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[Sizing the growing Financial Advice Gap](#)

October 7, 2020



Doom and gloom predictions about the future of the financial advice industry are widespread, and while there's no doubt that significant change is occurring, we see a rapid lift in advice quality that presents somewhat of a 'coming of age' for advice.

The 'advice gap' is regularly cited as an implication of all the change. With the propensity for advice firms to be cross-subsidised by product revenues decreasing, and the cost of providing financial advice rising, those who can get advice are likely to be wealthier households who can afford to pay for the pleasure...creating a growing number of unadvised people who could really do with some advice.

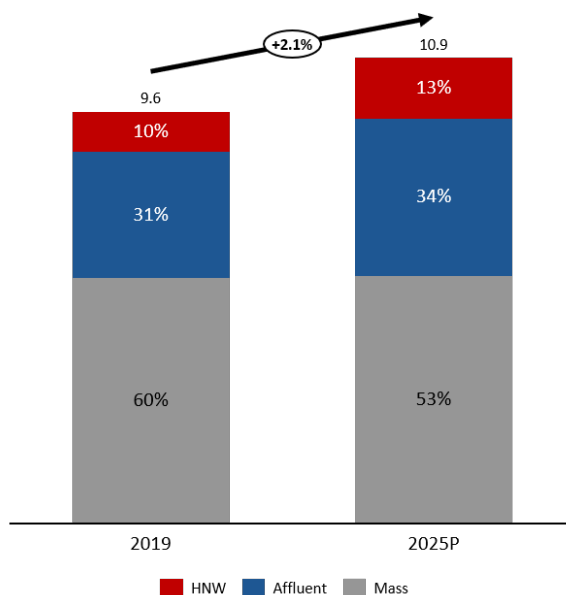
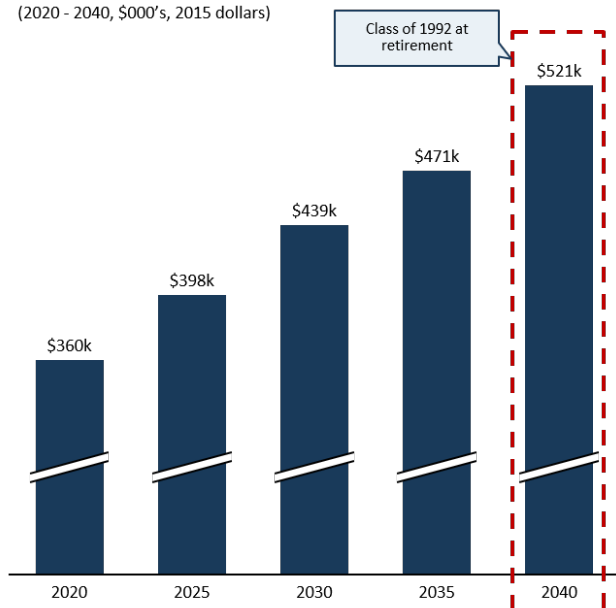
How big is the advice gap, though? To answer that, let's look at some of the outputs of the NMG Australian Advice Model which considers the demand and supply of financial advice.

Demand

At a high level, demand for financial advice is relatively straight forward – a growing population and rising wealth (largely due to higher super balances) with more complex financial needs sees the future demand for advice continue to rise.

Chart 1: Demand for advice

Average super balance at retirement
(2020 - 2040, \$000's, 2015 dollars)



Of course, in addition to shifts in the demand for financial advice, the type of advice being demanded is also changing. While ongoing, annual advice remains important to many households, there is a growing demand for a more transactional, once-off advice that to date has been largely unsatisfied (outside of intrafund advice) and may be better suited to alternative models of delivering advice in the future.

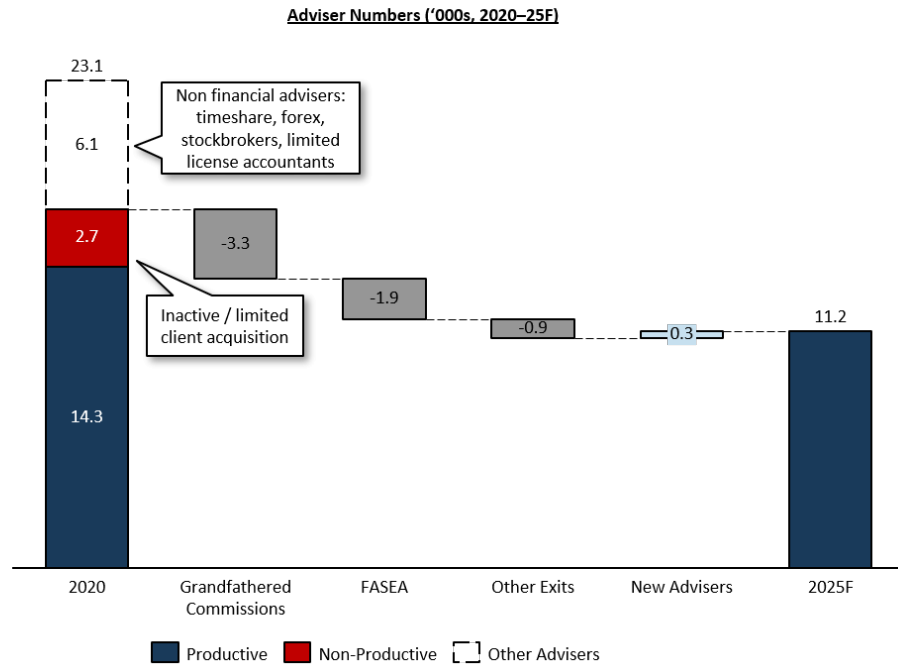
Supply

The number of financial advisers will dramatically decline over the near term, but that fall is not as significant as the numbers would imply, for four reasons.

1. Our model indicates that of the 23,000 individuals on ASIC's financial adviser register, approximately six thousand not currently practising as traditional financial advisers (they are generally timeshare salespeople, forex traders, etc). As these people leave the industry, there is almost no impact on the supply of traditional advice.
2. We estimate there are almost three thousand 'non-productive' advisers in the industry, who focus on servicing the relatively old grandfathered books and often with grandfathered revenue streams. Many of these started in the industry as tied agents, have relied heavily on commissions, and are not willing to change their business model to meet the future requirements. Their clients have typically already received most of the value they were going to get from advice unless and until they have a significant change in their financial situation. As a result, they are realistically already unadvised, and do not contribute to an advice gap.
3. Many financial advisers have been forced to leave their prior licensees and have not (yet?) found a new licensee in which to house their business. This causes a mostly temporary gap that is more disruptive than truly problematic.
4. There is the direct impact of FASEA – both the more immediate impact of needing to pass the exam by the end of 2021, and the upcoming qualification requirements by the end of 2025. Our interviews with productive advisers indicate 5-10% are expected to exit due to FASEA by 2025, but for many that is simply setting their retirement date a few years earlier than it otherwise would have been

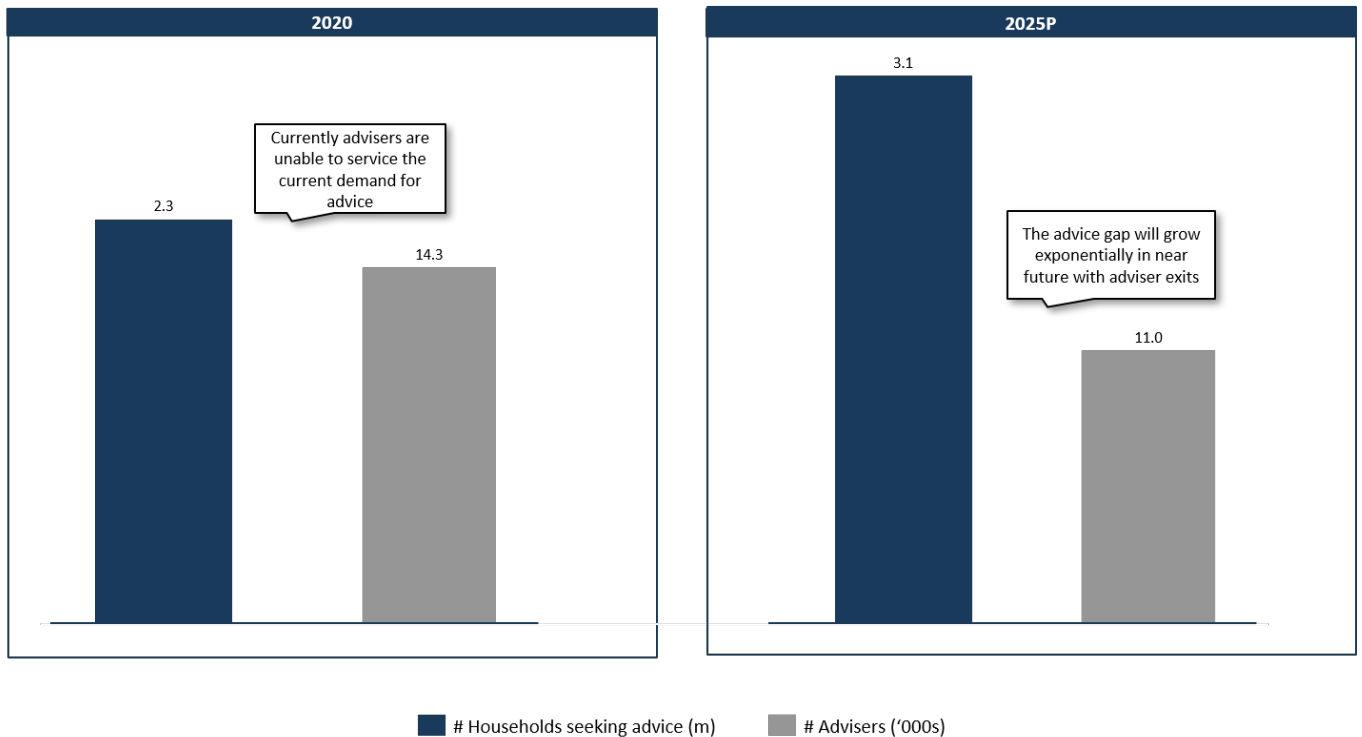
Overall, that still sees productive adviser numbers decline – but the NMG Adviser Model illustrates the decline will be from some 14,000 productive advisers today, to 11,000 thousand.

Chart 2: Advisers numbers



Bringing the analysis of supply and demand together, the below chart shows that by 2025 the advice gap will dramatically increase.

Chart 3: Advice gap



Our next Trialogue will look at the impact of adviser productivity on the impending advice gap.

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