code of practice
GENERAL INSURANCE

Guide for the design and distribution of add-on insurance distributed through motor dealer intermediaries

To support the Insurance Council of Australia's General Insurance Code of Practice

Code of Practice Logo™ Insurance Council of Australia.

General

1. This Guide is for organisations that agree to be bound by the General Insurance Code of Practice (the Code) and that distribute add-on insurance through motor dealer intermediaries.

2. The industry has worked with the Australian Securities and Investments Commission (ASIC) to improve product design and distribution practices for add-on insurance products sold through motor dealer intermediaries specifically:

   a. Consumer Credit Insurance (CCI);

   b. Guaranteed Asset Protection (GAP) insurance;

   c. loan termination insurance;

   d. tyre and rim insurance; and

   e. mechanical breakdown/extended warranty insurance.

3. These products are considered to be add-on insurance as they are sold to people whose primary purpose for being at the motor dealership is unrelated to insurance — namely:

   a. to buy — and perhaps finance — a motor vehicle; or

   b. to have a motor vehicle serviced.

4. The industry recognises the importance of sufficiently robust product design and distribution processes to achieve good customer outcomes.

5. The Insurance Council of Australia has — with input from member companies and other stakeholders, including the Australian Securities and Investments Commission — developed these best practice principles to enable insurers to benchmark their practices against industry-agreed best practice standards. The principles below are meant to encourage insurers to make continual progress in meeting the highest standards of best practice in the design and distribution of add-on insurance through a motor dealer intermediary.

6. This guide does not bind insurers. Nor does it have legal force. Complying with this guide is voluntary. Even so, the Insurance Council of Australia — having developed the document with input from member companies and other stakeholders — encourages insurers to use the document to help develop internal processes, procedures and policies.

Overview — Best practice principles

7. The following six best practice principles for the design and distribution of add-on insurance are discussed below:

Principle 1

Cover should be designed to meet the likely expectations of the target market(s).

Principle 2

The product — and its features and exclusions — should be capable of being communicated to and understood by the target market.

Principle 3

Reasonable controls are needed to make sure the product reaches only its target market.

Principle 4

Insurers should set clear expectations about what constitutes good sales practices and what conduct is not acceptable.

Principle 5

Insurers should provide the necessary training and information to their distributors.

Principle 6

Insurers should review product performance and distribution and act promptly on any identified significant concerns.

Principle 1
Cover should be designed to meet the likely expectations of the target market(s).

8. Insurers should clearly document descriptions of:

   a. the categories of likely customers in each product's target market;

   b. the characteristics of each category; and

   c. the characteristics of people, if any, who are outside the product's target market.

9. The descriptions can be in general terms — for example, the target market for GAP insurance could be:

   a. having a large long-term loan;

   b. having a loan with a significant balloon payment;

   c. having a deposit below a certain amount;

   d. having purchased a vehicle that depreciates rapidly; or

   e. a combination of these.

10. For each of these factors, an insurer might set thresholds to delineate the target market.

11. To understand a target market's likely expectations, insurers should conduct consumer testing when designing a product. They should take the results of that testing into account:

   a. as part of the product design process; and

   b. to make sure that any product features that significantly depart from those expectations are emphasised both in disclosure documents and during the sales process.

12. Insurers should articulate the primary benefit(s) a product aims to deliver. That benefit needs to:

   a. meet a genuine need; and

   b. reflect the target market's likely expectations.

13. The eligibility of categories of consumers who might make a claim on the primary benefit(s) should be considered in determining the target and non-target market.

14. The product design process should prevent negative value products being offered — that is, products for which the total cost to the customer is more than the maximum amount they can claim.

15. If the flexibility of a product's premium or excess could cause a negative value to arise in some circumstances, then the insurer needs to:

    a. identify the negative value threshold; and

    b. implement safeguards to prevent sales in those circumstances.

Principle 2
The product — and its features and exclusions — should be capable of being communicated to and understood by the target market.

16. When designing products, insurers should seek to:

    a. limit — to the extent possible — the complexity of product features and exclusions; and

    b. provide digital and interactive tools to aid people's comprehension of any complexity that cannot be avoided.

17. Being vague does not help — for example, in sales scripts, broad references to 'peace of mind' or similar wording should be avoided. Instead, descriptions and explanations need to focus on concrete benefits and features.

Principle 3
Reasonable controls are needed to make sure the product reaches only its target market.

18. Insurers should put in place controls to ensure that the product reaches the identified target market.

19. Insurers should translate the target market and any thresholds for negative value into safeguards to be applied during the sales process to prevent sales to consumers outside the target market. For example, new systems rules could be created to make it impossible to process a sale where, based on the information provided by the customer, they are ineligible to claim on the primary benefit(s), do not meet any cover-to-premium ratios as determined by the insurer, or are otherwise outside the target market.

20. Insurers should consider how their insurance products interact with one another if bought by the same customer and avoid the occurrence of duplicate cover if possible.

21. Insurers should be alert to the impact of incentives — including commissions, or non-remuneration benefits — on sales and make sure they have controls in place that minimise the risk of inappropriate sales.

Principle 4
Insurers should set clear expectations about what constitutes good sales practices and what conduct is not acceptable.

22. Insurers should:

    a. make sure that the conditions in which sales occur avoid behavioural and other factors that can undermine a person's ability to make rational and informed decisions;

    b. set clear standards for a good sales process;

    c. reflect those standards in processes and manuals; and

    d. monitor compliance with those standards.

23. Examples of poor conduct include:

   a. **Pressure selling** or other inappropriate sales tactics — for example:

      i. not giving a person any opportunity to refuse to consider a product or to refuse to buy a product;

      ii. opting people into a product; and

      iii. hiding insurance cover in finance contracts.

   b. **Misleading or manipulating** a person by:

      i. focusing on benefits at the expense of exclusions;

      ii. presenting the insurance as mandatory to secure finance — or creating that impression;

      iii. anchoring the price of insurance; or

      iv. giving only partial costs — for example, by presenting costs on a monthly basis (rather than the total premium) or presenting costs without interest.

   c. **Overwhelming** a person by:

      i. presenting a large number of choices; or

      ii. introducing add-on insurance late in the transaction — or on or near to delivery of the vehicle when the person will be keen to complete the transaction and drive their new car away.

   d. **Poor disclosure** — for example:

      i. not disclosing the price of the product at all, or only very late in the sales process;

      ii. providing unclear descriptions of the product;

      iii. using jargon; and

      iv. failing to give the person the policy documents.

Principle 5
Insurers should provide the necessary training and information to their distributors.

24. Insurers should make sure their distributors and motor dealer intermediaries receive training and information to enable them to distribute products in line with the insurer's expectations and any distribution conditions and good sales practices.

25. The training and information need to be regularly reviewed (see Principle 6). They should be updated in line with product changes and in response to any concerns identified regarding distributor conduct or understanding.

Principle 6
Insurers should review product performance and distribution and act promptly on any identified significant concerns.

26. Insurers should have processes in place to monitor and assess product performance — for example, whether a product is:

   a. performing in line with objectives;

   b. reaching its target market;

   c. being sold to people who are not eligible for it;

   d. meeting people's expectations and needs; and

   e. achieving expected outcomes etc.

27. If issues are detected in these reviews, then insurers should review product design and distribution arrangements.

28. Insurers should have processes in place to monitor and assess the effectiveness of the controls on sales processes — for example:

   a. whether there is any unacceptable conduct at the point of sale; and

   b. how the insurer can show the controls are working.

29. As well as looking at training and manuals etc., these reviews should proactively seek to validate safeguards to make sure they are effective and review actual adherence to good practices.

30. Insurers should have processes in place to change the controls on selling processes and to take action if concerns are identified with particular distributors or with individuals operating within the distributor.

Insurance Council of Australia

The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Its members represent about 95 per cent of total premium income written by private sector general insurers.

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