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ASIC finds CCI has ‘consistently failed consumers

ASIC has found major banks and lenders have consistently failed consumers in their sale of consumer credit insurance.

ASIC’s review of the sale of consumer credit insurance (**CCI**) by 11 major banks and other lenders has found that the design and sale of CCI has consistently failed consumers.

ASIC’s Report 622 *Consumer credit insurance: Poor value products and harmful sales practices* (**REP 622**) realised on 11 July 2019 highlights the very low value of CCI products and the unfair way they are promoted and sold to consumers. The report forms part of ASIC’s broader priority to address fairness to consumers, especially harms in insurance.

ASIC’s review found that:

- CCI is extremely poor value for money. For every CCI sold with a credit card, consumers only received 11 cents in claims for every dollar paid in premiums. Only 19 cents was recovered in claims for every premium dollar which consumers paid for CCI products sold by lenders;
- consumers were being incorrectly charged for CCI including ongoing CCI premiums when they no longer had a loan;
- many lenders did not have consumer-focused processes to help consumers in hardship make a hardship claim under their CCI policy; and
- CCI sales practices were causing consumers harm, as:

- consumers were sold CCI despite being ineligible to claim under their policy;
- telephone sales staff used high-pressure selling and other unfair sales practices when selling CCI; and
- consumers were given non-compliant personal advice to purchase unsuitable policies.[1]

ASIC reviewed the sale of CCI by lenders for the period 2011 to 2018 and found that CCI sales practices and product design are still delivering poor outcomes for consumers. This latest report regarding CCI products comes after their 2011 Report 256 *Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions* (**REP 256**) on the same issue. At the time, ASIC made 10 recommendations to raise industry standards and reduce the risk that CCI may be mis-sold to consumers.[2]

In 2015 and 2016, ASIC also reviewed the sale of add-on insurance (including CCI) through car dealerships.[3] ASIC found that consumers were being sold “expensive, poor value products that provided very little or no benefit” in a sales environment that was high pressure with high commissions and conflicting interests.[4]

In August 2017, ASIC formed a CCI working group to respond to such concerns and improve outcomes for consumers. Due to this, effective 1 July 2019, the Banking Code of Practice has a four-day deferred sales period for CCI sold with credit cards and personal loans in branch or over the phone.

In preparing REP 622, ASIC in December 2017 required 11 lenders to undertake an independent review of their CCI sales practices for the five-year period from January 2013 to December 2017.[5] These lenders included the four major banks and other significant lenders and insurance companies.

Furthermore, in REP 622 it was found that CCI was being sold to ineligible consumers and consumers who did not need cover or were unlikely to benefit.[6] Eligibility criteria in CCI policies that some consumers did not meet included employment status and excluded some pre-existing conditions.

ASIC found that CCI is unsuitable for certain categories of consumers including:

- single consumers under the age of 25, with no dependants and minimal assets being sold during the life component of CCI;
- those who already have life, total and permanent disability or income protection cover through their superannuation fund that covers the same risks;
- those in financial hardship due to a change in personal circumstances who obtain a loan to consolidate their debts, where the change in personal circumstances means the consumer no longer meets the key eligibility criteria;
- those who do not meet the key eligibility criteria for some or all types of cover when they are sold the product; and
- consumer who do not meet a lender's own target market criteria for the product, including income thresholds.

Therefore, ASIC found that lenders were employing unfair sales practices such as employing third-party telemarketers and motivating them to increase their sales by providing volume bonuses and sales targets. Hence, these telemarketers engaged in unfair sales tactics such as falsely representing CCI products, pressuring and persisting with sales calls despite consumers stating they did not need or want CCI and overcoming their reasonable objections and concerns.[7]

As a result of the review and misconduct found, REP 622 outlines ASIC's commencement of enforcement investigations into entities that have been involved in mis-selling CCI to consumers. ASIC will undertake a large-scale remediation program to address consumer harm which includes remediating over 300,000 affected consumers over $100 million. ASIC is involved in the process to ensure that remediation programs follow certain principles, including following ASIC's regulatory guidance on remediation. [8]

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[1] ASIC, '19-180MR ASIC finds unacceptable sales practices, poor product design and significant remediation costs in CCI sold by major banks and lenders' (Media release, 11 July 2019) https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-180mr-asic-finds-unacceptable-sales-practices-poor-product-design-and-significant-remediation-costs-in-cci-sold-by-major-banks-and-lenders/.

[2] REP 622, 5.

[3] REP 622, 5.

[4] REP 622, 5.

[5] REP 622, 6.

[6] REP 622, 13.

[7] REP 622, 14.

[8] Regulatory Guide 256 *Client review and remediation conducted by advice licensees* (RG 256).