

Life Insurance

Market update H2 2017

Taking a look into 2018

The Australian life insurance market has been faced with significant pressures in recent years that have resulted in a hardening market. While there are a number of contributing factors it is important that clients understand the current observations and trends, to be well informed of how the market will move in 2018. There are activities which can be undertaken prior to the renewal date for group life insurance policies that will place your business in an optimal position from an insurance market perspective.

Current observations and trends

In recent years there has been greater awareness of mental health and illness within the workplace. While most of the awareness has focused on removing the stigma from mental health, this has seen an increase in long-term Income Protection and Total and Permanent Disability (TPD) claims. Many claims related to a rise in workplace stress, which suggests that employers may look to incorporate stress management activities within their employee wellness strategies in 2018.

Financial wellness has gained attention in the latter half of 2017, from both an employer and employee perspective. Financial wellness has a direct correlation to mental health and employee performance, such as decreased productivity and isolation within the workplace. It is becoming evident that some employees are seeing disability claims as an alternative financial incentive when faced with redundancy, particularly when they are not confident in securing a similar role with comparable salary and responsibilities within the open job market.

Insurers are concerned about the rise of 'unknown' claims that have been lodged past the formal qualifying periods, this is the result of lawyers becoming more active in the pursuit of claims on behalf of clients. Willis Towers Watson observe that clients generally exhibit a lack of awareness of the ability to claim; which is now coming to fruition through discussions with their lawyers. The increase in mental health and stress related claims has placed great pressure on the litigation system in challenging denied claims.

Insurers have expressed an increase in lapse rates due to the unaffordability of premiums as a key driver in the decision making process for our nation's aging population and as such policies are cancelled. Data from the ABS Census in 2016 revealed that the median age of the Australian population was 38 years, furthermore adults aged between 45 and 64 years accounted for 18.9% of the total population which sits at 23.4 million Australians, in perspective that is more than 5.8 million people that belong to this demographic today.¹

During soft markets, Willis Towers Watson observed aggressive behaviour from insurers willing to take on new policy opportunities, which lowered the cost of premiums and increased the level of cover for policy holders. Insurers were able to increase their market share by relaxing underwriting criteria. In effect, those employees who were unwell or worked within hazardous industries were able to benefit from discounted premiums, where traditionally they did not meet the risk appetite of insurers.

Policy definitions can present many complexities which are usually revealed during times of a claim. There are varying definitions for permanent incapacity - 'own' versus 'any' occupation, or 'unlikely' versus 'unable' are just a couple examples of the myriad of definitions that exist today. The claimant in this situation may have the ability to work in the future and may not be permanently incapacitated.

¹ Australian Bureau of Statistics, Census 2016 sourced on 29 November 2017 at http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/036?opendocument

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Given the increase in disability claims, the reinsurance market is showing caution in quoting longer term income protection and/or TPD programs. This has reduced the market capacity for local insurers, thereby passing on premium increases to clients. As cover for life insurance policies is limited to the Australian market, yet guaranteed renewable due to legislation, this is leading to the market insuring existing clients but not showing interest in taking up new opportunities.

Outlook for 2018

The progressive increase in claims notifications across the market and the strengthening of insurer reserves has resulted in Willis Towers Watson observing a fluctuation of premiums upwards of 30% for group life insurance policies which is likely to continue throughout 2018.

The market has seen significant changes with the withdrawal of several reinsurers from the Australian group disability market in response to large financial losses. While the competitive landscape is changing we have seen the majority of insurers return with renegotiated treaties with tighter policy terms.

Some years have passed since Zurich Australia had closed its group life insurance business, with Suncorp Life following later in 2014. The consolidation of the market from 10 providers to eight has seen pricing adjustments become commonplace activity within the market. Willis Towers Watson believes these adjustments to be in line with a revised understanding of the risks and benefits offered. Facets of the policies under scrutiny include benefit periods, group size (some insurers have increased this to a minimum of 200 or more), industries and occupation types that are insured.

Looking ahead into 2018 and beyond, the market is likely to experience further change and it is possible a further two acquisitions may be announced within the next 12-18 months. This consolidation of market players would see the Australian life insurance market operate at a mere six participants.

Willis Employee Benefits Pty Ltd
ABN 68 059 019 911 | AFSL No. 233764

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What can clients do now?

While the ongoing change in the market may create some uncertainty with regard to premiums, clients can ensure they are in the best position for their group life insurance renewals by implementing these simple solutions:

- **Utilising big data** (*detailed claims history, job titles, and position descriptions, to name a few*) from multiple sources within your organisation over a longer period, as insurers now require more knowledge in a hardening market to increase their risk appetite.
- **Provide your organisation's data in a timely manner**, as insurers are now closely analysing that information over a longer period of time.
- **Have conversations early with your employees** when their work may be impacted by illness or injury i.e. this employee may be able to undertake a different role in the organisation until they have recovered.
- **Improve on poor claims experience**, through intervention and creating return to work plans for injured employees.
- **Consider implementing a health and wellbeing program.** Australian findings from Willis Towers Watson's 2017 Asia Pacific Benefits Trends Survey showed that 48% of employers rated wellbeing programmes of most importance to employees, and 55% identified that they would seek to implement activity-based wellbeing programmes in the next three years.
- **Work with your Willis Towers Watson Health & Benefits consultant** to get the most out of the insurance market. Many facets of your group life policy can be adjusted to result in an optimal outcome such as adjusting some of the core definitions to suit your organisation's workforce.