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Australians and life insurance: misinformed, misinsured?

Research Whitepaper
February 2014

Australia’s life underinsurance problem is as significant as it is well documented.

Rice Warner’s ‘Underinsurance in Australia Report 2012’ estimated the gap – between cover held and cover required to maintain current living standards – to be $2,166 billion for death cover, $7,912 billion for TPD and $589 billion for income protection.

The same report noted that the death cover gap had decreased by around 30% over the previous two years, at least partly driven by increasingly generous cover offered through superannuation funds and the growing uptake of direct life insurance.

Whilst the increased access to simple, affordable life cover is welcomed, it does appear to have given rise to a new phenomenon, the effects of which may be every bit as significant as underinsurance.

That phenomenon is ‘**misinsurance**’, and exists where there is a mismatch between what an individual needs – or believes they are covered for – and what they are actually covered for.

To investigate the extent of the ‘misinsurance’ issue, Zurich commissioned The Loyalty Zone to conduct further research.

After speaking to nearly 400 working Australians, The Loyalty Zone found:

- Misalignment between their financial situation and their stated risk prioritisation;
- Significant lack of knowledge about their superannuation based life cover, especially around
  - What they were covered for
  - Waiting periods for income protection benefits;
- The vast majority of respondents had never conducted an analysis about their individual life insurance needs;
- Females were far more likely to have sought advice about life insurance than males;
- Working Australians aged 24 and under are more likely to have an awareness gap than other age groups.

Detailed findings

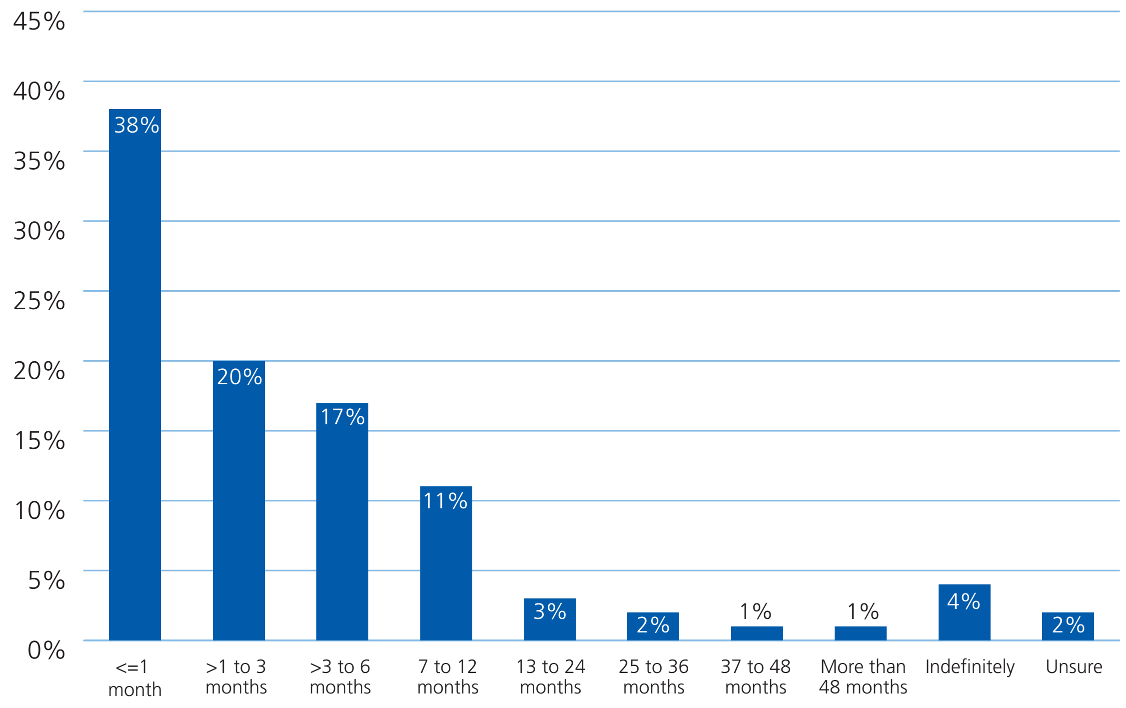
1. Financial health

Respondents were asked how long they could survive financially before they needed to sell assets, in the event they were unable to work because of illness or injury.

At an overall level, it was found that more than half (58%) felt that could survive less than three months without an income, before they needed to start liquidating assets.

38% felt they could survive less than one month before being in this situation.

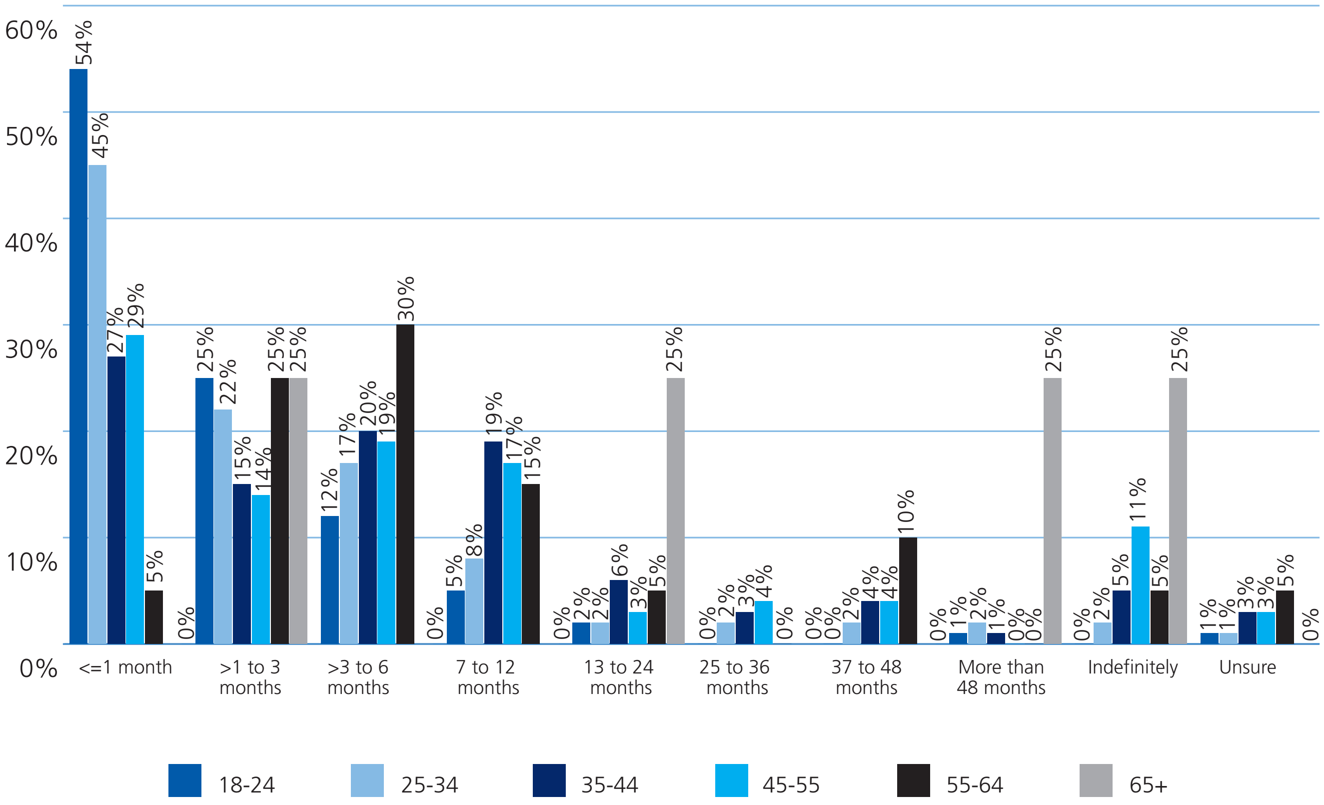
Figure 1. Assuming you were unable to work because of illness or injury, how long do you think you could survive on a zero income before needing to sell your assets?



Notable Finding:
38% of working Australians believe they could survive without an income for less than one month before needing to sell assets to survive.

Unsurprisingly, younger respondents were most financially vulnerable, with 54% of under 25s and 45% of 25–34 year olds indicating they couldn't survive a month before they would need to sell assets to survive (Figure 2).

Figure 2. Ability to survive on zero income before selling assets, by age.



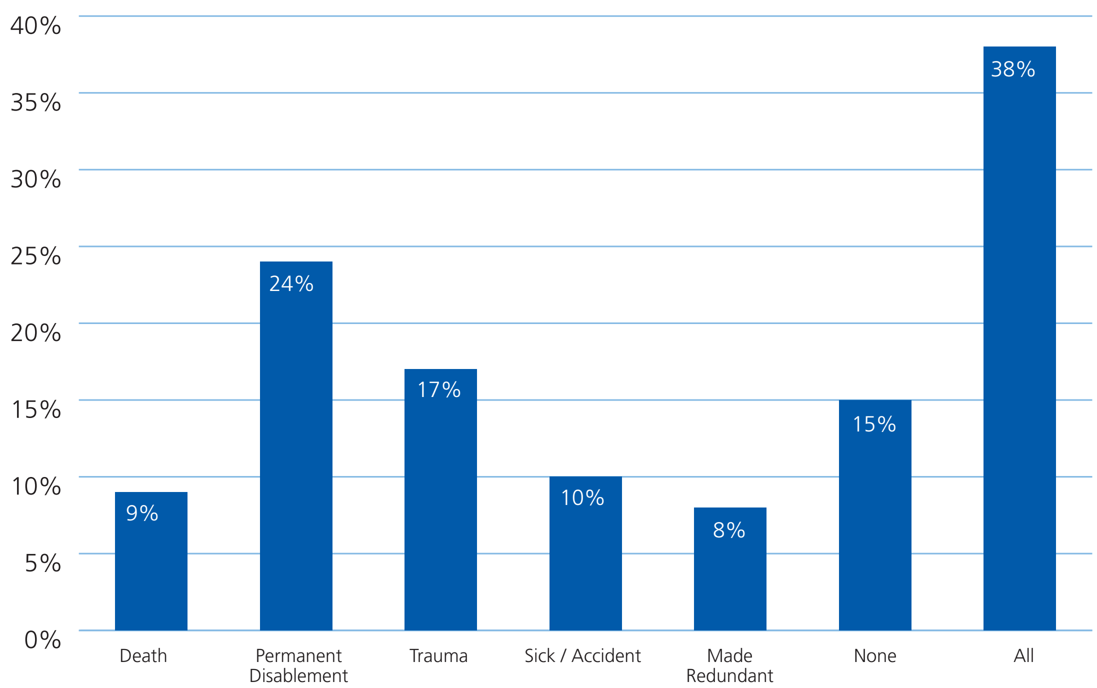
2. Risk prioritisation

Despite the findings about how reliant Australians are on their income, the risks found to be of most concern were those less frequent but more severe events.

The risk of most concern was permanent disablement, with 24% of people indicating they were specifically worried about this eventuality. Serious illness (cancer, heart attack, stroke) was the second most indicated concern (17%).

Surprisingly, and despite the stated inability of respondents to survive for long periods without their income, only 10% singled this risk out (Figure 3)

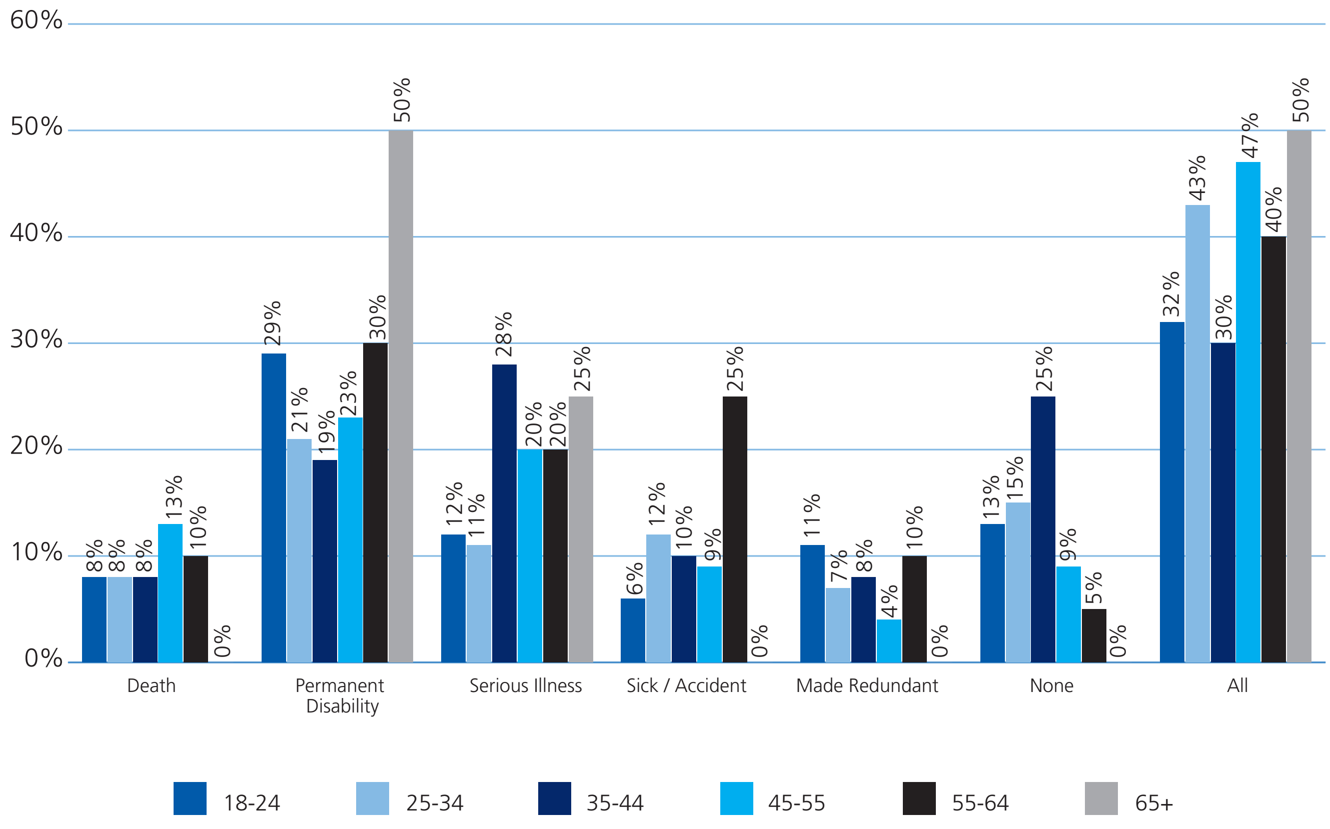
Figure 3. Which of the following risks are you most worried about?



Notable Finding:
There appears to be a misalignment between perceived ability to survive without an income and which risks are of most concern to people.

A deeper dive of the results by age did find some differences in what was of most concern to individuals. Specifically, the 35-44 age group were found to be the most likely to say they had 'no worries', whereas the 55-64 age group were significantly more likely to be concerned about short term inability to work due to sickness/accident (Figure 4).

Figure 4. Risks of most concern to different age groups



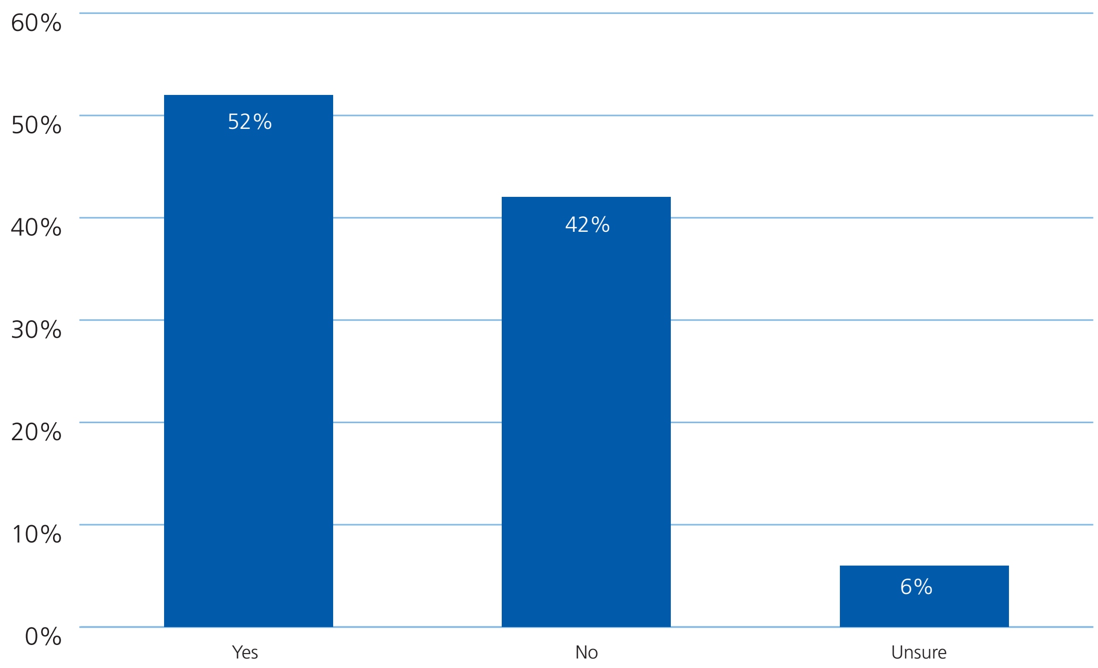
3. Understanding about insurance coverage.

The sample design for the research was exclusively based on adults who were employed (not self employed) and as such were required by law to be members of a superannuation fund.

The growth of industry fund coverage, coupled with the consolidation of many corporate funds and the recent SIS requirement for all super fund Trustees to consider life insurance for their members make it likely that most employees would have some basic life insurance entitlement through their superannuation fund.

In that sense, the finding that only 52% of respondents believed they had cover through their fund probably indicates lack of knowledge / engagement rather than actual coverage.

Figure 5. Do you have life insurance through your superannuation fund?

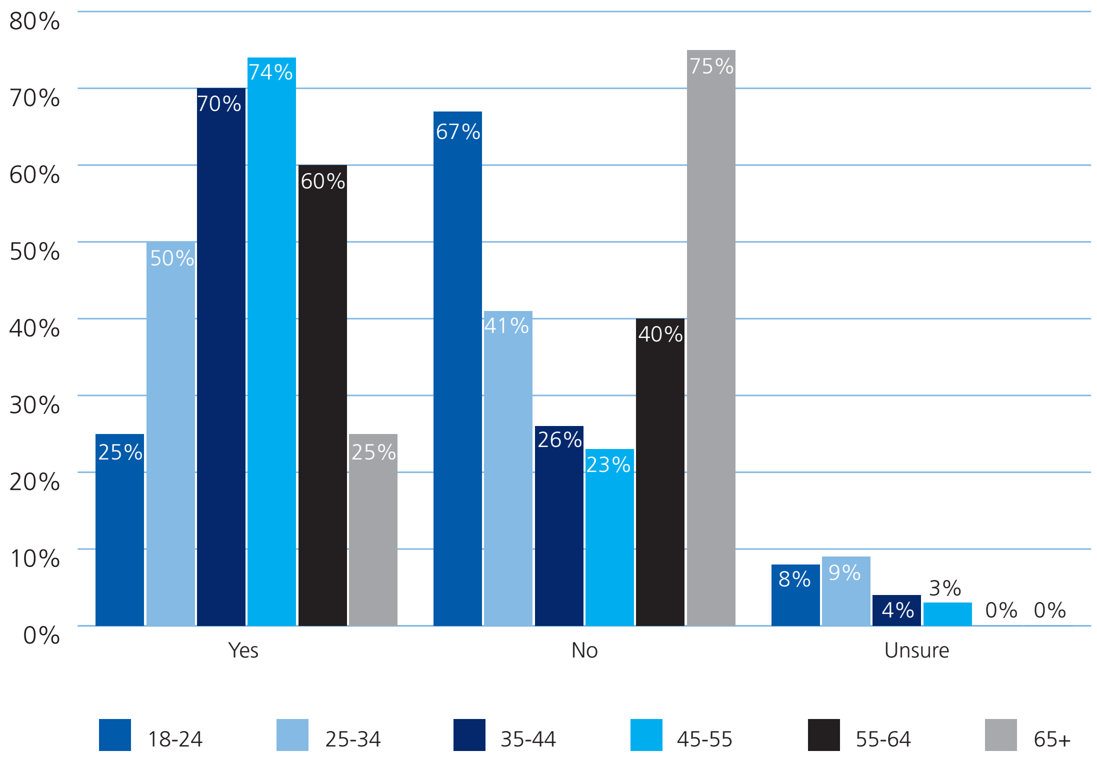


Notable Finding:
It is likely that the relatively high proportion of respondents who said they were not covered is indicative of disengagement rather than actual coverage.

Age was found to be a significant determinant of this 'understanding gap', with 67% of 18-24 year olds saying they had no cover (Figure 6), compared to 42% overall who said they had no cover.

The gap is unlikely to be due to younger employees 'opting out' as most group risk schemes do not allow opting out because it undermines the group principle.

Figure 6. Holding of life cover through super, by age

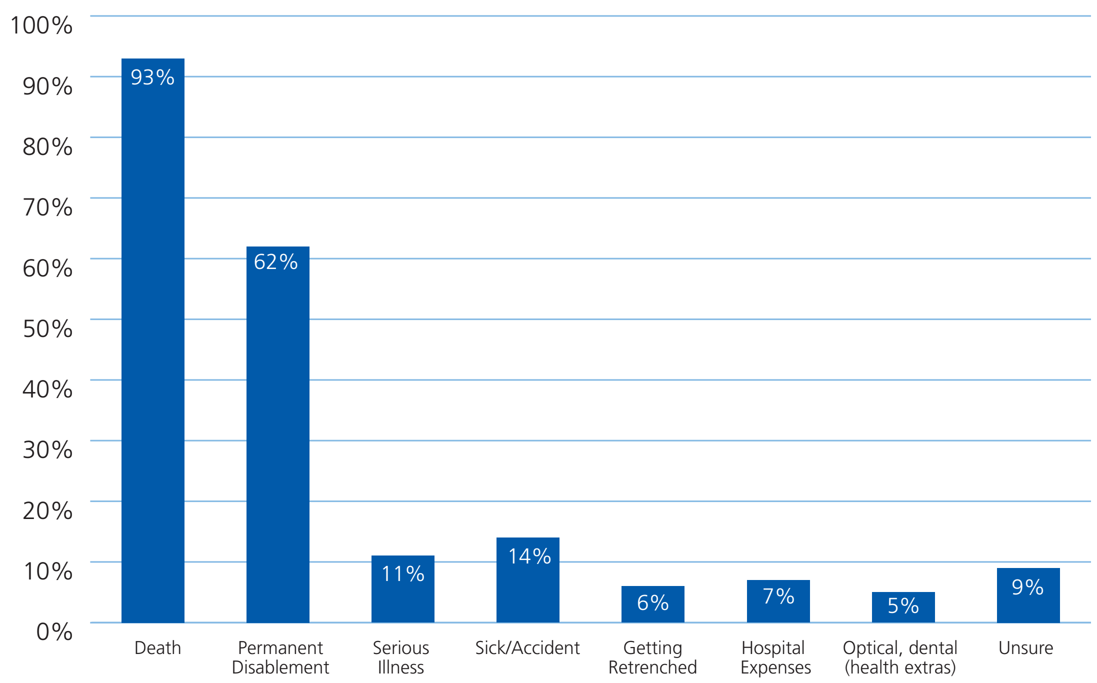


4. What type of coverage people believe they get through super

Those respondents who were aware that they had coverage through their super fund were then asked about what specific coverage their fund offered. The responses further highlighted lack of understanding about the risks that super-based life insurance did and did not protect against.

Whilst over 90% correctly identified death as one of the risks covered, of more concern were the 1 in 9 respondents who believed they were covered for traumatic illness, the 1 in 14 who believed they were covered for hospital expenses and the 1 in 20 who believed their life insurance protected them for optical and dental expenses (as offered through private health insurance).

Figure 7. What risks does your super fund life insurance protect against?



Notable Finding: A significant proportion of respondents incorrectly believed their super fund life insurance covered them for trauma, and other conditions usually catered for by health insurance.

Gender and age differences were apparent with this question; 1 in 10 males believed their super-based life insurance protected them in the event of retrenchment (Figure 8) and 1 in 9 believed they were covered for hospital expenses. The 35 – 44 age group were the most unsure about what they were actually covered for (Figure 9)

Figure 8. Perceptions about risks covered, by gender

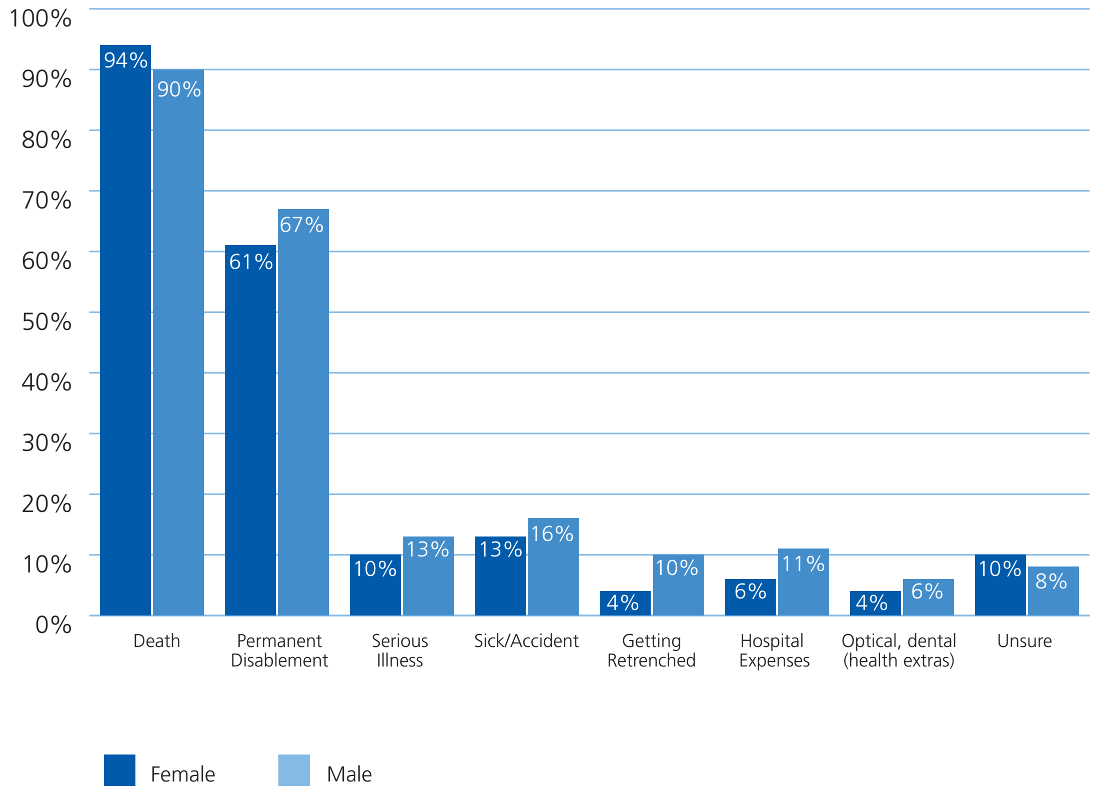
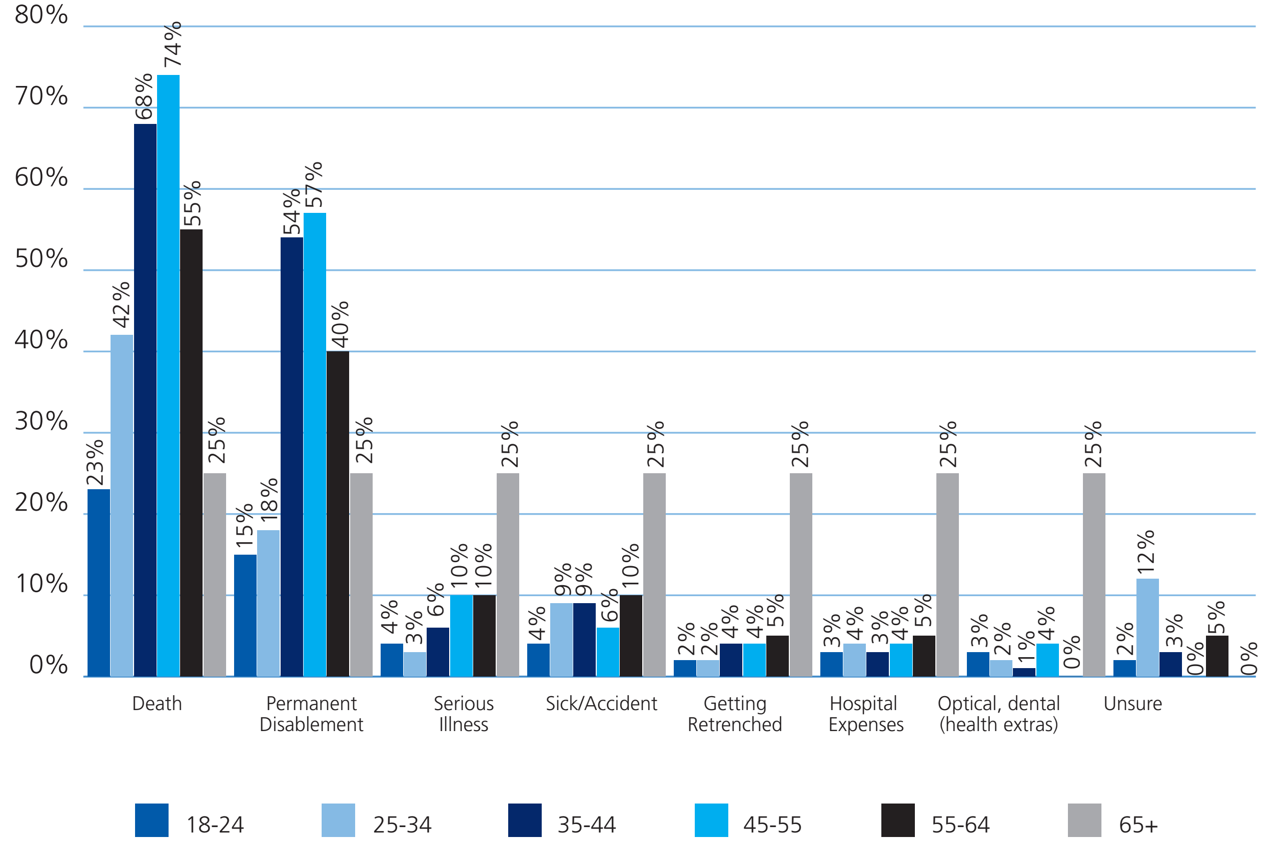


Figure 9. Perceptions about risks covered, by age



5. Lack of knowledge around income protection/salary continuance

One of the more complex life insurance offerings is income protection, also known as salary continuance cover. A series of questions specific to this type of cover revealed significant misunderstandings and unmet expectations in terms of coverage.

Respondents were asked about the maximum proportion of their income that could be protected by salary continuance cover (Figure 10).

Only 23% knew the correct answer to this question, with more than half (53%) unsure, and 22% believing the cover was less than the normal 75%.

Figure 10. Do you know the maximum proportion of your income that can be protected with salary continuance?

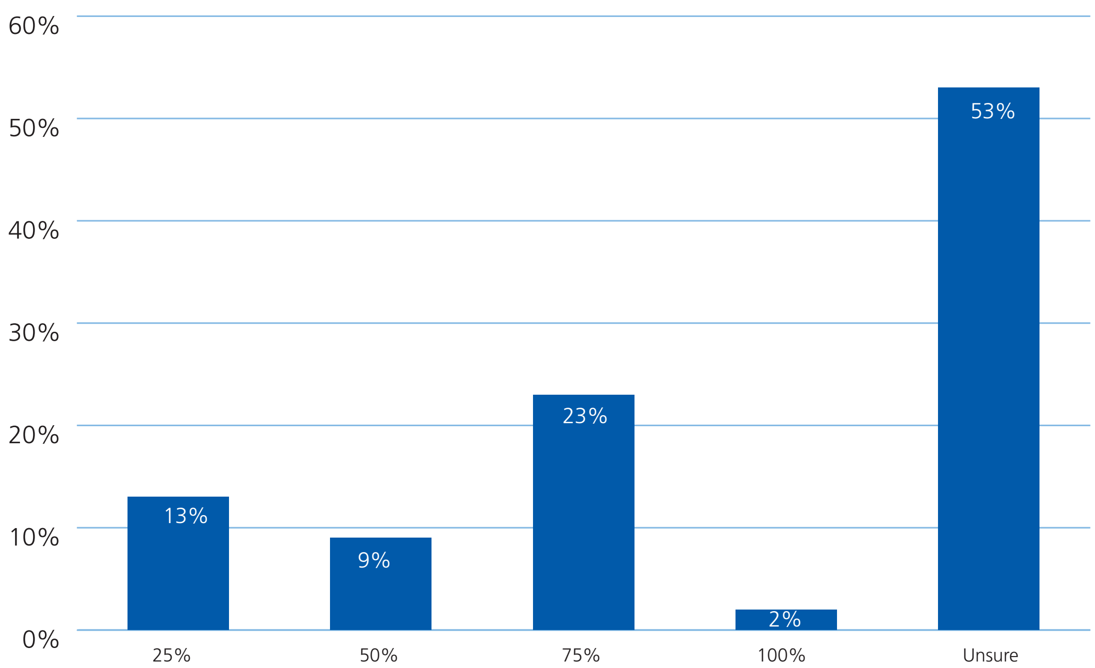
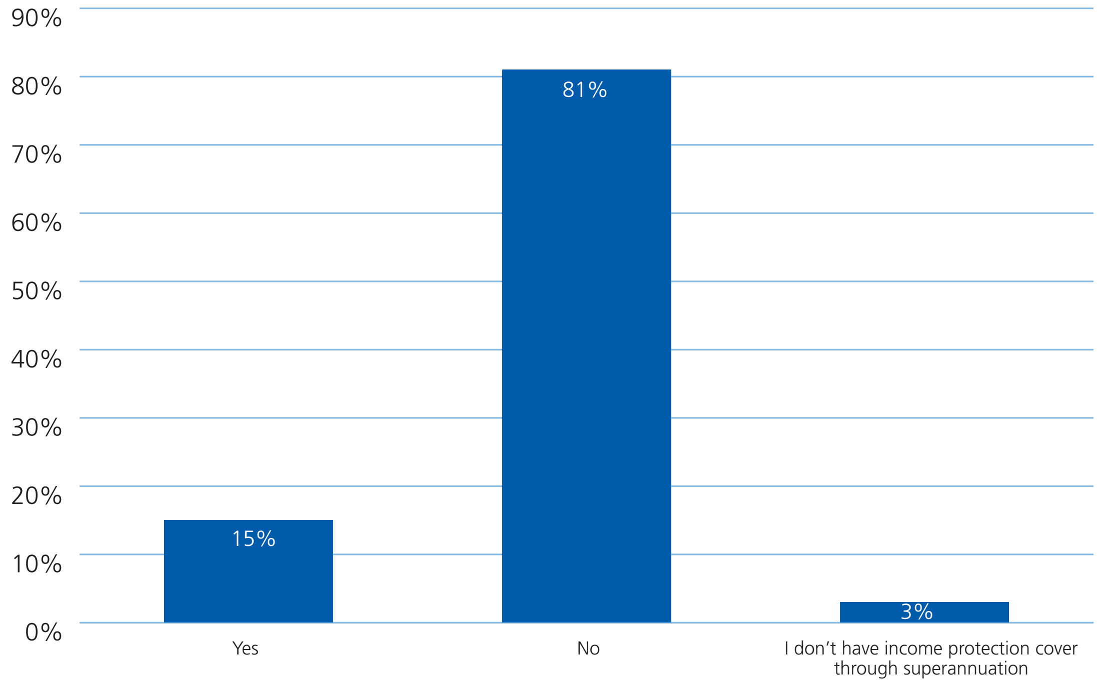


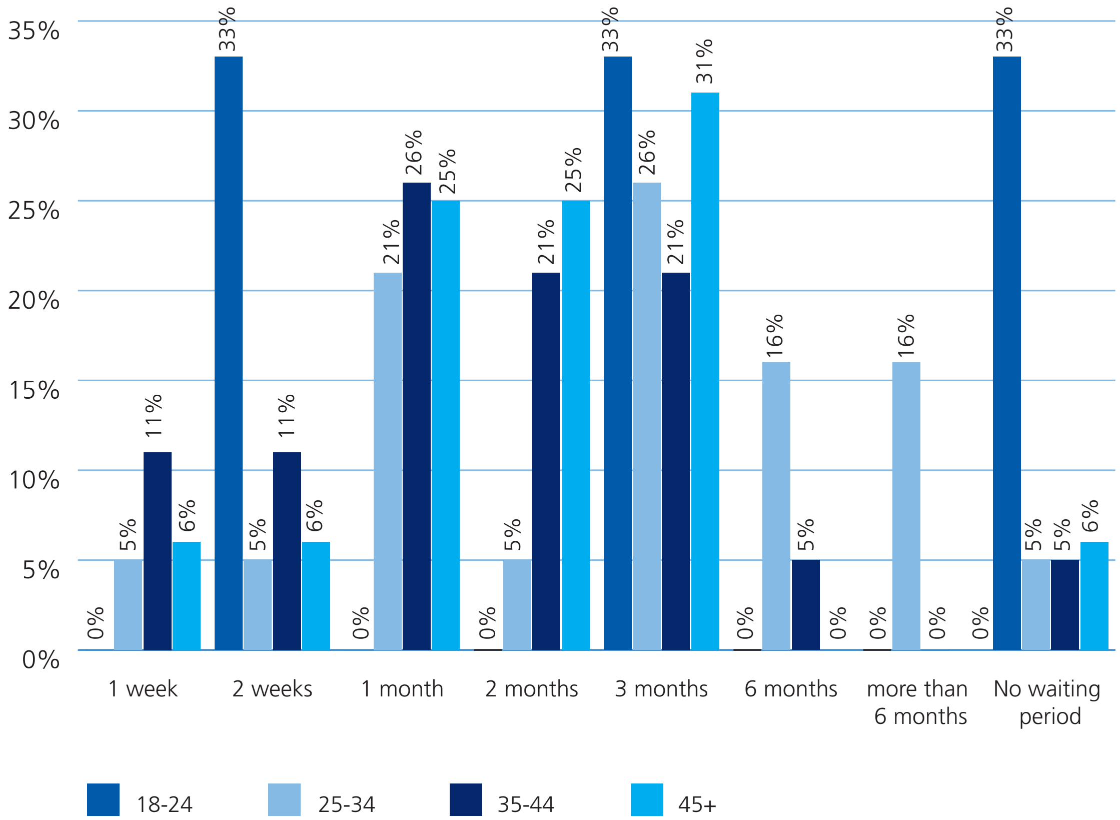
Figure 11. Do you know what waiting period applies to the income protection cover you have through super?



When asked about the waiting period that applied to their income protection cover, 81% were unsure and only 15% indicated they knew (Figure 11). However, of that 15%, more than half (55%) believed the waiting period was 2 months or less (this was 69% for 35–44 year olds, see Figure 12).

Only 26% correctly identified the waiting period to be the ***industry standard 3 months.***

Figure 12. What is that waiting period? (by age)



Notable Finding: Most people significantly underestimate how long they would need to be disabled before salary continuance benefits would be payable.

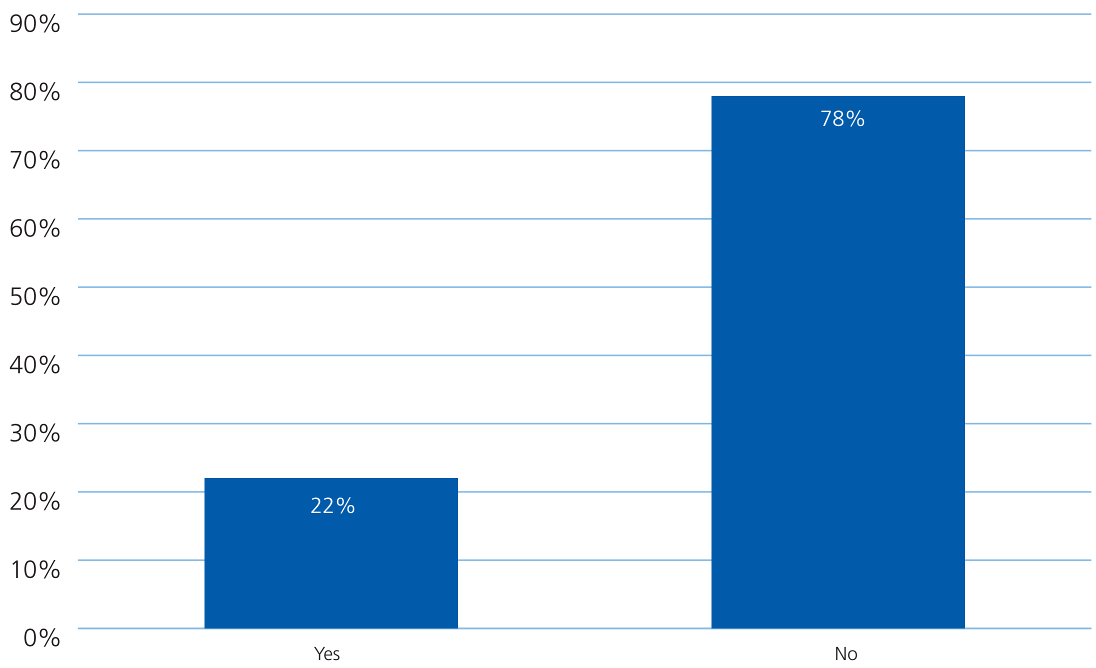
Given the large proportion of people who believe they would survive a month or less with no income before needing to sell assets, this overly optimistic expectation about when protection kicks in could cause significant angst in the event of illness or injury.

6. Analysis of individual needs

Despite the inherent complexity around life insurance, the vast majority of individuals had never conducted an analysis of their own life insurance needs.

Overall, only 22% indicated they had analysed the type and amount of cover that suited their specific needs (Figure 13).

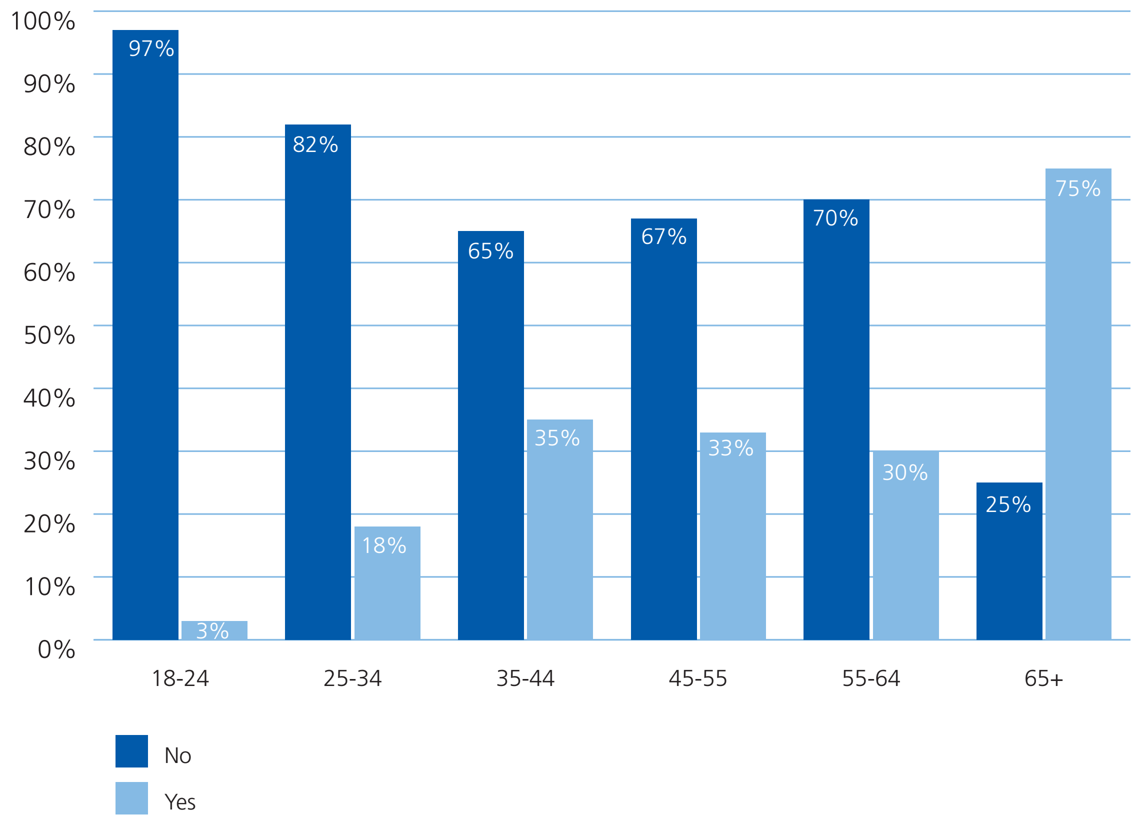
Figure 13. Have you ever analysed the type and amount of life insurance that suits your own circumstances?



Notable Finding: The vast majority of people have never had their life insurance needs analysed either by a financial adviser or by themselves.

Age differences were evident here, with only 3% of 18–24 year olds and 18% of 25–34 year olds indicating they had done such analysis.

Figure 14. Incidence of life insurance needs analysis by age.



Amongst those who had assessed their specific needs, nearly half (46%) said they had done it themselves, with 54% saying they had consulted a financial adviser. (Figure 15).

Amongst those who 'did it themselves', 29% indicated they had simply done their own calculations, and 24% said they had used online tools (Figure 16).

Figure 15. Was that needs analysis conducted by yourself or a financial adviser?

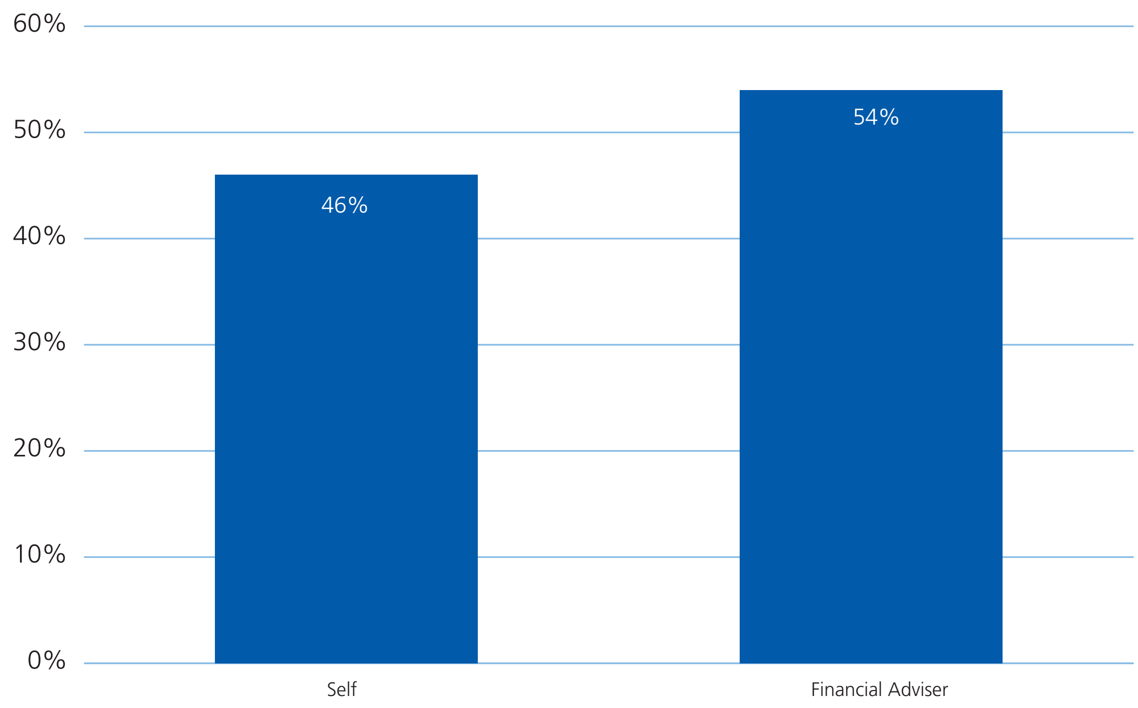
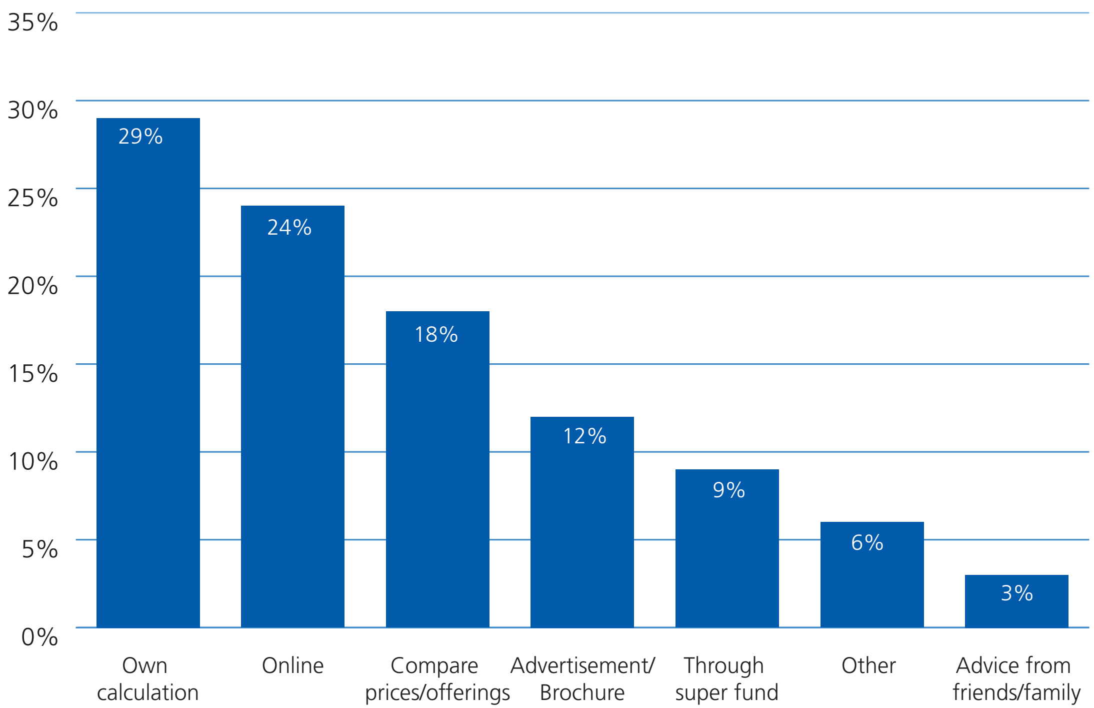
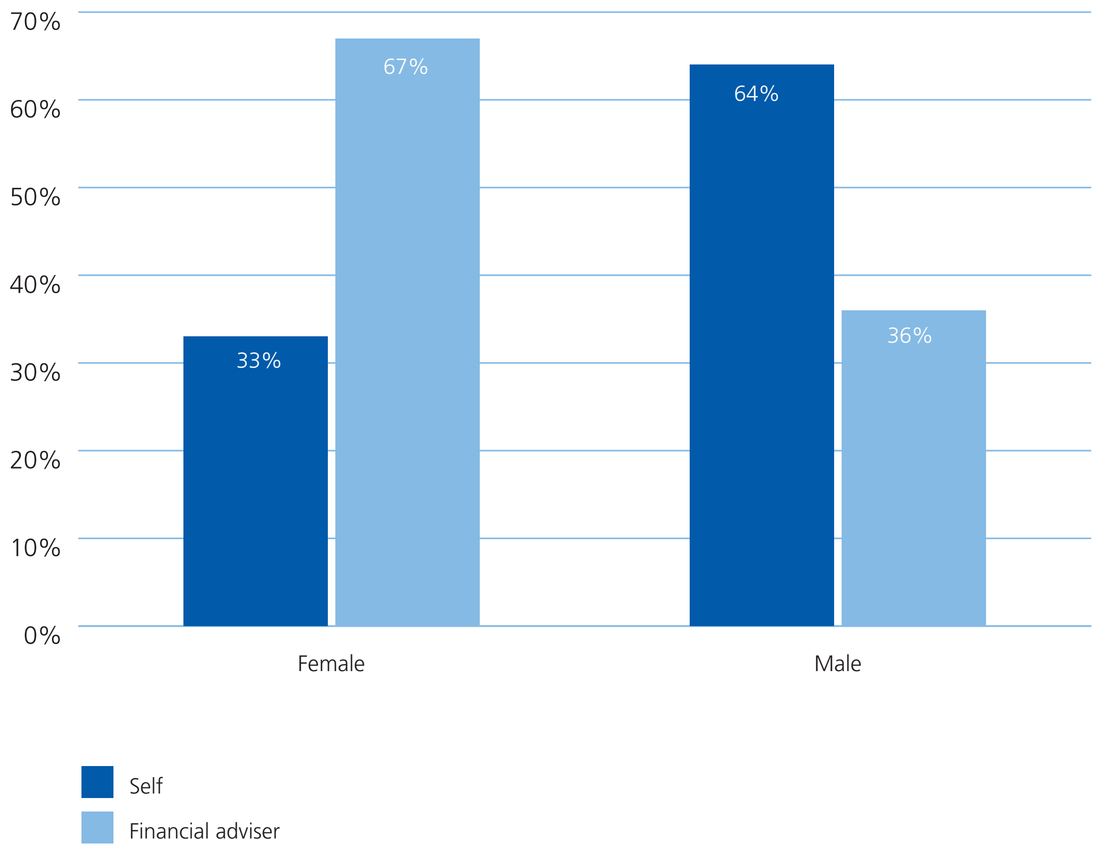


Figure 16. Methods used for self analysis of life insurance needs



Gender differences were apparent amongst those who sought the assistance of a financial adviser to conduct their needs analysis with two thirds (67%) of females saying they were helped by an adviser, compared to roughly the same proportion of males (64%) who preferred to do it themselves.

Figure 17. Who did that analysis, yourself or a financial adviser?



Conclusion

The apparent closing of the life underinsurance gap, as identified by Rice Warner, has been driven by many factors including the increasing ease with which individuals can access cover directly, or via their superannuation fund.

However, there is strong evidence – as quantified in this whitepaper – to suggest there is a possible downside to this trend, namely that it may contribute to a false sense of security amongst individuals with cover (who assume that life insurance is a homogeneous 'box they have already ticked').

Clearly, knowledge and engagement levels with life insurance are extremely low as is the extent to which people have analysed their individual needs..

These factors appear to have combined to create the phenomenon of '**misinsurance**' – where people don't know what they are covered for, aren't covered for what they think they are covered for, or don't have the cover that actually suits their circumstances and risk priorities. Similarly they may not realise what types of cover are even available.

In some circumstances the consequences of having the wrong cover (misinsurance) can be worse than having insufficient amounts of the right type of cover (underinsurance).

The findings reinforce the importance of seeking expert financial advice. They also highlight a broader need for superannuation funds to significantly improve members understanding of their life insurance coverage and for all industry stakeholders to step up efforts to improve risk specific financial education.

Additional sources
1. Superannuation – Australia's View, 2013 Report, FSC and ING Direct.

Research methodology

This research was conducted between September and November 2013. Using Computer Assisted Telephone Interviews (CATI), 394 randomly selected respondents were interviewed. To be eligible to participate in the study, respondents needed to be aged over 18, employed (not self employed), and not covered by a personal (standalone) life insurance policy.

Notes

Notes

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