Consumer credit insurance: Poor value products and harmful sales practices

Report 622 | July 2019

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About this report

Consumer credit insurance (CCI) provides cover for consumers if they are unable to meet their minimum loan repayments due to unemployment, sickness or injury or to pay the outstanding loan balance upon death. CCI is optional and usually sold by lenders to consumers with a credit card, personal loan or home loan.

ASIC has long been concerned about sales practices for CCI, which have resulted in poor outcomes for consumers. We reviewed the sale of CCI by lenders, for the period 2011 to 2018, and found that CCI sales practices and product design are still delivering poor outcomes for consumers.

This report confirms the standards we expect of lenders who sell CCI and insurers who design the products and handle claims. ASIC expects lenders and insurers to meet these standards or cease selling CCI until they do. New products must meet the standards before being sold.

ASIC has commenced enforcement investigations into a number of entities that have been involved in mis-selling CCI to consumers. We are also requiring lenders to remediate over 300,000 affected consumers with over $100 million to ensure that consumers who have not been treated fairly are appropriately remediated. ASIC will provide a further update on this program later in the year.

Our expectations in this report are supported by the recommendations in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission): see Recommendations 4.1, 4.3, 4.7 and 4.8.

ASIC's work on CCI—At a glance

Finding: CCI is poor value for money

- For ***CCI sold with credit cards***, consumers were paid only ***11 cents in claims*** for every dollar they paid in premiums (and the more cover types in the policy, the lower its claims ratio).
- For ***all CCI sold***, this increased to only ***19 cents in claims*** paid.

Finding: CCI sales practices cause consumer harm

- CCI was sold to consumers who were ***ineligible to claim*** or ***unlikely to benefit or need cover***.
- Sales staff used ***pressure selling*** and other ***unfair sales practices***.
- Consumers were given ***non-compliant personal advice*** to buy unsuitable policies.
- Consumers were charged CCI premiums with ***no current loan***.
- Many lenders did not have consumer-focused processes to help ***consumers in hardship*** who had a CCI policy to lodge a claim.

Finding: Lenders are exiting the CCI market

- During ASIC's work on CCI, ***7 of 8 lenders*** have stopped selling CCI with credit cards, ***5 of 9 lenders*** have stopped sales with personal loans, and ***4 of 9 lenders*** have stopped sales with home loans.

ASIC's expectations: Meet our standards

- ASIC expects lenders and insurers to meet the ***standards*** on page 4 of this report or ***cease selling CCI*** until they do.

ASIC action: Enforcement investigations

- ASIC is investigating ***sales of CCI that did not comply with the law*** before the recent strengthening of ASIC's powers and penalties.
- ***For future conduct***, we will use our enhanced powers and penalties, including the ***product intervention power*** where there is a risk of significant consumer detriment, and ***civil penalties*** for breaches of the duty to do all things necessary to ensure that financial services are provided efficiently, honestly and fairly.

ASIC action: Consumer remediation and improved product value and sales practices

- ASIC is requiring lenders to undertake ***large-scale remediations*** with ***over $100 million*** expected to be paid to ***300,000+ consumers***. The consumers' best interests must underpin every decision and action of the lender in undertaking the remediation.
- We will assess changes to product value and sales practices, using the full range of our powers if we do not see improvements.

ASIC’s expectations

We expect all lenders who sell CCI, and insurers who design and price the products and handle claims, to meet the following standards or cease selling CCI until they do. New entrants to the market should also design their products and sales processes so they meet these standards as soon as they start business. There is a risk of significant consumer detriment where these standards are not met. Where this occurs ASIC will consider enforcement action or intervening using our product intervention power.

Improved product design and value

- CCI products should be unbundled so that consumers can select cover they are eligible to use and that meets their needs.
- Claims ratios must be significantly increased from the current poor levels of 19 cents in the dollar, so CCI provides real consumer value.
- Lenders should assess product value including claims ratios of new and existing products before deciding to sell CCI.
- Benefits should reflect the needs of consumers (e.g. payments for periods of unemployment rather than arbitrary limits).

Compliance and monitoring

- Lenders should refrain from selling CCI unless they can demonstrate compliance with these standards and the10 recommendations in REP 256 for the sale of all CCI products through all channels.
- Where these standards have not been met, lenders should conduct a complete, thorough and robust review to assess any consumer harm, and identify and remediate affected consumers in a timely manner.

Improved sales practices

- Outbound unsolicited phone sales of CCI should cease.
- Lenders should use ‘hard filters’ for key eligibility criteria for online sales and ‘knock-out’ questions in scripts for phone and branch sales to prevent the sale of CCI to consumers who are ineligible to claim on any primary cover.
- Lenders should take into account information they have about the consumer to ensure consumers are not being sold a CCI policy where they are ineligible to claim (this does not have to mean that personal financial advice is being provided).
- Lenders should obtain and record positive, clear and informed consent before discussing the sale of CCI with a consumer.
- Lenders should, within a short timeframe, incorporate a four-day deferred sales model for all CCI products across all channels, with the deferral period starting the day after the consumer is told their loan is approved.

Improved post-sales conduct

- Lenders and insurers should not charge premiums for CCI where primary benefits are no longer available under the policy (i.e. the loan has been repaid).
- Lenders and insurers should give consumers appropriate annual communication about the price, limits and exclusions of the policy and remind them to lodge a claim if they had a claimable event in the last 12 months.
- Lenders and insurers should, every two years, contact consumers with CCI on a credit card (or other revolving lines of credit) about whether they want to keep their policy or cancel their cover.
- Lenders should notify a consumer with a CCI policy who applies for changes to their loan contract due to financial hardship that they have a CCI policy and provide or transfer their claim details to the insurer for assessment.
- Insurers should accurately and reliably record the number of (and reasons for) withdrawn claims and claims that did not proceed.

Background to our review

How CCI works

Consumer credit insurance (CCI) sold with credit cards, personal loans and home loans provides cover for consumers if they are unable to meet their minimum monthly loan repayments due to unemployment, sickness or injury (under the terms of the policy) or to pay the outstanding loan balance upon death. CCI is optional and usually sold at the time the consumer applies for the loan.

The CCI premium and the amount and length of cover are tied to the loan, with each policy having different features, limits and exclusions. Any claim payout varies greatly between policies depending on these features, limits and exclusions. For example, a claim for involuntary unemployment under a policy will pay the minimum monthly loan repayment each month from the date of unemployment but the claim payments may be capped at a specified (monthly and overall) limit amount and payments will only be available for a limited period of time.

ASIC's previous work on CCI

In October 2011, ASIC issued Report 256 *Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions* (REP 256), which made 10 recommendations to raise industry standards and reduce the risk that CCI may be mis-sold to consumers.

During 2015 and 2016, ASIC reviewed the sale of add-on insurance (including CCI) through car dealerships. We found that consumers were being sold expensive, poor value products that provided very little or no benefit, and a sales environment with pressure selling, very high commissions and conflicts of interests.

> **Note:** See Report 470 *Buying add-on insurance in car yards: Why it can be hard to say no* (REP 470), Report 471 *The sale of life insurance through car dealers: Taking consumers for a ride* (REP 471) and Report 492 *A market that is failing consumers: The sale of add-on insurance through car dealers* (REP 492).

In August 2017, ASIC formed a CCI working group with industry to help respond to these concerns and improve outcomes for consumers. As a result, the Banking Code of Practice now has a four-day deferred sales period for CCI sold with credit cards and personal loans in branch or over the phone, effective 1 July 2019.

ASIC continues to be concerned about the sale and design of CCI. Some of our concerns include:

- the sale of CCI to consumers who did not meet, or were unlikely to meet, the employment eligibility criteria under the policy when they were sold the policy (for instance, because they did not work the required minimum number of hours per week or were in casual or temporary employment) and would be unable to claim under the policy; and
- consumers being charged for more cover than they needed under the policy, including premiums and cover based on the (higher) loan amount applied for rather than the amount the consumer borrowed.

> **Note:** See Media release 15-318MR *Westpac to refund premiums for unwanted insurance cover*, 29 October 2015; Media release 17-268MR *Commonwealth Bank to refund over $10 million for mis-sold consumer credit insurance*,14 August 2017; and Media release 17-457MR *Latitude Insurance refunds almost $1.1 million for poor consumer credit insurance sales and claims handling*, 21 December 2017.

What we did in this review

In December 2017 we required 11 lenders to undertake an independent review of their CCI sales practices for the five-year period from January 2013 to December 2017 (independent review).

The purpose of our review was to:

- test whether the 10 recommendations in REP 256 had been implemented and were working effectively;
- review a sample of CCI sales over the period across all products and distribution channels (except CCI sold through car dealers, which was reviewed in REP 492) to identify any non-compliant sales and ensure CCI had not been sold to consumers who were unlikely to meet the employment eligibility criteria and would be unable to claim;
- analyse complaints, sales and claims information to identify systemic concerns, poor value products and poor consumer outcomes; and
- address additional concerns about CCI sales practices across all products and distribution channels.

These independent reviews revealed a range of problems (as highlighted in this report) and resulted in breach reports being lodged with ASIC.

ASIC also collected and reviewed data from lenders and insurers for the financial years 2011–2018 to help inform our work, including declined and withdrawn claims. We calculated claims ratios based on the data provided.

Note: When ASIC conducted a final factual accuracy review, one entity identified an error in the data provided to ASIC. For a range of reasons, including materiality, this data has not been changed in this report and does not change the report's findings or recommendations.

Table 1 lists the lenders and insurers covered by our review. For a full summary showing the links between lenders and insurers, see Appendix 1.

Table 1: Lenders and insurers covered by our review

Lenders	Insurers
› Australia and New Zealand Banking Group Limited (ANZ) › Australian Central Credit Union Ltd (People's Choice Credit Union) › Bank of Queensland Limited (BoQ) › Bendigo and Adelaide Bank Limited (Bendigo) › Citigroup Pty Limited (Citigroup) › Commonwealth Bank of Australia - Retail Banking Services and Bankwest (CBA) › Credit Union Australia Limited (CUA) › Latitude Finance Australia and Latitude Personal Finance Pty Ltd (Latitude) › National Australia Bank Limited (NAB) › Suncorp-Metway Limited (Suncorp) › Westpac Banking Corporation (Westpac)	› AAI Limited (AAI) › AIA Australia Limited (AIA) › Asteron Life & Superannuation Limited (Asteron Life) › Credicorp Insurance Pty Ltd (Credicorp) › Great Lakes Insurance SE (Great Lakes) › Hallmark General Insurance Company Ltd (Hallmark General) › Hallmark Life Insurance Company Ltd (Hallmark Life) › Insurance Australia Limited (IAL) › MetLife Insurance Limited (MetLife) › MLC Limited (MLC) › MTA Insurance Pty Ltd (MTAI) › OnePath General Insurance Pty Limited (OnePath General) › OnePath Life Limited (OnePath Life) › QBE Insurance (Australia) Limited (QBE) › St Andrew's Insurance (Australia) Pty Ltd (St Andrew's) › St Andrew's Life Insurance (Australia) Pty Ltd (St Andrew's Life) › St. George Life Limited (St. George Life) › Swann Insurance (Aust) Pty Ltd (Swann) › The Colonial Mutual Life Assurance Society Limited (CMLA) › Westpac General Insurance Limited (Westpac General) › Westpac Life Insurance Services Limited (Westpac Life)

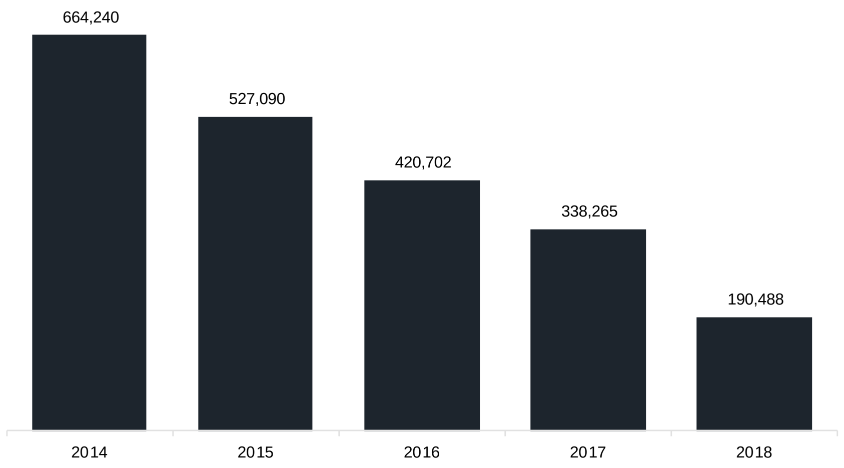
Note: All lenders reviewed for REP 256 were included in this review except HSBC Bank Australia Limited as it had withdrawn all sales of CCI by October 2013. During the time of our review, Asteron Life was known as Suncorp Life & Superannuation Limited. IAL, trading as CGU Insurance, provided CCI life insurance cover through group life insurance policies issued by AMP Life Limited.

Changes to the CCI market during the course of ASIC's work

Market changes

From 2014 to 2018, total sales of all CCI products by the 11 lenders in our review decreased by 71% (from 664,240 to 190,488 sales): see Figure 1.

Figure 1: Decrease in total CCI sales by year (2014–18)

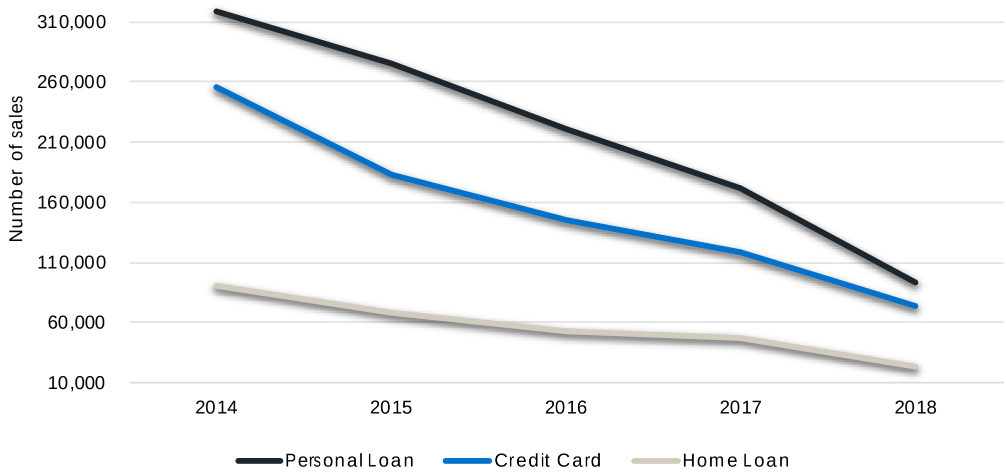


Note: For the data shown in this figure, see Table 5 (accessible version).

The decrease in sales was consistent across all products:

- for personal loan CCI, a decrease of 71% (from 318,551 to 93,161 sales);
- for credit card CCI, a decrease of 71% (from 255,216 to 74,186 sales); and
- for home loan CCI, a decrease of 74% (from 90,249 to 23,073 sales): see Figure 2.

Figure 2: Decrease in total CCI sales by product (2014–18)

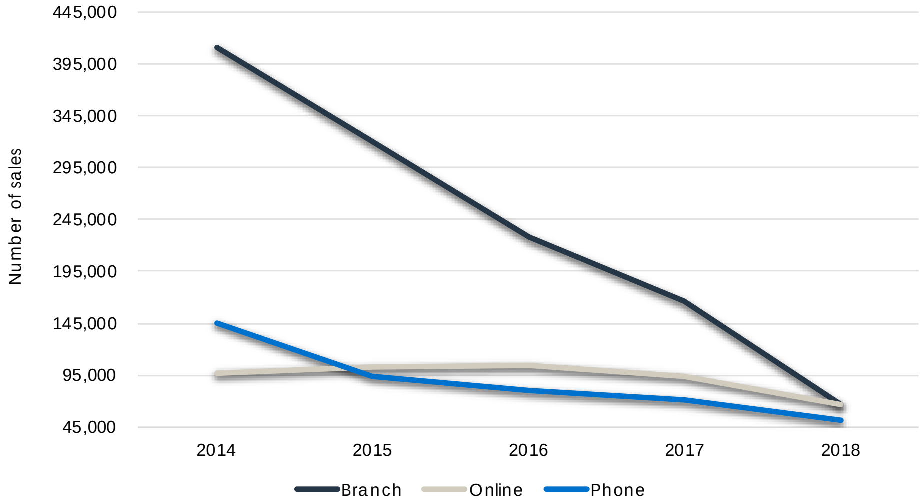


Note: For the data shown in this figure, see Table 6 (accessible version).

During this period, sales of CCI decreased across all sales channels with some variation:

- branch sales decreased by 84% (from 411,605 sales to 66,306 sales);
- phone sales decreased by 64% (from 145,656 sales to 51,904 sales); and
- online sales decreased by 30% (from 96,358 sales to 66,981 sales); see Figure 3.

Figure 3: Decrease in total CCI sales by channel (2014–18)



Note: For the data shown in this figure, see Table 7 (accessible version).

Some lenders stopped selling CCI for some or all products: see Table 2.

Table 2: Changes to CCI sales for products by lender (2014–19)

Lender	Credit card	Personal loan	Home loan
ANZ	Ceased	Ceased	Selling
Bendigo	Ceased	Ceased	Ceased
BoQ	Not sold	Selling	Selling
CBA	Ceased	Ceased	Selling
Citigroup	Ceased	Not sold	Not sold
CUA	Not sold	Selling	Selling
Latitude	Selling	Selling	Not sold
NAB	Ceased	Ceased	Ceased
People's Choice	Not sold	Not sold	Selling
Suncorp	Ceased	Ceased	Ceased
Westpac	Ceased	Ceased	Ceased

Note: While CBA is selling CCI with home loans, Bankwest (a division of CBA) has ceased selling all forms of CCI.

ASIC investigations, consumer remediation and changes to practices

ASIC action

Our review of CCI sales, informed by the independent reviews, has identified consumer harm, the need for consumer remediation and improved practices in the following situations:

- consumers being sold CCI when they were ineligible to claim;
- pressure selling and unfair sales practices;
- inappropriate personal advice provided to consumers to buy unsuitable policies;
- consumers incorrectly charged for CCI; and
- deficient hardship processes and procedures.

Where significant, lenders have lodged breach reports about the misconduct. ASIC has commenced enforcement investigations into the sales practices of a number of entities where we are concerned there have been breaches of the law.

Remediation program for affected consumers

We are requiring all lenders in this review to undertake a large-scale remediation program to address consumer harm (expected to involve over 300,000 affected consumers paid over $100 million).

We have been actively involved to help ensure that the lenders' remediation programs follow these principles:

- lenders conduct a complete, thorough and robust review of the harm to identify the number and nature of affected consumers and the total amount of remediation (with interest);
- consumers are remediated in a fair, timely and transparent manner to put them back in the position they would have been in had the mis-selling not occurred (but timeliness must not compromise the program's quality);
- consumers are pro-actively remediated (and where there is good reason for the consumer to take some action for remediation, the 'call to action' should not be onerous nor influence them to take an action that does not align with their best interests);
- communication with consumers should use multiple channels, be informed by awareness of consumer behaviour, and focus on the right 'call to action' and/or messaging to achieve high response rates and good consumer outcomes;
- where consumers have active bank accounts, remediation should be processed automatically to that bank account;
- where consumers have inactive accounts, they should be given the option of nominating an alternative bank account;
- if a cheque is issued, the consumer should receive follow-up communication to ensure the cheque is deposited;
- lenders continually monitor outcome metrics of the remediation to track progress and identify and fix areas of the remediation that need improvement; and
- lenders follow Regulatory Guide 256 *Client review and remediation conducted by advice licensees* (RG 256).

Changes to practices

We required the 11 lenders to change their practices to implement the recommendations made in the independent reviews, including improvements to the sales systems and practices and monitoring and supervision. Some of these recommendations have already been implemented. Lenders must ensure that the remaining recommendations are implemented and working effectively. We plan to collect data to measure improvements and will use the full range of our regulatory powers if consumer outcomes have not improved.

Poor product design and value lead to poor outcomes

CCI is poor value, especially with credit cards

For the financial years 2011–18, we found that for CCI sold with credit cards, consumers received only 11 cents in paid claims for every dollar paid in premiums. Across all CCI products, 19 cents was paid to consumers as a proportion of the insurance premium (claims ratio).

Claims ratios focus on the consumer experience of paying premiums and receiving paid claims. Separately, we compared loss ratios (a different metric to the claims ratio) for four different insurance products for this period. Loss ratios take into account the expenses and claims reserves of the insurer.

APRA's Quarterly General Insurance Statistics for the financial years 2011–18 show the following loss ratios:

- 24 cents for CCI;
- 47 cents for travel insurance;
- 59 cents for home and contents insurance; and
- 89 cents for domestic motor insurance: see Figure 4.

This comparison illustrates that CCI, with the lowest ratio of losses to gains, is likely to be the most profitable general insurance product for insurers.

As noted earlier, CCI sold with credit cards is consistently the poorest value for money for consumers compared to other CCI products.

For the financial years 2011–18, CCI with credit cards earned insurers the most in premiums ($1.78 billion) but paid out the least in claims ($0.2 billion). This means that for every dollar that consumers paid in CCI premiums, they received on average only 11 cents back in paid claims: see Figure 5.

Figure 4: Comparison of loss ratio by general insurance product (FY 2011–18)

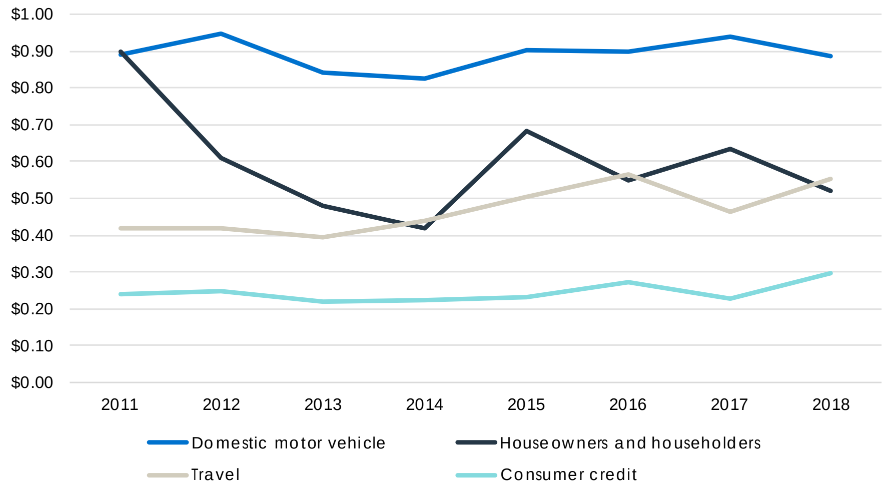
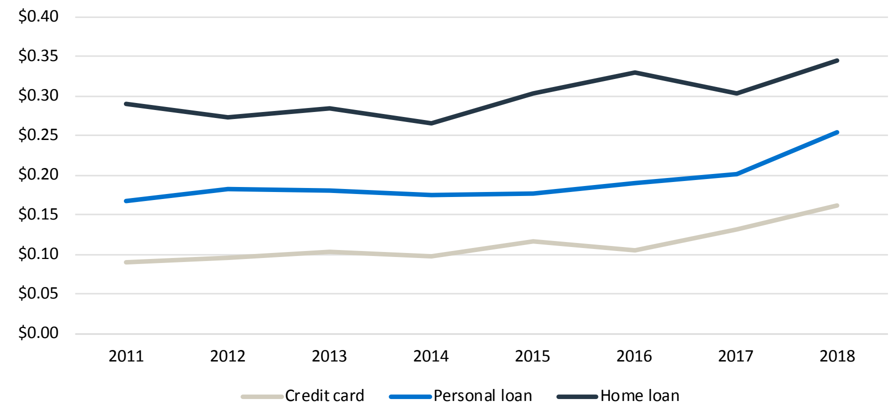


Figure 5: Claims ratio by CCI product type (FY 2011–18)



Note: For the data shown in these figures, see Table 8 and Table 9 (accessible version).

Table 3 shows the CCI claims ratio in cents for the lenders in our review. The five lowest claims ratios for each product are:

- *for credit cards*: Suncorp, Citigroup, ANZ, Latitude and Westpac (each had a claims ratio less than 12 cents);
- *for personal loans*: Suncorp, BoQ, CUA, Bendigo and ANZ (each had a claims ratio less than 14 cents); and
- *for home loans*: NAB, BoQ, CBA, Westpac and Bendigo (each had a claims ratio less than 31 cents).

Table 3: Claims ratio (in cents) for lenders by CCI product (FY 2011–18)

Lender	Credit card	Personal loan	Home loan
Suncorp	3.86	11.22	32.67
Citigroup	4.80	n/a	n/a
ANZ	6.90	13.88	41.15
Latitude	9.76	21.35	n/a
Westpac	11.76	20.30	29.89
NAB	14.22	29.17	23.02
CBA	16.00	14.89	28.08
People's Choice	29.40	18.10	31.56
Bendigo	32.31	13.50	30.60
BoQ	n/a	11.77	24.90
CUA	n/a	12.32	31.43

Note: The claims ratio data contains claims and premium data for policies sold during and prior to ASIC's review.

Bundled cover in credit card CCI means lower value

Compared to CCI sold with personal and home loans, CCI sold with credit cards tended to contain more types of cover per policy and those cover types were 'bundled' together, meaning they could not be bought separately. For example, one credit card CCI product contained bundled cover for temporary disability, permanent disability, terminal illness, death, and involuntary unemployment.

Based on data from lenders, the more cover types bundled in a CCI policy sold with credit cards, the lower its claims ratio, as the bundled policy was more likely to contain cover an individual consumer was less likely to need.

Changes in product design can improve value

We expect lenders and insurers to sell products with significantly higher claims ratios by:

- making changes to price and product design;
- unbundling cover for products so that consumers can choose the cover they need;
- communicating with consumers regularly to remind them of their cover and their ability to claim; and
- having processes and systems to ensure that CCI is delivering value.

We will continue to collect data from lenders and insurers on actual claims ratios for their CCI products and plan to publish this data. We consider this will encourage lenders and insurers to make substantial improvements to the price of, and cover provided by, these products, to deliver improved value.

If claims ratios do not improve, we will consider using our product intervention power to limit the sale of CCI products to specific classes of consumers. When the design and distribution obligations take effect, we will act where we have concerns about the sale of products to consumers who do not meet the lender's or insurer's own target market criteria for the product.

Higher rates of declined/withdrawn claims raise concerns about the way in which CCI is sold

One of the value measures of insurance is the ability for a consumer to successfully claim on the policy when they need it.

For the financial years 2011–18, we found that one in five (20.03%) claims made on a CCI policy were either declined by the insurer or withdrawn. This ranged between 15.6% to 33.6%: see Table 4.

Many insurers also did not accurately and reliably record the number of (and reasons for) withdrawn claims or claims that did not proceed.

The higher declined/withdrawn claim rates indicate that:

- there are systemic issues in how the product was sold, including the sale to consumers who were ineligible to claim;
- consumers do not understand (or were misled about) the features, limits and exclusions of the policy;
- policy exclusions are too onerous; or
- policies may not have been suitable for the consumer's individual circumstances.

Table 4: Combined declined and withdrawn claim rates (FY 2011–18)

Lender	Credit card	Personal loan	Home loan	All CCI
Citigroup	33.6%	n/a	n/a	33.6%
CBA	28.3%	33.5%	24.4%	30.1%
Suncorp	29.2%	28.5%	34.0%	29.1%
CUA	n/a	24.4%	13.4%	20.2%
NAB	20.1%	20.9%	10.9%	19.4%
Bendigo	21.6%	19.6%	15.0%	17.7%
BoQ	n/a	20.7%	16.0%	17.7%
ANZ	27.3%	13.8%	14.6%	17.3%
People's Choice	14.5%	0.0%	17.0%	16.8%
Westpac	17.4%	15.5%	28.1%	16.8%
Latitude	14.4%	21.5%	n/a	15.6%

Note: The declined and withdrawn claim rates contain claims data for policies sold during and prior to ASIC's review.

Sales practices must change

Our review of 11 lenders found that CCI sales practices are still delivering poor outcomes for consumers as well as poor product value.

On page 4, we set out the standards that we expect all lenders and insurers who design and sell CCI products to meet.

CCI was sold to ineligible consumers, and to those who did not need cover or were unlikely to benefit

A number of lenders sold CCI policies to consumers who were ineligible to claim for all or many benefits under the policy.

Some examples of the key eligibility criteria in the CCI policies that consumers did not meet when sold the product include:

- not working the required average number of hours per week and/or the number of consecutive days;
- having seasonal, casual, temporary, or fixed-term employment; or
- having a pre-existing condition excluded under the CCI policy.

These sales were due to inadequate sales and internal monitoring systems, processes, procedures, and controls. Affected consumers are being remediated.

In many situations, CCI was also sold to consumers who did not need cover or were unlikely to benefit. We consider that CCI is unsuitable for the following categories of consumers:

- in the case of the life component of CCI, sales to single consumers under the age of 25 with no dependants who have minimal assets;
- consumers who already have life, total and permanent disability or income protection cover through their superannuation fund that covers the same risks;
- consumers in financial hardship due to a change in personal circumstances who obtain a loan to consolidate their debts, where the change in personal circumstances means the consumer no longer meets the key eligibility criteria;
- consumers who do not meet the key eligibility criteria for all or some types of cover when they are sold the product; and
- consumers who do not meet a lender's own target market criteria for the product, including income thresholds.

Case study: Consumer was ineligible to claim

During February 2014, a personal loan CCI policy was sold to a consumer working less than 20 hours per week. The consumer later became unemployed and lodged an insurance claim for unemployment benefits.

The claim was declined on the basis the consumer was not working the required minimum of 20 hours per week for the six-month period leading up to the claim date. When the policy was taken out, proper checks were not performed to ensure the consumer was eligible to claim for the benefits under the CCI policy.

This consumer will be remediated.

Consumers were charged for CCI even if they had no loan repayments to protect

Consumers were charged for CCI before they had drawn down on their loan or after they had paid off their loan. This was despite being unable to claim on the primary benefits of the insurance because there was no loan balance outstanding or loan repayments owing.

Case study: CCI premiums charged for loans with nil balances

A minimum annual premium of $150 for home loan CCI was charged to consumers when the home loan balance was zero.

The policy remained open in case consumers redrew on their home loan, despite many never doing so. During this time, consumers were not obtaining any primary benefit from paying the premium.

Affected consumers in the review will be remediated.

CCI was not considered when assessing financial hardship

Our review of lenders found that many did not have consumer-focused systems to adequately inform or remind consumers with a CCI policy who were in financial hardship that they had a CCI policy and might be eligible to claim.

Some lenders who did have such systems did not adequately help consumers to lodge a claim.

Unfair sales tactics were used to sell CCI

Lenders employed telemarketers, with motivation to maximise sales

Some lenders used third-party telemarketers to sell CCI and motivated them to maximise sales by providing volume bonuses and sales targets.

Lenders reinforced these incentives by concentrating their limited monitoring on telemarketers' sales performance rather than on detecting and preventing misconduct.

This resulted in significant mis-selling of CCI.

Telemarketers used a variety of unfair sales tactics

Our review found that telemarketers' staff engaged in unfair sales tactics.

These tactics included:

- falsely representing that buying CCI was a condition of getting credit;
- pressuring consumers and persisting with sales calls even when consumers stated they did not need or want CCI;
- overcoming consumers' reasonable objections using practiced techniques that played to the consumers' concerns (e.g. describing scenarios where the consumer may find it difficult to make credit card repayments such as suffering an injury and not being able to work);
- suggesting that consumers buy CCI and cancel it during the cooling-off period at no cost if they continued to see no value in it;
- failing to inform consumers about exclusions, including exclusions for pre-existing medical conditions and limitations of a new CCI product (that they may not have been informed they were acquiring);

- advising that the monthly insurance premiums for credit card CCI could be avoided while suggesting vague, impractical or misleading methods to do so (e.g. the consumer could avoid paying for the CCI if they paid their credit card by the *due date* when, in fact, they had to pay by the *statement date* to avoid paying the premium); and
- using ambiguous language to obtain consent so that some consumers did not realise they were agreeing to buy CCI.

This misconduct caused consumers to cancel their CCI policies and complain disproportionately about telemarketers.

Case study: Sales conversation involving unfair sales tactics

At the start of a sales conversation, a telemarketer pretended to be calling about a consumer's loan repayments and did not make it clear they were calling to sell CCI or obtain consent to discuss CCI.

Despite the consumer expressing several times that he was not interested in CCI, the telemarketer persisted and attempted to persuade the consumer that CCI provides 'peace of mind' and only costs $4.10 per day.

The telemarketer also applied time pressure, saying 'if you have it at the start, from day one, you can cancel anytime' and 'you can always cancel at no cost within the 30 days cooling-off period'. The telemarketer refused the consumer's request for more time to consider the CCI policy and for the telemarketer to call back later.

Affected consumers in the review will be remediated.

Sales scripts and monitoring systems to detect mis-selling were inadequate

In REP 256, ASIC made 10 recommendations for the sale of CCI products to raise industry standards and reduce the risk of CCI being mis-sold. The recommendations covered sales practices, disclosure (particularly in formal sales scripts), training programs and monitoring systems.

Based on independent reviews undertaken by the 11 lenders, we found that in sales scripts, many lenders failed to provide consumers with:

- a clear statement of the intention to sell insurance before any attempt to sell CCI (e.g. a clear question seeking the consumer's consent, or 'permission to discuss insurance');
- a clear explanation of the main exclusions that apply to the CCI policy and where CCI is sold as a bundled product, the main exclusions that apply to each component of the policy;
- clear instructions to end any attempted sale if a consumer indicated once, or twice at most, that they did not want to buy the product; and
- information on the cooling-off period without using it as a selling point (this is best achieved by providing information about the cooling-off period after the consumer has clearly agreed to buy the product).

Many lenders failed to tell consumers how much interest they would pay on the single upfront financed premium for the life of the CCI policy (or loan). This additional interest meant that consumers paid significantly more for the CCI than if the premium had been paid monthly outside the loan.

Another significant finding and consistent theme of the independent reviews was that many lenders failed to have documented systems to detect non-compliant sales of CCI through regular reviews of sales, complaints and cancellation reports, mystery shopping exercises, sales verification calls, and failed to have processes to monitor calls.

ASIC is writing to lenders and insurers to set out the standards that we expect for their processes and procedures for monitoring and supervision. We will seek confirmation by an attestation from each lender that:

- the recommendations from the independent reviews have been implemented and are working effectively;
- the standards in this report are being met; and
- the remediation programs are complete, thorough and robust.

Online sales did not distinguish between CCI and loan applications and relied on written disclosure

In 2018, we reviewed a sample of credit card online application forms and online sales content for six lenders and wrote to the lenders to outline our concerns. The six lenders reviewed were ANZ, Citigroup, CBA, Latitude, NAB and Westpac.

We found that lenders listed CCI under headings such as 'card options' or 'setting up your card', misleading consumers about the distinction between credit card and CCI application and information.

Almost all lenders reviewed did not inform consumers that interest was payable on the CCI premium if the credit card balance was not paid in full and they relied on the Product Disclosure Statement (PDS) to provide consumers with the necessary information.

Research has shown that disclosure documents do not enhance consumer decision-making, assist with product comparisons or prevent consumers buying unsuitable products.

Note: See Report 416 *Insuring your home: Consumers' experiences buying home insurance* (REP 416). For a summary of the findings on disclosure in REP 416, see paragraphs 17–28 of Report 415 *Review of the sale of home insurance* (REP 415).

The online sales content also did not provide consumers with balanced information about the cover, exclusions, features, limits and costs of CCI.

Overall, lenders have failed to:

- effectively and efficiently communicate CCI policy terms to consumers;
- innovate their disclosure in digital channels (where there is an opportunity to be interactive); or
- address issues with product design, sales and marketing processes to improve consumer understanding and outcomes.

Strengthening consumer protections

Deferred sales model for CCI

In August 2017, ASIC formed a CCI working group with industry to respond to concerns about the way in which CCI was sold and to improve outcomes for consumers. As a result, the Banking Code of Practice now has a four-day deferred sales period for CCI sold with credit cards and personal loans in branch or over the phone, effective 1 July 2019.

In its Final Report the Financial Services Royal Commission recommended the development of an industry-wide deferred sales model for the sale of any add-on insurance product (except policies of comprehensive motor insurance) and that the model be implemented as soon as practicable (Recommendation 4.3).

Given the concerns identified in this report, in ASIC's view, the four-day deferred sales period should apply to all CCI products sold across all distribution channels to facilitate improved consumer decision making. This will give consumers the time to understand the complexities of CCI products, assess their value and whether the product meets their needs and to ensure that consumers do not feel pressured to buy CCI to be approved for the loan.

Note: For ASIC's expectations for deferred sales of CCI, see page 4.

We consider that all relevant industry codes (e.g. banking, life and general insurance) should incorporate a deferred sales model.

Product intervention power and design and distribution obligations

On 5 April 2019, legislation was enacted to introduce design and distribution obligations for financial services providers and give ASIC a product intervention power.

> **Note:** See *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019*. The product intervention power is available for ASIC to use. The design and distribution obligations will be phased in over two years. We are working to provide guidance on the new regime.

From 6 April 2019, ASIC can intervene using its product intervention power where there is a risk of significant consumer detriment. In these situations, ASIC can order that a person not engage in specified conduct in relation to a product or class of product, or except in accordance with certain conditions. For example, ASIC could use the power to place restrictions on the way CCI products are marketed and sold.

From 5 April 2021, issuers and distributors of certain financial products, including CCI, will need to identify target markets, and design their products to be consistent with the needs of, and direct distribution towards, the target market. Firms will be obliged to review these arrangements to ensure they remain appropriate.

Ban on unsolicited sales of CCI

CCI products are complex and are typically sold under a no advice or general advice model. When complex products are sold through unsolicited contact, there is an increased risk that consumers do not need, want or understand the product, resulting in poor consumer outcomes.

Our review identified pressure selling and other unfair sales in unsolicited outbound sales of CCI, particularly through telemarketers where sales commissions drive poor consumer outcomes.

The Financial Services Royal Commission recommended that the hawking of insurance products should be prohibited (Recommendation 4.1). ASIC is working towards implementing this recommendation.

Unfair contract terms in insurance contracts

The Financial Services Royal Commission recommended that unfair contract term provisions set out in the ASIC Act should apply to insurance contracts regulated by the *Insurance Contracts Act 1984* (Recommendation 4.7). ASIC has supported this for many years and is working with the Government to assist with implementation.

Claims handling as a financial service

The Financial Services Royal recommended that the handling and settlement of insurance claims, or potential insurance claims, should no longer be excluded from the definition of a financial service (Recommendation 4.8).

This means that insurers' decision making on claims, claims investigations, policy interpretations and settlement negotiations will need to meet the obligation to do all things necessary to ensure that financial services are provided efficiently, honestly and fairly in s912A of the Corporations Act.

ASIC supports this reform and is working with the Government to assist with implementation.

Stronger civil penalties

The Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Bill 2018 was enacted in March 2019.

This law improves ASIC's enforcement regulatory toolkit allowing us to pursue civil penalties against a greater range of misconduct, including a failure by a lender or insurer to act efficiently, honestly and fairly, failure to report breaches and defective disclosure.

The new civil penalties apply to conduct engaged in from 13 March 2019.

Appendix 1: Lenders and insurers in the CCI review (2013–17)

Lender	Credit cards	Personal loans	Home loans
ANZ	OnePath General (general insurer), OnePath Life (life insurer)	QBE (general insurer), OnePath Life (life insurer)	QBE (general insurer), OnePath Life (life insurer)
Bankwest (CBA)	St Andrew's (general insurer), St Andrew's Life (life insurer)	St Andrew's (general insurer), St Andrew's Life (life insurer)	St Andrew's (general insurer), St Andrew's Life (life insurer)
BoQ	Not sold	St Andrew's (general insurer), St Andrew's Life (life insurer)	St Andrew's (general insurer), St Andrew's Life (life insurer)
Bendigo	IAL (general insurer)	IAL (general insurer)	IAL (general insurer)
CBA	CMLA (life insurer)	CMLA (life insurer)	CMLA (life insurer)
Citigroup	AIA (life insurer, 2013–14), Great Lakes (general insurer, 2013-14), MetLife (life insurer), Suncorp (life insurer), MTAI (general insurer)	Not sold	Not sold
CUA	Not sold	IAL (general insurer, 2013–15), Credicorp (general insurer), St Andrew's Life (life insurer, 2015–17)	IAL (general insurer, 2013–15), Credicorp (general insurer, 2015–17), St Andrew's Life (life insurer, 2015–17)
Latitude	Hallmark General (general insurer), Hallmark Life (life insurer)	Hallmark General (general insurer), Hallmark Life (life insurer)	Not sold
NAB	MLC (life insurer)	MLC (life insurer)	MLC (life insurer)
People's Choice	Not sold	Not sold	IAL (general insurer)
St. George, Bank SA and Bank of Melbourne brands (Westpac)	Swann (general insurer), IAL (general insurer, 2017), St. George Life (life insurer)	Swann (general insurer), IAL (general insurer, 2017), St. George Life (life insurer)	No general insurer, St. George Life (life insurer)
Suncorp	MTAI (general insurer, 2013–15), AAI (general insurer, 2015–17), Asteron Life (life insurer)	No general insurer, 2013–16, AAI (general insurer, 2017), Asteron Life (life insurer)	AAI (general insurer), Asteron Life (life insurer)
Westpac	Westpac General (general insurer), Westpac Life (life insurer)	Westpac General (general insurer), Westpac Life (life insurer)	No general insurer, Westpac Life (life insurer)

Note: For full names of lenders and insurers, see Table 1. IAL, trading as CGU Insurance, provided CCI life insurance cover through group life insurance policies issued by AMP Life Limited. CMLA, MetLife and MLC have obtained declarations from APRA under section 12A of the *Life Insurance Act 1995* which permits them to issue CCI products containing general insurance cover.

Appendix 2: Accessible versions of figures

Table 5: Decrease in total CCI sales by year (2014–18)

Year	Total sales
2014	664,240
2015	527,090
2016	420,702
2017	338,265
2018	190,488

Note: This is the data shown in Figure 1.

Table 6: Decrease in total CCI sales by product (2014–18)

Year	Personal loan	Credit card	Home loan
2014	318,551	255,216	90,249
2015	275,557	182,951	68,343
2016	221,304	145,746	53,294
2017	171,990	118,674	47,431
2018	93,161	74,186	23,073

Note: This is the data shown in Figure 2.

Table 7: Decrease in total CCI sales by channel (2014–18)

Year	Branch	Online	Phone
2014	411,605	96,358	145,656
2015	321,075	102,128	93,268
2016	227,501	104,419	80,019
2017	166,253	93,172	70,775
2018	66,306	66,981	51,904

Note: This is the data shown in Figure 3.

Table 8: Comparison of loss ratio by general insurance product (FY 2011–18)

Year	Domestic motor vehicle	Houseowners and householders	Travel	Consumer credit
2011	$0.89	$0.90	$0.42	$0.24
2012	$0.95	$0.61	$0.42	$0.25
2013	$0.84	$0.48	$0.40	$0.22
2014	$0.83	$0.42	$0.44	$0.22
2015	$0.90	$0.68	$0.50	$0.23
2016	$0.90	$0.55	$0.56	$0.27
2017	$0.94	$0.63	$0.46	$0.23
2018	$0.89	$0.52	$0.55	$0.29

Note: This is the data shown in Figure 4.

Table 9: Claims ratio by CCI product type (FY 2011–18)

Year	Credit card	Personal loan	Home loan
2014	$0.10	$0.17	$0.27
2015	$0.12	$0.18	$0.30
2016	$0.11	$0.19	$0.33
2017	$0.13	$0.20	$0.30
2018	$0.16	$0.25	$0.35

Note: This is the data shown in Figure 5.

Key terms and related information

Key terms

FY 2011–18	The financial years 2011 to 2018
ASIC Act	*Australian Securities and Investments Commission Act 2001*
ASIC's expectations	The standards we expect of lenders and insurers who sell or issue CCI products
Corporations Act	*Corporations Act 2001*, including any regulations made for the purposes of that Act
Financial Services Royal Commission	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
Product Disclosure Statement (PDS)	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 Corporations Act **Note:** See s761A for the exact definition.
REP 256 (for example)	An ASIC report (in this example numbered 256)
RG 256 (for example)	An ASIC regulatory guide (in this example numbered 256)

Related information

Headnotes

ASIC's expectations, consumer credit insurance (CCI), enforcement investigation, ineligibility, insurers, lenders, mis-selling, monitoring systems, product design, product value, remediation, sales practices, standards, unfair sales tactics

ASIC documents

15-318MR *Westpac to refund premiums for unwanted insurance cover*

17-268MR *Commonwealth Bank to refund over $10 million for mis-sold consumer credit insurance*

17-457MR *Latitude Insurance refunds almost $1.1 million for poor consumer credit insurance sales and claims handling*

REP 256 *Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions*

REP 415 *Review of the sale of home insurance*

REP 416 *Insuring your home: Consumers' experiences buying home insurance*

REP 470 *Buying add-on insurance in car yards: Why it can be hard to say no*

REP 471 *The sale of life insurance through car dealers: Taking consumers for a ride*

REP 492 *A market that is failing consumers: The sale of add-on insurance through car dealers*

RG 256 *Client review and remediation conducted by advice licensees*