

AIA Singapore



White Paper On

# Bridging the underinsurance gap

Insights from the 2011 AIA Singapore Nationwide Protection Survey



# Introduction: The need for insurance

It has been a week since Seok Hoon's husband passed away suddenly from a heart attack. As she finally puts her three-year old son and eight-year old daughter to sleep, Seok Hoon collapses into her chair, exhausted from handling all the funeral arrangements over the last week. The week had gone by in haste; from the midnight call from the office informing her of her husband's sudden passing to the long journey from their home in Tampines to the crematorium in Mandai where her husband would finally rest in peace.

As Seok Hoon turns to the mounting pile of bills on the dining table, she puts her head in her hands and starts to cry. Not only is she without a husband but, having been focused on her role as home-maker, wife and mother of two, Seok Hoon now has to figure out the financial struggle she is now faced with; mortgage for their five-room flat, the children's education and the family's daily expenses.

## What happens now?

According to the *2011 AIA Singapore Nationwide Protection Survey*, 93 per cent of the Singapore population already own a life insurance policy. A vast majority, however, are under-insured.

The difference between one's insurance coverage and what is required financially by one's dependent should the unforeseen occur – such as death or permanent disability - is commonly referred to as the protection gap and this is a widely known societal problem.

Former Senior Minister Goh Chok Tong highlighted the issue in an October 2010 speech in which he acknowledged, "Many are not insured at all, while those who are, many are under-insured".<sup>i</sup>



# A yawning gap: Why are Singaporeans under-insured?

**A**n analysis by the Life Insurance Association (LIA) in 2007 found that the average Singaporean is under-insured by more than 65 per cent. They are only covered for an average of approximately S\$165,000 when an estimated S\$495,000<sup>i</sup> is the level deemed sufficient to maintain their current living standards. The LIA recommends a total coverage of approximately 11 times one's annual income.<sup>ii</sup>

The *2011 AIA Singapore Nationwide Protection Survey* seeks to understand why this is so. AIA Singapore, with these insights, aims to bridge the underinsurance gap in Singapore.

Furthermore, the rising Consumer Price Index (CPI) is making this issue of insufficient coverage even more critical. Inflation in Singapore, for example, hit a 25-month-high of 5.5 per cent in January this year.<sup>iii</sup>

A compounding effect is the ageing population and old age support ratio. The old age support ratio represents the number of residents aged 15-64 years per elderly resident. Singapore's old age support ratio fell from 9.9 in 2000 to 8.2 in 2010.<sup>v</sup> The declining ratio reflects Singapore's greying population, potentially imposing a heavier burden on Singapore's labour force.

*In the face of pressures caused by the rising cost of living and falling old age support ratio, Singaporeans' underinsurance gap will need to be addressed more urgently.*

At the same time, Singaporeans recognise this problem and they appreciate the importance of having insurance. The AIA study indicates that 76 per cent of the respondents believe that buying life insurance is about making sure their dependents will have enough money to get them by for the first few years, upon their demise or permanent disability, before their dependents become self-reliant.

However, the protection gap still exists.

According to the AIA study, this may be due to the perception that insurance is not affordable, especially at a time when Singaporeans are concerned about the increasing cost of living.<sup>iv</sup>

When faced with monthly expenses and loan repayments, it is often convenient and easy to nudge insurance lower down the list of spending priorities.

When asked to nominate items or activities they spend on regularly that they feel are most important to them, vacations appeared at the top of the list, as cited by three in ten Singaporeans. Interestingly, meals at upscale restaurants, entertainment, electronic gadgets and beauty treatments were other important items or activities that Singaporeans spend on regularly.

Of those who nominated vacation as an important activity they spend on regularly, only one in four were willing to sacrifice their vacations to increase the premium and sum assured of their life insurance policies. And though beauty treatments rank fifth on the list of important activities the respondents spend on regularly, it is an activity that a third are definitely not willing to give up while a further three in ten are undecided as yet, as to whether they will give it up in order to increase the cover for their families.


Findings also showed that one in five feel that life insurance is a long-term financial burden. In addition, close to one in five under-insured Singaporeans feel that it is not worthwhile to put their money into life insurance. And amongst those who have not purchased a life insurance policy, one in five were extremely apathetic and did not see a need for it.

*Insurance spending is a need that should be ranked higher up the list of spending priorities. Singaporeans have a responsibility to their families and themselves, to reassess their priorities and ensure that a balanced financial portfolio includes the correct level of life insurance coverage.*

We need to correct the misconception that insurance coverage is expensive, for it is not necessarily so.

For example, a 36 year-old sales representative who is a primary breadwinner, married with two children and is a non-smoker, can today take up a renewal and convertible 10-year term cover with an insured amount of S\$495,000, for a premium of as low as S\$59.40 per month. This term plan cover can be paid for with what one might normally spend on a daily cup of coffee.

*AIA Singapore aims to impress upon Singaporeans that insurance should not be seen as a strain on one's financial resources if they are able to plan their finances well. It is not a burden but an asset; it is the protection that they and their family can lean on should an unfortunate event occur. The two words "insurance" and "affordable" should go hand-in-hand. The half-informed might maintain that comprehensive, proper coverage is "unattainable". The industry needs to show this is not so.*



# Confronting a possibility: How well can my dependents cope if something happens to me?

**H**ow well prepared are my dependents, for tomorrow, if something happens to me today?

For 62 per cent of the respondents, they agree that buying life insurance is a demonstration of love and commitment to their family. The same proportion of respondents also proclaimed that they have a clear idea of what their dependents' living standards will be, in the event of their demise or should they suffer from a permanent disability. However, there is some reconciliation needed between expectations, intentions and reality.

While approximately six in ten Singaporeans polled claimed they have a clear idea of how much they will need to set aside for their dependents in the event of their death or permanent disability, the survey revealed that of this segment of respondents, only 14 per cent are adequately insured, as calculated based on the industry's recommendation of total coverage of approximately 10 times one's annual salary to protect the loss of income.<sup>vi</sup>

When this same segment of respondents were asked how they arrived at the protection figure they believe their dependents will need, 40 per cent admitted they arrived at the figure based on a pure estimate.

According to LIA's 2007 analysis, the average Singaporean requires around half a million dollars of coverage.<sup>ii</sup> AIA's study found that 56 per cent of the respondents agree that this sum is a reasonable level of coverage for a 40-year-old working adult with dependents.

However, more than half of the respondents polled are seen to be falling behind in preparing this level of coverage and they only have up to 30 per

cent of the coverage in place. Over half of the respondents have a sum assured of up to S\$300,000 only.


Having given their current financial portfolio and circumstances a thorough review, 42 per cent of the married respondents still believe that their dependents may need to downgrade their current living standards in the event of their own death or permanent disability, and that this is a reasonable expectation. This is perhaps, an indication of their perception that there are no alternatives and that having their dependents downgrade their living standards is an inevitable outcome they are resigned to accepting.

Surprisingly, only 19 per cent of the married respondents expect their dependents' living standards to drop but think this is an unacceptable outcome. Out of this group, 72 per cent intend to seek advice to ensure that their dependents will not need to downgrade their living standards.

Alarmingly, the survey also revealed that one in two Singaporeans professed that it was acceptable to them that their spouse or future spouse remarries in the event of their demise, to make up for the loss of income.

*To avoid the situation of your dependents having to downgrade their current living standards or your spouse having to remarry to make up for the loss of income, together with industry partners and the government, AIA Singapore aims to educate and empower Singaporeans to take control of their lives and that of their family by taking the first step of seeking financial advice.*

*We want to help ensure your loved ones are adequately insured and protected should an unexpected event befall upon the breadwinner.*



## Getting ready: Preparing my dependents for a tomorrow without me

In examining the population's attitudes towards their financial protection needs, the research findings indicate that most Singaporeans are taking charge of their financial portfolio and financial protection needs with at least two in three Singaporeans having taken steps to ensure their financial portfolios are diversified.

However, while 73 per cent of the respondents have a clear idea of what their liabilities are as well as the impact these would have on their dependents should the unforeseen such as death or permanent disability occur, only 60 per cent review their portfolio regularly and only 64 per cent review their portfolio when there is a change in their family's situation.


Periodic financial checks in changing economic times are also essential to ensure that these changes are taken into account when the level of coverage is being considered.

While 54 per cent of respondents have already been in touch with financial advisors to address their financial protection needs, there is a need for the remaining 46 per cent to take this first step. Within the respondents' insurance portfolio, 54 per cent hold whole life insurance while 36 per cent hold term life insurance. However, for many, the issue of underinsurance remains.

According to the AIA Singapore study, in the coming two-year timeframe, only 16 per cent of the respondents will take up life insurance policies for sure, while 45 per cent are still considering. From these groups, the highest proportion, or 52 per cent plan to take up investment-linked policies, while term and whole life policies are favoured by 39 per cent and 38 per cent of the respondents respectively.

For the same two-year timeframe, nearly half of total respondents have yet to decide if they are taking up insurance, and 38 per cent said a definite "no". Of this group that said "no" 26 per cent said they do not have the spare cash to do so and 36 per cent believe that the level of coverage they already have is sufficient.

*The industry will need to address the needs and gaps of everybody to ensure that Singaporeans across all generations are adequately insured and financially protected. At the same time, Singaporeans need to take ownership for bridging their underinsurance gap.*



## Starting that conversation: How my spouse and I can together, plan for the future of our family?

**S**ome respondents already know what they are lacking, and what they need to do to prepare for the event that something happens to them. Three quarters of the respondents have reviewed their financial protection needs with their spouses. However, only 47 per cent are aware of all details pertaining to their spouse's life insurance policies.

It is clear that the right conversations about the family's protection needs are not happening, and this problem needs to be addressed. Singaporeans need to take a more active role in ensuring these conversations take place.

Interestingly, the survey found that 37 per cent of married individuals who have not discussed their financial protection needs with their partners did not see a need to do so. However, it may be too late to have this discussion, by the time a reason to do so arises.

The second most cited reason for not having these conversations is the couple's desire to keep their financial portfolios separate and make financial decisions independently, as indicated by 34 per cent of the respondents. The issue of protection is one which affects the entire family and should not be addressed individually.

*AIA Singapore is committed to encouraging and educating Singaporean couples to engage in the right conversation on protection needs of the entire family; and how families can plan for their future together.*

At present, only 17 per cent of married individuals believe they are well prepared and have financial products that ensure that their dependents will be able to maintain their current living standards. By having those conversations to plan for the family's financial future, both husband and wife will have a better understanding of what their liabilities and assets are.

In doing so, the family can set clear goals and have a clear plan on how to achieve these goals.

# We are already moving, but let's move faster

**S**ingaporeans will need to plan for their dependents and the way to do so responsibly is to adequately insure oneself so that their loved ones are able to go on without enduring financial hardship should they pass on or become permanently disabled.

As a community, it is our shared responsibility to ensure that all Singaporeans are protected. When members of the community fall through the cracks due to insufficient coverage, our society suffers.

*AIA Singapore can take the lead. We can share our expertise and domain knowledge, but we cannot do this alone. We need the active participation of the Singapore community to take responsibility over their underinsurance gap by taking action to bridge it as early as possible.*

*We also need to get on board with both public and private organisations that are potential stakeholders in the continuous education of Singaporeans about getting adequate life insurance coverage.*

*Most of all, we need a suitable level of direct involvement of the state and we look forward to having in-depth discussions with the relevant government agencies. Together, we want to help create a more secure future for Singaporeans.*

Many Singaporeans are already under-insured. We hope this is something that will not become more prevalent. Through education workshops, events, seminars and financial tools, AIA Singapore wants to promote deeper appreciation on the need for sufficient coverage and how this can be achieved. We have in place our network of associates and AIA Financial Services Consultants (FSCs) who can help lead these conversations within the communities.

The industry has already gained some ground. According to the study, one in two Singaporeans polled believe that they are well-g geared towards preparing for their own healthcare needs, their children's education as well as the maintenance of their dependents' financial needs. The crux now is to get all Singaporeans financially prepared and adequately insured.

*AIA Singapore seeks an active role in remedying this situation of under-insurance and is committed to fulfilling the protection and savings needs of Singaporeans across generations. At the same time, we encourage Singaporeans to play a more active role in bridging their protection gap.*



# Five easy ways to get started on managing finances for you and your family

1.

**Ensure coverage for yourself first:** Always ensure that you are covered before your dependants so that if unfortunate events such as death or illness occurs, and you lose the ability to provide income for your family, your insurance policies' payout can be used to finance your medical bills or your children's education. You don't want to be a financial burden to your family.

2.

**If you are married, start conversations with your spouse on financial protection needs:** By engaging in the right conversation on protection needs for you and your family, you can plan for your family's financial future and ensure that they are adequately protected should the unexpected happens.

3.

**Get your financial advisor to do a review of your policies:** This should be done annually or when there are significant changes in your life such as getting married, starting a family or buying a new house. This is to ensure that you are financially prepared in the event of unfortunate circumstances.

4.

**Teach your children to manage their finances:** Teach your children how to save and manage their finances. "Give a man a fish; you have fed him for today. Teach a man to fish; and you have fed him for a lifetime." They will grow up to become independent and savvy individuals who can effectively manage their own finances and educate their own children too.

5.

**Plan for your retirement:** Increase your retirement contributions to take care of your old age so that you do not have to be dependent on your children. You can work out a sum which you should be putting aside monthly to ensure that you enjoy an independent and comfortable retirement. This is something you can help your parents start on too, if they have yet to do so. Start by investing your CPF savings.

*"I would like to commend AIA Singapore for carrying out the survey. It provided useful insights on the important need for families to bolster their resilience through adequate financial planning and management. There are a number of factors that contribute to a stable, resilient and happy family, and sound financial planning and management is one critical area that is often inadequately addressed."*

*- Lim Soon Hock, Chairman, National Family Council*

<sup>i</sup> *Speech by Senior Minister Goh Chok Tong at the NTUC Income 40th Anniversary Gala Dinner at Marina Bay Sands on 22 October at 7.00pm*  
[http://www.mas.gov.sg/news\\_room/statements/2010/Speech\\_by\\_SM\\_Goh\\_Chok\\_Tong\\_NTUC\\_Income\\_40th\\_Gala\\_Dinner.htm](http://www.mas.gov.sg/news_room/statements/2010/Speech_by_SM_Goh_Chok_Tong_NTUC_Income_40th_Gala_Dinner.htm)

<sup>ii</sup> *'Life Insurance and Actuarial Professionals hold Joint Seminar to discuss Singaporean's Protection Needs' (August 20, 2009) Press Release by the Singapore Actuarial Society and Life Insurance Association. Available at:*  
[http://www.lia.org.sg/files/news/2009/08/LIA-SAS\\_LifeProtectionSeminar\(20Aug09\)PressRelease.pdf](http://www.lia.org.sg/files/news/2009/08/LIA-SAS_LifeProtectionSeminar(20Aug09)PressRelease.pdf)

<sup>iii</sup> *"Singapore's inflation hits 2-year high" (February 23, 2011) ChannelNewsAsia.com; Jonathan Peeris, Millet Enriquez. Available at:*  
<http://www.channelnewsasia.com/stories/singaporebusinessnews/view/1112491/1.html>

<sup>iv</sup> *'Middle income worry over cost of living' (March 28, 2011) TODAY; Loh Chee Kong. Available at:*  
<http://www.todayonline.com/Hotnews/EDC110328-0000049/Middle-income-worry-over-cost-of-living>

<sup>v</sup> *'Statistics Singapore - Key Annual Indicators: Old Age Support Ratio (Last updated: August 31, 2010) Department of Statistics Singapore. Available at:*  
<http://www.singstat.gov.sg/stats/charts/popn-area.html#popnC>

<sup>vi</sup> *'Protection Gap in Singapore Remains Wide' (March 29, 2007) Press Release by the Life Insurance Association. Available at:*  
[http://www.lia.org.sg/files/news/2007/03/Press\\_release\\_protection\\_\\_29Mar07.pdf](http://www.lia.org.sg/files/news/2007/03/Press_release_protection__29Mar07.pdf)