



12 May 2021

TO: ALL LIFE INSURERS AND FRIENDLY SOCIETIES

INDIVIDUAL DISABILITY INCOME INSURANCE: DEFERRAL OF IMPLEMENTATION OF THE POLICY CONTRACT TERM MEASURE

APRA communicated the finalised sustainability measures for individual disability income insurance (IDII) in September 2020.¹ In particular, the policy contract term measure was introduced with the intention of creating a mechanism for life insurers and friendly societies (life companies) to update their IDII products, taking into account changes in the operating environment.

APRA's updated position

APRA, along with ASIC, has been actively engaging with the FSC and other industry stakeholders on the implementation of the policy contract term measure. It has become clear that the industry is unlikely to be able to develop viable solutions for implementing the measure by APRA's previously communicated deadline of 1 October 2021. APRA is aware that life companies have considered various options, but to date have not settled on solutions that satisfy both the legal and operational constraints and without unintended adverse consequences for consumers.

APRA acknowledges the challenges associated with implementing the policy contract term measure, as well as the industry's efforts to date in working to formulate viable solutions. Nevertheless, APRA views this measure as an important mechanism to manage the risks associated with long contract terms. Without the policy contract term measure, it is unlikely there will be a change to the current practice that effectively locks in terms and conditions for extended periods of time, leaving premium changes as the primary (or only) lever to deal with the impact of external changes on IDII sustainability.

To provide life companies more time to implement the policy contract term measure, APRA has decided to postpone the implementation of the measure to **1 October 2022**. APRA expects life companies to intensify their efforts to explore and develop workable solutions to meet the intention of APRA's policy contract term measure and to proactively keep APRA informed of progress.

Ongoing areas of focus

With the deferral of the policy contract term measure, APRA notes the following.

- While a viable solution to operationalise the policy contract term measure is being developed, it is important that life companies have appropriate mitigants to manage the risks associated with extended contract terms. This includes critically reviewing all product features in accordance with APRA's remaining sustainability measures and other frameworks, such as the Actuaries Institute Disability Insurance Taskforce's Sustainability Guide and Reference Product. Life companies must ensure that their IDII products remain within the risk appetite set by their boards.

¹ [Finalised sustainability measures – 30 September 2020](#)

- Notwithstanding the deferral of the policy contract term measure, life companies are encouraged to challenge the status quo in formulating viable solutions to operationalise this measure in a timely manner, with due consideration to legislative requirements and consumers' needs.
- Demonstrated actions taken by the life companies to mitigate the risks associated with extended policy contract terms, and ultimately, the effective and timely implementation of the policy contract term measure, will contribute positively towards future revisions of the IDII capital charge.

In conclusion

APRA's product measures are intended to operate as boundaries, aimed at addressing fundamental risks associated with IDII. It is important to note that all of APRA's other IDII product measures, as communicated in APRA's 30 September 2020 letter, will still take effect on 1 October 2021.

APRA will continue to engage and work with industry stakeholders and ASIC to support the implementation of the policy contract term measure and sustainable practices more broadly. Ultimately, however, it is the responsibility of life companies to proactively manage the risks associated with the design of their IDII products to ensure ongoing sustainability.

Yours sincerely

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