

# Systemic Issues Insights Report

Quarters 3 and 4  
Financial year 2024-25

Edition 7



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# About this report

ASIC's 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 role in identifying and reporting systemic issues benefits consumers who have not lodged a complaint with AFCA but who may, nonetheless, have been impacted by a systemic issue. The early identification and resolution of systemic issues can reduce consumer complaints and helps to minimise consumer harm.

Our work also supports financial firms to identify systemic issues, and sits alongside a financial firm's own obligations to manage systemic issues identified through consumer complaints, as outlined in ASIC Regulatory Guide 271 (RG 271).

While AFCA is not a regulator, we operate within the broader regulatory framework by providing information to regulators in accordance with our obligations. Our reports to regulators ensure they are promptly informed of issues within the industry and can take action as they deem appropriate.

By continuing to engage with financial firms on systemic issues once we have identified and reported them, AFCA helps financial firms to address systemic issues early, minimise complaints flowing through to external dispute resolution and improve industry practice.

In this report AFCA shares case studies, findings and key insights from a range of systemic issues cases across the industry. We encourage financial firms to use these case studies and insights to continuously improve their own practices and customer experience.

This report also highlights markers of excellence - firms that have demonstrated proactive reform, transparent engagement, or best-practice responses. These are not endorsements, but are provided as examples of culture, system design, and leadership choices that show how firms can move beyond compliance to deliver fairer, more resilient outcomes.

# Summary of outcomes delivered



**342,194** consumers and small businesses across a range of financial products and services were affected by the systemic issues identified, investigated



Conducted **86** detailed systemic issue investigations



Reported **50** systemic issues to regulators



Secured **\$3.4 million** in refunds and financial remediation for affected customers

Delivered meaningful non-financial outcomes, including:

- Correction of consumer credit files
- Clearer and more transparent Product Disclosure Statements
- Improved firm conduct in internal and external dispute resolution (IDR/EDR)
- Stronger product design and suitability practices
- Better data handling and disclosure

# Reporting to regulators



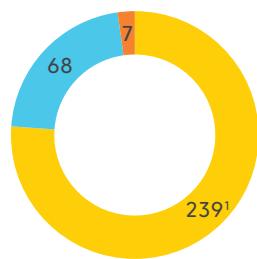
In addition to systemic issues, AFCA reported a further **276** matters to regulators under section 1052E(1) - (3) of the Corporations Act 2001, including:

- **2** serious contraventions of the law
- **271** matters involving refusal or failure to give effect to AFCA determinations, comprising:
  - **24** involving active AFCA members
  - **247** related to potential Compensation Scheme of Last Resort claims
- **0** contraventions of the governing rules of a superannuation fund or ADF
- **3** matters involving settlement conduct requiring further investigation

## Total reports to regulators across the financial year

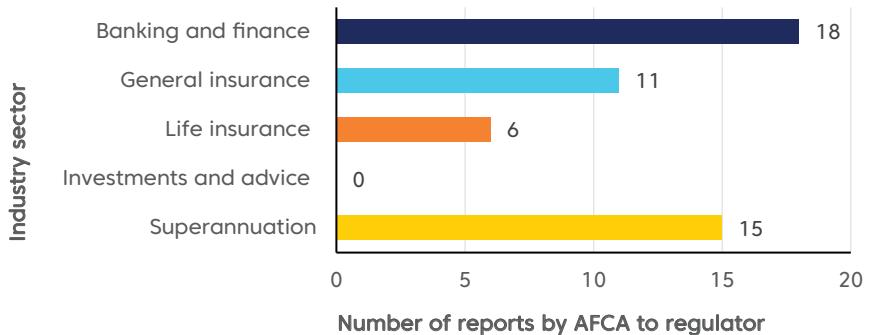
The total number of reports made in the second half of the financial year including systemic issues and other matters reported, with some reports provided to more than one regulator.

- Reports to Australian Securities and Investments Commission (ASIC)
- Reports to the Australian Prudential Regulation Authority (APRA)
- Reports to other regulators (such as the Office of the Australian Information Commissioner or, OAIC)



## Systemic issues across industry sectors

The number of systemic issues identified and confirmed across industry sectors.



<sup>1</sup> The number of matters reported to ASIC may be lower than the total systemic issues identified, as related issues are sometimes consolidated into a single referral.

# Overview of key trends



Across sectors, AFCA continues to observe systemic issues that cut across products and business models. Common threads include failures in complaint handling, gaps in recognising hardship and vulnerability, reliance on outdated systems, and misalignment between policy intent and frontline practice. These themes not only repeat quarter on quarter, but they also reflect the priority areas of ASIC and APRA - particularly product governance, operational resilience, remediation, and culture.

The drivers of consumer harm remain consistent:

- Complaints treated as isolated events rather than escalated – missing early warning signs of deeper process or policy flaws.
- Remediation programs that are too narrow in scope – addressing the immediate issue but not the broader consumer detriment.
- Disclosures that are confusing or incomplete – leaving customers without a clear understanding of obligations, exclusions, or risks.
- Legacy systems and manual workarounds – creating delays, errors, and systemic non-compliance.
- Policies that fail in practice – where otherwise sound frameworks cannot be delivered consistently at the frontline.

Several cross-cutting themes stand out this half-year:

- Complaint handling as a red flag - IDR and EDR processes remain under strain, with firms continuing to treat complaints primarily as case-by-case issues rather than opportunities for identifying systemic issues.
- Supporting vulnerable customers - continued gaps in trauma-informed processes, hardship assistance, and communication with customers experiencing medical, cognitive, or family violence challenges.
- Add-on insurance - legacy portfolios remain a source of systemic detriment, testing whether firms will take a broader view of fairness and consumer value.
- Legacy systems and data integrity - outdated infrastructure and limited governance controls undermine firms' ability to deliver on their policy commitments and maintain consumer trust.
- Policy vs practice gaps - even where policies meet regulatory expectations, execution failures expose consumers to confusion, delay, and harm.

This report also highlights markers of excellence - firms that have demonstrated proactive reform, transparent engagement, or best-practice responses to our systemic issues investigations. These are not endorsements, but examples of choices in culture, system design, and leadership that show how firms can move beyond compliance to deliver fairer, more resilient outcomes.



# **Cross-cutting sector themes**

# Cross-product insights

## Complaints as a warning sign: IDR and EDR failures as governance red flags

Internal Dispute Resolution (IDR) and External Dispute Resolution (EDR) are critical opportunities for firms to identify weaknesses in processes, policies, systems, governance and product design and sales practices. However, AFCA continues to observe instances where complaints are treated as isolated issues rather than early indicators of broader concerns. When complaint trends are overlooked or determination outcomes are not reviewed to identify broader concerns, firms miss the chance to strengthen resilience and risk compounding consumer harm and diminishing community trust.

### Take note

Complaint volumes, trends and AFCA determinations contain important signals of potential systemic weakness. Minimising or siloing complaints means missing opportunities for improvement. A culture that values openness to feedback and learning can turn these red flags into drivers of better practice.

### Markers of excellence

- Boards and risk committees regularly reviewing thematic analysis of complaint trends.
- Firms treating AFCA determinations as opportunities to strengthen disclosure, policies, product design and processes, rather than treating them as one-off corrections.
- Firms embedding structured reviews of AFCA determinations to identify lessons about business processes, product design, agent oversight and governance, and applying those insights proactively to strengthen conduct and compliance outcomes.
- Clear escalation pathways and feedback loops between IDR teams, risk/compliance, and operational areas, supported by a culture that encourages feedback and continuous improvement.

# When support falls short: learnings in vulnerability response

Whilst there has been significant work done by some financial firms in relation to strengthening their processes for identifying and responding appropriately to indicators of vulnerability, some firms still have further work to do. AFCA has observed in these firms weaknesses in hardship support, communication with consumers experiencing medical or cognitive vulnerabilities, and the handling of family violence disclosures. This can compound trauma for customers. The absence of trauma-informed approaches or specialist escalation pathways increases the risk of avoidable harm. These failures are not only consumer protection issues – they can be signals of systemic deficiency in policy and training. It can lead to reputational harm to and a lack of trust in firms.

## Markers of excellence

- Clear and well-resourced hardship and vulnerability frameworks integrated across IDR and customer service.
- Skilled and trained workforce capable of working with consumers experiencing vulnerability including family violence, cognitive decline, or serious medical conditions, and regular training for employees, representatives and agents to recognise and respond appropriately to signs of vulnerability.
- Processes that prioritise consumer dignity, such as safe communication channels, discretion in correspondence, and proactive offers of support.

## Take note

Supporting consumers experiencing vulnerability is not just about compliance - it means embedding practices that recognise people's realities and respond with care. Vulnerability may arise from a wide range of circumstances, such as unemployment, financial hardship, low literacy or language barriers, medical or mental health conditions, natural disasters, or family and domestic violence. It can be temporary, situational or ongoing, and may affect anyone at different points in their life.

Without robust frameworks, escalation pathways, and trauma-informed practices, firms risk compounding harm. By contrast, firms that invest in specialist teams, integrated hardship processes, training agents and representatives, and safe, respectful communication show that consumer dignity and systemic responsibility can work hand in hand.

# An unfinished legacy: add-on insurance and the ongoing journey to fairness

Despite years of regulatory focus and the attention of consumer advocates and the FSRC, add-on insurance has been an ongoing source of consumer detriment. Over many years, up until 30 June 2025, AFCA received many complaints where products delivered little to no value, were poorly understood, or were sold unfairly in ways that left customers unaware of their true costs and limitations.

While law reform and regulatory intervention have led to a shift in sales practices and many firms no longer design and sell low value products, there has been enduring harm from legacy sales, leading to high volumes of complaints. Remediation efforts often focused on discrete groups of customers. Firms were put on notice of gaps in remediation programs by trends in complaints lodged with AFCA.

While the time periods for AFCA's jurisdiction for future complaints has lapsed, firms have ongoing IDR obligations.

The obligations under the Design and Distribution Obligations (DDO) framework, and the broader fairness principles applied by AFCA, require firms not only to comply with the law but also to ensure products provide real benefit. Add-on insurance is an example of where products were designed and sold that did not meet consumer needs. In addition to the harms investigated by regulators and Courts, this has resulted in ongoing high complaint volumes, many years after the sales took place. It is a reminder to keep consumer needs at the heart of product design, and ensure that sales practices are fair and balanced.

## Take note

Legacy portfolios with embedded product design and sale issues carry ongoing reputational, regulatory, and legal risks. Firms that do not proactively address the sale of poor-value products may face continued scrutiny, regulatory attention, and ongoing complaint volumes.

## Markers of excellence

- Proactively reviewing legacy portfolios to identify poor-value products and redesign or cease sales.
- Designing remediation programs that go beyond minimum obligations to deliver consumer-centric outcomes.
- Embedding fairness and value considerations into product governance frameworks, ensuring alignment with both the intent and spirit of DDO.
- Engaging openly with regulators, AFCA, and consumer groups to help maintain trust.

## Legacy systems: policy vs practice gaps and data integrity

Many firms maintain internal policies that meet regulatory standards but fall short in practice due to outdated systems, fragmented platforms, or manual workarounds. In these environments, hardship processes, product closures, and data corrections can be inconsistent - leaving consumers uncertain and potentially subject to harm and firms at risk of non-compliance. AFCA continues to observe cases where sound policy frameworks cannot be consistently delivered because systems and processes have not kept pace.

Data integrity adds further pressure. Errors in credit listings, account records, or beneficiary details may appear minor but can cause lasting impacts on consumer trust. Too often, firms rely on complaint-driven, case-by-case fixes rather than addressing root causes. Without stronger assurance, confidence in the accuracy of consumer records is weakened.

### Take note

From our systemic issues work, we observe that systemic harm often arises not from intent, but from inertia - systems that are not modernised, processes not tested against policy, or gaps in data governance left unaddressed. Without stronger assurance, firms risk repeating the same errors.

### Markers of excellence

- Investment in system upgrades explicitly linked to consumer outcomes.
- Independent validation of workflows, templates, and system logic against policy and legal requirements.
- Routine reconciliation of data flows and reporting (including with external data such as credit bureaus).
- Clear governance structures with senior oversight and meaningful assurance.
- Proactive reviews during system migrations and transparent remediation when issues are found.

## From policy to practice: where gaps emerge

AFCA has also observed where policies aligned with regulatory standards fail in execution. Breakdowns occur when outdated templates are used, reinstatement terms are inconsistently applied, or manual workarounds replace robust systems. These gaps mean consumer outcomes fall short of policy intent, even when the written framework appears compliant.

Relying on policy as “assurance” without testing how it operates in practice creates risk. When execution falters, consumers may face confusion, delays, or unfair decisions.

### Take note

Policies must translate into consistent practice. Without active oversight, assurance, and system design that embeds policy intent, there is a risk that documented standards become aspirational rather than operational.

### Markers of excellence

- Embedding policy logic directly into systems and processes, reducing reliance on manual interpretation.
- Independent monitoring to ensure templates, disclosure materials, and decision tools remain accurate and up to date.
- Regular assurance testing that checks not just for technical compliance, but for alignment with the policy’s intent and consumer fairness outcomes.
- Clear feedback loops between frontline staff, compliance teams, and senior leadership to identify where practice diverges from policy and to act swiftly.

# Bringing the themes together

Taken together, these themes highlight that systemic issues often arise less from single points of failure than from patterns - outdated systems, siloed responses, or cultural blind spots that repeat across products and sectors. By recognising complaints as early warning signs, strengthening support for vulnerable customers, addressing legacy products, and aligning policy with practice, firms can move from reactive fixes to proactive resilience. These lessons apply across all financial services and remain central to building trust and fairness in the industry.





# Product specific themes



# Banking and finance

## Hardship compliance and decision-making

AFCA continues to observe systemic issues in how firms respond to hardship requests. Some still rely on rigid, policy-driven approaches that fail to take account of customers' circumstances. Others face system or process weaknesses that result in statutory timelines under the National Credit Code not being met. Of particular concern are cases where firms have relied on blanket rules - such as rejecting hardship requests based on account type - rather than assessing individual circumstances. These practices undermine the principles in ASIC Regulatory Guide 209 and risk leaving customers without support when they need it most.



### Take note

Hardship obligations require both procedural accuracy and cultural care. Automation cannot replace human oversight, and processes should ensure that every hardship request is assessed fairly and in context.

### Markers of excellence

- Regular testing of hardship processes for fairness as well as compliance.
- Controls that ensure automated systems do not override human judgment.
- Clear escalation pathways when updated customer information is received.
- Proactive customer contact and remediation where errors occur.

### Case study - Incorrect hardship decline notices and escalation gaps

#### Issue identified

AFCA investigated whether the firm was meeting its obligations under section 72 of the National Credit Code (NCC), particularly in relation to hardship applications that were declined. The investigation revealed:

- Hardship decline letters were issued without properly considering updated customer information or escalation pathways, contrary to policy.
- A mix of staff error and automated system processes led to incorrect decline notices, sometimes with no assessment of hardship or attempts to contact the customer.
- System-generated letters were triggered by miscoded status entries without appropriate human review.

These failures resulted in non-compliance with section 72(4) of the NCC, with customers receiving premature or misleading hardship outcomes.

#### Resolution and remediation

In response to AFCA's investigation, the firm:

- Conducted a root-cause analysis and systems review, identifying 228 instances of incorrect hardship decline notices between 2022 and 2024.
- Contacted affected customers, reassessed declined requests where appropriate, and committed to refund fees or charges caused by the error.
- Implemented additional system safeguards, enhanced staff training, and introduced improved escalation protocols for hardship requests.

#### Outcome

AFCA determined that the systemic issue was resolved, subject to the completion of remediation and ongoing engagement with ASIC. The matter was reported in line with AFCA's obligations.

# Credit reporting and correction obligations

We continue to see systemic failures in credit reporting causing lasting harm for consumers. Inaccurate listings - such as closed accounts shown as active, duplicate enquiries, or bureau error logs left unactioned - can directly affect a customer's ability to refinance, secure new credit, or rebuild financial stability. These issues are often systemic in nature, arising from weak configuration, poor data governance, or over-reliance on automated processes without effective oversight.

## Take note

Credit reporting errors can have long-term consequences for consumers, affecting access to housing, credit, and essential services. Firms should not leave customers to discover inaccuracies themselves – robust monitoring and assurance processes are needed to prevent avoidable harm.

## Markers of excellence

- Proactive reconciliation checks across the credit lifecycle.
- Clear procedures for handling withdrawn applications and duplicate enquiries.
- Tight oversight of bureau error logs, with audit and assurance.
- Active engagement with CRBs to ensure corrections are applied consistently.
- Remediating customers fairly, including backdating corrections and compensating for distress where appropriate.

## Case study - Failure to action credit reporting error logs

### Issue identified

AFCA investigated concerns that a financial firm was not meeting its obligations under the Privacy Act and Credit Reporting Privacy Code to ensure credit reporting bureau (CRB) data was accurate and up to date when consumer liabilities had ceased. The investigation identified multiple systemic issues:

- Error logs from credit reporting bodies identifying closed accounts were not actioned.
- Processes were inconsistent across bureaus, with some not addressed at all over significant periods.
- As a result, credit files for many consumers continued to show incorrect, outdated liabilities - potentially impacting creditworthiness and access to finance.

### Resolution and remediation

In response to AFCA's investigation, the firm undertook several actions:

- Cleared 2,315 unactioned error logs accumulated over several years.
- Documented processes for all major bureaus and instituted quarterly audits, as well as additional staff training.
- Rolled out a communication program inviting affected customers to opt in for a loss assessment, with outcomes verified by an independent reviewer.
- As at February 2025, 92 customers opted in; 58 had been offered compensation totalling over \$70,000.

### Outcome

AFCA determined that the systemic issue was largely resolved, subject to completion of the remediation program and ongoing reporting. The matter was referred to ASIC and OAIC for oversight, given its privacy and credit reporting implications.

## Case study - Failures in credit reporting closure and duplicate enquiries

### Issue identified

AFCA investigated concerns about credit reporting practices following complaints that raised questions about the accuracy and timeliness of information provided to CRBs. The investigation identified two systemic issues:

- Customers who requested account closures sometimes found closures not reported to bureaus where a disputed transaction was active. Accounts remained “open” on credit files even after disputes were finalised and balances nil.
- Multiple credit enquiries were recorded for single applications, creating duplicate listings that endured even when applications were withdrawn.

### Resolution and remediation

The firm undertook a series of actions to address the systemic issues:

- System logic uplift: Corrected the underlying error that treated disputes as “partially closed” and prevented account closure reporting. Affected accounts were updated across systems, and CRBs were provided corrected data.
- Customer remediation: Approximately 9,195 customers were identified as affected by the closure issue. All impacted accounts were remediated, including backdating closure dates to align with when customers first requested closure and their balance was nil. AFCA encouraged consideration of non-financial loss compensation where customers experienced stress or inconvenience.
- Controls for credit enquiries: Enhanced “Day 2” review processes were introduced to flag and correct multiple enquiries for the same product. This included checks so that duplicate applications would not result in enduring duplicate credit file entries.

### Outcome

AFCA determined that the systemic issues had been resolved following remediation and process changes. The matter was finalised, with a report provided to ASIC in line with AFCA’s obligations.

# Failures in responsible lending practice

Responsible lending failures continue to emerge in AFCA's systemic issue work, often reflecting weaknesses in how firms assess suitability and support frontline staff. Poorly executed credit assessments, inadequate inquiries into a borrower's financial situation, and inconsistent application of internal policies can all leave consumers with loans they cannot afford. These shortcomings cause lasting harm, particularly for customers already experiencing vulnerability, and undermine trust in the credit system.

AFCA has observed that firms operating in the small amount and medium amount credit sector are especially at risk when internal controls and training do not keep pace with regulatory expectations. Where responsible lending practices are weak, customers may be left with loans they cannot afford, and firms risk recurring failures and reputational harm.

Strengthening assessor training, ensuring consistency in credit decisions, and proactively reviewing past conduct are essential steps toward building fairer lending practices and reducing the likelihood of harm.



## Take note

Responsible lending obligations require more than documented policies. They require consistent practice at the frontline, supported by systems and controls. Weaknesses in these areas can cause widespread hardship and create significant regulatory and reputational risk.

## Markers of excellence

- Proactive review of past lending when weaknesses are identified, not just in response to complaints.
- Investment in tailored and ongoing training to ensure assessors apply suitability standards consistently.
- Systems and controls that reinforce internal policies, preventing overrides or inconsistent application.
- Providing fair remediation, including for non-financial loss where appropriate.

## Case study - Inadequate inquiries and credit score breaches in loan assessments

### Issue identified

AFCA investigated concerns that the firm was not meeting its responsible lending obligations when approving Small and Medium Amount Credit Contracts (SACCs and MACCs). The investigation revealed:

- Assessors frequently failed to make reasonable inquiries into customers' financial circumstances, approving loans where borrowers were already in hardship.
- The firm's own credit policy required automatic decline of loan applications with scores below 415, but this standard was not consistently applied.
- These failures contributed to unsuitable lending and heightened risk for vulnerable borrowers.

These practices resulted in unsuitable lending, contrary to the firm's own policy framework and responsible lending obligations under the National Consumer Credit Protection Act.

### Resolution and remediation

In response to AFCA's investigation, the firm undertook several actions to address the systemic issues and prevent recurrence:

- Reviewed and uplifted its assessor training program, introducing a new framework to improve responsible lending assessments and reinforce obligations under ASIC RG 209.
- Remediated 158 customers identified through a complaints review and 72 others impacted by internal incidents in 2023 and 2024. AFCA encouraged consideration of non-financial loss for stress and inconvenience.
- Commenced proactive reviews of 880 loans approved by assessors with high error rates, and 334 loans issued to customers showing signs of hardship.
- Undertook a broader review of 3,227 MACC loans to identify and remediate further cases of unsuitable lending.

### Outcome

AFCA determined the systemic issue resolved, subject to the firm completing its remediation and review activities. While progress was acknowledged, the case highlighted how quickly systemic risk can arise when internal credit policies are not consistently applied.

# Complaint handling and IDR failures

Complaint handling continues to be one of the most common systemic weaknesses observed by AFCA. Issues range from firms not recognising expressions of dissatisfaction as complaints, to inadequate resourcing, reliance on manual processes, and missed timeframes under RG 271. In some cases, debt collection activity has continued while disputes were still open, creating additional stress for customers and exposing firms to compliance risks. These challenges suggest not only operational gaps, but also opportunities for cultural improvement in how complaints are understood and managed.

## Take note

Poor complaint handling creates delay and detriment for consumers and reduces firms ability to catch early warnings of systemic issues. Effective IDR and EDR require timely responses, clear escalation pathways, and a culture that treats complaints as drivers of learning and improvement.

## Markers of excellence

- IDR frameworks that capture all complaints, including informal or implicit ones.
- Automated systems that track complaints and escalate breaches of IDR and EDR timeframes.
- Complaint teams resourced with staff trained in RG 271 obligations.
- Assurance frameworks that test not only timeliness but also the fairness of complaint outcomes.
- Regular board and risk committee review of thematic complaint trends.
- Proactive remediation and compensation, including for non-financial loss.
- A culture that treats complaints as opportunities to strengthen processes and rebuild consumer trust.

## Case study - Complaint handling failures and misuse of clawback terms

### Issue identified

AFCA identified systemic weaknesses in the firm's recognition and handling of complaints. Investigations found that:

- Expressions of dissatisfaction were not always recorded as complaints, meaning some customers were excluded from IDR processes.
- Debt collection activity sometimes continued while complaints were open, inconsistent with RG 271.
- Legacy documentation retained clawback fee provisions, raising fairness concerns.

### Resolution and remediation

The firm:

- Updated its Complaints Handling and Dispute Resolution policy to clarify that all dissatisfaction must be treated as a complaint.
- Delivered staff training on escalation, timeliness, and the requirement to pause collections during open complaints.
- Introduced assurance processes to track compliance with RG 271 standards.

AFCA noted improvements but also reported ongoing concerns regarding clawback provisions to ASIC.

### Outcome

AFCA closed the systemic issue following these reforms but stressed that long-term monitoring by the firm would be necessary. Sustained cultural and operational uplift in complaint handling is critical to prevent recurrence and ensure customers receive fair and timely outcomes.

## Case study - Failure to meet IDR and EDR timeframes

### Issue identified

AFCA investigated concerns that the firm was failing to meet its obligations under the National Consumer Credit Protection Act 2009 and RG 271. Systemic problems were identified in both internal and external dispute resolution:

- Some customers were not receiving responses within the 30-day IDR timeframe.
- The firm was slow to respond to AFCA requests, contributing to delays.
- Root causes included under-resourcing, manual complaint tracking, and limited oversight.

As a result, several customers experienced avoidable delays and inconvenience.

### Resolution and remediation

The firm responded by strengthening its IDR framework, including:

- Commitment to 24-hour complaint acknowledgments and structured 30-day resolution pathways.
- Implementation of a CRM system to automate complaint tracking, deadlines, and AFCA alerts.
- New escalation protocols for AFCA engagement and appointment of a dedicated complaints officer with RG 271 expertise.
- Remediation for affected customers, with AFCA recommending consideration of non-financial loss.

### Outcome

AFCA determined the systemic issue had been resolved following reforms but will continue monitoring compliance. The matter was reported to ASIC in line with AFCA's obligations, underscoring that effective complaint handling requires adequate resources, systems support, and a culture of timely resolution.



# General insurance

## Misleading or ambiguous policy and sales documents

Clear and accurate policy documents are critical to ensuring consumers understand the insurance cover they are purchasing and how it will apply at claim time. AFCA continues to observe systemic issues where disclosure materials such as Product Disclosure Statements (PDSs), proposal forms, or certificates of insurance contain ambiguous wording, confusing structure, or misleading terms.

These weaknesses may not always arise from deliberate misconduct, but they can nonetheless create confusion, deter customers from seeking assistance, and contribute to high rates of declined claims. Poorly drafted or outdated documents undermine fairness, increase dispute volumes, and erode trust. To address these risks, firms need to go beyond meeting minimum legal requirements and design documents with customer understanding and usability at the centre.

### Take note

Unclear or ambiguous documentation does not just pose technical risks – it undermines trust and can drive disputes at scale. Firms should ensure that their documents are clearly drafted in plain English.

### Markers of excellence

- PDS and disclosure materials written and tested with consumer understanding in mind.
- Structural clarity in documents, avoiding duplication or hidden exclusions.
- Proactive reviews of declined claims where wording ambiguity may have contributed to consumer detriment.
- Ongoing consumer and staff communication to reinforce clarity and build trust.

### Case study - Misleading PDS structure in accidental damage cover

#### Issue identified

AFCA investigated the structure of a PDS offering accidental damage (AD) cover. The PDS separated “We Cover” and “We Don’t Cover” sections from the general exclusions, creating ambiguity about when exclusions applied. This lack of clarity meant customers were confused as to what was excluded.

One example was “escape of liquid” claims, where exclusions applied in unexpected ways. These structural issues contributed to a 36% claim rejection rate under AD cover and led to over 150 complaints to AFCA. Many customers reported they had purchased AD cover expecting broader protection, only to find claims declined based on exclusions that were not clearly signposted.

#### Resolution and remediation

The firm:

- Acknowledged the issue and committed to restructure its PDSs across its product suite to make exclusions clearer, more consistent, and easier to understand.
- Expanded its remediation program from 359 declined claims to a broader review of 4,215 cases.
- Provided remediation and compensation where customers were disadvantaged by unclear wording.
- Introduced interim changes to claims handling processes to ensure exclusions were communicated more transparently.
- Enhanced staff training to improve the consistency of claim decisions.

#### Outcome

AFCA determined the matter resolved, with remediation and PDS reforms underway.

## Case study - Unclear authorised representative wording in policy documents

### Issue identified

AFCA identified that policy wording on the appointment of authorised representatives created confusion for policyholders. The clause suggested that customers needed the firm's agreement before a trusted family member or friend could assist with managing a claim. While intended to ensure compliance with regulatory requirements, the wording failed to distinguish between licensed third-party representatives and informal helpers.

This ambiguity risked deterring customers - especially those in vulnerable circumstances - from seeking practical and valuable support from family, friends, or consumer advocates. In doing so, it undermined consumers' ability to fully participate in the claims process and potentially left them without the confidence or assistance needed to pursue entitlements.



### Resolution and remediation

The firm accepted AFCA's concerns and undertook a full review of its PDS across six products. The planned changes include:

- Revised wording: making a clear distinction between authorised intermediaries (such as licensed advisers and solicitors) and personal or family support.
- Implementation plan: revising the PDS with new wording effective from July 2025, supported by consumer-friendly explanatory material.
- Staff training: ensuring frontline staff understand the changes and can explain them clearly to customers.
- Customer communication: issuing the updated PDS at renewal, along with policy schedules, renewal letters, and a "What's Changed" summary.

### Outcome

AFCA considered the systemic issue resolved, subject to timely completion of the PDS updates. The firm provided draft wording and a detailed implementation schedule, which AFCA will continue to monitor.

# Suitability and product design failures

AFCA continues to identify systemic issues where product design or disclosure does not align with consumer expectations, creating a mismatch between what customers believe they are covered for and what they actually receive. Ambiguous policy wording, unsuitable add-on products, and weak controls around product distribution can all leave customers paying for cover that delivers little or no value, or facing uncertainty at claim time when clarity is most important.

## Take note

Failures in product suitability and design can result in customers paying for insurance that does not meet their needs or expectations. These risks are avoidable if firms test products against real-world use, maintain unambiguous disclosures, and respond quickly when flaws are identified. Suitability must be more than a compliance test — it is central to maintaining fairness and trust.

## Markers of excellence

- Reviewing legacy portfolios to identify and withdraw products that deliver little or no value.
- Revising PDSs and product terms to ensure clarity, usability, and consistency with underwriting intent.
- Embedding system controls to prevent unsuitable policies being designed and sold.
- Conducting broad-scale reviews of impacted customers and remediating fairly, including interest and claim compensation.
- Communicating changes transparently and providing clear pathways for customers to understand their rights.

## Case study - Inherent product design flaws in GAP insurance

### Issue identified

AFCA identified a systemic issue in the design of a Guaranteed Asset Protection (GAP) insurance add-on product. GAP is an add-on insurance product sold with credit, lease or financing arrangements which covers any shortfall between the amount owed on a loan or lease and the insurer's payout if the asset is declared a total loss or is stolen. The product contained inherent flaws that significantly reduced the likelihood of successful claims, reducing the products value to consumers.

### Resolution and remediation

- The firm self-reported the breach to ASIC and ceased sales from 1 November 2018.
- A remediation program identified 7,621 impacted policyholders, with payments totalling approximately \$986,000, including \$414,000 in interest.
- The scope of remediation was broadened to capture additional policyholders where loan-to-value ratios or vehicle age made claims highly unlikely.
- Consumers were contacted with explanatory materials, FAQs, and clear refund instructions.

### Outcome

AFCA considered the systemic issue resolved, with remediation and cessation of sales addressing the core risk.

## Case study - Unclear policy terms on “restricted cover” for properties under construction

### Issue identified

A systemic issue was found in home building policies where “restricted cover” applied to properties under construction. The absence of a clear definition in the PDS, combined with staff errors, meant policies were issued outside underwriting guidelines, creating the potential for unfair claim denials.

### Resolution and remediation

- A total of 11,525 potentially impacted policies were identified and reviewed, including geospatial checks and call audits.
- Two policies were refunded in full with interest, and one denied claim was remediated with compensation of \$86,037.89 (including interest).
- PDSs were revised to define “under construction” clearly and remove the ambiguous “restricted cover” endorsement.
- System controls, process updates, and staff training were implemented to align practice with underwriting guidelines.

### Outcome

AFCA concluded the matter resolved, subject to timely completion of remediation and documentation changes.



# Claims handling failures and poor practices

Claims handling remains one of the most common sources of systemic concerns observed by AFCA. For many consumers, the claims process is the moment when the value of their insurance is tested. Yet AFCA continues to identify weaknesses such as unclear exclusions, lengthy delays, inadequate investigations, and inconsistent application of policy terms. These practices not only cause immediate financial and emotional harm but also erode trust in insurers' ability to deliver on their central promise.

## Take note

Claims handling reflects the fulfilment of the insurer's promise. Delays, unclear exclusions, or inconsistent decisions can cause serious consumer harm and undermine trust. Firms must ensure claims are assessed fairly, exclusions are transparent, and communication is accurate and empathetic.

## Markers of excellence

- Clear, plain-language exclusions and policy terms that minimise ambiguity.
- Systematic reviews of declined claims where policy wording has changed or been clarified.
- Assurance frameworks that test claim decisions for fairness as well as technical compliance.
- Training that emphasises proportional investigation and empathetic communication.
- Proactive remediation, including interest and apology, when systemic issues are identified.

## Case study - Misapplication of policy exclusions

### Issue identified

AFCA's investigation revealed systemic problems in the application of a travel insurance exclusion relating to pre-existing medical conditions. The exclusion wording was inconsistently applied, leading to unjustified denial of claims. Some customers faced stress and financial detriment when valid claims were denied under an overly broad interpretation of the exclusion.

### Resolution and remediation

The firm responded by:

- Revising its exclusion wording to reduce ambiguity.
- Conducting a review of affected claims and providing remediation payments.
- Updating its claims training program to improve consistency of decision-making.

### Outcome

AFCA concluded that the systemic issue had been addressed but emphasised the importance of continuous monitoring of the application of the exclusion to prevent recurrence.

## Case study - Improving communication and contamination responses after severe weather events

### Issue identified

AFCA investigated complaints about the handling of claims involving mould and contamination following severe weather events. The review revealed:

- Vulnerability referrals were not consistently triggered, even when contamination risks were evident.
- Engagement of relevant decontamination or indoor environmental professionals (IEP) was delayed or omitted in complex cases.
- Customers were sometimes left in unsafe living conditions without escalation or suitable accommodation.
- During surge events, delays in communication and unclear expectations added to consumer stress.

### Resolution and remediation

- The insurer reviewed over 2,600 claims to identify impacted customers, including those who had not lodged complaints.
- New protocols were introduced requiring IEP engagement where contamination was likely, along with stronger escalation pathways for complex claims.
- Updated accommodation guidance was implemented to prevent unsafe living conditions.
- A dedicated repair assessor role was created, and automated call-listening technology was trialled to detect indicators of vulnerability during customer interactions.
- Staff training and revised claims guidance were rolled out to improve consistency and responsiveness.

### Outcome

AFCA determined that the systemic issue had been resolved. The insurer's changes - such as stronger escalation protocols, clearer communication standards, and new operational investment - showed a shift toward a more consistent and consumer-focused way of handling contamination-related claims in disaster situations.

## Case study - Claims handling delays and inadequate investigations

### Issue identified

AFCA found systemic weaknesses in a firm's motor claims processes. Investigations were often delayed, communication with customers unclear, and policy terms inconsistently applied. These failings left customers uncertain about entitlements and extended claims unnecessarily.

### Resolution and remediation

The firm acknowledged the deficiencies and undertook remediation steps including:

- Revising its claims assessment procedures to ensure consistency with policy terms.
- Training claims staff to improve communication with customers, particularly around investigation requirements.
- Committing to periodic assurance reviews of claims handling quality.

### Outcome

AFCA determined the systemic issue resolved following these improvements but noted the need for ongoing oversight to ensure improvements were embedded.

## Case study - Policy exclusion for drivers leaving the scene of an accident

### Issue identified

Between 2008 and 2023, policy wording excluded claims where a driver left the scene of an accident, regardless of whether leaving the scene contributed to the loss. This broad exclusion led to unfair denials and did not align with section 54 of the Insurance Contracts Act.

### Resolution and remediation

The insurer amended its Product Disclosure Statement to remove the misleading causal language and align the exclusion with section 54 of the Insurance Contracts Act. It also:

- Reviewed historical claims, identifying 29 impacted cases.
- Paid compensation for 19 claims, totalling \$665,278.28 (including \$260,309.14 interest).
- Issued apology letters for cases where the exclusion was incorrectly referenced.
- Committed to resolve five outstanding claims upon contact from affected parties.

### Outcome

AFCA determined the issue resolved, while encouraging continued efforts to contact remaining impacted customers, and ensure exclusion wording is clear and fair.

# Suitability and product design failures: add-on insurance

Add-on insurance continues to feature prominently in AFCA's systemic issue work, reflecting long-standing concerns about both product design and the processes by which these products were sold and managed.

The core problems are not limited to questions of product sales practices and value. They extend to how firms have handled complaints and redress. AFCA has observed repeated failures in Internal Dispute Resolution (IDR) and External Dispute Resolution (EDR) processes, where:

- Firms were tardy in proactive and appropriate complaint resolution for cohorts of customers affected by poor sales conduct and product design.
- Resolution models lacked transparency, leaving complainants uncertain about how outcomes were determined.
- Resource constraints and system limitations caused delays, leading to missed timeframes under RG 271.
- Firms sought to rely on technical limitations (such as the access to relevant records, staff turnover, or elapsed time) as reasons not to engage substantively with complaints.

These issues have been particularly acute in relation to legacy add-on insurance products, such as Consumer Credit Insurance, Mortgage Protection Insurance, and Loan Protection Insurance. While these products are generally not sold now, and firms previously undertook remediation programs, complaint handling weaknesses continue to undermine fair redress and efficient complaint resolution.

AFCA's systemic findings are about the failure of firms to proactively and appropriately address significant underlying conduct issues and complaint volumes, particularly in the context of known past conduct failures in relation to product design and sale.

Firms are reminded about the importance of addressing known issues early, to minimise the effects of ongoing high complaint volumes and ensure that there has been appropriate redress for affected customers.

## Take note

Legacy remediation does not absolve firms of the responsibility to assess complaints fairly today. Weaknesses in complaint handling - particularly delays and lack of transparency - compound the detriment of historically poor sales practices.

## Markers of excellence

Firms that demonstrate best practice in addressing complaints about past conduct:

- Proactively review legacy complaints rather than relying solely on consumer initiation.
- Resource and train IDR teams to meet RG 271 timeframes, with clear escalation into EDR where required.
- Ensure transparency of resolution models, so customers understand the basis of outcomes.
- Test whether fairness has been achieved across all cohorts.
- Embed lessons from add-on insurance failures into current product governance, ensuring design and distribution obligations are met in both spirit and practice.



# Life insurance

## Record-keeping and disclosure failures

Accurate records and timely disclosure are fundamental to trust in life insurance. Yet AFCA continues to observe recurring issues where firms have not consistently maintained essential policy information or where system errors prevented customers from receiving required disclosures, such as loan account statements. These errors may not always lead to direct financial loss, but they undermine transparency and confidence at crucial times, while also creating compliance risk. Legacy systems and fragmented processes remain common drivers of these problems, particularly when firms rely on manual handling or paper records that are vulnerable to error.

### Take note

Record-keeping and disclosure failures have the potential to erode trust and limit consumers' ability to manage their policies.

### Markers of excellence

- Proactive identification and breach reporting of disclosure failures.
- Robust digital records management systems with secure archiving for legacy products.
- Regular audits to test record completeness and disclosure compliance.
- Transparent communication with customers when errors are discovered.

### Case study - Failure to issue loan account statements

#### Issue identified

An insurer failed to issue monthly loan account statements for certain policyholders, breaching both policy terms and the National Credit Code. The root cause was traced to a legacy coding change during a system virtualisation project, which disrupted data sourcing for over 2,000 policies. Customers were left without key information to manage their policy obligations, and some lodged complaints about the delay in receiving statements.

#### Resolution and remediation

The firm self-identified the systemic issue before AFCA's involvement, reporting the matter to ASIC and completing remediation. Steps included:

- Correcting the underlying coding error.
- Issuing the missing statements to impacted customers.
- Apologising to customers and ensuring future access to records.

#### Outcome

AFCA considered the matter resolved, noting that while the detriment was largely informational rather than financial, the potential impact on consumer confidence was significant.

## Case study - Inadequate record keeping

### Issue identified

An insurer was unable to provide requested policy documents in relation to several complaints, revealing broader deficiencies in record-keeping. An internal review confirmed that records for multiple customers, some dating back many years, could not be located. The root cause was traced to reliance on hard-copy legacy files and manual handling errors. Although no direct financial detriment was identified, the absence of accurate records compromised both transparency and consumer confidence.

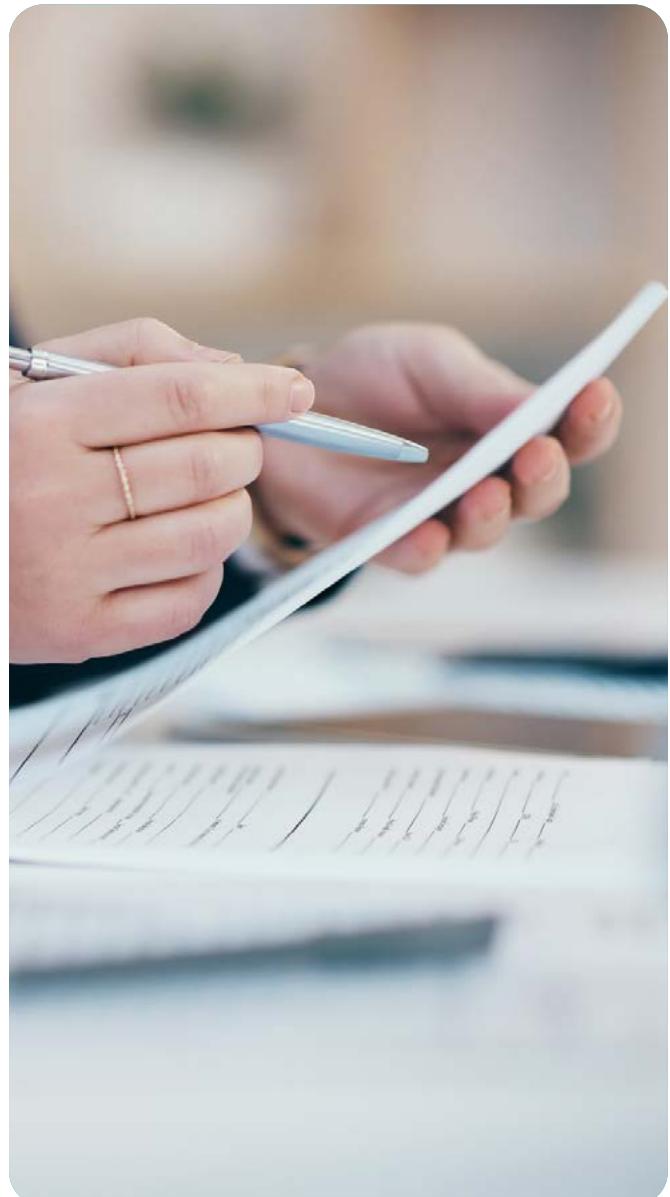
### Resolution and remediation

To address the issue, the firm:

- Worked towards progressively digitising its records from the early 2000s.
- Introduced compulsory digital records management from February 2024.
- Mandated digitisation of all incoming records, with hard copies destroyed after 90 days.
- Secured long-term archiving arrangements for older paper files.

### Outcome

AFCA accepted that the shift to compulsory digitisation resolved the issue and substantially reduced recurrence risk, while noting that legacy products remained more vulnerable to gaps.



# Policy terms and definitions failures

Systemic issues often arise when life insurance policy wording fails to keep pace with evolving medical standards, industry practice, or consumer expectations. From our Systemic Issues work, it is clear that outdated or ambiguous terms can create significant uncertainty, particularly when benefits are assessed at claim time. Customers may be denied coverage they reasonably believed they had, undermining both fairness and trust.

## Take note

When policy terms fall behind medical standards or are applied inconsistently with written wording, consumers face heightened risk of unfair claim outcomes. Regular review and transparent communication of definitions and benefit terms are essential.

## Markers of excellence

- Proactive review and modernisation of policy definitions.
- Independent oversight of declined claims involving technical or restrictive interpretations.
- Transparent communication with customers about cover scope and continuation.
- Routine actuarial and legal review of product wording.

## Case study - Outdated trauma definitions

### Issue identified

A trauma insurance product retained an obsolete definition of “heart attack” that no longer aligned with universal medical standards. Despite industry awareness and Royal Commission findings about similar practices, the insurer continued to rely on the outdated definition, leading to inappropriate claim denials.

### Resolution and remediation

The firm:

- Acknowledged the complaints but maintained that its definition remained valid.
- Declined to update policy terms to align with contemporary medical definitions.
- Did not propose remediation for affected or potentially affected customers.

### Outcome

AFCA found the issue systemic and unresolved. The matter was reported to regulators, given the continuing risk of unfair claim denials.

## Case study - Confusion in cover continuation

### Issue identified

A legacy trauma product included Long Term Care (LTC) TPD benefits that, under the policy wording, extended to age 99. However, the insurer applied a restrictive interpretation, ceasing cover at age 70. This conflicted with the written policy terms and prior AFCA determinations confirming that LTC benefits were independent of other cover.

### Resolution and remediation

In response, the firm:

- Refunded premiums and cancelled LTC cover for 109 affected customers.
- Reinforced its interpretation to other policyholders, maintaining the cessation age of 70.
- Continued to issue renewal notices reflecting the narrower interpretation.

### Outcome

AFCA concluded the matter was systemic and unresolved. The inconsistency between policy wording and practice posed ongoing risk, and the matter was reported to regulators.

# Claims handling weaknesses

Claims handling remains central to consumer trust in life insurance, yet AFCA continues to see systemic issues in this area. Complaints frequently involve unnecessary delays, overturned initial decisions, or unclear communication. These problems are particularly concerning in income protection and disability claims, where consumers may already be under financial and emotional strain.

## Take note

Timely, accurate claims decisions are central to the insurance promise. Poor processes, overturned decisions, and weak communication undermine consumer trust and create avoidable hardship.

## Markers of excellence

- Embedding early warning systems to detect and escalate potential mis-decisions.
- Clear communication with customers about claim timelines, requirements, and outcomes.
- Dedicated staff training to ensure regulatory compliance and sensitivity to consumers experiencing vulnerability.
- Leveraging technology to automate and monitor claim progression, reducing manual errors.

## Case study - Claims delays and incorrect initial decisions

### Issue identified

AFCA investigated a series of complaints regarding income protection claims. It found multiple instances where claims were initially declined but later overturned, pointing to weaknesses in decision-making and assessment processes. Delays compounded the impact, leaving customers without timely financial support at critical moments.

### Resolution and remediation

To strengthen its claims handling, the firm:

- Engaged with ASIC as part of a broader review into claims practices.
- Enhanced its customer education materials to clarify claims processes and expectations.
- Expanded staff training on regulatory compliance, product rules, and vulnerability support.
- Invested in technology improvements to streamline claims assessment and reduce delays.

### Outcome

AFCA determined the issue was systemic but considered resolved in light of the reforms underway and regulator oversight. The matter was reported to regulators for ongoing monitoring.



# Superannuation

## Delays in processing rollovers and withdrawals

Delays in processing superannuation rollovers and withdrawals remain a recurring systemic concern. Members are entitled under Superannuation Industry (Supervision) Regulations 6.34A(2) to have rollovers completed within three business days once all required information is provided. When these timeframes are breached, members can experience lost earnings, cashflow disruption, or unnecessary stress. Weak administrator controls, limited oversight, and unclear escalation pathways are common root causes. While most funds process transactions on time, large cohorts of delayed cases point to systemic breakdowns that require stronger preventative frameworks.

### Take note

Strict adherence to legislated rollover and withdrawal timeframes is essential to maintaining member trust. Large clusters of delayed transactions are systemic in nature and cannot be dismissed as isolated administrative errors.

### Markers of excellence

- Binding SLAs aligned with legislation.
- Exception reporting with clear root cause analysis.
- Strong administrator oversight with escalation protocols.
- Regular staff training tied to service standards.

### Case study - Withdrawal delays including Departing Australia payments

#### Issue identified

A series of complaints showed delays in processing withdrawal requests, including at least eight Departing Australia Superannuation Payment (DASP) cases. Root causes included human error in administrator processes, poor oversight and accountability frameworks, and insufficient communication with members about progress.

#### Resolution and remediation

The fund reviewed its withdrawal processes and introduced:

- Streamlined business rules for payment processing.
- Updated SLAs for rollover (3-day) and non-rollover (5-day) withdrawals.
- Staff training to ensure that breaches of SLAs trigger incident escalation.

#### Outcome

AFCA considered the improvements positive but encouraged the firm to continue its efforts to ensure these are fully implemented, effectively monitored across all withdrawal types, and that the issues are addressed and do not recur.

# Fraud and cyber risk in superannuation

As funds digitise and rely heavily on third-party administrators, fraud and cyber risk remain critical vulnerabilities. Weaknesses in account management, identity verification, and data change protocols can expose members to unauthorised access or fraudulent withdrawals. Although individual incidents may appear isolated, the broader systemic risk lies in the scale of potential exploitation. Given the long-term and high-value nature of super savings, even a single control failure can have wide-reaching consequences.

## Take note

Fraud and cyber risks in superannuation can have widespread impacts, as even small control gaps may be exploited at scale. Strong preventative measures, along with timely and proactive communication with members, are important to maintaining confidence and trust.

## Markers of excellence

- Dual-channel notifications (sent to both old and new contact details) for any account or contact change.
- Automated fraud detection and overlay of blacklisted details (e.g. from ATO or regulators).
- Regular stress-testing of administrator controls.
- Proactive consumer communication, ensuring members understand what changes to expect and how to escalate suspicious activity.

## Case study - Fraud risk in duplicate account merge process

### Issue identified

A vulnerability in a fund's duplicate account merge process allowed a bad actor to gain unauthorised access to a member's superannuation account. The process lacked robust notification mechanisms, meaning customers were not always alerted when their accounts were merged and contact details updated, leaving them exposed to potential fraud.

### Resolution and remediation

In response, the fund took several corrective actions:

- Immediate suspension of the duplicate merge process to prevent further exploitation.
- Manual notification controls introduced to ensure alerts were sent to both old and new contact details when merges occurred.
- Account reviews: A review of over 1,200 merged accounts identified only one fraudulent incident, though several accounts were flagged as at risk.
- Automation plan: Automated dual-channel notifications for account changes are being developed, scheduled for implementation by April 2025.

### Outcome

AFCA assessed the issue as resolved, noting that interim controls and a longer-term automation plan had been implemented.

# Legacy systems and data integrity failures

Outdated or fragmented technology platforms remain a common driver of systemic issues observed by AFCA in superannuation. Legacy systems can create errors in processing, inaccurate disclosures, and mismatched data between trustees, insurers, and administrators. Such failures typically affect large cohorts before being identified through complaints or internal reviews, undermining member confidence and creating costly remediation obligations.

## Take note

Legacy systems are a critical risk vector across the superannuation sector. Without proactive audits and technology upgrades, data transfer and record-keeping failures are likely to continue generating systemic issues.

## Markers of excellence

- End-to-end digitisation programs to reduce reliance on legacy platforms.
- Systematic audits of past data transfers and member records.
- Transparent member communication when failures occur.

## Case study - Data transfer failures leading to misleading insurance information

### Issue identified

A super fund incorrectly told members they held insurance cover when they were ineligible. The root cause was a data transfer failure between the fund and its administrator, which prevented eligibility checks from being run. Some members only became aware of the problem when their claims were declined.

### Resolution and remediation

The fund undertook targeted remediation, including:

- Identifying 88 impacted members and issuing tailored communications explaining the error.
- Cancelling invalid cover and refunding premiums in full.
- Adjusting member records across all systems and platforms.
- Reviewing broader disclosure processes to strengthen accuracy.

### Outcome

AFCA concluded the issue was systemic but resolved, noting the corrective action and remediation.

# Insurance cover errors and disclosure failures

Insurance within superannuation is a vital safeguard for members, yet AFCA continues to observe systemic weaknesses in how cover is activated, reinstated, ceased, and disclosed. Misalignment between trustees, insurers, and administrators often results in members paying for cover they do not hold or experiencing gaps in protection. Even when unintended, these errors can affect large member cohorts.

## Take note

Insurance lifecycle management - activation, reinstatement, cessation - requires precise alignment between policy terms, trustee instructions, and administrator processes. Even small errors can affect tens of thousands of members if controls are not robust.

## Markers of excellence

- End-to-end process mapping across trustees, administrators, and insurers.
- Regular exception reporting for cancellations, reinstatements, and communications.
- Automated system controls aligned to policy terms.
- Strong trustee oversight of administrators, with accountability for remediation.

## Case study - Failure to issue activation notices

### Issue identified

A system error meant hundreds of thousands of members did not receive activation notices for insurance cover, leaving them without key information on commencement and cost.

### Resolution and remediation

The trustee undertook large-scale remediation by:

- Sending apology letters to over 135,000 members.
- Offering refunds for members wishing to cancel cover.
- Fixing the system error as part of a wider insurance enhancement program.
- Providing regular reports to regulators.

### Outcome

AFCA found the issue systemic but resolved, noting the scale highlighted the need for strong system assurance.

## Case study - Reinstatement outside policy terms

### Issue identified

An insurer reinstated cover for members whose applications were lodged outside the allowed cut-off period. Instead of applying cover from the date of reinstatement, it was incorrectly backdated to the date cover was cancelled. This resulted in members paying premiums for periods where no cover should have applied.

### Resolution and remediation

A review identified 153 impacted members. Some had been wrongly declined reinstatement altogether, while others had cover reinstated and premiums charged contrary to policy terms. The trustee:

- Issued explanatory letters to members.
- Updated procedures to ensure reinstatements aligned with policy rules.
- Issued corrected disclosures so members were properly informed.

### Outcome

AFCA considered the issue systemic but resolved, noting that while actions were well-intentioned, poor alignment with policy terms created risks of confusion and unfair charging.

## Case study - Failure to action opt-out requests

### Issue identified

Complaints revealed members' requests to opt out of insurance were not actioned. Causes included successor fund transfer issues and manual/system errors. Members continued paying premiums for unwanted cover.

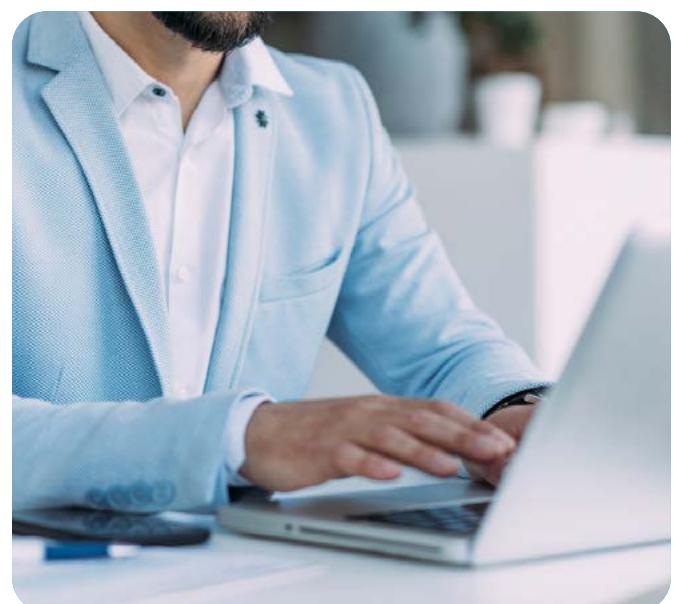
### Resolution and remediation

The trustee responded by:

- Refunding premiums with interest.
- Implementing reconciliation reporting to cross-check cancellations.
- Enhancing staff training on opt-out procedures.
- Introducing exception reporting and call quality reviews.

### Outcome

AFCA considered the matter systemic but resolved following remediation and process uplift.





# Investments and advice

AFCA did not confirm any systemic issues in the Investments and Advice product area in the past two quarters. However, this sector remains a priority for systemic risk assessment, reflecting both complaint trends and broader regulatory scrutiny. Investigations and referrals during this period highlighted recurring areas of concern:

- Advice quality and suitability – ensuring advice frameworks properly assess client circumstances and avoid mis-selling or inappropriate product distribution.
- Disclosure and transparency – addressing the risks of complex or opaque fee structures, and making certain that clients clearly understand ongoing service arrangements.
- Distribution practices – monitoring concerns around outbound sales models, superannuation switching, and the boundaries between general and personal advice.
- Unregulated channels – considering the growing role of digital platforms and informal advice networks, which can expose consumers to poor outcomes when not subject to strong oversight.

Although no systemic determinations were made this quarter, these themes remain central to preventing consumer detriment and sustaining trust in the advice sector. They also align with ongoing regulatory priorities around quality of advice, product governance, and distribution practices.



## Take note

Systemic risk in the advice sector often lies not in single transactions but in the frameworks that govern advice quality, disclosure, and distribution. Even without confirmed systemic findings, complaint activity suggests these areas will continue to be a focus for AFCA's systemic monitoring.

## Markers of excellence

- Rigorous testing of advice quality against best-interest and suitability standards.
- Plain-English disclosure of fees, services, and ongoing obligations.
- Distribution controls that ensure outbound and digital channels do not expose clients to undue risk.
- Proactive remediation where advice processes or disclosures are found to fall short.



# Small business

AFCA did not identify any confirmed systemic issues specific to Small Business in the past two quarters. However, complaint activity and referrals continue to highlight risk areas in this sector. Common themes include:

- Financial difficulty assistance – inconsistent practices in recognising and responding to small business financial difficulty, particularly where personal and business finances are closely linked.
- Loan terms and guarantees – complex loan documentation and the risk that guarantors (often family members) may not fully understand their obligations.
- Dispute resolution processes – barriers faced by small business customers in accessing fair and timely resolution, especially where lending arrangements are complex or involve multiple parties.

Although no systemic findings were confirmed this quarter, these issues remain areas of AFCA focus. They are also consistent with wider regulatory attention on financial difficulty, fair lending, and the treatment of small business customers in financial distress.



## Take note

Small business borrowers often face additional challenges compared to retail consumers - from navigating complex financial arrangements to managing uneven cash flows and heightened enforcement risks. Complaint patterns suggest that financial difficulty frameworks, disclosure of guarantees, unfair contract terms, penalty fees and charges and fair dispute resolution processes are all areas where systemic risk may crystallise.

## Markers of excellence

- Specialist financial difficulty pathways tailored to the needs of small business operators.
- Clear and accessible communication of loan terms and guarantees.
- Balanced enforcement approaches that consider both short-term recovery and long-term business viability.
- Accessible and well-resourced dispute resolution processes that ensure small business customers are not disadvantaged by complexity.



# Future focus

# Reflections on emerging themes for financial firms

Across sectors, AFCA's systemic investigations continue to reveal recurring vulnerabilities - particularly in relation to outdated systems, weak governance controls, and gaps in responses to consumer harm. To meet community and regulatory expectations, firms can prioritise the following area for improvement:

## Quality assurance and system design

### Observation

Weak QA frameworks and reliance on outdated documentation or manual handling have contributed to errors in privacy, hardship decisions, and product disclosure.

### Why it matters

When assurance processes focus narrowly on compliance rather than consumer impact, problems can remain hidden until they escalate into complaints, resulting in avoidable detriment and reputational risk.

### What we are seeing

Stronger QA programs that actively test customer-facing materials, complaint responses, and disclosures for clarity and fairness - not just technical compliance - appear more effective in preventing systemic issues.

## Legacy system risks

### Observation

In superannuation and life insurance, legacy systems have repeatedly contributed to disclosure failures, delays, and transaction errors.

### Why it matters

Outdated systems can create structural weaknesses that affect large groups of members or customers simultaneously, amplifying both consumer harm and regulatory risk.

### What we are seeing

Firms that conduct regular technology reviews and system audits - with a focus on consumer impact - are better positioned to reduce the likelihood of widespread issues.

# Training and engagement in dispute resolution



## Observation

AFCA has observed gaps in staff knowledge of product rules, legal obligations, and vulnerability support when firms engage in external dispute resolution.



## Why it matters

Limited understanding can prolong disputes, increase escalation, and reduce confidence in the fairness of outcomes.

### What we are seeing

Embedding systemic awareness into staff training, and equipping teams to engage constructively with complaints processes, can support earlier and fairer resolution.

# Vulnerability frameworks in practice



## Observation

While many firms maintain policies on vulnerability, these are not always embedded effectively in frontline processes. Missed indicators, weak escalation, and inconsistent support remain common.



## Why it matters

When vulnerability is not identified or responded to appropriately, harm is often compounded - particularly for customers experiencing hardship, serious medical conditions, or family violence.



## What we are seeing

More mature practices include automatic triggers for escalation, specialist teams, and communication approaches that prioritise consumer dignity alongside compliance.

# Complaints as risk intelligence



## Observation

Complaints continue to be one of the earliest and clearest indicators of systemic weakness. However, they are not always elevated beyond operational teams, meaning opportunities for organisational learning can be missed.



## Why it matters

When complaint insights remain siloed, boards and risk committees may lack visibility of emerging risks until issues have escalated. Treating complaints as a form of risk intelligence allows firms to connect customer experience with broader governance and cultural oversight.



## What we are seeing

Firms that routinely escalate thematic complaint analysis to senior governance forums demonstrate greater ability to identify weaknesses early, respond constructively, and integrate consumer insights into enterprise risk management.