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The Future of Life (and Insurance) in Australia.

A special report on the future of our industry.

Foreword.

In the wake of the Hayne Royal Commission, the financial services industry is in a state of upheaval. Consumer trust in financial services has plummeted, and new regulations are creating uncertainty for financial advisers. Amidst these changes, concerns about the future of the financial advice industry are rife. Many advisers are worried about the impact of this unrest on their work, with technology, fee models and profitability, work-life balance and the new Financial Adviser Standards and Ethics Authority (FASEA) standards all affecting the way advisers do business.

However, while change is confronting, it also provides a prime opportunity for progressive Australian advisers to establish themselves, taking the lead in reshaping what financial advice means to the financial services industry and the consumer. Advisers today have a chance to redefine the purpose and direction of their field and in doing so, future-proof their practices.

As long-standing practices change, the key to success for financial advisers lies in identifying the correct tools to transform hurdles into opportunities, creating a means of delivering value that evolves with consumer expectations and professional standards.

In this paper, we present what we consider to be the five big shifts facing those operating in the financial advice sector and delve into their likely impact on practices. We invite you to explore what changing consumer demographics, evolving business models, new fee structures and technological advances could mean for Australian financial advisers, as well as explore the opportunities an inter-generational workforce offers.

This research paper draws on data and information from a wide variety of public sources, as well as qualitative insights provided by Professor Carsten Murawski. Professor Murawski works in the Department of Finance at the University of Melbourne and co-director of the Brain, Mind & Markets Laboratory. Integrity Life would like to acknowledge and thank Professor Murawski for his contribution to this paper.

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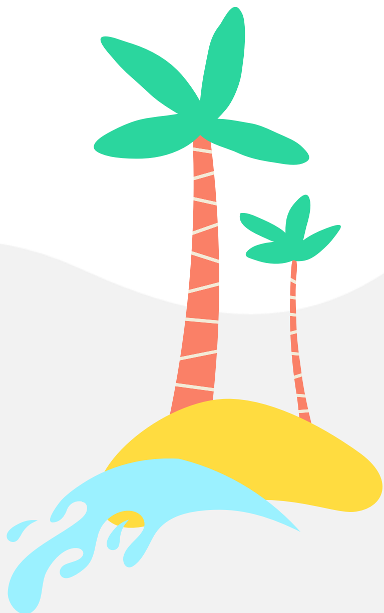
Five shifts that will shape financial advice in the next 10 years.

1. Client engagement and advice delivery will align to evolving demographics and needs.
2. The market will fracture as new client-centric business models emerge.
3. Fee transparency and versatility will be vital for fostering client trust.
4. Artificial Intelligence (AI) and other emerging technologies will enable advisers to deliver advice and insurance more effectively.
5. The emergence of ‘new age’ advisers will see an inter-generational adviser workforce share skills, knowledge and experience.



Client engagement and advice delivery will align to evolving demographics and needs.

The 2020s will bring about momentous change in the demographics of Australia's workforce. As the youngest of the Baby Boomer generation enter retirement and Generation X grapples with retirement planning, advisers can expect an influx of older clients. At the same time, Millennials will become one of the largest demographics in the workforce, and older members of Generation Z will come of age, increasing in representation. This will see the demands and expectations of working Australians change, as Millennials, compared to their predecessors, are highly educated, concerned about social impact, and as digital natives expect transacting to be a straightforward, digital experience[1].

This shift in demographics will create two distinct target markets, each requiring vastly different value propositions, tailored engagement strategies and targeted advice delivery. Those looking to manage their retirement will have different demands and expectations of their adviser compared to those starting to navigate the world, work and their personal finances. Advisers will need to be deliberate and purposeful in their strategic direction and specialisation. Those who are clear and unambiguous regarding which group they serve are likely to be successful in the coming years[2].

Of course, similar age does not always reflect similar needs. Building strong client relationships in order to truly understand individual client needs remains imperative. Factors beyond age, including level of wealth, education, the type of work and career stage, family structure, goals and achievements, are likely to influence what a client wants, needs and expects from an adviser[3]. Poor financial literacy is also a prevalent, complicating factor, particularly among younger Australians[4].

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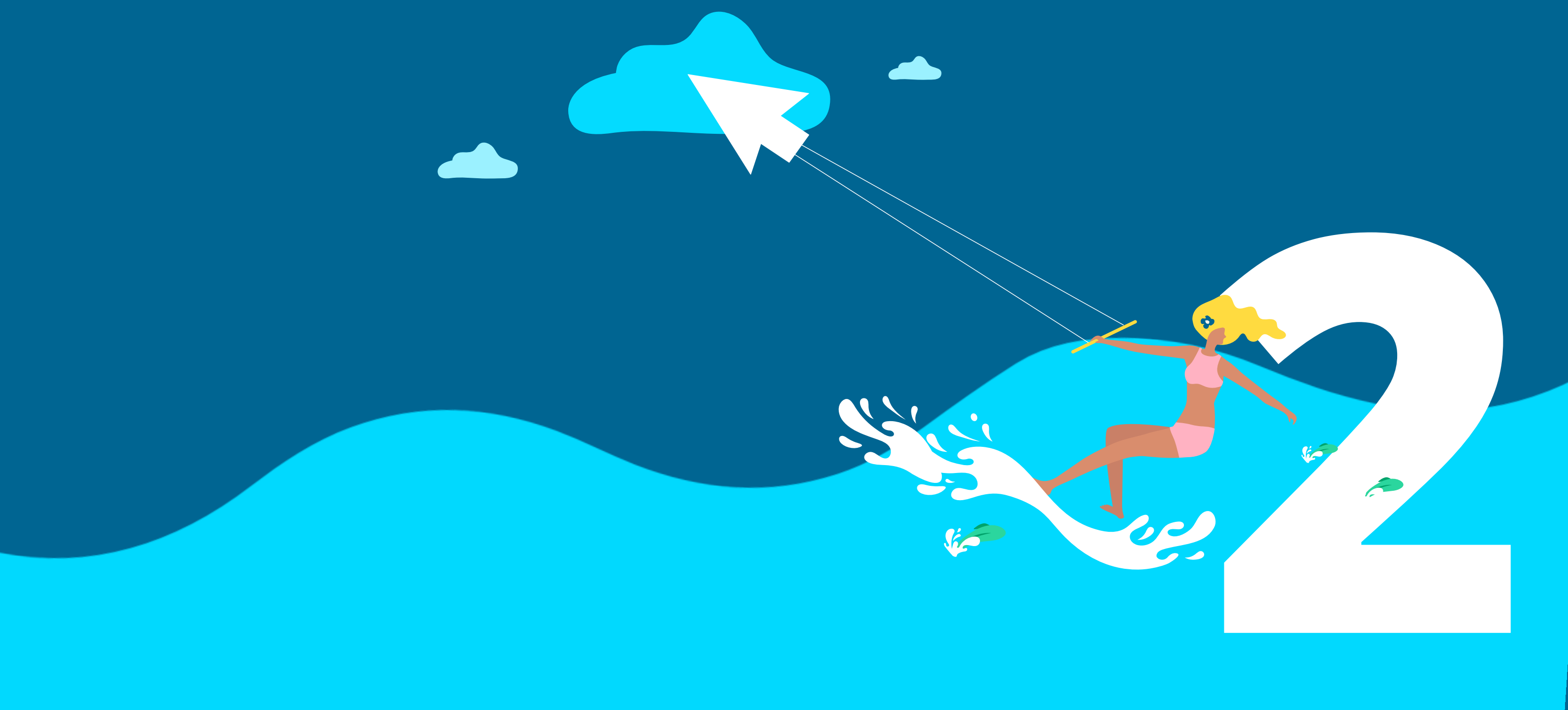
The market will fracture as new client-centric business models emerge.

Industry regulations and consumer expectations are reshaping the financial advice industry. Following the Royal Commission and as institutions sell off their financial planning arms, advisers are increasingly joining smaller, businesses such as accounting firms. The clear message is that the business model of the past is no longer acceptable when it comes to financial advice[5] and fault lines are already apparent in the underlying business models of some larger, vertically integrated financial institutions[6].

While the old financial advice model emphasised product recommendations and implementation services, the new model will focus on professional diagnosis. The adviser of the future will engage with clients to gain an in-depth understanding of their personal finances, what success looks like for that individual, and what hurdles will need to be overcome in order to achieve their personal financial goals[7].

Financial advisers who thrive under this new paradigm will be those who take these changes in their stride. Financial advice businesses of the future are likely to fall into one of three emerging categories: *Specialists, Corporatised Firms*, and *Platform-up businesses*[8].



Specialists will service a smaller pool of higher net-worth clients in specialist areas. The focus will be on building intimate client relationships, allowing bespoke advice. By developing areas of expertise, they will be positioned to offer market-leading advice for their niche.

Corporatised Firms will serve the middle-income market. As professional adviser groups they will identify clear target markets and develop strong value propositions. Working together, they will focus on increasing efficiencies and maintaining compliance excellence. They will have the resources to invest in cost-reducing technologies that create repeatable, scalable advice processes.

Platform-up businesses will be technology-based, providing mostly robo-advice. Advisers in this space will focus primarily on portfolio construction and implementation services. Their clientele will be those on lower incomes, who have less disposable income to invest in financial advice services.

As consumers gain access to an increasing amount of information through the Internet, a concern for many advisers is that clients will be lost to “do-it-yourself” financial advice. Well-structured platform-up businesses will have the capacity to capture these clients by offering simple and straightforward online advice tools and generators.

Fee transparency and versatility will be vital in fostering client trust.

It is no secret that consumer trust in the financial services sector is extremely low. Professor Murawski suggests this lack of trust is one of the defining challenges confronting financial advisers in the next 10 years.

"There's a clear trust deficit in the sector," he says. "The most important thing for the advice sector to do is re-establish trust... by demonstrating to their customers that they can create value for them."

Communicating value requires an ability to not only articulate benefits, but to fully inform clients of the financial investment that will be made in exchange for delivering that value. Transparent fee structures, open communication, and ensuring that clients 'best interests' are at the heart of what their adviser does, is a key driver of client behaviour and preference[9]. Transparency and openness are also a clear demonstration that advisers are seeking to address the "marked imbalance of power and knowledge between those providing the product or service and those acquiring it" noted by Commissioner Hayne[10].

> **"The most important thing for the advice sector to do is re-establish trust... by demonstrating to their customers that they can create value for them."**

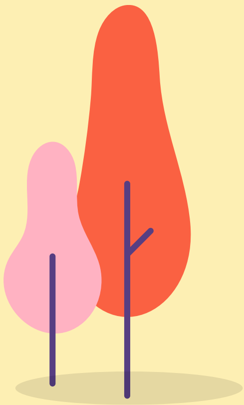
Advisers who have made determined choices about their target market, and have invested time in understanding them are at an advantage when it comes to developing optimum fee structures. While some clients may search for the cheapest advice available, others place greater value on the connection they develop with their adviser and are willing to pay a premium for it. Knowing where your clients fall on this spectrum is imperative.

3

Professor Murawski suggests a multi-tiered approach to advice delivery will emerge, giving clients the option to pay a low fee for the most basic advice, or to choose from more personalised and specific advice at a higher price point. This model is particularly well suited to Corporatised Firms and Platform-up business models, where resources permit the provision of highly efficient, repeatable advice to a large number of consumers.

This proposed approach is not dissimilar to the prototype advice model mooted by the Australian Securities and Investments Commission (ASIC) in discussions with CoreData Research[11]. The ASIC three-tiered model is based on client income. For those on lower incomes (less than $80,000 per annum) advice needs are typically less complex, and low-cost robo-advice may be the best solution. For middle-income earners ($80,000 to $250,000 per annum) a quarterly, in-person advice model would provide a more expensive, but still cost-effective solution. Those on higher incomes (more than $250,000 per annum) would receive ongoing advice under a time-based fee structure[7].

Fee-for-service models, now commonplace in financial planning practices, may become more common for the delivery of life insurance advice in the future. The simplicity and transparency of uncoupling the cost of advice from the cost of products has the very real potential to help restore consumer trust[12].



AI and technology will enable advisers to deliver advice and insurance more effectively.

The rise of AI in the 21st century has fuelled fears that jobs will be lost as technology makes them redundant. While AI disruption of the financial advice and insurance sectors is certain, alarm is unnecessary. Rather, advisers need to focus on how they will develop the knowledge and skills required to augment the role of AI in their businesses.

AI and technologies such as blockchain will effectively take over transactional and other routine, but labour-intensive tasks, such as underwriting and claims processing. Even quality control and compliance checks that are not automated will be underpinned by AI analytics and data-driven insights[13]. What AI and technology cannot replace is the human relationships so critical to advice provision. With consumers demanding personalised, bespoke solutions, delivered by trusted individuals, the important role of the adviser will remain.

> **“What is it that we are actually trying to achieve here? Simplification of products might be one aspect of it, financial advice might be another aspect of it, simplifying the law might be another aspect, but we need to ask ourselves: How are we going to help people reach their goals?”**

That said, advisers who shun emerging technology will suffer, as their competitors reap efficiency and quality gains and focus on increasing profitability through higher value, diversified service offerings. Success will be the domain of those who leverage technology to optimise service quality and efficiency, freeing their time for more profitable, high-value activities.

Beyond transactional tasks, technology is also disrupting the way advisers communicate with clients. In the future, advisers will have access to tools that allow lengthy, complex documentation, such as Statements of Advice, to be condensed and made more engaging and interactive to help facilitate improved client understanding[14]. Professor Murawski emphasises, however, that simplifying disclosure documentation through digitisation or other means, while useful, may not make products simpler or easier to evaluate.

“The starting point is always: What is it that we are actually trying to achieve here?” he says. “We need to decide what our goals are as a sector... and then we need to work backwards and think, well, what does it take to get people to reach those goals? Simplification of products might be one aspect of it, financial advice might be another aspect of it, simplifying the law might be another aspect, but we need to ask ourselves: How are we going to help people reach their goals? Within that, financial advice probably has an important role to play, but what exactly that role would look like is to be determined.”

Inter-generational workforces will achieve success through the sharing of skills, knowledge and experience.

As the landscape changes and key players divest their advice businesses[15], there will be increasing space for Corporatised Firms, and a pool of highly experienced advisers looking for new opportunities. At the same time, a new wave of advisers will enter the market, filling the gap left by experienced advisers who have chosen to exit, or transition into adjacent sectors and roles in the face of the new FASEA education standards. Businesses able to attract and retain advisers from these two talent pools stand to reap huge rewards.

The strength and resources Corporatised Firms have to invest in emerging technologies, manage increased compliance obligations, and share workloads to ensure more demanding regulatory commitments are met, is just the start. Inter-generational workforces have the advantage of the enthusiasm and engagement of graduates educated in the contemporary world of financial services, balanced by the irreplaceable experience and industry knowledge of seasoned professionals. For businesses prepared to invest in creating and maintaining inter-generational workforces, knowledge-sharing, whether informal or via formal mentoring arrangements, will drive personal and professional growth, maximising the strengths of employees.

The ability to leverage such inter-generational workforces to personalise the advice experience is huge, with personalisation increasingly a baseline expectation among consumers. Pooling differing strengths, where an industry veteran can contribute vast knowledge and experience, and an early-career adviser can provide the technology-savvy required for processes to be automated, digitised and therefore more efficient and cost-effective, is a clear opportunity for the future.

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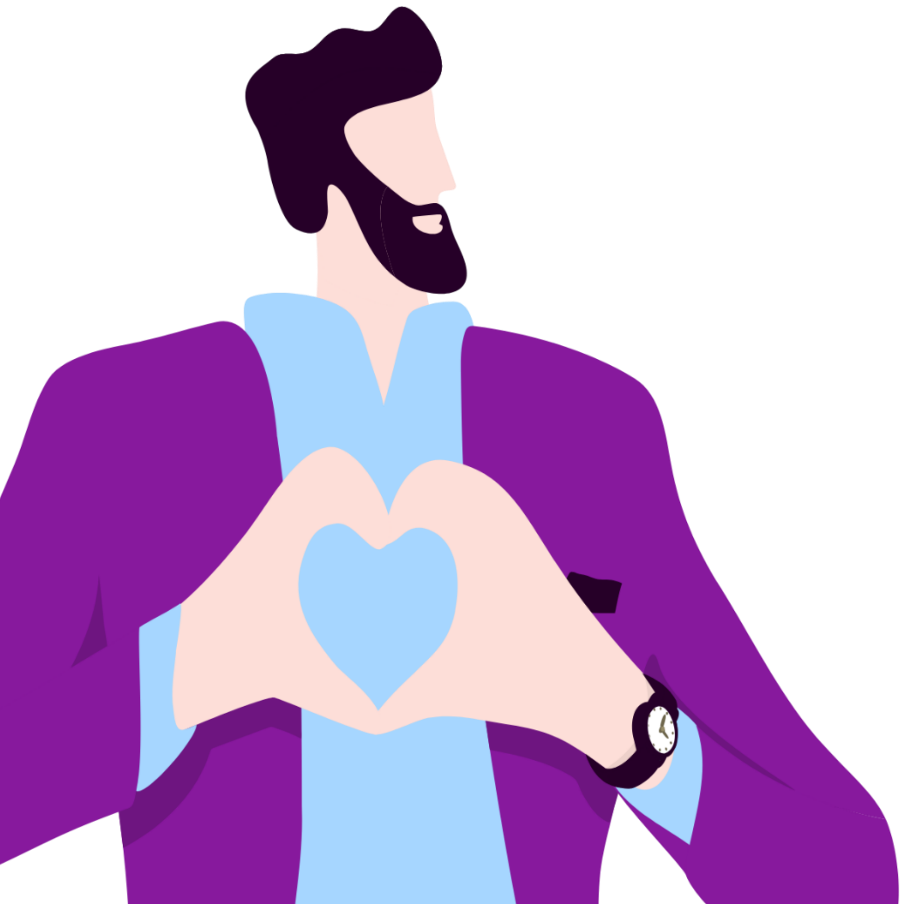
Conclusion.

It is a tumultuous time for financial advisers, but it is also a time of exciting change. Future-focussed advisers have the very real opportunity to pioneer the financial advice of the future, carving out a path for the next generation of advisers to follow.

Consumers are increasingly educated and around half have unmet advice needs[16], so the opportunity to deliver affordable, accessible advice is not going away. However, as we have outlined in this paper, traditional, old-school approaches are no longer cost-effective or palatable to more discerning consumers. Advisers must embrace the big shifts outlined in this paper as a chance to forge a new path for themselves that is product-agnostic and aligns to evolving client needs.

In this new world, advisers can choose to continue business as usual, or to be agile and adapt. To upskill, innovate and re-align business structures, processes and fee models to suit the changing environment. To decide whether chaos is a pit, or a ladder. As Franklin D Roosevelt once said: "There are many ways of going forward, but only one way of standing still."



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