

**Submission on requested questions to Royal
Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

**AIG Australia Limited
ABN 93 004 727 753**

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Definitions

In this submission, we have used the following definitions:

AFSL	Australian Financial Services licence
AHA	American Home Assurance Company, Australian branch
AIGA	AIG Australia Limited
AIG Group	AIG Inc and its subsidiary companies
AIG Inc	American International Group, Inc.
APRA	Australian Prudential Regulation Authority
AR	Authorised Representative
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i> (Cth)
Code of Practice	General Insurance Code of Practice
Corporations Act	<i>Corporations Act 2001</i> (Cth)
CRO	Chief Risk Officer
financial services entity	As defined in the Terms of Reference
FOS	Financial Ombudsman Service
IDRC	Internal Dispute Resolution Committee
Insurance Act	<i>Insurance Act 1973</i> (Cth)
Insurance Contracts Act	<i>Insurance Contracts Act 1984</i> (Cth)
misconduct	As defined in the Terms of Reference
PA	Personal Accident
PDS	Product disclosure statement
Terms of Reference	Terms of Reference of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Confidentiality

This submission, by the nature of the requested answers to questions, contains confidential and 'commercial in confidence' information in the answers to questions 1 to 3. Therefore, we request that those answers be treated as confidential and not for public disclosure. We provide a note with this submission which outlines our claim in more detail.

Resources reviewed

AIGA has reviewed available internal resources to answer the requested questions (for the period from 1 January 2008 or, if not available for AHA, from 1 March 2011 for AIGA).

Introduction

About AIGA

AIG Australia Limited - referred to as AIGA in this submission - is a general insurer authorised by APRA to carry on insurance business in Australia pursuant to the Insurance Act. AIGA also holds AFSL number 381686 issued by ASIC.

AIGA is part of the global insurance and financial services group headed by AIG Inc. Founded in 1919, today AIG Inc and its member companies provide a wide range of insurance products and other financial services to customers in more than 80 countries and jurisdictions. These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG Inc common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

AIG Group has operated in Australia since 1957, first via AHA and, since 1 March 2011, via AIGA, a wholly owned subsidiary of AIG Inc. For a period of time, AHA traded as 'Chartis' and AIGA was previously named Chartis Australia Insurance Limited.

AHA no longer carries on business in Australia. However, for completeness, AIGA will answer the requested questions for the period from 1 January 2008 to 28 February 2011 by reference to the activities of AHA. AHA held AFSL number 230903 during this period.

AIGA has approximately 395 employees, with offices in Sydney, Melbourne, Brisbane and Perth.

AIGA's product suite in summary consists of:

- commercial property insurance, including SME package, construction related and marine insurance;
- financial lines insurance, including professional indemnity and directors and officers insurance, cyber insurance and other specialised products;
- casualty insurance, including public and products liability insurance, recall insurance and environment risks insurance;
- trade credit insurance and surety bonds;
- group personal insurance, including travel insurance, expatriate care insurance and injury and sickness insurance;
- individual personal insurance, including home building and contents insurance, motor vehicle insurance and boat insurance; and
- other general insurance products, including strata insurance.

The vast majority of AIGA's general insurance business is and has been 'intermediated' and sold through insurance brokers as agents of policyholders. Brokers act as agents of policyholders during the underwriting process and in the claims handling process. During the calendar year 2017, 94% of AIGA's business was sold through insurance brokers. The remaining 6% was business sold direct by AIGA or its distributors, and was made up of two components: retail client insurance products (including travel insurance products) and surety bonds issued by AIGA to large corporate entities including ASX listed companies.

AIGA's general insurance portfolio during calendar year 2017 generated approximately \$733 million in gross premium written. AIGA's business is, and has been during the period since 1 January 2008 made up predominantly of commercial or 'wholesale client' business, with a minority of consumer or 'retail client' insurance.

The split between commercial and consumer business is set out in the tables below.

AUD '000 Year	AHA 2008	AHA 2009	AHA 2010	AHA 2011 (2 months to 28/02/2011)
Total GPW Commercial (%)	84	83	82	82
Total GPW Consumer (%)	16	17	18	18

AUD '000 Year	AIGA 2011 (10 months to 31/12/2011)	AIGA 2012	AIGA 2013	AIGA 2014	AIGA 2015	AIGA 2016	AIGA 2017
Total GPW Commercial (%)	82	86	88	89	88	85	84
Total GPW Consumer (%)	18	14	12	11	12	15	16

As a predominantly commercial lines insurer, AIGA purchases significant treaty and facultative reinsurance protections.

AIGA does not have any associated entities in Australia that are financial services entities (as defined in the Terms of Reference). We note that Transatlantic Reinsurance Company was part of AIG Group as at 1 January 2008 until the sale of AIG Group's majority interest in Transatlantic Reinsurance Company in 2009. We also note AIA Australia Limited was part of AIG Group as at 1 January 2008 until the majority of the global AIA business was sold by an initial public offering in 2010. However, Transatlantic Insurance Company and AIA Australia Limited were operationally separate in Australia and AIGA does not hold any information on their activities.

Outline of submission

Our responses to the questions in the letter from the Royal Commission to AIGA dated 11 January 2018 are set out in this submission in the following sections.

- Governance**
 This section has background to the governance framework in which AIG Group operates globally and AIGA operates in Australia. These frameworks are important as general background and also to inform AIGA's responses to question 3.
- Misconduct (questions 1 and 3)**
 This section has answers to question 1 in seven response categories defined by the nature of the misconduct, with individual items of misconduct and where appropriate, item-specific responses to question 3(e). Further answers to question 3 of a general nature are included in this section.
- Conduct below community standards and expectations (questions 2 and 3)**
 This section has answers to question 2 set out under eight items of conduct. This section provides answers to question 3 as part of the description of each item.
- RSE licensee (question 4)**
 This section answers question 4 (which is not applicable to AIGA).

Governance

AIG Group's governance framework

AIG Group considers that robust risk and compliance management practices and a sound internal control environment are fundamental to its continued success and profitable growth.

AIG Group's compliance and risk management programs have been established to identify and monitor the various forms of risk, and to design processes and controls to prevent and detect risks to which the company may be exposed. AIG Group's Enterprise Risk Management Department partners with the business to deliver transparent and actionable data and analysis in support of decisions that are informed appropriately by risk.

AIG Group's Global Compliance Group works with all areas of the business to integrate compliance management in daily business activities and strategic planning to foster and maintain an ethical culture throughout AIG Group and to mitigate its legal, regulatory, and reputational risks.

When AIG Inc was designated as a Systemically Important Financial Institution (SIFI) in 2013, the Federal Reserve Bank (Fed) became AIG Inc's consolidated supervisor. From 2013 until September 2017, when the SIFI designation was removed, the Fed oversaw the continued enhancement of AIG Group's compliance and risk management protocols. AIG Group continues to believe that robust compliance and risk management programs are required elements of an effective financial institution, and will continue to enhance these programs as required regardless of its supervisory structure.

Employee training is a key aspect of AIG Group's efforts to create and maintain a risk-based and ethical culture to help to ensure employees make the right choices and readily identify bad actors or questionable decision making.

AIGA's governance framework

Board of directors and executive management

AIGA is Australian incorporated (unlike AHA which was the branch of a United States company) and accordingly has a local board of directors. AIGA's board has responsibility for oversight of the sound and prudent management of AIGA. The board includes an independent Chair and two other independent directors.

In addition to the board, there are the following board committees: Audit Committee, Risk Committee and Remuneration Committee.

AIGA is headed by the Chief Executive Officer with an Executive Committee, together with various management committees as described below. In accordance with applicable APRA requirements, AIGA has a CRO and an Appointed Actuary.

Process and controls assurance

AIGA maintains a 'three lines of defence' model which provides assurance over the operational effectiveness and performance of key processes and controls across the business. The objective is to detect and report on any failures in key controls and to drive process and control improvements in a timely manner. Implementation of the model is achieved through monitoring, testing and subsequent reporting to executive management, AIGA's Board and (where required) regulators on risks and incidents, the design and operational effectiveness of processes and controls and the adequacy of roles to support business requirements.

The structure and performance of each line of defence is under continuous review and is refined according to outcomes of risk assessments, incident management, monitoring and audits or changes to business structure, processes and procedures. Details of outcomes are

reported to AIGA's Board and risk sub-committees. An assurance map was developed by AIGA in 2016-2017 to further support this process.

Details of each line of defence are as follows:

- **First Line of Defence:** This consists of underwriting, claims and operational staff who are responsible for day-to-day decision-making and associated risk taking and the establishment and maintenance of effective control and risk mitigation strategies. These assurance functions perform underwriting peer file reviews, underwriting quality audits, claims open and closed file reviews, third party arrangement reviews, Information technology self-audits, risk control self-assessments and *Sarbanes-Oxley Act 2002* (US) control walkthroughs.
- **Second Line of Defence:** This consists of Enterprise Risk Management and the Compliance Monitoring and Testing team which provide independent oversight of the risk profile and risk management framework, assist and challenge risk owners in their assessment of risks and controls, manage risk events and perform monitoring and testing of controls to ensure compliance with regulatory and policy obligations.
- **Third Line of Defence:** This is performed by the Internal Audit Group which provides independent review of the design and operational effectiveness of processes and controls including the first line and second lines of defence programs. The annual audit plan performed by the Internal Audit Group is risk-based and agreed with AIGA's Board Audit Committee.

Risk management

As with AIG Group, AIGA has an established governance framework that provides an effective mechanism for the identification, reporting and escalation of risk issues. The following management committees provide inclusive and transparent forums for the reporting and management of risk, conduct and business issues:

- All assurance functions, operational areas and business units report on a quarterly basis to AIGA's Governance & Business Review, its objective being to provide formal executive oversight of the business and to facilitate the transparent review and consolidation of reports to AIGA's Board.
- AIGA's Risk & Capital Committee manages, monitors and reports risk activities within AIGA. The committee meets on a quarterly basis and reports to the Governance & Business Review and the Board Risk Committee. The committee is chaired by AIGA's CRO and membership is composed of all functional and business unit heads.

AIGA's governance structure is supported by an ongoing commitment to maintaining an effective risk culture. AIGA promotes a sound risk culture through embedding values, behavioural norms and practices that support decision making and provide guidance for the risk taker. A number of these risk management practices are described in response to questions 3(d) and (e) as they relate to AIGA's response to question 1.

Misconduct (Questions 1 and 3)

Question 1

Excluding cases of theft from the entity itself, or from an associated entity, has the entity identified any misconduct by the entity (including by its directors, officers or employees, or by anyone otherwise acting on its behalf) which occurred at any time since 1 January 2008? If so, what is the nature, extent and effect of that misconduct?

Answer to question 1

AIGA takes its legal, compliance and related obligations very seriously. The AIG Inc Code of Conduct requires all employees to understand and act in accordance with this code, policies and applicable laws and regulations. Each AIGA employee is required to undertake code training and to sign on to the code. AIG Group's Global Legal & Regulatory Matters Policy states that AIG Group is committed to carrying out its legal and regulatory obligations in a proper, timely, fair and accurate manner.

Within this context and having regard to the size of its operations, there have been instances within the definition of misconduct over the period of 10 years.

These are detailed below under the following response categories:

- A. Insurance Act and APRA prudential standards;
- B. Financial services laws (Corporations Act and ASIC Act);
- C. Other insurance laws (Insurance Contracts Act and Code of Practice);
- D. Privacy laws;
- E. Discrimination laws;
- F. Tax and revenue laws (including fire/emergency services levies, stamp duty and GST); and
- G. Employment related laws (general employment law, workplace health and safety and superannuation).

A. Insurance Act and APRA prudential standards

AIGA notes that during the period since 1 January 2008, AHA/AIGA has not notified, or had cause to notify, APRA of a breach under section 38AA of the Insurance Act.

Item: APRA operational risk prudential review of AHA

Date: October 2008

Description:

Following an APRA Operational Risk Prudential Review in October 2008, AHA was required by APRA to undertake a review of its Risk Management Framework, Audit Plan (including coverage of the Risk Management Framework), processes for assessing materiality and monitoring of outsourced business functions, Business Continuity Plan, new product approval process and Fraud Risk Management Framework.

Effect and remedy (where applicable, please also refer to question 3):

AIGA's records indicate APRA identified a number of deficiencies in the documents referred to above. As required by APRA, AHA undertook a comprehensive review of its Risk Management Framework against APRA Prudential Standard GPS 220 Risk Management and industry standards to identify gaps and deficiencies. AHA also undertook a comprehensive review of its risk committee structures and terms of reference. AHA also updated supporting policies and other documentation including its Risk Management Strategy, Risk Register, Audit Plan, Outsourcing Policy and Fraud Management Policy.

Item: Business Continuity Planning and management

Date: Various

Description:

In 2010, a review conducted by AHA's Internal Audit Group identified that AHA's Business Continuity Management (BCM) Coordinator had not ensured that the Business Continuity Plan (BCP) was complete, with key items missing. In addition, the BCM Coordinator did not conduct BCP training other than to new employees during their induction.

BCP testing conducted during 2011 did not cover material operational sites outside of Sydney. BCP testing for the other sites was scheduled for April 2012.

In 2012, the Internal Audit Group's review of AIG Group's BCM program across Asia-Pacific assessed the program as unsatisfactory. The review included AIGA. Although AIG Group in the region may have been able to continue operations in the event of a disaster, it was found to not have fully achieved its BCP objectives due to the issues identified.

In 2015, the Internal Audit Group identified issues with the level of diligence and judgment exercised by AIGA's BCM Coordinator for developing and testing the BCP and found the testing insufficient to provide the necessary assurance. It was also identified that AIGA was late to adopt changes to the Global BCM Policy in January 2014 and was rated unsatisfactory by the Internal Audit Group. The BCM was considered to be not sufficiently developed and tested by the BCM.

In December 2015, it was identified that a control had not been developed for the BCM Coordinator to monitor the completion of BCM awareness/refresher training arranged by the regional/global team and report the status to the Operation Risk Management Sub-Committee (ORMSC). In addition, BCM training was not included in the induction training for new joiners, as required by AIG Group's BCM standards.

Effect and remedy (where applicable, please also refer to question 3):

As a result of these issues, AHA/AIGA's BCM program did not include the appropriate level of assurance. This fell short of compliance with AHA/AIGA's BCM Policy and APRA Prudential Standard CPS 232 Business Continuity Management.

Each of the issues was identified by AHA/AIGA's Internal Audit Group and assurance processes and remediation plans were implemented to resolve each issue. For example, the 2015 Global Business Continuity Standard was localised to align with the requirements of the APRA Business Continuity Standard. Review and testing of the BCM occurs regularly at a local and global compliance level. Changes to the BCM policy are referred to the AIGA board for approval, most recently in March 2017.

Item: Appointment of External Peer Review Actuary

Date: March 2012

Description:

In late 2011, AIGA conducted a tender for the role of External Peer Review actuary (EPR). The incumbent was unsuccessful and a new provider was appointed. The interim appointment of the new EPR did not occur until 9 March 2012 with effect from 31 December 2011. As such, AIGA did not satisfy the 28 day requirement to notify APRA of the appointment of a responsible person under APRA Prudential Standard GPS 520 Fit and Proper. A 'fit and proper' assessment is also a requirement under AIGA's Risk Management Strategy.

Effect and remedy (where applicable, please also refer to question 3):

This incident constituted a technical breach by AIGA of APRA Prudential Standard GPS520 Fit and Proper. There was no customer impact as a result of the non-compliance. The actuary had not commenced any work for AIGA at the time APRA was notified. APRA was notified immediately by AIGA once the breach was detected. APRA took no further action regarding the late notification. Enhanced internal controls were implemented by AIGA to ensure such administrative oversights do not occur in the future.

Item: Surety bonds accounting

Date: June 2015

Description:

AHA had in June 2002 obtained approval from APRA to treat surety bonds as an insurance risk for the purpose of determining the asset risk charge (the minimum amount of capital required to be held against asset risks). AIGA continued this treatment when the business was transferred from AHA in 2011, but had not sought a new approval from APRA. When AIGA became aware of this, AIGA contacted APRA which confirmed a new application should be submitted.

Effect and remedy (where applicable, please also refer to question 3):

AIGA did not hold an applicable approval for the purpose of Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge with respect to the treatment of surety bonds. AIGA submitted a new application for APRA approval in July 2015 and APRA issued the approval in August 2015.

Item: Referral of proposed material outsourcing activities to the Internal Audit Group

Date: 2014 to 2017

Description:

In November 2017, it was identified that material outsourcing proposals have not been consistently referred to AIGA's Internal Audit Group for review as required by APRA Prudential Standard CPS231 Outsourcing. Although AIGA's outsourcing policy requires Internal Audit Group to review proposals to outsource material business activities, it does not specify the protocol as to when and how a material outsourced activity should be communicated to the Internal Audit Group for review.

Effect and remedy (where applicable, please also refer to question 3):

AIGA's Operational Compliance manager is currently working to expand the process of managing outsourcing proposals to include referral to the Internal Audit Group prior to matters being referred to AIGA's board for approval.

AIGA's Risk and Legal departments as well as the Internal Audit Group will arrange to meet on a monthly basis to discuss the pipeline of material outsourcing proposals. The Head of the Internal Audit Group will report on material outsourcing arrangements to AIGA's Board Audit Committee on a quarterly basis. The Internal Audit Group has determined to retrospectively review all of the material outsourcing arrangements which were not referred to the Internal Audit Group.

APRA will be informed of the failure to refer proposed material outsourcing activities to the Internal Audit Group during AIGA's regular quarterly liaison meeting with APRA scheduled on 21 February 2018.

B. Financial services laws (Corporations Act and ASIC Act)

This category is set out below under breaches reported to ASIC and other non-reportable conduct and chronologically within each subcategory.

Significant breaches reported to ASIC

Item: Inadequate monitoring of sales calls made by corporate AR

Date: September 2007 to July 2010

Description:

In July 2010, AHA notified ASIC of a significant breach under section 912D of the Corporations Act relating to failure by AHA to monitor telephone sales of travel insurance products made by a corporate AR. Under the arrangement, the AR was authorised by AHA under its AFSL to deal and provide general advice in relation to retail client travel insurance products issued by AHA.

During the period of the breach, approximately 128 sales of travel policies were made by the AR's call centre. The breach related to the lack of monitoring of the call centre. AHA identified that the travel insurance product telephone sales were not being monitored by the AR. As to the nature of the breach, licensees are responsible for the actions of their ARs and for ensuring they comply with all relevant financial services laws under section 912A(1)(ca) of the Corporations Act.

Effect and remedy (where applicable, please also refer to question 3):

There was no apparent customer impact as a result of the breach in that no complaints were received by AHA or the AR in relation to telephone sales made by the AR during the period. However, in the absence of monitoring, it was not possible for AHA to verify compliance with disclosure obligations under the Corporations Act. It was confirmed that all customers received regulatory disclosure documents immediately following on-line sales. AIGA does not have correspondence from ASIC regarding the outcome but believes ASIC was satisfied with AHA's notification and rectification of the potential breach.

To prevent a recurrence, AHA arranged telephone call checklists for telephone sales staff of the AR to adhere to and implemented monitoring procedures for monthly reviews by AHA of all such staff. In addition, all ARs were subject to periodic compliance reviews by the AHA Compliance function.

Item: Failure to provide policy documentation and potential breach of the obligation to confirm transactions

Date: February 2009 to April 2009

Description:

In April 2009, AHA notified ASIC of a potential significant breach relating to sales of travel insurance products distributed via the website of a distributor appointed by AHA under ASIC's Class Order CO 05/1070. Under the arrangement, the products were issued by AIGA and distributed by the distributor as representative of AHA as product issuer.

A technological fault in the distributor's booking platform was identified in April 2009. As a result of the fault, 1,755 out of 75,286 travel insurance policies sold via the distributor's booking platform during the period were not assigned a policy number and relevant policyholders were not provided with a certificate of insurance. Failure to issue the certificates of insurance may have contravened section 1017F of the Corporations Act which imposes obligations on product issuers to confirm transactions in respect of retail client products.

Effect and remedy (where applicable, please also refer to question 3):

All affected policyholders were provided with the insurance cover under their respective policies including full policy and claims servicing. AHA manually re-issued the policy documentation to all impacted clients. AIGA's records indicate that a permanent solution to the fault in the distributor's booking platform was implemented by 15 May 2009. By letter dated 28 April 2009, ASIC advised that it did not propose to make any further inquiries in relation to the reportable event.

Item: Failure in AIGA policy administration and printing system resulting in PDSs not being provided to retail clients

Date: January 2012 to April 2014

Description:

On 15 May 2014, AIGA notified ASIC of a significant breach relating to a failure in its policy administration and printing system (the System). The failure resulted in a number of retail clients not being provided with PDSs within the time frame required under the Corporations Act.

The System included a document management system which allows for the extraction of data in order to issue policy documentation including PDSs. Prior to 2012, AIGA had printed and posted documents generated from the System. From January 2012, the task of printing documents from the System was transferred to a third party printing supplier located in Australia. As part of the transition to the supplier, a process was implemented involving extraction of data from the System into an Excel spreadsheet set up with 'macros'. The spreadsheet was then provided to the supplier for it to arrange the required hard copy communications to clients including PDSs. When AIGA created new products for direct marketing campaigns, the macros within the relevant spreadsheet were not updated and the data for the new products was not successfully imported. The spreadsheet did not therefore contain the new product data and the data was not sent to the supplier to print the required documentation.

Effect and remedy (where applicable, please also refer to question 3):

As a result of the issue, a total of 338 retail clients holding PA and related insurances with AIGA were not provided PDSs in the time frame required under section 1012B of the Corporations Act. Following detection of the issue, the Excel Macro in the System was immediately updated to include all required communications and to ensure the provision of PDSs to all relevant future retail clients within the time prescribed by the Corporations Act. The fix applied to all new products.

For clients who had paid premium in respect of a policy for which they did not receive a PDS, AIGA provided the clients with the PDS and offered them a refund in respect of all premiums paid to date as a form of redress. For clients who had yet to pay premium in respect of a policy for which they did not receive a PDS, AIGA provided these clients with the opportunity to consider the PDS terms prior to making a choice to pay for a relevant policy.

AIGA commenced a daily comparative review of the original raw data on the System with each daily print data file. The reviews were conducted each business day morning. This daily process continued until a permanent solution was implemented.

The permanent solution was implemented for production on or around 20 September 2014 and avoided the need for any form of manual intervention in respect of the System. By letter dated 14 October 2014, ASIC confirmed that it did not propose to take any action against AIGA given the steps taken by it including the permanent fix to the System.

Item: Incorrect product terms displayed in distributor's on-line sales path

Date: November 2013

Description:

On 26 November 2013, AIGA notified ASIC of a significant breach relating to sales of travel insurance products distributed via the website of a distributor appointed by AIGA under ASIC's Class Order CO 05/1070.

AIGA identified an error in the functionality of the distributor's purchase path being the page on the distributor's website where its customers had the option to purchase travel insurance products issued by AIGA.

The error arose as an unintended consequence of changes made by the distributor's 'E-Commerce Team' to upgrade its website to improve usability and customer experience. When arranging the upgrade, the distributor inadvertently attached the PDS link in the purchase path to the wrong PDS. The error resulted in the wrong travel insurance product being advertised to customers. In some instances, the PDS in respect of Platinum standard cover was displayed to customers, instead of the PDS for Gold standard cover as selected by them. The Platinum cover policy had higher sums insured than the Gold standard cover. Although the correct PDS was sent to the customer after the policy had been purchased, the Platinum cover PDS was erroneously displayed to customers at the point of sale. The erroneous purchase path went live on the distributor's website at 11:59pm on 1 October 2013. AIGA identified the issue the following morning during a review of the sales purchase path on the site. AIGA then advised the distributor of the issue and sought immediate remediation of the issue.

Effect and remedy (where applicable, please also refer to question 3):

A total of 92 international travel insurance policies were affected in respect of which customers were potentially induced to purchase the Gold cover on the basis of the Platinum cover terms. AIGA advised each of the 92 affected customers that, as a result of the breach, each customer had the benefit of Platinum cover.

Where claims were made on affected policies, AIGA agreed to respond to the claims on the basis of the terms of Platinum cover. Customers were charged only for Gold cover. Accordingly, customers suffered no loss.

To prevent a recurrence, AIGA arranged to provide better oversight and testing of any future website changes on all distributors' accounts. AIGA recruited an employee to work on the relevant distributor's physical premises and operations. The on-site employee was responsible for promoting AIGA's needs as well as understanding any upcoming website changes and completing more in depth UAT testing.

AIGA's travel team subsequently conducted monthly spot checks of website and sales path for all on-line travel distribution arrangements. By letter dated 16 December 2013, ASIC confirmed that it did not propose to any action against AIGA.

Other non-reportable conduct

Item: Complaints and dispute resolution

Date: July 2009

Description:

A compliance review conducted in July and August 2009 identified the following gaps in AHA complaints and dispute resolution process:

- no central responsibility for complaints and disputes;
- documented procedures need to be updated to ensure compliance with ASIC requirements;
- PDS documents do not contain contact telephone numbers to register a complaint;
- when claims were denied, customers were referred directly to AHA's IDRC rather than being provided with the opportunity to access the full two tier internal complaints process, as required by the Code of Practice.

Effect and remedy (where applicable, please also refer to question 3):

AIGA's records indicate the following steps were carried out by AHA as remediation:

- centralisation of the complaints and dispute handling processes;
- creation of a Complaints Handling Policy;
- standard wording in PDSs was amended to include contact telephone numbers.
- where a claim was denied, customers were provided with full details of internal and external complaints process, including the option for IDRC referral in the event that they remain dissatisfied with the initial response to their complaint.

More recently in 2017, AIGA created an internal checklist of key regulatory terms for inclusion in PDSs.

Item: Australian customers offered Singapore insurance policies

Date: November 2009

Description:

Australian residents were offered AIG Singapore travel insurance policies due to an error made by a distributor appointed by AHA which occurred during an update of the distributor's website. Approximately 1,030 customers had the AIG Singapore wording rather than the AHA wording displayed to them in the distributor's on-line purchase path.

Effect and remedy (where applicable, please also refer to question 3):

Our records indicate the error was fully resolved by AHA when all affected customers received the correct Australian policy wording via email.

Item: Required pre-sales oral disclosures not incorporated into inbound travel sales script and inbound travel sales inadequately monitored

Date: February 2010

Description:

Inbound direct sales were conducted through the call centre by the AHA Customer Service Group (CSG). An AHA compliance review undertaken in February 2010 identified the following issues:

- no written policy was in place confirming whether sales were to be made on a general or 'no advice' basis. Disclosures had been developed on a no advice basis

but the telephone sales script included a partial 'general advice warning' (GAW). The script highlighted that the GAW did not contain all of the disclosure detail required by section 949A of the Corporations Act;

- the script failed to comply in part with section 1012G of the Corporations Act as oral disclosure of certain features of the PDS had not been included in the script;
- a sample of recorded telephone sales conducted in December 2009 and January 2010 was reviewed to ascertain CSG staff adherence to the script. In 91% of cases, the GAW was not given to the customer.

Effect and remedy (where applicable, please also refer to question 3):

AIGA's records indicate that the following changes were implemented as a result of the compliance review by AHA:

- a no advice model was followed for travel sales with the GAW deleted in its entirety;
- the relevant script was amended to ensure full compliance with the Corporations Act;
- refresher training was provided to staff covering disclosures in the script;
- further call monitoring was undertaken to ensure that the script was followed.

Item: Improper sub-authorisation by AR and inadequate retail client product script

Date: March 2010

Description:

A compliance review undertaken by AHA identified that a corporate AR had not properly authorised its individual representatives. The Corporations Act requires each representative employed by a corporate AR to be notified to the relevant AFS licensee together with the activities that are to be performed including dealing and providing general advice. These processes were not adhered to by the corporate AR. In addition, it was identified that a product script utilised by the AR during tele-marketing product sales calls contained sections in relation to product information, exclusions and cover which were not scripted but could be stated 'free form'. All sales of Tier 1 products by non-Tier 1 accredited staff must be scripted. The script did not meet this requirement.

Effect and remedy (where applicable, please also refer to question 3):

Our records indicate that AHA and the corporate AR remediated the breach issues by 31 March 2010 by way of sub-authorisation procedures for the AR to follow, a revised comprehensive product script, training and increased monitoring of telephone sales.

Item: Lack of formal policies and procedures for the identification and management of conflicts of interest

Date: March 2010

Description:

A compliance review by AHA highlighted a lack of formal policies and procedures for the identification and management of any conflicts of interest. ASIC requires AFS licensees to adequately manage conflicts of interest through a combination of control, avoidance and disclosure. For conflicts management arrangements to be adequate, ASIC expects arrangements to be documented.

Effect and remedy (where applicable, please also refer to question 3):

AHA remedied the breach by May 2010. Formal conflicts of interest policy and procedures were prepared.

Item: Outbound 'retention' telephone calls to existing customers commenced without a product script

Date: April 2010

Description:

When the outbound retention function was established on 1 April 2010, relevant tele-marketing staff was not provided with scripting to use for customer calls. Approximately 300 customers were not informed that their calls were recorded. In the absence of a product script, it was not possible for AHA to verify that staff was adhering to a 'no advice' model.

Effect and remedy (where applicable, please also refer to question 3):

AIGA's records indicate the breach was remedied by AHA from 30 April 2010 when staff was provided with a full script and training was provided to relevant staff to follow a 'no advice' model. The script was placed in clear view of staff to ensure it was visible and followed during each outbound call. In addition, calls and procedures were monitored by the relevant team leader to ensure compliance.

Item: Error in customer 'welcome letters' regarding policy indemnity levels

Date: June 2010 to December 2011

Description:

In September 2012, lawyers acting for the estate of a deceased person queried the level of cover payable under a PA policy. AIGA identified a system and processing error in respect of 262 customer letters which inadvertently included incorrect information on indemnity levels for accidental death benefits under the PA policy. After customers purchased the relevant PA product, a welcome confirmation letter was mailed out to them. Upon investigation, it was identified that letters sent between June 2010 and December 2011 incorrectly listed the level of cover for the accidental death benefit as \$400,000 instead of the correct limit of \$100,000.

Effect and remedy (where applicable, please also refer to question 3):

AIGA remedied the breach by 31 October 2012. This involved a remediation letter being sent to all 262 customers identified as having received the incorrect welcome letter. The remediation letters explained the correct cover held and provided the PDS and a notice about AIGA's Complaint / Dispute Process. The fulfilment process for future welcome letters was reviewed and confirmed as having been rectified. The lawyers for the estate were advised of the error when AIGA reiterated the relevant cover was capped for the accidental death benefit at \$100,000.

Item: Failure to revoke and appoint ARs when converting from AHA to AIGA

Date: March to August 2011

Description:

As noted above, AIGA completed an intra-group transfer from AHA to AIGA effective 1 March 2011. A compliance review of the ASIC register of ARs undertaken in August 2011 revealed that five ARs remained active on the AHA's AFSL. In addition, there was only one AR appointed by AIGA under its AFSL. The status of ARs was not fully addressed at the time of the transfer. This requirement was inadvertently overlooked as part of the transfer activities completed during the transfer process.

Effect and remedy (where applicable, please also refer to question 3)

AIGA remedied the breach by 31 August 2011. This involved retrospective revocation with effect from 1 March 2011 of ARs on AHA's AFSL and retrospective appointment with effect from 1 March 2011 of one AR to AIGA's AFSL. All former ARs were advised of the administrative oversight and remediation. The remediation included the appointment by AIGA of former ARs of AHA as distributors of AIGA rather than as ARs. ASIC was notified of the matter via the ASIC portal and applicable late fees were paid to ASIC.

Item: Failure to include a statement regarding the Financial Claims Scheme in PDSs

Date: October 2011 to July 2016

Description:

In July 2016, AIGA identified that a number of its PDSs did not include a statement that the insured (a) may be entitled to payment under the financial claims scheme and that (b) access to the scheme is subject to eligibility criteria. The scheme is an Australian Government scheme which provides protection to policyholders in the event that an insurer fails. If the scheme is activated, most claims made against a general insurer by their policyholders or people with valid claims against the insurer are covered up to \$5,000. The obligation to make the required disclosure in PDSs is contained in Regulation 7.9.14D of the *Corporations Regulations 2001*.

Effect and remedy (where applicable, please also refer to question 3):

All relevant PDSs were amended during the period July to December 2016 to include the required disclosure. There was no customer impact as a result of the breach.

Item: Redundant information on former AR's website

Date: October 2012

Description:

By email dated 4 October 2012, ASIC notified AIGA of a link appearing on a former AR's website. The link referred incorrectly to the entity as an AR of AIGA and included a link to an out-of-date AIGA landing page.

Effect and remedy (where applicable, please also refer to question 3):

The former AR advised AIGA that the erroneous link was the result of a technological error on its part. The hyperlink on the website to AIGA's website was permanently disabled. All links referencing the AR relationship with AIGA were removed from the former AR's website. ASIC was informed of the remediation by letter dated 10 October 2012 and took no further action and closed its file.

Item Error in purchase path

Date: June 2013

Description:

Following a complaint by a customer in relation to the sale of travel insurance products distributed via the website of a distributor appointed by AIGA under ASIC's Class Order CO 05/1070, AIGA was contacted by Consumer Affairs Tasmania who advised that the insurance option in the website purchase path for airline bookings kept reverting to 'yes', even though the customer had opted out of the insurance.

Effect and remedy (where applicable, please also refer to question 3):

Upon investigation, it was determined that this was as a result of an IT error impacting approximately 70 customers since 1 May 2013. This amounted to an incident rate of less than 0.003%. A technical fix was implemented which resulted in no recurrence of the issue.

Item: Failure to provide PDS to retail clients

Date: November to December 2013

Description:

On 27 November 2013, it was identified that 54 retail clients did not receive a PDS in respect of PA insurance products distributed by a distributor by telephone sales.

At the point of sale, it is open to customers to determine to proceed with the purchase of a retail client product in the event they do not access to a PDS. In this case, the sales script included matters under section 1012G(3) of the Corporations Act – minimum ‘verbal PDS’ matters. Where a customer agrees that such information may be given over the phone, the PDS is required to be given within five days of the sale. There was an error in transferring the electronic sales data from the distributor to AIGA’s IT team, with the result that customer data was not entered onto AIGA’s system, and customers did not receive a PDS on time. By the time the error was realised some 54 policies were impacted.

Effect and remedy (where applicable, please also refer to question 3):

All customers had a 60 day free cover. While there were 54 affected policies, only 14 customers did not receive a PDS within the 60 day free period, and for whom, billing did not commence. This meant all customers effectively had 60 days rather than 14 days to exercise ‘cooling off’ rights. The 60 day free period did not relieve AIGA of the need to comply with disclosure obligations under the Corporations Act. However, in a practical sense, 40 of the affected customers received a PDS prior to having to commit to making payment for the cover. For those customers, the 60 day free period represented a de facto cooling off meaning that late disclosure was not material to the decision of whether to buy the PA cover.

There was no customer impact. The correct PDS was described over the phone at the time of purchase. Customers were not induced to buy a different (superior) product. As customers could have suffered loss because they had the incorrect PDS prior to making an election to purchase (i.e. the end of the 60 day free period), AIGA determined to provide the 14 customers with another 30 days of free cover together with the opportunity to cancel cover in that time frame. In addition, the customers received a \$50 gift voucher as an apology for the delay. Remediation was completed by 10 December 2013.

Item: Outbound ‘retention’ telephone call to existing customers commenced without a product script

Date: April 2014

Description:

On or around 6 April 2014, AIGA identified an issue involving the provision of incorrect PDSs in respect of travel insurance products distributed via the website of a distributor appointed by AIGA. The breach occurred as a result of a technological fault in the distributor’s on-line purchase path.

Effect and remedy (where applicable, please also refer to question 3):

The issue affected 202 customers. Following a comparative analysis of the PDSs, it was identified that coverage under the correct and incorrect PDSs was effectively the same. The breach was remediated within one day of identifying it. As part of the remediation, all affected customer received the correct PDS within the 14 day cooling off period.

Item: Customer did not receive PDS within the required time frame

Date: November 2014

Description:

On 22 May 2015, a customer phoned AIGA to advise that he had not received a PDS. It appears the PDS was not provided within the 14 day time frame required under the Corporations Act. The policy had been issued on 31 October 2014.

Effect and remedy (where applicable, please also refer to question 3):

AIGA provided a hard copy PDS to the customer by letter dated 22 May 2015. Call centre team leaders were advised of the breach. AIGA's records indicate that steps were implemented to ensure that all pending 'to do' tasks are monitored by relevant staff.

Item: Late filing with ASIC of PDS in-use and ceased availability notices

Date: October 2015 to November 2017

Description:

When arranging in November 2017 to discontinue some retail client products offered by AIGA, it became apparent that approximately ten in-use and ceased availability notices had not been lodged with ASIC on time during the period August 2015 to October 2017. The relevant products were issued by a managing general agent on behalf of AIGA under a binder arrangement.

Prior to November 2017, there were separate instances during the period (including those remedied in late 2017) when AIGA has filed in-use notice or ceased availability notice outside the time frame of five business days as required under section 1015D(2) of the Corporations Act.

Effect and remedy (where applicable, please also refer to question 3):

A full review of products issued under the binder arrangement was undertaken with a product schedule prepared. Once the status of products was confirmed, the applicable notices were lodged and all late filing fees were paid to ASIC. There was no customer impact as a result of the late ASIC filings.

As an interim measure to prevent a recurrence, an internal communication was sent to relevant underwriting and product managers in December 2017 to highlight the need for all AIGA underwriters and binder operators to inform AIGA Legal about new products and when products are discontinued. A review of the status of all retail client products currently offered by AIGA has been agreed to be undertaken by AIGA's Internal Audit Group in 2018. AIGA is considering other measures to prevent recurrence including whether to design a new product filing process to ensure compliance with the filing requirements, what internal functions should be involved and whether to leverage the existing consumer product development process.

Item: Incorrect PDS provided to customers

Date: June 2016

Description:

During the 2016 insurance period, a managing general agent acting under a delegated authority provided an incorrect PDS for a school PA policy underwritten by AIGA and distributed by the agent. In the incorrect PDS, certain policy benefits were listed as higher than those which should have been provided under the correct PDS.

Following the payment of a claim by AIGA based on the appropriate benefit for the cover under the correct PDS, a policyholder enquired why the payment was not for the amount shown in the incorrect PDS. In addition, upon receipt of the correct PDS, some policyholders questioned AIGA as to why the correct PDS reflected a lower level of coverage than that found in the incorrect PDS.

Effect and remedy (where applicable, please also refer to question 3):

This breach impacted approximately 3,000 policyholders being parents who held a policy distributed by the agent. However, the error in the incorrect PDS was limited to a small number of benefits with a higher level of coverage than the same benefits set out in the correct PDS.

The issue affected those policyholders with claims in respect of the benefits in question. The agent sent the affected policyholders the correct PDS approximately 30 days after inception of coverage.

In order to remedy any potential consequences to customers, AIGA agreed to honour the higher level of coverage under the incorrect PDS for all claims made as well as for any future claims made for the benefits in question.

Item: Unapproved product launch by managing general agent

Date: November 2017

Description:

AIGA has appointed a managing general agent (MGA) under a binder agreement to underwrite and distribute various marine pleasure craft and other products.

In October and November 2017, AIGA had been working with the MGA on two proposed new products which were not ready for approval or launch. On 10 November 2017, AIGA became aware that the MGA had made two (purportedly) final PDSs publicly available for sale. At AIGA's instruction, the products were withdrawn on 13 November with no sales. Under the relevant binder agreement, each new PDS requires approval of AIGA before product launch. The making available of the two PDSs appears to be a breach of section 1013A of the Corporations Act, which provides that a PDS must be a document that has been prepared by the issuer of the financial product.

Effect and remedy (where applicable, please also refer to question 3):

AIGA ensured the breach was remedied by 13 November 2017. This involved communications between senior management of AIGA and senior management of the MGA to understand how the unapproved launch occurred and to ensure the incident was a one-off with no risk of recurrence. These communications included advice as to the governance steps required by AIGA as issuer of the products including the need for product approval. As noted, the two products were removed before any sales were made.

C. Other insurance laws (Insurance Contracts Act and Code of Practice)

Item: Significant delay in handling of domestic travel insurance claim

Date: June 2016 to March 2017

Description:

AIGA has entered into the Code of Practice which is a voluntary industry code designed to ensure members uphold minimum standards when providing services including claims handling. The current version of the Code of Practice was adopted by AIGA on 30 June 2015.

On 2 June 2016, a claim was submitted to AIGA under a domestic travel insurance policy on behalf of four claimants for cancelled flights to the value of \$810. Between 2 June and 5 December 2016, AIGA exchanged correspondence with the claimants including seeking information related to the timing of the event giving rise to the claim, the identity of the parties under the policy and the residency of the claimants, relevant to deciding policy response. During this period, there were Code of Practice breaches by AIGA related to keeping the insured informed of progress of its required investigations and delay. They included a failure to provide information about the progress of the claim at least every 20 business days under section 7.13 of the Code of Practice. Given the number of Code of Practice breaches, AIGA determined on 13 March 2017 that the matter qualified as a significant breach notifiable to the Code Governance Committee under section 13.3 of the Code of Practice. Accordingly, AIGA notified the Code Governance Committee of the significant breach on 27 March 2017.

AIGA considers that this code breach represents conduct in breach of a professional standard.

Effect and remedy (where applicable, please also refer to question 3):

AIGA remedied the breach by 27 March 2017. As reported to the Code Governance Committee, the breach was an isolated event and there has been no other breach of a similar or related nature. Remediation involved a review of relevant claims handling procedures to ensure that roles, responsibilities and Code of Practice time frames are clearly understood by all stakeholders. The review was designed to ensure time frames stipulated under the Code are adhered to in future matters. This included specifying dates in internal communications where AIGA requires a response in order to meet Code of Practice obligations. The Code Governance Committee expressed satisfaction with AIGA's remedial actions and closed its file in November 2017.

Item: Delay in responding to complaints

Date: 2015 - 2018

Description:

As noted above, AIGA has entered into the Code of Practice to uphold minimum standards when providing services including complaints handling. The current version of the Code of Practice was adopted by AIGA on 30 June 2015.

AIGA automatically acknowledges all complaints within five days of receipt via its Global Complaints Management System (GCMS). Section 10.11 of the Code of Practice provides that AIGA commits to respond to complaints within 15 days of receipt.

There have been 439 complaints made against AIGA since September 2015 when the GCMS system was introduced. During that period, there have been 53 occasions where AIGA's response has exceeded the time frame set by clause 10.11 of the Code of Practice as follows:

- in 12 cases, AIGA's response was made one business day late;
- in 14 cases, AIGA's response was made two business days late;
- in 10 cases, AIGA's response was made three to five business days late;

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- in 12 cases, AIGA's response was made six to ten business days late;
 - in five cases, AIGA's response was made more than 10 business days late.

AIGA considers that collectively these code breaches (and particularly the five matters where the response date was more than 10 days after the time frame stipulated under the Code of Practice) represent conduct in breach of a professional standard.

As to the reasons for delay of more than 10 days, one of the complaints is described fully in the item directly above. AIG notes that another one of the complaints was not detected when it was sent to an AIGA employee who had left the company. Another complaint was received by a managing general agent of AIGA but not passed to AIGA for approximately two months. The reason for the delay in relation to the remaining two complaints was the complaints were received by AIGA but not passed internally to the AIGA complaints team.

Effect and remedy (where applicable, please also refer to question 3):

The effect of the misconduct is that complainants did not receive responses within a reasonable time frame. While AIGA considers there were unlikely to be significant consequences of the misconduct for individual customers, AIGA's practice includes an apology when responding to complaints where there has been significant delay.

AIGA is making arrangements for an additional resource in the complaints team with a business case pending approval.

AIGA would like to note that in terms of overall complaints handling, the delay in responding described above is an exception to what is otherwise an efficient and professional process. For example, AIGA highlights that market data published by FOS in 2017 in relation to handling of disputes including complaints indicates that retail clients of AIGA have a higher level of satisfaction with AIGA's claims and complaints processes, when compared to other insurers. The data offers insurer-specific guidance to consumers about the frequency of disputes lodged with FOS in relation to particular insurance products.

The relevant FOS data in respect of Home Building Insurance including Strata involved 24 insurers and indicates:

- AIGA was involved in 7 disputes per 100,000 policies with the range for disputes across all 24 insurers being 6.1 to 225.6 per 100,000 policies; and
- AIGA ranked with one other insurer as the second least likely insurer to be involved in a dispute in respect of this product.

The relevant FOS data in respect of Travel Insurance involved 15 insurers and indicates:

- AIGA was involved in 2.5 disputes per 100,000 policies with the range for disputes across all 15 insurers being 1.7 to 25.8 per 100,000 policies; and
- AIGA ranked as the third least likely to be involved in a dispute in respect of this product.

Item: Cancellation requests from premium funders

Date: 2016 - 2018

Description:

AIGA periodically receives requests from premium funding companies to cancel policies. The usual reason for the request to cancel is that the policyholder has defaulted in their repayment obligations under the lending agreement between the policyholder and premium funder. The premium funder usually asserts that cancellation rights under the policy have been assigned to it by virtue of clauses in the lending agreement purporting to transfer such rights to it in the event of default. However, the premium funder's rights may not include cancellation and accordingly AIGA may reject these requests. During the time period above, some cancellation requests in respect of Financial Lines policies held by small to medium

enterprises have been accepted by business units without appropriate checking of the funder's rights.

Effect and remedy (where applicable, please also refer to question 3):

Some policies have been cancelled on request by a premium funder, where a request or consent to the cancellation by the policyholder was also needed but not obtained. We are currently unaware of any adverse developments arising from any cancellations of this type. By way of remediation, applicable business unit management has been instructed not to accept cancellation requests by premium funders without review and prior legal approval.

D. Privacy laws

Item: Minor Privacy Breaches

Date: Period since 1 January 2008

Description:

During the period, AIGA has been party to a small number of data breaches involving personal information. AIGA's records indicate no more than five of such matters. The breaches generally involved the inadvertent disclosure of personal information to third parties or the transmission of personal information, for work purposes, from an AIGA employee email to personal email accounts.

Effect and remedy (where applicable, please also refer to question 3):

These isolated cases of unauthorised disclosure of personal information have involved minimal interference with the privacy of a small number of individuals involved. The nature, extent and effect of such breaches are assessed by AIGA Legal against the Office of the Australian Information Commissioner (OAIC) standards in relation to handling personal information security breaches (Standards).

The Standards set out a number of criteria to determine whether a privacy breach is sufficiently serious to warrant further action. The Standards and the outcome of the assessments for privacy breaches are set out in the table below:

Standard	Outcome
Any applicable legislation that may require notification.	None.
The type of the personal information involved and whether there is a real risk of serious harm arising from the breach including non-monetary losses.	Disclosure generally limited to a name and personal details no sensitive information was involved.
Whether a large number of people were affected by the breach.	Generally, only a small number of individuals impacted.
Whether the information was fully recovered without further disclosure.	Yes.
Whether the affected individuals have been notified.	Not necessary as there was no real financial or legal consequence from such disclosure.
Is there a reasonable expectation that the OAIC may receive complaints or inquiries about the breach?	No, impact limited to a small number of identifiable individuals.

Based on the above, the nature of the breaches referred to did not warrant any form of notification to the OAIC or any further corrective action save for the remediation of the particular unauthorised disclosure.

Item: Gaps in AHA's processes in privacy monitoring, disclosure and information handling

Date: July to August 2009

Description:

A Compliance review conducted in July and August 2009 identified that internal AHA policies governing privacy management and information handling and corresponding documentation

had not been updated since 2002. As a result, Compliance identified the following gaps in AHA's processes in respect of privacy monitoring, disclosure and information handling:

- a number of wording issues were highlighted in various product privacy statements, some of which were out of date and referred to compliance with a privacy code that was revoked in April 2006;
- customers were not always made aware of the option to opt-out of direct marketing either in PDS documents, privacy statements or during the sales process;
- sensitive information in relation to clients of Private Client Group (PCG) was being communicated by email, which is generally not considered to be a secure means of communication and is in breach of the AIGA Email Policy.

Effect and remedy (where applicable, please also refer to question 3):

Our records do not indicate any material impact on customers or unauthorised disclosure of personal information as a result of the gaps identified. AIGA's records indicate the following steps were carried out as remediation by AHA:

- the AHA privacy policy and other relevant policy documents were reviewed and updated to (i) remove outdated references and (ii) include requirements of the various laws in relation to health information;
- privacy statements were updated;
- telemarketing scripts for travel insurance were amended to include a privacy statement;
- an alternative and secure method was implemented when transferring personal information in respect of PCG policies.

Item: Privacy Act implementation delayed

Date: 2014

Description:

The *Privacy Amendment (Enhancing Privacy Protection) Act 2014* (Cth) as regards its key amendments, including the new Australia Privacy Principles, commenced on 12 March 2014. AIGA implemented changes for the relevant amendments, but due to IT system issues and unexpected challenges not all changes were in place in March 2014. These related mainly to the provision of privacy notices for certain products provided via an IT platform.

Effect and remedy (where applicable, please also refer to question 3):

Some privacy notices were not included and therefore not provided, although in many cases the notices were provided at a later stage in the transaction.

E. Discrimination laws

Item: Various complaints alleging discrimination

Date: various since 2008

Description:

During the period since 1 January 2008, AHA and then AIGA have received no more than five complaints in relation to potentially discriminatory conduct in relation to the provision of insurance.

Effect and remedy (where applicable, please also refer to question 3):

The complaints were either not substantiated or not pursued by complainants or the bodies representing them. While the complaints do not amount to misconduct as defined, AHA/AIGA has taken action of its own volition to review customer outcomes relevant to the complaints and to review and alter policy wordings relevant to the complaints. These reviews and the remedial action following them are referred to in AIGA's response to question 2, specifically in relation to the following items: 'Mental health exclusions in travel policies' and 'Exclusions of cover in leisure travel policies as a result of suicide'.

F. Tax and revenue laws (including fire/emergency services levies, stamp duty and GST)

Item: GST Audit

Date: January to August 2008

Description:

AHA was subject to a GST audit by the ATO in 2008. The audit identified several technical matters and the ATO eventually amended GST returns. Those adjustments covered matters in favour of AIGA as well as items resulting in additional GST payable.

Effect and remedy (where applicable, please also refer to question 3):

The net adjustment was approximately \$101,000 payable by AHA. Also reduced tax penalties of \$3,000 were applied along with a (reduced) general interest charge.

Item: Queensland State Revenue Office Insurance Duties Audit

Date: October to August 2010

Description:

AHA was subject to a specific issue Insurance duty review in Queensland relating to motor vehicle GAP insurance policies.

Effect and remedy (where applicable, please also refer to question 3):

For the five years under review, AHA was found to have undercharged insurance duty and was required to make a further duty payment of approximately \$86,000.

Item: Victorian fire services levy collected

Date: July 2013 – early 2014

Description:

AIGA inadvertently collected some Victorian fire services levy in respect of the (initial) period after the abolition of the levy from 1 July 2013. This affected approximately 375 policies and was caused partly by an IT system issue and partly by not fully implementing the applicable process change.

Effect and remedy (where applicable, please also refer to question 3):

The applicable fire services levy charges were reversed and/or the amounts were refunded to applicable customers. The issue arose following notice from the Victorian Office of Fire Services Levy Monitor and AIGA disclosed the instances and remedial action to that Office.

Item: New South Wales and Victorian payroll tax payment delayed

Date: October – December 2013

Description:

Payroll tax was inadvertently not paid for the period October to December 2013 for New South Wales and Victoria. This occurred during transition to an outsourced AIG Group human resources service provider and was due to inadequate project planning on the transition.

Effect and remedy (where applicable, please also refer to question 3):

Late payment penalties were imposed by both states: New South Wales \$9,965 and Victoria \$63,765 (in addition to the payroll tax amount due).

Item: AIGA employment taxes*Date: December 2013 to 2016**Description:*

In recent years, AIGA self-identified several matters relating to employment taxes (PAYG withholding and related matters) which have impacted on AIGA employees. The errors included applying an incorrect marginal tax rate following a move to a new payroll outsourcing model, a failure to take into account the correct superannuation contribution limits for some employees and an instance where superannuation contributions ceased for an employee for a short period.

Effect and remedy (where applicable, please also refer to question 3):

The contributions and withholdings were corrected and covered by AIGA. No employee was out of pocket.

Item: Victorian WorkCover audit*Date: February 2015**Description:*

An audit letter was received from the Victorian WorkCover authority in February 2015 relating to the total amount of wages declared in the WorkCover filing when compared with the total wages declared to the State Revenue Office of Victoria for the same period.

Effect and remedy (where applicable, please also refer to question 3):

The audit period covered the time when the AIGA business structure changed from a branch operation to an incorporated entity. The wages were reported across two entities during that transition period. However, when taken in total, the amounts were still not able to be fully reconciled. With the assistance of an external advisor, additional information was provided to Worksafe Victoria for all the years 2011 through to 2014. A net premium liability of \$1,132 was identified for 2011 and a penalty of \$1,223 was also applied for that year.

Item: Australian Capital Territory stamp duty return*Date: July 2015 to March 2016**Description:*

The Australian Capital Territory had progressively reduced its stamp duty rates in prior years. However, there was a late implementation of the 2015 duty rate deduction from 4% to 2% on 73 policies. The overcharged duty was \$ 3,173.

Effect and remedy (where applicable, please also refer to question 3):

The error was limited to only one distributor IT platform and it was corrected once it was identified. The rate on the platform was updated and applicable stamp duty refunded to customers.

Item: New South Wales monthly insurance duty payment delayed*Date: July 2016**Description:*

The July 2016 duty payment to the New South Wales tax office was made late. An interest charge of \$2,000 was initially assessed.

Effect and remedy (where applicable, please also refer to question 3):

Due to good payment history, and upon written request, the interest was waived in full during August 2016.

Item: New South Wales emergency services levy notices

Date: October 2016 – April 2017

Description:

AIGA was required pursuant to the *Emergency Services Levy Insurance Monitor Act 2016* (NSW) to include a (standard form) notice with invoices and other statements for applicable New South Wales insurance. In a review of initial compliance with the requirement, AIGA identified some instances where the notice was not included with the applicable new business or renewal document. In each instance the customer was represented by an insurance broker.

Effect and remedy (where applicable, please also refer to question 3):

In these instances the notices were not provided as required. AIGA disclosed the instances to the New South Wales Office of Emergency Services Levy Insurance Monitor in our response to that Office. AIGA remediated each instance by providing the notice to the insurance broker and drawing their attention to the fact that the notice had not been provided as part of a communication (as applicable) in the relevant transaction. AIGA also wrote to all relevant insurance brokers in September 2016 and asked them to provide a copy of the notice to their customers. AIGA undertook further reviews in January and April 2017. In the January review, further instances were identified, due an IT system error, but these were rectified by the time of the April review.

Item: New South Wales insurance duty on cyber insurance

Date: December 2016

Description:

Following an internal review, AIGA identified that the insurance duty rate applied to its CyberEdge product in New South Wales was incorrect. The short payment was quantified and a formal voluntary disclosure made.

Effect and remedy (where applicable, please also refer to question 3):

A full disclosure was made to the State Revenue authority on 18 October 2017. On 18 January 2018, AIGA was advised that the disclosure was accepted, no insurance duties audit would be undertaken, and no penalties would be applied however a reduced interest charge would be imposed. As at February 2018, the market interest rate assessment has not been received.

Item: New South Wales stamp duty on contractor's plant and equipment insurance

Date: February 2017

Description:

A distributor on behalf of AIGA applied a stamp duty rate of 5% on contractor's plant and equipment insurance consistent with industry practice, but two different rates for stamp duty should apply: 9% for all other covers and 5% for motor vehicle cover.

Effect and remedy (where applicable, please also refer to question 3):

There was a shortfall in collection of applicable stamp duty. The distributor has changed its application of stamp duty on this type of insurance. AIGA is considering any further remedial action required.

Item: New South Wales stamp duty return

Date: August 2017

Description:

AIGA lodged a stamp duty return to Revenue NSW at the beginning of August 2017 after the due date of 21 July 2017. This delay was caused by a shortfall in incorrect standard operational process being applied.

Effect and remedy (where applicable, please also refer to question 3):

AIGA did not have any fines or issue with Revenue NSW as stamp duty is paid on a monthly basis and the annual return submitted is the annual summary.

Item: Other tax and revenue related

Date: various

Description:

From time to time AHA and AIGA have had other revenue audits or individual charging discrepancies relating to fire services levy / emergency services levy, GST and stamp duty.

Effect and remedy (where applicable, please also refer to question 3):

AIGA does not have information on the outcomes of all earlier audits but does not believe the effects were material. AIGA has generally remedied the charging discrepancies by adjustments or refunds to customers.

G. Employment related laws (general employment law, workplace health and safety and superannuation)

Item: Workplace health and safety review

Date: July 2011

Description:

AIGA commissioned a review of its existing workplace health and safety management system documentation, including a gap analysis in relation to Australia Standard AS 4801 (Occupational Health and Safety Management Systems). The review report made various recommendations with the most relevant being that a corporate health and safety policy was required and all management receive health and safety training to understand the fundamental requirements of the model *Work Health and Safety Act*.

Effect and remedy (where applicable, please also refer to question 3):

From December 2012, AIGA implemented further steps taking into account the various recommendations in the review report including a commitment/statement signed by the CEO, the establishment of a Workplace Health & Safety Committee and incident registers.

Item: Superannuation contributions delayed

Date: January 2013 – December 2013 and early 2014

Description:

AIGA's employee superannuation contributions pursuant to the *Superannuation Guarantee (Administration) Act 1992* (Cth) were affected for four quarters when contribution payments for a small number of employees were returned by their nominated superannuation fund (mainly one fund). The cause was system-related (not necessarily limited to AIGA) between AIGA's external payroll service provider, a clearing house and the fund(s). Depending when within the quarter a payment was returned, some contributions could not be repaid directly to the fund within the required timeframe.

Effect and remedy (where applicable, please also refer to question 3):

The contributions affected were repaid to the ATO in accordance with the legislation required for on-payment to the fund. The external parties rectified the system issues progressively by early 2014.

Question 3 and answers related to question 1

If yes to either or both of questions one and two:

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

No. None of the misconduct identified under question 1 is the subject of another inquiry or investigation, or a criminal or civil proceeding.

Certain items of misconduct have been subject of some prior inquiry or investigation by a regulator as summarised in the items themselves, but no item has been the subject of any prior proceeding. Without limiting this, neither AHA nor AIGA has entered into any enforceable undertaking as a result of or in connection with the misconduct. Each of the four significant breaches notified to ASIC (refer to the response category 'Financial services laws') was remedied without any further ASIC action.

- (b) *Does the entity attribute any of the identified conduct, practice, behaviour or activity to the particular culture or governance practices of the entity? If so, describe that culture or governance practice.*

Generally, the answer is no subject to certain exceptions and comments below.

AIGA notes the identified misconduct was unintentional and inadvertent in nature and generally occurred as a result of human oversight or technological faults. AIGA is always mindful of the need to monitor and improve its culture and governance practices (we refer to the 'Governance' section for more information on this). However, from time to time during the period since 1 January 2008, AIGA acknowledges there have been gaps in AHA/AIGA's risk and compliance processes and procedures which form a key part of AIGA's governance practices.

The above comments apply to the misconduct described under all of the response categories in AIGA's answer to question 1. AIGA considers those gaps have decreased as AHA's and AIGA's compliance and risk framework has developed and improved since 1 January 2008 including as a result of the augmentation of the 'three lines of defence' model. In this regard, we also refer to the information in our answer to question 3(e)(ii) and particularly the improved Risk Culture Survey results.

One further aspect of good governance is to ensure the adequacy of controls around product development and distribution. AIGA considers that some of the instances of misconduct that relate to policy wordings may have been identified earlier and potentially avoided by having in place at the time of the misconduct more robust product development processes including input on product from risk and compliance functions.

In relation to AIGA's response to misconduct involving financial services laws, AIGA notes Chapter 7 of the Corporations Act includes strict technical obligations on licensees. Product issuers are subject to strict product disclosure obligations when providing financial services to retail clients. AIGA has demonstrated the ability during the period to detect misconduct issues and to remediate them expeditiously. The detection by AIGA of breaches of the Corporations Act and the ASIC Act does not in itself denote negative culture or governance practices of the entity. AIGA considers that it is in fact the failure to detect breaches which may be attributable to poor culture or governance practices. AIGA believes it is critical that breaches are detected to manage and avoid systemic breach issues or breaches of such a serious nature as to lead to the risk of prosecution by ASIC or entry into enforceable undertakings.

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- (c) *Does the entity attribute any of the identified conduct, practice, behaviour or activity to some broader cultural or governance practices in the industry or sector of the industry in which the entity operates? If so, describe those cultural or governance practices.*

Generally, the answer is no. The identified misconduct tends to relate to AIGA's own compliance processes and procedures and operational systems.

AIGA does not have any particular insight into whether there has been similar misconduct by insurers in the general insurance market, namely unintentional and inadvertent misconduct. It is possible that some conduct is influenced by market practices but we believe that their impact on the conduct is low.

- (d) *Does the entity consider that the identified conduct, practice, behaviour or activity results from other practices (including risk management, recruitment or remuneration practices)? If so, describe those practices.*

AIGA considers that particular manual work practices contributed to some of the identified conduct, particularly in relation to the instances of misconduct identified in the response categories relating to financial services laws and tax and revenue laws. Such work practices can be prone to human error or failure, especially when significant volumes of data are involved in a process or procedure or when there is a change in a process. Similarly, some of the issues identified have been attributable to legacy systems. Therefore, the misconduct identified resulted in part from operational practices such as manual work practice and legacy systems.

As to whether risk management practices caused any of the misconduct issues described, AIGA first refers to the comments about its risk management framework in the Governance section of this submission. AIGA considers sound risk management practices to be fundamental to the prevention of misconduct. While emphasising the nature of the misconduct as unintentional and inadvertent, AIGA considers that the misconduct described relates to individual risk management practices or the absence of such practices, and not to some general on-going practice. AIGA refers to its answers in question 1 under the 'Effect and remedy heading' and the answers to question 3(e)(ii) in this section which describe steps taken to prevent recurrence of the misconduct and demonstrate an over-arching framework dedicated to supporting individual risk management practices.

AIGA has gone to significant lengths since 1 January 2008 to develop what it considers now to be a robust risk management framework. AIGA is cognisant that sound frameworks, although key, cannot solely fully prevent instances of misconduct. In light of this, AIGA has made substantial investment during the last five years to embed a sound risk culture across the organisation. AIGA's risk management framework is proactive and forward-looking with a focus on identifying and managing emerging risks in addition to ensuring compliance with law, regulation, internal processes and policy standards. AIGA refers further to its governance framework and risk culture discussed in the Governance section of this submission. AIGA does not otherwise consider that the identified conduct or activity arises from other practices.

AIGA further considers that from time to time restructures including changes in personnel have contributed to gaps in business processes which can lead to oversights which result in misconduct.

We consider it unlikely that remuneration or recruitment practices caused any of the misconduct issues as the misconduct described in response to question 1 was largely as a result of oversight, or technological issues, rather than intentional, reckless misconduct such as deliberate mis-selling.

AIGA's Human Resources processes and practices across the 'hire to retire' employee lifecycle focus on ensuring that capability, conduct and culture are key considerations in our organisational decisions and actions relating to the hiring, performance management, development, compensation, and recognition of all employees. AIGA's promotes an

organisational philosophy according to which behaviours to achieve a result are considered as important as the result itself. The governance and controls which provide the important 'guardrails' for these activities have evolved for the better over time including during the period since 1 January 2008, shaped not only by our external environment but by internal efforts to drive the right behaviours and create a culture of integrity.

AIGA considers it has a proper balance between 'sales' staff and staff in governance functions including risk management, legal, audit and compliance.

(e) What steps has the entity taken to:

(i) remedy the consequences for consumers or other businesses of the identified conduct, practice, behaviour or activity;

Please refer to the answers to individual items in response categories above.

(ii) prevent recurrence of conduct, practice, behaviour or activity of the kind identified?

The following description of steps AIGA has taken to prevent a recurrence of identified conduct, practice, behaviour or activity is in addition to the steps described in section 1 of the submission.

Changes in approach to distribution of retail client products since 1 January 2008

A number of items listed under the response category for financial services laws involved breaches by AHA or AIGA's ARs. During the approximate period from 1 January 2010 to 1 January 2014, AIGA moved from a 'general advice' to a 'no advice' model. As part of this transition, AIGA made a strategic decision during the period to discontinue all existing AR appointments and to refrain from appointing any new ARs.

Instead of appointing ARs under its AFSL, AIGA now appoints distributors under Class Order CO 05/1070 or group purchasing bodies under ASIC Corporations (Basic Deposit & General Insurance Product Distribution) Instrument 2015/682. Unlike an AR, a distributor cannot be appointed to provide any form of financial product advice. The same applies to group purchasing bodies with very limited exceptions as regards the ability to provide advice. In addition, AIGA's managing general agents are appointed as binder operators to deal and provide advice under their own AFSLs. Accordingly, AIGA's distributors do not provide financial advice in relation to AIGA's general insurance products. The change by AIGA from a 'general advice' to a 'no advice' model (and the related discontinuance of its AR appointments) was motivated by governance considerations and the desire to prevent recurrence of misconduct by ARs and avoid breaches of the Corporations Act.

Historically, AIGA's Accident & Health business unit employed a series of direct tele-marketing campaigns involving Accident & Health products. The campaigns mainly involved tele-sales of PA products by internal staff or ARs. AIGA made a decision to discontinue direct marketing campaigns with effect from October 2014. Relevantly, a material reason why AIGA decided to do so was due to the number of misconduct items listed under this response category which involved breaches of Chapter 7 of the Corporations Act in relation to direct tele-marketing campaigns.

In tandem with the decision to discontinue direct tele-marketing sales of these products, AIGA has transitioned its business from a tele-marketing focus to a far greater emphasis on on-line sales environments. The relevance of this point to question 3(e) is that on-lines sales are less conducive to mis-selling. There is also far less scope for licensees and their representatives to fail to comply with disclosure and 'no advice' obligations in an automated on-line environment.

Risk management practices since 2013

In addition, and as outlined in the Governance section of this submission, AIGA promotes a sound risk culture through practices introduced in recent years that support and provide guidance to AIGA's risk takers including underwriters. These practices enable the detection and management of risk by promoting a risk discourse and culture throughout AIGA. At a holistic level, and as foreshadowed in the Governance section of this submission, AIGA relies on the following practices to prevent recurrence of misconduct.

- AIGA's 'Raise Your Hand' campaign was first launched in 2015. The campaign involves a 'message from the top' and provides an avenue for all employees to 'speak up' if an unacceptable risk or behaviour is identified.
- AIGA's Key Risk Indicator (KRI) framework was introduced in 2013, covers all risk types and is integrated across AIGA's business. The objective of the framework is to reveal emerging issues and potential risks. KRIs are reported on by business owners on a quarterly basis and tabled at the Risk & Capital Committee. Areas covered include compliance with law, regulation and codes of practice, complaints management, oversight of third parties and include reporting of any issue that could represent a risk to AIGA. The CRO has responsibility for escalating relevant risk issues to AIGA's Board Risk Committee.
- AIGA's managers are required to subscribe to a 'Culture of Integrity/Risk Management Goal' as part of their performance prerequisites. The goal encourages employees to raise their hand when they encounter potential concerns or questionable behaviour.
- AIGA conducts a Risk Culture Survey on a biennial basis. The latest survey was conducted in 2017. The results were divided into three risk focus areas, being (with percentage of positive answers):
 - leadership (73%);
 - people and communication (83%); and
 - challenge (accountability and reinforcement) (88%).

The results in each area were an improvement compared to the 2015 survey, particularly the third 'challenge' area. An Independent Risk Culture Review of AIGA was also conducted in 2017. The results of the survey and of the review were presented to AIGA's board.

- AIG Group's Operational Risk Events program was established in 2013 as a requirement of the Fed and requires AIGA to capture all risk events that lead to financial gain or loss, fraud, operational and business disruption, reputational impact, regulatory breaches or detrimental customer outcomes. Risk events are reported to AIGA's Board Risk Committee with emphasis on events with significant financial and regulatory impact.
- AIGA'S CRO provides a Risk Declaration to AIGA's Board Remuneration Committee on an annual basis advising whether the CRO is aware of a) any reasons why short term incentive payments should not be made to AIGA employees as planned and b) whether there has been any risk or compliance violation by AIGA's Chief Executive Officer and executive team.
- AIGA's monthly External Risk Event newsletter shares information on external risk events that have occurred in the financial services industry with key AIGA stakeholders.

Training Programs

As noted in the Governance section, training is a key component of AIG Group's overall risk and compliance framework. AIGA relies on training programs to prevent recurrence of the misconduct described in that section.

Enterprise Risk Management delivers required training to all employees under a Risk Awareness Program. AIG Group's Global Compliance Group is responsible for developing and implementing an annual global compliance training program addressing enterprise-wide key compliance topics, which is designed to enhance employee knowledge and understanding of compliance policies and procedures, laws, regulations and standards of good business conduct. In addition, AIGA's Risk, Legal and Compliance teams provide regulatory specific risk and compliance training, as required. Local training includes face to face training in relation to financial services laws including breach detection and management.

AIGA's Whistleblower Program

AIGA has maintained a whistleblower protection program since May 2013. The program includes a whistleblower policy which is reviewed annually by AIGA's Compliance Department. Revised versions of the policy are approved by AIGA's Board Audit Committee. Staff of AIGA receives training in respect of the program. The whistleblower program promotes protected disclosures by whistleblowers over and above the current applicable minimum standards in the Corporations Act. In addition, AIGA's whistleblower program and policy apply to protect whistleblowers when they disclose matters representing a broad range of 'misconduct' over and above the current applicable Australian whistleblower laws which provide protection only in respect of contraventions of the Corporations Act. The policy provides for protected reporting mechanisms to allow whistleblowers to disclose misconduct other than to their managers.

AIGA highlights the whistleblower program in response to question 3(e)(ii) (as it applies to AIGA's answers to question 1) as the program promotes disclosure of a broad range of 'misconduct' and protects whistleblowers who disclose the 'misconduct'.

Improved complaints processes

AIGA recognises the importance of an efficient complaints handling system as a means to manage and avoid misconduct. AIGA highlights the following recent improvements in its complaints handling.

In the period prior to 2015, complaints were recognised mainly in claims handling but not across all areas of AIGA. The appointment of a Complaints & Disputes Manager in 2015 ensures that complaints are identified and registered enterprise-wide and that the management and rectification of complaints remains completely independent of AIGA personnel against whom complaints are made.

In addition, the Global Complaints Management System (GCMS) was introduced by AIG Group worldwide to have one common system for the management and recording of complaints. AIGA introduced GCMS in December 2015 after customising the program to meet requirements of the Code of Practice. GCMS's reporting functionality allows quick and easy access to complaints registered and managed in Australia. GCMS records all outcomes and is a single repository for all complaints documentation.

Since 2015, all AIGA complaints documentation has been updated including AIGA's Complaints Handling Policy and Complaints Handling Procedure. AIGA has also introduced an on-line complaints form and process.

Product Development Procedures

Prior to the launch of significant new offerings, AIG Group employs a product development process, which is intended to identify risks which may be emerging or unique to the product. This process includes an evaluation by cross-functional representatives from the business and support functions, including risk and control groups, to serve as a preventative measure for conduct which is not beneficial to the customer.

AIGA has augmented its product development processes in recent years. An updated product checklist was introduced in November 2016 to ensure that throughout the AIGA product development process, consideration is given to stakeholder engagement, AIGA's Risk Appetite and Risk Profile, the operating environment, regulatory obligations, relevant distribution requirements and operational impacts and service delivery.

Conduct below community standards and expectations (questions 2 and 3)

Question 2

Has the entity identified any conduct, practice, behaviour or business activity it has engaged in (including by its directors, officers or employees, or by anyone otherwise acting on its behalf) since 1 January 2008, which it considers has fallen below community standards and expectations? If so, what is the nature, extent and effect of that conduct, practice, behaviour or activity?

Answer to question 2 and as related question 3

We refer to the information about AIGA's approach to its legal, compliance and related obligations under our answer to the misconduct question 1 above. This information is relevant to AIGA's efforts to ensure that its conduct, practice, behaviour or activity does not fall below community standards or expectations.

AIGA considers the relevant standards and expectations have evolved over the course of the period under review. In the context of financial services, there has been a general trend towards greater regulation and consumer protection. For completeness, AIGA has considered its conduct and activity according to the prevailing standards and expectations of the day as well as against today's community standards and expectations, which include an expectation to be treated fairly and honestly.

It is also important to note that much of the conduct identified below was consistent with general insurance industry or wider financial services practices at the time of the conduct. AIGA highlights instances where community dissatisfaction may not have been limited to AHA or AIGA's conduct. AIGA does not believe that any of the identified conduct constituted misconduct.

Within this context, the conduct we have identified is set out below in three categories and chronologically within each category.

A. Conduct relating to direct marketing

Item: Direct Marketing PA products

Date: 2008 to 2014

Description:

Part of the Accident & Health business of AHA/AIGA from the 1970s to October 2014 was known as 'Direct Marketing'. This involved 'direct to consumer' tele-marketing teams which promoted Accident & Health products and particularly PA insurance through internal sales staff or authorised representatives. The relevant products were evergreen or continuous in nature and AIGA was generally not permitted to cancel the products for reasons other than non-payment of premium.

While the Direct Marketing business involved many customers, correspondence was not regularly sent by AHA/AIGA to them. Over time, AHA/AIGA lost contact details for some customers as well as customer application forms which represented evidence of a customer's decision to take out the evergreen cover. More generally, AHA/AIGA did not implement a process by which customers received updates or annual statements in relation to the Direct Marketing products they held in terms of a yearly statement of premiums collected or yearly correspondence confirming cover. We note a significant number of the Direct Marketing products were underwritten by AHA prior to the introduction of the financial service regime contained in Chapter 7 of the Corporations Act. Further, the vast majority of the Direct Marketing book of business was underwritten by AHA prior to 1 January 2008.

We have identified this item based on what AIGA considers to be expectations of customers to be provided with regular information about the nature of products held by them. AIGA acknowledges these community expectations.

Effect and question 3 (including remedy)

As to the effect of the conduct, some customers who held Direct Marketing products issued by AHA/AIGA were not aware of the products. Others customers were aware of the product when first purchased but later forgot. Our records indicate that since 1 January 2008 approximately eight customers have complained to AHA/AIGA that they never purchased the product.

Question 3(a): The identified conduct is not the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to the culture of the entity. Save to repeat the point that AHA failed to implement a process by which customers received updates in relation to the Direct Marketing products they held, AIGA does attribute the conduct to governance practices at the time. We emphasise the relevant conduct occurred mainly in the period prior to 1 January 2008.

Question 3(c): AIGA's response to question 3(c) is no.

Question 3(d): AIGA considers that the issues identified in relation to the Direct Marketing products could have been avoided with a more robust product design and development process during the period from the commencement of the Direct Marketing in the 1970s.

Question 3(e): AHA/AIGA has refunded premiums to Direct Marketing customers where we have been unable to locate a copy of their signed application form which confirmed authority to debit their bank account or credit card. AIGA discontinued Direct Marketing campaigns with effect from October 2014. As a result, the Direct Marketing book is in 'run-off'. Further, AIGA conducts monthly screening of 'run-off' customers to ensure that necessary action is taken to cease deductions and cancel products when certain age limits are reached and to offer an alternative policy (on an opt in basis) to senior customers who reach applicable age limits. These offers operate as an exception in the sense that the Direct Marketing book is otherwise in run-off.

Item: Migration of Direct Marketing PA products to new/alternative products

Date: 2008 to 2012

Description:

As a result of the various Direct Marketing campaigns conducted by AHA commencing in the 1970s, a large number and variety of different PA products were issued by AHA and AIGA. From time to time, AHA/AIGA resolved to consolidate and modernise the numerous products by way of customer 'migration' programs. The migration campaigns commenced in 2007 and concluded in February 2012. The campaigns involved AHA/AIGA advising customers advising customers that existing PA products would be terminated in 60 or 90 days of the date of the letter and that the customers would be 'migrated' to a different PA product. AHA/AIGA wrote to them explaining that existing products were being terminated and at the same time provided details of the product to which customers would be migrated. The majority of AHA's Direct Marketing business was migrated to updated PA products.

AHA/AIGA 'migrated' customers from product to product without the specific approval of customers. However, customers were provided with the option to cease their existing cover rather than being 'migrated' to the new PA product.

The migration campaigns became necessary because AHA did not contemplate or adequately plan for the need to consolidate and update the numerous PA products sold via different Direct Marketing campaigns. The lack of product planning referred to took place mainly in the period prior to 1 January 2008 while the attempt to manage the lack of planning was addressed during the period by way of migration campaigns. We have identified the need for AHA to conduct the relevant migration campaigns as conduct falling below community standards and expectations as at today and, potentially, as conduct falling below the standards and expectations at the time the migrations occurred.

Effect and question 3 (including remedy)

As to the effect of the conduct, it was not uncommon for the price of the relevant products to increase on migration. Product coverage also changed upon migration. Customers made complaints to AIGA/AHA at the time of migration or at a later date.

Question 3(a): The identified conduct is not the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to the culture of the entity. In terms of governance practices, AIGA considers that the various migration programs could have been avoided with a more robust product design and development process commencing in the 1970s.

Question 3(c): AIGA's response to question 3(c) is no.

Question 3(d): AIGA considers that the migration campaigns became necessary because AHA/AIGA did not contemplate or adequately plan for the need to consolidate and update the various PA products sold via different Direct Marketing campaigns. As noted above, AIGA also considers that the various migration programs could have been avoided with a more robust product design and development process.

Question 3(e): The last migration campaign was conducted by AIGA in January and February of 2012. In addition, AIGA made a decision to discontinue Direct Marketing campaigns with effect from October 2014. We refer also to comments made earlier in this submission in respect of augmentation of AIGA's product development processes and procedures. These processes and procedures serve to highlight product features for internal review and consideration.

B. Conduct relating to travel policies

Item: Exclusions of cover in leisure travel policies as a result of suicide

Date: *Approximate period 2009 to February 2014*

Description:

In late 2008, AHA denied a claim made under a travel insurance policy issued by AHA which involved a claim for loss as a result the suicide of the policyholder's niece. The nature of the loss was cancellation expenses. The relevant policy wording at the time excluded loss in respect of suicide by a family member. The claimant referred AHA's decision to deny the claim to FOS. In February 2009, FOS made a determination to uphold AHA's claim denial. A similar claim was made by a policyholder in 2011. Again, FOS upheld AIGA's denial in a determination made in September 2011.

Subsequent to these claims, AIGA reviewed its position in respect of the relevant exclusion. The review culminated in a decision made by AIGA to narrow the operation of suicide exclusions in all travel insurance policy wordings so as not to exclude cover as a result of loss including cancellation expenses incurred as a result of a family member's suicide. The relevant changes were made with effect from February 2014.

AIGA considers that broadly speaking community expectations are that insurers should provide cover in circumstances where a family member commits suicide. AIGA considers that the inclusion by it of broad exclusions for suicide prior to February 2014 did not meet community expectations and standards as at today. Notwithstanding AIGA's decisions to deny the two claims were upheld by FOS, AIGA considers that, potentially, such exclusions did not meet expectations of the day in the period prior to February 2014.

Effect and question 3 (including remedy):

Question 3(a): The identified market conduct is not the subject of any other inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to any particular culture or governance practices of AIGA.

Question 3(c): At the time of writing, AIGA's research indicates the industry as a whole has not been pro-active in making amendments to ensure exclusions in respect of suicide do not extend to the suicide of others including family members. Save to say it is difficult to state with any certainty whether the continuing practice of broad form exclusions for suicide is attributable to a broader cultural practice in the industry such as the stigmatisation of suicide, AIGA's response is no.

Question 3(d): AIGA does not consider that the conduct results from recruitment or remuneration practices. As risk management practices, AIGA considers that the conduct could have been identified earlier and addressed as part of a more robust product design and development process.

Question 3(e): AIGA confirms the review of the exclusion relating to suicide in travel insurance products culminated in AIGA amending the exclusion with the result the exclusions apply only to suicide committed by the policyholder. As to prevention of a recurrence, AIGA has augmented its product development processes since the conduct as referred to above and there is no scope for recurrence.

Item: Mental health exclusions in travel policies

Date: *Approximate period September 2009 to June 2014*

Description:

While the Victorian Equal Opportunity & Human Rights Commission wrote to four insurers in July 2017 advising it was commencing an investigation into the issue of possible unlawful

discrimination on the grounds of mental health disability in the provision of travel insurance services, the issue of mental health exclusions in travel policies has been a long-standing issue for Australian general insurers and their customers.

Effective mid-2014, AIGA determined to remove mental health exclusion from travel policies to ensure its travel policies met its customers' needs. AIGA considers that broadly speaking community expectations are that mental illness should be treated like any other illness. By including mental health exclusions in travel insurance policies in the period to mid-2014, AIGA considers that it together with other insurers did not meet such expectations by reference to community expectations today and potentially also by reference to expectations of the day in the period prior to June 2014.

Effect and question 3 (including remedy):

Question 3(a): The identified market conduct is not the subject of any other inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to any particular culture or governance practices of AIGA save to say that the conduct could have been identified earlier and addressed as part of a more robust product design and development process.

Question 3(c): While mental health exclusions have not been included in AIGA's policy wordings since mid-2014, the industry as a whole has not been as pro-active in removing the relevant exclusions. As to whether the inclusion of the exclusions is attributable to some broader cultural practice in the industry such as the stigmatisation of mental health, AIGA considers any such practice to be unnecessary and unfair.

Question 3(d): AIGA does not consider that the conduct results from recruitment or remuneration practices. As to risk management practices, AIGA reiterates that the conduct could have been identified earlier and addressed as part of a more robust product design and development process.

Question 3(e): AIGA first reviewed its position in respect of excluding claims based on mental health policy exclusions in May 2013. This was part of an AIGA product development process. The review acknowledged public and political views on the treatment of mental health exclusions in travel insurance policies. The review process culminated in AIGA removing mental health exclusions from all leisure travel wordings by mid-2014. AIGA's records indicate that at no stage during the period from 1 January 2008 to date did AIGA include mental health exclusions in any of its corporate travel wordings. As to prevention of a recurrence, AIGA has augmented its product development processes since the conduct as referred to above and there is no scope for recurrence.

Item: Gap in coverage in AIGA travel policy

Date: July 2015

Description:

During October 2014, AIGA launched a number of new travel insurance products for distribution via the website of a distributor appointed by AIGA under ASIC's Class Order CO 05/1070.

One of these products provided cover for cancellation of flights due to volcanic events (Product). However, the Product terms did not cover additional accommodation, meals and travelling expenses arising from such an event (Expenses). Further, the Product was only marketed for travel to Indonesia, Malaysia, Singapore or Thailand.

Coverage for Expenses was provided under a similar travel product also forming part of the launch which was targeted to cover all destinations worldwide.

Following significant publicity around the fact that the Product did not cover Expenses, AIGA agreed to facilitate payment of claims under the Product for Expenses.

AIGA considers that community expectations were not met in relation to the Product for the following reasons;

- there were no clear reasons why the Product, which was targeted to travellers to Indonesia, should be limited in coverage in respect of Expenses where other travel insurance products marketed to clients travelling to all other destinations did not contain such a limitation on coverage; and
- due to continuous volcanic activity, Indonesia is prone to flight cancellation. Accordingly, the potential for flight cancellation and claims for Expenses is a high probability as regards travel to Indonesia. Considering such cover is found in policies of a similar type (which are targeted to travel in regions which are not so prone to these types of flight cancellation), a traveller would expect that a policy covering trips to Indonesia would cover Expenses.

Effect and question 3 (including remedy):

Consumers who purchased such cover faced a gap in policy coverage when their flights were cancelled as a result of the 2015 Bali Ash Cloud Event. However, there was no impact to customers. Customers were granted cover for Expenses.

Question 3(a): The identified conduct is not the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to the culture of the entity. As to whether AIGA attributes the conduct to governance practices of the entity, AIGA considers it erred in assessing the suitability of the product for the targeted travellers and that the conduct could potentially have been avoided with a more robust product design and development process at the time the Product was designed and launched.

Question 3(c): AIGA's response is no. The Product was offered only by AIGA.

Question 3(d): Yes insofar as AIGA considers that the issues associated with the Product could have been avoided with a more robust product design and development process which forms part of AIGA's risk management practices.

Question 3(e): AIGA agreed to meet claims for Expenses provided that:

- the claimant originally held a return flight between the dates of 4 July 2015 and 13 July 2015;
- the claimant purchased a travel insurance (Return) policy via the embedded purchase path via internet; and
- such policy was purchased prior to 8 July 2015.

If these criteria were fulfilled, cover was extended for Expenses under an equivalent AIGA policy wording.

In addition, AIGA withdrew the travel policy in question in March 2016 and replaced it with another policy which provided the likely expected coverage for Expenses. AIGA has augmented its product development processes as referred to above to prevent recurrence.

Item: Opt out mechanism for sales of travel insurance policies through a single distributor

Date: 2008 to 2017

Description:

During the period, the election by customers to purchase AIGA travel insurance products from the website of a distributor appointed by AIGA under ASIC's Class Order CO 05/1070 was by way of pre-selection or 'opt out'. This means customers were required to 'untick' or 'unselect'

the insurance coverage as opposed to actively making a decision to select or opt in to the coverage.

While there is nothing in the law which prohibits making use of the opting out sales mechanism and adequate disclosure was made to each customer as to the impact and operation of the opt out mechanism, AIGA has nevertheless made a decision to discontinue the opt out option for sales made via the particular distributor.

By changing the opt out mechanism in relation to the relevant distribution channel, AIGA considers it has addressed community expectations as follows:

- there were no clear reasons why the particular insurance distributor should operate under a pre-selection opt out model save that it was offering non-financial products on an opt out basis;
- consumers should make a conscious decision to purchase travel insurance rather than decide not to purchase the insurance; and
- opting out could potentially result in a situation where a particular customer purchases insurance which they may not want or require.

We note all other distributors of AIGA's travel insurance products have operated an opt in mechanism in the sales path throughout the entire period since 1 January 2008.

Effect and question 3 (including remedy):

AIGA does not consider there to have been any material impact to customers as the percentage uptake of the insurance by way of opting in since July 2017 has been consistent with comparable travel insurance sales made by way of opting out.

Question 3(a): The identified conduct is not the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b): AIGA does not attribute the conduct to culture practices of AHA/AIGA. As regards governance practices, AIGA attributes the conduct to product development processes not existing at the time the on-line 'opt-out' sales mechanism was first developed in approximately 2006.

Question 3(c): AIGA's response to question 3(c) is no.

Question 3(d): AIGA's response to question 3(d) is no.

Question 3(e)(i): AIGA/AHA has made premium refunds to both opt in and opt out customers in response to queries or complaints about how they came to take out the relevant travel cover. AIGA's records indicate that during the period from 1 January 2008 to date refunds were made to approximately 53 customers who made complaints about pre-selection. This compares to approximately two million policies sold during the same period.

Question 3(e)(ii): AIGA discontinued the opting out sales path for this distributor with effect from 1 July 2017. This change was made at the same time the distributor moved to an opt in model for its non-financial products. Accordingly, AIGA no longer sells travel insurance via pre-selection on the particular distributor's website. We refer also to earlier comments noting the augmentation of AIGA's product development processes and procedures which AIGA considers assist in highlighting aspects of distribution such as opt out for internal review and close consideration from a governance perspective.

Item: Information about known events excluded under travel insurance policies

Date: 2017 to 2018

Description:

As with all insurance, travel insurance products will not cover a loss in respect of known events. For travel insurance policies, examples of known events may be volcanic activity or other natural disasters which are widely reported in the media and generally known to the

public. Once reported, the event becomes a 'known' event and may not be covered if the travel policy is subsequently purchased as the ongoing volcanic activity or other natural disasters and associated disruptions are no longer 'unforeseeable'.

With the rise of and increasing use of the internet and social media sites, insurers have the opportunity to improve customer service by providing relevant and updated travel information on known events faster than previously and to a far wider audience which may be impacted by the disaster in question both at the point of sale of the insurance and in real time through their online distribution channels and social media.

For example, in relation to the insurance impact of ongoing volcanic activity on Mt. Agung in Bali during 2017, AIGA took a pro-active approach to inform customers they would only be covered in respect of loss as a result of the known event, being the volcanic activity on Mt. Agung in Bali, if they had bought policies before 22 September 2017.¹ AIGA provided such confirmation by statements published on the distributor's purchase path, social media and its website.

AIGA appreciates there may be increasing expectations of customers to be provided with all factual information relevant to the nature, limitations and extent of coverage as and when purchasing a travel policy, especially when such information can be disseminated far more effectively through better use of social media and technology. In this sense, AIGA appreciates these increasing customer service community expectations indicate that the steps taken to date to inform customers about known events may still be insufficient, and therefore, fall below community expectations.

Effect and question 3 (including remedy)

Question 3(a): The identified conduct is not the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b) to (d): Save to say that AIGA understands the identified conduct exists across the travel insurance market, AIGA's response to each of these questions is no.

Question 3(e): AIGA is currently reviewing the nature of information about known events provided at the point of purchase in all distribution channels including by AIGA direct to customers and when products are sold via distributors' websites. This review will also examine the most effective use of social media when providing such travel information.

¹ The reason for this particular date is the Indonesian Government issued a volcano travel alert on 22 September 2017 and which alert was then subsequently widely reported in the press.

C. Conduct relating to add-on insurance

Item: Add-on insurance

Date: Progressively to date

Description:

Add-on insurance products in this context comprise consumer credit insurance (CCI), guaranteed asset protection (GAP) insurance, loan termination insurance, tyre and rim insurance and mechanical breakdown / extended warranty insurance. The products are usually distributed via financial institutions, retailers or motor dealers, as an 'add-on' to another purchase. There has been increasing ASIC, media and other scrutiny of these products. ASIC has issued its reports being Report 470 *Buying add-on insurance in car yards: Why it can be hard to say no* (dated February 2016) and Report 492 *A market that is failing consumers: The sale of add-on insurance through car dealers* (dated September 2016), as well as various ASIC media releases regarding its further work with individual insurers. The issues included high commissions payable to distributors along with low loss ratios (percentage of claims compared to premiums).

We have identified this item based on the expectations appearing to apply to the market as a whole. AHA and then AIGA have intermittently offered some add-on insurance products, being extended warranty, GAP, tyre and rim and CCI, via retailers or motor dealers. However, AIGA has not been a major participant in this market. In 2016/17 we issued approximately 241 policies in total (GAP, tyre and rim and CCI) with gross premium of just over \$100,000.

Effect and question 3 (including remedy):

The conduct at a market level has generally resulted in products with mixed value outcomes for customers, in terms of cost and cover.

Question 3(a): The identified market conduct is the subject of an ongoing general ASIC inquiry or investigation, as referred to above.

Question 3(b): We do not attribute the conduct to any particular culture or governance practices of AIGA, subject to more product development procedures applying over time.

Question 3(c): We do attribute the conduct to some extent to the nature of the product types in the market.

Question 3(d): We do not consider that the conduct results from our risk management, recruitment or employee remuneration practices, but distributor remuneration would have been a factor in the conduct.

Question 3(e): AIGA ceased offering mechanical breakdown / extended warranty products in November 2010. AIGA has taken into account the ASIC reviews and in 2017 has progressively discontinued most of the above add-on insurance products. Where AIGA offers any remaining product, we will review the commissions, cover and cost as well as implement any applicable deferred sales model.

RSE licensee (question 4)

Question 4

For an entity that is, or has a connection (other than an incidental connection) to, an RSE licensee of a registrable superannuation entity (as defined in the Superannuation Industry (Supervision) Act 1993 (Cth)):

- (a) During each of the past ten years (according to whatever annual reporting periods the entity has employed in the ordinary course of its operations) to what uses and in what amounts has the entity applied members' funds other than the investment of those funds, the administration of the fund and the payment of member benefits?*
- (b) In respect of each kind of those other applications of members' funds, why was that application in the best interests of members?*
- (c) What are the cost centres that make up costs attributed to administration in each of those years?*

Answer to question 4

This question is not applicable to AIGA. AIGA is not an RSE licensee and its only connection to any RSE licensee is by virtue of being an employer for the purposes of superannuation contributions of its employees.

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