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Re: An overview of errors notified to the Central Bank by insurance companies

Dear

As you are aware, the Consumer Protection Codes contain key provisions for the mitigation and resolution of errors.

It is in everyone's interests that errors are avoided and the incidence of errors is kept to a minimum. Errors impact directly on consumers and also adversely affect confidence of consumers in financial service providers. They can also be very costly and time consuming to resolve.

The purpose of this letter is to provide feedback on an overview of errors reported to the Central Bank over the past few years, so that all firms can learn and take whatever actions are needed to deal appropriately with errors and to consider the issues outlined below in your on-going development of systems and products, Internal Audit and compliance monitoring and staff training.

1. Tax and other Government levies

A number of incidences were notified where tax and other Government levies were charged to consumers incorrectly. Examples under this category of error include:

- a. Incorrect calculation and deduction of Exit Tax and Pension Levy due to incorrect codes being applied to consumers' policies and funds.
- b. Incorrect use of net losses instead of gross losses when calculating and deducting tax.

Firms must ensure that all relevant information provided by the consumer is considered when applying tax codes to consumers' policies.

2. Administration of policies

Instances were noted where firms had incorrectly applied the fees or charges to policies, e.g. management charges, policy fees, loadings on policies. Firms must ensure that only the fees and charges notified in the policy documentation and contract are those that are charged on policies and that the policyholder receives the correct investment allocation.



Similarly, where policyholders have been told by an institution that a particular charge does not apply or that an additional allocation is due, e.g. where the financial advisor forgoes a percentage of his commission, then the firm must have procedures to ensure that such promises are honoured in the administration of the policy. It is important that institutions undertake periodic checks to ensure that the correct deductions and allocations have been made to policies.

There was also an incidence where there was a discrepancy in the documentation provided to the consumer (including the terms and conditions) on how fees would be charged to funds. In conducting compliance monitoring or Internal Audit checks on the deduction of fees and charges firms must review the documentation provided to the consumer at the point of sale and thereafter. It is also important that in the production of information and communications for consumers adequate controls are in place to capture any discrepancies in documentation.

Other administrative errors include mistakes made when keying transactions, duplication of payments to consumers and incorrect payments to consumers.

3. Policy management

We noted instances where:

- a. policyholders' monies have been invested in funds other than those requested on the original application form;
- b. instructions by clients for fund switches during the term of the policy were not carried out; and
- c. the facility to automatically switch funds into more conservatively managed funds approaching normal retirement date was not complied with.

It is important that firms ensure that they have appropriate policy management systems in place. In particular, where a policyholder chooses to invest in a particular fund or opts to switch into a fund, these customer instructions should be documented, recorded and adhered to.

4. Indexation errors

There were a number of incidences where indexation was not applied correctly to policies. Cases include:

- a. failure to action a consumer's request to apply indexation to a policy or to remove indexation from a policy.
- b. failure to apply the correct indexation code to consumers' policies.
- c. removal of indexation during the term of the policy without the consumer's request to do so.

Errors regarding indexation occur at the policy inception stage and during the course of the policy. It would appear that either human error or systems error can be the causes of these errors, it is therefore important that firms include quality assurance checking when policies are incepted and also ensure that compliance monitoring and Internal Audit testing include checks that systems are working correctly.



5. Premiums

There were a number of incidences where discounts on premiums were not applied or were applied incorrectly on policies. Firms should include quality assurance checking throughout the product life cycle and identify areas of weakness within the cycle and concentrate additional quality assurance checking there.

6. Rebates and refunds

There were a number of incidences where rebates and refunds were not calculated correctly. There were also incidences where refunds were not paid to consumers when due. Provisions 7.1 to 7.5 of the 2012 Code prescribe how firms must handle premium rebates. Firms should review their procedures to ensure that they are in compliance with the 2012 Consumer Protection Code and ensure that relevant staff are trained in the procedures and that adequate compliance monitoring activities are in place.

7. No claims bonus errors

There were a small number of incidences where consumers' no claims bonuses were incorrectly reduced or where step back and other protections were not applied or were applied incorrectly. Firms should ensure that control mechanisms are in place to ensure that correct no claims bonuses are applied to consumers' policies.

8. Positive balances on exited policies or funds

There were a number of errors where firms discovered positive balances on exited policies. Firms should conduct regular reviews of their systems to identify such errors and to ensure that policies are closed correctly when exited by the consumer.

9. Unit pricing errors

The most significant category of errors for the life insurance industry is unit pricing errors. Below is a small sample of the errors notified to us.

- a. There were a number of incidences where errors occurred as a result of the migration of funds or policies between different IT systems. Firms are reminded of the importance of employing additional checks and controls when migrating data between systems and in particular after such a migration. Adequate testing to ensure the integrity of the migration should be used and documented. This should be particularly considered by any firm that is migrating data from legacy systems to new systems.
- b. There were also a number of incidences where prices were not updated and where external fund managers provided incorrect prices. Where firms are dependent on external fund managers they should ensure that the third party has in place adequate control mechanisms and processes to ensure the correct / accurate and timely transmission of prices to the firm.



General points to consider

1. Firms should regularly review their Errors Logs to identify any re-occurrence of previous errors, evidence of more widespread impact of errors or evidence of continuing maladministration within a particular area of the business.
2. Firms should consider the need for additional staff training to alleviate the level of errors in particular areas of the business.
3. It is important that firms ensure that quality assurance checking is completed throughout the product life cycle and also that compliance monitoring and Internal Audit testing include checks that systems (both manual and automated) are working correctly.
4. Also institutions should consider the clarity of communications provided to consumers about errors and their impact. Communications should be reviewed for compliance with Provision 4.1 of the 2012 Consumer Protection Code.

The foregoing is a sample of the errors notified to this Office and is therefore not an exhaustive list. I appreciate that not all of the outlined issues will be applicable to your firm. Nonetheless, I hope that you find the information useful as you review your firm's compliance with error handling.

If you have any questions on the fore-going please contact either Joe Morley on 224 4540 or Denise Delaney on 224 4564. Alternatively please email cpinsuranceteam@centralbank.ie

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. O'Brien".

Adrian O'Brien

Deputy Head of Consumer Protection - Insurance, Investment & Intermediaries Division