

NAB SUBMISSION

Treasury consultation – reforms to the sale of add-on insurance products

National Australia Bank Limited (**NAB**) welcomes the opportunity to respond to Treasury's consultation on reforms to the sale of add-on insurance.

NAB provides customers with access to general insurance (including home, motor, travel, business insurances), debt protection and life insurance products through a variety of distribution channels (bank branch, contact centre, online/digital) and models (banker-assisted purchase, banker referral to insurer, customer self-directed online/digital purchase).

The reforms proposed by Treasury are an important step towards ensuring greater consistency in the delivery of improved customer outcomes. In this context, NAB notes the further consultation to be undertaken on Royal Commission recommendation 4.1 – *no hawking of insurance products*, due to be completed by June 2020. NAB believes it is important that this subsequent consultation considers the current consultation on add-on insurance.

NAB also notes the upcoming Design & Distribution Obligations, which will require product issuers to develop target markets for products and distribution arrangements aimed at ensuring customers take out products consistent with their likely objectives, financial situation and needs.

TIER DESIGN AND SCOPE OF THE DEFERRED SALES MODEL

Please provide evidence as to why a particular type of add-on insurance product should reside in a particular tier. This could include details of the sales process, claims ratios and distribution channels for different add-on insurance product lines. As per Commissioner Hayne's final report, exemptions should only arise where there is overwhelming quantitative evidence of product value and consumer understanding.

NAB supports the proposed tiered deferred sales model and has limited its response to the insurance products currently offered via NAB distribution channels.

NAB supports a separation between customers obtaining a primary product and any add-on insurance product where they are acquired in the same channel. NAB also agrees with the distinction that has been drawn where a customer chooses to purchase insurance products online at any time without the need for a deferral period (i.e. a 'stand-alone' purchase). For instance, customers should be able to obtain a loan via a bank branch and then, separately but on the same day if desired, purchase debt insurance online. This would require controls within an assisted channel (for example a branch or call centre) to ensure the online insurance purchase is customer initiated and does indeed occur separately.

NAB agrees with the importance of balancing the benefits of deferring the sale on add-on insurance with consumer needs and preferences and believes the insurance products (as relevant for NAB) should fall into the following tiers:

Tier 1	<ul style="list-style-type: none">○ NAB agrees with the proposal that add-on insurance products to be deemed Tier 1 are regulated through ASIC's use of the Product Intervention Power.
Tier 2	<ul style="list-style-type: none">○ Consumer Credit Insurance (CCI) for bank loans○ Travel Insurance

Tier 3	<ul style="list-style-type: none"> ○ Home Insurance ○ Landlord Insurance ○ Contents Insurance ○ Motor/Car Insurance ○ Caravan & Trailer Insurance ○ Business Insurances (e.g. building, equipment, Public Liability)
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Proposed Tier 3 products

NAB supports the proposal to exempt comprehensive motor insurance from a deferred sales model, and believes this exemption should extend to certain other general insurance products (in particular home, contents, third party motor insurance, caravan and trailer insurances). Mandating a deferral period for these products could place customers at significant financial risk.

There is a level of risk to customers that on acquiring the associated asset with cash or finance (some of which can be obtained with same day finance), that a forced delay in the offer or purchase of insurance could see the customer with a debt or loss for an asset that is written-off or significantly diminished in value.

Industry claims ratios for these products show that customers receive ongoing value, as evidenced by APRA's Quarterly General Insurance Statistics for the financial years 2011-2018, which indicate the following loss ratios: 89 cents in the dollar for domestic motor insurance and 59 cents for home and contents insurance. This can be compared with 47 cents for travel insurance and 24 cents for CCI products.

Customers often proactively seek insurance for these proposed 'Tier 3' asset types, suggesting customers have a genuine need for these products and understand the value of these products. For instance, 46 per cent of general insurance (i.e., home, contents, motor insurance) purchases at NAB in the past 12 months have been customer-initiated.

In NAB's experience, different customers show different preferences or behaviours in how they access the proposed 'Tier 3' general insurance products. For instance, over the past 12 months, NAB customers who have purchased general insurance through NAB channels have shown the following channel preferences:

- 54 per cent – bank branches;
- 32 per cent – customer-initiated inbound phone call;
- 12 per cent – customer-initiated online purchase; and
- 2 per cent - customer call back requested.

NAB notes that products will be exempted from the deferred sales requirements where they are required under law as a condition of the primary product purchase. In relation to property insurance, NAB draws attention to the APRA requirement (APG 233) that mortgage customers are required to have insurance on the property offered as security for the loan.

Outside the scope of 'add-on insurance'

NAB seeks confirmation that Complimentary Credit Card Travel Insurance falls outside the scope of the proposed reforms, given that: the insurance benefit is an 'value-add' feature of the credit card; customers do not pay a premium for this insurance benefit; and as such, this feature neither represents pressure-selling nor poor value.

NAB also distributes simple life insurance (for example, the NAB 'Essentials' range) which may be bought online as a self-directed purchase with no advice. Advised life insurance (Life, Critical Illness, Income Protection, Total & Permanent Disablement) is typically obtained by seeking personal advice from a financial adviser. NAB would consider both forms of life

insurance (and their associated distribution models) to be outside the scope of add-on insurance, noting that the purchase of life insurance typically occurs on a stand-alone basis, but may often occur at or around the same time as another purchase, for example a home loan.

Proposed Tier 2 products

NAB supports the recommendation that CCI should reside in Tier 2.

NAB also believes Travel Insurance should reside in Tier 2, given the lower loss ratio and the variance to benefits and pricing across distribution channels (for example, travel insurance “added-on” to an airline ticket purchase versus stand-alone). NAB also believes the customer risk of underinsurance in the case of travel is lower in comparison with property and wheeled assets.

Distribution of Insurance at NAB

General Insurance:

NAB offers general insurance via two models:

- Product Sales – NAB currently offers customers the proposed Tier 3 products (outlined above) via our bank branches and online (customer initiated). Policies can be quoted and purchased on the spot, including on the same day that the primary product is purchased.
- Product Referrals – NAB currently offers customers a referral for general/business insurance products (including travel insurance) via our bank branches or contact centre. Customers can choose to:
 - be referred to our preferred insurance partner (the Insurer) on the same day;
 - request a call back from the Insurer at a time that suits them (typically 1-day deferral);
 - or
 - call the insurer at any time.

Consumer Credit Insurance (CCI):

- As at December 2018, NAB ceased selling any form of CCI directly via all banking channels.
- As at June 2019, NAB implemented a referral model with our insurance partner (the Insurer). In our referral model:
 - Where a NAB customer (with or applying for a home loan) consents to discussing their insurance needs, a NAB banker refers the customer to NAB’s Concierge service.
 - NAB Concierge calls the customer the next day and if the customer consents to discussing debt insurance, NAB Concierge refers the customer to the Insurer.
 - Prior to calling the customer, the Insurer sends the relevant insurance documents (PDS and FSG) by email and SMS. This communication enables the customer to opt-out of further contact if desired.
 - Assuming the opt-out option is not chosen, the Insurer then phones the customer 4 days later to discuss debt insurance (under general advice).
 - The referral process has been designed to ensure a separation of the primary product from the add-on insurance product and a minimum deferral period of 4 days.

TRIGGER EVENT

Please provide feedback on how this trigger would correspond to your current business practices in selling add-on insurance products. This could include information on the number and frequency of customer touchpoints in the sales process and/or at what point in the process financial commitments are typically made by consumers.

NAB supports the proposed deferral period of 4 days for 'Tier 2' products.

NAB supports the proposed trigger event. Further to the customer touchpoints for sales processes outlined above, NAB agrees it is important that the proposed trigger event considers circumstances where consumers are not required to make a financial commitment or agree to purchase the primary product when lodging an application for finance. This comes later via the execution of a loan contract. In the case of a property/asset purchase, consumers do not make a concrete decision to purchase or acquire the primary product (e.g. home loan) until they sign their loan contract. This can often occur within 1 to 2 days of the customer's intended settlement date for the associated asset. This is a further reason why NAB believes Tier 3 products should include insurance products relating to buildings and wheeled assets.