



ASIC

Australian Securities & Investments Commission

REPORT 470

Buying add-on insurance in car yards: Why it can be hard to say no

February 2016

About this report

This report is for those with an interest in add-on insurance products (e.g. insurers, lenders, car dealerships, consumers and the media).

It summarises ASIC's analysis of consumer research we commissioned to understand the experience of consumers who bought add-on insurance products when buying a vehicle through a dealership.

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Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

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Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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Executive summary

The sale of add-on insurance products

- 1 Add-on insurance products are generally sold in conjunction with a primary product. The primary product is usually the focus for a consumer at the time of purchase, whereas the add-on product is not. This is often expressed as the difference between a product being ‘bought by a consumer’ and ‘sold to a consumer’.
- 2 Examples of add-on insurance products include consumer credit insurance (CCI) sold with loans, including car loans, and insurance sold with motor vehicles, such as gap and tyre and rim cover. This report summarises analysis by the Australian Securities and Investments Commission (ASIC) of consumer research we commissioned to understand the experience of consumers who bought add-on insurance products when buying a motor vehicle through a dealership.
- 3 ASIC commissioned this research due to concerns about the design, cost and sale of add-on insurance products through dealerships. Our concerns included that:
 - (a) sales staff are given strong incentives to sell these products, with up to 75% of the premium being paid as commission for some classes of products;
 - (b) add-on insurance products can often be more profitable for distributors, such as car dealerships, than the primary product being sold (such as the car);
 - (c) insurers compete for access to dealer networks, resulting in dealers demanding higher payments or commissions (the competition for access is known as ‘reverse competition’ and drives up the cost to consumers¹);
 - (d) compared to similar products sold through other distribution channels, add-on insurance sold through dealerships can provide poor value cover and may cover relatively narrow risks (i.e. the circumstances in which claims can be made are unlikely to occur and the amount paid out in the event of a claim is quite low); and
 - (e) some sales practices and processes may be unfair (e.g. selling the policy without the consumer’s informed consent) and in some cases coercive.²

¹ G Fagg, *Credit life and disability insurance*, Clico Management, Springfield, Ohio, 1986, p. 503.

² For example (in a different retail context), a payday lender was found to have acted unconscionably in selling CCI products to borrowers where the amount returned in claims was negligible, and in selling unemployment cover to consumers who were ineligible to claim (as they were not working): see *Australian Securities and Investments Commission v The Cash Store Pty Ltd (in liquidation)* [2014] FCA 926.

- 4 These concerns have been identified in other countries. In the United Kingdom, the Financial Conduct Authority (FCA) recently conducted an extensive market study in this area, concluding that low levels of competition have led to consumers overpaying for add-on insurance products they do not need or understand. As a result, the FCA has introduced new reforms aimed at strengthening the transparency and comparability of the value of these products.³

The review

- 5 The purpose of the current consumer research study was to understand the processes and practices used in car dealerships in Australia to sell these products to consumers, and consumers' stories and experiences in being sold these products.
- 6 The focus of the research undertaken by EY Sweeney was on gaining a deep understanding of consumers' experiences, rather than incidence rates, so they used a qualitative methodology to conduct this research. The research involved five focus groups and 13 interviews in Melbourne and Sydney with consumers who had recently been sold add-on insurance with the purchase of a new or used car. The findings reflect the experiences of these research participants and cannot be extrapolated to statistically representative rates of occurrence in the market. Full details of the methodology used are set out in the appendix to this report.

Key findings roadmap

- 7 Figure 1 shows how key insights from our analysis of the research interact with each other, as illustrated by quotes from participants.
- 8 Table 1 summarises our analysis of the research based on three stages of the sales process: the consumer's preparedness before entering the car dealership; the consumer's experience in the dealership; and the consumer's reflections after the purchase. For detailed findings for each of these stages, including relevant comments from consumers, see Sections B–D.
- 9 Table 2 summarises insights from behavioural economics that show how consumer decision-making processes are impaired by the add-on insurance sales process.

³ FCA, Market Study MS 14/1 *General insurance add-ons: Final report—Confirmed findings of the market study*, July 2014.

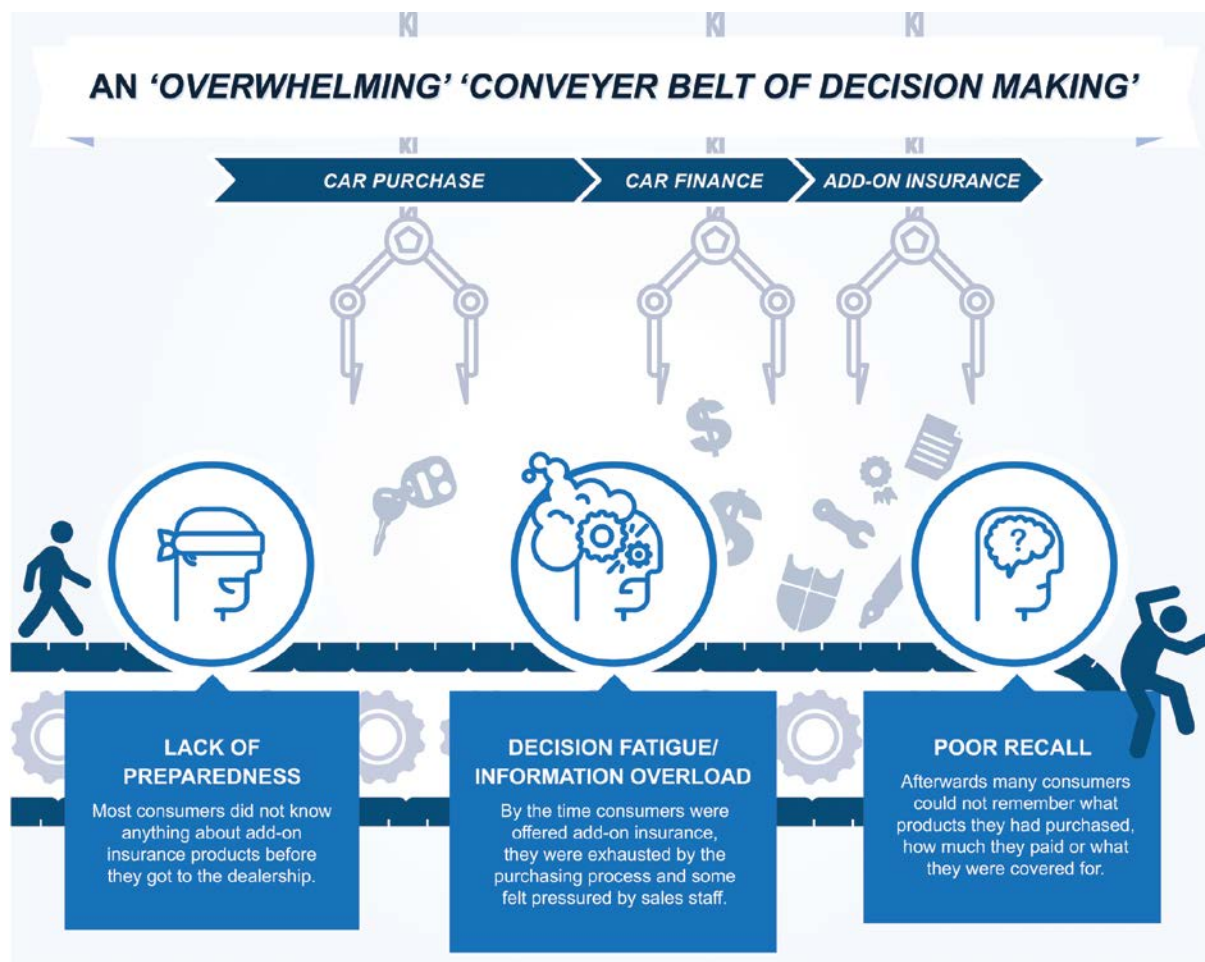
Definition: Behavioural economics

Behavioural economics draws on psychology and economics to explain how and why consumers make decisions. It is relevant in considering how consumer decision making is influenced by the sales process for add-on insurance products.

- 10 Table 3 summarises the types of add-on insurance products that are commonly sold to consumers in Australia with the purchase of a motor vehicle. Typically, each product will have a number of cover options, so the consumer must decide not only whether to purchase a product, but must also choose between the options within a product.
- 11 For a detailed discussion of the role of behavioural economics and its relevance to the research, see Section A. Further insights from behavioural economics are included in Sections B–D for each stage of the sales process.

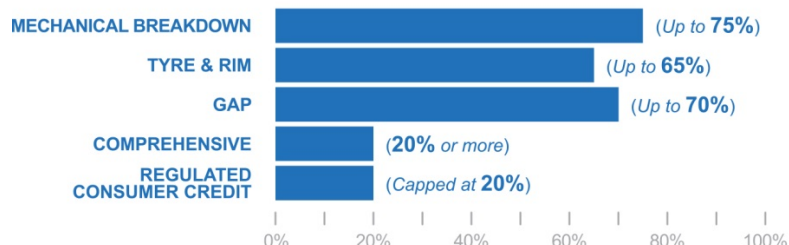
Figure 1: Buying add-on insurance products with the purchase of a motor vehicle

Consumer experience



Context: High commissions give sales staff a strong incentive to sell add-ons, increasing the cost to consumer

HOW MUCH COMMISSION COULD YOU PAY ON YOUR INSURANCE?



SUSIE'S STORY:

'Susie' borrowed **\$28,000** at 9% over five years to buy a car, repaying **\$35,474**. She was sold add on products costing \$8,000: \$1,500 for consumer credit insurance, \$1,500 for gap insurance and \$4,000 for a warranty. If Susie did not buy these products she would have only had to borrow **\$20,000**, and repay \$25,510, **saving her nearly \$10,000**.

What we did: ASIC analysed consumer research conducted by EY Sweeney to understand the experience of consumers who bought add-on insurance products when buying a motor vehicle through a dealership.

How we did it: The research involved 5 focus groups and 13 interviews with consumers who had recently been sold add-on insurance with the purchase of a vehicle.



‘It was a really high-pressure sell.’

(Melb, Family 30–55)

‘It’s like a maze.’

(Syd, Single Income No Kids, 30–55)

‘All our time and energy went into finding and buying the right car, we didn’t even think of insurance.’

(Melb, Family 30–55)

‘I was kind of sucked in a little bit.’

(Melb, Family 30–55)

‘When people are selling you insurance, they don’t talk about the exclusions. They talk about the inclusions.’

(Melb, In-depth interview)

‘I don’t have a clue about what I am covered for.’

(Melb, In-depth interview)



Table 1: Key findings from the research

Process	Key finding	Specific findings
Stage 1: Before entering the dealership	Many consumers had no awareness of add-on insurance products before entering a dealership to buy a motor vehicle.	<ul style="list-style-type: none"> • Before entering the dealership, most consumers' focus was on purchasing a vehicle, including how it would be financed, with little thought given to insurance. • Most consumers were unaware of the cost of, or cover or value provided by, add-on insurance products. Accordingly, most purchases were made solely on the basis of information provided in the car dealership.
Stage 2: In the dealership	Many consumers were actively sold, and sometimes pressured to buy, add-on insurance products both through explicit sales techniques and how the sales process is structured.	<ul style="list-style-type: none"> • Generally, the purchase of add-on insurance was not driven by the consumers. Inside the dealership, the consumer focus remained mostly on the vehicle. • Sales staff and their actions had a strong influence (both negative and positive) on how the consumer felt and the decisions they made. • Many consumers recall being provided with minimal information about add-on insurance products. • The information that was provided to many consumers was unbalanced, promoting potential benefits without explaining exclusions. • The bundling of add-on insurance products with finance caused confusion about the total cost for some consumers. • The physical environment in the dealership was itself intimidating for some consumers. • Some consumers felt the dealership used pressure tactics when selling them add-on insurance products (e.g. several consumers reported that sales staff spent up to 40 minutes pre-filling applications forms for these products, even though the consumer had not requested this).
Stage 3: After the purchase	Many consumers had a very poor recollection of which policies they purchased, how much each policy cost and what it covered. Those that could recall the purchase, regretted their decision to purchase add-on insurance.	<ul style="list-style-type: none"> • Many consumers had very poor recall and understanding of which add-on insurance products they had actually purchased, what they were covered for and what they paid. • For some consumers, the purchase experience was negative and/or the product was inappropriate. • Some consumers valued the add-on insurance products they purchased because they considered that having insurance gave them peace of mind.

Table 2: Observations from behavioural economics

Relevant behavioural insights ¹	Observed practice and/or behaviours	Possible explanations and comments ²
<i>Priming</i>	Consumers were only offered add-on insurance at or after the point of sale of the vehicle.	Because insurance is only offered after purchase of a vehicle, the consumer may have an increased emotional investment in the purchase and be more inclined to purchase, or spend more on, an add-on insurance product than if it had been offered earlier.
<i>Decision fatigue</i>	The insurance was offered at the end of a long day.	Consumers who have already made many decisions (which car, colour of car, what extras to include, how to finance) may be more likely to make poor decisions because they are exhausted by the number of decisions they have already made.
<i>Information overload</i>	Many consumers received a lot of information and had to make multiple decisions at or around the same time.	Offering a number of add-on insurance products in conjunction with other after-market products, and after consumers have made significant decisions about purchasing and financing a vehicle, may make it difficult for consumers to appropriately consider and process each insurance offer.
<i>Anchoring</i>	The insurance offered was substantially cheaper than the cost of the vehicle.	Because consumers are only offered the add on insurance products after they have purchased a car (a high-value item), they may consider the relatively smaller cost of insurance as being trivial, rather than considering whether the insurance product actually offers value for money in its own right.
<i>Price framing; Mental accounting</i>	The cost of insurance was often reported to be promoted in monthly rather than annual terms.	Consumers may underestimate the cost of the insurance if the price is presented as a small ongoing expense rather than a full or aggregate cost.

¹ For a detailed discussion of these concepts, including relevant research, see Section A. For definitions of the terms, see 'Key terms'.

² These explanations are hypotheses only and would require further testing to substantiate.

Table 3: Add-on insurance products offered through dealerships

Product	Description	Commission paid	Limitations/exclusions
Comprehensive insurance	<p>This product covers the risk of damage to or loss of the vehicle due to accident, fire or theft.</p> <p>Most consumers are familiar with this product.</p> <p>Many insurers offer similar products for sale inside and outside car dealerships.</p>	Upfront commissions are commonly 20% of the premium, but can be more.	Policies exclude claims for deterioration, wear, tear, rust, erosion or other forms of corrosion.
Gap insurance	<p>This product can pay out the balance owing to the lender after payment of a claim by the comprehensive insurer.</p> <p>The need for cover depends on the difference between the insured value of the vehicle and the balance of the loan (both will reduce over time).</p>	Upfront commissions can be up to 70% of the premium.	<p>Claims are dependent on the comprehensive insurer paying the market or agreed value of the vehicle if it is a total loss.</p> <p>If this insurer rejects the claim, the gap insurer will also reject the claim.</p>
CCI products	<p>This insurance offers several choices of cover within a single policy.</p> <p>The insurer will meet some of the car loan repayments if the consumer dies, becomes disabled or unemployed.</p>	Commissions are capped by law at 20% of the premium (this is the only insurance product where a cap applies). ¹	Policies may exclude consumers with pre-existing conditions and/or who do not meet the insurer's definition of 'employment'.
Tyre and rim insurance	This insurance covers the cost of repairing or replacing the car's tyres and/or rims where they have been accidentally damaged.	Upfront commissions can be up to 65% of the premium.	Policies commonly exclude cover for depreciation or wear, tear, or damage to retread or temporary tyres, or tyres that have been repaired
Mechanical breakdown insurance	This insurance provides cover in the event that the vehicle needs repairs.	Upfront commissions can be up to 75% of the premium.	Policies may exclude regular maintenance services—for example, wheel balancing, filters, tune-ups, suspension alignment, lubrication, coolant and fluids and tyres. Further exclusions can include repairs made necessary by intentional damage, corrosion or improper maintenance.

¹ See s145 of the National Credit Code (Sch 1 to the *National Consumer Credit Protection Act 2009*).

A Consumer behaviour and decision making

Key points

Our analysis of consumers' experiences with add-on insurance products indicates that the process used to sell these products through dealerships, in particular the *timing of the offer*, can be effective in securing sales.

It also shows that consumer decision making about add-on insurance products may be influenced by other behavioural factors such as 'decision fatigue' and 'information overload'.

The role of behavioural economics

- 12 Behavioural economics draws on the fields of psychology and economics to explain how and why people—including consumers—think and behave in certain ways. It is increasingly used by governments, academics and businesses to explain why consumers sometimes make decisions or take actions that are not in their best interests when choosing and using financial products, which can lead to them suffering considerable losses.⁴
- 13 Behavioural economics provides a useful explanation of how the sales process identified in our research plays on the cognitive biases of consumers and influences their decisions to purchase add-on insurance products.

Timing of the offer

- 14 A key element in consumer decisions about add-on insurance products is the *timing of the offer*. Add-on insurance is usually not offered upfront, but only after the purchase of the vehicle.
- 15 This means that, having expended significant time and cognitive resources reaching the decision to buy the vehicle, consumers are then faced with many (often unexpected) subsequent offers to consider.
- 16 The decision-making and sales process for the two purchases is quite different:
 - (a) For the first purchase, most consumers took a long time to consider and negotiate the purchase of the vehicle.
 - (b) For the second purchase, the consumer had to make multiple decisions about multiple products (including assessing what their insurance needs were, what—if any—insurance products they needed, and whether the available insurance products offered value for money). These decisions

⁴ FCA, Occasional Paper No. 1 *Applying behavioural economics at the Financial Conduct Authority*, April 2013.

were made in quick succession and at a time when they were often already exhausted.

- 17 The impact of delaying the offer of add-on insurance as identified in our research is in line with a study in the United Kingdom by the FCA, which found that this timing can lead to poor consumer outcomes. The experimental consumer research component of the FCA study examined how the way in which add-on insurance is presented to consumers can affect, among other things, the take up of and price paid for insurance.⁵
- 18 The experiment showed that not offering the add-on insurance until the point-of-sale of the primary product, as opposed to displaying the insurance offer upfront, can be detrimental to consumers.⁶ It found that:
- (a) delaying the offer of add-on insurance resulted in:
 - (i) a 15% increase in the price consumers paid for the add-on insurance (compared to insurance that was offered upfront); and
 - (ii) a 20% increase in profits for the entity that sold the insurance;
 - (b) including the option to shop around for alternative insurance halved profits made through the sale of add-on insurance products;
 - (c) where consumers did shop around for alternative insurance, the cost paid for insurance was reduced by one-third; and
 - (d) there was no significant difference in the take up rate of the insurance, regardless of whether the insurance was offered upfront with the primary product or at the point-of-sale.
- 19 Two key insights from behavioural economics, decision fatigue and information overload, inform how delaying the offer of add-on insurance is so effective in ‘nudging’ consumers to purchase this insurance.

Decision fatigue

- 20 Consumers often experience decision fatigue after making a series of decisions, which can result in subsequent decisions not being of the same quality as early decisions.⁷
- 21 The findings from the research indicate that the offer of add-on insurance occurred at the end of a long day. The consumers had made many decisions that day (colour of car, what extras to include, how to finance), making it

⁵ FCA, Occasional Paper No. 3 *How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation*, March 2014.

⁶ This experiment was designed to maximise the external validity of its findings.

⁷ RF Baumeister, ‘The psychology of irrationality: Why people make foolish, self-defeating choices’, *The psychology of economic decisions—Volume 1: Rationality and well-being*, I Brocas and JD Carrillo (eds), 2003, pp. 1–15.

highly likely that they would have experienced the negative effects of decision fatigue when making decisions about add-on insurance products.

- 22 Many consumers explicitly mentioned that by the time they were offered insurance they were expecting the experience to be over and wanted to leave.
- It's like a conveyor belt of decision making, you're on that belt.
(Melb, Family 35–55)
- And then you're too tired. At the end of the process you're tired. You just want to get out of there, so you just agree. It could be that you have some kids screaming. I had my kids with me too (Syd, Family 35–55)
- I suppose I got there about 8.30–9.00 [in] the morning, until at least about 4 pm ... I was exhausted ... I had to say to them—'Look, I've got absolutely nothing against you but we need to stop this now.' (Syd, Empty Nester 55–70)

Information overload

- 23 When faced with complex decisions or lots of information consumers often experience information overload—that is, the amount of information consumers have to process can affect how they process that information and weaken the use of their critical decision faculties.⁸
- 24 In the research, consumers reported being offered add-on insurance products at or about the same time they were presented with a number of other decisions (e.g. how to finance, what after-market products to purchase).
- The guy doing finance, went through everything like the extras like paint and leather protection, which I got, the extra plastic protection on the windows for smokers, which I didn't get, a few other bits I didn't get, then he gave me the insurance options one by one. He asked if I wanted certain insurance and if I didn't know what that was he would explain it—like gap insurance, I didn't know what that was at the time so he explained it.
(Melb, Sink/Dink⁹ 20–35)
- 25 Many consumers reported feeling overwhelmed by having to make multiple decisions at or around the same time and were confused about what each product actually was.
- 26 This process, in effect, led consumers to experience information overload: they were provided with a significant amount of information and asked a lot of questions about what add-on insurance they might want after having already received a lot of information about vehicles and finance.
- If you go home ... you have got time to think. You have got time to go, 'Ah, do I need that?' You do get overwhelmed and tired by all the ... like the insurance lady, I think she went for 10 minutes just like a one-way street ... It's part of their tactic I think. (Syd, Sink/Dink 35–55)

⁸ T Paredes, 'Blinded by the light: Information overload and its consequences for securities regulation', *Washington University Law Quarterly*, vol. 81, 2003, pp. 417–485.

⁹ Single or double income with no kids.

... it was a bit overwhelming, you know, all the features and options and all the tech terminology and also I guess the complexity of all the different options. (Syd, Sink/Dink 35–55)

- 27 Some consumers felt they were rushed through decisions on insurance as one or a small number in a string of significant number of decisions.

You don't really know what steps you need to go through just to get the car, so it's almost like they're guiding a sheep. So you just sort of go on because you think okay, that's the next step, you know that's sort of part of the normal process. You're not really aware that they're just things that they want to try to sell to you. They don't make that clear upfront. (Syd, Sink/Dink 35–55)

It's like a maze. (Syd, Sink/Dink 35–55)

And you sort of just think you're in it for so long and it takes so long and there's so much paper, blah blah, you just do it. (Syd, Sink/Dink 35–55)

- 28 On reflection, and with the benefit of hindsight and distance, some consumers felt that they should have asked more questions or considered the decisions in a little more detail. However, most did not know what specific questions should be asked apart from understanding the general relevance of the insurance.

It should have been spoken about earlier ... because I had in my mind about how much I had to finance those things and all of a sudden these additional add-ons were coming, and I would have liked to have factored them in somehow—when I was brokering the finance deal, the one-, two-, three-, four- and five-year finance, I would have liked to have known the price I was going to pay and have all of that factored in. It may have made a difference. Sitting here now, just over 12 months later, I don't need all that other stuff anyway. I feel I won't necessarily go down the path of purchasing those additional add-ons if I redid this process. It was annoying ... I was actually quite annoyed. (Syd, Empty Nester 55–70)

B Stage 1: Before entering the dealership

Key points

In our analysis of the research, two key factors were relevant to how well prepared consumers were to purchase add-on insurance products through a dealership:

- how confident consumers were about financial decision making in general; and
- whether they had thought about purchasing insurance through the dealership (in addition to purchasing the vehicle).

Consumer confidence with financial decisions

- 29 While the research for our review did not measure participants' objective level of financial literacy or skills, it did find that consumers varied in their disposition toward financial decision making.
- 30 Some consumers felt confident about discussing their finance and insurance needs. They considered themselves to be financially literate and less likely to be intimidated or overwhelmed by the negotiation process. These consumers tended to have clear 'boundaries' on what was or wasn't relevant to them in relation to add-on insurance products, and a lower tolerance for discussing anything they considered less relevant.
- 100% ... confident. You have to make a decision and go with it.
(Syd, Family 35–55)
- I knew my product so they couldn't sell anything extra. I said I'm comfortable with what I have, I did my research. (Melb, Family 35–55)
- 31 At the other end of the spectrum, some consumers felt less confident about making financial decisions.
- Anxious about the finances. (Syd, Family 35–55)
- I wish I had better financial skills. (Syd, Empty Nester 55–70)
- I'm just good at spending money—not thinking about it.
(Melb, Sink/Dink 20–35)
- I'm really indecisive with smaller things but when it is a bigger item, I'm like yes, cool. (Melb, Sink/Dink 20–35)
- 32 Despite these differences in disposition, our review of add-on insurance products purchased showed that some consumers who considered themselves to be financially confident bought at least one insurance product that they either did not understand or that contained conditions that were unexpected or not beneficial.

- 33 These findings are in keeping with behavioural economic research showing that people, including consumers, tend to be *over-confident* about the accuracy of their judgements, ability and skills.¹⁰ They also suggest that the sales model for add-on insurance products is a particularly effective one.

Consumer focus on purchasing a vehicle

- 34 Most consumers had prepared for their visit to the dealership. However, there was a distinct difference in the level of preparation between:
- (a) the high degree of emotional investment, research and shopping around they committed to inform their decision to purchase a vehicle; and
 - (b) the very low to nil level of consideration of any add-on insurance they may want to purchase.
- 35 Regardless of its role, age or make, purchasing a vehicle was considered a major financial undertaking by many consumers in this study. For some, it was the next major expense after a house. However, it was not a reluctant purchase; rather it was viewed as an important investment that was contributing to their lifestyle. It was typically considered to be a high-involvement purchase.
- That took me six months. I've owned probably 10 or 12 cars in my life and six or eight motorbikes but I've never bought a brand new car so it was a massive leap of faith to actually buy a new car. (Melb, Family 35–55)
- The time I took to buy my car says a lot about the trepidation, because I spent months going, 'I've got to get the right car and I've got make sure it is the right car; I've got to read every car review,' to give me the confidence to walk in, and then be nervous and handling over 30K or whatever—it's massive—it's such a double-edged sword, with so much emotion and nervousness. (Melb, Family 35–55)
- 36 Beyond the financial significance of the vehicle was the emotional value of the purchase to the consumer. Regardless of how they used the vehicle, it played an integral role in their lifestyle. Many relied on their car for work and or family obligations. For some, it represented a new life stage and others for their first purchase of consequence.
- Excited—it was a huge step for me because it was the first car I had ever bought for myself following divorce ... I was jumping out of my skin. (Syd, Family 35–55)
- 37 When asked to describe how they felt when approaching the dealership, consumers used emotive words such as 'excited', 'proud' and 'exhilarated'. Given the significant financial and emotional investment, there was a desire for the actual purchase experience to be as enjoyable and successful as possible.

¹⁰ DV Budescu, I Erev, TS Wallsten & JF Yates (eds), 'Introduction to this special issue on stochastic and cognitive models of confidence', *Journal of Behavioral Decision Making* (special issue), vol. 10, 1997, pp. 153–155.

- 38 Many consumers said they felt ‘nervous’ going into the dealership, but from additional observations they and other consumers made, it was clear they also had a strong vested interest in ‘feeling good’ about the acquisition and wanted to drive away with a feeling of certainty. Many consumers wanted to be confident in their choice of vehicle, decision making and the overall value achieved—minimising the chance of post-purchase dissonance.¹¹
- 39 Due to the high level of financial and emotional investment, most of the consumers in this study invested a significant amount of time researching the vehicle they wished to purchase and shopping around for the best price and what they considered to be the best dealership.
- 40 Generally, the purchase involved visiting a number of dealerships over a period of weeks or even months. For some consumers, the investigation and researching took up to 12 months and was considered a major investment of their time and effort.
- 41 Within this intensive exploratory stage, the consumer’s core focus was on:
- (a) the vehicle itself (determining what type and make they wanted);
 - (b) getting the best price possible; and
 - (c) finding a dealership with receptive sales staff who they considered would look after them (see Section D).

Awareness of add-on insurance products

- 42 In contrast, most consumers had given little if any consideration to insurance before entering the dealership. In particular, few consumers had done any:
- (a) research to assess their own insurance needs; or
 - (b) shopping around to check:
 - (i) whether they already held insurance that might provide them with cover;
 - (ii) what insurance products were available and which of these they may need; and
 - (iii) which products provided best value for money.

All our time and energy went into finding and buying the right car, we didn’t even think of insurance. (Melb, Family 35–55)

I just focused so much on every single detail of the getting the right car for the right price that when we got into the insurance I felt really bad because usually I am an insurance-research nut, but I was like, ‘Oh God, I had not even thought about it.’ (Melb, Family 35–55)

¹¹ JF Engel, ‘Are automobile purchasers dissonant consumers?’, *Journal of Marketing*, vol. 27, 1963, pp. 55–58. This dissonance occurs when the consumer wonders whether he or she has made the correct decision.

Knowing I was going to walk away with a financial product, this was something I'd never considered so it was something that I was caught—a bit short about, I suppose—to a degree I wasn't prepared. Because of the way that I prepared, I knew so much about the car—being the product—that nothing about insurance or gap cover, or paint protection, or that kind of thing ... (Melb, depth interview)

- 43 Most consumers were largely unaware that add-on insurance existed until it was offered to them at the end of the dealership experience. Not only were they unprepared before they entered the dealership, most lacked knowledge about the add-on options until the actual point in time that they were required to make a series of decisions.

I actually didn't know a lot about the extras and car insurance at the time but as each one was presented to me and explained to me, I evaluated quickly whether or not it would be worth it, considering the extras that I was adding on to my loan and things like that. (Melb, Sink/Dink 20–35)

- 44 The research found that comprehensive insurance was:

- (a) the only type of add-on insurance product any consumers had considered before going to the dealership;
- (b) the add-on insurance product most consumers had the best understanding of; and
- (c) the add-on insurance product most frequently purchased by consumers in dealerships.

- 45 This is consistent with a quantitative study of consumers of add-on insurance recently conducted on behalf of the FCA in the United Kingdom.¹² That study found that consumers were less likely to have:

- (a) heard of the add-on insurance product before it was mentioned by the seller;
- (b) intended to buy the product before the day they bought it; and
- (c) shopped around for the product and checked whether they already held insurance that might provide similar cover.

- 46 In the research for our review, only a couple of consumers reported having undertaken even a simple comparison of insurance costs before their purchase, and this related to comprehensive insurance only. A few also suggested that they had 'an idea' of what insurance should cost but again this was only in reference to comprehensive insurance.

I had done a little research, just based on the cars I'd been looking at. I think if I'd gone with it would have been about \$900 but then they require lots of documentation for when you claim. (Melb, Sink/Dink 20–35)

¹² Harris Interactive, *Study into the sales of add-on general insurance products: Quantitative consumer research report*, prepared for the FCA, March 2014.

- 47 Those consumers who had done research on insurance before entering the dealership appeared less likely to be influenced by the approach taken by sales staff or by information they provided.
- I knew my product so they couldn't sell anything extra. I said I'm comfortable with what I have, I did my research. (Melb, Family 35–55)
- 48 On reflection, many consumers did not believe they would have purchased add-on insurance products if they had called an insurance provider directly. They believed it was unlikely that:
- (a) they would have spontaneously asked an insurance provider about add-on insurance products; or
 - (b) insurance providers would have offered them these products.

C Stage 2: In the dealership

Key points

Consumers' experiences of the sales process in dealerships underscores the imbalance between the purchase of a vehicle and other purchases.

In particular:

- more time was spent in the dealership discussing the vehicle and negotiating the terms of its purchase than was spent on insurance;
- the approach taken by sales staff in selling the vehicle was typically perceived as more professional, friendly and/or engaging than the approach taken by sales staff in selling the insurance;
- consumers felt they had a much better understanding of the vehicle purchase than they did of the insurance; and
- consumers felt much more positive about the experience of purchasing the vehicle than they did about the insurance.

Purchasing the vehicle

- 49 Most consumers felt well prepared for and equipped to deal with the process of buying a vehicle. Many had researched quite extensively to:
- (a) select the right vehicle for them; and
 - (b) find the best price.
- 50 These consumers went into the dealership expecting to negotiate on price and felt prepared to deal with these negotiations. Most considered this part of the process to be a positive experience, characterising the car salesperson's style as being professional, friendly and engaging.
- 51 These consumers appreciated the time (sometimes up to four hours or more) that the car salesperson invested in them. They placed trust in the salesperson because they believed they had made the effort to 'get to know them' and to understand their needs and general preferences to help them make the right decision.
- I trusted him. He's kind of like a dad, like an older man (really funny) but he could have—I mean it is his bread and butter. (Melb, depth interview)
- 52 Some consumers particularly noted the trouble staff at the dealership took to make them good-quality coffee—a small detail that seems to have made a disproportionate impact on these consumers.

- 53 Behavioural economics offers a number of insights into the ways in which aspects of this sales process can affect the decisions made by consumers:
- (a) sales staff may establish trusting relationships with customers in order to gain a competitive advantage in marketing a wide variety of products to them;¹³ and
 - (b) small expenses like coffee can be used by businesses to:
 - (i) lend themselves a sense of ‘likeability’, professionalism and quality (psychologists argue that people are much more likely to say ‘yes’ to requests made by people they like);¹⁴ and
 - (ii) create a sense of reciprocity (which may nudge consumers to reward a kind action with another positive action).¹⁵
- ... I thought he was a good bloke and I wanted to do the right thing by him too—that was probably the only obligation I felt to the sales guy—I really did not want to, at the eleventh hour, say I can probably get it 200 bucks cheaper down the road. (Melb, depth interview)

The offer of add-on insurance products

- 54 At, or shortly after, the sale of the vehicle, many consumers were handed over to one, two or even three new sales staff and presented with a range of decisions (many unexpected), including about:
- (a) finance;
 - (b) after-market products; and
 - (c) add-on insurance.
- 55 The time spent negotiating these offers of ancillary products was relatively brief, with the average time spent discussing insurance being 20–25 minutes. Consumers had sometimes thought about finance but seldom thought about insurance. They were rarely offered the opportunity to shop around for add-on insurance products or to reflect on the information they had been provided with and make a decision at a later date.
- 56 As a consequence, many consumers felt unprepared for and ill-equipped to deal with this part of the process.

¹³ DC Langevoort, ‘Selling hope, selling risk: Some lessons for law from behavioral economics about stockbrokers and sophisticated customers’, *California Law Review*, vol. 84, 1996, pp. 627–701.

¹⁴ RB Cialdini, *Influence: The psychology of persuasion*, Collins Business, 2007, p. 205 (Cialdini). Cialdini specifically refers to car salespeople who offer doughnuts and coffee as an example of a strategy used to increase ‘likeability’.

¹⁵ Cialdini, pp. 17–57

What products were offered

Comprehensive insurance

- 57 Comprehensive insurance is generally the only add-on insurance product that consumers can shop around for outside the dealership because, unlike other products, it is offered by a significant number of insurers.
- 58 A number of consumers felt they needed to purchase this type of insurance through the dealership because sales staff stressed that:
- (a) comprehensive insurance was required for them to drive the car out of the dealership; and/or
 - (b) securing comprehensive insurance would facilitate the finance agreement.
- You need insurance. You can't drive out of here without insurance.
(Melb, Family 35–55)
- 59 In fact, consumers do not have to buy insurance through the dealership to ensure they are covered when they drive away. Getting a 'cover note' (which some insurers offer to provide interim cover before a formal insurance policy is issued) would give them protection while allowing them to shop around.
- 60 Some consumers also felt the finance provider would require them to use their recommended insurer to ensure the car was 'properly' or 'fully' insured. Some consumers felt they were not given a choice by the finance salesperson—it was 'assumed' they would purchase a certain type of insurance.
- He was like you need to have all this insurance ... you have to have this, this and this so that your finances are approved—let's just dot every 'i' and cross every 't'. (Melb, Family 35–55)

Other add-on insurance products

- 61 Most consumers were also offered:
- (a) several other add-on insurance products (most frequently CCI products and gap insurance, but also tyre and rim insurance, extended warranties and other products); and
 - (b) after-market products, such as paint protection, windshield protection and material protection, at the same time.
- 62 A number of consumers mistook these after-market products to be insurance products, which may be a reflection of:
- (a) sales staff misrepresenting what these products actually are; and/or
 - (b) consumers having a poor understanding of all risk products offered through dealerships (i.e. both after-market and add-on insurance).

How the products were offered

- 63 The findings from the research demonstrate the particular way in which add-on insurance products were offered to consumers and how information about these products was ‘framed’.
- 64 Framing taps into consumers’ sensitivity to the way information and choices are presented. Research from behavioural economics shows that every little detail matters: from who delivers the information to how they deliver it (e.g. the emphasis, order, wording, volume, tone).
- 65 The sales process for add-on insurance products also harnessed numerous other behavioural biases described by behavioural economists and experts.

Minimal product information

- 66 Consumers reported that the information they were provided with about the insurance products was minimal. It included:
- (a) a basic description of the insurance;
 - (b) a scenario to help the consumer understand when it would be used; and/or
 - (c) information about cost.
- She read through all the main things, like it’s fully comprehensive. (Melb, depth interview)
- Just very briefly, not a lot of detail. I don’t think they said much more than you will have fully comprehensive insurance. It’s almost as if they expect that’s all you need to know. (Melb, Family 35–55)
- They did not go through everything—it was, ‘We’ve got this,’ and I’d go, ‘No, I’m not interested.’ ‘I’ve got this’—‘Okay, what will you do with that?’ It wasn’t absolutely every single thing was explained. It was just what I was interested in. She’d say it and then I would say no or yes, or whatever. (Syd, Empty Nester 55–70)
- 67 In terms of documentation, some consumers were provided with a brochure (e.g. a promotional document). Only a few were provided with a Product Disclosure Statement (PDS) with complete information about terms and conditions. Even when documents were provided, few if any consumers reported that they read or understood them.
- A whole bang of papers. Like 30 pages, I’m not going to read all of it. I was happy to sign it and never read it. (Melb, Sink/Dink 20–35)
- I remember sitting there staring at all the brochures behind him, in the room, thinking I really want to read that because I want to know what it is, but at the same time feeling like I could not ask. That’s again my personality, I think—I remember thinking I hope he gives them to me, at least, and I’ll read them when I get home. They are still sitting in the same thing with all my finance paperwork and my insurance paperwork; they are all in the same envelope. (Melb, Family 35–55)

- 68 Consumers tended to rely on what they were told by the salesperson rather than on the documents they were provided.
- I had a brochure given to me but it did not give an explanation; the conversation was more informative than reading the brochure. (Syd, Empty Nester 55–70)
- The person that handles your insurance ... they explain it all to you. They hand you something but I don't think we have got time to read it ... You don't sit there and read. It was so long that you don't. (Syd, Sink/Dink 35–55)
- 69 Most consumers, including those who reported feeling satisfied with the approach taken by the sales person who sold them insurance, only recalled the sales person talking about how the policy might work for them (i.e. the benefits), rather than the circumstances in which the consumers would not be covered (i.e. policy exclusions).
- When people are selling you insurance, they don't talk about the exclusions. They talk about the inclusions ... she never at any point talked about the exclusions, but that's our fault. We are the ones that should be—as a consumer, we should be asking about the exclusions. She's not going to say anything. She just kept on saying what we will get, not what we won't get for that price. (Melb, depth interview)
- Q: Do you know the main exclusions under the policy, so when they would not pay? A: No, I don't, not at all. Q: Were they explained to you? A: No. (Melb, depth interview)
- 70 As a result, many consumers had very poor recall and understanding of the products they were offered, in terms of:
- (a) recalling the policies and after-market products they had actually purchased;
 - (b) understanding the difference between insurance products and other after-market products;
 - (c) understanding what each insurance policy actually covered; and
 - (d) understanding what was excluded from each insurance policy (see paragraphs 127–128).
- When I walked out, at the time, [I did not understand the policy] very well at all and even to this day I didn't truly understand it. All I got was this brochure and an explanation from her and it certainly, this brochure represented about 5% of the conversation I think, the majority of the conversation was about the financial position you could be in. It certainly wasn't a very educational process or a very well-informed process, in hindsight. (Melb, Family 35–55)
- Q: What is the consumer credit insurance [you bought]? A: I don't know ... but I should because it's quite a sum [\$5,222 for five years]. (Syd, depth interview)

Case study 1: 'Adam' (Sydney Male, 20)
He didn't know what he was covered for or how much he had paid

Adam bought a car for work. He went into the dealership intending to buy that day and had a long sales process lasting over four hours. He financed

his car through the dealership and included loan protection insurance with his repayments. He does not know what he paid for the add-on insurance. It is only on reflection that he understands he will pay interest on this insurance. He cannot find any paperwork that tells him how much he paid for the product and wonders if he ever received these details.

In the dealership, he was offered approximately six add-on insurance products. He settled for just one because his repayments would not cover them all. In discussion with the finance person at the dealership, the list of products was slowly reduced based on what he could afford in his monthly repayments. Adam wondered if redundancy was included in his loan protection insurance, but on examining his brochure he realised (and remembered) that he was only covered for injury. He was not aware of any details of his coverage. He thought he might be covered for sporting injuries. On examining his policy, he realised he was covered for 'total disability'.

Pricing of products

- 71 The experiences reported by consumers in this study revealed a number of ways in which the apparent cost of the add-on insurance products was minimised (i.e. framed to appear smaller).

Anchoring to the price of the car

- 72 Anchoring is a particular form of 'priming'¹⁶ where initial exposure to a number serves as a reference point and influences subsequent judgements about value (often without our awareness).¹⁷ This means that the value someone places on something can be influenced by the value of something they hear or see beforehand.
- 73 In the context of our review, the fact that the insurance is sold after consumers have agreed to purchase a vehicle 'anchors' the cost of that insurance to the price of the vehicle. Because consumers have purchased a large value item such as a vehicle, they may consider a small cost added on afterwards as trivial. However, if they were to be asked about the value of the add-on product without having the value of the car as a preceding piece of information, they may not think it has as much value.
- Like you have just spent all this money on the car and it's new and it's shiny and that's when they get you. (Syd, Sink/Dink 35–55)
- They would say, 'You're spending \$25K on a car, what's \$250, \$300?' (Melb, Family 35–55)
- 74 This behaviour is described in terms of the 'contrast principle'—that is, if the second item presented is fairly different from the first, consumers will

¹⁶ 'Priming' is described by behavioural researchers in the United Kingdom as 'our acts are often influenced by sub-conscious cues'. D Halpern, D King, I Vlaev & M Hallsworth, *MindSpace: Influencing behaviour through public policy*, discussion document prepared by Institute for Government for the Cabinet Office, 2010, p. 6.

¹⁷ A Tversky & D Kahneman, 'Judgment under uncertainty: Heuristics and biases', *Science New Series*, vol. 185, 1974, pp. 1124–1131.

tend to see it as more different than it actually is. RB Cialdini sets out the contrast principle in his book *Influence: The psychology of persuasion*:

Automobile dealers use the contrast principle by waiting until the price for a new car has been negotiated before suggesting one option after another that might be added. In the wake of a fifteen-thousand-dollar deal, the hundred or so dollars required for a nicety like an FM radio seems almost trivial by comparison. The same will be true of the added expenses of accessories ... [or add-on insurance] that the salesman [sic] might suggest in sequence. The trick is to bring up the extras independently of one another, so that each small price will seem petty when compared to the already-determined much larger one.¹⁸

Price framing

- 75 The way price information is presented, sometimes called ‘price framing’, has also been found to significantly influence perceptions of value.¹⁹ Of particular relevance to this study is a form of price framing known as the ‘pennies-a-day’ effect, where the price of a product or service is expressed as a small ongoing expense, rather than a full or aggregate cost.²⁰
- 76 The cost of insurance was also often reported to be promoted in monthly rather than annual terms (e.g. \$10 per month rather than \$120 per year).
- He just kept writing down numbers, like it’s only an extra \$5 a month for this and you know, that when at first it seems like such a small amount of money. It wasn’t until I started paying for it I went, wow, that’s quite a lot of money. (Melb, Family 35–55)
- If you weren’t interested they were like well, it’s only 20 bucks ... (Syd, Empty Nester 55–70)
- 77 Another type of price framing that consumers reported was when the insurance was bundled with the purchase price of the vehicle. For example, one consumer believed he had purchased an add-on insurance product for 53 cents because it had been ‘thrown in’ with the price of the car (when in fact this price may have been inflated to cover the cost of the extras).

Mental accounting

- 78 Different forms of price framing, including bundling, can also capitalise on another behavioural bias, ‘mental accounting’, which describes the way consumers have different ways of categorising and thinking about different types of money transactions and accounts. For example, people may treat transactions they can more readily see or feel (e.g. cash) in a different way to less noticeable or less salient transactions (e.g. a credit card). This may explain

¹⁸ Cialdini, p. 14.

¹⁹ See, for example, ET Anderson & DI Simester, ‘Effects of \$9 price endings on retail sales: Evidence from field experiments’, *Quantitative Marketing and Economics*, vol. 1, 2003, pp. 93–110.

²⁰ JT Gourville, ‘Pennies-a-day: The effect of temporal reframing on transaction evaluation’, *Journal of Consumer Research*, vol. 24, 1998, pp. 395–408.

why some consumers cancelled their add-on insurance when they realised the actual cost.

I just had to cancel it pretty quickly ... Because they told me that you have to have insurance before you even go out the door and like they just sort of like sold me whatever it was and later on I thought you know what, that's just very expensive. Like when I saw it all sort of written up, I thought no, that's just way too much. I can get it cheaper. So I actually called and rang and got it all reversed. (Syd, Sink/Dink 35–55)

Paying for insurance through the car loan

79 A number of consumers added the cost of the insurance to the amount of money they borrowed through the dealership to purchase the car. There can be several significant consequences to this type of arrangement:

- (a) Consumers may rely on mental accounting to treat the insurance as a smaller (and relatively trivial component) of the total loan amount it has been bundled in with.
- (b) It can be difficult for consumers to understand the cost of the insurance they have purchased.
- (c) Consumers will pay interest on their insurance premiums for the life of the policy/loan (which they may not otherwise do). This increases the amount that they will pay for the insurance overall.

Q: What is the cost of the tyre and rim insurance? A: I don't even know; I think it was all just done through the finance, so I don't ever get a bill for it. It's all sort of tied into one package, so I guess I pay overall ... (Melb, depth interview)

80 Few consumers understood that this was a significantly more expensive option than if they had purchased the insurance outside the loan. At least one consumer did not consider that this was adequately explained to him.

At the time of being in the interview they wanted you to sign up straight away and I said, 'No, I want to take this home, read over it, compare it with the actual costs.' It's one thing to have an interest rate but if you're paying a monthly fee of \$50 or \$60 then that distorts the interest rate. And that's the part I wanted to check, and once I'd done that I realised that it's not as good a deal as it sounds. (Melb, Family 35–55)

The sales environment

81 The context in which add-on insurance products were offered was another way in which information was framed to influence consumers. Consumers were often sold add-on insurance (and other ancillary products) in a separate area, described by some as 'the room', in which the tone and style of the conversation sometimes changed quite markedly from the car sales experience.

82 The language used by some consumers when talking about this room indicated strong negative associations and/or a distinct shift in the tone of the

experience. Some consumers considered it to be the beginning of the end of the positive experience of car purchasing.

You feel great until you go into the room and then they just make you feel like rubbish, you've spent a lot of money on this car and then they make you feel ... they show very outwardly their disappointment that you're not buying all the extras. (Melb, Family 35–55)

Once you signed and then you were waiting to be put into the other room where they sell you everything that you don't need ... I just focused so much on every single detail of getting the right car for the right price that when I got into the room about insurance ... oh my God, I hadn't even thought about it, I hadn't researched it [insurance] ... then you go into the room and then it was just, oh my God. They close the door and it's like the vortex. (Melb, Family 35–55)

It was very nice, accommodating and a good process ... and then it went downhill ... Then he passed me off to the insurance and after-sales woman, who was a bit of a monster. It went from a bright sunny day to the stormy. It was a very threatening conversation. (Melb, Family 35–55)

- 83 It seems that for many consumers in this study, there was a marked shift in this stage of the process, from an environment which was open and accommodating to one which was closed and intimidating.

The sales staff

- 84 Part of the unease felt by some consumers was because they had to deal with additional, unexpected salespeople:

You've got to win over three people. It's like a battle. (Melb, Family 35–55)

I had four people in there ... they had the sales person, the sales rep, the sales manager, the account manager and the guy who was the proprietor of the business. (Syd, Empty Nester 55–70)

- 85 Some consumers also felt that the sales approach of the person who sold them the add-on insurance was pushy or aggressive and felt urged, and in some instances pressured, to make decisions then and there.

Pretty much, it really felt pressured. It was a really high-pressure sell. It was really. (Melb, Family 35–55)

I think they sucked us in to buy [add-on] insurance ... (Syd, Sink/Dink 35–55)

Every product was rolled out and every product I had to justify why I did not want to get it. (Melb, depth interview)

Case study 2: 'Danielle' (Melb, Female) Felt pressured to purchase insurance

Danielle bought her small car with her husband at a dealership. She put a lot of time into researching the car, but had not thought about insurance until she and her husband were taken into a separate room with the after-market agent.

She describes feeling pressured and rushed during the hour that followed and eventually took out comprehensive insurance with the dealership for

convenience and to appease the agent, who had intimated that not getting this insurance would be the worst decision of their lives.

Danielle was advised by the agent that they would receive the best deal through the dealership with verbal information about what the insurance would cover, though exclusions were not mentioned. She received no hard copies of documents at the dealership and felt vulnerable after an accident two months later when she realised she was not aware of her coverage in detail.

Danielle blames herself for not researching insurance before buying the car and believes she would get a cover note from an insurance provider before going to a dealership for her next car purchase.

- 86 Some consumers reported feeling like they were repeatedly refusing offers. This created a sense that they ‘should’ agree to something to be reasonable and given they had declined the majority of the offers, agreeing to one was a relatively small commitment.

They also gave me nine different terrible options that I didn’t want to take, like fabric protection. This one actually seemed like, if I had to take anything, this was the better option. ‘I’ll take the gunshot to the knee, thanks.’ (Melb, Family 35–55)

We kinda just said yes to the insurance cover, because we do need it and we had said no, no, no to all the extras they were trying to sell us. We were thinking, let’s just get the insurance, we have to get something off this person. (Melb, Family 35–55)

- 87 This was exacerbated by the fact many consumers did not make a hard distinction between after-market products and insurance: these consumers often presumed that after-market products (e.g. paint protection, windscreen protection or roadside assistance) were actually insurance products.

- 88 However, other consumers reported that the staff who offered them finance, after-market products and insurance were engaging and persuasive.

He gave me the time of day to talk through the different options that were available to me. (Syd, Empty Nester 55–70)

Throughout the whole process I never really felt pressured and, yes, I understand that part of this whole process is for the sales people to try and seal the deal that day. I was aware of that and throughout the whole process, from the moment I walked in until the end, I never really felt pressured. Indeed, even in the finance broker’s office as well it was fantastic, but it was just my own personal perception, and I was exhausted. (Syd, Empty Nester 55–70)

- 89 In particular, some consumers appeared to presume that the sales staff were acting on the consumer’s behalf or in their best interest, rather than being motivated by their own self-interest.

Just the different demeanour about him—at no stage with him did I think he was personally gaining anything out of it—I think that was the difference. (Melb, depth interview)

It was like so this is the best deal you are going to get and we just thought okay, let’s just get it. (Melb, depth interview)

- 90 The concept of ‘norming’ is relevant when considering the impact different sales staff can have on consumer behaviour and decisions—that is, humans are social beings and are sensitive to a range of ‘social cues’, both verbal and non-verbal. Sales techniques often use social cues and norms to drive desired outcomes. For example, telling customers that most people choose a certain option can make them more likely to choose that option. Similarly, making people feel like their behaviour is odd or out of step with other customers or the broader community can pressure them into conforming.
- ... that was after we had said, ‘No, we don’t want the [unclear], we don’t want the tinting, we don’t even need the car [polished],’ and then she said, ‘You have to say yes to insurance. How could you not want insurance?’ (Melb, depth interview)
- They were short. They said, ‘That’s your call then’. As if to say, ‘Hey we’ve got this great deal for you, but if you want to go off that way, that’s your business.’ (Melb, Family 35–55)
- I said no, I then had to justify why I didn’t want to do it, which is a little off-putting. I don’t need to justify why I don’t want to go through with that, surely it’s my decision ... I eventually gave in. (Melb, Family 35–55)
- 91 A number of consumers reported feeling that the approach taken by sales staff (either positive or negative) was a powerful driver in urging them to make a purchase (although they did not always submit to that urge). For example, some consumers were disappointed that they could not establish the same rapport with the finance salesperson as with the car salesperson.
- I don’t know, I guess it’s a feeling you have where you’re buying a big ticket item and you want, I was getting along great with the guy who was selling the car and I wanted to do the same with the guy who was doing the finance. (Melb, Family 35–55)
- 92 Some described a distinctly uncomfortable social environment, in which they felt pressured and insecure.
- So confrontational. Her attitude, just couldn’t believe that we didn’t want these extras and what about this and what about that, it was very uncomfortable, it made me feel very uncomfortable. (Melb, Family 35–55)
- She was like bang, bang ... and she caught that he was the one to talk to: she knew that she could get a sale from him and not from me. We were trying to talk about it and she was just ... and it was a really good experience up until that point but she was so forceful that I just wanted to leave. (Melb, Family 35–55)
- 93 According to psychologists, people are also particularly vulnerable to accepting the advice and/or actions of others as being correct when they are uncertain of what to do themselves.²¹ This was the case for some consumers, who described themselves as being ‘nervous’ and ‘anxious’ when entering the dealership.

²¹ Cialdini, p. 129.

- 94 One consumer described her position as a consumer as follows:
- Oh, my God, and you feel so stupid and we were clueless. We didn't even know what questions to ask. (Melb, depth interview)
- 95 In this context, the salesperson can position themselves as the expert as the same consumer described.
- She made it sound so complicated and then she kept on saying but that's why you get it done at the dealership because we know exactly when you bought the car and the value of the car. (Melb, depth interview)
- They do this for a living; they do it every day. (Syd, depth interview)
- 96 This form of 'social proof'²² is particularly effective when combined with a feeling that other similar people to them are making the same decisions, and/or when the person advising them is considered particularly likeable or attractive. This is known as the 'halo effect'²³—a cognitive bias in which one impression of a person can influence other impressions we have about that person.
- The first one wasn't very nice, but the second one—she was lovely and she was doing her best to get everything included. (Syd, Empty Nester 55–70)

Use of pre-filled application forms

- 97 Another sales technique reported by some consumers was the unrequested pre-filling of online application forms by sales staff on their behalf. This process could take up to 40 minutes and some felt it made it more difficult to say they did not want to purchase the insurance or that they wanted more time or information before deciding.
- Just the way, I think they were doing [it] too was while I was talking to them they were tapping away on the computer pre-populating all these details on the computer and sort of we got to the end of the conversation and they were saying, 'This is what we're going to put in place, now we just need you to sign here,' and that's when I was saying to them, 'Don't go ahead and do anything on there ... if you can print it out for me so I can take it away and read it, and check it, and just make sure I'm happy with it,' that's when they got the 'Yeah, we can do that but,' ... (Melb, Family 35–55)
- 98 This sales technique draws on a sense of 'commitment' and 'reciprocity'. A person's sense of obligation about a commitment can make it more likely that they will keep the commitment. Behavioural research also shows that reciprocity is a powerful motivator (i.e. when someone does something to/for you, you feel obligated to do something in return).²⁴

²² RB Cialdini, *Influence: Science and practice*, HarperCollins, New York, 1993. Under the principle of social proof, one way individuals determine appropriate behaviour for themselves in a given situation is to examine the behaviour of others.

²³ M Ahearne, TW Gruen & CB Jarvis, 'If looks could sell: Moderation and mediation of the attractiveness effect on salesperson performance', *International Journal of Research in Marketing*, vol. 16, 1999, pp. 269–284.

²⁴ Cialdini, pp. 17–57.

99 In filling out the application form, the salesperson is essentially making a commitment on the consumer's behalf and, in one interpretation, doing them a favour that they may feel obliged to return.

She spent so much time putting it all in and I thought, God, she spent 40 minutes putting all our details in and working out the cost, so it felt like it was a done deal and for me to turn around say I actually don't want this now, after all that work, which I could have—I absolutely could have, but I didn't. (Melb, Family 35–55)

100 Some salespeople seemed to combine this commitment technique with other behavioural devices, such as:

- (a) playing to consumers' 'risk aversion' or 'loss aversion' (i.e. that consumers are motivated by the thought of losing something more than they are by the thought of gaining something of equal value);²⁵ and
- (b) using the 'scarcity' principle (i.e. making opportunities seem more valuable by limiting their availability).²⁶

... they turn the screen, they click through and fill in all your details and they've said if you do lose your job, in my case, you'll get paid 80% of your income and we'll cover your loans for X, well that kind of sounds alright so just do it. (Melb, Family 35–55)

I got the impression that if you didn't take the finance then the whole price of the car and everything was going to change—today's deal sort of thing. (Melb, Family 35–55)

101 One consumer mentioned how in completing the online form, the questioning style shifted. What started as general questions changed part-way to a presumption of agreement—the language took on the style of a *fait accompli*.

I got the impression about half way through the finance discussion. Initially they're just getting a few details off you and then it starts to talk like the deals done and this is how this will work. They're not questioning you, all of the sudden they are telling you how things are going to work. It definitely occurs where you think hang on, this guy thinks I'm actually doing this. You start to get a bit panicky about it. (Melb, Family 35–55)

²⁵ T Baker & P Siegelman, *Protecting consumers from add-on insurance products: New lessons for insurance regulation from behavioural economics*, University of Pennsylvania Institute for Law and Economic Research Paper No. 13-1 (Baker & Siegelman), p. 27. In this paper, the authors argue that risk aversion is the prime motivation for insurance.

²⁶ Cialdini, p. 238.

D Stage 3: After the purchase

Key points

When consumers were asked to reflect on what they valued about the add-on insurance products they had purchased, two key values emerged:

- peace of mind; and
- ease and convenience.

While each of these drivers has real value in and of itself, it is also useful to analyse these responses in terms of:

- how the sales process has framed the product to reflect known consumer biases; and
- consumers' objective understanding of the products they purchased.

Few consumers regretted their decision to purchase add-on insurance, and some valued it for giving peace of mind and for the ease and convenience of the purchase.

However, many consumers had very poor recollection of which product they in fact purchased, how much each policy cost and what it covered.

Peace of mind: Making fear of loss more salient

- 102 'Peace of mind' was the reason most consumers gave for purchasing add-on insurance. Many consumers perceived this to be what insurance is—an intangible form of peace of mind. Even many of those who were cynical about insurance generally still felt compelled to buy it for the sake of peace of mind.

Peace of mind, just wanted to get out of there ... it's an extra that I didn't think about. (Melb, Family 35–55)

It's the peace of mind package isn't it? For me, having a bad credit record is more scary than losing my car. Because it affects so much of your life. (Melb, Family 35–55)

It's a substantial purchase and I certainly don't want to be in the position where I can't make the repayments and someone else is responsible for those repayments. (Syd, Empty Nester 55–70)

At least I could drive that vehicle out of there that day without whatever—knowing it's insured—you did not have that bad feeling in the back of your head. (Syd, Empty Nester 55–70)

- 103 Underpinning the value placed on peace of mind is the behavioural bias of 'risk aversion' or 'loss aversion'—that is, consumers are more motivated by the thought of losing something than they are by the thought of gaining something of equal value. As behavioural researchers point out:

in the add-on insurance context, [risk aversion motivates consumers to] pay what feels like a small additional cost to avoid the emotional distress associated with a larger future loss.²⁷

- 104 This is particularly so if the risk they are seeking to avoid is tangible or personally imaginable (or ‘salient’)—even if, in reality they are no greater than a range of other risks they may also face.
- 105 In some cases, a consumer’s previous experience with vehicles left them feeling a particular add-on insurance product was a necessary purchase:
- (a) One consumer had previously experienced engine problems with two separate cars and was therefore attracted to purchasing extended warranty insurance for her new Corolla for fear of it happening again.
 - (b) One consumer purchased disability (consumer credit) insurance because he was an athlete and took some physical risks (e.g. running with the bulls in Pamplona) and thought he may be injured and unable to make his loan repayments.
 - (c) One consumer purchased tyre and rim insurance because her mother had bought a similar car and had two lots of tyres blow out. Her tyres did blow out within the first three months, so she was pleased she had purchased the insurance.
 My mum had a Golf and she had all sorts of issues with her tyre and rim all the time, so I knew I wanted to get that if nothing else. My car is two years old and I’ve already had a whole new tyre. (Melb, Sink/Dink 20–35)
 Not that I am going to use it tomorrow, but it’s a past experience thing as well, where I was retrenched about 15 years ago and I had to use it at that time. You just don’t know—I don’t have anybody to fall back on financially, so it’s probably good. (Syd, Empty Nester 55–70)
- 106 In other cases, the sales staff made particular risks more salient for consumers by describing them in personal and tangible terms and encouraging them to purchase add-on insurance products to cover those risks. This technique draws on the concept of ‘availability heuristic’ (i.e. where sales staff use a particularly vivid example of an event to increase the likelihood of the event actually happening in the mind of the consumer).²⁸
- But certainly she played on my emotions for that really talking up [the gap cover], in this financial climate, what happens if you did lose your job? You’ve got your mortgage and you’ve got your partner, you know, so I gave in and took that. (Melb, Family 35–55)
- I took [the income protection option] ... but I cancelled it ... Again, thought of that price tag over the car and thought what if I do lose my job tomorrow, how am I going to go. Then, the more I thought about it, well I’ve been working for X amount of years, that’s probably not going to

²⁷ Baker & Siegelman, p. 27.

²⁸ Baker & Siegelman, p. 32.

happen. I was kind of sucked in a little bit. I had it for three months.
(Melb, Family 35–55)

- 107 Consumers may find future risks hard to conceptualise, process and compare, so describing these risks in salient terms creates a motivation (that might not otherwise exist) to purchase particular products.
- 108 Many of the after-market products (e.g. paint protection or windscreen protection), which consumers were offered at the same time as add-on insurance products, are also risk-based products.
- 109 While some consumers perceived these risks as important (due to the ways in which they were made salient by sales staff), there is no objective evidence to substantiate that the individual risks these consumers insured against or bought other after-market products to protect against were any greater than a range of other risks they may face.
- 110 This finding accords with behavioural research about ‘myopic loss aversion’. That is, people are more likely to make poor decisions to avoid loss when presented with options that are narrow and targeted (which plays into their myopia and mental accounting). While no consumers opted to purchase all the insurance products offered to them, some were prepared to purchase individual add-on insurance products (e.g. consumer credit, tyre and rim, or gap insurance) or after-market products (e.g. paint or windscreen protection) to protect against isolated small scale risks.²⁹

Ease and convenience: Information simplification and limited shopping around

- 111 Consumers also valued the ease and convenience of purchasing insurance through dealerships.
- It was just a lot easier to do it, and they want your sale as well so they took care of all the leg work. (Melb, Family 35–55)
- Yeah, for convenience. If I have to go home and do something else there’s a risk I won’t do it and I won’t understand it. Makes sense just to do it while you’re in there doing all the other things. (Melb, Sink/Dink 20–35)
- 112 However, when probed, they often had poor recollection and understanding of the products they had purchased, which suggests that ease and convenience may have come at a cost. It appeared that:
- (a) the ‘ease’ of the purchase may involve sales staff simplifying the terms and conditions of the insurance being purchased (so that the consumer does not get relevant or balanced information about limited benefits and exclusions) (‘information simplification’); and

²⁹ M Rabin & RH Thaler, ‘Anomalies: Risk aversion’, *Journal of Economic Perspective*, vol. 15, 2001, pp. 219–232.

- (b) the ‘convenience’ of the process means that consumers are being offered only one option of each type of insurance, and this option may not be the best or cheapest one (‘limited shopping around’).

Simplifying information

- 113 Simplifying information can make it easier for consumers to make choices and act on those choices. If consumers feel overwhelmed by choice and information (i.e. ‘information overload’), then limiting and targeting the information on which they base their decisions can be helpful in driving action. However, if the information is not appropriately balanced, this can lead to poor consumer choices and outcomes.
- 114 Some sales staff appear to have oversimplified the details of the products being offered and inappropriately balanced the available information. For example, potential benefits of a product may have been highlighted while information about exclusions was omitted. See paragraphs 63–70 for a discussion of how information provided to consumers was framed.

Limited shopping around

- 115 One aspect of the value consumers placed on the convenience of purchasing insurance through the dealership was that it allowed them to avoid the effort and challenges of shopping around and comparing policies and prices themselves.³⁰
- I chose it for convenience. I hate doing insurance and comparing all the policies that are so confusing that I still don’t know what I’m buying. (Melb, Family 35–55)
- We find ... policies really difficult to read and hard to understand. It makes it hard to compare across the market. (Melb, Sink/Dink 35–55)
- 116 Implicit in this finding is the assumption that salespeople may be acting on consumers’ behalf to get a good deal—that is, the salesperson had shopped around to find a good product to sell. In fact, there are few add-on insurance products other than comprehensive insurance that are offered on a standalone basis (outside the dealership channel). This means:
- (a) it is not possible to shop around for these products even if the consumer or salesperson wanted to; and
 - (b) consumers cannot benefit from the competitive pressure of having multiple products to select from on price.

³⁰ In the last ANZ adult financial literacy study, only half (55%) of those who had arranged a new building, contents or motor vehicle insurance policy considered several policies offered by different companies before they made their choice. Reasons for not shopping around included a preference to go with recommendations made by friends, family and perceived experts, time pressures and inertia, a perception that all policies are the same, and a belief that making comparisons is too difficult. Social Research Centre, *Adult financial literacy in Australia—December 2011: Full report of the results from the 2011 ANZ Survey*, prepared for ANZ, 2011, p. 88.

117 Even with comprehensive insurance, consumers cannot assume that sales staff have selected a product to sell through a merits-based selection process. In most cases, the dealership has commercial arrangements that mean they can only offer the products offered by one or two insurers, and those products may not provide the best value to the consumer.

She made us feel that we would be losing a lot of money if we didn't buy with her because she can get a more comprehensive deal and it's a private dealership so that means it's a bit more wholesale, you know. (Melb, depth interview)

118 Comprehensive insurance was the only insurance product that consumers had considered before going to dealerships, although only a few consumers did this and the research they did was minimal. However, even this level of shopping around did have an impact on the price paid by some consumers for insurance. In these cases, the sales staff rang insurers to check prices and then offered what appeared to be a better deal.

I wanted to go through [this insurer] because I had insured my car through them previously. I was given the opportunity to call and they provided me a quote with all the different things that it would cover. The business manager then called [another company] and their quote was [better] and they had all the items in that quote. (Syd, depth interview)³¹

119 Other consumers bought their comprehensive insurance outside the dealership because they had existing policies with other insurance companies and were familiar with these companies. It did not appear, however, that these consumers had shopped around to compare the cost and coverage of different products.

120 This finding is consistent with a number of studies about the trust that consumers place in financial institutions they are familiar with (i.e. consumers are more likely to divorce than change banks).³²

[This insurer] is very respected for policies; they are very well known so I'm pretty okay, I suppose. (Syd, depth interview)

121 Some consumers identified difficulties in comparing products and not knowing what questions to ask as being significant barriers to effectively shopping around.³³

I still find it hard to compare policies because wording is different one to the other and you are not comparing apples with apples. (Melb, depth interview)

³¹ It is not possible to assess whether the offer was objectively better based on the information provided. It appears that main factor used to distinguish between products was price. It is not clear how the products compared in terms of coverage.

³² M Woods, *Beyond the call: Why some of your team go the extra mile and others don't*, Show West Sussex, UK, John Wiley & Sons Ltd, 2013, p. 3; L Matz, *Liquidity risk measurement and management: Basel III and beyond*, Xlibris Corporation (Xlibris.com), 2011.

³³ This is consistent with previous consumer testing conducted by Latitude Insights for ASIC of the potential design and value of a MySuper Dashboard. In this case, consumers wanted to easily compare dashboards side by side, and they wanted the dashboards to contain clear, simple, and like-for-like information. Some also wanted access to more personalised information (e.g. a calculator tool with variables that could be adjusted to see the impact of different choices or features on fees, return and value at retirement). See Report 378 *Consumer testing of the MySuper product dashboard* (REP 378).

Q: If you were to buy the car again, would you do anything differently in regard to that insurance? A: I may—probably not, to tell you the truth because I wouldn't know how to compare. (Syd, depth interview)

Understanding the product

Limited recall

122 When asked to reflect on their purchase of add-on insurance, most consumers admitted that they did not know much about the details of the policies they had purchased and a few were equally vague about which add-on insurances they actually had.

... and I don't have a clue about what I am covered for. I am really embarrassed and if we didn't have the car accident, I would know even less than what I know now and I still don't know ... So you feel really embarrassed and not informed and, to be completely honest, it is—lazy is not the word. (Melb, depth interview)

Q: What is the consumer credit insurance? A: I don't know. Q: You don't know what the consumer credit insurance does? A: No but I should know because it's quite a sum. Q: How much have you paid for it? A: The consumer credit was \$5,222—that's for five years. (Syd, depth interview)

Not very well. I guess it's one of those things you tend not to read too much until you need it. (Melb, Family 35–55)

123 Most assumed that whatever insurance they had covered 'the basics' and generally had not thought through what the exceptions could be.

Low awareness of cost

124 Some consumers had a general idea of the overall cost, or the monthly fee, but others had forgotten the costs or remembered them incorrectly.

Around \$1,100, \$1,200 for all the insurances: comprehensive, gap, windscreen, I'm pretty much covered for any likelihood except car modifications or to get the engine chipped which would void the car. (Melb, Sink/Dink, 20–35)

The gap insurance wasn't much, once again; maybe for the year it was a couple of hundred dollars or something ... Q: The cost that I am looking at here, gap insurance cover is \$750? A: It did not actually cost \$750, because my full insurance is (like I said) about \$1,200 or something. I remember him saying the documents might not quite say exactly what they are ... I can't remember how he explained it—he said sometimes there's a bit of cross-over in them, or something. He explained something like that. (Melb, depth interview)

125 Other consumers presumed that because they had paid a one-off sum for the insurance (which they had financed) they would be covered for the life of the loan (although they had no documentation to support that assumption).

My understanding would be that I paid once and that it was for the life of the loan. (Syd, depth interview)

Paid more than expected

- 126 One consumer thought he was paying \$1,200 for his insurance only to discover he was paying closer to \$1,900. Despite having an individual invoice for these products, he was under the impression that the invoice did not reflect the accurate price based on his recall of the discussion with the salesperson. On reviewing his invoice, he noticed the difference in cost and no longer thought he had obtained a good deal.

It looks like the gap insurance was the full \$749. My understanding was ... I guess my memory wasn't as good as I thought it was, or my understanding anyway. (Melb, Sink/Dink 20–35)

Unknown exclusions

- 127 Few consumers had any awareness of exclusions that would apply.

No, I didn't know anything about exclusions. I knew we had an excess of about \$500, that's all. It's utterly gross now you say it out loud and you think about it. (Melb, depth interview)

- 128 One consumer noted that he subsequently realised he was not covered if his car had excessive loading. This was a potential concern to him as he often carted goods with a trailer and was unsure if he would be covered if an incident happened under those circumstances.

Reasonably in line, just those couple of things there that I probably want a bit more information on. I hate to think they wouldn't pay out because some part of the car computer system failed, that was a bit odd. (Melb, Family 35–55)

Redundant insurance

- 129 Several consumers realised that, given the speed with which they would be repaying their loans, the gap insurance they had purchased was in fact redundant. They only became aware of this while reviewing their insurance for this research and subsequently planned to cancel the policy.

Post-sale reflections and actions

- 130 Few consumers regretted their decision to purchase add-on insurance, even if they had very poor recollection of which products they had in fact purchased, how much each product cost and what it covered.

Cancellation of the policy

131 Only a few consumers had already cancelled, or were considering cancelling, their insurance. For example, two consumers cancelled their CCI policy when they discovered they were already covered through work and/or felt that the need for income protection insurance on their loan was minimal.

Then the finance guy said if you want to come and take the car on Saturday you have to have insurance. I didn't have any so I asked him, 'What do you have?' It's one of my first rules when getting a car. I don't even have a policy [the respondent didn't realise he was covered by work at the time]. By taking out [income protection insurance] it covers me for work-related income loss. It was only later talking to my wife I realised that I'm covered through work anyway. (Melb, Family 35–55)

Case study 3: 'Johnny' (Melbourne, Family 35–55) He was sold CCI when he was already covered

Johnny and his wife bought a new car from a dealership. He spent two hours with the finance agent arguing about how interest was calculated and negotiating to pay certain fees upfront to avoid paying interest on them. This session was resolved when the car salesman came in and offered to include window tinting for free.

While Johnny was with the finance agent, his wife was approached by the after-market agent. Johnny describes this agent as playing on his wife's concerns for the safety of their children to sell products such as a non-slip grill. The agent also made Johnny justify why he did not want to buy other extras such as paint protection.

The finance agent then approached Johnny to discuss insurance, which he had not researched before going to the dealership. He paid upfront for comprehensive insurance and CCI. Johnny cancelled the CCI policy one month after purchase, realising he was already covered by another insurance policy.

He reflects that he bought the insurance so he could leave the dealership, having become tired after being there for several hours. Mentioning this desire to leave, Johnny was not aware of most of the details of his insurance and after reading the documents was surprised by some of the exclusions. Johnny has since changed his comprehensive insurance to a non-dealership provider to get what he believes to be a better deal.

Acceptance of the situation

132 For other consumers, their lack of knowledge about the add-on insurance policies they had purchased did not concern them. Some of these consumers expressed an overall satisfaction that they were 'covered', while others observed that 'you never really know what your insurance covers until an incident happens and it is tested'.

We didn't know what questions to ask, and to be honest we only know now because we had to make a claim. (Melb, Family 35–55)

133 Some consumers who had misunderstood their policies willingly took responsibility for this. For example, some consumers pointed out that they did not try to investigate the purchase further and often didn't interrogate the paperwork once the deal was confirmed.

It's our fault; if we don't know we should just ring them. (Melb, Family 35–55)

Reluctance to take further action

134 Sometimes, even when consumers know they could act, or even want to act, they suffer from 'inertia' and fail to follow through. This can be due to a real or perceived lack of time, confidence or willpower, or it could be because the cognitive or emotional resources required to revisit or follow-up a decision are considered greater than the consequences of not acting.³⁴ For example, 'regret aversion bias' can cause consumers to avoid decisions or actions that may cause them to feel regret about their original decision or action.³⁵

135 Despite the significant gaps in their understanding, many consumers felt that they had been provided with enough information to be able to make good decisions about whether or not to purchase add-on insurance products and were satisfied with their purchases.

136 Behavioural economics offers several possible explanations for this:

- (a) Consumers tend to be *over-confident* about the accuracy of their judgement, ability and skills (see paragraphs 29–33).
- (b) After consumers have made a *commitment* (in this case, buying the insurance) they tend to behave *consistently* with that commitment,³⁶ have a preference for maintaining the *status quo* (known as 'status quo bias'), and can suffer from 'confirmation bias' (also known as 'my-side bias'), where they remember or filter all subsequent information in light of their original beliefs or decision.³⁷
- (c) As described in paragraph 134, a fear of the pain of *regret* can influence consumer's willingness to engage with previous decisions and actions.

³⁴ CJ Anderson, 'The psychology of doing nothing: Forms of decision avoidance result from reason and emotion', *Psychological Bulletin*, vol. 129, 2003, pp. 139–167.

³⁵ H Shefrin & M Statmen, 'The disposition to sell winners too early and ride losers too long: Theory and evidence', *Journal of Finance*, vol. 40, 1985, pp. 777–790.

³⁶ Cialdini, p. 57.

³⁷ RS Nickerson, 'Confirmation bias: A ubiquitous phenomenon in many guises', *Review of General Psychology*, vol. 2, 1998, pp. 175–220.

Concluding observations

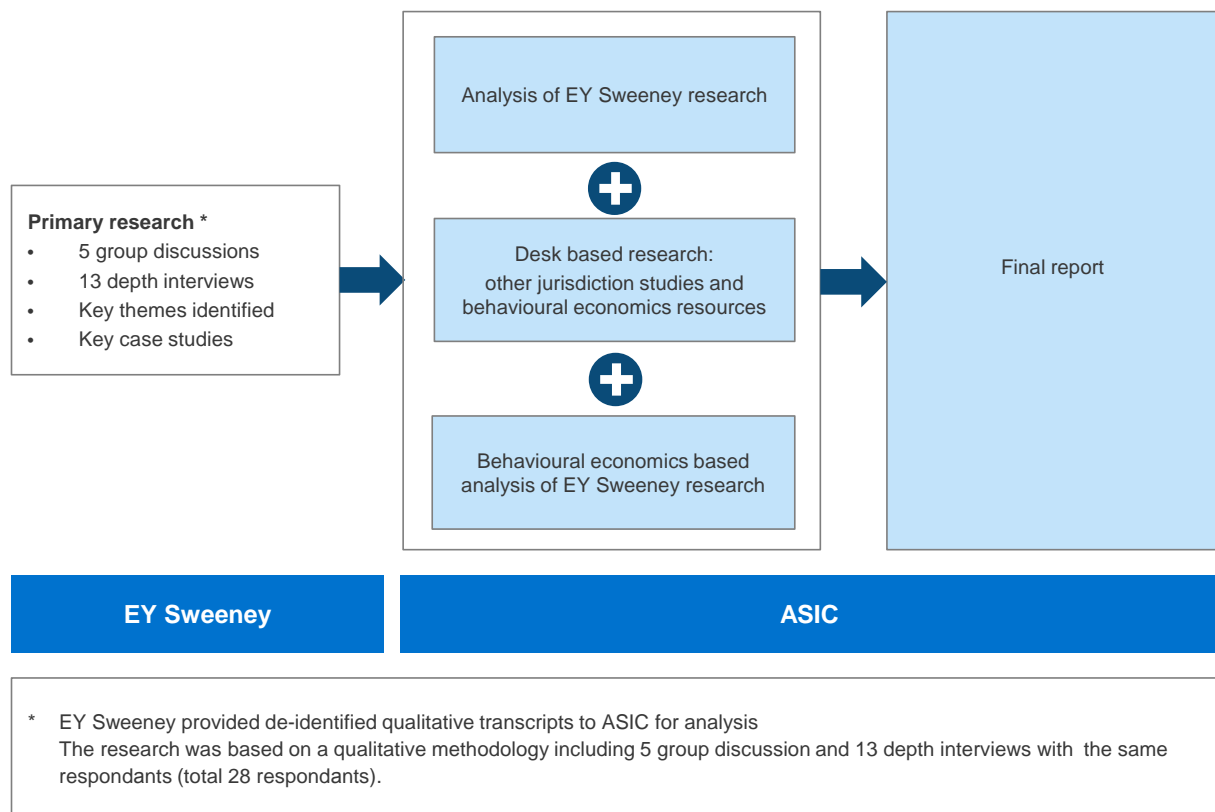
- 137 As noted in this section, when consumers were asked to reflect on what they valued about the add-on insurance products they had purchased, the two key values that emerged were peace of mind, and ease and convenience.
- 138 While each of these drivers has real value in and of itself, it is important to analyse these responses in terms of:
- (a) how the sales process has framed the product to reflect known consumer biases; and
 - (b) consumers' objective understanding of the products they purchased.
- 139 In the context of our review, when considering the experiences and outcomes of consumers who purchased add-on insurance products, it is clear that there is not always a link between consumer satisfaction with the choices they have made and whether or not the products they purchased will be of benefit to them.
- 140 This may be because, as the FCA notes:
- (a) consumers do not always realise how much their decisions and willingness to pay for a product are influenced by emotions; and
 - (b) emotions can be triggered and easily manipulated by firms (e.g. by advertising and during the sales process).³⁸
- 141 Our analysis of consumers' experiences with add-on insurance products based on the research clearly shows that these considerations are highly relevant to the sale and purchase of these products through car dealerships.

³⁸ FCA, Occasional Paper No. 1 *Applying behavioural economics at the Financial Conduct Authority*, April 2013.

Appendix: Detailed methodology

- 142 In 2014, we commissioned EY Sweeney to conduct qualitative research into consumers' experiences of purchasing add-on insurance products through a car dealership.
- 143 The research and reporting process involved two steps:
- (a) EY Sweeney conducted the research between 23 May and 12 June 2014 (see paragraphs 145–148 for the methodology).
 - (b) ASIC staff then analysed the research, including with reference to behavioural economics.
- 144 Figure 2 shows the work undertaken by EY Sweeney and by ASIC.

Figure 2: Research and reporting process



Source: EY Sweeney

EY Sweeney methodology

- 145 Due to the exploratory nature of the research, a two-phase qualitative methodology was used:
- (a) *Phase 1: Purchase experience recall groups*—This included five group discussions to explore the recalled purchase experience. Respondents also completed a journal before attending the group sessions.

- (b) *Phase 2: Product review and reflection depth interviews*—This included 13 one-on-one depth interviews to drill down into individual experiences.

146 A key component of the research was to explore consumers' understanding of the add-on insurance products they had purchased. This involved comparing their perceptions of the insurance with the actual cost and coverage. All respondents agreed not to review their insurance documentation before the group or depth interview sessions.

147 This meant that the researchers could:

- (a) assess broad recall of product knowledge in the group sessions; and
- (b) witness firsthand any misunderstanding between expected and actual details in the one-on-one sessions.

148 For more information about the research sample, see paragraphs 158–166.

Limitations

Limited documentation

149 Respondents were recruited to participate in the depth interviews on the understanding that they had copies of the insurance documentation they were provided with at the point of purchase.

150 In designing the research, the researchers assumed that consumers would have PDSs. Some consumers who bought comprehensive insurance did receive and had retained these documents. However, in most cases, consumers were only provided with brochures, receipts and/or introductory letters.

151 This meant that the researchers' ability to cross-check consumers' understanding of the add-on insurance they had purchased was restricted by:

- (a) the lack of readily available details about the product; and
- (b) the fact that most consumers had poor recall of the details of the insurance.

152 The limited documentation provided to consumers was in itself a finding of the research: see paragraphs 66–70.

Understanding of add-on insurance

153 It became apparent during the fieldwork that consumers thought add-on insurance also covered extras such as paint protection, windshield protection and material protection. As such, discussion around purchase of add-on insurance did include reference to these other after-market product and service options.

154 This perception was also a finding of the research: see paragraphs 61–62.

Recruitment

- 155 Respondents were recruited with the aid of a recruitment screener developed in consultation with ASIC, detailing the agreed criteria. A specialist recruitment company was commissioned to source respondents using the screening questionnaire.
- 156 All respondents agreed to participate in both phases of the fieldwork: the group stage and depth interview stage. Participants in the interviews agreed to provide a copy of their insurance documentation on the understanding this would be passed onto ASIC (de-identified) for review.
- 157 The research fieldwork was conducted between 27 May and 12 June 2014.

The sample

- 158 Respondents were all purchasers of a new or used car in the last 12–24 months. They had all purchased add-on insurance through dealerships and were the key or joint decision makers of these purchases.
- 159 The purchase experience recall groups sample was split by life-stage in recognition that the needs, understanding and levels of confidence around car and insurance purchase change based on life stage.
- 160 The depth interview sample was split by insurance type to ensure a minimum number of interviews for each insurance type. These respondents were sourced from the group sessions.
- 161 Several adjustments to the sample were required to complete the study. Table 4 and Table 5 outline the actual sample achieved.

Table 4: Purchase experience recall groups (Phase 1)

Demographic	Melbourne	Sydney	Total
Sink/Dink 20–35	1	0	1
Sink/Dink 35–55	0	1	1
Family 35–55	1	1	2
Empty Nester 55–70	(1) ¹	1	1
Total	2	3	5

¹ This was a depth interview instead of a group interview.

Table 5: Product review and reflection depth interviews (Phase 2)

Product	Interviews
Comprehensive insurance	4
Mechanical breakdown insurance	2
CCI products	2
Gap insurance	1
Purchase price protection	1
Tyre and rim insurance	2
Guaranteed buyback insurance	1
Total	13

The research sessions

- 162 The group sessions included five to six respondents and lasted approximately 1.5 hours. These were conducted at EY Sweeney's premises in metropolitan Melbourne and Sydney.
- 163 The depth interviews lasted 45 minutes and were conducted at respondents' homes or places of business.
- 164 Respondents were provided with incentives for each component of the research: \$20 for completing the pre-group journal, \$80 for participating in a group session, and \$80 for participating in a depth interview.

Incidence levels

- 165 It was hypothesised that the incidence of add-on insurance purchase would be low but actual numbers were unknown before the research began. During the course of the recruitment, over 17,000 individuals were contacted to participate. This number is much higher than is usually required to fill the small number of qualitative places.
- 166 While this could indicate low incidence, it may also reflect poor recollection of add-on insurance purchase. The researchers cannot extrapolate further without more research specifically targeted at incidence rates in the market.

Key terms

Term	Meaning in this document
add-on insurance (or add-on insurance products)	Insurance policies that are 'added on' to the sale of a primary product, most commonly with the purchase of a motor vehicle
anchor	A term used in behavioural economics for something that serves as a reference point. In the context of our review, consumers were faced with a large expense (i.e. vehicle purchase), which then served as a reference point to influence their judgement about the value of smaller cost items they were subsequently offered
ASIC	Australian Securities and Investments Commission
Baker & Siegelman	T Baker & P Siegelman, <i>Protecting consumers from add-on insurance products: New lessons for insurance regulation from behavioural economics</i>
CCI	Consumer credit insurance
Cialdini	RB Cialdini, <i>Influence: The psychology of persuasion</i>
decision fatigue	A term used in behavioural economics where decisions made after a long session of decision making are not of the same quality as early decisions
EY Sweeney	The market research company commissioned by ASIC to conduct research into consumers' experiences with add-on insurance products
FCA	Financial Conduct Authority (UK)
information overload	A term used in behavioural economics where the amount of information consumers have to process can affect how they process that information and weaken the use of their critical decision faculties
mental accounting (see also 'price framing')	A term used in behavioural economics to describe the different ways consumers categorise different types of money transactions and accounts, which means they can underestimate the actual cost of the product, depending on how price is framed
National Credit Code	Sch 1 to the <i>National Consumer Credit Protection Act 2009</i>

Term	Meaning in this document
nudging	A term used in behavioural economics to describe a change to the choice environment (also known as 'choice architecture') that enables or encourages consumers to act in their own best interests without restricting their choices (a form of 'libertarian paternalism'). It can also be used to describe choice architecture that enables or encourages consumers to act contrary to their best interests
PDS	Product Disclosure Statement
price framing (see also 'mental accounting')	A term used in behavioural economics to describe how the way price information is presented capitalises on the behavioural bias of 'mental accounting'.
priming	A term used in behavioural economics where consumers' actions are influenced by sub-conscious cues
Product Disclosure Statement	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the <i>Corporations Act 2001</i> Note: See s761A for the exact definition.
REP 378 (for example)	An ASIC report (in this example numbered 378)
Sink/Dink	Single or double income with no kids

Related information

Headnotes

add-on insurance products, behavioural economics, commissions, comprehensive insurance, CCI, consumer credit insurance, dealership, decision fatigue, delayed timing, gap insurance, guaranteed buyback insurance, information overload, insurers, mechanical breakdown insurance, motor vehicle, PDS, Product Disclosure Statement, tyre and rim insurance

Legislation

National Credit Code, s145

Cases

Australian Securities and Investments Commission v The Cash Store Pty Ltd (in liquidation) [2014] FCA 926

Reports

REP 378 *Consumer testing of the MySuper product dashboard*

Other documents

M Ahearne, TW Gruen, & CB Jarvis, 'If looks could sell: Moderation and mediation of the attractiveness effect on salesperson performance'

CJ Anderson, 'The psychology of doing nothing: Forms of decision avoidance result from reason and emotion'

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