

Tuesday 26 April 2022

Social Unemployment Insurance Tripartite Working Group  
Ministry of Business, Innovation and Employment  
PO Box 1473  
Wellington 6145  
New Zealand

## **A New Zealand Income Insurance Scheme**

**Email:** [incomeinsurance@mbie.govt.nz](mailto:incomeinsurance@mbie.govt.nz)

I am writing to you to provide the submission of Cigna Life Insurance New Zealand Limited ("Cigna") regarding the proposed New Zealand Income Insurance Scheme ("Scheme").

Cigna protects more than 450,000 New Zealanders with insurance policies. Our products and services include life, trauma, income protection, funeral and travel insurance. As a licensed insurer, we are broadly supportive of the overarching principles of the Scheme - to increase financial protection, and overall accessibility of insurance for New Zealanders. This is aligned with our key priorities which include the delivery of good customer outcomes and our commitment to remaining responsive as our regulatory landscape evolves.

Our submission concentrates on a number of key issues that could directly impact the insurance industry, namely unintended consequences of the Scheme and general considerations. As a member of the Financial Services Council, we also broadly support their submission.

### **1. Unintended Consequences**

Cigna is supportive of initiatives that will better educate New Zealanders about the importance of having insurance to protect what matters to them. We are conscious of the current under-insurance issues that New Zealanders face and are committed to playing our role to address these inequities. We acknowledge the extensive work that the financial services industry has already undertaken to support better outcomes in this area with the aim of enhancing financial resilience and financial literacy, but know that there is still more to be done in this space.

However, we are concerned that limited information may contribute to poor understanding of how the Scheme operates overall, resulting in unintended consequences.

#### ***Underinsurance***

There is a very real risk that the Scheme as proposed may add more complexity and confusion into the mix for insurers, customers and advisers alike. For existing customers of insurance, the introduction of the Scheme may lead to them cancelling their current cover, as they may not perceive there to be any added value in separate cover. New customers may not see the value of purchasing insurance, as they may be under the impression that they are fully covered by the Scheme, therefore not seeking out the appropriate amount of protection they require. There may be situations where the Scheme falls short of full cover required for individual circumstances – e.g. if income is impacted for longer than the period of time proposed to be covered by the Scheme or if income exceeds the financial caps provided for by the Scheme. If individuals do not have the

appropriate levels of protection, they could be left in vulnerable situations – and potentially end up in a worse position under the Scheme, than if they had retained their existing cover.

There are also uncertainties around the Scheme’s longevity and eligibility criteria. Given these uncertainties, we are concerned that individuals may choose not to buy or to cancel their existing redundancy cover, on the belief that they will be provided for under the Scheme. If any changes to the Scheme are implemented in the future or if the Scheme is removed, there is a risk that many of the products that these individuals had will no longer be on sale or their personal circumstances may have changed over time. This, in turn could prevent them from obtaining cover in the future, or result in them paying more for cover, having more exclusions on their cover or impacting their overall ability to claim through the introduction of new stand-down periods. This could leave more individuals vulnerable, and again result in them being worse-off than if they had retained their existing cover.

We acknowledge that the Scheme will seek to address inequities for vulnerable communities within our society who may experience difficulties accessing private insurance schemes and related support, but are equally keen to ensure that there is appropriate communication to support general understanding of not only the benefits of the Scheme, but the limitations involved as well, to avoid inadvertently exacerbating the underinsurance issue in New Zealand.

### ***Impacts to Employment Relations***

From an employment perspective, we are keen to understand whether the Scheme will be made compulsory for organisations with private insurance cover, who already provide this benefit for their employees. We also note there are employers who currently offer redundancy packages and sick leave entitlements above the statutory requirements, and will seek to understand the practical impact on employment contracts going forward as a result of the Scheme’s implementation. We also note the need to consider how the Scheme will work with other existing arrangements, including employment (group) schemes.

### ***Private Income Protection Insurance & Group Insurance Schemes***

It is unclear how the Scheme will interact with any existing individual income protection insurance and group (employer) insurance schemes, or any potential implications on eligibility to claim in this space. In the absence of detailed considerations at this early stage of development, individuals may not fully understand how the Scheme will contribute to, or support the general operations of insurance. This uncertainty may result in unintended impacts. If individuals view the Scheme as a “replacement” for private income protection insurance, this could lead to less New Zealanders being appropriately protected, ultimately resulting in increased financial stress and vulnerability for future generations.

## **2. Timing**

We have concerns around the short timeframe for consultation, passing of legislation and implementation of the Scheme. We understand that the current intention is for relevant legislation to be introduced in 2022, with the scheme applying from late 2023. Given the increased legislative and regulatory focus over the past few years, with COVID-19 impacts continuing to push out the implementation of other key legislation<sup>1</sup>, we believe that further consultation and engagement with the industry is essential, particularly given the significance of this matter. The process should also

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<sup>1</sup> Examples include: Conduct of Financial Institutions regime, Insurance Contract Law reform, further changes to the Financial Markets Conduct Act in conjunction with the Financial Advice regime, changes to Insurance Prudential Supervision Act, the new Solvency Standard, Climate-related financial disclosures

factor in ample time for proposed legislation to be developed, and further changes made, as required. As a licensed insurer, along with many other providers across the industry, it will be equally important for us to determine the impact of the Scheme on our customers, products, associated software and systems and current business operations, to ensure our offerings remain fit for purpose and align with our overall commitment to good customer outcomes, which is also a key priority of our regulators - these considerations will require time, particularly if further changes are required, which is likely with a large scale scheme such as this.

The Scheme may also have a significant impact on the provision of financial advice, which aligns with recent legislative and regulatory change, primarily focused on ensuring the delivery of high quality financial advice, made accessible to all New Zealanders. It is likely to introduce more complexities in terms of interactions with individual and group schemes of insurance, as outlined above – meaning that customers will likely need *more* advice and increased support to fully understand what cover might be suitable for their needs. Individuals who don't currently seek advice, and are in vulnerable or lower-income jobs may also be in greater need of advice, with the introduction of the Scheme. This may include comprehensive advice on specific amounts of cover, wait periods, types of policies and impacts of offsets for example. If increased demand for financial advice is required, as a result of the Scheme, a short implementation window may have flow-on effects on capacity, putting significant strain on the industry and impacting the delivery of good customer outcomes in the process.

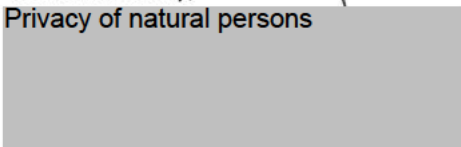
### **Conclusion**

As a licensed insurer, Cigna believes that strong financial literacy and increased accessibility to insurance reinforces New Zealand's financial markets and consumer protection overall, which contributes to good customer outcomes and a more financially resilient society. We are supportive of the Scheme's objective to help individuals return to the workplace following periods of time off work, and are also particularly interested in understanding how the Scheme could contribute to sustainability of income protection insurance.

Thank you for the opportunity to submit on the Scheme. We look forward to receiving further clarity around the considerations we have raised above, and welcome the opportunity for further engagement as the Scheme continues to develop.

Yours faithfully,

Privacy of natural persons



Gail Costa  
Chief Executive Officer  
Cigna Life Insurance New Zealand

