Phil Gilbert
MOTOR GROUP

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Australian Securities and Investments Commission
Email: add-on.consultation@asic.gov.au

Dear Sir/Madam

CP 294 The sale of add-on insurance and warranties through car yard intermediaries

Please find attached our response to Consultation Paper 294. We appreciate the opportunity to provide our feedback to the proposals.

Should any further information or clarification be required please do not hesitate to contact me at the email address below.

Yours sincerely,

[redacted]

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1. Introduction

This submission has been prepared by Gillen Motors Pty Ltd in response to the consultation paper 294 (CP 294) released August 24 2017 by ASIC entitled "The sale of add-on insurance and warranties through caryard intermediaries".

Founded in 1988 and with sales volume approaching 6,300 units per annum, Gillen Motors is a family owned multi franchised dealership with outlets in Croydon NSW and Lidcombe NSW. Defined as a "Heavyweight" Toyota dealer and also one of Hyundai's leading Sydney Metropolitan dealerships, Gillen Motors provides secure employment to 180 staff members.

Trading as Phil Gilbert Motor Group, numerous awards over recent years and recognition by Toyota as a Five Star Guest Experience dealership demonstrate and confirm the commitment Gillen Motors has to providing an exceptional guest experience. This is further emphasised by the introduction and adherence to the 13 "Phil says values" which guides the staff when dealing with customers.

Gillen Motors is highly regarded by the local population as a significant contributor to the local economy and as a strong community supporter.

Demonstrated recent investment includes a brand new Toyota showroom, two new Hyundai showrooms and planning well underway for further investment in the Lidcombe Toyota outlet. This development and construction provides local opportunities for employment and signals confidence in the local community. In addition, Gillen Motors invests heavily in staff and Management development with all senior staff being graduates of the Disney Institute's Guest experience course.

2. Executive Summary

ASIC reports it has concerns with the design, distribution and sale of add-on insurances. It believes the car industry is failing consumers citing systemic problems in the distribution of add-on insurance products through Dealerships.

ASIC's findings in reports 470, 471 and 492 have led to two proposals for reform as documented in CP 294.

Whilst acknowledging ASIC's concerns, Gillen Motors believes there remains a place for suitable well-balanced insurance products that provide value for money and genuine protection of a customer's recently acquired asset. We believe customers should have the opportunity to enjoy use of that asset through the protection of their financial position in times of hardship and/or unforeseen financial stress.

IN CP 294, ASIC makes reference to price comparisons of products sold in competitive and non-competitive markets. We firmly believe consumers should have choice for add on car and loan insurance products outside of their superannuation or life insurance arrangements, if indeed they have such cover. We do however acknowledge and support ASIC's requirement for such products to provide value and features that are of genuine benefit to the purchaser.

In this response document, we generally refer to the findings and/or the proposals for reform that we believe will have an immediate impact on the business performance of Gillen Motors. We acknowledge ASIC is working with the Insurers in other areas for improvement and to drive voluntary changes to product design and pricing.

3. Dealership Context

Gillen Motors operates in an extremely competitive market. Reported record car sales often mask the nature of competition and the extraordinary number of cars sold at cost or below to achieve a sale. Fleet sales and/or manufacturer initiated programs and stock surplus present further challenges by driving dealerships to negligible margin on new vehicle sales by setting extremely high targets which are linked to dealership performance criteria.

Retail customers generally require finance to purchase their new car. Recent research suggests 80% of customers require finance in some form. This can be from their own lender or it can be offered and provided through the dealership. To the dealership, this is an important opportunity to secure the link with the customer and to earn additional income by way of finance commission. When offered with transparency and honesty, finance is and will remain integral as an income source to the dealership.

Whilst acknowledging add on insurances also provide additional income for the Dealership, such products offer protection for the customer's new asset and allows them to future proof against hardship. Commissions received for the sale of add on insurances represent an important revenue stream for Gillen Motors Pty Ltd and other dealers.

We believe competitive pricing, value for money features and benefits and an appropriate sales process can be achieved to the satisfaction of ASIC and the consumer.

4. Reform Proposals

ASIC proposes two reform proposals within CP 294, the first being a deferred sales model and the second being the introduction of more robust and targeted requirements for providers to meet when supervising and monitoring their authorised representatives. We respond as follows-

Reform proposal 1 – "a deferred sales model"

We believe a formal deferred sales model is not required. Our preferred solution is to explore options that make greater use of the 21 day cooling off period that is applicable to Insurance products.

A deferred sales model will create confusion because of the varying delivery times that exist between new, demonstrator and used car sales. In some instances a used car can be purchased and delivered in the same day. The new car sale to delivery timeframe can in some instances be 90 days or more, with an average of 14 days.

Any deferred sales model must take the above into consideration.

In addition, the challenge of getting the finance approval for the consumer without having to resubmit a loan application for add on products is problematic. As a guide, a finance application could get an approval for a specific amount without any add on products only to be declined after the deferral period due to capacity/serviceability reasons when add on insurance products are chosen by the consumer.

Reform proposal 2 – "more robust and targeted requirements for providers to meet".

We have no objection to more robust and targeted requirements for providers.

Current requirements include vigorous on boarding process for new representatives. Background checks including police and credit checks are undertaken. At that point training modules covering products, compliance and sales techniques are required to be completed before any selling can take place. A further period of up to three months is then required for further training.

In addition, ongoing Continuing Professional Activities are "pushed out" to authorised representatives with accreditation removed should completion dates be ignored. Internal audits of consumer deal packs are completed as are onsite inspections by Account Managers designated by finance and/or insurance providers.

Any additional requirements will see the need for additional resourcing by the Insurance providers.

5. Proposals and questions

E1Q1

Do you consider that it is appropriate to apply a deferral period to the sale of add-on products by caryard intermediaries?

We consider a formal deferral period to be an unnecessary step in the sales process. Greater transparency and formality at the selling stage and during the cooling off period however should be introduced. Consumers are afforded a 21 cooling off period for add on insurance products. We believe greater clarity and understanding of their rights during the cooling off period would adequately address ASIC concerns and would lead to a fairer outcome for all parties.

If a deferral period is introduced, we believe consideration must be given to a process where discussion about the add on products **is still allowed at the point of sale of the car.** Further discussion and acceptance by the consumer can then be achieved at any time after the deferral period.

E1Q2

To what extent would a deferral period address the consumer harms identified in this market?

We do not believe a deferral process would address the consumer harm. It would create confusion and increase the likelihood of consumers leaving a dealership uninsured.

E1Q3

How would the proposal affect businesses? (e.g. insurers, car dealers, finance brokers, credit providers)?

A deferred sale process will have a negative impact on the profitability of dealerships.

Fully informed consumers, offered add on insurances at competitive pricing with obvious features and benefits, will always consider insurance. Greater awareness, transparency and value for money products are required.

We ask, has ASIC sought comment from those consumers who have previously been offered and purchased add on insurance products and who later claimed against the policy? We suggest the feedback and/or commentary would be encouraging.

Would it have a different impact on small businesses?

The impact for a small dealership would be the same, relative to the size of the business.

E1Q4

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?

Two separate models, one for new and one for used cars would create further confusion. An "opt out" option should be considered for used cars and also for new cars and/or demonstrators when the consumer agrees they do not require a deferral period.

E1Q5

What are the preconditions for a competitive online market? How can a deferred sales model contribute to this outcome?

Whilst an online market will allow consumers to shop around during a deferral period, a "comparison rate" model, similar to that used for finance offers should be a precondition.

E1Q6

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?

We believe greater attention to the 21 day cooling off period is a sound solution. Ensuring a customer is aware of and acknowledges they have cooling off rights would achieve the specified objectives.

E1Q7

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?

No.

E1Q8

What is the most effective way of testing whether consumer understanding has improved due to a deferred sales model?

This would require consumer satisfaction surveys being undertaken by the insurance providers.

What metrics would provide the best way of measuring consumer comprehension?

The level of consumer complaints should drop as should insurance company refunds of paid premiums and early termination of loans where add on products have been financed. Claims satisfaction and payouts as a percentage of premiums paid should increase.

E1Q9

Should a consumer opt-out mechanism be included?

Yes, this is required in the used car environment where the sale to delivery time period can, in some instances, be hours not days. It will also be required for new cars and demonstrators where the chosen car is in dealership stock and can be delivered in a period that is less than the deferral period.

Commencement of the deferral period

E1.1Q1

Which of the proposed options in paragraph 193 for commencement of the deferral period would be preferable and why? Please suggest other options if relevant)

The commencement of the deferral period should be at the close of business on the day the consumer commits to the car contract by paying the required deposit to secure the car. This start time is easily identified in the dealership management system and can be a universal date/time stamp.

E1.1Q2

Which sales sequence is most likely to meet our stated objectives and why?

We confirm our preference is to construct robust and transparent processes around the cooling off period.

If however a deferral period was required our preferable option would be Sales sequence B.

The benefits of this sequence have been identified in figure 1, p 52. This can work in a new environment where the delivery is also deferred for a minimum of 4 days

Sales sequences A and C are not workable for the reasons ASIC has already identified in figure 1 p.52.

E1.1Q3

How could the point at which the deferral period commences be easily documented to be readily verified by all parties?

It can be documented in the vehicle contract. This would be similar to the current reference to the cooling off period for vehicles purchased through dealer finance.

E1.1Q4

If the deferral period commenced at vehicle delivery, could short term bridging insurance be offered to cover the deferral period only?

The insurers would be best qualified to comment on this.

What does insurers claims data demonstrate about the likelihood of a claim shortly after delivery?

The insurers would be best qualified to comment on this.

Duration of the deferral period

E1.2Q1

What would be the appropriate duration of the deferral period within the range of 4-30 days and why?

New and used cars four days, with an opt out period for used cars and/or new cars where the delivery can take place in a time that is less than the deferral period.

E1.2Q2

Should the duration of the deferral period be different for new and used cars?

No. Two separate models, one for new and one for used cars would create further confusion. An "opt out" option as floated by ASIC could assist to remove the confusion.

E1.2Q3

What is the average period of time between the sale of a new car or a used car and its delivery to the consumer? What is the shortest period of time and how common is it?

The average period of time is 2 days for a used car that is not being financed at the dealership. The shortest period of time is 4 hours. A four hour turnaround occurs in approximately 5 out of 100 used car sales.

The new car period of time is 14 days however the range can be between 2 days for cars in dealership stock and up to 90 days for cars that require a specific order to the manufacturer and additional accessorising.

E1.2Q4

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 average approval time is within 24 hours. This is for finance applications that have referred in to the financier for manual assessment.

The financiers have a points scoring system that allows, in some instances, an automatic approval. This is a computer generated approval that is instantaneous. This system however requires documentation verification by/from the customer which can take 1-5 days.

Consumer communication

E1.3Q1

Should providers be required to take active steps to ensure consumers read and understand information about their products before they can buy them?

No. Providers should however ensure consumers have all of the information needed to make an informed decision about the products they are considering buying. Consumers are provided with a Product Disclosure Statement and have the right to "cool off" if they feel inclined.

E1.3Q2

What forms of innovative disclosure could be used to better inform consumers about their insurance decision?

An electronic explanation of the consumer's insurance decision from the provider, delivered to the customer's nominated email address.

E1.3Q3

What information should the consumer communication include?

The products chosen, the price and the features and benefits. Reference should be made to a provider's web site for further information.

E1.3Q4

Should providers be required to inform consumers about the availability of other products that provide similar cover, but may be cheaper?

No, as this could lead to conversations with the consumer that border on offering personal advice about particular products.

E1.3Q5

If so, what information should the consumer communication include?

N/A

Mechanical breakdown insurance and warranties

E1.4Q1

Should a separate deferred sales model be introduced for these products? If not, how could the particular risks associated with these products be addressed?

No. Mechanical breakdown insurance and warranties should not see the introduction of a separate deferred sales model. Doing so will lead to separate sales processes for mechanical risk products and add on insurance products leading to even further consumer fatigue.

The risks associated with these products can be mitigated with a transparent and formal process around the sale.

E2Q1

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

Written acknowledgement by the consumer that they understand and agree to the products they have purchased.

Follow up phone calls by the provider to consumers who have purchased products, satisfaction surveys and mystery shopping exercises.

E2Q2

What risk indicators could be introduced to improve the capacity of providers to monitor their representatives?

A register of complaints against individuals and also dealers, product cancellation ratios per individual and also by dealers and a cross check/match of high performing dealers to the aforementioned registers.

E2Q3

What sanctions would be most effective in deterring representatives from engaging in unfair practices at the point of sale?

A written warning for first time offenders with time bans for representatives found guilty a second time of engaging in unfair practices. Financiers and Insurers should be required to share the "banned representative" list to avoid representatives moving within the industry.