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## *Session 3: Key Success Factors in Disability Income Insurance*

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***Waves of Reforms...Oceans of Opportunities***

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India

# Agenda

- Introduction
- Disability Income Insurance
- The Claim Trigger
- The Benefit Amount
- Key Success Factors
- Conclusion



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# *Introduction*

- **Insurance:**

A contract in which one party agrees to indemnify another party for the loss arising out of a contingent event



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A contract in which one party agrees to *indemnify* another party *for the loss* arising out of a *contingent event*.

- Gambling:

A bet or wager taken for possible monetary gain.



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# *Introduction*

So:

- Both Insurance and Gambling involve uncertainty (a contingent event)
- But the objective of Insurance is to indemnify a genuine loss, while the objective of gambling is to achieve a monetary gain



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# *Disability Income Insurance*

## For Disability Income Insurance:

- The Contingent Event (Claim Trigger) is the life assured's inability to earn, due to disability
- The Loss to be Indemnified (Benefit Amount) is the income actually lost as a result of such disability



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# The Claim Trigger

Although we have determined the claim trigger to be: *“the inability to earn due to disability”*, we need to decide such issues as:

- whether to cover the inability of the life assured to earn:
  - in his / her own occupation, or
  - in any occupation to which he / she is suited by training, etc., or
  - in any occupation whatsoever
- whether to cover the inability of the life assured to earn:
  - in his existing work-setting, or
  - in a typical work-setting, or
  - in any work-setting whatsoever

# The Claim Trigger

Ultimately, the claim trigger might read:

*. . . the life assured's inability to perform at least one of the Material Duties of his / her regular occupation (as set out in the Policy Schedule)*

where, "Material Duties" are defined as:

*. . . those duties (as required by a typical employer) which (in a typical work setting) cannot reasonably be omitted or modified without materially impairing the employee's ability to earn or obtain remuneration from the given occupation.*

# The Claim Trigger

Ultimately, the claim trigger might read:

*. . . the life assured's inability to perform at least one of the Material Duties of his / her **regular occupation** (as set out in the Policy Schedule)*

where, "Material Duties" are defined as:

*. . . those duties (**as required by a typical employer**) which (**in a typical work setting**) cannot reasonably be omitted or modified without **materially impairing the employee's ability to earn** or obtain remuneration from the given occupation.*

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# *The Benefit Amount*

Although we have determined the benefit amount to be: “*the income lost as a result of disability*”, the policy wording needs to be more explicit. In particular, we need to define:

- what income is to be covered:
  - total taxable income, or
  - basic pay, or
  - basic pay *plus* variable emoluments.
- the maximum monthly amount that is to be provided:
  - x% of pre-tax earned income, or
  - x% of post-tax earned income.

# The Benefit Amount

Although we have determined the benefit amount to be: *“the income lost as a result of disability”*, the policy wording needs to be more explicit. In particular, we need to define:

- the date on which the earned income will be determined:
  - date of policy application, or
  - date of disability
- the treatment of:
  - lives assured who can continue to work, but subject to reduced hours, or
  - lives assured who can continue to work, but in a reduced capacity.
- the start and end of the benefit period

# The Benefit Amount

Ultimately, the benefit amount may be defined to be:

*The lower of:*

- $\frac{PDE - PE}{PDE} \times MBA$
- $x\% \text{ of } PDE - PE - A$

*where:*

- *PDE is “pre-disability earnings”*
- *PE is “present earnings”*
- *MBA is “monthly benefit amount (as set out in the Policy Schedule)”*
- *A is “any other amount payable under disability insurance, sick-pay, early retirement pension, etc.”*

# The Benefit Amount

And “pre-disability earnings” may be defined to be:

*. . . the Earned Income of the life assured calculated on the day immediately preceding the date of disability*

where, “Earned Income” is defined as:

*The sum of:*

- the average monthly pre-tax regular wages earned by the life assured in respect of services or employment duties rendered during the 12 months preceding the date of calculation and*
- the average monthly pre-tax variable income (such as fees, bonuses, commissions, etc.) earned by the life assured in respect of services or employment duties rendered during the 36 months preceding the date of calculation*

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# *Key Success Factors*

For a Disability Income product to be successful and sustainable, it needs to be:

- profitable to the insurer
- of genuine value to the life assured.

The discussion to date has suggested that this is no small order. The remaining slides highlight some of the key requirements for a successful Disability Income product.



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  - Product Design
  - Underwriting
  - Claims Assessment
  - Pricing
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# *Key Success Factors*

- Product Design:
  - Satisfy the genuine “income loss” needs of the client
  - Ensure that there remains an incentive for return to work:
    - deferment periods
    - partial benefits (offset for income earned)
    - rehabilitation benefits
    - appropriate replacement ratios (x%)
    - “earning capacity” clauses
  - Ensure clear and appropriate definitions and policy wording
  - Ensure product is future-proofed:
    - implications of change in occupation
    - implications of change in income levels, etc.

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# *Key Success Factors*

- Underwriting:
  - More than for any other product, underwriters will need to pay careful attention to the interaction between:
    - financial risks
    - occupational risks
    - medical risks
  - Special considerations will be required in respect of:
    - self-employed lives
    - part-time workers
    - seasonal workers, etc.



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# *Key Success Factors*

- Claims Assessment:
  - For Disability Income products, claims assessment is not a once-off operation, but requires regular, hands-on follow-up
  - Assessing functional ability is far more important than assessing the medical condition - this requires specialist skills
  - To determine the benefit payable each period, claims assessors need to be proficient in reviewing financial information (both at time of disability and during the benefit period)
  - Claims assessors need to appear sympathetic to the claimant, while remaining professional in their assessment
  - Special consideration needs to be given to the challenges associated with claim handling when the claimant is abroad (require repatriation?)

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# *Key Success Factors*

- Pricing:
  - When Disability Income products first enter a market, there will generally be a paucity of suitable pricing data – this places challenges on the actuaries who may need to modify statistics from other countries
  - Disability Income experience is not static – it will change with the economic cycle, with advances in workplace safety, as well as with cultural attitudes. In light of these issues, guarantees should be avoided, even when credible past experience is available
  - Both the underwriting and the claim assessment of Disability Income products are more complex than for most policies – adequate loadings need to be added



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# Conclusion

Finally, a personal view:

*Disability Income Insurance is, no doubt, a challenging product line.*

*However, it is the most valuable product that any Life Insurer can offer to its clients.*

