

Disability claims hit assurers

A spike in disability claims has hit the profits of all SA's life assurers hard over the past year, with claims experience deteriorating across the industry because of the economic downturn and a change to tax rules.

Lower back pain and psychiatric conditions such as depression top the list of disabling conditions, with an increasing number of employees claiming on corporate benefits policies that provide incomes for those too disabled to work. And the periods for which they are off work are growing longer.

Actuaries say the spike in claims, especially for depression and back pain, is a feature of economic downturns, though it is unclear how much of it is because employees take more strain in tough times and how much is because companies and their employees take advantage of disability cover to provide an alternative to retrenchments.



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The effect of the current downturn has been made worse by a change to the tax rules, which has made it much more attractive to stay on disability benefits than to return to work.

The change made income paid out in terms of disability policies tax-free, but premiums are now taxed.

The life assurers' results show their corporate businesses have been hit particularly hard, with MMI Holdings and Old Mutual, the biggest players in this sector, reporting sharp declines in earnings in their corporate portfolios.

Sanlam, Liberty and Discovery reported similar trends.

Alexander Forbes executive Michael Prinsloo said several insurers had indicated a deteriorating trend in the past year.

Certain types of disability claims, such as for neurological or mental illness, were more difficult to prove or disprove than others.

Old Mutual SA's corporate segment profits declined 8% in the year to end-December. Interim CEO of Old Mutual Emerging Markets Iain Williamson said the drop was entirely because of disability underwriting, which always came under pressure during economic downturns. "It is a well-known phenomenon worldwide," Williamson said.

Old Mutual was taking action to tackle it with forensic investigations of claims and a review of pricing and benefit design. The replacement ratio - beneficiaries receive about 75% of their monthly salaries on average - had been distorted by the change in tax legislation.

MMI Holdings reported that interim earnings in its corporate and public sector business declined 29% to R280m, with disability experience causing R64m (16%) of the decline.

The decline in corporate earnings was the main drag on operating profit for the six months to December, which was down 6% despite increased retail business profits.

CEO of MMI's corporate and public sector business, Thinus Alsworth-Elvey, said the poor disability experience dated back 12-24 months.

It had affected life companies' retail business, not just their corporate business.

Source: *Business Day*

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