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Dear ASIC,

**AFA Submission – Consultation Paper 294 - The Sale of Add-on Insurance and Warranties  
Through Caryard Intermediaries**

The Association of Financial Advisers Limited (**AFA**) has served the financial advice industry for 70 years. Our objective is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all Directors are required to be practicing financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting wealth.

## **Introduction**

The AFA is deeply concerned by the content of Consultation Paper 294 and the earlier Report 471. The AFA is a strong believer of the value of life insurance for Australian consumers. Of paramount importance is the trust the average person would have in the fact that a policy that is recommended should be in their best interest and deliver an outcome that is reasonable at worst. We are deeply

disturbed by the consumer outcomes in the caryard intermediaries space, and believe that this outcome not only damages the broader reputation of the life insurance industry, but as a result would serve only to reinforce the recent negative views on life insurance and deter people from seeking valuable cover. We will focus our comments in this submission on the life insurance element of this matter.

Life insurance plays an important role in protecting the financial and emotional wellbeing of Australian families and business owners, however this is dependent upon some key elements:

- Good products that offer a fair outcome for consumers when measured in terms of claims paid.
- Competitive products and pricing, with consumer choice.
- Knowledgeable consumers who understand the products that they are purchasing, either through their own investigation or through access to financial advice.
- An obligation on intermediaries to operate in the best interests of their clients.

In contrast, this market seems to reflect poor products, with poor claims ratios and uncompetitive pricing offered to a trusting but uninformed consumer by intermediaries who are operating under what appears to often be a high pressure sales environment where they have no obligation to act in the best interests of consumers.

In every dimension, this represents an inferior outcome for consumers, particularly when the fact that these products are so significantly more expensive than regular term life insurance is taken into account. Page 17 of Report 471 indicates that it could be as much as 18 times more expensive.

Table 2 of Consultation Paper 294 indicates that across the add-on insurance market, only 8.9% of premiums are paid out in claims. This is even lower when viewed in terms of the life insurance products (CCI and Loan Termination Insurance) where the claims payment ratio is less than 5%. This is an extremely low payout ratio, which makes the value of this type of insurance highly questionable, and really does reinforce the public perception that “you will never be able to claim”.

Report 471 and Consultation Paper 294 discuss in detail the issues with the sales process for these products. It is also noted that consumers are otherwise focussed on a key decision with the purchase of a vehicle and may be vulnerable to high pressure sales techniques.

Report 471 indicates that 5 life insurers represent 90% of this market (page 35) and that there are 5,900 authorised representatives who sold add-on insurance (page 29). Despite the extent of issues raised in this report, the life insurers have not been named and it would appear that little action has been taken against these representatives.

The AFA would also like to highlight the issues with general advice only business models, particularly where the sale is initiated by the intermediary rather than the consumer. In this case the consumer most likely has very limited knowledge of the product and probably limited interest. However, given they have just engaged in a “positive“ transaction of buying a motor vehicle there is an implied trust with the intermediary, which in turn is capitalised upon. This means that consumers are in a disadvantaged position. At least where the consumer initiates the transaction, they are much more likely to have done some research and considered their needs.

We also question the description of this as general advice, in that it is likely that the intermediary will know some of the details of the client’s personal circumstances in the process of the purchase of the car and the discussion with respect to the arrangement of car financing. We question whether this is really a general advice context or whether this should be classified as personal advice and the client should receive a Statement of Advice. The level of remuneration that is paid would suggest that more effort

should be provided and that consumers should have the right to get personal advice that addresses their needs and objectives and to receive a Statement of Advice.

### **Proposal 1: Deferred Sales Model for Add-on Products**

We note that this proposal will address some of the worst elements of the sales techniques that appear to apply in this market, in that consumers will have more time to make a decision. It will also make it more difficult for intermediaries to apply high pressure sales techniques. This proposal does not address the lack of value with these products, the lack of knowledge of consumers or the lack of a requirement for the intermediaries to give due consideration to the best interests of consumers.

Report 471 and Consultation Paper 294 indicate that this is a fundamentally flawed market that requires fundamental reform and not simply changes to the sales process. The introduction of a deferred sales model is not sufficient to address and resolve the issues in this market.

### **Proposal 2 – Enhanced Supervision Obligations for Product Providers**

We are supportive of measures to improve the supervision arrangements that apply in this market, however we don't feel that this alone, or in coordination with Proposal 1 will deliver the required level of change that is required to protect consumers in this market.

### **ASIC Funding Model**

We note from the release of ASIC's "Cost Recovery Implementation Statement" that licensees that provide general advice only will be charged a flat fee, regardless of how many representatives that they have. Based upon a total cost of for general advice only licensees of \$2.023m and 935 licensees, this equates to less than \$2,200 per licensee. When viewed in terms of the 5,900 authorised representatives across 4 life insurers (page 29 Report 471), this equates to less than \$2 per authorised representative. Report 471 and Consultation Paper 294 suggest that this fee might not be sufficient, and that the ASIC Funding Model for licensees providing general advice only, needs to be reassessed.

### **AFA Recommendations**

The AFA notes that the preferred outcome is that consumers seek advice that is in their best interests when they seek life insurance and that this advice is based upon the best products in the overall market. In addition, we believe that more can be done to ensure that consumers have a better understanding of what they are purchasing. In particular, across all life insurance products we recommend the following new requirements:

- Life insurers to report claim payout ratios for each product in product disclosure statements (i.e. claims paid divided by premiums received).
- Life insurers to report the percentage of claims that are paid (as opposed to rejected) in product disclosure statements.
- The Government to review the obligations of intermediaries in selling life insurance products under a general advice sales model.

- That policies offered under a general advice model are subject to a minimum standard claims payout ratio

### Concluding Remarks

The AFA welcomes the opportunity to provide feedback on Consultation Paper 294 and the sale of add-on insurance and warranties through caryard intermediaries. We have focussed our feedback on the life insurance element of this matter. We believe that there are significant issues with this market and the particularly poor consumer outcomes. Whilst we note the efforts made by ASIC in seeking a solution to ensure better consumer outcomes, we do not feel that this goes far enough. More needs to be done to ensure that consumers are better protected. This must start with a product design that generates a substantially higher claims payout ratio. These proposals only address the sales process and the supervision of intermediaries. In our view, more fundamental reform is needed to address the issues in this market.

The AFA welcomes the opportunity to contribute to this consultation process. Should ASIC require any further clarification on anything in this submission then, please contact us on (02) 9267 4003.

Yours sincerely,

**Phil Anderson**  
General Manager Policy and Professionalism  
Association of Financial Advisers Ltd