

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:	CX18467	Date:	24 June 2024
Code section:	Section 8.18 of the 2016 Code ¹		
Investigation:	A Significant Breach reported by a Code subscriber		

The alleged Code breach:

On 26 June 2023, a Life Insurance Company that is a subscriber (the Subscriber) to the Life Insurance Code of Practice (the Code) reported a breach of section 8.18 of the 2016 Code.

The breach occurred because the Subscriber failed to include the financial advice wording in its payment letter templates under section 8.18 in cases where a lump sum payment was made. The incident was identified when the Subscriber reviewed its open claim files.

The Subscriber confirmed that the breach occurred from 1 July 2017 to 30 June 2023. The breach impacted approximately 7,065 customers across all business channels and the following claim types:

- Death & Total and Permanent Disability (TPD)
- Funeral/Estate
- Income Protection.

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

The Life CCC assessed the matter and confirmed the reported breach of section 8.18 of the 2016 Code, as assessed by the Subscriber.

The Life CCC findings and conclusion:

Section 8.18 of the 2016 Code requires subscribers to suggest that customers seek financial advice to help manage their claim payment (financial advice wording) when the subscriber is making a lump sum payment. Subscribers are required to include:

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

Following the Subscriber’s acquisition by another life insurance business, the Subscriber managed the generation and distribution of letters for the business under a Transitional Service Agreement. Under that agreement, the Subscriber continued to generate and distribute letters for the business through pre-existing systems while transitioning those systems to the new owners systems. This was completed in late 2023.

In March 2023, the Subscriber adopted a new quality assurance (QA) review methodology for ongoing reviews of claim files. The new QA methodology included checking compliance with Code obligations. During the course of reviewing claim files, the Subscriber identified the potential breach of section 8.18 of the Code.

As part of its investigation of the potential breach of section 8.18 of the Code, the Subscriber reviewed all payment letter templates and noted that the financial advice wording was omitted from three template letters (Death and TPD, Funeral/Estate and Income Protection) across all distribution channels.

The number of customers by claim type that were impacted by the breach of section 8.18 is summarised in the Table 1 below:

Table 1 - The number of impacted customers by claim type

Type of claims	Impacted Customers
Death & TPD	2,964
Funeral/Estate	2,949
Income Protection	1,152
Total:	7,065

The Subscriber also noted that, since the inception of the 2016 Code, it had adopted a different interpretation of the requirement under section 8.18 of the Code, which resulted in the omission of the financial advice wording in its correspondence to customers where a lump sum payment was made.

As the breach impacted approximately 7,065 customers and across all business channels over six years, the Subscriber concluded that the breaches under section 8.18 of the 2016 Code amounted to a Significant Breach of the Code.

Consequently, the Life CCC confirmed the Subscriber’s Significant Breach of section 8.18 of the 2016 Code.

Remediation

The Subscriber noted that it is not aware that any customers had been financially impacted by the Significant Breach. This is because customers have received their benefits in accordance with policy.

On 3 August 2023, the Subscriber confirmed that it had implemented various remediation actions to address the root cause of the Significant Breach of section 8.18. The Subscriber noted that it has:

- updated its letter suite, which became available to the claims business on 1 July 2023
- updated and implemented process guides, which were ready for use from 1 July 2023
- implemented training to all staff, completed on 30 June 2023.

The Life CCC requested and reviewed the amended section 8.18 template letters. Based on our review, the amended template letters comply with requirements under clauses 5.61³ and 5.62⁴ in the 2023 Code, the equivalent of section 8.18 in the 2016 Code.

Furthermore, the Subscriber noted that there are multiple monitoring and compliance arrangements in place to support its compliance with the Code during its transition from the 2016 Code to the 2023 Code. These include:

- administering claims on its claims management system with automated controls mapped to the Code requirements;
- updating QA criteria, Code process guides and templates to align with the 2023 Code, following a due diligence sign off process including approval by the Risk Officer;
- automating the claim document indexation process to allow for faster processing times; and
- enhancing claims governance monitoring to support the embedment of updated processes.

Key learnings

The breach impacted approximately 7,065 customers over six years because the Subscriber misinterpreted the obligations of section 8.18 of the Code since the inception of the 2016 Code. This matter highlights the need for thorough ongoing compliance checks, especially in customer-facing communications, to prevent widespread non-compliance and protect customers.

Furthermore, the breach was only identified because of the changes to the QA process, post-acquisition by another business.

This underscores the need for thorough due diligence during acquisitions, including review of systems, processes and customer communication templates to ensure Code compliance, as

³ The 2023 Life Code of Practice – Chapter 5 Claims, Clause 5.61 For a claim that is not income related, if we accept it and the amount is at least \$25,000, we will suggest you consider obtaining independent financial advice to help manage your payment, unless the benefit is payable to a superannuation trustee.

⁴ The 2023 Life Code of Practice – Chapter 5 Claims, Clause 5.62 If we accept an income-related claim and offer you a lump sum settlement instead of future income payments, we will suggest that you obtain independent financial and legal advice before you make a decision. But we will not do this for lump sum payments that do not require you to make a decision, such as when we make advanced or back payments.

well as continuous training and awareness of regulatory requirements, and robust QA methodologies to monitor and provide assurance of Code compliance. These measures are vital to enable compliance with the Code and meet community expectations.

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 or clause 7.5(if Code 2.0 applies) 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.