

Business IQ

Business. Wealth. Technology

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Meet the emerging affluent

A story about the game changing Millennials taking advice by storm





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Welcome

At Netwealth, we have always taken a data-led approach to our offering, using insights from our clients to shape our products and services. It is this focus on rich data and customer insights that has led us to be so interested in the industry and the businesses and customers that make it up.

AT NETWEALTH we gather information through large-scale surveys and research reports to casual chats and in-depth interviews, which we like to share to encourage dialogue and debate.

In this edition of Business IQ, we delve into the demographics of the Emerging Affluent, a Millennial yet attractive future client for the wealth industry, offering customer insights and suggestions for those advice practitioners willing and able to service this growing segment of the market.

Our Between Meetings podcast is where I am fortunate to speak and get the insights of great people, doing great things in our industry. These discussions are the foundation for many of the articles in this magazine. These conversations with men and women of influence span a variety of topics, from ethical investing and life insurance to the changing nature of financial advice and how it is delivered.

We also consider managed accounts. While much has been written about the efficiencies managed accounts can drive in advice practices, we examine the ways this technology can ultimately benefit your customers.

Focusing on quality data and insights, whether that be listening to someone intently or capturing information through research, can result in an alignment to good customer outcomes and better business practices. We hope you find within these pages a few actionable insights, some quality data or a few pieces of information to challenge you and evolve your Business IQ.

Matt Heine

Joint Managing Director,
Netwealth



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Industry leaders give their most critical pieces of guidance

Business IQ

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*Overall Satisfaction with Platform', Investment Trends (2012-2021) Planner Technology Report; Winner, 'Best Platform Overall', Investment Trends 2019 Platform Benchmarking.

A SEISMIC SHIFT

Why Aussies are embracing ethical portfolios

In recent years, there has been a marked increase in Australians wanting to invest ethically – not just Millennials, but across all demographics.

Australian Ethical CEO John McMurdo, spoke to Matt Heine, Joint Managing Director of Netwealth, on the Between Meetings podcast and discusses the opportunities this presents for advisers.

Key takeaways

- The majority of investors are concerned about ethics. They have progressed to a 'do good' from an 'avoid harm' approach
- This has now extended to all demographics, from Millennials to retirees
- This is an exciting opportunity for advisers, but they risk losing clients if they are not proactive about having this conversation

Question: What are some of the key lessons that you learned that you've taken forward into your CEO roles?

John McMurdo: Something that helped was always having a strong purpose for the business. Always being crystal clear about the why. Additionally, I've always been clear about having a personal purpose for being there too.

I stepped out of our sector in early 2019. I'd had a tremendous career and the sector had been good to me, but I wanted better balance. Then, something unexpected happened that tipped me into taking on the CEO role at Australian Ethical in early 2020. Watching the bushfires play out over that summer of 2019/20, I decided, instead of complaining to my wife about it, I should try and do something more to help. The Australian Ethical opportunity achieved all the things

I was trying to construct in my personal life anyway, which were: commercial challenge, purpose, and a substantial, growing foundation with a deep philanthropic desire.

Q: What are you hoping to achieve at Australian Ethical?

JM: It's a fascinating business. It started 35 years ago, and the premise was twofold. The first was seeking to invest in companies that were doing good things, for the planet, for the environment, for people.

The other interesting thing is it was never an altruistic business. There was an investment thesis that said if we invest in sectors and businesses that are good for the planet, are good for people, then that should start to turn up in our performance and in great investment returns. As opposed to being in sectors or businesses that are mature or in decline or run the risk of stranded assets.

As recently as five or six years ago, I would have been a sceptic about this approach, thinking that you would need to trade off investment returns.

As I started to dig into it, it became quite evident to me that it was the opposite. Those learnings came from Europe and elsewhere, where they've been ahead of this curve for some time now. Australia is catching up.



John McMurdo

John has a demonstrated history of success in the financial services industry and as an adviser and mentor in a range of start-up and accelerator businesses.

Q: Thirty-five years ago, it would have been a very niche play and generally misunderstood. When did you start to see a real turnaround?

JM: When I look at the data here as recently as two years ago, probably something in the order of 15 per cent of the Australian population were either interested in or prepared to consider an ethical style of investment.

In research we just had conducted via Investment Trends, which interviewed nearly 3,000 Australians nationally, and more than 300 advisers, that's moved to something in the order of 60 to 80 per cent. A phenomenal, a seismic shift.

Q: What do you think is driving that?

JM: A couple of things. The first is Australians are becoming more aware of the existential threats that exist around climate and environment. Not only that, but also social and other issues.

Second, I think the myth of this being altruistic – and not delivering the opportunity for great investment

An illustration showing a variety of hands of different skin tones and ages stacked together in a circle. The hands are wearing different colored sleeves and accessories, such as a purple sweater, a red sleeve, a blue and yellow patterned sleeve, a blue sleeve with a white and red striped cuff, a blue sleeve with a white button, and a green patterned sleeve. The background is a gradient of purple and blue at the top, transitioning to a yellowish-green at the bottom.

**"AUSTRALIANS ARE BECOMING MORE AWARE
OF THE EXISTENTIAL THREATS THAT EXIST
AROUND CLIMATE AND ENVIRONMENT. NOT ONLY
THAT, BUT ALSO SOCIAL AND OTHER ISSUES"**



outcomes – has been busted. And now Australians know that, not only can their money do well for them, but their money has the power to do good elsewhere also. And I think the other thing we're observing generally is that Australians want to be associated with brands and companies that reflect their values. That's a real opportunity for our sector and our advisers in general.

Q: Do you have any statistics around the various age groups?

JM: Two years ago, it was significantly the Millennial demographic. Now it's quite evenly distributed across all the demographics. We now see that pre-retirees and retirees have an even greater knowledge or interest in investing this way. And that is now the case across every demographic.

Q: ESG has become an extremely large bucket. How do ethical investments differ to a traditional ESG?

JM: Both are good, but ESG is fundamentally about taking environmental, social, and governance issues into thinking around valuation.

ESG is limited to the valuation approach. Not in all cases... but in many it starts and stops at valuation. It's possible, even in ESG, that an investment management house may invest in businesses that are long on fossil fuels or nuclear arms or anything else.

Our approach at Australian Ethical is certainly to take it into valuation, but take that a step further and apply that thinking to our portfolio construction. Make sure these assets aren't in client portfolios, and align that with the true values of clients. The other key aspect of that is we're looking, not only for assets or businesses to do no harm, but to do some good. For the first time ever, we see an even bigger cohort that want to see that their money is doing something positive, not just avoiding harm.

This is the important part about having an active manager... we go and visit more than 400 companies annually to understand what are the actual practices, and make sure what it says on the tin is real. Part of those company visits are trying to engage companies about their own practices and how they can improve those.

Q: Are there any stocks in your current portfolio that might surprise people in how they've entered the portfolio, or exited?

JM: One company we've been in for some time, and has done extraordinarily well for investors, is Pilbara Mines. This is a lithium mineral mine. That's incredibly important for batteries; in phones, and in particular electric batteries for vehicles. It is technically in mining, but has done extraordinarily well for investors, and is doing great things by aiding our transition to a more renewable energy environment.

Another one is a company called Sims Metal, which recycles metal and copper. Because of the price of copper and metals generally, they've gone extraordinarily well. Doing fundamentally good things for the planet and the environment, but in sectors or businesses people might not think about.

Q: What's next for the wealth management industry or financial advisers in particular?

JM: I think ethical investing is the biggest opportunity for advisers that I've seen in decades. There are so many commentators domestically and internationally saying climate change will be the biggest change in capital markets for the next few decades. Some liken it to what the internet has been to business and capital markets over the last 20 years. For good proactive advisers, this is a wonderful opportunity. It's what advising is about. However, if advisers aren't proactively having this conversation, there's a risk their clients are going to have it elsewhere.

Q: Where would advisers be best to go for resources on ethical investments?

JM: One of the things that's probably held back good advisers is they want to be well-informed, and across conversations that they're having with clients. Help does exist – you can get it from the research houses and others such as asset consultants. Companies like ours are not just about communicating our product, but providing resource materials and background reading. And look at European trends. They're the leaders.

Q: What are some of the new and innovative things that you're doing in Australian Ethical to future proof it for the next 10 to 20 years?

JM: We're investing in product, and we're particularly interested in access. We've got a wide range of managed funds, across single sector and diversified. Investors want managed accounts and ETFs, so we're extending into that too. And we think there will be a move to digital currencies and smart contracts.

I've got no doubt that we will be providing access to our solutions in different and modern formats over time. It's important in financial services businesses not to think like staid, stereotypical businesses anymore. We've hired a chief innovation officer in our business... we're investing time and money in an idea incubator/R&D hub. ■



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Are you ready for BIONIC ADVICE?

Andrew Walsh, CEO of Iress, takes advisers through the decisions they should be making around technology, data and improving efficiency. He discusses the opportunities that automation and robo-technology provide for advice firms – if it's done right.

Key takeaways

- The past year has seen an explosion in technology usage, but there is a divide between those who are using it to survive and those who are using it to meet the strategic goals of their business
- Data presents a huge opportunity, but it has to be done correctly and with thought to privacy
- Robo-advice has been slow to take off, but it has the potential to help scale smaller to medium advice firms

With many advice businesses propelled into using additional technology throughout the past year, Andrew Walsh, CEO of financial services software provider Iress, says they now need to be strategic about the way they continue to adopt new technology. This is particularly true as data, automation and robo-advice opportunities emerge which could transform the way we give advice.

“For the most part, technology use over the course of 2020 has been a necessary response tool to continue to operate. There is a difference between those businesses that are using technology, be it Zoom or other tools, as a thing that they need to do business... or whether it's used strategically,” told Netwealth joint managing director Matt Heine on the Between Meetings podcast.

“It's those that have developed a strategy for the business, have a plan to

execute that, and know where technology is going to play a role... as opposed to those that are using it to get by.”

Andrew adds that the role of technology and how it delivers that within a business plan is critical.

“We talk about the curse of the ‘digital magpie’, which is where people and businesses can chase shiny objects or shiny technology ideas all the time and not ground them in what do they need to achieve their strategy and business plan,” says Andrew.

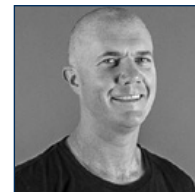
Using and protecting data

Andrew says leveraging data presents a big opportunity for advisers as they look to areas like automation and artificial intelligence for the future. However, knowing to collect, use and store data must come first.

“Having a strategic eye on the data that's collected, how it's protected and how it's leveraged is really critical,” says Andrew. “I think data risks being today's buzzword... but unless it's broken down into the components of intent, protection and leverage, it is too hard to grasp.”

He adds that Australia's obligations around privacy and data loss need to be more prominent considerations for advisers.

“In terms of where data is stored, that is an active responsibility of anyone that is responsible for third-party data, or clients' data in this case. What am I using and where is the data stored, who



Andrew Walsh
Andrew was named as a finalist in the EY Entrepreneur of the Year 2018 Awards.

has access to it, how is it protected, and how do I return that data? How do I delete that data? How do I ensure that it's kept safely?” says the Iress CEO.

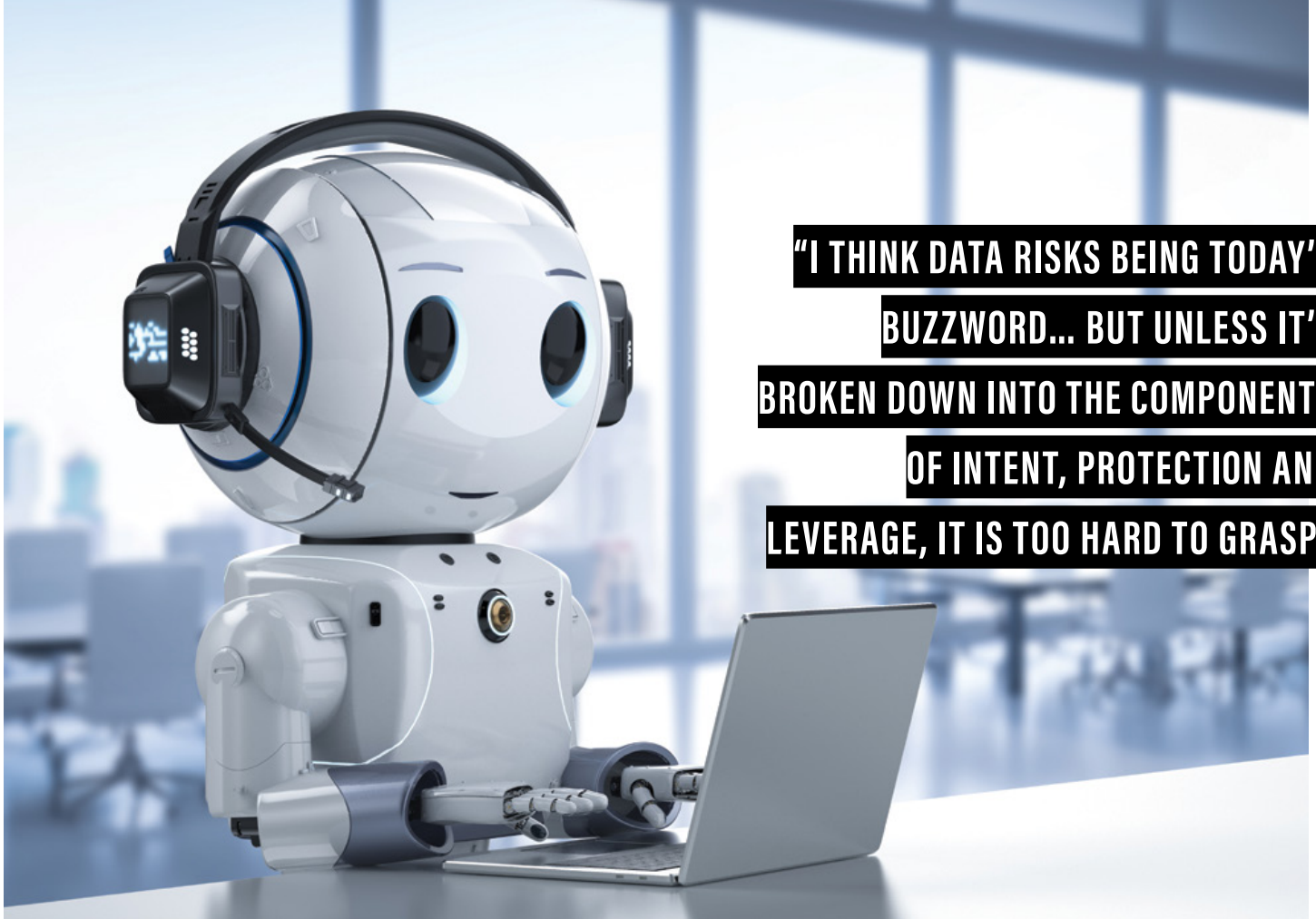
Bionic advice — a big opportunity

One area Andrew finds “really exciting” is how technology can help advice businesses operate with efficiency, and also build scalability for the future. This extends to additional automation in back-office process, but also so-called bionic or robo-advice.

“There are so many people that have unmet advice needs, which for the most part might be quite simple, but they don't have the privilege of relying on professional financial advice,” Andrew says. “It's only with efficient delivery and interactions with customers through technology that that scale will be seen. I believe the technology will allow small and medium enterprises to be able to deliver to that, like any institutional-size service delivery.”

Taking on the robots

Robo-advice is in its infancy in Australia, but in overseas markets like UK and Canada it's taken off exponentially in



“I THINK DATA RISKS BEING TODAY’S BUZZWORD... BUT UNLESS IT’S BROKEN DOWN INTO THE COMPONENTS OF INTENT, PROTECTION AND LEVERAGE, IT IS TOO HARD TO GRASP”

the last 12 to 18 months. There’s a couple of areas which might hold it back – the first Andrew says, is integration.

“There is a spectrum of advice across different channels. It might be online, might be on the phone, might be in person. And the nature of advice will sometimes determine which channel is best. But unless the client experience can sequence across those channels seamlessly, and the results and the experience are consistent, then that will lead to a poor client experience,” Andrew says.

The other area is ‘proposition clarity’ – in other words, advisers being clear on what product they are offering customers, how it’s delivered and what it costs.

“It’s with that clarity that businesses can be clear and confident as to what they offer digitally and online. Perhaps at a cheaper price versus what is the high value product that requires an adviser’s own time,” says Andrew.

Online interaction not optional

While robo-advice and online interaction might seem like something that appeals to younger cohorts, it is not necessarily the case – meaning post-COVID, having an online presence is “not optional”.

“I don’t believe that it is the exclusive domain of Millennials at all. If I take my own experience, it’s that I have time to

think about things at 9pm at night. So, I want interactions and transactions that are really efficient at night. I don’t want to be doing that nine-to-five,” Andrew says.

He adds that after people of all ages have gotten used to interacting on video conferences and using technology to do things that they wouldn’t have considered before the pandemic, there is no way of going back to analogue for managing their finances.

“Businesses that aren’t thinking about how they interact with existing clients and prospects online will be tested. I’m not talking about just a website, or just a portal that’s read-only. I’m talking about actual interactions.”

Real-time, scalable communication

Andrew goes on to discuss how the explosion of communication platforms such as Signal, WhatsApp, Facebook Messenger, Zoom, Teams and Slack can come together to be useful for advisers.

“It’s hard to think about how to engage with clients in a scaled way because every individual has got their own preferences as to whether they like WhatsApp, they don’t like WhatsApp. You could apply the same questions on any media.

“It needs to be thought about in terms of what is not real-time communication and what is real-time communication. Business hours aren’t limited anymore... clients will want



Between Meetings

In this podcast series Netwealth’s Matt Heine chats to industry professionals and thought leaders. Listen now at netwealth.com.au.

real-time response. We are going to have to find a way to simulate real-time response without requiring humans.”

Andrew concludes by discussing how, in time, much will become automated about delivering advice – although there is a lot to work out along the way.

“Do we think in time that a computer could give answers to a client, and if computers give answers to clients based on the data that an adviser has, is that advice? Is that not advice? Is that compliant? I think there are a few things for us all to be tested on and how that fits into the regulatory framework you operate in,” he says.

The answer, in the end, is likely to be a hybrid human/robot model.

“Robo-advice has notoriously high dropout rates, but those dropout rates can be filtered based on knowing who the client is potentially, but what they’re looking for. That might need a proactive call from someone, instead of allowing them to have a failed experience online,” he says. ■

I GIVE MY
PARENTS
MONEY
ADVICE,
I'M A 
BANQER
KID



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A TEACHER'S PERSPECTIVE

Keith Newman, deputy principal of Christ Church Grammar School, shares how he has integrated Banqer into his classroom. Christ Church Grammar School is an independent co-educational school located in Melbourne catering for students aged 3-12. Keith was very impressed with both the level of engagement and the genuine learning outcomes. He shares his experience below.

Q. What year level do you teach?

I teach a Year 4 maths group and collaborate on planning and assessment with the Year 4 teachers.

Q. How much time do you dedicate to Banqer per week?

It depends on the focus. The group has spent anything from 15 to 45 minutes each week.

Q. What is the best thing about Banqer?

Two things! The engagement and the real-life lessons. The students

are so absorbed in the program and constantly ask to use it. Sometimes the students make simple errors with their online transactions. This leads nicely to discussions about real-life situations that might happen to their parents or themselves in the future.

Q. How easy is the platform to use?

Very easy. The teacher needs to fully understand the sections and how to use them prior to opening them up to students and the tutorial videos supplied are a great resource.

Q. Do the students enjoy using Banqer?

I cannot stop them asking every maths session, "Can we use Banqer today?" Even during lockdown in Victoria.

Q. How does Banqer support learning maths?

Teachers are always trying to find creative and exciting ways to teach maths and make it relevant to real life. Quite simply, Banqer does this.

Q. Who would you recommend it for?

I think it has a real application for Years 4 to 6.

Q. Are there lesson plans? Do you follow these?

I have used many of the resources and lessons. And after reading and watching the tutorials, I sometimes do my own thing based on my teaching experience. Banqer is very flexible in how it can be integrated.

Q. Any tips for teachers using Banqer?

We have moved slowly to ensure a deep understanding of each section before we open up the next section to the students.

Q. What is something you would like to see improved/added to Banqer?

I am still new to Banqer so for me, there is nothing I can request at the moment. I think they should just keep up the good work and continue to add more real-life situations related to banking and financial decisions.

Used by 170,000+ Australasian students, Banqer introduces financial concepts through an online simulation. This allows students to gain financial confidence and a practical understanding of positive and negative financial behaviour.

They explore concepts like budgeting, banking, insurance and buying property. You can easily sign up via the "get started now" button, or book in a demo and we'll help get you started with your class! ■

Thanks to our Champion Partner, Netwealth, Banqer is available to primary schools across Australia at no cost.



THE EMERGING AFFLUENT

The future is here and hungry for advice

For wealth businesses to thrive into the future there is a group of Australians, the Emerging Affluent, that have great potential and cannot be ignored.

Unlike Baby Boomers, they are younger, typically Gen Y individuals – with an average age of 37. They have higher-than-average incomes, household wealth that is growing, a solid understanding of financial concepts and a strong appetite for investing.

The Emerging Affluents, like no other, are most likely to use financial advice today (39.9 per cent) or take up advice soon (51.5 per cent) – the majority of which plan to realistically start receiving advice in the next five years.

Netwealth's research, The Advisable Australian, surveyed over 1,000 Australians, and identified four advisable segments, one of which was the Emerging Affluent, a group of around 1.5 million people who control about \$2.2 trillion of household wealth. Emerging Affluents are both equally male and female and generally live in metro areas.

Given their age, a defining feature of the Emerging Affluent is that they are extremely confident technology users. Almost eight in 10 (78.4 per cent) say they are extremely or very confident using technology and digital services. They are also more likely to access the internet on mobile devices for

non-work activities, with almost half (45.8 per cent) using their mobile phone exclusively for this purpose. Another defining feature of the Emerging Affluent is that they are typically better educated than the rest of the Advisable Australian population with almost one in three (32.8 per cent) having a postgraduate degree and a further four in 10 (41.6 per cent) having a graduate diploma.

Being more educated has resulted in more than half (52.4 per cent) being in senior roles and management, with a large number already in executive positions, despite their younger age.

With this comes healthy, growing and higher-than-average incomes (average household income is \$202,124 p.a., with one in 10 earning over \$350,000 p.a.), sizable investment and super portfolios (\$280,000 and \$229,150 on average respectively) and a large appetite for further investments.

The Emerging Affluent are focused on their financial goals: 43.2 per cent are interested in building and diversifying an investment portfolio and 30.1 per cent want to invest in a property. In terms of their personal and family life, they are likely to be growing their families (23.6 per cent) and to be looking to take

advantage of their wealth by going on holidays (78.1 per cent) and buying new cars (28.1 per cent).

They are also focused on improving their wealth position by reducing and managing debt (47.6 per cent).

And as far as their professional life goes, almost one third have recently gone through, or expect to go through, career advancement or career changes. Further, almost one in five (19.7 per cent) are entrepreneurs who are expecting to expand their business in the next three years.

In short, even though they are the smallest group in size – there are 1.5 million of them – they hold the second-largest amount of wealth. They are earning good money and have money to invest. Importantly, they want someone to help them and they want this help to take a holistic, lifestyle-based approach, encompassing everything from how to budget, how to invest, what insurance they need and how to recycle debt.

The Emerging Affluent is a group that advisers simply cannot afford to ignore, as they might be your future client. But the advice needs and how you engage and deliver advice will differ to most of your current clients today.



1.5

MILLION

The population size in
Australia of the Emerging
Affluent who are holding
\$22 trillion in total
household wealth



Miranda's story - An urban winery and budgeting

"Wealth to me is having enough money to be comfortable at all times. It means being able to do what you want, when you want," says Miranda, a 36-year-old who lives in an apartment with her husband and pets.

"It's also not just about the fiscal wealth, but about knowledge, family and friends, and everything else around you."

Miranda works for a company that produces an innovative app for the construction industry. Her husband designs IT/telco networks for large companies. Together their medium-term financial goals include having enough money to set up an urban winery in the Melbourne CBD, while longer term, the couple wants to be able to purchase a country property, where her husband can grow vines. To get there, Miranda and her husband are looking to pay down their debt and also start saving money. They also want to invest in some shares as a financial buffer.

"You have enough wealth when you can do whatever you feel like doing, whenever you feel like doing it," she says.

Miranda often used to worry about money to the point where she found herself waking in the middle of the

night, stressed. However, a new budget and savings plan has helped.

"Since then, things have gotten a lot better. In fact, this year was the first time we haven't had to worry about Christmas spending."

From Miranda's story we can see that wealth is more than just having an appropriate investment portfolio or the right insurance, rather it is a feeling or state of mind. In Netwealth's Advisable Australian report we wanted to examine this in detail, identifying six dimensions in which we could better understand wealth and how financial advisers could service clients.

The six dimensions of the Emerging Affluent

1. Financial capability

Education has led to a greater appreciation of financial concepts, evidenced by Emerging Affluents saying they have a good or very good understanding of the relationship between risk and return (83.8 per cent of them) and almost seven in 10 rate their understanding of different strategies to invest (e.g. asset allocation) as good or very good.

They are engaged with their finances and like to take control over their

investments - 91.9 per cent agree they have confidence in managing their day-to-day finances, and 90.0 per cent agree or strongly agree they have confidence in achieving their financial goals.

2. Advice propensity

They have a good understanding of the value of financial advice - only a small minority are unlikely to seek advice. Those who use advice today stands at 39.9 per cent, whilst half (51.5 per cent) are likely or would possibly take up advice. Only one in 10 say they would never use financial advice.

3. Financial resilience

In general, they are fairly financially resilient. By having a future-focus, reasonable levels of insurance coverage and savings, they are well-placed to deal with unexpected financial shocks, like the GFC. On the other hand, there are a smaller group (30.1 per cent) who are less prepared for such financial shocks, and these will require more support from financial advice.

4. Financial wellbeing

Emerging affluent are less likely to have health and wellbeing distress as a result of their finances and around two-thirds (62.4 per cent) sit in the high to very high financial wellbeing range. Despite this, around 34.9 per cent of Emerging Affluents still worry about money at least weekly.

5. Technology adoption

Almost eight in 10 (78.4 per cent) say they are extremely or very confident using technology and digital services. They are also more likely to access the internet on mobile devices for non-work activities, with almost half using their mobile phone exclusively for this purpose.

Almost half (46.5 per cent) look at their banking app or portal daily. Over half (61.2 per cent) read business, investment, or financial news on a website or app at least weekly. Half view and manage their superannuation using a website or app at least monthly and over one-third (34.1 per cent) manage their investments using an online broking service at least monthly.

6. Brand affinity

One in three (33.4 per cent) identify with well-known brands that are feature-rich and have top digital capabilities, while another third (36.2 per cent) like brands that have a social or environmental purpose. ■



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77

PER CENT

The percentage of Emerging
Affluents who care deeply
about social issues

High-performance coach, mentor or digital whizz:

WHAT ARE YOU DOING

for the Emerging Affluent?

The Emerging Affluent is a market too important for advisers to ignore. These wealthy, high-income Gen Ys are highly financially literate and financially competent. Advisers should evolve their approach to attract and retain this market, through becoming co-creators and having a digital-first approach.

Key takeaways

- Emerging affluent control \$2.2 trillion in wealth, and are highly engaged with their investment activities
- They want an adviser to act like a high-performance coach. At the same time, they still need help with investing, insurance and managing debt
- Advice approaches need to be adapted to reach this group, including digital technology and co-creation

Generation Y are well and truly grown up. After being subject to years of negative commentary in the media, the ‘smashed avocado on toast’ generation now contains some of the wealthiest and most advisable people in country.

As part of The Advisable Australian masterclass series, Andrew Braun, General Manager of Marketing at Netwealth, takes a deep look into the advice needs of the Emerging Affluent based on Netwealth’s Advisable Australian research.

Inside the heads of the Emerging Affluent

The highly-educated Emerging Affluent are financially literate – eight in 10 have a good understanding of the relationship between risk and return. They also have solid knowledge of investing and asset allocation, as well as market trends and insights into financial news. Almost seven in 10 tell us that they are future focused, rather than living in the ‘now’.

“They have a much greater confidence in making financial decisions. And not only that, they are highly-engaged with their investment activities,” says Andrew.

Also, because they grew up using technology, they have a high level of confidence and savviness in using digital tools today.

The role of advice for a capable, digital native

So, what role can advisers play for this savvy segment?

Because they are financially capable and literate, only one in five will rely on their financial adviser ‘strongly as a critical source of information and



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Andrew Braun

Andrew has spent over 17 years working with digital technologies as a technician, strategist and marketer.

decision-making support’. This means the majority of Emerging Affluents will use their financial advisers as more of a source for information, education on concepts, high-level ideas, and sometimes for administrative and compliance purposes.

“We believe advisers need to take on the role of a co-creator or high-performance coach for Emerging Affluents. Think of yourselves as their gym coach, their personal trainer,” says Andrew. “You’re going to guide them, but let them make their own decisions, educate them and improve their knowledge. Show them something that they don’t already know.”

However, as sophisticated as these well-off Gen Ys are, they still need more traditional advice. Around half



Moving past one-size-fits-all for fees

Advisers also need to move away from a one-size-fits-all fee model, with the Emerging Affluent split between preferences for a range of fee models. Some are comfortable with an annual fee, some want a performance-based model, some want to pay per piece of advice and some want a monthly subscription fee.

are looking for help building and diversifying their portfolio. Alongside more traditional investments like managed funds, they want to learn about private equity, private debt, infrastructure, hedge funds and even small business assets.

Another area is insurance; one-quarter of Emerging Affluents admitted to needing help in this area. Four in 10 have no trauma or critical illness cover and three in 10 have no income protection.

“There’s a great opportunity there to support them, educate them and co-create with them on why insurance is important and what insurances they need,” says Andrew.

A third area where advisers can zero in is by helping Emerging Affluent clients get a better handle on budgeting and managing debt. While debt is unavoidable for this younger group of people, where advice can be of benefit is to help them manage their debt, save money and recycle debt.

“They’re concerned with these issues on a day-to-day basis. Debt recycling, money coaching and budgeting can be a particularly important part of what you can offer,” says Andrew.

Emerging Affluents also have an entrepreneurial streak, with one in 10 looking to start a business and two in 10 looking to expand their

existing enterprise. This could be an opportunity for advisers to expand their value proposition through a wholistic combination of business, tax, financial planning and accounting services.

Creating a digital customer-first experience

Once advisers are clear on what they need to offer Emerging Affluents, they need to put careful thought into how to reach them with their offers.

Firstly, it is about having the right technology. Around half of Emerging Affluents say a business’ digital offering is in the top three most important things to them when selecting an advice firm. This includes their mobile app, client portal, website, social media presence and online content such as articles, podcasts and videos. For example, eight in 10 Emerging Affluents want to use a client app to view an amalgamation of their super, their bank accounts, their investment accounts.

They want their client portal to help them see how their portfolio is performing, track their spending budgets and monitor progress on financial goals. They want to access financial news, manage their personal information, securely store documents, such as their will and insurance, and even buy and sell investments on the go.

Yet despite their love of all things digital, eight in 10 want their first meeting to be face-to-face as they look to build trust with an adviser. As the relationship evolves, however, it moves in the direction of digital. This time-poor group values online meetings and email as a method of communication, from signing documents through to regular communication, and updates on new products and services.

“This means you must move seamlessly between multimodal, between face-to-face and digital channels,” says Andrew.

Building trust

Advisers also need to work on addressing some areas which may be holding the Emerging Affluent back from seeking advice. Affordability is the first issue, because even though these people have money, they have trouble assigning a value to the service they receive.

“It’s an education thing. We need to do a better job of demonstrating value,” says Andrew.

Netwealth’s Advisable Australian research found many are unsure where to start, and have trouble finding an individual who they trust. Not surprisingly, the majority turn to their network of family and friends when looking for an adviser. They will also turn to their trusted networks of advice, such as accountants, mortgage brokers and lawyers.

“In trying to acquire these people, it’s very much about building your referral networks with their trusted partners,” says Andrew.

Also, as digital natives, almost one in three also rely on online rating and review websites and search engines when trying to find an advice firm. When they are trying to decide whether to engage a firm or not, over half look at the reputation and credentials of the firm. Five in 10 also indicate that the practice’s technology experience or technology offering is the most important.

“You need to do a great job of communicating your experience and qualifications to build trust. You need to examine how do you do that in your first meeting, how your office communicates this, and whether your website builds trust. You need to examine how you communicate your reputation,” says Andrew.

“You also need to show them that you are a leader in tech, or at least have enough tech to satisfy their needs and you need to make your customer experience digital.” ■



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Creating an AUTHENTIC CLIENT EXPERIENCE

As we dig further into the Emerging Affluent, we look at how creating a truly engaging client experience will set financial advice firms apart. Engagement forms a deeper relationship between adviser and client and is a key way to drive referrals.

Key takeaways

- A truly engaging client experience will strengthen client relationships and drive referrals
- Get input from clients about what they want, not just feedback on the service
- Be clever about communications with clients

In the financial advice sector, satisfaction is very high. In fact, around 88 per cent of clients are satisfied, and 84 per cent loyal, according to global 2020 Investor Research conducted by the Investments and Wealth Institute and Absolute Engagement. While it is an encouraging statistic, the problem is that when most clients are satisfied, satisfaction doesn't set you apart, says Julie Littlechild, founder of Absolute Engagement.

"We need as an industry to set a higher standard, if the goal is to stand out," she suggests as part of Netwealth's Advisable Australian masterclass series called Designing a client experience that drives growth.

Rather than merely satisfying your clients, Julie suggests advice firms need

to move to a service model where client engagement is the focus.

"The fact is that when we move from satisfaction to engagement, the connection is deeper, the experience is stronger. And they feel better not only about their relationship with you, but often about their financial futures," says Julie.

"But the other reason is quite simply that your engaged clients provide all of your referrals. That is really the source of growth in most businesses."

The secret sauce

From her experience working with advisers in her native Canada and in several different countries, Julie thinks about client engagement as a pyramid. At the bottom is service, which is about being responsive, smart and delivering what you say you will.

Next is offer, which is about having a range of services that reflect what a client needs. The third is leadership – a 'secret sauce' that is a real differentiator.

"Leadership is about having a deep understanding not only of what your clients need... but also what's getting in the way for them... And sometimes,



Julie Littlechild

Julie is a speaker, writer and researcher. She helps advisers tailor their client experience to support a compelling personal vision for the future.

that goes a little beyond the core investments or planning work that you do," Julie says.

And she says while advisers often provide this to some degree in one-on-one interactions with clients, where it becomes important is in how it informs communication with them.

Take a personal trainer as an analogy. Service is the trainer being helpful, responsive and so forth. Offer is about being able to offer classes over Zoom, or catering to a certain age group. And finally, leadership is about the trainer getting to know the client, understanding their challenges, and offering them articles or resources to help them.

A four-step plan for deeper client engagement

Julie suggests a four-point plan for creating an engaging experience:



\$2.2

TRILLION

The total household
wealth of the
Emerging Affluent

1. Define your ideal and target client
2. Invite input from clients
3. Intentionally design an extraordinary customer experience
4. Leverage your experience to drive referrals

Step 1: Targeting the Emerging Affluent

It's impossible to meet the needs of everyone, which is why it's important to have a defined target or client segment, or several targets, Julie says.

"If we don't, I think the risk is that we start to water down the experience to the point of providing something that's good enough for everyone, but is engaging for no one," Julie says.

Targeting the Emerging Affluent means appealing to their desire for more frequent communications, but knowing that at the same time, they are happy to do them virtually. They are more likely to want do-it-yourself tools, for example the ability to view bank accounts, superannuation, property, assets, liabilities, and the whole picture online. Or the capacity to track spending and see progress against their goals.

"But really, what we've got to be thinking about, and of course we are thinking about, is how can we put more tools in their hands to allow them to take action in their own time?" Julie says.

It's also important not to market to them as the Emerging Affluent, as that's your way of categorising them, not theirs.

"So, imagine I was walking up to your office, and there was a sign hanging on the door and it said, proudly, 'We work with the Emerging Affluent'. Do I as a prospective client look at that and say, 'Wow. They get me?'" Julie says.

"We need to focus more on the problems that we solve. So, we help busy parents organise their financial lives when they're juggling kids, and work, and family. Or we help young professionals design a future that makes work optional and allows them to focus on the things that give them purpose."

Step 2: Inviting input from clients

After defining target segments, advisers should move to client input.

"Input allows you to connect the dots between what your clients say they need, want, and expect, and what your client experience is like. And that's the step that allows us to knock assumption on the head," says Julie.

It's also important to distinguish between client feedback, which is about



how the adviser is doing, and input, which is about how the client is doing. "How are they feeling? What are their challenges? What do they need?" she says.

There are a range of forms this feedback can take: formal, informal, quantitative and qualitative. This can mean anything from having an advisory board where you bring a group of clients together, to a client survey, to informal chats.

Step 3: Re-thinking client communication

Whatever method an adviser chooses, the key is to use the insights gathered from the client input to design an extraordinary experience. Going back to the pyramid, first use information gathered about service, such as whether clients want virtual or in-person meetings, and how often they want communications. Offer would be around how they want to be supported and what they are interested in learning about now: are they looking to buy property, go on a holiday, manage a debt or plan for a major life event?

And leadership? Well, it is about understanding their challenges and then developing client communications to support them. Julie calls out three particular trends in client communication: community,

aspiration, and personalisation. Community is about making clients feel they are part of something, aspiration is about supporting them in becoming the people they want to be. And personalisation is providing information they are interested in, rather than being too generic.

An example of a community-style communication might be sending an email to a group of Emerging Affluent clients with young families, asking them to share examples of books or websites on financial literacy for kids, then sharing a summary of these back to clients.

Step 4: Driving referrals

Julie suggests the final piece of the puzzle is using this improved client engagement to boost referrals. One way of doing this is providing content that is easy to share, like making an email newsletter that's easy to forward with one click.

Another is targeting the so-called 'referral gap' by actually asking those Emerging Affluent clients whether they refer, and why.

"Know the target, get clear on who you're building this to support, invite input, intentionally design communications that will drive engagement, and then leverage that to drive referrals," concludes Julie. ■



With change comes your chance to use advanced technology

In our rapidly changing financial advice industry, it's now more important than ever to embrace new technology to digitise the client experience and realise new business efficiencies.

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SEGMENTING CLIENTS

Start small, start simple, but start now

Segmenting is a key tool for advisers as they look to refine their offerings to attract and retain their target clients. This approach has allowed Netwealth to identify the Emerging Affluent, a client segment who offer great potential to advice firms. Here, we look at the benefits of segmentation and how to go about it.

Key takeaways

- Segmenting clients can help an advisory business tailor their offerings, attract the right new clients and retain existing ones
- Segmenting should have regard to a client's needs and attitudes, and once this insight is achieved, advisory firms can tailor their offerings accordingly
- Models for segmentation can be simple but also more complex

Simon Hoyle, head of market insight at CoreData says, "Look at Liverpool FC – one of the best football teams in the world. Each player plays for the same team and they share many similarities. Yet, dig deeper and you'll see they come from a range of countries.

They all play in different positions and have different training regimes. They have different physiques and nutritional requirements."

This is an example of how even within a group of people who appear to be the same from the outside, it's necessary to understand this group better so you can tailor services to their needs.

And the same of course applies to financial advice. Segmentation is the practice of dividing a client

base into groups of individuals that are similar in specific ways, such as age, gender, interests, attitudes, life stage, financial literacy and investible assets. Or in Liverpool FC's case, country of origin, position and perhaps skill.

As part of Netwealth's masterclass series on The Advisable Australian, Simon presented *Peeling the Orange: How Segmenting Your Client Base Can Make Your Business Better*.

The benefit of segmenting clients

In creating segments, you will identify and group like clients (and prospects) into a handful of buckets which allows you to personalise your offer to each segment.

"If you segment a client base, and you understand what each segment is looking for... you are then more likely to be able to retain those clients by offering them relevant services that they're happy with, and they're happy to pay for," says Simon.

Specifically, benefits include:

- **Focused communication and marketing** - allowing advisers to target their communications to the needs of individual segments.
- **Improved client engagement** - by demonstrating the adviser genuinely understands the segments' needs.



Simon Hoyle

Simon has 35 years' experience as a business and finance journalist, covering superannuation, insurance, investment and financial planning.

- **Maximising client retention** - by making it easier to identify who may be at risk of leaving and develop appropriate retention strategies.
- **More efficient client acquisition** - Segmenting allows advisers to better identify prospective clients and helps work out how to appeal to them.
- **Niche marketing and brand equity** - Targeting a defined group helps an advisory firm be perceived as a distinctive brand offering in the market.
- **Drive profit growth** - Segmentation may improve client acquisition and retention.

How to begin the process of segmentation

A survey conducted by CoreData, The Adviser Pulse Check Survey Q4 2020, found that more than a quarter (28.5 per cent) of advice firms were not segmenting clients at all, and the dominant method among those who were segmenting was by the amount of fees that they pay (43.4 per cent).



51.5

PER CENT

The number of Emerging Affluent in Australia that are employed in senior/ executive roles



\$285

THOUSAND

The average household investment portfolio of the Emerging Affluent in Australia

DO'S AND DON'TS OF SEGMENTATION

DO

- ✓ Start now
- ✓ Work with what you know
- ✓ Start simple
- ✓ Each customer can only go into one segment
- ✓ Review and evolve your segmentation model
- ✓ Link what you learn about clients to services
- ✓ Seek help if needed

DON'T

- ✗ Expect to get it right first time
- ✗ Try to solve everything at once
- ✗ Create too many segments
- ✗ Spend months creating the perfect model
- ✗ Use variables that are too vague
- ✗ Pay a fortune to get it done

According to Simon, segmenting by fees means “there’s no sense that different segments of the client base may be looking for different things or require issues to be communicated to them in different ways”.

When beginning a segmentation approach, Simon suggests to consider the needs and attitudes of the clients, rather than the fees they are paying, so you can get into the mindset of understanding who your clients really are.

“Rather than asking what your clients are worth to you, ask what you’re worth to your clients,” Simon says. “Instead of segmenting them on the basis of how much they pay you, segment them on the basis of which services and benefits are going to be appealing and relevant.”

Simple and more complex models

The more detailed segmentation gets, the more information on clients is required. However, there are simple models that an adviser can start with. The first example Simon gives is a simple model which involves two variables: age and income. This led to four categories for people under and over 50 and earning less than or more than \$100,000.

“You can set those numbers at anything you want. You might think 45 is a better age or 55, or maybe their

income figure is too low. Maybe it needs to be \$150,000 or \$200,000. The art of segmentation is knowing where to set those variables, where to draw the lines,” says Simon.

From there, advisers can start asking questions about each of these segments. For example, what risk tolerance does an over 50-year-old have? Are they nearing retirement? Does an under 50 have other priorities, such as mortgage and school fees, and where does their investing priority fit? Does someone earning under \$100k see the value in advice, and could be a prospective client? Or is someone under 50 and earning under \$100k likely to need advice?

However, there are far more sophisticated approaches towards segmentation, Simon explains, which require more thought and examination.

The first is called a priori segmentation, which involves selecting several known client attributes (or variables) upfront, such as age, income or family size, then sorting and grouping individuals in the population according to those chosen variables. Once done, resulting groups or segments are analysed as to their appropriateness.

Second is a post-hoc, which requires cluster analysis of all available



Find out more

Watch the Netwealth Masterclass webinar *How segmenting your client base can make your business better* at netwealth.com.au.

attributes to reveal natural groupings within a population of people – an approach which requires computer power and analytic skills.

The advantage of this is it allows you to identify segments that actually exist based on data, not ones that you have imposed upon them.

A good example of this is Netwealth’s own The Advisable Australian, which worked with CoreData to segment Australia’s population into four segments based on factors like wealth (income, the value of their portfolio), age, life-stage and their propensity to use advisory services. It is this segmentation that has given us the concept of the Emerging Affluent – someone under 45 with significant, growing income and wealth.

Although segmentation may sound complicated, Simon suggests: “Some form of client segmentation is better than none at all. Even if you’re doing something that’s only relatively simple, you’re already ahead of almost 30 per cent of advice practices out there that don’t do it at all.” ■

PRICING THE (IN) TANGIBLE

The key to charging for all valued services

Flexible pricing, which is based around the value of services provided, rather than a percentage of funds under management (FUM), is crucial for targeting the Emerging Affluent. Here's how to unlock the inherent value an adviser provides and charge accordingly.

Key takeaways

- Advice firms may be missing out by not being flexible or service-based in their approach to pricing
- The Emerging Affluent often may be undercharged if their advice needs increase but their fees do not
- Pricing models that take into account all the services a client needs help ensure advisers are accurately capturing their inherent value

Advisers could be underselling their own value by using fee models based on funds under management (FUM) rather than charging a fee for the service provided. This is a problem particularly in regards to the Emerging Affluent, whose wealth – and therefore advice service requirements – is ever-increasing, says Rob Jones, co-founder of Peloton Partners.

As part of Netwealth's Advisable Australian masterclass series, Constructing the right advice fee model for the Emerging Affluent, Rob discusses flexible advice fee models

based on the firm's own analysis of data from 110 financial advisory firms Australia-wide. This included an audit of actual fee data from 12,000 clients across 41 firms, and an audit of services provided to 1,600 clients at 12 firms.

The right fee - right for the business, right for the client

A flexible pricing strategy is not only important for clients, but for the health of the firm itself, Rob says. And this flexibility needs to go both ways – many financial advice firms feel they need to put their needs last, and as a result never increase their fees.

"And that's what we've got to stop, because the health of the average financial planning firm out there is not as healthy as you may think when it's stripped apart properly and put back together again," he says.

"Advice businesses must uncover and maintain the right fee. Right for individual clients, right for the business."

This includes an identifiable profit for the value that a firm is providing – even though that might be challenging to put forward.



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Rob Jones

Rob is the co-founder of Peloton Partners and leads a team of 53 staff in six locations.

"Profit's not a dirty word. We need to share this with our clients. We need to bring them behind and demystify fees, open ourselves up a little bit, and then they come along that journey," says Rob.

Pricing a value-based service

According to Rob, as an industry providing a value-based service, financial advisers need to price accordingly. And Peloton's data analysis shows that many firms do not price according to services, but instead increase fees according to FUM.

"We're still in that methodology of pricing the wealth of clients or the segment that clients are in," Rob says.

"This is the link where we're trying to break."

For example, when Peloton's analysis broke down services by Netwealth's

PRICING IS A LAYERED MULTI FACTOR APPROACH

INTANGIBLE VALUE

The impact of valuable advice

- **Qualified, trusted adviser who proactively contacts me** – “Peace of Mind”.
- **An ongoing, continuous relationship** – “My adviser knows me, my concerns, my challenges and my needs”.
- **On demand availability** – “My adviser will be there for me in a personal or financial crisis be it planned or unplanned”.
- **Active assistance to achieve goals** – “My adviser has my short- and long-term goals always in focus”.
- **Empowering the client** – “Getting my affairs in order so I live a life of my choosing”.



STRATEGY AND INVESTMENTS

Services to make it happen

- Recurring goal and strategy meetings
- Portfolio management
- Risk assessment and asset allocation advice
- Projections, budgeting, cash flow management
- Superannuation and/or pension advice
- Responding via phone calls, emails, letters
- Additional meetings and/or reporting (formal and informal)
- Administration and implementation



STRUCTURAL COMPLEXITY AND ADDITIONAL VALUE-ADD

Too often left out of pricing

- Group structure advice
- Ongoing management (oversight) of insurances, estate planning.
- Debt management
- Taxation planning
- CFO management and co-ordination of client affairs
- Aged care advice, Centrelink assistance
- Complex assets
- Special projects or unique circumstances where premiums/discounts are warranted



DEFENSIBLE TAILORED ADVICE FEE

client segments identified in the Advisable Australian research, they found an Emerging Mass client (<\$250k under management) is receiving on average 6.4 services, Emerging Affluent (\$250k - \$1m) is receiving 7.9 and Established Affluents (>1m) are receiving 9.2 services.

In other words, when the amount of FUM goes up by a multiple of four, services provided go up by 1.5 – an indicator that pricing by services is more accurate than FUM.

Pricing for the tangibles and intangibles

Pricing for the Emerging Affluent is a particular area advisers need to watch, because as they move further into affluence, their advice needs get greater but often their fees do not.

“If your charging process isn’t flexible, you’re going to get a big mismatch. You’re going to be... servicing clients unprofitably.”

Instead, Rob recommends a ‘multi-layered’ approach to fees. First, he suggests you need to put a value and charge for the ‘intangible’ value that your service provides, including the support and helping them to identify their goals and objectives.

“All the things that we take for granted are really important for clients. Why aren’t we charging them for that?” he says.

Next, comes the tangible value – in other words all the strategy and investment services like portfolio management, risk assessment, budgeting, superannuation, as well as strategy meetings, reporting and implementation/administration.

“We need to put everything down – we can’t just bundle it up,” he says.

Thirdly, comes complex services and additional value adds, which are too often left out of pricing. This includes areas like ongoing oversight of insurance and estate planning, debt management, tax planning, aged care and Centrelink advice, and special projects.

Together, these factors make a “defensible tailored advice fee,” Rob explains.

Mapping a fee - an example

Rob gives the example of Damien, an Emerging Affluent as a client (name is fictional, but based on a real-life Peloton case). He is a 35-year-old banker earning \$250k per year, with \$200k FUM. This up-and-comer has a rising salary and share-based bonuses.

AVERAGE FEE (PER ANNUM)

	UNMAPPED	FEE MAPPED	% FEE CHANGE
ALL AUDITED CLIENTS (>1600)	\$4,800	\$6,300	31%

AVERAGE FEE (PER ANNUM)

	UNMAPPED	FEE MAPPED	% FEE CHANGE
EMERGING MASS (<\$250K FUM)	\$1,600	\$2,900	81%
EMERGING AFFLUENT (\$250K - \$1M FUM)	\$4,400	\$5,600	27%
ESTABLISHED AFFLUENT (>\$1M FUM)	\$10,200	\$12,400	22%

Source: Peleton Partners 2021

However, he has problems to solve. He is time-poor, has limited assets and has just relocated home to Australia from London. His advice need is high, including portfolio management, regular meetings, active goal management, as well as a basic estate plan.

So, how does an adviser price their services for Damien? Rob looks at this according to a flexible model which goes like this:

1. Determine which particular services are relevant for the client to receive.
2. For each service, determine the complexity of delivering that service and decide whether that particular service will be minimum, moderate or maximum service delivery.
3. Assign an appropriate fee for that service from a pre-determined schedule of prices.
4. Repeat the process across all services.

In Damien’s case, for example, his ongoing strategy and advice meetings and his portfolio management are maximum complexity. Rated moderate are his superannuation and ‘intangible’ services like having peace of mind that his wealth management affairs are being handled. And, areas like estate management and budgeting are rated minimum.

Based on Peloton’s data, this would lead to a total cost of \$11,550 per year (including GST) for advice services, which includes a 30 per cent profit margin for the advisory firm.



Find out more

Watch the Netwealth Masterclass webinar *Constructing the right advice fee model for the Emerging Affluent* at netwealth.com.au.

“It might sound high... but it’s exactly what this guy needs... not as elected by the client, as assessed by the adviser, through the lens of the business. That is what the client’s paying. And they should see everything,” Rob says.

Unlocking inherent value

Another example Rob shared was an advice firm they recently consulted to. Prior to consultation, they were charging on average \$4,800 per client.

After all 1,600 clients had been accurately assessed in terms of the services they used and plotted against a fee schedule, the average went up to \$6,300. For those Emerging Affluent clients, this went from \$4,400 to \$5,600 – a 27 per cent increase.

“Often, when we look at a firm and we break out their business in different ways, we can say to them with reasonable accuracy, ‘This is actually the inherent value sitting in your business. It’s up to you, whether you wish to bring it to the fore or not, because we assure you that you’re worth it’.

“You’re not going to be charging clients any more or any less than what their circumstances define, but your current model is just not doing it,” he concludes. ■

ECOSYSTEM OF CHANGE

Meeting the evolving needs of high-net-worth clients

The needs of high-net-worth clients have changed, and so should the type of advice that is offered to them. Neville Azzopardi from Sayers Wealth talks about how they designed a new type of business to meet these evolving needs.

Key takeaways

- There's a need for advice that looks at the whole of a person or family's wealth
- Needs-based advice, such as family harmony around money issues and impact investing are popular themes

The wealth space is ripe for disruption and there's plenty of opportunity to "do better things, not just do things better" says Neville Azzopardi, chief executive of newly-minted Sayers Wealth.

The firm specialises in wealth management for families and for-purpose organisations that goes beyond investment returns; across wealth, family, business, social impact and philanthropy. It's part of the broader Sayers Group, an investment and advisory firm founded by Luke Sayers.

Talking to Netwealth's Joint Managing Director Matt Heine in the Between Meetings podcast, Neville explains some of the insights into client needs that motivated this new 'whole of wealth' style of offering.

"We'd been seeing a lot of changes in what client's needs and desires were," Neville says.

A holistic approach - looking at business and liquid wealth

"Investment desires are becoming a lot more global... not only global, but moving into alternatives... and

private equity funds, hedge funds and commodities," Neville says. "There was also a desire to be moving into a sort of direct investment place."

Neville adds that when working with high-net-worth clients, "they like having that connection to the underlying investment" which comes about as a result of their own experience of entrepreneurs, or their own networks.

However, this change has made giving advice more challenging. While a good adviser wants to be able to look after the entire wealth of a client, this focus on global and direct investments means it is becoming an increasingly difficult task.

"If you're starting to look at capturing all those global opportunities, it requires a lot of expertise. It's becoming more challenging to be able to have access to direct investments, not only different sorts of channels for sourcing investments. But it also means it's a different skill set required," he says.

Another challenge, according to Neville, is to bring together the holistic picture of both business wealth and so-called liquid wealth. Many high-net-worth clients are entrepreneurs who have developed their own wealth through their businesses, Neville explains. As a result, the business component of their wealth is really important to them.

However, it's difficult to get across all aspects of the wealth of a client, and it's harder to engage with clients around business wealth.

As a result, advisers have tended to gravitate towards what he calls the



Neville Azzopardi
Neville is an experienced leader with over 25 years' experience in Australia and South East Asia.

liquid (as opposed to business) portion of the wealth.

"We saw there was a gap to really bring together a more holistic picture, looking at both the business as well as broader liquid wealth," he says.

A family affair

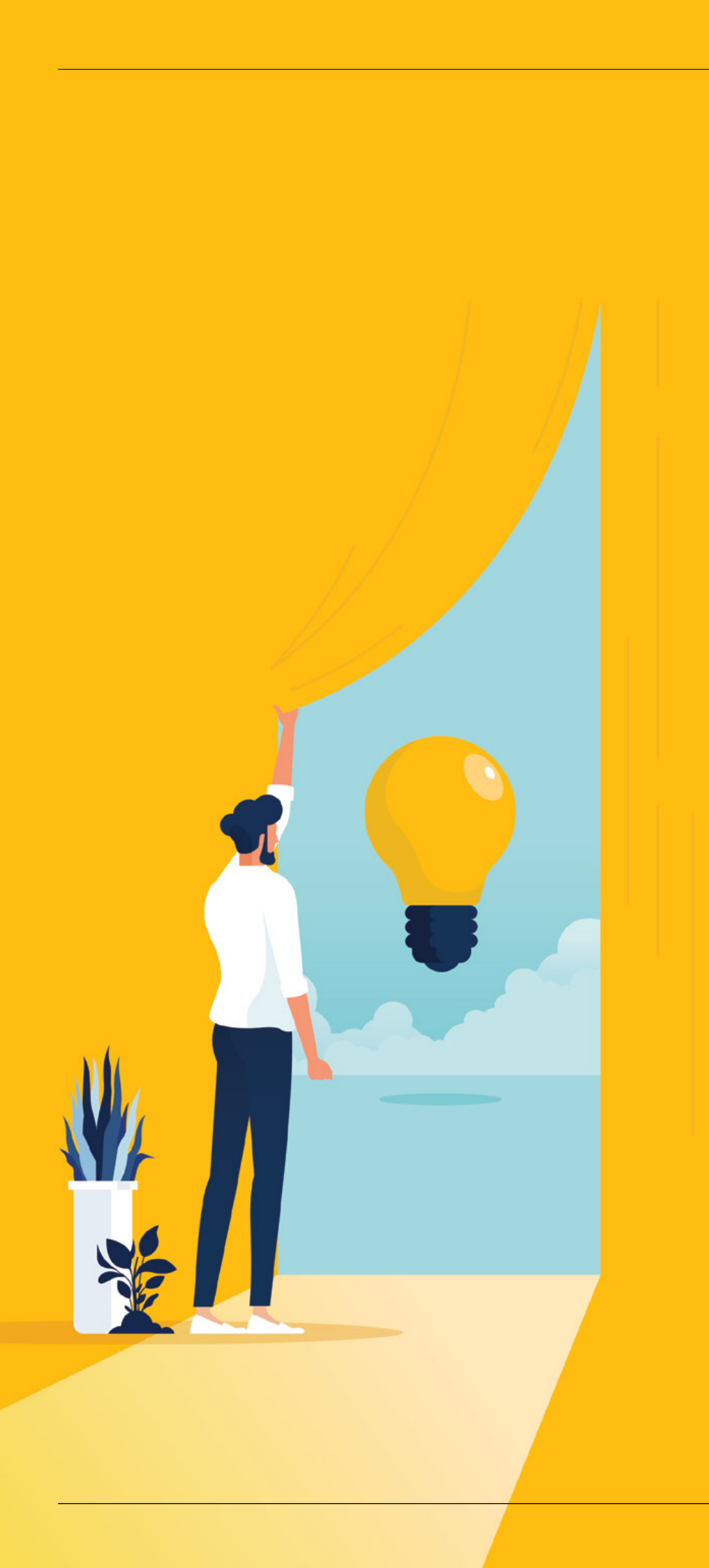
Often, when you look at wealthy individuals, their goals are not necessarily around money, but harmony within the family, Neville says.

"Many of us spend a lot of time trying to create wealth for our security. But there also comes a complexity with wealth – it can actually create challenges within families," he says.

"That's where we're seeing an emerging trend, particularly as we talk about a once-in-a-lifetime transition of wealth over the next generation. Depending on which study you read, it's anywhere between three and four trillion dollars in Australia.

"That transition creates complexity within families. It's not just financial or legal issues, but the psychological issues."

He says Sayers Wealth saw a need to participate in this trend as part of its whole of wealth offering.



The end of 'chequebook philanthropy'

Another shift in the high-net-wealth space is to impact investing.

"We've seen a move from people writing cheques, 'chequebook philanthropy', to wanting to align themselves with particular causes," Neville says.

"In other words, while philanthropy is about the 5 per cent that they give away, impact investment is about the 95 per cent of wealth that is retained, yet can be invested in a way that has a social or climate impact and with the goal to provide good returns."

An ecosystem of change

"I'd been seeing a lot of trends in the industry that were emerging, changing, evolving... So here I am, having the chance to lead another new brand in this space," Neville states.

"Look at Atlassian and Netwealth – there has been some great success stories here [in Australia]," he says. "We'd love to see more... so it's about trying to create an ecosystem of people [and companies] that want to be part of that change. Part of that growth."

When talking about attracting advisers, he recognises Sayers has a different approach that "is not necessarily for everyone."

"We see ourselves as trying to create a bit more of a family office approach, which brings a whole range of services. Also, the advisers that we will attract are those with a similar mindset. Those who are saying, 'How can I wrap my hands right around the client?' So, I think to the same extent that our proposition resonates with clients, it resonates with advisers who feel the same way."

Building a client experience around data

As part of this change, Neville says wealth is an industry which is ripe to come together and collect data for the benefit of clients.

"It's a fascinating industry that is driven by data, whether it's investment decisions and charts, or account balances and transactions. There's data everywhere," he says.

Within this, there is also a need to solve the issue of clients not being able to access information on their wealth in one place.

"I think so many clients have been frustrated that they've got investment accounts here, superannuation accounts over there, credit cards here, bank accounts offshore. The ability to pull that together just should exist," Neville says. ■

What if financial planning was **THE PROBLEM?**

In Netwealth's *Between Meetings* podcast: Communicating your adviser alpha, US-raised and UK-based adviser Carl Richards explains how frustration and a whiteboard led him to becoming a *New York Times* columnist, why financial planning is often part of the problem, and why the value of a real adviser is in their interview skills.

Key takeaways

- Knowing what questions to ask your clients and learning how to listen to them carefully is one of the most important skills for a financial adviser
- Finding a simple and effective way to communicate complex ideas is hugely beneficial to your clients
- Well-intentioned behaviours can lead to poor outcomes

Blank stares and confused clients

For Carl Richards *New York Times* columnist and author of the *Behaviour Gap*, financial advice was by no means a calculated career choice.

"In the United States they have this thing called an 'undeclared major', which means you just go and figure out what you want to study while you're at university," he explains. "I hadn't declared a major yet.

"My wife had a degree in finance. I had a mentor who sat me down and said, 'Look, if you're going to get a business degree, get it in accounting or finance.'"

But after becoming a financial adviser, Carl often struggled to communicate complex ideas to his clients – even the smartest ones. It was this challenge that ultimately led to a breakthrough that would fuel his success.

"I was trying to describe a concept that my clients really needed to understand. I felt like they needed to understand it to make this decision that we were trying to make together. But whenever I tried to explain it to them, I'd just get blank stares," he says.

Becoming the Sketch Guy

It was during one of these frustrating client meetings that Carl had an idea. In an act of desperation, he walked over to a whiteboard in the conference room.

"I had never used it before, but I jumped up and drew some circles and a square and an arrow or something," he says, "and the client was like, 'Oh, I get it now.'"

"A couple of weeks later I did that again with a client. They called me afterwards and said, 'Hey, that thing you drew on the board, could you redraw it and scan it and email it to me?' And when I saw it go out digitally, I thought, 'Oh, that's interesting. I could send that to more people.'"

After turning his sketches of market dynamics and financial advice principles into a blog – which, he admits, nobody read – Carl eventually received an email from the editor of the *New York Times*.

"The email said something like, 'Hey, I love these, would you do them for us?' That was over 10 years ago. I did that



Carl Richards

Carl is a Financial Planner and creator of the Sketch Guy column.

every week. My Sketch Guy column ran every week in the *New York Times* for 10 years."

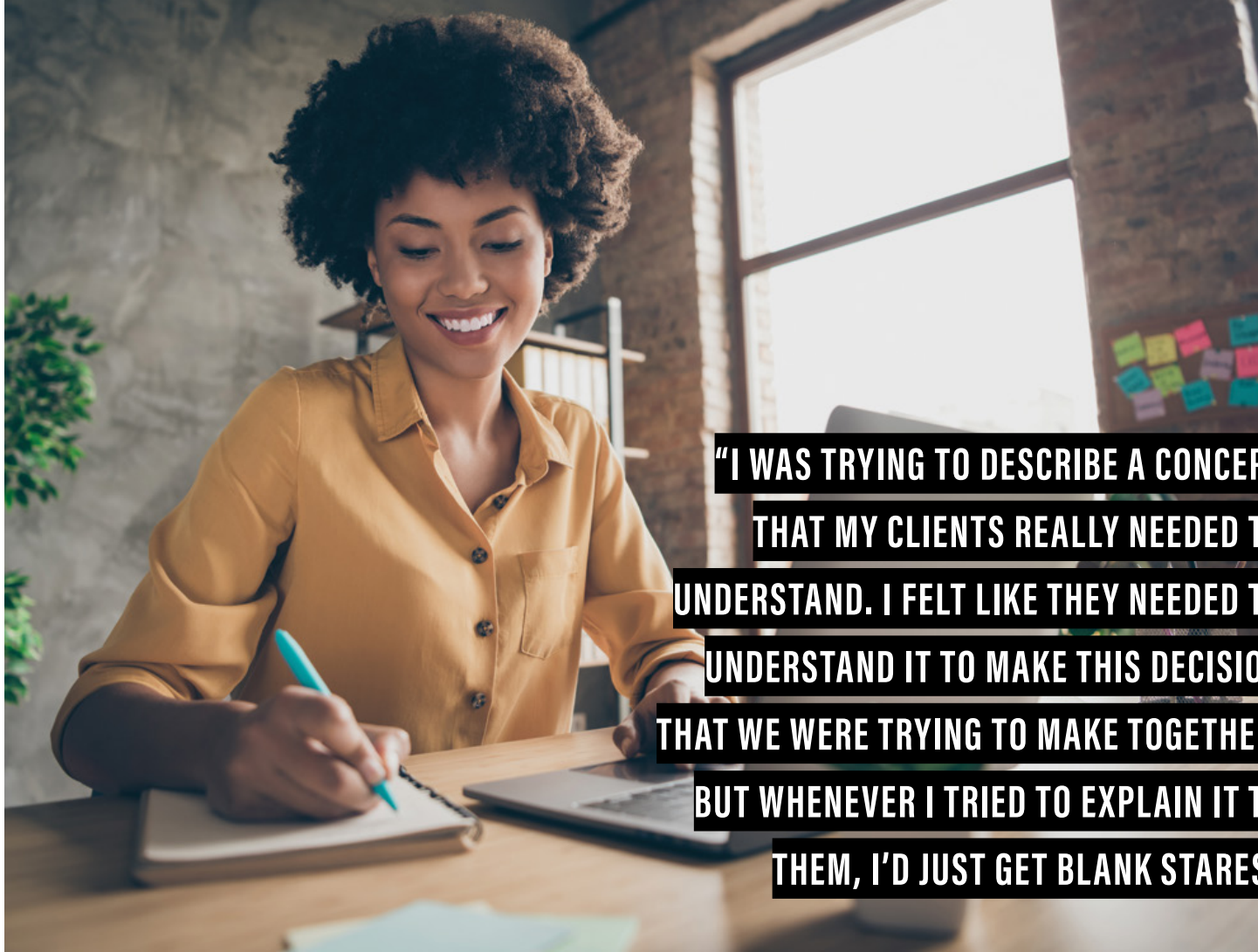
Adviser Alpha and the problem with financial planning

Contrary to popular opinion, Carl believes financial planning itself can be the problem, rather than the solution.

And investment advice specifically is "definitely the problem", he says: "It's interesting that the data we use to compare investment returns to investor returns is typically mutual fund data. Historically, between 60 to 80 per cent of mutual fund money is advised money.

"And so, if the data of mutual funds is showing a suboptimal performance gap, then it shouldn't be very hard to take the next logical step, which is somebody was giving that advice."

Not surprisingly, this has become the most popular subject he talks about with financial planners across the globe. This concept of Adviser Alpha is, according to Carl, simply looking at all the ways



“I WAS TRYING TO DESCRIBE A CONCEPT THAT MY CLIENTS REALLY NEEDED TO UNDERSTAND. I FELT LIKE THEY NEEDED TO UNDERSTAND IT TO MAKE THIS DECISION THAT WE WERE TRYING TO MAKE TOGETHER. BUT WHENEVER I TRIED TO EXPLAIN IT TO THEM, I’D JUST GET BLANK STARES”

an adviser can add value. One of those ways is in behaviour modification and closing the gap.

But the Sketch Guy believes advisers are the ones who create it.

“We create it because again, we’ve got to keep in mind, this is well-intentioned behaviour. As financial advisers and planners we think that our job is to find the best investment for clients. That’s what we think our job is. And that’s what the industry tells us. It’s what the news tells us, it’s what clients ask for because they’ve been trained by us,” he says.

“Nobody was born expecting a quarterly performance report. Nobody. We taught them that they should want a quarterly performance report. We taught them that they should watch a financial network because we put it on in our lobbies when they walk in to meet with us.

“We taught them that they should look at performance charts because we put that big Ibbotson’s chart growth of a dollar up on the wall. We taught them that. This well-intentioned behaviour is leading to suboptimal results. We would be better off if we just listened to Warren Buffet.”

The value of a real adviser

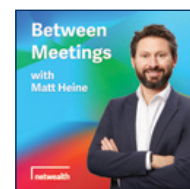
If financial advice is part of the problem, then what is the actual point of advice? It all comes down to adding value – Adviser Alpha. And for Carl, knowing the value of advice is critical.

“Real financial advisers are guides in a changing landscape and no longer defenders of an outdated map,” he says. “If you understand what that means, you will have no pricing pressure. If you understand what that means, and you’re able to give people the experience, I don’t even care. If you are able to talk about it, you just have to give them that experience. They will talk about it if you give them that experience. That’s what the value of a real financial adviser is.”

The financial planning profession continues to undergo significant change. The skills required of an adviser today are quite different to those 10 or 20 years ago.

Over the coming years, Carl believes one of the most important skills an adviser can have is knowing how to ask good questions and then listen very carefully.

“You need to know how to diagnose thoroughly. That’s the number one skill. Look, all the technical



Between Meetings

In this podcast series Netwealth’s Matt Heine chats to industry professionals and thought leaders. Listen now at netwealth.com.au.

components of our job... sometimes people think I’m downplaying this. I’m not, you have to be a rockstar, but it’s table stakes at this point.

“You have to know how to do that stuff. You have to have a defensible investment process. You have to know how to use a calculator and a spreadsheet. You have to know all that, but that’s no longer sufficient,” he explains.

“The real key now is knowing how to thoroughly diagnose, how to ask really good questions and listen – that’s it. All of the problems, overcoming objections, marketing, sales, getting people; all of those problems are upstream.

“If you’re having objections, you should immediately go, ‘Oh, the only reason I’m having objections is because I missed something’. Because clearly, if I didn’t miss something, the client and I would be on the same page and there would be no objections.” ■

Discover more Between Meetings

Join Matt Heine, Joint Managing Director of Netwealth, as he chats to industry thought leaders on what opportunities and challenges they see for financial advisers and the wealth industry as a whole.

Don't miss an episode, listen on:

- 🎧 Apple Podcasts
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netwealth.com.au





Q&A WITH MIKE JEFFS

Mike Jeffs is a Senior Adviser and Director at Strategic Wealth; he joined the team in early 2019 with a background in process management and was the driving force in successfully implementing Xeppo at his practice. Here, Mike shares his experiences.

Q. How does Strategic Wealth address technology changes in the industry?

Technology has been at the forefront at Strategic Wealth. We were early adopters of going paperless, utilising cloud computing, removing servers from the office, using Office 365 and Xeppo was with us on that journey as well.

Q. How did you first hear about Xeppo?

Xeppo was already implemented before I came onboard, but it was a challenge to get it working the way we want it to

work with other programs. By joining Strategic Wealth, my goal was to make Xeppo work for our practice.

Q. Could you share how your practice used some of the features to help resolve the issues you were experiencing?

The first thing Strategic Wealth rolled out was the FDS app as the very first function with Xeppo. This has been working very well and now we are looking towards the Assent App. The next one we did was Activities and Projects – to be built around what we



Mike Jeffs

Mike is the Director of Strategic Wealth and Your Personal CFO and has worked in the financial services industry since 2003.

do and how we do it. It is a constant evolution over a 12-month period where things have been adapted and changed along the way.

Q. How was Xeppo received among other stakeholders or team members?

It was a matter of building it first and proving that it works, proving the benefit of it and getting the team to utilise it. For example, we used to run a number of spreadsheets to monitor reviews, advice implementation, and advice documents. Now all of that is captured in Xeppo, and all of that information comes out in a single view, so you can view it by what work an adviser has got on at the moment or what work a paraplanner has.

Once they saw the benefit and how well it provided that information, it pushed them a bit harder to get the right information in. We have KPIs to monitor and we just created different views that gives us all the information instead of running any more spreadsheets to monitor.

Q. What changes or improvements did you see after using Xeppo?

We currently track outstanding SOAs, the average length of time it takes to complete an SOA, reviews and implementation outstanding and how long it usually takes to close out implementation. The main thing is that it shows the staff what they are working towards. If we had a backlog in advice documents, we can now easily track where the advice documents are, how many are outstanding, how many have been completed and it gives a real sense of achievement for a better employee experience. ■

Xeppo unlocks the power of big data with your client information on a single view interface, automates tasks to drive client relationships and provides analysis of your data in real-time for business growth and revenue decisions.

CUSTOMER EXPERIENCE

The next frontier for managed accounts

According to Netwealth's 2021 AdviceTech research, more than half of advice firms either use managed accounts or plan to. While the efficiency benefits are well known, the best kept secret about managed accounts is their impact on clients. Wealth professionals from Russell Investments, Principal Partners and Stanford Brown share the insights on the customer benefits of managed accounts.

The rise of managed accounts has been well charted over the years. But it took an unprecedented event like the COVID-19 pandemic for advisers to realise just how important they were. During the height of the pandemic-induced market volatility, advisers using managed accounts were much better placed to quickly adjust client portfolios to take advantage of buying opportunities and/or de-risk them. This agility benefited many clients. Managed accounts are not, of course, a solution for all advice and investment situations. However, by bringing together the best of technological innovation and superior operational administration with financial advice, managed accounts can offer benefits to clients as well as significant operational efficiency. Here are five reasons to consider using managed accounts to boost customer experience.

1. Consistency

Consistency is one of the most important aspects of customer experience. 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).

It has achieved this through its ability to deliver a consistent service, which is reliable and affordable 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 a 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.

With managed accounts you are introducing this type of consistency in back-office processes. Clients know what to expect and are clear about your investment process. All clients are also treated equally, without regard to the size of their investment. For example, during a period of volatility – when advisers need to provide timely advice to all of their clients and may need to change all of their portfolio positions quickly – there would traditionally be a starting point.

Some advisers might work through their wealthier, more valuable clients first, before addressing the needs of the broader client book. Tanya Hoshek credits managed accounts for allowing Russell Investments to consistently

capitalise on opportunities in volatile markets to quickly adjust client portfolios to take advantage of buying opportunities and/or de-risk them.

"The market movement we saw for most of March 2020 was highly volatile," says Tanya. "We were able to capitalise on that in real time. For example, one of the best trades we had during that period involved buying Australian shares when the ASX was trading at 5000.

"That was on the day the Reserve Bank injected further liquidity into the financial system, and the market rallied 10 per cent within hours."

2. Personalisation

An important feature of managed accounts is that they can be personalised and tailored to an investor's individual goals, needs, risk profile and account balance.

According to Tanya, clients are now used to the personalisation of many everyday transactions, via online providers such as Netflix and Amazon.

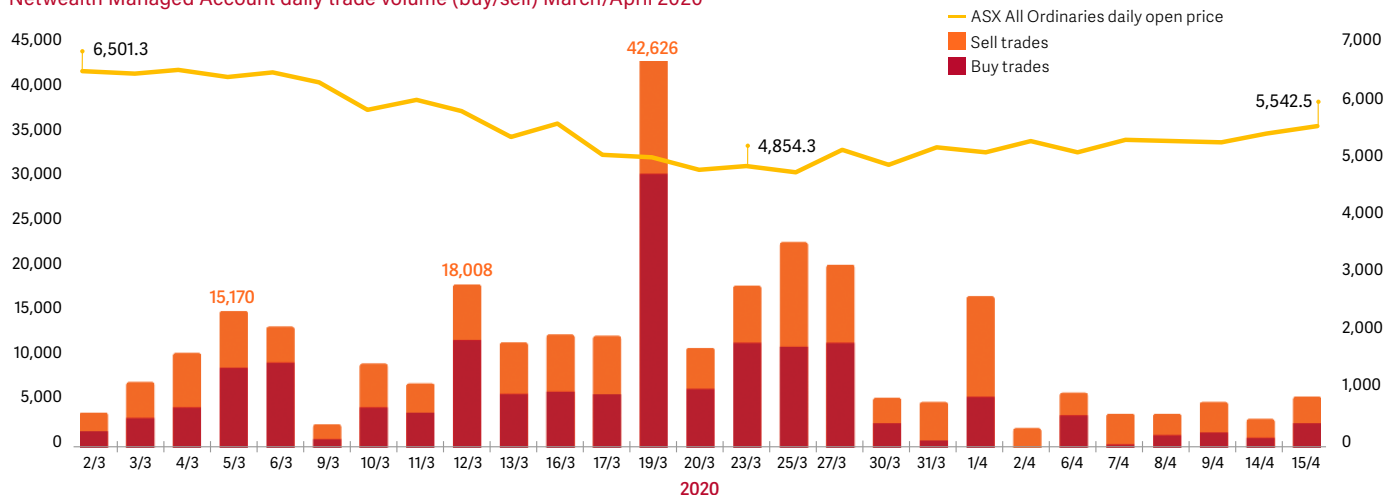
"They are also increasingly demanding more personalised investment solutions," she says.

"Advisers need to be able to provide this personalisation in an efficient and scalable way. That's where managed accounts really come in.

Case study - managed accounts in times of volatility

Periods of social, economic and financial volatility, such as the one experienced in 2020 with COVID-19, can be challenging for financial advisers and their clients. James Mantella, Netwealth's Head of Managed Investments Products, says, for example, that the number of transactions processed by Netwealth increased exponentially at the beginning of the COVID-19 crisis.

Netwealth Managed Account daily trade volume (buy/sell) March/April 2020



“For example, there might be some clients who have strong environmental, social and governance (ESG) beliefs. For them it is possible to add or remove specific assets in their managed account to help them achieve their goals.”

Netwealth’s James Mantella agrees. “Clients might not want to invest in a certain strategy or a certain type of investment,” he says. “There’s also the scenario, which happens quite frequently, where you might have a director of a listed company who cannot trade in the stock of their own company. With a managed account, we can exclude certain holdings to ensure they’re meeting their obligations as a director.”

It is important to note that personalisation options differ between technology platforms, and some are more feature richer than others. Also, by overlaying client specific personalisation rules to the managed account, its portfolio construction as designed and implemented by the investment management is being changed, which may lead to additional costs and inefficiency.

3. Transparency

Consumers are continually demanding greater transparency from all businesses, including advice firms. Advisers can provide greater investment transparency by communicating and educating as to how their portfolio is constructed, by whom, the process in which the portfolio is rebalanced and changed overtime

and the associated fees. With managed accounts this is more possible. They can see exactly when a trade has been made and why. Further, with clients enjoying beneficial ownership of their portfolio’s underlying assets, a managed account gives them much greater visibility over the assets, including the portfolio composition and weightings.

“From a transparency perspective, and the ability to execute, it’s very difficult to think of another structure that offers the same benefits,” says Principal Partner’s Brad Akkerman.

Supporting this is research from Netwealth’s 2021 AdviceTech report that found almost four in 10 (35.8 per cent) clients who use a managed

account service have benefited from having an improved understanding of their portfolio. Another advantage is that managed accounts may provide an opportunity for investors to engage more closely with their portfolios and their assets. This can facilitate a change in the dialogue between client and adviser, so they can collaborate in a closer, more effective way.

4. Communication, education and peace of mind

Brad says that new clients, in the early stages of working with Principal Partners, will frequently log in to their account for information on their managed account portfolio. As the level of trust increases with time, they log in much less frequently and are happy to wait for their quarterly reports or their six-monthly list of transactions.

“A managed account frees up a client’s time to focus on the things they love to do,” he says. “With us running the majority of their assets in a managed account, the client can feel safe and is left in peace. They’re not being hassled, day-in or month-in, with requests such as ‘We need to make this or that adjustment.’”

Stanford Brown’s approach to client communication is similarly streamlined. When the firm first introduced managed accounts, it focused on communicating with clients as thoroughly and regularly as possible.

“We were of the view that a significant number of our clients might

For those using managed accounts, what client benefits do you receive from them?

Better trading efficiency	65.5%
Better client engagement	41.9%
Better tax outcomes for clients	37.2%
Clients have improved understanding of their investment portfolio	35.8%
Additional revenue stream	6.8%

Source: 2021 Netwealth AdviceTech Report

not be comfortable allowing discretion in trading,” says Vincent O’Neill.

“We went through an extensive process, explaining the advantages they might derive by going with this approach, to offset what may be perceived as a loss of control.”

“And we were surprised by how positively that message was received. Clients understood it. They could see the advantages of it, and they knew that they ultimately still had control, in that we could stop changes at any time and retain the assets.

“Once they understood that, they were happy to allow us to do what they were paying us to do – to get on with managing and keeping them up-to-date,” Vincent says.

Today, Stanford Brown writes to their clients weekly with an update on a broad range of economic, legislative and other issues going on in the world.

5. Costs

Vincent says that one advantage of a managed account is that Stanford Brown is given the ability to negotiate certain fund manager rebates for clients.

“This is something that Netwealth has been particularly efficient in implementing for us,” he says.

“Netwealth passes the savings straight through to the clients, in terms of rebates going into their accounts as line items.

“Stanford Brown operates on a retainer arrangement with our clients. Clients pay a flat fee that is reviewed annually, depending on the complexity of their situation and several other factors. In using that approach, we believe that clients using the managed account should see the benefit of a lower retainer fee than they would otherwise pay for the traditional approach, because it provides certain efficiency savings to our business.”

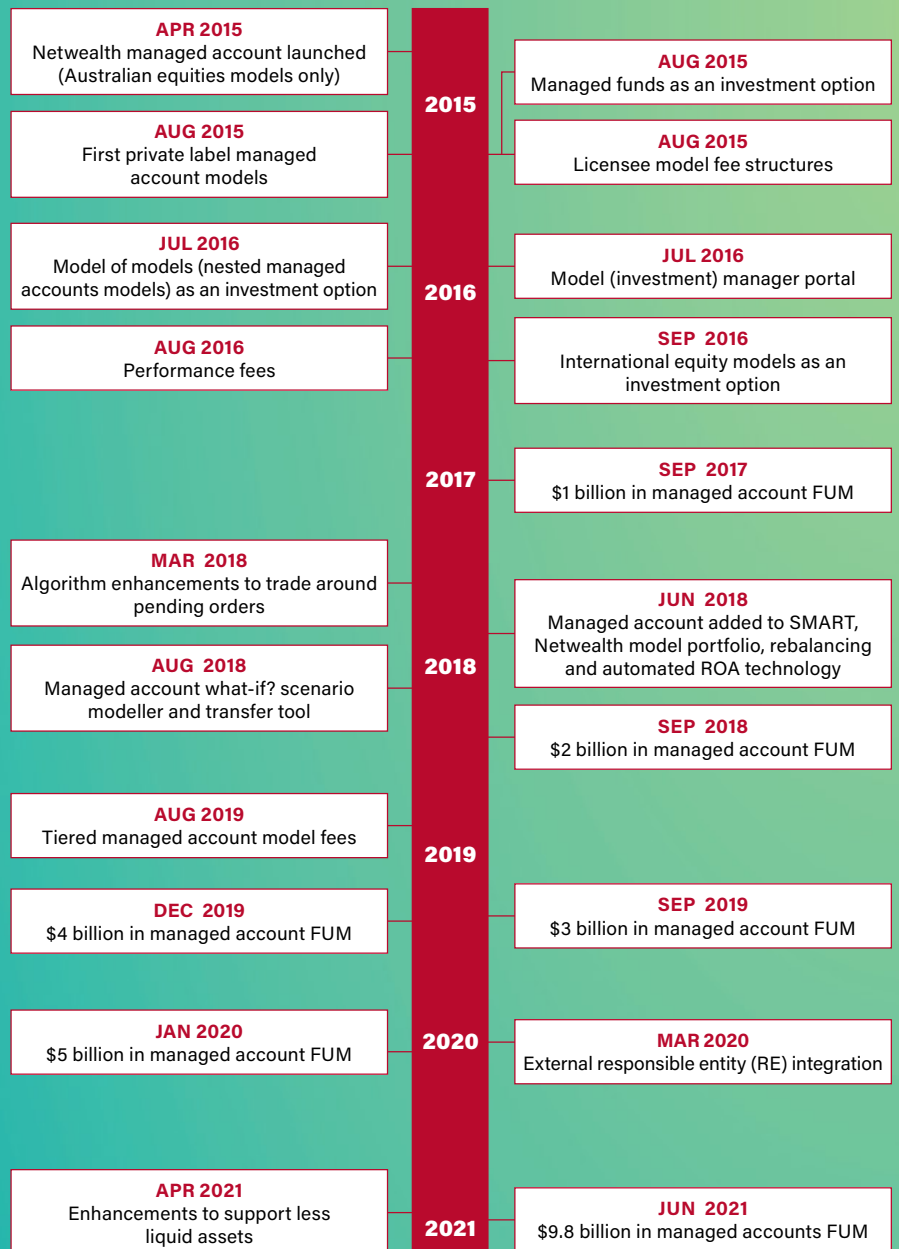
Brad Akkerman attests: “The actual cost for a managed account is no different to the client than if their assets were invested outside a managed account.

“The major cost of running a managed account is having an independent, external investment committee. This, for Principal Partners, is the integral aspect. It’s where all the heavy costs are that we pay directly.

“We just have to make sure that, as an advisory base, we have a big enough scale to cover those costs without passing them onto the client base, and thankfully we do.” ■



Netwealth’s managed accounts timeline



Mind the gap

Damien Mu, CEO of insurer AIA, told a recent podcast that advisers and insurers must work together to address the insurance coverage gap in Australia. That means insurers partnering with advisers to help consumers engage with insurance.

Key takeaways

- Disruption has caused an insurance gap and the industry must work together to meet this need
- The industry should focus on the macro-opportunity that exists today
- A holistic approach and digital engagement will help advisers have conversations with their clients about insurance

Damien Mu, CEO of AIA Australian and New Zealand, says that “we need to make sure that people get access” to insurance after the disruption of the last few years has left the Australian population without adequate coverage.

“It’s been a challenging time for our industry – in advice, insurance and wealth generally – from FOFA through to the royal commission,” Damien told Netwealth’s Joint Managing Director Matt Heine on the Between Meetings podcast.

While he wants to project “an overarching message of hope”, he is concerned that disruption has left a “growing gap and need for protection in advice”.

“The number of advisers is down and the number of people getting access to insurance is reducing,” he says.

Meeting a need

Damien says industry should focus on the “macro-opportunity” which is created by supply and demand.

“While we get distracted by all the people going, ‘Oh my gosh, the market’s

going down, ...’ we have a \$4.2 trillion protection gap in Australia,” he says. “There is a demand because there’s a need. There’s a huge benefit to society and the economy, if we can help meet that need.”

What the industry must do as a result, Damien says, is look at how they adapt to rise to this challenge.

“We need to create the right supply chains, which is working together as life insurance, superannuation, platforms and advisers,” Damien says.

“We’re going to have to pivot a bit. Do not forget the underlying message of hope, which is there is a need, so we’ve got to meet that need.”

Helping the hard work through innovation

At the same time, Damien pointed out a “fantastic” level of digital innovation coming through, and discussed the role of this innovation in ensuring insurance companies are helping advisers better engage with clients around insurance.

“AIA’s model is we are a partnering business. So, we want to make sure we are providing better digital solutions or technology solutions.... more efficient solutions to partner with our partners, whether they be advisers or platforms or others,” he explains. “What we do want to do as insurers – and what we have done – is take responsibility for helping the fundamental issue around the value of insurance and the engagement with insurance. Before, advisers had to do all the hard work,” he says.

“This is the missing part, because what’s happened in the past is we’ve



Damien Mu

Damien is the CEO and Managing Director of AIA Australia and New Zealand with more than 20 years of experience in the financial services industry.

just sat back. So, my view on digital is to create more engagement and content with life, health and wellbeing, so that Australians... not understand, but want to engage more on this topic.

“Then, when they talk to their financial advisers, they’re ready to go and understand who these three-letter organisations are and what they stand for.”

AIA Vitality – an example of true engagement

As he dug deeper into the issue of engagement with insurance, Damien gave as an example AIA’s own health and wellbeing program, AIA Vitality, which reaches over 10 million people across the world. It provides tools and also incentives for people to improve their health, which can include things like gift cards, vouchers and an Apple watch.

“Vitality is really important... it’s about how we can understand more about our health. Because that’s something we can control – lifestyle behaviours and personal pathways to improve health. Helping people get onto their plan to move, eat, feel better and then rewarding them.”

He says the introduction of Vitality was “eye-opening” for him, in terms



“WHILE WE GET DISTRACTED BY ALL THE PEOPLE GOING, ‘OH MY GOSH, THE MARKET’S GOING DOWN’ WE HAVE A \$4.2 TRILLION PROTECTION GAP IN AUSTRALIA”

of marrying behavioural insights, behavioural economics and financial economics together.

“That was really about a missing element for us: how do we bring behavioural economics into what we do? How do we understand that in Australia, when you look at the Oxford Health Alliance Model, there are four lifestyle behaviours that lead to four of the non-communicable diseases. These cause 90 per cent of deaths in Australia, and globally, that’s around 70 per cent,” he says.

Damien says the engagement has been fantastic.

“I think I had a look the other day and there’s 150 billion steps taken by Vitality members and 3 million gym visits. Seventy per cent of Vitality members improve their vitality age. 900,000 wellbeing assessments have been done,” he says. “This is in our control, but the fantastic insight is that it isn’t about big things. This is not about having to go out and run a marathon or go on some crazy fad diet,” he says.

Creating a content hub for health

Meanwhile, AIA Vitality’s ‘OneLife’ content hub, which helps people learn about their health, reaches around 14 million people: a further example of what Damien means by digital engagement.



Netwealth Insights

Discover new opportunities with our collection of special reports, articles, presentations, podcasts and more at netwealth.com.au/web/insights.

“Let’s engage on that stuff. Then, when people are talking to their adviser, they can give them the appropriate advice around their needs. They can help them through that, so they’re feeling more positive about this thing called life and health,” Damien says.

Moving into health insurance

Damien also discusses AIA’s expansion from life into health insurance, which he says has been “really good”.

“You can see the differences when you have a start-up and how you can move nimbly. You can learn lots of parallels from life [insurance] but they’re very different. Both are there to support Australians when they have a health issue, but one’s very much focused on temporary, short-term issues here and now,” he says. “Whereas with life, it’s more complex, with different scenarios,” he says.

Damien adds that what is great about having a health offering is being able to partner with people throughout their whole journey, including helping them prevent diseases by working with them upfront.

“We’re all working towards an outcome to help Australia be the best it can be,” he concludes.

Calls for a holistic approach

Damien also highlights an underlying concern: “making sure there is a rational, evidence-based discussion around looking at people’s protection and retirement needs far more holistically, including their health and wellbeing, rather than just little pinpoints”.

“Because we’ve got to think about it in the overarching system and how important it is for people to get access to advice... and making sure they can access choice, value, and quality,” he says. “We’ve got to make sure people get access to that. Make sure there’s sustainability. We have to recognise affordability is front and foremost for many, because obviously that’s a key issue.”

“I’ve seen many advisers and other organisations say that actually this has been a great time for them to really improve their business and look at how they can... do things more efficiently and differently. How they can partner with insurers more by saying, ‘Hey, we’ve got to do things collectively to serve their client better and support their client better.’” ■

7 key trends

advisers should know and use

Investment Trends boss Sarah Brennan tells advisers all they need to know about the hot topics of the moment that can help them better meet the needs of their clients.

Key takeaways

- Online trading has exploded, particularly among Millennials, creating a need for education but also long-term opportunities to advise this engaged group of investors
- Ethical investing, especially on environmental issues, is hot right now with a new wave of clients talking to their advisers about these investments
- Advisers are in rising demand, but need to work to reach and build trust with future clients

When you have access to the head of one of the country's top financial research houses, it follows that lots of interesting trends for advisers will emerge.

Sarah Brennan, CEO of research firm Investment Trends, spoke to Matt Heine, Joint Managing Director of Netwealth, on the Between Meetings podcast. Here are seven key trends that came out of that conversation around what Australians are doing with regards to their investments, and what they want from their advisers.

What comes out of these is plenty of opportunity for advisers – provided they can educate and build trust.

1. Explosion in online trading

The COVID pandemic has been a catalyst for an “explosion” in online trading, Sarah says.

This has big implications for advisers. The investors are mostly Millennials, so it is encouraging to see them engaging with their investments. On the other hand, there is a big

need for education in terms of other investment classes, the value of long-term investing and so on.

“Greater education is required, due to the number of people who've come into the market, their age group, the trading that they're doing, the sources of data and the information that they're accessing,” she says. “That's one of the reasons the education we do in that space is important.”

2. We need greater digital engagement

As many younger investors move online, the challenge and also opportunity for advisers is in engaging and educating.

“Getting people engaged with superannuation is always a topic that comes up, and it's never been easy. We've suddenly got this group coming through... who are actually quite engaged. Over, time, this engaged group becomes a huge opportunity for advisers,” says Sarah.

The way to meet this demand is for advisers to put more effort into digital channels. This needs to involve genuine, innovative digital engagement – not merely the ability to view their statements online.

“One of the things we've always talked about in Australia is people who have an adviser value advice, but those who don't have an adviser don't know what they're not getting,” she says.

At the same time, there needs to be a balance between digital and personal interaction.

“You can talk via Zoom and Teams, but having that personal interaction – it's important. So, it's how we get that balance. I think that's something that will play out over time,” Sarah says.



Sarah Brennan

Sarah brings over 30 years of experience in financial services, having commenced her career at MLC Life Insurance, before joining Citi and Deutsche Bank.

3. Next wave of environmental investors

Investment Trends has just done research on the ESG (environmental, social and governance) space, from both an adviser and consumer perspective.

“From a consumer perspective, what we're seeing is there's a percentage who are already of the view that they are investing based on ESG principles. What's fascinating is what we call the next wave. There's quite a large group of investors coming through, who are looking for ESG-type investments or ESG-aligned investments. It's not going away,” adds Sarah.

For advisers, it's now more common to find clients leading conversations around ESG, particularly around climate-friendly sectors, such as renewable energy.

“When we look at the ESG... the E [environment] is what is really front and centre. It actually links back to people's personal behaviours and approach to life, and links that to their investments,” she says.

4. DIY crypto is getting more sophisticated

Crypto currencies are also very interesting at the moment, and hold much potential for advice, Sarah says.

Sarah reflects on the son of a friend of hers who is in their early 20s and

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trades cryptos and has made some money investing.

“So again, this education aspect is coming through. And I think what we’re also seeing in crypto, is the development of more sophisticated products. So, we’re actually seeing baskets of crypto now versus just putting your money on black being Bitcoin, or Dogecoin or whoever.

“Again, I would come back to, if it’s getting people engaged and educated, from an adviser perspective over time, I think that’s going to be beneficial,” she says.

5. There’s an increasing demand for advice

According to an adviser report Investment Trends is releasing, the demand for advice is also increasing. Sarah says this in itself is not a surprise, but where it is pertinent to advisers is in how they service clients.

The research also looked at fees, finding that while they are important, they are not a deciding factor.

“Consumers aren’t so hooked up on [being asked to pay for something]. To them, it’s about the outcome and the value,” Sarah says.

The Investment Trends CEO adds she has been happy to see the move of advice to a profession and the end of certain types of sales practices she used to see. (Sarah previously started her own benchmarking business, Comparator Business Benchmarking).

“When we first started benchmarking licensees, one of the key metrics we had was sales per adviser. Now I look at that and go – seriously, is that what we were measuring? But at the time, no one thought it was the wrong thing to measure.

“We’ve seen that move. It’s advice-led, it’s about the customer.”

6. It’s all about trust

With adviser numbers coming down, and demand increasing from clients, there is still a need to address the disconnect between people being open to advice and actually going and seeking advice.

“The key is being able to get out to consumers and educate them on the value of advice, and to keep building trust,” she says.

One area where advisers can build trust is by being proactive – going



< Between Meetings
In this podcast series Netwealth’s Matt Heine chats to industry professionals and thought leaders. Listen now at netwealth.com.au.

out and contacting clients. Another is to always do what they say they will do. A third is building a brand that potential clients feel they can trust. And finally, there’s once again education, so the client can see that the adviser they’re dealing with is educated and knowledgeable.

7. Content is (still) important

With the online world booming, it follows that good quality online education content remains in demand.

“It doesn’t need to be a big production,” Sarah says.

“Perhaps in the past we’ve over-engineered what it needed to be. It’s just being able to get out and talk to people; podcasts, Zoom meetings, sharing information, sharing links. Digitisation makes it really open to everyone.” ■



WORDS FROM THE **WISE**

A selection of the most critical pieces of information and guidance industry leaders have for advisers.



Damien Mu
CEO of AIA
Insurance

On working with advisers to close the 'insurance gap'

The macro-opportunity is what we should all be focused on. While we get distracted by all the people going, 'oh my gosh, the market's going down, we have a \$4.2 trillion protection gap in Australia.

There's a huge need. A huge benefit to society and the economy, if we can help meet that need. What we now need to do is look at how we adapt to meet that demand by creating the right supply chain. Which means working together as life insurance, superannuation platforms and advisers to meet that need.

So, yes, we're going to have to pivot a bit, but do not forget the underlying message of hope. There is a need, so we've got to meet that need.



John McMurdo
CEO of Australian
Ethical

On the opportunities presented by ESG

I think ethical investing is the biggest opportunity for advisers that I've seen in decades.

There are so many commentators domestically and internationally saying climate change will be the biggest change in capital markets for the next few decades. Some liken it to what the internet has been to business and capital markets over the last 20 years.

For good proactive advisers, this is a wonderful opportunity. It's what advising is about.

However, if advisers aren't proactively having this conversation, there's a risk their clients are going to have it elsewhere.



Sarah Brennan
CEO of Investment
Trends

On the explosion of online trading in the past 12-18 months

If you think about it, what we have is a group of people who are much more engaged with their investments.

One of the things we've always talked about in Australia is people who've got an adviser value advice. People who don't have an adviser don't know what they're not getting. Getting people engaged with their superannuation is always a topic that comes up, and it's not easy.

And now, we've suddenly got this group who've come through, and they've had the time through COVID to be doing research and learning. They are actually quite engaged. Over time that engaged group becomes a huge opportunity for advisers.



Andrew Walsh
CEO of Iress

On advisers investing in technology

Technology over the course of 2020 has been a necessary tool to continue to operate. There is a difference between those businesses that are using technology, be it Zoom or other tools... as a thing that they need to do business, or whether it's used strategically.

Having an idea of how they want to operate and what they want to achieve is essential to provide guide rails as to what decisions to make and not make. We talk about the curse of the 'digital magpie', which is where people and businesses can chase shiny objects or shiny technology ideas all the time and not ground them in what do they need to achieve their strategy and business plan.

Thinking through the role of technology and how it fits to deliver is really critical. ■



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