

**Agenda Item 4(i)(1)**  
**August 13/19 EOC Teleconference Meeting**

**From:** Keith Martin <Keith.Martin@cafii.com>

**Sent:** August-06-19 12:13 PM

**Subject:** CAFII Alert: Australian Securities and Investments Commission (ASIC) Publishes Critical Report on Credit Protection Insurance

**CAFII Board, EOC, and Committee Members:**

**Background**

Attached is the recently-released, July 2019 final report of the Australian Securities and Investments Commission (ASIC) on credit protection insurance (called consumer credit insurance in Australia), the tone of which is readily apparent from the title of the report: "Consumer credit insurance: Poor value products and harmful sales practices."

The major areas that ASIC found concerns with were the products' loss ratio, pressure selling, poor product design, and challenges in making claims. We will put the report on the agenda of future EOC and Board meetings to discuss its findings, and to identify the best strategy for responding to questions about the report in a Canadian context.

**Highlights of the Report**

The report states that Australian credit protection insurance is a poor value product:

For **CCI sold with credit cards**, consumers were paid only **11 cents in claims** for every dollar they paid in premiums (and the more cover types in the policy, the lower its claims ratio). For **all CCI sold**, this increased to only **19 cents in claims** paid. (Page 3.)

Another area of concern was denial of claims:

For the financial years 2011–18, we found that one in five (20.03%) claims made on a CCI policy were either declined by the insurer or withdrawn. This ranged between 15.6% to 33.6%: see Table 4.

Many insurers also did not accurately and reliably record the number of (and reasons for) withdrawn claims or claims that did not proceed.

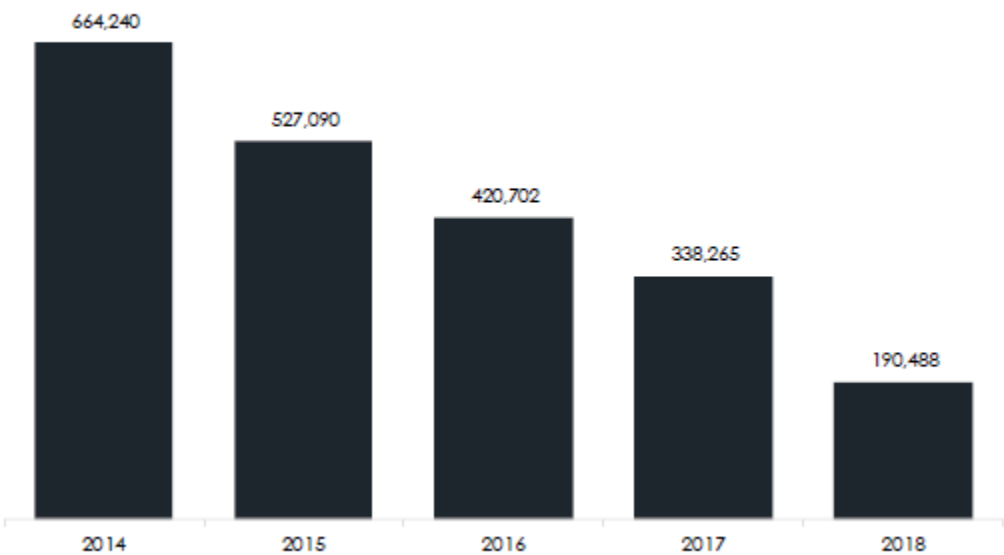
The higher declined/withdrawn claim rates indicate that:

- › there are systemic issues in how the product was sold, including the sale to consumers who were ineligible to claim;
- › consumers do not understand (or were misled about) the features, limits and exclusions of the policy;
- › policy exclusions are too onerous; or

› policies may not have been suitable for the consumer’s individual circumstances.  
(Page 12.)

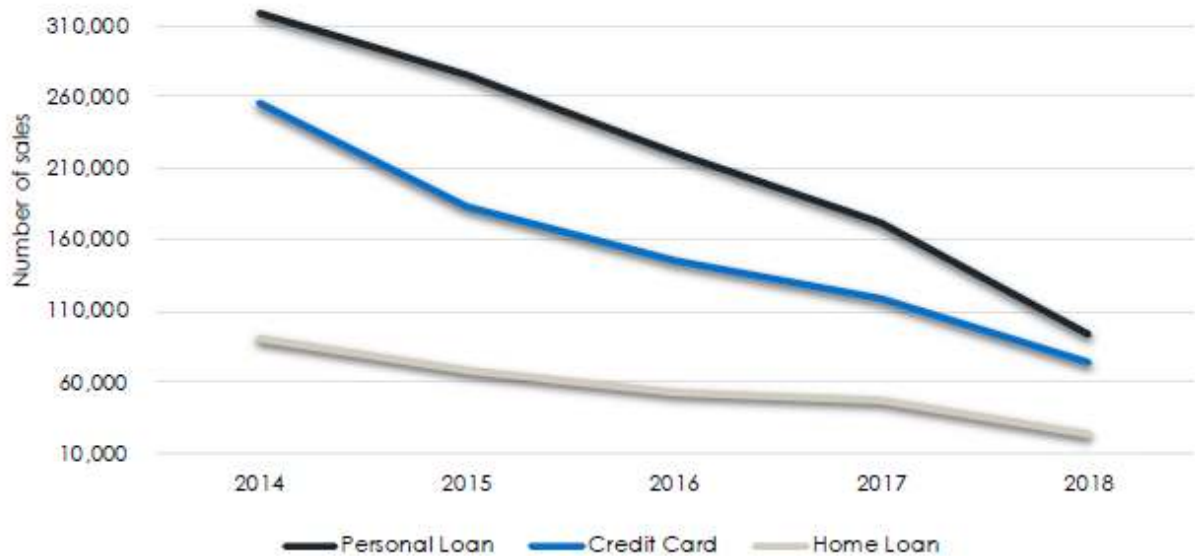
The report also finds that during the period it covers, sales of credit protection insurance declined significantly, with 7 of 8 lenders no longer selling credit card credit protection insurance, and with sales in branches having declined precipitously. The extent of the exit of lenders from selling credit protection insurance is revealed by the following Figures, including Figure 3 which shows the collapse of sales through the branch channel:

**Figure 1: Decrease in total CCI sales by year (2014–18)**



(Page 7.)

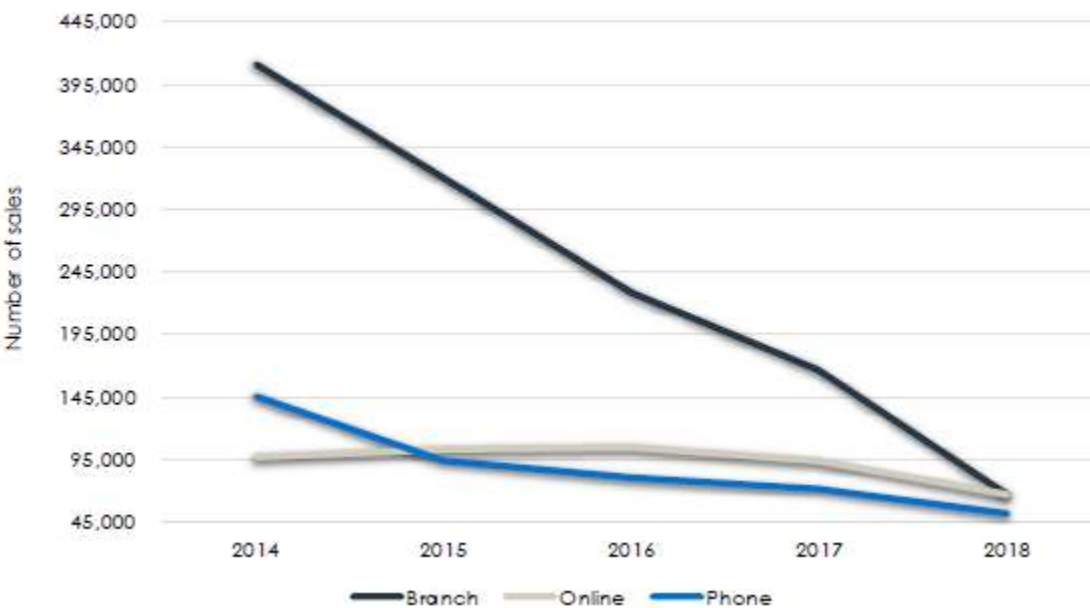
Figure 2: Decrease in total CCI sales by product (2014–18)



Note: For the data shown in this figure, see Table 6 (accessible version).

(Page 7.)

Figure 3: Decrease in total CCI sales by channel (2014–18)



(Page 8.)

Pressure on the industry will also increase due to planned enforcement actions from ASIC. For one, sales of credit protection insurance will no longer be allowed at the time the credit instrument is sold:

...the Banking Code of Practice now has a four-day deferred sales period for CCI sold with credit cards and personal loans in branch or over the phone, effective 1 July 2019. (Page 6.)

As well, ASIC has also begun efforts to remediate funds to over 300,000 consumers, with an anticipated refund to consumers of \$100 million:

ASIC has commenced enforcement investigations into a number of entities that have been involved in mis-selling CCI to consumers. We are also requiring lenders to remediate over 300,000 affected consumers with over \$100 million to ensure that consumers who have not been treated fairly are appropriately remediated. (Page 2.)

### **Australian Media Articles on the Report**

Following is a sample of Australian media articles on the report:

<https://www.insurancebusinessmag.com/au/news/breaking-news/asic-threatens-to-take-action-over-systemic-failings-and-misconduct-in-the-cci-market-172457.aspx>

<https://www.abc.net.au/news/2019-07-11/asic-report-slams-consumer-credit-insurance/11298732>

<https://www.smh.com.au/business/banking-and-finance/banks-blasted-over-worthless-insurance-as-watchdog-flags-compo-court-cases-20190711-p5266f.html>

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