Switching Gears

Income Protection Advice Considerations

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ADVICE SKILLS AND TRAINING

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01 Introduction

02 Value is personal

03 Income protection levers

04 Questions?

Agenda

Learning Outcomes

At the conclusion of this session, participants should:

- Understand what is driving clients to consider altering/replacing existing IP contracts
- How the client's concept of value interact with their risk goals and objectives
- Consider the Code of Ethics and informed consent in the alteration/switching process
- Discuss the relationship between risk and cost using an interactive tool
- Provide examples of how the risk/retain advice methodology works in practice

Introduction

Introduction

In a world where the new generation income protection products are less generous than their predecessors, how do financial advisers recommend altering or replacing these contracts and still act in the client's best interest?

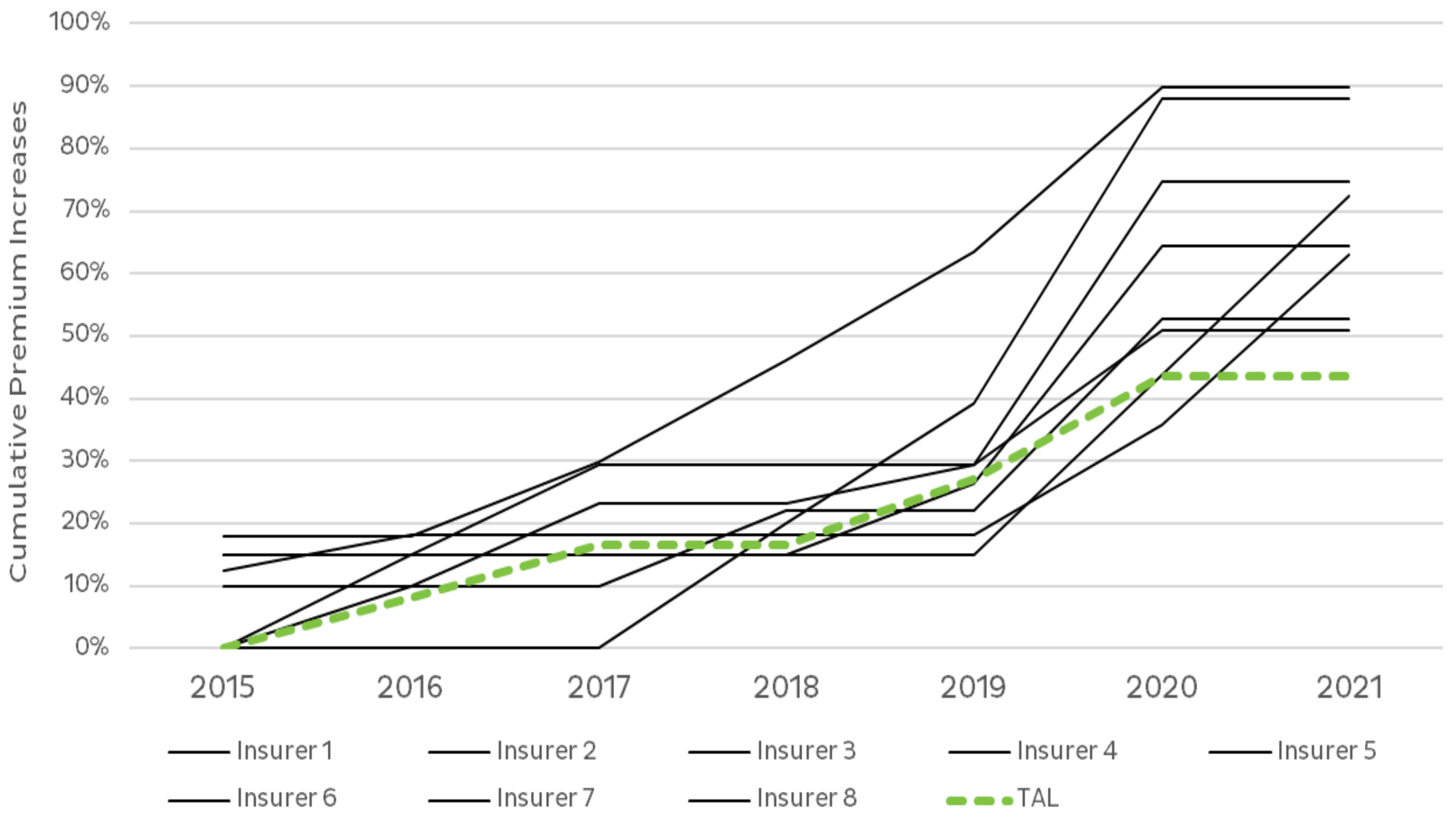
- As the dust starts to settle on income protection products post APRA's intervention, we have seen a significant reduction in new IDII recommendations and new business
- This reduction is not unexpected, and is driven by more than the product changes in isolation
- Regulatory change and uncertainty is also limiting new business, with further change likely on the horizon

"How do you know that you're right, if you're not nervous anymore"

Brandon Flowers, The Killers

Control the controllable

Product superiority complex



The evolution of income protection contracts has traditionally focused on the improvement of the predecessor contract

This is partly responsible for the inforce premium increases seen in market between 2015-2021

(cumulative based on approximate averages communicated to market)

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Sustainability is the new frontier

Sustainability is being driven by the regulator, insurer, adviser and consumer

APRA's intervention has put the spotlight on sustainability

An insurer considering sustainability remains important to help restore affordability and fairness for clients – products must still meet client needs

Older generation products rate better, have more features and benefits and generally cost more than the current on sale contracts – but are they in the best interest of the consumer?

High inflation, interest rate increases and general cost of living pressures are putting a strain on the clients discretionary spend

Value is personal

Value is in the eye of the beholder

Value is individual, specifically informed by the client situation and is viewed in reference to the client goals and objectives

- Value isn't determined solely by price, the client's capacity to pay is ultimately driving their purchasing decision
- There is undoubtably features and benefits in the older contracts that client's will value, but these will vary from client to client
- The beauty of personal advice is determining what those features and benefits are valuable to each client and demonstrating how they are appropriate to the clients' circumstances
- By understanding the clients current situation (including their capacity to pay a premium) as well as their risk tolerance, advice can be personalised and appropriateness can be demonstrated

Risk tolerance

Risk profiling shouldn't be confined to wealth advice

RISK PROFILE

Risk comfortable

Unconcerned by risk to income – not seeking risk transfer solution.

Balanced

Pragmatic view of risk and necessity of income protection – seeks value.

Product solution provides necessary coverage and minimises present and future financial impact.

Conservative

Limited appetite for risk to income - seeks the most comprehensive solution.

Product solution provides maximum coverage and certainty, prepared to make financial concessions in present and future state.

SOLUTION CONSIDERATIONS

Risk comfortable

- Nil cost – no insurance
- High risk of income loss if unable to work

Balanced

- Lower initial cost
- Minimised long term cost
- Reduced risk of premium increase

Conservative

- High initial cost
- Greater long term cost
- Greater risk of premium increase

INCREASED PRODUCT GENEROSITY COMES AT GREATER COST AND WITH INCREASED UNCERTAINTY OF FUTURE COST

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Informed position

A client's risk tolerance should come from an informed position – does the client understand both the risk of an insurable event occurring balanced against the cost of protecting against this risk?

The Code of Ethics requires that any advice provided to a client must be understood

Does the client understand the risk/cost trade off, and can they articulate this back to the adviser?

Insurers are now providing more claims data that can be used in with client's to help drive a better understanding of risk

Informed consent requires the adviser to have reasonable grounds that the client understands the advice

The relationship between risk and cost

	CLAIM EVENT		2 YEARS		5 YEARS		AGE 65
		92% of claims		**95%** of claims		**5%** of claims	
Annual premium:			$1,239	**+$170**	$1,409	**+$1,483**	$2,892
Cumulative premiums till expiry at age 65:			$81,487	+$10,778	$92,265	+$54,630	$150,895

Only 0.32% of all policy holders are expected to remain on claim beyond 2 years

Analysis based on 2,500 Accelerated Protection IP claims whose Waiting Period finished before 1 July 2015 to ensure longer duration data was captured. Analysis includes reserves for future payments on open claims at time of extraction. Claims incidence rate is estimated based on a 10 year actuarial projection considering industry standard mortality tables, historical TAL claims and policy discontinuation experience.

Premiums based on a M, NS, 40, $10,062 monthly benefit, 70% replacement ratio, 30 day wait for a 2 and 5 year Focus benefit and a to age 65 Extend benefit – as at 13 July – assumes no changes to premium rates over policy tenure.

Value is personal

Risk pooling means that those that claim (2-4%) pay the claims for those that don't – knowing this, what premium is your client prepared to pay?

- Are there specific features and benefits of the older generation contracts that you as an adviser value?
- More importantly, do your client's value these features and benefits and are the prepared to pay for them?
- A clients expectation of a claim is generally driven by conversations with their adviser

Would a client expect to be paid a monthly benefit in excess of the actual current earnings? (Agreed value)

Does the client expect to be paid a monthly benefit when they haven't ceased gainful employment (Scheduled Injury Benefit, Critical Illness Benefit)

Understanding value drives the trade-off discussion and allow personalised income protection advice – if the client trades off a feature or benefit, it should be understood and documented

Question 1

In considering the application and use of a ‘Risk Profile’ for insurance, which relationships are relevant for the adviser to consider?

a) The relationship between risk and goals and objectives
b) The relationship between risk and premium cost
c) The relationship between goals and objectives and premium cost
d) All the above relationships should be considered

Answer

In considering the application and use of a 'Risk Profile' for insurance, which relationships are relevant for the adviser to consider?

Correct answer: d

All the above relationships should be considered

Income protection levers

What levers would you pull?

RISK	FINANCIAL EXPOSURE	RISK RETENTION	RISK TRANSFER	STRATEGY EXAMPLE
Income Replacement %	Income loss for duration of claim	25%/30%/ 40%/100%	75%/70%/ 60%/0%	70%. Use existing savings/ mortgage redraw for shortfall
Duration of income payment	Income lost outside the claim period	• 65-x • 65-(x+2) • 65-(x+5) x =Age on claim	• Zero • Two Year benefit • 5 Year benefit • Age 65 benefit	5 Year Benefit Period. Supplement IP with TPD using appropriate NPV calculation to determine income replacement needs
Income waiting period	Income lost during the waiting period	120/90/60 days	60/90/120 days	Existing savings/mortgage redraw
Retirement savings	No super contributions during claim period	Zero contributions	Contributions =SGC	Accept suspension of contributions during the claim period. Long term: Fund from TPD claim proceeds

Reducing risk will result in a premium saving for the client

This premium saving is not just a year one consideration, it is also cumulative

The reduction of premium has a corresponding increase in risk – this must be identified

Does the client understand the consequences of any trade-off?

Informed consent requires the client understand the advice – understanding involves all parties

Tools as described today can be a great visual stimulus to promote understanding

Documentation is key and can protect all parties

Question 2

Under the risk transfer or retention methodology, which of the following is an example of risk retention for an income protection policy?

a) Reducing the waiting period from 60 days to 30 days
b) Adding the retirement savings benefit to an existing contract
c) Reducing the monthly benefit of an older generation contract to reflect 100% of the client pre-disability earnings
d) Reducing the benefit period from Age 65 to 5 years

Answer

Under the risk transfer or retention methodology, which of the following is an example of risk retention for an income protection policy?

Correct answer: d

Reducing the benefit period from Age 65 to 5 years

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Question 3

Under the risk transfer or retention methodology, which of the following is an example of risk transfer for an income protection policy?

a) Increasing the waiting period from 30 days to 90 days
b) Adding the retirement savings benefit to an existing contract
c) Reducing the monthly benefit of an older generation contract to reflect 100% of the client pre-disability earnings
d) Reducing the benefit period from Age 65 to 5 years

Answer

Under the risk transfer or retention methodology, which of the following is an example of risk transfer for an income protection policy?

Correct answer: b

Adding the retirement savings benefit to an existing contract

Questions

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Thank you