their inhouse platform.

While Euroz Securities were traditionally strong at the investment and asset selection level, they were not so strong at asset allocation when dealing in multi asset portfolios.

“Managed accounts allow our clients to access professional managers and the client can also tweak the portfolio at the account level for personalised preferences,” said Webster.

He said finding a strong platform with a managed account capability was just as important.


“We put equal importance on both elements. We needed a platform with a strong trading and tax optimisation engine but also a broad investment menu.”



"HUB24 was the easiest because of our existing relationship with Agility and they had a modern model not aligned to the large banks. Platform fees on some of the bank aligned platforms were so high, it's not easy for them to wind them back in any amount of time."

**CHRIS WEBSTER, EUROZ SECURITIES**



A photograph of a group of business professionals in a meeting. In the foreground, a man with a beard and glasses, wearing a light blue shirt, is looking towards the right. To his right, a woman with blonde hair, wearing a white top, is smiling and looking towards the camera. In the background, other people are blurred, suggesting a busy office environment. A teal-colored text box is overlaid on the bottom left of the image.

"Our brokers are very good at reading investment opportunities. They're very good at sitting in front of a fund manager and understanding what their proposition is. But what they were lacking is the strategic advice skills, so we employed those people to provide that strategic advice and then the brokers become about executing that advice."

**CHRIS WEBSTER, EUROZ SECURITIES**



## LESSONS LEARNT ALONG THE WAY

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The business transition highlighted to all the leaders the differences between financial advisers and stockbrokers and what they bring to the table in this new model.

“Our brokers are very good at reading investment markets and opportunities, they’re very good at sitting in front of a fund manager and understanding what their proposition is, but what they were lacking was the strategic advice skills,” said Webster.

To overcome this, Euroz Securities employed financial advisers to provide the strategic advice and the stockbrokers executed the advice. The financial adviser and the stockbrokers were both in front of the client.

“Philosophically we were not going to be a stockbroker that said, guess what stockbrokers? You no longer stockbrokers, your financial advisers - because they are very different skillsets,” said Webster.

This lesson was learnt from other businesses who made their stockbrokers also provide strategic advice.

“You need to have the right staff and you need to have the right systems,” said Tandy. “You can’t just force a bunch of brokers to be something they are not.”

To support this model, all three businesses had to seek out technology that could understand their unique needs. Keeping abreast of changes and development in this space was key.

“There is no doubt that the functionality which we saw in the HUB24 platform was quite different, to be frank, to what we’d seen before. It had a custodian at the back end,” said Gunning.

While it has funds on its own platform, the ability to execute changes for multiple clients in a more efficient way was unsurpassed.

Euroz Securities needed an efficient way to buy and sell managed funds to compliment clients existing portfolios and transition them as required.

To do this they used the HUB24 platform. Euroz Securities had been working with Agility, part of the HUB24 Group, for its broking solutions and it found HUB24 was better able to understand its stockbroking needs.

The integration of systems is key in this sort of business transition because they are effectively offering two services under the one roof. Picking up an off-the-shelf advice solution and expecting financial advisers and stockbrokers to be happy, does not make sense.

“There isn’t anything that does everything,” said Tandy. “A lot of this is about system integration rather than finding one thing that fits everything. We offer different things for different clients and different systems perform that best.”

Hybrid solutions, where financial planning software has been adapted for the broking market, tends to work better.

# WHAT DOES SUCCESS LOOK LIKE?

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Given this is a high-level investment that isn't recouped straight-away, each business has its own break-even point.

For Patersons, they are almost at this point, where the fee-for-service revenue covers its fixed costs base.

Euroz Securities has since inception in 2000 had a very successful and profitable business and the expansion into wealth management was more about evolution of the advice and wealth management landscape. Euroz Securities is expecting to benefit over the next three years as further instability and volatility in financial services only serves to highlight the modernised offer.

"Our strategy was to be an early mover of the stockbroking market into wealth management," said Webster. "Knowing that they would all come eventually but if we had a head start on the other WA Brokers, we might get a competitive advantage."

He adds: "I think they are all starting now because they are all starting to think about it in different ways."

Another mark of success is recruiting advisers who acknowledge the strength platforms.

"The advisers we have been recruiting are wealth advisers, not old school broking advisers and a lot of them have made comments that our systems and processes are quite good, so I think that's positive," said Tandy.

Webster believes the distinction between stockbrokers and financial advisers will be less in the future and the businesses of the future will be best in breed of both these things.


"There used to be a time where all could exist in the landscape, but I think now you've got a financial adviser, and they need to be able to cover all bases," said Webster. "They need to have whatever the client needs under one roof because there is fee compression everywhere, there is disintermediation in everything."

For Ord Minnett, the transition has been an important part of its growth strategy.

"We've now got approximately \$9billion<sup>1</sup> worth of assets that we run for clients on platforms and HUB24 is close to a billion. It's been a really important part of that, and it's allowed us to provide the sorts of services that typically we find difficult to deliver, particularly to smaller clients. That's been a game changer for us."

1. As at June 2019



A group of business professionals are gathered around a large wooden conference table in a bright, modern office. In the background, a man in a dark suit and blue tie is smiling and looking towards the camera. To his left, a woman with short blonde hair is looking towards him. In the foreground, a woman with dark hair is holding a tablet, and another person's hands are visible writing in a notebook. The scene is well-lit with natural light coming from a large window in the background.

"If we hadn't gone down this path, our business would be very different for the negative, so it was the right decision for us to make."

**JANE TANDY, PATERSONS**



# ACKNOWLEDGEMENTS

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## **Jane Tandy – Chief Operating Officer, Patersons**

After joining the business in 2003, Jane was appointed Chief Operating Office at Patersons in 2015. She is a Director of the Stockbrokers and Financial Advisers Association and is a Board Member of Carers WA.

Patersons is an Australian wealth management firm based in Perth, Western Australia. Founded in 1903 as an accounting practice, Patersons moved into stockbroking in 1922.

## **Tim Gunning – Chief Executive Officer, Ord Minnett**

Tim joined Ord Minnett in 2009 as Chief Executive Officer and Managing Director. Tim is responsible for all Ord Minnett businesses throughout Australia and Hong Kong including private wealth management, institutional equities, fixed income and corporate finance.

Ord Minnett is a private wealth management business based in Sydney, NSW. Dating back to 1872, Ord Minnett has evolved from the amalgamation of several leading Australian financial services firms.

## **Chris Webster – Head of Private Clients, Euroz Securities**

Chris has worked in financial services since 2003, holding a variety of positions in sales, operations, risk and compliance both in Perth and London. Chris is a Director of Euroz Securities Limited and Entrust Wealth Management Pty Ltd

Euroz Securities was established in Perth, Western Australia in 2000. Euroz Securities Limited is a diversified wealth management company. Euroz Securities offers Stockbroking, Wealth Management and Corporate Finance services.

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# WANT TO KNOW MORE?

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