Payday Super –
The case for and against real time payments

Introduction

Last month, Treasury released the exposure draft for the Payday Super measure, which outlined the intended policy design features. To recap, this measure mandates employers to pay superannuation contributions at the same time as salary and wages, ensuring that *"contributions are received by their employees' superannuation fund within 7 calendar days of payday."*

The draft, supported by the previously released factsheet, also explicitly states that the SuperStream data and payment standards will be revised to facilitate payments via the New Payments Platform (NPP). It is expected that the introduction of near real time payments, along with improved error messaging, will help employers and intermediaries quickly resolve any errors that may occur. (For more on errors, see our article Getting the Data Right).

As industry consults on these reforms, we unpack the potential impact of faster payments and what this could mean for the future of superannuation contributions. We explore what happens today, where near real time payments could make a difference, and what will need to change to ensure the efficiency and security of the current system are both preserved and enhanced.

As custodians of the quality of the Superannuation Transaction Network (STN), GNGB believes in the potential of real time payments to improve retirement outcomes. However, our experience in developing the maturity of the STN has provided us with valuable insight into the necessary steps required for payments to operate at scale, with both security and efficiency. On this basis, significant work remains for many industry participants to turn this vision into a reality.

A brief history lesson

SuperStream was introduced in July 2011 as a part of the Stronger Super Reforms, mandating digital data transactions and digital payments for all employer contributions and fund to fund rollover transactions. The intention was to improve the effectiveness of superannuation back office operations. These reforms improved the efficiency and productivity of the superannuation system, streamlining transaction processing and enhancing the overall member experience.

The introduction of SuperStream led to the creation of the Superannuation Transaction Network (STN), which transmits transaction data in near real time. However, the payment aspect of the transaction has always relied on banking infrastructure to process payments. Historically, this meant that the transit time for payments depended on the payment method used. For instance, if direct credit is used to pay contributions, the payment typically undergoes an overnight clearing period. Direct debit or BPAY®, on the other hand take 3 and 2 days, respectively, for cleared funds to become available to the recipient. It's important to note that both direct credit and BPAY require the Employer to pay a matching amount with corresponding reference number in order to "complete" the transaction and ensure a successful money-data match.

Business processes including reconciliations, error management and allocations to members' accounts, are structured around these expected payment timeframes, with transactions typically processed in bulk or batches.

Innovation in payments

The payments landscape continues to evolve rapidly - and we've all experienced the convenience of instant payments. In December 2023, Michelle Bullock, Governor of the RBA, delivered a speech outlining the future direction of Australia's payments infrastructure and identified some of the challenges that still need to be worked out. She discussed the retirement of BECS (Bulk Electronic Clearing System), which the superannuation system currently relies on, and the rise of modern payment systems that will eventually handle all transactions, including superannuation payments.

Many have assumed that the New Payments Platform (NPP) will replace BECS, however a recent risk assessment from the RBA, Decommissioning of the Bulk Electronic Clearing System: RBA Risk Assessment, highlighted a range of issues that must be addressed before any decisions can be made regarding the future of payments in Australia - superannuation transactions being a critical component. Essentially, the assessment concluded that far too little consultation and planning has been done around the future payments landscape, and there is a significant amount of work required before any such decisions can be reached.

One of many critical risks identified by the RBA is that the NPP has never been tested with the volume of transactions currently processed through BECS – around 90% of account-to-account transactions still run through the BECS platform. Most countries around the world operate both a fast payment system, like NPP, and a batch payment system, like BECS. While the NPP may eventually be suitable to replace BECS, this remains uncertain at this early stage.

In this context, the RBA conducted a study on pilot use cases for a Central Bank Digital Coin (CBDC), one of which explored the payment of superannuation contributions. According to the report, "the results from the project indicated that a CBDC has the potential to support increased efficiency and resilience in some areas of the payments system, though more research is required." Some of the issues raised include the legal and regulatory frameworks required to support a CBDC, as well as operational concerns that need further exploration, such as the efficiency and integrity of settlements, connectivity to the central bank, and programmability across networks. At GNGB, we would refer to this as interoperability.

However, we are seeing further exploration of solutions using the underlying blockchain technology of a CBDC, particularly in the use of smart contracts between banks. You can read more about the RBA's plans to research the wholesale solution here. This is likely to evolve within the payments infrastructure itself and may not be something consumers are directly aware of; instead, it would enhance functionality in the background.

Finally, it is critical that we ensure the migration away from BECS does not increase the risk of fraud and scams. The RBA is not alone in this concern –an opinion published last year by the European Banking Authority highlighted that fraud rates were ten times higher on real time payment systems compared to others. It also noted that *Instant payments feature notably higher fraud rates than traditional credit transfers, and a relevant part of the fraud losses are borne by the customers, especially for credit transfers.*

What happens today in superannuation and how might this change?

Today, under the Data and Payment Standards, employers primarily use direct credit, direct debit and in some cases, BPAY, to pay contributions. Superannuation funds use the same methods to process refunds.

The majority of employers use clearing house facilities to make these payments, with the clearing house operator subsequently dispersing the payments to the various funds to which the employer is directing contributions. This benefits both the employer and the fund, making life easier at both ends of the transaction which may explain why many contributions are paid using a clearing house today.

A move away from BECS and traditional batch processing would result in more frequent, smaller payments and a significant increase in transaction volumes. The NPPs ability to handle these volumes has yet to be proven, and as the RBA emphasised in its risk assessment, it is critical for industry to work together to formulate a clear vision and strategic objectives for the future of the A2A (Account-to-Account) payments system that is consistent with the public interest (i.e. benefits society as a whole) and considers a broader set of stakeholder requirements, before any decisions are made about what a post-BECS world might look like.

Small Business Superannuation Clearing House

The small business clearing house is a free superannuation payment service operated by the ATO, designed for small businesses with 19 or fewer employees. Three key advantages of this service over commercial clearing houses are:

- *Employers are considered on time for super guarantee once they have lodged and paid their superannuation contributions to the ATO. However, a downside is that if a contribution is refunded for any reason (for example if an employee is no longer a member), the employer may become non-compliant.*
- *Credit card is a valid payment method*
- *It's free!*

However, the Payday Super exposure draft signals the intention to discontinue this service from 1 July 2026, meaning the 270,000 employers currently using the service will need to find an alternative method to make contributions payments and meet their obligations.

How will the introduction of near real time payments assist employers to meet their Super Guarantee (SG) obligations?

Two of the biggest changes the Payday Super initiative has for employers are a significant reduction in the time allowed for contributions to reach employee super funds, and changes to the associated penalties for missing the payment deadline. With the onus on employers to ensure contributions are processed accurately and on time, near real time payments are considered a key enabler to help employers meet their obligations.

Given the available options, it's important for employers to understand how and when their employees' superannuation payments are made. For example, if an employer uses a software solution that directly debits their account for the total superannuation payment, the payment will take up to three business days to clear through the banking system. However, the amount is guaranteed to match superannuation data, meaning the contributions can be sent to the fund by business day four. Whereas if the employer initiates a payment to their service provider via direct credit, the service provider will see and be able to reconcile the payment the next day – day one. However, we know that around 10% of direct credit payments don't match superannuation data, causing the transaction to be halted at the first hurdle. This highlights the importance of accurate data from employers.

These quality and timeframe differences will have a significant impact under the Payday Super model, where timely payment is crucial for employer compliance. Every day counts.

So, are faster payments the answer to employers' payday problems?

Non-universal approach to New Payments Platform (NPP) adoption

In an environment such as superannuation administration, where standards are crucial for ensuring interoperability and efficiency across numerous organisations, the use of non-standard approaches complicates adoption. Currently, not all financial institutions and accounts are enabled for the NPP, and while this is expected to change over time, the consistent and reliable processing of payments across the NPP needs to be demonstrated beyond doubt before the technology can be widely adopted. The RBA's second recommendation, that the *Industry needs to analyse a more comprehensive set of options for achieving the vision's strategic objectives and provide a clear articulation of the issues with the current BECS system*, is critical to ensure the security and reliability of both our superannuation system and the wider payments infrastructure.

Another area impacted by the changing payments landscape is the banks' treatment of the payment reference number (PRN) on the NPP. This reference is critical for a super fund to reconcile contributions payments, but there are currently no technical validations on the NPP to ensure it arrives in the expected field without modification. Current examples include banks adding a suffix and/or pre-fix to the PRN (or both), which complicates reconciliation.

Standardised, validated payments data is essential to minimise exceptions, work arounds, or the need for running two parallel processes within the industry. As the RBA points out in recommendation 15, the *Industry needs to evaluate whether to develop standardised elements of any future bulk payments functionality as components of its central infrastructure, supporting cost-effectiveness and efficiencies.*

Bulk and Batch payments

As Michelle Bullock has highlighted, the NPP infrastructure is designed for consumer payments, not business-to-business (B2B) transactions. Not all payment types processed by BECS are supported in a near real time environment. As the RBA points out, *Currently there are no alternative payment systems in Australia able to process BECS batch payments. While the NPP is an A2A payment system, its footprint is smaller and it is mainly used for lower value direct credits. The NPP offers greater functionality than BECS, but would require significant development before it could process the majority of BECS payments with an equivalent level of safety and reliability.*

Some banks have implemented work arounds to address this issue by de-batching payments before sending them across the NPP. However, there is currently no consensus on whether this is a possible or even viable way for superannuation payments to be processed in the future.

Banks are working on a solution to this issue, however it won't be ready for 1 July 2026.

Costs of new payment types

Business payment transaction costs have remained stable for businesses for many years, but this is about to change. While the per transaction fee is progressively reducing towards current BECS levels, fees for using the NPP are volume based, and set by the bank or financial institution. The NPP website states that wholesale costs are continuing to decrease as volume on the platform increases (from ~6c in FY23 to ~4c in FY25), which will be equivalent to the wholesale fees for BECS transactions. However, costs for the use of PayID registration and Payto (the direct debit equivalent), as well as NPP provider margins are also expected on top of those transaction fees.

This creates challenges for adoption, as the payer's costs are outside of their control, making it difficult to rely on consistent cost structures when factoring them into product offerings. If we look at the number of contribution transactions expected annually in a Payday Super environment, around 500 million, even a fraction of a cent extra per transaction can introduce massive new costs into the system.

By examining how other markets are managing the introduction and encouraging the uptake of near real time payments, we may uncover some valuable insights. For example, the European Central Bank Instant Payments requires providers of instant payments to offer services at the same price as traditional payment methods, effectively regulating the price. In addition, payee validation is required to be offered on every payment at no extra cost. This is something the RBA should consider in Australia to protect both consumers and businesses from uncontrollable payments costs. The RBA is aware of this, with recommendation 7 stating: *Industry should work to establish a higher degree of certainty regarding costs and clearly articulate the net benefits of new A2A payments for end users to enable relevant stakeholders to develop business cases to support the migration. Industry should uplift their reporting of A2A payment costs for end users to the RBA so that it has appropriate oversight and can provide more transparency to the payments ecosystem.*

As an industry, we must work together to ensure that we do not find ourselves in a future where increasing costs of payments and decreasing number of payment options result in higher costs for both employers and members.

How do we enable the benefits of near real time payment methods, without disrupting the current efficiencies of the system?

Transparency is key – governance of payment timeframes is essential.

- Employers must have confidence that payments will be received by the fund within a standardised timeframe to ensure compliance. Understanding their current model, identifying any necessary changes to their processes, and assessing whether faster payments can benefit them will be essential. Employers and super funds need to explore the possibilities with their payment service providers and evaluate the costs and benefits.

Banks need to enable real time bulk payments

- The NPP must provide equivalent functionality to what is currently available in the BECS system to ensure wholesale (bulk) processing of payments can continue, preserving the processing efficiencies within the superannuation system. The RBA has made seven separate recommendations on this matter alone and calls on industry to work together to ensure a fair outcome, at an appropriate cost, with demonstrable contingency and the promotion of competition. It is clear that the RBA views reliance on a single payments provider as unsuitable to promote a fair and efficient payments system.

Process reengineering for super funds

- The reconciliation processes for super funds will change. Funds will need to understand where to find regular information, such as the Payment Reference Number, and update their processes accordingly. Funds will already be speaking to their banks about how and when payment reconciliation files are made available. Again, there is no standardised approach between different banks, so initiating these conversations early is key.

Confidence in cost and capability required

- Volume based pricing is unreliable and inconsistent. The McDonald's upsize me approach to pricing, where each additional feature adds extra cents per transaction, is also unacceptable. When a standard is mandated (and may be the only option once BECS is retired) reliable costs and ongoing capability (with access to all bank accounts) needs to be absolutely assured.

Ongoing Governance

- To enable the benefits to superannuation members that modern payments systems offer, without impacting the current efficiencies, the NPP still needs further development. Ensuring a consistent and standardised approach that can be effectively utilised by the superannuation system requires active governance over the banking infrastructure and the services it offers to consumers. RBA's recommendation 3 enforces this point: *Industry should establish a centralised forum (compliant with relevant competition laws) responsible for governance and coordination of the BECS migration.*

To pay or not to pay?

So, where does this leave us?

The benefits of faster payments will certainly increase the ability for employers to meet their superannuation guarantee deadlines in a Payday Super environment. However, as we've seen, the NPP is not the magic bullet some would make it out to be. If the NPP is to be a viable payment option for superannuation contributions from 1 July 2026, all stakeholders in the superannuation ecosystem, including employers, will need to thoroughly assess the costs and impacts of transitioning to this system on their current operating models. Policy makers should urgently consider allowing the NPP more time to mature and develop sustainable solutions to the issues the RBA has highlighted, before mandating its inclusion.