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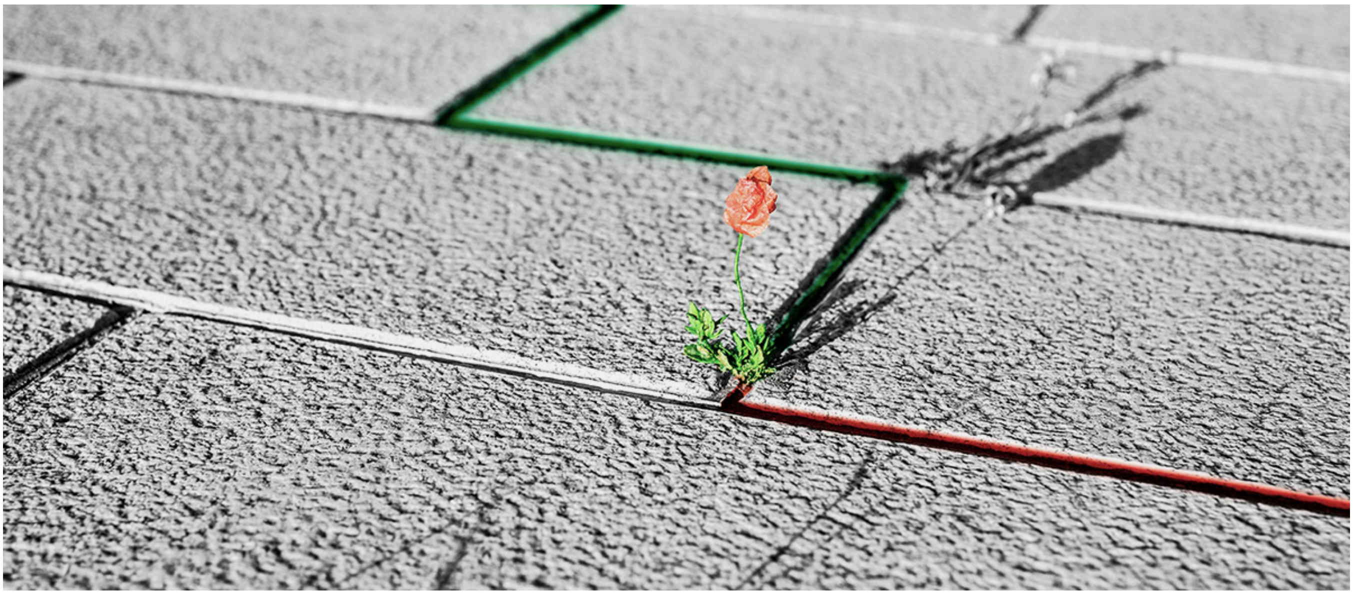
Smart practice



Tuesday 23 February 2016

Are we about to see accountancy firms madly acquiring financial planning businesses, or vice versa?

It's becoming common wisdom that a combination of regulatory change, technological innovation, increasing competition, margin pressure and consumer demand is driving a convergence of accountancy and financial advice.

It's certainly the case that, as of June 30 2016, accountants will face the same licensing requirements as financial advisers (if they want to provide financial advice to their clients, specifically SMSF advice).

As boundaries blur, accountants and financial planners are eyeing off each other's turf. Meanwhile, time-poor consumers are wondering why they can't have a one-stop financial advice shop. Yet while convergence makes plenty of sense on paper, the real-world practicalities are challenging.

Convergence theory and reality

"It's a perfect storm," says David Clatworthy, Accounting Segment Head at Macquarie Group. "Compliance work and other traditional revenue lines are drying up for accountants. Accountants are transitioning from a compliance based service model to more advisory in the hope they can maintain and increase fees. This transitioning will bring them closer to a financial advice model.

Organic growth for both accountancy and financial planning firms is slow so there's more interest in acquisitions. And both accountants and financial advisers believe there will be a larger and more diverse revenue base, and ultimately a higher sale price, if they have a broader offering."

Which isn't to say Clatworthy is necessarily pro convergence. "To do it right requires a significant change management program," he notes. "The likelihood of not doing it right is massive. You're dealing with different cultures and mindsets. Bringing an accountancy and financial advisory business together can result in years of problems. Those problems can result in the two parts of the business demerging and going back to specialising."

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Clatworthy's colleague Rob Hayward, Head of Client Solutions, Macquarie Virtual Adviser Network, also sees both a lot of excellent theoretical reasons for structural alignment and many thorny problems in bringing it about.

"Accountants typically invoice their clients while advisers charge a yearly fee, with the client making monthly payments. Accountants have a clear idea of the productivity of staff because they have them filling out timesheets with six-minute increments. Advisers may do some tracking but would be much less exact about staff productivity.

In terms of risk compliance, accountants have long enjoyed a system that was close to self-regulation. Going forward SMSF advice will be subject to a higher level of monitoring and regulation as the latest FOFA licensing reforms come into effect in the new financial year."

"Typically, accountants look backwards, with a compliance focus" adds Clatworthy. "If you look at a tax clients-based firm, what they do is reactive, it is about the previous financial year. An adviser, in contrast, is always looking to the future and trying to help their client achieve their financial goals."

"A financial planning firm might have a couple of systems, say, the Microsoft Office suite and XPLAN," says Hayward. "If they buy an accounting firm they've now also got, at a bare minimum, a core accounting system, a secondary accounting system, such as Xero, and a SMSF system. That might not seem like a big deal but the different approaches to technology and administration grow out of different cultures. One that is more transactional, and invoice and timesheet driven, and one that is set up to provide ongoing advice. Those promoting convergence often underestimate just how much time and effort are involved in integrating those two different cultures with differing technologies and administrative systems."

Who owns the client?

Given the choice, most consumers would no doubt prefer to have one trusted individual, or at least one trusted firm, handle their financial affairs.

Unfortunately, providing what the market is increasingly demanding is no simple matter. The ever-divisive issue of client ownership is perhaps the largest hurdle.

Accountants keen on convergence might want to consider that any future financial adviser colleagues are likely to argue they have far better honed, front-facing client engagement skills than an accountant who only sees most of his or her clients once a year. And that they should therefore be the key relationship manager.

So where to now?

So what happens when the unstoppable force of technological and regulatory change meets the seemingly irresolvable divergences in the way accountants and financial advisers operate?

Hayward and Clatworthy see two likely scenarios. Despite their time poverty, consumers may persist with engaging both an accountant and financial adviser, trading convenience for the peace of mind of knowing each is concentrating on what they are good at.

If convergence doesn't end up stalling at the start line, some sort of limited convergence could emerge, such as that facilitated by joint ventures. Although Clatworthy believes it's more likely to involve accountancy firms arranging to have a financial adviser, or an accountant licensed to provide financial advice, on staff.

"Where once they would have referred out clients needing financial advice I suspect sophisticated accounting groups will increasingly offer that service in house," he says.

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