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2024 | Australian Financial Advice Landscape

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Advice positively positioned for the future

A letter from Adviser Ratings' Founder – Angus Woods

When I look through the data for this year's Landscape Report, it's clear the time advisers have spent investing in their businesses has paid off. Practices are more profitable than ever, thanks to the nous of those who continue to serve in the profession. After adapting to compliance and cost pressures, today's advisers have reaped the rewards with robust practice health. We're continuing to see businesses adapt to the market's changing conditions, with many finding ways to become more efficient and serve more clients. As advisers, you're adopting new technologies, planning for the future and new ways to thrive in this new environment.

Our Landscape Report illustrates this. We've gone deep inside the advice industry and examined how you're managing your businesses, how you're investing, what you're doing to protect your practice and where you see new opportunities. The insights should help you to prepare not just for the next 12 months, but for the decade ahead. The demand for your services and expertise will continue to grow in the coming years, as Australia's population ages, the wealth transfer gathers pace and AI becomes a key business enabler.

Through our research, I can see you're setting up your businesses for this. This report will also give you a glimpse at what your industry peers are doing to prepare themselves for growth. Thank you to lead sponsors Lonsec, Numerisk and ART, who supported thousands of surveys and hundreds of hours of analysis on this report. Also to our supporting chapter sponsors - UniSuper, Global X, intelliflo and Pro Bono Financial Advice Network. Thank you also to the advisers, licensees, industry experts and consumers who contributed their valuable insights. It's allowed us to shine a light on the profession's strengths and vulnerabilities. Adviser Ratings has seen a record number of leads in the past 12 months, which means your services as advisers are in high demand.

Please continue to claim your profile and ask your clients to review you. It's free! We will continue to advocate for you, as advisers, as you navigate challenges around cost, compliance and demand. We've also seen the strongest intention yet that most of the current workforce is here to stay.

- We're with you, because advice matters.

Angus Woods
Managing Director, Adviser Ratings

AdviserRatings

It is both a transformative and exciting time to be in advice

A letter from Lonsec CEO – Michael Wright

At Lonsec, we are deeply passionate about the incredible value that advice provides Australians.

We believe supporting advisers to navigate through this rapidly changing landscape, will help continue to grow their businesses, and help their clients achieve their best lives.

We're uniquely positioned in the industry providing advisers with a full suite of investment and superannuation research, cutting-edge technology and efficient investment solutions to help you and your clients make better investment decisions.

Across our different brands we partner with industry participants to research and rate over 2,000 managed investments and listed securities and over 500 Superannuation products, as well as providing portfolio consulting, a diverse range of managed accounts and data analytics.

Our award-winning investment research portal - iRate® gives Advisers access to Lonsec's unparalleled breadth and depth of qualitative research - all in the one place.

We truly understand the value of practical, actionable insights, which is why we are proud to be sponsoring this year's Adviser Ratings Landscape Report.

The transformation within the financial services sector and the advice profession has not been without its challenges, and it is our mission to continue to be a trusted partner to all our clients, arming you with the tools you need to deliver exceptional services and future-proof your businesses.

We appreciate this ongoing partnership and look forward to continuing to evolve our services as we grow and lead within this ever-changing financial advice landscape.

Michael Wright
CEO, Lonsec

Lonsec

2024 KEY SPONSOR

Partnering for growth in the evolving financial landscape

A letter from Numerisk CEO – Richard Silberman

At Numerisk, we are excited about the demand for financial advice and how we can be not just your insurance broker, but your partner, in the growth of your practice or licence. With over 20 years of experience in financial planning, Numerisk was founded to address longstanding challenges the advice sector has faced, some for more than a decade. We are passionate about our clients, as the advice practices and licensees we work with are of theirs. It's this aligned spirit of care and advocacy that forms the bedrock of our offering.

In partnership with Adviser Ratings, we are leveraging data insights to enhance the risk profiles of the advisers and licensees we present to insurers. This approach is intended to support our clients achieve superior outcomes. The importance of good advice and insurance designed to protect advisers and their clients brings great value to the wealth ecosystem, and the community more broadly.

We are extremely proud to sponsor the Adviser Ratings Landscape Report, it's a tool we believe provides deep insights into the industry. We have partnered with high-quality organisations whose focus are on service and value to the advice community – a value we share.

At Numerisk, we truly understand the advice industry, it's our primary focus. We are committed to providing peace of mind and support to advisers, their practices, and their licensees as they grow and evolve. We believe in the value of the advice industry and are invested alongside you, ensuring that you have the best protection and support available.

As your insurance broker, we look forward to being able to work with you and your practice and AFSL to find new ways to solve old problems – better outcomes, data driven.

Richard Silberman
CEO, Numerisk

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2024 KEY SPONSOR

The Australian Consumer

1.0

Client growth accelerates

> *The demand for financial advice is rising as escalating living costs increasingly put pressure on household budgets. We are seeing this play out in the form of a 36% increase in the number of leads to advisers across Adviser Ratings' Find An Adviser platform, and Find An Adviser white label arrangements.*

Meanwhile, an increasing proportion of unadvised consumers surveyed say they are considering getting advice (24% in 2024 vs 22% a year ago). This shift likely reflects the heightened concerns of Australians about their ability to fund their retirement amid the rising costs of food and groceries, mortgage debt, rents, and medical expenses.[1]

Our consumer survey shows that the majority of Australians see the value of advice, and people feel more financially literate and confident about their finances when they see a financial adviser. However, the gap between what consumers can pay and the fees advisers are charging means advice remains unobtainable for most Australians.

Regulatory reforms and the incorporation of artificial intelligence into the advice process have the potential to solve for this gap by increasing the supply of advice while reducing the costs of running an advice business.

Superannuation funds and insurers are expected to invest heavily in advice[2] after the Australian Government proposed a suite of reforms to expand the supply of advice.

Under the new model, outlined in the government's final response to the Quality of Advice Review, there will be a new class of financial adviser who will fill the advice gap. This class will be required to meet education standards, be focused on providing advice on simple matters, and be prevented from charging a fee or a commission.[3]

The reforms would reopen the provision of personal advice to funds, insurers, and banks, marking a windback of the tough restrictions introduced after the Hayne Royal Commission.

Digital technologies such as AI have the potential to reduce the cost of running an advice business by replacing some of the work that financial advisers do, such as back-office administration, marketing, compliance and cyber security or the research-heavy and time-consuming task of building and managing portfolios.

Sources:
1. State Street Global Advisors, Global Retirement Reality Report. Source
2. Australian Financial Review, 'Super funds, insurers line up to get into financial advice game'. Source
3. Treasury, Delivering Better Financial Outcomes, December 2023. Source

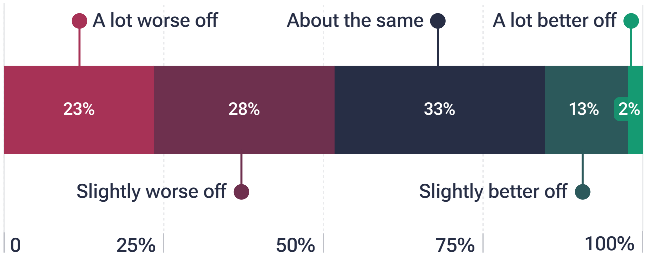
Australians are going backwards financially

The majority of consumers say they are worse off or the same as 12 months ago, with only a minority indicating they are better off financially.

CHART 1.1

Are you better off financially than you were 12 months ago?

Source: ARdata



Demand for advice is rising

As Australians contended with high inflation, rising interest rates, and changes to superannuation rules, demand for advice continued to rise strongly, as evidenced by enquiries to financial advisers. Leads through the Adviser Ratings website and its affiliated white label sites rose by 36% in 2023 from the previous year.

The main areas that consumers sought help with through Adviser Ratings were building super and planning for retirement. Recent changes to super rules including the removal of the work test for voluntary contributions by people under 75 years from July 2022 and the proposed new tax framework for super account balances over $3 million may be supporting already strong demand for advice in this area.

36%

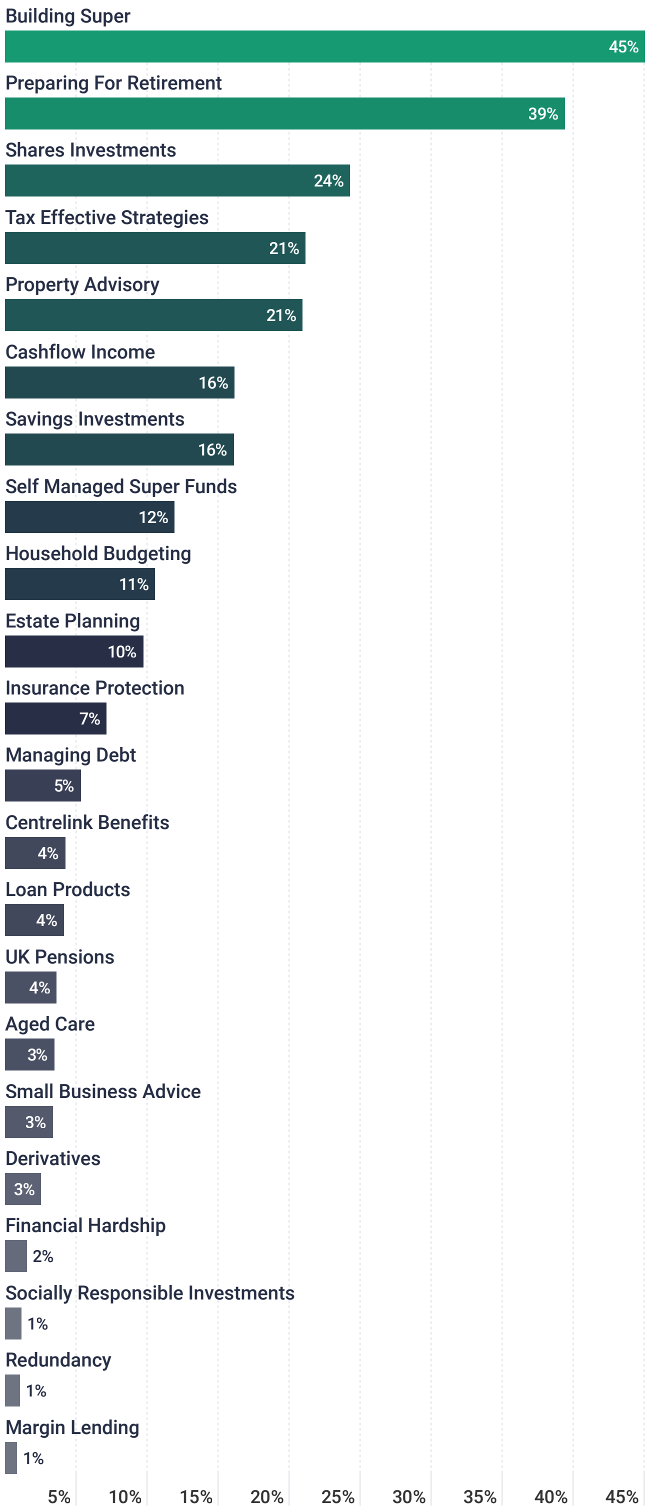
Rise in consumer leads

Adviser Ratings and affiliated website leads rose by 36% in 2023 from the previous year.

CHART 1.2

What consumers are looking for help with through the Adviser Ratings platform

Source: ARdata



More unadvised people are considering getting advice

The proportion of people in our survey who are thinking of getting advice has risen to 24% from 20% in 2022. However, that's not translating into higher numbers of advised Australians. There are two major reasons for this.

The first is a shortage of advisers after a strong exodus from the industry in recent years (see page 27-28). The second is that most people can't afford or are unwilling to pay the average adviser fee. As a result, the proportion of Australians who use a financial adviser remains little changed from the prior year at 10.4%, a slight uptick from last year.

1 in 4

Unadvised consumers

are thinking of getting advice – translating to 2.3m Australians – but most are not willing to pay the current advice fees.

CHART 1.3

Advised and unadvised Australians by age group

Source: ARdata

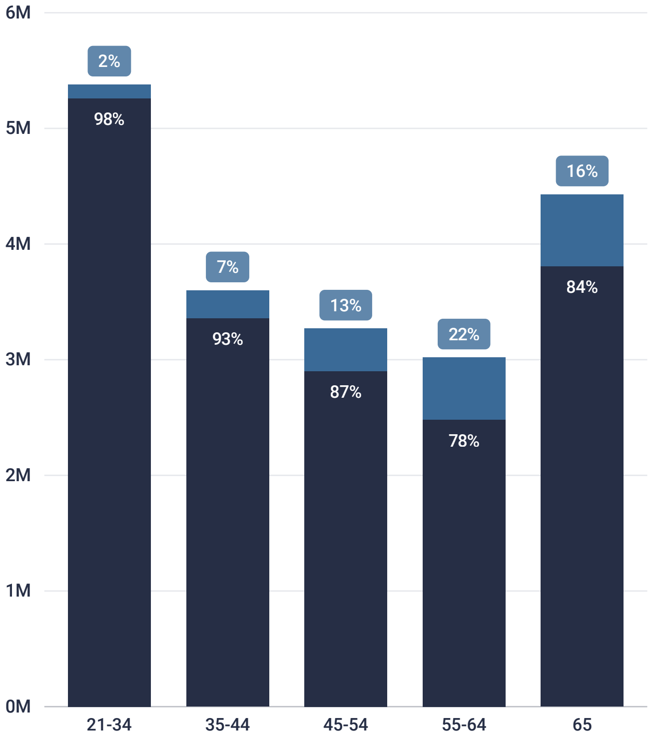
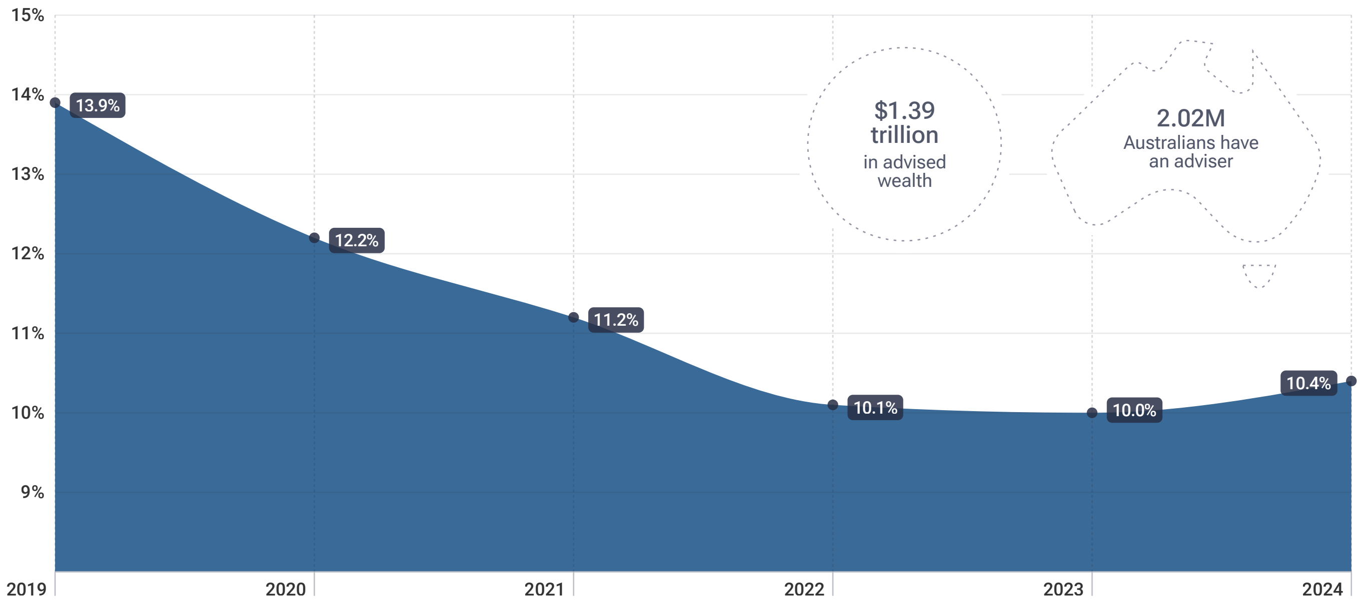


CHART 1.4

Advised population

Source: ARdata



People are still living paycheque to paycheque

The percentage of respondents living paycheque to paycheque has remained as high as during the difficult periods of the covid-19 pandemic, as the costs of necessities including food, petrol and rent have risen. The proportion of people with enough savings for an emergency fund has decreased as mortgage repayments have risen in line with rising official interest rates. This financial pressure has a twofold impact on the demand for advice, both increasing consumer awareness of the need for advice while also decreasing the ability of consumers to pay for that advice.

60%

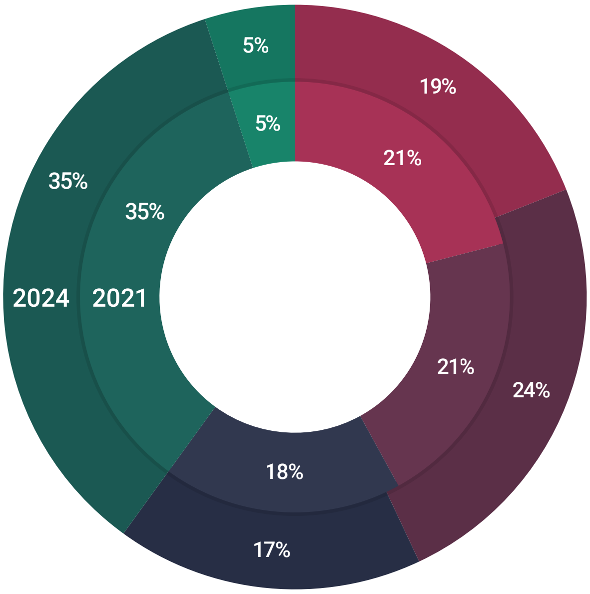
Of consumers report living paycheque-to-paycheque

With 43% indicating they have little or no savings for an emergency fund

CHART 1.5

Consumer capacity to pay for advice – Yearly comparison

Source: ARdata. Outer circle = 2024. Inner circle = 2021.



	2021	2024
I live paycheque to paycheque with no savings for an emergency	21%	19%
I live paycheque to paycheque with little savings for an emergency	21%	24%
I live paycheque to paycheque but have enough savings for an emergency	18%	17%
I live within my means but can splurge when needed	35%	35%
I am fortunate enough to be able to splurge more than most people	5%	5%

People see the benefits of professional financial advice

Most Australians see the benefit of having a professional financial adviser, with the main barrier being cost. Advised consumers see themselves as more financially literate than unadvised consumers. In 2024, advised individuals also demonstrate more confidence in their finances for the next 12 months. Conversely, the unadvised group displays lower confidence levels, with 27% feeling not at all confident about their financial future.

1 in 2

Australians rate their financial literacy as 'average'

With 44% advised Australians indicating a financial literacy as above average or higher v 33% of unadvised Australians

CHART 1.6

Do you see the benefits of professional financial advice?

Source: ARdata

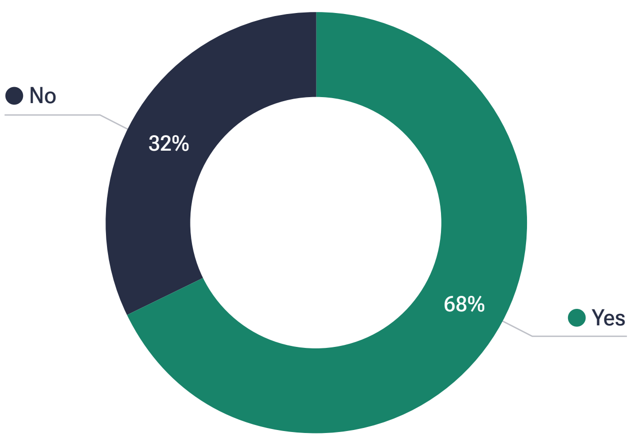


CHART 1.7

Financial literacy

Source: ARdata

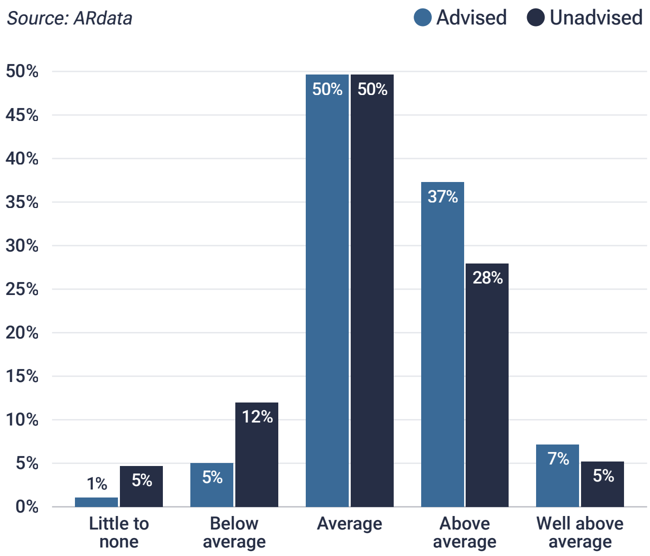
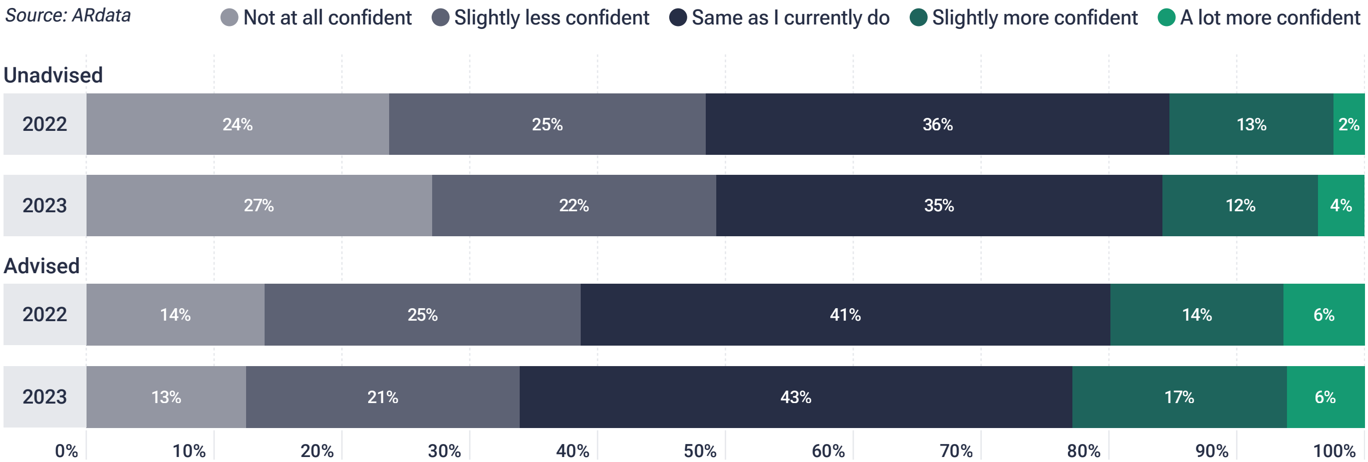


CHART 1.8

Confidence about finances (over the next 12 months)

Source: ARdata



But the cost of advice makes it out of reach for most Australians

Consumers are willing to pay an average of $911 for receiving advice from a financial adviser. However, this number decreases to $553 if we only consider those who don't have a financial adviser (this number was $651 in 2022). The problem is that only 6% of advisers have fees for new clients under $1500.

In Australia, there is a population of approximately 10.5 million unadvised consumers. The difference between the retail advice penetration seen in Chart 1.3 is due to factoring in the penetration of wholesale advice, and those Australians who have an accountant and are happy with that arrangement. Of those 10.5 million, only 24% of them are considering obtaining an adviser in the future (almost 2.3 million). If we take into account consumers who can afford the cost of an adviser, this number decreases to 1.5 million.

CHART 1.9

What consumers are willing to pay for financial advice

Source: ARdata

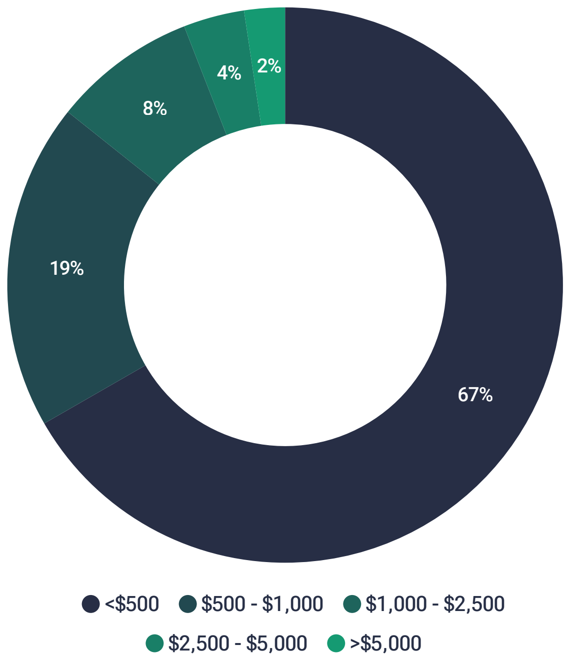
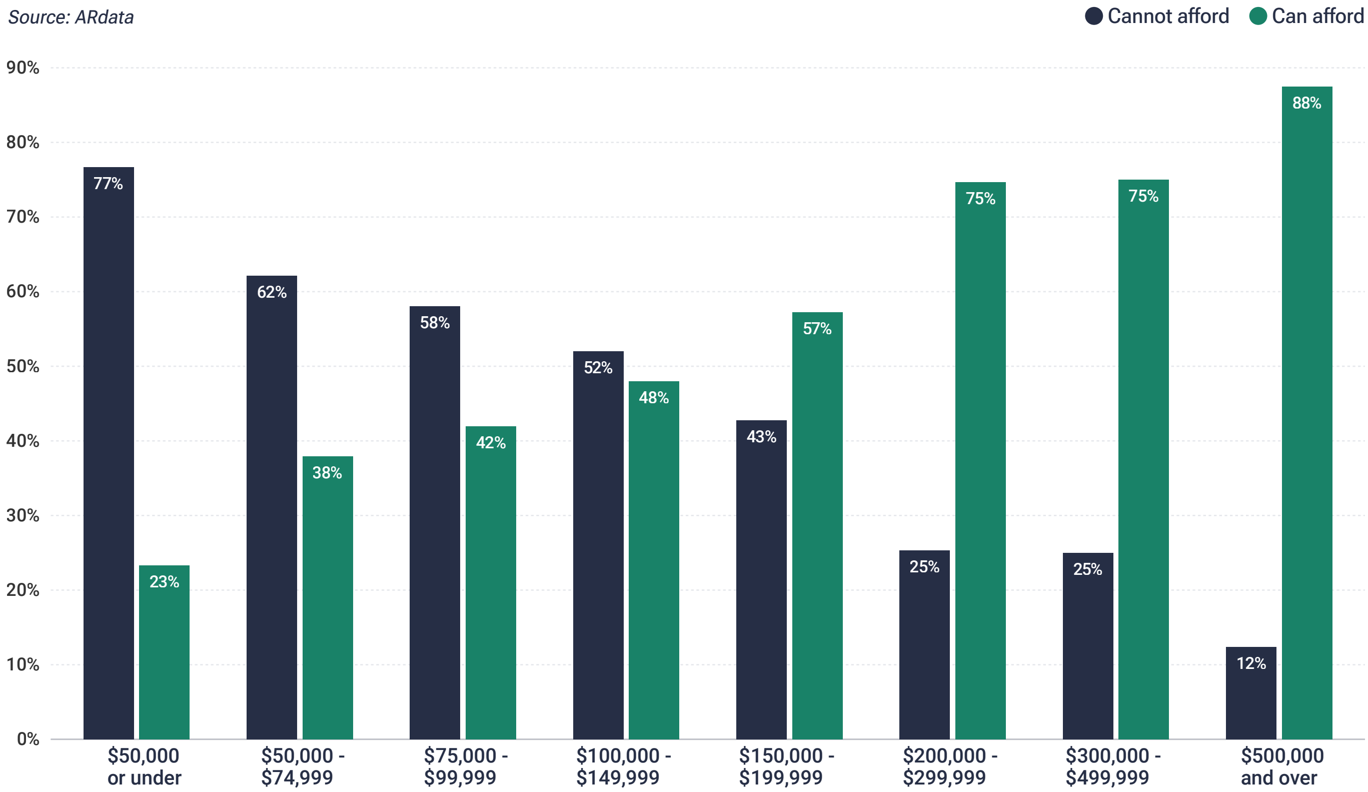


CHART 1.10

Consumer capacity to afford advice by household income

Source: ARdata



Plans to use digital solutions are growing

Currently, fewer than one-third of Australians have adopted digital solutions for managing, investing, or trading money. However, the intention to use these technologies is rising annually across all age groups.

Digital tools, including budgeting apps, share trading apps, or auto investing solutions, such as Pearler, Raiz, or Stockspot, are increasingly being introduced to Australians by their financial advisers, banks, or through social media.

Less than 1 in 3

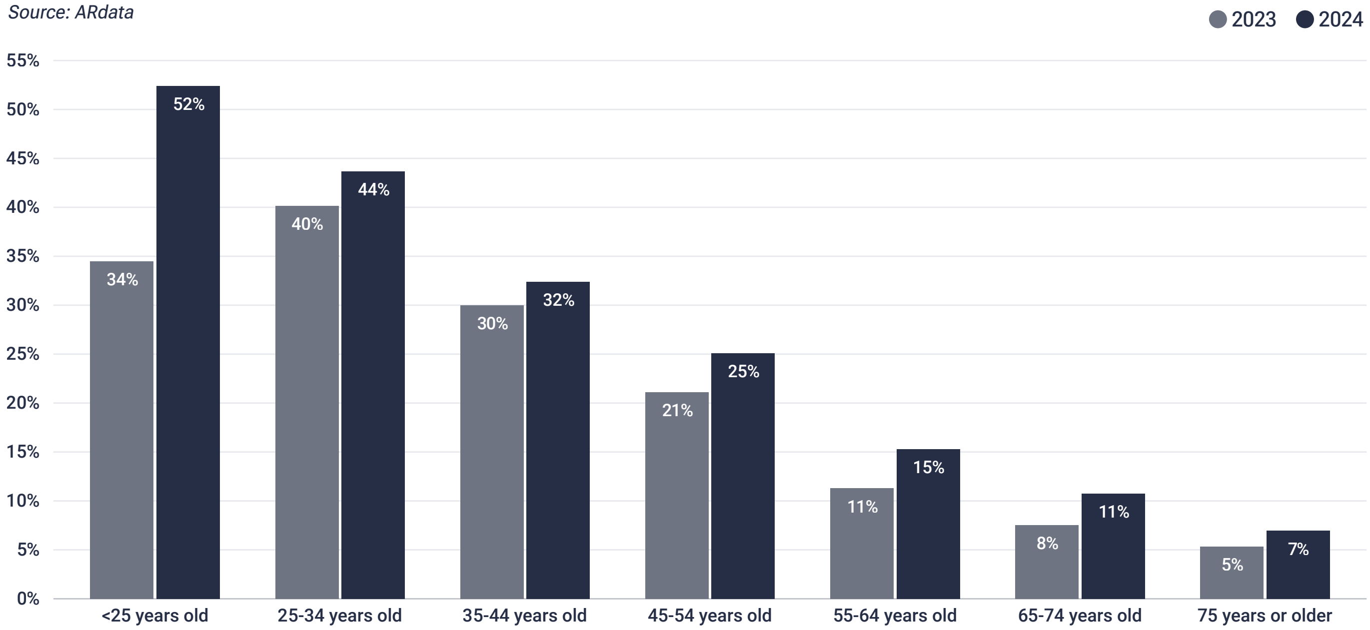
Australians use digital solutions to help manage, invest or trade money

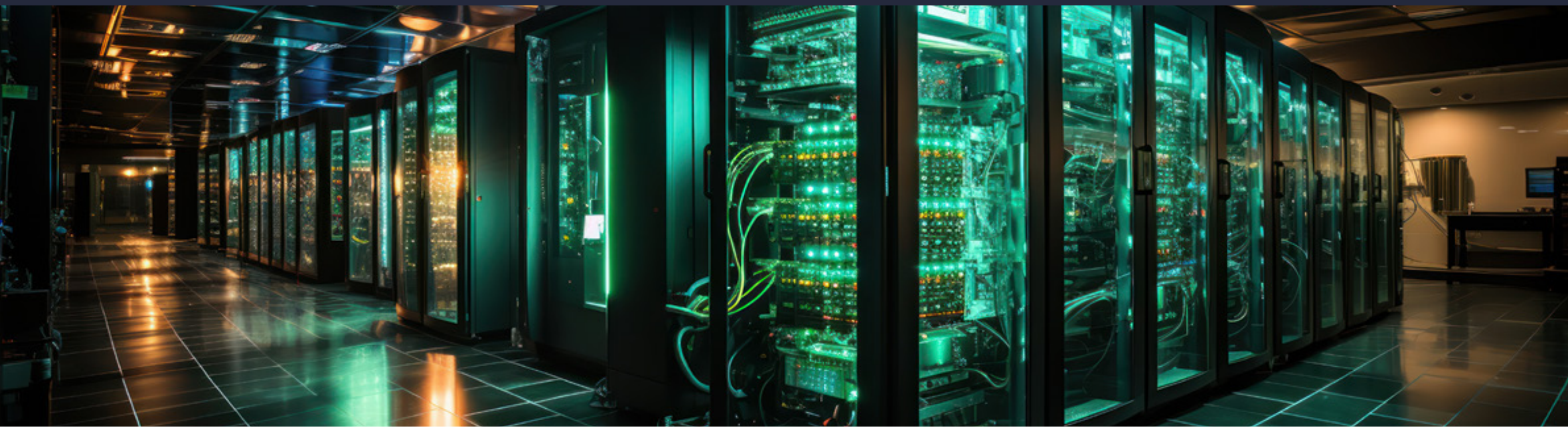
Despite this, there is a clear annual increase in the intention to use these technologies, especially among younger Australians

CHART 1.11

Percentage of the population interested in using technology for investing

Source: ARdata





Respondents are split on the merits of AI

Consumers are split around the use of artificial intelligence (AI), with 38% saying they are positive about its use, 34% saying they are pessimistic, and 26% neutral. However, 20% say they are interested in learning more about it.

Talking about how AI will affect financial advice, 31% of consumers think it will help financial advisers to do their work, while 12% think it will help to replace them.

The fact that consumers are using AI tools in various parts of their lives today means advisers need to ensure they understand the application of this technology in the advice space so that they are not left behind by competitors who can offer it.

While offering AI tools to clients comes with reputational risk, partnering with the right provider has the potential to create a pipeline of customers who are likely to require full-service advice at specific times in their life and become more profitable over time.

CHART 1.12

Views on AI by consumers

Source: ARdata

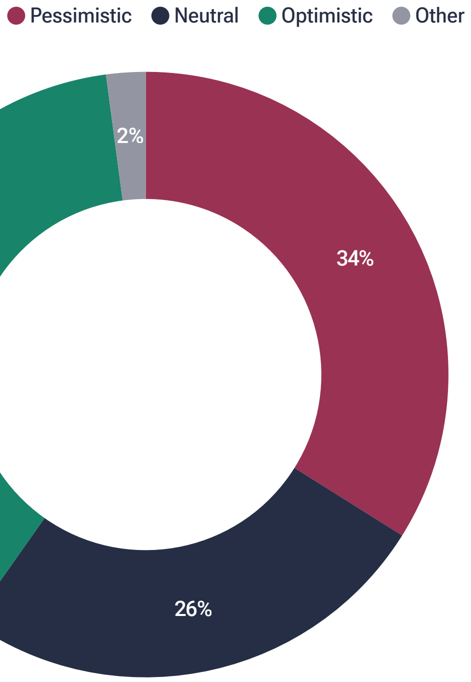
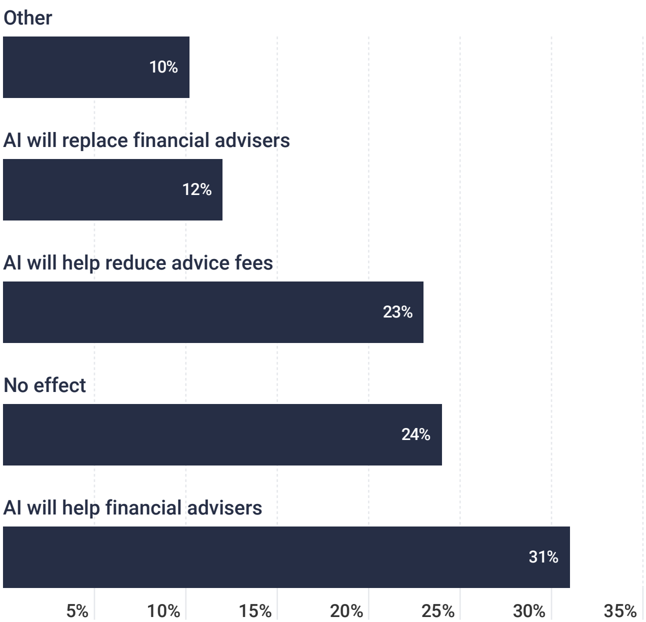
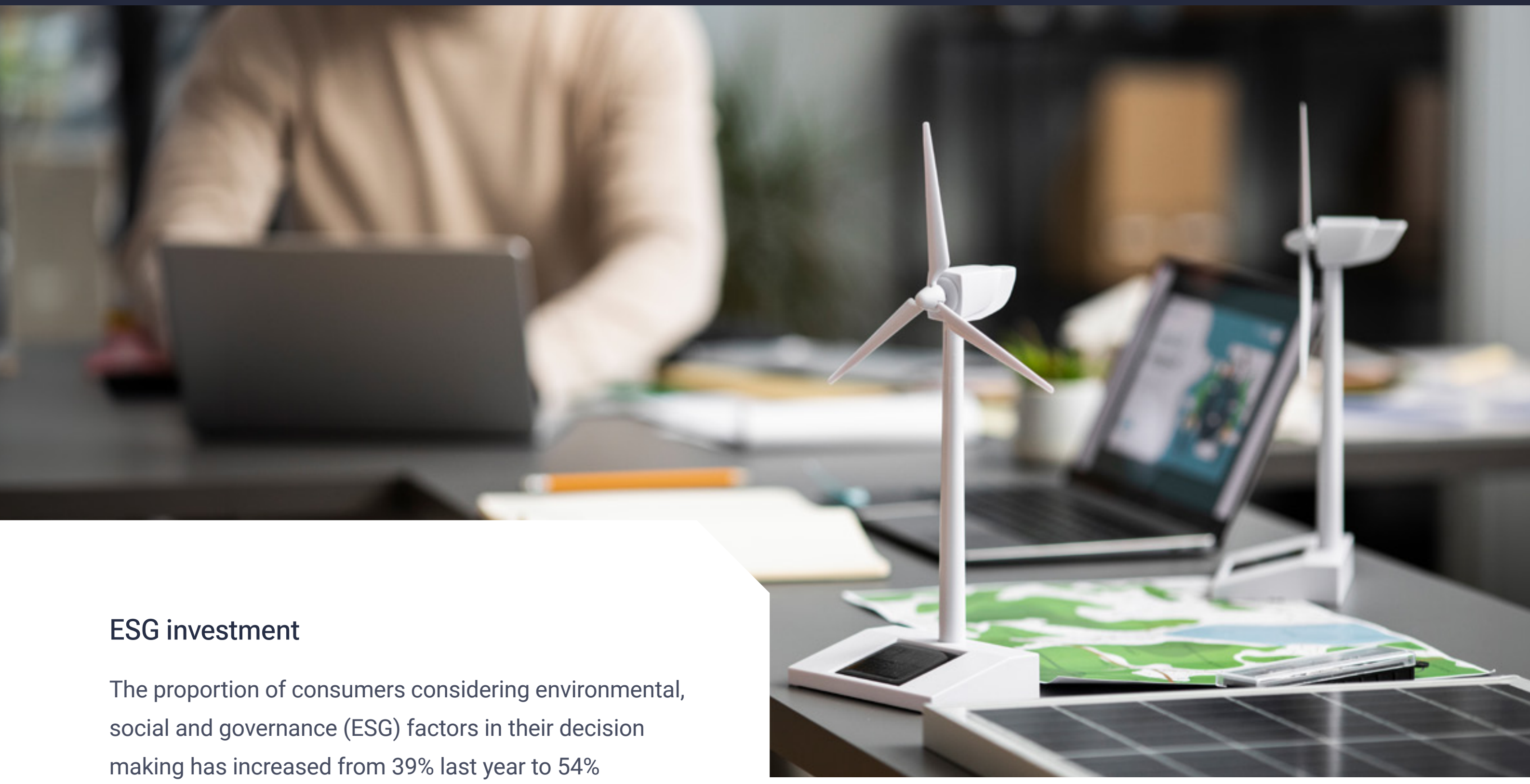


CHART 1.13

Consumers on how AI will impact financial advice

Source: ARdata





ESG investment

The proportion of consumers considering environmental, social and governance (ESG) factors in their decision making has increased from 39% last year to 54% this year, despite large investing organisations facing accusations that they are not living up to their promises when it comes to ESG investing.

The Australian Securities and Investments Commission (ASIC) took action last year against a number of large asset managers and superannuation funds.

Many funds have treated it as a signal to increase compliance and communications, however a lack of an ESG standard remains problematic and consumers have difficulty differentiating between authentic and inauthentic ESG investing.

The government's plan to introduce mandatory climate reporting for large businesses and financial institutions has the potential to shine a light on those that are delivering on their commitments and those who aren't.

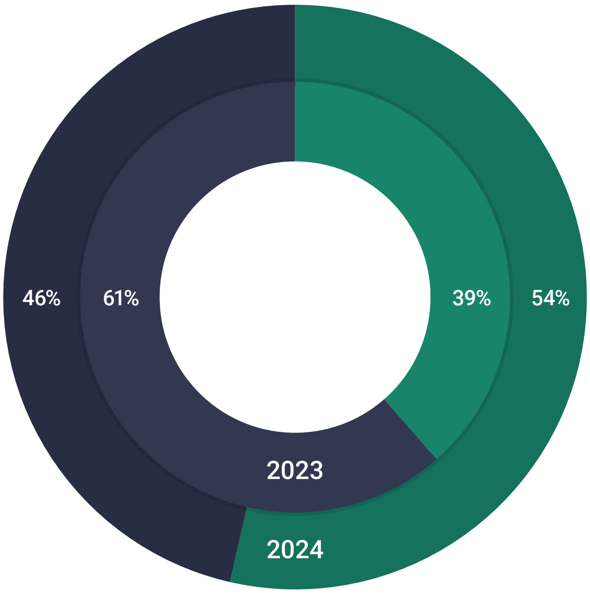
As identified in Chapter 4, this has resulted in a pull back by fund managers to launch ESG products. Advisers are also less inclined to offer ESG funds, until there is increased transparency or clarity on a consistent standard or methodology in this space.

The increase in clients' consideration for S and G of the ESG pertains to an uplift in noise around board governance and the social operational license expected of companies, particularly in the technology sector.

CHART 1.14

Consumers factoring ESG into their investment decision making

Source: ARdata. Inner circle= 2023. Outer circle=2024



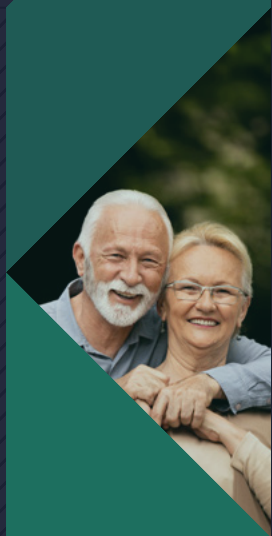
	2023	2024
Yes	39%	54%
No	61%	46%

Chapter insight

CASE STUDY

The expanding role of super funds

With financial advice fees still out of reach for most Australians, new rules are likely to see super funds step in to bridge the gap.



CHAPTER INSIGHT PROUDLY SPONSORED BY: UniSuper

UniSuper is one of the major superannuation funds leading the promotion of financial advice to its members and beyond. UniSuper currently invests over $135 billion on behalf of more than 647,000 members (As at 31 March 2024).

Two-thirds of UniSuper members commencing a retirement income stream have engaged and benefited from its advice service, and four out five UniSuper retirees have been supported by financial advice in their retirement.

Relative to other profit-to-member funds, UniSuper – which until July 2021 was restricted to members in the tertiary education sector – already has a sizeable adviser workforce of about 160 full-time equivalents.

UniSuper's advice service is delivered nationally via its 34 locations face to face and virtually. The service includes general advice and education, intra-fund advice and full comprehensive advice through their own license and extensive advice team.

UniSuper also recognises some members prefer to engage their own professional adviser and will soon provide services to support external financial advisers.

Andrew Gregory, Head of Financial Advice and Education, explains the fund's vision is to be known as the "Netflix of retirement". This means personalised retirement options driven by member insights and understanding.

CHAPTER INSIGHT PROUDLY SPONSORED BY: UniSuper

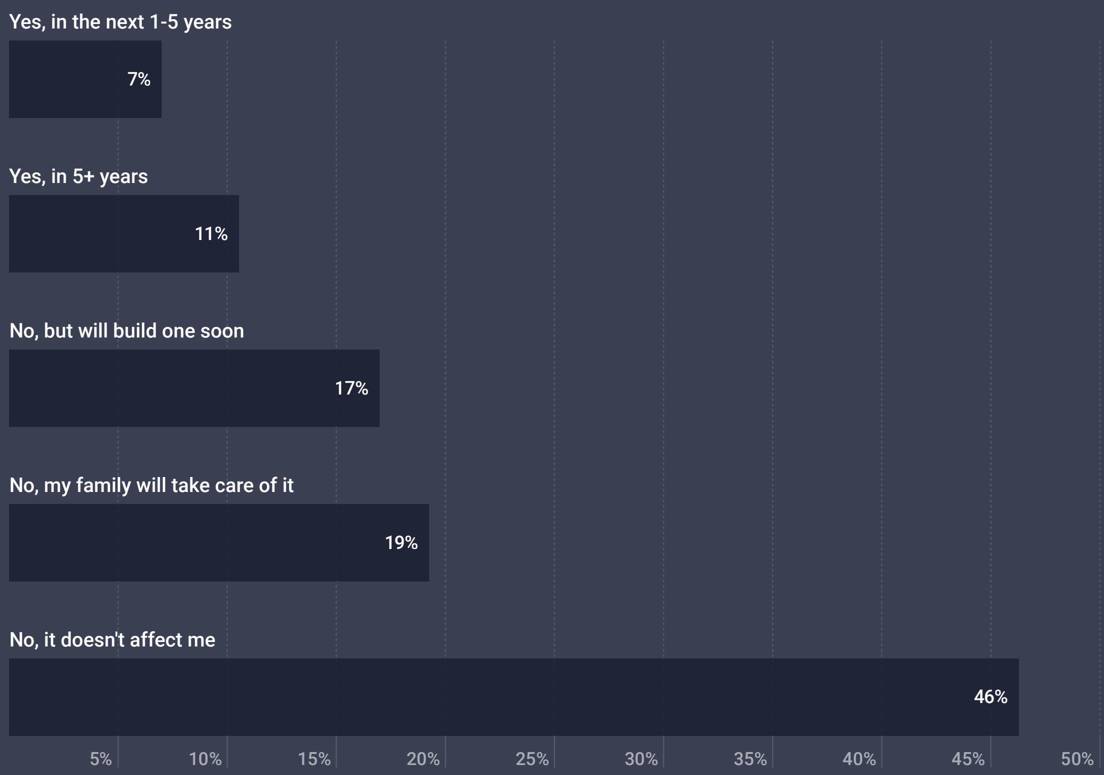
"We're doubling down on our advice offering – because we know advice works. Eighty-five per cent of our members tell us they feel more confident in their retirement planning since receiving advice from us and, more importantly, 99 per cent say they intend to implement it.

"Retirement isn't one size fits all. For too long there has been a "missing middle" in advice where Australians who don't have large super balances have been underserved by advice offerings. For many of these people who are stuck in the middle, simple questions turn into complex answers. It may not make sense for them to pay for comprehensive advice, but their needs are not served by general advice, and we want all our members to benefit from the right advice as they transition to retirement."

CHART 1.15

Do consumers have a plan in place to transfer part of their wealth?

Source: ARdata



Pivot Wealth founder, finance commentator and Adviser Ratings Gold status adviser Ben Nash said super funds will play a key role in the advice landscape of the future.

"The reality is only a small minority of Australians currently have access to advice through a financial adviser, but super funds are likely to unlock new opportunities for people to access meaningful advice about their retirement," he said.

"This will be important not only for people who are retiring in the next few years, but also for people with a longer investment horizon. There is a lot of power in being positioned right for retirement early," he added.

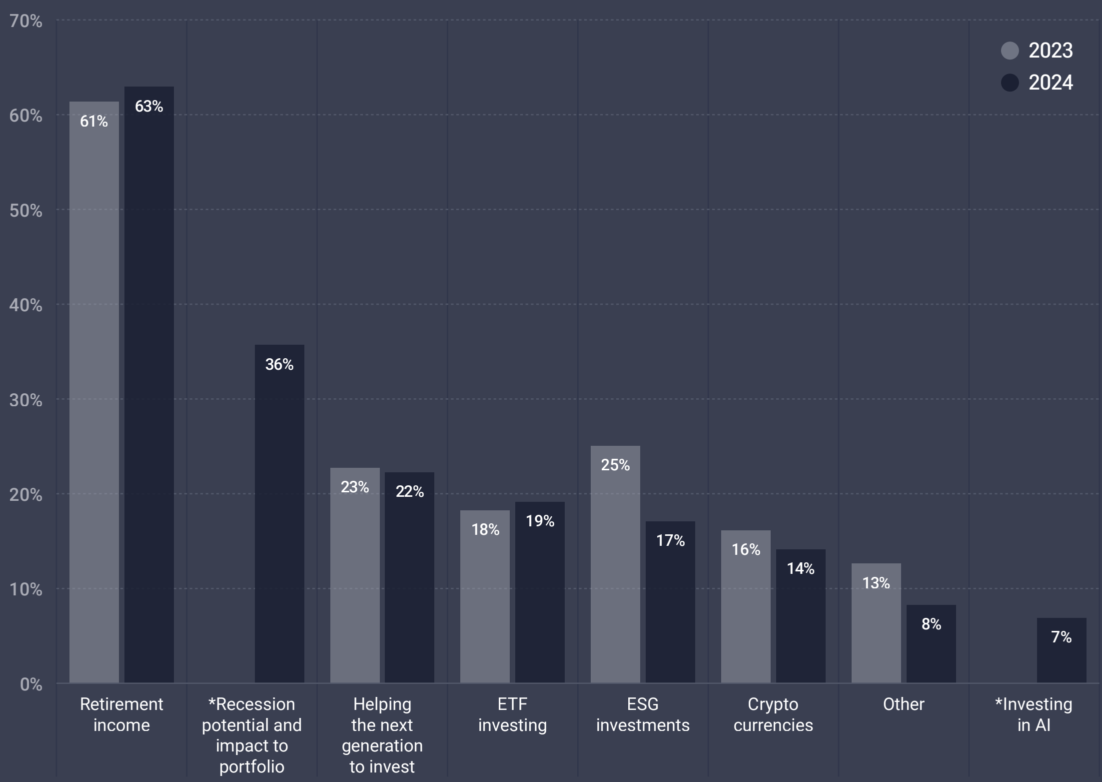
Mr Nash sees potential for advisers and super funds to work together to help to set up more Australians for a self-funded retirement. Retirement income is the topic most explored by clients with their advisers.

"We know not every Australian will want or need comprehensive advice, but super funds are the obvious choice to help most people establish that need for themselves."

CHART 1.16

What topics are clients are asking about?

*Source: ARdata. Note: * denotes a contemporary category introduced in 2023 with no historical data.*



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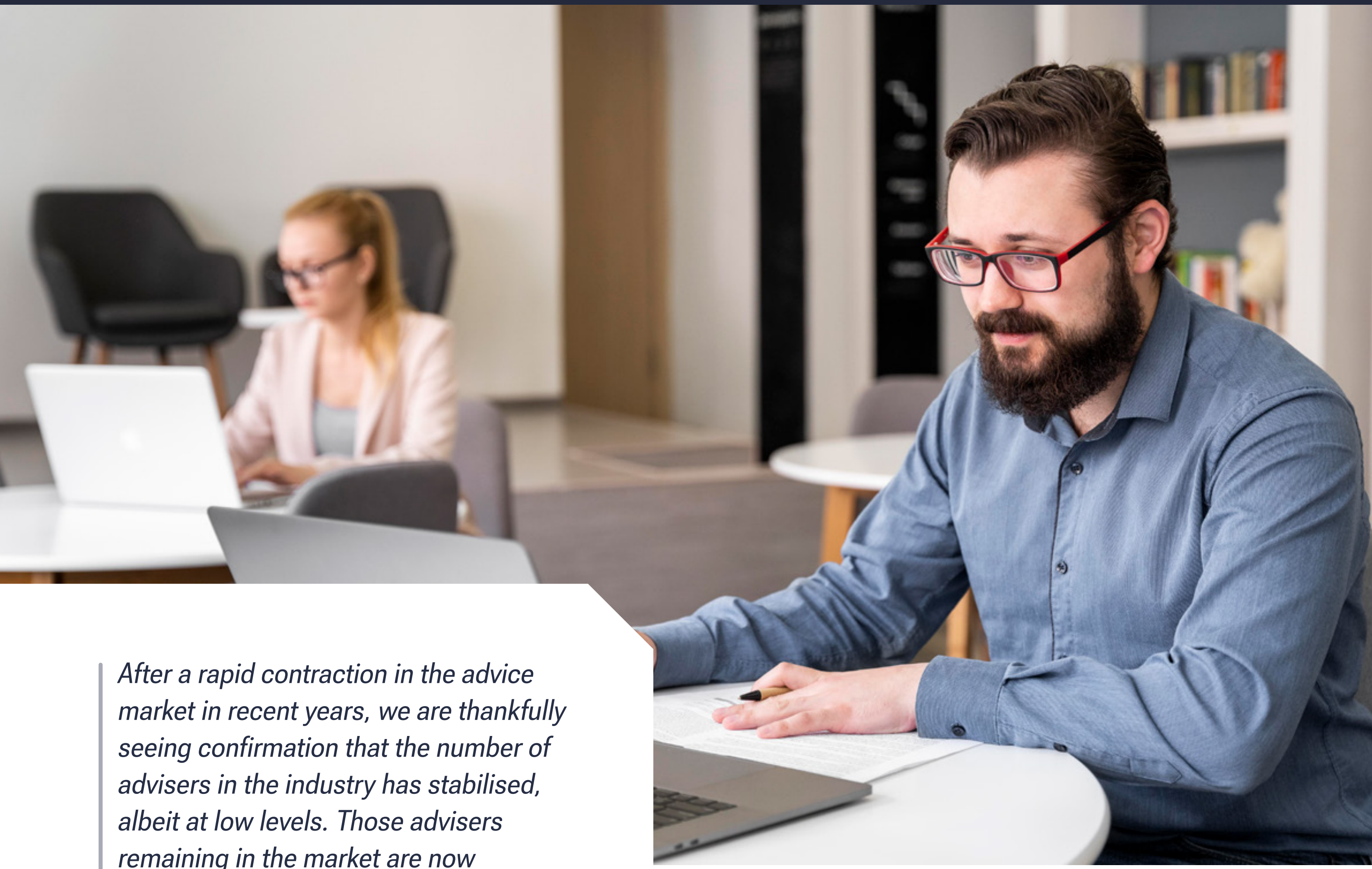


> *After a rapid contraction in the advice market in recent years, we are thankfully seeing confirmation that the number of advisers in the industry has stabilised, albeit at low levels. Those advisers remaining in the market are now increasing their client numbers, with the help of technology and outsourcing to help manage a larger workload.*

As articulated in chapter one, the next big play will come from super funds. As reforms stemming from the Quality of Advice Review give super funds the green light to increase the provision of financial advice, we expect these organisations will start setting up third-party referral relationships and look for support from the advice community to build out their holistic elements. There's a fresh opportunity for advisers and funds to pair up and build new, sustainable revenue sources.

It is no secret that higher costs, regulation and the professionalisation of advice have contributed to many advisers leaving the industry in recent years.

After the government released its final response to the Quality of Advice Review recommendations in December, advisers are now hoping for a period without further regulatory inquiries.

Legislation has been introduced for the first tranche of the government's *Building Better Financial Outcomes* reforms, which is aimed at simplifying fee and disclosure documents to make it easier for advice customers. Several of these changes have been endorsed by advisers, such as simpler, plain English records to replace convoluted Statements of Advice. However, the jury is still out on the government's 'new class of financial adviser' for simple topics – an idea that is controversial among advisers who have completed years of additional training to become professionals.

The other contentious issue includes section 99FA, which the industry argues will place unnecessary compliance burdens on advisers and superannuation trustees on advice fee deduction requirements.

There are still many details to be worked out, as the government consults with industry and consumer stakeholders on parts of the legislation before it passes through Parliament.

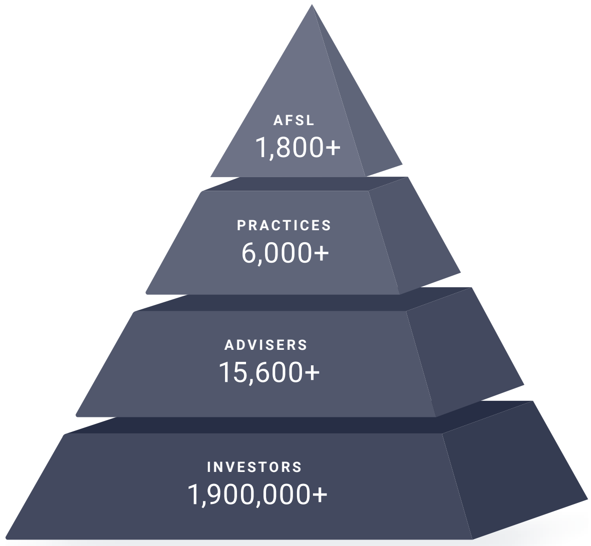
Super funds are now poised to play a much bigger role in the advice market, with the *Building Better Financial Outcomes* reforms offering them greater scope to advise their members. There's a key opportunity here for advisers to partner with super funds. Super funds can use white-label services to channel member enquiries to the appropriate adviser. Savvy advisers will be quick to build these relationships.

In early 2024, ASIC changed the structure of the adviser exam, following industry consultation. This meant short answer questions were taken out, leaving only multiple choice questions and the requirement that only provisional relevant providers and existing advisers could sit the exam was removed. The exam had been a huge burden for advisers in recent years, with concerns raised over the ambiguity and relevance of the short answer questions and creating an unnecessary hurdle to replenish the stock of advisers.

CHART 2.1

The Advice Market Ecosystem

Source: ARdata



Adviser numbers stabilise

The rapid decline in the number of financial advisers since the Hayne Royal Commission has begun to slow in recent years. After falling below 16,000 for the first time in 2022, the total number of advisers in the market edged down by just 1% to 15,623 in 2023, providing further evidence of stabilisation.

The exodus of advisers from the market has slowed dramatically from the rapid declines of 2019-2021, which were largely in response to an increased compliance burden, including training requirements. There was also a slight increase in new advisers coming into the sector in 2023, however there is still much room for improvement. The average experience level of advisers has risen in 2023 due to the slow pace of new advisers coming into the market.

The proportion of advisers that decided to leave the industry has fallen to 7% from 10% in 2022, while the proportion planning to stay has risen to 85% from 78%. The rest of advisers are uncertain if they want to stay in the industry. With clarity about the future of the profession and most advisers having completed their education requirements, the vast majority of the current cohort have made it clear they are here to stay.

CHART 2.2

Number of advisers in market

Source: ARdata

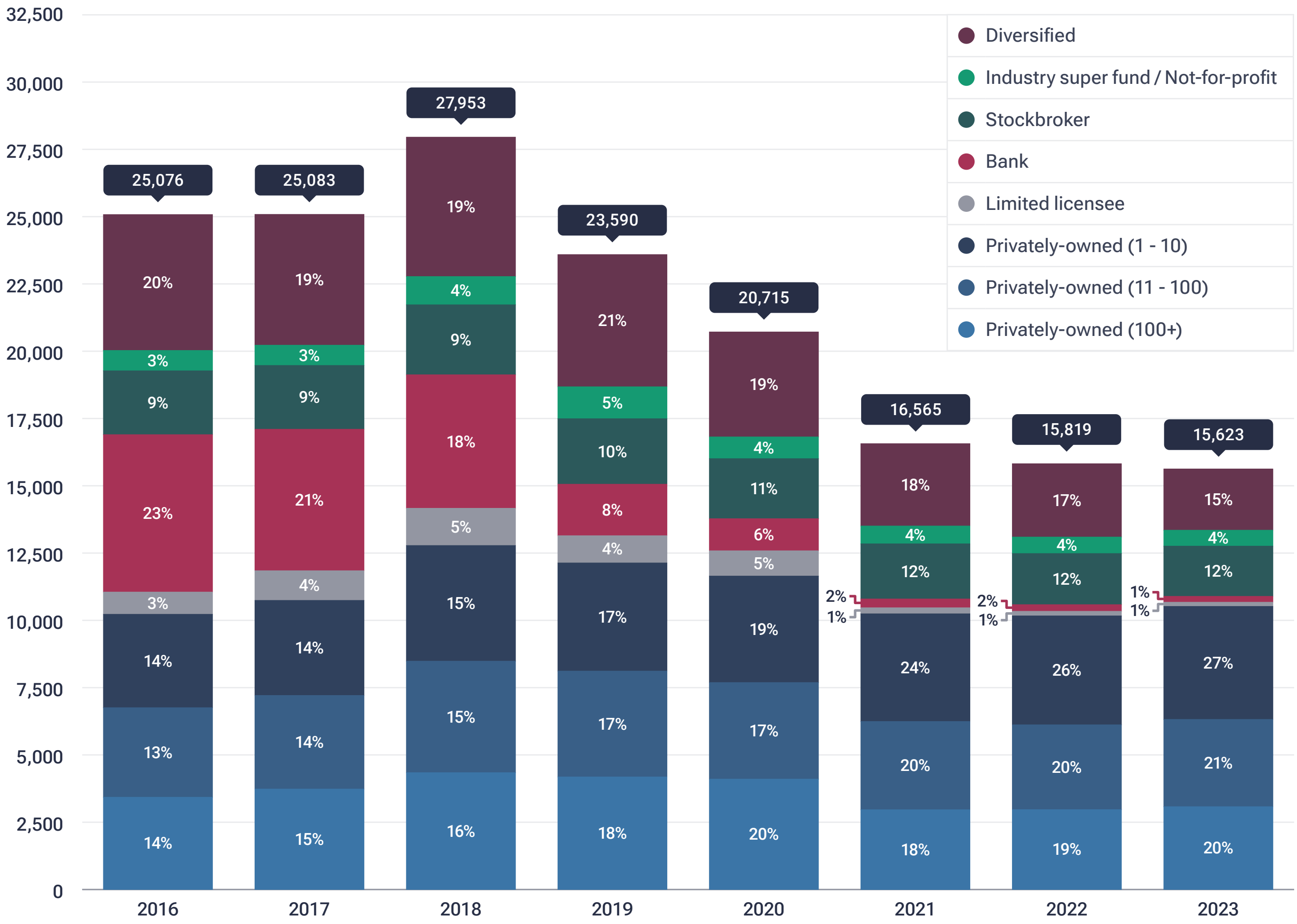


CHART 2.3

Adviser movement history (2015-2023)

Source: ARdata

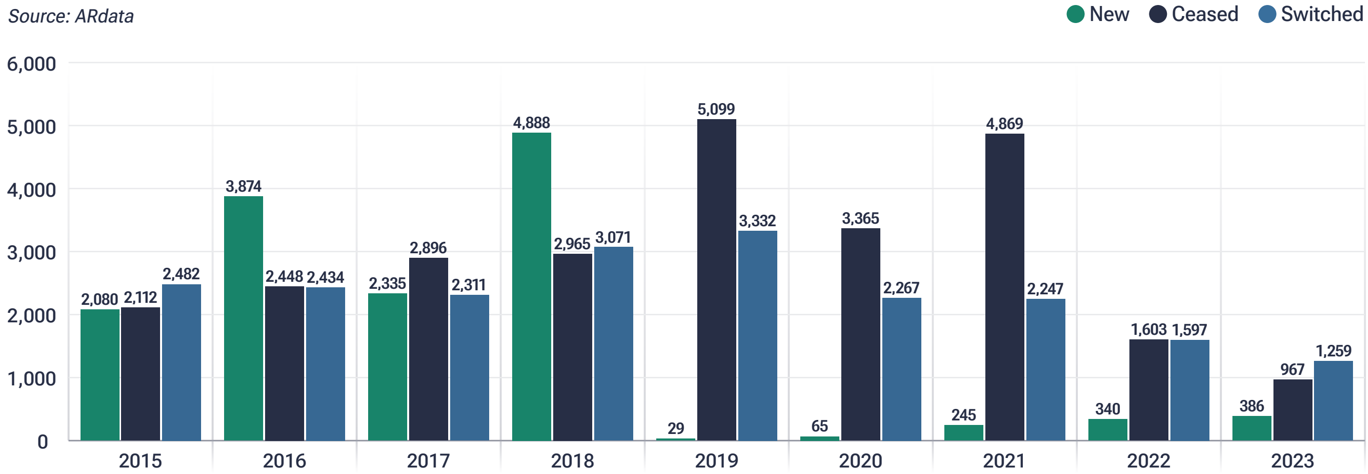


CHART 2.4

Licensee movement history (2015-2023)

Source: ARdata

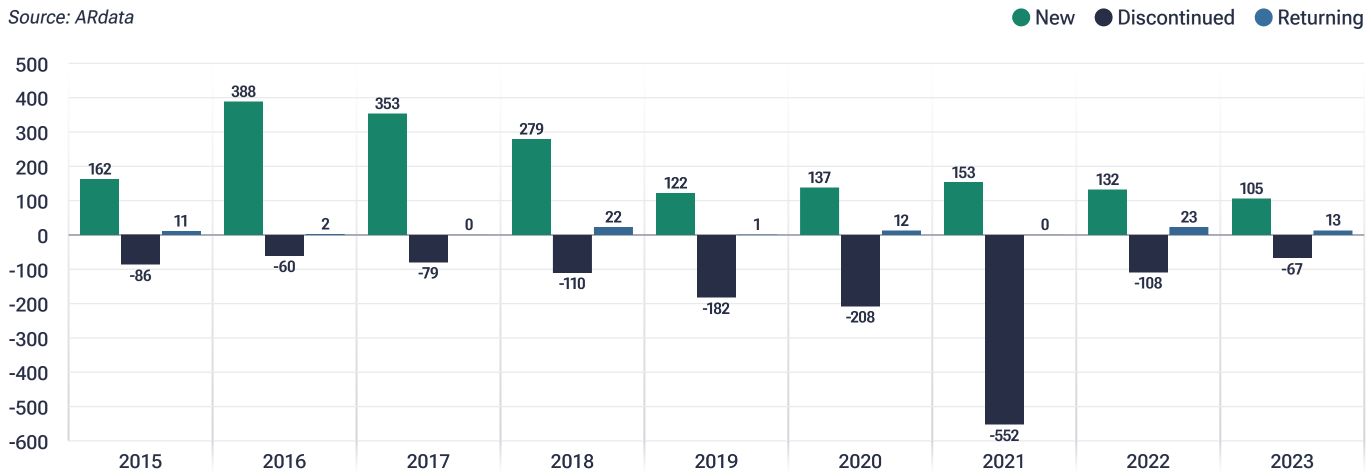


CHART 2.5

Adviser intentions regarding leaving the industry

Source: ARdata

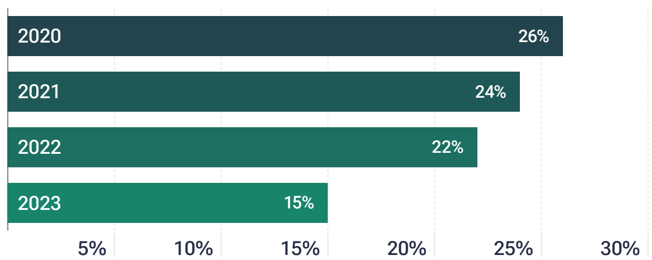
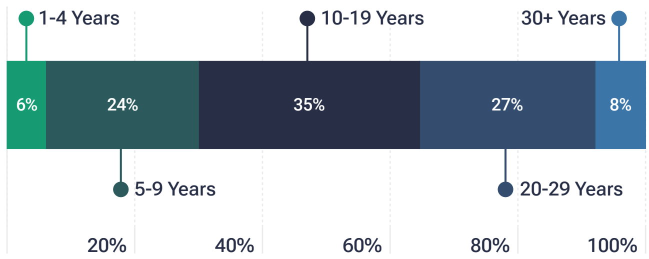


CHART 2.6

Current advisers' years of experience distribution

Source: ARdata



Client growth accelerates

Falling numbers of advisers over several years has led to the remaining advisers taking up a larger number of clients. This trend has accelerated in 2023, with the number of recurring clients per adviser surging to 97, from 91 in 2022. Recurring clients per adviser are now up 17% from the 2020 low of 83.

While one-off clients increased in recent years, it remained consistent in 2023. Representing 25% of the entire client base, one-off clients are sometimes seeking specialist or piecemeal advice, and sometimes they are testing the waters to try out full advice.

In order to manage the higher client load, advisers have become more efficient. To this end, many advisers are embracing technology, (such as retirement planning and cash flow modelling tools) or outsourcing tasks.

17%

Increase in clients serviced per adviser between 2020 and 2023

With fewer advisers to meet client demand, the average adviser is now serving 97 recurring clients and 129 overall clients. This reinforces the technology efficiency gains to prevent adviser burnout and help serve clients.

CHART 2.7

Split between recurring and one-off clients

Source: ARdata

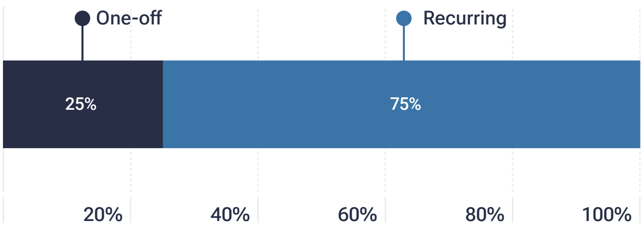
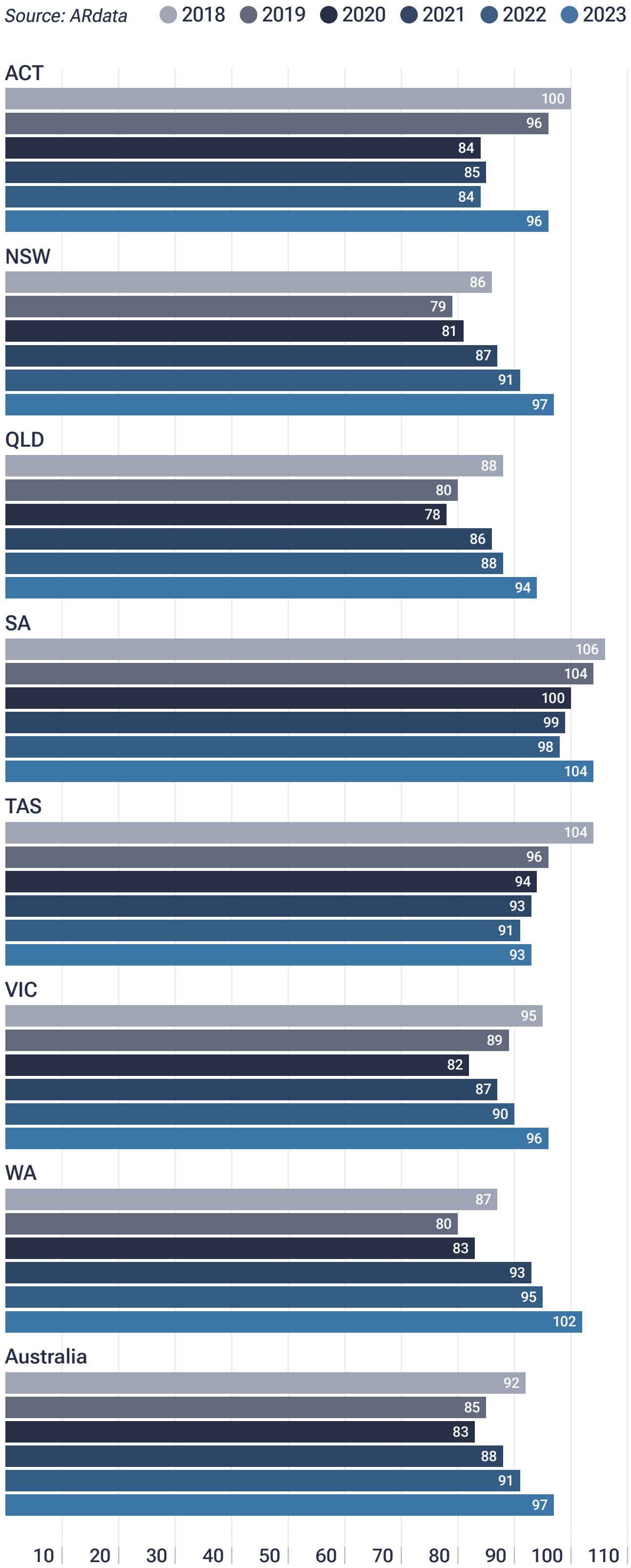


CHART 2.8

Recurring clients per adviser

Source: ARdata



Funds under advice rise with markets

After falling in 2022, funds under advice (FUA) and FUA per client grew in 2023, as financial markets rallied. Given that FUA grew more than the number of clients serviced, then FUA per client also grew overall. Global equities rose by more than 20%, led by booming tech stocks, during the year despite the highest interest rates in decades and a mini financial crisis that wiped out one of Europe's best-known banks, Credit Suisse, along with a few smaller banks in the US. Closer to home, the S&P/ASX 200 also defied the bears amid supply chain issues, cost of living concerns and rising interest rates, gaining 8.5% over the year.

The markets and rising rates has started to created significant wealth disparity between the younger generation and the older generation, creating a wealth divide. This level of wealth disparity anxiety is playing out in millions of households across Australia.

Whilst richer, older generations are still spooked by the prospect of a recession and a loss in their accrued wealth, creating familial tensions that are being solved by financial advisers.

CHART 2.9

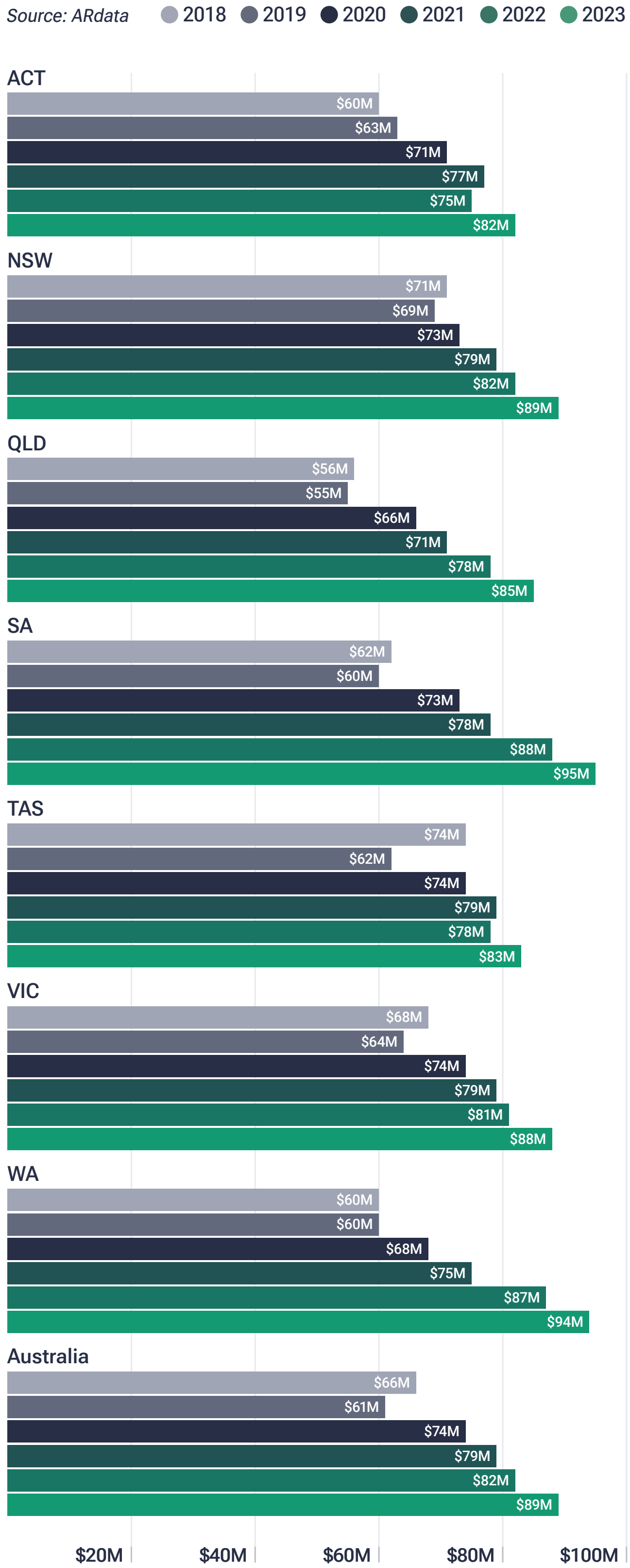
Funds under advice per client

Source: ARdata

CHART 2.10

Funds under advice

Source: ARdata



Shift toward independence

The trend toward the creation of privately owned and independent licensees (AFSL) continued, with advisers leaving larger, diversified practices. The biggest segment is now privately owned licensees with less than 10 staff. Advisers at diversified practices fell by 17%.

We expect this trend to remain strong in 2024.

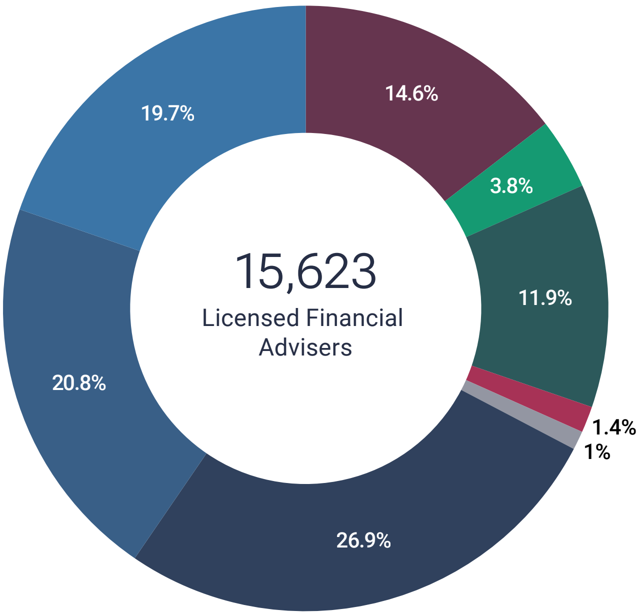
Our data shows 57% of new Australian financial services licences in the final quarter of 2023 were applications from single advisers.

Generally, licensee numbers have grown – while boutique and small, private licensees continue to appear, fewer AFSLs are closing down, which is increasing licensee numbers. This has continued in 2024 by the time of publication.

CHART 2.11

Adviser distribution by segment

Source: ARdata

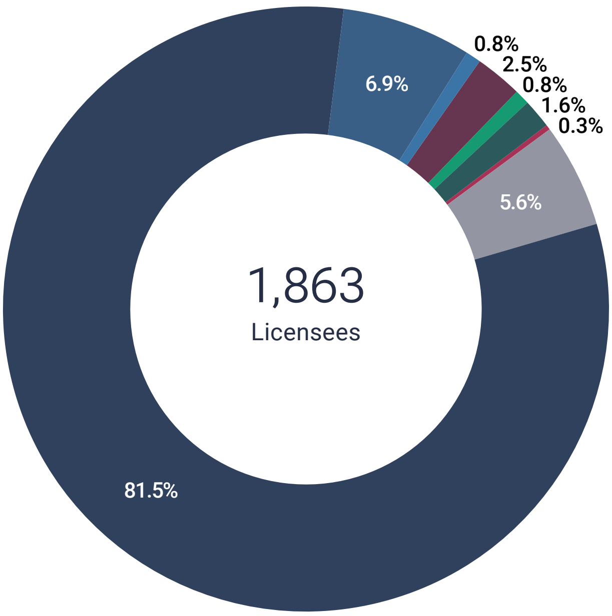


Diversified	2,274	14.6%
Industry super fund / Not-for-profit	592	3.8%
Stockbroker	1,865	11.9%
Bank	219	1.4%
Limited licensee	156	1.0%
Privately-owned (1 - 10)	4,198	26.9%
Privately-owned (11 - 100)	3,242	20.8%
Privately-owned (100+)	3,077	19.7%

CHART 2.12

Licensee distribution by segment

Source: ARdata

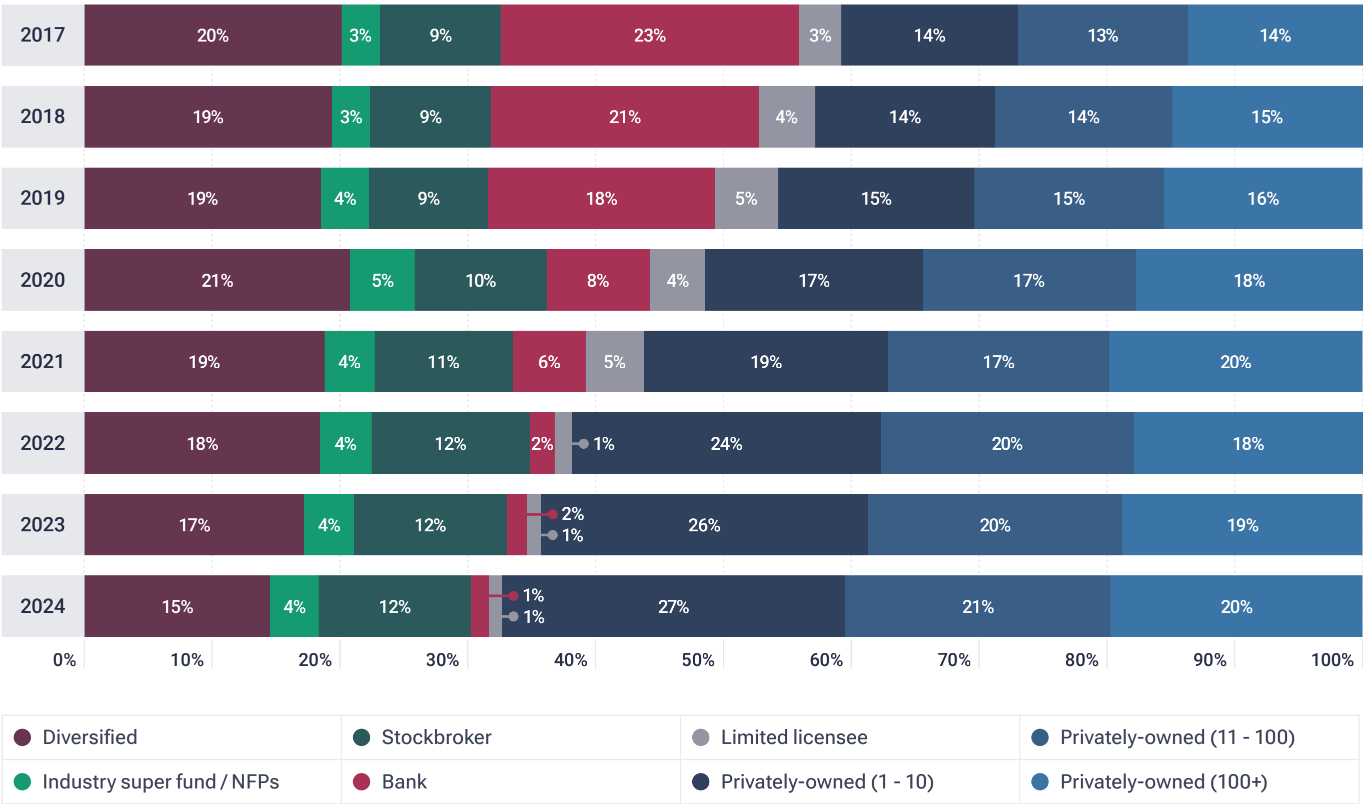


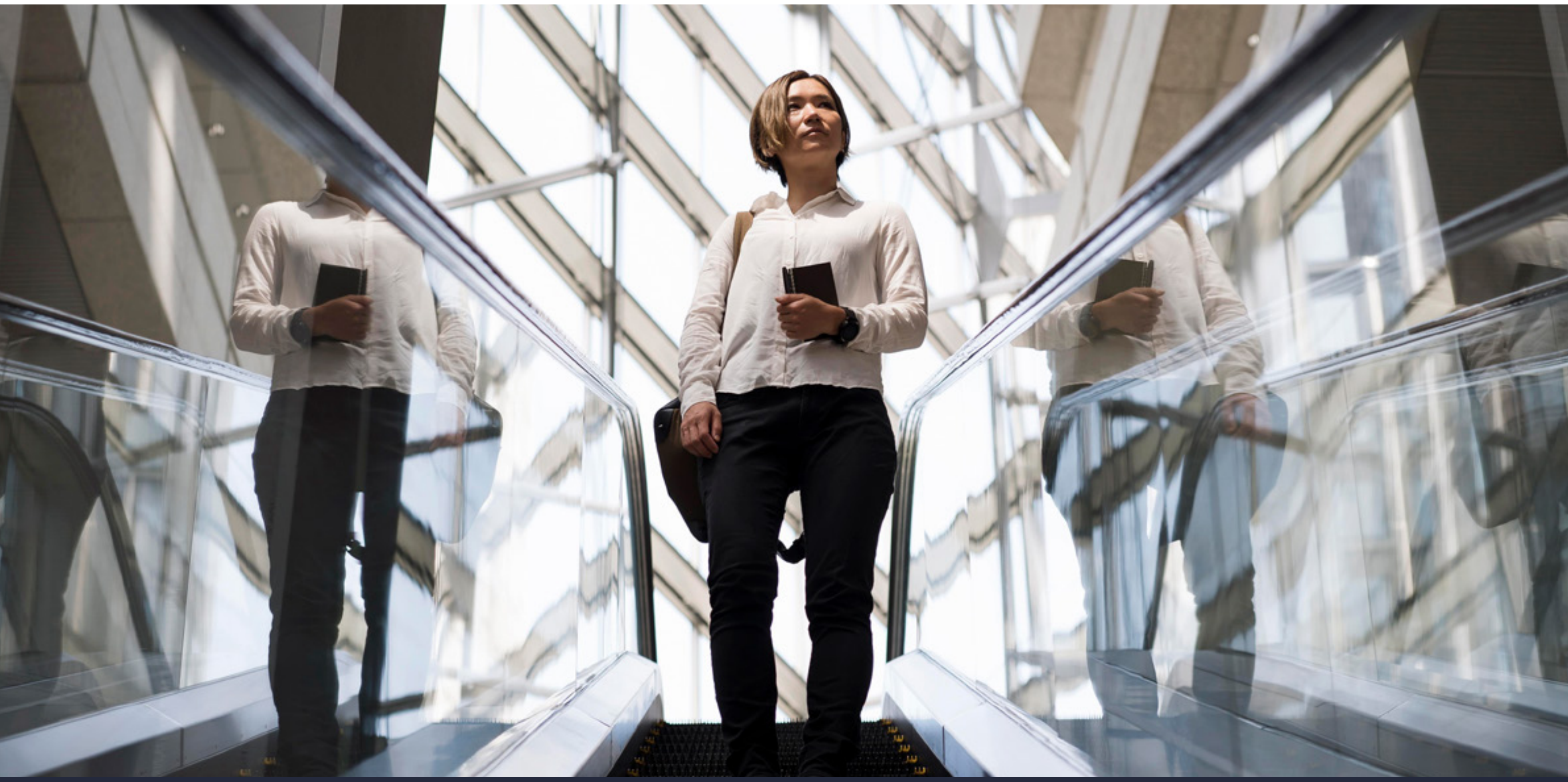
Diversified	47	2.5%
Industry super fund / Not-for-profit	15	0.8%
Stockbroker	29	1.6%
Bank	5	0.3%
Limited licensee	104	5.6%
Privately-owned (1 - 10)	1,519	81.5%
Privately-owned (11 - 100)	129	6.9%
Privately-owned (100+)	15	0.8%

CHART 2.13

Change in adviser distribution over time

Source: ARdata





Changing face of clients

The average age of clients is going up, with penetration of the under 35-year-old client group down slightly from 2022 levels.

The minimum income and investment levels required by advisers are mostly consistent with 2023. Nevertheless, we're seeing an increase in advisers requiring a large minimum investment.

Those requiring a minimum investment of $500,000+ grew from 5 to 7% of all advisers. A third of advisers ask for $250,000 or more invested in order to provide advice.

CHART 2.14

Minimum investment required by advisers

Source: ARdata

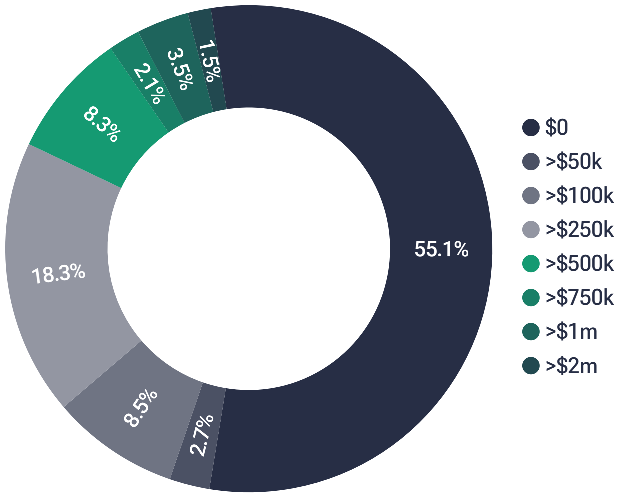
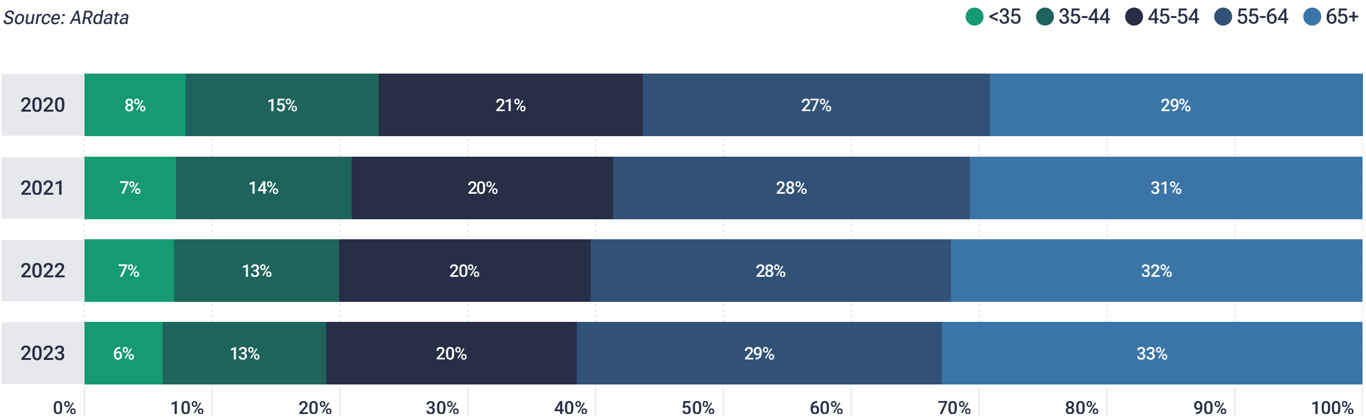
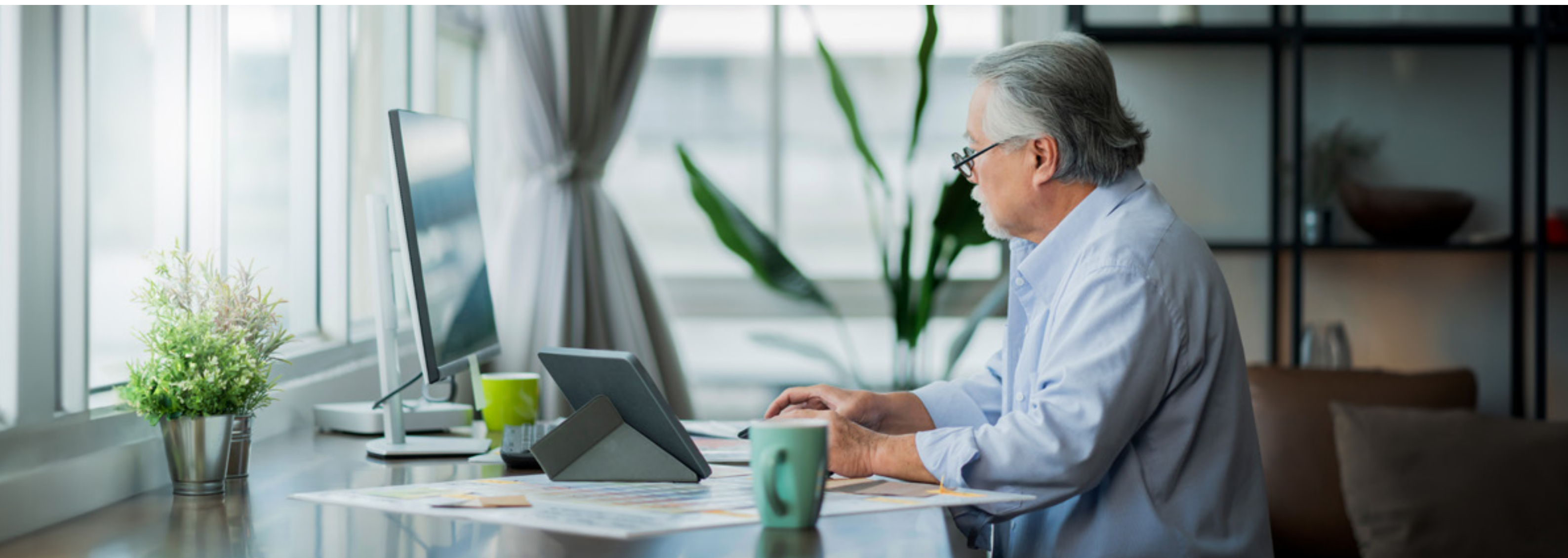


CHART 2.15

Change in client age over time

Source: ARdata





The percentage of clients managed by retail advisers that are sophisticated has gone down, with High Net Worth (HNW) and Ultra High Net Worth (UHNW) tending towards wholesale advisers.

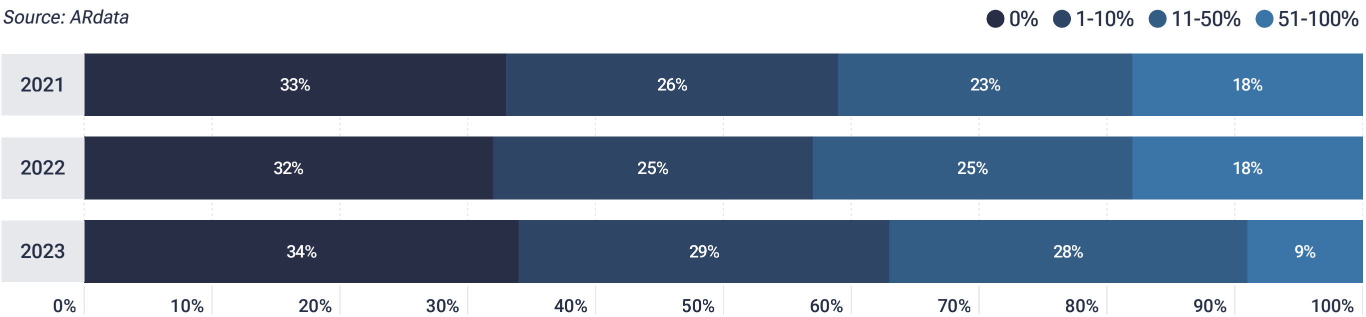
> *"Adviser Ratings evaluates the wholesale adviser market separately given it manages approximately the same as the retail segment, but with far fewer advisers."*

Wholesale advisers under AFSLs, that do not require the same registration requirements, have been purposefully balancing their clientele under the AFSL holder. Only 17% of clients are sophisticated on average for retail advisers (5% median). Lack of changes to the sophisticated investor test have also had a material impact on these numbers.

CHART 2.16

Sophisticated Client Distribution

Source: ARdata



Adviser fees

Fees have risen for several years in line with the rising cost of providing that advice. One main contributor has been the increasing regulatory burden, with advisers needing to dedicate more time to ensuring advice documentation meets compliance requirements. More pleasingly, there has been a willingness of advised clients from existing clients to pay higher fees. That trend continued in 2023 with the median adviser fee rising by 7% to $3,960 per year. The median fee is now up 58% from five years ago. We expect this trend to continue, as inflation and higher interest rates have pushed up costs for advisers.

58%

Percentage increase in fees between 2018 and 2023

As advisers contend with higher interest rates and inflation, we expect fees will rise further through 2024, despite efficiency gains.

CHART 2.17

Median fees

Source: ARdata

Active allocation down

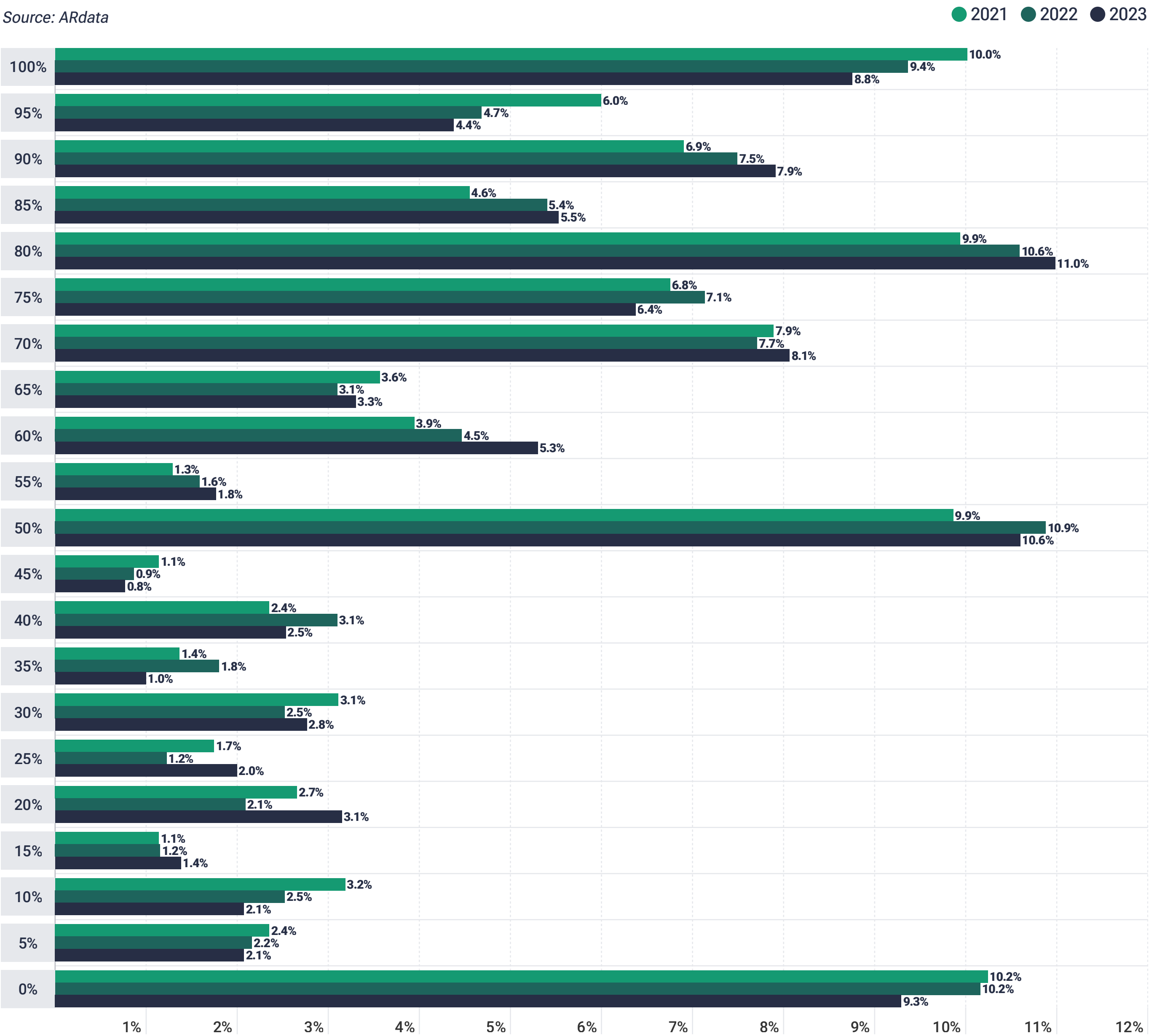
Actively managed asset allocation is down from 65% two years ago to 59% of investments through advisers. Increasingly, advisers are embracing passive management strategies and their love for ETFs has persisted – along with the growth in SMA/MDAs (see business chapter).

This trend is clearly depicted in the chart, showing a decline in heavily actively managed allocations between 90% and 100%, and a notable increase in most allocations within the 55% to 90% range. This suggests that advisers are increasingly adopting a mix of active and passive strategies.

CHART 2.18

Actively Managed Percentage Distribution

Source: ARdata



Chapter insight

CASE STUDY

Adviser and Client Protections are Paramount

The conundrum for advisers is whether to go self-licensed or work from the comfortable confines of a dealer group. A key issue, irrespective of the cost, are the protections you have in place for yourself and your clients.

CHAPTER INSIGHT PROUDLY SPONSORED BY:

NUMERISK DATA DRIVEN INSURANCE

The move to self-licensing has never been more pronounced, driven by advisers seeking greater autonomy and flexibility.

However, self-licensing comes with its own set of challenges, particularly in managing compliance and securing PI insurance.

As the financial advisory industry braces for the implications of the Quality of Advice review, the importance of robust professional indemnity (PI) insurance solutions has never been more critical.

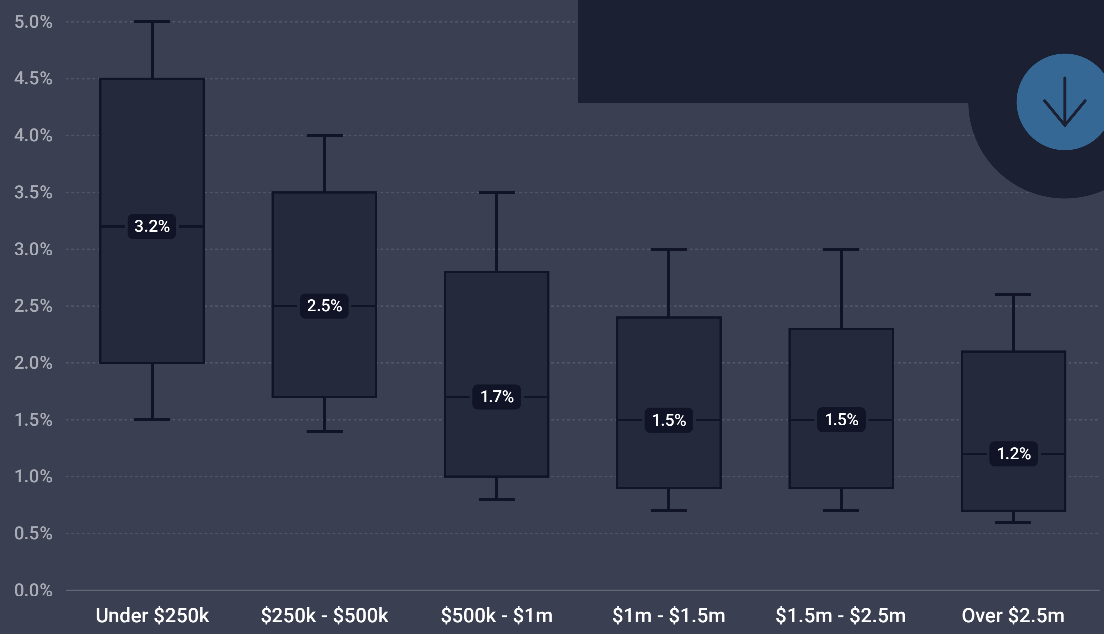
With PI costs rising by 43% since 2015 according to the Australian Prudential Regulation Authority (APRA - 2023), and now averaging about 2.0% of revenue for smaller revenue practices, advisers face significant financial pressure.

The chart represents the range of PI premiums from over 400 practices collected by Adviser Ratings to end of Feb 2024. Since collection of the data, insurance coverage and price has become more competitive, in part to Numerisk's entry into the market and increased capacity and coverage terms at both the more common $2.5M and the $5.0M limit levels.

CHART 2.19

PI insurance ranges as a percentage of practice revenue

Source: ARdata



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When it comes to self-licensing, the argument is made that a dealer group model often utilises a set and inflexible regime of systems, reporting, compliance and other operational and cultural factors that don't align with the individual adviser. For many this is less of a concern, it's more about setting a path forward independently, free of influence from a licensee that may have differing views and future goals.

Bruce Gorry, Managing Director and Principal Adviser from Provident Advisory says, under larger licensees, advisers are typically grouped together in a one-size-fits-all approach.

"We are degree-qualified, highly professional advisers who want nothing more than to generate great outcomes for our clients over the long term - we needed to ensure our operating environment would continue to provide this opportunity, including the flexibility to be nimble, particularly around the impending changes we are seeing with the QAR. The change was never about saving money, but after undertaking a comprehensive cash-flow analysis in planning, it's a nice feeling to know that the decision stacks up financially."

On the counter, Andrew Kennedy, Group Head of Advice at Count, says there are strategic benefits that larger licensees can offer in supporting advisory firms. He notes that "well-run larger businesses like Count provide an array of compliance protections and operational support that is crucial for our advisers."

Kennedy explains that "larger companies such as Count that run multiple licensees can achieve economies of scale, helping to manage and mitigate the rising costs of PI insurance. We take the PI burden away from advisers, providing significant time and expertise they do not have on their own. Our full-service model also provides guidance, shares expertise and delivers notable cost savings on technology that improves the advice delivery process and client experience."

Numerisk – The New PI Solution Provider

Numerisk is an insurance broker at the forefront, offering specialist PI solutions, that ensure both advisers and their clients, whether in a self-licensed practice or for large dealer groups and licensees, are well-protected in an increasingly complex regulatory environment.

Numerisk Managing Director, Richard Silberman, adds, "Numerisk's role extends beyond just providing general insurance for the wealth segment. We offer a suite of services, heavily complemented with proprietary data products that allow deeper analysis and insight.

Numerisk services have a heavy emphasis on operating more like quasi-legal counsel than traditional insurance broking, helping advisers and AFSLs navigate the regulatory landscape more effectively and focus on delivering superior client outcomes."

Silberman further notes, "The advice landscape is littered with traps inherent with the operation of the Corporations Act, that can become very evident during events like AFSL transitions, M&A, new partnerships or internal expansion and the unfortunate product failures that often initiate complex and very costly class actions. Numerisk offers expertise in matters involving in some instance, hundreds, if not thousands of complainants and use this to inform program design for more complex clients".

Leveraging Data-Driven Insights for Enhanced PI Solutions

Numerisk integrates Adviser Ratings data to provide innovative data-driven PI solutions that improves outcomes for advice practices.

1

Data is collected across the entire advice industry

2

Adviser Ratings uses data science to identify and establish a benchmark

3

Numerisk uses this benchmark to demonstrate advice quality to insurers

4

The result is improved outcomes for advice practices

CHAPTER INSIGHT PROUDLY SPONSORED BY:

NUMERISK DATA DRIVEN INSURANCE

Adviser Ratings found 40% of practices intend to grow through a broader service offering, either via internal expansion or partnerships.

Bruce Gorry underscores the potential pitfalls of self-licensing, such as the responsibility of maintaining compliance and the complexities of securing PI insurance. He advises practices to plan meticulously and seek help when needed to ensure a smooth transition.

Kon Costas, Managing Director of The Principals' Community, adds that obtaining an Australian Financial Services Licence (AFSL) is a significant step that increases responsibility, but also provides optimal flexibility.

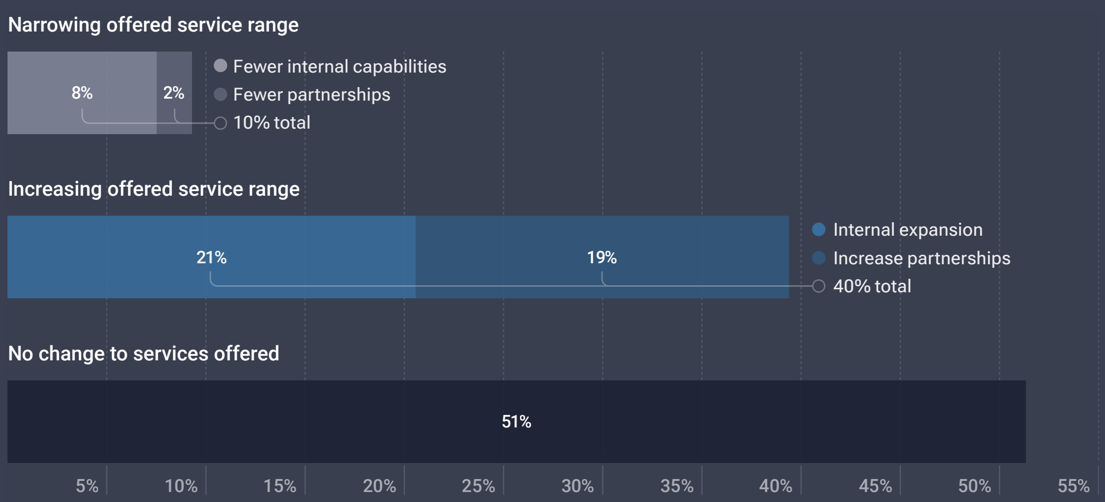
The Principals' Community offers tailored support to businesses seeking or holding an AFSL, providing governance and compliance support, business insights, expansion opportunities and ongoing professional education. Their emphasis on peer networking and knowledge sharing fosters growth and helps businesses navigate the complexities of self-licensing.

As the Quality of Advice review progresses, the collaboration between advisers, dealer service models and large licensees with specialist providers like Numerisk will be crucial in fostering a sustainable and efficient advisory landscape

CHART 2.21

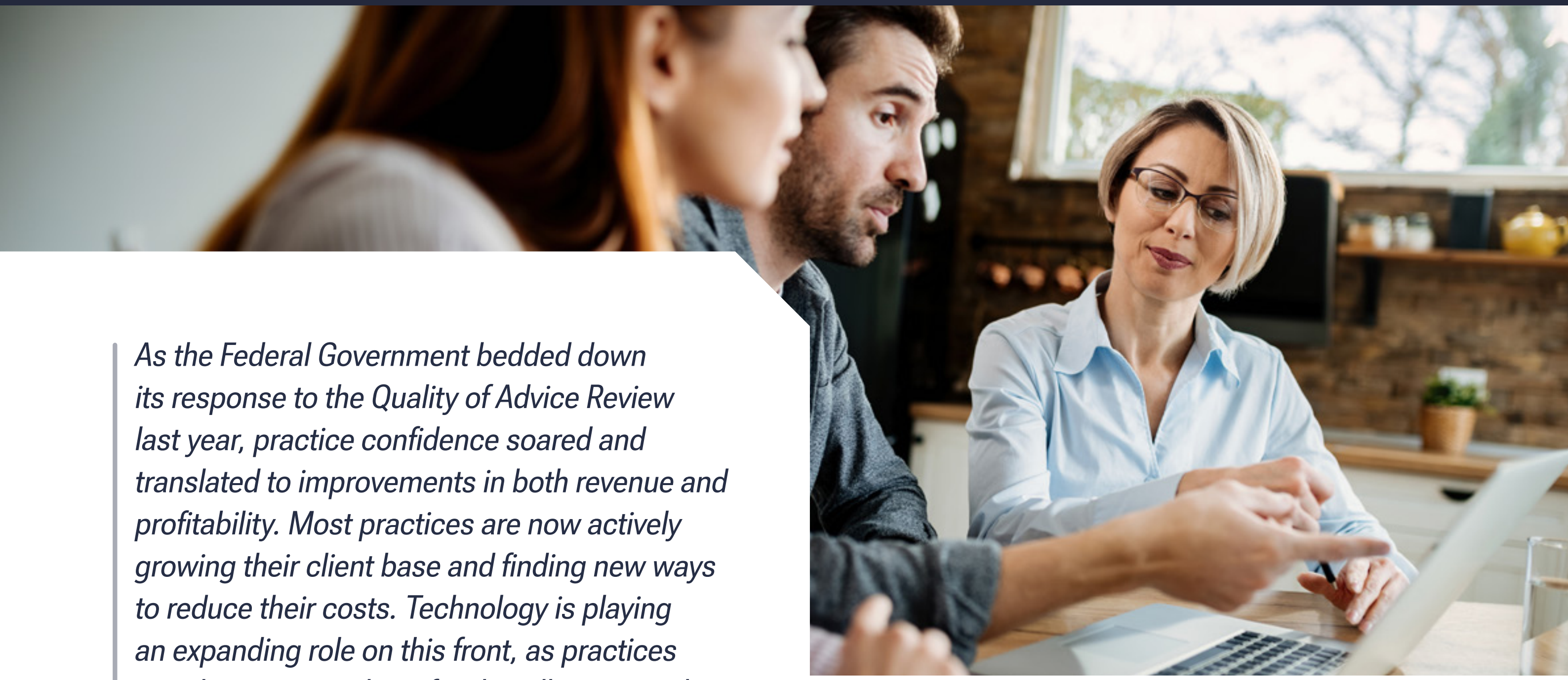
How is your business changing?

Source: ARdata



3.0

The Advice Business Landscape



As the Federal Government bedded down its response to the Quality of Advice Review last year, practice confidence soared and translated to improvements in both revenue and profitability. Most practices are now actively growing their client base and finding new ways to reduce their costs. Technology is playing an expanding role on this front, as practices test the waters with artificial intelligence and continue to find ways to improve efficiency.

With renewed certainty about the future of the advice profession, practice growth is a top agenda item for most practices in the next 12 months. More than 80% of businesses are thinking of expanding their client load, while 15% are happy with their current book.

Of those who expect to grow their business, two-thirds are targeting a specific type of client. For example, they may be targeting certain types of professionals or high net worths, as a way to narrow their specialisation and improve profitability. This has been a recurrent theme in the past few years, as businesses respond to high client demand by becoming more targeted in their growth strategies. A smaller proportion of businesses are pursuing reactive growth strategies or accepting clients of all descriptions. For most businesses, referrals are a key source of growth, with most recommendations coming from current clients and accountants.

More than 4 in 5

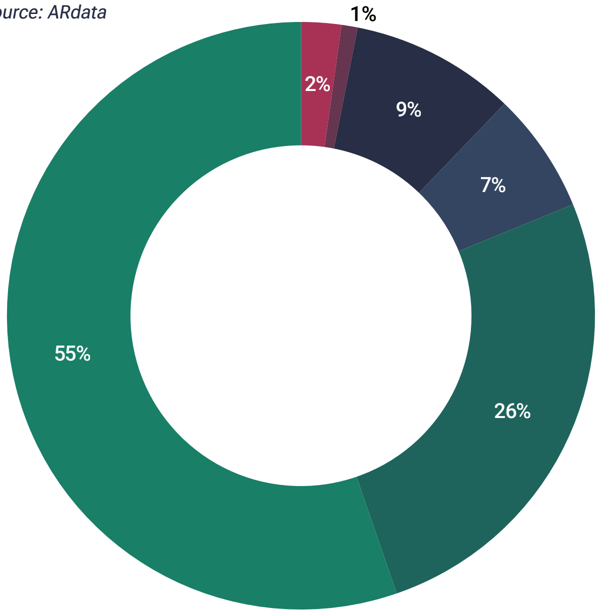
Advisers are targeting new clients

Now that advisers know the future of the profession, they're adopting aggressive growth strategies to build revenue and profitability.

CHART 3.1

Practice growth strategies

Source: ARdata



Purposely reducing *(to manage overall capacity and profitability)*	2%
Reactively reducing *(but trying to find ways to retain clients)*	1%
Staying the same size *(but changing the client mix to improve focus / profitability)*	9%
Staying the same size *(we're largely happy with what we have)*	7%
Reactively growing *(with clients of all descriptions)*	26%
Purposely growing *(but we are after certain client types)*	55%

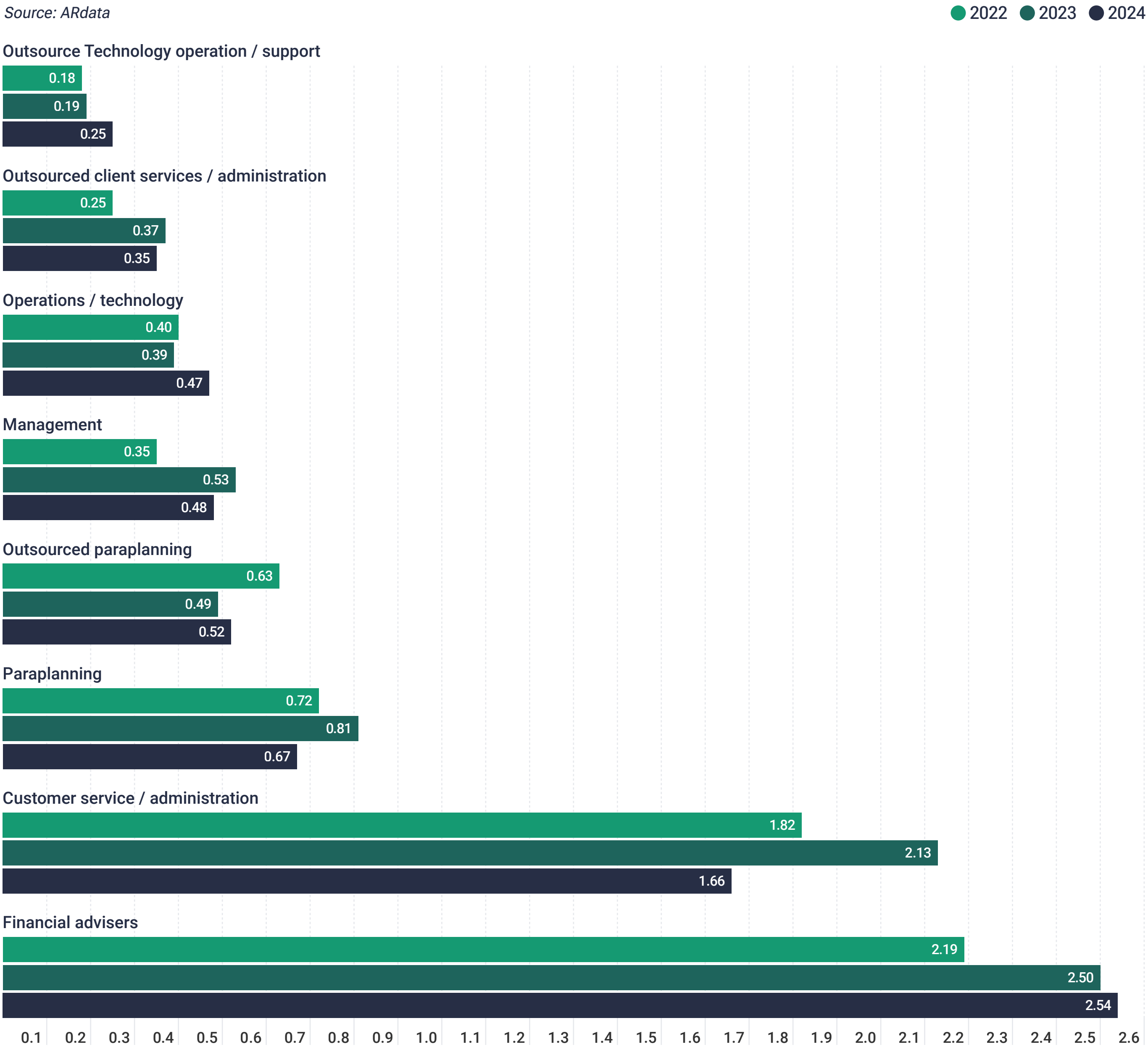
As businesses turn to outsourcing to trim margins, fewer have added support staff to their payroll. We expect this trend to be amplified in the next few years, as businesses increasingly turn to lower-cost technology solutions to provide practice support. Changes implemented by the Federal Government after the Quality of Advice Review will accelerate this trend, as practices move to principles-based advice records and streamline their consent and fee arrangements.

As the government continues to roll out in its Delivering Better Financial Outcomes reforms, practices have told us pursuing new business opportunities is their top priority in the next year. We don't expect there will be much appetite for the new scoped advice model the government's package will enable. However, practices will be looking to capitalise on referral relationships with funds and other third parties to bridge the gap between scaled and comprehensive advice.

CHART 3.2

Practice-to-staff ratio

Source: ARdata



Revenue and profitability

It's been a fruitful year for most advice businesses, with the majority (78%) lifting their revenue in the past 12 months and only one-in-20 seeing a decline of 5% or more. This trend was consistent across business sizes and reflects improved operating conditions, the shift to cost-effective forms of technology, and the ongoing demand for advice services.

As practices continue to rationalise their cost bases and embrace technology, profit margins have also increased. There's definitely a scale advantage here. Most practices that were able to achieve profitability above 20% had practice revenue above the $1 million mark.

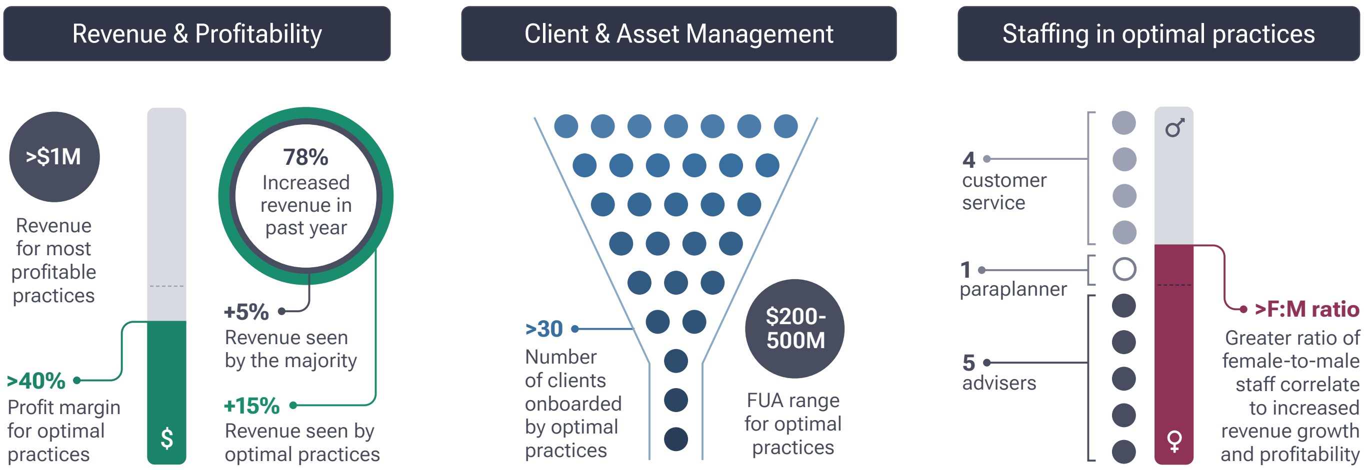
Our analysis has revealed the optimal practice has a profit margin of more than 40%, has increased its revenue by more than 15% and onboarded more than 30 clients. A minority of practices have managed to achieve this status, but ones who have are well set up for the future. These practices have embraced AI, maintain FUA between $200 and $500m and employ an average of five advisers, one paraplanner and four customer service representatives. They either provide insurance directly or have referral relationships with risk specialists.

This year's survey also found practices with a higher ratio of female-to-male staff are increasing their revenue and profit year-on-year more than those with a lower ratio of female staff.

FIGURE 3.1

An optimal financial advice practice in 2024

Source: ARdata. Note: The publisher of this publication, Adviser Ratings Pty Ltd, is a 100% owner of ProductRex (effective May 2023). The adviser reviews have been independently assessed in terms of data collection, veracity of results and the application of ratings



Optimal vendor choice (highest NPS ranking)

ProductRex	HUB24	pps	Lonsec
Software	Platform	Insurance providor	Research house
40 NPS	29 NPS	42 NPS	25 NPS

CHART 3.3

Revenue change over the past 12 months

Source: ARdata

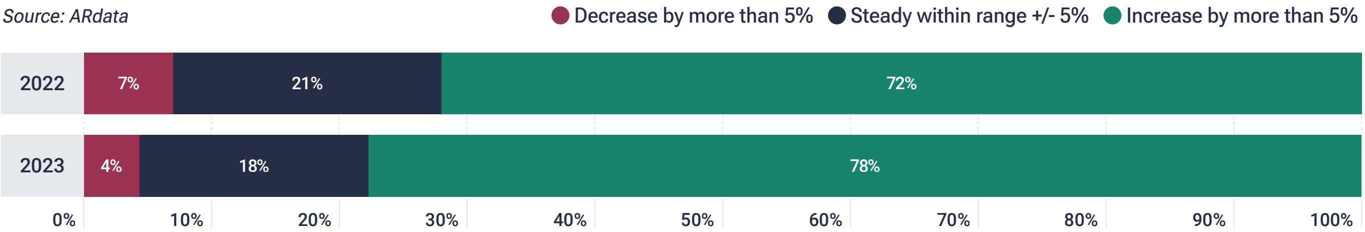


CHART 3.4

Profitability margin based on practice size

21% Average profit margin

Source: ARdata

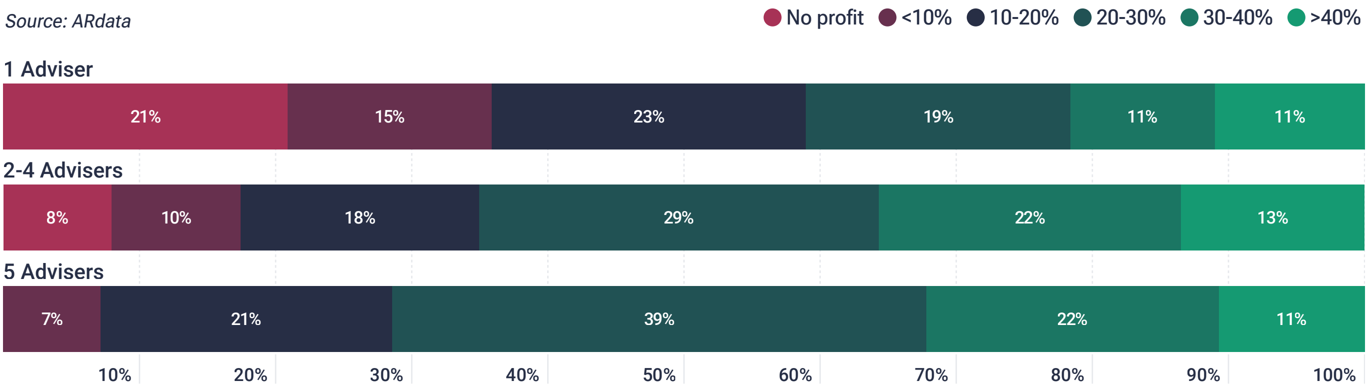
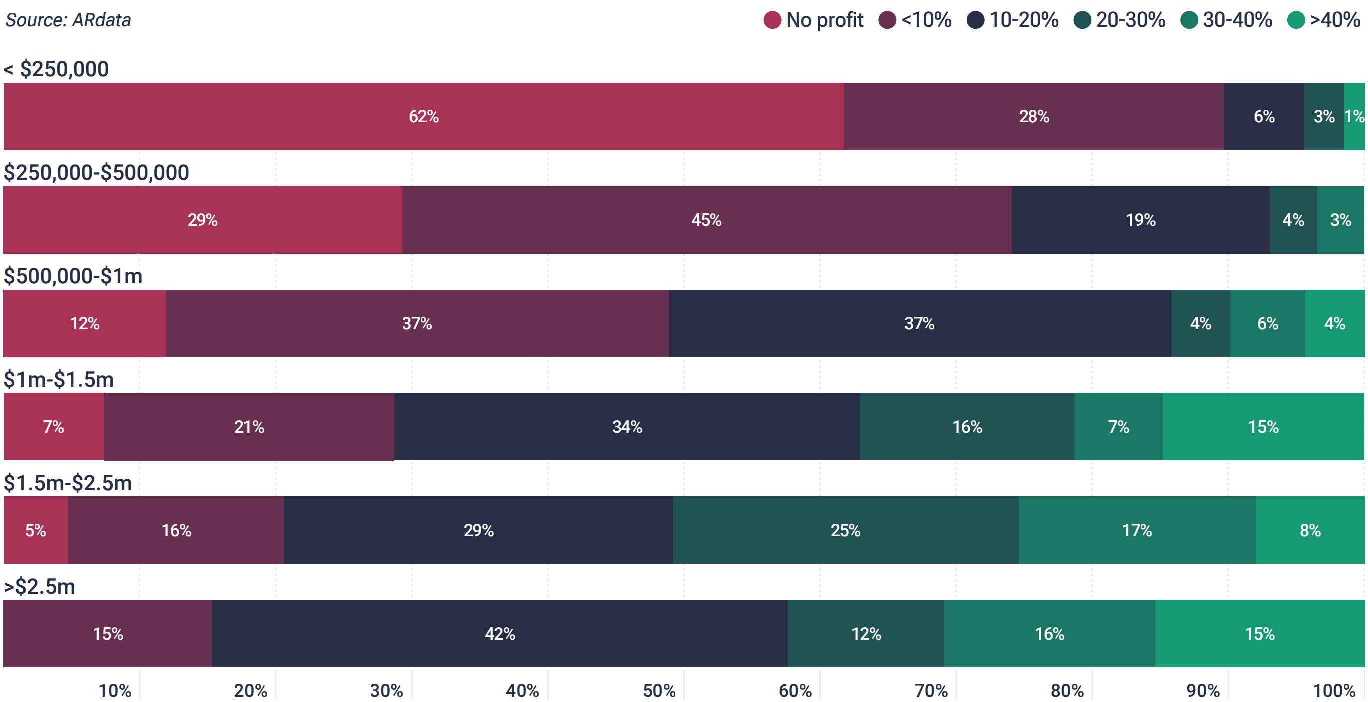


CHART 3.5

Profitability margin based on practice revenue

Source: ARdata



Artificial intelligence

Despite using other forms of technology to reduce business costs, almost half of practices use or plan to use artificial intelligence (AI) in the future. The advisers who do use it primarily see its function around promotion and client communications, with AI used to produce newsletters and create social media posts.

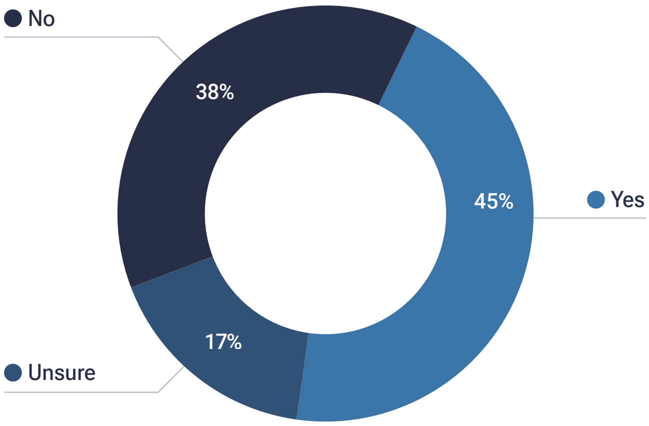
Some practices have also adopted AI for back-end functions, such as Record of Advice production, but concerns about regulation and legalities have limited its use on this front. Some advisers are worried that using AI for advice production will result in a compliance breach, despite the ability of AI to quickly digest rules. Other practices simply see the value of AI in its ability to improve client communications, as opposed to assisting on the production side.

While only a minority, but still statistically significant number of practices use AI for portfolio management, we expect this to increase in the future, as advisers capitalise on the opportunity to outsource the function in favour of spending more time in front of clients. There are clear profitability gains to be made here, as advisers will be able to service more clients.

CHART 3.6

AI use in practice

Source: ARdata



Close to 50%

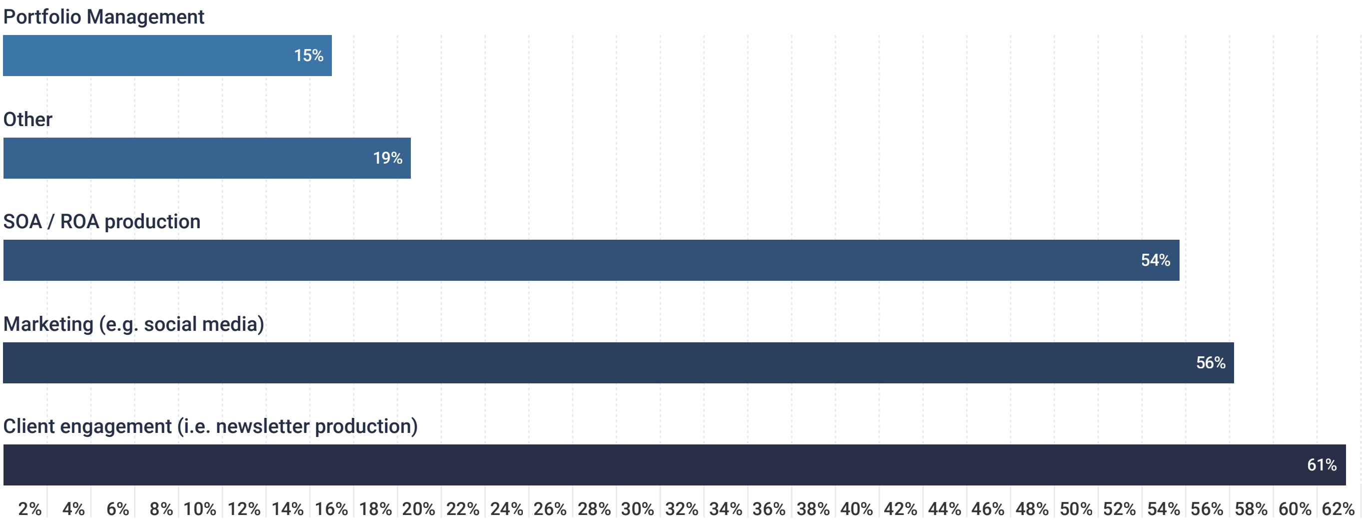
Of advisers are using or planning to use AI

Most advisers see the main utility of AI in client engagement, marketing and SOA production, as opposed to the function of advice.

CHART 3.7

Areas with AI impact

Source: ARdata



Succession planning

Succession planning has historically been a weak spot for advice businesses and this year is no exception. Two-in-five practices still don't have a nominated successor, while a further 30% say they need one, but haven't begun the search. This is particularly concerning because just under half of businesses have a succession horizon of under 10 years. Traditionally, smaller businesses in particular have told us day-to-day operations have taken up a lot of time and sidetracked future planning. A minority of AFSLs offer succession support, but most advisers told us they do not utilise these services. It's hoped the reduction in the compliance burden will free up practices to focus more heavily on their succession plans.

40%

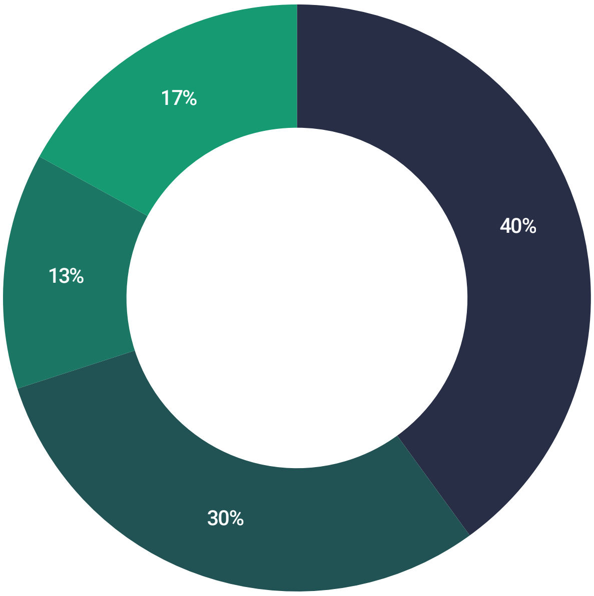
Of practices lack a nominated successor

Two-in-five practices still don't have a nominated successor, and nearly 30% need one but haven't begun the search.

CHART 3.8

Succession plan status

Source: ARdata



I don't have a successor in place *(and don't need one)*	40%
I need to find a successor *(but haven't started looking)*	30%
I need to find a successor *(am actively working it)*	13%
I have a successor in place *(individual or corporate)*	17%

Client conversations and wealth transfer

Most advisers are meeting with their clients once or twice a year, but engaging in more regular conversations about topics of concern. In the past year, retirement income has been top of mind for many clients, but recession fears and the impact of AI have also come up frequently. Conversely, advisers are fielding fewer questions about ESG investments (in part to issues raised in Chapter 1), investments and cryptocurrency than they have in the past.

Along with recession fears, many clients have also asked how a market downturn would affect the transfer of wealth. Three quarters of advisers' clients plan to execute a transfer to children or other relatives and increasingly, advisers are providing advice around how to implement these strategies. The work includes comprehensive estate plans, tax-efficient strategies and structures and general education. Commonly, clients are worried about the tax implications of wealth transfer and are seeking tax minimisation strategies. Clients are also concerned about the correct timing for wealth transfer. We expect this will be a bigger conversation in the future, with younger generations increasingly locked out of the property market or needing assistance from their parents.

Clients are feeling the pressure of inflation and concerned about its impact on their wealth, with CPI remaining persistent at 4.0% (as at June 2024). In these times, clients seek preservation strategies, in addition to growth strategies, in order to maintain the wealth they plan to transfer. In 2021, the Productivity Commission said it expected $3.5 trillion to be transferred by 2050, which means this is no small conversation.

> *Our practice survey showed almost a third of clients will transfer more than half a million dollars, which means nailing these strategies will be big business for practices.*

CHART 3.9

How much clients are transferring

Source: ARdata

31%

Of clients are planning to transfer more than $500k in wealth

With an estimated $3.5 trillion wealth transfer on its way, advisers are refining their strategies to help clients achieve their goals and minimise tax in an inflationary environment.

CHART 3.10

The biggest topics practices are being asked about

*Source: ARdata. Note: * denotes a contemporary category introduced in 2024 with no historical data.*

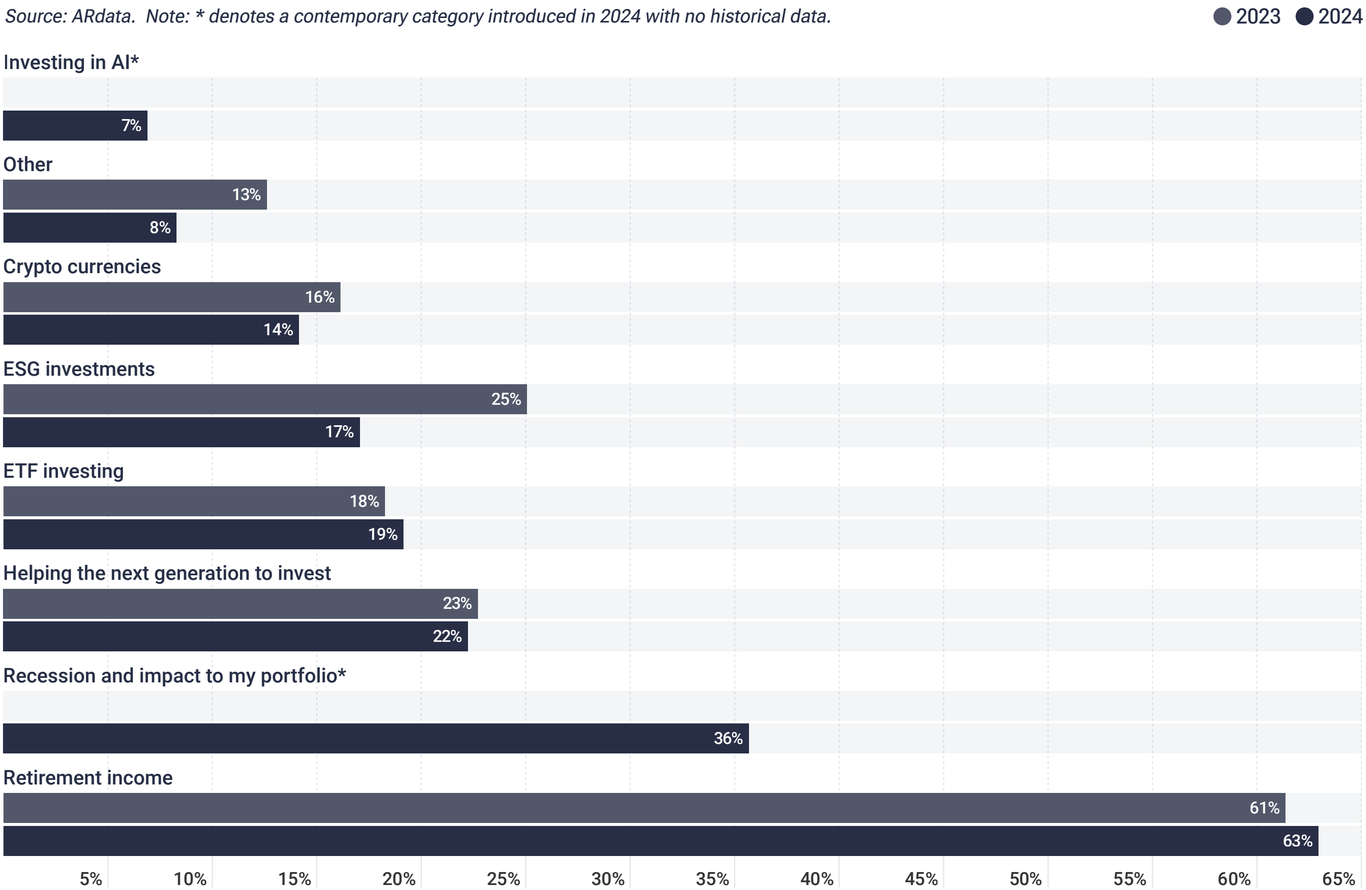


CHART 3.11

Primary strategies when managing wealth transfer for clients

Source: ARdata

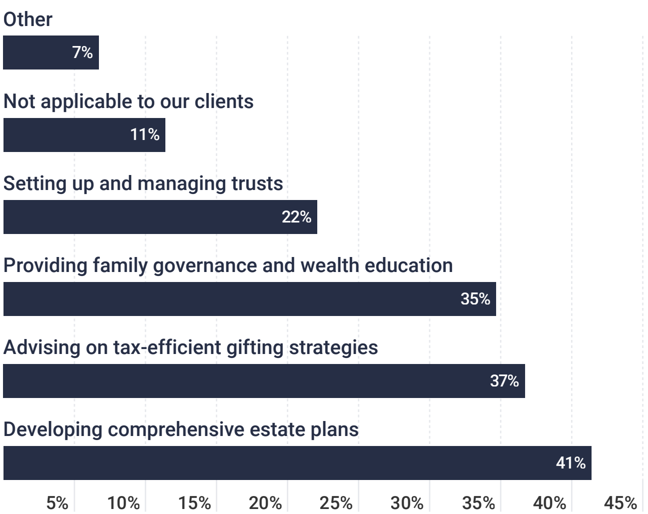
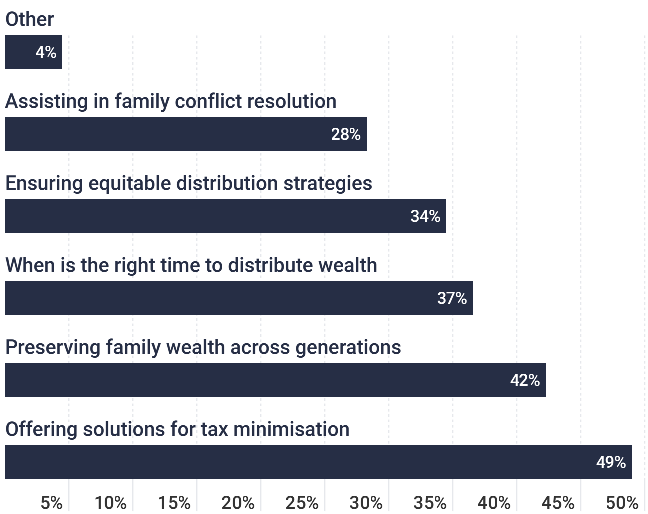


CHART 3.12

Wealth transfer concerns for clients

Source: ARdata



Investment type

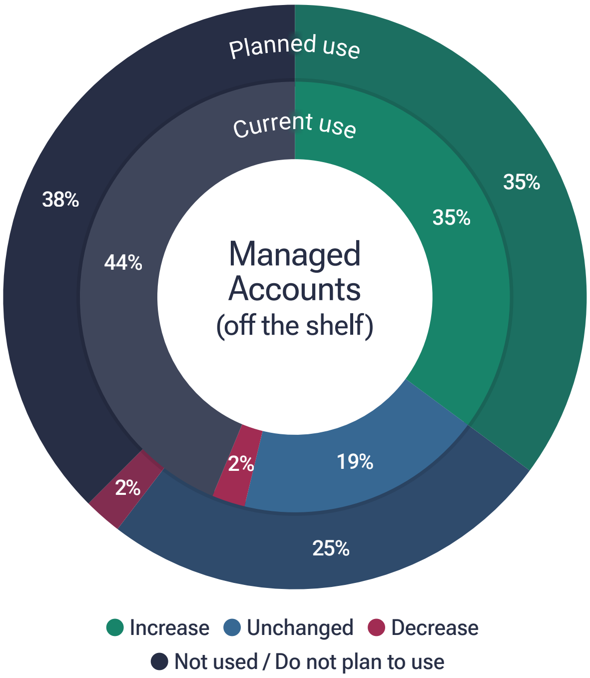
As advisers continue to protect their clients' assets with a diversified mix of investments, more money flowed into managed accounts in 2023. This trend is slated to continue, as with advisers planning to increase their use of off-the-shelf managed accounts. However, ETFs will be the flavour of choice for most advisers in the next 12 months, with more than a third planning to lift their allocation.

Throughout 2024, the flows into managed accounts have accelerated, with investment consultants (alongside research houses and investment platforms) becoming the gatekeepers for asset managers to access advisers and licensees. There are now more than 100 investment consultants selecting, managing and creating investment criteria, including off-the-shelf managed accounts or creative private label separately managed accounts.

CHART 3.13

Managed accounts: Current and planned use

Source: ARdata. Outer circle = planned use. Inner circle = current use.



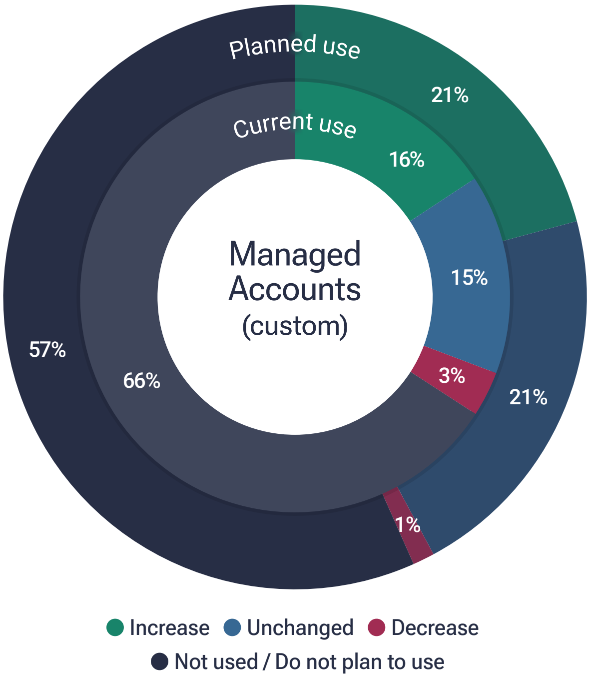


CHART 3.14

LICs: Current and planned use

Source: ARdata. Outer circle = planned use. Inner circle = current use.

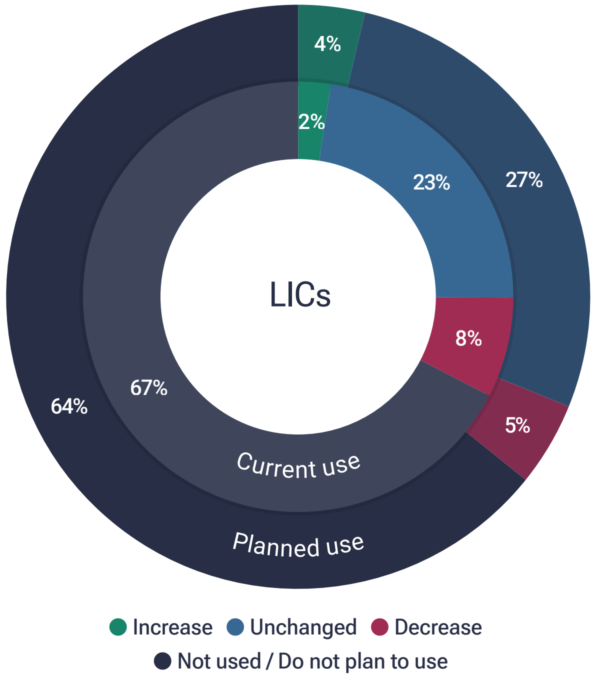


CHART 3.15

ETFs: Current and planned use

Source: ARdata. Outer circle = planned use. Inner circle = current use.

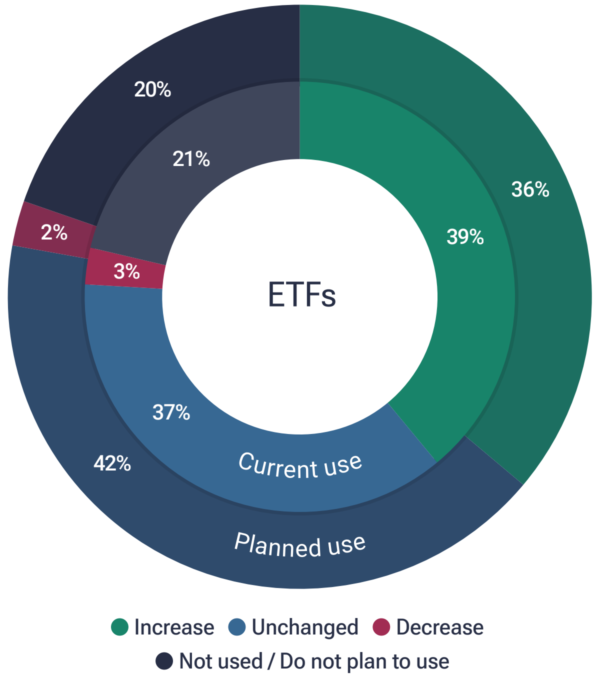
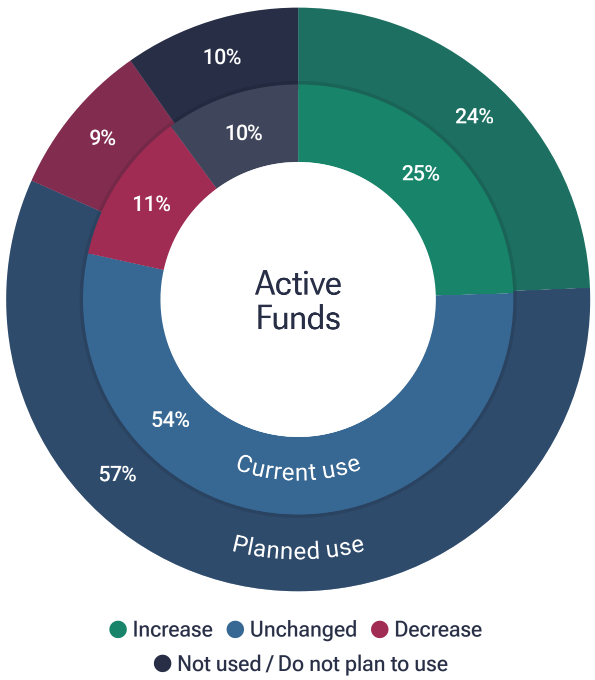
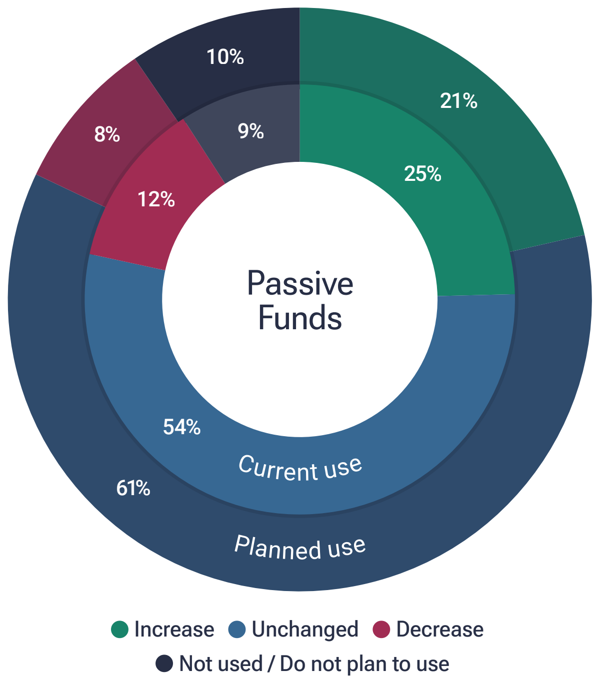


CHART 3.16

Active and passive funds: Current and planned use

Source: ARdata. Outer circle = planned use. Inner circle = current use.





Research houses

Once again, the big three research houses remained top of the charts in terms of penetration. Most practices use Lonsec, followed by Morningstar and the FE fundinfo-owned, Zenith Partners. While some practices are branching out with the research they use to inform their investment decisions, often, this is supplementary; there has been no shift away from the major research houses.

This year, Lonsec increased its Net Promoter Score, with advisers particularly impressed by its quality and breadth of research and timeliness. Zenith also gained significant NPS ground, with its research and personnel contributing to the overall positive score. (Further detail is provided in the investment and flows report).

CHART 3.17

Research house NPS

Source: ARdata

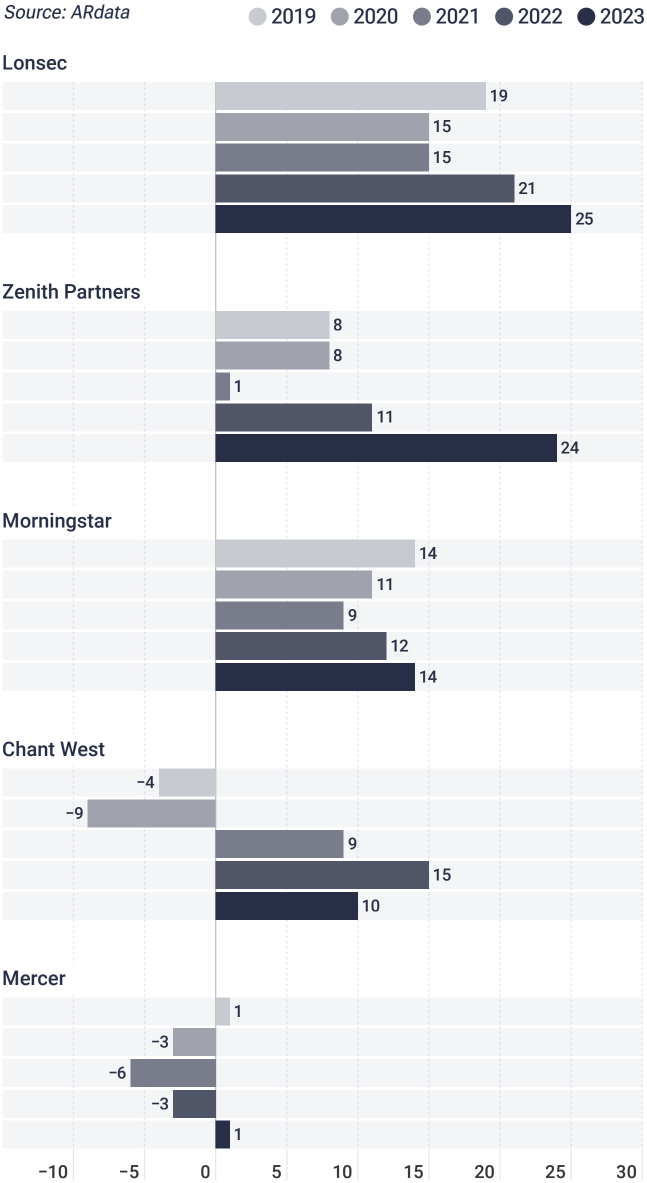
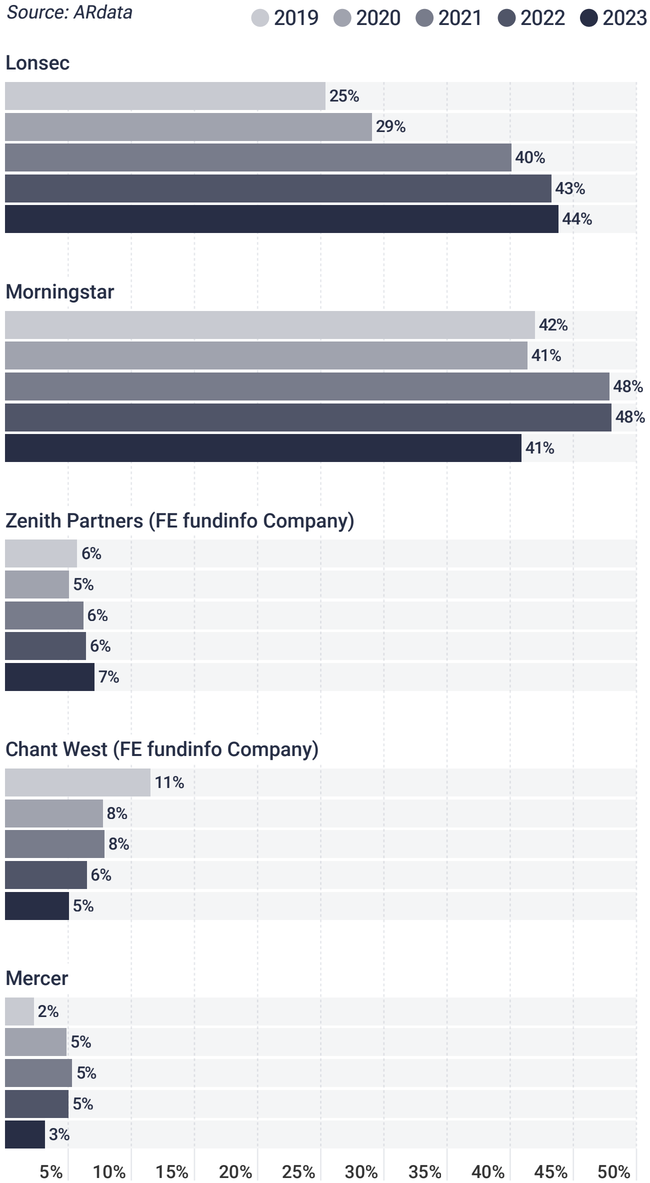
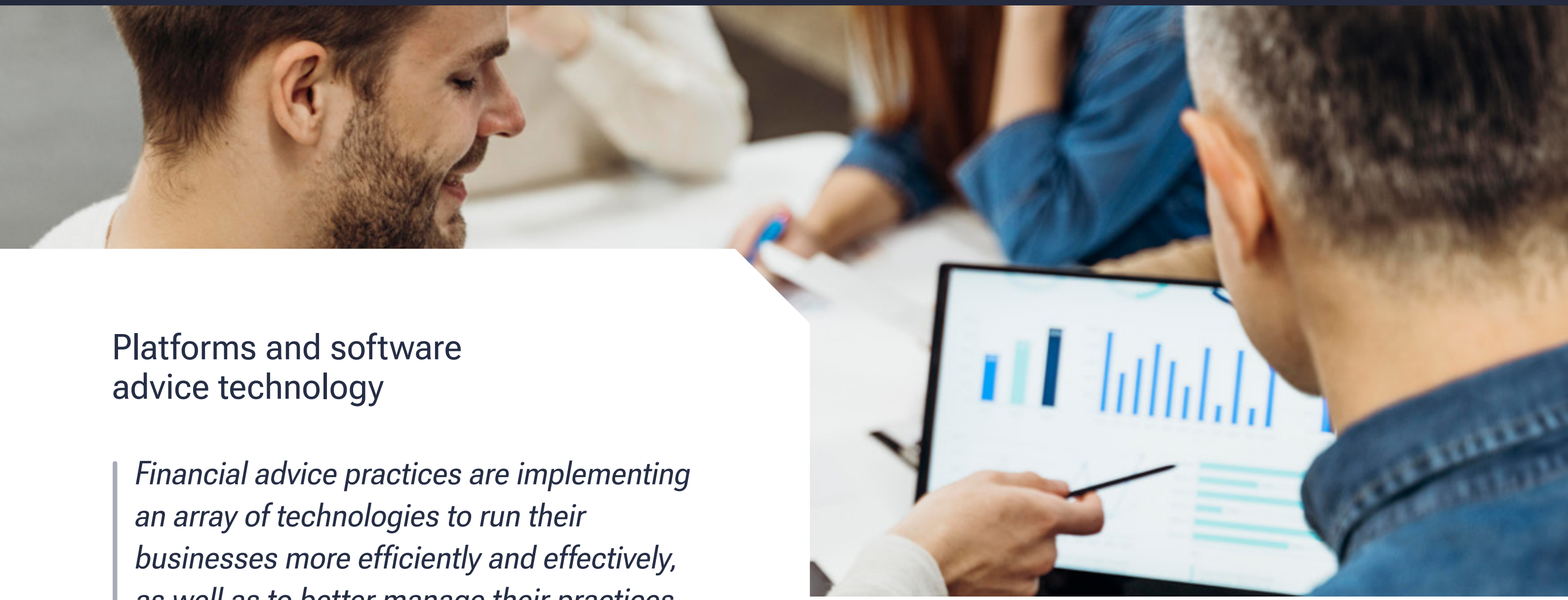


CHART 3.18

Research house penetration

Source: ARdata





Platforms and software advice technology

> *Financial advice practices are implementing an array of technologies to run their businesses more efficiently and effectively, as well as to better manage their practices.*

By leveraging technology, advisers can save time and money, access more data, improve client engagement, widen their client reach, enhance their expertise, collaborate and network, and reduce errors. The continued surge in managed accounts has become a clear focus for platforms.

79%

FUA was invested through platforms

Platform use by retail advisers is at an all-time high, with HUB24 again proving the platform of choice with most advisers we surveyed.

Platforms

The Quality of Advice Review emphasised the potential for technology to enhance the client experience and improve access to quality advice for those who want and need it. And with an increasing array of options, increased investment, enhanced features and a new player in CFS Edge, usage has grown and is expected to continue to rise.

In 2023, on average 79% of funds under advice were invested through platforms, up from 77% in 2022.

The platform market has experienced a significant shake up in the past 12 months, with the industry comfortably sitting in the tailwinds of regulatory change, increased adviser technology awareness and use of AI, mandated superannuation flows, and an uplift in outflows from super funds, as the Baby Boomer generation retires.

More and more advisers are using platforms, aware that platforms are evolving with the changing landscape – especially as it relates to advisers building their own product in the form of managed accounts or custom managed funds with fixed income solutions gaining traction in both model and private label SMAs.

Major changes in the industry in the last 12 months have resulted in fiercer competition and improved satisfaction levels with the weighted average Net Promoter Score (NPS) increasing from -6 to +2.

Apart from the launch of CFS Edge, the other significant milestone in the platform space was the $39 billion migration of MLC Wrap and Navigator in March to Expand by Insignia. Ratings for the MLC platforms and One Path improved during the survey period – the uplift in scores was primarily due to comparative statistical weightings from prior years and a slight halo effect with the impending Expand migration. *This year effectively ends reporting on MLC's platforms.*

HUB24 has again achieved the top NPS, followed by netwealth in second place and CFS FirstChoice in third. Mason Stevens has moved up to fourth place, with its NPS swinging to 9 from -3 last year. The turnaround comes after Mason Stevens launched an enhanced mobile app in 2022, strengthened its platform and technology team.

We've also seen a pleasing result for newcomer CFS Edge. This new platform from Colonial First State, launched in August 2023, has come in at fifth place in the NPS rankings, with its offering centred around managed accounts.

Platforms are currently experiencing a crucial growth phase, with key decision-making underway by practices and licensees on their technology stacks, including platforms.

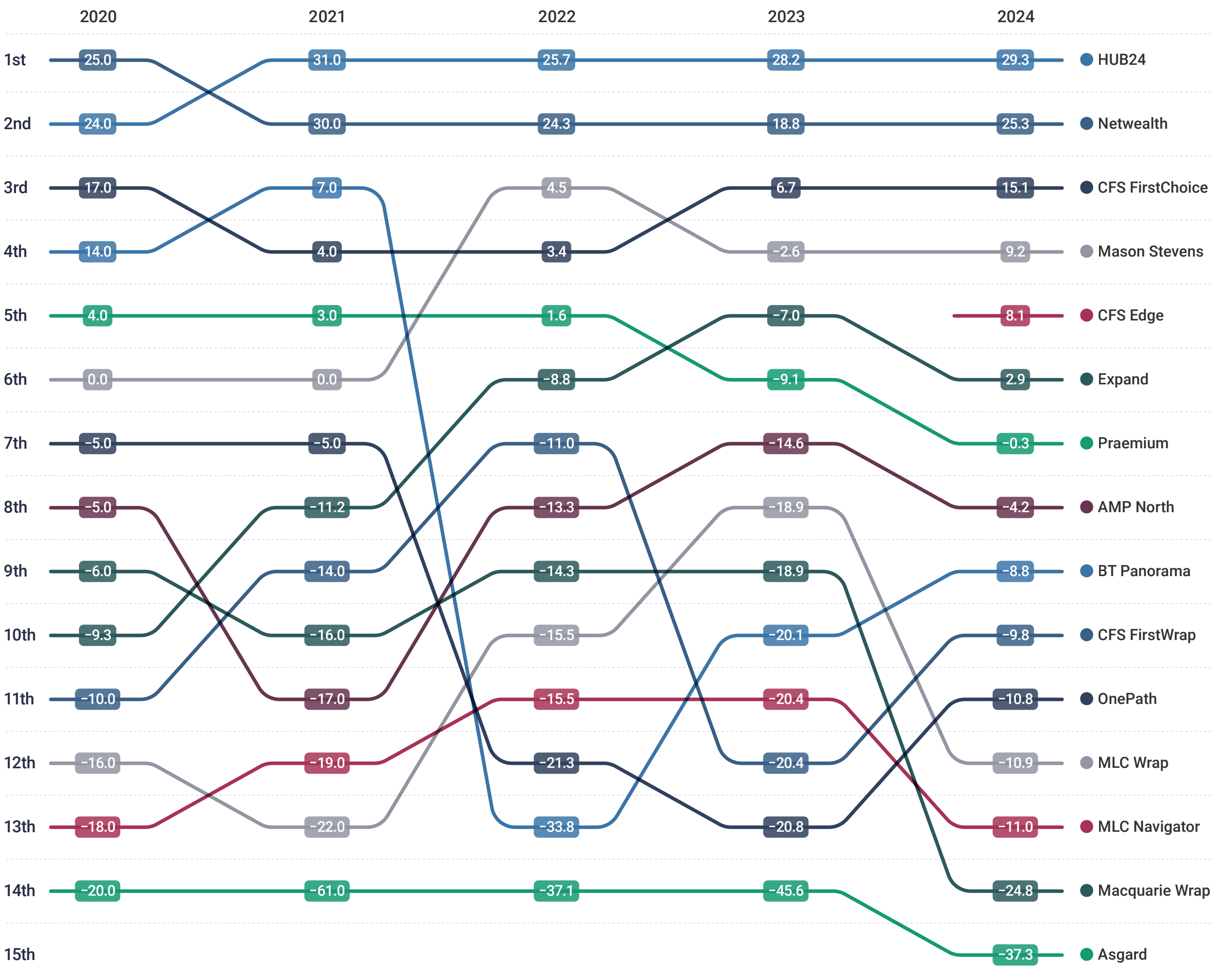
These pivotal moments in an individual adviser's decision-making typically occur every six to seven years.

The convergence of self-licensing, AI, other enabling technologies, adviser profitability, and regulatory changes such as QAR has created a decision environment more intense than any seen since the Royal Commission. This last industry-wide decision point particularly benefited netwealth and HUB24 due to banks exiting the advice sector.

CHART 3.19

NPS ranking by platform (2020 – 2024)

Source: ARdata, 2747 reviews (n = 1,302 advisers)



There are eight major drivers behind advisers' decisions to switch platforms. As platform features become more homogenous, platforms can guide their investment decisions by comparing these drivers. Analysing 2,747 quantitative ratings and qualitative comments, including sentiment bias, reveals that adviser experience, particularly user experience and interface, is a key driver for platform switching.

Pricing remains a crucial factor for advisers. Surprisingly, the role of BDMs (Business Development Managers) in supporting advisers is also significant. Their product, industry, and competitor knowledge, along with "on-call" technical assistance, are essential for advisers considering to stay or switch.

Clients play a significant role in an adviser's decisions. Clear dashboards, platform interfaces, and accurate reporting enhance clients' perceptions of their advisers. Regarding investment options, commentary focuses on the availability of Separately Managed Accounts (SMAs). Additionally, advisers are increasingly aware of the differences between full-service platforms and more bespoke platforms, with functionality being more critical for existing clients who were dissatisfied with promised features or frustrated by full-service platforms lagging behind peers. While a poor individual client onboarding experience can be frustrating, the ongoing support and experience for advisers and their clients outweighs any decision to switch platforms.

CHART 3.20

Key drivers and comparative impact for advisers

Source: ARdata

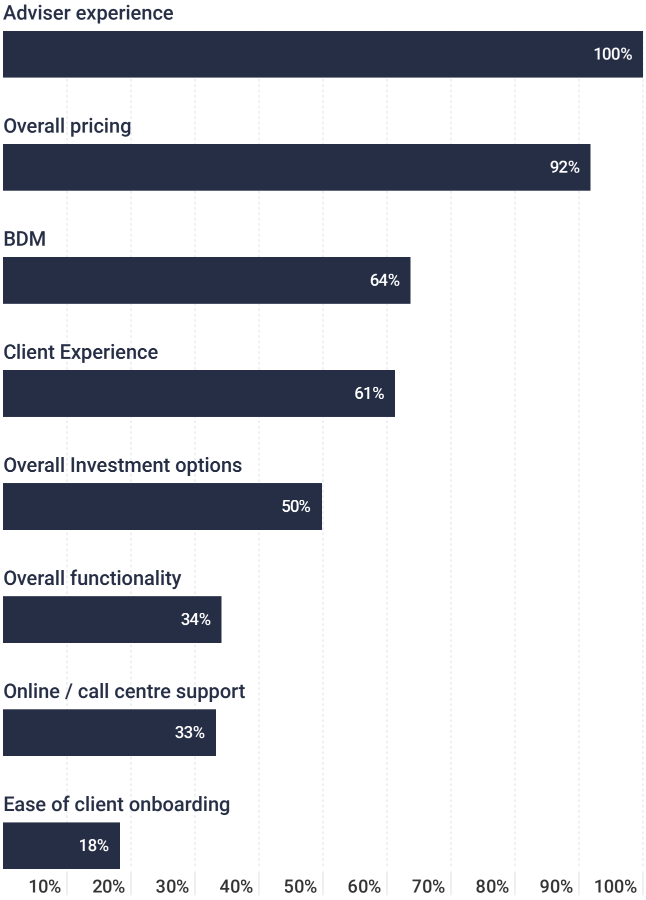


CHART 3.21

Top 5 platforms by adviser experience

Source: ARdata

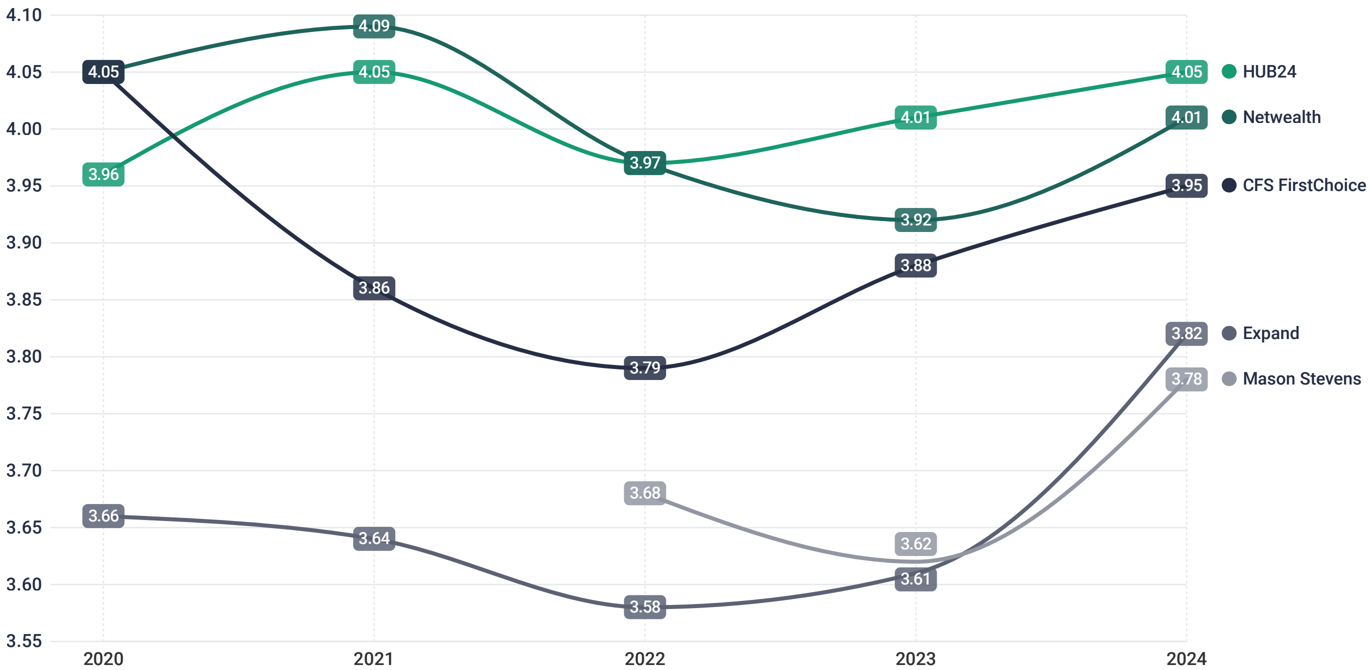


CHART 3.22

Top 5 platforms by client experience

Source: ARdata

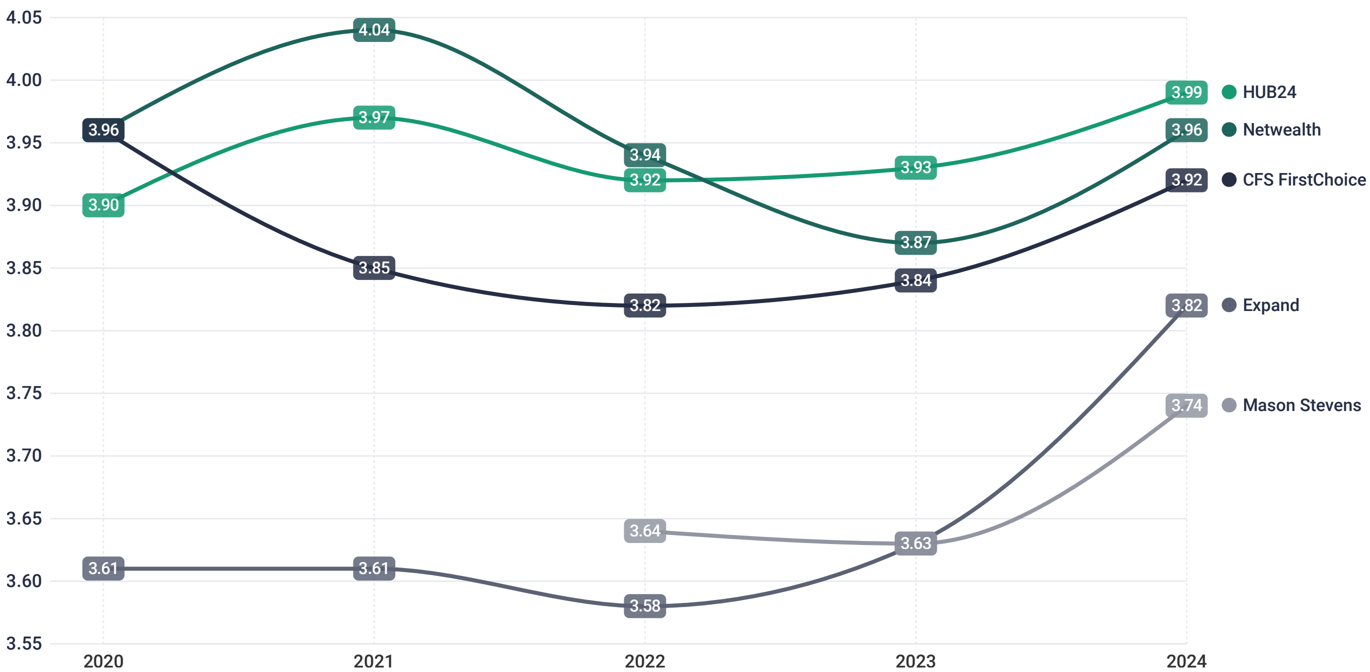


CHART 3.23

Top 5 platforms by overall investment options

Source: ARdata

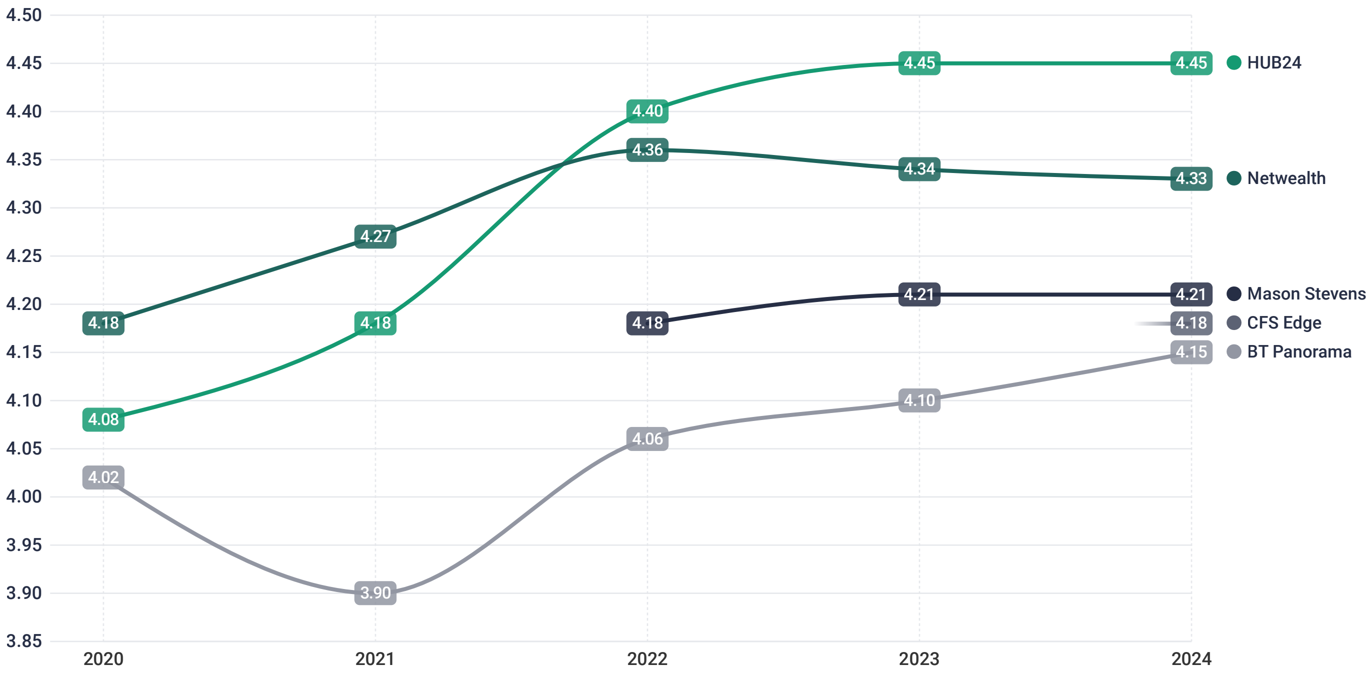


CHART 3.24

Top 5 platforms by overall functionality

Source: ARdata

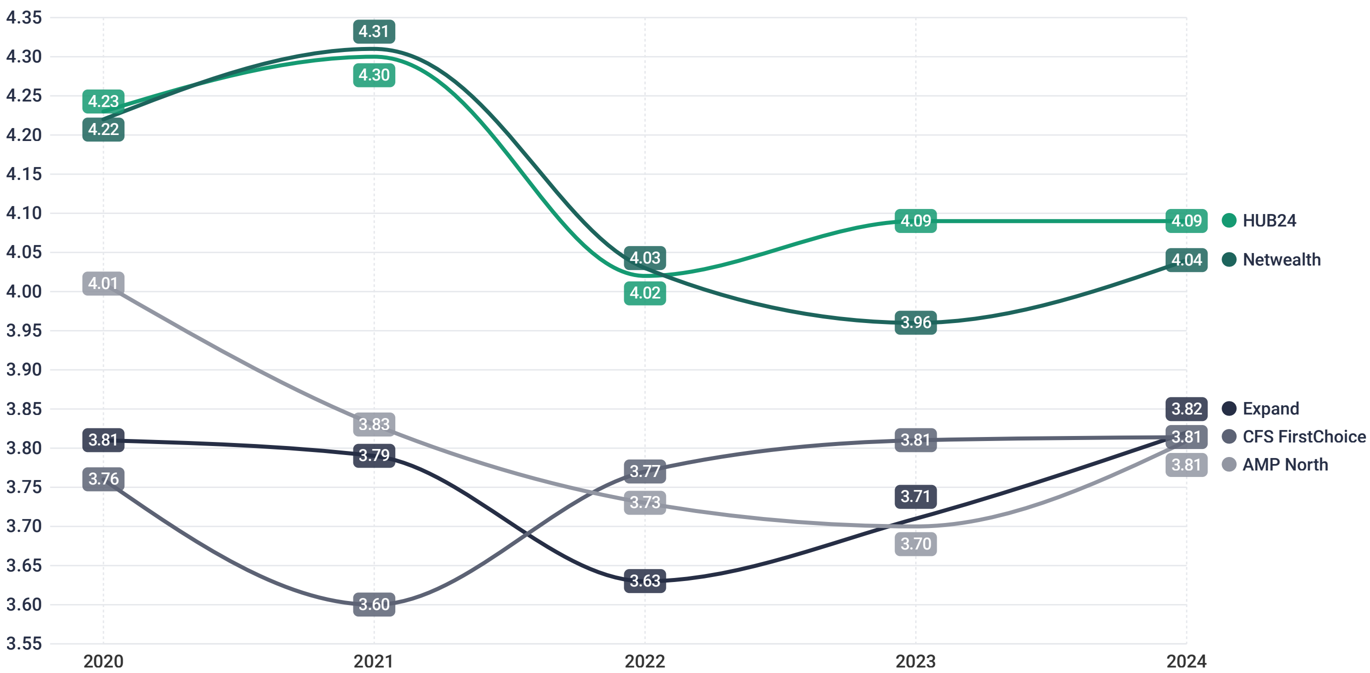


CHART 3.25

Top 5 platforms by ease of client onboarding

Source: ARdata

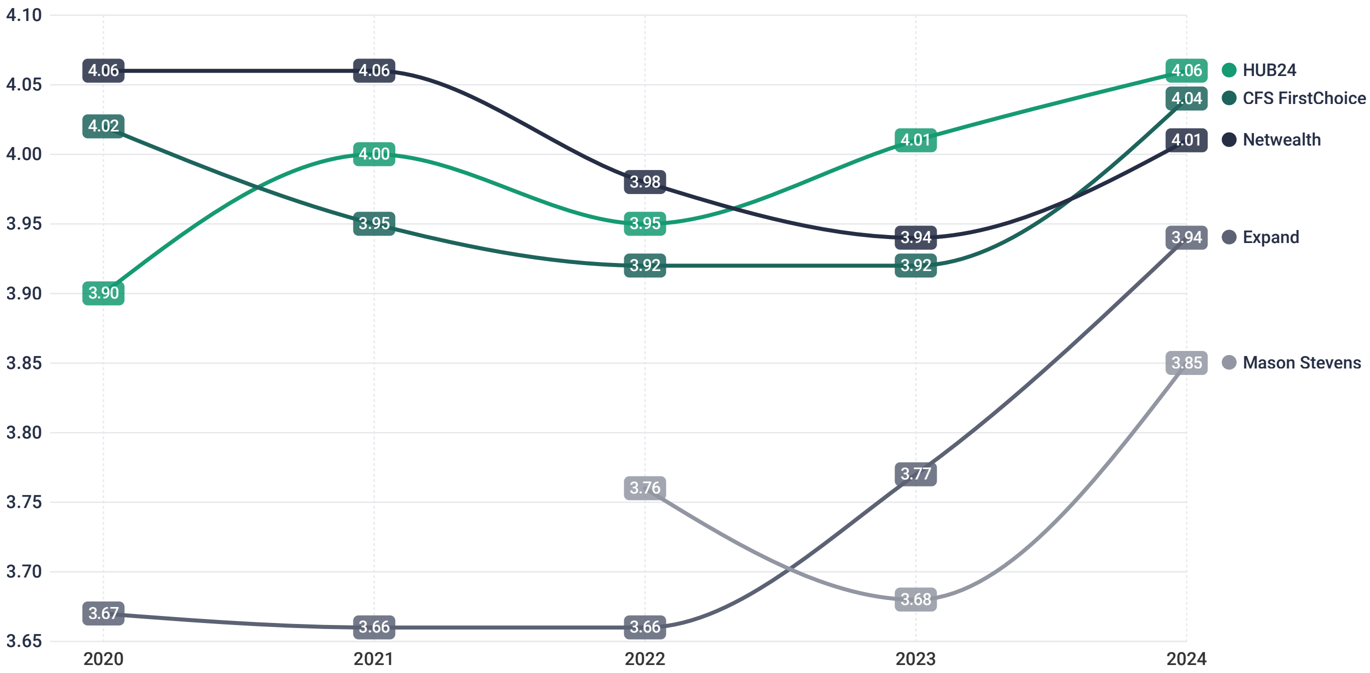
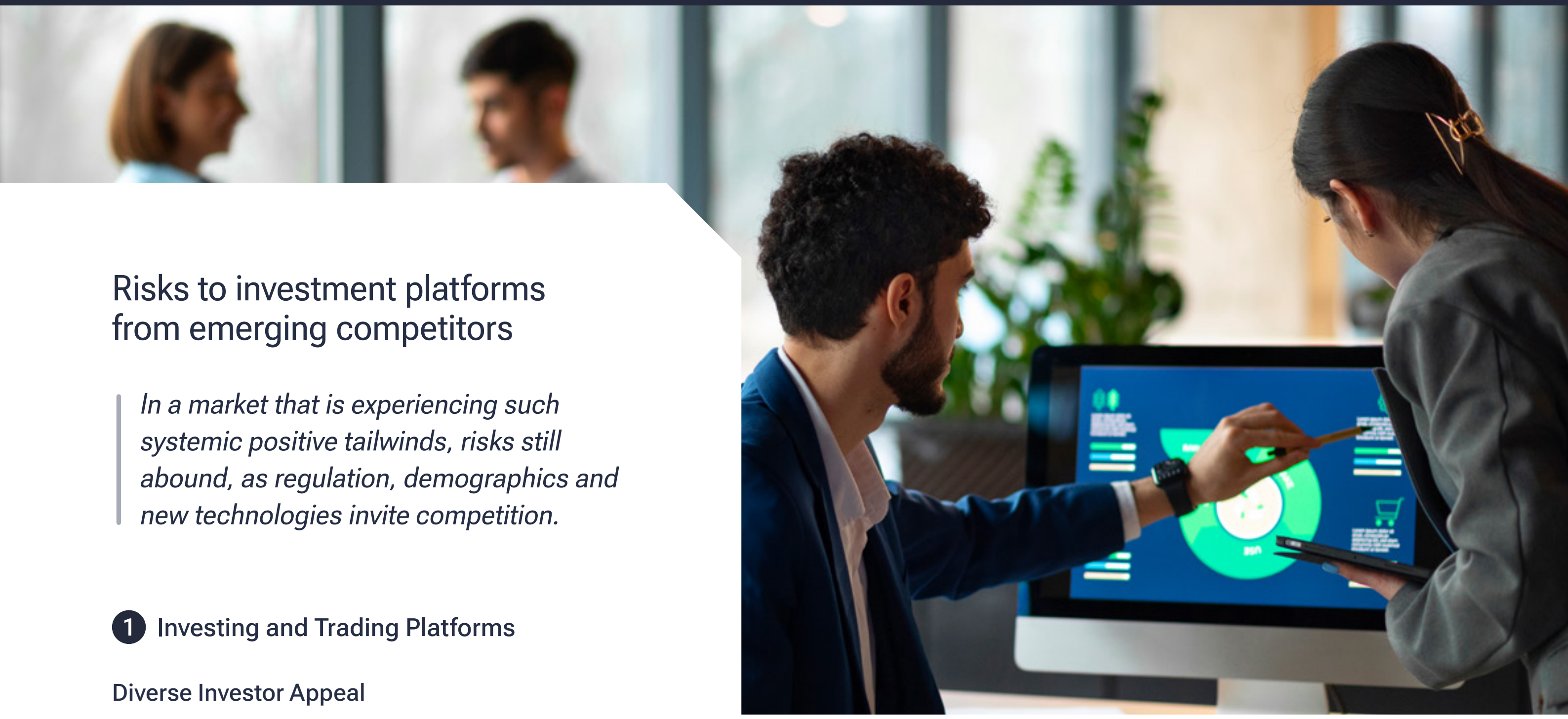


CHART 3.26

Top 5 platforms by 2024 contemporary categories

Source: ARdata



Risks to investment platforms from emerging competitors

> *In a market that is experiencing such systemic positive tailwinds, risks still abound, as regulation, demographics and new technologies invite competition.*

1 Investing and Trading Platforms

Diverse Investor Appeal

Platforms like Stake, SuperHero, Selfwealth, and Pearler cater to various investor styles, attracting both individual investors and advisers.

AI and Quality Advice Review (QAR)

Many of these platforms leverage AI with a focus on personalisation. QAR has already kickstarted development in these organisations to enable them to offer personalised investment advice or digital money management solutions directly and / or partner with advisers directly.

Generational Wealth Transfer

Younger investors, who are more likely to use these platforms, will continue to grow their wealth on these platforms, potentially posing a threat to traditional investment platforms. Features are more likely to grow in line with the lifecycle of its users, with areas such as fractionalised investing, offered by new players like nVest, to become more pronounced.

---

2 Super Funds

Technological Engagement

Holding $3.9 trillion in Australian superannuation, super funds are powerful players in the financial landscape. With the QAR and the Retirement Income Covenant (RIC), super funds are adopting new technologies and opening adviser portals. Partnerships are emerging – ART and Bravura, IFS and IRESS, and AustralianSuper and Microsoft, and super funds are investing heavily in people from the wealth, banking and platform industries, across technology, advice and retirement. There are opportunities for existing investment platforms and super funds to become collaborators as opposed to competitors in this space for the benefit of consumers and advisers. The latter more inclined to be attracted to a single portal approach across industry funds.

Vanguard Super Strategy

Retail funds, particularly Vanguard Super are pursuing core adviser-led strategies, potentially diverting funds not only from industry funds but from traditional platforms, as it takes a second bite at disrupting flows within the industry. Larry Fink, Blackrock's Global CEO, and his recent comments around his admiration for Australia's super system, is only likely to cement Vanguard's Australia CEO, Daniel Schrimski and newly appointed, Global CEO Salim Ramji, that its pursuits in this space could pay handsome dividends.

3 Retirement Platforms/Solutions

Baby Boomer Retirement

The retirement of the Baby Boomer generation is driving a technological and product revolution in the retirement space. Annuities, bonds, and other retirement-focused products are becoming more prevalent. In February, Challenger announced a seven year technological transformation with Accenture, as it positions itself to engage with both advisers and clients more seamlessly.

Investment Bonds

Despite what was perceived as their inherent complexity, investment or insurance bonds are likely to gain traction due to the marketability of their estate planning benefits, legal entity structure and tax advantages, especially amid the generational wealth transfer, as the silent and baby boomer generation look to protect and grow wealth for their children.

4 Banks

Re-emergence in Wealth Space

Banks, with their technological prowess, are likely to re-enter the investment, wealth, and advice space. Banks like Westpac (with BT) and CBA (with a stake in CFS) may leverage their existing businesses or create new digital advice and investment platforms.

AI-Driven Platforms

The trend in the US with JP Morgan (IndexGPT) and Wells Fargo (LifeSync) indicates a shift towards AI-driven investment platforms, which Australian banks might might look to emulate sooner rather than later.

5 New Platforms and Adviser Models

White Label and Adviser Owned Platforms

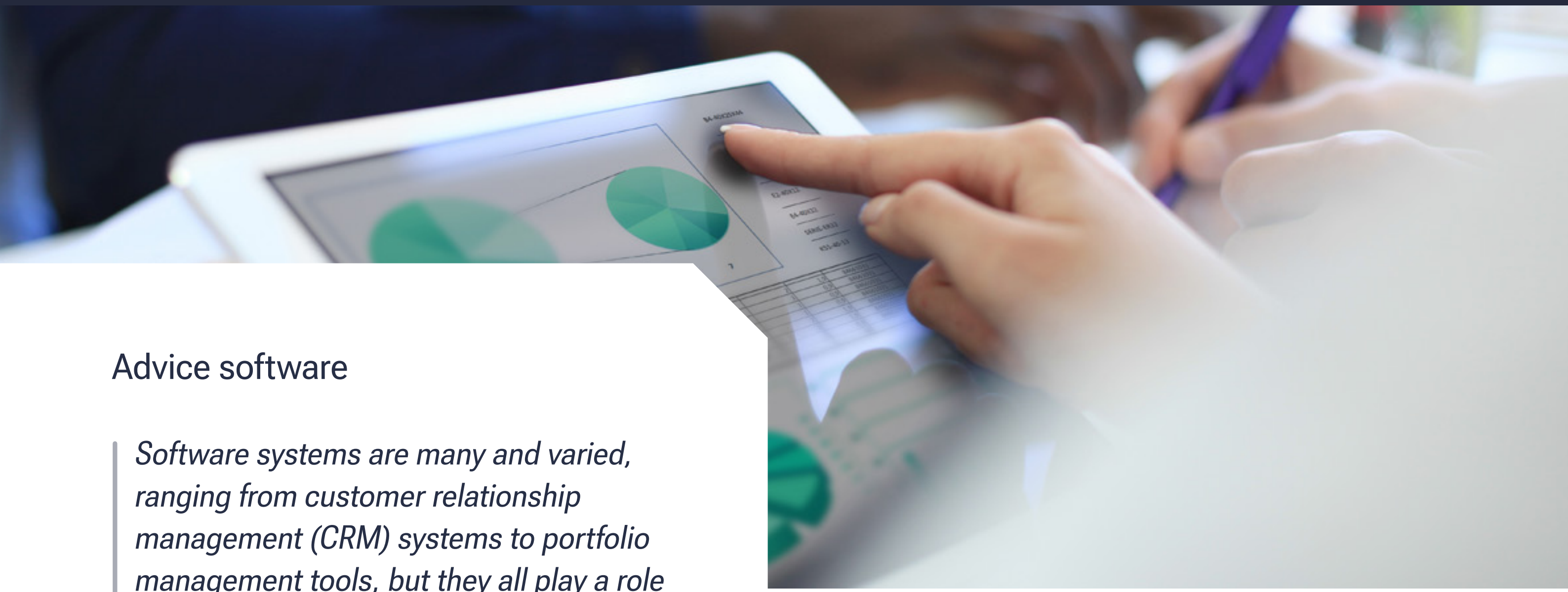
Advances in technology and AI may make it more feasible for smaller players to build and operate bespoke investment platforms. Whilst advisers are not yet directly participating in the shareholder benefits of platforms, the UK has had “adviser-as-platform” solutions on offer for several years.

Whilst its growth has been mute, the advancements in AI may make this more appealing for players like Microsoft and Salesforce alongside more traditional models. Increased accessibility to data and investments through open APIs, facilitates the development of new platforms tailored to specific needs.

Smaller, Licensee-Centric Players

Platforms such as Centric (Findex) and PlatformPlus (Infocus) have being growing silently under the auspices of their large adviser base. With these platforms being opened to all advisers, it creates another challenge for platforms.

> *Notwithstanding the risks, the sheer size of the opportunity afforded by Australia’s superannuation and retirement funds, provides ample protection for current platforms. The regulatory complexities, notwithstanding QAR, alongside the agility of platforms to adapt (SMAs was supposed to be a nadir point for many platforms) showcases both the ingenuity but also advisers’ stickiness with the incumbents.*



Advice software

> *Software systems are many and varied, ranging from customer relationship management (CRM) systems to portfolio management tools, but they all play a role in delivering efficiencies for users.*

The standout in terms of satisfaction this year is once again ProductRex[1], which has also increased its penetration, receiving the third highest number of responses. The software solution is a dedicated system to handle all of advisers' superannuation and investment product recommendations, as well as being an SMA construction tool. Whilst it is a standalone solution, it is also embedded in multiple advice software CRMs. It is favoured for its adviser support, client experience, value for money, functionality, comprehensiveness, and accuracy of data fields.

While Xplan is the most used, with two thirds of responses, its NPS remains low, and it ranks low in terms of value for money and adviser support. The owner of Xplan, IRESS, is partway through its transformation and growth strategy as it repositions itself to take advantage of the tailwinds in advice and superannuation, and move towards more open architecture and allowance for third party integrations.

As the reliance on technology increases, advisers are seeking further integration between their software solutions. There is the broad realisation that an all-in-one software platform may not be the answer, as the needs of the practice and client sets evolve. As such, the demand for disparate tech stacks that communicate with one another will only grow with time. As netwealth's *AdviceTech 2023 Report* found, in the interim, practices are left wanting: only about half of advice firms are satisfied with their current tech stack.

The favoured tech stacks of the future will be the ones that will enable advisers to provide the best service to their clients, with real-time insights, seamless communication and the ability to meaningfully customise advice.

IRESS's dominance in the Australian advice software market has posed significant challenges for CRM competitors to achieve profitable growth. This is evidenced by Advice Intelligence and Creativemass's WealthConnect both being sold to GBST after entering voluntary administration. Other solutions, such as Practifi and Lumiant, have shifted their focus to overseas markets, particularly the United States.

Despite these challenges, there are still over 50 specialised advice software solutions available. Some are owned by larger tech or investment firms, including Bravura (Midwinter), Morningstar (AdviserLogic), Invesco (intelliflo), HUB24 (myprosperity and Class), and netweath (Xeppo), while others are smaller firms funded through startup or investor capital.

Advisers have approached smaller players cautiously due to the potential impact on their business and clients from technology company failures or a lack of ongoing investment.

In reviewing many of the existing software solutions, we observe that they have managed to navigate the illiquid investment cycle through self-funded means, growing

Note: 1. The publisher of this publication, Adviser Ratings Pty Ltd, is a 100% owner of ProductRex (effective May 2023).
The adviser reviews have been independently assessed in terms of data collection, veracity of results and the application of ratings.

cautiously to preserve capital, or by developing new revenue streams such as consulting, white-labeling, data, or vendor-specific solutions. The same market forces driving platform growth are also shaping the advice software sector. QAR, superannuation, AI advancements, and increased demand for advice are fueling competition, with more entrants joining the market. Additionally, advisers are increasingly creating their own software, with several licensees engaging with Microsoft Copilot and other AI tools to enhance their existing processes or support their current technologies. Several large licensees also provide in-house CRMs for their advisers, notably Insignia (Wealth Central) anf Fiducian (FORCe).

The following chart assesses those solutions who gained statistically relevant response rates. There are notable mentions of emerging players such as intelliflo, DASH (Platform + Software), Padua, iComply2 and Advice Revolution that are becoming more and more used, but due to the threshold for inclusion have not registered for an independent score or rating.

Satisfaction levels are higher for newer software solutions, unencumbered by legacy technologies and cost inefficiencies.

The category ratings, as showcased in Chart 3.28, have been curated based on key driver decision making for advisers.

CHART 3.27

Software NPS

Source: ARdata. Note: The publisher of this publication, Adviser Ratings Pty Ltd, is a 100% owner of ProductRex (effective May 2023). The adviser reviews have been independently assessed in terms of data collection, veracity of results and the application of ratings

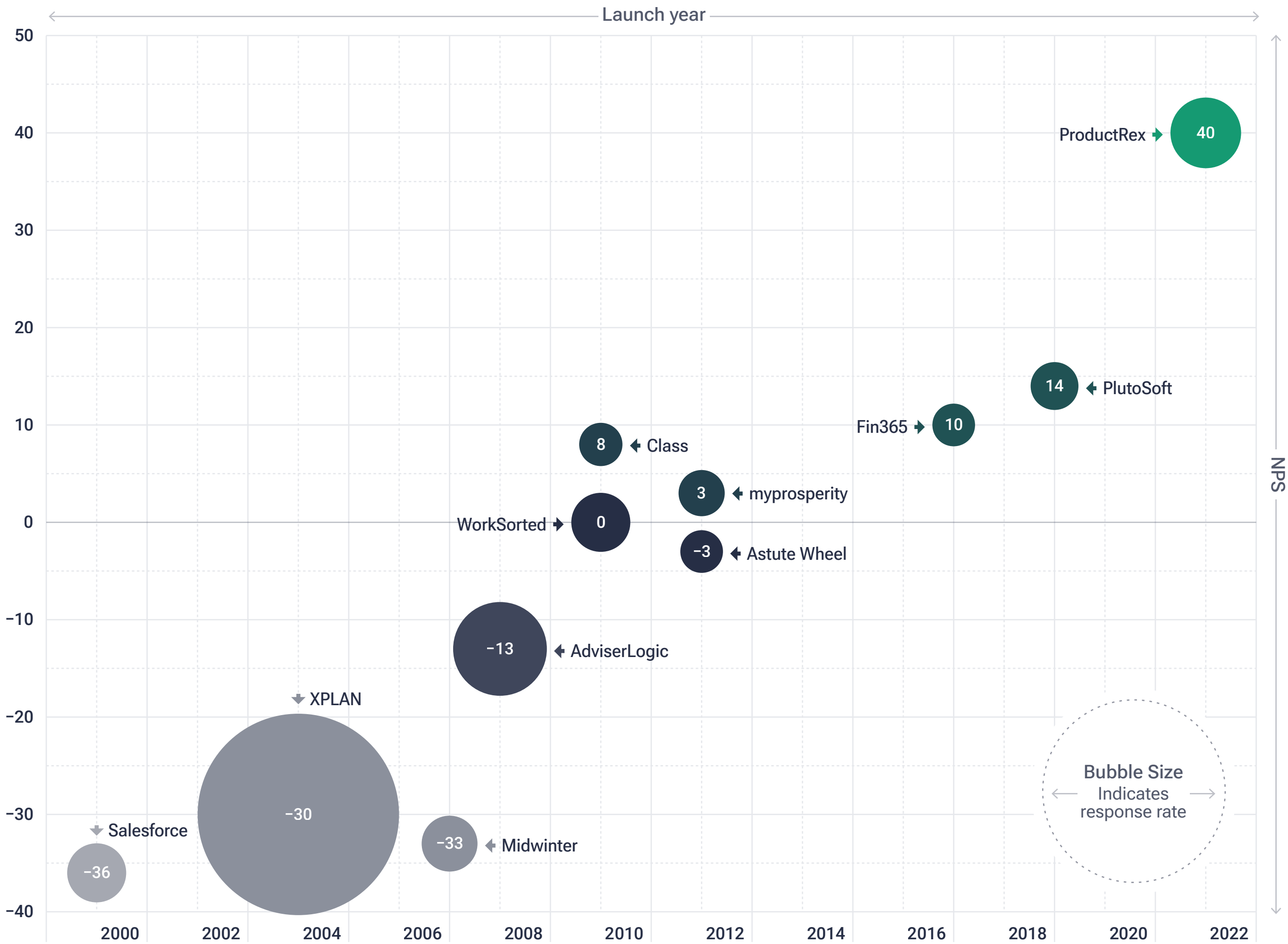


CHART 3.28

Bayesian Average Rating Heatmap Analysis

Source: ARdata. Notes: Heatmap Analysis has been applied only on software solutions with statistically relevant response rates and scores have been included. The results have been subject to bayesian and random forest regression techniques. (1) The publisher of this publication, Adviser Ratings Pty Ltd, is a 100% owner of ProductRex (effective May 2023). The adviser reviews have been independently assessed in terms of data collection, veracity of results and the application of ratings.

Software	Comprehensiveness of its module(s)	Overall functionality	Adviser support	Accuracy of data feeds	Value for money	Client Experience
ProductRex[1]	4.05	4.14	4.15	3.95	4.36	3.96
Fin365	3.76	3.83	3.88	3.72	3.57	3.52
PlutoSoft	3.84	3.84	3.65	3.67	3.59	3.62
Class	3.77	3.83	3.6	3.72	3.5	3.58
WorkSorted	3.61	3.7	3.75	3.26	3.66	3.47
myprosperity	3.61	3.64	3.7	3.56	3.32	3.45
Astute Wheel	3.73	3.64	3.56	3.33	3.35	3.51
AdviserLogic	3.53	3.44	3.53	3.43	3.35	3.15
XPLAN	3.73	3.53	3.11	3.4	2.75	2.82
Salesforce	3.29	3.4	3.19	3.19	3.06	2.98
Midwinter	3.37	3.3	3.12	3.06	3.11	2.93

As with platforms, considering the current market, we recognise the ongoing competition in the advice software sector. The rapid introduction of AI, marked by the launch of ChatGPT in November 2022, coupled with the Quality Advice Review, has created an opportunity for advice technology solutions to evolve more cost-effectively, more personally, and to a broader audience, benefiting both advisers and consumers.

Chapter insight

CASE STUDY

Technology and practice profitability: A perfect match

Today's leading advice practices are focused on profitability and revenue, after years of uncertainty. Many recognise technology is the key to that pursuit and are rapidly building customised tech stacks to meet their changing needs.

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As practices continue to pull away from large licensees and forge their own path, many are realising the right tech stack is the key to boosting their profitability.

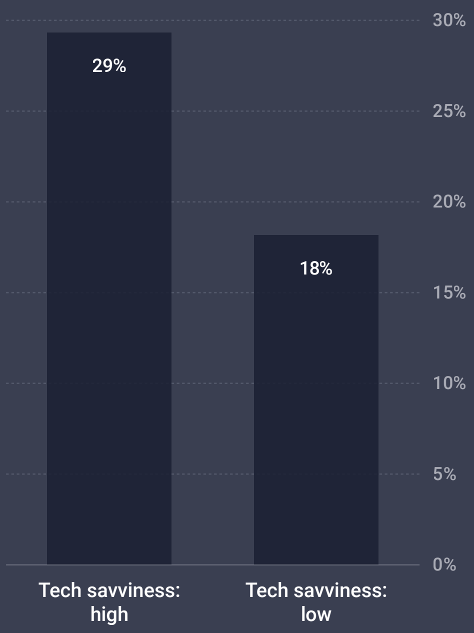
Increasingly, we're seeing practices on the smaller side – such as independent financial advisers (IFAs) – carefully building and curating tech stacks which serve their back-end requirements, intuitively help them to manage portfolios and free up advisers to spend time with clients.

The results of these shifting tides were apparent in this year's Landscape Report. Two in three practices with between two and four advisers achieved profitability of 20% or more, while more than two in five solo practices have a profit margin above 20%.

CHART 3.29

Tech savviness vs profitability margin

Source: ARdata



Those actively embracing the use of digital solutions in their tech stacks have noticeable profitability benefits. The introduction of software around data collection and reporting for their clients, as well as tools to service lower value clients, has resulted in more than a 50% increase in the profitability margin for these practices against their lower tech savvy peers.

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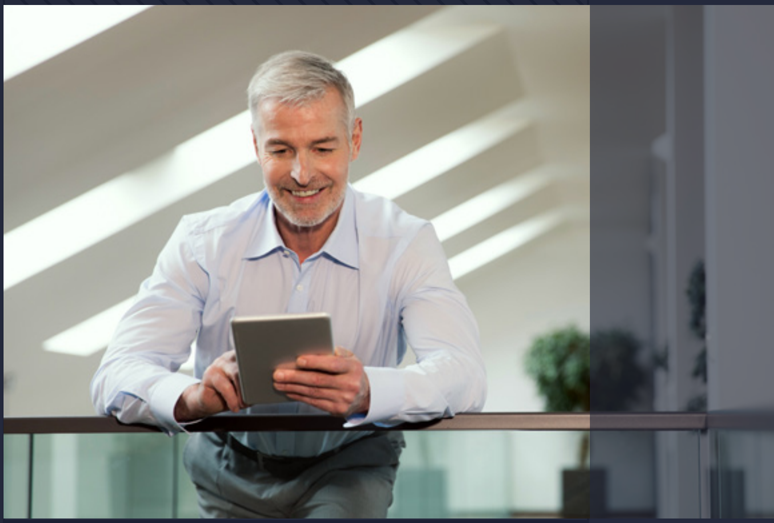
The impact to the cost base is also evident, with practices able to utilise solutions previously supplied by headcount.

Notably, Adviser Ratings found that highly tech-savvy practices have 55% less staff per adviser compared to their low-tech-savvy counterparts, which significantly reduces overhead costs.

Traditionally, many IFAs have struggled to achieve profitability because they don't have the same scale advantage as their larger practice counterparts.

Regulation – including obligations around best interests' duty, statement of advice production and ongoing fee arrangements – have added to their burden and their confidence in implementing such solutions.

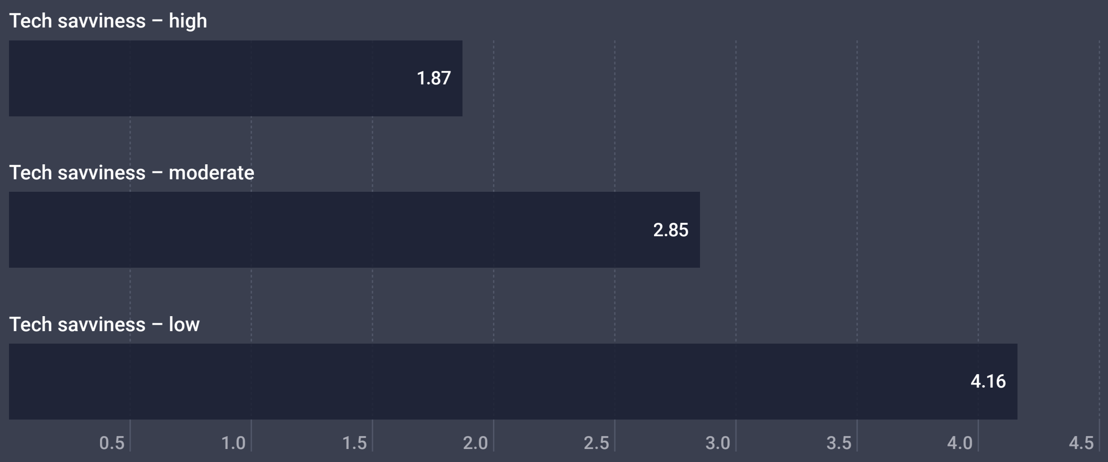


However, the Quality of Advice Review and subsequent Government reform package will allow practices, both large and small, to streamline more of their processes to build profitability, with the support of technology.

CHART 3.30

Average staff per adviser

Source: ARdata



We expect this trend to grow in the next few years, as more advisers embrace nimble software providers – those who adjust their offering based on demand – and artificial intelligence (AI).

These same "tech savvy" practices are already embracing AI in their business to serve more clients at this higher profitability margin.

On the provider side, software developers are also developing a greater understanding of practices' needs and sculpting their products to fill these gaps.

intelliflo is a global cloud-based technology solution for financial advisers which has adopted a bespoke approach to meeting local advice market's changing requirements.

Danielle Farrell is an adviser with Elle Financial in Devonport, Tasmania, who is a customer of intelliflo. She said she's been impressed with the product's evolving capabilities and customer service.

"Overall, we are loving using intelliflo," she said. "The team has been fantastic to work with thus far.... They seem to want to help wherever they can."

The Tasmania-based adviser said Elle Financial is looking forward to intelliflo's work on more complex modelling, such as annuities, in the future.

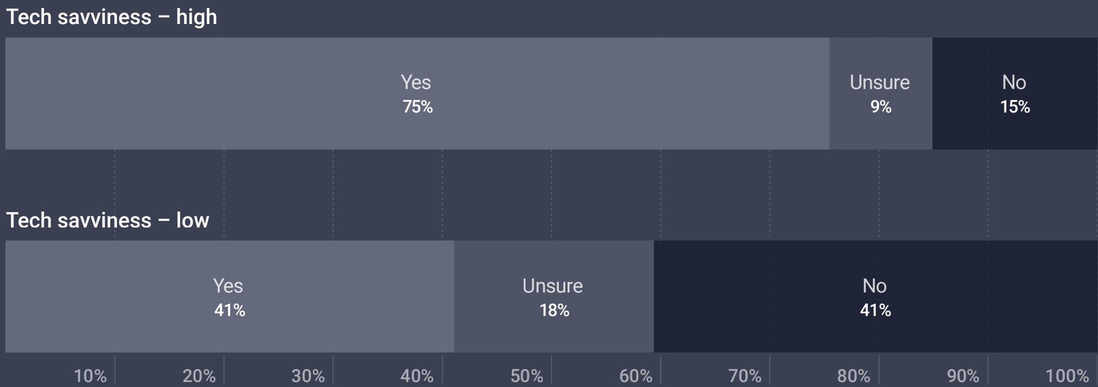
"For now, our team is loving the standard modelling – super, insurance and debt repayment," she said.

"intelliflo is wanting to continually improve which is so refreshing coming from one of the bigger software providers," Ms Farrell added.

CHART 3.31

Tech savviness vs use of AI (n= 452 practices)

Source: ARdata



Note - Data indicates survey responses to the question:
"Have you used or been planning to experiment with the use of Artificial Intelligence (AI) in your advice practice?"

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4.0 | Investment Landscape

Industry Addressable Market and Growth

> *For the second year in a row, the Australian unitised investment management market experienced virtually no net inflows into the system (+$2bn in both 2022 and 2023). This should have sounded the death knell for a significant number of small and unprofitable active funds...*

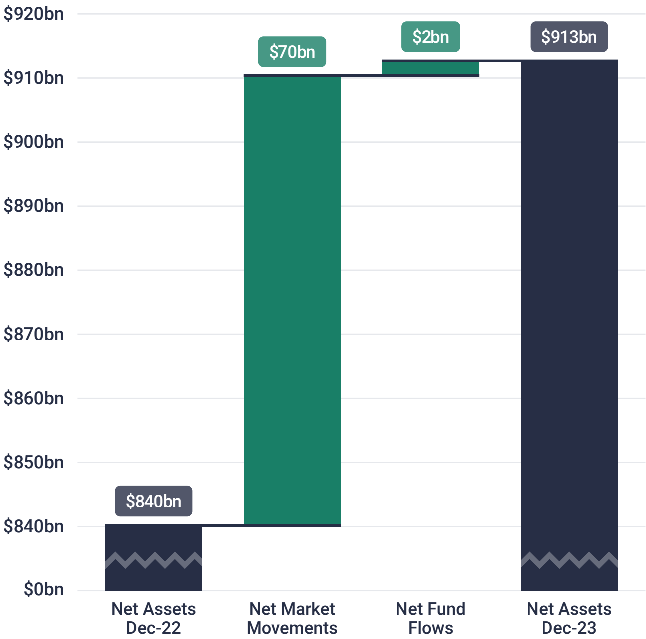
But yet again the industry's knight in shining armour (market movement) saved the day, with strongly rising equity markets driving overall industry Net Assets higher by $70bn (8.3%). This contrasts with 2022's truly challenging environment where market movements of -$75bn had the opposite effect. Throughout 2023 the fortunes of active and passive strategies continued to diverge, with passive (in aggregate) again being in inflow and active (in aggregate) again being in outflow. The past two years, with flows into the system stagnating and passive managers making big inroads, have been particularly difficult for active managers.

A nugget of hope, with more than a nugget of truth behind it, is that stagnant flows are unlikely to remain that way for long because if history is a guide, sidelined investors are likely to return soon. Just as sharp market falls spook a certain % of investors into 'cashing out' or otherwise withdrawing their money from the system, sharp market rises inevitably lure them back in again, albeit with a lag. This lagged return has historically been observed around 6-12 months after a demonstrable market recovery, making in our view 2024 look like a promising year for system Net Flows (barring a new and significant economic/ geopolitical shock). As of print, whilst active managers have been squeezed by super funds, advisers still see a large role for active managers in the construction of their portfolios. With six months to play out, time will tell...

CHART 4.1

Industry FUM ($bn) 1 Year Net Assets Change (Overall +$73bn) Dec 2022 - Dec 2023

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023.



Where the money went – asset classes

Through 2023 only Fixed Interest experienced strong positive Net Flows and therefore achieved strong positive organic growth. As will be discussed further on, within Fixed Interests it was not an 'across the board' (i.e. multi-sector) result. Fixed Interest was also materially aided by a very strong performance from Private Debt (which we have allocated to Fixed Interest but some will argue belongs in the 'Alternatives' asset class).

All other asset classes experienced modest net outflows. Interestingly, Cash was in net outflow too, which was unusual. Typically when risk assets (particularly equities) are in outflows Cash will be in inflows, representing a flight to safety. This dynamic is (usually) further magnified when interest rates are rising. This year, despite the RBA cash rate rising from 3.1% at the start of the year to 4.35% at the end of the year, cash still experienced outflows of -$1.4bn. Our hypothesis for this anomaly is yield chasing, driven by the current high inflation rate. In times of normal (2%-3%) inflation, a cash rate of 4%-5% will deliver a real return of 2%-3%. Investors wishing to be 'defensive' can therefore 'park' in cash and be paid (in real terms) to do so. In the current environment, with inflation at the start of 2023 at 7%, this was not the case. We believe investors have been more inclined to 'stray' out of cash (and advertently or inadvertently go up the risk curve) to invest in the likes of mortgage funds and private debt funds. This is discussed later in this chapter.

CHART 4.2

Industry Net Flows ($bn) 1 Year (Overall +$2.3bn), Dec 2022 - Dec 2023

Source: Morningstar, Milestream estimates and analysis.
Data as at / for one year ended 31st December 2023

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. Fixed Interest includes (and Alternatives excludes) Morningstar classified "Alternatives - Private Debt" funds.

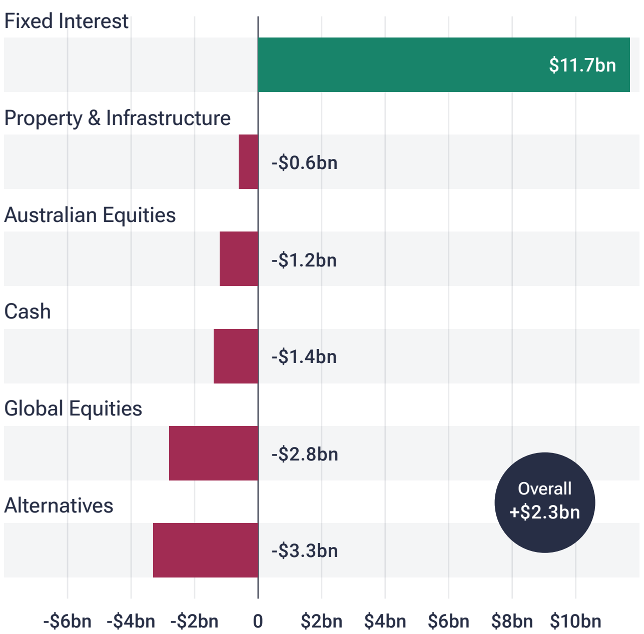
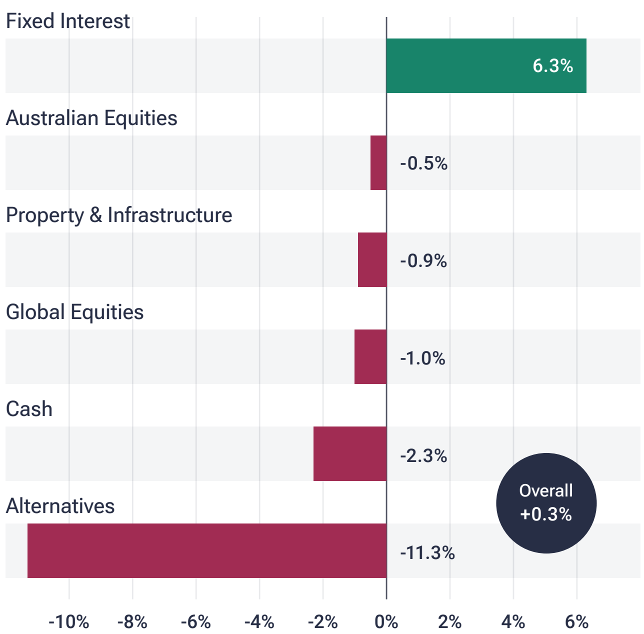


CHART 4.3

Industry 1 Yr Organic Growth Rates (Overall +0.3%), Dec 2022 - Dec 2023

Source: Morningstar, Milestream estimates and analysis.
Data as at / for one year ended 31st December 2023

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. Organic growth includes net flows and excludes net market movements. Fixed Interest includes (and Alternatives excludes) Morningstar classified "Alternatives - Private Debt" funds.



Across 2022 and 2023 organic growth at the total system level was virtually identical (with a minor rise from +0.2% to +0.3%, so net change +0.1%). One way to test the resilience of (apparent) net flow trends at the asset class level is to compare the change in each asset class' organic growth rate (between 2022 and 2023) to this total system change over the same period. Which asset classes did relatively better than the system as a whole (i.e. their organic growth rate between 2022 and 2023 changed (rose) by more than +0.1%), even if they were unimpressive in an absolute sense? And of course, on the other side of the coin, which did worse?

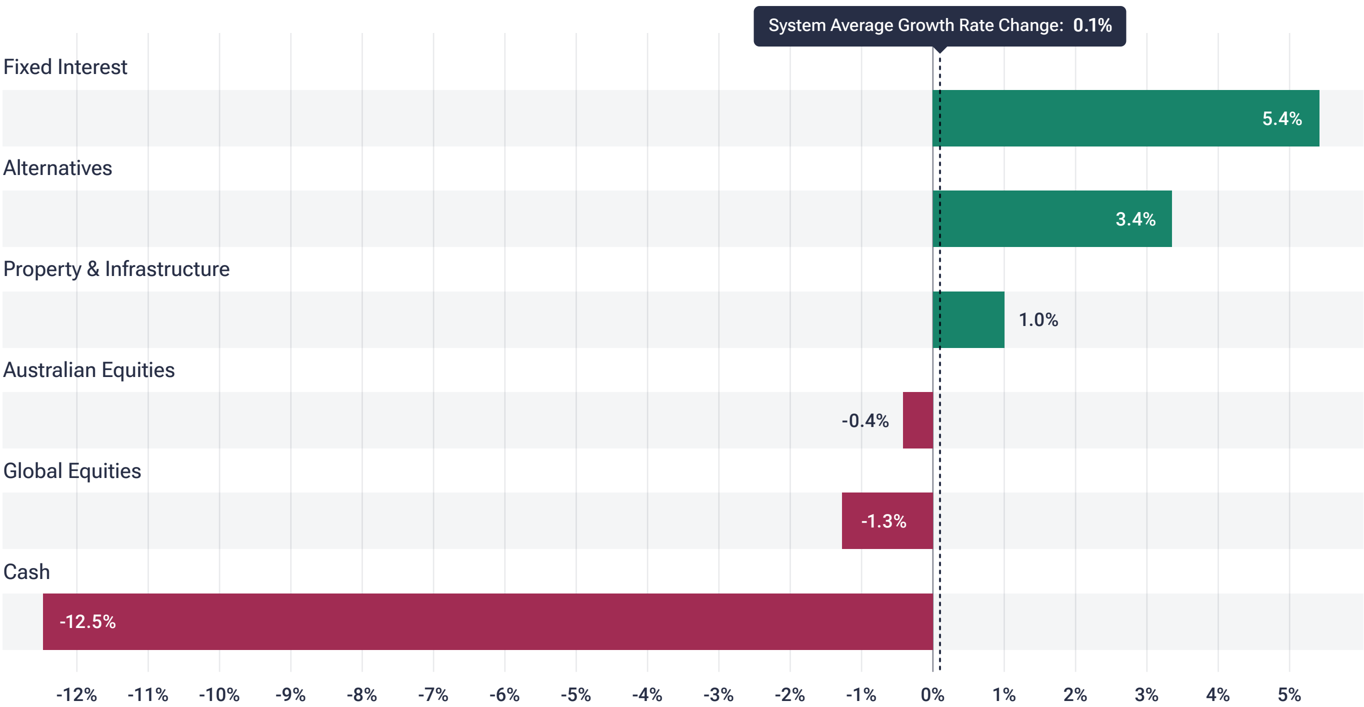
In 2022, Equities were the "winner" in this analysis with organic growth rates contracting less than the system average, which was impressive considering it was a period when Equity markets fell. Global Equities showed the greater resilience of the two Equities asset classes. Interestingly, the biggest "loser" in 2022, Fixed Interest, has this year become the biggest winner, and it remains as such even if we were to add back the negative "Ardea effect" (circa -$2.5bn in outflows, but captured above in "Alternatives"). Fixed Interest therefore did not just display strong absolute organic growth this year (6.3%), it also increased its year-to-year growth rate by 5.4% (from 0.9% to 6.3%), thus a change of 5.4%) and 'swam faster than the tide' by significantly outpacing the system's overall growth rate change between periods. We decompose and analyse the impressive organic growth performance of key Fixed Interest sectors below. Cash on the other hand experienced a significant decline in organic growth rate across the period (from 10.2% to -2.3%, thus a -12.5% change).

CHART 4.4

Asset Class Change in Organic Growth Rates (2023 minus 2022 Growth Rates)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. Organic growth includes net flows and excludes net market movements. Fixed Interest includes (and Alternatives excludes) Morningstar classified "Alternatives - Private Debt" funds.



Where the money went – sectors / sub-sectors

Chart 4.5 on the following page displays the various sectors and their organic growth rates, with organic growth rates (%) in red or green (on the bottom axis) and sector sizes ($bn) overlaid in grey (on the top axis). The best informational value is derived by looking at both metrics together. If for example, predominantly small sectors have experienced the largest positive and negative growth rates, this can be indicative of shorter-term opportunistic/tactical allocation decisions.

Smaller and newer sectors with large positive or negative growth rates could also be indicative of emerging trends "taking off" or being rejected as fads. Either way, they are small pots of money so are typically only meaningful to smaller and early-stage investment managers. In contrast, if larger and older sectors (typically 'core' portfolio allocations) are experiencing outsized growth rates (either positive or negative) then something big may be underway that is of relevance to all managers, regardless of size and stage of development.

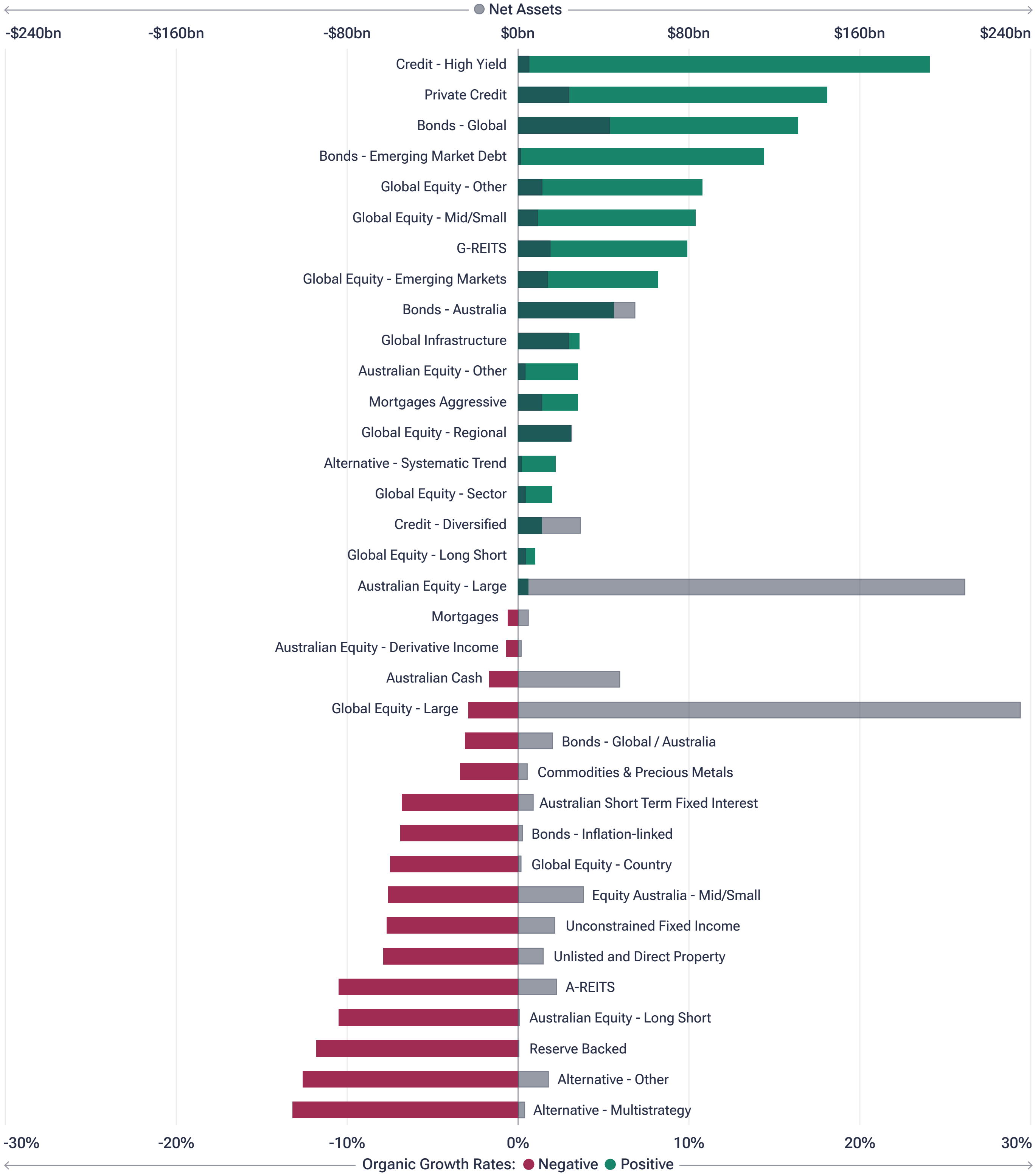
These sectors are not immune to investor short-termism and flightiness, particularly if recent performance has been very poor or very strong, but their size and longevity are synonymous with "maturity" in a lifecycle sense. So big moves can mean big things, such as structural shifts in asset allocation or portfolio construction, or shifts in investment management internalisation / DIYing behavior.

Note: "Large" sectors are defined as those with > $20bn in net assets, "medium" sectors as those with > $10bn but < $20bn, and "niche" sectors as those with <$10bn net assets). "Meaningful" organic growth is defined as >= +/- 3% (net flows / Net assets -1 year). Excludes the Cash sector.

CHART 4.5

Industry Sub-Sector 1 Year Organic Growth Rates (%) vs Net Assets ($bn), Dec 2022 - Dec 2023

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data accross the 1 year to December 2023. Organic growth includes net flows and excludes net market movements.



Where the money went – intra asset class movements

The analysis within the previous section is perhaps most useful for larger / multi-asset class investment managers who have the option of moving *across* asset classes to capture emerging opportunities. But what if (like many "boutiques") you are smaller and feel confined (for the near term at least) to the asset class you are currently competing within?

Here, the strategy to win is to compete *within* your asset class in the most attractive pockets. The key question then is which (intra-asset class) sectors look the most attractive? The following analysis must be considered with the caution that one year's data is informative, but multiple years should be considered before extrapolating a trend worth backing.

Australian equity

In 2023 Large Caps Net Flows of $1,255m propped up the sector as a whole, with all Australian Equities in aggregate in negative Net Flow of -$1,229m. Interestingly, this was the second year in a row this has occurred (Large Caps drew $793m in Net Flows in 2022 in a year when all Australian Equities aggregated recorded a negative Net Flow of -$315m). In the few years before 2022, Large Caps had been unpopular (relative to Mid/Small Caps and other Australian Equities strategies). The past two years have therefore seen a minor renaissance in Large Caps. It seems then that Large Cap Australian Equities investing has returned to favour (relative to Mid/Small Cap and Other Australian Equities strategies investing) but *single manager actively managed* Large Cap Australian Equities has not. It is probably fair to say that this pocket of the market is ground zero for general disillusionment with active equities management and therefore is also ground zero for passive disintermediation of active equities management.

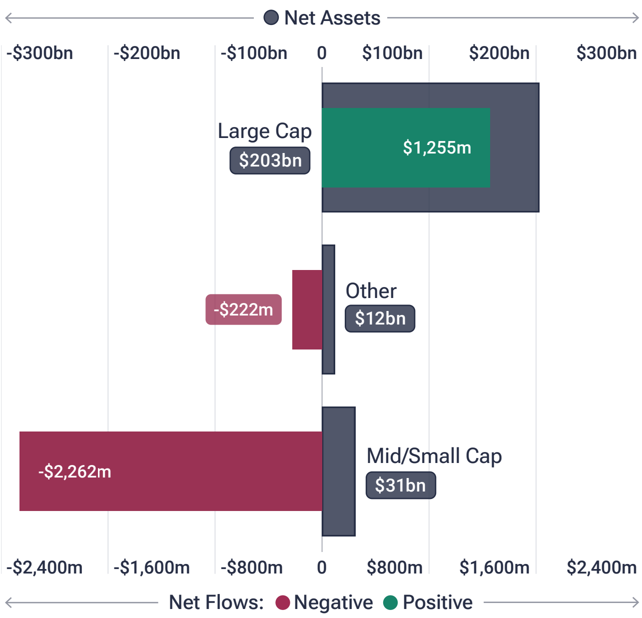
For the second year in a row, Mid/Small Caps experienced outflows (2023 -$2,262m, 2022 -$553m) as did "Other" Australian Equities funds (2023 -$222m, 2022 -$556m). "Other" combines Morningstar categories 'Equity - Australia Derivative Income', 'Equity - Australia Geared', 'Equity - Australia Long/Short', and 'Equity - Australia Other'. The key funds driving the Mid/Small Cap and 'Other' outcomes in 2023 were the Bennelong ex-20 Australian Equities Fund (-$870m) and the Perpetual ESG Australia Share Fund (-$315m).

CHART 4.6

Australian equities by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis.
Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. "Large Cap" combines Morningstar categories "Equity - Australia Large Blend", "Equity - Australia Large Growth", and "Equity - Australia Large Value". "Mid/Small Cap" combines Morningstar categories Equity - Australia Mid/Small Blend", "Equity - Australia Mid/Small Growth", and "Equity - Australia Mid/Small Value". "Other" combines Morningstar categories Equity - Australia Derivative Income", "Equity - Australia Geraed", "Equity - Australia Long/Short", and "Equity - Australia Other".



> *In 2023, Large Caps had net inflows of $1,255m, while all Australian Equities experienced an aggregate negative net flow of -$1,229m.*

Global equity

At $235bn, Large Cap Global Equity funds represent 77% of the asset class's addressable market ($304bn), with Emerging/Regional & Sector funds the next biggest at 13% ($41bn). In contrast to Australian Equities, Large Cap funds within Global Equities were in reasonably large net outflow in 2023 (-$6,208m). This contrasted to 2022 when Large Cap Global Equity funds achieved a small net inflow of $623m. In this regard, the predominance of passive, industry, and multi-manager funds in the top 10 mirrored the experience of Large Cap Australian Equities funds.

Obviously, there were manager-specific issues at play in 2023 (notably with Magellan and Platinum). But at an aggregate level, it appears that redemptions from these funds were, by and large, not reinvested into other Large Cap Global equity options. Rather they were redeployed into other Global Equity options, other asset classes, or Cash.

As mentioned earlier, the Global Equity Mid/Small sector recorded another good year in 2023 ($809m in Net Flows, following on from $459m in Net Flows in 2022). Clearly, active single-manager strategies outside of Large Cap (e.g. Emerging Markets, Global Mid/Small, etc) are having an easier time convincing investors that active management is still the better approach.

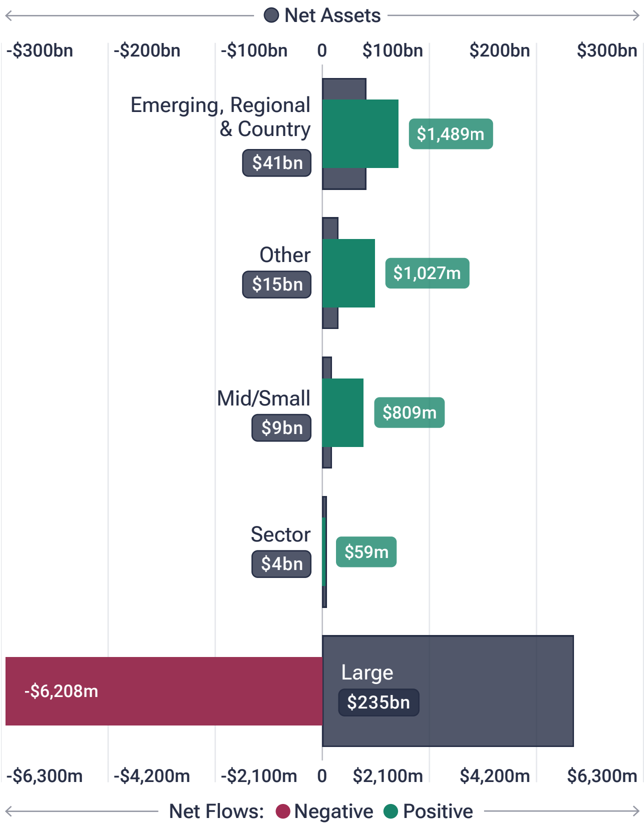
In 2023 within the Emerging Markets, Regional & Country sector 8 out of the top 10 funds were actively managed, and within the Mid/Small sector 7 out of the top 10 funds were actively managed. This is some comfort for smaller 'boutique' active managers, but less so for large, established active Global Equities managers, where topping the tables with $250m-$300m in Net Flows for a year would not meaningfully 'move the needle'.

CHART 4.7

Global equities by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. "Large Cap" combines Morningstar categories "Equity - World Currency Hedged", "Equity - World Large Blend", "Equity - World Large Growth", and "Equity - World Large Value". "Mid/Small Cap" reflects Morningstar category "Equity - World Mid/Small Blend". "Emerging,Regional & Country" combines Morningstar categories of "Equity Asia Pacific w/o Japan", "Equity Emerging Markets", "Equity Europe", "Equity Greater China", "Equity Japan", and "Equity Noth America". "Sector" combines Morningstar categories of " Equity Global Resources" and "Equity Technology". "Other" combines Morningstar categories "Equity - World Long/Short", and "Equity - World Other".



Property and infrastructure

In contrast to Equities asset classes, Property & Infrastructure is reasonably evenly weighted by net assets across its three property and one infrastructure sectors. The asset class's addressable market is circa $70bn and each sector comprises roughly 25%.

Last year (2022) all sectors bar Unlisted & Direct Property (which broke even) were in net outflow. This year a different picture emerged – the globally oriented sectors (G-REITs ($1,468m) and GLI ($807m)) were in net inflow and performed well, whereas the domestically oriented sectors (A-REITs (-$1,797m) and Unlisted & Direct Property (-$1,106m)) were in net outflow. A-REITs in particular stand out as having had a particularly bad patch, given they were also in net outflow last year (-$712m). Albeit a single data point, this showed a strong preference from buyers for one particular fund structure (listed) over another (unlisted).

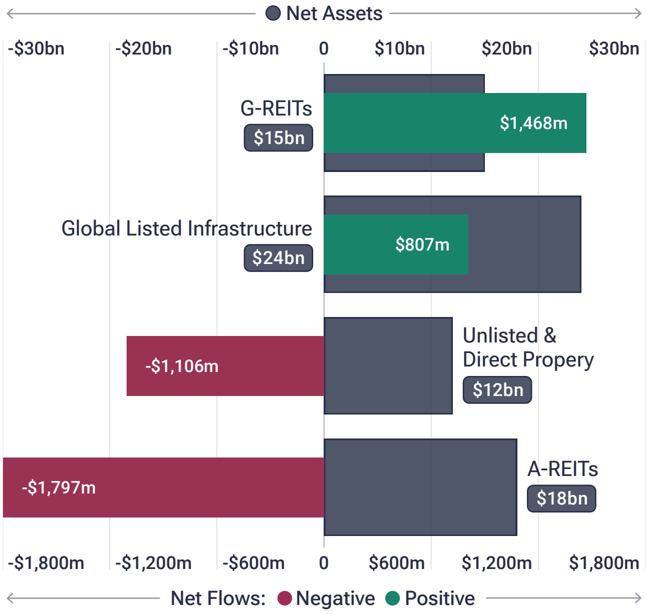
The negative turnaround for Unlisted and Direct Property in 2023 was most notable for the fact that the underlying assets are traded in private markets. Generally speaking, funds investing into private markets have been very popular in recent years, in particular, Private Credit and Private Equity funds.

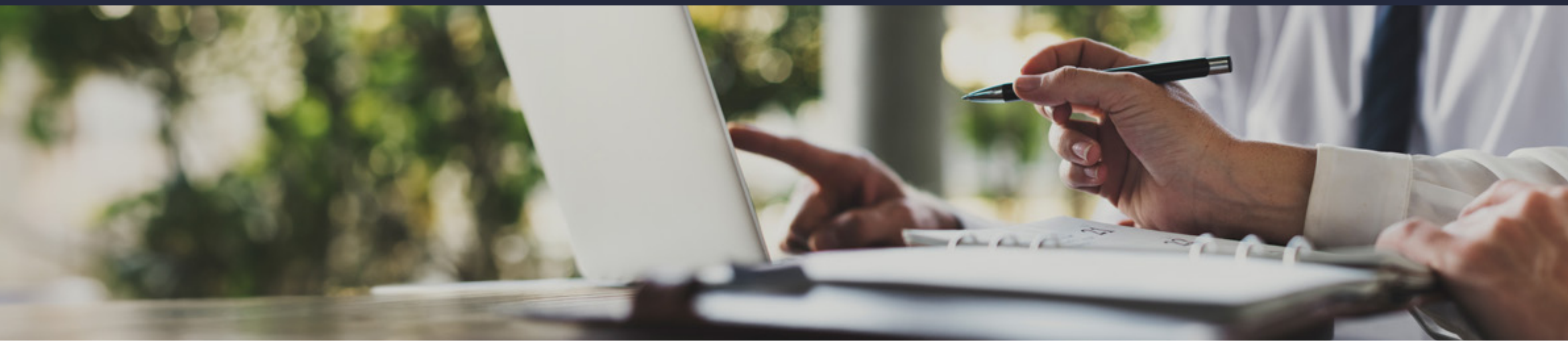
CHART 4.8

Property & infrastructure by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. "A-REITS" reflects Morningstar category "Equity - Australia Real Estate". "G-REITs" reflects Morningstar category "Equity - Global Real Estate". "Unlisted & Direct Property" reflects Morningstar category "Unlisted and Direct Property". "Global Listed Infrastructure" combines Morningstar categories of "Equity Global Infrastructure - Currency Hedged" and "Equity Global Infrastructure".





Fixed interest

Portfolio construction approaches within this asset class vary widely, with some constructors distinguishing between domestic and global assets, others distinguishing based on Bonds vs Credit, and others again creating sleeves based on the yield/risk profile of the particular Fixed Interest investment type. The above sector classifications, whilst logical, therefore only represent one of several valid ways of viewing Fixed Interest.

At a combined $59bn Diversified / Global Bonds just nudged out Australian Bonds to be the biggest sector within the asset class ($59bn to $55bn). Of most interest in the above segment sizing however is that the remaining sectors combined (Unconstrained Fixed Interest, Credit, Private Credit, Mortgages, and Other) in combination ($97bn) are nearly as big as the Bond-based sectors combined ($114bn). To put it another way, Alternative Fixed Income is approaching the size of Traditional Fixed Income. Based on the momentum of Alternative Fixed Interest last year (2022), and the inclusion of Private Credit into Fixed Interest this year, we had expected Alternative Fixed Income to draw equal with Traditional Fixed Income. However, as noted earlier, in 2023 the performance of the Traditional Fixed Interest sectors was very strong so their lead was maintained – Diversified / Global Fixed Interest gathered a very impressive $5,251m in Net Flows and Australian Fixed Interest gathered $2,774m in Net Flows. Within Alternative Fixed Interest the Mortgages sector slowed its growth considerably from last year (2022 Net Flows of $1,964m vs 2023 Net Flows of $314m).

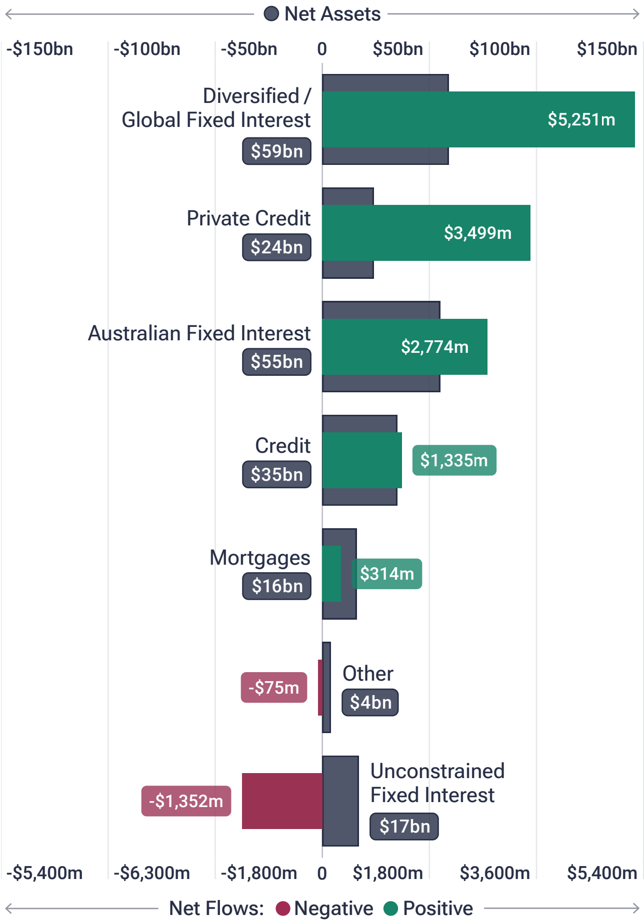
In our opinion, Mortgages are likely losing market share to Private Credit as both are high-yielding direct lending strategies, and Private Credit (rightly or wrongly) can be perceived to be more / better diversified.

CHART 4.9

Fixed interest by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. "Diversified / Global Fixed Interest" combines Morningstar categories "Bonds - Global / Australia" and "Bonds - Global". Australian Fixed Interests reflects Morningstar category of "Bonds Australia". Unconstrained Fixed Interest" reflects Morningstar category "Unconstrained Fixed Income". "Credit" combines Morningstar categories "Diversified Credit" and "Non Investment Grade Debt". "Private Credit" reflects the Morningstar category "Alternatives - Private Debt". "Mortgages" combines Morningstar categories of "Mortgages" and "Mortgages Aggressive". "Other" combines Morningstar categories "Bonds - Emerging Market Debt", "Bonds - Inflation Linked", and "Reserve Backed".



Alternatives

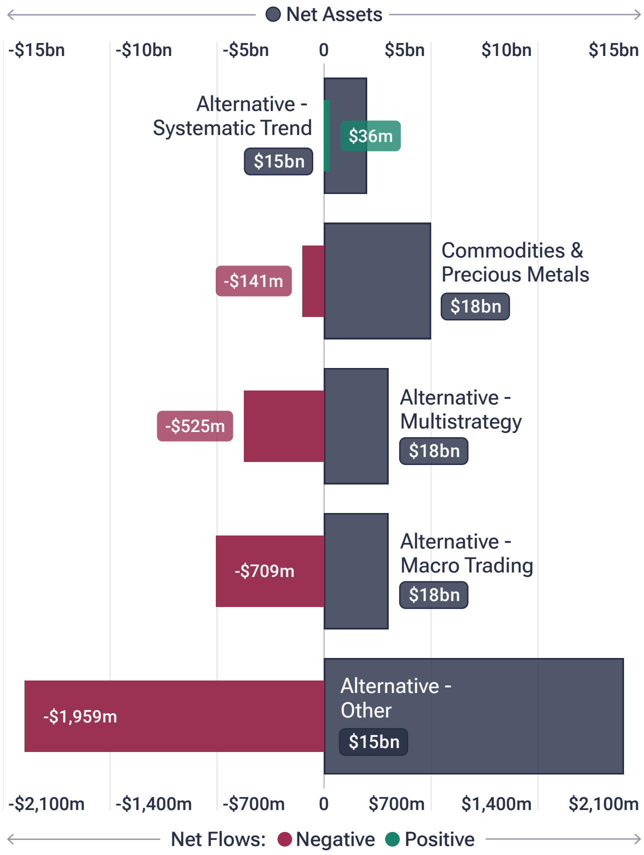
Of all the asset classes "Alternatives" is subject to the widest range of sector classifications and portfolio construction approaches. The fact that "Other" is Morningstar's largest Alternatives sector category (by a factor of more than 3 times) is a testament to this lack of homogeneity and the very wide range of strategies offered within the market. That said, the sectors that are defined by Morningstar are logical and differentiated and can be analysed with confidence (it is more a case of needing to dig to the fund level within "Other" to find out what has driven outcomes).

CHART 4.10

Alternatives by segment:
Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis.
Data as at / for one year ended 31st December 2023.

Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2023. All labels reflect the equivalent Morningstar categories. Note: Morningstar classified "Alternatives - Private Debt" funds have been reclassified under the Fixed Interest Asset class.



2023 Product Launches

Decomposition of the year's new product launches is one way to impute where fund managers believed flows were heading. Aside from creating stand-alone insights, this analysis also allows us to provide a multi-year comparison of fund launch metrics. The analysis below takes the unitised product launches of calendar 2023 and where possible compares them to 2022 and 2021 in several ways:

- By Name, date & Morningstar Classification
- By Asset Class
- By Driver/Opportunity Targeted
- By Investment Management Philosophy
- By Investment Structure
- By Primary Portfolio Role
- By Portfolio Holding Type

TABLE 4.1

2023 Product launches grouped by Morningstar classification, ordered by month launched

Alternative - Multistrategy	
Areus Alpha Gold	JAN
Franklin K2 Athena Fund	APR
Multi Strategy Alternative 2	MAY
NWQ Diversified Equity - Founder	
BlackRock Global Liquid Alternatives Fund	SEP
New Holland Capital Tactical Alpha Fund (AUD) - Class A	OCT
Aurum Alpha Australian Feeder Fund	DEC
Regal Partners Private	

Alternative - Other	
Alium Alpha Opportunities	JAN
Candour Alternative Income Fund	
Five V Capital Horizons Fund	FEB
HMC Capital High Conviction Alternatives	MAR
Infinity Private Assets Fund Fndtn A	
Monochrome Bitcoin Trust	
Neuberger Berman Glbl Priv Eq Access UnH	APR
AHI Defined Returns	MAY
CCM Systematic Macro Plus Fund	
Kilter Agriculture	
KKR Private Equity (K-PRIME) (AUD) A	
Bluebottle Digital Infrastructure	JUL
Quilla Risk Overlay Trust	

Alternative - Other (Continued...)	
Victor Smorgon Partners Glb Mlt StgyPlfm	JUL
PEP Gateway Access - Ordinary Unit	AUG
Rochford Leveraged Long AUD A	
Apollo Aligned Alternatives Fund	SEP
Pacific Eq Ptnrs Gatwy CoinvmtAccssTrOrd	NOV

Australia Superannuation Equity World - Currency Hedged	
MLC MKBS - MLC Intl Shares Index (Hdgd)	MAY

Australia Superannuation Equity World Large Blend	
MLC MKBS - MLC International Share Index	MAY
MLC MKBS - MLC International Shares	

Bonds - Australia	
VanEck 1-5 Year Australian Government Bond ETF	SEP
VanEck 10+ Year Australian Government Bond ETF	
VanEck 5-10 Year Australian Government Bond ETF	
Coolabah Active Sovereign Bond - Lng Dur	DEC
Coolabah Active Sovereign Bond - Zr Dur	

Bonds - Global	
Global X USD Corporate Bond ETF (Currency Hedged)	APR
VanEck 1-3 Month US Treasury Bond ETF	MAY
Betashares U.S. Treasury Bond 7-10 Year Currency Hedged ETF	SEP
iShares U.S. Treasury Bond (AUD Hedged) ETF	
Realm Global High Income AUD	NOV
JP Morgan Global Bond Fund Active ETF (Managed Fund)	DEC

Bonds - Global / Australia	
BlackRock Australian Bond S	OCT
Macquarie Dynamic Bond Active ETF	NOV

Bonds - Inflation-linked	
Betashares Inflation-Protected U.S. Treasury Bond Currency Hedged ETF	SEP

Commodities & Precious Metals	
Global X Bloomberg Cmdty ETF Synthetic	JUL
iShares Physical Gold ETF	NOV

Diversified Credit	
Janus Henderson Sustainable Credit Fund	FEB
Janus Henderson Sustainable Credit Active ETF (Managed Fund)	MAR
MA Wholesale Credit Income A	JUL
Coolabah Short Term Income Fund (Managed Fund)	SEP
Macquarie Income Opportunities Active ETF	NOV
CT Global Corporate Bond Fund	DEC

Equity Alternative - Private Debt	
Spire Oaktree Opportunities XII (AUD) H	APR
Epsilon Direct Lending Senior Loan Fund	MAY
MA Global Private Credit	JUN
Invesco Credit Partners Opps 2023	JUL
Blackstone Private Credit AUT USD A	NOV
Partners Group Global Income Fund	
La Trobe US Private Credit Trust A	DEC

Equity Australia Derivative Income	
Global X Nasdaq 100 Covered Call ETF	FEB
Global X S&P 500 Covered Call ETF	

Equity Australia Derivative Income (Continued...)	
Global X S&P/ASX 200 Covered Call ETF	FEB

Equity Australia Large Blend	
Milford Australian Abs Gr Quoted Class H	JAN
Global X Australia ex Financials & Resources ETF	APR
Contrarius Australia Equity A	MAY
ALC Active Australian Equities Fund	JUL
Blackwattle Large Cap Quality Fund	AUG
IML Concntr AUS Shr Fd (Quoted Mngd Fd)	
Wilson Asset Management Leaders Fund — Class A	OCT
Dimensional Australian Core Equity (Managed Fund)	NOV
Perpetual Strategic Capital A	
Auscap Ex-20 Australian Equities Fund	DEC
Infinity Core Australian Equity Fund	

Equity Australia Long Short	
Indian Pacific - Platform	APR
Alium Alpha Platform	JUL
Blackwattle Long-Short 130/30 Quality Fund	AUG

Equity Australia Mid/Small Blend	
Tyndall Australian Small Companies	MAR
Airlie Small Companies Fund	APR
442 Capital Emerging Companies Fund	MAY
Paradice Australian Small Cap Opportunities Fund	JUN
Blackwattle Mid Cap Quality Fund	AUG
Blackwattle Small Cap Quality	SEP
Datt Capital Small Companies Fund	

Equity Australia Mid/Small Blend (Continued...)	
Eley Griffiths Group Mid Cap Fund — Class A	SEP

Equity Australia Real Estate	
Euree A-REIT Securities Fund	AUG
Cromwell Phoenix Prpty Secs Wholsl Units	NOV

Equity Emerging Markets	
BlackRock Emerging Markets D	JUL
Janus Henderson Emerging Markets Eq Fd	AUG

Equity Global Infrastructure	
BlackRock Global Listed Infrastructure Fund	AUG
Octopus Australia Sustainable Invms FF	DEC

Equity Global Infrastructure - Currency Hedged	
AMP Capital Global Infrastructure Securities Fund (Unhedged) (Managed Fund)	MAY
CFS Index Global Listed Infra A	
Strategic Infrastructure	JUN

Equity Global Real Estate	
CFS Index Glb Prop Securities A	MAY
iShares Core FTSE Glb Prpty ExAusAUDHETF	
Nuveen Global Cities Real Estate AUD I	JUN
BlackRock Global Real Estate Securities Fund (D)	JUL

Equity Global Resources	
Platinum Global Transition ETF	FEB

Equity Global Technology	
Global X Cybersecurity ETF	SEP

Equity North America	
Global X US 100 ETF	AUG

Equity North America (Continued...)	
VanEck Morningstar Wide Moat (AUD Hedged) ETF	NOV

Equity World - Currency Hedged	
Betashares Global Shares Ccy Hdg ETF	MAY
CFS Index Global Share A Hedged	
Nanuk New World Fund (Currency Hedged)	
BetaShares FTSE 100 Currency Hedged ETF	OCT
Barrow Hanley Global Share S Hdg	NOV
Dimensional Global Core EQ Aud HGD (Managed Fund)	
Global Transport (Hdg) UT Upfront Pymnt	
VanEck MSCI International Small Companies Quality (AUD Hedged) ETF	
VanEck MSCI International Value (AUD Hedged) ETF	
ALC Active International Equities Main	DEC
OsmosisResEffiDevMktsCrEqexFsslFulTrBH	

Equity World Large Blend	
AXA IM Sustainable Equity A (H) AUD	APR
Betashares Global Shares ETF	MAY
GuardCap Global Equity Hedged	
JPMorgan Equity Premium Inc Act ETF Hdg	
JPMorgan US 100Q Equity Premium Income Active ETF (Managed Fund)	
JPMorgan US 100Q Equity Premium Income Active ETF (Managed Fund) (Hedged)	
BlackRock Global Core Equity D	JUL
BML Global Ordinary Series	AUG
Impax Global Opportunities A	SEP
JPMorgan Emerging Markets Research Enhanced Index Equity Active ETF (Managed Fund)	

Equity World Large Blend (Continued...)	
CFS Equity Builder	NOV
Dimensional Global Core EQ UNHGD (Managed Fund)	
JPMorgan Global Research Enhanced Index Equity Active ETF (Managed Fund) Hedged	
OsmosisResEffiDevMktsCrEqexFsslFulTrAUnH	DEC

Equity World Large Growth	
BlackRock Global Unconstrained Equity D	SEP
Betashares Global Cash Flow Kings ETF	NOV
Macquarie Walter Scott Global Equity Active ETF (Managed Fund)	

Equity World Large Value	
Intelligent Investor Select Value Share Fund (Managed Fund)	MAR

Equity World Long Short	
Vinva Intl Equity Alpha Extension C	JAN
Fidelity Global Long Short Fund	OCT
Regal Resources High Conviction Fund	DEC

Equity World Mid/Small	
Arrowstreet Global Small Companies Fund	AUG
CT SDG Engagement Global Equity Fund	
EAM Global Small Companies Fund	SEP
Munro Global Growth Small & Mid Cap Fund	OCT
Tura Capital Global Small & Mid Cap	DEC

Mortgages	
RAM Australia Credit P	JUL

Mortgages Aggressive	
Zagga CRED Fund	OCT

Non Investment Grade Debt	
PIMCO Tactical Opportunities	MAR
PIMCO Private Diversified Lending Fund	SEP

Unconstrained Fixed Income	
Capital Group Multi Sector Income Fund (AU)	JUN
Affluence Income Trust	JUL
Bentham Global Opportunities Fund	
JPMorgan Income Active ETF (Managed Fund)(Hedged)	
PEP Capital Solutions Pathway Fund	
Realside Capital Opportunities Fund	
Stropro Global Income	
Oceana Fixed Income Feeder Fund 1 A	AUG
ALC Global Credit Fund Main	NOV
Betashares Geared Lg AUSGovtBdFd(hdg fd)	DEC
Betashares GearedLgUSTrsBdFd-CcyH(hdgfd)	
Betashares GearedShrtAUSGovtBdFd(hdg fd)	
BetasharesGearedShrtUSTrsBdFdCcyH(hdgfd)	

Unlisted and Direct Property	
Spire Oaktree Special Opps (AUD) Hdg	JAN
Riverton Forum	MAR
Spire Oaktree Opps XII (USD) Fst Cls	MAY
MA Marina Fund	JUN
Spire US Data Centre Colocation III(AUD)	OCT
Elizabeth Street (Brisbane) Fund	DEC

Source: Morningstar.Notes: Data excludes: Morningstar classified "obsolete" funds, multi asset funds, and miscellaneous funds that could not be reclassified to other sectors.

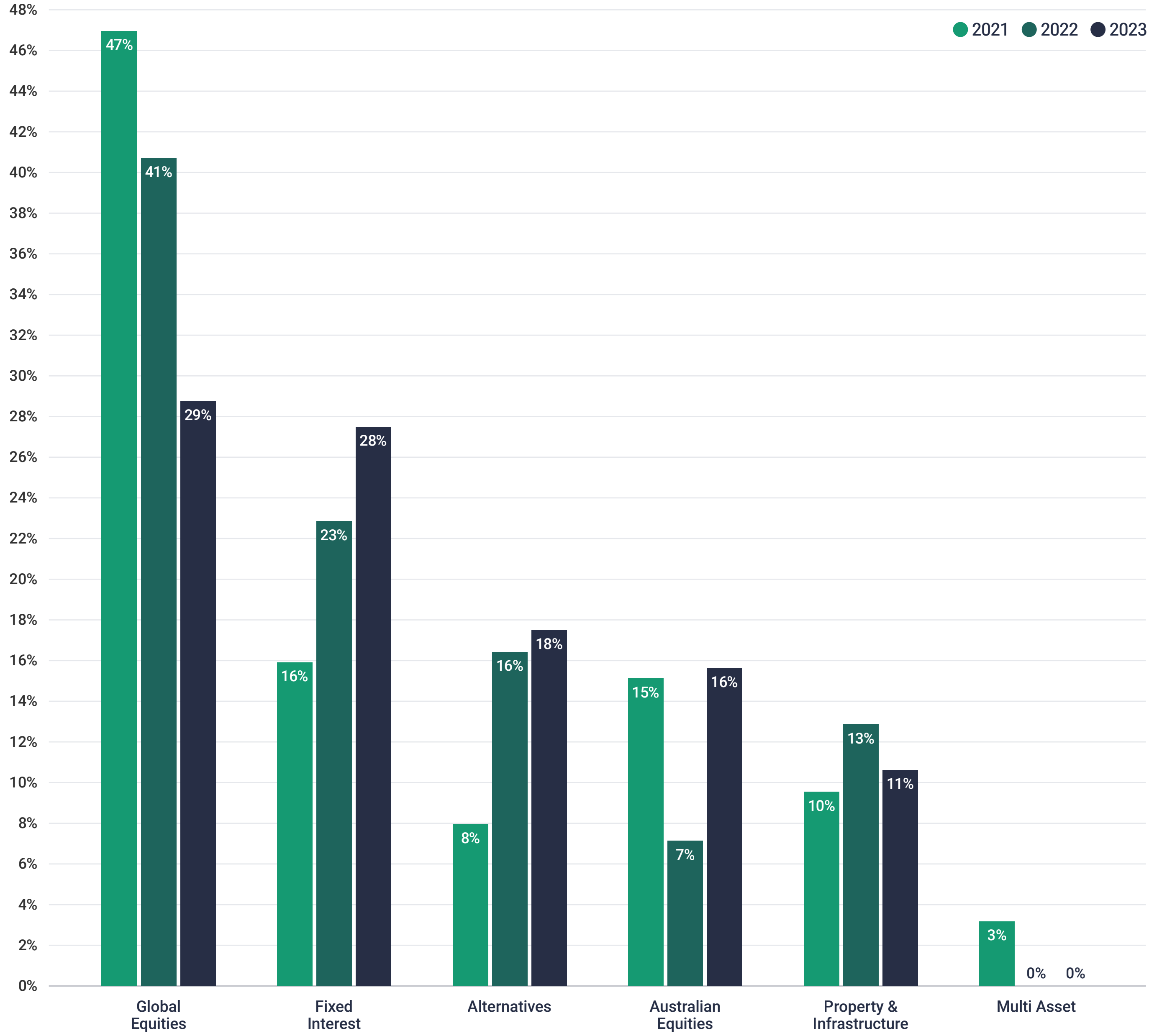
2023 product launches by asset class

As noted in previous years, the market as a whole for pooled investment products (ex multi-asset products) has an aggregated "asset allocation" akin to a mix between a multi-asset Balanced fund and a multi-asset Growth fund. So, the degree to which the % breakdown of product launches by asset class in a given year deviates from system-level asset allocation indicates asset class momentum, either positive or negative, at least in the eyes of those paid to get it right (fund manager Heads of Product / Distribution).

CHART 4.11

Product launches by asset class, 2023 vs 2022 & 2021 (n=160)

Source: Morningstar. Data period is 1 year to December 2023. Note: multi asset funds were included in 2021 analysis but excluded from 2022 & 2023 analysis.



2023 product launch results and analysis

The below comparison suggests that in aggregate, and from a business perspective, those who launched products in 2023:

- are tempering their recent strong optimism about Global Equities
- have ceased being strongly pessimistic about Australian Equities
- have become very interested in Fixed Interest, and
- are becoming slightly more interested in Alternatives

TABLE 4.2

Results for 2023 (both stand-alone and compared to 2022 and 2021)

Asset class	Results for 2023	Comparison Previous year/s	Product launcher's verdict on the asset class
Australian Equities	16% of recent product launches versus 22%* of a hybrid multi-asset Balanced/Growth fund.	This represents more than a doubling from 2022 (7%).	Strongly Bearish in 2022 reversing/trending back to Mildly Bearish in 2023.
Global Equities	29% of recent product launches versus 25%* of a hybrid multi-asset Balanced/Growth fund.	This represents a significant decline from last year (41%), which in turn was a decline on the year before (47%).	Retreating to Mildly Bullish in 2023 after two Strongly Bullish years in 2021 and 2022.
Property & Infrastructure	11% of recent product launches* versus 12%* of a hybrid multi-asset Balanced/Growth fund.	This represents a mild decrease from last year (13%).	Neutral in 2023 as was the case in 2022.
Fixed Interest	28% of recent product launches* versus 23%* of a hybrid multi-asset Balanced/Growth fund.	This represents a modest increase from last year (23%) following on from a strong increase in 2021 (16%).	Continued positive momentum to Bullish in 2023, up from Neutral in 2022.
Alternatives	18% of recent product launches* vs 19%* of a hybrid multi-asset Balanced/Growth fund.	This represents a mild increase from last year (16%).	Neutral in 2023 up from slightly bearish in 2022.

**Recent product launch asset allocation has been rebalanced after excluding "Multi-Asset" and "Other". Asset allocation of a multi-asset hybrid Balanced/Fund taken as the midpoint of Lonsec's Strategic Asset Allocation for its Balanced and Growth portfolios after excluding Cash and rebalancing the remaining asset classes.*

Chapter insight

CASE STUDY

Thematic ETFs: Banking on the big ideas of the future

ETFs have been an investor mainstay for more than a decade, but the way advisers and their clients are approaching them is changing. As investors look to cash in on the themes of the future, recently launched ETFs offer promising new pathways.

CHAPTER INSIGHT PROUDLY SPONSORED BY:

GLOBAL X

Exchange-traded funds (ETFs) have long been an investment vehicle of choice for both advisers and their clients, especially those looking to get exposure to specific themes without picking an individual winner.

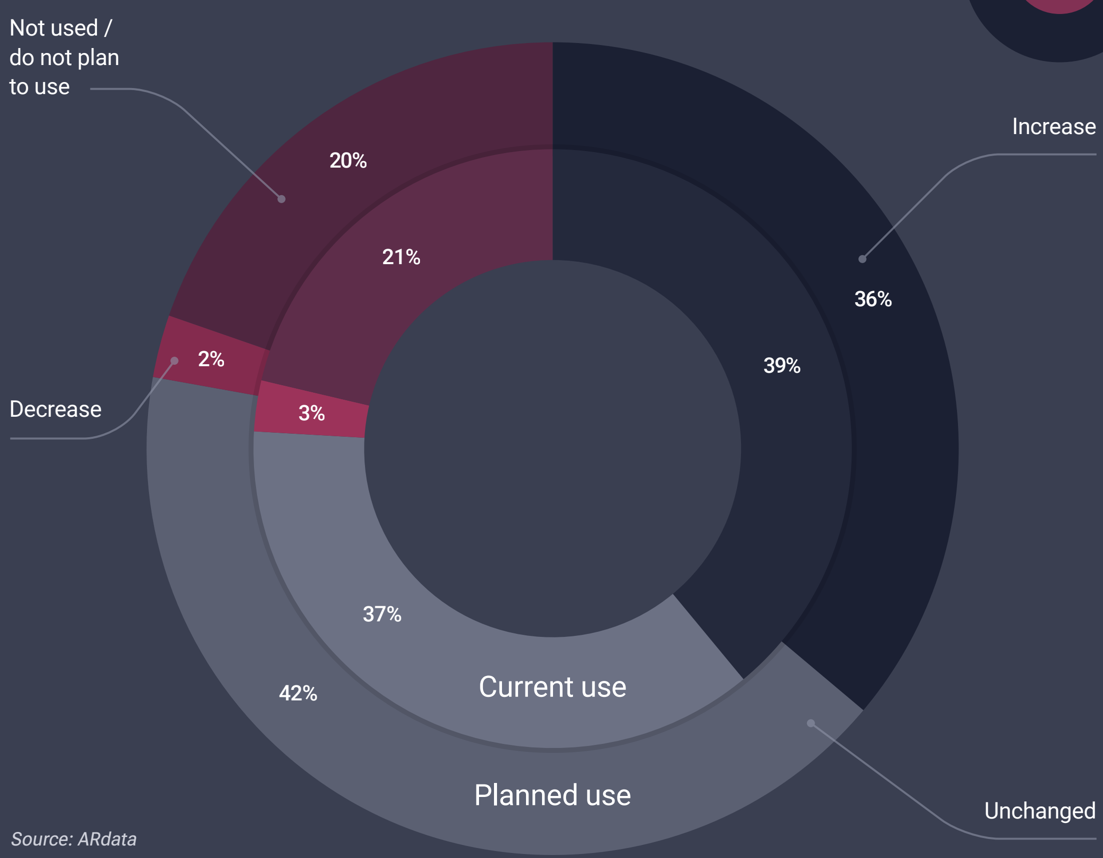
Insights from our *Landscape Report* show that appetite has continued, with 78% of advisers planning to either increase or maintain their use of ETFs.

More recently, advisers have been using ETFs to tap into innovative, transformative trends, and asset classes that have only exploded onto the scene in the past five years. Take for example Bitcoin, artificial intelligence (AI) and semiconductors, which were both foreign concepts not long ago, but now have investors scrambling for exposure. While ESG as a theme has declined, opportunities in commodities and AI have increased, and passive investing trough ETFs continues to boom.

CHART 4.12

Advisers planned and current ETF use

Source: ARdata



Source: ARdata

Australians have a familiarity to commodities, with mining the biggest contributor to the country's exports, at 62.5%. In late 2022, Global X launched the highly successful Copper Miners ETF (WIRE) and its highly topical Uranium ETF (ATOM).

Private wealth adviser, Amanda Graham, from Shaw and Partners, said what a client is looking for in an ETF has rapidly evolved, as providers broaden their offering.

"Initially, ETFs were perceived as a quick way to give clients broad global equities exposure, but now clients are really leading the conversation and telling both advisers and the market where they see the biggest potential," she said.

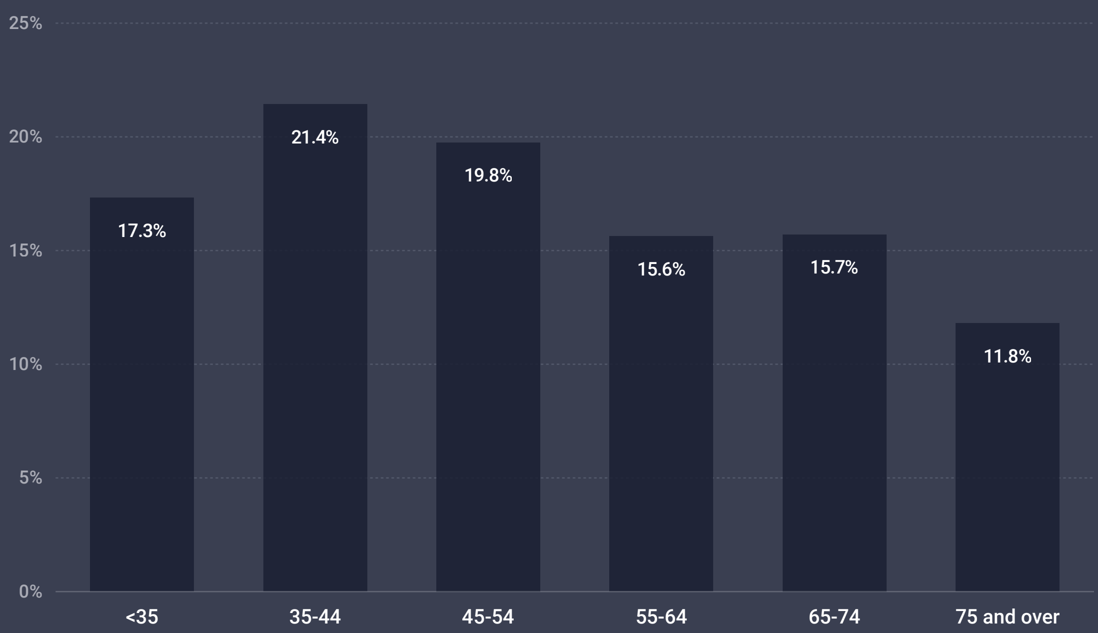
"Conceptually, our clients see how AI is evolving in real-time, with everything from healthcare advancements to productivity improvements, and they want to capture that potential and benefit from it in more than one way," Ms Graham added.

The adviser's comments correlate with Landscape Report research, which shows 17% of Australians – or 3.5 million people – are seeking exposure to AI.

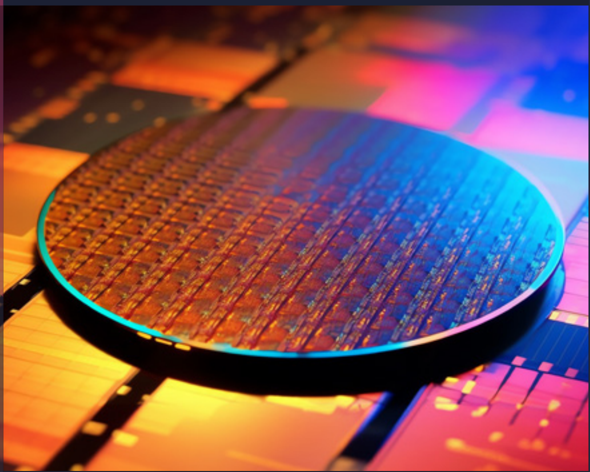
CHART 4.13

Investor interest: The emergence of AI

Source: ARdata



Global X has been quick to notice the trend and offers investors a chance to cash in on AI through its Global X Artificial Intelligence (GXAI). The interest is across all age demographics, showcasing the ubiquity of Artificial Intelligence in such a short timespan.



AI could contribute roughly $16 trillion to the global economy in 2030 and the firm launched GXAI in April to help investors tap into the market.[1] This interest is evident in the 3,000% rise in the value of Nvidia over 5 years - the $4.6 trillion AI darling with a market capitalisation that far exceeds the whole value of Australia's superannuation system.

GXAI aims to track the performance of the Indxx Artificial Intelligence & Big Data Index, which covers companies set to benefit from AI and those producing AI-related hardware.

Source: 1. PWC and World Economic Forum

The Australian ETF and its investors can leverage the expertise of Global X's history in this space with its US parent already launching an AI ETF back in 2018.

Global X has similarly capitalised on future-focused investor demand with its FANG, Global Robotics and Gold ETFs, the latter of which has been one of its key products of choice.

As clients become more discerning and focused on the future, Ms Graham said she expects thematic investing will become more prominent.

"Younger clients in particular have a desire to stay ahead of the curve and be early adopters. They are looking at exposure into areas such as AI or for many, investing in line with their core values, carbon reduction focused companies as an example," she said. "At the same time, there's a growing awareness of stock-specific risk in these promising new investment areas, so ETFs may offer the right balance."

5.0

Life Insurance

> *The Australian life insurance sector has faced a significant decline in new business, experiencing a 44% drop from 2018 to 2023. However, recent data shows potential for recovery, with a 10% increase between 2022 and 2023.*

There is a foreseeable path back to at least $500M in new business, volumes that were being written only 6 years ago. This was just before the Life Insurance Framework (LIF) kicked in and the risk adviser exodus began.

With life insurers and the advice profession temporarily paralysed by what was playing out, and the number of new lives[1] insured decreasing from 103,000 in 2018 to 44,000 in 2023, insurers have had to realise they needed to reset and adjust to the new paradigm

In the last 2 years, satisfaction levels as rated by advisers (n = 938) for insurers have rebounded, creating a conducive environment for growth.

The stabilisation of financial adviser numbers presents a critical opportunity to strengthen support systems further. Enhancing adviser relationships and technology efficiencies can improve product penetration and customer satisfaction, essential for achieving new business growth targets.

Note: 1. New lives insured = Individual Advised, Death per APRA.

57%

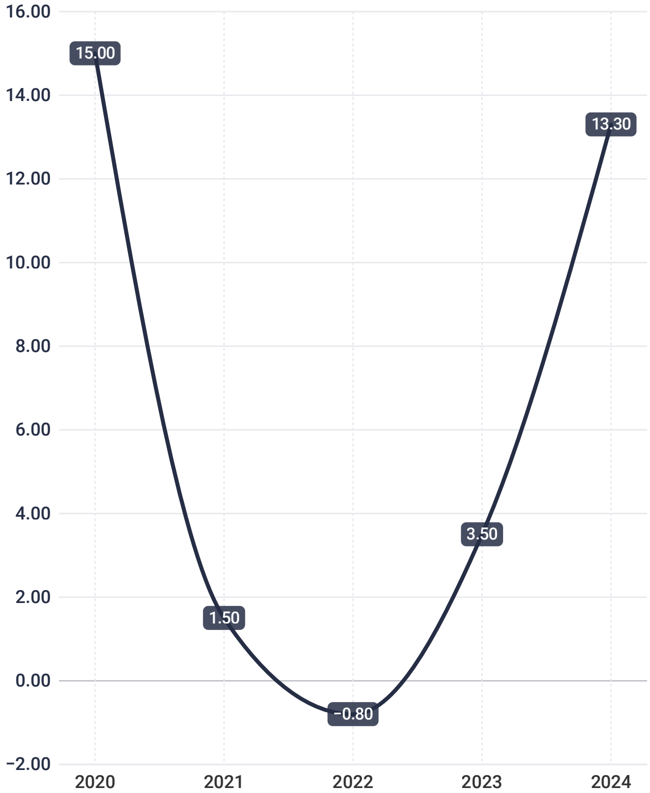
Decrease in the number of new lives insured in the past 5 years

The path back to at least 100,000 new lives insured through retail requires a collaborative approach across the industry

CHART 5.1

Overall satisfaction (aggregated NPS of active life insurers)

Source: ARdata. Note: Active life insurers include AIA, Clearview, MetLife, MLC Life, Neos Life, OnePath, PPS Mutual, TAL, Zurich. Data from 938 advisers and 2,538 ratings and reviews



If the life insurance industry and the advice profession can unite around a single target, strategies and investments can be made whereby a policyholder is profitable for both the adviser and the insurer. This is predicated on an underlying assumption the regulatory environment stays within the parameters that are currently in play and live.

This will be driven by several key factors:

1. Utilising data analytics and personalisation for advisers and their clients.
2. Improving service levels, underwriting processes, and adviser satisfaction.
3. Leveraging rapid advancements in technology, including AI.
4. Enhancing referral programs between risk specialists and holistic advisers, with the assurance the risk specialists have the capability and capacity to scale.
5. Uniting the insurance industry behind education initiatives for the Australian public, not dissimilar to the success achieved by industry super funds.
6. Expanding health and wellness programs.
7. Capitalising on opportunities presented by the Quality Advice Review (QAR).

A robust life insurance sector is crucial as it can alleviate pressures on the pension system and the health sector, both of which will be facing their own funding challenges.

The health sector, in particular, is grappling with underfunding issues due to an aging population and rising cancer rates among younger individuals. By revitalising the life insurance sector, we can contribute to mitigating these broader systemic pressures, ultimately benefiting consumers and the community at large.

> *"Constantly working with insurers to enhance our new business processes has really helped us write larger quantities of profitable risk business, all whilst making the process far more seamless for our clients. The key is working closer with the insurers to gain these efficiencies that benefit all stakeholders, advisers, insurers and clients."*

Kris Mason,
MBS Insurance

> *"I'm really optimistic about risk advice in Australia. I know we've faced some tough challenges as an industry, but getting back to $500 million in new business is admirable yet achievable. It's going to take a concerted effort from all insurers, advisers, and risk specialists, with a strong focus on efficiency, no matter what the regulators or government decide to do."*

Phil Thompson,
Skye Wealth

Net Promoter Scores (open and closed insurers)

Insurers are awake to the challenges that have beset the profession and have started to improve their proposition.

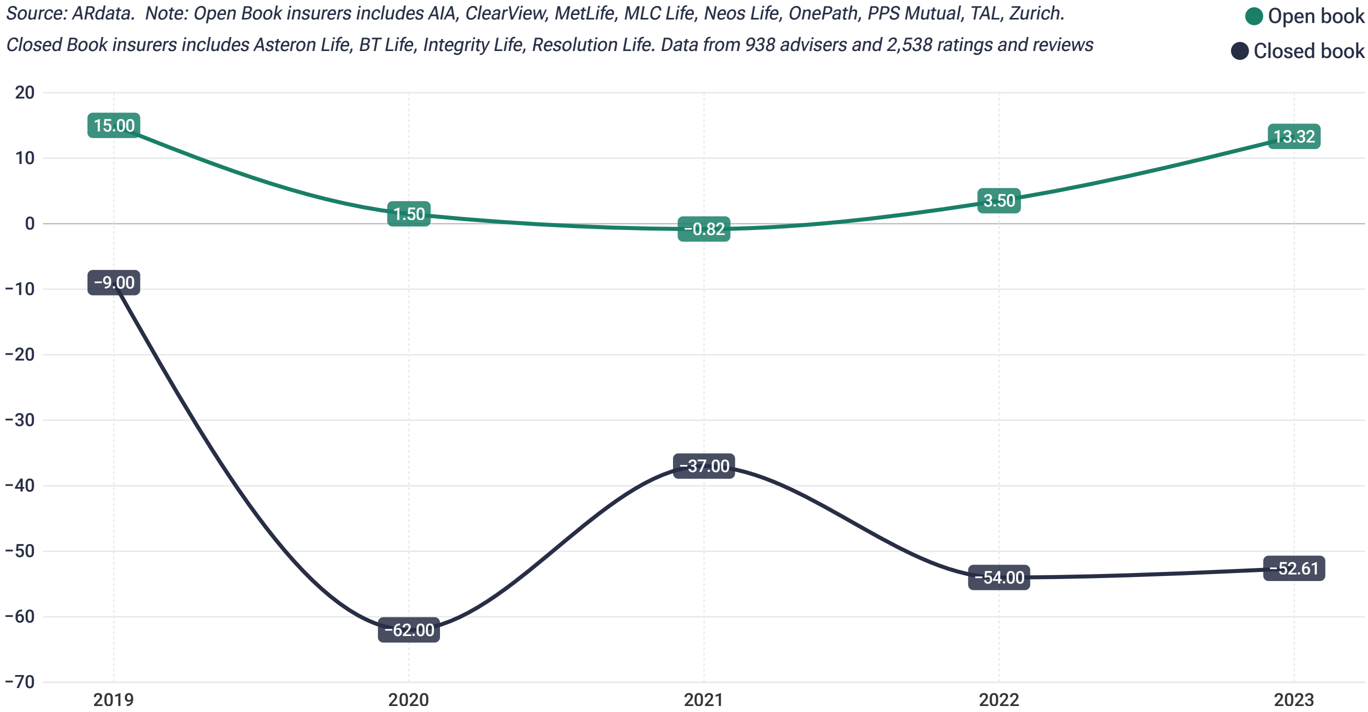
Insurers and advisers were presented with service challenges from 2020-2022 with Covid, compounded with MLC Life experiencing technology issues and Integrity Life exiting. These incidents and what could only be described as a black swan event (ie Covid) post LIF and a Royal Commission, created the melting pot for change the insurers needed to face.

As the proportion of new clients with open insurers grows relative to old clients with closed insurers, customer satisfaction will naturally improve.

CHART 5.2

Average Insurer NPS

Source: ARdata. Note: Open Book insurers includes AIA, ClearView, MetLife, MLC Life, Neos Life, OnePath, PPS Mutual, TAL, Zurich. Closed Book insurers includes Asteron Life, BT Life, Integrity Life, Resolution Life. Data from 938 advisers and 2,538 ratings and reviews



Adviser satisfaction and category ratings

Data from advisers this year was widespread from pure risk writers to low to moderate risk writers.

The 938 valid adviser responses represented 72% of all advisers, who participated in the survey. These advisers left 2,538 quantitative ratings (1-5 or not applicable in the claims category) with every adviser required to leave a qualitative review to justify their rating.

PPS Mutual (with 71 adviser reviews) has been incrementally and steadily growing as it has initially focused on the professional services market, allowing it to maintain high service, niche pricing and underwriting criteria, and simple to use technology.

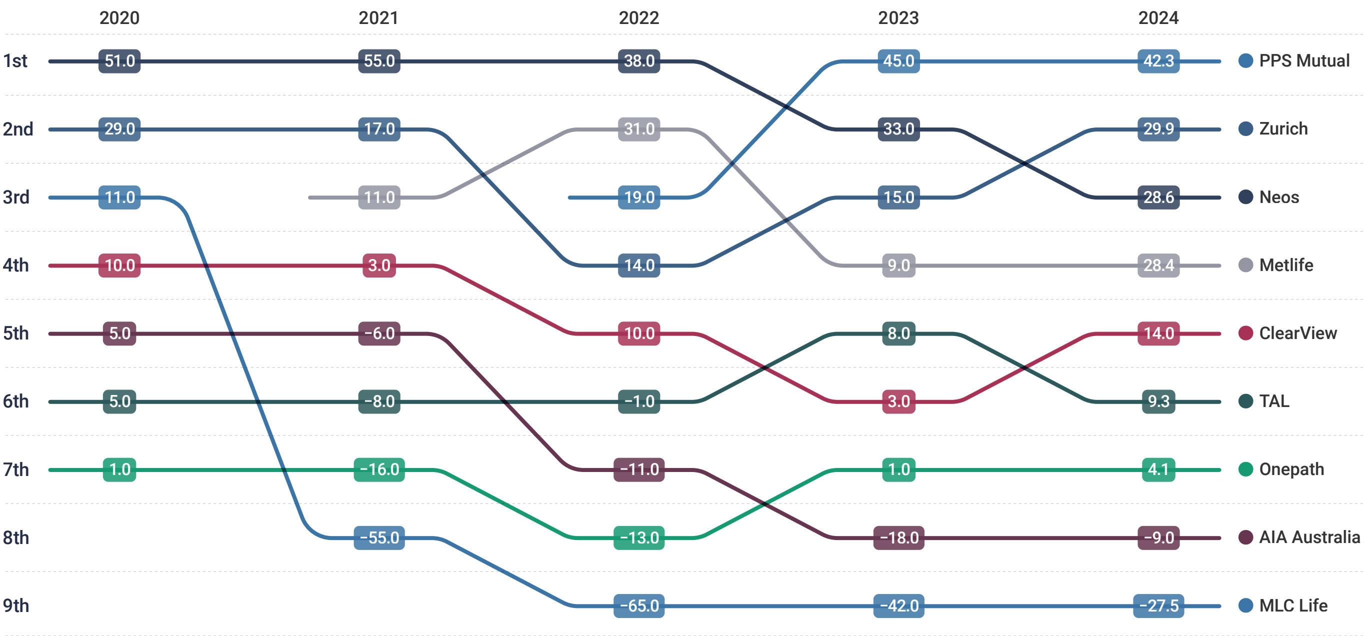
Zurich (371), following significant investment into the adviser experience, has rebounded to levels from 5 years ago after managing its OnePath acquisition.

Neos (322) has maintained its strong standing, as it became more of a mainstay for advisers, who had been trialling them as a “new entrant”. The Encompass product issued by MLC Life and launched on the Neos platform could signal a shift in insurer collaboration.

CHART 5.3

NPS ranking by insurer (2020 – 2024)

Source: ARdata



Category ratings

As Adviser Ratings’ commits to the growth of the retail life sector and its participants, we’ve introduced several more categories that both advisers and consumers consider when placing business with an insurer. Based on language model analysis of category ratings and qualitative reviews, advisers highlighted platform functionality and ease of underwriting (including pre-assessment) as the key factors shaping their decision-making. This is where the most efficiencies can be gained for insurers in becoming more attractive to low to moderate risk writers, who may not have the same relationship with an underwriter than those who write substantial risk volume.

CHART 5.4

Top 5 life insurers by online service quality and adviser support

Source: ARdata

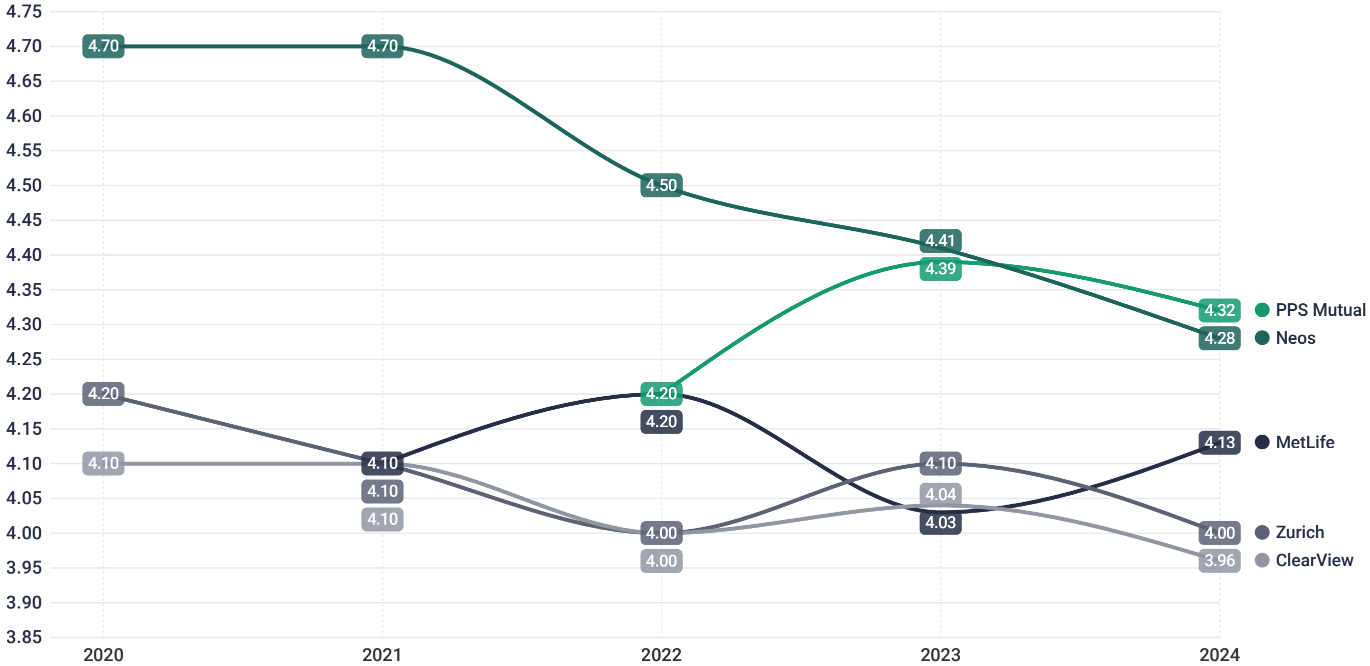


CHART 5.5

Top 5 life insurers by claims handling

Source: ARdata

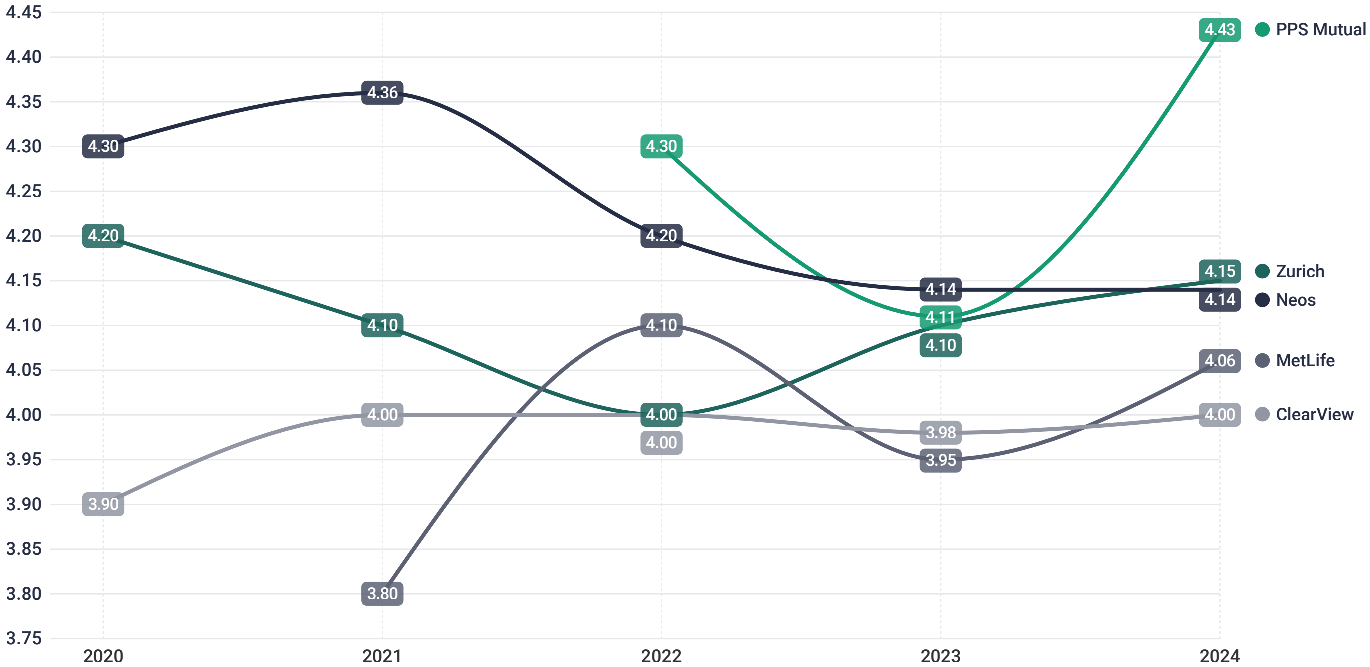


CHART 5.6

Top 5 life insurers by competitiveness

Source: ARdata

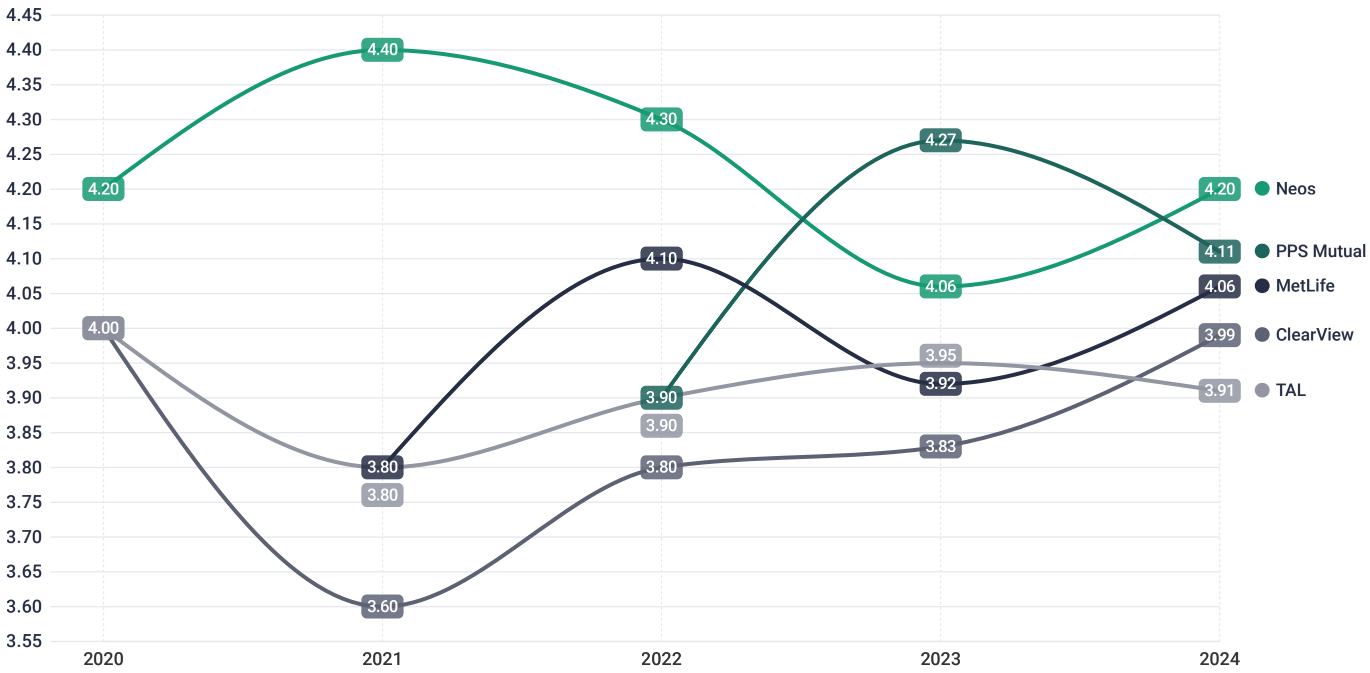


CHART 5.7

Top 5 life insurers by comprehensiveness

Source: ARdata

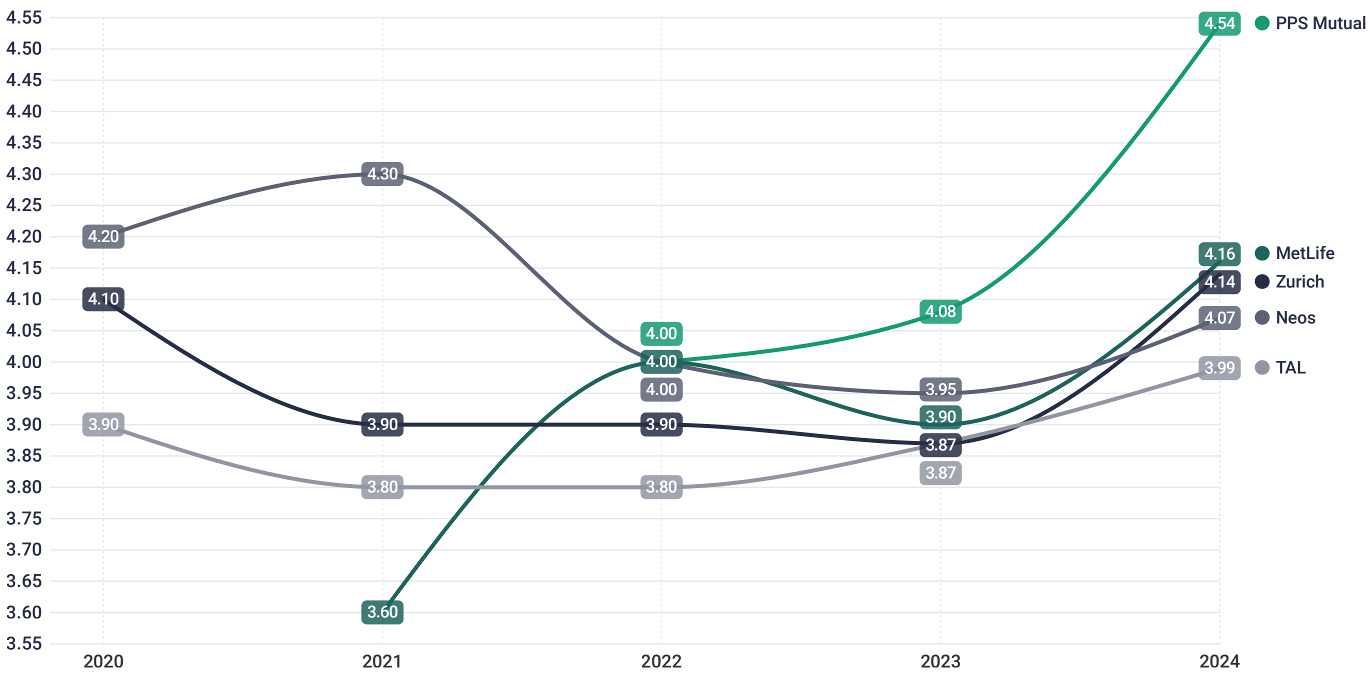


CHART 5.8

Top 5 life insurers by ease of underwriting

Source: ARdata

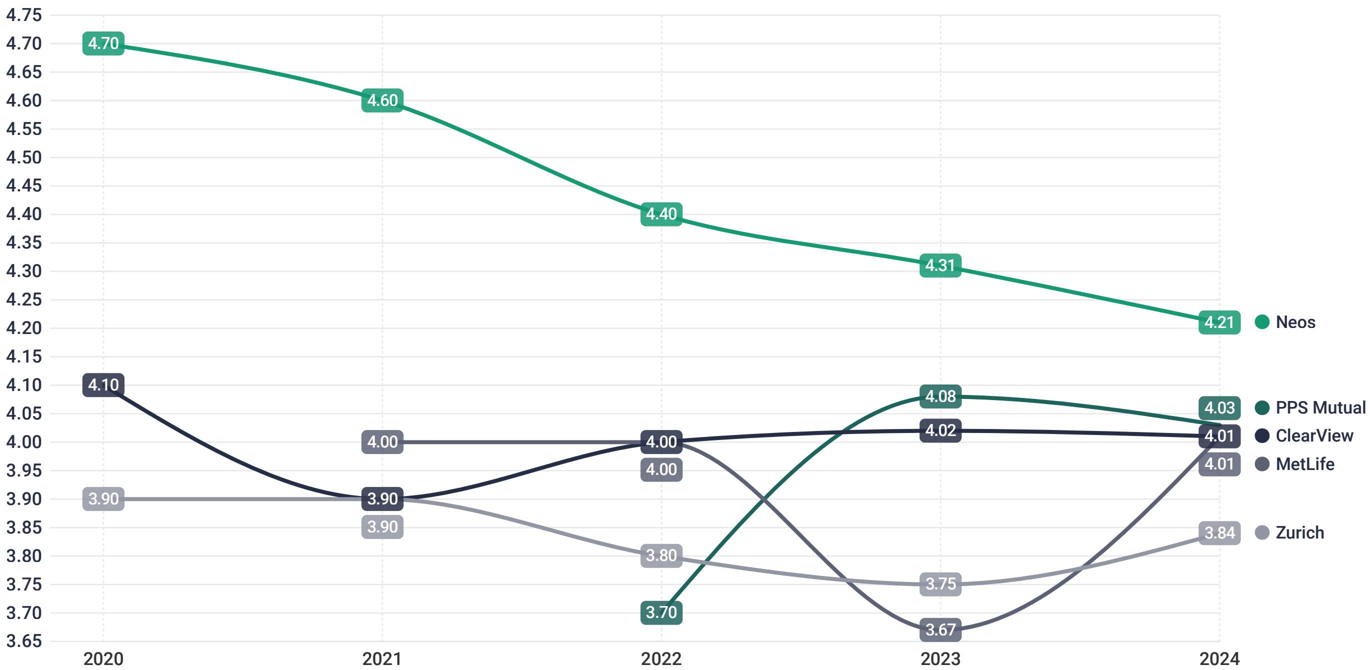


CHART 5.9

Top 5 life insurers by platform functionality

Source: ARdata

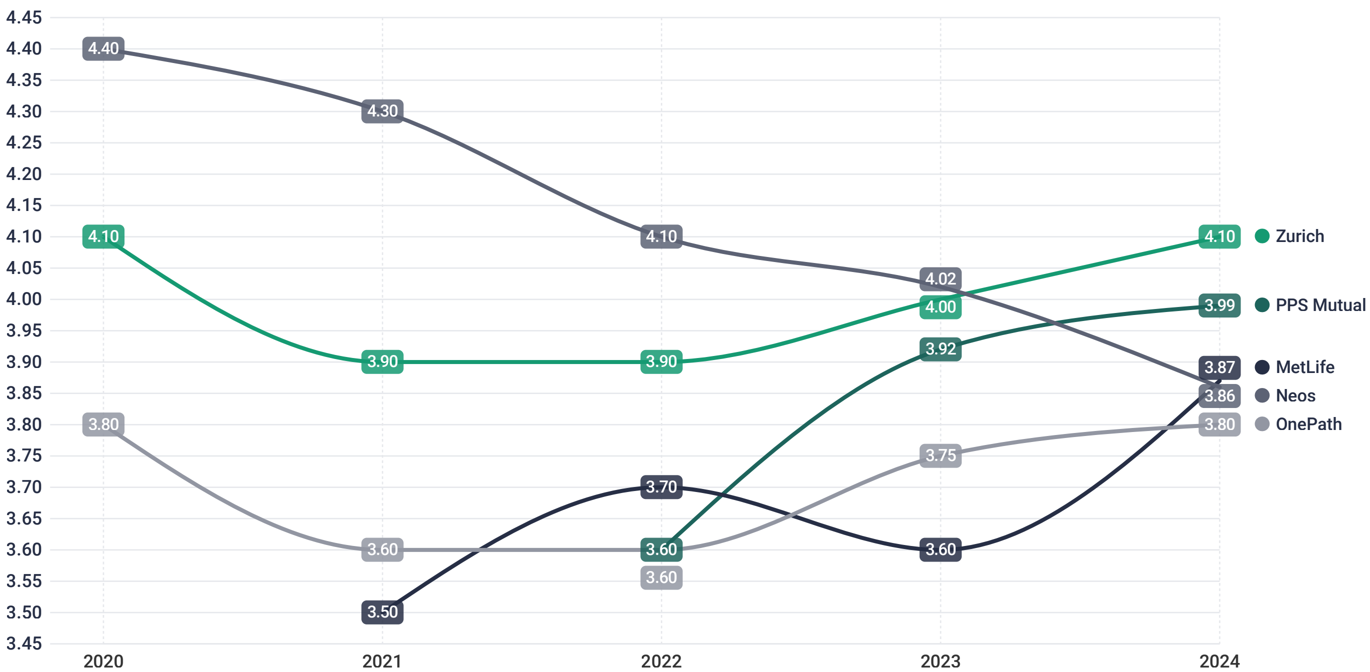
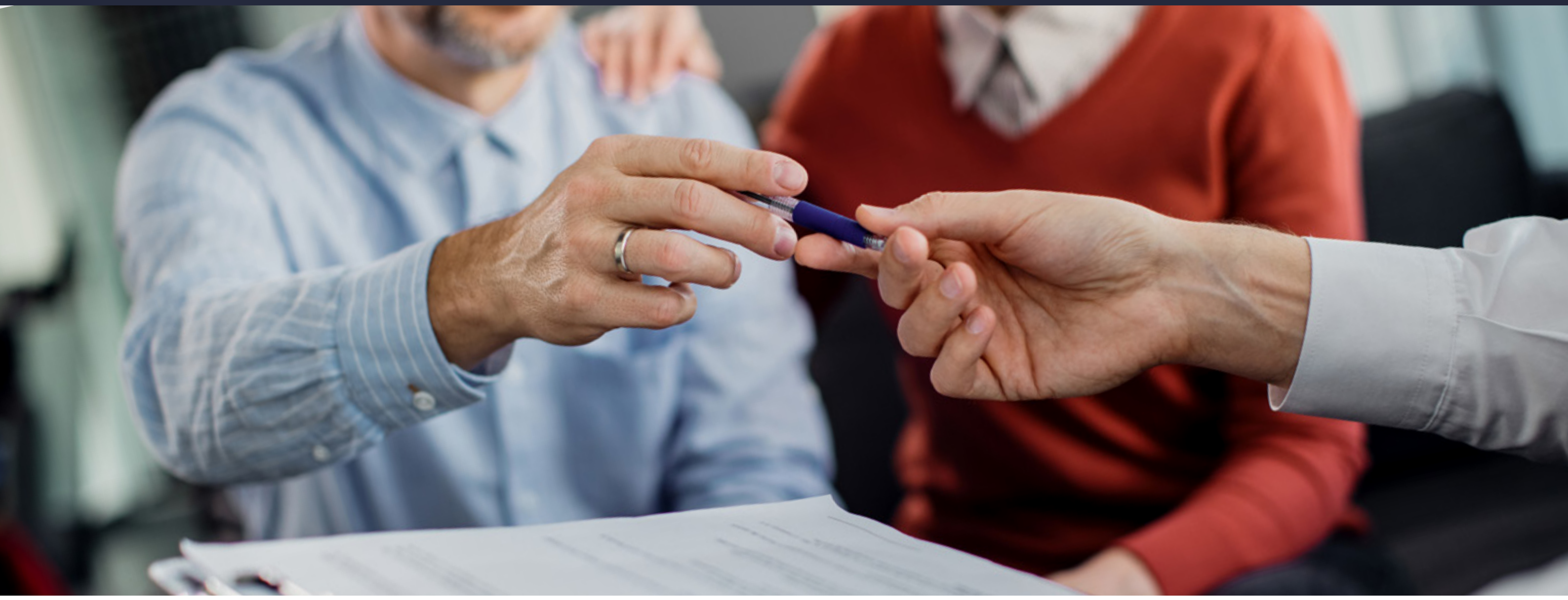


CHART 5.10

Top 5 life insurers by 2024 contemporary categories

Source: ARdata



Retail life insurance market landscape

Inforce premiums

Despite the decrease in new business, retail inforce premium has remained steady. This has been driven by repricing, particularly in income protection (or individual disability income insurance (IDII)) and rising bond yields.

This has generously protected the life insurers whilst the reset and reinvestment has been occuring.

4.20%

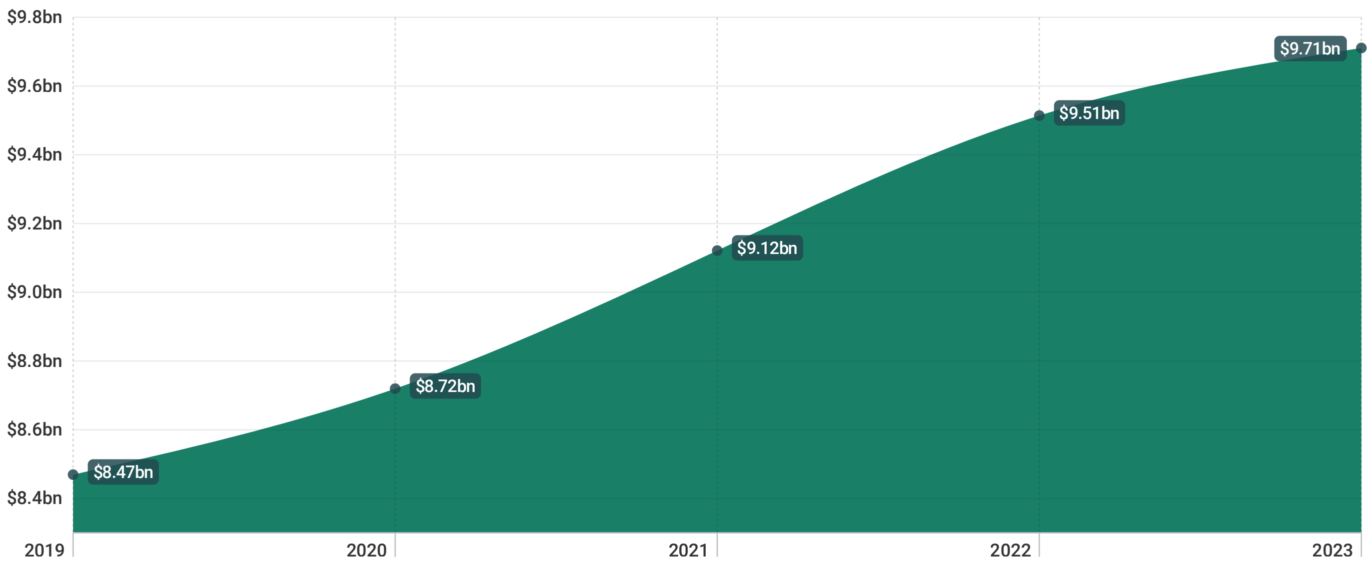
10 Year Bond Yield

Insurers haven't seen bond yields above 4% since 2011 boosting profitability in a tough market

CHART 5.11

Total retail inforce premiums change over time ($bn)

Source: APRA



Annual new business and policy lapses

The retail life insurance industry's new business saw a significant decline of 44% since 2018, dropping by $237m.

Lapse rate increases in the last 2 years are indicative of IDII premium increases and and either advisers shopping for better priced coverage or consumers opting to let their policies lapse on the back of these increases.

Following this pricing reset and a drive by insurers to invest in adviser efficiencies, green shoots are just starting to appear in new business written, albeit from a low base.

The $500m target will primarily be driven by more advisers writing risk – we cover this in detail later in the chapter.

$300M

A turnaround?

Retail life hit $300m in new business in 2023 after dropping to a low of $273m in 2022.

CHART 5.12

Lapse rate as percent of inforce

Source: ARdata

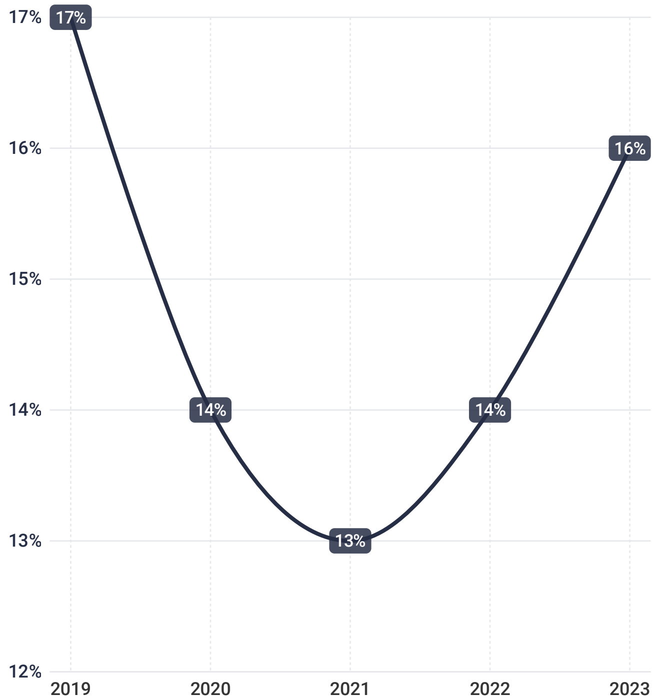
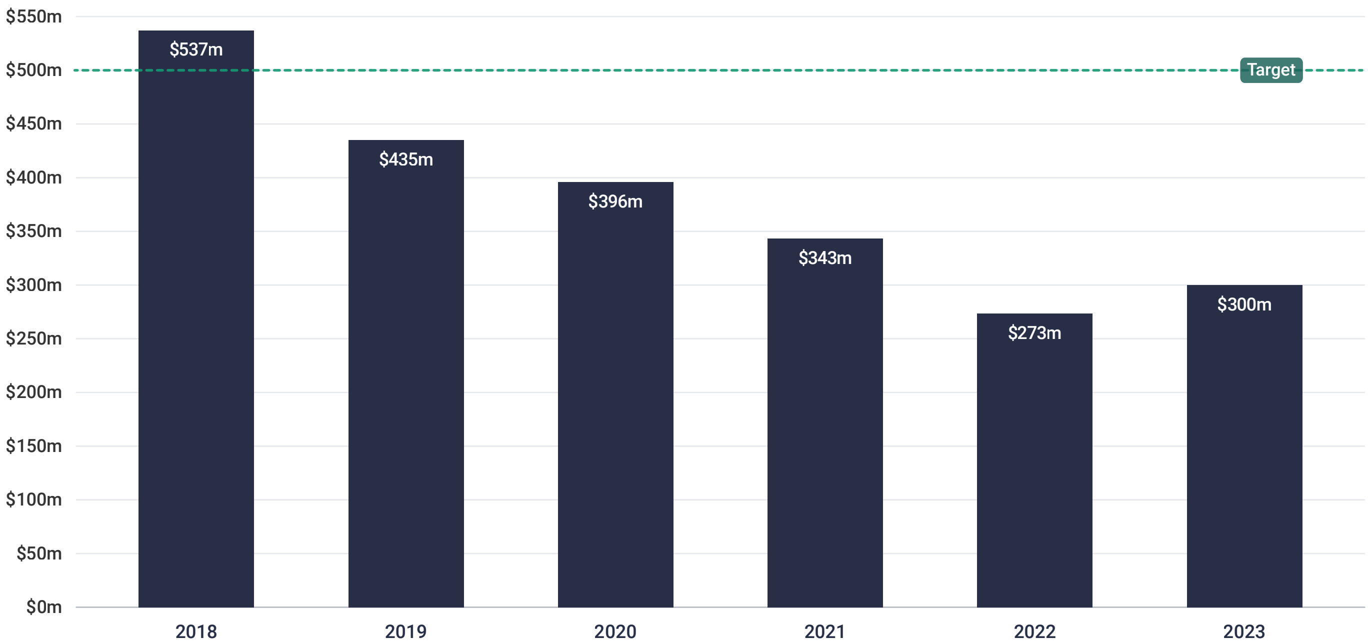


CHART 5.13

New business over time

Source: APRA, ARdata and Beddoes estimates



Premium change by policy type over time

Price stability is crucial for both consumers and advisers, as it ensures predictability and confidence in the life insurance market. A stable pricing environment allows consumers to budget effectively for their insurance needs and assures advisers that the products they recommend will remain affordable and competitive.

In recent years, the industry has faced significant challenges in managing mental health pricing, particularly as it deals with an exposed back book. From 2018 to 2023, Income Disability Income Insurance (IDII) cover has experienced a substantial increase in average premiums, rising by 52%.

IDII is also the priciest insurance for consumers, so the impact has been more substantially felt in terms of the household budget. TPD, accident-only and trauma have seen increases of 59%, 26% and 30%, respectively. Death insurance, the biggest contributor to an insurer's profitability, has seen an increase of 38% over the corresponding period.

A deceleration in premium increase rates will indicate market health improvement, reflecting better risk management and a shift towards a more sustainable, customer-centric insurance landscape. We explore the mental health challenge later in the chapter.

CHART 5.14

Premium change by policy type over time

Source: APRA

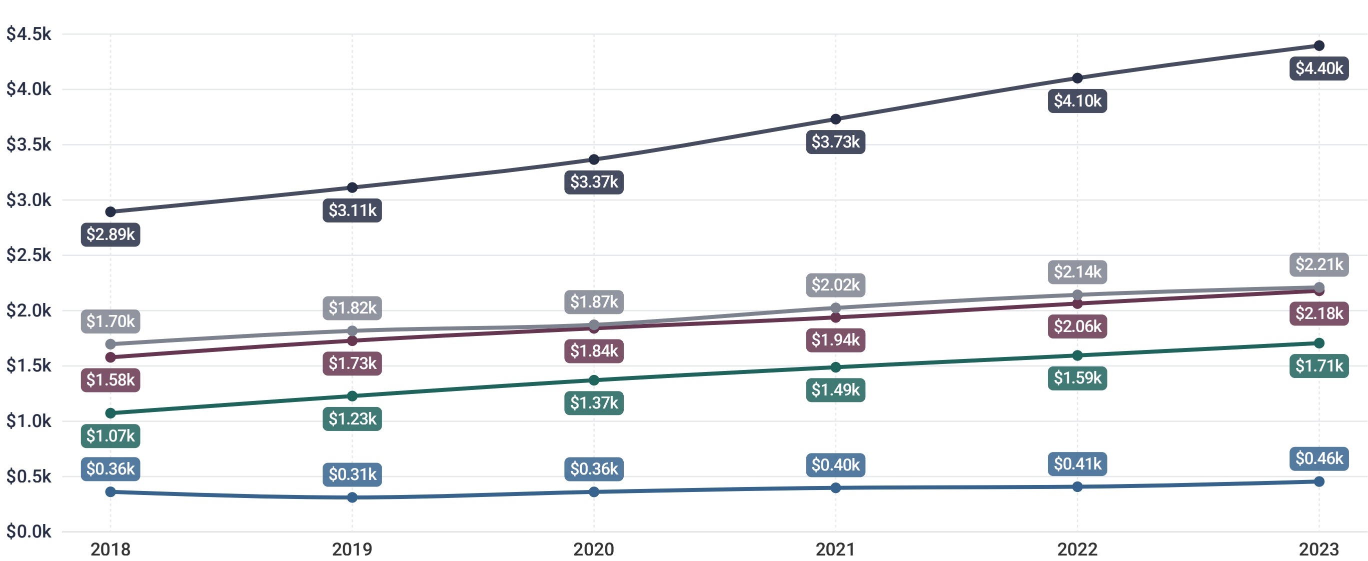
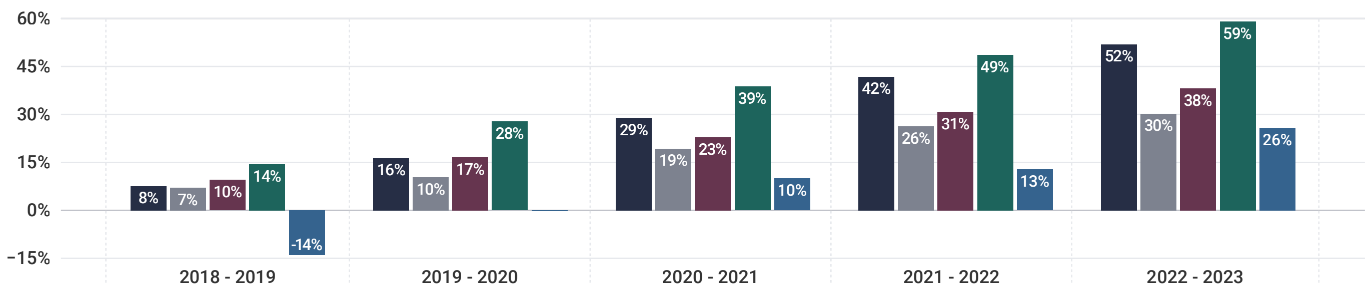


CHART 5.15

Premium change by policy type - YoY Change

Source: APRA



Insurers – lapse rates an indicator of adviser satisfaction

A profitable, well managed insurer benefits not only the individual policy holder, but society, taxpayers, and the health system. The role of the adviser plays the perfect intermediary to ensure clients are well served and insurers are maintaining a product that provides this societal good.

Perhaps, if there is any countenance to the regulatory upheaval (and adviser exodus), the impact of Covid and the repricing of IDII, this pivotal moment has forced insurers to work together alongside APRA to better manage its internal systems, service proposition, data governance and technology framework. Starting the path back to inviting more advisers into writing risk.

Lapse rates have proven somewhat of a good indicator of adviser behaviours. The NPS and category ratings and associated qualitative comments from advisers help insurers to target areas more efficiently within their organisation that can start to reverse the lapse rates they're experiencing. Our "Life Insurance Study" covers this in more depth.

CHART 5.16

Share of New Business (open book insurers)

Source: APRA, 2023 - comparitive data against open book insurers

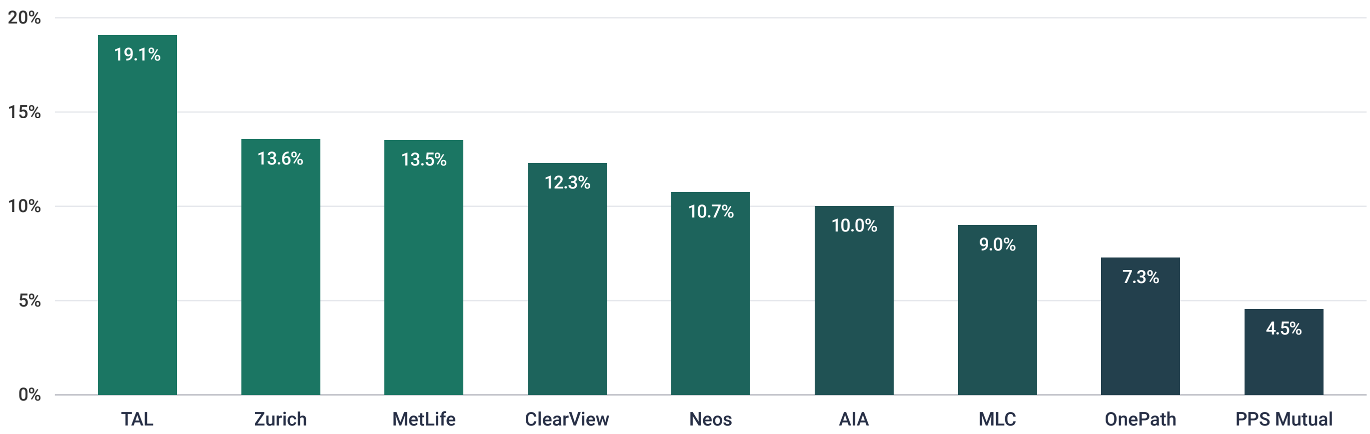
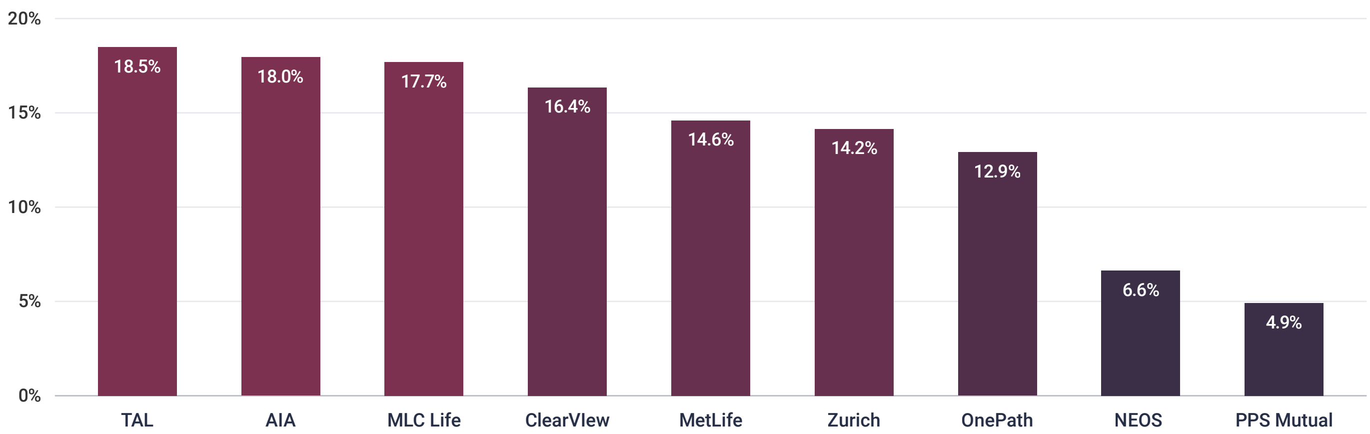


CHART 5.17

Lapse rate (open book insurers)

Source: Beddoes Australia, APRA lapse rate data across all product



Insurers – A commercial conundrum

The current retail in-force premiums on insurers' books are categorised as follows: active personal advice risk advisers, general advice advisers, dormant advisers, and policies that no longer have an adviser ("orphaned policies"). The table shows how the recent changes have impacted the in-force pool across the market, and "who" owns or manages the client or policy holder.

The distribution is as follows:

1. Active personal advice risk advisers:
   69% of in-force premiums ($6,638M)
2. General advice advisers:
   9% of in-force premiums ($911M)
3. Dormant advisers:
   9% of in-force premiums ($914M)
4. Orphaned or unadvised policies:
   13% of in-force premiums ($1,246M)

With unadvised policies lapsing at lower rates than advised ones[1], insurers have managed to effectively soften the blow to their profitability. Lower lapse rates combined with unpaid commissions has in part negated IDII 'mispricing' and mental health claims. Insurers have effectively been benefiting from a "closed book" situation. However, market circumstances have now left the industry without the much-needed adviser to bring new policies through the door.

The Council of Australian Life Insurers (CALI), meanwhile is proposing a simple advice model to address clients' insurance needs, as part of amendments for a new type of adviser suggested by the federal government. Despite concerns from advisers and the advice profession about the proposed qualification levels, active participation by insurers could help address underinsurance issues and better manage their in-force pool. This approach might benefit holistic advisers if it leads to lower premiums and advice fees. However, it could also impact risk specialists who work under a fixed commission payment model, regardless of the complexity of the client.

The value of retail life and the adviser or risk specialist for the consumer is akin to the mortgage broker in evaluating the best cover for prospective or existing mortgage holders. The co-existence of the risk specialist / adviser and the in-house advice model may have benefits across pricing, pooling and participation (especially through tri-partite referral arrangements – insurer, holistic adviser and risk adviser).

Note 1. General Advice advisers may not appear in ASIC's Financial Advice Register

TABLE 5.1

Summary of advisers and inforce premiums

Source: Beddoes Life Insurance Barometer, ARdata.

Category	Inforce premiums (Millions)	Number of advisers
Advisers currently writing risk	$6,638	6600
Dormant advisers	$915	2516
General Advice Advisers	$911	1870
No Advisers (Orphaned Policies)	$1,246	-
Total market	$9,710	10986

Advisers – Risk writers waiting in the wind?

Despite concerns about adviser exodus, especially among risk specialists, the proportion of retail advisers authorised to write risk insurance has actually increased within the remaining adviser pool. This presents an untapped pool from the 6,600 writing today.

$150M

New Business was written by just 532 advisers

Out of the $300M total written throughout 2023

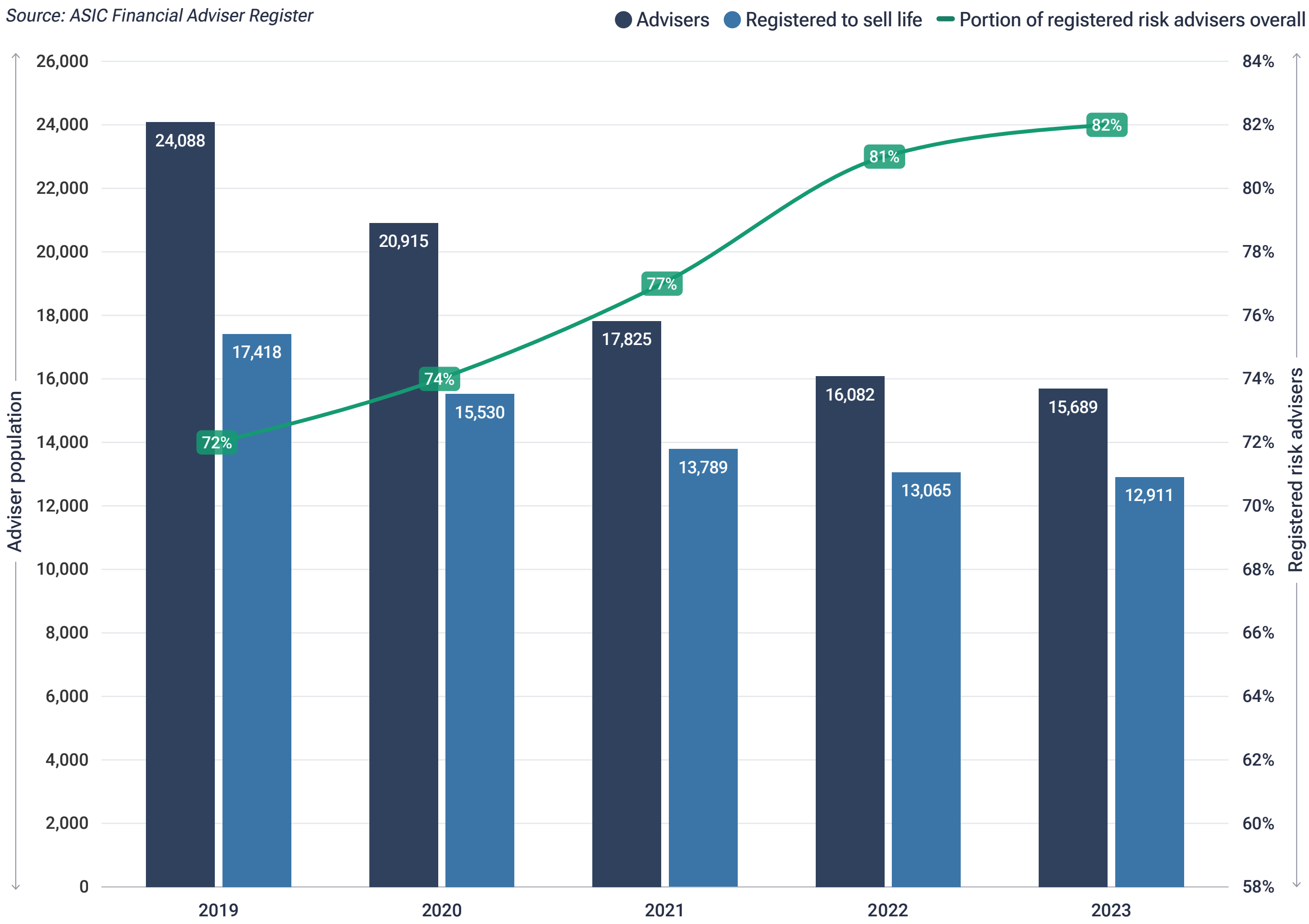
Of Australia's 532 risk specialists, 43% serve a client base with an average age under 45. In contrast, only 20% of moderate risk writers and 11% of non-risk writers have a similar young client demographic.

There are significant opportunities for cross-pollination and referrals among these specialists, particularly for advisers registered to write risk. However, many may not feel comfortable serving younger clients. Conversely, risk specialists with older clientele might seek expertise outside of insurance. We explore this further below.

CHART 5.18

The adviser population

Source: ASIC Financial Adviser Register



The size of the Australian retail life insurance opportunity for advisers

At its core, life insurance is all about insuring people for loss of earnings capacity and large capital costs that can arise from personal injury/illness directly or indirectly. There are reasons to have life cover from the lowest income individuals all the way to the highest income/wealth individuals. Relevance of life insurance carries across the whole population. One of the biggest differentiators on having or not having some form of life insurance is perception of value and risk that individuals have.

Our consumer survey has provided a breakdown of these perceptions of the value of life insurance, advice and willingness to pay for advice, which has enabled a breakdown of the Australian population into the various buckets of opportunity that exist for the life insurance market. There is a bucket of $12 billion we have identified that value advice and insurance. Notwithstanding, that many consumers have coverage in super, the potential underinsurance offered by Group Life, and the impacts of Putting Members Interest First (PMIF) and Protecting Your Super (PYS), creates ample room for the retail life insurance industry to grow.

The assumptions made for the calculation of the aggregate Australian Life Insurance opportunity are:

- The age 18-55 represents the main cohort of prospective new business clients, excluding the 55+ demographic due to the reduced number of income years to insure as well as an average higher net wealth.
- Based on an analysis of over 1,000 new business policies, spanning various age ranges and insurers, the average total policy premium per client assumed is $2,963. This figure was derived from comprehensive advice recommendations that considered the suitability of Life, Total and Permanent Disability (TPD), Income Protection, and Trauma insurance policies for each individual case.

FIGURE 5.19

Breakdown of the Australian population into life insurance market opportunities

Source: ARdata

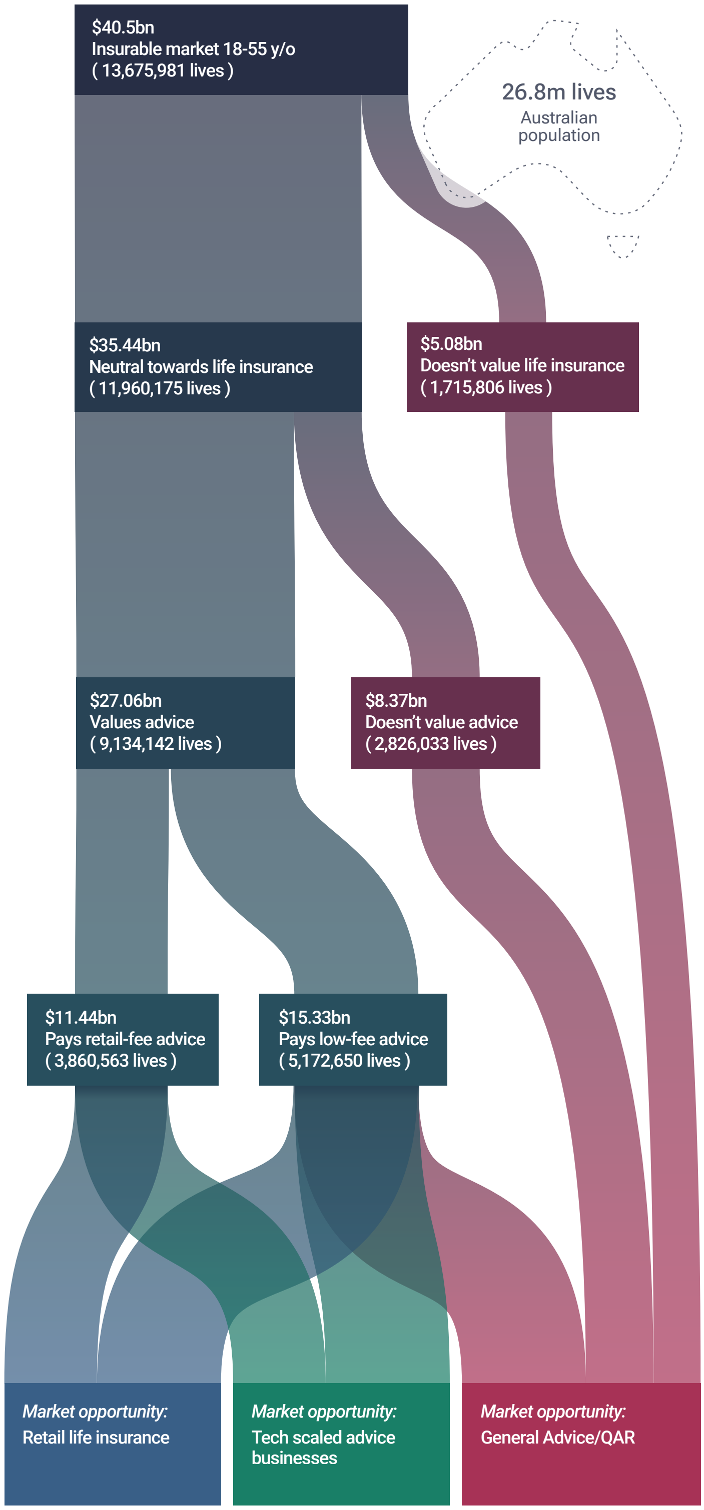


TABLE 5.2

The Role of Advised Life Insurance

Source: ARdata (n = 1,352 consumers) Note: Retail life insurance plays to a specific type of consumer, with differentiators being those with children, earning higher incomes and a willingness to "outsource" their financial wellbeing to an adviser

Characteristic	Life Insurance via Adviser	Life Insurance via Superfund	Life Insurance Direct	No Life Insurance
Importance of Life Insurance	Strongly Agree	Not Sure	Strongly Agree	Not Sure
Interest in Tech	Very Low	Low	Low	Very Low
Financial Wellbeing - Current	Slightly Worse Off	Slightly Worse Off	A Lot Worse Off	A Lot Worse Off
Financial Wellbeing - Future	Less Confident	Less Confident	Not Confident	Not Confident
Digital Engagement	Low	Moderate	Low	Very Low
Age Bracket	Middle-aged	Middle-aged	Older	Older
Views on AI	Guardedly Optimistic	Cautiously Pessimistic	Mixed	Pessimistic
Average Income	$150,000 - $199,999	$75,000 - $99,999	$50,000 - $74,999	<$50,000
Employment	Full-time	Full-time	Full-time	Retired
Financial Position	Comfortable, Can Splurge	Comfortable, Can Splurge	Paycheck to Paycheck	Paycheck to Paycheck
Living Situation	With Partner, Children	With Partner, No Children	With Partner, No Children	With Partner, No Children
Type of Superfund	Unsure	Industry Fund	Industry Fund	None
Emergency Fund Access	$5,000-$10,000	>$10,000	None	None
Financial Information Source	Financial Adviser	News/Media	Financial Adviser	News/Media
Willingness to Pay for Financial Advice (Annual)	$2,500-$5,000	<$500	<$500	<$500

The retail life practice opportunity

Analysis reveals a potential $27 billion insurance premium market for clients under 55, who value advice and life insurance. However, client sensitivity to paying for either the holistic advice element or in some instances the lower risk advice fee (even excluding the commission fees not charged directly to the client), often means this client never takes up retail life. Moreso, if their first ever advice interaction is with a holistic adviser, who also happens to offer risk. Adviser Ratings' Find an Adviser solution shows far lower conversion rates for those seeking risk advice from a holistic adviser than seeing a risk specialist in the first instance.

This consumer cohort represents $15 billion of the $27 billion premium pool.

Successful examples who have waded into this cohort with a clear risk specialist advantage include firms that have managed to make the combined commission / low insurance advice fee model work. Skye Wealth, for instance, charges as little as $330 for advice, making their services significantly more attractive. This has been achieved by investing in the right people, technology and processes, and internal client assessment tools.

The Path to $500M

Embracing Adviser / Practice Growth

- Risk practices can increase referral rates to scaled risk advice specialists and insurers with multiple solutions under one roof.
- With up to 15% of advisers exiting or considering exiting, there is a pipeline of risk books containing up to $1.4 billion of in-force premiums available for acquisition.

Insurer Support

- Life insurers can support their largest risk writers to recruit advisers or assist in referral partnerships, regardless of insurer preference.
- Universal collaboration on education initiatives.
- Reducing insurer underwriting and service costs through ongoing technology and process improvements.
- Introducing active risk advice practices acquisition opportunities and potentially, assist in funding access for these practices.

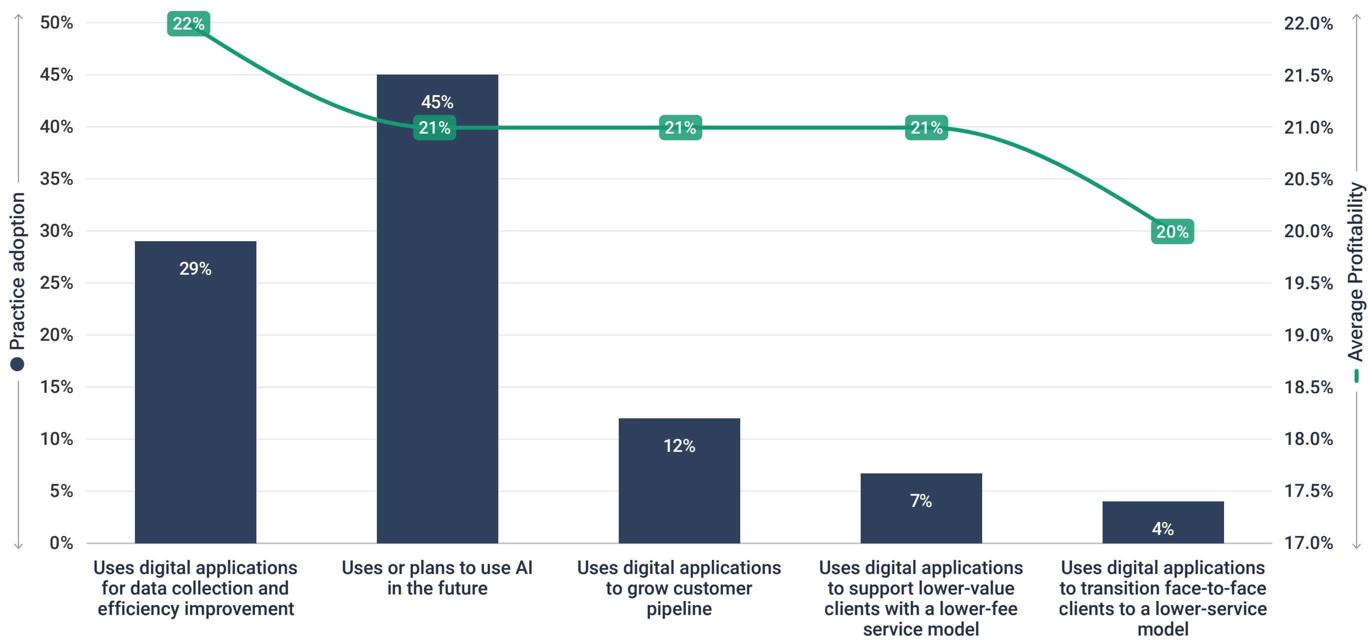
Driving efficiencies through technology adoption

- 64% of advisory practices are already utilising digital applications to enhance efficiency or reduce costs.
- Our adviser survey revealed that practices focused on delivering risk advice are significantly more invested in technology. While only 13% of practices not involved in life insurance expect the biggest change in the coming year to be related to IT solutions, this figure rises to 20% among risk specialists.
- Risk specialists are also leading the way in leveraging AI to boost business efficiency. They are 53% more likely to experiment with AI compared to holistic advisers.
- Technologically savvy advisers, as identified in Chapter 3, are operating at profit margins of 20% or higher, compared to 18% for those less savvy. The most advanced users of technology are achieving margins of 29%, with highest performing practices at 40%.

CHART 5.20

Correlation between technology adoption and profitability in advice practices

Source: ARdata



Quality Advice Review – An opportunity for insurer collaboration?

The Quality Advice Review (QAR) offers life insurers in the direct advice space the chance to provide advice on individual products. However, this approach could present challenges for financial advice practices in terms of relationships and referrals, as insurers consider implementing a simplified advice model. The key will be in how insurers define and implement this simplicity.

The primary challenge of a single insurer simple advice model is the significant variation in underwriting practices among insurers. For example, acceptance rates for applicants with mental health disclosures vary from 36% to 47%, meaning some insurers are 30% more likely to impose loadings, exclusions, or declines.

Insurance pricing is a major factor for advisers in selecting insurers. The diversity in data indicates hesitation among advisers to refer clients to a single product or underwriting terms from a QAR provider.

A successful QAR life insurance proposition may be the integration of multiple insurers' products under one platform. Investment platforms or new players, such as the Neos platform or soon to be launched LifeBid, can offer a unified insurance experience with access to various products and underwriting assessments.

Expanding partnerships can create a higher quality QAR implementation, leading to better advice and consumer outcomes, and greater adoption by retail advisers.

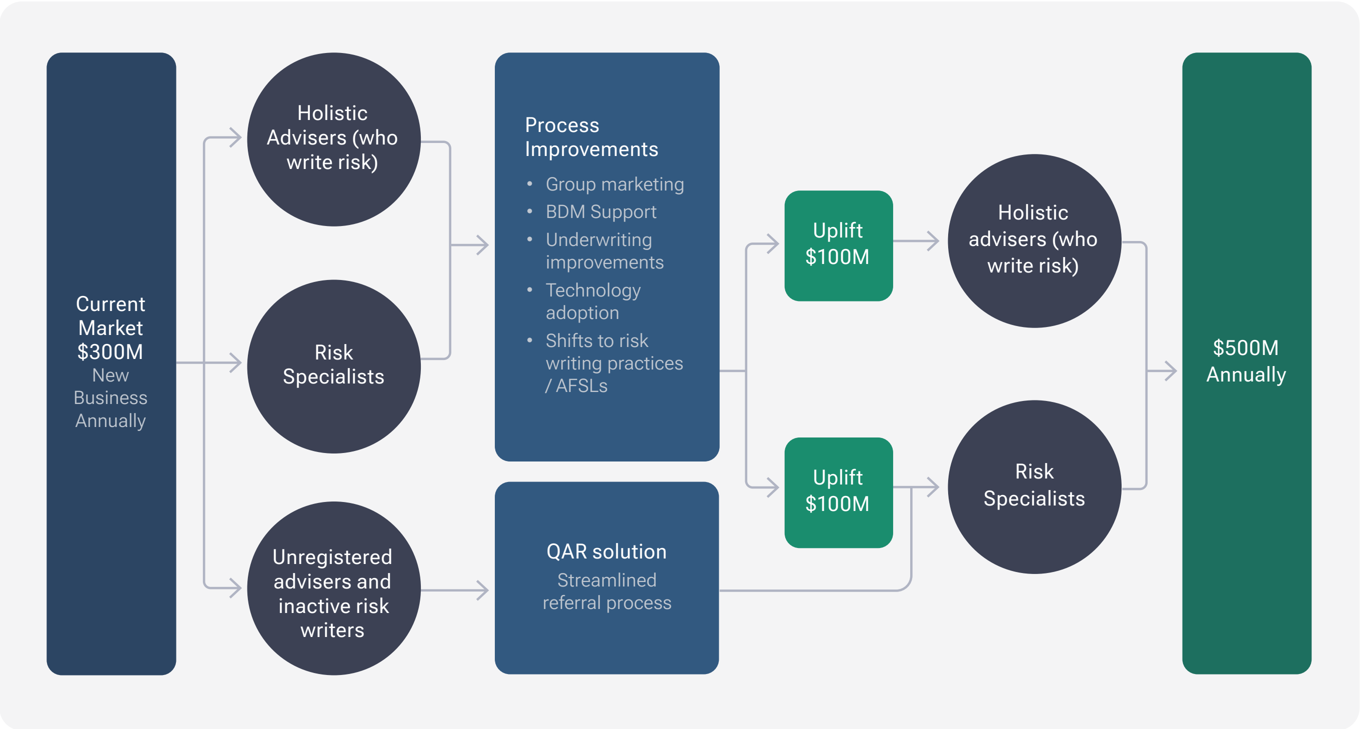
The simple advice model under a unified platform, not dissimilar to the approach being undertaken by multiple industry funds, is a potential QAR implementation, mindful of the complex and/or medical underwriting requirements for many consumers, who would require an adviser.

QAR has the potential to bring more consumers to both insurers and risk advisers through tight collaboration.

CHART 5.21

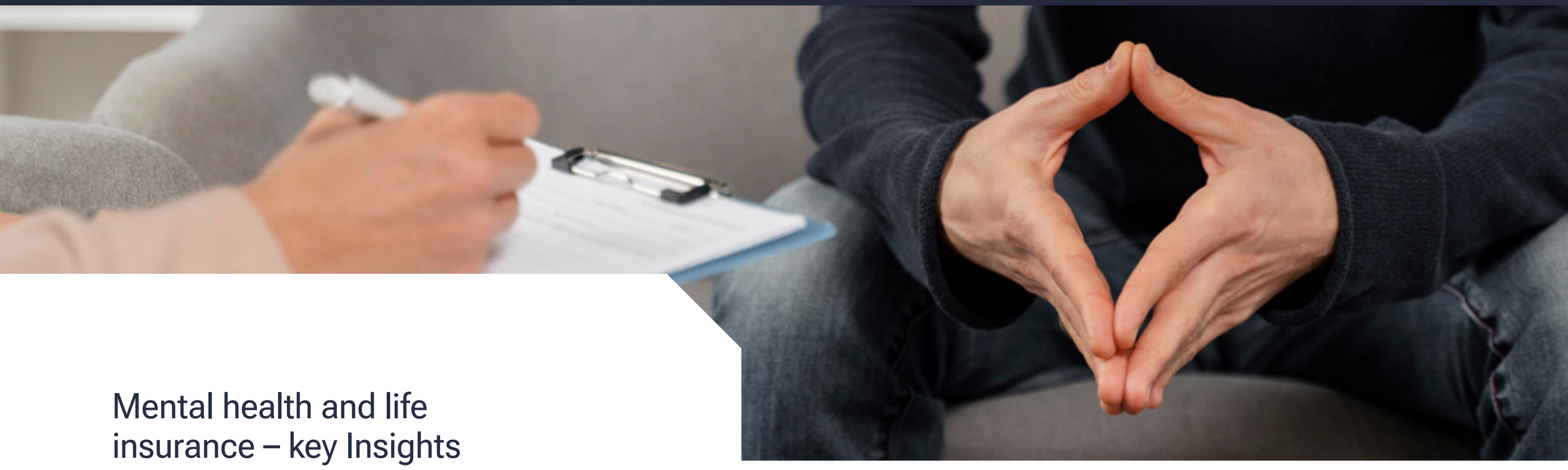
The path to $500M

Source: ARdata



Underwriting: the hidden battlefield for new business – a mental health study

Risk specialist adviser (Skye Wealth) curated approximately 300 anonymised policies over the last 12 months for the purposes of this analysis. The landscape of life insurance underwriting for clients with mental health conditions is complex and evolving. The dataset / charts (Chart 5.22 to Chart 5.27) reveals varied outcomes for individuals seeking life insurance policies across different mental health conditions by insurer, shedding light on the challenges and opportunities within the industry.



Mental health and life insurance – key Insights

1 Prevalence and Impact

- The prevalence of mental health conditions in Australia has been increasing due to better recognition and diagnosis.
- In 2022, suicide accounted for 3,394 deaths in Australia, highlighting the ongoing public health challenge. *(figures: ABS)*
- Mental health conditions, particularly depression and mood disorders, are significant risk factors for suicide.
- Mental health conditions have been on the rise globally, particularly in the younger population, with technology addictions, substance abuse and social isolation becoming major health concerns.

2 Underwriting Outcomes

Anxiety:

Affects about 1 in 3 Australians, with underwriting outcomes showing standard rates in only 37% of cases that presented with anxiety. Exclusions (26%) and loadings (17%) were prevalent.

Depression:

Impacts 1 in 6 Australians, resulting in standard rates in only 40% of those presenting with depression. Exclusions and loadings each at 6%.

ADHD:

The rise in ADHD diagnosis (to 6-7% of the population), with a 134% increase in adult ADHD medication prescriptions, has significant underwriting impacts on those diagnosed with many insurers not covering income protection. Often, however, an ADHD diagnosis is preceded by an anxiety or depression diagnosis.

Eating Disorders:

Affect around 4% of the population, with the highest rate of declines (43%) and loadings (21%).

3 Insurer Variations (chart 5.27)

Insurer A:

Provides standard rates in 46% of cases with mental health disclosures.

Insurer C:

Offers standard rates in 35% of similar cases.

These variations highlight differing underwriting philosophies and risk appetites across the industry.

Note: Data sourced from the ABS and various public health agencies

4 Condition-Specific Approaches

Depression:

62% of life insurance applicants receive standard rates, but this drops to 8% for Total and Permanent Disability (TPD) and 4% for Income Protection (IP) cover.

Cancer Survivors:

Face significant challenges, with only 27% receiving standard rates for life insurance and just 12% for trauma cover.

Asthma and Sleep Apnoea:

Applicants have more favourable outcomes, with 73% and 69% receiving standard rates for life insurance, respectively.

5 Opportunities for Insurers

Leveraging Global Intelligence and AI

- AI in Underwriting: Advanced AI algorithms can analyse vast datasets to identify trends and predict risks more accurately. This can lead to more personalised and fair underwriting processes, particularly for those with mental health conditions.
- Global Data Sharing: By collaborating nationally and internationally, insurers can access broader datasets and insights, enhancing their understanding of mental health trends and risk factors. This can improve underwriting accuracy and outcomes.

Mental Health Data Sharing and Education

- Data Sharing Initiatives: Encouraging the sharing of mental health data between healthcare providers and insurers can lead to better-informed underwriting decisions. Privacy and ethical considerations must be prioritised to protect client confidentiality.
- Education and Wellness Programs: Insurers can partner with employers to offer mental health education and wellness initiatives. These programs can help reduce stigma, promote early intervention, and improve overall mental well-being, ultimately reducing claims and improving underwriting outcomes.

Inclusive Coverage Options

- Innovative Solutions: Developing products that offer more inclusive coverage for conditions like cancer, depression, asthma, and sleep apnoea can help insurers attract new business. Tailored policies that consider the unique circumstances of individuals with these conditions can differentiate insurers in the market.
- Balanced Approach: By balancing individual client narratives with industry dynamics, insurers can position themselves as valuable partners to advisers and grow their business.

The evolving landscape of life insurance underwriting for mental health conditions presents both challenges and opportunities. The challenge is a key concern for insurers, as claims are impacting back books considerably, with new book pricing compensating.

By leveraging AI, global data sharing, and educational initiatives, insurers can develop innovative and inclusive solutions.

Note: Data sourced from the ABS and various public health agencies

CHART 5.22

Overall

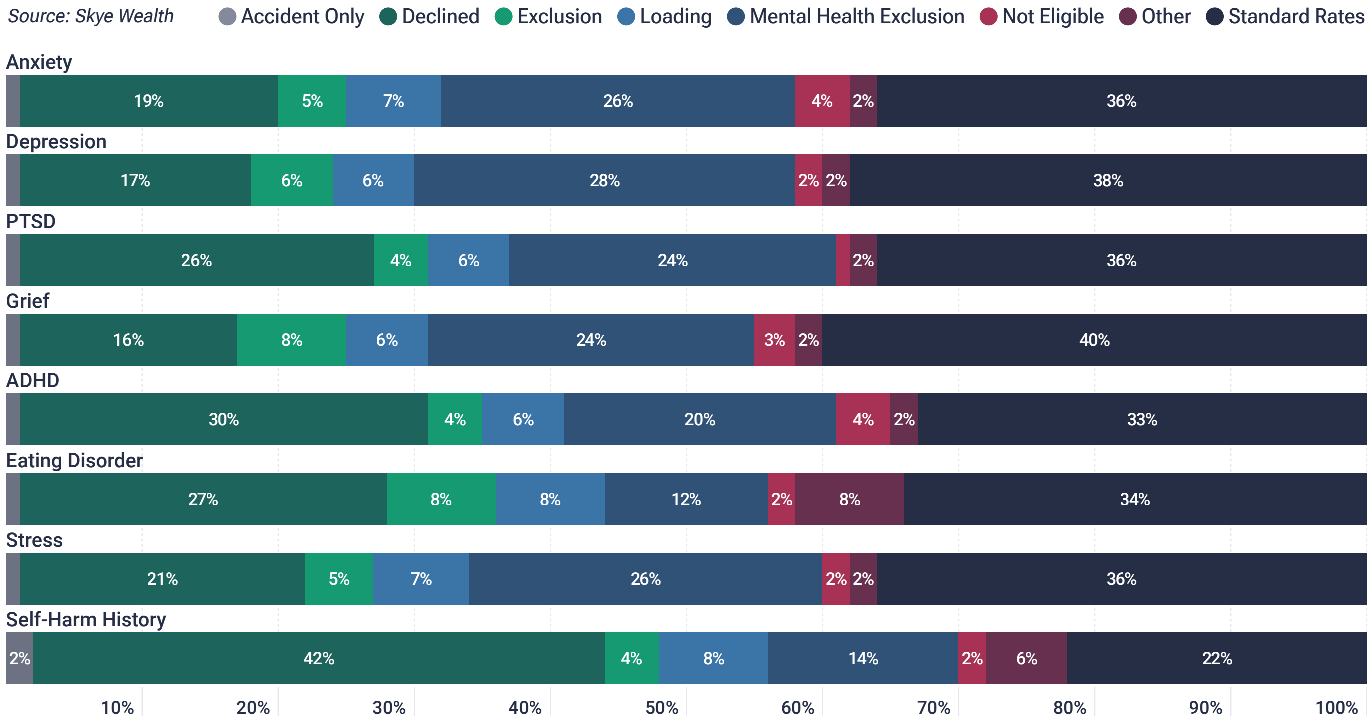


CHART 5.23

Insurance for life

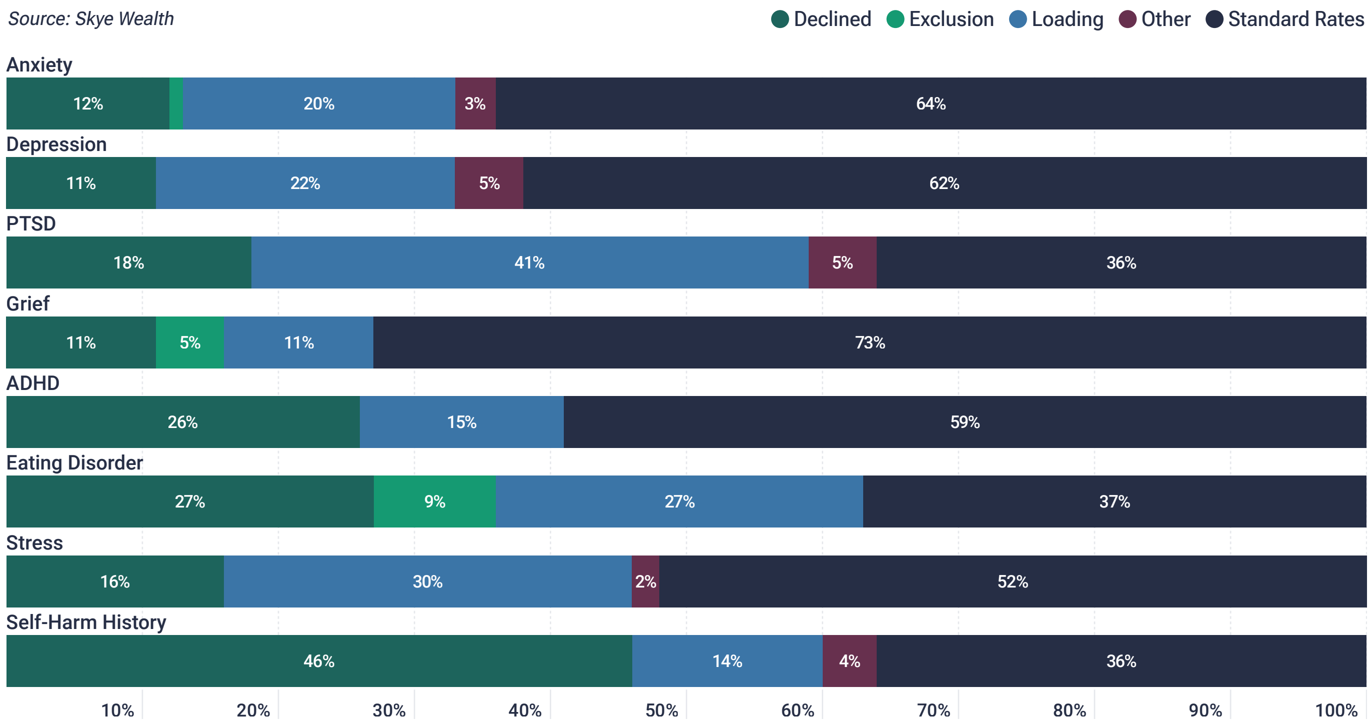


CHART 5.24

Insurance for TPD

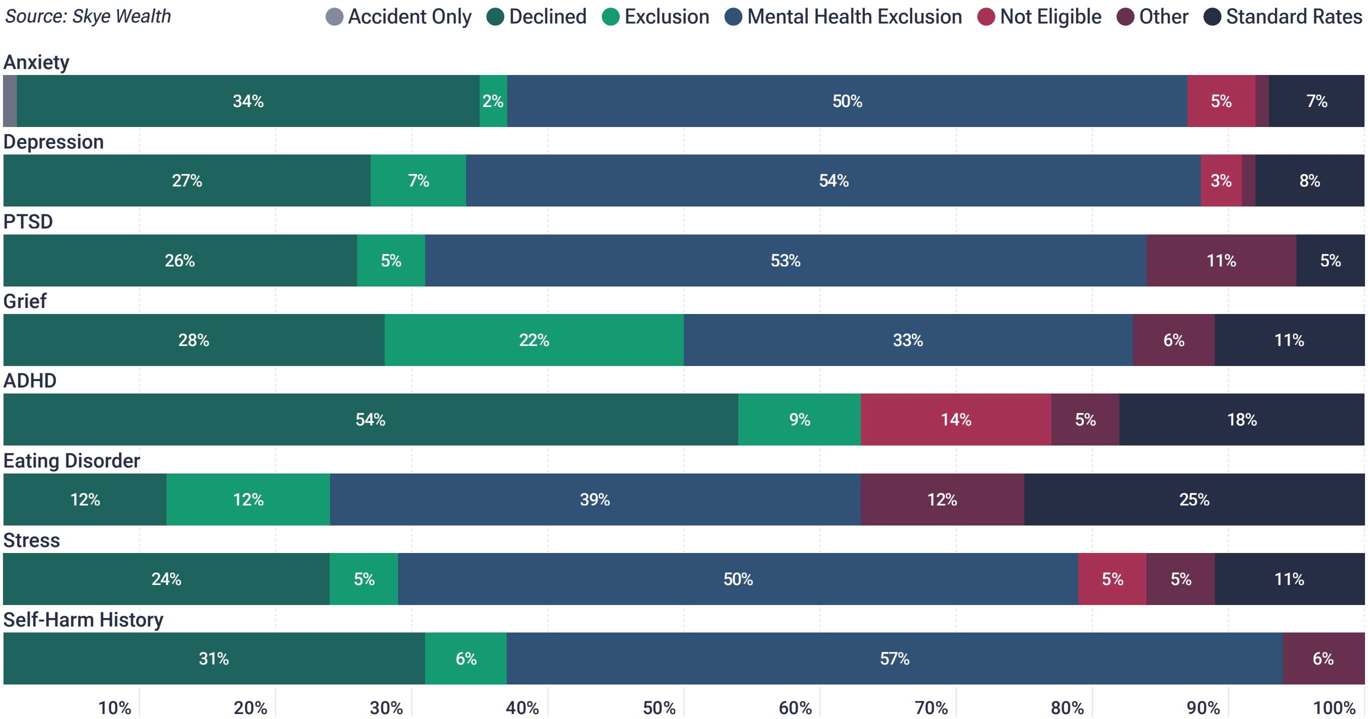


CHART 5.25

Insurance for IP

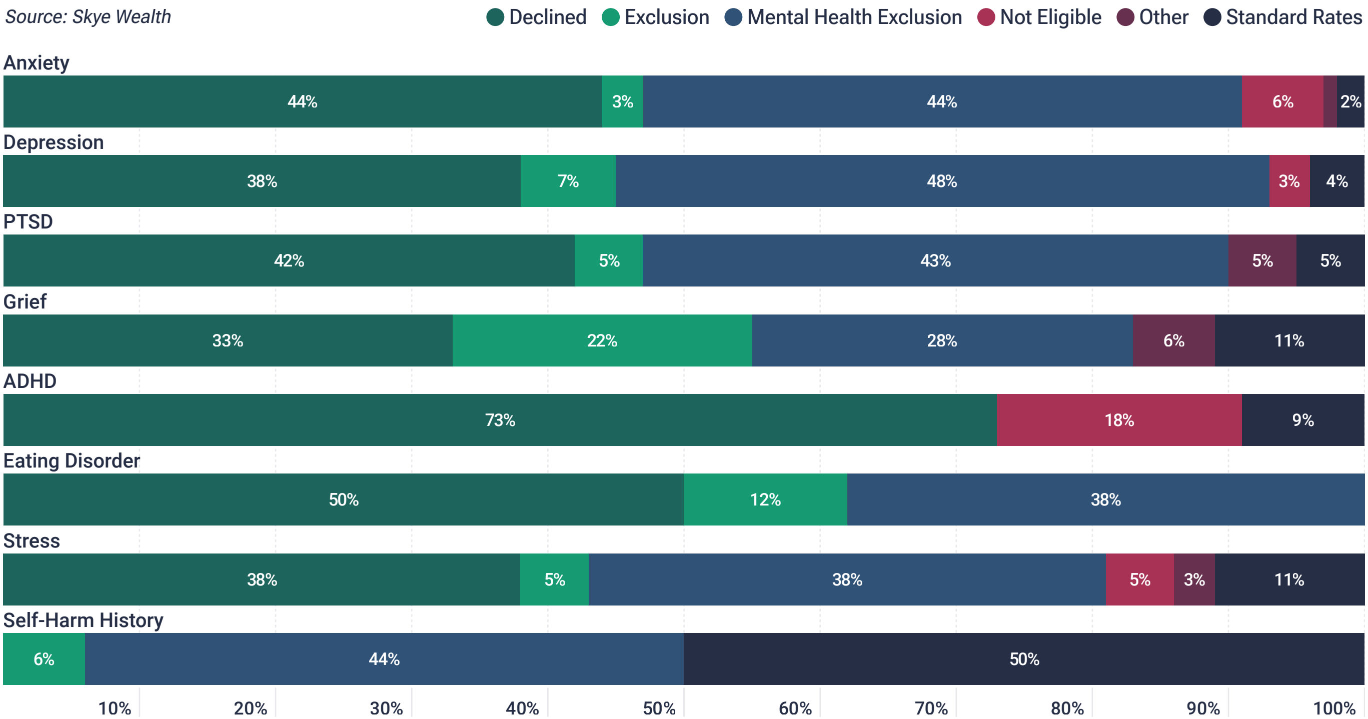


CHART 5.26

Insurance for trauma

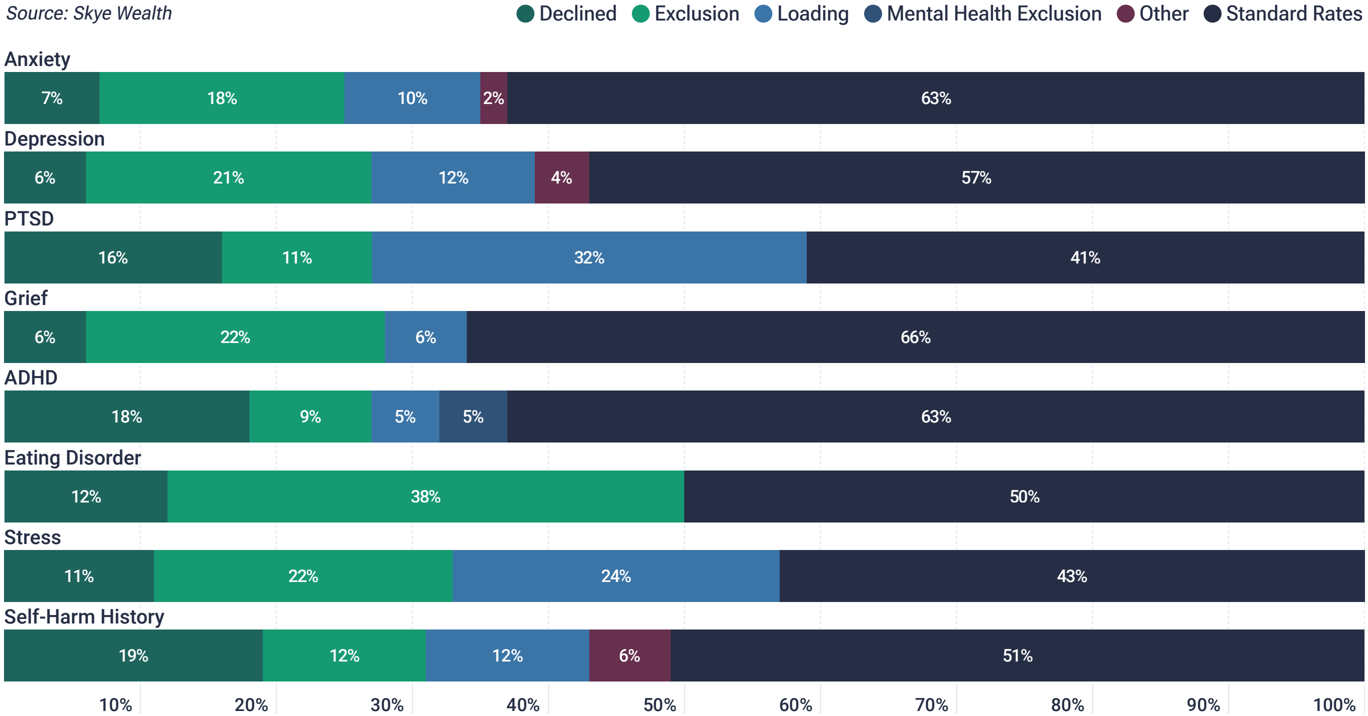
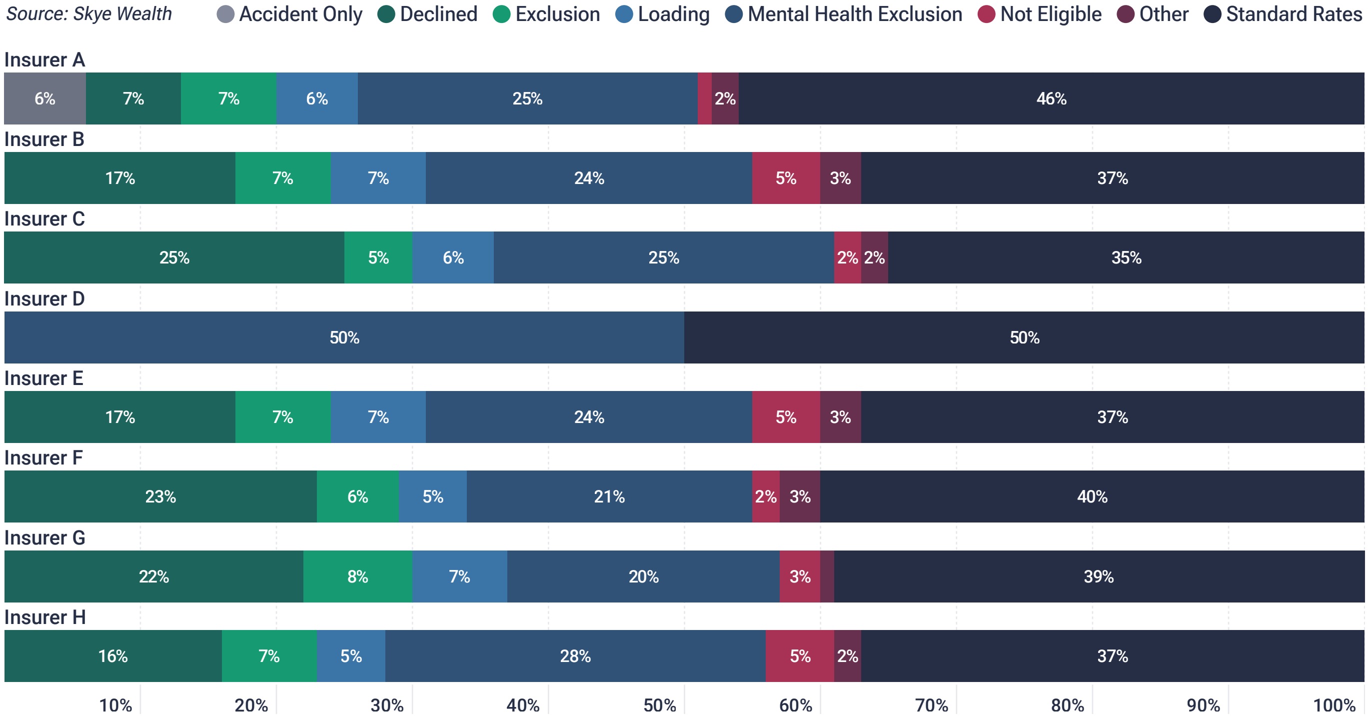


CHART 5.27

By insurer - Top 8



Chapter insight

CASE STUDY

PFAN expands to help more Australians in need

Established in 2014, Pro Bono Financial Advice Network (PFAN) is a network of financial advisers who provide pro bono financial advice to those living with a personal health condition and going through financial hardship.

CHAPTER INSIGHT PROUDLY SPONSORED BY:

Pro Bono Financial Advice Network

Life insurers have a ringside seat around the value of advice and life insurance, especially at claim time. It is apt that the narrative of the role insurers play in Australians' lives is a precursor to the insight of the amazing work this network of advisers plays in elevating the advice profession.

PFAN recently announced two new partnerships, further expanding its existing collaborations enabling more Australians living with a personal health crisis to access pro bono advice.

Pancare and MND Victoria have joined the network, extending its support to people affected by pancreatic and upper GI cancers and those diagnosed with motor neurone disease.

Since inception, PFAN has been working with the Multiple Sclerosis network throughout Australia, connecting individuals through referral partners to locally based advisers.

PFAN Chair Nicola Beswick said the opportunity to connect more individuals living with a personal health crisis with local based advisers is central to the organisation's mission.

"Helping to improve the financial wellbeing of Australians living with a serious illness or disability is the reason behind PFAN's inception. So being able to extend the network of charities we work with means we can help more people in need with access to financial advice."

"We can only achieve this milestone due to the generosity financial advisers throughout Australia have provided to PFAN, and the ongoing support from our corporate sponsors HUB24, Innova, Milford and supporters TAL, Zurich Assure, InterPrac, FAAA, SMSF Association, Professional Planner and Adviser Ratings."

The true impact of pro bono work: An adviser's perspective

PFAN recently interviewed Behram Ali, Financial Adviser and Senior Paraplanner at Curo Financial Services, to learn about his motivations for supporting PFAN and how his efforts are making a tangible difference.

Our client needed help with a disability insurance claim. She had tried to contact a lawyer to do it for her but needed someone who had expertise and knowledge around insurance, but more importantly, insurance claims.

During our first call, I got a good understanding of how far along her condition was and her eligibility for a TPD claim. On our client's behalf, I spoke to her super fund and insurer to obtain the relevant forms. Naturally, these claim forms are extensive and can be incredibly overwhelming for those with no prior exposure or experience.

We endeavour to make the claims process as easy and stress-free as possible and so we facilitated in completing her side of the claim forms from start to finish.

All she needed to do was to obtain the relevant doctor and specialist forms and we lodged the claim.

After submitting the completed forms, we were able to have her TPD claim finalised in just two weeks due to our expertise and our relationships with the insurers.

Our client was so grateful for our help with her claim. MS is such a slow burn, and you know it's never getting any better. But every time I spoke with our client, she was excited to hear from me. I've never met someone so optimistic despite the circumstances they are in.

There are so many people like our client who need help but don't have access to good advice and professional assistance. Just because of pure circumstances, they shouldn't be left in the dark. It's as simple as that. That's why we do pro bono.

For me it was even more impactful knowing our client's background. She has worked with the Royal Fire Service for her entire life, fighting fires on the front lines, helping people and communities during their time of need. It was time for us to give back, and for people like our client, pro bono advice is a chance for us as an adviser profession to give back too.

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Pro Bono Financial Advice Network

How to make a difference by joining PFAN

Advisers registered with PFAN can take on one pro bono client per year, using their expertise to provide essential financial guidance and advice to individuals living with serious illnesses and facing financial hardship.

By joining the PFAN network, you become part of a community of advisers dedicated to making a real difference in people's lives through their financial planning expertise.

Join PFAN or learn more

...and discover how you can positively impact lives.

" Having seen first-hand the impact these conditions have on the lives they effect, and the remarkable work the associated charities do for them, I wanted to give back and help out as best I could which is in the area of financial planning.

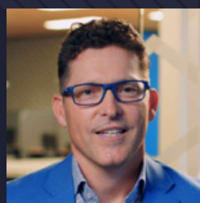
Bruno Dimasi

Senior Financial Planner, My Wealth Strategy

" I want people to be able to get advice and improve their financial circumstances. I want to help people improve their quality of life for themselves and their family.

Kym Coleman

Adviser, Tempus Wealth



" As a founder of a not-for-profit myself, I am keen to make a difference in my local community where possible. So, it was an easy decision to join the PFAN community to offer my financial planning services to those who are in need.

Warren Strybosch

Founder and MD, Find Wealth

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Pro Bono Financial Advice Network

6.0 | Insights & Infographics

The Average Australian Adviser

*Note: * methodology changed from 2022 to include PY advisers and exclude limited licence advisers*

Average adviser

52
Adviser's age

$140k*
Adviser's annual salary

Model portfolios & Listed investments
Adviser's preferred investment methods

Degree qualified
Adviser's educational qualification level

Typical client

58
Client's age

$4,300
Client's avg annual fee

Building super and retirement
Most common reason for seeking advice

Above average
Average client's level of financial literacy

Adviser's practice

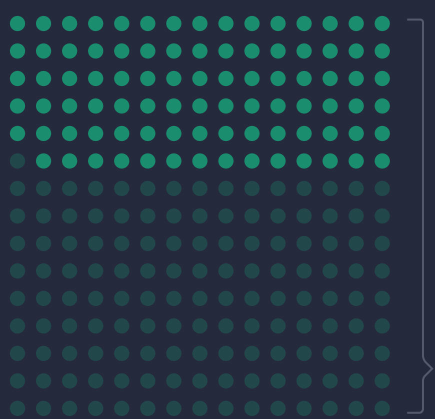
1-10
Practice size (advisers)

>$500k
Practice yearly revenue

Privately Owned
Practice type

21%
Practice profit margin

Funds under advice

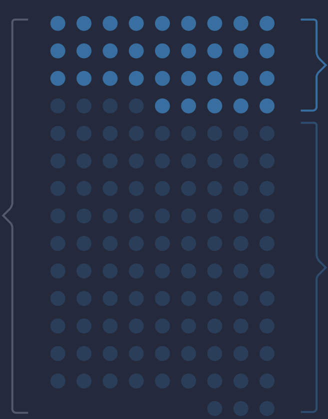


$89m
Adviser's FUA

$225m
Practice's FUA

Client numbers

129
Total client base avg.



32
Once-off clients

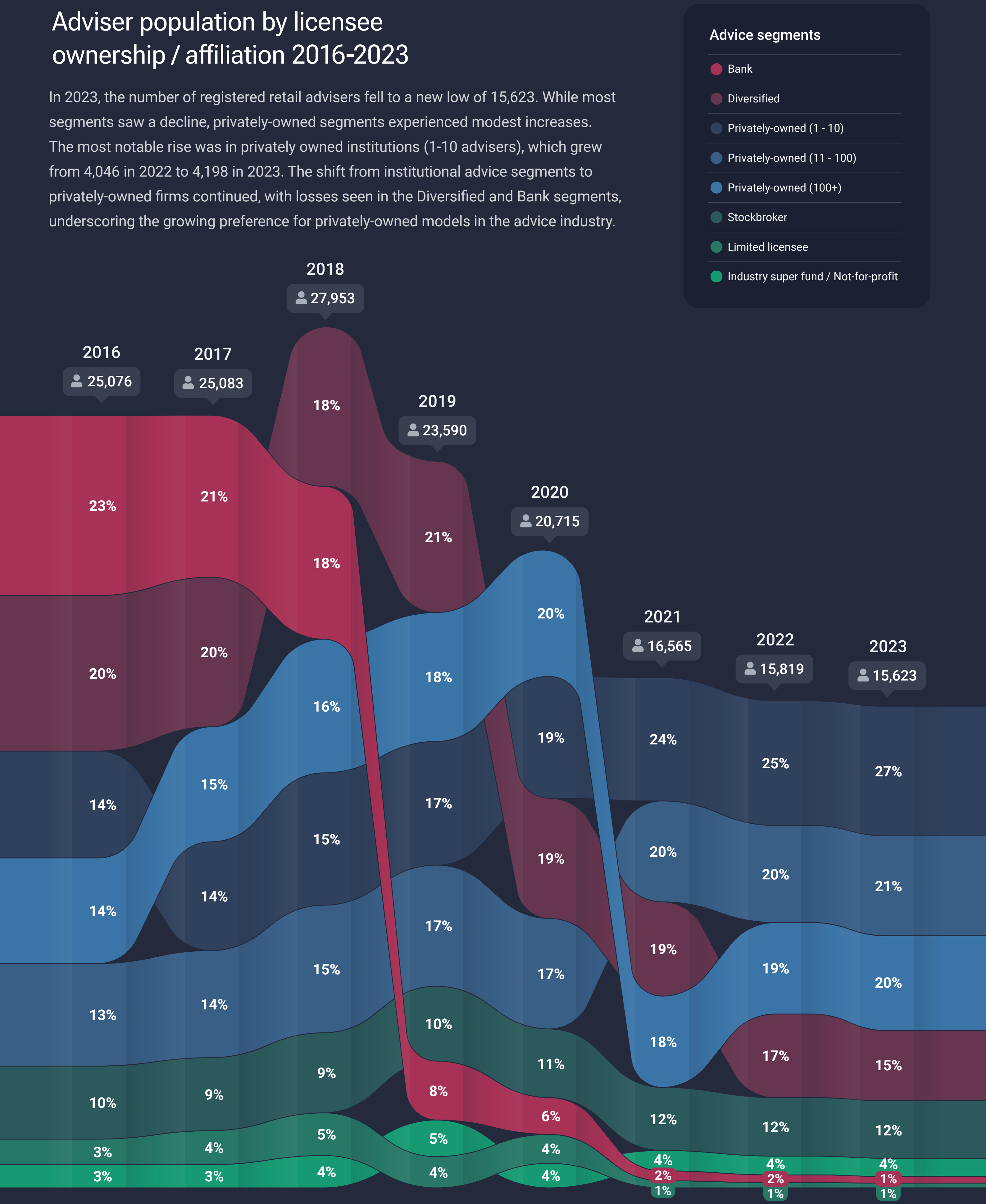
97
Recurring clients

Practice vendors (by usage)

Xplan	BT Panorama	TAL	Lonsec
Software	Platform	Insurance providor	Research house

Adviser population by licensee ownership / affiliation 2016-2023

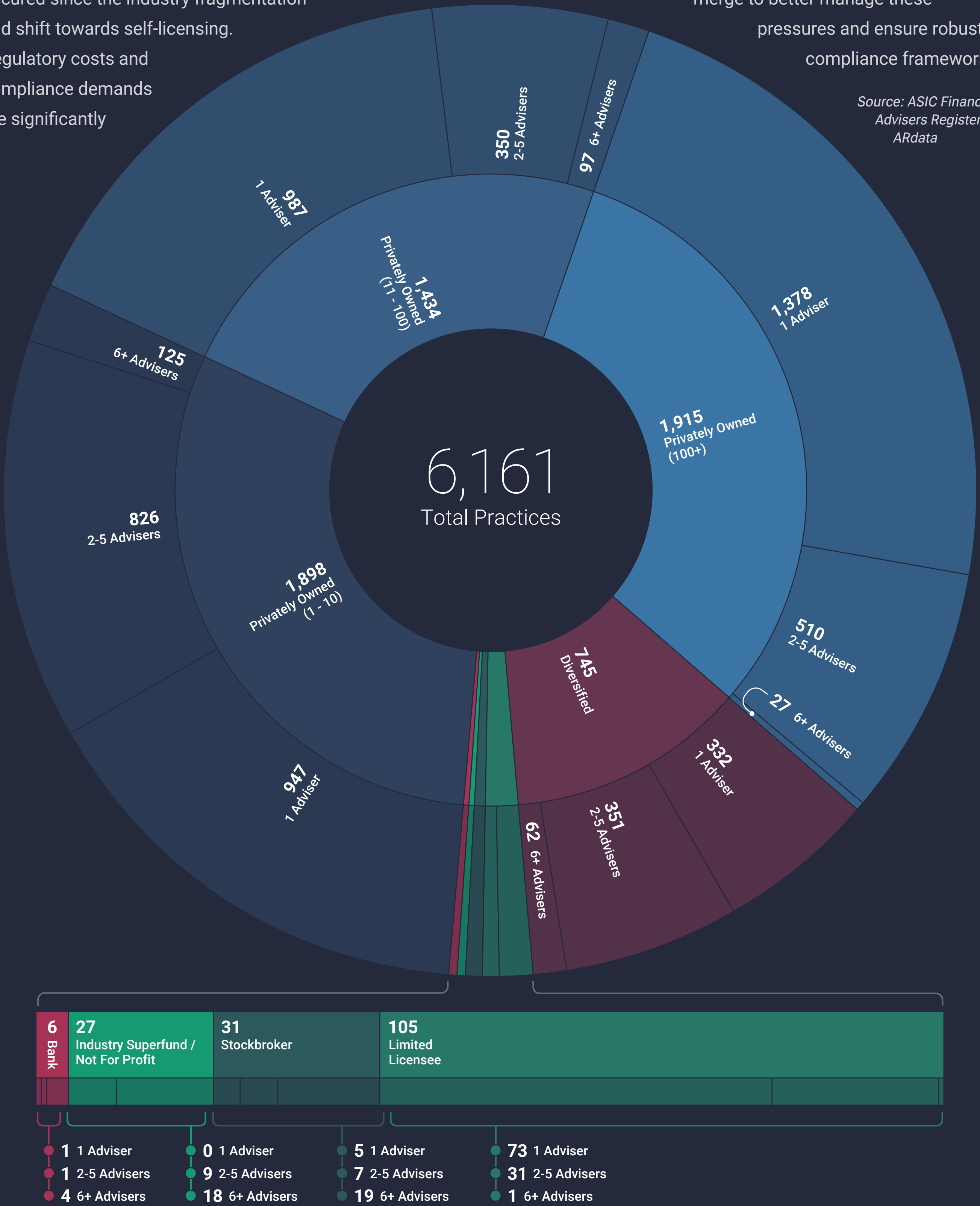
In 2023, the number of registered retail advisers fell to a new low of 15,623. While most segments saw a decline, privately-owned segments experienced modest increases. The most notable rise was in privately owned institutions (1-10 advisers), which grew from 4,046 in 2022 to 4,198 in 2023. The shift from institutional advice segments to privately-owned firms continued, with losses seen in the Diversified and Bank segments, underscoring the growing preference for privately-owned models in the advice industry.



Practice distribution per segment

There are 6,161 practices in Australia in 2023, down from 6,348 in 2022. The average number of advisers per practice has stabilised around 2.5 adviser per practice. This has occured since the industry fragmentation and shift towards self-licensing. Regulatory costs and compliance demands are significantly impacting smaller practices, making consolidation necessary to achieve efficiency and sustain viability. This trend highlights the need for practices to merge to better manage these pressures and ensure robust compliance frameworks.

Source: ASIC Financial Advisers Register, ARdata



7.0

About Us & Our Methodology

Our methodology

The 2024 Financial Advice Landscape report is the most comprehensive snapshot of the Australian financial advice industry. The report incorporates Adviser Ratings proprietary data, survey information, 3rd party Adviser Ratings partner data, Government and Regulator data and publicly available data.

The report gathered data from primary Adviser Ratings sources, including surveys and Adviser Ratings' product and platform data, including its core Nightingale service, its life insurance data business, Beddoes Australia and its newly acquired adviser portfolio construction tool, ProductRex.

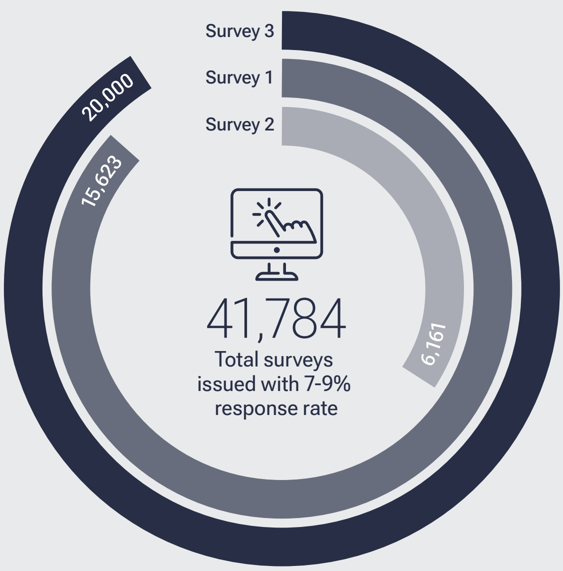
This was supported by secondary sources or commentary. Key secondary sources included, but were not limited to, Australian Bureau of Statistics 2021 Census Data (and estimates over Census), ASIC Financial Advisers Register, Morningstar data, Lonsec data, analysis from investment research partner, Milestream.

Data preparation

Where required, data cleansing or removal of data was applied to get a true representative set of data. For the sentiment analysis of vendors, only vendors with a sufficient volume of responses and adequate diversity across licensees were presented.

Different statistical methods and techniques are used to improve accuracy and validity, including but not limited to techniques such as winsorisation, Random Forest regression and Bayesian statistical analysis.

2023-2024 Surveys Issued



- Survey 3: Consumer Survey
- Survey 1: Financial Advice Landscape 2023-2024 survey
- Survey 2: Advice Practice Business Survey

Survey data

SURVEY 1

Financial Advice Landscape 2023-2024 Survey

Audience: All registered financial advisers and practice owners.

Objective: To understand more about client mix, fees, commitment to industry, attitudes towards education and product choices, and sentiment towards service providers

Survey Period:	Dec 23 – Feb 24
Surveys Issued:	15,623
Valid Responses:	1,302
Response Rate:	8%

SURVEY 2

Advice Practice Business Survey

Audience: Owners or directors of advice practices

Objective: To understand what practice owners are focused on, how their businesses are structured, financial settings, and challenges and opportunities.

Survey Period:	Feb 24
Surveys Issued:	6,161
Valid Responses:	580
Response Rate:	9%

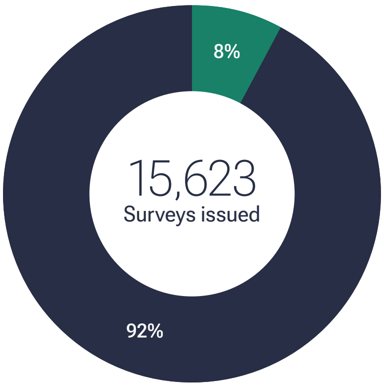
SURVEY 3

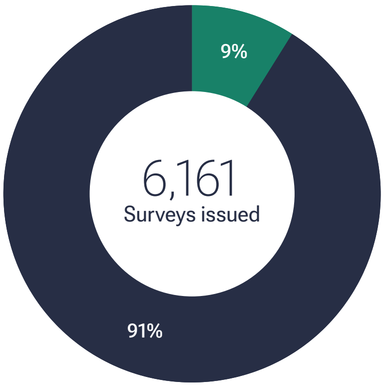
Consumer Survey

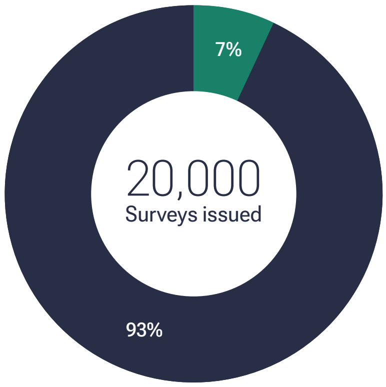
Audience: Consumers as part of Adviser Ratings' research database

Objective: To determine financial health and attitudes towards investing, advice, technology, and receiving professional help with their finances.

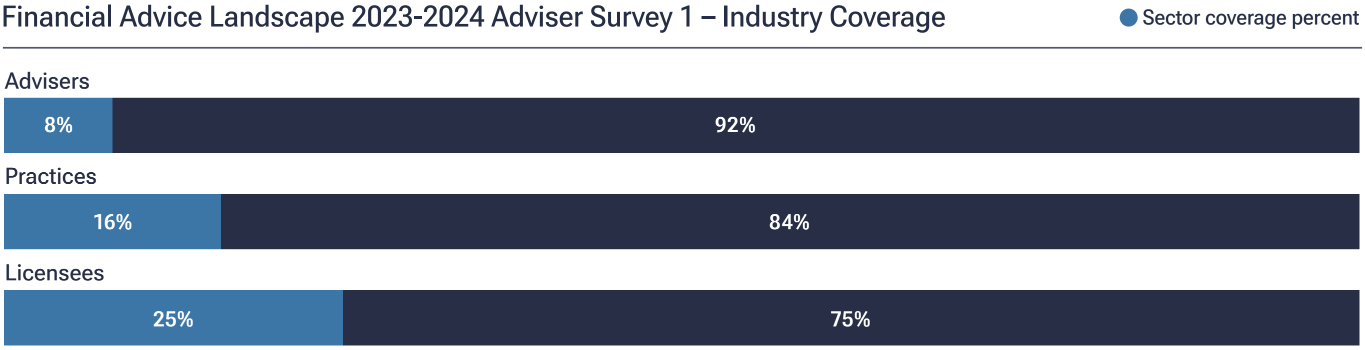
Survey Period:	Feb 24
Surveys Issued:	20,000
Valid Responses:	1,325
Response Rate:	7%







Financial Advice Landscape 2023-2024 Adviser Survey 1 – Industry Coverage



About Adviser Ratings

Adviser Ratings launched in October 2014, in the wake of the Future of Financial Advice reforms (FOFA), the Financial System Inquiry (FSI) and financial planning scandals of the time. Adviser Ratings' vision is to improve the penetration of advice amongst Australian consumers.

There are more than 15,000 financial advisers on its independent platform, enabling consumers to browse and search for an advice solution suited to their needs, rated and reviewed by other consumers. ARdata is a data and insights company built on Australia's first financial adviser ratings platform.

We help our clients make data-driven business decisions in engaging their ideal audience by supplying leading industry insights, data services and research. Our clients are key players in the wealth management industry including advisers, advice practices, advice licensees, super funds, life insurers, fund managers, investment platforms and software providers.

In 2022, Adviser Ratings acquired Beddoes Institute. Building on top of the ARdata brand and data capabilities, the Beddoes products focus on data, insights and growth opportunities for the life insurance industry.

In 2023, Adviser Ratings acquired ProductRex. The fastest-growing advice tool in the last decade, it allows advisers to freely compare and recommend investments, platforms and superannuation products to clients. The rich, real-time data from ProductRex feeds ARdata's Fund Flow Intention solution, an industry first that allows actionable insights into where funds will flow across the industry.

Combined, the offerings provide a unique value chain and data proposition for the wealth ecosystem.

Adviser Ratings 2024 Landscape

3 additional reports are separately available for purchase

1 2024 Platform Benchmarking Report

2 2024 Life Insurance Benchmark Study

3 2024 Investment & Fund Flows Landscape

Our products and services

Consumer Marketplace	A public website that connects consumers with more than 17,000 financial advisers. The site is free for advisers and consumers, and generates in excess of 50,000 profile views per month.
Nightingale Analytics	Nightingale is our solution that provides a rich data source for the latest information on advisers, practices and licensees in the Australian market. Data and accompanying insights can be served to clients in various forms, including a live logged in PowerBI frontend, flat file, SFTP or API secured and hosted by Amazon Web Services.
Life Insurance Barometer	An industry led and supported data sharing proposition that provides participating life insurers with deep actionable insights into the retail advice market, advisers writing risk and where the opportunities reside. Under the remit of ARdata, considerable investment has been and is continuing to be undertaken in this Beddoes product to provide unique actionable data and link system growth to its consumer proposition to benefit the overall retail life industry.
Life Experience Study	A combined ARdata and Beddoes annual study tracking key behavioural data, quantitative and qualitative, on key metrics for retail life insurers.
Most Trusted! Adviser™	The Most Trusted! Adviser™ is a key academic-driven designation awarded to advisers who hit minimum benchmarks from client satisfaction and other metrics.
Fund Flow reporting	An outsourced solution for fund managers for preparation of monthly reporting on financial adviser applications and redemptions through the fund manager's products held on platform or through direct investment off-platform. It is now the leading solution for fund flow reporting in the market.
Fund Flow Intention	Australia's first predictive model for investment fund flows. Harnessing the ProductRex modelling tool, it tracks daily movements of adviser modelled flows across asset classes, asset managers, investment products, super funds, SMAs and platforms. This robust tool correlates strongly with real investment outcomes, empowering sales, marketing, product, and research teams with actionable insights and real-time feedback on targeted campaigns.

Our products and services – contunued...

ProductRex	ProductRex is now Australia's largest portfolio construction tool, utilised by 5,500+ advisers. It is embedded in multiple software CRMs and applications with open API access. For vendors, it is the only place in the market that has dynamic ad serving capability at the time a portfolio is being constructed.
CRM management	Provision of expert CRM (primarily Salesforce and MS Dynamics) support to install, configure, add fields, build dashboards, and upload / download data including monthly fund flow reporting, life insurance data and Nightingale data. Can be provided as a full outsourced solution or to complement / support existing internal resources.
Data Audit	Data Audit is our data intelligence and cleansing solution. Our technology allows us to dedupe and cleanse multiple files and update against our time-stamped master list. This service draws on our proprietary databases to perform audits and analytics on client databases and information systems for growth or compliance purposes.
Insights consulting	A partnered solution to empower our clients to make data-driven decisions based on trends and statistical analysis. We augment existing adviser profiles with scoring mechanisms to address quality and flight risks and future-proof compliance and distribution models.
Find an Adviser	Find an Adviser is Adviser Ratings' white label "Find an Adviser" platform – the design, hosting and data can be served in various forms depending on clients' needs.
Research	Market research services comprise the annual Financial Advice Landscape report (sub reports available by subscription) and the free quarterly Musical Chairs report (available for sponsorship). Other data-driven monthly reports on the advice and wealth sector are available on request.
Advertising	Service providers can promote their brand, capability and provide access to unique offerings to advisers through Adviser Ratings' various channels including our weekly adviser newsletter, weekly adviser movements video, dedicated solus eDMs, market research and our adviser dashboard.

Join the Adviser Ratings Community

Free service for all registered Australian advisers

Adviser Ratings puts the world of financial advisers at the fingertips of consumers and there's never been a more exciting time for advisers to claim their profile. We've launched our newly renovated platform where consumers can more easily find and connect with an adviser that best suits their needs...It's yet another step in our plan to help Australian advisers boost their online presence and make advice more accessible to consumers.

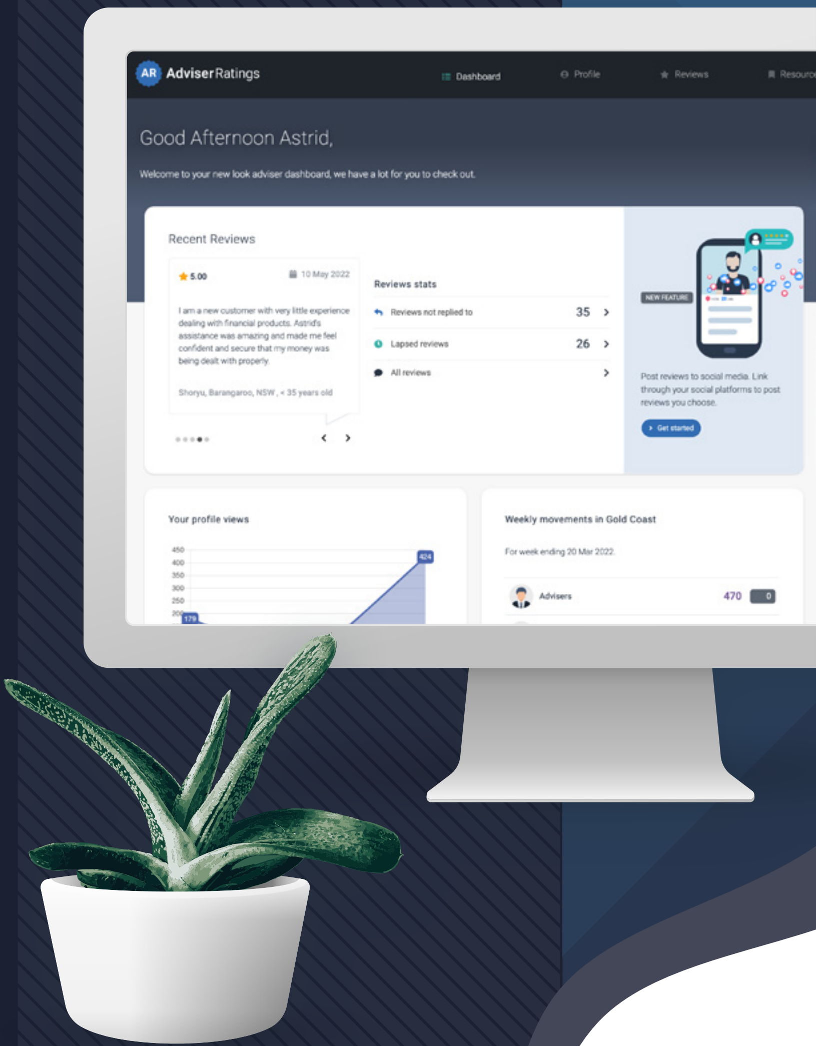
> *"Adviser Ratings is changing the face of Financial Planning. With honest and transparent client feedback, my profile allows me to resonate with the broader community much more successfully than ever before.*
>
> *I genuinely align with the vision of Adviser Ratings: making Financial Advice accessible to everyone.*
>
> *I have been grateful to contribute to their Ask an Adviser series articles which have been invaluable for my online platforms and social presence"*

– Noni Crawford,
Director & Adviser at Hello Wealth

New Adviser Portal

Your clever new dashboard provides you instant access and an overview of the interest your Adviser Ratings profile is generating for you, your review stats and profile views.

Highlight your areas of specialisation, add info about yourself and your practice and even add your videos to attract more interest to your profile.



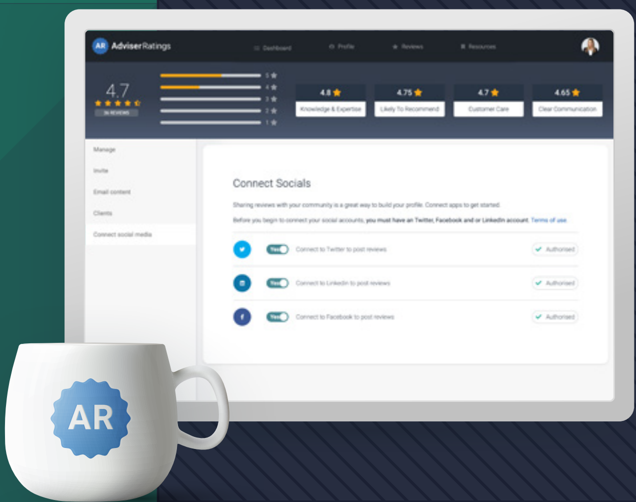
Adviser Ratings

Thousands of leads generated annually

Consumers can use the contact form on your profile and you'll receive detailed information about your potential new client lead. Most existing referrals will want to know you have a profile – as will your existing clients. Claimed profiles get an average 8x pageviews.

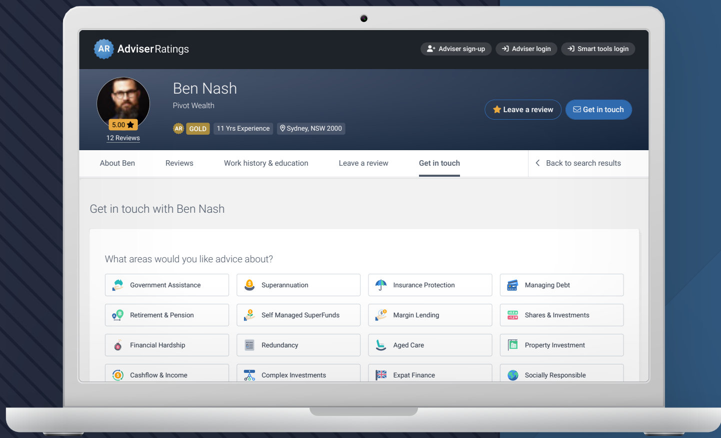
> *"Adviser Ratings provides a platform for two things that are important to Rising Tide; prospective clients can get real-world feedback & social proof from existing clients alongside a way for our advisers to show their expertise through the Ask an Adviser series"*

– Matt Hale,
Managing Director at Rising Tide



Connect your social media pages

Our exciting new social integration tool allows you to post your best reviews directly to your connected social media pages, amplifying your review online.



Google verified review platform

With over 90% of people now searching online for services like financial advice, our Google verified star rating system helps your profile rank highly on Google searches.

> *"Based solely on the influence of the Adviser Ratings platform, our two newest clients searched Google for advisers in their local area and found your site.*
>
> *They did their research using your site, got a virtual feel and felt confident enough to request appointments"*

– Ben Nielson,
Managing Partner at Neilson & Co Wealth Management

Claim your profile now
portal.adviserratings.com.au/claim/join

Adviser Ratings

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