

Did you know?



Alex Koodrin
National Technical Manager

17 April 2015

Personal sickness and accident insurance

Advisers often encounter clients who have existing personal sickness and accident policies, and want to know the differences between this type of cover and income protection policies.

According to the Australian Government's Australian Law Reform Commission website: "Insurance in Australia is commonly divided into three categories: life, health and general insurance. Life insurance encompasses a variety of products, including policies that provide payment upon death, continuous disability or trauma. Health insurance provides payment for the provision of hospital and ancillary medical and health services. General insurance covers matters not addressed by either life or health insurance, such as product liability, travel, professional indemnity, sickness and accident."¹

The sickness and accident policies offered by general insurers are often marketed as disability cover for specific industries or occupations. However, industry bodies note the following: "This type of insurance should not be considered as an alternative to private health or income protection insurance."² These are cancellable products, which means they may be either cancelled by the insurer or the insurer may decline to offer renewal of the policy, if there are changes in the life insured's health or occupation³. Income protection policies, issued by life insurance companies, are generally non-cancellable and are guaranteed renewable. The CommInsure Protection PDS and Policy document (Issue date: 11 May 2014) on page 17 states:

Guaranteed renewable

Once issued, your policy is guaranteed renewable, which means we won't cancel your policy, increase your premium rates or place any further restrictions on your cover because of:

- the number of claims you make under the policy or
- any change in your state of health, occupation or pastimes

Consider Barney, who is currently a barrister, and has a personal sickness and accident policy. Barney decides he has had enough of the law and wants to pursue his lifelong dream of being a trapeze artist. Under a sickness and accident contract, Barney would generally need to inform the insurer that he has changed occupation and it will then be up to the insurer to decide if the policy would continue and under what terms. It is unlikely a general insurer would continue cover for Barney. Also, some of these policies will actually stop paying benefits if the insured commences a new occupation whilst on claim. With CommInsure's income protection policies, the cover would continue as if Barney were still a barrister, and a disability claim would be measured against the duties of his new, more hazardous occupation, so if Barney injured his hand, it is likely he would be totally disabled.

In addition, sickness and accident policies are almost certainly indemnity-style products, whereby the monthly benefit upon claim would be based on the insured's actual income in the 12 months prior to disability. CommInsure's agreed-value policy – guaranteed option, as endorsed by underwriting, guarantees that the insurer will not review or reassess the monthly benefit shown on the policy schedule in the event of total disability, regardless of a decrease in income.

Both types of products typically provide world-wide cover, 24 hours per day. Sickness and accident policies can cover up to 100% of the insured's income, but only up to a 5-year benefit period. Some policies can be taken with a zero day waiting period but have a maximum benefit **per total disability claim** of \$30,000. Income protection covers around 75% of insurable income (CommInsure will cover up to 100% of the insured's annual income for

¹ Sourced 10 April 2015 at <http://www.alrc.gov.au/publications/25-use-genetic-information-insurance/personal-insurance-australia>

² Australian Bankers' Association (ABA), Investment and Financial Services Association (IFSA) and the Insurance Council, *Smarter Insurance. Protect your assets and secure your future*, October 2006, p 15.

³ Most sickness & accident policies are annually renewable, but some are issued for 2 years.

total disability due to a serious medical condition) and up to 100% for partial disability, with a minimum waiting period of 14 days, but with a benefit period up to the age of 65.

Sickness and accident policies can be taken as sickness-only, accident-only or a combination of both, with different waiting and benefit periods. Income protection providers no longer offer different benefit periods for sickness and accident, so a person who takes a benefit until age 65 will be covered for both illness and injury until that time.

Exclusions: Sickness and accident policies have a far broader range of exclusions than income protection policies. For instance, they often include the following – terrorism; participation in organised football; driving or riding in any kind of race, flying unless as a fare-paying passenger on commercial airlines; driving while under the influence of alcohol; mental illness; HIV/AIDS; and even exposure to radioactivity – which are not generally excluded in income protection policies.

Personal sickness and accident policies also have riders or additional policies covering ‘capital benefits’ (accidental death, permanent total disablement, permanent unsound mind, loss of limbs and sight, etc.) and critical illnesses. These policies are also cancellable.

Frequently asked questions	Personal Sickness & Accident (general insurance policy)	Income Protection (life insurance policy)
What is the sum insured?	Generally 100% of insurable income	Typically around 75% of insurance income, with certain add backs.
Is it an agreed value policy?	Not usually. The benefit is the lesser of the sum insured and insurable income 12 months before disability	Yes, it can be agreed value, with financial evidence to be provided either at policy commencement or claim time.
Can the insurer cancel the policy?	Policies generally renewable yearly, and may be cancelled at insurer’s discretion.	No, with few exceptions. CommInsure’s policies are non-cancellable and guaranteed renewable
How long is the benefit period?	Generally 2 years, but no more than 5 years	Can be for 2 years, 5 years or until age 60 or 65 or 70
What are the exclusions?	HIV/AIDS; pregnancy, childbirth or miscarriage; radioactive contamination; terrorism; flying unless a fare paying passenger on a commercial airline; practising or playing organised football; DUI or drugs; mental disorders; criminal activity; and others	The only exclusions for CommInsure’s Income Care range policies are: <ul style="list-style-type: none"> • war or act of war (whether declared or not) • intentionally self-inflicted injury or attempt at suicide • post natal depression
What is better cover?	This is a cancellable, non guaranteed renewable product, with shorter waiting periods and short to medium-term benefit periods. Generally inferior to income protection.	A guaranteed renewable and non-cancellable product, with longer-term benefit periods and a wider range of benefits. Generally superior to personal sickness and accident cover.

Summary

Personal sickness and accident policies are generally suitable for short to medium-term disability cover, but may be cancelled at the insurer’s discretion. They are no substitute for income protection cover.

Income protection provides longer term cover and benefits, as well as security for clients, who can rest assured that only they can cancel the policy throughout the life of the policy.

* This list of exclusions does not apply to each policy, but is a compilation of common exclusions found in most personal sickness and accident policies.

Important information

This information was prepared by The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) which is a wholly owned but non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124, for the use of advisers and staff only and is not to be issued, reproduced in whole or in part, or made available to members of the public. The taxation information, social security information and examples are of a general nature only and should not be regarded as specific advice. It is based on the continuation of present taxation laws, superannuation laws, social security laws, rulings and their interpretation as at the issue date of this article. Advisers should refer to the relevant life company policy documents for further clarification. CommInsure is a registered business name of CMLA. Taxation considerations are general and based on present taxation laws and may be subject to change. You should seek independent, professional tax advice before making any decision based on this information. CommInsure is also not a registered tax (financial) advisers under the Tax Agent Services Act 2009 and you should seek tax advice from a registered tax agent or a registered tax (financial) adviser if you intend to rely on this information to satisfy the liabilities or obligations or claim entitlements that arise, or could arise, under a taxation law.