AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

ASIC - PROPOSED PRODUCT INTERVENTION ORDER FOR THE SALE OF ADD-ON MOTOR VEHICLE FINANCIAL RISK PRODUCTS

26 AUGUST 2020

CONTENT

FOREWORD

The AADA welcomes the opportunity to provide feedback on the draft Product Intervention Order (PIO) circulated by ASIC on 5 August 2020.

The AADA represents approximately 1,500 Dealers across Australia who own and operate over 3,000 franchised new car showrooms, selling and servicing vehicles from nearly 70 brands.

The automotive industry has been experiencing an extremely challenging environment in recent years, following 28 straight months of decline in volume and margins of less than 1 per cent return on sales. A sustained decline in new car sales has combined with an unprecedented wave of regulatory intervention in the finance and insurance operations of dealerships.

Dealers have had to deal with the ban on flex commissions, consultations by both ASIC and the Treasury on add-on products and a recommendation by the Hayne Royal Commission to remove the point-of-sale exemption under which Dealers operate. In addition, the Royal Commission has also had a huge impact on the availability of consumer finance which has now tightly constrained the lending market.

To compound matters, the effects of the pandemic will likely see new car sales drop to volumes not seen in 20 years. In addition, General Motors has terminated the second largest Dealer Network in the country, while Honda has terminated a number of its Dealers. Given the global economic outlook, there is a high possibility that other Manufacturers will now take steps to rationalise their operations in Australia.

This is an incredibly challenging time for many of these Australian businesses and their employees. Dealers are working hard to remain viable while facing these existential threats.

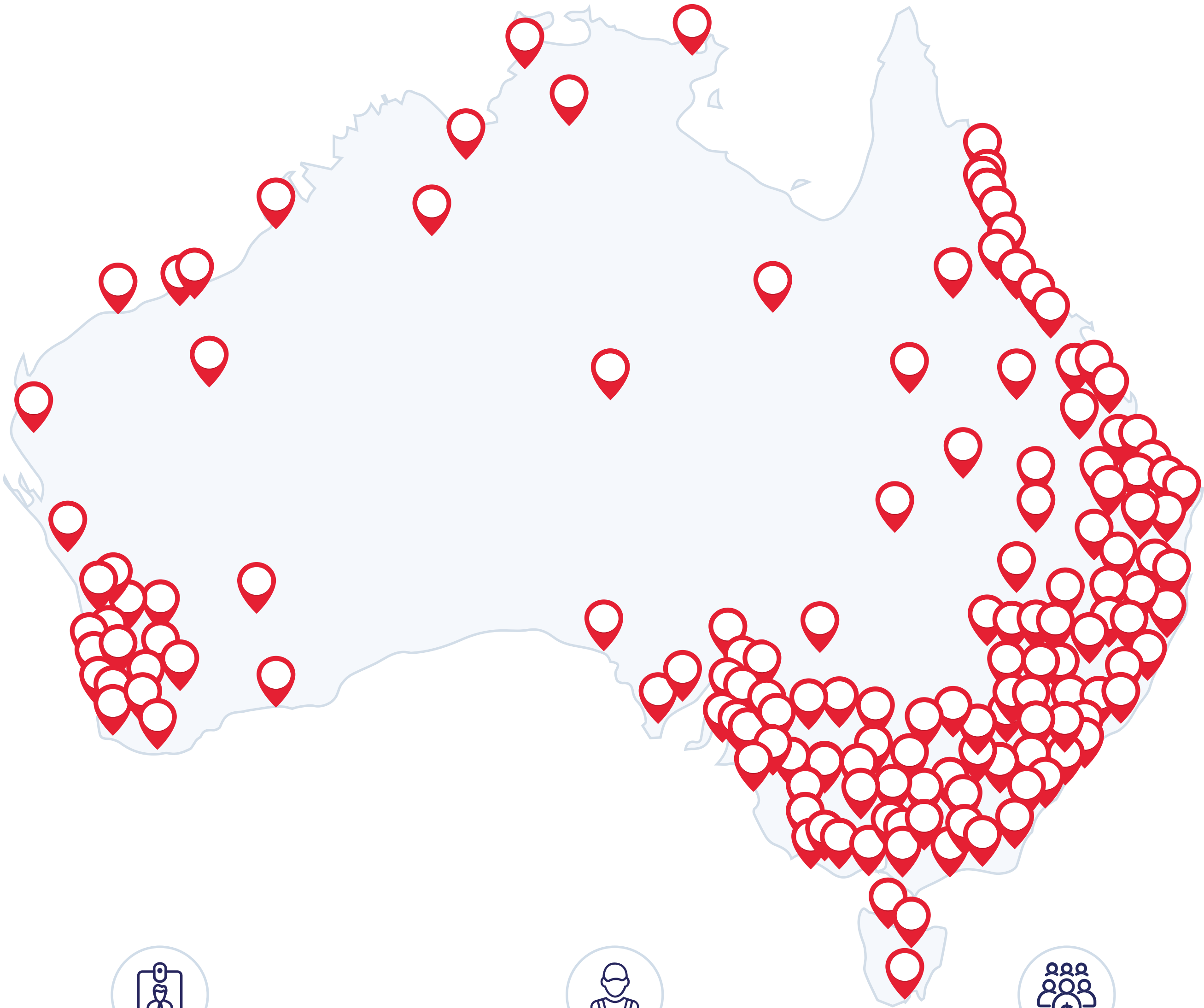
The AADA understand the desire of ASIC to achieve reform of automotive add-on insurance and warranty product offerings, however we have serious concerns around the timing of any additional regulatory changes. We would recommend careful consideration of the various factors currently influencing the industry and would encourage ASIC to also take into account the multitude of improvements that have occurred in the sector since the consultations began.

We urge to you to carefully consider the points we have made in this submission and would welcome the opportunity to elaborate on any issues.

James Voortman
Chief Executive Officer

Australia

3,135 Dealerships



55,815
Dealer Employees

4,463
Dealer Apprentices

$14.82 million
Community Donations

$5.10 billion
Dealer Wages

$2.07 billion
Tax Contribution

$12.76 billion
Total Economic Contribution

AADA KEY POINTS

1. Postpone the commencement of the Product Intervention Order (PIO) by at least 12 months.

2. Increase the transition period from three months, or six months for Section 11, to at least 18 months.

3. Mechanical risk products to be subject to a separate order under a non-deferred sales model.

4. The PIO should focus on product design and target providers who continue to provide poor value and poorly designed products.

5. Consolidate the Treasury Financial Sector Reform - Deferred Sales Model for add-on insurance and the concurrent ASIC PIO for add-on products.

6. Provide consumers with the opportunity to opt-out of the PIO restrictions through the provision of a waiver.

7. The four-day deferral period is unnecessary and excessive. We recommend a two-day deferral, on insurance products only.

CURRENT CONDITIONS IN THE AUTOMOTIVE INDUSTRY

Franchised new car Dealers are doing it incredibly tough in Australia. On a year to date basis, new vehicle sales are down 19.2 per cent on 2019 and even under the most optimistic forecasts, it is likely that sales for the year will be the lowest in around 20 years. The industry has suffered 28 consecutive months of decline in sales. Additionally, Dealers have been experiencing declining margins and in 2019 they earned an average 0.9 per cent return on sales and a third of Dealers failed to generate any profit at all.

Dealers face additional pressures with restrictions on the availability of consumer finance and the devastating effects of the COVID pandemic. Victoria is currently mid-way through a planned six-week Stage 4 shutdown that has forced the closure of Dealerships across greater Melbourne and means many of these Dealers will have no turnover for more than a month. The reduced activity has also required Dealers to operate with skeleton staff levels.

Many Dealers have lost franchises in the past 12 months with Holden and Infiniti exiting the Australian market and Honda terminating a number of its Dealers as it moves to new distribution model.

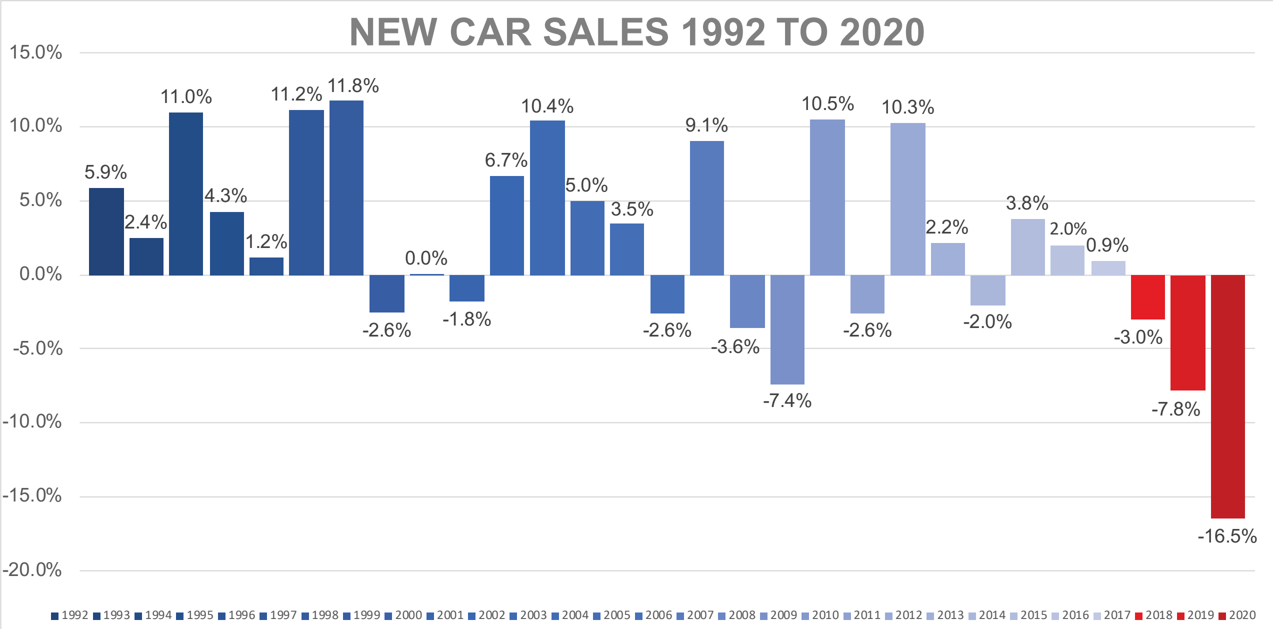
There is also a great deal of uncertainty in the future. As stimulus measures gradually disappear and unemployment rises, it is uncertain what lies ahead for the automotive industry.

Given the severity of the current trading environment and the uncertainty that still lies ahead, it is likely to be at least 12 months before Dealers can get back to anything resembling business as usual.

The Product Intervention Order should be postponed for at least 12 months.

The prospect of introducing regulatory change which will require training and the development of compliance regimes, is just not achievable or feasible at this time. Equally, the three or six-month transition period is inadequate and leaves Dealers with insufficient time to establish compliance and training procedures. In recent years other less complex reforms in the finance and insurance area have had a transition period of at least one year.

The transition period in the draft Product Intervention Order should be increased from three months, or six months for Section 11, to at least 18 months.


NEW CAR SALES 1992 TO 2020
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
5.9%
2.4%
11.0%
4.3%
1.2%
11.2%
11.8%
-2.6%
0.0%
-1.8%
6.7%
10.4%
5.0%
3.5%
-2.6%
9.1%
-3.6%
-7.4%
10.5%
-2.6%
10.3%
2.2%
-2.0%
3.8%
2.0%
0.9%
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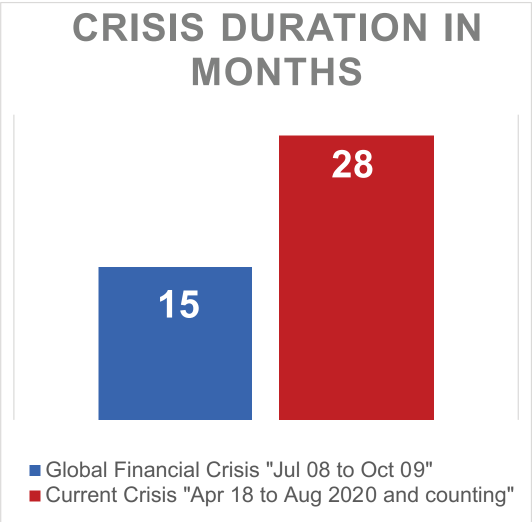
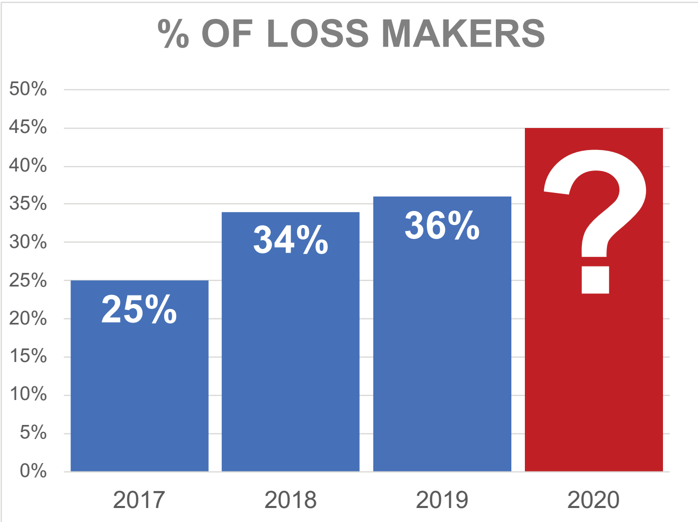
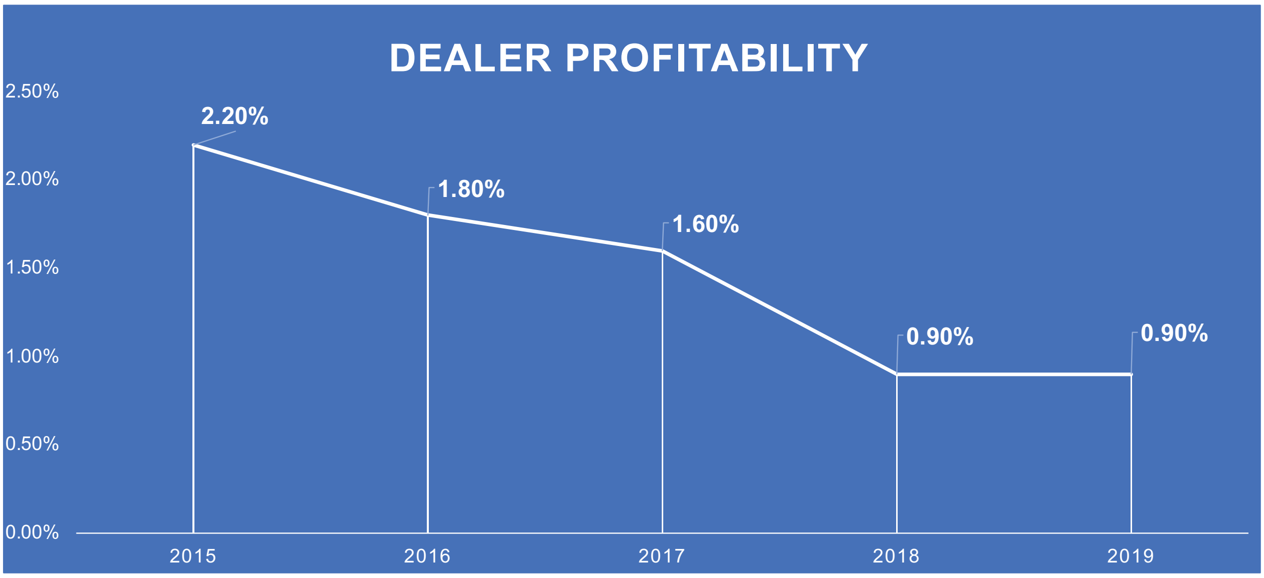
-16.5%
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020


CRISIS DURATION IN MONTHS
15
28
Global Financial Crisis "Jul 08 to Oct 09"
Current Crisis "Apr 18 to Aug 2020 and counting"


% OF LOSS MAKERS
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
25%
34%
36%
?
2017
2018
2019
2020


DEALER PROFITABILITY
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2.20%
1.80%
1.60%
0.90%
0.90%
2015
2016
2017
2018
2019

SEPARATION OF WARRANTY AND INSURANCE PRODUCTS

While the PIO seeks to control the supply of add-on motor vehicle financial risk products, we do not believe that warranty products fall within the classification of a financial product. It is unclear to us therefore, why warranty products are included in the definitions and interpretation of products subject to the deferred sales process.

This being the case, the desired control for the supply of warranty products could alternatively be achieved through a requirement to give purchasers a post-sale cooling off period. We also note that comprehensive additional consumer protections remain available which provide no penalty, full pro-rata refunds to consumers who choose to cancel the product.

Mechanical risk products are not financial products and should be subject to a separate order under a non-deferred sales model.

PRODUCT IMPROVEMENTS AND REDUCED COMPETITION

Following the commencement of the ASIC consultations concerning add-on products four years ago, the industry has responded and changed significantly. Many providers have withdrawn from the market and of those who remain, the responsible ones have substantially altered their products to improve consumer value and claims ratios. The AADA recommend that rather than burden the entire industry with additional red tape, ASIC should structure their intervention order to target those insurers and warranty providers which have not improved their products.

We have also observed a reduction in the number of providers in the add-on market leading to a reduction in competition and consumer choice. Further regulatory intervention risks making the situation worse and this factor should be taken into account prior to introducing the PIO.

TREASURY REVIEW

Treasury is conducting a parallel process for Financial Sector Reform which includes a deferred sales model proposal for add-on insurance. It is confusing, complex and cumbersome for industry to be required to respond to separate inquiries and potentially comply with two sets of legislation covering the same practices and products.

These separate inquiries both seek to address reform of the same products and practices. It is a reasonable expectation of industry that government departments and regulators who operate under government authority, will collaborate and harmonise their work whenever there are obvious parallels.

We recommend that ASIC work with Treasury to consolidate requirements and avoid unnecessary duplication.

CONSUMER WAIVER

In the AADA responses to ASIC consultation papers CP294 and CP324, we called for a waiver for consumers wishing to opt-out of the deferral period.

A consumer who is provided access to the consumer roadmap, will have a clear understanding of the nature and features of the product they are considering purchasing. So informed, consumers should have the ability to sign a waiver and opt-out of the deferral period, if they so choose.

RESPONSES TO SPECIFIC QUESTIONS FOR FEEDBACK

1. **Please summarise your views on any of the changes made to the revised draft product intervention order, including whether the changes would be more or less effective in addressing the significant consumer detriment previously identified by ASIC, including in CP 324. Please explain the reasons for your position.**

   The changes made will apply procedural change to the process of selling add-on insurance products whereas the perceived consumer detriment identified by ASIC is the result of poor product design. It is these poor products and the providers of them that should be the subject of attention. The changes proposed will only serve to make it more difficult for the current providers, add red tape to Dealer operations and potentially result lessening the number of providers leading to a further reduction in competition. Many consumers benefit from the protections offered by add-on warranty and insurance products. Lessening competition can lead to a rise in premiums and making the products more difficult to obtain just adds barriers to consumers who choose them.

   The AADA is also concerned at the focus on claims ratios being used by ASIC as a measure of customer value. Insurance products in particular are a liability until such time as they are needed, whereupon they then become an asset. As an example, people take comprehensive home insurance however most would hope to never be placed in a position where they need to make a claim for total loss.

2. **Do you consider that any further changes should be made to the revised draft order before ASIC proceeds to a final decision on whether to exercise the product intervention power?**

   Yes, as detailed in the key points above.

   Do you consider there is a significant risk of avoidance of the revised draft order as a result of any changes made by ASIC? If so, should ASIC introduce additional measures to address that risk?

   The draft provided is comprehensive and appears to capture all of the add-on warranty and insurance products we are aware of.

3. Do you consider that the consequences of the COVID-19 pandemic have had, or are likely to have, any effect on the significant consumer detriment identified by ASIC in CP 324? Please provide evidence in support of your response.

The COVID-19 pandemic is having a devastating effect on the automotive market, with Dealer activity severely curtailed by restrictions and lockdowns. Year to date, new car sales are down nearly 20 per cent on 2019 and July 2020 marked 28 months of consecutive decline in sales. The uncertainty and disruption in supply chains has led to shortages of new car inventory which in turn has driven up demand for used cars.

We believe that consumers are well served by the protections, well designed add-on warranty and insurance products can provide, though volumes will be substantially lower than before.

4. Please provide any information on likely compliance savings or costs, the likely effect on competition and other impacts, costs and benefits.

As discussed, we believe these changes will potentially reduce competition in the add-on market. For Dealers, there will be significant costs added with training of sales staff in new procedures and ongoing compliance checking. We see no additional benefit for a consumer who is purchasing a well-designed product about which they have a clear understanding of the costs and features. These products are available in the market now, without the need for regulatory intervention.

CONCLUSION

We note that the key points that were highlighted in our response to CP324 (Appendix A) continue to remain relevant and we also commend to ASIC the issues raised and discussed in this earlier work.

The AADA have participated as a key stakeholder in this consultation for over three years and remain committed to working with ASIC to provide further input as required. Please do not hesitate to contact us should you wish to discuss further or to clarify any of the issues raised.

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APPENDIX A

AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

SUBMISSION: ASIC PRODUCT INTERVENTION – THE SALE OF ADD-ON FINANCIAL PRODUCTS THROUGH CAR YARD INTERMEDIARIES

12 NOVEMBER 2019

CONTENT

Section 1

FOREWORD

The Australian Automotive Dealer Association (AADA) is pleased to lodge this submission to the ASIC on its Consultation Paper 324 (CP324): “Product Intervention: The sale of add-on financial products through car yard intermediaries”.

AADA is the peak industry body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that between them operate about 3,200 new vehicle outlets. Those dealerships range from single-site family-owned small businesses to larger multi-site businesses including two public companies operating in regional Australia and capital cities across all States and Territories.

Our membership range across Australia, in urban centres, rural and remote areas. We employ over 58,000 Australians and have a total economic contribution to the Australian community of some $13 Billion per year.

James Voortman
Chief Executive Officer

KEY POINTS

We have reviewed Consultation Paper 324, consulted with our members, and would submit the following to your request for comments:

1. We do not consider that a case has been made for treating add-on insurance bought in conjunction with a vehicle purchase to be materially different from other types of add-on insurance, and thus we would argue that it should all be covered by the arrangements as proposed by the recent Treasury consultation paper.

2. CP324 highlights that the problems with automotive add-on insurance appear to stem from poor product design. Consequently, we are puzzled by the focus on procedural remedies to the perceived consumer detriment.

3. We reiterate our view that well-informed or repeat consumers should be deemed to be sophisticated enough to allow the waiving of any deferral period.

4. Extended warranties are already largely only able to be issued by holders of financial services licences, and thus have available rigorous complaint avenues through the Australian Financial Complaints Authority. The remaining type of extended warranties – Dealer warranties – are not financial products and thus should not be treated as such.

EXECUTIVE SUMMARY

The AADA believes that our industry should be aligned with the whole-of-economy processes being led by Treasury and are of a view that the initiatives outlined in CP324 are neither based on competitive neutrality nor will lead to greater competition.

The deferred sales model outlined in the Consultation Paper appears to ignore the findings of similar work conducted in the UK by the Financial Conduct Authority and are at odds with the Treasury proposals for a deferred sales model for other types of add-on insurance. This is particularly the case with respect to the waiver of the deferral period by engaged consumers.

The AADA considers that the overall effect of the proposals will be anti-competitive, lead to greater costs for the consumer, and be discriminatory against rural and regional consumers, the aged and those unwilling to conduct transactions online, as well as against those consumers with little or no English fluency.

We would further highlight the insights that can be drawn from experiences overseas, particularly in the UK when similar market interventions were conducted.

THE DEFERRED SALES MODEL IN THE UNITED KINGDOM

The Australian market is very much smaller than that of the United Kingdom (UK), but in many ways, it resembles its larger cousin. In June 2018, the UK's Financial Conduct Authority (FCA) conducted an assessment of the impact of their market intervention on guarantee asset protection (GAP) insurance, which is but one type of what is here known as add-on insurance[1]. The market intervention consisted of the provision of specific information to consumers, and a deferred sales model. The deferral in the UK was two days as opposed to the ASIC proposal of four days.

LIKELY COMPLIANCE SAVINGS OR COSTS

The UK experience highlighted significant setup costs for their scheme, including IT development, updating documentation, new governance arrangements and running initial training sessions for staff. We consider that the ASIC proposals would have proportionally greater setup costs because of the emphasis on a digital-only 'tailored consumer roadmap'. The UK setup costs for GAP insurance only was estimated at over £5 million. For Australian new car Dealers, the costs are likely to be higher because of the greater range of add-on insurance products to be covered, while the cost impacts would be spread among a much smaller number of providers. Those costs would then be felt by a larger proportion of smaller, independent dealers than is the case in the UK.

The ASIC proposals also include a system of monitoring consumer outcomes that would require businesses to provide data to ASIC on a regular basis. We consider that this requirement would increase costs, both transactional and staffing, for businesses that are already suffering from the ongoing impacts of the current economic downturn.

Overall, the AADA believes that ASIC proposal will require businesses to incur prohibitive setup and running costs for an inflexible system that will likely deliver marginal benefits.

[1] Financial Conduct Authority, "Evaluation Paper 18/1: An evaluation of our guaranteed asset protection insurance intervention' July 2018

THE LIKELY EFFECT ON COMPETITION

The AADA submits that the proposals as they stand are anti-competitive because they penalise the established dealership sales channel, without any certainty that alternative sales channels will actually be established to provide these types of insurance. It is our expectation that no alternative channels will be established and that the number of providers will continue to reduce as will the range of products on offer, leading to a reduction on competition.

The observed impact of the introduction of a deferred sales model in the UK was a drop in sales of add-on insurance of between 16-23 per cent, and a price *increase* between 1-3 per cent. Additionally, the anecdotal evidence suggests that the number of providers servicing the market was reduced by the intervention, as was the range of individual products being offered.

While the UK market intervention related to one specific type of add-on insurance, the AADA would argue that it is representative of the full spectrum of products, and that a similar intervention in Australia would have a similar effect on competition. In other words, sales would drop by a significant amount, prices would increase (reflecting a smaller insurance pool) and the industry would see a further reduction in the already small number of insurers offering these types of products. The AADA does not believe that a reduction in competitive pressures would result in any customer benefit.

OTHER IMPACTS, COSTS AND BENEFITS

It is our submission that the proposals contained in CP324 have the potential to cause a number of other unintended impacts. These are detailed below:

- **Compromised viability for the new car dealership industry**

  Research that the AADA has conducted in partnership with Deloitte shows that the average new car Dealer returns an average 0.57 per cent profit on sales, and that they commonly are disproportionately dependent on income from their Finance and Insurance departments. While add-on insurance is generally not the major element of their insurance business, it could still play an important part in maintaining what is often a very marginal level of profitability. The reduction in profit associated with the loss of revenue attached to the add-on insurance work may result in compromised viability for a substantial proportion of new car Dealers in Australia.

- **Inability to access the proposed online Roadmap documentation**

  The AADA considers that the proposal to mandate an online roadmap approach to consumer documentation is inflexible and that a mandatory online roadmap discriminates against non-English speakers (who might have used an interpreter to complete the vehicle purchase process), as well as rural and remote consumers with poor internet access, or mature Australians that are concerned about the security of internet transactions.

- **Likely path for the market sector – Reduction in competition & Consumer Choice**

  Evidence from the United Kingdom following the introduction of a deferred sales model by the FCA is that market for add-on insurance products shrank significantly as providers ceased offering such products, and consumers were left with very limited access. The AADA believes that the likely consequence of a stricter approach by ASIC to the matter will be the effective demise of the add-on insurance market. We believe this will occur as a result of our smaller market in comparison with the United Kingdom, and the small number of insurance providers active in the add-on market.

INFORMED CONSUMER WAIVER

As part of the earlier consultation paper CP294, we noted that the equivalent deferred sales model as adopted in the United Kingdom contains an explicit provision for an informed consumer, that is one that has been provided with, and acknowledged, receipt of 'transparent information', to waive the deferral period.

We further note that the Treasury's Proposal Paper of 9 September 2019 "Reforms to the sale of add-on insurance products" accepts that circumstances can occur when the waiving of the deferred sales period is justified.[2] It is unclear to us from our reading of CP324 why consumers of automotive add-on insurance are prevented from accessing provisions that appear suitable for all other types of add-on insurance available in Australia.

Consequently, we urge ASIC to reconsider its stance with respect to the informed consumer waiver and adopt at the very least an approach consistent with that intended for the broader add-on insurance market. That is, to enable consumers to complete the purchase of add-on insurance the following day, if the consumer initiates the sales process. As Treasury notes, this approach is consistent with the United Kingdom approach for GAP insurance.

[2] The Treasury, "Reforms to the sale of Add-On Insurance products", 9 September 2019. p.14.

MECHANICAL BREAKDOWN INSURANCE

The AADA notes the focus of CP324 on mechanical breakdown insurance (also known as extended warranties) but contends that the evidence provided does not support the actions proposed. In particular, the AADA would note that the two most popular types of extended warranty (mechanical breakdown insurance, and third-party warranty) can only be issued by parties that hold an Australian Financial Services (AFS) licence, which brings extensive consumer protections provided through the Australian Financial Complaints Authority (AFCA).

The final type of warranty included in this section of CP324 is the Dealer warranty, also known as a service contract. As the paper notes, this is not a financial product, but rather a contract to manage servicing costs. Therefore, we do not believe that it merits inclusion in a discussion paper focused on financial products.

We note the details of consumer detriment included in this section, particularly those referring to the capped liability for the repairer, while the liability on the insured is effectively uncapped. While the paper seeks to contrast the situation with home and car insurance (where liability is capped at an agreed excess), we would argue that the correct equivalents are other types of consumer insurance such as private health insurance, or pet insurance, where insurer liability is capped at an agreed maximum, with pre-determined limits for specific events or conditions.

Finally, we would highlight the potential problems for consumers wishing to purchase an extended warranty in the days immediately before the 12-month deadline.

Would the period start from the date of the warranty, or from when the customer could purchase it, which would be four days previously to account for the mandated deferred sales period?

In view of the above, the AADA does not concur with the proposal that mechanical breakdown insurance products should be covered by the deferred sales provisions articulated in CP324.

HOW TO REMIND CONSUMERS OF WHAT IS ON OFFER?

The AADA once again notes the different approaches taken by Treasury and ASIC with respect to the conclusion of the deferral period. The Treasury approach allows the intermediary to approach the consumer, albeit only once, at the conclusion of the deferral period to remind them of the products on offer. The ASIC approach in contrast, prevents the intermediary from contacting the consumer unless the consumer initiates the contact.

The AADA believes that the suite of products available for sale as add-on insurance is both extensive and specialised. We are of a view that, after four days, the consumer would need to be reminded of the product options to make an informed choice of whether to proceed to a purchase. On that basis, we would urge the adoption of the Treasury approach on this issue, and thus allow the intermediary to approach the consumer once at the conclusion of the deferral period to remind them of the products and options available for their consideration.

FEEDBACK ON SPECIFIC QUESTIONS

- **C7Q1 - Do you consider that there is significant consumer detriment from the sale of add-on financial products by caryard intermediaries? Please provide evidence in support of your response?**

  The AADA agrees that there is evidence of consumer detriment but, as it highlighted in CP324, it stems from poorly designed products rather than from the process of sale through the car yard intermediary. This is particularly the case for products that yield low levels of consumer payouts.

  Given the above, we would question why the ASIC proposals focus solely on the sales process rather than on the products themselves.

- **C7Q2 - If you consider there is significant consumer detriment, do you think that it should be addressed by the proposal in this section, or by some other intervention or action by ASIC? For example, could product providers be given incentives to offer better products if some or all of the proposed obligations only applied to low-value products? Please give the reasons why you think a particular approach will be more effective.**

  The AADA does not believe that the proposals in this section are properly targeted and would argue that ASIC should focus on ensuring that providers design their products to better address the identified consumer detriment.

  For example, insurers could be required to cost and structure their products to return a minimum percentage to claimants and encouraged to position themselves in the market based on their average Claims Ratio.

- **C7Q3 - Please summarise your views on the proposal for a deferred sales model in this section (e.g. whether it should apply across all sales channels where intermediaries regularly arrange finance for cars). Please explain the reasons for your position.**

  Our position was originally articulated in our response to CP294. Given more recent developments it can be stated to be that we do not have an in-principle objection to a deferred sales model, but in such a model:

  - the deferral period should commence at the earliest point in time when the consumer has expressed an intent to purchase a vehicle.
  - it should apply uniformly to both purchase and leasing transactions.
  - the deferral period should be no longer than two days (as per the Treasury model) and cease on delivery.
  - An informed consumer should be given the freedom to opt-out of the deferred sales process.
  - A single deferred sales model should apply uniformly to all add-on products and it should be based on the Treasury proposals.

AADA submits that a consumer opt-out mechanism or waiver should be included in the deferred sales model as adopted in the United Kingdom. A consumer who has been provided with, and acknowledged receipt of, ‘transparent information’ in a form approved by ASIC is in a good position to understand the choices open to them. They should be treated as a mature adult and be given a degree of freedom to waive the deferral period.

While the AADA supports measures to promote more informed purchasing decisions by consumers, it is submitted that a uniformly mandatory deferral period for add-on products is a significant and unnecessary imposition on consumer freedom. Most consumers do not want a drawn-out purchasing experience particularly if they have set aside time (typically on a weekend) to make a purchasing decision. At the end of a deferral period, a consumer may not have the luxury of time to reach an informed final decision. The situation is exacerbated when the vehicle purchase is completed in a period shorter than the proposed deferral. In such circumstances, we submit that the deferral period should cease on delivery of the vehicle.

We would therefore argue that consumers would benefit from a framework under which they can choose whether to take advantage of any deferral period or proceed with a final decision, particularly when buying a vehicle over a short period of time.

To ensure the significance of that choice is given sufficient recognition, we agree that appropriate written disclosures should be mandatory for a customer to waive or otherwise opt-out of a deferral period.

- **C7Q4 - Please summarise your views on the additional obligations in this section (e.g. whether ‘knock out’ questions should be introduced), Please explain the reasons for your position.**

  The AADA considers that the use of ‘knock out’ questions in the sales process - which are not included in Treasury’s proposals for all other types of add-on insurance - goes some way in moving from ‘general advice’ to ‘personal advice’, which in CP324 would see the sale exempted from the deferred sales model. We would argue that the inclusion of ‘knock out’ questions should be part of a process that would result in the customer being able to waive the deferred sale requirements.

- **C7Q5 - How would the proposal and obligations set out in this section affect businesses (e.g. insurers, car Dealers, finance brokers, credit providers)?**

  The AADA can only speak on behalf of its members. We submit that the proposals and obligations set out in this section of CP324 would inflict ongoing detriment to the viability of a large proportion of new car Dealers, while the reporting requirements outlined in the paper would likely mean they incur additional and ongoing administrative costs.

This would take place at a time, when dealership profitability is already marginal, and Finance and Insurance income is down 8 -10 per cent year-on-year since July 2018.

- **C7Q6 - If you are able to do so, please provide an estimate of the impact of implementing the proposed model, or any changes or variations to this model set out in your response, including:**

The sharp differences between various types of new car Dealers mean that it is very difficult to provide an estimate of the impact of implementing the proposed model, save to say that it would prove a dampener on the business activity of our members.

(a) the likely compliance costs (e.g. training, software);

The compliance costs associated with software would involve both the design and implementation of the required applications. Additional costs would be required to provide translated versions. It is unclear how the system could be rolled out for elderly consumers, those who are unwilling to trust financial matters to web applications, or those with poor or no internet access.

(b) the likely effect on competition;

The AADA considers that the proposal as articulated would have an immediate and negative effect on competition.

(c) the impact of additional costs on businesses and consumers;

The cost of the system would eventually be borne by the consumer, even if they do not buy a policy, as the set up and operational costs would be incorporated into the vehicle's sale price. Overall, the UK experience was that, even for one type of add-on insurance, prices climbed by between 1- 3 per cent. We would expect that prices in Australia, for a broader and more complex system would likely be higher.

(d) who would bear the cost; and

As noted above, the cost would eventually be borne by the consumer through higher vehicle prices.

Other impacts, costs and benefits.

The AADA does not believe that the introduction of the proposed system would see the growth of a 'standalone' market, and that the likely long-term outcome is the disappearance of these products from the market.

- **C7Q7 - Do you consider there is a significant risk of avoidance of the proposed obligations? If so, should ASIC introduce additional measures to address that risk?**

  There is no suggestion from the UK experience that the risk of avoidance grew significantly after the introduction of a deferred sales model.

- **E3Q1 - Do you consider that there is significant consumer detriment from the sale of add-on mechanical risk products in the circumstances described by ASIC? Please provide evidence in support of your response.**

  As noted earlier, it is unclear why these types of insurance, already subject to external dispute resolution through AFCA are included in the deferred sales model. In the case of the Dealer service contract, this does not meet the definition of insurance or of a financial service and, we would argue, should not be included in the proposed deferred sales model.

- **E3Q2 - If you consider there is significant consumer detriment, do you think it should be addressed by the proposal in this section, or by some other intervention or action by ASIC? Please give reasons why you think a particular approach will be more effective.**

  As noted above, any consumer detriment should be dealt with by addressing the design of the specific insurance product, rather than the sales channel.

- **E3Q3 - How would the proposal in this paper affect businesses (e.g. insurers, car Dealers, finance brokers, credit providers)?**

  The AADA submits that the proposal, without the opportunity of a waiver for informed or repeat customers, would have a detrimental effect on the viability of a large proportion of new car Dealers.

- **E3Q4 - What would be the advantages and disadvantages of car Dealers no longer being able to rely on the exemption for incidental financial products (as a result of the proposal in paragraph E1(a)?**

  It is unclear to the AADA why a service contract between a dealership and a consumer should be excluded from the definition of s763E of the Corporations Act, 2001. However, we would agree that there would be consumer benefit to the restriction of sale of extended warranties for new vehicles. However, this would not be the case for used vehicles with limited time remaining on their Manufacturer's warranty. Particularly where the consumer wishes to line up the additional protection with the loan that they have taken out to pay for the vehicle.

  Finally, we should point out that Dealer Warranties are overwhelmingly used by Dealers as customer loyalty programs to encourage the consumer to have their maintenance done at that dealership. Including Dealer Warranty in the current ASIC proposals would unfairly target the small, independent Dealers who benefit the most from such a customer retention program.

- **E3Q5 - If you are able to do so, please provide an estimate of the impact of implementing the proposed model, or any changes or variations to this model set out in your response.**

  Given the vast differences between its members, the AADA is unable to quantify the impact of implementing the proposed model, beyond highlighting that the costs will eventually be borne by the consumer.

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