Competition, regulation and fintech impacting practice profitability

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From knowITdigital and Business Health


Terry Bell

The latest *knowITdigital/Business Health Future Ready VII* report shows that financial planning practices have improved their revenue and profitability over the past two years, supported by an overall increase in the number of new clients at practice level, however there has been little improvement in areas such as client communication and succession planning.

The Future Ready analysis is undertaken every two years, providing an insight into the health and the Australian financial advice profession and its preparedness for the future. The latest report is based on findings since the start of 2015, and is sponsored by knowITdigital, a software product and services company that specialises in online tools and learning in the financial services industry.

Terry Bell from Business Health said that there are a number of market drivers that have remained stable since the previous report – such as Australian's aging population (including advisers); a proactive regulator; a challenging political, social and investment environment; and limited understanding of the value of financial advice – that are having an increasing impact on advisers.

"These have been joined by additional drivers impacting the evolving business model of advisory practices, including fragmentation of the large aligned groups leading to the "march to independence", the emergence of new competitors, and the rise of fintech.

"These challenges aren't going to go away, and in many cases their impact will only accelerate in coming years. Financial planning practices that aren't prepared for this impact are at risk.

"It is concerning that only one in three practices have a longer term strategic plan for their business, and very few practices have adequately addressed what will happen if the principal is no longer involved in the business – either by choice or through illness or death.

"Only 30 percent of firms have some form of documented succession plan, and less than half of these have not yet identified a potential successor, let alone agreed any terms or timeframes.

"Perhaps unsurprisingly, 89 percent of practices with a single principal felt that their business would be unable to grow or develop without them, and 56 percent said that their business could not operate at all without them.

"With this in mind, it is to be hoped that by the time we undertake the next report, more business owners will have put in place sensible strategies to ensure their business's survival," Mr Bell said.
Rod Bertino from Business Health said that despite this, business owners were remarkably optimistic about the future.

"The vast majority of principals expect to increase their practice revenue over the next 12 months, primarily through fees, and to see an increase in practice profitability.

"A significant proportion (80 percent) also expect to increase the number of clients they have, and almost half want to add more support staff.

"However in light of the lack of strategic and operational planning, we question whether these are truly realistic goals or simply well-intentioned hopes."

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Another area where advisers are still not making great improvement is in communicating with clients, Mr Bertino said.

"Over the past two years, the number of times that practices communicate with their top clients during the year has fallen, which is of great concern.

"Just over one in three practices communicate with their best clients more than 10 times per year be it by written, electronic, telephone, group functions or face to face interviews. This result is well below our 2014 finding of 43 percent.

"Only 28 percent meet face-to-face with their "A" clients once a year to review their current personal circumstances and their progress to plan. Further, 21 percent of client review meetings last less than 60 minutes.

"Our studies show that there is a direct correlation between client communication and referral business – where clients score the communication they receive from their adviser highly, they are far more likely to have already referred others to the business and they also have a much higher propensity to do so again in the future."

Wayne Wilson, CEO of knowITdigital, said the report findings that those advisers using technology in their business, were the most profitable, was not surprising.

"Advisers could be making much greater use of technology to help address the kinds of issues they are facing.

"Those practices that are able to effectively utilise the benefits available through the latest client management programs, are generating on average a far higher level of profit per principal than those who are still managing their business on dated technology platforms.

"Practices using paper-based files recorded a profit per principal of $119,300, while those using an automated CRM recorded $268.579.

"It is encouraging that the vast majority – 98 percent – of advisers are using some form of database software to maintain their client information, but the key question is whether it is being used to best effect," Mr Wilson said.

"Xplan was the most commonly used software system with 81 percent of practices using this package – up from 69 percent. Interestingly, 10 percent of practices reporting using two or more different CRM systems.

"On the whole, the results outlined in this report show some areas of improvement but also a number of areas of decline or stagnation. The overall message is clear – businesses that invest in their people, technology, and their clients are more likely to deliver a profit to their principals," concludes Mr Wilson.

The Future Ready report provides a comprehensive insight into the health of Australian financial planning practices and their preparedness for the future, based on data provided through the Business HealthCheck diagnostic tool. The latest in the series, Future Ready VII, is based on information from 226 firms that have taken the HealthCheck between January 2015 and December 2016.