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When confidence really matters

As the sustainability of life insurance products is scrutinised, Zurich and OnePath are developing products centered around confidence and certainty.

Income protection is entering a new world in Australia. In December 2019, APRA intervened into the life insurance market due to heavy losses in income protection products and itdidn't mince words on the issue.

"Life companies have collectively lost around $3.4 billion over the past five years through the sale of disability income insurance to individuals," APRA said.

Zurich and OnePath risk strategy specialist Adam Crabbe explains that the key issue around these products was not whether customers were happy with them - it was profitability.

"The disability income sector has been underperforming for a number of years. This has been driven, in part, because of the generosity of product design," he says.

"Because of a range of factors, including a multi-tiered definition, we find that many income protection claimants are far better off financially on claim than they were prior to claim."

In response to concerns around the ongoing sustainability of these products, APRA has introduced a series of measures to shift the focus to sustainability and improve profitability.

"With some of the measures, APRA has offered quite specific guidance on how to manage some of these particular challenges. One of these has been around the cessation of agreed value products, which occurred back in March 2020," Crabbe says.

"Other measures, which we are seeing introduced in October 2021, have been similarly definitive."

One of those measures is a cap on the amount that can be paid to an individual on an income protection claim. That cap is not to exceed 70% of their income throughout the term of the contract.

However, APRA has allowed for some flexibility.

In the early periods of a claim, where a person who has suffered injury or illness might be incurring healthcare costs, APRA allows insurers to increase the cap from 70% to no more than 90%.

"With other measures there has been a certain amount of flexibility the regulator has given to the industry so they can manage the risks of a longer term claim themselves. With this, we're most likely to see a number of ways in which insurers will address some of the measures that have been imposed," Crabbe says.

Crabbe adds that it's likely there will be some changes in the income protection ratio.

"While APRA have been clear about not breaching that 70% maximum limit, there is likely to be flexibility for providers to offer an amount below that. We saw in the Actuaries Institute guidance paper that there was 60% used as a guide in that documentation. We've seen some insurers align their products to that metric," he says.

"Certainly, the research that we have at Zurich and OnePath suggests that for much of our customer base there was potential detriment if there was a drop in the income replacement ratio made throughout a claimant's journey. Our approach has been, and will be, to offer a static 70% throughout that journey."

Crabbe also expects to see shifts to definitions, aimed at encouraging people to get back to work, occur within the industry.

He expects to see life insurers create products which treat income protection differently if a claimant is allowed to do some work, even if it is not their original occupation but another which is suitable for their education and experience.

He thinks claimants being able to work a certain number of hours could also be a trigger for insurers to pare back on the benefits that are paid.

These changes - designed to improve the sustainability and profitability of products - will see a renewed focus on rehabilitation and getting those on claim well enough to work again.

As for how Crabbe and his team at Zurich and OnePath reconsidered products in light of APRA's guidance, he says it helped cement the philosophies at the heart of their products.

"We actually engaged with many of our key stakeholders - these included customers, advisers, licensees, research houses but also the community at large… What it led us to do, as a broader business, was to come up with some key philosophies," he explains.

One of these was certainty.

"Part of the feedback we received was that people do like that sense of understanding a level of certainty with their product. That got us to the position of having that 70% income replacement ratio right throughout the contract term," Crabbe says.

"The other thing we've done is included a built-in functionality where if someone's circumstances change after taking the contract out, the built-in insurability feature will allow them to change how they are insured based on life events."

The second key message Zurich and OnePath's research uncovered was the important of flexibility. Some customers were conscious of the increased healthcare costs that could be incurred early in a claim and wanted the flexibility to have the severity temporarily boosted – and these customers were willing to pay for that feature.

"From some customers, the feedback was that if they were going to be off work for an extended period - and with that their employer was going to stop paying superannuation guarantee contributions to their super fund - then they wanted to know that the life insurer could continue with those super contribution payments," Crabbe says.

"Then at the end of that claim term, which might be to age 65, there would be a more sizeable pool of super assets which could then pay those income protection benefits throughout a person's retirement."

The other focus for Crabbe and his team is on care.

OnePath has won several awards for its claim team, and in the new world of income protection that customer care is going to be more important than ever.

And it's not just customer care, but care for advisers too.

Zurich and OnePath is also offering support to financial advisers through its support and distribution staff and through a dedicated education platform for advisers.

The platform has sessions and materials talking through the old versus new world of income protection products in retail and group insurance.

It's a great tool for when it comes to assessing clients' existing income protection policies, he says.

"Many of the things that were available back in the day, like a lifetime benefit period, are not available today," Crabbe notes.

"There may be a best interests duty to consider if that existing policy can be managed to better suit the client. This could be through dialing back on the sum insured, for example, if that is too high or changes to that waiting period to alleviate costs that might be there." FS

The quote

We find that many income protection claimants are far better off financially on claim than they were prior to claim.

Watch the video on www.fsitv.com