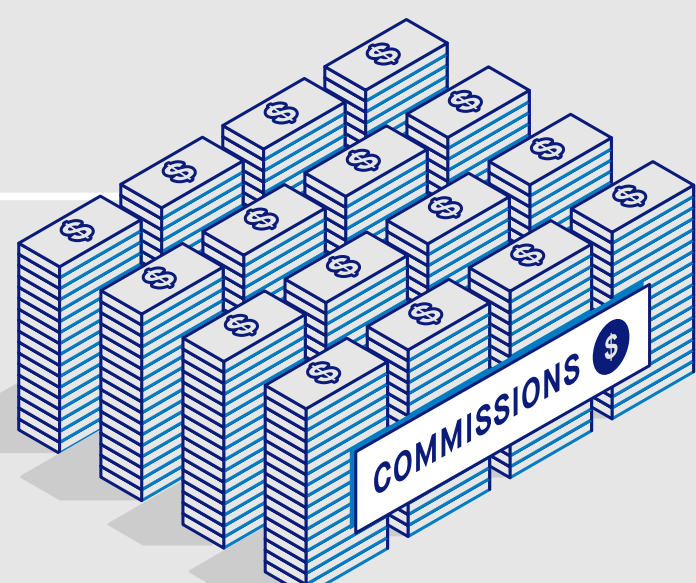


## ASIC identifies a market failing consumers in the sale of add-on insurance through car dealers

Car dealers got four times more in commissions than consumers received in claims, with commissions paid to car dealers as high as 79% of the premium paid by consumers.



CAR DEALERS WERE PAID

**\$602.3m**

in commissions



CONSUMERS WERE ONLY PAID

**\$144m**

in successful claims



COMMISSIONS PAID TO CAR DEALERS COMPARED TO SUCCESSFUL CLAIMS PAID TO CONSUMERS BY PRODUCT

8x

GAP  
INSURANCE

7x

LOAN  
TERMINATION  
INSURANCE

1.8x

MECHANICAL  
BREAKDOWN  
INSURANCE

5x

TYRE & RIM  
INSURANCE

3.8x

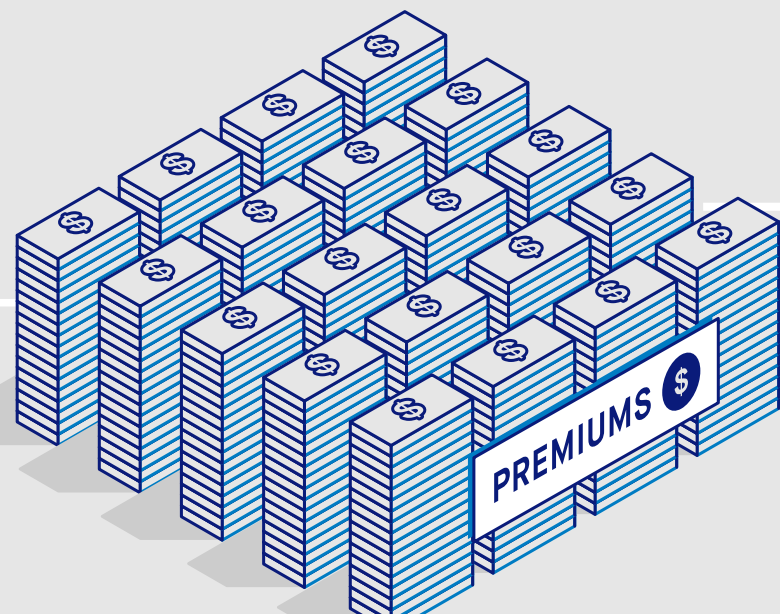
CONSUMER  
CREDIT  
INSURANCE

The figure for mechanical breakdown insurance was corrected on 31 July 2018 to be consistent with the finding in REP 492.

### PACKAGING ADD-ON INSURANCE INTO THE CAR LOAN INCREASES THE COST

Payment for the insurance products is commonly packaged into the consumer's car loan as an upfront single premium, which can substantially increase the cost of the product by increasing the loan amount and interest paid. It can also reduce the consumer's awareness that they have the policy, and create unfair outcomes if a consumer repays their car loan early.

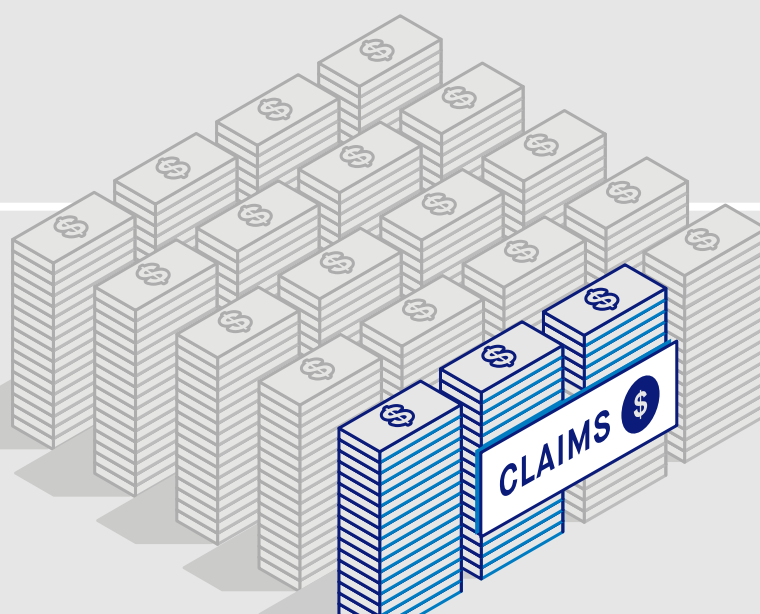
Consumers paid a lot...  
but got back very little.



CONSUMERS PAID

**\$1.6b**

in premiums



CONSUMERS RECEIVED JUST

**9%**

back in claims

Consumers paid \$1.6 billion in premiums,  
and received only \$144 million in successful insurance claims,  
representing a very low claims ratio of 9%.



WHAT CONSUMERS GET BACK IN CLAIMS

22%

MECHANICAL  
BREAKDOWN  
INSURANCE

8.6%

TYRE & RIM  
INSURANCE

6.3%

GAP  
INSURANCE

5%

CONSUMER  
CREDIT  
INSURANCE

4.4%

LOAN  
TERMINATION  
INSURANCE

For some products, even consumers who made a claim had paid more than what they got back.

For example, where the average premium paid by the consumer was more than the average claim received under the policy.

TYRE & RIM INSURANCE

**\$414**

AVERAGE PREMIUM

**\$334**

AVERAGE CLAIM

MECHANICAL BREAKDOWN INSURANCE

**\$1482**

AVERAGE PREMIUM

**\$940**

AVERAGE CLAIM

### COMPLICATED INSURANCE PRODUCTS INHIBIT GOOD DECISION MAKING

Sales processes adopted by insurers require consumers to make complex decisions about complicated insurance products in a sales environment that inhibits good decision making because the consumer is focused on purchasing a car and financing that purchase, not on purchasing an insurance policy.

The road to better  
customer outcomes.  
ASIC's impact so far.

A voluntary cap of 20% on commissions paid to anyone who sells an add-on insurance product to consumers through car dealers; will make the products cheaper, however won't change the problem of the design.

CURRENT MAXIMUM CAR  
DEALER'S COMMISSION

**75%**

NEW CAR DEALER'S  
COMMISSION

**20%**



CONSUMERS WILL RECEIVE A  
REDUCTION ON PREMIUMS OF UP TO

**68.75%**

