

23 August 2017

Ms Karen Chester, Deputy Chair
Ms Angela McCrae, Commissioner
Productivity Commission

Dear Deputy Chair, Commissioner

Submission Superannuation: Assessing Competitiveness and Efficiency – issues paper July 2017

The Gateway Association and Transaction Exchange (GATE) wishes to make a limited response to the issues paper dated July 2017 in relation to the ATO Centralised Clearing House model under consideration.

GATE is a nonprofit association which is the collective voice of Gateway Operators. GATE was formed to represent, promote and advance the interests of its Members in connection with developing, participating in or governing any messaging system or network whether similar to the Superannuation Transaction Network (STN) or otherwise, between any participants in any industry sector.

The term clearing house can mean different things; it is assumed that the proposal under consideration includes both a clearing house and superannuation fund Gateway Operator.

At a high level, the differences can be characterised as a clearing house's primary function is to take a single payment from an employer and break up that payment, remitting it to multiple superannuation funds, whereas a superannuation fund Gateway Operator's primary function is to act on behalf of a Superannuation Fund or an employer to enable a secure means to transmit data between other Superannuation Funds, the ATO and employers.

There are varied combinations of these arrangements with service providers offering a different mix of services. For example, the Small Business Superannuation Clearing House (SBSCH) does break up and remit money to various superannuation funds but does not have any direct connection with APRA regulated superannuation funds. The SBSCH is reliant on commercially operated Gateway Operators to do this on their behalf.

Question 1

- A. What would be the cost to set up this platform within the ATO?**
- B. What is the scope to utilise existing infrastructure within the ATO in establishing this platform?**
- C. What would be the expected ongoing costs of service provision?**

STN connections with APRA Regulated Funds

At present the Department of Human Services is in the process of transferring the Small Business Superannuation Clearing House (SBSCH) to the ATO. As indicated previously, the SBSCH at present does not directly transact within the STN with APRA Regulated Superannuation Funds (APRA Funds).

Commercially operated Gateway Operators have in place systems that allow the SBSCH to remit data to them which they in turn then forward to APRA Funds.

The connections with APRA Funds generally are an extension of the Fund's administration systems and operate over integrated private one to one secure connections in real (or near to real) time. These integrated connections are required for Trustees' to meet the processing time obligations for contribution transactions and rollover payments under the standards.

These integrations have been developed over many years and are quite sophisticated. They require maintenance including continuous testing to ensure their currency and ongoing integrity.

If systems similar to this were to be maintained by a centralised clearing house then it would need to be recognised that either re-engineering of these systems would be required to make these processes less reliant on clearing houses or the centralised clearing house replacement may need to expend significant effort to support these systems both as a part of the initial set up and ongoing maintenance.

Currently it is not seen that the ATO has systems in place that could be leveraged to achieve this.

Rollovers

The current ATO systems do not carry the transaction data associated with rollovers between superannuation funds. Under the scope of proposal being considered, it is unclear if rollovers would also be facilitated by the ATO centralised clearing house or if this function would remain with commercial operators.

However should the model propose that only this function remain with commercial operators then the commercial viability to remain in the market would be questionable. Should the ATO carry out this activity then systems would need to be developed to undertake this function. It should be noted that again there are standards associated with the timeliness of these transactions which would require real time or near real time connections with the APRA Funds.

Payroll integration

At present the business models adopted by some commercial clearing houses integrate directly with payroll packages. This service provides efficiencies for employers and streamlines their superannuation interactions.

These innovations are evolving as part of the natural commercial pressures in providing desirable integrated products to employers. Under the proposed centralised model these commercial pressures would not exist which could result in reduced innovation.

Should the same level of functionality be maintained under a centralised ATO model then bespoke development and maintenance by both payroll providers and the ATO would be lost.

Facilitation service

Not all employers have the capacity to interact with the Government in the prescribed format. Commercial clearing houses/ gateway operators work with employers to assist them in meeting their obligations. This can include the creation of custom portals that provide validations specific to that superannuation funds administration service. Significant development of portals has occurred to ensure contributions are processed successfully on the first attempt. These commercial services are valued by clients. Clients have made significant investment in these systems as part of improving the integrity and ease in which employers and members can interact with the fund.

It is difficult to see that the ATO would recreate similar systems and portals to enable these efficiencies and integrity innovations to continue.

Question 2

What is the evidence that a single government provider would not have the capability to operate the service, or that such a provider would fail to keep pace with technological change?

System capability

The only available evidence is historical. Since the inception of SuperStream, the only material failings within the network have been the result of government, not commercial providers. The commercially operated Gateway Operators have been held to higher standards than the government operated elements of SuperStream. This includes BCP testing and security audits.

So whilst it is possible that a Government enterprise could have the capacity to operate the service and keep pace with change, historically the evidence is that this has not occurred.

Compliance

The SBSCH was unable to sign an agreement to allow it to become a Gateway Operator as defined under the Memorandum of Understanding signed by all gateway operators operating within the Superannuation Transaction Network. The reason provided was that the agreement made is subject to oversight by a non-Government entity and compelled it to meet defined service standards.

The evidence is that the Government is not willing to provide contractual service level commitments or allow external governance oversight of products that they offer. This may represent an issue for superannuation fund trustees who have compliance obligations which they would not have control over or have alternative solutions available.

Question 3

Specifically, what is the scope to reduce costs over current arrangements due to economies of scale?

Most of the commercial clearing house offerings occur as part on an integrated package of services. This allows providers to leverage their existing infrastructure which reduces costs. Examples of this packaging includes payroll software and clearing house, banking and clearing house, administration services and clearing house. These arrangements allow the cost of these services to be offered at very competitive rates.

It is unclear if the Government could provide the service at a reduced cost. However, it may be worth considering the last publicly available report regarding the cost of the SBSCH prepared by the Auditor General's in 2012¹ under note 22 stated

“Another point of comparison is the difference between the cost of services provided by the public sector and the fees charged by the private sector. Variations between the business models of private sector service providers and the SBSCH, and factors such as the average number of transactions per employer, mean that some caution needs to be exercised with comparisons. Nevertheless, the cost per employee transaction of the SBSCH (when calculated against the funding for the service), is in the order of seven times higher than similar services being provided by the private sector.”

Question 4

To what extent do existing arrangements facilitate new entry and promote the exit of inefficient providers, and what is the evidence on recent entry and exit?

Under a commercial environment, contracted services among the clearing house suppliers change from time to time. These commercial pressures promote efficiency and innovation in the market place and this is evidence by the churn among the clearing house providers.

There have been at least 3 new entrants in the marketplace since the STN was established, however there has also been circumstances where providers have determined to exit the market. This supports the assertion that the market is facilitating new entrants and the exit of inefficient providers.

¹ The Auditor General Audit Report No.47 2011-12 Performance Audit Small Business Superannuation Clearing House

Question 5

What international experiences can be drawn on to provide insights into the merits of a centralised clearing house in the Australian system

It is noted that the New Zealand centralised clearing house model is being cited as a model which has provided efficiencies. The New Zealand environment is very limited in that the centralised clearing house only interacts with 25 superannuation destination end points made up almost exclusively of retail funds. It is also noted that the processing time for contributions takes months compared to days in the Australian model.

In the Australian market (including SMSFs) there are over 580,000 superannuation destination end points. Of these there are just over 250 APRA regulated Trustees representing over 3,000 destination end points (products listed on the Fund Validation Service).

In addition to this, the New Zealand model only has 3 contribution types to cater for. Within the Australian environment there are 14 contribution types. The New Zealand model also excludes defined benefits and historical superannuation arrangements of the employer.

It is difficult to see how the very limited New Zealand offering directly relates to the Australian environment as our market is vastly different and has higher standards in relation to processing times. The scale and complexity difference between the two environments is immense making any comparison or learning limited.

Summary

Again, I would like to take this opportunity to thank you for considering the matters raised in this submission. Gateway Operators as commercial entities do not believe that it is the role of Government to compete with commercial enterprises unless it is clearly in the national interest or to compensate for a market failure.

Gateway Operators / Clearing Houses have voluntarily worked with Government to develop standards and governance frameworks designed to enhance the integrity, security and efficiency of the STN.

The network that has been established diversifies risk and ensures that in the event of failure alternate providers are available in the marketplace.

GATE's view is that the current commercial environment is conducive to competition and has driven innovation and the development of services and efficiencies beyond those prescribe by government. The commercial environment also works to regulate costs and enhance services. Historical evidence suggests that competing commercial operations have achieved lower costs and better stability than similar (limited offer) services provided by Government (ie SBSCH).

Should you wish to discuss these matters further or to seek clarification, please do not hesitate to contact me. Equally GATE would welcome the opportunity to present its view in person.

Yours sincerely

Chris Matthews
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Gateway Association & Transaction Exchange