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Dear Christian

### **CP 294 – Sale of Add-On Insurance and Warranties through Car Yard Intermediaries**

The Australian Finance Industry Association (**AFIA**) is the key advocate for motor vehicle financiers in Australia. AFIA's Motor Finance Division (list attached) include the major financiers of new and used motor vehicles who are linked to vehicle manufacturers and importers, as well as independent financiers. These members regularly finance the purchase of add-on insurances and warranties introduced by accredited dealers, brokers and other intermediaries, as part of a broader motor vehicle financing transaction. ASIC's consultation has potentially significant impacts for our Motor Finance Division members either directly on their business processes and potential revenue or indirectly given the likely impacts on a key distribution channel of our members; namely, motor dealerships / car-yards. AFIA appreciates the opportunity to inform ASIC's reform consideration outlined in CP 294 and for the extension of time in which to make these comments.

AFIA and its members have reservations about the need for a deferred sales model ('DSM') which has the propensity to over-complicate the financing of add-on products that have been re-designed to meet ASIC's more exacting product standards and for their delivery in a more efficient, transparent and compliant manner. Members are keen to avoid the significant system and operational costs of implementing a DSM – whatever the deferral period may be, if the proposed product reforms and enhanced training and supervision of representatives effectively address the market failings identified by ASIC in its reviews and reports.

Members are committed to working with ASIC and insurers to address market failings, however are concerned that ASIC's proposed model ignores the other intermediary insurance sales sources, effectively discriminating against the sale of add-on products by motor dealers, i.e. *car yard intermediaries*.

At the broader level, AFIA also notes the regulatory environment for the regulation of the sale of add-on insurances and warranty/risk products is overdue for review and consolidation. Given market developments and ASIC consultation, AFIA sees this as the opportune time for the Government to prioritise and commence this broader project. It is the interests of all stakeholders for the various insurance issues, such as product value, sales methodologies and commission structures, to be subject to a full review in the context of the various hybrid regulatory approaches that currently exist. Such an approach will result in an appropriate and future-proofed reform, rather than a piecemeal, regulatory outcome that addresses existing regulation, market practices and consumer expectations.

AFIA's intention is to make detailed policy representations to Treasury to the duality, and inconsistency, of regulation of retail insurance products, particularly where financed in the consumer regulated market. ASIC may wish to take this into consideration when deciding what, if any, additional regulation is warranted where add-on products are to be financed as any decision on a deferred sales model may be premature if broader reforms in the insurance sector are to be considered.

Our submission on the substantive issues created by the proposed DSM for add-on Insurances is attached. And while our stated position outlined above would not see ASIC move forward with a framework to implement the proposal we acknowledge this potential. For this reason, we have also considered and responded to ASIC's proposals and questions for feedback.

Kind regards

Helen Gordon  
Chief Executive Officer

## AFIA Submission – Deferred Sales Model – Add-on Insurances and Other Products

### 1. Reform proposals

ASIC has specifically sought stakeholder feedback on the following two options for reforms designed to address market failures and, to improve consumer outcomes, namely:

- (I) The implementation of a model for the deferred sale of add on insurance and warranties regulated by the Corporations Act 2001 (the Corporations Act), excluding comprehensive insurance and compulsory third party insurance; and,
- (II) The introduction of more robust and targeted requirements for “providers” to meet when supervising and monitoring their authorised representatives

We provide our feedback in the context of the current regulatory environment which results in a complex hybrid of insurance regulation across the insurance and finance sectors. Those sectors are, however, distinct. The obligations of the two should not be conflated in addressing insurance product and sales issues.

Our feedback is provided in this broader regulatory context.

### 2. Scope

ASIC has confined its proposed reforms to the car yard market despite, by its own estimation, 25% of the intermediary insurance sales originate elsewhere. ASIC’s approach is to focus on dealers who supply motor vehicles. The same issues about add-on products exist in dealerships supplying other type of products, e.g. motor bikes, marine products, in addition to other intermediaries such as brokers. Add-on insurances are also offered by banks (loan protection insurance) and retailers at point of sale (e.g. extended warranty). Any reforms which do not apply to whole market results in a competitive bias against those regulated.

AFIA, as should ASIC, has a policy of competitive neutrality in regulation. AFIA does not support any regulatory initiative that does not impact equally on the market practices generally. This is compounded further by the fact that consumer access to add-on products is restricted to car yard intermediaries. These are the core issues to be addressed.

### 3. Regulatory Background

#### 3.1 Insurance & Warranty Regulation through the National Credit Code

ASIC’s current consultation on add-on insurance and warranty products highlights the extent of regulation imposed on credit providers in relation to those products and the way they are sold. In large measure, it is regulation which would be more effectively and efficiently imposed on the source of the problem, i.e. add-on insurers and warranty providers, together with those who sell those products.

In broad terms, the National Credit Code (NCC) imposes this regulation on financiers through:

- Part 8 – related insurance contracts
  - but only in relation to ‘credit-related insurance’
  - this covers mortgaged property insurance and consumer credit insurance
  - extended warranty insurance is specifically excluded, curiously

While the main focus of Part 8 is on financed credit-related insurance, it also imposes some obligations on insurers, such as capping commission at 20% for consumer credit insurance.

- Section 136 – termination of linked maintenance services contract if credit contract terminated
  - The Code does not define the concept of ‘maintenance services contract’, which is derived from earlier hire-purchase legislation
  - Depending on contract terms, the concept may cover some types of the warranty products and pre-paid servicing arrangements

- This section imposes differing obligations on financiers of maintenance services contracts and on the service provider

The Code requirements date from its State and Territory predecessors (Credit Acts and the Uniform Consumer Credit Code) when regulation of insurance by the Commonwealth was sparse and considered to be inadequate. That legislation predated the Commonwealth's financial services regime under Chapter 7 of the Corporations Act.

Better regulation of add-on insurance (and risk products) would be achieved by placing all regulation of insurance in one regulatory environment within the Insurance Contracts Act and Chapter 7 of the Corporations Act. This would place the cost of insurance regulation where it belongs (i.e. with insurers and their consumers).

### **3.2 NCCP Responsible Lending Obligations - Customer Requirements and Objectives**

In addition to the NCC regulatory obligations outlined above, responsible lending obligations under the National Consumer Credit Protection Act (NCCP) require financiers to ensure a proposed credit contract meets the customer's requirements and objectives and is not unsuitable. Where those requirements and objectives include the financing of add-on insurances and other products, the proposed DSM will inhibit the lender from comprehensively identifying the policies which the customer wishes to finance. The DSM may, depending on its duration, also impact on the lender's responsible lending obligations by requiring the re-verification of income (pay-slips) and expenses, additional credit checks and re-assessment of the proposed loan contract including any add-on products to be financed to ensure that the customer is still in a position to meet the increase in the amount to be financed without undue hardship.

### **3.3 Other Regulatory Impediments and Inconsistencies**

To effectively address the shortcomings ASIC has identified, AFIA is of the view several impediments and inconsistencies in the law need to be reconsidered, and beyond ASIC's proposed ability for product intervention, especially:

- No statutory consumer guarantees apply to insurance, as it is a financial service
- Insurance is expressly excluded from the implied warranties in the ASIC Act (s 12ED(3))
- The Insurance Contracts Act (s 15) excluded insurance from judicial review under any Commonwealth, State and Territory Acts on the basis of being harsh, oppressive, unjust, unconscionable, inequitable or unfair – this would include unfair contract terms law
- Regulation of extended warranty may be insurance or a discretionary claim product under the Chapter 7 of the Corporations Act or in some circumstances a product subject to the Australian Consumer Law

These inconsistencies also need to be addressed to ensure insurance products are appropriately regulated in keeping with the consumer protection standards expected for all other products and services.

### **3.4 Member expectations**

Members now look to ASIC and product providers - the insurers and issuers, to warrant that those products of which ASIC has been critical are being, or have been, reviewed and re-engineered to meet ASIC and industry standards in relation to design, cover and value and, that they are being sold in an appropriate and compliant manner

It is the product providers who have these obligations, not those who simply meet consumer's finance requests and who have no control over the products on offer or the sales methods insurers and issuers encourage at the point of sale. Further, lenders do not generally have access to data to determine the value and or performance of an add-on products, nor do they have access to claims history or ratios, product costings, declined claims, commissions, training and monitoring of representatives and are reliant on ASIC and product providers to confirm the then products they are selling meet expectations.

## **4. Deferred Sales Model (DSM)**

### **4.1 Deferred Sales Model Concerns**

Members have identified the following key concerns with the proposed DSM:

- The underlying issues of poor product value and a sales-driven model are not overcome by delay;
- The approach is inconsistent with members responsible lending obligations and suitability obligations;
- Financiers should not bear the operational and compliance costs resulting from market failure in the insurance industry

AFIA members have advised that for a number of reasons, the proposed DSM deferred sales model may be of limited value, is potentially inefficient and unlikely to deliver the proposed outcomes – the informed purchase of relevant insurances and warranties meeting a customer's requirements and objectives. Meaningful market outcomes are more likely to be redressed by the comprehensive re-design of add-on products to provide enhanced and real value to consumers and a more efficient and compliant sales model. These are responsibilities that sit with the insurers, not the financiers who are however actively working with their insurers to address concerns regarding product, cover and sales, training and compliance support.

AFIA members have indicated that a DSM may, subject to the length of the deferral period, be impractical for both financiers and their customers. Customers are likely to be forced to forgo add-on products to avoid delays in the delivery of their financed vehicle. In the absence of equivalent after-market products, this may result in them bearing additional risks. For financiers, the delay creates operational inefficiencies with delayed settlements and increased costs. Supplying dealers also face additional holding costs which will inevitably be passed back to consumers in the sale price.

Members also have reservations as to whether a DSM deferred sales model would address information overload or fatigue given the challenges consumers face in assessing the add-on product value proposition and costs meet their requirements particularly having regards to the range of add-on product offerings available in the dealership. It is doubtful whether the length of the deferral period will facilitate any greater clarity or certainty as to the value proposition and relevance of the add-on products. Enhanced disclosure statements, FSGs and PDS' will undoubtedly assist consumers with their assessment by providing greater clarity. Members believe that the inclusion of cooling-off rights would provide consumers with a stronger outcome versus an extended deferral period. A formal post sale confirmation of cover and advice on cooling off or cancellation of the add-on policy would also assist consumers know and understand their rights.

Members have expressed concern that some add-on product issuers have sought acknowledgments and or waivers where consumers elect not to finance add-on products ostensibly to avoid, whether rightly or wrongly, the risk of potential negligence claims or EDR dispute should a particular product not have been brought to the customer's attention. Whilst a DSM will allow time for consumers to consider whether a product meets their requirements and objectives, better disclosure statements/information sheets are a strong mitigant to the risk of non-insurance. And obviate the need for an extended period of deferral.

Members have expressed their concerns with the costs of implementation of a deferred sales model and, in particular, the costs and lead time for upgrading systems to meld the deferral process into members' loan application systems. Members have indicated if the DSM is to be implemented, that the costs of systems and procedural changes will be considerable and delays in implementation would be as long as 18 -24months, including extensive internal and dealer training. This arises because vehicle loans and facilitating systems have long been developed as a one-off loan with disbursements as directed by the customer. They are not readily modified for allow for variable drawdowns over time. This is a complicated procedure which results in significant regulatory and operational risk for disclosures, calculations and consumer understanding.

The proposed deferral period, whether it be 4 days or 30 days, may result in a re-work of credit applications, credit approval and delays in production of lending documentation. It may also delay delivery of cars to customers pending finalisation. This is particularly relevant to the sale of used cars which are held in stock and are ready for immediate delivery.

Members believe that deferred sales model may not address menu selling/delivery selling/over-selling at the ultimate point of sale nor does it effectively deal with the potential for information overload/information fatigue and would be seen by consumers as unreasonably delaying their principal objective of purchasing a car. Members hold this view whether an add-on product deals with risks or events in relation to the purchased car or in managing a customer's financial circumstances or liability. It may well be that disclosure documents and enhanced training and monitoring will mitigate such risks.

Members have also expressed concern that they are not generally privy to an insurer's or issuer's compliance framework, compliance and training program and are required to rely on their assurances that their risk management and compliance framework meet the requirements of the Corporations Act and their AFSL.

Members are keen to work with add-on product issuers and insurers and their dealer network to facilitate ensure strong consumer outcomes whether or not a DSM is implemented.

Members have also acknowledged that ASIC's engagement with issuers and insurers of add-on products appear to have resulted in a reduction in the volume of add-on products sold and financed and believe that this is a result of insurers implementing better compliance frameworks including enhanced training monitoring and supervision of representative and reduced commissions.

#### **4.2 UK model**

In the event that a deferral process is implemented, members are unequivocal in their support of the early opt-out process for repeat/informed buyers/self-initiators such as that applying in UK for GAP cover and as recommended by the Insurance Council on behalf of insurers. The UK model may have some benefit for UK consumers as they can purchase the GAP product elsewhere.

Feedback from members operating in the UK, and ASIC's own comments at paragraph 154 of the Consultation Paper, indicate that the deferred sale process has had no material effect on issues such as product pricing or the significant level of commissions (up to 50%) paid to introducers.

As noted earlier, the introduction of a comprehensive range of after-market insurance and risk products may support an opt-out process.

### **5. Supervision and monitoring**

The introduction of more robust and targeted requirements for "providers" to meet when supervising and monitoring their authorised representatives is seen by members as major contributor to improved customer, insurer and financier outcomes. These obligations build on improved product offerings and enhanced sales processes complimentary to enhanced sales processes.

These obligations, however, sit with insurers and may be addressed, in part, by initiatives proposed in the Insurance Council of Australia's (ICA) submission on the deferred sales model. Financiers are not in a position, nor would it be legally appropriate, to supervise or monitor the product sales of third parties. Nor can financiers influence insurers' distribution models. The same considerations arise in relation to other providers, such as under extended warranty or after-care products.

### **6. Insurance Council of Australia (ICA) proposals**

AFIA has been provided with a copy of the ICA's submission on CP 294 and is aware of a range of industry initiatives or reforms being implemented by insurers providing add-on insurances into the "car yard"/dealer market.

In addition to the review of product design and distribution arrangements, ICA notes that insurers have committed to the review of point of sale practices, including the review and strengthening of dealership training on compliance and systems, independent compliance reviews of compliance and risk, management procedures and post- sale engagement with customers.

The ICA and insurers have also committed to implement Information Sheets outlining key information about key add-on insurance product offerings – including statements to the effect that such insurances are optional together with key policy terms. These initiatives should result in better consumer outcomes.

In particular, the ICA's proposed implementation of a concise Information Sheet outlining key information about product offerings, including statements to the effect that the add-on insurance is optional and key policy terms; together with access to additional educational resources prior to purchase

AFIA supports the ICA's commitment to improve product quality, disclosure and implement enhanced compliance and dealer representative training. Members believe that the review of and enhancement of insurance products, training and strong commitment to and focus on compliance will deal with the ASIC's concerns that the market is failing consumers and may mitigate against the need for a DSM, or at least a shortened deferral period as favoured by the ICA.

AFIA believes that the ICA's and industry's commitment to improving customer outcomes may in the longer term mitigate against the need for a DSM.

## **7. Summary**

AFIA believes that the proposals to enhance the value proposition of add-on insurance and risk products including improved and relevant cover and more competitive pricing, improved sales processes, comprehensive dealer training and improved monitoring and supervision will mitigate the need for a DSM.

If a DSM is proposed, members believe that the deferral period should allow sufficient time to allow for consumers to adequately assess their value and whether they meet their requirements and objectives. Members favour a deferral of a shorter duration similar to that imposed in the UK – not more than 4 days to minimise settlement delays and delivery of vehicles to customers.

AFIA and its members believe that it is critical that a reasonable transition period before the commencement of the DSM of not less than 18-24 months is required to facilitate the DSM to enable systems and procedural changes, training and development of staff and introducers.

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### AFIA RESPONSE TO PROPOSALS AND QUESTIONS

As noted earlier, for reasons outlined above, AFIA has reservations about the model and approach proposed by ASIC but notes the potential for ASIC to continue to develop based on this. Assuming that this may occur, we have considered and provide the following responses reflecting member feedback:

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

No. As noted earlier in this submission Members are unconvinced that the proposed DSM will have any profound or meaningful effect on the sale of add-on and insurance and warranty products. Members do not believe that the UK DSM for the sale of GAP cover has had any material effect of the sale of the product notwithstanding product design changes to ensure customer eligibility. The product continues to be overpriced which is reflected in the continuation of lofty commissions paid to introducers. The proposals to facilitate the sale of a significantly more extensive range of products through the model does not deal effectively with the potential for information overload and buyer fatigue, it exacerbates it.

Enhanced product design and disclosures, sales and compliance training and monitoring by insurers will, if effectively implemented and monitored, more likely address ASIC's current view that the market for add-on insurance continues to fails customers.

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

Members do not believe that the forced delay in the sale and financing of motor vehicles including add-on products will address the key failings of the sale and financing of insurance and warranty products. Whilst the proposal is dependent of material product reforms, enhanced disclosure documents, product and compliance training, irrespective of the deferred sales model adopted, there is still the propensity for information overload and decision fatigue which together with issues of product eligibility frustrate the consumer's key goal, that is to purchase and financing of a motor vehicle.

The various sales models continue to facilitate pressure selling (including menu and point of delivery selling) and the risk that the products will be unsuitable or not meet customer needs and expectations. The availability of a comprehensive array of after-market products as proposed by the ICA will ensure that the consumer does not miss the opportunity to purchase relevant and appropriate insurance based on information that may have been provided at the car yard separate to the finance contract and on a pay by the month basis and avoiding finance charges.

Members also expect that in the event of a facility for a consumer to opt-out of the DSM, this feature will become the norm and frustrate the fundamental desire to slow down the process to "force" the more informed purchase of add-on products.

#### **E1.Q3 – How would the proposal affect business (e.g. insurers, car dealers, finance brokers, credit providers)? Would it have an impact on small business?**

Clearly the implementation of the DSM would present at a considerable cost to members. Members estimate that changes to their loan application systems to facilitate the DSM will be both time consuming and costly. It will result in significant costs for changes to existing systems and software development and take some considerable period of up to 18-24 months to fully and effectively implement. This will also frustrate other systems changes that members may already have in progress and disrupt and delay other priority initiatives.

Members also believe that there will need to be significant dealer and staff training in relation to the new systems and DSM model. Members expect there will also be customer service issues with the deferral period delaying settlement when ultimately a customer may elect not to take any add on

insurance cover, details of which were provided to them at the time of selection purchase of a car subject to finance.

Members believe that the impact on small business customers will be similar to that of regulated customers; whilst introducing dealers will be seriously inconvenienced by the implementation of the DSM. Small business customers will also be likely to benefit from the availability of enhanced and value added products (including the availability after-market products. From the dealer's perspective, it is expected that enhanced products will be simpler to sell and to the extent that they present an enhanced value proposition to customers, penetration would likely increase to offset reductions in commission.

We have not made any comment in relations to brokers and insurers.

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

Members believe that the DSM would impact materially on the timely sale of used cars, due essentially to the delays in delivery of vehicles. Limited stock of new vehicles meeting customer requirements are often a cause of delay whilst a vehicle is sourced from the manufacturer or another dealership, whilst used cars are generally available from stock. The DSM will operate differently for used vehicles (including demonstrators) by forcing a delay in the finalisation of the finance contract and delivery of the vehicle. If a new vehicle meeting a customer's requirements is available, the DSM will result in delivery also being delayed.

The implementation of an opt-out, if this was to be an option under the ASIC proposals (as advocated by the ICA) may see customers, some of whom may be more vulnerable, taking this option simply to minimise the delays with delivery whilst also taking add-on products without having given them due and proper consideration.

This impact of the DSM will largely be felt by dealers in the form of potentially increased holding costs. To mitigate the delay dealers may elect not to sell add-on insurances and warranty products and focus only on comprehensive cover which attracts commission, albeit nominal.

The availability of a range of after-market add-on products available from the dealer post sale may however facilitate the sale of insurance and warranty add-ons. Such products are not currently available. Alternate arrangements for the payment or financing the premium for such add-on products would need to be sourced by customers – cash, credit or pay by the month premiums.

**E1.Q5 – What are the pre-conditions for a competitive on-line market? How can a deferred sales model contribute to this outcome?**

There would clearly be some difficulty in accommodating online financing of motor vehicles and add-on insurance and warranty products. This could however be addressed by a comprehensive range of add-on products (including pay by the month products) that could be acquired by consumers separately to the motor vehicle.

Members would need to review their online loan application and contracting technology to accommodate a DSM. There would likely need to be considerable engagement with insurers and other providers to develop a joint sales model facilitating the DSM and any necessary disclosures. The costs facilitate on-line transacting within a DSM would vary between Members but would likely be significant for little perceived value.

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

Realistically the DSM will always cause a pause in a car sale and financing transaction to facilitate the sale of add-on insurance and warranty products. The pause can be obviated by the decision not pursue



the financing of add-on insurances and warranties – which is likely to be the case unless products have the appeal and cover to mitigate the delay.

The implementation of an opt-out model or cancellation rights seem to be the only avenues to facilitate the sale of add-on products in a more timely manner however the qualifications to participate needs to meet ASIC's standards and requirements including enhanced disclosures and product understanding together with enhanced compliance and training. Conceptually enhanced value added products, strong compliance and monitoring obviate the need for the DSM whilst meeting ASIC's expectations and requirements.

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

Not that we are aware. The exclusion of comprehensive insurance from the DSM facilitates the timely sale of new and used vehicles. Members do not mandate any other forms of insurance nor do they require any waivers regarding the sale of any other credit related insurances.

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

This is an issue that can be tested by a post settlement/survey or focus groups, customer feedback and complaints. This question is best answered by insurers and issuers of other add-on products.

**E1.Q9 – Should a customer opt out mechanism be used?**

See our earlier comments

**E1.1.Q1- Which of the proposed options in paragraph 193 for commencement of the deferral period would be preferable and why?**

Option A is the preferred method of AFIA Members as it most closely replicates the sale and financing process and has the capacity for a deferred sales proves.

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

Option A – whilst reflecting the current sales sequence it also facilitates compliance by the credit provider with their responsible lending requirements – initially in relation to proposed vehicle, on road costs including CTP and comprehensive insurance and, subsequently the addition of add-on products,

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

It is expected that this would be the date of the initial application as reflected in members' loan application systems, including the provision of a privacy consent – this caters for both direct and on line finance sales. Procedurally, it would also reflect the time of the capturing of the customer's initial requirements and objectives in relation to the proposed loan contract, and potentially the initial credit assessment.

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

This is not the model preferred by Members who do not mandate any insurances except for comprehensive insurance. It is not members practice to authorise the release motor vehicles until settlement of the finance application. Claims data is a question for insurers.

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

Members do not support a DSM. If a DSM is to apply, 4 days seems to be reasonable as it is reflective of the usual turnaround for a finance application and availability of a new vehicle for delivery from stock. In practice delays in the availability of specially optioned or popular new cars models may considerably exceed a DSM across the range 4-30 days.

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

No, where add-ons products are expected to be financed.

**E1.2.Q3 – What is the average period of time between a new car and a used cars and its delivery to a customer.**

Where a new vehicle is in stock and is able to be detailed for delivery and registered, it could be accommodated on Day 1 although a period of 1-4 days is more realistic.

As noted above where a new vehicle is not in stock the delay may be more pronounced dependant on vehicle availability including, model, colour, specifications etc.

For a used registered (demo/used) vehicle, same day delivery is generally achievable subject to detailing although realistically a period of 1-4 days

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

The period may vary between members and will depend on availability of sufficient information to enable a member to fulfil their responsible lending obligations. 2hrs -48 hrs would be a reasonable estimate and not uncommon although, auto approval processes implemented by a number of members, also facilitate prompt assessment and approval of applications.

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

Yes, consumers should be given all relevant information and encouraged to read it and to seek independent advice in the event that they do not understand any aspect of the add-on product. The obligations in relation to insurance and other add-on products vests with the insurers or issuers and their representatives.

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

This is an issue best addressed by the ASIC and the insurer however use of the applications loaded to portable electronic devices and mobile phones may cater for a diverse range of products, customer's languages and understanding.

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

Information should include –

1. A statement that the product is optional
2. Whether the product is available based on an annual premium and the cost
3. Whether the product is only available as a single premium and the cost

4. Whether the insurance is available as an after-market product – how to access it and the cost
5. Advice that if financed it will attract interest at the rate applicable to the underlying finance contract.
6. Whether there is a cooling off period
7. Whether the insurance premium is rebatable on early termination
8. A clear statement as to the amount of commission payable to the introducer
9. A statement that the consumer should read the FSG/PDS and any other relevant information to be provided
10. A statement that the consumer should satisfy themselves that the add-on product meets their requirements and objectives.
11. A point of reference within the insurer for further information and clarification of the cover
12. How to make a complaint, etc.

**E1.4.Q1-Should a separate deferred sales model be introduced for mechanical breakdown insurance and warranty products? If not, how could the particular risks associated with these products be addressed?**

If there is a DSM, it should be consistent for all add-on products.

These products should be required to disclose in a tabular form, the entitlements the consumer has at law under the consumer guarantees provisions of the Australian Consumer Law and what added cover is provided by the product. A warning should be added to the effect that a consumer has rights under the Australian Consumer Law. It should be incumbent on insurers and issuers of such products to ensure that this product is only sold where the cover exceeds the requirements under the Law.

Prohibition of the sale of the products should apply where the vehicle at the point of sale has for example travelled in excess of the scheduled number of kilometres for coverage; is in a condition at the point of sale which excludes a claim under certain heads of the policy – is it hasn't been serviced in accordance with manufacturers' warranty requirements etc.

**E.2.Q1 –Given the limitations in monitoring conduct at the point of sale, what changes would be necessary to ensure providers are effectively supervising their representatives?**

The products should not be available for sale/financing if adequate arrangements are not in place at the point of sale for the monitoring and supervision of representatives. This is a fundamental component of Section 48 of the NCCP Act in relation to finance and should apply equally to the sale of insurances and regulated warranties. AFIA notes ASIC reservations about current levels of monitoring and supervision at the point of sale and lack of sanctions for unacceptable conduct.

AFIA supports ASIC's observations that monitoring and supervision of representatives needs to be improved by requiring insurers and product providers to identify and address risks in their distribution channel that evidence failings in the obligation to monitor and supervise representatives. AFIA and its members are happy to work with ASIC in the development of risk indicators capable of identifying non-compliant and unfair sales practices.

**E.2.Q2- What risk indicators could be introduced to improve capacity of providers to monitor their representatives.**

AFIA supports the actions and proposals and actions set out in Paragraphs 255-259.

**E.2.Q3- What sanctions would be most effective in deterring representatives from engaging in unfair practices at the point of sale?**

AFIA believes that a range of civil and criminal penalties, temporary and permanent bans of recalcitrant representatives and issuers, refunds, introduction of strict liability offences under the Corporations Act.

AFIA notes that ASIC is proposing to enhance its regime to ensure an orderly and compliant marketplace and increase the level of consumer confidence in the purchase of add-on insurance and warranty products.

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