

Review Date

1 July 2003

Amendment Dates

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Credit Code Guideline

REQUIREMENT TO TAKE OUT INSURANCE OR TO INSURE WITH PARTICULAR INSURER OR ON PARTICULAR TERMS

The Objective of this Guideline is to:

- *help promote a uniform and clearer interpretation of the meaning of the Consumer Credit Code*

If considered appropriate, Guidelines may be developed and issued when the following criteria are satisfied:

- *the request for clarification of the Code must be made by a significant sector of stakeholders or relate to an issue that has potential to affect a significant section of the marketplace*
- *there is considerable uncertainty as to the application of the provision which may arise from legal debate or various interpretations evident from conduct in the market place*
- *there exists, in relation to a provision, a reasonable risk for a credit provider, intermediary, debtor or guarantor arising from such uncertainty*

Guidelines cannot expand upon the meaning of a provision to create an interpretation that would not be possible within the meaning of the provision. Refer "Objectives, Criteria and Process for Consumer Credit Code Guidelines" issued by the Standing Committee of Officials of Consumer Affairs on 30 June 1998.

Credit Code Reference__

Section 133 Consumer Credit Code

Guideline__

Explanatory Note

The primary purpose of section 133 is to prevent 'insurance forcing' where credit is made available on condition that insurance is also taken out and/or taken out with a particular insurer.

Some credit providers may be in a position to offer reductions in the cost of credit as an incentive for consumers to acquire credit and insurance products together (this combination of products is sometimes referred to as 'bundling'). Prospective debtors still have the choice of taking out the credit without taking out the insurance but do not, in these circumstances, receive a reduction in the cost of credit. Credit providers have received conflicting advice about the application of section 133 of the *Code* to such practices.

Interpretation

Government Consumer Agencies are of the view that:

Where a credit provider or supplier offers or agrees to reduce the cost of credit (either the annual percentage rate(s) or fees and charges payable in connection with the credit contract) only on the condition that a prospective debtor or guarantor takes out insurance and/or takes out that insurance with a particular insurer, the offering of that insurance on those conditions does not constitute a breach of section 133 of the *Code*, provided that where the prospective debtor or guarantor declines to take out the insurance or to take out that insurance with a particular insurer, the credit is still available, albeit without the proposed reduction in the cost of that credit.