Disability Income Insurance
- The Australian Experience
1980 - 2001

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I declare that the following thesis is my own work, and that all sources used have been acknowledged.

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ABSTRACT

This thesis examines the experience of disability income insurance in Australia from 1980 to 2001. The data underlying the work was generously provided by the Institute of Actuaries of Australia which has collected data from the major companies which have written this business since 1976.

The focus in this work is on the claims behaviour of those who have been insured and the implications to be drawn from the observations about that behaviour. This information is intended to be valuable to individual companies as they seek to make decisions about their pricing, underwriting and claims management so as to ensure adequate profitability of this line of business.

The work demonstrates the following key conclusions.

□ There have been very radical changes in the characteristics of the business over the period and in the resulting experience. In particular, the claim termination experience has deteriorated dramatically with average claim durations now around twice that at the start of the period,

□ The structure of IAD8993 is no longer representative of the aggregate industry experience. This is particularly so in respect to incidence, where only one of the six characteristics included has its “shape” confirmed by the experience. The other five have statistically significant evidence that their “shape” is not consistent with the experience. For terminations three of the six are confirmed.

□ Many of the additional characteristics examined demonstrate that they are significant predictors of experience. In respect to incidence six of the eight examined were significant. In respect to terminations only two of the eight were significant.

□ There is a material element of seasonality in respect to both incidence and terminations.

□ While the Australian experience is materially better than the corresponding USA experience the worsening experience for medical occupations in the USA should be taken as a warning to Australia of the potential which exists in this occupation subclass.

□ There is a serious body of circumstantial evidence supporting the hypothesis that the experience of disability income insurance is significantly influenced by “state of mind” rather than “state of body”.
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