

# Platform evolution: The progress and the future

With the platform sector set to pass \$2 trillion by 2020, due to a rapidly growing aging population, knowing the key trends in the market is vital to predicting who survives and who perishes. Krystine Lumanta reports.

A shake-up of the platform sector is set to divide the winners from the losers in a post-*Future of Financial Advice* (FoFA) landscape. However, it won't necessarily be today's dominant players that will be left standing, as the flexibility, fee transparency and latest technology of newer platform offerings could mean dramatic changes to the current line-up in a rapidly changing market.

In particular, FoFA reforms targeting adviser remuneration will put the spotlight on all platforms paying volume-based rebates. These players will have to commit to a significant reshaping of the way they do business if the reforms are approved.

More money will be pouring into superannuation funds, driven predominantly by a growing number of retirees - who'll need income to last 30-plus years - and the potential increase in the SGC to 12 per cent.

The 2011 Rainmaker *Platform Report* says money invested via wraps, master trusts and master funds reached \$500 billion in March this year, and is growing at a rate of 20 per cent a year. The sector is expected to pass the \$2 trillion mark as early as 2020.

## STRATEGIC ADVANTAGE

Andrew Varlamos, chief executive officer of independent platform Powerwrap, says platforms must be looked at as being more than just administration or operational tools for planners.

"Platforms used to be thought of as operational tools, but they're actually more important in being strategic," he says.

"To me, that's the biggest theme. We've set up administration services to provide efficiencies to advisers but in fact, it's recognised in the market that they're not just operational, they're strategic.

"This underpins the ACCC decision to block NAB's proposed acquisition of AXA. That was all about platforms, because they're not just administrative tools, they're a means of distribution."

The recent \$14 billion AMP acquisition of AXA is a testament to this.

Steve Burgess, general manager of wealth management at AXA, says AXA has "just merged with AMP and you can see the market has really taken kindly to that because they see a scale player in wealth management that's supported by Superannuation Guarantee contribu-

tions and all the rest of it".

Whether there is enough room for more entrants to compete against the big, more established players - or whether such a commoditised market will squeeze them out - is a question of both customer and adviser demands, and the new regulations brought about by FoFA.

Justin Delaney, head of insurance and platforms for Macquarie Adviser Services, says there's an obvious variation in the market.

"There's been increasing consolidation, but there's still some very distinct differences between platforms," he says.

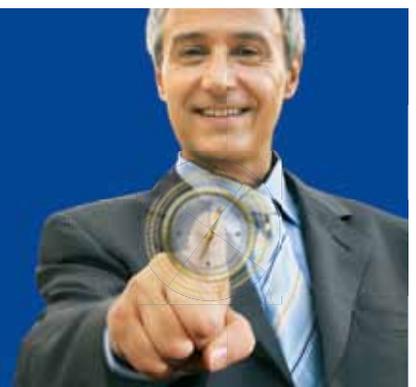
"Platforms are developed to cater to a specific demographic or type of client, in terms of balance...or investable assets, and you'll see others that end up being broader, for the more simple needs to the complex needs, on a single platform."

Adam Gale, financial adviser and chief financial officer at Announcer, says there is one main aspect that advisers want out of a platform in the present landscape.

"Transparency. Fees and accessibilities are the biggest things we look at," he says.

"The pressure is on fees...so there has to be a very good level of transparency in the actual

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fees in terms of rebates, MERs [management expense ratios], admin fees and all the different fees that can be housed on a platform.

“Most of the [current] platforms are providing transparency, and a lot of them are getting better, so they’re not moving away from where planners want to get to,” Gale says.

“They’re continuing to move in the right direction.”

#### MARKET CONSOLIDATION AND THE NEW PLAYERS

According to Plan For Life’s latest analysis of wrap, platform and master trusts at December 31, 2010, four groups each hold over \$20 billion in platform funds under management, led by National Australia/MLC (\$48.5 billion) and Commonwealth/Colonial (\$47.7 billion).

Despite such an intimidating environment, there is scope for competition. New platforms are keen to compete as an alternative to the “generic” offerings that have been around for years.

Burgess says there will always be “a kind of innovative fringe that may be driving certain developments in niche areas like SMAs [separately managed accounts] or the SMSF [self-managed super fund] market”.

“As far as I’m concerned, from a mainstream platform manufacturer perspective, we’re introducing those kinds of features and functions as well,” he says.

“The small players are going to struggle to hit the kind of scale that’s necessary to sustain them as a realistic option in the platform market, especially in light of the developments that we’re certainly planning and I know several of our competitors are planning as well.

“But it’s difficult to say that there’s no room for those players.”

Although there appears to be some breathing room left, it’s imperative to stress that it shouldn’t encourage a sudden boom of new platforms.

Michael Clancy, executive general manager of investment platforms at MLC & NAB Wealth, says: “At the same time, the environment needs to encourage consolidation and scale because it’s the only way the industry can produce the kind

## ‘Innovation will continue to evolve, and there will be winners and losers from that’

of efficiency where we can pass benefits onto investors.

“Everybody is striving to improve their platform, so I don’t see [the levels of functionality] widening,” Clancy says.

Macquarie’s Delaney is unconvinced of any major movement, despite the evident ambition by non-dominant competitors to play with the big boys.

“Whether or not anything that’s out there at the moment or coming to market actually meets that criteria, I’m not sure,” he says.

“There’s no doubt that it’s increasingly important to have access to scale and distribution in running a platform. There’s a fairly high cost and also exposure to a changing regulatory environment in running a platform, so it’s a complex business.

“But ultimately, innovation will continue to evolve and there’ll be winners and losers from that.”

Burgess says we will see “more consolidation of the platform market where those with scale and [who] can afford to invest and develop and innovate will succeed over and above the rest”.

Katrina Warren, senior manager of platform solutions at Bendigo Wealth, says new platforms should not be overlooked as customer demand will dictate who belongs in this space.

“Essentially, [what] we were able to identify was quite a substantial amount of latent demand from our customer base as they were demanding additional wealth offerings.”

This resulted in the delivery of Trinity3 last

November, causing other players to sit up and take notice of a new player who is “committed to the platform space 100 per cent”.

“There seems to be plenty of room for competition and I think we’ve seen that in the last couple of years with new-age platform offers coming into the space - OneVue, Hub24 et cetera,” Warren says.

“That’s really been driven by a couple of things: the beauty of being able to start from a blank page and to leverage new technologies.

“And we all understand that technology is like that; no sooner have you bought the latest and greatest than there’s something better coming.

“A lot of these large platforms are built on very old systems now and that slows them down in terms of their development and it also impacts costs overall,” she says.

“Having the benefit of a blank page, we’ve built our platform to be totally in tune with where the climate is today. We’re 100 per cent FoFA-friendly so our platform has complete transparency, stands up on its own; we don’t rely on any rebate or volume-based payments...we’re in a very strong position to compete in a new world.”

Warren says financial advisers using Trinity3 have found it answers their need for more choice.

“We’ve definitely had a higher degree of interest from those with their own AFSL or certainly smaller boutique groups.

“The advisers working for some of the majors don’t tend to do their own research in this space; they tend to rely on the head office of their dealership to do that,” she says.

“As these new offerings enter the market, advisers need to have a look, get past the hype and find out whether their platform is really living up to its promises.”

#### A TREND TOWARDS INDEPENDENCE

Varlamos says part of an adviser’s value proposition is that they need to show their clients they are providing a level of value that’s commensurate with the amount of money being charged each year.

“And what’s the foundation upon which an adviser needs to rest his proposition? [It’s] that ‘I actually act in your interest as your adviser, not a salesperson for a bank.’ That means he needs independence.

“The trend is towards independence,” he says.

“That’s what the *Future of Financial Advice reforms* [are]. They’re not going to create the desire for independence, but they’ll exacerbate the underlying trend that is already there, where individual consumers want to see independence on the part of their adviser.”

He says dealer groups will “see a lot more non-‘Big Five’ institutions [gaining] more control over their platform offering.”

As a result, Varlamos says it will create market disaggregation where aligned advisers will be prompted to start looking for something different.

#### **PLANNERS ON ONE SINGLE PLATFORM**

While it’s not feasible for an adviser to run on 10 different platforms, it may be the case that one single platform may not be the answer either.

Recep Peker, analyst at Investment Trends, says there’s been a steady consolidation in the number of platforms advisers use.

“In 2010 planners used 2.9 platforms on average - a decrease from 3.5 platforms on average for 2009, according to the findings of our October 2010 “Planner Technology Report”, based on a survey of over 1600 financial planners.”

Delaney says: “In an ideal world, advisers would have one platform. Practically, however, they’re going to inherit clients who might be on another existing platform, and there might not be a case to move the client.”

AXA’s Burgess says this is not a new development.

“Advisers want to use a smaller number of platforms,” he says.

“They’re looking for options that mean they can consolidate onto fewer platforms in their business. So if you’re not quite up to speed or as competitive as the leading pack, you’re losing out there.

“In fact, some advisers are looking really to

## ‘Planners are still desperately trying to...simplify their business by using one vehicle’

get on one main platform in their practice with maybe a kind of secondary platform that they would use in certain circumstances - maybe a specialist platform like an SMA platform.

“Many advisers are still looking for that single platform that can form the bedrock of their wealth management business within their practice.”

Following numerous reports reiterating that advisers are still using two or three platforms, Warren says this confirms how “we seem to have gotten further away...from finding the solution that platforms were meant to deliver 15, 20 years ago”.

“Planners are still desperately trying to...simplify their business by using one vehicle - a platform to manage all of their client base,” she says.

“Instead of getting that, you’ve got a dilution of the so-called advantage of using a platform.”

Burgess says platform providers will find this shift a challenge, but if they can get to the front, it will ensure their survival.

“It comes down to knowing that there’s a trend towards using fewer platforms; therefore as a platform manufacturer, you really have to compete hard to get in that sweet spot of that two or three [platforms] that an adviser practice may use.”

#### **ONE PLATFORM FOR LIFE**

AXA’s newly updated North platform recently came out with the proposition that it would be “one platform for life” - that is, a

solution that will stay with an investor from the early accumulation phase of their life, all the way through to retirement, and then beyond.

Gale says young investors will be the next big opportunity, although he admits it’s hard to be profitable at that end of the client base.

“In the past, it was quite hard to use a platform for a younger client because you’d need a reasonable amount of money to start - \$20,000 in super was a bit too big,” he says.

“What we’re going to find now with platforms is that if you get them young and can keep them for life, they are a very valuable client,” Gale says.

“If platforms are more efficient, it’s going to allow us to operate in a market slightly below where everyone currently does [business].”

#### **ONGOING EVOLUTION: TECHNOLOGY**

With competition set to become even fiercer in the future, the opportunities for platforms to grow will emerge from the technology side of an offering. The complexity of platform software heavily affects usability - so this is an area that must be focused on to encourage evolution.

Delaney says there is still a resounding call for a streamlined process coming from financial planners.

“I’ve got no doubt that if you talk to financial planners they would still express some frustration at the level of integration; for example, the interfacing between different industry systems.

“If you look over this period [of 10 years], there has been a significant level of progress, so expectations are now increasingly getting higher and higher,” he says.

“That’s putting more pressure on most players to really develop, particularly when it comes to interfacing.

“From an advice perspective, the efficiency of a practice is only going to be as efficient as its lowest common denominator - so if you do have a process that’s letting it down, then it is going to drive inefficiencies.”

MLC’s Clancy says comparing platform capabilities today versus 10 years ago is like “chalk and cheese”.

“Technology capability is really at the heart of platforms. It’s not just been in the last year that every platform’s been announcing technology improvement; that has been the case for the last 10 years.

“This will continue to be the case as technology continues to drive platforms forward.”

### REGULATORY INFLUENCE

In order to survive, platforms must adapt in line with the yet-to-be-finalised FoFA reforms.

“That’s the million-dollar question. Some of these things are still very much up in the air,” Clancy says.

With uncertainty about where exactly the reforms will land, platform providers will face many challenges ahead, according to Gale.

“It’s about having some certainty so we can start structuring the business around FoFA,” he says.

“There’s a lot of wide-ranging statements that we need clarity on and that’s the challenge at the moment; you’ve got to plan for everything to happen, and if nothing happens.

“You’ve got to be willing to adapt,” he says.

“I don’t think there’s going to be a negative outcome, but it’s something that is in the back of a lot of people’s minds.”

Peker says that as a result, “43 per cent of planners believe FoFA won’t affect the platforms they use, and close to half said they will look for a platform that will reduce the cost of doing business or look for a lower-cost platform [for clients].”

The potential abolition of volume rebates will be the most interesting space to watch, as

varied business models still exist in the marketplace.

Clancy says MLC supports models where financial advisers don’t receive any volume bonus, but also models where they do.

“Today, we support both models. Whatever the changes are that are put into place, our platforms will evolve to meet the needs of financial advisers and their customers,” he says.

Gale says: “Volume bonuses, marketing allowances and rebated fees are going to be obsolete or be reworked, so this will be the biggest change that’s going to affect dealer groups and the actual platform providers.”

“From an advising point of view, I don’t think it’s going to have a large change,” he says.

“A lot of it [volume-based fees] is transparent, and most disclose it in the FSGs [Financial Services Guides], but they are talking about banning them. For some dealer groups, the volume bonus is a very substantial amount of income, so it will have a big effect on the industry and on platforms, because for some dealer groups it is a very attractive way to manage a business.”

### FUTURE TRENDS

The outlook for the platform market appears positive as money continues pouring into both legacy products and fresh offerings.

Warren says the industry needs to watch out for the key trends that have emerged “in response to a post-GFC investment climate”.

“A lot of investors are still not very confident and you can sit around and wait, or as a wealth provider you can think, ‘What can we bring to the table to assist?’

“The products that have been in this space, typically capital guarantee-type products, still tend to look expensive and inflexible,” she says.

“Interestingly, as the industry has developed and wanted to increase its level of professionalism...one of the worst things you could ever do in that context is to push products.

“I understand the reasons for that; however, I’m wondering now whether we should be looking more at product.

“Twenty years ago, everything was new. Now that it’s more stable, it’s time to go back and help advisers spend more time looking at the innovation that’s happening in the product space.”

She says clients “should be able to rely on the integrity of the system, and I don’t think there’s anyone out there who’s not delivering a good proposition”.

According to Clancy, platforms need to constantly evaluate the changing demands of advisers and clients.

“If we were to look at the functionality of platforms from a decade ago to now, there’s a lot more direct share trading capability sitting inside platforms than there was 10, five or even two years ago.

“This will be a trend that will continue into the future,” he says.

“And there’ll be more high-net-worth customers and investors who will want that direct share capability. For them, it’s important to have a lot of choice, flexibility and control and [to be able to] exercise that.

“Platforms have a great track record of evolving. I’m very sure the future is bright.” ■

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