

Monday September 12, 2016

Insurers propose enhancements to add-on insurance products

Insurers will seek to cap commissions for the sale of add-on insurance products sold through motor dealers as they upgrade sales processes and improve value for customers.

Add-on insurance products are policies bought in addition to a motor vehicle purchase, and cover financial losses connected to that item. Often sold through car dealers, they can include consumer credit insurance, gap insurance, mechanical breakdown, and tyre and rim insurance.

Insurance Council of Australia CEO Rob Whelan said the changes stemmed from lengthy engagement with the Australian Securities and Investments Commission (ASIC), which today released a report into add-on general insurance products distributed through motor dealers.

“The ICA and its members are working to introduce measures to address ASIC’s concerns about these products and sales practices,” Mr Whelan said. “Insurers agree the sales process could be improved to assist consumers make better decisions on insurance.”

Measures proposed by the industry include:

- A transition to capping commissions at 20 per cent (subject to approval by the Australian Competition and Consumer Commission) to reduce incentives for inappropriate sales practices
- Enhanced disclosure to ensure customers better understand the policies they are buying
- Better communication with customers post-sale
- Enhanced sales systems to identify and prevent sales to customers who would receive limited benefit from them
- A financial literacy initiative by the industry to improve understanding of insurance questions that may come up when buying a vehicle

Mr Whelan said he was confident these changes, once approved and implemented, would enhance the protection and value consumers received from add-on products.

“Add-on insurance policies play a role in protecting consumers when they make some of the biggest purchases of their lives,” he said. “They can protect policyholders who lose jobs, become sick or injured, or write-off their vehicles, from potentially crippling debts. However, insurers agree that improvements can be made.

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“Add-on insurance products are a small part of the overall general insurance market and generate few disputes. The initiatives being undertaken by general insurers highlight again how a self-regulatory approach, in cooperation with the regulator, can deliver effective outcomes for policyholders.”

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