

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:	CX15865	Date:	7 August 2023
Code sections:	5.4 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 section 5.4 of the Code on 24 November 2022.

The significant breach involved Death, Terminal Illness, Total and Permanent Disability, and Income Protection policies owned by a Superannuation Fund Trustee (the Fund). The breach was brought to the Subscriber's attention by the Fund on 11 October 2021, following a delayed underwriting decision for a consumer. Subsequently, the Subscriber conducted an investigation and discovered that the issue was caused by an 'extra line break/space' in some underwriting applications within its transfer file to the Fund. This technical problem prevented underwriting decisions from being transmitted to the Fund's administration system.

To address the issue, the Subscriber implemented a system enhancement in February 2022. However, before this enhancement, 63 consumers had already faced delayed underwriting decisions. Later, in June 2022 and September 2022, an additional 63 consumers were identified with the same problem. In total, between January 2021 and February 2022, the Fund failed to provide timely underwriting decisions to 126 consumers.

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

The Life CCC assessed the matter and confirmed that the reported breach of section 5.4 of the Code was significant, as assessed by the Subscriber.

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.

The Life CCC findings and conclusion:

Section 5.4 of the Code stipulates that Subscribers must inform consumers of their life insurance application decisions within five business days, provided all required information has been received. However, the Subscriber failed to meet this requirement due to a line break error in its transfer file to the Fund.

The error occurred during the daily scheduled file transfer from the Subscriber's system to the Fund's administration system, leading to the omission of some underwriting decisions. Consequently, the Fund did not receive the necessary underwriting decisions within the specified timeframe, resulting in delayed underwriting decisions for 126 consumers.

Based on information obtained from the Subscriber, delays beyond the five business day timeframe were as follows:

- Shortest delay: 1 business day
- Longest delay: 219 business days
- Average length of delay: 74 business days

The incident persisted for over 12 months before the Subscriber identified it as a significant breach on 10 November 2022. Consequently, the Life CCC confirmed the Subscriber's self-reported significant breach of section 5.4 of the Code.

Remediation

The Subscriber reported the breach nine months after implementing a system enhancement in February 2022, which successfully rectified the root cause of the line break error. Their compliance rates consistently showed 100% from February 2022 to November 2022.

To address the issue and remediate the situation, the Subscriber took the following actions:

- Collaboration with the Fund: The Subscriber worked closely with the Fund to ensure effective communication of underwriting decisions to all impacted consumers. This process was completed by November 2022.
- Suitable commencement dates: Impacted consumers who had their cover approved were provided with suitable commencement dates that did not put them at a disadvantage should they decide to proceed with the coverage.
- Implementation of reconciliation control: The Subscriber put in place a reconciliation control mechanism to monitor and identify any discrepancies between the underwriting decisions made from its transfer file and those sent to the Fund. As of 31 March 2023, the Subscriber provided an update stating that no further anomalies had been identified through this process.

As per the Subscriber's report, there is no indication that the affected consumers suffered any financial loss due to the breach.

Overall, the Subscriber took appropriate actions in rectifying the issue and implementing measures to prevent similar incidents in the future.

Key learnings

Key learnings from this matter:

1. Unforeseen events can occur: This incident underscores that even with adequate systems in place, unforeseen events can arise. Despite the Subscriber's efforts to maintain a functional system, the line break error still occurred, resulting in delayed underwriting decisions.
2. Prompt issue identification is crucial: The breach went unnoticed by the Subscriber for a significant period of nine months. The Fund brought the issue to the Subscriber's attention. Subscribers must establish processes to promptly identify system issues and not solely rely on external parties to alert them.
3. Robust compliance framework: The incident highlights the importance of having a robust compliance framework in place. This framework should include regular monitoring and continuous improvement of systems to prevent future breaches and ensure compliance with industry regulations and codes.
4. Continuous improvement: Subscribers should not only address immediate issues but also focus on continuous improvement. Regularly reviewing and refining their systems will help mitigate risks and maintain compliance with industry standards.

In conclusion, this matter emphasises the need for Subscribers to be vigilant in monitoring their systems, promptly identifying and rectifying issues, and continually improving their compliance frameworks to prevent similar breaches in the future.

Relevant Code Section

Section 5.4

Where the information **we** have received from **you** is all **we** need to make **our** decision on **your** application, **we** will let **you** know **our** decision within five **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.