

PROJECT NOTE - THEMATIC REVIEW OF ADD-ON INSURANCE PRODUCTS SOLD AT POINT OF SALE THROUGH MOTOR DEALERSHIPS OR AS PART OF VEHICLE FINANCING ARRANGEMENTS

1. Overview of the review

One of the core strategic objectives of the Financial Sector Conduct Authority (FSCA) is to ensure a robust regulatory framework that promotes fair customer treatment. In achieving this objective the FSCA must ensure that financial institutions consistently deliver fair outcomes to financial customers by, among other things, offering appropriate financial products and financial services that meet the needs and reasonable expectations of financial customers.

The FSCA has identified a potential risk to fair customer outcomes emanating from the sale of add-on insurance products at point of sale through motor dealerships or as part of vehicle financing arrangements. In light of this, the FSCA has initiated a thematic review aimed at establishing whether this selling and distribution model delivers fair customer outcomes.

The offering of add-on insurance products at the point of sale of a vehicle may adversely influence customers' purchasing behaviour by impairing their ability to make fully informed decisions regarding their financial needs. Due to the nature of add-on insurance, the primary product is typically the focus for customers at the time of purchase, while the add-on insurance products are not actively sought leading to customers purchasing insurance products they possibly do not need or understand resulting in them paying for cover against which they are unlikely to claim.

2. Scope of the review

The review will focus on add-on insurance products sold to customers when they purchase a new or used vehicle, which covers risks relating to the vehicle or the financing of the vehicle. These products include:

- Service plans
- Motor plans
- Maintenance plans
- Warranties (including extended warranties)
- Credit life cover
- Retrenchment cover
- Roadside assistance cover
- Standalone breakdown and emergency assistance cover
- Credit shortfall insurance (also referred to as gap insurance or top up insurance)
- Depreciation cover

- Scratch and dent cover (also referred to body protector cover or bodyline maintenance)
- Tyre protection cover
- Rim and mag cover
- Pothole cover
- Car hire
- Excess waiver cover
- Deposit protector
- Return to invoice cover
- Vehicle tracking recovery cover

3. Methodology of the review

The approach to the review will be as follows:

- 3.1. **Identify insurers that offer add-on insurance products at point of sale through motor dealership or as part of vehicle financing arrangements** – the FSCA will, through the South African Insurance Association (SAIA), identify insurers that should fall within the scope of the review.
- 3.2. **Data request** –the FSCA will issue a data request to insurers who have been identified as falling within the scope of the review. The requested data will focus on the following issues:
 - Distribution models;
 - Number and value of policies sold;
 - Number and value of claims paid;
 - Remuneration structures;
 - Pricing and fee structures;
 - Marketing and disclosure; and
 - Any other information that insurers believe may be of assistance to the FSCA.
- 3.3. **Data analysis** –the data received from insurers will be analysed and if necessary the FSCA will engage with specific insurers to obtain additional insight or clarity on aspects of their practices relating to add-on insurance products insofar as these practices fall within the scope of the review.
- 3.4. **Development of regulatory and supervisory response** – depending on the findings of the review the FSCA will consider whether enhancements are required to the current regulatory and supervisory framework in order to mitigate potential customer risks specifically emanating from the sale of add-on insurance products at point of sale through motor dealerships or as part of vehicle financing arrangements.