Follow-up inquiry:

Sale of consumer credit insurance by customer owned banking Code subscribers

Follow-up 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.

June 2021

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Executive summary

The Customer Owned Banking Code Compliance Committee (the Committee) conducted a follow up inquiry into how subscribers to the Customer Owned Banking Code of Practice (the Code) manage loans with consumer credit insurance (CCI) cover attached, having regard to the following obligations in the Code relating to third-party products and services:

Key Promise 1: We will be fair and ethical in our dealings with you

We will always act honestly and with integrity and will treat you fairly and reasonably in all our dealings with you.

Key Promise 5: We will deliver high customer service and standards

We will issue and distribute products and provide services that are useful, reliable and of value to our customers. We will make sure our staff and agents or representatives are well trained. We will promote secure and reliable banking and financial services and keep you up to date on any changes to the products and services we provide to you. We will treat your personal information as private and confidential.

Part D – Delivering on our Promises

Section 13. Third-party products and services

13.1. We may introduce third-party service providers or introduce, arrange or distribute products and facilities issued by other organisations. We will take steps to ensure that third-party service providers we introduce are reputable; and that 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.

13.2. We will only distribute financial products and facilities (including credit 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.

This report describes the findings of the inquiry and provides recommendations that Code subscribers should follow to ensure they meet these and other relevant Code obligations with respect to loans with CCI cover attached to them.

Overview of findings

Managing loans with CCI cover attached

The Committee found that no subscriber is currently offering CCI for sale. By September 2020, all Code subscribers had ceased selling CCI though most were still managing loans with CCI cover attached. The cessation of sales was said by subscribers to be due largely to the costs associated with offering CCI (for example, the cost of meeting compliance and regulatory requirements) outweighing the benefits to the institution, or the insurance provider withdrawing the CCI product from the market.

The number of loans covered by active CCI policies ranges from four to 70,000. Most Code subscribers noted that active CCI policies will cease sometime within the next five years, once the loans to which they are attached are paid off.

Almost a quarter of the Code subscribers interviewed for this inquiry were unable to provide any details at all about their customers' active CCI policies, explaining that once the CCI product had been purchased by the customer, responsibility for all queries, claims and complaints relating to the policy fell to the insurance provider.

Under the terms of the Code, the insurance provider, not the Code subscriber, is responsible for handling all CCI-related claims and the majority of CCI-related complaints.

We nonetheless expect Code subscribers to monitor the status of customers' CCI policies. A customer complaint about a CCI product or the cancellation of a policy could signify that the Code subscriber did not take appropriate steps during the sales process to ensure that the customer would benefit from purchasing CCI, and that the Code subscriber had therefore breached their obligations under Key Promise 5 and section D13 of the Code to ensure that the third-party products and facilities they distribute are useful, reliable and of value to customers.

Providing referrals to CCI providers

While no longer selling CCI themselves, three Code subscribers reported that they have a referral arrangement in place with a CCI provider. Two of these subscribers receive a 20% commission from the provider if a customer takes out a CCI policy.

The Code distinguishes between referring a customer to a third-party CCI provider and selling or distributing CCI directly to the customer. However, any Code subscriber that has a referral arrangement with an insurance provider must comply with their obligations under section D13.1 of the Code to ensure that any third-party service provider they introduce to their customers is reputable. As a matter of good practice, we also encourage Code subscribers to conduct due diligence on the provider's CCI product before making referrals to ensure that it will be useful, reliable and of value to their customers.

Training staff about CCI

The majority (84%) of participating Code subscribers reported that they provide their staff with training about CCI, including product information and procedures for responding to policy-related customer enquiries. Training is provided either externally by the insurance provider or internally by the Code subscriber, and in some cases, both externally and internally.

Employees at two Code subscribers receive no CCI-related training at all and for some subscribers, training simply involves directing staff to refer customers to the insurance provider with any queries about their CCI policy.

Monitoring CCI-related complaints

All Code subscribers reported that they monitor complaints made to them (mostly via complaints and incident registers) to detect any issues with existing CCI portfolios. Unless the complaint relates to the sale of the CCI policy, most subscribers refer CCI-related complaints directly to the insurance provider for investigation.

Only a handful of Code subscribers received complaints about CCI policies during the period covered by the inquiry and most of these related to issues that occurred during or as a result of the sales process.

Some Code subscribers reported having received identical ‘templated’ complaints regarding CCI policies for lending already paid off. These complaints were lodged following the Royal Commission, possibly in response to several well-publicised class actions focusing on the sale of CCI.

Involvement in the claims handling process

Only two Code subscribers are involved in handling customers’ claims on CCI policies. In all other cases, the insurance provider is responsible for claims handling. Some subscribers assist in the process by acting as a liaison between the customer and the insurance provider – for example, putting the customer in touch with the appropriate contact at the insurance provider, or by conducting a ‘warm’ handover to the insurance provider.

The Committee considers it good practice for Code subscribers to proactively remind customers that they have a CCI policy and to inform them that they may be eligible to make a claim through the insurer, particularly if they are struggling to make loan repayments due to financial hardship.

Recommendations

The Committee has used the findings from this inquiry to prepare several recommendations to help Code subscribers improve the way they manage loans with CCI attached and to ensure they appropriately manage referrals to third-party providers of CCI. These recommendations are listed below and at relevant locations throughout the report.

Managing loans with CCI cover attached

- Ask the insurance provider for periodic reports about the status of any CCI policies attached to customers’ loans, including expiries/renewals, claims, complaints and cancellations.
- Ensure that records of all previous CCI sales are accurate and accessible, so that Code compliance can be checked if a customer complaint or policy cancellation indicates an issue with the sales process.

Providing referrals to CCI providers

- Conduct due diligence to ensure that the CCI product will be useful, reliable and of value to customers.

- Ensure that the insurer will only issue products to customers eligible to make a claim and that customers will be advised as part of the sale process that if they purchase CCI, their coverage under the policy would cease if they choose to restructure their loan at any point.
- Take steps to ensure the customer understands that CCI is optional and not a condition of the credit contract.

Training staff about CCI

- Provide staff with training about the CCI products held by customers, as well as the correct processes and procedures for responding to any customer enquiries about the policy – including enquiries about claims, complaints and cancellations. This training should be provided at least annually.
- Ensure that CCI-related training is complemented by clear internal processes and procedures that support staff to respond to customer queries about CCI, including queries about the product or policy cancellations.

Monitoring CCI-related complaints

- Continue to proactively monitor and review complaints and incident registers for issues relating to the sale of CCI, making sure to investigate and respond to any trends or root causes.
- Perform spot checks and/or targeted assurance reviews using reporting and data. This will help early identification of any issues relating to CCI products and potentially avoid complaints and costly remediation.

Involvement in the claims handling process

- Review processes and procedures for assisting customers to lodge a CCI claim, ensuring that private documents (e.g. a customer's medical records) are not retained by frontline staff or digitally to avoid the potential for a privacy breach and/or a breach of Key Promise 8 of the Code, which sets out subscribers' commitment to complying with their legal and industry obligations.
- Embrace the important role as liaison between customer and insurer. Proactively communicate with customers to let them know that CCI claims should be made directly through the insurer.
- Have procedures in place to identify whether a loan that is in arrears or where the customer may be in financial hardship is covered by CCI. If so, discuss with the customer the possibility of them making a claim through the insurer.

Introduction

CCI in the regulatory spotlight

Add-on insurance products, such as CCI, have been the subject of criticism for several years, for the way they are sold and the limited value they provide to those who purchase them. Responding to numerous instances of consumer detriment caused by 'junk' CCI policies, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) recommended the introduction of an industry-wide deferred sales model for the sale of add-on insurance products (with the exception of comprehensive motor policies). The federal government has accepted this recommendation, enacting it into law which will become effective on 5 October 2021.[1]

Since the Royal Commission concluded, the government has also passed new laws relating to the design and distribution of financial services products that will impact the sale of add-on insurance products.[2] The new laws come into effect in October 2021 and will make issuers and distributors responsible for determining the target market for their add-on insurance products and appropriate distribution strategies.

The Australian Securities and Investments Commission (ASIC) now has greater product intervention powers in relation to the distribution of add-on insurance. So far, the regulator has used these powers to order several banks, lenders and insurers to make restitution payments of more than $160 million to half a million consumers who were sold junk CCI policies.[3] Since the Royal Commission, there have also been a number of high-profile class actions brought against CCI.

Many insurers have chosen to withdraw their CCI products from the market and many financial services providers are no longer distributing them on behalf of third-party providers. As this report highlights, the need for significant additional resourcing to ensure compliance with the new CCI-related laws has led to many Code-subscribing customer owned banking institutions ceasing sales of CCI to their customers.

The initial own motion inquiry

In September 2019, the Committee published an **own motion inquiry** into the sale of CCI by subscribers to the Customer Owned Banking Code of Practice.

The aim of the 2019 inquiry was to establish whether and how Code subscribers sell CCI and other add-on insurance products, and also to examine their compliance with relevant Code

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[1] 'ASIC consults on implementing a deferred sales model for add-on insurance products', ASIC media release, 11 March 2021.
[2] ASIC Regulatory Guide 274: Product design and distribution obligations
[3] 'ASIC secures over $160 million in remediation for junk consumer credit insurance', ASIC media release, 13 May 2020.

obligations relating to how staff are trained to sell these products, and how subscribers ensure the products are useful, reliable and of value to customers.

The inquiry was prompted, in part, by evidence uncovered at the Royal Commission, which found that add-on insurance products, including CCI, provided consumers with little or no value, and were often sold using unethical sales practices driven by generous commissions to third-party sellers.

The Committee was also concerned by the findings of various investigations by ASIC over the last decade into the sale of add-on insurance, finding that many products do not represent good value for money and are often sold to consumers who are not eligible to make a claim or derive any benefit from them.[4]

The inquiry revealed that almost all Code subscribers offered CCI products for sale, earning a commission of up to 20% for each policy sold. Sales practices were not always sufficiently monitored or conducted in a manner that ensured customers fully understood the product they were purchasing or the terms and conditions of making a claim. Subscribers' Code compliance monitoring focused mainly on the volume of sales rather than whether the sale was conducted ethically or legally.

The Committee made seven recommendations in the inquiry report (see **Appendix 2**), as well as repeating recommendations from two ASIC reports on CCI (see **Appendix 1**) to help Code subscribers achieve compliance with Code obligations when selling CCI to their customers.

The follow-up inquiry

The Committee's initial aim in conducting this follow-up own motion inquiry was to find out whether Code subscribers had implemented the recommendations outlined in the 2019 inquiry. To do this, information was gathered from all Code-subscribing institutions via an online questionnaire (see **Appendix 3**) included as part of the 2020 Annual Compliance Statement (ACS) program.

It became apparent from the responses to the questionnaire that all Code subscribers had ceased selling CCI by September 2020. Instead, most now manage loans covered by CCI policies, while a small number provide referrals to CCI providers, in some cases receiving a commission if the customer takes out a CCI policy.

This information changed the nature of the follow-up inquiry. The Committee's focus instead turned to how Code subscribers manage customer loans with CCI cover attached to them, as well as how those subscribers who provide referrals to CCI providers ensure they manage the process appropriately and in line with their Code obligations.

[4] 1 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.

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Fifty Code subscribers of varying sizes were interviewed by telephone[5] about how they manage their CCI-covered loan portfolios. Each subscriber was provided with a series of questions in advance of their interview, giving them time to collate relevant data and engage their insurance provider where required. The questions were:

- When did you cease selling CCI?
- Could you provide information about your portfolio of loans with CCI cover attached?
- Could you provide information on claims procedures for your portfolio of loans with CCI cover attached?
- How do you train staff to deal with your existing CCI customers?
- Do you monitor complaints to identify possible issues regarding your existing CCI portfolio?

The findings of the inquiry are presented in this report, along with recommendations to help Code subscribers to:

- manage customer loans with CCI cover attached to them, including recommendations for training staff about CCI, monitoring CCI-related complaints and whether they are involved in the CCI claims handling process; and
- manage the third-party referral process appropriately and in line with their Code obligations.

[5] Telephone interviews occurred as part of the 2020 ACS Data Verification Program.

Detailed findings

During the 2017–18 reporting period – the period examined in the 2019 inquiry – an overwhelming majority of Code subscribers were selling CCI, typically as an add-on insurance product alongside a home loan or personal loan. By contrast, all Code subscribers had ceased selling CCI by September 2020. Most now just manage loans with CCI cover attached, while a handful refer customers looking to purchase CCI to an insurance provider, usually receiving a commission for doing so.

CCI has been the subject of considerable criticism by consumer groups, regulators and the Royal Commission in recent years. ASIC's views are summarised in the title of its July 2019 report, '*Consumer credit insurance: Poor value products and harmful sales practices*.'[6] Despite this substantial and sustained criticism, most of the customer owned banking institutions that were interviewed for this inquiry are of the view that there is a market for CCI products. They also believe that customers who have purchased CCI are generally happy with the product and are deriving some benefit from it.

Asked why they no longer offer CCI for sale to their customers, most Code subscribers pointed to a lack of return on investment. Some said they were not selling a sufficiently high number of CCI policies to warrant offering it to their customers. Many indicated that the cost and additional resourcing required to meet compliance and regulatory obligations were beyond what they could sustain for a non-core banking product. Some subscribers were unable to continue selling CCI after the insurer withdrew the product from the market.

Despite no longer selling CCI products, most Code subscribers believe that when it comes to their dealings with customers who have loans with an existing CCI policy attached, they are complying with Key Promise 1 of the Code: to be fair, ethical and reasonable, and to act with honesty and integrity.

The changing insurer landscape

Allianz and CGU are the two most common providers of CCI products to Code subscribers' customers, with 36% of institutions currently or previously using the former and another 36% currently or previously using the latter. QBE is the next most commonly used insurer for CCI products at 24%. Other CCI providers listed by subscribers include St Andrews Australia, Swann Insurance, IAG, Credicorp Insurance, People's Choice Credit Union Insurance and Qudos Mutual.

Several insurers chose to end their CCI sales agreements with Code subscribers. Some subscribers ceased offering CCI products to their customers as a result, while others partnered with alternative insurers. In the case of one Category C[7] subscriber whose original insurance provider stopped selling CCI in 2018, it partnered with a second insurance provider who also ended up pulling out of the CCI market, with those policies ceasing in 2019.

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[6] See https://asic.gov.au/media/5201456/rep622-published-11-july-2019-1.pdf.

[7] Categories of Code subscribers as per $ amount in assets are defined in Table 1 in Appendix 3.

Having merged with another entity since the 2019 inquiry was conducted, some Code subscribers inherited loan portfolios covered by existing CCI policies from their merge partner and therefore found themselves dealing with more than one insurance provider.

Managing loans with CCI cover attached

Depending on the Code subscriber, the number of loans covered by active CCI policies ranges from four to 70,000. Most subscribers noted that active CCI policies will cease within five years, once the loans to which they are attached are paid off, however there were variations: one Category A subscriber reported that it currently manages loans with active CCI policies that have the potential to run for up to 30 years (being the terms of the associated home loan contract), while a Category E subscriber said the last policy had been paid off in early 2020.

Another Category A subscriber, with CCI policies managed by an insurance subsidiary (the responsible entity) that subscribes to the General Insurance Code of Practice, noted that it was working with the Australian Prudential Regulation Authority (APRA) to incorporate its run-off plan into its Capital Management Framework.

Some Code subscribers interviewed for this inquiry noted that they do not monitor whether claims are being denied. Almost a quarter (22%) were unable to provide any details at all about their customers' active CCI policies, explaining that once the CCI product had been purchased by the customer, responsibility for all queries, claims and complaints relating to the policy fell to the insurance provider. The Committee recognises that the insurer, not the Code subscriber, is responsible for handling all CCI-related claims and the majority of CCI-related complaints. We also acknowledge that most of the obligations set out in section D13 of the Code apply up until the point at which the customer purchases the CCI product.[8]

Nonetheless, we strongly encourage Code subscribers to seek regular engagement with insurers about the status of customers' CCI policies, including when a customer has made a complaint about or cancelled their CCI policy. A complaint and/or cancellation suggests that the customer is dissatisfied with the CCI product, which could indicate that the product was mis-sold to the customer (i.e. that the Code subscriber did not take appropriate steps to ensure that the customer would benefit from purchasing CCI during the sales process). If that were the case, then the Code subscriber would be in breach of their obligations under Key Promise 5 and section D13 of the Code – to ensure that the third-party products and facilities they distribute are useful, reliable and of value to customers. (Some examples of customer complaints leading to potential Code breaches are included under 'Monitoring CCI-related complaints' on pages 14 and 15 of this report.)

[8] The exception is the requirement at D13.1 to ensure that any third-party service provider to which the Code subscriber refers a customer is reputable.

Providing referrals to CCI providers

Despite no longer selling CCI themselves, three out of the 50 Code subscribers that participated in the inquiry (two Category A institutions and one Category C institution) offer a referral to a CCI provider. Two of these subscribers receive a 20% commission from the provider if a customer takes out a CCI policy, with one reporting that staff provide the customer with a detailed explanation of the insurance as part of the referral process. If the customer is interested in purchasing CCI, the subscriber asks the insurance provider to contact the customer directly to make the sale.

The Committee recognises that referring a customer to a third-party service provider to purchase CCI is different to selling or distributing CCI directly to the customer. Notwithstanding this, any Code subscriber that has a referral arrangement with an insurance provider – particularly if they receive a commission – should be mindful of their obligations under section D13.1 of the Code, which states: "*We will take steps to ensure that third-party service providers we introduce are reputable*" and "*We will regularly review the third-party service providers and third-party products and services we introduce*".

All Code subscribers that provide referrals to a third-party CCI provider are encouraged to familiarise themselves with the provider's CCI product before making the referral to ensure that it will be useful, reliable and of value to the customer. Code subscribers should also advise the customer that purchasing CCI is optional, and that if they choose to restructure their loan at some point, their CCI coverage will cease.

Recommendation

When referring customers to a third-party for the purchase of CCI:

- Conduct due diligence to ensure that the CCI product will be useful, reliable and of value to customers.
- Ensure that the insurer will only issue products to customers eligible to make a claim and that customers will be advised as part of the sale process that if they purchase CCI, their coverage under the policy would cease if they choose to restructure their loan at any point.
- Take steps to ensure the customer understands that CCI is optional and not a condition of the credit contract.

Training staff about CCI

Reflecting on the number of customer owned banking institutions that were selling CCI products at the time, the 2019 inquiry focused on the need for Code subscribers to train their staff and authorised representatives in ethical sales practices, product knowledge and the relevant Code requirements.

As none of the Code subscribers who participated in the follow-up inquiry are still involved in selling CCI products, the Committee sought instead to understand how institutions have adjusted their training programs to ensure staff are trained to assist customers with existing CCI policies.

Positively, 42 out of the 50 inquiry participants (84%) reported that their staff are provided with ongoing training related to CCI – mainly around product information and the correct process and procedure for responding to policy-related customer enquiries (including cancellation and claims enquiries).

Fifteen Code subscribers (30%) reported providing their own internal CCI-related training, with no input from the insurance provider. Conversely, 17 Code subscribers (34%) said all CCI-related staff training is run solely by the insurance provider. In the case of 10 Code subscribers (20%), CCI-related training is provided both internally and by the insurer, while for five subscribers (10%), staff are directed to refer all CCI matters to the insurance provider.

Under Key Promise 5 of the Code, Code subscribers commit to making sure their staff are well trained and their customers updated about any changes to the products and services provided by the Code subscriber. In the Committee's view, any Code subscriber with customers holding CCI policies should ensure their staff are provided with regular training about the CCI products held by their customers and how to respond to any customer enquiries about the policy. This not only benefits the customer, it also helps subscribers meet their Code compliance obligations.

Describing the content of their CCI staff training, Code subscribers provided the following examples:

- One Category C subscriber onboards all new staff with training that includes competency for CCI to ensure they can sufficiently respond to customer enquiries about the product. The training is complemented by process maps to ensure staff take a consistent approach when dealing with CCI-related matters.
- Staff at two other Category C subscribers receive general training from the insurance provider on an annual basis. This is supported by internal processes to help staff manage CCI policy cancellations, including cancellations of any premium funding arrangements.
- One Category D subscriber's operations officers are trained on all third-party products (including CCI) by the insurer via online training models. The subscriber also requires its operations officers to obtain ASIC tier two accreditation.
- Staff at another Category D subscriber are required to refer customers with CCI-related enquiries directly to the insurer; however, the subscriber also reported that the insurer

can provide ad hoc training to the subscriber’s staff if required, and that the subscriber’s own general insurance team has a good knowledge of CCI products.

Recommendations

- Provide staff with training about the CCI products held by customers, as well as the correct processes and procedures for responding to any customer enquiries about the policy – including enquiries about claims, complaints and cancellations. This training should be provided at least annually.
- Ensure that CCI-related training is complemented by clear internal processes and procedures that support staff to respond to customer queries about CCI, including queries about the product or policy cancellations.

Monitoring CCI-related complaints

All participating Code subscribers confirmed that they monitor complaints to identify possible issues with CCI. This is largely done by monitoring a complaints or incidents register.

Very few Code subscribers received a complaint relating to CCI products for the period covered by the inquiry, and some observed that this was most likely because they had not sold a high volume of CCI policies and/or they had a low number of active CCI policies attached to loans in their portfolio.

Most institutions advised that complaints about CCI policies and claims are referred directly to the insurance provider for investigation and management. Once this has occurred, the insurance provider lets the institution know the outcome. The institution only becomes involved in the matter if the complaint relates to the CCI sales process.

For the Code subscribers that did record a CCI-related complaint, most related to instances that occurred during or as a result of the sales process. For example, a Category C subscriber described a complaint that was lodged after a customer received a letter from the insurer informing them that they were not covered by CCI. The subscriber failed to provide the customer with a timely response, and after a month-long investigation, the claim was paid, and the policy backdated.

One Category D subscriber received a complaint from two members who had taken out a joint

AFCA’s approach to add-on insurance disputes

In 2020, the Australian Financial Complaints Authority (AFCA) released its approach to add-on insurance disputes. As part of its external dispute resolution process involving add-on insurance products, including CCI, 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.

lending product but subsequently separated, leading to one member wishing to cease the CCI policy. This resulted in a complaint to the Australian Financial Complaints Authority (AFCA) which was resolved internally after it was determined that the subscriber had provided the incorrect information to one of the members when they were advised the policy could not be cancelled unilaterally.

While not a complaint as such, one Category B subscriber was notified by the insurance provider that 67 of the subscriber's customers, who had purchased CCI through the subscriber, may not have been able to claim on their policies. The insurance provider discovered the issue while conducting a CCI review and chose to fully remediate each customer, reporting the incident to ASIC.

Some Code subscribers reported having received identical 'templated' complaints regarding CCI policies for lending already paid off. These complaints were lodged following the Royal Commission, possibly in response to several well-publicised class actions focusing on the sale of CCI.

Recommendations

- Continue to proactively monitor and review complaints and incident registers for issues relating to the sale of CCI, making sure to investigate and respond to any trends or root causes.
- Perform spot checks and/or targeted assurance reviews using reporting and data. This will help early identification of any issues relating to CCI products and potentially avoid complaints and costly remediation.

Involvement in the claims handling process

Asked to describe the claim settlement procedure for CCI, all but two Code subscribers said that the insurance provider is responsible for handling customer claims. Some subscribers play a 'liaison' role between customer and insurer when the customer wants to make a claim – for example, by providing the customer with the insurance provider's contact information or conducting a 'warm' handover to the insurance provider.

Some Code subscribers reported that they have helped customers who enquired about financial hardship assistance to successfully make a CCI claim. One Category D institution referred two CCI claims to the insurance provider after customers had sought financial hardship assistance due to the COVID-19 pandemic and unemployment. Both claims were handled and paid by the insurance provider, resulting in a good outcome for the customers.

At the other end of the spectrum, one Category A subscriber has minimal interaction with its customers during the CCI claims process, pointing out that customers receive a product disclosure statement (PDS) from the insurance provider that includes the provider's contact details.

The Committee considers it good practice for Code subscribers to proactively remind customers that they have a CCI policy and to inform them that they may be eligible to make a claim through the insurer, particularly if they are struggling to make loan repayments or may be experiencing financial hardship.

Recommendation

- Review processes and procedures for assisting customers to lodge a CCI claim, ensuring that private documents (e.g. a customer’s medical records) are not retained by frontline staff or digitally to avoid the potential for a privacy breach and/or a breach of Key Promise 8 of the Code, which sets out subscribers’ commitment to complying with their legal and industry obligations.
- Embrace the important role as liaison between customer and insurer. Proactively communicate with customers to let them know that CCI claims should be made directly through the insurer.
- Have procedures in place to identify whether a loan that is in arrears or where the customer may be in financial hardship is covered by CCI. If so, discuss with the customer the possibility of them making a claim through the insurer.

Conclusion

Although the Code-subscribing customer owned banking institutions that participated in this inquiry are no longer selling CCI to their customers, most still manage loans covered by CCI policies and a small number provide referrals to CCI providers.

From a Code compliance point of view, the Committee acknowledges that many of the obligations set out in section D13 of the Code apply up to the point at which a customer purchases CCI. From then on, management of the CCI policy generally becomes the responsibility of the insurance provider – from handling claims and cancellations to dealing with the majority of complaints.

Even so, the Committee expects Code subscribers to have a working knowledge of the CCI policies attached to their customers' loans by seeking regular updates from the insurer about the policy status, including when the policy has been renewed or is about to expire, and whether a customer has made a complaint or cancelled their policy. Analysis of customer complaints or cancellations, provides Code subscribers with an opportunity to investigate whether they sold a CCI product inappropriately to the customer. If so, this would indicate a breach of the Code.

And while the insurance provider is responsible for handling all CCI-related claims, the Committee considers it good practice for Code subscribers to proactively remind customers with CCI attached to a loan that they have the policy and may be able to make a claim via the insurer – particularly in instances where the subscriber discovers that the customer is experiencing financial hardship and struggling to make their loan repayments.

For the few Code subscribers referring customers to insurance providers to purchase CCI, the Committee notes that, although these customer-owned banking institutions are not selling or distributing CCI directly and are therefore not subject to all the obligations set out in section D13, they are still required (under section D13.1) to ensure that the provider and its products and services are reputable. We encourage these Code subscribers to familiarise themselves with the insurer's CCI product to ensure that it will be useful, reliable and of value to the customer before any referral is made.

Within this report, the Committee has provided some key focus areas for Code subscribers to improve the way they manage loans with CCI attached and to ensure they appropriately manage referrals to third-party providers of CCI. Code subscribers should use the recommendations outlined in this report to guide their improvements.

Appendix 1: ASIC recommendations

ASIC Report 256

ASIC Report 256[9] '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 (j) information about the full cost of the CCI policy (see also Recommendations 3–5).

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

	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[10] '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.

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

Appendix 2: Recommendations from the 2019 COBCCC Own Motion Inquiry Report

The following is the list of recommendations issued by the Customer Owned Banking Code Compliance Committee in its Own Motion Inquiry Report 'Sale of consumer credit insurance by customer owned banking Code subscribers', published in September 2019.[11]

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.

[11] See http://www.cobccc.org.au/uploads/2019/09/COBCCC-OMI-Sale-of-CCI-Sep2019.pdf (Appendix 6, page 32).

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 3: 2020 online questionnaire and data

Sale of Consumer Credit Insurance[12]

In September 2019, the Committee published its findings regarding an inquiry into how Code subscribers sell consumer credit insurance (CCI) products having regard to the obligations under Section 13 of the Code ('Third-party products and services'). A copy of the report can be found here[13].

Responses from F.1 will be used to follow up relevant Code subscribers via telephone conferences to obtain further details on the individual situations and to assess compliance with recommendations published by the Committee.

F.1 Does your institution offer for sale CCI products?

[Please select ONE only]

- ☐ Yes
- ☐ No, our institution has never offered for sale CCI products
- ☐ No, our institution has since ceased offering for sale CCI products
- ☐ Other (please comment)

Table 1: Responses from Code subscribers

Categories (as per $ amount in assets)	Cat A (over $2b)	Cat B (between $1b and $2b)	Cat C (between $500m and $1b)	Cat D (between $200m and $500m)	Cat E (under $200m)	*Total*
Yes	1	-	-	-	-	*1*
No, our institution has never offered for sale CCI products	-	-	-	-	3	*3*
No, our institution has since ceased offering for sale CCI products	12	8	8	10	12	*50*
Other	1	1	-	1	2	*5*
Total	***14***	***9***	***8***	***11***	***17***	***59***

[12] Included as section F in the 2020 Annual Compliance Statement.
[13] See http://www.cobccc.org.au/uploads/2019/09/COBCCC-OMI-Sale-of-CCI-Sep2019.pdf

Appendix 4: About the Code, the Committee and the Compliance Manager

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[14] *Facilitating digital financial services disclosures* and the *e-Payments Code*. The revised Code has been effective from 1 July 2016. A further update was published, effective 1 January 2018.

Through the Code, 58 subscribing[15] credit unions, mutual banks and mutual building societies voluntarily commit to fair and responsible customer owned banking.

The Code is currently under review.

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 monitor compliance with the Code. To achieve this, the Committee monitors Code compliance and shares recommendations for good practice, engages with stakeholders and analysis the external financial services' environment and ensures efficient and effective Committee operations.

The Compliance Manager

The Australian Financial Complaints Authority (AFCA) provides Code monitoring and administration services as Compliance Manager[16] to the Committee and COBA by agreement. AFCA has appointed a dedicated team of staff (Code Team) within its office to undertake that task.

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

Customer Owned Banking Code Compliance Committee
PO Box 14240 Melbourne VIC 8001
email: info@codecompliance.org.au
Phone: 1800 931 678 (free call - please ask for 'Code Compliance')
www.cobccc.org.au

[14] See https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-221-facilitating-digital-financial-services-disclosures/
[15] Number of Code subscribers as at June 2021.
[16] As per Customer Owned Banking Code Compliance Committee Charter section 4.4.