5 June 2025

TO: ALL LIFE INSURERS AND FRIENDLY SOCIETIES (LIFE COMPANIES)

Premium increases in life insurance: Are life companies addressing issues identified by regulators?

Key points

- The Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) commenced a joint review in late 2022 amid concerns that repeated premium increases in life insurance may not have been applied in accordance with policy terms and may not have met reasonable policyholder expectations created through relevant disclosure and marketing materials.
- As part of the joint review, ASIC and APRA wrote to the life insurance industry on 8 December 2022 and 14 December 2023 outlining key observations and expectations.
- Throughout 2023 and 2024, life insurers and friendly societies (life companies) made progress by improving re-rating practices, marketing and disclosure materials, and product governance. However, given the recency of these actions, it is still too early to fully assess their effectiveness in reducing the frequency and size of premium increases.
- Both regulators will continue engaging, as part of their respective ongoing supervision, with the individual life companies where the need for further uplift has been identified.

As at December 2024, Australians were paying approximately $9.4 billion a year for individual life insurance cover obtained through financial advisers.

For this cohort of business, the average annual premium to maintain insurance cover has increased significantly over the 5 years to December 2024 due to cover indexation, age-based increases and increases in base premium rates: see Life insurance claims and disputes statistics on the APRA website.

Life insurance policies should provide long-term financial security in the event of death, disability or severe illness. ASIC and APRA have observed that consumers have experienced repeated, large and unexpected premium increases, particularly in relation to products marketed as featuring 'level premiums'. This has led to consumer concerns regarding the affordability and stability of life insurance policies.

For this reason, ASIC and APRA wrote to life companies in 2022, requesting that they review past premium increases and disclosure and marketing materials, and also consider improvements in product design.

We wrote separately to the Council of Australian Life Insurers (CALI) requesting industry-wide measures to better manage consumer expectations around premium increases, including through clearer, more accurate insurance premium labels.

In December 2023, ASIC and APRA outlined findings from our review of life companies' responses and communicated our joint regulatory expectations. Following this, we monitored life companies for 12 months to assess what action they took and what improvements were made.

How have life companies responded?

ASIC and APRA's views on life companies' progress against the previously communicated expectations in 2023 are outlined below.

Right to re-rate

We said: Life companies need to strengthen their risk management and compliance assurance around re-rating practices. Life companies should examine their contracts to ensure that the terms about how and when premiums may change are transparent and not unfair.

Life companies revisited past premium increases, and where premiums were increased without a clear right to do so, returned overpaid premiums to consumers and fixed the relevant systems and processes.

Life companies also reviewed their existing risk governance practices, leading to some improvements to better deal with the risks highlighted by this review.

Life companies revised unilateral variation clauses that allow them to re-rate premiums to reduce the risks of these clauses being considered unfair contractual terms. Most life companies have replaced broad disclaimer-style statements like 'we reserve the right to increase premium rates' with a standalone and sufficiently prominent section that includes details about the reasons, circumstances and manner in which life companies may exercise that right.

Marketing and disclosures

We said: Life companies should do better at explaining how premiums are calculated and how they might change over the life of the policy. This includes both point of sale and ongoing communications.

ASIC observed that consumers who complained about increased premiums – particularly consumers on 'level premiums' – were generally under the mistaken impression that their premiums would not change. Life companies' selling practices contributed to creating this impression.

The old premium labels (i.e. 'stepped' and 'level' premiums) failed to clearly communicate that premiums could change. The word 'level' – often combined with a written or visual explanation – created a false perception of premium stability. All life companies have now adopted the new premium labels developed by CALI – 'variable premium' replaces 'level premium' and 'variable age-stepped premium' replaces 'stepped premium'. These new labels illustrate a difference between the two options, but also highlight that either type of premium may change.

Life companies have also revised representations in their marketing and disclosure materials that may create an inaccurate perception of premium stability.

Life companies have improved their use of consumer touchpoints leading up to the point of sale – including quotes, premium projection illustrations, welcome letters and policy schedules – to raise consumer awareness about possible future premium increases that may result from re-pricing activities or removing discounts.

Life companies are also trialling new ways to communicate premium increases to affected consumers. This includes:

- creating and consumer-testing annual renewal letters and significant event notices with a focus on improved understanding
- providing more clarity on policy changes (including changes in premium amounts), and
- highlighting available support and alternative options to keep premiums affordable.

Product design

We said: Life companies should improve their product governance. They should start by considering consumer needs, including premium stability. Premiums should be aligned to the risks borne by the life companies, noting that these are products designed to be held long-term.

Our review prompted life companies to improve product governance and increase focus on design and distribution obligations. Life companies recognised that products with variable premiums (previously known as 'level premiums') are designed to be held over a long period, as consumers pay a higher amount upfront in exchange for greater stability over time. Most life companies updated their target market determinations (TMDs) to:

- describe premium structure as a key attribute, and
- specify how each premium structure is likely to be consistent with the objectives, financial situation and needs of the target market.

Life companies should see TMDs as an opportunity to clearly articulate customer needs and use them to drive discipline in consumer-centric product design and appropriate distribution.

As APRA has repeatedly stated as part of its individual disability income insurance (IDII) intervention, life companies should design and price products with an objective of providing policyholders with certainty of coverage and reasonable premium stability. Riskier product features can contribute to volatile claims experience and are also challenging to accurately price, resulting in an increased likelihood of greater premium increases. We observed that, in response to our joint review, a few life companies launched products in the past year that appear to better promote sustainability and premium stability. However, product innovation across the industry is still limited.

ASIC and APRA observed that the competitive pressure in new business pricing contributed to the current prevalence of duration-based pricing. This means new consumers, who have been recently underwritten, are charged less to reflect that they are statistically less likely to make a claim. To attract new business, life companies may also offer additional temporary discounts. However, the effect of the duration-based pricing and other temporary discounts wears off over time, with commensurate premium increases during this period.

Our work has seen life companies reflect on whether this pricing model, and the resulting steeper premium curve, is suitable for all consumers. Some life companies are exploring solutions to balance price competitiveness and premium stability by introducing customisable options, such as a fixed premium period or a flatter pricing option, to ensure different needs can be met.

APRA and ASIC expect life companies to:

- only use duration-based pricing where this reflects a reduction in the risk they face, **and**
- do more at the outset to make consumers aware of duration-based pricing and other temporary discounts and how they unwind over the life of a policy.

APRA will continue to closely monitor sustainability and responsible market practices through the framework of its ongoing intervention in the IDII market and risk governance practices through routine supervision to ensure boards and management teams meet regulatory and consumer expectations of sustainable product design. Life companies are reminded that APRA's expectation is for them to extend their learnings from, and better practices developed for, IDII to other products, where appropriate.

ASIC asked life companies to reflect on the adequacy of disclosure about duration-based pricing. In response, most life companies updated their Product Disclosure Statements and other consumer communications to show premiums will be higher the longer a policy is held. Some went further by explaining the effect of underwriting on reduced premium rates in early years or attempting to reflect duration-based pricing as an initial selection or new cover discount. ASIC considers that simply explaining that the length of time a consumer has held their policy is a factor impacting premiums fails to adequately capture the actual consequences of duration-based pricing. Additionally, a dollar-amount premium projection that incorporates the impact of duration-based pricing with all other variables does not go far enough to explain to consumers the nature and magnitude of its impact on premiums.

Looking ahead

Life insurance plays an important role in safeguarding the financial wellbeing of many Australians. When consumers take out individual policies to protect themselves against adverse life events, life companies should make sure they can deliver products that meet those consumers' needs and set premiums that provide a reasonable degree of stability over the life of their products.

Life companies should communicate clearly and unambiguously the potential volatility of premiums. When increases are necessary to ensure sustainability, we expect life companies to be transparent and supportive when managing the impact of premium increases.

ASIC and APRA welcome the improvements made by life companies to re-rating, marketing and disclosure practices, and the systems, processes and controls that support those practices. We encourage industry to continue to address issues of product design so that products are sustainably designed and priced, with consumers' needs in mind. ASIC and APRA intend to address residual concerns through our ongoing supervision of life companies.

Signed

Suzanne Smith

Executive Board Member
Australian Prudential Regulation Authority
www.apra.gov.au

Alan Kirkland

Commissioner
Australian Securities and Investments Commission
www.asic.gov.au