[redacted]

A Fire, Not Smoke

Who pays for TPD, why the case we're making isn't winning, and how to win

Introduction: Fire Marks

Eighteenth century London insured against fire through private offices that ran and paid for their own brigades. Each building bore a metal plaque, a Fire Mark, to show which office insured it.[1]



On 22 June 1861, a fire began at Cotton's Wharf and burned a quarter mile of the Thames.[2] Cotton's Wharf was insured and rated as well protected. James Braidwood, who ran the insurers' brigade, was killed by a falling wall. His men bravely fought fires regardless of which office bore the Fire Mark,

[1] London Fire Brigade Museum, Early Fire Brigades and the London Fire Engine Establishment.

[2] George Robb, 'The Great Tooley Street Fire of 1861' (2011) 36(2) *The London Journal.*

because fire doesn't read plaques.[3] First the uninsured building would burn, then the insured building next to it.



Parliament's answer was the Metropolitan Fire Brigade Act 1865.[4] They won it with a fire, not smoke. The Australian life insurance industry is currently having its 1862 moment.

Is Total and Permanent Disability (TPD) sustainable in its current form? No. Mental health is now the primary cause of TPD claims at close to one in three paid.[5] The permanent disability claims rate in the 30-40 cohort has risen 732% from 2013 to 2022 on retail life insurance data.[6]

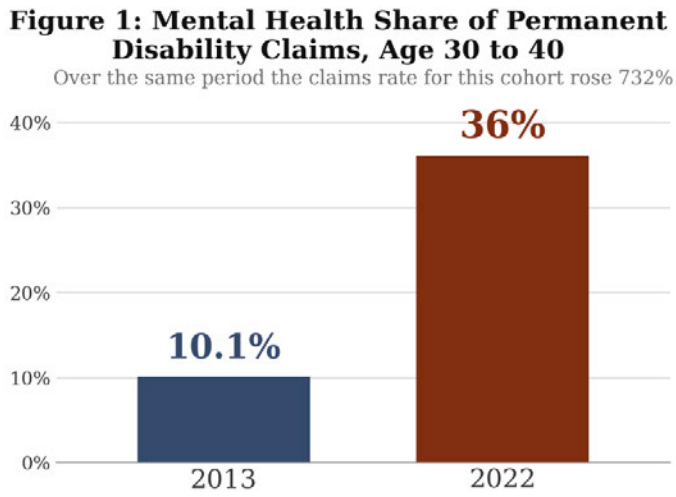
---

[3] Select Committee on the Protection of Life and Property against Fire in the Metropolis, *Report* (House of Commons Paper, 1862).

[4] Metropolitan Fire Brigade Act 1865 (28 & 29 Vict c 90).

[5] Council of Australian Life Insurers and KPMG, *Data Collection Cause of Claims Results Report H2 2024* (Report, 30 May 2025), reported in Council of Australian Life Insurers, 'Mental Ill Health Is Straining Australia's Safety Net' (Media Release, July 2025) https://cali.org.au/mental-ill-health-is-straining-australias-safety-net/.

[6] KPMG, Australia's Mental Health Check Up: Council of Australian Life Insurers and KPMG Life Insurance Industry Data Collection 2013 - 2022 (Report, November 2024) 18-22.



Separately, the Disability Support Pension (DSP) has been narrowing since the 2012 impairment tables and recipients as a percentage of the working population has decreased to levels last seen in the 1990's.[7] Both safety nets are closing at once, with rates of new DSP grants due to psychological conditions also increasing.[8]

Who pays? Mainly the consumer, and beyond that the government. On the data the industry publishes, it's difficult to make that case to Treasury. That gap is the reason for this essay.

Chapter One: IDII and the fire next door

The usual explanation of the IDII intervention has a regulator forcing an unwilling market to fix a product on which it had lost $3.4 billion in five years.[9]

That account has the mechanism backwards. APRA itself records that insurers would not move first because redesign meant cutting benefits or raising prices, or both.[10] APRA imposed a Pillar 2 capital charge on every insurer with IDII exposure at once, effective 31 March 2020, and set common commencement dates for the product changes. Nobody moved first because everybody moved together. APRA did not compel a change the industry resisted, it removed the penalty for making one

---

[7] Parliamentary Budget Office, Disability Support Pension: Historical and Projected Trends (Report No 01/2018, 20 February 2018) vi, 12.

[8] Parliamentary Budget Office (n 7) vi, 18.

[9] APRA, 'Is IDII back on track?'(Media Release, 16 December 2022) https://www.apra.gov.au/news-and-publications/idii-back-track.

[10] Ibid.

the industry already wanted.[11] IP then became smaller, more expensive and held by fewer Australians.[12]

TPD and the DSP overlap and it isn't by design. A person who meets a TPD definition likely also qualifies for the DSP. TPD lump sums are not offset against DSP, although a TPD lump sum is assessable under the Social Security Act assets and income tests once released from superannuation.[13]

A group TPD benefit is paid into superannuation, which is exempt from the assets test and from deeming until Age Pension age. A hypothetical 35 year old who receives a $400,000 payment and leaves it there keeps the DSP in full. If they release it on permanent incapacity grounds it is assessed. If they apply it to the mortgage, the home is exempt and the DSP resumes. This sequence wasn't designed, and it hasn't been measured. If staged benefits were expanded, specifying how they interact with the DSP sharpens the case to Treasury and demonstrates the fire.

Chapter Two: Raising the premium on timber

After the Cotton's Wharf fire, offices raised riverside mercantile rates by up to 300% and demanded better subdivision of risk.[14] The merchants revolted, and founded the Commercial Union to underwrite the same risks at lower rates. Only then, in 1862, did the offices write to the Home Secretary to say they could no longer accept responsibility for London's fire safety.[15] They tried our version of raising premiums and shifting cost, and it didn't work.

Now in the 2026 Australian life insurance industry, the APRA and ASIC roundtable noted that changes in claim patterns are usually managed through premium increases and reduced cover rather than product redesign.[16]

So, which levers reduce cost and which merely shift it?

---

[11] APRA, *Sustainability Measures for Individual Disability Income Insurance* (Letter to All Life Insurers and Friendly Societies, 2 December 2019).

[12] APRA (n 9); KPMG, *Life Insurance Insights* (n 23).

[13] Social Security Act 1991 (Cth).

[14] Robb (n 2).

[15] Select Committee (n 3).

[16] APRA and ASIC, Life Insurance CEO roundtable, April 2026, public notes (held 15 April 2026).

Price shifts cost to the consumer,[17] so does definition tightening[18] and percentage based severity thresholds such as PIRS narrow eligibility.[19] Staged benefits, as currently permitted by law, shift timing. Claims duration management reduces cost where it funds recovery and shifts timing where it doesn't.

Insurers fund rehabilitation from expense and the sole purpose test doesn't allow a benefit to fund a member's treatment.[20] It is difficult to rehabilitate someone whose entitlement relies on being un-rehabilitable. One exception is rehabilitation on IP claims, which reduces IP to TPD conversion.

Reinsurer caution shifts cost since withdrawn capacity or repricing flows through to trustee premiums. In October 2025, Swiss Re paused new business in Australia, saying it wouldn't seek new life clients until the market demonstrated a clear shift towards sustainable TPD product design.[21] A reinsurer has already made an 1862 move.

The drivers are demographic, economic, definitional and behavioural. KPMG notes a 732% increase in permanent disability claims rates for the age 30-40 cohort from 2013 to 2022, with 36% of that cohort's claims related to mental health.[22] The group pool shrinks as premiums rise and reinsurers reprice.[23] Permanence based definitions are hard to apply to mental health.[24] KPMG found mental health claims growing at 8.8% a year against 0.6% for physical causes.[25]

Of these, the definitional and behavioural drivers dominate. KPMG attributes 79.6% of the decade's rise in TPD claims to mental health, which permanence based definitions were never designed to

---

[17] AustralianSuper, Important Changes to Insurance Costs (Significant Event Notice, March 2026).

[18] Financial Services Council, Standard No.27: Removal of Occupational Exclusions and Occupation Based Restrictive Disability Definitions in Default Cover (effective 1 January 2023).

[19] State Insurance Regulatory Authority (NSW), Guidelines for the Evaluation of Permanent Impairment, Chapter 11 (Psychiatric Impairment Rating Scale).

[20] Superannuation Industry (Supervision) Act 1993 (Cth) s 62; Superannuation Industry (Supervision) Regulations 1994 (Cth) reg 6.01.

[21] Swiss Re, 'Swiss Re Life & Health Australia to Pause New Business' (Media Release, October 2025), reported in 'Swiss Re "Pauses" New Business Activities', *riskinfo* (23 October 2025) https://riskinfo.com.au/news/2025/10/23/swiss-re-pauses-new-business-activities/.

[22] KPMG, Mental Health Check Up (n 6).

[23] KPMG, *Life Insurance Insights 2025* (Report, 2025).

[24] Peter Kell, Independent Review of the Life Insurance Code of Practice (Final Report, 30 June 2026).

[25] KPMG, Mental Health Check Up (n 6)

assess.[26] Demographic and economic pressure are secondary, they thin the premium base and amplify the primary definitional and behavioural drivers.

Who bears the cost?

The consumer largely bears it due to higher premiums, typically deducted from compounding retirement balances.[27] The Australians who fall outside cover bear it through lost benefits. The government also bears it, due to a heavier reliance on DSP and other income support for those who qualify, however the data to measure this hasn't been published.

Figure 2: TPD Product Levers

Lever	Reduces cost?	Effect
Price increase	**No**	Shifts to consumer
Definition tightening	**No**	Shifts to uninsured or government
Severity thresholds (PIRS)	**No**	Shifts to uninsured or government
Staged benefits (as permitted)	**No**	Shifts timing (see Chapter Six)
Rehabilitation	**Constrained**	Funded from expense; sole purpose test blocks benefit funding
Claims duration management	**No**	Moves time and expense, not benefit amount (lump sum)
Reinsurer repricing / withdrawal	**No**	Shifts to trustee premiums and member balances

The Group lump sum claims to premium ratio increased from 78% in 2023 to 91% to 30 June 2025.[28] One fund recently increased TPD premiums 40% for roughly 1.7 million insured members.[29] In Group, the 2019 default cover changes left roughly 11,000 Australians each year outside of cover who would have received TPD benefits, forgoing an estimated $1.5 billion in benefits annually.[30] Each correction muddies the pool, and there is little margin left, with Group superannuation TPD paying out 99% of premiums in claims in the twelve months to December 2025.[31]

---

[26] KPMG, Mental Health Check Up (n 6)

[27] AustralianSuper (n 17).

[28] KPMG, Life Insurance Insights (n 23).

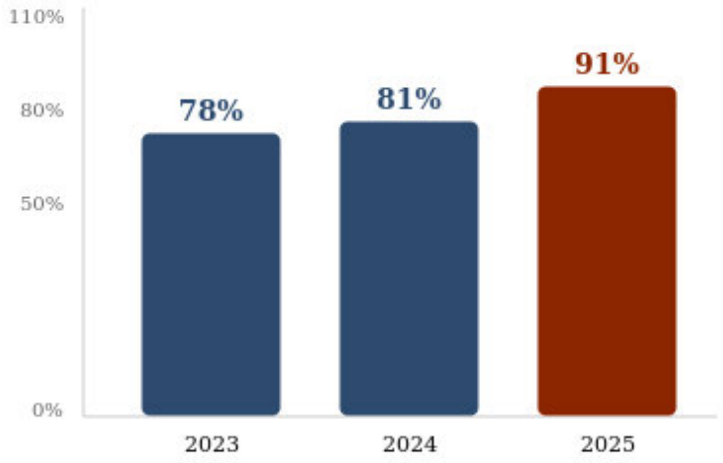
[29]AustralianSuper (n 17).

[30] Association of Superannuation Funds of Australia, Spotlight on Insurance (Research Report, March 2026).

[31] APRA and ASIC, Life Insurance Claims and Disputes Statistics, 12 months to 31 December 2025.

Figure 3: Group Lump Sum Claims to Premium Ratio

Source: KPMG Life Insurance Insights (2025)



Chapter Three: How we have described the fire

CALI notes that life insurance is a part of Australia's safety net[32], and in its January 2026 budget submission explained that mental health permanent disability claims costs increased by $169.2 million, or 433%, between 2014 and 2022.[33]

The Productivity Commission recommended a review in 2018[34], and Super Consumers Australia noted that recommendation remained active seven years later.[35] The industry wants a review. Consumer advocates want a review. Now eight years later, no review.

The Royal Commission explained that disclosure aimed at people who can't act on it fails,[36] however this is evidence aimed at the one party who can act, Treasury. What a review should outline is what we have stopped paying, to who, at what rate, where those people went instead, and what financial burden this placed on Social Services. We must describe a fire to a government who can only see smoke.

---

[32] Council of Australian Life Insurers, Life Insurance Code of Practice (March 2025).

[33] Council of Australian Life Insurers, Pre-Budget Submission 2026-27 (30 January 2026).

[34] Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness (Inquiry Report No 91, 21 December 2018).

[35] Super Consumers Australia, media statement of Xavier O'Halloran, Director (21 July 2025).

[36] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Final Report (2019), vol 1, ch 4.4, pp 275-278.

Chapter Four: What numbers to attach to the fire

The cost shift ratio.

The cost shift ratio is the share of a change's projected savings that comes from excluding people who remain disabled.

Any change that narrows cover should be published as the projected saving set against the reduced incidence and duration of disability, so that the transferred loss is visible. Insurers already hold this data. A pricing basis for a definition change is not actuarially sound unless it separates the eligibility effect from the morbidity effect. That analysis already exists wherever a change has been priced, so the cost is publication, not production.

Expected exclusion rates.

Once a Policy or Endorsement takes effect, an estimated exclusion rate should be published annually. This sits within Peter Kell's recommendation that cover limiting features be supported by actuarial or statistical evidence and reviewed every three years.[37]

The objection is obvious, publishing exclusion rates hands plaintiff firms and journalists a stick. But the number exists whether we publish it or not, the only question is who produces it and in what context. The alternative is the same figures arriving through a regulator's dataset or a Royal Commission, with us explaining why we sat on it. It's better to have the stick in our own hands.

Income Protection to TPD Conversion Rate.

The proportion of IP claims converting to TPD, split by whether the insurer funded rehabilitation. It measures the only lever we hold that doesn't shift cost.

[37] Kell (n 24).

A Data Linkage Study

We don't know where declined and excluded claimants go. The Government records through social security and workforce data that fewer Australians are reaching the DSP.[38] The Parliamentary Budget Office noted in 2018 that recipients as a share of the working age population have returned to late 1990's levels,[39] with mental health conditions the most common primary condition for DSP recipients aged 16-64 at 42%.[40] Both systems are carrying the same problem and neither can see the other's numbers.

A data linkage study linking claim outcomes to subsequent DSP take-up, other income support and return to work would replace assumptions the industry has held since 2018 with evidence.

CALI is the natural sponsor, with the Actuaries Institute as an analytical partner. In December 2025 the ABS and PLIDA Board endorsed the National Insurance Dataset for home, contents and strata cover, linking data to Commonwealth records under the Privacy Act 1988 to study insurance affordability.[41] Centrelink data, ATO and single touch payroll income, NDIS and PBS already sit inside the PLIDA.[42] The Board endorsed scoping private sector access where projects show clear public benefit, with Treasury as an observer.

Co-ordination Mechanisms.

How do we co-ordinate publication when the Code won't compel? Kell supported contractual enforceability but deferred it to the next Code review in five years.[43] The Insurance in Superannuation

---

[38] Department of Social Services, DSS Payment Demographic Data (Dataset, data.gov.au).

[39] Parliamentary Budget Office (n 7) vi, 12.

[40] Australian Institute of Health and Welfare, 'Income Support Payments for the Working Age Population', Australia's Welfare (Web Report, 16 October 2025) https://www.aihw.gov.au/reports/australias-welfare/income-support-payments-for-the-working-age-popula.

[41] Australian Bureau of Statistics, 'PLIDA Data and Legislation' (Web Page) https://www.abs.gov.au/statistics/data-integration/integrated-data/person-level-integrated-data-asset-plida/plida-data-and-legislation.

[42] Australian Bureau of Statistics, 'PLIDA Board' (Web Page) https://www.abs.gov.au/statistics/data-integration/integrated-data/person-level-integrated-data-asset-plida/plida-board, meeting summary 24 March 2026 and Membership.

[43] Kell (n 24).

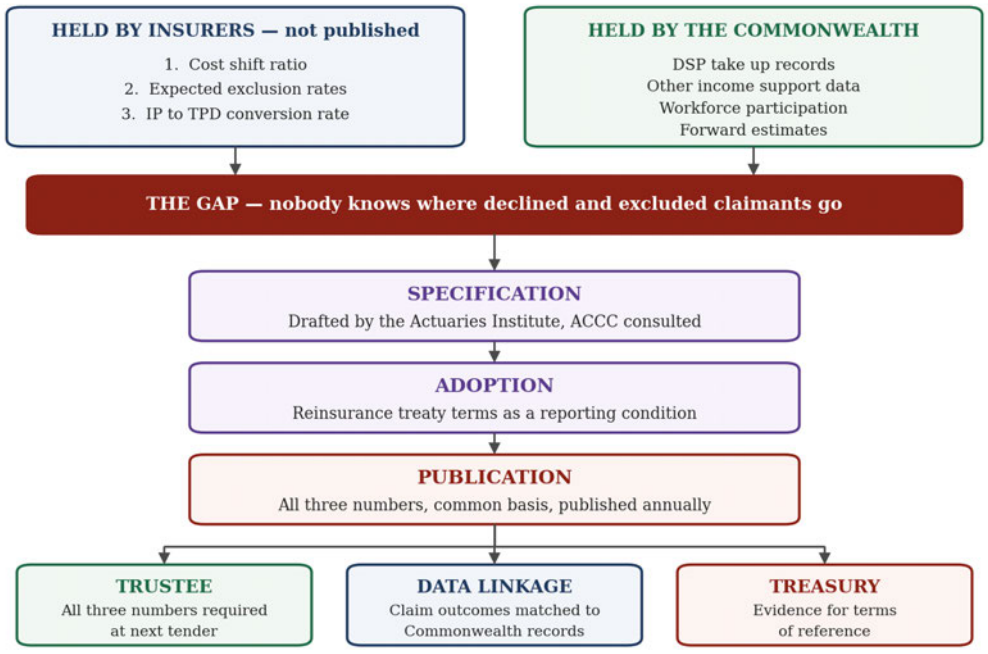
Voluntary Code failed because the viewer couldn't tell who was complying.[44] Standard 27 held because it produced a verifiable standard, and that is what this is.[45]

APRA and ASIC indicated a willingness to facilitate joint insurer and trustee effort to drive better outcomes for members.[46] The Actuaries Institute could draft the specification in a facilitated forum, with the ACCC consulted, as Standard 27 was. On IDII, APRA convened a similar arrangement, with an Actuaries Institute task force setting common data expectations.[47]

Reinsurance treaties already require reinsurer consent for material policy changes, and the exclusion estimate is produced internally to support that, so publication adds no substantial cost. Comparability is what makes sustainable design sellable. Data specification adopted through reinsurer treaty terms sets a collective reporting condition rather than a price and raises the same competition law question Standard 27 did.[48] A trustee can then require all or some of the above mentioned data metrics in its next tender.[49]

Figure 4: The Data Gap and How to Close It

Three numbers, one specification, three destinations



[44] Insurance in Superannuation Working Group, Insurance in Superannuation Voluntary Code of Practice (December 2017) (discontinued).

[45] Financial Services Council (n 18).

[46] APRA and ASIC (n 16).

[47] APRA (n 11) 1-2, Attachment C.

[48] Financial Services Council (n 18).

[49] Superannuation Industry (Supervision) Act 1993 (Cth) s 52(7)(a)-(c), s 52(11)(c)-(d).

Chapter Five: What a sustainable TPD product that commands public trust looks like

Following the Metropolitan Fire Brigade Act of 1865, the fire offices were required to pay 35 pounds per 1 million pounds of gross sums insured on a quarterly basis alongside a halfpenny rate on ratepayers and a 10,000 pound Treasury grant.[50] This was an example of the private and public cost boundaries being specified via statute.

Braidwood's men earned public trust by fighting every fire, regardless of the Fire Mark. A TPD product commands the same trust only when it can demonstrate who it turns out for and who it leaves in the smoke on a published basis.

Sustainability depends on where the divide between private and public disability support is. There is international precedent. The Netherlands specifies the boundary via statute. Employers carry the first 104 weeks of incapacity. The state then carries the risk, but only above a 35% loss of earning capacity, and the statute separates permanent and full incapacity (IVA) from partial or temporary incapacity (WGA). Employers can opt out of the WGA as own risk bearers and insure it privately. A severity threshold, a permanence split and a defined private layer is all legislated.[51]

A benefit decoupled from permanence and delivered in stages is ideal. Normal TPD entitlement is conditioned on being unrehabilitable. A staged benefit removes that barrier and asks whether the disability persists, and later stages can be reduced if it doesn't. Going further would require amending s 62 of the SIS Act and reg 6.01 of the SIS Regulations.

The staged benefits currently permitted by law shift timing (Figure 2). The future version that removes the permanence condition, which changes outcomes rather than sequencing, is what requires s 62 amendment.

A benefit triggered at three months by functional impairment, funding rehabilitation from the benefit rather than from expense, and reassessed at twelve months, does what a lump sum conditioned on permanence can't. Insurers have created regulatorily constrained versions of this, but the roundtable records that take up remains low.[52]

---

[50] Metropolitan Fire Brigade Act 1865 (n 4) s 13.

[51] Wet werk en inkomen naar arbeidsvermogen [Work and Income (Capacity for Work) Act] (Netherlands) 2005.

[52] APRA and ASIC (n 16).

Figure 5: Who Can Build Each Feature

Feature	Insurer (now)	Requires govt
Specified private layer / DSP boundary		✓
Benefit decoupled from permanence		✓
Rehabilitation fundable from benefit		✓
Comparability (three numbers)	✓	
Published exclusion and decline rates	✓	

This analysis primarily concerns Group superannuation, where the trustee lever applies. Retail requires separate treatment however advisers would likely appreciate this information too.

Chapter Six: What to submit

A regulated industry that pleads a self interested case is partially discounted at the door. What Treasury doesn't discount is its own forward estimates, and this is the reason for the data linkage study. Australia should legislate the boundary, as the Netherlands has.[53]

Commission the study, then seek terms of reference for a review. Productivity Commission inquiries need the Treasurer to issue this. Separately, a Senate Economics References Committee inquiry needs the Senate to refer it. The review should address 4 questions:

1. What share of national disability risk insurers should carry, and where the boundary with DSP and Social Support sits now and should sit later;

2. Whether the 2019 default cover settings should be recalibrated now that their effects are observable rather than projected;

3. Whether the condition of release should permit staged benefits; and

4. Whether the sole purpose test should permit the funding of treatment from an insured benefit.

---

[53] *Wet werk en inkomen naar arbeidsvermogen* (n 51).

The latter two would give the industry's pen the ink to write sustainable products.

Conclusion

The fire offices didn't solve their problem by raising the premium on timber, although at first they tried. They went to Parliament with an observable fire and an economic loss attached to it. They used their collective pen to show they could not fix it alone and what came back was a Parliamentary Act.

We can improve our TPD product, but not to the point of sustainability within its current constraints. To enable structural reform, we must demonstrate the effect this has on Treasury's disability payment system.

Our alternative is to keep repricing, keep redefining, keep reimagining, until default TPD cover becomes economically unviable, opt in participation increasingly selects for the already unwell, and trustees can no longer recommend cover under their best financial interests duty.

Give Treasury a burnt quarter mile of the Thames and a set of numbers that demonstrates how much the cost shift ratio burns them. That is how we win our case, and how we make TPD sustainable. We have the brigade to do it.

Word Count: 2480 words

Bibliography:

A) Articles, Books and Reports

1. Association of Superannuation Funds of Australia, *Spotlight on Insurance* (Research Report, March 2026)

2. Australian Bureau of Statistics, 'PLIDA Board' (Web Page) https://www.abs.gov.au/statistics/data-integration/integrated-data/person-level-integrated-data-asset-plida/plida-board, meeting summary 24 March 2026 and Membership

3. Australian Bureau of Statistics, 'PLIDA Data and Legislation' (Web Page) https://www.abs.gov.au/statistics/data-integration/integrated-data/person-level-integrated-data-asset-plida/plida-data-and-legislation

4. Australian Institute of Health and Welfare, 'Income Support Payments for the Working Age Population', *Australia's Welfare* (Web Report, 16 October 2025)

5. Australian Prudential Regulation Authority, 'Is IDII Back on Track?' (Media Release, 16 December 2022) https://www.apra.gov.au/news-and-publications/idii-back-track

6. Australian Prudential Regulation Authority, *Sustainability Measures for Individual Disability Income Insurance* (Letter to All Life Insurers and Friendly Societies, 2 December 2019)

7. Australian Prudential Regulation Authority and Australian Securities and Investments Commission, *Life Insurance CEO Roundtable* (Communique, 15 April 2026)

8. Australian Prudential Regulation Authority and Australian Securities and Investments Commission, *Life Insurance Claims and Disputes Statistics* (Statistical Publication, 12 months to 31 December 2025)

9. AustralianSuper, *Important Changes to Insurance Costs* (Significant Event Notice, March 2026)

10. Council of Australian Life Insurers, *Life Insurance Code of Practice* (March 2025)

11. Council of Australian Life Insurers, *Pre-Budget Submission 2026-27* (30 January 2026)

12. Council of Australian Life Insurers and KPMG, *Data Collection Cause of Claims Results Report H2 2024* (Report, 30 May 2025)

13. Department of Social Services, *DSS Payment Demographic Data* (Dataset)

14. Financial Services Council, *Standard No 27: Removal of Occupational Exclusions and Occupation-Based Restrictive Disability Definitions in Default Cover* (effective 1 January 2023)

15. Insurance in Superannuation Working Group, *Insurance in Superannuation Voluntary Code of Practice* (December 2017)

16. Kell, Peter, *Independent Review of the Life Insurance Code of Practice* (Final Report, 30 June 2026)

17. KPMG, *Australia's Mental Health Check Up: Council of Australian Life Insurers and KPMG Life Insurance Industry Data Collection 2013-2022* (Report, November 2024)

18. KPMG, *Life Insurance Insights 2025* (Report, 2025)

19. London Fire Brigade Museum, 'Early Fire Brigades and the London Fire Engine Establishment' (Web Page)

20. Parliamentary Budget Office, *Disability Support Pension: Historical and Projected Trends* (Report No 01/2018, 20 February 2018)

21. Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness* (Inquiry Report No 91, 21 December 2018)

22. Robb, George, 'The Great Tooley Street Fire of 1861' (2011) 36(2) *The London Journal*

23. Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Final Report, February 2019)

24. Select Committee on the Protection of Life and Property against Fire in the Metropolis, *Report* (House of Commons Paper, 1862)

25. State Insurance Regulatory Authority (NSW), *Guidelines for the Evaluation of Permanent Impairment*

26. Super Consumers Australia, 'Statement of Xavier O'Halloran, Director' (Media Statement, 21 July 2025)

27. Swiss Re, 'Swiss Re Life & Health Australia to Pause New Business' (Media Release, October 2025)

B) Legislation

1. *Metropolitan Fire Brigade Act 1865*, 28 & 29 Vict, c 90

2. *Privacy Act 1988* (Cth)

3. *Social Security Act 1991* (Cth)

4. *Superannuation Industry (Supervision) Act 1993* (Cth)

5. *Superannuation Industry (Supervision) Regulations 1994* (Cth)

6. *Wet werk en inkomen naar arbeidsvermogen [Work and Income (Capacity for Work) Act] 2005* (Netherlands)