Reforms to the sale of add-on insurance products

Allianz submission to Treasury proposal paper

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1. EXECUTIVE SUMMARY

Allianz Australia (**Allianz**) supports, in certain cases, the introduction of a deferred sales model (**DSM**) where this would assist consumers to make more informed purchasing decisions about their insurance needs. In order for the reforms to empower consumers as intended, an appropriate balance must be struck between facilitating more informed decision-making and ensuring that insurance remains accessible to consumers when and where they need to purchase cover. Allianz is deeply concerned that the reforms outlined in Treasury's Proposal Paper, *Reforms to the sale of add-on insurance products* (the **Proposal Paper**), does not achieve this balance and may actually cause consumer detriment if not appropriately refined.

Allianz submits that the broad scope of the reforms is inconsistent with all of the relevant reviews which have suggested that regulatory intervention in the form of a DSM is warranted, and on which the recommendation of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the **Royal Commission**) was based. 'Add-on' insurance is not a distinct category of insurance – the only common characteristic shared by products being described as such in the Proposal Paper is that the insurance is sold alongside another primary product. Given that most insurance is, in effect, covering a 'primary product', the proposed definition broadens the scope of 'add-on' insurance to effectively encompass all insurance products sold through an intermediary that sells the related primary product. This is regardless of whether the insurance or the sales environment have any of the characteristics that the Australian Securities and Investments Commission (**ASIC**), and others, have identified as having the potential to result in poor consumer outcomes.

Allianz submits that the reforms should be refined by creating a regime that gives ASIC the power to 'turn on' the DSM (i.e. determining when the products are a Tier 2 product), rather than applying the DSM by default. This would enable ASIC to consider the needs of consumers in different markets, and tailor the DSM accordingly. The criteria on which ASIC determines the need to apply the DSM should be explicitly outlined in the law, without hindering ASIC's ability to flexibly respond to changes in products and markets. Allianz submits that this approach is consistent with the Royal Commission recommendation.

Based on the factors that led to poor consumer outcomes in the sale of add-on insurance through the motor dealer channel, Allianz suggests the following criteria should be used by ASIC in determining when a DSM should apply:

- i) the product is not a commonly purchased general insurance product and therefore not well understood by consumers;
- ii) there is no direct market for that product or consumers are not generally aware they can purchase the product directly;
- iii) the product is complex or assessing product value is complex (for example, where the premium is financed);
- iv) the insurance is a high cost product (i.e. ratio of premium to sum insured) and likely to lead to significant consumer detriment if mis-sold;
- v) there is evidence that consumer decision-making is impeded by the sales environment (for example, high cancellation rates may be indicative of poor purchasing decisions); or
- vi) the need for cover is not immediate and a DSM would not result in a 'gap' in insurance or non-insurance altogether.

The outcomes from the model we suggest may not diverge significantly from the approach proposed by Treasury whereby all products considered to be 'add-on' are captured by default. ASIC would still be empowered to determine that the DSM should apply to a broad range of products. However, our approach is fundamentally more consumer-centric by enabling the distinct characteristics of the diverse range of ‘add-on’ insurance (under the proposed all-encompassing definition) to be considered and, therefore, for the DSM to be designed to actually cater to the needs of consumers.

Finally, the definition of add-on insurance should be refined so it does not inappropriately capture home building and contents insurance sold through banks. We do not understand how these products can possibly be conceived to be ‘add-on’ insurance or how introducing a DSM would actually improve consumer outcomes.

2. REFORMING TO IMPROVE CONSUMER OUTCOMES

Allianz supports the introduction of a DSM where consumer decision-making would be assisted with a pause in the sales process and this genuinely benefits consumers. While it is critical that consumers are empowered to make informed choices, it is equally important that insurance is accessible to consumers when and where they wish to purchase cover or need to purchase cover because their risk of loss commences immediately on the purchase of the primary product (e.g. travel insurance). Allianz is concerned that the reforms outlined in the Proposal Paper do not achieve this balance, and may actually cause consumer detriment if not appropriately refined.

2.1. Implementing the Royal Commission recommendation

Allianz submits that the broad scope of the reforms is inconsistent with all of the relevant reviews which have suggested that regulatory intervention in the form of a DSM is warranted, and on which the Royal Commission recommendation was based.

The Proposal Paper suggests that add-on insurance should be defined as products that are offered or sold at the same time as when a consumer purchases the primary product or acquires finance for which the insurance covers associated risks, and by default, a DSM should apply to all add-on insurance. In effect, such a broadly scoped definition would capture most insurance products that are intermediated, which as a lone criterion is not informative of the consumer purchasing experience or the product value, nor is it indicative that there are problems that need to be addressed. The context in which a DSM was originally proposed must be considered to properly implement the Royal Commission recommendation as the Commissioner intended.

ASIC's review into add-on insurance sold through motor dealers focused on products that provided ancillary cover, or were 'added on', to comprehensive motor insurance (e.g. tyre and rim insurance) or the loan associated with the purchase of a motor vehicle (e.g. consumer credit insurance (**CCI**) and guaranteed asset protection (**GAP**) insurance). ASIC's report remains the most comprehensive review conducted to date and its underlying premise that comprehensive motor insurance is not an 'add-on' product would equally apply to many other classes of insurance; such as home building and contents, motorbike, caravan and boat insurance.

ASIC's conclusion that a DSM was warranted for motor add-on products was widely supported by the industry. In addition, ASIC's review into CCI sold through financial institutions has resulted in the industry voluntarily agreeing to implement a DSM through the General Insurance Code of Practice. For those add-on products, ASIC has undertaken comprehensive reviews, enabling insurers to conclude that a DSM is required and likely to lead to positive consumer outcomes.

Similar to ASIC's review, the Productivity Commission (**PC**) largely focused on 'add-on' insurance distributed through motor dealers and CCI distributed through financial institutions. The PC suggested that the characteristics which led to poor consumer outcomes in these markets may also be present in other markets and recommended that a Treasury-led working group should establish which add-on insurance markets should be subject to a DSM. Fundamental to this approach is the need to properly investigate each market (i.e. the type of insurance and its associated distribution environment) to determine that a DSM would actually benefit consumers. Proper analysis of each market is also necessary to ensure the design of the DSM is tailored to the needs of consumers in each market. The PC recognised that a one-size-fits-all model is unlikely to be effective in improving consumer outcomes.

The Proposal Paper suggests that add-on insurance products and associated sales processes have received widespread scrutiny from ASIC, the PC and the Royal Commission. Indeed, ASIC has comprehensively reviewed motor dealer add-on products and CCI, for example, by conducting research into consumer experiences and investigating consumer outcome metrics to inform the design of a DSM. However, such analysis is lacking for the broad range of products that will be captured as proposed. Indeed, ASIC's submission to the Royal Commission only supported the introduction of a DSM for motor add-on products and CCI sold with credit cards and personal loans. While the General Insurance Code Governance Committee (**CGC**) considered a broader range of products in its review, it also acknowledged that its survey of consumer advocates only identified issues with motor add-on products and CCI[1].

The Proposal Paper suggests that intermediated sales are less regulated than the direct sale of insurance because some 'external sellers' are not subject to the strict licensing obligations and enforcement requirements that insurers operate under. This is incorrect. All intermediated sales are subject to the licensing requirements under the *Corporations Act 2001*; intermediaries are either authorised under the insurer's Australian Financial Services Licence (AFSL) as an Authorised Representative or General Insurance Distributor[2], or are distributing products under their own AFSL. There is no difference in how the consumer protections apply to direct and intermediated sales, including the important statutory right to a cooling off period.

Some entities (for example a sporting club) may arrange for their members to be covered under a group policy as third party beneficiaries. These entities are subject to a licensing exemption[3]; are these the unlicensed parties Treasury is referring to? Individuals covered under group policies are not contracting insureds, and may or may not pay separately for the insurance. For example, an individual may join a sporting club and pay a membership fee, which provides that individual with access to insurance cover. Another example is a removalist company that purchases a group policy to cover goods in transit and charges their customers a fee for access to the insurance. It is unclear how or whether the DSM would apply to group insurance policies.

In supporting the recommendation of the PC, Allianz submits that the Royal Commission intended for Treasury to undertake a more comprehensive analysis into the various products where a DSM may be warranted. A DSM presents a regulatory solution that addresses a very specific set of problems and may not always be the most effective regulatory solution. Regulation for the sake of regulation should not be pursued at the expense of policy-making rigour that genuinely considers the needs of consumers.

2.2. Clarifying the problems the reforms seek to address

The Proposal Paper notes that there are no jurisdictions that have an industry-wide DSM for add-on insurance products. This is because add-on insurance is not a distinct category of insurance – the only common characteristic as described in the Proposal Paper is that the insurance is sold alongside another primary product. However, defining the reforms based on this one shared characteristic is fundamentally flawed.

General insurance is never a stand-alone product in the sense that it is always attached to another purchase or existing asset. Insurance is only ever needed to protect the risks created by that other purchase or asset. Unless the risks to be protected are associated with an existing asset, the need for insurance will be triggered by the purchase of a new good (or the

[1] General Insurance Code Governance Committee (June 2018), *Who is selling insurance?*, 2014 General Insurance Code of Practice Own Motion Inquiry, p. 35.
[2] Under *ASIC Corporations (Basic Deposit and General Insurance Products Distribution) Instrument 2015/685*, insurance distributors have been given relief from the requirement to become an insurer's Authorised Representative. However, the only material difference between an Authorised Representative and a distributor is that for distributors, the insurer does not need to advise ASIC. Both categories of people act under the insurer's licence and the insurer is liable for their conduct.
[3] ASIC Corporations (Group Purchasing Bodies) Instrument 2018/751.

taking out of a loan in the case of CCI) or service (e.g. travel). Making insurance available at the same time and place that a consumer is purchasing a new good or service serves an important consumer need.

A sales context where the insurance is purchased at the same as the primary asset is not by itself determinative of poor consumer outcomes. In fact, in some markets such as travel insurance, having insurance readily available at the point at which travel is arranged (for example by a travel agent) serves a critical role in mitigating against the risk of non-insurance. This an objective which the industry has been working in partnership with Government for years, particularly as the risk of loss, which the insurance can cover, materialises at the very second a purchase is completed[4]. Given motor add-on products have been most comprehensively reviewed, they provide useful examples to identify factors associated with this sales context that led to poor consumer outcomes.

ASIC's review into add-on insurance sold through motor dealers has been well documented, and was re-examined by the Royal Commission. In summary, the key findings from ASIC's review were:

- excessive commissions incentivised inappropriate sales conduct, such as pressure selling;
- poor product design, exacerbated by high commissions and financing of the premium, resulted in products that were often poor value for consumers; and
- the sales environment exacerbates consumer behavioural bias leading to poor decision-making.

The final finding is most relevant in the consideration of a DSM, as deferring the sale of a product is intended to improve the ability of consumers to make better purchasing decisions. ASIC found that specific features of the motor dealer sales environment can impede effective consumer decision-making, summarised in Table 1.

Table 1: Factors that impede good consumer decision-making

1.	**Consumer decision fatigue**	Decisions about insurance are a third-order selection after the consumer has made choices on the car and the finance. As a result, decision-making about insurance occurs within the context of decision-fatigue and information overload.
2.	**Lack of a direct market**	Motor add-on products are exclusively distributed through motor dealers, and consumers have to purchase the products from the dealer.
3.	**Add-on products not well understood**	Understanding concepts and cover provided by motor add-on insurance are difficult for consumers to grasp, as most would not have been exposed to these products prior to entering the dealership.
4.	**Complexity where financing is involved**	Understanding the impact of financing the premium would require the consumer to consider all relevant information, which is unlikely to occur at the point of sale.
5.	**Consumers vulnerable to sales tactics**	Motor dealers have a point of sale advantage via their face-to-face interactions and sales staff have a strong influence over consumer decision-making.

[4] For example, someone who paid for a holiday at a travel agent could literally receive a phone call seconds later advising them of the illness or injury of a family member that would prevent them going on the trip.

A DSM offers a good regulatory option for motor add-on products, as the impact of poor consumer decision-making can be substantial as these products are generally high cost. For example, ASIC found that the average premium for CCI sold through motor dealers was $1,696[5]. By separating the initial introduction of the product and purchase decision, the DSM alters the point of sale environment and provides a more satisfactory period of time for consumers to consider their specific needs and the product information provided, especially if the impact of any premium funding needs to be considered.

Importantly, a DSM can provide consumers with more time to consider their needs without necessarily creating a gap in insurance cover for motor add-on products. This is because cover provided by these products do not generally commence until delivery of the vehicle, given the need for cover does not arise until this point.

Allianz submits that these factors, rather than simply a sales context where the insurance is sold at the same time as the primary product, contributed to poor consumer outcomes in the motor dealer market and for which a DSM provides a good regulatory solution.

2.3. Inappropriate reforms leading to poor consumer outcomes

Allianz is concerned that broadly defining 'add-on' insurance and applying a DSM by default to all products captured will actually lead to poor consumer outcomes.

The Proposal Paper suggests that consumer disengagement is heightened when insurance is sold as an attachment or 'addendum' to a primary product. We note that consumer disengagement is not unique to the add-on insurance sales context, but is experienced in other insurance markets (and financial services more generally). The industry has been building a foundation of consumer research in recent years to better understand consumer decision-making and to improve engagement in product information. This work has confirmed that there is no simple answer to consumer engagement, with insurance often seen as a grudge purchase and consumers often over-confident in their assessment of risk. By making it more inconvenient for consumers to purchase insurance by applying the DSM broadly to products where the need for regulatory intervention has not been established, the risk of consumer disengagement is further exacerbated, not ameliorated.

We are also concerned that applying the same model across the diverse range of products do not adequately take into account the needs of consumers in different markets. In order for a DSM to work effectively, an appropriate balance must be struck between empowering consumers to make informed decisions and not unnecessarily hindering the ability to purchase cover. For example, as noted, the impact of a DSM for motor add-on products on non-insurance is mitigated by the fact that the need for cover does not commence until the delivery of the vehicle. On the other hand, cover for travel insurance starts immediately, regardless of whether travel has commenced. Applying a deferral period to travel insurance would mean that during this period, the consumer remains uninsured for covers such as travel cancellation.

Overall, the proposed reforms will have a disproportionate impact on intermediated sales channels, with associated impacts on the competitive landscape of the market for general insurance. The availability of both direct and intermediated channels provides consumers with options in selecting a policy that meets their needs and at a time that it is convenient for them. While many consumers may prefer to purchase insurance directly from the insurer, the intermediated channel provides another option for consumers to purchase insurance at the time that they need it. For example, for home insurance, many consumers value the convenience of purchasing insurance through the same financial institution that is processing

[5] ASIC (September 2016), *A market that is failing consumers: the sale of add-on insurance through car dealers*, Report 492, p. 22.

their loan. This also enables the lender to keep track of the borrower's obligation to adequately insure the asset associated with a home mortgage.

We anticipate that the introduction of a DSM will significantly affect the viability of some intermediated sales. This will reduce access to insurance for some consumers and diminish choice in the way consumers purchase insurance. This is contrary to one of the objectives of a DSM, as proposed by the PC, to inject competitive pressure into the market[6].

[6] Productivity Commission (August 2018), *Competition in the Australian financial system*, final inquiry report, p. 426.

3. REFINING THE PROPOSALS

Allianz submits that the reforms should be refined by creating a regime that gives ASIC the power to ‘turn on’ the DSM, rather than applying the DSM by default. This would enable ASIC to consider the needs of consumers in different markets, and tailor the DSM accordingly. The criteria on which ASIC determines the need to apply a DSM should be explicitly outlined in the law, without hindering ASIC’s ability to flexibly respond to changes in products and markets. Allianz submits that this approach is consistent with the Royal Commission recommendation.

3.1. Defining add-on insurance

The Proposal Paper suggests that add-on insurance should be defined as products that are offered or sold at the same time as when a consumer purchases the primary product or *acquires finance* for which the insurance covers *associated risks* (our emphasis). This definition is too broad, and would capture, for example, home insurance distributed or issued by a financial institution when a mortgage is being issued at the same time.

The definition of add-insurance should not capture instances where the insurance does not provide cover for, and is unrelated to the purchase of, the primary product. For example, tyre and rim insurance provides cover for the primary purchase of a motor vehicle. Similarly, CCI provides cover for the primary purchase of a loan. However, the home insurance that is sold by a financial institution does not provide cover for the loan and is a separate and unrelated purchase to the home loan. While financial institutions will generally require insurance to be purchased before a home loan is finalised, consumers are aware that home insurance can be purchased directly and from other insurers. We are not aware of any circumstance where home insurance sold by financial institutions have been characterised as an ‘add-on’ insurance. We understand that home contents insurance was included in the CGC review into add-on insurance because a small number of contents policies are distributed by real estate agents when leasing a property.

Table 2 illustrates that the factors that led to poor consumer decision-making for motor add-on products are not as relevant for the distribution of home insurance by financial institutions.

Table 2: Factors that led to poor decision making in the motor dealer channel – comparison with the home insurance sales context

1.	**Consumer decision fatigue**	Unlike motor dealer add-ons where consumers potentially have to consider the vehicle, financing and insurance at the same time and place, the purchase of the home is separated from the point of sale of the home loan and insurance. Whilst decisions required of consumers are substantial and significant, not all decisions are required to be made at the point of sale.
2.	**Lack of a direct market**	Unlike motor add-on products which were generally exclusively distributed through motor dealers, consumers are generally aware that home insurance can be purchased directly and from a range of insurers. For example, on the Insurance Council of Australia’s (**ICA**) Find an Insurer website, 56 insurers are listed as providing home insurance, of which 49 offer products to consumers directly.
3.	**Add-on products not well**	Most consumers have a general understanding of the

	understood	concepts and cover provided by home insurance, because unlike motor add-on products, consumers are likely to have had prior exposure to this insurance type. Over the year to June 2019, over 12 million home insurance policies were sold in Australia[7]. Commissioner Hayne's recommendation that comprehensive motor insurance be exempt from the DSM on the basis that motor insurance is generally well understood applies equally to home insurance (and motorcycle, caravan and boat insurance for that matter).
4.	**Complexity where financing is involved**	Unlike motor add-on products where many consumers financed the insurance premium through the car loan, the premium for home insurance is not financed through the home loan. Consumers are not required to consider the impact of the cumulative interest cost of having the insurance financed.
5.	**Consumers vulnerable to sales tactics**	We are unaware of any evidence that there are issues with the sale of home insurance through banks that are similar to the issues experienced in the motor dealer channel. ASIC's comprehensive review into home insurance in 2014, which reviewed both direct and intermediated sales, did not find any issues with intermediated sales[8].

In addition, home insurance has a track record of providing value to consumers; Australian Prudential Regulation Authority (**APRA**) data shows a loss ratio of 70% for the year ended June 2019[9]. The average premium of $746 is also much lower value than the average premiums for motor add-on products.

Allianz submits that the definition of add-on insurance should be refined as follows:

> Products that are offered or sold at the same time as when a consumer purchases the primary product (including credit) ~~or acquires finance~~ for which the insurance ~~covers associated risks~~ provides cover

This would enable the definition to capture CCI-type products, where the insurance provides cover for the loan, but not products like home insurance unless it is sold at the point of sale at which the consumer purchases the home or rents a property (for example, contents insurance sold by real estate agents).

If the definition of add-on insurance is not refined as we suggest, then home insurance should be exempt from the DSM under the legislation for the same reasons that comprehensive motor is proposed to be exempt.

[7] APRA (June 2019), *Quarterly General Insurance Performance Statistics*, Table 1f
[8] ASIC (October 2014), *Review of the sale of home insurance*, Report 415.
[9] APRA (June 2019), *Quarterly General Insurance Performance Statistics*, Table 1f, gross loss ratio for risks located in Australia.

3.2. Criteria for applying a DSM

Meeting the definition of add-on insurance should not, in itself, result in the DSM applying. Instead, meeting the definition should make the product eligible for ASIC to apply the DSM. There should be guiding criteria in the legislation for ASIC to consider when determining whether the DSM should apply to an eligible product. We suggest the following criteria, based on the factors that led to poor consumer outcomes in the motor dealer channel:

i) the product is not a commonly purchased general insurance product and therefore not well understood by consumers;

ii) there is no direct market for that product or consumers are not generally aware they can purchase the product directly;

iii) the product is complex or assessing product value is complex (for example, where the premium is financed);

iv) the insurance is a high cost product (i.e. ratio of premium to sum insured) and likely to lead to significant consumer detriment if mis-sold;

v) there is evidence that consumer decision-making is impeded by the sales environment (for example, high cancellation rates may be indicative of poor purchasing decisions); or

vi) the need for cover is not immediate and a DSM would not result in a 'gap' in insurance or non-insurance altogether.

We are not suggesting that all of these factors need to be met in order for ASIC to determine that the DSM should apply, and we recognise the importance of giving ASIC sufficient flexibility and discretion to be able to respond when needed.

There are many benefits to this approach, as opposed to the proposed approach of applying the DSM by default and enabling ASIC to exempt products. In its submission to the Royal Commission, ASIC suggested that the design of a DSM should specifically address the problems in existing sales methods[10]. However, the design of the DSM cannot take into consideration the problems in existing sales methods without investigating what those sales methods look like in each distinct market. The sale of travel insurance through a travel agent, for example, will look very different to the sale of event ticket insurance online. By giving ASIC the power to 'turn on' the DSM for eligible products (which is defined broadly), ASIC will be in a position to investigate the distinct characteristics of each market, and if it determines a DSM would benefit consumers, tailor that model to meet specific consumer needs.

3.3. Which products the DSM should apply to

Allianz submits that applying this criteria should result in the DSM applying, at a minimum, to the following products:

- CCI;
- GAP insurance;
- loan termination insurance;
- tyre and rim insurance;
- mechanical breakdown insurance;
- fleet leasing products; and
- extended warranties.

[10] ASIC (October), *Royal Commission into the Banking, Superannuation and Financial Services Industry*, submission in response to round 6, p. 24

ASIC has already done substantial reviews on these products, and turning on the DSM should not require any further work.

We anticipate that travel insurance will be the highest volume product, by number of policies sold, in the add-on sales context. The CGC estimated that travel insurance sold by third party intermediaries including travel agents and airlines account for 51 percent of the number of insurance policies sold as an add-on to a primary purchase[11]. Table 3 applies our suggested criteria to the sale of travel insurance in an add-on context.

Table 3: Applying the DSM criteria to add-on travel insurance

	Criteria for turning on DSM	**Application to travel insurance**
i)	The product is not a commonly purchased general insurance product and therefore not well understood by consumers	Travel insurance is a commonly purchased product, and the Government has been working with the industry to broaden public understanding of the importance of travel insurance for international travel. In 2018, over 10 million travel insurance policies were issued in Australia[12].
ii)	There is no direct market for that product or consumers are not generally aware they can purchase the product directly	There is a competitive direct travel insurance market, and consumers generally understand that travel insurance can be purchased directly from other insurers. The ICA's Find an Insurer website lists 58 travel insurers, with 55 offering products directly to consumers. Most consumers (36%) purchase travel insurance directly from an insurer. 20% and 5% of consumers purchase travel insurance through a travel agent or airline respectively[13].
iii)	The product is complex or assessing product value is complex (for example, where the premium is financed)	For most consumers, travel insurance products are not complex. This is due to standard features across providers and clearly defined limits disclosed in the Product Disclosure Statement. Travel insurance generally provides medical cover and other benefits such as lost items and travel cancellation/interruption. The premium for travel insurance can be 'financed' if paid for on a credit card, but this doesn't provide any benefit to the intermediary selling the insurance. It is financed at the choice of the customer.
iv)	The insurance is a high cost product (i.e. ratio of premium to sum insured) and likely to lead to significant consumer detriment if mis-sold	Travel insurance is generally a low cost product, especially for travellers without any pre-existing medical conditions. The average premium during the 3 months to June 2019 was $115[14]. On the other hand, the potential claim payout is substantial (many policies do not cap the cost of medical benefits). A claim that requires extensive

[11] General Insurance Code Governance Committee (June 2018), *Who is selling insurance?*, 2014 General Insurance Code of Practice Own Motion Inquiry, p. 25.
[12] APRA (June 2019), *Quarterly General Insurance Statistics*, database.
[13] Quantum Market Research (June 2017), *Survey of Australian' travel insurance behaviour*, commissioned by Insurance Council of Australia and Department of Foreign Affairs, p. 36.
[14] APRA (June 2019), *Quarterly General Insurance Statistics*, database.

		medical treatment and/or hospitalisation (e.g. in the US) and/or a medivac back to Australia can cost hundreds of thousands of dollars.
v)	There is evidence that consumer decision-making is impeded by the sales environment (for example, low claims ratios may be indicative of poor purchasing decisions)	In a joint ICA and Department of Foreign Affairs survey in 2018, 44% and 52% of those who purchased travel insurance were "very confident" or "somewhat confident" that they had selected the right policy for their needs[15]. The loss ratio for travel insurance in 2018 was 45%[16].
vi)	The need for cover is not immediate and a DSM would not result in a substantial 'gap' in insurance or non-insurance altogether	Travel insurance cover commences immediately upon purchase, and any deferred period would therefore create a gap in insurance cover. It is not uncommon, particularly for older travellers, to spend up to $80,000 on a holiday; deferring the commencement of insurance cover would place these consumers at risk. Around 9% of Australians travel overseas without travel insurance[17]. Of those who travelled without insurance, 24% indicated they did not purchase insurance because they "just didn't think about it"[18]. This demonstrates the importance of intermediated sales channels in prompting consumers to consider the need for insurance. Of those who travel without insurance, 83% anticipated that they would be exposed to potential financial loss and of these consumers 49% indicated they would incur significant debt as a result of non-insurance[19]. In 2019, the average cost of an Allianz Partners large loss travel claim (in excess of $50,000), occurring in the US is approximately $220,000. In this category, claims costs range from $50,000 up to $1,100,000 and would have caused significant financial detriment to the consumer if travel insurance was not in place.

Unlike most other insurance products, travel insurance incidents often occur when the consumer is in a foreign country and travel insurers provide assistance, through an expanded worldwide provider network, to consumers when they are most vulnerable.

Travel insurance, from our experience and the information available, does not meet the criteria we have put forward in determining whether a DSM should be applied. We note that ASIC is currently undertaking a review into travel insurance, the outcomes of which will contribute

[15] Quantum Market Research (July 2018), *Traveller behaviour in south east Asia*, report commissioned by Insurance Council of Australia and Department of Foreign Affairs, p. 35.
[16] APRA (December 2018), *General Insurance Claims Development Statistics*, database.
[17] Quantum Market Research (June 2017), *Survey of Australian' travel insurance behaviour*, commissioned by Insurance Council of Australia and Department of Foreign Affairs, p. 9.
[18] Quantum Market Research (June 2017), *Survey of Australian' travel insurance behaviour*, commissioned by Insurance Council of Australia and Department of Foreign Affairs, p. 27.
[19] Quantum Market Research (July 2018), *Traveller behaviour in south east Asia*, report commissioned by Insurance Council of Australia and Department of Foreign Affairs, p. 24.

further to our understanding of consumer experiences in purchasing travel insurance, and the likely impact that a DSM will have.

3.4. The deferral model

Treasury proposes that the DSM incorporates the following features:

- A four day deferral period, with two clear days between product introduction (Day 1) and product sale (Day 4).
- Day 1 is triggered by the consumer “making a financial commitment” to purchase the primary product and the provision of prescribed information.
- A “financial commitment” may involve paying a deposit or making an application for finance.
- The format, content and mode of delivery of the prescribed information will be determined by ASIC.
- When the deferral period concludes, the intermediary or insurer can contact the consumer via written correspondence.
- During days 2 and 3, the consumer can opt-out of the deferral period by initiating contact.

As already noted in our submission, a one-size-fits-all approach to the application of a DSM is unlikely to improve consumer outcomes. The model proposed by Treasury is broadly consistent with the industry’s preferred model that was submitted to ASIC regarding add-on insurance sold through motor dealers[20]. However, while this model is designed to influence better consumer decision-making in the context of the motor dealer channel, a different design may be warranted for other products and sales channels. ASIC should have the flexibility to tailor this model.

In particular, it is proposed that the content of prescribed information may include:

- the total premium of the add-on insurance contract, including options for different cover levels within a particular product;
- the significant features and benefits, significant and unusual exclusions or limitations, and cross-references to the relevant policy document provisions;
- the duration of the policy;
- when the consumer can initiate completion of the sale;
- the product claims ratio;
- notification that the add-on insurance product is sold by other distributors;
- a link to ASIC’s MoneySmart website on the particular add-on insurance product; and
- the date the above information is provided to the customer.

While such comprehensive information may be appropriate for high cost products, it is likely to be too much information for a low cost product, for example a $10 event ticket insurance.

Allianz supports the ability of consumers to be able to initiate the sale of a product during the deferral period. It is difficult for us to envision why it would be appropriate to remove consumer choice, if this choice is being exercised by the consumer outside of the point of sale. We believe it is important for consumers to have the opportunity to make a decision about what

[20] Insurance Council of Australia (October 2017), *Consultation paper 294 – the sale of add-on insurance and warranties through caryard intermediaries*, submission in response to ASIC Consultation Paper 294.

insurance they require and when they require it. The decision to leave a consumer uninsured during the deferral period, irrespective of whether the risk or time period is minimal, should be a decision for the consumer. To prevent a consumer opting out appears contrary to one of the key intentions of the DSM, namely promoting informed consumer choices.