



Brotherhood
of St Laurence

Working for an Australia free of poverty

Submission to the Independent Review of Centrelink

Brotherhood of St Laurence

February 2013

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Summary

The Brotherhood believes that Centrepay is a valued budgeting tool for many people living on Centrelink payments. As strong supporters of the financial management principles behind it, we believe it has potential to further develop its approach to building the financial capability of its customers. We welcome the opportunity to submit the following recommendations to the Independent Review for consideration. We look forward to learning the outcomes of the review and, in doing so, call for improved transparency to both clients and consumer advocates as to how the financial capability objectives of the Centrepay system are achieved practically through the implementation of the service.

Recommendations

1. Operating under strong client protection principles, safe fair and affordable goods and services purchased on credit could be accepted under Centrepay Service Reasons, while exploitative businesses should be ineligible to participate.
2. In line with Centrepay's stated social objectives and the Australian Government's broader work to address issues of financial inclusion, a fee exemption arrangement should be extended to other microfinance and savings programs which are financially supported by the Federal Government such as Saver Plus.
3. Centrepay should recognise consumer protection as a important way to support Customers build their financial capability.
4. Centrelink should promote the use of low-cost options available on Centrepay, such as NILS, to ensure that a person's income is maximised.
5. A system should be put in place that 'flags' for further support from Centrelink staff when deductions from Centrepay reach a level which could cause financial distress.
6. Customers could be given the ability to order and prioritise their essential Centrepay deductions to minimise potential issues if their income support payments decrease.
7. Centrelink should provide more detailed, plain English financial information to customers concerning their Centrepay deductions.
8. A review of Centrepay should include issues remaining with regard to the uptake of Insurance premiums through Centrepay and the minimum of \$10 for fortnightly repayments.
9. Centrepay should expand their accepted 'Service Reasons' to include a 'Savings Plan' to an approved financial services institution, giving clients the option of setting a savings target to assist with future expenses and asset building.

Background

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

As part of our wider efforts to promote social inclusion, the Brotherhood is committed to developing and demonstrating effective financial inclusion programs and advocating for an inclusive system which enables people living on a low income to build and protect assets over their life. Many disadvantaged Australians lack the access to fair and affordable credit, insurance and other financial services that others take for granted. Simple purchases like replacing a refrigerator, buying a computer for homework purposes, or repairing a car necessary for travel to work can lead to substantial hardship, force people to enter into contracts they can't fully understand, and even push them into the hands of unregulated, high-interest-charging money lenders.

Australians experience financial exclusion to varying degrees and it impacts on their lives in a variety of ways. It has many causes: some of the main contributory factors include low income and high expenses (debt repayments or dependants), low levels of financial literacy limiting choice or the ability to implement effective financial management, and life events resulting in unexpected expenses (medical expenses, car breakdowns, unanticipated bills, etc). The solutions, too, are numerous. The Brotherhood believes that through (among other things) assistance to better manage income and expenditure, to improve financial literacy, and to enhance their ability to handle unexpected expenses and build assets, individuals may dramatically improve their financial outlook and their financial inclusion.

The Brotherhood therefore welcomes the opportunity to provide a submission to the Independent Review of the Centrepay system whose most recently stated objective is to 'enhance the well-being of customers by improving their social capability and encouraging their movement towards financial self-management'.

Brotherhood financial inclusion programs

The Brotherhood runs a number of programs designed to meet its objectives pertaining to financial inclusion. These include education and savings programs, as well as microfinance.

Saver Plus

Saver Plus assists families on low incomes to develop a savings habit, build assets and improve financial capability. Participants set a savings goal and receive support and education to help them achieve it. When they reach their goal, ANZ matches their savings, dollar for dollar, up to \$500.

Matched savings are then spent on costs relating to participants' vocational training or their children's schooling, as education can broaden life chances.

Set up in 2003 to encourage saving for educational expenses, Saver Plus is now offered by a range of community agencies in 61 communities across all states and territories in Australia. Saver Plus is an initiative of the Brotherhood of St Laurence and ANZ, delivered in partnership with Berry

Street, The Benevolent Society and The Smith Family and other local community agencies. The program is funded by ANZ and the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs, with ANZ providing matched savings for participants. Since 2003, more than 16,000 people have participated in the program.

Microfinance

From 2006 to 2012, the Brotherhood also ran Progress Loans in partnership with ANZ. Progress Loans offered people on low incomes small personal loans of \$500–\$3000 for purchasing essential household goods such as fridges and washing machines, and loans of up to \$5000 for cars. The loans gave people a chance to build assets and reduce expenses. Evaluations of Progress Loans found that the program brought significant benefits to clients, including improved personal living conditions and quality of life¹. In 2012, however, following a Strategic Review of their corporate responsibility work, ANZ decided to cease their involvement with the Progress Loans program.

The Brotherhood however continues to be committed to advocating for, and innovating new safe and affordable mainstream credit options for people living on a low income and continues to offer the No Interest Loan Scheme (NILS) in Fitzroy and Frankston.

Money Minded

Developed by ANZ, MoneyMinded is an adult financial education program designed to help people make informed decisions about their money. The Brotherhood primarily delivers Money Minded as a Facilitator Training program designed for community workers interested in using the resource with their clients in one-on-one meetings or group workshops.

Home Energy Efficiency Upgrade Project

In 2013, the Brotherhood will establish and roll out a Home Energy Efficiency Upgrade Project (HEEUP) funded by the Department for Climate Change and Energy Efficiency. HEEUP will assist 1400 low-income households in Victoria to upgrade their hot water systems to more efficient models. Hot water systems are the largest single energy user in most homes. Many low-income and vulnerable households struggle with the high capital costs of upgrading a hot water system, which range from \$1400 to \$5500. HEEUP will assist households by providing information on the costs of upgrades and the likely savings, a small rebate to assist with the out-of-pocket expenses and facilitation of a low-interest loan for the remaining out-of-pocket expense.

¹ Vawser & Associates 2011, *Progress Loans Evaluation 2011*, available at: <http://www.bsl.org.au/pdfs/Vawser_Progress_Loans_evaluation_2011.pdf>

Scope of the review

The Brotherhood strongly supports the objectives and financial management principles underpinning the Centrepay system. However, in delivering our financial inclusion programs and services, the Brotherhood has become aware of some issues and limitations to Centrepay which we believe undermine its ability to achieve its stated objectives.

Further to this, in advocating for a national financial inclusion strategy which supports people to build assets over the life course, we welcome this opportunity to input ideas into the potential future directions of Centrepay.

We have chosen to respond directly to three of the seven criteria within the scope of the review:

- Provide suggestions about which businesses and services should have access to the Centrepay service, and services that might be excluded
- Look at ways in which Centrepay can be used to build the financial capability of its customers and to assist them to manage their money in the best way possible
- Suggest future opportunities and directions for the Centrepay service.

Provide suggestions about which businesses and services should have access to the Centrepay service, and services that might be excluded

Putting client protection ahead of business interests

The Brotherhood considers Centrepay to be a valuable budgeting tool for people receiving Centrelink payments. It has enabled many to take control of their financial situation, and allowed others to access goods and services outside their fortnightly budget with the peace of mind knowing that repayments are manageable and taken care of.

Rather than focus on what ‘Service Reasons’ should be deemed essential or non-essential, the Brotherhood supports, from a social inclusion perspective, any Centrepay businesses and services which help people live a life they value. Recognising the financial vulnerability of people using the services, however, the Brotherhood advocates the exclusion of businesses and services which do not offer fair and affordable products and services.

While non-government bill payment services do not restrict access on ethical grounds, the Brotherhood is concerned that from a consumer perspective, the fact that Centrepay is a government service legitimises the businesses which are approved to offer Centrepay. As such there needs to be greater recognition, in the approval of businesses, of the potential financial vulnerability of the people the system has been established to assist.

To achieve a balance, strong client protection principles similar in intent to those recently established through the international ‘Smart Microfinance’ campaign², should be developed and

² See the campaign website <<http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>>.

underpin all of Centrepay's accepted 'Service Reasons' to ensure that they are meeting adequate standards of customer care. The Smart Microfinance campaign established the following seven core Client Protection Principles behind their new certification to similarly help microfinance institutions practise ethical and smart business:

- appropriate product design and delivery
- prevention of over-indebtedness
- transparency
- responsible pricing
- fair and respectful treatment of clients
- privacy of client data
- mechanisms for complaint resolution.

This would go some way to allay concerns that Centrepay's current internal cost recovery and competitive neutrality guidelines create a conflict between the interests of the Centrepay 'business' and the best interests of the Centrepay client, undermining its ability to achieve its stated social objectives.

Establishing strong client protection principles as minimum criteria for any business participating in Centrepay would also address a number of concerns raised by Financial Counselling Australia and other consumer advocates about the misuse of Centrepay. In Financial Counselling Australia's recent report '*Centrepay: a good idea that has lost its way*', concerns are rightly raised about inappropriate access to Centrepay by companies renting or leasing goods that "can end up costing two to three times (and sometimes up to eight times) the original price"³. It is of concern that there are currently no specific Centrepay criteria to exclude businesses that are in effect exploiting low-income and vulnerable consumers such as members of Indigenous communities.

Establishing strong client protection principles may also shift the debate away from the delineation of whether to include or exclude businesses because they offer credit, towards a discussion of what is considered to be safe, fair and affordable. From its beginnings, the purpose of Centrepay was to assist clients to pay for essential services such as utilities, which is by its nature providing a line of credit—the consumer consumes electricity for payment at a later date. The Brotherhood has also seen many positive benefits to the lives of clients who were given the opportunity to repay their No Interest Loan (NILS) and Progress Loan through Centrepay.

Recommendation

Operating under strong client protection principles, safe, fair and affordable goods and services purchased on credit should be accepted under Centrepay Service Reasons, while exploitative businesses would be ineligible to participate.

³ Financial Counselling Australia 2012, *Centrepay: a good idea that has lost its way*, p. 10

Reducing the cost barriers for microfinance and savings programs

The Brotherhood considers that Centrepay's internal cost recovery and competitive neutrality guidelines are impacting on its ability to achieve its stated social objectives, through its prohibitive transaction fees.

With businesses paying a fee of approximately \$1 for each deduction, Centrepay's current business model is based on the assumption that businesses are able to rationalise the cost of the transaction fee through a reduction in their administration costs associated with debt management. Since 2001, to assist the Good Shepherd Microfinance's No Interest Loans Scheme (NILS) to overcome this barrier, there has been a fee exemption arrangement granted by Centrepay. This arrangement recognises the community benefits of NILS; also research and practice demonstrate that the ability to use Centrepay for loan repayments has proved beneficial to borrowers and NILS providers.

Unfortunately for community programs such as Saver Plus and Progress Loans which do not have the same fee exemption, the transaction costs present significant barriers to utilising the Centrepay system to benefit clients.

Saver Plus

Saver Plus participants can currently make their savings deposits a number of ways, including at an ANZ branch or via direct debit. In earlier phases of the Saver Plus program, approximately 6% of participants used Centrepay and many reported that this mechanism made the savings easier because they did not actually see or miss the money⁴. In later phases, however, Centrepay was not made available to participants due to the transaction fees.

As a simple gauge of the potential size of these costs, in its latest funding phase to June 2014, Saver Plus is seeking to reach 14,000 participants, each required to make 10 monthly deposits. If this option were to be taken up by just 10 per cent of participants at the cost of \$1 per transaction, it would add \$14,000 to our administration costs. In a savings program, however, there are no debt recovery costs to offset this against. The benefits are realised purely by the customer in assisting them to achieve their savings goal.

Progress Loans

The Brotherhood also made Centrepay available to some Progress Loans borrowers to help them make repayments. This service was offered sparingly, however, due to the costs incurred by the Brotherhood.

These costs included not only the transaction fees but additional administration costs for the Brotherhood to act as the community conduit for repayments between Progress Loans clients and ANZ. Under the current list of approved 'Service Reasons', while Progress Loans was approved as 'Community Group Loan Repayments', ANZ was unable to directly subscribe to Centrepay. As an innovative corporate community partnership program seeking to create sustainable mainstream credit options for people living on low incomes, this created an unnecessary administrative burden.

⁴ Russell, R et al. 2005, *Saver Plus, improving financial literacy through encouraging savings: Evaluation of the Saver Plus pilot phase 1 report – final report*, RMIT University.

Recommendation

In line with Centrepay's stated social objectives and the Australian Government's broader work to address issues of financial inclusion, it is recommended that a fee exemption arrangement be extended for other microfinance and savings programs which are financially supported by the federal government such as Saver Plus.

Look at ways in which Centrepay can be used to build the financial capability of its customers and to assist them to manage their money in the best way possible

Centrepay seeks to achieve their primary objective to 'enhance the wellbeing of customers by improving their social capability and encouraging their movement towards financial self-management' through three main goals:

- enabling customers to access a fee-free method for payment of their household and associated living expenses
- providing customers with a means to budget and plan for household and living expenses
- assisting customers to meet their financial commitments through the use of regular payments.

Drawing on Landvøgt's (2008) framework for understanding financial capability⁵, the Brotherhood considers an individual's financial skills and knowledge within their socio-economic context. Therefore to be financially capable, a person must also have adequate income, access to financial information and support, an emergency buffer and adequate consumer protections.

Within this socioeconomic context, the Brotherhood understands Centrepay to be a valued budgeting tool that ensures that people's ongoing living expenses are covered before they receive their income support payments. Prioritising these deductions at the start of a person's fortnightly budget ensures that adequate income is allocated and avoids the risk of direct debits bouncing due to insufficient funds (and potentially resulting in further late fees).

In addition to recognising the benefits of Centrepay as a convenient payment system, in the following section we use Centrepay's three main goals as a means to explore ways in which it can further assist build the financial capability of its customers.

Enabling customers to access a fee-free method for payment of their household and associated living expenses

Going beyond an individual's financial literacy, strong consumer protections are vital to supporting that person to build their financial capability. This is important for Centrepay as a payment system whose convenience and success makes it attractive to unscrupulous businesses that unfairly target low income consumers and seek to reduce the risk of payment default.

⁵ Landvøgt, K 2008, *Money, dignity and inclusion: the role of financial capability*, Good Shepherd Youth and Family Service Social Policy Unit.

The Brotherhood had a client who was paying a consumer lease company \$174 fortnightly via Centrepay for a variety of goods, apply for a Progress Loan to purchase similar goods outright. Doing so would free up a substantial proportion of the client's income, reduce the pressure on their budget and also assist them in building an asset base. The loan however, was unaffordable while the consumer lease payments were in place.

Whilst strong client protection principles with criteria of responsible pricing would prevent this, the active promotion of community-based options such as NILS through Centrelink would also help to maximise the use of a person's limited income.

Recommendations

Centrepay should recognise consumer protection as a important way to support customers to build their financial capability.

Centrelink should promote the use of low-cost options available on Centrepay, such as NILS, to ensure that a person's income is maximised.

Providing customers with a means to budget and plan for their household and living expenses

While there is considerable peace of mind for customers knowing that bills are taken care of before receiving their income support payments, we are concerned that enabling customers to allocate to Centrepay up to 100% of their Centrelink benefits may leave them with little to survive the fortnight. Some households may budget in a way that allocates one person's income to bill payment; but others are simply not aware of what deductions are currently occurring when they might sign up for another. Introducing some 'flags' to trigger financial information and support from Centrelink could prevent potential situations of financial stress and enable better financial management. This could include, for example, a support call from Centrelink staff when a person applies for a new Centrepay deduction that would tip their total commitments over 75% of their Centrelink benefits.

A key budgeting skill is the ability to prioritise essential expenses. As the scope of businesses approved on the Centrepay system has expanded beyond this, however, should a person's total income support payments be reduced, they are at risk of essential deductions not being covered. Customers should therefore be given the ability to prioritise their deductions to ensure that the essential goods and services remain covered.

Recommendations

A system should be put in place that 'flags' for further support from Centrelink staff when deductions from Centrepay reach a level which could cause financial distress.

Customers should be given the ability to order and prioritise their essential Centrepay deductions to minimise potential issues if their income support payments decrease.

Assisting customers to meet their financial commitments through the use of regular payments.

For many people, the money management benefit of Centrepay is the ability to ‘set and forget’ bills payments like a direct debit, without having to worry about whether there is enough money in a bank account. Unfortunately, one of the traps is the risk of forgetting what deductions are occurring. Currently, it is very difficult to ascertain this information from Centrelink statements. To assist people to manage their budget, Centrelink reports to individuals need to be more transparent, outlining exactly what payments are being made through Centrepay—including details such as progress towards targets and repayment periods. Further, customers need more information about how Centrepay deductions are managed if they switch benefits or if their Centrelink payments are reduced.

Recommendation

Centrelink should provide more detailed, plain English financial information to customers concerning their Centrepay deductions.

Insurance

The natural disasters of recent years continue to raise concerns about the number of people who have little or no insurance. A key part of any financial plan is the ability to manage risks. In previous research with low-income households undertaken by the Brotherhood, we found 30 per cent of surveyed low-income households had a strong interest in Centrepay being made available to pay for insurance premiums⁶, with most low-income households budgeting on a fortnightly basis⁷.

Unfortunately, while insurance has been added to the Centrepay list of approved Service Reasons, there appear to have been a number of prohibitive factors to making this a reality. These range from the inability of insurance systems to process fortnightly payments for monthly premiums, to more systemic issues around the affordability of current insurance products for people living on a low income. The Brotherhood considers that the Australian Government has an important role to play in facilitating solutions to this complex issue.

As an example, in a joint submission to the *Reforming Flood Insurance: Clearing the Waters* discussion paper in 2011, the Brotherhood asked government to explore whether the insurance industry should be required to offer Centrepay options, either through legislation or the General Insurance Code of Practice. The Brotherhood also called for a review of the appropriateness of Centrepay’s \$10 minimum payment, since some insurance contracts might require a lower fortnightly payment, especially products designed for low-income Australians.

In seeking to engage and encourage insurance companies to offer Centrepay to low-income consumers, the Brotherhood also recommends that the Australian Government reviews the relatively high current transaction cost to premium ratio which currently acts as a disincentive to insurance companies offering asset appropriate and affordable products to low income consumers.

⁶ Collins, D 2011, [Reducing the risks: improving access to home contents and vehicle insurance for low-income Australians](#), p. 26

⁷ Sheehan, G & Renouf, G 2006, [Risk and reality: access to general insurance for people on low incomes](#)

Recommendation

A review of Centrepay should include issues remaining with regard to the payment of insurance premiums through Centrepay and the \$10 minimum required for fortnightly repayments.

Suggest future opportunities and directions for the Centrepay service

As part of our wider efforts to promote social inclusion, the Brotherhood is committed to advocating for an inclusive system which enables people living on a low income to build and protect assets over their life. Research and practice show that ‘possessing even a few thousand dollars in assets gives people a stronger economic foothold. Holding assets connects people to the economy, raises their economic expectations and allows them to shape their future’⁸. With their own goal to assist customers to plan for their household and living expenses, Centrepay could play an innovative role in supporting people to manage their money and save for a broad range of future expenses and assets.

The Brotherhood has experienced a significant number of applicants seeking loans to pay for some of these larger expenses such as car registration. An example from previous loans applications, was a female disability support pensioner in her late 50s, living in public housing in Melbourne’s north-west, who successfully obtained a loan over three consecutive years to pay for car registration. She uses her vehicle to connect with family and friends and access services, as she has difficulty with public transport.

In 2010, we encouraged VicRoads to consider offering Centrepay to its customers who receive Centrelink benefits. Unfortunately, we were advised by George Mavroyeni, Acting Chief Operating Officer, that the VicRoads’ vehicle registration payment system could not at that time be configured to accept part or instalment payments.

The Brotherhood considers a ‘Centrepay Savings Payment Plan’ which is ‘set and forget’ could assist similar Customers to achieve their personal savings goals, smooth out their annual expenses and build assets.

One of our Saver Plus participants who was saving for both her and her child’s education was “able to reach [her] goal by being persistent, patient and by putting an effort to save monthly as a top priority”. Another Saver Plus participant joined the program to save up for a computer for her 13-year-old son’s education. She reported that “the saving of \$50 became automatic and we didn’t miss the money each month”.

While many people aspire to save, the reality of finding money to set aside at the end of the fortnight is very difficult. By broadening its ‘Service Reasons’ to accept deposits into a savings account at the start of the fortnight, Centrepay could assist people to automatically prioritise their savings goals.

⁸ CFED 2009, *Children’s Development Accounts: a state policy sourcebook*, p. 4

We recognise that for others their savings goal may simply be having a small amount of money in the bank 'for a rainy day' or an emergency. There are many flow-on social benefits from this. One Saver Plus participant shared that her marriage is stronger because there is no longer the stress of where they will find the money for larger expenses when they arise.

By expanding the Service Reasons to include 'savings' to a financial deposit taking institution, a client could be given the option of setting a target amount over a period of time. This could be a small amount allocated fortnightly to cover larger expenses which often catch people off-guard, such as car registration and insurance, back-to-school expenses and significant family and cultural events.

There may also be scope to work with the Department of Families, Housing, Community Services and Indigenous Affairs on a national matched savings scheme which rewards savings towards assets such as education and household purchases.

Recommendation

Centrepay should expand their accepted 'Service Reasons' to include a 'Savings Plan' to an approved financial services institution, giving clients the option of setting a savings target to assist with future expenses and asset building.

Conclusion

The Brotherhood believes that Centrepay is a valued budgeting tool for many people living on Centrelink payments. As strong supporters of the financial management principles behind it, we believe it has potential to further develop its approach to building the financial capability of its customers. We welcome the opportunity to submit the following recommendations to the Independent Review for consideration. We look forward to learning the outcomes of the review and, in doing so, call for improved transparency to both clients and consumer advocates as to how the financial capability objectives of the Centrepay system are achieved practically through the implementation of the service.

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