

ALLIANZ AUSTRALIA SUBMISSION

Royal Commission into
Misconduct in the Banking,
Superannuation and Financial
Services Industry

29 January 2018



SUBMISSION OF ALLIANZ AUSTRALIA TO THE ROYAL COMMISSION

This document responds to the invitation to provide an early written submission to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

It addresses the questions asked in the Royal Commission's letter of 15 December 2017 and is provided on behalf of Allianz Australia Limited (Allianz) and associated entities that are controlled by it or the broader Allianz Group.

The response is structured as follows:

Section 1 provides details of the structure, businesses and governance of Allianz in Australia, in order to set our answers in context.

Section 2 outlines how Allianz has approached the Royal Commission's request.

Section 3 provides details of those instances where Allianz has not met its legal obligations, focusing on matters of significance.

Section 4 responds to the Royal Commission's questions in relation to community standards and expectations.

Section 5 outlines other topical industry issues, namely the affordability of insurance for properties exposed to extreme perils, the provision of insurance cover for mental health conditions, ASIC's review of life insurance claims handling, and underinsurance.



SECTION 1 – INTRODUCTION

Insurance plays a vital role within the economy by providing a reliable mechanism for pooling and transferring risk. At a community level it offers various forms of protection in respect of events that may otherwise have a very significant adverse impact on families and businesses.

Allianz is one of Australia's largest general insurers. As such, it is a large, complex and heavily regulated financial services business and, like other businesses, there have been instances where it does not meet the strict legal obligations that it is rightly required to observe, despite its best endeavours. In these circumstances, it endeavours to minimise and remedy the impact on customers, and take steps to prevent reoccurrence. Section 3 provides details of those instances, focusing on matters of significance.

The Global Allianz Group

The Allianz Group is one of the largest property and casualty insurers in the world. Globally, it operates in more than 70 countries, employs more than 140,000 people and provides approximately 86 million customers with a broad range of insurance and risk management products. Allianz SE, the parent company, is headquartered in Munich, Germany.

The group is recognised for its financial strength, backed by its Standard's & Poor's AA rating that it has held since 2007, as well as strong ratings from Moody's (Aa3) and A.M.Best (A+).

In addition to this strong financial backing, the Allianz Group provides overarching strategic, governance and risk management guidance that provides additional safeguards for local operations such as Allianz in Australia.

Allianz in Australia

The following Allianz companies operate in Australia.

Allianz Australia Limited (AAL) is the Australian holding company for the Allianz Group's Australian insurance companies, comprising a large general insurer, a CTP insurer, and a small life insurance business. These include:

- **Allianz Australia Insurance Limited (AAIL):** One of Australia's largest general insurers, offering a wide range of insurance and risk management products and services;
- **CIC Allianz Insurance Limited (CIC Allianz):** A general insurer offering only CTP insurance in New South Wales; and



- **Allianz Australia Life Insurance Limited (AALIL):** A small life insurer focusing on life, total permanent disability, and critical illness insurance (underwriting less than 0.5% of Australia's life risk insurance market¹).

AAIL underwrites insurance issued or arranged on its behalf by the following AAL-owned entities:

- **Club Marine Limited:** Provider of boat and pleasure craft insurance;
- **Global Transport & Auto Insurance Solutions Pty Limited (GT):** Insurance specialist for the transport and heavy motor industry;
- **Ken Tame & Associates Pty Limited (KTA):** Niche operator in the recreational vehicle insurance market;
- **Primacy Underwriting Management Pty Limited (Primacy):** Specialises solely in the agriculture industry, offering crop and forestry insurance; and
- **Allianz Marine & Transit Underwriting Agency Pty Limited (AMT):** Provides solutions for clients in the marine transport and logistic industries.

AAL also owns **Hunter Premium Funding**, which offers insurance premium funding to businesses.

AAL also underwrites insurance products developed by and issued through a number of other entities in the Allianz Group which operate in Australia, but which are owned and managed independently of AAL:

- **AWP Australia Pty Limited (AWP)²:** A specialist in travel insurance and niche retail insurance, and a leading provider of medical, roadside and home assistance services. In Australia, AWP issues and distributes insurance products as an agent of AAL, and provides certain assistance services in relation to some types of claims under AAL's home and motor insurance policies.
- **Euler Hermes Australia Pty Limited:** Provides trade-related credit insurance solutions.
- **Allianz Global Corporate & Speciality (AGC&S):** The Allianz centre of expertise for global business insurance and large corporate and speciality risks.

In addition, there are three other Allianz financial services businesses operating in Australia that are owned and managed independently of AAL:

- **PIMCO Australia Management Limited (PAM):** The responsible entity for PIMCO's Australian-domiciled funds (**PIMCO Australia Funds**). PAM is responsible for the day-to-day operation of the PIMCO Australia Funds and for ensuring each PIMCO Australia Fund

¹ APRA Life Stat Institution Level, non-investment-linked net policy revenue, Jun 2017

² Trading as Allianz Worldwide Partners; formerly known as Allianz Global Assistance



complies with that fund's constitution and relevant laws. This responsibility includes establishing, implementing and monitoring the Fund's investment objective and strategy. PAM is the issuer of units in each PIMCO Australia Fund;

- **PIMCO Australia Pty Limited (PAL):** The Investment Manager of each PIMCO Australia Fund. As the Investment Manager, PAL makes investment decisions in relation to each of the PIMCO Australia Fund; and
- **AllianzRe:** The reinsurance arm of the Allianz Group.

Allianz Australia Limited

Introduction

AAL began operating in 1914 as The Manufacturers' Mutual Insurance Association Limited. In July 2000, the company was renamed Allianz Australia. Most recently, in 2014, Allianz acquired the business of the Northern Territory Government's Territory Insurance Office (TIO).

Today, AAL is one of the nation's largest insurers, with more than 4,300 employees, a combined premium income of more than \$4.5b and assets of approximately \$7.5b. The company provides insurance to more than 3.5m customers and workers' compensation insurance to approximately 25% of Australia's workforce.

Products

The following table summarises AAL's key insurance products:

Personal insurance (62% revenue)	Small business insurance (32% revenue)	Corporate insurance (6% revenue)
<ul style="list-style-type: none"> • Comprehensive car • Third party property • Boat, Caravan and trailer • Buildings & Contents • Compulsory Third Party • Landlords • Renters • Travel • Life • Critical illness • Total permanent disability 	<ul style="list-style-type: none"> • Business building and contents • Business protection • Business vehicles • Injury and sickness • Public liability • Tools and equipment • Workers compensation 	<ul style="list-style-type: none"> • Property • Liability • Energy • Entertainment • Construction • Workers compensation



In 2017, AAL issued more than 5.6 million insurance policies to its 3.5 million customers and paid out more than 300,000 claims. Allianz continues to invest and innovate in its claims processing and handling capabilities, resulting in faster claims settlements and continuously improved customer satisfaction scores.

Distribution model

Allianz Australia distributes its products through multiple channels including directly to customers and through intermediaries such as insurance brokers and agents. These distribution channels allow customers convenient access to insurance.

Intermediaries broadly fall into two groups:

- brokers, which are appointed by and act on behalf of the customer; and
- agents, which are appointed by the insurer and act on behalf of the insurer (or another agent of the insurer) in relation to the insurance.

Allianz has relationships with approximately 650 insurance brokers of various sizes. They hold their own AFS licences, helping customers to develop and negotiate tailored insurance programs to ensure the appropriate level of protection.

Allianz also partners with other businesses who arrange and /or provide general advice or information on relevant Allianz insurance products for customers as agent for Allianz. These include approximately:

- 70 financial institutions, mortgage brokers and credit unions;
- 700 boat dealers; and
- 1,000 motor vehicle dealers.

Specialised insurance products are also issued through underwriting agencies, which design and distribute insurance products to niche markets in which Allianz might not otherwise operate.

Agents may:

- provide services under their own AFS Licence; or
- act as authorised representatives of AAIL or AAILL; or
- provide only factual information, and refer customers to Allianz to arrange insurance.

More recently, Allianz Australia has also increased its focus on distributing its Home, Motor and Commercial insurance products directly to customers.



Customer advocate

In 2017, Allianz strengthened the voice of the customer through the addition of a Customer Advocate function. The purpose of this function is to improve the application of concepts of fairness and value which underlie Allianz's Customer Experience Principle of Integrity across the organisation. This is in addition to an existing customer-centric approach that includes researching customers' needs as part of an ongoing improvement strategy. Every six months, Allianz surveys 3,500+ domestic home and motor vehicle insurance customers to understand how well Allianz is performing relative to its key competitors in providing excellent customer experience across critical touch points. This performance is tracked against Allianz's Customer Experience Principles.

New Managing Director

On 1 January 2018, Richard Feledy was appointed as Managing Director of AAL. The appointment was announced in May 2017. Mr Feledy replaces Niran Peiris who has been promoted to the Allianz SE Board of Management from 1 January 2018. Mr Feledy has been a key member of the Senior Management Team for more than seven years, as Chief Technical Officer and then as Deputy Managing Director.

Governance

The Allianz Group has a robust risk management and governance framework in place to guide, monitor and measure the behaviour and operations of its operating entities. The Allianz entities operating in Australia have adopted these and expanded on them for local employees, agents, entities and distributors. These standards meet the requirements of both the Allianz Group and local regulatory bodies, and are designed to enable Allianz to remain viable to meet future customer claims.

The resources involved in risk management and compliance at Allianz are comprised of approximately 100 staff. The compliance function provides oversight of 14 key policy areas (including Regulatory Compliance, Data Privacy, Anti-bribery and Corruption, Anti-Money Laundering & Terrorism Financing, Complaints Handling and Sales Compliance), which either feed into the Allianz Group Compliance Policy or address local licensing obligations. Key elements of the risk management framework include governance, appetite, identification and assessment, mitigation and monitoring. Oversight of risk management, governance and corporate and risk culture sit with the AAL board, which includes a representative from Allianz Group.

Within this framework, Allianz's Document Compliance Process requires all sales and marketing collateral distributed by or on behalf of Allianz to be signed off by Allianz to help ensure any messages are consistent, accurate, compliant, and professional.



Relevant regulators

Allianz is subject to oversight by a significant number of regulators, including the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulatory Authority (APRA), the NSW State Insurance Regulatory Authority (SIRA) and other workers' compensation and CTP regulators, the Office of the Australian Information Commissioner (OAIC), State Privacy agencies, the Anti-Discrimination bodies and the Australian Transaction Reports and Analysis Centre (AUSTRAC), and Industry bodies including the Financial Ombudsman Service (FOS) and the Code Governance Committee. Allianz works co-operatively with all of these bodies with respect to industry and regulatory issues and change, including through the provision of submissions and involvement in discussions. Allianz also provides prompt and detailed reporting to these bodies of relevant breach matters, responding to questions raised, meeting to discuss concerns and carrying out remediation in accordance with any guidance provided.



SECTION 2: APPROACH TO THE ROYAL COMMISSIONS REQUEST

This section sets out some key aspects of Allianz's approach to this response.

Coverage of Allianz Entities

Allianz has interpreted the Commission's request to be directed to conduct by AAL and its associated entities, where that conduct occurred in Australia in the course of conducting the business of a financial services entity (as defined in the Terms of Reference) or an incidental business.

Where an entity is an associate but is not controlled by AAL, AAL has provided the Commission's letter to each such entity for response. In co-ordinating these responses, AAL has:

- provided guidance to each entity around process, definitions and materiality;
- held review sessions with each entity to discuss the information provided;
- performed a calibration across all entities to ensure consistency; and
- obtained sign-off from the entity in relation to the final form of this response insofar as it relates to that entity.

AAL has prepared this response based on the information of which it is, or has been made, aware.

Definitions

Allianz has adopted the definition of "misconduct" set out in the Commission's Terms of Reference. Obviously there will be a substantial degree of overlap between the term "misconduct", as defined by the Commission, and the concept of falling below "community standards and expectations", which has not been defined. That is particularly so in respect of insurance businesses, which are heavily regulated and subject, for example, to the Insurance Contracts Act and a substantial body of case law. To the extent that the concept of "community standards and expectations" does not lend itself to a simple or precise definition or application across a diverse range of businesses, products and practices, it can be expected that different commentators and organisations will have different expectations and different views as to the expectations of others.

Allianz's approach to this aspect of the Commission's request has had regard to legal norms and case law, industry codes and regulatory actions and pronouncements. In developing its response, Allianz has had particular regard to the following:

- that insurance products should be fully compliant and meet an insurable need;



- that product features, benefits, exclusions and limitations should be presented and explained in a clear and logical way that facilitates customer understanding and decision-making; and
- that it acts professionally and in accordance with its obligations in connection with product sales and in dealing with cancellations, renewals and claims.

To assist in achieving the above, Allianz monitors customer feedback and complaints, and regularly reviews and adjusts its products and policy settings. Additionally, Allianz has recently put in place its Customer Advocacy function that will aim to improve the value, coverage and suitability of its products and policy settings.

Materiality

The terms "misconduct" and "community standards and expectations" are broad terms that applied strictly, could capture a large number of technical breaches of limited consequence. For the purpose of this Submission, therefore, we considered that the test set out in section 912D of the Corporations Act was an appropriate guide to determining our approach to what matters should be reported. In essence, that provision requires breaches of financial services laws to be reported to ASIC if they are significant, having regard to:

- the actual or potential financial loss to customers, other businesses or the entity;
- the number or frequency of instances of similar conduct of concern;
- the extent to which the conduct indicates that the entity's compliance arrangements may be inadequate; and
- the impact on the entity's ability to engage in its business as a financial services entity.

Accordingly, Allianz's approach has been to include in its Submission those matters which were considered to be reportable to ASIC under this test or, for matters falling under other bodies' jurisdictions, were identified as meeting a similar level of materiality (e.g. systemic issues reported to the Financial Ombudsman Service).



SECTION 3: MISCONDUCT

In this section, Allianz has set out incidents of misconduct for the relevant period which meet the criteria set out in Section 2 above. In each case, responses have been provided to questions 1 and 3 (a – e) in the Royal Commission’s letter as follows:

- Q1 Nature, Extent, Effect
What is the nature, extent and effect of the misconduct?
- Q3(a) Investigation
Is the identified conduct, practice, behaviour or activity the subject of another inquiry or investigation, or a criminal or civil proceeding?
- Q3(b-d) Cause
Does the entity attribute any of the identified conduct, practice, behaviour or activity to: b) culture or governance of the entity; c) broader cultural or governance practices in the industry or sector of the industry in which the entity operates; or d) other practices (including risk management, recruitment or remuneration practices)?
- Q3(e) Remediation
What steps has the entity taken to (i) remedy the consequences for consumers or other businesses of the identified conduct, practice, behaviour or activity; and (ii) prevent recurrence of the conduct, practice, behaviour or activity?

Summary of Misconduct Incidents

The incidents in this section have been categorised into seven themes, these being Marketing Materials, Sales and Premium, Disclosure, Privacy, Claims, Cancellation and Other. In some cases, these have been further split into sub-categories to aid understanding. Within each category or sub-category, the incidents have been set out in reverse chronological order (most recent to least recent). The following table sets out the number of incidents outlined in each category:

Category	Number of incidents
Marketing Materials	8
Sales and Premium	10
Disclosure	12
Privacy	1
Claims	7
Cancellation	4
Other	7



Marketing Materials

Allianz and its associated entities have identified instances where their marketing or customer support material contained errors. Generally, these were the result of mistakes or an agent's failure to submit materials to Allianz for review through its Document Compliance Process.

Topic	AAIL: BCU Misleading statement re OMG Home Loan and New Car Personal Loan
Nature, extent, effect	In July 2017, Allianz discovered that one of its agents, Bananacoast Community Credit Union Limited (BCU), had stated on its OMG Home Loan webpage that "a minimum of 5 years Consumer Credit Insurance (CCI) is mandatory on this product." Allianz requested that BCU remove the statement from its website. Shortly thereafter, BCU received a letter and two notices from ASIC in relation to the statement, and another similar statement on BCU's website in relation to its New Car Personal Loan product. ASIC requested that the statements be removed. BCU maintains that CCI is not a condition of the loans; rather it is part of the eligibility criteria for receiving the advertised low interest rate.
Investigation	BCU received and responded to the ASIC notices and requests for information. ASIC has not raised concerns with Allianz directly in the matter.
Cause	Allianz has not been able to find any evidence of the statements having been submitted to Allianz for review under its Document Compliance Process. Reviews by Allianz account managers of BCU website information did not identify the statements (which may have been because they were on the BCU loan page and not on the BCU insurance page).
Remediation	BCU removed the statements from its website. It has also confirmed that its staff are required to follow scripting which requires them to advise customers that CCI is optional. Allianz has updated its internal processes to require that the fine print of loan advertising is checked for reference to CCI products. It is also conducting an audit on sales of CCI through this intermediary. Allianz has been liaising with BCU in relation to remediation strategy and is in the process of writing to ASIC regarding plans to contact impacted customers to ensure they were not misled by the statements on BCU's website. Customers will be given the option to receive a full refund of their premium with interest should they no longer want their CCI product.

Topic	AAIL: Petplan misleading failure to disclose excess
Nature, extent, effect	In March 2015, ASIC raised concerns with Allianz about statements on the website of Petplan, an agent of Allianz distributing pet insurance. The website stated that Petplan offered 100% rebates on vet bills. ASIC's view was that this could mislead customers by failing to adequately disclose the existence of excess payments.
Investigation	Raised by ASIC. Allianz provided details of the proposed remediation. It is not aware of any outstanding issues.
Cause	The incident was caused by Petplan's failure to submit website materials to Allianz for review through its Document Compliance Process.



Remediation	Allianz refunded the excesses that had been paid by the 740 affected customers who had made claims during the relevant period (totalling \$231,000). In addition, Allianz undertook a review of all Petplan marketing materials to ensure that the misleading statements were removed, provided additional training on the Document Compliance Process requirements to Petplan employees and arranged for a communication to be sent to Petplan's vet distributors about compliance obligations associated with being a referrer of Petplan products.
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Topic	AAIL: Failure to provide discount offered on website
Nature, extent, effect	For the period from 20 November 2013 to 11 November 2014, AAIL failed to apply a discount to 2,097 customers who purchased third party car insurance, in accordance with an offer on its website. The discount representation was mistakenly added to the Allianz website when changes were made to the online sales system in 2013 and not reflected in the price charged to affected customers.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The error was not identified by Allianz reviewers during the Document Compliance Process.
Remediation	AAIL refunded affected customers the amount of discount they should have received, being a total of \$64,286. Individuals involved in producing the erroneous document and reviewing it through the Document Compliance Process were counselled regarding the error.

Topic	AAIL: BankVic discount representation
Nature, extent, effect	From 2009 to 2014, Police Financial Services Limited (trading as BankVic), a Financial Institution that distributes insurance policies as Allianz's agent, represented on its website that eligible customers who took out a particular loan would receive a discount of up to 10% on insurance premiums for both new policies and renewals of certain home and landlord policies. BankVic consultants failed to identify and manually apply the advertised discount for a number of eligible customers who purchased new policies. BankVic also did not inform Allianz of the discount, so Allianz's IT system was not programmed to apply the discount at renewal. As a result of the incident, 257 customers were overcharged a total of \$59,245.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The incident was caused by BankVic's failure to submit proposed changes to its website material to Allianz for review under its Document Compliance Process and to have systems appropriately configured to ensure that the discount was applied to eligible customers.



Remediation	Allianz paid refunds to all affected customers. BankVic amended its website to remove the statement that customers were entitled to a discount upon renewal and re-trained its staff to ensure that the discount was correctly applied for new policies. Allianz also restated to BankVic that changes to its website about insurance needed to be approved by Allianz through its Document Compliance Process.
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Topic	AWP: Incorrect 1Cover website representations
Nature, extent, effect	On 4 March 2013, ASIC wrote to Allianz outlining concerns about a number of representations made on 1Cover's website. 1Cover was an Authorised Representative of AWP. ASIC's concerns included that representations regarding limits of cover were inconsistent with the relevant PDS and other limits disclosed on the website, including representations that 1Cover offered the 'cheapest' and 'best value' travel insurance (which was not correct) and representations that could imply that 1Cover was an insurer in its own right rather than merely an agent and authorised representative.
Investigation	Raised by ASIC. Allianz provided details of the proposed remediation. It is not aware of any outstanding issues.
Cause	The incident was caused by 1Cover's failure to submit website material to Allianz for review under its Document Compliance Process.
Remediation	Allianz investigated the incident and considered ASIC's concerns to be substantially warranted. Changes were made to 1Cover's website to remove or amend the relevant representations. .

Topic	AAIL: Failure to apply full 10% home insurance discount
Nature, extent, effect	From 22 September 2012 to 16 October 2012, Allianz advertised that eligible customers would receive a discount of up to 10% off their first year's home insurance premium. However, due to an error in Allianz's online sales systems, the maximum discount allowable to these customers was set at 8%. As a result, 1,457 customers were overcharged by approximately \$24,600 in total.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	In the course of making a change to the online sales system, the discount rate was erroneously set to 8%.
Remediation	Allianz corrected the sales system error and refunded all customers that had been overcharged.



Topic	Club Marine: Club Marine magazine subscription disclosure
Nature, extent, effect	In November 2009, Club Marine received a complaint from a customer concerning the manner in which Club Marine sells its magazine on its internet site (which occurs at the same time as the sale of the insurance product). In April 2010, ASIC notified Allianz that it was concerned that the magazine fee was not disclosed in the PDS (ASIC considered it to be part of the cost of the product) and that customers may interpret the magazine subscription to be compulsory in the first year of cover with Club Marine. ASIC was also concerned that the magazine fee was included in the online quote facility without providing consumers with an adequate opt-out option prior to a premium quote being generated.
Investigation	Raised by ASIC. Allianz provided details of the proposed remediation. It is not aware of any outstanding issues.
Cause	This issue arose due to the design of Club Marine's sales process so far as it related to its magazine.
Remediation	Club Marine made changes to its website to address ASIC's concerns that consumers may fail to understand that the magazine fee is optional and to clarify the calculation of the cost.

Topic	AAIL: Error in NAB Residential Investor renewal invitations
Nature, extent, effect	From approximately August 2007 to April 2008, customers purchasing a NAB Residential Investor policy received a Renewal Invitation which included a statement that their premium included a "55 years of age and over discount". No such discount had been put into relevant sales systems. Allianz considered that, while there was a possibility that some customers might have been misled, the probability was small. This was because customers were not asked to provide their age in connection with the product, so the reference was plainly an error. The statement in the Renewal Invitation did not specify the size of the discount; no reference was made to such a discount in any other documentation in connection with the product; and neither Allianz nor NAB received any queries from customers regarding the statement.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The incident arose from a failure to question the discount statement during the Document Compliance Process and make sure it was reflected into sales systems.
Remediation	Allianz counselled those involved in the Document Compliance Process review and enhanced its internal processes for making sales systems changes.



Sales and Premium

Allianz and its associated entities identified several occasions when premium was miscalculated, customers were overcharged or sales processes were inadequate. Generally these were the result of system errors or human error/oversight.

(a) Miscalculation of premium payable for an insurance policy

Topic	AWP: Credit card travel insurance premium
Nature, extent, effect	In February 2017, AWP identified that the Product Disclosure Statement for its credit card travel insurance product erroneously stated that travel insurance could be extended to cover pre-existing medical conditions upon approval by AWP and payment of a flat administration fee. Contrary to that provision, AWP had been charging customers an additional risk-based premium (higher than the administration fee) for this extension of cover. AWP identified 2,727 customers who were erroneously charge the risk-based premium.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	AWP's investigation showed that its systems were never built to enable a flat administration fee to be charged (i.e. they were only able to charge a risk-based premium).
Remediation	Affected policy holders were reimbursed the full additional risk-based premium they were charged (over \$385,000 in total). AWP ceased all administration fees on credit card insurance until it had implemented a compliant administration fee based platform.

Topic	Ken Tame: Establishing market value at renewal
Nature, extent, effect	In June 2016, the Financial Ombudsman Service Australia (FOS) raised concerns with Ken Tame & Associates that its recreational vehicle insurance cover included a sum insured, on Renewal Schedules, which had not been reduced to reflect the depreciated value of the insured recreational vehicle. The policy wording provided cover for the market value of insured vehicles, which could be a materially lower amount. FOS was concerned that customers who had paid a premium based on the sum insured could have overpaid, and also that they could have been misled to think they had more cover (based on the sum insured) than was actually provided (for the vehicle's market value).
Investigation	Raised by FOS as a possible systemic issue. Ken Tame provided details of the proposed remediation. It is not aware of any outstanding issues.
Cause	Shortcomings in Ken Tame's premium calculation process.
Remediation	KTA identified a total of 95 policyholders that were entitled to a refund of premium, a total sum of \$9,442.17. Each customer was issued a letter of apology along with their refund cheque in October 2016. Effective November 2016, KTA has implemented an automatic depreciation model for determining the sum insured for all new vehicles after their first two years of insurance.



Topic	AAIL: Miscalculation of Consumer Credit Insurance premium
Nature, extent, effect	In 2014, it was discovered that approximately 11,700 customers who had taken out a Consumer Credit Insurance (CCI) policy through various motor vehicle dealers (that act as Authorised Representatives of Allianz) had been overcharged. When taking out insurance cover, customers receive a quote from the dealer based on the expected loan amount and a number of other factors. In some cases, dealers failed to recalculate the insurance premium when the loan amount changed, resulting in customers paying a higher or lower premium than they should have.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Sales manual processes were not followed by Allianz's agents. The relevant sales systems did not have a sufficiently strong process for making sure the premium was recalculated upon change to the loan amount.
Remediation	Allianz refunded customers who paid a higher premium than they should have, for a total of over \$1.8m on approximately 11,700 policies. Improved processes have been implemented to: <ul style="list-style-type: none"> • re-train dealers as to the requirement to recalculate premium as appropriate; • include the amount financed on customer policy schedules; • add a prompt to dealer insurance systems requiring confirmation that premium has been recalculated if loan amount has changed; and • arrange for financiers to provide a periodic report to Allianz to compare actual loan amounts against the amount in the Allianz system.

Topic	AAIL: Failure to reduce monthly premium after customers reduced their cover
Nature, extent, effect	In September 2013, Allianz identified that it had overcharged certain customers who had paid for their insurance in monthly instalments by incorrectly debiting the customer's bank account. The issue impacted 2,591 customers who had contacted Allianz to reduce their level of cover, resulting in a lower premium being due. Allianz had erroneously continued to debit the higher premium.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Training manuals used by Allianz's contact centre and agents contained incorrect processes.
Remediation	Allianz refunded \$656,018 to affected customers. Allianz updated its contact centre training manuals, trained its staff about the correct procedure for processing customer requests to reduce their level of cover and implemented a weekly exceptions report.



Topic	AWP: Failure to provide “free” cover for accompanying spouse
Nature, extent, effect	During the period from January 2008 to October 2012, some customers who purchased travel insurance through the Allianz website or through the websites of various partners of AWP (i.e NIB, National Seniors, Budget Direct and Zuji) were overcharged. The Product Disclosure Statement for the product stated that the customer’s spouse would be provided free cover. As a result of an error in website purchasing systems, in some cases a spouse meant to be covered free was charged a premium or an age loading. 158 customers were affected by age loading (\$6,906.28), 73 were affected by charging for cover of spouses (\$25,568.00). The error was identified as a result of a review carried out by AWP following the matter referred to directly below “AWP: Dependants’ cover advertised as free”.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Internal procedures did not identify the difference between the relevant statements in the Product Disclosure Statement and the website purchasing system.
Remediation	AWP refunded overpaid premiums to customers, with unclaimed amounts donated to charity. To help prevent recurrence, a website desk audit process was developed, requiring monthly audits on a selection of customer facing websites.

Topic	AWP: Dependants’ cover advertised as free
Nature, extent, effect	In 2011, AWP found that, since 2009, it had been charging dependants of customers who purchased travel insurance through the travel booking website operated by its agent, Expedia. The relevant Product Disclosure Statement stated that dependants were covered for free. 508 policies were affected, due a total refund of \$49,985.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Internal procedures did not identify the discrepancies between the relevant statements in the Product Disclosure Statement and the website purchasing system.
Remediation	Affected customers were refunded a total of \$49,985. AWP conducted a review of its online systems to prevent recurrence of the issue.

Topic	AAIL: Toyota customers following overcharged premiums
Nature, extent, effect	Between 1 January 2006 and 26 September 2011, more than 370 consumers were overcharged premiums on their consumer credit insurance (CCI) when purchasing a car from several Toyota motor vehicle dealerships. The overcharging arose because consumers were sold commercial credit insurance cover, instead of being sold consumer policies. Commercial credit insurance is more expensive than consumer credit insurance and attracts higher commission. In each case the premium was financed, along with the purchase price of a car, by Toyota Finance. The policies were issued by Allianz, Aioi Nissay Dowa Insurance Co Ltd (Aioi) and MTA Insurance Limited (MTA).



Investigation	Raised by ASIC. Allianz provided details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Personnel at the Toyota dealerships benefitted from selling consumers a commercial rather than a consumer CCI policy, because commission on the product was higher at 50% of the policy premium. Under the National Credit Code, which regulates consumer credit and associated insurance, car dealers are not allowed to receive, and insurers are not allowed to pay, more than 20% in commission on CCI policies. Note; The commercial CCI product in place at the time has since been withdrawn from market by Allianz.
Remediation	A total of \$635,860 in premium refunds were made jointly by Toyota Finance Australia Limited, Allianz, Aioi and MTA to affected customers.

Topic	AWP: Webjet overcharging
Nature, extent, effect	In 2010, AWP reported to Allianz that one of its authorised representatives, Webjet, had charged 2,319 customers more than once for travel insurance purchased through its website. Webjet overcharged these customers an average of \$132 each.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The breach was due to a Webjet system error.
Remediation	AWP refunded overcharged premium to all affected customers.

Topic	AAIL: Incorrect internet rates for direct motor
Nature, extent, effect	From December 2008 to February 2009, Allianz offered a 10% discount to customers who resided in NSW and the ACT and purchased a new comprehensive motor vehicle insurance policy online. The premium on which the 10% online discount was calculated was not correct in all cases and some customers did not receive the full discount. 446 customers were affected, to a total of \$5,879.81.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	This was due to a human error occurring when premium rating tables were uploaded to the online purchasing system.
Remediation	Allianz subsequently updated the correct premium rates to the affected tables, and refunded customers who experienced a discount shortfall.



(b) Sales Processes

Topic	AWP: Virgin Travel Insurance
Nature, extent, effect	On 25 February 2008, ASIC raised concerns with Virgin Blue, an Authorised Representative of AWP (and therefore a sub-agent of Allianz), regarding its “opt out” approach to selling travel insurance on its internet site. Virgin Blue’s practice was to pre-select travel insurance at an appropriate point in the sales process on the site, from which the customer could “opt out”. ASIC’s concerns included that customers might inadvertently purchase the product, that it was offering unsolicited advice and that there were deficiencies in the product wording. Virgin did not agree with these concerns but agreed to make changes to the purchase path on its website to reduce the risk of an inadvertent purchase and highlight cooling off rights. AWP ceased its agency arrangement with Virgin in 2015.
Investigation	ASIC raised concerns with Virgin Airlines. Virgin provided details of the proposed remediation. AWP is not aware of any outstanding issues.
Cause	ASIC’s concerns arose from the purchase process used by Virgin to sell travel insurance on its website.
Remediation	As stated above, Virgin agreed to make changes to the purchase process on its website.

Disclosure

(a) Failure to provide customers with disclosure documents

Allianz and its associated entities have identified instances where Allianz or its agents failed to provide customers with disclosure documents. Generally speaking, these were the result of IT system failures, or else oversight on the part of Allianz’s agents.

Topic	AAIL: Key Facts Sheet
Nature, extent, effect	<p>Since November 2014, it has been a requirement that a Key Facts Sheet (KFS) be given as soon as reasonably practicable, and not later than 14 days, after a customer first requests information about a Home or Landlords insurance product or first enters into or renews one of those policies. Due to a coding error in Allianz’s IT systems, Allianz failed to provide a KFS within those timeframes between November 2014 and January 2015 to:</p> <ul style="list-style-type: none"> • 1,215 customers who bought a new policy over the telephone and requested their insurance documentation be posted, rather than emailed, to them; • 21,929 customers who were sent an invitation to renew; and • 19 customers who requested a printed quote. <p>The issue only affected customers of Allianz’s Direct business.</p>
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Allianz attributes the cause of the issue to a coding error in its IT system.



Remediation	In January 2015, the erroneous code was fixed and the KFS was included in new business packs and renewal invitations. Affected customers were provided with a KFS at their next renewal invitation.
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Topic	AAIL: FSG
Nature, extent, effect	<p>In November 2010, Allianz identified that approximately 79,000 of its customers had not been provided with a compliant verbal Financial Services Guide (FSG) upon purchasing insurance policies through Allianz's agents 1Cover, Ray White, National Seniors Agency (NSA), Insurance and Membership Services trading as COTA (COTA) and Over Fifty Group.</p> <p>In relation to telephone sales, a time critical "verbal FSG" is required to be provided to customers prior to the provision of the financial services and a hard or electronic copy of the full FSG must then be provided to the customer within 5 business days.</p> <p>Of the 79,000 customers affected, approximately 42,000 COTA and NSA customers were subsequently provided with the physical FSG as part of their New Business pack. The others did not receive a physical FSG.</p>
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from a failure in the scripting and mail-house systems of the relevant agents.
Remediation	<p>In response to this issue, the following remedial actions were undertaken:</p> <ul style="list-style-type: none"> all affected agents were provided with a verbal script to meet the FSG content and time critical requirements; FSGs and appropriate disclaimers were provided to all agents to upload to their websites; a hard copy FSG was added to the New Business and Renewal (for 12 months) mail packs of customers of the affected agents; and Sales Operations reviewed the process of appointing and on-boarding authorised representatives to include training on FSG requirements to provide a further check that FSG's are provided to customers where required.

Topic	AAIL: Landlord SPDS
Nature, extent, effect	Between October 2012 and January 2013, approximately 1,370 customers who purchased a Landlord insurance policy from the Allianz call centre and requested to receive their documentation by email did not receive either one or two required SPDS documents. One SPDS set out the terms and conditions of optional flood cover which was available to customers and the other notified customers of the removal of the Victorian Fire Services levy.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.



Cause	The issue arose from a change in the system through which Allianz sold its Landlord product in September 2012, which resulted in the SPDS documents in question not being attached to the relevant email. This failure was not detected during testing conducted prior to the new system going live.
Remediation	All affected customers were sent the relevant SPDSs.

Topic	AAIL: Late delivery of policy documents due to Computershare outage
Nature, extent, effect	In 2011, Allianz failed to send 1,100 Product Disclosure Statements (PDSs) and 5,433 policy schedules to new customers within five business days of the issue of the policy by telephone. In addition, 2,976 endorsement schedules were also not sent within five business days. A further outage occurred in February 2012 which again resulted in PDSs and Schedules not being sent within the required time frames. Allianz updated ASIC to advise them of this issue.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Allianz attributes the cause of the issue to stock shortages experienced by its mailhouse, Computershare. An investigation into this issue revealed a discrepancy in the stock levels held at Computershare and those reported to Allianz. Computershare advised that this occurred as a result of it moving warehouse and an IT limitation relating to its stock reporting system.
Remediation	Affected customers received written notification of the issue, and were provided with the correct documentation. To prevent similar issues from occurring in the future, minimum stock level thresholds for all stock held by Computershare were increased, and the quality and timeliness of reporting by Computershare to Allianz concerning stock levels and usage was improved. Allianz also conducts regular site visits to verify reported stock levels.

Topic	AWP: Virgin
Nature, extent, effect	Between June 2010 and August 2010, 4,532 of AWP's customers who purchased travel insurance online through AWP's Authorised Representative, Virgin Blue, did not receive their policy schedule or Product Disclosure Statement (PDS). The error was identified by AWP in July 2010 following an audit report by Virgin Blue of a new online sales platform. Note that customer impact was reduced by the fact that the PDS and most of the policy schedule information were available on the website before the customer purchased the product.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from an IT problem, whereby customers who used "Google Chrome" to access Virgin Blue's website did not receive their policy schedule or PDS.
Remediation	The IT problem was fixed and affected customers were sent a corrective email advising of the error and attaching the PDS and their policy schedule.



Topic	AWP: PDS and certificate of insurance
Nature, extent, effect	In May 2010, Allianz received an enquiry from ASIC relating to travel insurance distributed by Medibank Private Limited (Medibank), an authorised representative of AWP, following receipt of a customer complaint. The customer complained that, amongst other things Medibank had failed to send them a PDS. In its investigation of the matter, AWP identified that 2,894 of its insureds did not receive a PDS and policy schedule between September 2009 and December 2009, and a further 702 did not receive those documents between December 2009 and May 2010.
Investigation	Raised by ASIC. AWP provided details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Allianz identified the cause of the issue to be a system error at its external mailhouse which resulted in a cap inadvertently being placed on the number of dispatch orders being fulfilled each day. When this cap was breached, any additional orders were not dispatched.
Remediation	A letter was sent to all affected customers explaining the issue and enclosing the PDS and their policy schedule. A new process was introduced for Medibank to confirm that its mailhouse was sending out the correct PDSs and policy schedules each day.

Topic	AAIL: Domestic novated lease policies
Nature, extent, effect	In December 2007, Allianz entered into a contract to provide comprehensive commercial motor and fleet vehicle insurance (the Policy) to Fleet Partners, a motor fleet leasing and management service company. This Policy could then be extended to Fleet Partners' customers (and, in the case of a novated lease, to their employer) when they leased a motor vehicle. In early February 2008, AAIL identified that approximately 3,200 customers who had elected to insure through Fleet Partners had not been provided with a PDS, as required by the Corporations Act.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Allianz attributes the cause of this issue to an oversight by Fleet Partners in failing to provide its customers with PDSs at the time that they elected to insure their leased vehicle.
Remediation	A letter of explanation and a PDS was sent to those persons affected by this issue; and a process was established with Fleet Partners to make sure the issue did not reoccur.

(b) Disclosure document inaccuracies

Allianz and its associated entities have identified instances where Allianz or its agents have provided customers with disclosure documents which are out of date or are otherwise inaccurate. Generally speaking, these inaccuracies were the result of a failure on behalf of



Allianz or its agent to ensure that the materials provided to customers were accurate and up to date.

Topic	AWP: FSG Disclosure of remuneration arrangements
Nature, extent, effect	During the period between April 2016 and January 2017, FSGs for four of AWP's agents failed to properly disclose the agents' remuneration arrangements.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	FSGs were issued without being approved in accordance with AWP's internal processes.
Remediation	AWP corrected the erroneous FSGs and reviewed its internal process for approving the class of documents.

Topic	AAIL: Financial Service Guide errors
Nature, extent, effect	In 2015, Allianz identified that five of its Financial Institution authorised representative's FSGs (and oral FSG statements) did not properly disclose remuneration, including profit share and marketing remuneration, received from Allianz. In investigation into the matter, Allianz found that 370 of its Motor Dealer authorised representatives had also failed to disclose their Dealer brand, incentive payments to associates and staff and volume bonus remuneration.
Investigation	Reported to ASIC in November 2015 along with details of the proposed remediation. In September 2016, ASIC requested further information regarding the breach. In response to this request, Allianz undertook further reviews, and discovered that a material portion of its FSGs continued to contain remuneration disclosure errors. Allianz provided a further update to ASIC in February 2017. Allianz is not aware of any outstanding issues.
Cause	The issue arose from shortcomings in Allianz's process for updating template FSG wordings with remuneration details for the affected agents.
Remediation	When it became aware of the issue, Allianz: <ul style="list-style-type: none"> • replaced the inaccurate FSGs and provided updated FSGs to affected customers at policy renewal; and • reviewed and automated its processes for producing FSGs and agency agreements.

Topic	AWP: "New for old" for lost luggage and personal effects
Nature, extent, effect	Following a customer complaint, the Financial Ombudsman Service (FOS) raised concerns with AWP regarding the application of 'New for Old' cover in its travel insurance policy wording for lost luggage and personal effects. From May 2010 until July 2015, 34 travel insurance claims were affected. Where the replacement value of a lost item was higher than the original purchase value, AWP had paid the insured the original purchase value. FOS determined, in relation to a specific customer complaint that the replacement value was payable.



Investigation	The issue was raised with AWP by FOS, which advised AWP that it considered the matter a systemic issue. AWP advised FOS of details of its proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from uncertainty in the travel policy wording.
Remediation	Affected customers were contacted and reimbursed according to the FOS Determination. Further, the policy wording was amended to clarify the intended loss to be covered by the travel policy. Instructions were provided to claims staff to follow that amended policy wording.

Topic	AAIL: Steadfast Schedules inconsistent with PDS
Nature, extent, effect	From approximately July 2007 to mid-2011, customers who purchased a Steadfast Business Pack Policy through the Steadfast group of insurance brokers received a policy schedule that was inconsistent with the Steadfast Product Disclosure Statement (PDS). These schedules were issued by Allianz, and were consistent with a 'generic' Allianz Business Pack Policy PDS instead. A total of 3,543 policies were affected, with new business, renewal, mid-term endorsement and manual re-rate schedules being impacted.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from a system error, which was subsequently addressed.
Remediation	To remediate the issue, amendments were made to Allianz systems to align the policy schedules with the Steadfast PDS. An updated policy schedule and explanatory letter were also sent to insureds that were provided with the incorrect schedule (new business, renewal and endorsement).

Topic	AAIL: Website deficiencies
Nature, extent, effect	<p>During a Document Compliance Process review conducted in January 2011, it was discovered that the motor vehicle Product Disclosure Statements (PDSs) on the websites of Allianz agents, Over Fifty's Group (OFG) and Teachers Credit Union (TCU), were out of date. Further investigation revealed that these and other distributors' websites were affected by a number of issues, including:</p> <ul style="list-style-type: none"> • use of incorrect PDSs and/or the absence of relevant SPDSs; • inconsistencies between the Allianz quote and sales system and the PDS used on a distributor website; and • discrepancies between the types of products advertised on a distributor's website and the products which a customer could obtain a quote for and purchase. <p>Similar issues were identified in respect of Allianz's home and contents insurance product disclosure, whereby Allianz identified that Over Fifty Insurance was advertising the Vital, Classic and Prestige Home insurance products on its website and providing all PDSs, however, irrespective of which product the customer wished to purchase they were provided with a Classic insurance policy wording.</p>



	It was also discovered that the PDS's contained within the Allianz website quote software were inconsistent with the PDS's on the Allianz website.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from a failure of Allianz and its agents to update their websites to include the correct the PDS and SPDS.
Remediation	<p>Remedial action undertaken by Allianz in respect of the affected motor vehicle policies included providing customers with the most up to date PDS and, in order to mitigate customer detriment, where PDSs given to the customer were inconsistent, to offer the best of both covers to the customer.</p> <p>Remedial action taken by Allianz in respect of affected home and contents policies included ensuring that Over Fifty Insurance updated its website to advise that only Classic Insurance is available online, and an offer of Prestige cover to affected customers until renewal, where it was unclear which product they wanted.</p> <p>Procedures were also put in place to update the PDSs on distributors' websites and to carry out regular reviews that those remained current.</p>

Privacy

Allianz holds a significant amount of customer personal information on its own systems and those of its distributors and other third parties with which it deals. It has had a number of individual privacy breaches during the relevant period, which have been addressed having regard to the individual circumstances of the matter. During the relevant period, Allianz has only experienced one matter which impacted a large number of customer records and was considered sufficiently significant to report to the Office of the Information Commissioner, as follows:

Topic	AWP: Aussietravelcover data breach
Nature, extent, effect	<p>On 18 December 2014, Allianz was advised that the systems of Aussietravelcover, an agent of AWP, had been hacked. Initially, it was reported that potentially up to 750,000 of its customers' details may have been illegally downloaded. However, on investigation, it emerged that only 133 insurance agents and 4 customers had their full record extracted in an uncorrupted format (the majority of the information was corrupted during its extraction).</p> <p>The information was accessed from Aussietravelcover's systems, belonged to Aussietravelcover and was not held as agent for AWP. However, given that the potentially affected customers were also AWP/Allianz customers, Allianz took an active role in managing the breach. This included reporting the matter to the Australian Federal Police and the Privacy Commission (as it was then called). The Federal Police investigation found that the illegal access had been carried out by a youth and that there had been no publication of the data.</p>
Investigation	The matter was reported to the Privacy Commissioner, which raised no concerns regarding its remediation.



Cause	The matter arose from inadequate controls being in place in Aussietravelcover's systems to protect personal information.
Remediation	Aussietravelcover took steps to notify the affected individuals of the incident. Allianz has taken steps to assess and mitigate similar risks elsewhere in its distribution network, though this is a continuing process.

Claims

(a) Failure to meet claims requirements

Allianz's general insurance subsidiary, AAIL, is a signatory to the General Insurance Code of Practice (Code). The Code contains requirements as to the timeframes in which insurers will respond to claims. Allianz's NSW CTP business is bound by the Claims Handling Guidelines under the Motor Accidents Compensation Act 1999, which also contains timing requirements in respect of claims. The following cases have been identified where the timing requirements under these instruments have not been met, as described below.

Topic	AAIL: Petplan
Nature, extent, effect	Petplan was an agent of Allianz and an underwriter of pet insurance. Between June and August 2014, Petplan failed to process approximately 2,600 claims in accordance with the timing requirements of the Code. The average delay was 31 business days in June 2014, 26 business days in July 2014 and two business days in August 2014.
Investigation	Reported to FOS along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from Petplan's rollout of a new IT system in mid-2014.
Remediation	Petplan undertook remedial activities including fixing its IT system, assigning more experienced staff to work on the backlog of claims, assigning additional staff to work on new claims, expediting overdue claims and introducing a daily claims tracking report to monitor claims. In November 2014, Allianz's claims department undertook a review of Petplan's enhanced claims processes to confirm their compliance with Code requirements.

Topic	AAIL: MAA medical provider payment
Nature, extent, effect	In September 2013, the Motor Accidents Authority of NSW (MAA) issued a breach notice to Allianz's NSW CTP business for failing to pay a medical service provider within 20 days of receipt of tax invoices. The matter involved the late payment of 36 invoices and was isolated to a single claim and a single staff member.
Investigation	Breach notice issued by MAA. Allianz provided details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from shortcomings in Allianz's internal payment procedures.



Remediation	Allianz implemented a remediation plan which incorporated several initiatives including the introduction of real time reporting that allowed the claims team to measure the completion of accounts within the required timeframes, a review of internal standards for payment completion, weekly reviews of payments by state managers and communicating with staff to reinforce the seriousness of the issue.
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Topic	AWP: Claims handing timeframes in 2013
Nature, extent, effect	Between 21 March 2013 and 29 May 2013, AWP failed to settle 116 claims within the Code timeframe of 10 business days of receipt of the claim, after the customer was advised of claim acceptance. The maximum period for making payment of an accepted claim was 29 days.
Investigation	Reported to FOS along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue arose from the implementation of a new automated payment process which failed to make the payments as expected.
Remediation	All affected customers were identified and claims money owing was paid to them. A temporary manual process was put in place to prevent recurrence whilst a permanent IT solution was developed. Additional staff training was provided to enable manual identification of payment errors such as this, and to ensure swift manual processing of payments in the event of any future automatic payment error.

Topic	Global Transport: Stamp duty not included in market value
Nature, extent, effect	Between November 2012 and September 2013, Global Transport did not include stamp duty in the calculation of market value for 13 vehicles settled as a total loss. Following a customer complaint, the Financial Ombudsman Service (FOS) determined that stamp duty was payable under the relevant motor policy wording in the event of a total loss.
Investigation	The issue was raised by FOS, which assessed it as systemic in May 2014. Global Transport provided details of the proposed remediation to FOS, which indicated that it believed the systemic issue had been resolved to their satisfaction. Allianz is not aware of any outstanding issues.
Cause	The issue arose from FOS' conclusion that there was uncertainty in the relevant policy wording regarding the exclusion of stamp duty.
Remediation	Global Transport made additional payments totalling \$10,907 to the insureds the subject of the 13 affected claims. The relevant policy wording was replaced to clarify that stamp duty does not form part of the definition of a vehicle's "market value".



Topic	AWP: Claims handling timeframes in 2011
Nature, extent, effect	From July to September 2011, AWP did not respond to approximately 6,000 travel insurance claims within the Code timeframe of 10 business days. The delays occurred in processing claims and in advising of claims outcomes. The maximum time for responding to a claim was 24 days. Claims for financial hardship were not affected nor was the provision of medical assistance.
Investigation	Reported to FOS along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The incident was caused by a significant and unexpected increase in travel insurance claims numbers during July, August and September 2011. The increase was a result of a combination of sales growth and late claims from unexpected natural disasters and high quantum incidents including multiple Christchurch Earthquakes, Japanese Tsunami, Libyan Civil Unrest, Egyptian Civil Unrest, Iceland Ash Cloud, Chilean Ash Cloud, Hurricane Irene, Queensland Floods, and Tropical Cyclone Yasi.
Remediation	A remedial action plan was implemented which involved the engagement of an external claims consulting group (Cunningham Lindsey) to expedite the processing of claims, the hiring of additional claims staff and restructuring the Claims Department to deal with claims as efficiently as possible.

Topic	AWP: Claims handling timeframes in 2009
Nature, extent, effect	Between January and March 2009, AWP experienced a significant increase in new claims volumes (35% increase from Dec-Jan and 58% increase from Jan-Feb), which resulted in it failing to meet Code timeframes for claim resolution, responses and payments. Multiple customer complaints were received.
Investigation	Reported to the Financial Ombudsman Service, along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	AWP internal resources and processes were insufficient to meet an increase in claims volumes.
Remediation	A number of actions were taken. These included: <ul style="list-style-type: none"> • Secondment of experienced staff. • Staff working longer hours, including weekends. • Recruitment of six additional Case Managers. • Recruitment of 11 additional Client Service and Sales staff. • Resolving outstanding customer matters and, where necessary, issuing letters to new claimants from 10 March 2009 advising them of alternative dates for response. • Ensuring continued priority for urgent claims. • Improved daily monitoring to ensure that early indications of timeframe issues could be managed. • Development of tool to forecast the need for adequate resources to be deployed in the future.



Topic	AWP: General Insurance Code of Practice Internal Dispute Resolution
Nature, extent, effect	As a result of a customer's complaint to the Insurance Ombudsman Service (IOS, now FOS), AWP conducted a review of its Internal Dispute Resolution matters and found a number of breaches of Code requirements between 9 September 2007 and 1 July 2008. Taken together, the issues were taken to constitute a systemic breach.
Investigation	Raised by IOS. AWP provided details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	Shortcomings in AWP's internal dispute resolution procedures.
Remediation	A detailed response addressing each of the IDR cases, plus AWP's remediation plan was sent to the IOS. The IOS confirmed they were closing their files, while continuing to monitor AWP progress via a Code Review in November 2008.

Cancellation

Allianz identified cancellation and refund related breaches arising as a result of document and print errors, coding and human errors, and staff shortages.

(a) Failure to comply with insurance policy cancellation requirements

Topic	AAIL: Bank Australia Limited – Continuous Credit Insurance
Nature, extent, effect	One of Allianz's agents, Bank Australia, reported a significant breach to ASIC on 10 January 2018 about its failure to cease the collection of premiums for 129 customers whose Continuous Credit Insurance policies had ended in accordance with its terms, either because the insured reached 65 years of age or the policy had reached its 12th anniversary.
Investigation	Bank Australia reported the matter to ASIC along with details of the proposed remediation.
Cause	The incident arose as there were no "flags" or review processes included in Bank Australia's system to identify when a policy came to an end.
Remediation	<p>To remediate this incident, Bank Australia will call each of the 129 affected customers to inform them of the incident and to offer them the following two options:</p> <ul style="list-style-type: none"> • extend the cover for up to 12 months from the date of the call, with premium to be collected up to the end of the extended period of cover; or • cancel the cover from the date when the policy should have ended in accordance with its terms and receive a refund of any premium that has been collected past this date. <p>Bank Australia is also designing a system solution which will raise a flag when a policy is about to expire for the above reasons. In the meantime, a temporary manual process has been put in place to monitor policies which are about to expire.</p>



Topic	AAIL and AAILIL: Cancellation breach
Nature, extent, effect	<p>In 2015, Allianz identified breaches of the Insurance Contracts Act with respect to its purported cancelling of policies from inception, where customers cancelled during the cooling off period and where the customer failed to pay premium. It was identified that there had been approximately 11,000 impacted policies annually. This issue applied to Allianz's direct, agency and broker distribution streams and also included a small number of life insurance policies.</p> <p>Investigations revealed two related issues arising where an insured varied their policy, but did not pay the additional premium required for the variation:</p> <ul style="list-style-type: none"> • Allianz identified the purported reversal of endorsements in 345 policies. Despite the endorsement not being paid, the reversal was not effective at law, so Allianz monitored if any claims were reported under the terms of the amended policies and confirmed that no claims had been declined. • In 320 cases, Allianz purported to short-term the policy without the customer's agreement. In 70 of these cases, the period for which the policy was short-termed was inaccurately calculated resulting in an effective over payment of premium by this group of customers which was \$2,695.99 in total. Allianz again monitored if any claims were reported under the terms of the amended policy and confirmed that no claims had been declined.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	This issue arose through procedural design errors in the premium collection process. A lack of clear ownership of the processes involved was also noted as a contributory factor.
Remediation	An internal investigation was undertaken and process weaknesses were identified and rectified so that cancellations were made in accordance with the Insurance Contracts Act. Monitoring of daily processing reports was also implemented. Refunds were made to those customers who were over-charged premiums due to the inaccurate short-terming of their policies.

(b) Miscalculation of refunds payable upon cancellation of an insurance policy

Topic	AAIL: Under-refunding of Consumer Credit Insurance policies upon cancellation
Nature, extent, effect	In late 2013, Allianz became aware of discrepancies between refund amounts being paid by financiers to Allianz customers upon cancellation of their consumer credit insurance (CCI) policy and the amount payable under the National Credit Code. 1,761 customers were affected.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The under-refunds were the result of the failure by several Financial Institutions and motor vehicle financiers to correctly calculate the refund amount due to Allianz customers.
Remediation	Allianz refunded the 1,761 impacted customers approximately \$186,000 in total. Allianz



	liaised with the relevant Financial Institutions and motor vehicle financiers to correct their processes for calculating refund amounts. Allianz also developed monthly reports to proactively identify potential errors by financiers, allowing for their prompt correction.
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Topic	AAIL: Failure to refund correct stamp duty on cancellation
Nature, extent, effect	In July 2013, it was discovered that four of Allianz's financial institution agents were not correctly refunding stamp duty to customers on cancellation of a Consumer Credit Insurance (CCI) policy. There were also failures to provide a refund of GST. The issue affected policies issued since approximately 2003. The issue was discovered by one of the agents during systems testing following its acquisition of another entity. 20,435 customers did not receive the correct refund between 2003 and 2013.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The reason for the failure to refund was a coding error in the relevant transaction systems used by Allianz's agents for managing their CCI policies. No similar issues were identified with other Allianz distributors.
Remediation	The agents updated their systems to correct the error. Allianz refunded a total of \$753,928.27 to the impacted customers.

Other

Allianz and its associated entities have identified instances where Allianz or its agents have failed to meet licence conditions or experience other breaches.

(a) Failure to comply with licence conditions

Topic	AWP: Appointment of AFS Licensees as authorised representatives
Nature, extent, effect	ASIC contacted AWP on 27 October 2017, identifying that AWP had 15 of its Authorised Representatives (ARs) that were AFSL holders, appointed at various times between 2004 and 2016. In the absence of an exemption, this was a breach of 916D of the Corporations Act. After conducting a review of the AWP register, AWP discovered an additional four ARs that fell into this category, though it also found that two of the original 15 were appointed correctly under an AFSL Agency agreement and were merely entered incorrectly on the ASIC Connect AR Register.
Investigation	Identified by an ASIC review of its Authorised Representative and AFSL register. Allianz provided details of the proposed remediation. ASIC and AWP are in consultation in relation to this issue.
Cause	This arose from an internal error in AWP agency appointment process.



Remediation	As a result of ASIC's review of its registers, a full review of the AWP AR register was conducted. 19 of AWP's ARs were revoked from the date of appointment as requested by ASIC. Compliance controls have been put in place to check whether an entity holds an AFSL before appointing as an AR.
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Topic	Ken Tame – Failure to prepare cash flow statement
Nature, extent, effect	During its audit process in January 2013 KPMG discovered that Ken Tame & Associates had not complied with its AFS Licence obligation to maintain, at all times, a documented cash flow projection for at least the next three months.
Investigation	This matter was raised by KPMG during their annual audit. Allianz reported it to ASIC, along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The matter arose from the failure by Ken Tame & Associates' financial accounting function to maintain a cash flow projection as required.
Remediation	When it became aware of the issue, Allianz's Finance department assisted Ken Tame & Associates to establish the cash flow projections and perform a retrospective cash flow analysis for the relevant period. The analysis showed that Ken Tame had sufficient resources to meet its cash flow expenses at all times.

Topic	Club Marine: Sale of CCI
Nature, extent, effect	Between 2008 and 2013, Club Marine sold Consumer Credit Insurance (CCI), which combined a general insurance component and a life insurance component, in circumstances where its AFS Licence did not authorise it to advise on or deal in life risk insurance. 296 CCI policies were sold by Club Marine's authorised representatives during that period.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The failure to obtain the relevant authorisation was an oversight when Club Marine commenced selling CCI in 2008.
Remediation	Club Marine applied to ASIC to vary its AFS Licence to add an authority to advise on and deal in life risk insurance, limited to CCI. ASIC approved that application on 9 July 2013. Allianz also undertook a review of its Financial Institution distributors to confirm that all of those which sold CCI on its behalf had the appropriate authorisation to do so. Allianz identified one further instance of a distributor not having the necessary authorisation (Bankmecu), and worked with that distributor to rectify the issue.



(b) Failure to carry out an independent review of Anti-Money Laundering Program

Topic	Hunter Premium Funding: Independent review of AML/CTF program
Nature, extent, effect	In March 2014, AUSTRAC undertook a compliance assessment of Hunter Premium Funding's (HPF) compliance with the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) Act. The objective of the assessment was to ensure that Part A of HPF's AML/CTF program was subject to an independent review in accordance with the AML/CTF Act and to evaluate the effectiveness of the independent review and any related actions which arose from the review. In May 2014, AUSTRAC advised that HPF needed to develop an independent review policy that fully met the independent review obligation under the AML/CTF Act.
Investigation	Raised by AUSTRAC. Hunter provided details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	The issue was the result of an oversight by Hunter in relation to the conduct of its AML/CTF procedures.
Remediation	In response to the finding, HPF developed and implemented an independent review policy. Allianz Internal Audit subsequently reviewed the new policy. On 30 June 2014 AUSTRAC advised that they were satisfied with the actions undertaken by HPF.

(c) Distributor failure to comply with authorisations or incorrectly sub-authorising

Topic	AALIL: Distributor websites providing general advice without having AFS licence authorisation
Nature, extent, effect	In November 2010, AALIL identified that New England Credit Union and 16 of its other distributors, each an AFS Licensee and an authorised representative of AALIL, had published statements on their respective websites that constituted general advice about life insurance. The distributors were not permitted to do this as their AFS Licence / authorisation did not allow them to give general advice about life insurance.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	This issue arose from was an oversight regarding limits to AALIL's agent authorisation.
Remediation	AALIL obtained relief from ASIC from the above prohibition with respect to past conduct and subsequently appointed the affected AFS Licensees as authorised representatives to permit them to provide the advice.

Topic	AAIL: Dealer/FI authorisation of employees
Nature, extent, effect	In 2010, Allianz identified that some of its motor vehicle dealer authorised representatives had failed to authorise their employees in writing. Allianz distributes motor vehicle insurance products through certain motor vehicle dealers which it appoints as its authorised representatives. The principals of motor vehicle dealer businesses then sub-authorise some of their employees to act as authorised representatives of Allianz.



	Under the Corporations Act, this must be done in writing. Allianz requires that this appointment be effected by the provision of an Employee Appointment & Authority Form (EAA) to each sub-authorised employee. A review of dealers found that this requirement had not been met in all cases.
Investigation	Reported to ASIC along with details of the proposed remediation. Allianz is not aware of any outstanding issues.
Cause	This item arose from a failure in the process for motor dealers to appropriately appoint their employees in writing.
Remediation	<p>Allianz took the following remedial and preventative action to have the sub authorisation process, including the provision of an EAA, correctly followed:</p> <ul style="list-style-type: none"> • a letter was sent to all principals reminding them of their responsibilities and the importance of providing each employee with an EAA. An EAA template was included in the letter; • an EAA template was attached as an annexure to all template Authorised Representative agreements; • a copy of the EAA was put on 'Workbench' - an Allianz intranet site for Authorised Representatives; and • Allianz's authorised representative monitoring procedures were updated to include more specific questions relating to whether an EAA has been provided in respect of all employee authorised representatives.

(d) Financial Reporting

Topic	PIMCO: Late lodgement of the scheme financial reports
Nature, extent, effect	<p>PIMCO Australia Management Limited (PAM) prepared the financial reports for the PIMCO Australia Funds for the first time in the 2017 financial year, hence it introduced an additional step in the overall governance process by engaging Deloitte to undertake a review process, comprising an independent verification of the financial reports of three of the PIMCO Australia Funds (Initial Deloitte Review). As part of this Initial Deloitte Review, due to manual inputs, an error in one of the financial reports was identified. Given this error, PAM engaged Deloitte to undertake the verification process on the remaining nine PIMCO Australia Funds in order to determine whether these manual inputs caused any additional errors in the financial reports for the remaining PIMCO Australia Funds (Subsequent Deloitte Review). Following the Subsequent Deloitte Review, PAM amended and lodged the financial reports for five of the PIMCO Australia Funds prior to the statutory deadline of 30 September 2017.</p> <p>In relation to the remaining seven PIMCO Australia Funds, there were discrepancies found in the draft financial reports, which meant that these reports required further review and were amended prior to their lodgement. As a result, these seven financial reports were not lodged prior to the statutory deadline resulting in an ASIC reportable breach.</p>
Investigation	PAM actively engaged with ASIC from an early stage and kept ASIC updated in relation to its review progress. When the discrepancies were identified under the Initial Deloitte



	<p>Review, PAM promptly submitted an application for relief to ASIC on 22 September 2017. Whilst this relief was not granted by ASIC, ASIC stated that it was pleased:</p> <ul style="list-style-type: none"> • with PAM's early engagement with them which demonstrated good regulatory and governance practice; and • PAM was taking a proactive and cautious approach especially in view of the fact that it was its first year preparing the reports. <p>As a result, prior to the statutory lodgement deadline, PAM secured an oral no-action position from ASIC.</p> <p>On 13 October 2017, PAM submitted a breach notice to ASIC together with the seven verified financial reports. On 20 October 2017, ASIC formally advised PAM that it did not propose to make any further inquiries relating to this reportable breach.</p>
Cause	The issue arose from shortcomings in PAM's processes for preparing the relevant financial reports.
Remediation	As set out above.



SECTION 4: COMMUNITY STANDARDS AND EXPECTATIONS

In this section, Allianz has identified two areas that it considers primarily relate to community standards and expectations, as per the criteria set out in Section 2 above. In Allianz's view, these are the most significant items discussed in this submission. In each case, responses have been provided to questions 2 and 3 (a – e) in the Royal Commission's letter as follows:

Q2 Nature, Extent, Effect

What is the nature, extent and effect of the conduct, practice, behaviour or activity?

Q3(a) Investigation

Is the identified conduct, practice, behaviour or activity the subject of another inquiry or investigation, or a criminal or civil proceeding?

Q3(b-d) Cause

Does the entity attribute any of the identified conduct, practice, behaviour or activity to: b) culture or governance of the entity; c) broader cultural or governance practices in the industry or sector of the industry in which the entity operates; or d) other practices (including risk management, recruitment or remuneration practices)?

Q3(e)(i) Remediation

What steps has the entity taken to remedy the consequences for consumers or other businesses of the identified conduct, practice, behaviour or activity?

Q3(e)(ii) Prevention of Recurrence

What steps has the entity taken to prevent recurrence of the conduct, practice, behaviour or activity?

Dealer Add-On Insurance Products

Topic	Dealer Add-on insurance products
Nature, extent, effect	<p>During 2016, ASIC released three reports into the design, distribution and sale of "Add-on" insurance sold through motor vehicle dealers (Dealers). These reports found, amongst other things, that:</p> <ul style="list-style-type: none"> • commissions paid by insurers to Dealers were excessive, this being a product of "reverse competition" (which ASIC described as insurers not needing to compete on the price of their products, but rather on the level of commissions paid to the Dealer intermediaries); • principally as a result of the high commissions being paid, some products represented poor value to customers when measured against claims outcomes; • some products had elements of cover that customers did not need or would not be eligible to claim for; • customers had a low awareness of product coverage, cost and value; and



	<ul style="list-style-type: none"> the sales process, in some respects, inhibited good decision making and Dealers were, in some cases, engaging in active or pressure selling. <p>Full details of ASIC's findings are set out in its Reports 470, 471 and 492.</p> <p>Allianz has engaged closely with ASIC in relation to its reports and subsequent activities, both regarding general industry concerns (e.g. through the Insurance Council of Australia) and regarding ASIC concerns specific to Allianz. As a result of that process, Allianz has agreed with ASIC that there are groups of Dealer customers which may have obtained Allianz insurance products through this general advice model which are not suited to their individual circumstances and that a level of remediation is called for (see below for details). While Allianz did not accept that it was legally responsible for choices made by customers, it accepted that some customer outcomes may not have met community standards and expectations. These include that:</p> <ul style="list-style-type: none"> some customers purchased both Gap insurance (insurance cover against the risk that a payment to the insured under their comprehensive motor insurance in the case of a total vehicle loss is insufficient to pay off the insured's finance for that vehicle) and comprehensive motor insurance from Allianz on a new vehicle, where the comprehensive motor insurance included an element of replacement cover which could reduce the customer's need for Gap insurance; some customers who purchased Gap insurance had no finance gap at the point of sale and so were unlikely to have needed the product; some customers purchased a higher level of Gap or Tyre & Rim insurance than they needed; some customers who paid their loans off early, did not seek nor receive a refund of premium under their Gap insurance; some customers who purchased CCI insurance were, due to their own circumstances, unlikely to have needed the product or unlikely to have been eligible to claim on part of the cover; and some customers who purchased Tyre & Rim insurance or an Extended Warranty product were unlikely to have been eligible to claim on the cover.
Investigation	<p>The identified conduct has been the subject of a lengthy investigation by ASIC. ASIC has accepted the terms of Allianz's proposed customer remediation programme and, subject to it being fully implemented, has agreed to finalise its investigation in relation to the issues giving rise to its review of this area.</p>
Cause	<p>Allianz attributes the conduct referred to the interaction of a range of factors including:</p> <ul style="list-style-type: none"> the nature and complexity of the products, which contributed to some customers purchasing products which did not suit their individual circumstances; shortcomings in the effectiveness of sales systems and processes; systems for monitoring Authorised Representatives; and the potential impact of high levels of commission paid by insurers on sales practices of Allianz's Authorised Representatives.
Remediation	<p>Allianz has agreed with ASIC to carry out a customer remediation programme in relation to this matter which includes:</p> <ul style="list-style-type: none"> the refund of premium to customers who held policies with little or no value (for



	<p>example, where the customer would have been unable to claim on their policy);</p> <ul style="list-style-type: none"> • a partial refund of premium to customers who purchased more cover than they needed; • a partial refund of premium to customers with Gap insurance who also held Allianz comprehensive car insurance on a new car • for customers who paid their loan off early, a refund of Gap insurance premium in relation to the remaining term of the policy; and • a Community Benefit Payment to a financial literacy programme. <p>The programme is expected to involve payments totalling \$45.6m.</p>
Prevention of recurrence	<p>Allianz is undertaking a range of activities to prevent a recurrence of the conduct identified in this matter (in the Dealer distribution channel and elsewhere in Allianz's business), including:</p> <ul style="list-style-type: none"> • A thorough review of Allianz's product governance framework, which has regard to ASIC pronouncements and information available regarding the Commonwealth Government's intention to introduce new Product Design and Distribution law (Discussion Paper released in December 2016 and the <i>Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2017</i> released for consultation in December 2017). • A thorough review of sales systems and processes in the Dealer distribution channel, which is expected to include the implementation of a deferred sales model for all Add-on insurance products in accordance with ASIC's requirements (Allianz has been a material contributor to discussions with ASIC regarding the development of those requirements) and improvements to the guidance given to Dealers. • A thorough review of Allianz's framework for monitoring Authorised Representatives in the Dealer distribution channel, which has resulted in a new framework which is in the process of being implemented. • The establishment of a new Customer Advocacy function, which is the responsibility of Allianz's Chief Risk Officer. • Significant reductions in commissions paid to Dealers for certain products and, consequently, premiums to the benefit of customers. • Changes to the products offered in the Dealer distribution channel. • The introduction of measures into the Dealer distribution channel to provide greater transparency to help customers make better informed insurance decisions. • A detailed review of Allianz's other products and distribution arrangements in order to identify whether any of those exhibit similar issues to some of those distributed through the Dealer distribution channel. <p>Allianz continues to liaise with ASIC in relation to these activities, so as to share details of its development and factor in any feedback it has in relation to them.</p>



Cash Store

Topic	Cash Store
Nature, extent, effect	<p>In October 2014, Allianz became aware that a former agent named Accident & Health International Underwriting Pty Limited (AHI) had distributed a consumer credit insurance (CCI) product through a 'payday lender' named The Cash Store Pty Ltd (TCS) in 2011 and 2012. Many of the customers to whom the CCI product was sold were unlikely to be able to claim under the policy. AHI was a full service underwriting agency with its own Australian Financial Services Licence which specialised in sickness and accident insurance. It had no authority to distribute CCI products on behalf of Allianz and did not inform Allianz of the arrangement to do so through TCS. The incident also occurred subsequent to AHI giving Allianz six months' notice of the end of its agency arrangement (i.e. during that notice period).</p>
Investigation	<p>ASIC successfully prosecuted TCS for unconscionable conduct in relation to the selling of CCI policies to its customers. ASIC then raised the issue with Allianz, in particular in relation to the adequacy of Allianz's supervision of the AHI's conduct. Following the completion of remediation activities (see details, below), ASIC closed its investigation on this matter.</p>
Cause	<p>Allianz attributes the conduct referred to above to (i) the actions of the payday lender, TCS (which was not Allianz's agent, and over which Allianz had no control), and (ii) the actions of Allianz's agent, AHI, which distributed a new product in a new distribution channel without authority to do so and without informing Allianz. The conduct did, however, highlight improvements that could be made to Allianz's systems for monitoring full service underwriting agencies, which have been implemented.</p>
Remediation	<p>Notwithstanding that Allianz did not receive most of the premium paid by customers with respect to the TCS product, it offered to compensate TCS customers with the full \$400,016 in premium paid by them with interest. In order to do so, Allianz needed TCS customer contact details which had never been provided to it. Allianz sought those details from the TCS Liquidator, with assistance from ASIC, however it was not able to recover this commission data from the TCS IT systems. As a result, Allianz paid the \$400,016 plus interest amount to a charity agreed with ASIC.</p>
Prevention of recurrence	<p>In response to this issue, Allianz conducted an internal risk review of its monitoring and supervision of underwriting agencies and also obtained an external review of its processes (the terms of which were agreed with ASIC). Based on those reviews, it significantly increased the level of supervision of underwriting agencies with which it deals.</p> <p>While Allianz attributed this issue to the actions of its agent, which any level of supervision was unlikely to identify, it did recognise the need for additional supervision of full service AFSL underwriting agencies through which it distributes insurance.</p>



SECTION 5: INDUSTRY ISSUES

In addition to responding to the Commission's questions, Allianz would also like to take the opportunity to provide the Commission with information on a number of other topical industry issues and how we have responded to them.

1. Affordability of insurance for homeowners vulnerable to extreme natural perils

As the quality and availability of data and insurers' underwriting and risk pricing capabilities have improved over the past decade or so, the premiums for some homeowners vulnerable to extreme natural perils have markedly increased. Risk-based pricing means that an individual policyholder's premium is reflective of its risk.

These perils include cyclone, flood and storm surge. Some homeowners face all three of these risks and the premium impact is cumulative. We discuss each in turn.

Cyclone

Significant repricing of Northern Australian **cyclone** risk by insurers (and international reinsurers) occurred in response to a number of damaging cyclones over the period from 2006, after Cyclone Larry, to 2014, following Cyclone Yasi. This was done to bring home and residential strata premiums (particularly those in north Queensland) to sustainable levels. Improved cyclone pricing capabilities are also contributing to premium increases. All things equal, the premium for a cyclone vulnerable property can be up to 500 percent or more higher than for a property with no cyclone risk.

Flood

Before the 2011 Queensland floods most residential home insurance policies in Australia 'excluded' cover for 'riverine flood'. As a result, Allianz, and other relevant insurers, denied many thousands of resulting flood claims, causing great dissatisfaction among impacted policyholders and the community generally. At the time there was some customer confusion about their cover because the definition of the flood in policy exclusions varied among insurers. This issue has since been resolved with the subsequent advent of a regulated standard definition of flood.

Between 2005 and 2013, most insurers attained the pre-requisite technical capability to price at the individual property level and introduced flood cover. Allianz introduced flood cover in 2012. Most insurers made flood cover a standard inclusion, however, Allianz (and a couple of other insurers) allow customers to 'opt out' of flood cover. In either case, cover is priced according to the level of flood risk. Flood risk has a significant impact on home premiums, all things equal, increasing premiums on flood exposed homes by up to 2,000 percent compared to properties with no flood risk.



Allianz decided to make flood cover optional because of its concern that premiums at such levels are unaffordable on flood-exposed properties. If all insurers made flood a standard inclusion, large numbers of homeowners would be forced out of home insurance altogether. While only 3-4% of properties would be exposed to such extreme flood premiums, this translates into at least a few hundred thousand home owners. Due to the high cost of cover, most homeowners with medium to high flood risks opt out of flood cover, whether they are insured with Allianz or another insurer with optional flood cover. As a result, flood is excluded and flood claims will generally be denied as a result. This was most recently highlighted in the 2017 Northern NSW flooding generated by ex-Cyclone Debbie. Thus, any community expectations that homeowners suffering losses from flood damage will be covered by insurance will generally remain unmet.

Storm surge

Storm surge risk also exists around Australia, particularly in Queensland's Gold and Sunshine Coasts. Coverage for storm surge in home insurance policies varies, with many insurers (including Allianz) excluding it from cover. There is significant lack of awareness of storm surge risk and home insurance coverage of it among relevant homeowners. All things equal, storm surge risk increases home premiums by up to 2,000 percent or more, compared to a property with no storm surge risk.

Further information on potential solutions

Allianz has for many years been concerned about the affordability of insurance in these areas. Allianz has outlined these concerns, and potential solutions, in its submissions to a range of reviews and in its advocacy to governments since 2011, including the current ACCC Northern Australia Insurance Inquiry.

2. Mental illness

Another recent industry development of note relates to changes in the way that insurance policies respond to mental illness.

Travel insurance

In 2015, the Victorian Civil and Administrative Tribunal decided in *Ingram*³ that a blanket mental illness exclusion in a travel insurance policy issued by another insurer was unlawfully discriminatory. The basis for decision was that the insurer failed to show that it had relied on actuarial and statistical data, and because its witnesses were found to be unreliable. The insurer therefore failed to show that their conduct fell within the exemption for insurers where the discrimination is reasonable and based on actuarial and statistical data.

³ *Ingram v QBE Insurance (Australia) Limited* [2015] VCAT 1936



At the time, a comparable mental illness exclusion appeared in all Allianz travel insurance policies, and was based on publicly available actuarial and statistical information that we believed was sufficient to substantiate the exclusion. The clause was consistent with industry practice.

In response to the Ingram decision and to an industry wide shift in approach encouraged by the Insurance Council of Australia, AWP began to review its travel portfolio and to gather and collate further relevant data and statistics on mental health. By 2017, AWP was in a position to remove the blanket exclusion and began updating policy wordings in November 2017. The majority of its travel insurance products distributed through retail and financial institutions channels have been updated, and now provide 'first presentation cover'. This means that mental illness that manifests for the first time during the policy period is now covered. This amendment is progressively being rolled out to all remaining Allianz travel insurance products, and is consistent with changes made by other insurers. Further, AWP intends to develop insurance coverage options for those with pre-existing medical conditions, in the near future.

Other insurance products

Allianz's consumer credit insurance products and term life products also provide first presentation cover for mental illness. Where these products are sold through financial institutions, customers who declare a mental illness will be underwritten on a case by case basis and, in certain cases, cover may be refused or limited due to pre-existing mental illness, or a premium loading applied to an offer of insurance (for life customers only). This is consistent with industry practice. Allianz believes these products do not unlawfully discriminate against those with mental illness.

Investigations and determinations

Allianz have had six complaints (two in 2011, two in 2013 and two in 2016) relating to discrimination in relation to mental illness considered by the relevant state or federal anti-discrimination bodies. In each case, the complaint was withdrawn or terminated after submissions from Allianz and/or AWP based on relevant actuarial and statistical data. One additional case was determined by FOS in 2017 in favour of the complainant.

In July 2017, the Victorian Equal Opportunity and Human Rights Commission announced that it would investigate to all major travel insurers in relation to their coverage for mental illness. The investigation was launched in October 2017 and is ongoing.

3. Life insurance claims handling

AALIL was established in 2006 to provide life insurance products to Allianz's customers in Australia and the customers of its intermediaries. AALIL is not active in either the retail life insurance market (financial advisers) or group life insurance through superannuation funds or employers.



In 2016, ASIC conducted an industry-wide review of claims handling in the life insurance industry, with the intention of determining whether there were any systemic concerns in the industry or in relation to particular insurers. As part of this review, ASIC asked Australian life insurers (including AALIL) to perform an independent claims review.

AALIL engaged an international consulting firm as an independent expert to review its claims management and product development lifecycle practices. The independent expert identified no material or systemic issues of concern during the course of their review. They did make six enhancement recommendations, however, none of which were considered high priority. Of the six recommendations, three were termed as medium with a suggested implementation period of 12 months and three were termed low and suggested for management consideration only, with no specified timeframe. Allianz actioned all of the independent expert's medium priority recommendations within the suggested 12-month timeline.

The wider industry results of ASIC's review can be found in its Report 498 *Life Insurance claims: An industry review*.

4. Underinsurance

Underinsurance can be difficult to identify and measure before claims events. The reasons it arises vary, however, it is generally accepted as endemic, particularly in the insurance of home contents, but also far too often in relation to home building. The extent of underinsurance generally only becomes apparent in the event of significant or total loss where the sum insured is found to be insufficient to fully compensate for the loss.

Underinsurance occurs for various reasons, three in particular are where homeowners:

- intentionally underinsure to bring their premium down to what they regard as affordable in their circumstances. This has always occurred but, anecdotally, has particularly increased in North Queensland over recent years in following the material repricing of cyclone risk insurers undertook following 2011's Cyclone Yasi and subsequent cyclones;
- inadvertently underinsure because they do not do sufficient research to accurately estimate the value of their contents or the cost of rebuilding their house; and
- unknowingly underinsure due to a lack of awareness of external factors that can arise that, despite their best endeavours, can result in them being underinsured. One of these factors is post-event inflation that drives up the cost of trades and materials after large weather events such as floods, cyclones and bushfires, particularly the latter where total loss of property more often occurs. The other key cause in that instance is a lack of awareness that more stringent bushfire-related building standards have been introduced since the house was built, which can significantly increase the cost of rebuilding. Evidence of significant underinsurance emerged after the 2003 Canberra Bushfires, Victoria's 2009 Black Saturday and the 2013 Blue Mountains bushfires.



While insurers alone cannot solve all the causes of underinsurance, they are often perceived as not meeting community expectations after events that cause homeowners to suffer the results of underinsurance.