DÉJÀ VU (AGAIN)

In 2000 in Sydney, a record crowd of 109,874 witnessed the "Greatest ever Rugby Match" when a Jonah Lomu try sealed an All Blacks win over the Wallabies 39-35. Just weeks after, the Bledisloe was retained by the Wallabies when John Eales kicked a goal from the sideline in the final moments of the match.

At that time, Sydney was preparing to host the Summer Olympic Games, and the Australian financial services and insurance sector replaced sheep & mining to become the fourth largest sector in the Australian economy. As of June 2000, there were 2,305 securities dealers and investment advisers, and 36,068 authorised representatives presiding over total superannuation assets of $405bn and a managed funds industry of $590mn. The total assets of the four Australian banks was $731bn, with insurance companies managing total assets of $152bn. Whilst relatively embryonic, the Australian financial services and insurance sector contributed 7.2% to Australia's GDP, with individual beneficial ownership of equities rising dramatically from a mediocre 18.5% to over 54% in 3 years. The industry was well & truly engaged with electronic broking underway, and 'view only' aggregated platforms establishing themselves as a core part of the advice process. Given the noticeable growth in the financial services industry, the Treasurer had also announced the findings from a Financial Services Inquiry (aka "The Wallis Report") designed to provide a stocktake of the results of financial deregulation, and recommend the appropriate regulatory arrangements to ensure that an efficient, responsive, competitive and flexible financial system prevailed.

The relevance of this brief history lesson, is that the New Zealand financial services industry is currently experiencing much of the same occurrences today – albeit with the numbers being relatively less. In recent times a new Regulator (the Financial Markets Authority) has been appointed to preside over participants in the New Zealand financial services industry. Over the past 5 years, the Regulator has introduced minimum criteria for all industry participants, effectively taking over the reins from a self-policing environment that wasn't working. Whilst consumers are being encouraged by the Regulator to only support Authorised Financial Advisors (AFAs) or Registered Financial Advisors (RFAs), the various industry bodies and other acronyms are struggling to justify their relevance. This is placing pressures on a heavily fragmented industry to consolidate and deliver a robust value proposition in an effort to justify their existence. From a Regulatory perspective, the abruptness of change has kicked many peripheral industry participants to touch, as the seriously consider the increased costs of compliance. The shape-up-or-ship-out of the old-guard has coincided with the introduction of compulsory (well at least for State employees) superannuation – known as Kiwisaver. This savings mechanism has attracted circa $20bn over the past 5 years, spread unevenly across circa 23 providers – with six default providers attracting the lion's share – albeit with hefty price restrictions in place. As for the other Kiwisaver providers, they are open for business with a handful managing to attract high balances, as increasingly sophisticated savers demand more than passive price

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sensitive default options. The levels of enthusiasm in savings & investment by the 1.3 million Kiwisavers has grown as they watch their nest-eggs grow. Whilst average balances remain circa $10,000 per member, the total cumulative value of maturing Kiwisaver account values is estimated to be over $36bn by 2028, with the average balance over $280,000 for those earning in excess of $80,000pa. This growing interest has started to stimulate an increased desire for bespoke financial advice, with a handful of product manufacturers and intermediaries benefiting.

Whilst large financial institutions have been successfully-active in gathering assets during the formative years of the Financial Markets Authority, consumers are increasingly seeking bespoke financial solutions

The reported size of the NZ funds management industry is $96bn (including circa $45bn offshore), albeit that there is arguably much more offshore monies that has failed to be reported on. This is dwarfed by the $112bn currently residing in term deposits, where the average return is less than 5%pa. Whilst a trans-Tasman agreement known as Mutual Recognition has been in place for the past 5 years enabling Australian product manufacturers to raise monies from NZ with relative ease, only a few have enjoyed success – largely on the back of their good performance, and frequent marketing sorties. Strong Kiwi parochialism means that local Managers still tend to receive the majority of flows – despite relatively poor alpha, and thanks largely to their localised celebrity status. In recent times the historic lack of reliance upon robust research delivering local Managers with a disproportionate (and often unworthy) level of support, has been replaced by an increased usage of research together with non-local Managers. This has been aided by increased communications, local third-party marketers, and – frankly – more robust processes and performance. Nevertheless, the number of funds managers who are sourcing funds from NZ remains relatively low, in an environment where the demand for investment capabilities & levels of consumer sophistication is increasing exponentially.

As with many other financial services industries globally, the New Zealand advisory community has slowly been lured into supporting passive investment strategies. Foreign based ETF's and other low priced vehicles remain the preferred options, with beta-plus and other quasi-passive strategies opening for business in an attempt to squeeze out additional fees. Active managers continue to be supported for specialized tilts and exposures, with a growing trend towards absolute return / benchmark unaware capabilities. Despite a healthy menu of options available, there remains more room for active Managers in the scrum, who have a notable point of difference, to raise intermediated monies in New Zealand. The passive solutions are pretty much sorted, with major brands competing on price in their race to the bottom. Paradoxically it has been the recent enthusiasm towards passive investment gateways that has stimulated industry discussion around the relevance of financial advisors – particularly those who subscribe to the theory of efficient markets. In a jurisdiction such as New Zealand where there is limited tax and limited superannuation complexity, it will become increasingly difficult for these advisers to justify an on-going presence as consumers will be attracted to even lower priced gateways offered in the future. With around 1,900 Authorised Financial Advisers (AFA's who are authorised by the Regulator to dispense financial advice), there is an emerging trend whereby consumer demand for bespoke financial advice is outstripping the numbers of providers who are authorised to assist. Coupled with the aging demographics of the financial advice industry (the average age of a financial adviser is 55), this phenomenon presents a perfect storm for younger qualified participants. Whilst large financial institutions have been successfully-active in gathering assets during the formative years of the Financial Markets Authority, consumers are increasingly seeking bespoke financial solutions, with non-aligned advisors seeing a significant pick-up in support. The majority of this community are heavily fragmented and self-reliant, albeit seeing the need for some form of co-opetition or collaboration. Some dealer groups have been formed on the back of this collective demand, with the delicate egos and varied opinions of many older one-man-band-advisors restricting an evolution that will eventually force many to band together.

Two vehicles currently dominate the non-aligned platform space administering around $10bn each. The requirements for getting products onto either of these platforms are relatively simple and involve commitments of support from aligned advisers. Once on the platform, Managers are not exposed to further payments or rebates, with any administration fees charged to the consumer separately. Despite the relative transparency and simplicity of the New Zealand platforms, the financial advisory community have been comparatively reluctant or slow in supporting these structures.

There is no doubt that the evolution within the New Zealand financial services industry is reminiscent of where the Australian industry was at the turn of the millennium. With a relatively new Regulator presiding over an aging advisory industry – at a time when consumer demand and excitement is being stimulated by compulsory savings and healthy markets – it has left the door wide open for game-changers to dominate. Whether this occurs in the manufacturing, administration or distribution links of the industry value-chain, the New Zealand financial services community are poised to benefit from the lessons that have already been learnt by their trans-Tasman cousins. The difference will be that it won’t take the kiwis 15 years to catch up with arguably the world’s most competitive financial services industry, with change anticipated to accelerate in line with growing consumer awareness and pressure.