

Financial Advice: The Growth Opportunity

Executive Summary

The accounting industry is facing significant change over the next few years, particularly in the area of self-managed superannuation fund (SMSF) advice. From 1 July 2016, any accountants wanting to continue to provide SMSF advice to their clients will need to do so under an Australian Financial Services Licence.

Regardless of the regulatory changes ahead, accountants are already facing the challenge of increasing fee pressure. Fees from traditional accounting services, which have historically been a strong and stable source of revenue, are reducing due to improvements in technology, changing customer needs, and increased competition.¹

Accounting firms are faced with important decisions over the coming years that will determine the direction and ultimate long-term success of their business. For accountants that embrace the opportunities presented by an evolving regulatory and business environment, there is significant potential for growth through the provision of higher value-adding services to their clients, in particular financial advice.

Background

The regulatory environment

In March 2002, Financial Services Reform introduced sweeping changes to the way that the financial services industry and, in particular, financial advice were regulated. At that time, however, accountants were provided with an exemption from the new licensing regime with respect to advice provided on the establishment and winding down of self-managed superannuation funds (SMSFs).

Since then, the SMSF sector has experienced significant growth. In the period from 2009-2013, total assets in the sector have grown from \$320 billion to more than \$500 billion and the total number of SMSFs has grown by 27 per cent to over 509,000.² With this growth – and in recognition of the importance of this sector in ensuring adequate levels of retirement savings amongst the Australian population – has come a higher level of government and regulatory scrutiny.

With the introduction of the latest sweeping changes to impact the financial services industry – the Future of Financial Advice (FOFA) reforms – the Government announced the removal of the accountants' licensing exemption. The removal of the exemption supports the Government's objective of ensuring that consumers receiving financial advice with respect to SMSFs obtain the same level of consumer protection regardless of who is providing the advice. These changes will result in many accountants being brought into the licensed regime for the first time.

Furthermore, it could be argued that accountants providing financial advice will be subject to a higher professional standard than that required by the Corporations Act, with the introduction of the Accounting Professional and Ethical Standards Board standard on Financial Planning Services (APES 230) on 1 July 2014.

Industry trends

The accounting and financial planning industries have historically carved out their own niche markets and client segments with only minimal overlap and interaction between the two industries. Whilst this model has been quite successful to date, we are seeing trends evolve in both accounting and financial planning that will result in greater convergence of the two industries.

Traditional sources of accounting firm revenue are at risk. The emergence of improved technology and growing competition is resulting in fee compression particularly in the areas of traditional taxation services (for example, tax return lodgement) and compliance/administration services. The pre-filing of tax returns, as highlighted in the 2007/08 Federal Budget and in the Henry Tax Review Report, is making the completion of personal tax returns much simpler for individuals, reducing the need for involvement by their accountant. This fee pressure will require accountants to re-evaluate their service offering and consider the provision of higher value-adding services to their clients. Coupled with this trend, clients are increasingly seeking to have their holistic financial needs serviced by one individual or business rather than seeking services from multiple sources.³

Regulatory reform is also driving convergence. The removal of the accountants' licensing exemption with respect to self-managed superannuation fund (SMSF) advice will bring many accountants into the licensed environment for the first time. Concurrent with these changes, amendments to the regulation of tax advice will bring financial planners into the regulated tax regime to which accountants have been subject for a number of years.

This convergence is likely to see a significant shift in how the two industries work together and may in the longer term result in a complete amalgamation of the two industries, with a broad suite of financial advisory services being provided to clients within a diversified financial services (rather than an accounting or financial planning) firm.

This convergence prompts a number of key strategic decisions for both accountants and financial planners. For accountants in particular, the removal of the accountants' exemption represents an opportunity to embrace the changing environment and establish a business model that will provide a strong platform for client retention and business growth.

1 Firm of the Future: Opportunities and Challenges for Public Practice, CPA Australia, 2007, p 10.

2 ATO Self-Managed Superannuation Fund – Statistical Overview 2011-2012.

3 Firm of the Future: Opportunities and Challenges for Public Practice, CPA Australia, 2007, p 13.

An Important Choice

The accountants' exemption will be formally removed from 1 July 2016. At this point, accountants wishing to continue recommending SMSFs to their clients will need to operate within the licensed regime.

As a result of these changes, accountants effectively have four options with respect to SMSF advice, as detailed below. Accountants will need to consider their future business direction in selecting the most appropriate option for them. Careful consideration of the benefits and shortcomings of each option will be critical in ensuring that accountants make a choice that will ensure the long-term success and sustainability of their business model.

Option 1: Obtain a Limited AFSL

To assist accountants to transition to the licensed regime, a new limited Australian Financial Services Licence (Limited AFSL) has been developed by the Australian Securities and Investments Commission (ASIC). Under this new class of licence, where the applicant's Responsible Managers are recognised accountants, they are provided with an exemption from the normal experience requirements. This exemption lasts for three years, at which point the licensee must be able to demonstrate competence, if requested by ASIC.

The authorisations available under a Limited AFSL are not as extensive as under a full AFSL and include advice about a client's existing superannuation holdings, SMSFs and 'class of financial product' advice. Under a Limited AFSL, therefore, Authorised Representatives are not able to provide financial advice that is specific to a particular product (other than an interest in an SMSF).

Despite the limited nature of the licence, the obligations under the licence with respect to conduct and disclosure of Authorised Representatives replicate that of a full licence. As a result, licensees must ensure that anyone that they authorise under their licence is trained and competent to provide the advice. It is important to note that for an Authorised Representative to provide 'class of product' advice, the training requirements (as per ASIC Regulatory Guide 146) are similar, if not exactly the same as a full Authorised Representative. This is a key disadvantage of the Limited AFSL given that accountants could do the same level of training and provide full financial advice to their clients under a third party AFSL.

In addition, the requirements in relation to advice documents (for example, the provision of a Financial Services Guide and Statement of Advice) and the best interests duty apply equally to advice provided under Limited AFSLs and full AFSLs. The Limited AFSL must also hold membership of an ASIC-approved external dispute resolution scheme and have appropriate levels of professional indemnity insurance in place.

Whilst a Limited AFSL may be an attractive option for a number of accounting firms, particularly those of significant scale that can support the ongoing requirements of holding an AFSL, there is a significant opportunity cost associated with obtaining and maintaining a licence that accounting firms must weigh up.

The ongoing cost associated with holding a licence is conservatively estimated to be at least \$20,000 per annum, plus additional costs for financial planning software, business development and practice management, and maintenance of advice processes. However, this estimate does not factor in

the significant opportunity cost associated with maintaining a licence and the time that accountants could otherwise be spending on their core business of servicing their clients.

Another key consideration for accountants is succession planning. An AFSL will be seen as a significant liability rather than a valuable asset for any prospective buyer of the business, which can therefore impede the sale of an accounting firm. This is due to concern by purchasers about the uncertain size and long term nature of potential claims arising from financial advice complaints for which the owner of the AFSL will remain responsible.

Option 2: Become an Authorised Representative of an existing AFSL

Another option for accountants who wish to continue providing SMSF advice is to select an existing licensee and be appointed as an Authorised Representative of that licensee. Under this option, accountants are able to focus on their clients and growing their business without the work involved in obtaining and maintaining their own licence – they can leave these aspects to their licensee.

Licensees offer a range of services and support to their Authorised Representatives which usually include technical and compliance support, training, advice documents and software that enables the provision of advice and para-planning services. Licensees will often also provide their Authorised Representatives with professional indemnity insurance covering the financial advice provided to clients. The extent and quality of these services will generally be linked to size and scale of the licensee given the cost and expertise associated with providing the services.

Depending on the licensee, accountants may have a number of options in relation to the breadth of their authorisation. These options may include authorisations that allow the accountant to either continue to provide SMSF advice, provide advice which replicates what is covered under the Limited AFSL authorisations (as referred to above), or provide full financial advice, among others.

The choice of licensee and the level of authorisation that an accountant chooses will be critical in shaping the business model they adopt going forward and will determine their capacity to grow. Accountants understandably place a high value on the relationship that they have with their clients, and the key to choosing the right licensee (and level of authorisation) will be ensuring that this relationship can be maintained in their future business model. That is, the authorisation will need to be wide enough to allow them to have meaningful (and compliant) conversations with their clients without having to refer most or all clients to a full Authorised Representative outside of their accounting business and risk losing the client.

Option 3: Refer Clients to an Authorised Representative

Accountants who are currently providing SMSF advice to their clients under the accountants' exemption but do not wish to move into the licensed regime, may instead choose to cease providing these services to their clients themselves and instead set up a referral arrangement with an Authorised Representative.

As outlined above, this is unlikely to be attractive to accountants who want to ensure that they maintain the primary relationship with their client. This option, however, may be attractive to accountants who have no desire to provide any financial advice to their clients now or in the future.

Option 4: Cease Providing SMSF Advice to Clients

Accountants also have the option to cease providing SMSF advice to their clients prior to 30 June 2016. This is unlikely to be attractive to accountants who already have an established SMSF service offering for their clients, but may suit others who have only 'dabbled' in this space in the past and have no desire to continue or grow the advice services offered to their clients.

Given the possible convergence between accounting and financial planning, pursuing the referral model or ceasing to provide SMSF advice, and not offering financial advice services to clients, may put the tax and accounting relationship with clients at risk over time as they seek these services elsewhere.

The Opportunity

The changes to the industry and regulatory environment present an ideal time for accountants to think strategically about where the profession is heading and what this means for their business. Accountants who can see the opportunities arising from the changes will be thinking now about their future business model and establishing a platform to ensure their firm's continued success and growth.

With accountants needing to think about replacing traditional sources of revenue that are in decline, the removal of the accountants' exemption provides the necessary impetus to add higher value-adding services to their client offer through the provision of financial advice.

The addition of financial advice services to the array of services offered to accounting clients has proven to have dual benefits for accounting firms already operating in this space. The addition of financial advice services allows accounting firms to further deepen relationships with their clients, adding to the 'stickiness' of these clients both with respect to accounting services as well as financial planning services. Further, the additional services also add value to the business when it is sold. Traditionally, accounting firms sell at about 0.8x revenue. However, revenues from financial advice services sell for about 2.5x revenues.

Service	Revenue	Value of Business
Accounting	\$1,000,000	\$800,000 (@0.8 x revenue)
Accounting and Advice	\$1,000,000 \$500,000	\$800,000 (@0.8 x revenue) \$1,250,000 (@2.5 x revenue)
Total	\$1.5 million	Total \$2.5 million

Our Accountants' Solution

Count Financial Limited (Count) has been assisting accountants to provide financial advice services to their clients for over 30 years. We have used the knowledge that we have developed over that time, to develop an Accountants' Solution that is unique and offers accountants the choice and flexibility they need to prepare their business for continued future success.

In recognition that accounting businesses will be at varying stages of readiness to expand their client offering into full financial advice, our solution offers accountants the option to either provide SMSF-only advice (through a limited authorisation) or holistic financial advice (through a full authorisation). Our Accountants' Solution also provides accounting firms with the choice to have some accountants within the firm obtain a full authorisation and others the limited authorisation.

Our limited authorisation (Accountant Authorised Representative) is designed to ensure that accountants are provided with sufficient authority (and the required level of training) to allow them to have meaningful conversations with their clients about SMSFs. Importantly, this authority removes the need to refer an SMSF client to another Authorised Representative to ensure compliance with the best interests duty. Critical to this is the inclusion of strategic insurance advice as part of the Accountant Authorised Representative's authority.

In addition, the Accountant Authorised Representative authority has been structured so that the training needs are around half of those required of a full Authorised Representative or an Authorised Representative operating under a Limited AFSL.

On the other hand, Count's full Authorised Representative status allows the accountant to provide their client with a full financial advice service. Whilst the training requirements are higher than an Accountant Authorised Representative (both initially and ongoing), the value of being able to provide this more complete service to clients is significant for both the client and the firm. Again, Count's offering allows for different individuals within an accounting firm to take on either of these authorisations, depending on their needs.

Further details on our Accountants' Solution are included in Appendix 1.

Conclusion

Industry pressures and the removal of the accountants' licensing exemption mean that accountants need to think strategically about the future of their business. The addition of higher value-adding services, particularly the provision of financial advice, will not only add value to their clients, but further deepen client relationships and enhance the overall value of the accounting business.

Now is the time for accountants to set themselves up for the future. The key will be to determine where they want to take their business and choose the solution that provides them with the best chance of success.

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APPENDIX 1

Our Accountants' Solution – the detail

The Authorisations

Count provides accountants with choice and flexibility to choose the level of authorisation required to meet the needs of their clients and their business. The categories of advice that are covered by each authorisation are outlined below.

Table 1: Advice categories for Count Authorised Representatives

Advice	Accountant Authorised Representative	Full Authorised Representative
Establish/close an SMSF	✓	✓
General super contributions	✓	✓
Strategic super consolidation	✓	✓
Strategic SMSF advice	✓	✓
Basic deposit products inside super	✓	✓
Strategic insurance advice (inside super)	✓	✓
Strategic debt advice (limited recourse borrowing)		✓
Strategic investment advice (including class of product)		✓
Insurance product advice		✓
Specific investment product advice		✓
Holistic financial advice		✓

The Services

Count provides a range of licensee services to its Authorised Representatives. These services (outlined in Figure 1 below) will be provided to both Accountant Authorised Representatives (where relevant) and full Authorised Representatives.

Count understands the support accountants require when expanding into the provision of financial advice services to their clients. Our specialist program for new Firms provides high quality support to assist accountants to establish themselves in the first 12-18 months of joining Count, setting their business up for a successful future providing financial advice to their clients.

In addition to the services outlined below, Count, as a licensee focused on accountants, provides thought leadership and advocacy for accountants providing financial advice. We also provide support for accountants to meet their accounting professional standards with respect to financial advice. That is, support to meet the requirements of Accounting Professional and Ethical Standard 230: Financial Planning Services (APES 230).

Figure 1: Count's Services to Authorised Representatives



The Price

Count's solution is competitively priced.

	Accounting Firm with at least one full Authorised Representative	Accounting Firm with only Accountant Authorised Representatives
Annual Fee	\$10,000 (discounted in the first three years). This includes two 'free' Authorised Representatives.	For the first three years: \$5,000 per Authorised Representative per annum, with a minimum requirement of two Authorised Representatives per firm. After three years, firms with only Accountant Authorised Representatives can select from the following: <ul style="list-style-type: none">• Transition to a full Count Firm with at least one Full Authorised Representative (with the costs as indicated in the first column); or• Remain as an Accountant Authorised Representative at a cost of \$10,000 per Authorised Representative per annum, with a minimum requirement of two Authorised Representatives per firm.
Additional Authorised Representative Fee	\$1,365 as at 1 July 2014 (indexed at 5% per annum) for each additional Authorised Representative after the first two.	Refer above
Brokerage Splits	Brokerage split of 15% applies to fees charged for services provided in the capacity of a (full or Accountant) Authorised Representative.	Brokerage split of 15% applies to fees charged for services provided in the capacity of an Accountant Authorised Representative.

Speak to us for more information

To find out more about our Accountants' Solution register your details at www.count.com.au/smsf

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