

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS INSURANCE SECTOR

AIA Australia

AIA05QON: If people are more likely to claim when the economy's suffering a downturn and that's just at the moment when you press pause on a bunch of your policies, it seems like you could be avoiding a whole lot of potential payouts. Have you looked at whether it is helpful or harmful to your bottom line to allow people to pause their policies at this time?

Answer: In response to COVID-19, AIA and CMLA have put in place a number of options to offer customers who are experiencing financial hardship. Rather than implementing a one-size-fits-all approach, the team works with a customer to find a tailored solution that allows them to retain some cover if they wish.

Premium relief options offered by AIA include:

- Payment plans to catch up on arrears in fortnightly instalments for up to 12 weeks
- Extended grace period before a policy lapses due to non-payment of premiums to 90 days
- Discounts on premiums of 5% or 10%, subject to eligibility criteria
- Premium waivers for one or two months, subject to eligibility criteria
- Premium and cover suspension for three months.

The actuarial analysis on which we based our financial hardship offer of a three-month premium and cover suspension assumed a take-up rate of 2.50%, or 8,400 customers. The expected take-up rate for this option is low, as given a range of options to reduce premiums, it is our view that customers are less likely to choose the option that will result in them being without cover for three months.

Based on claims forecasts, we expect this to result in a total of 53 unpaid claims – 21 for death and disability and 32 for unemployment. 2.5% of premiums waived for 3 months is approximately \$8.0m in value. The value of claims expected not to be met is approximately \$5.3m, with about \$5m of that for death and disability and \$0.3m for unemployment benefits.

Based on early feedback since this financial hardship offer was made available, it seems highly unlikely that we will get close to 2.50% policyholders taking up this offer. We would therefore expect actual claims not covered to be materially lower.

Based on the impacts of COVID-19 on the economy and increasing unemployment figures, we can expect that the short-term impact on insurance claims will be on unemployment claims rather than disability claims. Our unemployment benefits are as follows:

1. Unemployment mortgage protection benefit through the CMLA income protection product, which is purchased through a financial adviser.
2. Premium waiver due to unemployment through the AIA income protection product, which is purchased through a financial adviser. As the benefit is limited to a waiver of premium, the outcome for the customer if they became unemployed and submitted an unemployment claim would be the same as if they suspended their cover under the financial hardship offer.
3. CMLA consumer credit insurance products, which were purchased without personal advice. The unemployment benefit is up to 12 months of the minimum monthly loan repayment for loan protection, and the credit card balance for credit card protection. We have not extended the financial hardship offer to suspend cover and premiums to these products, due to the possibility of customers needing to make a claim for unemployment.
4. AIA's Repayment Relief Benefit, which is available as an optional benefit under AIA's retail Life and TPD products, covers someone's minimum mortgage payments for up to three months if they are involuntarily unemployed. This has only just recently launched, and due to the qualifying period, no one is yet eligible to claim on this benefit.