Adviser Musical Chairs Report

Industry research on financial adviser and licensee movement
Quarter 4, 2020

This research report offers insights that will help key market players, such as fund managers, life insurers, platform and software providers, to identify key focus areas to improve sales and marketing strategies. The financial planning and investment advice industry has undergone significant changes over the past five years with the implementation of the Future of Financial Advice (FOFA) reforms and the creation of the Financial Adviser Standards and Ethics Authority (FASEA). More recently, the introduction of the new FASEA requirements on education and professional standards for financial advisers and the Royal Commission into misconduct in the banking, superannuation and financial services industry changed the industry dynamics substantially. Financial advisers continuously enter and exit the industry, as well as switch from one licensee to another. This report shows some of Adviser Ratings analysis and insight into these movements, for the benefit of those providing products and services to the industry.

AR data

Adviser Ratings

Key Findings

2.0%

Total adviser numbers contracted by 431 (2.0%) for the quarter.

2.4%

511 advisers (2.4% and 9.7% annualised) changed licensees in the quarter, slightly above trend.

6

Total net licensee numbers increased by six in the quarter, continuing the recent reversal of a strong long-term shrinking trend.

8,000+

The net reduction in the total adviser population over last two years (from the industry peak in December 2018).

2150+

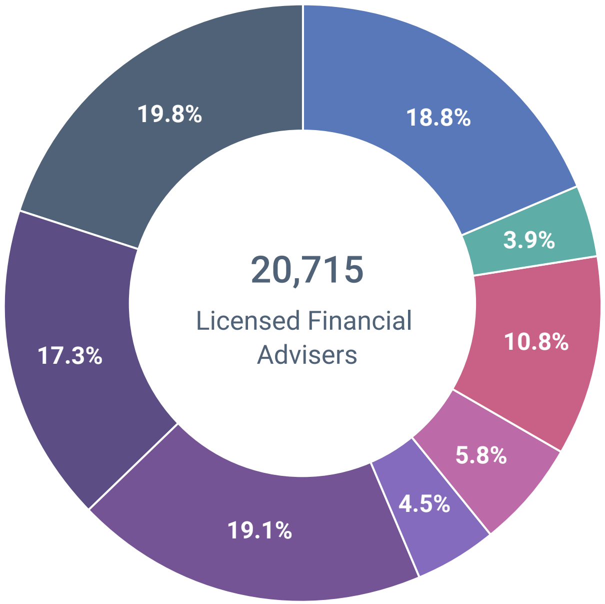
The number of advisers, practice owners and licensee management that have responded to Adviser Ratings surveys in the last two months, informing us about their business circumstances, professional intentions, customer profiles, and vendor preferences.

Industry Overview

Net adviser outflows continued at a subdued pace, in a quarter dominated by global events, major regulatory updates, and ongoing corporate actions. By end Q4 2020, the adviser population had reduced to 20,715, according to Figure 1, representing a net decline of 431 advisers (2.0%) from Q3 2020. This was the second lowest quarterly decline since the industry started net contraction in 2018.

Australia generally enjoyed a recovery from COVID-19 to a "new normal" of daily activity, with the death rate plateauing by end December at less than 1,000 nationally, compared with more than 350,000 in USA and 2 million globally. Nevertheless, flare-ups like Sydney's recent northern beaches cluster and ongoing movement restrictions between states are constant reminders of the pervasive influence of the virus. By extension, our economy and business in general is slowly improving, although patchy and fragile.

Figure 1: Industry overview Q4 2020



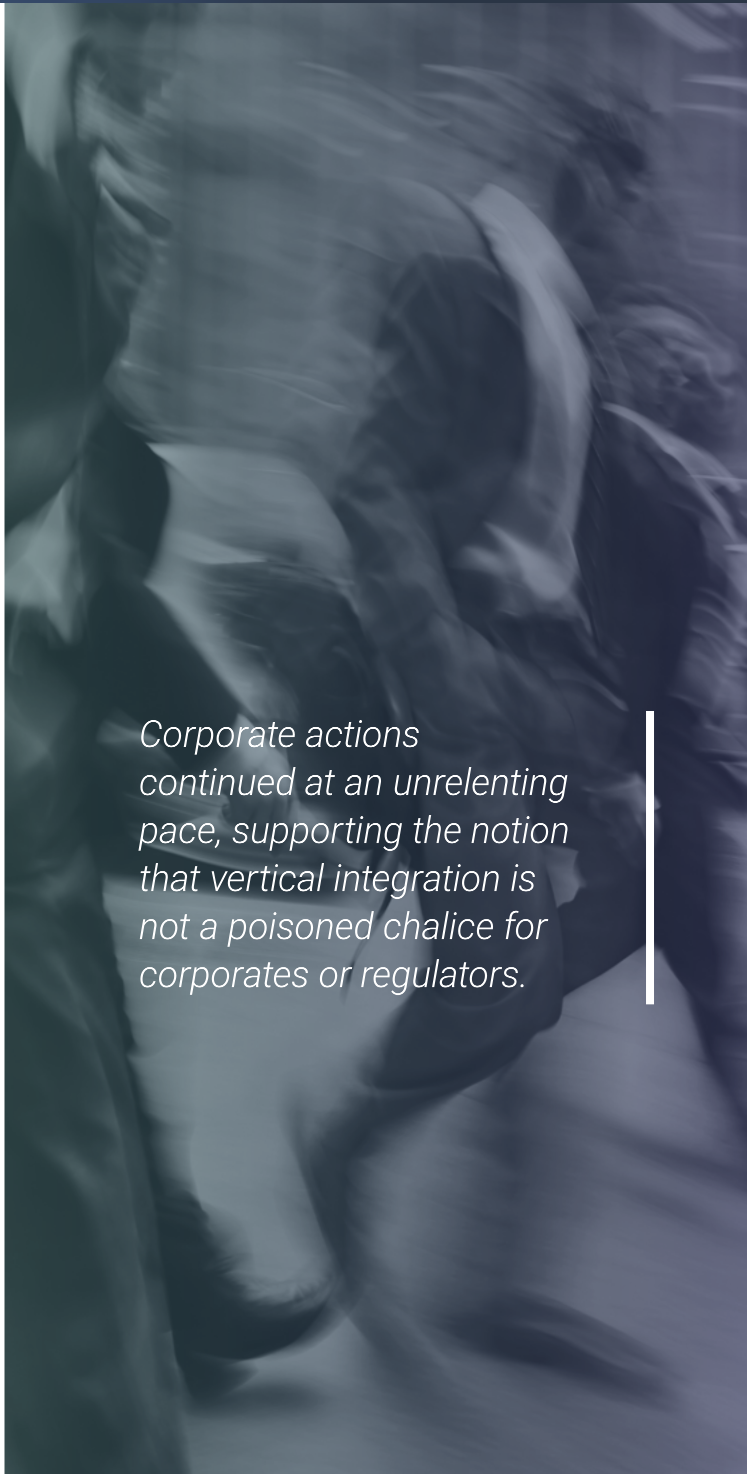
Diversified	18.8%	3,900
Industry Superfund / Not For Profit	3.9%	808
Stockbroker	10.8%	2,230
Bank	5.8%	1,192
Limited License	4.5%	940
Privately Owned (1 - 10 advisers)	19.1%	3,956
Privately Owned (11 - 100 advisers)	17.3%	3,588
Privately Owned (100+ advisers)	19.8%	4,101

The extraordinary events surrounding the US federal election in November and the changing of the guard from Trump to Biden has dominated global attention, but it presents the prospect of improved political stability and, importantly, confidence for global investment markets.

It was also a busy period for government and regulators. The most significant action was the planned wind-up of FASEA, with responsibilities to be split between Treasury and ASIC. However, this still requires passage through Parliament and may not be actioned until mid-2021 depending on legislative priorities, perpetuating industry uncertainty about the likelihood of restrictive covenants within the code of ethics being relaxed. Other notable developments impacting the wealth industry were the release of RG 244 and RG 274 that provide further clarity on key structural changes around scaled advice and product distribution respectively. After an extended delay, Treasury finally released the Retirement Incomes Review report, which has long-term implications for product innovation and related advice, particularly for the transition-to-retirement and pension phases. And lastly, December 31 heralded the end of grandfathered investment commissions, bringing to a close the carve-out approved by the coalition government when FOFA was launched in 2014.

Corporate actions continued at an unrelenting pace across the wealth industry, with multiple sectors participating. The combination of economic, market and regulatory pressures is leading to further consolidation, and more evidence to support the notion that vertical integration is not a poisoned chalice for corporates or regulators.

Major super fund mergers are creating scale plays with “captive” memberships of 1-2 million: Aware Super completed its merger with WA Super, and the boards of Sunsuper and QSuper are close to a decision on their tie-up proposed in March 2020. Hub24 sold licensee Paragem to Easton Investments and swapped that into a 40% stake in Easton to shore up a strong distribution footprint across the advice and accounting sectors. The pursuit of market share in fund administration / custody was also evident with Hub24’s purchase of Xplore Wealth, and IRESS’ acquisition of OneVue.

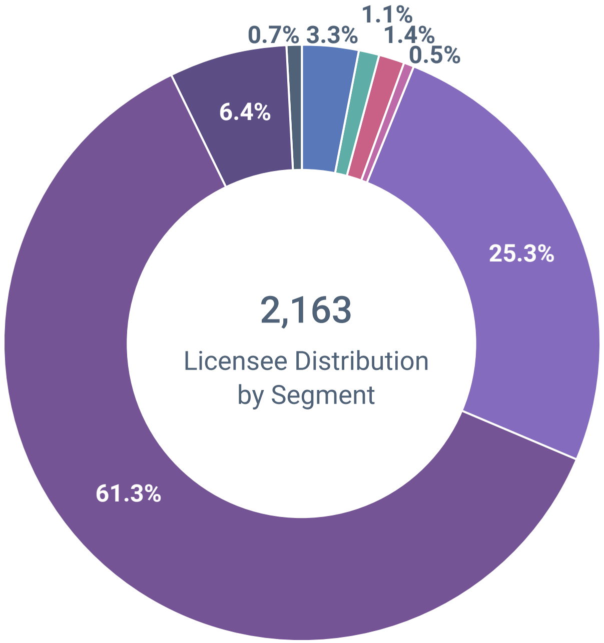


Corporate actions continued at an unrelenting pace, supporting the notion that vertical integration is not a poisoned chalice for corporates or regulators.

The two biggest advice players were both in action during the quarter. US fund manager Ares Management Corp lobbed a $6b non-binding takeover offer for AMP in October, at the same time that AMP continued to shed advisers and AMP FP shrunk below 900 advisers to finally lose the mantle of largest dealer group.

The IOOF-MLC transaction announced in August was passed by ACCC in December. IOOF has offered very attractive financial terms to maximise the number of MLC and IOOF advisers that remain either under an IOOF licence or as a customer of the IOOF Alliances consulting business. However, a number of MLC and IOOF advisers have already left for perceived greener pastures, while many others are still in protracted negotiations so final numbers won't be known for some time. As one measure of the challenge facing this acquisition, IOOF recently reported $1.3b of net outflows from its Advice business over three months to December. The firm acknowledged losses were a painful but unavoidable part of its Advice 2.0 transformation, which includes adopting a more open product / platform architecture and offering greater choice for clients.

Figure 2: Industry overview Q4 2020 (By Number of Licensees)



Diversified	3.3%	71
Industry Superfund / Not For Profit	1.1%	23
Stockbroker	1.4%	30
Bank	0.5%	11
Limited License	25.3%	548
Privately Owned (1 - 10 advisers)	61.3%	1,326
Privately Owned (11 - 100 advisers)	6.4%	138
Privately Owned (100+ advisers)	0.7%	16

During Q4 2020, total licensee numbers shown in Figure 2 increased marginally by six to 2,163, extending a growth trend for two quarters running now, despite an overall decline of 60 licensees (2.7%) over the last 12 months and 119 (5.2%) over 24 months.

AMP FP shrunk below 900 advisers to lose the mantle of largest dealer group, at the same time IOOF lost $1.3b of net outflows in the quarter while assuming the mantle of largest advice parent.

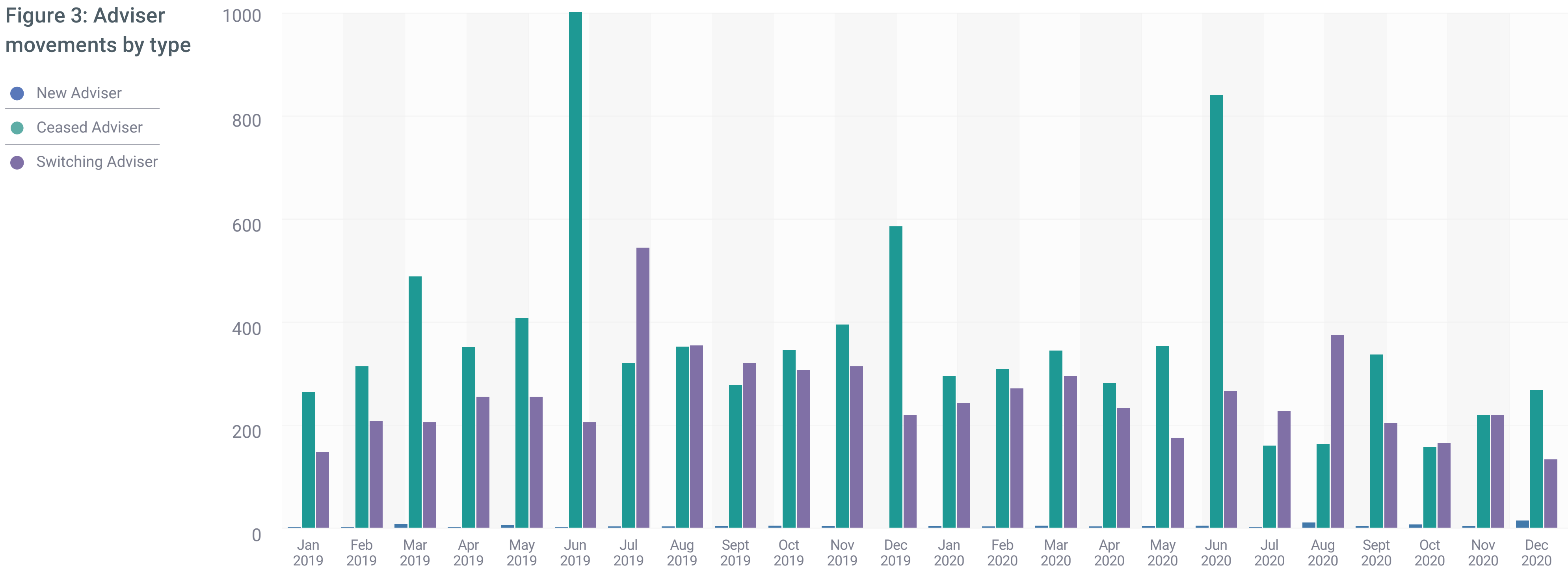
Adviser Movements

Total adviser movement for the quarter was the lowest in more than two years, with subdued results for both exits and switches. Are advisers simply taking a breather after a tumultuous 2020, or will we see a return to the relentless pace of 2019 / H1 2020?

With the continued shrinking of the total adviser pool, and plenty of real-life examples of businesses collapsing and increased mental health pressures including extreme cases of suicide, it is easy to be gloomy about prospects for the industry. Of course, our human tendencies fuelled by the persistent news cycle also tends to maximise the negatives.

However, results from two survey run by Adviser Ratings over the last two months brings some hope. Together, they identify a core of advisers that are excited and motivated about what the future brings. In the first survey of 1,000+ advisers, 75% had already completed or were waiting for their results from the FASEA exam, compared to 52% industry-wide. Even more encouragingly, 63% of surveyed advisers were expecting to achieve the necessary tertiary qualifications within the next two years, which is three years ahead of the January 2026 regulatory deadline.

Figure 3: Adviser movements by type

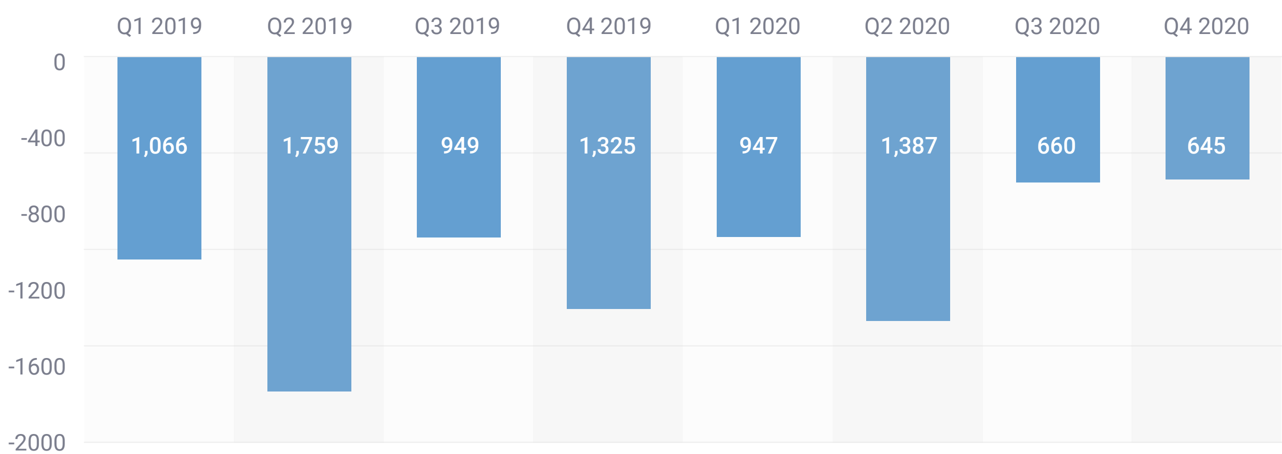


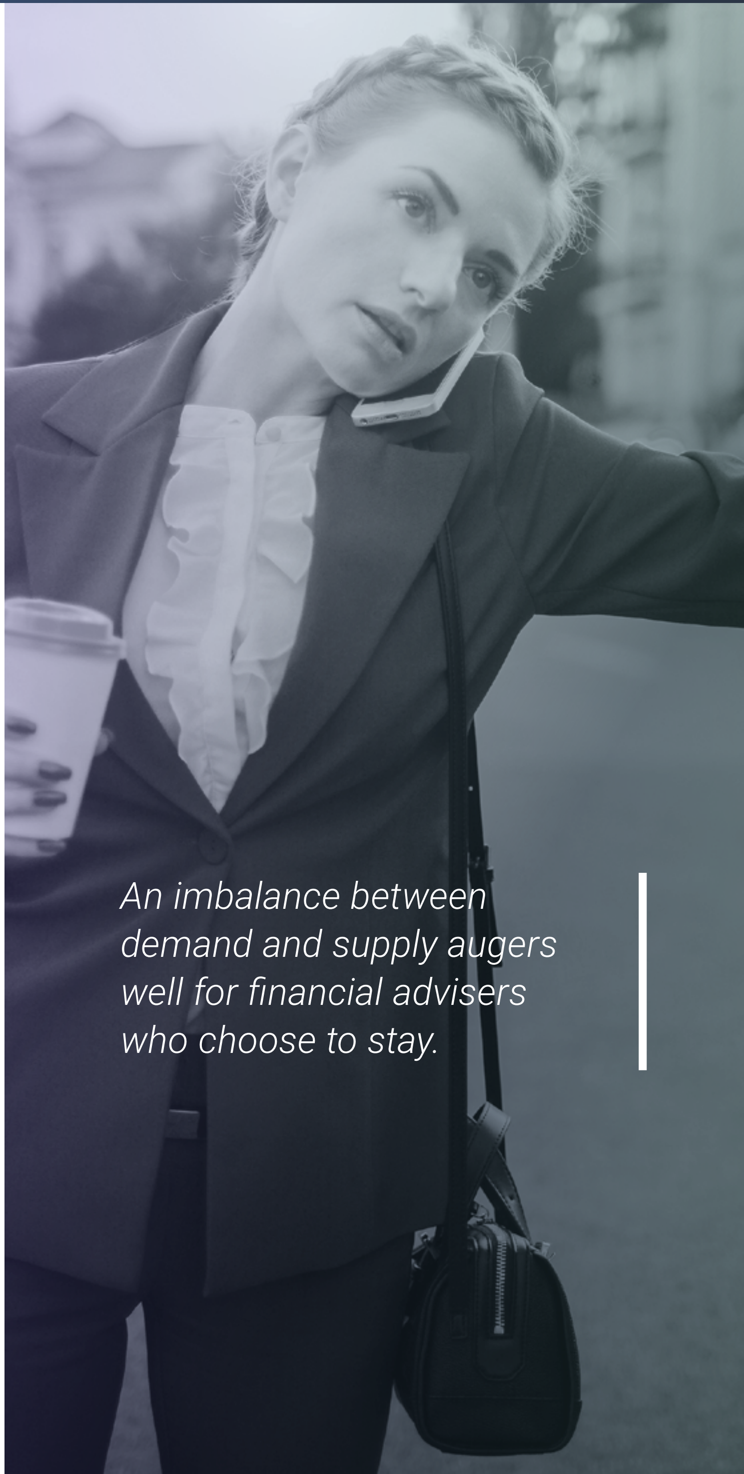
A second survey of over 500 practice owners in the same period identified 65% of them that were growing their customer books, and 55% expected to grow adviser numbers either organically or through acquisition.

Anecdotally, consumer demand is also increasing, fuelled by a combination of financial stress from COVID-19, improved awareness from the government's early access to super program, and through a greater variety of channels offering help, including expanding super fund advice programs and the emerging digital finance tools sector. As we have said before, an imbalance between demand and supply augers well for financial advisers who choose to stay. It's also why capital continues to be invested into the sector, whether directly into advice businesses or into the supporting vendor ecosystem of platforms, dealer-to-dealer services, managed account providers, and financial planning software manufacturers.

From Figure 4, 645 (3.0% for the quarter, 12% annualised) advisers left the industry in Q4 2020, almost identical to the previous quarter. The overall reduction in adviser numbers was 431, as 26 new advisers joined the industry and a further 188 transitioned back after being previously ceased.

Figure 4: Ceased adviser movements





2020 Major Events Calendar

COVID and Economic Events

2020	EVENT
JANUARY	COVID-19 news announced by WHO in Wuhan + first case outside China Australian bushfires defeated BREXIT is official - UK withdraws from European Union
FEBRUARY	WHO officially names coronavirus as COVID-19 RBA slashed interest rate from 0.5% to 0.25% WHO declares global pandemic COVID-19
MARCH	Stockmarkets crash around the world All international arrivals quarantined Jobkeeper payments announced ($130b stimulus package) Free childcare for working parents
APRIL	Early access to superannuation scheme announced ($20,000 cap in two stages) National unemployment rate hits 14.7% and highest level since 1948
MAY	USA COVID death toll reaches 100,000 JobKeeper payments commence ($1,500 per fortnight)
JUNE	Black Lives Matter movement goes global
JULY	Australia achieves first recession in 30 years with two negative quarters of GDP growth
AUGUST	State of disaster declared in Victoria leading to stage 4 lockdown
SEPTEMBER	Jobkeeper reduced to $1,200 per fortnight USA COVID death toll reaches 200,000
OCTOBER	Stage 4 lockdown officially ended in Victoria National unemployment rate improves to 7.0%
NOVEMBER	RBA slashed interest rate to historic low of 0.1% Joe Biden becomes President-elect of USA
DECEMBER	USA COVID death toll approaches 350,000 Sydney northern beaches COVID-19 cluster announced leading to multi-state restrictions Jobkeeper spend reaches $70b for more than 3.5 million employees Early access to super reaches $38b claimed for 3+ million members First COVID-19 vaccines distributed

2020 Major Events Calendar

Wealth Industry Events

2020	TYPE	EVENT
JANUARY	Regulatory	LIF enters final stage of fee-cap implementation (66% up front / 22% ongoing)
FEBRUARY	Commercial	Financial planning software provider CCUBE enters voluntary administration
MARCH	Commercial	MLC and Centrepoint announce major COVID-inspired licensee fee relief programs
	Regulatory	COVID-19 Advice Related Relief Instrument 2020/355 launched including $300 cap on early super access advice
	M&A	QSuper & Sunsuper announce MOU to explore formal merger
APRIL	Digital	Vanguard launches Personal Investor portal
	Digital	H&R Block announces digital advice partnership with robo Fibuciary Financial Services
MAY	M&A	TradeFloor acquires CCUBE and relaunches under OpenMarkets brand
	Commercial	NAB officially retires three MLC licenses and rolls into new TenFifty Financial Group
JUNE	Education	FASEA Exam & Education deadlines each extended by one year by Parliament
	Education	First FASEA exams held remotely due to COVID-19
	M&A	Clime Asset Management acquires Madison from OneVue
JULY	M&A	First State Super and VicSuper complete merger, combination renamed Aware Super
	M&A	Zenith Investment Partners acquires super researcher Chant West
AUGUST	M&A	IOOF announces $1.4b acquisition of MLC
	Digital	IOOF announces $30m acquisition of Wealth Central as part of Advice 2.0 strategy
SEPTEMBER	Legal	ASIC launches Federal Court action against Dixon Advisory for 51 best interest breaches
	Commercial	New AMP Chair Debra Hazelton announces all AMP assets to be reviewed for sale
	M&A	Private equity Firm Generation Development Group acquires 37% state in Lonsec for $26m
OCTOBER	M&A	Hub24 acquires 40% stake in Easton Investments after incorporating Paragem sale
	M&A	Hub24 acquires Xplore Wealth for $60m
	M&A	360 Capital Group launches $140m takeover offer for E&P Financial Group, formerly Evans Dixon
	M&A	Ares Management Corp launches $6b non-binding takeover offer for AMP
NOVEMBER	Government	Treasury releases Retirement Income Review report
	M&A	IRESS acquires OneVue for $115m
	Commercial	Total financial advisers falls below 21,000
DECEMBER	Regulatory	End of grandfarthered commissions from original 2014 FOFA carve-out
	Education	FASEA scrapped with responsibility for standards handed to Treasury and ASIC everthing else
	Regulatory	ASIC releases DDO-PIP formal guidelines as ***RG274 Product Design and Distribution Obligations***
	Regulatory	ASIC releases scaled advice guidelines as ***RG244 Giving information, general advice and scaled advice***
	M&A	Aware Super & WA Super complete merger

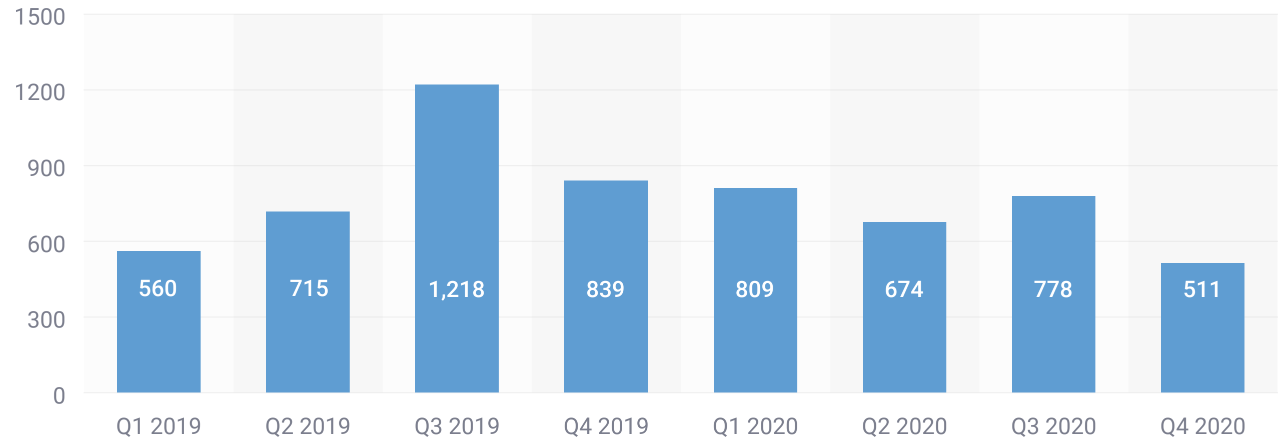
Switching Advisers

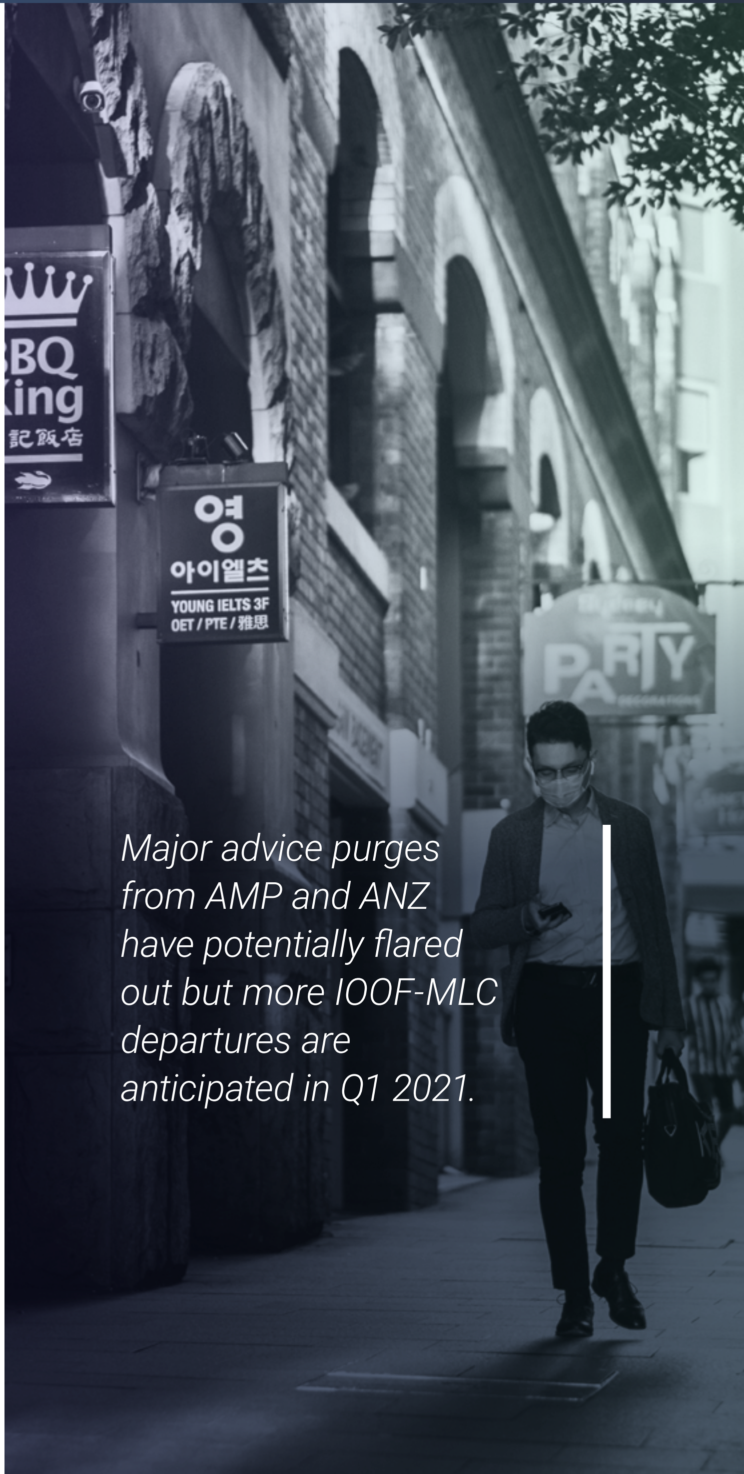
In Q4 2020, 511 advisers (9.7% annualised) switched licensees, which was comfortably the lowest rate seen in the last two years.

The major adviser purges from AMP and ANZ from earlier in 2020 have potentially flared out, although we anticipate seeing more IOOF-MLC departures in Q1 2021 as negotiations on stay versus go are concluded.

Nevertheless, our latest survey of over 500 practice owners indicated strong interest in switching licensees, with 16% planning to make this change. Despite this demand, there are many potential reasons for a slowdown. The larger non-bank licensees are attracting and absorbing many of these switches, however their increasingly strict vetting and onboarding processes are likely to jam the pipeline. The same applies to applications to ASIC for new licences, as well as the increasing difficulties of securing PI cover. And when advisers finally get serious about making the move, many are daunted by the actual effort involved or don't know who to trust for advice.

Figure 5: Switched adviser movements





Major advice purges from AMP and ANZ have potentially flared out but more IOOF-MLC departures are anticipated in Q1 2021.

Corporate Actions

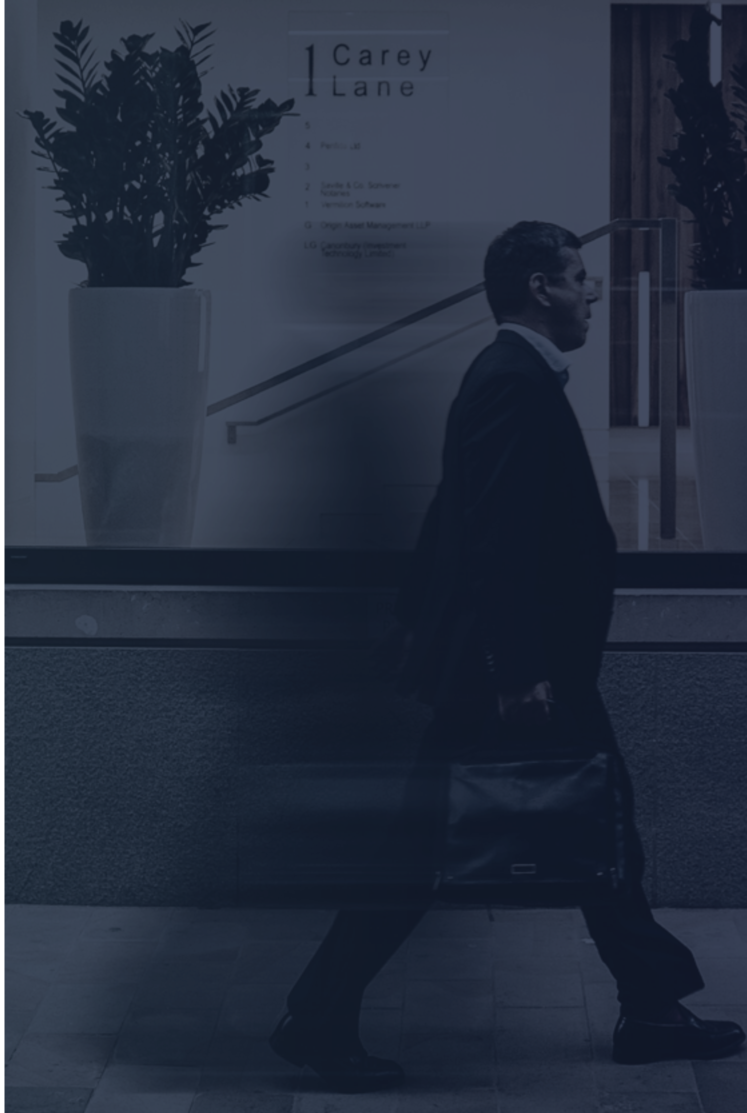
Lifespan and Capstone are two of the larger non-bank groups that continue to feature in this table of fastest growing licensees. For Lifespan, AMP continues to be a happy hunting ground for sourcing advisers, with 60% of new advisers in Q4 coming from three AMP licensees (on top of 40% in Q3). Equally, 71% of Capstone's new advisers were sourced from AMP licensees.

Unsurprisingly, AMP licensees AMP FP and Charter dominated losses, while QInvest features due to the closure of QSuper's advice business that surprised many in the market given the growing appetite for major super funds to target financial advice strategies for member retention and acquisition.

Figure 6: Licensees with most adviser additions and reductions in Q4 2020

	Licensee	Segment	Number of Advisers
MOST ADDITIONS	LIFESPAN FINANCIAL PLANNING PTY LTD	Privately Owned (100+)	13
	WEALTH TRAIL PTY LTD	Privately Owned (11 - 100)	13
	MIDSEC LICENCING PTY LTD	Privately Owned (11 - 100)	11
	FORTNUM ADVICE PTY LTD	Privately Owned (11 - 100)	11
	OREANA FINANCIAL SERVICES PTY LTD	Privately Owned (11 - 100)	10
	SHAW AND PARTNERS LIMITED	Stockbroker	9
	SAMBE INVESTMENTS PTY. LIMITED	Privately Owned (1 - 10)	7
	LAMBERT GROUP MANAGEMENT PTY LTD	Privately Owned (1 - 10)	7
	CAPSTONE FINANCIAL PLANNING PTY LTD	Privately Owned (100+)	6
	HIVE GROUP PTY LTD	Privately Owned (1 - 10)	6
MOST REDUCTIONS	MADISON FINANCIAL GROUP PTY LTD	Diversified	-12
	MERIT WEALTH PTY LTD	Privately Owned (100+)	-13
	COMMONWEALTH FINANCIAL PLANNING LIMITED	Bank	-14
	FINANCIAL SERVICES PARTNERS PTY LIMITED	Diversified	-18
	LONSDALE FINANCIAL GROUP LIMITED	Diversified	-19
	HOOD SWEENEY PTY LTD	Limited Licensee	-20
	GWM ADVISER SERVICES LIMITED	Bank	-26
	QINVEST LIMITED	Industry Superfund / Not For Profit	-26
	CHARTER FINANCIAL PLANNING LIMITED	Diversified	-41
	AMP FINANCIAL PLANNING PTY LIMITED	Diversified	-124

ASIC continues to vigorously pursue legal actions against advisers, directors and licensees.



In Q4, we saw a resumption of ASIC cancellation and suspension actions against licensees. ASIC also continued to vigorously pursue actions against individual advisers and directors, with numerous fines, bans, and civil and criminal court applications and convictions.

Table 1: ASIC licensee actions Q4 2020

Date	Licensee	AFSL No.	Decision	Reason for Closure
16 Dec	Migration Cover	471072	Cancel	Financial governance
27 Nov	Jels Financial Group	461971	Cancel	Financial sustainability
27 Nov	Selectinvest	240774	Cancel	Financial governance
14 Oct	Ballast Financial Mgt	233180	Suspend	Not providing financial service

Licensee Movements

In Q4 2020, licensee volumes grew for the second quarter running as 32 new licences were registered, 28 shutdown and 2 returned back to the register. The trend towards shrinking licensee volumes that commenced in Q4 2018 has now stabilised.

> *Licensee volumes were relatively steady for the second quarter running, reversing a two-year shrinking trend.*

Figure 7: Newly registered licensees vs discontinued licensees

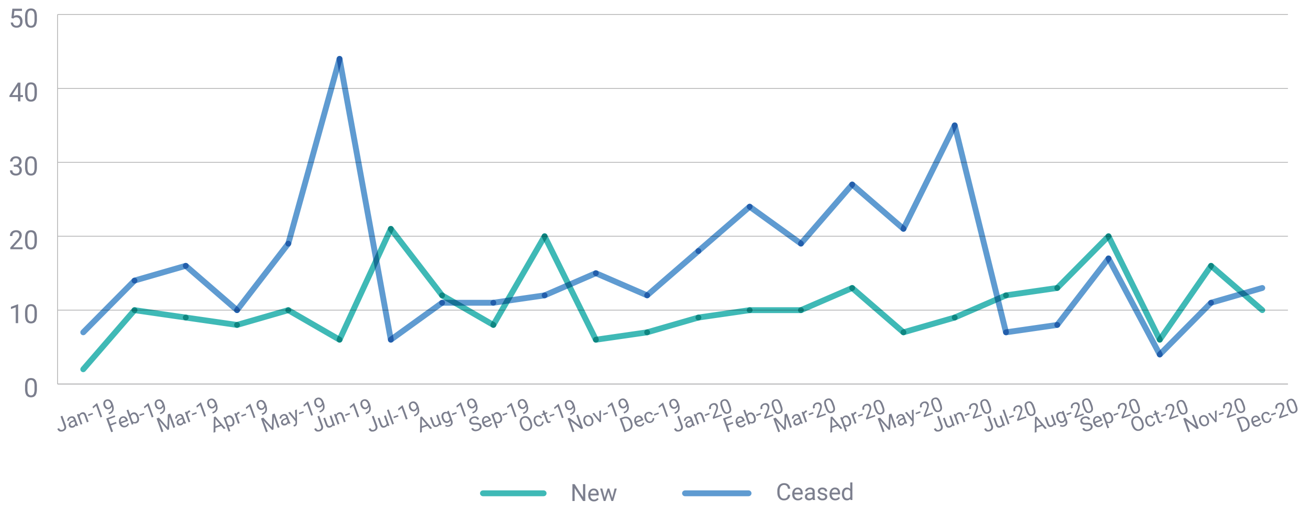


Table 2: Licensee formation versus deregistration 2019-2020

	2019	Mar-20	Jun-20	Sep-20	Dec-20	2020
Ceased	181	63	83	35	28	209
New	122	29	31	45	32	137
Ratio	1.5	2.2	2.7	0.8	0.9	1.5

Figures 8-9 breakdown the composition of the 32 new licences established in Q4, with 53% single-person self-licensed boutiques and 88% with no more than five advisers. The majority of these advisers were sourced from diversified licensees (including AMP and IOOF) with only 4% of the supply coming from the equivalently small, privately owned (1-10 adviser) licensee segment.

Figure 8: Size of new licences Q4 2020

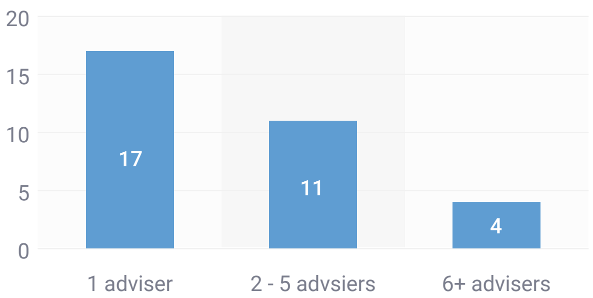
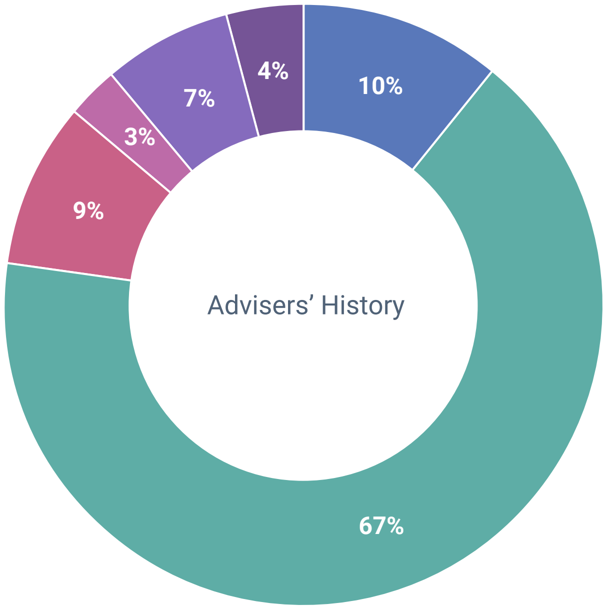


Figure 9: Source of advisers for new licences Q4 2020



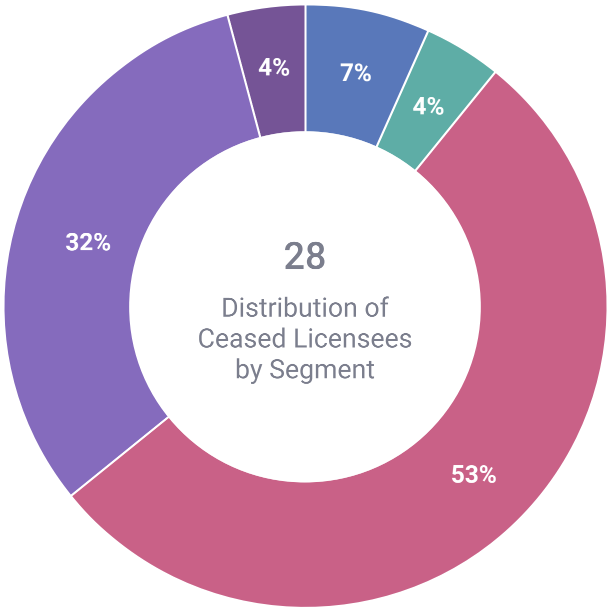
Privately Owned (100+ advisers)	10%	8
Diversified	67%	51
Privately Owned (11 - 100 advisers)	9%	7
Stockbroker	3%	2
Bank	7%	5
Privately Owned (1 - 10 advisers)	4%	3

In terms of license de-registrations, Figures 10-11 reflect the changes over the past quarter. The majority of businesses continue to be relatively young, however this quarter was notable for the surprisingly high proportion of limited licensees.

Summarising these trends:

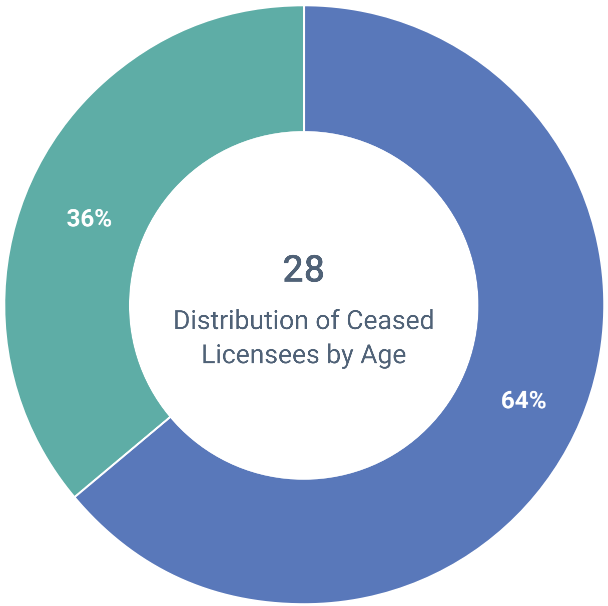
- 54% of de-registrations were from limited licences, and 32% from privately owned licensees with no more than ten advisers
- 64% are five years old or younger

Figure 10: Segmentation of ceased licences Q4 2020



Diversified	7%	2
Industry Superfund / Not For Profit	4%	1
Limited License	53%	15
Privately Owned (1 - 10)	32%	9
Stockbroker	4%	1

Figure 11: Age of ceased licences Q4 2020



2 - 5 years	64%	18
6+ years	36%	10

Quotable Quotes

OCTOBER

"I know that some in the industry have thought that the advent of the best interest duty and the code of ethics might see the end of limited scope or intra-fund advice. We believe there's absolutely a place for it."

Josh Frydenberg
Federal Treasurer

"We recommend the following new legal definitions: General Information - which will incorporate the existing definitions of Education, Information and General Advice; Personal Advice - to be simplified (for delivery purposes) by separating it into Simple and Complex based on the extent of the risk for the consumer."

Rice Warner

"The difficulty with limited scope advice...you've got to be able to prove by documentary evidence that you've met Best Interest Duty and the only way you are able to do that with certainty is follow safe harbour, which requires an enormous amount of investigation, research and documentary evidence."

Eugene Ardino
CEO, Lifespan

NOVEMBER

"As the custodians of the retirement nest eggs of Australians, super funds are uniquely positioned to solve the advice gap. As members, our super fund is the first place we turn to for help when we start thinking about retirement."

Jason Andriessen
Managing Director, CoreData

"Can Australians be convinced to spend their superannuation capital to fund a better lifestyle in retirement rather than just the income their super generates while leaving the capital as a death benefit?"

John Wasiliev
Columnist, AFR

DECEMBER

"With each news cycle Joe Duran became more confident that the worst elements of the industry were slipping away and advisers, consumers and regulators were waking up to what he calls the "patchwork of ill-conceived, product-based technologies and legacy business models."

Aleks Vickovich
Wealth Editor, AFR

"There were actually a lot of roundtable consultations with advisers directly and many who were speaking to their members who were then speaking to me. And that goes for members of the opposition as well."

Jane Hume
Senator, Minister for Superannuation, Financial Services and the Digital Economy

"Happy and excited to be part of a great industry."

Kieran Menzie
Financial Adviser

Adviser Weekly Movements

Adviser Ratings produces a weekly Adviser Movement video series that keeps you updated with the latest statistics on advisers joining, switching and leaving the industry.

These videos are posted on the Adviser Ratings YouTube channel. The videos for this quarter are also accessible through the links below.

November 12

November 19

November 26

December 3

December 10

December 17

December 24

December 31

October 8

October 15

October 22

October 29

November 5

Get ready to dive head first into our 2020 Financial Advice Landscape Report

At a time when everyone in financial advice has an opinion, the Adviser Ratings Landscape report provides insights from which to make fact-based decisions, and granularity around themes not available until now.

Matthew Rowe
CEO, CountPlus

Judith Fox
CEO, Stockbrokers and Financial ...ociation (SAFAA)

...th leverages ...ets in new and ...g ways.

There is so much data ava... in the industry, however very ...v groups have been able to capture the data and provide meaningful ...ights like Adviser Ratings has done.

Matt Heine
Joint Managing Director, Netwealth

More information available in early February.

Glossary of terms

ADVISER TYPES

New adviser
A new entrant who is newly registered as a financial adviser on ASIC's financial adviser register (FAR) in the sample period.

Ceased adviser
A financial adviser whose AFSL Authorisation with a licensee has ceased during the sample period.

Switched adviser
An existing or previously licensed financial adviser who has switched-in to a new practice/licensee in the sample period.

Returning adviser
A financial adviser whose AFSL Authorisation was de-registered prior to the sample period and has switched-in to a new practice/licensee in the sample periods.

ADVISER MOVEMENTS

Switched-in
Refers to the movement of an existing or previously licensed adviser moving to a new practice/licensee.

Switched-out
Refers to the movement of an existing or previously licensed adviser moving from a practice/licensee.

Moving adviser
A joint name of new, ceased and switched financial advisers.

LICENSEE SEGMENT CLASSIFICATIONS

Bank
Where a bank owns the advice licensee although advisers can be self-employed. Includes private banks that may be independent or owned by ADIs.

Stockbroker
Where stockbroking is the primary business line even if owned by a bank. This does not include foreign-owned banks with private banking and broking arms.

Industry Superfund / Not For Profit
Includes mutual building societies and credit unions.

Diversified
Where other core business lines exist within the broader business including financial product manufacturing.

Limited Licence
As defined through their ASIC registration under specific "classes of securities". Classes of securities comprise Simple Managed Investment Schemes, Life Risk Insurance Products and Superannuation. Limited licence firms are almost exclusively accounting firms however many accounting firms have full licences and appear in other categories depending on their business model.

Privately owned (100+)
Any firm not captured in the other categories, with more than 100 registered advisers. Privately owned does not define specific ownership structure and some groups may be publicly owned / listed.

Privately owned (11-100)
Any firm not captured in the other categories, with 11-100 or more registered advisers. Privately owned does not define specific ownership structure and some groups may be publicly owned / listed.

Privately owned (1-10)
Any firm not captured in the other categories, with 1-10 registered advisers. Privately owned does not define specific ownership structure and some groups may be publicly owned / listed.

ARdata

ARdata provides insights to the financial services eco-system. We operate as a stand alone service to assist fund managers, super funds, platforms, insurers, and other industry service providers reach advisers they want to work with.

Consolidating ASIC information with our proprietary methods, our data is the most valuable, up to date, and accurate in the market. Our Nightingale data service can be customised to any specific scope, including monthly reports on advisers switching, entering or exiting the industry.

Email us today for more information on our data services.

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Adviser Ratings is the only independent consumer review and rating system on financial advisers in Australia. Our unique value proposition in being an online marketplace for consumers to connect with and give feedback to advisers has created a robust data, technology and research organisation.

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