

INFORMATION SHEET

Version 2 - approved by
FSC Life Insurance Committee
on 26 April 2023



FAIR RISK ASSESSMENT FOR LIFE INSURANCE



ABOUT THE FSC.

As the voice of the sector, the FSC is a non-profit member organisation with a vision to grow the financial confidence and wellbeing of New Zealanders. FSC members commit to delivering strong consumer outcomes from a professional and sustainable financial services sector. The FSC is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 113 members* manage funds of more than \$95bn and pay out claims of \$2.8bn per year (life and health insurance).

Members include the major insurers in life, health, disability and income insurance, fund managers, KiwiSaver, and workplace savings schemes (including restricted schemes), professional service providers, and technology providers to the financial services sector.

The FSC's guiding vision is to grow the financial confidence and wellbeing of New Zealanders and we strongly support initiatives that align with our strategic intent and deliver:

- strong and sustainable customer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry.

*As at April 2023


FAIR RISK ASSESSMENT FOR LIFE INSURANCE
FSC.ORG.NZ

This information sheet is intended as general information only and does not constitute legal advice. It is not intended to replace existing legislation, regulations, or regulatory guidelines. Whilst their legal accuracy (where referring to the legislation) has been confirmed, some aspects are open to individual interpretation. Any conflict should be construed in favour of the applicable legislative requirement, with further legal advice sought.

The FSC and its employees make no express or implied representations or give any warranties regarding these Guidelines, and we accept no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in this information.

The Financial Service Council of New Zealand's reports and publications are available on our website or by contacting fsc@fsc.org.nz

FSC.



This information sheet explains what fair risk assessment is and how insurers apply fair risk assessment.

WHAT IS FAIR RISK ASSESSMENT?

Insurance helps you cope financially with unforeseen life events and gives you greater certainty about what happens when things go wrong.

When you apply for insurance, insurers need you to answer their questions truthfully and accurately in order for them to fairly assess your insurance risk and to offer you fairly-priced life insurance.

The availability, affordability and choice of insurance for everyone depends on insurers being able to make fair risk assessments, based on the information provided by the people they insure. The purpose of fair risk assessment is to promote insurance cover to as many people as possible at the fairest possible price.

WHAT IS GOOD FAITH?

Both the insurer and the insured have a duty to act in good faith. What is good faith depends on the circumstances. For example, good faith may include:

- the insurer acting reasonably, fairly and transparently, and processing claims in a reasonable time
- the insured answering the insurer's questions truthfully and accurately.

HOW DO INSURERS ASSESS RISK?

Insurers use actuarial and statistical data, or reputable medical or actuarial opinion, to differentiate between risks. Your insurance premium will reflect your individual risk so that its terms and price are fair to you, fair to the insurer, and fair to the insurer's other policy holders whose risks are pooled with yours.

WHEN CAN INSURERS OFFER DIFFERENT TERMS?

The Human Rights Act 1993 seeks to balance the right of people to be treated fairly when purchasing insurance and an insurer's right to charge premiums commensurate with risk.

The Human Rights Commission guidelines explain that insurers may offer policies on different terms only in relation to sex, disability and age. While it is unlawful to refuse insurance on based on those grounds, it is lawful to offer different terms.

For other grounds of discrimination prohibited by the Human Rights Act it is unlawful to refuse insurance or to offer different terms. Insurers may, however, defer their decision about the terms of a policy for a reasonable time to quantify and assess the risk.

HOW IS YOUR PERSONAL INFORMATION PROTECTED?

The Privacy Act 2020 seeks to protect an individual's right to privacy of personal information, while recognising that other rights and interests may also need to be taken into account.

Insurers endeavour to collect only those medical notes that are necessarily relevant to making insurance decisions, such as whether to insure someone or to pay out a claim. Insurers also endeavour to tell the insured which types of medical and other third-party information they are likely to access and when this is likely to happen.

Financial Services Council NZ



Grow the financial
confidence and wellbeing
of New Zealanders

The Financial Services Council of New Zealand's reports and publications are available on our website.

© The Financial Services Council of New Zealand Incorporated.

All rights reserved.

This publication is subject to copyright with all rights reserved.

Reproduction in part is permitted if the source reference "The Financial Services Council of New Zealand" is indicated.

Courtesy copies are appreciated.

Reproduction, distribution, transmission or sale of this publication as a whole is prohibited without the prior authorisation of The Financial Services Council of New Zealand.

The information provided is for information purposes only and in no event shall the Financial Services Council of New Zealand be liable for any loss or damage arising from the use of this information.

fsc.org.nz

 Financial Services Council

 @FSC__NZ

 @FSC__NZ

 Financial Services Council New Zealand

APRIL 2023