28 February 2020

Adviser Update

Pricing Increases

Having completed a routine review of emerging claims experience across our entire risk product range and considering medical inflation as it relates to Private Medical Cover, we have determined that the following underlying price increases will take effect from 5 April 2020, for premium structures other than Guaranteed Level.

It is worthwhile noting that the only tools a Life Insurer has available to address emerging claims experience across an in-force book are pricing and claims management process changes. There is no opportunity to address claims experience by amending policy terms and conditions for existing clients – something that is of major benefit to life insurance clients.

The process for implementing the new pricing is as follows:

New and Pipe-line Clients

From the 14th March 2020 the Quote System will allow you the option to either quote using the existing rates or the new rates (it will default to the existing rates).

From the 21st of March 2020 the Quote System will allow you the option to either quote using the existing rates or the new rates (it will default to, the new rates).

From the 29th of March 2020 the Quote System will automatically use the new rates.

Please note that all business issued with a first premium due date on or after 5 April 2020 will be processed on the new rates

Existing Clients

These premium increases will take effect on next policy anniversaries from 5 April 2020. Clients will receive their anniversary letter which will advise them of the new premiums payable for each of their benefits, the new policy fees and the total premium payable from their anniversary date.

The total change in premium payable from the previous year is calculated based on age related premium changes, inflation adjustments to benefits and therefore premiums, underlying premium rate and policy fee increases, benefit expiry premium reductions, and loyalty premium reductions.

Because of the guaranteed Client Loyalty Discount built into our contracts, existing clients will continue to enjoy increasingly cheaper premiums than those they would be required to pay if they were new clients.

We have taken the opportunity to explain the underlying rationale behind each of the benefits for which underlying premium rates are increasing to assist you in your explanations should your clients want to understand this level of detail.

Premium Increases by Product Line

Private Medical Cover including Specialist and Tests Options
Premium rates are increasing by 12.5% across the entire product portfolio. This increase predominantly reflects medical inflation incurred since we last increased rates in December 2018.

Life Cover (Business and Personal) and Life Income Cover
Premium rates are increasing by 1.05% across the entire portfolio. This small increase reflects a slightly higher number of larger sums assured claims than expected.

Trauma Cover (Business and Personal)
Premium rates are increasing by 12% across the entire portfolio. This increase reflects a higher incidence of cancer claims than expected.

Income Covers (IC), Mortgage Repayment Cover (MRC), Household Expenses Cover (HEC), Loss of Revenue Covers and Premium Cover (Business and Personal)
Premium rates are increasing by 12% across the entire portfolio. This increase reflects higher claims incidence rates, earlier claims and longer claims durations than expected.

Policy Fees
The monthly Risk Policy Fee is increasing to $11.00 and the monthly additional Medical Policy Fee is increasing to $4.84. These increases reflect CPI indexation over the years since they were last increased.

Product Lines with No Increases
Severe Trauma Cover, Specific Condition Cover, Hospital Cash Cover, TPD Cover, Terminal Illness Cover, Accidental Death Cover, Ownership Buyout Cover, Debt Protection Cover and Key Person Protection Cover will not have any underlying premium rate changes.

Estimated Average Policy Increase

Based on Partners Life's most common mix of benefits and sums assured per policy, we have estimated the average policy premium increase will be between 5% and 6% (excluding age-related increases).

Pricing Summary

Benefit	Percentage Increase
Life Cover and Life Income Cover	1.05%
Private Medical Cover (and Specialists and Tests Option)	12.5%
Trauma Cover	12%
Income Cover, Mortgage Repayment Cover, Household Expenses Cover and Premium Cover	12%
Loss of Revenue Cover and Variable Loss of Revenue Cover	12%
Specific Condition Cover	0%
Hospital Cash Cover	0%
Severe Trauma Cover	0%
Total & Permanent Disability Cover	0%
Terminal Illness Cover	0%
Accidental Death Benefit	0%
Ownership Buyout Cover, Debt Protection Cover and Key Person Protection Cover	0%

Monthly Disability Benefits

Changes for self-employed clients (new business only)

As discussed in our recent Executive Insights podcast episode, Partners Life has identified self-employed clients as a client segment which is disproportionately, adversely impacting our disability claims experience. By self-employed we mean sole traders, small business owners and self-employed contractors (excluding part-time self-employed clients who fall into the Class 5 occupation category).

Pricing increases can help address this experience for existing clients, however in order to avoid continuous general price increases into the future, we believe it is prudent to stop compounding the issue by changing the types of new business that we offer to this client segment.

As a result, we have adopted a strategy to minimise access to self-employed clients to some of the more obvious over-insurance components inherent in current monthly disability products.

From 5 April 2020 onwards, the following changes will apply to all **new business** quoted and issued for Income Cover, Mortgage Repayment Cover and Household Expenses Cover for self-employed clients:

Changes for *Self-Employed* Applicants for IC, MRC and HEC

- Indemnity Loss of Earnings Income Cover benefits only will be available – i.e. Agreed Value Income Cover benefits of any kind will no longer be available; and
- A mandatory Waiting Period of 4 weeks will apply – no other waiting period options will be available; and

- Pre-disability Income will be re-defined to be based on the most recently completed annual financials immediately prior to the date of disability, rather than being based on the best consecutive 12 months over the previous 3 years; and
- Mortgage Repayment and Household Expenses Cover sums assured for self-employed clients can only be based on actual mortgage or actual household expenses – the percentage of income basis will no longer be available; and
- A new Payment Term Restriction Option will replace the previous Mental Health Payment Term Restriction Option which was available under Income Cover (generating a 10% premium discount). Under this replacement Payment Term Restriction Option, the list of claim causes for which a reduced 1-year maximum payment term will apply has been extended from mental health causes alone to include any claim cause for which symptoms and impacts are predominantly self-reported rather than medically evidenced. This option can now also be taken for MRC and HEC benefits.

  This 1-year Payment Term Restriction Option (and the corresponding 10% premium discount) will be **mandatory** for self-employed clients for all IC, MRC and HEC benefits.

Please note that all business issued with a first premium due date on or after 5 April will be processed with these new restrictions

To assist with the application of these restrictions which will apply to new business for self-employed clients, we have provided the following Q & A table.

Questions	Answers
How do these changes impact on existing self-employed clients?	Existing covers remain completely unchanged. Increases and benefit additions (other than through indexation) will be subject to the new rules
What happens if an employed client who is already covered becomes self-employed afterwards?	Existing covers remain completely unchanged. Increases and benefit additions (other than through indexation) will be subject to the new rules for their new employment status
What happens if a self-employed client discloses themselves as employed in order to obtain cover that otherwise wouldn't be available?	This constitutes misstatement which would likely be identified at claim time and could impact materially on the claim decision. We expect advisers to ensure their clients understand that non-disclosure and misstatement are not the way to go
The previous Mental Health Restriction Option limited the maximum payment Term to 2 years. Is a 2-year Payment Term Restriction option still available?	No. The 2-year Mental Health Restriction Option will no longer be available for any new clients to purchase. The only Payment Term Restriction Option available for new clients will be the 1-year, non-medically evidenced claims restriction. This option will produce a 10% discount. It is optional for employed clients but will be mandatory for new-business for self-employed clients.
As we can no longer choose a long waiting period for IC, HEC and MRC for self-employed clients how does this work in conjunction with Loss of Revenue (LOR)?	Self-employed clients applying for new business cannot cover the same income by combining LOR with one of the other monthly disability benefits, using differing Waiting Periods. They must choose either IC with a 4 week wait or LOR. The only exception is if they are splitting their income to be insured between the two benefits simultaneously.

Summary

Partners Life has a proud history of enshrining product value into the core of everything that we do. Designing market leading product features and benefits for our clients is a key component to how we, as an Insurer, can ensure our clients experience the best outcomes at the most difficult of times." Best product at competitive pricing" has been a frequent catch-phrase of ours over the years.

To support this product value philosophy, we have had a relentless focus on maximising our efficiency and avoiding legacy issues in order to minimise the operational expense load built into our pricing. By being exceptionally efficient compared with the market, we have been able to offer outstanding value to our clients over the past 9 years.

What we are experiencing now in respect of Trauma and Disability claims experience, is certainly consistent with the experience in Australia, and appears to also be consistent with the experience emerging across the New Zealand market.

Partners Life believes a robust, profitable, sustainable Life and Health insurance industry is essential for the ongoing protection of clients, advisers, insurers and employees. As such we are willing to lead the market to adjust premium rates to accurately reflect this industry wide claims experience.

But more than simply increasing pricing, adopting a comprehensive strategy for addressing emerging adverse claims experience is, in our opinion, the best defence against the potential for unsustainable price rises and/or product withdrawals. The Australian market experience would certainly support this opinion, given the regulatory criticism of the industry's responses to their adverse disability claims experience to date.

Partners Life has the advantage of modern systems which means we have access to comprehensive data to enable us to analyse the specific issues giving rise to any claims trends, meaning we are able to target our strategies to address these specific issues.

We believe our strategy of combining price increases and changes to access for self-employed clients will restore claims experience back to expectations, while at the same time retaining access to our highly rated product suite.

We appreciate that self-employed clients who are solely purchasing monthly disability benefits may continue to have access to existing options in the wider market, however we are confident that for clients purchasing a combination of benefits and/or covering multiple lives, a Partners Life portfolio will continue to deliver excellent product value.

We also appreciate that any wider market response to this emerging industry claims experience may take some time, but we anticipate that Partners Life will continue its position as ‘’best product at competitive pricing’’ in due course.

Need Help or Have Other Questions:

Please contact your friendly Adviser Distribution Manager