

## LOW LEVEL OF INSURANCE CAUSE FOR CONCERN

Many Australians have less insurance than they need to protect their families and their income.

Recently completed research has estimated that the life insurance cover of the average Australian is just 26 per cent of that required. The level of “under-insurance” is estimated at 74 per cent.

Taking into account the value of superannuation, the research suggests that the average Australian has death cover 30 per cent of that required. The level of under-insurance is 70 per cent.

The disability income insurance cover is estimated at 27 per cent of that required – a level of under-insurance of 73 per cent.

The estimates were prepared by research company, DEXX&R. The research is believed to be the first undertaken into the extent of death and disability income insurance coverage in Australia.

The research was commissioned by AXA one of Australia’s leading wealth management and financial protection companies.

According to AXA’s General Manager Financial Protection, Tassin Barnard the apparent low level of insurance is a concern for industry and the community.

“We suspected recent changes in levels of income, mortgage debt and the cost of living had outpaced spending on insurance,” she says.

“Until now we did not have local data to confirm that.

“The fact that we have a large numbers of both uninsured and under-insured people in Australia is a concern for our industry and the community in general.

“Progress has been made in raising community awareness about the need for superannuation savings.

“The role of risk insurance in providing financial independence needs to be similarly promoted,” Tassin Barnard says.

DEXX&R used Australian Bureau of Statistics, Reserve Bank of Australia and internal data in preparing the estimates.

Life insurance products provide a lump sum payment in the event of death of the life insured. The amount of cover purchased is usually related to the insured’s level of debt. When the insured person has dependents, the cover is also taken out to provide a fund to replace future income.





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To enable comparison of the current level of insurance coverage and the total need for life insurance, an estimate was made of the total required cover for both debt and income replacement.

Total debt was assumed to be the total amount of household debt. To this was added an amount equal to 10 times the earnings for employed Australians.

Having established the assumed total amount of cover required, the cost of cover was then calculated using the average premium for male non-smokers aged between 30 and 50. The majority of life insurance in Australia is written for this category.

This calculation indicates that the average Australian has current insurance of 26 per cent of that required.

When converted to a sum insured the required average level of death cover is calculated as being \$545,000. This is substantially higher than the current average level of death cover in Australia of \$143,000.

The average annual cost for a male non-smoker to cover the uninsured amount would be \$533.00 – or \$10.25 a week, the research shows.

Superannuation funds also provide benefits in the event of death that can be used to reduce debt and provide an income for dependants.

Allowing for these assets, research suggests the average Australian has death cover 30 per cent of that required – a level of under-insurance of 70 per cent.

Based on this scenario, the average Australian is under-insured by \$333,000. The average annual cost for a male non-smoker to cover this average uninsured amount would be \$443.00, or just over \$8.50 a week.

Disability income products provide replacement income in the event that the insured is disabled and unable to work.

Two alternatives were used to calculate the estimated total insurable income. One based on average weekly earnings and the other on taxable wage and salary earnings.

The total need for disability income insurance was calculated as being 75 per cent of the total income earned by the full time private sector work force. Current adult Average Weekly Total Earnings were taken as the basis to calculate total income earned by this group.

The calculations indicate that 73 per cent of the total insurable income is uninsured. The current level of premium being paid on average provides cover for just 27 per cent of total insurable income.

Based on this scenario, the average Australian is under-insured by an annual benefit amount of \$26,000.

The average annual cost for a male non-smoker to cover the average insured amount would be \$525.00, or \$10.00 a week.





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As an alternative, recent data available from the Australian Tax Office for Gross Taxable Wages and Salary Income for 1999-2000 was used. This was indexed by the increase in Average Weekly Earnings to derive an estimate for 2001-2002 Gross Taxable Wages and Salary Income.

The total cover required was calculated as being 75 per cent of Gross Taxable Wage and Salary Income.

Using this approach, the total uninsured income amount increased marginally to 74 per cent. The current level of insured income fell to 26 per cent of the total insurance requirement.

In commenting on the research, AXA's Tassin Barnard noted that the findings represented an attempt to quantify the extent to which Australians insure themselves against the risk of death or total disablement.

Further discussion is required on the methodology and the assumptions used.

"While the findings are indicative, they are consistent with studies in the United States," Tassin Barnard says.

"They indicate that the current level of insurance for many Australians is inadequate.

"Yet, the cost to consumers in raising the adequacy of their current cover does not appear to be substantial.

"Major insurance companies such as AXA obviously need to improve the way they manufacture and market of risk insurance.

"That needs to proceed in tandem with an improvement in current customer and broader community understanding of the value and need for insurance," Tassin Barnard says.

AXA will work with DEXX&R on the refining of the methodology used for the initial research. It will commission further research in an effort to improve industry and community understanding of the issue.

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