



Investment and Financial Services Association

**strength** through advocacy

# Life Insurance: Framing the Issue



## **Focus on life insurance**

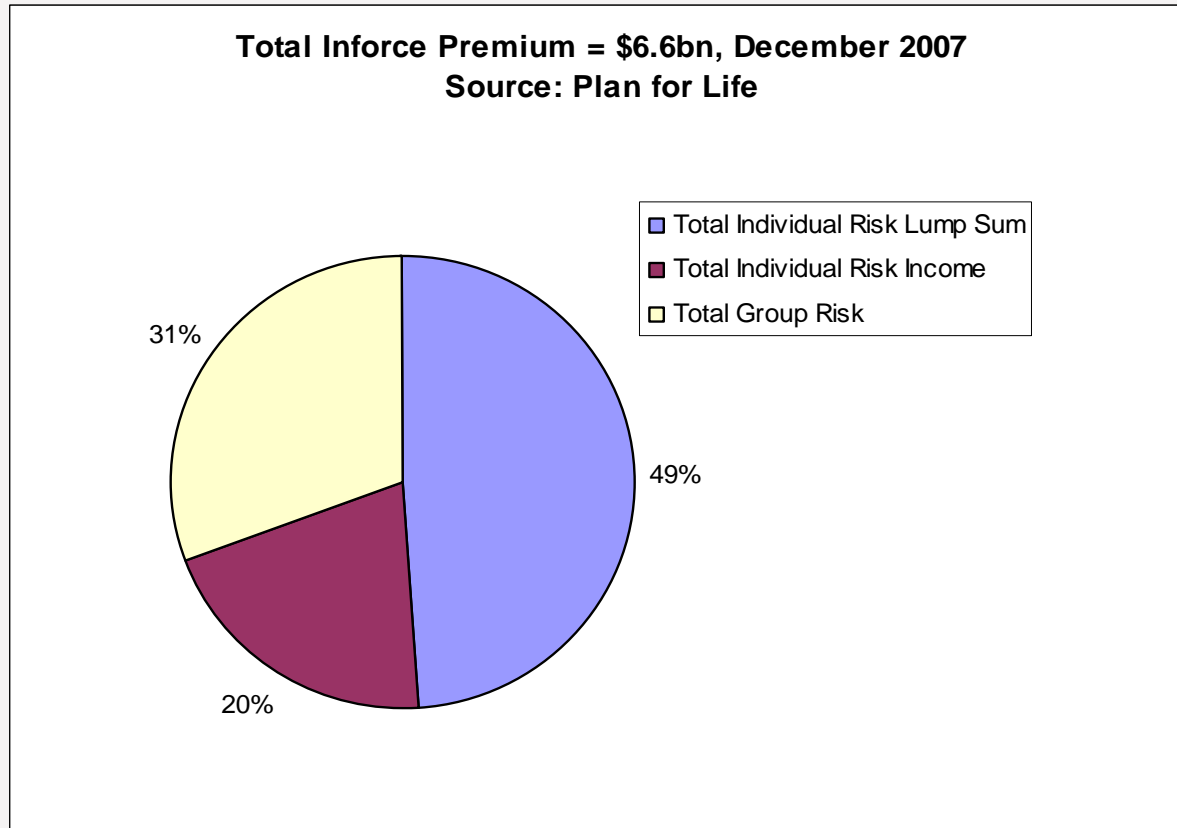
1. Term Life Insurance (Death cover)
2. Total and Permanent Disability Insurance
3. Income Protection Insurance (Salary Continuance/Disability Income)
4. Trauma Insurance (Critical Illness)
5. Credit Insurance (Payment Protection Insurance)
6. Funeral plans

## **Distribution**

1. Group
2. Adviser
3. Direct



## Well contested market



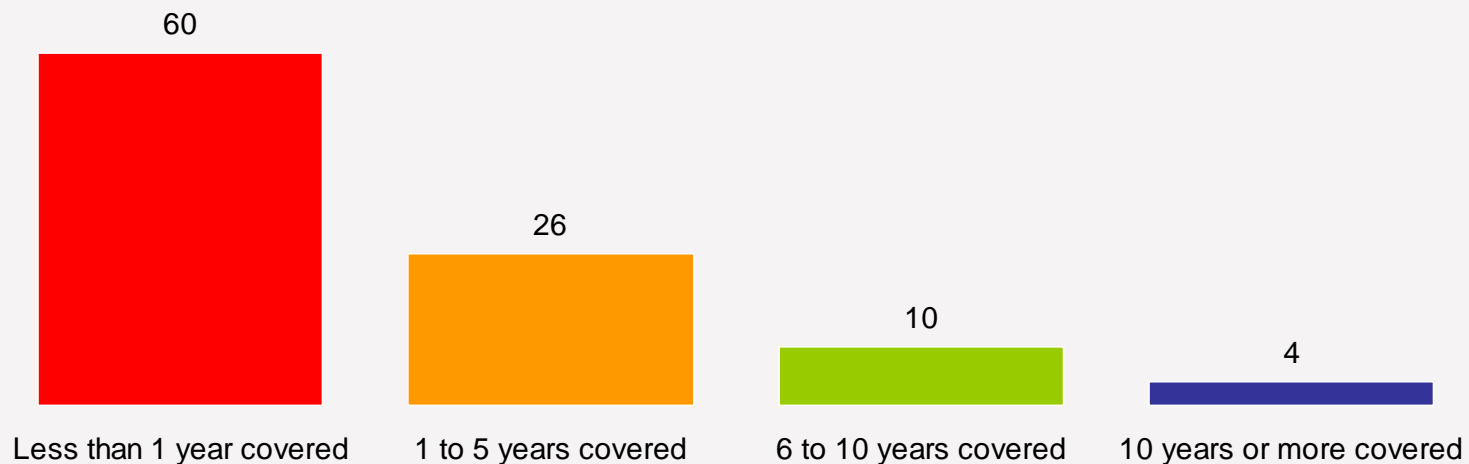
Total of flows in the year to December 2007	#
\$400m >	7
\$100m - \$400m	4
\$0 - \$100m	9



## Under insurance vs No insurance

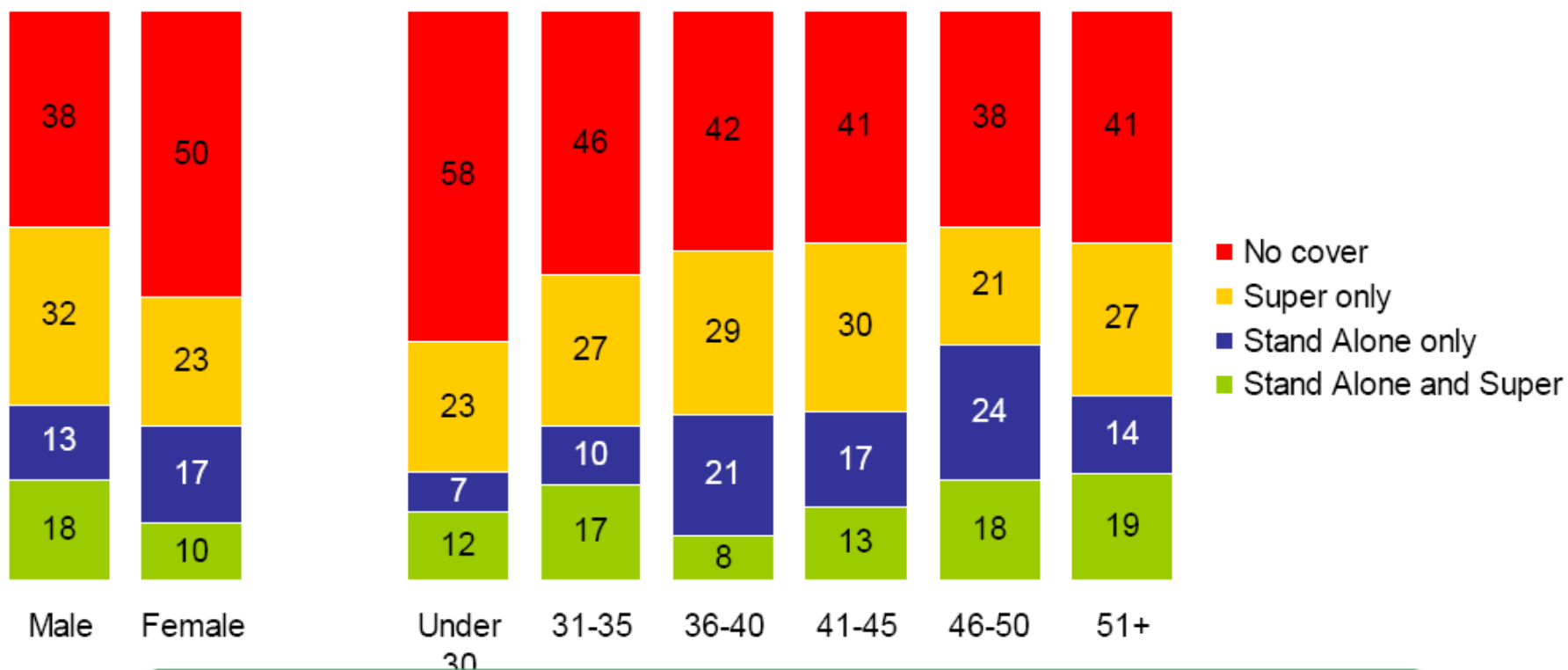
1. 2.5 million families with dependent children
2. Most have a level of cover through super by only 20% of need

Number of years of income covered by current levels of death cover





## Who has what cover





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## Group Death Cover – Actual versus Need

	ACTUAL	NEED
Zero	N/A	21%
Under \$100,000	38%	8%
\$100,000 - \$199,999	28%	11%
\$200,000 – \$299,999	13%	12%
\$300,000 - \$399,999	7%	9%
\$400,000 - \$499,999	5%	9%
\$500,000	9%	29%

**Average Actual \$189,000 Average Calculated Need \$550,000**



## At an individual level

- 16% are over insured by \$100,000 or more
- 33% are insured correctly (+ or - \$100,000)
- 51% are under insured by \$100,000 or more
- Most understand roughly how much they need.
- Average is perceived need is \$483,000 average real need it \$550,000



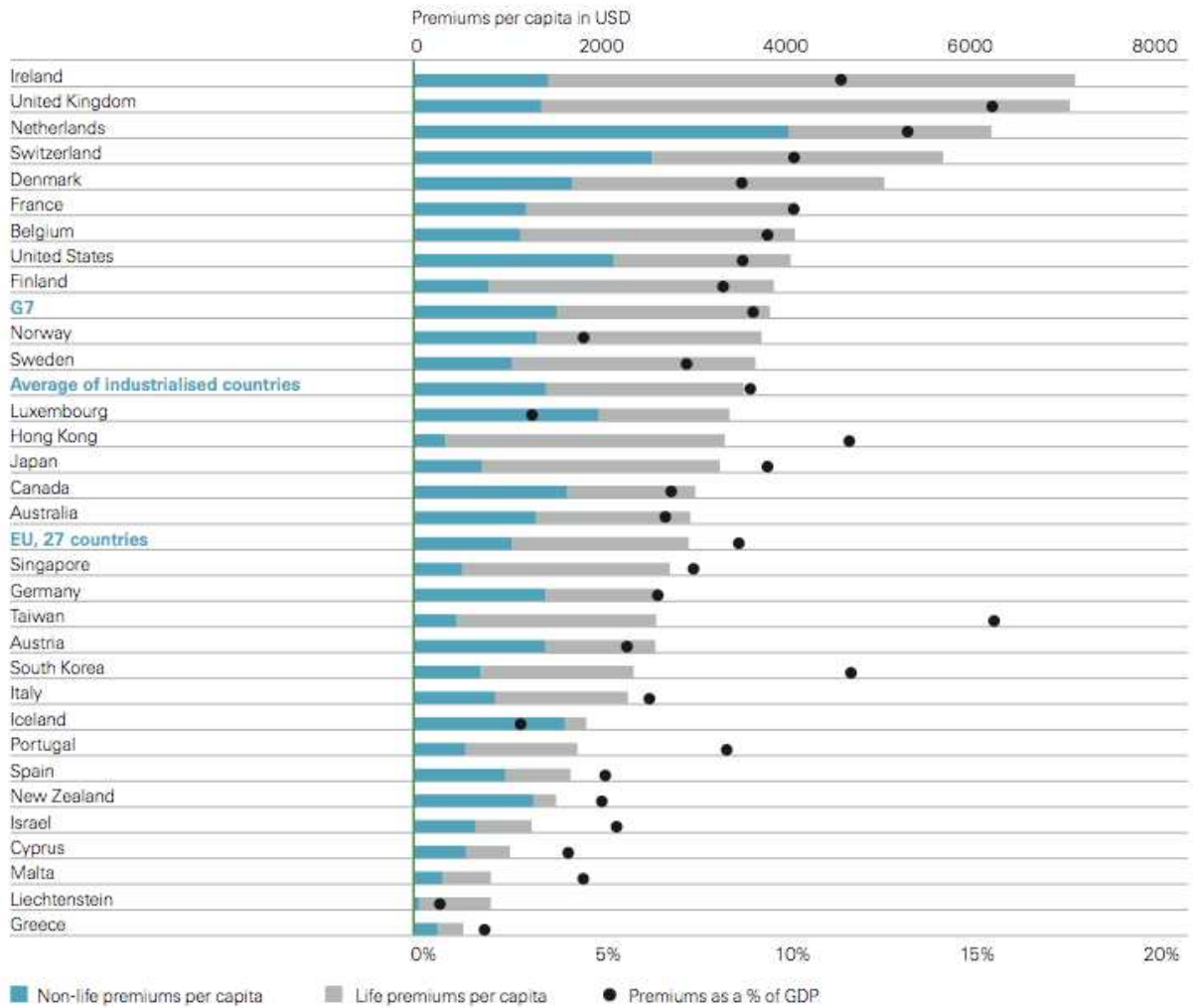
# Australia compares poorly by international standards

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**Australia ranks 16th for insurance density and penetration**



Insurance density and penetration in industrialised countries in 2007




Source: Swiss Re Economic Research & Consulting




## Australians less likely to perceive the risk?


### Serious illness

- 1 France
- 2 Japan
- 3 Switzerland
- 4 Germany
- 5 Belgium
- 6 Italy
- 7 USA
- 8 UK
- 9 Spain
- 10 Australia** 
- 11 Hong Kong


### Serious car accident

- 1 France
- 2 Germany
- 3 Switzerland
- 4 Belgium
- 5 Japan
- 6 Spain
- 7 Italy
- 8 USA
- 9 UK
- 10 Australia** 
- 11 Hong Kong

### Work accidents

- 1 France
- 2 Switzerland
- 3 Germany
- 4 Japan
- 5 Spain
- 6 Belgium
- 7 Italy
- 8 USA
- 9 UK
- 10 Hong Kong
- 11 Australia** 

### Serious financial problems

- 1 France
- 2 Germany
- 3 Belgium
- 4 Italy
- 5 Japan
- 6 Switzerland
- 7 USA
- 8 Hong Kong
- 9 UK
- 10 Spain
- 11 Australia** 

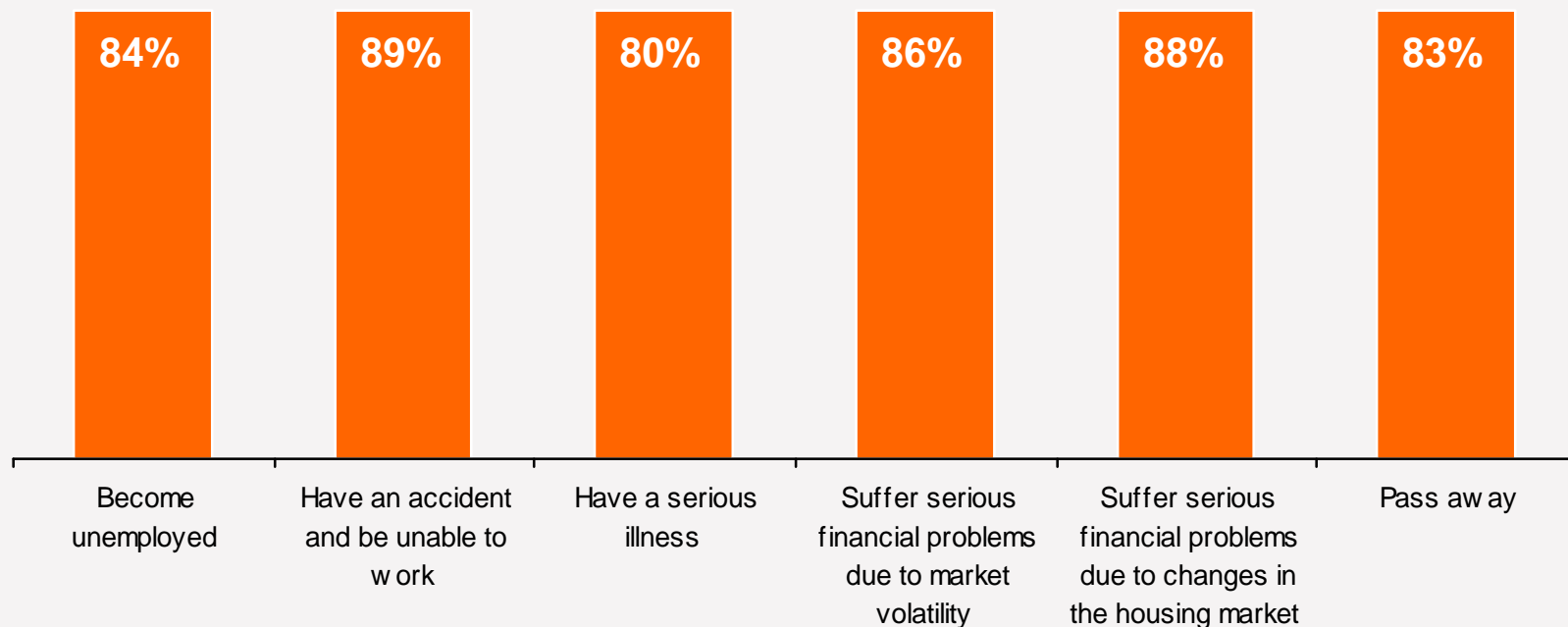
She'll be right - "it just won't happen to me!"



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## Evidence of the she'll be right attitude on 'life' risks

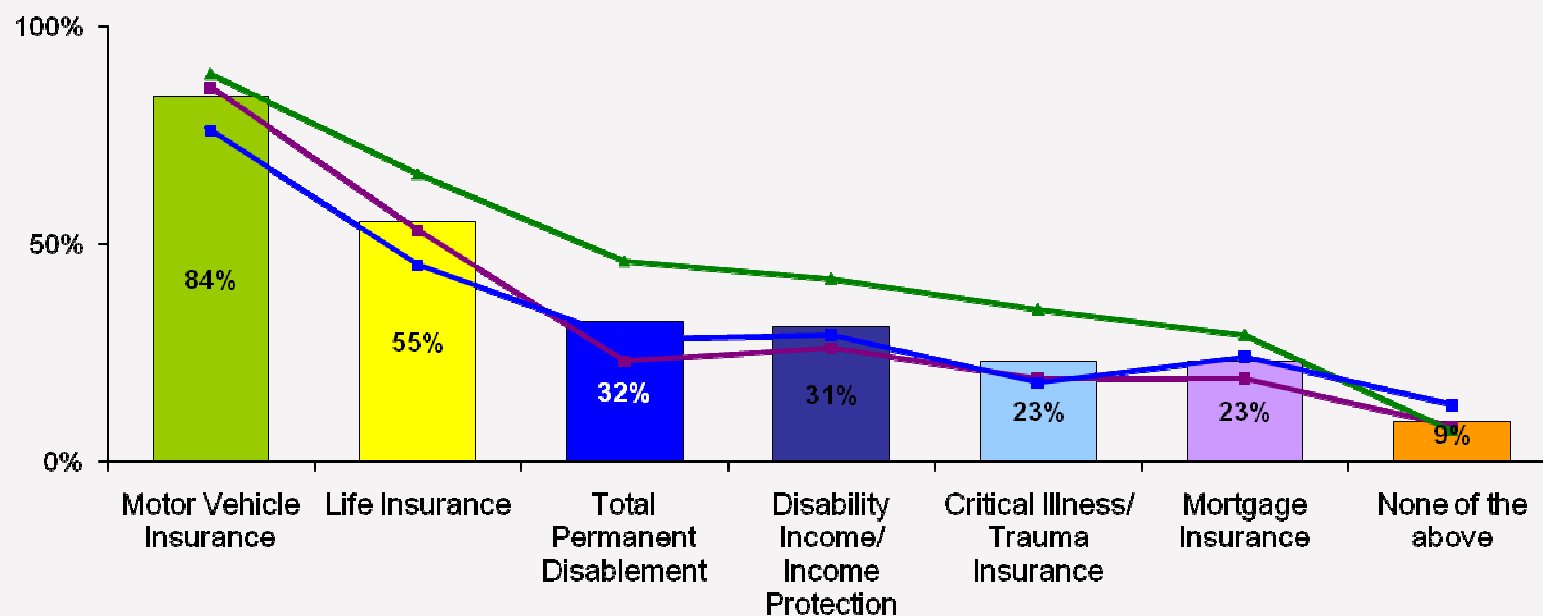
Majority felt it was unlikely that they'll face any of the following life risks in the next 20 years



Source: ING Australia's Attitudes Towards Life Insurance, December 2008

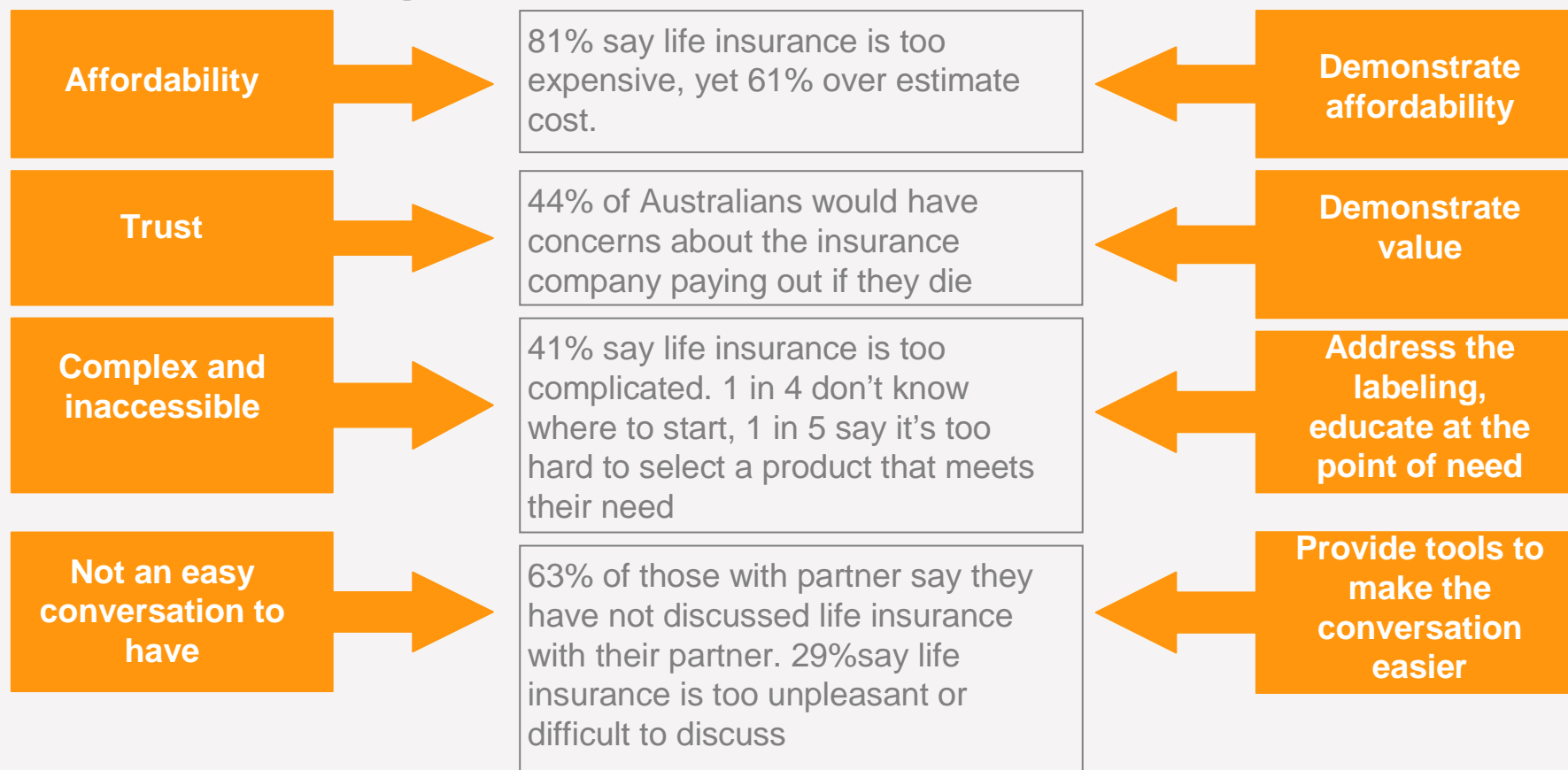


## She'll be 'less' right attitude on 'property' risks





## Understanding the barriers





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## The industry's vision for 2020

*Australians will have sufficient levels of life insurance cover (either through super or directly) to meet their personal liabilities and ensure financial security of their families in the event of death, sickness or accident.*

### Over the next five years we'll be

1. Equipping Australians with the information they need to demystify the process
2. Raising awareness of the value of life insurance
3. Building trust by putting the customer at the centre of all the industry does
4. Improving accessibility by making the conversation easy and reducing complexity



## An industry-wide campaign

Developing a campaign to encourage Australians to take appropriate steps to protect themselves from the financial hardship which can result from accident, sickness or death.

Long term goal

1. Conscious of optics
2. Conscious of the challenge
3. Conscious that insurance is not the only answer



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## **Building partnership support for the cause through conversations with:**

- The industry – 20 Life insurance companies
- Advisers – FPA, AFA
- Super funds
- Regulators - ASIC
- Media – Ross Greenwood, Nicole Pedersen McKinnon, Paul Clitheroe
- Community Groups – Youth Insearch

### Call to action:

Sign our Stakeholder Agreement & become a partner  
We'll help you help us – co-branding, material, articles  
ID a key person to co-ordinate activity internally



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## Creating tools for education and awareness

- Website
  - Content/Copy
  - Calculators
  - Case studies/Testimonials/Media Grabs

Call to action:

Provide content and case studies

Consider how you can keep the momentum going – research etc



## One umbrella brand – a consumer focus

- Lifewise
  - ✓ Belief – everyone should make a conscious informed decision
  - ✓ Character – straight talking wise friend
  - ✓ Competence – makes choice about life insurance accessible





## Timeline to launch

02/09	03/09	04/09	05/09	06/09	07/09
Finalise brand	Tier 2 stakeholders	All stakeholders identified	<b>Launch - 1<sup>st</sup> May</b>	Assess impact	
Tier 1 stakeholders	Agreements signed	Test website	<b>Luncheon</b>	Track web traffic	
Develop web content	Internal comms working	Plan launch event	<b>Media</b>	Feedback loop on brand usage.	
Finalise calculator	Finalise website	Plan subsequent PR activity	<b>Research?</b>		
			<b>Case studies</b>		

Start planning for next year?

Present plans for 2009>



## Realising the value of insurance!

### The risks

- 50,000 heart attacks in Australia ever year (*Health Foundation, Australian Facts, 2004: Heart, Strokes and Vascular diseases*)
- 1/3 men and 1/ 4 women will suffer from cancer in their lifetime - 50% of which will live longer than 5 years after diagnosis (*Cancer Council: [www.cancer.org.au](http://www.cancer.org.au)*)
- More than 42,000 people are expected to die from cancer in 2009
- Over 1,600 people die on Australian roads every year, most age of 26-59 years (Australian Government, Road Deaths Australia 2007)

### The burden

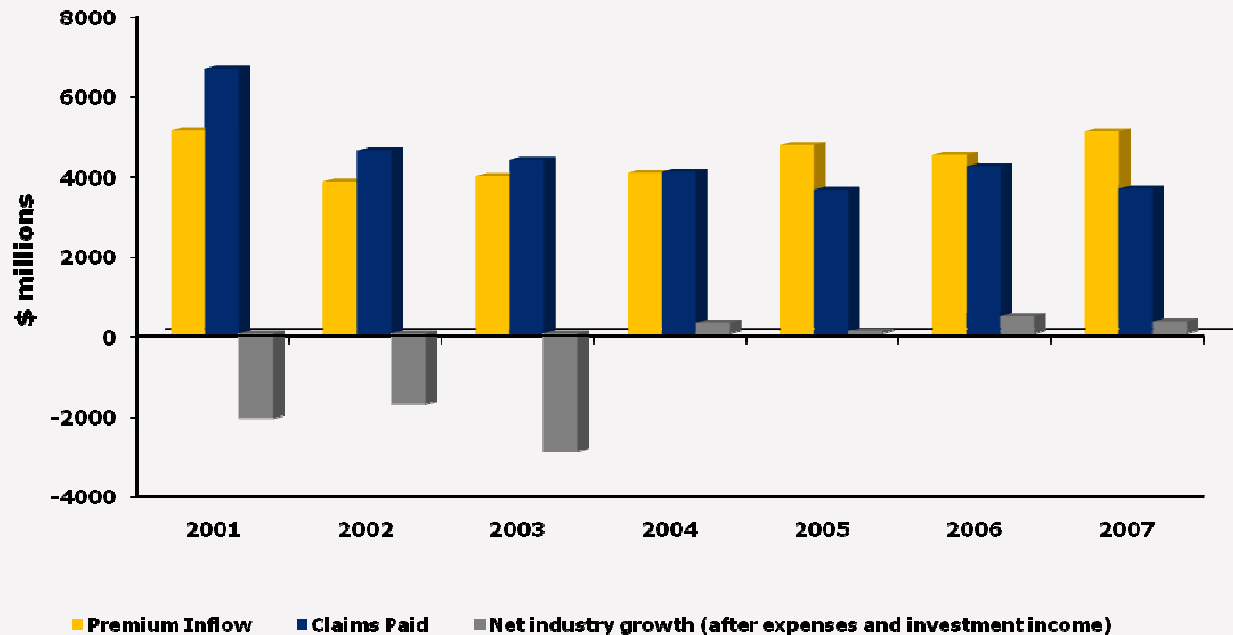
- Household debt is nearly 160% of average disposable income (*Reserve Bank statistics*)
- The average Australian borrows \$235,000 on a new mortgage which requires 35% of income to meet the repayments (*Real Estate Institute of Australia*)



## Realising the value of insurance!

- The industry paid out \$3.6 billion
- That's nearly \$10 million per day
- 81c in every \$
- Covers the lives of over 7.5 million Australians

**How much does the industry pay to its customers?**  
*Non-superannuation business*





## Improving accessibility – understanding emerging risks

### Mental Health Issues

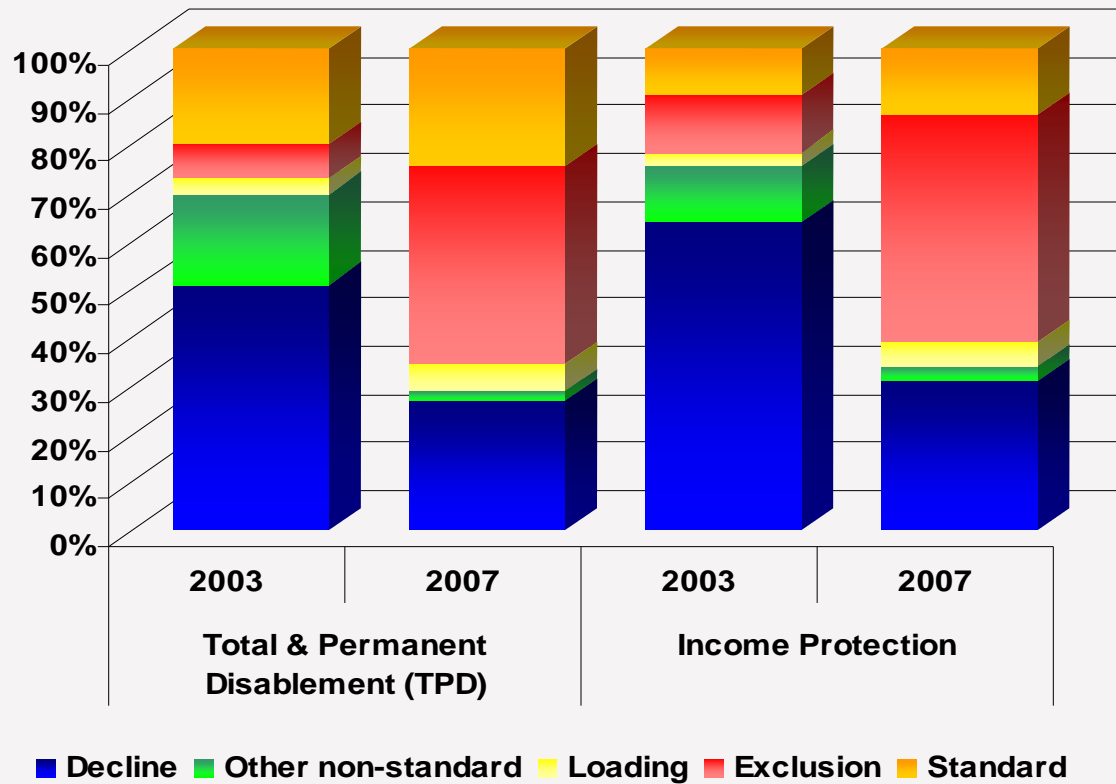
- One in five Australians suffer a mental illness
- 25 – 40% of those aged 18 – 24 years
- One in ten have a long term condition (lasting more than 6 months)
- Mental illness and suicide accounts for just under 15% of total health burden
- But conditions vary widely – unpredictable = difficult to conduct risk assessment

### Mental health/Life Insurance MoU

- World-first MoU signed 2003 signals ongoing commitment.
- Mental health stakeholders and industry stakeholders
- Commitment to communication, feedback and improving access to cover



### Change in underwriting outcomes for people with a mental health condition





## Other areas

- Genetics Testing
- HIV/AIDS
- Arthritis
- Australian Defense Force Reserves

Challenge is to improve access while appropriately pricing the risk

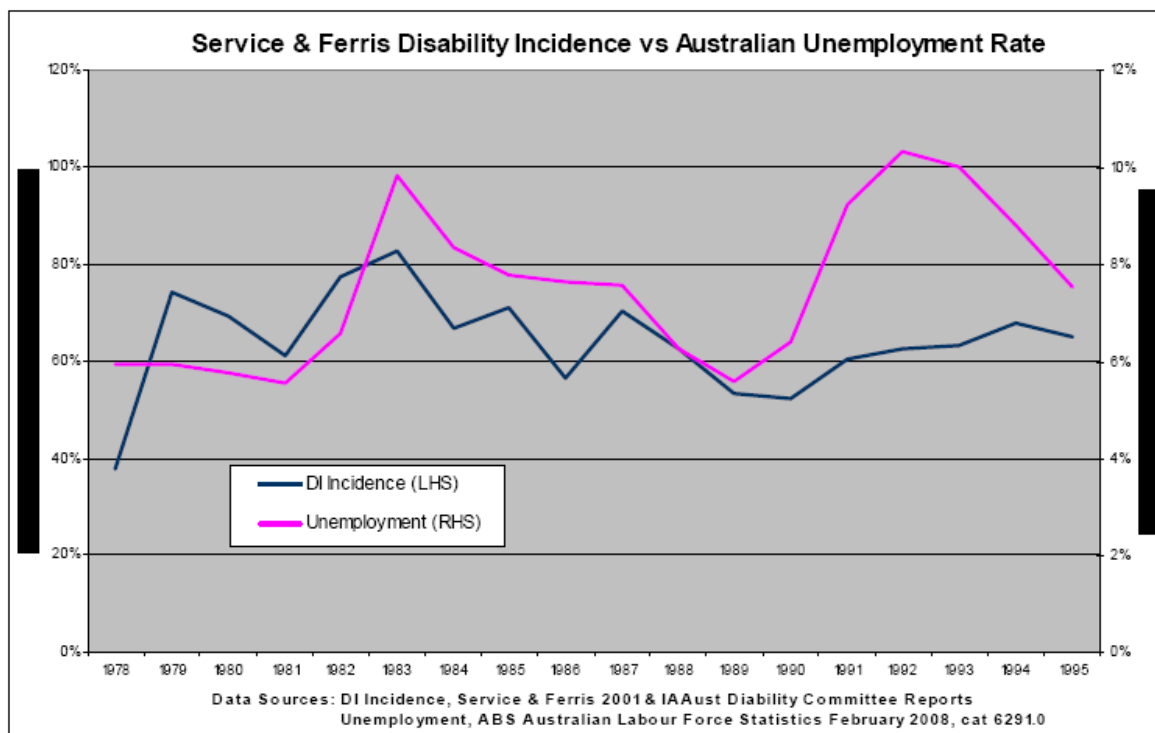


## Industry Experience Studies

- Comparing underwriting and claims experience across the industry
- Individual lump sum business initially
- 2007 already conducted – 3.8m records, 6,500 claims
- 2004-2006 analysis – enough to reconstruct the Graduated Tables/Mortality tables
- 2008 analysis and beyond
- Morbidity study – Income Protection very important to insurers

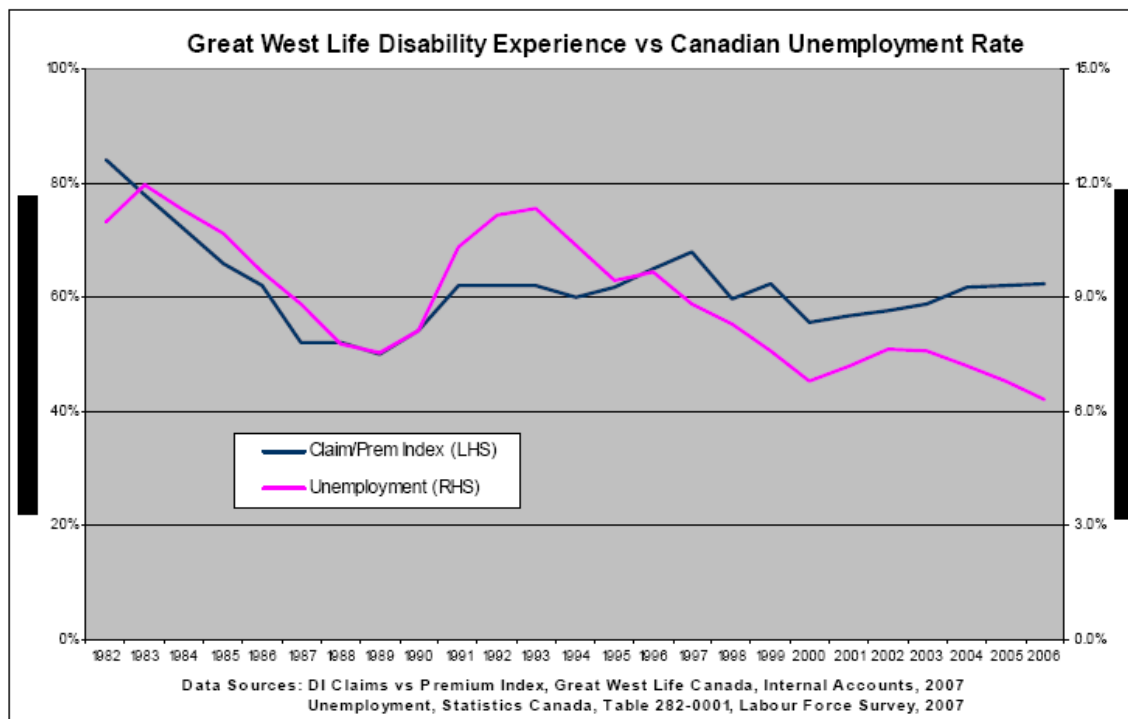


# Australian Disability vs Unemployment



Source: "Morbidity Experience & Economic Environment Correlations", R Berry & J Collier, 2008

# Canadian Disability vs Unemployment

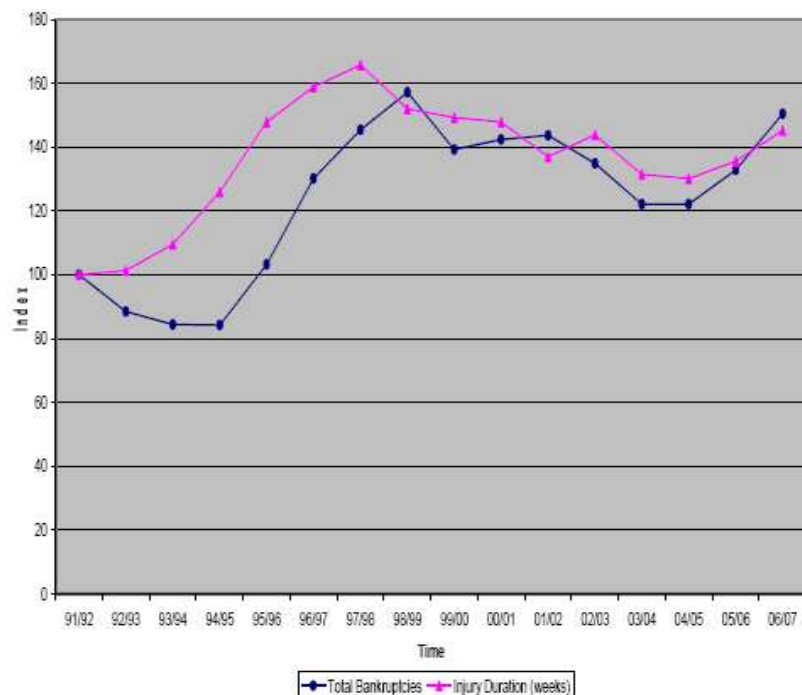


Source: "Morbidity Experience & Economic Environment Correlations", R Berry & J Collier, 2008



# Workers Compensation Employment Injury Duration and Economic Factors

Injury Duration v Total Bankruptcies



Source: "Morbidity Experience & Economic Environment Correlations", R Berry & J Collier, 2008

## GFC - Implications for the industry

- Good times =
  - Financial risks harder to comprehend
  - Confidence and optimism prevail
  - Increased incentive to continue working
  - Increased reserves allows premiums to fall
  - Increased use of whistles and bells
  
- Bad times =
  - Financial risks are real
  - Protection is sought
  - Advisers focus on risk
  - Self insurers return to product
  - Increased claims – incidence, duration and costs
  - Increased potential for reputation damage
  - Erosion of reserves – hardening of the market



## So what's in store for 2009?

- The year of life insurance
  - Insurers now focused on Risk – Group, Advised and Direct
  - Industry wide campaign galvanising support and awakening Australians
  - Doing more to understand risks and improve accessibility
  - Higher levels of claims
  - Greater potential for criticism
  - Continue to demonstrate the value offered



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Thank you