Did you know?

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Your client's life insurance policies – retain or replace?

There may be a number of legitimate reasons to replace an existing life insurance policy with one offered by another provider. Equally, there may be a number of legitimate reasons to retain a policy with the same insurer. Here are some of them.

One of the key benefits of maintaining insurance cover with one provider are the loyalty and reward benefits, such as those offered by CommInsure.

Loyalty bonus

Introduced in 2002, CommInsure's Loyalty Bonus rewards clients whose cover has been in place for five years or more, automatically increasing any payable life cover, terminal illness, TPD, trauma or child cover benefit by five per cent – at no additional cost. One in three of our Total Care Plan (TCP) and Total Care Plan Super (TCPS) policyholders have qualified for a Loyalty Bonus benefit. These clients also have the option of reducing their sum insured by five per cent, thereby reducing their premium while maintaining the required level of cover. If a client is replacing a CommInsure policy due to price, have the adviser and client taken into account the extra five per cent on top of their sum insured?

The Loyalty Bonus benefit applies from the original Risk Commencement Date (RCD), so if a policy is either reinstated (under CommInsure's usual reinstatement terms) or is an internally replaced policy, the new policy does not need another five years to qualify for this benefit. If a client has qualified for the Loyalty Bonus by maintaining their life care for five years, and decides to add TPD or trauma as a rider today, the TPD or trauma rider benefit has already qualified for this bonus.

Reward cover

Also introduced in 2002, the Reward Cover benefit rewards clients whose Income Care (or Plus), Income Care Super or Business Overheads Cover has been in place for three years or more. For these policies, CommInsure will provide Accidental Death Cover of $50,000, which will increase by $10,000 each year (to a maximum of $100,000) at no additional cost and with no medicals required. If the client also has a Total Care Plan policy, CommInsure will double the Reward Cover Benefit. Since 2002, 36,627 inforce policyholders have qualified for this benefit.

Possible discounts

There is also the question of current and future discounts for which the client is eligible:

- Fifteen per cent renewal reward on TCPS policies paid by rollovers from specific complying super funds: clients who are paying premiums through these rollovers qualify for a 15 per cent policy premium discount from year 1, as well as a 15 per cent renewal reward in year 2 against that year's renewal premium. If their policy ceases, this reward is no longer applicable and cannot be taken in cash.

- Fifteen per cent discount on increases to existing TCP and TCPS policyholders: clients who wish to increase their lump sum TCP or TCPS covers are entitled to a 15 per cent premium discount on the increased portion of the sum insured amount up to 100 per cent of the current level of cover. The premium discount is available on all policies commencing from 1 July 1997 and is available once per year after the policy has been in force for 12 months.

Guarantee of upgrade

CommInsure's guarantee of upgrade means that any improvements to policy terms and condition will be passed back for policies that have been in force since 1 July 1997. Unlike some competitors, who will only pass back changes as long as premiums do not change, CommInsure will pass on upgraded provisions regardless of premium changes. Improved terms and conditions will not apply in respect of any pre-existing conditions at the time the improvement took place.

Claims history

As part of the Commonwealth Bank Group, CommInsure (CMLA) has been paying all genuine life insurance claims for over 142 years. In 2013, CommInsure paid $665.3 million in life claims, and since 2005, we have paid over $4.5 billion to claimants!

Considerations before replacing cover

Some key considerations for advisers and their clients if they wish to replace insurance cover:

- Has there been a change in the client's health?
- Will the client have to undergo new medical checks?
- Is there a danger of non-disclosure in the application for replacement cover?
- Will the client be paying increased premiums for their cover if their health status has changed?
- Does the other insurer have a strong, market leading reputation, particularly in financial strength and claims payment?
- Does the other insurer have a guarantee of upgrade on their policies and under what circumstances?
- What current loyalty rewards, rebates and discounts (current and future) will the client lose?

Summary

Advisers and their clients should consider a number of factors before replacing an existing life insurance policy, including changes in health, the risk of non-disclosure, the risk of non-payment of claim, and the rewards, rebates and discounts a client may lose now and in the future.

CommInsure provides a number of loyalty and reward benefits as well as discounts based on duration of policy ownership and payment method, which should be considered in deciding whether to replace or retain a policy.