Building the index: what makes a region attractive for financial planners?

The Adviser Market Opportunity Index, developed by CoreData, weights a range of factors to come up with a method for ranking 85 regions across Australia.

JAMES TAYLOR EXPLAINS.

THE MODEL

The model measures and compares results based on seven variables. Each region receives a score for each variable. The total score is a weighted average score for all these variables.

The total Opportunity Index score ranges from one to 10, where one is a very poor opportunity and 10 is a very strong opportunity. The weighting is based on the expected importance in generating an opportunity.

Geographically, the number of authorised representatives has been analysed by Statistical Area Level 4 (SA4).

Opportunity for financial advisers is measured by looking at the supply of and demand for advice. The supply of advice is based on the total population in an SA4 area divided by the number of advisers.

The demand factors then zoom in on whether the population in that SA4 area is likely to seek advice, based on wealth and demographic characteristics.

The table below lists the key variables, "their weighting and sources.

THE SCORING SYSTEM

Results are based on percentile scores. If a region has the highest score for a particular variable, then this region will be ranked in the 99th percentile.

Each variable has been given a weighting that reflects its importance in creating an environment of opportunity for financial advisers.

The total score for a region combines the weighting for each variable and the percentile scores.

The weighting cannot exceed 100 per cent for the seven variables. A 1 per cent weighting would indicate that the variable is not important relative to the others, whilst a 100 per cent weighting means that the variable is the only factor of importance.

So the total score can be written as:

Total score = (score variable 1 x weight variable 1) + … + (score variable 7 x weight variable 7).

SUPPLY OF ADVICE

VARIABLE NAME	WEIGHT (OUT OF 100%)	MEASUREMENT	SOURCE
Population per authorised representative	40%	Total population / number of authorised representatives	Australian Securities and Investments Commission (ASIC) and ABS, 3235.0 — Population by Age and Sex, Regions of Australia, 2013.

DEMAND FOR ADVICE

Wealth

VARIABLE NAME	WEIGHT (OUT OF 100%)	MEASUREMENT	SOURCE
Average annual investment income per capita ($)	20%	$, 2014 estimate	ABS, 1379.0.55.001 — National Regional Profile, 2008 to 2012, Economy, Income from investments.
Average wage and salary income ($)	10%	$, 2014 estimate	ABS, 1379.0.55.001 — National Regional Profile, 2008 to 2012, Economy, Wage and salary income.
Average own unincorporated business income ($)	10%	$, 2014 estimate	ABS, 1379.0.55.001 — National Regional Profile, 2008 to 2012, Economy, Own unincorporated business income.

Demographics

VARIABLE NAME	WEIGHT (OUT OF 100%)	MEASUREMENT	SOURCE
Population aged 55 and over	10%	Percentage of total resident population (2014 estimate)	ABS, 3235.0 — Population by Age and Sex, Regions of Australia, 2013.
University educated	5%	Percentage of total post-school educated	ABS, Census 2011, T30, Non-School Qualification: Level of Education by Age by Sex.
Population growth (5-year average growth rate, %)	5%	Percentage 5-year average growth rate (2014 estimate)	ABS, 3218.0 — Regional Population Growth, Australia, 2012-13, Population Estimates by Statistical Geography (ASGS 2011), 2003 to 2013.

JAMES TAYLOR IS A BUSINESS ANALYST WITH COREDATA CONSULTING – WWW.COREDATA.COM.AU