

## Most Income Protection Premiums are Increasing and some by up to 100%!

### Here is what you need to do before 30 September 2021

Income protection (IP) policy holders are already seeing increases of up to 100% on their premiums this year and a majority seeing increases above 20%. This is not the case with all insurers. Policy changes are imminent, an immediate review of your policies is necessary.

### Why is this happening?

IP insurance in its current form has become an unsustainable product for insurance companies, with losses across the industry on this product totalling around \$5 billion over the last five years.

The two main reasons for the losses are:

- a larger increase in mental-health and musculoskeletal claims than were originally budgeted for by the Insurers and
- extremely low returns on investment - Insurers place their deposits into bonds and other fixed interest products, and with interest rates at globally low levels, the Insurers are simply not making the forecasted returns.

This means that the pricing on some existing insurance policies is not viable, which is forcing insurance companies to increase their prices.

### What insurance is affected?

At this stage IP insurance is the worst affected, however we would expect TPD policies to also experience significant impacts over the next few years for similar reasons.

### Why do I need an insurance review before September 2021?

The insurance regulator APRA is concerned that the terms of many insurance policies are too generous to be sustainable. In a bid to ensure the ongoing viability of IP policies, APRA has proposed two significant changes to come into force from the end of September this year:

#### 1. Income Substantiation

During 2020, APRA ruled that insurance companies could no longer pre-set a 'guaranteed' amount to be paid at claim time, based on your pre-application income. All new policies now require that, in the event of a claim, you must substantiate your pre-claim income before you receive payment. Recognising that sole traders and small business owners have fluctuating income, 3 years of financial data was able to be used when supporting income levels. Under the current APRA proposals, this substantiation period could be as low as the last 12 months.

This means that, in the event of a one-off drop in income, your potential future claim could be compromised. These changes come into effect from 1 October 2021 – with any policies in place prior to this date grandfathered.

## 2. Underwriting

Currently, once put in place, your insurance stays in force as long as you continue to pay your insurance premiums. Under the current APRA proposals, IP policies incepted after 30 September 2021 will be subject to a five-year term – with changes to your occupation, financial circumstances and any dangerous pastimes updated every five years and reflected in the new policy terms and conditions.

If you wish to take out insurance coverage under the existing terms, it will need to be put in place before 30 September this year.

## What should I do?

The best way to manage the premium increases is to have your insurance reviewed to ensure that:

1. You have the appropriate types of insurance in place and the amounts you are insured for are appropriate - as your personal and financial situation changes, you may need to change the types and amounts of insurance that you hold.
2. The cost of the insurance policies you have in place are competitive - even if premiums are set to increase, you can lower your starting premium by sourcing a cheaper alternative or renegotiating some of the policy terms.
3. The structure of the policy is the best for your circumstances - some insurance premiums can be funded through superannuation which may make them more tax and/or cashflow effective. Additionally, premiums can be stepped (which means that they start out cheaper but increase every year as you get older) or level (which start as more expensive, but do not increase each year due to age). Depending on the age at which you put a policy in place, it may be cheaper to choose one over the other.

**MBS Insurance is continuously using its scale to challenge the insurance industry to provide our clients with better outcomes - discounted premiums, better product terms and the highest level of care. It would seem to us that policies incepted prior to October 2021, will be skewed more so in favour of the client**

**Please contact MBS Insurance immediately for a comprehensive review of your insurance so that you are aware of your options before policies change in October.**

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