

## Media Release

### LIFE INSURANCE INDUSTRY BOOSTING EFFORTS TO BRIDGE SINGAPORE'S S\$893 BILLION MORTALITY AND CRITICAL ILLNESS PROTECTION GAP

*Subsequent qualitative study to provide insights for industry to develop targeted initiatives to enable individuals to better protect their loved ones, future, and quality of life*

**Singapore, 26 April 2018** – The Life Insurance Association, Singapore (LIA Singapore) today unveiled findings of the Protection Gap Study (PGS) 2017, which found that economically active<sup>1</sup> individuals in Singapore have a combined S\$893bn mortality and critical illness (CI) protection gap. Singaporeans and permanent residents are covered for 80% of their mortality protection needs and 20% of their CI protection needs.

The analysis of the CI protection gap is a newly introduced component of the study, given the increasing likelihood of people recovering from chronic conditions due to access to advanced medical treatments in Singapore<sup>2</sup>, and people living longer but with more years in poor health<sup>3</sup>.

Mr Patrick Teow, President, LIA Singapore said, “Our role as the life insurance industry is to implement targeted solutions to help consumers better allocate their resources, so that they can effectively manage their finances to ensure adequate protection for themselves and that of their loved ones.

While we are seeing positive increase in the uptake and awareness of life insurance, we recognise that the needs of consumers have gone up more than their allocated resources due to increased lifestyle needs and requirements, despite corresponding increase in income levels. So, it is important for individuals to bridge not just their mortality protection gap, but also their CI protection gap.”

“We are including the CI component in view of Singapore’s improved life expectancy, a growing incidence of chronic diseases, and escalating healthcare costs. Individuals in Singapore are living with an average of eight out of 82 years spent in ill health<sup>4</sup>, and this is coupled with a relatively low take-up of CI protection policies that help cushion the financial impact of living with a CI, which includes a sudden loss of income,” added Mr James Tan, Deputy President, LIA Singapore, and PGS 2017 project advisor.

**RULE OF THUMB**

Approximately  
**9x - 10x annual income**  
Avg. mortality protection coverage amount required for an economically active adult in Singapore

**RULE OF THUMB**

Approximately  
**3.9x annual income**  
Avg. CI protection coverage amount required for an economically active adult in Singapore

**WHY LOOK AT THE CI STUDY NOW?**

 <p><b>MORE PEOPLE ARE LIVING LONGER BUT IN POORER HEALTH<sup>1</sup></b></p>	 <p><b>SURVIVAL RATES AFTER CI IS ALSO HIGHER DUE TO MEDICAL ADVANCEMENTS<sup>2</sup></b></p>	 <p><b>HAVING CI PROTECTION WILL HELP CUSHION THE FINANCIAL IMPACT, ESPECIALLY FROM A SUDDEN INCOME LOSS<sup>3</sup></b></p>
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<sup>1</sup> Individuals employed and contributing to the production and distribution of goods and services.

<sup>2</sup> Source: ST: More people getting cancer since 2010. <http://bit.ly/2EGpbSa>

<sup>3</sup> Source: TODAY: Singaporeans living longer, but need to shorten years spent in ill health. <http://bit.ly/2GMKySB>

<sup>4</sup> Source: TODAY: Singaporeans living longer, but need to shorten years spent in ill health. <http://bit.ly/2GMKySB>

To determine key contributing factors of protection gaps and identify initiatives to help individuals effectively bridge their protection gaps, LIA Singapore will be conducting a qualitative study premised on the findings of PGS 2017.

LIA Singapore will also pursue efforts to drive impactful change with a series of initiatives to drive greater awareness, through increased educational efforts and the development of an industry-wide digital calculator to empower Singaporeans to take charge of their health and protection needs.

Going forward, to ensure that Singaporeans are relatively well-insured, the PGS will be conducted on a periodic basis for regular process review with potential inclusion of other aspects of protection, for example, leveraging the use of data analytics.

 <p><b>QUALITATIVE STUDY</b></p> <p>Provide insights for the development of targeted initiatives to more effectively help individuals bridge their own protection gaps</p> <ul style="list-style-type: none"> <li>KNOWLEDGE GAP</li> <li>PERCEPTION GAP</li> <li>OPPORTUNITIES &amp; BARRIERS</li> </ul>	 <p><b>ENHANCED EDUCATION EFFORTS THROUGH DIRECT ENGAGEMENT ONLINE</b></p> <p>Continue driving awareness through educational initiatives</p>	 <p><b>INTRODUCE STANDARD INDUSTRY-WIDE DIGITAL CALCULATOR</b></p> <p>Introduce Singaporeans to take charge of their health and protection needs</p>	 <p><b>REGULAR PROGRESS REVIEW</b></p> <p>Study to be conducted on periodic basis with constant enhancements for e.g., leveraging data analytics</p>
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PGS 2017 found that Singaporeans have sufficiently **met 80 per cent of their mortality protection needs**, while an **approximate 20 per cent gap remained unchanged** compared to findings from the mortality protection study conducted by LIA Singapore in 2012.

**MORTALITY PROTECTION GAP**

The mortality protection gap represents the financial gap to cover needs of dependents over a defined period in the event of death.

This reflects a corresponding increase in wages, savings, and insurance coverage amongst economically active individuals in Singapore. However, there were increases in the absolute amount of mortality protection needs and gaps largely due to increased expenses of surviving adults and amount loans, as well as the cost of employing a domestic helper.

The study found that Singaporeans have **only met 20 per cent of their CI protection needs** with a **significant 80 per cent gap unaccounted for**. This is coverage for the financial needs of a family over a five-year period; the assumed CI recovery period used in the study.

**CRITICAL ILLNESS (CI) PROTECTION GAP**

**INAUGURAL STUDY**

The CI protection gap represents the financial gap to cover family needs during the assumed CI recovery period of five years, until the insured is able to return to work, or to adjust his or her lifestyle needs.

**ANALYSIS OF SINGAPORE’S UNCHANGED 20% MORTALITY PROTECTION GAP**

The mortality protection gap represents the financial gap required to cover needs of family members without significant compromise in lifestyle in the event of an individual’s death.

The approximate 20 per cent gap as a ratio of average income has stayed constant, reflecting corresponding increases in wages, savings, and insurance coverage. However, the increase in dual-

income families and savings to help meet protection needs has also contributed to the offset increase in protection needs.

### PGS 2017 Mortality Protection Gap Findings Revealed That:

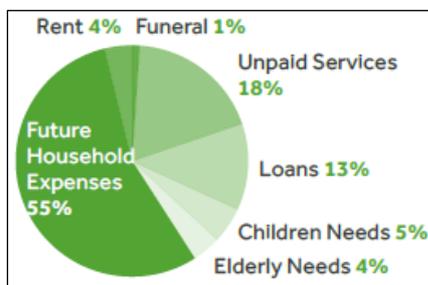
- Singapore's mortality protection gap is approximately S\$355bn (approximately S\$262bn in 2012), with protection needs amounting to approximately S\$1,547bn\* (approximately \$1,193bn in 2012) despite increased uptake of Whole Life and Term Insurance products.

MORTALITY PROTECTION GAP		MORTALITY PROTECTION NEEDS	
	AVG. PER EA ADULT		AVG. PER EA ADULT
2017	S\$355BN (20%)	2017	S\$1,547BN (100%)*
	S\$169,673	2017	S\$738,783
2012	S\$262BN (20%)^	2012	S\$1,193BN (100%)
	S\$137,520	2012	S\$654,870
- There is an existing gap of approximately 2.1 times annual income (S\$169,673) for an economically active individual (compared to approximately S\$137,520 in 2012)
- Mortality coverage required per person is approximately S\$738,783 (approximately S\$654,870 in 2012)

### Current Mortality Protection Coverage In Singapore

On average, every policyholder in Singapore has 2.65 policies for mortality protection amounting to \$290,086 coverage per person.

### Expenses To Be Covered With Mortality Coverage



The study found that Singaporeans' protection needs have increased more than the resources allocated to meet their lifestyle requirements and needs, with the largest portion of expenses at 55 per cent attributed to future household expenses, as well as ongoing expenses to meet the needs of elderly family members and children<sup>5</sup>.

The increase in absolute amount of mortality protection needs and gaps are mainly attributed to the increase in costs of employing a helper, expenses of surviving adults, and the increase in amount of loans.

<sup>5</sup>Source: Household Expenditure Survey 2012/2013. SingStat. Available at: <http://bit.ly/2FXXeFp>

\*After deduction of spousal income

## **ANALYSIS OF SINGAPORE’S 80 PER CENT CRITICAL ILLNESS (CI) PROTECTION GAP**

The CI protection gap is the financial gap required to cover expenses in the event of an onset of critical illness. CI protection coverage ensures that family’s needs can continue to be taken care of despite a sudden loss of income during an individual’s recovery period.

### **PGS 2017 CI Protection Gap Findings Revealed That:**

- Singapore’s CI protection gap is approximately S\$538bn, with protection needs amounting to an estimated S\$663bn

CI PROTECTION GAP		CI PROTECTION NEEDS	
2017	AVG. PER EA ADULT	2017	AVG. PER EA ADULT
S\$538BN (80%)	S\$256,826	S\$663BN (100%)	S\$316,603

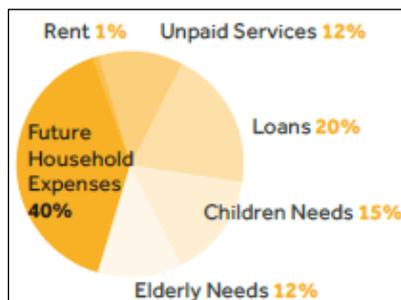
- There is an existing gap of approximately 3.1 times annual income which amounts to an estimated S\$256,826 for an economically active individual
- A working adult requires an average CI protection coverage of approximately \$316,603 which translates to about 3.9 times of his or her annual income
- Economically active individuals are recommended to have CI coverage of approximately 3.9 times their annual income to be adequately insured and financially supported in their recovery journey, and to ensure that their family’s needs continue to be well taken care of during this period

### **Current CI Protection Coverage in Singapore**

On average, every CI policyholder owns less than one standalone policy, with protection amounting to S\$128,861 per person. CI coverage are generally Whole of Life policies or riders with CI on top of other main life insurance policies.

Riders coverage account for 46.9 per cent of CI insurance policies in terms of policy count and 43.4 per cent in terms of CI insurance coverage. The uptake of riders can be attributed to the fact that riders generally cost lesser than full-sized plans and provide policyholders more comprehensive coverage at more affordable premiums.

### **Expenses To Be Covered with CI protection**



Future household expenses account for largest portion of costs at 40 per cent. The average monthly household expenditure can be attributed to ongoing expenses required by the whole family including costs for elderly and children needs.

Key factors contributing to the 80 per cent CI protection gap in Singapore include:

- Lack of understanding about what CI protection is, and the difference between CI and health insurance coverage,
- Optimism bias and belief from individuals who do not foresee themselves being afflicted with a critical illness especially in the absence of genetic susceptibility, as well as
- CI coverage being less of a priority, further compounded by the perceived costliness of getting such protection

## **ABOUT THE PGS STUDY**

The PGS 2017 study commissioned by LIA Singapore was conducted independently by Ernst & Young Advisory Pte Ltd, based on public data analysis of economically active individuals in Singapore between the ages of 20 to 69 who have at least one dependent.

Key changes from the previous study include calculation of the Critical Illness (CI) protection gap, in addition to the mortality protection gap and the allowance for other savings in addition to CPF savings.

Please be advised of key limitations arising from the assumptions and data sources used in the calculation of the mortality and CI protection gaps as these results reflect the average across Singapore, whereas each individual's circumstances will be different and specific to the individual. As such, individual protection needs should be analysed separately.

The findings of the Protection Gap Study (PGS) 2017 were derived based on a prudent approach that adopts a practical assumption consistent with the PGS 2012.

The protection need and value of each EA adult was derived taking into consideration:

- Their personal loan amount approximation and;
- The total loan value of a household, instead of their individual share of the outstanding loan amount

This approach ensures that an EA adult is not over-burdened with the outstanding mortgage in the event of the demise of their EA spouse.

Note to editor: The full report is available at [www.lia.org.sg](http://www.lia.org.sg)

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### **Life Insurance Association, Singapore (LIA Singapore)**

Established in 1962, the Life Insurance Association, Singapore (LIA Singapore) is the not-for-profit trade body of life insurance product providers and life reinsurance providers based in Singapore and licensed by the Monetary Authority of Singapore (MAS).

#### **Vision and Mission**

The vision of member companies is *to provide individuals with peace of mind and to promote a society where every person is prepared for life's changing cycles and for those situations unforeseen.*

*They are committed to being a progressive life insurance industry by collectively enhancing consumer understanding, promoting industry best practices, and through the association fostering a spirit of collaboration and mutual respect with government and business leaders.*

#### **Values underpinning the Association and its members**

<b>Unified</b>	in our resolve to deliver innovative solutions where every individual's needs are best met.
<b>Professional</b>	in the way we conduct ourselves and in the counsel we give.
<b>Ethical</b>	in ensuring our policyholders' interests are managed with utmost integrity.
<b>Fair</b>	in how we strive to provide favourable outcomes to both our policyholders and shareholders.
<b>Open &amp; honest</b>	in all that we do to build an environment of trust and transparency.
<b>Proactive</b>	in the steps we take to give our people the skills and knowledge to provide sound solutions at all times.

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