LIFE INSURANCE

2 October 2019

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

Dear Manager

Re: Reforms to the sale of add-on insurance products

MLC Life Insurance welcomes the opportunity to provide feedback on the Australian Government's proposed deferred sales model for add-on insurance. As a leading provider of debt protection insurance products, we understand and accept the need for reform in the add-on market, which has been shown to lead to poor consumer outcomes.

The need to address poor outcomes notwithstanding, MLC Life Insurance remains convinced add-on insurance products play a valuable role helping consumers to understand and manage risk. Reforming this market is therefore important. However, simply banning add-on insurance products, or making them too hard for consumers to access, would represent an overcorrection creating a potential harm of its own. In light of this, the reform approach ultimately taken out by the Australian Government needs to balance the clear need for better consumer outcomes with the ability for insurers and their distribution partners to inform potential customers how the products may benefit them. Our assessment of the proposed approach is that it largely achieves this balance.

Core to the proposed model is the introduction of a four-day deferral period between the consumer's decision to purchase or acquire the primary product the insurance is linked to, and the insurers ability to contact the consumer to initiate a sales discussion. MLC Life Insurance supports this approach and we have built our latest debt protection product, *MLC Debt Insurance*, to align with it. Since launching this product in March 2019, our experience is that the deferred model works well for our customers, for our distribution partners and as a sales process.

For *MLC Debt Insurance* customers, the primary product is a credit product, most commonly a home loan. In most cases a mortgage will be the largest debt a customer ever takes on in their life and, for a substantial period of their life, ensuring the repayments are met a major expense item on the household budget. Should their capacity to meet repayments fail – for example due to being made involuntarily unemployed or medically unable to work – many Australians would face the prospect of losing their family home. *MLC Debt Insurance* is designed to manage this risk.

To meet community and regulatory expectations, we have designed a customer engagement experience that ensures the customer is fully engaged, informed and in control of decision-making. Our model disassociates the offer of insurance from the offer of credit and permits easy customer-initiated opt out during the deferral period and at any time during in the sales process. It also places emphasis on informed consent, including recommending customers consider and compare *MLC Debt Insurance* against any other existing insurances that might already be in place. We have in place multiple levels of compliance checking, with manual processes soon to be supported by industry leading regtech systems, that together ensure 100% of sales conversations are reviewed against quality and compliance standards.

Our submission to this consultation is based on our experience in designing, implementing and operating *MLC Debt Insurance* and we have drawn on this knowledge to address aspects of the Australian Government's proposed model in the pages following.

We would be most pleased to address any questions that may arise or to provide more information about our product and sales process, should the need arise. To arrange for this, please contact Mr James Connors, on 0484 083 208, or via email at james.connors@mlcinsurance.com.au.

Yours sincerely,

Russell Hannah
General Manager Retail Insurance Distribution MLC Life Insurance
MLC Life Insurance
40 Mount Street
North Sydney NSW 2060

MLC Life Insurance is pleased to provide feedback on selected aspects of the Treasury's proposed deferred sales model for add-on insurance.

Tiering

MLC Life Insurance understands the primary rationale for the introduction of tiering is to enable a flexible regulatory system that permits ASIC to provide specified add-on insurance products with an exemption from the tier two deferred sales model. This will protect consumers where the benefits of being able to immediately purchase add-on insurance outweighs the benefits of deferring the purchase. In practical terms this would appear to mean products where the consumer would otherwise take on an immediate undesirable risk, such as taking possession of a motor vehicle at a dealership.

We are comfortable with this approach in principle but recommend the legislation and regulations enacting the tiering are clear on how it is to be applied. The proposal paper refers to comprehensive motor insurance as being an exempted category of product, albeit by legislation, not through tier three status. This raises the prospect that tier three is to be applied on a similar category basis. We believe that a better application of tier three status would be at the specific product level, that is tier 3 status is applied to the actual product offered to consumers.

This would permit for individual products meeting the criteria to be given tier three status even if other products in the category do not. The benefit of being able to do this would be an incentive to product providers to develop products that contain features the same as, or similar to, other tier three products, thereby creating a mechanism that encourages improvement in the overall quality of add-on insurance products available to consumers.

Feedback response

We have considered possible criteria for why a consumer credit insurance type product should reside in tier three and suggest the following minimum standards:

- A claims ratio of not less than 45%, with mechanisms to monitor product financial performance and make adjustments as necessary.
- Full and ongoing compliance with regulatory standards and guidance. For example, only CCI products comply with the requirements of ASIC 622 should be able to apply for tier 3 status.
- Separation between the insurer and the credit provider – the insurer should not be a related party to the credit provider.

RECOMMENDATION 1 – Tier 3 status should be at product level and not at category of product.

RECOMMENDATION 2 – Enable a CCI product to have Tier 3 status but on meeting prescribed minimum standards

Sales channel

MLC Life Insurance notes a policy goal of the proposed deferred sales model is for it to operate neutrally across all sales channels. We support this goal, and it is with this in mind that we seek clarification on the role of telephone sales and other channels in the proposed model. Our uncertainty around the neutrality of the proposal for these channels is based on a statement made on page 14 of the proposal paper:

> *At the conclusion of the deferral period, the Government proposes that the intermediary or the insurer will be able to contact the consumer via written correspondence, but only on one occasion.*

We interpret the effect of this statement to be that contact with the consumer may only be via mail, email or SMS, while barring telephone, face to face and emerging channels[1]. While we appreciate that the Royal Commission heard examples of mis-selling insurance via telephone and face to face channels, we do not think that barring these channels is in the consumer interest[2].

In the case of telephone-based channels, for large numbers of consumers a telephone call is the preferred way of interacting with service providers, including with insurers. While they are of course free to contact the provider following receipt of a letter, many consumers expect for the call to be made to them, often at an agreed date and time.

For some customers, telephone-based interaction is more than just a preference: some customers simply do not use electronic communications channels such as email or SMS messaging for sales purposes, while others have a physical disability that prevents them from engaging via any written channel.

Ultimately however, the policy position we recommend is not to trade off the merits or risks of one channel verses another, but to ensure any method of contact works in the customer's best interests. At its core, the issue is establishing that the customer understands who is contacting them, why they are being contacted and whether they want the contact to occur.

Focussing on the telephone, we suggest that permitting the customer to provide consent prior to the deferral period commencing, to receive a phone call at the conclusion of the deferral period, strikes the required balance.

For additional confidence, we recommend each customer should be provided a further opportunity to opt out of receiving the call prior to the deferral period concluding. In the case of *MLC Debt Insurance* this opt out opportunity is provided through an SMS and email sent by MLC Life Insurance, not by the distribution partner. This acts as a screen to ensure that any customer who receives prescribed information but who does not want to proceed further can easily halt the process, even when they have previously given consent.

When a call is placed to the customer, the provider should:

- inform the customer how the provider has received their details and the purpose of the call
- confirm the prescribed material has been received by the customer
- obtain clear consent from the customer that they want to proceed.

If any of two qualifying requirements fails, then the call should either be terminated, or, with customer permission, rescheduled, prior to a product discussion starting.

We also recommend that phone-based providers be subject to rigorous quality assurance requirements to ensure that any mis-selling that does occur is identified and remediated.

Once a phone-based interaction is initiated and the consumer has consented to a product discussion, the proposed limitation on a single contact should no longer apply. In our experience customers often wish to speak with us multiple times as they build their understanding of the product and make a decision over whether to proceed to purchase.

[1] For example, innovative app and ai based sales channels are emerging that could be used for these type of products in the future.

[2] An important factor to consider is that most of the highlighted telephone-based mis-selling that was exposed in the Royal Commission will be addressed through the proper enforcement of existing anti-hawking laws, or through the application of the strengthened anti-hawking provisions presently under development.

RECOMMENDATION 3 – Allow the communication from the insurer to the consumer, post deferral period, to include telephone and other styles of communication.

RECOMMENDATION 4 – Remove the post-deferral restriction of only one written correspondence from the insurer or intermediary so as to allow SMS and email contact with the primary purpose of providing product information and for the consumer to be able to opt-out of a subsequent call.

Trigger event

The trigger event is a critical aspect of the proposed model and it is important for the final legislation and regulation to be is sensitive to the wide range of products and services that the model will ultimately apply to. MLC Life Insurance's comments on this matter are restricted to our view on how the trigger event should be applied to insurance for mortage and personal loans.

We consider that the trigger event for insurance linked to mortgages and personal loans should be the approval of the credit product[3], not the mere completion of an application as provided as an example in in Step 2. In our view application completion should be considered as meeting the Step 1 requirement for a "financial commitment" to have occurred. Indeed, in our understanding, mortage and personal loan customers often complete applications with multiple credit providers, before settling on, or being accepted by, their preferred provider.

Additionally, apart from affording the customer an opportunity to test the market for a suitable competitor product, an important principle behind the concept of a deferred sales process is to clearly separate the offer, consideration and purchase of the insurance product from that of the primary product. This is to ensure that the customer does not feel pressured into purchasing the insurance product because they think it will assist in obtaining the primary product. Making the Step 1 requirement for mortgages and personal loans to be loan approval would ensure this separation occurs as intended and eliminate the risk a customer feels pressured.

RECOMMENDATION 5 – For credit linked insurance products, the "trigger event" should be approval of the credit product at completion of an application for credit.

Feedback response

The sales process for *MLC Debt Insurance* contains the following customer touchpoints:

- Following approval of loan, the distribution raises the possibility of *MLC Debt Insurance* with the customer, including providing a product fact sheet. If the prospective customer is interested to hear more the distribution partner transmits referral information to MLC Life Insurance.
- Within 24 hours, MLC Life Insurance sends an SMS and email to customer confirming referral.
- SMS and email contain a link to product page, product disclosure statement and financial services guide.
- SMS and email also contains easy opt-out instructions enabling customer to halt the process.
- Assuming the customer has not opted out, after four days the MLC Life Insurance General Advice Team contacts the customer.
- Upon successful contact, the customer has an opportunity to withdraw consent.
- If continuing, customer is pre-qualified for eligibility.

[3] Approval defined as unconditional finance, which meaning finance is approved, loan documents signed and, in the case of a mortgage, the property purchased (although not necessarily settled).

- Product information disclosed, a quote is offered, and any questions are answered.
- Customer accepts/declines policy.
- Purchasing customers receives a welcome pack.
- 30 day cooling off period commences.
- At day 30 the customer is contacted to reconfirm policy cover, explain the claims process and make any policy adjustments.
- All customers receive regular contact quarterly and annually.

Duration of deferred sale period

MLC Life Insurance supports the implementation of a four-day deferral period for tier two products. In our experience the four-day deferral provides customers with the time required to assess the suitability of the product against their needs and to decide if they wish to move forward with it.

We are therefore concerned that the figure 2 diagram of the deferred sales model on page 11 of the proposal paper implies that, in most circumstances, the deferral period could be less than four full days. This is because:

1. Day one of the deferral period is the day a consumer makes the financial commitment, regardless of the time of day this occurs.
2. The diagram then counts just two intervening days.
3. The insurer or their distributor is permitted to contact the consumer for a sales conversation on the day following the second intervening day.

Therefore, depending on the time of day the financial commitment is made on day one and the time of day that a consumer is contacted on day four, the four-day deferral could become as little as two days. Consider for example the following hypothetical but realistic scenario:

1. A consumer meets with their mobile mortage provider at 8pm on Monday, with the consumer making a financial commitment in the meeting and receiving the prescribed information.
2. A CCI insurer contacts the consumer at 9am on Thursday morning to initiate a sales conversation.

Elapsed time between consumer commitment and contact from insurer is realistically just two days.

Furthermore, both the diagram and the proposal paper are silent on whether the intervening days need be business days or could be considered to take place over a weekend. We note that comparing an add-on product with alternatives available in the standalone market could be more difficult for customers to achieve on weekends, so decreasing the effectiveness of the deferral period.

To ensure we accord with the intent of the four-day deferral, MLC Life Insurance's *MLC Debt Insurance* sales model presently restricts an outbound call to the customer until four business days after the distribution partner provides the product information, with the timer starting on the following day. This means that, based on the timing set out in the diagram in the proposal paper, we would not place a call to the customer before day five. We also offer the customer the ability to set up their preferred contact day and time after the deferral period, which ensures customers who desire more time to contemplate alternatives may have it. We consider this to be a customer centric approach that adheres to the logic behind the deferral period.

RECOMMENDATION 6 – The deferred sale period should be clearly put as 4 business days from the trigger event.

Customer initiated completion of sale

Permitting a customer to be able to shorten the period of deferral by initiating completion of the sale is consistent with the customer centricity of the reforms. Nonetheless, it does raise the risk of distributors pressuring customers to self-complete as a way of circumventing the deferral period, which would be difficult to monitor for and protect against.

In respect of mortgage protection insurance, we note that most people will have a 60-90 day settlement period, suggesting shortening the four day deferment period is of little practical value. For people who already own the mortgaged property and who are refinancing, shortening the deferral period is of greater benefit.

Interaction with anti-hawking reforms

MLC Life Insurance notes the Australian Government has committed to taking action to implement Royal Commission recommendation 4.1 *No hawking of insurance*. Given the deferred sales model proposed for add-on insurance and recommendation 4.1 deal with customer contact for similar products, we suggest the Government takes care to ensure that the policy responses work in a harmonious manner.

To achieve this, we recommend that the policy response to 4.1 explicitly recognises that the contact and information provision envisaged and permitted under the proposed tier two approach do not constitute hawking. This should encompass:

- the initial proposition of the add-on insurance product and provision of prescribed information, provided it is carried out after the customer has made a commitment to purchase the primary product (i.e. in accordance with Step 2)
- subsequent contacts made by the insurer or their agent following the expiry of the deferral period, or opt out communications provided during the deferral period.

RECOMMENDATION 7 – A deferred add-on insurance sales model should work harmoniously with the new anti-hawking provisions presently under development.