**Trends impacting the advice landscape**

**November 2020**: Shifts in the advice landscape across the world have been catapulted into the fore by the Coronavirus pandemic. Ongoing regulatory developments, volatile market conditions, technology advancements, fee scrutiny and questions around the benefit of advice mean that today's advisers need to continue to work hard to futureproof their businesses.

This was one of the key take-outs at the recently held Allan Gray Global Advice Landscape webinar. Featuring speakers from markets in Australia, the UK and South Africa, the event gave advisers a global take on what is changing and what is staying the same, and how this may impact their long-term sustainability.

All speakers agreed that regulatory changes across the various markets have changed and continue to change the landscape for advisers. However, while the changes in the UK and Australia happened at pace, in South Africa the pace has been more evolutionary than revolutionary.

Tamryn Lamb, head of retail distribution at Allan Gray, noted that there have been a number of key regulatory changes or updates in South Africa since 2014.

"The Financial Sector Conduct Authority continues to emphasise the valuable role that financial advisers play and has stated that the regulation that is being drafted is aimed at supporting advice and making sure it available, sustainable, fair and properly priced. The devil, however, will be in the detail of how it is implemented," she noted.

"In our view, it is important that the key principles which have been critical to the success of the South African investment and advice industry over the past two decades are protected. At its core, this means focusing on measures that can result in good client outcomes such as transparency, and clear disclosure of fees (particularly where conflicts of interest can exist) and encouraging an environment of fair and healthy competition amongst differing advice, investment management and administration business models. In our view, key factors such as independence, open architecture and choice has helped improve the overall competitiveness of the industry over time, and we believe this should continue to thrive."

Another trend is that the value proposition of advice continues to evolve.

"Advisers have gradually evolved from simply offering product solutions and investment returns to putting the client's life at the centre of the conversation. Today advisers are akin to a financial coach, or life manager."

The UK adopted a big bang approach to RDR, compared to South Africa's more evolutionary approach. This has changed the distribution landscape in the UK, with banks exiting wealth management and IFAs very much controlling the value chain. This has had a number of consequences, according to Marcel Bradshaw from Orbis in the UK.

"There has been a reduction in the number of financial advisers in the UK, from 33 000 in 2012 to 26 000 today; perhaps because of an inability or willingness to change and adapt to the evolving landscape," he noted.

The same trend can be seen in Australia, with regulatory changes forcing a mass exodus of both investors and advisers.

"In a recent survey from Wealth Insights Australia, one-third of advisers reported that they would leave the industry within the next year or two. This is a frightening reality and shows the impact of the last 10 years on the advice market in Australia," said JD de Lange, Chief Operating Officer of Allan Gray Australia.

Factors contributing to the situation in Australia include the ever-increasing compliance burden, a loss of commissions or rebates, a drop in practice valuations and the stress of meeting new educational requirements.

"We last saw adviser sentiment this low in 2010 following the global financial crash," said de Lange. "This makes it very hard to grow the industry and encourage new entrants to join, as advisers feel under constant threat."

He added that there are about 10% fewer advice clients than five years ago, which has created fee pressure for advisers. The other side of the coin is that advice has become extremely expensive even by Australian terms.

“In an asset base fee world, the discussions were more investment focused and price was a function of assets under management. Today an advice plan needs a structuring fee and an ongoing management fee both based on the value proposition offered by the adviser. A new proposal costs AUD3600 or more to deliver, while the annual fee could easily be more than double that making it obvious that the adviser needs to a very clear and quantifiable value proposition,” he explained, adding that the quality of advice given today is of a much higher quality than ever before and that client needs are better served than ever. “This should be very positive for the advice industry in the long term.”

David Haintz from Global Adviser Alpha based in Australia said that advisers need to change their perspective.

“Advisers are giving away what they should be charging for, and charging for things they should be giving away.”

He added that advisers should be shifting from a product-led offering to an advice-led model.

“The traditional role of the adviser is shifting from a price taker, whereby he gets paid in commission, to a price maker, which is more focused around the value that is being delivered to the client through service.”

Jon Mackintosh from EncoreSA used the analogy of a journey by aeroplane, where the destination represents the client’s goal, such as retirement.

“Advisers are acting like travel agents, selling clients a ticket to a seat on the aeroplane, when in fact, we should be thinking of ourselves as pilots, being with our clients throughout their journey, and safely leading them to their goal, or destination.”

But the problem with the advice-led model is that advisers struggle to come up with a feasible, transparent fee structure.

“Advisers should be seeing themselves as selling a 30-year relationship, and then have a scalable fee model that reflects this,” Haintz noted.

Continuing with the aeroplane analogy, Mackintosh explained that advisers should aim to keep clients for a lifetime, and fees should therefore be structured according to needs.

“Whether you are flying business or economy class, you expect to pay the appropriate fee. If you have a client who wants constant check-ins and reports, they should be prepared to pay business class rates, and the same applies to clients who fly economy class.”

He adds that advisers should start by having an honest conversation with their client to determine where they want to sit in the journey to their destination, and then align the fee.

“We need to deliver what clients are looking for, not what is in our kit bag,” concluded Haintz.

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