INSURANCE COUNCIL OF AUSTRALIA

12 November 2019

Mr Christian Mikula
Senior Specialist
Australian Securities and Investments Commission
Level 5, 100 Market St
SYDNEY NSW 2000

By email: product.regulation@asic.gov.au

Dear Mr Mikula

The Sale of Add-on Financial Products through Caryard Intermediaries

The Insurance Council of Australia[1] (Insurance Council) welcomes the opportunity to comment on Consultation Paper 324 *Product Intervention: The Sale of Add-on Financial Products through Caryard Intermediaries* (the Consultation Paper). We would also like to thank ASIC for the meetings of 3 October and 28 October 2019.

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. As noted in the Consultation Paper[2], our members are already implementing a substantial number of initiatives to improve consumer outcomes.

In addition to those initiatives, the industry agrees with ASIC's proposals to use its product intervention power to implement a deferred sales model (DSM). As previously submitted[3], an appropriately designed DSM would ensure that consumers are protected and given the time and mental space necessary to properly consider their insurance purchases.

In relying on its product intervention power, the Insurance Council agrees with ASIC's assessment[4] that the proposed DSM should be tailored to the specific arrangements surrounding the sale of add-on financial products through caryard intermediaries rather than having implications for tier 1 products generally[5].

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[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent approximately 95 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of $48.4 billion per annum and has total assets of $128.4 billion. The industry employs approximately 60,000 people and on average pays out about $151.4 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as lenders' mortgage insurance, product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

[2] Paragraph 21, p9 of the Consultation Paper

[3] Insurance Council Submission on *Consultation Paper 294: The Sale of Add-on Insurance and Warranties through Caryard Intermediaries* dated 21 October 2017, available at: www.insurancecouncil.com.au

[4] Paragraph 33, pp11-12 of the Consultation Paper

[5] As set out in Treasury Proposals Paper *Reforms to the Sale of Add-on Insurance Products*, September 2019

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The requirement to defer the sale of add-on insurance should allow for flexibility for new developments in the market, and cater for a diverse range of consumers. In this regard, the Insurance Council suggests that some elements of ASIC's proposed DSM are too granular and rigid. For example, the proposed commencement of the deferral period is tied to when a consumer has been given online access to a tailored consumer roadmap. This would lead to consumers who do not have ready access to online channels being denied insurance.

Similarly, while we strongly support action to address the risk of pressure selling or other unfair tactics at the point of sale, the proposed DSM should not preclude conversations with consumers that genuinely aim to provide information about the products offered to them.

In addition to the general DSM, ASIC proposes to prohibit the sale of extended warranties where the manufacturer's warranty still has more than 12 months' cover. In practice, some manufacturers' warranties place a restriction on the kilometres a new vehicle can travel for the warranty to remain valid. For example, manufacturers' warranties often stipulate that the warranty will expire once the vehicle has travelled more than 100,000 kilometres, even if the customer is still within the warranty period. For high kilometre customers, it is likely that the manufacturer's warranty will expire with more than 12 months remaining on the warranty. For these customers, ASIC's proposal is likely to mean that there are limited options for purchasing extended warranties prior to the expiry of their manufacturer's warranty.

To address this, the Insurance Council suggests that the proposals should be refined so that the sale of extended warranties is prohibited where:

- The manufacturer's warranty still has more than 12 months' cover; or
- The manufacturer's warranty has a maximum kilometre restriction, and there is more than 10,000 kilometres remaining before the warranty becomes invalid.

This will better tailor the proposals so that customers are given the choice to purchase extended warranties at a time they are most likely to need cover.

If you have any questions or comments in relation to our feedback, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on tel: (02) 9253 5121 or email: janning@insurancecouncil.com.au.

Yours sincerely

for

Robert Whelan
Executive Director and CEO