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Services Australia
Centrepay Program & Mdt Branch
Working age and pension programs division

Online submission: DSS Engage Platform

Centrepay Reform: Discussion Paper

Services Australia (the agency) is seeking stakeholder feedback to support and inform reforms to the Centrepay service. AFCA welcomes the opportunity to provide a submission in response to the Centrepay discussion paper (DP).

AFCA is the external dispute resolution (EDR) scheme authorised under the *Corporations Act, 2001* (Corporations Act) to deal with consumer complaints about financial products and services.

AFCA has a long history dealing with complaints involving financial products and services consumers paid for via the Centrepay service. This includes products and services that have since been removed from access to Centrepay such as funeral products.¹

AFCA's submission draws on our current complaints handling experience and insights from the experience of ACBF/Youpla complaints where funeral products were mis-sold, primarily to First Nations consumers, (see the case study below).² We hope the learnings from the ACBF/Youpla case can help strengthen protections for all users of the Centrepay service.

Our feedback follows the structure of the discussion paper and responds to the following parts of the DP:

- Part 2: Policy intent

¹ Funeral insurance plans are now a excluded financial product under the [Centrepay Policy and Terms and Conditions 2018](#) (pg. 7)

² From 1 July 2024 the Australian Government will provide resolution payments to help people impacted by the collapse of the Youpla Group through a new Youpla Support Program. We understand eligible former ACBF/Youpla members will be contacted by Services Australia about these payments.

- Part 3: Customer experience
- Part 4 and 5: Business and compliance.

Part 2 - Policy intent

AFCA supports the role of Centrepay as a tool for financial empowerment and self-management, helping consumers on low or fixed incomes to manage their household finances. Centrepay and the agency play a critical gate-keeping role, ensuring consumers receive the benefits of the Centrepay service whilst mitigating risks for often very vulnerable consumers in cases where a business may misuse the Centrepay service.

AFCA supports the analysis in the DP that “access to Centrepay deductions for businesses is a privilege and that improved safeguards and protections must be implemented to reduce financial harm to customers” (p, 9).

We also endorse measures to ensure that providers with the privilege of Centrepay access do not exploit that privilege by engaging in predatory business conduct, product mis-selling or irresponsible lending. The ACBF/Youpla case shows the consumer harms that can occur where a firm misuses the Centrepay service.

ACBF / Youpla complaints

The Youpla Group, also known as the Aboriginal Community Benefit Fund (ACBF), sold funeral plans primarily to First Nations consumers. ACBF was a registered Centrepay business.

Consumers put money into ACBF funds to help avoid placing a financial burden on family at times of Sorry Business. In the complaints AFCA determined involving ACBF/Youpla³, we found that the firm had misled consumers and used deceptive sales tactics in promoting the fund. We also found that while signed by complainants, Centrepay forms appeared to have been completed by another party (likely ACBF sales representatives).

The conduct of the firm and its subsequent collapse had devastating effects on many First Nations people and communities. The Youpla product was ultimately removed from the Centrepay system, but access to Centrepay contributed to the broader distribution of the product and downstream consumer harms.

³ [ACBF Youpla | Australian Financial Complaints Authority \(afca.org.au\)](https://www.afca.org.au/acbf-youpla)

As Centrepay funds are deducted directly from a person's Centrelink payment, providers are assured priority payment. This assurance is commercially attractive to businesses with access to Centrepay. The DP (at p.6) sets out Centrepay's data and insights about how consumers use the service and notes that:

- 79% of Centrepay deductions (by value) are made for accommodation and utility purposes.
- The remaining 21% of deductions account for a broad range of approved goods and services. In some cases, these deductions may not be providing value for money or operating in the best interest of customers.
- Customers may be at risk of longer-term financial vulnerability and hardship through acquiring some of the goods and services accounted for within this 21% cohort.

AFCA has seen cases of financial harms in this cohort. We welcome the agency's consideration of these issues and measures to safeguard at-risk communities from financial harm.

2.2 Approved goods and services

Centrepay excludes financial products such as short-term loan repayments to cash lenders, payday lenders or pawnbrokers, credit card payments and fees⁴.

Under the current Centrepay settings, the category of Household includes: purchase of basic household items including food, clothing and footwear, and Lease/ hire/ rent-to-buy of household goods regulated under the *National Consumer Credit Protection Act 2009* (Credit Act) (Cth). We note the statement in the DP that:

From 1 May 2024, the agency is implementing restrictions to mandate the inclusion of target amounts for all businesses using Centrepay for Basic Household item service reason. These restrictions include a cap on the maximum target amount that can be applied to any deduction within this service category (p.7).

While the scope of these restrictions and detail as to the setting and operation of relevant caps is unclear, AFCA welcomes initiatives to address harms in this sector, particularly lending that may be unaffordable without causing substantial hardship to the borrower.

⁴ [Services Australia Centrepay Policy and Terms \(Pg. 7\)](#)

Outside the Centrepay payments system, a consumer can choose how they wish to prioritise essential expenditure and defer other payments, or seek hardship assistance, where appropriate. However, in circumstances where Centrepay extends beyond essential goods and services, the business is 'paid first' which, in the context of very low-income consumers, can undermine their choice about how they may manage expenses in each payment cycle. This process can amplify consumer vulnerability.

The following case studies and analysis sets out AFCA's complaints experience where:

- unsuitable and unaffordable credit contracts are given the appearance of affordability (to customers and financial firms) merely because the lender is registered with Centrepay.
- prioritised payments to lease providers through Centrepay may reduce vulnerable consumers' ability to choose to purchase essential items or pay essential costs (including food, rent and utilities), causing significant personal hardship.
- harms may be amplified for First Nations people meeting repayments under consumer leases for household goods.
- rather than enhancing consumer choice, control and protections, reliance on Centrepay may risk trapping consumers in unaffordable debt—and may exacerbate and entrench existing financial hardship.

Case study 1: Determination 294327⁵

A financial firm failed to meet its responsible lending obligations when signing the consumer up to a lease agreement for a television. The determination found that having the complainant's lease agreement payments automatically deducted through Centrepay reduced their flexibility to prioritise essential living expenses and other obligations and exacerbated the financial hardship the unsuitable lease agreement caused them.

The firm acknowledged that it was satisfied about the complainant's capacity to pay for the rental agreement solely based on receipt of the first four rental

⁵ Determination issued by AFCA's predecessor scheme (FOS)

payments pursuant to the Centrepay deduction authority. The determination found the financial firm failed to comply with its responsible lending obligations.

Case study 2: Determination 961042⁶

The complainant entered into three lease agreements with a firm to lease consumer goods and to pay via Centrepay. The lease payments were added to the consumer's existing Centrepay deductions.

AFCA found that the complainant had no capacity to take on any additional financial commitments before taking out the leases. AFCA also found that:

- the rental provider breached its responsible lending obligations when providing each lease to the complainant and should have reasonably known these leases would cause the complainant substantial hardship.
- the complainant's bank statements showed they were already experiencing financial hardship at the time of entering each lease
- the application form incorrectly recorded the complainant's total Centrepay deductions – for other goods and services - and was not verified by the firm.

Indefinite-term leases

AFCA has seen further consumer harm resulting from indefinite-term consumer leases where the consumer has the right to return the goods. For example, we have seen consumers face barriers to ending the lease (or to returning the goods) leaving them with ongoing deductions from their Centrelink payments.

Indefinite-term consumer leases are regulated under the National Credit Code which introduced conduct obligations and cost caps to ameliorate certain consumer harms. However, where travelling lease providers take whitegoods to remote communities and lease them on indefinite terms with Centrepay deductions, First Nations consumers can face significant practical barriers to dispute automatic repayments and terminate leases by returning leased goods. Automatic Centrepay deductions may remove the prominence of these ongoing charges to the consumer and limit their ability to withhold payment and/or lodge a complaint.

⁶ [Determination 961042](#)

Regulatory experience

We note recent regulatory action by ASIC to prohibit a business from signing-up customers into Centrepay credit arrangements in its stores.⁷ In that case, ASIC found that the firm: “targeted First Nations consumers who received Centrelink payments [and that] after entering Centrepay credit arrangements, many of these consumers found themselves without money to pay for essentials”.

This experience is in line with submissions made to a 2018 Senate Committee inquiry into *Credit and financial services targeted at Australians at risk of financial hardship*.

In its submission, ASIC identified particular risks for Centrepay customers including higher costs and poorer outcomes for some Centrepay consumers and that some providers take advantage of the security of receiving payments through Centrepay.⁸

In its final report in February 2019⁹, the Senate Economics Reference Committee recommended that:

‘Centrepay should only be available to entities that can demonstrate historic and ongoing compliance with relevant regulations, and that provide products at a fair price and in a fair manner.’

It is uncertain as to whether recently introduced restrictions on target amounts for businesses using Centrepay for the *‘Basic Household Items service reason* will effectively ameliorate the identified consumer harms and we welcome the agency’s further consideration of these issues.

Question: Approved goods and services

What criteria should be used to consider whether to include or exclude any goods or services?

From a financial products and services perspective, we consider relevant assessment criteria for businesses seeking to access Centrepay should include:

- an understanding of the proportion of a business’s customers receiving Centrelink benefits and the extent to which this is set out in the firm’s Target Market Determination (TMD)

⁷ [24-084MR ASIC orders end to Centrepay credit arrangement](#)

⁸ [ASIC Submission - Credit and financial services targeted at Australians at risk of financial hardship.](#)

⁹ [SEC Final Report \(Rec. 13\)](#)

- an understanding of the proportion of the business's income under each goods and services category that results from Centrepay
- an assessment as to whether the firm has breached any relevant licence obligations or been subject to any regulatory action resulting in consumer remediation, for example.¹⁰

2.3 Deduction Arrangements

We note the analysis in the DP that “less than 1% of Centrepay customers have authorised deductions greater than 80% of their Centrelink payment” (p.7).

As noted above, AFCA welcomes the introduction of specific restrictions including caps on the maximum target amount that can be allocated under the Basic Household item category. The change imposed a cap *on the maximum target amount that can be applied to any deduction within this service category.*

We consider that delineation between—the products and services, and the relative level of harm for each product and service—within this category, may assist the agency to clarify the types of spending causing harm. Post implementation monitoring following the introduction of this measure will also be critical to ensuring the settings are correct and in line with the policy intent.

Given AFCA's complaints experience and the known risk that multiple Centrepay arrangements can amplify existing financial hardship, AFCA supports caps on the percentage of Centrelink benefits that can be allocated to a financial product or service. While supporting the objective of flexibility or control, review triggers (such as annual reviews) may be appropriate to manage the risk of open-ended arrangements or in circumstances where a customer's Centrepay payments exceed a certain limit, for example, in higher risk categories. Such triggers may support the agency's risk management and compliance processes.

Part 3 – Customer Experience

AFCA data

Understanding how customers and businesses use Centrepay is critical to understanding if the policy objective is being met. We note that under Centrepay's

¹⁰ [ASIC Media Release - Thorn Australian Pty Ltd](#) (See ASIC action against Thorn Australia Pty Ltd's consumer leasing businesses Radio Rentals, RR and Rentlo Reinvented, to address past poor conduct and protect future customers)

Terms and Conditions (T&Cs), one of the eligibility criteria for a business to be approved through Centrepay is consideration of the business's past conduct and complaints made against it. Rule 5.3e. of the T&Cs states that complaints may be considered even if the behaviour complained about was not found to be a breach of any regulation or law.

AFCA publishes data about complaints we receive about financial firm members of the scheme and the issues and outcomes of those complaints. This data which includes AFCA's [Data Cube](#)¹¹, [Systemic Issues Insights Reports](#) and [Annual Review](#) may help inform this consultation and we welcome any engagement from the agency about AFCA's complaints experience or insights.

3.1 Access to Centrepay

We support the policy intent expressed in the DP that:

- “the Centrepay service is utilised by businesses as a payment method rather than a business operating model” (p.9)
- consumers enjoy true flexibility to choose the payment method that best supports their needs, without pressure to ‘sign up to Centrepay’ simply to obtain the product or service.

AFCA's case experience evidences firms' failing to provide this flexibility including in circumstances where the firm completed Centrepay forms on behalf of the customer as part of the sales process.

3.2 Complaints

The DP states that customer complaints about Centrepay represent a small portion of the total complaints received by the agency and that customers are often hesitant to make a complaint in fear of adverse impacts to their deductions (p.8).

Complaints are a lag indicator. In AFCA's experience, consumers with access to ongoing credit under a consumer lease or Buy Now Pay later (BNPL) arrangement may be reluctant to complain about the product or service or to seek hardship assistance because they fear loss of access to the product or service.¹² This may

¹¹ The AFCA Datacube is part of our commitment to providing access to a rich set of data about the issues, types and outcomes of financial complaints in a transparent and useful way.

¹² AFCA also raised this issue in our [submission to the Government's BNPL reforms](#)

mask the prevalence of consumer issues and harm, and result in ongoing and unaddressed financial hardship.

For consumers who lack financial buffers, effective external oversight, review triggers and monitoring are key, as reliance on complaints may not be an effective indicator of consumer issues on its own.

AFCA supports measures that ensure consumers have easy access to Centrepay's complaints process where they have a complaint about the Centrepay service or the conduct of a business using Centrepay (i.e. pressure sales practices when signing consumers up to Centrepay and ongoing arrangements).

We also encourage the agency to ensure consumers are referred appropriately to the financial firm for complaints about the conduct of the firm for internal dispute resolution (IDR) and to third-party support such as financial counsellors or community and to community legal assistance, as appropriate, and to AFCA for external dispute resolution (EDR) where their complaint is not resolved at IDR.

Part 4 and 5: Business and Compliance

AFCA supports enhanced monitoring and oversight of the Centrepay service, including greater public transparency about consumer outcomes and firms' use of Centrepay, to ensure consumers are benefiting in line with the policy objective set out in Part 2.

For businesses to continue to be accredited by Centrepay, we support consideration of the following measures:

- appropriate due diligence of firms and their product or service offering prior to registration with Centrepay and ongoing monitoring of firm compliance over time.
- enhanced transparency in public reporting of consumer use and firm behaviour, and changes over time.
- requirements such as disclosure to the agency by registered Centrepay businesses of their complaints experience at IDR and AFCA.
- effective action for registered Centrepay businesses subject to regulatory action.
- clear, easily accessed complaints/feedback process to the agency and Centrelink about Centrepay providers (and consideration of anonymous feedback options for customers, to ensure greater oversight of conduct/consumer experiences).

- active monitoring of customer feedback/complaints to the agency and Centrelink and a clear process to:
 - ensure issues relating to Centrepay providers conduct are considered, addressed and reported on publicly, and
 - inform consumers of their right to lodge a complaint (with a firm at IDR or with AFCA) where the product or service is a financial product or service.

Such measures will help support the agency to identify issues or concerns early and to respond in a timely way.