

# Fact Sheet

## Life insurance statistics



Often, it is difficult for clients to recognise the importance of life insurance. The statistics provided below may help to highlight the necessity of insurance, the lack of government assistance, and how life insurance can provide financial relief in their time of need.

### **Underinsurance**

#### Personal insurance

95% of people don't have the right level of cover across all types of insurance<sup>1</sup>

Most people have some level of default insurance within their superannuation. However, cover will usually be limited to Term Life and TPD, with Income Protection offered on a voluntary basis. Trauma cover is not available. Default levels of cover will also generally be based on age, and are likely to reduce over time. Self-employed people and home makers may not have any insurance at all.

Men and women aged 45-64 have the highest levels of underinsurance for disability (underinsured by up to 83%)<sup>2</sup>

In other words, actual insurance is as low as 17% of adequate insurance levels, for Australians aged 45 – 64. Adequate insurance levels are based on replacement of income, through Income Protection and TPD policies. It was found that most other age groups have an underinsurance rate of approximately 55%.

#### Business insurance

53% of small businesses have heard of key person cover but only 6% have it  
37% of small businesses have heard of buy/sell cover but only 9% have it<sup>3</sup>

While personal insurance is critical to the ongoing financial success of the household, business insurance is critical to the ongoing financial success of the business.

These statistics reflect the lack of significance that business owners place on life insurance. Many will think that they can ride out the tough times or come to an arrangement at the time, should a key person or business owner suffer from disability or death.

The outcome of this strategy will often fall short of expectations. The extended absence of a key person may result in the business suffering substantial financial loss. In the case of buy/sell arrangements, with inadequate funding, both parties will be forced to negotiate at a very difficult time.

### **Government assistance**

The maximum Centrelink disability support pension is less than \$23,000 per annum<sup>4</sup>

This is the maximum single rate of the disability support pension (DSP), which equates to \$877.10 per fortnight. For members of a couple, the maximum DSP is just over \$17,000 per annum, or \$661.20 per fortnight.

## Causes of claim

The top 3 causes of Income Protection and TPD claim are musculoskeletal, mental illness and cancer.  
The top 3 causes of Trauma claims are cancer, heart disease and neurological diseases<sup>5</sup>

These types of illnesses and injuries can have a profound effect on the client's remaining life. The client may only be able to work in a reduced or different capacity, or not at all. The receipt of life insurance proceeds can provide continuity and certainty, or choice for the client when choosing a role to return to, should they be able to work.

In 2014, BT paid 23% of Term Life claims in advance, due to terminal illness<sup>6</sup>

Rather than suffering an injury or condition that causes immediate death, more Australians are suffering a terminal illness prior to death. On October 1, 2015, BT became the first insurer to introduce an advanced terminal illness payment, essentially increasing the qualifying timeframe from 'less than 12 months to live' to 'less than 24 months' to live. In the six months since the benefit was introduced, over \$8 million in claims were paid to claimants with between 12 and 24 months to live.

## Insurance payments

In 2015, \$6.9 billion was paid due to claims made on life insurance policies<sup>4</sup>

This follows a trend lasting over 10 calendar years. The total amount paid from retail insurers over the last 10 years is almost \$40 billion<sup>4</sup>. Without the underlying life insurance policies that these claim amounts were paid from, clients are likely to have struggled financially.

In 2015, 50,648 Australians claimed income protection payments of nearly \$1.7 billion<sup>4</sup>

It is widely quoted that our ability to earn an income is our most valuable asset. This cannot be underestimated.

Often, the life insurance portfolio is built around the Income Protection policy, to top-up income and allow for any other financial liabilities, such as debt. Also, Income Protection definitions are much broader than TPD definitions, and therefore more easily satisfied, and clients are more likely to be temporarily disabled, than permanently disabled.

1. 'Lifewise/NATSEM Underinsurance Report – Understanding the social and economic cost of underinsurance', February 2010
2. Underinsurance – Disability Protection Gap in Australia – KPMG January 2014
3. Ross Cameron Research: The Australian Small Business Market for Financial Services, July 2008
4. Single rate of \$877.10 per fortnight, effective to 19 September 2016
5. The Risk Store Insurance Industry statistics 2015
6. BT Protection Plans

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