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AADA comments on Add-on insurance developments by Insurers

The CEO of the Australian Automotive Dealer Association, David Blackhall, commented today on reports being received from AADA members that some insurance companies have moved aggressively to cut dealer commissions on certain categories of add-on insurance presently under review by ASIC and the ACCC.”

Mr Blackhall said:

We have serious concerns about the way things are being handled.

First, these insurance categories are still under review by ASIC ahead of publication of draft recommendations later this month.

In our view, the insurers should have waited for the referee – ASIC - to make the draft public rather than jumping the gun. It looks like a pre-emptive attempt to appease the regulator at the expense of our members while at the same time protecting their economic rent.

Second, based on the material we have seen, dealers can generally expect to have premiums capped at around 21% - the very level that ACCC Chairman Rod Sims declared to be nothing more than a ‘wealth transfer’ from dealers to the insurers.

Mr Blackhall pointed out that dealers were being given no information on how the reduced revenues from the aggressive premium reductions (some as high as 57%) are to be shared between AADA members and the insurers.

He asked:

How do new car dealers know that they are not being asked to shoulder an unreasonable share of this burden? There is no transparency – or at least there isn't in what we've seen so far. Is that a true business partnership?

We're recommending to our members that before signing up to the new rules, they go immediately to their insurance providers and ask for a full and accurate disclosure on how this pain is to be shared.

To be frank, the communications process from the insurers has been awful.

We've been sitting in the same room with them for months at ASIC's working groups attempting to reach a sensible business outcome. Did anyone pick up the phone and let us know they were planning to rollover at our expense?

No, however, they attempted to cap dealer commission via a cartel authorisation application thinking this would be an easy fix which was denied by the ACCC on the basis that it did not change sales incentives or the quality of products, and consumers will still be sold products without being given adequate information or opportunity to make a considered decision.

We're most disappointed.

Mr Blackhall went on to say that AADA members would be even more disappointed if the insurance cartel achieved 'by stealth' what was denied when the ACCC rejected its earlier application for a universal cap of 20%. He said...

Someone needs to keep a sharp eye on the range of commission caps adopted by the 'sixteen sisters alliance' as we call the original cartel applicants. Wouldn't it be a terrible look if the caps all clustered around 20%? Surely the ACCC would have an interest in that from a competitive perspective?

Mr Blackhall said that based on extensive work with ASIC on the add-on insurance issue AADA was realistic about the fact that commission reductions were an inevitable part of the solution. He said however that equity had to prevail. In AADA's view, the bulk of any reduction in income should lie with the creators of the flawed products (if they are so judged by the regulators) – not with dealers.

Some insurance companies have already announced the discontinuation of some of the products under review.

Mr Blackhall said that AADA is also concerned about the unintended consequences of overly draconian regulations that 'throw the baby out with the bath water'.

He continued:

It is an indisputable fact that some consumers – often the very customers that the ACCC and ASIC are most focused on protecting – could be denied access to new, lower polluting, safer cars to get to work, to run the kids to school or to ply their trade if an even-handed regulatory approach is not adopted.

GAP and CCI are good products, much needed by consumers. Ethical, responsible new car dealers sell these products to enable these buyers to secure the vehicles they need to live their lives.

We are continuing to work with ASIC to ensure the regulations do not have adverse impacts not contemplated at the outset.

It would be useful if the insurers could work with us so that dealers can continue to make a reasonable return on the multi-million dollar facilities, staff and customer base that new car dealers provide access to them free-of-charge.

Making pre-emptive drastic reductions to commissions isn't a great start.

Mr Blackhall concluded that the pre-emptive, prejudicial and protection of insurers' interests is something that ASIC and the ACCC should take into consideration.

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