

AFA today

an analysis of New Zealand's investment adviser market

by David Chaplin

Introduction

Before the sector became officially regulated in 2008 the size of New Zealand's financial advisory market was a mystery that no-one had been able to solve (and very few wanted to).

To demonstrate just how ill-defined the industry was, in the lead-up to the introduction of the Financial Advisers Act (FAA) in 2008 estimates of how many individuals would be caught under the law varied from 5,000 to as many as 20,000.

As the scope of the FAA narrowed, however, and the two-tiered, product-centric nature of the legislation emerged, it became clear that the final tally of fully-regulated financial advisers would fall below even the most conservative pre-law guesswork.

In particular, the creation of the Authorised Financial Adviser (AFA) label demarcated for the first time a core component of New Zealand's advisory industry.

According to the Financial Markets Authority (FMA) website, AFAs "are individual advisers who are permitted to provide personalised financial adviser services to retail clients, for category 1 [investments, including KiwiSaver] and category 2 [insurance, mortgages, bank deposits etc] products".

While the FMA claims the AFA designation targets "the nature of the service, rather than the product recommendations", the rules are unequivocally aimed at those who give advice on category 1 investment products, including KiwiSaver.

Advisers who deal only in category 2 products, including life insurance and mortgages, can choose to act as Registered Financial Advisers (RFAs) and face less onerous regulation than under the AFA regime.

Therefore, it's reasonable to expect that the list of AFAs provides a full picture of New Zealand's retail investment advice market – with, perhaps, one missing piece.

The FAA carve-out afforded to those who operate under the aegis of a Qualifying Financial Entity (QFE) and deal only in house products has potentially created a hidden sub-class of investment advisers.

In its 2013 'Statement of Intent', the FMA puts the QFE adviser figure at about 25,000, which is a broad church, however, covering big box retail employees who sell consumer credit to travel agents with a sideline in travel insurance and bank tellers authorised to market the house KiwiSaver brand.

Exactly how many of the 25,000 dabble in investment is moot but, given the limited palette of products at their disposal, QFE 'advisers' may more properly be classed as salespeople.

The AFA list then, defines the group of individuals who can provide financial advice to retail clients in New Zealand across a, possibly, broad range of investment products.

As well as the 25,000 QFE advisers, the FMA 2013 'Statement of Intent' identifies 5,864 RFAs. The same document reports only 1,944 AFAs as at March 31, 2013, down from the peak level of just under 2,000.

This paper analyses the state of the AFA market today across a number of parameters including ownership, group affiliation and area of specialisation.

Methodology

As at the date of publication, the FMA website lists 1,921 individuals on its list of AFAs while also providing details on their company names, Financial Services Provider (FSP) number and place of business.

This study is based on the AFA data published by the FMA plus further information available on the FSP register and, on occasion, additional details sourced from advisory firm websites.

While the official tally sits at 1,921, a couple of duplicate entries and a number of deregistrations uncovered during the data verification phase reduced the AFA-count down to 1,895 for this study.

Once the initial information was compiled, the AFAs were sorted according to employer and/or affiliated group. Where no clear group or corporate owner could be identified, the AFAs were classed as self-employed.

The AFAs were further classified according to the main sector their businesses operate in; primarily stockbroking, investment and insurance with a smaller group of AFAs lumped in as 'other' (although a breakdown by industry sectors will be provided).

AFA sector analysis

For the most part, assigning AFAs to industry sector was straightforward (for example, those employed by stockbroking firms) but some required more investigation and a degree of subjective judgment.

Undoubtedly, some AFAs provide multiple services; for example, insurance advisers who offer investment services (especially in KiwiSaver). However, the sector label relates to the *primary* focus of the AFA business in question.

AFAs by Sector		
Sector	No. of AFAs	% of Market
Investment	887	46.8
Insurance	510	26.9
Stockbroker	377	19.9
Other	121	6.4
Total	1895	100

As expected, investment-oriented advisers make up the largest component of the AFA market at just under 47 per cent.

Nonetheless, a surprisingly large proportion (26.9 per cent) of AFAs reside in insurance-based firms, probably reflecting the need to hold the status in order to deliver KiwiSaver advice - a natural add-on service for many insurance advisers who may previously have advised on retail superannuation products.

While technically investment advisers, as stockbrokers tend to favour direct investing, rather than managed funds and other pooled products, it's worthwhile considering them as separate from the 'financial planning' school of advice. Comprising almost 20 per cent of the AFA population, stockbrokers exert a

considerable influence on the investment decisions of New Zealanders.

Finally, the ‘other’ category covers a variety of occupations, not all of whom may be actually delivering investment advice to retail clients. In fact, funds management staff constitute the largest group of ‘others’, with 37 registered as AFAs (notably with 11 from New Zealand Funds Management alone).

Several life company staff also made the AFA list with Milton Jennings, head of Fidelity Life, notable among his CEO peers as the only one to achieve the designation.

The ‘other’ category is rounded out with: mortgage brokers (25); property investment specialists (16); UK pension transfer advisers (14); 10 non NZX-registered ‘brokers’, and; the remaining 10 AFA spots divided among researchers, back-office staff and FMA employees.

AFAs by Entity: AMP, brokers and banks dominate

Excluding those advisers who were categorised as ‘self-employed’, the study identified 130 entities associated with AFAs either as an employer, owner/part-owner, or via a branded group.

Of these, under 30 entities housed more than 10 AFAs with about 60 per cent of the remainder having only one or two AFAs to their name.

The large number of entities employing one or two AFAs covers a diverse range of businesses including accountancy firms, funds management groups, insurance/mortgage/forex brokers and travel firms.

In general, financial advisory firms with three or more AFAs were classed as groups. However, this is something of a grey area, as many of these smaller advisory groups probably operate as a collection of self-employed individuals rather than a full corporate being.

At the top end of the scale, the market is clearly dominated by AMP whose 214 AFAs (including the ‘sub-brands’ Spicers and AdviceFirst) represent 14.5 per cent of the total (excluding self-employed AFAs).

The rest of the top 10 list is rounded out by the four major banks, four broker firms and a trustee company.

Top 10 Entities by AFA		
Entity	No. of AFAs	% of AFA Market (ex self)
AMP	214	14.5
Craigs Investment Partners	121	8.2
ANZ	107	7.2
Westpac	102	6.9
Forsyth Barr	100	6.8
BNZ	70	4.7
Guardian Trust	60	4.0
First NZ Capital	54	3.7
ASB	52	3.5
Macquarie	45	3
Total	925	62.5

Stockbrokers

The stockbroking sector does not employ the largest proportion of AFAs as identified in this report, but it does represent, perhaps, the most distinct group of advisers.

Stockbrokers, as the word itself suggests, tend to deal in direct securities (shares and fixed income offerings) rather than pooled funds or insurance products.

AFA stockbrokers, of course, have to abide by the same ‘Professional Code of Conduct’ as the rest of the industry, compelling them to take into account their clients broad financial circumstances, risk tolerance etc when offering ‘personalised advice’.

Furthermore, some stockbroking firms may also offer advice beyond direct investments (for example, Craigs, Forsyth Barr and Macquarie also have in-house KiwiSaver schemes).

Despite this, stockbroking can still be best described as the most influential sector for the distribution of direct investment securities to retail clients in NZ.

AFA's by Stockbroker		
Broker	No. of AFA's	% of Broking Market
Craigs Investment Partners	121	32.1
Forsyth Barr	100	26.5
First NZ Capital	54	14.3
Macquarie	45	11.9
JB Were	30	8.0
Direct Broking/ANZ Securities	6	1.6
Somerset Smith	6	1.6
Others	15	4.0
Total	377	100

The stockbroking industry is clearly very concentrated with the top two firms, Craigs and Forsyth Barr, employing almost 60 per cent of all AFA's in the sector.

In the ‘others’ category, two companies - Hamilton Hindin Greene and OM Financial – employed five AFA's apiece, with the rest scattered amongst other boutique firms or self-employed.

Banks

Banks collectively accounted for just under 20 per cent of all AFAs, and a tad over 41 per cent of those categorised as investment advisers (in this study all bank-based AFAs have been classed as investment specialists).

Given that big banks are also the most likely employers of QFE advisers capable of selling in-house ‘Category 1’ products, the AFA statistics probably understate their true investment distribution capability.

Bank-based AFAs		
Bank	No. of AFAs	% of Bank AFA Market
ANZ	107	29.1
Westpac	102	27.8
BNZ	70	19.1
ASB	52	14.2
KiwiBank	26	7.1
SBS (FANZ)	8	2.2
HSBC	2	0.5
Total	367	100

As with the stockbroking sector, the top two contenders, ANZ and Westpac, together make up about 60 per cent of the bank-based AFA market.

Meanwhile, BNZ and ASB sit comfortably mid-field while KiwiBank (which includes the nine AFAs operating under the Gareth Morgan brand) assumes its usual position outside the ‘big four’.

AFA Groups – Insurance

Excluding insurance-focused AFAs who were classified as self-employed, just on 32 ‘groups’ have been identified in this sector.

However, with only seven of these ‘groups’ representing five or more AFAs, the label needs to be read with care. The majority of ‘groups’ include a miscellaneous bunch of small brokerages, several insurance company staff, travel agents (2) and one insurance specialist employed in an accounting firm.

Unsurprisingly, the insurance AFA world is dominated by AMP, which has an employed network as well as exclusive distribution arrangements with many other firms (whose principals may own the business but, given the AMP relationship, were not classified as ‘self employed’).

AMP sub-brand, AdviceFirst, was also included under the insurance sector, although the group does provide investment services. Together the two AMP groups account for almost 56 per cent of the total insurance AFAs (ex self-employed).

AFAs by Insurance Group		
Group	No. of AFAs	% of Ins AFA Market (ex self-employed)
AMP	156	49.8
Share	34	10.9
Tower (Fidelity)	32	10.2
AdviceFirst (AMP)	19	6.1
Lifetime Group	13	4.2
Apex Advice Group	6	1.9
Quantum Broker Group	5	1.6
Others	48	15.3
Total	313	100

AFA Groups – Investments

The investment AFA group category, which excludes banks and self-employed advisers, covers 57 entities. As with the insurance sector, most of the investment ‘groups’ are small operations with 31 having just one or two AFAs on their books.

Only 18 investment groups were found to have five or more AFAs with the largest, Guardian Trust, employing 60. (The three trustee companies included in this sector accounted for 83 AFAs or 23.5 per cent of the category.)

AFA Group	No. of AFAs	% of Invt AFA Market
Guardian Trust	60	17.0
Camelot (Grosvenor)	38	10.7
Spicers (AMP)	38	10.7
NZ Financial Planning	21	5.9
Goldridge	14	4.0
Milestone	12	3.4
Public Trust	12	3.4
Trustees Executors	11	3.1
Bradley Nuttall	10	2.8
NZ Funds Private Wealth	10	2.8
Perpetual	10	2.8
Kepler Group	8	2.3
Medical Assurance	8	2.3
Decisionmakers	7	2.0
Somerset Smith	6	1.7
Accordia	5	1.4
FSB4	5	1.4
Plan B (IOOF)	5	1.4
Others	74	20.9
Total	354	100

As described above, the ‘others’ category includes a broad range of businesses, however, the study did identify 14 ‘investment’ AFAs employed within accountancy firms (as well as a further 12 ‘self-employed’ accountancy based AFAs).

Non-aligned Groups

Out of the previous two categories, it’s also possible to construct a table of ‘non-aligned’ financial advisory groups – ie those without any obvious institutional control.

As the ‘group’ concept disintegrates somewhat below five AFAs, this, slightly arbitrary, parameter, limits the number of non-aligned advisory firms to 10.

‘Non-aligned’ Groups		
Group	No. of AFAs	% of Total AFAs
Share	34	
NZ Financial Planning	21	
Goldridge	14	
Lifetime Group	13	
Milestone	12	
Bradley Nuttall	10	
Kepler Group	8	
Decisionmakers	7	
Accordia	5	
FSB4	5	
Total	129	6.8

Retail clients looking for ‘non-aligned’ advisory groups, then, have a limited opportunity set. Of course, there are dozens of other ‘non-aligned’ advisory businesses that fall outside the five-AFA threshold used above, as well as hundreds more ‘self-employed’ advisers who might fit the description.

Self-employed AFAs

Discounting the 47 miscellaneous ‘self-employed’ AFAs, as defined earlier, the study identified 369 in this category.

There was almost an even split between insurance- and investment-based ‘self-employed’ AFAs, which recorded figures of 197 and 172 respectively.

As explained previously, there could be a grey area between some of the advisory ‘groups’ with four or less AFAs and the ‘self-employed’ category. However, the vast majority in the ‘self-employed’ were clearly one-man operations.

Self-employed AFAs		
Sector	No. of AFAs	% of Total AFAs
Insurance	197	10.4
Investment	172	9
Others	47	2.5
Total	416	21.9

Adviser by Gender

Finally, the market was segregated by sex. The findings vindicate the consensus view that financial advice is a male-dominated field, with females making up just under 23 per cent of AFAs.

AFAs by Sex		
Gender	No. of AFAs	% of Total AFAs
Male	1,462	77.2
Female	433	22.8
Total	1,895	100

Conclusion

This study has shown that New Zealand's investment advice industry is a small, and possibly declining, sector.

As at the August 2013 the list of AFAs identified by this research numbered 1,895 – compared to a figure of just under 2,000 a year or so earlier.

Of those 1,895 AFAs, about half are accounted for by NZX-registered stockbroking firms (19.9 per cent), banks (19.4 per cent) and a single financial institution, AMP (11.3 per cent).

Excluding those AFAs identified as insurance-based (some of who may offer limited investment services) and other specialist or non-advising AFAs, the study found only 1,264 investment-focused financial advisers (including stockbrokers).

Outside of the banks and brokers, there were 520 investment-oriented AFAs, as defined in this report. Of those 520 AFAs, 195 were owned or affiliated with financial institutions, leaving a subset of 325 possibly 'non-aligned' investment advisers. 'Independent financial advice', which investors are often encouraged to seek, is clearly a rare commodity.

Investment advice in general, however, is probably in short supply, even if the potential market for is limited to higher income New Zealanders

According to the June 2012 NZ Statistics Income Survey, there were 689,100 individuals in the top income 'quintile', earning \$1,120 plus each week, of which an average \$345.60 came via investments

Assuming all of the top-earning quintile sought advice that would equate to about 545 clients for each of the 1,264 'investment' AFAs in New Zealand today.

This report, or the data included, is not to be republished in whole, or part, without the express permission of the author.

© David Chaplin 2013.