

THE LIFE INSURANCE LITERACY GAP

Research report prepared by

CORE|DATA



Foreword

In 2014 Zurich released its seminal whitepaper '***Australians, mis-informed, mis-insured?***', a pioneering research project which revealed low levels of understanding around life insurance and other insurance and non-insurance support mechanisms (e.g. health insurance, travel insurance, the NDIS, workcover).

In late 2014 – to build on that research – Zurich commissioned CoreData to undertake a deeper analysis of this issue, by examining the levels of 'insurance literacy' within the community. Furthermore, we sought to quantify the extent to which financial advisers were positively contributing to improved levels of insurance literacy amongst their customers and the community at large.

By examining specific gaps in insurance literacy, any response designed to tackle the issue – whether that response be from the industry, community or government – can be more targeted. In this respect, our Insurance Literacy Index can become a game changer in the challenge to make Australians more financially informed.

By proving the positive contribution financial advisers make to 'closing the insurance literacy gap', this research is also a tangible and significant reinforcement of the value of financial advice and financial advisers. It also highlights that – in terms of facilitating knowledge transfer through coaching and mentoring – financial advisers may well be doing a better job of serving their customers than their peers in other professions.

Philip Kewin
General Manager, Retail Life & Investments
Zurich Financial Services Australia

The FPA is Australia's largest body of professional financial planners. Our vision is that *"Through our members, we stand with Australians for a better financial future"*. We work towards this by advocating high education and professional standards of financial planners, and connecting them with consumers who need professional financial advice.

Research shows that financial advice improves the financial wellbeing of those who receive it, yet far too few Australians realise the value of professional financial advice, or know where to find it.

The FPA has long advocated for better legislation and increased standards across the profession, to help build trust and respect in a professional community that provides a vital service to consumers. We believe that professional financial advice is something that should be accessible to every Australian and we are passionate about ensuring this becomes possible.

Improved financial literacy is the key to better informed and protected consumers, greater financial independence and peace of mind. The role of a professional financial planner goes far beyond recommendations and strategy. A professional financial planner empowers their clients with knowledge and equips them to confidently make decisions about their future. This part of the advice process is commonly underestimated.

The area of Life Insurance, specifically the issue of under-insurance of Australians is a major concern for the FPA. Ensuring Australians are appropriately protected is also of national importance. We are delighted to partner with Zurich on the 'The Life Insurance Literacy Gap' research report — the findings of which highlight the positive effects of financial advice in bridging this gap and creating a brighter future for all.

Mark Rantall CFP®
CEO
Financial Planning Association of Australia

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Executive Summary

Financial Advisers are effective at improving the insurance literacy of their customers.

- **Australians who have received financial advice specifically on life insurance (the “advised”) are considerably more likely than those who have never received advice on life insurance (the “unadvised”) to be insurance literate, using the measure described later in this paper.**

Comparing the advised and the unadvised indicates a clear separation in Insurance Literacy levels. The research revealed the average literacy for the advised was approaching ‘Excellent’ levels, with a score of 6.7, compared to the unadvised, who rated 4.5 on average, falling into the ‘Poor’ range of scores ($p < 0.001$ i.e. statistically significant difference).

- **While 61% of those who have been advised on life insurance demonstrated ‘Excellent’ levels of Insurance literacy, only 24% of the unadvised are able to claim this (i.e. more than twice as many advised respondents have Excellent literacy).** Conversely, while only 26% of those who have been advised on life insurance had ‘poor’ levels of literacy, as many as 56% of the unadvised were classed as having ‘Poor’ insurance literacy ($p < 0.001$).
- **The research revealed that advised Australians are more knowledgeable about a number of factors relating to life insurance, including:**
 - Current individual level of cover
 - Knowledge of monthly premium/cost of cover
 - The tax deductibility of life insurance
 - Events that lead to payouts

- **Advised Australians are more likely than unadvised Australians to have strong life insurance knowledge and experience,** with one third (33.9%) of advised respondents rating their insurance knowledge and experience as strong or very strong, compared to only 14.4% of unadvised respondents.

- **Among Australians who have life insurance, the advised are considerably more likely than the unadvised to understand their coverage.** They are more likely to know their approximate sum insured (82.9% vs. 62.5%) and be confident in knowing the monthly premium they pay (62.3% vs. 39.9%).

- **Advised Australians more certain about the tax treatment of life insurance in and out of super** (63.4% of unadvised are uncertain, compared to 42.3% of advised).
- **Furthermore, advised Australians are more likely than those who are unadvised to be certain about the events that lead to term life insurance payouts.** Close to a quarter (24.4%) of unadvised respondents are unsure about what term life insurance actually covers, more than twice the proportion of advised respondents who demonstrated such uncertainty (11.5%).

Data Highlights

Advised Australians less at risk of underinsurance

Average literacy of advised approaching 'Excellent'

The average literacy for the advised was approaching 'Excellent' levels, with a score of 6.7, compared to the unadvised, who rated 4.5 on average, falling into the 'Poor' range of scores.

While the majority of Australians hold some form of life insurance, nearly three in five (58.1%) respondents rate their life insurance knowledge and experience as average, while more than one in five (21.2%) rate their knowledge and experience as poor or very poor.

Furthermore, the majority of Australians are unsure on the tax deductibility of term life insurance and large proportions are unsure on the events which lead to term life insurance payouts.

Advisers are effectively educating customers about superannuation based life-cover

More than one in four (27.6%) respondents were unsure of the accessibility of life insurance through super.

Consistent with the finding that advised Australians have higher insurance literacy, advised Australians are generally more knowledgeable than the unadvised when it comes to what knowledge of the types of insurance they are able to purchase through their super.

Advised Australians are more likely to correctly identify that life (80.4% vs. 62.5%) and TPD insurance (52.3% vs. 42.2%) can be purchased through super without incurring out-of-pocket costs. They are

also more likely to identify that car, home and travel insurance cannot be purchased through super.

Many perceive no substitutes for term life and income protection insurance

In case of a serious accident or medical condition resulting in injury, Australians most commonly believe that income protection insurance would best take care of financial responsibilities (23.0%). On the other hand, in case of a serious accident or medical condition resulting in death, term life insurance is considered by far the best way to take care of financial responsibilities (56.3%).

The importance of term life and income protection cover is highlighted in that Australians are most likely say there are no effective substitutes for term life insurance (35.3%) and income protection insurance (31.0%).

Advised Australians less likely to mistake other risk management mechanisms to be life insurance substitutes

Earlier research by Zurich has revealed the extent to which many Australians believe risk management mechanisms such as the NDIS, Centrelink, Workcover and even health insurance are effective substitutes for life insurance.

Receiving insurance advice reinforces the view that there are no effective substitutes for term life insurance, with more than two in five (41.9%) advised respondents saying there are no effective substitutes for term life insurance, compared to less than a third (32.1%) of unadvised respondents.

Three in five (59.9%) Australians have some form of life insurance. The majority of Australians who have life insurance purchased it through their super fund (62.7%), with 52.2% of respondents taking it out with no assistance from a financial planner and a further 10.5% taking it out with the assistance of a financial planner.

Advised Australians are considerably more likely than the unadvised to have some form of life insurance, whether held through superannuation or outside super (76.6% vs. 52.0%).

Unadvised Australians with life insurance are almost twice as likely to simply have the default levels of coverage set via their super fund (50.3% v 26.6%). This means they are at greater risk of having cover not tailored to — or adequate for — their circumstances

Methodology

This report explores how the insurance literacy of Australians varies among specific target groups, in particular the advised versus the unadvised.

The objectives of the research are to:

- Determine the level of understanding consumers have of insurance products including:
 - Definitions of life, TPD, income protection and trauma insurance
 - Understanding of what life insurance actually covers
 - Knowledge about waiting periods
 - Perceptions about substitutes for life, TPD, trauma or income protection coverage
 - Amount of coverage required for individual life circumstances.
- Test the hypothesis that insurance literacy is positively influenced by financial planners.
- Develop an insurance literacy score or index in order that different segments can be easily compared and contrasted.

Sampling

CoreData surveyed 814 Australians on a range of topics relating to financial advice and insurance. This included 260 Australians with a financial planner who received financial advice specifically on life insurance. This research was undertaken via an online survey, hosted and managed by CoreData, and was in field from the 15th of October to the 4th of November 2014.

Key Data Splits

Advised respondents: respondents who have received advice from a planner about life insurance.

Unadvised respondents: respondents who have not received advice from a planner about life insurance.

Insurance Literacy Score

The Zurich Insurance Literacy Score is designed to provide a consistent and comprehensive metric of consumer understanding of Life, TPD, Income Protection and Trauma insurance and includes both knowledge and behavioural indicators.

The score is calculated using a range of variables and uses a weighted average across these (as opposed to additive) to avoid missing case issues. Each score calculation is based on a number of assumptions derived from empirical research. The scores maintain a 1-10 scale to facilitate consistent and intuitive interpretation. They are calculated by assigning scores to individual attributes of a consumers' knowledge and behaviour and taking the weighted average of those scores for each different factor which are in turn weighted in the roll up score. The formula can be summarised as:

$$Score = \frac{\sum (Factor\ Score * Score\ Weight)}{\sum Factor\ Weights}$$

Scale interpretation

To assist with consistent and intuitive interpretation, the literacy score runs from 1-10 and can be interpreted as;

7-10 > Excellent Insurance Literacy

5-6 > Fair Insurance Literacy

1-4 > Poor Insurance Literacy

Interestingly, comparing consumers who have been professionally advised, specifically about life insurance, to those who have not, indicates a clear separation in Insurance Literacy levels. The average for those advised on life insurance was approaching 'Excellent' levels, with a score of 6.7, compared to the unadvised receiving 4.5 on average and falling into the 'Poor' range of scores ($p < 0.001$ i.e. statistically significant difference).

Existing Insurance Coverage

Three in five Australians have term life insurance cover, but less than a third protect their income

Among the main categories of life insurance, term life insurance is the most commonly held, with three in five (59.9%) respondents holding this either through their super fund or outside of super*. This is followed by total and permanent disability (TPD) insurance (47.6%), income protection insurance (31.5%) and trauma insurance (10.7%).

Overall, Australians are considerably more likely to hold life, TPD and income protection insurance through their super fund than outside of their super fund.

*The proportions of Australians who have life insurance may be higher than reported given that many Australians are unaware that they have a default level of life cover through their super fund.

Figure 1. Do you have Life insurance, Total and permanent disability (TPD) insurance, or Income protection insurance?

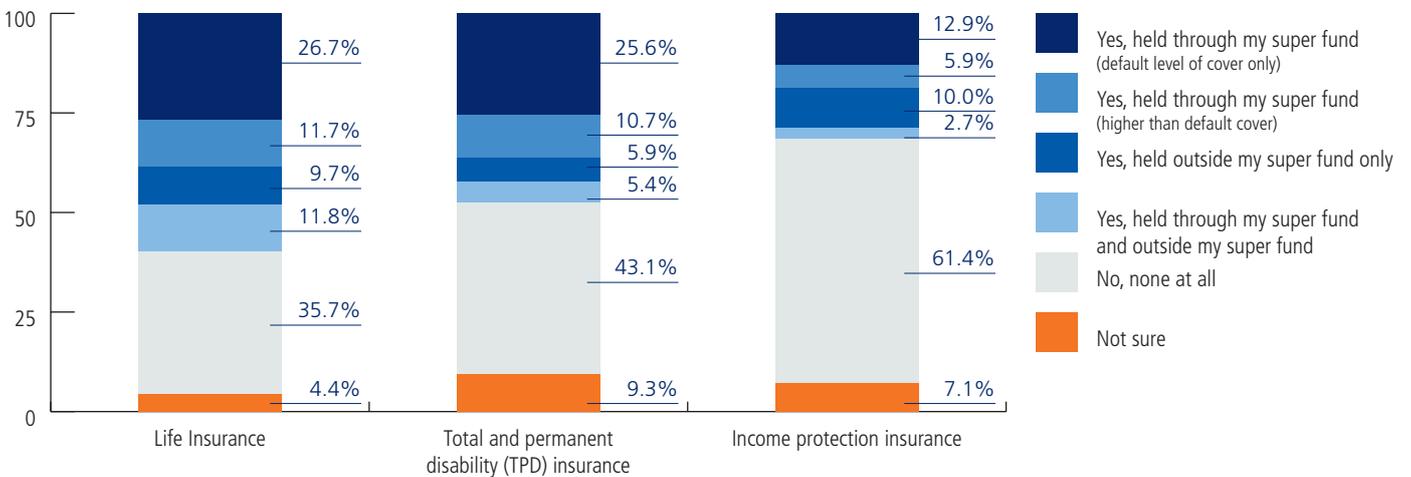
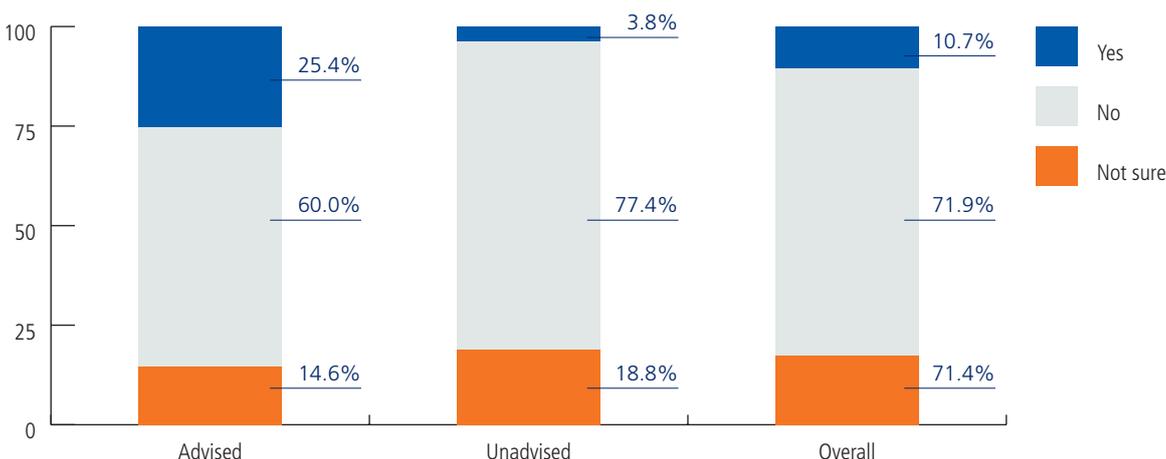


Figure 2. Do you have Trauma insurance?



Existing Insurance Coverage

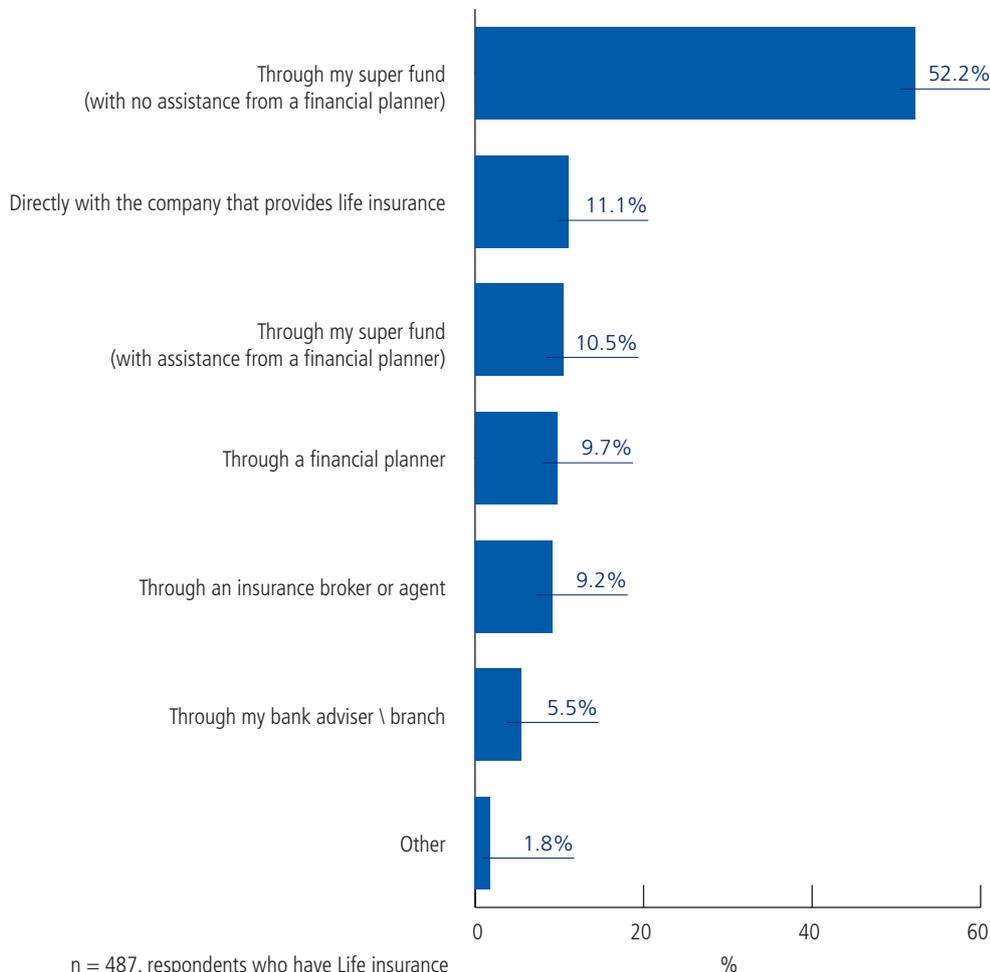
A quarter took out life insurance through a planner or intermediary

Given that it is mandatory for super funds to consider the life insurance needs of their members, it is no surprise that the majority of Australians who have life insurance purchased it through their super fund (62.7%), with 52.2% of respondents taking it out with no assistance from a financial planner and a further 10.5% taking it out via super with the assistance of a financial planner.

Of those with life insurance, close to one in four (24.4%) took out life insurance through a financial planner or intermediary (including planners and insurance brokers/agents), while one in 10 (11.1%) took out a policy directly with a life insurance company.

Unadvised Australians and Generation Y are considerably more likely to only have super fund default cover only.

Figure 3. Which one of these best describes how you took out your life insurance?



Insurance Literacy

This research seeks to determine the Insurance Literacy of Australians and in particular, compare literacy levels among those who have received financial advice specifically on life insurance (the “advised”) and those who have not (the “unadvised”).

Insurance Literacy is quantified via the Insurance Literacy Index. The Index is designed to provide a consistent and comprehensive metric of consumer understanding of Life, TPD, Income Protection and Trauma insurance and includes both knowledge and behavioural indicators.

The Insurance Literacy score is reasonably normally distributed with an average for all consumers of 5.2 out of 10, indicating a ‘Fair’ level of Insurance Literacy overall.

At least 36% of consumers demonstrate an ‘Excellent’ level of Insurance Literacy compared to around 46% who indicate ‘Poor’ levels of literacy.

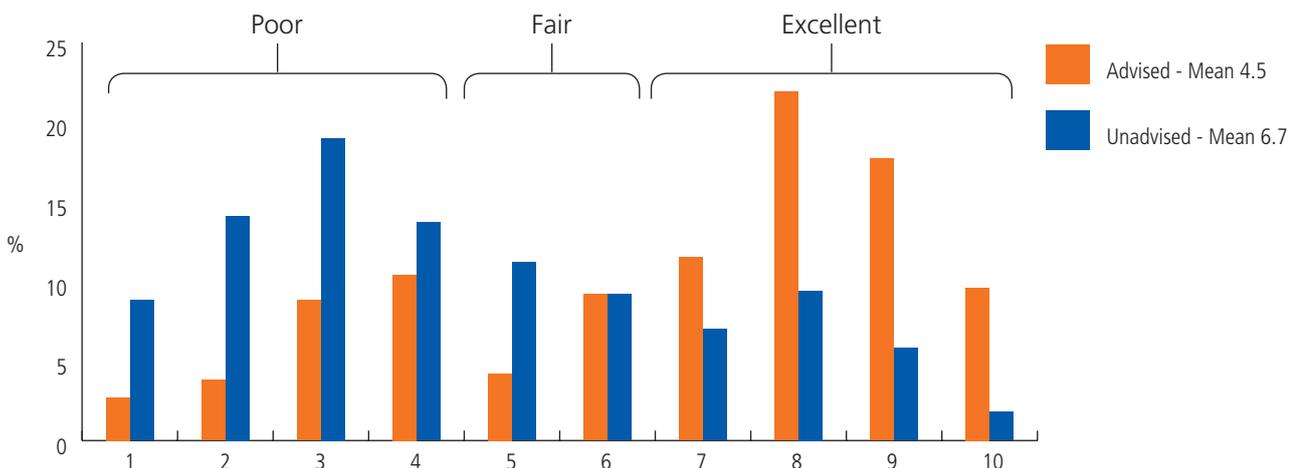
Interestingly, comparing consumers who have been professionally advised specifically about life insurance to those who have not indicates a clear separation in Insurance Literacy levels. The average for those advised on life insurance was approaching ‘Excellent’ levels, with a score of 6.7, compared to the unadvised receiving 4.5 on average and falling into the ‘Poor’ range of scores ($p < 0.001$ i.e. statistically significant difference).

Another way of looking at this is to note that while 61% of those who have been advised on life insurance demonstrated ‘Excellent’ levels of Insurance Literacy, only 24% of the unadvised are able to claim this (i.e. more than twice as many advised respondents have Excellent literacy).

Conversely, while only 26% of those who have been advised on life insurance had ‘poor’ levels of literacy, as many as 56% of the unadvised were classed as having ‘Poor’ Insurance Literacy ($p < 0.001$).

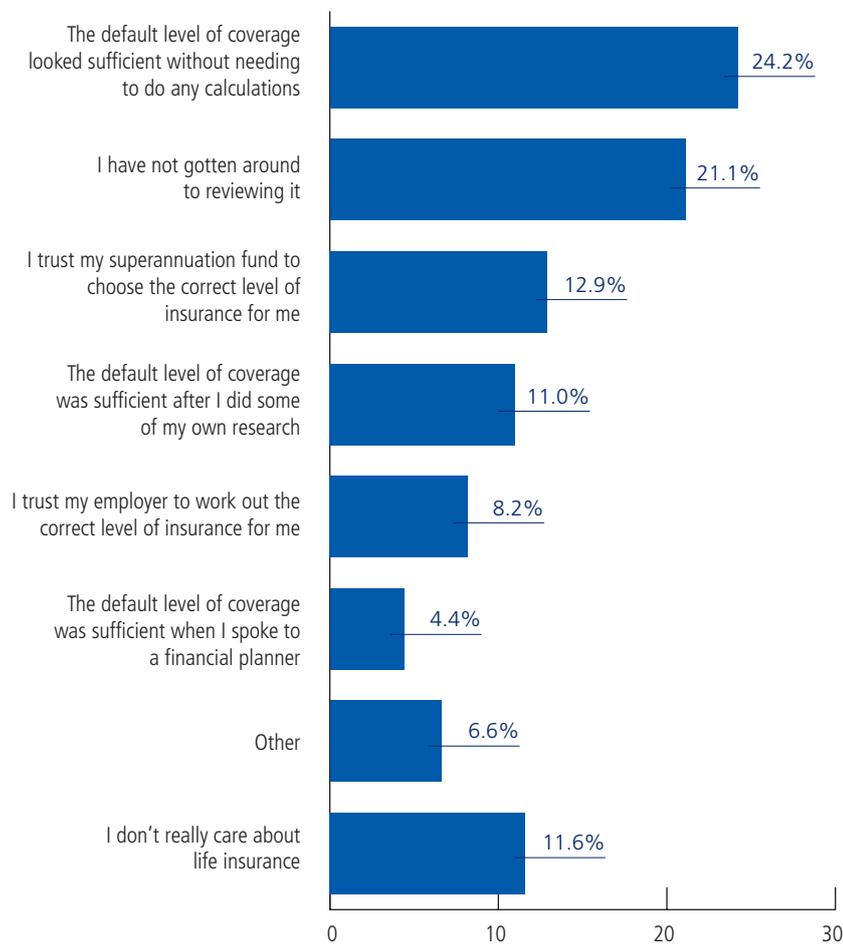
Consumers who have received advice are clearly more insurance literate than those who haven’t.

Figure 4. Insurance Literacy Score (Advised vs. Unadvised)



Insurance Literacy

Figure 5. Why have you chosen to stick with the default level of insurance coverage provided through your superannuation fund?



n = 318, respondents who have life, income protection or TPD insurance %

Reliance on default cover driven by apathy and misinformation

Among respondents who have chosen to stick with their super fund's default level of insurance cover, the most commonly cited reason is that the default cover looked sufficient without needing to do any calculations (24.2%). A further one in 10 (11.0%) say that the default cover was sufficient after doing their own research, while just 4.4% formed this view after speaking to a financial planner.

However, as circumstances change, a sizeable proportion of Australians may be underinsured by virtue of sticking with their super fund's default level of insurance cover, with one in five (21.1%) saying they have not gotten around to reviewing it and 11.6% saying they do not really care about life insurance.

More than one in eight (12.9%) could also be at risk of underinsurance by simply trusting their super fund to choose the correct level of insurance for them, with males more likely than females to have taken this approach (15.0% vs. 10.1%).

Mis-placed Trust?

More than one in five (21.1%) who choose to stick with default cover only do so because they trust their super fund or employer to know the correct level of cover for them.

Figure 6. How did you work out how much term life (death cover) insurance you require?

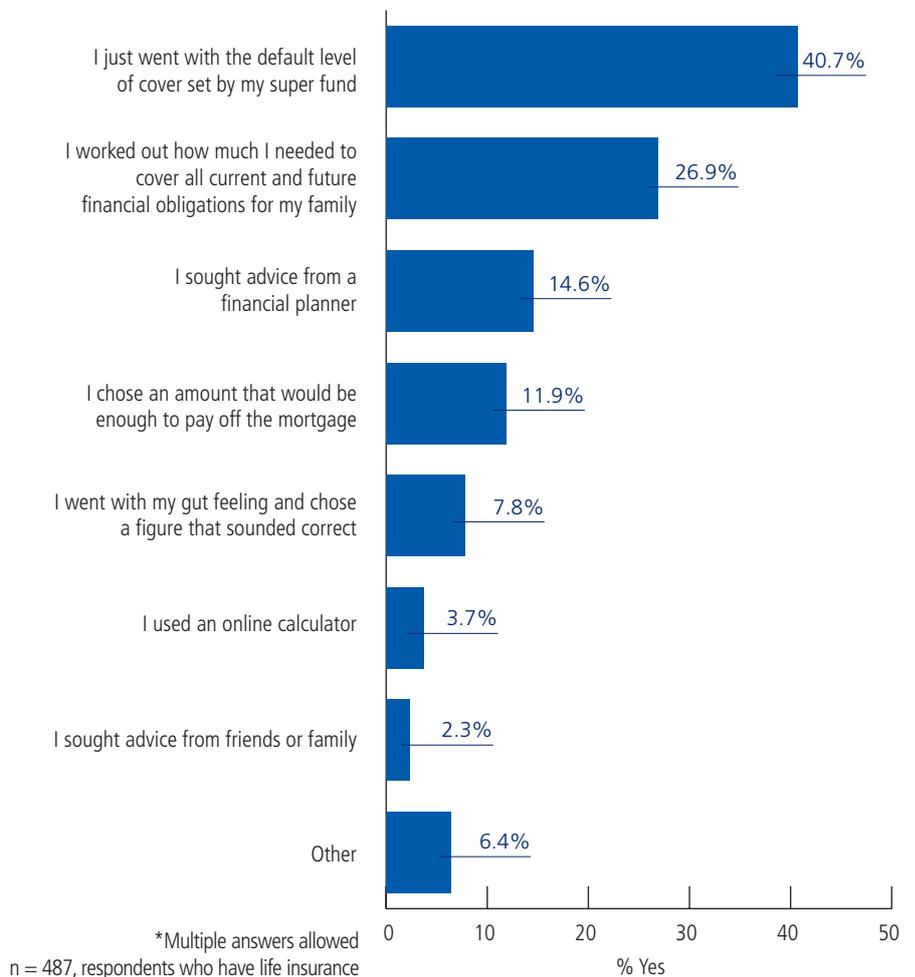
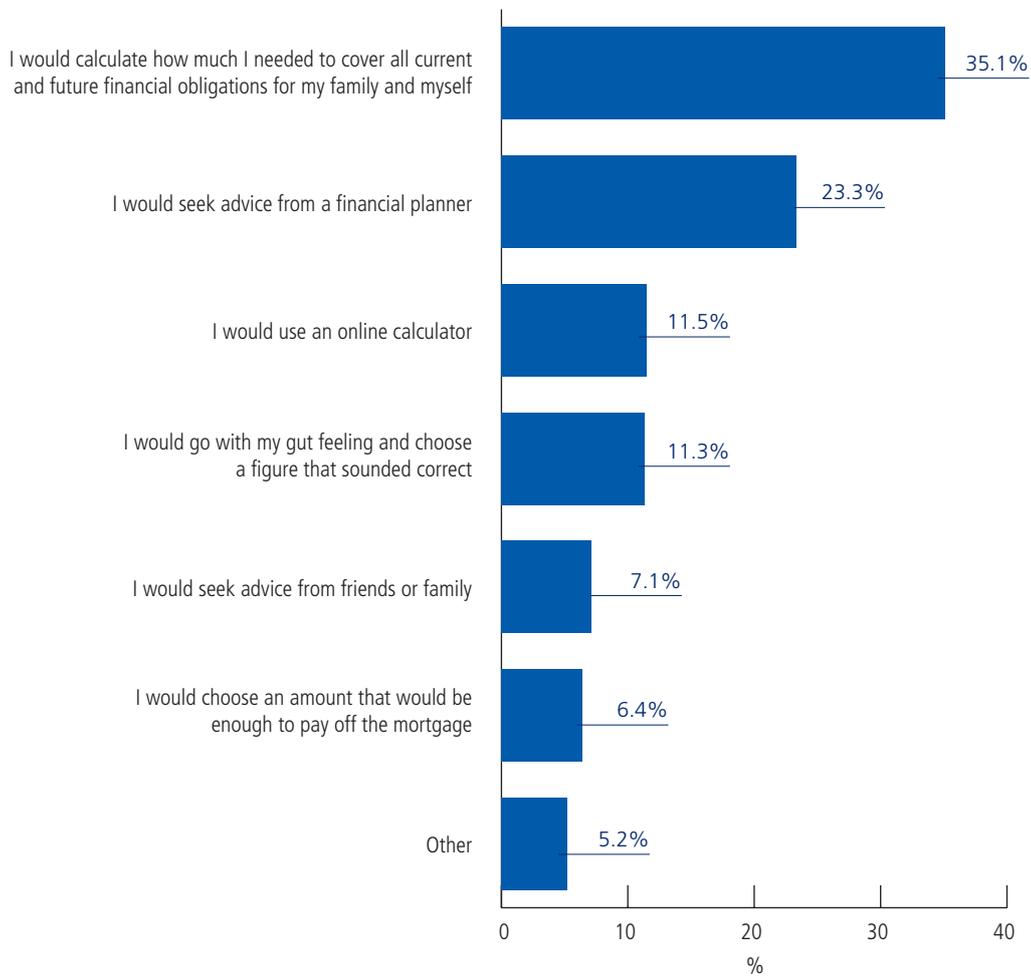


Figure 7. If you were to purchase a new term life insurance policy, or update your coverage for an existing policy, which of the following would you be most likely to rely on to work out how much cover you need?



Majority believe they can calculate cover needed without expert help

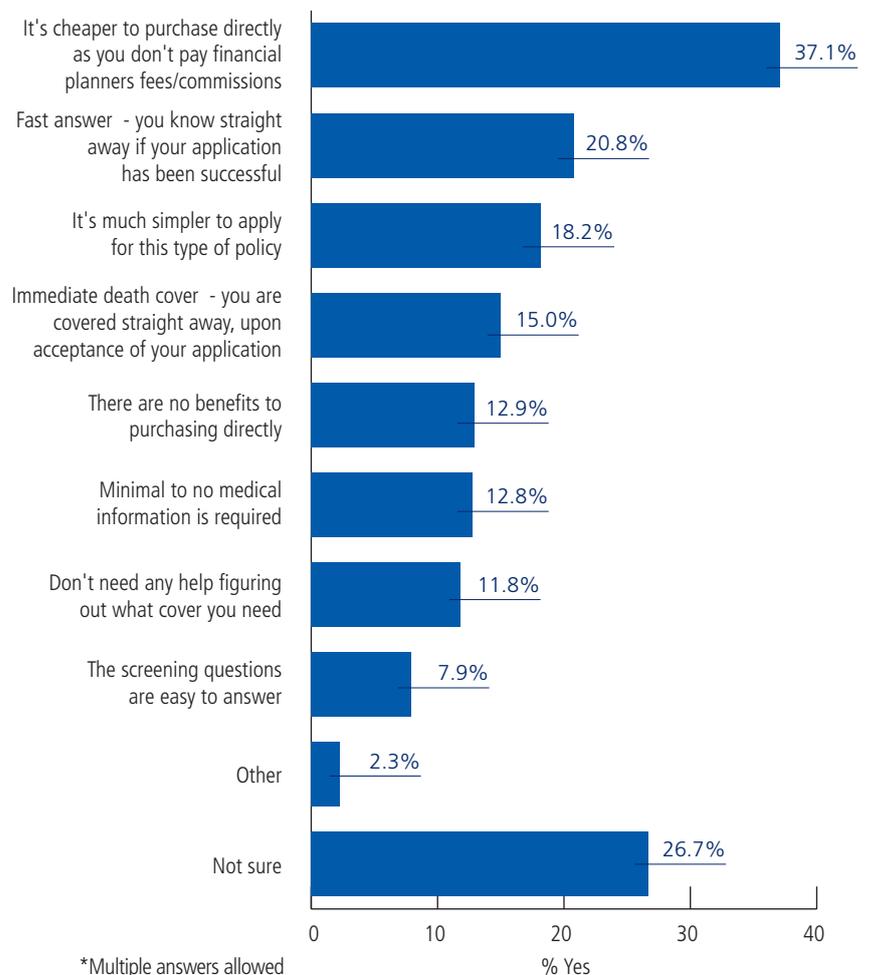
While close to one quarter (23.3%) say they would seek advice from a financial planner to determine the right sum insured, the vast majority of respondents believe they can perform this vital task without expert help. Around one in ten indicated they would go with their gut feeling (11.3%), or use an online calculator (11.5%). 7.1% said they would rely on advice from friends or family and 6.4% indicated they would simply choose enough cover to pay off the mortgage. However there appears to be a gap between intention and reality among Australians when it comes to life insurance coverage. While more than half of Australians (58.4%) say they would take into account their current and future financial obligations or seek professional advice when taking out a life insurance policy, in reality, statistics on actual coverage levels show that very few act on these intentions.

Lower cost is the top perceived benefit of direct life insurance

The most commonly (and falsely) assumed benefit of buying direct life insurance is that it is cheaper because there are no financial planner fees/commissions (37.1%). (In actual fact direct cover is generally more expensive than retail cover).

The second most commonly cited benefit of going direct was fast response to the application (20.8%), followed by a simpler process (18.2%) and the ability to get immediate cover (15.0%).

Figure 8. Whether you have purchased insurance directly or not, what do you believe are the benefits of buying direct life insurance (i.e. from the insurance company with no assistance from a financial planner)?



Top perceived drawback of direct life insurance: onus on policy holder to compare and understand policies; less tailored

While there are several perceived benefits of buying direct life insurance, there are also several perceived drawbacks. The most commonly cited disadvantage of buying direct life insurance is that the responsibility

of reading all the policy clauses is on the buyer (37.5%), less comparison of policy options (34.6%) and the lack of advice on the appropriateness of the level of cover (34.4%).

Furthermore, one in three (33.3%) respondents say that the policy may not be as closely tailored to the buyer's needs.

Figure 9. Whether you have purchased insurance directly or not, what do you believe are the disadvantages of buying direct life insurance (i.e. From the insurance company with no assistance from a financial planner)?

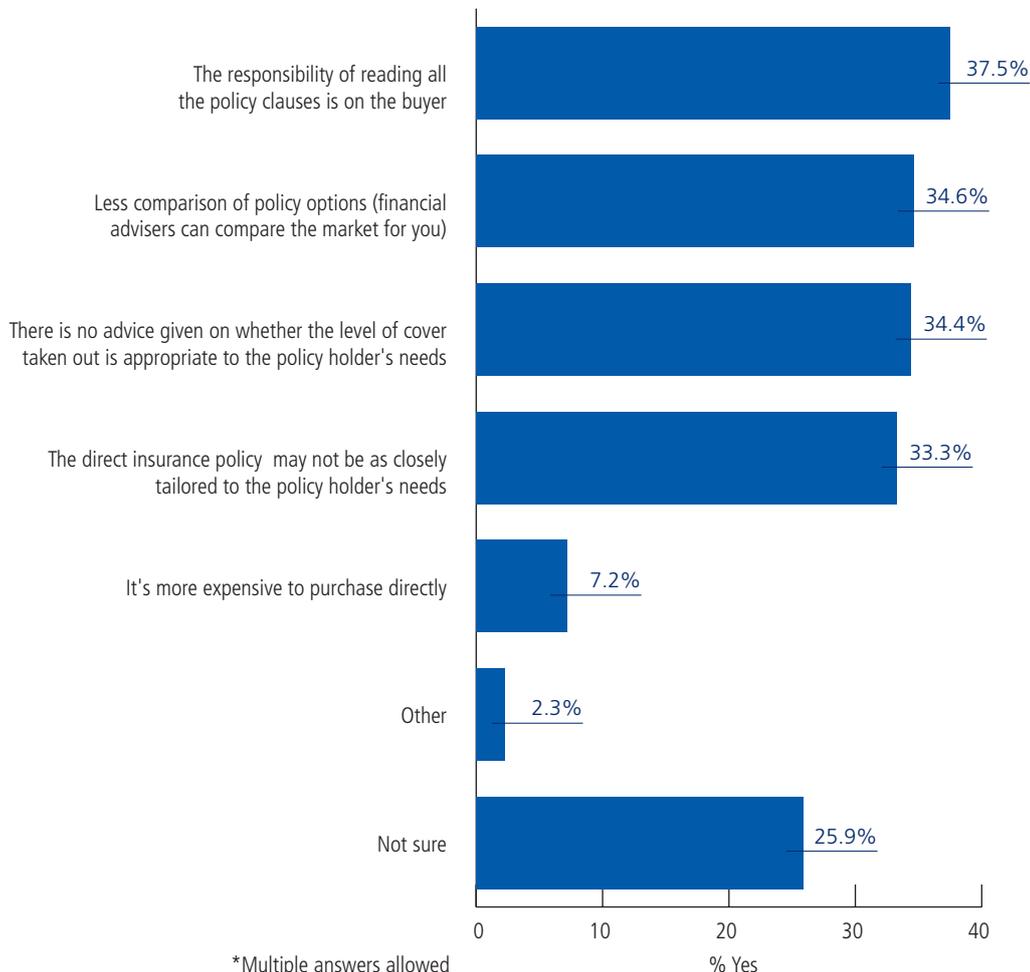
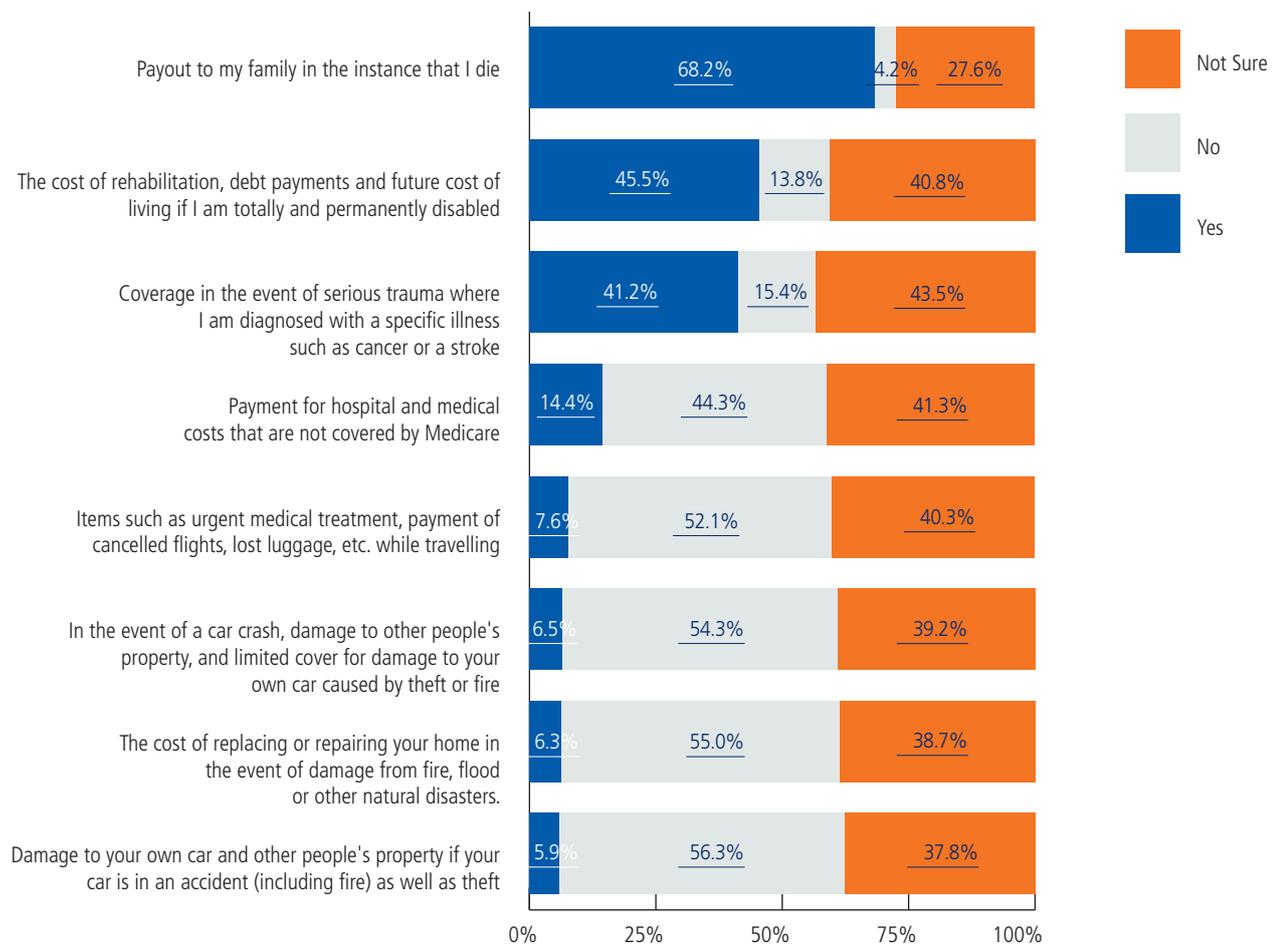


Figure 10. Now, thinking about the types of insurance that you can purchase through a superannuation fund (where premiums are deducted from your superannuation balance without you having to pay for it directly), which of the following types of insurance cover do you believe you can obtain?



Many Australians overestimate breadth of insurance coverage through their super

The majority (68.2%) of respondents correctly identified that they can obtain life insurance through their super fund without having to pay for it directly, while more than two in five (45.5%) correctly say that they can obtain TPD insurance this way.

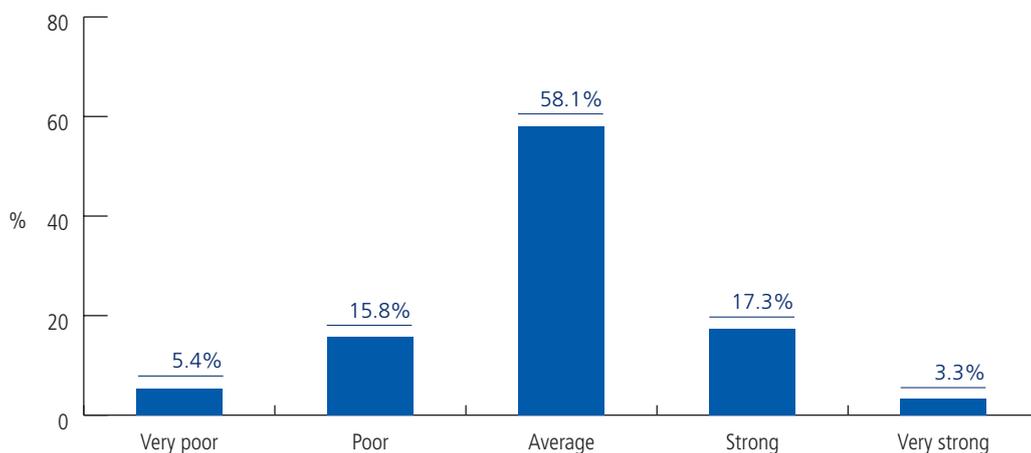
Small proportions incorrectly believe that they can obtain car, home or travel insurance through their super fund.

However, large numbers of Australians either incorrectly identify the accessibility of the various types of insurance through super or are unsure whether these types of insurance are accessible this way, suggesting a need for further education. For instance, more than two in five (41.2%) incorrectly believe that they can obtain trauma cover through their super fund.

One in five have poor life insurance knowledge and experience

While the majority (58.1%) of respondents rate their life insurance knowledge and experience as average, more than one in five (21.2%) rate their knowledge and experience as poor or very poor, while a similar proportion (20.6%) rate their knowledge and experience as strong or very strong.

Figure 11. Which of the following best describes your life insurance knowledge and experience?



Two in five believe life insurance through super is cheapest

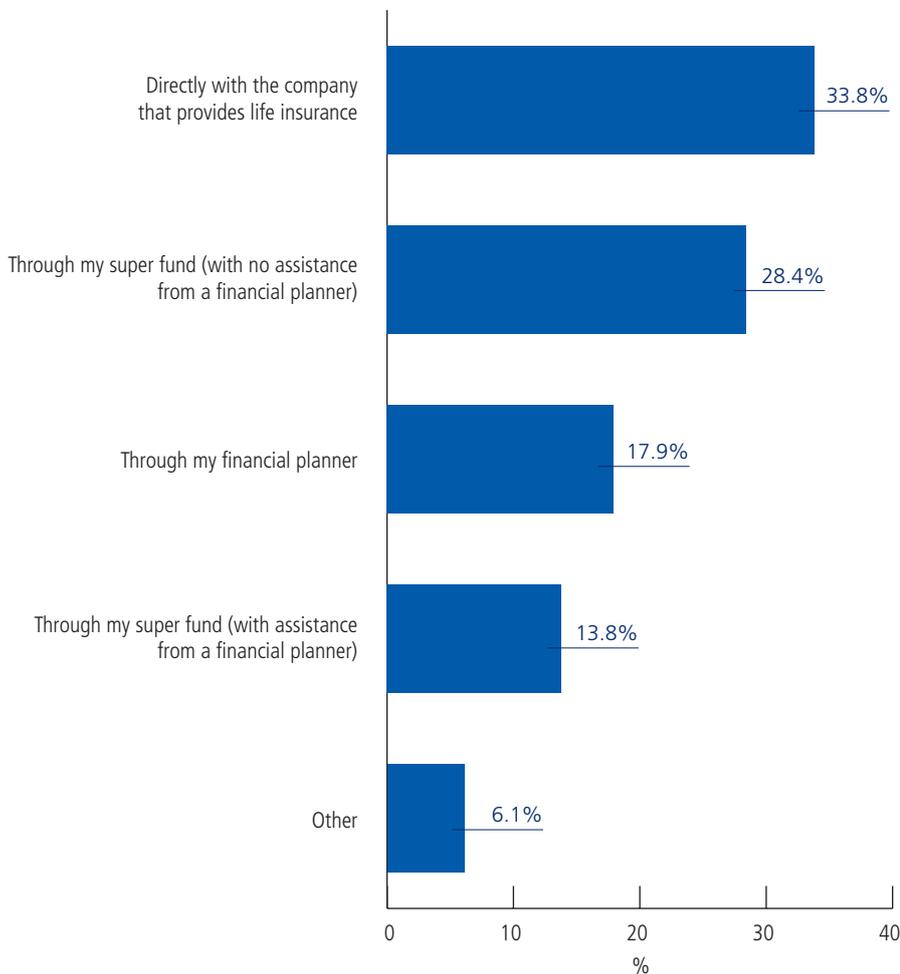
More than two in five (42.2%) respondents believe that buying life insurance is cheapest through a super fund, with or without assistance from a financial planner.

However, highlighting the perceived benefit of lower cost when buying direct life

insurance, more than one in three (33.8%) believe that purchasing cover directly with the life insurance company is the cheapest way.

Less than one in five (17.9%) believe that buying cover through a financial planner or another intermediary is the cheapest way to access life insurance.

Figure 12. What do you believe is the cheapest way to purchase life insurance cover?

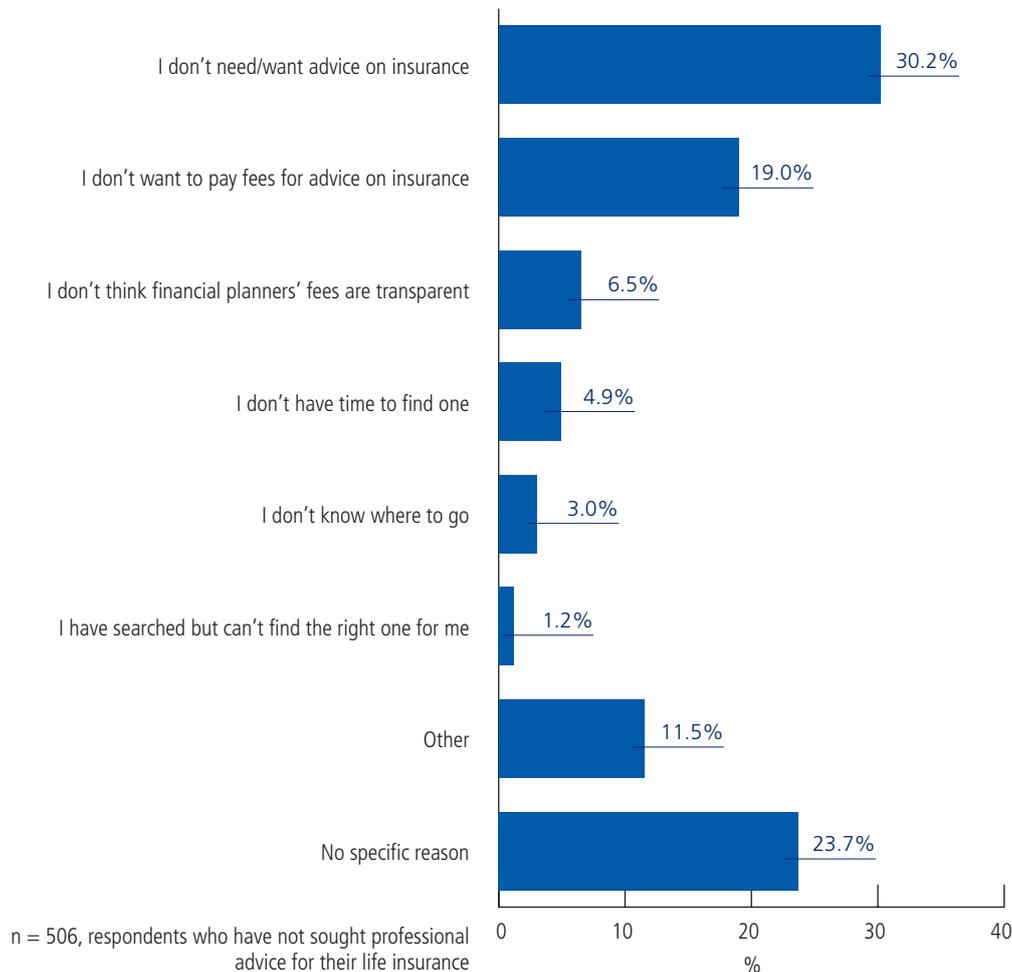


Three in 10 'don't need or want' insurance advice

Among those who believe that the cheapest way to buy life insurance is through their super fund or directly with the life insurance company, three in 10 (30.2%) have not sought professional advice because they do

not need or want insurance advice, while close to one in five (19.0%) do not want to pay fees for insurance advice. However, close to one in four (23.7%) cite no specific reason for not seeking professional advice to manage their life insurance needs.

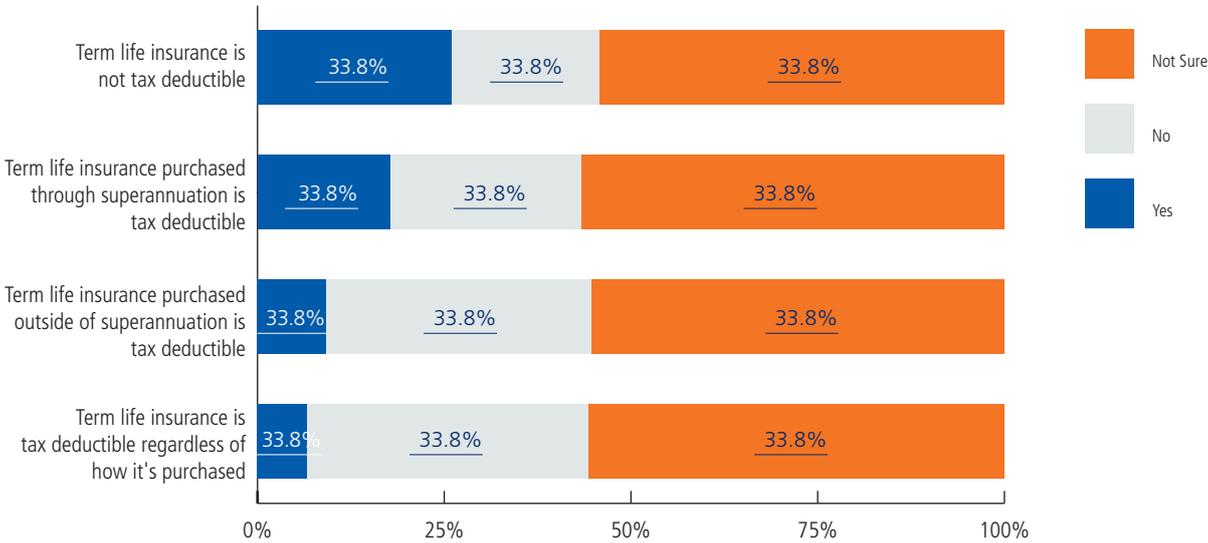
Figure 13. Why have you not sought professional advice to manage your life insurance needs?



Majority unsure of tax deductibility of term life insurance

The majority of Australians are unsure of the tax deductibility of term life insurance. More than half of respondents are unsure whether term life insurance purchased through super is tax deductible (56.6%) or whether term life purchased outside of super is tax deductible (55.4%).

Figure 14. What is your understanding of the tax deductibility of term life insurance?



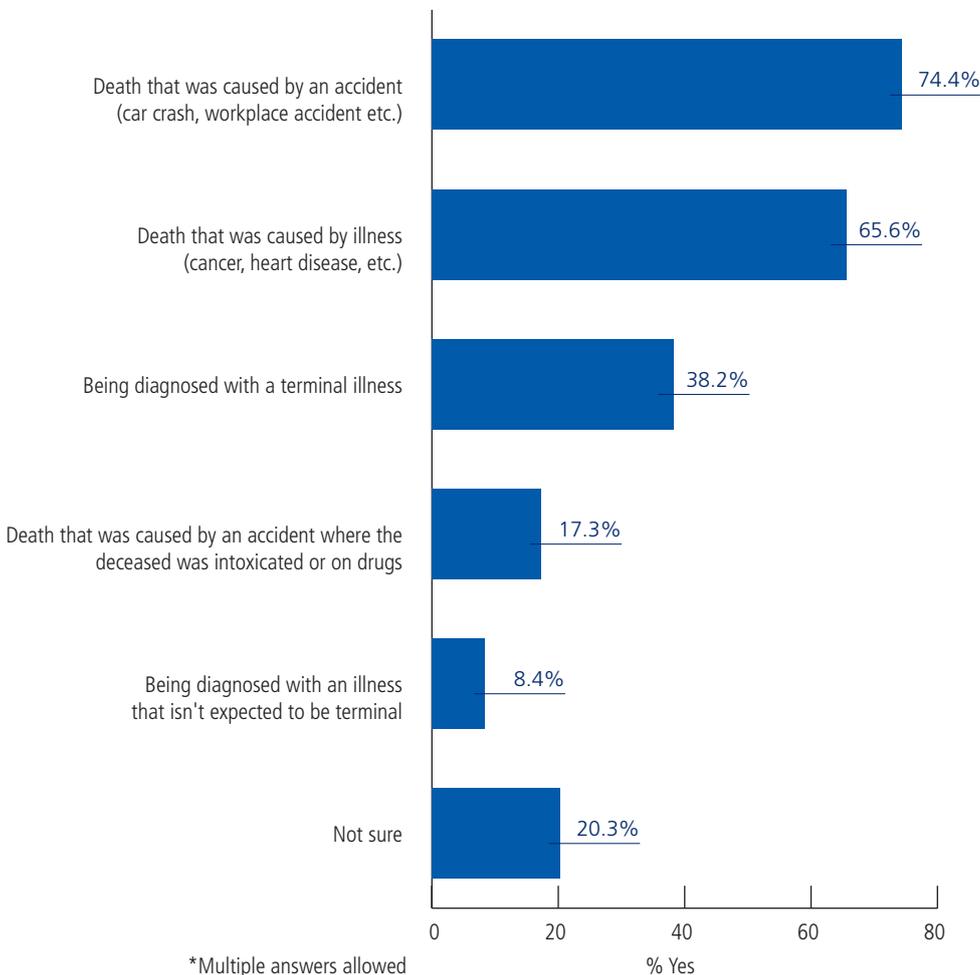
One in five unsure about events covered by term life insurance payout

Close to three quarters (74.4%) of respondents correctly say that a term life insurance policy would pay out in death that was caused by an accident, while close to two thirds (65.6%) are correct in saying that it would pay out in death that was

caused by illness. Only two in five (38.2%), however, realise that being diagnosed with a terminal illness is also a trigger for a payout.

One in five (20.3%) are unsure under what events a term life insurance policy would pay out.

Figure 15. Now thinking about Term Life Insurance, and what this type of insurance actually covers, please select in which situations you believe an insurance company would pay out a lump sum which can be used to cover financial commitments.



If you or one of your immediate family members were to suffer a serious accident or **medical condition resulting in injury or death**, which of the following do you believe would best take care of your financial responsibilities?

	Resulting in injury	Resulting in death
Term Life Insurance	5.5	56.3
Total and Permanent Disability Insurance	21.0	8.2
Income Protection Insurance	23.0	5.4
Trauma Insurance	12.0	5.2
Private Health Insurance	14.6	4.8
National Disability Insurance Scheme (NDIS)	3.2	2.1
Centrelink disability pension	4.3	
Personal savings	14.9	15.8
Unemployment benefits	1.5	2.2

The extent to which health insurance and life insurance are often confused is evident in the finding that more people believe health insurance or personal savings to be a more effective protection against a serious medical condition than trauma insurance.

Also notable is that around one in ten believe the NDIS to be a substitute for TPD insurance (11.7%) and 15.4% see personal savings as an effective substitute for term life cover.

Which of the following do you believe are an effective substitute for term life (death cover), total and permanent disability (TPD), or income protection insurance?

	Term life (death cover) insurance	Total and permanent disability (TPD) insurance	Income protection insurance
Total and Permanent Disability Insurance	17.4		15.6
Term life insurance		6.1	6.0
Income Protection Insurance	14.5	24.2	
Trauma Insurance	5.4	13.4	7.9
Private Health Insurance	8.2	11.3	5.7
National Disability Insurance Scheme (NDIS)	2.8	11.7	3.4
Centrelink disability pension	4.2	11.4	7.0
Personal savings	15.4	16.0	22.5
Unemployment benefits	1.7	2.7	7.5
There are no effective substitutes	35.3	24.2	31.0
Not sure	26.2	25.2	24.4
Other	2.6	1.4	2.2

One third say there are no substitutes for term life, income protection

In case of a serious accident or medical condition resulting in injury, Australians are most likely to believe that income protection and TPD insurance would best take care of their financial responsibilities (23.0% and 21.0% respectively). On the other hand, in case of a serious accident or medical condition resulting in death, term life insurance is considered by far the best way to take care of financial responsibilities (56.3%).

The importance of term life and income protection cover is highlighted in that Australians most commonly say that there are no effective substitutes for term life insurance (35.3%) and income protection insurance (31.0%).

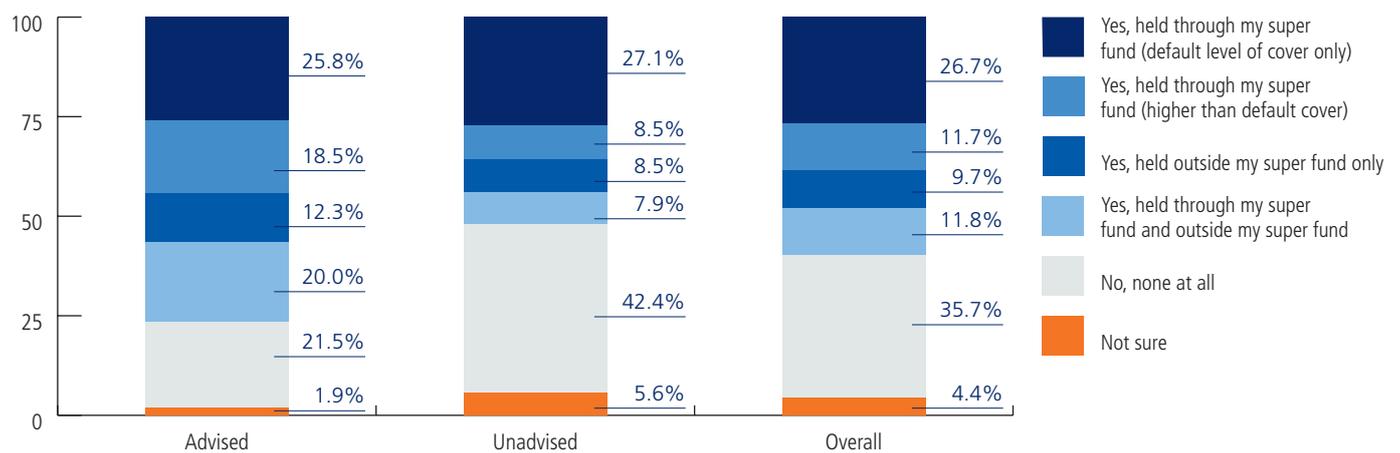
Close to one quarter (24.2%) of respondents say there are no effective substitutes for TPD insurance, although another 24.2% perceive income protection insurance as an effective substitute, suggesting the need for further education about the differences between TPD and income protection.

Are Advised Australians More Insurance Literate?

The following findings assess the differences in insurance literacy between advised and unadvised Australians.

Having some form of life insurance is generally a good indicator of financial 'fitness', and by proxy, financial literacy. Advised Australians are considerably more likely than unadvised Australians to have some form of life insurance, whether held inside or outside of super (76.6% vs. 52.0%).

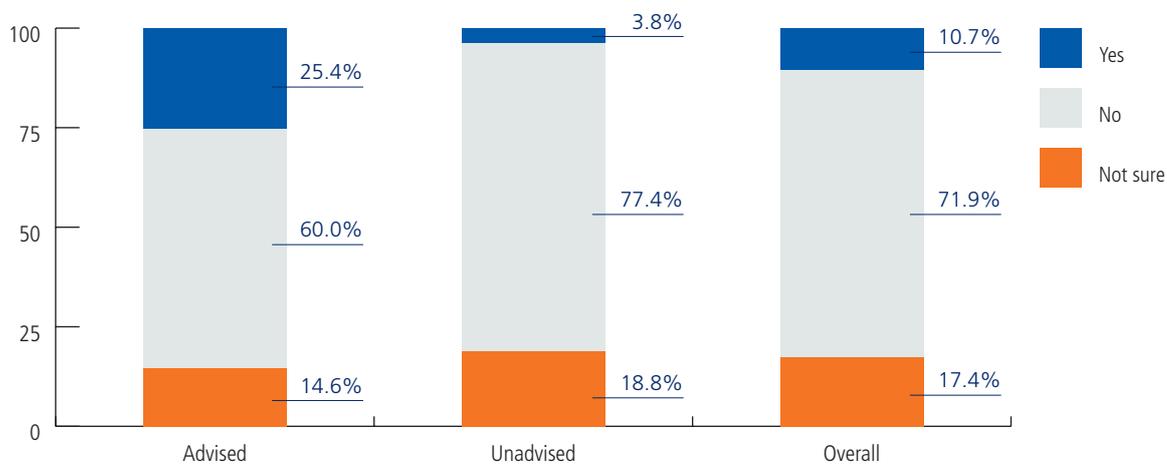
Figure 16. Do you have life insurance?



Trauma coverage low across the board

Trauma coverage is low for Australians across the board, with only 10.7% of respondents holding trauma insurance. However, the advised are considerably more likely than the unadvised to hold it (25.4% vs. 3.8%).

Figure 17. Do you have Trauma Insurance?



Advised Australians have greater knowledge of life cover

Among Australians who have life insurance, the advised are more likely than the unadvised to have knowledge of their life insurance coverage, including the sum insured and cost of premiums.

The advised are considerably more likely to know their approximate sum insured (82.9% vs. 62.5%) and to be confident in knowing the monthly premium they pay (62.3% vs. 39.9%).

Figure 18. Do you know the approximate value that you are insured for through your life insurance cover?

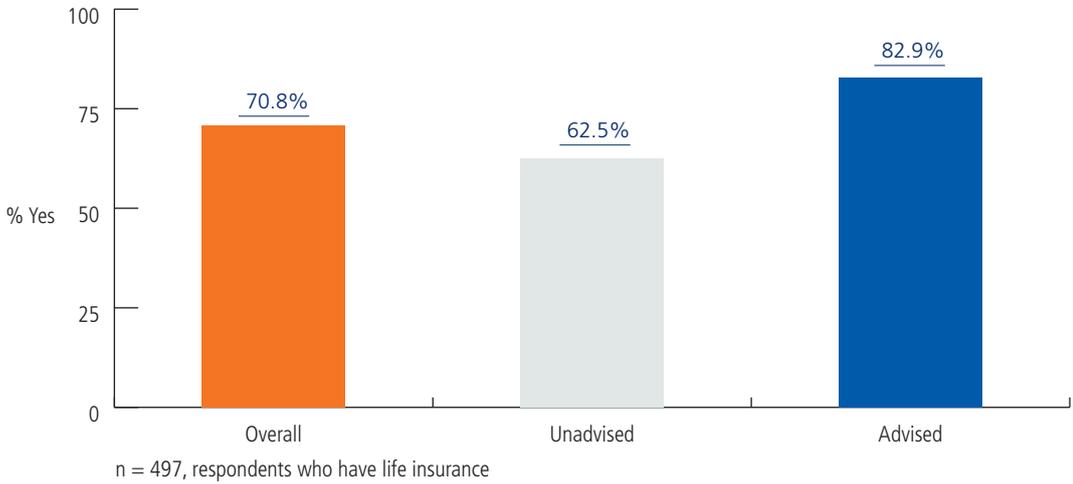
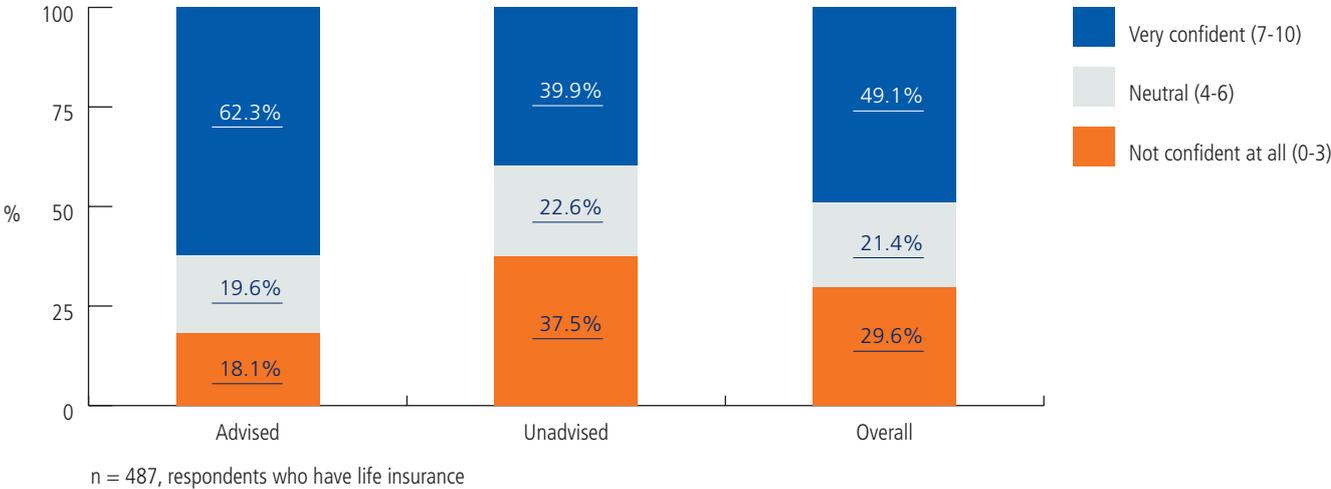


Figure 19. How confident are you that you know the monthly premium/cost of your life insurance cover? Please rate on a scale of 0 - 10, where 0 = not confident at all, and 10 = very confident.



Advised Australians have better knowledge of TPD cover

Among Australians who have TPD insurance, the advised are more likely than the unadvised to have knowledge of their TPD insurance coverage, including sum insured and cost of premiums.

The advised are more likely to know the approximate value they are insured for (60.0% vs. 41.4%) and to be confident in knowing the monthly premium they pay (50.3% vs. 26.1%).

Figure 20. Do you know the approximate value that you are insured for through your total and permanent disability (TPD) cover?

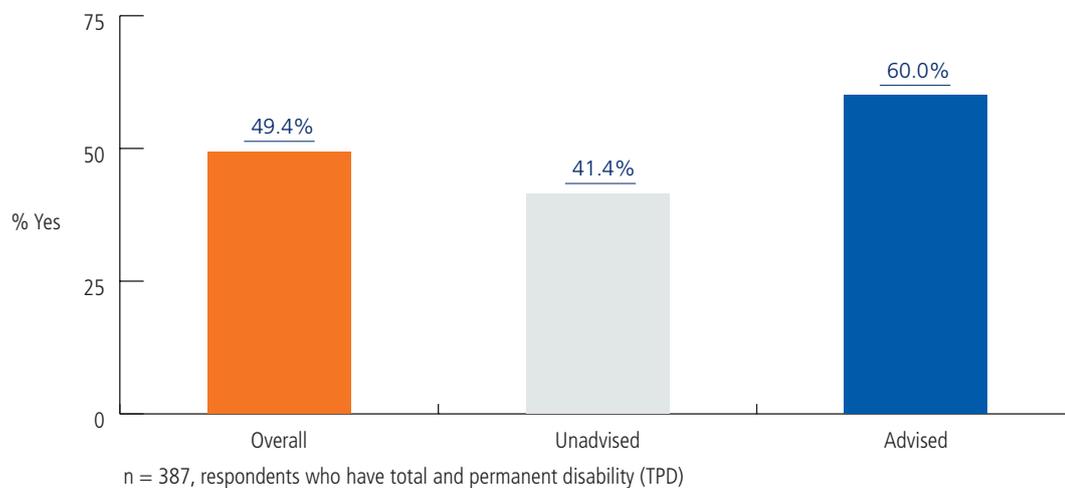
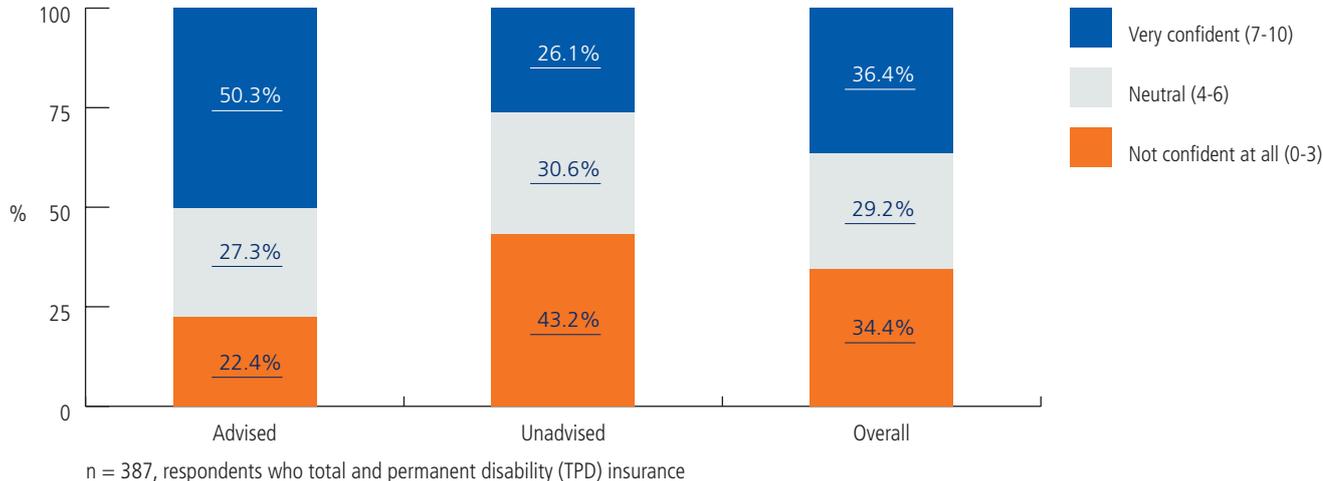


Figure 21. How confident are you that you know the monthly premium/cost of your TPD cover? Please rate on a scale of 0 - 10, where 0 = not confident at all, and 10 = very confident.



Advised Australians have greater knowledge of income protection cover

Among Australians who have income protection insurance, the advised are more likely than the unadvised to have knowledge of their income protection coverage, including sum insured and cost of premiums.

The advised are more likely to know the approximate value they are insured for (76.6% vs. 55.3%) and to be confident in knowing the monthly premium they pay (63.7% vs. 36.4%).

Figure 22. Do you know the approximate value that you are insured for through your income protection cover?

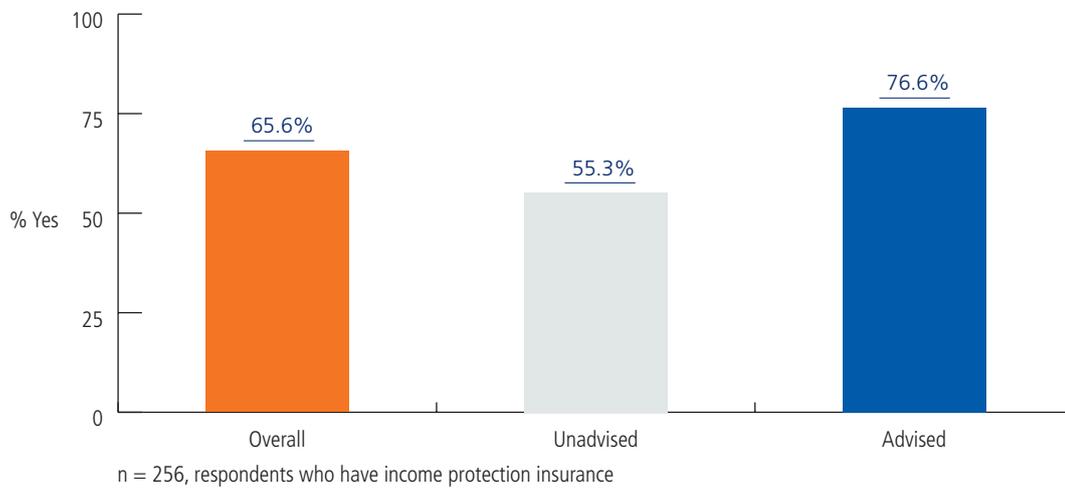
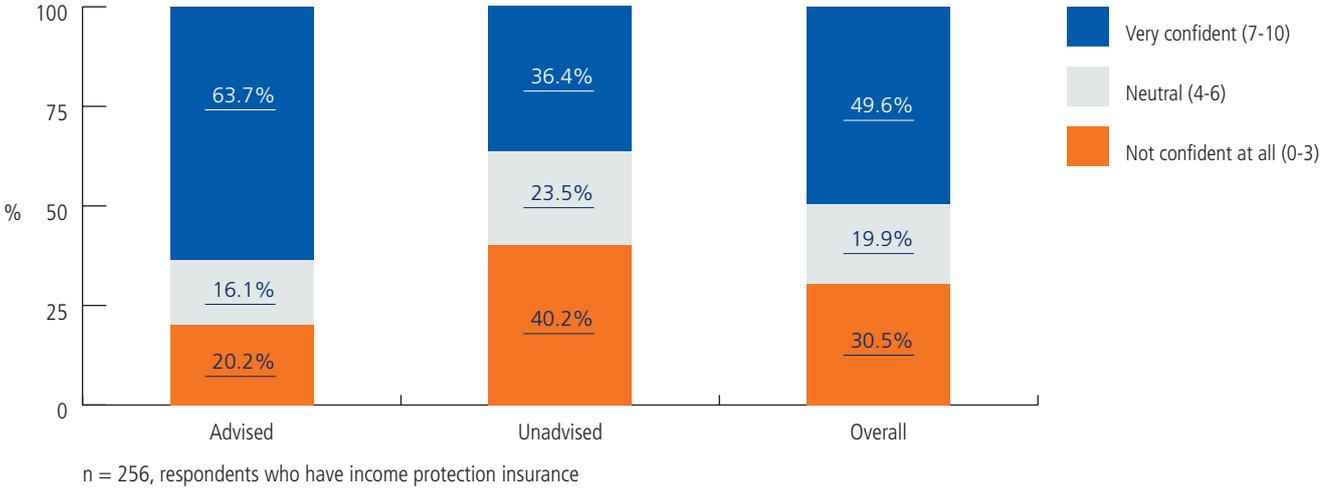


Figure 23. How confident are you that you know the monthly premium/cost of your income protection cover? Please rate on a scale of 0 - 10, where 0 = not confident at all, and 10 = very confident.



Advised Australians more likely to understand insurance accessibility through super

Advised Australians are generally more knowledgeable than the unadvised when it comes to the types of insurance that can be purchased through super. Advised Australians are more likely to correctly identify that life (80.4% vs. 62.5%) and TPD insurance (52.3% vs. 42.2%) can be purchased through super without incurring out-of-pocket costs.

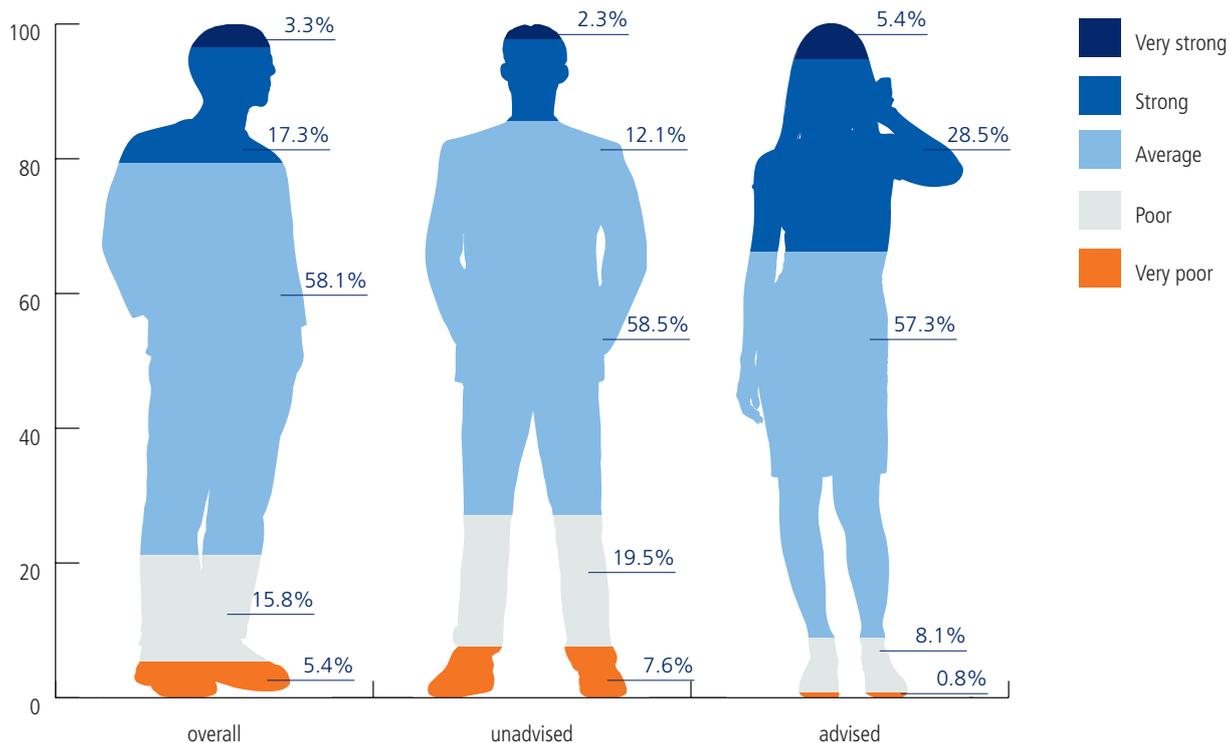
Furthermore, advised Australians are more likely than their unadvised counterparts to identify that car, home and travel insurance cannot be purchased through super.

However, they are also more likely to incorrectly identify that trauma and certain medical insurance can be purchased via super without having to pay for them directly, potentially due to a higher proportion of the unadvised saying that they were 'not sure' in the case of both of these options.

Advised Australians have stronger life insurance knowledge and experience

While only one in five (20.6%) respondents overall say their life insurance knowledge and experience is strong or very strong, the advised are more likely to say this than the unadvised (33.9% vs. 14.4%).

Figure 24. Which of the following best describes your life insurance knowledge and experience?



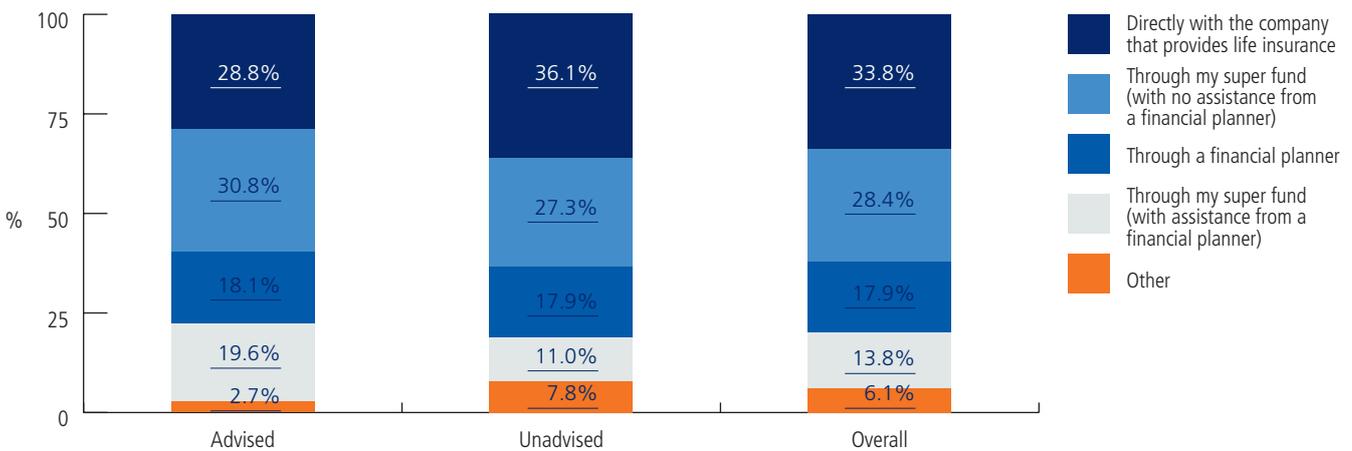
Now, thinking about the types of insurance that you can purchase through a superannuation fund (where premiums are deducted from your superannuation balance without you having to pay for it directly), which of the following types of insurance cover do you believe you can obtain.

		Advised	Unadvised	Overall
Payout to my family in the instance that I die	Yes	80.4%	62.5%	68.2%
	No	3.5%	4.5%	4.2%
	Not Sure	16.2%	33.0%	27.6%
The cost of rehabilitation, debt payments and future cost of living if I am totally and permanently disabled	Yes	52.3%	42.2%	45.5%
	No	17.3%	12.1%	13.8%
	Not Sure	30.4%	45.7%	40.8%
Coverage in the event of serious trauma where I am diagnosed with a specific illness such as cancer or a stroke	Yes	53.5%	35.4%	41.2%
	No	16.5%	14.8%	15.4%
	Not Sure	30.0%	49.8%	43.5%
Payment for hospital and medical costs that are not covered by Medicare	Yes	16.2%	13.5%	14.4%
	No	54.2%	39.7%	44.3%
	Not Sure	29.6%	46.8%	41.3%
In the event of a car crash, damage to other people's property, and limited cover for damage to your own car caused by theft or fire	Yes	6.5%	6.5%	6.5%
	No	65.0%	49.3%	54.3%
	Not Sure	28.5%	44.2%	39.2%
Damage to your own car and other people's property if your car is in an accident (including fire) as well as theft	Yes	6.9%	5.4%	5.9%
	No	65.8%	51.8%	56.3%
	Not Sure	27.3%	42.8%	37.8%
The cost of replacing or repairing your home in the event of damage from fire, flood or other natural disasters.	Yes	7.3%	5.8%	6.3%
	No	65.0%	50.4%	55.0%
	Not Sure	27.7%	43.9%	38.7%
Items such as urgent medical treatment, payment of cancelled flights, lost luggage, etc. while travelling	Yes	8.1%	7.4%	7.6%
	No	64.2%	46.4%	52.1%
	Not Sure	27.7%	46.2%	40.3%

Advice influences views on the cheapest way to purchase life cover

Advice status influences perceptions on the cheapest way to purchase life insurance. The advised are more likely than the unadvised to believe that buying life cover through super, with or without the assistance from a financial planner, is the cheapest way (50.4% vs. 38.3%). The advised are also less likely than the unadvised to believe that purchasing cover directly from the life insurance company is the cheapest way (28.8% vs. 36.1%), suggesting they understand the value of incorporating advice as part of the life insurance purchase process.

Figure 25. What do you believe is the cheapest way to purchase life insurance cover?



Advised Australians more certain on tax deductibility of term life insurance

A higher proportion of advised Australians understand that life insurance is tax deductible inside super (26.5% vs. 13.5%) and that it is not tax deductible outside of super (45.4% vs. 30.7%).

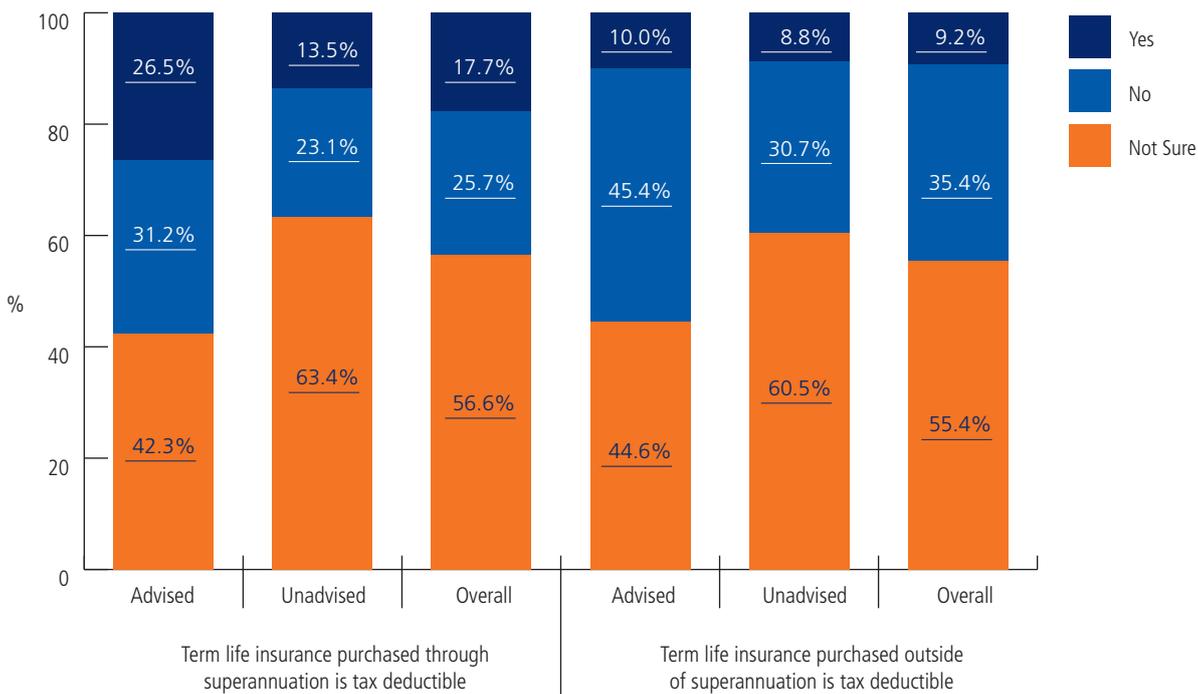
Unadvised Australians are more likely to be unsure about the tax deductibility of term life insurance.

More than three in five (63.4%) unadvised respondents are not sure whether term life insurance purchased through super is tax

deductible. This is considerably higher than the proportion of advised respondents who are not sure (42.3%). Furthermore, three in five (60.5%) unadvised respondents are not sure whether term life insurance purchased outside of superannuation is tax deductible, compared to 44.6% of advised respondents.

However, there remain large proportions of Australians who are unsure about the tax deductibility of term life insurance, regardless of whether or not they are receiving advice.

Figure 26. What is your understanding of the tax deductibility of term life insurance?



Advised Australians more certain on term life insurance payouts

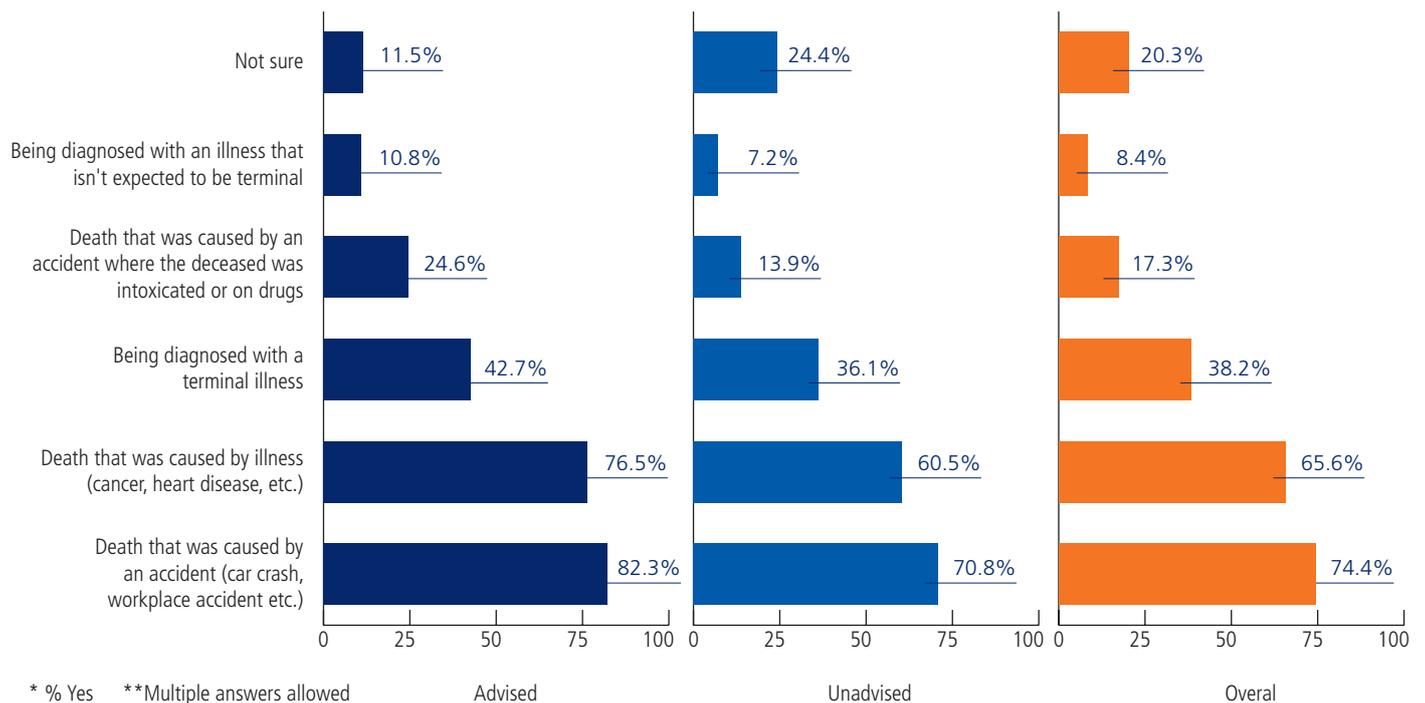
Advised Australians are more likely than those who are unadvised to be certain about the events that lead to term life insurance payouts.

More than four in five (82.3%) advised respondents correctly say that a term life insurance policy would pay out in death that was caused by an accident, compared to 70.8% of unadvised respondents, while more than three quarters (76.5%) of advised

respondents are correct in saying that it would pay out in death that was caused by illness, compared to 60.5% of unadvised respondents.

Furthermore, close to a quarter (24.4%) of unadvised respondents are unsure about what term life insurance actually covers, compared to only 11.5% of advised respondents.

Figure 27. Now thinking about Term Life Insurance, and what this type of insurance actually covers, please select in which situations you believe an insurance company would pay out a lump sum which can be used to cover financial commitments.

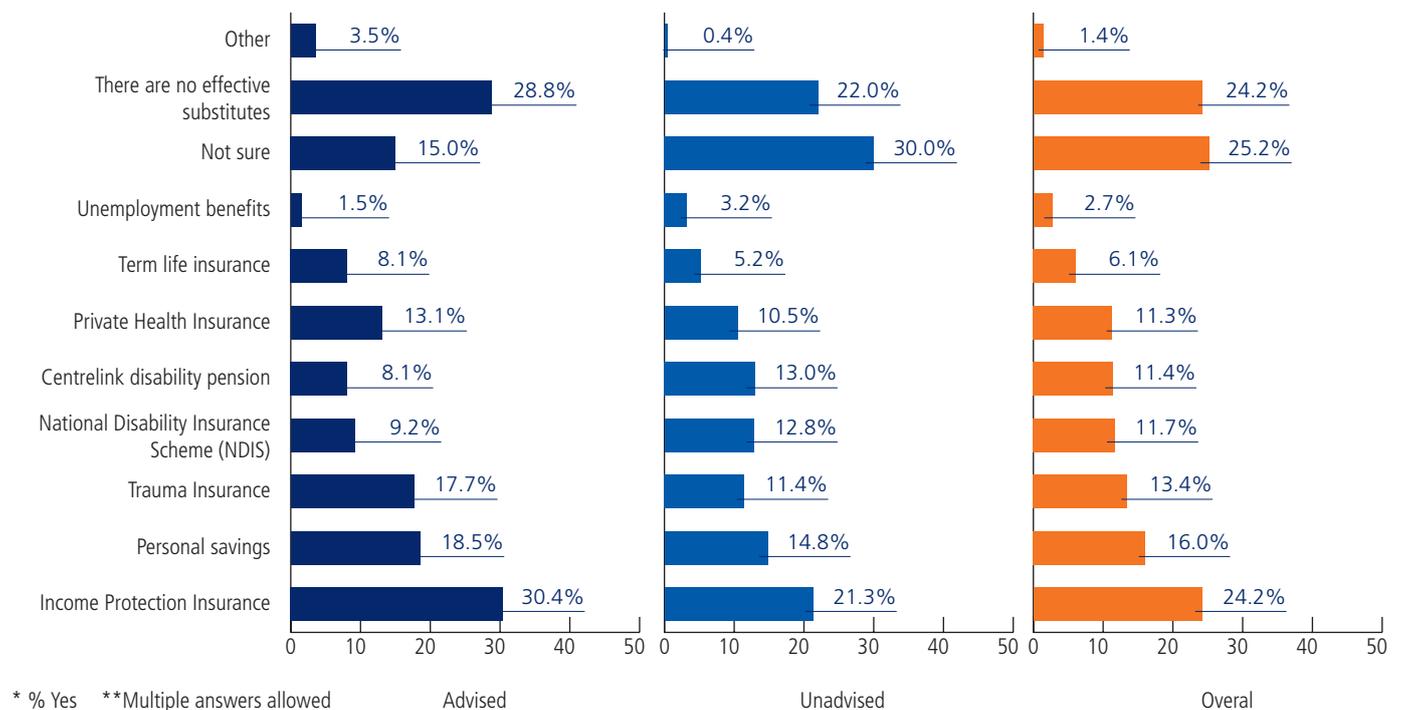


NDIS still confuses

There still appears to be widespread community confusion about the role of the National Disability Insurance Scheme (NDIS), and how it differs from life insurance.

Unadvised Australians are more than twice as likely to view the NDIS as an effective substitute for income protection (4.2% v 1.9%) and a third more likely to see it as a substitute for TPD Cover (12.8% v 9.2%).

Figure 28. Which of the following do you believe are an effective substitute for total and permanent disability (TPD) insurance?

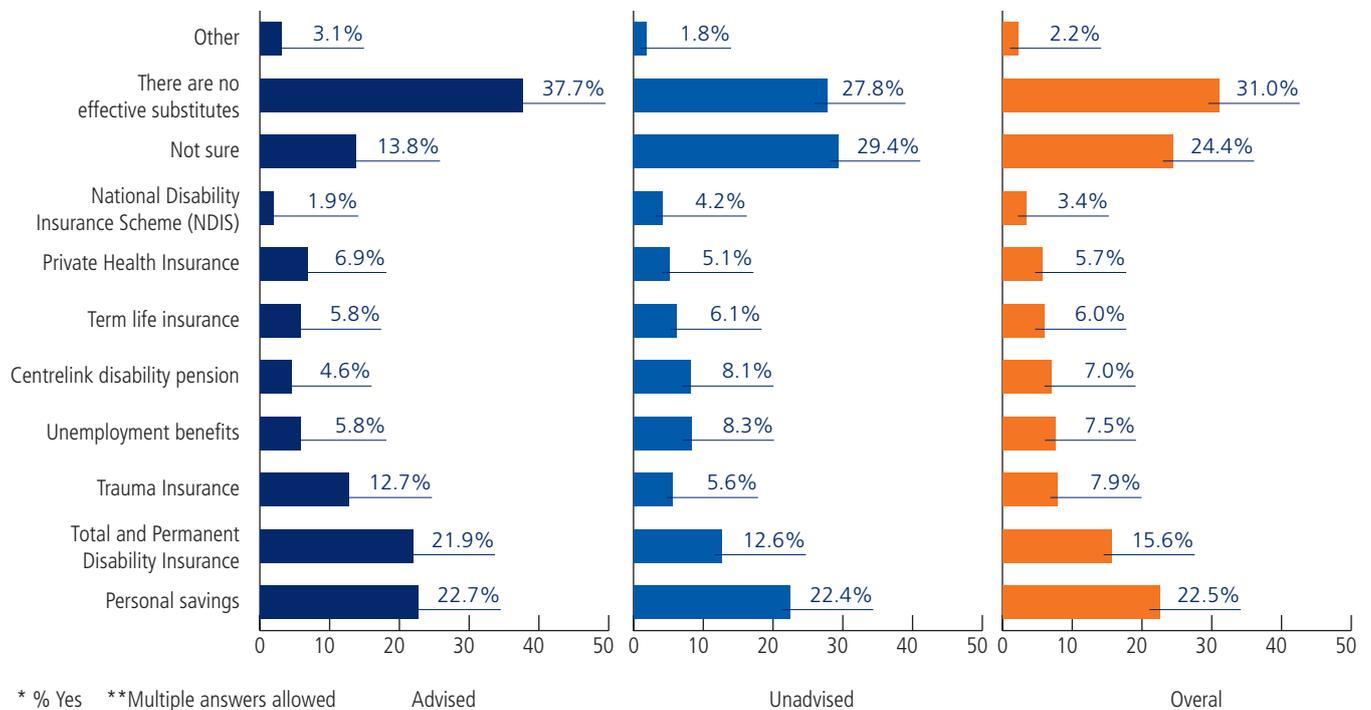


Advised Australians less likely to perceive any substitutes for life cover

Understanding of the important role of term life insurance is highlighted in that Australians most commonly say that there are no effective substitutes for death cover, regardless of whether or not they are receiving advice. However, the advised are more likely than the unadvised to hold this view (41.9% vs. 32.1%).

In fact, the advised are more likely to say this is the case across all types of insurances, suggesting higher literacy around the benefits that life, income protection, TPD and trauma provide over and above perceived alternatives.

Figure 29. Which of the following do you believe are an effective substitute for income protection insurance?



Demographic Variances

Younger Australians overestimate cost of life insurance

On average, Australians estimate paying approximately \$167 per month or \$2,000 per year, for \$500,000 of term life insurance cover.

There is a direct relationship between age and the estimated cost of term life insurance, with cost estimates for \$500,000 term life cover increasing with age. Generation Y respondents have the lowest estimates (\$79), followed by Generation X (\$142), Baby Boomers (\$179) and Pre-boomers (\$419).

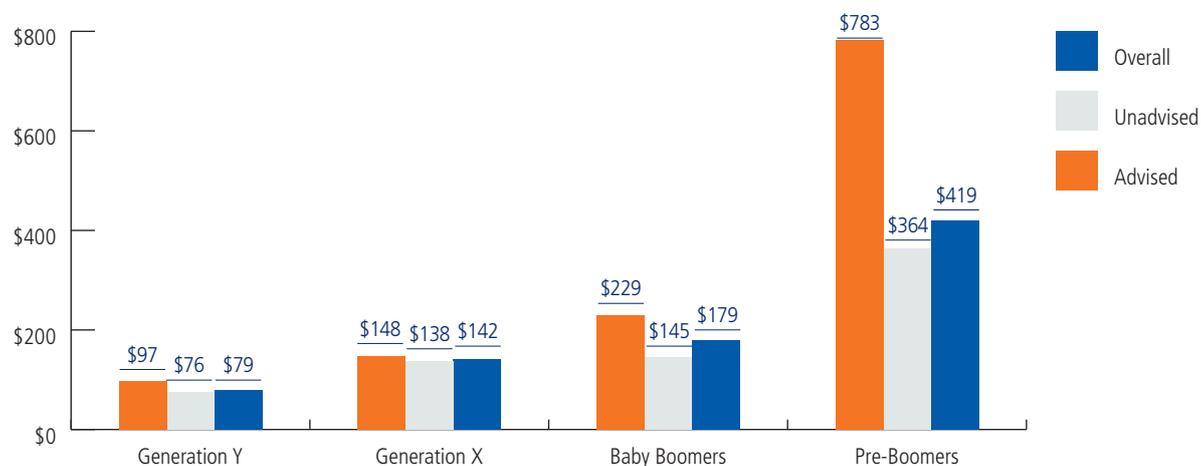
For Gen Y consumers this is a significant overestimate, whereas Generation X, Baby Boomers and pre-boomers are generally more accurate in their estimates.

Males more likely to be certain on insurance accessibility through super

Males are generally more knowledgeable when it comes to what types of insurance they are able to purchase through their super fund. They are more likely to correctly identify that life and TPD insurance can be purchased this way (71.8% vs. 63.1% and 47.6% vs. 42.5%, respectively). However, they are also more likely to incorrectly say that trauma insurance can be purchased through super (44.8% vs. 36.0%).

By age generation, Generation X is the most likely to be certain about the accessibility of life and TPD insurance through super, followed closely by the Baby Boomers.

Figure 30. Approximately how much do you believe that it would cost you, on a monthly basis, for a term life insurance policy with \$500,000 in coverage?



Now, thinking about the types of insurance that you can purchase through a superannuation fund (where premiums are deducted from your superannuation balance without you having to pay for it directly), which of the following types of insurance cover do you believe you can obtain. (% Yes)

	Gender		Age generation			
	Female	Male	Generation Y	Generation X	Baby Boomers	Pre-Boomers
Payout to my family in the instance that I die	63.1	71.8	56.0	72.5	70.1	59.3
The cost of rehabilitation, debt payments and future cost of living if I am totally and permanently disabled	42.5	47.6	42.9	51.0	46.3	27.2
Coverage in the event of serious trauma where I am diagnosed with a specific illness such as cancer or a stroke	36.0	44.8	35.2	42.5	44.3	28.4
Payment for hospital and medical costs that are not covered by Medicare	14.2	14.5	17.6	12.1	13.9	19.8
In the event of a car crash, damage to other people's property, and limited cover for damage to your own car caused by theft or fire	5.6	7.2	11.0	5.3	5.3	11.1
Damage to your own car and other people's property if your car is in an accident (including fire) as well as theft	5.0	6.5	8.8	4.9	4.8	11.1
The cost of replacing or repairing your home in the event of damage from fire, flood or other natural disasters.	5.3	6.9	6.6	5.7	5.3	12.3
Items such as urgent medical treatment, payment of cancelled flights, lost luggage, etc. while travelling	6.5	8.4	11.0	5.7	7.1	12.3

Males more likely to be life insurance savvy

Females are more likely than males to say that they have poor or very poor life insurance knowledge and experience (27.8% vs. 16.7%), while males are twice as likely as females to rate their life insurance knowledge and experience as strong or very strong (26.1% vs. 13.0%). However, the majority of males and females say that they have average life insurance knowledge and experience (57.3% and 59.3% respectively).

Younger Australians less insurance savvy

By generation, Generation Y is the most likely to rate their life insurance knowledge and experience as poor or very poor (37.4%), while Baby Boomers are the most likely to rate their knowledge and experience as strong or very strong (22.0%).

Figure 31. Which of the following best describes your life insurance knowledge and experience?

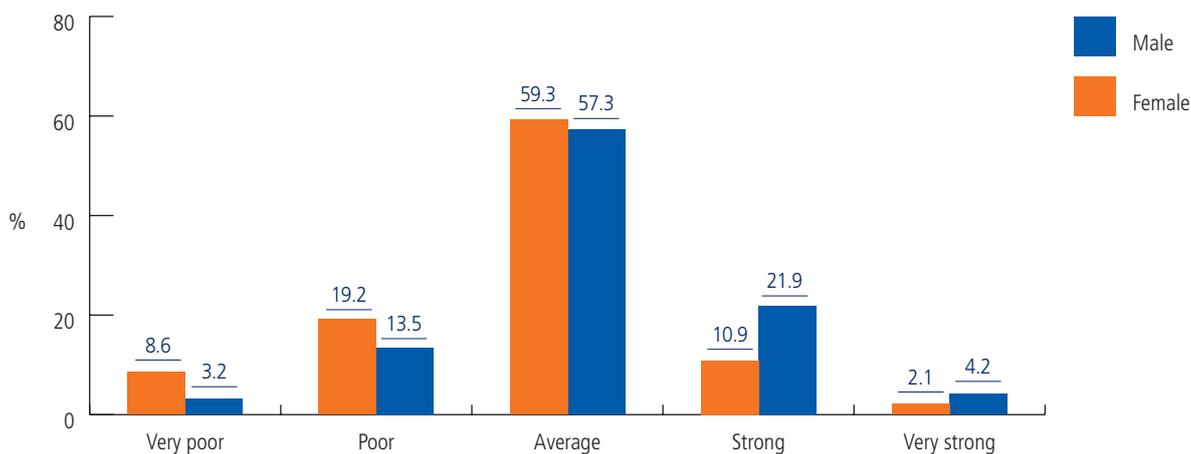
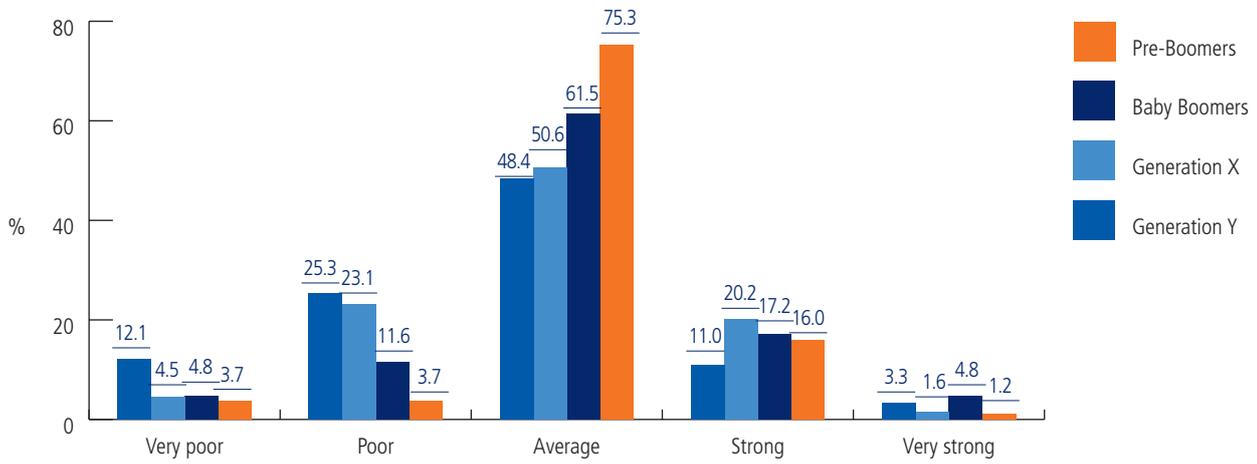


Figure 32. Which of the following best describes your life insurance knowledge and experience?



Appendix

Demographics

Gender	
Female	41.6%
Male	58.4%
TOTAL	100.0%

Smoking Habits	
Smoker	10.1%
Non-smoker	89.9%
TOTAL	100.0%

State	
NSW & ACT	34.0%
Vic & Tas	27.6%
NT & SA	10.9%
Qld	17.9%
WA	9.5%
TOTAL	100.0%

Annual Household Income	
\$50,000 or less	22.7%
\$50,001 to \$75,000	16.5%
\$75,001 to \$100,000	16.2%
\$100,001 to \$125,000	13.2%
\$125,001 to \$150,000	11.6%
\$150,001 to \$200,000	10.3%
\$200,001 to \$250,000	4.9%
\$250,001 to \$350,000	3.0%
\$350,001 or more	1.7%
TOTAL	100.0%

Age Generation	
Generation Y	11.2%
Generation X	30.3%
Baby Boomers	48.5%
Pre-Boomers	10.0%
TOTAL	100.0%

Age Group	
29 years old & below	4.4%
30 - 39 years old	16.5%
40 - 49 years old	22.9%
50 - 59 years old	25.9%
60 years old and above	30.3%
TOTAL	100.0%

Appendix

Demographics

Investment Portfolio	
I have no investments	17.3%
\$50,000 or less	11.6%
\$50,001 to \$150,000	12.0%
\$150,001 to \$250,000	9.3%
\$250,001 to \$350,000	7.6%
\$350,001 to \$450,000	8.1%
\$450,001 to \$550,000	7.3%
\$550,001 to \$650,000	3.9%
\$650,001 to \$750,000	3.0%
\$750,001 to \$1 million	8.3%
More than \$1 million to \$3 million	9.9%
More than \$3 million to \$5 million	1.2%
More than \$5 million	0.6%
TOTAL	100.0%

Work	
I am in full time work	49.8%
I have retired from full time work	18.3%
I am in part time work	16.5%
I am in full time home duties	4.1%
I am a full time student	1.2%
I am not in work at present	6.3%
Other	3.9%
TOTAL	100.0%

Marital Staus	
Single	18.6%
Living with partner/married	70.0%
Separated/divorced/widowed	11.1%
Other	0.4%
TOTAL	100.0%

Education	
Primary	0.4%
Part of high school	7.4%
Completed high school	13.5%
Diploma or certificate qualification (inc. Trades)	29.9%
Degree qualification	27.5%
Postgraduate qualification	21.4%
TOTAL	100.0%

Appendix

Demographics

Living Situation	
Living alone (never had children)	11.8%
Living with flatmate(s) (never had children)	3.6%
Living with parents/siblings (never had children)	4.2%
Living with partner only (never had children)	12.2%
Living with your children (under 18 years) at home	23.5%
Living with your children (over 18 years) at home	9.7%
Living with your children (both over and under 18 years) at home	4.2%
Children have all left home	28.6%
Other	2.3%
TOTAL	100.0%

Number of Children	
1	16.9%
2	50.3%
3	21.0%
4	8.8%
5	2.4%
6	0.2%
More than 6	0.4%
TOTAL	100.0%

Home Loan	
Yes, on my residence	32.4%
Yes, on an investment property	7.6%
Yes, on my residence and an investment property	7.7%
No	52.2%
TOTAL	100.0%

Home Loan Status	
I hold the loan by myself	28.8%
I hold the loan jointly with my partner	67.4%
I hold the loan jointly with a parent	1.1%
I hold the loan jointly with a sibling	0.4%
I hold the loan jointly with another relative	0.0%
Other	2.3%
TOTAL	100.0%

Insurance Literacy Score

Score components and weighting

Component	Weighting
Life insurance knowledge and experience (self-rating)	10%
Life insurance held	7%
Life insurance know value	6%
Life insurance know premium	5%
TPD held	7%
TPD know value	6%
TPD know premium	5%
Income Protection held	7%
Income Protection value	6%
Income Protection know premium	5%
Understanding of the tax deductibility of Term life	10%
Understand Life cover in super	7%
Understand Disability cover in super	2%
Understanding of lump sum payout for Term life	7%
Aware of waiting period length	2%
Acknowledge no substitute for Life	2%
Acknowledge no substitute for TPD	2%
Acknowledge no substitute for Income protection	2%
Acknowledge no substitute for Trauma insurance	2%



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ASSOCIATION *of* AUSTRALIA

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