

# 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>	CX12384	<b>Date:</b>	20 October 2022
<b>Code sections:</b>	Section 8.2		
<b>Investigation:</b>	Significant Breach reported by a Code Subscriber		

## The Code breach:

On 7 April 2022, a Life Insurance Company that is a subscriber (the Subscriber) to the Life Insurance Code of Practice (the Code) reported a significant breach of section 8.2 of the Code. The significant breach occurred as claims assessors failed to consider all the policy features available when consumers claimed lump sum benefits on applicable policies.

Consequently, claims assessors did not inform consumers of the in-built Financial Planning Benefit (FPB) that was available under their policy. In addition, claims assessors did not outline the process required to claim the benefit if they chose to obtain financial planning advice. The Subscriber noted that the significant breach impacted specific policies with lump sum benefits that were sold through the Subscriber's Retail channel.

The Subscriber initially identified a breach of section 8.2 of the Code on 3 August 2021 in an isolated matter. On 25 January 2022, the Subscriber commenced a review of all potentially impacted lump sum claims determined between January 2020 and December 2021.

On 24 March 2022, the Subscriber confirmed that the breach was significant and commenced a review of all remaining claims where consumers may have been impacted by the issue between 1 July 2017 (Code inception) and December 2019.

On 25 May 2022, the Subscriber confirmed that it had remediated all impacted consumers for claims determined between January 2020 and December 2021.

The Subscriber noted that it reviewed 1,511 claims between 1 July 2017 and December 2021 and confirmed that it failed to inform 397 consumers of the in-built FPB.

On 9 September 2022, the Subscriber confirmed that it had remediated the significant breach of section 8.2 of the Code.

## **Findings in accordance with Charter clause 7.4(b)(iii)<sup>1</sup>:**

The Life CCC assessed the matter and confirmed that the reported breach of section 8.2 of the Code was significant, as assessed by the Subscriber.

### **The Life CCC findings and conclusion:**

#### **Section 8.2**

Section 8.2 of the Code requires subscribers to consider all the features of a policy when a consumer is making a claim and ensure that consumers are claiming all available benefits. Furthermore, a subscriber cannot discourage consumers from claiming.

The significant breach occurred as claims assessors did not inform consumers of the in-built Financial Planning Benefit (FPB) that was available under their policy. In addition, claims assessors did not outline the process required to claim the benefit if they chose to obtain a financial plan.

The significant breach impacted the following Retail products that have an in-built FPB as follows:

- one product that offered a reimbursement of up to \$5,000 for any financial planning advice obtained within 12 months of a lump sum claim payment
- four products that offered a reimbursement of up to \$2,500 for any financial planning advice obtained within 12 months of a lump sum claim payment.

The Subscriber further noted that of the 1,511 claims reviewed between 1 July 2017 and December 2021, it failed to inform 397 consumers of the in-built FPB.

Given the number of consumers impacted, the Life CCC confirmed the Subscriber's reported significant breach of section 8.2 of the Code.

#### **Remediation completed**

The Subscriber confirmed that, as of 9 September 2022, it had remediated all 397 impacted consumers through the following remediation actions:

- The Subscriber contacted the consumers who had received a lump sum claim settlement within 12 months to inform them of the FPB and the requirements for reimbursement.
- The Subscriber wrote to the remaining consumers to confirm if they sought financial planning advice after they had received a lump sum payment. The Subscriber advised them that the costs associated with the preparation of the financial plan could be reimbursed up to the limits noted in the product disclosure statement.
- The Subscriber paid nine consumers a total of \$40,350 in FPB.

Furthermore, the Subscriber implemented additional preventative controls designed to ensure similar breaches do not reoccur:

- It updated the claims settlement letter to inform consumers that they are eligible for the FPB and adequately explain to consumers the requirements for the benefit.
- It implemented additional training and awareness for all claims staff.
- It enhanced technical specialist oversight and monitoring of the claim files where there are optional benefits noted on any relevant policy.

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<sup>1</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.

- It implemented additional quality assurance monitoring.

Given the above, the Life CCC was satisfied that the Subscriber has remediated the significant breach of section 8.2 of the Code.

### **Key learnings**

In this matter, the Subscriber's monitoring of compliance with section 8.2 of the Code was proven to be inadequate over a lengthy period. Disappointedly in this case, the non-compliance was perpetuated for four years and impacted close to 400 consumers before being detected by quality assurance of a claim.

The breach identified the need for review of processes and templates for communication with consumers, additional awareness and training of staff, and enhanced oversight and monitoring of claims files to ensure compliance with Code obligations.

As the Code has been in operation for five years now, the Life CCC expects subscribers to continually review and implement appropriate actions to ensure ongoing compliance with the Code. The Life CCC expects subscribers to have in place and continuously improve processes to guide, support and train staff in meeting the obligations of the Code as well as robust processes to minimise the risk of non-compliance occurring, monitor compliance to enable early detection of breaches which might occur, facilitate prompt rectification of breaches and prevent recurrence of identified breaches.

## **Relevant Code Section**

### **Section 8.2**

When **you** make a claim **we** will consider all of the features of the **Life Insurance Policy** to which **your** claim relates in order to ensure you are claiming for all available benefits under **your Life Insurance Policy**. **We** will not discourage **you** from making a claim

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.