

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2016 - 2017

Division/Agency: Australian Competition and Consumer Commission

Question No: 114

Topic: Add-on insurance

Reference: Written

Senator: Ketter, Chris

Question:

Referring to the ACCC's announcement that it is declining to authorise a plan by a number of insurance companies to limit commissions to car dealers for selling add-on insurance to 20 per cent.

- a. Can you go through the ACCC's reasoning for the decision?
- b. What communication has the ACCC had with ASIC in relation to this issue?
- c. Does the ACCC believe that the best interests of consumers are served by insurance companies following ASIC's recommendations in its report REP 492 (descriptively titled A market that is failing consumers: The sale of add-on insurance through car dealers)? If so, what role will the ACCC play in ensuring they are followed?
- d. Has the ACCC received any correspondence or submissions in the wake of this decision? Are you able to provide copies?

Answer:

- a. The ACCC does not consider that the commission cap addresses the consumer protection issues identified by ASIC. The cap is unlikely to remove incentives for the sale of poor value 'add on' insurance policies. Nor would it remove the risk of inappropriate sales practices or ensure that consumers are put in a position to make an informed purchasing choice.

Rather, a collective agreement between insurers to cap the commissions that they pay to car dealerships will primarily benefit insurers at the expense of car dealerships, and provide minimal, if any, benefit for consumers.

The ACCC considers that the cap is likely to reduce competition between insurers, including by providing greater opportunities for explicit or tacit collusion and greater shared knowledge between insurers of competitors' costs. The cap is also likely to delay implementation of effective reforms which properly address the market failures that have resulted in the consumer protection issues identified by ASIC.

A full copy of the reasons for the ACCC's decision is available on the ACCC's public register.

<http://registers.accc.gov.au/content/index.phtml/itemId/1198584/fromItemId/401858>

- b. The ACCC consulted extensively with ASIC about the application. As part of the ACCC's public consultation process ASIC was invited to make a submission. ASIC provided two submissions, on 14 November 2016 and 14 February 2017. In addition, staff at the ACCC and ASIC had regular ongoing discussions about the application while it was being considered by the ACCC.

- c. The ACCC considers that many of the recommendations in the ASIC report would, if implemented, be likely to benefit consumers. However, the ACCC does not consider that the plan by the insurance companies to agree between themselves to limit commissions is likely to address this market failure. Further, the ACCC considers that adoption of the proposal would lessen competition and delay implementation of effective reforms which properly address the market failures that have resulted in the consumer protection issues identified by ASIC. The ACCC's role is determined by the Competition and Consumer Act 2010 (the Act) and the ACCC will continue to perform its functions under the Act to protect the interest of consumers.
- d. The ACCC has not received any submissions or correspondence since the announcement of the decision.