

MEDIA RELEASE

FRESH APPROACH TO INCOME PROTECTION NEEDED TO SECURE VIBRANT FUTURE

Thursday, 31 January, 2019: The Australian life insurance industry must seriously rethink its approach to income protection insurance in order to see more people take up this critically important cover and ensure a vibrant, sustainable future, according to a new paper by ClearView.

The paper, 'Income protection and the economic cycle', reflects on the significant deterioration in the product's growth and claims experience in recent years, despite the fundamental societal need for income protection insurance.

According to the paper's author, Greg Martin, Chief Actuary and Risk Officer at ClearView, demand for income protection should be unshakably strong given it protects what is arguably a person's most valuable asset; their ability to earn money throughout their working life. Yet, many Australians are more likely to take insurance to protect their car or pet.

"It's too simplistic to blame heightened media and regulatory scrutiny of the financial services industry, mounting mental health-related claims and recent price instability for the discontentment of both consumers and insurers. Focusing on these factors alone won't properly address the issue," Mr Martin said, citing the effects of cyclical trends in underemployment (as opposed to headline unemployment) and slow wages growth as key factors behind the decline of income protection.

The ClearView paper looks beyond economic indicators like GDP growth and falling unemployment to provide a more accurate reflection of what working life is like for many Australians.

Mr Martin said headlines that heralded Australia's almost 30 years of uninterrupted economic growth and prosperity painted a rosier picture than what the average worker was actually experiencing.

"Income protection claims follow economic cycles, with poor economic circumstances driving increased claims. The industry's claims experience reflects the underlying reality rather than the headlines," he said.

"On top of this, the long period of weak wages growth has resulted in many indexed insured benefit amounts exceeding policyholders' actual income ratios, meaning the insured benefits are providing increasing income replacement ratios. Higher income replacement ratios also result in higher claims rates so there's a double impact."

The paper concluded that a fresh approach to the economic management of income protection portfolios was needed to break the worrying pattern of rising claims and then rising premiums, and ultimately achieve better price stability and a more consistent customer experience.

“Income protection insurance is arguably the most important of all life insurances. No other cover directly provides protection for our most important asset; our future earnings capacity. That’s why the industry must get this right,” Mr Martin said.

“It is important to manage the real underlying problems and not fixate on a handful of simple issues such as policy terms or mental health trends.”

A copy of ‘Income protection and the economic cycle’ is available at <https://www.clearview.com.au/ebook/white-paper>

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About ClearView

ClearView Wealth Limited is an ASX-listed diversified financial services company that specialises in life insurance, wealth management and financial advice solutions.

The group partners with financial advisers to help more Australians grow and protect their wealth and achieve their financial goals.

As at 30 June 2018, the group had \$224.8 million in inforce premium, \$2.79 billion in funds under management and 233 financial advisers.

ClearView has been independently rated No. 1 in claims customer satisfaction. In 2017/18 the group paid approximately \$94 million in claim entitlements.