

## Sale of add-on general insurance products

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Inquiry into whether and how Code subscribers offer **add-on general insurance products** subject to obligations under the Insurance Brokers Code of Practice '*to provide advice that is appropriate for your needs*'.

**December 2020**

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## Executive summary

Add-on general insurance products, and the practices used to sell them, have come under close scrutiny from consumers, regulators and government in recent years. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) uncovered evidence of consumers being sold add-on general insurance policies of little or no value to them and on which they were ineligible to make a claim. There was also widespread use of unethical sales tactics, driven by high-value commissions to third-party sellers, to persuade consumers to buy add-on general insurance products.

### New laws will hold add-on general insurance sellers to account

The federal government has acted swiftly in response to the Royal Commission's recommendations around the sale of add-on general insurance products. There are currently several pieces of draft legislation awaiting enactment that will change the way these products are sold, and the Australian Securities and Investments Commission (ASIC) has been given increased powers to order financial services providers and insurers to remediate consumers who have been unfairly sold junk add-on insurance policies. So far, restitution payments have totalled almost \$300 million.

The evidence about the value of add-on general insurance products and the identified sales practices and behaviours means that Code subscribers can rarely, if ever, recommend them to their clients. A Code subscriber must always act in the best interest of their client and this rules out arranging insurance where the value to the client is questionable or illusory and the main sales motive is the financial benefit to the insurance broker.

### The purpose of the Own Motion Inquiry

Subscribers to the Insurance Brokers Code of Practice (the Code) that do sell add-on general insurance products must comply with the Code's service standards on the scope of covered services (Service Standard 4); buying insurance, which includes the requirement to act diligently, competently, fairly, and with honesty and integrity during the sales process (Service Standard 5); and the competency and training of staff and authorised representatives (Service Standard 8).

The Insurance Brokers Code Compliance Committee (the Committee) conducted an own motion inquiry to find out whether and how Code subscribers sell add-on general insurance products, and how they ensure that these products are useful, reliable and of value to their clients.

### The Committee's findings

The findings are taken from the 2019 Annual Compliance Statement (ACS) in conjunction with follow-up discussions with subscribers via telephone as part of the Data Verification Program (DVP). The Committee focused on:

- what add-on general insurance products (if any) were sold by subscribers during 2018–19
- the sales practices Code subscribers use to sell add-on general insurance products
- whether and how Code subscribers are remunerated for selling add-on general insurance products, and

- the nature of the training and monitoring Code subscribers undertake to ensure their staff and authorised representatives sell add-on general insurance products in an appropriate and Code-compliant manner.

The Committee used the findings to prepare several recommendations for improvements to Code subscribers' sales practices, remuneration arrangements, training and education programs, and procedures for monitoring staff and authorised representatives who sell add-on general insurance products.

## Generally

Most brokers handling insurance add-ons well, but there is room for improvement.

The Committee is pleased to find that most Code subscribers do not sell these products (although seven large broker firms do).

Whilst a very small number of Code subscribers sell add-on products, sales practices do not always prioritise the client's needs.

The Committee has a concern that the prospect of earning commissions on these products has the potential to jeopardise brokers' independence.

This is a very important issue for insurance brokers because the practice of selling and the products themselves have been the subject of serious criticism for some time. The professional reputation of the entire industry could be put at risk if the few brokers selling these add-on products do not take great care to ensure staff are trained in ethical sales practices and understand the risk of harm these products might bring for the wrong consumer.

Of course, the brokers primary duty is to its insured client. In determining how clients' insurance needs are best satisfied, policy answers which include add-on must be handled with great care.

## Few subscribers are selling add-on general insurance products

The Committee was very pleased to see that the inquiry found that very few Code-subscribing insurance brokers sell add-on general insurance products to their clients. Only 12 subscribers reported that they sold any of these products during 2018–19.

This equates to just 2.6% of the total number of Code subscribers. But notably, seven of the 12 are large broking firms that employ more than 100 full-time equivalent staff.

The range of add-on general insurance products offered for sale varies and is often specialised (for example, cyber security insurance for bookkeepers). Two subscribers offer guarantee asset protection (GAP) insurance and one subscriber sold consumer credit insurance (CCI) during 2018–19 to only one client that was managed via the subscriber's specialist credit insurance division. Most add-on general insurance products are sold alongside some form of motor vehicle insurance, with others sold alongside property insurance.

## Sales practices do not always prioritise the client's needs

From the information provided by Code subscribers about how they sell add-on general insurance products, it was apparent that there is an over-reliance on scripted conversations and supplementary documentation such as product disclosure statements.

Brokers and authorised representatives may not adequately consider the suitability and reliability of the product being sold or its value to the client during the sales process.

Clients are not always being made aware that purchasing the add-on general insurance product is optional.

Code subscribers who sell these products should ensure that their brokers and authorised representatives:

- have a deep knowledge and understanding of the product being sold
- clearly explain the product's purpose to the client
- evaluate the client's needs and risk profile in relation to the product
- consider the client's eligibility to make a claim
- clearly explain the total cost of the product, including any exclusions or limitations, and
- inform the client from the outset that purchasing the product is optional.

In addition to the above, the Committee encourages Code subscribers to introduce a deferred sales model for selling add-on general insurance products that reflects legislation proposed by the federal government.

### **Earning commissions may jeopardise brokers' independence**

Almost all of the Code subscribers who sell add-on general insurance products earn a commission on each sale – generally, around 20% of gross written premium. A small number of subscribers receive a fixed fee instead of a commission. These fixed fees vary depending on factors such as the product being sold or the length of the insurance coverage.

Commission-based sales models for add-on general insurance products have the potential to prioritise the sale of the product over the needs of the consumer.

Code subscribers will be aware of the evidence presented at the Royal Commission that showed significant consumer detriment resulting from the unscrupulous behaviour of some commission-driven insurers and third-party sellers of add-on general insurance products.

The Committee urges Code subscribers who sell add-on general insurance to review and audit the contracts and remuneration arrangements they have in place with insurers, to make sure they do not encourage employees or authorised representatives to engage in pressure selling and other unethical sales practices.

Given all these findings, the Committee is concerned that some subscribers may be confused about their roles as agents of insurers or as independent advisers to the consumer. This is dangerous territory for conflict of interest and significant breaches of the law.

### **Training involves product knowledge, not ethical sales practices**

Service Standard 8 of the Code requires subscribers to ensure that their staff and authorised representatives are competent, adequately trained, and their performance appropriately assessed and monitored. This includes the training and monitoring of staff and authorised representatives who sell add-on general insurance products.

While almost all of the 12 Code subscribers selling add-on general insurance products have

procedures in place to train staff and representatives who sell these products, the training seems to be largely focused on increasing product knowledge and sales skills rather than on ethical sales practices and the relevant Code obligations.

The Committee would like to see Code subscribers enhance their training around the sale of add-on general insurance products so that it includes education about ethics and the Code's service standard on buying insurance (Service Standard 5).

Most importantly, this training must ensure that all employees are aware of their primary obligation. Training in relation to understanding a client's risk profile is also an essential element in ensuring the best interest of the client is appropriately met.

### **Monitoring focuses on products sold rather than Code compliance**

Monitoring procedures can similarly be enhanced. Currently, most monitoring is done largely in hindsight – that is, after the sale of the add-on general insurance product has occurred – and appears to focus mainly on the volume of products sold rather than on whether the broker/authorised agent has met their Code compliance obligations or used ethical sales practices.

The Committee encourages Code subscribers to review their monitoring to ensure that it includes a mix of proactive and reactive approaches, and that it ultimately ensures that clients are being sold insurance products that are useful, reliable and of value to them.

Every time an add-on general insurance product is included in the client's insurance program, the Code subscriber should, at a senior level, ensure that it was (first and foremost) in the best interest of the client.

## **Recommendations**

### **Sales practices**

- Ensure that all add-on general insurance products you offer for sale are useful, reliable and of value to clients based on a proper evaluation of a client's risk profile.
- Prevent sales of add-on general insurance policies to clients who are unlikely to be eligible to make a claim. Include in all sales scripts an explanation of the purpose and cost of the add-on general insurance product (including any exclusions or limitations) and discussion about the client's eligibility to make a claim.
- Take steps to ensure that the client understands that the purchase of add-on general insurance is optional.
- Introduce a deferred sales model for selling add-on general insurance products prior to it becoming a legislative requirement.
- Commission an independent audit of your add-on general insurance sales practices to identify any processes that could lead to client detriment.

### **Remuneration**

- Review sales contracts and remuneration arrangements with insurance providers to ensure they are not openly or inadvertently encouraging your employees or authorised representatives to engage in pressure selling of add-on general insurance products.
- Commission an independent audit of your add-on general insurance remuneration arrangements to identify any processes that could lead to client detriment.

## **Training**

- Ensure that training and education programs for staff and authorised representatives include training in ethical sales practices and the relevant Code obligations, with particular emphasis on the obligations set out in Service Standard 5 of the Code.
- Conduct an annual review of your compliance with the relevant Code obligations under Service Standard 5 of the Code. Include all add-on general insurance products you sell and determine if they are reliable, useful and of value to your clients.
- Incorporate alternative approaches to training that consider the different needs and learning styles of those being trained. Tailor training programs where necessary to ensure they are engaging, relevant and support knowledge retention.

## **Monitoring**

- Monitor the compliance and performance of staff and authorised representatives before, during and after the sale to identify any gaps in process and/or training, and to ensure that the products being sold are useful, reliable and of value to clients.

# Introduction

## What is add-on insurance?

ASIC defines add-on insurance products as products that are generally sold to consumers alongside a primary product, such as a credit card, loan, motor vehicle, airline and entertainment tickets, or when buying a primary service, such as an apartment lease or car rental.

Add-on insurance products include:

- consumer credit insurance
- guaranteed asset protection
- tyre and rim insurance
- mechanical breakdown insurance
- travel insurance, and
- rental vehicle excess insurance.

## Add-on insurance under scrutiny

In recent years, add-on insurance has attracted the attention of regulators and consumer groups for the way it is sold and the limited value it provides to those who purchase it.

ASIC has carried out several investigations into the sale of add-on insurance over the last eight years, consistently finding that many add-on insurance products do not represent good value for money and are often sold to consumers who are ineligible to claim or unlikely to benefit from them.<sup>1</sup>

ASIC also found that in many instances, add-on insurance products are sold using pressure selling or unfair sales practices. Consumers feel pressured into buying products that do not meet their needs or that they may not fully understand due to the complexity of the insurance product. Some authorised representatives, incentivised by high commissions paid by the insurer to sell add-on insurance products, were found to use unfair sales tactics including:

- falsely telling the consumer that buying the insurance was a condition of getting credit
- pressuring the consumer even after they stated they did not need or want the add-on insurance product, and
- failing to tell the consumer about exclusions and limitations of the add-on insurance product.

The Royal Commission further highlighted the widespread consumer detriment that has resulted from the sale of add-on insurance products, pointing to pressure sales tactics and products that represented poor value for money to consumers. The Royal Commission's Final Report recommended the introduction of an industry-wide deferred sales model for the sale of add-on insurance products (with the exception of comprehensive motor insurance policies) and the imposition of a cap on commissions paid to vehicle dealers when they sell add-on insurance. In response, the federal government has drafted legislation that will see

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<sup>1</sup> See ASIC reports: [Consumer credit insurance: Poor value products and harmful sales practices](#), Report 622, July 2019; [Buying add-on insurance in car yards: Why it can be hard to say no](#), Report 470, February 2016; [The sale of life insurance through car dealers: Taking consumers for a ride](#), Report 471, February 2016; and [A market that is failing consumers: The sale of add-on insurance through car dealers](#), Report 492, September 2016.

these recommendations enacted in law. The effective date of this enforcement is pending Royal Assent.

The government has also passed new laws relating to the design and distribution of financial services products that will particularly impact the sale of add-on insurance products. Under the new laws (which have been delayed until October 2021 due to the COVID-19 pandemic) issuers and distributors of these products will be responsible for determining the target market for products and appropriate distribution strategies.

The government has also given ASIC increased product intervention powers in relation to the distribution of add-on insurance. This has led to ASIC ordering several banks, lenders and insurers to make remediation payments to consumers for selling them junk add-on insurance policies. To date, 11 banks and lenders have paid in excess of \$160 million to more than 434,000 affected consumers who were sold junk consumer credit insurance (CCI),<sup>2</sup> while 11 insurers, one underwriting agency and one warranty provider have remediated 245,000 consumers to the tune of \$130 million for junk add-on insurance sold by car dealers.<sup>3</sup>

Much of ASIC's investigation work has focused on add-on insurance products sold by car dealers, including CCI, guaranteed asset protection (GAP) insurance and mechanical breakdown insurance (also known as extended warranty). At the time of publication of this report, ASIC is considering stakeholder feedback on its proposed product intervention order for the sale of add-on insurance and warranty products sold with motor vehicles. Under the proposal, ASIC plans to introduce a mandatory four-day deferred sales period for all add-on insurance products sold through motor vehicle dealer intermediaries, and may require an issuer of these products to provide ASIC with details of:

- premiums
- cancellation rates
- claims
- provisioning to meet future claims
- consumers and vehicles covered by the product
- distribution channels, and
- third parties that provide finance to retail clients for purchase of the products.

For its part, the Australian Financial Complaints Authority (AFCA) recently released its approach to add-on insurance disputes. As part of its external dispute resolution process involving add-on insurance products, AFCA will consider two key questions:

- Did the person selling the product engage in any inappropriate or unfair behaviours which led to the sale?
- Did the product realistically provide any value to the consumer?

If AFCA establishes an add-on insurance product has been inappropriately or unfairly sold, it may direct the insurer to refund the insurance premium and pay interest on the amount of the premium.

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<sup>2</sup> See ASIC media release [ASIC secures of \\$160 million in remediation for junk consumer credit insurance.](#)

<sup>3</sup> See ASIC media release [ASIC announces further add-on insurance refunds, bringing total to over \\$130 million.](#)

## NIBA's view on the add-on insurance reforms

The National Insurance Brokers Association (NIBA) provided feedback to Treasury on the proposal to introduce legislation for a deferred sales model for add-on insurance.<sup>4</sup> NIBA submitted that the proposed legislation is too wide, not practically workable and will ultimately be detrimental both to consumers and the industry by preventing people from accessing insurance products and services at the time they need them.

## The Code obligations

### ***Insurance Brokers Code of Practice***

The Insurance Brokers Code of Practice (the Code) does not specifically address the sale of add-on insurance to clients. It does, however, contain several applicable standards relating to the sale of insurance generally and the competency, oversight and training of staff and authorised representatives:

- **Service Standard 4** – Code subscribers must clearly inform their clients about the scope of their covered services, including whether or not they are providing the client with advice based on consideration of whether certain insurance products are appropriate for the client's personal needs, objectives or financial situation.
- **Service Standard 5** – The Code's standard on buying insurance is underpinned by the obligation to act diligently, competently, fairly and with honesty and integrity towards clients during the sales process. It requires Code subscribers to provide clients with advice that is appropriate to their needs when clients enquire about, buy or renew an insurance product.
- **Service Standard 8** – This sets out Code subscribers' obligation to ensure that their staff and authorised representatives are competent and adequately trained, and their performance appropriately assessed and monitored.

### ***2020 General Insurance Code of Practice***

It is appropriate to highlight that brokers who provide services on behalf of general insurers that subscribe to the new 2020 General Insurance Code of Practice ([2020 GI Code](#)),<sup>5</sup> must also comply with various standards under that Code in particular circumstances. A broker who is a 'Distributor' or 'Service Supplier' (both terms are defined by the 2020 GI Code) of a general insurer, has an overall obligation to be honest, efficient, fair, transparent and timely in their dealings with consumers and small businesses.<sup>6</sup>

For example, if a broker's services relate to a general insurance product covered by the 2020 GI Code, they will be treated as a 'Distributor' and must comply with the relevant standards in Part 4: 'Standards for us and our Distributors' (applicable to Retail and Wholesale insurance) and 'Part 6: 'Buying insurance' (applicable only to Retail insurance) in the following circumstances:

- when the broker is acting on the general insurer's behalf and authorised to provide financial services under its Australian Financial Services Licence, in accordance with the *Corporations Act 2001*, or

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<sup>4</sup> [https://treasury.gov.au/sites/default/files/2019-10/t408984\\_NIBA.pdf](https://treasury.gov.au/sites/default/files/2019-10/t408984_NIBA.pdf).

<sup>5</sup> 2020 GI Code Paragraph 95 in Part 9 became operational on 1 July 2020. Parts 9 and 10 will become operational on 1 January 2021 and the remainder of the new Code will become operational on 1 July 2021.

<sup>6</sup> 2020 GI Code Paragraph 21 Part 3 'Our obligation to you.'

- when the broker is acting on the general insurer's behalf in relation to a general insurance product that it has issued (excluding an interim contract) and is authorised to
  - (i) enter into that product under binder, or
  - (ii) make a decision to pay or settle a claim made under that product as if they were the general insurer.

Part 4 includes standards that apply to Distributors' conduct, their education and training, and how a general insurer will deal with concerns about them.

Part 6: 'Buying insurance' sets out various standards that apply to the buying of retail general insurance products by consumers and small businesses, including consumer credit insurance (CCI)<sup>7</sup> products and:

- prohibits Distributors from pressure selling<sup>8</sup> retail general insurance products<sup>9</sup>
- sets out a deferred sales period that applies to the sale of CCI products and the steps that Distributors must take regarding the offering of CCI products,<sup>10</sup> and
- prohibits Distributors from selling CCI products during the four-day deferred sales period under the 2020 GI Code.<sup>11</sup>

### The Own Motion Inquiry

The aim of the Own Motion Inquiry was to establish whether and how Code subscribers sell add-on general insurance products, and how Code subscribers ensure that these add-on insurance products are useful, reliable and of value to their clients.

The inquiry was based on the information provided by Code subscribers in the 2019 Annual Compliance Statement (ACS), followed by a Data Verification Program (DVP).

As part of the 2019 ACS, all Code subscribers were required to provide written answers to questions about:

- the types and numbers of add-on insurance policies they sold in 2019
- how their staff and authorised representatives are trained and remunerated for the sale of add-on insurance, and
- how they monitor the performance of their staff and authorised representatives.

The full questionnaire and a summary of responses are in **Appendices 1 and 2**.

Additional information was gathered during telephone conferences held with Code subscribers. The telephone conferences were undertaken as part of the DVP to obtain more specific details about complaints, breaches, training, procedures, processes and reporting.

Further discussions were also held with five Code subscribers about their sales practices and the way they determine that the add-on insurance products they sell are useful, reliable and of value to clients.

<sup>7</sup> 'Consumer Credit Insurance has a specific definition for the purposes of 2020 GI Code Part 6.

<sup>8</sup> 'Pressure selling' is defined in the 2020 GI Code.

<sup>9</sup> 2020 GI Code Paragraph 44.

<sup>10</sup> 2020 GI Code Paragraph 53.

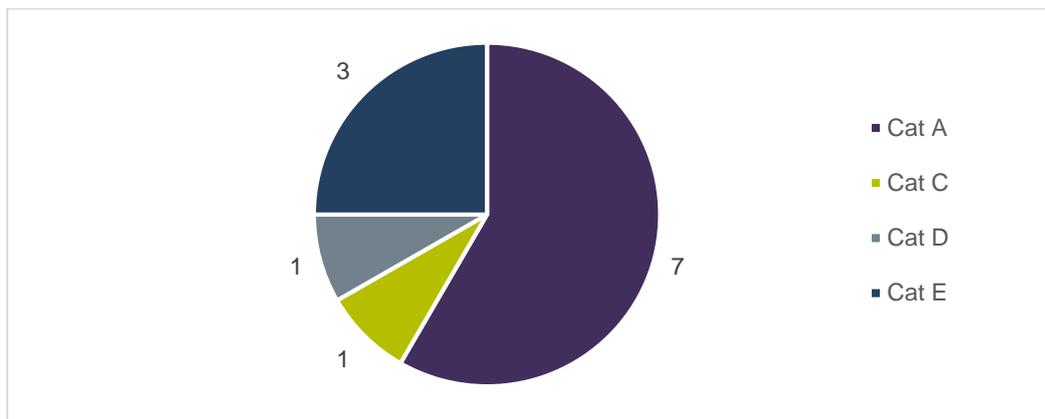
<sup>11</sup> 2020 GI Code Paragraph 54.

# Add-on general insurance products

## Who sells add-on insurance products?

Data from the 2019 ACS reveal that the vast majority of Code subscribers do not sell add-on general insurance products. In fact, just 12 Code subscribers (or 2.6% of the total) offer the sale of an add-on insurance product. Seven are Category A subscribers (businesses that employ more than 100 FTE staff), three are Category E subscribers (businesses with 0–20 FTE staff), and there is one each in Category C (31–50 FTE staff) and Category D (21–30 FTE staff).

**Chart 1: Number of Code subscribers that sold add-on general insurance products in 2018–19 (by size of business)**



## Products offered for sale by Code subscribers

The type of products offered by the 12 Code subscribers varies extensively and is often specialised. For example, one Code subscriber offers **cyber security insurance** aimed specifically at bookkeepers as an add-on to their professional indemnity insurance. Another subscriber sells **customer storage insurance** as an add-on product to cover the contents of a client’s goods when they rent storage space. A third subscriber offers **reservation cancellation insurance** to people when they book accommodation at holiday resorts and caravan parks.

Most of the add-on general insurance products offered by Code subscribers are sold alongside some form of motor vehicle insurance. One Code subscriber sold between 500 and 1,000 **tyre and rim insurance** policies during 2018–19. Other subscribers sold a range of products including **motor vehicle and physical damage insurance**, **mechanical breakdown insurance** and **extended warranty insurance**. One subscriber provides extended warranty insurance but only for high-end luxury motor vehicles and only as an agent of the insurer, not as the broker. Another subscriber sold **involuntary unemployment insurance** to novated lease clients to cover their lease payments in the event of an involuntary job loss.

Two Code subscribers offer **guaranteed asset protection (GAP) insurance**, which is insurance that covers the difference between what a consumer owes on a loan and any amount received under a separate insurance policy if the asset is a total loss. One of the two Code subscribers said they only sell GAP insurance as part of a comprehensive motor policy.

A single Code subscriber reported selling **consumer credit insurance** during 2018–19, and even then, just one policy was managed as a spotter via the subscriber’s specialist credit insurance division. Sold alongside credit products such as credit cards, personal loans, home loans and car loans, CCI provides coverage if a person becomes unable to meet their repayments, generally due to death, disability, serious illness or involuntary unemployment.

CCI is arguably the most problematic of all add-on insurance products and has been the subject of ongoing criticism from regulators, government and consumer groups for being difficult to understand and unsuitable for most consumers’ needs. It has also been found to present poor value for consumers – a fact that was underscored in an ASIC review of all CCI products sold from 2011 to 2018, which found that consumers received only \$0.19 in paid claims for every \$1.00 paid in premiums.<sup>12</sup> The Committee is pleased to note that the sale of CCI is a rarity amongst insurance broking firms.

Other types of add-on general insurance products offered by Code subscribers are **property insurance, lease protection insurance, landlord’s content insurance and marine and transit insurance**.

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<sup>12</sup> See ASIC Report 622: [Consumer credit insurance: Poor value products and harmful sales practices](#), July 2019.

# Sales practices

## How do Code subscribers sell add-on insurance products?

There was little information provided in the ACS to enable much commentary on the sales practices of the 12 Code subscribers who offer add-on general insurance products. Follow-up discussions with five of them shed some light on how they sell these products, as well as how they determine that the products are useful, reliable and of value to clients.

Most reported that, when advising clients about add-on insurance products, their brokers and authorised representatives mainly rely on scripted conversations and documentation, such as a schedule of proposed cover, a contract and the product disclosure statement (PDS). One subscriber advised that they have a policy whereby a full refund is immediately provided to the client if they are dissatisfied with the add-on insurance product.

It was apparent, however, that the reliability of the product and its value to the client is not often considered by brokers or representatives during the sales process. Concerningly, it was also evident that clients are not always made aware that the purchase of add-on insurance is optional.

As has been stated elsewhere in this report, much of the criticism of add-on insurance has focused on its sale to consumers who do not understand the product they are buying and who are largely ineligible to make a claim. While the Code does not make specific reference to the sale of add-on insurance, it does include important service standards designed to ensure that clients receive advice from insurance brokers and their authorised representatives that is transparent, fair and honest. Both Service Standard 4 and Service Standard 5 of the Code speak directly to the need for subscribers to clearly inform their clients about the scope of services covered, and to provide clients with advice that is appropriate to their needs when clients enquire about, buy or renew an insurance product.

The Committee expects Code subscribers who sell add-on insurance products to ensure that their brokers and authorised representatives understand both the product they are selling and the needs of the person they are selling it to. In order to do both of these things, they should not rely purely on PDSs and other written disclosures. Instead, they should clearly explain the purpose and total cost of the add-on insurance product to the client and discuss the client's eligibility to make a claim. When explaining the cost of add-on products, if the client is using a premium funding agreement, they should also be clear about the added interest that an add-on product contributes to the total funding agreement. They should also

### **CASE STUDY: HOW ONE CODE SUBSCRIBER SELLS ADD-ON INSURANCE**

*The Category A Code subscriber offers the sale of **reservation cancellation insurance**, which can be taken out by clients when booking accommodation through a booking platform. Once a client has booked their accommodation, they are offered the reservation cancellation insurance on a passive, opt-in basis. At the point of sale, the client is given clear information about the general advice warning, the benefits of the reservation cancellation insurance and a copy of the Financial Services Guide. If the client is dissatisfied with the product fee, they are provided with a full refund.*

*The reservation cancellation insurance is underwritten by the insurer, with all claims managed by the subscriber, but none of the subscriber's employees or authorised representatives are involved in the offer of the insurance.*

seek to clearly understand the client's risk profile and how the product will address their risk issues identified.

Code subscribers should also consider introducing a deferred sales model that reflects the federal government's proposed legislation as part of their process for selling add-on insurance. In the Committee's view, providing a client with time to consider the merits of (and alternatives to) any add-on insurance product following their purchase of a primary insurance product is good practice.

### **Recommendations**

- Ensure that all add-on general insurance products you offer for sale are useful, reliable and of value to clients based on a proper evaluation of a client's risk profile.
- Prevent sales of add-on general insurance policies to clients who are unlikely to be eligible to make a claim. Include in all sales scripts an explanation of the purpose and cost of the add-on general insurance product (including any exclusions or limitations) and discussion about the client's eligibility to make a claim.
- Take steps to ensure that the client understands that the purchase of add-on general insurance is optional.
- Introduce a deferred sales model for selling add-on general insurance products prior to it becoming a legislative requirement.
- Commission an independent audit of your add-on general insurance sales practices to identify any processes that could lead to client detriment.

# Remuneration

## How are Code subscribers paid for selling add-on insurance?

In the ACS Questionnaire, Code subscribers were asked about how they are remunerated for any add-on general insurance products they sell. Three options were provided: commission/brokerage; fixed fee; or other.

Of the 12 Code subscribers who sell add-on insurance products, 10 are remunerated on a commission basis, with two saying they also receive a fixed fee, such as an administration fee, for selling some products. The commission earned on sales is typically around 20% of gross written premium. Two subscribers are not paid a commission but instead receive a fixed fee for the sale of add-on insurance products. The fixed fees vary according to the product sold, the duration of the insurance coverage or the percentage of the monthly lease rental.

Commission-based sales models have come under fire for resulting in unethical sales practices, such as pressure selling, which is prohibited under general law. In its final report, the Royal Commission drew attention to the use of commissions in the sale of add-on insurance. The report categorised a number of different add-on insurance products as low-value but high-profit, leading them to be sold aggressively by people paid a commission for each sale.<sup>13</sup>

The Royal Commission asserted that conflicts of interest and conflicts between duty and interest should be removed rather than 'managed' wherever possible, and ultimately made two recommendations to facilitate this: first, that an industry-wide deferred sales model for the sale of any add-on insurance be introduced; and second, that ASIC impose a cap on the amount of commission that vehicle dealers can be paid for selling add-on insurance products.

The federal government is scheduled to enact these recommendations into law pending Royal Assent and the Committee urges any Code subscriber who sells add-on general insurance products to review their sales contracts and remuneration arrangements with the insurance providers to ensure they are not openly or inadvertently encouraging employees or authorised representatives to engage in pressure selling. An independent audit of all sales processes and remuneration arrangements associated with add-on insurance products is also advisable.

### Recommendations

- Review sales contracts and remuneration arrangements with insurance providers to ensure they are not openly or inadvertently encouraging your employees or authorised representatives to engage in pressure selling of add-on general insurance products.
- Commission an independent audit of your add-on general insurance remuneration arrangements to identify any processes that could lead to client detriment.

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<sup>13</sup> [Final Report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry](#), Volume 1, p. 284.

## Training and monitoring

Under Service Standard 8 of the Code, subscribers are required to ensure that their staff and authorised representatives are competent and adequately trained, and their performance appropriately assessed and monitored. This includes training and monitoring staff and authorised representatives who sell add-on general insurance products.

In the ACS Questionnaire, Code subscribers were asked to describe the nature of the education and training employees and/or authorised representatives are required to receive before they are permitted to offer add-on insurance products. They were also asked to describe how their organisation monitors the performance of those staff and representatives.

Almost all of the 12 subscribers said they have procedures in place for training and monitoring both staff and authorised representatives in the sale of add-on insurance.

### Education and training

For most subscribers, training typically refers to education, provided by the insurer to the subscriber's employees and authorised representatives, about product features and benefits, and/or training in interview skills or the scripted sales process.

As mentioned earlier in this report, thorough knowledge of the product is important for those tasked with selling it to consumers. Just as important, however, is training in ethical sales practices and the relevant Code obligations. All Code-subscribing insurance brokers, regardless of whether they sell add-on insurance products, should mandate training in these areas for their employees and representatives, with particular emphasis on the obligations set out in Service Standard 5 of the Code.

Pleasingly, some Code subscribers said they provide their employees, authorised representatives (and, in some cases, distributors) with training in-house through internal compliance and product training programs, usually online. In general, this occurs during the onboarding process for new employees and authorised representatives and is enhanced with follow-up refresher training once a year.

#### **CASE STUDY: HOW ONE SUBSCRIBER TRAINS AND MONITORS ITS STAFF AND AUTHORISED REPRESENTATIVE IN THE SALE OF ADD-ON INSURANCE**

*The Code subscriber is a Category C subscriber. It sells tyre and rim insurance, which is offered to the client on a General Advice Warning basis alongside the quote details for the client's car insurance. The information is sent via email or in response to the client enquiring through the manufacturer's website. The Code subscriber sold between 500 and 1,000 tyre and rim policies during 2018–19.*

*The subscriber provides all staff and authorised representatives with compliance training when they commence working for the subscriber, and this is followed up with annual refresher training. Staff are unable to access the tyre and rim insurance product until they have completed the required compliance and product training modules.*

*Staff performance in selling the add-on insurance is monitored via audits undertaken in conjunction with the insurer and also through reporting on, for example, renewals and the issuance of regulatory documentation. Authorised representatives are monitored via periodic audits by the insurer. This is done either through scheduled compliance audits or in response to other potential compliance issues that are identified through other areas of the business.*

Two subscribers reported that all staff are required to complete and pass compliance training modules prior to selling add-on insurance products (employees at one broking firm must achieve a minimum pass rate of 80%).

Other subscribers use external training providers such as Gold Seal and the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) to upskill their staff in compliance. In an example of good practice, one subscriber noted that all broking staff are required to hold ASIC Tier 1 or Tier 2 accreditation, as well as being accredited with ASIC Regulatory Guide 146 on the training of financial product advisers.

While the training techniques outlined above can be effective, Code subscribers should consider alternative approaches that take into account the different needs and learning styles of those being trained. Training programs can be adjusted where necessary to ensure they are engaging, relevant and support knowledge retention.

### Recommendations

- Ensure that training and education programs for staff and authorised representatives include training in ethical sales practices and the relevant Code obligations, with particular emphasis on the obligations set out in Service Standard 5 of the Code.
- Conduct an annual review of your compliance with the relevant Code obligations under Service Standard 5 of the Code. Include all add-on general insurance products you sell and determine if they are reliable, useful and of value to your clients.
- Incorporate alternative approaches to training that consider the different needs and learning styles of those being trained. Tailor training programs where necessary to ensure they are engaging, relevant and support knowledge retention.

### Performance monitoring

According to the ACS responses, the performance of staff and/or authorised representatives who sell add-on general insurance products is monitored reactively – that is, only after the sale has occurred. Some of the monitoring strategies listed by Code subscribers include:

- monitoring staff performance through in-house meetings and in discussion groups
- monitoring staff performance through annual compliance audits and ongoing education and training
- monitoring product sales through spot audits conducted by the underwriter
- monitoring product sales on a monthly basis
- auditing staff performance in conjunction with the insurer, and
- monitoring authorised representatives performance via an annual review.

While subscribers did not provide detail about what problems or concerns their monitoring was intended to identify, it could be inferred from some of the above responses that their focus is largely on the volume of products sold rather than on Code compliance or ethical sales practices, which is concerning.

As with training, it is important to consider alternative approaches to monitoring that include proactive as well as reactive monitoring activities.

These could include:

- observation of employees during the sales process
- call monitoring
- regular reviews and updates of sales scripts
- reviewing file notes and documents
- mystery shopping
- client feedback, and
- client satisfaction surveys.

Proactive monitoring will help identify any gaps in process and/or training, as well as ensure that the add-on insurance products being sold are useful, reliable and of value to clients.

#### **Recommendation**

- Monitor the compliance and performance of staff and authorised representatives before, during and after the sale of an add-on general insurance product, to identify any gaps in process and/or training, and to ensure that the products being sold are useful, reliable and of value to clients.

## Conclusion

As general insurance intermediaries, insurance brokers are uniquely placed to assess the value of add-on general insurance products for their clients.

If that assessment determines that a particular add-on general insurance product is suitable for a client's needs and risk profile, in a way that an alternative insurance product is not, then the broker will be considered to be acting in the best interests of the client. If, on the other hand, the broker's advice about the value of an add-on general insurance product for their client is in any way motivated by earning a high commission on the sale, then the advice is neither independent nor in the client's best interests.

The inquiry may have found that only a very small number of Code subscribers currently offer add-on general insurance products for sale. However, it is noteworthy that seven of the subscribers that do sell these products are large broking firms employing more than 100 full-time equivalent staff. The number of clients being sold, or potentially being sold these products could therefore be high.

Brokers should hold themselves to a high professional standard, acting in their clients' best interests by finding insurance policies that meet their needs. The Committee is pleased to note that the inquiry shows, on the whole, that the Code subscribers who do sell add-on general insurance products are doing so appropriately and with their clients' needs in mind.

We encourage these subscribers to review the recommendations contained in this report for enhancing their sales practices, remuneration arrangements, training and education programs, and procedures for monitoring staff and authorised representatives who sell add-on general insurance products.

## Appendix 1. Online questionnaire

Questions under section E of the 2019 Annual Compliance Statement (ACS) dealing with question relating to the sale of add-on general insurance products:

*The following section will examine the extent to which Code subscribers might be involved in the sale of various types of **add-on general insurance products**. Service Standard 5 of the Code includes the obligation to “provide advice that is appropriate for your needs” that apply when clients enquire about, buy or renew such products and that underpin the related sales processes and services.*

*Add-on general insurance products are generally those sold in conjunction with another primary product. The primary product may be another type of insurance contract or financial service product or it may be another type of product altogether (such as a motor vehicle). Examples of add-on insurance products include consumer credit insurance sold with loans and insurances sold with motor vehicles such as tyre and rim cover.*

### OVERVIEW OF ADD-ON GENERAL INSURANCE PRODUCTS

**E.1** Does your organisation (including authorised representatives) offer for sale add-on general insurance products?

*[Please select ONE only]*

- YES, please go to item E.2.
- NO, you are not required to complete this section. You will be taken to item F.

**E.2** Please list the types of add-on general insurance products that your organisation offers to clients:

*[Please select ALL that apply]*

	<i>Select</i>	<i>Comment</i>
Consumer Credit Insurance (CCI)		
Hybrid CCI products		
Guaranteed Asset Protection (GAP) insurance		
Loan termination insurance		
Extended warranties		
Mechanical breakdown insurance		
Tyre and rim insurance		
Other [please provide details]		

**E.3** Please state the **approximate** number of add-on general insurance policies sold for the period 1 January to 31 December 2019.

*[Please select ALL that apply]*

	<i>Nil</i>	<i>Up to 50</i>	<i>51 to 100</i>	<i>101 to 250</i>	<i>251 to 500</i>	<i>501 to 1,000</i>	<i>Over 1,000</i>	<i>Other</i>
Consumer Credit Insurance (CCI)								
Hybrid CCI products								
Guaranteed Asset Protection (GAP) insurance								
Loan termination insurance								
Extended warranties								
Mechanical breakdown insurance								
Tyre and rim insurance								
Other [please provide details]								

## REMUNERATION

**E.4** Select the type of remuneration received by your organisation when offering add-on general insurance products:

*[Please select ALL that apply]*

	<i>Select</i>	<i>Comment</i>
Commission/brokerage		
Fixed fee		
Other [please provide details]		

## TRAINING & MONITORING

**E.5** Describe the nature of the education and training that your organisation provides to employees and/or authorised representatives, or requires them to receive, before permitting them to offer add-on general insurance products.

**E.6** Describe how your organisation monitors the performance of staff and/or authorised representatives who offer add-on general insurance products for sale.

## Appendix 2. Questionnaire results

The following tables reflect data received via the 2019 Annual Compliance Statement relating to the period 1 January 2019 to 31 December 2019.

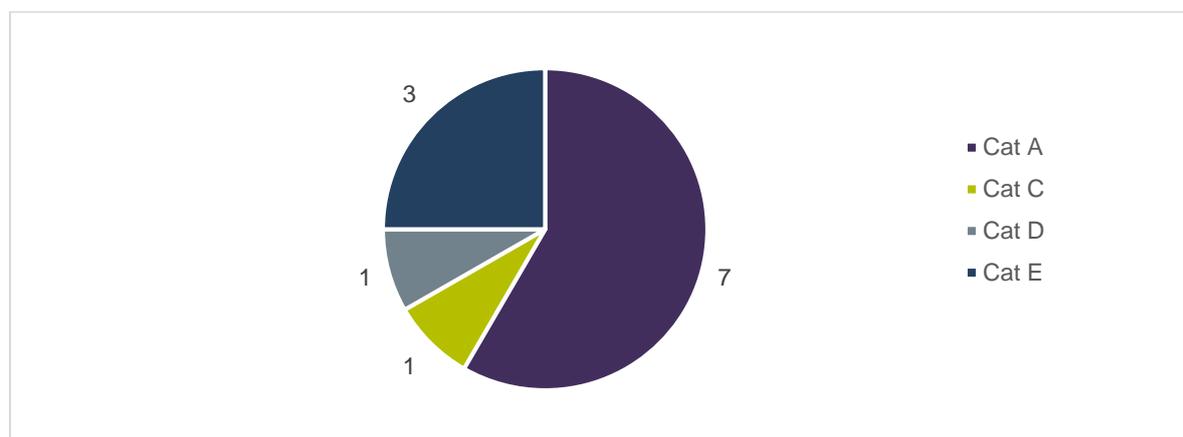
**Table 1: Categorisation of Code subscribers by size of business**

Category	Comment
<b>Category A</b>	over 100 full time equivalent (FTE) staff
<b>Category B</b>	51-100 FTE staff
<b>Category C</b>	31-50 FTE staff
<b>Category D</b>	21-30 FTE staff
<b>Category E</b>	0-20 FTE staff

**Table 2: Responses under section D 'Complaint(s) reporting', section D.3 'Products involved in complaints received' relating to sale-on general insurance products**

	Cat A	Cat B	Cat C	Cat D	Cat E	Total
<b>Number of complaints involving Extended Warranty product</b>	1	0	0	0	0	1
<i>In % of total self-reported complaint</i>	0.2%	0%	0%	0%	0%	0.1%
<i>Number of Code subscribers self-reported these complaints</i>	1	0	0	0	0	1
<b>Number of complaints involving Add-on general insurance products</b>	11	0	1	1	0	13
<i>In % of total self-reported complaint</i>	2.0%	0%	0.4%	1.1%	0%	1.0%
<i>Number of Code subscribers self-reported these complaints</i>	3	0	1	1	0	5
<b>Number of complaints involved Consumer Credit products</b>	0	0	0	0	0	0

**Chart 1: Responses under section E.1 regarding number of Code subscribers offering sale of add-on general insurance products**



**Table 3: Responses under section E.2 and E.3 regarding number of Code subscribers offering which types of sale of add-on general insurance products and number of policies sold**

	Cat A	Cat C	Cat D	Cat E	Total
Consumer Credit Insurance (CCI)	-	-	-	1	1
<i>Policies sold</i>	-	-	-	Up to 50 policies	
Guaranteed Asset Protection (GAP) insurance	2	-	-	-	2
<i>Policies sold</i>	Over 1,000	-	-	-	
Extended warranties	-	-	-	1	1
<i>Policies sold</i>	-	-	-	101 to 250	
Mechanical breakdown insurance	-	-	1	1	2
<i>Policies sold</i>	-	-	Over 1,000	nil	
Tyre and rim insurance	-	1	-	-	1
<i>Policies sold</i>	-	501 to 1,000	-	-	
Other	7	-	-	1	8
<i>Policies sold</i>	Over 1,000	-	-	251 to 500	

**Table 4: Responses under section E.4 concerning type of remuneration received by Code subscribers selling add-on general insurance products**

	Cat A	Cat C	Cat D	Cat E	Total
Commission/brokerage	6	1	1	2	10
Fixed fee	3	-	-	1	4

# Appendix 3. Application of the General Insurance Code of Practice

A copy of the 2020 General Insurance Code of Practice is available at <https://insurancecode.org.au/resources/2020-general-insurance-code-of-practice/> .

## Part 3: Our obligation to you

**21.** We, our Distributors and our Service Suppliers will be honest, efficient, fair, transparent and timely in our dealings with you.

## Part 6: Buying insurance

### Pressure Selling

**44.** Pressure Selling of our products is prohibited. We will make this clear to our Employees and Distributors.

### Consumer Credit Insurance

**52.** We will not sell you a Consumer Credit Insurance product during the deferred sales period.

**53.** If we, or any intermediary acting on our behalf, offer you Consumer Credit Insurance for credit cards, home loans or personal loans, then we will take reasonable steps to ensure that:

- a.** you are given clear information, before the deferred sales period starts, about the cost of the Consumer Credit Insurance, the options for payment, how long it lasts and its key exclusions and limits;
- b.** you are informed that purchasing the Consumer Credit Insurance has no bearing on whether your application for a credit card, personal or home loan will be approved; and
- c.** no binding offer of Consumer Credit Insurance can be made to you until the end of the deferred sales period.

**54.** The deferred sales period is 4 days, starting on the day after you are informed that your credit card, home loan or personal loan is approved.

# Appendix 4. About the Insurance Brokers Code of Practice

## The Code

The 2014 Insurance Brokers Code of Practice ([the Code](#)) sets standards of good industry practice for the insurance brokers that have agreed to follow its standards when dealing with current and prospective individual and small business clients. The Code is owned and published by the National Insurance Brokers Association ([NIBA](#)) and forms an important part of the broader national consumer protection framework and financial services regulatory system.

The Code contains 12 key service standards that apply to all insurance broking services delivered to individuals and small businesses by Code subscribers across Australia.

By subscribing to the Code, insurance brokers have committed to continuously improving their standards of practice and service in their sector; promoting informed decision-making about their services; and acting fairly and reasonably in delivering those services.

The Code is currently being reviewed.

## The Committee

The Insurance Brokers Code Compliance Committee ([the Committee](#)) is an independent compliance monitoring body established under the Code and the Code Compliance Committee Charter (the Charter). It comprises an independent chair, a person representing the interests of the insurance broking sector and a person representing the interests of consumers (including small businesses). The Code and Charter entrusts the Committee with several functions and responsibilities, including to:

- conduct Own Motion Inquiries into compliance with aspects of the Code, and
- provide advice to NIBA on training and other activities necessary to assist subscribers to meet their Code requirements.

## Definitions

For ease of reference when reading this report:

- 'the Code' means the 2014 Code unless otherwise stated.
- 'consumers' or 'clients' includes individuals or small businesses that are current and prospective customers of Code subscribers.
- 'Code subscribers' means insurance brokers that subscribe to the Code.

## Contributions

The Committee would like to thank each organisation that participated in the survey and the Code team who contributed to the publication of this report.