MEDIA RELEASE

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NEW KPMG/FSC STUDY REVEALS LARGE RISE IN LIFE INSURANCE CLAIMS PAYOUTS

Australian life insurance companies are paying out record numbers of disability claims, including a more than doubling in claim benefits paid for mental illness, revealed in a newly released 2020 industry-wide analysis carried out by the Financial Services Council (FSC) in conjunction with KPMG.

The disability income claims analysis covers the five-year period from 2014 to 2018 and involves extensive data collection and examination of 71,000 new and closed claims for insurance policies purchased through financial advisers, from 10 insurers.

FSC CEO Sally Loane said Australia continues to have the most up-to-date industry claims data which is unsurpassed anywhere else in the world for its granularity and timeliness and this focus on data will only continue.

"A key aim of the FSC/KPMG life insurance data project is to steer the industry towards a sustainable and affordable disability income insurance product. This is, of course, a key goal for the life insurance industry, and even more so, for Australian consumers," Ms Loane said.

The new analysis shows that over the latest period the life industry paid out benefits of $4.9 billion of disability income claims for policies through financial advisers - double the average annual payment level of the preceding five-year period.

The data analysis shows that the most common cause for people who made a disability income claim did so due to accidents (38%), musculoskeletal (18%), mental disorders (11%) and cancer (10%).

KPMG Actuarial Partner Briallen Cummings said the study had shown a significant rise in pay-outs in all categories of claims over the past five years but the increase in mental health claims was especially notable.

"Total claims benefits for mental health conditions have more than doubled in the past five years. More people are now focusing on their mental well-being, which we see in people taking longer to return to work after a mental health event. Mental health claims tend to take longer to be reported and assessed than other cause of claims, but the pay-out rate by insurers is high and reflects the importance to our community in supporting these individuals in a return to health and work," Ms Cummings said.

See next page for further insights from the analysis.

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Life Insurance disability income claims analysis – period 2014 – 2018.

Disability income insurance provides replacement income to policyholders when they are unable to work due to illness or injury.

The 2020 analysis assesses 40,000 new claims and 31,000 closed claims (for example, where a person returns to work) from 10 Australian life insurance companies from 2014 to 2018.

- Life insurers paid out $4.9 billion of retail disability income claim benefits, double the average annual payment of the preceding five-year period (2009 – 2013)
- Policyholders were 4% less likely to claim in 2018 than in 2013
- The average length of time for person being on claim has increased by 36% in 2018 compared to 2013

Top four causes of disability insurance claims:

- Accidents – 38%
- Musculoskeletal – 18%
- Mental disorders – 11%
- Cancer – 10%

The analysis confirms that disability claims benefits paid out* by insurers have increased significantly:

- Accident claims paid in 2018 were 23% higher than the equivalent in 2013
- Musculoskeletal claims paid in 2018 were 7% higher than in 2013
- Claims paid due to mental health in 2018 were 53% higher than in 2013 with a 125% increase in the incidence of claims amongst men due to mental health.
- Claims paid due to cancer in 2018 were 31% higher than in 2013

* Benefits paid out have been standardised for changes in the size and demographics of the underlying insurance policies.

The analysis finds that occupation, smoking status and age are key factors in people making claims:

- A 45 year old male blue collar worker is approximately 4.5 times more likely to make a claim than his white collar counterpart.
- A 45 year old male smoker is 31% more likely to make a claim than his non-smoking counterpart
- A 60 year old male non-smoker is 27% more likely to make a claim than a 45 year old.

Probability of returning to work:

- For most causes of claim, the average claimant is back at work within 12 months, whereas claims due to cancer (14 months) and mental health disorders (18 months) see claimants taking more than a year to get back to health and return to the workplace.
- On average only 5% of people who have been on a claim for 5 years or more are expected to return to work with the following year.