

GIANT STEPS FOR GROWTH

Platforms are moving away from being fixed administrators of investment products to dynamic enablers of financial advice. **Harrison Worley** explores how platforms are keeping pace with the needs of the financial planning community.





01:
Arnie Selvarajah
chief executive
Bell Direct



02:
Richard Tourneur
director and planner
Tourneur Financial
Planning



03:
Dina Kotsopoulos
head of platforms
product management
BT Financial Group

In the previous edition of *Financial Standard*, Karren Vergara explored managed accounts and how the \$50 billion market impacts the lives of its ever growing client base. Managed accounts are clearly important, but they are just one-quarter of the investment platform market.

Australia's total platform market is even bigger, worth \$665 billion in funds under administration according to Rainmaker Information's latest Advantage report. Understandably some of the country's largest financial institutions dominate market share.

However, in a move that would have been unimaginable only a few years ago, the big banks – Commonwealth Bank, National Australia Bank and ANZ – in quick succession this year offloaded the majority of their wealth management arms (including their platform businesses). In this sense, the jury is still out on who will be the market leaders in the long haul.

Industry experts suggest the next battleground will be multi-dimensional. Platforms will have to fight it out on fees, innovation and, most important of all, client-centricity.

To those long in the tooth, these issues aren't new, but with the Royal Commission putting the industry under a harsh spotlight, and the new players fast gaining market share, the stakes are higher and the consequences of being complacent are potentially fatal to those at the bottom rung of the ladder.

A report from global advisory firm NMG Group shows Australian advisers agree platforms are playing an ever increasing role in their businesses. Platform satisfaction increased 2.4% to 72.1% in 2017-18, NMG says.

The advisory group says improvements in technology are partly responsible for increased adviser satisfaction with platforms. It says improvements in technology have been spearheaded by the majors, but not without serious contention from challengers such as Netwealth and HUB24.

Bell Direct chief executive Arnie Selvarajah⁰¹ says in the last three years, the relationship between advisers and clients is becoming more holistic when it comes to platforms.

"Clients want help to navigate their wealth

journey, but don't want to relinquish complete control from it," he says.

"It's moving from 'do-it-for-me', to 'do-it-with-me'."

On the technology front, director and planner at Tourneur Financial Planning, Richard Tourneur⁰², says further developments in platforms are necessary, highlighting Colonial First State now offers a "t+1" trading feature which helps advisers take action if they foresee volatility in the market.

"If a client wants to increase or decrease their market exposure, provided they get in before the close of day, we get that day's unit price – even though it takes a couple of days to process, it's back dated to today," Tourneur says.

"So if we see volatility in the market – where the market might move 4-5% in the day, which happened for example when US President Donald Trump got elected – we're able to move quickly for the client."

He says features of this ilk aren't offered across the industry, meaning some advisers are better placed to deal with volatility in the market than others depending on the platform their client's investments sit within.

Fees, fees, fees

Fees have become a central issue for platform providers in 2018, and have global implications.

For example, the UK financial market regulator harbours concerns over fees and the manner with which they're charged by platforms in the UK (see breakout).

Specifically, the Financial Conduct Authority says it is concerned with fee transparency, saying fees were hard for consumers to understand and compare.

As part of its announcement to offer BT Panorama Compact, the platform giant said it would offer a new fee structure to new users of BT Panorama, aiming to increase fee transparency across BT's platform offerings.

New customers to BT's flagship investment platform will now automatically access BT Panorama Investments and BT Panorama Super via a new asset-based administration fee of 0.15% per annum across their assets, which are capped at \$1 million. An additional flat ac-

count fee of \$540 will be charged per annum.

The fee structure is also set to apply to advisers and their clients using BT Wrap and Asgard eWrap, should they elect to access it.

BT Financial Group head of platforms product management Dina Kotsopoulos⁰³ says BT's new pricing structure was designed to increase transparency, by ensuring clients and their advisers were charged the same fees right across BT's platforms – despite platform pricing having historically been differentiated between advice licensees.

"In recent years, we've seen a lot of change in a competitive market and it is important for a platform to offer great functionality, quality investment options as well as an attractive price," Kotsopoulos says.

A platform for technology

According to planner Tourneur – who says his top three platform providers are BT, Colonial

First State, and OnePath – platform providers need to consider how technology can move the sector forward.

Specifically, the adviser says he wants technological advancements to enhance the knowledge of the client.

"Looking at moving more with the technology, being able to move forward and people will get different ways to access information," Tourneur says.

Artificial intelligence, machine learning and natural language search capabilities are all under development for Macquarie's platform offering.

Macquarie Wealth Management head of wealth product and technology Cameron Garrett⁰⁴ says each innovation is subject to the same core consideration – will this improve the life of an end user with changing needs?

He adds Macquarie will be making improvements to the adviser side of its platform over the next year-and-a-half, to bring the adviser and client experiences into line.

As part of the upgrade, Macquarie is set to transition to a new portfolio management system, which Garrett says will further modernise its offering by moving data to the cloud – giving the platform real-time capabilities.



It's moving from 'do-it-for-me', to 'do it with me.'

Arnie Selvarajah

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04:
Cameron Garrett
head of wealth product
and technology
Macquarie Wealth
Management



05:
Jennifer McDermott
executive product
manager, portfolios
IRESS



06:
Laird Abernethy
head of retail sales
Colonial First State

BT's Kotsopoulos says open banking and AI are set to transform platforms.

"There are opportunities in open banking and more broadly, through open API structures, and areas such as artificial intelligence and machine learning will continue to play a key role in shaping developments across the industry," she says.

BT actively incorporates client and adviser feedback, pointing to the market leader's recent inclusion of digital consent technology to BT Panorama, she adds.

Features such as digital consent technology help clients and advisers to better manage the transaction approval process and readily seize investment opportunities, she adds.

IRESS executive product manager, portfolios Jennifer McDermott⁰⁵ says the software firm regularly met with platform providers to understand the technological direction of the industry.

"We regularly meet with platform providers to understand how they're structuring new products and features to ensure they seamlessly integrate with XPLAN," McDermott says.

IRESS has a range of options to help platforms in the portfolio area, remaining focused on bringing structures such as managed accounts and model portfolios into XPLAN for advisers and their clients.

"While platform innovation is ongoing, the quality and timeliness of data remains a key focus with data integration options changing rapidly," McDermott adds.

For Bell Direct's Selvarajah, most of the big friendly giants have failed to properly respond to the up and coming platforms such as OneVue and Netwealth – who he says have all brought a more adverse and client-friendly approach to the market.

"Most incumbents have not responded to this, with many embarking on sales processes to get rid of their wealth arms," Selvarajah says. "We've already seen incumbents suffer from

being tied to large, inflexible organisations with high cost bases; those platforms that are able to move to open architecture models, rather than closed product offers, will fare well."

Selvarajah believes the platforms which innovate to assist advisers with client engagement will be the ones to end up on top.

"This is going to be the battleground of the future," he says.

Garrett echoes the sentiment, saying the future for Macquarie's platform lies in an open architecture approach.

"It will enable us to partner with market leading technology solution providers, and seamless integration between the technology ecosystems of our advisers and their clients, no matter what their technical environment is," he says.

With some of the big giants having already left the wealth market, Legg Mason's Sowerby reaffirmed the importance of platforms.

"Platforms that add value to investors and advisers will continue to thrive regardless of ownership," he says.

Rise of ETFs

Perhaps one of the biggest gamechangers in the industry is the rise of the exchange traded funds sector. Rainmaker's latest Exchange Traded Product report says Australia's ETP market is now worth \$36.3 billion, growing 2% (\$619 million) in the March quarter of 2018.

As more of investors' funds are allocated to exchange-traded products, are platforms losing relevancy?

Colonial First State (CFS) head of retail sales Laird Abernethy⁰⁶ says platforms have had to adapt to the growing demand for exchange-traded products, including Colonial's FirstChoice and FirstWrap platforms, which now offer ETF options.

"ETF growth broadly reflects demand for passive investing and other lower cost variants," Abernethy says.



We see the future of our platform being based on an open architecture approach.

Cameron Garrett

Macquarie's Garrett agrees that demands for passive investment choices are increasing across the market. Macquarie's Wrap platform is beginning to integrate ETFs as part of the group's commitment to offering diverse investment options.

"Many clients are now choosing to have ETFs as a core part of their portfolio given the cost and diversification benefits, this is keeping with the broader market trend of an increase in passive investing," Garrett says.

"That said, as ETFs are maturing in the market, they are evolving beyond passive investments."

Recently the wealth giant announced the launch of Vanguard separately managed accounts on Macquarie Wrap, with the investment in Vanguard's SMA's predominantly ETF based.

The compact offering

A recurring feature of platform innovation in 2018 has been the move to introduce compact or "core" offerings – each designed to meet the needs of investors with lower account balances and simpler investment needs.

Earlier in the year, BT Financial Group announced it would press ahead with plans to introduce BT Panorama Compact, which incorporates the features of Panorama with a simpler investment menu.

BT's announcement followed hot on the heels of news that HUB24 would introduce a lower-cost and simpler option in its investor directed portfolio service (IDPS) and superannuation products.

Macquarie's Garrett says it's crucial that platform providers cater to the diverse needs of all clients.

Macquarie offers its low-cost Macquarie Wrap Accumulator platform to those with balances starting from \$5000, or \$2000 with regular contributions.

In this option clients and their advisers are able to choose from more than 200 funds.

However Garrett warns it is incumbent on advisers to point out the restrictions of compact platforms to clients.

"Compact options may have pricing benefits for clients which is a good thing, however it's important that advisers point out limitations such as portability when giving advice to their clients," he says.

Compact platforms may serve to increase the number of advised clients across the industry by engaging those with lower account balances who might not have considered advice before, Garrett adds.

Kotsopoulos says BT's new compact version of BT Panorama was designed to expand the opportunities for advisers using BT Panorama by bringing clients with smaller balances and simpler investment needs into the fold.

UK regulator advances platform concerns

Platforms have caught the attention of regulators in the UK, with potential implications for its wealth market.

The Financial Conduct Authority (FCA) recently released proposals designed to improve competition in the UK's investment platform market – one which manages about £500 billion and has doubled in past five years. With 2.2 million extra customer accounts opened on investment platforms in the same period, the FCA believes platforms are becoming an increasingly relied upon by UK consumers.

The FCA says the investment platform market is not working as well as it should for some consumers, with the regulator concerned about consumers choosing which direct-to-consumer platform to invest in based on price. It says fees can be hard to understand and compare.

The FCA says some consumers would benefit from switching platforms, but find it difficult or costly to do so. The barriers to switching investment platforms are significant and could limit the pressure on platforms to provide continued value for money. Additionally, the regulator stated its concern for orphan clients – those who were previously advised but no longer have a relationship with a financial adviser – highlighting their limited ability to access and alter their investments on an adviser platform. The FCA concluded orphan clients therefore effectively end up paying for functionality they do not use.

The regulator's proposed remedies include measures aimed at strengthening the extent to which platforms drive competition between asset managers, as well as measures to make it easier for advisers and investors to switch platforms. Additionally, the regulator said it wanted to introduce measures addressing price discrimination between orphan and existing clients.



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07:
Andy Sowerby
chief executive
Legg Mason Australia



08:
Andrew Alcock
chief executive
HUB24

For Kotsopoulos, introducing BT Panorama Compact isn't about giving people a no-frills option lacking in the high quality aspects of the standard Panorama offering.

"It's important to note that we apply the same investment selection policy to the compact menu as for the full menu," she says.

"All investments are subject to the same investment selection criteria for in-house and external products."

Legg Mason Australia chief executive Andy Sowerby⁰⁷ says compact platform offerings also increase competition between fund managers, who all vie for the same limited space available.

"For fund managers, investment platforms enable broader distribution of funds, via different legal structures, than otherwise may be the case," Sowerby says.

"By definition a compact platform offers less options to the user but, usually, with the benefit of a lower overall cost.

"For an investment manager this increased competition to secure a berth in this guided offering."

For HUB24 chief executive Andrew Alcock⁰⁸, the move to introduce a compact offering reflected a gap in the firm's market coverage.

"HUB24's full platform is incredibly comprehensive in terms of the investment universe and the functionality," Alcock says.

"We get great traction with that in a certain part of the market. But there's a part of the

market which we haven't had a simpler product for to-date, and we're launching that."

HUB24's compact – or "core" offering as Alcock puts it – employs a similar design to BT and Macquarie's compact platforms: lower costs, less investment options, but a retained quality of the overarching platform.

CFS' Abernethy points out that moves to introduce compact offerings to the market are not new, but a revamped strategy from the early 2000s.

"A smaller menu with a lower price to customers makes sense and it is an easy trade-off for advisers and consumers to understand," Abernethy says.

"This is not a new move by the industry and CFS was probably a pioneer disruptor in the mid-2000s with the FirstChoice platform."

He suggested moves to introduce platforms with compact menus was more of an attempt by platform providers to reposition their existing offerings.

"While FirstChoice promised a different service experience to other wrap platforms at the time, there are other platforms that have used a new product with a compact menu as a way to create a different price point in lieu of re-pricing their existing product," he says.

Walking with giants

Australians are used to large institutions commanding significant market share and domi-



Other platforms have used a new product with a compact menu as a way to create a different price point in lieu of re-pricing their existing product.

Laird Abernethy

nating the industry they inhibit. Coles and Woolworths, for example, hold 61% of Australia's grocery market according to research house Roy Morgan.

The grocery market also serves as a useful analogy for the platform market. Fundamentally, platforms are a means in which the wealth management sector can assemble consumer choice.

According to Rainmaker Information, the five largest groups administering platforms in Australia control 76.3% of the platform market. BT Financial Group (20.3%) leads the way, followed by AMP (17.2%), Colonial First State (15.6%), MLC (11.8%), and Macquarie (11.4%) (See Figure 1).

With so much market influence concentrated in just five institutions, it would seem like the balance of power is heavily weighted on the majors. But thanks to the confluence of recent events – the big banks withdrawing from the market; new players becoming more pivotal; incumbents re-inventing themselves and finally, financial advisers at the vanguard of yet another new chapter post the Royal Commission inquiry – no individual platform group can afford to be complacent.

Garrett says the impetus behind new features and enhancements to its platform offering come from advisers, speaking to what they believe would be good for their clients.

He says platforms are now made for the adviser, allowing them to work in tandem with their client.

"Increasingly, advisers are asking us to design platform solutions with the starting point of what clients need," Garrett says.

"The focus from both the view of the platform provider and the adviser is the end-client."

Garrett adds that recent efficiencies Macquarie made to its platform were designed to free up time for advisers, allowing them to have more "holistic" conversations with clients.

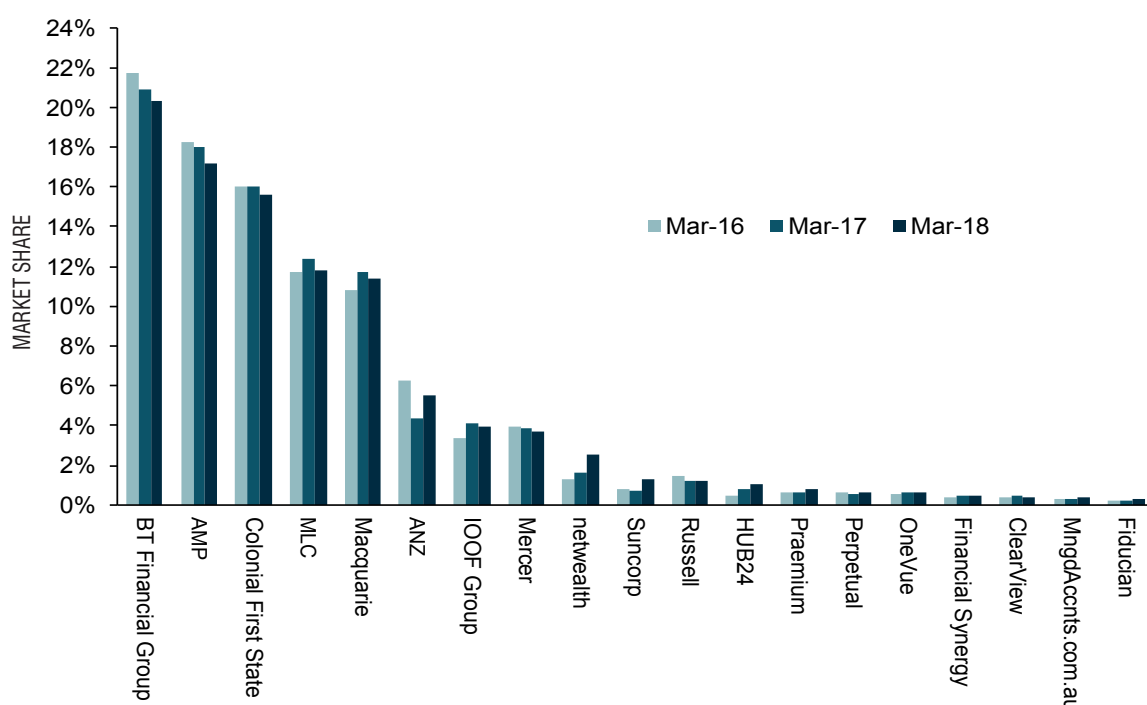
Abernethy says platforms play an important role in delivering an adviser a reliable digital interface [as well as] administration and reporting services to their clients.

But even if clients want to consider differences in features relevant to them across platforms, the trade-offs between differences in fees and client features are often best summed up by their adviser.

"The client will have the ultimate say as to which platform they use but it is unlikely the client has the information, time and tools to make such comparisons," he adds.

In other words, the decision still rests firmly with the financial adviser and with all their competing priorities and challenges. The race is on to determine the next batch of platforms that can help propel them to the needs of 21st century consumers. **FS**

Figure 1. Largest groups administering platforms



Source: Rainmaker Advantage Report, March Quarter 2018



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