

APRA intervention in the income protection market

Frequently Asked Questions

January 2020



Q. What is the APRA intervention in the income protection market?

In December 2019, APRA announced a series of measures, including additional capital charges for insurers and the removal of income protection (IP) Agreed Value benefits. These measures will require life insurers to develop alternative product designs and pricing to address APRA's concerns about sustainability in this market.

Q. What are the concerns of APRA?

- Poor Performance of Individual Disability Income insurance (DII)
- Sustainability for policy holders and Life companies
- Design aspects of DII
- Significant DII losses with no signs of improvement
- Insurers haven't made significant progress to address APRA's concerns since their original discussion in May 2018.

Q. What is the capital charge?

The capital charge is an upfront capital reserve that each insurer must have in place by 31 March 2020.

Each insurer is to be provided with a specific capital charge by APRA, which will remain in place until the first annual review on 31 March 2021. The capital charge can be increased or decreased for each individual insurer depending on whether the insurer meets APRA's expectations.

Q. What product will be impacted by these changes?

Income protection Agreed Value benefits will be impacted. As of 1 April 2020, no insurer will be able to issue a new IP Agreed Value benefit on either a new business or in force policy. The exception to this is where a policy holds an IP Agreed Value benefit with AIA Australia (AIAA) and must cancel and replace their policy to facilitate a change of ownership or correct an administrative error affecting the existing policy. In that case, the IP Agreed Value benefit can be maintained on the new replacement policy with AIAA.

Q. Are there key dates for when I should submit and have the policy enforce by?

Yes. While 1 April 2020 is the first day where the IP Agreed Value benefit will no longer be available, there are some key dates and grace periods. See below table for more details.

	Date
APRA changes commencing	1 April 2020
Submissions to AIA Australia	
Electronic applications via eApp	Must be submitted by 11:59pm (AEST), 31 March, 2020 [^]
Paper Application and Quote	Must be received by AIAA by 30 April 2020 Note: The Application and quote must be signed and dated on or before 31 March 2020
Outstanding Requirements	All requirements must be finalised and policy issued by 30 June 2020 Note: We recommend submitting all outstanding requirements as early as possible to ensure our team can action in a timely manner, and to mitigate any delays or further requirements

[^] Includes tele-underwriting and client complete applications, provided they include all the information required to submit the application through eApp (application, quote, signature and mandatory fields). The personal statement will be treated as an outstanding requirement and must be completed in sufficient time to enable the policy to be issued by 30 June 2020.

Failure to provide all the information required for submission by 11:59pm AEST 31 March 2020 will mean that IP Agreed Value benefits cannot be offered.

We recommend submitting all outstanding requirements well in advance of the above mentioned dates. This will help our teams to process the applications and requirements in a timely manner. Please note the 30 June 2020 date also coincides with the end of financial year, which can amount to potential backlogs and delays.

Q. What happens if I don't submit the outstanding requirements in time? Can we still place the policy in force and backdate?

No. The June 30 2020 date is the final deadline set by APRA. Any IP Agreed Value benefits issued after this date, even if backdated, breach the requirements set by APRA.

Q. What happens to applications submitted or finalised after the grace period dates noted above?

For clients whose applications include an IP Agreed Value benefit, but which are received or finalised after the grace period dates above, it will not be possible to issue them with an IP Agreed Value benefit. Where this occurs, a member of our team will contact you to let you know that we cannot accept the current IP Agreed Value benefits application and you can choose to prepare a new quote with IP Indemnity or IP Extended Indemnity, where applicable.

Q. What happens if my client currently has no IP Agreed Value benefits, but wishes to apply for them?

If your client currently doesn't have an IP Agreed Value benefit, they will not be able to apply for this on or after 1 April 2020. Your client is bound by the dates as per the above table.

Q. What happens if my client currently has an IP Agreed Value benefit with AIAA and wishes to make changes in the future?

In force policies that currently have IP Agreed Value benefits can retain those benefits and will not lose them from 1 April 2020. This includes where the policy is required to be cancelled and replaced for administrative purposes (e.g. change of ownership), alterations and increases to sum insured requests.

Q. What happens if my client currently holds an IP Agreed Value benefit with AIAA, and wishes to both cancel and replace as well as increase? What happens to the increased portion?

Where the cancel and replace is being performed to facilitate a change of ownership or correct an administrative error affecting the existing policy, then the IP Agreed Value benefit can be retained under the replacement policy, together with any increases to the sum insured under that benefit which are applied for and accepted by AIAA.

Q. What happens if my client cancels their policies with IP Agreed Value?

Should your client cancel their policy with an IP Agreed Value benefit and later request to have an IP Agreed Value benefit again, this will not be possible. The client will only be able to submit an application for IP Indemnity or IP Extended Indemnity, where applicable.

Q. Are IP Agreed Value benefits, which are linked to an AIAA Superannuation Income Protection Plan, impacted?

Yes. The same applies for AIAA IP Agreed Value benefits policies linked to policies inside super or outside of super.

Q. Reinstatement of Policy

For lapsed policies where the Application for Reinstatement has been completed within AIAA's specified auto reinstatement guidelines and timeframes, the policy will be reinstated on existing terms. Should they fall outside AIAA's auto reinstatement guidelines they won't be permitted to reinstate the IP Agreed Value benefits. Only IP Indemnity or IP Extended Indemnity, where applicable, will be available.

Q. My client currently has an IP Agreed Value benefit under a group insurance policy. Can they exercise a continuation option to an individual policy and maintain their IP Agreed Value benefit?

While IP Agreed Value benefit is available via a group insurance policy, if your client exercises a continuation option, they are unable to maintain the IP Agreed Value benefit under their individual policy.

Q. Are there any issues for claims?

No. Your client's policy will be assessed as per their policy structure in place.

Q. What will happen to the Commlnsure IP product?

With regards to the key dates, Commlnsure are bound by the same dates stipulated by APRA. For more information on how Commlnsure will process their applications, please contact your Commlnsure State Office or BDM.

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