

Improving consumer information through regulatory experimentation

Supporting consumer decisions around add-on insurance –
Australian Securities and Investments Commission



Level:

Easy



Industry:

Finance



Location:

Australia



Overview

The Australian Securities and Investments Commission (ASIC) grew concerned about add-on insurance (insurance products sold alongside other products, such as extended warranties on electronics) due to questionable sales tactics and poor value for money.

ASIC tested the effectiveness of six different information statements to determine how best to support consumers when making purchasing decisions for add-on insurance.

Key finding

Providing an information statement led to a 24% reduction in hypothetical purchases of add-on insurance.

Outcome

Supported the effectiveness of using an information statement as part of a deferred sales model and helped inform ASIC's regulatory guidance.

Evaluation method

Randomised control trial.

Background



The Australian Securities and Investments Commission (ASIC) was concerned about poor value add-on insurance products.

ASIC is Australia's independent integrated corporate, markets, financial services and consumer credit regulator. ASIC was concerned about add-on insurance. Examples include insurance policies sold with car loans or extended warranties on electronics. ASIC surveillances and consumer research had found several issues including poor value for money, high-pressure sales techniques and selling to consumers who could not actually make claims.

The 2017 Financial Services Royal Commission underscored these concerns, with the recommendation for the government to implement a deferred sales model (DSM). The DSM requires a waiting period between the purchase of a primary product and the offer of add-on insurance. ASIC wanted to investigate the effectiveness of information statements provided as part of the DSM.

Intervention and outcome



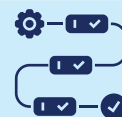
A 24% reduction in add-on insurance purchases when given an information statement compared to not receiving one.

ASIC partnered with the Behavioural Economics Team of the Australian Government (BETA) to conduct an online experiment testing the effectiveness of six different information statement designs. ASIC and BETA tested a) whether providing an information sheet influenced consumers decisions, including opting out of future solicitations for add-on insurance, and b) how different design and information features (for example, claims ratio) affected decisions.

The experiment involved three hypothetical shopping scenarios: buying a phone, buying flights or getting a loan. Participants first decided which product they would like to buy and were then randomly assigned to see one of six information statements or proceeded with no information (control condition).

A 24% reduction in hypothetical add-on insurance purchases was found for those given an information statement compared to those who were not. However, there was no evidence to suggest some of the specific features such as a claims ratio affected participants decisions. The findings contributed to ASIC's regulatory guidance, and demonstrated how experimentation can support consumer protection interventions.

Key steps for successful experiments



✓ Capitalise on high-level directives.

Because their research was based on a recommendation from the Financial Services Royal Commission and subsequent law reform, ASIC were able to prioritise the project and more easily secure resources and support.

When a project is backed by a high-level directive, consider using it to gain momentum and secure necessary resources early on.

✓ Collaborate with a research organisation.

By collaborating with BETA, ASIC gained valuable support and expertise, enhancing the study's design and implementation.

Consider collaborating with research organisations to bolster research capabilities and leverage external expertise for more effective outcomes.

Limits of disclosure

Even though this experiment focused on testing information provided to consumers, when it comes to the complex landscape of financial services there can be limitations to the effectiveness of disclosure (see [ASIC's previous work](#)).

In this example, the information statement tested was part of a broader intervention designed to break up the sale of add-on insurance, which also included a mandated time lag between product purchase and add-on insurance sale. This meant the information statement was not relied on in isolation.

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