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Financial advisers face an uncertain future

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About 4000 financial advisers, or close to one in four of the total, are threatened with being squeezed out of the industry by rising costs, improved technology for consumers and continued expansion by sector heavyweights, according to a panel of industry leaders.

Revenues, which are already being squeezed by volatile global markets and investor nervousness, are expected to be sliced by more than $1 billion, or around 20 basis points, over the coming 12 months as the industry attempts to reduce costs, the panel warned in a new report.

Sweeping reforms proposed by the federal government's future of financial advice (FOFA) rules eliminating product commissions, volume rebates and the introduction of low-cost superannuation products, are exacerbating the contraction.

Tony Fenning, head of Snowball, a listed independent financial advisory company, said: "The focus on advisers and not on the consumer in the way that dealer groups are constructed is deadly, and then you throw in dramatic regulatory change and tinkering with revenue streams without sufficient notice and you've got the formula for get-up, or get-out."

Mr Fenning's comments were made as the Financial Planning Association, which represents about 11,000 members, of which 8500 are practising financial planners, meets for its annual conference.

The Australian Competition and Consumer Commission is today expected to hand down its verdict on the proposed $373 million sale of Count Financial to the Commonwealth Bank of Australia.

The report, " *Beyond FOFA – five fault lines shaping the 'real' consequences of financial advice* ", was based on discussions with Mr Fenning, Mark Rantall, FPA chief executive, Hugh Humphrey, head of AMP-owned wealth management group Hillross, Mark Watmore, partner with financial services consultancy Tria Investment Partners and Jan Kolbusz, managing director of software systems provider Decimal.

It predicts the advisory industry will increasingly fragment into a "barbell-shape" with major institutions, typically networks owned by the big four banks and AMP dominating the mass market at one end, and specialist, fee-charging boutiques at the other. Pressure on the traditional stand-alone adviser will also be intensified by the development and increasing use by consumers of sophisticated technology.

"Prior to FOFA, even pre-global financial crisis, the wealth management value chain had already been showing signs of strain," the report concludes. "The entire wealth management chain looks likely to shed 20 basis points by 2012." This is about $1 billion, assuming funds under management are $600 billion.