

Notice of Determination

by the Life Code Compliance Committee (Life CCC) on alleged non-compliance with the Life Insurance Code of Practice by a subscriber

Reference:	CX 4130	Date:	21 December 2018
Code sections:	4.7(d)(i) ¹		
Investigation:	Self-reported non-compliance by a Code subscriber		

The Code breach

A Life Insurance Company that is a subscriber (the Subscriber) to the Life Insurance Code of Practice (the Code) self-reported a significant breach of Code obligation 4.7(d)(i)².

Under this Section of the Code, if a consumer applies for a consumer credit insurance (CCI) Life Insurance Policy as an add-on to a loan – and the option of paying the premium through the loan is offered – the Subscriber must also offer “at least one non-financed option such as a monthly direct debit”.³

When the insurer adopted the Code on 30 June 2017, it was in the process of having its core systems and infrastructure replaced. This included the system which supported the relevant CCI product. The insurer’s existing IT system did not support the ability to offer non-financed premiums, and an interim IT remedy, scheduled to begin on the day the insurer adopted the Code, had been judged unviable by the Subscriber.

The Subscriber contacted the Life CCC shortly before its transition to the Code and advised it would be unable to comply with section 4.7(d)(i).

The Subscriber stated that a new IT system that would support a non-financed premium option was in the pipeline. When deployed, customers who had purchased the CCI product after the Subscriber’s adoption of the Code would be migrated to the new system and given the option of switching to a non-financed premium. If there was a difference in the premiums, the Subscriber would apply the relevant refund to the customer’s personal loan.

¹ The Code section is provided in full in the last section of the Determination.

² The Code section is provided in full in the last section of the Determination.

³ This does not include CCI protecting a credit card or line of credit facility/overdraft where the premium is charged regularly to the credit card or line of credit facility/overdraft.

The Subscriber continued to sell the non-compliant product to consumers for several months, before informing the Life CCC that it had decided to suspend sales of such CCI products. An IT system that would enable compliance with the Code in this matter had not been deployed at that point.

The Subscriber reported that over 9,000 customers were affected by the Code breach in the period between its adopting the Code and suspending sales of the product.

Findings in accordance with Charter clause 7.4(b)(iii)⁴

The Life CCC assessed the matter and determined there was a breach of Section 4.7(d)(i) of the Code which was significant, as assessed by the subscriber, and which was proven in whole.

The Life CCC findings and conclusion

The Life CCC further determined in accordance with Charter clause 7.4(b)(iv)⁵ that the matter was of a serious and systemic nature as the Subscriber continued to sell the product while it was non-compliant with section 4.7(d)(i) and did not inform consumers at the point of sale of this non-compliance, thus preventing the consumers from being able to make an informed decision.

The Subscriber ultimately decided to temporarily suspend the sale of the CCI products until it could come up with a solution to meet compliance with the Code obligation.

As part of the remedial action the Subscriber notified all affected customers about its non-compliance in a letter that included the following information:

- that it issued a policy captured by the Code;
- that it subscribed to and was bound by the Life Insurance Code of Practice and how consumers can access the Code;
- that it had not complied with the obligation within the Code to provide a non-financed premium option;
- a reminder of how the customer's premium was paid (ie. financed in the loan and subject to interest);
- reminders about customers' cancellation rights and how to make claims; and
- a copy of the Subscriber's brochure about consumers' rights regarding complaints and how to raise them.

⁴ The Life CCC is bound by its Charter to use the terminology 'the reported allegation was proven in whole or in part or was unfounded.' This in essence requires the Life CCC to state if it determined there was a breach or not. The Life CCC will explain its determination in plain language in the body of the Determination.

⁵ The Life CCC is bound by its Charter to state, where applicable, whether it finds that a Subscriber is responsible for serious and/or systemic non-compliance with the Code.

The Life CCC was satisfied that the suspension of the sale of CCI products until the Subscriber could comply with Section 4.7(d)(i) was sufficient to rectify non-compliance in the short-term. The Life CCC also considered that the content of the remedial letters to affected customers was appropriate and sufficient in the circumstances.

Relevant Code Section/s

Section 4.7(d)(i):

If **you** apply for a consumer credit insurance (**CCI Life Insurance Policy**) as an add-on to another financial product, either with **us** directly or through **our Authorised Representative**, **we** will:

- d) if the **CCI Life Insurance Policy** is an add-on to a loan:
 - i. if the option of paying the **premium** through the loan is offered, then at least one non-financed payment option such as a monthly direct debit will also be offered

The Life CCC is the independent body responsible for the administration and enforcement of the Life Insurance Code of Practice (the Code). It acts in accordance with the Life CCC Charter, which sets out the powers, duties, functions and responsibilities of the Committee, subject to any provisions in the Code. This de-identified Determination is issued in accordance with clause 7.4 of the Life CCC's Charter in order to assist all subscribers in understanding their Code obligations.