

Principles of sustainable disability insurance

CALI Council of Australian Life Insurers

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1. Introduction

1.1. Purpose

These principles are a voluntary statement that supports good industry practice for how life insurers can provide sustainable disability insurance to Australians. The purpose is to improve transparency, consistency and fairness for Australian customers, by providing principles-based examples of approaches to deliver sustainable disability insurance.

The principles explain:

1. **Sustainable disability insurance**	What sustainable disability insurance can look like
2. **Genuine financial indemnification**	What genuine financial indemnity can look like
3. **Supporting recovery and return to work**	What a recovery and return to work focus in the life insurance claims context can look like, and
4. **Deepening customer understanding through transparency**	How a life insurer should communicate their approach to sustainable disability insurance to ensure transparency and customer understanding.

1.2. Scope

The principles are relevant to temporary and permanent disability life products and applies to policies purchased through advised, direct and group channels.

1.3. Application

This statement of principles reflects good industry practice and Council of Australian Life Insurers (CALI) encourages members to use the principles to put in place internal processes, procedures and policies.

These principles are a voluntary statement and do not impose binding obligations on individual life insurers. Examples accompanying each of the principles are examples only and do not represent a requirement or commitment on behalf of any member life insurer. It is up to each member company to independently decide whether it adopts any of the practices set out in this statement of principles.

The industry's commitments to customers are set out in the Life Insurance Code of Practice (Life Code). The Life Code sets out the industry's commitments and obligations to customers. The principles are intended to complement those commitments and support consistent practices.

2. Sustainable Disability Insurance Principles

2.1. Principle #1: Sustainable disability insurance

This section explains what sustainable disability insurance should look like in Australia and why it is important.

2.1.1. What is sustainable disability insurance?

Sustainable disability insurance means products and practices remain viable, accessible and affordable for people who need them, balancing appropriate risk management and financial outcomes.

2.1.2. Why is sustainable disability insurance important?

Disability products must remain financially sound, clinically relevant, and compliant so claims can be paid reliably—now and over the long term.

Insurers pool risk across large groups of people, which means the financial impact of disability is shared rather than falling on individuals. Designing products sustainably helps manage these shared costs over time, so insurance can remain affordable for current and future customers.

2.1.3. How to achieve sustainable disability insurance

Member life insurers are encouraged to incorporate sustainable disability insurance principles into product design and development practices as well as service design to support the long term viability, affordability and accessibility of cover for consumers.

PRINCIPLE #1: SUSTAINABLE DISABILITY INSURANCE

Examples of what this looks like:

- **Long term viability:** Design that withstands, or is able to respond to, business cycles, cost and treatment shifts, regulation, and external shocks.
- **Clear governance & measurement:** Defined risk appetite, data-driven monitoring and timely course-correction.
- **Sustainable pricing:** Pricing for customers that is sustainable and consistently reflects the underlying cost of product options/series.
- **Customer fairness & clarity:** Community confidence as to the enduring value and fairness of disability insurance through transparent, understandable risk benefit offerings.
- Product design, pricing and claims practices are aligned to appropriate outcomes for the target market over the product lifecycle.
- **Continual review & adaptation:** Regular, evidence-based updates to products and practices to stay relevant and defensible where appropriate.



2.2. Principle #2: Genuine financial indemnification

This section explains what genuine financial indemnification should look like in Australia and why it is important.

2.2.1. What is genuine financial indemnification?

The role of disability insurance is to cover no more than the financial impact resulting from the customer being unable to work and / or costs of managing the disability. Different disability products provide this cover in different ways. It is important that benefits should be proportionate to the financial impact they are intended to address.

2.2.2. Why is genuine financial indemnification important?

Ensuring benefits reflect a person's financial impact, helps keep insurance affordable for everyone. Benefits should seek to support return to work where appropriate rather than disincentivise it. This helps to support better outcomes for customers and helps maintain a sustainable insurance system that can continue to support Australians when they need it most.

2.2.3. How to embed the principle of genuine financial indemnification within policies, processes and procedures

Member life insurers are encouraged to review their financial underwriting guidelines, their claims experience data and the industry claims experience data, and their advice to trustees and advisers, to satisfy themselves that practices are aligned to this principle.

PRINCIPLE #2: GENUINE FINANCIAL INDEMNIFICATION

Examples of what this looks like:

- Product features and underwriting practices should reflect true financial loss.
  - **Reflect actual financial loss:** match the benefit to net loss and consider other income sources and inflation where possible.
  - **Consider multiple covers at underwriting:** When customers hold multiple covers (e.g., Income Protection (IP) and Total and Permanent Disability (TPD)), the combined benefits should be financially justified and aligned to earnings and likely needs, so customers' total compensation reflects actual financial loss.
  - **Whole-of-cover assessment:** Assess interactions across products at underwriting and at key life stages, using the best available information at the time. Where applicable, allow benefit adjustments for salary changes or residual earning capacity with proportionate financial checks, while maintaining fairness and sustainability, staying within maximums agreed with customer.
  - **Reasonable total limits:** Set and monitor total benefit limits against clear replacement-ratio bands tied to pre-disability earnings and/or needs where possible.
  - **Cover over a lifetime:** Consider how insurance needs change over a person's lifetime and the implications of product features such as annual indexation of benefit amounts.
- **Objective triggers & loss:** Claims rely on clearly defined, measurable events and a transparent earnings baseline for benefit calculations.
- **Fit-for-member defaults (Group):** Default cover levels are appropriate and understandable for the full membership.
- **Customer clarity:** Communicate combined-cover logic, limits, and offsets in plain language so expectations are managed upfront.

2.3. Principle #3: Supporting recovery and return to work

This section explains what a sustainable return to work focus should look like and why it is important.

2.3.1. What does taking a return to work focus mean?

Taking a return to work focus means considering how the product design aligns to helping support a customer to return to work if they are able to and ensuring benefits don't create financial incentives for prolonged absence from work. It also means considering how to support customers closer to when their illness or injury occurs. While life insurers face some barriers to this, all insurers currently provide a range of support services to their customers that could assist with return to work if the customer accessed them closer to the time of illness or injury. These services may include wellbeing, rehabilitation and navigation services, including access to early intervention and health support pathways where insurers are able to within existing legal and regulatory settings.

2.3.2. Why is taking a return to work focus important?

In Australia the National Return to Work Rate has fallen to 88.9 per cent in 2025, down from 91.6 per cent in 2021.[1] Workers with psychological injuries have a significantly lower return to work rate at 76.5 per cent, compared to 90.2 per cent for workers with physical injuries and they require a broader range of supports to do so.[1]

In the life insurance context there has been an exponential rise in mental ill health claims, particularly for TPD over the last decade.[2] However clinical evidence shows that in most cases of mental ill health with the right support, treatment and motivation, a person can recover.

The Royal Australasian College of Physicians (RACP) found that there is significant national and international evidence that good work is beneficial for people's health and wellbeing and that long term work absence, work disability and unemployment generally have a negative impact on health and wellbeing.[3]

It is important that life insurers' products continue to provide a vital safety net for those people who are unable to work due to illness or injury without unintentionally motivating people not to recover, or to return to work if they are able to.

1. Safe Work Australia, *National Return to Work Survey 2025* (Factsheet and Analysis Report, November 2025), p1.
2. KPMG (2024), *Australia's Mental Health Check Up: Life Insurance Industry Data Collection 2013–2022*, prepared for the Council of Australian Life Insurers.
3. Royal Australasian College of Physicians, *Health Benefits of Good Work* initiative, and Australasian Faculty of Occupational and Environmental Medicine, *Australian Consensus Statement on the Health Benefits of Work*.

It is equally important that product design and support services help customers, where appropriate, achieve recovery and return to work outcomes that are well supported and sustainable.

2.3.3. How to embed a return to work focus within policies, processes and procedures

Member life insurers are encouraged to review their claims handling frameworks and guidelines, product governance frameworks including product development guidelines, product disclosure statements, policy documents, and other communication materials available to consumers, trustees and advisers, to satisfy themselves that practices are aligned to this principle.

PRINCIPLE #3: TAKING A RETURN TO WORK FOCUS

Examples of what this looks like:

- Understanding what a healthy contemporary working lifecycle looks like, including the way disability affects participation and intermittent time off work, and designing products to suit these modern customer needs.
- Considering the way functional capacity to work can fluctuate due to mental health conditions.
- Where appropriate and possible within existing legal and regulatory settings, and as early as possible, providing customers with access to health support services such as access to rehabilitation consultants, vocational assessments, psychologist or psychiatrist support pathways, occupational therapy, return-to-work planning, workplace adjustment discussions, health coaching and navigation to available wellbeing programs.
- Encourage and enable customers to engage with their insurer as soon as possible after they leave work or as close to the cause of claim as possible.
- Supporting graduated return to work pathways to help customers maintain work capacity and sustain work reliably over time.
- Ensuring return to work approaches do not assume lack of motivation where reduced capacity is present.
- Supporting return to work pathways that take account of biopsychosocial and environmental factors, including workplace flexibility, access to transport and social supports.

2.4. Principle #4: Deepening customer understanding through transparency

This section explains what deepening customer understanding through transparency should look like in Australia and why it is important.

2.4.1. What does this mean?

Deepening customer understanding through transparency means ensuring customers clearly understand what disability insurance is, what it is designed to do, and how it operates in practice. It goes beyond making information available, focusing on setting expectations at an appropriate and realistic level that aligns with the intent of the cover.

This includes helping customers understand not only what cover they have, but what they can reasonably expect across the policy lifecycle and through ongoing engagement, including during the claims process. Key areas of understanding include eligibility criteria, assessment frameworks, the role of evidence, benefit calculations, and review or appeal pathways. Transparency supports expectations being shaped by clear explanation rather than complexity, uncertainty or incomplete information.

2.4.2. Why is deepening customer understanding through transparency important?

It is important that life insurers make it easy for customers to understand cover, how claims are assessed, and what to expect, using upfront and in plain language, so they can engage confidently, give informed consent, and navigate reviews or appeals without surprises.

Poor understanding can contribute to customer distress, mistrust and disputes. Improving transparency supports fairness and system sustainability that aligns customer expectations with policy intent.

2.4.3. What does it look like in practice?

In practice, transparency regarding sustainability concepts and principles should be considered across all parts of the customer journey and across all insurer documents and tools, not only those that are customer-facing, to ensure alignment between internal decision-making and external communication.

Member life insurers are encouraged to review their insurance value chain processes and practices, such as claims handling guidelines, product development guidelines, product disclosure statements and other communication materials available to consumers, trustees and advisers, to satisfy themselves that practices are aligned to this principle.

PRINCIPLE #4: DEEPENING CUSTOMER UNDERSTANDING THROUGH TRANSPARENCY

Examples of what this looks like:

- **Plain, accessible language:** Key terms, eligibility, exclusions, and processes explained simply without technical jargon.
- **Assessment clarity:** Plain language communication about how severity, permanence, functional impact, and financial loss are assessed, including typical evidence and timelines.
- **Transparent benefit calculations:** Replacement ratios, offsets, caps/floors, and interaction with other benefits are explained with simple examples.
- **Renewal processes:** Engage the customer at key points to consider changes in lifestyle, occupation and cover needs.
- **Customer-facing guides & support:** Easy-to-find guides, checklists, and channels for help (including reasonable adjustments for vulnerable customers).
- **Privacy & consent clarity:** What data is used, why, and how it's protected, expressed plainly with clear consent steps.
- **Clear review & appeals:** Simple pathways for internal review and external escalation, with expected timeframes.
- **Accessible dispute resolution:** Clear pathway for complaints with guidance on available options, and support to help customers participate effectively.




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CALI Council of Australian Life Insurers