

9 October 2019

Manager, Insurance Team
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

BY EMAIL: addoninsurance@treasury.gov.au

Dear Treasury

Reforms to the sale of add-on insurance products

The Australian Financial Complaints Authority (AFCA) welcomes the proposed reforms outlined by Treasury in its proposal paper of 9 September 2019. Whilst we consider the unsolicited sale of financial products should be prohibited, we support measures to implement an industry-wide deferred sales model for add-on insurance products.

We consider this would be a significant step towards enhancing consumer protections and is consistent with recommendation 4.3 made by Commissioner Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The proposal for the deferred sales model recognises that there is a distinction to be made between informing consumers and selling to them. It also recognises that financial firms should not be selling to consumers before they have informed them and given them appropriate time to consider the information and their own circumstances. Similarly, the proposal confirms that consumers are able to take positive steps to pursue the sales process if they are inclined to do so, but only after they have had a chance to reflect on the information available and their circumstances.

In our experience, the sale of add-on insurance products, in particular when sold at the same time the primary product is acquired, increases the opportunity for a financial firm or their associates to take unfair advantage of, or exert undue influence over, a consumer. This significantly increases the likelihood of the consumer being sold an insurance product that doesn't meet their needs or offers little to no value for them. As noted by ASIC, by combining the sale into one process, it restricts the capacity of consumers to make rational and informed decisions.

AFCA is pleased to see reform occurring and we consider that these measures will enhance the fair delivery of financial products and services by financial firms to consumers.

It is essential that financial products and services are provided in a manner which promotes fairness in order to restore trust in the financial services industry. A financial firm should always be open and honest with consumers, ensuring that their products and services are fit for purpose and provide value and benefit to the consumer. Importantly, financial firms should always be ethical and professional in their dealings with consumers.

If you have any queries or would like further information, please do not hesitate to contact Michelle Kumarich, Senior Manager on (03) 9613 7387 or by email at mkumarich@afca.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Locke'.

David Locke
Chief Ombudsman and Chief Executive Officer
Australian Financial Complaints Authority