

News

FOFA COULD ELIMINATE MID-TIER FIRMS

By [Chris Kennedy](#) on 15 July 2011 [0 comments](#)

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Concerns have been raised that mid-level planning firms could be eliminated in the wake of the Government's Future of Financial Advice (FOFA) reforms.

In order to remain viable following the removal of volume-related payments, some planning businesses may need to either vertically integrate services by bringing platform or product offerings in house, or merge with other groups.

This shift has been highlighted by recent movements such as the merger between [Snowball](#) and [Shadforth](#), [Count Financial's](#) announcement that it would look to move strategic platform offerings in-house, and the proposed acquisition of DKN by IOOF.

The restructure could see the disappearance of planning groups with between 25 and 250 advisers, according to [Professional Investment Services](#) managing director Grahame Evans (pictured).

Smaller licensees won't have the resources to move offerings in-house the way Count plans to because mid-tier firms won't have the appropriate scale to survive, he said.

There is even a chance the industry could see smaller institutions like IOOF swallow up larger non-aligned groups such as Count, then in turn be swallowed up by larger institutions like AMP, eventually resulting in four major banks and one major life company with a range of smaller boutiques.

"That will mean the industry will be run by five big institutions, and that can't mean a better outcome for consumers," he said. "There is a grab for distribution that will be won by the institutions, and that will mean those advisers will be using a lot of what the institution says in the way of product."

Evans also questioned the view that it is okay for product manufacturers to vertically integrate downstream, snapping up distribution channels, but not upstream from distribution to manufacturing.

"I can't see any fairness in that approach, it's discriminatory and there's no basis for it," he said.

This call was echoed by [Matrix Planning Solutions](#) managing director Rick Di Cristoforo. "Vertical integration is vertical, it doesn't mean just downward or just upward," he said.

Matrix has not left any options off the table in terms of strategy, including vertically integrating product or platform offerings, but any changes will depend on the draft FOFA legislation, he said.

This is not the preferred option, but dealer groups have an imperative to stay in business for the benefit of clients, and providing advice to clients also needs to remain the number one priority for advice groups, he said.

PIS already has a number of in-house funds management and platform offerings, but Evans was careful to point out that each was run by a separate team to the planning business and neither feeds into the other.

"We like to do things we're best at and outsource things that are a non-core competency," he added.

DKN chief executive Phil Butterworth said there is a continuing land grab for distribution by institutions.

He said DKN had been growing well organically and was looking to participate in some acquisitions but will now be one of those land grab opportunities for IOOF.

This process will likely accelerate because there needs to be a drive towards scale and consolidation to ensure firms can drive efficiency through the advice program, he said.

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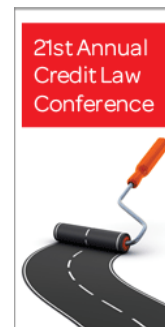
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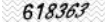
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