



PERSPECTIVE

February 2020

The cash flow management opportunity

Demonstrating the value of advice to the client of the future



I'm with Macquarie



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Introduction

In a challenging economic environment, successful advisers are seeking out new and innovative ways to deliver sustainable value to their clients - and cash flow management services have a key role to play.

Introduction

The advice landscape continues to evolve, and in a changing environment, Macquarie aims to deliver a perspective that will help you strengthen and grow your business and make it easier to focus on what matters most - your clients.

As part of that commitment, we've recently completed research into how advisers are using cash and cash flow management to add value for their clients. We've explored what's working, what the pain points are, and what firms are doing to solve for these pain points.

One of the themes that emerged was the ongoing evolution of the role of the adviser. We've seen the role of the adviser evolve from being purely about investment management to being much more relationship-focussed. Now, increasingly, advisers have the opportunity to add value for clients by finding ways to meet more of both their financial and non-financial needs. They have the opportunity to uncover their clients' desires, manage their fears, and play an active coaching role to help shape clients' decisions and behaviours around money. And in an economic environment with low wage growth and high household debt, one of the key opportunities for delivering impact is in helping clients effectively manage their cash flow.

Cash flow management offers advisers the opportunity to coach clients about the impact of their day-to-day decisions, and how those decisions are impacting their ability to achieve their aspirations. This is compelling for clients, and

offers advisers a tangible way to broaden their scope - to diversify the value they offer and open the door to a deeper relationship and the ability to identify and meet a whole new range of needs.

Being able to meet these needs in a way that is sustainable for firms involves an increasing shift away from product-based pricing towards value-based pricing - and the shift to value-based pricing is definitely a challenge that firms are still grappling with.

The aim of this report is to challenge the way you approach not only cash flow management, but the way you think about delivering value and creating a meaningful impact in your clients' lives - and how you can deliver on that promise in a way that's sustainable for your firm.

The broader Macquarie team and I welcome the opportunity to hear your thoughts and ideas, and discuss the implications for your business.



Olivia McArdle
Head of Deposits and Payments, Macquarie

Introduction

About the research

This report draws on two research projects conducted by Macquarie:

The Cash and Cash Flow Matters Study

A quantitative survey of 541 business leaders from financial advice, accounting and stockbroking firms around Australia, conducted in July and August 2019.

The Propensity Project

An ongoing quantitative survey of more than 10,000 advice clients, conducted between 2015 and 2018, the Propensity Project unpacks the drivers of client satisfaction, referrals and share of wallet.

Why cash and cash flow management matter

At a time when advisers are under increasing pressure to deliver tangible value, cash flow management offers the opportunity to demonstrate real benefits for your clients and your practice alike.

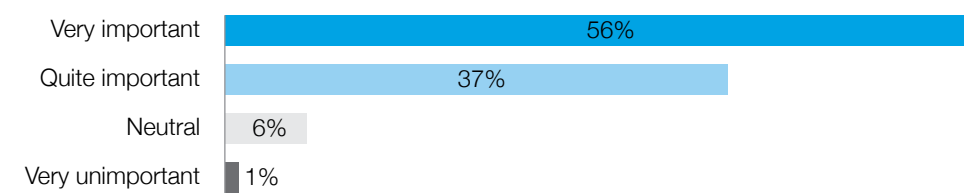
Why cash and cash flow management matter

The business of financial advice has always been complex. Advisers are under pressure to deliver tangible value at an affordable price, even as the costs of servicing clients and meeting compliance requirements are rising. Yet an economic environment characterised by weak wage growth, a volatile global environment and a stagnant property market has made it increasingly difficult for clients to achieve ongoing growth.

Against this background, our research indicates that practice principals and advice managers see cash flow management as an essential part of their overall client offering – both as a service in itself, and as an important enabler of cost-effective growth.

93% of advisers surveyed who offer cash flow management services agree it is either very important (56%) or quite important (37%) to manage clients' cash flow to help them reach their overall financial goals, with a range of benefits for both their clients and their firm, and yet only 1 in 2 of the advisers surveyed offer cash flow management services to their clients.

How important do you believe it is to be able to manage your clients' cash flow to help them reach their overall financial goals?



Taking a holistic view

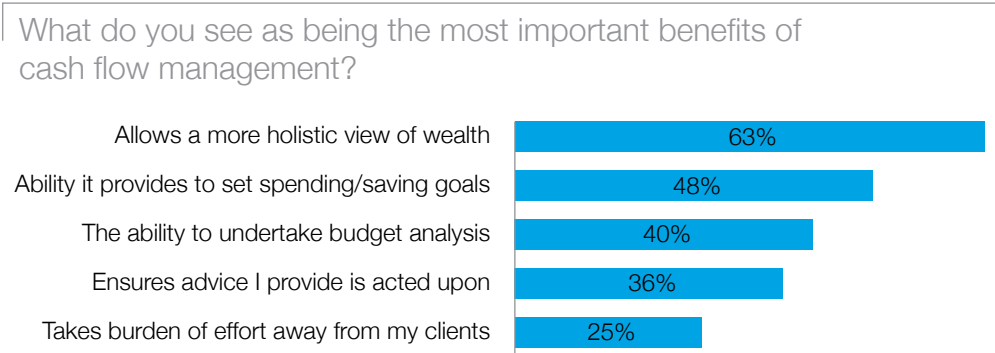
A key benefit of cash flow management, cited by almost two-thirds of advisers who offer the service, is that it allows a more complete view of clients' wealth. That's important, because the vast majority of advisers (87%) believe their clients' wealth needs to be viewed holistically. Cash flow management gives advisers visibility of not just investments, but income, debts and everyday spending, helping identify opportunities that might not otherwise come to light.

87%

of advisers believe client wealth needs to be viewed holistically

Why cash and cash flow management matter

Cash flow management can also deliver tangible benefits, enabling advisers to undertake budget analysis and set clear spending and saving goals with the potential to make an immediate difference to their clients’ wellbeing – an effective way to add value in an uncertain economic environment. It also offers advisers the opportunity to position themselves as a coach, continuing the evolution of the adviser from investment manager to something much more - someone who can help identify your desires, manage your fears, and create a learning environment to help shape your decisions around money.



How cash flow management adds value

One of the keys to successful cash flow management is to encourage clients to “think like a business” – measuring cash in and cash out, then setting clear goals. Advisers can help them get started by putting in place the same tools businesses use to assess their financial position, including:

- An income statement to track earnings and expenditure – what you earn versus what you spend.
- A personal or household balance sheet to compare assets and liabilities – what you own versus what you owe.

By clearly understanding their income, expenses, assets, and liabilities, clients will be in a better position to understand the connection between current expending and future wealth, then make sound financial decisions about investing, borrowing, and spending.

Income statement	Income	Expenses
Balance Sheet	Assets	Liabilities

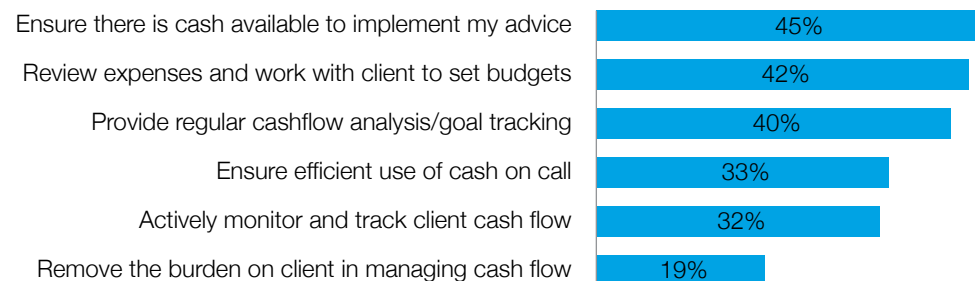
Why cash and cash flow management matter

From one-off adviser to trusted money coach

As many advisers adopt a more active, coaching style of client interaction, we're seeing a shift from one-off annual review each year to a more ongoing education and mentoring-style relationship. Cash flow management can play an important part in supporting this trend, helping clients participate in decision-making and take more accountability for implementing a long-term financial plan.

When we asked advisers who offer cash flow management how they use cash flow management to deliver value, 45% said cash flow analysis is key to ensuring there is enough cash available to implement their client's plan. Just as importantly, their responses indicate the value of cash flow management in embedding ongoing advice and transforming the adviser's role into that of a trusted financial coach and educator – reviewing expenses, setting budgets, tracking performance and actively monitoring cash flow. This underscores the value of cash flow management in creating stronger, more sustainable client relationships, based on a deeper understanding of clients' changing financial situation.

How do you go about delivering value for clients when undertaking cash flow management?



Why cash and cash flow management matter

Engaging the clients of the future

This coaching approach can be particularly valuable in engaging the under-serviced Millennial generation who are set to become the affluent Australians of the future. Projected to make up 75% of the global workforce by 2025,¹ Millennials have already eclipsed Baby Boomers as the largest component of the Australian workforce, while enjoying above average income growth.² And while they have yet to accumulate the same levels of wealth as their parents, they are set to benefit from a projected \$3.5 trillion intergenerational wealth transfer, along with their older Gen X peers.³

Millennials are typically defined as those born between 1981 and 1996 (so, in 2020, those aged between 24 and 39), with Gen Xs born between 1965 and 1980. And it's 30 - 44 year olds - the older end of the Millennial cohort, along with some younger Gen X's - where the cash flow management servicing gap is most pronounced.

When we asked advisers who offer cash management which age groups would benefit most from their offering, 62% said 30–44 year olds had most to gain from cash flow support – the highest proportion for any age group. Yet only 43% said 30–44 year olds were frequent users of their cash flow management service. This large gap between perceived need and service delivery highlights an opportunity for advisers to engage Millennial and younger Gen X clients with services that address their specific needs and establish strong relationships for the future.

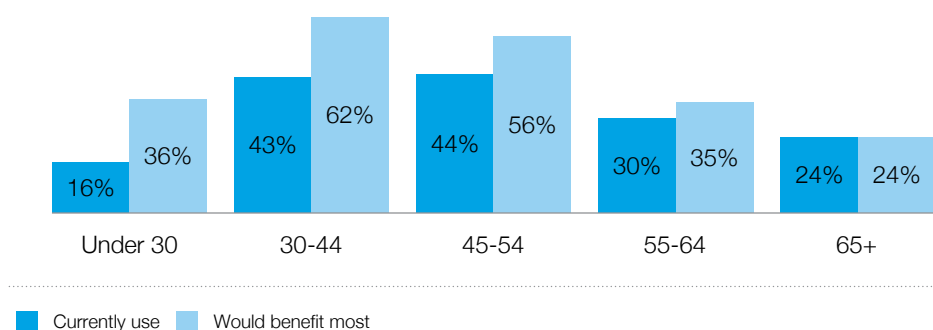
¹ EY, Global Generations, 2015.

² CEDA, How unequal? Insights on inequality, 2018.

³ Mark Brimble et al, Intergenerational Wealth Transfer: The Opportunity of Gen X & Y in Australia, Griffith University, 2017.

Why cash and cash flow management matter

What demographic currently uses your cash flow management services most? And what demographic would most benefit from cash flow management services?



“Cash flow management not only has the potential to add real and immediate value, it’s also a powerful tool for building stronger and more lasting client relationships, through constant, productive coaching and shared goal setting.”

Olivia McArdle, Head of Deposits and Payments, Macquarie

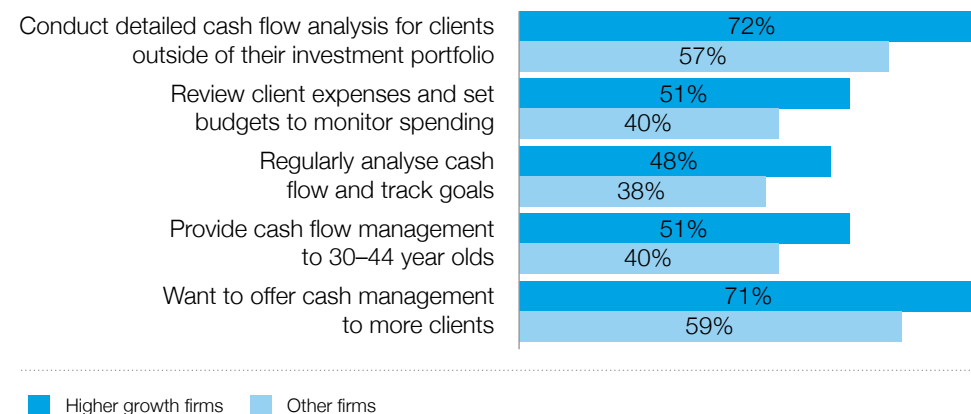
Why cash and cash flow management matter

Connecting cash flow management and practice growth

To understand the potential impact of cash flow management on practice profitability and practice growth, we analysed the attitudes and behaviours of higher growth firms. Higher growth firms are firms with net profit growth of 10% or more in the past 12 months and forecast profit growth in the year ahead. Around one in four (24%) of survey respondents were from higher growth firms.

Higher growth firms appear to be more focussed on using cash flow management as a mechanism for adding value for clients and driving profit growth for the firm in the following key areas:

Among respondents who offer cash flow management, what are higher growth firms doing differently?



The cash flow servicing gap

While most advisers recognise the value of cash flow management, many still have an incomplete picture of their clients' cash situation, making it difficult to offer the level of support their clients need.

The cash flow servicing gap

While 93% of advisers agree it is important to manage clients' cash flow, only 50% currently offer cash flow management services. Even more strikingly, 40% of advisers who offer cash flow management do not currently undertake detailed cash flow analysis outside their clients' investment portfolios.

Do you offer cash flow management for your clients?



■ Yes ■ No

Do you undertake detailed cash flow analysis for your clients outside their investment portfolios?



■ Yes ■ No

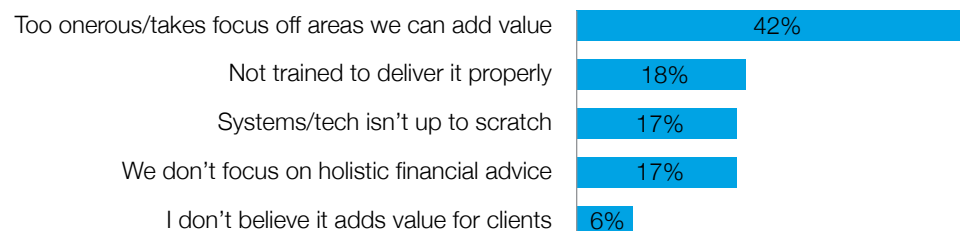
However, advisers who do offer cash flow management services are clearly convinced of the value, with three in five saying they would like to increase the number of clients currently receiving cash flow support.

How would you like the number of clients you're providing cash flow management services for to change?



■ Increase ■ Remain similar ■ Decrease

Why don't you offer cash flow management for your clients?



The cash flow servicing gap

What's holding advisers back?

It appears that underlying this servicing gap is a systems and processes gap. When we asked advisers who don't offer cash management why they don't do so, 42% said that it is too onerous – suggesting a significant opportunity for firms to review and improve the way they deliver cash management services. By re-considering who is best placed to deliver cash flow management services to clients, then seeking out ways to simplify, automate and scale those services, advice firms can deliver a more valuable service more efficiently.

“If, as an adviser, you view cash management as too onerous, there are opportunities to consider simpler ways of delivering cash flow advice, and how you can price your services to fully articulate the value the client will receive.”

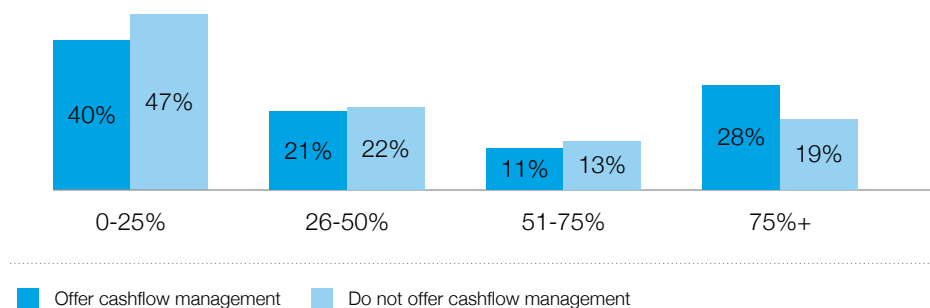
Olivia McArdle, Head of Deposits and Payments, Macquarie

62% of advisers would like full visibility of clients' cash situation

Operating in the dark

These findings also underscore the fact that a major barrier to offering or extending cash flow management services is visibility. While an overwhelming majority of advisers recognise the need to take a holistic view of their clients' wealth, on average they only have visibility of 44% of their clients' total cash holdings. That makes it difficult to achieve the overarching view required to build a truly holistic picture – which explains why almost two out of three advisers say they would like full visibility of their clients' cash situation.

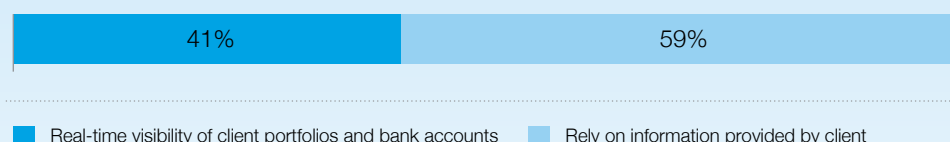
For what proportion of your clients do you have full visibility of their total cash holdings?



Open banking and cash flow management

Currently, three in five advisers rely on information provided by the client to undertake cash flow analysis – a manual process that causes delays and gives rise to the risk of human error. While purpose-built cash management accounts like Macquarie's can offer the visibility advisers need today, in the future, open banking has the potential to transform this situation more broadly.

How do you typically undertake client cash flow analysis?



Open banking is a data sharing regime aimed at empowering clients to be able to share their banking data with accredited data recipients of their choosing. Essentially, open banking means that clients can instruct financial institutions to share their data securely with select accredited technology platforms and other financial institutions. Importantly, it puts the client in control, with the power to view, manage and revoke this access at any time.

Open banking could help advisers obtain greater visibility over their clients' spending patterns and behaviours, by facilitating a holistic view across multiple banks and accounts. This, in turn, will enable them to provide targeted recommendations based on personalised data. It will also free up an adviser's resources used today on manual data entry and enable them to focus more on working with clients to better manage their cash flows instead.

Following the passing of the *Treasury Laws Amendment (Consumer Data Right) Bill 2019* in August 2019, open banking is set to become a reality in Australia. The Big 4 banks, along with any other authorised deposit-taking institution (ADI) that chooses to participate early, are set to provide access to product, account and transaction data for credit cards, call accounts, term deposits, transaction and savings accounts by July 2020. This will be the first phase of product data to be exposed in the regime with more products and other ADIs to follow in further phases ending 2022.

“Open banking could enable you to access highly personalised, accurate data – and therefore provide recommendations that are predictive and based on true customer behaviour, not projections”

Olivia McArdle, Head of Deposits and Payments, Macquarie

Engaging the clients of the future

A key benefit of cash flow management is the opportunity it gives you to engage the critical 30–44 year old demographic – cultivating a new generation of clients to drive the long-term sustainability of your practice.

Engaging the clients of the future

62% of advisers believe that 30–44 year olds have the most significant unmet need for cash flow management services – and, arguably, these Millennial clients are also a critical demographic for advice firms looking to establish a secure, growing client base for the future. Along with Generation X, they are set to be beneficiaries of the \$3.5 trillion in intergenerational wealth transfers projected to take place over the next 20 years,⁴ which will lead to a rapidly increasing need for financial advice.

They are also of an age where they are likely to make a significant number of major financial decisions in the next five years, typically including buying a new investment property, car or home. That makes effective cash management support crucial to minimising debt and balancing short-term goals with long-term wealth creation. In contrast, Australians over 60 (for example) face far fewer major purchasing decisions involving significant debt, with correspondingly reduced needs for cash flow advice.

Major financial decisions in the next five years⁵

30–44 year olds 4.5 major financial decisions in the next 5 years		60+ year olds 2.2 major financial decisions in the next 5 years	
Travel overseas	63%	Travel overseas	63%
Buy an investment property	48%	Reviewing their estate plan	32%
Buy a new car	41%	Buying a new car	31%
Buy a new home	38%	Retiring	20%

⁴ Brimble et al, "Intergenerational Wealth Transfer: The Opportunity of Gen X & Y in Australia", Griffith University, 2017.

⁵ Macquarie's The Propensity Project

Engaging the clients of the future

Future-focused but under pressure and seeking your guidance

30–44 year olds also have specific concerns and attitudes towards money. Around three in four (73%) manage their finances with their life goals in mind – like advisers, they already tend to look at the bigger picture. And they have concerns about their financial future: more than half feel anxious about debt, especially if their life circumstances were to change, while seven out of 10 believe everyday living costs are getting out of control.

Financial behaviours of 30 to 44 year olds⁶

3 in 4

manage their money with their life goals in mind

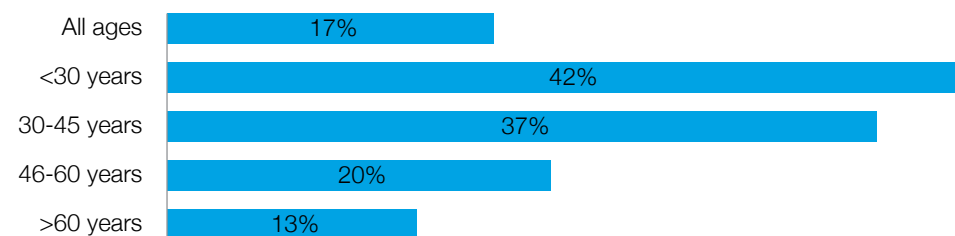
61%

agree or strongly agree with the statement 'I feel anxious about debt, especially if my life circumstances change'

68%

agree that 'day to day living costs are getting out of control'

Clients who want more educational communication from their adviser or accountant



Together, these findings emphasise the importance of advisers taking on a coaching role, to help 30–44 year olds manage current lifestyle expenses, minimise debts and continue to grow their wealth. It is up to advisers to craft a client experience that anticipates and meets their educational needs – tapping into a pool of almost five million potential clients⁷ and securing a new generation of clients for their practices.

⁶ Macquarie proprietary research

⁷ Australian Bureau of Statistics, Census of Population and Housing, 2016.

Case study: Reaching more clients with cash flow management

By building an advice model around cash flow management, Pursue Wealth has created a community of ongoing advice clients, reaching out to a younger demographic many advisers find hard to engage.

Pursue Wealth's Sam Robinson and Josh Wingrove have found a way to engage with 25 to 45-year-olds, a demographic advisers have traditionally found hard to reach. They've also managed to create a fee structure that works for clients and the business.

"We started working with people who were like us: keen to make changes to create a balanced life, making sure that not everything goes towards retirement or investing," says Robinson, adding that they've shelved the suit and tie while engaging with clients via social media.

They also say sound financial advice starts with cash flow.

"Cash flow is fundamental. It's like a profit and loss for a business. You don't start planning for things unless you genuinely understand the money in, money out," says Robinson.

Clients fill out a detailed income and expenditure questionnaire before their initial "Getting to know the real you" session, creating a clear financial picture that informs their discussion of lifestyle and financial goals. The second "Design and commit" meeting sees client and adviser working together on a financial plan.

The team uses a tried and tested "bucket" system, with separate bank accounts for specific purposes, maintained through automated transfers that cascade outwards from each pay-cheque.

Robinson and Wingrove see their clients as members of a self-sustaining community who help educate and support each other, with ongoing guidance from the Pursue Wealth team. Their fee structure is built around offering several membership options, from Achievement to Conqueror, each with different levels of support.

The result is a flourishing membership base of satisfied clients, a constant stream of referrals, and a sustainable practice – all built on cashflow management.

Engaging the clients of the future

But what about clients who aren't Millennials?

It might be Millennials who are facing immediate cash flow management challenges - but pre-retiree and retiree clients can still definitely benefit from cash flow management support. For clients 55 and older, the impact of their day-to-day spending decisions may be much more immediate. There's an opportunity for advisers to add value for these clients by coaching them on their spending behaviours and helping them get a true understanding of the impact of their decisions on their retirement aspirations.

Delivering cash flow management: four key tips

Four key considerations for creating a compelling, client-centred cash flow management offering for your clients.

Delivering cash flow management: four key tips

Adding new services to your firm takes resources and commitment. So what actions can firms take to start delivering cash flow management advice for their clients?

Tip #1: Sell me on the ‘why’

Between professional pursuits, active social lives and family responsibilities, your clients are busy, busy people – especially in the key 30–44 year old Millennial demographic. Many also have tight budgets and significant financial commitments. So it’s essential to clearly articulate the benefits of cash flow management and take away the pain points.

How to do it

- Share anonymised examples or case studies of clients who have uncovered significant savings during the cash management setup phase.
- Explain how using the right tools can simplify and automate the cash management process, relieving your clients of the burden of managing and monitoring budgets.
- Offer a service aligned to your clients’ level of engagement and needs. Some clients are committed enough to track spending to the nearest dollar each week, while others prefer to allocate spending into broader buckets, like discretionary, bills, savings and investments.
- Understand and communicate the emotional benefits of taking control of spending and feeling confident that your finances are on track.

Delivering cash flow management: four key tips

Tip #2: Give me the tools I need

Find someone in your team who's passionate about client service and education, and task them with building your firm's cash flow management program. Ask them to build a library of simple, online educational tools clients can read in their own time, and use when they need them. At the same time, review your systems and processes, and consider including a cash management account with reporting tools and adviser access as a standard part of your service offering.

How to do it

- Share online tools and educational resources, such as:
 - Cash flow analysis templates and net worth calculators
 - Factsheets
 - Calculators
 - Spending tracker apps.
- Consider making an online cash management account part of your standard service offering.
- As part of your systems and processes review, look for a cash management account (CMA) that offers you and your clients the control and visibility you need to efficiently manage cash flow. Macquarie's CMA offers easy online access and a range of features to meet both your needs and the needs of your clients.

Delivering cash flow management: four key tips

Tip #3: Price to meet my life stage

Cash flow management is a genuinely valuable service. To commit to delivering it over the long term, you need to deliver it sustainably – which means you need to find an appropriate way to charge for the value you deliver. Firms are experimenting with different pricing models that offer value for money for clients while ensuring the ongoing sustainability of delivering the service, including:

- Short, specific digital courses covering the fundamentals of cash management for a small fee
- A tiered service offering with a clearly defined set of service levels for each fee tier
- A month-to-month subscription service that offers clients flexible packages and pricing options
- An upfront charge for cash flow set-up, plus a small monthly or annual addition to your existing ongoing advice fee.

How to do it

- Consider introducing a range of different pricing options for clients with different needs.
- Be careful to set expectations and boundaries, then deliver against them – so your clients know what to expect and understand that the amount they're prepared to invest in advice directly correlates to the service they receive. If a client's needs shift outside the scope of their current package, encourage them to take up a package better suited to their needs.

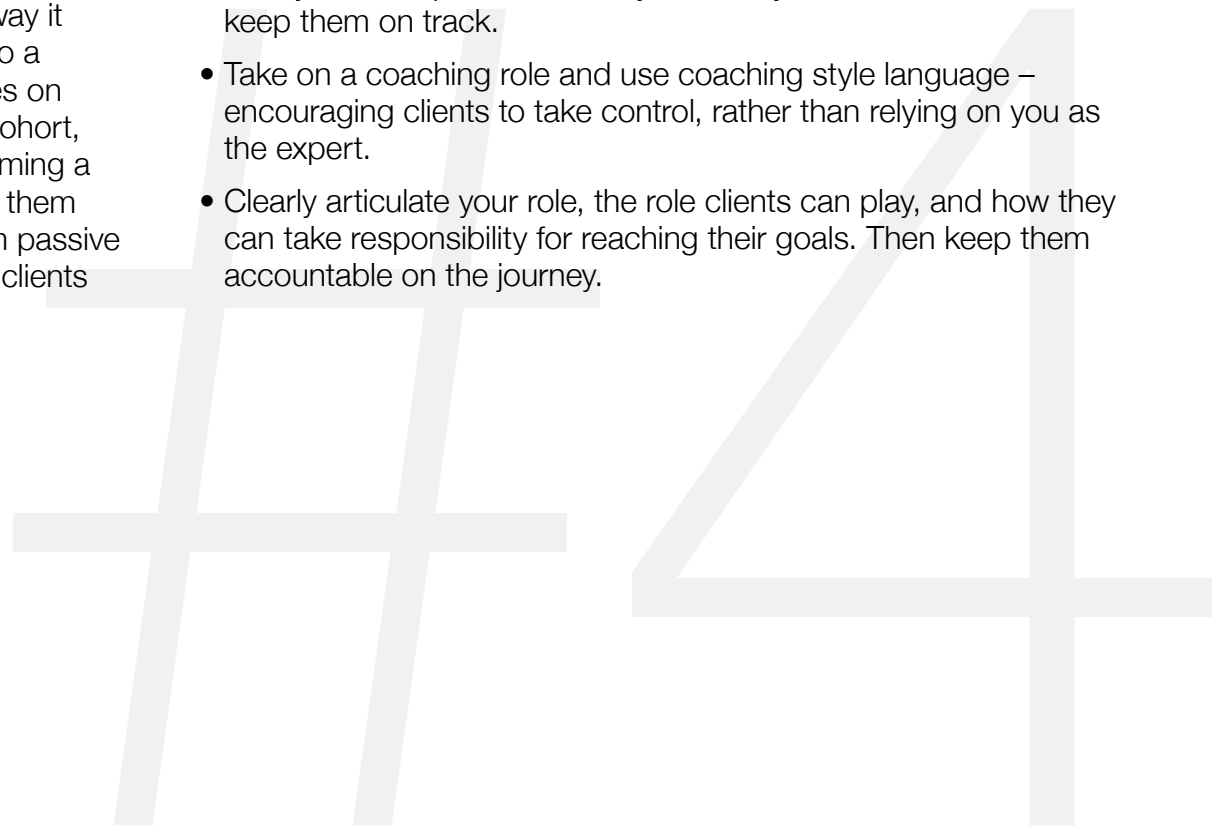
Delivering cash flow management: four key tips

Tip #4: Coach me for success

As we've seen, a key benefit of cash flow management is the way it helps transform your role from a once-a-year service provider to a trusted coach and mentor, helping to keep your clients' finances on track. That can be especially powerful for the 30–44 year old cohort, who are looking for ongoing education and guidance. By becoming a coach – someone who's going to work with each client to help them achieve their goals – you shift that educational relationship from passive to active, making it education with a purpose and helping your clients take personal responsibility.

How to do it

- Put systems in place to actively monitor your clients' cash situation and keep them on track.
- Take on a coaching role and use coaching style language – encouraging clients to take control, rather than relying on you as the expert.
- Clearly articulate your role, the role clients can play, and how they can take responsibility for reaching their goals. Then keep them accountable on the journey.



A final note

Get started today by taking a test and learn approach.

A final note

One way to approach adding new services to your offering is by taking a test and learn approach, trialling new ideas with a small percentage of your client base. This allows you to measure impact and learn quickly, and avoid the time, cost and distraction of giant business transformation projects. Consider identifying a segment of your client base who could most benefit from cash flow management services, and pilot the service with these clients. Identify which members of your team will be involved in developing and delivering the new services, and identify success measurement metrics and key decision dates for deciding whether to roll the service out across the remainder of your client base.

62%

of 30–44 year olds recommended their adviser in the past 12 months

vs

49%

of all advice clients recommended their adviser in the past 12 months

The rewards of success

The rewards for successful practices can be significant. The 30–44 year old demographic is the highest referring age group, with 62% of advice clients having recommended their adviser in the past 12 months, compared to 49% of all advice clients⁸.

⁸ Macquarie's The Propensity Project

Talk to us about how we can help you keep your business thriving.

At Macquarie we bring you a smarter ecosystem of products that work in harmony with your business, supported by the deep expertise of our people. We create insights that can help you grow your business and bring you closer to your clients. You have the support of a global investment leader with 50 years of unbroken profitability, and a name clients can have confidence in.

The Macquarie Cash Management Account has been purpose-built for advisers, delivering visibility and control. It offers easy online applications, reports and audits, all available via our adviser portal, plus innovative functionality such as adviser-initiated payments. Our CMA is connected to more than 70 platforms, and stores more than 10 years of statements to help inform your recommendations to your clients.

Contact us today about how we can help your business stay ahead.

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Macquarie.com/cashflowmatters

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