Advisers lift profits but more needed on new industry challenges

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Financial advice groups have taken steps to improve their business profitability but they have tended to neglect important fundamental changes necessary to future-proof their businesses, according to a new research report.

According to the report, commissioned by fintech services company knowITdigital and undertaken by the financial planning business advisory group Business Health, many advice firms lack the strong business fundamentals necessary to sustain long-term profitability.

They cannot, the report says, mitigate the impact of 'upcoming market drivers'. But they are enjoying, currently an uplift in revenue and profitability.

The report, called the 'Future Ready Report VII', says advisers are still neglecting key areas of internal business operations.

The 'Future Ready' analysis is undertaken every two years by practice management firm Business Health with the aim of providing insight into the health of the financial advice industry and to gauge the advisers' readiness for the future.

Rod Bertino, co-owner of Business Health, said last week that: “There has been a lot of talk about a shift to professionalism that is needed in the advisory industry. Everyone nods and everyone intuitively agrees that we need to continue down the professionalism path, so myself and the Business Health team questioned how we measure that. How do we know we are moving down that path?

“If you look where the majority of the marketplace is today, 96 per cent of the advisers are members of their professional association, whether that be the FPA, the AFA or SMSFA.

“[A total of] 71 per cent of the advisers in our dataset reported that at least half their revenue comes from fees as opposed to commissions. That is the first key takeout form the report, that there really is this shift toward professionalism, but how do we continue that shift?”

Significant legislative changes, an ageing client base and a growing appetite for robo-advice by millennials are on the horizon for the financial planning and advice industries.

To address these threats, Business Heath has advised that principals of financial advice firms must position themselves as business owners, not advisers, and must introduce stronger fundamental business practices into their companies.

“As bullish as they are with their outlook, most advice firms don’t have solid plans on how they’re going to achieve their predicted outcomes,” said Bertino.

“Only one in three have a documented long-term strategic plan for their business. 35 per cent have a three-to-five-year plan on where their business is going, and 31 per cent have a lower level operational plan for the coming 12 months.

“It’s one thing to have a bullish outlook and have lofty and ambitious business goals, but unless there are some documented strategies, then the chances of being side-tracked or distracted are great and there is a number of things that will be thrown at the advisers in the coming 12 months to two years that has the potential to side-track them.”

Wayne Wilson, the chief executive of knowITdigital, said that a lack of succession planning would become a key challenge for financial advice practices, with the average age of principals being 60 and many respondents saying their businesses could not operate effectively without them.

“There was a relatively robust market for selling practices prior to the GFC because the market kept going up 12 to 13 per cent compound every year,” said Wilson. “They were all on asset-based revenue streams so their profitability kept going up and it was all a beautiful thing. Then the GFC came, took anything from a third to half of their revenue away which is why age is so high; the average age is 60 because they’re not selling.”