

**Address by the Hon Chris Pearce MP
Shadow Minister for Financial Services, Superannuation
and Corporate Law**

Lifewise Campaign Launch

**Shangri-La Hotel, Sydney
1 May 2009**

Good afternoon ladies and gentlemen. Thank you for that kind introduction John. It is a pleasure to be here today to officially launch the Lifewise campaign and I must say - to see so many familiar faces.

The genesis of the Lifewise campaign lies in several years of analysis and hard work by IFSA and its life insurance members.

I understand that this work has carefully scoped the extent of the underinsurance problem in Australia, identified the barriers to insurance adequacy and today represents a culmination of that effort.

The campaign

The Lifewise campaign is effectively a strategy to narrow what is known as the risk protection gap and to change consumer perceptions of insurance and the vital role it plays in building and protecting wealth.

Millions of hardworking Australian families are seeking to build wealth in order to fund lifestyles both this side- and perhaps more importantly- on the other side of the day they choose to retire.

An accident, injury, illness or death, can have a dramatic impact on the financial security of an individual or their family. These financial consequences often compound the emotional or physical trauma experienced.

The first piece of research conducted for IFSA in 2005 looked only at insurance levels for those families with dependent children.

It found that 60% of families did not have enough insurance cover to meet their existing financial obligations for more than a year if the major breadwinner were to die. It also estimated that the additional social security payments arising from deaths of parents with limited insurance to be in the order of \$250 million per year.

This estimate does not take account of other costs or losses to government revenue such as provision of housing and loss of income tax revenue, both areas that are under considerable stress at present.

It is not difficult to see therefore, that the lack of a financial back up plan can lead to family breakdown; reliance on the welfare state; pressure on extended family or charity resources; and certainly impacts on retirement savings plans.

The cost of underinsurance is not just immediate; it is also generational. Any significant and long-term falls in household income may reduce the ability of parents to fund high quality education and healthcare for their children, which in turn leads to lost future opportunities.

I believe that good government policy should acknowledge and reflect the 'public good' provided by life and risk insurance products.

Australia is one of the most underinsured nations in the developed world, ranking 16th for life insurance density and penetration. But because most working Australians have a level of life insurance cover within their superannuation, the challenge Australia faces is underinsurance not non-insurance (as is the case in other countries).

While some people have consciously chosen to self insure or rely on family and friends, most Australians have inadequate cover because of a lack of engagement or a perception that life insurance is too hard and too expensive to obtain.

In short, most Australians don't value the insurance cover they have within their super enough to question if it is adequate for their circumstances.

Lifewise has been developed from the belief that everyone should make a conscious and informed decision on their insurance needs.

Commendably, Lifewise is aimed at encouraging Australians to understand what life risks they face; find out what cover they might already have; and to take appropriate steps to protect themselves from the financial hardship due to unforeseen events.

Lifewise seeks to increase engagement, address the misconceptions and help Australians gain confidence in dealing with life insurance decisions in the same way they do other insurance matters. The goal is to, over time, reduce Australia's risk protection gap.

Relevance today

Encouraging Australians to take responsibility for their own financial wellbeing wherever possible is of fundamental importance given the looming intergenerational pressures. I can therefore state that the Coalition wholeheartedly supports this initiative – and I will – in a moment, outline a proposal that the Coalition believes can further expand the level of risk cover.

Unfortunately global events and their effect on the domestic economy make the Lifewise campaign incredibly timely.

Encouraging people to protect themselves from financial hardship due to unforeseen events is even more important today as household debt continues to rise and the value of household assets falls.

This increasing vulnerability means that in the event of long term illness, a serious accident or the death of a breadwinner, most Australian families will be forced to sell what ever assets they have at reduced prices.

On an individual level, this personal exposure can have tragic consequences.

At an IFSA luncheon in Melbourne earlier this year I congratulated the life insurance industry for its quick and respectful response to the Victorian Bushfires in my home state.

Industry insiders tell me that there have been 30 life insurance claims paid, totalling \$5,000,000. While that sounds like a large sum of money, that only equates to \$169,000 per claim. There can be no clearer demonstration of underinsurance.

Recent research conducted by Industry Funds Forum and the Australian Institute of Superannuation Trustees in 2008, illustrates the levels of underinsurance.

The AIST and IFF research surveyed 2000 industry fund members and showed that:

- 51% of members were under-insured for death cover by \$100,000 or more.
- 71% were underinsured for Total Permanent Disablement by \$100,000 or more.
- 65% were underinsured for income protection by \$1,000 per month or more.

Superannuation funds are to be commended for this research and for the very great efforts that they are going to, to increase the default levels of cover as well as educate members about the value and importance of insurance cover.

The challenge is that the default option, no matter how high, is unlikely to be suitable for everyone within that fund. At this stage at least, the default option is a *'one size fits all'* approach, but for those that tailor their cover to suit their circumstances insurance through super offers great value.

I would also commend the work done by financial advisers, in that the research shows that advised Australians are the most likely to have adequate levels of life insurance in place.

The challenge here is that financial advice may not be for everyone and we know that there are not enough advisers to meet a demand from every Australian adult.

I know from spending time with the Lifewise project team that Lifewise is designed to meet these challenges head on.

The website and the campaign aims to help Australians to understand their insurance needs, consider the adequacy of the life insurance cover they have through super and provide enough information and education that will help give them the confidence to take the next steps.

Broadening trauma cover through super

As already mentioned, most Australians have access to some life insurance through their super. But more does need to be done to ensure that people value the cover sufficiently to ensure it truly meets their needs.

While Lifewise and the education campaigns being run by super funds will go some way to addressing this, there is one policy barrier to Australians wishing to tailor their cover through super – trauma insurance is not currently available through super funds.

Trauma is an area of risk cover that is highly valuable, but often overlooked.

There is currently an inadequate take-up of trauma insurance and in addition, there is a worrying level of apathy surrounding trauma underinsurance, just as there is with many other forms of insurance.

Superannuation offers a unique vehicle for providing essential insurance cover for all Australians. It gives most Australians access to insurance at competitive prices, often without needing to be underwritten. And I believe the

time has come to look at how we can expand insurance through superannuation to make trauma insurance available to many more Australian families.

Trauma benefits are generally used to pay medical costs and recovery. They can also be used for the payment of lifestyle adjustments which may be needed to a person's home or vehicle.

The taking out of trauma cover can help insulate people from the financial cost of contracting a serious ailment.

Unfortunately, unlike other life insurance policies such as death and Total and Permanent Disability (TPD), Trauma, is not an allowable benefit for superannuation funds as it does not conform to the release requirements of the Superannuation Industry (Supervision) Act (SIS).

Australians who take out trauma insurance through superannuation should receive a tax deduction for the premium, similar to that allowed for total and permanent disablement (TPD) and death cover.

We believe that trauma premiums should be treated in the same taxation manner as TPD and death cover. That is to say, that I believe that trauma cover should become an allowable benefit for superannuation funds, thereby expanding its cover.

As trauma cover addresses a different problem to TPD and death insurance, benefit withdrawals would be treated differently.

Any trauma withdrawal would be limited to any available insured benefit. A person's superannuation will not be available for withdrawal as it is likely that the person will still require superannuated benefits in retirement.

IFSA's position

I note that IFSA's submission to the Henry tax review recommended, among other things, that there be consistency in the tax treatment of life insurance inside and outside superannuation.

Such a proposal, IFSA asserts will ensure that tax is not a factor in the consumer's decision to have life insurance inside or outside superannuation. This choice should be driven by the consumer's circumstances.

I acknowledge this proposal and commit to considering it in the formulation of Coalition policy in the coming months.

Summary

In closing, it is pleasing to see that support for this campaign is wide-ranging. As you will have seen on the screens, Lifewise not only enjoys the support of Australia's 22 life insurers, but of almost 50 supporters.

Among them are financial planning groups, superannuation funds and importantly five Community Groups.

I would like to specifically name them:

The Inspire Foundation;

Schizophrenia Research Institute;

Youth in Search;

Family Relationship Services Australia; and

MS Research Australia.

The Coalition has followed with interest, the leadership and progress made thus far over the years by IFSA toward increasing insurance coverage.

Lifewise joins a number of other successful projects led by IFSA and the life insurance industry, including the world first Memorandum of Understanding between the industry and mental health stakeholders, which my colleague Senator Helen Coonan witnessed the first signing of in 2002. I am pleased to note that the Government has supported the continuation of this good work, witnessing the fourth signing of the MOU in October 2008.

I'd therefore like to acknowledge the leadership role taken by IFSA's Life Risk Board Committee which is chaired by Allan Griffiths, CEO of AVIVA. The committee, and the supporting working group, have provided the enthusiasm, drive and financial grunt to bring us all here today. Well done.

Finally it would be remiss of me to stand here at a luncheon that has been facilitated by IFSA without acknowledging the forthcoming retirement of IFSA's CEO Richard Gilbert.

Richard's not here today but as a worker until the bitter end is on his way to Washington DC to a conference with US fund managers.

I worked closely with Richard during my time as Parliamentary Secretary to the Treasurer in the last government. And we've maintained a close and consultative channel of communication in my capacity as the Shadow Minister. I thank Richard for his tireless efforts in promoting the financial services industry in Australia and abroad. He has been an excellent ambassador for the industry and our country.

I would like to thank you all for coming here today to support the launch of Lifewise. I wish you all every success in the coming months and years and encourage every one of you in the audience to help spread the word about Lifewise.

Thank you.