

## Subject

I am making a submission relating to the exceptionally misleading use of the term "Level" when applied to insurance premiums for products such as Trauma Insurance and Income Protection Insurance.

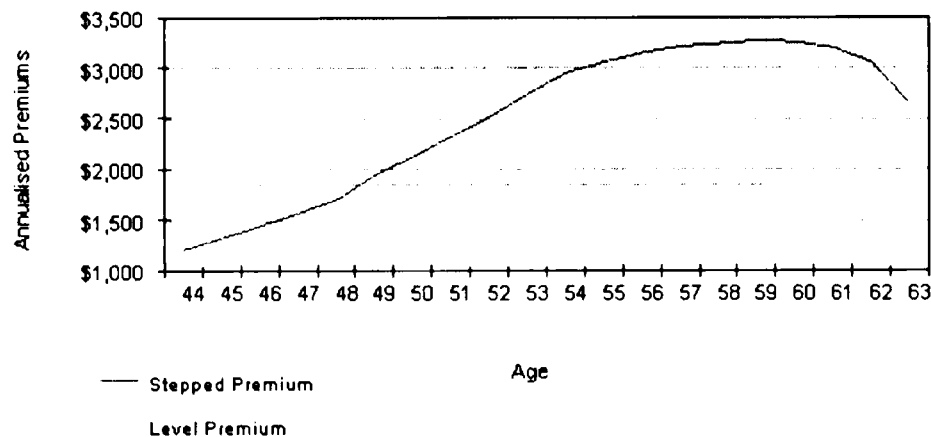
### What does Level mean?

"Level" according to the dictionary - *having no part higher than another; having a flat or even surface. Or at the same height as someone or something else.*

### How was the concept of Level Premiums sold to me?

In 2006, included in a Financial Plan created for me were recommendations relating to Trauma and Income Protection Insurance. Within the plan, using a graph that was supplied by the proposed insurer the difference between Level and Stepped premiums was illustrated as follows with a flat line. I have all my original documentation and here is a scan from the Financial Plan.

#### Stepped versus Level Premium Comparison



Assumes Stepped for all Covers against Level for all Covers.

This premium comparison has been calculated excluding the policy fee.

The financial planner explained to me that you pay more each year for the first few years than you would with a stepped premium but there comes a point when you will be better off. I did the maths using data provided by the planner and it was clear that if I intended to remain insured for more than 10 years then I would be an idiot to choose Stepped Premiums. My understanding was that the insurance company was effectively gambling on a number of things

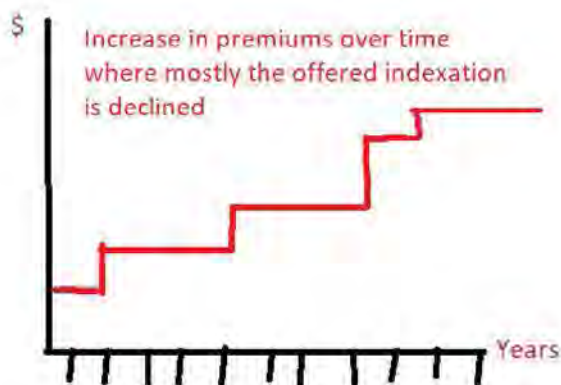
- 1) That I would, as many people do, cease paying premiums before "break even" leaving them smiling
- 2) That if 1) failed to eventuate then, due to compound interest, the higher initial premiums would offset the lower premiums (relative to my age) later
- 3) That I would remain healthy as a horse and not make a claim for a long period of time

i.e. they were taking on risk with the expectation of making a profit

With many more income earning years ahead of me I took out two policies as separate policies and opted for **Level** premiums rather than **Stepped** Premiums for both policies. After discussion with the financial planner I also opted for indexation for both policies.

### My understanding of the impact of indexation on my level insurance premiums

It was explained that, each year, I would receive an insurance renewal notice and inflation would be applied to the sums insured and a premium quoted. My expectation (and this has generally been the case) was that if the sum insured was higher than that in the previous year then the premium would also go up. Importantly for my peace of mind ***I could choose not to accept the indexation and the sum insured would remain unchanged.*** Each year I had the opportunity to “stick or twist” therefore my expectation was that over time the diagram representing my premiums would look as follows



### Reality Check – What has happened to my premiums

█ the original insurer was replaced by █ sometime around 2011. In 2010, 2015, 2016 and 2018 there have been “Changes to our Premium Rates”. I quote from the 2018 premium renewal letter “We’ve adjusted our premium rates to ensure they better reflect the current environment of increasing claims across our industry. While more claims mean more customers are being supported in their time of need, it also means we have to make adjustments to continue to support our customers for many more years to come”.

Which in English means “we stuffed up when we set our Level premiums and we can’t make the profit that we want to make. Therefore, even if you choose not to accept the indexing your Level premiums are going to increase and there is absolutely nothing you can do about it other than cancel your insurance”.

The first time this happened I had some to and fro with the insurance company and it turns out buried in the small print it says they can do this in the PDS “level premiums, where your premium for a particular level of cover only changes with increases to the Policy Fee or if we change premium rates”. Their pretty diagram with the flat line used in marketing material is totally misleading.

### HOW MUCH!!!

When I renewed my insurance a few months ago I found that to keep Income Protection Insurance at the same level as last year required me to pay an eye watering \$571.98 additional premium. Even though I have a policy with “Level” Premiums. In 2015 it was an extra \$219.02. As income protection insurance is tax deductible there is an impact to government revenue.

### Impact of cancelling my insurance

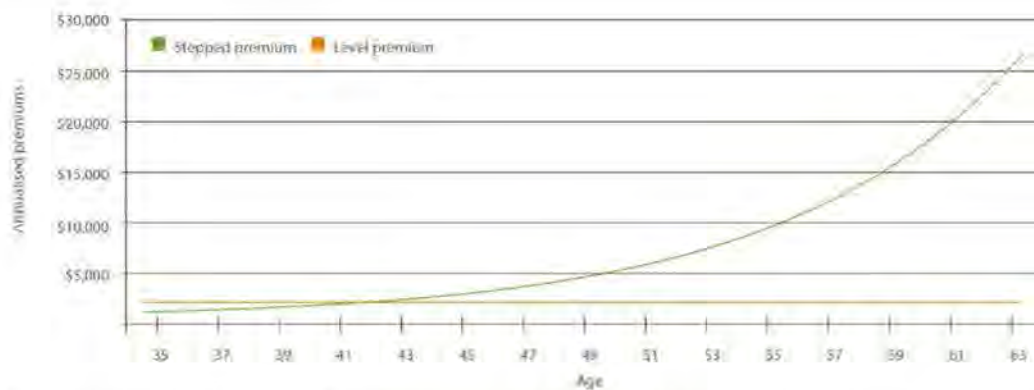
I am obviously rather older than I was in 2006 and, like many people, have had my share of minor injuries and health scares in the intervening period. Fortunately, nothing serious enough to warrant time off work or a trauma claim. Unfortunately, this will mean I probably can't actually take out comparable insurance without x, y and z being excluded. I have got to sit down and review my options because my wages since 2006 have not kept pace with inflation.

The only positive thing is that I refused the offer to link the income protection and trauma insurance together (which would have saved money) so that I can cancel one without needing to cancel the other. I'm sure there are people out there who took the cheaper option and lived to regret it.

### Summary

It is totally wrong that I could buy insurance using information showing Level Premiums in a diagram with a flat line when the Insurer reserves the right to increase the premium whenever they want and by however much they want. I believe the illustrations should show alternative scenarios too.

I'd like to be able to say that "that was in 2006". However, I went online yesterday and found this diagram on the [REDACTED] website.



Assumptions: stepped for all covers against level for all covers. This premium comparison has been calculated excluding the policy fee. Also assumes no annual indexation of cover levels.

Over time, you can see that while level premiums start off more expensive, they work out to be more cost-effective over the life of your policy.