IPTF Guide To Improving IP Claims Outcomes For The Self Employed

Overview

This short guide offers practical tips to enable advisers to help ensure the claims process goes swiftly and smoothly for self employed and small business policyholders/members. It promotes proactive engagement through the duration of the IP policy and uses case studies to highlight the impact of financial evidence on IP claims.

Reminder

This document acts as a guide to assist the processing of income protection claims. If you have any concerns regarding any claim, please refer to your line manager or legal department. Example cases used in this document are for illustrative purposes only and are not specifically associated with any assured.

Summary

It is in no-ones interest for people to find out at time of claim that they are not going to receive their full benefit. Equally no-one wants the claim process to be elongated whilst financial information is sourced or completed. These delays in decisions can often cause frustration and confusion that could be avoided with some proactive management of the IP policy and financials relate to the individual or their company throughout the lifetime of the policy.

The purpose of insurers conducting financial assessments at claims stage is to:

- Provide the policyholder/member with the appropriate level of cover for the financial loss
- Avoid over insurance and overselling
- Reduce anti-selection and fraud
- Ensure premium prices remain low for future policyholders

Do - actions to take

Original value	**Ensure your client can claim the benefit amount at application.** Discuss your client's options in conjunction with their previous 3 years of income and anticipated future earnings.
Read the Ts and Cs	**Make sure your client understands the requirements in event of a claim**
Check the cover annually	**Check the cover regularly with your client to ensure it continues to support their earnings** If your income has changed consider whether you need to change your protection in line with this
Complete tax returns and submit company accounts	**Encourage your client to keep up to date with all requirements** Insurers are likely to require these at time of any claim and if these are not up to date this could cause a delay in assessment of your claim
Provide details	**Be prepared to provide detailed invoices for services provided** This may include a detailed breakdown of costs e.g. time spent, labour per hour and materials
Keep pay slips and/or CIS statements	**We recommend keeping 4-6 months minimum as these may be required**

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Don't - actions to avoid

Assume everything stays the same	**Don't assume that the benefit purchased will cover your client at the time of claim.** Circumstances change and business fluctuates and updating your protection to reflect this is important. An insurer will always seek to take a fair approach to financial assessment but ensuring cover matches your client's current circumstances is the best way to remove the risk of over or underinsurance.
Just provide bank statements	**The information on bank statements alone will not allow a claims assessment to be made**
Provide summary invoices	**Detailed invoices will be required to understand the financial impact of your client's illness**
Provide inconsecutive evidence	**Insurers will need to see evidence (invoices, payslips, tax returns, accounts etc) for consecutive periods**
Provide an incomplete tax summary	**Where required insurers will need to see up to date and fully completed tax returns**
Provide incomplete reports	**Insurers need to see reports and accounts in line with the minimum standards of the Companies Act.**

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Case Study Examples

Delays in evidence cause delays in claim

A self-employed individual working in the entertainment industry has submitted a claim due to illness or injury that has prevented them from performing their own occupation beyond the waiting period.

At application the claimant advised that they are earning £70,000pa. As the product they have purchased has a replacement ration of 55% they are entitled to £38,500pa in benefits if they fulfil the policy terms and conditions at claim. The definition defines their income as their share of the net profit in the 12 months prior to claim.

The claimant submits the following evidence at claims stage following the initial claim call with the insurer:

- 2020/2021 tax return detailing their dividends (£42,000) and salary (£15,000)
- 2021/2022 unverified business accounts detailing their 2021 turnover (£101,000), their profit before tax (£75,000) and salary (£17,500)

As per the terms and conditions of their policy, the claimants pre-disability income is their earnings including the share of their net profit in the last 12 months prior to claim. It appears that the claimant is entitled to their full benefit, however, the assessment is based on unverified evidence. To ensure that the correct benefit is paid, the assessment is delayed until their 2021/2022 tax return is provided to verify their reported income.

This highlights the importance of timely financial document submission to ensure that in the event of a claim all evidence is readily available for the financial assessment of an Income Protection claim.

An over-insured policyholder

A taxi driver who disclosed an income of £50,000pa at application is seeking to claim under their IP policy due to illness impacting their ability to perform the main duties of their occupation. The policy has a 60% replacement ratio and is entitled to the maximum monthly benefit of £2,500.

During the initial claims call with the insurer, the claimant advised that they were "unsure" of their income and that they had kept no record of the hours they work per week. The insurers recommended that the claimant contact their financial adviser to obtain a copy of their last tax return to assist with the financial assessment of their

claim, as their pre-disability income is the calculation on their last 12 months of earnings prior to claim.

The claimant provided three years' worth of unverified accounts instead of the requested tax returns. After expenses, the claimant earned a net profit of £12,000 in the 12 months prior to claim - a significantly smaller amount than disclosed at application 2 years prior. To ensure that their pre-disability income is calculated fairly and accurately, the insurer requests the verified tax returns again, which causes further delays to the financial assessment of their claim.

Upon receipt of the most recent tax return, it is confirmed that the claimant earned £13,000 in the 12 months prior to claim.

Based on the financial evidence obtained at claim stage, the maximum benefit payable under the policy based on their earnings is £650 per month, a significant reduction in the benefit which they had been paying for (£2,500 per month). The claimant is significantly over insured and is recommended to contact their adviser to reconsider their level of cover to ensure that they are only paying for a product they are able to claim on.