

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:	CX6741	Date:	29 September 2020
Code sections:	8.18 ¹		
Investigation:	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 breach of section 8.18 of the Code.

Under this section of the Code, subscribers are required to advise the Consumer to seek financial advice to help manage a claim payment (financial advice wording), when a subscriber accepts a claim which includes a lump sum payment.

In addition, if a subscriber offers to pay a lump sum instead of ongoing payments in order to finalise an income-related claim, the subscriber must suggest that the Consumer seek legal and financial advice (legal and financial advice wordings) before accepting the offer.

On 14 February 2020, the Subscriber self-reported a breach of section 8.18 of the Code. This was because the Subscriber identified that its claim acceptance letter templates did not include the financial advice wording for all its lump sum claims and did not include the legal and financial advice wordings for any of its income-related claims which were finalised by lump sum payments.

The Subscriber considered the breach to be significant due to the duration of the breach which persisted between 1 July 2017 and 14 January 2020 for income-related claims and between 22 January 2019 and 5 August 2019 for lump sum claims up to \$50,000, and the number of claims impacted across all products and channels. In total, the breach impacted 5,964 claims.

The Life CCC noted that the Subscriber has since amended its claim acceptance template letters and is now compliant with section 8.18 of the Code.

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

Findings in accordance with Charter clause 7.4(b)(iii)²:

The Life CCC assessed the matter and confirmed that the self-reported breach of section 8.18 of the Code was significant.

The Life CCC findings and conclusion:

The Subscriber noted that it had inadvertently misinterpreted the requirements to include:

- the financial advice wording for lump sum claims within its claim acceptance letters, regardless of the amount of the payment, and
- the requirement to include the legal and financial advice wordings for any of its income-related claims which were finalised by lump sum payments.

The claim acceptance letter template for lump sum claims incorrectly instructed claim assessor(s) to issue template letters only in circumstances where the lump sum acceptance amount was more than \$50,000, hence limiting its application.

As a result, the claim acceptance letters did not include the financial advice wording for all lump sum claims and did not include the legal and financial advice wordings for any of its income-related claims which were finalised by lump sum payments.

To remediate the breach, the Subscriber amended its section 8.18 letter templates to include the financial and/or legal advice wording on all of its lump sum payment template letters. In addition, the Subscriber communicated the change to and implemented mandatory refresher training for all Claims staff, and also communicated the change to its Quality Assurance team to ensure that compliance with section 8.18 of the Code is effectively monitored when conducting audits of claim files.

The Life CCC reviewed the revised templates and confirmed that they are now compliant with the requirements under section 8.18 of the Code.

Key learnings

The Life CCC notes that the spirit and intent of section 8.18 is to encourage Consumers to better understand and deal with the legal and financial implications of a lump sum payment. For example, a lump sum payment could impact on a Consumer's existing Centrelink entitlements or tax obligations, depending on the size and timing of such a payment.

The Life CCC considers that it is the best practice for Subscribers to include the financial advice and/or legal advice wording in all correspondence with Consumers where the Consumer is receiving any form of monetary payment from a Subscriber.

For related discussion and interpretation of compliance with section 8.18 of the Code, subscribers are encouraged to refer to the Life CCC's Case Study 2019-2.³

² 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.

³ See published case study: <https://lifeccc.org.au/app/uploads/2019/11/Case-Study-2019-2.pdf>

Relevant Code Section

Section 8.18

If **we** accept **your** claim and it includes a lump sum payment, **we** will suggest **you** seek financial advice to help manage **your** claim payment. For an income-related claim, if **we** offer to pay **you** a lump sum instead of ongoing payments in order to finalise **your** claim, **we** will suggest that **you** seek financial and legal advice before accepting **our** offer.

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.