Swiss Re Institute

September 2021

Closing New Zealand's mortality protection gap

Executive summary

We estimate a total mortality protection gap in New Zealand of USD 435 billion (NZD 670 billion).

Swiss Re Institute estimates New Zealand's mortality protection gap (MPG) for the first time at USD 435 billion (NZD 670 billion) as of 2020. This gap is a measure of the shortfall in financial resources that households need to maintain their living standard in the event of the death of a primary earner. New Zealand's MPG is close to Hong Kong and Singapore in absolute size, reflecting the similar population sizes and financial assets available to support protection needs. We estimate the MPG per household in New Zealand at more than USD 540 000, similar to Australia but significantly higher than in most other advanced Asia Pacific markets, where household incomes are lower. New Zealand's MPG as a percentage of protection need is around 55%, indicating that more than half of the average household's financial need remains unprotected.

Almost two thirds of households in New Zealand have some form of MPG.

Almost two thirds of households in New Zealand have some degree of MPG. Our wide-ranging consumer survey found that 64% of households are under-protected and about a fifth have just 10% or less of the financial resources to cover their protection needs. Age and wealth are the key drivers of the gap: the MPG is typically highest for young households at an early stage of wealth accumulation, though often on high incomes. Life insurance is a key resource for household protection against mortality risk, covering about a quarter of New Zealand's protection need – higher than in comparable markets such as Singapore and Hong Kong. In contrast, property investment in New Zealand accounts for only 5% of the protection needed, far lower than Singapore and Hong Kong. For households with no MPG, life insurance coverage is more than their total protection need.

Closing the gap in New Zealand requires an estimated USD 1.5 billion in extra annual insurance premiums.

Closing the MPG in New Zealand will require an additional USD 1.5 billion of annual life insurance premiums. However, tapping this potential is not a given for insurers. New Zealanders are mindful of the risks around death of a family member, but a considerable proportion underestimate the financial stress they would experience and they are more concerned about their health than mortality risk. Only 39% of consumers reported owning a life insurance policy, and buying life cover is not their default option for more security. Consumers choose not to buy life insurance for reasons including perceived high price, poor perceptions of financial advisers and brokers, and the complexity of the product.

Education can help increase consumer awareness about the benefits of life cover and narrow the perception gap.

Premium levels, sums assured and the ease of making claims are all major factors influencing consumers' life insurance purchase decisions. Insurers could address cost concerns by offering products with flexible premium payment options and coverage terms, or commission-free online/direct insurance. Flexible mortality products with different pricing and sum-assured options may help to meet consumers' needs. Insurers can also educate consumers about the benefits of life insurance cover with transparent communication and easy-to-understand products. The perception gap, i.e., the tendency to underestimate protection needs, could be addressed by providing simple online calculation tools. With greater acceptance of digital interaction, life insurers can engage with consumers online at all steps in the purchase journey.

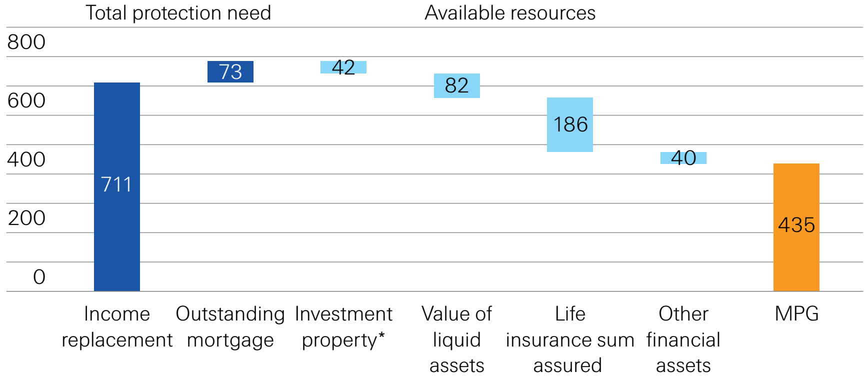
Insurers can offer bundled coverage, products that adapt to changing lifecycle circumstances, and target specific demographic groups.

Our survey found considerable interest in life insurance bundled with riders such as health insurance, disability/income protection, accident, critical illness (trauma) and mortgage covers. Insurers can tailor their products and distribution strategies to specific demographic segments such as young and middle-aged professionals, which represent 47% of our sampled population but 80% of the total MPG. Young professionals have the highest average MPG, but tend to underestimate their protection needs. Insurers could reach this segment at the point of major life events such as buying a house, marriage or starting a family, which are typically triggers for buying (more) life insurance.

Key takeaways

We estimate New Zealand's mortality protection gap at USD 435 billion (NZD 670 billion) as of 2020. New Zealand's available resources for mortality protection are weighted towards liquid assets and life insurance protection. Life insurance covers about a quarter (24%) of the total protection need.

Components of New Zealand MPG, as of 2020, USD billions



Note: due to rounding, numbers may not exactly sum up
*includes current market value of secondary property/present value of rental income
Source: Swiss Re Institute

To close the mortality protection gap to 2030, New Zealand needs an extra USD 1.5 billion of life insurance premiums on average every year, we estimate. Life insurance is key to closing New Zealand households' mortality protection gap.

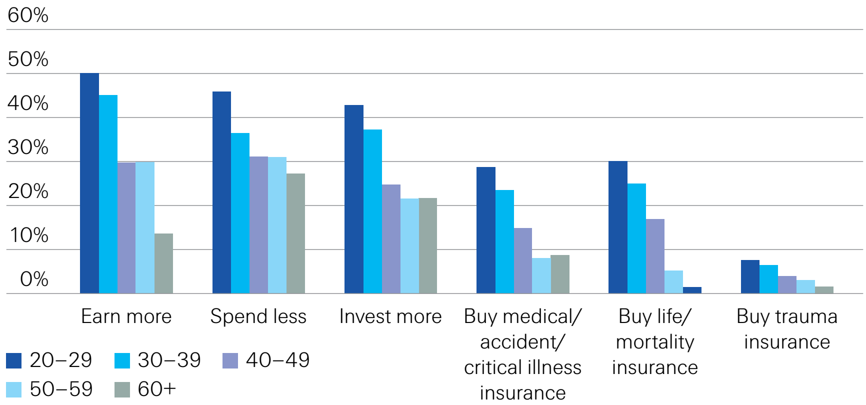
Estimated additional aggregate life insurance premiums annually to 2030 if MPG is closed, USD billions

	Average 2021–2030
Japan	17.05
Australia	9.19
Hong Kong	1.66
Singapore	1.55
New Zealand	**1.45**

Source: Swiss Re Institute

Buying life insurance is not a preferred option to enhance protection for New Zealanders. On average only 16% of our survey respondents would buy life/mortality cover. All age groups instead aim to earn more, spend less and invest more.

Intended action to tackle insufficient protection, by age group



Source: Swiss Re Institute

Perceived high cost is the key reason not to buy life insurance. Close to two-thirds of respondents consider it too expensive to buy. To address cost concerns, insurers could consider offering products with flexible premium payment options and coverage terms, flexible mortality products with different pricing and sum-assured options, or commission-free online/direct insurance to lower the cost. Our survey also finds interest (52%) in add-on medical services such as check-ups and emergency assistance.

Introduction

We have modelled New Zealand's MPG for the first time.

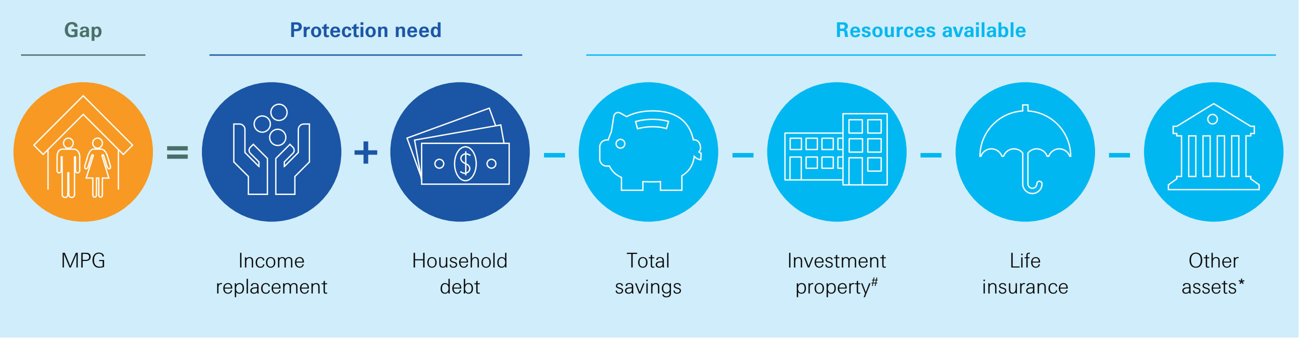
Swiss Re Institute has modelled New Zealand's MPG for the first time based on an extensive consumer survey combined with macroeconomic data. We surveyed more than 750 New Zealand consumers, who were selected to ensure a representative population sample, in January and February 2021. The survey enquired into their risk awareness, preferences, protection need and available financial resources.

The equation

Mortality protection gap = protection needed - available protection.

The MPG is the difference between the protection needs of a household and the financial resources available to sustain a family's future living standards in the event of the premature death of the primary earner(s) (see Figure 1). A household's protection need is a function of primary earner(s) age and income, household expenditure, outstanding debts, expected inflation and economic/income growth.[1] The financial resources available depend on the household's level of life insurance cover, liquid assets (eg, cash, bank savings and equity investments), social security benefits and return from investments in property (other than owner-occupied).

Figure 1
Calculating the mortality protection gap in present value terms



Note: *includes social security survivor's benefit and compensation from employers. #Includes market value of secondary property/present value of rental income.
Source: Swiss Re Institute

This report uses survey findings to calculate an estimate reflective of household variation.

Swiss Re Institute models the mortality protection gap at household level using our survey findings as well as macro data. This enables us to account for factors such as variation in household incomes and protection needs. Using macro-data averages alone can understate protection gaps, especially in markets with uneven wealth distribution.

At the forefront of mortality protection gap research in Asia Pacific

We estimate 2020 MPG for four Asia markets as comparisons in this report.

Last year Swiss Re estimated the total mortality protection gap for the Asia Pacific region for the first time, again based on an extensive household survey undertaken in 2019 in the 10 largest markets.[2] For this new report, we extrapolate from the 2019 calculations to estimate MPGs as of 2020 for four advanced Asia Pacific countries - Australia, Singapore, Hong Kong and Japan. We compare New Zealand with these 2020 peer group comparison countries throughout this new report.

1 *Earning Peak at Different Ages for Different Demographic Groups*, PayScale, 4 June 2019, available at: *https://www.payscale.com/data/peak-earnings*
2 *Closing Asia's mortality protection gap*, Swiss Re Institute, July 2020.

Sizing and analysing New Zealand's mortality protection gap

New Zealand is among the most mature insurance markets globally.

New Zealand is a developed economy with a mature insurance market. However, policymakers view the country as under-insured for life cover, attributed to the cost of insurance relative to the expected benefit, low discretionary household income and reliance on the government. The life insurance industry exists alongside government-sponsored protection programmes that provide limited mortality cover but cover many of the savings and retirement needs of New Zealanders. Life insurance penetration, which is defined as life insurance premiums as a percentage of GDP, was 0.8% in 2020, significantly below the advanced Asia-Pacific average of 6.2%, OECD average of 3.8% and global average of 3.3% in 2020. However, New Zealand's life insurance market is dominated by pure risk products, unlike most other countries where savings premium constitutes 70%-90% of total life premiums. After adjusting for this, life insurance penetration in New Zealand is higher than the global and OECD averages.

Economic growth has experienced little impact from the COVID-19 crisis.

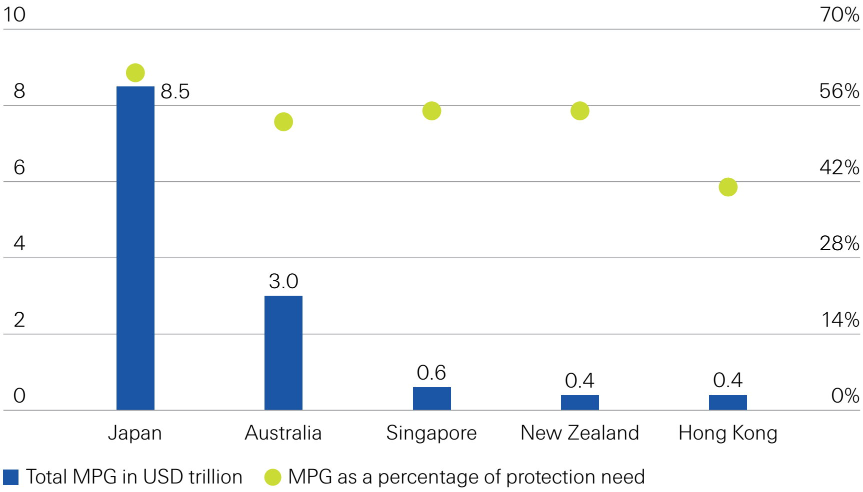
The country is one of the few for which the COVID-19 crisis, to date, has had a low impact domestically as the government pursued a "zero-COVID" strategy. This enabled it to lift mobility restrictions and resume economic activities in mid-2020. At USD 209 billion in 2020, New Zealand has a large GDP for its population of five million. Its GDP per capita stood at USD 41 351 in 2020, above the OECD average (USD 39 597) and advanced Asia-Pacific average (USD 37 544). Households have relatively high levels of debt compared to the OECD, at 124% of disposable income at the end of 2020.[3]

New Zealand's MPG is USD 435 billion as of 2020.

A USD 435 billion mortality protection gap

We estimate New Zealand's mortality protection gap at USD 435 billion (NZD 670 billion) as of 2020 (see Figure 2). This is close to Hong Kong and Singapore in absolute size, reflecting their similar population sizes and total financial assets available to support protection needs.

Figure 2
Mortality protection gap for New Zealand and advanced Asia-Pacific markets, USD trillions (left axis), and as a percentage of protection need (right axis) as of 2020



Source: Swiss Re Institute

The MPG is around 55% of protection need in New Zealand.

MPG as a percentage of protection need provides an estimate for individual households' vulnerability to mortality risk. For New Zealand the gap is around 55% of the protection need, implying that available financial assets would cover only 45% of an average household's needs, as of 2020. This gap is smaller than the average for advanced Asia (57% of need on average). Hong Kong has an MPG of approximately 41% of protection need, implying assets cover 59%, the greatest coverage in advanced Asia. Vulnerability is highest in Japan, where the MPG is

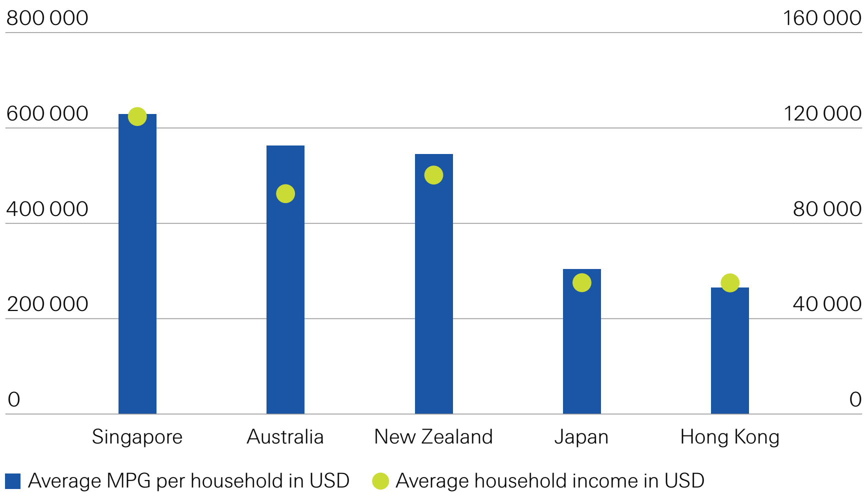
[3] *Household debt*, OECD, *https://data.oecd.org/hha/household-debt.htm*

~61% of protection need. Our 2020 study found emerging Asia-Pacific markets to have larger gaps as a proportion of need than advanced Asia, at 73% on average.[4]

Average protection gap per household is more than USD 500 000.

Per household, the gap averaged USD 544 622 (NZD 839 175) in New Zealand. This is very close to its Oceania peer Australia, reflecting their similar income levels and composition of financial assets. However, it is significantly different from other advanced Asia Pacific markets (see Figure 3), primarily due to a significant variation in average household income.

Figure 3
Mortality protection gap per household for New Zealand and advanced Asia-Pacific markets, USD (left axis), and average household income (right axis)



Source: Swiss Re Institute

Two thirds of households cannot fully fund mortality protection

Almost two thirds of households in New Zealand cannot fully finance their protection needs.

From our survey results, we estimate that less than 36% of households in New Zealand have enough assets to weather the financial shock that the loss of the primary earner(s) would present. The remaining, over 64%, face a gap of differing degrees of severity. About a fifth of all households have just 10% or less of the financial resources to cover their protection needs (see Figure 4).

[4] *Closing Asia's mortality protection gap*, Swiss Re Institute, July 2020.

Figure 4
Share, characteristics and profile of surveyed households in New Zealand by size of mortality protection gap

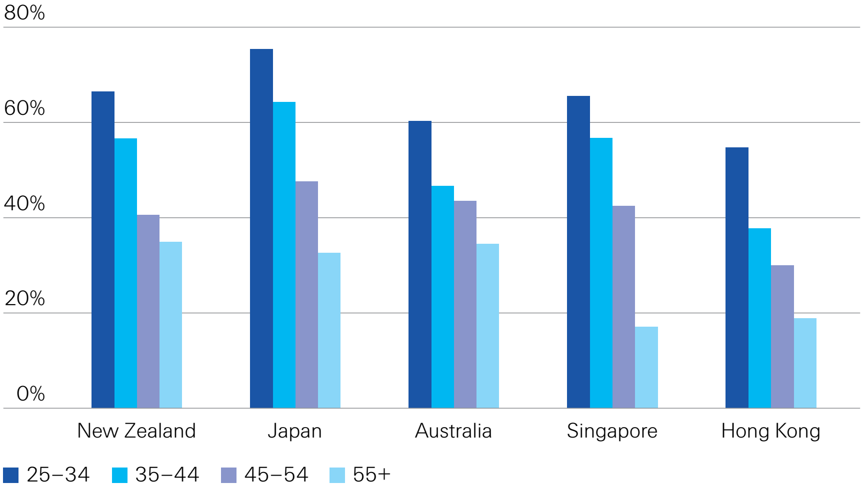
Size of MPG	No gap	Medium low (up to 50%)	High (50% to 90%)	Very high (above 90%)
Share of households by size of gap in New Zealand	35.7%	22.3%	23.2%	18.9%
Who are they?	**Stress-free pre-retirees** Primary earners are largely (70%) male and almost half are over 50 years old. Almost half (47%) are in single-earning households. Highest liquid assets (median USD 179 000)	**Families at peak earning and spending** Over half are 35–49 years. Highest median household incomes, but also highest expenses. Only 34% are in single-earning households	**Medium income families striving to build wealth** Over half are 35–49 years. Close to 45% live in rented accommodation and, on average, 43% of their income goes on accommodation.	**Young career starters** A third (34%) of primary earners are under 35 years and only 14% over 50. Around 49% are in single-earning households. Very low accumulated savings: 28% have no assets.
Details	Highest level of life insurance ownership (~76%). Most (86%) feel "preparing for death is necessary". Many have alternative products to life insurance (eg, disability, trauma, compensation from employer/ government) for protection needs. Likely to dip into superannuation to cover expenses	Around 68% of primary earners have life insurance. The group with highest concern about a death in family (52%). Likely to make up for shortfall in protection need by increasing investments (42%).	Only 31% of primary earners have life insurance. Only a few are concerned about death of the primary earner. Most (46%) intend to increase earnings to make up the protection gap	A very low level of life insurance ownership (~5%). Likely to consider life insurance to increase their protection but least likely to be able to afford it. Most likely to seek help from family/friends if something happened to the primary earner.

Note: due to rounding, sum of percentage numbers may not add up to exactly 100%.
Source: Swiss Re Institute

Households with young primary earners have the largest protection gap.

Age and accumulated wealth are major drivers of a household's level of mortality protection. Households with young primary earners have the largest protection gap as they have a large amount of future income at stake and generally lower accumulated savings. Life insurance ownership among young primary earners is also low, covering about 18% of protection need, versus 24% for all age groups.

Figure 5
MPG as percentage of protection need by age

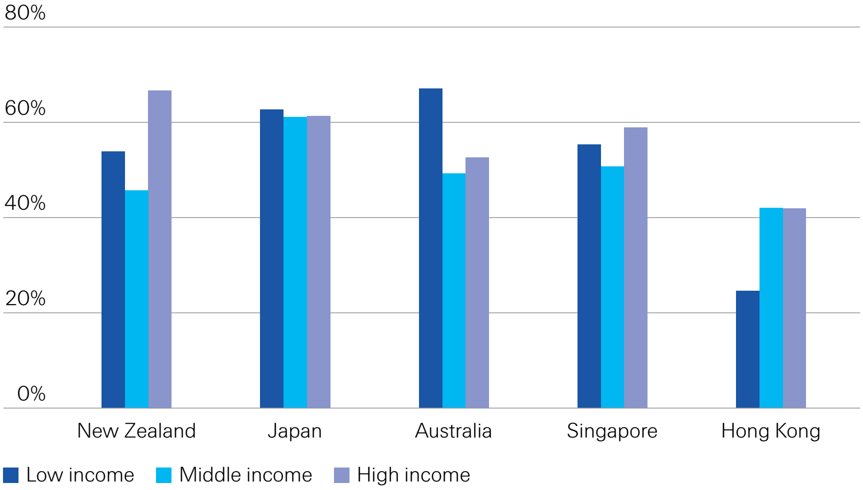


New Zealand MPG calculated as of 2020; comparison countries' MPGs are as of 2019.
Source: Swiss Re Institute

Household income does not correlate with mortality protection gap.

Financial vulnerability to mortality shocks (the mortality protection gap) does not correlate with household income (see Figure 6) across the region. In New Zealand, high income households have a higher mortality protection gap than low income households. This is the same for Hong Kong and Singapore and reflects a slightly higher concentration of high-earning young primary earners with a disproportionately low level of financial assets to support protection need, due to a shorter wealth accumulation period. A high concentration of young primary earners in high income households generally translates into a high protection gap in the absence of sufficient life insurance coverage, mainly due to higher protection need and lower accumulated savings.

Figure 6
MPG as a percentage of protection need by household income



New Zealand MPG calculated as of 2020; comparison countries' MPGs are as of 2019.
Source: Swiss Re Institute

Mortality protection resources in New Zealand

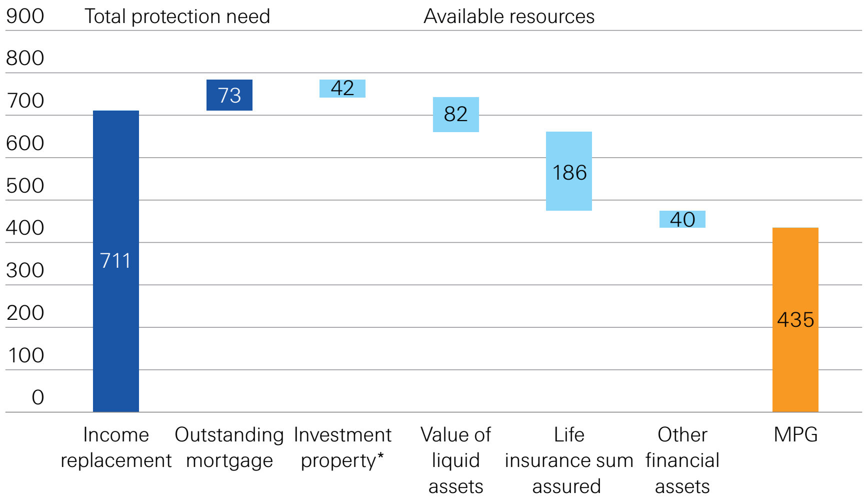
Mortality protection resources are weighted towards life insurance and liquid assets.

New Zealand's available resources for mortality protection are weighted towards liquid assets and life insurance protection. Life insurance covers about a quarter (24%) of the total protection need (see Figure 7). This compares to less than 15% in Singapore and Hong Kong, the two markets with comparable total gap size. Personal savings (liquid assets) are the second biggest source of funding for New Zealanders, but they cover only 10% of the protection need. Other sources of funding, like compensation from employers (eg, group life insurance cover) and property investment together account for another 10% of available resources.

Property investment does not form a significant part of mortality protection resources unlike in the wider region.

Property investment contributes less to mortality protection in New Zealand than in wider advanced Asia, where it has been a major contributor to narrowing the gap in most markets including Australia. Many Asian households have invested their growing purchasing power heavily in property as rapid urbanisation has driven up home and rental prices. As a result, property covers an average 13% of the total protection need in advanced Asia Pacific, including more than 30% in Hong Kong and about 16% in Singapore, but only 5% in New Zealand.

Figure 7
Components of New Zealand MPG, as of 2020, USD billions



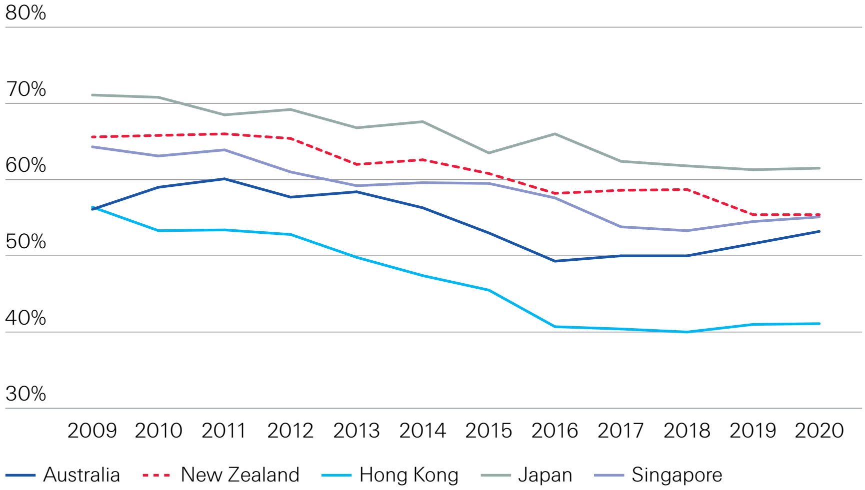
Note: due to rounding, numbers may not exactly sum up. *includes current market value of secondary property/present value of rental income
Source: Swiss Re Institute

Rising life insurance take-up is closing the gap, but more is needed

New Zealand's MPG is narrowing due to rising life insurance penetration.

We used our 2020 calculation, the survey findings and macroeconomic data and forecasts to model an estimate for New Zealand's MPG as a percentage of protection need from 2000 to 2030. This indicated that the gap has potentially narrowed by around 19 percentage points in the two decades since the turn of the 21st century (see Figure 8). Progress has been better than Japan, Australia and Singapore in advanced Asia, with only Hong Kong reducing the MPG to a greater degree. Higher support from life insurance sum assured, which has risen to ~24% of protection need in 2020 from less than 15% in 2000, is the primary cause of New Zealand's improvement. However, household debt has also grown rapidly in New Zealand, by 4.1% annually, compared to an average 1.5% per annum in advanced Asia-Pacific between 2009 and 2020.

Figure 8
New Zealand's estimated MPG as percentage of protection need, 2009 to 2020



Note: New Zealand MPG in 2020 based on latest calculations; all other years extrapolated from this. In all other countries, MPG in 2019 based on calculation, and other years extrapolated for comparison.
Source: Swiss Re Institute

Factors that drive life under-insurance in New Zealand

New Zealand life insurance take-up is low for OECD countries.

Life insurance ownership in New Zealand is among the highest of all Asia Pacific countries. However, at 0.8%, life insurance penetration is significantly lower than the OECD average of 3.8%. The Reserve Bank of New Zealand (RBNZ) attributes this under-insurance to several factors, including high cost of insurance, over-confidence in government schemes, and consumers' lack of information.[5]

The cost of insurance in New Zealand is considered high for the expected benefit.

The RBNZ notes that a significant proportion of households in New Zealand consider cost the biggest barrier for buying a life insurance policy. This is in line with our survey findings (see *Leveraging insurance to close the gap*). The relatively small size of New Zealand's economy leads to a higher fixed cost per policy; higher expense ratios contribute further to insurance costs; and the dominance of adviser sales in the distribution channel leads to higher commission ratios. Compared with Australia, where a significant portion of life insurance is distributed through mandated default insurance under group schemes attached to superannuation, most life insurance in New Zealand is sold through advisers. Group schemes contribute a very small proportion of life insurance in New Zealand. This results in a higher commission ratio compared to other markets.

Government-sponsored insurance schemes result in misperception about life insurance cover.

The life insurance industry exists alongside the Accident Compensation Corporation (ACC), KiwiSaver and NZ Super, which cover certain mortality risks that would typically require insurance in other countries. This has resulted in a perception of government support for mortality risk, in lieu of insurance.

- **The Accident Compensation Corporation (ACC)** provides cover for accidental injury or death. It covers medical expenses, partial replacement of lost income, modifications to home and vehicles, and a survivor's benefit in the event of accidental deaths. Although it provides relatively generous benefits, ACC does not cover all types of death and is not a replacement for a life insurance policy.
- **KiwiSaver** is a voluntary retirement savings scheme funded by contributions from a person's wages, which provides some flexibility by allowing individuals to withdraw savings to buy a first home, or when facing serious illness and/or financial hardship. However, it is not a replacement for life insurance, as it does

[5] A. Allott, J. Leong, "An overview of the life insurance sector in New Zealand", *Reserve Bank of New Zealand*, 1 January 2020, *https://www.rbnz.govt.nz/research-and-publications/reserve-bank-bulletin/2020/rbb2020-83-01*

not cover mortality risk or pay a pre-fixed lump-sum benefit, nor is it based on accumulated savings.

- The New Zealand Superannuation Fund **(NZ Super)** is a government savings vehicle designed to pre-fund universal retirement benefits. It pays pensions to those 65 and above but does not cover mortality risk.

Better-informed consumers may increase life insurance penetration.

More can be done to communicate the comprehensive benefit of life insurance to New Zealand consumers and the limitations of public coverage. Advisers may be a key channel to strengthen consumer knowledge in New Zealand.**Closing the gap will require an extra USD 1.5 billion in annual premiums**

The mortality protection gap in New Zealand will likely rise above USD 500 billion by 2030.

We estimate that New Zealand's MPG will widen to above USD 500 billion in absolute terms by 2030. We expect a rapidly ageing population, and a declining share of working age population, to both have the effect of improving household wealth and reducing the unmet protection need, potentially lowering the gap. At the same time, we expect low interest rates and rising consumption to cause household debt levels to continue to rise, which would increase protection gaps.

Table 1
Estimated mortality protection gaps in advanced Asia-Pacific countries between 2021 and 2030, USD trillions

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	CAGR 2021–2030
Japan	7.74	7.68	7.57	7.50	6.70	6.63	6.55	6.48	5.69	5.66	–3.4%
Australia	3.12	3.34	3.21	3.39	3.56	3.75	3.95	4.18	3.97	4.30	3.6%
Singapore	0.61	0.58	0.62	0.59	0.63	0.59	0.63	0.67	0.61	0.67	1.0%
Hong Kong	0.41	0.45	0.49	0.47	0.51	0.56	0.61	0.67	0.64	0.72	6.3%
New Zealand	**0.47**	**0.45**	**0.48**	**0.46**	**0.48**	**0.50**	**0.47**	**0.50**	**0.53**	**0.50**	**0.6%**

Source: Swiss Re Institute

Closing the gap in New Zealand to 2030 will take USD 1.5 billion in additional life insurance premiums per year.

Life insurance is key to closing the New Zealand households' mortality protection gap. Taking into consideration life expectancy, projected income, population growth and life risk premium rates from mortality tables of respective markets, we estimate that New Zealand needs an average of USD 1.5 billion of additional aggregate life insurance industry premiums every year between 2020 and 2030 to close the mortality protection gap. This would support New Zealanders in ensuring they are financially prepared for whatever the future may hold.

Table 2
Estimated annual additional life insurance premiums from New Zealand and advanced Asia-Pacific markets between 2021 and 2030 if mortality protection gap is closed, USD billions

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Average 2021–2030
Japan	19.35	19.21	18.92	18.75	16.76	16.57	16.38	16.21	14.22	14.16	17.05
Australia	7.80	8.34	8.03	8.47	8.90	9.37	9.88	10.45	9.92	10.74	9.19
Hong Kong	1.24	1.34	1.46	1.41	1.54	1.68	1.83	2.00	1.93	2.15	1.66
Singapore	1.52	1.46	1.55	1.47	1.58	1.48	1.58	1.68	1.53	1.66	1.55
New Zealand	**1.41**	**1.36**	**1.44**	**1.37**	**1.43**	**1.51**	**1.42**	**1.51**	**1.60**	**1.49**	**1.45**

Source: Swiss Re Institute

Consumer perceptions of mortality risk

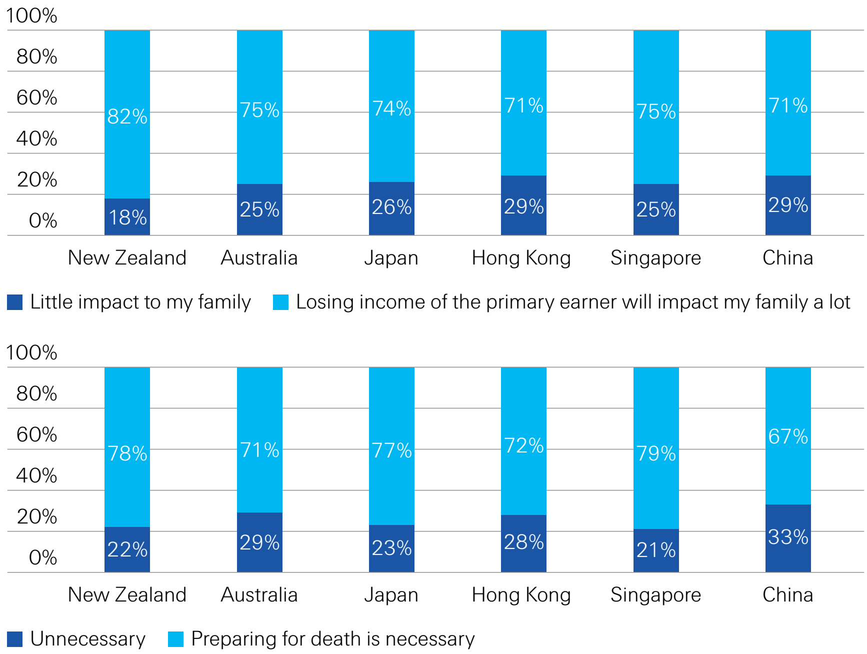
We sought to understand consumer views on mortality risk.

Life insurance is a simple and accessible means of mortality protection. However, households need to understand their financial exposure to take action to close the gap. We tested consumers' risk awareness and insurance ownership to understand what can make insurance a clear and attractive choice.

Most respondents feel the need to be prepared financially for the loss of the primary earner…

We find that New Zealanders are mindful of risks. Around 82% think losing the income of the primary earner will affect their family significantly, the highest of all advanced Asian markets we have surveyed (see Figure 9). Further, 78% believe it is necessary to prepare financially for the premature death of the primary earner. Awareness is particularly strong among women, people aged 40–49 years of both genders, those with more than three dependents and those who do not own a property or have a mortgage.

Figure 9
Awareness of the impact of losing income of the primary earner (top) and the need to prepare for death (bottom)



Note: New Zealand results from 2021 consumer survey; comparison countries were surveyed in 2019. Due to rounding, sum of percentage numbers may not add up to exactly 100%.

Source: Swiss Re Institute

…but death ranks the third highest concern, after health and retirement.

However, consumers express greater concern over long-term health and retirement planning than about the death of a primary earner. Only around 38% said they are concerned about death of themselves or a family member. In contrast, 59% of respondents said 'long-term illness' of themselves or family members is a key concern.[6] Health is particularly a concern for older age groups. "Death" is considered the second most important by women and younger people.

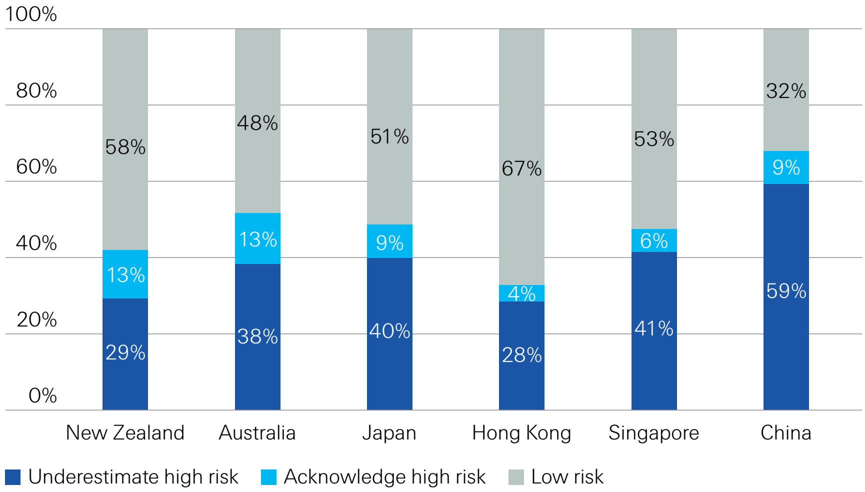
Close to a third underestimate the size of their mortality protection exposure.

Close to a third (29%) of respondents with a large protection gap (of more than 50% of their protection need) underestimate the financial stress they would face from the death of the primary earner. These households underestimate their risk exposure so are likely to be under-protected (see Figure 10). However, this proportion of people is still lower than in other advanced Asia markets such as Australia, Japan, Hong Kong and China, and just slightly higher than in Hong Kong.

6 Health is mentioned as a key concern by respondents in other key advanced Asian markets as well, as per the SRI Asia MPG study

Consumer perceptions of mortality risk

Figure 10
Under-estimation of mortality protection

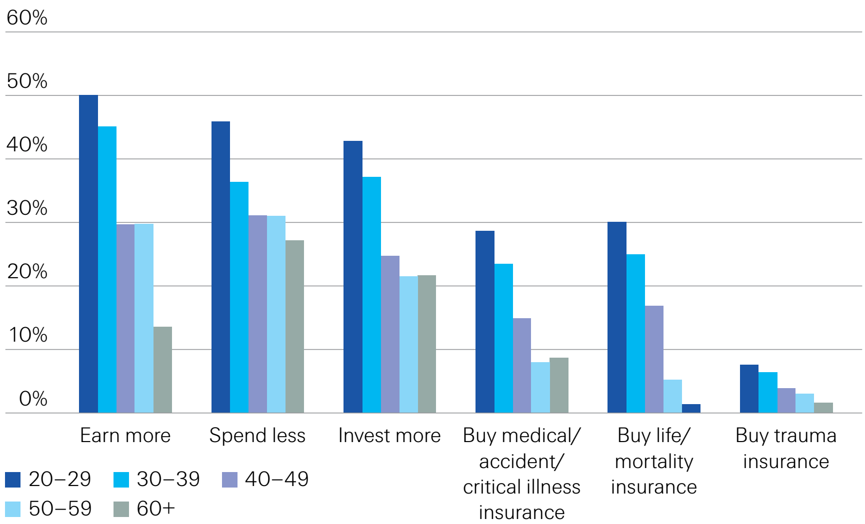


Note: New Zealand results from 2021 consumer survey; comparison countries were surveyed in 2019.
Underestimate high risk: MPG as a percentage of protection need >50% and perceived protection > actual protection.
Acknowledge high risk: MPG as a percentage of protection need >50% and actual protection > perceived protection.
Low risk: mortality protection gap as a percentage of protection need <50%.
Due to rounding, sum of percentage numbers may not add up to exactly 100%.
Source: Swiss Re Institute.

Buying life insurance is not a preferred option to enhance protection.

Most respondents (82% of those surveyed) were not financially confident in their protection from a mortality shock. Yet few intend to buy any type of insurance to increase their protection.[7] Earning more is the most favoured strategy to close the gap across all age groups, followed by spending less and investing more. Buying insurance is the least preferred option, with on average only 16% of respondents saying they would buy life/mortality cover (see Figure 12). A relatively higher proportion of younger people opting to buy life insurance cover. For the 60+ age group, spending less is the preferred choice and buying life cover is least popular. This is likely due to greater wealth and the higher cost of insurance at older ages.

Figure 11
Intended action to tackle insufficient protection, by age group



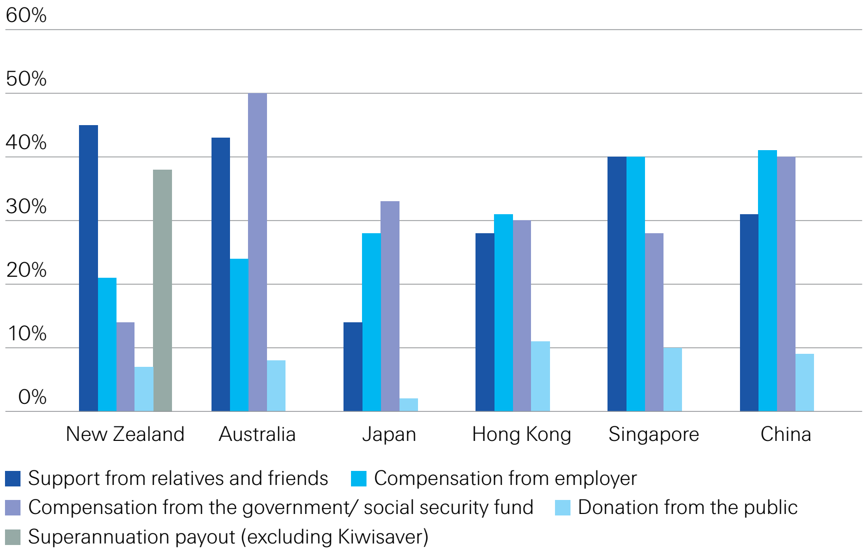
Source: Swiss Re Institute

[7] A possible reason could be the presence of the Accident Compensation Corporation (ACC), KiwiSaver and NZ Super (see box, *Factors that drive life under-insurance in New Zealand*, page 9).

Many households expect financial support from external sources.

Many respondents intend to tap other sources of support in case of need (see Figure 12). Close to half (45%) believe they can receive support from relatives and friends. Another 38% expect support from a superannuation pay-out. Expectations of proceeds from employers (21%) and government (14%) are relatively low. This differs from other Asian countries, where respondents' expectation of a payout from the government is relatively higher. We note that, in Australia, more than half of those surveyed believe they will receive sufficient compensation from the government or through a superannuation fund insurance benefit on their death.

Figure 12
Other sources of support in event of death of primary earner(s)



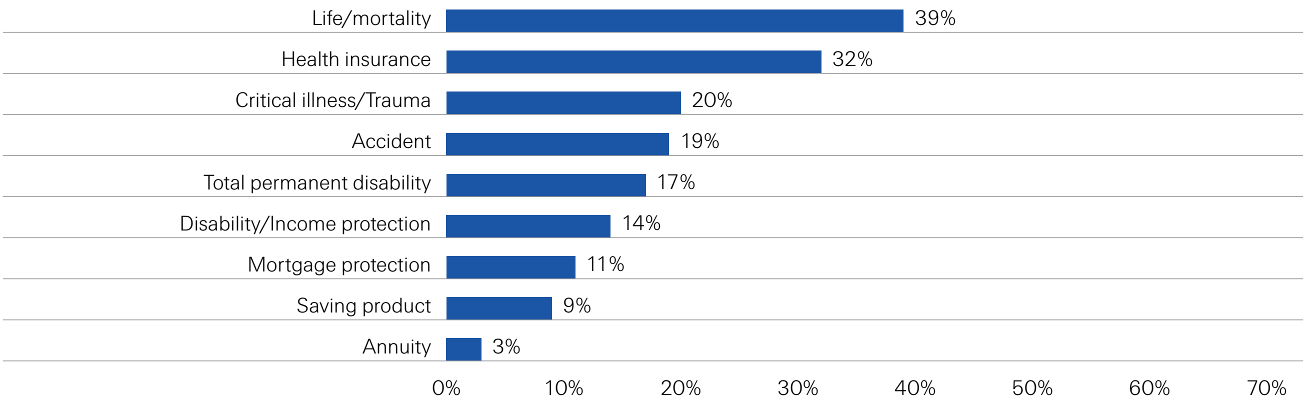
Note: New Zealand results from 2021 consumer survey; comparison countries were surveyed in 2019.
Source: Swiss Re Institute.

Leveraging insurance to close the protection gap

More than three fifths of respondents do not own life insurance.

Only 39% of the New Zealanders we surveyed own a life insurance policy, despite their high awareness of risk and the need to prepare for it. Voluntary private life insurance ownership is highest among people with a mortgage (62%), above-average (54%) for those with dependents, especially with three or more dependents; and slightly higher than average among the middle-aged (47%). Ownership is lower than in advanced Asian markets such as Japan, Singapore and Hong Kong, but higher than Australia, where mandatory enrolment for employees into a superannuation fund typically comes with basic life cover once certain age and savings levels are achieved.

Figure 13
Insurance currently owned by respondent

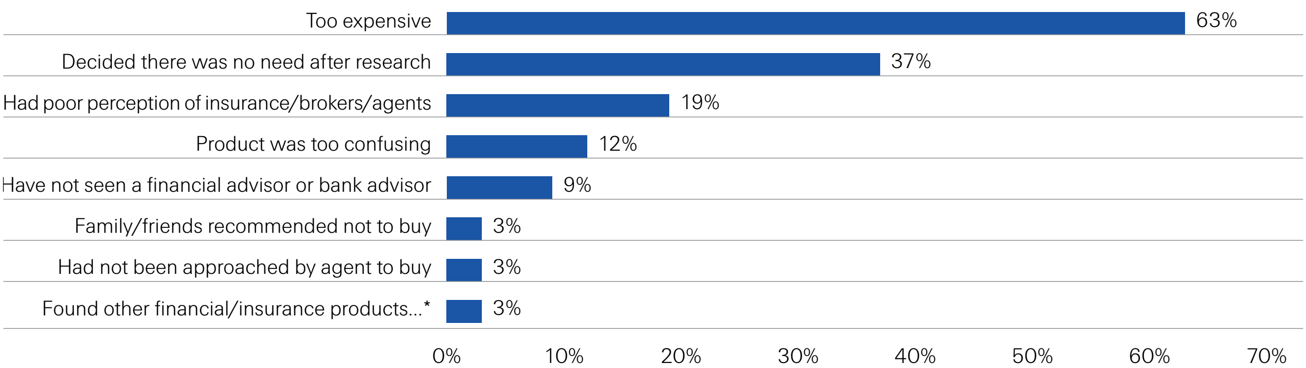


Source: Swiss Re Institute

Perceived high cost is the key reason not to buy life insurance.

Consumers highlight affordability as the main reason for opting not to buy life insurance. Close to two-thirds of respondents consider it too expensive to buy (see Figure 14).[8] This is a similar finding to our surveys in comparable markets such as Australia (63% of respondents) and Singapore (45%). Almost half (46%) of New Zealanders also cite cost as the key reason not to increase existing life cover. Of those who let their policies lapse – about a quarter of all those who ever bought life cover – affordability was the main reason.

Figure 14
Reasons for not buying life insurance (those who have not considered buying life insurance)



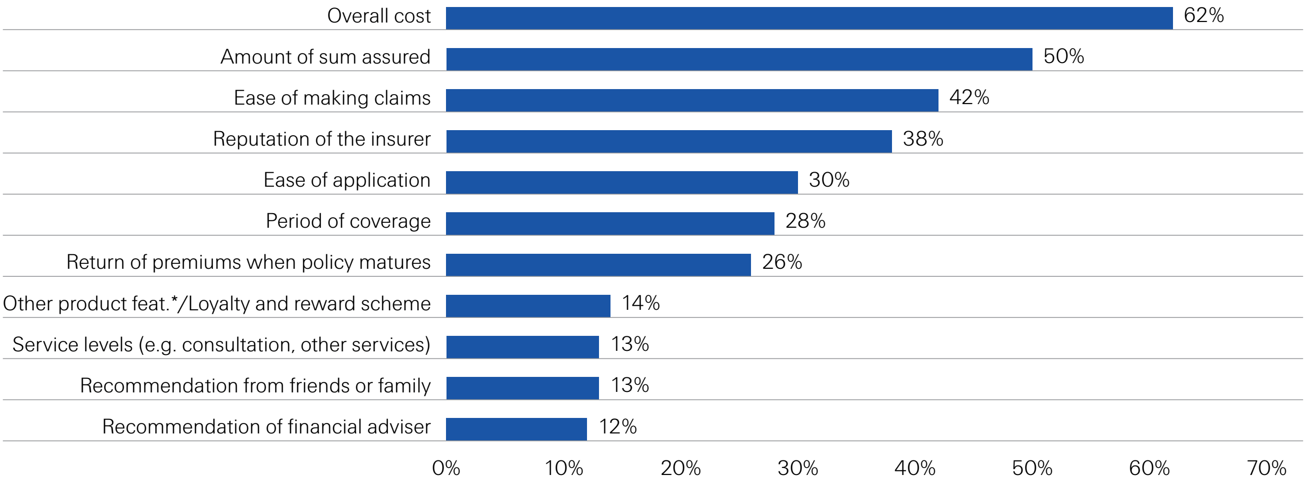
*Found other financial/insurance products addressing such need
Source: Swiss Re Institute

[8] High insurance company expense ratios could be a reason why life policies are expensive, as cited by the Reserve Bank of New Zealand. See A. Allott, J. Leong, "An overview of the life insurance sector in New Zealand", *Reserve Bank of New Zealand*, op. cit. Relatively high market concentration may also contribute to high prices (the three biggest insurers have around a 60% market share; the top five around 80%).

Financial metrics and convenience are some of the key consideration for buying life insurance.

Consumers are cognisant of the value they receive for their money, ranking "overall cost" and amount of sum assured their top considerations when choosing an insurance product (see Figure 15). This is again similar to other advanced Asian markets, particularly Australia.

Figure 15
Selection criteria of life insurance



*Other product features (such as value added services)
Source: Swiss Re Institute

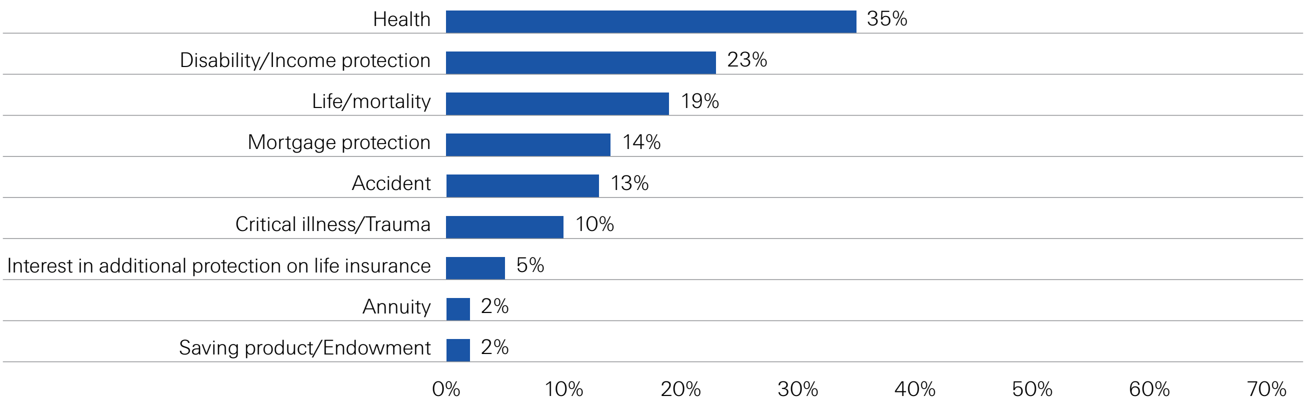
Products with flexible payment options could help to address cost concerns.

To address cost concerns, insurers could consider offering products with flexible premium payment options and coverage terms. They could counter the perception of high premiums by, for example, showing the cost in relative terms (eg, equivalent to the cost of a cup of coffee a day). They could offer commission-free online/direct insurance to lower the cost, or flexible mortality products with different pricing and sum-assured options. About a third of respondents decided not to buy after doing some research, indicating insurers may need to better understand client needs or better communicate the benefits of life insurance.

Pure life products do not rank highly among what respondents want to buy in the coming years.

When asked which products they plan to buy over next two to three years, life/mortality cover ranked only third with just 19% of respondents choosing it (see Figure 16). Health insurance was the first preference (35%), particularly for 20–29 year olds, of which more than half chose it, and 23% chose disability insurance.

Figure 16
Insurance they plan to buy over the next two to three years

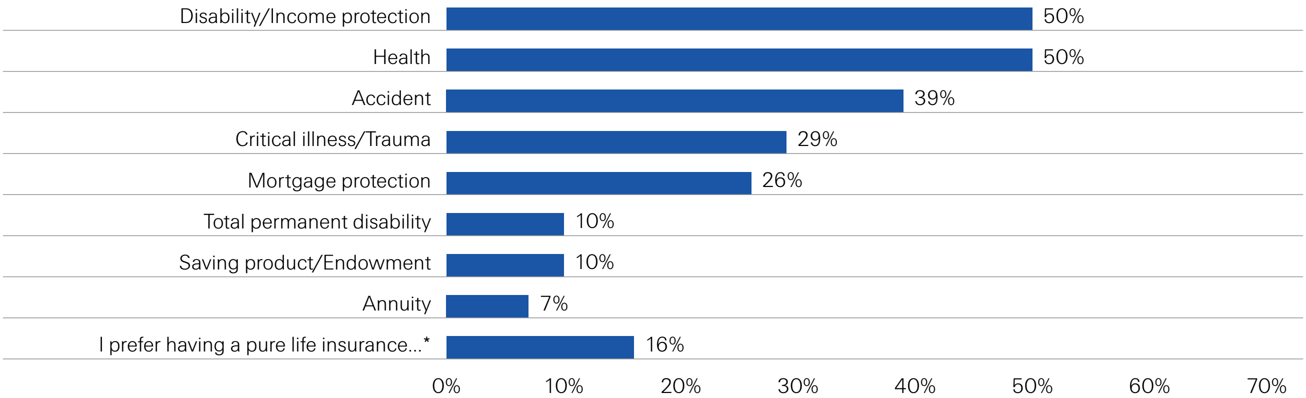


Source: Swiss Re Institute

Consumers prefer products that add protection to pure life cover.

Half of respondents expressed interest in additional health cover and in disability/income protection, and about 40% in accident cover (see Figure 17). Product bundling to add protection may make standard life insurance more attractive. Insurers could offer mortality cover with varying levels of health protection, or a sum assured that evolves according to life stage and income. The hedging benefits of combining mortality and morbidity protection may help to keep premiums affordable. However, it is already common practice to bundle insurance covers in New Zealand in this way. Insurers may need to further increase consumers' awareness of the availability of bundled products to improve take-up.

Figure 17
Interest in additional protection on life insurance



*I prefer having a pure life insurance without any additional protection
Source: Swiss Re Institute

Insurers can add services to products to enhance overall value.

Add-on services can also provide differentiation and value. Our survey finds considerable interest (52%) in medical services such as free/included medical check-ups/consultations and emergency/ambulance assistance. There is also interest in rewards for healthy behaviour (38%) and ageing services (25%) such as home modifications, nursing care at home, access to a retirement village, etc.

Insurers should align their distribution strategies with known purchase triggers.

Life insurance purchases are often triggered by life events. In New Zealand, 34% of those who own life insurance said their purchase was directly or indirectly linked to buying a property, while 11% purchased it after having a baby. The triggers vary by country: our 2019 survey found that marriage, having a baby or age-related milestones were among the important triggers in Australia, Japan, Korea, Singapore and China, (see Table 3). Aligning insurance distribution to the triggers should engage customers at the right time and context.

Table 3
The top triggers for life insurance purchases

New Zealand	Australia	Japan	Hong Kong	Singapore	China
Bought a property 19%	Got married/had a baby 24%	Friends 23%	Agent/broker 34%	Agent/broker 35%	Agent/broker 37%
Linked to mortgage 15%	Bought a property 18%	Got married/had a baby 22%	Friends 25%	Friends 26%	Friends 35%
Financial adviser/ broker 11%	Purchased with other insurance 16%	Agent/broker 20%	For investment 20%	First salary 15%	Primary earner gets old 31%

Note: Text in orange refers to where consumers receive recommendations; blue refers to financial reasons for considering life insurance, and green to life events that trigger consideration of insurance.
Source: Swiss Re Institute

Financial advisers and brokers are the dominant channel in New Zealand, but New Zealanders are receptive to using online.

Financial advisers and brokers are the preferred life insurance sales channel in New Zealand, accounting for 50% of sales. This is higher than in Australia (21%) but lower than in Singapore (88%), Hong Kong (80%) and Japan (71%). Only 17% of sales in New Zealand were through digital channels, on par with Australia but above Japan on 9%, 7% in Hong Kong and 5% in Singapore. Although current sales via digital channels are relatively low, our findings show New Zealanders are very receptive to digital channels. Most New Zealanders (81%) are happy to find information online, 72% to apply online and 74% to complete the purchase process online. Acceptance of digital interaction is highest among younger (30–39) and higher-income respondents. Insurers should better leverage digital channels to engage clients. Digital engagement can support customer retention and cross-selling as well.

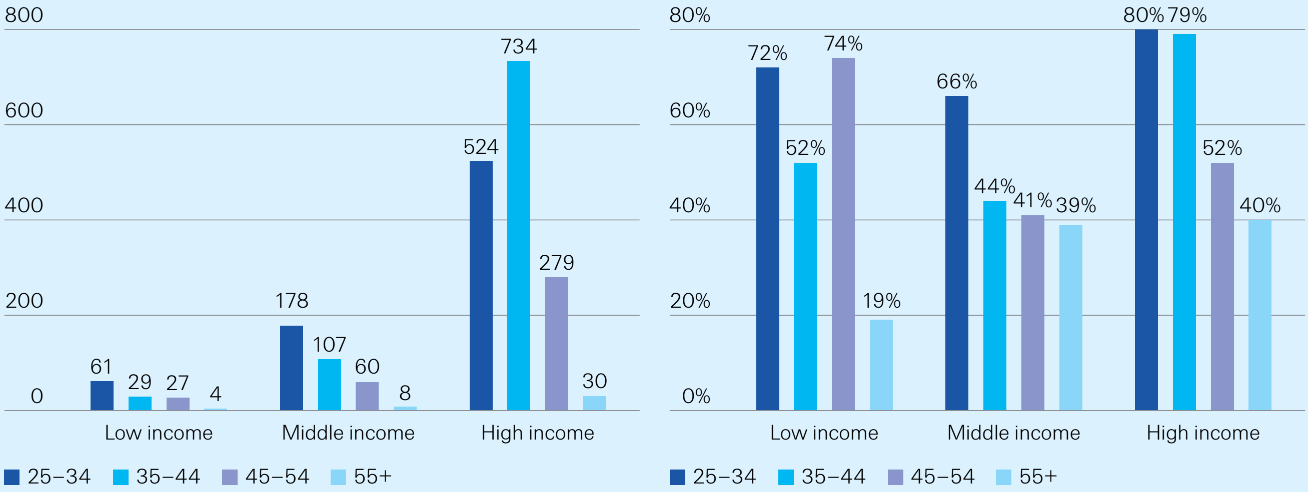
Insurers can combine digital and human engagement in an omni-channel distribution strategy.

For best results, insurers can combine human and digital in an omni-channel distribution strategy that leverages online interaction to optimise financial adviser interactions with policyholders. For example, use of social media and third-party data platforms (eg, online banking) can drive more effective financial adviser engagement, while digital tools can accelerate application and payment processes. For younger and wealthier customers, insurers could test a fully digitally-enabled purchase journey while still offering consumers face-to-face consultation on request.

Young and middle-aged professionals account for 80% of New Zealand's mortality protection gap, a major insurance opportunity.

Case study: strategies to target young and middle-aged professionals
Young and middle-aged professionals (25–44 years old) represent 47% of our sampled population but 80% of New Zealand's MPG. They are typically high-earning, well-educated and have busy lives. They are embarking on life events such as marriage, children and buying a house. Middle-aged (35–44 years), high income professionals have the highest MPG per household (USD 734 000) across all age and income groups. In the low- and middle-income groups, the youngest professionals (25–34) have the highest average MPG per household (USD 61 000 and USD 178 000 respectively; see Figure 19). They also have the highest gap as a percentage of protection need across all income groups. We showcase a strategy to improve insurance uptake in this target consumer segment.

Figure 18
Average MPG per household in USD thousands, by monthly household income and primary earner's age (left)
MPG as a percentage of protection need by monthly household income and primary earner's age (right)



Source: Swiss Re Institute

Young professionals' protection gap
- **High protection needs:** more than half (56%) of the segment has at least one child (age 17 or below) dependent, and 8% have at least one senior (65 and above) dependant.
- **Low existing protection:** less than half (49%) of young and middle-aged professionals have life cover.
- **Confident:** young professionals tend to underestimate their financial needs. They aim to earn more or buy health insurance before considering life cover to improve their financial security.

Key characteristics
- Cost and sum assured are the biggest considerations for life cover.
- Health and disability/income protection are preferred bundling options.
- Purchase triggers for young professionals include marriage and buying a house; marriage and parenthood are triggers in middle age. More accepting of digital channels.

Product recommendations
- **Link insurance promotions with life events** such as having a child or purchase of a first property.
- **Bundle life cover** with options such as critical illness (trauma), accident and disability/income protection.
- **Develop cost-effective purchase channels** such as non-advised (direct-to-consumer), including digital and phone-based, to overcome the perception that insurance is expensive. Offer riders with variable levels of protection to cater to different levels of willingness to pay.
- Build messages that help consumers see the need for life insurance despite their young age and high incomes, emphasising the unique ability of life insurance to protect against mortality risk for the family.
- Provide digital tools to calculate consumers' actual mortality protection gap or help them visualise their needs should a primary earner die.
- Digitally enable the purchase process so consumers can source information, apply for cover and pay via mobile devices.

Conclusion

Families with young primary earners are most exposed to mortality risk.

Our research estimates that most New Zealand households are vulnerable to financial hardship in the event of the premature death of a primary earner. The most exposed are households with young earners, which have the highest protection need given the longer periods of dependency still outstanding. Low life insurance penetration and fewer accumulated savings are major factors driving the shortfall among high-gap households. We estimate the total MPG for New Zealand at USD 435 billion, and anticipate that demographic trends may cause the gap to grow to about USD 500 billion by 2030 if no action is taken.

Consumers' perceptions of mortality risk and life insurance benefits are key to closing the gap.

Consumers' perceptions of mortality risk and life insurance are key to closing the protection gap. Most households are aware of the financial risk associated with mortality and feel the need to prepare for it. However, our survey finds they are more concerned with health and disability protection than life cover. Consumers also feel they have a range of alternatives to life insurance to boost their financial security to protect against mortality risk. These include earning and investing more, drawing on support from family and friends, and utilising the protection provided by government schemes such as KiwiSaver, NZ Super, and the ACC. Close to a third of households overestimate their level of financial preparedness for a mortality shock.

Life insurance can play a key role in closing the mortality protection gap...

Closing the MPG in New Zealand will rely on consumers building significantly higher financial resources for mortality protection, yet accumulating either significant financial assets or property investments are not options available to all. Buying sufficient life insurance coverage can alleviate the financial uncertainty of this risk. In order to close the gap in New Zealand, it would require an additional USD 1.5 billion of annual life insurance premiums between 2021 and 2030. This would support New Zealanders in ensuring they are financially prepared for what the future may hold.

...but this requires, among others, building more risk awareness and better understanding of insurance products.

We see an opportunity for insurers in New Zealand to improve awareness and understanding of life insurance by working with governments & industry bodies to educate families about their mortality protection gap. Insurers are also encouraged to continue to improve the customisation and flexibility of their products, letting customers adapt their insurance to their families' changing needs over time. However, this does result in a trade-off with complexity, so insurers need to communicate clearly with customers at every life stage. Further, we outline one of the target segments that will be key to growth for insurers in New Zealand in the coming decade: young and middle-aged professionals. This group has a significant protection gap. Designing products and directing communication, education and distribution to these groups should benefit these consumers in the medium to long term and support a reduction in the protection gap.

Appendix

Methodology

Mortality protection gap = protection need – available resources
Protection need represents the amount needed to maintain the living standards of dependents and pay outstanding debts in the event of the premature death of the breadwinner(s).

Available resources represents the amount that is available to support the livelihood of surviving family members. It includes total savings (eg, liquid assets like cash in hand/bank, investment in stocks, fixed income securities and other deposits), proceeds from life insurance policies, real estate investments, contributions from employers through group insurance coverage and social security payments.

Thus, the *mortality protection gap* is a function of the breadwinner's age, breadwinner's income, household income, household expenditures, dependents, inflation and real GDP growth (or real wage growth), retirement age, liquid assets, property owned, life insurance coverage and social security contributions.

Assumptions

1 Wage replacement is partial and depends on the age and last salary drawn by the deceased. Two-thirds of wages are replaced at age 35. For ages 36 to 64, the proportion replaced declines linearly to 50% at age 64.

2 The wage growth follows different trajectories at different ages. Wage growth is much steeper at a young age and relatively flat as an individual approaches his or her retirement age.

3 The income stream of the deceased need only be replaced until the time he or she would have reached age 65.

4 Available liquid assets = (0.5 * financial assets). This is to account for stock market and interest rate risks and sets aside a part of liquid assets for emergency situations.

5 The corpus needed for old-age/retirement funding of dependents is NPV ~30% of the projected household expenditure until breadwinner reaches age 65.

6 The protection gap calculation is based on average information per household: average income, average social security payments to survivors, average life insurance coverage, average debt, etc.

Calculation
Protection need is the present value of all future income needs of the dependent household's members in the absence of breadwinner(s) and outstanding debt.

Mathematically,

Protection need = $\sum_{t=1}^{n}\left(\frac{e_t}{(1+i)^t}\right)$ + debt outstanding

where,

n = numbers of years to retirement
i = average of inflation for years t and "t + n"
e_t = income need of surviving households in year t

Income base for the projection of future income needs of surviving household members is a function of current household income and household expenditures. Note that in the absence of detailed data regarding household expenditures, many studies use national level household income numbers for the estimation of protection need. However, it's worth noting that current level of household/breadwinner income may not be truly representative of the actual protection need of a household, particularly in scenarios where the current level of household income is extremely high compared to the household expenditure. Adjusting the household income based on the actual expenditure pattern of the household provides valuable insights into the actual protection need of the household.

The following adjustments were made to derive the income base for the calculation of protection need of the households:

- For households (respondents) where the total household expenditure including 30% savings component (for retirement/old-age funding) is more than or equal to the "total household income from all earning members"

  Income base for the calculation of protection need
  = annual household income

- For households where household expenditure including 30% savings component is less than the "total income from all earning members" (aimed at capping the gross annual earning to avoid distorted average protection need number due to extremely high household income level vis-à-vis household expenditure of certain households).

  Income base for the calculation of protection need = [(total household expenditure)/ 0.7] + [(total household income – total household expenditure)/ 0.7) * (total household expenditure/total household income)]

Protection gap = $\left(\sum_{t=1}^{n}\left(\frac{e_t}{(1+i)^t}\right)\right.$ + debt outstanding) – (life insurance + available financial assets + social security survivor's benefits + value from non-primary property assets)

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