What Does The End Of Agreed Value Policies Mean For Policy Holders?

The country's financial services regulator – the Australian Prudential Regulatory Authority (APRA) – is pushing aggressively for significant changes to the way that **disability income insurance** is managed in the country.

The push comes on the back of the particular insurance sub-sector losing a collective $3.4 billion over the past five years, with APRA concerned to establish a greater degree of stability for disability income protection insurance products.

So, what are the proposed changes?

The main focus is a proposed ban on agreed value policies, with the intent that it would come into practical effect from the end of March 2020 and be passed into regulation by June

2020.

Agreed value policies are those where the policy payout value is assessed on the agreed income at the time the policy is taken out, rather than at the time of a policy being activated. Essentially, the regulator’s concern is that in instances where the agreed value of a policy is greater than the insured’s income at the time a claim is made, then there is limited incentive for policy holders to undertake actions aimed at returning to work.

The proposed changes mean that new policies will be required to make insurance payouts based on the previous twelve months income at the time of a claim.

The potential impact of this on policy holders is that if, for example, the insured has experienced a reduction in income over the previous twelve months preceding the claim, due to redundancy, forced unpaid or maternity leave, or for self-employed people, a temporary downturn in their sector, they could receive a substantially lower payout than they otherwise might expect.

In conjunction with the above change, new income protection policies are set to be strictly linked to income earned over the 12 months up to the time of the claim. This means that if a client changes to a lesser-paying job or has experienced a temporary downturn in their income over the 12 months (e.g. due to periods of redundancy, unpaid leave or maternity leave), can’t claim based on their old jobs pay and ultimately they will receive a significantly lower payout.

Other changes proposed by APRA include new benefits caps, including 100 per cent of income for the first six months and 75 per cent beyond that. This is to be combined with:

- proposed maximum payout benefits of $30,000 per month ($360,000 per annum), aimed at encouraging higher earners to self-insure (i.e. use their savings); and

- restricting policy length for the initial contract to five years, with the intent of ensuring terms and conditions stay relevant to the insured's circumstances.

Along with other proposed tweaks, it is expected that there will be a more stringent approach to defining disability, particularly in relation to longer policies.

While it makes sense for these new policies to take shape from an insurer's point of view, the individual who's out of work from either disability or redundancy may see it differently. More scrutiny placed on the individual may also raise a few questions, especially if the declared disability is mental and not immediately recognisable. Luckily for some though, these changes only relate to life insurers' income protection products. Income protection products provided by general insurers (e.g. **Aspect underwriting/Lloyd's**) are not impacted by these proposed amendments.