

Accountants face shake-up in SMSF charges

A small Australian software company is shaking up the self-managed super fund administration market, Tony Boyd reports.

When some of the smartest guys in financial software put their heads together to simplify the administration of self-managed super funds (SMSF) they knew that success could change the industry's economics.

But four years later, and amid widespread commercial use of the Class Super administration product, it is now clear that the software engineers at Class Financial Systems have created a technology that is potentially as disruptive as internet banking.

Class Super, which is being used by a number of large administration specialists, allows service providers to cut the cost of administering an SMSF by up to 80 per cent depending on the transaction intensity of the fund and its mix of assets.

The brains behind the product include software architects who developed administration systems for the industry fund sector and for the wrap platforms owned by the major banks.

This drastic reduction in administration costs through the automation of all processes involved in running a fund has significant implications for a variety of industry players and for the \$330 billion SMSF market.

Drastic reductions in the costs of administering an SMSF should lower the asset threshold for individuals considering taking

fund out of a traditional super fund and putting them in an SMSF.

That, in turn, should focus consumer attention on the high costs and lack of investment flexibility from having their retirement savings in an industry fund, corporate fund, retail fund or super fund that utilises the traditional wrap platforms owned by the major banks.

A huge step down in SMSF administration costs will affect the thousands of accountants who are charging their clients on an hourly basis for using cumbersome and costly manual processing techniques.

The managing director of Accountants Resourcing, Bruce Coombes, said Class Super could cut the number of man hours required to administer an SMSF by up to 50 per cent depending on the size of the fund. "The reality is if you have got the appropriate data feeds in place you could save between three hours and 15 hours in terms of time taken for administration," he said.

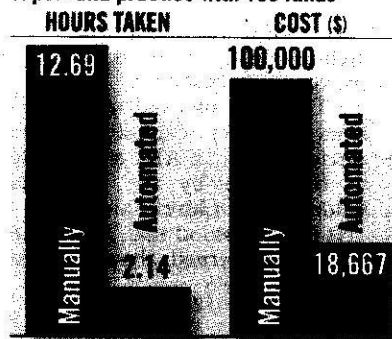
"You have to put in the work before hand to set up the systems and once you have done that Class does the heavy lifting."

Accountants Resourcing uses the Class Super software as part of its services to accountants and financial planners. It is based in Kuala Lumpur, Malaysia, where it employs 20 accountants.

Mr Coombes said an SMSF with \$1 million in assets could be administered for about \$2500 a year or a quarter of 1 per cent of assets under management compared to about four times that for a similar sized fund with assets managed on a wrap platform. He said lower SMSF administration costs mean the asset threshold for considering starting an SMSF fund could be as low as

Smashing costs

Admin comparison for a self-managed super fund practice with 100 funds*



Self-managed super fund statistics

	2007	2008	% chg 07-08	Mar09	Jun09	YTD chg
Establishments	46,314	34,461	-26	6,518	6,188	n/a
Wind-ups	4,065	5,026	+24	561	373	n/a
Net establishments	42,249	29,435	-30	5,957	5,815	n/a
Total number of funds	369,111	398,546	+8	404,503	410,318	+3%
Total members	696,055	751,471	+8	762,001	772,299	+3%

Average fund assets (\$)

	2003-04	2004-05	2005-06	2006-07	2007-08	Jun09
Per member	247,482	292,086	348,405	480,303	456,467	430,255
Per fund	476,074	561,568	668,722	918,616	858,259	809,825

* Each fund has two members

SOURCE: CLASS FINANCIAL SYSTEMS, ATO

\$200,000. The average SMSF fund size in Australia is about \$800,000.

One of the founders of Class Financial Systems, Richard Barber, said that based on client feedback before using Class, an accountant using manual processing would probably take about 12 to 15 hours to administer a basic SMSF fund.

He said using Class Super, even without automated feeds of data, the job is now being done in about two to

three hours. Mr Barber said an SMSF was often erroneously referred to as a financial product. "It is a tax structure not a product," he said. He said an SMSF gave its members the opportunity to take control of their investments while gaining the tax benefits of super and trust structures.

The Class Super software has gained the endorsement of some large industry players.

Barry Lambert's Count Financial

is a shareholder of the company and is offering it to the accountants who work for Count. Mr Lambert is chairman of Class Financial Systems.

Perpetual late last year chose Class Super as its preferred platform for SMSF administration offered by its wholly owned subsidiary Smartsuper, which was bought for \$16 million in 2008.

Smartsuper's chief executive, Andrew Bloore, is a shareholder in Class Financial Systems, according to filings with the corporate regulator.

Mr Barber said other large SMSF administration companies were testing the Class Super product and he hoped further contracts would be signed soon. He said the major banks were offering investment administration products that were still being run on administration systems that were up to 20 to 25 years old and these were "creaking under the strain" of the demands being made by investors and the numerous complex instruments they have to deal with.

"This technology gap and the current focus and pressure on fees and costs by the regulator and clients alike places enormous pressure on all legacy products and will seriously challenge the way things are done in the future," he said.

"Without significant investment in systems and extensive restructuring of many of these incumbent solutions, they will be challenged as is already being evidenced.

"The winners of this next wave of change will be those that can adapt to these tectonic shifts in the market, where all players will be judged on how efficiently they can run their backroom operations and the transparency of the value they provide."