



Leveraging technology to reshape Australia's financial advisory sector in the wake of the Royal Commission

Australia's financial services sector is in a state of introspection and reinvention after a major public inquiry into the country's banking practices exposed a culture of widespread misconduct and deception. Among the shocking revelations were incidents of fees being charged to the accounts of deceased customers and the payment of cash bribes over the counter to win mortgage business.

In a concerted effort to stamp out further wrongdoing and governance failures, the Royal Commission's final report made 76 sweeping recommendations to promote fair and ethical dealing while transforming the national regulators, as well as the companies they oversee, into more responsive and accountable institutions.

In particular, Commissioner Kenneth Hayne expressed concern about "the pursuit of profit" by commission-hungry salespeople who repeatedly pushed unsuitable financial products on to customers.

It is indisputable that such a comprehensive review was urgent and essential - and the outcomes will ultimately benefit the Australian population as new protocols are gradually implemented. However, the government runs the risk of creating a so-called 'financial advice gap' if the immediate repercussions of the recommendations are not considered.



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1. <https://www.reuters.com/article/us-australia-banks-inquiry/australia-vows-to-clean-up-financial-sector-after-landmark-misconduct-inquiry-idUSKCN1PT092>

2. Final Report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Volume 1, February 2019

'Not yet a profession'

Australia's biggest lenders were certainly named and shamed during the inquiry, and analysts expect the industry will have to pay over A\$10 billion (US\$6.8 billion) in customer remediation and other costs³, in addition to previous fines.

Although no segment of the country's financial industry was spared from scrutiny and criticism, perhaps the fiercest spotlight was shone on the behaviour of wealth managers and advisers. In the report, Hayne commented that he did "not believe that the practice of giving financial advice is yet a profession".⁴



The proposed changes to lift the professional, education and ethical standards of financial advisers represent a further important step towards making financial advice a profession. Once these changes have taken effect, it may be possible to ask again whether the financial advice industry has truly changed from an industry dedicated to the sale of financial products to a profession concerned with the provision of financial advice."

Excerpt from Final Report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Volume 1 (February 2019)

Of course, the thousands of financial advisers in Australia should not all be tarred with the same brush; however, the government's attempts to get rid of incompetent or dishonest practitioners will fundamentally alter the entire advisory landscape.

The majority of Australia's large banks were already in the midst of shuttering or scaling back their wealth and advisory units due to fresh oversight and remediation costs⁵. Now, changes urged by the Royal Commission, such as compulsory education standards and an industry exam, will prompt hundreds to exit the business as they decide to forego the expense of retraining and qualifying.

The impact is potentially massive: one professional association estimates that Australian financial adviser numbers could plummet by up to 40% by 2024,⁶ meaning billions of dollars in investible funds will be left unadvised.⁷ Another aspect to consider is the end of remuneration systems tied to sales volumes.

The replacement of a commission-fueled model with a fee-based structure aims to improve transparency and strengthen a fiduciary duty to clients. Yet an unintended effect of this could be the pricing out of mass market customers who may perceive the fixed fees to be a hefty burden.

Instead, it will most likely be high-net-worth individuals who can absorb the introduction of upfront fees and command the resources of a smaller cohort of licensed financial advisers, thus limiting the access of people in middle-income groups. The result would be a future where millions of ordinary Australians lack proper assistance around pension planning and portfolio strategy.

But this scenario need not become a reality if the right measures are adopted. By learning from the experiences of other economies and investing in technological innovations, which streamline workflows and lower costs significantly, financial advisers can seamlessly serve a diverse range of people in almost any location and, consequently, prevent a problematic 'advice gap'.

A cautionary tale

Australia may initially appear to be in uncharted waters but, in fact, the UK can act as a frame of reference as well as a cautionary tale of what could happen if a logical plan of action is not enforced.

In 2012, the British financial services regulator created the Retail Distribution Review (RDR) as a set of rules and regulations to reform the way in which financial advice was offered. Similar to Australia's Royal Commission, the RDR abolished commissions and increased the minimum qualifications to become a financial adviser.⁸

But over the last seven years, RDR has presented challenges due to poor public information, a fear of costs, and the slow take-up of digital tools. According to a recent survey by OpenMoney and YouGov, the financial advice gap in the UK widened substantially in the 2015-2019 period because people thought that advice was unaffordable, or they were unaware of the value to be gained from speaking to an adviser - either in person or online. The study also found that financial advisers were ignoring the average Briton by only targeting customers with assets of at least US\$65,000 to keep their margins healthy.⁹

Trusting technology

Australia, with the ability to observe what is happening in the UK, is in a position to avoid these pitfalls. Given the current scope of technological innovations, the democratization of financial advisory services is both achievable and advantageous. Committing to holistic digital infrastructure will empower users and generate lucrative opportunities for everyone involved.

For example, wealth managers and financial advisers should consider the use of bespoke platforms which are specifically designed to provide frictionless front-to-back wealth solutions via multiple channels. Modular configurations make it possible to cover the breadth of client segments, from ultra-high-net-worth to mass market, by offering different options on a progressive, as-needed basis. Imagine a customizable sliding scale which easily activates features such as robo-advice, risk profiling and detailed performance reporting depending on the size and complexity of a client's portfolio.

Besides the efficiency and agility gains, this type of platform can curb day-to-day operational costs and reduce the number of administrative tasks by automating various processes, including customer onboarding, regular news alerts and data analytics to uncover trends.

In post-Royal Commission Australia, where people might be reluctant to pay steep fees because they have smaller sums to invest, advanced digital capabilities will make financial advice a more affordable and attractive proposition. It is a vital step to ensuring millions do not slip through the net when it comes to boosting savings and retirement funds.

In Australia's shift to a fairer, customer-friendly ecosystem, the government and finance professionals must endeavor to enhance financial literacy, rebuild trust and maintain integrity while making technology the backbone of the industry. By doing so, they can prove that reliable financial advice is equally accessible to all income levels and not just the purview of the elite.

Seizing opportunities with



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3. <https://www.ft.com/content/d4501350-f5ff-11e9-9ef3-eca8fc8f2d65>

4. Final Report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Volume 1, February 2019

5. <https://www.smh.com.au/business/banking-and-finance/hayne-commission-leaves-banks-wealth-plans-in-disarray-20190322-p516hv.html>

6. <https://www.afr.com/companies/financial-services/advice-gap-to-leave-millions-stranded-20190816-p52hts>

7. <https://www.afr.com/companies/financial-services/mass-financial-adviser-exodus-puts-900-billion-in-play-20180523-h10pf>

8. <https://www.fca.org.uk/news/news-stories/post-implementation-review-retail-distribution-review>

9. <https://www.ft.com/content/1b931788-7be1-11e9-81d2-f785092ab560>



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Author



**Eric
Mellor**

Wealth Management
Specialist, APAC, Temenos

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