Fidelity Life Underwriting update
Financial and occupational risk changes

Effective 19 October 2020

Fidelity Life Assurance Company Limited
Fidelity House, 81 Carlton Gore Road,
Newmarket, Auckland 1023, New Zealand
PO Box 37–275 Parnell, Auckland 1151, New Zealand

09 373 4914 | 0800 88 22 88
newbusiness@fidelitylife.co.nz
fidelitylife.co.nz

ANZIIF Life Insurance Company of the Year
2017, 2018 & 2019

Contents

Introduction

What's changed?

The principals of underwriting rely on a balanced approach to calculating risk which will see us well into the future. Traditionally we've looked to the past to assist us with an assessment of the future occupational and financial risk.

We're no longer able to rely solely on the traditional methods of risk assessment (historic financial accounts for instance) and use these to assume a stable employment and economic future. We must add additional layers into our assessment to fully understand any impact or uncertainly from the current economic climate.

This guide can be used as supplementary information, providing clarity on Fidelity Life's assessment process when considering customers for disability products.

The guide will:

- Assist you when speaking to your customers about their needs
- Allow you to provide Fidelity Life with useful additional information which isn't otherwise covered in our application form/s (this will help us make faster and more accurate decisions)
- Help you to understand what may be offered to your customer based on their own circumstances.

We continue to recommend and encourage proactive communication with our underwriters, as our experience shows that there are many unique circumstances that may not easily fit scenarios covered in this guide. We want to offer the best and most comprehensive cover available wherever possible.

As the economic outlook continues to move and change, Fidelity Life will consider and modify our approach to underwriting risk, and our guidelines will be updated to reflect this.

COVID-19 Government Wage Subsidies

Due to the economic impacts from COVID-19, the New Zealand Government introduced several Wage Subsidies during 2020. These Wage Subsidies have different qualifying criteria and are an important consideration for underwriting when considering terms for Income Protection cover.

Initial Wage Subsidy

Employers and sole traders could apply for the initial Wage Subsidy before 10 June 2020.

Wage Subsidy extension

A Wage Subsidy extension payment was available from 10 June to 1 September 2020 to support employers, including self-employed people, who were still significantly impacted by COVID-19. The business must have had a 40% decline in revenue.

Resurgence Wage Subsidy

The Resurgence Wage Subsidy was a 2-week payment, available between 21 August and 3 September 2020 for employers who weren't already getting a wage subsidy.

COVID-19 Wage Subsidy – employer search

You can search a company that has received the COVID-19 Wage Subsidy, Wage Subsidy Extension or the Resurgence Wage Subsidy here.

https://services.workandincome.govt.nz/eps
Please note, the company name must match the exact name used to apply for the subsidy.

Income Protection

The weakened economy due to COVID-19 has impacted many businesses and their employees. Some examples may include:

- Travel and tourism impact as a result of our closed borders
- Import and export restrictions
- Lower disposable income influencing individuals spending habits. This will be seen in the retail sector, real estate, and many other areas
- Increased unemployment rate and job instability (redundancy and restructure concerns).

Government wage subsidies may have delayed employment impacts rather than prevented them entirely, and this may not be seen for some months ahead. Fidelity Life will deep dive into a customer's occupation and industry details, to offer the most comprehensive cover available in this economic climate.

Agreed Value Cover (personal and business)

Positive factors for Agreed Value Cover are:

- Industry outlook is strong
- No product or supplier constraints due to trade or shipping restrictions
- Customer demand and spend for the product or service unaffected or increasing
- No wage subsidy extension received
- Employed: working at 80% capacity or more, for at least 8 weeks. Capacity is compared to 'pre-COVID' levels, and includes hours worked and income earned.
- Self-employed: working at 100% capacity, for at least 12 weeks. Capacity is compared to 'pre-COVID' levels, and includes hours worked and turnover/income earned.
- Self-employed: operating for at least 2 years prior to COVID (March 2020).

Monthly Mortgage Repayment Cover

Positive factors for Monthly Mortgage Repayment Cover are:

- Approval for a new mortgage for owner-occupied personal residence or holiday home (approved since 1 June 2020)
- Approval for an increase to an existing mortgage of owner-occupied personal residence or holiday home (approved since 1 June 2020)
- Factors mentioned above under 'agreed value products'.

Indemnity Value products (personal and business)

Positive factors for Indemnity Value Cover are:

- Industry outlook is improving
- No product or supplier constraints due to trade or shipping restrictions
- No wage subsidy extension received
- Employed: working at 80% capacity or more, for at least 8 weeks. Capacity is compared to 'pre-COVID' levels, and includes hours worked and income earned
- Self-employed: capacity reduction of no more than 20% and has remained stable for at least 12 weeks. Capacity is compared to 'pre-COVID' levels and includes hours worked and income/revenue.

When might Income Protection Cover be unavailable?

- Received the Wage Subsidy extension (Note the qualifying criteria includes a 40% reduction in income/revenue)
- Revenue or income is less than 80% compared to pre-COVID (March 2020)
- Capacity (hours, duties, business operations) is less than 80% of pre-COVID (March 2020)
- Self-employed for less than 2 years.

Modified terms, what might these include?

Certain industries, occupations and customer profiles may provide a less than certain economic outlook. To provide disability cover in these circumstances we may have to modify the terms we offer.

These modifications might include:

Reduced benefit period - we may reduce the benefit period to a maximum of 2 or 5 years (rather than to age 65). This reduction is used to mitigate the risk when a business or industry hasn't yet demonstrated consistent stability post lockdown.

Indemnity rather than agreed – we may be unable to offer Agreed Value Cover at this stage (due to economic impacts of lockdown), but we may be able to instead consider an Indemnity benefit.

Change in definition of pre-disability income – rather than the traditional definition of "best consecutive 12 months out of the last 3 years", our pre-disability income definition may be changed to reflect most recent earnings. This wording will instead define pre-disability income as income earned in the 12 months immediately prior to claim (less other income as defined in the policy document).

Benefit calculated on current earnings – as historic income may no longer be an indication of current/future earnings, we'll consider what the customer is currently earning and set the benefit at a level that is appropriate to this (this is important to note when a customer has had a reduction in income, or company revenue has decreased).

Monthly mortgage repayment cover based on mortgage – as we'll allow 110% of the monthly repayment amount, for both parties in a mortgage, there's room for anti-selection. We'll now consider this benefit in line with an individuals' income, and set an appropriate benefit amount that doesn't exceed either replacement ratio.

Amended Unemployment definition – our usual definition of "Unemployment" states: if the insured person has been unemployed for 12 months or more immediately before a period of total disability, then we'll consider the occupation class to be occupation class 5 and will pay the claim on that basis.

In some circumstances we may place an endorsement changing this definition to consider someone an occupation class 5 if they are unemployed at the time of disability.

Split benefit between Agreed Value and Indemnity Value – to allow some customers Agreed Value who would otherwise be restricted to indemnity only, we may offer them 50% of the usual agreed value benefit, and 'top up' the remaining 50% as an Indemnity benefit.

Other changes

Variable remuneration – earnings such as commission or bonuses won't be included in the calculation of the available monthly benefit.

Maximum limit changes – refers to the amount of 'risk' we can accept on any individual. These maximums are currently reduced. This may impact on the number of exclusions we can apply before cover is deferred, the maximum loadings offered, and the maximum benefit amount. Please talk to your underwriter for further information.

Helpful information

In addition to the usual detail outlined in our application form/s we'd recommend the following information be provided wherever possible:

Employees:

1. As a result of financial or economic impacts from COVID-19, have you had a change to your:
    - Occupational duties?
    - Hours worked?
    - Income (salary ore wages)?

If yes, confirm the details of the change/s, the date the change/s commenced and any other relevant details.

2. Did your employer receive the initial COVID-19 Wage Subsidy?

3. Did your employer receive the COVID-19 Wage Subsidy extension?

4. Have you now returned to full-time, pre-COVID occupational duties, hours and income? If yes, from what date?

Self-employed (including employers, small business owners and sole traders):

1. As a result of financial or economic impacts from COVID-19, has your business had a change to your:
    - Operations including volumes and capacities, services offered?
    - Hours worked?
    - Turnover or net income?

    If yes, please confirm:
    - Details of the changes to the operating model
    - Date the change commenced
    - Specific details of the change including staff changes.

2. Did you receive the initial Government Wage Subsidy for COVID-19?

3. Did you receive the COVID-19 Government Wage Subsidy extension? If yes, provide details including reason for continued reduction in income.

Please also remember to highlight all supporting background information on occupation, industry, employment, regional insights, how business and/or product is sourced, contracts in place etc.

Reviewing financial underwriting decisions

As the economic outlook changes, and client's businesses and income stabilise, we can consider reviews and upgrades.

We'll consider a review of terms offered after a minimum period of **3 months** after policy commencement.

Where there were limitations on Agreed Value contracts (either due to Wage Subsidy support, or working capacity considerations), we may consider a review at the **conclusion of the 20/21 Financial Year**, when financials are available.

This will allow us to consider both financial evidence, and the current situation with COVID-19 at that time. Some reviews (within 12 months) may be able to be undertaken with reduced medical underwriting requirements.

Please contact your underwriter for further information regarding specific cases, timeframes and requirements.