



CENTREPAY: A GOOD IDEA THAT HAS LOST ITS WAY

February 2013

Financial Counselling Australia (FCA) is the peak body for financial counsellors in Australia.

An earlier version of this report, dated November 2012, was provided to the Minister for Human Services by FCA. This version has been edited in some places and generally (although not wholly) removes references to specific companies. For example, the names of businesses referred to in the case studies have generally been removed and replaced with a generic description such as the “rental company”.

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Acknowledgements

This paper has been developed in consultation with the following organisations and is endorsed by them:

- Consumer Action Law Centre
- First Nations Foundation
- Footscray Community Legal Centre
- Indigenous Consumer Assistance Network
- Murray Mallee Community Legal Service
- National Welfare Rights Network
- Public Interest Advocacy Centre

A number of these organisations also provided case studies.

A number of financial counsellors from around Australia also provided comments and case studies. FCA thanks this group sincerely for their input.

Disclaimer

Financial Counselling Australia accepts full responsibility for the content of the report.

About Financial Counselling

Financial counsellors assist consumers in financial difficulty. They provide information, support and advocacy to help consumers deal with their immediate financial situation and minimise the risk of future financial problems. The majority of financial counsellors work in community organisations. Their services are free, confidential and independent.

What Does a Financial Counsellor Do?

Financial counsellors help their clients obtain a clear picture of their overall financial situation and the options available to them. For example, assistance could include:

- assessing whether any debts are legally owed, if the amount owing is correct and whether the contract was fair;
- developing or refining a budget;
- explaining what options clients may have in relation to their debts, weighing up the pros and cons of each option;
- negotiating and/or advocating on behalf of the client, for example, with creditors to come to a workable repayment arrangement or lodging a dispute;
- providing ongoing support and referral to other services, for example legal services, housing services, that may also help.

Financial counsellors require extensive knowledge in a range of areas, including credit law, debt enforcement practices, the bankruptcy regime, industry hardship policies and concession frameworks. They also require excellent communication and counselling skills.

The Impact of Financial Counselling

A recent independent survey demonstrates the difference made by financial counsellors. Approximately two-thirds of respondents said that their financial difficulties were resolved as a result of seeing a financial counsellor. More than half thought that the advice helped them to avoid bankruptcy and almost three-quarters agreed that the advice helped them to avoid or curtail legal action. Three-quarters said they were better able to prioritise debt.¹

Finding A Financial Counsellor

To contact a financial counsellor ring 1800 007 007 Australia-wide or visit www.financialcounsellingaustralia.org.au and enter your postcode.

Contact Person for This Paper

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¹ Brackertz, N. "I Wish I'd Known Sooner: The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing", The Salvation Army and Swinburne University of Technology (Melbourne), October 2012.

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Executive Summary

Centrepay is a voluntary free bill paying service for Centrelink recipients. The service is very popular as it helps people budget for essential household bills, such as rent and utilities.

FCA, and the community organisations involved in this report, support the money management principles underpinning Centrepay. However, we hold serious concerns about the way in which Centrepay operates in practice.

The Core Problem - Inappropriate Access

The most worrying issue is inappropriate access to the Centrepay system by certain types of businesses. Some businesses given access sell over-priced or unsafe products and in some cases, exploit consumers.

Access to Centrepay legitimises business practices. It also provides the significant benefit of a guaranteed income stream, as deductions for Centrepay are given priority, with the balance of funds then transferred to an individual's bank account. Access to Centrepay initially and then on an ongoing basis should be strictly monitored. We do not believe this is occurring.

A significant area of concern is access to Centrepay by companies that rent or lease goods to consumers.

- Many rental and lease contracts are a form of consumer credit. Some commentators have argued that the use of a rental agreement by companies rather than credit contracts, is at least partly a mechanism to avoid the stronger regulation imposed by credit legislation.² Other credit providers, such as banks and debt collectors, are quite rightly excluded from Centrepay. It is incongruous that de facto credit providers have access to the system.
- Goods purchased from these companies are often very expensive. They can end up costing consumers two, three times (and sometimes up to eight times) the retail price. This means that low income and vulnerable consumers are often exploited, paying far more than is reasonable. There are particular problems in Indigenous communities where financial literacy is very low. Some rental companies concentrate their efforts in this market.
- For purchases of white goods, many consumers would have been better off if they had accessed a No Interest Loan Scheme (NILS) through a community provider. A related issue is that a NILS loan is based on an assessment of affordability and can take, appropriately, at least a week to process. Loans from rental companies do not appear to be subject to the same degree of rigor and are effectively provided on-the-spot. Given this, some consumers

² Micah Law Centre, 'A Loan in Lease Clothing', available at: <http://consumeraction.org.au/a-loan-in-lease-clothing/>.

seek immediate gratification through a lease product, discounting the overall price benefits involved in obtaining the same or similar product through NILS.

- Rental companies have also used Centrepay for sale of goods such as cameras or expensive televisions. Once a company is given access to the Centrepay system, there appear to be few controls over the goods they can sell using Centrepay. Centrepay was meant to help people budget for the payment of essential household bills. While a consumer of course has a right to purchase what they choose, it does not follow that the Centrepay system should facilitate transactions of this nature.
- Some rental companies engage in unconscionable or misleading conduct, in breach of consumer protection laws. For example, contrary to their agreements with Centrepay, there are examples of companies selling their products door-to-door. This is a particular problem in Indigenous communities.³ It also raises questions about the ability of Centrepay to adequately monitor and enforce its contracts. One example, from October 2012, is Zaam Rentals. This company was allegedly selling furniture door-to-door in the Mallee and parts of New South Wales targeting Indigenous consumers. Some people signed contracts that would mean they paid more than eight times what a product was worth. Similarly the Consumer Action Law Centre is assisting consumers take action against a number of consumer lease providers alleging breaches of both credit legislation and fair trading legislation in relation to rental contracts. There are also examples of consumers continuing to have Centrepay deductions made for goods after the contracts have actually ended.

Other Related Issues

- *Affordability* - There are limited checks and balances about the affordability of Centrepay deductions - an individual can allocate up to 100% of their Centrelink benefits to Centrepay. Financial counsellors report that some clients do not have enough money left to live on after Centrepay deductions. This completely defeats the purpose of the system.
- *Information* – income statements do not itemise where payments are going. Access to information of this nature is a basic consumer right. A lack of this information has also contributed to significant consumer detriment, with some people continuing to make payments for contracts that were finalised.
- *Access* – organisations that should provide a Centrepay option are not involved. The best examples are State Government transport bodies managing car registration and compulsory third party insurance.

³ In relation to Indigenous issues, [First Nations Foundation](#) is currently producing a 'Position Paper' on Centrepay and Indigenous clients. This is one of the 2012 work streams of the Indigenous Financial Services Network.

- *Administration* – in some States, people in public housing need to fill in a new Centrepay deduction when their rent increases. This is easily overlooked and can lead to inadvertent arrears. In other States, this appears to be done by the relevant Department of Housing. In addition, when clients move from one benefit to another, the Centrepay deductions are not carried over.
- *Consultation* – Consumer group and user input into Centrepay operations is extremely limited. Centrepay staff have said in the past that they will address this, but no meaningful action has been taken.
- *Complaint handling* –It is unclear what is required for a company to be removed from the Centrepay system.
- *Compliance auditing* - There is no publically available information to assess the extent to which Centrelink carries out meaningful audits of entities on Centrepay.
- *Transparency* - Centrepay involves the transfer of over \$1.5 billion per annum on behalf of half a million Centrelink recipients. There are over 13,000 businesses involved. Despite these large numbers, the transparency and accountability of the Centrepay system is limited.

A root and branch review of Centrepay is needed to identify its core purpose and to assess the criteria and assessment processes for granting business access to the system. The review needs to be undertaken by an external, independent body such as a consultancy company with expertise in social policy or possibly the Productivity Commission. The review needs to seek the input of stakeholders.

1. Introduction

1.1. Purpose of this Report

The impetus for writing this report was the grassroots experience of financial counsellors, money management workers and consumer credit lawyers in assisting clients who have accessed the Centrepay system.

Centrepay was set up to help people in receipt of Centrelink benefits. At the request of a Centrelink recipient, a regular amount is deducted from their benefit to pay bills such as rent and utilities. In this way, Centrepay helps people to budget and manage their money.

Financial counsellors as well as other consumer and community groups, support the principles underpinning Centrepay. We have very serious concerns however about the way in which Centrepay operates in practice.

These concerns are set out in this report.

1.2. Methodology

As noted above, the experience of financial counsellors, money management workers and consumer credit lawyers was the driver for this report. In relevant places therefore, the report includes selected case studies based on this experience. Appendix 1 sets out additional case studies and comments about Centrepay from a range of sources, including financial counsellors and consumer law centres.

The report also draws on:

- publicly available information about Centrepay available on the Centrelink website. In particular, the report refers to a document titled “Centrepay Policy”. This document is undated but was available for download from the website in April – June 2012.
- a document titled “Centrepay Principles”. This is an undated 15 page document, provided to the Public Interest Advocacy Centre under a Freedom of Information request in 2009. Although the document has presumably now been superseded by the Centrepay Policy document described above, it provides a useful insight into the way Centrepay has developed.

1.3. Structure

Section 2 of the report describes the Centrepay system.

Section 3 describes the main cause of concern – inappropriate access to the Centrepay system by a number of businesses.

Section 4 sets out a number of other related concerns with Centrepay.

Section 5 summarises the problem and recommends a way forward.

2. About Centrepay

This section describes how the Centrepay system operates, including the benefits for consumers and industry.

As set out in the methodology above, quotes in this Section are from documents as follows:

- Centrepay Policy – at the date of writing this is available for download from the website.⁴ This document is undated, but is presumably current;
- Centrepay Principles. This document was provided to the Public Interest Advocacy Centre under a Freedom of Information request in 2009. This document is undated.

2.1 Description

What is it? What is its purpose?

Centrepay is a voluntary free bill paying service for Centrelink recipients. Centrepay helps Centrelink recipients manage their bills and budget for essential household expenditure, such as rent and utilities.

According to the Centrepay Principles document (pre or current in 2009):

“The primary purpose of Centrepay is to provide Centrelink Customers with affordable access to options for managing their finances ... Centrepay can assist with maintaining a reasonable living standard through better budgeting.”⁵

The current Centrepay Policy document uses more obscure, managerial language:

“The department’s primary objective in establishing and maintaining the Centrepay Scheme is to enhance the well-being of its Customers by improving their social capacity and encouraging their movement towards financial self-management.”⁶

Centrepay has been operating for over ten years and is very popular - over half a million Centrelink recipients access it.

⁴ Department of Human Services,
<http://www.humanservices.gov.au/customer/services/centrelink/centrepay>

⁵ Centrepay Principles (FOI released document), p 4.

⁶ Centrepay Policy, p 3,
<http://www.humanservices.gov.au/spw/business/publications/resources/9174/9174-1204en.pdf>, accessed 30th June, 2012.

In the financial year 2010-11 a total of \$1.5 billion was disbursed through the Centrepay system to over 13,000 registered organisations and individuals.⁷

How does it operate?

Centrepay operates as follows:

- Centrelink recipients choose a set amount of money to be deducted from their fortnightly Centrelink payment;
- several deductions can operate simultaneously;
- the deducted amount is deposited to the account of one or more of the nominated participating organisations;
- deductions occur prior to the Centrelink payment being transferred to the Centrelink recipient's bank account;
- Centrepay deductions can commence, be suspended, changed or cancelled by the Centrelink recipient. This can be done either online or by completing a Centrepay deduction form. Centrelink recipients do not need to provide reasons for their decisions.

Centrepay is open to all Centrelink recipients.

Structure

Centrepay is a business line of Centrelink. In turn, Centrelink is part of the Federal Government Department of Human Services.

Centrepay appears to operate as a stand-alone business within Centrelink, responsible for generating its own income stream from the fees paid by industry participants.

Centrelink determines which organisations are granted access to Centrepay and takes responsibility for establishing and maintaining the compliance and control framework underpinning the system.

Becoming a Centrepay Business Participant

In order for a business to participate in the Centrepay system the business must complete a Centrepay Business Application form and must fit at least one of 42 Service Reasons categories. The Service Reasons are included in Appendix 2.

The Service Reasons broadly describe the type of businesses that are able to apply for access to Centrepay. These include boarding houses, private landlords, child care services, electricity, gas and water providers.

Once accepted, the business pays a fee for each deduction made. Centrepay is provided on a cost-recovery basis.⁸ The fee cannot be passed on to the customer.⁹

⁷ Centrelink Annual Report 2010-11, p.121.

The current fee is generally \$1.00 per transaction. The fee however is negotiable and organisations with large numbers of transactions pay significantly less.

When deciding whether a legal entity should be granted access to Centrepay, the department considers “all relevant information” including any adverse information from regulators such as the ACCC or ASIC or consumer groups as well as the applicant’s understanding of Centrepay and its ability to help achieve the objective of Centrepay.¹⁰

2.2 Benefits for Consumers

Meeting the costs of essential household goods and services is critical for consumers to maintain and sustain a secure living environment.

Some of the advantages of Centrepay for consumers are that it is free and that it guarantees certainty of payment. Unlike direct debits offered by financial institutions, the Centrepay system does not allow the possibility of recipients withdrawing the money before the deduction takes place. This certainty of payment provides both peace of mind and an element of financial control for consumers.

To the extent that Centrepay operates as a method of ensuring essential bills are paid, the system accords with basic budget practice as promoted by money management workers and financial counsellors. Prioritising essential expenditure is a key component of a money plan and a critical step in helping people gain control over their finances.

2.3 Benefits for Business

Consumers are attracted to the Centrepay system for both the peace of mind and the financial control offered by the certainty of payment. Guaranteed payment also makes Centrepay particularly attractive to participating organisations because it substantially reduces the business costs associated with payment defaults.

As a risk management strategy Centrepay offers participating organisations significant cost savings and a guaranteed income stream. Centrelink promotes the Centrepay scheme to potential participating organisations by noting that:

“Centrepay, deductions are made directly from customers’ Centrelink payments to your organisation’s nominated bank account. This payment option helps customers pay their bills, because deductions are made before customers receive their Centrelink payments. Through Centrepay, administrative costs including debt management and additional costs

⁸ “Costs involved in using Centrepay”:
http://www.humanservices.gov.au/business/services/centrelink/centrepay-for-business-and-organisations/?utm_id=7, accessed 30th June, 2012.

⁹ *ibid.*

¹⁰ Centrepay Policy,

caused by the withdrawal and reconnection of your service (or services) to a customer, can be reduced”.¹¹

The Centrepay Principles document (from around 2009) highlighted the “competitive nature of the deduction fee” charged to participating organisations. It also states that participating organisations can benefit because:

“Customers tend to ‘set and forget’ their Deduction Payments resulting in a consistent regular cash flow for Participants and less expense associated with pursuing overdue payments or bad debts.”¹²

2.4 Recent Growth of Centrepay

Centrepay continues to expand both in terms of the number of participating organisations and the number of deductions. Table 1 shows recent growth in both the number of customers using Centrepay as well as the number of businesses.

Table 1: Number of Centrepay Customers, Organisations and Deductions (2009-11)

| Month | Customers | Organisations | Deductions |
|-----------|-----------|---------------|------------|
| June 2012 | 545,512 | 13,575 | 1,742,315 |
| June 2011 | 501,467 | 13,248 | 1,683,914 |
| June 2010 | 449,059 | 12,781 | 1,470,447 |
| June 2009 | n/a | 11,053 | 1,293,569 |

Source: Centrelink Annual Reports

Between June 2011 and June 2012, there was a:

- 8% increase in the number of customers using Centrepay;
- 2.5% increase in the number of organisations using Centrepay;
- 9.7% increase in the amount of money being deducted.

The trend in these figures since June 2009 clearly shows the increasing popularity and usage of the system.

Centrepay appears to be actively recruiting new providers to join.

¹¹ <http://www.humanservices.gov.au/business/services/centrelink/centrepay-for-business-and-organisations/how-centrepay-can-help-your-organisation-or-business> accessed 20th April, 2012

¹² Centrepay Principles (FOI released document), p.13

2.5 Reviews of Centrepay

Centrepay processes and systems have changed in recent years, through an internal reform process.

Centrelink's annual report for 2009-10 notes that the improvements included:

“clarifying Centrepay’s strategic intent, purpose and policy”; and

“a business framework based on new policy that supports assessments and compliance of the Centrepay Contract, customer feedback processes, service reason definitions, risk management and financial management”.¹³

¹³ Centrelink Annual Report 2009-10, Australian Government, p 117.

3. The Core Issue: Inappropriate Access to Centrepay by Some Businesses

As noted in Section 1, financial counsellors, money management workers, consumer credit lawyers and other community groups support the principles underpinning Centrepay.

However we have extremely serious concerns about the way Centrepay operates in practice. We believe that many consumers are harmed, rather than helped by Centrepay as a result.

This section focuses on the fundamental problem – that there are companies on Centrepay that should not be, or that should be limited in the products or services they can offer using the Centrepay system.

Section 4 following, outlines a number of other concerns, which are just as serious. These are inter-related to this core issue, but are described separately for clarity.

3.1 Companies Renting or Leasing Goods

“After establishing an initial rental agreement, which may be for white goods or household furniture, customers are solicited via SMS for non-essential products such as gaming consoles, over-sized televisions and electronic devices. Consumers are then locked into multiple long-term contracts paying excessive fortnightly rental repayments at rates well above retail prices and personal loan repayments.

In addition to this rental companies are often only providing clients on a Centrelink income with one option for payment, via Centrepay deductions. The direct implication is that the rental company is receiving their payment as a priority over rent, electricity, food and medications.”

Quote from a financial counsellor in Queensland

There are a number of related problems with the way in which rental and lease companies operate.

In summary:

- Rental and lease contracts are a form of consumer credit. Quite rightly, Centrepay is not available to other credit providers, such as banks or to debt collectors. It is incongruous that one form of credit is banned, but another is not;
- goods that are rented or leased can end up costing two to three times (and sometimes up to eight times) the original price;

- rental companies tend to target low income and vulnerable consumers. Indigenous consumers are particularly vulnerable;
- NILS loans are made less attractive, but can be a better option for some people;
- Centrepay deductions are being used for the purchase of non-essential goods;
- it has been alleged that some companies accessing Centrepay engage in unconscionable or misleading conduct. It is unclear to what extent Centrepay can monitor and prevent this type of conduct from occurring.

Each issue is explained below.

1. Rental and lease contracts are a form of consumer credit

Centrepay is not available to companies offering credit. Banks for example cannot access the system. Debt collectors cannot access the system in order to collect debts.

However, a number of organisations that provide consumer credit, in the form of consumer leases or rental contracts, have been given access to Centrepay. It has been argued that the use of a rental agreement by companies rather than a credit contract, has been a mechanism to avoid stronger regulation under credit legislation.¹⁴

Presumably access to Centrepay was provided to these organisations because they rented essential household goods such as refrigerators and furniture, but without any assessment as to the substance of the transaction.

2. The high cost of the products

Many people do not understand the true cost of these rental contracts. By the time the contract is finalised, the product generally costs around two to three times the original price. (The example of Zaam Rentals in the next section involves goods that will cost up to eight times the original price). Consumers are also often unclear about the provisions of the lease contract, in terms of whether they will own the product at the conclusion of the contract.

Case Study: a client has a Centrepay deduction of \$26 per fortnight for a camera. The camera if purchased outright would have cost \$800. The contract is for two years and the client will pay in total \$1,976 (nearly 2.5 times the original cost).

¹⁴ Micah Law Centre, 'A Loan in Lease Clothing', available at: <http://consumeraction.org.au/a-loan-in-lease-clothing/>.

Case Study (the full case study is in Appendix 2)

The agreements as a whole proved to be very expensive for the client ... Overall the client ended up paying 115% more than the RRP for the goods. This meant that our client paid the equivalent of a percentage rate of 35.52%, 75.26% and 41.87% per annum under the First Agreement, the Second Agreement and the Third Agreement, respectively.

Many consumers would have been financially better off if they had accessed a No Interest Loan from a community agency (see next comments)

Robert Drake, Senior Executive Leader for Financial Literacy in ASIC recently warned consumers about rent-to-buy schemes. An excerpt from the news report is in the box below.¹⁵

"It's often something people take out if they don't have access to credit, if they have a bad credit record or they can't get a credit card," he says.

"People don't have the cash saved up and they feel they want the item now."

A rent-to-buy lease allows a customer to rent goods such as fridges and TVs for a certain period, for example two years, and then have the option to buy the item once the lease term is up.

Drake warns it can be an expensive way to buy goods.

"One of the leading rent-to-buy companies has got a plasma TV at \$16 per week over three years," he says.

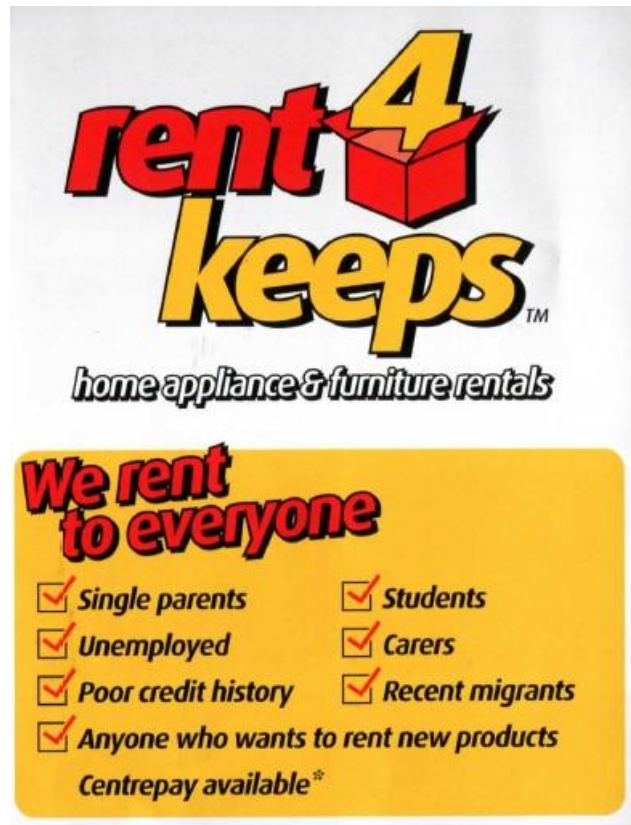
"You might think that doesn't sound much but over three years you pay \$2500. The recommended retail price for that item is \$700."

Drake recommends consumers look closely at the rent-to-buy deal and assess the hidden fees, charges and conditions.

¹⁵ *Australians buying goods via rent-to-buy arrangements should read the fine print before signing up, experts say.* , <http://www.news.com.au/money/money-matters/rent-to-buy-deals-can-be-costly/story-e6frfmd9-1226475515013#ixzz26pGwtRos>, accessed 18th September, 2012.

3. Targeting vulnerable consumers

In general, rental companies target low income consumers, some of whom are vulnerable. The case studies in Appendix 1 and throughout this report illustrate this clearly. The excerpt from the Rent 4 Keeps brochure below is an example – note that this company will “rent to everyone”.



There also appear to be a small number of companies whose business model relies on targeting primarily Aboriginal and Torres Strait Islander communities. Consumers in these communities do not always have the financial literacy to understand the high cost of rental products and are attracted by the easy availability of rent-to-buy.

For example, only 11.3% of Indigenous people living in remote areas have completed high school and at least half of these people speak an Indigenous language with a significant minority having poor English language skills.¹⁶

We appreciate that this is a difficult issue and are not suggesting an approach that would stop consumers exercising their choices. The core policy question however is whether a Government-backed system such as Centrepay should facilitate those choices.

¹⁶ Joint Treasury and Reserve Bank Taskforce, ATM Taskforce – Report on Indigenous ATM Issues, 28th February 2012, p 21-2, quoting figures from the Australian Bureau of Statistics.

The case study in the box below is an example of a company targeting Indigenous consumers. It is also an example of unconscionable conduct (see point 6 below).

The case study refers to a “target amount”. The form to set up a Centrepay deduction asks a person if they want to “specify a target amount”. If they answer yes, “Regular deductions will be made until the total (target) amount is reached or this Centrepay deduction is cancelled”.¹⁷ The case study suggests that the clients paid more than they realised for the goods as the “target amount” was unreasonably high.

Our clients, A and B, live in an Indigenous Town Camp in Darwin. Their main source of income is Centrelink. A and B contacted a small rental provider based in Darwin. The company came to their home with a catalogue of items which did not list any prices. Our clients selected the items they wanted and the rental company took away their ID and Centrelink income statements and returned the next day with the items and contracts for our clients to sign.

A and B say they knew and understood the prices of the items but also say that they were not given any time to consider or read the contract or to think about the price. The contracts A and B signed are rental contracts but A and B say that the rental company said to them “you will own the items in 12 months”. A and B thought that they were buying the items, not renting them.

In January A and B needed a washing machine and approached the rental company again. A signed an additional contract on 19 January 2012. This contract apparently also extended the contract for the TV although this is not stated in the contract and was never explained to A or agreed to by A.

At this time, A and B also signed new Centrepay deduction forms changing the fortnightly deduction amounts and the “target amount”. Instead of changing the target amounts Centrelink added the two amounts together.

A and B went to Centrelink and got a printout showing how much they had paid to the rental company and the total “target amounts”. B was very angry when he saw how high the target amounts were and thought that the rental company had deliberately tried to take extra money from him and A. He went to the rental company and yelled at the man working there. The staff member would not let him see his file, told him he could keep the items and the rental company would stop the deductions. The rental company also offered for A and B to take additional items as long as they didn’t tell anyone. A and B did not take any other items.

A and B confirmed with Centrelink that the deductions had been cancelled.

¹⁷ The form is available at <http://www.humanservices.gov.au/spw/customer/forms/resources/sa325-1102en.pdf> The question referred to is in Part D.

4. Impact on NILS

A NILS loan is based on an appropriate assessment of affordability. Loans from rental companies do not appear to be subject to the same degree of rigor. This puts NILS at a disadvantage. It takes at least a week for a NILS approval process to take place and so it should – it is important that these loans are viable. Rental companies in contrast provide more or less on-the-spot approvals.

As noted above, many consumers would be better off accessing a NILS provider than an expensive rental contract. Once locked into various rental contracts, it also makes it more difficult for a consumer to afford a NILS loan, creating a vicious circle.

In addition, the order in which Centrepay deductions are made has meant that NILS loans to some Indigenous consumers are not being paid as priority is given to other providers, such as rental companies.

5. Purchase of non-essential goods and services

Centrepay was originally set up to help people manage essential bills, but is now being used for more discretionary purchases. It seems that once a business is given access to the Centrepay system, there are few, if any, controls over what products it can sell through it.

Financial counsellors have seen clients with rental/lease contracts with rental companies for goods such as video cameras or expensive televisions. While consumers have every right to purchase what they wish, this category of goods are not essential. Using Centrepay is not an appropriate payment mechanism for their acquisition.

We also note that the company that owns Radio Rentals is now offering high cost, short term loans.¹⁸

6. Unconscionable or misleading conduct

Some companies engage in unconscionable or misleading conduct in breach of various consumer protection laws. The alleged case of Zaam Rentals is set out in the box below and is the most recent and egregious example. This edited excerpt is from The Age newspaper.¹⁹

A rental company is under investigation after allegedly targeting indigenous communities with predatory loans that required one person to pay more than \$4000 for a \$500 laptop.

A financial counsellor working in Mildura a year ago identified many of her clients from the Dareton community in south-west New South Wales had taken out rental

¹⁸ <http://www.cashfirst.com.au/about-us>

¹⁹ *Rental Company Probed Over Predatory Loans*, <http://www.theage.com.au/small-business/rental-company-probed-over-predatory-loans-20121018-27sgp.html#ixzz29dPu68Je>, accessed 18th October, 2012.

agreements with Zaam Rentals ...

A spokesman for the Murray Mallee Community Legal Service said it had been advised that Zaam staff visited indigenous communities door-knocking homes offering to loan them goods. The contracts were for up to 24 months.

"We have information that suggests that our clients were asked to sign a Centrepay authority, which then enables Zaam Rentals to get direct access to people's Centrelink payments," the spokesman said ...

Community advocacy group Mallee Family Care is assisting about 30 clients who have fallen into financial trouble after renting from Zaam. All but three are indigenous.

Under one rental agreement signed in January 2011 the client will pay \$4160 for a laptop worth about \$500 through 52 fortnightly payments of \$80. The renter's employer was listed as Centrelink.

The chief executive of Mildura Aboriginal Corporation, Rudy Kirby, said one client paid up to \$2000 for a washing machine worth no more than \$600.

There have been similar allegations about other companies in other remote Indigenous communities in Australia.²⁰ For example, a financial counsellor in remote New South Wales recently referred a different company to ASIC for investigation along the lines of the Zaam Rentals example.²¹

Using Centrepay when selling door-to-door is a breach of the contract between Centrepay and a provider. It is not clear however to what extent Centrepay can monitor compliance with these provisions, for example, through spot audits or if these provisions are breached, to investigate them. This is also discussed in Section 4.

The further example below is from the casework of the Consumer Action Law Centre (see full case in Appendix 1).

(Our client was told that the rent-try-buy contracts) by an employee of the credit provider that .. she would be able to purchase the goods for \$1 each after the lease period had ended if she had maintained her rental payments. She relied upon this representation when entering into the contracts. She also relied on the company's marketing material, which said that Rent-Try-Buy agreements are an "affordable" way to own goods.

The written contract in fact did not contain the \$1 buy provision but instead said the client would have no right to purchase the goods unless the client wrote to the credit provider with an offer to buy the goods which they could chose to accept or reject. The contract did state the client could purchase 'similar' goods to those rented for \$1

²⁰ First Nations Foundation is currently producing a 'Position Paper' on Centrepay and Indigenous clients. This is one of the 2012 work streams of the Indigenous Financial Services Network. The report will be available shortly.

²¹ Around August 2012. Personal communication with FCA.

provided that she advised the rental company of her intention to do so within 30 days of the end of the specified lease period. If the client did not return the goods to the lender at the end of the lease period then the client would continue to have the rental fee deducted from her Centrelink payments indefinitely.

(The client was not made aware that the agreements had ended and continued to have payments deducted via Centrepay) ...

Consumer Action Law Centre sought to have the contracts reopened as unjust and the client refunded the amount she has paid over the recommended retail price to the rental company. Consumer Action also sought to have ownership of the goods pass to the client. This remedy was sought on the basis that on their proper construction, the contracts are not consumer leases but rather credit contracts to which the National Credit Code applies. It was argued that the contracts and the conduct of the rental company contravened a number of provisions of the consumer credit law, including the maximum allowable percentage rate under the *Consumer Credit (Victoria) Act 1995* key disclosure requirements, and the requirement to provide statements of account. It was also argued that the contracts were secured by a mortgage over the goods on lease that were not in the required form. Finally, it was argued that the rental company had engaged in misleading or deceptive conduct in relation to the nature and affordability of the contracts.

The dispute settled on confidential terms.

We also understand that a company in the Northern Territory was taking Centrepay deductions from a number of clients, but had never provided the goods.

3.2 How Did this Situation Develop?

In our view, there are three reasons why the current situation – the inappropriate access to Centrepay by some companies - has developed.

First, despite Centrepay's stated policy that they take into account any adverse findings from regulators and consult with consumer organisations, there is limited evidence this actually occurs.

To our knowledge, there is no formal consultation mechanism or process which allows Centrepay to ask consumer organisations for their views about access to Centrepay for businesses. There have been some meetings on occasion and Centrepay staff have attended meetings of ASIC's Consumer Advisory Panel, but that is as far as it goes.

Presumably Centrepay now has some type of process in place to get input from ASIC, ACCC and state fair trading agencies. The efficacy of this is hard to assess.

Second, Centrepay appears to operate within Centrelink on a cost-recovery basis. There are incentives for the organisation to sign up as many organisations as possible in order to increase revenue streams. Our understanding is that the job descriptions for state-based staff include a focus on finding new customers. While we do not question that this is appropriate, in the absence of a meaningful and

rigorous assessment process the risk is that other companies may inappropriately be given access to Centrepay.

Third, Centrepay has lacked the expertise to understand the consumer marketplace and in particular, that rental and lease contracts are a form of consumer credit. The focus in the Centrepay service reasons has been on the goods and services, rather than the mechanism by which they are obtained. This has meant that unsafe financial products have been supported by Centrepay.

4. Other Related Issues with Centrepay

The issue of inappropriate access by some companies to the Centrepay system is not one that arose in isolation. There are a number of other related problems that are both cause and effect.

These include:

- affordability of Centrepay deductions in relation to an individual's overall financial position;
- inadequate information provided to Centrepay recipients about the deductions being made;
- organisations that should provide Centrepay as an option, such as State Government car registration bodies, are not involved;
- no formal, effective consultation mechanisms to seek community input into how Centrepay operates;
- limited compliance auditing of entities on Centrepay;
- inadequate processes for handling complaints about companies accessing the Centrepay system; and
- a lack of transparency about the way the Centrepay system operates, including complaint handling, data reporting and analysis.

4.1 Affordability

Centrepay is meant to help people budget more effectively. It should not place people in a position where their financial situation is made more precarious because of Centrepay deductions. This however is what is occurring for some clients and is particularly a common problem in rental/lease contracts (see Section 3). This means that in some cases people are prioritising payments of these contracts over food, rent and utilities.

An individual can allocate up to 100% of their income to Centrepay deductions. Given the low levels of Centrelink payments, this leaves recipients vulnerable to over-commitment.

Case Study - The client receives Parenting Payment Single and has six children. The client has a Centrepay deduction of \$176.36 per week to a rental company for a TV, a lounge suite and other household goods. This leaves the family with very little to live on.

Case Study – The client after Centrepay deductions (\$230 per fortnight) Centrelink advance repayments and child support and rent has a budget deficit of \$800 per fortnight.

Many people find they cannot afford the payments to rental companies, but financial counsellors also report that it is very difficult to negotiate hardship arrangements.

In theory, consumers have the option of stopping a Centrepay deduction. In reality, cancellations appear to be uncommon. Cancelling a Centrepay deduction authority may put the consumer in breach of the contract and, if the consumer does not establish alternative payment arrangements, the business involved may take action to enforce the debt and repossess the goods.

4.2 Information provided to Centrepay Beneficiaries

Statements provided to Centrelink beneficiaries show the total amount deducted for Centrepay, but do not itemise the amounts. This means that consumers cannot reconcile and track payments. The right to be informed is of course a basic consumer right and protection.

The lack of information has also contributed to significant consumer detriment when clients have continued to pay for goods when the contract has actually ended – see case study below. This also reflects poorly on the professionalism and ethics of the companies involved, again reinforcing points made earlier about how companies access Centrepay and their continuing involvement.

The client is a mother of six who receives Centrelink benefits and has no significant assets. She approached a rental company to enter in to a number of 'Rent-Try-Buy' hire-purchase agreements for a TV, DVD player, fridge and a camcorder over a period of 3 years ...

(In relation to the contract for the DVD player) ... the client was not made aware when its term had ended so did not offer to buy it within the time period allowed and rental payments continued to be deducted from her Centrelink payments. By the time the client realised that the lease period had ended it was 18 months later, she had paid an additional \$914.55 in rental fees and could not exercise her \$1 buy option. This same situation also occurred with a third agreement for the refrigerator and camcorder, resulting in \$874.00 in additional rental fees being deducted from her Centrelink benefit and meaning she had no ownership over the goods.

4.3 Access

While there are organisations that in our view inappropriately access the Centrepay system, there are some organisations that do not use it. The best example are State Government bodies responsible for car registration and compulsory third party insurance. These are essential items of expenditure for many people and the use of

Centrepay as a way of paying these amounts would help a number of low income consumers.

Similarly, there are arguments that some forms of insurance – basic home and contents for example – could be paid via Centrepay.

In making this point, we understand that the barriers to participation rest to some extent with these bodies, and include either concerns about the cost of Centrepay or the need to change administrative systems to support this payment mechanism.

4.4 Administration

Financial counsellors report that the administrative processes underpinning Centrepay are cumbersome. For example, people living in public housing in at least one State need to fill out a new form each time the rent changes. (Rent can change because people move in and out of a property for example.) The result is that some clients end up in arrears. In other States, the Department of Housing automatically manages these changes.

In addition, when clients move from one benefit to another, the Centrepay deductions are not carried over.

Financial counsellors also report difficulties in contacting Centrepay offices to check information. They may do this for example, in order to be clear about the exact amounts a person is paying to different companies (see Section 4.2 above).

4.5 Lack of consultation

As described in Section 3.4 above, there is no formal process by which community organisations can provide feedback to Centrepay, for example, through a consultative committee. This suggestion was made to Centrepay by ASIC's Consumer Advisory Panel in November 2011. Centrepay advised that they were committed to setting up an External Reference Group. This is now 12 months ago, but such a group has not been established.

Some of the issues that Centrepay could usefully seek the input of consumer organisations include those outlined above. In particular, an informed discussion is needed about the industries and organisations given access to Centrepay.

At the same time however, some products/industries are not able to access Centrepay.

Appendix 3 is a letter written by FCA (then known as the Australian Financial Counselling and Credit Reform Association) in 2006 outlining concerns about Centrepay. The community sector has been seeking to engage meaningfully with Centrepay since its inception. There is an understandable frustration that this has not occurred.

4.6 Complaint handling

It is difficult to assess the effectiveness of the Centrepay complaint-handling process. Some companies, such as those described above, should potentially be removed from the Centrepay system. Currently it is not completely clear:

- what process a consumer or consumer group would need to undertake to get a businesses' registration on Centrepay reviewed, qualified or cancelled;
- what conduct would constitute a breach of the contract between Centrepay and a specific company sufficient to warrant removal;
- if there is a breach, what other factors Centrepay will consider before it takes action.

For example, the Indigenous Consumer Action Network wrote to Centrepay in 2009 raising significant concerns about the practices of the Aboriginal Community Benefit Fund. Centrepay's response included the following:

“Centrelink provides Centrepay services to organisations for a fee in accordance with agreed terms and conditions. Therefore Centrelink can only suspend or terminate the provision of Centrepay services on the basis of customer complaint if that complaint related to a breach of a term of the contract between Centrelink and the organisation at the relevant time. Even if a breach is proven, Centrelink does not take action to suspend or terminate without a detailed consideration of the possible effect of such an action ...”

This is a disappointing response. Centrelink identifies the service contract between them and the participating organisations as the key consideration. As such it is the participating organisation whose interests are protected as a priority.

It is also unclear whether a prosecution by, or voluntary undertaking given to ASIC or the ACCC, would trigger an investigation as to suitability for access to the scheme, or continued access.

4.7 Compliance auditing of entities on Centrepay

Centrelink is not a regulator and yet a decision - in providing access to Centrepay for a service provider - is tantamount to an official endorsement of the organisation's products and selling techniques. Indeed Centrelink recipients can be forgiven for assuming an organisation is officially endorsed when it offers Centrepay as a payment option.

There is very little publically available information to assess the extent to which Centrelink carries out meaningful audits of entities on Centrepay. Consumers and consumer organisations would benefit from having ready access to information regarding the extent to which participating organisations have complied with their service agreement with Centrelink.

For a compliance audit to be meaningful for consumers and businesses they need to be independent, thorough and based on a documented verification process that

measures and evaluates whether specified criteria have been met. The results need to be publically available.

4.8 Transparency, data recording and analysis

For a service that disburses over \$1.5 billion on behalf of over half a million consumers, there is a dearth of information and public reporting and accountability. There is very little information available on the:

- number and nature of any complaints made by Centrelink recipients or consumer organisations;
- results of compliance audits carried out by Centrelink;
- names of organisations removed from Centrepay as a result of breaches.

For example, in 2009 the Public Interest Advocacy Centre (PIAC) lodged an FOI request seeking a list of traders using Centrepay. At that time, Centrelink had to write a special program to enable it to respond. Even then the list appeared to be incomplete and included individuals as well as companies despite Centrepay's indication that it had removed all individuals for privacy reasons. We note however that Centrepay now publishes a list of companies accessing the system on its website. This is welcome progress.

PIAC also sought information about companies that had been removed from Centrepay as a result of a complaint or misconduct. This was not able to be provided by Centrepay.

5. Conclusion

5.1 Why Centrepay has lost its way

The problems with Centrepay are a matter of significant public concern and stem from a range of inter-connected factors:

- a lack of a clear aim or purpose;
- moving away from the original aim of Centrepay as a bill paying system for essential household goods and services;
- the expansion of Centrepay being driven, at least in part, as a means to generate an income stream;
- a lack of accountability and transparency in decision-making, compliance audits and complaint handling;
- a lack of understanding about consumer protection frameworks and legislation.

These problems are compounded because there is no effective, meaningful consultation with Centrelink clients or consumer organisations.

We are very concerned that a range of businesses offering non-essential household goods and services or selling exploitative products are Centrepay participants. Similarly, various rental companies, effectively lenders, gain access to Centrepay.

It is self-evident that a bill paying system developed for consumers living on low incomes should contain strong levels of consumer protection. This does not exist at present.

5.2 Recommendation

A root and branch review of Centrepay is needed to identify its core purpose and to assess the criteria and assessment processes for granting business access to the system. The review needs to be undertaken by an external, independent body such as a consultancy company with expertise in social policy or possibly the Productivity Commission. The review also needs to seek the input of stakeholders.

Appendix 1 – Case Studies and Comments about Centrepay from Caseworkers and Others

The names of businesses referred to in the case studies have generally been removed and replaced with a generic description such as the “rental company”.

Comment – Financial Counsellor

“Another issue is the age old one of a person being transferred to another Centrelink payment – their Centrepay payments often are not transferred at all. Departments within Centrelink don’t seem to cross over. I would have thought that in this electronic age this would be an easy issue to rectify and maybe by now it has however if not then it’s about time it was.”

Financial Counsellor

Case Study – Financial Counsellor

My client was a young single mother with two pre-school children living in private rental. She had struggled to make ends meet because of the high cost of private housing rental and two rental agreements with a rental company using Centrepay. She is currently paying back a \$1,000 Centrelink Lump sum advance.

She sought financial counselling because her bed, fridge, washing machine and TV were repossessed and she still owed money on the contract. She had been paying for 13 months and has lost that money. She was unaware that she could stop the Centrelink payments as she was told by the rental company that she could not.

She is also one month in arrears on her rental property. There was no financial assessment of her capacity to re-pay the contract or the lump sum advance.

Had she been referred to our service by the rental company when she was in trouble we could have saved her goods and money already paid and assisted her with a hardship repayment plan.

The rental company does not use Centrepay to assist the low income consumers, as they say they do and they certainly don't use it in the way it was intended by the Government. A review is certainly needed.

Case Study – Financial Counsellor

I have three current clients with two different rental company commitments through Centrepay. They are locked into these contracts.

If not for the tight contracts some of these clients would have been eligible for NILS.

A few other clients I have managed to get “free white goods” through **xxx Trust** as they cannot get a loan for these basic goods due to their current budget being unsustainable.

| Client Description | Centrelink Income pw | Expenses pw | Net pw | Rental Companies |
|---|----------------------|-------------|--------------|------------------|
| 55 year old female, referred by Centrelink (domestic violence involved) | \$374 | \$460 | \$86 deficit | \$25 |
| Aboriginal couple, both unemployed | \$600 | \$609 | \$9 deficit | \$88 |
| 63 year old single male, unable to pay utility bill | \$359 | \$386 | \$27 deficit | \$11 |

Case Study – provided by the Consumer Action Law Centre

Our client had left a domestic violence situation. She engaged the services of a removalist company that apparently had experience in these situations. The cost of the service was \$375. She paid them \$175 in cash on the day, and the remainder was to be paid via Centrepay in \$20 instalments. In fact, four deductions were taken from her Centrelink payments of \$175 each. This meant she paid far more than was due.

Our lawyer attempted to contact the removalist, but did not receive any reply to letters or telephone calls. We then engaged Centrelink directly and asked for the money to be repaid on the basis that it was incorrectly debited. Centrepay agreed to repay our client, on the basis that they did not have any paperwork relating to these transactions. It is unclear what action Centrepay will take, if any, against the company.

Case Study – Financial Counsellor

I have a client who is a single mum, with a fortnightly budget deficit of nearly \$400 per fortnight. She receives \$1000 per fortnight in her bank account, after Centrepay and Advance Repayments are deducted. She spends \$500 per fortnight in rent, and also runs a car. She has a child with a disability and is struggling to pay living costs.

She has a Centrepay deduction from her Family Tax Benefit of \$100 per fortnight for an electronic tablet lease. I have no idea of the term, but it shouldn't have happened at all. Tablets are no more essential than TVs and cameras and Xboxes. All these luxury (non-essential) items should not be going through Centrepay.

Case Study - Consumer Action Law Centre

The client is a single mother, survivor of domestic violence and the sole carer of her four children who all possess significant learning disabilities. They reside in government housing and their only source of income is Centrelink payments.

In 2010 the client and two of her sons (one of whom is now deceased) entered into a number of contracts with a rental company to rent a T.V., fridge, freezer, computer and software, vacuum cleaner, washing machine, clothes dryer, laptop and lawnmower. They signed deduction authorities in favour of the rental company, which allowed the lease payments to be deducted from their Centrelink payments through Centrepay.

Under the contracts, the clients would pay (in total) \$485.00 each fortnight, or \$12,610.00 each year, for between two and three years. The goods would remain the property of the rental company at all times and the clients would have no right to purchase the goods at the end of the lease period. However, they would have the option of having the rental company “gift” the goods to a third party recipient, such as another family member.

The contracts proved to be exceedingly expensive for the client. We compare below the recommended retail price (“RRP”) for the items the clients leased under three of the contracts with the minimum amount she would have to pay before the goods were “gifted” to a third party recipient.

| | Item/ Make/ Model/ Serial Number | RRP (i.e. amount of credit provided) | Total amount payable under agreement | Amount not attributable to RRP | Term of agreement in years | Amount not attributable to RRP as an annual charge | Equivalent annual percentage rate |
|-------------------------|--|--------------------------------------|--------------------------------------|--------------------------------|----------------------------|--|-----------------------------------|
| First Agreement | 32" FHD LCD TV Toshiba 32CV700A A26EO8069835A1 | \$649.00 | | | | | |
| | 373L Fridge Fisher & Paykel E373RWW DAF195279 | \$935.00 | | | | | |
| | 210L Freezer Fisher & Paykel E210 LWW DAF181561 | \$1,007.00 | | | | | |
| | | \$2,591.00 | \$14,040.00 | \$11,449.00 | 3 years | \$3,816.33 | 147.29% |
| Second Agreement | Centro Com Custom PC Package CCCWIN09HPK | \$874.00 | | | | | |
| | ACER 21.5" LCD Monitor ETLJ80D01302504 A348512 | \$248.00 | | | | | |
| | Logitech Speakers LSII LSII980- 000049 | \$30.00 | | | | | |

| | | | | | | | |
|------------------------|---|----------------------|-------------------|-------------------|------------------|-----------------|---------------|
| | Windows 7 AVG Antivirus TeamViewer; Microsoft Office Academic (Trial) | \$199.00 \$128.75 | | | | | |
| | | \$1,479.75 | \$3,900.00 | \$2,420.25 | 2.5 years | \$968.10 | 65.42% |
| Third Agreement | Vacuum Cleaner Dyson DC23 887- Au-CCA1381A 0051-310 | | | | | | |
| | | \$874.00 | \$2,600.00 | \$1,726.00 | 2 years | \$863.00 | 98.74% |

Consumer Action sought to have the contracts reopened as unjust and for ownership of the goods to pass to the client. It was argued, among other things, that the contracts and the conduct of the rental company contravened the consumer credit laws, including responsible lending and disclosure requirements. It was also argued that the annual percentage rate under each of the contracts (to the extent that they are credit contracts, rather than consumer leases) also far exceeded the 48% permitted under the *Consumer Credit (Victoria) Act 1995* (Vic) and the applicable early termination fee was unconscionable. It was also argued that the rental company had engaged in unconscionable conduct, including by taking unfair advantage of our clients' vulnerability and deducting lease payments that are out of all proportion with the recommended retail price ("RRP") for the goods, and that the contracts contained unfair contract terms.

By collecting the lease payments from our client via Centrepay, the rental company was able to force our clients to prioritise payments to the rental company over essential living items such as food and medical care. It was also argued that the rental company was in a position of strength vis-à-vis the clients and took unfair advantage of the client's vulnerability.

This also brings into question the credit providers ability to be able to deduct payments under the Centrepay system as the objectives of the system are to enhance the wellbeing of its customers by improving their social capacity and encouraging their movement towards financial self management. This is not applicable to these type of rental agreements considering the large percentage interest rates charged and their failure to consider the suitability of the contracts for the clients circumstances or take any steps to inquire about their financial situation.

After Consumer Action lodged a dispute with the Credit Ombudsman Service on behalf of the clients, the rental company agreed to terminate three contracts to which the deceased son was party and transfer ownership of the goods to the clients on compassionate grounds. The remaining contracts remain the subject of dispute.

Case Study - Consumer Action Law Centre

The client is a mother of six who receives Centrelink benefits and has no significant assets. She approached a rental company to enter in to a number of 'Rent-Try-Buy' hire-purchase agreements for a TV, DVD player, fridge and a camcorder over a period of 3 years and for the payments to be directly taken from her Centrelink entitlements before she receives them under the Centrepay system.

She had entered these types of agreements successfully in the past and it was represented to her by an employee of the credit provider that these contracts would be the same and she would be able to purchase the goods for \$1 each after the lease period had ended if she had maintained her rental payments. She relied upon this representation when entering into the contracts. She also relied on the rental company's marketing material, which said that Rent-Try-Buy agreements are an "affordable" way to own goods.

The written contracts in fact did not contain the \$1 buy provision but instead said the client would have no right to purchase the goods. Rather, they provided that the client could offer in writing to buy the goods, which the rental company could then choose to accept or reject at its absolute discretion. They also provided that the client could purchase 'similar' goods to those rented for \$1 provided that she advised the rental company of her intention to do so within 30 days of the end of the specified lease period. The contracts said further that if the client did not return the goods to the rental company at the end of the lease period then lease payments would continue to be deducted from her Centrelink payments indefinitely.

The lease payments under each of the five Rent-Try-Buy agreements ranged from \$23.45 to \$55.71 per fortnight. The payments continued to be deducted from our client's Centrelink payments at a time when she was struggling to meet the ordinary living expenses, including housing for her family. The contracts as a whole proved to be very expensive for the client. We compare below the recommended retail price ("RRP") for the items she leased under three of the contracts with the minimum amount she would have to pay before offering to buy the goods (or buying 'similar' goods) for \$1.

| Item/ Make/ Model/ Serial Number | Recommended retail price (RRP) | Total amount payable over lease period | Term of lease period | Total amount paid by client | Term total amount paid over | Amount paid above RRP | Amount paid above RRP each year | Equivalent annual percentage rate |
|---|--------------------------------------|---|-------------------------------|--------------------------------------|---|--------------------------------|--|--|
| First Agreement | | | | | | | | |
| Toshiba 42A3500A 106cm LCD TV | \$1,699.00 | \$3,509.22 | 3 years | \$3,509.22 | 3 years | \$1,810.00 | \$603.41 | 35.52% |
| Total | \$1,699.00 | | | | | | | |
| Second Agreement | | | | | | | | |
| Panasonic DMR- EZ47V DVD/VCR Recorder | \$549.00 | \$914.55 | 1.5 years | \$1,788.55 | 3 years | \$1,239.44 | \$413.18 | 75.26% |
| Total | \$549.00 | | | | | | | |
| Third Agreement | | | | | | | | |
| Mitsubishi MR-260X- W-A 260L | \$912.00 | \$1,794.00 | 1.5 years | \$2,668.00 | 2 years | \$1,216.00 | \$608.00 | 41.87% |

| | | | | | | | |
|--------------------------------------|-------------------|-------------------|--|-------------------|--|-------------------|--|
| Sony DCRSR47S HDD Camcorder | \$540.00 | | | | | | |
| Total | \$1,452.00 | | | | | | |
| TOTAL | \$3,700.00 | \$6,217.77 | | \$7,965.77 | | \$4,265.77 | |

Overall, the client would have to pay up to two and a half times the RRP of the goods before offering to buy them for \$1.

Consumer Action sought to have the contracts reopened as unjust and the client refunded the amount she has paid over the RRP to the rental company. Consumer Action also sought to have ownership of the goods pass to the client. This remedy was sought on the basis that on their proper construction, the contracts are not consumer leases but rather credit contracts to which the National Credit Code applies. It was argued that the contracts and the conduct of the rental company contravened a number of provisions of the consumer credit law, including the maximum allowable percentage rate under the *Consumer Credit (Victoria) Act 1995*, key disclosure requirements and the requirement to provide statements of account. It was also argued that the contracts were secured by a mortgage over the goods on lease that were not in the required form. Finally, it was argued that the rental company had engaged in misleading or deceptive contact in relation to the nature and affordability of the contracts.

The dispute settled on confidential terms.

Case Study – Indigenous Consumer Assistance Network

The Indigenous Consumer Assistance Network provides financial counselling services to ATSI people in far north Queensland. ICAN also provides access to the No Interest Loans Scheme. ICAN provided three de-identified examples of client statements where the NILS payments were suddenly reduced. One of these is included below. They note that “these lowered amounts are indicative of where a client’s income is committed to paying multiple items via Centrepay, and where there is not enough money left over, to make the full payment ...This example also reflects that the client’s NILS loan is not a prioritized item in the client’s list of payments”.

| Date: | Transaction: | Reference: | Debits: | Repayments: |
|-------|--------------|------------|---------|-------------|
| /2010 | Cheque | | \$ | |
| /2010 | Cheque | | \$ | |
| /2011 | Deposit | | | \$30.00 |
| /2011 | Deposit | | | \$30.00 |
| /2011 | Deposit | | | \$30.00 |
| /2011 | Deposit | | | \$30.00 |
| /2011 | Deposit | | | \$30.00 |
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| /2012 | Deposit | | | \$30.00 |
| /2012 | Deposit | | | \$30.00 |
| /2012 | Deposit | | | \$30.00 |
| /2012 | Deposit | | | \$27.17 |
| /2012 | Deposit | | | \$30.00 |
| /2012 | Deposit | | | \$30.00 |

Appendix 2 – Centrepay Service Reasons²²

| Service Group | Service Reason description | Further description of relevant goods/services and comments |
|---------------|-------------------------------------|---|
| Accommodation | Boarding Houses | Boarding house accommodation including board and lodgings by landlords. |
| | Caravan Park Fees | Rental accommodation provided by caravan parks. |
| | General Community Housing | Includes disability housing (rent related—not loans). |
| | Indigenous Community Housings | Community accommodation for Indigenous Australians |
| | Indigenous Short-term Housing | Short-term accommodation for Indigenous Australians. |
| | Private Landlords | Rent charged by landlords for private accommodation. |
| | Property Management | Property management services. |
| | Real Estate Agents | Services of agents who collect rent on behalf of homeowner. |
| | Retirement and Nursing Home Fees | Provision of residence in retirement villages, nursing homes, life style villages and hospices |
| | Short-term Accommodation | Provision of short-term accommodation for non-Indigenous Australians, including sheltered accommodation, rehabilitation and hostels. Note: for specific Indigenous accommodation, refer to Service Reason ‘Indigenous Short-term Hostels’. |
| Education | Child Care Services | Services by registered carers and FaHCSIA approved providers of child care services (i.e. Centrepay can be used for child care gap fees, after school and holiday program fees and occasional care fees). |
| | Education Fees | All education associated services by any registered educational provider, including training, tutoring, workshops etc. |
| Employment | Tools of Trade | All associated expenses for tools of trade. |
| | Work Uniform, Clothing and Footwear | Expenses associated with work uniform, clothing, footwear etc. |
| Financial | Basic Household Items | Basic items for use by household members such as retail of clothing and footwear, small appliances, whitegoods and furniture (including the lay-by of such items). Includes repair services for appliances and whitegoods. |
| | Household Goods | Includes rental of basic household goods (e.g. washing machine, refrigerator, furniture etc), and rent to buy schemes where there is no accumulation of debt. Includes repair services for appliances and whitegoods. |
| | Community Group Loan Repayments | Repayment of loans to community organisations for assistance with: |

²² Excerpt from Centrepay Policy document, Attachment A.

| Service Group | Service Reason description | Further description of relevant goods/services and comments |
|----------------------|--------------------------------------|--|
| | | the purchase of household items proof of identity assistance with money management Family Income Management Scheme (FIMS) no interest loans not covered under the Good Shepherd Foundation model. |
| | FaHCSIA-approved 'No Interest' loans | Only for organisations that satisfy the criteria of the Good Shepherd Youth & Family Service of Victoria, in relation to interest-free loans. |
| | General Community Housing Loan | Repayments of general community housing loans. |
| | Indigenous Housing Loan | Repayments of Indigenous housing loans. |
| | Special Interest loans | Loans approved for the purchase of home i.e. Tassie Home Loan, Adelaide Homestart and Indigenous Business Australia (IBA) Home Loan. |
| Health | Ambulance Services | Provision of ambulance or associated services (i.e. payments for services provided by the Flying Doctor Service, emergency helicopter transfer service etc). |
| | Food Provision | The retail supply of groceries and personal items. |
| | Funeral Benefit Fund | Services provided by organisations that satisfy the department and all applicable financial regulations as to their on-going stability (and which have prudential regulations to protect Customers) in order to allow Customers to save for future funerals, but not funeral homes. Funeral related goods and services provided by funeral homes that allow for all manner of existing funeral related debts to be paid off. |
| | Home-care Services | The supply of home-care services (i.e. domiciliary care, household maintenance, gardening, pest control services, home security services, food services (e.g. meals on wheels, technical aids and home modifications to assist mobility). |
| | Medical Services and Equipment | Includes prescription only drugs, optical, dental, hospital, veterinarian and family planning clinic fees. Also includes medical equipment (e.g. crutches, wheelchairs, oxygen tanks, inhalers etc). |
| | School Nutrition Program | For specific programs that provide nutritional benefits (e.g. schools providing meals to students). |
| Travel and Transport | Motor Vehicle Registration | Including registration for caravans, boats, trailers, and compulsory third party insurance. |
| | Travel and Transport | Includes payments for: 'Return to Country' general transport costs furniture removalists storage and removal motor vehicle and boat repairs, and the purchase of fuel. |
| Utilities | Council Services | The provision of land, water and sewerage rates and services by organisations, local councils/shires. |
| | Electricity | The provision of electricity. |

| Service Group | Service Reason description | Further description of relevant goods/services and comments |
|-------------------------|-------------------------------------|--|
| | Gas | The provision of mains and/or bottle gas. |
| | Sewerage | The provision of sewage services. |
| | Telecommunications | The provision of telecommunications services. |
| | Local Council Community Services | For covering the cost of community services provided by local council/shires. |
| | Water | The provision of water services. |
| Professional Services | Court Fines | Includes payment of compensation to victims of crime. |
| | Court Infringements | Includes payment for infringement notices. |
| | Professional Services | Professional services (i.e. tax agent fees, legal/solicitor costs, compensation report costs and births deaths and marriage reports). |
| | Insurance Services | Insurance cover for house, home contents, life/income protection, vehicle, boat, private health cover, etc. Note: currently limited to existing participants (i.e. as at 1 July 2010) |
| Social and Recreational | Social and Recreational Commitments | Payment of fees or donations. Includes sporting activities and equipment, lessons (e.g. football, piano), church donations, sponsorships. |

Appendix 3 – Letter from AFCCRA (now FCA) re Centrelink in 2006

afccra

Australian Financial Counselling and Credit Reform Association

Chairperson: David Tennant

Secretary: Joanne Lowth

August 2006

Mr Jeff Whalan,
Chief Executive Officer
Centrelink
PO Box 7788
Canberra Mail Centre ACT 2610

Dear Mr Whalan,

Re: Concerns about the operation of the Centrepay direct payment facility

Financial counsellors work with low income and disadvantaged consumers experiencing problems with credit and debt. Through provision of information, support, representation and advocacy, financial counsellors act exclusively in the interest of their clients, providing service free of charge and conflict. Although services are resourced in a variety of ways, the predominant support comes from governments, not the least of which is the Commonwealth Financial Counselling Program administered in FaCSIA.

With this as background you will not be surprised to learn that financial counsellors are strong supporters of the value of the Centrepay system. Our clients often rely on that system to ensure ongoing payments for essential expenses from modest resources. There are also considerable benefits for product and service providers in having a reliable, cost effective system for payments from consumers whose main source of income is a Commonwealth benefit.

As the peak body for financial counsellors in Australia, AFCCRA raised a number of concerns with Centrepay management several years ago regarding how the system was operating at a practical level. The central issues in those concerns were:

- an apparent lack of rigour in assessing which product and service providers would be allowed to access the scheme and
- ensuring that benefit recipients retained sufficient income to live on, after deductions were taken from their benefits.

AFCCRA arranged a number of meetings with senior management from Centrepay and were surprised to be informed that no policy existed to guide planning on these issues. We undertook to assist with the development of such policy recognising the significance of the facility to our client group. I enclose a copy of the minutes prepared at the last of those meetings in November 2005 and regret to report that we have still received no feedback on progress or engagement on the issues. In fact the only times that AFCCRA has received communications from Centrepay is when we have complained about the lack of response or progress. It suggests that our input is not wanted or valued and that the issues we have raised are to be managed rather than dealt with.

Reports continue of problems with the Centrepay system. Inappropriate providers still appear to have access for services that appear to have little to do with essential household expenditure. Evidence continues to be provided that low income consumers are pressured to adopt Centrepay when they have limited capacity to make ends meet after the deductions are made. Whilst the system is an extremely valuable one, in AFCCRA's view it is being undermined by poor management and a lack of clear guidelines.

Our reason for raising this with you is that we no longer have confidence that the Centrepay hierarchy is interested in addressing the problems. We urge you to investigate the issues further and would be happy to provide more detailed information regarding the AFCCRA's contacts with Centrepay if required.

I will be taking some long service leave in the coming weeks, returning to the office on 26 October. Should you require any clarification, or further information in the meantime, AFCCRA's acting Chair Jan Pentland can be contacted on...

Yours sincerely

David Tennant
Chairperson
PO Box 763
Civic Square
ACT 2608