

Protection Gap in Singapore Remains Wide

NTU Study finds families in Singapore are financially ill-prepared for loss of breadwinner

Singapore, March 29, 2007 – The loss of a loved one can trigger an emotional roller coaster ride. It can also bring an unexpected financial toll on those who are left behind.

The bad news is that the majority of Singaporeans are not adequately protecting their dependants from the ensuing financial burden in the event of their untimely death. The sad news is that many don't feel the urgency to do so.

These were the findings in two separate projects commissioned by the Life Insurance Association of Singapore (LIA).

These findings are in line with the harsh reality that death claim payouts in Singapore have averaged around \$37,000 in recent years, significantly below what is deemed to be sufficient to ensure that families can continue a similar living standard in the event their breadwinner passes on.

The two projects which were independently conducted in the last quarter of last year comprised a face-to-face consumer poll by Saffron Hill Research and an analytical study by Nanyang Technological University (NTU).

Consumer Survey

The consumer survey set out to ascertain consumers' knowledge, perceptions and attitudes on insurance protection.

The sample size survey polled 400 Singaporeans who were randomly selected and quota-controlled on gender, age, race, house type and income to ensure that it represented the population.

Interviews were done face-to-face in the respondents' homes using a structured questionnaire.

Key Findings

Of those polled,

- Two-thirds had some form of insurance, of which 26 per cent had no idea how much they are covered for;

- Almost half (46 per cent) think they are well-covered in terms of sufficient coverage for their dependants;
- There is a high level of indifference about getting additional coverage among those who are in a more vulnerable situation
 - Of those who do not think they are well covered (54 per cent), as many as 70 per cent of them said that they have no intent to purchase higher coverage
 - Of those who do not own a policy (29 per cent), some 73 per cent of respondents said they had no plans to buy insurance

Reasons For Non-ownership

Among non-owners, half of whom were from the lower income group (household income of less than \$3,000), price was the key deterrent (49 per cent). While some said they did not have the means to purchase life insurance, others said it took a back seat to “more urgent necessities” such as a car and credit card loans.

Further analysis of the results revealed that there was the lack of understanding of how much is needed to pay for premiums to ensure adequate coverage. The survey found that while some consumers balk at being advised by their financial advisers that they need up to 10 times their annual salary for adequate protection and feel this figure is overly inflated, some nonetheless said they would be prepared to pay 10 to 20 per cent of their income towards monthly premiums.

“This is a silver lining,” said LIA’s Deputy President Richard Shermom, who had overseen the project. “At least we can address the affordability factor through better education and quality financial advice.”

NTU Study

Led by Associate Professors Yee Wah Chin and Wu Yuan, a separate and independent study was undertaken by NTU to determine the degree of under-insurance (for death cover) among working adults in Singapore.

Background Of Study

The penetration rate of life insurance in Singapore is relatively low, with only 66.1 per cent of households owning some form of life insurance products in 2003¹. Even among these life insurance owners, it is not known how sufficient their coverage is or how large the shortfall of their existing coverage from their protection needs is.

Using household surveys and population census from the Department of Statistics, together with information on existing insurance covers from LIA, the study set out to produce estimates of:

- a) The average protection needs requirement of a working adult.
- b) The average existing life insurance coverage of a working adult.

¹ HES 2002/03 Report on The Household Expenditure Survey, Singapore

- c) The average amount of under-insurance for a working adult.
- d) The amount of under-insurance among Singapore's working population

Methodology²

The study took into account the following considerations:

- The resident working population aged 20 to 64 using the average age to be around 40;
- The household composition using the average household size of 3.4 members comprising children, adults and senior citizens;
- The household income using the average monthly / annual income per household at \$5,400 / \$64,800;
- The expenditure per household using the average monthly / annual expenditure per household at \$3,244 / \$40,819 (accounting for inflation)

The degree of under-insurance was estimated from the perspective of an average working adult. Firstly, his protection needs were assessed, defining this as the lump sum required on his premature death to satisfy the following objectives:

To pay the funeral expense and all outstanding debts attributable to the individual and to maintain the current living standards of the individual's dependants for as long as they may be expected to remain dependent on the individual.

Calculating Protection Needs and Gaps

The study determined that the working adult, on average, is estimated to have a protection needs requirement of \$480,636 in order to satisfy the objectives set out above.

Currently, the working adult is estimated to own, on an average, only \$118,639 of life insurance (total of personal life insurance, group life insurance, and dependant protection scheme).

The protection needs of the average working adult translate into 11.3 times the average annual income of \$42,427.

In reality, however, the estimated existing cover of \$118,639 is equivalent to only 2.8 times this average annual income, or 25 per cent of the average working adult's protection needs.

This means, on average, **the Singapore working adult is under-insured by an amount of \$361,997 or 75 per cent of the protection requirement.**

Taken as a whole, **the working population in Singapore is under-insured by a whopping \$578 billion!**

² Source: Adapted from General Household Survey 2005 Release 1. Singapore Department of Statistics

Conclusions

In assessing the findings of both reports, Mr Shermon said that the NTU study statistically validates the under-insurance environment in Singapore. “This study confirms what many people have been concerned about – that Singaporeans are definitely under-insured and unprepared to cope with the burden of losing a loved one on whom they are financially dependent.

“This under-insurance will potentially lead to a traumatic change in living standards for the spouse, school-going children and elderly parents of the deceased.”

“The average figure we currently use as a gauge – 10 times one’s annual salary – is not exaggerated. If 11.3 times is the statistical average, the scale can be even higher in particular circumstances. It highlights the importance of obtaining good quality financial advice to ensure that consumers are adequately covered for their individual needs.”

Mr Shermon said that the general apathy of Singaporeans in calculating the long-term needs of their dependants in the event of their early death, and the misperception that adequate coverage is deemed to be expensive need to be addressed.

“It’s a question of putting ‘costs’ into perspective,” said Mr Shermon. “If you tell someone that he needs additional coverage of \$362,000 to protect his dependants, it appears to be a huge amount. In actual fact, the average 40-year-old working adult needs to pay a premium of less than \$4 a day to make up his under-insurance shortfall.”

“Clearly there is much public education to be done in the area of under-insurance. This independent economic study by NTU which was commissioned by the LIA presents some cold hard facts on the level of under-insurance when Singaporeans are faced with early or unexpected death.”

“The LIA is committed to continue efforts to raise awareness of the need for adequate protection for families in Singapore.”

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About the Life Insurance Association of Singapore

The Life Insurance Association is a trade association comprising fourteen direct insurers and three reinsurers who are licensed by the Monetary Authority of Singapore (MAS) to transact life insurance or life reinsurance business in Singapore.

Its objective is to promote the growth and development of the Singapore life insurance industry and to protect interests shared by life insurers and life insurance policyholders. To meet these objectives, the LIA undertakes various activities each year with current emphasis on:

- the development of the life insurance industry in consultation with MAS;
- promotion of standards of industry practice;
- promotion of public awareness of life insurance.

For more information, visit our website at www.lia.org.sg