

Australia's Financial
Advice Industry

Positioned for Growth

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Australia's Financial Advice Industry — *a brief history*



The financial advice industry in Australia has undergone significant evolution since its emergence circa 1970s. It has transitioned from a relatively informal sales oriented business, delivered by a combination of life insurance agents, stockbrokers and accountants, to a well-regulated profession with a strong focus on consumer protection, professionalism and holistic financial advice.

Early Developments: 1970s-1980s

A nascent financial planning industry in Australia began to take shape in the 1970s, largely driven by changing economic conditions and the increasing complexity of personal finance. It was a time of high inflation, fluctuating interest rates and growing – but volatile – financial markets. History remembers this period for an inflation rate of 17.7 percent (1974), the ‘oil shock’ (1975), the share market crash (1987) and the cash rate reaching an all-time high of 17.50 percent (January 1990).

Financial advice was typically sales focused: life agents sold investment policies, stockbrokers sold shares and accountants sold tax efficient solutions. Large upfront and trail commissions were the primary form of remuneration and there was little regulation surrounding the quality or appropriateness of the financial products sold to consumers. Financial planners or advisers were not recognised as a profession and many individuals entered the field with limited qualification or oversight.

Introduction of the Superannuation Guarantee: 1990s

A number of industry commentators have credited the Superannuation Guarantee Scheme (SG) in 1992 as a pivotal moment that resulted in the emergence of today's financial advice industry.¹ As superannuation funds grew in size and diversity, more individuals sought professional advice on how to best manage their retirement savings, fuelling demand for financial advice.

Outside superannuation, financial products were becoming more varied, sophisticated and plentiful; product proliferation spanned managed funds, investment platforms and retirement solutions. In the listed environment,

there were IPOs of numerous companies that are today's blue chip stocks.

The growing complexity of the financial landscape increased the need for professional advice, leading to a more formalised industry structure. Australia was the first country outside of the United States to offer the ‘Certified Financial Planner’ (CFP) designation in 1990 and, in 1992, through the merger of membership to two international organisations, the Financial Planning Association of Australia was formed.²

At this time, financial advice was still largely driven by commissions and product sales, which often raised concerns about potential conflicts of interest. Financial advisers were often incentivised to recommend products that paid higher commissions or offered non-monetary benefits such as holidays, rather than make recommendations in the best interests of their clients. This issue was a key driver of much of the regulatory reform of the following decades.

¹ A brief history of the Financial Planning Industry and Dealer Groups in Australia, Dugald Braithwaite, 4 April 2024

² The rise of the financial planning industry, Michelle Cull, College of Business, University of Western Sydney, May 2009



Regulatory Reform and Professionalisation: 2000s

The 2000s were characterised by regulatory reform. In response to growing concerns about conflicts of interest and the quality of advice, the Australian government introduced a series of reforms to increase the professionalism of the financial planning industry and improve outcomes for Australians. A summary of key reviews and reforms is outlined in figure one.

Figure one: Key reviews and reforms in financial advice

| YEAR | REFORM |
|------|---|
| 2001 | Financial Services Reform Act (FSRA) Introduced requirement to be licensed by ASIC and provide advice in clients' best interests. |
| 2012 | Future of Financial Advice (FOFA) Ban on conflicted remuneration (including commissions), a new best interests duty, a fee disclosure statement, client opt-in to ongoing fees and introduced the Statement of Advice. |
| 2015 | ASIC register of licenced advisers Public register of licenced advisers that includes qualifications and memberships. |
| 2017 | Financial Adviser Standards and Ethics Authority (FASEA) Introduced new educational and ethical standards for financial advisers that included mandatory university qualifications, professional exams and ongoing professional development. |
| 2018 | Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry An enquiry that uncovered poor corporate and individual behaviour across the broader financial sector and which resulted in legislation to raise the professional standards of the advice industry. |
| 2020 | Retirement Income Review Examined income solutions to enhance retirement outcomes for Australians. The resultant Retirement Income Covenant (2022) requires superannuation fund trustees to develop a retirement income strategy for members to improve the financial outcomes for Australian retirees. |
| 2021 | Better Advice Act Introduced in response to the Royal Commission, it established the Financial Services and Credit Panel as a single disciplinary body to oversee financial advisers. FASEA was wound up, and its responsibilities transferred to ASIC, which established a new registration system for advisers. |
| 2022 | Quality of Advice Review (QAR) Designed to simplify the advice process and improve outcomes for consumers. |
| 2024 | Treasury Laws Amendment (Delivering Better Financial Outcomes and Other Measures) The first tranche of QAR recommendations aims to simply conflicted remuneration, fee disclosure and fees for advice within superannuation. |



There was a notable shift in the industry following 2018's Royal Commission. A number of key institutions divested their advice businesses; major banks exited, followed by AMP, a key player in the Australian financial advice industry for much of its 175-year history. Vertical integration was unwound – offering product, platform and advice had been the business model of banks and other large financial service companies. However, the inherent conflicts in this model were repeatedly highlighted by the Royal Commission and many of the business streams sold.

These exits, along with the resultant industry consolidation, reshaped the market landscape and have given rise to new advice businesses through partnerships and acquisitions. These emerging firms have strategically positioned themselves to better manage compliance costs, integrate technology and deliver high-quality advice, thereby contributing to a more stable and reliable industry. In parallel, the growth of boutique advice partnership licensees has provided valuable alternatives to the dominant providers, fostering a more diverse and competitive environment.

The Advice Industry *today*

...the industry is now better positioned to deliver positive client outcomes than at *any previous point in its history*...

The progress of the financial advice profession has not been without challenges. However, the industry is now better positioned to deliver positive client outcomes than at any previous point in its history. It's a pivotal time for both the industry and the Australian consumer, who is wealthier than ever; Australia's financial assets reached over \$7 trillion in 2023, having grown 25 percent in the preceding four years.³

Increased wealth coupled with an unstable economic environment – amplified geopolitical risk, high inflation, volatile markets, interest rate uncertainty and ongoing change to superannuation rules – has seen increased demand for financial advice. The number of consumers seeking financial advisers through the Adviser Ratings website and its affiliated white label sites rose by 36 percent in 2023, year on year.⁴

The dual focus on improved consumer financial literacy and professional standards within the advice industry has been transformative. Efforts to improve financial literacy have resulted in more informed consumers who are better equipped to make sound financial decisions. The elevation of professional standards – through mandatory qualifications, continuous professional development and adherence to a robust code of ethics – has enhanced the competency and trustworthiness of financial advisers. These initiatives have ultimately benefited both consumers and financial advisers, fostering a more knowledgeable, credible and reliable industry.

³ Australian National Accounts: Finance and Wealth 2023, ABS, 28 March 2024

⁴ Australian Financial Landscape 2024, Adviser Ratings, June 2024

The Australian *consumer*



Older, wealthier, asset rich

The life expectancy of Australians in retirement has almost doubled in the last 150 years⁵ thanks to better lifestyles, nutrition and medicine. Financial advice tends to concentrate on the baby boomers, a generation that numbers 5.6 million and which represents 21.5 percent of Australia's population. As baby boomers age, the retired population is expected to increase from 7.4 million in 2022 to 10 million in 2041.⁶ It is anticipated that retirement assets will grow to \$11.2 trillion over a similar time period.⁷

The prosperity of the asset rich baby boomers has been driven by a buoyant property market and surging share markets. This, coupled with an increase in the number of self-funded retirees reliant on the income from their assets in retirement, will continue to drive the need for financial advice. Advice itself will need to evolve to accommodate older Australians' changing requirements. In its 2024 report, Deloitte reported that 80 percent of surveyed advisers agreed that with the projected 23 percent growth in Australians aged between 65-85, the sector will increasingly need to provide advice on navigating the Age Pension, aged care and superannuation.⁸

Intergenerational wealth transfer

In 2021, the Productivity Commission stated its expectation of an intergenerational transfer of \$3.5 trillion by 2050, with an average of \$175 billion per year.⁹ This transfer results from the baby boomer generation accumulating capital over decades and passing it on, with generations X and Y expected to receive the majority of this wealth.

Advice opportunities abound...

for both those transferring the wealth and those receiving it. To the transferor, advisers have the opportunity to advise the most effective ways to transfer wealth; through comprehensive estate plans, wealth preservation strategies, as well as tax-efficient strategies and structures. The recipient will require wealth management and preservation strategies as part of a program of holistic financial advice. This transfer provides a myriad of growth opportunities for advisers.

X, Y and beyond

While generations X and Y are the most likely beneficiaries of intergenerational wealth transfer, it is likely the bounty will extend to millennials and generation Z. Research from the Financial Advice Association Australia (FAAA) suggests the advice needs of younger generations are significantly different to their parents and grandparents (figure two); in seeking advice, generation Y are more likely than baby boomers to seek self-improvement and have a more holistic view of the benefits of advice.¹⁰

⁵ 100-year life: education, work, policy must reflect longevity, *The Australian*, 13 June 2008

⁶ Population Projections, Australia, 2017 (base) – 2066, Australian Bureau of Statistics, 2018

⁷ Dynamics of the Australian Superannuation System; The next 20 years to 2043, Deloitte, March 2024

⁸ Advice 2030: The Big Shift, Deloitte Access Economics, August 2024

⁹ Wealth transfers and their economic effects, Productivity Commission, November 2021

¹⁰ Value of advice consumer research; key findings 2024, Financial Advice Association Australia, October 2024

Figure two: Advice – needs and benefits

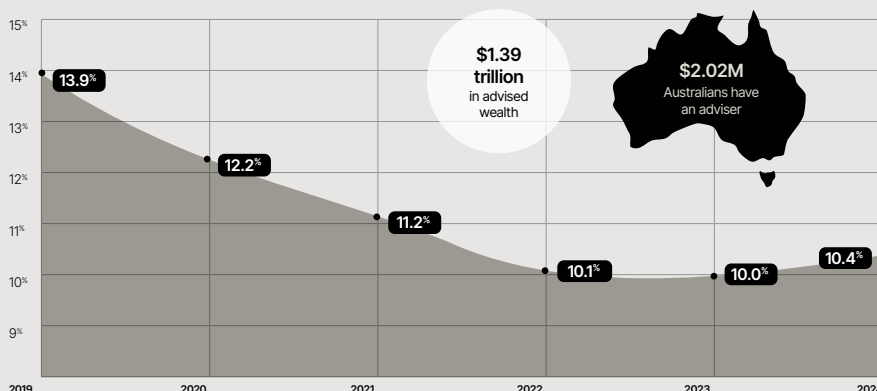
| | | | |
|-------------------------------------|---|---|--|
| Key <i>needs</i> met from advice | GEN Y Greater spending confidence in making big financial decisions | GEN X A realistic plan to achieve a more comfortable retirement | BABY BOOMERS A realistic plan to achieve a more comfortable retirement |
| | Help to get the most from their financial situation | Have a sounding board for financial decisions | Help to get the most from their financial situation |
| | Help to define and achieve short to medium term goals | Help to define and achieve long term goals | Reduce financial worries and stress – greater peace of mind |
| Key <i>benefits</i> met from advice | GEN Y Help to simplify and explain financial matters | GEN X Improved financial wellbeing and peace of mind | BABY BOOMERS Improved financial wellbeing and peace of mind |
| | Greater wealth growth | Improved confidence in financial decision making | Improved confidence and ability to achieve desired standard of living |
| | Improved financial wellbeing and peace of mind | Help to simplify and explain financial matters | Help to simplify and explain financial matters |

Source: Value of advice consumer research; key findings 2024, Financial Advice Association Australia, October 2024

The majority of Australians *remain unadvised*

More unadvised Australians are considering getting financial advice. This is the finding from Adviser Ratings most recent research into the Australian financial landscape, which notes an increase in advice intention from 20 percent to 24 percent year on year. Despite this, the actual number of advised Australians increased little over the preceding 12 months (figure two); this is largely attributed to the cost of advice.

Figure three: Australia's advised population



Source: Value of advice consumer research; key findings 2024, Financial Advice Association Australia, October 2024

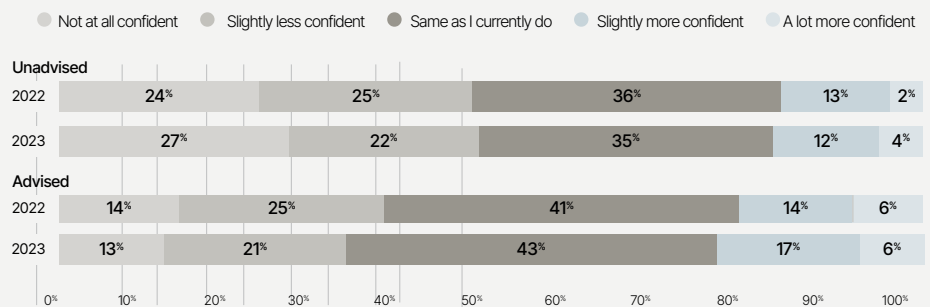
Research confirms the pool of Australians with unmet advice needs remains extensive, estimated at 11.8 million in 2023. The key barrier to seeking financial advice is cost, be it too high (41 percent) or unclear (30 percent). Of those Australians with unmet advice needs who don't intend to seek advice in the near future, 38 percent would turn to digital advice tools if the right solution was available.¹¹

¹¹ 2023 Financial Advice Report, Investment Trends, March 2024

Financial advice is *good* for *Australians*

Most Australians recognise the benefits of financial advice. Advised consumers see themselves as more financially literate than the unadvised and advised individuals demonstrate greater confidence in their finances (figure four). Not surprisingly, 27 percent of the unadvised cohort feel not at all confident about their financial future.¹²

Figure four: Financial confidence (over the next 12 months)



Source: Australian Financial Landscape 2024, Adviser Ratings, June 2024

The accumulation of wealth is just one aspect of the advice relationship. Advised Australians are more able to enjoy life, are more prepared for retirement and have a better lifestyle. They are also significantly less likely to have daily money worries than the unadvised.¹³

¹² Australian Financial Landscape 2024, Adviser Ratings, June 2024

¹³ Understanding Australian advice clients better, netwealth, May 2024

The Financial *Advice Industry*

Rising demand for qualified financial advice is driven by an ageing population, accumulated wealth and the increased complexity of financial products. However, this need has heightened concerns about the accessibility and affordability of advice, particularly for individuals with modest financial needs. These challenges have sparked debate amongst industry leaders around how to balance the needs of consumers with the demands of a heavily regulated environment.



In response to the 2018 Royal Commission, the Australian government further tightened the regulatory environment. Although designed to rebuild consumer trust, these measures often prioritised compliance over an enhanced client experience and created a more complex regulatory landscape. Consequently, advisers and licensees encountered significant challenges; namely, increased compliance demands that drove up costs and added layers of complexity to their operations.

While these measures designed to ensure that Australia's financial system operated efficiently, effectively and in the best interests of consumers, they also led to a significant reduction in the number of qualified financial advisers, increased compliance costs and created a range of adaptation challenges for advisory firms.

Adviser numbers stabilise as there's a shift towards independence

The exodus of advisers from the market has slowed dramatically from the rapid declines of 2019-2021, which were largely in response to the above-mentioned compliance burden and educational requirements. After peaking at 27,953 advisers in 2018, numbers fell to 15,623 in 2023. That last year's fall was smaller than previous years suggests numbers are stabilising.¹⁴

Advice practices have had to evolve to manage higher client numbers with fewer advisers; this has led to increased

efficiencies, outsourcing and the adoption of technological solutions. That advice businesses can more easily pivot to embrace change and adopt technology positions them well for future growth.

At the same time as many large institutional businesses divested their advisory businesses and adviser numbers fell, a trend toward the creation of privately owned and independent licensees commenced. The largest practice segment is now privately owned licensees with less than 10 staff and, in the final quarter of 2023, 57 percent of new Australian financial services licences were applications from single adviser practices¹⁵

¹⁴ Australian Financial Landscape 2024, Adviser Ratings, June 2024

¹⁵ Australian Financial Landscape 2024, Adviser Ratings, June 2024

Cost of advice, revenue and profitability

The median cost of comprehensive financial advice increased by 58 percent over five years.¹⁶ A number of factors have contributed to this, notably the greater regulatory burden and cost of compliance, as well as inflation and interest rates.

Adviser Ratings reported that the majority of advice businesses (78 percent) lifted their revenue in the past 12 months; just one-in-20 experienced a decline of five percent or more.¹⁷ This trend was consistent across business size and reflects improved operating conditions, the shift to cost-effective forms of technology and the ongoing demand for advice services.

Margins in the financial advice industry are driven not only by client revenue, but also through enhanced governance, use of technology and refined processes. Efficient financial advice businesses now achieve margins of around 30 percent, whereas accounting firms typically average margins of 20-25 percent.

According to our data, financial advice businesses can realistically target margins between 35 percent and 50 percent through strategic growth and operational efficiency. By leveraging key inflection points in their growth, advice businesses can achieve and sustain higher profitability. High-performing financial advice businesses have 16 percent higher margins than the average, equal to \$550,000 more business profit annually.¹⁸

As the professionalism of the industry has increased, comparisons are being made with other professionals, such as accountants and lawyers. Consequently, advisers are reassessing their value proposition and adjusting fees accordingly. Investment Trends recently reported that the advice practices charging higher client fees are also those practices with greater net profit margins.¹⁹

Looking ahead, regulatory change being introduced by the Quality of Advice review is shifting the industry towards a more client-centric approach. The review and subsequent legislation focuses on simplifying existing regulations and repealing overly burdensome compliance measures. It aims to eliminate unnecessary complexities and create a more favourable environment for the industry, effectively turning headwinds into tailwinds. While the scope and timing of these changes remain uncertain, they are expected to streamline operations, improve client outcomes and support the growth of financial advice practices.

Technology

Technology solutions have proliferated in the advice industry; there are tools designed to minimise the time spent on data collection and management, financial planning solutions and the means to automate a range of compliance functions. Clients expect timely and dependable access to information, which technology is well equipped to deliver.

The emergence of robo-advice engaged the unadvised; designed to make financial advice more accessible and cost-effective, robo-advice offers an accessible and affordable alternative to financial advisers for many Australians. While the impact of robo-advice has been limited to date, this approach may become more attractive to a younger audience comfortable with managing finances online and who prefer the accessibility of digital platforms.

Artificial intelligence is making rapid advances in the advice arena, used to enhance both the accuracy and efficiency of the financial advice process. AI-driven tools are used to automate a range of tasks: document management, statements of advice, note taking and producing regular client reviews. Advanced algorithms and machine learning have also improved asset allocation and portfolio management capabilities.

A holistic, technology-enabled approach highlights the transformative potential of digital tools when used to reshape the delivery of financial advice and ensure the advice process remains relevant and tailored to clients' changing needs. Importantly, this focus on new technologies is about complementing and not replacing financial advisers. Technology supports scalability and the delivery of comprehensive, personalised advice. This ultimately benefits the client, the adviser and the advice practice.

¹⁶ Advice Fees Rise: What Australians Are Really Willing to Pay for Financial Advice, Adviser Ratings, July 2024

¹⁷ Australian Financial Landscape 2024, Adviser Ratings, June 2024

¹⁸ Advice 2030: The Big Shift, Deloitte Access Economics, August 2024

¹⁹ 2024 Adviser Business Model Report, InvestmentTrends, July 2024

The future of Financial Advice

The future of financial advice in Australia looks promising. The industry will continue to evolve to meet the increasing demand for qualified personal advice, which will benefit both consumers and advisers. Recent developments have and will contribute to a more trustworthy and resilient industry.

As the federal government continues its implementation of the accepted recommendations from the Quality of Advice Review, business confidence is expected to climb and translate to increased revenue and profitability. Many advice practices are now actively growing their client base and investing in technology to improve operational efficiencies, maintain financial performance and capitalise on growth opportunities.

Similar positive trends are also emerging in other professional services, such as accounting, where firms are experiencing upward movements in margins, revenue and profitability. While financial advice businesses typically enjoy higher margins and valuations, both industries can gain from strategic growth and the implementation of supportive infrastructure, including technology, marketing and operational support.

Despite challenges from the regulatory and economic environments, the financial advice industry's transformation has created new growth opportunities. Spending on financial advisers is predicted to rise from approximately \$6.1 billion to \$8.2 billion per annum in the next five years.²⁰ Those firms

focused on client-centric strategies, higher professional standards and the adoption of advanced technologies are best positioned to take advantage of this growth.

By embracing innovation and investing in operational efficiencies, advice businesses are well positioned to grow and sustain profitability and deliver greater value to clients, ensuring success in a dynamic market. In our view, positioning financial advice businesses to thrive amid regulatory shifts and industry advancements represents a highly compelling investment opportunity.



²⁰ Advice 2030: The Big Shift, Deloitte Access Economics, August 2024

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