HUB24: the future is now

Part 1 – Digital disruption and generational change: What will they mean for your business?

HUB CONNECT

Welcome to our three-part series – “The Future is Now” – where we focus on technology, innovation and navigating change in the financial advice industry.

We’ve developed this series to help equip you for what lies ahead. In each instalment we discuss a range of new and exciting trends, as well as interpreting how they will shape the financial advice landscape in the years ahead.

We’d like to thank the following experts whose insights have made this research series possible:

- Rocky Scopelliti – Futurist and author of *Australia 2030: Where the bloody hell are we?*
- Daniel Teper – M&A Adviser and Head of Fintech, KPMG

In Part 1, we explore the drivers of change within the industry. We also consider generational factors and the role of data in both facilitating transformation and capturing new opportunities.

The Australian financial advice industry has been in an extended period of transformation, with regulatory change and new technologies shaping the way we do business and service our clients.

In recent years, we’ve also seen market participants consolidate and large institutions move out of advice altogether. While these trends continue to play out, a business model has emerged that allows data-centric businesses with large captive audiences to enter new markets quickly and effectively.

To navigate and compete in this altered operating environment, it’s important to understand the future trends that will shape our industry. The businesses that will stay relevant and thrive are those that can learn to pivot and adapt.

A vision of the future built on history

Looking in the rear-view mirror to the past is a useful way to help navigate the future, given that history often repeats itself. Indeed, Darwin's 19th century theory of evolution demonstrates our long history of adapting to new environments and circumstances.

For the past 17 years, futurist Rocky Scopelliti has been researching how Australians can better adapt to a world of accelerated change. He has identified two historical phenomena that could help answer this question.

The first is the concept of 'youthquake'. This refers to a disruptive and significant cultural, social or political shift predominantly caused by the influence of young people. An example of a previous youthquake was in the 1960s, when the then youth, now the Baby Boomers, drove a rise in household finance, consumer goods and electronics, and a generational desire to own their own homes.

Scopelliti outlines that the next youthquake has arrived acknowledged by the Oxford Dictionary, who in 2017, named it as the word of the year. So just like the opportunities resulting from the youthquake of the 1960s, we must look toward the opportunities that emerge from this one which is driven by Millennials (those born between 1980 to 2000).

Millennials have considerably different habits to any previous generation. For example, they've grown up in a digital world and are often referred to as digital natives. They're also social media savvy, cause motivated and change adaptive, and they value experiences.[1]

These traits influence the ways Millennials interact with service providers. Indeed their service needs are different to older generations, who have traditionally accounted for most of a typical advice practice's client base.

The other historical phenomenon shaping the future is 'juvenescence' – an 18th century concept for a constant state or period of youthfulness. It is relevant to the financial advice industry because it challenges our understanding of what we need to do to succeed to remain relevant in the future. The reality is that we constantly need to evolve – and so do our businesses.

"We've been led to believe that a once off digital transformation is what assures us success in our future, but the research clearly shows that our success in the future is actually defined by our constant capacity to adapt," said Scopelliti.

Both these phenomena are already shaping the operating environment for financial advisers, as Millennials increasingly become their clients of the future. Moving forward, it will be important for advisers to understand the needs of this generation and their habits to capture the large market share they'll represent. Dealing with constant change takes resilience – and as the pace of change increases, our resilience is put under even more pressure.

Rocky Scopelliti

Futurologist

"These players are really crystal clear about what they need to own and what they can source from the best-of-breed competitor."

1 CoreData, Marketing to Millennials: Why they are that different.

The growing wealth of Millennials

Australia is currently experiencing a period of intergenerational disruption, driven by both our ageing population and the increasing wealth of Millennials.

Between the years 2000 and 2020, the proportion of the population aged 65 or over increased from 12.4% to 16.3%.[2] This trend is set to continue as more Baby Boomers turn 65.

These factors will shape the needs and wants of consumers, which in turn will have a considerable impact on the financial advice industry of the future.

As a result of this intergenerational change, our economy will be put under considerable pressure. With the proportion of working-aged people between 35–64 shrinking and the proportion of retirement-aged people growing, tax revenue will also decrease. This will cause a widening economic shortfall as more public spending is needed for health care and aged care for the elderly.[3]

At a glance: Australia's ageing population[4]

	Year 2000	Year 2020
Median age	35	38
Population over 65	12.4%	16.3%
Growth rate of working-age population	1.3%	0.8%
Male life expectancy at birth	77	81
Female life expectancy at birth	82	85

To meet these challenges, we'll need a revised approach to productivity that isn't tied to labour. In particular, we'll be looking to technology to find alternative ways to create multi-factor productivity. This will be especially critical in an environment of low economic growth, so we can manage the pressures on our health and education systems and our workforce.

According to Scopelliti, by 2030 the investment capacity of Millennials will be five times more than the world's current wealth, equalling about $35 trillion. Moreover, the trend for Millennials to become financial advice clients and drive profits for the financial services sector is happening much sooner in Australia than expected.

"When you look across some other countries, such as Singapore and the United Arab Emirates, you don't see that same profile," said Scopelliti.

With the rise of Millennials, the profits that Baby Boomers contribute to financial advice businesses will also decline. Scopelliti predicts that by around 2030, Millennials will be the main drivers of profit for advisers.

"Gen X (those born between 1965 and 1980) will carry the profitability payload for you to what's projected to be about 2030," he said. "But Millennials are now reaching this inflection point, where they're increasing in terms of their proportionate contribution of profit to your businesses."

While he expects Gen Z (those born between 1996 and 2012) to overtake Millennials in about 2050, financial advisers will have to simultaneously meet the needs of these different generations. As the first priority, they need to get comfortable with Millennials and how they can service their needs.

Scopelliti commented: "Get ready for the Millennials, who are the children of the Baby Boomers – and their youthquake, which is going to give rise to the next technological boom."

2 Australian Bureau of Statistics, *Twenty years of population change,* December 2020.
3 Scopelliti, Australia 2030: *Where the bloody hell are we?*, 2021.
4 Australian Bureau of Statistics, *Twenty years of population change, 2020;* and *Life tables 2018–20; 2021.*

The stage is set for disruption

Most industries across Australia and the globe are experiencing some form of disruption, as technological innovation, consumer trends and unforeseen challenges such as COVID-19 shape our businesses.

In the broader Australian financial services industry, this has been particularly apparent with new market entrants bringing with them digital capabilities that challenge old ways of doing things. Existing players who have a heavy reliance on traditional processes, and who haven't invested in technology and innovation, have found it difficult to pivot and adapt to take advantage of new opportunities.

Daniel Teper, KPMG's M&A Adviser and Head of Fintech, says that in this competitive environment, incumbent businesses are being forced to rethink what has worked for them for more than three decades.

For banks, this means that fundamental structures – such as branch networks, which were regarded as critical to the origination and service of new customers – are becoming redundant. These days, banking has become a service where white-labelled propositions are growing in prominence.

"Branches were essential to being a successful financial services provider, and they actually gave the incumbents a really great opportunity and a competitive advantage," said Teper. "But today we're finding that consumers are far more comfortable transacting with new market entrants digitally without even speaking to someone."

Daniel Teper

M&A Adviser & Head of Fintech – KPMG

"Today we're finding that consumers are far more comfortable transacting with new market entrants digitally without even speaking to someone."

This has also been the case with credit and banking products, as the success of new entrants has challenged the old idea that to enter this market you needed a well-known brand with a big set of historical data.

Another development that opened up the market was the Federal Government's introduction of the Consumer Data Right in 2017. This has effectively disseminated the ownership of data and enabled consumers to transfer their data to other businesses to find alternative products and services.

As a result, the market has broadened and historic barriers to entry have been dismantled. New entrants who are nimble and who focus on smaller segments of the value chain can offer highly desirable products and services that address consumer demands in a tailored way.

This means new entrants with often no direct experience in a market or a particular service can disrupt the traditional player, but in this brave new world, there is no clear path for doing this.

Another significant trend in the advice industry has been the emergence of new, dominant segments who have shifted away from institutional licensees. Today, 58% of advisers currently operate under a privately owned licensee.

One of the key challenges for advisers in recent years has been the growing cost of managing compliance. Also challenging are the complexities of delivering the core functions of running an AFSL such as governance, revenue processing and fee disclosure statements.

According to Investment Trends research, advisers identify their main business challenges as the growing compliance burden, regulatory change and uncertainty, and being able to provide affordable advice to those who need it. The opportunity for the advice industry going forward will therefore be to leverage data to both streamline the advice process and generate insights that will help advisers build even stronger client relationships.

Data is the key

Approximately 90% of the world's data that currently exists was created in the last two years. This is understandable when you think of the volume of emails and tweets we generate each day. In this way, data and knowledge of data are important to financial advisers because data is essentially currency.

In this data-rich environment, aggregators have been particularly successful in pivoting and realising new opportunities they are capital light, data intensive and automated.

It's the business model of Uber and Amazon, and the same principles are now being applied in other industries to provide real-time solutions to consumers. With this approach, businesses can gain a competitive advantage without owning a whole supply chain.

"These players are really crystal clear about what they need to own and what they can source from the best-of-breed competitor," said Scopelliti.

Aggregators have also evolved from being service providers to providers of products. Examples include Apple's launch of ApplePay, Xero's acquisition of global invoice infrastructure business Tickstar, and Facebook's plans with cryptocurrency and to offer a disintermediated payment service.

Another example is Westpac's partnership to use the 10X cloud-based banking platform to create banking products that fintechs can offer directly to their customers under their own brands.

"Suddenly, what has traditionally been the home of big banks, big insurers and big wealth managers is actually now being provided by big consumer-facing brands, who in some cases have never had any experience in dealing in financial services," said Teper.

For the financial advice industry, aggregators have long been identified as likely competition for more traditional financial service providers. And for those institutions who have not invested in technology and innovation, they're seen as attractive partners.

For licensees and advisers, digital tools and enhancements will become increasingly vital for cementing trusted relationships with their clients. By leveraging data, licensees and advisers can uncover business efficiencies and develop solutions that enable them to better service their clients and deliver on their value proposition.

Preparing for the journey ahead

The financial advice industry is at an inflection point, in terms of both the customer base of the future and the industry's ability to remain competitive in a changing business landscape.

As the wealth of the Millennial generation continues to grow during the next decade, they will represent a growing proportion of the typical financial adviser's customer base. Advisers therefore need to be well positioned to meet the needs and preferences of this demographic – and this includes being able to deliver a tech-driven user experience.

At the same time, the landscape is shifting from traditional, institutionally based advice as new entrants join the field – many under privately owned licences. However, this is also happening at a time when advisers are facing an increasing compliance burden.

The solution to all these challenges lies in leveraging data and technology. For advisers, this will be the key to adapting to the trends of the future and building new business efficiencies and processes that make advice more cost-effective and accessible.

The adviser of the future must also be able to harness the right data to better understand their clients as their needs evolve. They'll also need to implement the right tools to help them streamline the end-to-end advice process and respond swiftly to client requirements.

HUB24 is leading change by creating platform innovations that drive efficiencies and challenging the traditional role of platforms as custodians of assets, to generate value for advisers and their clients. By leveraging data and technology, we believe we can find solutions to adviser and licensee challenges that will move the industry forward.

In Part 2 of our "The Future is Now" series, we'll explore how artificial intelligence and machine learning can support the financial advice process.

HUB CONNECT

Interested in learning more?

Visit our website at [hub24.com.au]
or contact [your local BDM]