

Last of the AFAs

an analysis of New Zealand's investment adviser market

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Introduction

Just eight years since its genesis in the legislative laboratories of the-then Labour-led government, the creature known as the Authorised Financial Adviser (AFA) is headed for extinction.

Officially condemned in the just-released Ministry of Business, Innovation and Employment (MOBIE) review of the Financial Advisers Act (FAA), the AFA designation should be erased from the statute books in 2017.

The move could be seen as a mercy killing. In truth, the AFA genus never evolved as expected: the population peaked at just under 2,000 in the first round of licensing (completed a couple of years after 2008 FAA was enacted) and has gone backwards ever since.

Somewhat generously, in the FAA review paper MOBIE says AFA numbers have “remained stable” over 2014 to 2016, with reported populations of 1,845 and 1,863 respectively.

The apparent stability (or slight increase in AFA numbers) hides the inconvenient fact that at least 200 of the so-called advisers, according to MOBIE, “did not provide financial adviser services to clients”.

Practising AFAs, then, probably numbered in the low 1,600s as at February 2016.

“Reasons for this were varied, and included those taking leave from the industry, and those who had moved into compliance roles,” the FAA review paper says.

As this report shows, over the longer period from March 2013 to February 2016, the topline AFA population statistic dropped from 1,944 to 1,861. The latter figure was gleaned by Investment News NZ (IN NZ) after an exhaustive analysis of the

February 2016 AFA list, stripping out duplications and late cancellations (under the same process, the 2013 figure drops to 1,895).

This study, which follows on from the influential [AFA Today](#) 2013 report, also found that while AFA numbers may have remained – more or less – static, there has been a frenzy of subterranean activity.

According to the IN NZ research, 311 AFAs (or just over 16 per cent of the total) handed in their badges since 2013 as 277 new advisers gained the formal classification. Over the same period, almost 280 AFAs changed employer – either shifting between entities or launching into self-employment.

As well as detailing the nature of this AFA churn, this report revisits and updates industry metrics covered in 2013's 'AFA Today' including ownership, group affiliation and area of specialisation.

In spite of the changes over the previous three years, the rationale for studying the AFA list remains the same now as in 2013.

To quote the earlier report: “The AFA list... defines the group of individuals who can provide financial advice to retail clients in New Zealand across a, possibly, broad range of investment products.”

Under the new FAA proposals, this select – or self-selected – group of advisers will most likely not be as distinct from the broader population. AFAs will be dispersed among the broader industry, now poised to divide along the proposed lines of ‘financial adviser’ or ‘agent’.

The July 2016 MOBIE FAA review estimates qualifying financial entity (QFE) adviser numbers of about 23,000 while

the second-tier registered financial adviser (RFA) population sat at 6,420.

By MOBIE forecasts, the industry could bifurcate into between 3,000-5,000 ‘financial advisers’ and 20,000-25,000 ‘agents’ under the new FAA recommendations.

The wide margin in the MOBIE estimates shows – as ever – the difficulty of second-guessing how individual advisers and business will react to new regulatory pressures.

But, without a doubt, newer evolutionary forces will soon be in play.

Methodology

As at February 2016, the FMA website listed 1,863 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 1,863, a couple of deregistrations uncovered during the data verification phase reduced the AFA-count down to 1,861 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	
	2013	2016	2013	2016
Investment	887	849	46.8	45.6
Insurance	510	477	26.9	25.6
Stockbroker	377	405	19.9	21.8
Other	121	130	6.4	7
Total	1895	1861	100	100

As the above table shows, stockbroking was the only main sector to see AFA numbers increase over 2013-16, rising by almost 30, representing close to 22 per cent of the total market (up about 2 per cent)

Both the investment and insurance AFA categories declined by about 4.3 per cent and 6.5 per cent respectively over the study period.

The growth of stockbroker-housed AFAs can probably be explained by some fairly aggressive recruiting campaigns combined with natural growth in the sector.

Stockbroking firms retain an oversized influence in the NZ retail investment market by dint of their traditional share-trading services as well as expansion into the broader 'wealth management' arena.

The AFA regulations – which demand uniform disclosure across all industry sectors – may even have spurred the evolution of stockbrokers into more well-rounded 'financial planners'.

Despite the inevitable blurring of lines between stockbrokers and the wider advisory industry, the sector remains distinct in both a branding and operational sense.

Clearly, the AFA status has lost some cachet in the two main other industry groups as categorised by this study: with a broadly-similar decline in the designation across both investment- and insurance-oriented advisers.

Quite likely, this decline is due to some AFAs making a business choice to opt for the relatively regulation-lite RFA status. At the same time, fresh AFA blood has not replenished natural industry attrition with the 277 new AFAs registered over the period failing to match the 311 exits.

As in the 2013 study, the 'other' category covers a variety of occupations, not all of whom may be actually delivering investment advice to retail clients. Together, property and mortgage specialists make up 40 per cent of the 'others' with the 50 AFAs in this group split almost evenly between the two sub-categories.

The ‘other’ AFA category also includes funds management staff (39), UK pension transfer advisers (13), mysterious ‘wholesale’ advisers (12) and regulators (6).

While classified for the purposes of this study as investment-style advisers, the February AFA list also includes 14 ‘licensed independent trustees’ and dozens of other ‘wholesale’ advisers who – on a different day – might have been lumped with the ‘others’.

AFA by Entity

Excluding those advisers who were categorised as ‘self-employed’, the study identified about 120 entities associated with AFAs either as an employer, owner/part-owner, or via a branded group – a slight decline on the 2013 report.

Likewise, the number of entities boasting 10 or more AFAs dropped over the three-year period from almost 30 to just 21. Roughly 60 per cent of the remaining entities housed just one or two AFAs.

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.

Top distribution dog in 2013, AMP retains its position at the head of the AFA pack in the latest figures – albeit with slightly less bite. The Australian-headquartered financial services conglomerate saw nominal AFA numbers – which includes sub-

brands Spicers and AdviceFirst as well as a vast insurance network – fall by 13 to close out the period at 201.

While AMP's overall share of the shrinking AFA market remained steady at just over 14 per cent, second-placed Craigs Investment Partners gained some ground on the big box financial brand. Interestingly, the drop in AMP's nominal AFA numbers came despite the firm's purchase – and consequent merger with AdviceFirst – of previously independent advisory group, the 14 AFA-strong Goldridge.

Elsewhere in the top 10 table below, the biggest change compared to 2013 was the exit of Guardian Trust, which slashed AFA numbers by 45 during the study period.

Meanwhile, the uplift in BNZ AFA statistics was due to the inclusion in the 2016 report of now wholly-owned broking group, JB Were. Ex JB Were, BNZ saw adviser numbers hold steady while fellow banks ASB, and more significantly, Westpac, shed AFAs.

Macquarie was also the only broker firm in the top 10 to lose AFAs during the three-year period. With the exit of Guardian, insurance network, Share, filled its spot in the AFA top 10, which had a lower threshold for entry this time around.

Based on the IN NZ bespoke categorisation process, about 65 per cent of AFAs were classed as belonging to an entity of some kind, with about 25 per cent deemed self-employed.

The IN NZ figures broadly agree with the official government AFA statistics reported by MOBIE in its FAA review as:

- 27 per cent were employees of a QFE
- 23 per cent were employed by a firm that is not a QFE
- 22 per cent were a shareholder/director of an advisory firm (with more than one employee)
- 15 per cent were a sole adviser practice.

Top 10 Entities by AFA					
Entity	No. of AFAs		% of AFA Market (ex self)		
	2013	2016	2013	2016	Change
AMP	214	201	14.5	14.3	-0.2
Craigs Investment Partners	123	136	8.2	9.7	+1.5
ANZ	107	118	7.2	8.4	+1.2
Forsyth Barr	100	112	6.8	8	+1.2
BNZ/JB Were	70	102	4.7	7.3	+2.6
Westpac	102	73	6.9	5.2	-1.7
First NZ Capital	53	56	3.7	4	+0.3
ASB	52	46	3.5	3.3	-0.2
Macquarie	45	32	3	2.3	-0.7
Share*	(34)	32		2.3	
Guardian Trust*	60	(15)	4.0	(1.1)	-2.9
Total	926	908	62.5	64.8	

*Share not included in 2013 top 10, Guardian not in 2016, bracketed figures not used in calculation of totals

Stockbrokers

As noted above, the stockbroking sector was the only one to emerge over the period covered by this study with a net gain in AFAs.

The two largest stockbroker firms, Craigs and Forsyth Barr, both added about a dozen AFAs apiece during the three-year stretch, while also increasing their respective market shares by close to 1.5 per cent.

First NZ Capital and JB Were (now a full subsidiary of BNZ parent, the National Australia Bank) both held steady as Macquarie saw a net 13 AFAs disappear from its ranks. As this report goes to press, Macquarie NZ was in the process of completing a management buyout engineered by former Fisher Funds co-chief, Warren Couillault.

At the smaller end of the market, both OM Financial and Hamilton Hindin Greene also managed to crank up their respective AFA numbers.

AFAs by Stockbroker					
Broker	No. of AFAs		% of Broking Market		
	2013	2016	2013	2016	% Change
Craigs Investment Partners	123	136	32.3	33.6	+1.3
Forsyth Barr	100	112	26.3	27.7	+1.4
First NZ Capital	53	56	13.9	13.8	-0.1
Macquarie	45	32	11.8	7.9	-3.9
JB Were	32	32	8.4	7.9	-0.5
Direct Broking/ANZ Securities	6	5	1.6	1.2	-0.4
Somerset Smith	6	6	1.6	1.5	-0.1
Others	6	6	1.6	1.5	-0.1
OM Financial	6	13	1.6	3.2	+1.6
Hamilton Hindin Greene	4	7	1.0	1.7	+0.7
Total	381	405	100	100	

Banks

This study shows collective bank AFA numbers grew by just six over the three-year period under review, representing a slight increase in market share to just above 20 per cent

However, excluding the 32 JB Were AFAs, labelled as a separate entity in the earlier report but classified as part of BNZ in the 2016 study, bank AFA numbers would have actually declined since 2013 to just 341, or 18 per cent of the total population.

Again excluding the JB Were AFAs (classified as brokers), bank AFAs account for about 40 per cent of all investment-style advisers as categorised in the study.

With the exception of ANZ, which saw a slight uptick, all bank AFA numbers held close to par or, in the cases of ASB and Westpac, fell away.

Most likely banks have seen much more efficient product distribution via their armies of QFE advisers rather than via the more problematic AFA-designates. How banks adapt to the ‘financial adviser’/’agent’ relabeling process proposed under the FAA review will be one of the trends to watch in 2017.

Bank-based AFAs					
Bank	No. of AFAs		% of Bank AFA Market		
	2013	2016	2013	2016	% Change
ANZ	107	118	29.1	31.6	+2.5
BNZ	70	102	19.1	27.4	+8.3
Westpac	102	73	27.8	19.6	-8.2
ASB	52	46	14.2	12.3	-1.9
KiwiBank	26	24	7.1	6.4	-0.7
SBS (FANZ)	8	10	2.2	2.7	+0.5
HSBC	2	0	0.5	0	-0.5
Total	367	373	100	100	

AFA Groups – Insurance

Excluding the self-employed, the research found insurance-focused AFAs spread across about 27 groups – down from 32 in 2013.

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

In spite of bleeding almost 40 advisers – losing close to 9 per cent market share in the process – AMP is still, far and away,

the largest single source of insurance-centric AFAs. By comparison, second-placed Share could only muster 32 AFAs.

The AMP stranglehold on the insurance AFA world is further strengthened by the inclusion of its subsidiary AdviceFirst brand in this category. Although AdviceFirst does provide investment services, even more-so now with the inclusion of the former Goldridge advisers, the group stays classified as insurance-focused for the purposes of this report.

Together the two AMP groups account for just over 54 per cent of the total insurance AFAs (ex self-employed), declining about 1 per cent compared to 2013.

The table below also includes new entrant DNA Advice in the insurance group category. While more of a loose collective of self-employed advisers rather than a true ‘group’, DNA Advice, nonetheless is worth including in the category. As the almost identical AFA numbers suggest, DNA Advice effectively serves as the refugee camp for AFAs previously lumped under the, now-defunct, Tower Life umbrella.

AFAs by Insurance Group					
Group	No. of AFAs		% of Ins AFA Market (ex self-employed)		
	2013	2016	2013	2016	% Change
AMP	156	118	49.8	41	-8.8
Share	34	32	10.9	11.1	+0.2
Tower (Fidelity)	32		10.2	0	-10.2
DNA Advice		31		10.8	
AdviceFirst (AMP)	19	39	6.1	13.5	+7.4
Lifetime Group	9	7	2.9	2.4	-0.5
Apex Advice Group	6	9	1.9	3.1	+1.2
Quantum Broker Group	5	4	1.6	1.4	-0.2
Others	52	48	16.6	16.7	+0.1
Total	313	288	100	100	

AFA Groups – Investments

In 2016 this study found 60 investment entities in the AFA group category, which excludes banks and self-employed advisers.

While the entity count was up marginally on the 57 reported in 2013, the number of individual AFAs included in the category fell dramatically from 354 to 299 in the 2016 study. The drop was due almost entirely to the exit of 45 Guardian Trust AFAs from the market.

Guardian Trust, the largest entity in this group in 2013, had just 15 AFAs on its books in 2016 – still enough to make it fourth-biggest in the category. Fellow trustee firm, Public Trust, also scaled back its AFA force from 12 in 2013 to two as at February 2016. Together with Trustees Executors (which maintained its 10 AFAs in both studies), the three trustee firms represented about 9 per cent of this category, compared to 23.5 per cent in 2013.

As with the insurance sector, most of the investment ‘groups’ are small operations with about 25 having just one or two AFAs on their books.

Only 17 entities (18 in 2013) met the threshold of five AFAs set for inclusion in the table below. While the headline numbers suggest little change, four advisory firms – Newton Ross, Rutherford Rede, Saturn Portfolio and Stewart Financial – grew AFA numbers to or above the minimum five over the last three years. Milford Asset Management also rocketed its in-house AFA advisory force to 11 during the period. (Both Milford and NZ Funds Management also had further non-adviser AFAs not included here.)

While not included in the table below, a couple of quasi-AFA investment groups have also sprung up since the 2013 study. For

example, the Professional Investment Associates (PIA) network launched by the Auckland-based AFA Simon Hassan now claims about 19 fellow advisory firms as members. Similarly, investment advisory support business, Consilium, provides services to about 50 financial advisers.

AFAs by Investment Group					
Group	No. of AFAs		% of Invt AFA Market		
	2013	2016	2013	2016	%Change
Spicers (AMP)	38	43	10.7	14.4	+3.7
Camelot (Grosvenor)	38	26	10.7	8.7	-2
NZ Financial Planning	21	19	5.9	6.3	+0.4
Guardian Trust	60	15	17.0	5	-12
Milestone	12	15	3.4	5	+1.6
Medical Assurance	8	14	2.3	4.7	+2.4
NZ Funds Private Wealth	10	13	2.8	4.4	+1.6
Milford		11		3.7	
Trustees Executors	11	10	3.1	3.3	+0.2
Saturn Portfolio		9		3	
Bradley Nuttall	10	8	2.8	2.7	-0.1
Kepler Group	8	7	2.3	2.3	0
FSB4 (Foxplan)	5	6	1.4	2	+0.6
Decisionmakers	7	5	2.0	1.7	-0.3
Newton Ross		5		1.7	
Rutherford Rede		5		1.7	
Stewart Financial		5		1.7	
Others	74	83	20.9	27.7	+6.8
(Groups in 2013 table, not included in 2016 due to closure or below 5-AFA threshold)					
Accordia	5		1.4		
Plan B (IOOF)	5		1.4		
Goldridge	14		4.0		
Perpetual	10		2.8		
Public Trust	12		3.4		
Total	354	299	100	100	

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 11 – an increase of one compared to 2013.

Despite the inclusion of three new groups, which hit the magic five AFA figure since 2013, in this category, the number of individual advisers fell from 129 to 114 over the three-year period. The exit of Goldridge (sold to AMP) and Accordia, which saw AFA numbers drop to three from five in 2013, and slight falls in some other groups explains the overall decline.

'Non-aligned' Groups				
Group	No. of AFAs		% of Total AFAs	
	2013	2016	2013	2016
Share	34	32		
NZ Financial Planning	21	19		
Milestone	12	15		
Bradley Nuttall	10	8		
Lifetime Group	9	7		
Kepler Group	8	7		
FSB4 (Foxplan)	5	6		
Decisionmakers	7	5		
Newton Ross		5		
Rutherford Rede		5		
Stewart Financial		5		
Goldridge	14			
Accordia	5			
Total	129	114	6.8	6.4

Self-employed AFAs

Somewhat surprisingly, the number of self-employed AFAs spiked up from 416 in the previous study to 460 in 2016, with almost all of the growth coming in the investment sector.

As the table below shows, the number of investment-oriented self-employed AFAs jumped from 172 in 2013 to 218 at the latest count. Over the same period, insurance-based self-employed AFA figures fell by eight to hit 189 as at February 2016.

The increase in self-employed investment AFAs is partially explained by the anomalous inclusion this year of 14 licensed independent trustees (LIT) in the FMA list. But even after stripping out the LIT figures, there was still a surge in self-employed investment AFAs during the three years between studies.

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	
	2013	2016	2013	2016
Ins	197	189	10.4	10.2
Inv	172	218	9	11.7
Others	47	53	2.5	2.8
Total	416	460	21.9	24.7

Adviser by Gender

As per the 2013 study, AFA remains a male-dominated sphere with men representing almost 80 per cent of the industry. Nonetheless, the 2016 result shows a tiny blip upwards in femaleness in the AFA universe from just under 23 per cent to a notch above 23 per cent.

While both sexes saw a nominal decline, a net three female AFAs left the industry since 2013 compared a net loss of about 30 men.

AFAs by Sex				
Gender	No. of AFAs		% of Total AFAs	
	2013	2016	2013	2016
Male	1,462	1431	77.2	76.9
Female	433	430	22.8	23.1
Total	1,895	1,861	100	100

The churn report

As mentioned previously, the allegedly stable AFA numbers over the last few years has masked a significant level of movement below the surface.

To reiterate the figures unearthed in this study: 311 AFAs have exited since 2013 as 277 new advisers gained the formal designation. Over the same period, almost 280 AFAs have either changed entities or launched into self-employment.

Some groups, of course, have benefited more than others from the swirl of AFA exits, defections and recruits.

In spite of the overall decline in AMP-affiliated AFA numbers the Australasian financial services stalwart attracted the most adviser defections with about 40 joining its ranks from competitors over the three-year period. The AMP figure was helped by its purchase of the previously-independent Goldridge

adviser group during the study period, which added about 15 to the AFA headcount. There was also some reshuffling between AMP entities, which pushed the change-counter up for the broader group.

Outside of AMP, the two largest broking houses, Craigs Investment Partners and Forsyth Barr, inspired the highest number of AFA career changes, with 12 and 16 advisers respectively swapping employers to join their ranks. Forsyth Barr had particular success poaching from the AMP-owned Spicers group while about a third of Craig's competitor hires came from ANZ. Craigs and Forsyth Barr enjoyed the best net gains in the AFA-go-round, losing just five and two advisers respectively to competitors over the period.

BNZ and ANZ also managed to pick off more than 10 AFAs apiece from competitors over the three years. However, all the banks experienced net loss in the poaching wars with the exception of Kiwibank, which lost two AFAs while gaining three from rival firms.

Of AFAs newly-registered since 2013, ANZ signed on the highest number (31) with AMP, BNZ, ASB and Craigs also making a decent fist of hiring fresh recruits during the period.

Most of the above groups also featured in the career-ending statistics with about 40 previous AMP-affiliated advisers no longer registered as AFAs in 2016. Westpac also lost about 30 AFAs off its books since 2013, almost three-times the amount of each of the bank's three Australian-owned rivals.

But the biggest exodus occurred in trustee firm Guardian Trust (bought by Perpetual Trust during the inter-study period) which shed about 45 AFAs since 2013 to register just 15 in the latest list.

Over the same period, 65 self-employed AFAs also decided enough was enough.

Conclusion

The AFA designation is not well.

As this report illustrates, ever since its troubled birth in 2008 the supposedly quality mark for financial advice in New Zealand has suffered from poor health, resulting in low, and falling, AFA numbers along with industry and consumer apathy.

While headline figures have stayed in the mid-late 1,800s since the 2013 'AFA Today' report, the number of practising AFAs is more likely to be closer to 1,600.

Over the same period, however, the number of lower-tier RFAs has rocketed from 5,864 in 2013 to 6,470 in July 2015, according to the MOBIE FAA review published a year later.

“There are a number of reasons why many RFAs do not seek AFA status,” the MOBIE report says. “The most common reasons cited by respondents to MBIE’s survey of financial advisers were that authorisation is not required to offer advice on the products that they deal with and a view that the qualifications required are not relevant to their current role. In addition, some noted their clients do not see sufficient value in AFA status.”

Under the government’s FAA proposals, the establishment of two basic designations of ‘financial adviser’ (FA) or ‘agent’ will force the issue. While both groups will have to conform with consumer-first principles, all ‘financial advisers’ will be required to meet higher educational and professional standards with ‘agents’ delegated to the responsibility of corporate parents.

How the industry aligns along the financial adviser/agent poles is difficult to forecast. MOBIE estimates a ‘financial adviser’

population of between 3,000-5,000 could emerge in the new regime with about 20,000-25,000 agents.

However, it's also possible the 10 largest entities, which this report shows control about 65 per cent of all AFAs, may opt to agentise their adviser workforce. In particular, banks, which manage about 20 per cent of the AFA market, have shown only half-hearted (and declining) interest in the model.

The proposed rules, which will see financial adviser entities licensed rather than individuals, could also spark the development of non-institutional advisory business similar to the 'dealer group' system in Australia. Such 'non-aligned' groups could choose to have an agent-force rather than full-fledged 'financial advisers' – or both – depending on the corporate appetite for risk.

Either way, the AFA regime is being prepared for an assisted death next year; bring on the FA.

For now, the current system limps on. In a postscript, the FMA updated the AFA list this July showing headline numbers had dropped again to 1,846 (from 1,863 five months earlier) - the last of the AFAs.