

# 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

|                       |   |              |                  |
|-----------------------|---|--------------|------------------|
| <b>Reference:</b>     | CX6376  | <b>Date:</b> | 2 September 2020 |
| <b>Code sections:</b> | 6.7 <sup>1</sup>                                  |              |                  |
| <b>Investigation:</b> | Self-reported non-compliance by a Code subscriber |              |                  |

## The alleged 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 section 6.7 of the Code. Section 6.7 of the Code requires a subscriber to reimburse any money owed to a consumer when a policy is cancelled within 15 business days.

The breach affected white label products issued by the Subscriber but distributed by a 3<sup>rd</sup> party (3<sup>rd</sup> Party A). The products included life insurance, funeral insurance and accidental death/injury insurance.

The breach was identified as part of the Subscriber's transition of the administration of the products from 3<sup>rd</sup> Party A to another 3<sup>rd</sup> party distributor (3<sup>rd</sup> Party B). As part of the transition, 3<sup>rd</sup> Party B conducted a review and identified 501 policyholders who had not received a refund within 15 business days of their policy cancellation. The refunds due totalled more than \$11,000.

The Subscriber attributed the cause of the breach to weaknesses in 3<sup>rd</sup> Party A's premium refund process.

## Findings in accordance with Charter clause 7.4(b)(iii)<sup>2</sup>:

The Life CCC assessed the matter and confirmed that the self-reported significant breach of section 6.7 of the Code was significant.

## The Life CCC findings and conclusion:

The Subscriber's review identified that the breach was caused by weaknesses in the premium refund process in use at 3<sup>rd</sup> Party A. While the premium refund process was initiated, in the

<sup>1</sup> The Code sections are provided in full in the last section of the Determination.

<sup>2</sup> 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.

489 instances identified the premium refund process was not completed and the refund was not processed.

The Subscriber identified 4 system weaknesses in the premium refund process in use by 3<sup>rd</sup> party A:

- There was no follow up process in place to identify and action requests for a refund which was not approved.
- Payments which were returned due to incorrect banking details were not followed up.
- The End of Month process automatically transferred the returned payments to the premium receivables account which meant that the funds were not identified as amounts owing to the policyholders.
- If a Consumer made a complaint about not receiving a refund, the process to initiate a refund via the complaints process was independent to the refund process and there was no reconciliation between the two processes.

Since taking over administration of the products, 3<sup>rd</sup> Party B conducted a full reconciliation of the accounts to identify all premiums that had yet to be returned to policyholders.

To prevent the issue from recurring, the premium refund processes and procedures were comprehensively reviewed by 3<sup>rd</sup> party B and updated in July 2019, including changes to relevant system functionality and the introduction of a daily finance review of accounts.

As noted above, 501 Consumers were identified as not having received refunds after cancelling their policies. The Subscriber has confirmed that the refunds for policyholders with valid payment details were completed by 30 June 2020. In addition, any consumer with invalid payment details is being contacted for new details or sent a cheque.

### Key learnings

While the breach was caused by 3<sup>rd</sup> Party A's inadequate process and procedures, the Subscriber in this instance reported a significant breach to the Life CCC. In line with the Spirit of the Code, this demonstrates appropriate recognition by the Subscriber of its ongoing responsibility to meet its obligations under the Code, even where it has outsourced some activities – in this case, certain aspects of its claims handling process – to a 3<sup>rd</sup> party.

This reinforces the need for subscribers who utilise 3<sup>rd</sup> party entities not bound by the Code to be vigilant in ensuring that compliance and process performance responsibilities and expectations are clear.

The Life CCC also expects subscribers who outsource services to 3<sup>rd</sup> party entities not bound by the Code to conduct regular reviews and audits to monitor that Code compliance and ensure high service standards to consumers are maintained.

### Relevant Code Section

#### Section 6.7:

**You** may be entitled to a refund when **you** cancel **your Life Insurance Policy**, in accordance with the terms of **your Life Insurance Policy**. If **you** cancel **your Life Insurance Policy**, any money **we** owe **you** will be reimbursed to **you** within **15 business days**.

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 Determination is issued in accordance with clause 7.4 of the Life CCC's Charter in order to facilitate agreement between the Life CCC and the Subscriber on corrective measures and the relevant timeframes for their implementation.