

# Submission by Superpartners

**Review into the governance, efficiency,  
structure and operation of Australia's  
Superannuation System**

**(Phase Two – Operations and Efficiency).**

14 December 2009

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## Table of contents

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<b>1</b>	<b>Introduction .....</b>	<b>1</b>
<b>2</b>	<b>Executive Summary .....</b>	<b>2</b>
<b>3</b>	<b>Part One – Superpartners Vision .....</b>	<b>3</b>
<b>3.1</b>	<b>Mandatory adoption of simpler, standardised electronic processes for Super Funds and Administrators .....</b>	<b>3</b>
<b>3.2</b>	<b>Mandatory adoption of minimum operating standards to operate as a Clearing House .....</b>	<b>5</b>
<b>3.3</b>	<b>Authentication of the identity of Funds (through ABN) and authentication of members using the Tax File Number (TFN) as the unique member identifier at the point of entry .....</b>	<b>7</b>
<b>4</b>	<b>Part Two - Response to specific questions.....</b>	<b>9</b>

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## 1 Introduction

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Superpartners is pleased to provide this submission in response to the *Review into the governance, efficiency, structure and operation of Australia's Superannuation System* (Phase Two – Operations and Efficiency).

Superpartners welcomes the opportunity to provide the Panel with a submission in relation to those topics in the Issues Paper that are relevant to the operations of superannuation administrators generally and Superpartners specifically. Hence, this submission consists of two parts. Part one covers our vision for an efficient and innovative superannuation system with a particular focus on superannuation administration. Part two provides specific answers and recommendations in relation to those questions raised in the Issues Paper that are relevant to the superannuation administration function and Superpartners.

We note that the Issues Paper refers to “...three of the largest administrators...” in the market followed by a set of specific questions in relation to the operations of administrators (Section 7.4 - Administrators) . Superpartners, AAS and Pillar, being the three largest administrators, have jointly issued a separate submission specifically dealing with this section.

The views and recommendations expressed in this submission are those of Superpartners only.

We look forward to an opportunity to provide further superannuation administration thought leadership to the Panel.

Should you seek further information on any aspect of this submission please contact Hans van Daatselaar on (03) 9200 4380 or via email on [hvandaatselaar@superpartners.com.au](mailto:hvandaatselaar@superpartners.com.au).

### ***Who is Superpartners?***

For 26 years, Superpartners has partnered with not-for-profit Industry Super Funds to provide tailored solutions that meet the needs of their employers and members. Our single specialised focus is Industry Fund Super and the success of our partnership with Industry Super is underpinned by our unique ownership structure. With five of Australia's leading Industry Super Funds as our majority owners, our success is inexorably linked to the long term success of Industry Super Funds.

As Australia's largest superannuation administrator, we currently administer more than 6.3 million member accounts, with contributions from over 450,000 active employers and more than \$76 billion in funds under administration. We currently have over 1,500 employees and offices in every major city. Our Clients include five of the top ten largest Industry Funds and the largest Eligible Rollover Fund, AUSfund.

We focus on Industry Super and aim to provide administration services at the lowest possible cost. Superpartners exists to bring economies of scale and scope that our Clients might otherwise not garner themselves. Our services help our Clients stand out by offering a better customer experience across the major milestones of a member's working life and as they transition into retirement.

We seek to make a contribution to the Industry Super promise of “*A Lifetime of Difference*”. Industry Super Funds do not pay commissions, maintain low fees and are run only to benefit members.

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## 2 Executive Summary

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Superpartners sees a number of areas where the industry can work with Government to overcome the core underlying issues impacting efficiency as well as member account duplication.

The absence of simple, standardised, electronic processes has led to obvious inefficiencies in the administration of superannuation with significant costs borne by employers, Funds/administrators and ultimately members.

To overcome these inefficiencies, Superpartners would recommend the following:

1. Mandatory adoption of simpler, standardised electronic processes for Super Funds and Administrators i.e.: swimEC
2. Mandatory adoption of minimum operating standards to operate as a Clearing House
3. Authentication of the identity of Funds (through ABN) and authentication of members using the Tax File Number (TFN) as the unique member identifier at the point of entry
4. Extending an employers obligation under the Superannuation Guarantee Act 1992 to include provision of accurate and complete employer contribution data together with the contribution payment

In addition, as the largest superannuation administrator we believe that administrators are systemically significant institutions. Systemic failure of any administrator could potentially result in a substantial and lengthy disruption of services including payment of regular pensions and lump sum benefits. This would have a negative flow on impact in terms of a reduction in confidence in the superannuation system.

Administrators are an integral part of the superannuation system, and therefore we consider minimum capital requirements and compulsory prudential supervision under an APRA licensing regime as an appropriate measure to guarantee ongoing administration services.

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### 3 Part One – Superpartners Vision

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The absence of simple, standardised, electronic processes has led to obvious inefficiencies in the administration of superannuation with significant costs borne by employers, Funds/administrators and ultimately members.

For administrators, contribution management represents approximately 35% of the total superannuation administration cost (Ernst & Young, 2008). One third of this cost is associated with exception management. The cost to employers is equally significant.

Members ultimately pay for these inefficiencies through;

1. Member fees
2. Account duplication (as a consequence of poor data quality standards that arise from non-standard processes), and
3. Loss of earnings through delayed allocation of monies to member accounts

Superannuation Choice has exposed these inefficiencies as employers are now faced with many and varied processes for submitting employer sponsored contributions to multiple funds. Clearing houses emerged as one way of managing this complexity for employers.

However, while clearing houses may have simplified the processing requirements for employers, this has introduced new inefficiencies in the superannuation system resulting in an additional cost for members. Processing contributions through clearing houses generally results in delays in allocating contributions to member accounts. This means that members lose out on earnings on their contributions. Hence, clearing houses in the current environment do not address the underlying issues impacting overall efficiency.

Superpartners sees a number of areas where the industry can work with Government to overcome the core underlying issues impacting efficiency as well as member account duplication by:

1. Mandatory adoption of simpler, standardised electronic processes for Super Funds and Administrators
2. Mandatory adoption of minimum operating standards to operate as a Clearing House
3. Authentication of the identity of Funds (through ABN) and authentication of members using the Tax File Number (TFN) as the unique member identifier at the point of entry

Each of these three areas will be covered briefly.

#### 3.1 Mandatory adoption of simpler, standardised electronic processes for Super Funds and Administrators

Superpartners strongly supports the mandated use of simpler, standardised electronic processes, subject to proper industry consultation and allowing for a reasonable lead time for the industry to adopt and implement the required technology and standards. We believe that it is only through compulsion, that industry participants can justify, and have the confidence to make, substantial investments in the agreed technology and standards.

The adoption of simpler, standardised electronic processes reduces complexity for employers by having the same process for all Superannuation Funds to whom they remit contributions and payments. Having one standard process for all Funds also provides clarity for payroll software providers as to how to implement superannuation contribution and payments interfaces.

Simpler, standardised electronic processes can be implemented through:

1. Universal adoption of swimEC message standards
2. Payment by electronic means including electronic funds transfer (EFT)
3. A common set of minimum data requirements for all superannuation funds

### **3.1.1 Universal adoption of swimEC message standards**

Mandated universal adoption of industry based message standards for electronic commerce by all participants in the superannuation industry who supply or receive data (other than the member) will result in significant cost savings, reduction in error rates and fraud incidents as well as a better user experience. The superannuation industry has already developed a set of standards. swimEC ([www.swimec.com.au](http://www.swimec.com.au)) was developed by, and for, the superannuation industry over five years ago, however it was never universally adopted as the standards were voluntary.

Superpartners is committed to adopting industry standards and has made significant technological investments through the adoption of swimEC in its fully electronic superannuation contributions remittance portal for employers, Super FileManager.

Super FileManager has been successfully operational for over 12 months with excellent results in terms of reduction in errors (approximately 1/5000), prompt allocation of monies to member accounts as well as an improved (employer) user experience. However, the take up rate for employers to use the portal is still low as there is no compulsion for employers to remit electronically and the service has yet to be “turned on” to manage Choice contributions (using Super FileManager to pay multiple super funds according to the member’s choice). Super FileManager could easily and cheaply be set up to manage Choice contributions if other Funds were able to receive data using swimEC standards.

We were encouraged by the Government’s initiative to appoint Medicare to administer the free and optional electronic Clearing House service for small employers. We believe that this presents an excellent opportunity for the Government to lead the industry by adopting swimEC standards as well as introducing minimum operating standards for “approved Clearing House” providers. By Medicare adopting swimEC standards, contributions remitted electronically by employers through the Medicare portal can be electronically allocated to members accounts through the Superpartners portal.

### **3.1.2 Payment by electronic means including electronic funds transfer (EFT)**

Superpartners recommends that payments by electronic means be the default payment method as it is the least cost payment method for employers. In addition, electronic commerce is supported by most payroll systems (i.e. in excess of 88% of employees are paid salaries or wages by EFT<sup>1</sup>) and, when used with the swimEC

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<sup>1</sup> Department of Communications, Information Technology and the Arts, *Exploration of Future Electronic Payments Markets*, June 2006, p. 57.

messaging standards, ensures monies are cleared and allocated to member accounts in the minimum possible timeframe (24 hours).

However, for electronic payment to be widely adopted, complete up to date and accurate information, including bank account details, must be readily available for all compliant Superannuation Funds. This is covered in our third recommendation below.

### **3.1.3 A common set of minimum data requirements for all superannuation Funds**

With a common set of minimum data requirements for all superannuation funds, employers will have certainty as to what information must be provided to ensure contributions are allocated correctly and in a timely manner. However, minimum data requirements must reflect information that is readily available for employers to provide. For instance, Superpartners experience is that employer provided member numbers are unreliable.

Superpartners recommends that the minimum data requirements include:

- EFT lodgement reference
- Employer Name
- Employer ABN/ACN
- Payment Period
- Member Name
- Member Date of Birth
- Member Address
- Member TFN
- Contribution Type and Amounts

### **3.2 Mandatory adoption of minimum operating standards to operate as a Clearing House**

The Issues Paper raises the question whether with the right technology, central clearing could be the answer to the currently inefficient contribution management practices. In short the answer is no. Superpartners does not believe central clearing would be an appropriate solution. A centralised clearing arrangement (like CHES) could be more inefficient as it effectively creates a monopoly. For instance, employers who already provide data and monies electronically directly to Funds will need to send this through to a central clearing house first, resulting in delayed payment and allocation of monies into members accounts. In addition, there is no alternative where operational failure occurs. That is, if a system wide error occurred, the whole system would come to a halt because there is no parallel system to replace the service. This was recently demonstrated in the airline industry when their central reservation system, Sabre, was out of operation requiring all reservations to be made manually. A single central clearing entity would be responsible for clearing over 120 million contributions transactions representing over \$100B annually, so a similar experience for the superannuation industry could have catastrophic effects.

Superpartners is of the view that wherever practical, contributions should be remitted directly from employer to Superannuation Fund, as this minimises the total supply chain costs and the payment cycle times, and maximises the retirement outcomes for members.

Superpartners believes its recommendations if adopted, will encourage payroll software providers and most public offer Superannuation Funds to undertake the necessary technology investment to make direct payments from employers to multiple superannuation Funds a reality. The Government could consider assisting participants in providing a financial incentive or subsidy similar to when GST was introduced in Australia.

Where an employer opts to use a clearing house, Superpartners believes multiple, privately operated clearing houses operating in a truly competitive market will deliver the greatest efficiency gains, and ensure that a portion of the generated value is passed on to Superannuation Funds and their members.

Superpartners believes a truly competitive market can only exist where there is regulation to:

1. Set maximum processing times for payments
2. Mandate distribution by electronic commerce and using swimEC standards
3. Establish an independent entity to set competitive data interchange fees and monitor the operations of Clearing Houses and Administrators.

### **3.2.1 Set maximum processing times for payments**

There is no compulsion for Clearing Houses to pass on contribution data and payments as soon as possible. This creates an incentive for Clearing Houses to delay payment by remitting to Superannuation Funds by paper and cheque and in the meantime, earn interest on member contributions. In effect, it is the member who subsidises the employer's outsourced Clearing House service. Due to the additional revenue, the clearing house providers can charge a lower and subsidised fee to employers.

Currently, there are Clearing House providers that charge in excess of \$0.50 per member per contribution for Superannuation Funds to receive data and monies electronically. Superpartners believes that these charges do not reflect competitive pricing, but rather 'compensate' Clearing Houses for the reduced earnings on the float of Member Contributions, where payments are remitted faster through electronic channels.

These charges are in stark contrast to Superpartners total processing costs of less than \$0.05 per member per contribution to receive contributions electronically direct from an employer.

Superpartners believes that tackling this issue is key to maximising competition and the retirement outcomes of members, and recommends that Clearing Houses disperse contributions and payments within one working day of receiving cleared funds from an employer.

### **3.2.2 Mandate distribution by electronic commerce using swimEC standards**

The benefits of Clearing Houses to deliver efficiencies that industry participants cannot achieve on their own, is negated if Clearing Houses are rewarded for dispersing contributions and payments through paper channels.

Superpartners recommends that if there is a role for Clearing Houses in a competitive market, they must be mandated to distribute contributions and payments electronically.

### **3.2.3 Establish an independent entity to set competitive data interchange fees and monitor the operations of Clearing Houses and Administrators**

Superpartners agrees that Superannuation Funds should contribute to the cost of Clearing House operations only if they deliver significant efficiencies to the system and reduce existing processing cost. This will ultimately result in a reduction in cost for members. In addition, members should not have to subsidise what effectively is an employer service. However, Superannuation Funds as well as members are captive to an employer's choice to use a Clearing House and hence subjected to the somewhat arbitrary pricing strategies of Clearing Houses.

Given the relative efficiencies of the Australia's Bulk Electronic Clearing System (BECS), Superpartners recommends a model similar to the Australian Payments Clearing Association where there is regulatory oversight, and the Reserve Bank of Australia regulates data interchange fees between banks.

### **3.3 Authentication of the identity of Funds (through ABN) and authentication of members using the Tax File Number (TFN) as the unique member identifier at the point of entry**

The recommendations above make the point that overall efficiencies are maximised where employers can remit directly from their payroll system to multiple Superannuation Funds via electronic means and using agreed standards. However, employers must have complete confidence that data about individuals and funds can be authenticated.

Superpartners again draws on the BECS model whereby the Australian Payments Clearing Association maintains a registry of banks and bank branches (BSB) and the setup of new accounts requires a 100 point verification check.

In the Superannuation Industry, this can be emulated in a model where there is:

1. A single Fund registry to verify compliance and electronic payment details (analogous to BSB in the BECS).
2. New member data is electronically cross referenced with the ATO (analogous to the 100 point verification check performed by banks)

#### **3.3.1 A single Fund registry to verify compliance and electronic payment details**

A single Fund registry is analogous to BSB in the BECS as it provides all stakeholders with a single source of truth for the electronic distribution of payments and data to compliant Superannuation Funds.

However, a single Fund registry owned and operated by a Clearing House, will become a source of competitive advantage, enabling the Clearing House to enjoy economic rents by selling validation services at monopoly prices.

As with BECS, the registry must be maintained by a central authority that operates at arm's length to any Clearing House, Administrator or Superannuation Fund.

#### **3.3.2 New member data is cross referenced with the ATO**

Superannuation Member Accounts are created in the default Fund by employers remitting contributions for a new employee. Monies remain in the Superannuation system until the member can provide adequate proof of identity, meaning



implementing a 100 point verification check upon receipt of contributions is neither practical nor efficient.

Superpartners proposes that instead, the recommended mandated minimum information provided for a new employee (name, date of birth, address and TFN) can be used to electronically authenticate their identity against the ATO's database of individual tax payers, using the TFN.

Not only will this eliminate a major source of member account duplication at the point of entry, but will reduce the ATO's compliance monitoring costs, as poor quality or fraudulent member data can be identified and addressed at the point of processing contributions rather than after the fact.

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## 4 Part Two - Response to specific questions

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This section details our response to the specific questions raised in the Issues Paper and which, in our opinion, are relevant to superannuation administration and Superpartners.

### 6.1 Technology

#### 6.1.1 Quantum leap

***Could the Australian superannuation system use technology more to improve efficiencies and deliver lower costs?***

There are currently significant inefficiencies in the superannuation system which could be improved through the development, adoption and implementation of technology and standards. Successful use of technology will result in a lower cost for members (and therefore a higher retirement benefit) as well as a better experience for superannuation participants, i.e. members, employers and their agents, Funds and regulators.

***Is there a technological quantum leap for the super system to make (like CHES was for the ASX)?***

Superpartners believes that with the right incentives and compulsion, a two way exchange mechanism could be established between intermediaries, connecting Employers and Superannuation Funds to a virtual network for the distribution of all contributions. Intermediaries such as clearing houses and payroll providers (or even superannuation Funds) could set up a 'Community of Interest' (COI) or join an existing one, uniting employers and superannuation Fund customers in a virtual network for the two way exchange of default and choice contributions. This is a quantum leap because it utilises proven technology and existing standards and applies them universally and consistently across all participants in the superannuation industry.

This differs from CHES as it is an open structure encouraging competition and innovative services. Multiple COIs also reduce the inherent risk contained in a system like CHES where all transactions go through a single entity.

***What incentives could be created to encourage trustees, and more particularly, employers and administrators, to make better use of technology?***

Technology is merely an enabler and in order for the use of technology to be successful, Government will be required to use both incentives and compulsion. Incentives such as a subsidy may be appropriate for participants (employers, administrators, clearing houses and payroll providers) who will need to invest in system and process changes. An element of compulsion such as legislation for industry participants to use an agreed standard to send and receive data electronically, may also be required.

***If there were a major improvement in the technological infrastructure of super, who would finance, build and own it?***

Any major improvement in the technological infrastructure of super would need to be financed, built and owned by the industry participants. However, in order to facilitate this quantum leap in a reasonable timeframe, Government incentives may be needed

to encourage the level of expenditure required to deliver these changes. This is particularly critical in an industry where a number of large funds are not for profit.

Setting up and overseeing the ongoing governance of the new infrastructure could be undertaken by an industry body specifically set up for this purpose. An example of such a body exists in banking, in the form of APCA (Australian Payments Clearing Association - [www.apca.com.au](http://www.apca.com.au))

### ***Could such a leap be in central clearing?***

Superpartners does not believe central clearing would be appropriate solution. A centralised clearing arrangement (like CHES) could be more inefficient as it effectively creates a monopoly. There is no alternative where operational failure occurs. That is, if a system wide error occurred, the whole system would come to a halt because there is no parallel system to replace the service. This was recently demonstrated in the airline industry when their central reservation system, Sabre, was out of operation requiring all reservations to be made manually. A single central clearing entity would be responsible for clearing over 120 million contributions transactions representing over \$100B annually, so a similar experience for the superannuation industry could have catastrophic effects.

### **6.1.3 Data standards**

#### ***Would some form of Government intervention to set rules and impose data standards over the various payment routes in the superannuation system assist stakeholders to improve efficiencies and deliver lower costs?***

Superpartners believes the Government has a role in mandating standards for two way data exchange between employers (or their agent) and Fund, regulator to Fund as well as Fund to Fund. This would allow full and consistent participation across the industry in transacting data and money electronically. This would result in significant cost savings because the Funds will no longer have to manually validate data, monies will be more quickly allocated to member accounts and duplication of member accounts is avoided reducing member fees.

It would also improve efficiencies by removing or reducing manual data handling, reducing the number of lost accounts (data would be more complete from commencement), and improving cycle times for processing contributions and payments.

Standards already exist (e.g. swimEC) that would deliver these benefits. However, as they are voluntary, the take up has not been universal. Superpartners is committed to adopting industry standards and has made significant technological investments through the adoption of swimEC standards in its fully electronic superannuation contributions remittance portal for employers, Super FileManager. Unfortunately as the adoption of these standards is not industry wide the benefits, such as greater efficiency and lower cost, can not be fully realised by those who use them.

### **6.3.1 Effectiveness of regulation**

#### ***Can the cost-effectiveness and usefulness of regulation in super be assessed? Should regulation in super be regularly reviewed to determine whether it continues to be appropriate and to achieve the purpose for which it was established? How could this be done? While changing the overall regulatory architecture is outside the scope of this Review, do elements of the current***

***prudential and market conduct regulatory regime add deadweight costs to the super system? If so, can you identify and measure them?***

As the largest administrator in Australia we pride ourselves on the ability to deliver low cost administration services to over 6 million members (representing over \$76 billion in assets) and undertaking over 45 million transactions every year. Regulatory changes are often introduced without any significant notice for administrators to implement them in a proper and timely manner. This increases disruption to services and creates additional risks as manual processes are being introduced until system changes have been completed. One of the most significant examples was Simpler Super and a more recent example was the Temporary Resident legislation. Both of these required manual work arounds. As a result, we recommend that where practical, administrators are consulted before a commencement date of the change is determined. Generally, with the exception of wholesale changes to the Superannuation system, a six month lead time from the time that all required information is available seems an appropriate guideline.

## **6.4 Inactive accounts, lost members and ERFs**

### **6.4.2 Optimal vehicles**

***...would it be more efficient for balances currently rolled into an ERF to be transferred to the Consolidated Revenue Fund, and payable to the member on application?***

We administer the largest ERF by membership, AUSfund. ERF's are primarily used for lost and inactive accounts. If the TFN were used as a unique identifier to match accounts in ERF's with the most recent active accounts in other funds, on a half yearly basis, then these accounts could be automatically consolidated in most cases. Where an ERF does not have a current address they could use the TFN to obtain the most recent address from the ATO. In order for this process to be successful the auto consolidation by ERFs should be mandatory.

Where there is no TFN or active account the proposed lost super rules should apply. The establishment of a Consolidated Revenue Fund should only be used as a last resort.

### **6.4.4 Need for ERFs**

***Is the fact that there are so many lost or inactive/uneconomic accounts symptomatic of other problems that need addressing, rather than establishing a more efficient ERF to put them in?***

***And***

***Could members (or others) be incentivised to pay more attention to lost accounts? Is there a role for automatic consolidation of accounts via use of TFNs?***

We administer the largest ERF by membership, AUSfund. ERF's are primarily used for lost and inactive accounts. If the TFN were used as a unique identifier to match accounts in ERF's with the most recent active accounts in other funds, on a half yearly basis, then these accounts could be automatically consolidated in most cases. Where an ERF does not have a current address they could use the TFN to obtain the most recent address from the ATO. In order for this process to be successful, the auto consolidation by ERFs should be mandatory.

***Should each member be provided with a personal superannuation identification number that must be given to the trustee of each super fund in which the person participates during their working life (in the same way that employees must provide TFNs to employers)?***

We strongly discourage the introduction of a new (and effectively duplicate) unique ID that will require significant and costly changes to forms, administration systems and processes while there will be no guarantee that it will have the success rate that the TFN has had.

We believe using the existing TFN to identify accounts and match records would be the simplest and most effective way of reducing lost super accounts. All administration systems already have the ability to record TFNs in an encrypted format. Having to develop, maintain and administer a new system for a personal super number would be inefficient, costly and still not necessarily solve the issues currently experienced.

### **7.2.2 Accuracy of employee information**

***Should employers be under an obligation to supply better quality information about employees into the super system?***

We believe employers should be obliged to supply better quality information. The Superannuation Guarantee Act requires employers to pay their SG obligations in a timely manner for their SG obligation to be extinguished. The Act is silent on whether the corresponding data is complete and accurate and submitted at the same time so that it can be allocated to the right member(s) in a timely manner. Hence there is little incentive (other than a moral obligation) for employers to invest time or effort in ensuring data is accurate and complete.

Contribution management represents about 35% of the total superannuation administration cost (Ernst & Young, 2008). It is our experience that about 1/3 of this cost relates to contribution exception management. Managing incomplete and inaccurate employers' data is costly and time consuming as it requires constant follow up by the administrators before the contributions can be allocated.

We strongly recommend that the SG Act be changed for employers to be required to provide accurate and correct data in a timely manner together with the payment before the employer's obligation be extinguished.

***Do quality problems stem from the fact that a member of an employer-sponsored fund is not required to sign anything on joining the fund?***

The employer holds all the relevant data on behalf of their employee needed for an account to be opened, that is name, address, DOB and TFN. Superpartners does not believe requiring the member to sign a form, adding to the manual workload, would have any real impact on data quality. Mandated minimum data requirements by employers in conjunction with electronic validation using the ATO database will be more efficient and cheaper with a reduced environmental impact.

***Is it feasible to adopt a framework similar to that of SBR to increase the accuracy of employee information and assist in reducing the administrative costs associated with processing contributions?***

Using the TFN to electronically validate members' details against the ATO database would deliver the efficiencies being sought.

***Would there be value in requiring basic new member data and regular contributions to be submitted by employers in a standard form (possibly via a central clearing house)? Would there be value in having this as a mandated form required by, for example, the ATO, linked with the employee's tax file number declaration (NAT 3092)? Would the extent of electronic funds and data transmission be enhanced if administrators moved over time to a common standard in relation to their IT platforms? Would an Australian Standard in respect of superannuation administration assist in this regard?***

Superpartners believes the Government has a role in mandating standards for two way data exchange between employers (or their agent) and Fund, regulator and Fund as well as Fund to Fund. This would allow full and consistent participation across the industry in transacting data and money electronically.

Setting up and overseeing the ongoing governance of the new infrastructure could be undertaken by an industry body specifically set up for this purpose. An example of such a body exists in banking, in the form of APCA (Australian Payments Clearing Association - [www.apca.com.au](http://www.apca.com.au)).

***Would there be an advantage in requiring all superannuation contributions (other than to SMSFs) being channelled through a central Government sponsored exchange facility which could:***

Superpartners does not believe central clearing would be an appropriate solution. A centralised clearing arrangement could be more inefficient as it effectively creates a monopoly. There is no alternative where operational failure occurs. That is, if a system wide error occurred, the whole system would come to a halt because there is no parallel system to replace the service.

***Require all payments to be attached to the member's TFN to ensure proper member identification;***

We support the use of the members TFN as an identifier however it should not be limited to a centralised Government sponsored exchange facility.

***Require electronic data and funds transfers or charge an additional handling fee for paper-based transactions;***

Superpartners believes when dealing with APRA regulated Fund to Fund transactions, they must be mandated to be sent and received electronically in a standard data format. For those Funds (such as SMSF's) that are unable to send or receive data electronically, a third party provider (such as a clearing house) could provide these services. For these Funds, monies should be sent and received via electronic means.

As an incentive for employers to adopt electronic commerce, a fee should be mandated if they send in contributions data or money in paper form. Alternatively, small employers could use the free and optional Medicare administered Clearing House service.

***Monitor any employers which had a high incidence of incorrect or incomplete member data;***

If the SG Act required accurate and complete data then employers could face the consequences of breaching such requirements. This would act as an incentive to supply correct and accurate data in a timely manner. In addition, funds and

administrators could be required to report employers with a high incidence of incorrect or incomplete member data.

### **7.2.3 Standard forms for super**

***Should there be a suite of standard forms across superannuation (e.g. member applications, making contributions, benefit payments, requesting a rollover) with standard terminology and standard information required?***

The approach would depend on the type of form and its purpose. It's a complex area with different requirements depending on the request from the member to the Fund. Therefore we would recommend that the Government consult with industry to reduce unnecessary duplication of forms and maximise efficiency.

***Should these be under APRA's control so that funds would have to use the forms approved by APRA from time to time?***

APRA would be the appropriate agency for this.

***Would any other areas of administration benefit from standardisation?***

Reporting requirements for Funds to multiple government agencies should be reviewed to avoid duplication. In addition, the proposed swimEC data protocols could be extended to regulators for the ongoing provision of data.

### **7.2.6 Electronic funds transfer**

***Should it be mandatory for APRA-regulated funds to have an EFT facility so that payments can be made electronically?***

Superpartners believes when dealing with APRA regulated Fund to Fund or employer to Fund transactions, they must be mandated to be sent and received via electronic commerce. In fact, we believe that this should be extended to ATO regulated Funds as well. Currently, less than 5% of SMSFs have their bank account details registered with the ATO as it is not compulsory.

## **7.4 Administrators**

### **7.4.1 Administrators as systemically significant institutions**

***Are super fund administrators systemically significant institutions? Should there be minimum capital requirements and compulsory APRA licensing for super administrators, with accompanying operating standards? Alternatively, should APRA be empowered to engage directly with administrators, rather than through the relevant trustee as is currently the case?***

As one of the three large administrators referred to in the Issues Paper we believe that administrators are systemically significant institutions. Systemic failure of any administrator could potentially result in a substantial and lengthy disruption of services including payment of regular pensions and lump sum benefits. This would have a negative flow on impact in terms of a reduction in confidence in the superannuation system.

Superpartners is owned by a number of its client Funds who are committed to a long term investment in Superpartners providing innovative superannuation administration services to Industry Super, now and in the future. A part of its long term commitment is the recent capital injection to replace our core administration system.

Nevertheless, we consider minimum capital requirements and compulsory prudential supervision under an APRA licensing regime as an appropriate measure to guarantee ongoing administration services as administrators are an integral part of the superannuation system. We are conscious of the increased cost that minimal capital requirements and compulsory licensing will bring but despite the additional cost we believe the benefits to be greater, i.e. greater certainty, security, reduced risk and better alignment between APRA regulated Funds and administrators.

The increase in the average account balance (9% SG and simpler super), increases in group insurance sum insured and increased investment options, coupled with the volatility experienced in the investment returns over the past 18 months has seen a significant increase in risks that the fund as well as the administrator carries.

We refer to APRA's Prudential Practice Guide Draft SPG 110 – Capital. The Guide refers to capital requirements for RSE licensees “..to cater for risks arising from activities such as in-house administration”. While it is referring to the specific role of “custodian” rather than general fund administration, the comment could easily be extended to cover other parts of fund administration. The reference to in-house administration is only there as administrators do not required to be licensed yet the risks would be largely the same for both in house and outsourced administration arrangements.

As such, we are in favour of minimum capital requirements for administrators as well as compulsory APRA licensing. We are conscious that mandated licensing and minimum capital requirements will likely increase the cost of providing administration services and propose that APRA consults widely with relevant stakeholders should mandated licensing and minimum capital requirements be introduced.

#### 7.4.2 Disqualification

***The SIS Act does not regulate administrators, though disclosure obligations (including whistle blowing), disqualification powers and enforcement provisions are applied to investment managers and custodians as well as trustees. Is this appropriate? Should the SIS Act be extended to administrators in this regard?***

We would support regulatory powers being extended to administrators where appropriate for the function of superannuation administration. Any proposed changes to these powers as they apply to administrators, however should be subject to consultation with the industry.

#### 7.4.3 Identity issues

***What could be done to deliver a more foolproof low-cost means of verifying the identity of members, for example when they request a rollover to another fund, or to avoid multiple accounts that do not follow naming conventions (e.g. B. Smith, Bill Smith and William J Smith all being one and the same person)? Is there something else that trustees and administrators could rely on as identity verification? Should the current rules that make it difficult for members to switch and consolidate accounts (eg requiring certified copies of personal documents – Schedule 2A of the SIS Regulations) be relaxed?***

The current ID verification process for rolling over benefits is too onerous. If members could be authenticated against the ATO data base using TFN upon joining an APRA regulated fund, there should be no requirement for further ID when a

member wishes to rollover a benefit to another APRA regulated fund. This would be subject to the member completing a (standard) form after which the Fund could send a letter confirming that payment will occur within, for example 21 days. If no objection is received, the transfer would proceed with a written confirmation to the member.

If the member's address on the form does not match the address held on the system (which already had been verified against the ATO database), the member would need to provide additional ID.

Payment to members require additional proof of identity. With an electronic message system and standards (swimEC) in place, electronic authentication and verification with reliable databases will reduce the potential for fraud and should make it easier for members to obtain their benefits. Obviously, privacy issues should be carefully considered should such an approach be taken but could be subject to members' express consent. A consistent Proof of Identity standard across the industry will reduce confusion and frustration currently experienced by members, funds and administrators.

#### **7.4.4 Tax file numbers**

***As at February 2009, 92 per cent of statements reported on the ATO's member contribution statement system had a TFN. Under current Privacy Act guidelines, TFNs cannot be used by fund administrators to match against member accounts. Should this be changed so that TFNs can play a larger role in identifying member accounts? How could TFNs be made more robust - i.e. verifiable at the commencement of membership of a fund so various participants in the system could depend on the TFN being correct? Is there a privacy problem with using TFNs in this way when information about taxpayers and their ABNs is freely available?***

The key consequences of the current legislative restriction are;

1. *Delays* in allocating contributions to member accounts due to inability to consistently and confidently identify members (and therefore loss of earnings for members)
2. *Unnecessary errors* and therefore costs (e.g. monies allocated to the wrong account where members have same name)
3. *Unnecessary duplication* of member accounts (e.g. members' names or other details advised by new employer are (slightly) different).
4. The ever *increasing lost members* problem as owners of member accounts cannot be identified or matched up with active accounts.

There is a significant cost associated with the above-listed inefficiencies.

#### ***Unique Identifiers***

In the superannuation system there are three main groups of participants:

1. Members
2. Employers (and their agents such as Clearing Houses, payroll providers etc)
3. Super Funds (including Eligible Rollover Funds (ERF) and Small Managed Super Funds (SMSFs))

All three groups have a unique identifier issued by the Australian Taxation Office, i.e. the TFN.

Most employers and Super Funds also have an ABN.

While it is not compulsory to register, all businesses with a GST turnover of \$75,000 or more must register for GST and will need an ABN to do this. Organisations with a lower annual turnover may choose to register. Compulsory registration of ABN could therefore easily be extended to any employer who makes an SG contribution on behalf of an employee.

The same goes for all superannuation funds, including over 400,000 ATO-regulated Self Managed Super Funds (SMSFs). While most funds already have an ABN, ABN registration should be mandatory for any fund that would like to accept SG contributions.

Limited information for ABN-registered entities is already publicly available via the “ABN Look Up” website including the ability to download a database. The Government also maintains a publicly accessible Super Fund Lookup register which contains publicly available information about all superannuation funds that have an ABN. It includes those regulated by the Australian Prudential Regulation Authority (APRA) and the Australian Taxation Office.

Super Fund Lookup can be used to:

1. Identify whether a fund is complying, non-complying, exempt or non-regulated
2. Identify whether a fund has ceased to operate
3. Access contact details for the fund

This means that both employers and super funds could be easily identified at any time through the entity’s ABN. It should be mandatory for the ABN to be included in each transaction either made by an employer (contributions) or a super fund (rollover or reporting to regulator).

### ***Member TFN – a reliable unique ID***

The three main reasons for using the TFN are:

1. Identification
2. Verification
3. Authentication

*Identification* – each transaction must include the member’s TFN (e.g. contribution payment by employer, rollover from Fund to Fund etc). This means that at all times the source information can be identified; that is where the information came from (using the employer ABN), who it was sent to (using the Fund ABN) and who it was in respect of (member’s TFN).

*Verification* – the TFN could be used by Funds for verification purposes each time a transaction is received to ensure that the transaction is made against the correct member account (e.g. allocation of member contributions).

*Authentication* – Upon joining a regulated fund, the TFN, full name, date of birth and residential address details would be sent electronically to the ATO (using a common data standard such as swimEC). The ATO returns back to the fund a “positive” or “negative” electronic confirmation message, i.e. positive when the member details are confirmed to be linked to the TFN and negative if this is not the case.

This will significantly reduce errors and fraud and will assist with Anti-Money Laundering and Counter-Terrorism Financing compliance. Using this approach, the ATO does not breach any privacy laws as it does not release any information that the sender does not already have. Electronic two way messaging technology using swimEC protocols is already used by Superpartners in its Super FileManager (employer contribution portal) product.

Funds should therefore have the ability to send and receive messages using a universally adopted messaging protocol such as swimEC. For the SMSFs, a website service could be made available for manual data entry to achieve the same outcome.

### **Administration systems**

Currently, all administrators must be able to register TFNs on its administration systems using encryption. According to the Cooper's Issues Paper, 92% of statements reported on the ATO's Member Contribution Statement system had a TFN. This high rate is partly a result of the *No TFN Tax* legislation introduced on 1 July 2007. It is important to note that this does not include those members who have not received any contributions in the past 12 months, including most members in ERFs.

Hence, funds already have a member's TFN and so does their employer (who would have been the likely provider of the member's TFN to the fund).

### **7.4.5 Pricing and performance fees**

***Does the downward pressure on administration fees risk making administration companies unviable in the long-term? Is this a concern for trustees? Would a 'user pays' system of administration be fairer to members and administrators so that those who make more demands on the administration system pay more? As with investment managers, administrators often bargain for increased fees if certain short-term performance measures are met. Is this appropriate? On the other hand, are penalty fees for administrator under-performance appropriate?***

As the largest administrator, we believe that the commercial arrangements are a matter between the administrator and the fund. This includes whether the fee is based on a fixed or a "user pays" basis. However, we do believe that, in general, the risk for Funds (and therefore administrators, irrespective of whether the function is managed through an outsourced or in house arrangement) has increased considerably and has perhaps not been appropriately valued and therefore priced accordingly. For example, we have seen a significant enhancement in the insurance offering over the past few years where members insured amounts have doubled or more. This increases the potential liability should an administration error occur. Yet this additional risk is often not appropriately priced in the fees that administrators charge.

As referred to in our answer to question 7.1, we support mandated APRA licensing as well as minimum capital requirements for administrators.

## **8 Information**

### **8.1 Performance data and other comparative information**

#### **8.1.1 Data collection agency**

***Should APRA remain the sole collector and publisher of official superannuation data? Or should some or all of the data or functions be shared with other official collection agencies such as the Australian Bureau of Statistics?***

We provide data on a regular basis to a number of Government agencies on behalf of our client Funds. Often it is the same data but in different format and at different times. Having a single collector of superannuation data would provide substantial cost savings. We further recommend that any regulatory data requirements are included in the swimEC standards.

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