New clients take back seat to FOFA

The federal government's financial advice reforms have taken such large amounts of time and spurred such deep concerns among financial advisers that attracting new clients has taken a back seat for many planning practices, according to a consultant and business broker.

Centurion Market Makers managing partner Chris Wrightson said the Future of Financial Advice (FOFA) reforms commanded huge chunks of time as firms scrambled to overhaul pricing structures and other aspects of their business models to get FOFA-ready by the 1 July 2012 deadline.

"Over the last three years, we have reviewed the business models of at least 120 self-employed practice owners looking to position their business for sale," Wrightson said.

"In less than 10 cases, there has been a significant source of new clients from referral, alliances or marketing."

He said referral streams were drying up as banks, corporate superannuation funds and other traditional sources of referrals now, themselves, offered planning services.

"The reality is that most self-employed practices have spent the last five years redesigning their business models to grow their revenue by introducing explicit asset-based advice fees to increase their annual asset-based revenue from 0.5 per cent to 1 per cent or more per annum, rather than shoring up their new client flow," he said.

He said the dearth of new clients was a catalyst for the pairing of mortgage brokers and financial planners – a trend Centurion had first seen emerge about a year ago.

Growth was slowing in planning businesses whereas mortgage brokers enjoyed a natural stream of new clients, he said.

"Statistically, people change mortgages every four years – and mortgage brokers still get commissions," he said.

MORTGAGE COMMISSIONS UNTOUCHED

A key focus of FOFA, which has yet to be unveiled in its entirety let alone gone through Parliament, would do away with most commissions involved in the financial planning process. However, as Wrightson pointed out, the mortgage broking industry was, so far, unaffected by the government's planned ban on advice commissions.

He said financial planners were mainly looking at buying mortgage broking businesses or forming joint ventures with existing mortgage brokers.

The trend works in reverse as well. Mortgage tycoon Mark Bouris has teamed with wealth management veteran Matt Lawler to created Yellow Brick Road (YBR), a planning group which offers mortgages, accounting, retirement planning and piecemeal financial advice under one roof.

YBR has opened 75 branches, mainly in New South Wales, and aims to grow to about 150 branches by 2012.

The company is chaired by Bouris, the entrepreneur whose Wizard Home Loans famously took on the big banks last decade. Equally famous was his $500 million sale of Wizard in 2004 to GE Money.

McGrath Real Estate has also advertised for financial planners, with a view to forming a business that would sit inside its Oxygen home loans operations. The group has declined to give details of its recruitment plans or the progress of those plans.

SELLERS NEED POINT OF DIFFERENCE

In the midst of the challenges and deep change facing the industry, valuations are holding up as the big five institutions – the big four banks and AMP – race to buy up stand-alone planners and dealer groups to widen the conduits through which they can pump their products.

However, Wrightson said planners would find it difficult to sell their businesses without new client numbers – and revenues – to attract new buyers. To this end, a point of difference was critical, he said.

"We would suggest this has something to do with specialisation, being technically superior, client-experience focused and with a distinct and tailored service offering," he said.

He said about half of practices had access to buyer of last resort (BOLR) agreements, and those arrangements were key to keeping practice valuations at relatively healthy levels, which hovered at about three times recurring annual revenue.

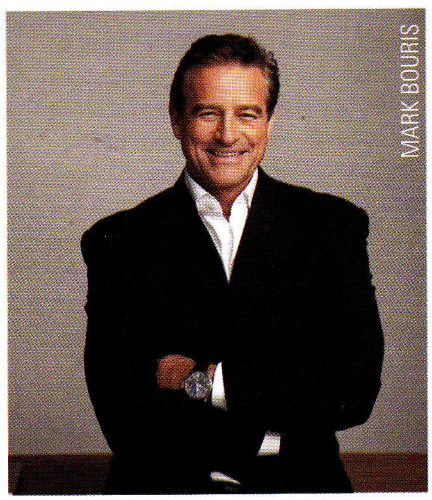
"In reality, very few exercise the right as it is usually possible to achieve a better price and better terms in the open market," he said.

Three large metropolitan practices Centurion sold recently achieved results for vendors that were superior to BOLR price and terms in the market, he said. «

CHRIS WRIGHTSON

"Statistically, people change mortgages every four years – and mortgage brokers still get commissions."

CHRIS WRIGHTSON
Centurion Market Makers



MARK BOURIS

Written by: *Victoria Tait*