



Ms Anna Buduls & Dr John Falzon
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15 February 2013

Dear Ms Buduls and Dr Falzon

Submission to the Independent Review of the Centrepay system

The Insurance Council of Australia (ICA) is pleased to make this submission to the Independent Review of the Centrepay system. We do so as the representative body for the Australian general insurance industry.

Our members represent more than 90 percent of total premium income written by private sector general insurers. ICA members, both insurers and reinsurers, are a significant part of the financial services system. The industry employs approx 60,000 people and on average pays out about \$110 million in claims each working day. ICA members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, and motor vehicle insurance) to those purchased by small businesses and larger organisations.

The ICA notes that the Terms of Reference for the Review of Centrepay include examining which businesses and services should have access to the Centrepay system, and how Centrepay can be used to build the financial capability of its customers. The ICA submits that consideration be given to adjusting the Centrepay system to accommodate monthly insurance premium payments, and further detail on this is set out below.

For some time the ICA has been liaising with consumer advocates, community organisations, financial counsellors, and other non-industry representatives on issues of financial inclusion, principally through meetings of the ICA's National Consumer Reference Group. These issues include improved access to insurance products for individuals and families that are on low incomes, and in particular, in receipt of regular Centrelink benefits. We acknowledge the need for these individuals and families to protect themselves against everyday risks by having access to insurance for their homes, home contents, motor vehicles, and other key assets.

We acknowledge the paper by Fiona Guthrie of Financial Counselling Australia, dated 22 November, which supports this need.¹ Financial Counselling Australia is a member of the ICA's National Consumer Reference Group.

¹ *Centrepay: A good Idea that has Lost its Way* (November 2012).

We also note that the 2011 Final Report of the Natural Disaster Insurance Review (NDIR) recommended that access to insurance be enhanced through the development of alternative payment options, in particular by the Commonwealth Government arranging for Centrelink customers to be able to pay insurance premiums fortnightly through Centrepay.²

The Federal Government's response to this recommendation of the NDIR Report noted that "Centrelink has commenced offering the payment of home and contents and motor vehicle insurance premiums through its Centrepay payment facilities earlier this year." However, it also noted that "...the insurance industry has identified a number of obstacles which limit insurance companies from accepting fortnightly payments through Centrepay."³

The ICA has since consulted with our members and Centrelink concerning the possibility of offering Centrepay as a payment option for insurance premiums. While monthly periodic premium payments are currently offered by many general insurers, insurers do not offer fortnightly payment options (with the exception of one organisation we are aware of that provides insurance via an intermediated model). Further, no insurers have a payment arrangement with Centrepay for the collection of insurance premiums.

In consultation with our members, several practical issues have been identified as barriers to establishing such arrangements with Centrepay. These issues include uncertainty over the existence of a market of sufficient size to make complex systems changes feasible, and the very significant costs involved in the systems changes required for ICA members to accommodate fortnightly payments from Centrepay.

The ICA has recently convened a Financial Inclusion Committee which will consider strategies to support financial inclusion objectives within the Australian community in relation to general insurance. This Committee acknowledges that fortnightly payment mechanisms are an important option for some Australians.

However, given that some Centrelink payment recipients may be currently interested in insurance options via Centrepay, the ICA has provided a submission to the 2013/14 pre-Budget process which proposes appropriate funding by the Federal Government to Centrepay to facilitate the necessary adjustments to accommodate monthly insurance premium payments. The significant benefit of this proposal is that only one payment system requires adjustments, rather than multiple systems if insurers were to adjust their own systems to accommodate fortnightly payments. We therefore strongly submit that adjustment to the Centrepay system to facilitate monthly premium payments to general insurers would be the most efficient response to the NDIR Report recommendation 30.

² See Recommendation 30, *Natural Disaster Insurance Review* (September, 2011).

³ *Government's Response to Natural Disaster Insurance Review (NDIR) Recommendations* (November 2011).

We look forward to receiving the outcome of this important Review in due course.

If you have any questions in relation to this submission, please contact Amber Fitzpatrick, Policy Advisor within the Consumer Relations and Market Development Directorate via email afitzpatrick@insurancecouncil.com.au, or phone (02) 9253 5129.

Yours sincerely



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