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Do you need to review your personal insurance during COVID-19?

By Perpetual Private Insights
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Australians that have been financially impacted by COVID-19 are seeking ways to make personal insurance premiums more affordable.

Over the past few months, we've seen clients thinking a lot more about their personal insurance. They may be feeling vulnerable and more concerned about their health and spending. Given the media attention surrounding the crisis and its impact, we're fielding questions around:

- what am I insured for?
- do I need all these different types of policies?
- where is this premium coming from?
- why is this premium so much?
- are there any ways to reduce benefits and premiums?

Personal insurance premiums have been increasing rapidly each year

Australians have seen a rapid rise in insurance premiums largely because Australian insurers are paying out an unprecedented number of claims. This benefits many Australians – including our clients – however it impacts financial reserves (the ability of the insurer to pay future claims). This is an important factor that drives up the cost of personal insurance, resulting in higher rates and premiums for all policyholders (not just for claimants) over time.

Income protection is a particularly cumbersome area for many insurers and their pool of funds. Unfortunately, this means that we will continue to expect large increases in premiums on this benefit in the years ahead. In fact, increases beyond 20% p.a. across all personal insurance options (life insurance, total and permanent disability, trauma and income protection) are not uncommon for many Australian insurers.

Strategies to help manage personal insurance costs over time

For many years now we've been working with our clients to strategically assess their personal insurance needs. We ask key questions to better understand what cover they may need and importantly, what cover they may already have in place through their superannuation.

In some instances, this discussion may result in cancelling some duplicate or overlapping cover components; reducing some benefits in order to increase others and/or optimising the insurance options to minimise financial risk over the long term.

Insurance review: Helping businesses manage their cashflow during COVID-19

We've been actively reviewing many of our business owner's insurance policies over the past few months to assess what value they are providing and whether mechanisms such as, reducing the different levels of cover, or funding any premiums from a more structured environment, can help to ease the impact on cashflow.

When it comes to managing insurance costs, we suggest business owners take the time to compare their cover against their needs so that they understand what reductions or amendments can be made.

4 things to consider when it comes to the cost of personal insurance

1. **Understand what the insurance cover includes:** investigate what each component of coverage is designed to do and whether there is any overlap in benefits. This can make a significant difference to the premium charged.

1. **Compare the market:** it is always worth sourcing some comparison quotes to ensure insurance providers deliver the best value. Unfortunately, many insurers do not reward loyalty; clients may find benefit in exploring more competitive market options.
Note: Be mindful that all financial and medical changes need to be disclosed when assessing new policies.

1. **Consider funding some premiums through superannuation:** Depending on individual circumstances, funding insurance benefits from a self-managed super fund (SMSF), wholesale or industry superfund may be beneficial. It could help minimise the impact on cashflow while allowing for the insurance to be funded in a more tax-effective way. Note: If insurance premiums are funded through superannuation, there can be significant tax consequences. For example, depending on how the policy is structured some tax may be payable by beneficiaries. We recommend speaking to a financial adviser and seeking professional advice before making any decisions.

1. **Review waiting periods, especially for income protection:** Waiting periods have a significant impact on insurance premiums. In fact, the average difference between a 30 day and 90 day waiting period on a typical income protection policy can be between 30-40%. As a result, extending the waiting period (on part or all of a benefit) can lead to a considerably lower insurance premium.

Why is it crucial for medical specialists to check their policy definitions?

Medical professionals have dedicated years of their life training in their area of specialisation - so it's critical that their policy includes some essentials components to help safeguard their financial future. We suggest that all medical professionals consider:

- **Illness and accident** – protect your income and future earning potential. Certain medical roles may be considered a higher category risk, it's worth including cover that mitigates the impact of illness or workplace injury.
- **'Own' medical occupation** – check the terms of the policy to ensure that the occupation definition is appropriate. For example, doctors that perform surgeries should check whether their cover falls under a 'general practitioner' definition or extends to include surgical duties. In the case of income protection, it's worth reviewing the fine print on duties, hours and income to understand whether any limits apply.
- **Whether critical illness definitions are up-to-date** – ensure that in the event of an illness such as a heart attack, cancer or stroke, that the insurance payout covers the latest medical advances and various technologies. There can be vast differences between policies across this area.

It's never too early or too late to start planning

As insurers continue to pay out a large volume of claims, they'll be under pressure to maintain their cash reserve or pool of funds. This coupled with the fact that there's been a dramatic decrease in new insurance business means that the cost of insurance is set to rise further in the future. We expect premiums for personal insurance to increase at a rate of 20-30% annually over the medium-to-long term.

Against this backdrop, it would be wise to review your personal insurance portfolio. Often, there is little or no benefit in remaining loyal and staying with the same insurer; therefore, a market review may create a number of premium savings.

An advice professional will be able to guide you through all the considerations when it comes to selecting the most appropriate level of cover.