ASIC

Australian Securities & Investments Commission

REPORT 471

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

February 2016

About this report

This report presents ASIC's findings in relation to the sale of the life insurance components of consumer credit insurance (CCI) sold through car dealers (car yard life insurance). Our findings are based on data collected from life insurers who issue car yard life insurance.

Our review suggests that car yard life insurance:

- is poor value for money, as it can be much more expensive than other forms of life insurance.
- can be sold when it is not necessary (e.g. to young people with no dependants).

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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.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the National Credit Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

Executive summary

1 This report analyses the premiums, product design, claim outcomes and sale of the life insurance component of a consumer credit insurance (CCI) product sold through car dealers (car yard life insurance).

2 It sets out our findings on the consumer outcomes for car yard life insurance sold to consumers when they purchase a vehicle through a car dealership, on credit arranged though the dealership.

3 Typically for car yard life insurance:

(a) the life insurance component is bundled as an option under a CCI product, and provides a payout to meets the consumer's liability under their car loan if they should die;

(b) either the car dealer or a related finance broker arranges finance for the purchase of the vehicle, and also acts as an intermediary between the consumer and the life insurer; and

(c) the life insurance is offered to the consumer as one of a number of add-on products after they have decided to purchase a car.

4 Our review found that key elements of car yard life insurance indicate market failure and a lack of demand-driven competition. Car yard life insurance provides poor value for consumers. We found that this market segment is characterised by:

(a) *excessive prices relative to other life insurance products*—consumers can pay more for car yard life insurance than if they bought either similar insurance though another distribution channel, such as an authorised deposit-taking institution (ADI), or cover under a term life policy. For example, we found one instance where a low-risk consumer would be charged 18 times more than the cost of a similar level of cover under a term life policy available online from the same insurer;

(b) *low claim payouts relative to premiums*—we found that, across all car yard life insurance products 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;

(c) *upfront payment of the premium as a lump sum*—premiums are usually paid as a single sum funded by the consumer borrowing more from the lender; the consumer therefore incurs interest charges that increase the cost and reduce the value of the product; and

(d) *high commissions*—we found that upfront commissions of up to 50% of the premium are payable to intermediaries arranging the sale of business-use car yard life insurance. These business-use consumers could pay up to 80% more for the same product.

5 Our focus on car yard life insurance is part of a broader review of add-on products sold to consumers when they are buying cars on finance. We decided to focus on life insurance separately, as we identified a number of specific issues in relation to this product. Primarily we are concerned about the high sales rate, despite the widespread availability of cheaper products, including through other distribution channels and consumers' superannuation funds.

6 We are currently conducting further work that analyses the range of add-on products offered by general insurers (such as CCI products, gap insurance and tyre and rim insurance), and the extent to which they provide value to consumers. This work is likely to be the subject of a separate report.

Life insurance cover in CCI products

7 CCI is defined in the National Credit Code (at Sch 1 to the *National Consumer Credit Protection Act 2009* (National Credit Act)) as a policy that insures a debtor's capacity to make repayments under a credit contract, including insurance against the sickness, injury, disability, death or unemployment of the debtor.[1]

8 This report focuses on the life insurance component of CCI products sold through car yards, which commonly provides a lump-sum payment of the outstanding loan balance on the death of the insured.

9 The life insurance is offered as part of a bundled product that typically includes the option of the consumer purchasing cover from a general insurer against risks such as becoming unemployed or injured. The general insurer may be responsible for the sale of the CCI product and the supervision of the authorised representatives who offer it to consumers (rather than the life insurer).

10 Life insurers commonly offer two other life insurance products in car yards:

(a) a limited form of life insurance provided under products known in the industry as 'walkaway insurance'. Walkaway insurance is limited in both its scope (e.g. only covers claims in the event of the accidental death of the insured) and the amount of cover paid (e.g. the insurer may only pay a maximum of $10,000 irrespective of the amount borrowed by the consumer); and

(b) insurance that pays a lump sum if the insured suffers a major illness, known as 'trauma insurance'.

[1] National Credit Code, s204. The Insurance Contracts Regulations 1985 contain a similar, but not identical, definition of CCI in reg 21.

11 We have not reviewed these products in the same level of detail as car yard life insurance. However, we have some concerns about the way in which they operate, which are briefly described in Section D.

What we did

12 We reviewed five major life insurers offering car yard life insurance, estimated to make up over 90% of this market. Detailed information about the methodology of the review of insurers[2] is set out in the appendix.

13 We collected and analysed detailed data from insurers on their levels of sales, premiums, commissions, claims and cancellation rates over the 2009–10, 11, 2011–12, 2012–13 and 2013–14 financial years (2010–14 financial years) for the following life insurance products:

(a) *Personal-use car yard life insurance*—these policies cover a liability under a credit contract regulated by the National Credit Act, with a cap on commissions of 20% of the amount of the premium payable to car dealers.[3]

(b) *Business-use car yard life insurance*—these policies cover a liability under a contract not regulated by the National Credit Act (as the borrower is using the vehicle for business purposes), with no cap on the commission that can be paid to car dealers.

14 As part of our investigation into the prices charged for car yard life insurance we also obtained comparative price information from insurers on the cost of the following two products:

(a) *ADI-distributed life insurance*—the life insurance component of a CCI product offered with a loan where the distribution channel is a lender, typically an ADI (e.g. a bank or credit union), rather than a car dealership.

(b) *Term life insurance*—a term life policy provides the consumer with a fixed level of cover. We used policies that can be purchased online directly by the consumer, where the consumer is not being provided with advice by the insurer (which would otherwise distort the price comparison). The price of these products varies according to the age, gender and smoking habits of the insured.

[2] In this report the term ‘insurers’ means the insurers reviewed by ASIC, unless the context suggest otherwise.
[3] National Credit Code, s145.

Structural failings in car yard life insurance products

15 We found systemic problems for consumers throughout the life cycle of car yard life insurance—that is, in the:

(a) pricing and design of the products;

(b) sale of the product (selling practices common to car yards); and

(c) outcomes for consumers on termination of the insurance (whether from claims or rebates payable on cancellation).

16 These findings are summarised in Table 1 and discussed in detail in Sections A–C.

Table 1: Key findings

Finding	Explanation	Section
Finding 1: Insurers charged consumers substantially more for car yard life insurance than for ADI-distributed life insurance	The use of car dealers as a distribution channel substantially increased the cost to the consumer. On average, insurers charged consumers 50% more for personal-use car yard life insurance than for their ADI-distributed life insurance. The highest difference in price was by one insurer who charged personal-use consumers four times more for its car yard life insurance than for its ADI-distributed life insurance.	Section A, paragraphs 44–48
Finding 2: Most insurers charged business-use consumers more than personal-use consumers	On average, small business insureds (and other business-use consumers) were charged around 40% more for car yard life insurance than if they had been sold identical personal-use car yard life insurance. The greatest difference was an 80% higher price for business-use car yard life insurance. Where business-use consumers were charged higher premiums, car dealers were earning higher commissions (up to 50% of the premium, compared to a maximum of 20% for personal-use car yard life insurance).	Section A, paragraphs 50–58
Finding 3: Car yard life insurance is often substantially more expensive than term life insurance, even though term life insurance provides more cover	For a low risk consumer, such as a 20-year-old woman, one insurer would charge: • up to 10 times more for personal-use car yard life insurance; and • up to 18 times more for business-use car yard life insurance. Car yard life insurance also covers the consumer's decreasing liability under a finance contract for the sale or lease of a vehicle, so that the amount of insurance just before the contract is paid out is close to zero. When compared with term life insurance, where the sum insured remains constant during the policy, this means that car yard life insurance represents even poorer value.	Section A, paragraphs 59–73

Finding	Explanation	Section
Finding 4: Single-premium policies result in poor outcomes for consumers	Where the consumer finances the premium for car yard life insurance through their car loan they will pay interest on this sum, reducing the value offered by the product. Financing the premium in this way can increase the cost to the consumer substantially; the higher the interest rate, the greater the additional cost. For example, an interest rate of 9% on a four-year loan of $20,000 will increase the cost of the insurance by 19.4%. When a consumer pays out their credit contract early, they terminate their car yard life insurance policy. When this happens, the consumer will not receive a full refund of the unused portion of the premium, meaning that they have effectively paid for insurance cover they did not receive. This further reduces the value of holding life cover through these products.	Section A, paragraphs 74–90
Finding 5: High volumes of car yard life insurance are sold to young consumers who are unlikely to need this insurance	In the 2013–14 financial year, around 11% of car yard life insurance policies were sold to consumers aged 21 and under, whose need for a life insurance product is questionable: • if they do not have dependants; and • given that they are likely to have sufficient life insurance to discharge their liabilities through their superannuation fund (because of the MySuper arrangements).	Section B, paragraphs 99–106
Finding 6: High volumes of car yard life insurance are sold to consumers who may not have wanted the product	During the cooling-off period, 10% of consumers sold car yard life insurance cancelled their policy, because they decided they did not want the product.	Section B, paragraphs 107–112
Finding 7: Poor claim outcomes for consumers	During the 2010–14 financial years, across all car yard life insurance products the amount paid in claims was $6 million—only 6.6% of total premiums of $90 million paid upfront were returned to consumers in claims. These claims ratios further call into question the higher prices charged by insurers under car yard life insurance relative to other products.	Section C, paragraphs 126–133

Why consumers pay higher prices for car yard life insurance

17 These findings, especially Findings 1–3 on the high cost of car yard life insurance, raise questions both about why insurers are offering products with such high prices and why consumers are paying those prices.

18 We consider that this is a result of two factors:

(a) for consumers, the sales context limits their capacity to assess the value of the products or seek out alternative, less expensive products. In particular, the consumer is focused on the purchase of the car, rather than associated insurance; and

(b) for insurers, the high prices may be due to the practice known as ‘reverse competition’, where insurers compete on the price they pay to car dealers in commissions to buy access to distribution channels, rather than the price charged to the consumer.

Effect of sales context on consumers

19 We commissioned research to understand the behaviour of consumers who bought add-on insurance products, including car yard life insurance, when buying a motor vehicle through a dealership. Our analysis and findings are detailed in Report 470 *Buying add-on insurance in car yards: Why it can be hard to say no* (REP 470).

20 REP 470 found that many consumers who had purchased add-on insurance products:

(a) were not aware of which add-on products they had actually purchased, how much each policy cost and what risks it covered, or when they would be able to lodge a claim;

(b) if they could recall the purchase, regretted their decision to buy add-on insurance;

(c) had no awareness of add-on insurance products before entering a dealership to buy a motor vehicle;

(d) were unaware of the cost of, or cover or value provided by, add-on insurance products and most purchases were made solely on the basis of information provided in the car dealership; and

(e) were actively sold, and sometimes pressured to buy, add-on insurance products.

21 One consumer described her reaction to having to make decisions on whether or not to buy add-on insurance in the following way: ‘Oh, my God, and you feel so stupid and we were clueless. We didn’t even know what questions to ask.’

22 In addition, our surveillances of individual sales have identified transactions where consumers were sold car yard life insurance (and other add-on products) without their knowledge or consent, or where the authorised representative of the life insurer told the consumer they had to buy the add-on products to get the car loan.

23 When a product is *sold* to a consumer (compared to when a consumer actively seeks out or *buys* a product) the consumer usually has little or no awareness of the product beforehand. This lack of consumer awareness about what car yard life insurance is and what it costs means that insurers are able to price these policies in an uncompetitive manner.

Effect of reverse competition on price

24 Findings 1 and 3 demonstrate that the use of car dealerships as a distribution channel results in consumers being charged significantly more than they would be for:

(a) ADI-distributed life insurance; and

(b) term life insurance sold online where the consumer is actively seeking a product, and where the consumer can easily compare prices across a number of life insurers.

25 The disparity in price suggests that insurers may be paying a higher price to car dealers in commissions than other life insurers in order to obtain access to them as a distribution channel. The effect of this competition would be to increase the price paid by the consumer (as insurers would need to recoup the commissions paid to car dealers).

26 We note that the effect of reverse competition in this market sector has been a long-standing issue. In Australia its impact was identified as early as 1991, with a review by the former Trade Practices Commission finding that competition tended to take the form of insurers increasing CCI delivery costs (including agents' commissions), rather than reducing premiums.[4]

27 Life insurers are able to pay commissions to car dealers as the ban on conflicted remuneration in the *Corporations Act 2001* does not extend to some life insurance products, including car yard life insurance: see s963B(1)(b) and reg 7.7A.12A and reg 7.7A.12G of the Corporations Regulations 2001.

Previous work by ASIC

28 This review builds on the work of two previous reports published by ASIC.

29 Report 256 *Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions* (REP 256) examined the sale of CCI products through ADIs and made 10 recommendations—including improved

[4] Trade Practices Commission, *The market for consumer credit insurance*, June 1991, p. 61. In the American context, see G Fagg, Credit life and disability insurance, Clico Management, Springfield, Ohio, 1986, p. 503.

disclosure requirements, changes to sales scripts, and better monitoring and supervision: see REP 256, Table 2.

30 Report 361 *Consumer credit insurance policies: Consumers' claims experiences* (REP 361) was commissioned by ASIC and produced by Susan Bell Research. It sets out the results of research into consumers' experiences with CCI policies and found that there is significant room for improvement on consumers' claims experiences for credit card related CCI.

31 REP 361 found that consumers were not always happy with their experience because:

(a) the claims process was stressful and costly;

(b) their benefit payment was less than they had expected, or payments were not made in a timeframe consistent with credit card repayment due dates; and

(c) consumers had been sold a policy without being made aware at the time that important exclusions and conditions on their policy could or did apply to them.

CCI products in other jurisdictions

32 CCI products are not unique to the Australian market.

33 In the United Kingdom, the equivalent is known as payment protection insurance (PPI). A number of serious market failures have resulted in bans on:

(a) selling PPI products at the same time as selling credit (instituted in April 2012); and

(b) single-premium policies, which require the consumer to pay for the PPI product upfront, financed into the underlying loan (instituted in May 2009).

34 The United Kingdom also plans further reforms, including introducing 'value measures' to help consumers evaluate PPI products—for example, using claims ratios as a value measure.

35 In the United States, CCI policies are sold in conjunction with many credit products. CCI products are subject to a large degree of intervention, as some states require life insurers to meet a minimum return in claims (e.g. the expected return in claims should be 60 cents in the dollar).[5]

[5] For example, Insurance Regulation 9 (Consumer Credit Insurance), issued by the Division of Insurance in the Department of Business Regulation of the State of Rhode Island and Providence Plantations.

Follow-up actions

36 Our findings demonstrate that car yard life insurance is a product with adverse financial outcomes for consumers. These outcomes are significant and inherent in the current practices associated with these products.

37 Given these findings, insurers will need to review and make positive changes to both the design and value of car yard life insurance, including the level of supervision of their authorised representatives if this product is to provide value to consumers and meet their needs.

38 We will continue to monitor the practices of individual insurers who sell car yard life insurance. If we form the view that life insurers have not made adequate changes to address the matters raised in this report we will take further action to improve consumer outcomes. For example, we could:

(a) take enforcement action against life insurers or the authorised representatives selling their products;

(b) require more detailed disclosure of the price charged by life insurers (including identifying both individual insurers and the prices they are charging);

(c) consider the need to introduce comparative value measures, such as disclosure of the amount of premium returned in claims; and

(d) consult on the need to change the training standards for the sale of car yard life insurance, particularly those products sold as a single-premium policy (given the identified complexities for consumers in making decisions at the point of sale).

A Price and design

Key points

Data on the price and design of car yard life insurance suggests that:

- it does not represent value for money in that many consumers could purchase similar ADI distributed life insurance or term life products for significantly less;
- business-use consumers can often pay more for identical cover due to higher commissions being paid to the car dealer;
- it only covers a single liability—the consumer's decreasing liability under a finance contract for the sale or lease of a motor vehicle—whereas the amount of insurance under a term life policy remains constant; and
- consumers pay more when they pay the premium as a lump sum by borrowing an additional amount under the car loan for this purpose. This means that consumers pay interest on premiums and also do not receive a full refund of the unused portion of the premium if they pay out the car loan early, meaning that they have effectively paid for insurance cover they did not receive.

How we analysed life insurance price and design

39 We analysed the cost of life insurance under:

(a) three CCI products:

(i) personal-use car yard life insurance;

(ii) business-use car yard life insurance;

(iii) ADI-distributed life insurance; and

(b) term life insurance.

40 The products are priced differently:

(a) The cost of the three CCI products is calculated as a percentage of the amount borrowed. The cost of these products can therefore be analysed by comparing the percentages applied for each product.

(b) The cost of term life insurance varied according to the age, gender and smoking habits of the insured (with the cost of insurance higher for smokers than non-smokers). Insurers also usually set a minimum level of insurance that must be purchased.

41 We only compared term life insurance where a minimum level of insurance of $50,000 was available (as this is similar to amounts borrowed under higher value car loans). We analysed the cost:

(a) of the CCI products based on a loan of $50,000 over four years; and

(b) of the term life insurance based on the cost of purchasing insurance of $50,000 for a four-year period.

42 The four products are all similar in that:

(a) they insure the same risk (of the insured dying) with similar exclusions; and

(b) they all have similar, straightforward application processes with minimal eligibility requirements.

43 These similarities reduce any distortions in price comparison based on the type of insurance offered.

Finding 1: Insurers charged consumers substantially more for car yard life insurance than for ADI-distributed life insurance

44 Life insurers offer products similar to car yard life insurance that are distributed through other entities, such as ADIs. We compared the difference in price between their products according to the distribution channel.

45 These products are all similar in design and are sold in a similar way, in that the consumer does not receive personal advice about the product. We would therefore expect distribution costs to be similar, but this was not the case. We found that, compared to their ADI-distributed life insurance, on average the insurers charged consumers 50% more for personal-use car yard life insurance.

46 The highest difference in price was by one insurer who charged personal-use consumers four times more for its car yard life insurance than for its ADI-distributed life insurance.

47 In dollar terms, the higher charges for consumers obtaining personal-use car yard life insurance relative to ADI-distributed life insurance meant that consumers would pay:

(a) on average, an additional $10.10 for every $1,000 borrowed under their car loan; and

(b) a maximum of an additional $25.50 for every $1,000 borrowed.

48 Figure 1 shows how much more, on average, the insurers charged for personal-use car yard life insurance compared to ADI-distributed life insurance.

Figure 1: Comparison of average premiums charged for ADI-distributed life insurance and personal-use car yard life insurance

Source: ASIC is the source of all figures in this report, unless specified otherwise.

Notes: Based on a loan of $50,000 over a five-year period. Averages are based on three of the insurers who offered ADI-distributed life insurance that was comparable with the car yard life insurance.

49 In summary, consumers can pay significantly more for similar cover where the distribution channel is a car dealership, without receiving any additional benefits or difference in cover to justify that difference in cost.

Finding 2: Most insurers charged business-use consumers more than personal-use consumers

50 Insurers offer identical personal-use and business-use car yard life insurance products to consumers. However, some insurers charge business-use consumers a higher cost for the same product, while they also paid higher commissions to the car dealer.

51 As car yard life insurance is primarily sold at the car dealership, we consider that business-use consumers who purchase this product will generally be small businesses, including sole traders. Larger businesses are unlikely to purchase their employee vehicles in the same way and are more likely to take advantage of leasing or fleet finance arrangements, or use an insurance broker.

52 We found that:

(a) for personal-use car yard life insurance, most insurers paid commissions at the maximum rate permitted under the National Credit Act (20% of the premium); and

(b) for business-use car yard life insurance, the highest level of upfront commission was 50% of the premium (noting that there is no restriction on the amount of commission that can be paid to car dealers).[6]

[6] Some insurers also paid additional commissions as volume bonuses, based on the level of sales achieved by the car dealer.

53 The difference in premium between personal-use and business-use policies offered by the same insurer was 33% for two insurers. The highest difference was 80% (for one insurer).

54 In dollar terms, this means that a business-use consumer would pay:

(a) on average, an additional $10.60 for every $1,000 borrowed under their car loan; and

(b) a maximum of an additional $24.60 for every $1,000 borrowed.

55 We could not identify any reason why business-use consumers should pay more for car yard life insurance, given that they were being sold the same product through the same distribution channel. We also consider that it is reasonable to assume that demand-side competition is not operating effectively: business-use consumers are unlikely to be aware that they are being charged substantially more for the same product than personal-use consumers, or they would seek cheaper cover.

56 We are also aware that one insurer, since 2012, has taken the step of paying the same commissions and charging the same premiums for personal-use and business-use car yard life insurance. This supports the view that there is no inherent or necessary reason for this approach.

57 We are also concerned that the different rates at which commissions are paid creates a risk of misconduct at the point of sale, and that sales staff could incorrectly characterise a loan as being for business-use in order to earn higher commissions.

58 [redacted]

Finding 3: Car yard life insurance is often substantially more expensive than term life insurance, even though term life insurance provides more cover

59 We compared the cost of the following products (for the three insurers who offered comparable products):

(a) personal-use and business-use car yard life insurance; and

(b) term life insurance for a low-risk insured (a 20-year-old female non-smoker) and a medium-risk insured (a 40-year-old male smoker).

7 [redacted]

60 The comparison was based on the cost of a premium. We analysed the cost of:

(a) the car yard life insurance based on a loan of $50,000 to be repaid over four years; and

(b) the term life insurance based on the cost of purchasing cover of $50,000 over a four-year period.

Price comparison based on maximum sum insured

61 We found that the price of the car yard life insurance was substantially higher than for term life insurance. The cost of:

(a) term life insurance for a 20-year-old female non-smoker was below $400 for all of the insurers, with the cheapest insurance costing $147;

(b) personal-use car yard life insurance exceeded $1,100 for all of the insurers, and was at least $700 more expensive for a 20-year-old female non-smoker;

(c) term life insurance for a 40-year-old male smoker was below $700 for two out of the three insurers, with an average price of $820;

(d) the cheapest term life insurance for a 40-year-old male smoker was $538; and

(e) business-use car yard life insurance exceeded $1,400 for all of the insurers, and was at least $800 more expensive for a 40-year-old male smoker.

62 The difference in price between term life insurance for a 20-year-old female non-smoker and car yard life insurance meant that:

(a) on average, personal-use car yard life insurance was over five times more expensive, and business-use car yard life insurance was over six times more expensive; and

(b) the greatest difference in price was 18 times more for business-use car yard life insurance compared to term life insurance.

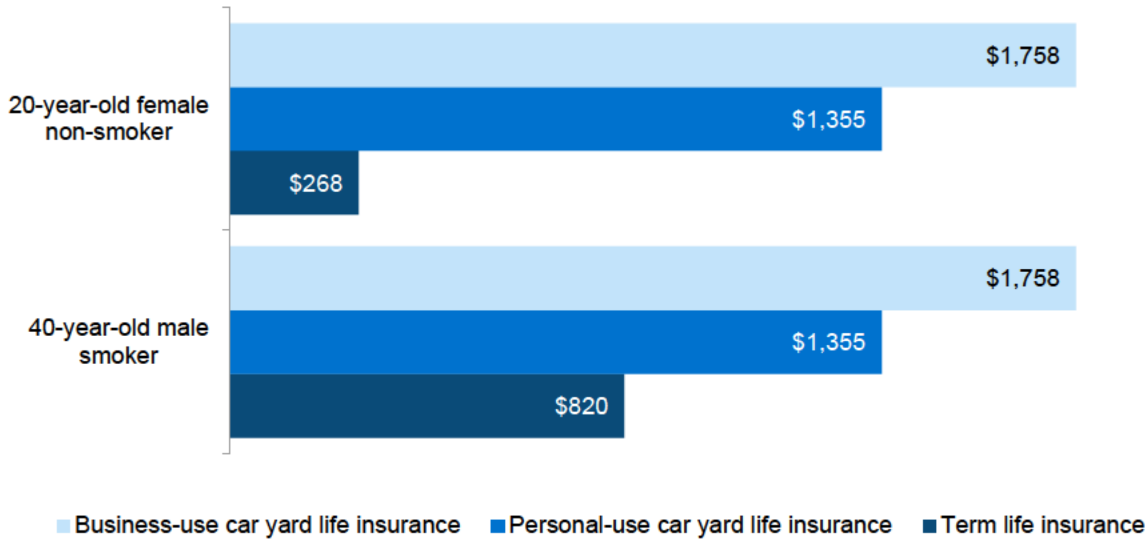
63 The difference in price between term life insurance for a 40-year-old male smoker and car yard life insurance meant that:

(a) on average, personal-use car yard life insurance was over 1.6 times more expensive and business-use car yard life insurance was over two times more expensive; and

(b) the greatest difference in price was charged by an insurer where consumers paid up to 4.4 times more for business-use car yard life insurance compared to term life insurance.

64 Figure 2 sets out a comparison of the average premiums charged for term life and car yard life insurance.

Figure 2: Example of average premiums charged for term life insurance and car yard life insurance



Notes: Based on a loan of $50,000, or term life insurance of $50,000, over a four-year period. Averages are based on the three insurers who offered term life insurance that was comparable with the car yard life insurance.

Value comparison based on reducing level of cover under car yard life insurance

65 The price comparison in Figure 2 is based on the initial sum insured under the term life insurance and the car yard life insurance products ($50,000 in each case).

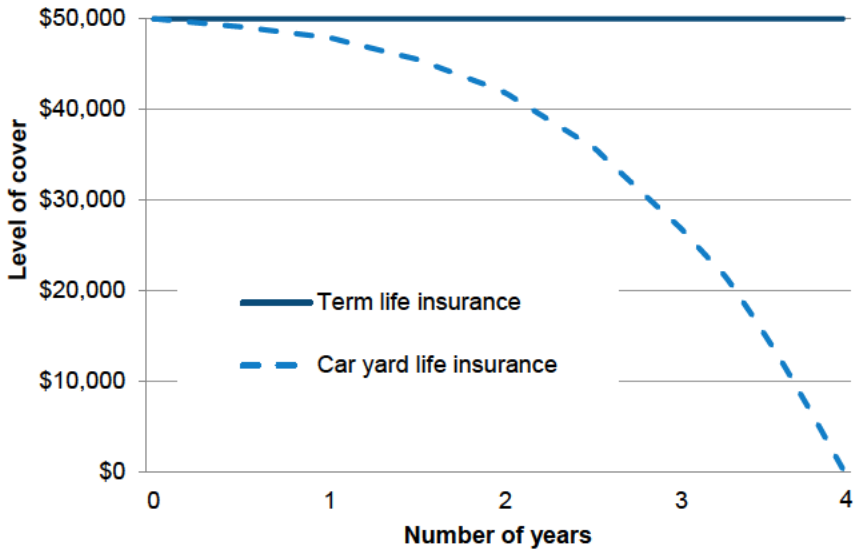
66 Car yard life insurance, as with other CCI products, covers the consumer's *decreasing liability* under a finance contract for the sale or lease of a motor vehicle. This means that the amount the insurer will pay in the event of a claim in the last month of the car loan will be close to zero. By comparison, the amount of insurance under a term life policy remains constant.

67 Figure 3 compares the level of cover provided by the insurer under term life insurance and car yard life insurance:

(a) under term life insurance the level of cover is constant at $50,000;

(b) under car yard life insurance the level of cover reduces as the consumer makes repayments, reducing the balance of the loan.

Figure 3: Comparison of the level of cover over four years for term life insurance and car yard life insurance



Notes: Based on a loan of $50,000, or term life insurance cover of $50,000, over a four-year period.

68 This means the amount of cover provided under a car yard life policy is not equivalent to, and is less than, the cover under a term life policy. Based on the premiums in Figure 2, consumers are paying more for car yard life insurance but receiving less cover in the event of a claim.

69 This reduces the value of car yard life insurance for the consumer relative to term life insurance.

70 We analysed the aggregate amount paid in claims under car yard life insurance against the original loan value. Across 251 claims we found that the amount:

(a) that consumers had borrowed was $8.4 million;

(b) that insurers paid out in claims was $4.3 million (due to the reducing loan value); and

(c) of the liability paid by the insurer had reduced by $4.1 million from that initially covered under the policies.

71 This means that insurers only paid 52% of the original loan value back in claims.

72 The following hypothetical case study demonstrates the value of car yard life insurance compared to a term life policy for 'Penny', who is a 30-year-old female non-smoker.[8]

[8] This case study is a hypothetical scenario, based on the average cost of personal-use car yard life insurance and term life insurance offered by the three insurers who sold comparable personal-use car yard life insurance and term life insurance products.

Case study

Penny purchased a new car for $50,000 and arranged a four-year loan for the car through the car yard, with an interest rate of 9%. Penny was sold car yard life insurance while organising the loan, which cost an additional $1,355. Two years after purchasing the car, Penny's family had to make a claim on the car yard life insurance. The remaining $28,000 owing on the car loan was paid out by the insurance company.

Had Penny purchased term life insurance for $50,000 cover when she purchased her car it would have cost her approximately $60 per year ($120 over the two years) and her family would have been able to claim the full sum insured of $50,000 when Penny passed away—an extra $22,000 than the sum paid out by the car yard life insurance, despite term life insurance being over $1,000 cheaper.

73 The case study demonstrates that consumers will generally be significantly better off by purchasing term life insurance, as:

(a) the cost will be less; and

(b) the amount of cover will be constant and higher than under car yard life insurance.

Finding 4: Single-premium policies result in poor outcomes for consumers

Additional cost from interest charges

74 From the consumer's point of view, the cost of car yard life insurance will be increased by the interest charges attributable to the premium under the loan or lease. Under car yard life insurance, the consumer will typically pay the premium as a lump sum by borrowing an additional amount under the car loan for this purpose. This practice has been banned in the United Kingdom, since early 2009, in response to poor outcomes for consumers.

75 The cost to the consumer is therefore the total of the premium plus the interest charges attributable to the premium under the car loan.

76 We are aware that other CCI products that are not distributed through car dealerships are paid for by regular instalments. We therefore consider that there is no inherent reason why car yard life insurance needs to be paid for through a single upfront premium, and that insurers should consider moving away from single-premium pricing models.

77 The amount of the premium, including interest, varies according to the interest rate and the term of the car loan. On a loan with a four-year term:

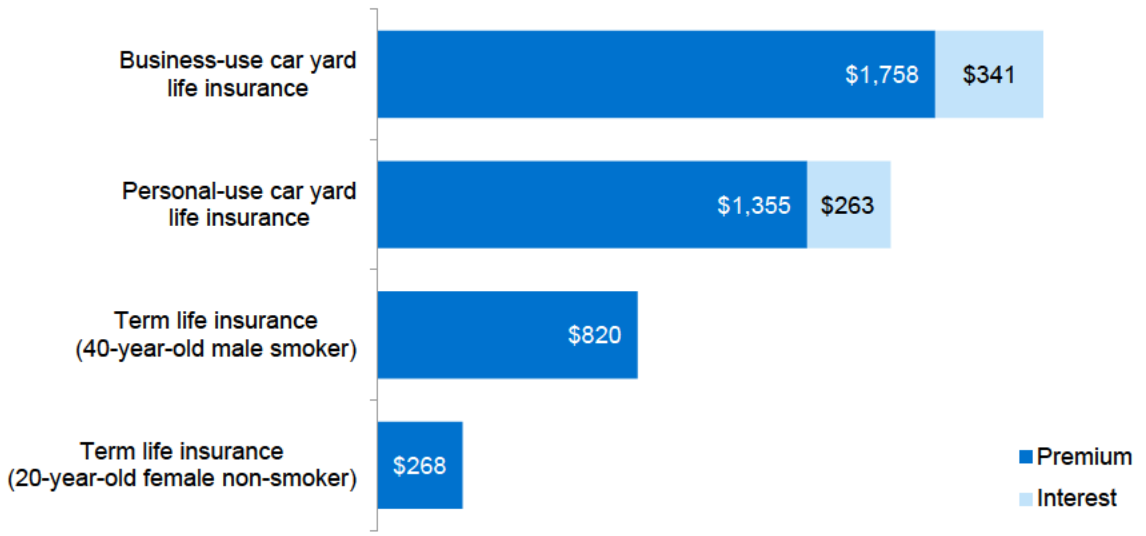
(a) an interest rate of 6% will result in an increase in cost of 12.7%;

(b) an interest rate of 9% (typical for a car finance contract) will increase the cost to the consumer by 19.4%; and

(c) an interest rate of 15% will result in an increase in cost to the consumer of 33.5%.

78 Figure 4 demonstrates the impact of a 9% interest rate on car yard life insurance with a single premium compared to term life insurance (where single premiums are not used).

Figure 4: The impact on price of interest charges attributable to car yard life insurance premiums



Notes: Based on a loan of $50,000, or term life insurance cover of $50,000, over a four-year period. Averages are based on three of the insurers, as two insurers did not offer term life insurance that was comparable with the car yard life insurance.

Cumulative impact of single-premium policies on price comparison

79 The cumulative impact on the value of car yard life insurance relative to term life insurance when both the declining level of cover and the cost of interest charges is taken into account is significant.

80 For a low-risk consumer (a 20-year-old female non-smoker) the most expensive difference in price charged by an insurer between its term life insurance and its car yard life insurance products (based on $50,000 over four years) was:

(a) for personal-use car yard life insurance, around 10 times more expensive; and

(b) for business-use car yard life insurance, around 18 times more expensive.

81 However, the value of the term life insurance remains constant at $50,000, while the value of the two car yard life insurance products reduces over time as the balance of the loan reduces.

82 Further, the cost to the consumer of car yard life insurance is increased by the interest charges under the credit contract attributable to the premiums. On a loan over four years with an interest rate of 9%, this can increase the cost by about 19.4%.

83 As a result, the cost of car yard life insurance is further increased. For a 20-year-old female non-smoker, the cost becomes:

(a) for personal-use car yard life insurance, over 12 times more expensive; and

(b) for business-use car yard life insurance, over 22 times more expensive.

84 Table 2 compares the cost of term life insurance over four years for a medium-risk consumer (a 40-year-old male smoker) to personal-use and business-use car yard insurance, based on the insurer with the biggest difference in price between these products.

Table 2: Comparison between term life insurance and car yard life insurance

Comparison	Personal-use car yard life insurance	Business-use car yard life insurance
Cost	2.5 times more expensive than term life insurance	5 times more expensive than term life insurance
Effect of a 9% interest rate on the premium	1.2 times more expensive than term life insurance	1.2 times more expensive than term life insurance
Cumulative effect on comparison	3 times more expensive than term life insurance	6 times more expensive than term life insurance

Financial impact of paying out the credit contract early

85 A significant percentage of consumers pay out their credit contract early, with some ASIC surveillance data suggesting that this figure may be between 30% and 40% of all contracts

86 When a consumer pays out their credit contract early, and has purchased a single premium CCI policy, the National Credit Code mandates the minimum rebate that the lender must credit the consumer: s148. However, the method for calculating this rebate prescribed in the National Credit Code means that the consumer will not receive a full refund of the unused portion of the premium, meaning that they have effectively paid an additional amount for insurance cover they did not need or receive. This further reduces the value of holding life insurance through these products.

87 The single-premium model therefore results in adverse financial outcomes for consumers when the policy is cancelled (including when the car loan is paid out early) because:

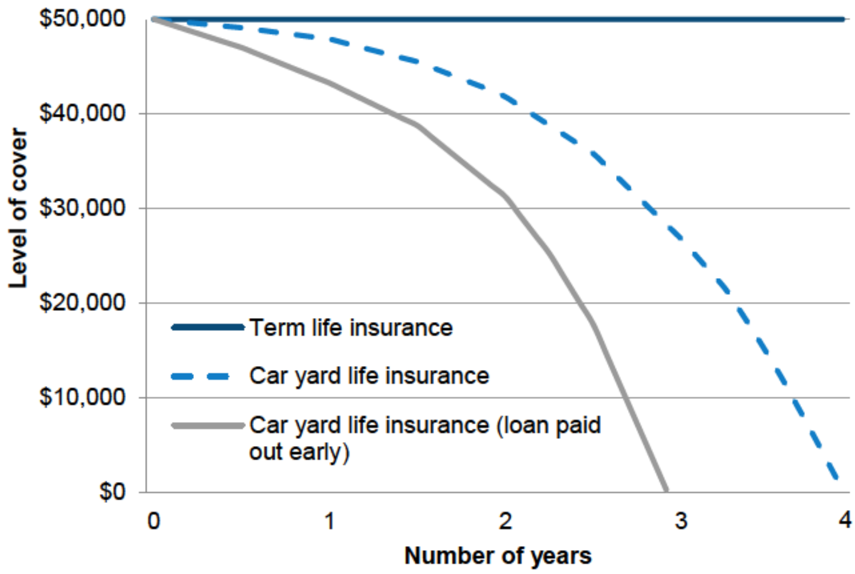
(a) they have paid upfront for life insurance that they did not need;

(b) they do not receive a full refund of the unused portion of the premium when the policy is cancelled; and

(c) while the policy is in force and the insurer is at risk of a claim, their liability (the amount the insurer would have to pay out in the event of a claim) is reduced by each additional payment the consumer voluntarily makes to the lender. The level of cover is therefore less than what the consumer originally paid for under the policy (which is calculated on the assumption that the consumer would make all payments under the loan on time).

88 Figure 5 demonstrates the level of cover that will be paid by the insurer, depending on whether the consumer has term life insurance or car yard life insurance. It also shows the impact on the level of cover for a consumer making higher than required payments on their loan in order to pay out the loan contract early.

Figure 5: Comparison of the level of cover over four years for term life insurance, car yard life insurance and car yard life insurance where the loan is paid out early



Notes: Based on a loan of $50,000, or term life insurance cover of $50,000, over a four-year period.

89 This issue does not arise in relation to other CCI products that are paid for by regular instalments (e.g. by monthly debits), where the consumer is only paying for insurance while they have a debt to the lender and the cost of the insurance declines as the debt is paid off.

90 Given that there is no compelling business reason why car yard life insurance needs to be paid for as a single premium, and given the adverse financial outcomes for consumers, we consider that this practice is one that life insurers need to address through meaningful changes. Without industry change, we will look to address current practices with any regulatory options available, including assessing the training standards required for the sale of single-premium CCI policies in the context of car yard life insurance.

B Questionable sales patterns

Key points

Data on the sales patterns of car yard life insurance suggests that it is being sold to consumers who:

- are unlikely to need the product—11% of all sales were to young consumers (aged 21 and under) who, as a class, are less likely to have dependants and will also usually have life insurance through their superannuation fund; and
- did not want the product—consumers who were sold the product at the point of sale, but realised they did not want life insurance once they left the car dealership and so cancelled in the cooling-off period.

How car yard life insurance is sold

91 Car yard life insurance is bundled with other insurance under the CCI product provided by a general insurer, such as disability or unemployment insurance. The general insurer may therefore be responsible for the conduct of the car dealer at the point of sale, rather than the life insurer.

92 Car yard life insurance is typically sold under a general advice or factual-information only model where the insurer, through its authorised representative (the car dealer or a related finance broker), can promote the benefits of the product but is prevented from ensuring the product meets the consumer's needs.

93 The general advice model places the onus on the consumer to determine whether or not the product provides insurance that they need. As discussed in REP 470, we found that some consumers will purchase add-on products when they are unaware of fundamental aspects of the transaction, such as the cost of the product or the terms on which it is offered.

94 This highlights the way in which the sales process for car yard life insurance can result in poor decisions, because:

(a) the sales person can sell the policy irrespective of whether or not it meets the consumer's needs;

(b) the consumer may not have considered the need for life insurance until they are offered it at the point of sale (as their focus is, first, on deciding which car to buy, and then on what finance to use);

(c) the consumer only has a short period of time to understand and familiarise themselves with the insurance offered, which may not be easy; and

(d) the consumer has to make multiple purchasing decisions in relation to life insurance and each other add-on product offered to them.

95 One consumer said:

> … it was a bit overwhelming, you know, all the features and options and all the tech terminology and also I guess the complexity of all the different options.

96 Another consumer was asked what CCI product they had bought. They replied: 'I don't know but I should because it's quite a sum [$5,222 for five years].'

97 We note that sales of CCI products where the consumer is unaware of key product features is not restricted to car yard life insurance. In relation to CCI products offered with credit cards, we found that some consumers only learned that they were entitled to claim under their CCI policy when they approached their lender when they were experiencing financial difficulties in meeting their credit card repayments: see REP 361.

98 REP 361 stated, at pp. 6–7:

> A few consumers claimed immediately after their claim event happened—that is just after they were made redundant, became ill or had an accident. However, for most there was a delay between the claim event and lodging the claim. For example, one consumer claimed 12 months after stopping work. While some of the reasons for this delay were of a practical nature, because they were in hospital for example, some people had simply forgotten they had a CCI policy, or did not know they had it.

Finding 5: High volumes of car yard life insurance are sold to young consumers who are unlikely to need this insurance

99 We analysed the level of sales of all car yard life insurance to consumers aged 21 and under in the 2013–14 financial year. We found that:

(a) 11% of car yard life insurance sales across all insurers were to consumers aged 21 and under; and

(b) the level of sales varied between the insurers, ranging from 9% to 14%.

100 We consider the need for young consumers to purchase life insurance is questionable for two reasons. First, they are unlikely to be married or have dependants. A single young person with no partner or children is unlikely to need life insurance, as there is no person who would need the continued use of the vehicle in the event of their death.

101 Secondly, even if a young consumer has dependants, they are less likely to have substantial liabilities apart from the car loan (as young consumers generally have lower incomes that mean they are not eligible to borrow large amounts). The introduction of the MySuper requirements means that, since

1 January 2014, they will usually have a basic level of life insurance through their superannuation fund that is likely to be adequate to pay out the car loan and any other liabilities.

102 Under the MySuper arrangements a consumer can make a conscious decision to opt out from the life insurance provided through their superannuation fund. However, a consumer who has considered the need for life insurance under their superannuation fund and consciously elected to opt out is unlikely to then actively decide to buy higher cost car yard life insurance.

103 It is therefore our view that the level of sales to consumers aged 21 and under is both high in itself (at 11% of all sales), and disproportionate to their level of need. Given the findings in REP 470, we consider that the level of sales may indicate that car dealers find it easier to sell life insurance to this age group due to factors such as their potential greater susceptibility to sales techniques, and lack of familiarity with life insurance generally and car yard life insurance in particular.

104 We consider that the difference in the level of sales to young consumers between insurers (ranging from 9% to 14% of all sales) supports this view, in that the disparity suggests the authorised representatives of some insurers are more actively selling to consumers in this age cohort.

105 Our file reviews of individual transactions have identified instances of sales to young consumers where the financial circumstances of the insured do not establish any need for life insurance. An example of such a sale is set out below.[9]

Case study

Mark was sold a car yard life insurance policy with a premium of around $700. He was 19 years old with no dependants, and worked part-time in a clothing store. The vehicle he had bought was about eight years old and had travelled over 200,000 kilometres. The interest rate under the contract was 19%, and the additional interest charges attributable to the premium were about $303, resulting in a total cost of over $1,000.

106 We also found a substantial disparity between sales and claims levels for young people in the 2013–14 financial year. Consumers aged 21 and under made up 11% of all sales, but this age group made up less than 2% of all claims (making a claim at the rate of one claim for every 2837 policies sold). When the age range was widened to consumers aged up to 29, these consumers made up 37% of all sales while the level of claims was only 10.5%.

[9] This case study is based on the facts of an individual transaction reviewed by ASIC. Details about the consumer have been changed to protect their identity.

Finding 6: High volumes of car yard life insurance are sold to consumers who may not have wanted the product

107 Consumers have a cooling-off period in which they can cancel a car yard life insurance product and receive a full refund of the premium.

108 We found that, during the 2010–14 financial years, across the insurers:

(a) 10% of consumers decided they did not want the product and cancelled in the cooling-off period; and

(b) the level of cancellations varied between insurers, ranging from 9% to 12%.

109 Cancellations in this period are presumably made by consumers who decide they do not want or need the product once they have an opportunity to reflect on the purchase after leaving the dealership.

110 We therefore consider that cancellations in the cooling-off period are likely to indicate that purchases were made under pressure or due to the distortions in the sales process, where the consumer is required to make multiple decisions about car finance and add-on products in a compressed timeframe.

111 REP 470 analysed why consumers agree to buy these types of products even when they do not want them. For example, one consumer quoted in the report described the sales process in the following way:

> If you go home … you have got time to think. You have got time to go ‘Ah, do I need that?’ You do get overwhelmed and tired by all the … like the insurance lady, I think she went for 10 minutes just like a one-way street … It’s part of their tactic I think.

112 Another consumer said, ‘Every product was rolled out and every product I had to justify why I did not want to get it.’

ASIC surveillances

113 The inference that the outcomes of sales patterns reflect questionable conduct at the point of sale is consistent with our experience from surveillances of car dealerships and finance brokers selling these products.

114 These surveillances considered the conduct of these intermediaries in relation to a range of add-on products—including, but not limited to, car yard life insurance.

115 We have found instances of sales:

(a) of add-on products without the consumer's consent;[10]

(b) to consumers who did not meet the eligibility criteria for claiming at the point of sale (e.g. where unemployment insurance only covered consumers in full-time work, and the consumer was working part-time); and

(c) to consumers with minimal or poor English, where it is unlikely the policy could have been clearly explained to them prior to sale.

116 More broadly, the use of unfair tactics to force the sale of CCI products has been a long-standing issue.[11]

117 We found that life insurers had approximately 5,900 authorised representatives who sold add-on insurance products, of which around 96% were car dealers.[12] However, no authorised representatives had their authorisations cancelled for misconduct, and only nine were warned in writing in relation to misconduct (0.16%, or one in every 644 authorised representatives).

118 We understand that in some instances the car dealership may dismiss an authorised representative for misconduct, although it is unclear whether the life insurer is informed of this.

119 Under the general advice or factual-information only model the insurer does not assess whether the product is suitable for the individual consumer. This means they only receive minimal information about the consumer at the point of sale, such as their gender, date of birth and address, and details of the car loan contract. This sales model, coupled with a product that offers poor value for money and is often distributed with high commissions, increases the risk of mis-selling.

120 In addition to improving the design of car yard life insurance, insurers will need to review their procedures for monitoring the conduct of authorised representatives selling their products. These procedures should be designed to enable insurers to monitor and review both individual transactions and sales patterns and trends, with the goal of enabling insurers to better identify sales that may indicate the consumer was sold the product when they may not have needed it or where there may have been misconduct at the point of sale.

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[10] See, for example, Media Release (15-312MR) *Esanda compensates consumers for conduct by finance broker* (27 October 2015), and Media Release (15-374MR) *ASIC bans Perth finance broker* (9 December 2015).
[11] See, for example, Australian Competition and Consumer Commission (ACCC), *Consumer Credit Insurance Review: Final report*, July 1998, p. 26.
[12] Data on authorised representatives is from the financial year 2014 and was provided by the general insurers who distribute the CCI products, including the life insurance component, and is based on four of the insurers.

121 For example, we were given no indication that life insurers (or their distribution partners) obtain information about whether or not the consumer has dependants (even through the car dealer would obtain this information for the purposes of applying for credit on their behalf). They are therefore unable to determine whether or not their authorised representatives are selling life insurance in circumstances that are questionable, or to actively monitor or respond to such sales patterns.

122 REP 256 provides guidance on what would be appropriate procedures. Recommendation 10 states that distributors should have documented monitoring systems in place that comprise a range of systems to detect non-compliant sales of CCI products. These systems may include, for example:

(a) regular reviews of sales, complaints and cancellations reports (including appropriate follow-up with sales staff and/or consumers where issues are identified);

(b) mystery shopping exercises; and

(c) post-sale verification calls with the consumer.

Commission payments

123 We are concerned that sales incentives and commission arrangements contribute to the poor consumer outcomes identified in this report. We did not investigate this issue in detail as part of this review, although we may do so as part of our future work in this area.

124 In relation to car yard life insurance, we found that:

(a) for personal-use car yard life insurance, most insurers paid commissions at the maximum rate permitted under the National Credit Act (20% of the premium); and

(b) for business-use car yard life insurance, the highest level of commission was 50% of the premium. There is no restriction on the amount of commission that can be paid to car dealers.

125 Car dealers also earn commissions from the lender. The amount of the commission is usually based on or linked to the amount borrowed by the consumer, with any increase in the amount of credit to meet the cost of the life insurance premium also enabling the car dealer to earn a higher commission from the lender.

C Consumer claim outcomes

Key points

We found that car yard life insurance offers poor claim outcomes for consumers, with only 6.6% of premiums paid upfront returned to the consumer in claims.

These outcomes further call into question the higher prices charged by insurers under car yard life insurance relative to less expensive products.

Finding 7: Poor claim outcomes for consumers

126 We analysed the claims outcomes under car yard life insurance in three ways:

(a) across all car yard life insurance products by all insurers;

(b) across the highest selling car yard life insurance products offered by four insurers;[13] and

(c) across seven high-volume products, where there were sales of more than 5,000 policies.

127 We found that, during the 2010–14 financial years:

(a) across all car yard life insurance products, the amount paid in claims was $6 million, or only 6.6% of total premiums of $90 million; and

(b) across the highest selling product offered by four insurers, the amount paid in claims was $4.3 million, or only 5.8% of total premiums of $75 million.

128 In relation to claims outcomes on the seven high-volume products, we found that the return in claims was:

(a) less than five cents in the dollar in three instances;

(b) between five and 10 cents in the dollar in two instances; and

(c) more than 20 cents in the dollar in two instances, with the highest return in claims being over 60 cents in the dollar.

129 We found that, across the highest selling products, only one in 419 car yard life insurance policies resulted in a claim.

[13] One insurer was excluded due to the small number of car yard life insurance policies sold. See the appendix for further details about the methodology used.

130 We consider that the very low claims outcomes are a reflection of the wider systemic problems identified in this report, including:

(a) poor pricing and design (car yard life insurance is significantly more expensive than term life insurance or CCI purchased through another channel, such as ADI-distributed life insurance, and single-premium policies add to the cost);

(b) a lack of variation in the risk covered (the death of the insured), so that higher prices does not translate into better coverage;

(c) indicators of mis-selling of the product, including high cancellations and sales to young consumers; and

(d) poor consumer outcomes on termination of the insurance (whether from claims or rebates payable on cancellation).

131 High levels of cancellations of these policies also contribute to the low level of claims, as the result is that the period during which the insurer is at risk of a claim is shorter than the contracted period, reducing the probability of any claim.

132 These findings also suggest that the introduction of the 20% cap on commissions has not been a sufficient means of producing good consumer outcomes. The cap was first introduced under state legislation (the Uniform Consumer Credit Code) in 1996. It was prompted by a review by the Australian Competition and Consumer Commission that found that, in the four years prior to the introduction of the 20% cap (1992–95), loss ratios for all CCI products ranged from 38% to 46%.[14]

133 Despite CCI products in general having poor claims payout ratios relative to other insurance products, the ratios for car yard life insurance are substantially lower than CCI products in general: see Table 3.

Table 3: Comparison of insurance claims to premiums[15]

Type of insurance	Percentage of premium paid in claims
Car insurance	86%
CCI products	21%
Car yard life insurance	6.6%

Sources: ASIC; APRA.

[14] ACCC, *Consumer Credit Insurance Review: Final report*, July 1998, p. 20.

[15] The comparison of claims to premiums has been calculated by dividing the gross claims paid with the gross written premiums in the same period. The car yard life insurance figure is based on data collected by ASIC for the 2010–14 financial years (see the appendix for further details). The car insurance and consumer credit insurance figures are based on data from APRA for the 2011-2014 financial years (data for the 2010 financial year was unavailable): APRA, *Quarterly general insurance performance statistics*, September 2015.

D Walkaway and trauma insurance

Key points

Life insurers offer two other add-on life insurance products:

- walkaway insurance; and
- trauma insurance.

We have not reviewed these products in the same level of detail as car yard life insurance. However, we have some concerns about the way in which they operate that are briefly described in this section.

Walkaway insurance

134 The cover offered by a life insurer under a walkaway insurance policy is more limited than under car yard life insurance, in that:

(a) the insurer will pay a claim in the event of the accidental death of the insured, and therefore will not pay a claim resulting from an illness; and

(b) the amount the insurer will pay will be the lesser of the outstanding balance of the car loan or a specified lump sum (e.g. the insurer may only pay a maximum of $10,000 irrespective of the amount borrowed by the consumer).

135 These two limitations mean that, in the event of a claim under a walkway insurance policy, the insurer is less likely to pay out an amount to discharge the consumer's liability under the car loan, as:

(a) the policy does not provide cover for death from sickness or illness, and these are likely to be a significant cause of claims; and

(b) any payment will not discharge the consumer's liability under the credit contract where this is higher than the lump sum payment available under the policy. For example, if the insurer will only pay a maximum sum of $10,000 and a consumer has borrowed more than this sum, the cover would only be sufficient to discharge the consumer's liability under the contract if the balance of the loan has fallen below that $10,000. During the early period of the insurance contract, the amount of any payment by the insurer will leave an outstanding liability that will need to be met from the sale of the vehicle or the insured's estate.

136 Our view is that these limitations raise serious questions about the class of consumers who would need life insurance under a walkaway insurance policy. Our view is that consumers would either want no insurance or more comprehensive insurance so that in all cases it would pay out the balance of the loan (and not part of it), and do so in the event of death from sickness or

illness. Accordingly, it is difficult to see how a fully informed and financially literate consumer would rationally purchase such a product.

137 We expect industry to adequately address our concerns with this more limited form of car yard life insurance. We will be conducting a more detailed review of walkaway insurance, including examining the reasons given by insurers for how a product with such limitations can meet the needs of consumers.

138 The life component under a walkaway policy is usually automatically bundled with other cover (such as insurance against the risk of becoming unemployed or disabled). The consumer therefore does not have the choice of opting out from the life cover; their choice is to have all covers offered under the policy or to not buy the policy. This means that even if the consumer realises the life cover is too limited to meet their needs, but they still want some of the other covers offered by the policy, they will have to pay for the life cover.

Trauma insurance

139 Some life insurers sell trauma insurance with their car yard life insurance. This insurance provides for payment if the insured suffers a serious or traumatic illness. It is common for policies to insure against four conditions: coronary heart disease, heart attacks, cancer and strokes.

140 The purpose of trauma insurance where it is sold on a standalone basis (and not as part of a CCI product) is to provide the insured with a substantial lump sum, to reduce their financial concerns and allow them to concentrate on the changes to their lifestyle from suffering a traumatic event, assisting their recovery.

141 We are concerned that trauma insurance sold as part of a CCI product does not necessarily serve this purpose where the consumer has other debts apart from the car loan. Further, a consumer usually has the option of purchasing insurance offered by the general insurer that would meet the payments under the car loan if they become disabled. Where they have been sold both types of insurance it is likely that they will overlap to some extent.

142 As with walkaway insurance, we are therefore of the view that the way in which trauma insurance under a CCI policy has been designed is questionable. We may undertake further work in relation to both products.

Appendix: Methodology

143 We reviewed five major life insurers offering car yard life insurance, estimated to have over 90% of this market.

144 From the insurers we obtained detailed data on the levels of sales, premiums, commissions and claims over the four-year period of the 2010–14 financial years.

145 The sample data is presented on an aggregated or de-identified basis. Throughout the report, data that has been aggregated is based on the five highest selling car yard life insurance products (out of 12) across four of the insurers, unless specified otherwise. One insurer was excluded from the data sample as its car yard life insurance products had only been available for one year and sales were low (less than 20 policies). Across the other four insurers:

(a) the highest selling car yard life insurance products of three were sold to both personal-use and business-use consumers; and

(b) one sold separate car yard life insurance products to personal-use and business-use consumers; therefore, the highest selling product for each type of consumer was included in the aggregated data.

146 The term 'highest selling product' for each insurer refers to the car yard life insurance product with the highest sales (based on the total value of premium sales), compared to all other car yard life insurance products issued by that insurer in the 2010–14 financial years. The highest selling products constituted 89% of all car yard life insurance products issued in the 2010–14 financial years by the four insurers.

147 Each finding does not necessarily apply to every insurer, due to variations in how they operated in this market. For example, some insurers are not compared across all products, as they did not offer term life insurance that was comparable to the car yard life insurance product available. Where this is the case it has been footnoted or identified in the notes.

148 One insurer only offered life and trauma insurance as a combined product and could not provide detailed data on claim types; therefore, the level of claims made for life insurance might be lower than what was reported for this insurer, as a proportion of the claims reported might have been for trauma.

149 When looking at the price—that is, the premiums a consumer pays for car yard life insurance—we wanted to compare the premiums charged for:

(a) a similar risk product (we chose term life insurance);

(b) business-use car yard life insurance and personal-car yard life insurance; and

(c) ADI-distributed life insurance.

150 We did this because we wanted to better understand, from a price perspective, whether consumers paid more for car yard life insurance:

(a) compared to term life insurance;

(b) because of the distribution channel they bought it from (car yard versus ADI);

(c) depending on whether the liability (i.e. the car loan) attached to the car yard life insurance was classified as being for personal or business use.

151 Car yard life insurance is similar to term life insurance and ADI-distributed life insurance as they:

(a) insure the same risk (of the consumer dying); and

(b) have similar exclusions.

152 The way in which the premiums are determined differs between the insurance products:

(a) car yard life insurance and ADI-distributed life insurance premiums are calculated as a percentage of the loan amount, with a higher percentage the longer the period of insurance, meaning the cost does not vary between consumers; and

(b) term life insurance premiums vary according to the age, gender and smoking status (smoker or non-smoker) of the consumer.

153 When comparing premiums, we used the following assumptions, unless specified otherwise:

(a) For car yard life insurance and ADI-distributed life insurance, the premium was based on a loan of $50,000 over a four-year period.

(b) For term life insurance, the premium was based on $50,000 over a four-year period.

Key terms

Term	Meaning in this document
2010–14 financial years	The four-year period comprised of the 2009–10, 2010–11, 2011–12 and 2013–14 financial years
add-on product	Insurance policies that are 'added on' to the sale of a primary product, most commonly with the purchase of a motor vehicle
ADI	Authorised deposit-taking institution—has the meaning given in s5 of the National Credit Act
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
business-use car yard life insurance	Car yard life insurance where the policy covers a liability under a contract not regulated by the National Credit Act (as typically the borrower is using the vehicle for business purposes), and no cap on commissions applies
car loan	The contract entered into by the consumer to finance the purchase of the vehicle
car yard life insurance	The life insurance component of a CCI product sold through car dealers. The term covers both business-use and personal-use car yard life insurance
CCI	Consumer credit insurance
insurers	Life insurers who distribute car yard life insurance through car dealerships
National Credit Act	*National Consumer Credit Protection Act 2009*
personal-use car yard life insurance	Car yard life insurance where the policy covers a liability under a credit contract regulated by the National Credit Act, and there is a cap on commissions of 20% of the amount of the premium
REP 470 (for example)	An ASIC report (in this example numbered 470)
term life insurance	Life insurance that is purchased online directly by the consumer and provides the consumer with a fixed level of cover. The price of these products varies according to the age, gender and smoking habits of the insured.
trauma insurance	Insurance that pays a lump sum if the insured suffers a major illness
walkaway insurance	A type of insurance offered by life insurers that only covers claims in the event of the accidental death of the insured. It pays out a maximum sum irrespective of the amount borrowed by the consumer

Related information

Headnotes

add-on insurance, ADI-distributed life insurance, business-use car yard life insurance, car dealers, car dealerships, CCI, commissions, consumer credit insurance, consumer outcomes, insurers, personal-use car yard life insurance, premium, term life insurance

Legislation

Corporations Act, s963B(1)(b)

Corporations Regulations 2001, reg 7.7A.12A, 7.7A.12G

Insurance Contracts Regulations 1985, reg 21

National Credit Act; National Credit Code, s145, 204

Reports

ACCC, *Consumer Credit Insurance Review: Final report*

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

REP 361 *Consumer credit insurance policies: Consumers' claims experiences*

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

Media and other releases

[redacted]

15-312MR *Esanda compensates consumers for conduct by finance broker*

15-374MR *ASIC bans Perth finance broker*