Sale of consumer credit insurance by customer owned banking Code subscribers

Inquiry into how Code subscribers sell consumer credit insurance (CCI) having regard to the obligations under Section D13 'Third party products and services' of the Customer Owned Banking Code of Practice.

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Executive summary

Subscribers to the Customer Owned Banking Code of Practice that sell add-on insurance products from third-party providers must comply with relevant Code obligations on product value and on the training of employees and authorised representatives. Code subscribers must also have appropriate frameworks for ensuring, monitoring and demonstrating compliance. Consumer, regulator and government scrutiny of add-on insurance products, in particular, consumer credit insurance, has been mounting in recent years.[1] The Customer Owned Banking Code Compliance Committee ('the Committee') has conducted an Own Motion Inquiry into Code subscribers' sales practices and Code compliance in this area.

The inquiry

Add-on insurance, particularly CCI, has been criticised for offering poor value for consumers. Insurers and third-party sellers have also come under scrutiny for mis-selling, including pressure selling and selling to consumers who were unaware they were consenting to purchase. As a result, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) recently recommended the introduction of a deferred sales model. The Australian Securities and Investments Commission (ASIC) has also identified poor-quality insurance products and insurance mis-selling as an ongoing enforcement focus.

The Committee aimed to find out whether and how Code subscribers sell consumer credit insurance (CCI) and other add-on insurance products and examine Code subscribers' compliance with relevant Customer Owned Banking Code of Practice (Code) obligations concerning how staff are trained to sell add-on insurance and how Code subscribers ensure that add-on insurance products are useful, reliable and of value to consumers. Data for the inquiry was collected via a written questionnaire completed by all Code subscribers as part of the Annual Compliance Statement (ACS) program, as well as a Data Verification Project (DVP) with a selection of 13 Code subscribers who sold a high volume of CCI policies.

Findings and recommendations

Add-on insurance products sold

Nearly all Code subscribers sell add-on insurance products, particularly CCI. Some 59 Code subscribers (92%) reported in the ACS that they sell CCI, with 27,823 CCI policies sold in 2017–18. Three Code subscribers also distribute hybrid CCI, and four sell other types of general insurance. One large Code subscriber sells guaranteed asset protection (GAP) insurance.

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

Recommendation 1: Ensure that add-on insurance sales are useful, reliable and of value to customers

If Code subscribers sell CCI, GAP insurance and other add-on insurance products that have been found to typically provide little value to consumers, they should ensure these products are useful, reliable and of value to customers. Subscribers should consider shifting to a deferred sales model, as recommended by the Royal Commission.

Reference: Key Promise 5 - We will issue and distribute products and provide services that are useful, reliable and of value to our customers.

Sales practices

Only a minority of Code subscribers (15% of those selling add-on insurance) reported in the ACS that the issuing insurer influences how the Code subscriber markets and sells add-on insurance via contractual requirements. Where such contractual requirements are in place, the degree of insurer control varies.

DVP responses indicated that processes for ensuring that consumers understand and freely consent to purchase CCI are variable and not always robust. Only two Code subscribers stated that information about the cost and term of CCI is a mandatory inclusion in scripting and/or the sales procedure, while others appear to rely heavily on documentation such as the PDS and loan contract to communicate this information. Similarly, just two Code subscribers described system controls to prevent the sale of CCI to consumers ineligible to make a claim. While all 13 Code subscribers participating in the DVP described processes for obtaining verbal and/or written customer consent to the purchase of CCI, it is not clear that consumers are always effectively made aware that the purchase of CCI is optional.

Recommendation 2: Prevent sales to consumers unable to claim

Code subscribers must not sell add-on insurance policies to consumers who are unlikely to be eligible to make a claim. To prevent such sales, Code subscribers should not rely purely on PDSs and other written disclosures. Instead, Code subscribers should:

- include discussion of eligibility to claim and associated sales scripts and guidance
- put system controls in place that help to prevent inappropriate sales.

References: Key Promise 5 - We will issue and distribute products and provide services that are useful, reliable and of value to our customers.

See also: ASIC Report 256 Recommendation 1: Formal sales script

ASIC Report 256 Recommendation 10: Monitoring systems

Recommendation 3: Obtain meaningful consumer consent

To ensure that customers understand that the purchase of CCI is optional and not a condition of the credit contract, Code subscribers should:

- include this explicit statement in sales scripts
- separate consent to the sale of CCI from the signing of the loan contract.

References: Key Promise 3 - We will give you clear information about our products and services.

See also: ASIC Report 256 Recommendation 1: Formal sales scripts

ASIC Report 256 Recommendation 2: Evidence of consent

With regard to pressure selling, Code subscribers participating in the DVP generally reported that sales staff are expected to end a CCI sales conversation when a consumer indicates that they are not interested, without persisting or attempting to handle objections. However, only four explicitly stated that this expectation is set out in procedures or call scripts.

ACS data confirmed that all Code subscribers that sell add-on insurance receive a commission, typically around 20% of gross written premium, with seven Code subscribers using this generated premium income for staff remuneration.

Code compliance

All 13 Code subscribers participating in the DVP reported that they conduct some kind of review of the CCI products they sell. However, only two Code subscribers specified that these reviews consider the products' usefulness, reliability or value to consumers, as required under the Code. Moreover, reviews do not appear to be completed annually, as recommended by COBA.
ACS responses suggested that most monitoring of add-on insurance sales is done in hindsight by insurer. Code subscribers also described how they monitor add-on insurance sales with approaches such as call monitoring, hindsight loan reviews, and reviews of sales and cancellation figures. Most subscribers did not identify the focus of their monitoring efforts. Those that did tended to indicate that monitoring was focused on sales volume rather than ethical sales practices or legal, regulatory and Code compliance, although there were a few examples of good practice.

Recommendation 4: Review add-on insurance sales practices annually

In line with COBA guidance, Code subscribers should **annually** review all third-party products – particularly add-on insurance products – for their usefulness, reliability and value to consumers. Review the number of cancellations during the cooling off period and rejected and withdrawn claims and the overall premium-to-claim ratio and the provider's claim rating.

Reference: D13.1 - We will take steps to ensure that third party service providers we introduce are reputable, and the third-party products and facilities we distribute are useful, reliable and of value to our customers. We will regularly review the third-party service providers and third-party products and services we introduce and distribute.

See also: ASIC Report 256 Recommendation 10: Monitoring systems

In the ACS, all Code subscribers reported that employees and authorised representatives receive training before being allowed to sell add-on insurance. This training is typically provided by the insurer. Few Code subscribers described the content of the training; those that did mostly referred to training on product features and/or interview skills and the scripted sales process.

Recommendation 5: Train staff on ethical sales practices

Code subscribers should ensure that training for staff and authorised representatives selling add-on insurance includes training on ethical sales practices and the relevant Code requirements.

Reference: Key Promise 5: We will make sure our staff and agents or representatives are well trained.

See also: ASIC Report 256 Recommendation 9: Training programs

Recommendation 6: Improve monitoring processes

Code subscribers should review and improve their processes for monitoring the sale of add-on insurance products to ensure that these processes can identify Code non-compliance and are not focused primarily on sales volume. Monitoring should include monitoring of the rate of cancellations during the cooling-off period and a review of rejected/withdrawn claims to identify problems in the sales process.

Recommendation 7: Independently audit CCI sales practices

Code subscribers that sell CCI should undertake periodic independent audits of their CCI sales practices and the extent to which they ensure that products are only sold where they are of value to the customer.

Introduction

Add-on insurance has attracted increasing scrutiny from consumer groups and regulators.

In October 2011, ASIC issued Report 256 *Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions* (REP 256), which made 10 recommendations to raise industry standards and reduce the risk that CCI may be mis-sold to consumers.

To assist subscribers to consider responses to the issues raised in this inquiry, we have included the applicable recommendations from ASIC's Report 256 for reference (Appendix 5).

During 2015 and 2016, ASIC reviewed the sale of add-on insurance (including CCI) through car dealerships. ASIC found that consumers were being sold expensive, poor value products that provided very little or no benefit, and a sales environment with pressure selling, very high commissions and conflicts of interests.[2]

In August 2017, ASIC formed a CCI working group with industry to help respond to these concerns and improve outcomes for consumers. ASIC continues to be concerned about the sale and design of CCI, issuing in July 2019 Report 622 *Consumer credit insurance: Poor value products and harmful sales practices* (REP 622). Some of ASIC's concerns include:

- the sale of CCI to consumers who did not meet, or were unlikely to meet, the employment eligibility criteria under the policy when they were sold the policy (for instance, because they did not work the required minimum number of hours per week or were in casual or temporary employment) and would be unable to claim under the policy; and
- consumers being charged for more cover than they needed under the policy, including premiums and cover based on the (higher) loan amount applied for rather than the amount the consumer borrowed.

To identify areas of potential code breaches and recommend improvements to industry practice, the Committee launched an inquiry into customer owned banking institutions' sale of add-on insurance, with a focus on consumer credit insurance.

Add-on insurance

'Add-on insurance' refers to insurance products generally sold in conjunction with a primary product, which may be a financial services product such as a mortgage, or another type of product altogether, such as a motor vehicle. One type of add-on insurance is consumer credit insurance (CCI), which is sold with loans and promoted to borrowers to help them meet repayments if they lose their job, become sick or injured or die.

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[2] See Report 470 *Buying add-on insurance in car yards: Why it can be hard to say no* (REP 470), Report 471 *The sale of life insurance through car dealers: Taking consumers for a ride* (REP 471) and Report 492 *A market that is failing consumers: The sale of add-on insurance through car dealers* (REP 492).

Other examples include various insurances sold with motor vehicles, such as tyre and rim insurance (Appendix 1).

Add-on insurance products are issued by general insurers and sold both by insurers themselves and on their behalf by a range of external sellers – among them customer owned banking institutions that subscribe to the Code (Code subscribers). Code subscribers selling add-on insurance do this under their own Australian Financial Services Licences (AFSLs) in accordance with the *Corporations Act 2001* (Cwlth).[3] They are therefore legally responsible for the sales process and must comply with general consumer law. However, whereas insurers and their authorised representatives must also comply with the sales-specific customer protections in the General Insurance Code of Practice, these do not apply to Code subscribers and other third-party sellers acting under their own AFSLs.

Add-on insurance in the Customer Owned Banking Code of Practice

The Customer Owned Banking Code of Practice (the Code) contains limited provisions relevant to Code subscribers' sale of add-on insurance, which the Customer Owned Banking Association (COBA) has elaborated on with additional guidance.[4] Importantly, Code subscribers promise that the products and services that they issue or distribute are '**useful, reliable and of value to our customers**'. This obligation is contained in both Key Promise 5, which sets out Code subscribers' general commitment to delivering high customer service and standards, and in section D13, which deals specifically with third-party products and services introduced and distributed by Code subscribers. To assess usefulness, reliability and value, section D13 states that Code subscribers to **regularly review** third-party service providers, products and services.

Section D13 of the Code also requires Code subscribers to take steps to ensure such service providers are **reputable**. D13.2 states that Code subscribers will only distribute financial products of issuers that belong to an external dispute resolution scheme approved by the Australian Securities and Investments Commission (ASIC), that covers the product in question.

Further, under Key Promise 5, Code subscribers promise that their staff, agents and representatives are **well-trained**. COBA Guidance specifies that Code subscribers should ensure that staff receive adequate training about third-party products.

In 2017–18, four Code subscribers each self-reported one breach of Code section D13 concerning third-party products. Three of these breaches concerned CCI: one related to customers being overcharged premiums; one to a staff failure to follow proper call scripting; and one to incorrect cancellation of a customer's CCI. Also, in 2017–18, seven Code subscribers reported a total of 22 internal dispute resolution complaints to do with add-on insurance products. Twelve of these complaints were made to a single large Code subscriber.

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[3] General Insurance Code Governance Committee (2018) *Who is selling add-on insurance?*, p. 24.
[4] Customer Owned Banking Association (June 2016) *Customer Owned Banking Code of Practice Compliance Manual*, p. 75–76.

About the inquiry

Although these self-reported breach and complaint numbers are relatively low, in light of growing consumer, government and regulatory scrutiny of add-on insurance sales, the Committee decided to conduct an Own Motion Inquiry investigating Code subscribers' sales of add-on insurance, with a focus on CCI.

Inquiry aims

With the inquiry, the Committee aimed to find out:

- the extent to which Code subscribers are involved in the sale of add-on insurance
- what sales practices are used
- how Code subscribers assess and monitor the value of add-on insurance products for their customers, per the Code's requirements
- how staff are trained to sell add-on insurance
- whether improvements to add-on insurance sales processes are needed.

Inquiry methodology

Data for the inquiry was collected in two phases with the 2018 **Annual Compliance Statement** (ACS) followed by a **Data Verification Project** (DVP).

Firstly, as part of the 2018 ACS, **all** Code subscribers were required to provide written answers to questions about:

- the types and numbers of add-on insurance policies sold
- how staff and authorised representatives are trained and remunerated for the sale of add-on insurance
- whether and how contractual arrangements influence sales processes
- how staff performance is monitored.

The full questionnaire and a summary of responses are in Appendix 2.

In addition, more detailed information was collected from 13 Code subscribers who were selected to participate in the DVP based on their high volume of CCI sales compared to other Code subscribers of a similar size. These 13 Code subscribers were contacted by telephone for further discussion of their sales practices and how they determine that the add-on insurance products they sell are 'useful, reliable and of value to customers'.

The additional questions raised in the DVP and the characteristics of the 13 participating Code subscribers are detailed in Appendix 3.

Add-on insurance products sold

ACS data reveal that most Code subscribers sell add-on insurance, focusing almost exclusively on CCI and hybrid CCI products. However, in light of evidence that CCI typically offers little value to customers – and given persistent concerns about add-on insurance mis-selling – Code subscribers should carefully consider whether such sales comply with their promises under the Code.

CCI and hybrid CCI sales

CCI is the add-on insurance product most widely sold by Code subscribers. Sold alongside credit products such as credit cards and other loans, CCI provides coverage if a person becomes unable to meet their repayments, generally due to death, disablement, serious illness or involuntary unemployment.

In the ACS, nearly all Code subscribers (59 or 92%) – including all but one of the large[5] Code subscribers – reported that they sell CCI. During 2017–18, Code subscribers sold a combined total of 27,823 CCI policies, with most of these policies (22,114 or 79%) sold by large Code subscribers. Most of the Code subscribers (48 or 81%) that sell CCI reported that they also offer the products for sale after customers acquire the primary product. One large Code subscriber advised that 5% of CCI policies are cancelled during the cooling-off period.

Three Code subscribers also reported in the ACS that they distribute hybrid CCI – CCI that is sold bundled with other types of insurance such as sickness and accident insurance and unemployment insurance. Although one of these Code subscribers reported no sales during the period, the other two large Code subscribers sold a combined 263 policies, mainly sickness and accident, unemployment, death, disability and involuntary unemployment insurance.

Other insurance sales

Four Code subscribers reported selling other types of general insurance, which may or may not include other add-on insurance products. Three large Code subscribers sold a combined total of 8,668 general insurance products, including insurance products available for purchase after customer acquired the primary product.

One micro Code subscriber reported that it sold 164 general insurance products. One Code subscriber reported that it sold guaranteed asset protection (GAP) insurance. From the 535 GAP insurance policies, 30% were cancelled in the cooling-off period.

No Code subscribers reported that they sell loan termination insurance, extended warranties, mechanical breakdown insurance or tyre and rim insurance.

[5] Large Code subscribers are those with over $1 billion in assets.

Criticisms of add-on insurance

Add-on insurance – particularly CCI – has been subject to sustained criticism from consumer groups, who argue that add-on insurance sales practices see consumers 'buying insurance that they don't understand, is unsuitable for their needs and is poor value.'[6] This type of condemnation from consumer groups has been accompanied by growing scrutiny from regulators and government.

Much criticism of add-on insurance has highlighted the products' limited value for consumers. ASIC has found that CCI in particular presents poor value, with a review of all CCI products sold from 2011 to 2018 showing that consumers received only $0.19 in paid claims for every $1.00 paid in premiums.[7] Although CCI can appear inexpensive, it is costly compared to traditional insurance products such as life and income protection insurance.

Yet while CCI is comparatively expensive, independent research has revealed that a large proportion of CCI claims are rejected, and those that are accepted only pay out very small amounts.[8] Vulnerable consumers appear least likely to benefit substantively from CCI. For example, a person not employed (or, in some cases, working part-time) at the time insurance was taken out would usually only be able to claim in circumstances of death, despite paying for comprehensive coverage including sickness, disablement and unemployment.

Insurers and third-party sellers have also come under fire for their add-on insurance sales practices. In 2011, ASIC reviewed the CCI sales practices of 15 Authorised Deposit-taking Institutions (ADIs) and made recommendations that applied to all sellers of CCI.[9] In 2016, ASIC published a number of reports detailing problems with the sale of add-on insurance in the car sales environment,[10] and in 2017, it audited eight banks' CCI sales and establishing a CCI working group to improve outcomes in relation to CCI.

Its most recent report, published in July 2019, compared loss ratios for general insurance products over a seven-year period and found that CCI had the lowest ratio of losses to gains, making CCI the most profitable general insurance product for insurers.[11]

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[6] Consumer Action Law Centre (2015) *Junk Merchants: How Australians are being sold rubbish insurance and what we can do about it*, p. 5.

[7] See ASIC Report 622 (2019): *Consumer credit insurance: Poor value products and harmful sales practices* (REP 622).

[8] Slater Gordon Lawyers (2019) 'NAB Credit Card Insurance Class Action', https://www.slatergordon.com.au/class-actions/current-class-actions/consumer-credit-insurance

[9] Australian Securities and Investments Commission (2011) *Consumer credit insurance: A review of sales practices by authorised deposit-taking Code subscribers* (REP 256).

[10] See: ASIC Report 470 (2016): *Buying add-on insurance in car yards: Why it can be hard to say no* (REP 470); ASIC Report 471 (2016): *The sale of life insurance through car dealers: Taking consumers for a ride* (REP 471); ASIC Report 492 (2016): *A market that is failing consumers: The sale of add-on insurance through car dealers* (REP 492).

[11] See ASIC Report 622 (2019): *Consumer credit insurance: Poor value products and harmful sales practices* (REP 622).

Add-on insurance was also investigated by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission). The Royal Commission heard from consumer advocates including the Financial Rights Legal Centre, which reported that most of the 7,500 insurance-related calls it received from consumers in a year related to add-on insurance and how it was sold by car loan intermediaries, banks and other third-party distributors.[12]

Common problems included consumers not realising they had consented to purchases, high-pressure sales tactics, unsuitable sales and add-on insurance products that provided little benefit.[13] The Royal Commission's final report highlighted problems in the sale of add-on insurance and recommended the introduction of a deferred sales model and a cap on commissions.[14]

Addressing poor-quality insurance products and insurance mis-selling is an ongoing focus for ASIC. In June 2019, ASIC Chair, James Shipton, signalled insurance mis-selling as a priority area for enforcement action in the 2019–20 financial year.

As well as reviewing concerning product features, ASIC will begin taking enforcement action against both insurers and third parties that mis-sell insurance to vulnerable customers. ASIC has also asked AFCA to report unconscionable conduct in the sale of insurance cover that consumers do not need or cannot claim on.[15] Some companies are responding to the regulatory focus by reviewing their CCI sales and exiting the market.

The customer-owned banking sectors' sale of add-on insurance products has largely stayed out of the spotlight,[16] and was not discussed in the Royal Commission's report. However, this does not mean that Code subscribers' sale of add-on insurance is unproblematic.

Considering the Code's requirements that third-party products must be useful, reliable and of value to consumers, Code subscribers should be thinking seriously about whether to continue selling CCI given that this type of insurance is widely considered to hold little value for consumers.

At the same time, given evidence of ongoing mis-selling by other third-party sellers, Code subscribers should be closely scrutinising their own sales models and practices to ensure that mis-selling is not occurring.

[12] Witness statement of Karen Margaret Cox (10 March 2018) Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
[13] *insuranceNEWS.com.au* (19 March 2018).
[14] Commonwealth of Australia (February 2019) *Final report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Volume 1, p. 284.
[15] 'ASIC takes a big stick to insurance mis-selling', *InsuranceNEWS.com.au* (27 June 2019).
[16] Although in June 2018 ASIC took enforcement action against Bananacoast Community Credit Union (not a Code subscriber) over misleading CCI advertising (see ASIC Media release 18-173MR 'Bananacoast Community Credit Union to pay $50,400 for misleading advertising and provide remediation to consumers').

Recommendation 1: Ensure that add-on insurance sales are useful, reliable and of value to customers

If Code subscribers sell CCI, GAP insurance and other add-on insurance products that have been found to typically provide little value to consumers, they should ensure these products are useful, reliable and of value to customers. Subscribers should consider shifting to a deferred sales model, as recommended by the Royal Commission.

Reference: Key Promise 5 - We will issue and distribute products and provide services that are useful, reliable and of value to our customers.

Sales practices

Processes for ensuring that consumers understand and freely consent to purchase CCI are variable and do not always appear to be robust. All Code subscribers that sell add-on insurance are paid via commission.

Insurer influence

Insurers sometimes exert control over how their authorised representatives and other external sellers distribute add-on insurance products by building specific marketing and sales process requirements into contracts with these distributors.[17] However, only a minority of Code subscribers (9, or 15% of those selling add-on insurance) reported in the ACS that their contractual arrangements with the insurer influence how the Code subscriber markets and sells add-on insurance products.

Where contractual requirements do exist, the degree of control exercised by insurers varies. At the least controlled end, some contracts include general requirements on Code subscribers to comply with applicable law and regulation. Other Code subscribers are required to report to the insurer on their marketing activities. At the most controlled end, four Code subscribers stated that their contractual arrangements require them to have any marketing campaigns or programs approved by the insurer, and/or to use marketing or sales material, such as sales scripts, that are provided by the insurer.

While issuing insurers may influence sales processes to ensure legal compliance, insurers also have an interest in ensuring that the guides and scripts they provide or approve increase the likelihood of a sale. Code subscribers, however, have an additional responsibility to ensure not only that the sales process meets minimum legal requirements, but that their sales scripts and processes are fair to members.

Consumer understanding

Thirteen Code subscribers that sell high volumes of CCI were asked, through the DVP, for more detailed information about the steps they take to ensure that consumers understand the features of the CCI they are purchasing. These Code subscribers reported that consumers are made aware of the cost and term of the CCI through one or more pieces of documentation, such as a schedule of proposed cover, a contract and the PDS. However, only some of these Code subscribers reported that this information is also discussed with the consumer during the sales process. Disappointingly, just two Code subscribers specifically stated that the disclosure of information about the cost and term of the CCI is a mandatory inclusion in scripting and/or the sales procedure.

Much criticism of CCI has focused on its sale to consumers who are largely or entirely ineligible to make a claim, and for Code subscribers, selling CCI to a consumer who is ineligible to make

[17] General Insurance Code Governance Committee (2018) *Who is selling add-on insurance?*, p. 49.

a claim would constitute a breach of the Code. In its Code compliance guidance, COBA states that Code subscribers should consider how they ensure that products are only sold or distributed to people who are likely to receive some value from them. Acknowledging the particular problems associated with CCI, COBA specifically notes that customers should not be sold insurance where they unlikely to be able to make a claim, such as where CCI is sold to a consumer who in unemployed or has a pre-existing medical condition.

Concerningly, however, only a few of the 13 Code subscribers interviewed for the DVP appeared to have robust mechanisms to prevent the sale of CCI to consumers who are ineligible to make a claim. Six Code subscribers reported that information about eligibility to claim is provided in the PDS, but two of these did not refer to any additional disclosure or discussion of these issues during the sales process. Conversely, in examples of good practice, two Code subscribers referred to system controls that prevent ineligible customers from being sold cover or components of cover on which they would be ineligible to make a claim.

Recommendation 2: Prevent sales to consumers unable to claim

Code subscribers must not sell add-on insurance policies to consumers who are unlikely to be eligible to make a claim. To prevent such sales, Code subscribers should not rely purely on PDSs and other written disclosures. Instead, Code subscribers should:

- include discussion of eligibility to claim and associated sales scripts and guidance
- put system controls in place that help to prevent inappropriate sales.

Reference: Key Promise 5 - We will issue and distribute products and provide services that are useful, reliable and of value to our customers.

See also: ASIC Report 256 Recommendation 1: Formal sales scripts

ASIC Report 256 Recommendation 10: Monitoring systems

Consumer consent

Before they can consent to purchase CCI, consumers should be made aware that this purchase is optional. Code subscribers that sell high volumes of CCI again appear to have variable practices for disclosing this crucial information to consumers. In the DVP, five Code subscribers said that they have a mandatory script or a conversation checklist.

However, only two of these specified that the script includes an explicit explanation that the purchase of the cover is optional – the three remaining Code subscribers either did not provide detail on the content of the script or described a script that did not seem to include such a statement.

Although two additional Code subscribers said that initial customer conversations address the fact that the cover is optional, it was unclear whether this was actually required with a documented sales script or procedure.

More disappointingly, one Code subscriber did not describe any discussion with consumers but said that the PDS includes a clear statement that the cover is optional and can also be arranged through a different insurer. Three Code subscribers did not provide relevant information.

Customers must consent to the purchase of CCI, and Code subscribers interviewed for the DVP described different methods for obtaining and recording consent. Four of the 13 selected Code subscribers referred to a verbal consent or authorisation process, often scripted and recorded over the phone. One Code subscriber that uses verbal consent processes said that when authorisation is given in-branch or to a mobile lender, this is recorded via a customer review tool that is kept on file.

Seven Code subscribers referenced written consent processes, sometimes in addition to verbal consent. Three Code subscribers reported that consumers provide written consent by completing a CCI application form or other CCI documentation. Three Code subscribers reported that customers consent by signing the loan contract.

Recommendation 3: Obtain meaningful consumer consent

To ensure that customers understand that the purchase of CCI is optional and not a condition of the credit contract, Code subscribers should:

- include this explicit statement in sales scripts
- separate consent to the sale of CCI from the signing of the loan contract.

References: Key Promise 3 - We will give you clear information about our products and services.

See also: ASIC Report 256 Recommendation 1: Formal sales scripts

ASIC Report 256 Recommendation 2: Evidence of consent

Pressure selling

Pressure selling is prohibited under general consumer law. Code subscribers that sell high volumes of CCI were asked, through the DVP, whether they have formal guidelines to end the sales conversation if a consumer indicates that they do not want to purchase. Four Code subscribers reported that their instructions, procedure or call scripting explicitly requires staff to end the sales conversation when a consumer indicates no interest.

Two other Code subscribers said that there is no attempt to overcome customer objections, with one of these noting that references to ‘objection handling’ had been removed from the sales script. Three Code subscribers referred to training on ethical selling or on specific requirements to do with ending sales when a consumer indicates no interest.

To further guard against pressure selling and other unethical sales practices, Code subscribers should begin by reviewing their sales scripts and processes to ensure that they conform with

ASIC's 2011 recommendations to ADIs on how CCI is sold.[18] ASIC has recently stated that it will be examining how banks have addressed these recommendations. Applying these recommendations would help to ensure that Code subscribers comply with the key promises in the Code, including commitments to be 'fair and ethical' in dealings with customers and to deliver 'high customer services and standards'.

Recommendation 4: Review add-on insurance sales practices annually

In line with COBA guidance, Code subscribers should **annually** review all third-party products – particularly add-on insurance products – for their usefulness, reliability and value to consumers. Review the number of cancellations during the cooling off period and rejected and withdrawn claims and the overall premium-to-claim ratio and the provider's claim rating.

Reference: D13.1 - We will take steps to ensure that third party service providers we introduce are reputable, and the third-party products and facilities we distribute are useful, reliable and of value to our customers. We will regularly review the third-party service providers and third-party products and services we introduce and distribute.

See also: ASIC Report 256 Recommendation 10: Monitoring

Commission-based sales

While several Code subscribers interviewed for the DVP reported mechanisms to promote customer understanding and discourage pressure selling, ACS data also show that Code subscribers often employ commission-based sales models that may put pressure on staff to increase sales. All Code subscribers reported via the ACS that they earn a commission on sales – typically 20% of earned gross written premium, although one Code subscriber stated that commissions are as high as 30% for some products. Seven Code subscribers use this generated premium income as remuneration for staff.

In its final report, the Royal Commission drew attention to the use of commissions in the sale of add-on insurance. The report categorised CCI as one of a number of low-value but high-profit insurance products that are often sold aggressively by people paid a commission for each sale.[19] Arguing that where possible, conflicts of interest and conflicts between duty and interest should be removed rather than merely 'managed', the report recommended the introduction of a deferred sales model.

[18] Australian Securities and Investments Commission (2011) *Consumer credit insurance: A review of sales practices by authorised deposit-taking Code subscribers* (REP 256).
[19] Commonwealth of Australia (February 2019) *Final report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Volume 1, p. 284.

Code provisions

Code subscribers that sell add-on insurance products from third-party providers must comply with relevant Code obligations on product value and on the training of employees and authorised representatives. Code subscribers must also have appropriate frameworks for monitoring and ensuring compliance. However, DVP responses suggest that not all Code subscribers are complying with the Code's requirements.

Ensuring products are useful, reliable and of value

Under the Code, Code subscribers promise that the products and services that they issue or distribute are 'useful, reliable and of value to our customers'. This obligation is contained in both Key Promise 5, which sets out Code subscribers' general commitment to delivering high customer service and standards, and in section D13, which deals specifically with third-party products and services introduced and distributed by Code subscribers.

To assess usefulness, reliability and value, section D13 requires Code subscribers to regularly review third-party service providers, products and services. In its additional guidance, COBA has specified that such reviews should be conducted at least annually, with Code subscribers considering their customer base and trying to assess third-party products in an objective way.

However, DVP responses suggested that practice in this area is variable and often inadequate. Of the nine Code subscribers that participated in the DVP and also provided further information about their practices, all indicated that some kind of review of third-party products is conducted. Of these, five reported that this occurs when the Code subscriber renews its agreement with the third-party insurer or conducts a tender process. However, the thoroughness of this process appears to be highly variable, and only two Code subscribers specifically stated that it includes an assessment on measures relevant to the consumer, such as value for money or the claims experience. Moreover, Code subscribers' responses indicated that agreements are renewed or tendered every three to five years.

In addition, two large Code subscribers said there was a review process but provided no information about it. One large Code subscriber said that it engages external product managers who check products, contracts and sales, and one medium Code subscriber said that it checks that CCI eligibility criteria align with the Code subscriber's credit policies. One large Code subscriber reported that it was in the process of developing a product governance framework with a requirement for formalised review of all third-party products.

At the level of the individual customer, some Code subscribers referred in their DVP responses to processes intended to help assess the product's value to the consumer, or to exclude them from CCI sales should they be ineligible to claim.

However, two Code subscribers suggested that because purchasing CCI is optional, it is a consumer's responsibility to 'ask enough questions' and assess whether the product is of benefit to them after initial information is being provided to the customer. This attitude conflicts with the Code obligation to ensure that third-party products are useful, reliable and of value to consumers.

Education and training

Under Key Promise 5 of the Code, Code subscribers commit themselves to ensuring that their staff, agents and representatives are well-trained. COBA Guidance specifies that Code subscribers should ensure that staff receive adequate training about third-party products.

All Code subscribers reported in the ACS that employees and/or authorised representatives are provided with training (additional to standard Code subscriber training) before being permitted to sell add-on insurance. Training appears to comprise a mix of classroom and online training.

Only a handful of Code subscribers described the content of training, typically referring to education, provided by the insurer, about product features and benefits, and/or to training in interview skills or the scripted sales process. One Code subscriber noted that lenders are required to hold ASIC tier 2 accreditation, while another also referred to compliance with ASIC *Regulatory Guide 146* on the training of financial product advisers.

While product knowledge is obviously important for staff, agents and representatives selling third-party products, training also needs to go beyond product training offered by the insurer to include training on ethical sales practices and the relevant Code requirements. This is particularly important for a product such as CCI, where problems with the products themselves and how they are sold have been clearly identified consumer groups and acknowledged by regulators and industry alike.

Recommendation 5: Train staff on ethical sales practices

Code subscribers should ensure that training for staff and authorised representatives selling add-on insurance includes training on ethical sales practices and the relevant Code requirements.

Reference: Key Promise 5 - We will make sure our staff and agents or representatives are well trained.

See also: ASIC Recommendation 9: Training programs

Monitoring

Code subscribers promise to have appropriate frameworks for monitoring and ensuring compliance with their Code obligations, including concerning the sale of add-on insurance. From ACS responses, it appears that most monitoring is done by third-party insurers in hindsight, that is, after the sale occurred.

Such monitoring by insurers would be designed to identify potential breaches of their own legal, regulatory and code obligations, rather than considering whether the sales process was fair or complied with the Code. Code subscribers reported a range of monitoring strategies including:

- review of call recordings and live listening/call shadowing
- ad hoc branch visits
- review of sales figures
- hindsight loan reviews and loan file audits, including review of associated CCI
- review of issues in internal complaint handling.

Most Code subscribers' ACS responses did not provide detail about what problems or concerns their monitoring is intended to identify. Where they did, they referred generally to staff performance, product sales, or sales targets. This is concerning as it suggests that Code subscribers’ monitoring may be focusing on sales volume rather than ethical sales practices or legal, regulatory and Code compliance.

There were, however, some examples of good practice. For example, one Code subscriber reported that the insurer contacted a sample of CCI policyholders to confirm consumers’ understanding of the products and check that proper sales processes were followed. Another Code subscriber routinely monitors the rate of cancellations during the cooling-off period to identify problems in the sales process, and a third was planning an independent audit of its CCI sales practices.

Recommendation 6: Improve monitoring processes

Code subscribers should review and improve their processes for monitoring the sale of add-on insurance products to ensure that these processes can identify Code non-compliance and are not focused primarily on sales volume. Monitoring should include monitoring of the rate of cancellations during the cooling-off period and a review of rejected/withdrawn claims to identify problems in the sales process.

Recommendation 7: Independently audit CCI sales practices

Code subscribers that sell CCI should undertake periodic independent audits of their CCI sales practices and the extent to which they ensure that products are only sold where they are of value to the customer.

Compliance with the Code by subscribers in selling CCIs will be reviewed by inclusion of relevant questions in the next Annual Compliance Statement.

APPENDIX 1: Add-on insurance product definitions

Add-on insurance products are generally those sold in conjunction with another primary product. The primary product may be a financial services product (such as a mortgage or other type of insurance contract) 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.

Consumer credit insurance (CCI)*,* also known as loan protection or repayment cover, provides some cover if a consumer cannot meet the repayments on their loan due to involuntary unemployment, sickness, disability or death (including mortgage, credit card, personal and car loans).

Hybrid CCI products – CCI is often sold in bundles and can include some or all of these types of insurance:

- Car yard life insurance – covers the reducing amount owing on a car loan if the consumer dies and dependents want to take ownership of the car.
- Sickness and accident insurance – covers some or all of a loan if the consumer becomes disabled or sustain injuries that prevent him/her from working.
- Unemployment insurance – covers loan repayments for a short period (usually three months) if the consumer loses his/her job.

Guaranteed asset protection (GAP) insurance (also called motor equity insurance or shortfall insurance) covers the lender for the difference between what the consumer owes on the car loan, and what the car is insured for under comprehensive car insurance, if the car is written off.

Loan termination insurance (also known as walkaway insurance), will cover the difference between the value of a car and the amount outstanding on the loan if the consumer returns the car because he/she can no longer make the repayments due to illness or injury.

Extended warranties insurance is an extension of the warranty offered by the manufacturer or the statutory warranty for new or used cars. It generally covers original components and fittings at the time of purchase against mechanical failure or defect.

Mechanical breakdown insurance provides some cover for the repair or replacement of specific parts of a car if the car suffers an unexpected mechanical failure.

Tyre and rim insurance covers damage to tyres and rims that occurs as a result of blowouts, punctures and various road hazards (like driving through a pothole). General wear and tear is usually excluded from tyre and rim insurance coverage.

APPENDIX 2: ACS online questionnaire and data

Add-on general insurance products[20]

7. Overview of add-on general insurance products

7.1 Does your institution offer for sale add-on general insurance products?

[Please select ONE only]

- ☐ Yes - please go to question 7.2.
- ☐ No - you are not required to complete the remainder of this Questionnaire. You will be taken to question 10. at the end of the Questionnaire to complete your submission.

7.2 Please list the types of add-on general insurance products that your institution offers for sale:

	Please select ALL that apply	Comment	7.2.1 Please state the actual number of add-on general insurance policies sold for the period 1 July 2017 to 30 June 2018.	7.2.2 Is this product available to purchase from your institution at a time after customers have acquired the primary product?
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 [provide details]				

[20] Included as section G in the 2018 Annual Compliance Statement

8. Remuneration

8.1 Select the type of remuneration received by your institution when offering add-on general insurance products:

	Please select ALL that apply	Comment
Generated premium income		
Commission in % of insurance premium		
Fixed fee		
Fee based on loss ratio		
Other [provide details]		

9. Education and training

9.1 Describe the nature of the education and training that your institution provides to employees and/or authorised representatives, or requires them to receive, before permitting them to offer add-on general insurance products for sale in a competent and professional manner.

9.2 Do your institution's contractual arrangements influence and/or contribute to the way in which staff and/or authorised representatives market add-on general insurance products and/or conduct their sales processes and/or services?

[Please select ONE only and provide comment where necessary]

- ☐ Yes. Please comment on what these contractual arrangements enable your organisation to do.
- ☐ No

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

$ amount in assets	Under $200m	Between $200m and $500m	Between $500m and $1b	Over $1b	TOTAL
Q7. Does your Code subscriber offer for sale add-on general insurance products? *Single response only*					
Yes	18	11	10	20	**59**
No	3	1	0	1	**5**
Q7.2 Types of add-on general insurance products that Code subscriber offers:					
- Consumer Credit Insurance (CCI)					
Number of Code subscribers offering this product	18	11	10	20	**59**
Number of policies sold within 12 months	1,062	2,990	1,657	22,114	**27,823**
Number of Code subscribers where the product is also available to purchase at a time after customer has acquired primary product	13	8	8	19	**48**
- Hybrid CCI products					
Number of Code subscribers offering this product	0	0	1	2	**3**
Types of products			*For mortgage loans only*	*Sickness and accident Unemployment Death, Disability and Involuntary Unemployment*	
Number of policies sold within 12 months	0	0	Nil – no sales	263	**263**
Number of Code subscribers where the product is also available to purchase at a time after customer has acquired primary product	0	0	1	2	**3**
- Other					
Number of Code subscribers offering this product	1	0	0	3	**4**

$ amount in assets	Under $200m	Between $200m and $500m	Between $500m and $1b	Over $1b	TOTAL
Types of products[21]	*General insurance (home contents, motor vehicle, travel)*			*General insurance (home contents, motor vehicle, motorcycle, caravan, marine, travel) Life insurance GAP insurance*	
Number of policies sold within 12 months	164	0	0	9,038	**9,202**
Number of Code subscribers where the product is also available to purchase at a time after customer has acquired primary product	1	0	0	2	**3**
Q8.1 Type of remuneration received by Code subscriber when offering add-on general insurance products *Multiple responses possible*					
Generated premium income	1	0	1	5	**7**
Commission in % of insurance premium[22]	18	11	10	20	**59**
Other[23]	0	0	0	3	**3**
Q9.2 Do your Code subscriber's contractual arrangements influence and/or contribute to the way in which staff and /or authorised representatives market add-on general insurance products and/or conduct their sales processes and/or services? *Single response only*					
Yes	2	2	0	5	**9**
No	16	9	10	15	**50**

[21] Sold as agent for third party insurers
[22] Mostly stated as 20% commission on earned gross written premium

[23] Examples for 'Other' include: commission earnt on the range of general insurance products provided to members; subsidiary dividend paid to parent company; profit share in core earnings

APPENDIX 3: DVP questions and participants

DVP questions

1. How are consumers made aware that they are purchasing CCI or that CCI is optional?
2. How do consumers consent to the purchase of CCI?
3. How are consumers made aware that they may be ineligible to claim on all components of the CCI they have purchased?
4. Do your formal guidelines instruct staff to end a telephone call if the consumer indicates that they do not want to purchase the product (e.g. no pressure or harassment of sales staff)?
5. How do consumers understand how much they pay for CCI?
6. How do consumers understand how long the CCI they have purchased lasts for?
7. How do you determine that the products offered are useful, reliable and of value to customers?
8. Is there a process to review third party products?
9. Do you consider other similar products in the market?
10. Do you consider the loss-ratio of insurance products in assessing the value?
11. Do you review whether products are being sold appropriately?
12. Do you review the script to sell those products?

DVP participants

Code subscriber size	Number of Code subscriber selected	Selection criteria – number of CCI insurance policies sold
micro (under $200m in assets)	1	Over 200
small ($200m to $500m in assets)	2	Over 200
medium ($500m to $1b in assets)	1	Over 300
large (over $1b in assets)	9	Over 1,000

APPENDIX 4: Participating Code subscribers

	Size of Code subscriber (measured by $ amount in assets)				
	Micro	**Small**	**Medium**	**Large**	
	Under $200m	**Between $200m and $500m**	**Between $500m and $1b**	**Over $1b**	***TOTAL***
Number of active members					
Up to 10,000	16	2	-	-	***18***
Between 10,000 and 50,000	4	9	10	5	***28***
Between 50,000 and 100,000	-	1	-	8	***9***
Between 100,000 and 200,00	-	-	-	3	***3***
Over 200,000	-	-	-	5	***5***
Number of full time equivalent staff					
Up to 20	15	1	-	-	***16***
Between 21 and 30	2	1	-	-	***3***
Between 31 and 100	3	9	9	2	***23***
Over 100	-	1	1	19	***21***
TOTAL	***20***	***12***	***10***	***21***	***63***

APPENDIX 5: ASIC recommendations

ASIC Report 256

ASIC Report 256[24] 'Consumer credit insurance: A review of sales practices by authorised deposit-taking Code subscribers (p.10):

Recommendation 1: Formal sales scripts	When CCI is sold over the telephone, distributors should have formal scripts in place for their sales staff. Scripts should include: (a) sufficient structure to minimise the risk of staff being required to 'ad lib' or continually refer back to the PDS to provide information to the consumer; (b) a clear statement, made before any attempt to sell CCI, of the intention to sell insurance (this may take the form of a clear 'permission to discuss insurance' question, where the consumer's consent is obtained before attempting to sell CCI to the consumer); (c) when CCI is cross-sold during calls made by a consumer for some other purpose (e.g. to activate their credit card), a clear delineation between the original purpose of the call and the attempted sale of the CCI product; (d) a clear statement that the purchase of CCI is optional; (e) the use of words such as 'purchase' and 'buy' to describe the purchase of CCI, rather than potentially misleading words such as 'activate', 'enrol' and 'process'; (f) a clear question asking the consumer if they consent to the purchase of CCI (asked after the consumer has been provided with all relevant information about the product); (g) a clear explanation of the main exclusions that apply to the CCI policy (and where CCI is sold as a packaged product, this should include a clear explanation of the main exclusions that apply to each component of the policy); (h) clear instructions for staff to end any attempted telephone sale if a consumer indicates once, or at the most twice, that they do not want to purchase the product; (i) information about the cooling-off period, without using the cooling-off period as a selling point (this may be best achieved by providing information about the cooling-off period after the consumer has clearly agreed to buy the product); and

[24] See https://download.asic.gov.au/media/1343720/rep256-issued-19-October-2011.pdf

	(j) information about the full cost of the CCI policy (see also Recommendations 3–5). When sales are made in branches, we encourage distributors to adopt an approach based on this recommendation (e.g. by requiring staff to use a checklist covering the elements included in this recommendation). We also note that, where only general advice is provided, consumers must be issued with a general advice warning that complies with s949A of the Corporations Act.
Recommendation 2: Evidence of consent	Distributors should obtain adequate evidence that a consumer has consented to purchase CCI. Examples of such evidence include: (a) for branch sales, obtaining the signature of the customer consenting to the purchase of CCI; and (b) for telephone sales, recording the relevant call (during which the consumer has been clearly asked whether they consent to the purchase of CCI).
Recommendation 3: Disclosure of interest payments	If a CCI premium is fully funded by the underlying loan, consumers should be informed verbally, and in the loan contract, that they will pay interest on their CCI premium. We consider it best practice for consumers also to be informed, where possible, of the amount of the interest they will be paying on their premium for the life of the CCI policy (or loan).
Recommendation 4: Separate quotes	When CCI is sold with a credit product, staff should quote repayments for the underlying loan separately to the CCI premium. We consider it best practice to: (a) initially quote loan repayments without the CCI premium included in the loan repayment; and (b) only raise CCI with the consumer after they have already been quoted the amount of their loan repayments (without the CCI policy).
Recommendation 5: Disclosure of premium structure	Consumers should be informed how their premiums will be structured, such as: (a) whether premiums are to be funded by the underlying loan or paid separately by the consumer; (b) how premiums are calculated (e.g. whether premiums are based on the credit actually used by the consumer or the overall limit of the underlying loan); and (c) whether premiums are payable up-front, or in monthly or annual instalments.

Recommendation 6: Duration of CCI policies	Where the duration of a CCI policy is not linked to the duration of the underlying credit product it is sold with, consumers should be informed (including as set out in formal scripts) about the duration of the policy (and when it will expire in relation to the duration of the underlying credit product).
Recommendation 7: Timing of provision of PDSs	Distributors should ensure they provide PDSs to consumers at the appropriate time (in most circumstances, before the consumer acquires the CCI policy).
Recommendation 8: Ongoing information	Consumers should be provided with ongoing information about their CCI policy, including a contact number to call if they have any queries or need to make a claim. We consider it best practice to include this information in a prominent position in relevant communications with consumers.
Recommendation 9: Training programs	Distributors should review their training programs to ensure that they are provided to staff on an ongoing basis, and that they adequately address each of the issues raised in this report.
Recommendation 10: Monitoring systems	Distributors should have documented monitoring systems in place that comprise a range of systems to detect non-compliant sales of CCI. These systems may include, for example: (a) regular reviews of sales, complaints and cancellations reports (including appropriate follow-up with sales staff and/or consumers where issues are identified); (b) mystery shopping exercises; and (c) sales verification calls. We consider it best practice for distributors that sell CCI over the telephone to record calls and have processes in place to monitor recorded calls.

ASIC Report 361

ASIC Report 361[25] 'Consumer credit insurance policies: Consumers' claims experiences (p.8):

Table 1. Actions by financial Code subscribers and insurers that may assist consumers' CCI claims experiences

Information provided pre-sale	Consumers should be provided with prominent, timely and sufficient information to make an informed decision about whether or not to purchase a CCI policy.
	Sales processes should be tailored to reflect a wide-ranging audience (including consumers who are not familiar with CCI policies).
Information provided after the sale	Consumers should be provided with information on a regular basis to remind them that they have a CCI policy and help them to decide whether they are still eligible to be covered by the policy.
Claim lodgement	When a consumer makes a claim they should be presented with realistic expectations about the claims process and outcome.
Claim assessment	Assessment procedures should take into consideration the individual circumstances of consumers making a claim (including giving consideration to the amount of documentation required to evidence a claim).
Claim decision	The outcome of a claim should always be communicated to consumers in plain language that allows them to clearly understand how the decision was reached.
Benefit payment	Consumers would benefit from: - a clear explanation of how the benefit payment was calculated, and - improved coordination between the insurer and financial Code subscriber to ensure that the consumer always receives the benefit payment before their credit card repayment due date.
Complaint	If a consumer expresses negative feedback about the outcome of their claim (or any other aspect of the claims process), the financial Code subscriber or insurer should engage constructively with them, including: - identifying the root cause of their dissatisfaction, and - informing them of their right to make a complaint and the most relevant entity to make the complaint to.

[25] See https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-361-consumer-credit-insurance-policies-consumers-claims-experiences/

APPENDIX 6: Recommendations

1. **Ensure that add-on insurance sales are useful, reliable and of value to customers**
   If Code subscribers sell CCI, GAP insurance and other add-on insurance products that have been found to typically provide little value to consumers, they should ensure these products are useful, reliable and of value to customers. Subscribers should consider shifting to a deferred sales model, as recommended by the Royal Commission.

2. **Prevent sales to consumers unable to claim**
   Code subscribers must not sell add-on insurance policies to consumers who are unlikely to be eligible to make a claim. To prevent such sales, Code subscribers should not rely purely on PDSs and other written disclosures. Instead, Code subscribers should:
   - include discussion of eligibility to claim and associated sales scripts and guidance
   - put system controls in place that help to prevent inappropriate sales.

3. **Obtain meaningful consumer consent**
   To ensure that customers understand that the purchase of CCI is optional and not a condition of the credit contract, Code subscribers should:
   - include this explicit statement in sales scripts
   - separate consent to the sale of CCI from the signing of the loan contract.

4. **Review add-on insurance sales practices annually**
   In line with COBA guidance, Code subscribers should annually review all third-party products - particularly add-on insurance products - for their usefulness, reliability and value to consumers. Review the number of cancellations during the cooling off period and rejected and withdrawn claims and the overall premium-to-claim ratio and the provider's claim rating.

5. **Train staff on ethical sales practices**
   Code subscribers should ensure that training for staff and authorised representatives selling add-on insurance includes training on ethical sales practices and the relevant Code requirements.

6. **Improve monitoring processes**
   Code subscribers should review and improve their processes for monitoring the sale of add-on insurance products to ensure that these processes can identify Code non-compliance and are not focused primarily on sales volume. Monitoring should include monitoring of the rate of cancellations during the cooling-off period and a review of rejected/withdrawn claims to identify problems in the sales process.

7. **Independently audit CCI sales practices**
   Code subscribers that sell CCI should undertake periodic independent audits of their CCI sales practices and the extent to which they ensure that products are only sold where they are of value to the customer.

APPENDIX 7: About the Code and the Committee

The Code

The Customer Owned Banking Code of Practice (the Code) was developed by the Customer Owned Banking Association (COBA) and commenced operation on 1 January 2014. The Code replaces the 2010 Mutual Banking Code of Practice.

The Code has been revised to accommodate changes the Australian Securities and Investments Commission (ASIC) made to Regulatory Guide 221 *Facilitating digital financial services disclosures* and the *e-Payments Code*. The revised Code has been effective from 1 July 2016.

Through the Code, 63 subscribing[26] credit unions, mutual banks and mutual building societies voluntarily commit to fair and responsible customer owned banking.

The Committee

The 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 customer owned banking sector and a person representing the interests of consumers and communities.

The purpose of the Committee is to encourage and promote customer owned banking Code subscribers to meet customer and community needs and expectations.

To achieve this, the Committee will:

- monitor Code compliance and share good practice
- engage with stakeholders and analyse the external financial services' environment, and
- ensure efficient and effective operations.

For more information about the Code and the Committee, please visit www.cobccc.org.au.

Customer Owned Banking Code Compliance Committee

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www.cobccc.org.au

[26] Number of Code subscribers as at June 2019.