The Value of Advice

Tim Gorst

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NZ Society of Actuaries Conference 2004

Agenda

- Background to Australian advice market
- Reasons for writing the paper
- ‘Value of Advice’ view of enterprise value

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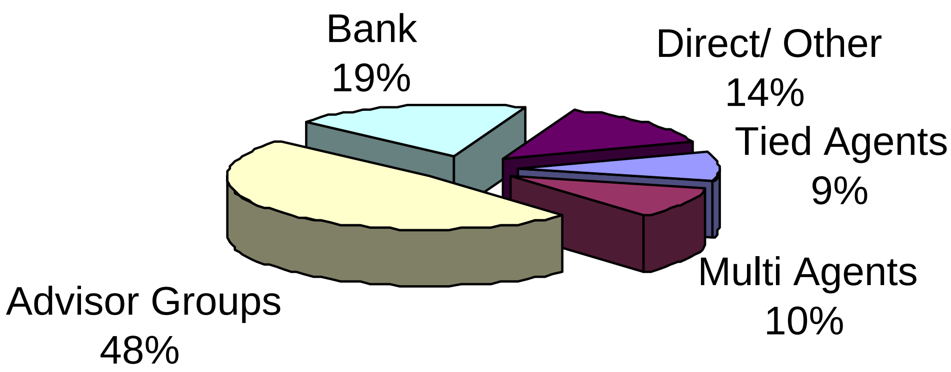
- How does this translate for New Zealand?

Background : Financial Advisers Dominate FuA

Channel Split of Retail FuA (Australia) June 2004



Advisor groups control circa 50% of retail funds market

(where Retail market = $348b, Total market = $760b)

Of significant strategic importance to access this channel

Conglomerates have purchased advice groups

Rank	Name	# FPs	Funds Under Advice ($b)	Ownership
1	AMP FP	1,433	25.0	100% AMP
2	PIS	1,309	5.8	*nd*
3	Count	1,100	5	Listed
4	Commonwealth FP	660	*nd*	100% CBA
5	AXA FP	639	*nd*	100% AXA
6	Westpac FP	601	11.0	100% Westpac
7	Securitor / PACT	478	*nd*	100% St George
8	Garvan FP	431	*nd*	100% NAB
9	Charter FP	414	*nd*	100% AXA
10	Financial Wisdom	414	*nd*	100% CBA
14	Deakin	250	*nd*	Listed
16	RetireInvest	232	8.0	100% ING
17	Apogee	207	4.0	100% NAB
18	Assoc Planners	207	4.0	100% Challenger
20	Godfrey Pembroke	182	8.0	100% NAB

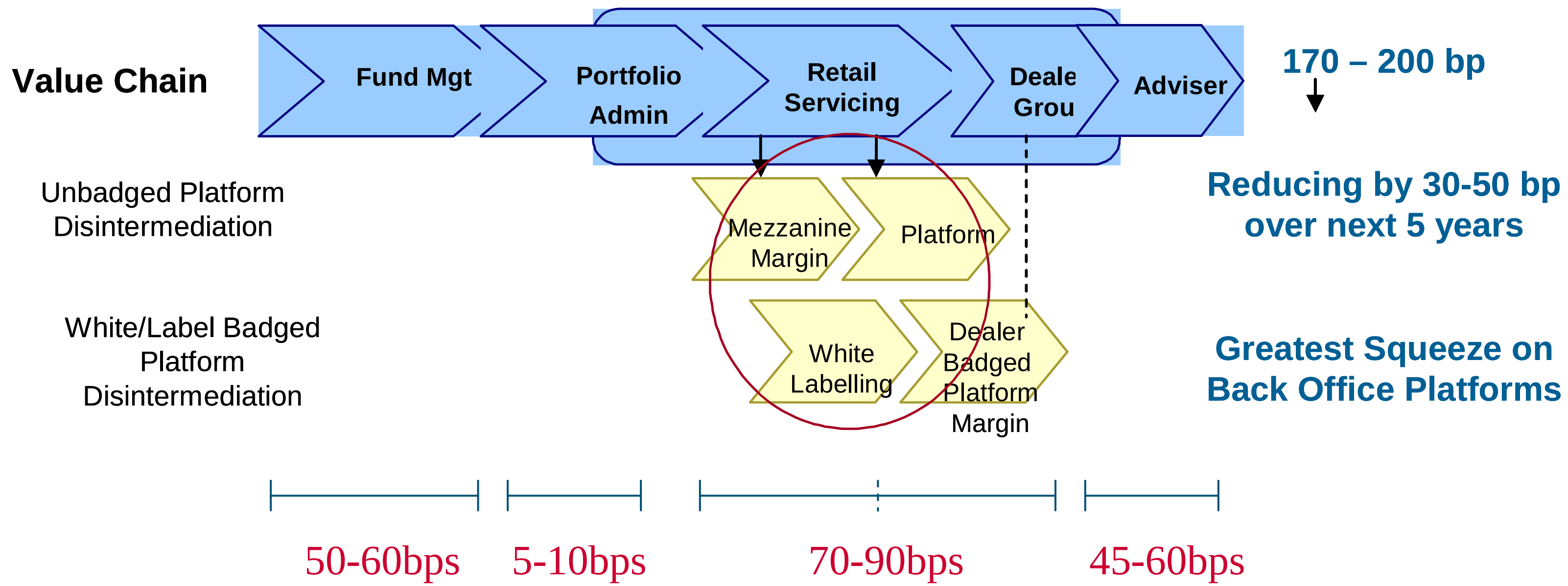
Source : Top 100 Dealer Groups, Money Management 2003; Trowbridge updates

Considerable sums of money paid to acquire advice groups

(e.g. Challenger / Assoc Planners $91m)

How to justify the value paid ?

Value is in the 'flow on' margins attained



It is the opportunity to capture other components of value chain (e.g. platform, inv mgt) where strategic value resides

So, why did we write this paper?

- Share our experience in valuing advice based businesses
- Challenge management and valuers in their understanding of value via advice channels
- Provide a framework for understanding value via advice channel

Considerable strategic insights can be gained from measuring value from an advice channel perspective

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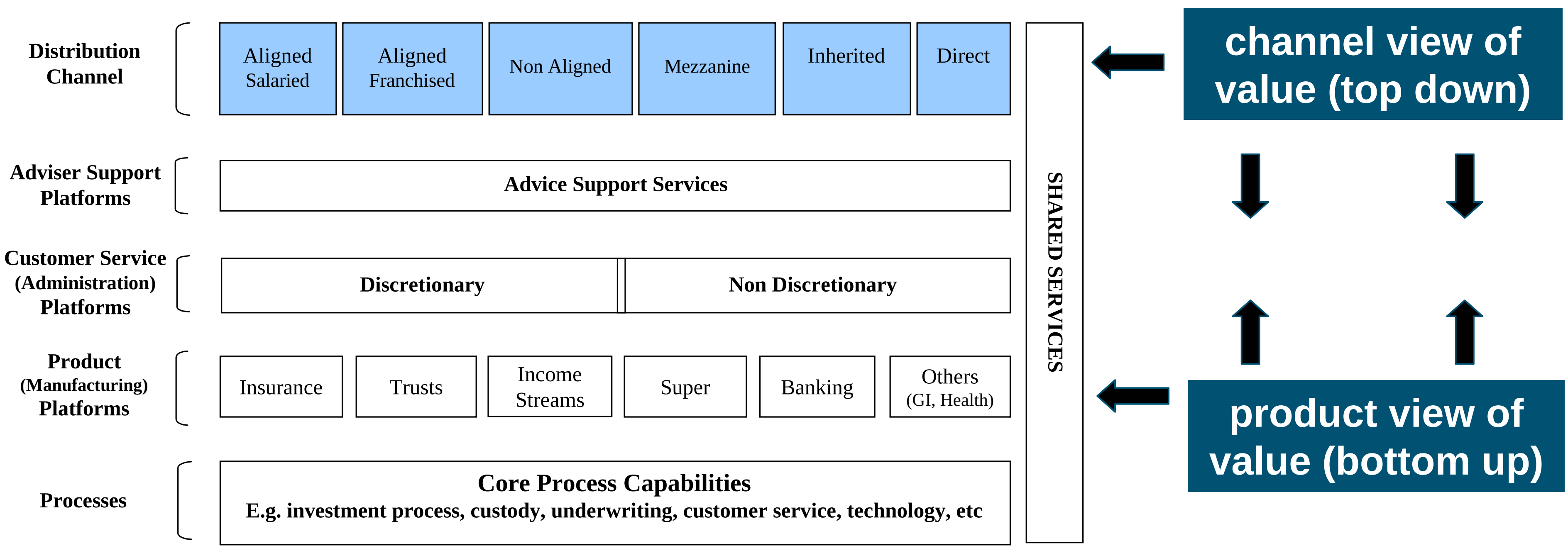
Valuing via advice channel requires a shift from common practice



Traditional product view of value can be limiting

- **Transfer pricing alters the landscape**
- **Lack of explicit front end analysis**

Traditional Product (Manufacturing) View of Value

	Life Risk		Investment Management	
	Product A	Product B…	Offering A	Offering B…
Distribution & Support	< transfer pricing leaves little value in dealer groups>			
Servicing (Administration)	Majority of value passed to these operations			
Product (manufacturing)				
Investment Management				
TOTAL				

Channel based view gives greater strategic insights

- **Identify synergy and strategic opportunities**
- **Market adjustments**
- **Front-end value recognition**

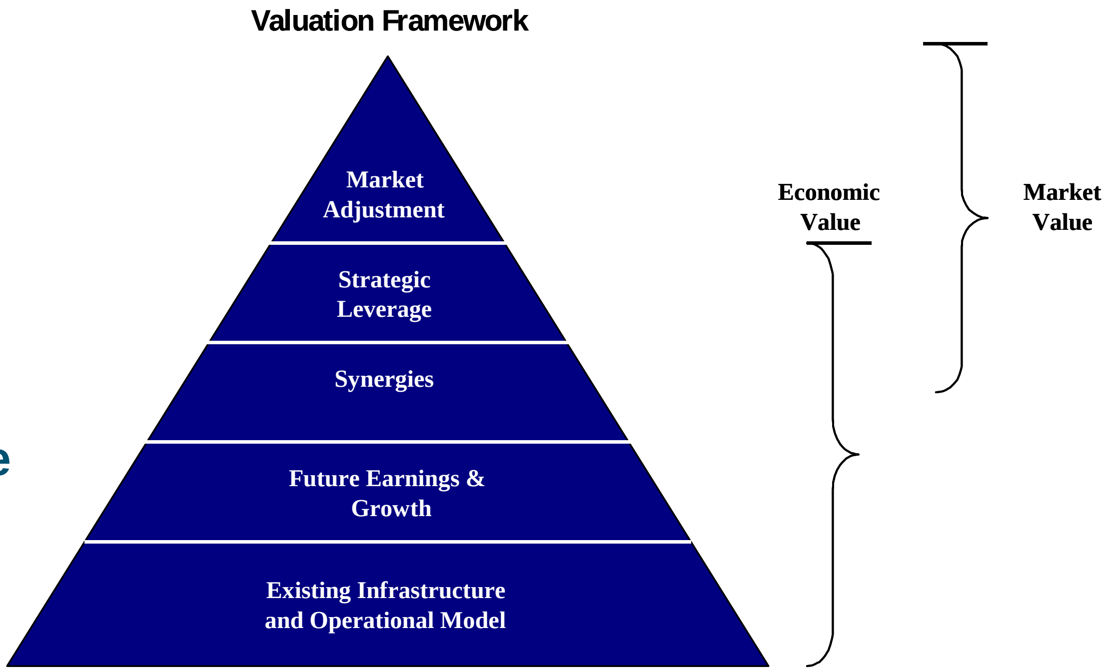
Channel Based (Customer Delivery) View of Value

	Aligned (Owned)		Aligned (Franchise)		Non Aligned		Mezzanine		Inherited	Direct
	Group A	Group B….	Group A	Group B….	Group A	Group B….	Platform A	Platform B..		
Adviser (Support) Platform										
Service (Administration) Platform										
Insurance Products										
Product A										
Product B										
Investments Products										
Product A										
Product B										
Sub Total - PLATFORM VALUE*										
Synergy Value										
Strategic Leverage Opportunities										
Banking Products										
IFS										
Others										
ECONOMIC VALUE										
Market Adjustment										
MARKET VALUE										

* Value including net assets.

Advice channels, rather than product, drive the valuation framework

- Layered approach based on adviser fundamentals
- Focuses on front-end customer delivery
- Measures downstream value to manufacturer
- Identify value enhancing front-end positioning



Actively managing advice channels to extract value

Techniques include:

- **Channel view to assess and monitor value**
- **Robust valuation framework for assessing strategic opportunities**
- **Ongoing portfolio review of advice based businesses**
- **Integrated adviser support and customer service platforms**
- **Practice management**
- **Strong key person and business relationships**
- **Corporate culture respecting and valuing the independence of advisers**

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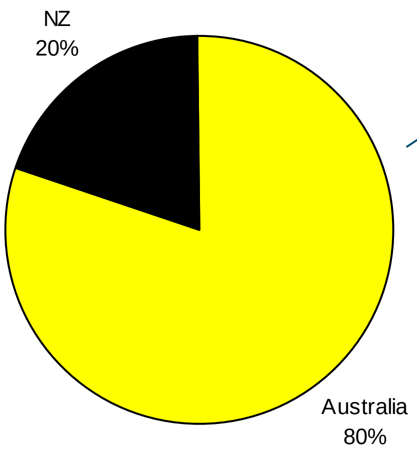
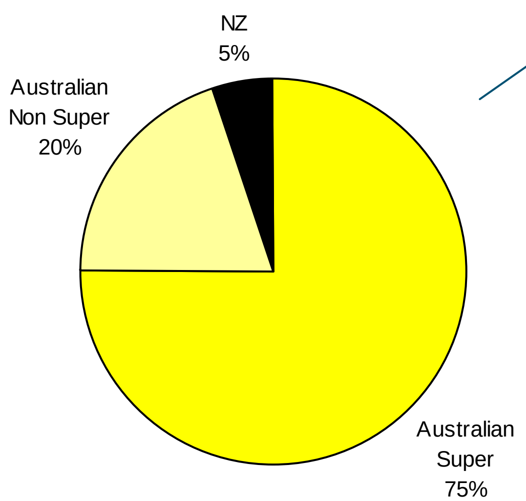
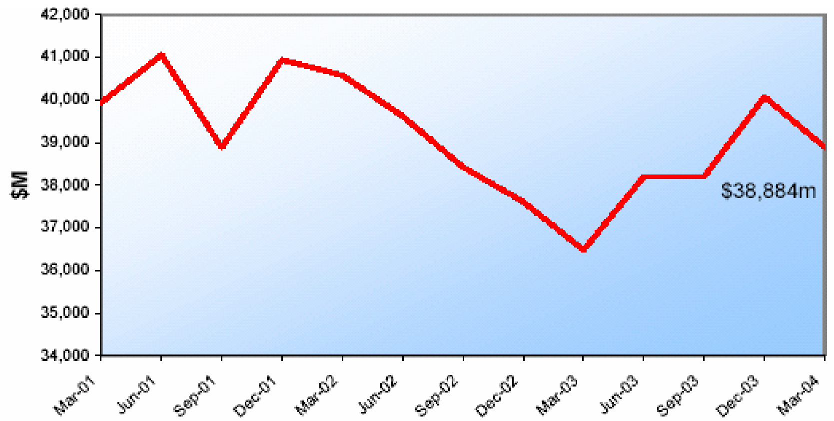
NZ Wealth Market – A sizeable insurance opportunity but managed funds struggling



Combined Aus/NZ Life Ins. Premium (approx $5.5b AUD)

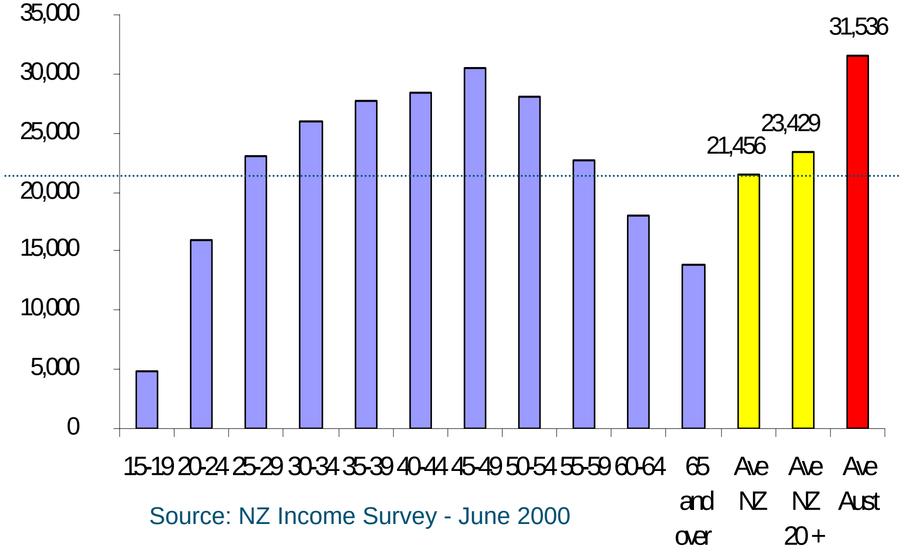


Combined Aus/NZ FUM (approx $800b AUD) With NZ FUM Growth Stagnant



Source: Fund Source, ISI, Plan For Life – Indicative Mar 04

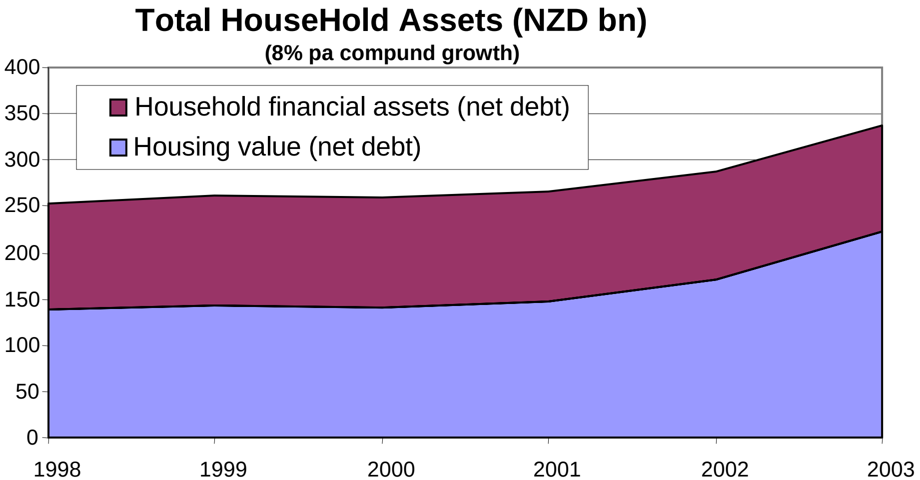
NZ Wealth Market – Some Economic Context



Source: NZ Income Survey - June 2000

Relatively lower incomes across the mass market

Though household debt has risen, the after debt household balance sheet has grown through rising value of domestic property.



NZ Wealth Market – Drivers of Demand For Advice

- Demographic trends
- Growing individual wealth
- Taxation complexity
- Flow of lump sum inheritances to baby boomers
- Lack (and unlikelihood) of compulsory super regime
- Trend towards DIY style super arrangements
- A household balance sheet overweight property
- Prospect of a more professional/regulated advice industry
- General social, economic and political uncertainty

…..and as demand for advice grows, value in NZ wealth systems will shift towards the advice based businesses that will most influence customer outcomes.

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