



HEALTHIER, LONGER,
BETTER LIVES

BEYOND THE POLICY

Real-World Thinking in Lump
Sum Protection

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AIA Australia has prepared a Target Market Determination which describes the class of consumers that comprise the target market for this product. The Target Market Determination can be sourced at aia.com.au/tmds



AGENDA

- 1 Different coverages cover different needs**
- 2 TPD past and present**
- 3 Own Occ versus Any Occ TPD**
- 4 Critical Illness how does it differ from other coverages**
- 5 Other lump sum features to look for**
- 6 Key takeaways**



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

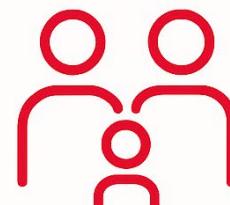
CRITICAL
ILLNESS



Income earning
capacity



Debt/
Mortgage



Maintain quality
of life for family



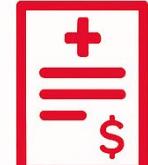
Spouse
working?



Assist with
immediate care



Modify
residence



Ongoing
medical expenses



Shortfall of
income for both
insured and
partner

TPD HISTORICALLY

TPD is generally understood as a benefit associated with a permanent inability to work, however it has certainly evolved over the years.

- Over 50 years ago, TPD was essentially viewed as something covering “catastrophic events” with little to no chance of rehabilitation.
- The bulk of the workforce were males working in blue collar roles
- Most claims were Musculo-skeletal in nature, including accidents
- Workplace safety and medicine has evolved
- No such thing as Own occupation back then, in fact Own Occupation TPD a relatively new feature from around 20 years ago



TPD FEELING THE PINCH

Is Own Occupation always better?

- Growth in mental health claims (over 30% of claims now)
- Mental Health claims more prevalent amongst professionals in Own Occupation categories
- Increase in litigated TPD claims
- Own Occupation pricing feeling the pinch
- Younger categories claiming
- Insurers and regulator looking at sustainability of TPD
- What about severity based TPD or other restricted terms?
- Is Any Occupation worth considering, does it better suit certain individuals?
- What do acceptance rates look like?

TPD OWN VS ANY

Table 5: Outcomes for claims assessed under ADL compared to other TPD definitions (2016–17)

Definition	Declined rate	As percentage of all finalised claims	As percentage of all declined claims
ADL/ADW	60%	3%	13%
Any occupation	12%	91%	79%
Own occupation	14%	5%	6%
Other	40%	1%	3%

Source: ASIC data collection



TPD OWN VS ANY CASE SCENARIOS



Licensed electrician 48 years old, been in same occupation since completing apprenticeship. Diagnosed with debilitating disease, would claims outcome be same?



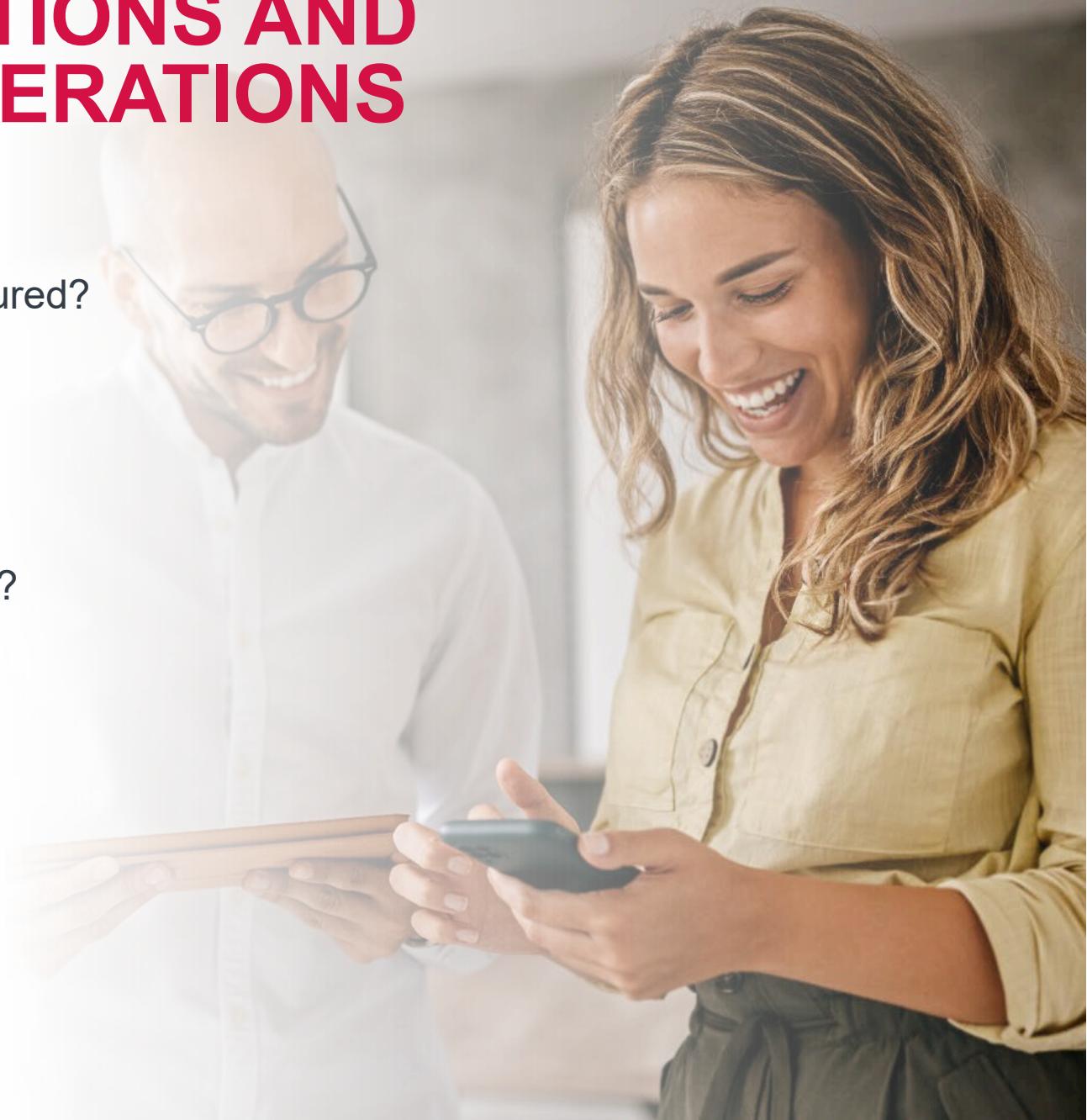
GP suffering major hearing loss or deteriorating eyesight, would claims outcome be same?



Company Director suffers from Major Depression, treatment resistant, would claims outcome be the same?

OTHER TPD CONSIDERATIONS AND AFFORDABILITY CONSIDERATIONS

- Must sum insured always match Life cover sum insured?
- TPD time to claim?
- Split TPD (any/own)
- Reducing TPD and introducing Critical Illness cover?
- Severity based TPD options?
- Ongoing CPI indexation, does it reflect a need?
- What about Critical Illness?



TRAUMA INSURANCE



Developed by Marius Barnard in 1983 in South Africa
(brother of Christian Barnard, first successful open heart transplant)



Patients survived but often lost their life savings
Once fatal illnesses such as cancer, stroke or heart disease



Longer life expectancy increase
Chance of surviving serious illness

Life expectancy: 1900



50 years



55 years

Life expectancy: 2025



81 years



85 years

CRISIS / CRITICAL ILLNESS

Is there an interplay between Crisis and TPD?

Far more likely to claim under Crisis, however this is also reflected in the price

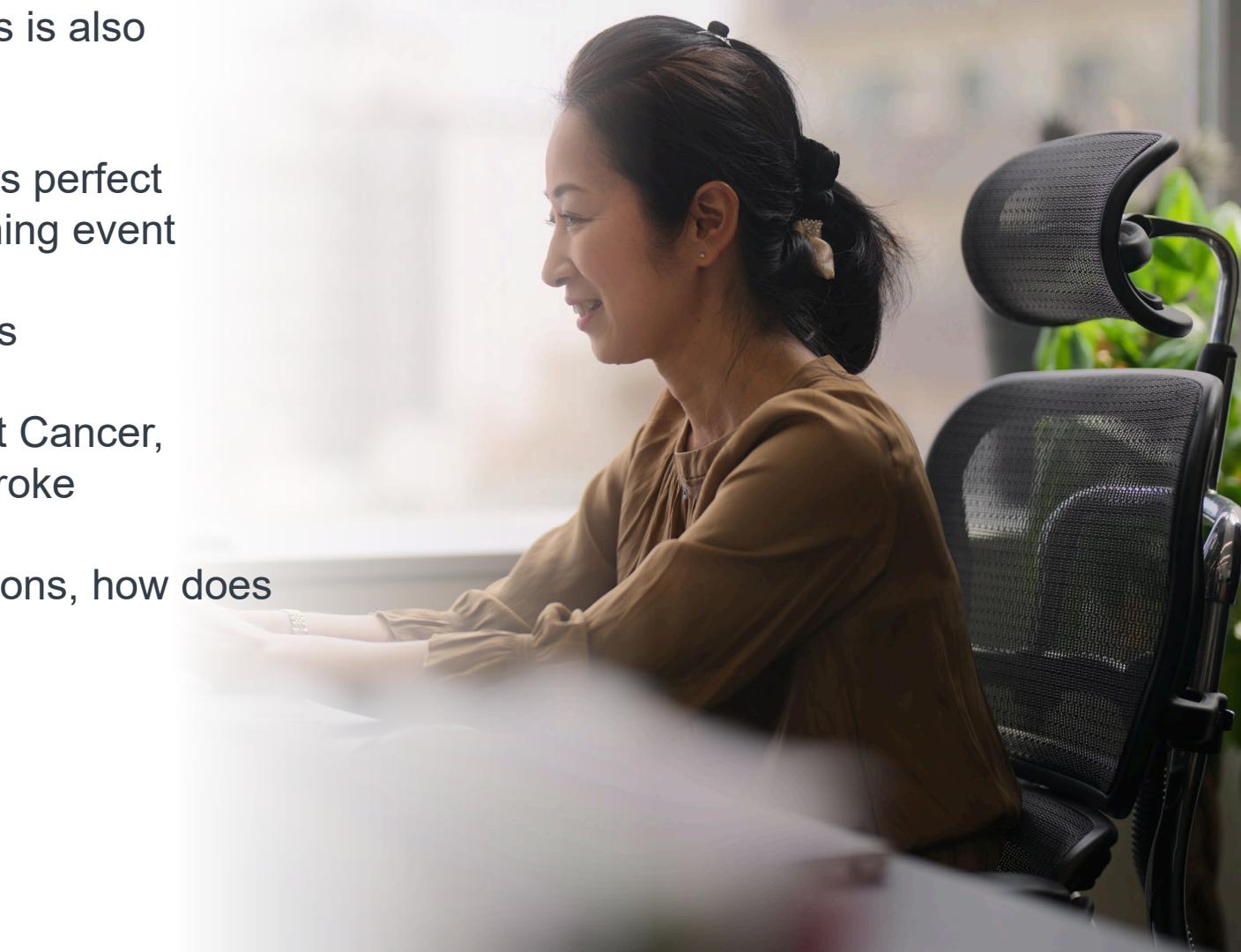
Buying back Life Cover after a Crisis Event makes perfect sense, after all, client has suffered a life- threatening event

Reinstating Crisis has pros and cons, let's discuss

Focus should be on key definitions around Breast Cancer, Prostate Cancer, Melanoma, Heart Attack and Stroke

Is there an upgrade guarantee on medical definitions, how does it work?

Affordability pressures once over 50, is Crisis Extension/Severity Trauma an option?



HOW DOES CRITICAL ILLNESS COVER INTERACT WITH OTHER INSURANCE COVER?



IP

- IP cover plays an important role with income protection, however, it is limited to 70% of the insured's pre-disability earnings.
- Is this amount adequate to cover additional out of pocket expenses associated with treating a life threatening event?

TPD

- Normally speaking, it can take quite some time to determine whether a condition is permanent in nature. In view of this, TPD cover is unlikely to be of assistance in dealing with costs associated with life threatening events in the short to medium term.

Life / Terminal Illness

- Often positioned as an insurance to address debt and to maintain lifestyle for the beneficiaries of an estate.
- By considering stand alone critical illness, the life cover isn't impacted by any critical illness payment. Alternatively, adding buy back of life cover is another option to consider.



TIME TO DECISION - CLAIMS

Cover type	0-2 weeks	>2 weeks to 2 months	>2 months to 6 months	>6 months to 12 months	>12 months	Est. average duration (months)
Death	71%	20%	7%	2%	1%	1.2
TPD	11%	19%	44%	18%	7%	5.2
Trauma	52%	34%	11%	2%	1%	1.5
IDII	29%	41%	15%	4%	1%	1.9
CCI	61%	27%	9%	2%	0%	1.3
Funeral	81%	16%	2%	0%	0%	0.7
Accident	81%	12%	5%	1%	1%	1.0

CRITICAL ILLNESS – OFTEN OVERLOOKED EXPENSES

When it comes to **critical or trauma illness**, many of the **financial burdens** are often underestimated or overlooked..

Expenses

- Partner or other family members having to take time away from work
- Travel and accommodation expenses for treatment/consultations
- Child-care or eldercare
- Secondary mental health issues, backlogs and out of pocket psychologist expenses
- Self-funded surgeries are increasing
- OT, massage, nutrition ongoing medications
- Ongoing specialist appointments, scans etc
- How quickly does Critical Illness cover usually pay?

REINSTATEMENT OF CRISIS / CRITICAL ILLNESS

Pros

- By reinstating Crisis, you have the ability to claim again, a client who has recently received a payout would appreciate the value of the cover
- There are providers out there that allow a second Cancer or Heart Attack claim, although this is limited to the lesser of 10% or 50k

Cons

- An extra cost to pay when you cannot claim for same condition again (albeit 10% mentioned above)
- Paying the same premium again, despite being excluded for related claim
- Better value in buying back Life?

FAMILY PROTECTION / CHILD TRAUMA



- AIA offers complimentary family protection of \$20k per child if client holds Crisis
- Leukaemia, Lymphoma and Brain are the more prevalent cancers amongst children
- Good segway for discussion on Family Protection
- Simplified underwriting and cheap
- Conversion to adult policy

KEY TAKEAWAYS

When it comes to positioning lump sum,
keep an open mind, one size does not fit
all

Don't overlook
Critical illness
cover (for adult
and child)

Know your client's skill
set

Not a set and forget
strategy

TECHNICAL ADVICE AND RESOURCES



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