HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

AIA Australia

AIA06QON: Could you undertake to come back to the committee with some information on the number of policies that are affected by an ongoing suicide claim exclusion? It seems to be a somewhat, should I say, outdated approach to mental illness—one which sees suicide as a choice rather than a manifestation of mental illness. I would have thought in the 21st century it might be more appropriate for AIA to move to just a 12-month exclusion.

Answer: We offer insurance products through various channels – retail (which means that the policy is taken up on the advice of a financial adviser), direct (where someone has bought the policy without personal advice), and group (where the policy is provided through a superannuation fund or employer).

Suicide exclusions are used to minimise the risk of moral hazard; that is, someone taking out an insurance policy with a view to making a claim in the short term. This is why suicide exclusions are usually applied for the first 12 or 13 months of a policy.

The life products that we currently offer through the retail and direct channels only have exclusions for death by suicide for the first 12 or 13 months of someone taking out, reinstating or increasing their cover – noting that for the latter, the exclusion only applies to the increased amount.

We also offer more limited Accidental Death products, which exclude suicide for the life of the policy; this is because the product is designed to only cover death as a result of an accident.

The AIA direct income protection product, which is designed to replace someone's income while they cannot work due to serious illness or injury, has an additional benefit that will pay out if someone dies while they are on claim. This limited benefit is the equivalent of three months of claim payments, and it does not apply in the case of suicide.

Our standard group insurance offering to employers or corporate superannuation funds does not contain an exclusion for death by suicide for insurance provided automatically to members who join within the eligibility window for the cover.

Superannuation funds and employers generally negotiate the terms on which they contract with an insurer to provide insurance for their members. Given the lack of any medical underwriting in group insurance provided automatically, trustees and insurers seek to manage risk and the cost of premiums to other members of the group by limiting the possibility of someone taking up insurance with the intention of making a claim in the short term.

These terms can in some cases include a suicide exclusion period that is longer than 12 or 13 months, which will be disclosed to members of the group in the policy terms. Many are conditional on meeting an 'At Work' test and/or joining the fund within a required timeframe, so for someone who is otherwise working as normal when their insurance cover commences and has joined the fund within the required timeframe, the suicide exclusion would never be applied.