What does the future hold for payroll?

Last month, the PwC Australia Payroll Consulting practice hosted our third annual Payroll Tech Vendors breakfast briefing.

The point of this breakfast is to generate discussion amongst the leaders of Australia's largest payroll technology companies about issues affecting the payroll industry.

This year, the focus of the breakfast was on the future of payroll in Australia.

As always, we live in a time of change. However, the great leap forward seems closer now than it has ever been, with the rise of Artificial Intelligence, Bots, Cloud based integration and better data visualisation capabilities. The rise of new ways of working, such as the gig economy and platform based employment, are also changing employee expectations. Calls are in play for payroll to provide access to information on a real-time basis and also to deliver On-Demand pay.

And so we asked the Payroll Technology leaders – what do you think will be expected of payroll in 5 or 10 years' time? And, against that, we posed a second question – who will drive the call for this change? Payroll functions, regulators, employees, C-Suites? This is an industry which, typically, is reluctant to change – is it possible that change will be forced upon it?

The briefing was engaging and lively. **The attendees agreed that change will come and identified three areas for discussion.**

1. Data portability

New privacy legislation, such as the GDPR rules out of Europe, position that data is owned by the customer or the employee, not the business or the employer.

Employees have a right to audit their data and to take their data with them (portability) when they sever their relationship.

This concept of portability becomes particularly interesting when considered in conjunction with the changing nature of the workforce. Casual, contingent and gig workers are rising in popularity. In 5 years' time, many employees may well hold down multiple and concurrent jobs.

With portable data, the regulators could establish a central and accessible repository of payroll data that allows an employee and their employer to identify their earnings throughout the year.

This could lead to benefits, such as one payment summary and superannuation statement across all employers, or to allow employers to work out the employee tax withholding without relying on a new Tax File Number Declaration each time. We already have the basis of this repository through Single Touch Payroll, SuperStream and MyGov.

The drivers of this change are likely to be regulators, eager for one source of truth across all employers, and employees, tired of tracking their information from employer to employer.

The challenge on data portability will be one of trust – and will be shaped by experiences such as in Australia, My Health Record and the success of Single Touch Payroll at tax time.

2. On-Demand Pay

The call for on-demand pay is rising, made possible because of technology changes driven by platform employers, such as Uber, AirBNB and Airtasker, which likely could be applied to other payroll functions. This concept of on-demand pay has been gaining traction in the UK and we are seeing it discussed more frequently in Australia.

The question of 'who would drive this change?' threw up an interesting theory. It's unlikely to be Payroll functions (who wants to run a daily payroll?!), employers (on demand pay creates a change in cash flow) or regulators (it creates employee welfare questions, similar to those currently being tackled with Pay Day lenders).

Rather, the catalyst of this change is likely to be societal expectations.

If an Uber driver can get paid as soon as they have dropped a passenger off at their front door, surely we can't expect employees to wait one or two weeks before being paid for their service? And it is not unreasonable to assume that that expectation will lead to differentiation amongst employers.

The choice between an employer who pays you once a fortnight, or even (how antiquated!) monthly, and an employer who pays you daily can become a differentiating factor, which can quickly set the bar for all employers.

3. Integration

A question was posed early as to whether our discussion was focused too narrowly on payroll systems. Instead, it was suggested that the employee lifecycle should be viewed as an integrated offering with Payroll, Time and Attendance and HR Management systems passing data seamlessly amongst each other. The shift to Cloud has promised that and many vendors are either expanding their offering to include it, or partnering with other single use specialists to offer a package of services.

Seamless integration removes confusion as to the source of truth amongst systems and expands the potential for data analytics to provide insight to management across the entire employee lifecycle.

We are already seeing moves in this regard from existing solutions and new entrants to the market. We are also seeing new businesses created whose value offering is creating a front end aggregator of disparate employee life cycle systems.

Further, the Australian Tax Office is currently encouraging vendors to invest resources into developing a service that will allow employees to use their payroll software to complete their onboarding online, accessing pre-filled ATO supplied information about their tax residency status and their existing superannuation. (Unfortunately, those forms then need to be printed off and given to the employer for them to enter the information into their system, so we're not quite at seamless and paperless …!).

Finally, would it not be reasonable of Fair Work to expect in the near future that employers will use Rostering, Time & Attendance and Payroll systems that integrate seamlessly to create one source of truth around wage compliance?

Integration may mean that vendors may need to become more consistent in their language and mapping to allow greater connectivity with other systems. This in turn could also allow for smoother transfers of employees from one payroll system to another. Imagine an employer offering Choice of Payroll, in the same way they currently offer Choice of Super. (Okay, maybe that's on the 10 year horizon …).

Summary

Our breakfast discussion allowed leaders in payroll technology area to share freely on their thoughts for the future of payroll and, while we didn't leave with all the answers, we did create interesting questions and hypotheses. We summed up the briefing with three themes:

1. The challenge is not what the systems can do, but what users want done with the system, and those expectations are likely to be driven by external factors, being regulators and societal expectations (customer experience).

2. Payroll should be viewed as an integrated part of the employee hire to retire experience, which requires a seamless transfer of data between all systems and the inclusion of the payroll function into the employee management process.

3. The fundamentals of payroll may well remain the same – 'Pay people correctly and on time'. However, as technology creates opportunities to automate key parts of that process, the expectation of payroll functions to cover a broader remit across the employee life cycle and to facilitate greater insight will rise. This will require education and investment to support payroll functions to adapt to these new expectations.

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