



When it comes to Direct Life Insurance, all may not be as easy as it seems

By Peter Stathis, IOOF Alliances

Last Christmas, I was surprised at a BBQ when a guest boasted his satisfaction at having taken out income protection insurance over the phone from one of the insurers who've been advertising heavily on TV. He brought up the topic in response to learning that I worked in Life Insurance. It was actually his wife who the ads struck a chord with he explained. He said she didn't stop nagging him about how important it was for him and their family to have Income Protection cover. So thinking "happy wife, happy life", he relented, picked up the phone to the first insurer he saw an ad for and took out the cover. Smart woman I thought!

Having worked with financial planners for 20 years, it really struck me when I asked if he'd thought to get personalised advice from a Financial Planner, how dismissive he was of this option. "No value" was the term he put on taking this road. That out of the way, he was happy to tell me he'd chosen \$4,000 a month cover because it still left over \$1,000 after the mortgage and that the 5 years it could pay out for would give his family "breathing space". What's more he explained was that the whole process of putting the cover in place took about 45 minutes!

Not wanting to rock the boat with someone I'd just met at a gathering of extended family, I left it at that.

For the rest of the weekend - well after the BBQ was over, I couldn't get the experience of this chat out of my head! The unrelenting nature of those TV ads saw to it that I didn't stop thinking about my discussion with this bloke. I kept asking myself these questions:

- **Were Direct life insurance policies really cheaper** than the policies my Financial Planning colleagues recommended having first thoroughly researched the entire life insurance market before choosing the one best suited the particular client they were advising?
- **What was in the fine print?** – The fellow from the BBQ probably hadn't read his policy document to really understand what might be excluded. Would his direct policy pay if he needed to claim?
- **Why would he choose such low level of cover?** – especially since he looked to have a great lifestyle with a family to support on top of his mortgage. Did he know that income protection claim payments he received would be taxed as normal income? Did he even consider the need for other life covers like Critical Illness / Trauma? Did he know that even with Private Health cover, Prostate Cancer sufferers are paying out of pocket treatment costs of around \$17,000⁽¹⁾, or that the Grand Prix Chief Ron Walker had forked out over \$100,000 in 2013 for skin cancer medicine that saved his life? ⁽²⁾ and a 31 year old Victorian woman diagnosed with Hodgkins lymphoma since 2009 had to find over \$45,000 to pay for a lifesaving new drug not currently subsidised by the Pharmaceutical Benefits Scheme (PBS)? ⁽³⁾
- **Did he think to take out cover for his wife?** After all who would look after his young kids if something happened to her and there was no family around to help with this? And finally,
- **Who would actually help him deal with his insurer if he was unlucky enough to claim** on his Direct insurance policy?

To answer these questions I decided to research the "retail" insurance policies that financial planners recommend. Then I telephoned three of the Direct Life Insurance businesses who were

the most prolific with their advertising. I am glad I did this, because as I found, there were many stark and important differences between life policies that Financial Planners recommend and the life policies that are directly mass marketed.

Price

To use the language of my teenage kids, *price* was perhaps the biggest “OMG” moment for me. As I will explain later when I talk about the “Fine Print,” in Direct Policies versus (what I will call) “Advised” or “Retail” policies, comparisons in anything other than the dollar amounts of cover taken were not straight forward. I appreciate this is crude, but when you understand some of the limitations of Direct insurance policies, the expense of the three products I looked at really stood out.

Using an example set out in one of the Direct Product Disclosure Statements (or PDS) for a 38 year old electrician with a \$5,900 per month Income Protection benefit that paid out for 5 years after a 90 day waiting period, the direct premium was nearly 35% dearer than 6 of the retail / advised policies I looked at from life companies like AMP, BT, MLC and Zurich. What’s more, for about \$7 a year more, the same electrician could get a retail policy from a financial planner that would pay the same benefit (indexed every year) out to age 65 (i.e. when many of us expect to retire)!

Fine Print / Exclusions

The next surprise actually explained why Direct Insurance Policies are so quick and easy to take out.

Far less questions about an applicant’s health are asked upfront; I was asked fewer than 10 questions! While not specifically asked, I chose to tell them about my lower back problems of 10 years ago. I accepted the news from the phone consultant that my policy would carry an exclusion for this. After all in the context of knowing that we take out life cover because we’re worried about the financial impacts of stopping work for months on end because of a serious cancer, stroke, heart attack or major accidents, my niggling back pain is unlikely to stop me from earning a living!

I wondered how many people would think carefully about the “pre-existing health conditions” warning given over the phone and the explanation that any medical condition that existed 5 years before I took the policy would be automatically excluded if it was found to be the cause of certain types of claims down the track. Automatic exclusions went further than this when I read the fine print in the Direct insurance PDS I received with my quote. With pre-existing medical conditions - where a claim was made because of a stroke or heart related event, the claim would not be paid if any of the following things were found to have existed up to 5 years before my policy started; “having a *Body Mass Index* (BMI) of 40 or higher”. “**Systolic** blood pressure having exceeded 160 mmHg” and “**Diastolic** blood pressure having exceeded 100 mmHg”. Having **total blood cholesterol** in excess of 7.0 mmol/L”.

How many people reading this article could tell me their readings for any of these things during the last 5 years let alone actually reading this in the material they received from their insurance company after taking out their policy?

With retail / advised insurance, getting information from the applicant about these things and raising them with the insurer before the cover is taken out, is usually done in conjunction with the Financial Planner. This is the reason application forms for retail advised insurance can be up to 15 pages long. In effect, by asking so many questions in the case of retail insurance, the insurer takes the time to more thoroughly investigate an applicant’s health in the process greatly reducing the risk of nasty surprises at claim time.

The list of limitations and exclusions with Direct insurance policies didn't stop there. Some examples of things excluded at all times in the direct policies I looked at included; "drug and alcohol abuse", "any mental health condition", "any claimable event that occurred while visiting a country subject to a "travel advisory" and, "any aviation other than as a fare paying passenger on a commercial airline" – so much for your cover if you missed this before taking that hot air balloon trip you received as a gift from a loved one! These things were not excluded in the retail policies I researched.

Putting things into context, even if you didn't have any medical issues at the time of taking out a direct insurance policy and you had to claim, how long would it take for the Direct insurer to check your medical history at claim time? I consistently hear that the time it takes eight weeks to receive records from Medicare. Remember if a claim event happens, this is when you and your family would need the policy to pay quickly. So the hour or so it takes to fill out the health questions in retail insurance applications starts to make sense. Retail insurers get complete, concise health details upfront to minimise the time they spend getting this information when a claim happens.

Claims – Who's going to help in your hour of need?

Having worked in life insurance for as long as I have, the greatest satisfaction I experience is when Financial Planners share their stories (some of them really sad) about the role they've played helping clients and families through their claims. This is their greatest hour of need when the focus should be on recovery or bereavement rather than making financial ends meet. The burden lifted from a family's shoulders when a claim is looked after by someone they know and trust – namely their Financial Planner advocating for them, can't be emphasised enough! The work a financial planner does here not only extends to dealing with the Life Company but also can involve liaising with doctors and in some cases with banks who can get jittery when a self-employed customer is away from the tools for a few weeks and pressure is starting to show on overdraft limits or loan repayments are late.

Direct insurance policy holders will need to rely on themselves or family to do the leg work at claim time. What was interesting reading the respective Claims sections in the material I received from the three direct companies I contacted, was that the same 1800 phone number was listed in all three PDSs. The call you make initially is often to a call centre staffed by operators who liaise with the insurer. Contrast this to the retail / advised insurance client who can choose to have direct contact with the life company claims manager themselves or have their financial planner do this for them. Things tend to get done more quickly when the affected party can deal directly with a decision maker or has their planner (often experienced in claims handling) help them.

Getting Life Insurance Advice from a Financial Planner Makes Sense!

At the end of the day two important things stood out from this exercise:

- That direct insurance policies will generally cost more than the retail policies recommended by financial planners and as a result
- The average punter will get less than they think they are paying for

What ultimately emerged from my BBQ experience is that my Financial Planner colleagues and myself need to do a better job in getting on the front foot to explain to the people we meet why we do what we do and why good advice is no substitute for a self-service approach that may tick a box in a matter of minutes but could end up being the bane of your financial future in your greatest hour of need!

1.) <http://www.news.com.au/lifestyle/health/prostate-cancer-patient-anger-at-huge-bills-despite-paying-insurance/story-fneuzlbd-1226711959215> - Men with **prostate cancer paying out-of-pocket expenses** of up to \$23,000 that neither Medicare or Private Health funds cover

- 2.) <http://www.abc.net.au/worldtoday/content/2013/s3850482.htm> - Australian Grand Prix Chairman **Ron Walker's story of how a non PBS subsidised skin cancer drug** costing \$120,000 saved his life
- 3.) <http://www.heraldsun.com.au/news/victoria/sarahs-chance-of-a-bright-future/story-fni0fit3-1226765535857> the story of a **31 year old woman whose only Hodgkin's lymphoma (cancer) treatment option** is a \$50,000 lifesaving therapy that has been funded by her family giving up their inheritance

IOOF Investment Management Limited (IIML) ABN 53 006 695 021 AFSL 230524

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