

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:	CX14573	Date:	27 March 2023
Code sections:	5.4 and 5.12 ¹		
Investigation:	Significant Breach reported 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) reported a significant breach of sections 5.4 and 5.12 of the Code.

On 19 July 2022, the Subscriber reported to the Life CCC a significant breach of sections 5.4 and 5.12 of the Code. The significant breach of sections 5.4 and 5.12 related to the Subscriber's Group Life Income Protection (IP) and Total Permanent Disability (TPD) benefit types. This occurred from the period 6 July 2020 to 1 June 2022.

The Subscriber noted that the breaches were caused by its system not applying the correct date of receipt of application in some cases. Consequently, the daily and monthly reporting control did not correctly measure the relevant timeframe for some policies for compliance with sections 5.4 and 5.12 of the Code.

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

The Life CCC assessed the matter and confirmed that the reported breaches of sections 5.4 and 5.12 of the Code were significant, as assessed by the Subscriber.

The Life CCC findings and conclusion:

Section 5.4 relates to the subscriber's obligation to provide a decision on the consumer's life insurance application within five business days of the consumer's application. Section 5.12 provides subscribers with a five business day timeframe to communicate a decision about whether to accept an application and on what terms, once a subscriber has received all the information it reasonably needs and has completed all reasonable enquiries relating to the application.

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

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.

As noted above, the Subscriber acknowledged the breaches of sections 5.4 and 5.12 amounted to significant breaches of the Code regarding the unsuccessful control design of its reporting system. The Subscriber also considered the extended breach period from 6 July 2020 to 1 June 2022 (approximately two years) to be another factor.

The Subscriber indicated that the root cause of the significant breaches was the failure of its daily and monthly control reports to accurately apply and report some application received dates. The Subscriber’s reporting incorrectly documented the date of receipt as the date the subscriber scanned and entered the applications into the Subscriber’s system rather than the date it received the application from the adviser.

In its sample review for the months of March 2022 to July 2022, the Subscriber confirmed there were 13 and 29 breaches of sections 5.4 and 5.12 respectively. This is represented in the table below:

Month	Total transactions for the month	Total Number of Breaches Section 5.4	% Total Number of Breaches Section 5.4	Total Number of Breaches Section 5.12	% Number of Breaches Section 5.12
Mar-22	192	9	4.69%	13	6.77%
Apr-22	129	2	1.55%	12	9.30%
May-22	187	2	1.07%	1	0.53%
Jun-22	174	0	100%	1	0.57%
Jul-22	151	0	100%	2	1.32%

The Subscriber also provided information regarding the steps taken to remediate the breaches.

Remediation action

Since reporting the significant breaches of sections 5.4 and 5.12 in July 2022, the Subscriber has:

- implemented a manual interim process/control to monitor and ensure that the correct timeframe is applied for sections 5.4 and 5.12
- introduced a new automated monthly control report replacing all manual processes/controls
- conducted ongoing monthly manual sample testing of 10% of the applications received to ensure the effectiveness of the new automated report
- assigned the responsibility of sending out correspondence regarding sections 5.4 and 5.12 of the Code to its underwriting team.

Furthermore, the Subscriber also runs a monthly report to identify the number of transactions completed and any Code breaches which have occurred. Identified breaches are escalated its Line 2 Risk Unit for further review.

Key learnings

This incident highlights the importance of having strong systems controls to ensure compliance with all sections of the Code.

It is critical for subscribers to have a comprehensive compliance framework that includes identifying, capturing, and managing all breaches, as well as promptly assessing and remedying any breaches that occur. Compliance involves not only having robust processes in place but also actively monitoring and reporting significant breaches, as well as taking prompt and effective action to notify and rectify affected customers. The Life CCC expects subscribers to take full responsibility for their compliance obligations and continuously improve their systems and controls to prevent future breaches.

The Committee notes the Subscriber's swift response in implementing an interim manual process to monitor compliance while a new automated control process was being developed, as well as other controls to strengthen ongoing compliance once the new system had been implemented. The Subscriber's reporting of the significant breaches of the Code and its implementation of measures to prevent future recurrence of the breaches demonstrates the Subscriber's commitment to maintaining compliance with the Code.

Relevant Code Sections

Section 3.4

When **you** buy a **Life Insurance Policy**, **you** will be provided with documentation that clearly explains the following key information in plain language:

- a) the types of cover **you** are insured for;
- b) how much **you** are insured for, if there is a fixed amount assigned to **your** cover;
- c) how much **your** cover costs;
- d) the cooling-off period;
- e) specific events **you** are not covered for (exclusions);
- f) for key medical definitions in cover where a benefit is payable for a defined medical event, a general description of circumstances in which benefits would be paid, and specifically whether or not benefits are payable on diagnosis or require a certain degree of severity in order to be payable;
- g) any waiting periods that apply before **you** can access benefits;
- h) a description of how the price **you** pay is structured, for instance whether the cover has stepped or level **premiums** or a single **premium**;
- i) information about the impact a claim could have on other benefits or income if it is relevant to **your** policy; and
- j) information about **our** claims and **Complaints** process.

Section 6.3

We will provide **you** with an annual notice **in writing** each year prior to the anniversary of **your Life Insurance Policy**.¹² The annual notice will include:

- a) the types of cover **you** are insured for and how much **you** are insured for;
- b) an explanation for any increase in **your premiums** in accordance with the terms of **your Life Insurance Policy**;
- c) information about the risks of cancelling and replacing an existing **Life Insurance Policy**;
- d) information about how to contact **us** to discuss options if **you** want to change the terms of **your Life Insurance Policy** or are having difficulty meeting **your** payments; and
- e) what to do in the event of 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.