30 September 2019

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

Via email: AddOnInsurance@treasury.gov.au

Dear Sir/Madam

Submission – Reforms to the sale of add-on insurance products

By way of introduction, ALI Group is a leading provider of risk protection to Australian home and property buyers. Since 2003 we've protected close to 200,000 Australians with over $53 billion in cover and have paid $102 million in claims.

Our adherence to best practice objectives including good product design, quality supervision and monitoring, an unpressured sales environment and our extensive post-sale engagement with policyholders, along with our longevity and our expertise in the add-on insurance market, means that we are well placed to provide input to the implementation of the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and the Government's proposal for an industry-wide deferred sales model for add-on insurance products. We are appalled by some of the practices that have recently emerged and agree that significant changes are required to reinstate consumer confidence in our industry. We look forward to contributing to that outcome.

Our mission is to protect Australian home and property buyers from financial hardship. We have chosen this mission as we believe many Australians who enter the property market, particularly first home buyers, are financially vulnerable to a prolonged disruption to their income. To achieve that mission, we have a close affiliation with the mortgage broking industry and more than 4,500 mortgage brokers nationwide are authorised under our Australian financial services licence (AFSL) to offer our products. We are also currently working with other participants in the home loan market to extend our reach and help address Australia's underinsurance problem. Due to the sensitivity of this strategy, further information and some of our more detailed feedback has been appended and where noted, we request this be kept confidential at this time.

Request for feedback – Please provide evidence as to why a particular type of add-on insurance product should reside in a particular tier.

We agree with the proposal of a tiered deferred sales model approach as detailed and understand the overarching aim of ensuring informed purchasing decisions of quality insurance products in an unpressured sales environment.

ALI Group | Suite 4.02, 151 Castlereagh Street Sydney NSW 2000
GPO Box 4737 Sydney NSW 2001 | Phone 1800 006 776 | Fax 1800 260 860 | Email service@aligroup.com.au
A.L.I. Group Pty Ltd ABN 42 101 330 036 | Australian Life Insurance Administration Pty Ltd ABN 95 103 157 768
Australian Life Insurance Distribution Pty Ltd ABN 31 103 157 811

Tier 1: We fully support ASIC intervention powers to investigate, remedy and/or remove products from the market which are clearly detrimental to consumers. We will not make a detailed comment on this as ASIC intervention powers are not the core focus.

Tier 2: Given some of the continued poor sales practices observed in recent times and despite the concerns raised by ASIC in Report 256, we can appreciate the desire to allocate all 'add on' insurances to this Tier 2 category. There is a risk however that the proposed deferred sales approach will exacerbate the risk of under insurance in Australia as most consumers, left to their own devices, will not adequately consider the purchase of insurance because, as well documented in various insurance industry analysis, consumers generally view most forms of insurance as a grudge purchase. So even though an insurance product has been well designed with a great customer value proposition, the deferred sales period will in our experience, lead to a lower insurance uptake.

Consideration of a product's purpose, the level of direct linkage to the credit product and the risk coverage will therefore be prudent before implementing a carte blanche approach for Tier 2. By way of example, personal loan or credit card protection insurance is clearly an add-on insurance as the product covers the payment of a customer's personal loan or credit card repayments if they are unable to work due to illness or injury. The payout is directly tied to the credit product given the benefit is paid by the insurer directly to the credit provider in the first instance and the insurer no longer has the liability at the expiry of the credit liability of the policy holder.

In contrast, other insurance products are fundamentally different in that the policy benefit is genuinely owned by the policy holder and is tangential to the credit product in that the risk coverage survives the expiry of the credit liability. In addition, the insurance provided are for critical health events, death and terminal illness diagnosis. With these products, the cover can be amended or cancelled as the individual circumstances change independent of their credit liability.

A deferred sales model may be appropriate for the former but would not be for the latter.

It is with this background that we welcome the Tier 3 exemption being considered.

Tier 3: Where a product and its distribution model have been well designed to provide good consumer value and to support consumer understanding, then allocation to this Tier 3 will be far more likely to enable our country's underinsurance issue to be addressed. We believe that allocation of a product to Tier 3 should occur on a case by case basis after consideration by ASIC of the relevant criteria as specified in the consultation paper: value for money, product competition, the effectiveness of design specification aims to address underinsurance and the likelihood of consumer understanding. Additionally, ongoing consumer support and communication by the product provider and/or distributor, along with future flexibility of the product (for instance, the ability for the consumer to amend or cancel the policy without penalty) would also be important criteria for consideration in assessing Tier 3 allocation.

In the UK, Canada and NZ, mortgage brokers and branch lenders have personal risk (life, trauma, and total and permanent disability) insurance as an important part of their business offering. What's critical is that the products are high quality, competitive and offered in a monitored and compliant manner. And again, we emphasize the importance of post-sales communication and policy flexibility as circumstances change.

ALI Group | Suite 4.02, 151 Castlereagh Street Sydney NSW 2000
GPO Box 4737 Sydney NSW 2001 | Phone 1800 006 776 | Fax 1800 260 860 | Email service@aligroup.com.au
A.L.I. Group Pty Ltd ABN 42 101 330 036 | Australian Life Insurance Administration Pty Ltd ABN 95 103 157 768
Australian Life Insurance Distribution Pty Ltd ABN 31 103 157 811

In Australia, distribution of individual life insurance (as opposed to group life) is largely restricted to the financial planning channel. Only a small percentage of Australians, particularly under the age of 45 years, access financial planners due to time and costs. With the recent changes introduced around financial planner education and compliance, the cost of advice will increase resulting in even less consumers accessing planners.

Mortgage brokers and bank home loan lenders therefore have an even more critical role to educate consumers about life event risks and are in a position to arrange simplified, affordable and quality life insurance.

These personal risk insurance products are therefore not an add-on insurance in the same vein as the CCI products contemplated by the various reviews and the Royal Commission.

We have provided further detail about how we believe ALI Group products should be assessed in our Appendix A (Confidential).

Request for feedback – ***<u>Please provide feedback on how this trigger would correspond to your current business practices in selling add-on insurance products.</u>***

As explained in the attached information about our business, ALI offers consumers life and trauma insurance within the context of them reaching an important life stage of purchasing, refinancing or renovating a property. Most commonly this is linked to a life stage change – whether it be getting married, starting a family or just generally looking to build an asset base.

Credit advisers such as mortgage brokers, bank branch home loan lenders and other mortgage originators are at the fulcrum of this property and life stage moment and are well placed to have this critical life stage discussion, which is typically not an 'add on' discussion as an adjunct to the home loan. Rather this discussion flows from the relationship formed between a credit adviser and their client over several interactions in person and over the phone.

It would be inappropriate therefore to restrict such an important discussion to a similar process as that of CCI products contemplated by the various reviews and the Royal Commission and any such restriction of discussion and process as contemplated in Tier 2 will without doubt add to Australia's current under-insurance problem for life and critical illness insurance.

ALI Group is pleased to have been able to provide this submission for consideration by Treasury and would be pleased to provide further clarification or feedback to assist with the formulation of the final reforms. Please contact the writer on 0403 062 004 or juliannemcknight@aligroup.com.au.

JULIANNE MCKNIGHT
Head of Compliance & Risk

ALI Group | Suite 4.02, 151 Castlereagh Street Sydney NSW 2000
GPO Box 4737 Sydney NSW 2001 | Phone 1800 006 776 | Fax 1800 260 860 | Email service@aligroup.com.au
A.L.I. Group Pty Ltd ABN 42 101 330 036 | Australian Life Insurance Administration Pty Ltd ABN 95 103 157 768
Australian Life Insurance Distribution Pty Ltd ABN 31 103 157 811