



MEDIA RELEASE

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Report into consumer credit insurance exposes dirty tactics

The Consumer Action Law Centre has responded to ASIC's report into consumer credit insurance (CCI), by saying that it confirms two of its long held suspicions; that many lenders selling CCI are using underhand or pressure tactics to sell the product, and that the industry has failed to take proactive steps to address practices identified in a number of reports and investigations over the past 20 years.

Carolyn Bond, co-CEO of Consumer Action, said the report into CCI (insurance taken out on credit cards, personal loans or mortgages to cover borrowers in the event of loss of income, death or disablement) highlights a range of poor selling practices including misleading customers about the optional nature of CCI, attempting to hide the cost, and selling the insurance without the borrower's knowledge or permission.

"We knew that this form of insurance has been sold to unsuspecting and unaware customers in the past and, sadly, this report confirms our suspicions that the practice is still going on," said Ms Bond.

"When lenders bury the costs of the insurance in with all the fees and charges of a loan, or combine the sale with activation of a credit card, it's not surprising that borrowers are unaware of what they're paying for – that's why borrowers should be given a separate quote for CCI and why it should be made clear that it is optional."

Consumer Action also expressed its concern at the high level of claims being rejected. ASIC's report says that thirteen per cent of claims are denied, far higher than the level of denied personal general insurance claims, which sits at a comparatively low two per cent.

"There's obviously an unusual number of claims being denied and we're pleased that ASIC is planning to investigate this aspect further.

"Only 34 cents in every dollar of insurance premium paid is used to fund claims – compared to other forms of insurance this number is incredibly low, and suggests consumers aren't getting value for their money."

Consumer Action is sceptical about industry groups which claim they are planning to implement ASIC's recommendations.

"We've heard all this before, lenders and insurers have been aware of the problems with CCI for years and this new report show that they have continually failed to respond to the issues in any meaningful way," said Ms Bond.

"The problem is CCI is too profitable, and over the years nothing has yet forced the industry to behave fairly."

Lenders earn up to 20% in commissions, and earn interest by financing the premiums. Policies which make it difficult to claim are also money-spinners for the insurer.

Ms Bond said that, as a first step, the Government should ban the payment of commissions to lenders who sell this type of insurance. We may then start to see lenders considering their customers' needs rather than their own profits.

“While the banks and credit unions want us to believe they are committed to ethical behaviour and customer service, ASIC’s report shows that shady practices lie just below the surface.”

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ASIC report into CCI can be found at:

<http://www.asic.gov.au/asic/asic.nsf/byHeadline/11%E2%80%93224MR%20ASIC%20seeks%20improvement%20in%20CCI%20sales%20practices?opendocument>

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