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Redesigning life insurance for the mental health era: preventing financial strain from mental pain

Introduction

Mental illness is one of the defining health challenges of our time, affecting nearly one billion people worldwide.¹ In Australia, it accounts for more GP consultations than any other condition² and disrupts the lives of one in five adults each year.³ As its prevalence rises, insurance frameworks designed in an era when disability meant something visible and physical are straining to respond effectively.

Case in point, mental injury claims in Workers Compensation have doubled over the past six years, pushing costs to unprecedented levels.⁴ In NSW alone, the scheme insurer paid out over \$1.6 billion in mental injury compensation last financial year.⁵ In response, state governments have implemented reactive policy reforms that narrow access to benefits,⁶ leading to concerns about the adequacy of future worker protections. The life insurance industry is facing similar challenges. Mental illness is now the leading cause of claim under both total and permanent disablement (TPD) and income protection (IP) products,⁷ and in 2024, retail claim payments reached \$2.2 billion (almost double the amount recorded five years earlier).⁸

This paper outlines how life insurers can avoid repeating the Workers Compensation experience where spiralling claim costs lead to reactive reforms and eroded public trust. It examines the challenge mental illness presents, presents opportunities for innovation and considers how insurers can communicate reform effectively.

The developing challenge of mental illness

The World Health Organisation defines mental health as a state of wellbeing that enables individuals to cope with life's stresses, work productively and contribute to their communities.⁹

¹ World Health Organisation (December 2019) *Mental health* ([link](#))

² The Royal Australian College of General Practitioners (2024) *General Practice: Health of the Nation 2024*

³ Australian Bureau of Statistics (June 2024) *National Study of Mental Health and Wellbeing, 2020-2022* ([link](#))

⁴ Safe Work Australia (April 2025) Workers Compensation Interactive Data ([link](#))

⁵ NSW Government (March 2025) *Workers Compensation Ministerial Statement* ([link](#))

⁶ For example, in Victoria, changes made by the *WorkCover Scheme Modernisation Act 2023* narrow the definition of mental injury, exclude claims for stress or burnout from normal work events, and set a 21% whole person impairment (WPI) threshold for weekly payments after 130 weeks. New South Wales is planning similar changes with the *Workers Compensation Legislation Amendment Bill 2025*. Once passed this legislation will tighten rules for mental injury claims and introduce a WPI threshold of 31% for lump sum permanent impairment payments and for weekly payments after 130 weeks.

⁷ KPMG (November 2024) Australia's Mental health Check Up: Life Insurance Industry Data Collection 2013- 2022 ([link](#))

⁸ Council of Australian Life Insurers (July 2025) *Mental ill health is straining Australia's safety net* ([link](#))

⁹ World Health Organisation (December 2019). *Mental health* ([link](#))

Mental illness occurs when this balance is disrupted, causing distress or impairment in work, social and other important areas of functioning.¹⁰

Rates of mental illness have increased considerably over the past few years. While COVID-19 was a significant catalyst, ongoing societal challenges like rising living costs, climate anxiety and the impact of digital technologies have sustained the trend upwards.¹¹ Increased awareness and reduced stigma have also encouraged more people to seek professional help and obtain diagnosis.¹² As the number of Australians experiencing mental illness grows, life insurers are being challenged by both the cost and complexity of associated claims.

A. Cost

Mental health claims have grown substantially over the past decade, with retail insurance claims data (shown below) revealing growth rates far exceeding those of physical conditions.¹³ This trend is particularly pronounced among younger cohorts,¹⁴ who traditionally have been relied on to help subsidise older claimants.¹⁵ Compounding the issue, is the fact that mental illness claims tend to last longer and cost more to manage.¹⁶ If left to continue, these dynamics threaten the long-term sustainability of traditional life insurance products.

Mental Illness Claims: Retail Products (based on life insurance data 2013 – 2022)	
 9% annual increase in TPD claims (compared to only 0.6% for other condition types). The TPD claims rate for those aged 30 – 40 increased by 732%.	 The amount paid out in connection with TPD claims increased by over 400% and the cost of IP claims increased by 129%. In 2024, almost \$1 in every \$2 paid was connected to a mental health condition.
 Mental health conditions account for an increasing proportion of claims: • 29% of all TPD claims (up from 19%) • 30% of all IP claims (up from 23%).	 The average duration of an IP claim increased by 30%, to an average duration of 6 years (around 20% longer than other condition types).
Source: Council of Australian Life Insurers and KPMG Life Insurance Industry Data Collection 2013 – 2022	

B. Complexity

In Australia, most claims related to mental illness are made under TPD or IP products. Designed decades ago to support customers with physical injury or illness, they have evolved over time to play a vital role in supporting customers with mental illness. However, they encounter several challenges when applied in this context, as their:

¹⁰ In this paper the term mental illness is used to broadly encompass experiences of poor mental health, including both signs of mental distress and diagnosable mental health conditions.

¹¹ Emerging Risk Initiative (2021) *Mental Health: the Hidden Crisis* ([link](#))

¹² KPMG (November 2024) *Australia's Mental health Check Up: Life Insurance Industry Data Collection 2013- 2022* ([link](#))

¹³ KPMG (November 2024) *Australia's Mental health Check Up: Life Insurance Industry Data Collection 2013- 2022* ([link](#))

¹⁴ KPMG (November 2024) *Australia's Mental health Check Up: Life Insurance Industry Data Collection 2013- 2022* ([link](#))

¹⁵ Hoyle, S. (July 2025) *Mental health insurance crisis needs more than better products* Investment Magazine ([link](#))

¹⁶ KPMG (November 2024) *Australia's Mental health Check Up: Life Insurance Industry Data Collection 2013- 2022* ([link](#))

- **one size fits all approach:** fails to reflect the diversity of mental illness. The Diagnostic and Statistical Manual of Mental Disorders lists over 150 distinct conditions. Conditions can overlap, evolve over time as stressors shift, or present with other health issues.¹⁷ Treating mental illness as a uniform condition ignores this reality and undermines the accuracy and fairness of disability assessments.
- **rigid definitions:** force insurers to make definitive judgements about a person's capacity. However, unlike physical conditions, mental illnesses lack any objective diagnostic markers. They also follow non-linear recovery paths, with symptoms that fluctuate in intensity over time.¹⁸ Despite this complexity, rigid definitions demand conclusive determinations of disabled or not disabled.
- **binary benefit structures:** fail to acknowledge that outcomes are influenced by a complex mix of biological, psychological and social factors.¹⁹ The all-or-nothing benefit approach can cause individuals to adopt or maintain a more disabled mindset,²⁰ further impeding their recovery. For example, someone with episodic depression may feel they have no choice but to present themselves as disabled to secure a benefit, even if some capacity exists.

For life insurers, the rise in mental illness represents not only a financial challenge, but a strategic one. Addressing it requires redesigned insurance offerings that better reflect the realities of mental illness.

Building a resilient future: innovating for mental health

Mental illness is a dynamic state. Individuals move between periods of wellness and distress as life circumstances change:²¹



Historically, life insurers have only intervened at the far end of this spectrum, providing financial support once a condition has become disabling. However, with claims rising and customer

¹⁷ Swiss Re (2025) *Life insurance claims – Mental health guidance note Australia and New Zealand* ([link](#))

¹⁸ CRO Forum: Emerging Risk Initiative (2021) *Mental Health: the Hidden Crisis* ([link](#))

¹⁹ CRO Forum: Emerging Risk Initiative (2021) *Mental Health: the Hidden Crisis* ([link](#))

²⁰ Council of Australian Life Insurers (July 2025) *Mental ill health is straining Australia's safety net* ([link](#))

²¹ Armstrong, G. et al. (May 2021) *Mental health models* ([link](#))

expectations evolving this reactive approach is no longer enough. Life insurers must embrace a more proactive approach, one that engages with customers across the full mental health continuum to **promote** positive mental health, **prevent** the onset or escalation of mental illness, and **protect** when a condition impairs the ability to work or function. Each aspect requires targeted innovations in product design, service delivery and partnership engagement.

A. Product Design



Product design should encourage customers to engage in protective behaviours. While this will mainly be achieved through enhanced service offerings, limited financial support offerings can play a role. A flexible annual claim allowance could be offered to fund wellbeing services chosen by the customer. Financial support could also be made available following major life events that are known to precede mental distress. *For example: Allianz Life (Malaysia) provides a benefit package to new and expectant mothers that is designed to help reduce the impact of mental stress that can arise during pregnancy.*²² Such measures embed protective support into the insurance experience, transforming insurers from reactive risk managers to active wellbeing partners.



Effective prevention requires early intervention.²³ Insurers must critically evaluate whether current product structures hinder this. Most TPD and IP products include a qualifying period during which a person must be disabled but receives no financial support. While this helps manage fraud and anti-selection risks, it may inadvertently worsen mental health outcomes. For example, a teacher with acute PTSD after a distressing incident may have to wait months for support, while simultaneously being unable to afford treatment. A potential solution is an immediately accessible benefit for episodes of moderate mental distress. This would provide modest, time- limited payments, designed to relieve immediate financial pressure and pay for treatment before a condition escalates. Once this benefit is exhausted, standard benefits and eligibility criteria would apply.



For customers who develop mental illness, the financial protection traditionally provided by life insurance remains important. However, current benefit structures need to be reconsidered. Customer need varies depending

²² Allianz Life Malaysia: Baby Cover ([link](#))

²³ Studies show that the longer a person's mental health condition is left to deteriorate, the higher the possibility that this will develop into a permanent disability which removes them from the workforce altogether. According to the Royal Australasian College of Physicians, if a person is off work for 20 days the chance of ever getting back to work is 70%. Whereas if a person is off work for 70 days the chance of ever getting back to work drops to 35%. Royal Australasian College of Physicians (October 2011) *Realising the health benefits of work: A position statement* ([link](#))

on whether they have an acute, trauma-related or chronic condition.²⁴ Yet, despite this variation disability products offer uniform, binary benefits with standardised eligibility criteria. Current TPD products, for example, offer an all-or-nothing lump sum payment that does not reflect the variable nature of mental illness and its impact on future earning capacity. Similarly, the overlap which often exists between TPD and IP cover can create inefficiencies and potential benefit misalignment.²⁵

A more sustainable approach is to recalibrate benefits into a single, integrated cover option for mental illness. One which prioritises regular income support over lump sum payments and is tailored to the diverse nature of mental illness. Such a model could:

- **adjust based on severity:** with severe, persistent conditions receiving more comprehensive assistance than mild transient conditions, ensuring support is directed to where its needed most.
- **differentiate between conditions:** and have benefits tailored to the typical need and recovery trajectory for each condition. Separate cover caps and more limited underwriting limits could also be applied, in line with an insurer's risk appetite.
- **incentivise recovery:** by linking benefits to participation in rehabilitation, therapy or return-to-work programs. This shifts the focus from disability to recovery and may help reduce the risk of long-term benefit dependency.

Adopting a more nuanced approach would reduce the potential for perverse claim incentives, enable more precise risk-based pricing and most importantly deliver outcomes that are both fairer for customers and more sustainable for insurers.

B. Service Delivery

 Customers increasingly recognise the connection between their mental health and financial wellbeing and they're looking to insurers for support in maintaining both.²⁶ To meet this evolving expectation, mental health promotion must be inbuilt into the customer experience. Digital tools provide an obvious way to deliver this, and several insurers have already taken steps in this direction. *For example: TAL has an online tool that provides an overall mental wellbeing score and evidence-based tools and resources to support customers proactively manage their mental health.*²⁷

²⁴ Hoyle, S. (July 2025) *Super funds moving beyond a crisis response to mental health* Investment Magazine ([link](#))

²⁵ George, B. (July 2025) *Enhancing TPD sustainability in Australia: The role of financial controls* Journal of Superannuation Management ([link](#))

²⁶ Davies, P. (July 2023) *How life insurers are transforming to deliver value for better living* ([link](#))

²⁷ TAL Life: Headlight ([link](#))

While self-directed tools and resources are helpful, there is scope to expand into more interactive offerings. Wearable devices, for example, can collect lifestyle data that feeds predictive models capable of detecting early signs of mental health deterioration.²⁸ When combined with timely, personalised interventions, like automated nudges, wellbeing challenges or direct referrals to professional support these tools offer more dynamic opportunities to promote mental health. The aggregated data collected can also provide insurers with valuable insights to enhance product design and risk management strategies. Of course, as the use of any promotional tool is voluntary, achieving meaningful engagement will likely require the use of incentives, such as premium discounts or rewards.²⁹



Even with the best promotion strategies, many customers will still encounter mental distress. When this occurs early preventative action is essential to help stop mild episodes escalating into prolonged periods of incapacity.³⁰ Digital innovations will again be important. The Royal Australian and New

Zealand College of Psychiatrists endorses the use of digital tools as a means of delivering affordable and accessible mental health care.³¹ These can be especially valuable for younger Australians and those in rural or remote areas (demographics with a higher prevalence of mental illness).³²

Digital tools may even enable the delivery of clinical support within the boundaries of current regulatory constraints.³³ For example, research shows that talk-based therapies, such as Cognitive Behavioural Therapies and Acceptance and Commitment Therapy, can be effectively delivered via specialised AI-powered chatbots.³⁴ *For example: Acenda offers access to Wysa, a clinically-validated chatbot built on CBT principles that provides users with on-demand mental health support.*³⁵ Significantly, these tools have been found to be particularly helpful for conditions like anxiety and depression, which dominate claim volumes.³⁶



When mental illness progresses to the point of disability, empathetic and well-informed claims management is vital. Claims assessors should be supported with training in the multifaceted nature of mental health, its symptoms,

²⁸ Ahmed A, et al (January 2023) *Wearable devices for anxiety & depression: A scoping review* ([link](#))

²⁹ These incentives would be similar to the healthy lifestyle rewards offered by a number of health insurers, such as AIA's Vitality program, which has proven to be successful in increasing customer engagement and participation in wellbeing activities ([link](#))

³⁰ Swiss Re (October 2021) *Head First: Supporting consumers' mental wellbeing through insurance* ([link](#))

³¹ Royal Australian and New Zealand College of Psychiatrists (October 2023) Benefits of e-mental health treatments ([link](#))

³² Royal Australian and New Zealand College of Psychiatrists (October 2023) Benefits of e-mental health treatments ([link](#))

³³ Under the *Private Health Insurance Act 2007*, life insurers are prohibited from paying for medical treatment, as this would constitute the provision of health insurance, which requires separate licensing, prudential, and product requirements. As digital tools do not involve life insurers reimbursing or paying for the cost of sessions with a practitioner, they arguably fall outside this limitation.

³⁴ Mindhealth (April 2025) *A new dawn for mental health support* ([link](#))

³⁵ Acenda: Health and Wellness ([link](#))

³⁶ Swiss Re (2025) *Life insurance claims – Mental health guidance note Australia and New Zealand* ([link](#))

variability and external influences.³⁷ Consistency and fairness in decision making can also be strengthened through investment in data-driven assessment tools. *For example: Gen Re has developed a digital tool that assists claims assessor systematically review depression claims and evaluate whether diagnosis, symptom severity and treatment is adequately evidenced.*³⁸ Digital assessment tools not only assist assessors in evaluating mental illness claims, but within a tiered benefit model they could be used to automate straightforward determinations on more limited benefits.

C. Partnership Engagement



Insurers cannot promote mental health in isolation. Group policyholders, such as employers and superannuation funds are natural partners in expanding the reach and impact of mental health initiatives. For example, while mental illness can make employees unable to work, poor working conditions can make employees mentally ill.³⁹ Insurers can remedy this by advising employers on mental health-friendly policies and providing digital platforms that extend user-friendly support to employees. This creates a beneficial cycle as healthier workplaces reduce claim incidence.



Suitable work has been shown to benefit people suffering from a wide range of mental illnesses.⁴⁰ Through partnerships with employers, insurers can help design stay-at-work and return-to-work programs tailored to specific occupations. When combined with a benefit design that incentivises returning to work, this can decrease recovery time, reduce the likelihood of relapse and shorten claim durations.⁴¹ Beyond the workplace, partnerships with mental health experts can be used to develop and enhance preventative tools. With their large customer bases, insurers are well placed to test new interventions at scale, generating data to refine prevention strategies at a community level.



For customers that develop mental illness, a major challenge is the lack of affordable, coordinated care.⁴² This prolongs recovery times and inflates claim costs. Efforts should be made to advance the Productivity

³⁷ Swiss Re (October 2021) *Head First: Supporting consumers' mental wellbeing through insurance* ([link](#)). It is also recommended that claims assessors should also be trained to analyse the underlying causes and timing of claims. These insights can be used to identify emerging risk factors and help guide future product innovations.

³⁸ GEN Re: Depression Wizard ([link](#))

³⁹ CRO Forum: Emerging Risk Initiative (2021) *Mental Health: the Hidden Crisis* ([link](#))

⁴⁰ Royal Australasian College of Physicians (October 2011) *Realising the health benefits of work: A position statement* ([link](#))

⁴¹ Royal Australasian College of Physicians (October 2011) *Realising the health benefits of work: A position statement* ([link](#))

⁴² Australian Medical Association (December 2024) *Australia's mental healthcare system failing those who need it most: AMA warns* ([link](#))

Commission's previous recommendation to allow life insurers to fund mental health treatment.⁴³ Such reform could unlock new avenues to support customer recovery. For example, life insurers could explore the integrated care models that are being adopted by some Australian health insurers,⁴⁴ providing customers with direct access to multidisciplinary teams of GPs, psychologists, and occupational therapists. While this approach would require significant investment and careful governance, it has the potential to dramatically improve access to mental health care and shape public perceptions of the value of life insurance.

Making the case for change

While innovation is important, it must not undermine the integrity or perceived value of life insurance. Changes, especially those affecting eligibility or benefit levels, will need to be explained and justified through thoughtful communication. This requires insurers to:

Educate: Insurers should start with being upfront about the problem. Australians need to understand that without reform, current trends in mental illness threaten the affordability and availability of life insurance cover. By presenting clear evidence of the scale and urgency of the problem, and framing reform as a proactive response to systemic pressures, insurers position themselves as responsible stewards of Australia's financial safety net.

Engage: Trust is critical to any successful reform. Insurers should work closely with mental health experts and community advocates to ensure all changes are fair, evidence-based, and in the public interest. This type of meaningful engagement shows a genuine commitment to understanding and supporting customers through their mental health journey. Additionally, life insurers could attempt to leverage their role as the largest private sector supporter of people experiencing a mental illness,⁴⁵ to obtain public recognition from the government of both the value of this support and the need for reform to ensure it can be sustained into the future.

Excite: While sustainability is a key objective, innovations such as digital mental health tools and early engagement incentives offer tangible value to customers. Accordingly, changes should be positioned as part of a broader transition to wellness-oriented insurance, not merely cost containment. Alongside reform rollouts, insurers could launch targeted campaigns that aim to dispel myths and stigma around mental health, educate people on how to care for their mental

⁴³ Productivity Commission (June 2020) *Mental Health, Inquiry Report* ([link](#))

⁴⁴ Smith, M. (May 2025) *Private health insurers are investing in primary care, but clash with doctors unhappy about their growing power* Australian Financial Review ([link](#))

⁴⁵ CALI (December 2024) *More Australians forced to leave work for good over their mental health and at a younger age, new landmark report shows* ([link](#))

wellbeing, and highlight the support life insurance can offer. This reinforces the industry's role as a proactive partner in mental health.

Conclusion

Rising mental health claims are fundamentally reshaping life insurance. To avoid the reactive path seen in Workers Compensation, life insurers must act proactively, moving beyond rigid, binary models toward solutions that emphasise prevention and deliver tailored financial support aligned to the diverse realities of mental illness. By embracing a broader, wellness-oriented approach, insurers not only safeguard the industry's long-term viability but also strengthen their value proposition as partners in mental wellbeing, offering Australians genuine peace of mind.