



Reducing the cost of Australia's high levels of personal underinsurance

MEDIA KIT

Lifewise is a long term public awareness initiative of the Australian life insurance industry aimed at educating Australians about the personal risks they face in life, and how they can better manage those risks.

Our goal is for more Australians to take appropriate steps to protect themselves from the financial hardship that can result from accident, sickness or death.

Lifewise is all about education. It is not about promoting products, companies or distribution channels. In fact, we're not even promoting life insurance per se; self-insurance via savings or investments is an equally viable option for some people. We just want more people to make a conscious and informed decision about managing the real risks we all face.

The following information has been compiled to support journalists that wish to cover this issue.

The issue

Australia is one of the most underinsured nations in the developed world ranking 16th for life insurance density and penetration¹. In an environment of rising household debt and falling asset values, this is creating an increasingly vulnerable society with most Australian families being forced to sell assets in the event of long term illness, a serious accident or the death of a breadwinner.

On an individual level, this personal exposure can have tragic consequence. Most Australian families would not be able to meet their financial obligations after three months should they lose the family's main breadwinner². This means many face financial ruin at a time of personal distress and tragedy.

The facts

2008 claims statistics show Australians don't have enough insurance to protect themselves from financial hardship

The Investment and Financial Services Association (IFSA) surveyed 13 life insurance companies representing 90% of the life insurance industry by premium and lives insured to aggregate claims paid during the period from 1 January 2008 to 31 December 2008.

Based on data supplied by these companies, the survey found \$2.3 billion in claims were paid in the 2008 calendar year on nearly 35,000 policies.

Life insurance claims payouts during 2008 show average payouts are worryingly low:

Term life	\$91,501
Trauma	\$154,927
TPD	\$70,678
Income protection	\$2,827 per month

A gender breakdown of the findings suggests the insurance take up among women is lower than men with 69% of the claims by number being paid to men compared to just 31% to women.

The proportion of claims by value paid to men is 59% compared to just 41% to women, indicating those women that do have insurance tend to be better insured.

Past research has consistently shown a majority of Australians are significantly underinsured

Despite the fact that almost every working Australian has a level of life insurance cover within their superannuation, Australia has proved to be one of the most underinsured nations in the developed world.

A 2008 survey by the Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF) revealed that “one in two industry fund members were underinsured by \$100,000 or more”³.

Specifically results of the survey showed that:

- 50% are underinsured by \$100,000 for life insurance.
- 74% are underinsured by \$100,000 for TPD.
- 45% are underinsured by \$1000 a month for income protection⁴.

Additional research tells a similar story. Rice Warner Actuaries estimate that life insurance cover within super is on average only 20% of what is needed.

Research commissioned by IFSA in 2005 showed that only 4% Australian families with dependent children have adequate levels of insurance cover (that is 10 times earnings as recommended by Rice Warner Actuaries). This means that Australian families are critically underinsured to the tune of \$1.37 trillion.

Rice Warner Actuaries says underinsurance costs Australian tax payers more than \$250 million a year

- Rice Warner Actuaries estimates the additional social security payments arising from deaths of parents with limited insurance to be in the order of \$250 million per year.⁵
- And this estimate does not take account of other costs/losses to government revenue such as provision of housing and loss of income tax revenue.

Most Australians don't value their most important asset – their ability to earn an income

- 83% of Australians say they have insurance for their car⁶.
- Only 31% insure their ability to earn an income with income protection insurance⁷.

Most Australians think it won't happen to them – 'She'll be right mate!'

- The ING Research Optimistic Australians report (December 2008) surveyed the opinions of Australians aged 25 to 65 and found:
 - 89% said they were not likely to have an accident (making them unable to work) in the next 20 years
 - 80% said they were not likely to suffer a serious illness in the next 20 years
 - 83% did not expect to pass away in the next 20 years

But the fact is, most of us will experience an insurable event in our lives

- More than 50,000 people were hospitalised due to transport accidents in 2005-06 with over 5 days in hospital. The majority of those (81%) were working age⁸.

- Over 1,600 people die on Australian roads every year, most aged 26 - 59 years⁹.
- One third of women and a quarter of all men will suffer cancer at some stage in their lifetime – over half of whom will live for longer than five years after diagnosis¹⁰.

A range of other factors stop Australians from insuring themselves

- Low levels of awareness - 40% of industry super fund members never really think about insurance¹¹.
- A perception that life insurance is too expensive is a major barrier - 81% say life insurance is too expensive, yet 61% over estimate the cost¹².
- 37% of industry super fund members believe life insurance is a low priority given other financial commitments¹³.
- A lack of understanding stops 1 in 3 Australians without life insurance outside their super from taking adequate cover¹⁴.
- 41% say life insurance is too complicated. 1 in 4 don't know where to start, 1 in 5 say it's too hard to select a product that meets their need¹⁵.
- 63% of those with a partner say they have not discussed life insurance with their partner. 29% say life insurance is too unpleasant or difficult to discuss¹⁶.

High levels debt and relatively low levels of national savings mean most people are unprepared for the unthinkable

- Household debt in Australia grew twice as fast as the value of household assets over the last 18 years. The ratio of household debt to assets has doubled from 9% to 19%¹⁷.
- With over 5.7 million households in Australia, the average amount of debt is \$128,000 per household¹⁸. For Australian families with children under the age of five, the median amount of debt is \$167,000¹⁹.
- Australia's net household savings ratio is 6.6%²⁰, which means that for every \$100 earned, Australians save almost \$7. The net savings ratio has grown in recent months, largely due changes in saving behaviour as a result of the global financial crisis.
- The cost of raising two children at Government schools to year 12 and then 3 years of university is around \$537,000²¹.
- 80% of Gen Y's consider making money to be important in their future and 93% believe saving and investing will be very important at age 35²².

Life insurance is more affordable than people think

- The monthly premium for a 35 yr old male, non-smoker applying for \$500,000 of life cover would be approximately \$30. A 35 yr old female, non-smoker applying for \$500,000 of life cover the monthly premium would be \$25.
- If you have some existing cover through your super, increasing this to adequate levels may cost even less.

Product complexity is also a barrier and much is being done in the name of simplicity

- Product complexity, lengthy approval times and reliance on financial advisers to promote products has been a barrier for many.

- A considerable effort is underway by the industry to: improve the application process including paperless processes; develop direct offerings; simplify products; enhance disclosure; and achieve faster underwriting times.

About the Lifewise campaign

Research shows that on average Australians have about half the cover they need, leaving many Australians and their families exposed in the event of accident, sickness or death.

The Australian insurance industry recognises that action needs to be taken on many of the known barriers that stop people taking up adequate levels of insurance.

Lifewise is a key step in tackling the barriers of misguided optimism, low awareness, lack of understanding and misperceptions on cost.

The Lifewise consumer campaign aims to educate Australians so they can make clear and informed decisions around protecting themselves from the risk of financial hardship if the worst were to happen.

Our goal is for more Australians to feel confident in understanding life's risks, so they can make life insurance decisions in the same way they make day to day decisions about insuring their car or home.

We hope to encourage Australians to become actively engaged, by providing the tools that will help them navigate an admittedly complex area.

The initial stages of the campaign comprise:

- **Education:** A comprehensive, straight talking website and 'how much is enough' calculator have been developed to make it easier for consumers to educate themselves about the risks they face and how they can protect themselves, whether that be via saving or insurance.
- **Supporters:** IFSA is working with the life insurance industry and other key stakeholders such as community groups to develop partnerships of aligned interest and aspirations on this issue.
- **Public relations and marketing:** Through the life insurance industry and other partners, Lifewise aims to generate significant awareness of what the initiative stands for.
- **Research:** Much research has been done on the issue of under insurance already, however further projects will be developed to help inform the initiative and create a long term forward agenda, including quantifying the cost of the problem.

Lifewise is being coordinated by the Investment and Financial Services Association (IFSA) and has first year funding via special contributions made by IFSA's life insurance and reinsurance members.

Lifewise supporters

Industry supporters	Community supporters	Other supporters
AIG Allianz AMP Life ARW Financial Management Association of Financial Advisers Asteron Auscoal Aviva Australia AXA Australia BT Financial Group Commlnsure Count Financial Delphi Financial Management Financial Wisdom GE Money Insurance Services General Reinsurance Life Genesys Wealth Advisers Guardian Financial Planning Holmans Insurance Services ING Life IUS Life Loredon Macquarie Life Mercer MetLife MLC Munich Reinsurance Perks Wealth Management RGA Reinsurance Company Suncorp Swiss Re TOWER Australia Zurich	Family Relationship Services Australia Inspire Foundation Leukaemia Foundation MS Research Australia Schizophrenia Research Institute Youth Insearch	CoreData-brandmanagement Endgame Communications Financial commentator Ross Greenwood Honner Media Insurance recipient Robert Innes Insurance recipient John Maher Insurance recipient Elizabeth Gould Sequential Project Services The Risk Store Riskinfo

The following Lifewise community supporters are available for media interviews. These spokespeople can talk about the social impact of underinsurance including family breakdown and poverty following the diagnosis of a debilitating illness.

- Ron Barr, founder and chairman of Youth Insearch (www.youthinsearch.org)
- Jeremy Wright, executive director MS Research (www.msra.org)

- Samantha Page, executive director of Family Relationship Services Australia (www.frfa.org.au)

All media queries should be directed to the Lifewise team.

Case studies

A number of claimants are happy to share their stories and experiences with the media. They are passionate advocates of the importance of life insurance having been spared a frightening fate of financial ruin at a time of incredible personal strain. Please contact the Lifewise media team for more information.

For more information

www.lifewise.org.au

www.ifsa.com.au

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Endnotes

¹ Swiss Re Economic Research & Consulting , 2007

² Of Australians without income protection insurance. Source: CommInsure Income Protection Study 2005.

³ AIST Media Release, Tuesday 3rd June 2008

⁴ AIST Media Release, Tuesday 3rd June 2008

⁵ Cost of underinsurance project – analysis of life insurance needs, Rice Walker, May 2005

⁶ AAMI Fact Sheet, *Shopping for Car Insurance*, September 2008

⁷ TNS/IFSA Investigating Income Protection Insurance in Australia July 2006

⁸ AIHW Injury Research and Statistics Series No. 42, 2005-06

⁹ Australian Government, Road Deaths Australia 2007

¹⁰ Cancer Council: (www.cancer.org.au), *Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare (published December 2008)*

¹¹ Industry Funds Forum Insurance Study of Industry Fund Members, June 2008

¹² ING Australia's Attitudes Towards Life Insurance, December 2008

¹³ Industry Funds Forum Insurance Study of Industry Fund Members, June 2008

¹⁴ CommInsure Life Insurance Survey 2004

¹⁵ ING Australia's Attitudes Towards Life Insurance, December 2008

¹⁶ ING Australia's Attitudes Towards Life Insurance, December 2008

¹⁷ ABS, Australian Social Trends, *Household Debt*, cat. no. 4102.0, 2009

¹⁸ ABS, 2005-06 Survey of Income and Housing

¹⁹ ABS, Australian Social Trends, *Household Debt*, cat. no. 4102.0, 2009

²⁰ ABS, 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2008

²¹ AMP.NATSEM Income and Wealth Report Issue 18, December 2007

²² AMP.NATSEM Generation whY? August 2007