

HUB24:

**The future of
technology and data
in enabling advice**





Executive summary

Financial advice is a service valued by many Australians, and while many more are interested in seeking advice, it is currently not accessible to all.

One of the main reasons for this is many Australians find the cost of advice prohibitive. A major contributor to the cost of advice is the cost of compliance and the complexity associated with delivering the core functions of running an Australian Financial Services License (AFSL) – such as governance, revenue processing and the management of fee disclosure statements.

HUB24 believes it has a role to play in addressing this challenge by developing solutions that help licensees be cost effective and to meet their compliance obligations.

To do this, HUB24 has been working closely with a number of forward-thinking advice collectives in Australia. They have confirmed the considerable and increasing cost and effort that goes into core licensee functions, additionally the time and development resources needed to solve this problem which erodes their capacity to focus on other areas such as assisting practices to grow and to be more profitable.

One of the major challenges identified by licensees is access to quality data. Advisers spend an enormous amount of time establishing what works for them, their practice, and their clients. They label and store documents their own way, making it difficult for licensees to monitor what is happening within practices. Moreover, much of the data held is unstructured and not visible, contained in emails and PDFs of SoAs, RoAs and FDSs.

The cost of providing advice can be reduced if advisers and licensees have access to whole data sets. However, the advice collectives HUB24 spoke to agreed that to be most effective, scale and collaboration are required so that compliance and the ability to provide cost-effective advice are not sources of competition, but rather the foundations of a robust and accessible advice industry.

There is increasing recognition across the industry regarding the need for solutions to address the growing advice gap, with the Australian Securities and Investments Commission (ASIC) recently releasing Consultation Paper 332, which seeks to identify the issues and impediments which impact the supply of good quality affordable personal advice.

HUB24 is committed to investing to develop core data infrastructure for the industry. From our discussions with licensees, it has become clear there are many other challenges faced by licensees, brokers and advisers that can be solved through leveraging our technology and data expertise.

This led to the announcement last month that HUBconnect will be repositioned as HUB24's data and technology services business unit within HUB24, which will sit alongside the HUB24 platform. HUBconnect will deliver technology and data solutions which enable practices and advisers to operate flexibly within their own business structure, while also supporting the compliance requirements of their licensee and enabling the delivery of cost-effective financial advice. Going forward HUBconnect will also encompass data and technology solutions for brokers provided by the business formally known as Agility Applications.

As an industry we have an obligation to our customers to work together to solve these key challenges and provide solutions that fill the gap left by those large participants who are exiting the industry, supporting licensees with compliance and governance to enable the delivery of cost-effective advice.

Advice front and centre

Despite the transformation that has occurred in the Australian financial services industry over the past few years – structural, regulatory, demographic – advisers have continued to demonstrate their ability to adapt and to deliver a valued service.



Gareth Hall

**CEO
Lifestyle Financial Services**

“We’re all looking for the holy grail to get to the point where we are operating efficiently and swimming inside the lanes.”

Meanwhile, the demand for financial advice is expected to grow significantly – an Investment Trends survey of 4,501 adults in July this year found the demand for advice has doubled in the past five years, and projects that 2.6 million non-advised Australians intend to seek help from a financial planner in the next two years¹. This figure is up from 1.3 million in 2015 and up half a million more than in 2019, with 44 per cent of those surveyed sighting the COVID-19 pandemic as increasing their likelihood of seeking advice.

Advisers have a crucial role to play in helping to keep Australians on track to meet their day-to-day and long-term financial goals. The Government’s announcement in March to allow applications for the early release of super impacted many super funds across the industry. Whilst HUB24 received a few requests, the impact of these was less than 0.1% of Funds Under Administration, given the demographic of our customers and their relationship with a financial adviser. Some without access to financial advice exited at the bottom of the market.

Recent announcements are providing momentum to making advice more cost-effective and accessible, with the Australian Securities and Investment Commission (ASIC) announcing a consultation period with the advice industry to identify the issues and impediments which impact the supply of cost-effective, quality financial advice.

In launching Consultation Paper 332, ASIC noted while consumers were seeking better access to limited and affordable advice, many industry participants found it challenging to provide this type of advice². It called for feedback on the barriers to achieving this, which ASIC and the industry could then address.

Meanwhile, findings outlined in Treasury’s Retirement Income Review Final Report highlighted the positive role financial advice could play in navigating the complexity of the retirement income system³.

The report stated:

Complexity and uncertainty, a lack of financial advice and guidance, and low levels of financial literacy are impeding people from understanding the system.

As a result, some people fail to adequately plan for retirement and make poor decisions about how to use their savings in retirement.

Yet while the need and demand for financial advice is strong, the advice industry must continue to overcome challenges which impede its status as an accessible service – namely cost. According to Business Health, who analysed key financial data of more than 300 non-salaried advice practices, \$3,558 is the average amount advisers need to be remunerated annually per client to run their business.⁴ While some practices' revenue per client will be higher or lower, this figure indicates the high cost of advice for customers.

At the heart of the issue for advisers is the economic model for licensees going forward – how can the economics work in an environment where the value chain is being recreated, licensees can no longer rely on the subsidisation models that previously existed and the direct costs of managing and overseeing advice are increasing?

Lifestyle Financial Services CEO Gareth Hall noted: “We’re all looking for the holy grail to get to the point where we are operating efficiently and swimming inside the lanes.”

This is particularly the case for advice practices who do not have scale but are looking for support and solutions that will enable them to run a sustainable business and deliver value for their clients.

“Research shows us compliance and back-office efficiencies are advisers’ equal top priority with client acquisition,” said Clayton Daniel, Managing Director, XY Adviser. “I thought it would be ongoing service, but I know advisers who have not taken on a single new client this year because they are not sure of the compliance obligation.”

Further, the gap in understanding and expectations around compliance raises the question whether these inefficiencies are adding unnecessarily to the cost of advice.

“We are not as a profession totally clear on what we should and should not be doing because there are so many grey areas,” said Hall. “We know we need to act in our client’s best interest but is charging them to get the job done, the right way?”



Clayton Daniel

**Managing Director
XY Adviser**

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Mind the gap

Historically it has been large institutions such as banks who have provided advisers with support and delivered core functions such as governance, compliance, and revenue processing. The true costs of these functions were hidden and cross-subsidised by product margin.

But over the past few years, we have witnessed the mass exodus of large institutions out of wealth management and the demise of the vertically integrated business model. The large banks have either divested their advice businesses or exited from wealth management all together, leaving little infrastructure behind.

In response, we have seen the rapid growth in boutique and mid-tier licensees. Of the 2,161 currently registered advice licences, privately owned or limited licence categories account for 60% of advisers.⁵ These groups have been forced to absorb the rising cost of ongoing regulatory and compliance obligations, without the scale commonly required for significant investments in technology and data infrastructure.

According to Fortnum Private Wealth's Managing Director Neil Younger, this uncertainty over compliance has only exacerbated licensees' existing desire to find another way.

"There's an alignment of views amongst a number of industry players around the need to make a step change in how advice is delivered. There is a degree of shared frustration around the model of the old presenting challenges around accessibility to advice and just the commercials associated with that."

However, licensees and advisers are not looking to re-create what was, but to pioneer an even better solution, one that is "less detective and more preventative". They are conscious that the current monitoring and supervision is backward-looking and there is a desire to monitor and supervise in a way, so they are not doing annual audits but rather things are being audited consistently. This would free up

resources to do coaching, to improve processes, and to create better client experiences.

According to XY Adviser's Clayton Daniel, it is clear advisers' needs are not currently being met.

"If you consider the traditional role licensees have played, there is a lack of licensee services being provided in the market. While we have seen the rise of services provided by specialists, I am not sure the industry has caught up with what advisers need."

Lifestyle Financial Services Gareth Hall agreed: "Tools to help practices meet their compliance obligations exist but these are so broad you need to spend large amounts of money for it to function how you want it to. This approach is not working for smaller firms who have to meet their client needs."



Neil Younger

**Managing Director
Fortnum Private Wealth**

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Challenges for licensees and advisers

Last year, HUB24 worked with several forward-thinking advice collectives to get their input on using data to solve advice challenges.

Participants said this was an opportunity to have a structured conversation with an open agenda. There were no pre-determined views other than a common understanding there has got to be a better way, a smarter way, a more effective way of being in the business of running a licence, and off the back of that to push the profession forward.

It was clear that a considerable amount of cost and effort goes into the monitoring of advice, and functions such as governance, risk and compliance, the reporting of Key Risk Indicators (KRIs) and auditing. This makes it difficult for licensees to have enough time and resources to dedicate to services to help practices grow and become efficient and profitable, while delivering great client outcomes.



Neil Younger

**Managing Director
Fortnum Private Wealth**

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“To do advice comprehensively is a considerable effort for advisers and right through the whole process – the discovery, the analysis, the research, the SoA or document production, the file note keeping etc, is quite onerous,” said Younger.

While this can be many days work, Younger said it makes sense when a client has complex circumstances and has the capacity to pay an adviser to address these complexities.

“But we also deal with a lot of clients where things aren’t as complex and yet the same structure and processes need to be applied to many of those simpler circumstances as well, and that makes no sense.”

Lifestyle Financial Services has spent the past 12 months working on establishing a foundation SOA with their new licensee.

“For the past year we have spent countless hours making client files compliant, so it’s been a challenging period to get work done,” said Hall.

He said licensees vary in their understanding and expectations around compliance, so many practices are having to adapt to new systems as they change licensees. Further, while asking clients to scan and print documents might be the way forward, this is challenging for clients who do not have the right equipment.

The licensees HUB24 consulted with agreed the best way forward was to create consistent compliance solutions so practices do not have to compete on these core services. They agreed collaboration provides the greatest chance of solving the most fundamental issues.

This is particularly the case for boutique licensees who due to their size may not have access to the full suite of possible solutions but can see the benefits in being able to partner and collaborate with others across the industry.

The greatest challenge is access to quality data. It is estimated that 80% of the data produced in a

practice is unstructured and held in a variety of data sources. It exists in documents such as PDFs and word documents. This data is therefore extremely difficult to access and assess against compliance obligations.

“Data is captured in a number of different ways and because as a licensee, you deal with individual practices, the advisers are not employees, they run their own businesses,” said Younger. “Capturing that data in a standard way is a massive challenge.”

Further, finding ways to deal with unstructured data was critical. “If we were running a salaried business model where everyone did the same thing because they’re employees and you can tell them that’s the way to do it, you don’t have the problem in the same way you do when you are dealing with lots of businesses,” explained Younger.

Therefore, a major challenge to supporting the provision of compliant financial advice is the digitisation of advice practices. A solution is required that can take data inputs from a number of sources and bring it all together in a meaningful way that makes it easy for licensees and advisers to proactively manage compliance obligations.

“There is definitely a need to bring more digitisation and structure to advice data sets,” said Adrian Patty, Chief Technology Officer for XY Adviser. “Technology can do a lot but there is a lack of useable data. Any rationalisation of data and conversion of unstructured data to make it more useable is a great value add.”

HUB24 established the Innovation Lab to investigate how technology available across the market could be leveraged to solve challenges in advice enablement. The Innovation Lab team asked itself the questions an advice practice would when considering compliance and how to streamline and digitise its obligations – how do we take a variety of electronic documents, determine what they are, read them and pull out the core bits that are important to our business and the regulator?

Fortnum Private Wealth has been piloting the HUBconnect licensee and compliance solution to assist them in capturing, organising, and using their own data. They have connected Xplan and other systems and are cleansing and organising the data to automate KRI reporting currently done manually. This solution uses machine learning to collate all the files uploaded into Xplan and can currently recognise and categorise 1500 files per night.

In such solutions, data is the game, technology is the enabler, and the goal is a much better user case for clients and ultimately for advisers, practices, and licensees.

According to Hall, it makes sense that a platform such as HUB24 which has access to data could also use it to create efficiency for advisers.

“If you have got the data, and you need a form from a client, why couldn’t we populate the form? It would save us ten minutes and if we are doing that ten times a week, that would be a massive time saving.”



Adrian Patty

**Chief Technology Officer
XY Adviser**

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Stepping up to the plate

HUB24 believes it has a role to play in delivering technology solutions that can integrate and interpret data and help to enable more accessible financial advice.

HUB24 is in a unique position given its commitment to open architecture and to delivering innovative technology solutions to market, as well as its data integration expertise which is available through the business formally known as Agility Applications.

Agility's data integration capabilities were central to developing the HUBconnect App which gives advisers and their clients the ability to bring data from investments which clients may have with multiple product providers together to create a single, personalised view of their portfolios. Advisers can also use the App to organise client data and create meaningful reports.

For licensees like Fortnum Private Wealth, HUBconnect's licensee and compliance solution is already delivering capabilities that support their advice model, utilising features which facilitate the digitisation of practices, but in a flexible way.

"We have a model that delivers freedom in a framework so we can provide practices flexible data solutions rather than one way or no way type solutions. This expanded capability within HUBconnect is a significant step forward for us to provide those sorts of solutions for our businesses," explained Younger.



Neil Younger

**Managing Director
Fortnum Private Wealth**

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The future state

The next five years will continue to see massive reorganisation of the pieces of the puzzle that make up the Australian financial services industry. In this time, the role of industry players will evolve, and just as large institutions move out of advice, other groups such as collectives will emerge and new structures will form around them to provide the support they need to prosper.

HUB24 is evolving its capability from being an asset custodian to a custodian of data and a leading provider of integrated platforms, data and technology services for the wealth management sector, through continued investment to deliver solutions to solve key challenges that enable the delivery of cost-effective advice.

Data and technology become an enabler as we continue to enhance and evolve the HUBconnect range of solutions to support brokers through HUBconnect Broker, develop the HUBconnect App so advisers and their clients have access to new data sources, reporting and functionality, and work with our licensee partners to build innovative tools that solve key compliance challenges.

Innovation and technology have already been a key driver of transformation in the financial services

industry over the past 10 years, and through working together across the industry we can continue to drive change, unlock value for licensees, advisers, and their clients and to deliver more advice to more Australians to help them reach their investment objectives.

We've got a job to do, to make advice more efficient and cost-effective – and by partnering with licensees and building scale, HUB24 can continue to invest and to lead change.

“HUB24 is committed to the transformation of advice and we can support licensees by providing innovative solutions to solve key challenges in advice delivery,” said Andrew Alcock, Managing Director HUB24.

“We have the capability to build the data infrastructure, and through our partnerships and collaboration with licensees, we can build scale and continue to invest and deliver solutions that support the whole industry.”

As an adviser observed: “If we all sit back, it's like the field of dreams – build it and hope they come, but we don't get to a result that makes sense. Realistically, what gets created by a collaborative approach is actually even more beneficial than what ever could have been gained from a small competitive advantage.”

- 1 Investment Trends 2020 Financial Advice Report.
- 2 Australian Securities and Investments Commission Consultation Paper 332 – Promoting access to affordable advice for consumers.
- 3 Retirement Income Review Final Report July 2020.
- 4 Business Health October 2020 – Analysis of key financial data of more than 300 non-salaried advice practices.
- 5 Adviser Ratings Adviser Musical Chairs Report Q3 2020.



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