



GENERAL INSURANCE
Code Governance Committee

Who is selling insurance?

2014 General Insurance Code of Practice
Own Motion Inquiry

June 2018

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Chair's message

Who is selling insurance, or more specifically, who is selling add-on insurance? What is add-on insurance and what kinds of add-on insurance products are consumers buying?

In recent years, consumer advocates have reported to the General Insurance Code Governance Committee serious problems experienced by consumers buying add-on insurance products. At the same time, the Committee's General Insurance Code of Practice monitoring work seemed to suggest that add-on insurance was increasingly being distributed not only by insurers' employees or authorised representatives, but by other external sellers not covered by the Code. Yet, like many industry stakeholders, we still lacked a clear understanding of the extent of add-on insurance sales, the range of products sold and the channels through which they were distributed. To address this knowledge gap, the Committee launched an own motion inquiry into the sale of add-on insurance.

This report is the result of that inquiry. We believe that it makes a major contribution to Australians' understanding of add-on insurance products and how and by whom they are sold. While attention to date has focused on just a fraction of all add-on insurance products, the report sheds new light on the full range of insurance products sold in this way.

The report reveals the central role of external sellers – made up of authorised representatives and 'other' external sellers – who account for the vast majority (97%) of add-on insurance sales. It also shows the large number of add-on insurance products—half a million—that were sold to consumers during the July to 30 September 2017 quarter alone, indicating that this is a much larger field than previously known.

The Australian Securities and Investments Commission (ASIC) defines “add-on insurance products” as products that are generally sold to consumers when their main focus is buying a primary product, such as a credit card, loan, car, airline tickets, or tickets for entertainment and sporting events, or when buying a primary service, such as car rental or an apartment lease. This can mean that the consumer's attention is typically focused on buying these primary products and not on add-on insurance arrangements.

We found some disconnect between Code subscribers' views of their oversight mechanisms for authorised representatives (who sell around two-thirds of all add-on insurance products), and the experiences and perceptions of consumers and consumer advocates. While several Code subscribers described some good monitoring and compliance practices, reports from consumer advocates continue to highlight poor or unethical sales practices and the detriment this causes to consumers, especially vulnerable consumers. This means that Code subscribers should intensify their oversight of the conduct of authorised representatives and ensure that they are notifying Code subscribers of all complaints about their services.

The data we collected shows that close to one-third of add-on insurance sales are made by a wide range of other external sellers, to whom the Code's provisions do not apply. They include insurance brokers, banks, credit unions, finance brokers, car dealerships, airlines and ticketing retailers. While some Code subscribers are highly involved in how other external sellers conduct such sales, others take a hands-off approach, relying solely on contract provisions and the individual licensing obligations that apply to other external sellers. In this highly fragmented environment, the extent of

each Code subscriber's involvement in sales conduct turns largely on individual resourcing, system and budgetary constraints.

These findings reinforce the Committee's long-held view that the Code should be extended to apply to all add-on insurance sales. Our position is grounded in the principles that **all** insurance sales should be fair and ethical, and that **all** consumers buying insurance should benefit from the same protections offered by the Code, irrespective of the means by which the products are sold. Extending the Code's coverage and improving how add-on insurance is sold will also have reputational benefits for general insurers and the industry as a whole, while bolstering the Code's credentials as a strong and meaningful form of self-regulation.

Expanding the Code's coverage entails extending to all external sellers the standards that apply to buying insurance (in Section 4) and the standards that apply to the conduct of employees and authorised representatives when offering or selling insurance on behalf of Code subscribers (in Section 5). Implementing and adapting to this change will take time – just as there was a period of adjustment when authorised representatives were brought into the Code some years ago. But this important work should begin now, so that problems can be corrected before the introduction of even more distributed selling mechanisms and the arrival of other new disruptive players.

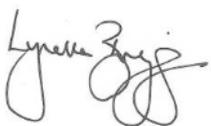
As well as extending the Code to other external sellers, the relevant standards should be strengthened. For instance, other external sellers should be required to alert Code subscribers whenever they have reported to ASIC a significant breach or likely significant breach, related to the selling of add-on insurance products.

At the same time, Code subscribers must continue to maintain strong oversight over employees. Although just a small fraction of add-on insurance products are sold by employees, respondents reported a disproportionate level of complaints associated with employee sales. It is therefore important that subscribers analyse their incident and breach data to assess the rate of non-compliance by employees compared with authorised representatives; identify the cause of the non-compliance arising from employees' conduct and take steps to address it; review the quality and extent of compliance monitoring; and promptly address any deficiencies.

We also need to deepen our understanding of add-on insurance. The data in this report provides the most comprehensive picture of add-on insurance sales available today. However, that picture remains incomplete. For instance, we have not had the opportunity to examine complimentary travel insurance included as a benefit of credit cards – something that consumers might reasonably think of as add-on insurance. Consumers' decision to acquire a particular credit card might be influenced by the benefit. We will be taking a closer look at travel insurance products through an inquiry in 2018–19.

A side-by-side analysis of different add-on insurance products and the Code breaches with which they are associated is also needed. The Committee intends to build on its work with further data collection and analysis, and we look forward to working with Code subscribers to achieve this.

Yours sincerely,



Lynelle Briggs AO,
Independent Chair, General Insurance Code Governance Committee

Executive summary

Although stakeholders have lacked a full understanding of add-on insurance products and their distribution, criticism of this type of insurance has been mounting in recent years. The Committee is concerned about a gap in the Code's coverage of add-on insurance sold by some external sellers.

The inquiry

To better understand add-on insurance sales and recommend improvements to both industry practice and the Code, the General Insurance Code Governance Committee (the Committee) launched an inquiry into the sale of add-on insurance. The inquiry drew on data provided by the 23 Code subscribers that sell add-on insurance, complemented by case studies and other input from consumer advocates.

The Committee thanks all stakeholders for their contributions and the time and commitment taken to respond to this Inquiry.

The products and how they are sold

The Committee found that Code subscribers sell 28 different types of add-on insurance products. Only 23 or 13% of Code subscribers sell add-on insurance, but the volume of sales is substantial— with more than half a million products sold in a single quarter in 2017. The most commonly sold add-on insurance products are travel insurance and ticket event or cancellation insurance, which together account for 65% of all add-on insurance sales.

Add-on insurance products are distributed directly through a Code subscriber's employees and indirectly via authorised representatives and other external sellers. Most Code subscribers sell add-on insurance exclusively via authorised representatives and other external sellers and, as a result, external sellers account for the vast majority of add-on insurance sales. In the July to September 2017 quarter, just 3% of add-on insurance products were sold by employees of Code subscribers.

Authorised representatives – which include finance companies; car, boat and motorcycle dealerships; and finance and insurance brokers – act under the Code subscriber's Australian Financial Services licence. They are covered by the Code's standards and Code subscribers are responsible for authorised representatives' conduct. Other external sellers are not covered by the Code and our data shows that the vast majority of them act under their own Australian Financial Services licences and in some instances under an Australian Credit Licence or those of another entity. The Committee is not confident that there are not also other external sellers out there selling add-on insurance products to consumers without regulatory oversight.

Given that these other external sellers account for a substantial 31% of add-on insurance sales, the Committee believes that this gap in the Code's coverage should be addressed.

Issues in the sale of add-on insurance

Consumer advocates' reports and Code subscribers' own breach data highlight poor sales practices associated with add-on insurance. Based on the experiences of clients, consumer advocates described to the Committee sales techniques that place consumers under pressure to purchase or limit their ability to make an active and deliberate purchase decision. Consumer advocates report customers being misled about products or their benefits, or receiving inadequate product information and disclosure – all issues that also appeared in Code subscribers' reports about Code breaches associated with the sale of add-on insurance. As a result of poor sales products, consumers often do not understand the products they have purchased.

Moreover, these add-on insurance products are often poor value or unsuitable for the consumers who have bought them. Consumer advocates' reports, Code subscribers' breach data and past significant breaches considered by the Committee all reveal instances of consumers being sold add-on insurance products despite being ineligible to make a claim. Even where a claim could be made, add-on insurance products are unsuitable when the potential benefit is marginal or when their high cost pushes vulnerable consumers further into financial hardship.

While add-on insurance has been heavily criticised in the last few years¹, critics have focused on a limited subset of add-on insurance products. CCI, GAP and mechanical breakdown insurance are sold with high-value assets and attracted the most criticism, whereas the most widely sold add-on insurance products – travel insurance and ticket event/cancellation insurance – have bypassed scrutiny.

Both consumer advocates' reports and Code subscribers' internal complaints data suggest that issues in the sale of add-on insurance are not confined to any single distribution channel. Consumer advocates' concerns are focused largely on add-on insurance sold by particular types of external sellers. Conversely, more than half of complaints to Code subscribers related to add-on insurance sold by employees, rather than authorised representatives and other external sellers who each attracted 19% of complaints reported for the July to September 2017 quarter.

The distribution of complaints across sales channels does not tell the whole story. While the complaints data may suggest that more issues were encountered when employees provided add-on insurance services, it may also suggest that consumers found it easier to access Code subscribers' internal complaints processes rather than those of other external sellers. In addition, the complaints data is incomplete – complaints data about other external sellers represents complaints that Code subscribers received and excludes data about complaints that other external sellers received directly from consumers. Given that other external sellers fall outside the scope of the Code, they are not required to report complaints to Code subscribers.

Code compliance measures

Code subscribers that sell add-on insurance through employees and authorised representatives must comply with a range of Code obligations concerning sales practices and education and training. A core Code requirement is that sales be conducted in a manner that is efficient, honest, fair and transparent. Code subscribers must also ensure that authorised representatives refer complaints to the Code subscriber and disclose to customers who they represent.

¹ Notably from ASIC and the Consumer Action Law Centre.

In general, Code subscribers have appropriate education and training systems for employees and authorised representatives. They also have mechanisms for ensuring that employees and authorised representatives complete training and acquire the necessary expertise before they sell add-on insurance products. All Code subscribers who use employees and/or authorised representatives to sell add-on insurance products, confirmed that they keep training records for their employees and require their authorised representatives to do the same, for at least five years. Code subscribers typically have robust systems for maintaining training records.

The Committee found that there is room for some Code subscribers to improve and address gaps in their compliance and monitoring frameworks. While Code subscribers generally have robust compliance approaches for employees, practice is more variable when it comes to authorised representatives, reflecting Code subscribers' different resourcing, budgetary and systems capabilities.

The Committee has recommended a range of improvements, both to Code subscribers' service level agreements with authorised representatives and to monitoring and feedback mechanisms.

The Code does not apply to other external sellers and as such, there is wide variation in the extent to which Code subscribers are involved in these other external sellers' sales processes. Some Code subscribers have taken steps to influence these external sellers' conduct and provide feedback on any compliance issues that arise. These examples of positive practice should be adopted by all Code subscribers that use other external sellers.

Recommendations

The Committee has made 22 recommendations aimed at improving how add-on insurance is sold.

Most crucially, the Committee believes that the Code should be extended to cover all add-on insurance sales by external sellers – a key recommendation directed to the Insurance Council of Australia (Insurance Council).

The Committee's remaining recommendations (2 – 22) are directed at Code subscribers, addressing matters including oversight of other external sellers, education and training, compliance frameworks, service level agreements with authorised representatives, monitoring, feedback, complaints and data collection. While a number of these recommendations refer only to employees or authorised representatives, should the Code be extended to all external sellers, then these recommendations would encompass all external sellers.

In the Committee's view, these recommendations made to improve Code subscribers' compliance with the Code should be implemented by all Code subscribers, irrespective of whether the Code is extended to all external sellers.

All 22 recommendations are presented below and full details on each of them and the reasons behind them are also contained in the relevant sections throughout this report.

Key Recommendation for the Insurance Council

Recommendation 1: The Insurance Council should strengthen the Code by extending it to all external sellers.

The Insurance Council should strengthen the Code's standards by extending it to all external sellers and include the following:

- **Consumers' right to complain**—Consumers are entitled to complain about any aspect of their relationship with external sellers of Code subscribers' insurance products.
- **Efficient, honest, fair and transparent conduct**—External sellers must conduct their sales processes and services efficiently, honestly, fairly and transparently.
- **Complaints**—External sellers must notify Code subscribers of any complaint they receive against them when selling their insurance products, and Code subscribers should handle such complaints under their complaints process.
- **Appropriate education and training**—Code subscribers must ensure that external sellers are educated and trained, including in relation to the Code, to provide their services competently and to deal with consumers professionally.
- **Expertise and services must align**—Code subscribers should ensure that external sellers provide services that match their expertise.
- **Monitoring performance**—Code subscribers should measure the effectiveness of training of external sellers by monitoring their performance and taking steps to identify and address performance shortcomings.
- **Code subscribers' responsibility**—Code subscribers will be in breach of the Code if their external sellers do not comply with the Code when acting for them.

Recommendation 2: Code subscribers should routinely record and collect data on add-on insurance products.

Code subscribers should collect data about add-on insurance products including data about the:

- number of products sold across each distribution channel (employees, authorised representatives and other external sellers)
- number of claims received, accepted and refused
- number and types of complaints received about and/or related to sales processes and services across each distribution channel
- number and types of complaints received about claims, including declined claims, and financial hardship, and
- total premium received and total benefits paid to consumers.

Recommendation 3: Code subscribers should explore and consider different methods for protecting consumers when buying add-on insurance products.

Code subscribers who use external sellers to offer and sell add-on insurance products should explore and consider other options for providing increased protection to consumers such as to:

- Adopt a deferred sales model for add-on insurance products.
- Clearly disclose the total cost of products to consumers.

- Clearly disclose all sales commissions paid to external sellers.
- Review sales commissions that apply to add-on insurance products to ensure they are fair and equitable.
- Place a cap on sales commissions where appropriate.

Recommendation 4: Code subscribers should require other external sellers to notify them of complaints.

Agreements between insurers and other external sellers should require them to notify Code subscribers of all complaints that they have received, including complaint outcomes, related to the selling of their insurance products, and do so at least every quarter.

Recommendation 5: Code subscribers should check that employees and authorised representatives recognise and refer complaints.

Code subscribers should monitor employees and authorised representatives to assess whether they:

- recognise complaints and record them appropriately
- for employees, internally refer complaints to the complaints process in a timely way, and
- for authorised representatives, refer complaints to Code subscribers and do this in a timely way.

Recommendation 6: Code subscribers should analyse complaints data to identify emerging issues and compliance gaps.

Code subscribers should analyse complaints data to determine if there are deficiencies in, or emerging issues related to, sales processes or the conduct of employees and authorised representatives when offering/selling add-on insurance products.

Recommendation 7: Code subscribers should ensure that education and training of employees and authorised representatives meets minimum requirements.

Education and training provided to employees and authorised representatives, or that authorised representatives are required to receive, should cover:

- product knowledge—to ensure that products are only offered and sold to consumers who are eligible to buy such products
- the law—principles of general insurance law and relevant consumer protection laws
- complaints—recognising when a complaint has been made and how and when to escalate it internally (employees) or to Code subscribers (authorised representatives), and
- the role—the scope of their roles and how to provide their services competently and professionally: what they can and cannot do and what they must do.

Recommendation 8: Code subscribers should only allow employees and authorised representatives to sell add-on insurance products after successful completion of required education and training.

Code subscribers should not permit employees and authorised representatives to conduct sales services until they have successfully completed all required education and training.

Recommendation 9: Code subscribers' service level agreements should specify minimum education and training requirements for authorised representatives.

Code subscribers' service level agreements should specify:

- the nature of the education and training they require authorised representatives to receive or that they will provide to them, and
- authority to sell add-on insurance products will not be given until authorised representatives have successfully completed required education and training.

Recommendation 10: Code subscribers should check that training of employees and authorised representatives is completed successfully and on time.

Code subscribers should:

- track completion of required training and follow up if training is not completed successfully or within the required timeframe, and
- ensure that employees and authorised representatives cannot begin selling add-on insurance products until they have successfully completed required education and training.

Recommendation 11: Code subscribers should check that training records of employees and authorised representatives are kept and that they are up-to-date.

Code subscribers should have robust frameworks in place to keep and maintain accurate records of training completed by employees and authorised representatives, and that these are accessible and being kept for at least five years.

If Code subscribers require authorised representatives to keep their own training records, then this requirement should be embedded in service level agreements. In addition, a review of training records kept by authorised representatives should be routinely conducted.

Recommendation 12: Code subscribers' service level agreements should set out conduct expectations of authorised representatives.

Code subscribers' service level agreements should:

- set out the scope of authorised representatives' roles and authority
- set expectations of how authorised representatives should conduct themselves when carrying out services for Code subscribers, and
- reflect the Code standards that apply to the services that authorised representatives provide.

Recommendation 13: Code subscribers should regularly monitor internet-based sales systems.

Code subscribers should ensure that they regularly review the systems supporting internet-based sales processes, product information and other disclosure documents. If authorised representatives operate internet-based sales systems, Code subscribers should:

- embed a requirement in service level agreements that authorised representatives must obtain their approval before changing processes or product information and other disclosure documents, and
- review the updated material for compliance prior to going live.

Recommendation 14: Code subscribers should strengthen and enhance the monitoring and compliance frameworks that apply to employees' and authorised representatives' conduct of services.

Code subscribers should avoid relying solely on employees or authorised representatives to self-assess their compliance. Instead, Code subscribers should enhance and strengthen their compliance and monitoring frameworks to actively and regularly monitor the conduct of their employees and authorised representatives. There are many ways that Code subscribers could do this, including through:

- continuous training and coaching on products, processes and systems
- sales scripts to support sales processes
- regular call monitoring and testing for quality
- performance improvement programs
- on-site visits
- incentive programs that encourage ethical and compliant conduct
- monitoring and oversight of key metrics such as reporting on and analysing data about and reasons for early policy cancellations, declined claims and complaints
- system controls for customer eligibility for the add-on insurance product, sending of disclosure documents, post-sale confirmation letters and for employee access to cross-sell options, and
- mystery shopping, website reviews and customer surveys.

Recommendation 15: Code subscribers should intensify monitoring when new sales processes are introduced.

When new sales processes are introduced, Code subscribers should:

- monitor more intensively in the early stages to ensure that employees and authorised representatives understand the new processes and apply them correctly, and
- actively pursue feedback from employees and authorised representatives about any difficulties understanding new processes or applying them in practice.

Recommendation 16: Code subscribers should provide regular feedback to employees and authorised representatives about non-compliance.

Code subscribers should provide feedback to employees and authorised representatives about identified non-compliance, why it occurred and what has been done to fix it, in a structured and timely way. This will encourage employees and authorised representatives to report incidents and facilitate continuous improvement.

Recommendation 17: Code subscribers should identify the cause of non-compliance and address it so that it does not reoccur.

Code subscribers should identify the cause of compliance failures and take appropriate action, such as:

- assess the impact of non-compliance including whether consumers have suffered any detriment (financial and non-financial)
- retrain authorised representatives and employees where non-compliance was related to a failure to follow processes/procedures or they were poorly understood
- fix flawed sales processes/procedures and retrain authorised representatives and employees, and
- review, revise and amend training where needed to ensure that it clearly explains what employees and authorised representatives must do when selling add-on insurance products.

Recommendation 18: Code subscribers' service level agreements should require authorised representatives to notify Code subscribers of complaints and inform customers of services.

Code subscribers' service level agreements with their authorised representatives should reflect the Code standards that apply to their services, including that they must:

- notify Code subscribers of complaints they have received while acting on behalf of the Code subscriber (subsection 5.2), and
- inform consumers about the services they have been authorised to provide and the identity of the Code subscriber they are representing (subsection 5.3).

Recommendation 19: Code subscribers' service level agreements should set out a timeframe for authorised representatives' referral of complaints to Code subscribers.

Service level agreements should require authorised representatives to notify Code subscribers of complaints within two business days.

Recommendation 20: Code subscribers should approve other external sellers' sales processes and related material.

Code subscribers' agreements with other external sellers should include a requirement that other external sellers seek their prior approval for all marketing material, sales scripts and/or sales processes related to the selling of their insurance products.

Recommendation 21: Code subscribers should require other external sellers to notify them of compliance issues and to work together on action plans.

Agreements between Code subscribers and other external sellers should:

- require other external sellers to notify Code subscribers of compliance issues, including identified non-compliance, related to the selling of their insurance products on at least a quarterly basis
- require other external sellers to work with Code subscribers on the development and implementation of appropriate action plans to address such compliance issues, and
- if significant non-compliance has been identified, require other external sellers to notify Code subscribers within 10 business days of identification.

Recommendation 22: Code subscribers should report issues affecting other external sellers to their Boards or executive management.

Code subscribers should internally report issues related to the conduct of other external sellers to their Board of Directors or executive management on at least a quarterly basis.

Introduction

Add-on insurance has attracted increasing scrutiny from consumer advocates and regulators. However, associated sales practices are only partially covered by the Code. To investigate the issues and recommend improvements to both industry practice and the Code, the Committee launched an inquiry into the sale of add-on insurance.

About the inquiry

Against the backdrop of consumer, regulatory and industry attention to the sale of add-on insurance and Committee insights drawn from recent industry data, the Committee has also continued to receive Code breach allegations about the sale of add-on insurance products by authorised representatives and other external sellers. Sales of add-on insurance products have also been the subject of significant breaches self-reported by Code subscribers.

To paint a clearer picture of how add-on insurance is sold, and to begin to consider where improvements could be made, the Committee decided to conduct an own motion inquiry into the distribution of add-on insurance products.

The Committee sought participation from all 174 Code subscribers, comprising 43 general insurers and 131 coverholders and claims administrators through their relationship with Lloyd's Australia Limited. Responses showed that of these, only 23 Code subscribers – 18 general insurers and 5 coverholders – sell add-on insurance. The Committee collated, analysed and assessed the responses from this subset of Code subscribers, asking for clarification or further information where necessary.

Aims

With this inquiry, the Committee had four core aims:

- to produce a comprehensive picture of Code subscribers' add-on insurance sales channels and practices, taking in employees, authorised representatives and other external sellers
- to assess compliance and identify and recommend improvements to industry practice
- to inform the review of the Code being conducted by the ICA
- to inform the Committee's potential future monitoring of other external sellers should they come to be covered by the Code.

Approach

The inquiry drew on information contributed by Code subscribers and consumer advocates.

Code subscriber questionnaire

Data for this inquiry was gathered primarily from Code subscribers through an online questionnaire that requested information and supporting documents concerning:

- add-on insurance products and how and by whom they are sold

- employee and authorised representative training
- arrangements with other external sellers
- compliance and monitoring activities
- complaints and breaches.

The questionnaire was administered via a web-based portal, accessed by Code subscribers using a confidential individual link and password. Code subscribers were also given a Word version of the questionnaire for preparation and their own records. This is reproduced at **Appendix 1**.

Consumer advocate questionnaire

Code subscribers' responses were complemented by input from consumer advocates, who were invited to complete a separate 10-item questionnaire about clients' experiences with add-on insurance (included at **Appendix 2**).

Eighteen consumer representative organisations were invited to complete the questionnaire and six provided responses, often including supporting case studies.

Add-on insurance

ASIC describes 'add-on' insurance products as insurance products generally sold together with a primary product.² Add-on insurance is sold with a range of primary product types including financial products such as credit cards and loans; assets, most often cars and other vehicles; activities, namely travel and events; and rental of vehicles or premises. At the time of purchase, the consumer's attention is usually focused on these primary products, rather than the add-on insurance. As this report details, most add-on insurance is sold by external sellers rather than directly by the insurer itself.

Committee insights

The Committee identified emerging risks in relation to the selling of add-on insurance products from several sources including data that it collected from Code subscribers as part of its monitoring and investigation activities.

While the Committee collects broad-ranging data annually from all Code subscribers, it does not include data specifically related to product distribution channels or add-on insurance products. This means that the industry data cuts across all retail general insurance products and breach data is drawn from various Code subscribers. The breach data also includes significant breaches reported by Code subscribers to the Committee and breaches identified by the Committee through its monitoring and investigations work.

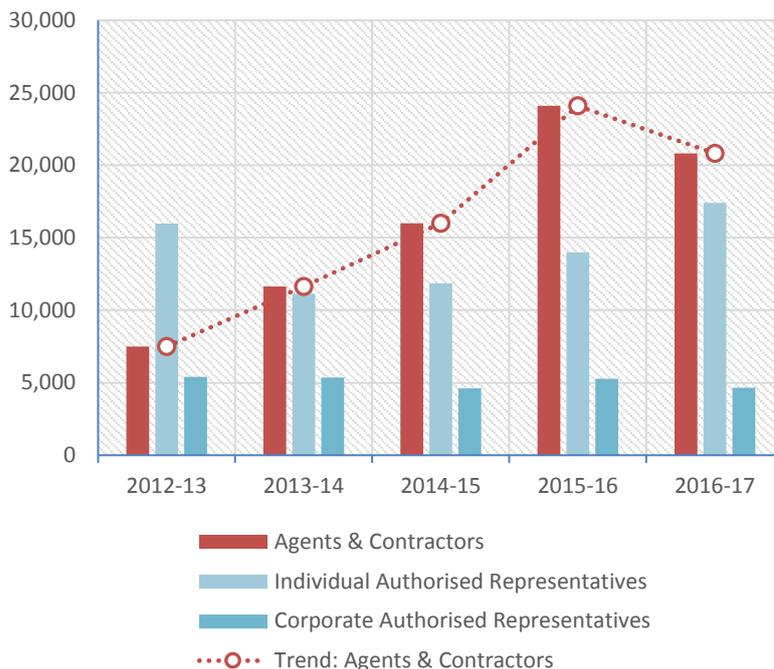
The workforce data in **Figure 1** uses the term *agents and contractors* to describe data about external entities used to carry out insurance services including (but not limited to) sales. The Committee uses the term *external sellers* in this report to specifically differentiate external entities used to sell add-on insurance products. The term agents and contractors should not be confused with the term external sellers.

² See ASIC Report 470 (2016): *Buying add-on insurance in car yards: Why it can be hard to say no* ([REP 470](#)).

Figure 1 gives background and context about the Committee’s work in and around the use of external entities in the provision of general insurance services.

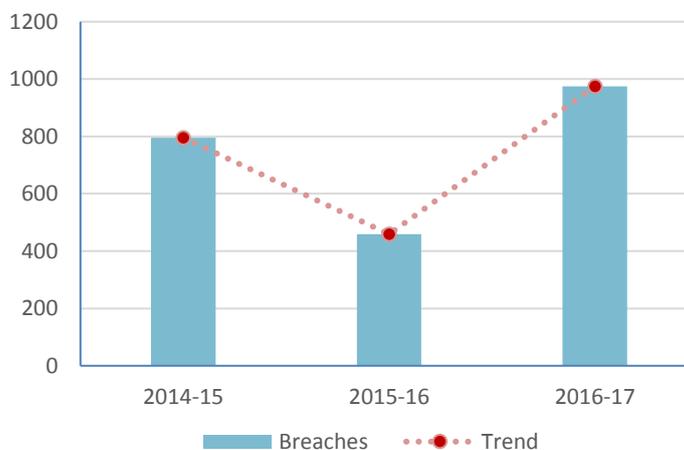
The workforce data gives interesting insights into the industry’s use of external entities to carry out services on their behalf. It shows an increased use of external entities with the key takeaway being that they are not all captured by the Code. This development has raised concerns about how these external entities perform their services and the level of oversight exerted by subscribers.

Figure 1 – Industry external workforce data



Industry Code breach data, presented in **Figure 2**, showed a steep growth from 2015–16 to 2016–17 in breaches relating to the standards that apply to the selling of insurance to consumers (Section 4) and to employees and authorised representatives who sell retail general insurance products to consumers (Section 5). This growth in breaches of sections 4 and 5 raised even more concerns for the Committee about how retail insurance products are sold.

Figure 2 – Industry Code breaches about sales



Significant Code breaches of the standards that apply to the selling of insurance affected large numbers of consumers. Investigation of Code breach allegations revealed that non-compliance often affected vulnerable consumers. These investigations also highlighted that not all external sellers of add-on insurance products were covered by the Code.

Consumer and regulatory scrutiny

Add-on insurance and the processes by which it is sold have come under increasing scrutiny. Based on its casework with consumers, in 2015 the Consumer Action Law Centre (Consumer Action)

released a report arguing that the add-on sales technique sees consumers ‘buying insurance that they don't understand, is unsuitable for their needs, and is poor value’.³

ASIC turned its attention to CCI products sold by banks⁴ and CCI, GAP insurance, loan termination insurance, mechanical breakdown insurance and tyre and rim insurance add-on insurance sold in the car sales environment.⁵ ASIC has been clear in its view that insurers are accountable for how their insurance products are sold to consumers, and that they should set explicit standards and monitor the performance of external sellers.⁶

Coverage in the Code

Although the Code does not specifically address add-on insurance as a distinct category of insurance, it contains a range of applicable standards. These are found in four Code sections:

- Buying insurance—The Code's Section 4 standards on buying insurance apply to the sale of all retail insurance, including add-on insurance products. The section includes the crucial requirement that Code subscribers ensure that the sales process and the services of its employees and authorised representatives are ‘conducted in an efficient, honest, fair and transparent manner’.
- Standards for employees and authorised representatives—Code subscribers are responsible for the actions of their employees and authorised representatives. Section 5 sets out training and competency requirements that apply to both, as well as additional complaint and consumer notification requirements for authorised representatives.
- Complaints and disputes—Under subsection 10.3, customers are entitled to complain to a Code subscriber about any aspect of the relationship, including add-on insurance.
- Monitoring, enforcement and sanctions—The standards in Section 13 commit Code subscribers to have appropriate compliance monitoring systems and to report on compliance to the Committee.

Code subscribers sell add-on insurance via employees, authorised representatives and other external sellers. The Committee has long been concerned that these other external sellers are not covered by the Code's Section 4 and 5 standards, which apply only to employees and authorised representatives. Given that add-on insurance sales practices have attracted particular criticism of the insurance industry, this is a significant gap in the Code's coverage.

The ICA is currently reviewing the Code. The Committee has made two submissions to this review process, recommending, among other things, the extension of the Code to all external sellers, including external sellers who are not authorised representatives.⁷

³ Consumer Action Law Centre (2015) *Junk Merchants: How Australians are being sold rubbish insurance and what we can do about it*, p. 5.

⁴ ASIC, 1 August 2017, Media Release 17-255, ‘Banks to overhaul consumer credit insurance sales processes’.

⁵ See: ASIC Report 470 (2016): *Buying add-on insurance in car yards: Why it can be hard to say no* ([REP 470](#)); ASIC Report 471 (2016): *The sale of life insurance through car dealers: Taking consumers for a ride* ([REP 471](#)); ASIC Report 492: *A market that is failing consumers: The sale of add-on insurance through car dealers* ([REP 492](#)).

⁶ Kell, Peter, 7 March 2018, ‘Regulatory update to the general insurance industry’, speech to the Insurance Council of Australia Annual Forum, Sydney, p. 5.

⁷ General Insurance Code Governance Committee (30 May 2017) *Submission to the Insurance Council of Australia 2017 Code Review*; and General Insurance Code Governance Committee (21 December 2017) *Submission to the Insurance Council of Australia 2017 Code Review – Response to ICA Interim Report*.

Acknowledging community concerns, the ICA's interim Code review report proposes that general product suitability and distribution principles be added to the Code, complemented by specific add-on insurance guidance and a strengthening of standards relating to other external sellers.

The ICA stopped short of concluding that external sellers should be brought under the Code's Section 4 and 5 standards. However, it suggested that in formal agreements with external sellers, Code subscribers should be required to specify that:

- sales must be conducted in an efficient, honest, fair and transparent manner
- salespeople must be appropriately trained and educated, their conduct monitored by their employer and problems with conduct addressed
- insurers will notify their distributors of the identified target and non-target market for the product
- pressure selling is not permitted
- distributors must notify the insurer of any complaints and tell customers who the insurer is.⁸

The ICA's final report is expected later this year, although consultation on subsequent Code changes will be ongoing. The Committee believes that insurers are responsible for the add-on insurance products that they make available to consumers. Irrespective of the channel through which the products are distributed, clear ethical standards must govern how they are sold. Ensuring that such standards are followed is the responsibility of both the seller and the general insurer whose products are on offer.

The data in this report reveal that external sellers other than authorised representatives accounted for 31% of add-on insurance products sold to consumers in the quarter July to September 2017 and thus play a major role in the sale of add-on insurance. These are products that were created and underwritten by Code subscribers and it is their reputations that remain at risk as a result of misselling by external sellers.

While subsection 5.5 of the Code states that consumers can ask Code subscribers to address their concerns about other external sellers' non-compliant conduct, and can report it to the Committee, this does not offer consumers sufficient protection. Subsection 5.5 does not give consumers the right to complain to Code subscribers about the conduct of other external sellers, which would have required Code subscribers to deal with and respond to such complaints under their internal complaints processes. Furthermore, as the Code currently stands, the Committee cannot hold Code subscribers accountable for the non-compliant conduct of other external sellers.

As highlighted in its response to the Insurance Council of Australia's interim report on the review of the Code, the Committee considers that the Code itself would be seen to be a stronger form of self-regulation if it was extended to cover all distribution channels. Accordingly, the Committee's highest priority is seeing that relevant Code standards are extended to these other external sellers.

⁸ Insurance Council of Australia (November 2018) *Interim report: Review of the General Insurance Code of Practice*. Available at: <http://codeofpracticereview.com.au/>

Key Recommendation for the Insurance Council

Recommendation 1: The Insurance Council should strengthen the Code by extending it to all external sellers.

The Insurance Council should strengthen the Code's standards by extending it to all external sellers and include the following:

- **Consumers' right to complain**—Consumers are entitled to complain about any aspect of their relationship with external sellers of Code subscribers' insurance products.
- **Efficient, honest, fair and transparent conduct**—External sellers must conduct their sales processes and services efficiently, honestly, fairly and transparently.
- **Complaints**—External sellers must notify Code subscribers of any complaint they receive against them when selling their insurance products, and Code subscribers should handle such complaints under their complaints process.
- **Appropriate education and training**—Code subscribers must ensure that external sellers are educated and trained, including in relation to the Code, to provide their services competently and to deal with consumers professionally.
- **Expertise and services must align**—Code subscribers should ensure that external sellers provide services that match their expertise.
- **Monitoring performance**—Code subscribers should measure the effectiveness of training of external sellers by monitoring their performance and taking steps to identify and address performance shortcomings.
- **Code subscribers' responsibility**—Code subscribers will be in breach of the Code if their external sellers do not comply with the Code when acting for them.

Add-on insurance products and how they are sold

Code subscribers offer a wide range of add-on insurance products. To distribute these products, they rely heavily on external sellers – authorised representatives and other external sellers – although employees also play a small part.

Product range

Code subscribers offer a wide range of add-on insurance products—some 28 in total (**Table 1**). While some insurers offer only a limited range of add-on insurance products (including four that only offer CCI), others offer a large suite.

Table 1 – Add-on insurance products offered by Code subscribers

| Product | Features |
|--|--|
| Accidental damage cover for mobile electronic devices | Covers accidental damage to mobile electronic devices such as mobile phones and tablets. |
| Cargo insurance | Covers cargo as it is transported from one location to another location. |
| Consumer credit insurance (CCI) | Sold with credit cards, personal loans, home loans and car loans, CCI insures the debtor’s capacity to make repayments under the credit contract if they become sick, injured or disabled; lose their employment or die. |
| Home contents insurance | Covers cost of repairing or replacing household property such as jewellery, furniture and electrical appliances and devices. |
| Guaranteed asset protection insurance (GAP) | Sold with assets, GAP insurance covers the difference between what a consumer owes on a loan and any amount received under a separate insurance policy if the asset is a total loss. |
| Jewellery insurance | Covers cost of repairing or replacing jewellery. |
| Loan termination insurance | Sold with assets, loan termination insurance covers the difference between what a consumer owes on a loan and the value of the asset if they are unable to make a repayment and the asset is sold. |

| | |
|--|---|
| Mechanical breakdown insurance | Also known as an 'extended warranty', mechanical breakdown insurance covers the repair or replacement of specific parts where unexpected mechanical failure occurs. It typically applies after a manufacturer's or dealer's warranty has expired. |
| Motorcycle insurance | Three types of cover: damage to an insured's motorcycle (comprehensive) and other people's property; damage to other people's property (third party property); same as third party property with fire and theft cover for the insured's motorcycle. |
| Motor vehicle – cover for vehicles under a finance contract (CCI insurance) | Covers a borrower's shortfall under a finance contract when they and the financial institution agree to return the vehicle and terminate the finance contract (for instance due to illness or bankruptcy) or relieves the borrower of repayment obligations if certain defined events occur (for instance due to involuntary unemployment). |
| Motor vehicle – excess insurance | Covers an insured's excess payment on a claim under a separate motor vehicle insurance policy. |
| Motor vehicle – GAP insurance | When a vehicle is deemed a total loss, covers shortfall between the original purchase price of the vehicle and the total loss payment under a separate motor vehicle insurance policy. |
| Motor vehicle – hybrid GAP insurance | When a vehicle is a total loss, pays an insured the greater of: the original purchase price of the vehicle (if owned outright) less the total loss payment, or the replacement vehicle value less the total loss payment and/or the loan settlement amount due to the financial institution less the total loss payment. |
| Motor vehicle insurance | Three types of cover: damage to an insured's vehicle (comprehensive) and other people's property; damage to other people's property (third party property); same as third party property with fire and theft cover for the insured's vehicle. |
| Motor vehicle – loss of personal effects | Covers loss of personal effects that were in a vehicle deemed a total loss under a separate motor vehicle insurance policy due to accident, fire or theft. |
| Motor vehicle – scratch and dent insurance | Covers the cost of repairing minor accidental scratches and dents to an insured's motor vehicle. |
| Motor vehicle – novated motor vehicle lease insurance (CCI) | Covers an insured's novated lease repayments if unable to continue them due to involuntary unemployment. |

| | |
|---|---|
| Pet injury insurance | Covers injuries sustained by pets. |
| Pleasurecraft insurance | Covers vessels used for pleasure or recreation such as boats and personal watercraft. |
| Pleasurecraft – mechanical breakdown insurance | Covers repair or replacement of specific mechanical parts if an unexpected mechanical failure occurs. |
| Rental bond insurance | Covers a renter for accidental damage to the rented premises and extra cleaning costs due to an estate agent's final inspection. |
| Rental vehicle – accidental death, disablement & baggage insurance | Covers accidental death, disablement and damage/loss of baggage/personal effects during the hire period. |
| Rental vehicle insurance – excess | Covers excess that is payable when a rental vehicle is damaged while in the possession of the hirer. |
| Ticket event/ticket cancellation insurance | Ticket cover: covers an insured's ticket cost when they cannot attend the event due to for example illness or airline delays. Event cover: covers the insured's loss of costs or expenses or income due to for example cancellation or postponement of the event. |
| Transit insurance | Covers an insured's possessions when being transported by road, rail, sea, air or post. |
| Transport package | Package contains several covers including liability, carrier's cargo and business interruption cover. |
| Travel insurance | Covers an insured for financial losses caused by certain defined events that can affect travel – such as trip cancellation, medical expenses or theft of luggage. |
| Tyre and rim insurance | This insurance covers the cost of repairing and replacing damaged tyres and rims. |

Most (83%) Code subscribers who offer these add-on insurance products confirmed that some are available for purchase separately from, and on a date later than, the purchase of the primary product. Two Code subscribers said that they offered similar products, although terms and conditions differed. For example, CCI as add-on insurance to a home loan is sometimes available after the home loan contract is entered into, with a delay as short as four days or as long as one year. Other products that were available to buy at a later date included home contents, motor, motorcycle, pleasurecraft and travel insurance.

The option to buy some of these insurance products at a later date, and not as an add-on product, is important given that some of the concern about the sale of add-on insurance centres on the difficulty consumers experience when trying to make an informed, considered and free decision about the add-on insurance in the primary product sales environment.

Distribution channels

Add-on insurance is offered by only a minority of Code subscribers: 23 general insurers and coverholders, comprising 13% of all Code subscribers. However, these Code subscribers sell add-on insurance products in high volumes—collectively recording more than half a million sales in the July to September 2017 quarter.

These add-on insurance products are distributed through three broad channels:

- directly through a Code subscriber’s employees
- indirectly through a Code subscriber’s authorised representatives
- indirectly through a Code subscriber’s other external sellers.

Only 9% of subscribers that sell add on insurance products use employees **only** and the remainder (91%) use a combination of employees, authorised representatives and other external sellers.

Figure 3 shows a detailed breakdown of these distribution channels.

There are important differences between the distribution channels in terms of:

- their coverage under the Code,
- the degree of oversight exercised over them by Code subscribers, and
- the type of advice models and sales processes used.

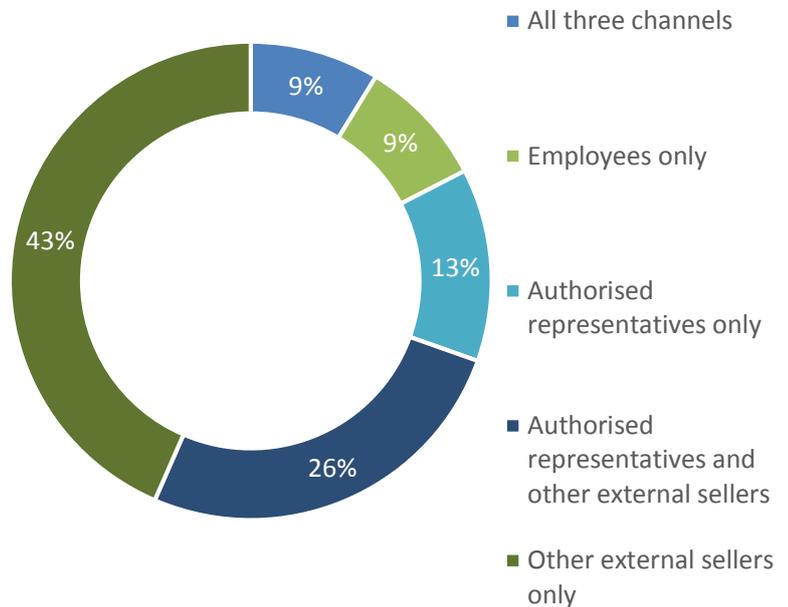
These three things combined have an impact how consumers are sold these products⁹.

The Committee found that Code subscribers almost exclusively distribute their add-on insurance products through external channels, across a varied range of entities mostly connected with the associated primary products.

Employees

Only 4 of the 23 Code subscribers who sell add-on insurance do so in whole or in part through their employees – that is, people employed by the Code subscriber or a related entity. The sale of add-on insurance by employees is covered by the Code.

Figure 3 –Distribution channels



⁹ See **Appendix 3** for a full breakdown of advice models.

Authorised representatives

An authorised representative is any person, company or other entity that a Code subscriber authorises to provide financial services on its behalf under the Code subscriber's Australian Financial Services licence, in accordance with the *Corporations Act 2001* (Cth).

Code subscribers engage a wide range of entities as authorised representatives, including finance companies; car, boat and motorcycle dealerships; and finance and insurance brokers; and road-side assistance members' clubs.

Just under half (11 of 23 or 48%) of those Code subscribers who offer add-on insurance products engage authorised representatives in their sale, usually alongside other external sellers and/or employees. Code subscribers are responsible for the conduct of their authorised representatives. They must ensure that authorised representatives are suitably trained and that they conduct sales and provide services in an efficient, fair and transparent manner. Authorised representatives must also comply with several Code standards that apply specifically to them.

Other external sellers

Other external sellers have not been authorised by Code subscribers to provide financial services on their behalf. Typically, they sell add-on insurance through their own Australian Financial Services licence in accordance with the *Corporations Act 2001* (Cth).

Other external sellers include:

- Australian Financial Services licensees and Australian Credit licensees acting under their own licences, including as insurance brokers, banks, credit unions, car dealerships and novated leasing companies.
- distributors¹⁰ appointed by the Code subscriber or another Australian Financial Services licensee to sell general insurance products, including motorcycle dealers, and
- group purchasing bodies acting under their own Australian Financial Services licence or an authorised representative of such a licensee, such as electronic device manufacturers and their retailers.

Most Code subscribers that offer add-on insurance products (18 of 23, or 78%) engage other external sellers in their distribution, either exclusively (10 of 23, or 43%) or in combination with authorised representatives and employees (**Figure 3**). Other external sellers are themselves subject to a range of legal and regulatory requirements and some also subscribe to relevant industry codes of practice. Importantly other external sellers are not covered by the Code and, thus, Code subscribers do not have the same level of responsibility for the conduct of other external sellers as they do for employees or authorised representatives.

¹⁰ In [ASIC RG 36 Licensing: Financial product advice and dealing \(RG 36.103\)](#), ASIC stated that "...licensees who are authorised to deal in basic deposit and general insurance products may appoint distributors to deal in these products on their behalf without the need to appoint the distributors as authorised representatives. However, those distributors must still be authorised by the licensee in writing." See ASIC Corporations (Basic Deposit and General Insurance Product Distribution) Instrument 2015/682: <https://www.legislation.gov.au/Details/F2015L01184>.

Distribution of different add-on insurance products

Add-on insurance products are sold almost exclusively by external sellers – authorised representatives and other external sellers – rather than by employees. In the July to September 2017 quarter, authorised representatives sold two-thirds (66%) of all add-on insurance products, while other external sellers were responsible for most of the remainder (31%). Employees of Code subscribers accounted for just a fraction of add-on insurance sales at 3% (**Table 2**), reflecting the low number of Code subscribers who use employees to sell these products.

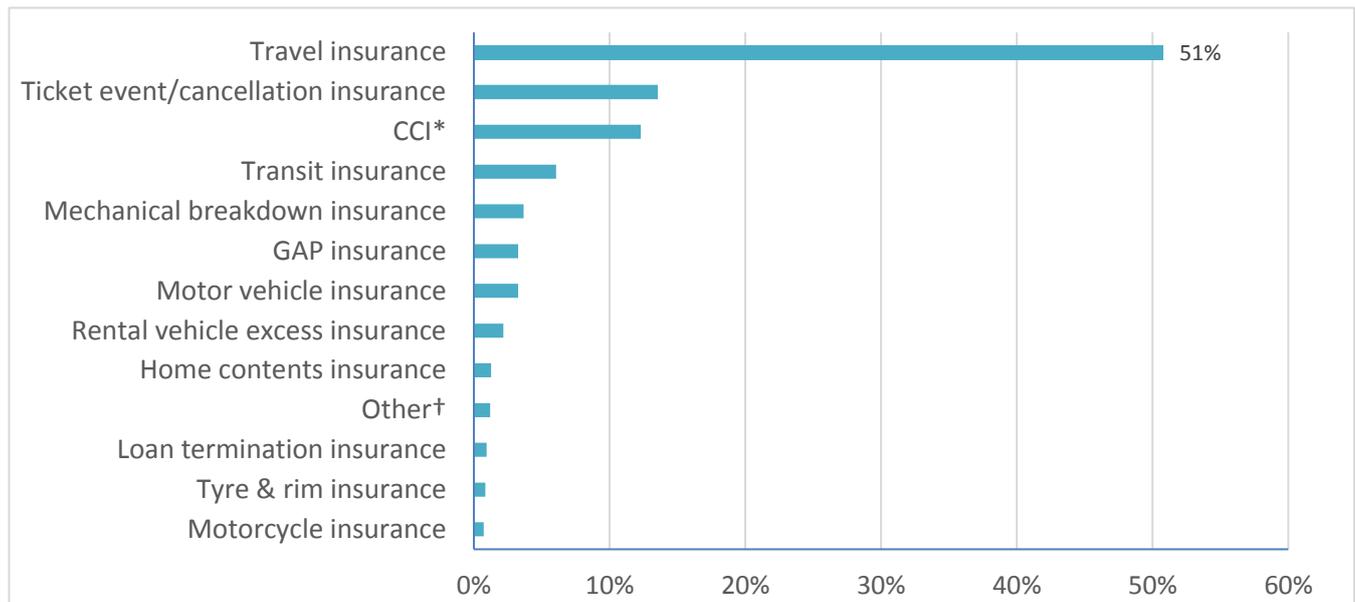
However, different add-on insurance products are associated with different distribution channels. Some are distributed largely or exclusively by a single type of seller, while others are distributed in a number of ways. **Table 2** shows sales and distribution channels for the 12 add-on insurance products with the highest volume of sales and **Figure 4** shows sales by type of product as a percentage of total sales, in the July to September 2017 quarter.

Table 2 – Add-on insurance products sales by distribution channel in July–September 2017

| Product | Employees | | Authorised representatives | | Other external sellers | | Total | |
|-------------------------------------|-----------------|-----------|----------------------------|------------|------------------------|------------|-----------------|---------------------|
| | No. of products | % | No. of products | % | No. of products | % | No. of products | % of total products |
| Travel insurance | | | 232,723 | 81% | 54,617 | 19% | 287,340 | 51% |
| Ticket event/cancellation insurance | | | 76,609 | 100% | 2 | <1% | 76,611 | 14% |
| CCI* | 15,173 | 22% | 6,719 | 10% | 47,603 | 68% | 69,495 | 12% |
| Transit insurance | | | | | 34,266 | 100% | 34,266 | 6% |
| Mechanical breakdown insurance | | | 15,395 | 74% | 5,344 | 26% | 20,739 | 4% |
| GAP insurance | 44 | <1% | 13,958 | 75% | 4,488 | 24% | 18,490 | 3% |
| Motor vehicle insurance | | | 419 | 2% | 18,028 | 98% | 18,447 | 3% |
| Rental vehicle excess insurance | | | 8,685 | 71% | 3,610 | 29% | 12,295 | 2% |
| Home contents insurance | | | 7,233 | 100% | | | 7,233 | 1% |
| Loan termination insurance | | | 4,420 | 84% | 838 | 16% | 5,258 | 1% |
| Tyre & rim insurance | | | 3,362 | 71% | 1,352 | 29% | 4,714 | 1% |
| Motorcycle insurance | | | 4,054 | 100% | | | 4,054 | 1% |
| Other† | 43 | <1% | 2,415 | 35% | 4,384 | 64% | 6,842 | 1% |
| All products | 15,260 | 3% | 375,992 | 66% | 174,532 | 31% | 565,784 | 100% |

* Includes hybrid CCI products; † Includes 12 other products each with sales of less than 4,000: motor vehicle – loss of personal effects; motor excess insurance; motor vehicle – hybrid GAP insurance; Motor vehicle – scratch and dent insurance; Novated motor vehicle lease insurance – CCI product; Transport package; Motor vehicle – cover for vehicle under a finance contract (CCI insurance); Pet injury insurance; Rental bond insurance; Accidental damage cover for mobile electronic devices; Jewellery insurance; Cargo insurance.

Figure 4 – Types of add-on insurance products sold (%) in July–September 2017



Travel insurance

By a wide margin, travel insurance is the most commonly sold add-on insurance product. In the July to September 2017 quarter, 287,340 add-on travel insurance products were sold, representing half (51%) of total add-on insurance sales.

Add-on travel insurance is sold exclusively by external sellers – a combination of airlines and travel agents who offer travel insurance to customers who are making arrangements to travel domestically or internationally. Most add-on travel insurance products (81%) are sold by airlines or travel agents acting as authorised representatives. The remainder of products (19%) are sold by other external sellers: travel agents acting as distributors under the Code subscriber’s Australian Financial Services licence; or as agents, distributors, referrers or authorised representatives of another Australian Financial Services licence-holding entity, such as an insurance underwriting agency.

Travel insurance is also available to consumers as a complimentary benefit of credit cards – commonly known as complimentary travel insurance – that consumers may reasonably regard as add-on insurance products. This is because consumers might decide to acquire a particular credit card on the basis that the credit card includes travel insurance as a complimentary benefit. The Committee did not have an opportunity to examine complimentary travel insurance products as part of this inquiry and will do so through its inquiry into travel insurance during 2018–19.

Ticket event or cancellation insurance

Ticket event and cancellation insurance was the second-most frequently bought add-on insurance product in the July to September 2017 quarter, accounting for 14% of all add-on insurance sold with 76,611 products.

Ticket event and cancellation insurance is offered for sale via external sellers who are ticketing retailers. It was sold almost exclusively by authorised representatives although one Code subscriber offers this type of insurance via other external sellers.

Consumer Credit Insurance (CCI)

CCI is the third largest category of add-on insurance, accounting for 12% of all sales or 69,495 products. CCI is also the most widely offered add-on insurance type, made available by 12 of the 23 Code subscribers that deal in add-on insurance.

Code subscribers largely use other external sellers to sell CCI products. Other external sellers, namely banks, credit unions and insurance brokers, accounted for 68% of CCI products sold. These other external sellers operate under their own Australian Financial Services licences and, unless they are a related entity of the relevant Code subscriber, sit outside the scope of the Code. Authorised representatives play a comparatively small role, accounting for just 10% of CCI sales.

Although most CCI is sold by external sellers, employees are responsible for a substantial 22% of sales. CCI is one of just three types of add-on insurance sold by employees, and makes up virtually all (99%) employee add-on insurance sales.

Transit insurance

The fourth largest category of add-on insurance, transit insurance, is sold exclusively by other external sellers. These include banks and credit unions operating under Australian Financial Services licences, as well as real estate agents and transport companies that act under the Australian Financial Services licence of an underwriting agency or broker.

Mechanical breakdown insurance and tyre and rim insurance

More than 20,000 mechanical breakdown insurance products were sold in the July to September 2017 quarter, making this the fifth largest category of add-on insurance.

Mechanical breakdown insurance is typically sold by authorised representatives, which accounted for 74% of sales in this category. This encompasses a wide range of entities: motor vehicle manufacturers, vehicle dealerships and dealership networks; boat and motorcycle dealerships; insurance brokers; and finance brokers, including automotive specialists. As authorised representatives, all of these sellers are within the scope of the Code. The remaining 26% of mechanical breakdown insurance products were sold by other external sellers – insurance brokers and motor vehicle finance companies – acting under their own Australian Financial Services licences and not covered by the Code.

Tyre and rim insurance is less common than mechanical breakdown insurance, but it is sold in much the same way. In the July to September 2017 quarter, Code subscribers sold 4,714 tyre and rim insurance products, exclusively via external sellers. Authorised representatives accounted for 71% of sales while other external sellers contributed 29%.

Car, motorcycle and other vehicle dealers – acting as authorised representatives or other external sellers – have a major role in the sale of add-on insurance. Alongside mechanical breakdown insurance and tyre and rim insurance, they typically offer CCI, GAP insurance, loan termination insurance, motor vehicle insurance and motorcycle insurance.

Guaranteed Asset Protection (GAP) insurance

Equal with CCI, GAP insurance is the most widely offered add-on insurance product, made available by 12 of the 23 Code subscribers who sell add-on insurance. With 18,490 products sold in the July to September 2017 quarter, it is the sixth most sold add-on insurance product.

GAP insurance is distributed by a combination of employees, authorised representatives and other external sellers. Three-quarters (75%) of all GAP insurance is sold by authorised representatives, ranging from finance brokers to car and other vehicle manufacturers, vehicle dealers and vehicle dealership networks. Most of the remaining GAP insurance (24%) is sold by a wide range of other external sellers, among them banks and credit unions, insurance brokers and novated leasing companies. Employees sold a small fraction (<1%) of GAP insurance in the July to September 2017 quarter.

Motor vehicle insurance

Some 18,447 add-on motor vehicle insurance products were sold in the July to September 2017 quarter and almost all (98%) were sold by other external sellers. These other external sellers comprised distributors operating under the Australian Financial Services licences of insurance brokers.

Loan termination insurance

There were 5,258 sales of loan termination insurance in the July to September 2017 quarter. This type of insurance is distributed exclusively by external sellers. Authorised representatives – comprising car and motorcycle dealerships, insurance brokers and finance brokers – sold most (84%) loan termination insurance. A motorcycle dealer network acting as a distributor – other external seller – accounted for the remainder of sales (16%).

Tracking future developments in the sale of add-on insurance

This is the first time that the Committee – or any other body – has collected detailed information about the range of add-on insurance products on the market, the insurers who offer these products, and the channels through which they are sold to consumers. The Committee intends to build on this work by regularly collecting, analysing and reporting on data about Code subscribers' add-on insurance sales, beginning in 2020. To prepare for this, Code subscribers will need to begin routinely collecting and recording this data.

Recommendation 2: Code subscribers should routinely record and collect data on add-on insurance products.

Code subscribers should collect data about add-on insurance products including data about the:

- number of products sold across each distribution channel (employees, authorised representatives and other external sellers)
- number of claims received, accepted and refused
- number and types of complaints received about and/or related to sales processes and services across each distribution channel
- number and types of complaints received about claims, including declined claims, and financial hardship, and
- total premium received and total benefits paid to consumers.

Problems with the sale of add-on insurance

Based on their casework with clients, consumer advocates have highlighted problems with add-on insurance products and how they are sold, particularly to vulnerable consumers. In some areas, the Code breaches identified by Code subscribers highlight similar issues.

While Code subscribers' complaints data indicates that issues can arise regardless of the distribution channel, consumer advocates' casework shows that it is external sellers – both authorised representatives and other external sellers – who are most often implicated in cases of serious consumer detriment.

Sales practices

Echoing some of the issues raised in ASIC's investigations into add-on insurance, consumer advocates have raised strong concerns about poor sales practices, including pressure sales and misleading and deceptive conduct. Code subscribers' breach reporting provides further evidence of some of these issues. Consumer advocates suggested specific improvements to sales practices while also arguing that the sales model should be more comprehensively overhauled with the elimination of commissions and the introduction of deferred sales.

Pressure sales

Consumer advocates report that many consumers say they felt pressured to buy add-on insurance. Pressure sales techniques described included 'wearing the customer down' with extended sales processes and suggesting that the customer will be unable to buy the primary product, or will not be granted finance, if they do not purchase the add-on insurance.

Consumer advocates argued that sellers should clearly explain that any add-on insurance is optional and affects neither finance approval nor the sale of the primary product.

Consumer advocates also expressed related concerns about other practices that prevent customers from making an active decision about whether to purchase add-on insurance. For example, add-on insurance may be sold on an opt-out rather than opt-in basis, with pre-ticked boxes signalling that the consumer agrees to the purchase.

Choice can also be prevented entirely when add-on insurance is sold bundled with the primary product. For example, where a car comes with a one-year warranty, consumers have no other purchase option and do not know how much the add-on insurance contributes to the total purchase price.

Consumer advocate client case study: Nathan's story

Nathan, who is in his thirties, is casually employed and has some health issues. Early in 2015, Nathan purchased a car through a finance company. The finance representative told Nathan he could only get the car loan if he also bought CCI and mechanical breakdown insurance, so Nathan agreed to both.

The insurance was of very little value to Nathan. He had been told that the insurance would cover him when he wasn't getting enough shifts at work. But when he went through a period without shifts and tried to make a claim, the insurer told him he could only make a claim if he lost his job.

The warranty was also of very little value to Nathan because of its extensive exclusions and the insurer's absolute discretion to deny any claim. Nathan was not given any of the terms and conditions documents when he signed the agreement, so he did not know what he was purchasing or when he would be able to make a claim.

Letters of demand on behalf of Nathan were issued to the insurer and the warranty company alleging unconscionable conduct, misleading and deceptive conduct, breach of the duty of utmost good faith, failure to provide a Product Disclosure Statement or Financial Services Guide, and inappropriate financial advice. The consumer advocate requested a refund of the premiums paid plus interest.

The insurer agreed to cancel the insurance policy and refund the premium. The warranty company agreed to cancel the warranty and refund the premium less the cost of roadside assistance claims made. Neither party refunded the interest paid on the premiums. Nathan is no longer required to continue paying premiums with interest incorporated into his car loan for the insurance and warranty products that were of very little use to him.

Where a finance company is selling add-on insurance as an authorised representative of a Code subscriber, it is subject to the same Code obligations. The sales process must be conducted in an honest, fair and transparent manner. However, this case study illustrates examples of pressure selling, misleading sales practices and the sale of add-on insurance which was of little value to the customer.

This case highlights the importance of Code subscribers providing appropriate training and education to authorised representatives, and conducting sufficient monitoring of external sales processes.

Misleading or deceptive conduct

Consumer advocates also raised concerns about misleading and deceptive sales conduct. For example, they described instances where salespeople either misled consumers about the benefits of a product, such as mechanical breakdown insurance, or added a product into the contract without asking the consumer first. In one example, a consumer was told that GAP insurance meant that if he could no longer afford repayments on his car, he could 'write it off' and claim on the comprehensive and GAP insurance.

Code subscribers' own breach reports for the July to September 2017 quarter also show some instances of inaccurate or misleading information being given to consumers.

One Code subscriber identified, via call monitoring, two separate breaches in which an employee gave a customer incorrect product information over the phone. Another Code subscriber reported a

breach involving potentially misleading product descriptions on an authorised representative's website (see **Table 3** on p. 32).

Consumer advocate client case study: Martha's story

Martha is a pensioner who has a modest \$25,000 mortgage secured over her home, obtained two years ago. She looks after her two grandchildren and money is tight. She realised each month she had a \$25 direct debit which she had thought was a payment to the mortgage.

When she queried the amount, she was told it was CCI over her mortgage. She remembered having declined CCI and was livid. When Martha questioned the bank, it reviewed her application, which showed that the CCI box had not been ticked. The bank offered her a full refund, but Martha was still distressed that she could have spent the money on electricity or other immediate needs.

This case study provides a clear example of poor sales practice, with a consumer being sold add-on insurance against her wishes. However, it also illustrates the issue of other external sellers, in this case a bank, who fall outside the coverage of the Code. This once again emphasises the importance of extending the Code to the sales practices and conduct of all external sellers.

Inadequate product information

At other times, consumer advocates report that products are explained inadequately or not at all. Salespeople sometimes give customers very vague explanations of a product's purpose and benefits – for example, the customer may have been told only that the insurance would give them 'peace of mind' in the event of illness or job loss that left them unable to pay their loan. Salespeople did not necessarily describe the products' key features, such as the events covered or benefit amounts, and customers were not told about alternatives to the add-on insurance being offered.

Consumer advocates also report that clients rarely understand that the add-on insurance products they purchase were sold to them on behalf of a particular insurer. In some cases, this information may not have been disclosed to the customer despite the subsection 5.3 requirement that this be done. In the July to September 2017 quarter, one Code subscriber reported a Code breach where an authorised representative failed to disclose this information (**Table 3**). To improve sales practices, consumer advocates suggested that consumers should be given more information about the product they are purchasing, including information about claims ratios.

Consumer understanding and awareness

As a result of these poor sales practices, consumer advocates report that consumers often have little or no understanding of the add-on insurance they have purchased. They are unaware of how much each policy costs; what risks are covered and excluded; and when or how they would be able to make a claim. Indeed, some consumers do not even know that they have bought add-on insurance, only becoming aware of it when they encounter financial difficulty and obtain advice from a financial counsellor or other advocate. Other consumers realise that they hold the cover but do not know that it is add-on insurance, instead believing it to be a standard feature of the finance product they obtained.

Product value and suitability

Again reflecting many of the same concerns raised by ASIC, consumer advocates reported that clients are sold add-on insurance products that are unsuitable for them. For some vulnerable customers, buying expensive add-on insurance – under which they may not even be eligible to make a claim – pushes them into financial hardship.

Ineligible to claim

Consumer advocates reported that as a result of poor sales practices, consumers buy add-on insurance products that are not suitable for them. This unsuitability is often due to conditions and exclusions that mean the consumer is ineligible to make a claim. For example, CCI may be sold to a customer who does not meet the employment requirements or has a pre-existing medical condition that precludes them from cover. The Committee has also received significant breach reports where add-on insurance was sold to customers who did not meet eligibility requirements.

Significant breach case study: an authorised representative sells a type of loan termination insurance to more than 700 ineligible customers

Over about three years to September 2014, the Code subscriber's loan protection insurance included a condition requiring that consumers with involuntary unemployment insurance must have been working for at least 20 hours per week at the time of a claim event. The Code subscriber's authorised representative was usually aware of whether a consumer met this requirement, because this information was collected as part of the loan application. Nevertheless, over the three-year period the authorised representative sold the add-on insurance product to 754 consumers who didn't meet the eligibility requirement – although none of these consumers had a claim declined as a result of this ineligibility.

After the issue was identified through an internal review, the authorised representative contacted all of the affected consumers and processed refunds where possible, paying a total of \$367,314.29 in remediation. The authorised representative did not receive a response from all affected customers, so the refunds owing were held and will be processed per unclaimed monies obligations.

To stop the issue occurring again, the Code subscriber made improvements to its regular product review process. It also updated its product design procedures to ensure that its product team engages with its claims and sales stakeholders.

The Committee found that the Code subscriber had breached the Code's requirement that sales processes be conducted in an efficient, honest, fair and transparent manner, and that appropriate remedial action had been taken.

Code subscribers' breach data provides further evidence of these issues. The most common breach type reported by Code subscribers in the July to September 2017 quarter was the sale of add-on insurance to customers who did not meet eligibility criteria. This accounted for 35 breaches of Code subsection 4.4 reported by two Code subscribers and all involving the conduct of authorised representatives (**Table 3**).

Table 3. Self-reported Code breaches related to add-on insurance in July–September 2017

| Issue | Code section | No. of breaches | No. of Code subscribers |
|---|--------------|---------------------------|----------------------------------|
| Customer sold product they were ineligible for | 4.4 | 35 | 2 |
| Premium not refunded within 15 days | 4.9 | 9 | 1 |
| Information not given to customer refused cover | 4.8 | 7 | 1 |
| Misleading information on website | 4.4 | 4 | 1 |
| Customer given incorrect product information | 4.4 | 2 | 1 |
| Failure to identify the product and Code subscriber | 5.3 | 1 | 1 |
| Education and training | 5.3 | 1 | 1 |
| | | Total: 59 breaches | Total: 8 Code subscribers |

Poor value

Add-on insurance products are also unsuitable where the consumer would receive little or no benefit under the policy. Examples include GAP insurance where there is little or no gap to cover; death benefits under CCI where the customer has no dependants; or low benefits relative to the premium paid – with premiums in some cases higher than the maximum benefit payable.

Consumer advocates reported that add-on insurance products are often very expensive relative to comparable products available outside the distribution network.

Consumer advocate client case study: Mary's story

When she was 22, Mary, an Indigenous woman living on a low income, bought a car for \$20,000. Mary had difficulty making repayments after a reduction in work and then a pregnancy in 2015. Mary fell about \$8,000 behind and was told she should refinance. By April 2016 Mary had repaid \$26,000 but still owed \$32,000. She surrendered the vehicle in November 2016 and the car sold for \$5,500. Mary then received a letter demanding \$29,500.

In examining the financing of the car, the consumer advocate found that Mary's finance company had made a number of serious breaches of responsible lending obligations, including failing to make reasonable inquiries about or take reasonable steps to verify Mary's financial situation, and failing to assess the contract as being unsuitable. As a part of the financing, Mary was sold insurance products that were bundled-in without disclosure of their details or proper assessment of their suitability. As part of the loan contract, Mary was sold CCI, mechanical breakdown insurance and GAP insurance totalling \$9,350. This meant a 36.7% increase in the financed amount, upon which Mary was paying 20.6% interest. When she contacted the consumer advocate, Mary could

not recall having been informed that she was being sold these insurance products, and wasn't aware that she had purchased them. The consumer advocate believed Mary's loan was unjust, unconscionable, harsh and oppressive. The company that submitted the loan on Mary's behalf has since had its licence cancelled.

This case study shows examples of poor sales practices, with a consumer being sold a number of add-on insurance products without her knowledge. The addition of the cost of these products to the loan amount put further financial pressure on an already vulnerable consumer.

In cases such as this if the external seller is a finance company selling add-on insurance as an authorised representative of a Code subscriber, they are covered by the Code's standards and the Code subscriber is responsible for ensuring they have the correct training and are conducting sales appropriately.

Add-on insurance products can add substantially to the cost of finance. For vulnerable customers on low incomes, high premiums make loan repayments even less affordable, placing them under financial pressure. Consumer advocates were critical of a lack of genuine responsible lending checks on the finance component of sales, including checks of whether the consumer can afford the add-on insurance products on top of the finance. They suggested that Code subscribers and external sellers should apply a suitability of insurance test when selling add-on insurance; offer non-financed options for the purchase of add-on insurance; and regularly review the suitability of the add-on products offered.

The Committee has a similar view to ASIC, that there should be limits on sales commissions for add-on insurance products so that consumers are protected from inappropriate selling practices and products. However, in March 2017 the Australian Competition and Consumer Commission (ACCC) denied authorisation to 16 insurance companies to agree to a cap of 20% on commissions paid to car dealers who sell their add-on insurance products. The ACCC suggested that insurers consider more effective solutions to the problems ASIC had identified. To the Committee's knowledge, insurers have not provided a response to date.

The Committee expects commissions to external sellers to be disclosed and clear. Code subscribers should also consider adopting a deferred sales model for add-on insurance products and voluntary equitable caps on commissions, to align them with the broader Code standards of fairness and transparency. In any event, the Committee considers that the most effective way to constrain excessively high sales commissions is by bringing all external sellers within the scope of the Code.

Recommendation 3: Code subscribers should explore and consider different methods for protecting consumers when buying add-on insurance

Code subscribers who use external sellers to offer and sell add-on insurance products should explore and consider other options for providing increased protection to consumers such as to:

- Adopt a deferred sales model for add-on insurance products.
- Clearly disclose the total cost of products to consumers.
- Clearly disclose all sales commissions paid to external sellers.
- Review sales commissions that apply to add-on insurance products to ensure they are fair and equitable.
- Place a cap on sales commissions where appropriate.

Where issues arise

Not all add-on insurance products attract concern from consumer advocates and regulators. However, add-on insurance sold with high-cost assets, primarily cars, seems to carry the highest risk of misselling and consumer detriment. Similarly, consumer advocate reports suggest that some distribution channels are particularly prone to issues – CCI, GAP and various vehicle-associated insurances. Code subscribers' internal complaints data also sheds some light on the relationship between distribution channels and consumer issues.

Products

Consumer advocates' reports about problems with add-on insurance focus entirely on those types of add-on insurance that ASIC has also singled out in its investigations. CCI, GAP insurance and mechanical breakdown insurance were identified as the insurances most commonly purchased by clients. Tyre and Rim insurance, another ASIC focus, was also mentioned. Consumer advocates also referred to the purchase of dealer-issued warranties, which are not a general insurance product,¹¹ and Windscreen cover. These add-on insurance products are sold alongside high-value assets, namely cars, and the associated finance products.

This report refers to mechanical breakdown add-on insurance products. These products are insurance products that cover the repair or replacement of specific parts where unexpected mechanical failure occurs – they typically apply after a manufacturer's or dealer's warranty has expired. Mechanical breakdown insurance is often called an "extended warranty", and consumers often confuse it with products that are described as 'warranties' or 'extended warranties' but are not insurance.

An insurance product (also known as an 'insurance policy') is a contract of insurance between an insured person (or corporation or other entity) and an insurance company (the insurer). The insurance product protects the insured person against the financial impact of defined risks in exchange for the payment of a specified sum (the insurance premium) to the insurer. The cost that flows from the occurrence of an unexpected risk covered by the insurance policy is distributed across a large pool of insured people who hold the same or similar insurance products. Insurance products are regulated in Australia by various laws and regulations including the *Insurance Contracts Act 1984* (Cth). Insurers are regulated by the Australian Prudential Regulatory Authority. Retail general insurance products are covered by the Code.

Warranties and extended warranties that are not insurance products are not covered by the Code. A warranty that is not an insurance product is defined by the ACCC as a voluntary promise or representation by a person or business who manufactured or sold a product to a consumer, or supplied a service, about the quality or the standard of the product or service. These voluntary warranties, which include warranties against defects and extended warranties (these lengthen the coverage of a manufacturer's warranty), are enforceable by consumers as a breach of contract, and are separate from automatic consumer guarantees available under Australian Consumer Law.¹²

¹¹ One consumer advocate expressed concern about an observed shift away from mechanical breakdown insurance towards dealer-issued warranties, which are excluded from ongoing ASIC action and fall outside the remit of the Financial Ombudsman Service.

¹² <https://www.accc.gov.au/consumers/consumer-rights-guarantees/warranties#what-is-a-warranty->

Interestingly, the most widely sold add-on insurance products – travel insurance and ticket event/cancellation insurance – did not attract any comment from consumer advocates. This probably reflects the much lower cost of these products, which makes serious consumer detriment far less likely.

Even so, as noted in the Committee’s recent report *General insurance in Australia 2016–17*, travel insurance – the sale of which has increased dramatically in recent years – has a higher declined claims rate than any other class of general insurance.¹³ The Committee observed that Code subscribers need to do more to ensure that customers understand how the travel insurance products they are purchasing work. This may also apply to authorised representatives and other external sellers who sell travel insurance as an add-on insurance product.

Distribution channels

Consumer advocates’ concerns have centred on certain types of external seller. Commonly, clients have purchased add-on insurance from car (or other motor vehicle) dealerships and second-hand car-yards: these likely comprise a mix of mainly authorised representatives and a proportion of other external sellers.

Banks and mortgage brokers – again likely comprising a mix of authorised representatives and other external sellers – were a second common source of client concerns. Other financial institutions, finance companies and retail department stores were also mentioned.

Code subscribers’ internal complaints data offers another source of insight into where issues arise in the sale of add-on insurance. Code subscribers received 635 complaints related to add-on insurance in the July to September 2017 quarter (**Table 4**).

More than half of these complaints (55%) concerned add-on insurance sold by employees, reported by three of the four Code subscribers who use employees. One third (6) of Code subscribers whose other external sellers sell add-on insurance products were notified of 161 (25%) complaints related to this distribution channel. Authorised representatives accounted for the remaining 19% (124) of complaints reported by 9 of the 11 Code subscribers who use them to sell their add-on insurance products.

Table 4 – Internal complaints about add-on insurance by distribution channel July–September 2017

| Complaints | Distribution channel | | | All sellers |
|---|----------------------|------------------------|----------------------------|-------------|
| | Employees | Other external sellers | Authorised representatives | |
| No. of complaints Code subscribers received | 350 | 161 | 124 | 635 |
| % of total complaints | 55% | 25% | 19% | 100% |
| No. of Code subscribers who received complaints | 3 | 6 | 9 | |

¹³ General Insurance Code Governance Committee, March 2018, *General Insurance in Australia 2016–17: Industry practice and Code compliance*, p. 31–2.

This distribution of complaints may reflect both the occurrence of issues and the accessibility of the complaints process across different distribution channels. Employees generated a disproportionate number of complaints about add-on insurance, accounting for 55% of complaints in the July to September 2017 quarter – well in excess of the 3% add-on insurance sales they accounted for in the same quarter. This may partly reflect the greater involvement of employees in the sale of CCI,¹⁴ one of the more frequently problematic add-on insurance types. However, it is also likely that Code subscribers' complaint handling processes are much more directly accessible to consumers dealing with employees.

Conversely, complaints about other external sellers indicate that issues do occur. Other external sellers are heavily involved in the sale of the five add-on insurance types that ASIC has identified as problematic, accounting for half of these sales in the July to September 2017 quarter (see **Table 2** on p. 25). Accordingly, as **Table 4** shows, other external sellers generated 25% of complaints about add-on insurance. While some consumers have clearly been able to access Code subscribers' complaints processes, two-thirds of Code subscribers that use other external sellers recorded no related complaints during the quarter – this may indicate that consumers complained directly to the other external sellers. The complaints data related to other external sellers is incomplete, because they are not required to notify Code subscribers of complaints they receive from consumers related to the sale of Code subscribers' insurance products.

Recommendation 4: Code subscribers should require other external sellers to notify them of complaints.

Agreements between insurers and other external sellers should require them to notify Code subscribers of all complaints that they have received, including complaint outcomes, related to the selling of their insurance products, and do so at least every quarter.

In the July to September 2017 quarter, authorised representatives accounted for 37% of sales in the higher-risk categories, and 19% of add-on insurance complaints to Code subscribers. Under the Code, authorised representatives must refer customer complaints to the Code subscriber. Three-quarters (75%) of the Code subscribers that use authorised representatives to sell add-on insurance received complaints about them. Consumer advocates also reported that complaints they had lodged with authorised representatives were referred to the insurer. This might suggest that the steps Code subscribers take to ensure that authorised representatives refer complaints (discussed on p. 46) are often effective.

As well as taking steps to ensure that employees and authorised representatives recognise and refer complaints to do with the sale of add-on insurance, the Committee notes that Code subscribers should draw on this valuable source of data to identify and address compliance issues.

¹⁴ Employees accounted for 13% of CCI sales in the July–September 2017 quarter. See Table 2 on p. 25.

Recommendation 5: Code subscribers should check that employees and authorised representatives recognise and refer complaints.

Code subscribers should monitor employees and authorised representatives to assess whether they:

- recognise complaints and record them appropriately
- for employees, internally refer complaints to the complaints process in a timely way, and
- for authorised representatives, refer complaints to Code subscribers and do this in a timely way.

Recommendation 6: Code subscribers should analyse complaints data to identify emerging issues and compliance gaps.

Code subscribers should analyse complaints data to determine if there are deficiencies in, or emerging issues related to, sales processes or the conduct of employees and authorised representatives when offering/selling add-on insurance products.

Code compliance measures

Code subscribers that sell add-on insurance through employees and authorised representatives must comply with a range of Code obligations, and must have appropriate frameworks for monitoring and ensuring compliance. Code subscribers can also influence and monitor the behaviour of other external sellers, although the Code does not require them to do so.

While Code subscribers generally have robust compliance approaches for employees, practice is more variable when it comes to authorised representatives and other external sellers, reflecting Code subscribers' different budgetary and systems capabilities.

Education and training

In compliance with Code standards, Code subscribers appear to have sound arrangements for training employees and authorised representatives who sell add-on insurance. Under subsection 5.1, Code subscribers are required to ensure that both employees and authorised representatives receive the education and training needed to deliver services competently and professionally. They must also keep training records. If the training provided by Code subscribers is to be effective, they should review and update it as needed.

The training that Code subscribers report providing or requiring meets the Committee's expectations.¹⁵ Code subscribers require employees and authorised representatives who sell add-on insurance to complete at least Tier 2 general advice accreditation, which is a regulatory obligation.¹⁶ At commencement and as needed, employees and authorised representatives receive training in the relevant systems and products. Formal training is delivered both online and face-to-face. This is complemented by learning from on-the-job experience. Code subscribers reported that they provide ongoing coaching and performance management, and that employees and authorised representatives are required to participate in Continuing Professional Development.

Code subscribers have mechanisms for ensuring that employees and authorised representatives complete training and acquire the necessary expertise before they sell add-on insurance products. Internal products and procedures (such as a professional standards manuals or learning matrices) set out general or role-specific competency and learning requirements. These are generally combined with review and monitoring processes such as training records audits, mystery shopping and quality assurance reviews. Some Code subscribers also have in-built system controls that prevent

¹⁵ Beyond a requirement the Code itself should be covered, the Code does not specify the nature of the education and training that must be provided to employees and authorised representatives.

¹⁶ There are two levels of compliance within *ASIC Regulatory Guide (RG) 146*: Tier 1 (higher) and Tier 2 (lower). Tier 2 General Insurance compliance is required for those who provide general and/or personal advice on insurance products. RG 146 is available from: <http://www.asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-146-licensing-training-of-financial-product-advisers/>

employees or authorised representatives from accessing systems or particular products until they have completed the requisite training.

The Committee recommends that all Code subscribers ensure that employees and authorised representatives receive training that addresses core topics, and that they only allow employees and authorised representatives to sell after they have completed such training.

Recommendation 7: Code subscribers should ensure that education and training of employees and authorised representatives meets minimum requirements.

Education and training provided to employees and authorised representatives, or that authorised representatives are required to receive, should cover:

- product knowledge—to ensure that products are only offered and sold to consumers who are eligible to buy such products
- the law—principles of general insurance law and relevant consumer protection laws
- complaints—recognising when a complaint has been made and how and when to escalate it internally (employees) or to Code subscribers (authorised representatives)
- the role—the scope of their roles and how to provide their services competently and professionally: what they can and cannot do and what they must do.

Recommendation 8: Code subscribers should only allow employees and authorised representatives to sell after they have completed all required education and training.

Code subscribers should not permit employees and authorised representatives to conduct sales services until they have successfully completed all required education and training.

Recommendation 9: Code subscribers' service level agreements should specify minimum education and training requirements for authorised representatives.

Code subscribers' service level agreements should specify:

- the nature of the education and training they require authorised representatives to receive or that they will provide to them, and
- authority to sell add-on insurance products will not be given until authorised representatives have successfully completed required education and training.

All Code subscribers (13) who use employees and/or authorised representatives to sell add-on insurance products, confirmed that they, or their authorised representatives, keep training records for at least five years, as required under Code subsection 5.5 (e). Most of the Code subscribers who use authorised representatives, confirmed that they keep and maintain training records for authorised representatives or stipulated in service level agreements that authorised representatives must do so.

Code subscribers typically have robust systems for maintaining training records. To deliver and record training, most use online systems equipped with automated alerts that prompt employees and authorised representatives to undertake training. These systems are overseen by dedicated training

and development teams who manually enter any face-to-face training and monitor training completion.

All Code subscribers should ensure that they have systems for checking that training has been completed and that training records are maintained and kept up-to-date.

Recommendation 10: Code subscribers should check that training of employees and authorised representatives is completed successfully and on time.

Code subscribers should:

- track completion of required training and follow up if training is not completed successfully or within the required timeframe, and
- ensure that employees and authorised representatives cannot begin selling add-on insurance products until they have successfully completed required education and training.

Recommendation 11: Code subscribers should check that training records of employees and authorised representatives are kept and that they are up-to-date.

Code subscribers should have robust frameworks in place to keep and maintain accurate records of training completed by employees and authorised representatives, and that these are accessible and being kept for at least five years.

If Code subscribers require authorised representatives to keep their own training records, then this requirement should be embedded in service level agreements. In addition, a review of training records kept by authorised representatives should be routinely conducted.

Code subscribers who sell add-on insurance via employees and/or authorised representatives have processes for reviewing and addressing gaps in training. Some conduct scheduled training reviews at regular intervals, while others review training ongoing and as necessitated by, for example, staff performance issues or changes to products, processes or regulations.

Of these Code subscribers, 2 review their education and training materials on a regular or ongoing basis while 11 had conducted reviews within the past six months. The remaining two Code subscribers had reviewed education and training materials within the past year and had scheduled further reviews during 2018.

As a result of such reviews, four Code subscribers had identified training gaps during the July to September 2017 quarter. Half of these gaps concerned the content of training, such as the need for an update specifying that customers may opt-out of all add-on insurance products. The remaining gaps had to do with Code subscribers' training development processes or their systems for allocating and recording training. In each case, the Code subscriber had rectified the gap identified or begun this process.

Control and monitoring

As part of their overall compliance frameworks, Code subscribers need to control and rigorously monitor compliance with the Code's requirements related to add-on insurance. While there are examples of good practice, there is room for some Code subscribers to improve and address gaps in their frameworks.

Controlling the sales process

Code subscribers have a core obligation to ensure that add-on products are sold – whether by employees or authorised representatives – in an efficient, honest, fair and transparent way. Those that use employees to sell add-on products generally have fairly robust and sophisticated frameworks in place to control and monitor sales behaviour. The level of oversight is generally quite high and the approach across these subscribers is relatively consistent. Often, monitoring is combined with system controls concerning customer eligibility, cross-sell options, disclosure documents and post-sale confirmation letters.

Subscribers that use authorised representatives, however, vary in how they control and monitor sales behaviour. Some Code subscribers have highly structured and robust frameworks in place while others are on the lower end of the spectrum and mainly rely on contract provisions and licensing obligations. They may have some activities in place such as basic training, compliance reviews and sales guidance. However, these are sometimes relatively weak because they are infrequent and not comprehensive.

To be effective, Code subscribers' arrangements with authorised representatives should combine pre-emptive measures to set expectations together with follow-up monitoring. As a starting point, therefore, Code subscribers' service level agreements with authorised representatives should set clear conduct expectations that reflect the Code's requirements.

Recommendation 12: Code subscribers' service level agreements should set out conduct expectations of authorised representatives.

Code subscribers' service level agreements should:

- set out the scope of authorised representatives' roles and authority
- set expectations of how authorised representatives should conduct themselves when carrying out services for Code subscribers, and
- reflect the Code standards that apply to the services that authorised representatives provide.

While add-on insurance products are often sold face-to-face or over the phone, some are sold online. Consumers purchase these add-on insurance products from authorised representatives (or other external sellers) via an online tool that is typically bolted onto a website that sells the primary product, such as airline tickets.

Authorised representatives sell some add-on products through online platforms with minimal human interaction. These platforms have highly structured underwriting rules and automated measures to prevent misselling. Subsequently, the level of oversight from the subscriber can be relatively minimal and may take the form of mystery shopping and periodic website reviews. The Committee reiterates the need for ongoing monitoring of these internet-based sales systems.

Recommendation 13: Code subscribers should regularly monitor internet-based sales systems.

Code subscribers should ensure that they regularly review the systems supporting internet-based sales processes, product information and other disclosure documents. If authorised representatives operate internet-based sales systems, Code subscribers should:

- embed a requirement in service level agreements that authorised representatives must obtain their approval before changing processes or product information and other disclosure documents, and
- review the updated material for compliance prior to going live.

Monitoring employees

Most Code subscribers monitor the conduct of employees who sell add-on insurance with a comprehensive range of activities. Much monitoring occurs as part of routine staff supervision and management. Some Code subscribers track employee performance against key performance indicators or 'success scorecards', which include both risk and customer service measures. Managers or leaders also monitor individual employees' performance via observation, call monitoring and review of file notes and documents.

Some Code subscribers' QA teams conduct monitoring activities such as site inspections, targeted reviews and call monitoring. Call monitoring can be combined with a review of associated file notes and documents, and may take in a range of compliance parameters such as anti-hawking, provision of correct information and complaint handling. Targeted spot audits are sometimes employed where a particular process or product risk has been identified, or in order to monitor compliance with a specific requirement.

Code subscribers also rely on more reactive identification of issues. For example, monitoring of post-sales metrics such as the number of cancellations within a set timeframe can highlight issues. Code subscribers also monitor incidents and customer complaints. One Code subscriber also described drawing on less formalised customer feedback via social media to access 'unfiltered' opinions about company performance.

The monitoring approach is relatively consistent across Code subscribers, and most have in place an effective mix of proactive and reactive monitoring activities. However, one Code subscriber relies only on reactive monitoring of employees, while another does not employ any reactive strategies, such as monitoring complaints, to identify issues with sales practices. Combining both approaches would strengthen these monitoring frameworks, enabling more issues to be identified more quickly.

Monitoring authorised representatives

Where any part of the sales process is outsourced to authorised representatives, Code subscribers should ensure they have effective monitoring systems to confirm Code compliance.

As they do for employees, most Code subscribers report that they have comprehensive monitoring in place including several formal compliance review and audit activities such as:

- quarterly agency compliance reviews conducted by QA specialists and involving compliance questions and file review

- six-monthly formal reviews drawing on information from performance reviews, call monitoring and training registers
- mystery shopping exercises and website reviews
- desktop and on-site audits.

Code subscribers also draw on feedback from customers in the form of complaints and survey feedback. They can also identify potential misselling and other issues by reviewing post-sales metrics such as cancellations in under 30 days, cancellation reasons and the sale of specific product combinations.

By combining proactive and reactive monitoring activities, Code subscribers give themselves wide scope to identify performance issues.

One Code subscriber referred to monthly compliance self-assessments by authorised representatives. However, Code subscribers should avoid relying on self-assessment alone. It is the responsibility of Code subscribers themselves to verify that their authorised representatives are complying with the relevant Code obligations. As a result, Code subscribers should objectively review authorised representatives' compliance to ensure that deficiencies are identified and addressed.

Recommendation 14: Code subscribers should strengthen and enhance the monitoring and compliance frameworks that apply to employees' and authorised representatives' conduct of services.

Code subscribers should avoid relying solely on employees or authorised representatives to self-assess their compliance.

Instead, Code subscribers should enhance and strengthen their compliance and monitoring frameworks to actively and regularly monitor the conduct of their employees and authorised representatives.

There are many ways that Code subscribers could do this, including through:

- continuous training and coaching on products, processes and systems
- sales scripts to support sales processes
- regular call monitoring and testing for quality
- performance improvement programs
- on-site visits
- incentive programs that encourage ethical and compliant conduct
- monitoring and oversight of key metrics such as reporting on and analysing data about and reasons for early policy cancellations, declined claims and complaints
- system controls for customer eligibility for the add-on insurance product, sending of disclosure documents, post-sale confirmation letters and for employee access to cross-sell options, and
- mystery shopping, website reviews and customer surveys.

The introduction of new sales processes introduces new and potentially unanticipated risks. Therefore, Code subscribers should intensify monitoring when new processes are first implemented in order to identify and rectify any compliance issues.

Recommendation 15: Code subscribers should intensify monitoring when new sales processes are introduced.

When new sales processes are introduced, Code subscribers should:

- monitor more intensively in the early stages to ensure that employees and authorised representatives understand the new processes and apply them correctly, and
- actively pursue feedback from employees and authorised representatives about any difficulties understanding new processes or applying them in practice.

Managing performance and giving feedback

When monitoring identifies performance issues, all Code subscribers have fairly effective performance management measures at their disposal.

Performance management programs include steps such as:

- action plans to address the poor performance
- increased observation of the employee
- regular meetings
- coaching or re-training
- warnings, de-accreditation or termination of employment
- exclusion from bonus programs, which can result in disciplinary action up to termination.

One Code subscriber gives managers discretion to manage employee performance issues with customised plans based on individual circumstances. There are guidance documents that assist managers to do this. This approach has the benefit of offering the flexibility to respond in tailored ways, but can lead to inconsistency across the business.

Code subscribers address poor performance by authorised representatives with the same measures that are applied to employees. Authorised representatives are given remedial training and monitored for a period. In extreme cases, agreements with authorised representatives are terminated.

More generally, 13 of the 23 Code subscribers that sell add-on insurance via employees and/or authorised representatives said that they give employees and authorised representatives feedback about compliance issues. Such feedback is given both at scheduled intervals and as needed. It can be formal – written feedback after an audit, for example – or informal.

Smaller organisations tend to use less formal and potentially more flexible feedback processes, while larger organisations have more formal arrangements. Many larger organisations have a business, account or relationship manager responsible for liaising with authorised representatives.

Recommendation 16: Code subscribers should provide regular feedback to employees and authorised representatives about non-compliance.

Code subscribers should provide feedback to employees and authorised representatives about identified non-compliance, why it occurred and what has been done to fix it, in a structured and timely way.

This will encourage employees and authorised representatives to report incidents and facilitate continuous improvement.

Reporting internally

Code subscribers rely on their ordinary compliance reporting structures to report internally on issues with the sale of add-on insurance by employees or authorised representatives.

Larger Code subscribers have more complex and structured reporting processes. They often have various risk and compliance committees that receive reports from teams and departments and feed information upwards to executive management or boards. In smaller organisations, however, there are fewer levels of reporting. For instance, in one small organisation, a sole director receives all reports.

Routine reporting typically takes place monthly, although some Code subscribers report only quarterly. Additionally, two Code subscribers said that they have procedures to report serious incidents to executive management or the board immediately.

As well as identifying non-compliance and reporting on it internally, it is crucial that Code subscribers analyse the root causes of non-compliance and address them so that issues do not reoccur.

Recommendation 17: Code subscribers should identify the cause of non-compliance and address it so that it does not reoccur.

Code subscribers should identify the cause of compliance failures and take appropriate action, such as:

- assess the impact of non-compliance including whether consumers have suffered any detriment (financial and non-financial)
- retrain authorised representatives and employees where non-compliance was related to a failure to follow processes/procedures or they were poorly understood
- fix flawed sales processes/procedures and retrain authorised representatives and employees, and
- review, revise and amend training where needed to ensure that it clearly explains what employees and authorised representatives must do when selling add-on insurance products.

Special requirements for authorised representatives

The Code places special requirements on authorised representatives to be transparent with customers and to refer customer complaints. To encourage and monitor compliance with these specific requirements, Code subscribers again employ a mix of pre-emptive and follow-up measures.

Notifying customers of the service and Code subscriber

When providing a service on behalf of a Code subscriber, authorised representatives must tell customers what service they are providing and on whose behalf they act. This requirement is one of several extra Code standards that apply specifically to authorised representatives.

To encourage compliance with this standard, Code subscribers employ pre-emptive measures that make clear to authorised representatives what is expected. Almost all (92%) of the 12 Code subscribers that sell add-on insurance through authorised representatives include this requirement in all service level agreements. It is also disclosed in Financial Services Guides and Product Disclosure Statements that must be given to the customer.

Written procedures such as compliance and standards manuals include instructions on disclosing this information to customers, and the requirement is covered in authorised representatives' training.

There is some variation in the extent to which these pre-emptive measures are followed up with monitoring. However, Code subscribers described a range of monitoring activities including on-site audits; file reviews to ensure the sales script was followed and Financial Services Guides provided; website reviews; customer follow-ups; and mystery shopping, both face-to-face and over the phone.

Facilitating customer complaints

Customers¹⁷ of Code subscribers are entitled to make a complaint about any aspect of the relationship, including complaints about authorised representatives who offer or sell add-on insurance. When an authorised representative receives such a complaint, they must notify the Code subscriber, who must handle the complaint under its own complaints process.¹⁸ This complaint notification requirement is another of the Code standards specific to authorised representatives.

To encourage compliance with this standard, most Code subscribers focus largely on pre-emptive measures. Again, almost all (92%) of the 12 Code subscribers include the complaint notification requirement in service level agreements with authorised representatives. Code subscribers also described building this requirement into systems and documents, for example:

- Financial Services Guides and Product Disclosure Statements describe the complaints procedure and must be given to the customer as part of the scripted sales process or, for online sales, disclosed on the website. Receipt is confirmed with a customer signature and details entered into a client notes document.
- Other customer-facing documents such as the policy schedule and correspondence tell customers to lodge any complaints with the Code subscriber.

¹⁷ In certain circumstances individuals who are not customers are also entitled to complain to Code subscribers. See section 8 Financial Hardship – <http://codeofpractice.com.au/document/8-financial-hardship>

¹⁸ Section 10 of the Code sets out an extensive, detailed framework of minimum standards that Code subscribers must implement for internal and external complaints and disputes handling: <http://codeofpractice.com.au/document/10-complaints-and-disputes>.

- Sales scripts include a requirement to immediately notify the account manager of any complaints.
- A single system is used by both employees and authorised representatives to lodge complaints.

Finally, these requirements, systems and documents are reinforced with training, written guidance (such as a manual) and ongoing meetings and coaching.

Recommendation 18: Code subscribers’ service level agreements should require authorised representatives to notify Code subscribers of complaints and inform customers of services.

Code subscribers’ service level agreements with their authorised representatives should reflect the Code standards that apply to their services, including that they must:

- notify Code subscribers of complaints they have received while acting on behalf of the Code subscriber (subsection 5.2), and
- inform consumers about the services they have been authorised to provide and the identity of the Code subscriber they are representing (subsection 5.3).

Code subscribers generally appeared to place less emphasis on measures to monitor compliance with the complaint notification requirement. However, some described steps such as:

- reviewing compliance to assess awareness of and compliance with complaint handling procedures
- conducting call monitoring, quarterly file audits and on-site audits
- addressing any issues, including complaints issues, in regular meetings.

A strong compliance framework should include a mix of pre-emptive measures to communicate expectations and monitoring measures to ensure that authorised representatives are complying in practice. Although the Code does not specify a timeframe for complaint notification, 11 of the 12 Code subscribers that use authorised representatives to sell add-on insurance require complaints to be referred within a specified timeframe. Of these, half (50%) require immediate notification; 4 (33%) allow complaints to be referred within 24 hours or by the next business day; one allows up to seven days; and one requires notification as soon as reasonably practicable.

Recommendation 19: Code subscribers’ service level agreements should set out a timeframe for authorised representatives’ referral of complaints to Code subscribers.

Service level agreements should require authorised representatives to notify Code subscribers of complaints within two business days.

Other external sellers

Some Code subscribers have taken steps to influence other external sellers’ conduct and provide feedback on any compliance issues that arise. The actions of these subscribers go beyond what the Code requires of them, and the Committee sees this as good industry practice which builds on the spirit and provisions of the Code: these examples of positive practice should be adopted by all Code subscribers that use other external sellers.

Influencing other external seller conduct

The Code does not apply to other external sellers and consequently, there is wide variation in the extent to which Code subscribers are involved in these other external sellers' sales processes. Around three-quarters (77%) of the 18 Code subscribers that engage other external sellers to sell add-on insurance have contractual arrangements that provide some influence over other external sellers' marketing and/or sales.

For example, some agreements require the other external seller to gain Code subscriber approval for all marketing material, sales scripts and/or sales processes – giving the Code subscriber a high level of influence over these activities. Some Code subscribers, however, only provide guidance on these activities, and thus have a low level of influence. At the end of the scale, 4 Code subscribers' contractual arrangements did not give them any influence over other external sellers' marketing and sales processes.¹⁹

Part of this variation in the level of control and influence over other external sellers reflects differences in Code subscribers' systems and budgets. Understandably, each has unique system and resourcing constraints that must be considered within the context of their particular distribution network and its size and complexity. Nevertheless, this fragmented environment exposes consumers to a greater risk of detriment, in turn threatening the reputation of the insurance industry.

Recommendation 20: Code subscribers should approve other external sellers' sales processes and related material.

Code subscribers' agreements with other external sellers should include a requirement that other external sellers seek their prior approval for all marketing material, sales scripts and/or sales processes related to the selling of their insurance products.

Reporting internally and giving feedback

Code subscribers also differ in their arrangements for giving feedback to other external sellers about any compliance issues that are identified, and for reporting internally on these issues. Positively, all but one of the 18 Code subscribers that sell add-on insurance through other external sellers have some process for providing such feedback. The same number of Code subscribers reports any issues with the conduct of other external sellers to its board or executive management.

A number of Code subscribers have feedback arrangements with external sellers similar to those with authorised representatives. These Code subscribers have appointed a business manager, account manager or relationship manager to liaise with external sellers, passing on any feedback to the external seller concerned. This is often done both ad hoc in response to specific issues and regularly as part of a structured process. For example, one Code subscriber holds regular meetings with other external sellers including a quarterly governance forum at which compliance issues are discussed and, if necessary, action plans agreed. Such feedback processes go beyond the Code's requirements and are examples of positive industry practice.

¹⁹ Some in this group answered 'yes' to this question but the Committee's analysis of these contractual arrangements did not suggest any actual influence.

Recommendation 21: Code subscribers should require other external sellers to notify them of compliance issues and to work together on action plans.

Agreements between Code subscribers and other external sellers should:

- require other external sellers to notify Code subscribers of compliance issues, including identified non-compliance, related to the selling of their insurance products on at least a quarterly basis
- require other external sellers to work with Code subscribers on the development and implementation of appropriate action plans to address such compliance issues, and
- if significant non-compliance has been identified, require other external sellers to notify Code subscribers within 10 business days of identification.

Recommendation 22: Code subscribers should report issues affecting other external sellers to their Boards or executive management.

Code subscribers should internally report issues related to the conduct of other external sellers to their Board of Directors or executive management on at least a quarterly basis.

Glossary

Defined terms from the Code

Authorised representative means a person, company or other entity authorised by **us** to provide financial services on **our** behalf under **our** AFS licence, in accordance with the Corporations Act 2001.

Code means the General Insurance Code of Practice 2014.

Complaint means an expression of dissatisfaction made to **us**, related to **our** products or services, or **our Complaints** handling process itself, where a response or resolution is explicitly or implicitly expected.

Employee means a person employed by **us** or by a related entity that provides services to which this **Code** applies.

Insured means a person, company or entity seeking to hold or holding a general insurance product covered by this **Code**, but excludes a **Third Party Beneficiary**.

Retail Insurance means a general insurance product that is provided to, or to be provided to, an individual or for use in connection with a **Small Business**, and is one of the following types:

- (a) a motor vehicle insurance product (Regulation 7.1.11);
 - (b) a home building insurance product (Regulation 7.1.12);
 - (c) a home contents insurance product (Regulation 7.1.13);
 - (d) a sickness and accident insurance product (Regulation 7.1.14);
 - (e) a consumer credit insurance product (Regulation 7.1.15);
 - (f) a travel insurance product (Regulation 7.1.16); or
 - (g) a personal and domestic property insurance product (Regulation 7.1.17),
- as defined in the Corporations Act 2001 and the relevant Regulations.

Small Business means a business that employs:

- (a) less than 100 people, if the business is or includes the manufacture of goods; or
- (b) otherwise, less than 20 people.

we, us or **our** means the organisation that has adopted this **Code**.

you or **your** means an **Insured** or **Third Party Beneficiary**, or as otherwise stated in relation to a particular section of this **Code**.

Other defined terms

Add-on general insurance products are “added on” to the sale of a **primary product**. For simplicity we use the term “add-on insurance products”.

Complaints process means a Code Subscriber’s internal complaints process in accordance with subsections 10.3 to 10.19 of the Code.

External sellers mean persons, companies or entities who are not **employees** of a Code Subscriber and are engaged to distribute its **add-on insurance products**. **External sellers** comprise **authorised representatives** and **other external sellers**.

Organisation means the organisation that has adopted the **Code**.

Other external sellers mean persons, companies or entities who are not **employees** or **authorised representatives** of a Code Subscriber and are engaged to distribute its **add-on insurance products**.

Primary product means the product which is the main focus of a consumer’s purchasing objective. Examples of a **primary product** are a car or a credit facility.

Questionnaire means a set of questions designed to capture Code subscribers’ responses and supporting documents relevant to the inquiry. We have built the **questionnaire** into our portal and replicated it in this document.

Appendices

Appendix 1. Code subscriber questionnaire

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested.

A: Overview of add-on general insurance products

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 and 5.5.

1. Does your **organisation** offer for sale (including through **intermediaries**) **add-on general insurance products**?
[Please select ONE only]
 - Yes - please go to question 2.
 - No - you are not required to complete the remainder of this Questionnaire. You will be taken to the end of the Questionnaire to complete your submission.

2. 2(a) List the types of **add-on general insurance products** that your **organisation** offers for sale:

[Please select ALL that apply]

| | Offered by employees | Offered by authorised representatives | Offered by other intermediaries |
|--|----------------------|---------------------------------------|---------------------------------|
| Consumer credit insurance (CCI) | | | |
| Guaranteed asset protection (GAP) insurance | | | |
| Hybrid CCI products | | | |
| Loan termination insurance | | | |
| Mechanical breakdown insurance | | | |
| Tyre and rim insurance | | | |
| Other [please provide details below in 2(b)] | | | |

2(b) If you have selected “Other” in 2(a) please list the types below:

3. In relation to the **add-on general insurance products** listed in response to question 2, are any of these products available to purchase from your **organisation** or **intermediaries** at a time after consumers have acquired the **primary product**?
[Please select ONE only and provide comment where necessary]

Yes - please list the relevant products

No

4. Please provide the following data for the period 1 July 2017 to 30 September 2017 in relation to **add-on general insurance products**:

| | Please state the number and types of add-on general insurance products sold |
|---|---|
| 4(a) by your organisation | |
| 4(b) by authorised representatives | |
| 4(c) by other intermediaries | |

B: Distribution channels for the sale of add-on general insurance products

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.3, 4.4 and 5.5.

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested.

You may upload supporting documents at the end of this section.

5. List the types of **authorised representatives** and/or **other intermediaries** that offer your **organisation's add-on general insurance products**:

5(a) Types of **authorised representatives**

5(b) Types of **other intermediaries**

6. Select the type of advice model used by your **organisation** when offering **add-on general insurance products**:

[Please select ALL that apply]

| | When offered by employees | When offered by authorised representatives | When offered by other intermediaries |
|-----------------------|----------------------------------|---|---|
| General advice model | | | |
| No advice model | | | |
| Personal advice model | | | |

C: Education and training for employees and authorised representatives who offer add-on general insurance products for sale

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 to 4.10 and 5.1(a) to 5.1(d).

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

7. Describe the nature of the education and training that your **organisation** provides to **employees** and/or **authorised representatives**, or requires them to receive, to provide their services competently and deal with consumers professionally:

7(a) Education and training for **employees**

7(b) Education and training for **authorised representatives**

8. Describe how your **organisation** ensures that **employees** and **authorised representatives** complete the required education and training before permitting them to offer add-on general insurance products for sale:

8(a) Ensuring that **employees** have completed required education and training

8(b) Ensuring that **authorised representatives** have completed required education and training

9. Describe how your **organisation** ensures that **employees** and/or **authorised representatives** only provide services that match their expertise:

9(a) Ensuring that **employees** only provide services that match their expertise

- 9(b) Ensuring that **authorised representatives** only provide services that match their expertise
10. For the period 1 July 2017 to 30 September 2017 describe any gaps that your **organisation** identified in the education and training of **employees** and **authorised representatives** and the steps it will implement or has implemented to remedy these.
11. How often does your **organisation** review the education and training materials and requirements for **employees** and **authorised representatives**?
12. When did your **organisation** last review its education and training materials and requirements for **employees** and **authorised representatives**?

D. Efficiency, honesty, fairness and transparency in sales processes and services provided by employees and authorised representatives who offer add-on general insurance products for sale

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.3 to 4.10 and 5.1(a) to 5.1(d).

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

In addition to any other supporting documents please include:

- screening of consumer eligibility prior to offering an add-on general insurance product
 - applications for cover (including online)
 - scripting for face to face and telephone interactions
 - information about cooling off and cancellation rights
 - information about or relating to the cost of add-on general insurance products
 - insurance certificates/schedules.
13. Describe how your organisation ensures that its employees and authorised representatives conduct sales processes and services in an efficient, honest, fair and transparent manner:
- 13(a) **employees** – ensuring their conduct is efficient, honest, fair and transparent
- 13(b) **authorised representatives** – ensuring their conduct is efficient, honest, fair and transparent
14. In relation to **other intermediaries** who offer your **organisation's add-on general insurance products**, do your **organisation's** contractual arrangements enable it to influence and/or contribute to the way in which they market such products and/or conduct their sales processes and/or services?
- [Please select ONE only and provide comment where necessary]*
- Yes. Please comment on what these contractual arrangements enable your **organisation** to do.
 - No

E: Monitoring performance of employees and authorised representatives who offer add-on general insurance products for sale

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 to 4.10, 5.1(c) and 5.1(d).

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

15. Describe how your organisation monitors the performance of employees and authorised representatives who offer add-on general insurance products for sale:

15(a) Monitoring performance of **employees**

15(b) Monitoring performance of **authorised representatives**

16. Describe how your **organisation** addresses any performance shortcomings of employees and authorised representatives who offer add-on general insurance products for sale:

16(a) Addressing the performance shortcomings of **employees**

16(b) Addressing the performance shortcomings of **authorised representatives**

F: Education and training records of employees and authorised representatives who offer add-on general insurance products for sale

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 to 4.10 and 5.1(e).

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

17. Does your **organisation** keep training and education records for at least five years? [Please select ALL that apply]

| | For employees | For authorised representatives |
|-----|----------------------|---------------------------------------|
| Yes | | |
| No | | |

18. If your **organisation** requires **authorised representatives** to keep their own education and training records (in addition to or instead of by your **organisation**), is this reflected in their service level agreements?

- Yes
- No – Please describe how your **organisation** ensures that **authorised representatives** keep their own education and training records.

19. Describe your **organisation's** requirements for maintaining, reviewing and updating education and training records of employees and authorised representatives:

19(a) Requirements for maintaining, reviewing and updating education and training records of **employees**

19(b) Requirements for maintaining, reviewing and updating education and training records of **authorised representatives**

G: Other obligations that apply to Authorised Representatives who offer add-on general insurance products for sale

The key standards of the 2014 General Insurance Code of Practice are: subsections 5.2, 5.3 and 10.3.

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

20. 20(a) Describe how your **organisation** ensures that **authorised representatives** notify it of all **complaints** they receive against them while they are acting on its behalf.

20(b) Is the requirement to notify your **organisation** of such **complaints** reflected in **authorised representatives'** service level agreements?

[Please select ONE only]

- Yes
- No

21. 21(a) Does your **organisation** require **authorised representatives** to refer **complaints** to it within a specified timeframe?

[Please select ONE only and provide comment where necessary]

- Yes. Please comment on what the specified timeframe is.
- No

21(b) If you responded 'Yes' to question 21(a), is the specified timeframe for referral of **complaints** reflected in **authorised representatives'** service level agreements?

[Please select ONE only]

- Yes
- No

22. Does your **organisation** handle all such **complaints** under its **complaints process**?

[Please select ONE only and provide comment where necessary]

- Yes
- No. Please describe the circumstances (if any) in which **your organisation** would not handle such complaints under its **complaints process**.

23. 23(a) Describe how your **organisation** ensures that **authorised representatives** notify a customer that they are providing a service on its behalf.

23(b) Is the requirement to notify a customer that **authorised representatives** are providing a service on behalf of your **organisation** reflected in their service level agreements?

[Please select ONE only]

- Yes
- No

H: Internal complaints data about add-on general insurance products

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 to 4.10, 5.1 to 5.3, 5.5 and 10.3.

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

24. Please provide the following data for the period 1 July 2017 to 30 September 2017 in relation to **add-on general insurance products**: *[numerical data only]*

| | |
|---|--|
| 24(a) Number of complaints about or related to add-on general insurance products , sales processes and services provided by employees | |
| 24(b) Number of complaints about or related to add-on general insurance products , sales processes and services provided by authorised representatives | |
| 24(c) Number of complaints about or related to add-on general insurance products , sales processes and services provided by other intermediaries | |
| 24(d) Total number of complaints your organisation received about or related to add-on general insurance products , sales processes and services | |

I: Monitoring activities during the period 1 July 2017 to 30 September 2017 relating to the sales processes and services for add-on general insurance products

The key standards of the 2014 General Insurance Code of Practice are: subsections 4.4 to 4.10, subsections 5.1(c), 13.2 to 13.4.

When responding to questions, please provide all relevant supporting documentation, including specific examples where relevant or specifically requested. You may upload supporting documents at the end of this section.

25. In relation to the sales processes and services for **add-on general insurance products**, describe the nature of the monitoring your **organisation** conducted during the period 1 July

2017 to 30 September 2017, to ensure **employees** and **authorised representatives** complied with the relevant 2014 Code obligations.

26. In relation to the sales processes and services for **add-on general insurance products**, has your **organisation** identified any instances of non-compliance with the relevant 2014 Code obligations during the period 1 July 2017 to 30 September 2017?
[Please select ONE only]
- Yes. If your **organisation** has identified non-compliance please complete and upload the Non-compliance report (provided with our communications pack).
 - No
27. In relation to the sales processes and services for **add-on general insurance products**, describe how your **organisation** reports to its Board of Directors or Executive Management on issues concerning the conduct of **employees** and **authorised representatives** and Code compliance.
28. Does your **organisation** report to its Board of Directors or Executive Management on issues concerning the conduct of **other intermediaries**?
[Please select ONE only]
- Yes
 - No
29. Does your **organisation** provide feedback to **employees** and **authorised representatives** about non-compliance issues, including non-compliance identified by the Code Governance Committee and the outcomes of internal and external complaints processes?
[Please select ONE only and provide comment where necessary]
- Yes. Please comment on how your **organisation** provides feedback.
 - No
30. Does your **organisation** provide feedback to **other intermediaries** about areas of concern that it has identified?
[Please select ONE only and provide comment where necessary]
- Yes - Please comment on how your organisation provides feedback.
 - No

J: Additional information

31. If your **organisation** would like to provide any other information, supporting documents or comment in response to this research or **add-on general insurance products** more broadly, please provide it below.

Appendix 2. Consumer advocate questionnaire

1. What were the most important issues you identified concerning your clients' experiences when they were offered or bought add-on insurance products?
2. What is the most common form of add-on insurance product that your clients purchased?
3. Who did your clients purchase add-on insurance products from?
4. How common is it for your clients to be aware that they were purchasing add-on insurance products?
5. Was the purpose of add-on insurance products explained to your clients?
6. If you or your client lodged a complaint against an insurer's authorised representative, was the complaint referred to the insurer?
7. If your clients bought add-on insurance products from an authorised representative, were they aware that they were being provided a service on behalf of the relevant insurer?
8. What could insurers or their authorised representatives have done better?
9. Have you noticed any difference in the way in which insurers or their authorised representatives currently deal with you or your clients in relation to add-on insurance products? If yes, what are the differences?
10. Are there any further comments you would like to make about add-on insurance?

Appendix 3. Advice models

Table 5. Advice models by distribution channel*

| Advice model | Employees | Authorised representatives | Other external sellers |
|-------------------------|-----------|----------------------------|------------------------|
| General advice*** | 4 | 9 | 9 |
| No advice model | n/a | 3 | 11 |
| Personal advice model** | 1 | 1 | 1 |

* Code subscribers may use more than one advice model in each distribution channel.

ASIC Regulatory Guide 175 (paragraph 175.39) provides the following definitions:

** Personal advice model – advice given to a person is personal advice 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 these matters.

*** General advice model – all other financial product advice (not falling within the definition of personal advice) is general advice.