



Mr Gavin Jones  
Director  
Adjudication  
Australian Competition and Consumer Commission  
23 Marcus Clarke Street  
CANBERRA ACT 2601

By email: [adjudication@acc.gov.au](mailto:adjudication@acc.gov.au)

13 October 2016

Dear Mr Jones

**[Aioi Nissay Dowa Insurance Company Australia Pty Ltd & Ors: A91556 – A91557](#)**

The Insurance Council of Australia (the Insurance Council)<sup>1</sup> appreciates the opportunity to comment on the Aioi Nissay Insurance Company Australia Pty Ltd & Ors applications for authorisation, A91556 – A91557 (the authorisation application). As the peak industry association representing general insurers, the Insurance Council was closely involved in the development of the industry’s proposal, the subject of the authorisation application, to implement a cap on commissions for add-on insurance products distributed through the motor vehicle dealer channel (the channel).

The Insurance Council is strongly supportive of the proposal, which will provide significant benefits to consumers of insurance products distributed through the channel. As such, the Insurance Council submits the authorisation application should be considered favourably by the Commission and approved.

The range of general insurance products distributed through the channel plays an important role in protecting the financial security of consumers. When consumers purchase a new or used motor vehicle from a dealership, they may be offered a number of related financial products at or around the time of purchase. These include insurance in relation to finance obtained to purchase a motor vehicle (such as consumer credit and gap insurance) or insurance relating to the motor vehicle itself (such as extended warranty and tyre and rim insurance). These “add-on” insurance products provides consumers with the convenience of purchasing insurance together with the product that may need protection.

These products are particularly valuable when consumers and their families are at their most vulnerable, for example in the event of death, sickness, injury or involuntary unemployment.

---

<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2016 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$43.9 billion per annum and has total assets of \$122.6 billion. The industry employs approximately 60,000 people and on average pays out about \$124.0 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

The Insurance Council submits that it is important for consumers to be able to consider whether to buy these products when purchasing a motor vehicle through a dealership.

Over the past six months, the industry has actively engaged in a review by the Australian Securities and Investments Commission (ASIC) into general insurance products distributed through the channel. The findings from this review were published by ASIC on 12 September in its Report 492, *A market that is failing consumers: The sale of add-on insurance through car dealers*.

The report outlined a range of improvements that should be made to the design, distribution and sales of add-on products sold through the dealership channel. In particular, ASIC identified a market dynamic characterised by “reverse competition” as resulting in insurers paying higher commissions to access this distribution channel. ASIC is concerned that the higher commissions paid to motor vehicle dealerships results in reduced value to consumers where these costs are reflected in higher premiums. There is also a concern that commissions may incentivise inappropriate sales conduct.

The industry acknowledges ASIC’s concerns and is committed to improving the consumer experience. As well as the proposal to cap commissions, the industry has developed a package of reforms to improve consumer outcomes, including:

- Strengthening of sales systems to identify and prevent sales to consumers who would receive little or no benefit from the products;
- Refunds for future customers who buy policies they were unable to substantially benefit from at the time of purchase;
- Strengthening of dealership training on compliance and systems to ensure that appropriate conduct is clearly defined;
- Independent reviews of insurer compliance and risk management procedures relating to products distributed through the dealership channel;
- Regular review of policy inclusions and exclusions to maximise product coverage for the benefit of consumers;
- More effective point of sale disclosure designed with insights from behavioural economics research and strengthened post sale communication practices;
- Offering consumers financed and non-financed premium payment options;
- Strengthening the General Insurance Code of Practice to ensure continued high standards of service are maintained; and
- A new financial literacy initiative to increase consumer understanding of add-on insurance products.

While all of these complementary initiatives will substantially improve consumer outcomes, their full impact will not be realised without a reduction in commissions as proposed. The Insurance Council concurs with the public benefits of lowering prices and better value for consumers of implementing a cap on commissions as identified in the authorisation application.

We acknowledge that implementing a cap on commissions will have an impact on the motor dealer industry through reduced remuneration from commission payments. However, in the absence of voluntary reform to commission payments, there is a risk that a regulatory solution that restricts the sale of add-on insurance through this channel will have a greater impact on the motor dealer industry.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on (02) 9253 5121 or [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au).

Yours sincerely



Robert Whelan  
Executive Director and CEO