Actuaries Institute.

INFORMATION NOTE: IDII LIMITED CONTRACT TERM – FRAMEWORK FOR CONSIDERING OPTIONS
May 2025

Contents

1. Introduction

This Information Note (IN) has been prepared by the Life Insurance Practice Committee (LIPC) of the Actuaries Institute (the Institute). It is written to assist Members in the management of risks associated with the issue of individual disability income insurance (IDII) as a long-term contract as spotlighted by the Australian Prudential Regulatory Authority's (APRA's) intervention to restore financial sustainability to the IDII market. This IN outlines a possible framework to assess current and alternative contractual design options including APRA's proposed 5-year policy contract term measure as well as possible variations.

This Information Note does not constitute legal advice. Any interpretation or commentary within the Information Note with respect to specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations.

Accordingly, Members are expected to seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance with respect to their legal or regulatory obligations.

2. Context and background

The concept of the five-year contract term was first proposed as part of the APRA IDII sustainability measures announced on 2 December 2019 and confirmed on September 2020 to help keep products in step with changing circumstances.

However, the industry hit a number of challenges in effectively implementing this feature. In light of these challenges APRA decided, in March 2022, to suspend the IDII contract term measure for at least two years. APRA also set out its expectation that life companies and the industry more broadly seek to identify alternatives.

Since first proposed, implementation of the five-year contract term measure has generated much debate across the life industry and the actuarial profession. A number of alternative options have also been identified as potential pathways to implement the spirit and intention behind APRA's original proposal.

Through the Actuaries Institute's Disability Insurance Taskforce and its findings that more could be done to improve the management of long-term guaranteed IDII contracts, the Institute established the Contract Terms Working Group. This group was tasked with exploring alternative solutions and developing proposals for consideration by key stakeholders, including APRA and the Council of Australian Life Insurers (CALI), the representative body for life insurers.[1]

This IN therefore sets out the framework and outlines the options assessed by the Working Group for their original purpose. For context and reference, the point-in-time 2024 assessment performed by the Contract Terms Working Group, and provided to APRA and CALI, can be found as Appendices to this IN.

[1] See Recommendation 5.5 and associated commentary of the Disability Insurance Taskforce publication '[Disability Insurance in Australia: Findings and Recommended Actions](#)', published September 2024.

This IN is written with a focus on informing Members' own considerations of the sustainability issues created by long-term contractual guarantees. The options explored in this IN are not intended to be exhaustive but seek to illustrate the key design levers that could address the challenges faced by the industry, whilst recognising that there are some trade-offs to be made.

Developing a framework such as the one set out in this IN adds rigour and objectivity to the comparison of the different contract term options by applying an agreed set of criteria. It is recognised, however, that some measures will involve subjectivity, while others will depend on the underlying assumptions used.

At the time of issue of this IN, there are other developments that may also have implications for sustainability. The interaction of these developments with the ability of life insurers to better manage issues associated with long-term contracts is not considered in this IN. These developments include:

- The ability of life insurers and other financial institutions to provide financial product advice as flagged by the Government's Delivering Better Financial Outcomes (DBFO) package.
- Durational pricing where market practice has developed such that premium rates are lower at earlier policy durations.
- Changing nature and approach to mental health both in society and in life insurance[2].
- Proposed legislative ban on the use of genetic testing in underwriting.

It is possible that combining the consideration of the options in this paper with current or future industry issues may identify different opportunities or materially change the assessment of the options against the framework criteria. Further work would be required to understand any negative or positive interactions of these issues with the options discussed in this IN.

For more information, Members can refer to the following letters issued by APRA covering the sustainability of individual disability income insurance and the policy contract term measure:

- Thematic review of individual disability income insurance – 2 May 2019.
- Sustainability measures for individual disability income insurance – 2 December 2019.
- Final individual disability income insurance sustainability measures – 30 September 2020.
- Individual disability income insurance: deferral of the implementation of the policy contract term measure – 12 May 2021.
- Individual disability income insurance: Suspension of the policy contract term measure – 24 March 2022.

[2] Refer to the KPMG publication 'Australia's Mental Health Check Up', published November 2024

3. Potential options

The options described in this IN, as informed by the Contract Terms Working Group's 2024 consideration of alternatives to a five-year contract term, are summarised below:

3.1. Option 1: Five-year contract term

This is the concept proposed by APRA that requires all new IDII products to have a policy contract term not exceeding five years. A minimum term of three years is required to comply with the Life Insurance Act 1995.

The policy contract would provide the policyholder with the right to enter into a new policy for a further period (not exceeding five years), without a medical review, on the terms and conditions applicable to new contracts then on offer by the life company.

Changes to the policyholder's occupation, financial circumstances and dangerous pastimes will be updated at the five-year mark and reflected in the new policy terms and conditions.

The option considered here is based upon an opt-in model as the opt-out model is not considered to be viable under contract law.

3.2. Option 2: Ten-year contract term

The policy contact and approach would be the same in all aspects as Option 1 except that the contract term would be ten years.

3.3. Option 3: Base plus booster

This option would consist of a base policy and a linked booster policy:

- The base product would be a long-term contract providing basic cover. The specific design would need to be such that it is considered sustainable under a wide range of scenarios. This would include consideration around having a lower replacement ratio and lower benefit payment term.

The benefit structure, terms and conditions (T&Cs) on the base product would not be subject to change in normal circumstances.

- The booster would be a top-up rider with a term not exceeding five years. The top up would provide additional cover above the base product so that it is in line with the customer's needs/wishes.

The booster rider would allow the customer the right to enter into new booster rider for a further period (not exceeding five years), without a medical review, on the terms and conditions applicable to new booster contracts then on offer by the life company.

Changes to the policyholder's occupation, financial circumstances and dangerous pastimes would be updated on renewal and reflected in the new policy terms and conditions for the booster cover.

3.4. Option 4: Cover that is reviewable every five years

Under this option the policy would be a long-term contract with rights for the product provider to vary the benefit level and T&Cs after a period not exceeding five years (the guarantee period) if the customer does not provide updated information.

The customer would be required to provide updated non-medical information at regular intervals in line with the guarantee period. This information would include changes to the policyholder's occupation, financial circumstances and dangerous pastimes. The updated information would be used to determine a new premium rate that could be higher, lower or the same as the current premium rate applicable to the customer. The premium and/or benefits can then be adjusted to reflect the new premium rate.

Product providers would need to determine the best way to engage with the customer and support the change, and this could include access to financial advice and default actions dependent on the customers actions.

For this product design to be a viable risk control there needs to be a mechanism for making changes when the customer does not provide any information at the end of the guarantee period. This mechanism would need careful consideration and could include:

a) **Option 4a**: No action, i.e. no rights to vary benefits or T&Cs if the customer does not provide the required updated information. As a backstop the product provider would have the right to adjust the benefit level at time of claim, based on the information available at this time.

b) **Option 4b**: The right to align the T&Cs to those offered on the policies then being sold, with no change to the benefit level. Again, as a backstop, include the right to adjust the benefit level at time of claim.

c) **Option 4c**: The right to align the T&Cs to those offered on the policies then being sold and reduce the benefit level in line with the average deterioration in the experience of the relevant cohort or book of business.

In addition to the above, incentives could be provided to the customer or third parties to encourage the provision of accurate non-medical information.

4. Summary of the framework for comparing different IDII contract term options

The range of options identified can be assessed using a framework developed to add rigour and objectivity to the comparison of the different options.

Key elements of the framework

The following key elements are being used in the framework for comparing the contract term options:

- Pricing and cost
- Customer centricity
- Practical

- Regulatory and legal
- Primary objective

Pricing and cost

A comparative price differential (relative to on sale products) is being used to consider the impact of the different options on the premium rates at the start at the contract. Using a differential approach helps isolate the effect of each option by reducing dependence on the absolute levels of the underlying assumptions.

It specifically measures the impact of differing durations before the product provider can take any action, and the resulting customer behaviours. However, it does not consider the potential impact of future deterioration in claims experience, which may or may not be reflected in the pricing of the current on-sale product. In other words, it does not attempt to quantify the value of having a mechanism to keep products aligned with changing conditions.

Whilst this is a quantitative measure, it is dependent on key assumptions, such as whether the cost of advice should be included and level of additional anti-selection associated with the option.

Customer centricity

Customer centricity is assessed based on **affordability, sustainability** and **complexity**. The product option therefore should:

- Be affordable for the majority of potential customers.
- Maintain the ability to keep premiums aligned with reasonable expectations as circumstances change.
- Provide flexibility to meet the needs of a wide range of customers, with product complexity tailored to the sophistication of the buyer and the advice being provided.
- Avoid generating poor outcomes for customers. For example, an opt-in process could result in customers unintentionally losing their cover because they did not realise action was required.

Practical

Practicality should consider the ability to operationalise certain product features, potential flow-on impacts to other lines of business, and how easily the product option can integrate into the advice process.

Regulatory and legal

The proposed option(s) have to be consistent with legal and regulatory requirements, and meet the objectives of APRA's sustainability measures.

Primary objective

IDII has been written as a long-term insurance contract with reviewable premiums. This means that the underlying terms and conditions are set for an extended period of time, but the premiums can change to reflect the changes in the underlying risks.

APRA noted in its letter in September 2020:

"Guaranteeing terms and conditions for such extended periods causes significant difficulty in designing sustainable products that will continue to meet the needs of policyholders without unexpected and material premium changes".

"APRA wants to ensure that there is an appropriate mechanism **to keep products in step with changing circumstances, both in respect of changes in the circumstances of individual policyholders and broader societal and economic changes**. Such a mechanism should moderate the extent of premium increases that may otherwise be needed."

The bolded phrase is considered to be the **primary objective** of an appropriate mechanism. This primary objective is also the sustainability component of the Customer Centricity element.

Comparative ratings

Comparative ratings have been allocated to each element for each of the identified options. A Red, Amber, Green status has been allocated to assist the reader to get a feel for the relative pros and cons of the different options. The approach taken was qualitative and indicative of the level of effectiveness of the option for a particular element.

Table 1 Comparison of policy contract term options by applying the framework.

Option	Pricing and Cost	Customer Centricity	Practical	Regulatory & Legal	Primary Objective
1. Five-Year Contract Term					
2. 10-Year Contract Term					
3. Base + Booster					
4a. Reviewable cover using updated non-medical info - no action if customer does not reply					
4b. As per 4a - Terms & Conditions to on-Sale if customer does not reply					
4c. As per 4b - Adjust Insured Benefit if customer does not reply					

The comparative ratings assigned in this table are intended to be illustrative only. Given the subjectivity of the comparison, a reader may form a different view as to the relativity of the pros and cons.

The table can be used to highlight the effectiveness of the options against the primary objective of keeping products in step with changing circumstances and managing emerging risks.

For example, the options considered here as more effective require more significant changes to the product, which alter the fundamental nature of the contract. All options are considered here to require significant trade-offs.

Notwithstanding, any individual life insurer is able to consider the options in this IN and any other identified options as part of their own product risk management strategy. The options can also be included in the Sustainability Framework of each life insurer.

Appendix A – The Contract Terms Working Group's 2024 assessment of the options

A.1 Working Group conclusion in 2024

The Working Group has not, at this time, identified an option that would successfully meet the primary objective without significant obstacles. All of the proposed options require further refinement.

The least worst option was considered to be Option 4b, where the IDII product includes cover that could be adjusted every five years based on non-medical information provided by the customer, with limited default options where the customer does not provide the information. It would require the development of a robust process for engaging with the customer that includes an appropriate default which is applied when the customer does not provide the required non-medical information.

Industry-wide introduction of any of these options would require industry agreement, subject to competition legislation, and/or regulatory intervention.

A.2 Consideration of the options in 2024

Option 1: Five-year contract term

Pricing and cost

It is estimated that the need for an opt-in will increase prices by around 22% (midpoint of estimated range of 16% to 28%) when compared to a base line policy that does not have any contract term limitations. Further details on the pricing comparison are provided in the next section (Pricing comparison methodology).

Customer centricity

<u>Affordability:</u> This is the least affordable option as the estimated relative price increase is the greatest.

<u>Sustainability:</u> Of the options being considered, the five-year contract term provides the greatest opportunity to respond to adverse experience through a change in benefit definitions and levels of cover. A short contract term means that an insurer can respond quickly to adverse experience reducing the need for price increases. An even shorter contract term but more than three years, in line with the Life Act definition of a continuous disability policy, may be considered as an alternative to improve the effectiveness of the design.

<u>Complexity:</u> This is one of the more straight forward options being considered. However, as the customer has to reassess their need for income protection and the product they use they are likely to require assistance from a financial advisor.

The requirement for the customer to opt-in is likely to result in many customers losing valuable insurance. This may have a significant reputational impact for the life insurance industry and for financial advisers.

Practical

Introducing a shorter contract term will add additional processes to support the product. For example, there will need to be increased customer communication in advance of the end of the contract term. This is expected to include communication around options, where to get advice and what happens if the customer does not respond.

This option will increase the workload for advisers to provide detailed reviews at the five-year mark. Whilst this may be a good outcome for consumers, the cost and supply of this advice needs to be considered.

Regulatory and legal

At the end of the initial contract term, and every subsequent five years, the customer will have to choose to take out a new policy, even if there have not been any changes to the terms and conditions. This opt-in basis is expected to lead to additional costs as many customers will require further advice at this time and there is likely to be increased anti selection.

Option 2: Ten-year contract term

Pricing and cost

It is estimated that the need for an opt-in will increase prices by around 7% (midpoint of estimated range of 5% to 9%) when compared to a base line policy that does not have any contract term limitations.

Customer centricity

Extending the contract term to ten years makes the option more affordable than the five-year contract term, but reduces the sustainability benefits as any action cannot be taken until the tenth anniversary and therefore does not offer sufficient flexibility to manage the risks.

The complexity of the ten-year contract term is consistent with that for the five-year contract term, except that there is a longer period before the customer is required to reassess their options.

Practical

The ten-year contract term has similar practicality considerations as the five-year contract term.

Regulatory and legal

The ten-year contract term option would also need to be on an opt-in basis.

Option 3: Base plus booster

Pricing and cost

It is estimated that the need for an opt-in on the booster will increase prices by around 13% (midpoint of estimated range of 8% to 19%) when compared to a base line policy that does not have any contract term limitations.

Customer centricity

Affordability: The pricing impact falls into the middle of the range of impacts for the different options. It should be noted that the pricing impact is closely linked to the split of benefits between the base and booster. For example, if the base policy were to be very basic and the booster policy could be terminated with limited notice the pricing impact would be very low or negative.

Sustainability: This option supports future premium sustainability by keeping premiums in line with reasonable expectations as it has a lever to modify or remove booster benefits when required.

However, the split of benefits between the base and booster policies has a significant bearing on the impact to premium sustainability. If the benefits included in the base are too generous the combined product will not provide premium sustainability.

Complexity: The base and booster product can be a very complex solution. The level of complexity would depend upon the allocation of features to the base versus booster e.g. if the booster relates to an extension of the benefit period from 5 years to age 65, then the impact of its removal would be easier to explain. However, it may be insufficient to make the base sustainable over the long term.

Customers need to opt-in to the booster part of the benefit at the end of its contract term, but not the base component. This may be potentially confusing and result in customers having less comprehensive cover than they thought because they did not take action when required. Systems and communications would need to reflect this difference in process.

However, in an advised product, it is reasonable that the product provides this degree of flexibility to meet the needs of customers.

The risk of customers having no cover is lower due to the base cover, however there is still a risk of adverse customer outcomes and consequently reputational damage for the industry through lack of awareness and/or lack of response.

Practical

This is the least practical option as the concept is novel and would require significant development by the industry. In particular the design of the base product would need significant research and is likely to be too complex for the market. This could lead to a poor customer experience and significant volume of complaints.

Regulatory

Development of consistent product standards would involve competition law considerations. Independent development would naturally result in a range of outcomes. At one end of the range there could be a plethora of different products which be confusing for the customer and their advisors or at the other end inaction.

The concept may also fail to meet APRA's sustainability objectives, given the shorter contract term only applies to the booster, it is heavily dependent on how the base and booster are defined.

Option 4: Cover that is reviewable every five years

Pricing and cost

Cost is expected to be broadly neutral for variants b and c, i.e. lowest of all the options considered. It may be necessary to charge for the risk of non-disclosure at the end of the guarantee (variant a). These are long-term contracts with an opt-out basis which does not attract additional shock lapse, anti-selection or advice cost.

Potential opportunity to refine the pricing e.g. dynamic pricing to adjust pricing loadings with the change of occupation over time to remove any pricing cross subsidies by occupation.

Potential to review occupation loading to reduce occupation creep risk, where the underlying risk changes as the duties of the individual change.

A further element influencing the ultimate cost to the customer will be any measures to incentivise or encourage the provision of non-medical information by the customers.

Customer centricity

<u>Affordability:</u> With the pricing impact being neutral this option is not expected to change the affordability of the IDII product.

However, when a customer changes to a higher risk occupation or takes up a dangerous pastime there could be a significant impact on the benefit levels. This could result in the customer having reduced benefits or face a premium increase that may not be affordable. Companies could provide a range of alternative solutions for the customer to choose from, although this is likely to require financial advice to be provided.

<u>Sustainability:</u> The ability to potentially change product T&Cs (variants b and c) and benefit levels (variant c) provides premium sustainability. Changing T&Cs realigns the existing product with the current on-sale product. This flexibility would need to be tested against the requirements of the unfair contract terms regime and the range of allowable changes may be limited.

Changing product benefit levels and T&Cs may result in equally bad outcomes when compared to a price increase.

<u>Complexity:</u> The option is relatively simple product to understand, but the approach for getting reliable information could be very complex. The right to change the T&Cs at regular intervals could adversely impact the industry reputation.

Practical

The current IDII product design is consistent with introducing a pro-active re-assessment on the customer's financial and occupation. Changes may be needed to T&Cs and Product Disclosure Statements.

Processes would also need to be introduced to manage customers who do not respond and these need to be fair and equitable, across those who provide the information and those who do not. There also could be a mixture of deliberate non-disclosure and inadvertent oversight, which may need different approaches.

It may also be possible to introduce other features including:

- More regular occupation assessment to make sure pricing is in line with underlying risk as the duties of the individual change (occupation creep risk).
- Claim management improvements so that the claim payment is based on occupation at the time of underwriting rather than at claim time.

Regulatory and legal

It is likely this is consistent with the current regulatory environment, although the ability to adjust benefits, if the customer has not responded to the request for further information, would need to be considered against the unfair contract terms regime.

For example, making changes to the contract that do not result from a known customer action would need to clearly disclosed so as to not fall foul of the unfair contract terms regime.

Broadly, the right to review a product’s terms and/or price is allowable if it is based on defined set of conditions and observable information, and the actions taken are consistent with those agreed at the point of sale. Any actions must not be arbitrary and the customer has to be informed of the changes.

This could mean that changes that do not reflect the specific changes in the customers’ circumstances (as defined in the T&Cs) need to follow defined methodology and criteria set out in the T&Cs.

A.3 Pricing comparison methodology

Each estimated pricing range is based on indicative profitability modelling for a limited set of representative model points using a set of key assumptions, categorised as follows:

- Baseline assumptions that remain constant across the different policy contract term options.
- Key additional assumptions which differ for the specific contract term options.

A baseline scenario was established based on the current state (i.e. policies issued post 1 October 2021, where insurers carry no explicit rights to vary terms and conditions before policy expiry to be more restrictive than those at policy issue).

For each policy contract term option, the potential pricing impacts were measured as the pricing change required to equate the profitability for the aggregated model points. Each pricing range is based on varying key assumptions around a central estimate.

An underlying assumption of the above modelling is that claims costs are expected to remain relatively stable over time, as the modelling is based on the introduction of products that meet APRA’s IDII sustainability measures. As such, and to simplify the modelling, the application of a different policy contract term option was assumed to not materially reduce the capital required to be held to support the product.

Further details on key pricing assumptions are contained in Appendix B.

Appendix B - Pricing and cost assessment

Key assumptions

Baseline assumptions

Baseline assumptions were required as follows to provide a representative basis for profitability before varying the differential assumptions:

- Business mix (model points)
- Lapse rates
- Premium rates
- Claims rates
- Expenses
- Commission rates
- Financial assumptions (discount rate and Internal Rate of Return)
- Capital assumptions

Whilst a range of baseline assumptions are possible, for the purpose of the modelling noted in this IN, the focus was on the assumptions that may be expected to drive differences in profitability between the respective policy contract term options.

Differential assumptions

Opt-in rates:

Considerations when setting assumptions for opt-in rates at the end of the policy contract term include customer and adviser behaviour in response to:

- Perceived value of the product at the end of the policy contract term.
- Affordability after a policy contract term has ended, as a result of the cumulative premium increases since initial purchase.
- Customer engagement by the insurer to support an active decision to opt-in to a new contract.

Adviser involvement to consider any updated terms and conditions relative to other providers, along with reassessing cover needs. Potentially offsetting this would be:

    - This reassessment bringing forward or delaying some of the "natural" lapses around the relevant policy duration.
    - The proportion of customers without adviser relationships.

Based on the above considerations and available observations regarding similar opt-in events for Retail policyholders, a reasonable range of opt-in rate assumptions is outlined below. The opt-in rates for older customers are likely to be relatively lower.

Policy contract term option	**Age 30**			**Age 50**		
	Central	**Downside**	**Upside**	**Central**	**Downside**	**Upside**
Baseline	**100%**	100%	100%	**100%**	100%	100%
5-year	**70%**	50%	90%	**60%**	40%	80%
10-year	**55%**	35%	75%	**45%**	25%	65%
Base + Booster: Base	**85%**	70%	100%	**75%**	60%	90%
Base + Booster: Booster	**55%**	30%	80%	**45%**	20%	70%
Cover that is reviewable every five years	**100%**	90%	100%	**100%**	80%	100%

Claims factors:

Considerations when setting assumptions for claims costs for policyholders after opting into a new policy contract (or after cover is reviewed) include:

- Anti-selection rate.
- Effect of financial, occupational and pastime underwriting.
- Effect of ability to change benefit terms and conditions.

Based on the above considerations, a reasonable range of claim cost assumptions is outlined below, expressed as a percentage of baseline loss ratios.

Policy contract term option	**Anti-selection risk factor**		
	Central	**Downside**	**Upside**
Baseline	**100%**	100%	100%
5-year	**110%**	120%	102.5%
10-year	**115%**	130%	105%
Base + Booster: Base	**105%**	115%	100%
Base + Booster: Booster	**115%**	130%	105%
Cover that is reviewable every five years	**100%**	102.5%	100%

Policy contract term option	**Effect of financial, occupational and pastime underwriting**		
	Central	**Downside**	**Upside**
Baseline	**100%**	100%	100%
5-year	**97.5%**	100%	95%
10-year	**95%**	100%	90%
Base + Booster: Base	**97.5%**	100%	95%
Base + Booster: Booster	**97.5%**	100%	95%
Cover that is reviewable every five years	**97.5%**	100%	95%

Policy contract term option	**Changes in benefit terms and conditions**		
	Central	**Downside**	**Upside**
Baseline	**100%**	100%	100%
5-year	**97.5%**	100%	95%
10-year	**95%**	100%	90%
Base + Booster: Base	**100%**	100%	100%
Base + Booster: Booster	**97.5%**	100%	95%
Cover that is reviewable every five years	**97.5%**	97.5%	95%

Initial commission rates and clawback:

Considerations:

- Additional initial commission is permissible at the commencement of each subsequent policy contract term under the Life Insurance Framework (LIF).
- Paying initial commissions up to the permissible amount (60% of premium) at the start of each new policy contract term:
  - Provides compensation for advice being provided to the customer regarding their options.
  - May assist insurers in managing the risk of advisers moving customers to another insurer due to the initial commission that would be payable on a policy with an alternative provider.
- Clawback of initial commission per LIF requirements is relevant to the payment of initial commission at the start of each subsequent policy contract term (where applicable).

- The portion of premium that initial commission applies to is dependent on the policy contract term option.

Based on current LIF legislation and market dynamics, it is reasonable to assume additional initial commission of 60% of premium is permissible and would be paid by insurers at the commencement of each subsequent policy contract term per the table below. However, there is still potential for the industry to determine advice and commission structures in the future that result in lower initial commission being payable.

The table reflects an assumption that initial commissions are not permissible for the 'Base' component of the Base + Booster policy contract term option (as a new contract is not issued for this component) or when policy terms and conditions change under the long-term policy contract option with cover that is reviewable every five years.

Policy contract term option	Assumed applicability of initial commission at start of each subsequent policy contract term (or when terms and conditions change)
Baseline	**N/A**
5-year	**Yes**
10-year	**Yes**
Base + Booster: Base	**N/A**
Base + Booster: Booster	**Yes**
Cover that is reviewable every five years	**N/A**

Any additional operating expenses:

Considerations:

- Depending on the policy contract term option, additional operating costs may be incurred at the start of each subsequent limited policy contract term to allow for:
    - Conducting financial, occupation and pastimes underwriting.
    - Communications and marketing efforts in order to maximise the opt-in of customers.
- Upgrades in system capability may be required to administer alternative policy contract term options.

Based on the above considerations, a reasonable range of additional operating expenses assumptions applying at the start of each subsequent policy contract term (or when cover is reviewed) is outlined below, expressed as a % of baseline acquisition costs.

Policy contract term option	**Additional operating expenses**		
	Central	**Downside**	**Upside**
Baseline	**N/A**	N/A	N/A
5-year	**33%**	66%	20%
10-year	**33%**	66%	20%
Base + Booster	**33%**	66%	20%
Cover that is reviewable every five years	**13%**	27%	5%

Assessment of relative costs
The table below summarises the estimated ranges of pricing changes (applying from policy issuance) that would result in equivalent profitability, when each of the policy contract term options are applied relative to the baseline. Each range is based on varying key assumptions around the central estimates outlined above.

Policy contract term option	**Pricing change required to achieve equivalent profitability**
Baseline	N/A
5-year	+16% to +28%
10-year	+5% to +9%
Base + Booster	+8% to +19%
Cover that is reviewable every five years	-3% to +3%

The five-year policy contract term option requires the highest increase in pricing in order to achieve equivalent profitability. The Base + Booster and ten-year policy contract term options also require material increases in pricing. A key driver of these outcomes is the need for financial advice after each policy term and the cost of providing that advice, assumed to be in the form of commissions up to the level allowable under LIF.

The pricing impact of the long-term policy contract option with cover that is reviewable every five years is expected to be broadly neutral. Due to being unable to provide additional commission when terms and conditions change under this option, there could be an extra cost burden on advisers that still falls back on customers via fees for advice when terms and conditions do change. In this scenario, if customers do not take advice (i.e. if this cost is a barrier), this increases the risk of higher lapses or customers not fully understanding the changes to their contract. On the other hand, the current IDII product designs have reduced the likelihood of needing to change terms and conditions later on and renewal commission goes some way to covering the cost of providing advice on any changes.