SEPTEMBER 2021

Review of credit card repayment insurance products

Credit card repayment insurance (CCRI) is a subcategory of consumer credit insurance. It is designed to cover the policy-holder's minimum repayments or outstanding credit card balance if they become unemployed, and/or unable to work due to serious illness or injury, and/or in the event of death.

CCRI is considered an 'automatic acceptance' product, which means no medical or occupational underwriting is conducted before the policy is issued. Consequently, numerous exclusions and very prescriptive conditions are applied at the time of claim, meaning customers may not ultimately receive the benefits they expect from the product.

About this review

In our 2019 Life Insurer Conduct and Culture review[1], we found that "certain products often provided poor value, and consequently poor outcomes for customers, because of limited benefits, and misunderstanding of coverage and eligibility".

We carried out this additional review to gain a better understanding of the suitability of CCRI for consumers. While most providers have withdrawn CCRI products from sale, there are still several hundred thousand existing policies, whose holders may not need or understand the product and are at risk of experiencing poor outcomes if they need to make a claim.

The findings from this review are based on responses from 16 underwriters and distributors[2] of CCRI products in the New Zealand market.

ANZ penalised in relation to CCRI policies

Earlier this year, ANZ New Zealand admitted to breaches of the Financial Markets Conduct Act 2013, after we alleged ANZ charged certain customers for CCRI policies that offered no cover or benefit, and claimed ANZ breached the Act by making false and/or misleading representations about the cover conferred by those policies.

As a result, the High Court of New Zealand ordered ANZ to pay a $280,000 civil penalty.

[1] https://www.fma.govt.nz/news-and-resources/reports-and-papers/life-insurer-conduct-and-culture/

[2] We received consolidated responses from several underwriters and distributors that are related entities or part of a parent organisation, therefore the total number of responses was 13.

Findings

Our additional research has confirmed that CCRI is a poor value product that poses a continued risk for those with existing policies in relation to eligibility to claim and ongoing suitability.

Claim loss ratios (how much the insurer pays in claims out of the premiums earned) for CCRI are typically low. These can be as low as 10%, in comparison to loss ratios of approximately 80% for health insurers and 47% for life insurers. CCRI products have narrow coverage definitions, which may not be fully understood by the customer.

We found underwriters and distributors are not displaying sufficient levels of customer care in their suitability assessments and communications with customers. Additionally, product reviews carried out identified a large number of administrative errors relating to systems and processes, which also disadvantaged customers.

Insurers reported to us almost 400,000 CCRI policies still remain on their books. Due to some of these policies covering two lives, we estimate that as many as 200,000 customers still have these policies. In-force premiums total approximately $20 million.

Poor communication with customers

In nine of the 13 responses, participants told us they maintain some form of communication with CCRI customers. However, it was often difficult to determine who was responsible for communication with CCRI customers, with some distributors stating it was the responsibility of underwriters, as they deal with product changes and claims, while underwriters stated it was up to the distributors, as they have the relationship with the customer.

Policy benefits typically change once a customer turns 65 or 70 – generally life cover will remain, but other coverage (e.g. for disability, trauma and redundancy) will be removed. Several participants told us they do not contact customers when such a milestone occurs. In some circumstances customers are only informed of their applicable coverage when they make a claim.

Products not understood by customers

Many customers had a poor understanding of the features and benefits of their CCRI policy, including how to make a claim. Some customers who were sold CCRI when applying for a credit card did not realise the product was optional. This lack of understanding likely points to a failure in the sales process, as a thorough suitability and disclosure process would have ensured customers were fully aware of what they were purchasing.

Lack of product suitability assessments

Some participants indicated their sales process for CCRI had involved customers ‘self-assessing’ whether the product was right for them, based on product terms and conditions, and disclosure documents. There was no consideration of a customer’s individual circumstances, or the extent to which they understood information they received. The FMA finds this ‘self-assessment’ unacceptable.

Nearly all participants told us they had no ongoing suitability assessment for CCRI customers. Those that did look at suitability on an ongoing basis relied on customers to make their own assessment, rather than considering any change in the customer's circumstances.

Poor processes, systems, and administrative failings

The majority of participants had conducted reviews of their CCRI products in the past two years. A wide range of issues were discovered in these reviews, including:

- customers charged incorrect premiums
- errors in marketing materials, and unclear product disclosures
- cancellation requests not actioned
- process failings regarding deceased estates
- cover not cancelled when customers are past eligible age
- data errors, and discrepancies between distributors and underwriters, such as discrepancies in product eligibility criteria.

Analysis of responses highlighted an increased risk of administrative failures with CCRI due to the high level of outsourced underwriting and distribution. Our review has highlighted the resulting poor customer outcomes due to this. These failures indicate underwriters' and distributors' controls, monitoring and governance of conduct risk may be lacking.

Some respondents told us they have identified customers affected by these issues and have completed or are progressing remediation activity. In other instances, the extent of impact on customers is unknown.

Our expectations and next steps

It is clear from the findings of this review that underwriters and distributors need to increase their level of customer care. This will enable them to be in a position to comply with the principle of fair conduct and related obligations under the Financial Markets (Conduct of Institutions) Amendment Bill (which is expected to be passed in 2022), and to mitigate the risk of false or misleading conduct under current law.

We expect underwriters and distributors to contact policy-holders whenever their benefits or eligibility change, or at least annually, to ensure their CCRI cover is still suitable for their needs. Benefits, features and any changes in cover or eligibility need to be clearly communicated. Regular suitability testing should be carried out and underwriters and distributors should make a real effort to ensure customers are provided with timely and accurate information that they understand.

Underwriters and distributors should ensure their systems, processes and controls facilitate good customer outcomes, including conducting root-cause analysis of issues to prevent reoccurrence of administrative failings. Responsibilities in distributor-underwriter arrangements should be clearly delineated. Product enhancements should provide real value to customers.

We will continue to engage with underwriters and distributors to ensure that remediation of identified issues is underway. We expect this remediation activity to be carried out as a matter of priority.

We expect that underwriters and distributors take reasonable steps to remediate all affected customers and ensure remediation continues at pace.

We have written to all entities that were part of this review to advise them of our findings and expectations, including that they immediately prioritise contacting CCRI customers to conduct suitability assessments.

We are also encouraging consumers to contact their providers to check what coverage they have and whether it is suitable for them.

For several years we have clearly communicated our expectations for financial service providers to prioritise customers in their conduct, culture and governance. We have also taken enforcement action where misconduct has occurred and will continue to do so where we believe the law has been breached or there is risk of harm to customers.

The new conduct licensing regime proposed under the Financial Markets (Conduct of Institutions) Amendment Bill will require insurers to give more attention to how they are identifying, managing, and mitigating conduct risks within their business. It is clear from the findings of this review that distributors and underwriters offering CCRI are among those that need to do more to prepare for the new regime.

Participants

Thank you to the following underwriters and distributors for their participation in our review. Participants are listed in alphabetical order:

AIA New Zealand Limited	Kiwibank Limited
ANZ Bank New Zealand Limited	Kiwi Insurance Limited
ASB Bank Limited	Southland Building Society
Bank of New Zealand	The Co-Operative Bank Limited
Cigna Life Insurance New Zealand Limited	TSB Bank Limited
Consumer Insurance Services Limited & Flexi Cards Limited (now Humm (NZ) Limited)	Westpac Life NZ Limited & Westpac New Zealand Limited
Hallmark Life & General Insurance Company Limited & Latitude Financial Services Limited	