



Media Release

Securing Australians' Financial Wellbeing

Release of IFSA's Life Insurance Headland Statement

IFSA has today released the Headland Statement '**Securing Australians' Financial Wellbeing**' after 12 months of reviewing the life insurance industry outlook. The Statement provides a framework to increase the financial security of families, individuals and small business owners and outlines key objectives to increase awareness of, support for and simplification of life insurance products and regulation.

"Protecting wealth is as important as building wealth and we're pointing the finger at ourselves first as an industry for not consistently communicating this message effectively enough. The main game for the past few years has been superannuation and the bedding down of financial services reform, but consumer awareness and education as to the benefits and affordability of life insurance products will now be elevated as an industry priority", said IFSA CEO, Richard Gilbert.

"IFSA believes that industry, government and regulators should collectively devote more attention toward making it easier for Australians to protect their income, their families and their lifestyle. Certainly, we believe that government and regulators have a key educative role to play.

"There is considerable concern about rising levels of Australian household debt and the fact that in most cases, a double income is now required to service that debt. Many families will struggle under the burden of this debt and have to re-assess their living arrangements and children's education if either parent were to fall seriously ill or die.

"Beginning with the release of this Headland Statement, IFSA will undertake an awareness campaign over the next three years that will highlight the importance of, and in particular, the affordability of adequate life insurance cover and other 'living benefits'.

"Two of the most interesting findings were that for an average 31 year old male, married with two children and earning \$75,000 per year, three quarters of a million dollars of death cover and \$4,700 per month of income protection - together- costs an average of \$2.83 per day", Mr Gilbert concluded.

A key feature of the Headland Statement is a proposed policy review of the life insurance industry in order to examine the 'public good' nature of life insurance and income protection products and to examine the underlying social and economic consequences of the underinsurance problem in Australia. The proposed review would also look at new ways to encourage take-up of life insurance and income protection products and to reduce impediments to take-up.

A copy of the Headland Statement can be downloaded from the IFSA website: www.ifsa.com.au

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IFSA represents the retail and wholesale superannuation, funds management and life insurance industries. IFSA has over 140 members who are responsible for investing over \$950 billion, on behalf of more than nine million Australians. Adherence by Members to IFSA Standards and Guidance Notes ensures the promotion of industry best practice.



Investment and Financial Services Association Limited

Life Insurance Headland Statement - Securing Australians' Financial Wellbeing 2007 - 2010



strength through advocacy

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Letter from Richard Gilbert



Life insurance protects assets during difficult times. Whether a person suffers a critical illness, injury or dies, life insurance provides financial assurance.

However, the role life insurance plays is not well recognised by most Australians. Many Australians are confused, wary, unaware or complacent about protecting their greatest asset - their ability to earn income. The industry has also suffered from a tarnished public reputation, based on some common misconceptions.

While much reform has taken place over the past decade, the life insurance industry has not done enough to overcome various perceptions about its products and services. The objective of this Headland Statement is that over the next three to five year period:

Australians will better understand the fundamental role of life insurance in securing their financial wellbeing

When mandated superannuation was introduced, many Australians did not understand or support the purpose and the role it would play in their lives and in society. There has been a fundamental shift in the nation's attitude to superannuation: today it is regarded as critical financial infrastructure provided by a professional and trustworthy industry.

The major shift in public perception of the superannuation industry is the result of education and awareness campaigns undertaken by the industry, government, regulators and other

stakeholders. Successive regulatory reforms have also increased professional standards, removed unnecessary barriers and most importantly, increased retirement savings.

The life insurance industry considers that it is necessary to accelerate a similar program of reform to achieve a fundamental shift in terms of awareness and understanding of the critical role life insurance plays in protecting assets and wealth creation. Life insurance provides financial security during adversity and reduces the reliance on savings, the sale of assets or taxpayer funded social security.

Industry, government and regulators can assist in achieving this objective through three key principles outlined in this Headland Statement:

- Awareness;
- Support; and
- Simplification.

This Headland Statement surveys the current environment and industry outlook, and provides a framework to help increase the financial security of individuals, families and small business owners.

Richard Gilbert
Chief Executive Officer
Investment and Financial Services
Association

August 2007

IFSA's Vision for the Future

The Investment and Financial Services Association's vision is to promote policy and regulatory changes and industry initiatives that ensure:

- adult Australians have sufficient levels of life insurance cover (either through superannuation and/or directly) to meet their personal liabilities and ensure the financial security of their families in the event of death; and
- the majority of Australians protect themselves against financial hardship caused by sickness, accident or injury.

To achieve this vision, fundamental change needs to be undertaken by the industry and through mainstream regulatory and policy reforms.

IFSA recognises that this is a major challenge that requires continued action by many stakeholders over a period of time. IFSA has developed this Headland Statement to provide a framework for moving towards our vision for the future.

This Headland Statement takes a three to five year perspective. The objective is that the three principles of *Awareness, Support and Simplicity* should guide all stakeholders in developing programs and policies to improve the national understanding of the role life insurance plays in the community.

Principle One: Awareness

Research undertaken by TNS between 2005 and 2007¹, and commissioned by IFSA, identified that, while most Australians have a basic understanding of life insurance products, there is significant confusion and lack of awareness about the role the life insurance industry serves in protecting the livelihoods of Australian families.

IFSA believes that considerable effort must be undertaken to increase the awareness of the benefits life insurance provides to individuals, families, small business owners and the community. *Protecting wealth is as important as building wealth.*

In order to increase awareness of the role of life insurance in securing financial security, the following areas need to be addressed.

The importance of life insurance

Most people insure what they believe to be their most valuable assets: homes and cars. People are acutely aware of how devastating it would be to their financial plans if they were to lose either of these valuable assets. Insurance provides peace of mind and financial security.

Unfortunately, as IFSA's research has shown, not nearly enough people consider insuring their most valuable asset: their ability to earn income. Loss of income during difficult times such as debilitating illness, disability or death will affect the ability of most

Australians and their families to pay for the assets they value.

Difficult times are hard enough without having to worry about money. While most people would rather not think about the possibility of illness, injury or death, unfortunately such incidents are more likely to happen than an event that threatens their home.

An AMP.NATSEM (National Centre for Social Economic Modelling) report entitled *Health and Income in Australia* showed that 53% of Australians over 30 suffered from at least one of the government's seven priority conditions identified under its National Health Priority Areas. These conditions can lead to long-term disability and consequently, a long-term loss of income.

Without appropriate insurance, families can suffer severe financial hardship during chronic illness, injury or the death of an income earner or stay-at-home parent. Likewise, individuals can suffer the same financial hardships. Valuable assets may need to be sold. The social security or welfare system may be a first or last alternative. If a small business owner is unable to work due to injury or illness, the business and its employees may be at risk.

Life insurance products provide financial security to all of these groups - individuals, families and small business owners. The industry, government, regulators and other stakeholders must therefore do more to promote the importance of considering appropriate life insurance.

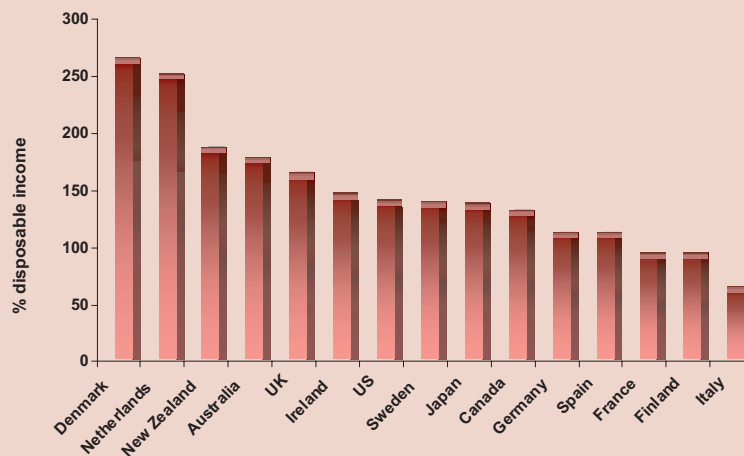
¹IFSA/TNS, *Investigating The Issue of Underinsurance in Australia (July 2005); Investigating Income Protection Insurance in Australia (July 2006); The Language of Life (November 2006), The Sum of Life (June 2007)*

Principle One: Awareness

Rising Household Debt

The importance of appropriate life insurance cover is heightened by the rising levels of Australian household debt. Australia has the fourth highest level of household debt in the OECD, as shown in the following chart:

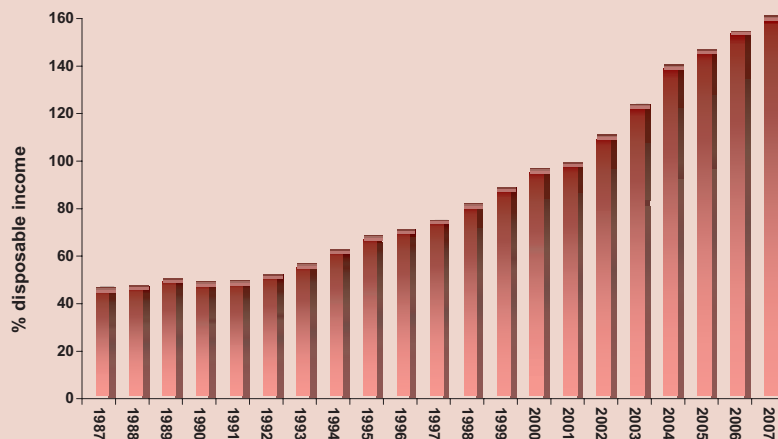
Household debt among OECD nations - 2005



Source: Data derived from OECD Economic Outlook No.80, Preliminary Edition, November 2006, Page 205

The OECD expressed concerns about the vulnerability of OECD nation households in light of the increasing levels of debt. An ever increasing proportion of Australian household income is needed to service debt repayments.

Household Debt in Australia - 1987-2007



Source: Reserve Bank data to March 2007

Principle One: Awareness

The average Australian family borrows \$235,000 for a new mortgage which requires 35% of income to meet the repayments². In addition to a mortgage, Reserve Bank data in August 2006 highlighted that the average Australian family has \$16,000 in personal loans and \$4,600 in credit card debt. The RBA noted that many families rely on two incomes to service this debt.

These large debt levels demonstrate that, without adequate protection, the financial wellbeing of Australians and their families is at great risk in the event of loss of income due to injury, illness or death.

The industry, government, regulators and other stakeholders must do more to promote the importance of considering appropriate insurance to secure the financial wellbeing of households with high levels of debt.

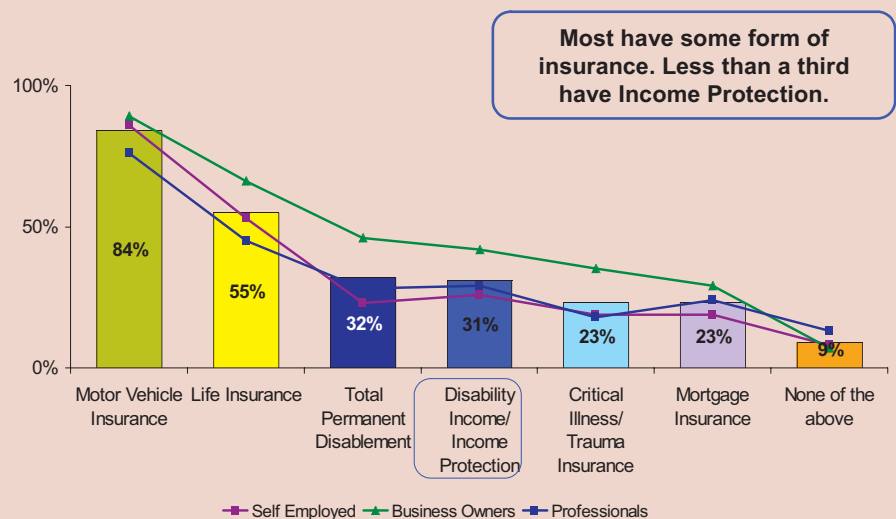
The Protection Gap

In August 2005, IFSA commissioned research that contained a disconcerting revelation - Australian parents with dependant children were critically underinsured by \$1,370 billion dollars in life cover.

This, the first of a number of research projects investigating the 'protection gap', revealed a nation exposed; 2.47 million families were open to the risk of financial hardship if either parent died. Further research, conducted in August 2006, showed that nearly 70% of people in small business were not insuring their most important asset - their income.

The following graph compares the types of insurance people currently have. While more than half have life insurance, the size of the life protection gap shows the amount of cover is nowhere near adequate to ensure financial wellbeing during difficult times.

What do people currently have? Types of insurance



Base 503, Self Employed n = 213, Business owner n = 166, Professionals n = 124

Source: TNS/IFSA, Investigating Income Protection Insurance in Australia (July 2006)

²Real Estate Institute of Australia

Principle One: Awareness

Many working Australians are provided limited death insurance through the 'group' life cover offered by their superannuation funds. This insurance is not subject to the underwriting process and a fixed amount is "automatically accepted", for example, a payment of \$50,000 in the event of death. RiceWalker estimated, in their Protection Gap research for IFSA, that the average level of cover provided through superannuation represents just 20% of the needs of the average Australian.

Average group life cover levels are around \$70,000, which is \$165,000 short of the average new mortgage.

IFSA will develop an action plan with government and regulators to identify measures to narrow the protection gap, thereby helping ensure that Australians have financial security during difficult times.

A Modern Industry

Prior to the 1980's, the main products offered by the Australian life insurance industry were savings-orientated, whole-of-life and life endowment policies.

Life insurance products were traditionally sold through 'tied' agents, who distributed products on behalf of one life office only.

Many Australians have a misplaced perception about the life insurance industry. They are not aware that the industry has changed markedly since

the 1950s and that most products now focus on 'living' benefits.

The advent of mandatory superannuation, innovation in managed investments, taxation changes, along with competition has changed the role of life insurance as a savings vehicle. Today, managed investments and superannuation are the primary savings vehicles for Australians.

The TNS research highlighted that many Australians were not aware of the companies who currently offer life insurance in the modern industry. There was also confusion about the products that are offered.

The main products offered today are risk products and diversification has created a wide range of product types to suit consumer needs. Such products provide replacement income or a lump sum payment in the event of a person's inability to earn an income due to illness, disability or death.

Life insurance is now provided through a diverse range of channels including superannuation funds, financial advisers and direct marketing. The industry is always seeking new ways to improve its accessibility to consumers and financial advisers by investing in e-commerce infrastructure and improvements to administration.

IFSA will undertake a campaign to increase public awareness of the modern life insurance industry.

Reputation and Integrity - dispelling the myths

The TNS research confirms that the life insurance industry has an image problem. This image is based on incorrect assumptions and a lack of factual awareness. The industry must undertake campaigns to raise awareness of the facts in order to dispel these common myths.

The following are a number of areas that IFSA will highlight.

Fact 1: Life Insurance companies pay claims

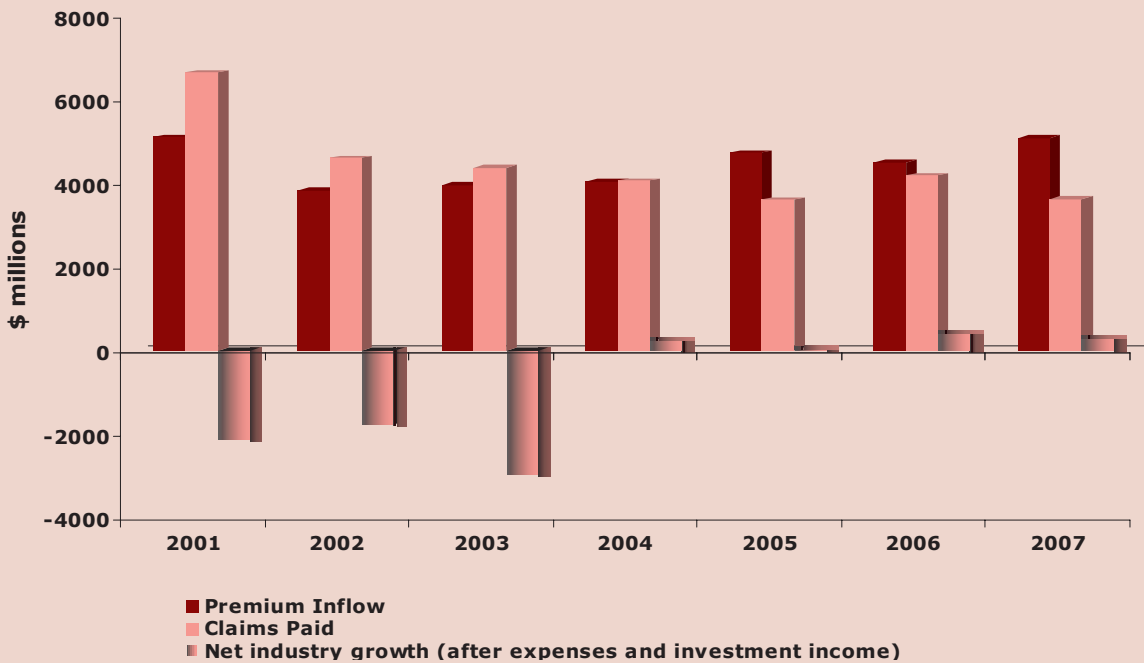
Over the past seven years life insurance companies have paid a total of \$265 billion³ in claims and retirement benefits (directly and through superannuation). If the majority of Australians had adequate life insurance, the amount paid out would increase markedly.

For non-superannuation business, the graph on the following page shows that life insurance companies paid more claims than they received in premiums in four out of the past seven years.

³APRA Life Insurance Trends March 2007, based on data to 31 March 2001-2007

Principle One: Awareness

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



Source: APRA Life Insurance Trends, March 2007

Fact 2: Life Insurance is affordable

The TNS research revealed a common view among those surveyed that life insurance is expensive and is only for the "well off". The industry needs to raise awareness that securing financial wellbeing is affordable for most Australians.

The fact is that premiums for financial peace of mind are affordable. As shown on the following page, securing both death cover **and** income protection for a 31 year old male, married with two children and earning \$75,000 would cost an average premium of \$2.83 per day.

Principle One: Awareness

How much do wealth protection products cost?

A 31 year old male, married with two children, would pay:

Salary	Life Insurance		Income Protection	
	Recommended cover	Average Premium per day	Recommended cover	Average Premium per day
\$55,000	\$550,000	\$1.06	\$3,500 per month	\$1.20
\$75,000	\$750,000	\$1.35	\$4,700 per month	\$1.48
\$100,000	\$1,000,000	\$1.61	\$6,300 per month	\$1.86

Notes:

Life insurance pays your beneficiaries a lump sum if you die

Premiums as at 24 April 2007 and are devised using the calculator on www.cannex.com.au

IFSA found premiums for as low as \$0.93 per day and as high as \$1.18 per day (\$550,000 cover)

\$1.00 per day to \$1.53 per day (\$750,000 cover) and \$1.00 - \$1.87 per day (\$1,000,000 cover)

Income protection replaces your income if you fall sick or are injured and cannot work

Premiums as at 24 April 2007 and are devised using the calculator on www.cannex.com.au

IFSA found premiums for as low as \$0.81 per day and as high as \$1.58 per day (\$3,500p/m cover)

\$0.94 per day to \$1.91 per day (\$4,700p/m cover) and \$1.20 - \$2.44 per day (\$6,300p/m cover)

Fact 3: Most people are insured at standard rates

According to the TNS research, many people are concerned about the process involved in applying for insurance and some fear they will not be provided life insurance for health reasons.

The reality is that most people are insured at standard rates. For example, previous IFSA data indicates that around 93% of applicants receive life cover at standard rates.⁴

The life insurance industry operates on a risk basis which is determined by an underwriting process. People who have a higher risk of developing chronic illness are generally required to pay an extra premium to cover this risk. A very small number are not able to be covered.

IFSA will continue to work with regulators and other stakeholders, such as the Mental Health Council with whom we have had a Memorandum of Understanding since 2002, to improve

public awareness of the underwriting process and the potential impact it may have on the ability to obtain insurance at standard rates.

⁴IFSA Member Survey 2000

Principle One: Awareness

Fact 4: Most people do not have enough insurance

Again, the TNS research reveals a level of complacency among Australians as to whether they have adequate insurance cover. Many people are confused as to whether they have life insurance or not. Some consider that superannuation will be accessible to support them through difficult times caused through illness or disability.

It can be uncomfortable for people to think about the possibility of debilitating illness or injury, or their eventual death. Some do not want to think about these issues due to their relative good health or an "it won't happen to me" mentality. Most Australians still insure their cars and homes even though they don't like to think about what could go wrong, or believe that it's unlikely that they will face potential problems. Unfortunately, around 24,500⁵ people will be killed or seriously injured, on Australian roads alone, before Christmas this year*.

Why do people take out general insurance for cars and homes? Because it makes financial sense to insure against a future loss that could have a devastating impact on their financial wellbeing.

IFSA believes that Australia needs to undertake a fundamental cultural shift towards the need to make appropriate arrangements in the event of loss of future income due to illness, disability or death. Considering these issues should not be seen as negative or morbid. Instead it should be viewed as a sensible, well rounded approach to achieving basic financial wellbeing. That is: make money, save money and protect money.

IFSA will do more to raise awareness about the facts on life insurance in order to overcome common myths and perceptions about the industry.

Priority 1: Awareness campaigns

The industry will undertake a focused communications campaign that creates awareness and understanding of the importance of adequate life insurance cover to secure financial wellbeing.

Government and regulators can assist in achieving IFSA's objective of raising awareness about the role life insurance serves in ensuring financial health. For example, ASIC and the Financial Literacy Task Force could work with the industry to better promote awareness.

⁵Australian Transport Safety Bureau: Road Crash Casualties and Rates, 1925-2004. www.atsb.gov.au

*This is equivalent to the population of Goulburn NSW, or Fremantle WA

Principle Two: Support

IFSA believes that there is a very similar 'social agenda' relationship between life insurance, superannuation and private health insurance.

The introduction of mandatory superannuation and private health care incentives created a focus on the principle of individual self-reliance. Mandatory superannuation is designed to ensure an increasing level of self provision for retirement with a consequent lower reliance on social security. Private health care incentives are designed to increase participation in the private health system and consequently relieve the pressure on the public health system.

Governments have worked effectively to create incentives and simplify these regimes in recognition of the principle that individuals should take some responsibility for their financial well being.

Life insurance similarly has a crucial role to play in the community.

An AC Nielsen Poll conducted for the Commonwealth Bank in February 2006, revealed that in the event of a loss of income for three months (due to sickness, disability or injury), 31% of people would mainly rely on savings, 21% would rely on government welfare and 20% would rely on family members.

The liquidation of savings or increase in family debt should not have to be a first resort during hard times; nor should dependence on social security or reliance on other family members.

As discussed under Principle One, the life insurance industry has paid billions in claims over the past seven years - over \$31 billion in non-superannuation benefits. This means that Australians and their families who have lost income due to illness, injury or death have been saved from selling billions of dollars of assets or from relying on social welfare.

Increasing self sufficiency

The superannuation industry is well recognised as providing important support to the nation - assisting Australians to fund their retirements and reducing their reliance on social welfare.

The strength of the life insurance industry has reduced the need for reliance on tax-payer funded assistance to Australians suffering financial hardship due to sickness, injury or death.

Increased longevity and participation in the workforce beyond traditional retirement age will increase the impact life insurance will have on reducing the need for social welfare when Australians lose income due to illness, injury or death.

Similarly, life insurance has parallels with the private health insurance regime. The private health industry is predicated on the fact that people earn an income to pay for medical treatment and then receive a partial repayment from the insurer. HICAPS - where the patient only pays the "gap" between the

cost of the treatment and the amount rebated by the insurance company - still requires income to cover the gap.

If serious injury or illness that prevents a patient from earning income to cover the costs of considerable gap payments, the patient may be forced to sell their assets or revert to the public health system. This is at odds with government policy in providing incentives for Australians to use the private health system in order to reduce the stress on the public system.

The potential inter-relation of life insurance with social welfare, superannuation and private health insurance will be compounded as our population ages.

Incentives to increase participation

IFSA considers that it is important for industry, government and regulators to commence discussions on ways in which we can increase the support provided by the life insurance industry to the community. Closing the Protection Gap will protect household wealth and reduce the future reliance on social welfare.

Principle Two: Support

As was originally the case with superannuation, it is unlikely that raising awareness levels under Priority One, on its own, will be enough to encourage the majority of Australians to take up adequate levels of life insurance.

The ageing of our population presents many policy challenges. The industry considers that it can play a vital role in alleviating the social pressures created by an ageing population. We consider it is time to open a policy dialogue that recognises this important role and explores ways in which the industry may be supported in achieving its future vision.

Addressing the issue of retirees living longer

Longevity has increased by more than the Commonwealth Government originally foreshadowed in the first Intergenerational Report (IGR). Under the concept of 'potential support ratios', in 2007 there are 5 people of working age to support each person aged 65 and over. By 2047, there will only be 2.4 people of working age supporting each person aged 65 and over.⁶

Over the past five years, life expectancies have risen more rapidly than expected; a trend that is projected to continue. The IGR shows that men born in 2047 are now projected to live an average of 6.9 years longer than those born in 2007, and women an average of 6 years longer.

Working with government and others, the industry needs to explore the effect this has on retirement incomes and the role the life industry can play in alleviating any social pressures that 'longevity risk' creates.

Priority 2: Supporting an industry that supports the community

There should be a policy review of the role the life insurance industry plays in supporting Australian families and its interaction with social welfare and the private health industry. The review should consider ways to increase incentives for Australians to take up adequate life insurance and reduce their reliance on existing assets or social welfare when income is lost due to illness, injury or death.

⁶Intergenerational Report, April 2007

Principle Three: Simplification

Language, products and administration

The industry will continue to work on simplifying the language used in order to enhance awareness and understanding of life insurance products. Furthermore, the industry will continue to design product lines that Australians can appreciate and understand.

The industry will continue to streamline the administrative processes to make it easier for Australians to apply for life insurance products and for financial advisers to work with life insurance companies.

Regulation

The Financial Services Reforms (FSR) have markedly increased the quality of financial advice to those who can afford it. However, life insurance is regulated differently, depending on whether it is stand-alone insurance or cover provided within a superannuation fund. IFSA considers that the relevant Acts should be reviewed and amended to achieve consistent regulation of life insurance - in accordance with the spirit of the original FSR objectives.

The industry, government and regulators should continue to work together to identify and remove any unnecessary regulatory red tape and harmonise regulation for life insurance products.

Examples already identified by the industry include:

- Stamp duty is overly complex and differs between each State. It creates complexity and cost for life companies and therefore consumers. Stamp duty should be harmonised in accordance with IFSA's proposed Uniform Life Insurance Stamp Duty Model or abolished in accordance with the spirit of the GST Agreement and in the interests of more universal coverage.
- Different tax treatments apply to stand-alone insurance and insurance through the superannuation system. Insurance should be subject to the same tax treatment notwithstanding its "regulatory classification".
- APRA's capital requirements could be improved so that they are more focused on sound economic and risk-based principles.

•The need to continue to monitor the compliance requirements of FSR and to enhance the regime to ensure the provision of advice and services to consumers. In particular, the regulatory framework should facilitate access to quality financial advice for all Australians in light of the vulnerability of particular sections, eg young families with high levels of debt and new small business operators.

•Remove anomalies and inconsistent regulatory outcomes in various taxation laws, the Life Insurance Act and the SIS Act.

Priority 3: Product and Regulatory Simplification

Industry will continue to work on simplifying its language and products.

The industry, government and regulators should work together to simplify the regulatory regime by reducing unnecessary regulation and harmonise regulation of similar life insurance products.

The Challenges Ahead

This Headland Statement has scoped three priorities for the industry, government and regulators to consider, specifically:

1. An awareness campaign that creates recognition and understanding of the importance of adequate life insurance cover to secure financial wellbeing of Australian families and small businesses.
2. A policy review of the role the life insurance industry plays in supporting Australians and its interaction with superannuation, social welfare and the private health industry.
3. A simplification of the regulatory regime governing life insurance and ongoing simplification of life insurance products and their accessibility.

Based on the three key principles of *Awareness, Support and Simplicity*, IFSA will consult with all interested stakeholders over the next two to three years.



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