

## The Future of Consumer Credit Insurance

ASIC has set out the ground rules for Consumer Credit Insurance (CCI).

ASIC specifies its expectations for CCI – for the financial institutions that sell it and the insurers that underwrite it – in Report 622 issued on 11 July 2019.

### Why now?

CCI has been on the regulatory agenda for decades. ASIC picked up the responsibility from ACCC in 2010 and issued its first report in 2011. The current project started in earnest in August 2017, involving eleven lenders and their insurers.

While the project pre-dates the Royal Commission by some time, ASIC draws a clear link with Recommendations 4.1, 4.3, 4.7 and 4.8. From a practical perspective actions become part of the overall Royal Commission response.

ASIC refers specifically to how Product Design and Distribution Obligations will support implementation of these expectations. ASIC also clearly flags future actions using its new Product Intervention Powers (incidentally also being consulted on at the same time).

### The new expectations for CCI

#### 1. Improved product design and value:

- Unbundle products so sections can be chosen
- Claim ratios must be a lot higher than at present
- Lenders should assess products before starting to sell them
- Benefits should reflect the needs of consumers.

#### 2. Compliance and monitoring:

- Refer to the 10 recommendations back in Report 256
- If you don't meet them, stop selling the product
- If you haven't met them do a remediation program.

#### 3. Improved sales practices:

- No outbound unsolicited phone sales (c.f. anti-hawking)
- Hard filters and knock-out questions on eligibility to claim

- Use what you already know about the consumer
- Positive, clear and informed consent before discussing sale of CCI
- Four day deferred sales model (now in the Code of Banking Practice effective from 1 July 2019)

#### 4. Improved post-sales conduct:

- Don't charge premiums for cover no longer available (loan has been paid down or repaid)
- Annual communication about price, limits and exclusions, and a reminder to lodge a claim if relevant
- Confirm continued coverage on a credit card or revolving credit every two years
- If the lender gets a Financial Hardship request, remind the consumer of the policy and forward the customer's details to the insurer for assessment
- Accurately record number and reasons for withdrawn claims or claims that did not proceed.

### Some other observations

- Claim ratios averaged about 20% – credit cards were 11%.
- More than half the lenders have stopped selling CCI with some products.
- ASIC has required remediation: expected to be over 300,000 consumers and over \$100m.
- Number of sales by the 11 lenders dropped from 660,000 in 2014 to 190,000 in 2018.
- The report shows the average claim ratios for each of the lenders (p 11). It also shows which insurers underwrote each lender (p 19).

### Implications

- For lenders that are ADIs, the rules are now pretty clear.
- For unregulated lenders, adopt these rules promptly.
- For other add-on insurance, this sets out a model that may well be followed for other products in future.



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