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Let's Get Technical: TPD v Trauma

Ever since trauma insurance (also known as critical illness insurance, crisis recovery insurance and as its original title, dread disease cover) was introduced in Australia in 1985 there have been commentators and financial advisers who became so enamoured of the new product that they believed it was a complete substitute for total and permanent disability (TPD) policies.

Australia was an early adopter of the new insurance product, which was developed in South Africa by heart surgeon Dr Marius Barnard, who assisted his brother Christiaan in the world's first heart transplant in December 1967 and who launched the product on 6 October 1983 with the help of insurance company Crusader Life. Dr Barnard understood firsthand how an early insurance payout to cover critical illnesses would help patients and their families in their time of need.

The policy paid a tax-free lump sum benefit if the insured person developed one of the four covered critical illnesses, being cancer, stroke, heart attack and coronary bypass surgery.

TPD insurance, on the other hand, has been available in Australia since the 1960s, when it was used as an addition to permanent life insurance (whole-of-life and endowment) policies. With the introduction of term insurance, it became a linked option (rider) to term life cover and eventually offered as a standalone product as well.

When TPD insurance was designed, the landscape of working Australia was considerably different from what it is today, and its target market was predominantly blue-collar workers employed in a thriving manufacturing industry. Therefore, it filled a void (much like trauma insurance did decades later) and provided assistance mainly to claimants who had suffered serious industrial accidents and injuries.

Although the product has not changed very much since those times, the predominant occupations in many insurers' retail TPD portfolios today consist of white-collar occupations. ClearView's ClearChoice TPD portfolio comprises about 68% white-collar occupations, whereas around 62% of ClearChoice Trauma clients are white collar.

TPD cover types

ClearView (and most retail life insurers) break down TPD cover into the following main categories:

- Any Occupation TPD
- Own Occupation TPD (non-super only)
- TPD Super Solutions: flexi-linked any (inside super) and own (outside super) occupation
- Non-Occupational TPD (including Home Duties)

The issues surrounding both retail and group TPD cover are well documented. The cover has been under scrutiny by both the Australian Securities & Investments Commission (**ASIC**) and the Australian Prudential Regulation Authority (**APRA**), in terms of insurers' policy definitions and claims statistics, and with respect to the sustainability of the product in the longer term. Insurers and financial advisers have also taken part in various discussion groups about proposed product changes. But those issues are topics for another day.

TPD or Trauma?

I think most commentators and advisers now agree that one product is not a substitute for the other. Whilst there is some overlap in features and benefits, the two are complementary. An important differentiation is that a TPD benefit can be paid where total and permanent disability is as a result of a mental health disorder; whereas those conditions are not covered by trauma policies.

A media release by the Financial Services Council (**FSC**) in October 2019, references data compiled by the FSC and KPMG Australia, revealing that mental health disorders topped the list for TPD at 24.1 per cent. The ClearView claims team confirms that our claims experience shows that over 20 per cent of TPD claims are for mental health disorders, and significantly higher where secondary psychological and psychiatric consequences are considered over and above primary organic causes. In addition, trauma policies generally don't cover all musculoskeletal disorders, and TPD cover can generally be relatively inexpensive when compared to trauma cover. And don't forget that ClearView is one of the few insurers that offers Accidental TPD cover. **View Accident-only cover brochure here.**

Bridging the gap

Over time, insurers have been adding more TPD-type medical conditions to their trauma offerings – such as cognitive loss, loss of limbs or sight, loss of independent existence, and others. ClearView has recently added to its ClearChoice product suite two new trauma options to its product suite: Trauma Extras and Trauma Severe Events. The former covers customers for less severe events such as fractures, total joint replacements (including shoulder, hip, knee and ankle) and certain hospitalisations, while Trauma Severe Events provides coverage for catastrophic health events, allowing for an additional benefit payment to ensure dedicated funds are available to support customers impacted by these types of life-altering events.

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These two options can help to customise a client's trauma needs and to complement their TPD cover. And clients who don't qualify for Own or Any occupation TPD due to their occupation or hazardous pastime or pursuit may consider that Trauma Severe Events cover offers more appropriate coverage than Non-occupational TPD.

Summary

Trauma cover does not negate the need for TPD Cover nor does appropriate TPD cover negate the need for Trauma cover. A holistic approach to wealth protection involves the consideration of both these lump-sum covers, as well as income protection, if appropriate. ClearView has recently launched two further options to its Trauma offering, providing advisers with the ability to better tailor their life risk recommendations to clients and to offer clients who do not qualify for Own or Any occupation TPD some limited TPD-like benefits to bolster their existing risk protection strategy.

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1 https://www.fsc.org.au/resources/1860-fsc-media-release-mental-health-data-life-insurance/file

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