

Case Study 2022-3:

Planning for change

Whilst appreciating almost all life insurers have come about in their current form through mergers and there is some inherent complexity - Smart businesses anticipate issues that flow from transition to new business models and systems and have processes and business processing capacity in place to plan for and manage risks that might occur. The Subscriber's approach in this instance was inadequate – and hundreds of customers were negatively impacted.

The following case study is based on a series of matters considered by the Life Code Compliance Committee (Life CCC) involving five separate incidents of significant breaches of the Life Insurance Code of Practice (the Code) by a single subscriber.

Given that there were numerous significant breaches of the same sections – 8.3, 8.4 and 8.15 – over an extended period, the Life CCC is issuing a case study instead of a Determination to alert all subscribers to the pitfalls that occurred in this instance and how they might avoid them.

The Code requirements

Section 8.3 of the Code requires a subscriber to provide customers with certain information within ten business days of being notified of their claim. The information includes details of their cover, the claim process and contact details for them to obtain information about their claim.

Section 8.4 of the Code sets out two separate and independent requirements. The first requirement is that subscribers provide customers with updates on claims at least every 20 business days. The second requirement is that subscribers respond to requests for information about the claim within 10 business days.

Section 8.15 of the Code requires a subscriber to communicate a claim decision within 10 business days of receiving all the information that the subscriber reasonably needs to assess a claim.

Section 13.3(a) of the Code states that subscribers will have appropriate systems and processes in place to enable compliance with the Code.

The background

In mid-2019, the Subscriber migrated its existing Group insurance business to a new integrated policy administration and claims management system. The process involved more than 1.2 million customers and more than two million customer records.

A system defect in the new system affected the Subscriber's ability to lodge, track and monitor new Group claims. The Subscriber implemented several manual processes as a temporary workaround, but these slowed its overall case management and placed a resourcing strain on case management teams. This caused numerous timeframe-related Code breaches.

An unrelated series of breaches also occurred within the Subscriber's Retail channel in November 2021, caused by staffing issues and resourcing strains due to an unplanned increase in claim numbers.

The Subscriber reported three significant breaches to the Life CCC regarding five separate incidents between August 2019 and January 2022. These breaches related to its failure to meet timeframes associated with sections 8.3, 8.4 and 8.15 of the Code. The breaches occurred across multiple products within the Group and Retail channels.

A closer look at the five significant breach incidents

Number 1: August 2019

The Subscriber reported a significant breach of sections 8.3 and 8.4 of the Code in the wake of the migration to the new integrated policy administration and claims management platform. Around 340 Group claims had to be manually created, which led to 109 individual breaches of section 8.3 and 132 individual breaches of section 8.4 for several weeks between June and July 2019.

Number 2: September 2019

The Subscriber reported another significant breach of section 8.4 of the Code stemming from the same defect in the new integrated policy administration and claims management platform. The use of interim manual processes had strained case management teams and slowed claim assessment timeframes, causing 55 individual breaches in August 2019.

Number 3: October 2019

The same issue led to the Subscriber identifying 16 individual breaches of section 8.15 of the Code in September 2019, which it reported as a significant breach. The Subscriber also reported a significant breach of section 13.3(a) as it did not have appropriate systems and processes in place between June 2019 and September 2019. This was because it had previous breaches of sections 8.3, 8.4 and 8.15 (totalling 312 breaches).

Number 4: April 2020

The Subscriber reported that although it had largely resolved issues arising from the use of manual workarounds, some were still in place and had caused further resource strains. In addition, the manual workarounds had overall slowed claims management within its Group insurance business. This caused 30 individual breaches of section 8.3 and 51 individual breaches of section 8.4 between February 2020 and mid-April 2020. As a result, the Subscriber reported another significant breach of each section.

Number 5: January 2022

The Subscriber reported a significant breach of sections 8.3, 8.4 and 8.15 of the Code. It attributed these to the combination of factors. The factors included the number of actual Total and Permanent Disability (TPD) claims exceeding the forecast number of claims, and the length of time taken to hire new claims staff. These contributed to 22 individual breaches

of section 8.3, 27 individual breaches of section 8.4, and 25 individual breaches of section 8.15 in October 2021.

Inadequate processes and procedures

The Subscriber's report of a significant breach of section 13.3(a) in October 2019 was an acknowledgement of the system issues caused by the data migration. The ensuing need for increased manual processes meant that it did not have adequate systems and processes in place to ensure compliance with sections 8.3, 8.4 and 8.15 of the Code.

How the Subscriber addressed the issues

In response to significant breach reports 1, 2 and 3

The Subscriber's migration to a new claim management system led to temporary defects and increased interim manual workarounds. The manual workarounds, in turn, caused a slowing of the overall claims handling process. The Subscriber noted that, in remediation, it had:

- Completed a backlog of 109 delayed claim notifications associated with the breaches of section 8.3 of the Code. Affected customers had received a claim acknowledgement letter which included an apology and explanations of the delay and Code breach.
- Contacted and provided claim updates to 187 customers associated with the significant breach of section 8.4 of the Code.
- Paid interest and compensation to customers whose claim payments were unreasonably delayed during the significant breach of section 8.15 of the Code.

In response to significant breach report 4

In April 2020, the Subscriber confirmed it had provided the information required under sections 8.3 and 8.4 of the Code to affected customers, albeit outside the required timeframes.

It also reviewed its processes to ensure it could remediate issues raised by the ongoing breaches and improve compliance with the Code. It then developed a multi-faceted approach to improve processes. This included raising the awareness among senior claims staff of the inbuilt reporting tools within the claims management system that show approaching Code-related timeframes. In addition, the Subscriber also phased out the most problematic manual processes for Code compliance and confirmed that the remaining processes had appropriate monitoring and controls in place.

The Subscriber had also completed:

- Refresher training for senior claims staff using the Subscriber's quality control tool to ensure breaches and their underlying causes are correctly and efficiently identified, and remediation steps identified.
- Refresher training for all levels of claims staff on sections 8.3 and 8.4 of the Code. This also includes the effective use of the new claims management system to record information relevant to those obligations and the use of automated preventative tasks and reminders.

- In-depth reviews and analysis of all breaches in April-May 2020 that led to targeted reporting and feedback to senior claims assessing staff and guidance on where improvements could be made.

The Subscriber also implemented an internal consequence management framework so that, in the event of repeated non-compliance, there is increased accountability across all levels of claims staff. This is monitored in real-time by senior staff and management.

The Subscriber reported that implementation of all of these actions saw a significant reduction in the number of breaches of the relevant sections by June 2020.

In response to significant breach report 5

The Subscriber noted that it was reviewing the claim assessments for all potentially impacted customers who may be eligible for compensation and providing compensation where appropriate. This should be completed by the end of March 2023 as some claims are still ongoing.

The Subscriber reported that, by January 2022, it had taken several actions to address the issues and that the number of breaches of sections 8.3, 8.4 and 8.15 of the Code had reduced.

Remedial actions included:

- Implementing a work arrangement with a third party for additional contract staff to assist with assessing outstanding Retail TPD claims for the period August to November 2021. The Subscriber has since expanded the Retail TPD team with the appointment of two new claim assessors.
- Introducing a new preventative reporting dashboard for the proactive review and management of Code tasks.
- Finalising processes to expedite claims activities involving dependencies to ensure completion within Code timeframe obligations.
- Implementing timeframes and reporting dashboards for the proactive review and management of Code tasks.

The Subscriber also reported that it is deploying an upgrade to the claims management system to enhance capabilities and allow for process improvements and efficiencies. The Subscriber also plans to increase management oversight of breaches to investigate root causes. In addition, the Subscriber is introducing a forward recruitment initiative that involves projecting vacancies and recruiting in advance to reduce the impact of staff attrition.

Lessons to be learned

The Subscriber in this matter noted that they were caught unaware by the system migration error and the cascade of problems that followed it. This shouldn't have happened. The Subscriber's failure to meet timeframes reflected inadequacies in both planning and system-testing prior to the system migration, as well as insufficient monitoring during implementation of the new system.

Robust risk assessment, risk planning, testing and monitoring could have prevented or countered the many issues that stemmed from the migration and from later staffing issues. This lesson is particularly timely for all subscribers as they prepare to transition into the new Code of Practice.

The Life CCC reminds all subscribers that they should have processes in place to identify and mitigate potential issues – especially in periods of transition – and to identify any emerging pressures and respond quickly. In this matter, inadequate planning and risk management resulted in the Subscriber not meeting crucial timeframes for an unacceptably long period, impacting hundreds of customers, including vulnerable customers making TPD claims.

The Life CCC was encouraged that the Subscriber in this matter addressed the multiple 2019 Code breaches caused by the system defect with new checks, balances, processes and procedures. The Life CCC was concerned however that these measures failed to fully stem a flow of breaches and that new breaches occurred in 2020 and 2021, albeit from a different root cause, namely resourcing issues. The Life CCC hopes the range of measures introduced by the Subscriber to address both systems and resourcing issues will assist in preventing further breaches of the Code. The Life CCC notes that the Subscriber has reported lower numbers of breaches since the implementation of these measures.

The Life CCC will continue to monitor and work closely with the Subscriber to ensure it complies with the Code's standards and that breach remediation strategies are working.

The Life CCC urges all subscribers to read this case study carefully and consider whether their risk planning is sufficiently robust when change is afoot. A good indication of this is how well subscribers anticipate and counter emerging issues.

The Code's timeframe requirements are important consumer protections – it is essential that the high standards of service set out in the current Code are given due attention by all subscribers as they transition into Code 2.0.