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## **PREMIUMS IN FORCE AND CLAIMS GROW BUT THIS MASKS AN UNDER-INSURANCE PICTURE FOR MOST NZ FAMILIES**

The life insurance industry paid out nearly \$1.17 billion over the last 12 months\*, an increase of \$170 million compared to the previous 12 months. While it reflects more people being covered, many New Zealanders remain under insured putting their families at risk and under financial stress when disaster strikes.

The chief executive of the Financial Services Council, Mr Peter Neilson said in spite of the increase in paid-out benefits as shown in the latest quarterly life insurance statistics, there is a significant under-insurance gap in the event of death, serious illness and short term disability.

“While it is pleasing to see the statistics for premiums in force show trauma insurance has overtaken income replacement insurance in the latest quarter, coverage falls a long way short of what is needed to ensure families are well cared for during extremely difficult times.”

Mr Neilson said early research into the under-insurance gap found 60 percent of New Zealanders thought personal insurance was “all too hard” and industry jargon was confusing, making it difficult to understand what is being delivered and value for money.

“This is one of the biggest research projects ever undertaken in the New Zealand financial markets and it will help households better understand their personal risk insurance decisions,” Mr Neilson said. “We will progressively release the under-insurance research findings in the New Year.”

The latest statistics show the current in force risk market in New Zealand to September 2012 quarter is worth \$1.94 billion in total premiums in force, an increase from \$1.60 billion three years ago\*.

Trauma insurance has grown from \$187 million three years ago to \$274 million this year. By comparison Replacement Income has grown from \$228 million to \$271 million and is about to be surpassed as New Zealand’s most popular income protection insurance.

The events following the Global Financial Crisis and the Christchurch earthquakes have highlighted too many New Zealanders how vulnerable their situation is if they are suddenly faced by sickness, redundancy or unemployment. Despite the recession, income protection insurance is increasingly being purchased to safeguard their families. While increasing, barely one in five New Zealand families has this insurance.

The whole of Life Endowment and Unbundled traditional products continued their flat to downward trend, while guaranteed acceptance insurance at \$920 million may join the billionaire club in the next 12 months if trends continue.

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\*Note: Partners Life, which commenced operations in August 2010, became a member of the FSC in 2012 and has contributed to this survey. Because most of its policies are new the amount of life insurance paid out by Partners Life in the last 12 months is unlikely to have significant impact on the percentage pay-out growth statistics. The in force premium statistics comparisons relate to a three year period and pre-date Partners Life's establishment.

## **Definition of Terms:**

### **Life Insurance**

Life insurance is contract between the policy holder and the insurer, where the insurer promises to pay a designated beneficiary a sum of money upon death of the insured person. Depending on the contract, other events such as terminal or critical illness may also trigger payment. In return, the policy holder agrees to pay a premium at regular intervals or in lump sums. **Term life** provides coverage for specified term of years and does not accumulate cash value. **Permanent life** remains in force until the policy matures and builds cash value. The issue of new payment life is, however increasingly rare in New Zealand with most policies being old.

### **Disability Income Insurance/ Income Protection (IP)**

Income protection insurance is a form of income replacement benefit paid when a person is medically incapacitated and unable to work. Cover is set as either a fixed monthly sum or as a percentage of prior period income, usually the max is 75%. There is usually an initial waiting period, and then the benefits are paid until the individual is declared fit to return to work. The underwriting considerations that apply to disability insurance differ from those for life insurance due to a higher likelihood of incapacity than of early death. There are also comparatively high premiums for this after the onset of middle-age, and payments are off-set against welfare against welfare, so the use of this cover is restricted to middle or higher income groups. They are income linked so are not available to non-earners.

### **Total & Permanent Disability Insurance (TPD)**

Total and permanent disability cover may provide a lump sum when an individual is considered to be so disabled as to be unlikely to ever be able to resume employment for which he or she was suited. Each policy will be different and the entitlement to a benefit will depend upon the definition of total and permanent in that policy. Underwriting considerations are similar to disability income insurance, with the main concern being the likely permanency of the disability. Normally these policies do not pay out for permanent partial disability. These policies tend to have low premiums as the incidence of permanent total disability is low. They are often linked to life insurance, and arranged as an early payout of the life sum. These policies are very useful for covering the high costs which can be associated with caring for a total disabled family member.

### **Trauma/ Dread Disease Insurance**

Also known as "critical illness", this cover pays a lump-sum on diagnosis of one of a specified range of medical conditions or accidents. It is not designed to cover the cost of treatment but to cover associated costs like rehabilitation expenses or a drop in income. Most policies only cover a limited range of the major conditions, like heart attacks, cancer, stroke, coronary artery bypass surgery, and severe injuries resulting in paraplegia, blindness or severe burns. Underwriting considerations are generally similar to those for medical insurance. These are not linked to income so are useful for non-earners as a substitute for income protection, and as a complement to ACC cover.