Trustees face harder, sharper market

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Whether they are looking to hire help for investment portfolio administration or for an administration and compliance service, or for financial planning advice, trustees of do-it-yourself super funds are living in very competitive times.

DIY super services have always been quite competitive but lately it has become a harder and sharper market when it comes to different services, says Macquarie Adviser Services executive director David Shirlow.

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One of the top five investment portfolio administrators, Macquarie has just revamped the platform fees for the investment administration and custody service it promotes to financial planners with DIY super clients. Instead of charging fees on a per-transaction basis, it has introduced sliding-scale portfolio administration fees with maximum charges.

A particular feature of the fees is that they will comply with the transparency obligations under the government's future financial advice reforms. These obligations require arrangements between financial institutions and advisers, such as bonus payments for high volumes of business, to be scrapped.

Investment platforms promoted by big banks and insurance companies are playing a growing role in the DIY super area as more financial planners become involved, although the last 12 months may have seen a slowing in planner involvement.

According to financial services researcher Investment Trends, at least one-quarter of the more than $420 billion in DIY super is estimated to be held through platforms which look after the investment side of portfolios of mainly managed funds and direct share investments.

A recent survey of planner involvement in the 450,000-DIY super fund sector may show a decline in the proportion of funds using planners – estimated to be about 55 per cent of the then 410,000 funds a year ago– but Investment Trends analyst Recep Peker says planners are still expected to be significant players.

One development that will be interesting to observe is the average fees planners charge their DIY clients. In June 2008, the average was $4500, which went down to $3500 last year.

A major area where competition is likely to be strong, says Shirlow, is portfolio administration. This aspect of the market, he says, has been interesting because no single financial organisation has been able to build a significant market share.

While Adelaide-based Cavendish Superannuation is believed to be the largest administrator with about 5500 funds, this represents less than 2 per cent of total DIY funds.

Alan Dixon, managing director of administrator Dixon Advisory & Superannuation Services, which provides assistance to 4000 funds, says what is interesting about DIY administration is the absence of major players.

In virtually every other area of financial services, like insurance and banking, the leading players have 10 per cent-plus market shares.

He attributes part of this to the competition that exists in portfolio administration and part to the fact the DIY super is still an area where a sizeable proportion of funds seek no help beyond accountants, who assist them with their annual accounts and audit.

Dixon offers clients two services, a complete administration-only service where funds pay a fee of 1 per cent of their total assets to a maximum of $4990 for detailed investment monitoring and record-keeping with daily portfolio updates via the internet, as well as fund accounting and auditing service.

A second service is the complete administration service plus a fee for strategic financial advice.

Dixon acknowledges that his firm’s service is not aimed at DIY funds looking to keep costs to a minimum, which he says is a totally different side of the market.

“The administration service we provide,” he says, “includes making sure trustees are kept informed of any developments that relate to their portfolios, like share offers and takeovers which are easy to miss where trustees may be short of time because they work and lead busy lives.”

The daily portfolio reporting is similar to the service offered by investment platforms, although platforms tend to have more bells and whistles, like the scope to segment portfolios and create graphs.

Andrew Bloore, chief executive of super administrator SuperIQ, says the scope for professional administration of DIY super funds is significant given that funds being looked after this way may represent only about 10 per cent of total DIY funds.

The vast majority of DIY funds are administered by accountants, with three-quarters of accountants involved in DIY super looking after fewer than 20 funds.

That said, one recent observed trend is a growing proportion of new funds joining professional administrators rather than small accounting firms.

Bloore says that while funds with a financial planner are more likely to have their investments held within an investment platform arrangements, this is one area of super where technology is likely to play a big role in the future.

Although large financial institutions are the main promoters of investment platform services, he believes the complete DIY super service that combines advice, monitoring and portfolio administration is still developing.

Peter Crump, chief executive of Adelaide-based Portfolio Planning Solutions, says the challenge for investment platforms is keeping a lid on costs given DIY funds have major administration responsibilities that must be met.

While big banks and other financial institution are certainly interested in lifting their involvement in DIY super, the big challenge they face is their different mindset.

Banks and institutions, says Bloore, are built around delivering financial products to the market like managed funds. Whereas industry and retail super are more like financial products, DIY super is a service rather than a product.

Dixon says being able to combine the investment side of DIY super with portfolio administration offers an opportunity to make cost savings given that the information gathered on investment platforms is similar to the information required for the administration side of super.

He says if there is one aspect of DIY super that most trustees are aware of it is what they pay to run their funds.

While they may not necessarily analyse this in great depth by calculating a management expenses ratio where various expenses are expressed as a proportion of the fund’s asset and reported to investors as a percentage of their investment account, what is more important is that the cost is acceptable.

When people start running their own super, says Dixon, this generally means keeping tabs on the fees and expecting value for money.

Bloore says while large financial institutions have been good at creating investment platforms, they haven’t been so successful on the service side of DIY super.

Dixon says even on the investment side many trustees like to be more involved than the average managed fund investor. He has found DIY trustees don’t mind advisers coming up with investment suggestions about what to buy and sell but they still want to make the final decision.

As well being more personally involved on the investment and financial planning sides of super, the other aspects where trustees want to discuss issues with advisers are the various DIY strategies for contributions and benefit payments.

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