



Clearing house plan slammed

Mark Fenton-Jones

The federal government is making the same mistakes in the set-up of its proposed free superannuation clearing house service for small businesses as it did in the home insulation debacle, critics say.

Superannuation service providers have accused the government of failing to heed industry warnings that it is underestimating the technological complexity of setting up a clearing house and runs the risk of a cost blow-out.

The government initially consulted superannuation service providers but, in a surprise announcement last November, it said its superannuation clearing house service for small businesses would be delivered through Medicare.

The government had committed \$16.1 million to the project in the 2008-09 budget, fulfilling one of the Labor Party's election commitments.

But the private sector's experience in establishing a superannuation management system showed the final cost was likely to be about five times the government's allocation, said Craig Osborne, managing director of payroll and workforce management software supplier Sage MicrOpay.

"It's certainly a substantially larger investment than what has been earmarked and that does beg the question: 'Do they really understand the complexity and nature of what they are trying to achieve?' And the answer to that has to be a 'no'," he said.

Sage MicrOpay has partnered with online superannuation contribution systems provider SuperChoice to launch Express Super, a superannuation clearing house service.

SuperChoice chief executive Peter Philip said the average small to medium-size enterprises made contributions to at least 12 funds.

The federal government introduced a bill last month to create a super clearing house to operate from July. This was an unreasonable timetable, Mr Osborne said.

"It has taken years for fund clearing service providers in the private sector

to achieve and deliver service offerings that are viable and efficient. You cannot assemble a system like this in six months."

Businesses with fewer than 20 employees will pay their super contributions to a single location and the clearing house will forward the payments to employees' chosen funds.

Mr Osborne said the government chose Medicare because it had payment processing infrastructure in place. But collecting contributions was only one part of administering super, and unless it was done properly it could ultimately result in higher costs for super members.

"They are not looking at the full detail that needs to be achieved when there are adequate private enterprise solutions out there," he said.

"To run with a government agency that doesn't have a track record in collecting this information and collecting these sorts of funds, and doing the disbursements and matching and cross-checking that's needed to ensure the system is efficient, has not been addressed or even contemplated."

A Senate inquiry into the proposal, sought by the coalition, begins next Monday. The inquiry is expected to investigate the impact on the superannuation market and existing providers of using Medicare, whether using the agency is anti-competitive and if it is the appropriate agency to deliver the clearing house.

Liberal Senator Alan Eggleston of Western Australia, an SME supporter, told a Senate estimates inquiry last month that commercial operators had spent \$50 million to \$80 million to develop effective clearing house solutions that were fully integrated with hundreds of superannuation providers' back-office systems.

The coalition argued that the government's decision to use Medicare was a rushed attempt to deliver on its 2007 election commitment before this year's election.

Electronic payment provider Payment Adviser developed a solution with the credit union services provider Cuscal, which was shown to the government.

"When [assistant treasurer Nicholas] Sherry appealed to the industry to develop a solution for small businesses, and then put out a discussion paper [with a deadline for submissions of December 2008], we all responded," said Payment Adviser's head of global marketing, Brad Rosenthal.

"We didn't hear from Treasury or anyone associated with the government after putting in our submission.

"We worked with Cuscal to develop this solution, and a few other people looked at what they could do to provide a solution to small business. And it was quite a shock at the [Association of Superannuation Funds of Australia] conference late last year for a press release to say that the government was giving it to Medicare without going to market," he said.

Since the government introduced employee entitlements to choose their super funds, the administrative burden for businesses has significantly increased.

Ernst & Young recently put the cost to businesses of administering super choice-of-funds at more than \$130 million a year, and said the figure would rise.

Mr Osborne questioned the government's ability to deliver the service with its existing infrastructure and intellectual property, after issuing a public tender inviting private enterprises to make submissions and then opting to appoint a government agency to deliver the service.

"Like the home insulation debacle, it begs the question of why did the government not listen to the experts in this area — payroll, banks, super funds?" he said.

KEY POINTS

- The government has committed \$16.1 million to launch a clearing house service through Medicare.
- It plans to have the system up and running by July.
- But industry players say the government has underestimated the cost and complexity of the project.


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Craig Osborne of Sage MicroPay . . . 'Why did the government not listen to the experts?'

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