



SMSF Association National Conference 2019

The key ingredients to a
modern SMSF practice

Aaron Dunn

CEO, Smarter SMSF



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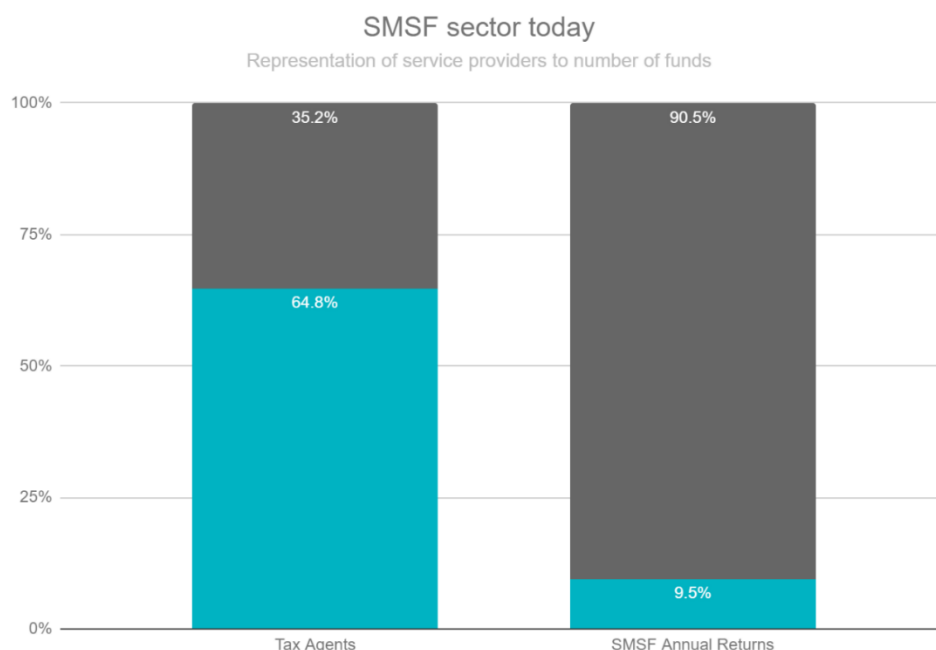
The 5 stages to SMSF success for accountants

The self-managed super fund market is now over 600,000 funds strong, with more than 1 million Australians choosing to take a greater control of their retirement savings. The SMSF sector is supported by a broad range of service providers which includes a significant role by the accounting profession expanding across fund administration, compliance, audit and advice.

Since transferring to the regulation of the Australian Taxation Office in October 1999, the SMSF sector has continued to evolve, from what is commonly referred to as a 'cottage industry' into a sector that includes a broad range of service providers including large SMSF administrators. Having observed this change over the past decade through the explosion of new SMSFs and advancements in technology and automation, a sizeable component of the SMSF sector remains stuck in their old ways.

According to the most recent ATO SMSF statistical summary (2015-16), less than 60,000 SMSFs are completed by 8,700 tax agents (or 65% of the total service providers). By comparison, an equivalent number of funds would be administered by less than a dozen of the biggest service providers today and continuing to grow that number each year.

The diagram below shows this percentage representation, based upon the number of tax agents lodging SMSF annual returns as indicated in the statistics above.



The shift occurring within the SMSF service provider space is only going to further broaden in the coming years resulting in a very different looking SMSF sector. As a result, it provides a significant challenge both in a policy and regulatory context as to how to best manage this highly fragmented service provider market, against the objectives of wanting to improve access to advice and improving the quality of advice obtained within SMSFs.

Future of SMSF Report

Smarter SMSF published the Future of SMSF Report in November 2018 to help better understand how practitioners are operating within the SMSF industry. The report is designed to help practitioners understand the ongoing challenges and opportunities through an ever-changing landscape across legislation, regulation and technology.

The final report included information from the 488 survey respondents, along with data from previous Future of SMSF surveys conducted in 2014 and 2015, ATO statistics and other publicly available data through other industry reports (e.g. Class benchmark reports & BGL insights report).



With the analysis of this survey data, **we have been able to identify the key drivers, challenges and stages that most practices will work through (or have worked through) as part of building a successful modern SMSF practice.**

Through this process we have been able to understand how higher performing practices have transitioned through various stages to enable them to successfully grow their SMSF business, but also importantly build a practice that allows them to continue to scale effectively - whether they have niched into more administrative type functions, or alternatively allowed them to expand their service offering (i.e. offering higher value services such as advice).

You can find out more about this report, including downloading a free copy of the executive summary at <https://smartersmsf.com/futureofsmsf>.

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The drivers shaping an SMSF practice

Practitioners working in the SMSF sector face their own unique challenges within their business based on a broad number of drivers. These can include (but not be limited to):

Key Drivers:

- Number of SMSFs within the practice
- Types of services provided within the practice to SMSFs (e.g. admin, audit, advice)
- How the business is structured to support their SMSF clients (e.g. specialist division)
- Level of automation
- Utilisation of cloud technology with the business
- Number of employees
- Use of outsourcing or offshoring within practice
- Service delivery – how ongoing service is provided to SMSF clients
- Regularity of service delivery (e.g. annual to daily)
- Pricing model adopted (e.g. fixed fee, time cost)

Whilst these drivers apply broadly across the entire SMSF sector, some will have a greater impact for practitioners at particular stages of their business.

It should also be noted that these stages could equally apply across other segments within the SMSF sector, including financial advisers and auditors. Whilst some of the statistical data may be different for these service providers, the challenges and success factors certainly have similar relevance at these stages.

Terminology















The Future of SMSF report identifies between the concept of a specialist and a generalist working within the SMSF sector. The following definitions have been created to help understand the difference between the two when referring to this document and the report.

- **Specialist means** a practice that has a stand-alone SMSF business (e.g. accounting, audit and/or advice), or has an established specialist division within the existing practice.
- **Generalist means** all other practices, which predominantly incorporates SMSFs within the general activities of the practice.

The key ingredients to building a successful modern SMSF practice / Aaron Dunn

Understanding the 5 stages

The following diagram outlines the five stages to SMSF success that we have identified for accountants having explored the data from the Future of SMSF Report:

STAGE OF SMSF BUSINESS	1 ENDANGERED PRACTITIONER	2 STEADY PRACTITIONER	3 SPECIALIST PROVIDER	4 EMERGING PLAYER	5 MAJOR PLAYER
 Number of SMSFs	< 25 funds	20 – 100 funds	75 – 250 funds	251 – 500 funds	500+ funds
 % Sector Representation	8,000	4,000	500	400	30
 Est. SMSF Revenue (\$)	< \$75k	\$75k - \$250k	\$250k - \$500k	\$500k - \$1.25m	> \$1.25m
 Operation Type	Generalist	Generalist	Specialist	Specialist	Specialist
 Average Number of Services	≤ 4	5	6	7	8
 Service Delivery	Annual	Annual/ As Required	Regular (e.g. monthly)	Regular	Multi (incl. regular, daily)
 Fees & Billing Cycle	Time, Annual	Time, Annual or As Required	Fixed, Regular	Fixed, Regular	Fixed, Regular
 Biggest Challenge	Keeping up-to-date	Lack of resources	Implementing change	Business Model decision	Attracting new clients
 Success Factor	 Knowledge	 SMSF Cloud Implementation	 Business Process	 Strategic Planning	 Sales & Marketing

Stage 1: Endangered practitioner

Biggest Challenge:	Keeping up-to-date
Secondary Challenges:	Additional licensing & education requirements Moving to SMSF cloud technology

Still the largest component of service providers within the SMSF industry (>60%), this group represents a shrinking number (in percentage terms) of SMSFs being serviced within the sector. Generally speaking, many of these practices are sole practitioners or small-sized firms that have no specific focus on SMSFs and take a 'generalist' approach to the compliance work, delivering their client information on an annual basis. Given how the SMSF sector has evolved over the past two decades, any practitioner that continues to operate in this stage is likely to have a limited remaining lifespan as the ongoing pace of change on a legislative, regulatory and technological perspective.

As a small practitioner, it is a challenge keeping up-to-date with the ongoing legislative reform, in particular with the implementation of the super reforms from 1 July 2017. Furthermore, the increased barriers to entry around advice has made it more difficult to have conversations with SMSF clients, with around 60% of these practitioners being unlicensed. From the Future of SMSF Report, we have identified the success factor at this stage to be knowledge. By investing the time and energy to understand the technical demands of working within SMSFs, you put the client and your practice at a much lower risk of non-compliance.

It is at this point you need to make an important decision about your involvement within the SMSF sector. No longer an area to tinker, you must upskill and start to think about the future service delivery to your SMSF clients and how you will look to attract further clients in the future.

Success Factor:	The key to advancing from this stage is to focus on an increased level of knowledge to support the ongoing clients.
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Stage 2: Steady practitioner

Biggest Challenge:	Lack of resources
Secondary Challenges:	Keeping up-to-date Attracting new clients

This type of business has benefited from the growth of the SMSF sector over the past decade or more having expanded your SMSF client base predominantly through the business and tax services area in the practice. Now providing a material amount of revenue to the practice (potentially up to 35%), it demands more attention due to the growing complexities and pricing pressures where measurement by time cost remains the dominant pricing model (e.g. up to 53%).

To help address these efficiencies, you have looked to SMSF cloud-based technology to help you save time due to the lack of resources within the practice – you are finding that it's always busy and therefore struggle to find the time to successfully implement the key tools you need that will make the biggest difference to your practice and your clients.

The Future of SMSF report has found that you continue to remain mostly reactive to client demands due to these limited resources – whilst moving to cloud with good intentions, the real efficiency gains and client centric focus that you want to deliver isn't there yet.

The success factor here is around successful cloud implementation. There is a big difference here between cloud adoption and cloud implementation. Many practices continue to operate here with old thinking (the way we've always done things) with the new technology that they have within their practice. Too often, technology is seen as the panacea to their success, but in reality, it won't occur until you give it the attention this stage needs to help provide the time and opportunities you're looking for in the future. The Future of SMSF survey data shows that an average firm is targeting on average about 3 hours p/mth on implementation and improvement, however specialists (3.82 hrs) and higher performing firms are doing much more.

Success Factor:	The key to advancing from this stage is to spend the time planning and then implementing your SMSF cloud technology.
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Stage 3: Specialist provider

Biggest Challenge:	Implementing change
Secondary Challenges:	Keeping up-to-date Business Model – expand or niche

As the SMSF sector has continued to grow and evolve, so has the approach that you have taken within your business to support your SMSF clients. You are now within the top 10% of SMSF service providers (by number of funds), representing about 25 - 35% of total practice revenue. With this focus you have made the conscious decision to devote dedicated resources into a team that will drive the use of technology and specialisation to improve the value proposition to your clients.

With these specialist resources you have seen the benefits of leveraging technology and automation within your SMSF business. The result is higher efficiency gains being delivered and you are now able to provide more regular reporting to support the ongoing client and legislative demands. As the business grows, it is important a strong focus is put on standardising what is happening within this part of the business to enable further growth through robust systems and processes. This would include moving to a regular reporting framework and standardising the fee structure and pricing model, moving from an annual recovery of fees to an annuitised model being paid regular (e.g. monthly).

The biggest challenge at this point working through the implementation of change and the potential for resistance amongst both clients and staff.

Therefore, the success factor here is to set out the process for your SMSF business model to be able to demonstrate the additional value that can be provided to your clients as part of working through changes to the fee model (e.g. online access to current fund information) – using technology to be more client centric, rather than purely focused on the efficiencies. Furthermore, use this time to help redefine the role of key staff to not only keep information up-to-date, but also provide the ability to grow within their own role as client-facing.

Success Factor:	The key to advancing from this stage is to focus on standardising your processes, service delivery and fee model as it enables you to scale successfully whilst having consistency in how you do your work.
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Stage 4: Emerging player

Biggest Challenge:	Business Model - decision to expand or niche
Secondary Challenges:	Attracting new clients Keeping up-to-date

The journey from specialisation to becoming an emerging player has seen you successfully rewire your processes and service offering to allow for the business to continue to grow. You are now amongst the highest 3-4% of practitioners, based upon the number of SMSFs. With an ongoing focus on driving efficiencies through process automation, you can look to broaden your appeal to new markets as a specialist provider in the SMSF space.

Therefore, the most important decision to be made at this time is around the future direction of your SMSF business. Your biggest challenge will be regarding the future direction of the business – do you look to expand the number of services that can be provided to your SMSF clients (average of 7), or do you niche even further in more administrator type role? These strategic decisions to your business model are ultimately going to dictate the future path to success.

Therefore, the success factor here is devoting the time to understanding your customer segments, value proposition, types of relationships and channels for you to allow yourself to further understand the SMSF business model that you wish to take forward. It is with this knowledge that will allow you to tap into the strong ongoing growth being achieved by specialist providers whereby they are growing at 282% faster than generalist practices.

Success Factor:	The key to advancing from this stage is to be clear about the future direction of you SMSF business model. This may include the expansion of services (e.g. advice) or may mean niching down further as an administrator – that’s an important resource decision now at this point you should have been working towards.
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Stage 5: Major player

Biggest Challenge:	Attracting new clients
Secondary Challenges:	Pricing & competitiveness Keep up-to-date

At the pointy end of the SMSF sector, the major player represents a very small percentage (0.25%) of the total services providers working within the SMSF sector, but represent a significant number of SMSFs. This number is only expected to skew further in the future, with the Future of SMSF report showing that firms with >400 funds have gained more than five times the amount of new work when compared to the industry average. Therefore, whilst this segment is small in number of practices, it is highly competitive as they look to further scale their operations to drive growth and profitability.

Interestingly, pricing pressures for larger firms have seen the greatest price contraction over the past 4 years, dropping by 12% or more. It is with this fee pressure that we have seen a greater focus by major players in building globalised workforces, although this may recalibrate in the future through technology advancements.

Whilst many practices have successfully transitioned through the various stages to become a major player, the offerings in this space can be quite diverse. In particular, larger firms (e.g. 1st and 2nd tier practices) may look to provide a diverse range of services to their SMSF portfolio of clients, as opposed to those who have created a niche of SMSF administration supporting other practitioners, in particular other advisers who work within SMSF clients. Progressively, we may even see larger financial planning firms look to embed these SMSF services into their practice as part of the scope of retirement services.

It might not be uncommon today that whilst many of these practices have evolved into offering a regular service offering (12.8% of the firms \$5M+ now offer daily), they now provide a multifaceted offering, providing flexibility from annual to daily to broaden their appeal in the SMSF space.

Becoming a mature player within the market requires the business to have a clear vision and a culture that allows you to continue in the sector as a dominant player.

Success Factor:	The key to driving the business forward is devoting the ongoing resources towards sales and marketing, enabling yourself to be positioned in the market place as a recognised industry leader.
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