



ADMIN FEE NOT GONE

Financial planning has to be one of the few service industries in the world, if not the only one, in which clients are expected to foot their own bill for administration, and that's not about to change, Matthew Smith writes.

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LUIS ASCUI

It's unlikely that auto mechanics will ever charge an additional fee for administration. Car owners naturally expect tasks such as keeping the books, processing cheques, interacting with manufacturers and receiving orders for parts, to be part and parcel of the mechanic's overall service and therefore melded into their service fee. Certainly, the discovery of an additional "administration fee" at the bottom of an invoice for a routine car service would lead most people to balk at the charge and either refuse to pay or look for a better deal.

While a comparison between financial planners and mechanics is admittedly a crude one, the overall concept should not be lost on the financial planning industry.

David Bannister, founder and principal of Melbourne-based planners SIRA Group, says he finds himself sometimes having to

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justify the existence of the administration fee to his clients.

Having had the conversation countless times, Bannister says he explains the charge, first on the basis that it pays for a third party custodian that provides security for their investments, and second that it pays for tax reporting that would cost a lot more if it was left up to an accountant to do. "The words 'wrap' and 'platform' are industry words and I don't use them with clients," he says.

Bannister says around 50 to 60 basis points is a reasonable amount to pay for

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ROB HOMER

Thomas Bignill, Mason Stevens: Advisers are being put under pressure to drive the costs down and administration is the commodity in that process ... it will end up costing as little as 10 basis points.

administration for a client investing across a broad range of asset classes, such as currencies, cash, fixed income, domestic and international shares, and managed funds.

Bannister uses investment solutions provider Mason Stevens, which in turn uses IRESS Market Technology to provide its back-end solution and HSBC as custodians.

Bannister is acutely aware of how much it really costs to provide administration for people's portfolios because he previously worked for an advice firm that did the task in-house.

His previous advice firm couldn't provide clients' administration for less than 70 basis points, and because that cost was combined with the advice fee, he says clients were unfairly comparing the much higher cost of his service with other advisers' fees that did not include administration.

For Bannister – as is the case with the rest of the industry – there is no way around charging clients a separate fee for administration.

Administration is much more to the financial services industry than just a billing and collection service, says Michael Clancy, executive general manager for MLC Investment Platforms.

He says administration should be considered an important part of the planner's overall offering: "More akin to the work that's done in tuning the engine or even producing the car itself, if you want to continue the mechanic metaphor," he says. "We don't do ourselves a service by calling it 'administration' – that sounds like something that adds modest value. It's as important as provision of client management."

Improvement in technology and communication and the clear advantages of scale have continued to push down the cost of administration among the main providers.

BT Financial Group, MLC, Colonial First State, OnePath, Macquarie

and the combined AMP-AXA group make up the big seven platform providers and control 84 per cent of the market, according to June 2011 figures from financial services information group Rainmaker.

Most of the large providers now offer a low-cost wrap option through which advisers can access cash deposits and a narrow list of managed funds – generally index funds – for a combined admin and investment management fee in the realm of 80 basis points.

Kelly Power, BT's platforms national product manager, says the new BT Infinity Core offering charges 30 basis points for administration and 50 basis points for clients who invest in the balance option managed by BT subsidiary Advance.

Netwealth is the largest non-institutionally owned wrap provider, capturing around 4 per cent of the flows into platforms in the market, according to executive director Matt Heine.

In response to the competition for a low-cost investment and administration fee, netwealth launched its new Super Accelerator platform, providing advisers with access to eight investment index options, term deposits and cash, for an administration fee of 35 basis points, or around 75 to 80 basis

points all in, for investment and administration. Heine says this platform allows advisers to effectively compete with industry funds and recognises that not all clients need active management in this environment.

Despite the downward pressure on the cost of administration over the years, platform providers still take a significant margin. Steve Burgess, AMP head of platforms, says there are "a number of ways you can recoup the administration fee based on the complex arrangements within wrap accounts". He uses the example of money flowing into in-house investment options as an example of where the manager can afford to discount the administration fee.

While most agree downward pressure on the administration fee will continue, no one can predict how the industry can get around charging clients separately for administration. The movement away from managed funds towards direct investments could be a clue to where the industry is heading in terms of how it charges for administration, says Thomas Bignill, chief executive of Mason Stevens.

Bignill says Australia is headed in the same direction as the United States' brokerage model in which clients buy direct assets through a managed accounts structure. "What's happening now is the wraps and master trusts are scrambling to adapt because they have built a business around managed funds, but the game is changing," he says.

Implemented Portfolios can provide administration and investment management for an all-in cost of 80 basis points for advisers willing to build the individually managed accounts (IMA) structure directly into their business. "Advisers are being put under pressure to drive the costs down and administration is the commodity in that process ... administration will end up costing as little as 10 basis points - that's where it will end," he says.



Richard Murphy, ASX: As platforms compete more directly with listed fund structures such as ETFs and property trusts, it will add to the pricing pressure on administration providers.

TAMARA VONNISKI

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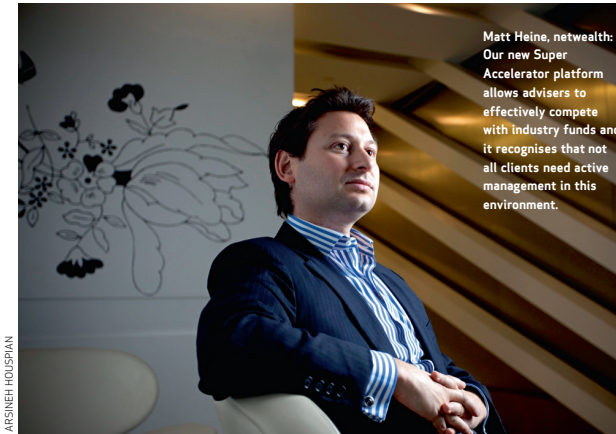
Steve Burgess, AMP

But the industry's movement towards investing directly will not see the end of administration fees, says Richard Murphy, Australian Securities Exchange capital markets general manager.

He says that, as platforms compete more directly with listed fund structures such as exchange-traded funds (ETFs) and property trusts, it will add to the pricing pressure on administration providers.

"A lot of financial planners and dealer groups advising end clients are doing the comparison with these [listed] and managed funds and that's one of the reasons costs have come down [in the platform space]," he says.

While Murphy recognises that services such as tax reporting will always have a place, he points out that a lot of the traditional administration services can be provided by



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discount brokerage houses. The ASX's new AQUA II framework - designed to allow the quotation of managed funds, ETFs, exchange-traded commodities and structured products on the exchange - is expected to make administration more efficient for the industry and could further help to bring costs down.

For now at least, planners seem happy to explain the existence of the administration to clients as a distinct service and therefore separate from their advice fee. In fact, it is this distinction that helps many advisers explain to clients where their service ends and another begins, says Ben Rickman, a senior planner at Wilson HTM.

"I tell my clients that's a service I outsource and it's handled externally so I can concentrate on providing financial advice," he says.

"It shouldn't be part of the advice fee because it's not a service I provide or that I am responsible for." ☒

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