

PERSONAL ACCIDENT & SICKNESS INSURANCE VERSUS LIFE & DISABILITY INSURANCE

WHICH INSURANCE COVER IS THE RIGHT SOLUTION?

BACKGROUND

It is common practice for employers to arrange Personal Accident (“PA”) insurance for some or all of their employees. Many employers also arrange Life and Disability insurance for their employees. We are often asked about the respective merits of these two similar forms of insurance. This paper attempts to assist with determining which of the two options is the appropriate solution and in what circumstances.

What does PA insurance provide?

PA insurance is offered by general insurers (as distinct from life insurers) and is primarily intended to provide a payment to the insured in the event an insured person dies or is injured **as a result of an accident**.

Accidental injury will be defined in the PA policy. A typical policy wording is **“bodily injury resulting from an accident and which is caused by violent, external and visible means and results solely and independently from any other causes, including any pre-existing physical or congenital conditions.”**

Typically there will be a substantial lump sum payment on accidental death or total and permanent disablement or in the event of loss of limbs or loss of sight. Reduced amounts will be payable for the loss of fingers or toes or sight of one eye. Optional extra benefits may be included such as a payment if surgery is required in order to treat an injury or a funeral benefit payable in the event of death.



As well as the above cash sum benefits, PA policies can include weekly paid income benefits payable in the event of injury or sickness. The maximum period of payment is typically restricted to either 12 or 24 months.

What does Life and Disability insurance provide?

Life and Disability insurance contracts are issued by life insurance companies. They are intended to provide a payment to the insured of a substantial lump sum in the event of the death or total disablement of an insured person arising from an illness or an injury.

Note the key difference from a PA policy is the provision of insurance cover for **death, injury or illness from any cause**, not just death or injury arising from an accident, as is the case under a PA policy.

Life and Disability policies will typically provide a large cash sum if the insured dies or is totally and permanently disabled. A payment may also arise if the insured suffers the loss of two limbs or sight of both eyes. They will not usually provide payments for lesser injuries such as the loss of a hand, fingers or toes as is typical under PA policies. Some life insurers offer add-on options that include cover for accidental injury similar to a PA policy.

What is the difference between a policy issued by a general insurance company and a policy issued by a life insurance company?

A general insurance company issues policies that are renewed on an annual basis. The premiums for these policies are determined based on the insurer's assessment of the likely cost of claims arising in the next 12 months of insurance. The key point is the ability of the insurer to change the premium rates and policy terms at a renewal date and to cancel the policy at anytime subject to one month's notice. As a result general insurance policies are seen as being more short term and more easily cancelled by the insurer compared with policies issued by a life insurer.

Policies issued by a life insurer will usually be long term policies with premium rates that are set by the insurer based on the cost of claims it expects will arise if the policy is continued for many years. Most group life insurance policies have premium rates that are guaranteed to apply for at least a three year period.

What is the difference in the way a premium rate for a PA policy is determined compared with a premium rate for a life policy?

For a PA policy the premium rate will mainly depend on the risk of an accidental death or injury. The insurer is therefore concerned with the extent of the hazards of the occupations or activities of the insured lives. The insurer will be less concerned with the ages, gender or state of health of the insured lives. The annual cost of PA insurance cover will be set as a single overall rate for the group of insured lives.

A life insurer establishes premium rates based on the expected risk of death or illness from medical conditions as well as the risk of accidental death or injury. The life insurer is therefore interested in the ages, genders, occupations and current health of the insured lives. The life insurance policy will have a table of premium rates that varies according to the age next birthday of each insured life, with the cost of insurance increasing as age increases.

In what circumstances is a PA policy the best solution?

A PA policy very specifically addresses the obligation an employer may consider it has to compensate an employee or their dependants, if death or injury occurs as a result of an accident in the workplace.

Often such insurance cover is a requirement of collective agreements or employment contracts. Whilst ACC provides valuable income benefits in the event of accidental injury, a PA policy responds with a lump sum payment that may greatly assist with the financial pressures arising from a serious accident related injury.

PA policies are sometimes used to provide a substantial cash sum on the accidental death or injury of key personnel such as directors, the CEO or technical specialists. The policy for key person insurance will provide a payment to the company if that employee dies or is seriously disabled. This payment will help the company meet significant costs such as reduced revenues from lost production or lost sales and the costs of recruitment of a temporary or long term replacement.

The existence of a PA policy on key persons provides peace of mind when such individuals are involved in overseas trips on business, particularly if the travel is to a hazardous region. Such cover may sometimes be provided through a travel policy in respect of specific business trips.

In what circumstances is a life and disability policy the best solution?

The sum insured under a life or disability policy will be payable in the event of death from any cause, including death by accident. Deaths by accident seem very frequent because such events are newsworthy and make the front page. In fact death or disablement from causes other than accident is more likely to occur in a given group of employees.



The table below provides an indication of the relative risks from a range of causes:

CAUSE	CHANCE OF DEATH
Heart Disease	1 in 5
Cancer	1 in 7
Stroke	1 in 23
Motor Vehicle Accident	1 in 100
Intentional self harm (suicide)	1 in 121
Fire or smoke	1 in 1,116
Electrocution	1 in 5000

CAUSE	CHANCE OF DEATH
Drowning	1 in 8,942
Air travel accident	1 in 20,000
Flood	1 in 30,000
Tornado	1 in 60,000
Earthquake	1 in 131,890
Asteroid impact	1 in 200,000
Tsunami	1 in 500,000

(Source www.livescience.com)

The “big 3” of heart disease, cancer or stroke are the most common causes of death or serious disability in the broad population. Levels of risk will of course vary individually depending on age, medical history, occupation and past-times.

Whilst a PA policy often provides the peace of mind that a key risk has been covered, this is somewhat illusory. A gap in cover remains if there is not also insurance for death or disability arising from medical conditions.

In summary, a PA policy is an easy to arrange and comparatively inexpensive solution if the need is only for a form of compensation to either the business or the employee if a workplace related accident occurs. A life and disability policy is a more complete solution that does not leave the gap in cover in respect of death or disability from causes that are not accident related.

A life and disability policy will be the best solution when:

- the intention is to protect a business against the loss of a key person,
- an employee benefit is being provided to protect individuals and their families in the event of death or disability.

In these circumstances a life and disability policy provides more complete and certain ongoing cover when compared to a PA policy.

As well as being the main causes of deaths, cancers, heart attacks and strokes, are conditions that can also involve significant periods of disability. In some cases the employee will eventually recover and return to work. Trauma and long term income replacement insurance policies are designed to provide funds in these situations. Complete insurance protection comes from implementing a combination of each of these forms of life and disability insurance.

QUICK TIPS

- Be clear about the purpose of the life and disability insurance cover. What are the risks you need to insure?
- Establish who is to receive the proceeds of any claim. Is it the business or an employee? This will have consequences for the tax treatment of premiums and claim proceeds.
- Communicate the arrangements to the insured employees, particularly if the insurance is intended as an employee benefit. This will ensure the benefit is understood and valued by employees.

Your Willis Client Advocate supported by a Willis People Risk specialist will be pleased to help you consider the best solution for your specific needs.

CONTACT

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