

Finity urges caution over add-on insurance changes

10 July 2019

<https://insurancenews.com.au/daily/finity-urges-caution-over-add-on-insurance-changes>

Add-on insurance practices came under heavy fire at the Hayne royal commission, but actuarial consultancy Finity has warned regulators against taking a sweeping approach to rule changes that might only make the situation worse.

The royal commission called for regulations that would protect consumers from pressure selling tactics that were common in add-on insurance, and recommended that a Treasury-led working party should develop a deferred sales model (DSM) for add-on products “as soon as reasonably practical”.

But Finity has called for caution, warning that such regulations should only be applied “to a narrow range of products, not all add-on insurances”.

In an article prepared in collaboration with The Fold Legal consultancy, Finity says there is “a risk of onerous changes being applied that are against consumer interests rather than protecting them”.

It says new product design and distribution obligations and the product intervention powers introduced for the Australian Securities and Investments Commission (ASIC) are a “more nuanced set of measures that should focus directly on consumer interests”.

The sale of add-on insurance through motor dealerships was particularly highlighted during the royal commission hearings.

ASIC last month announced further repayments of \$14.7 million for consumers sold “worthless” products at car yards, bringing the total value of remediation to more than \$130 million.

The new Code of Banking Practice, which took effect at the start of this month, has already included a four-day deferred sale of consumer credit insurance on credit cards and personal loans.

A general insurance code governance committee report published last year identified more than 20 add-on products.

Finity says anti-hawking recommendations may also have a major impact on add-on sales, depending on the approach taken.

Reputational risk has contributed to some firms' decisions to withdraw from the sale of add-on products, with those remaining expected to adapt to deferred selling model reforms rather than leaving the market.

The Fold Legal says it is important for insurers to be heavily involved in any consultation, with discussions to date focusing on the motor dealer channel.

"We also think it is appropriate for this recommendation to apply narrowly at first," it says.