



Life insurance *in focus* –

September 2023



Life insurance by *the numbers*



Benefits

In 2022 **85,000 Australians** or their loved ones received **\$11.2 billion** in life insurance claims from life insurers:

- **\$2.9 billion** in Death cover
- **\$3.2 billion** in Total and Permanent Disability
- **\$3.7 billion** in Income Protection
- **\$1.4 billion** in other cover types, including Trauma cover.

Life insurers pay **95%** of finalised claims.¹

15% of employees across the industry are in claims and rehabilitation roles.²

In 2019, **more than 9,500** Australians received **\$1.24 billion** in life insurance benefits for mental health claims.³

Life insurers received **3%** of financial services complaints in FY22, this is lower than the relative number of complaints received in banking (**33%**), general insurance (**22%**), credit provider (**11%**) and superannuation (**6%**).⁴

Protection

In 2022, around **15.0 million** people in Australia were covered by life insurance⁵, protecting themselves from financial hardships that arise from death, disability, major illness or injury.

77% of the non-dependent working age population at 30 June 2020 had at least one form of life insurance cover. This is down from **94%** in 2017.⁶

The majority of Australians have some life insurance cover but not all have adequate cover. **6% of the population** are over insured⁷ but the majority are underinsured to meet basic needs.⁸

1.0 million Australians are underinsured to meet basic needs for Death/TPD and **3.4 million** are underinsured to meet basic needs for IP.⁹

The industry

There are **24 life insurers** (including 7 onshore reinsurers) and 10 friendly societies. This is down from 29 insurers and 12 friendly societies in 2018.

None of the Australian banks now own any life insurance business, after 8 bank divestments in the last 7 years.

Life insurers employ over **11,000 people** and have large teams dedicated to assisting customers with claims (1,533 consultants) and assisting with the rehabilitation of customers (95 consultants) and managing risk and compliance (414 employees).¹⁰

There are **16,049** registered financial advisers in Australia.¹¹ Of these, **7%** focus primarily on writing life risk insurance, **15%** write some life risk insurance, and **78%** write little to no risk.¹²

Life insurers hold **\$123 billion** in assets, with **\$96 billion** of investments, largely in Australian debt and equities.¹³

Life insurance *gives people peace of mind* when making important decisions and provides a *financial safety net* during life's biggest challenges

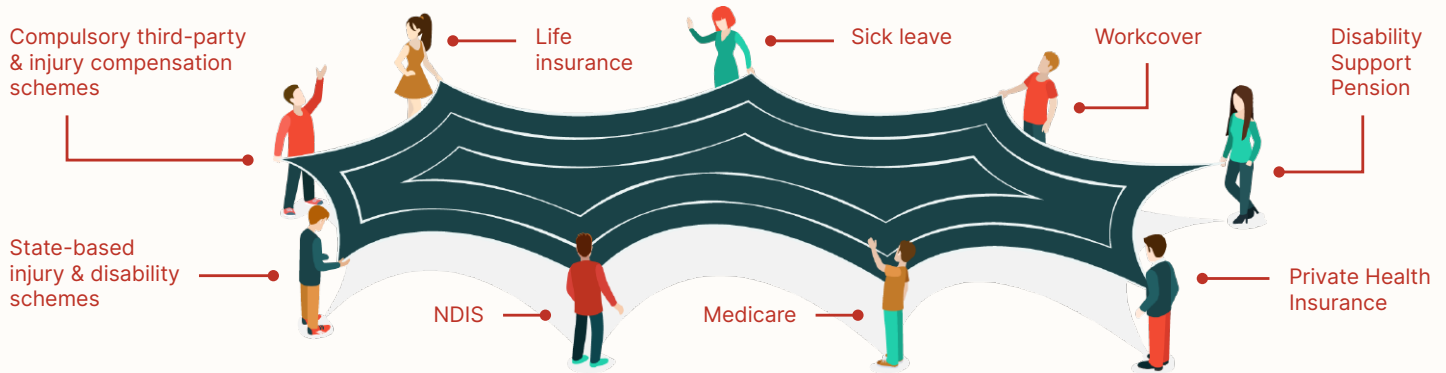
Discover the industry

The idea that Australians should be able to safeguard themselves throughout their lifetime has roots as far back as the goldrush. The people exposed to dangerous work on the goldfields more than 170 years ago wanted protection for their families.

Life insurers have answered the call ever since. Today, millions of Australians rely on life insurance for peace of mind as they face life's biggest decisions and challenges.

Life insurance draws on Australian values of supporting each other when times get tough. It 'pools' risks to provide everyone in the pool confidence, security and peace of mind, and spreads the financial costs for individuals and families affected by death, illness and injury.

Life insurance can reduce an individual's reliance of social welfare support, and injury and disability schemes, or complement those schemes to maintain the lifestyle and financial wellbeing of the insured person and their family.



Benefits of life insurance:

The life insurance industry is central to the financial wellbeing and resilience of Australians and the broader community.

- Life insurance helps Australians and their families have *peace of mind* about their future so they can live in the most healthy, confident and secure way. The industry pays out 95% of finalised claims.
- Life insurance can help to *replace lost income* if the insured person is unable to work due to death, illness or injury. This can help families to maintain their lifestyles and pay for their essential expenses. In 2022, 85,000 Australians or their loved ones received \$11.2 billion in benefits.
- Life insurance and superannuation work hand in hand to *protect accumulated superannuation savings* and provide financial security during retirement. The majority of lives insured are insured through superannuation.
- Life insurance benefits like income protection are provided alongside claims management and rehabilitation services to *help people get back to health*. Life insurers provide in house rehabilitation support to almost half of claimants with return-to-work rates of between 42% to 48%.¹⁴
- Life insurance can help families to *manage the risk of outliving their savings*. 50% Australian pre-retirees worrying about running out of money during their lifetime.¹⁵

CASE STUDY

Health, wellbeing and prevention



Australia's life insurers are committed to delivering the protection and certainty Australians need on their best and worst days. This includes offering health and wellbeing programs to support customers to maintain their health and identify emerging health concerns.

As part of her insurer's health and wellbeing program, Joanna was chasing a higher status to be eligible for a new fitness tracker. A screening test or check-up would do it, so Joanna chose a cancer screening.

A fit and healthy 41-year-old, Joanna went off to have a mammogram screening expecting an all-clear. But it revealed a hidden problem – a ductal carcinoma in situ (DCIS) that had spread to a lymph node in her right breast.

"It was one of those moments in life where you will never forget how you felt and what thoughts went through your head," says Joanna. "At my diagnosis I heard the words 'early' and 'treatable' which was great, but my surgeon did say to me that if I hadn't had the mammogram, it would have been six to 12 months later that I would have felt something – by that stage it would have been a totally different conversation."

Life insurance provides *financial security* during retirement or in the event of death, injury or major illness

What is life insurance?

Life insurance includes various types of insurance products designed to give Australians and their loved one's peace of mind and financial security at retirement or in the event of death, injury or major illness.

Life insurance products may provide a lump sum payment or a regular income to help the insured person and their family cover ongoing expenses such as living costs, mortgage payments, funeral costs and medical expenses.



Death insurance

Death insurance pays a lump sum benefit to your loved ones when you die or are diagnosed with a terminal illness.



Income Protection

Income protection (also known as salary continuance insurance) pays you a regular monthly income for a specified period (usually this will be for 2 years, 5 years or up to a specified age) if you cannot work due to a temporary disability or illness.



Business expenses insurance

Business expenses insurance is a product for people who are self-employed or operate a small business. It pays you a monthly benefit for a period to cover certain business expenses if you cannot work due to injury or illness.



Total and Permanent Disability

Total & Permanent Disability insurance pays you a lump sum benefit if you become seriously disabled and are unlikely to work again.



Trauma crisis recovery

Trauma or crisis recovery insurance pays you a lump sum benefit if you suffer a critical illness or serious injury, for example cancer, a heart condition, major head injury or stroke.



Annuities and investment life products

Annuities help give peace of mind in retirement by providing a guaranteed regular income or lump sum payment. Investment life products help Australians to save for major life events and provide lump sum or regular payments.

Buying life insurance

There are three main sources of life insurance products and advice for consumers. Opportunities exist to expand the availability of personal advice for consumers seeking support and guidance on life insurance needs.

Financial advisers

Financial advisers provide bespoke life insurance advice. These policies are typically individual policies that are underwritten and tailored to the customer.

There are around 16,000 registered financial advisers in Australia.¹⁶ Only 1,100 focus primarily on writing life risk insurance.¹⁷

Superannuation trustees

Super funds provide:

- a level of default cover set by trustee that does not require individual underwriting
- the option to apply to top up with voluntary cover that is typically underwritten.

86% of all super accounts with insurance have the default cover.¹⁸

Life insurers

Products can be bought directly from an insurer or distributor.

Current financial advice laws make it difficult for life insurers to assist consumers with personal information and advice.

51% of Australians believe life insurance advice would be more accessible and affordable if life insurers were able to provide limited advice.¹⁹

Underwriting

Life insurance draws on Australian values of supporting each other when times get tough.

Life insurance provides a way for people to 'pool' and share the costs of risks associated with death, illness or injury across all the people insured.

Underwriting is a process to assess a person's unique risk of illness, injury and death. This depends on their current and historical physical and mental health, as well as any factors such as their age, sex or occupation.

Underwriting is a crucial way to manage risks across all the people insured to ensure the costs of contributing (premiums) are kept sustainable and are fairly managed across the pool.

Underwriting will assess:

1. Whether the amount and type of cover the person has applied for is within the life insurer's risk appetite to accept based on the person's unique risk of illness, injury and death.
2. If not, whether the risk could be reduced while still offering meaningful cover.
3. The price the person would need to pay based on the person's unique risk of illness, injury and death.

Life insurers want to provide meaningful cover to as many people as possible. Declining to offer cover is always a last resort.

Life insurance *provides jobs, protects families and contributes* to the national economy



Life insurers as employers

Australia's life insurers employ over 11,000 people.

The majority of employees are located in New South Wales with 6,290 employees, or 56% of the total workforce.

Victoria is the second-largest state in terms of employee numbers with 35%. Queensland has 827 employees, or 8% of the total workforce.

The industry has dedicated teams for assisting people with claims (1,533 employees), rehabilitation (95 employees) and managing risk and compliance (414 employees).

CALI members report to the Workplace Gender Equity Agency (WGEA) on six Gender Equality Indicators each year. CALI strongly supports WGEA's aims of promoting and improving gender equality in the workplace.

Around 52% of employees are women and 32% of executive roles are held by women.

Commitment to customers

The Life Insurance Code of Practice (Life Code) is an initiative from the life insurance industry and was created to help life insurers provide the protection that suits Australians when they need it most, in an accountable and transparent way.

The Life Code establishes enforceable standards that life insurers agree to uphold to guarantee that customers can confidently purchase life insurance, knowing that their insurer will provide assistance when needed.

The independent Life Code Compliance Committee (Life CCC) closely monitors and reports on the life insurance industry's compliance with the Life Code and the conduct of individual insurers. Life insurers work collaboratively with the Life CCC to improve standards and promote industry best practice.

The Life CCC has powers to impose sanctions and financial penalties on life insurers. These measures have been developed in consultation with consumer groups to ensure they are appropriately robust.

The role of reinsurers

Australia has 7 reinsurers registered as Life Companies with the Australian Prudential Regulatory Authority.

These reinsurers operate in a global capital market and invest in Australia to provide coverage to insurance companies, helping to provide capacity to the market, spread risk and stabilise the industry.

This investment brings foreign capital to the Australian economy, and expertise and global best practice to the local insurance market.

Reinsurance works by allowing an insurer to transfer some or all of an insurance risk to another insurer (the reinsurer). This allows the insurer to rebalance and reduce insurance risk.

Reinsurance can help manage regulatory capital requirements, stabilise profits and optimise shareholder funds.

The global perspectives and expertise of reinsurers can assist insurers in pricing and risk management, support product development and innovation, and provide underwriting, claims and medical expertise.

A strong industry supporting stable long-term investment

Life insurance is based on a promise. Policyholders pay a premium to an insurer today in return for a promise that the insurer will pay a claim should anything happen in the future. That future may be a long time away.

Life insurers are required to hold capital to meet this promise, and this is invested safely for the long term.

As at 31 December 2022, the industry had \$123 billion worth of total assets, of which \$96 billion was investments, largely into debt and equities.

Life insurers work alongside banks and capital markets to provide capital support to the Australian Government and businesses.

Some of the industry's investments can mature over 20 years, meaning the investment by life insurers can 'look through' financial market volatility and provide a stabilising element of the financial system.



Life insurance helps *insulate younger Australians* against unexpected challenges and *protects super balances* later in life

Life insurance for young Australians

A young Australian on the median wage working from age 20 to 67 can expect to earn \$3.26 million over their working life²⁰, so it's important that they have protection if they are too sick or injured to participate fully in the workforce.

Life insurance protects arguably their biggest asset – their future earning potential.

Millennials and Gen Z are expected to have lower home ownership rates – the proportion of those aged 65 or over who own their own home is projected to fall from 76% to 57% by 2056,²¹ so it is important that they protect their savings and their future earnings.

The average superannuation balance for men aged 25 – 34 is \$42,100 and for women \$34,500. By protecting income and savings, life insurance can also help to build and protect superannuation and prepare for retirement.

Life insurance such as income protection or TPD cover can also help keep individuals in private rentals that are near existing social networks and reduce demand for social housing.

With the average private rental currently costing \$583 per week nationally according to CoreLogic, meeting rental payments for those without life insurance is likely to be challenging.



CASE STUDY

Health crises for singles →

Catherine was a fit, healthy 27-year-old when she was suddenly admitted to hospital with a major illness. She spent 12 weeks in hospital for in hospital treatment, with a further 15 months of outpatient care. Catherine had around 3 months' worth of living expenses saved and 10 days of sick leave but no assets or partner to fall back on.

After a 3-month waiting period Catherine received income protection payments that kept her living independently in a private rental and funded out of pocket costs for treatment.

"Having income protection kept stability in my life when I felt like everything else was falling apart," says Catherine.

Catherine has returned to full time work and maintained her IP insurance indexed annually for CPI.

Helping provide stability for Australian families and what matters for them

As individuals enter their 30s and 40s for many that means starting a family or buying a home. It is also a time of increased financial responsibility for looking after dependents and covering mortgage repayments.

In June 2023, the average new owner-occupied mortgage was \$580,000 (\$725,000 in NSW). By comparison, the average level of death insurance for group super policies in December 2022 was \$220,000 and \$187,000 for TPD.²² This highlights both the importance of life insurance in protecting the family home but also the reality that for many default levels of cover will not be sufficient to pay the mortgage.

Just as importantly, income protection can play a vital role in protecting the well-being of families when injury or illness results in time off work. The maximum rate of the Disability Support Pension for an individual averages \$2,305 per month. By comparison the average rate of income protection is \$3,600 per month within group super and \$8,500 per month outside group super.²³ This makes a big difference to the family budget when something unexpected happens.

Life insurance can also help individuals to get formal care which can free up informal carers such as family members to return to the workforce.

Deloitte has estimated that there are 2.8 million people providing informal care in Australia with over 900,000 being primary carers. The value of this care is worth \$77.9 billion with \$15.2 billion reflecting lost earnings that informal carers would have otherwise earned in the workforce.²⁴



Protecting super later in life

Life insurance provides a safety net for Australians when they are unable to participate fully in an active working life due to illness, injury or death.

In 2021-22, a total of \$573 million of superannuation funds were approved for release by the ATO on compassionate grounds to 32,200 individuals. This was in addition to the \$37.8 billion released to around 3 million people during COVID.²⁵

Income protection payments provided \$3.7 billion in support to Australians in 2022, over six times larger than early super releases (outside the COVID release scheme), helping preserve superannuation balances into retirement.

The importance of preserving super balances is critical given that the average superannuation balance in 2020-21 was \$170,000. While the average balance for those aged 65-69 was \$428,700, the median balance for that age group was just \$207,500.²⁶

This median balance is well below the superannuation balance required for a comfortable standard of living in retirement, which the Association of Superannuation Funds in Australia estimates is \$595,000 for a single person and \$690,000 for a couple. According to a 2022 survey, only 40% of Australian households are on track to meet their retirement income needs.²⁷

HEALTHY, CONFIDENT, SECURE RETIREMENT

Retirement incomes



Life insurance and retirement

The proportion of Australians aged 65 and over is projected to increase from 16% in 2020-21 to 23% in 2060-61.²⁸

But the Australian retirement system is facing a number of challenges, including:

- Increasing challenges with the sustainability of the age pension. Between June 2001 and June 2019, the real cost of the aged pension grew from \$24 billion to \$46 billion.²⁹
- Lower levels of home ownership, particularly among younger cohorts. While 65.8% of those aged 25-39 owned or were paying off their own home in 1991, by 2021 this figure had fallen to 54.6% with only 5.7% owning their home outright.³⁰

Not only can life insurance help preserve superannuation balances coming into retirement, but annuities also offered by life insurers help protect financial wellbeing, manage longevity risk and the costs of aged care. This gives people the confidence to spend without the risk that they will run out of money in retirement.

With regulator focus on the retirement income system higher than ever, super funds are increasingly looking to better support members in their retirement together with meeting their obligations under the Retirement Income Covenant.

There are parallels in the way in which the group insurance system supports funds to protect their members during their working lives and the way we expect they will look to protect their members in retirement.

Addressing the retirement income dilemma

“Retirees are generally reluctant to drawdown their savings in retirement due to complexity, little guidance... concerns about possible future health and aged care costs, and concerns about outliving savings.”³¹

For many people, their superannuation is likely to be one of their most valuable assets. Research shows that many Australians don't feel they have enough to spend confidently in retirement, with 1 in 2 Australian pre-retirees worrying about running out of money during their lifetime.³²

This can cause them to underspend, preventing them from enjoying the retirement lifestyle they can actually afford.

Historically Australians have had a choice of two retirement products:

- Account-based pensions, which provide flexibility but no longevity protection.
- Annuities, which provide longevity protection with limited flexibility.

This highlights the need for financial solutions that offer flexibility while protecting retirees against longevity risk, with insurance playing a key role.

CASE STUDY

Finding a solution

One insurer's proposition is group longevity insurance, which protects super fund members against the risk of outliving their savings by promising them an income for life, while allowing their trustee or adviser to continue driving investment returns.

The insurer partnered with a superannuation fund in late 2022 to embed longevity protection into two new lifetime income products. The products are designed to operate essentially like life insurance in reverse, with 'claims' paid as annual bonuses and the 'premium' paid from the account on exit or death. To deliver a lifetime income to members through annual bonuses, these are calculated according to the member's age and the applicable guaranteed age-based bonus rate.

This rate, which increases as the member gets older, is delivered through a group longevity policy issued by the insurer to the trustee. Initially, the income paid to the member is mostly based on their capital and investment performance, but as the member ages, the annual bonus payments make up an increasing proportion of their income payments; this ensures their income stream lasts for the member's life.

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