CONSULTATION PAPER 324

Product intervention: The sale of add-on financial products through caryard intermediaries

October 2019

About this paper

This consultation paper sets out ASIC's proposal for using our product intervention power in Pt 7.9A of the Corporations Act in relation to the distribution of add-on insurance and warranties by caryard intermediaries.

The proposal complements the concurrent consultation by the Australian Government: see Treasury, *Reforms to the sale of add-on insurance products* issued in September 2019.

This paper follows on from ASIC's Consultation Paper 294 *The sale of add-on insurance and warranties through caryard intermediaries* (CP 294), which sought views on whether or not a deferred sales model should be introduced for the sale of add-on financial products through caryard intermediaries.

We are seeking the views of all parties and interested stakeholders affected by our proposed order.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 1 October 2019 and is based on the Corporations Act as at the date of issue.

Disclaimer

The proposal, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive, or as other circumstances change.

Contents

The consultation process

Before making a product intervention order, we must consult persons who are reasonably likely to be affected by the order: see s1023F of the Corporations Act.

You are invited to comment on the proposal in this paper, which is only an indication of the approach we may take and is not our final policy.

As well as responding to the specific proposal and questions, we also ask you to describe, and provide justification for, any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposal and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance savings or costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information. We are also keen to hear from you on any other issues you consider important.

Your comments will help us consider whether, and if so how, we exercise the product intervention power. In particular, any information about compliance savings or costs, impacts on competition and other impacts, costs and benefits will be taken into account.

Making a submission

You may choose to remain anonymous or use an alias when making a submission. However, if you do remain anonymous we will not be able to contact you to discuss your submission should we need to.

Please note we will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any personal or financial information) as confidential.

Please refer to our privacy policy at www.asic.gov.au/privacy for more information about how we handle personal information, your rights to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

Comments should be sent by **Tuesday 12 November 2019** to:

product.regulation@asic.gov.au

What will happen next?

Stage 1	1 October 2019	ASIC consultation paper released
Stage 2	12 November 2019	Comments due on the consultation paper. ASIC will review and consider all submissions before determining the appropriate regulatory action.
Stage 3	Late 2019/early 2020	Decision by ASIC on whether to make a product intervention order in relation to add-on insurance and warranties. Publication on our website of our decision and the terms of any product intervention order if made, including the commencement date.

A Executive summary

Our proposed product intervention

1 Under Pt 7.9A of the *Corporations Act 2001* (Corporations Act), ASIC may make a product intervention order when we are satisfied that a financial product available for issue to retail clients has resulted in, will or is likely to result in, significant detriment to retail clients.

2 This consultation paper highlights our concerns that the sale of add-on insurance products and warranties in the caryard distribution channel has, and is continuing to result in significant detriment to retail consumers, including causing financial losses.

3 In summary, the paper discusses the following proposal:

(a) *Introducing a deferred sales model*—We propose that a deferred sales model should apply to sales of add-on insurance products and warranties by caryard intermediaries, other than comprehensive or compulsory third party (CTP) insurance, and manufacturers' warranties provided with new cars. It would apply to all sales channels where intermediaries regularly arrange finance for motor vehicles, including car dealers, finance brokers and salary packaging firms.

(b) *Complementing the deferred sales model with additional obligations*—We consider that consumers would benefit from other requirements, including the use of 'knock out' questions to prohibit sales where the product has minimal value, and from interactive engagement through a consumer portal.

(c) *Addressing the specific harms we have identified from the sale of mechanical risk products*—There are specific risks from the sale of mechanical breakdown insurance and warranties that mean consumers are incurring unnecessary costs.

(d) *Monitoring the impact of the proposal*—We propose to collect data from insurers and warranty providers, so that we can monitor whether the proposed intervention is operating as intended.

4 The term 'proposal' is used in this paper to refer to these possible reforms. They are set out in detail in so that stakeholders can make submissions. We will only decide whether to exercise our product intervention power after we have considered the feedback to our proposal. If we proceed, we may refine the terms of any final product intervention order, depending on this feedback and any further information we receive.

5 In this paper, we discuss:

(a) the significant detriment to retail consumers resulting from the sale of add-on insurance (see Section B);

(b) how our intervention will operate in relation to add-on insurance (see Section C);

(c) the significant detriment to retail consumers resulting from the sale of warranties and mechanical breakdown insurance (see Section D);

(d) how our intervention will address this detriment (see Section E); and

(e) the regulatory and financial impacts we will consider (see Section F).

6 The appendix to this paper summarises the consumer remediation ASIC has obtained in this market to address past misconduct and consumer detriment.

7 A draft product intervention order is included as an attachment to this paper to inform responses to the proposal.

Use of ASIC's product intervention power

8 In this paper, we are consulting on a proposal to use our product intervention power in Pt 7.9A of the Corporations Act to address the significant consumer detriment resulting from the sale of financial products 'added on' to the sale or lease of a motor vehicle.

9 The product intervention power is a proactive way for ASIC to intervene where a product has resulted, will result or is likely to result in significant consumer detriment. A breach of the law is not required for ASIC to exercise the product intervention power.

Note: In this paper, we use the term 'consumer' to mean a retail client for a financial product, unless otherwise specified.

10 We propose to exercise the power to:

(a) in a competitively neutral way, cover some financial products as defined by the *Australian Securities and Investments Commission Act 2001* (ASIC Act);

(b) make a market-wide product intervention order, which applies to a class of products; and

(c) make an order that caryard intermediaries not engage in specified conduct in relation to the defined classes of add-on insurance products except in accordance with certain conditions.

11 We may only intervene prospectively. This means that a product intervention order cannot apply to a product held by a person if the person acquired the product, or entered into a contract for the acquisition of the product, before the order came into force.

12 We can make an initial intervention for up to 18 months. This can be extended or made permanent with the approval of the Minister.

13 On 26 June 2019, we published Consultation Paper 313 *Product intervention power* (CP 313). CP 313 sought feedback on a draft regulatory guide which sets out the scope of the product intervention power, when and how we expect to use the power and how a product intervention order is made. This feedback has been used to refine and inform the proposal in this paper.

Addressing detriment from add-on products

14 The proposal to use our product intervention power covers both insurance products and warranties sold with vehicles.

Note: In this paper, the term 'add-on financial products' or 'add-on products' refers to all add-on insurance products and warranties added to the sale or lease of a car, other than comprehensive or compulsory third party (CTP) insurance products, and warranties provided by the manufacturer of the vehicle for free at the point of sale.

15 In 2016 ASIC released three reports into the design, distribution and sale of add-on insurance products sold through car dealerships:

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

(b) Report 471 *The sale of life insurance through car dealers: Taking consumers for a ride* (REP 471); and

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

16 The findings in these reports identified a broad range of unfair sales tactics and practices that cause significant consumer harm. We were particularly concerned by the very poor value provided by these products as demonstrated by the following findings:

(a) *General insurance products*—Consumers were paid only nine cents in claims for every dollar of premium paid ($144 million in gross claims compared to gross premiums of $1.6 billion) across the five main add-on general insurance products sold through caryard intermediaries over a three-year period (2013–15 financial years).

(b) *Life insurance cover sold under consumer credit insurance (CCI) policies*—Consumers were paid only six cents in claims for every dollar of premium paid ($6 million in gross claims compared to gross premiums of just over $90 million) across all life insurance products sold through caryard intermediaries over a five-year period (2010–14 financial years).

17 In 2017 we issued Consultation Paper 294 *The sale of add-on insurance and warranties through caryard intermediaries* (CP 294), which sought views on whether or not a deferred sales model should be introduced for the sale of both insurance and warranty add-on financial products.

18 The proposal in this paper is informed by the responses to CP 294. Based on submissions we received in 2017, there was broad support for the introduction of a break in the sales process.

Note: For a summary of feedback received on CP 294, see Section C.

19 Since releasing our three reports in 2016, we have expanded our work to include a review of warranties. We have identified poor consumer outcomes in relation to these products: we found a claims ratio of 23 cents in the dollar, with premiums of $94.7 million against claims of $21.7 million.

20 Because warranties are functionally similar to mechanical breakdown insurance, we consider that any reforms should apply to both classes of products to ensure competitive neutrality.

21 ASIC action has led to substantive changes by some industry participants, including:

(a) reductions in both premiums and commissions;

(b) a cessation in the sale of some products;

(c) the introduction of business rules limiting when products can be sold (e.g. prohibiting the sale of life cover to young consumers);

(d) improved and simpler product design—for example, offering tyre and rim insurance as an option of cover available under a comprehensive insurance policy, rather than as a standalone product; and

(e) the absence of any new high-risk products (by comparison, in the United Kingdom the range of add-on products has expanded to include insurance against the low-value risk of the consumer needing replacement car keys).

22 We have also secured remediation programs with 11 insurers, one underwriting agency and one warranty provider to address poor consumer outcomes. As at June 2019, ASIC has announced refunds of over $130 million to more than 245,000 consumers.

Note: See the appendix to this paper for details of the remediation we have obtained.

23 The actions taken by ASIC since 2016 have led to incremental improvements in claims ratios by insurers. However, for the three main products sold, these ratios are still very low (between 7.9 cents and 24.6 cents in the dollar), and much less than for mainstream insurance products such as home and car insurance (which have recently paid approximately 71 cents in the dollar and 89 cents in the dollar respectively).

Note: For a more detailed discussion of the findings of our reports, see paragraphs 44–45.

24 The sales environment for add-on products is largely unchanged, with a continuing risk of significant consumer detriment arising from the combination of the following factors:

(a) The lack of competition at the point of sale, as the consumer has the choice between buying the products offered to them by the intermediary and not buying the products at all.

(b) The use of 'no advice' or 'general advice' models, which mean that the seller is under no obligation to select or recommend a product based on the needs of the consumer.

(c) There is significant complexity for consumers in making purchasing decisions in relation to warranties, given the range of matters they need to consider.

(d) The sales process can be structured to be fatiguing, 'hijack' consumer attention, distort perception of cost and cover, and rush decisions. It creates and exploits consumer vulnerability, which increases the likelihood of detriment (and means that intermediaries have been able to limit and undermine access to, and assessment of, existing disclosure tools).

25 In this context, we note that the Revised Explanatory Memorandum to the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019* (Design and Distribution Act) states that detriment can arise from a range of factors:

> The meaning of detriment is intended to take its ordinary meaning in the context of the new provision. However, it is intended to cover a broad range of harm or damage that may flow from a product. The harm or damage may arise from any number of sources associated with the product, including the product's features, defective disclosure, poor design, or inappropriate distribution.

Note: See Revised Explanatory Memorandum, paragraph 2.35.

26 In this market there is also a significant risk of:

(a) the systemic low-value outcomes and unfair practices ASIC has identified in relation to insurance products migrating to other financial products where the intermediary can continue to earn substantial remuneration (e.g. where the provider offers high commissions); and

(b) insurers resiling from the improvements they have made if they face a significant loss of sales unless they increase the commissions they pay to caryard intermediaries.

27 In particular, we are concerned about the risk of consumers being sold higher volumes of low-value products if the proposal only extended to insurance products. We therefore consider it appropriate that any product intervention order apply to warranties in the same way as mechanical breakdown insurance.

Our objectives

28 Our objectives in seeking changes in this market are to effectively and comprehensively address significant consumer detriment, so that:

(a) add-on products offer improved value;

(b) premiums for add-on products are more competitive;

(c) cover under add-on products is redesigned to better meet the needs of consumers;

(d) sales processes are fairer;

(e) add-on products that offer no benefits to consumers are not sold, and sales of products that offer minimal benefits are reduced; and

(f) changes are market-wide and competitively neutral, to address the risk of regulatory arbitrage.

Context for the consultation

Royal Commission and other developments

29 We have considered the evidence presented to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) in both Round 1 (Consumer Lending) and Round 6 (Insurance). In its final report, the Royal Commission recommended that an industry-wide deferred sales model be implemented for all add-on insurance products (Recommendation 4.3). See Royal Commission, Final report (February 2019), Vol. 1, p. 289.

30 Subsequently, the Australian Government has commenced consultation on implementing the Royal Commission's Recommendation 4.3 on a broader deferred sales model: see Treasury, *Reforms to the sale of add-on insurance products* issued in September 2019 (Treasury reform paper).

31 We agree with the observation in the Treasury reform paper that:

> [The] features of add-on insurance markets show that competition does not effectively protect the consumer from overpaying or from purchasing unsuitable insurance products.

32 The Treasury reform paper proposes a three tier regulatory model for add-on insurance, and envisages that ASIC could use its product intervention power to address the sale of add-on insurance products where there is evidence of significant consumer detriment, such as poor value for consumers in terms of claims ratios and widespread unfair sales practices (which Treasury describes as 'Tier 1 products').

33 Consistent with the proposal in the Treasury reform paper, ASIC's current consultation is limited to a deferred sales model for sales of add-on products through caryard intermediaries. We are consulting specifically on sales of add-on products in this distribution channel for the following reasons:

(a) there is broad, well-understood and continuing consumer detriment;

(b) the market is characterised by the sale of multiple products (unlike sales of most other add-on products that are offered individually);

(c) sales often take place face to face, creating opportunities for the use of unfair sales tactics or processes that exploit behavioural biases or other elements through direct pressure on the consumer (and because the salesforce is geographically diverse, supervision has been limited with low levels of sanctions imposed by product providers, notwithstanding the systemic poor sales practices identified by ASIC);

(d) the cost of the premium is often paid through the related finance contract for the purchase or lease of the vehicle, making it easier for providers to make passive or unengaged sales and to charge high or uncompetitive prices; and

(e) sales are largely made by intermediaries rather than by the insurer dealing directly with the consumer, with a consequent risk of unsuitable sales being driven due to commissions payable to the intermediary.

34 The Productivity Commission also supported the introduction of a 'deferred sales model' for sales of add-on insurance sold by car dealerships:

> The Australian Securities and Investments Commission should proceed as soon as possible with its proposal to mandate a deferred sales model for all sales of add-on insurance by car dealerships.

> Note: See Productivity Commission, *Report on competition in the Australian financial system* (3 August 2018), Recommendation 14.1.

35 Our proposal for a deferred sales model complements other work ASIC is undertaking, including driving changes to product value, design and sales practices from insurers and warranty providers. It also complements the 2019 Banking Code of Practice standards for CCI sales.

Design and distribution obligations

36 Our proposal complements the intent of the obligations introduced by the Design and Distribution Act. In summary, from April 2021, providers of add-on financial products will have to design products to meet the requirements, financial situation and needs of their customers, and introduce distribution controls that direct sales to that group of consumers.

37 These obligations apply to providers of most financial products subject to the ASIC Act, including insurers and providers of warranties (irrespective of whether or not their products are regulated by the Corporations Act).

38 We therefore expect providers of add-on financial products to further review the design and distribution of their products to ensure they comply with these obligations once they commence. They should not assume any reforms resulting from the proposal in this paper will necessarily mean they are meeting those obligations.

B Significant consumer detriment: Add-on insurance

Key points

This section describes the significant consumer detriment that we consider has resulted, and is likely to result, from add-on insurance products (based on our findings in REP 470, REP 471 and REP 492).

Our product intervention power

39 ASIC can make a product intervention order when we are satisfied that a product (or class of products) has resulted, will result or is likely to result in significant consumer detriment: see s1023D(1)(b) of the Corporations Act.

40 In considering whether a product has resulted, will result or is likely to result in significant consumer detriment, we will take into account relevant factors. We are required to take into account:

(a) the nature and extent of the detriment;

(b) without limiting paragraph (a), the actual or potential financial loss to consumers resulting from the product;

(c) the impact that the detriment has had, will have or is likely to have on consumers; and

(d) any other matter prescribed by regulations (see s1023E(1) of the Corporations Act).

Note: For a discussion of the factors that we will have regard to, see the draft regulatory guide in Attachment 1 to CP 313 at RG 000.37–RG 000.54.

41 This section describes the significant consumer detriment that we consider has resulted, and is likely to result, from add-on insurance products, having regard to the factors specified in the Corporations Act.

Significant consumer detriment

42 In 2016 we issued three reports that examined in detail the nature, extent and causes of the adverse harm resulting to consumers from the sale of add-on insurance products by caryard intermediaries: see REP 470, REP 471 and REP 492.

43 The reports covered six common add-on insurance products: see Table 1.

Table 1: Overview of add-on insurance products

Product	How it works
CCI	This product insures a borrower's capacity to make repayments under a car loan, including insurance against sickness, injury, disability, death or unemployment.
Guaranteed asset protection (GAP) insurance	This product covers the difference between what a consumer owes on their car loan and any amount they may receive under their comprehensive insurance policy if the car is a total loss.
Purchase price protection insurance	This product is similar to GAP insurance in that the trigger for a claim is payment by a comprehensive insurer where the vehicle is a total loss. However, the policy covers the difference between the payment by the comprehensive insurer and the sale or purchase price of the car. The amount payable therefore increases over time (rather than decreasing as is the case with GAP insurance).
Loan termination insurance (or 'walkaway' insurance)	This product covers the difference between what a consumer owes on their car loan and the market value of the car if they return it because they cannot make repayments due to illness or injury.
Tyre and rim insurance	This product covers the cost of repairing or replacing damaged tyres and rims from blowouts, punctures or other road damage.
Mechanical breakdown insurance	This product covers the cost of repairing or replacing parts of the car due to mechanical failure after the manufacturer's or dealer's warranty has expired (often referred to as an 'extended warranty').

44 Table 2 gives an overview of the key findings from these three reports.

Table 2: Key findings in the add-on insurance market

Report	Focus of the review	Key findings
REP 470	This report analysed qualitative research on consumers' experiences of buying add-on insurance through car dealers.	• Most consumers were unaware of the cost of, or cover or value provided by, add-on insurance products. Most purchases were made solely on the basis of information provided in the car dealership. • Many consumers were actively sold and sometimes pressured to buy add-on insurance products both through explicit sales techniques and how the sales process was structured (e.g. several consumers reported that sales staff spent up to 40 minutes pre-filling applications forms for these products, even though the consumer had not indicated any intention to purchase these products). • Many consumers had a very poor recollection of which policies they had purchased, how much each policy cost and what it covered.

Report	Focus of the review	Key findings
REP 471	This report analysed quantitative data from five insurers selling life insurance under CCI policies.	• Insurers charged consumers substantially more for life insurance distributed through car dealers than for similar products (e.g. a low-risk consumer would be charged 18 times more than the cost of a similar level of cover under a term life insurance policy available online from the same insurer). • Most insurers charged business-use consumers more than personal-use consumers and paid higher commissions to intermediaries (up to 50% of the premium). • Over a five-year period, the gross amount paid in claims was $6 million, or only 6.6% of gross premiums of just over $90 million. • A significant number of sales were to young consumers who are unlikely to need life insurance: in the 2013–14 financial year 11% of life insurance policies sold through caryards were to consumers aged 21. • A significant number of sales were to consumers who did not want the product: 10% of consumers sold life insurance through caryards cancelled their policy during the cooling-off period.
REP 492	This report analysed quantitative data from insurers selling the five add-on insurance products.	• Consumers received low claim payouts relative to premiums: over a three-year period $144 million was paid in claims compared to $1.6 billion received in premiums (or less than 9 cents in the dollar). • Car dealers earned $602.2 million in commissions, or four times more than consumers received in claims. • These outcomes reflect the impact of reverse competition (where insurers do not need to compete on the price of their products, but rather on the level of commissions paid to intermediaries). • Many add-on products were poorly designed with consumers often paying for cover they did not need or would not be eligible to claim for. • Single premium policies increased the cost for consumers through interest charges under the related finance contract. • The sales process inhibited good decision-making, with consumers required to make multiple complex decisions with minimal information.

45 The evidence in these reports and ASIC’s continuing work demonstrate that there is significant consumer detriment, as these insurance products have delivered poor value to consumers at an aggregate level. We analysed the value of premiums paid by consumers, compared to the value returned to consumers in claims paid (known as the ‘claims ratio’). The claims ratio can be practically understood as the average cents returned in claims for every dollar paid in premium. In the periods covered by REP 471 and REP 492, life insurance products paid only six cents in the dollar, and general insurance products only nine cents in the dollar.

46 Table 3 sets out the aggregate claims ratios for add-on insurance products sold by insurers in the 2018–19 financial year, based on the total amount received by consumers in claims relative to total premiums paid in the same period (that is, using the same methodology as in REP 492). The data was obtained from the main insurers active in this sales channel.

Table 3: Add-on insurance claims paid ratio (FY2018–19)

Product	Claims ratio
CCI	7.9% (7.9 cents in the dollar)
GAP insurance	9.3% (9.3 cents in the dollar)
Mechanical breakdown insurance	24.6% (24.6 cents in the dollar)

Note: The data for CCI and gap insurance is based on products across five insurers, and the data for mechanical breakdown insurance is based on products across three insurers. We have excluded data from insurers who have exited the market, as this would distort these figures.

47 Since the actions taken by ASIC in 2016, there have been incremental improvements to claims ratios, albeit from a low base. For example, the aggregate claims ratios for CCI and GAP insurance for the 2018–19 financial year have increased by approximately 50% compared to the previous claims ratios identified in REP 492. However, these ratios are still low compared to other general insurance products: see Table 4.

Table 4: Comparison with claims ratios for other general insurance products (FY2018–19)

Type of insurance	Claims ratio
Car insurance	89.5% (89.5 cents in the dollar)
Home insurance	71% (71 cents in the dollar)

Source: Australian Prudential Regulation Authority (APRA), Quarterly general insurance performance statistics, June 2019.

Note: The claims ratio has been calculated by dividing the gross incurred claims with the gross written premiums for the financial year ending June 2019.

48 Further, in REP 492 we found that the design and pricing of these products often resulted in poor outcomes, even for those consumers who made a successful claim. The amount paid in claims could be very low relative to the premium, suggesting the consumer would be better off self-insuring. For example, we found over a three-year period:

(a) across all mechanical breakdown insurance products, on average consumers paid $1,482 in premiums and received a claim payment of $940; and

(b) for tyre and rim insurance, the average claim was only 80.4% of the average premium ($334 against $414).

49 A necessary consequence of poor claims ratios is that these products were being sold to consumers where they are not likely to deliver any benefits to consumers or any significant benefits through claims outcomes. It is clear that this was occurring on a systemic scale, given the scale of the refunds offered by insurers: 11 insurers, one underwriting agency and one warranty provider have agreed to provide refunds of approximately $130 million to over 245,000 consumers.

50 We found numerous sales where the consumer received no or minimal benefit from the sale of add-on products, including the following examples:

(a) It was unlikely that consumers would be able to claim on their gap insurance policy as the insured value of the car was more than the amount borrowed (e.g. because the consumer paid a large deposit).

(b) The cover under the gap insurance policy was unnecessary as it duplicated existing cover held by consumers, including under their comprehensive insurance policies.

(c) Consumers were sold policies under which they were not eligible to claim, due to a disconnect between sales and claims criteria.

(d) Consumers were sold a more expensive level of cover than they needed.

(e) Consumers did not receive rebates under their gap insurance policies when they paid out their loan early, even though cover under those policies had ended.

(f) Consumers were sold mechanical breakdown insurance for a longer period than they needed (e.g. because the car was close to the kilometre limit at which cover would expire when the policy was sold).

(g) Life insurance cover was sold to young people who were unlikely to need it.

51 These outcomes demonstrate that the current regulatory regime is inadequate as it has allowed systemic sales of low-value products, and sales to consumers who do not want cover:

(a) In REP 470, we found that many consumers interviewed could not recall or did not understand which add-on insurance products they had actually purchased, what they were covered for and what they paid—and that therefore they had agreed to the purchase for reasons other than that they had wanted the product (particularly as a result of the exploitation of behavioural biases).

(b) In REP 471, we found that 10% of purchasers cancelled life cover bought under CCI policies during 2010–14 in the cooling-off period, suggesting high levels of pressure sales to consumers who did not want or need these products.

52 The sale of add-on insurance products has had—and continues to have—an adverse impact on consumers as they have paid unnecessary and high amounts for premiums for cover that they do not need or that is low-value relative to the price charged. Consumers also pay additional amounts through interest charges when the premium is paid for through a disbursement from the related finance contract.

53 One of the 'downstream' effects of the sale of add-on products is the risk of detriment to consumers through the related finance contract. In CP 294 we found that:

(a) a consumer who bought one or more add-on products was significantly more likely to have a loan term of six years or more; and

(b) there was a correlation between loans being 60 days in arrears and the dollar value of add-on insurance premiums financed being over $3,000.

Continuing consumer detriment

54 ASIC's work has resulted in some insurers making improvements that mitigate the poor outcomes we identified in our three reports.

55 However, we consider there is continuing consumer detriment, caused by the following factors:

(a) There is a lack of competition at the point of sale, as the consumer has the choice between buying the products offered to them by the intermediary and not buying the products at all.

(b) The products are sold using 'no advice' or 'general advice' models, which means that the seller is under no obligation to select or recommend a product based on the needs of the consumer.

(c) Consumers are at risk of making irrational purchasing decisions, in the sense that they are deciding to buy these products, even though they may be unable to assess their value, given both the number of products offered and the internal complexity in how some products operate.

(d) The way in which add-insurance is sold to consumers (the 'choice architecture') creates vulnerability which increases the likelihood of significant consumer detriment.

Note: 'Choice architecture' refers to the features in an environment, noticed and unnoticed, that influence consumer decisions and actions. These design features are present at every stage of product design and distribution. Examples include product bundling, default settings, and website and sales process design detrimental to consumers.

Lack of competition

56 A key feature of the market for add-on products sold with cars is the absence of competition between insurers to attract consumers, given that generally these products are:

(a) only offered by a small number of insurers;

(b) only available with the sale of a vehicle or a loan, with the consumer therefore only presented with the products offered by a single provider; and

(c) not available for direct sale from the insurer, but only through caryard intermediaries.

57 By comparison, a competitive market for add-on insurance products would be characterised by features such as those associated with the sale of home insurance, including advertising and promotion through different mediums and on the basis of price and cover, distribution through a range of channels (including online), and innovation in product design to deliver benefits to consumers.

58 As a result, it is difficult for consumers to exert competitive pressure on insurers to improve the value of their products. This is because:

(a) it is generally not possible for them to shop around or find alternative cover; and

(b) insurers have a ‘situational monopoly’ at the point of sale so that consumers are not able to assess value or price by comparing products from a number of different insurers (allowing high and uncompetitive prices to be charged).

Use of no or general advice sales models

59 Our reviews found that insurers predominantly sold add-on products through a ‘general advice’ model as defined under s766B of the Corporations Act. This sales model means that:

(a) the intermediary is under no obligation to ensure the product is suitable or meets the consumer’s needs; and

(b) shifts responsibility to the consumer for deciding whether the product is of value to them.

60 The use of the general advice model has resulted in large numbers of consumers making poor decisions about add-on products. It also meant that insurers were able to sell these products to consumers, even though they did not need cover or were unlikely to benefit.

61 The extent to which this occurred is demonstrated by the scale of the refunds offered by insurers in response to ASIC’s concerns, with refunds of approximately $130 million to over 245,000 consumers.

62 This approach to sales can mean that the consumer is treated as needing what the business is selling. The Royal Commission critiqued this approach to sales (in a different context) in its interim report:

> The use of words like “conversations” and “needs” must not be permitted to obscure what was being described. A “conversation” with a customer is treated as an opportunity to sell what the entity has to sell and, for that purpose, to gather some necessary information about the customer.
>
> The customer’s “needs” are formed by reference to what the entity has to sell. And often it is the entity’s representative that tells the customer what he or she “needs”. That is why the banks have rewarded and continue to reward staff and intermediaries for “cross-selling” products.

Note: See Royal Commission, Interim report (September 2018), Vol. 1, p. 64.

63 We also agree with the observation by the Association of Financial Advisers (AFA) in its submission on CP 294:

> The AFA would also like to highlight the issues with general advice only business models, particularly where the sale is initiated by the intermediary rather than the consumer. In this case the consumer most likely has very limited knowledge of the product and probably limited interest. However, given they have just engaged in a "positive" transaction of buying a motor vehicle there is an implied trust with the intermediary, which in turn is capitalised upon. This means that consumers are in a disadvantaged position.
>
> Note: See AFA, Submission on CP 294, p. 2 on ASIC's website under CP 294.

Complexity within add-on products

64 Each individual add-on product requires consumers with innately constrained cognitive capacity to assess abstract matters such as risk, probability and uncertain future performance. The quantum of refunds achieved by ASIC is a reflection of the failure by consumers to understand how these products operate, and when they will—and will not—meet their needs.

65 To assess their needs, consumers need to make complex assessments of matters that are conceptually difficult or largely abstract:

(a) *Variations in claim amounts over time*—The amount paid on a claim is not constant for some products but reduces over time. For example:

- (i) for CCI, the amount reduces over time as the loan balance reduces;
- (ii) for gap insurance, the amount is based on the difference between the insured value of the vehicle and the loan balance over time;
- (iii) for walkaway insurance, the amount is based on the difference between the loan balance and the future market value of the car at the time when the consumer hands it back (which is more volatile than its insured value); and
- (iv) for some mechanical risk products, the maximum amount payable is based on the market value of the car at the time of claim.

(b) *Identification and analysis of impact of broad restrictions in cover*—Examples include:

- (i) discretionary risk warranties where the provider has a unilateral right to refuse to pay a claim even if the consumer can otherwise meet the conditions for a claim; or
- (ii) involuntary unemployment policies where the consumer is, in substance, only covered if they are retrenched by their employer.

(c) *Overlapping or alternative cover*—The consumer may already have similar overlapping cover. Examples of these scenarios include:

- (i) disability or life cover under a CCI policy and overlapping cover through the consumer's superannuation fund;

(ii) overlaps between disability and trauma cover under the same CCI policy;

(iii) purchasing an agreed value comprehensive insurance policy rather than a combination of a market value comprehensive insurance policy and a gap insurance policy; and

(iv) for mechanical risk products, cover through a manufacturer's warranty or under the Australian Consumer Law.

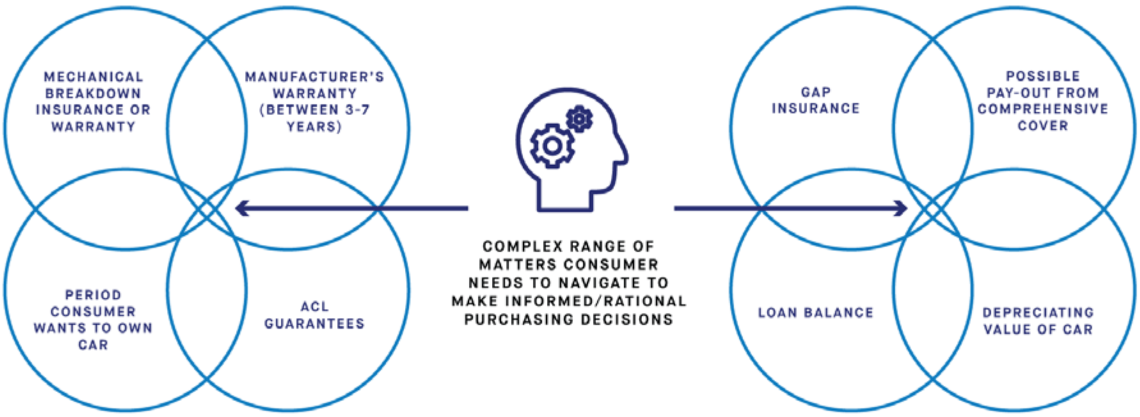
66 We also note that the Australian Competition and Consumer Commission (ACCC) made specific findings about the complexity arising from the sale of warranties in a 2017 report on the car retailing industry:

> However, submissions to this study indicated that consumers purchasing a new car may be confused by the distinction between consumer guarantees, manufacturer warranties and extended warranties at the point of sale.
>
> There appear to be three main reasons for this:
>
> - consumer fatigue at time of purchase;
> - focus on warranty protections at time of purchase; and
> - limited information about consumer guarantees at time of purchase.

Note: See ACCC, *New car retailing industry: A market study* (December 2017), paragraph 3.2.1.

67 Figure 1 illustrates the number of matters or factors a consumer may have to consider in making purchasing decisions about gap insurance and mechanical risk products.

Figure 1: Complex range of matters consumers have to navigate



Note: This figure shows the matters consumers need to consider when evaluating mechanical breakdown insurance (how long they may own the car, the length of the manufacturer's warranty, and any guarantees under Australian Consumer Law) and GAP insurance (the loan balance, any payout from comprehensive insurance and depreciation in the value of the car).

Complexity arising from multiple products

68 Buying a car has become one of the most 'decision-heavy' transactions a consumer can make, where they have to make multiple decisions about the add-on products offered to them, as well as the car and the related finance arrangements.

69 As discussed above, each individual add-on product requires consumers to identify and assess a range of challenging matters in order to make an effective purchasing decision; the concurrent offer of multiple products increases this onus on consumers many times over.

70 Figure 2 illustrates the range of products consumers may be offered, each of which involves innate and strategic complexity.

Figure 2: Insurance products, warranties and guarantees for a typical motor vehicle purchase

Note: This figure shows that the consumer may have to consider up to 10 different products or factors in addition to the car purchase, including a car loan, comprehensive insurance, CCI, gap insurance, walkaway insurance, tyre and rim insurance, mechanical breakdown insurance (MBI), warranty, extended warranty and how the Australian Consumer Law applies to their purchase.

Sales process disadvantages consumers

71 In REP 470 we found that caryard intermediaries used a range of techniques and unfair tactics to maximise sales, making it as hard as possible for the consumer to say ‘No’. The process could be structured to be fatiguing, intimidating, ‘hijack’ consumer attention, and rush decisions.

72 We summarise the main findings in REP 470, together with supporting quotes from our qualitative work with consumers:

(a) Add-on insurance was unexpected and only offered after consumers had already been required to make multiple decisions about the car they wanted to buy (e.g. what extras to include, how to finance). Many consumers explicitly mentioned that by the time they were offered insurance, they were expecting the experience to be over and wanted to leave.

‘At the end of the process you’re tired. You want to get out of there so you just agree. It could be that you have some kids screaming. I had my kids with me.’

(b) Offering add-on financial products immediately after the sale of the car (a high value item) could also distort perception of the cost, making the relatively smaller cost of insurance appear trivial. This, in turn, could take the focus away from whether the products actually offered value for money in their own right.

(c) There was a strategic shift in physical environment and sales tactics used, from the open and accommodating experience consumers reported they had with respect to the car, to one used to sell add-ons, which many consumers found closed and intimidating.

‘Once you signed [the deal for the car] and then you were waiting to be put into the other room where they sell you everything that you don’t need … They close the door and it’s like the vortex.’

(d) Consumers were subject to overwhelming demands to make multiple decisions at or around the same time. Some consumers felt they were rushed through decisions on insurance as one of a small number in a string of decisions, and were confused about what each product actually was.

‘…it’s like a maze.’

Unfair sales tactics

73 In REP 470 we found that persuasive and pressure sales tactics leveraged social rapport, trust and conflict avoidance. For example, caryard intermediaries:

(a) established trusting relationships with consumers in order to gain a competitive advantage in marketing a wide variety of products to them;

(b) used small expenses like coffee to create a sense of ‘likeability’, professionalism and quality (as some consumers are more likely to say ‘yes’ to requests made by people they like) and a sense of reciprocity (which may nudge consumers to reward a kind action with another positive action); and

(c) applied pressure on consumers to pre-commit to the purchase; and avoid conflict and/or the perception of being unreasonable (e.g. spending up to 40 minutes pre-filling application forms for products, even where consumers had not requested or agreed to this).

'They also gave me nine different options that I didn't want…This one seemed like if I had to take anything, this was the better option. I'll take the gunshot to the knee, thanks.'

74 We also found, in REP 492, that caryard intermediaries engaged in 'price-shrouding' practices, where consumers were asked to buy products without being given the total premium or the cost of different options of cover available within a particular product (minimising their ability to assess options of cover based on price).

75 In particular, we found that:

(a) no insurers disclosed the premium for each option to the consumer as part of the sales process;

(b) only four insurers disclosed the cost of the option the consumer was considering as a monthly (or periodic) figure before they had made a purchasing decision; and

(c) three insurers failed to disclose the cost of each option as a periodic figure and the total cost of the premium until the consumer was signing the contract.

Note: See REP 492 at paragraphs 175–180.

76 Finally, our reviews also found that, if the consumer indicated they did not want to buy an add-on product, some insurers or intermediaries required them to sign an acknowledgement or waiver form designed to place pressure on them to reverse that decision. For example, for CCI products, the consumer would have to state that they understood they would be liable for repayments if they became sick or unemployed.

C Proposed intervention: All add-on products

Key points

This section contains:

- a summary of our proposal for a deferred sales model and supporting obligations, including the objectives and features of the proposed intervention;
- stakeholder feedback on the key question in CP 294 about whether a deferred sales model should be introduced; and
- a description of how the deferred sales model would work (including the products and channels covered, and information about the deferral period).

Proposal for a deferred sales model and supporting obligations

Summary of our proposal

C1 We propose to introduce a deferred sales model for add-on financial products sold with a new or used vehicle.

C2 The deferred sales model would apply across:

(a) all sales channels where intermediaries regularly arrange finance for motor vehicles (including car dealers, finance brokers and salary packaging firms);

(b) all classes of add-on financial products, including insurance and warranties (to the extent permitted by ASIC's legislative powers); and

(c) all consumers—that is, we do not propose to allow a class of consumers to opt out and agree to be sold products outside the scope of this proposal.

C3 The deferral period would:

(a) only be able to start after the consumer has made a commitment to purchase or acquire a particular vehicle;

(b) begin when the consumer is given online access (e.g. by SMS or email) to a tailored consumer roadmap (containing individualised information about the products available to them and the cost of those products);

(c) extend for four days (with the intermediary required to record the time and date the consumer is given access to the roadmap so that there is clear accountability for the calculation of the four day period); and

(d) operate so that the intermediary could not initiate contact with the consumer unless the consumer has indicated either a positive purchasing decision or an interest in receiving further information via the online access.

C4 We also propose to introduce complementary obligations:

(a) Product providers should have to develop criteria to restrict sales so that consumers are not offered products that are unlikely to provide them with a significant benefit.

(b) Product providers should be prohibited from using sales tactics that either:

(i) represent to consumers that they may have to make payments from their own resources if they do not buy the add-on products; or

(ii) require the consumer to justify why they are not buying a product.

(c) Product providers should be required to provide data to ASIC on a recurrent basis, so that we can monitor trends and changes in consumer outcomes to ensure the intervention is operating as intended (with the obligation framed as a requirement to provide a response to a request in writing by ASIC, rather than the content of the request being specified in the instrument itself).

C5 We propose the deferred sales model would not apply where:

(a) the product is sold as a result of personal advice;

(b) the consumer extends the term of their finance contract and there is a consequential extension to the term of an existing add-on product; or

(c) the product is given away for free.

C6 We propose specific reforms for mechanical risk products, including that the sale of mechanical risk products on new cars should be prohibited where the manufacturer's warranty still has more than 12 months cover: see Section E.

C7 We do not propose to include a specific obligation addressing the risk of avoidance (although we have included a consultation question on this topic, and we are proposing to monitor industry conduct).

Note: See Attachment 1 to this paper for a draft product intervention order to inform responses to the proposal.

Your feedback

C7Q1 Do you consider that there is significant consumer detriment from the sale of add-on financial products by caryard intermediaries? Please provide evidence in support of your response?

C7Q2 If you consider there is significant consumer detriment, do you think that it should be addressed by the proposal in this section, or by some other intervention or action by ASIC? For example, could product providers be given incentives to offer better products if some or all of the proposed obligations only applied to low-value products? Please give the reasons why you think a particular approach will be more effective.

C7Q3 Please summarise your views on the proposal for a deferred sales model in this section (e.g. whether it should apply across all sales channels where intermediaries regularly arrange finance for cars). Please explain the reasons for your position.

C7Q4 Please summarise your views on the additional obligations in this section (e.g. whether 'knock out' questions should be introduced), Please explain the reasons for your position.

C7Q5 How would the proposal and obligations set out in this section affect businesses (e.g. insurers, car dealers, finance brokers, credit providers)?

C7Q6 If you are able to do so, please provide an estimate of the impact of implementing the proposed model, or any changes or variations to this model set out in your response, including:

(a) the likely compliance costs (e.g. training, software);

(b) the likely effect on competition;

(c) the impact of additional costs on businesses and consumers;

(d) who would bear the cost; and

(e) other impacts, costs and benefits.

C7Q7 Do you consider there is a significant risk of avoidance of the proposed obligations? If so, should ASIC introduce additional measures to address that risk?

Key features of the proposed model

77 Table 5 summarises the key features of the proposed model and supporting obligations and how they aim to drive these changes by addressing the causes of consumer detriment we have identified.

Table 5: Key features of the deferred sales model and supporting obligations

Feature	How it addresses existing consumer detriment
Start of the deferral period	The proposed deferral period will clearly separate the offer of add-on financial products from the sale of the car, and prohibit face-to-face sales of add-on financial products in a single meeting.
Length of the deferral period	A four-day deferral period should mitigate the risk of firms strategically overwhelming the consumer with offers, information and choices.
Application to all sales (including no opt out)	This ensures that the benefits of a deferred sales model apply comprehensively to all consumers and in a competitively neutral way.
Early disclosure on cost	Disclosure of cost upfront is intended to address past 'price shrouding' practices by product providers.

Feature	How it addresses existing consumer detriment
Use of ‘knock-out’ questions	These questions mitigate the risk of sales where the consumer does not need cover and does not benefit from the product, or is unlikely to do so.
Prohibition on written materials pressuring consumers	This prohibition complements the other reforms by mitigating the risk that consumers will agree to buy the product because of unfair pressure at the point of sale.
Monitoring of consumer outcomes	This monitoring allows ASIC to test if the deferral period and other reforms are operating as intended or whether, for example, avoidance models are being developed.

78 Our objectives are to address consumer detriment through a combination of complementary reforms so that:

(a) add-on products that offer no benefits to consumers should not be sold and the sale of products that offer minimal benefits should be reduced;

(b) add-on products should offer improved value;

(c) premiums for add-on products should be more competitive;

(d) add-on products should be redesigned to better meet the needs of consumers; and

(e) sales processes should be fairer, more interactive and assist consumers to make better decisions.

Analysis of submissions to CP 294

79 The submissions received by ASIC in response to CP 294 showed broad support for the introduction of a deferred sales model.

80 We received a number of affirmative responses from industry bodies:

(a) The Insurance Council of Australia (ICA) said:

> The industry recognises the need to ensure that consumers are protected and given the time and mental space necessary to properly consider their insurance purchases. The Insurance Council’s members agree that a [deferred sales model], appropriately designed and implemented, will help provide these conditions.

(b) The Australian Automotive Dealer Association (AADA) said:

> AADA supports ASIC’s proposals to the extent that it leads to better consumer outcomes, competitive neutrality and greater competition.

(c) The National Automotive Leasing & Salary Packaging Association and the Australian Salary Packaging Industry Association provided in-principle support for a deferral period within a salary packaging context, provided that the unique requirements of this sector are taken into consideration in the design of any mandated deferral period and processes.

(d) The AFA was concerned that the poor outcomes identified in REP 470 damaged the broader reputation of the life insurance industry, reinforcing the recent negative views on life insurance and so could deter people from seeking valuable cover.

81 A deferred sales model was also endorsed by some providers who made public submissions to ASIC:

(a) Eric Insurance Ltd supported a deferred sales model as a means to best ensure the consumer is fully informed of the features, benefits and financial impacts of a decision to purchase financial products.

(b) The Warranty Group supported the ICA's submission and specifically took the position that an 'opt out' mechanism was undesirable.

82 ASIC's proposals received strong support from other legal and consumer advocacy bodies:

(a) The Law Council of Australia recognised a need to regulate sales channels that consistently disadvantage consumers.

(b) A joint submission from six consumer rights organisations including the Consumer Action Law Centre and Financial Rights Legal Centre supported the introduction of a deferred sales process for add-on products sold through car yards and the improvement of supervision for such sales. They stated this would improve demand-side competition and protect vulnerable people.

(c) Legal Aid NSW and Legal Aid Queensland considered that a deferred sales model will reduce consumer harms from pressure sales tactics, decision fatigue and deficits in comprehension.

83 Other stakeholders took the view that a deferred sales model did not adequately address all the concerns identified in our reviews and that different interventions could be considered.

84 For example, the Finance Brokers Association of Australia (FBAA) stated that the focus must be on the quality of products and the correct assessment of consumer need (rather than a deferred sales model). It suggested changes to improve outcomes, including sales restrictions based on a ratio of the value of the goods to the products acquired, monitoring payout ratios and maximum remuneration, and monitoring of the quality of products being offered.

85 Automotive Financial Services Pty Limited expressed concerns about the potential for insurers and car dealers to develop 'work arounds' to the proposed reforms. It therefore supported a prohibition on the financing of premiums for add-on products through the related finance contract or lease (as the key driver to the broad distribution of these products).

86 Similarly, Safe-Guard Products thought that excessive commissions and poor product value were key concerns, which would not be addressed by a deferred sales model. In contrast, Gillen Motors considered that an increased focus on the existing regime of cooling-off periods would be enough to prevent consumer harms.

87 Some stakeholders had different reservations about a deferred sales model:

(a) The FBAA suggested that the reforms could increase the rate of uninsured consumers.

(b) The Australian Finance Industry Association was concerned about the implementation costs and potential business disruption for lender application and approval processes.

88 Some stakeholders who did not support a deferred sales model gave conflicting reasons:

(a) Some argued regulating sales practices is an inadequate response to the harms identified by ASIC.

(b) Others took the view a deferred sales model will frustrate sales of insurance products, exposing consumers to increased financial risk. Automotive Dealer Services noted that some consumers may not be able to buy insurance products if they are not sold with vehicles.

89 Public submissions are available on our website under CP 294.

What products and sales channels would be covered

Products

90 Under our proposal, the deferred sales model and supporting obligations would apply to all add-on insurance products, except comprehensive or CTP insurance products. It would therefore cover:

(a) CCI;

(b) GAP insurance;

(c) purchase price protection insurance;

(d) loan termination (or ‘walkaway’) insurance;

(e) tyre and rim insurance; and

(f) mechanical breakdown insurance.

91 The deferral period would operate in a different way in relation to mechanical breakdown insurance where the product relates to a vehicle still covered by a manufacturer’s warranty. In summary, the proposal in this paper is that the sale of mechanical risk products on new cars should be prohibited where the manufacturer’s warranty still has more than 12 months’ cover: see Section E.

92 The proposal would apply to sales of financial products to a person who is a 'retail client' as defined in s761G of the Corporations Act (and therefore include some sales to small businesses, such as sales of add-on products to truck drivers who are retail clients).

93 We propose to monitor the implementation of the intervention and assess the impact of the deferred sales model on consumer outcomes, and the extent to which they reduce the identified detriment. If necessary, further interventions can be considered.

Sales channels

94 In ASIC's view, the deferred sales model should operate in a competitively neutral way across all channels where the intermediary is also arranging finance. There are three main classes of intermediaries: car dealers, finance brokers, and entities arranging leases as part of salary packaging services.

Car dealers and finance brokers

95 The most common sales channel for add-on products is car dealers. They will usually also arrange credit for the consumer for the purchase of the car. The consumer therefore is engaging with them on multiple purchasing decisions, in relation to the car and the terms on which finance is to be provided, as well as add-on products.

96 Many car dealers have tied arrangements with lenders. However, some car dealers are not accredited with any lenders to provide finance on their premises. They will therefore usually refer consumers to a finance broker, who will then arrange finance and may also sell them add-on products.

Salary packaging services

97 Businesses that offer salary packaging services typically arrange to finance the car through a tripartite contract between the lessor, the consumer and their employer.

98 There are significant levels of sales through this channel. For example, the Australian Salary Packaging Industry Association (ASPIA) currently represents more than 30 organisations involved in the salary packaging industry in Australia. It estimates that its members currently administer at least $500–750 million in benefits each month (although not all of these would relate to vehicles).

99 The salary packaging sales channel has different features including:

(a) the legal form of the sale is driven or motivated by tax advantages;

(b) the sales process is rarely conducted face to face;

(c) the consumer usually has a specific type of vehicle in mind; and

(d) the lease is not a contract regulated by the *National Consumer Credit Protection Act 2009*, so lessors do not, for example, have any disclosure requirements for the financing of add-on products (such as disclosing the premium as a lump sum).

100 Despite these differences, there are still risks for consumers in this sales process including:

(a) being given written information about add-on products that is bundled in with a number of other documents, and therefore may not necessarily be read or considered by the consumer;

(b) not being provided with the total cost of any add-on products (but only the cost over a shorter period, such as a fortnight); or

(c) having the cost of add-on products automatically included in a quote without any discussion with the consumer to gauge whether they are interested.

101 The combination of these practices and other factors associated with poor consumer outcomes means there is a risk of consumers being offered or sold products where they cannot easily assess their value or that may be of minimal benefit.

102 We think the proposed reforms should also apply to the salary packaging sales channel with refinements or adaptations as necessary. These transactions can be readily adapted to a deferred sales model. This is because typically there is already an inherent pause in the sales process as employees:

(a) usually receive a written quote before deciding whether to enter into the lease; and

(b) need to obtain approval from their employer, resulting in a pause before they enter into the lease.

How the deferred sales model would work

103 We expect that the deferred sales model should work by disrupting the sales process, separating the offer of add-on financial products from the sale of car, and eliminating face-to-face sales in a single meeting. It should also mitigate the risks of consumers:

(a) being overwhelmed with offers, information and choices;

(b) making rushed decisions, including decisions for reasons other than because they want or need the product; and,

(c) being subject to unfair sales tactics.

104 To achieve these outcomes, we consider that the deferral period should:

(a) be four days in duration;

(b) only start after the consumer has made a financial commitment in relation to which car they intend to acquire; and

(c) begin when the consumer has been given the ‘roadmap’.

Duration of deferral period

105 Under our proposal, the deferral period would be four days: see Table 6.

Table 6: Overview of the deferral period

Period	How it would work
Day 1	The deferral period begins. The consumer has made a financial commitment in relation to a particular car and is given online access to the tailored consumer roadmap.
Days 2 and 3	The deferral period continues. The intermediary cannot initiate contact with the consumer about the add-on products.
Day 4	The deferral period ends meaning that: • if the consumer has decided to buy add-on products, or expressed an interest in recieving further information via the online access—the intermediary can complete the sale; or • if the consumer has decided not to buy add-on products, or has not made any decision—the intermediary may not initiate further contact with the consumer about the products.

106 We anticipate that some consumers may use the deferral period to consider the information provided and conduct further research. Equally, other consumers may pay no further attention to information about products they had not actively sought in the first place.

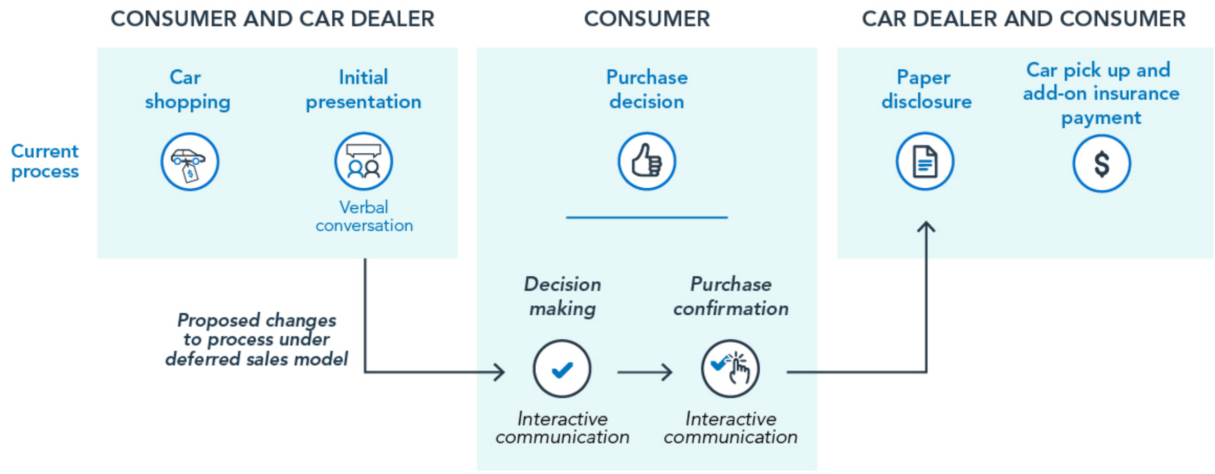
107 One consequence of this approach is that an intermediary cannot sell add-on products if the consumer selects and buys the car on the same day, or in a period of less than four days. We consider that this is an acceptable outcome compared to the increased risk of consumers making poor purchasing decisions.

108 In response to CP 294, some stakeholders criticised this approach on the basis that some consumers would be denied access to add-on products. However, implicit in this criticism is an assumption that add-on products would only ever be sold through an intermediary.

109 We do not accept this assumption. If there is significant demand for add-on products from consumers who buy the car in a shorter time than the deferral period, we expect that insurers and warranty providers will develop alternative distribution methods (such as selling these products online). We note that there is an online market for some add-on products in the United Kingdom.

110 Figure 3 sets out an assumed comparison of the consumer's decision-making process under the current sales process and the proposed deferred sales model.

Figure 3: Overview of the consumer's decision-making process



Note: For a description of the process shown in this figure, see Table 6 (accessible version).

Commencement of deferral period

111 We propose that the deferral period would:

(a) only be able to start after the consumer has made a financial commitment in relation to a particular vehicle (which could be before they have signed a contract of sale); and

(b) begin when they have been given online access to the tailored consumer roadmap.

Note: This is the same approach to commencement of the deferral period as in the Treasury reform paper, as the intention is to align the two reforms.

112 An intermediary should be able to clearly demonstrate that the trigger has been met and the information has been provided at the start of the deferral period (e.g. through digital signatures, emails or SMS tracking).

113 The deferral period would begin at the point in the sales process when, in our view, the consumer is best able and most likely to focus their time and attention on the add-on products offered to them.

Commitment in relation to a particular vehicle

114 We consider that the decision to select a car has occurred when the consumer has expressed a clear commitment to a particular vehicle—beyond indicating a simple preference—such that it is reasonable to assume, or it is likely, that they will proceed with the sale.

115 Examples of the type of conduct that would constitute a commitment include:

(a) becoming liable to make payments on the vehicle (as a result of entering into a car sale contract); or

(b) submitting an application for finance for a vehicle.

116 We think that starting the deferral period at this point in the sales process is likely to produce better outcomes than alternatives proposed by stakeholders in submissions to CP 294. These included that the deferral period should start:

(a) when the consumer roadmap is provided to the consumer (whether or not the consumer has a particular car in mind at that point in time); or

(b) on delivery of the car.

117 We are concerned that allowing the deferral period to commence when the consumer is given the roadmap allows too much flexibility and variation in how the deferral period would operate. It would mean, for example, that the deferral period could start when the consumer first visits the car dealership and before they have even chosen a vehicle to buy or lease.

118 We consider that if the deferral period starts before the consumer has chosen a vehicle, the information about add-on products will distract rather than help them. At this stage in the sales process the consumer will be focusing on choosing a vehicle rather than insurance or other add-on products. To maximise the effectiveness of the deferred sales model in achieving its objectives, it should only start after the decision on a vehicle has been made.

119 In response to CP 294 ASIC received submissions that the deferral period should not start until after the vehicle has been delivered to the consumer. One reason given was that it would help make it clear to consumers that buying add-on products is optional. The date of delivery of the vehicle is also an easily documented milestone in the sales process.

120 There is merit in starting the deferral period at vehicle delivery or shortly thereafter. If the deferral period was, for example, 30 days from the date of delivery, they would be able to consider their need for add-on products in light of owning and using the vehicle during this time.

121 However, we accept that starting the deferral period at this point would be too disruptive and significantly restrict the ability of intermediaries to sell add-on products.

Documenting the start date

122 As indicated in CP 294, the intermediary must clearly document the date the deferral period starts. As part of this process, the intermediary will need to confirm that the consumer has:

(a) made a financial commitment in relation to a particular car; and

(b) been given online access to the consumer roadmap.

123 We consider that technology should be available for product providers to document this information in a relatively straightforward way. We are aware of some businesses that have been operating in the United Kingdom for around 10 years providing electronic date and time stamping, system lock outs (preventing sales in the deferral period), retention of signatures of customers or intermediaries, and email confirmations. We therefore consider there is scope for providers to adapt or build on systems that are in use in the United Kingdom.

No opt out for consumers

124 In CP 294 we proposed that the deferred sales model should apply to all consumers. Given the range of problems we identified in this market, we considered that:

(a) it is unrealistic and unfair to expect consumers to understand the complexities of add-on products when they have not actively expressed any interest in those products;

(b) declarations by consumers that they understand these products are unlikely to be reliable; and

(c) there is a risk of abuse of any ‘opt-out’ mechanism, which is likely to disproportionately affect vulnerable or less financially-sophisticated consumers, as they tend to be more susceptible to such unfair tactics at the point of sale.

125 Some stakeholders did not agree with this view. Both the ICA and Eric Insurance recommended a consumer opt-out mechanism to allow for differences in practices between the new and used car markets. AADA and one major lender considered that an opt-out mechanism would be suitable for repeat or ‘sophisticated’ consumers.

126 We agree with the observations in the submission from The Warranty Group that there is potential for misuse of any opt-out mechanism unless it is supported by significant monitoring and post-sale audits.

127 In our view, the inherent complexities and range of matters that may affect the need for cover create a significant risk of vulnerability regardless of the consumer’s group or personal situation.

128 We note that in the United Kingdom, the Financial Conduct Authority (FCA) introduced a deferred sales model for GAP insurance in September 2015 and allowed an 'opt out' for confident consumers. The FCA's intervention was substantively similar to that proposed by ASIC, with a pause in the sales process for two days before conclusion of the sale, and with compulsory provision of written information on GAP insurance to potential buyers.

129 In July 2018, the FCA published an evaluation paper discussing the outcomes of this model. This paper found that:

(a) there were fewer sales to consumers for whom add-on GAP insurance was an unsuitable product; and

(b) having time to think about buying GAP insurance was seen as more useful than the prescribed information, with the information obtained during and after the deferral period proving most useful for consumers in making a decision.

Note: See FCA, EP 18/1 *An evaluation of our guaranteed asset protection insurance intervention* (31 July 2018).

130 These findings support our view about the undesirability of allowing an 'opt out' for any consumers, particularly given the broader complexity of the decision-making process in Australia.

131 We acknowledge that there could be an exception where a consumer renews or extends a finance contract, particularly a lease. In this case, it may be appropriate for the consumer to renew or extend the cover under their add-on products without the need to provide a deferral period, where the consumer is only seeking to continue cover they had previously selected, rather than making a new purchasing decision.

Other obligations

132 Given the extent of the past disconnect between consumers' needs and their purchasing decisions (assuming that insurers retain general advice models), we propose to introduce obligations to:

(a) restrict sales of products to those where licensees have developed 'knock-out' questions to identify which products should not be offered to consumers;

(b) provide better information to consumers about the products offered to them, and the cost under different payment arrangements; and

(c) address the risk of consumers agreeing to the purchase because of pressure selling or other unfair tactics at the point of sale.

133 We note that in their responses to CP 294 some stakeholders did not support imposing any further obligations on providers in relation to disclosure and consumer understanding:

(a) The AADA observed that it is the function of Product Disclosure Statements (PDSs) to convey important product information and favoured revisiting the regulation of PDSs over introducing additional disclosure requirements.

(b) The ICA suggested that obligations on providers to take active steps in ensuring consumer understanding are an unreasonable hurdle that is not required in other industries.

(c) The FBAA considered such obligations to be uncommercial and anti-competitive.

134 However, we consider that digital channels provide opportunities for product providers to develop consumer-centric sales processes, enhancing engagement by consumers without placing too onerous a burden on insurers or intermediaries.

135 One of the issues identified in our reviews was that some consumers felt obliged to buy the products even though they did not understand how they worked. For example, some consumers:

(a) agreed to the sale out of a sense of reciprocity with the intermediary (see REP 470 at paragraph 53); or

(b) were worn down by being offered multiple add-on products in turn, as they found it increasingly difficult to continually refuse to buy them, and felt they should agree to a purchase some, in order to be reasonable (see REP 470 at paragraph 86).

136 The intermediary would be able to offer only those products selected by the consumer at the end of the deferral period. We consider this obligation is necessary to address the risk of consumers being placed under pressure to buy the products when they are again dealing face to face with the intermediary.

137 Our reviews also found that, if the consumer indicated they did not want to buy an add-on product, some insurers or intermediaries required them to sign an acknowledgement or waiver form designed to make it difficult for them to say ‘No’. For example, for CCI products, the consumer would have to state that they understood they would be liable for repayments if they became sick or unemployed. We consider that these sales practices are not necessary to protect the interests of the product provider.

138 We propose to prohibit the use of ‘reverse onus’ sales tactics that place unfair pressure on consumers to justify why they are not buying an add-on product, or that suggest that they will suffer adverse consequences if they do not buy them.

Restricting what products can be sold

139 We consider that insurers should be under an obligation to develop procedures to restrict sales where the consumer is unlikely to benefit based on objective and ascertainable criteria. The use of filters or 'knock out' questions is not a novel or difficult requirement to implement:

(a) Some insurers have already implemented or refined their business rules for the sale of add-on products in response to ASIC's review.

(b) We used this approach in designing remediation programs with insurers, by identifying classes of consumers who should receive refunds based on objective criteria in relation to the transaction.

(c) Similarly, some lenders also use 'knock-out' questions when selling CCI. The Commonwealth Bank of Australia introduced knock-out questions for CCI sales into its scripting in 2015 for assisted channels and in 2017 for its digital sales.

Note: See Commonwealth Bank of Australia, Submission to the Royal Commission (3 April 2018).

140 As an example of a filter, in our recent media release on add-on insurance refunds, we stated that we had obtained refunds where mechanical breakdown insurance was sold where cover would expire shortly after sale as, at the time of sale, the car had travelled close to the kilometre limit at which cover would expire.

Note: See Media release 19-146MR *ASIC announces further add-on insurance refunds, bringing total to over $130 million* (19 June 2019).

141 Given existing practices by some insurers and lenders, we consider it should be reasonably straightforward for product providers to develop knock-out questions. These questions would be used to:

(a) restrict sales so that consumers are not offered products that are objectively unlikely to provide them with a significant benefit (e.g. unemployment insurance to consumers who are not eligible to claim); and

(b) determine which option(s) of cover should be made available to a consumer to address the risk of over-insurance (i.e. if the consumer would be unable to claim the maximum amount payable under an option, and a lower level of cover would be appropriate).

142 We envisage that each insurer and warranty provider would develop knock-out questions based on their own products. These questions could be refined over time through an analysis of sales and claims data, and other information (enabling providers to develop a more detailed understanding of when the product is of poor or no benefit to a consumer).

Providing tailored information through a consumer portal

143 Given the well-established limitations of paper-based disclosure, our proposal for tailored information to be provided to consumers includes:

(a) a consumer roadmap with information about add-on products; and

(b) early disclosure of cost.

Consumer roadmap

144 We propose that a consumer roadmap should be provided with:

(a) statements displayed immediately on entering the portal that the consumer does not have to buy any add-on products;

(b) a link to further information about each product;

(c) an (optional) video describing how the product works;

(d) the cost of each add-on product available for sale, broken down by different payment methods;

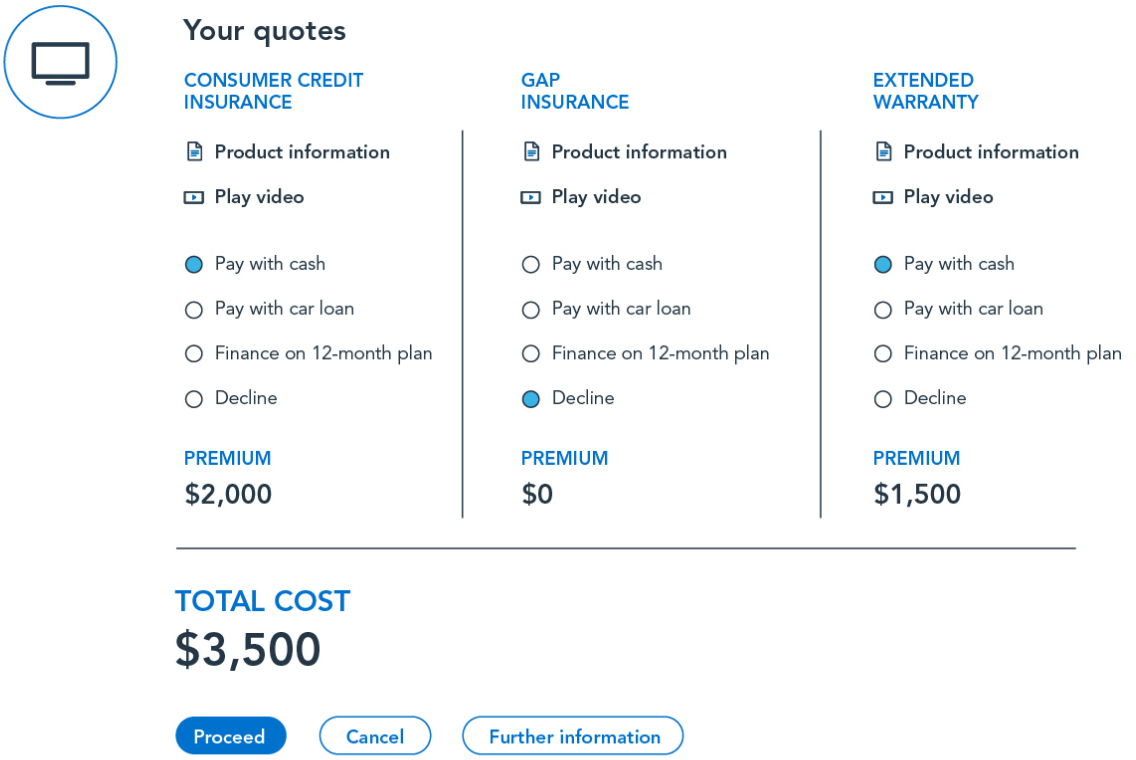
(e) the total cost of the add-on products available for purchase;

(f) buttons enabling the consumer to nominate a choice (either ‘proceed’, ‘cancel’, or ‘request further information’); and

(g) a link to ASIC’s MoneySmart website and car buying app.

145 The content of the roadmap is illustrated by the sample screenshot in Figure 4.

Figure 4: Sample screenshot of an online portal



Note: For a description of the options shown in this figure, see paragraph 144 (accessible version).

146 Consumers would be provided with a link to a portal at the start of the deferral period to enable them to advise product providers which, if any, products they are interested in, or if they are interested in obtaining further information before deciding whether or not to buy them. This process could be structured to require minimal effort from the consumer—for example, selecting the products they are interested in and pressing a prompt on the screen that would automatically advise the licensee of their choice.

147 The intermediary would be able to offer only those products selected by the consumer at the end of the deferral period. We consider this obligation is necessary to address the risk of consumers being placed under pressure to buy the products when they are again dealing face to face with the intermediary.

148 We think the benefits and operation of add-on products could be made more transparent (and providers made more accountable when they elect to offer poor-value products) by:

(a) increasing the range of information disclosed to consumers (including value metrics); and

(b) displaying this information in simplified ways (e.g. through graphs or pie charts).

149 The key metrics that we are considering including are:

(a) the specific product's claims ratio or a similar metric to demonstrate the value of the product, based on the amount paid in claims relative to premiums paid to the insurer;

(b) the amount paid in commissions to intermediaries relative to the amount paid in claims;

(c) the average or median amount to be paid in the event of a claim, as against the maximum sum insured under the policy (noting that for some policies, such as CCI, loan termination and GAP policies, the amount payable can reduce significantly over the life of the contract).

(d) the average or median amount to be paid in the event of a claim, compared to the premium;

(e) the likelihood of an insured event occurring (based on the number of claims paid against the number of policies sold);

(f) the likelihood of any claim being accepted or rejected; and

(g) for dealer warranties—the lower level of regulation and accountability for these products, particularly that consumers cannot complain to an external dispute resolution (EDR) scheme if their claim is rejected.

Note: See paragraph 171 for a discussion of the legal structure and operation of dealer warranties compared to other mechanical risk products.

150 The final content, layout and appearance of these metrics would be informed by the work we have undertaken in preparing the life insurance comparison tool on the MoneySmart website.

151 We would also seek, as far as possible, to align the content of this disclosure with that proposed for the broader deferred sales model arising from the implementation of Recommendation 4.3 of the Royal Commission. The Treasury reform paper sets out a model in which the deferral period would be triggered by the provision of prescribed information, with ASIC determining the content, format and mode of delivery of this information.

Note: See Treasury reform paper, pp. 12–13.

152 It is possible that provision of the roadmap will prompt the consumer to seek out and purchase add-on products from other providers by approaching product providers directly. These sales would not be covered by the proposed obligations as different parties would be selling the primary products (the car and the finance contracts) and the add-on products.

Early disclosure of cost

153 Licensees are currently under no statutory obligation to disclose the cost of add-on products when consumers are making a purchasing decision. The cost only needs to be disclosed at a later point in time, when the consumer is signing the contract.

154 In REP 492 we found widespread use of 'price shrouding' practices which mean the consumer is being asked to make a purchasing decision when they have not been told the price. We think that the cost of any add-on products should be disclosed:

(a) at the start of the deferral period when consumers are given the consumer roadmap; and

(b) in a consistent mandated form, showing the cost of each add-on product, including any difference in cost depending on the method chosen to pay for the premium.

155 Consumers can pay the premium for an add-on product in four main ways:

(a) as a lump sum at the point of sale;

(b) by direct debit instalments to the provider over time (e.g. 12 months) with the provider usually charging a higher premium than if it was paid as a lump sum, given that they receive the premium over time;

(c) under the related finance contract, incurring interest charges at the rate payable under that contract; and

(d) under a side loan to the finance contract (e.g. with a premium funder), that only finances the amount of the premium, again with the cost to the consumer increased through interest charges.

156 Disclosure of the cost is straightforward where the consumer pays the premium either as a lump sum or by direct debit, as it can be calculated based on assumptions about the amount borrowed. We consider that parameters or assumptions could be prescribed for calculating the comparative cost (premium plus interest charges) where the consumer pays the premium through the related finance contract or side loan.

157 For example, if the consumer has already been given an indicative interest rate for the credit contract, this rate should be used to calculate the interest charges on the premium. As an alternative, an average or typical interest rate for a transaction of that type could be used.

Note: This disclosure would need to be refined where the add-on product is financed through a lease as lessors do not disclose the cost of finance as an interest rate.

158 If the consumer pays for the premium under the related credit contract, we consider that the disclosure should include an interactive component so that the consumer can change the settings to explore:

(a) what the repayments would be under different options or combinations of products—for example, the consumer should be able to see how much they would pay if they choose one, two or three different products; and

(b) how a change in the term of the finance contract affects the cost of both the add-on products and the loan (as generally the longer the period of cover the higher the cost)—for example, the consumer should be able to see how the price of the add-on product changes if they make higher repayments and reduces the term of the finance contract and the add-on premium.

159 The consumer would only need to be given information on costs for those products that have been offered to them after the product provider has used the 'knock-out' questions to filter those offerings.

Monitoring of consumer outcomes

160 We will also introduce monitoring by requiring businesses to provide data to ASIC on a regular basis so that we can see if the deferral period is operating as intended or whether, for example, avoidance models are being developed.

161 Based on our regulatory experience, we consider the risk of gaming is significant. We also note that it was identified as a possible consequence by Automotive Financial Services Pty Limited in its submission to CP 294.

162 We will monitor implementation of the intervention. If workarounds and significant consumer detriment persists we will consider the need for further interventions.

163 The approach we are envisaging is that ASIC would require providers to respond to a written request for information, rather than prescribing the

content of the request in any order itself. This approach would give us flexibility and allow us to, for example, respond to changes in practices by product providers over time.

164 The matters on which we would obtain information include data to test whether the proposed order results in improved product design or delivering better outcomes (e.g. through improved claims ratios).

Note: For a copy of the draft information request with the data we are considering obtaining, please contact product.regulation@asic.gov.au.

D Significant consumer detriment: Mechanical risk products

Key points

This section sets out ASIC's views on the need for additional reforms for mechanical risk products, including:

- prohibiting the sale of mechanical risk products on new cars should be restricted until close to expiry of the manufacturer's warranty;
- prohibiting the sale of mechanical risk products where the maximum amount payable is $2000 or less;
- requiring providers to offer refunds on cancellation or termination of the product; and
- removing contractual requirements on consumers to service the vehicle that are onerous.

Why we are consulting on using our product intervention power

165 We consider that significant consumer detriment has resulted, and is likely to result, from the sale of financial products covering the cost of repairs to the consumer's vehicle, having regard to the factors we must consider under s1023E of the Corporations Act.

166 These factors are:

(a) the nature and extent of the detriment;

(b) without limiting paragraph (a), the actual or potential financial loss to consumers resulting from the product;

(c) the impact that the detriment has had, will have or is likely to have on consumers; and

(d) any other matter prescribed by regulations.

167 There are three functionally similar financial products that cover the cost of repairing or replacing parts of a car due to mechanical failure. Table 7 summarises the differences in the legal structure and operation of these products.

Table 7: Overview of different mechanical risk products

Product	How it works	How the provider is regulated
Mechanical breakdown insurance	The benefits are provided through a contract between the consumer and an insurer.	The insurer will hold an Australian financial services (AFS) licence and offer the products in accordance with their obligations under the Corporations Act, and the Insurance Contracts Act. Insurers are prudentially regulated by APRA.
Third-party warranty	The benefits are provided through a contract between the consumer and a third party.	Providers of third-party warranties will hold an AFS licence and offer the products in accordance with their obligations under the Corporations Act.
Dealer warranty (also known as a service contract)	The warranty contract is between the car dealer and the consumer (although the dealer may have downstream arrangements with a third party to administer or manage claims).	These providers rely on the exemption for incidental financial products in s763E of the Corporations Act, and therefore are not the holders of an AFS licence. This means they will usually not be a member of an approved EDR scheme, so consumers cannot have disputed claims paid without recourse to legal action. There is no requirement to hold minimum levels of capital against future claims.

168 In this section:

(a) the term 'mechanical risk products' is used to describe all three products; and

(b) the term 'warranties' is used to describe both third-party warranties and dealer warranties.

Significant consumer detriment

169 The sales environment for mechanical risk products is the same as that for add-on insurance products discussed in Section B. For the reasons examined in detail in that section, we consider there is consumer detriment from the combination of the following factors:

(a) There is a lack of competition at the point of sale, as the consumer has the choice between buying the products offered to them by the intermediary and not buying the products at all.

(b) The use of 'no advice' or 'general advice' models means that the seller is under no obligation to select or recommend a product based on the needs of the consumer.

(c) There is significant complexity for consumers in making purchasing decisions about warranties, given the range of matters they need to consider.

(d) The choice architecture creates vulnerability which increases the risk of significant consumer detriment.

170 The combination of these factors has meant that consumers have suffered detriment by being sold warranties that provide low value (measured by claims against premiums) or that do not operate as the consumer may reasonably expect they would.

171 The risk of poor outcomes is exacerbated where the consumer is sold a dealer warranty, where there are lower levels of regulation and accountability. This is because:

(a) the individuals selling the warranties are not subject to any minimum training or supervision requirements under the Corporations Act (unlike those selling insurance or third-party warranties);

(b) consumers are unable to complain to an EDR scheme; and

(c) the ability of the provider to meet future claims may be compromised by external factors (such as the dealer's broader cashflow position).

Note: ASIC cannot make a product intervention order requiring a person who is not required to hold an AFS licence to join an EDR scheme: see s1023D(4)(b) of the Corporations Act.

Poor-value products

172 ASIC has obtained data on warranty products, as discussed below:

(a) For warranties, we have obtained data from businesses in some cases broken down by calendar years, and in other cases by financial years, covering either the period July 2017 to June 2018, or January to December 2018.

(b) Some providers do not distinguish in claims results according to whether or not the consumer was charged a premium for the warranty or it was given away for free as part of the transaction for the purchase of the vehicle.

(c) There are differences in the value received by consumers in claims in that in an unknown number of instances car dealers:

(i) claimed reimbursement based on the wholesale cost of the repairs, rather than their retail price; or

(ii) did not record or claim the cost of repairs (particularly where the value of the repairs was low).

173 We also obtained data from warranty businesses broken down by different product offerings.

174 We found across a recent year, for six of the main warranty businesses, over 400,000 warranties were sold with premiums totalling over $161 million.

175 Where claims data was readily available, we found a claims ratio of 23 cents in the dollar (premiums were $94.7 million against claims of $21.7 million). Noting the caveats in paragraph 172, we expect the claims ratio would change if claims under free warranties were excluded, but there was a more accurate figure for the cost of repairs. These factors may balance each other out.

176 Our inquiries suggest that, while across the three main insurers, mechanical breakdown insurance loss ratios have improved, they are still less than 25 cents in the dollar.

177 We identified a number of other poor outcomes for consumers in the warranties they had been sold, again demonstrating that these products provided low value to consumers:

(a) Some warranty products had claim denial rates as high as 48%, with several above 30%. The most common reason for denying a claim was a component not being covered, with the second most common reason being the consumer's failure to service the car. This data suggests consumers did not understand the coverage and requirements of these mechanical risk products at the time of sale.

(b) There were high numbers of claims withdrawn on some warranty products. For example, 11 warranty products, offered by three different providers, had claim withdrawal rates above 10%.

(c) A number of warranty products had average premiums that were higher than the average claim paid, indicating that the price was uncompetitive and delivered poor value to consumers. We found, for example, that one warranty product that was sold to over 4,800 consumers in 2017–18 had an average claim amount of $1,532.52 and an average sale price of $2,413.

(d) Cancellation rates were high across several warranties, with five products having rates above 20%.

178 We found consumer detriment through limitations in cover as evidenced by co-contribution rates. It is common for mechanical risk products to limit the amount the provider will pay, so that the consumer has, in practice, an uncapped liability to pay the balance owing on the cost of repairs. This approach is the reverse of home and car insurance where the consumer's liability is capped at the amount of the excess, and the insurer must pay the balance owing on the claim.

179 For warranties where the cost of repair costs was regularly collected, on average, consumers paid part of the repair cost 62% of the time, and more than two-thirds of such warranties had a co-contribution rate above 50%, For some products, the co-contribution rate was 100%.

180 We consider that high co-contribution rates raise an inference that products have not been designed to meet the needs of consumers, and that they are operating in ways that are inconsistent with their expectations.

Early sales when consumer cannot know or predict their needs

181 We are concerned about the early or premature sale of mechanical breakdown insurance and warranties on new cars while they are still covered by the manufacturer's warranty, as it is unreasonable to expect consumers to be able to predict their future needs after the manufacturer's warranty has expired.

182 The cover under mechanical risk products on new cars typically commences when the manufacturer's warranty ends. Manufacturers' warranties can run for between three to seven years from the purchase date of the car and can operate for a specified distance (e.g. 100,000 km), or an unlimited distance (so that only the time limitation applies).

183 In CP 294, we identified significant risks for consumers from the sale of these mechanical risk products, with new cars or with used cars, where the vehicle is still covered by the manufacturer's warranty.

184 Table 8 sets out the period of cover offered by manufacturers on popular makes of car. It shows that nearly all manufacturers now offer warranties running for five years or more.

Table 8: Cover offered under manufacturers' warranties

Make	Years	Kilometres
Ford	Five years	Unlimited
Holden	Five years	Unlimited
Honda	Five years	Unlimited
Hyundai	Five years	Unlimited
Isuzu Ute	Six years	150,000 kilometres
Jeep	Five years	100,000 kilometres
Mazda	Five years	Unlimited
Mitsubishi	Five years	100,000 kilometres
Nissan	Five years	Unlimited
Peugeot	Five years	Unlimited
Renault	Three or five years	Unlimited
Skoda	Five years	Unlimited
Subaru	Five years	Unlimited
Suzuki	Three years	100,000 kilometres

Make	Years	Kilometres
Toyota	Five years	Unlimited
Volkswagen	Five years	Unlimited

185 Consumers offered a mechanical risk product on a new car face a complex purchasing decision, involving uncertainty and unknowable future matters, that inhibit their ability to assess whether they need the product at all, and, if so, the level of cover they will need.

186 The following factors inhibit effective consumer purchasing decisions:

(a) the consumer is being asked to make a decision about their need for cover on the car in three to seven years' time (an inherently difficult task);

(b) the consumer's future circumstances, including whether they will want to trade the car in before the cover starts under the mechanical risk product; and

(c) their use of the car can change (e.g. from personal use to business use), so that they become ineligible to claim.

Example 1: Decision contingent on predicting unknown or changing needs

A consumer buys a car in 2019 with a manufacturer's warranty that runs for five years. They also buy a warranty with a four-year term to cover repairs after the manufacturer's warranty expires.

This means that:

- the warranty the consumer bought will start in 2024; and
- the cover under this warranty will expire in 2028 (nine years after the consumer bought the car).

There are many possible reasons why the consumer's needs could change over the five year period before cover starts: for example, they may trade in their car and buy a new one, or the car may become a total loss.

187 In ASIC's view, the move by manufacturers to consistently offer warranties with terms of five years or more increases the risk that the consumer will never use a mechanical risk product because they will sell or trade in the car while it is still covered by the manufacturer's warranty and before cover under the mechanical risk product has even started.

188 The consumer is doubly penalised in that they:

(a) pay an additional cost through interest charged on the premium where the product is financed under the related loan contract; and

(b) lose money from any return they could have otherwise generated from the premium in the time before the cover starts.

Note: See CP 294 at paragraph 236 for an example of the cost to a consumer.

189 Even if the consumer plans to keep the car for several years after the manufacturer’s warranty has expired, it is not possible for them to anticipate what level of cover may be appropriate. This depends on an assessment of intangible future factors that are relevant to the option of cover selected, including the following:

(a) *Term of the warranty*—The consumer needs to assess how long they will keep the car and therefore the number of years they will need cover under the mechanical risk product.

(b) *Kilometre limit that applies to the warranty*—The consumer needs to estimate the distance they will travel while the car is under the manufacturer’s warranty, and therefore the distance they will need to be covered for under the mechanical risk product.

(c) *Caps on claims limits*—For some warranties, there will be a steady reduction in the maximum amount payable, where the contract caps this amount at the market value of the car at the time of claim.

190 As a result, the consumer is faced with two options:

(a) *Underestimating the distance travelled during the manufacturer’s warranty*—This is likely to result in the warranty providing insufficient cover. For example, the consumer may estimate they will travel only 60,000 kilometres under the manufacturer’s warranty, but in fact they travel 90,000 kilometres. The consumer buys a warranty that expires when the car has travelled 120,000 kilometres, which means the car is covered for 30,000 rather than 60,000 of the remaining kilometres.

(b) *Overestimating the distance that will be travelled during the manufacturer’s warranty*—This is likely to result in the warranty providing excessive cover. As in the first example, the consumer buys a warranty that expires when the car has travelled 120,000 kilometres. However, they travel only 40,000 kilometres under the manufacturer’s warranty, rather than 60,000 kilometres. This means they could have bought a cheaper product that expired when the vehicle had travelled 100,000 kilometres.

191 Some sections of the industry have recognised the risk of detriment arising from premature sales of mechanical risk products:

(a) As part of ASIC’s review of add-on products, two insurers agreed to provide a full refund to consumers who were sold a mechanical breakdown insurance policy on a car with a seven-year manufacturer’s warranty, as there was a significant risk that many consumers would not benefit from this insurance, given the seven-year break between sale of the product and the consumer becoming entitled to claim under it.

(b) We are aware that some lenders have addressed this issue by introducing business rules preventing the financing of warranties where the manufacturer’s warranty will run for five or more years. Our proposal, if introduced, would ensure consistency across the broader industry.

Issues with product design and pricing

192 We have also identified consumer detriment from the following design and pricing aspects of mechanical risk products:

(a) *Sales of mechanical risk products with low claims limits*—Given the cost of major repairs to vehicles, we consider that mechanical risk products where the maximum amount payable in the event of a claim is $2,000 do not meet the needs of consumers.

(b) *Failure to provide refunds*—We consider that consumers should be entitled to a pro rata refund where they cancel the mechanical risk product, including in situations where the provider is no longer on risk (e.g. where the car is a total loss and no further claim is possible).

(c) *Onerous or excessive servicing requirements*—Some mechanical risk products require the consumer to service their vehicle at a frequency that may be excessive (e.g. more often than the manufacturer requires servicing to take place under their warranty). Some products have tied-servicing arrangements, where the consumer is required to service their vehicle at the selling dealer, both during the period of the manufacturer's warranty and after it has expired.

Warranties with low claims limits

193 Our review identified a number of warranties where the maximum claim limit was $2000 or less, including, in some instances, a cap on the amount payable as low as $500.

194 ASIC has identified two concerns in relation to warranties with a maximum individual claim amount of less than $2000:

(a) *Unfair pricing practices*—While most of these warranties are given away for free, some consumers are charged high prices for low-value cover.

(b) *Failure to meet consumer's needs*—Given the cost of repairs, there is a significant risk that a warranty with a claims limit of $2000 or less will not provide comprehensive cover, and is likely to result in consumers needing to make a co-contribution.

195 We found evidence of unfair pricing practices given that some providers were selling these products for significantly high and uncompetitive prices, presumably exploiting more vulnerable consumers. Our review found that:

(a) on average, 96% of low-value warranties are given away for free;

(b) a small number of consumers were charged a premium substantially higher than the maximum amount payable for a single claim;

(c) in many cases, the premium charged is more than the maximum amount payable in the event of a single claim, so that a consumer would need to make multiple claims to receive a financial benefit that exceeds the premium; and

(d) some premiums exceed the value of the claim payable.

196 Table 9 sets out examples of such transactions identified by ASIC in the course of our review.

Table 9: Examples of premiums that exceed the value of the claim

Warranty provider	Maximum individual claim	Highest premium charged
Provider A	$1,250	$2,080
Provider B	$1,000	$1,719
Provider C	$1,000	$2,000

197 Providers A and C have acknowledged these concerns and are voluntarily introducing maximum retail pricing for their products as a result. Provider B has dismissed ASIC's concerns and continues to give dealers broad discretion in setting the premium for its products, so that consumers are still paying high and uncompetitive prices.

198 Our second concern with the sale of warranties with low claims limits (irrespective of the price charged) is that the level of cover is insufficient to meet the needs of the consumer.

199 Warranties are generally promoted and sold as meeting the risk of the consumer having to pay the costs of repairs to their vehicle. We consider that warranties with a maximum individual claim amount of less than $2,000 do not meet the needs of the consumer as this will not meet the cost of repairs for major car parts, such as the engine, transmission or differential. The effect of these caps on claims means that components apparently covered by the warranty may in practice be excluded, but in a way that is not obvious to the consumer until they make a claim.

200 For example, a consumer with a second-hand car worth $5,000 that requires repairs costing more than the claimable amount of $2,000 may be better off buying a replacement vehicle rather than making a significant co-contribution. The structure of the warranty can therefore operate as a disincentive to claiming.

201 Further, if the consumer does make a claim then they bear the cost of repairs above the maximum claim limit. For example, if the repairs cost $3,000 and the consumer only receives $1,000 under the warranty then they will need to pay the balance. We found that, on some low-value warranties, the percentage of consumers making a co-contribution exceeded 80% (compared to an industry average of 52%).

202 This suggests that these products are not designed to meet the expectations or needs of consumers, but minimise the financial risk to the provider (although it should be noted that this is not applicable where the warranty is given away for free, where it is reasonable to expect that the level of cover will be low).

Refunds

203 We found no consistency in the right of the consumer to claim a refund under mechanical risk products, either during the cooling-off period after a sale or after cover has commenced. There were broad differences in approach:

(a) Insurers offering mechanical breakdown insurance typically offer pro-rata refunds to consumers who cancel their products after the cover starts (although they sometimes charge an administration fee).

(b) Some warranty providers had generous refund policies, allowing full refunds before the cover commenced (that is, during the period of the manufacturer's warranty), and pro-rata refunds thereafter.

(c) Other warranty providers have contracts that do not allow refunds under any circumstances.

204 Significant consumer detriment arises due to the lack of any contractual right to a refund, particularly where they cannot make a claim or have otherwise decided they no longer need cover. Examples of these situations include:

(a) the consumer has traded in the vehicle and no longer owns it;

(b) the vehicle has been written off in an accident (noting that warranties are not transferrable to a replacement vehicle); or

(c) the consumer has exceeded the kilometre limit specified in the product but the term of the contract has not expired.

205 The example below illustrates the detriment to consumers where they have no contractual right to a refund, with the provider entitled to retain the whole premium, even though they are no longer at risk of a claim.

Example 2: Significant consumer detriment from failure to pay refunds

The consumer was sold a warranty at a cost of $4,000 when they bought a used car from a dealer. The vehicle was written off in an accident two hours after purchase, so that the consumer no longer needed cover.

The provider of the warranty refused to provide a refund, even though it was no longer on risk. It did offer to transfer the benefit of the warranty to the replacement vehicle provided through the consumer's comprehensive insurance policy. This did not assist the consumer as they had decided to use the payment from the comprehensive insurer to purchase a new car covered by a five year manufacturer's warranty

Onerous servicing requirements

206 Mechanical risk products require the consumer to service the car at a frequency specified in the contract. If the consumer does not meet these servicing obligations the provider may be entitled to reject a claim.

207 ASIC’s review of car warranties has identified two practices in relation to servicing requirements that can lead to poor consumer outcomes.

208 The first is where the consumer is required to service their vehicles more frequently than is specified under the manufacturer’s warranty. We consider that the manufacturer is the party best able to determine what is a reasonable level of frequency for their vehicles to be serviced. It is therefore not apparent to us why consumers should have to service their vehicle more often.

209 Further, under some warranties, after the manufacturer’s warranty has expired, the contract requires the consumer to increase the frequency with which their car has to be serviced. A consumer who has become used to having their car serviced according to the timetable under the manufacturer’s warranty may not realise that they now have to service their car more often. The unexpected change in their contractual obligations creates a risk that they may breach the terms of their warranty, and lose their right to have a claim paid.

210 The second source of consumer detriment is tied-servicing arrangements, where the consumer is required to service their vehicle at the selling dealer, both during the period of the manufacturer’s warranty and after it has expired. This requirement is found in some dealer warranties, but not all.

211 We accept that this requirement can protect the interests of the car dealer, in that ensuring robust servicing has taken place minimises the risk of future claims. It also can assist in maintaining the value of the car.

212 However, there is also a detriment to consumers where the warranty provides that the provider does not have to meet a claim if the consumer has had their car serviced, but not at that particular dealer. This approach can operate in an inflexible way to the disadvantage of a consumer, including where, for example, the consumer moves away and is no longer able to service the car at the selling dealer.

213 An alternative to a prohibition on tied servicing would be a requirement on the warranty provider to actively contact consumers who are in breach of their servicing obligations, and so unable to claim.

214 As servicing must take place with a particular car dealer, that dealer would know when the consumer has not had their car serviced, and so is in breach of the terms of their warranty. The warranty provider is therefore in a position to be able to easily identify and contact these consumers and arrange to pay them a refund, or to have the cover under the warranty reinstated, assuming the contract allows for this.

E Proposed intervention: Mechanical risk products

Key points

This section summarises our proposal for changes and restrictions on the sale of mechanical risk products.

Proposal for a deferred sales model and supporting obligations

Summary of our proposal

E1 We propose that:

(a) the sale of mechanical risk products on new cars should be prohibited where the manufacturer's warranty still has more than 12 months' cover; and

(b) the other obligations detailed in Section C should also apply to all mechanical risk products.

E2 We also propose that:

(a) the sale of mechanical risk products with maximum claims limits of $2,000 or less should be prohibited (noting that they could still be given away for free);

(b) consumers should be entitled to a refund where they cancel the mechanical risk product (noting the discussion in 228–230 about the circumstances in which this should operate); and

(c) restrictions should be introduced on the requirements imposed on consumers to service their vehicle.

E3 The proposed obligations would not apply to warranties provided for free, but only to sales of warranties where the consumer is charged a premium.

Note: See Attachment 1 to this paper for a draft product intervention order to inform responses to the proposal.

Your feedback

E3Q1 Do you consider that there is significant consumer detriment from the sale of add-on mechanical risk products in the circumstances described by ASIC? Please provide evidence in support of your response.

E3Q2 If you consider there is significant consumer detriment, do you think it should be addressed by the proposal in this section, or by some other intervention or action by ASIC? Please give reasons why you think a particular approach will be more effective.

E3Q3 How would the proposal in this paper affect businesses (e.g. insurers, car dealers, finance brokers, credit providers)?

E3Q4 What would be the advantages and disadvantages of car dealers no longer being able to rely on the exemption for incidental financial products (as a result of the proposal in paragraph E1(a))?

E3Q5 If you are able to do so, please provide an estimate of the impact of implementing the proposed model, or any changes or variations to this model set out in your response, including:

(a) the likely compliance costs (e.g. training, software);

(b) the likely effect on competition;

(c) the impact of additional costs on businesses and consumers;

(d) who would bear the cost; and

(e) other impacts, costs and benefits.

Key features of the proposed intervention

215 We propose a deferred sales model that operates as follows:

(a) where the vehicle is covered by a manufacturer's warranty that still has a term of at least 12 months—a prohibition on the sale of mechanical risk products; and

(b) in all other circumstances—introduction of a deferred sales model and the other obligations as set out in the proposed model in Section C.

216 We are also proposing a number of additional obligations to address specific risks identified with mechanical risk products.

217 Table 10 summarises the key features of the proposed obligations.

Table 10: Key features and supporting obligations

Feature	How it addresses existing consumer detriment
Introduce deferred sales model operating on same terms as for add-on insurance products	The same model would be expected to deliver the same outcomes as the model for add-on insurance products: see Table 5.
Prohibit sales for vehicles while manufacturer's warranty has 12 months or more to run	This addresses the existing problem for consumers in being asked to make a purchasing decision when they cannot be reasonably expected to predict their future needs.
Restrict sale of warranties with low claim limits	This should mitigate the risk of vulnerable consumers being sold products when they are usually given away for free.

Feature	How it addresses existing consumer detriment
Require pro-rata refund rights on warranties	This provides a comprehensive response to unfair refund practices that can disadvantage consumers (e.g. where a warranty provider can retain the entire premium even though they are no longer on risk).
Remove onerous servicing requirements	More frequent servicing than required under the manufacturer's warranty (e.g. every three months) can impose a significant cost on consumers while creating a risk that the consumer will failure to comply and so invalidate their warranty.
Remove tied servicing requirements	This responds to the consumer harm arising where consumers pay for warranties but require flexibility in servicing, placing them in breach of their requirements under the contract, and so at risk of having any future claim denied.

218 Our objectives are to reduce consumer detriment by seeking changes in this market so that:

(a) mechanical risk products that offer no benefits to consumers should not be sold, and the sale of products that offer minimal benefits should be reduced;

(b) mechanical risk products should offer improved value;

(c) premiums for mechanical risk products should be more competitive;

(d) mechanical risk products should be redesigned to better meet the needs of consumers; and

(e) sales processes should be fairer, more interactive and assist consumers to make better decisions.

219 We will monitor implementation of the intervention. If workarounds are devised and significant consumer detriment persists, we will consider the need for further intervention.

What products and channels would be covered

220 We propose that the intervention would apply to all three functionally similar add-on products that cover the cost of repairing or replacing parts of the car due to mechanical failure.

221 These products are:

(a) mechanical breakdown insurance;

(b) third-party warranties; and

(c) dealer warranties.

222 Where the deferred sales model applies, it would operate in the same way as the proposed model in Section C for other add-on insurance products.

223 It would therefore apply in a competitively neutral way across all channels where the intermediary is also arranging finance—that is, car dealers, finance brokers, and entities arranging leases as part of salary packaging services.

How the deferred sales model would work

224 In Section D, we identified significant consumer detriment arising from the early or premature sale of mechanical breakdown insurance and warranties on new cars while they are still covered by the manufacturer's warranty. The sale of these products at this point in time makes it difficult, if not impossible, for consumers to predict their needs in the future, after the manufacturer's warranty has expired.

225 In practice, this means that consumers are likely to be sold products that do not meet their needs, as it is not possible for them to assess whether they will need cover under a mechanical risk product in the future or the level of cover that is appropriate.

226 We are therefore proposing that:

(a) if the manufacturer's warranty has more than 12 months to run—the sale of mechanical risk products would be prohibited; and

(b) if the manufacturer's warranty has either expired or has less than 12 months to run—mechanical risk products can be sold but need to meet the requirements in the deferred sales model discussed in Section C.

227 The proposed approach would have specific consequences for warranties sold with new cars where the contract is between the dealer and the consumer (i.e. dealer warranties) if the dealer is not an AFS licensee (and presumably relies on the exemption for incidental financial products in s763E of the Corporations Act).

228 Under s763E, a person can rely on the exemption from the licensing and conduct obligations of the Corporations Act if the financial product they offer is incidental to a component or facility, and the main purpose of the arrangement is not a financial product purpose.

229 A significant break between the sale of the car and the sale of the dealer warranty may affect the capacity of the dealer to rely on the incidental exemption, which means that they would either need to be a licensee in their own right or offer a warranty provided by a third-party licensee.

230 Stakeholders may wish to specifically address this issue in their submissions, including the advantages and disadvantages arising from consumers being offered warranties by a person who holds a licence relative to a transaction where the warranty is sold by a dealer relying on the exemption for incidental financial products.

Other obligations

231 We propose to:

(a) prohibit the sale of mechanical risk products with maximum claims limits of $2,000 or less (although they could still be given away for free);

(b) require that consumers should be entitled to a refund where they cancel the mechanical risk product; and

(c) introduce restrictions on the requirements imposed on consumers to service their vehicle

232 We consider that the prohibition on the sale of low-value warranties would apply where the maximum amount payable under the warranty for a single claim for any component is capped at $2,000 or a lesser amount.

233 We propose to include a right to a refund to consumers where they cancel the mechanical risk product that operates as follows:

(a) Consumers will have a 30-day cooling-off period, where they can cancel at any time and receive a full refund.

(b) A consumer can cancel at any time before cover has started, including during the period of the manufacturer's warranty (noting that this would now be a maximum of 12 months), and receive a full refund.

(c) Consumers are entitled to a pro-rata refund when they cancel their policy after cover commences, possibly after deduction of an administration fee.

(d) The contract will end and the consumer will be entitled to a rebate where circumstances change such that the consumer can no longer benefit from the warranty or the provider is no longer at risk (e.g. the consumer sells their car, moves overseas or cover ceases as their vehicle has exceeded the kilometre limit).

Example 3: Backdating of refund

A consumer sells their vehicle without transferring the warranty in January 2019. They do not seek a refund from the warranty provider until April 2019. The calculation of the refund should be based on the date of sale of the vehicle as the point in time at which the provider ceased to be on risk.

234 For restrictions on servicing requirements, we propose that providers cannot sell a mechanical risk product if it includes a term allowing the provider to refuse to pay a claim because the consumer has failed to have their car serviced:

(a) more frequently than is required or recommended by the manufacture of the car for that make and model of vehicle; or

(b) by the dealer who sold them the product.

F Regulatory and financial impact

235 In developing the proposal in this paper, we have carefully considered its regulatory and financial impact. On the information currently available to us. we think it will strike an appropriate balance between:

(a) helping consumers make better decisions about the value of add-on financial products; and

(b) ensuring that any changes in the sales process and obligations for providers of these products are market-wide and competitively neutral.

236 Before settling on a final policy, we will comply with the Australian Government’s regulatory impact analysis (RIA) requirements by:

(a) considering all feasible options, including examining the likely impacts of the range of alternative options which could meet our policy objectives;

(b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR); and

(c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a Regulation Impact Statement (RIS).

237 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.

238 To ensure that we are in a position to properly complete any required RIS, please give us as much information as you can about our proposal or any alternative approaches, including:

(a) the likely compliance costs;

(b) the likely effect on competition; and

(c) other impacts, costs and benefits.

See ‘The consultation process’, p. 4.

Appendix: Consumer remediation obtained by ASIC

239 Table 11 summarises the remediation ASIC has obtained for consumers from add-on product providers.

Note: See 19-146MR *ASIC announces further add-on insurance refunds, bringing total to over $130 million* (19 June 2019).

Table 11: Summary of consumer remediation outcomes

Product provider	Outcome
QBE Insurance (Australia) Ltd	$15.9 million to over 35,000 consumers
Swann Insurance	$39 million to over 464,000 consumers
Allianz Australia Insurance Limited	$45.6 million to over 68,000 consumers
AAI Limited (trading as Suncorp Insurance)	$17.2 million to over 41,000 consumers
National Warranty Company	$4.9 million to over 6,000 consumers
Aioi Nissay Dowa Insurance Company Australia Pty Ltd	$7.2 million to 16,596 consumers
Eric Insurance Limited	$3.37 million to 5,232 consumers
Sovereign Insurance Australia Pty Ltd	$1.37 million to 1,858 consumers
Virginia Surety Company, Inc.	$1.7 million to 4,026 consumers
LFI Group	$951,700 to 2,001 consumers
NM Insurance Pty Ltd, an underwriting agency, and three insurers: • The Hollard Insurance Company Pty Ltd; • AAI Limited (a member of the Suncorp Group); and • AIG Australia Limited.	$143,700 to 287 consumers

Key terms

Term	Meaning in this document
2013–15 financial years (for example)	The three-year period comprised of the 2013–14, 2014–15 and 2015–16 financial years (in this example)
AADA	Australian Automotive Dealer Association
ACCC	Australian Competition and Consumer Commission
add-on financial products (or add-on products)	Includes add-on insurance products and warranties regulated by the Corporations Act, other than comprehensive or CTP insurance products
add-on insurance products	General insurance policies 'added on' to the sale of a primary product, most commonly a car
AFA	Association of Financial Advisers
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee (or licensee)	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
Australian Consumer Law (ACL)	The national law for fair trading and consumer protection
authorised representative	Of a general insurer—a person authorised in accordance with s916A or 916B to provide financial services on behalf of the general insurer
car dealer	A motor vehicle dealer who sells directly to consumers, including the sale of both cars and motorcycles
car loan	The contract entered into by the consumer to finance the purchase of the vehicle
caryard intermediaries	A range of entities who distribute add-on products, where the sale of these products is associated with the acquisition of a car by the consumer
CCI	Consumer credit insurance
claims ratio	The value of premiums paid by consumers, compared to the value returned to consumers in claims paid

Term	Meaning in this document
comprehensive insurance	Comprehensive car insurance
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
CP 294 (for example)	An ASIC consultation paper (in this example numbered 294)
CTP insurance	Compulsory third party insurance
Design and Distribution Act	*Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019*
FBAA	Finance Brokers Association of Australia
FCA	Financial Conduct Authority (UK)
Final report	Final report by the Royal Commission, February 2019
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
general advice (or general financial product advice)	Financial product advice that is not personal advice Note: This is a definition contained in s766B(4) of the Corporations Act.
guaranteed asset protection (GAP) insurance	General insurance that covers the difference between the amount a consumer owes on their car loan and any amount they receive under their comprehensive insurance policy, if the car is a total loss
ICA	Insurance Council of Australia
Interim report	Interim report by the Royal Commission, September 2018
licensee	An AFS licensee
life insurance or term life cover	A contract of insurance that generally provides for the payment of money on the death of a person and can include other events such as serious trauma which pays a lump sum for major illness
mechanical breakdown insurance	General insurance that typically covers the cost of repairing or replacing parts of the car due to mechanical failure after the manufacturer's or dealer's warranty has expired (often referred to as an 'extended warranty')
mechanical risk products	Mechanical breakdown insurance and third party warranties sold with new cars or with used cars where the vehicle is still covered by the manufacturer's warranty

Term	Meaning in this document
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the person giving the advice has considered one or more of the client's objectives, financial situation and needs; or • a reasonable person might expect the person giving the advice to have considered one or more of these matters Note: This is a definition contained in s766B(3) of the Corporations Act.
Product Disclosure Statement (PDS)	A document that must be given to a retail client for the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A of the Corporations Act for the exact definition.
product providers	Includes both AFS licensees and non-AFS licensees who provide add-on products
REP 470 (for example)	An ASIC report (in this example numbered 470)
representative of an AFS licensee	Means: • an authorised representative of the licensee; • an employee or director of the licensee; • an employee or director of a related body corporate of the licensee; or • any other person acting on behalf of the licensee Note: This is a definition contained in s910A of the Corporations Act.
Royal Commission	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
s912A (for example)	A section of the Corporations Act (in this example numbered 912A), unless otherwise specified
Treasury reform paper	The Australian Government's consultation paper on implementing the Royal Commission's Recommendation 4.3 on a broader deferred sales model, *Reforms to the sale of add-on insurance products* (9 September 2019)
tyre and rim insurance	General insurance that covers the cost of repairing or replacing damaged tyres and rims from blowouts, punctures or from road hazards