



30 January 2026

Director
Insurance Unit
The Treasury
Langton Crescent
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By email: deferredsamesmodel exemptions@treasury.gov.au

Dear Director

CLASS EXEMPTIONS FOR THE DEFERRED SALES MODEL FOR ADD-ON INSURANCE

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia¹. We appreciate the opportunity to respond to the Treasury consultation on class exemptions for the deferred sales model for add-on insurance².

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

¹ [Australian Finance Industry Association \(afia.asn.au\)](https://afia.asn.au).

² [Treasury Consultation - Deferred Sales Model Class Exemptions \(2025\)](#)

INTRODUCTORY COMMENTS

AFIA supports the policy intent of the Deferred Sales Model (DSM) in preventing pressure selling. However, we advocate for a balanced framework that distinguishes between the harmful conduct identified by the Hayne Royal Commission and legitimate, high-value insurance products that consumers rely on.

It is important to distinguish that not all add-on insurance products are alike; many classes deliver genuine value, are well-understood by consumers, and operate in highly competitive markets with strong consumer protections. As noted in Recommendation 4.3, Commissioner Hayne made clear that the DSM should not apply to policies of comprehensive motor insurance.

At the same time, we strongly support the continuation and appropriate extension of class exemptions where they deliver favourable consumer outcomes. Targeted exemptions allow consumers to access timely and suitable coverage for certain low-risk or essential products, such as vehicle or watercraft related add-on insurance, without delays that could leave them exposed to financial risk when purchasing valuable goods.

AFIA also supports class exemptions that enable the provision of high value add-on insurance products which foster long-term customer relationships built on trust and mutual benefit. Many of our members offer add-on insurance alongside principal products like vehicle finance or rental, where integrated solutions can deliver comprehensive protection at competitive pricing and support ongoing customer engagement. Exemptions for well-designed, high value products help preserve these relationships by facilitating efficient access to beneficial coverage, complemented by strong disclosure and suitability requirements which are not always found in the standalone market.

Furthermore, AFIA believes that appropriately calibrated class exemptions reinforce good selling practices and build trust across the finance and insurance sectors. Where classes of products demonstrate low consumer detriment and effective oversight, exemptions provide flexibility that recognises industry improvements in conduct. This encourages responsible distribution, minimises mis-selling risks, and enhances overall confidence in the sector.

AFIA looks forward to supporting Government and Treasury initiatives that align with these goals including a proportionate and evidence-based approach to the class exemptions. We welcome the current consultation as an opportunity to share insights from our members on the operation of the existing exemptions since 2021, and to advocate to their continuation beyond October 2026. We also welcome further consultation about targeted expansion where this would promote competition, innovation, and positive consumer outcomes while upholding the intent of the regime.

CLASS EXEMPTIONS

AFIA strongly supports the continuation of the current class exemptions from the DSM and recommends that these exemptions be made permanent in the ASIC Act. The current exempted classes – particularly

comprehensive motor vehicle insurance, comprehensive marine (watercraft) insurance, and home insurance – have operated effectively since October 2021.

These products are well-understood by consumers, sold in highly competitive markets, and often form a condition of finance contracts or are mandated by law (e.g. comprehensive coverage required by lenders to protect the secured asset). They are subject to robust regulation, including DDOs, and access to internal and external dispute resolution mechanisms through the Australian Financial Complaints Authority (AFCA). Maintaining these exemptions is uncontroversial and aligns with a proportionate, evidence-based approach to regulation.

Demonstrating that a non-exempted product class has improved in value is practically difficult because the mandatory deferral suppresses sales data, take-up rates, and claims experience. This creates a structural barrier to adding improved products to the exempted classes potentially entrenching over-regulation for categories where harms have diminished due to other reforms.

To ensure proportionality, the DSM should apply only to product classes with clear, ongoing evidence of the tangible harms identified in the original inquiry, such as systemic mis-selling driven by conflicted remuneration in low-value products. Many current non-exempt classes may no longer exhibit these characteristics, thanks to intervening reforms like the ban on flexed commissions and enhanced product governance obligations.

Certain asset protection products in competitive markets, such as those currently exempted, are straightforward to understand and compare, delivering high consumer value through tailored coverage linked to the financed asset. The core harm identified by the Royal Commission arose from high-commission incentives paid to intermediaries, rather than integrated sales by trusted providers. Where distribution occurs through salaried staff or low-incentive models (common among reputable and established brands), the risk of pressure selling is significantly reduced, supporting broader exemptions on principled grounds.

Given the reasons set out above, AFIA recommends making the current classes of exempted insurance permanent in the Act. If permanent incorporation is not feasible at this time, a further instrument with at least the current product class exemptions remains appropriate. This approach would preserve consumer access to high value, timely coverage in low-risk categories while allowing ongoing monitoring of the regime's impacts.

HISTORICAL REASONS FOR THE DSM

The Deferred Sales Model for add-on insurance was introduced in response to evidence presented to the Hayne Royal Commission³, mostly focused on sales tactics in car yards. Hayne identified consumer

³ [Final Report of the Hayne Royal Commission - Volume 1 \(2019\)](#)

detriment arising from the sale of low-value products (e.g. tyre and rim protection) where commissions often exceeded 50 to 79 per cent of premiums.

The primary harms identified included conflicted remuneration structures, where intermediaries had strong financial incentives to prioritise sales volume over consumer needs. This led to products that were low value, with premiums inflated to accommodate high commission payments rather than reflecting genuine risk pricing or competitive value. Competition in these markets tended to be focused on the level of commissions offered to sellers rather than on product quality or price for consumers, resulting in mis-selling of unsuitable and low value products.

Treasury relied on independent actuarial modelling to inform the design of the DSM, including a report prepared by Finity Consulting. Treasury also consulted with the Financial Conduct Authority in the United Kingdom (FCA), which had implemented a product-specific and narrower deferred opt-in requirement for Guaranteed Asset Protection (GAP) insurance since 2015⁴. To our knowledge, no other jurisdiction has introduced a broadly applicable deferred sales model for add-on insurance since the Australian regime commenced in October 2021. The Australian model is unique globally.

It is important to note that the DSM applies only to contracts of insurance. Non-insurance products, such as many retail “extended warranties” (often criticised as providing low value, high commissions, and subject to pressure-selling tactics), remain outside the scope of the regime. These products continue to be sold at the point of sale and are regulated primarily under the Australian Consumer Law (ACL), highlighting that the kind of harms the Hayne Royal Commission identified and sought to address persist in non-insurance equivalents. Consumers have little awareness of the difference between these products, with them functionally behaving similarly.

Specific case studies examined by the Royal Commission, such as certain GAP insurance products, illustrated the issues at the time, including poor claims ratios and high-pressure sales through dealerships. These examples led to significant remediation programs. Industry practices have evolved considerably since 2018 as a result of both voluntary changes and regulatory interventions, meaning those particular illustrations are no longer representative of current market offerings.

We also note that Recommendation 4.4 of the Royal Commission provided ASIC with the power to impose a cap on commissions paid to vehicle dealers in relation to add-on risk products, serving as a backstop measure to address any persistent issues if needed.

This historical context demonstrates that the DSM was a targeted response to specific consumer harms observed at the time. With the commencement of Design and Distribution Obligations (DDOs) on the same date as the DSM, October 2021, the market and regulatory landscape have changed materially,

⁴ [FCA - Insurance: Conduct of Business Sourcebook S6A.1](#)

providing a foundation for assessing whether the current broad application of the DSM remains appropriate.

UNINTENDED CONSEQUENCES FROM THE DSM

While the DSM was designed to reduce pressure selling by separating the sale of add-on insurance from the primary product or service, encouraging consumers to shop around and make more informed decisions, experience since its introduction in October 2021 indicates that this approach can be effective for addressing harms in certain low-value products but can lead to unintended consequences for high value, critical products that benefit from integrated sales.

The assumption that a standalone market will invariably deliver better value, primarily because it eliminates dealer commissions, does not hold in all circumstances. Standalone products can introduce new frictions, operational complexities, and in some cases, inferior consumer outcomes compared to regulated bundled offerings. This underscores the need for permanent class exemptions to ensure consumers retain access to beneficial, low risk products without unnecessary barriers.

Standalone add-on insurance products, often accessed through comparison sites or aggregators, do not eliminate commissions or marketing costs. Aggregators typically earn significant fees or commissions from insurers for referrals, which are built into premiums. Without the scale efficiencies or loyalty discounts available through established financier-insurer relationships, standalone products can be more expensive and introduce higher administrative friction. Standalone providers, and especially aggregators, usually have no ongoing relationship with the consumer or the financed asset, leading to higher administrative friction in underwriting, claims handling, and dispute resolution.

The DSM's separation of sales deprives consumers of the convenience and benefits associated with bundled solutions. Integrated add-on insurance can leverage economies of scale, data from the primary transaction (e.g., vehicle details in financing), and loyalty incentives to offer competitive pricing and seamless coverage. By mandating deferral, the regime risks reducing take-up rates for beneficial products, exposing consumers to gaps in protection, particularly for risk-mitigation tools like GAP insurance, which covers loan deficiencies in the event of a vehicle total loss or write-off.

This creates a material risk of under-insurance. Industry feedback and pre-implementation modelling highlighted concerns that deferral periods could lead consumers to forgo coverage due to inertia, forgetting to follow up, or perceiving the process as too cumbersome. In vehicle financing contexts, the absence of suitable add-on protection can leave consumers vulnerable to significant out-of-pocket debts if an insured event occurs before the standalone coverage is arranged (or if it is arranged at all).

Finally, while the DSM targets high-pressure point-of-sales tactics, standalone channels are not immune to similar behaviours. Online platforms, including some airline booking sites and comparison aggregators, frequently employ urgency tactics such as countdown timers, scarcity messaging, or fear-based prompts to drive immediate purchases. These can replicate the very pressures the regime sought to eliminate,

whereas larger-value transactions like vehicle purchases often involve more deliberative, relationship-based discussions that benefit from the option of timely, integrated insurance.

These unintended consequences illustrate that a blanket deferral approach, while addressing historical harms, can create new barriers to efficient risk management and potentially worse outcomes for consumers in certain scenarios. Targeted class exemptions provide a mechanism to mitigate these issues for low risk, high value product classes where there is benefit from integrated sales.

CLOSING COMMENTS

AFIA appreciates the opportunity to contribute to this important consultation on class exemptions for the deferred sales model. We recognise the DSM's role in addressing the harms identified by the Hayne Royal Commission and support its core objective of promoting informed consumer decisions. However, the regime's broad application is not a panacea and introduces increased friction for consumers, risks of under-insurance, and barriers to accessing high value integrated products.

Our recommendation is grounded in the practical experiences of our diverse membership, which includes both large and smaller lenders offering specialised vehicle and asset finance solutions. These insights highlight the need for flexibility in low-risk product classes to ensure Australians continue to benefit from timely, suitable coverage without unnecessary regulatory hurdles.

I would appreciate the opportunity to discuss our recommendations and provide the Treasury with further information about the specialised products, services and technologies offered by non-bank lenders. Should you wish to discuss our submission or require additional information, please contact myself or Ben Jordan, Senior Policy Advisor, at Ben.Jordan@afia.asn.au or 0470 595 707.

Yours sincerely



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