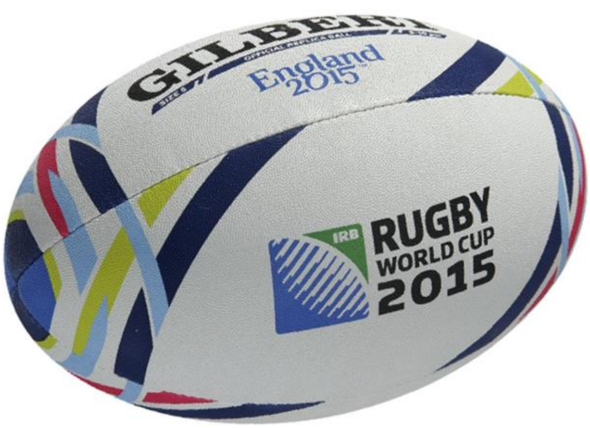
WORLD CUP RUGBY AND FINANCIAL SERVICES WINNERS

Every four years around this time our rugby enthusiasm levels start to build, as we head towards the Rugby World Cup. With 2015 being that year, and both the Australian & New Zealand teams having two RWC wins 'in the bag', it is worth drawing some comparisons to the respective financial services industries.



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. 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 Australian financial services industry is very different in appearance today, following decades of rampant excesses and vested interests that were not always aligned with the consumer. The early 2000 theory that vertical integration was the best mechanism for asset gathering, promptly rewarded many non-aligned advisory groups to convert into conduits channelling client funds into their shareholder's coffers. Around 80% of the 17,000 authorised representatives in operation today are aligned to large financial institutions, with regulators currently scrutinising the sector through a senate inquiry to understand whether the consumer is actually getting a fair go. This could also be in response to the growing consumer disinterest in the financial services industry, with $520bn of the $3tr in retirement savings now being self-managed in their own superfunds. This industry distrust and disintermediation has irrevocably damaged the Australian financial advisory community, providing a unique playing field for technology or robo-advice to compete. Whilst many industry players continue to believe that consumers will return to the game, it is difficult to see how they will once again pay-to-play when they have sampled some of the options now available. The Australian financial services industry abused the base foundation of trust, relying heavily on the misguided concept of ‘relationship’ to protect them from poor performance. Post GFC, consumers have increasingly blended “time” with “technology” to manage their own investment affairs with unsurprisingly good results. And still many in the industry sit on the sidelines celebrating continued mediocrity, in a game that has well and truly moved on.

In the same year that the All Blacks lost to France in the RWC Quarter Final, the New Zealand industry arguably changed direction with the enforcement of Kiwisaver on fulltime employees on 1st July 2007, and official regulation of the sector through the Financial Advisers Act in 2008. In 2008 the estimated number of 5,000-20,000 eligible players collapsed to 1,849 Authorised Financial Advisers and circa 5,000 Registered Financial Advisers today. Over the past decade, New Zealand’s financial institutions have largely favoured organic distribution growth in preference to acquisitions, allowing them to gather assets in a more deliberate way. The number of non-aligned advisors is clearly under pressure (representing less than 30% of the total number of AFAs), with younger players simply unable to afford to go-it-alone at this stage of their careers. The challenge for the industry is starting to be apparent as an older workforce has one eye on the full time whistle being blown, hoping to collect appropriate final compensation for their decades in the game. In contrast to the Australian consumer, the New Zealand consumer has a relatively low exposure to investment markets, has only recently been incentivised to save for their retirement, and has a lesser level of investor sophistication. This is changing quickly, with increasing numbers of consumers taking an active interest in their nest eggs, and how to improve their financial situations. Programs such as the National Strategy for Financial Literacy – a strategy to improve New Zealanders' financial literacy – has engaged 127 organisations to assist with improving financial literacy. Consumers are poised to engage with an industry that is heavily fragmented, unsure of their value proposition and has had an eye off the ball coping with the demands of regulatory change.

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There is no doubt that the game has changed rapidly for both the Australian and New Zealand financial services industries. Closer to home, the leanness of the New Zealand advisory community may be easier to referee, however this wiriness will undoubtedly cause issues in the near term as consumer demand starts to become overwhelming. The lack of a robust non-aligned advisory sector will increase the presence of commoditised fee sensitive model portfolios, designed predominately to quarantine distribution margins and disguised within the outdated academic nonsense of modern portfolio theories. Under this scenario, the consumer loses. In a jurisdiction such as New Zealand where there is limited tax and limited superannuation complexity, it will become increasingly difficult for these self-serving advisers to justify an on-going presence, as consumers will be attracted to even lower priced alternative gateways offered in the future. There are very clear industry lessons to be learnt by looking over the Tasman, at arguably the world's most competitive financial services environment. New Zealand players have a window of opportunity to unify and put the needs of the consumer ahead of their own, in order to deliver a solid value proposition and provide the rationale to seek financial advice.

Whilst we all eagerly await the start of the Rugby World Cup campaign, and hope that our national team is once again triumphant, it is worth reflecting on what draws us to consume the game in the first place. The rules of fair play, effective refereeing, easy to understand rules, and match fit players are all necessary components to stop the game being marginalised or replaced, and keep us coming back for more.