

Australian Holden Dealer Council



November 11, 2016

The General Manager
Adjudication Branch
Australian Competition & Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

Email: adjudication@accc.gov.au

Dear General Manager,

Re: ACCC review of the Sale of Insurance Products by Motor Vehicle Dealers

This correspondence is from the Australian Holden Dealer Council (AHDC) on behalf of the Holden Dealer network which is comprised of 230 Dealers.

The AHDC has reviewed the Gilbert and Tobin submission to the ACCC, on Motor Vehicle Dealership Add-On Insurance Reform, made on behalf of a cartel of Insurers, and the submission from the Australian Automotive Dealer Association (AADA). The AHDC fully supports the views and concerns expressed by the AADA, does not support the Gilbert and Tobin proposal on behalf of the Insurance Council of Australia members in its current form, and wishes to reiterate the following:

1. Why is the ICA proposal channel-related and not product-related? 30% of the products mentioned are distributed by other than motor vehicle dealers, so rather than define a channel why not make the proposal on the products?
2. Why is comprehensive motor vehicle insurance (MVI) included? MVI is not included the list of "problem Add-on insurances", and ASIC references MVI as a virtuous example of providing good customer value (85% claims ratio).
3. Why has an arbitrary cap of 20% been proposed by the Insurers?
 - a. What is the evidence that says a 20% cap is appropriate on all products?
 - b. How does this compare with similar or other general insurance products in similar or other distribution channels?
 - c. How will a 20% cap change insurance company behaviours and benefit consumers?
 - d. Why is it unreasonable in any form of commerce that scale and/or distribution efficiency is not able to be rewarded by way of volume, profit share or other incentives?

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4. The unrealistic commencement date and transition period. Is a 3-month transition period appropriate?
 - a. If it is acknowledged that this will drive transformation of the dealer/auto industry model requiring additional gross profit on Cars, given the number of brands, industry association/dealer councils, and franchise agreements, no material change is practical in this timeframe.
 - b. There other examples of more realistic transition periods in other regulatory changes – e.g. life insurance legislative changes currently before Parliament.

Note: The *Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016* recently read in the Federal Parliament. In that Bill, the government proposes that the commission levels would be set at:

From 1 July 2016 – 80% of the premium in the first year of the policy;

From 1 July 2017 – 70% of the premium in the first year of the policy; and

From 1 July 2018 – 60% of the premium in the first year of the policy.

With ongoing trailing commission of 20%.

Insurers would all have been aware of the proposed commissions and transition timing in the above Bill, yet the Insurance cartel have proposed a 20% cap, immediately, in total remuneration, for all policy types and, only through the Motor Dealer channel. Other channels are left unaffected and in competition to the Motor Dealer channel.

5. The ICA proposal seemingly does not address any of the ASIC concerns on competition, consumer choice, product design, insurer margins, reverse competition, etc?

The ICA proposal is overly simplistic and targeted at reducing other party margins in this channel while seemingly protecting their own positions – through cartel actions. A simplistic and all-encompassing 20% cap does nothing to address the perceived problem of reverse competition even if indeed it exists
6. There is no quantifiable resolution from the Insurance lobby to reduce premiums by an amount commensurate with the proposed 20% reduction in commissions - therefore it is perceived as a redistribution of the available margin at the expense of dealers, and no quantifiable benefit for consumers
7. There is a lack of consideration, and financial analysis, of the impact on motor vehicle dealers; and the potential for an impact on consumers – reduced business profitability from insurance (and finance) will necessitate an increase in the cost of motor vehicles

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As a general observation, the AHDC is somewhat intrigued that the ICA is requesting authorisation for a cartel since, by proposing a cap on commissions at 20%, they appear to be already acting as a cartel.

The AHDC respectfully requests the ACCC consider the submission from the AADA on behalf of all motor vehicle Dealers in Australia.

Yours Sincerely,

Scott Wakeling
Chairman
Australian Holden Dealer Council