



Potential Changes to Income Protection Policies

If you are looking to apply for income protection insurance now is a good time to do so.

The reason for the proposed changes

In response to ongoing heavy losses in respect of individual disability income insurance (DII), the Australian Prudential Regulation Authority (APRA) has launched a series of measures requiring life insurers to address flaws in product design and pricing.

You can view the full letter from APRA [here](#).

What are the changes?

In summary, APRA expects life companies to better manage riskier product features, including by:

- Ensuring disability income insurance benefits do not exceed the policyholder's income at the time of claim, and ceasing the sale of agreed value policies;
- Agreed cover is proposed to cease from 1st of April 2020 which will only leave the option of an indemnity contract.
- Avoiding offering disability income insurance policies with fixed terms and conditions of more than five years; and
- Ensuring effective controls are in place to manage the risks associated with longer benefit periods.

Agreed vs. Indemnity value policies?

An Agreed value policy is where the monthly benefit is the amount when the policy commenced. The monthly benefit does not change when your income decreases or increases. An agreed

value policy is beneficial for occupations where income fluctuates from month to month. This could also help to provide financial security by ensuring that, regardless of your income at the time of your claim, you're entitled to a fixed amount, which may end up being higher than what you're earning at the time.

With an indemnity value policy, the maximum monthly benefit is agreed at the commencement of the policy. However, if a claim on the policy is made, the actual monthly benefit payable is assessed at that time. It is worked out as the average earnings of the life insured over the 12 months prior to the claim.

How could this affect you?

- If you are considering taking out an income protection policy which is an agreed value policy, now would be an opportune time to get cover before it becomes harder to apply.
- If you are considering changing your existing cover from indemnity to agreed cover these changes may restrict you in doing so after 31 March 2020; and
- If you are deciding on whether to move your cover from one owner to another (for example move an income protection policy from your superannuation into your own name), generally this is done by cancelling the original policy and issuing a new policy but without medical underwriting.

If you already have an income protection policy in place and are not wanting to make any changes, your policy will remain as is.

If you have any questions in relation to the above, please do not hesitate to contact our Insurance specialists.



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