



Australian Banking Association

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The Australian Banking Association (ABA) advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers.

We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

Deferred Sales Model

The ABA welcomes the opportunity to provide our response to Treasury's consultation on regulations for deferred sales model exemptions.

The ABA supports the introduction of a Deferred Sales Model (DSM) that is consistent with the recommendations of the Banking Royal Commission and the Productivity Commission's Inquiry into Competition in the Australian Financial System.

The focus of both the Banking Royal Commission and Productivity Commission's Inquiry was on add-on insurance products considered to be of poor value to customers and not well understood. Such insurance products included consumer credit insurance, gap insurance and insurance sold at point of sale such as travel insurance and extended warranties.

The introduction of the DSM will enable consumers to make better informed decisions in relation to these product purchases by allowing them and encouraging them to consider the merits of the insurance offered and to compare this insurance with alternative products.

Exemptions

The ABA supports the Government's intention to exempt insurance products that provide high value and are well understood by consumers, noting these exemptions will be the subject of a review prior to the conclusion of the five years.

A more targeted approach to add-on insurance products subject to the DSM will address consumer harms and poor value identified by the Royal Commission, without affecting the availability and accessibility of insurance products which are demonstrated to have higher payout rates and provide better value to customers.

The ABA welcomes the Government exempting the following cases of add-on products:

- comprehensive motor vehicle or vessel insurance product
- compulsory third party motor vehicle insurance product
- home and contents insurance
- home building insurance
- landlord insurance
- limited motor vehicle insurance



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- transport and delivery insurance
- travel insurance
- business related add-on insurance, and
- superannuation-related add-on insurance

However, the ABA considers there is further room to refine the proposed regulations in relation to business insurance. These are discussed below.

The business-related add-on exemption

The ABA notes the business-related add-on insurance exemption in the proposed regulations (12L) may not provide sufficient relief for businesses requiring business insurance.

In particular, the requirement that the premium under the add-on product exceeds \$40 000 means the exemption will apply to insurance policies purchased by larger businesses. Smaller business premiums are typically lower than \$40 000, and a lack of exemption for such policies will delay and potentially result in underinsurance for small business, even though these products represent high value to businesses and are consistent with other exemptions noted above.

The Explanatory Statement notes that applying the increased consumer threshold (\$100 000) to the deferred sales model results in unintended consequences and perverse policy outcomes. The ABA supports this reasoning but notes that applying a \$40 000 minimum premium threshold introduces similar unintended consequences such as underinsurance for small and medium-sized businesses and undermines the rationale for including this exemption.

The ABA recommends this exemption should be framed through a revised definition of a business-related add-on insurance product that does not refer to a minimum premium value threshold and is consistent with the other proposed exemptions that do not refer to a premium value.

Commercial property insurance

The ABA further recommends including a specific exemption for commercial property insurance to protect an asset subject of a loan or customer contract and should apply to both personal property (e.g., crops, livestock, equipment) and real property (e.g., building insurance).

Introducing this exemption also aligns with the rationale for the proposed exemption of home building insurance as it provides value for money, convenience for business customers and ensures a low risk of underinsurance.

Thank you for the opportunity to provide feedback. If you have any queries, please contact me at Prashant.ramkumar@ausbanking.org.au

Yours sincerely,

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