

We're all in this together

Emma Grainge explains an industry campaign aimed at addressing Australians' woeful underinsurance

Most of us wouldn't think twice about getting the right level of motor insurance to ensure we could repair or replace our car in the event of an accident. Yet too few people ensure they have the right level of cover to replace their income (arguably their greatest asset) in the event of the same accident. Surely Australians value their ability to earn an income more than their car?

This is the conundrum at the heart of Lifewise, an industry campaign that hopes to reduce the personal, social and economic costs associated with the fact that a majority of Australians are significantly exposed to financial hardship in the event of accident, sickness or death.

Picture this: Tim enjoyed the boom times. He really stretched his finances and took out a large mortgage to purchase a family home that is now worth 15 per cent less than it was three years ago. A car accident means that he needs to take six to 12 months off work to focus on treatment and recovery. There's no equity in the home to fund the time he needs off and the value of his small investment portfolio has also fallen significantly. He has life cover and income protection cover in his corporate super fund, but only at the default levels. While this provides some support, it leaves a significant shortfall which means he, and his family, must make significant adjustments to their lifestyle at great personal cost.

Unfortunately, this scenario is all too common. The 2005-2006 Australian Institute of Health & Welfare report into serious land transport accidents showed that more than 17,000 men were seriously injured in a road accident in that year.

Research commissioned by the Investment and Financial Services Association (IFSA) in 2005 found that 60 per cent of Australians with dependents do not have enough life insurance cover

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to replace their income for more than 12 months. Research by the Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF) in 2008 revealed that one in two super fund members have significantly less death cover than they need and three in four have significantly less total and permanent disability (TPD) cover.

That's not to say super funds haven't been making a valuable contribution to address this issue - they have. Many funds have increased the level of cover automatically provided to their members and are actively promoting the value of this benefit. Increasing the default cover is a move very much supported, but in reality the only way someone can ensure they have adequate protection from financial hardship is to take an active interest in the issue, consider their own risks and how they should manage those risks.

Not having the right level of cover means that many Australians are facing severe financial difficulty while also dealing with the emotional and physical stress associated with having an accident, becoming sick or losing a loved one. Having the right level of cover gives people the financial free-

dom to focus on what's important - their health, lifestyle or the family.

SHE'LL BE RIGHT, MATE

In good times, Australians' trademark optimism makes it easy for people to ignore life's risks. Research conducted by AXA in 2007 compared how the citizens of 11 countries view various risks. It revealed that Australians were among the least likely to consider they'll have an accident in the work place, have a serious car accident or suffer from a serious illness.

Similar research conducted by ING in 2008 showed that only 20 per cent of Australians aged 25 to 65 think they're likely to have a serious illness in the next 20 years. The reality is around 77 per cent of Australians will be diagnosed with a serious illness in their working lives. Worryingly, two-thirds of Australians surveyed by ING said they had "a plan" in the event of major misfortune, but most of these arrangements relied on global economic prosperity.

While this optimism undoubtedly serves us well in some aspects of our lives, the ING research shows it can mean we ignore risks that can be easily managed - either through having adequate savings or the right levels of insurance cover.

Cost is often cited as a barrier for many people - and undoubtedly some household budgets are stretched. However, the perception that life insurance is prohibitively expensive is in many cases untrue, especially when compared to other types of insurance.

According to AXA, a 40-year-old, non-smoking male can take out \$500,000 of life insurance for \$7.85 a week and for a female it is only \$6.36. For a home valued at \$600,000, insurance can cost between \$17.30 and \$24.00 per week while insuring

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a standard new vehicle costs between \$12.10 and \$26.90 per week.

But it's not just apathy, cost concerns and misplaced optimism that prevent Australians from approaching life insurance as just another one of those financial decisions you need to make. The industry recognises it has much to do to improve the customer experience and demonstrate the value of insurance.

Life insurers acknowledge that product complexity, and approval times and processes have been an issue and many companies have invested considerably in simplifying products and implementing new technologies. With the industry paying out more than \$6 million every day in claims, more could certainly be done to explain the improvements the industry has made and the value the industry gives back.

Having identified the issue in 2005, superannuation funds, insurers and planners have already done much to improve the situation for Australians. But a co-ordinated effort is required if we're going to shift Australians' attitudes towards the

life risks they face and the various ways they can protect themselves.

Through the Lifewise website, Australians will be able to access general information that will help them feel confident approaching life insurance decisions in the same way they do other insurance matters. The website will have user-friendly tools, such as a basic insurance needs calculator, Q&A, budget planner, testimonials and case studies. It is hoped that this information will enable them to feel comfortable assessing their risks and thinking about how to manage them.

Lifewise is being coordinated by IFSA and has first-year funding via special contributions made by IFSA's life insurance and reinsurance members. Lifewise will be supported and used by many in the industry community – insurers, superannuation funds and advisers. Lifewise will also be developing partnerships in the broader community via the media and community groups.

To be officially launched at a luncheon in Sydney on May 1, 2009, the campaign will start with a website and "how much is enough" calculator to

educate consumers about the risks they face, how they can protect themselves and how much protection is likely to be required, along with estimated costs.

Financial planners are encouraged to use the site and consumer tools to educate clients about how life insurance works and the benefits.

Through Lifewise we hope that all Australians will get wise on life insurance and make sure they have the right level of insurance cover. Not only will this give them peace of mind now, it will secure their long-term financial wellbeing, no matter what life throws their way. ■

The life insurance industry launches Lifewise on May 1, 2009, to encourage Australians to make conscious and informed decisions about their life insurance needs. To attend the launch, register at the IFSA website: www.ifsa.com.au

Emma Grainge is IFSA's senior policy manager.



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