



# Systemic issues insights report

Financial year 2021–22

Edition 1



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# About this report

Regulatory Guide 267 *Oversight of the Australian Financial Complaints Authority* requires AFCA to identify, refer and report systemic issues arising from complaints to the regulators. AFCA must also report any serious contraventions of the law and other reportable matters listed in section 1052E of the *Corporations Act 2001* (Cth).

AFCA's work in this area, and the reports we make to relevant regulators, enables regulators to take action as appropriate.

In this report AFCA shares recent case studies, findings and key insights from a range of systemic issues cases across the industry.

## Summary of outcomes delivered



Identified and investigated systemic issues resulting in remediation to

**167,033** consumers



Conducted **153** detailed systemic issues investigations



Resolved **46** systemic issues (including those identified in prior years) with financial firms



**\$18,275,607** in refunds were made to consumers

Ensured other outcomes for consumers such as:

- reinstatement of life insurance policies
- travel insurance policy premium refunds
- corrections to consumer credit reports
- corrections to interest rates applied on home loans, and
- waiver of annual premium payments.

# Reporting to regulators



**90** reports made in the financial year 21–22



**67** systemic issues reported

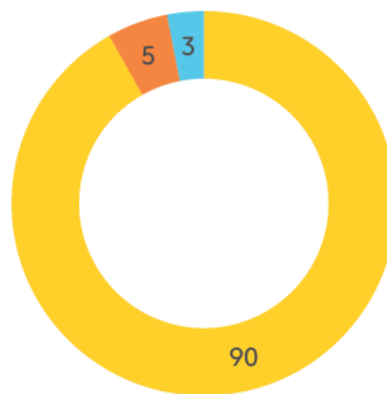


**23** matters reported (referrable under section 1052E of the *Corporations Act 2001* (Cth)) including:

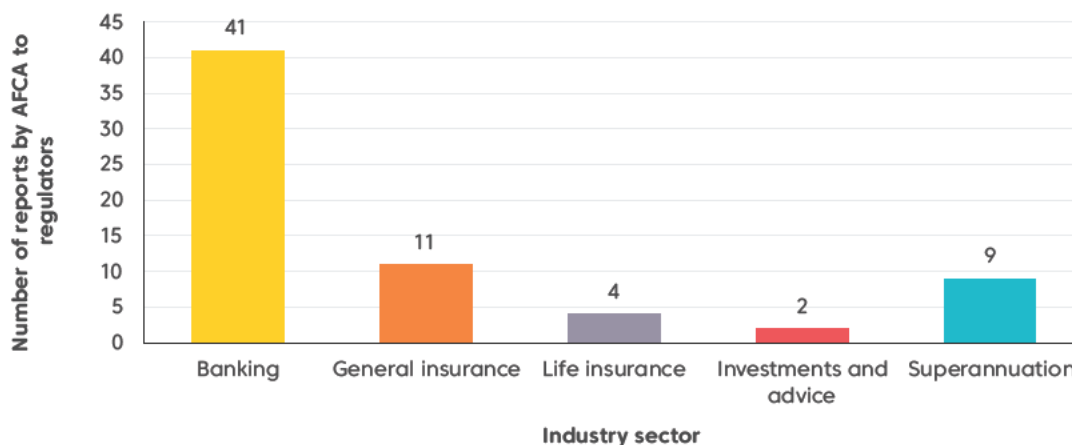
- **1** serious contravention of the law
- **19**<sup>1</sup> refusals or failures by parties to give effect to an AFCA determination, and
- **3** settlements that may require investigation.

## Total reports to regulators across the financial year<sup>2</sup>

- Reports to ASIC
- Reports to APRA
- Reports to other regulators (such as OAIC, ATO)



## Systemic issue reports referred to regulators across industry sectors



<sup>1</sup> One report related to unpaid determinations arising from the conduct of Aboriginal Community Benefit Funds (ACBF) and represented many unpaid determinations.

<sup>2</sup> Refers to total reports across the financial year including systemic issues and other matters reported, with some reports provided to more than one regulator.

# Common systemic issues across industry sectors

Below are some case studies involving systemic issues across different areas of the financial services industry. They impacted groups of consumers who had not lodged a complaint with AFCA.

Some systemic issues impacted large numbers of consumers while others impacted a small group. No matter the size of impacted consumers, financial firms worked to ensure that consumers were remediated fairly and appropriately.



## Banking and finance

### Errors in credit listings

A financial firm was failing to investigate and correct disputed credit file data in accordance with its obligations. This saw 44,306 consumers impacted by delays in having their credit file data updated. As a result of the investigation, the financial firm undertook a wholesale review of its systems and process relating to credit file disputes.

In another case, a financial firm had an issue with reporting information about closed accounts to credit reporting bodies and was delayed in correcting those reports once notified of the errors. This meant 2,542 consumers were impacted by the systemic issue. To remediate the issue, the financial firm corrected the credit files and provided a total of \$130,000 to consumers as financial compensation.

### Unauthorised transactions

A financial firm had inadequate systems and processes in place to monitor and action ASIC "Scam Alert" emails. As a result, consumers were able to continue to send funds to fraudulent accounts where the financial firm was on notice. More than \$1 million was returned to the 55 consumers impacted by this systemic issue.

In another case, a financial firm had an issue with its internet banking system which incorrectly allowed transactions on business accounts without 'two to sign' authority, where the account had been set up with two signatories. This saw 3,918 small business customers impacted by the systemic issue. The total value of remediation is unknown.

### Financial difficulty policies and approach

A financial firm lacked adequate systems to ensure customers receiving hardship assistance were not charged interest at the default rate to home loans. The firm provided interest refunds to the 7,670 consumers impacted.



## Take note

### Reliance on manual processes

Where financial firms have work procedures and processes with a heavy reliance on manual steps, we have seen that process steps can be missed through human error. This can be caused by inadequate staff training, unclear instructions or procedure documents or systems that allow processes to move forward without all required data fields being completed. The implementation of automated system solutions and removal of manual processes minimise the risk of human error and may reduce the likelihood of issues arising.





## General insurance

### Policy interpretation and claim denial

A financial firm was incorrectly calculating the pre-accident value of a motor vehicle when it assessed the vehicle as a total loss. The method of calculation was inconsistent with the definition of “market value” in the product disclosure statement. Actions are ongoing to remediate this systemic issue, but at least 23 consumers were impacted.

In another case, a financial firm was applying an incorrect interpretation of a clause relating to replacement repairs in its home insurance product disclosure statement. This resulted in incorrect or mismatched repairs and impacted five consumers, each receiving a cash settlement for the systemic issue.



## Life insurance

### Calculation of premiums and premium overcollection

A financial firm breached its policy terms and conditions when it failed to apply a premium waiver where the insured was totally disabled and in receipt of disability benefits under the policy. This systemic issue impacted 1,668 consumers, with more than \$880,000 returned to them.



## Investments and advice

### Errors with online trading platforms

A financial firm’s trading platform had an issue where, in limited circumstances, it placed trading orders in error for customers and prevented certain trades. This systemic issue impacted 12 consumers, with \$3,200 in financial compensation returned.



### Take note

#### Legacy IT systems

Breakdowns can occur when a financial firm retires a legacy IT system and transitions to a new system. Issues can also arise where a financial firm installs numerous discrete system fixes or upgrades to a legacy system. Robust testing of systems and system fixes pre-deployment may reduce the risk of issues arising. Appropriate investment in fit-for-purpose IT systems can also prevent issues.



### Take note

#### Processes that run across multiple IT systems and software programs

In some cases, the process flow from one system or software program to another can cause breakdowns in commands or data management. Rigorous user acceptance testing may reduce the risk of breakdowns in these cases.



## Superannuation

### **Compliance with the Superannuation Industry (Supervision) Act 1993 and/or Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations)**

A financial firm had a system error which caused members' insurance policies to reinstate at an incorrect level of cover, which resulted in incorrect premium charges. This systemic issue impacted 674 members, with more than \$96,000 in excess premiums refunded.

In another case, a financial firm had inadequate systems in place to process rollover requests as soon as practicable, or no later than the timeframes stipulated in the *Superannuation Industry (Supervision) Regulations 1994*. At least 12,791 consumers were impacted by periods of delay in the financial firm processing their rollover or transfer requests.



## Take note

### **Complaint handling**

We have observed that issues in complaints handling can arise where financial firms have not adequately invested in or resourced their teams to effectively manage complaints at both internal dispute resolution (IDR) and external dispute resolution (EDR) stages.

Poorly resourced complaints handling teams, and/or immature complaints handling systems, processes and staff training can lead to issues that impact multiple consumers who have made a complaint with a financial firm.

The impact of this can result in non-compliance with a financial firm's obligations, as well as exposure to potential risk to corporate brand and reputation.

To minimise these risks, financial firms should:

- develop mature complaints handling processes and systems
- appropriately resource complaints handling teams in IDR and EDR functions
- use adaptive decision making and escalation governance frameworks, which allow for the adjustment of responses to groups of complaints, and
- use consumer complaints as key risk indicator for potential systemic issues within the organisation.

Collectively implementing these measures can help to reduce the flow of complaints through to EDR.

## Any questions?

AFCA is available to help answer questions and discuss our approach to systemic issues. For more information on systemic issues or for any questions, you can contact us at [systemicissues@afca.org.au](mailto:systemicissues@afca.org.au)