



Monday, 1 February 2021

Manager
Insurance Unit, Financial System Division
Treasury
Langton Cres
Parkes ACT 2600

Via email:

Dear Sir/Madam,

Re: Deferred Sales Model – Financial Sector Reform Bill 2020:
<https://treasury.gov.au/consultation/c2021-142813>

Introduction

With regard to the consultation on the Financial Sector Reform Bill, please see below a response to the proposals and observations from the perspective of NM Insurance Pty Ltd (NMI).

NMI offer across Australia and New Zealand a range of retail and consumer insurance products and services. Products offered include, but are not limited to recreational pleasurecraft, motorcycles (both registered and not), caravans and motorhome insurance. These products are distributed through AFSL licenced insurance brokers, direct to consumer and via our distributor network, including dealerships.

We believe that the proposed deferred sales model will not provide consumer benefit. We believe, like proposed registered motor vehicle insurance exemptions, distribution via dealers for comprehensive (and derivatives) of pleasurecraft, motorcycle and caravan insurance offer a strong balance of consumer benefits, competition, including asset protection, balanced with consumer protection through product awareness, cooling off periods as well as distributor training, expertise and convenience.

Generally, we do not see any difference to these products, or distribution via dealer network, any different to comprehensive motor vehicle insurance, current proposed to being exempted.

The Deferred Sales Reforms

NMI is very well aware of the risks to the consumer associated with the sale of insurance products that do not provide essential core cover to protect against damage to, or the liabilities arising from, retail assets.

Within comprehensive (and derivatives of same) insurance products, certain controls, such as cooling off periods and contract term reviews have become widespread good practice that has both improved behaviours within the financial services industry and led to better customer outcomes.

It is not so say that more cannot be done, and the deferred sales model will benefit the consumer in certain classes of business where, for example, there are sales linking to finance repayments, or extensions of warranted manufacturer commitments, or where the customer has limited options to purchase cover in the broader market.

ASIC have undertaken a comprehensive review and completion of remediation on these products historically, commonly known as add-on products. We do not support a deferred model for core asset protection however do understand the desire to complete a deferred sales model for the ASIC referred add-on products outside of core asset protection lines.

NMI has also developed a mechanism for identifying the risk of poor customer outcomes based on analysis of products and use of management information that allows informed decision making regarding the performance of products from both the consumer's and NMI's perspective.

NMI Products and Analysis

NMI offer insurance via distributors at the point of sale, which is limited to comprehensive (and derivatives) and does not include any add-on lines. NMI do include additional elements within comprehensive covers across some products, but these are at no additional cost to the consumer.

The distributor network that NMI partners with is carefully selected and significant due diligence is involved in reaching distributor agreements alongside ongoing training and monitoring.

As the regulation / consultations currently stand, and given the current narrative regarding exemptions, many of NMI product lines will be captured by the Deferred Sales Model. However, imposing a deferred sales model for particular product lines that NMI provides may in fact be detrimental to the consumer, as at the point of purchase, the consumer is highly likely to want to obtain insurance in order to be able to take the caravan, pleasurecraft or motorcycle from the dealership to its intended destination.

This would include the current requirement of retail asset financiers requiring proof of insurance prior to finance settlement. In this regard it would seem logical to assume that caravan, pleasurecraft or motorcycle should therefore be treated in the same way as comprehensive motor policies, which we understand to have been considered exceptions to the guidance.

The product lines that NMI offer are placed in a highly competitive market and therefore, even at point of sale, the consumer has many alternatives available to choose between, both from different insurers and complementary distribution channels.

Additionally, and in accordance with good practice, cooling off periods apply to products sold at point of sale, significantly reducing the risk of adverse customer outcomes.

All customers receive a Product Disclosure Statement as well as a Financial Services Guide prior to making a decision to purchase a product, and distributors are trained in the features of the products that they sell.

Given upcoming obligations under the new Product Design and Distribution regulations, the target market for all products is a key factor in the sales process.

We also find that customers do consider insurance well before delivery and completion of the asset purchase, like motor vehicles, so in actual practice, customers are preparing well in advance, protection for asset via insurance well before delivery, including the options provided by dealers acting as distributors of NMI.

Furthermore, regular review of the management information has shown loss ratios which are within an anticipated range and at a level which indicates that customers are benefitting from the product lines that we promote. Specific loss ratios are commercially sensitive, however happy to engage further with Treasury outside of consultation paper if requested.

In summary though, we can confirm for the last 3 years, loss ratios for these lines, separately have consistently exceeded 52.5% of earned premium paid by policy holders. This is further supported by the analysis of very low cancellation rates which demonstrate the products are meeting the needs of our customers.

It is with the above facts in mind that NMI expresses a strong opinion that the product lines noted above should also receive the same exemptions as comprehensive motor policies, as proposed. A simple proposed extension to the current exemption, to note motorcycles (road registered or not), recreational pleasure craft, caravans and motorhomes, like the motor vehicles exemption would ensure consistency to distribution models, and expectations to consumers, providers to the market and comfort to appropriate regulatory bodies.

Regards,

– Chief Executive Officer

Contact Details:

– Head of Compliance and Training

P:

E: