



HEALTHIER, LONGER,
BETTER LIVES

DECODING FINANCIALS: SMARTER UNDERWRITING, BETTER CLAIMS

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AGENDA

- **Why financially underwrite?**
- **Lump Sum considerations for personal and business insurance**
- **IP consideration (including old and new world)**
- **Not a set and forget strategy**
- **Key takeaways**



WHY FINANCIALLY UNDERWRITE?



FINANCIAL PRE-ASSESSMENT

- Why don't we allow the cover they want, they are willing to pay for it, why limit?
- Insurers financial underwrite so that proposed cover aligns with the applicant's needs, as insurers we need to ensure that policy does not add to the usual mortality/morbidity risk.
- Excessive sum insured can lead to early lapses
- Excessive IP beyond 70% of SI, impacts incentive to return to work
- Excessive lump sum cover may have a moral risk, impact anti-selection and lead to fraudulent claims



PERSONAL INSURANCE – LUMP SUM

Age Bands	Life/TPD – Maximum	Crisis Recovery
20-29	30 x Salary	15 x Salary
30-39	30 x Salary	15 x Salary
40-49	25 x Salary	10 x Salary
50-59	15 x Salary	5 x Salary
60-64	10 x Salary	2 x Salary
65+	5 x Salary	-

PERSONAL PROTECTION CONSIDERATIONS FOR LIFE COVER

- **Age**
- **Multiples of income/earning capacity**
- **Dependents**
- **Relating cover to need**
- **Pay mortgages and debt**
- **Maintain quality of life for family**
- **Estate planning**



TPD AND CRITICAL ILLNESS

TPD

- **Income earning capacity**
- **Debt/Mortgage**
- **Maintain quality of life for family**
- **Spouse working?**

CRITICAL ILLNESS

- **Assist with immediate care**
- **Modify residence**
- **Ongoing medical expenses**
- **Shortfall of income for both insured and partner**

DIFFERENT BUSINESS NEEDS FOR COVER

Key Person

“The key person insurance is the cover effected by a company to recompense the financial loss suffered following the death or permanent disability of a key member of staff.”

Considerations

- *Established and key to organisation?*
- *Replacement cost?*
- *Amount of potential loss to business*

Buy Sell considerations

- Valuing the business
- Equal to shareholding
- All partners covered
- Backed up by a legal agreement

POLL

Is the average sum insured for Trauma cover between the following:

- A. \$100-200k**
- B. 200k to 300k**
- C. 300k to 400k**
- D. Over 400k**





Income Protection

WHAT IS INCOME?

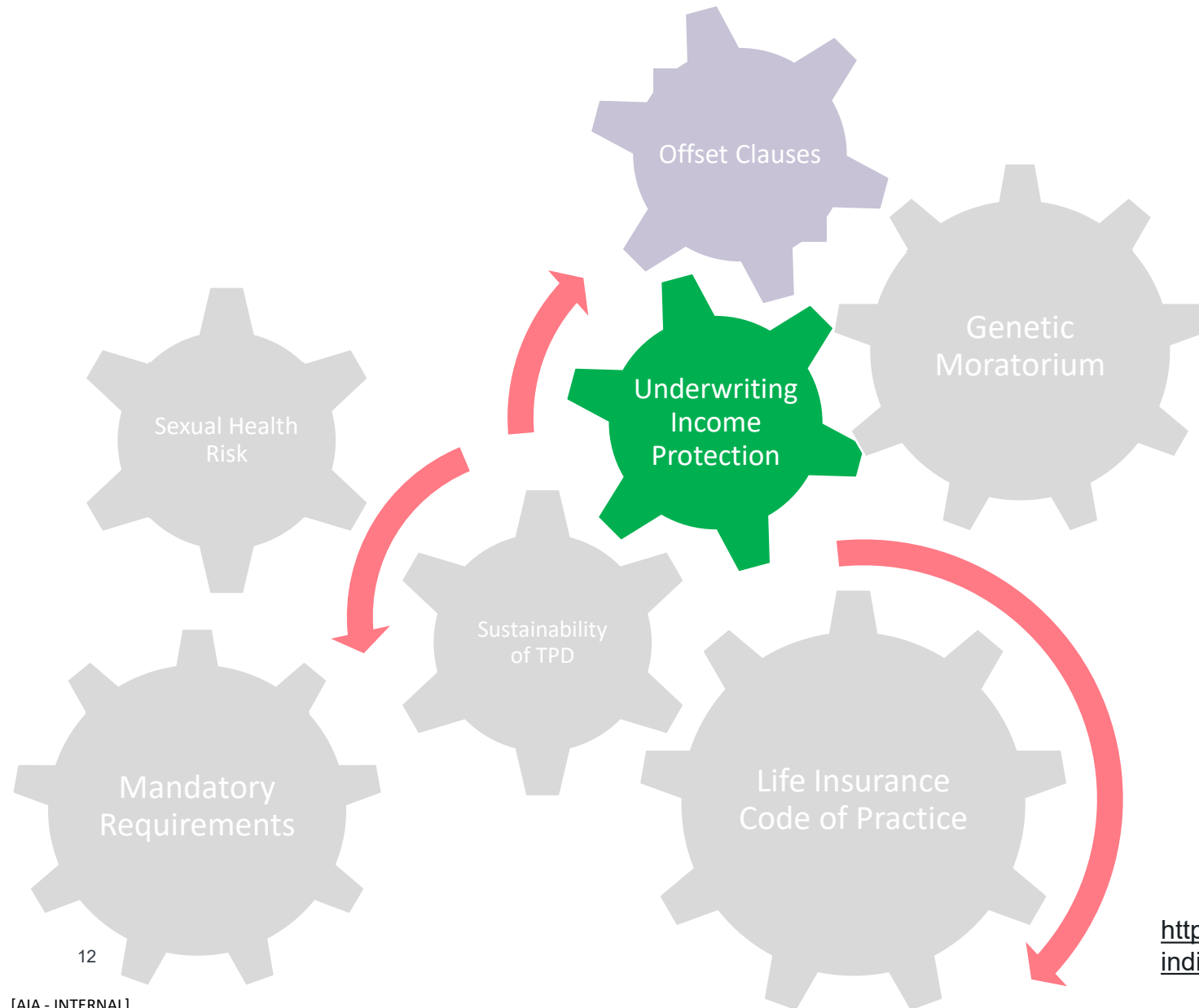
Policy definition – employees:

“The total pre-tax remuneration paid to an Employed person including salary, voluntary superannuation contributions, commission, regular bonuses, overtime and fringe benefits. This does not include income which is not derived from your personal exertion or activities, such as dividends, interest, rental income or proceeds from the sale of assets, or royalties. No Employer Super Guarantee Contributions may be included within the definition of Income”

Policy definition – self-employed:

“Income that you generate and receive from your business or practice due to your personal exertion or activities, less your share of necessarily incurred business expenses. Any voluntary superannuation contributions will also be included. This does not include income which is not derived from your personal exertion or activities such as dividends, interest, rental income or proceeds from the sale of assets, or royalties..”

UNDERWRITING INDEMNITY INCOME PROTECTION



“APRA considers it imperative that claim payments should be linked to income at risk at time of claim, i.e. indemnifying losses. Allowing claim payments to exceed the income at risk is inconsistent with the principle of indemnity. This gives rise to moral hazard, heightens risk and impedes sustainability.”

<https://www.apra.gov.au/sustainability-measures-for-individual-disability-income-insurance>



WHAT DO SOME OF THESE TERMS MEAN?

Gross income less business expenses before tax

Generally defined as the money that is received from normal business activities of an individual or business.

Personal Exertion Income

The income that an individual generates by his or her own efforts (after expenses and before tax) which will cease upon that individual's death, sickness or disablement.

Investment Income

All other income generated by means other than personal exertion and a source that will not cease in the event of death, sickness or disability.

INCOME SELF EMPLOYED



For Self Employed: (sole trader, business partner, employee of own company). This is income that you generate and receive from your business or practice directly due to your personal exertion or activities, less your share of necessarily incurred business expenses, for the last two financial years

	Last financial year	Previous financial year
A Gross Business Income/revenue	\$	\$
How much of the above gross revenue is renewal, trail, or any form of ongoing commission?	\$	\$
Will the ongoing commission continue for more than 6 months?	☐ Yes ☐ No	
B Total Business Expenses	\$	\$
C Net Business profit/loss (before tax)	= A - B \$	\$
D Your % share of net business income	%	%
E Your share of net business profit/loss	= C x D \$	\$
F Add backs such as your own portion of salary/wages/directors fees, any voluntary personal superannuation contributions, spouses income (if income splitting), or your share of depreciation	\$	\$
G Your net earned income (before tax)	= E + F \$	\$

Note: These figures disclosed should coincide with returns lodged with the Australian Taxation Office.

Add Backs

- ✓ Donations
- ✓ Depreciation
- ✓ Salary/Wages/Directors fees
- ✓ Management / Service / Consultant fees
- ✓ Income split salary
- ✓ Income split superannuation
- ✓ Motor vehicle (25%-50%)
- ✓ Conference/Seminars/Travel
- ✓ Conference and seminars expenses
- ✓ Professional Development
- ✓ Voluntary Personal Super Contributions

INDEMNITY VS AGREED VALUE

WHAT'S THE DIFFERENCE?

Indemnity

- Monthly benefit is NOT guaranteed
- Financials required at claim stage
- Cheaper premiums
- Good for employees or steady income earners
- Available to all allowable occupations

Agreed Value

- Financials are required at underwriting if endorsed
- No financials required at claim stage
- More expensive
- More certainty for self-employed clients
- Available only to less 'risky' occupation

With Financials / Endorsed:

Claims do not need any further financial evidence to justify the total disability sum insured as this has already been provided at Underwriting stage

Without Financials / Not Endorsed:

Claims may seek financial evidence to verify income disclosed at the time of application.

POLL

In what year did Agreed Value IP close to new business?

- A. 2018**
- B. 2019**
- C. 2020**
- D. 2021**



WHAT DO WE ASK FOR?

DETAILING THE EVIDENCE

Employee evidence:

- Letter from employer
- Individual Tax Returns (ITR)
- Tax Assessment Notices
- Group certificate
- Payslips – x3 recent and consecutive

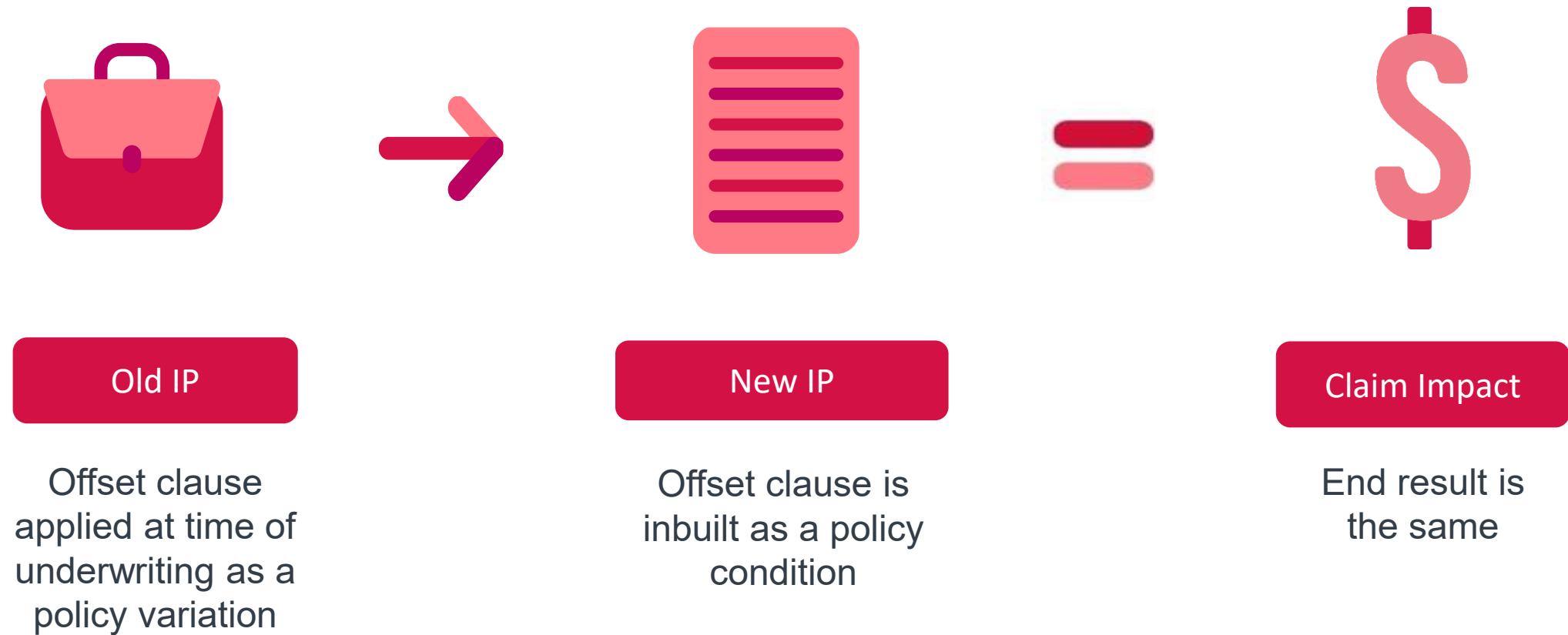
Sole traders

- We require ITR, as well as profit and loss statements

Self-employed evidence

- Partnership Taxation Returns – partnership agreements may also be asked for
- Company Taxation Returns
- Trust Accounts
- Profit and Loss Statements & balance sheets

OFFSET CLAUSES – BUSINESS, SICK LEAVE, ANNUAL AND LONG SERVICE



NOT A SET AND FORGET SUM INSURED

- Personal circumstances may have changed
- Lump sum cover needs may have changed
- Debt reduced, closer to retirement age
- Kids now adults and independent
- Salary or income changed, is IP reflective of this
- Use of GFI and FUB



POLL

What percentage of retail Life and TPD rider recommendations are for identical sums insured?

- A. Between 65-75%**
- B. Between 55-65%**
- C. Under 55%**
- D. Over 75%**

KEY TAKEAWAYS

- The need for insurance cover is there, be confident about how much and how to justify it
- Excessive cover is not the solution
- Understand how different lump sums and IP interplay with one another
- Not a set and forget strategy, keep on top of things

TECHNICAL ADVICE AND RESOURCES



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