



AFTA Submission to the Commonwealth Treasury

Deferred Sales Model for Add-On Insurance

SEPTEMBER 2019



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Foreword



The Australian Federation of Travel Agents (AFTA) welcomes the opportunity to contribute to the consultation process in response to Treasury's Proposal Paper for *Reforms to the sale of add-on insurance products*, published in September 2019. AFTA members form the heart of the travel insurance distribution market and are eager to be involved as the Government develops its deferred sales model for add-on insurance.

Treasury should be commended for the sophisticated framework that has been detailed in its Proposal Paper. The model provides the opportunity for add-on insurance products to be exempted from a four day deferral period when there is overwhelming evidence of product value and consumer understanding. AFTA fully endorses Treasury's stated criteria for the analysis to determine whether add-on travel insurance policies should receive this statutory or ASIC-designated exemption.

This submission distinguishes travel agents from other segments of the travel insurance market, as travel agents best understand the coverage of travel insurance products and their suitability for consumer needs. It also demonstrates that add-on travel insurance products distributed through travel agents are good value for money, sold in a competitive market, well understood by consumers, and that there would be a high risk of underinsurance if the four day deferral period applied to this market segment. The existing business practices of travel agents also make a deferral period impractical and unnecessary.

AFTA looks forward to ongoing consultation with Treasury and the Department of Foreign Affairs of Trade (DFAT) as legislation for the proposed deferred sales model is consulted upon and introduced into Parliament by 30 June 2020.

Submission summary

AFTA recommends that add-on travel insurance distributed through travel agents should be given statutory exemption in the proposed Tier 3 category as there is overwhelming evidence that:

-) **It is good value for money;**
-) **It is sold in a competitive market;**
-) **There would be a high risk of underinsurance if the four day deferred sale applied; and**
-) **It is well understood by consumers.**

About the Australian Federation of Travel Agents

The Australian Federation of Travel Agents (AFTA) was founded in 1957 to:

-) Establish professional standards for travel agents;
-) Stimulate and promote travel, both domestically and internationally;
-) Bring together those acting as intermediaries in the distribution of travel-related services to enhance service standards and improve business operations; and
-) Build strong working relationships with suppliers and consumers of travel-related services.

As the peak travel industry body in Australia, AFTA represents the majority of travel agencies who service both leisure and corporate travellers and who transact in a retail or online transaction model. AFTA represents the interests of its members on many local and international associations, committees and boards, to promote the benefits of inbound and outbound travel.

AFTA administers Australia's only accreditation scheme for travel agents and travel wholesalers, known as the *AFTA Travel Accreditation Scheme (ATAS)*. ATAS has been operating since July 2014 and has been endorsed by all state and territory consumer affairs and fair trading departments. This followed the deregulation of the eight separate legislative regimes governing travel agents from state and territory jurisdiction. ATAS accredited travel businesses must comply with a set of strict criteria outlined in the *ATAS Charter* and abide by the *Code of Conduct* which has been modelled on the ACCC voluntary code of conduct benchmark.

AFTA members are committed to maintaining Australia's world class travel industry. In particular, ATAS accredited travel agents strongly believe in a thriving domestic tourism industry, where more and more Australians enjoy holidaying at home. Research indicates 70% of all international departures are booked through a travel agent. Of those who book through a travel agent, 71% will choose an ATAS accredited travel agent over a non-accredited travel agent. In 2019, ATAS had over 2,800 accredited locations throughout Australia, representing close to 1,400 Australian businesses.

AFTA members play a key role in distributing travel insurance products to Australian travellers so that they can make travel plans without having to set aside additional funds for a catastrophe during their trip. Surveys indicate that 20% of consumers source their travel insurance through travel agents and DFAT continues to acknowledge the important role that travel agents play in this respect.

Table of Contents

Foreword	2
About the Australian Federation of Travel Agents	3
Table of Contents	4
Background	5
Add-On Travel Insurance Market	6
Market Segmentation	6
Segment 1: Travel Insurance distributed through travel agents	7
Segment 2: 'Click to add' travel insurance	8
Segment 3: Non-travel add-on	9
Other travel insurance sales channels	9
Evidence on Products Offered by Travel Agents	10
Criterion 1: Good value for money	11
Criterion 2: Strong competition	12
Criterion 3: High risk of underinsurance if deferred sale implemented	12
Criterion 4: Well understood by consumers	14
Tier 3 Exemption Warranted for Travel Agent Distributed Products	14
Trigger for Deferral Period	16
Impractical trigger for travel agent business practices	16
Existing cooling-off period practices	17
Summary of Recommendations	18
Bibliography	19

Background

A deferred sales model for add-on insurance was first recommended by the Productivity Commission in its report, *Competition in the Australian Financial System*, in June 2018. The report recommended that a Treasury-led working group should develop an industry-wide deferred sales model for the offer of any add-on insurance product, with ASIC empowered to offer exceptions on a case-by-case basis.

Commissioner Hayne adopted this recommendation during the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*. As a result, the Government agreed to mandate deferred sales for add-on insurance products and tasked Treasury to develop an appropriate deferred sales model, committing to consult and introduce legislation by 30 June 2020.

Prior to consultation on exposure draft legislation and, by exception, the Treasury has released a Proposal Paper on the implementation of an industry-wide deferred sales model. Treasury is proposing a tiered deferred sales model with three tiers, summarised in *Figure 1* below.

Figure 1: Proposed tiers for add-on insurance deferred sales model

Tier	Description	Proposed treatment under legislation
1	Products causing significant consumer detriment: where there is evidence of significant consumer detriment (e.g. poor value for consumers in terms of claims ratios and widespread unfair sales practices).	ASIC Product Intervention Power
2	Default tier for all add-on insurance products not included in tiers one and three	Legislated deferred sales model
3	Exemptions for products that meet relevant criteria: where the benefits of being able to purchase add-on insurance immediately outweigh the benefits of deferring the purchase (statutory or case-by-case as determined by ASIC).	Statutory exemptions or Legislated ASIC exemptions power

The proposed model would impose a deferral period of four days after a defined 'trigger event' for Tier 2 products. At the conclusion of the deferral period, the intermediary or the insurer would be able to contact the consumer, via written correspondence, but only on one occasion. It is also proposed that consumers may initiate a shortening of the deferral period for the conclusion of the sale from the day following the 'trigger event'.

This submission provides an overview of the add-on travel insurance market and responds to Treasury's requests for feedback on:

1. the features of different travel insurance products distributed through travel agents and their suitability for an exemption as Tier 3 products; and
2. the feasibility of the proposed 'trigger event' within the existing business practices and sales processes of travel agents.

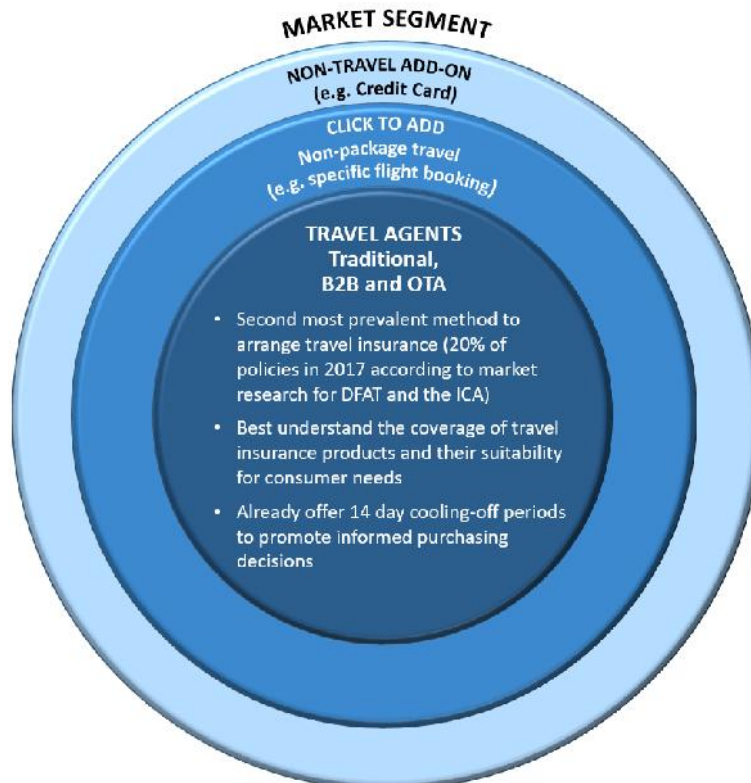
Add-On Travel Insurance Market

Market Segmentation

Travel insurance is available through a number of channels, both as an add-on and stand-alone primary product sale. Focussing solely on add-on products, it is important to distinguish between different types of travel insurance products and the circumstances in which they are distributed and sold. As depicted in *Figure 2*, there are three broad market segments with varying levels of interaction at the point of sale:

-) **Segment 1:** Travel agents (traditional, on-line travel agents (OTAs) and business to business (B2B));
-) **Segment 2:** Click to add (non-package travel); and
-) **Segment 3:** Non-travel add-on (eg credit card).

Figure 2: Add-on travel insurance market segmentation



Add-on travel insurance can be further categorised based on the nature of the primary product in association with which the add-on insurance product is offered, and the characteristics of the sales channel.

While travel insurance is not always distributed through travel agents as an add-on insurance product, AFTA expects the Government's definition of 'add-on insurance' to be nuanced enough to exclude instances where standalone travel insurance products are directly procured from travel agents. The general characteristics of travel insurance sales channels is summarised in *Figure 3*. Travel insurance sales channels are then explored in further detail.

Figure 3: Travel insurance sales channels characteristics

Sales process	Provider understands the coverage of the travel insurance and suitability for the consumers' specific requirements	Generic and fails to account for specific or unusual risks
Sold with travel related primary product	Travels agents: Traditional face-to-face, Corporate and OTAs (Add-on)	Click to Add with airline tickets and other travel products (Add-on)
Sold with non-travel related primary product or travel insurance sold as primary product	Products sold by a fully informed insurance broker (Primary product) Travel agents when individual primary product sold (Primary product)	Credit Card add-on insurance (Add-on) Products sold directly by provider (Primary product) Comparator websites (Primary product)

Segment 1: Travel Insurance distributed through travel agents

Travel agents tailor travel packages to the specific requirements of the consumer

Travel is sold in many different ways across a geographically diverse, commercially different and, in some ways, complicated travel value chain. Travel agencies form an important part of this travel ecosystem as a trusted advisor on the purchase of travel and travel packages. Packages may include accommodation, travel, transfers and other logistics planning, tours, special requests/needs, group bookings, and many other factors that facilitate the customers' travel experience.

The continued consumer demand for travel agent expertise should not be underestimated. A recent consumer survey undertaken by AFTA indicates that 70% of all international departures are booked through a travel agent.

Travel agents tailor travel packages to the specific requirements of the consumer. This may occur in a face-to-face meeting at a traditional Travel Agent shopfront, over the phone, or via the digitisation of the travel agent services offered by OTAs. In all instances, the services of the travel agent do not finish once the consumer completes the financial transaction. Travel agents continue to support consumers prior to departure (with amendments or upgrades, and on-going travel advice) and throughout the travel experience. This includes, at times, assistance in contacting and engaging with travel insurers where claims are made.

Corporate travel agents provide the same integrated service offering, only directly to business and the public sector.

As the travel agent has knowledge of the specific details of the travel package, they can ensure that any travel insurance distributed through the travel agent is appropriate for the consumer and intended travel. For example, travel agents ensure:

-) discounts are applied to children or young adults;
-) the product adequately covers the scope of travel, including the financial commitment, geography and period of travel;

-) guidance on pre-existing conditions is provided to the consumer; and
-) the product covers specific activities that will be undertaken (such as extreme or winter sports, motorcycling or cruising).

Travel Insurance an integral component of travel packages offered by travel agents

Travel insurance is commonly seen as an integral part of the travel packages facilitated by travel agents, and some consumers are hesitant to make what can be a significant financial commitment, without appropriate insurance immediately in place. Likewise, travel agents risk significant reputational loss where consumer detriment results in cases that would otherwise have been covered by appropriate travel insurance.

In regards to the current regime for hawking, ASIC has provided non-binding guidance that the offer of travel insurance is NOT unsolicited at a travel agency, as it is reasonably within the scope of a solicited meeting for the purchase of travel products. DFAT has also acknowledged the important role that travel agents play in protecting travellers through the purchase of travel insurance. Under the DFAT *Charter for Safe Travel*, for which AFTA was the first signatory, on 11 June 2003, travel agents are committed to “encourage travellers to take out adequate travel insurance”.

Travel agents are well regulated

The AFTA *Code of Ethics* explicitly disallows “... any dealings or negotiations on behalf of their client to be overly influenced by any preferred relationship with a supplier”.¹ Travel businesses pay an annual membership fee to AFTA, which is taken as an affirmation of a commitment to follow this *Code of Ethics*. AFTA members pledge themselves to “... conduct their business activities in a manner that promotes the ideal of integrity in travel”.²

In addition, AFTA also administers ATAS, a nationally-recognised accreditation scheme for travel intermediaries. ATAS accreditation is a mark of industry quality. ATAS has high reputational standards and, as such, accredited businesses are respected by consumers, industry professionals and stakeholders. ATAS prescribes a range of significant obligations for accredited businesses. These obligations are outlined in the ATAS [Code of Conduct](#) and [Charter](#). These are obligations that arise outside and, in addition to, Australian law. A breach of these obligations may result in the revocation of ATAS accreditation.³

Segment 2: ‘Click to add’ travel insurance

‘Click to add’ travel insurance generally refers to add-on travel insurance offered to consumers in the online purchase process of a specific travel product. Click to add travel insurance is most common in the sale of airline tickets, where it is offered after the flight selection process with other additional products and services, such as accommodation deals, car hire and carbon offsets.

The Treasury Proposal Paper explicitly acknowledged findings by Choice that “airlines charge inflated premiums for insurance bought during the online ticket sales

¹ AFTA, *Code of Ethics*, Revision 1, 22 May 2014. p. 3.

² *Ibid.* p. 2.

³ AFTA, *AFTA Travel Accreditation Scheme Charter*, Section 3.1, p. 13.

process." Unlike travel insurance distributed through travel agents, that will take into account consumers' individual travel plans, click to add travel insurance is often generic and often fails to account for specific or unusual risks.

There may also be a time-limited component to the sale of click to add travel insurance that exacerbates information asymmetries and poor consumer outcomes. Airlines and other booking websites often place a time restriction on the online check-out process, holding flight/product availability or pricing for 10 to 15 minutes. This limits not only the time available for the consumer to compare travel insurance products, it also limits the time the consumer has to understand the coverage and nature of the product being offered.

The nature of the primary purchase of a specific product, and not a package of travel, means that consumers are less likely to actively engage in the sales process. Likewise, the consumer has no established personal relationship in the event of a claim, and will most likely need to engage directly with the insurer, without additional support.

Segment 3: Non-travel add-on

'Non-travel add-on' refers to add-on travel insurance that is offered in conjunction with a primary product that is not travel-related. The most common of these is travel insurance offered in conjunction with credit cards.

Like click to add travel insurance, the add-on insurance cover is often generic and may fail to account for specific or unusual risks. The cost of the insurance product is generally integrated into the cost of the financial product, or may be otherwise offset by the provider. This, and the fact that acquisition of the financial product is not linked to the travel, means the consumer is less likely to engage with the provider to understand the limits of coverage and suitability for their specific requirements.

Risk of underinsurance results, as consumers are lulled into a false sense of security, relying on credit-card add-on travel insurance, instead of identifying products in the market that meet their needs.

Other travel insurance sales channels

Travel insurance is also sold as a primary product directly to the consumer by insurance providers, and through intermediaries such as insurance brokers and comparator websites. Despite being sold as a primary product, the sale of travel insurance through these channels face many of the same risks as add-on insurance. In particular, unless the seller is fully informed on the specific details of the consumer's travel, there is a material risk of underinsurance.

While direct online sales and comparator websites enable consumers to compare products from different providers, often product price is emphasised over the specific coverage details. Differences in coverage may not be well understood by the consumer, and selection of products on price alone may again result in underinsurance and poor overall value for money.

Recommendation 1

The proposed deferred sales model should be cognisant of the different market segments that distribute add-on travel insurance, and the fact that travel insurance is most suited to the needs of travellers when distributed through travel agents.

Evidence on Products Offered by Travel Agents

Request for feedback

Please provide evidence as to why a particular type of add-on insurance product should reside in a particular tier. This could include details of the sales process, claims ratios and distribution channels for different add-on insurance product lines. As per Commissioner Hayne's final report, exemptions should only arise where there is overwhelming quantitative evidence of product value and consumer understanding.

Given the limited notice and duration of the consultation period on Treasury's Proposal Paper, AFTA is still working with its members to consolidate all of its quantitative commercial evidence on travel agent distributed add-on travel insurance.

In the meantime, there is a wealth of publically available evidence, particularly from the UK *Financial Conduct Authority* (FCA), which demonstrates that travel agent products are good value for money, well understood and are sold in a market with strong competition. Most importantly, it is incontrovertible that a deferred sales model for travel agent distributed products would also lead to a higher risk of underinsurance. It was these factors that led the FCA to only target UK Guaranteed Asset Protection insurance, and not proceed with a deferred sales model for travel insurance.

The Treasury Proposal Paper sets out four critical criteria to be satisfied for Tier 3 exemption to be granted by statutory means to add-on insurance policies.

Those criteria are:

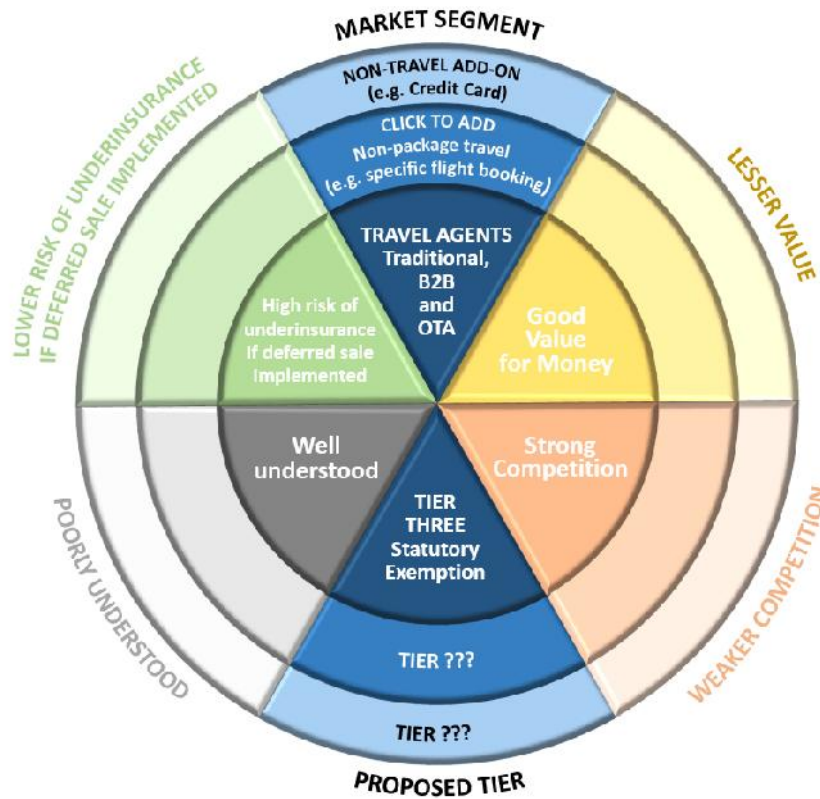
-) **Criterion 1:** Historically good value for money;
-) **Criterion 2:** Strong competition;
-) **Criterion 3:** High risk of underinsurance if deferred sale implemented; and
-) **Criterion 4:** Well understood by consumers.

AFTA fully endorses these criteria as forming the basis for the analysis to determine whether add-on travel insurance policies purchased by consumers in transactions covered by Segments, 1, 2 and 3 should receive statutory exemption.

AFTA has produced a graphic which will enable policy makers to identify the extent to which the four criteria are satisfied in relation to the three market segments identified earlier. See *Figure 4*. AFTA seeks in this submission to provide initial commentary on the extent to which it argues that all four criteria are satisfied in relation to Segment 1.

AFTA does not seek to provide detailed commentary on the extent to which the four criteria are satisfied in relation to Segments 2 and 3.

Figure 4: Statutory exemption criteria for different add-on travel insurance segments



The statutory exemption criteria are now addressed in relation to Segment 1 transactions only.

Criterion 1: Good value for money

When assessing travel insurance's value for money, it is important to note that there is no substitution between different types of add-on products, and that add-on travel insurance is not directly comparable with products such as motor vehicle insurance. For example, claims ratios in travel insurance can vary widely, depending on significant natural events, such as volcanic ash clouds. As a result, performance metrics for travel insurance should only be compared between different segments of the travel insurance market (see Figure 4).

Unlike other segments of the general insurance market, travel insurance distributed through travel agents is good value for money as it is fit-for-purpose. Travel agents act as representatives of the add-on insurance providers, and ensure that consumers travel with appropriate travel insurance coverage that is tailored to their travel arrangements. Other distribution methods, such as credit card travel insurance, provide generic policy coverage which can leave travellers thinking they are covered when they are not.

Indicatively, a consumer making travel arrangements to visit Japan for a skiing trip might think that their generic credit card travel insurance covers them for skiing injuries – this is unlikely to be the case. Travel agent distributed insurance would be much better value for money, as the travel agent understands the travellers'

circumstances from helping them arrange their trip, and would be able to direct the traveller to travel insurance products which include snow sports insurance.

Travel insurance consumers are also quick to mistake good value products as being the cheapest products. This is particularly true for those that use price comparison sites where, in 2017, 44% of Australian travellers chose the cheapest insurance quote available without due consideration of other factors (c.f. 27% for other distribution channels).⁴ It is more important to focus on the quality of the coverage that different policies afford when assessing value for money.

A deferred sales model would reduce the quality of add-on travel insurance as travellers may look for the cheapest product during the deferral period rather than choosing the most fit-for-purpose policies for their travel. This is not good value for money for the consumer and the result of this distinction can be seen in the UK where, in 2008 to 2012, the weighted average claims ratio for travel insurance add-on sales was 52% compared to 42% for deferred and standalone travel insurance add-on sales.⁵

Criterion 2: Strong competition

There is healthy competition amongst different distribution channels and segments of the travel insurance market. Travellers are very aware of the different avenues they have to shop around for travel insurance and this drives competitive and independent pricing across the industry.

In the UK there is strong evidence that add-on travel insurance buyers show a good awareness of stand-alone alternatives⁶ and that the competition from these stand-alone travel insurance alternatives impacts the pricing of travel insurance add-ons.⁷ This is reflected here in Australia as travel agents are aware that there is nothing preventing travellers from getting a standalone online quote while they are at the travel agency. In order to secure a traveller's business, travel agents must do everything they can to provide good value for money and be competitive with the pricing of other products in the market.

Criterion 3: High risk of underinsurance if deferred sale implemented

Travellers walk into travel agents expecting to purchase travel insurance at the point of sale. In 2014, only 13% of add-on travel insurance buyers in the UK reported not having thought about buying the insurance until they bought it.⁸ Not only would a deferred sales model be out of line with consumer expectations, but it would greatly increase the risks of underinsurance.

The importance of travel insurance cannot be overstated in helping travellers avoid the costs of nightmare scenarios and in reducing the amount of public expenditure on consular assistance. Currently one in every 1,000 Australians who are overseas

⁴ Quantum Market Research, Survey of Australians' Travel Insurance Behaviour – 2017, Final Report, p.13.

⁵ UK Financial Conduct Authority, March 2014, General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1 p.41.

⁶ UK Financial Conduct Authority, March 2014, General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1 p.24.

⁷ Ibid, p.34.

⁸ Ibid, p.25.

need help from the Australian Government at any one time. DFAT has recognised that increased consular assistance would be required were it not for the existence of travel insurance and travel agents.⁹

It would not be in the public interest to:

-) have a system where travellers with imminent departures opt out of travel insurance altogether;
-) create an additional window of underinsurance during the deferral period; or
-) spur additional instances of underinsurance resulting from traveller apathy and procrastination.

Underinsurance for imminent departures

The Treasury Proposal Paper acknowledges that there will be instances where individuals will purchase travel arrangements in the lead up to an imminent departure, stating that the four day deferral period will cause them to ‘opt out entirely from purchasing any travel insurance, leaving them underinsured’. While Treasury believes that some might also be diverted to the standalone market, AFTA considers that the stated risk of travellers deciding to opt out of insurance altogether warrants a Tier Three exemption in its own right.

Underinsurance window during the deferral period

The deferred sales model will also create a four day window of potential underinsurance that currently does not exist. There is a real risk that travellers who have arranged costly trips could have an accident during the deferral period preventing them from going ahead with their plans. As the deferred sales model would have potentially blocked their purchase of travel insurance during this period, these travellers will have no means to recoup their expenditure, and will blame travel agents and the Federal Government for their misfortune.

Additional underinsurance from apathy and procrastination

At the conclusion of the deferral period, the proposed model contemplates that the insurer would only be able to contact the consumer once, via written correspondence. This will lead to high levels of underinsurance as many consumers will ignore the correspondence or forget to respond.

While 23% of Australians think that it is acceptable to go overseas without travel insurance,¹⁰ only 9% end up overseas without it. This positive outcome can be attributed to the role of travel agents, who provide a critical reminder to travellers who “just did not think about it” – a key reason quoted for travelling uninsured.¹¹ Travel agents are able to assist travellers obtain appropriate levels of insurance because they hold the travellers’ attention at that point in time.

Of uninsured travellers, 12% already think that purchasing travel insurance is too much of an inconvenience, while another 12% are underinsured because they did

⁹ DFAT, Consular State of Play: 2017-18, p.1.

¹⁰ Quantum Market Research, Survey of Australians’ Travel Insurance Behaviour – 2017, Final Report, p.16.

¹¹ Ibid, p.27,

not get around to it.¹² The lack of follow up communications permitted under the proposed model would compound the apathy some travellers have towards travel insurance, and potentially lead to significant increases in underinsurance.

Criterion 4: Well understood by consumers

There is a high level of engagement and understanding in relation to add-on travel insurance products, as most travellers know that, without it, they would be personally liable for costs they might incur from unforeseen events, such as overseas medical emergencies, flight cancellations or lost baggage. Indeed, in 2017, nine out of ten Australians had travel insurance for their most recent travel overseas.¹³

Evidence collected in the UK suggested that the FCA should be much less concerned about travel insurance in their review of add-on insurance products, as consumers buy travel insurance products frequently and are broadly familiar with them.¹⁴ They also found that 88% of add-on travel insurance policy holders in UK were very confident in their understanding of the product and its coverage.¹⁵

However, AFTA acknowledges that there can still be public misunderstanding about basic travel insurance policy details, and is proud of the role its members play in educating travellers about different policies at the point of sale. This can be contrasted with further removed segments of the market, such as credit card insurance, which results in poorer quality coverage.

Tier 3 Exemption Warranted for Travel Agent Distributed Products

The publically available evidence in this submission and *Figure 4* demonstrate that, unlike with other travel insurance market segments, the benefits of immediate purchase of add-on travel insurance distributed through travel agents outweigh the benefits of deferring purchase. See *Figure 5*.

¹² Ibid, p.39.

¹³ Quantum Market Research, Survey of Australians' Travel Insurance Behaviour – 2017, Final Report, p.9.

¹⁴ UK Financial Conduct Authority, March 2014, General insurance add-ons: Provisional findings of market study and proposed remedies, MS14/1 p.8.

¹⁵ Harris Interactive, March 2014, Study into the Sales of Add-on General Insurance Products: Quantitative Consumer Research Report, p.47.

Figure 5: Overwhelming evidence of product value and consumer understanding

Statutory Exemption Criteria	Travel agents	Click to add	Non-Travel Add-On
Value for money	✓	?	?
Strong competition	✓	?	?
High risk of underinsurance if deferred sale implemented	✓	?	?
Well understood by consumers	✓	?	?

Further commercial evidence from AFTA will overwhelmingly support the view that add-on travel insurance products distributed through travel agents should be exempt as Tier 3 products through primary legislation. Detailed data to support this proposition will be gathered and provided to Treasury as soon as practicable.

Recommendation 2

Add-on travel insurance distributed through travel agents should be given statutory exemption in the proposed Tier 3 category as there is overwhelming evidence that:

-)] it is good value for money;
-)] it is sold in a competitive market;
-)] there would be a high risk of underinsurance if the four day deferred sale applied; and
-)] it is well understood by consumers.

Trigger for Deferral Period

Request for feedback

Please provide feedback on how this trigger would correspond to your current business practices in selling add-on insurance products. This could include information on the number and frequency of customer touchpoints in the sales process and/or at what point in the process financial commitments are typically made by consumers.

The proposed deferred sales model contemplates that the deferral period would be triggered by two steps, in a sequenced order:

1. The consumer making a financial commitment to purchase the primary good/service and/or arranging finance, followed by;
2. The retailer providing prescribed information about the add-on insurance product – which includes details about the deferral period.

While the format, further content and mode of delivery of the prescribed information will be determined by ASIC, the sequencing of these two events is highly impractical in the context of the travel insurance sales process.

Impractical trigger for travel agent business practices

It is very common for travellers to avoid locking in their travel arrangements without securing travel insurance at the same time. Waiting for a concrete decision to purchase or acquire travel products before allowing travel agents to provide information to the traveller about travel insurance would lead to two negative consequences:

1) Travellers will stop using travel agents to book both their travel arrangements and related travel insurance as they may be unwilling to make financial commitments for a primary product without simultaneous insurance coverage

For the reasons discussed above, this will lead to poorer outcomes for consumers as it could lead to higher levels of underinsurance or inappropriate coverage as travellers seek out low-cost alternatives that are not fit-for-purpose. This is particularly important for less financially sophisticated travellers, who would be at significant risk were they to travel overseas without appropriate travel insurance. It would also discourage the use of travel agencies for primary products more broadly, to the detriment of the industry and to more vulnerable consumers who rely on travel agents to help them coordinate and arrange their travel.

2) Travel agents will comply with the stipulated sequencing, actively avoiding discussion about travel insurance and the deferral period until a financial commitment is made in respect of primary travel products

As the customer might not have gone ahead with the purchase of their travel arrangements had they known the details of the deferral period, or the details of the

travel insurance product that the travel agent could offer, this could be characterised as legislatively mandated misleading and deceptive behaviour.

Recommendation 3

Add-on travel insurance distributed through travel agents should be given statutory exemption in the proposed Tier 3 category as the proposed trigger for the deferral period is impractical in travel agent business practices and could lead to unintended consequences.

Existing cooling-off period practices

All travel insurance products distributed via the travel agent channel carry a 14 day cooling-off period and this is upheld by all insurance products offered by Australian insurance companies.¹⁶ This is acknowledged by AFTA as best practice and a genuine value addition to consumers in the purchase of travel insurance.

The 14 day cooling-off period allows travellers to cancel their policy and receive a full refund at any time before their travel begins. It also provides consumers with an in-built option to make deferred purchasing decisions.

There is no evidence to suggest that a deferred sales model would lead more consumers to reconsider their purchases. It is also unclear how the trigger for existing travel insurance cooling-off provisions could be integrated into the trigger for a deferred sales model.

Existing cooling-off provisions in travel insurance products distributed through travel agents render a deferred sales model unnecessary and an inconvenience for travellers who already have the option to reverse the purchase of the add-on travel insurance without penalty.

Recommendation 4

Add-on travel insurance distributed through travel agents should be given statutory exemption in the proposed Tier 3 category as all travel insurance products distributed through travel agents already provide consumers with a 14 day cooling-off period that allows the traveller to reverse the purchase of the add-on travel insurance product without penalty.

¹⁶ Corporations Act 2001 (Cth), s1019B.

Summary of Recommendations

Recommendation 1

The proposed deferred sales model should be cognisant of the different market segments that distribute add-on travel insurance, and the fact that travel insurance is most suited to the needs of travellers when distributed through travel agents.

Recommendation 2

Add-on travel insurance distributed through travel agents should be given statutory exemption in the proposed Tier 3 category as there is overwhelming evidence that:

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Recommendation 4

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