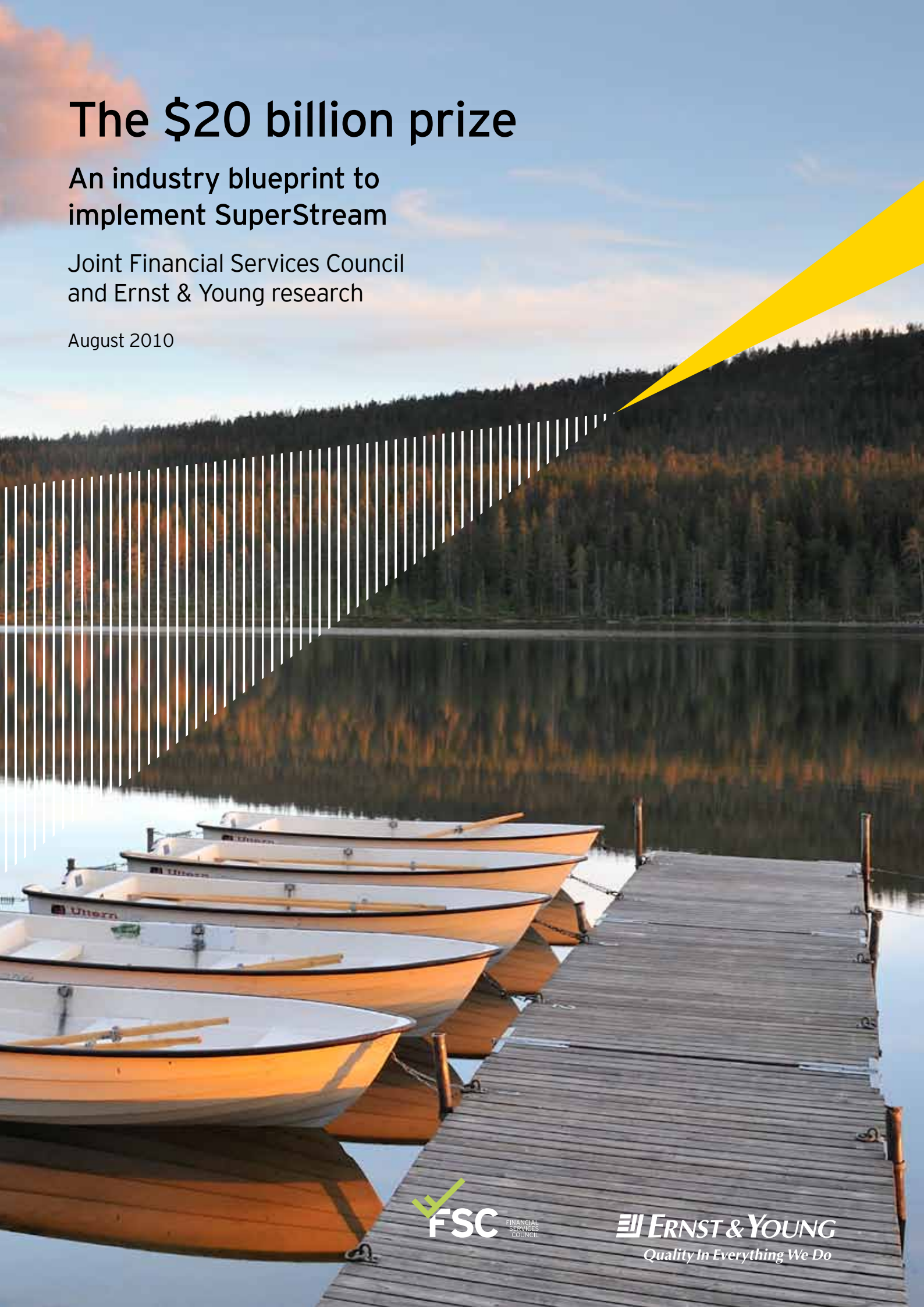


# The \$20 billion prize

An industry blueprint to  
implement SuperStream

Joint Financial Services Council  
and Ernst & Young research

August 2010







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# Foreword

**John Brogden**

Chief Executive Officer -  
Financial Services Council



Australia has the best retirement savings system in the world. It is time we had the best back office to support it.

Our dynamic world leading industry is bogged down by cheques and paper.

The failure to adapt to modern, efficient processes is partly due to disagreement within the superannuation industry, regulatory restrictions and the prevailing payments infrastructure.

The good news is that a combination of industry agreement, regulatory changes and innovation in the payments system can sweep away the cost and inefficiencies. The Cooper Review into superannuation has produced a comprehensive package of solutions, SuperStream, which is aimed at delivering an efficient, simple and cost effective back office for superannuation.

This joint Financial Services Council/Ernst & Young project provides much of the detail needed to implement SuperStream. It quantifies the significant measures of SuperStream, provides a blueprint for implementation and a view of how the future should look.

Fundamentally, the Financial Services Council is committed to viewing superannuation from the perspective of the consumer and the employer. Unfortunately, the broader superannuation industry has not made things easy from an employer's viewpoint – this must change.

By the same token, superannuation must not be viewed in isolation from the wider payments system. In time, superannuation must be integrated into this system as we further embrace electronic transactions. This report proves beyond doubt that implementing SuperStream will be overwhelmingly to the ultimate benefit of the consumer.

I commend this report to you.

The Cooper Review has presented a challenge for the Australian superannuation industry – to renew itself and emerge sleeker and stronger.

Our research has shown that the industry is listening and eager to undertake the changes that will ensure that this \$1 trillion industry remains robust, competitive and sustainable.

The industry has told us, through our qualitative and quantitative research, that savings of at least \$1 billion a year could be realised through the implementation of Cooper's SuperStream recommendations.

However, the industry expects these recommendations to be backed up by legislation that can support this level of industry-wide structural change.

The Australian Government has taken a lead role in identifying areas for improvement across the Australian superannuation industry. It is important that political uncertainty does not impede this reform.

Implementing this reform will lead to some short-term pain for many stakeholders as they tackle industry diversity and significant technological infrastructure change. It will be critical to have a strong governance structure as the centrepiece of this change program to manage the change process.

The winners of this process will be those who embrace the changing landscape of superannuation with an ability to manage the complexity of that change. They will also need a keen focus on efficiency, as well as employer and member benefits.

I would like to thank all of the participants for their valuable time and insights, especially the Reserve Bank of Australia. We have been proud to work with the Financial Services Council to bring these insights to you.



**Graeme McKenzie**

Partner - Oceania Asset  
Management Leader  
Ernst & Young

# Executive summary

The Australian retirement and superannuation system is one of the strongest worldwide. Reaching over \$1 trillion in assets under management over the last decade, the industry is expected to grow further to \$5 trillion by 2035. With fervent growth comes inherent challenges, and as a result the industry has evolved into a diverse set of players and fractured set of systems, processes and relationships.

In order to future proof the superannuation system, the Australian Super System Review report, released at the end of June 2010, has recommended several key programs for change. Amongst those programs, SuperStream is a set of proposals aimed at addressing existing weaknesses and driving efficiency gains across the wider superannuation value chain including bringing the back office of superannuation into the 21st century.

This report explores the industry response to the ideas proposed by SuperStream to streamline operations, discusses the costs and benefits involved and examines what is required to make these changes sustainable. While it is acknowledged that such changes will be challenging and costly, our research reveals there is strong industry support for improving operations and efficiency for the benefit of all stakeholders. In turn, it is seen that these changes will contribute to greater public trust in industry competence and retirement provisions for all Australians.

To implement the changes envisioned by SuperStream our research suggests that a one-off investment of approximately \$1 billion is required to adjust strategy and operating models as well as enhance information technology, processes and manage change. While this investment is significant, the industry will in turn expect a \$1 billion per annum saving in operating costs, accumulating to \$20 billion over the next ten years if assets under management continue to grow at their current rate.

Given the early stages of proposed change, most research participants had not performed detailed reviews or a cost benefits case for the implementation of SuperStream and other concurrent regulatory changes.

The strong support for the proposed changes is tempered by the varying responses regarding importance of individual SuperStream measures, effort to implement them and estimated benefits. This points to the significant levels of diversity in the industry size and source of employers, fund strategy, operating models and overall business maturity. As such, assessment of cost and efficiency gains differed among our research participants as each industry player is finding themselves at a different phase of the implementation lifecycle. This diversity is likely to challenge industry agreement on necessary common ground, suitable implementation road maps and operational implementation details. The overwhelming response from our research is that it is critical that strong governance prevails in order to overcome the expected diversity of priorities for organisations and the scale and complexity of change proposed by SuperStream.

Taking into account the lag time between turning the SuperStream proposals into legislation and the subsequent regulatory uncertainty this causes, our research shows that the industry believes the time is now for all industry players to become aware of their role in the shift in the superannuation landscape. To do so, funds and administrators need to fully understand the potential strategic and operational implications of SuperStream, other Super System Review report proposals and the fast changing nature of advice. In being prepared and informed, the industry can thoroughly plan the complex implementation, focus on appropriate advocacy efforts, assess early mover opportunities and appropriately integrate the proposed implementation measures into existing business transformation initiatives. To achieve this, our research indicated that industry consolidation and future outsourcing of administration will be inevitable.

# Summary of recommendations

The widespread support for the SuperStream measures is a reflection that it is time to revisit the back office supporting the Australian superannuation system.

Seizing this opportunity will require a collaborative effort of funds, employers, members, suppliers and government. Industry ownership and buy-in is essential to implement comprehensive efficiency measures. To achieve efficiency gains, all stakeholders need to consider changes to behaviours, processes and infrastructure.

Our research outlines the significant potential benefits from SuperStream while recognising the essential capital investment. The superannuation industry needs to act now in order to future proof a system subject to an intensive growth platform. Any further delay on action is not economical, will further damage an inefficient system and is not in the long-term interest of all stakeholders and members.

In order to implement the key elements we have identified within SuperStream, we have grouped SuperStream initiatives into five tenets. Broadly, these tenets have been divided into three stages: industry-led, adoption/innovation and legislative.

Based on our research, the following recommendations are offered:

- ▶ The superannuation industry should establish a standing working party with employer groups to assess the adequacy and consistency of online functionality of contribution acceptance
- ▶ The payment infrastructure must be in a position to better manage superannuation prior to Government considering penalising employers for not providing superannuation contributions online
- ▶ The industry should convene a cross-industry panel to develop data standards with uniform fields. This panel should take into account the Medicare Small Business Clearing House initiative
- ▶ For many of the SuperStream measures to proceed the system needs to be legislated. The Government should consider the following amendments to current statute:
  - ▶ The *Privacy Act* and *Superannuation Industry Supervision Act* should be amended to allow tax file numbers (TFNs) to be used in member directed consolidating accounts
  - ▶ The *Superannuation Guarantee Administration Act* should be amended to provide that employers must provide superannuation guarantee contributions on a monthly basis
- ▶ The Payment Systems Board should implement a governance structure for superannuation that mirrors the existing Australian Payments and Clearing Association (APCA) governance model in the payment industry. We acknowledge the final Super System Review report considers APCA as one option to take over the role as governance body for SuperStream. Based on our research this has significant merit.

# Introduction

“We have a unique opportunity to get it right”

Superannuation Executive

## Australia's Super System Review

On May 29, 2009 the Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry, announced the Super System Review (Review) in order to comprehensively examine and analyse the governance, efficiency, structure and operation of Australia's superannuation system.

Being one of the strongest worldwide, the Australian retirement and superannuation system has reached over one trillion dollars in assets under management over the last decade. The need for change was emphasised in light of future growth with the industry expected to grow further to at least three trillion dollars within the next ten years.<sup>1</sup> In addition, the industry was seen as lagging in relation to best practice administration. Moreover, members felt the cost structures were not clear or intuitive and many stakeholders felt the administrative impact of super was burdensome and in urgent need of an upgrade.

The Review, led by Jeremy Cooper, consulted extensively with key stakeholders across the superannuation industry, government, business and the general public between July 2009 and June 2010. The Review final report submitted on 30 June 2010 to Government outlines ten recommendation packages.

One of the centrepieces of the report is SuperStream, the recommendation to overhaul the back office administration and alignments necessary for change.

## The tenets of SuperStream

Many of the proposed measures of SuperStream cover the vital areas where funds or their administrators interact with employers, members and other stakeholders. During these interactions the stakeholder experience is shaped by more than just the quality of the back office effectiveness. The fund's operating model, its value proposition, and even more broadly the funds strategic approach all come to bear.

Nevertheless, to reflect the critical role of the back office to the stakeholders experience, the SuperStream recommendations emphasise the obligation of trustees to act in the best interest of fund members, and in doing so requires an extensive analysis and overhaul of the administration function. The SuperStream process offers seven measures to combat each of these existing challenges.

Within the seven key SuperStream measures there are a number that go hand in hand. As such, our research focuses on a consolidated five key tenets; the concept behind this consolidation is explained as follows.

The concept of extending the use of the tax file number as a unique identifier is intricately linked with locating and consolidating lost and redundant superannuation accounts. As such, in our study these measures have been treated together.

We have also treated uniform data standards and providing standardised contribution fields for employers as one measure. They represent the means and outcome of similar processes. This process allows employer contributions to be communicated in the same form, to different superannuation funds, by complying with the common standard.

## 5 key tenets of SuperStream

### 1 Standardised contribution fields and uniform data standards

Standardised fields with mandatory contribution fields would provide employers and funds with uniform standards for managing contributions and rollovers throughout the industry.

### 2 Extended tax file number usage and account consolidation

Widened use of TFNs includes relaxation of privacy restrictions which currently prevent superannuation funds from using TFNs to perform member directed consolidation of multiple accounts.

### 3 Electronic funds transfer (EFT)

Increased usage of EFT within the current payment infrastructure of employers and superannuation funds.

### 4 Limiting time out of the market/increased frequency of contributions

Increased frequency of contributions would necessitate a legislative amendment which requires employers provide superannuation guarantee contributions more regularly than quarterly. Greater frequency of contributions would limit time out of the market experienced by employees. Achieving this tenet would involve the superannuation fund expediting processing of contributions.

### 5 Straight through processing and process automation

Includes increased process automation and straight through processing. Where possible, eliminates manual handling and processing of contributions and rollovers.

<sup>1</sup> Rice Warner Activities, *Superannuation Market Projections*, June 2009, pg 9.

# The research

The purpose of this research was to gain a better understanding of the impacts of the SuperStream initiative proposed by the Cooper Review Panel. The research sought to explore the cost and benefits of the likely changes for funds, employers and members.

## Research methodology

The primary research occurred over from May to July 2010, and was managed throughout by Ernst & Young.

The research was based on data gathered from questionnaires and structured face to face interviews. The research comprised a mixture of qualitative and quantitative questions. Given the evolving nature of the initiatives, quantitative information provided was typically based on informed estimates.

## Participants

Participants included 30 representatives from the super fund industry, including representation from:

- ▶ Retail funds
- ▶ Industry funds
- ▶ Public sector funds
- ▶ Corporate funds
- ▶ Eligible rollover funds
- ▶ Administrators of, and service providers to, the above funds

The participants involved represented nearly 45% of the superannuation funds under management in Australia.

We included a small number of larger and well-regarded administrators of self-managed superannuation funds, as well as the Self-Managed Super Fund Professionals' Association (SPAA) in our research. We extrapolated their responses across the self-managed superannuation fund sector to understand the impact of SuperStream on this sector. With this in mind, our participants represented nearly 70% of the superannuation funds under management in Australia.

In addition, a number of other stakeholders participated, including the:

- ▶ Reserve Bank of Australia (RBA)
- ▶ Australian Payments and Clearing Association (APCA)
- ▶ Australian Custodial Services Association (ACSA)
- ▶ Council of Small Business Organisation Australia (COSBOA)
- ▶ Australian Chamber of Commerce and Industry (ACCI)

## Research restrictions

The research and industry responses were made on the basis of the draft SuperStream report. However, the final Cooper Review report section regarding SuperStream released on 7 July 2010 remained mostly unchanged from the draft version in the areas analysed.

Most participating funds, administrators and other stakeholders had not performed a detailed impact assessment of the proposed SuperStream measures. Therefore, participants provided their informed estimates of cost and benefits from implementing SuperStream. We extrapolated the responses across the entire superannuation industry using funds under management figures.

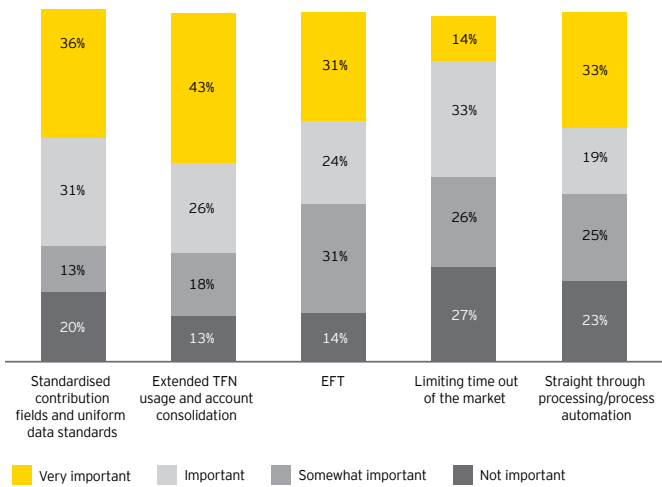
It is beyond the scope of the research to ascertain the time period within which stakeholder groups will start to experience these benefits.

# Our results: an industry perspective

Our research revealed the industry overwhelmingly supports SuperStream.

The relative importance of each of the SuperStream measures varied, according to our research participants, as seen in the chart below.

Chart 1: support for SuperStream tenets



Source: Ernst & Young data analysis

More than two thirds of participants considered standardised contribution fields from employers and the industry-wide data standards as important or very important. These standards will reduce complexity for employers by standardising funds' requirements to capture and remit contributions. Funds expect these measures will lead to reduced manual rework, improved data quality and greater acceptance of e-commerce solutions by employers.

More than two thirds of participants expect that extended use of tax file numbers and removal of legislative and fund processing barriers for account consolidation will significantly reduce the number of lost members. It is also expected to facilitate members being able to exercise easier fund selection. We note that 13% considered this unimportant, due likely to alternative mechanisms already developed to overcome the unique identification issue.

Over half of participants considered electronic funds transfer from employers and between funds as very important and important. This measure is expected to fundamentally reduce cheque usage and the manual tasks to link payments and contribution information.

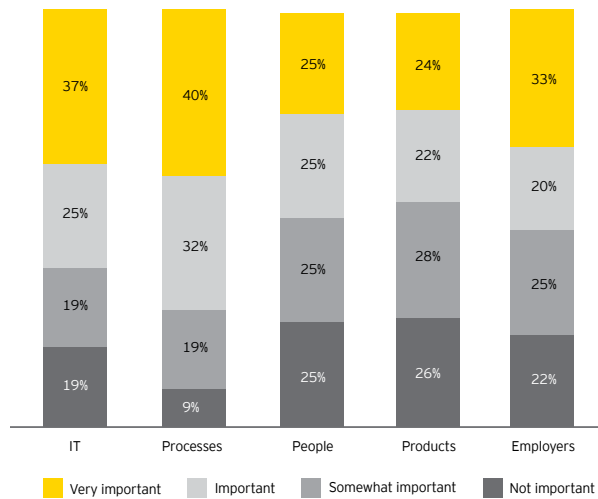
Forty-six percent of participants consider limiting time out of the market as important or very important. However, in their benefits assessment most participants did only take

into account additional improvements from the time the money is in the funds' bank account. This leaves the alignment of payroll cycles with the remission of contributions unrecognised as a significant area for improvement.

Fifty-two percent of participants consider straight through processing and process automation as important or very important, with 23% considering it not important. Most of those participants have already implemented a robust process automation and straight through processing capability. For many of those participants additional benefits from further progress may either be uneconomical or currently of low priority.

Research participants anticipate the SuperStream changes will impact all areas of business: information technology (IT), processes, people, products and employers. Industry's assessment of their importance for executing SuperStream is captured below.

Chart 2: business relevance of SuperStream



Source: Ernst & Young data analysis

As demonstrated above, participants see IT and processes as the main areas of focus for administrative improvement. Fifty percent of participants considered people to be of least relevance for the SuperStream changes. However, we have seen that people are the most important resource to the success or failure of any change program. Recommendations for this and other considerations to ensure successful and sustainable implementation of the SuperStream changes are referred to in the "Implementation" section of this report.

# Costs and benefits of SuperStream

## Five tenets of SuperStream

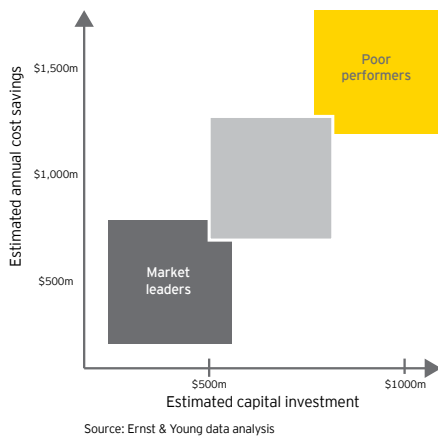
- 1 Standardised contribution fields and uniform data standards
- 2 Electronic funds transfer
- 3 Straight through processing and process automation
- 4 Extended tax file number usage and account consolidation
- 5 Limiting time out of the market for contributions

The SuperStream report anticipates substantial capital outlays creating significant benefits for all the industry stakeholders, especially the funds, employers and members.

Our research considered the potential costs of SuperStream and the cost savings that could be realised. The chart below indicates the industry acknowledges that a significant one-off capital investment of up to \$1 billion is required. Nonetheless some funds expect that it could generate up to one and a half times that in annual savings which may be shared among all stakeholders. However, the industry responses indicate that cost and benefits vary considerably between funds and their administrators.

As detailed in the chart below, our research indicated that poor industry performers will focus on closing the efficiency and effectiveness gaps to their peers. Conversely, market leaders will be pioneering new efficiency levels to retain their competitive advantages in administration.

Chart 3: diversity of costs and benefits



## Investments in technology make up the largest cost component

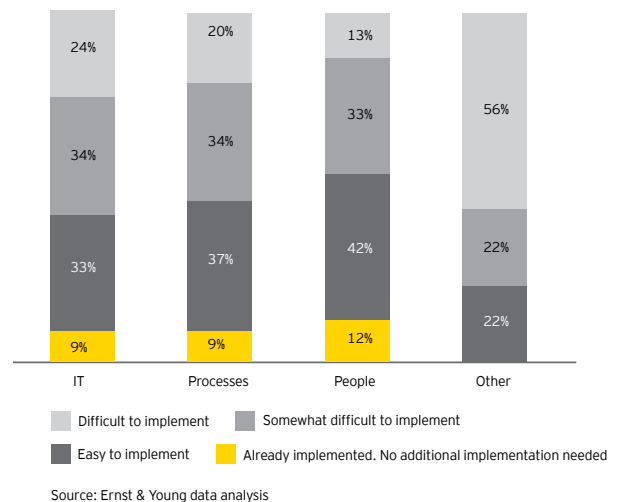
All participants agreed that technology infrastructure currently provides the biggest challenge and that significant investment in this area will be required to achieve the SuperStream measures. As the chart below reveals, almost two thirds of participants believed it would be somewhat difficult to change IT. The extent and feasibility of this investment depends on the fund's scale, legacy products and systems, product offerings, customer service and stage of IT lifecycle.

### Impact on people underestimated?

Many participants anticipate SuperStream will lead to a step change across the superannuation industry especially in terms of IT and processes.

However, the industry seems to underestimate the need to manage the people involved to effect and sustain the changes proposed. As the below chart notes 42% of participants believe the people aspects will be easy to implement if they are not already business as usual. However, substantial effort and focus will be required to drive the crucial behavioural and cultural change within funds and employers for all of the tenets of SuperStream to be realised.

Chart 4: difficulties to implementing SuperStream



Many funds and administrators currently employ large numbers of staff who perform mass manual processing tasks. SuperStream's widespread process automation and straight through processing will render significant numbers of such staff redundant. Funds may need customer engagement officers to nurture relationships with employers and members and secure competitive advantages in customer service and member experiences. This represents a significant shift in corporate culture and operating model for funds and administrators, therefore our research suggests that the people dimension may have broader implications than the industry has anticipated thus far.

The other challenge identified by the participants was regulatory and change fatigue. The perception is that after a decade of regulatory change most superannuation funds and administrators have great corporate agility and change capabilities. However, on all levels we have seen widespread regulatory and change fatigue which was only reinforced by our research. In addition, many participants highlighted that continuous regulatory change has not provided sufficient time to focus on establishing change as a core strategic capability for the organisation.

### Treatment of capital investments

The significant capital investments for many funds to implement SuperStream may require an industry-wide mechanism to share the load between existing and new members. For example, a levy or capital reserve has been suggested to ensure funds accumulate capital over time to enable IT, infrastructure and business process upgrade when needed. This supports member equity while allowing funds to keep up with innovation and changing requirements in a timely fashion.

### Benefits

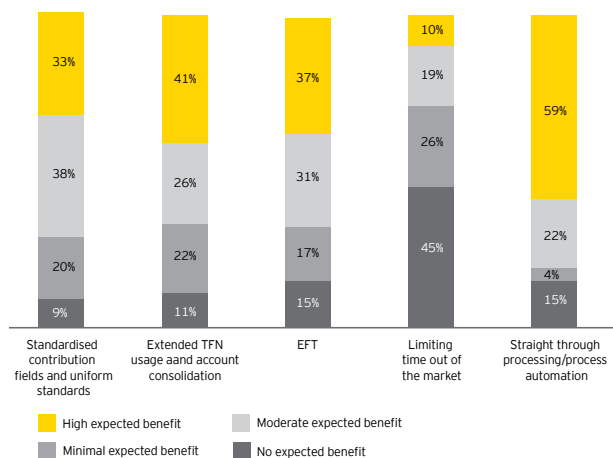
Our research indicates that the industry believes the benefits from SuperStream will be substantial. In a high level assessment of the benefits our research suggests the industry could save up to 25% of current administration costs. For a more than \$1 trillion dollar industry this equates to \$1 billion in annual savings, equating to over \$20 billion in 2020 should assets under management continue to grow at their current rate. Across the five SuperStream tenets, savings will arise in the following areas:

- ▶ Standard contribution fields from employers will increase data quality and reduce manual processing and queries
- ▶ Use of tax file numbers as unique identifiers will increase the link between members and their superannuation i.e. easier identification which will remove the need to set up new “lost” accounts
- ▶ End-to-end process automation and straight through processing will substantially remove unnecessary manual processing for funds and employers. This includes aligning contribution data and money, exception handling and error rectification
- ▶ Electronic funds transfer between funds and from employers to funds will reduce the number of cheques used. In turn, this will reduce manual cheque processing and align contribution data with the money

### Process automation will realise the greatest benefits

The table below captures participants' expectations of the benefits of the SuperStream process. Eighty-one percent believe process automation including straight through processing, will yield the greatest benefits. This is also considered by almost three quarters of participants as one of the most challenging areas of SuperStream. This reflects the nature of these changes as they require infrastructure improvements and adoption as well as development of industry standards in order to be achieved.

Chart 5: benefits of SuperStream tenets



Source: Ernst & Young data analysis

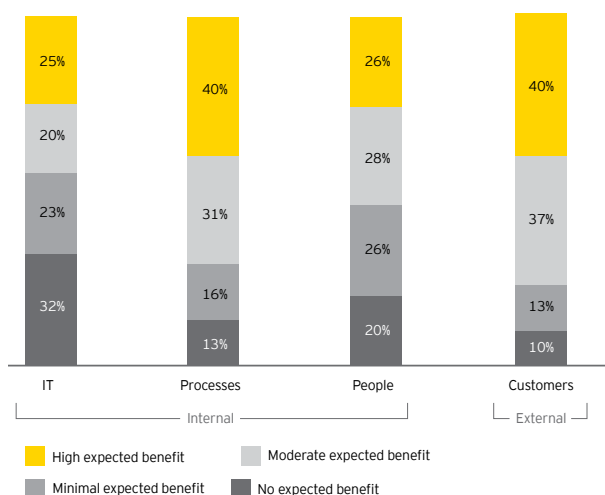
The strongest relationship between the ease of implementation and expected benefits is the use of TFNs as a universal identifier. This reflects the difficulty the industry has faced to date with no simple way to identify members.

### Members are the main beneficiaries

The industry sees the superannuation fund customers or members as the main beneficiaries of SuperStream as captured in the chart opposite. This is consistent with the final Review report to achieve an “outcome that is in the best interests of members and maximises retirement incomes for Australians”.<sup>2</sup>

<sup>2</sup> Review into the Governance Efficiency, Structure and Operation of Australia's Super System Final Report, part 1 issues 17 July 2010, section 6, pg 18.

Chart 6: business benefits of SuperStream



Source: Ernst & Young data analysis

Stakeholders will derive their benefits both directly and indirectly, in particular:

- ▶ **Members:** The SuperStream process will make it progressively easier especially when exercising “choice-of-fund” options, consolidating accounts or transferring account balances into a self-managed superannuation fund (SMSF). Further, the TFN as key identifier will make completing forms, lodging enquiries or other transactions simpler. Over time this will contribute to greater member engagement.
- ▶ **Employers:** SuperStream will make employer interactions with superannuation funds easier by removing barriers such as in-contribution processing. Small- to medium-sized employers are likely to experience the greatest benefits with the introduction of standard contributions fields, automatic acceptance of electronic payments and standardisation of basic contribution fields and remission forms, processes and formats and an integrated payment infrastructure. Many participants suggest that the take-up process will take substantial time, effort and behavioural change for funds and employers.
- ▶ **SMSFs** represent the largest sector of the industry with over 400,000 funds. Participants estimate that the SuperStream measures such as the use of TFNs, data standards, electronic funds transfer and the removal of legislative and fund processing barriers referred to above will remove up to 10% of current SMSF administration costs.

“Only 6% of the members surveyed were successful in consolidating their accounts and rolling their money into one fund.”

Superannuation Executive

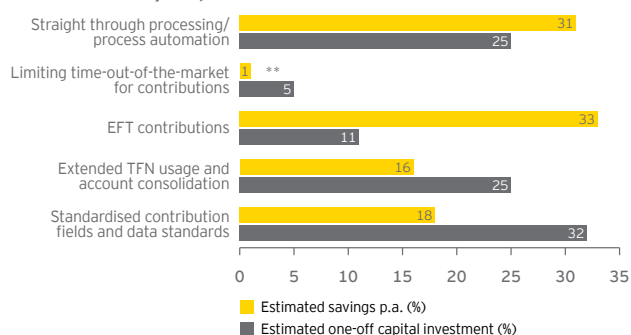
“The truck driver going through the Nullarbor does not have permanent Internet access to pay a bill or use an online transaction platform.”

Superannuation Executive

## Costs and benefits analysis

The below chart breaks down the anticipated cost savings and expected capital investment across the five key SuperStream measures, which may assist with the order in which the measures are implemented.

Chart 7: estimated savings per annum and one-off capital investment by SuperStream measure\*



\* These figures are based on those participants who provided a detailed breakdown of aggregated estimated capital investments and savings per annum across each analysed SuperStream measure. We have extrapolated their figures using asset under management. Individual responses vary considerably.

\*\* Most participants did not consider likely member benefits

Source: Ernst & Young data analysis

### Straight through processing and process automation

Despite this element representing a substantial capital cost at 31%, primarily due to the significant cost of building straight through processing functionality, in the longer-term, the benefit ultimately outweighs the cost of 25%.

### Limiting time out of the market/increased frequency of contributions

Limiting time out of the market is an element that primarily benefits the fund member and not necessarily the fund. This demonstrates why funds have estimated a saving of just 1% – the cost is also negligible – to 5%.

### Electronic funds transfer (EFT)

The substantial difference between the relatively small capital cost of 11% compared to the eventual saving of 33% demonstrates the current underuse of electronic payments which could be facilitated within the current payment infrastructure. Increased EFT usage remains the most significant saving within the SuperStream package.

### Extended tax file number usage/account consolidation

This element indicates the substantial cost super funds must incur in order to consolidate multiple accounts via increased use of TFNs. The cost of 25% in this respect outweighs the benefit

to the fund at 16% – but this consolidation is likely to represent a positive outcome for the consumer.

### Standardised contribution fields and uniform data standards

The development of standard contribution fields and uniform data standards represents the most significant cost as identified by the industry. The primary reasons for the cost identified (32%) are the levels of investment in moving away from manual processes and vast investment required to enhance industry payments infrastructure.

Across the five measures, it is anticipated that implementation of EFT will provide the greatest savings against investment. Most participants agreed that the opportunity cost of not implementing SuperStream appear much larger than the estimated implementation cost, even though these costs may vary across the industry. Participants agreed that this may further enhance the necessary industry support for SuperStream.

## Impacts of costs and benefits

Many research participants expect that the implementation of SuperStream will increase the pressure for many trustees to consider outsourcing their administration, merging or gaining access to economies of scale via other avenues to justify the investments in IT, people and processes. Several participants indicated that the SuperStream implementation may raise a number of important questions that trustees and fund executives may need to consider, including:

- i One of the key aims of SuperStream recommendations is noted as “bringing superannuation into the 21st century”. This may imply that many existing members may have benefited from artificially low fees that did not sufficiently allow for necessary IT and business process upgrades, service changes as well as changes in employer and member service demand. To ensure member equity across the industry, this aspect should be appropriately considered.
- ii Many participants expect that member account consolidation will reduce account numbers. For some funds this is estimated to be up to a 40% reduction without significantly reducing their cost base. This means that for members with only one account, costs are likely to increase. For members who currently have multiple accounts, account consolidation will reduce overall costs. This is a result of their consolidated account being lower than the aggregated cost of the multiple accounts held before consolidation. Many participants expect significant repricing and increased usage of percentage based administration fees as a result of the changing landscape.

# Implementation

In face to face interviews, research participants were asked for their suggestions of a high level implementation plan for SuperStream, in particular across the five key measures analysed in this research. A proposal for change was put forward by participants relying on orderly implementation of a plan to ensure benefit maximisation and change simplification.

## A three stage plan for success

The proposed implementation plan has three distinct stages over a three year period, as detailed below. Each phase has unique activities and runs in parallel with a comprehensive communication and change program to ensure the desired outcomes are achieved.

Most participants believe that the three phases of this implementation plan assist in minimising negative impacts on employers and members.

Specifically each phase involves the following:

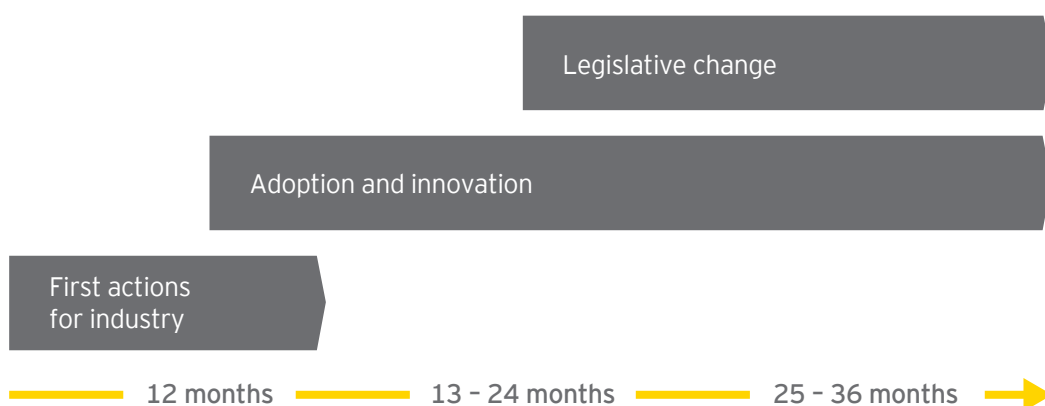
- ▶ Industry first actions: The first twelve months would see stakeholders laying the foundation for a successful execution of the subsequent two stages.
  - i As a whole, the industry acknowledges that basic data standards have not been upheld. The first step will be for industry to agree on standard contribution fields. The Medicare Small Business Clearing House may provide a guide for this change. Standardisation could be executed by APRA as suggested by the SuperStream recommendations or through an industry-led initiative with regulatory support.
  - ii Enhancing fund capabilities, such as acceptance of online contributions is another objective which could be solely achieved by industry led initiatives.

- ▶ Adoption and innovation: It is clear that the current technological infrastructure does not lend itself to the benefits to be realised by the SuperStream changes. E-commerce will enable the most effective communication between all stakeholders and should be the most efficient. Nevertheless, securing this capability will be an involved process both in terms of infrastructure and user behaviour. Funds will need to work with employers, members and intermediaries to change behaviour and drive acceptance of e-commerce interactions that suit their needs.
- ▶ Legislative: The final phase relies on regulatory reform. In other words, this phase cannot occur through industry action alone. This includes mass account consolidation. This will require an industry-wide upgrade of automated processes so funds can confidently cope with millions of low balance transactions and many member queries over a short period. Such a critical industry initiative should be carefully planned to limit any negative member experiences and in doing so bolster confidence of the industry.

This three phase plan is based on an initial high level analysis by participants. Considerable further investigation is required to gain clarity around these steps. In short, an implementation plan should be furnished and agreed upon in consultation with the industry and included in the charter of the proposed SuperStream governing body.

No one fund can implement SuperStream change in isolation of industry-wide change programs.

## Three stage plan graph

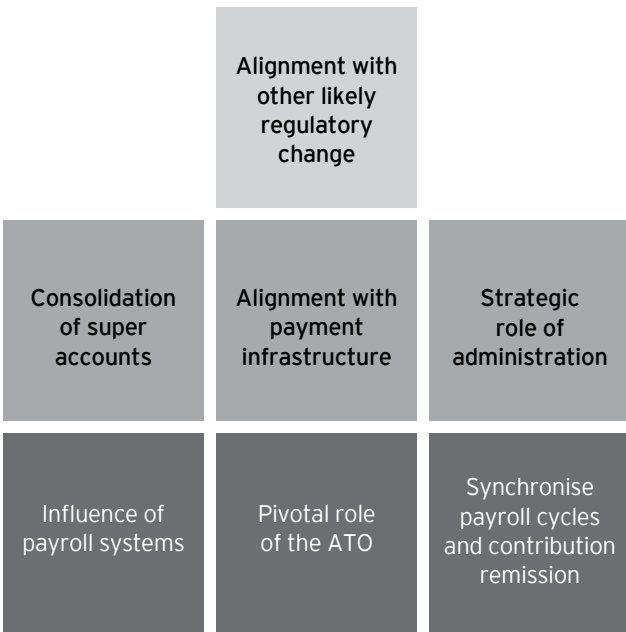


Source: Ernst & Young analysis

### Implementation challenges

This section of the implementation blueprint outlines seven significant factors which were identified throughout the research as presenting challenges to implementation. The seven challenges are broadly outlined and juxtaposed with the five central SuperStream tenets – which are linked to a detailed implementation summary with solutions. Where a challenge matches a SuperStream tenant, a solution is proposed. This culminates with a table summarising possible solutions.

The chart below summarises the seven challenges to smooth implementation highlighted by the research participants.



### Alignment with other likely regulatory changes

Most participants highlighted the importance of aligning SuperStream with the raft of other regulatory reviews underway. The following will benefit all stakeholders as they manage the complex system of change driven by regulation, Government policy, member demand and market response:

- i Standard definitions across all regulatory changes
- ii Synchronising transition periods where possible
- iii Clear and granular requirements and sequencing
- iv Sufficient and early consideration given to the interdependencies
- v Open communication to all stakeholders to manage expectations

With many organisations already undertaking significant business transformation initiatives, immediate regulatory certainty is even more critical.

Tenets that this issue is relevant to:

Tenets	1	2	3	4	5
Relevance	✓				

For further details please refer to "Summary of implementation challenges and solutions" on page 18.

## Alignment with the payment infrastructure

Research participants acknowledge that the current system of Australian payment infrastructure does not fully support the requirements of all stakeholders to smoothly transmit data and payments. As a result, other solutions currently play an important role in addressing this aspect for many funds and employers. Such solutions include clearing house services, bespoke solutions for large employers, innovative solutions using BPAY, specific BSB numbers and other banking solutions.

Acknowledging that superannuation can be seen simply as another form of payment, many participants support the idea that contribution payment solutions should be integrated or fully aligned with existing and future payment infrastructure in Australia. All stakeholders agreed that any solution needs to align the transfer of data and values to maximise superannuation industry benefits.

APCA, Australia's payments self regulatory body, established the "Low Value Payments Roadmap" in December 2008, to examine the adequacy of the direct entry payment system and its potential upgrade. The review, due to be completed by 2011, will consider, amongst other aspects, whether it is possible to include superannuation within an updated direct entry system.

The direct entry system is used for low value electronic funds transfers in the banking industry and is not sufficient to handle the complex data and validation required to facilitate superannuation payments. Put simply, the direct entry system has only enough characters embedded in the messaging standards to manage the data coming through from bank accounts but not enough to cater for superannuation payments, which require vast amounts of data which often varies between funds.

In addition, the Reserve Bank of Australia's (RBA) Payments System Board is undertaking a strategic review of innovation in the Australian payments system. The Board is responsible for the payment system policy of the RBA and the RBA has statutory oversight of the payments system.

Both reviews may require some time before they produce tangible benefits for superannuation payments. However, the super industry should consult with the RBA and APCA to ensure that the interests and specific requirements of superannuation payments and stakeholders are appropriately reflected.

If new standards are approved and delivered through APCA's review of the direct entry system, it is likely to create substantial benefits including greater employer acceptance as many begin to see superannuation as just another type of payment. It may also enable leverage of existing suspicious person reporting systems already used by Australian banks. Those reports directly connect to the Australian Federal Police creating a faster and more integrated fraud prevention framework.

### Tenets that this issue is relevant to:

Tenets	1	2	3	4	5
Relevance		✓	✓		

For further details please refer to "Summary of implementation challenges and solutions" on page 18.

“Without more details auto-consolidation will create as many problems as it intends to resolve.”

Superannuation Policy Executive

### The strategic role of administration for trustees

The SuperStream recommendations encourage trustees to revisit their strategic oversight of their funds’ administration. Participants outlined that this may contribute to several potential outcomes:

- i **Funds revisiting service delivery capabilities and their value proposition to members and employers:** Many funds are realising that administration and customer service are not just mandatory but can become a significant competitive advantage. Declining investment performance and increasing commoditisation of products may mean that administration and service may become the only long-term benefits that trustees can promise to members. As a consequence, many funds may revisit their strategy, product offerings, operating model and service delivery.
- ii **Treating administration like a business:** The figures in this research highlight that efficient administration requires investment and ongoing enhancements to meet changing member and employer needs. To justify the investment many trustees may see value in copying from market leading funds that focus on the strategic value of administration. In addition, other more mature industries such as investment administration or custody demonstrate that this focus often contributes to service innovation and efficiency.

### Consolidation of superannuation accounts

Most participants believe that consolidation of superannuation accounts should not be limited to “lost” accounts, but extend to all account consolidation activities including easy rollovers. Broad account consolidation measures are likely to create significant benefits for all types of funds and members including the self-managed superannuation funds sector. Many stakeholders anticipate that these measures will remove red tape and over time lead to increased member engagement, choice and competition.

Further consideration should be given to the following areas:

- ▶ **Multiple and inactive member accounts exist for a reason:** Most frequently cited reasons for multiple accounts include retaining attractive insurance cover and accommodating complex employer defined benefits schemes transitioning members to retirement. Such accounts may need to be quarantined to avoid auto-consolidation while clear rules seem essential to limit disputes.
- ▶ **Auto-consolidation:** Many participants anticipate that forms for new members will include the option to consolidate existing accounts into the new fund. An easy process seems desirable for funds and members. However, fund experience indicates that many members tick boxes without fully understanding the consequences. Such behaviour may either lead to significant complaints, legal disputes or undermining retirement plans developed by a financial adviser.
- ▶ **Standard requirements for consolidation of accounts and rollovers must be legislated to gain industry-wide application:** Participants have identified existing barriers for members attempting to consolidate accounts or rollover account balances to another fund. This may be due to fierce competition among funds to retain members as well as extensive and cumbersome requirements for member identification. Many participants believe that legislation is the only solution that will overcome competitive pressure and the tendency to introduce fund specific requirements that act as a member retention mechanism.
- ▶ **Organisational consequences:** All participants agreed that the industry should implement more process automation before account consolidation occurs. Handling of small balances may otherwise create substantial effort for funds and administrators.

Tenets that this issue is relevant to:

Tenets	1	2	3	4	5
Relevance				✓	

For further details please refer to “Summary of implementation challenges and solutions” on page 18.

## Pivotal role of the Australian Taxation Office

Most participants are encouraged by the pivotal role the Australian Tax Office (ATO) is expected to play under the proposed SuperStream recommendations including the development of an online register. To maximise efficiency, funds and administrators will consider seamlessly integrating the ATO services into their own business delivery in areas such as real time TFN validation. Most stakeholders noted that such a role requires the ATO to meet the industry expectations regarding timely preparation and ongoing service delivery.

Participants also noted compatibility of data standards as an area of potential tension. Existing ATO superannuation tasks, such as reporting of funds that members contribute to, may also require enhancements to maximise efficiency for funds and administrators.

Most participants highlighted that some current SuperStream recommendations involving the ATO are likely to create complexity for employers such as the registration of new employees with the ATO. It may also encourage inefficient behaviour, for example, employers may use the ATO as a convenient aggregator sending all contributions to them, not just those where members did not provide TFNs.

Tenets that this issue is relevant to:

Tenets	1	2	3	4	5
Relevance				✓	

For further details please refer to "Summary of implementation challenges and solutions" on page 18.

## Influence of payroll systems

Employer human resources and payroll systems are often the most accurate source of information for member and superannuation information. Members have substantial incentives to provide their employers with their TFN or changes to contact details, some had created electronic interfaces with employers' HR and payroll systems to enable real-time data validation, straight through processing and electronic payments.

While these solutions are not uncommon for large employers, they are very rare for small- to medium-employers (SME). Further, the payroll system market for SMEs appears very fragmented with significant input from bookkeepers still required.

We recommend involving payroll system providers, payroll processors and bookkeepers (or their respective industry associations) as an integral part of the change program consultation. These participants could outline the costs and benefits of their service and relevance for this change implementation.

### Synchronisation of payroll cycles and contribution remission

All participants support synchronising payroll cycles and contribution remissions. Remissions should occur monthly to reduce complexity, service complaints and reconciliation efforts for funds and many employers.

In a streamlined superannuation value chain the number of additional contribution payments are unlikely to compensate the benefits for funds and employers. A common myth that some employers remit superannuation contributions at the latest possible time to bolster their cash flow or extend the period until their unavoidable insolvency may also be removed. Further the change will reduce time out of the market for member money by up to three months.

We recommend adjusting current legislation to require superannuation guarantee contributions be made on a monthly basis.

Tenets that this issue is relevant to:

Tenets	1	2	3	4	5
Relevance					✓

For further details please refer to "Summary of implementation challenges and solutions" on page 18.

## Summary of implementation challenges and solutions

SuperStream tenet	How	Who	Implementation stage
1. Standardised contribution fields and uniform data standards	<p>The industry must agree on standard contribution fields and data standards. A starting point for developing such forms would be the standard contribution forms with mandatory fields.</p> <p>If the industry fails to find agreement within six months, standardisation should occur through APRA as suggested by SuperStream recommendation 9.4.</p>	Superannuation industry or APRA	1. First actions for industry
2. Electronic funds transfer (EFT)	<p>While the current payment infrastructure has limitations, it is possible for super funds to embrace electronic transactions to varying degrees.</p> <p>Funds which do not currently offer EFT functionality for contribution acceptance must develop this solution within twelve months.</p> <p>The superannuation industry should establish a standing working party with employer groups to assess the adequacy and consistency of online functionality of contribution acceptance.</p>	Superannuation industry	1. First actions for industry
3. Straight through processing and process automation	Achieving greater process automation and straight through processing will involve super funds upgrading their internal capabilities. The delivery of solutions that meet employer and fund needs is essential to maximise acceptance. Funds and employers will invest in behavioural change to drive take-up. This change can be significantly aided by reform of the payment infrastructure.	Superannuation industry, payments system innovation and employers	2. Adoption and innovation
4. Extended tax file number usage/ account consolidation	In order to consolidate multiple accounts through member-direction, the Government must relax privacy restrictions preventing wider use of TFNs.	Government - amendments of <i>Privacy Act</i> and <i>Superannuation Industry Supervision Act</i>	3. Legislative changes
5. Limiting time out of the market/increased frequency of contributions	To increase frequency of contributions, the Government would need to amend relevant legislation requiring a minimum of monthly instead of quarterly contributions.	Government - amendments of the <i>Superannuation Guarantee Administration Act</i>	3. Legislative changes

### Legend

**Stage 1:** Industry led: SuperStream initiatives that could be implemented via industry agreement within the current regulatory parameters.

**Stage 2:** Take-up of e-commerce solutions and payments system innovation

**Stage 3:** Legislative: SuperStream initiatives that require legislation or new regulation

SuperStream initiatives able to be delivered by industry without Government intervention have been selected as stage 1. Stage 2 measures represent elements that can be provided through fund and employer effort to drive take-up of enhanced e-commerce solutions and innovation in the payments infrastructure, this will enable greater use of EFT and increased process automation. Stage 3 measures are reliant on legislative change, this should occur once standards have been agreed upon and electronic automation is widely occurring.

### **Additional challenges to implementation**

While they were beyond the scope of this research, it is imperative to note that the research participants identified three other factors to consider in relation to implementation. These are outlined below.

#### **Rationalisation of legacy products and IT systems**

Most participants stated that legacy products will impede the success of SuperStream. Significant efficiency improvements depend on substantially rationalising legacy products and removing legacy IT systems and platforms. Most participants acknowledged that combining SuperStream and product rationalisation could delay implementation and jeopardise success. However the impediment of legacy products should not be underestimated.

Participants recommend facilitation of rationalisation of legacy products to be included in any upcoming legislative reform.

#### **Online member communication facilities**

Funds and administrators could realise significant cost savings if they used online solutions for member statements, annual reports and other member communications. Current regulatory uncertainty leads many funds to narrow interpretations of privacy laws and member consents. This limits the use of online solutions.

Participants recommend clarifying regulation to enable funds to use online solutions for member communication. These could be used across the board for specific purposes or on a member opt-in or opt-out basis. Participants expect that online member communication facilities would generate additional savings for superannuation funds.

### **The role of employers**

Our discussions with employer groups reveal that many employers see superannuation as a tax on business. Culturally, many employers do not view superannuation as an activity that is simple to engage in. This view is reinforced by the inconsistency that prevails throughout the superannuation industry's interface with employers. Legal obligations actually create a misalignment of interest between employers and funds.

In some cases, employers may only use minimal effort to comply with their legal obligations while funds demand extensive information to meet their requirements. This conflict is widespread amongst SMEs since they do not necessarily attract the tailor-made solutions and customer service enjoyed by large employers by major funds. This conflict has meant that neither funds, nor the employers have achieved optimal efficiency.

Significant levels of education and communication or strengthening/broadening legislative penalties - the option of last resort - will be required to deliver the benefits of SuperStream in total.

We do not believe penalties could be reasonably imposed on employers while the infrastructure required to support SuperStream does not broadly exist and the complete lack of standardisation is not addressed by the superannuation industry. Once these shortcomings are addressed, it may be appropriate to consider penalties.

### Impact of industry diversity in implementing SuperStream

The Australian superannuation industry is made up of a large number of diverse superannuation funds. These funds vary on many factors such as size, cooperation levels between employers and members, the demographic profile of members and the customer service expectations of both members and employers.

Funds have responded differently to these factors in the past creating different levels of maturity across the superannuation landscape. Varying responses to the impact of SuperStream implementation and expected cost and benefits highlight the significant diversity in the Australian superannuation industry.

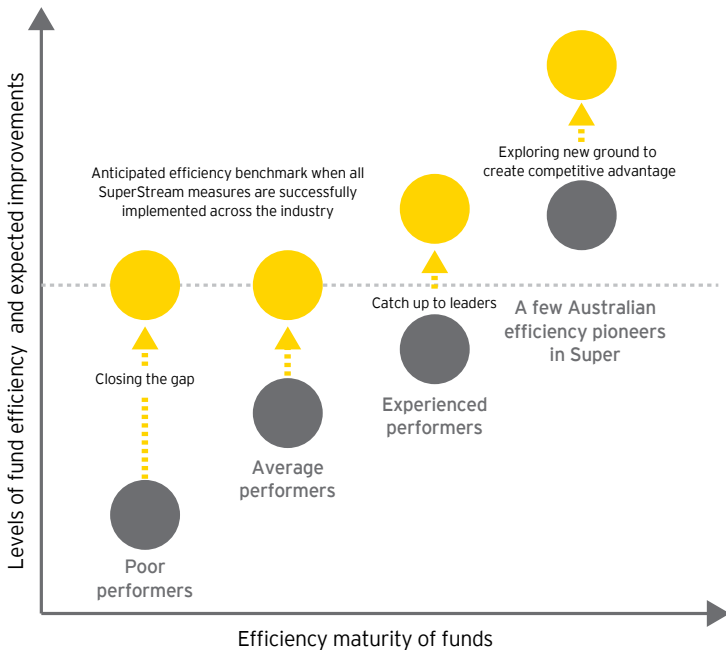
Most participants estimate significant benefits with the introduction of SuperStream; however the sources of those benefits differ substantially. The chart below outlines the diverse responses and expected improvements based on the maturity levels of funds.

Our research indicated that poor performers will focus on closing the efficiency and effectiveness gaps to their peers. Conversely, market leaders will be pioneering new efficiency levels to retain their competitive advantages in administration.

Many participants raised concerns that these different expected benefits and areas of focus to implement SuperStream will lead to diverse perspectives of implementation priorities and may impact the industry's timeline. As such, any industry-wide implementation plan will require careful consideration.

Most participants expect that after implementation of the SuperStream recommendations benefits, such as economies of scale and best practice experience from international fund governance, will offer further efficiency and cost improvements.

**Chart 7: fund impact of SuperStream is very diverse**



Source: Ernst & Young data analysis

# Governance

The SuperStream report recommends that a governance structure or body be established to manage the development of the proposed industry standards, and measure and monitor the successful implementation of necessary legislation and proposed measures.

We asked participants about their preferred scope and structure of this governance body. In addition to agreeing to the presence and oversight of the super industry by a governing body, most participants suggested an ongoing role for this body to support sustainability of an efficient industry and drive further industry improvements and collaboration in the future.

In this section we summarise participants' comments and views on such a governance body and other sustainability measures.

## **A governance body with teeth is vital for success**

Most stakeholders noted that implementation of many of the SuperStream recommendations has been discussed in the superannuation industry for several years without success. All participants support the proposed SuperStream measures being implemented comprehensively and in a timely fashion. Most participants agree that a strong governance body and sustainability measures are vital to ensure that step change is made and retained.

The majority of participants prefer a self-regulatory body with strong powers. Better understanding of industry issues, appropriate resources and deep industry participation to find practical solutions quickly were frequently mentioned. When participants were asked for their preferred governance model, the Australian payments industry solution was frequently mentioned where the RBA (via the Payments System Board) works with APCA as the self regulatory standard making body in managing Australia's payment framework to create efficiency and industry collaboration.

The structure where an industry body sets the standards in consultation with their members (the industry) which is accompanied by statutory oversight is the model preferred by participants.

In order to ensure sustainable governance of the implementation of SuperStream, it is clear that the way messaging standards are developed, maintained and policed remains an essential enabling feature. Accordingly, an APCA and RBA style agreement could provide the stability required to deliver a payment infrastructure befitting Australia's superannuation industry.

Industry oversight to the design and implementation of a change program with a strong governance structure were often cited by participants as major success factors. A minority of participants believe that such a solution will not prevail due to strong competitive industry forces and lack of a culture of collaboration, in which case, participants recommend using a regulatory body to play a significant governance role.

## **Sustainability measures to retain SuperStream benefits**

It is clear that efficiency and service is the strategic focus of the SuperStream recommendations. Trustee review and oversight of administration, and APRA's proposed role as efficiency promoter, are key components of this focus and may contribute to long-term efficiency.

However, it is widely recognised that many cost reduction projects fail to deliver sustainable step change. To further support the sustainable implementation of the expected benefits from SuperStream, participants suggested a number of additional measures considered to support maintaining and further improving the industry efficiency post implementation of the SuperStream recommendations. Those measures are represented below:



#### Details of these recommendations follow:

- 1 **Creating a better alignment of interest between employers and funds.** Many large employers are closely aligned with the funds they work with, presenting showcases in administrative efficiency. Employers, members and funds reap the rewards from that efficiency. Many participants believe that alignment with smaller employers is one of the next key challenges of superannuation funds, administrators, employers and regulators to ensure efficiency.
- 2 **Establishing an assessment and industry rating system.** Examples from the UK pension market indicate that such a rating system for superannuation fund administration may increase competition and drive similar change to existing investment performance, product and fee ratings.
- 3 **Establishing an industry-wide efficiency and effectiveness measurement and reporting framework to identify efficiency drivers, inefficiencies and root cause for high cost.** The superannuation industry currently measures and reports administration cost as percentage of funds under management. The current public measure insufficiently reflects fund efficiency, cost and the business context in which funds operate in. Participants expect that such a framework will foster the "value for fee" or "value for money" proposition made by the final Review report.
- 4 **Establishing cost per member as a standard reporting measure for the industry and for members.** Several participants suggest "cost per member" may reflect funds' cost for administration more correctly. Fund experience indicates that the cost of overall member administration may not be dependent on their account balance. A base line of fixed cost seems to apply for all members in a fund. Several participants anticipate that this measure will more correctly reflecting like-for-like comparisons on industry level.
- 5 **Increasing cost transparency and comparability of funds.** Some participants suggested the introduction of industry-wide cost allocation principles to improve comparability. External cost comparison between funds provides limited value because the quality of the raw data often does not allow a like with like comparison. Different definitions of cost categories, different mechanisms to recognise relevant capital investments and charges from in-house or outsourced administrators may contribute to misleading conclusions about efficiency and cost levels.

6 **Defining efficiency.** Participants acknowledge the Super System Review Panel's focus on low cost to maximise member retirement benefits. However, many participants outline that this focus may be too simplistic as low cost does not necessarily mean efficiency. Many participants suggest that rather a more holistic view using a cost per member or cost per account perspective and a service definition may be more relevant. Participants outlined this definition should be transparency and allow "like for like" comparison. This may contribute to sustainable and focused competitive pressure on efficiency. Such pressure is likely to contribute to lower costs. Some participants outlined that an alternative definition of efficiency could take into account:

- ▶ **A "value for fee" or "value for money" perspective is beneficial:** such an efficiency perspective compares what members pay and what they receive in return.
- ▶ **It is difficult to penalise funds for their diversity and business context:** In theory servicing small employers should entail the same cost as servicing large employers. In practice using straight through processing, driving employer usage and maintaining relationships and service are less costly for large employers rather than handling thousands of small employers. Many participants suggested that these aspects should be taken into account when assessing fund efficiency.
- ▶ **Current industry reporting on cost provides significant room for interpretation:** Cost as percentage of funds under management is the commonly used cost reporting measure. This measure has multiple moving parts such as average account balance, percentage of large employers or level of efficiency. These can lead to incorrect conclusions about fund efficiency and cost to members.
- ▶ **Cost per member more correctly reflects funds' fixed costs and their efficiency:** Many funds use "cost-per-account" administration fees which quite accurately reflected their fixed costs. However, over recent years many funds incorporated percentage-based components. This variety of fee reporting is compounded as no two funds offer the same member services. A common definition of service and "cost-per-member" reporting are essential to draw meaningful conclusions about efficiency and cost reduction.

### **An industry vision increases predictability**

Several participants suggested the development of an industry vision of the Australian superannuation industry to increase stakeholder predictability of change. All key stakeholders including funds, Government, regulators, employers and members would, ideally, agree with this vision. Based on this longer-term vision those stakeholders would also agree a strategic road map for regulatory change to achieve this vision. Such agreement and mutual understanding is envisaged to allow funds and administrators to better plan and execute long-term initiatives. Members and employers would increase their confidence and engagement in the system.

This suggestion seems compelling. Most participants commented that a decade of constant regulatory change significantly contributed to the current efficiency issues in the superannuation industry. Constant change challenged funds' and administrators' ability for long-term planning, performance improvements with longer pay back times and strategic IT and infrastructure upgrades.

The Government and superannuation industry should develop a communiqué for the future of the Australian superannuation system and the necessary regulatory change over the next decade. This communiqué should be clearly broken down into stages which will provide the certainty required by the superannuation industry to justify significant expenditure needed to deliver. This communiqué' should include delivering the SuperStream initiatives in a sensible order within a clear plan. The communiqué should also consider other likely regulatory change impacting superannuation stakeholders.





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