"THERE'S ALWAYS GOING TO BE A GROUP THAT'S GOING TO LOOK AT THE RAW PRICE AND COMPARE WHAT THEY'RE CURRENTLY PAYING WITH THE NEW REGIME AND HAVE CONCERNS ABOUT THAT"

David Smith, Smithink

HEAD *in the* CLOUD

SMSF ACCOUNTANTS AND ADVISERS HAVE LONG BEEN ENCOURAGED TO ADOPT CLOUD SOFTWARE INTO THEIR PRACTICE. WHAT HAVE BEEN SOME OF THE HURDLES AND WHY ARE ACCOUNTING FIRMS, IN PARTICULAR, LAGGING ON TAKE-UP?

by Jack Derwin, Lara Bullock and Miranda Brownlee

After a lengthy period of back-and-forth between cloud opponents and its converts, technology consultancy firm Smithink founding director David Smith believes the industry has finally come to terms with the technology.

"The core admin platforms from the major suppliers are now moving down the cloud road. That means SMSF providers and admin companies all have to embrace it because the cloud platform is clearly the key ingredient to their services," Mr Smith says.

"For most firms, I think it's a crucial part of their strategy and obviously reduces the cost of their core technologies, making it more efficient and hopefully improving their client service as well."

While recent years have seen a deep divide emerge in the SMSF space between cloud users and those reluctant to make the move, Mr Smith says the cloud is a foregone conclusion for most.

However, that's not to say that there aren't persistent concerns causing SMSF administrators to reconsider crossing over.

"We do a survey of accountants every year about their attitude to the cloud, with more than half of firms saying that general concerns about the cloud are impacting their purchasing decisions," Mr Smith says.

"There are five types of concerns – security, location of the data, what happens if they want to terminate the server, loss of internet connection and reliability of the service provider. Sixty per cent or more of those surveyed are concerned about all five."

While these are legitimate issues, Mr Smith says the most common concern he hears from administrators is cost which remains "the biggest handbrake".

"I feel as if, in the SMSF sector in particular, cost is a particularly important issue. When the desktop providers had the software, they priced it at a significantly different price to what the cloud providers were pricing at," Mr Smith says.

"Part of the reason for this is that the efficiency that is created principally through these data feeds on these cloud administration applications is so much more efficient and so much more sophisticated that there's a higher charge for them."

However, given its benefits to administrators, Mr Smith believes the extra cost is worth every cent.

"A lot of businesses who have moved to these platforms and are paying the higher charges, and they'll say far away that they're worth it for the greater efficiency dividend they're getting from it.

"There's always going to be a group that's going to look at the raw price and compare what they're currently paying with the new regime and have concerns about that."

Nevertheless, those who want to capitalise on the efficiencies offered by the cloud need to ensure that they set it up properly.

"The major thing that they all have to do to get the most out of the cloud applications is to get all the data feeds set up – from the banks, the stock brokers, the managed funds – because the Holy Grail is to automate as much as we can to eliminate the need for humans to do things," Mr Smith says.

"On those products, the key to that is to get the automated data feeds flowing so that the system is effectively coding itself. It's not rocket science but it does take a little time to get clients to sign forms and everything."

With some clients and investments, however, implementation can sometimes be easier said than done.

A MESSAGE FROM CLASS

Kevin Bungard
CEO, Class

The adoption of cloud technology for SMSF administration is not just a good idea, it is increasingly becoming essential and a critical enabler of business growth and productivity.

The recently legislated superannuation rules are going to drive more fundamental change than many people realise.

The reporting burdens on trustees will increase further, such as monitoring the amount of pension assets, and the ATO has already made it clear it wants to step up the frequency with which funds provide this information, eventually moving to real-time reporting.

The promise of the cloud is that everything will be connected and the administrator will have all the data at their fingertips to provide a superior service to their clients. That gets closer every year with the growth of direct-connect data feeds and the expanding network of cloud-connected service providers.

Accountants need to focus on their business growth strategy. If they see SMSF administration as a primary driver of that growth and they haven't moved to the cloud, they must realise that others are building business models in the cloud that will overtake them.

Real-time support from your software provider is the key to making the transition to the cloud a positive experience. Once accountants have completed the move, their first response is usually, why didn't we do this sooner?

"There is the occasion where a client has some level of security paranoia where they don't want information flowing directly from their bank, for example," Mr Smith says.

"There are other situations where there are no data feeds available for the type of investment that a client may have, in which case the efficiency dividend is not as great."

In other instances, administrators may simply find their client does not require the features provided by the cloud.

"Because the cloud products are more expensive, if I have a client who has cash in the bank and nothing else, then I don't really need all the sophistication that the cloud product provides me and maybe I'd be better off just staying on the desktop product as it's a lot cheaper," Mr Smith says.

"There is a group of administrators in the market that think that way, and it's not uncommon for them to have a large portion of their clients on the cloud and a smaller portion on the desktop product because it's cheaper."

Ultimately, the responsibility falls on users to address their concerns and guarantee their system is running correctly.

"It's fair to say that there is a group of accountants and administrators that have an overriding concern over the cloud generally. Anyone going to the cloud needs to do their fair diligence to ensure the cloud provider has themselves structured to ensure all the potential security risks are minimised," Mr Smith says.

CHANGE MANAGEMENT ADVICE

Change is never easy, and it's no different when you are shifting your practice from desktop to the cloud.

According to Omniwealth managing director Matthew Kidd, the first step practices should take is to establish why they want to move to the cloud.

"Going to five conferences where everyone says you need to go to cloud is not really a reason why you go to cloud," Mr Kidd says.

"You go to cloud because you have a specific need. That could be possibly you need a new server, you have a lot of staff working remotely who want to be able to easily access files or you could have a client base that actually is very tech savvy."

Superannuation Advisors Australia director Mike McHenry also weighed in, saying everyone in the practice must agree on a central mission and values before the firm even looks at different cloud services on offer.

"Everyone has to agree on the mission. They have to be forward-thinking and they have to all agree that if we want to be seen as an innovative business, well, we all have to agree to what that mission is," Mr McHenry says.

"People traditionally don't like change and so you need a fallback to say, 'Hey, we all agreed to this'."

Mr Kidd adds that there will always be some staff who will resist the change, which can create a significant hurdle for the practice.

However, he believes that educating staff about the benefits of going to the cloud and the limited risks involved can sway hesitant employees.

"You need to show and easily demonstrate why the business needs to go cloud based and what the benefits are for the business," he says.

Mr McHenry is of the opinion that those who resist should be phased out of the business.

"I think if the stakeholders agree that that's the business they want, if personnel within it don't sign up to that, well, then they need to work a transitional model and transition them out of the business. Simple. There's no place for them," he says.

Once everyone else is on board, Mr Kidd says someone needs to be appointed to drive the change from desktop to cloud, after which the research phase can begin.

"You have to have someone who will drive it… There's no point everyone just sitting around saying, 'Let's do it' and then all walk out of the room and wonder who's actually going to drive it," he says.

"Someone actually has to be accountable and say, 'I'll be the one person who will drive it'."

That person will have to do their research to make an informed choice.

"I know it's all the rage and everyone goes, 'You got to be cloud based', and long-term, absolutely 100 per cent but there's a lot of work that goes into the research and pre-move decision-making," Mr Kidd says.

"You've got to look at the different types of cloud software that's out there. There's Rolls-Royce software out there, there's also basic cloud solutions out there and the top ones are really expensive and you may be very well buying or paying for something that you just don't need."

Mr McHenry also suggests testing different options to prevent problems down the track.

Finally, Mr Kidd says businesses need to be prepared for the transition phase.

"The actual transition can be really expensive. What people forget is that

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you choose a cloud-based solution but you have to pay someone to actually get that data across," he says.

Mr Kidd says it is possible that the cloud company itself will offer this service, but they don't do it for free.

"It could be hours and hours and hours of someone doing data transferring between your desktop solution on to the cloud and that could be a job that's in the thousands, tens of thousands [of dollars], and depending on how big the business is, it could even be six figures."

He also highlighted that it's not just a financial burden, but a time issue as well.

"Then you can have downtime. It won't happen overnight or over a weekend. There will be business disruption. If you are an accounting firm that sells in seven-minute increments, which most accounting firms do, there's going to be a productivity downturn whilst you do the transfer.

"So again, you've got to have someone who is driving it, someone who can quantify what the downtime is, quantify the cost, not just the cost of the actual solution but the cost of getting to the solution."

FUTURE OF THE CLOUD

Major regulatory reforms and changes in client attitudes and expectations will see a big transition with cloud technology and its adoption by SMSF firms in coming years.

Impact of recent reforms

The recent superannuation reforms have brought some of the most significant changes to the superannuation system in a decade and will require major changes to SMSF software.

One of the most significant outcomes of these reforms, according to Class chief executive Kevin Bungard, is that many SMSF firms that have yet to adopt automated types of technology will essentially be forced to upgrade in order to stay compliant and continue providing SMSF services.

Mr Bungard says SMSF practitioners will need to be able to easily identify certain types of clients such as those with balances above $1.6 million and those with transition to retirement income streams.

Some of the reporting requirements that form part of the legislation are very tight and will also be difficult to meet without firms adopting cloud-based technology that allows them to have direct access to client information.

"As part of the legislation, you'll now be required, within ten business days, to report on anything that's been transferred into the pension phase," Mr Bungard says.

"It's going to be very, very difficult for SMSF firms to meet their obligations unless they embrace technology."

These reforms, along with the removal of the accountants' exemption, will also see a greater push towards specialisation within the SMSF space.

"It is now at the point where firms that are only running a small number of funds – who aren't specialists and who haven't made the investment in technology – will need to decide whether they will make that investment or how else they're going to deliver that to their client," Mr Bungard says.

"This idea of just doing a handful of funds in an area which is specialised is not really in the best interest of the client or of the industry."

Those people who are doing a handful of accounts will either need to have SMSFs as a focus for their practice through the use of technology and the appropriate upskilling of staff or decide it's something they do not want to do and hand it to someone else.

Regulatory push for automation

The tighter reporting requirements recently introduced by the government through both the superannuation reforms and SuperStream are part of its broader plans to increase the level of automation with compliance reporting, according to Mr Bungard.

"The government is now expecting firms to be able to deliver information in an automated fashion," he says.

"We're only going to see more of that going forward. [SMSF practitioners] will need to get used to electronic reporting and the government mandating it because there's only going to be more of it."

Mr Bungard says the government will also expect information from businesses more frequently.

"Doing things at the end of the year in an Excel spreadsheet is really not going to cut it moving into the future," he warns.

Firms operating this way will find it increasingly difficult to meet their obligations.

"The government obviously sees [technology] as important in terms of what they're doing and they're raising their level of expectations in terms of what practitioners are doing," Mr Bungard says.

Similarly, SuperConcepts' chief technology officer Kurt Groeneveld notes that more superannuation professionals are required to interact with the tax office and clients in a timely, often immediate manner. Using outdated software, or software that is anchored to an office or one device, can be particularly problematic in these circumstances.

Aside from being a clunky process, Mr Groeneveld suggests that using outdated server and software systems is not necessarily robust or secure enough for sensitive client information.

Meeting client expectations

It's not just the expectations of the government that have risen, clients are also expecting firms to be able to provide easy access to up-to-date fund information.

"Clients want mobile access, they want engagement [and] they want that through the devices that they're using, and they want that to be at their fingertips so I think you'll see a lot more of that tight client engagement in the future," Mr Bungard says.

Integration with wealth more broadly

One of the other longer term themes with superannuation and technology that has emerged from the super reforms is SMSF trustees thinking about their broader wealth strategy. This will require greater integration with other wealth management tools.

"Clients will be looking to get a consolidated view of all their wealth on whatever device they want to look at," Mr Bungard says.

"I think there'll be a broader focus on retirement savings and overall wealth so even though advisers or accountants might be focused on advising on SMSFs, their clients will expect them to advise on more than what they have in the past."

> "THE GOVERNMENT OBVIOUSLY SEES [TECHNOLOGY] AS IMPORTANT IN TERMS OF WHAT THEY'RE DOING AND THEY'RE RAISING THEIR LEVEL OF EXPECTATIONS IN TERMS OF WHAT PRACTITIONERS ARE DOING"
>
> Kevin Bungard, Class

SMSF clients will want to know what to do with their wealth inside and outside of super, Mr Bungard says.

"This is another area where if you're not embracing technology and you're not delivering that service level, you will not be meeting your client's expectations going forward."