ASIC
Australian Securities & Investments Commission

Memo

TO: The Treasury

FROM: s 22 [redacted], Senior Executive Leader, Insurers
s 22 [redacted], Senior Manager, Insurers
s 22 [redacted], Regulatory Analyst, Insurers

RE: Response to query - Consumer Credit Insurance

DATE: 2/02/2023

Dear Sir/Madam

We refer to the Treasury's recent request for further information regarding Consumer Credit Insurance (CCI).

The 2013, Future of Financial Advice reforms (FOFA reforms) exempted CCI from the ban on conflicted remuneration.

ASIC has seen evidence of harm from the sale of CCI post FOFA reforms. It may be worth considering whether the exemption remains appropriate for CCI.

ASIC's review of CCI sales between 2011 and 2018 found that CCI sales practices and product design have continued to result in poor outcomes for consumers. Broadly, these findings are twofold:

1) **CCI is poor value for money**: for all CCI sold, consumers were paid only 19 cents in claims for every dollar they paid in premiums.
2) **CCI is often mis-sold**: CCI is often sold to consumers who are ineligible to claim or unlikely to benefit from the cover provided. In addition, sales staff frequently engaged in pressure-selling and other unfair sales practices.

s 37(1)(b) [redacted]

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s 37(1)(b) [redacted]

s 37(1)(b)

The harm resulting from poor CCI sales has been widespread. ASIC's CCI remediation program, which was finalised in 2020, saw over $160 million paid to approximately 434,000 consumers who were mis-sold CCI products.[2] Separately, several class actions in Australia have resulted in the compensation of up to a million CCI consumers worth more than $126 million.[3]

Overseas, similar insurance products have also resulted in significant consumer harm. In the UK, payment protection insurance (PPI) was subject to the largest consumer redress exercise in the UK's history. Since 2011 until the program's 2019 deadline, over 32.4 million complaints about PPI were lodged with financial firms and over £38 billion was paid in redress.

[2] https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-115mr-asic-secures-over-160-million-in-remediation-for-junk-consumer-credit-insurance/
[3] https://www.slatergordon.com.au/media/slater-and-gordon-settles-consumer-credit-insurance-class-actions-with-cba-anz-and-westpac-for-126-million-on-behalf-of-up-to-a-million-customers