Reforms to the sale of add-on insurance products

Submission to The Treasury

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Summary

Thank you for the opportunity to provide feedback on the reforms to the sale of add-on insurance products.

We acknowledge concerns about the sale of low-value insurance products, sold as an add-on to a primary product in a situation in which the customer is not given an opportunity to make an informed decision about their needs and the appropriateness of what is being purchased.

AIAA is of the view that there is a need to make it clear that add-on insurance products have been specifically designed for protecting only the new risks raised by the primary products. These are distinct from standalone insurance products that are likely designed to protect the customer more holistically.

It is our view that a deferred sales process is appropriate in relation to add-on insurance products to ensure customers can give their protection needs proper consideration.

We want to ensure that the package of reforms currently being considered (which includes deferred sales of add-on insurance and ASIC's proposed prohibition of unsolicited sales) does not prevent financial services providers having holistic conversations with customers about their protection needs.

Relevant information should be made available to customers at the most relevant time. Consequently, it is important for financial services providers to be able to present information to customers for their consideration in a manner that enhances customer education and understanding. The reforms to the sale of add-on insurance products should not prevent customers from receiving information that is relevant to them and the new risks they have taken on in acquiring a primary product where there is no intention of an immediate sale of an add-on insurance product. The provision of this type of information to consumers should not be deemed as an offer of an insurance product at the same time as an associated primary product or financing agreement to which a deferred sale model would automatically apply.

In the case of customers taking out credit or loan products, a conversation about the risks associated with the new product and possible protection options should form part of the responsible lending obligations.

Greater clarity on the definition of "add-on insurance" is required

It is our view that the scope of the term "add-on insurance" needs to be more clearly defined. This will assist to minimise the need for exemptions, as is Treasury's preference.

We suggest that add-on insurance is defined as:

"a contract of insurance, which by its terms:

- *(i) is contingent upon the insured person having acquired, prior to purchasing the contract of insurance, a specified underlying product; and*
- *(ii) provides a benefit upon the happening of an insured event which is determined by reference to the specified underlying product."*

This would include credit card insurance, mortgage/loan protection, travel and car insurance which are contingent upon the products they are designed to protect, for example, the relevant credit card, loan or car.

We are supportive of the Treasury proposal, in line with the Royal Commission's recommendation, to implement a deferred sales model for these add-on insurance products.

Using the definition suggested above, the following would not be classified as add-on insurance:

- standalone insurance products purchased after the application process for another financial product has commenced

- insurance products that are sold as a bundle.

Bundled insurance products

Life insurance products are often modular in nature; for example, a customer may acquire death cover at the same time as trauma or income protection cover. Where multiple life insurance products are sold together, or life and health insurance are sold together, these would not be caught by the definition of add-on insurance as they are all standalone products that are not contingent on a primary product or on one another.

These products would also be available on an individual basis – the standalone market that the consultation paper suggests is out of the scope of the deferred sales model. Customers could decide if they wanted to purchase products on an individual or bundled basis as appropriate to their needs.

There are a number of reasons that a customer may wish to purchase bundled products, including premium discounts, and the convenience and peace of mind of having holistic coverage in one place. These types of products would not result in the poor consumer outcomes that the consultation paper notes are due to pressure selling, poor value for consumers, weak competition and consumer disengagement.

Standalone insurance products

We also do not believe that the purchase of standalone insurance products that are purchased following or in conjunction with another financial product should be caught by the definition.

For example, bank staff, in the process of having a solicited conversation with a customer about a home loan, may have a scripted conversation with the customer about their holistic protection needs or may provide material for the customer to consider later. This would provide an opportunity for the customer to further enhance their financial understanding and enable them to consider whether they require other products, such as standalone life insurance, at the appropriate time.

While we do not believe the resulting purchase of any subsequent standalone insurance in this example would constitute add-on insurance, we would still apply a deferred sales model to these purchases, if the insurance conversation has not been customer-initiated. Only if the customer has expressed a positive, clear and informed request, would an additional sales process commence. In this instance, customers would be made aware that the products they are seeking to obtain are not conditional upon each other and may be obtained separately.

Greater clarity on the operation of the deferred sales period is required

Trigger event

The consultation paper proposes that the event that triggers the commencement of the deferred sales period is the consumer making a financial commitment to purchase a primary product. It is suggested that this could involve paying a deposit or making an application for finance.

In order to provide greater certainty about when the deferral period commences, we suggest that a customer receiving approval for a loan or credit product is an appropriate trigger event. This gives the customer an opportunity to consider their protection needs (using the prescribed information) ahead of them being on risk.

In relation to the two-step trigger event (consisting of a financial commitment and the provision of prescribed information), we suggest that these steps should be able to occur in either order. This would allow an insurer or intermediary to provide the prescribed information as part of an early conversation about holistic protection needs, ahead of the primary product being in place. The four-day deferral period would still not be triggered until after the financial commitment is made, but this would give the customer the benefit of having a greater time period to consider the prescribed information.

Prescribed information

The consultation paper proposes that the insurer or intermediary provides a customer with prescribed information about add-on insurance products once the customer has made a financial commitment (which we suggest should include receipt of approval for a loan or credit product).

This information is intended to inform the consumer about key characteristics of the add-on insurance product on offer and details of the deferral period.

We suggest that the prescribed information should provide context about the general risks that the customer should consider in relation to the primary product, and what the add-on insurance product is designed to protect.

We also seek clarification of whether the insurer or intermediary may make a courtesy telephone call during the deferral period to ensure the customer has all of the information needed to understand the add-on products available to them, and to answer any product questions the customer has. Of course, the insurer or intermediary should not initiate a sale of add-on insurance during this type of courtesy telephone call.

Contact after the deferral period

The consultation paper proposes a deferral period of four days, at the conclusion of which the insurer or their intermediary may contact the consumer via written correspondence, and only on one occasion.

It is our view that the manner in which the insurer or their intermediary may contact the consumer at the end of the deferral period should be flexible having regard to the preferences of the relevant consumer. Rather than merely reviewing written correspondence, some customers may feel more comfortable discussing insurance via telephone or face-to-face interactions and may also request an additional follow-up discussion with the insurer or intermediary.

Consequently, at the conclusion of the deferral period, the insurer or their intermediary should be permitted to contact the consumer via written correspondence or such other method as agreed with the consumer, and only on one occasion unless the consumer consents to additional contact from the insurer or intermediary.

Conclusion

We appreciate the opportunity to provide you with the above feedback. We would be happy to discuss any of the points raised in this submission in further detail.

If you require any further information please contact in the first instance Sarah Phillips, Senior Manager, Corporate Affairs, at sarah.phillips@aia.com or 0498 494 791.