23 October 2017

Mr Christian Mikula
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Australian Securities and Investments Commission
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SYDNEY

By email: add-on.consultation@asic.gov.au

Dear Mr Mikula

Consultation Paper 294 – The Sale of Add-on Insurance and Warranties through Caryard Intermediaries

The Insurance Council of Australia (the Insurance Council) welcomes the opportunity to comment on Consultation Paper 294, *The sale of add-on insurance and warranties through caryard intermediaries* (the Consultation Paper). The Insurance Council and its members recognise the importance of the concerns identified through ASIC's review into general insurance sold through car dealer intermediaries. While members are already implementing a comprehensive range of initiatives to improve consumer outcomes, the industry agrees with ASIC's proposals to implement a deferred sales model (DSM) and to strengthen requirements for the supervision and monitoring of insurers' authorised representatives.

General insurance products distributed through motor dealer intermediaries can play an important role in protecting the financial security of consumers. Distribution through dealerships allow consumers to consider and purchase these products at the same time as they purchase or finance their vehicles – in other words, it ensures that these products are offered and conveniently available when consumers need them. At the same time, the industry recognises the need to ensure that consumers are protected and given the time and mental space necessary to properly consider their insurance purchases.

The Insurance Council's members agree that a DSM, appropriately designed and implemented, will help provide these conditions. Importantly, wherever practicable, a DSM would lengthen the time period between product introduction and purchase decision so that consumers would be better enabled to consider their needs during the deferral period.

In order to facilitate improved consumer outcomes, a DSM should enable sufficient flexibility in the sales process to meet the needs of individual consumers and also the requirements of varying sales environments. We note that ASIC proposes to apply a DSM to a broader range of intermediaries than just car dealers; as such, the appropriateness of the measures for intermediaries that are not car dealers need to be carefully considered. A DSM should not result in an overly rigid sales process that unreasonably restrains consumer preferences and choice. In particular, there should be an appropriate opt-out mechanism for consumers who would prefer to shorten the deferral period.

A DSM would complement the comprehensive range of initiatives agreed between industry and ASIC to strengthen product design, distribution and sales processes. The objectives of a DSM should be seen against the package of reforms currently being implemented by industry, summarised in **Table 1**.

Table 1

	Industry Initiatives
Product design and distribution arrangements	• Insurers that offer a single premium loan financed premium will also offer a non-financed payment option. • Insurers will provide clear information about payment options, including a comparison of the indicative costs of the premium at the point of sale. • Consumers paying for a policy through a single loan financed premium are required to acknowledge they have selected a finance option and they understand interest will be payable on the financed premium. • The Insurance Council will incorporate into the General Insurance Code of Practice obligations and best practice principles on product design, as developed through the ASIC Add-on Insurance Working Group.
Point of sale practices and conduct	• Insurers will implement additional/new systems to ensure that the minimum customer information is collected. • Systems are strengthened so that they are capable of identifying and preventing the sale of insurance to consumers who would not be eligible to make a claim for substantial components of the cover offered. • Insurers will reimburse consumers who purchase an add-on product through a dealership and were ineligible, at policy inception, to make a claim for substantial components of cover. • Insurers will review, and strengthen where necessary, dealership training on compliance and systems to ensure that appropriate conduct is clearly defined. • Insurers will conduct an independent review of their compliance and risk management procedures relating to products distributed through the dealership channel. This review should also assess the adequacy of changes made to processes and systems, such as client validation, in response to the industry initiatives presented in this submission. • The Insurance Council will provide guidance under the General Insurance Code of Practice to clarify how signatories to the Code should comply with the obligation to monitor the performance of authorised representatives.
Post sale engagement	• Insurers will, as soon as practicable following a purchase, make available to the consumer a confirmation of the purchase and provide a reminder of cooling off rights. • Insurers will voluntarily implement annual reminders to consumers that have purchased multi-year policies through a motor dealer.

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Noting that that these initiatives directly address ASIC concerns about specific product design, distribution and sales processes, the Insurance Council submits that the DSM's objectives should focus on:

- ameliorating information overload and decision fatigue by lengthening the decision-making process where practicable;
- assisting consumers consider their needs and requirements by mandating the provision of simple and innovative disclosure; and
- separating product introduction from purchase decision.

The Insurance Council's submission puts forward the industry's preferred DSM (**Attachment 1**) and provides responses to the questions posed in the Consultation Paper (**Attachment 2**).

If you have any questions or comments in relation to our submission, please contact John Anning, General Manager Policy, Regulation Directorate, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely

Robert Whelan
Executive Director and CEO

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ATTACHMENT 1

The Industry's Preferred Deferred Sales Model (DSM)

1. Introduction

In considering options for a DSM, the industry has focussed on achieving better consumer outcomes. Accordingly, a DSM needs to provide consumers with the appropriate time, mental space and protections required to make better decisions, and also allow consumers to purchase insurance when they need it. The industry's preferred model is substantially consistent with the DSM applied to Guaranteed Asset Protection (GAP) insurance products in the UK, with the addition of compliance measures to ensure integrity of the process and an education resource to encourage more informed consumer decision-making.

The industry's preferred DSM is outlined in section 3.

2. Scope

The Insurance Council agrees with the proposed scope of the DSM in the Consultation Paper to apply to the sale of add-on insurance and warranties regulated by the *Corporations Act 2001* (the Corporations Act). This will have the effect of capturing the following products issued by the Insurance Council's members:

- consumer credit insurance (CCI);
- GAP insurance;
- loan termination insurance;
- tyre and rim insurance;
- mechanical breakdown insurance;
- fleet leasing products; and
- regulated warranties.

The Insurance Council agrees with the Consultation Paper that comprehensive insurance (including third party, fire and theft insurance) and Compulsory Third Party (CTP) should be specifically excluded. Furthermore, an exemption for products sold through the online channel may encourage a more competitive standalone market to develop over time.

The Insurance Council submits that it is appropriate to apply the DSM to both retail and commercial customers.

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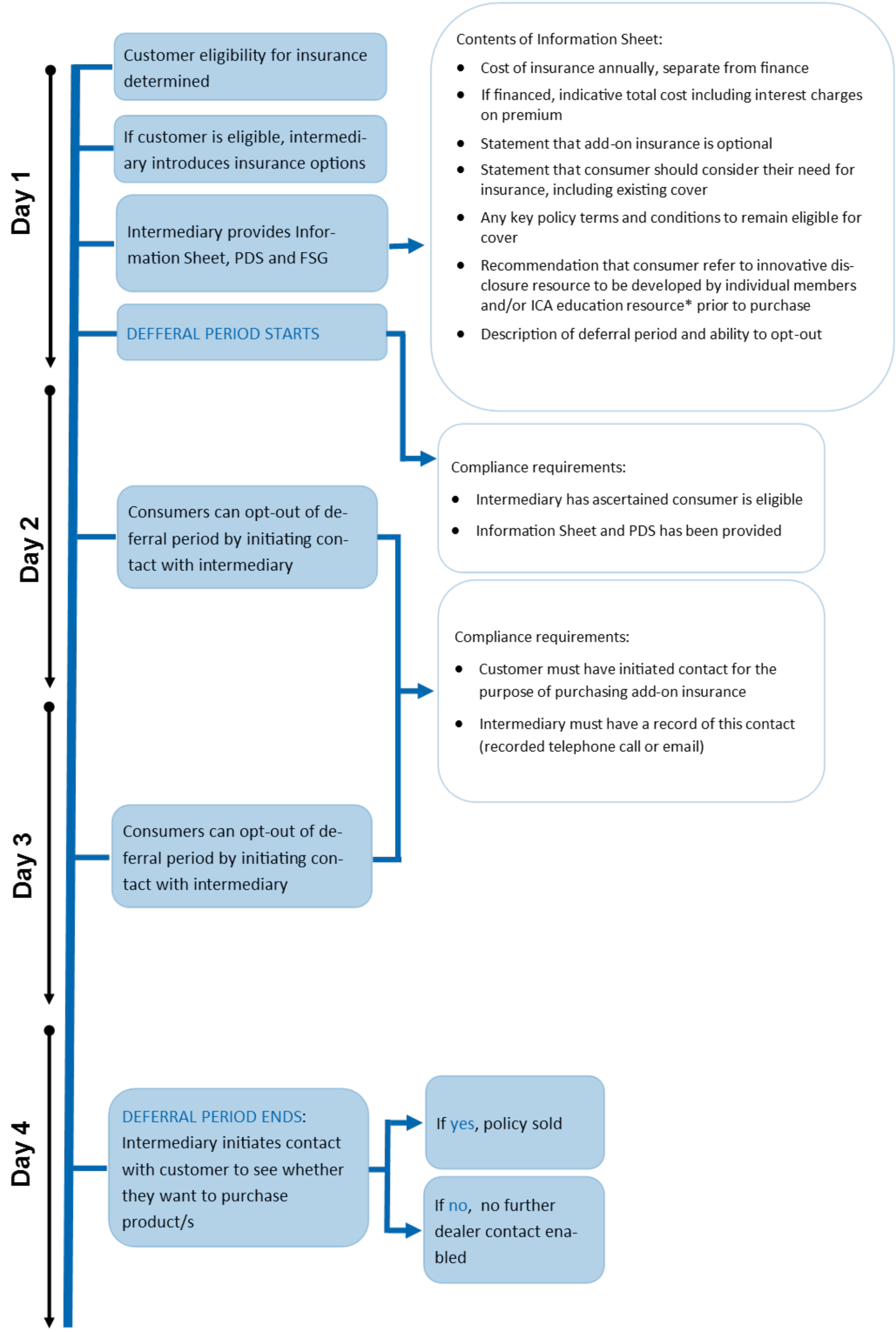
3. The Industry's Preferred Model



* The ICA will develop a video/interactive resource for each of the add-on insurance products included within scope

3.1. Period of deferral

The deferral period of 4 days (as outlined below) will be triggered by:

i) the intermediary inputting consumer details into the insurer client validation system and ascertaining that the consumer is eligible; and

ii) the intermediary providing the Information Sheet along with other mandated disclosures.

Consumer eligibility is determined individually by insurers. At a minimum, the eligibility criteria must exclude consumers who would not be able to make a claim for substantial components of cover and reflect the defined target market for the specific product.

Commencing the deferral period when the intermediary provides the Information Sheet gives industry sufficient flexibility to apply the DSM to different sales environments. We note that other trigger points considered in the Consultation Paper, such as when the consumer signs the vehicle purchase agreement, may not be appropriate in all instances and particularly for sales through intermediaries that are not car dealers.

Two clear days between the commencement (Day 1) and conclusion (Day 4) of the deferral period, consistent with the analysis conducted by the UK Financial Conduct Authority (FCA), should give consumers sufficient time to consider the product information provided. To better assist consumers to self-assess whether the offered product would meet their needs, the Insurance Council proposes to develop an education resource, such as product-specific videos, to explain key product features, common exclusions and product limitations. The industry would be keen to develop this resource in consultation with ASIC. This would complement other innovative product information developed individually by insurers.

When the deferral period concludes on Day 4, the intermediary can initiate contact with the consumer to confirm whether the consumer wishes to purchase the product. If the consumer indicates they do not wish to purchase the product, the intermediary cannot pursue the sale beyond this point.

3.2. Disclosure requirements at initial point of contact

As well as existing mandated product disclosure (such as the Product Disclosure Statement (PDS) and Financial Services Guide (FSG)), ICA members propose that a concise Information Sheet should outline key information about the product offer, including:

- cost of insurance annually, separate from any finance arranged;
- if financed, the indicative total cost including interest charges on premium, noting that the industry will need finance company cooperation to deliver this;
- a statement that add-on insurance is optional;
- any key policy terms and conditions to remain eligible for cover;
- a statement that consumers should consider their need for insurance, including existing cover;

- a recommendation that consumers refer to the insurer's or Insurance Council's education resource prior to purchase; and
- a description of the deferral period and ability to opt-out.

The disclosure of insurance costs with components separately identified, either as a single premium or per annum where relevant, will address ASIC's observations that:

- consumer decision-making is inhibited by the lack of disclosure around the total cost of insurance prior to the sale being made;
- the bundling of add-on insurance products with finance causes confusion about the total cost for some consumers; and
- the disclosure of smaller monthly or weekly costs contributes to price framing whereby consumers underestimate the cost of insurance.

In addition to the concise Information Sheet, consumers will also be encouraged to access during the opt-out period innovative product information to be developed by insurers. The development of this product information will be informed by best practice guidance on disclosure, which will be incorporated into the General Insurance Code of Practice (the Code). The Insurance Council is also open to exploring the need for industry-wide education resources that could be developed jointly with ASIC.

3.3. Consumer opt-out of deferral period

Consumers who would like to purchase the insurance following the commencement of the deferral period but prior to its conclusion (i.e. on days 2 and 3) should be allowed to opt-out of the deferral period. There are many reasons why consumers may wish to purchase the insurance prior to the conclusion of the deferral period; for example, the consumer has made a decision and would like to finalise the purchase at their convenience. Enabling consumers to opt-out at days 2 and 3 would be consistent with the treatment of "confident consumers" under the UK GAP DSM.

While the same argument could be made for consumers who would like to opt-out on day 1, we acknowledge that it may be difficult from a compliance perspective for insurers to verify that consumers are making a fully informed decision.

The proposed compliance requirement that a record of this interaction with consumers is obtained ensures integrity of the measures. Insurers could also track the rate of customers who opt-out of the deferral period as part of the compliance monitoring of their distributors.

We note that these measures accompanying the opt-out mechanism will need to be sufficiently strong to provide insurers with comfort that their compliance processes are robust. Insurers should assess the adequacy of their compliance measures, before participating in the opt-out mechanism. The industry would also be open to exploring with ASIC additional compliance measures to ensure integrity of the model.

4. Method of Implementation

In order for the implementation of the DSM to be applied broadly as proposed by ASIC, the Insurance Council agrees with the proposed approach in the Consultation Paper to use

ASIC's existing statutory powers under the Corporations Act. The legislative requirement to defer the sale of add-on insurance should be kept relatively high level and allow for flexibility for new developments in the market and respond to DSM outcomes as measured by industry and ASIC. Consideration should be given to setting out the detail of the model, for example, disclosure requirements, through guidance in the Code.

It is already proposed that the Code will be revised to incorporate product design and distribution obligations, with guidance developed specifically for add-on products sold through the channel. Incorporating details of the DSM for add-on products within the Code would be consistent with the planned expansion of the Code's scope.

The primary benefit of setting out the details of the DSM in the Code is that it offers greater flexibility and timeliness in responding to changes to reflect consumer and community expectations over time. For example, over time, the industry in consultation with ASIC may consider it appropriate to change aspects of the DSM in response to evidence around its actual impact on consumer decision-making. The Code would be a much more nimble mechanism for responding to the need for change than legislation.

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ATTACHMENT 2

Responses to Consultation Paper 294 Questions

1. Proposal E1

E1.Q1. Do you consider that it is appropriate to apply a deferral period to the sale of add-on products by motor dealer intermediaries?

Appropriately designed and implemented, a DSM could address ASIC's observations about sales practices and consumer behaviour which may result in poor consumer outcomes. Importantly, a DSM would lengthen the time period between product introduction and purchase decision so that consumers would be better able to consider their needs during the deferral period.

In its reports 470 and 492, ASIC outlined characteristics of the motor dealer channel that contributes to poor consumer outcomes. ASIC found that the sales environment exacerbates consumer behavioural bias that may contribute to poor decision-making. In particular:

- As decisions about insurance are a third-order selection after the consumer has made choices on the car and the finance, the decision-making about insurance occurs within the context of decision-fatigue and information overload.
- Understanding concepts and cover provided by add-on insurance could be difficult for consumers to grasp, as most would not have been exposed to these products prior to entering the dealership.
- Selecting product options and understanding the impact of financing the premium requires informed decision-making and the point of sale is unlikely to enable consumers to consider all relevant information.
- Motor dealers have a point of sale advantage and sales staff have a strong influence over consumer decision-making.

A DSM, by separating the initial introduction of the product and purchase decision, alters the point of sale environment and provides a more satisfactory period of time for consumers to consider their specific needs and the product information provided. The key objective of a DSM should be to encourage more informed consumer decision-making.

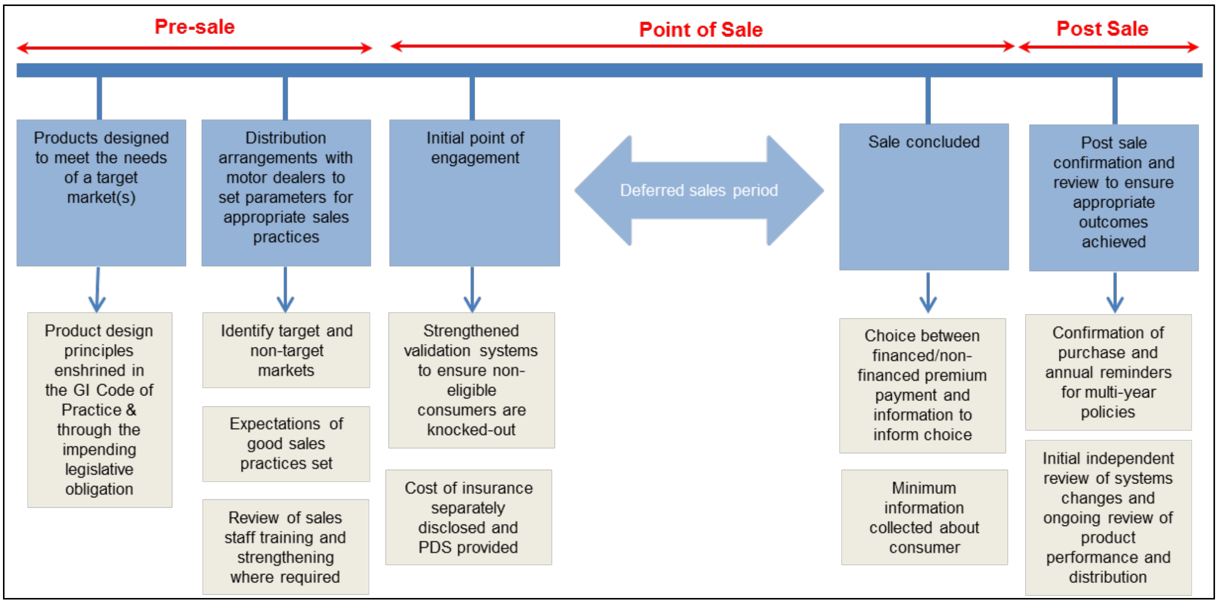
In order to facilitate improved consumer outcomes, a DSM should enable sufficient flexibility in the sales process to meet the needs of individual consumers. A DSM should not result in an overly rigid sales process that unreasonably restrains consumer preferences and choice. In particular, there should be an appropriate opt-out mechanism for consumers who would prefer to shorten the deferral.

Our understanding is that ASIC proposes to apply a DSM to "caryard intermediaries" which is defined as a range of entities who distribute add-on products, where the sale of these products is associated with the acquisition of a car by the consumer. Whilst this would capture sales that are mostly conducted through car dealers, it would also include novated leases sold by salary packaging companies. The appropriateness of the compliance requirements for these different sales environments need to be carefully considered. For example, first contact with the consumer and the provision of relevant insurance information may be weeks before the vehicle is actually purchased. The nature of a novated lease is that it includes all costs associated with the car (lease repayments, running costs, maintenance, tyres, insurance etc.) so it is imperative that quotes including these costs can be provided to employees before they make a decision to proceed with a novated lease and enter a car purchase agreement.

E1.Q2. To what extent would a deferral address the consumer harms identified in this market?

A DSM would complement the comprehensive range of initiatives agreed between industry and ASIC to strengthen product design, distribution and sales processes. A DSM should be seen against the package of reforms currently being implemented by industry, summarised in **Graph 1**.

Graph 1: Customer journey map reflecting improvements to the design, distribution and sale of add-on products



While we understand that the Consultation Paper seeks to outline ASIC's concerns in a comprehensive manner, we suggest that the design of the DSM should be informed by more specific and targeted objectives.

Noting that there are a range of initiatives currently underway that address a range of ASIC concerns, the Insurance Council submits that the DSM's objectives should focus on:

- ameliorating information overload and decision fatigue by lengthening the decision-making process where practicable;
- assisting consumers consider their needs and requirements by mandating the provision of simple and innovative disclosure; and
- separating product introduction from purchase decision.

Importantly, in measuring the effectiveness of the DSM once it is implemented, ASIC should focus on these key objectives where the DSM is likely to have a direct impact.

E1.Q3. How would the proposal affect businesses (e.g. insurers, car dealers, finance brokers, credit providers)? Would it have a different impact on small businesses?

The introduction of a DSM for add-on insurance would affect businesses along the supply chain. Insurers would need to invest in new systems that prevent add-on products being sold during the deferral/exclusion period and increase their supervisory mechanism. Additional training and compliance monitoring would add to insurer costs and the cost of add-on products, along with additional auditing requirements.

Motor dealers, fleet leasing companies, finance brokers and other financial institutions would also need to invest in additional training and compliance processes in order to comply with a new sales model. In some cases, a DSM may result in a delay in the delivery of the vehicle and the motor dealer would have an additional cost of holding the vehicle in stock.

Deloitte estimates that 25 per cent of all car dealers operated at a loss in 2016. This does not take account of the reduction in commissions implemented by insurers in 2017. On this basis, we anticipate that the additional costs associated with compliance and training, and holding stock would have a significant impact on the profitability of the average motor dealer.

E1.Q4. Would the model need to apply differently to the new and used cars markets? In what ways could the model differ to be effective across the two markets?

The key difference between the new and used car markets is time to delivery. For the majority of new cars, the time to vehicle delivery from date of purchase exceeds four days. On the other hand, dealers would usually have used cars in stock, and there is a higher likelihood of cars being delivered within four days or even on the same day. It should be noted that for some new cars, the time to delivery is similar to used cars where there is a sale event or at specific times of the year when delivery times are shorter than typical.

Rather than addressing this difference by implementing different DSMs, we see the simplicity of a single model as beneficial; however, the model will need to be sufficiently flexible to cater to individual consumer needs. Implementing different models for new and used cars, particularly for dealers that may sell both, would be overly complex and compound the associated compliance costs.

We recommend that a single model, that allows consumers to opt-out of the deferral period if the delivery time is shorter than four days, is pursued. This eliminates the complexity of attempting to cater to different parts of the market. However, if the industry's recommendation that an opt-out mechanism commencing on Day 2 is not adopted, then a different DSM may need to be considered for used cars.

E1.Q5. What are the preconditions for a competitive online market? How can a deferred sales model contribute to this outcome?

The emergence of a more competitive standalone online market in Australia would require some barriers to be overcome, such as potential misalignment of online sales with the timing of loan approvals and vehicle delivery, and lack of consumer awareness about the availability of some add-on products.

E1.Q6. Could the objectives of a deferred sales model be achieved in a different way or could any complementary measures better ensure our objectives are achieved?

Alternatives to a mandated DSM in encouraging more informed consumer decision-making include:

- innovative disclosure that consumers are more likely to engage with;
- the use of examples in disclosure to highlight claims scenarios;
- enhanced awareness of cooling off provisions and entitlements;
- a system enforced pause in the decision-making process.

We accept that a DSM would provide consumers with an enforced pause to understand insurance options available and investigate products and coverage further, before making a decision. However, a deferral may offer limited benefit to consumers who are confident in their decision-making, such as some repeat customers. There should be sufficient flexibility in the model so that it does not unreasonably constrain consumer choice.

In relation to warranties that are not insurance products, we recommend all providers (except car manufacturers) should hold an Australian Financial Services (AFS) licence and offer the product in accordance with the obligations under the Corporations Act. However, should these providers be excluded from the DSM, insurers issuing non-insurance warranties should also be excluded when selling these specific products.

E1.Q7. If a deferred sales model was introduced, are there any existing related obligations on insurers, finance providers and car dealers that would no longer be appropriate and could be removed?

Some financiers currently require consumers to acknowledge they have been offered add-on insurance products and are aware they have been included in their loan repayments. It is commonplace for car dealers to have customers sign a declaration that they have been offered add-on insurance products and have chosen certain products. These compliance processes may become obsolete with a DSM managed by the insurer.

E1.Q8. What is the most effective way of testing whether consumer understanding has improved due to a deferred sales model? What metrics would provide the best way of measuring consumer comprehension?

The Insurance Council's consumer research on the effectiveness of disclosure demonstrates the challenging nature of measuring consumer comprehension. It would be difficult to isolate the impact of a DSM on consumer comprehension from other improvements that insurers are making. Also, measuring comprehension, by itself, may not be insightful if knowledge is not being applied so that it results in good decision-making.

In measuring consumer comprehension, knowledge about relevant key exclusions and a broad understanding of scenarios around when a claim can be made may be useful. Only relevant knowledge should be assessed, for example, consumers should not be expected to understand specific exclusions that are not relevant to them. We acknowledge that it would be difficult to obtain large scale quantifiable findings on these measures, which could be supplemented by additional metrics, such as:

- the number of consumers who referred to product information provided;
- the number of consumers who did additional research during the deferral period;
- the number of consumers who cancelled their purchased products during the cooling off period;
- complaints data available from the Financial Ombudsman Service (FOS).

Where research relies on consumer reporting of behaviour, we suggest that only consumers who recently (maximum of 3 months) purchased products are recruited for research purposes.

Insurers who conduct customer experience surveys may also be able to obtain feedback on experiences, including pain points, with the DSM.

E1.Q9. Should a consumer opt-out mechanism be included?

The Insurance Council submits that there are circumstances where it is reasonable to enable consumers to shorten the deferral period, provided there are protections against misconduct. The Insurance Council is supportive of an opt-out mechanism, provided the consumer initiates contact on days 2 and 3 as per the industry's preferred model presented in this submission.

Consumers would only be able to purchase add-on products on days 2 and 3 if a record of this contact is obtained (for example, an email or other suitable verification). This would enable insurers to monitor the levels of opt-out, identify whether any high level indicate any misconduct and ensure that consumers opting out of the deferral period are doing so appropriately. Consumers would only be able to opt-out on days 2 and 3, so there would still be a separation between the introduction of the product and decision-making.

It is difficult for us to envision why it would be appropriate to remove consumer choice, if this choice is being exercise by the consumer outside of the point of sale. The Insurance Council believes it is important for consumers to have the opportunity to make a decision about what insurance they require and when they require it. The decision to leave a consumer uninsured during the deferral period, irrespective of whether the risk or time period is minimal, should be a decision for the consumer only. To prevent a consumer opting out appears contrary to one of the key intentions of the DSM, namely promoting informed consumer choices.

1.1. Commencement of the deferral period

E1.1.Q.1. Which of the proposed options in paragraph 193 for commencement of the deferral period would be preferable and why (please suggest other options if relevant)?

Option A, which triggers the deferral period when specific information is provided to the consumer, would provide the industry with the most flexibility in adapting the DSM to individual intermediary sales processes, and also individual consumer needs. This approach is also required if, as ASIC proposes, the DSM is applied to intermediaries that are not car dealers, where the signing of the vehicle purchase agreement (Option B) may occur after a substantial time lag after the provision of product information.

The industry is strongly opposed to Option C, which would delay the purchase of insurance until after delivery of the car and would result in potentially at risk consumers being uninsured. Delaying the purchase decision in this way would not benefit consumer decision-making, as the key purchasing considerations (such as those listed on pages 47 – 48 of the Consultation Paper) are not impacted by actual use of the vehicle.

E1.1.Q2. Which sales sequence (see Figure 1) is most likely to meet our stated objectives and why?

The Insurance Council understands ASIC's concerns about the additional complexities in the decision-making process where consumers are required to not only consider the primary product (the car) but also insurance and financing, if any, required. While it is important to consider the impact of any sales sequence in designing a DSM, the Insurance Council submits that no particular sequence should be mandated.

Whether a particular sequence is more appropriate for a consumer would depend on their individual circumstances. For example, Sales Sequence A would best meet the needs of consumers requiring time to evaluate their insurance needs where the finance arrangement is known and/or has been facilitated by the intermediary. However, it may be that Sales Sequence B would be more suitable for consumers arranging finance outside the intermediary.

Sales Sequence C would be challenging from a consumer perspective, given that the vehicle and finance decisions have not yet been made or finalised.

E1.1.Q3. How could the point at which the deferral period commences be easily documented to be readily verified by all relevant parties?

If the DSM is triggered by the provision of information, insurer systems could capture the date that the product and pricing information was provided and electronic verification (i.e. customer signature) could also be obtained to register the consumer had received the quote, appropriate disclosures and related product information.

E1.1.Q4. If the deferral period commenced at vehicle delivery, could short-term 'bridging' insurance be offered to cover the deferral period (only)? What does insurers' claims data demonstrate about the likelihood of a claim shortly after delivery?

The Insurance Council is not supportive of the deferral period commencing at delivery of the vehicle. We believe a four day deferral period would provide consumers with sufficient time to digest information and conduct further research regarding any add-on insurance products they are offered, and this can be achieved before the vehicle is delivered.

Feedback from members suggests that the cost of administering and arranging bridging insurance would make this a prohibitively expensive option.

1.2. Duration of the deferral period

E1.2.Q1. What would be the appropriate duration of the deferral period within the range of 4–30 days and why?

The Insurance Council is supportive of a deferral period of four days, including two clear days between commencement and conclusion of the deferral. This time period provides consumers with ample time to digest information and conduct further research regarding any add-on products they are offered.

While there is no data that provides guidance on the ideal period of time consumers take to comprehend product information and make a purchasing decision, a longer period is likely to negatively impact buying decisions and be disruptive for consumers. Post purchase consumer surveys may provide useful insights into actual experiences with the DSM once it is implemented, which can inform any evidence-based adjustments to the deferral period as required.

E1.2.Q2. Should the duration of the deferral period be different for new and used cars?

The Insurance Council is not supportive of separate DSMs, including different deferral periods, for new and used cars. Where delivery occurs within the deferral period and the consumer wishes to opt-out of the DSM, this should be enabled through an opt-out mechanism that applies regardless of whether the car is new or used.

E1.2.Q3. What is the average period of time between the sale of a new car or a used car and its delivery to the consumer? What is the shortest period of time and how common is it?

Vehicle delivery times vary significantly between brands, geographic location, different times of the year and following significant weather events. As such, the average time to delivery is not a useful metric to use.

E1.2.Q4. What is the average period of time between when a consumer applies for finance and approval? What is the shortest period of time and how common is it?

While financiers are better placed to answer this question, members' experience is that same-day conditional systems approval exists for some financiers.

1.3. Consumer communication

E1.3.Q1. Should providers be required to take active steps to ensure consumers read and understand information about their products before they can buy them?

Requiring providers to take steps to ensure consumers read and understand product information prior to purchase presents an unreasonable hurdle that is not required for any other consumer product. It is impossible to effectively verify whether a consumer has actually read product information, other than requiring consumers to make a self-report which may not be reflective of actual behaviour. In requiring providers to verify they have read product information, there are additional complexities around whether "read" means skimming the document, reading the document from line to line or only reading the material that is relevant to the consumer's circumstances.

Requiring providers to verify that consumers understand product information is even more complex, as measuring comprehension is not straightforward as already noted in our submission. Requiring consumers to pass a comprehension test has implications for most add-on insurance products that are sold with general or no advice; a positive test result may be construed by consumers to imply that the provider has assessed that the product is suitable for them.

E1.3.Q2. What forms of innovative disclosure could be used to better inform consumers about their insurance decision?

The Insurance Council has conducted large scale consumer research to better understand how consumers currently engage with disclosure. The research provides key learnings that have provided the foundation for industry workshops on initiatives to improve the effectiveness of disclosure. Our work to date suggests that consumers use information in highly varied ways, and that a one-size-fits-all approach to disclosure is unlikely to be effective. As such, it is important, in considering initiatives in this area that the regulatory framework does not constrain the ability of insurers to be nimble in designing and testing disclosures.

The Insurance Council's work has also highlighted that consumers often do not know the right questions to ask with regards to their specific risk profile, and more interactive forms of disclosure may be beneficial in this regard. The presentation of information in more engaging ways, for example, through a customer app or website which includes videos with examples of common successful and denied claims is likely to be helpful. The Insurance Council's research showed that consumers who had previously made a claim (and therefore had insights into an actual claim scenario) are more likely to read product disclosures in future and also had higher comprehension of their insurance purchases.

More specific product information, including the associated costs with various financing options, presented at the point of sale would complement these more innovative forms of disclosure, which could also be accessed during the deferral period.

The Insurance Council will shortly release for public consultation effective disclosure best practice principles that will be incorporated into the General Insurance Code of Practice. The Code will also include guidance specific to the sale of add-on insurance.

E1.3.Q3. What information should the consumer communication include?

Information that should be included in the consumer communication, as outlined in the industry's preferred DSM, are:

- the cost of insurance as a single premium or a per annum basis, separate from finance costs if applicable;
- if financed, indicative total cost including interest charges on the premium;
- a statement that add-on insurance is optional;

- a statement that consumers should consider their need for insurance, including existing cover;
- any key policy terms and conditions to remain eligible for cover;
- a recommendation that consumers refer to the insurer's or ICA's education resource prior to purchase;
- a description of the deferral period and the consumer's ability to opt-out.

These disclosures will complement information contained in the PDS and FSG around product features and benefits, exclusions, and cooling off and cancellation rights.

E1.3.Q4. Should providers be required to inform consumers about the availability of other products that provide similar cover, but may be cheaper?

It would be impractical to require providers to inform consumers about the availability of other products, as information on product coverage and pricing for alternative products may not be visible to them. It is also difficult to see how this could be achieved without a major amendment to the financial advice regime. The provision of a generic statement that other products may provide a consumer with broader coverage or at a lower cost is unlikely to be helpful to the consumer in seeking out alternative products.

1.4. Mechanical breakdown insurance and warranties

E1.4.Q1. Should a separate deferred sales model be introduced for these products? If not, how could the particular risks associated with these products be addressed?

There should not be a separate DSM for mechanical breakdown insurance and warranties as it would be prohibitively and unnecessarily complex to administer.

In the Consultation Paper, ASIC suggests that consumers lose money by paying a premium for mechanical risk product that will not start for three to seven years. However, we note that premiums are priced to reflect the delayed start, and as a result, the cost to consumers outlined in the Consultation Paper is somewhat misleading.

Nevertheless, we acknowledge ASIC's concerns about factors that could remove the need for the policy before it commences; for example, the vehicle has exceeded the distance travelled as allowed under the policy, or the consumer sells the car before the cover starts. Some of these factors would be difficult for consumers to anticipate at the point of sale. To address this, the Insurance Council is open to exploring the potential to expand the cooling off period so that these rights can be exercised by consumers from the time that coverage commences.

2. Proposal E2

E2.Q1. Given the limitations in monitoring conduct at the point of sale, what changes would be necessary to ensure providers are effectively supervising their representatives?

The industry is already implementing a raft of changes to the supervision and monitoring of sales through the dealer channel. These changes should be given a chance to have an impact before their effectiveness is measured and any additional changes are contemplated.

Some of the changes being made by insurers limit discretion on the part of authorised representatives to complete a sale. For example, point of sale systems have been, or are being, improved to have the capability to detect and prevent ineligible consumers from purchasing the insurance.

As part of these initiatives, members have committed to review and strengthen dealership training on compliance and systems to ensure that appropriate conduct is clearly understood. Members have also committed to conducting independent reviews of their compliance and risk management procedures to assess the adequacy of changes made. Examples of monitoring activities provided by members include:

- implementing a centralised incident reporting system and requiring all reported incidents to be investigated by a compliance manager;
- vetting of all sales representatives at recruitment;
- accreditation of all sales representatives, including the successful completion of 14 online modules regarding insurance, including regulation and compliance; and
- regular compliance audits, requiring sales staff to demonstrate understanding of relevant legislation and compliance requirements.

To complement the strengthening of monitoring and supervision by insurers individually, the Insurance Council is also incorporating into the Code industry-wide guidance on product design and distribution.

E2.Q2. What risk indicators could be introduced to improve the capacity of providers to monitor their representatives?

The Insurance Council agrees with the risk indicators proposed in the Consultation Paper, and would be happy to continue to work with ASIC to improve the availability of data to support ongoing measurement of these risk indicators.

E2.Q3. What sanctions would be most effective in deterring representatives from engaging in unfair practices at the point of sale?

Individual bans from selling add-on insurance applied to the agent point of sale operator would deter them from engaging in unfair practices. Refunding premiums and clawing back commissions where inappropriate behaviour has occurred would be another option.