

CHAPTER 5

E-COMMERCE

Introduction

5.1 During the 1998 Committee's consideration of the issue of choice, many witnesses expressed concern about the cost of a choice regime, with higher marketing and transaction costs.¹ Since that time e-commerce has become more readily available. Although several witnesses to the 1999 roundtable commented that the application of e-commerce may present some difficulties for some businesses, especially small businesses, it was acknowledged that, in the longer term, it had the potential to offer consumers greater benefits, including facilitating portability between funds.

5.2 This chapter explores the issues involved in e-commerce as part of reducing costs associated with the introduction of a choice of superannuation funds regime.

Impact on costs

5.3 The role that e-commerce technology can play in superannuation has the potential to be significant. In an article in the *Superfunds* magazine, it was noted that e-commerce enables funds and service providers to deliver information, education and other services in a way that would otherwise not be cost effective. One of the main benefits of the service is the reduction in time occupied by basic processing.²

5.4 Both industry and service providers acknowledged that the implementation of the full range of electronic processes has the potential to considerably reduce costs. ASFA reported that e-commerce was a 'necessary precondition', particularly in an unlimited choice regime, in order to prevent 'cost escalating in a very real way.'³

5.5 Although witnesses agreed that e-commerce had the potential to reduce costs, they provided different data on the extent of the savings, based on their experiences. ASFA, referring to a benchmarking exercise last year on the cost within the superannuation funds area, found that 'most respondents considered that electronic transfer of contributions would decrease administration costs up to five per cent, although some said up to 20 per cent, so the savings were seen to be quite considerable.'⁴

¹ *Choice of Fund* (1998), p. 87.

² *Superfunds*, Edition No. 224, April 1999, p. 20.

³ Hansard, p. 32.

⁴ Hansard, p. 33.

5.6 The Australian Bankers Association (ABA) pointed out experience among industry was that data entry costs and the cost of re-work could be reduced by up to 40 per cent.⁵

5.7 However, a number of witnesses pointed out that, notwithstanding the advantages of reduced costs, there were some circumstances which would inhibit widespread adoption of an e-commerce approach.

5.8 For example, W M Mercer Pty Ltd pointed out that to date the great limiting factor in implementing the e-commerce solutions currently available is the administration capability of employers. A company representative told the Committee:

That stems from the variety of payroll systems, sometimes the lack of reliable payroll systems and the ability to get those organisations to upgrade to the point where they can actually have cut-through processing into our administration system.⁶

5.9 The ability of employers to communicate consistently through e-commerce was also mentioned by AMP Financial Services as a significant limiting factor.⁷

5.10 The ABA also pointed out that, while the technology might exist for the 'simple and seamless' transfer of money and data between fund managers, administrators, employers and, ultimately employees, there were issues of implementation to address, prior to this. These included:

- the need for standardised protocols;
- the need for some sort of regulation or legislation 'to push it forward more quickly'; and
- whether it was in the best interest of the industry to have multiple providers with multiple solutions when a standardised approach might be better.⁸

Need for standardised protocols

5.11 As mentioned above, the need for standardised protocols to be developed before e-commerce becomes an integral part of the superannuation regime was drawn to the Committee's attention by the peak bodies representing industry and service providers to industry.

5.12 ASFA suggested that standardised protocols were relevant for the registration of new members, the collection of contributions, and the portability of existing

⁵ Hansard, p. 30.

⁶ Hansard, p. 31.

⁷ Hansard, p. 31.

⁸ Hansard, p. 30.

account balances between funds in a choice of fund environment. In its submission, the Association also pointed out that it may take two years to develop protocols for e-commerce; that it was unlikely that all employers would be able to participate at that time, but it hoped that those using payroll services would be participating.⁹

5.13 IFSA drew the Committee's attention to the SuperEC program, a joint IFSA/ASFA initiative to create the standards, relationships and processes necessary for the automated exchange of superannuation information across all industry stakeholders. According to IFSA, initial trials of the project indicate cost reductions in excess of 50 per cent for certain transactions, and that this translated into industry wide cost reductions in excess of \$1 billion per annum.¹⁰

Australia's readiness for e-commerce

5.14 Different opinions were expressed on Australia's readiness to implement e-commerce as widely as would be needed to implement a choice of superannuation fund. While witnesses drew attention to the existence of several programs and approaches which confirmed that the technology existed to implement e-commerce for superannuation, some questioned Australia's readiness for it, particularly if the choice of fund was unlimited.

5.15 On the one hand, for example, W M Mercer Pty Ltd advised the Committee that, although e-commerce 'offers the potential for dramatic cost savings, a large part of Australia is not ready to use it.'¹¹

5.16 Jacques Martin Industry Funds Administration also advised the Committee that:

We do not think electronic commerce is anywhere near ready to facilitate the sort of unlimited choice that some people would be advocating at the moment. We deal with 70,000 employers every month, which is quite a deal, probably getting on towards 10 per cent of the employers in the country, and we find that only 20 per cent of the active memberships of our funds submit electronically at the moment. The reason for that is that 80 per cent of our membership is with employers with less than 20. They are in small pubs or they are those subcontractors on building sites that work out of the backs of utes. These people are not ready for e-commerce.¹²

5.17 In addition, the Institute of Chartered Accountants in Australia pointed out that small and medium entities do not necessarily have the capability of e-commerce at this stage. A representative told the Committee that:

⁹ Submission No. 15, p. 6.

¹⁰ Submission No. 9a, p. 4.

¹¹ Hansard, p. 31.

¹² Hansard, p. 32.

They also do not necessarily have the resources nor have they anticipated the need to purchase additional software in order to deal with superannuation e-commerce.¹³

5.18 On the other hand, the Commonwealth Bank submitted that it had already introduced a number of products and approaches to resolve the issues associated with an unlimited choice regime. These included such innovations as Commonwealth SuperSelect (a personal superannuation fund product offering members choice of investment strategy and fund manager); 'Get in the Game' (an education program for employee education); and Commonwealth eSelect (an internet service provided by the Bank for Australian employers to submit superannuation contributions to one or more funds electronically in respect of all of their employees). The Bank advised that, in its view:

These tools allow all employees and employers to obtain the maximum benefit from an unlimited superannuation choice regime. They are currently in the market and illustrate that there is now no material impediment to immediate introduction of full unlimited superannuation choice.¹⁴

5.19 Given that the state of readiness of employers will depend on their payroll arrangements and the readiness of their administrators, commentators have argued that the most likely scenario is that some employers will be ready well ahead of others. In this case, 'a staged start would be not be revolutionary.'¹⁵

5.20 ASFA has also affirmed its view that a staged start is appropriate, saying:

The evidence is that rather than a great leap forward, we need small steps to encourage the more timid players to join industry-wide initiatives.¹⁶

Summary

5.21 Witnesses at the 1999 roundtable generally agreed that e-commerce had the potential to reduce administration costs for some fund members and some employers, particularly if standardised protocols were in place.

5.22 While some witnesses queried Australia's readiness for e-commerce and pointed to the difficulties likely to be experienced by small business, others agreed that those employers and superannuation providers who were in a position to offer e-commerce would enjoy significant transaction cost advantages as well as information and educational opportunities. However, witnesses also acknowledged that, in the short term, those unable to use e-commerce may experience cost escalations with the introduction of choice.

¹³ Hansard, p. 32.

¹⁴ Submission No. 16, pp. 1-2.

¹⁵ *Australian Financial Review*, 13 January 2000, p. 24.

¹⁶ *Superfunds*, Edition No. 224, April 1999, p. 23.

5.23 The Committee acknowledges that the potential cost to employers is likely to be the primary barrier to choice, particularly unlimited choice. As the introduction of e-commerce has the potential to reduce the administrative burden on some employers, and therefore to reduce costs, the Committee considers that it is appropriate for the Government to do all it can to assist with the development of e-commerce as a viable option to facilitate the introduction of choice. However, it should be noted that the administrative savings are only part of the cost equation. It is inevitable that there will be increases in distribution, advertising and marketing costs as a result of choice.

