

Business IQ

Between Meetings

Matt Heine chats to industry thought leaders on the opportunities and challenges facing financial advisers and the wealth industry as a whole.

PLUS:
A look at how COVID has accelerated digital engagement and what advice clients now expect.



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The future of advice

In uncertain times, it can be difficult to look forward, with optimism, towards a bright future for the wealth industry. However, Netwealth believes the financial advice profession has an extremely positive outlook, especially for those advisers able to adapt to changing circumstances.

THE ARTICLES in this magazine are drawn from interviews I undertook over the past 12 months with industry thought leaders in my 'Between Meetings' podcast series. These experts include some of Australia's most dynamic, experienced professionals, ranging from the principals of major advice firms and asset management businesses to researchers.

We've distilled some of the most interesting and perceptive insights from the interviews, covering a range of issues that relate to the challenges and opportunities faced by the Australian wealth industry as a whole and by the advice profession in particular, such as the future of the physical workplace, how to manage employee culture and the importance of inspired, client-centred leadership.

You can read about customer trends advisers shouldn't ignore, as explained by CoreData principal, Andrew Inwood. Fidelity's managing director Alva Devoy discusses the importance of leadership, culture and core values, along with what she sees as the real value of financial advice to clients. AZ NGA CEO Paul Barrett shares what he believes are the three key attributes of a successful financial advice firm. Whilst Adviser Ratings CEO Mark Hoven discusses the shifting financial advice landscape, with large-scale privatisations and the paradox of adviser numbers decreasing while consumer demand is increasing.

We have also included a special report on 'The New Norm', which looks at how the COVID pandemic has accelerated digital engagement, why advice clients now expect such engagement more than ever, and how AdviceTech plays an essential role in meeting client needs.

I hope the articles provide invaluable insights that can help you navigate the road ahead towards ongoing success for you as a wealth professional.

Matt Heine

Joint Managing Director,
Netwealth



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THE CHANGING FACE

of financial advice firms

The financial advice market in Australia has changed dramatically in recent years and continues to do so, with large-scale privatisation occurring and the number of advisers decreasing while consumer demand increases.

In Netwealth's Between Meetings podcast, 'The changing market of financial advice', Adviser Ratings CEO Mark Hoven spoke with Netwealth joint managing director Matt Heine, sharing his insights on the changing financial advice industry and market.

In the discussion, they touched on many things, but of particular interest were Mr Hoven's views on the current demand for financial advice and whether episodic advice may be the new way forward for both advisers and clients.

Mr Hoven suggests that the advice industry is clearly going through a massive reshaping and repositioning, as is the financial product manufacturing sector that supports it. It is a complex, interdependent product/advice ecosystem, notwithstanding the banks exiting both advice (to a lesser extent) and financial product development, while regulation is increasingly driving a wedge between advice and product.

With so much change occurring in the ecosystem, it is difficult to know where to begin to address many of its current issues, prompting many to believe a further significant transformation is inevitable.

Transformation of the advice industry

Mr Hoven observes a mass privatisation taking place in the financial advice industry. "It really is a small business industry, isn't it?" he says.

"It's an SME market now, with something like 65-70 per cent of advisers operating under privately-owned licenses and a huge chunk of those under self-licencing."

In the five years to the end of 2018, there was a 50 per cent growth in the number of licensees in Australia, with most of that growth at the small end of town: one-to-three-person, self-licensed practices.



Mark Hoven

Mr Hoven has worked in the wealth industry for over 20 years in investment research, ratings and data-analytic businesses.

Since 2018, however, there has been a massive reversal of that trend, with almost two licensees closing for every new one established and 95 per cent of the licensees shutting down being one-person businesses.

At the same time, 60 per cent of the people closing those businesses are staying in the industry and are moving to the larger end of the privately-owned sector.

"It won't be surprising to see a growth in the size of the bigger licensees," says Mr Hoven. "Those with 30-50 advisers will grow to have 50-100, those with 100 will grow to have 200, and those with 200 will grow to have 500."



At a glance

- The financial advice industry has been changing dramatically, in the form of a mass privatisation.
- The number of advisers in Australia is decreasing at a time when, arguably, the consumer demand for advice is increasing.
- With COVID-19, an increasing number of redundancies, and the government offering early access to superannuation, the demand for limited, episodic advice is outstripping the demand for ongoing, comprehensive advice.
- To help advisers and consumers to navigate the changing advice market, customer ratings are available on advisers' performance. For many advisers, these ratings can be extremely beneficial, particularly in terms of lead generation.



Find out more about the changing market of financial advice
Listen to the Netwealth podcast Between Meetings Ep 34 'The changing market of financial advice' for additional insights.
www.netwealth.com.au/web/insights

“IT’S AN SME MARKET NOW, WITH SOMETHING LIKE 65-70 PER CENT OF ADVISERS OPERATING UNDER PRIVATELY-OWNED LICENSEES AND A HUGE CHUNK OF THOSE UNDER SELF-LICENCING”

According to Mr Hoven, the big accounting firms have forecast this for a number of years.

“Over the past 10 years they have forecast incredible growth in limited advice and very slow growth in comprehensive advice. It’s the nature of our lives. We’ve become a transactional world,” he says. “People want help around something and now it’s being delivered to the doorstep of advisers by COVID-19 and by government offering early access to superannuation. That’s what they want to talk about.”

Mr Hoven believes that in 2021 there will be, unfortunately, an even bigger spike in redundancies, as the economy returns and government support mechanisms are slowly (or quickly) withdrawn. The subsequent demand for specific, episodic advice represents another area in which advisers can help clients in a significant way.

The importance of online customer ratings

Another theme discussed during the podcast was how online customer ratings help create trust. Most people don’t go to a restaurant these days without having a look at its online rating. Most certainly won’t go to a movie until they’ve checked its Rotten Tomatoes score. So, is there a place for online ratings for financial advice firms?

Mr Hoven thinks so. He suggests that firms who have received customer ratings on their platform are receiving real benefits, particularly in terms of lead generation.

“Advisers who have claimed their profile (on the Adviser Ratings platform), and have at least 5-10 reviews, are getting something like six times more consumers leads than advisers who haven’t engaged,” Mr Hoven says.

“It’s a remarkable leverage for the simple act of taking a few minutes to claim your profile, fill it out, post a photo, and request some client reviews. It’s simple to be in the game and get more leads.” ■

Demand for advice is outstripping supply

According to Mr Hoven, there were 22,500 financial advisers in Australia at the end of March 2020, but he believes the industry is likely to shrink to something like 15,000 in the next few years.

“It’s frightening to think that we’re getting down to 15,000 at a time when, arguably, the demand for advice has gone through the roof,” he says.

The demand increase is informed by the massive intergenerational wealth transfer that is beginning to occur, with Adviser Ratings estimating that \$900 billion of wealth will be in transition in the near future. This wealth may find a home with the adviser that used to manage it, or it may find another adviser.

A variety of transition issues will emerge. Where advice businesses are proactive, that wealth will be retained. But Mr Hoven suggests, much of the wealth may be lost to DIY or to digital.

“We have a capacity problem and it’s only going to get worse before it

gets better,” Mr Hoven says. “I was interested to see the government – with its instrument around advice for early access to super during the pandemic – bring in unlicensed tax agents and accountants. That’s clearly a massive reversal of the direction the government has been taking to regulate the advice industry. It was about capacity and wanting an army of professional people to help consumers in their hour of need.

“It was a short-term, interim step. I don’t anticipate they’re going to make it a permanent move, but I’m interested to see where the supply of advisory capacity will come from. I’m interested to see if we’re going to see a trend of more accounting firms being lured into the space. There are clearly plenty of them out there that have not yet made the jump that we thought would happen three or four years ago.”

Episodic advice

There has also been talk recently about episodic advice, in response to a clear consumer demand largely brought about by the COVID-19 pandemic.

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At a glance

- Many successful advice firms today are working hard to develop effective customer segmentation and improve their communication to targeted client segments.
- A massive opportunity for Australian financial advice businesses will occur over the next 10 years, as between \$2.7 trillion and \$3.2 trillion of wealth will transition from one generation to the next.
- Among the most interesting, forward-looking advice practices now are those known as the 'Foxes' – two-or-three-partner businesses that are very digital and well-organised.

CUSTOMER TRENDS

advisers shouldn't ignore

In difficult times for the Australian financial advice industry, advisers are likely to benefit from an awareness of key trends, such as the increasing importance of customer segmentation, the positive effects of business process transformation (particularly in terms of digitisation) and the opportunities presented by the massive intergenerational wealth transfer that will take place over the next decade.

In Netwealth's Between Meetings podcast, 'Industry trends financial advisers should know', CoreData principal Andrew Inwood spoke with Netwealth joint managing director Matt Heine about how advisers can succeed in a changing environment, what industry funds are doing to better understand their customers, what high-net-worth individuals most need help with, and learnings from the advice experience in the United Kingdom and United States.

The massive change that the financial advice industry in Australia has experienced in recent times appears to be continuing unabated. According to Mr Inwood, this has led to a blurring of lines between businesses, institutions and professions.

"There's a kind of compression," he says. "Advisers are moving down and starting to play some of the roles of the platform. Platforms are moving up, starting to play some of the roles of the adviser. Fund managers

are moving down and going direct to clients, starting to offer some of those services where people are able to buy on price-led decisions. That compression is not going to go away."

If advisers are to find a viable place to operate successfully in such a compressed environment, they need to identify their core strengths, with CoreData research revealing that 'client intimacy' is something that Australian advisers are good at and that clients appreciate.

Although trust fell steeply in the immediate wake of the financial services royal commission, it has been rebuilding quickly in the period since.

Better communication through customer segmentation

Mr Inwood suggests that the most successful advice firms are working hard to develop effective customer segmentation and improve their communication to targeted client

segments. They are better able to satisfy client needs when they divide their client base into three or four cohorts, which they then manage as independent groups.

"We're late to this as an industry," he says. "The car industry figured this out 200 years ago. You can now buy a \$32,000 Mercedes or a \$2 million Mercedes. They worked it out. And they worked out what satisfies people. We're still getting to it."

The best way to segment the client base, he says, is on the basis of hardwired behaviours. Once the advice firm can accurately identify these behaviours and satisfaction measures, within each cohort, they can begin to determine the most effective communications and the way in which individual advisers should speak and act. When this is understood, the adviser can stimulate clients into much more positive behaviours.

High-net-worth families, for example, tend to fall into two groups.

"THE CAR INDUSTRY FIGURED THIS OUT 200 YEARS AGO. YOU CAN NOW BUY A \$32,000 MERCEDES OR A \$2 MILLION MERCEDES. THEY WORKED IT OUT. AND THEY WORKED OUT WHAT SATISFIES PEOPLE. WE'RE STILL GETTING TO IT"



Andrew Inwood

Mr Inwood is the founder and principal of CoreData with 30 plus years experience in the Australian financial services industry.



On the one hand, there are high-net-worth families that want nothing to do with the details of financial management. They require a monthly report from their adviser and not much else. On the other hand, there are high-net-worth families who will be on the phone with their adviser every day requesting detailed updates. These are clear types of behaviour to which advisers can respond appropriately.

Opportunities offered by intergenerational wealth transfer

One of the biggest trends, and opportunities, for the Australian financial advice industry is intergenerational wealth transfer.

Andrew suggests Australia is facing a period in which between \$2.7 trillion and \$3.2 trillion will transition between generations over the next 10 years.

CoreData has undertaken research on this and has concluded that the people who have built the wealth have a series of significant fears. The first fear is that the money will end up "as a Ferrari in someone's driveway".

The second fear is that it will go to the tax department. The third fear is that someone they don't like will get the money (perhaps the husband of a daughter or a grandchild who is a waster). They effectively want to control the money beyond the grave.

"We saw a case recently with a plumber from the southern part of Sydney," Mr Inwood says.

"He arrived in Australia from Italy in 1950 and appears to have bought a house every year since then. He has a lot of money and a very successful plumbing business.

"He has two daughters and four grandchildren, and his biggest fear

is that his sons-in-law will get their hands on the money. He sees the money as being for his daughters and for the grandchildren."

This is one example of many family situations that demonstrate the desperate need for advice over the next decade.

Transforming advice businesses through digitisation

A common statement used at CoreData is, "Unless you start transforming yourself, you'll be transformed."

An essential element of business transformation required for advice firms in the current environment is digitisation.

"The licensees that will win in the future are rushing towards digitisation," Mr Inwood says.

Digitisation takes much of the day-to-day work out of the advice practice. In the United Kingdom, which appears to be four to five years ahead of Australia in terms of this trend, the most successful businesses have digitised processes and streams to



Find out more about trends affecting the financial advice industry

Listen to the Netwealth podcast Between Meetings Ep 29 'Industry trends financial advisers should know' for additional insights, or contact Netwealth.

www.netwealth.com.au/web/insights

The advice businesses most likely to succeed

CoreData has developed a matrix to describe the four different types of advice businesses in the Australian marketplace – the 'Cruisers', 'Islanders', 'Oxes' and 'Foxes'.

The Cruisers comprise of advisers who tend to work mostly on Tuesdays, Wednesdays and Thursdays. They have good golf handicaps and sailing times. They might work 150 days a year and charge for 200 days a year.

The Islanders include individual advisers who run a practice by themselves. They tend to be under-resourced and have high profit margins, but the way in which they've made their profits is changing and some of their profit sources are now outlawed.

The Oxes are large businesses that have been around for some time. Their biggest challenge is managing the dynamic between young and old partners. The older partners often try to drive value out of the business, while the younger partners try to drive value into the business. The most interesting, forward-looking group is the Foxes – two-or-three-partner businesses that are very digital and well-organised.

"This group is not defined by age, but there is some suggestion that they're younger – they might be 45 rather than 55," Mr Inwood says.

"They understand how to service their clients and are very good users of technology. They use services like Netwealth really well. They do as little work on the business – in terms of funds management – as possible. They do the most work they can on acquiring, servicing and satisfying clients. They drive the best value they can out of their relationships and outsource as much of their business as possible." ■

\$3.2

TRILLION

The amount of wealth that may transition from one generation to the next over the next 10 years

ensure record-keeping is faster and the everyday work-life for advisers is smoother. This, in turn, enables advisers to be more intimate and hands-on with their clients by taking the piecemeal out of the business.

"In the UK, I sat with two businesses for a couple of days and watched what they do," says Mr Inwood.

"In a meeting, the adviser would take a photograph of the written notes with a tool on their mobile phone, which scanned it immediately and uploaded it to a text file, so nothing was ever lost. It wasn't 100 per cent perfect, but it was good enough. They were creating a powerful digital wake of information."

Partnering for success

Mr Inwood closely observed 15 advice practices in the United States recently and noticed that each had built a new philosophy for their business. They had used the COVID crisis to drive business change, focusing on quality at all points, and the people within the businesses understood they had to adapt. Another thing that successful advice businesses do, Mr Inwood says, is choose the right partners – business partners who have the same intentions and will be around for the next five years.

The most successful advice businesses also embrace strong leadership, which isn't an accidental thing. It can't be done just by strength of personality. Leaders have to set out a clear vision, lead to it, set the KPIs and transform the business to those KPIs.

Many Australian advice businesses run on strength of relationship or personality alone, but that time may be over. The future is about customer satisfaction, net new customers, and running businesses on the numbers.

What makes an ADVICE BUSINESS ATTRACTIVE

There are three key attributes of a successful financial advice business. They are the effective creation and maintenance of 'human capital', the articulation and implementation of specialist disciplines, and leadership that support a clear long-term vision.

In Netwealth's Between Meeting podcast, 'What makes an attractive advice firm', AZ NGA CEO Paul Barrett met with Netwealth joint managing director Matt Heine to share the details of his fascinating career journey and offer insights into what he believes makes a great financial advice practice.

AZ NGA was established in 2015 as an integrated partnership that invests in accounting and financial advisory businesses, offering a framework that delivers certainty around capital flows and succession planning.

Future advice model - multidisciplinary v specialist

Mr Barrett suggests that, if he was to build a financial advice company today, from the ground up, it would be a multidisciplinary firm with between three and six specialist divisions.

These divisions would all come together under one business, with a clear, articulated offering to clients.

The right incentive model would then be built to ensure the front office presented a united offering.

"And I mean really specialist," he says. "I might have a pharmacy advisory division, an SME outsourced CFO division, and a legal division."

This makes sense from business first principles. Having a number of specialisations and disciplines provides risk mitigation through a diverse portfolio. It enables the articulation of a clearer value proposition. It also facilitates easier organic growth.

"Specialists get passionate and obsessive about what they do, and you need that for organic growth. It's much harder being passionate about a general proposition. It's much easier when it's deep and narrow," Mr Barrett says.



< Paul Barrett

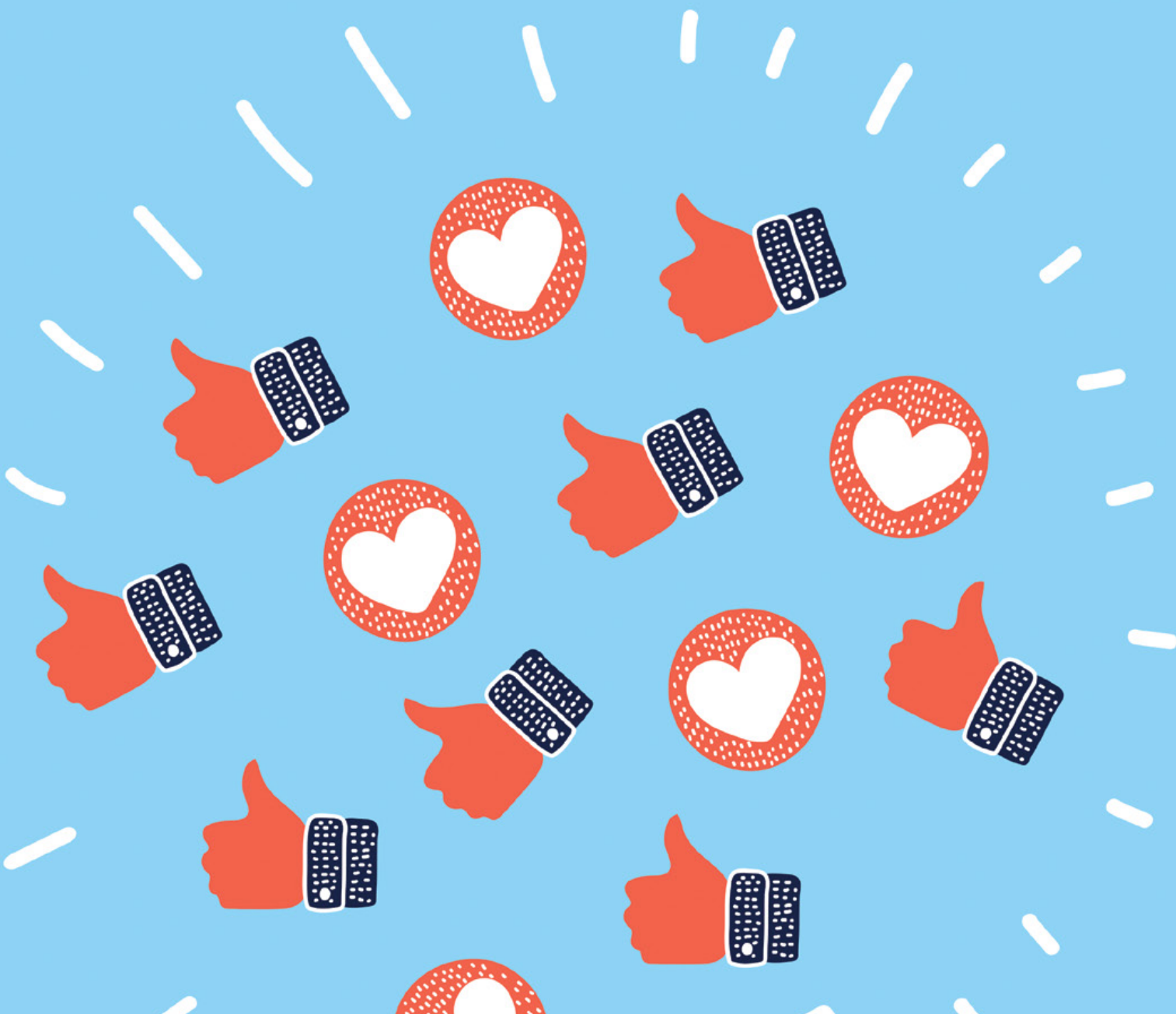
Mr Barrett established AZ NGA in 2015 and has over 20 years' experience in wealth management.

The importance of leadership and a long-term vision

Mr Barrett also believes in the 'old school' business ethos of focusing on a long-term vision.

He learnt the importance of vision and leadership early, in a formative experience working with the firm Connelly Temple.

"The two founders found an interesting niche for accountants that grew into an administration service and into financial planning. It had a momentum that came from the vision of the leaders.



At a glance

- The development of human capital – the ability to aggregate people into a unique community or culture – is one of the most important elements of a successful financial advice business.
- Having a number of specialisations or disciplines within an advice business provides risk mitigation through a diverse portfolio, enables the articulation of a clearer value proposition, and facilitates easier organic growth.
- A clear ambition or focus on a long-term vision, to build the best advice business you can, will open up doors.





“SPECIALISTS GET PASSIONATE AND OBSESSIVE ABOUT WHAT THEY DO, AND YOU NEED THAT FOR ORGANIC GROWTH. IT’S MUCH HARDER BEING PASSIONATE ABOUT A GENERAL PROPOSITION”

“The founders were able to identify talent to come and take over key jobs at key times. They were equally visionary and innovative. Leadership was a big part of it,” Mr Barrett says.

The advice businesses that AZ NGA now invests in mostly have a vision to grow into a successful financial services business, no matter where they come from – from start-up to mature and from small to large – as long as they have a clear ambition.

“If you can just focus on a long-term vision to build the best company you can, it opens up doors.”

The cornerstone of a successful advice firm - culture and human capital

Mr Barrett uses the analogy of an x-ray of a hospital patient to describe the structure of an advice business.

“At the very base of the spine, you’d see a management information system, a general ledger, an accounting system,” Mr Barrett says.

“The next level of vertebrae of note would be a data warehouse, where all the information that the business gets from its various systems can get plumbed and stored and reported on. Then you’d see the licence to operate, which is either the licensee or other arrangements. Then you’d see certain administration functions, such as para-planning.

“Go up the spine a bit further and you get to things like product systems and client engagement tools.”

These elements are common to most advice practices. What cannot be easily replicated, however, is human capital. And if following the x-ray analogy through, this is the skull or head.

To illustrate this, Mr Barrett refers to the time he spent, years ago, working at Colonial First State.

“We had a unique culture at CFS back then,” he says.

“The people in the client services departments and in the investment



Find out more about what makes an attractive advice firm?

Listen to the Netwealth podcast Between Meetings Ep 36 ‘What makes an attractive advice firm?’

www.netwealth.com.au/web/insights

administrations teams, with massive teams of people, the cultures they created around continuous improvement and the way we all worked together, were really special. It was a very, very successful business.”

A business may have unique intellectual property and sophistication in the design of systems, but in the end it is the aggregation of people into a community or culture, and the way people interact with each other, that make it successful.

The ‘human capital’ element is essential. It is also often the most difficult element to build and maintain, so it cannot be neglected and always requires focus. ■

I GIVE MY
PARENTS
MONEY
ADVICE,
I'M A  **BANQER**
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The value of building a great team culture

What is the value of leadership, culture and core values in a financial advice business? What is the real value of financial advice to clients? With the financial advice industry in a state of flux, advice firm principals need to take both questions seriously.

In Netwealth's Between Meetings podcast, 'Shaping team culture and the real value of financial advice', Fidelity International managing director Alva Devoy spoke with Netwealth joint managing director Matt Heine about her personal experience of transitioning from a PhD in genetics to leading one of the nation's largest asset managers, and the lessons she has learnt in shaping the culture and values of her team. She also identified some not-so-obvious benefits of advice and why more Australians are not seeking assistance with managing their wealth.

Leadership, culture and core values

Ms Devoy considers herself lucky to be in a business that is largely driven by human capital.

"I work with amazing people, harnessing their brainpower," she says.

"My true value as a leader and business manager is finding great people and giving them a supporting environment so they can do their best work. I really believe in the concept of a team. No one person can do it all, know it all, and be on top of everything."

The culture that supports any organisation has now become critical. The power structures of organisations have also flattened.

"I don't lead an organisation," Ms Devoy says. "I lead people, who ultimately deliver for the organisation. With the team I work with, it's important that they feel self-actualised, feel valued, are making progress, and have purpose.

"Having the right person in the right job with the right attitude is priority number one. Priority number two is just stepping out, letting them get on with it, and letting them feel their own power."

According to Ms Devoy, the core values for Fidelity Australia are integrity and trust – encouraging everyone to do the right thing, all the time, having everyone trust each other, and having clients trusting the organisation.

She also works hard against blame culture. In a privileged environment such as the financial advice industry, the stakes are high. If mistakes occur, there can be a propensity to point fingers. Avoiding that is key in an expanding, diversifying organisation. A positive



Alva Devoy

Ms Devoy was appointed as managing director of Fidelity International's Australian business in 2016

culture also involves celebrating successes which, for Fidelity, involves aligning with the organisation's purpose of building better futures for clients.

"If we hire the right people, they should align with that strongly," Ms Devoy says. "If they've been on the journey, are clear about what part of the strategy they own, and have KPIs linked to purpose, that's a great way to celebrate successes."

Employing Millennials

One challenge of building an integrated culture in any organisation at the present time is interacting with the next generation of employees, the Millennials, who may have a different perspective on work and life to others.

Fidelity has a number of young people working in the organisation.



< Find out more about shaping team culture
 Listen to the Netwealth podcast Between Meetings Ep 37 'Shaping team culture and the real value of financial advice'.
www.netwealth.com.au/web/insights

At a glance

- Effective leadership in a business involves building a positive team culture of integrity and trust, while avoiding the development of an internal 'blame' culture.
- The challenges associated with employing Millennials can be addressed by having younger team members 'reverse-mentor' their older, more senior colleagues.
- With the majority of Australians worrying about their financial position on a weekly basis, an opportunity exists for financial advisers to help people alleviate this worry and, in turn, support their mental health, relationships and physical wellbeing.

Ms Devoy's invitation to them is to 'reverse-mentor' the older, often more senior team members.

"I had the opportunity to be reverse-mentored by a group of Millennials," she says. "They told us to stop giving young people career advice, because our pathway is now obsolete. We're being disrupted. The three-stage life of educate, work and retire is now done."

A number of younger team members at Fidelity, due to the remote working environment brought about by COVID, have devised solutions on connectivity and keeping everybody in the loop in terms of workflow documents aligned to teams and new checklists to ensure handovers happen in a timely manner.

"I don't find there's much of a sense of entitlement with young people," Ms Devoy says.

"I would have found it more 10 years ago, when I was hiring graduates who would imply that that they have a high-level degree and the world therefore owes them a career. That happens less and less. There is a greater level of humility. I find now, engaging with prospective employees and new, younger team members, that their perspective is more one of 'What can you teach me?', 'What can I learn in the job?' and 'What does this organisation have to teach me' rather than 'What can you pay me?'. I think that's a healthy attitude."

The value of advice - What clients really want from advisers

Another theme explored during the podcast was the value of advice to clients. Fidelity Australia, in partnership with CoreData, in early

2020 published a research report on the value of financial advice.

The research involved a large sample size of approximately 2,200 people, culminating in a huge databank of responses to questions such as 'Do you worry about money?' and 'If so, how often do you worry about money?'

The findings revealed that the vast majority of Australians (roughly 60 per cent) worry every week about their financial position, and that the degree of concern is not based on membership of a specific socio-economic group. Those who have \$1 million or more to invest have similar levels of worry about their financial position as those who don't.

The research also investigated the impact of this worry on mental health, relationships and physical wellbeing. In addition, it examined the barriers that stopped people from doing something about financial worry.

Understanding that people worry about their financial position (and knowing they recognise this worry has a negative impact on their mental and physical wellbeing and relationships) can help the advice industry to move to the next step – galvanising activity. This involves creating an advice value proposition that people no longer need to wait to be triggered by life events (such as divorce, retirement or a death in the family) to seek advice. Further, Ms Devoy noted, that people are becoming increasingly health-conscious, regularly engaging with the services of chiropractors, osteopaths, counsellors, naturopaths and the like.

She suggested an effective financial advice value proposition can align with these trends and position advisers as another professional in a consumer's arsenal to help them live a full, healthy, rich life. Financial advice can be one more tool to help them achieve what they need on a personal level.

"My aspiration is that, in five years' time, there will be an environment in which having a financial adviser is just part and parcel of most people's everyday life," Ms Devoy says. ■

The future of the workplace

The business workplace has changed dramatically, in Australia and internationally, since the onset of the COVID-19 pandemic. The typical work environment and practices of old are unlikely to return.

In Netwealth's Between Meetings podcast, 'Capitalising on curiosity', Magellan Asset Management chairman and CIO Hamish Douglass spoke with Netwealth joint managing director Matt Heine about his career, which has seen him climb up the ranks to co-found one of Australia's leading asset managers.

Mr Douglass also shared how his curiosity has translated into investment success, how it's helped in developing a culture of innovation, and how he's been able to capitalise on luck. During the discussion, one subject that Mr Douglass provided interesting insights on was the future of the office and work, particularly in relation to the asset management and financial advice sectors.

In the wake of COVID-19 and subsequent lockdowns, questions are being asked about what the future of work looks like, what is the purpose of the office, and how the workplace will eventually function, post-pandemic.

Mr Douglass revealed that Magellan

is giving much thought to these questions. The firm is undertaking real-time learning about how productivity is affected in a changed work environment, and how much flexibility can be given to the people within organisations.

A breakthrough in communication

Before COVID-19, a Magellan executive might travel around the world to visit the CEO of an international company for a one-on-one meeting. They would then write a file note to share with colleagues in Australia on their return.

Since the coronavirus broke out, all the firm's program managers and other relevant people are likely, instead, to participate in a videoconference with the same international CEO.

"Everyone gets to participate and hear," says Mr Douglass. "Not only are we not spending the time and money to travel, which also contributes to carbon emissions, but the engagement achieved with the videoconference format has increased the meeting's utility value. It's a breakthrough in communication.



Hamish Douglass

Mr Douglass, Chairman and CIO of Magellan Asset Management, shares his career story that's seen him climb up the ranks to co-found one of Australia's leading asset managers.

"For instance, I was meant to be in Asia the week before last for a seminar with one of our clients. I would have flown there. It would have taken me three days, with one day of travel to get there, a day for the meeting and another day coming back.

"Instead, we did a videoconference, which was incredibly engaging. Five hundred clients participated, and it only took an hour, with perhaps two hours of preparation time. I suspect the client had more participants at the seminar than they would have had at the in-person event, had it proceeded."

A hybrid work environment

In terms of the future internal work environment, Mr Douglass believes that businesses will end up moving to

An illustration of a woman with long dark hair, wearing a white off-the-shoulder top and orange pants, sitting on a colorful striped rug. She is smiling and looking at a laptop. The background is a stylized room with a large orange wall and a light blue sky. There are several green plants in pots, including a large monstera leaf on the left and a snake plant on the right. The overall style is modern and vibrant.

At a glance

- The transition, in many workplaces, from physical, face-to-face meetings to videoconferencing represents a breakthrough in business communication that is likely to continue.
- The future work environment may involve a hybrid model of providing more flexibility to work from home, while also mandating regular, in-person, face-to-face interactions.
- For women in the workplace who have, or want to have, children, the evolution of a more flexible workplace could be a game-changer.



“MORE FLEXIBLE ARRANGEMENTS COULD TAKE THE STIGMA AWAY FROM WOMEN WHO MAY WORK FROM HOME IF EVERYBODY'S OFFERED THE SAME OPPORTUNITY”

a hybrid model that includes providing people with more flexibility to work from home.

He finds that structured internal meetings are better, more engaging, and more focused when undertaken by videoconference rather than in a physical environment.

However, he also acknowledges that, with working from home, people miss out on the unstructured interactions and social connections that are still very important for business.

“When organisations think they’ll completely reduce all their rental costs – by slimming down their offices and just have people working from home – it’s the wrong model,” Mr Douglass says.

“I think we’ll end up with a world that has more flexibility, but also some compulsory in-person, face-to-face activity as well.”

Flexibility as a game-changer for women in the workplace

While many companies, internationally, have indicated they will reduce costs by changing work arrangements in the current environment, Magellan intends to take a different approach.

“We’re not looking to reduce costs for Magellan from this,” says Mr Douglass. “We’re looking to be more productive and more flexible.”

“For women in the workplace who want to have children, this could be a game-changer.

“More flexible arrangements could take the stigma away from women who may work from home if everybody’s offered the same opportunity, especially now it has been demonstrated to senior management that people can get their work done in a more flexible environment and perhaps be even more productive.”

The office as a ‘collaboration hub’

In a post-COVID world, some companies may consider reconfiguring their office spaces to amplify unstructured, social interactions, so they become collaboration hubs rather than just a place to work.

On the other hand, Mr Douglass believes that previous attempts to increase collaboration through open plan workplace design and ‘hot desking’ have not always been ideal, especially from a health perspective.



Find out more about the future of the workplace
Listen to the Netwealth podcast Between Meetings Ep 42 ‘Capitalising on curiosity’ for additional insights.
www.netwealth.com.au/web/insights

Many organisations are therefore thinking more about separating teams from future health risks within the office environment. Collaboration, however, is still important, and Magellan wants to ensure it brings a critical mass of people together regularly in the future, on both an individual team basis and a firm-wide basis.

“We’ll probably end up with a model where there is at least one day a week that’s compulsory, across all teams, to be in the office,” Mr Douglass says.

“Then we can structure things for that day. For example, as well as Friday night drinks, like other companies, we have Pizza Fridays and Chocolate Thursdays every week.

“We want to make sure we keep cultural activities going, while giving people greater flexibility at the same time.” ■

Managing culture, clients and technology

Businesses have had to adapt quickly to the changed environment brought about by the COVID-19 pandemic. The importance of technology in this adaptation cannot be underestimated.

In Netwealth's Between Meetings podcast, COVID-19 special: 'Managing culture, clients and technology', Koda Capital founding partner and COO Andrew Rutherford spoke with Netwealth joint managing director Matt Heine about how the COVID-19 crisis forced the majority of people and firms in the financial advice industry to work virtually, discovering innovative ways of maintaining meaningful client relationships and keeping teams motivated.

Innovative business process re-engineering

Mr Rutherford has been impressed by the innovative, pragmatic process re-engineering that has emerged as a

result of businesses adapting to the changed environment brought about by the pandemic.

"I'll give you an example," he says.

"We've been in the process of changing banks, which is not fun at the best of times. The Commonwealth Bank is our new bank and have done a fantastic job. While their normal process would require us to sign documents and have them witnessed, they said, 'In the current environment, we'll allow you to sign a document in front of a bank officer via Skype or Zoom. We'll take that as having been validly witnessed and endorsed as if you're in the room.'

"That's sensible, pragmatic and effective. The fact that a big organisation like that has been able



<
Andrew Rutherford

Mr Rutherford is a founding partner and Chief Operating Officer at Koda Capital. He has over 20 years of financial and telecommunications experience.

to get their heads around that problem and solve it quickly is awesome. We've been impressed with that level of innovation. It has allowed us to continue pretty much without any interruption to the business."

Workflow in the cloud

In terms of the servicing of clients, using Zoom and other technologies to maintain deep client relationships has worked well for Koda Capital.



> Find out more about managing culture, clients and technology
Listen to the Netwealth podcast Between Meetings Ep 32 'Managing culture, clients and technology'.
www.netwealth.com.au/web/insights

While Mr Rutherford admits these are not a substitution for direct face-to-face interaction, they are still good. He cannot imagine how a business like his would have been able to conduct business 10 years ago if a pandemic had occurred then. This embrace of such technology also aligns with Koda's original value proposition.

"When we set the business up in 2014, we deliberately had a goal of making it family-friendly," Mr Rutherford says.

"We wanted to use that family-friendly dimension as a differentiator to attract new, high-calibre staff, and that required us to adopt and use technology in a different way."

Less than a year ago, when Sydney experienced some bad weather, some of Koda's people couldn't make it to the office. This prompted an improvement of the firm's technology, so it would be able to cope if everyone had to work from home.

As a result, Koda transitioned from on-premise to cloud-based Office 365 and from an in-house to a cloud-based shared drive system with unlimited capacity. The firm seamlessly changed from being entirely office-based to entirely remote-based.

"We're now able to re-divert our phones on the fly, simply using a browser," says Mr Rutherford.

"Everyone has Zoom on their laptops and phones. Everyone has a laptop. We've invested in webcams and screens for people to work safely and comfortably at home. The transition was incredibly smooth."

Managing the trade-off between security and convenience

According to Mr Rutherford, one of the biggest benefits of Koda's current technological infrastructure is that it is entirely flexible. The firm doesn't need to pay for expensive

At a glance

- Unprecedented levels of innovative, pragmatic business process re-engineering have emerged as a result of companies adapting to the changed environment brought about by the COVID-19 pandemic.
- In altered business circumstances, Koda Capital has embraced new technological solutions that seamlessly support client relationships and staff needs.
- Technological transformation for businesses is all about building security and convenience for clients, while supporting the efficiency and productivity of an organisation's own people.

300
MILLION

The daily meeting participants on Zoom in April 2020, a jump from 10 million only four months earlier.

infrastructure up front. It pays for it as needed. The technology is scalable in terms of volume, capacity and price.

The firm has also improved its online security.

"We've been very conscious of the trade-off between convenience and security," Mr Rutherford says.

"You could make everybody log in and input their password every 30 minutes if you wanted to, but that's probably overkill. We have tightened security, so we need to

re-authenticate and re-log-in more regularly than we had to in the past. We've also made passwords longer and added two-factor authentication.

"But we've done all of this on the fly, as needed. If you have legacy or on-premise technology, you don't have that flexibility."

Implementing a CRM platform

Koda is currently implementing Salesforce as a new CRM platform, delivered by partner Creativemass under the WealthConnect brand. Mr Rutherford believes this will transform how Koda operates internally as well as how the firm engages with clients. The benefits will consist of better client management and a more open ecosystem so Koda's software systems and database integrate and 'talk' better with each other.



“EVERYONE HAS ZOOM ON THEIR LAPTOPS AND PHONES. EVERYONE HAS A LAPTOP. WE’VE INVESTED IN WEBCAMS AND SCREENS FOR PEOPLE TO WORK SAFELY AND COMFORTABLY AT HOME. THE TRANSITION WAS INCREDIBLY SMOOTH”

“We currently send our clients enormous volumes of documents, sometimes in hard copy and sometimes in soft copy.

“However, the risk of fraud, phishing and other cyber risks in an email world is so great that we have to get away from it,” Mr Rutherford says.

“The real opportunity will be when we can extend the technology ecosystem that we’re building internally around Salesforce to third-party partners.

“For example, we obviously work very closely with Netwealth, so the integration points between our Salesforce implementation and Netwealth – to open accounts, conduct AML, share key attributes about a client portfolio, and review documents – that secure exchange of information will be the next level for us.”

As a result, Koda is looking to make a big investment in the WealthConnect/Salesforce capability and he believes that within the next three to six months they will have transformed their business in terms of being able to work in a remote workforce and client environment.

Tips in making the AdviceTech leap

“You have to start from the perspective of ‘How do I solve a business problem?’ and ‘How do I make the lives of clients, staff and shareholders better through profitability?’” Mr Rutherford says.

An effective technology stack delivers better outcomes to all three

stakeholder groups. For example, Koda uses Salesforce for client management, the shareholder registry, staff activity and training registers, among other things. It has become an enterprise management tool set.

Ultimately for Koda Capital, technological transformation is all about building security and convenience for clients, while supporting the efficiency and productivity of the firm’s own people. The best outcome involves a combination of technology that delivers on both fronts and makes everyone’s lives easier. ■

Leading the modern advice firm

With the Australian financial advice industry continuing to face significant challenges, the way forward will require inspired leadership, a shared client-centred focus, and a careful nurturing of the next generation of advisers.

In Netwealth's Between Meetings podcast, 'Advancing the financial advice industry', CountPlus managing director Matthew Rowe spoke with Netwealth joint managing director Matt Heine about some of the important lessons in leadership he learnt during a career that has included starting his own business, chairing the FPA, attending Harvard Business School and now helping advice and accounting firms with their long-term success.

Leadership the advice industry needs in challenging times

According to Mr Rowe, the financial advice industry today doesn't require the 'big rock star' personality leadership style, instead it needs the type of leadership around the concept of 'servant leadership'.

"You lead because it's not about you. It's about others in the collective and the people in your team. We need leaders who look after the people in

their care and their clients – leaders who see beyond their own short-term profit/loss or balance sheet issues, and who look at what's good for the long-term sustainability of our profession, moving it from an industry to a profession," he says.

Mr Rowe argues that some behaviours in the advice space at the moment should not be accepted or tolerated, such as people 'grandstanding' in the media or articulating personal views that hurt the reputation of the wider profession.

How the advice community can work better together

There have been divergent views within the advice community this year, with different factions and voices expressing disparate views on the future of the industry. This, in turn, has led others to call for all members of the industry to come together under a more united banner.



< **Matthew Rowe**

Mr Rowe was the longest serving Chairman of the Financial Planning Association of Australia and represented Australia on the Global Standards Body.

Mr Rowe suggests this coming together can begin with practitioners looking at the future from the client perspective first, then reverse-engineering what is required to satisfy client needs.

"What do clients want?" he asks.

"They want high quality, highly-educated, highly-capable people. They want competence. That should be a minimum. We should be able to point to markers around competence, exams and education frameworks that speak to that.

"They want ethics. We should be able to point to a voluntary code of ethics that we all sign up for. We shouldn't have to have it forced upon us.



At a glance

- The type of leadership required by the financial advice industry today should be based less on charisma and personality, and more on the concept of 'servant leadership'.
- The best way for the advice industry to resolve differences and come together is to begin with practitioners agreeing to consider the future from the client perspective first, then reverse-engineering what is required to satisfy client needs.
- An important element of evolving the advice industry in a positive way will be the encouragement and training of a new generation of financial advisers.



Find out more about leading the modern advice firm

Listen to the Netwealth podcast Between Meetings Ep 39 'Advancing the financial advice industry'.

www.netwealth.com.au/web/insights

"I believe in the individual registration of advisers, but I also believe in the licencing framework because of the protection it gives to consumers. We need to come together to work out how this ecosystem will evolve."

Encouraging the next generation of advisers

An important element of this evolution will be encouraging and training a new generation of financial advisers.

"We are the custodians for the next generation of financial advisers who will come after us – the kids at university now, who will have a career in this space," Mr Rowe says.

CountPlus has begun to develop a graduate program, with a detailed process of how to onboard young people who want to be advisers.

"It's the kids coming through that really excite me," says Mr Rowe.

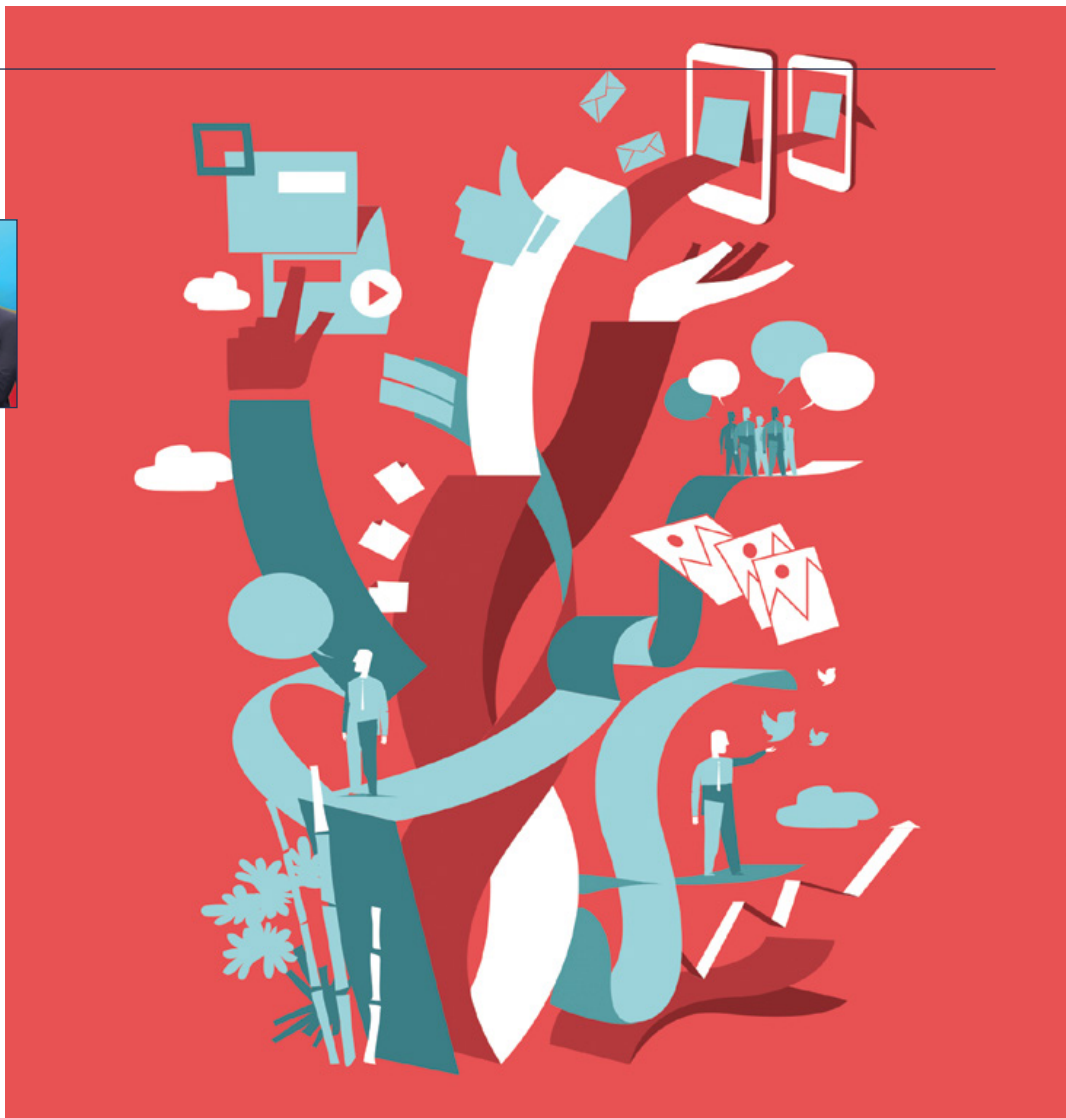
"They're the ones we should be focusing on, because they need a hand up. It's difficult, because if you bring on people who have a degree, there's a certain minimum salary you need to pay in the market to attract them.

"They also need to be able to start generating revenue, to pay back the firm. So, we need to get them through and up to speed as quickly as we can."

Financial advice and accounting coming together

These graduates will enter an industry that will likely be somewhat different in a few years. Mr Rowe believes the future model will involve the convergence of accounting and financial advice. The two disciplines complement each other well, potentially giving clients a sense of comfort, trust and peace of mind, knowing that all aspects of their financial circumstances are being addressed.

For example, a greater number of advisers in the future will likely outsource model portfolio construction, to focus more on what's really



important to clients, such as their overall financial affairs, and their relationships, families and children.

A place for episodic advice?

With the cost of advice increasing, discussion has emerged about the need for episodic advice, or scaled advice, as a means of delivering financial advice at a lower cost.

To Mr Rowe, however, episodic advice represents a short-term view. He believes that people value, and will pay for, a longer-term, peace-of-mind approach if it can be delivered in an efficient, cost-effective way.

"Episodic advice has emerged from the belief that advice is too expensive," he says. "But a significant regulatory burden sits behind that cost. Hopefully, that will be cleaned up and simplified with the changes the government is currently looking at."

Advice firms also need to fine-tune their processes, which in many cases have become cumbersome and need to be re-engineered from start to finish to deliver value to clients. This is one way forward for the development of

a sustainable profession over the longer term.

The right technology

An important aspect of re-engineering processes in advice firms will be the adoption of appropriate technology. According to Mr Rowe, data is "the new oil"

"The value of data is now worth probably more than all other natural resources on Earth put together," he says.

While Mr Rowe acknowledges the current dominance of tech providers such as IRIS and Midwinter in the advice space, he also believes opportunities exist for new, specialist technology start-ups to compete in the future. He expresses his frustration, for example, that there is no simple technology that enables a client to budget well, easily seeing how and where their cash goes in and out.

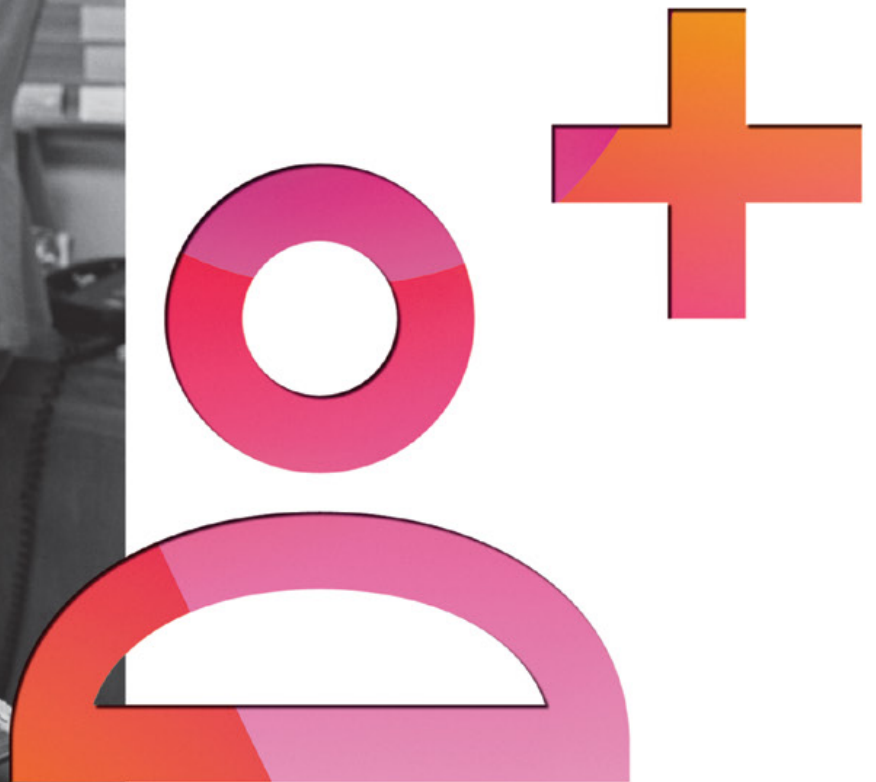
"That's the biggest challenge and opportunity for our space," he says.

"If we are to think more about what's really important, it should start with the client." ■



**The advance of technology
is based on making it fit in so
that you don't really even
notice it, it's part of
everyday life.**

– Bill Gates





THE NEW NORM

How the pandemic has accelerated digital engagement and why your clients now expect it more than ever.

Over the last six months we have all witnessed and participated in a global tragedy, a crisis of immense proportion. Lockdown, quarantine, and wave after wave of changing information has profoundly and perhaps permanently, altered the perceptions and behaviour of humans around the globe.

And as most of Australia removes its restrictions – schools and businesses reopen and some optimism returns, it is a moment for businesses to take stock of changes in consumer sentiment, beliefs and behaviours and evolve their business for not just to returning to normal, but for identifying how they can emerge stronger and more importantly more connected and engaged with their clients.

So much has changed! And it has been digital in nature.

Amongst all the behavioural changes, it became clear in a matter of around eight to 12 weeks that we have vaulted five years forward in digital adoption by consumers and businesses.

Take a moment to think about the new digital experiences that you, your business, and most importantly your clients have had since COVID-19 restrictions began in early March?

For some, maintaining physical health and exercising at home took place over

Zoom with strangers and an instructor they've never personally met. Others have shopped online for the first time. Postal and delivery services saw an increase in parcels and orders as many preferred to receive packages and food deliveries almost every other day at their doors. Both Afterpay and Kogan's share price illustrate this momentous shift to online commerce.

The way we pay for things has shifted from cash to digital – with research from MyStateBank¹ showing that two in three Australians have been using less cash since the outbreak – they are using contactless payments in store, online subscription services, and micro payments for food and virtual coins from our favourite apps.

People are consuming more entertainment services, signing up for at least one, but often more than one streaming subscription service – whether that be Netflix and Disney+ for movies and TV, Kayo for sport, listening to audio books or reading the New York Times or Financial Review. Disney+ nearly doubled its subscriber base during the period to about 50 million globally, a feat that took Netflix seven years to achieve².

People are entertaining themselves in other ways too, immersing themselves in online digital worlds like Minecraft

and Roblox, cooking with master chefs, learning the guitar, making TikTok movies and listening to thought leaders on any topic imaginable via podcasts. We are visiting galleries and attending events virtually. The popular video game Fortnite recently hosted a concert that was “attended” by 12.3 million users³.

Record numbers of first-time traders have used their spare time to launch day-trading careers. In America, according to the AFR, the free-brokerage stock-trading app Robinhood (now valued at over \$8 billion) added a staggering 3 million users in 2020, while average daily trading volumes tripled⁴. In Australia the average weekly value traded through CommSec grew almost four-fold, from \$1.7 billion before the pandemic to \$4.2 billion during the COVID-19 period⁵.

We have mastered multi-mode communications with our friends through Zoom, Skype, WhatsApp, Google Hangouts and HouseParty – often all at once. HouseParty, a videoconferencing app with games and quizzes, sat at 130,000 downloads in early February⁶ which then skyrocketed to 17.2 million downloads following a week in March⁷. And Zoom's daily user base grew from 10 million people to 200 million⁸ in three months during the crisis, whilst its share price soared.

¹ <https://mozo.com.au/bank-accounts/articles/australians-shun-cash-in-2020-but-70-still-oppose-cashless-society>

² <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/meet-the-next-normal-consumer>

³ <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/reimagining-marketing-in-the-next-normal>

⁴ <https://www.afr.com/markets/equity-markets/robinhood-blows-past-rivals-in-record-retail-trading-year-20200811-p55kgo>

⁵ <https://www.afr.com/companies/financial-services/robinhood-investing-goes-down-under-20200811-p55kky>

⁶ Mobile analytics firm AppAnnie

⁷ Mobile analytics firm Sensor Tower

⁸ <https://www.mediapost.com/publications/article/353797/zooms-popularity-soars-racks-up-nearly-94-million.html>

Telemedicine, which was put in the too-hard basket by many health professionals, has exploded as a necessity and as such we are more and more comfortable receiving advice from specialists via a digital interface or from an app. Interestingly, according to CB Insights, funding for mental health startups increased more than 400 per cent in Q1 2020⁹ compared to the prior quarter. Meanwhile virtual reality is starting to see its potential as a tool to remotely train large numbers of medical staff on how to treat coronavirus patients.

And for business, many shifted to remote working overnight, which brought on the heavy adoption of cloud-based software, a reliance on video meetings and the onset of remote employee education through hours of webinars.

Research suggests that on average it only takes 66 days to form a habit

We have been in the pandemic unfortunately for much longer than 66 days and behaviours have changed and habits have been formed, many are digital in nature. And neither the young nor the old have been left out. According to research conducted in May by CoreData most people aged 50+ are already well-versed in digital, and those that aren't have had to become so due to the pandemic. For example, almost 1 in 4 seniors are using social media and videoconferencing services more since the crisis started¹⁰.

Ultimately, for many, their relationship with digital has changed forever. The crisis has made us all early adopters of technology and that will impact our industry forever.

Good financial advice is built on a relationship of trust and personalised advice. And with the pendulum shift to digital, it is important that both the relationship and the advice shift with it.

According to the 2020 Netwealth AdviceTech Report, our industry has some way to go in meeting the digital needs of our clients, with only 8.9 per cent of advice practices saying that their technology is “pervasive in all client engagement interactions”. This is a problem. There is a clear disconnect between what clients want and what we are offering, which this pandemic has

made even clearer. When considering the client-facing digital experience there are many client touchpoints that can be enhanced with technology, from the first impressions your website makes with potential clients, to how data is collected during the fact-find process, to how advice is delivered and periodically reviewed.

Without a full examination of your business strategy it is impossible to suggest which are the most appropriate technologies for you, however Netwealth's 2020 AdviceTech Report may provide some guidance. In our research, we identified three approaches which could improve your digital client experience today.

1. You could offer a client portal that empowers the customer with self-service tools.
2. You could deliver a multi-mode, interface-to-interface communication solution which goes beyond a phone call and email.
3. To improve trust and add value to the relationship, you could create personalised content and distribute it via your digital channels – this is often referred to as content marketing.

Client portals - a must have AdviceTech

According to the Netwealth 2020 AdviceTech Report, client portals appear to be one of the must-have technologies for 2021 and beyond. As part of our research we identified a select group of advice firms that had higher business performance as measured in FUA, revenue and profitability and were greater adopters of technology. We call them AdviceTech Stars.

We believe these businesses should be a minimum benchmark for advice firms, particularly those looking to take advantage of the shift in consumer behaviour. Almost eight in 10 AdviceTech Stars have or plan to have a client portal in the next 24 months. And the reasons are clear. At least 85 per cent of them expect a client portal will deliver:

- improved communication with clients;
- better client collaboration;
- better client engagement;
- improved transparency; and
- ultimately improved client satisfaction.



AdviceTech 2020

Learn more with our collection of guides to help you navigate the changing financial advice landscape.

netwealth.com.au/adviceTech

The must-have features of a client portal as expected by AdviceTech Stars is that the client portal is a mobile app and includes:

- The ability for clients to easily manage their relevant details, including a live fact-find and wealth documents.
- Planning and monitoring tools to aggregate all their financial accounts, property and other assets and track their progress to goals.
- The ability to execute investments with digital consent and digital signatures (but what is interesting, advice firms don't want their clients to invest through the portal).
- The delivery of education and insights, including economic or finance news.
- Two-way communication through chat, tasks and notifications – which arguably is a far more secure way to communicate than via email.

Multi-mode communications as the new norm

By now, many Australians probably have a Zoom app, a WhatsApp, a Microsoft Teams app, a Skype app and use Apple FaceTime or Google Hangouts. When you use a mobile phone's normal call function it almost feels 'old school.'

Advice firms need to recognise that today, their clients use multiple communication apps, and use them frequently. And what's more, they flip seamlessly from one to another as part of their daily lives. So it is little surprise that although phone and email remain the top forms of client communication tools and now videoconferencing, other forms of communication are gaining in importance.

According to the Netwealth 2020 AdviceTech Report, advice firms who have Generation X and younger clients are more than twice as likely to use mobile and online messaging (such as WhatsApp) to communicate with their clients.

⁹ <https://www.cbinsights.com/research/report/industries-tech-shaping-world-post-covid/#gym>

¹⁰ CoreData_Senior Connectivity in the Age of COVID Data Report, May 2020



Imagine onboarding your younger client base with a WhatsApp group – you could have both partners in the group as well as the relevant advice team members from your office. You could quickly share important updates, the status of implementation items and request them to action if required.

Content marketing as a way to build client engagement and trust

You will need to consider, the role that digital and content marketing play in building trust and adding value through your website and social media.

Almost three in four AdviceTech Stars add or modify content on their website or blog at least monthly. The companies update their home page, website and blog with stories, articles and interviews positioning themselves as leaders, as organisations that have more knowledge than their competitors.

This content says a lot about who they are as a business, what they stand for and how to go about things. Content is a way to engage and build trust with clients and prospects.

Imagine if a prospect found your website from a Google search and was

presented with an interesting article on the economy, or on retirement, or on diversification – surely that would build trust and foster a positive client experience.

AdviceTech Stars are leaders in this area. They are more likely to have their website or blog updated at least monthly with content, more likely to send monthly emails of an informational or educational basis and are more likely to post on social media at least weekly.

It is important that your marketing strategy isn't "we need a Facebook page" or "we need to regularly post to Instagram," rather your marketing strategy should be led with a content marketing plan – a plan to create interesting and unique content for your audience.

Identify those clients most open to change

Clearly digital is not the panacea for everyone. People will still want, and some crave, physical or at least facial experiences with one another, including their trusted advisers. And not only that, once the crisis has ended, there will most likely be some backlash

8/10

AdviceTech Stars expect to use a client portal in the next 24 months

against remote and digital experiences. Zoom fatigue is a real thing.

So it is critical for your business to assess the digital maturity of your clients and segment your audiences in this between traditionalists who have experienced digital recently but are more likely to return and want a more traditional relationship versus those who are more digitally confident and will embrace your AdviceTech efforts in earnest. But what is clear, is that the digital confidence for many of your clients will have been reshaped by the crisis forever. How you augment digital with the physical so you combine the best of both worlds is your challenge today.

It is now the time for you to make some critical decisions as to how you will augment digital with the physical to deliver a Silicon Valley-like customer experience. ■

Adopting a 'SILICON VALLEY' MINDSET to technology investment

As part of Netwealth's research into technology adoption and intention by advice firms in the Netwealth 2020 AdviceTech Report we identified a select group of advice firms that had higher business performance as measured in funds under administration (FUA), revenue and profitability and were greater adopters of technology.

We call them AdviceTech Stars. At Netwealth, we believe AdviceTech Stars are a minimum benchmark for advice firms who are looking to take advantage of AdviceTech in their business to enhance their client experience or improve operational efficiencies.

We identified that a defining feature of an AdviceTech Star business was their attitude to investing in technology. We found that these businesses had a 'Silicon Valley' mindset recognising that the barriers to technology adoption were less about the technical limits of their business but more about their willingness to use technology.

In our research we found that 25 per cent of AdviceTech Stars were

comfortable working with vendors or suppliers on leading edge technology in a bid to fundamentally reshape their business, and a further 50 per cent would invest in stable whilst not yet common technology to develop a competitive advantage for their business.

AdviceTech Stars are self-learners. Seventy-five per cent learn about AdviceTech from online reading/research and over half learn from discussions with tech suppliers.

As a result, AdviceTech Stars were less likely to see barriers in technology adoptions, with one in four saying no barriers exist in selecting and implementing technology in their business, compared to 8.9 per cent of the rest of the industry.

Q. How would you describe your business's attitude towards making investment decisions in technology?

AdviceTech Stars



Rest of industry



- Tech early adopter (will work with vendors/suppliers on leading edge tech to fundamentally reshape the business)
- Tech pragmatist (will use stable but not yet common technology to develop a competitive advantage)
- Tech conservative (will deploy proven technology to deliver services as expected)
- Tech laggard (will only buy commodity technology to cut costs)

AdviceTech Stars carefully plan and invest in technology

AdviceTech Stars think carefully about how they invest in technology. More than two in five (42.9 per cent) plan their investment with a technology roadmap, that's more than double the proportion in any other segment.

They're also not afraid to spend money on technology to address issues as and when they arise. And they are the least likely of all firms (64.3 per cent) to engage in ad-hoc spending, allocating money on an annual basis to AdviceTech. They spend approximately 6 per cent of their revenue on technology each year.

And critically, AdviceTech Stars take on the resources they need to make sure the investment they make is implemented effectively and pays dividends, being 11.9 per cent more likely to have an in-house technology manager than firms in any other segment. Almost three in 10 (28.6 per cent) have a dedicated AdviceTech resource.

AdviceTech Stars plan to spend more on technology next year

That's true across client engagement technologies, (57.1 per cent of AdviceTech Stars will spend more next financial year compared to last), financial planning technologies (53.6 per cent will invest more next year) and workflow and operations technologies (57.1 per cent will invest more next year).



Not surprisingly, AdviceTech Stars use many technology tools and vendors as part of the technology infrastructure or "stack" to help solve their business problems and improve the client experience.

On average they use 16 AdviceTech tools - more than businesses in any other segment. Almost nine in 10 (89.3 per cent) AdviceTech Stars have five or more client-engagement technologies in their stack. They're more likely than to use five or more financial planning technologies.

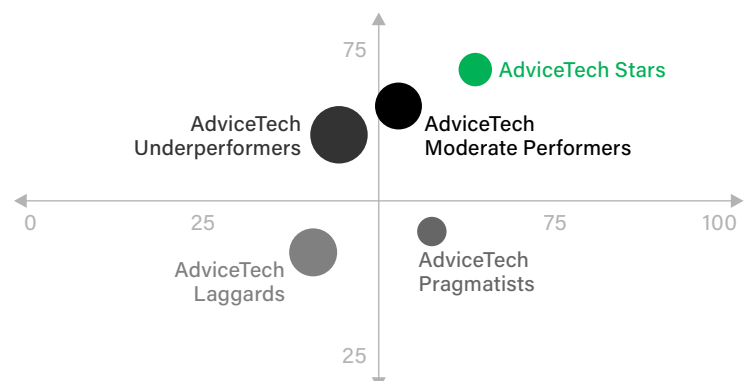
And more than seven in 10 (71.4 per cent) use five or more operations and workflow technologies.

They're also careful to ensure any AdviceTech they take on integrates effectively with what they're already using, eliminating inefficiencies that can arise from systems that won't speak to each other effectively, or from the multiple handling of data or client details, with AdviceTech Stars being almost three times as likely to have an integrated technology stack (25 per cent of them do so). ■

AdviceTech Segment	Technology Adoption Score	Business Success Score	Segment Size
Stars	72	69	12.1%
Moderate Performers	67	53	21.2%
Underperformers	65	40	33.8%
Pragmatists	43	62	10.2%
Laggards	38	39	22.5%

Segments: Technology Adoption vs Business Success

*Size of bubble represents the size of the segment



The three pillars of building a client-centric

DIGITAL BUSINESS

Netwealth is a firm believer in having a customer-first, client-centric approach to doing business.

“The last best experience that anyone has anywhere becomes the minimum expectation for the experiences they want everywhere,” says Paul Papas, IBM Interactive Experience.

If you consider that for most, a client’s last experience will often be with companies like Amazon, Apple, Kogan and Afterpay, the bar for financial advisers is very high, and is often digital in nature. If you look into what makes these companies great, it is possible to split it into three pillars:

1. A frictionless client experience

They deliver a great customer experience, looking to remove friction from the interaction with their audience as often as possible.

2. A reliance on client data

They have a heavy reliance on data, particularly client data, which enhances the client experience whilst at the same time allows them to analyse and optimise the back office.

3. An optimised back office

They have sophisticated back-end processes, technology and systems supported by great people and culture.

If we take Netflix as an example, the frictionless customer experience is their huge range of TV shows and movies supported by an easy to use mobile app. The data they collect on viewership enables the app to recommend appropriate shows to watch based on a person’s preferences. This data in aggregate then helps inform Netflix as to which new shows and movies to invest in. And the sophisticated back office is layers of software services and hardware, plus a culture to match its aggressive growth.

AdviceTech’s role in removing client friction

You should look to remove friction from the client experience wherever you can. This requires you to take a critical look at all touchpoints your client has with your business and identify what can be done better. You will need to investigate everything from the first time a person visits your website, has their first meeting with you, gives you fact find data, all the way to the periodic review.

Obviously, the role AdviceTech plays will be hugely important to this.

Whether that be ensuring your website is mobile friendly, to collecting fact find data with online tools, to having a great client portal.

Getting to know your customer with data

To be customer centric, a business must truly understand and have a complete picture of their clients. For financial advice firms, a great starting point is to have a complete picture of their clients’ wealth. This could be their platform assets, commercial property, investment accounts, other off-platform assets such as alternatives or art collections.

For your clients that own businesses, this would extend to the business’ balance sheet.

With AdviceTech today you can amalgamate and normalise your client’s data from your planning software, your platform software, your accounting software, your commission software and then add third-party data feeds such as bank feeds plus off-platform reporting technology to get a total picture of your client’s household wealth. Technologies that are integrating disparate systems and data sets include suppliers like Xeppo and Zapier.

By having this complete and unfettered helicopter view, you are much better placed to deliver better advice and ultimately deliver a more tailored and personalised service.



40%

The percentage Amazon's value grew from 2019 to 2020, according to Forbes

The practical lessons about operational scale that McDonalds can teach us

McDonalds is a traditional bricks and mortar business. Whether you like their burgers or not, it is the world's largest restaurant selling an amazing 75 hamburgers per second (according to one of its training manuals)¹. It has achieved this through its ability to deliver a consistent, reliable and affordable product at scale.

Early on, they optimised their process by investing in a new kind of spatula, a new dispenser that squirted the same amount of ketchup and mustard every time, and a rotating platform to speed up the process of assembling the burger, bun and condiments.

McDonalds shows us that back-office processes are critical to delivering a great client experience. For them, excellence in customer experience has largely been an exercise in scaling process optimisation.

As advice firms grapple to lower costs and become more efficient, an AdviceTech that could be relevant is managed accounts.

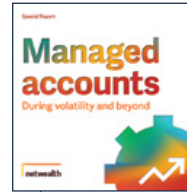
Managed accounts are much more than an investment option, rather it is a solution that not only delivers on the promise of improved back-office efficiency, but for many adds a level of consistency and reliability to their investment advice experience.

With managed accounts, your clients know what to expect and are clear about your investment proposition. They are also all treated equally, without regard to the size of their investment.

Managed accounts as tool to manage client portfolios during market volatility

This was best highlighted recently, where there was evidence that advice firms with managed accounts were better placed to respond to the sudden changes in the market seen in March 2020 at the beginning of the COVID-19 crisis in Australia.

From Netwealth's own data during this period, 50 per cent of our investment managers bought and sold assets in their models, some of them doing it up to 12 times during the period.



Managed accounts during volatility and beyond

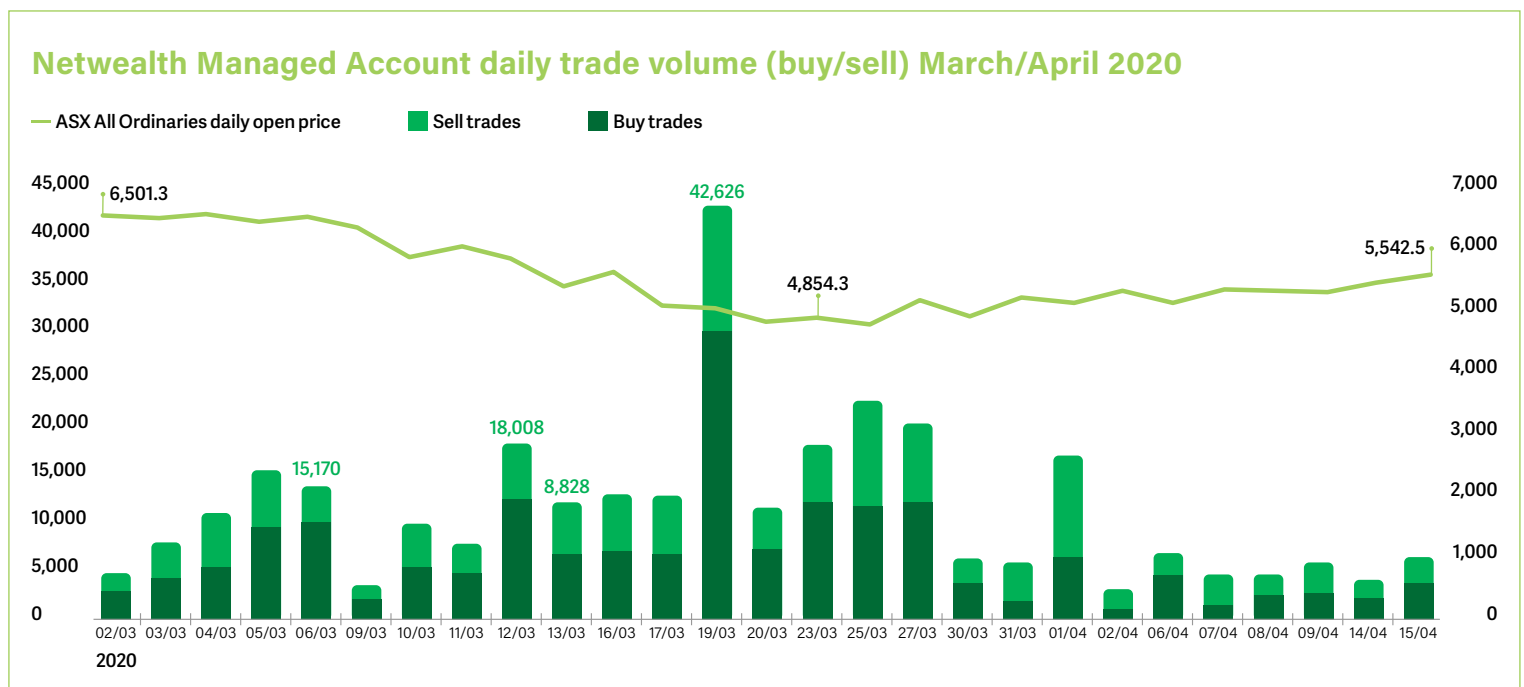
Learn more with our collection of guides to help you navigate the changing financial advice landscape.

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On 19 March 2020 when the ASX All Ordinaries dropped under 5000, Netwealth made 42,626 trades, which was up from around 2,000 trades a month earlier. Seventy per cent were buys as investment managers were looking to take advantage of the opportunities. And this happened for 33 per cent of all clients in a managed account model, most of which would have never received a ROA to approve the execution.

Those advisers with managed accounts were much better placed to quickly adjust client portfolios and take advantage of buying opportunities or de-risk them. And most importantly to the client experience was that all clients in the relevant managed account benefited, rather than a select few.

Of course, managed accounts are not a solution for all advice and investment situations, so it is important that you consider the client's needs before recommending them. ■



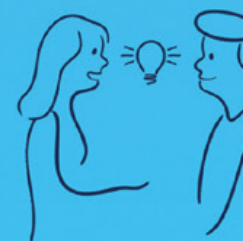
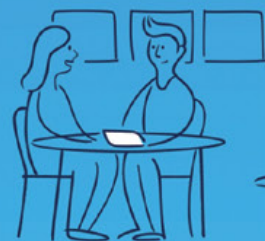
¹ <https://www.marketplace.org/2017/05/26/how-many-burgers-has-mcdonalds-actually-sold/>

Netwealth Innovation Toolkit

See innovation differently

We've worked with some of Australia's leading innovation experts to create a collection of downloadable resources, workshops and tools to help you innovate effectively within your team and develop actionable solutions for your business.

To download innovation workshops or just to find out more
visit netwealth.com.au/innovation



HIGH-PERFORMANCE INDIVIDUALS, & RESILIENCE & BURNOUTS

Dr Adam Fraser is a doctor specialising in peak performance. Financial advisers are often high-performers who spend their life solving client problems. This can take its toll, sometimes leading to burnout and compassion fatigue.

In his presentation, Resilience Isn't the Problem - Recovery and Emotional Wellbeing Is, Mr Fraser discusses how resilience is a trait commonly seen in proactive problem-solvers, with financial planners amongst the top group of professionals to have this capability.

According to Mr Fraser, this comes from constantly adapting to complex situations and keeping an optimistic outlook during tough times, whether that be dealing with a pandemic, market volatility or top-down regulatory changes.

Over time this resilience can come at great cost to the individual. High-performers risk burnout from having to constantly adapt to new environments.

This is often exacerbated by overexposure to solving client problems and can result in another form of burnout called 'compassion fatigue'.

Studies undertaken by Mr Fraser and his colleagues have found financial planners are like other high-performing individuals who spend their lives helping others. They have a higher risk of experiencing burnout and compassion fatigue.

Burnout and compassion fatigue

Burnout happens when a person's responsibilities exceed their means. While compassion fatigue occurs when someone has overexposure to other people's problems regularly. These symptoms have been compared to post-traumatic stress disorder¹. Parallels have been found between financial advice and the legal profession.

Investigations into burnout and compassion fatigue in the legal profession have found similar outcomes to those who work in social welfare and mental health². Attributes found to contribute to these issues are also relevant to financial advice.

These include:

- The competitive nature of the profession;
- The requirement to be self-sufficient;
- Ignoring one's own emotional needs; and
- The isolated nature of working conditions³.



<
Dr Adam Fraser

Dr Adam Fraser is a peak performance researcher who helps organisations and individuals push beyond their potential.

How can you manage burnout and compassion fatigue?

With the current COVID-19 pandemic affecting everyone in different ways, you need to consider self-care now more than ever. To help achieve this, there are a couple of scientifically backed strategies to help relax your mind and body⁴.

One is the SAFE framework, developed by Mr Fraser, and the other involves practising self-care.

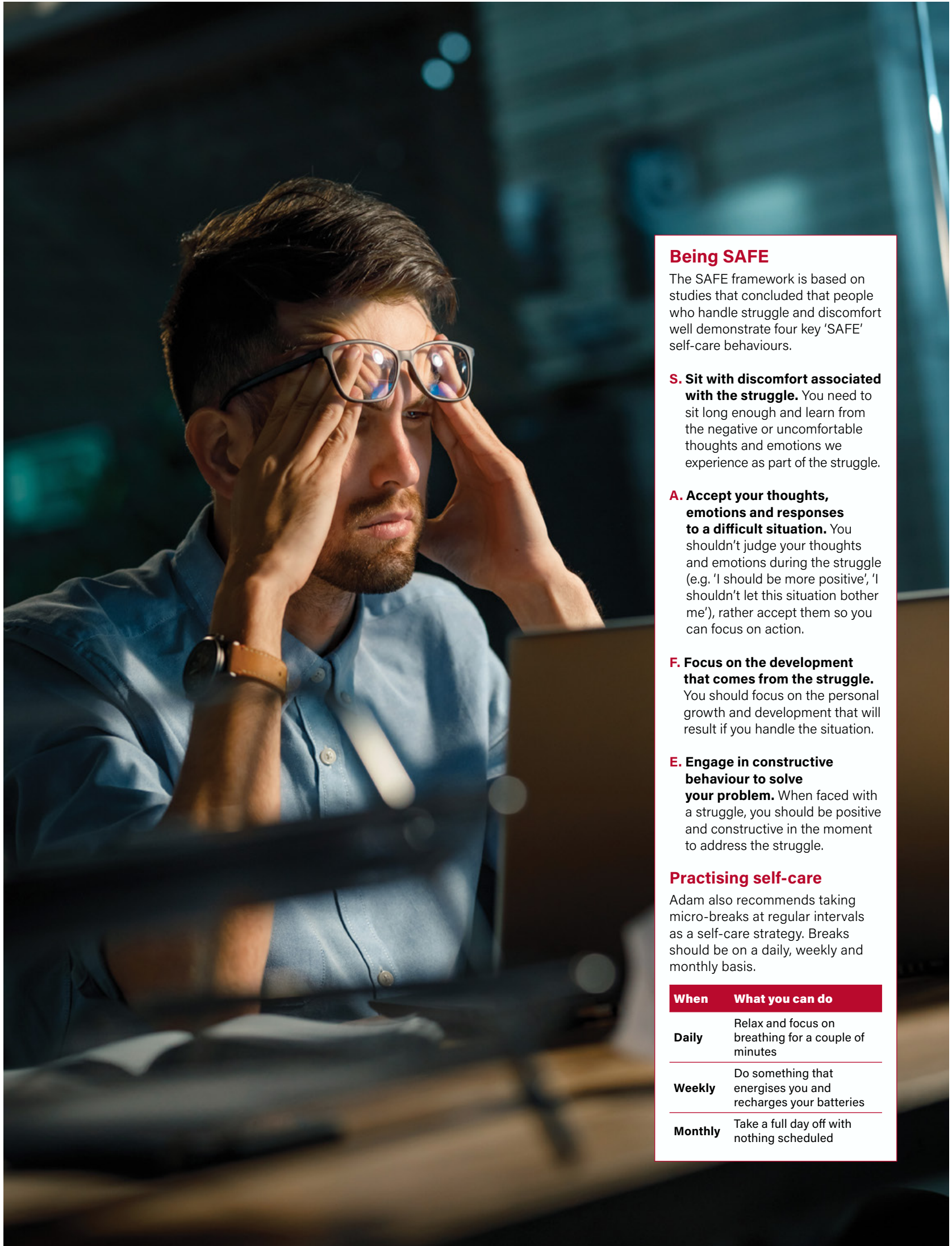
Using the SAFE framework and recharging yourself with regular self-care, can help put you in a better situation personally so you can serve your clients and avoid burnout. ■

¹ D. Portnoy, 2011, 'Burnout and Compassion Fatigue Watch for the Signs', Health Progress, Catholic Health Association of the United States, <<https://www.chausa.org/docs/default-source/health-progress/burnout-and-compassion-fatigue---watch-for-the-signs-pdf.pdf?sfvrsn=0>>

² Financial planning has striking similarities to both of these professions. Financial planners often experience a range of issues that both these other professions primarily deal with and have been trained in, whereas, financial planners have not.

³ L. Norton, J. Johnson & G.W. Woods, 2016, 'Burnout and compassion fatigue: what lawyers need to know', UMKC Law Review, vol. 84, no. 4, pp. 987-1002.

⁴ A. Fraser, 2020, Strive Embracing the gift of struggle, John Wiley & Sons Australia Ltd, Milton QLD.



Being SAFE

The SAFE framework is based on studies that concluded that people who handle struggle and discomfort well demonstrate four key 'SAFE' self-care behaviours.

S. Sit with discomfort associated with the struggle. You need to sit long enough and learn from the negative or uncomfortable thoughts and emotions we experience as part of the struggle.

A. Accept your thoughts, emotions and responses to a difficult situation. You shouldn't judge your thoughts and emotions during the struggle (e.g. 'I should be more positive', 'I shouldn't let this situation bother me'), rather accept them so you can focus on action.

F. Focus on the development that comes from the struggle. You should focus on the personal growth and development that will result if you handle the situation.

E. Engage in constructive behaviour to solve your problem. When faced with a struggle, you should be positive and constructive in the moment to address the struggle.

Practising self-care

Adam also recommends taking micro-breaks at regular intervals as a self-care strategy. Breaks should be on a daily, weekly and monthly basis.

When	What you can do
Daily	Relax and focus on breathing for a couple of minutes
Weekly	Do something that energises you and recharges your batteries
Monthly	Take a full day off with nothing scheduled

BUILDING YOUR CLIENT'S FINANCIAL PLAN DURING UNCERTAINTY

Carl Richards is a highly respected CFP® and creator of the New York Times column The Sketch Guy. He is passionate about the future of financial planning and as the name of his column suggests - sketching. In his presentation, titled Real Financial Planning, Mr Richards challenges the role that the financial plan should play in the provision of advice.

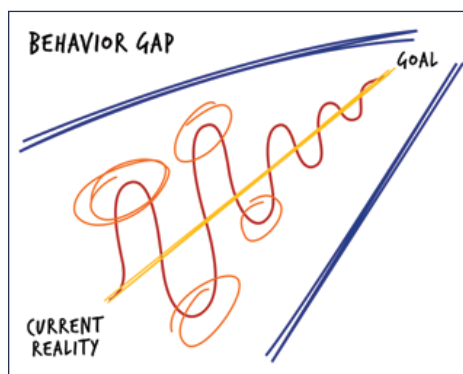
Mr Richards argues that there are many financial planners who still believe they are in the 'investment business' and that their role is quantitative or math based. While some planners have moved towards becoming client coaches, Mr Richards thinks that many still believe they must sell a product to add value to their client relationships - and that product is now a complex financial plan rather than investment products.

According to Mr Richards, presenting clients with a perpetual solution via a financial plan is doomed to fail. That's because the expectation is that clients will follow a strict process but that's unrealistic because life throws out so many curve balls. Instead, your suggested plan needs to cater for the unexpected.

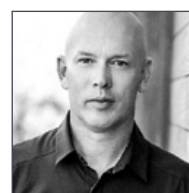
Our lives rarely follow a set trajectory and having a rigid, inflexible financial plan is not conducive to good client relationships. This is because the paper the plan is written on is outdated before a client even lays

eyes on it. We only need to look at the current pandemic to understand that life rarely follows a plan.

As humans, we experience too many uncertainties and, as a financial planner, it's up to you to help clients understand and implement the financial plan that you write for them.



Mr Richards' drawing demonstrates the difference between the expectation and reality of a financial plan. Life is unpredictable, and we're often thrown curveballs, so we constantly need to revise and update goals and objectives on our life journey.



Carl Richards

Mr Richards has become a frequent keynote speaker at financial planning conferences and visual learning events around the world.

Build fluidity into your financial plans

Mr Richards did present a solution to this problem - use the financial plan as a map or guide rather than a directive. This approach is also more likely to resonate with clients as people rarely want to be told what they 'should' do. With the plan as a guide, you must then be comfortable with communicating potential diverging paths to your clients.

Mr Richards illustrated this with the recent pandemic. While few knew what was coming, many advisers would have already built-in some safety nets to manage client expectations through volatility. This may have included how they communicated with their clients to provide them with a degree of certainty.



“WE EXPERIENCE TOO MANY UNCERTAINTIES AND, AS A FINANCIAL PLANNER, IT’S UP TO YOU TO HELP CLIENTS UNDERSTAND AND IMPLEMENT THE FINANCIAL PLAN THAT YOU WRITE FOR THEM”

Potential communication strategies you could use include:

- Asking your client plenty of questions and, more importantly, listening and empathising with them during these conversations¹. By recognising that you are sometimes a release valve for their stress you can give them some peace of mind;
- Acknowledging your clients’ problem is unique and then guiding them to come up with their own solution. Often people who come up with their own plans are more likely to follow them;
- Effectively explaining your advice recommendations and how you arrived at them can help your clients understand their plan; and
- Sharing stories with your clients to show them you’re aware of

and understand their personal situation². Stories can also help you guide your clients to make important decisions at difficult points in their lives.

Regardless of the complexity that certain situations may present, it’s ultimately up to you to make the process easier for your clients to digest. By using your financial plan as a guide and soft skills like communication you can super-charge your relationship with your client.

One more thing - personalised channels

Andrew Rocks, head of partnerships at Virtual Business Partners, talks about how you can take personalisation to a whole new level



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by identifying the communication channel each client prefers. A particularly effective strategy that he uses in his advice practice is to simply ask each client how they would like to be communicated to.

Asking this simple question early on in the relationship building process ensures the client feels heard, the advice process is bespoke to them and the timeliness of your responses are well understood.

This effectively builds trust early in the advice process when it’s critical to establish that connection. ■

¹ This is addressed in - M. Somers, 2018, Advice that Sticks: How to Give Financial advice that people will follow, Practical Inspiration Publishing, Great Britain.

² D. Dubofsky & L. Sussman, 2009, 'The Changing Role of the Financial Planner Part 1: From Financial Analytics to Coaching and Life Planning', Journal of Financial Planning, vol. 22, no. 8, pp. 48-57.



MICHAEL KITCES AND HIS TIPS FOR EVOLVING YOUR ADVICE BUSINESS

Michael Kitces is a high-profile, US-based financial planner, business owner and face of Nerd's Eye View, a popular blog for financial planners in the US. Like Mr Richards, Mr Kitces is passionate about the future of financial advice.

In his presentation titled *The Future of Financial Advice*, he explores several areas where you can find new market segments, evolve your value proposition and use technology more effectively.

Mr Kitces believes that financial planners have a great opportunity to add value to the client-planner relationship by focusing on a niche segment of clients who require specialised financial planning solutions.

He illustrates this with examples from the US, where planners are targeting niche client segments like federal employees, widows and special needs families. By targeting a niche and understanding them more intimately, you can solve complex issues, add more value to your clients, and ultimately charge a premium for your work. But building the knowledge, skills and tools to solve complex niche problems takes time.

Daniel Brown, CEO of Coastal Advice Group, agrees that it's important to identify your ideal audience. Client expectations have risen in recent years which means your clients want to work with specialists who deal specifically with their unique problems. Advice

firms need to stop being generalists and specialise in what's relevant to their ideal audience to add value to their clients' lives. This may even mean turning some clients away if they do not meet your requirements.

Remaining a generalist in 2020 and beyond is risky. It creates an expectation that you will not be able to solve your client's exact problems. Mr Brown suggests that if you do not take the time to define your value proposition, including who your clients are, you may become obsolete.

Psychology and financial coaching to solve high-stake problems

To move towards a more holistic approach to wealth and finance, Mr Kitces advocates that your focus should evolve towards complementary areas such as client psychology, behavioural finance and financial coaching. Expanding advice by incorporating a 'therapy model', particularly when high-stake issues are involved, is a value-add that may also attract higher levels of remuneration.

Mr Kitces suggests listening to the following four episodes of the Advisor Success podcast where you

can hear from planners that have either successfully created a niche or applied a coaching model to their client relationships:

- Dennis Moseley-Williams (#FASuccess Ep114: Why Creating A Great Client Experience Is About More Than Just Great Service with Dennis Moseley-Williams)¹;
- Joe Duran (#FASuccess Ep 100: Scaling A Financial Life Management Firm By Starting With Client Intentions Instead Of Goals with Joe Duran)²;
- Ric Edelman (#FASuccess Ep 089: The Truth About Advisor Marketing And The Scalable Delivery Of Financial Advice with Ric Edelman)³; and
- George Kinder (#FASuccess Ep 015: Why Life Planning Is Simply Financial Planning Done Right With George Kinder)⁴.

Value is provided in tech interpretation

Once you upskill to handle advice in a highly valuable space, your focus should turn to using technology to make your ongoing delivery process more efficient. But, as Mr Kitces points out, the value you bring to your clients'

¹ Available from: <https://www.kitces.com/blog/dennis-moseley-williams-client-experience-economy-financial-advisors/>

² Available from: <https://www.kitces.com/blog/joe-duran-united-capital-financial-life-management-finlife-technology-platform/>

³ Available from: <https://www.kitces.com/blog/ric-edelman-truth-about-money-edelman-financial-group-scalable-advice/>

⁴ Available from: <https://www.kitces.com/blog/george-kinder-institute-life-planning-podcast-seven-stages-maturity/>



Michael Kitces

Mr Kitces is an American financial planner, commentator, speaker, blogger, and educator. He frequently contributes to industry publications for advisors.

experiences is not in the technology you use, but rather in the insights you're able to provide because of the technology and the relationship that you have with your client. So, when it comes to technology, you should consider designing your client offerings around solving high-stake problems by using your technical and data interpretation skills.

For example, some form of modelling software is now readily available to most people. However, clients often don't have the technical knowledge to interpret and use the data that the software provides in a meaningful way.

This is where you can step in. By using your technical skills to interpret the data for clients you can link their theoretical life plans and tease out the future of their life when they make certain decisions.

The outcomes of data and modelling are only as reliable as the inputs. Given that most advisers have been through these journeys with clients many times, you're well positioned and can add substantial value around what those inputs should be.

How to get the most out of modelling technology

According to Mr Kitces, the traditional process of modelling data in the back office and then presenting those findings to your client is a thing of the past. By taking a collaborative approach with technology you can improve the accuracy and reliability of your outcomes.

This involves sitting down with your client and taking them through scenarios on your modelling software together. By taking the software to your client meetings, you can 'drive' the financial planning experience while you explain and educate the different scenarios in real time.

This experience relies on specific communication skills. As an adviser, you need to interpret the outputs from the modelling software and turn the



technical details into a story that can be easily understood by your client.

This collaborative approach not only engages clients but also substantially increases the probability that they will buy into the outcomes of the model because they've developed it with you.

Moving from theory to practice

Expanding your advice process begins with understanding that your role is about more than just delivering highly technical information to your clients. You need to ensure that your clients implement and benefit from your advice. If you give advice without taking into consideration your client's level of knowledge and their willingness to accept the advice, it may fail to 'stick'⁵. In other words, if your client doesn't understand your advice and they are prepared for change, how can they follow it?

Mr Kitces suggests several valuable resources to help you make it 'stick'

with your clients. This includes the book *Advice that Sticks* by Moira Somers. In this book, Ms Somers uses her experience as a neuropsychologist to guide financial professionals in their client interactions. If you're time-poor there is a condensed version of the book in Mr Kitces' podcast.⁶

Other recommended resources are:

- *The Experience Economy* by B.J. Pine & J.H. Gilmore: This book links in with financial planners distinguishing themselves from others in the industry (by developing niches);
- *Influence The Psychology of Persuasion* by R.B. Cialdini: This delves into practising the skill of persuasion using six universal principles (reciprocation, commitment and consistency, social proof, liking, authority, and scarcity); and
- *The Power of Habit: Why We Do What We Do and How To Change* by Charles Duhigg. ■

⁵M. Somers, 2018, *Advice that Sticks: How to Give Financial advice that people will follow*, Practical Inspiration Publishing, Great Britain.

⁶M Kitces, 2018, #FASuccess Ep 101: Financial Advisors As Adherence Partners To Deliver Advice That Actually Sticks with Moira Somers', 4 December 2020, podcast, viewed 24 June 2020

THREE LIGHT-BULB

STRATEGIES FOR SUPER

Recent years have seen advisers forced to focus on the myriad of complex changes to superannuation that have come into play since 2017. We spoke with Keat Chew, Netwealth's head of technical services, who identifies three key strategies that may add value to existing client relationships.

Number 1.

FHSSS – a strategy for all age groups

According to Keat Chew, the government's first home super saver scheme (FHSSS) is an often-overlooked tool.

"I think [the FHSSS] has a new lease of life with the new scheme now within superannuation," Keat says. "You just put in additional [voluntary] contributions, which can be withdrawn later [for the purposes for buying or building the first home] with the added tax benefit. Obviously, you need to know the framework, and you certainly need to know what the criteria are."

A key strategy is that re-cycling existing non-super savings through the FHSSS, (up to the maximum thresholds) and claiming a tax deduction for the super contribution on the way through, results in a positive tax arbitrage benefit.

This could increase the final amount available to withdraw, even where it was done over a very short timeframe.

The interesting part of this arbitrage strategy is that it is also applicable to parents (and grandparents) who want to help working adult children in purchasing their first home – a gift of cash to the adult child allowing

them to make an FHSSS concessional super contribution, thereby also giving them the advantage of the tax arbitrage strategy.

Keat explains that even the youngest children could benefit under the FHSSS scheme, as there is no lower age limit on super contributions. In these cases, cash gifted to the minor child could be contributed (by the guardian) as a non-concessional contribution. While there was no initial tax arbitrage benefit, from age 18 onwards (when it could be withdrawn), the contributions plus the associated earnings (having compounded over many years) could make up a substantial first home deposit!

"If you have a couple, they're assessed individually," says Keat.

"Therefore, if one of them had bought a property before, then that person cannot access the scheme, whereas the other person could still access it. It is based on individual assessment."

In terms of accessing the money, Keat explains that it's easy in the sense that it's not advisers who make the application; it's the client that applies to ATO. The ATO then calculates the maximum withdrawal amount and advises the client.



Keat Chew

Mr Chew is Netwealth's head of technical services and he has over 25 years of experience in the superannuation and financial planning industry.

Timing is important, and he points out that it's critical that the ATO releases the payment before a contract is signed. Once the funds have been released to the client, they have 12 months to purchase or build their first home.

He also explains that, if the client's plans change after the amount is released, there is an "escape clause". Either make a non-concessional contribution equal to the released amount (less PAYG) to super, or keep it and be subject to the 20% FHSSS tax.

This strategy may also provide advisers with the perfect opening to widen discussions with clients to include other family parties (such as children, parents and grandparents), where such strategies may be relevant, depending who your client is.

"It really can be a strategy for everyone," says Keat.

Number 2.

Selling a small business – minimise the CGT and get the maximum amount into super

The next strategy explored is how the proceeds from the sale of a small business can be used to contribute to super, emphasising the importance of the financial adviser being involved before the sale is finalised.

“We need to think about other caps that we could use, and that’s the small business \$1.48 million capital gains tax (CGT) cap that we should be looking at,” says Keat. “It’s only available to small business owners on the sale of eligible assets, which is primarily the sale the business, but it could include a property or building that they use in their business as well.”

Keat suggests there are four small business CGT (SBCGT) concessions available to reduce or eliminate the tax payable on the sale of the business, once the client meets certain criteria. The four concessions are the 15-year exemption, the 50% active asset exemption, the small business retirement exemption, and rollover relief.

But he emphasised that only two of these – the 15-year exemption and the retirement exemption (\$500,000 lifetime cap) – can be used together or individually, up to the lifetime \$1.48m cap, to direct money into super. Therefore, these are the two that deserve advisers’ extra attention.

“The small business concessions are not counted against the contribution caps, but do form part of the total super balance, so timing of the contributions can be critical in maximising the total amount into super,” Keat says.

“Utilising the small business SBCGT concessions to make a contribution to super, prior to making any non-concessional contribution, could put you above the total super balance of \$1.6 million. While that is not a problem in itself, it will preclude any further non-concessional contributions.

“Alternatively, make your non-concessional contributions first, even up to the total super balance of \$1.6 million, and still make the contribution under the SBCGT concessions, as these are exempt from the total super balance test. In this way, we can maximise the



amount in tax concessional super. That’s what we should be aiming to achieve.”

Keat emphasises that the SBCGT eligibility rules are very complex and would normally be the responsibility of the accountant, particularly where more complex corporate and trust structures are involved.

Number 3.

“Untaxed element” – the hidden death tax

The third strategy is how, in certain situations, an “untaxed element” can be created on death and result in additional tax being payable by non-tax dependants.

“When we talk about death benefits, we talk about death lump sum payments, we talk about pensions, but we seldom talk about the untaxed element,” Keat says. “You don’t normally get it arising in a taxed fund in a normal lifetime; it’s only on death where a death lump sum payment is made, which includes an insurance payout.

“Where there is a death lump sum, and there are life insurance proceeds, the untaxed element will arise.”

If the dependant keeps it in the same fund and takes a pension, or exits super taking it as a death benefit lump sum, it doesn’t arise because there is no tax payable on these benefits received by a tax-dependant death beneficiary.

“Where I have concern is because from 1 July 2017, a death lump sum can now be rolled over (by a tax-dependant death beneficiary to begin an income stream),” Keat says. “For example, if you have someone who has died in another fund, and you see you’re going to go to a

better fund and you roll over with this, there’s a problem because it’s a death lump sum, it’s got insurance, and if it’s rolled over to us, then there’s a 15% tax on it – the untaxed element.”

Keat outlines three tactics for advisers to think about when trying to reduce the untaxed element. The first is to increase the service period.

“Pre-1983, we used to roll over a dollar or so, and it still happens. You can still roll over some money and inherit a longer service period. If you can do that – if you have one of those legacy old funds – then that would be good to roll over into the fund with death insurance cover.”

The second is “to maintain the insurance cover in another fund. If you maintain it separately, then at least it will not impact the accumulated balance, but that other fund (with insurance cover only) still has a problem. That’s when you need to think, maybe if you have non-dependants, then insurance cover should perhaps be outside super.”

The third tactic is to avoid making non-concessional contributions to a fund where an untaxed element is expected, as the tax-free component reduces the taxed element which results in an increase to the untaxed element.

Keat also notes that advisers need to be aware of this trap at two levels. The first is to consider the above strategies before death, to minimise the untaxed element. The second, and far less visible trap, is when dealing with death benefits for beneficiaries, as rolling over to a better fund could crystallise an untaxed element and cost the client significant tax. ■

CONTENT MARKETING AND STORY- TELLING IN WEALTH

Adele Martin, money mentor (CFP®) and founder of The Savings Squad Podcast and My Money Buddy has extensive experience in financial advice and a passion for marketing and sales.

In Ms Martin's presentation titled Acquiring Clients Online, she discusses the power of social media to share stories and provides some tips to help you leverage technology to execute on this strategy.

Sharing stories is one way that you can engage and educate your clients and open new opportunities with prospects. Ms Martin does this by promoting and sharing her stories on podcasts and social media.

Familiarity also plays an important role in developing trust, particularly when it comes to complex professional relationships like financial planning.¹ Ms Martin establishes trust with her audience by opening up about her personal situations on her podcast and Instagram posts, such as talking about having the first 12 months a whirlwind in having a baby and as a result not setting up an investment plan for him until much later.

By 'exposing' her audience to these experiences, she has found it easier to convert prospects into clients. She is also able to repurpose her podcasts into shorter videos, blog posts and memes.

But the communication and stories delivered through these mediums are only in one-direction. To counteract this Ms Martin also builds online communities through Facebook, where she can nurture two-way dialogue and interactions with her ideal audience.

To introduce and promote her Facebook communities, Ms Martin uses Instagram Stories – both owned by Facebook and ultimately part of the same 'network'.

She believes social media gives her the ability to target and attract specific client segments. It also has simple content creation capabilities that allows her to create sophisticated digital client acquisition processes.



Adele Martin

Ms Martin is recognised by leading professional organisations like the IFA and the FPA for her work in financial planning.

According to Ms Martin, another benefit of using these marketing tools is the mere exposure effect² – that is, the chances of purchasing a professional service increases the more an individual is exposed to a professional.

Thomas Smith, in his book Successful Advertising³, makes the following reflection on effective frequency – a person needs to be exposed to something around 18 to 20 times before a purchase is made.

¹L. Kirchmayer & P. Patterson 2003, 'The Role of Interpersonal Communication in the Development of Client Trust and Closeness in a SME Professional Services Context', Conference Proceedings of the 16th Annual Conference of Small Enterprise Association of Australia and New Zealand, 28 September – 1 October, University of Ballarat, Australia.

²R. B. Zajonc 1968, 'Attitudinal Effects of Mere Exposure', Journal of Personality and Social Psychology' vol. 9, no. 2, viewed 27 May 2020, <http://web.mit.edu/curhan/www/docs/Articles/biases/9_J_Personality_Social_Psychology_1_%28Zajonc%29.pdf

³<https://www.goodreads.com/book/show/30134341-successful-advertising>



"SHARING STORIES IS ONE WAY THAT YOU CAN ENGAGE AND EDUCATE YOUR CLIENTS AND OPEN NEW OPPORTUNITIES WITH PROSPECTS"

Creating relatable content

To get ideas on the topics that her ideal clients are interested in, Ms Martin has joined several groups on social media. She then uses these topics to create content or discussion points in her Facebook communities and Instagram Stories. Intertwining topics of interest with client problems solved in the past also allows her to demonstrate authority and credibility.

Content marketing efficiency

You don't need to be working all hours to have a robust process of engaging and building trust, authority and credibility through social media. Ms Martin relies on several technology solutions to make the entire content creation and social media management process more efficient.

These include:

- **Planoly**
A tool to help automate Instagram stories;
- **Automationagency.com**
A cost-effective online marketing agency where you can get tasks done, like designing or setting up an email newsletter;
- **Group Funnels**
A tool to help manage Facebook groups;
- **Spark Camera**
A video editing software for the iPhone; and
- **Canva**
A drag and drop platform to create professional looking marketing materials, such as pamphlets and e-books. ■

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PUBLISHER

Netwealth

MANAGING EDITOR

Andrew Braun

EDITOR

Peter-John Lewis

PRODUCTION EDITOR

Lyndsey Fall

GRAPHIC DESIGN

Daniel Berrell

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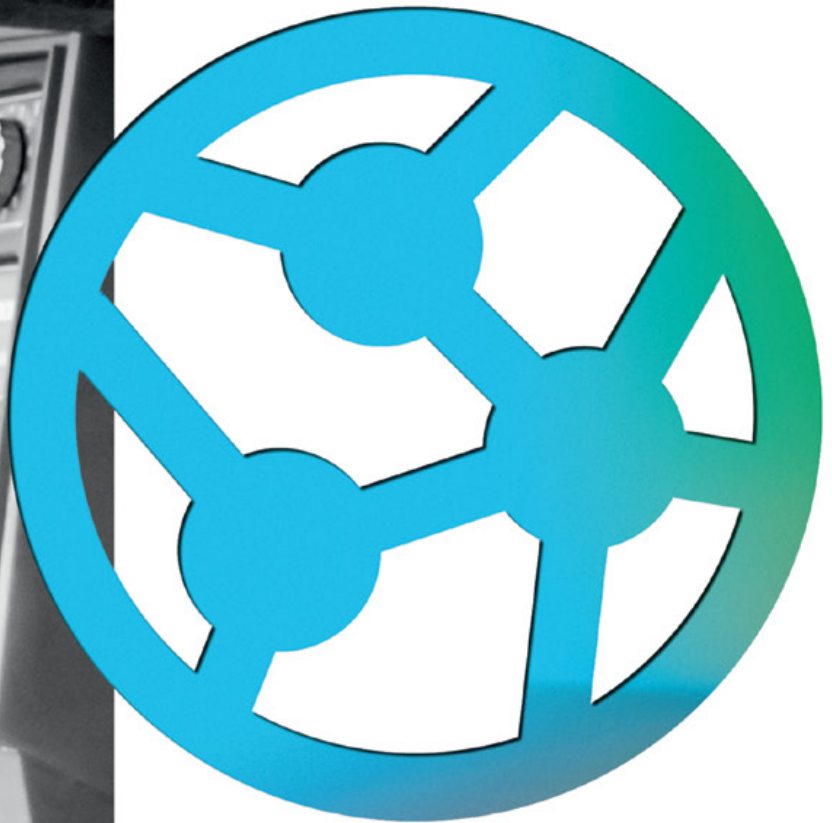


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**The technology you use
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experience you create with
it is everything.**

– Sean Gerety





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