



Yvonne Lam
Principal and
Head of Corporate
Insurance &
Insurtech

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WICA Working Party

*Embedded Insurance: The
Australian Perspective on a
Global Insurtech Trend*

Listen. Engage. Solve.

Gilchrist Connell



What is “embedded insurance”?

- “Embedded insurance”: A distribution model where companies offer insurance policies to customers alongside the sale of a principal product at point of sale.
- Under this model, the insurance policy is an “add-on” to the principal product.
- Aim: Protection of the principal product, and convenience to consumers by offering insurance policies at the same time as a major purchase or life event for customers (e.g. purchase of house)



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Embedded Insurance 1.0 vs 2.0

What was “Embedded Insurance 1.0”?

In the past, this distribution model generally involved add-on insurance options offered for physical goods sold to customers through a non-technology platform (e.g. insurance offered at car dealerships)

What is “Embedded Insurance 2.0”?

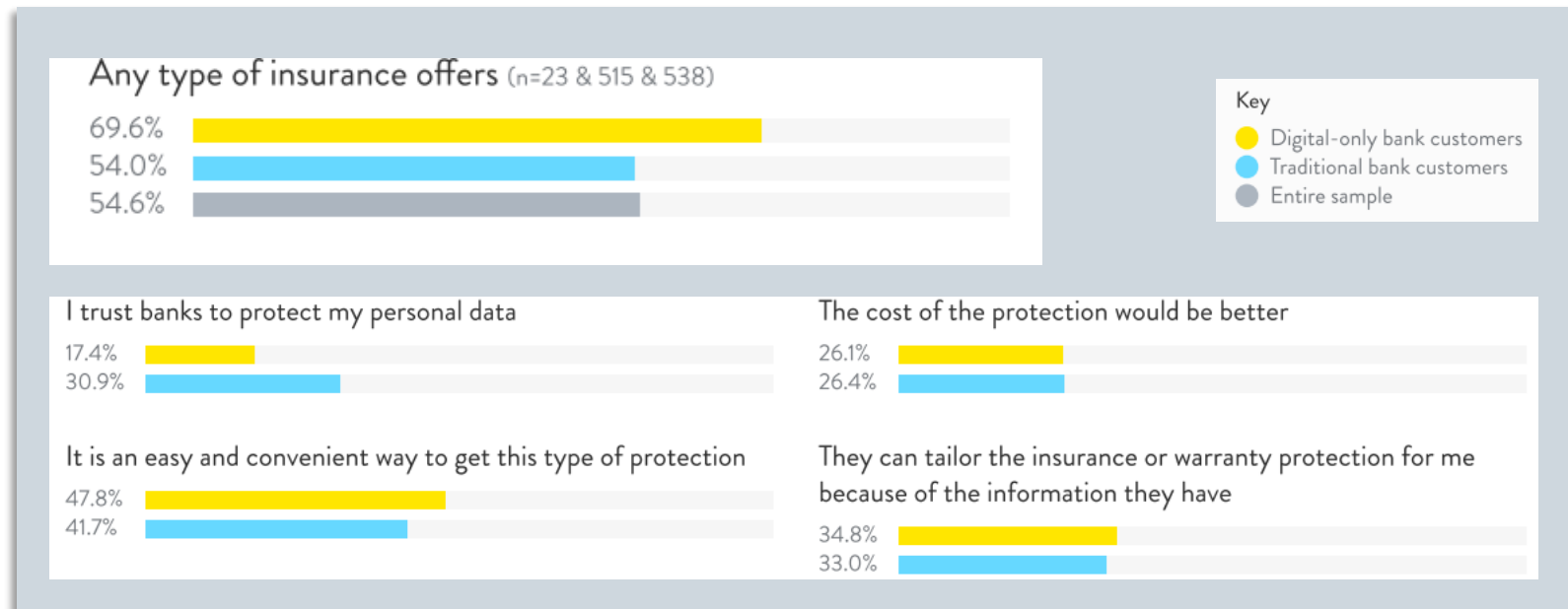
With the rise of e-commerce, the model has evolved to add-on insurance policies offered with products and services to customers at point of sale through digital platforms, supported by insurtech (e.g. data science)

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Opportunities for distribution with embedded insurance models

Embedded insurance is gaining traction globally:

- Cover Genius Survey Results (May-June 2021 for Australia)*
- Interest in offers made by banks
 - Reasons given by consumers:



*Source: Cover Genius Embedded Insurance Survey: Australia available at: <https://covergenius.com/wp-content/uploads/2022/07/Australia-Fintech-Report-v2.pdf>

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Australian Regulatory Landscape

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2017 – 2019)

- Final Report (February 2019): Recommendation 4.3 – Deferred sales model for add-on insurance

“A Treasury-led working group should develop an industry-wide deferred sales model for the sale of any add-on insurance products (except policies of comprehensive motor insurance). The model should be implemented as soon as is reasonably practicable.”



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Deferred Sales Model for Add-On Insurance

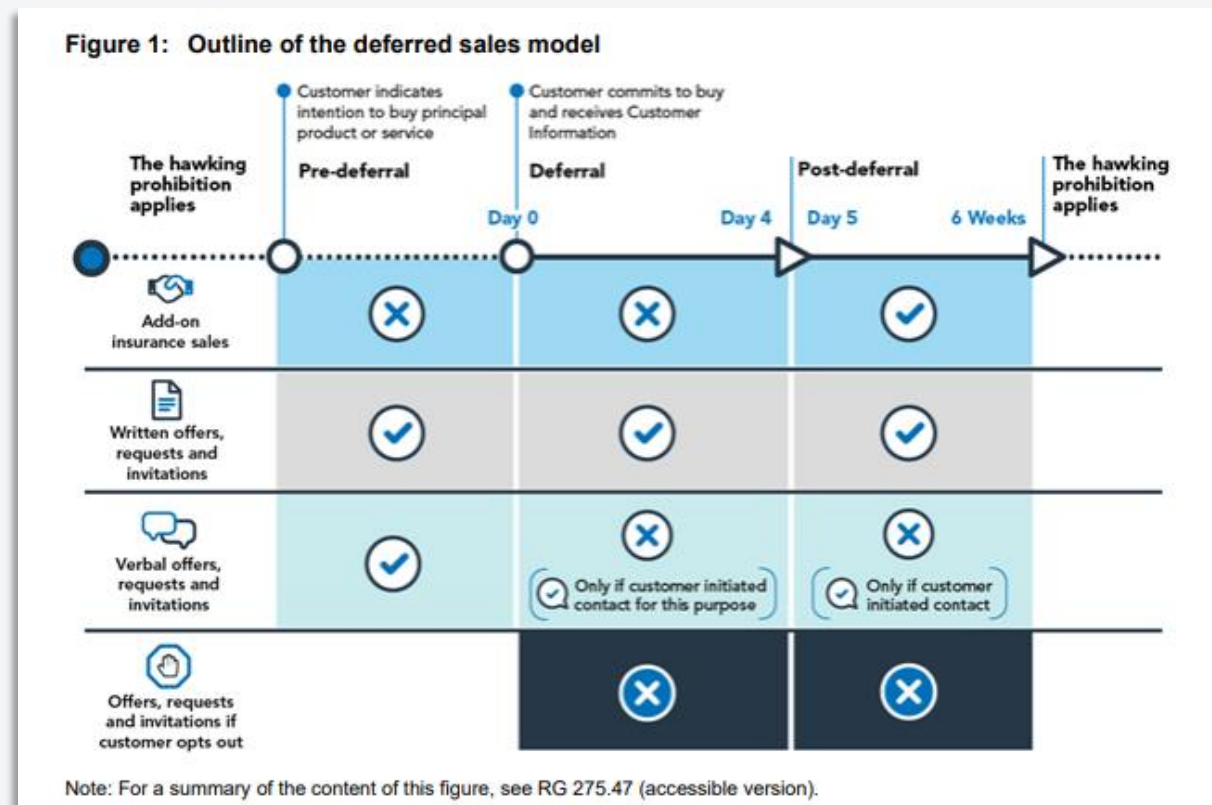
- Introduced in 2021 in Pt 2, Div 2, Subdiv DA (s12DO–12DZA) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).
- The Deferred Sales Model applies to:
 - “add-on insurance products” as defined under s12DO of the ASIC Act (unless an exemption applies);
 - all sales channels, including in-person and online.
- Mandatory 4 day “pause” for sales of add-on insurance products
- Aim is to separate the purchase of the principal product or service by the consumer from the purchase of the add-on insurance product.

Deferred Sales Model – 3 Distinct Periods

- **Pre-Deferral Period:** Starts when consumer indicates an intention to acquire a principal product or service and ends when the Deferral Period starts.
- **Deferral Period:** Mandatory 4 day “pause” after a consumer has entered into a commitment to acquire a principal product or service and receives information as prescribed by ASIC (Customer Information).
- **Post Deferral Period:** Starts at end of the Deferral Period and ends 6 weeks after the day that the Deferral Period began.

Deferred Sales Model - Conduct Requirements

ASIC Regulatory Guide 275 – Outline of Deferred Sales Model summarising conduct requirements for providers of add-on insurance products during the 3 distinct periods



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Exempted Types of Insurance from Deferred Sales Model

ASIC Act Exemptions	ASIC Regulations Exemptions
Comprehensive motor vehicle insurance (s12DW)	Comprehensive and limited motor vehicle or vessel insurance
Financial advisors who sell the add-on insurance product in the course of providing personal advice (s12DU)	Compulsory third-party motor vehicle insurance
Add-on insurance products covered by an in-force ASIC product intervention order which imposes a deferred sales period (s12DV)	Home and contents insurance
Products exempted by regulations (s12DX)	Home building insurance products
Persons exempted by ASIC by notifiable instrument (s12DY)	Transport and delivery insurance
	Travel insurance
	Business related add-on insurance products
	Superannuation related add-on insurance products

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ASIC Exemption Application

Exemption Factors:

- Evidence of product being “historically good value for money”
- Whether there is a high risk of underinsurance or non-insurance without an exemption
- Evidence of whether the product is well understood by consumers
- Differences between the product and similar products not sold as add-on insurance products
- Any other matters considered relevant by ASIC



Yvonne Lam
Principal
+61 2 8240 8014
ylam@gclegal.com.au

Questions?

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