2012 Protection Gap Study

- Change, Uncertainties and Opportunities

A Towers Watson study

Keith Walter
Choo Oi San

9 November 2012

© 2012 Towers Watson. All rights reserved.

Protection Gap In Singapore

$462bn

Protection Gap in Singapore
End 2011

10x

Annual salary needed to meet the Protection Needs

Protection Needs vary by a number of factors including age, gender, income level, and family profile.

3.7x

Annual salary needed to meet the Protection Gap

After allowing for CPF savings and existing insurance coverage, the average remaining Protection Gap is $242,500 per working adult

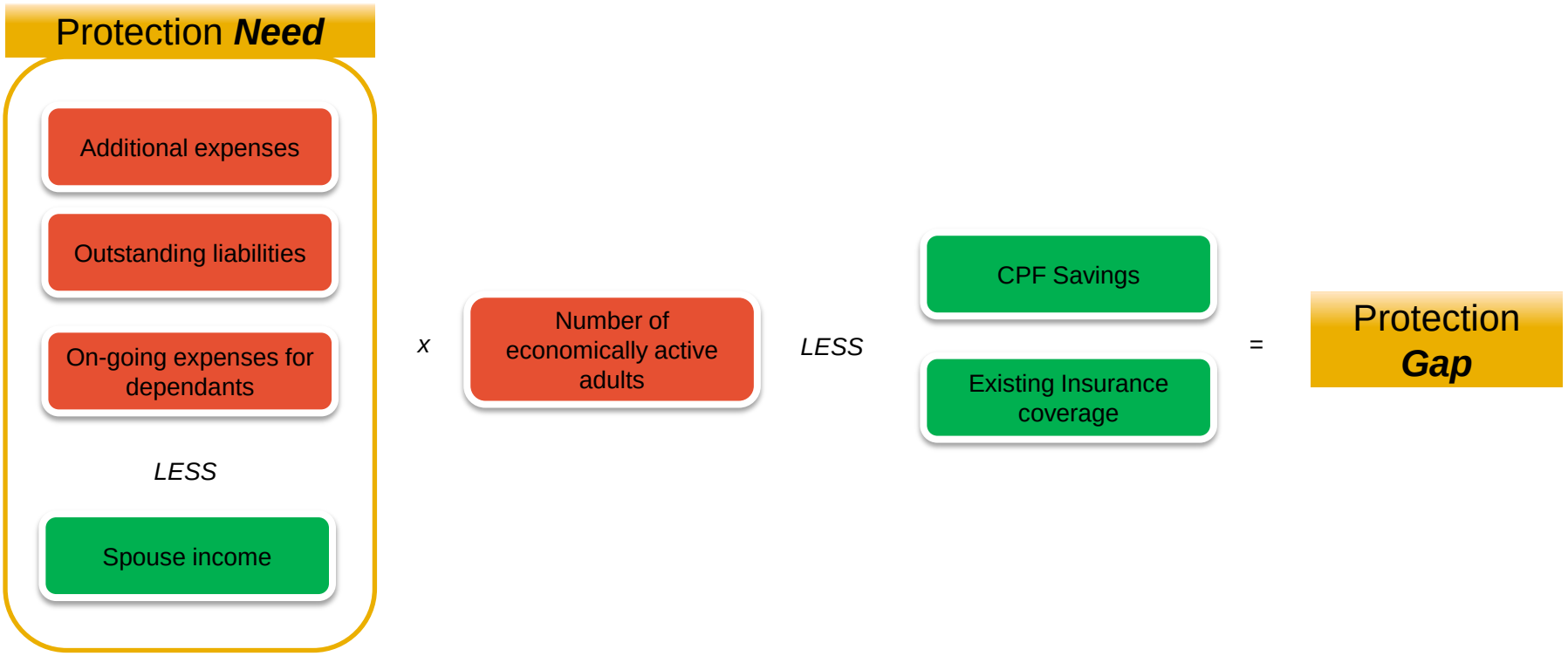
$609bn

Current total insurance coverage held by economically active Singaporeans and residents

Insurance plays a key role in meeting the Protection Needs. Average existing insurance coverage is 5x annual salary.

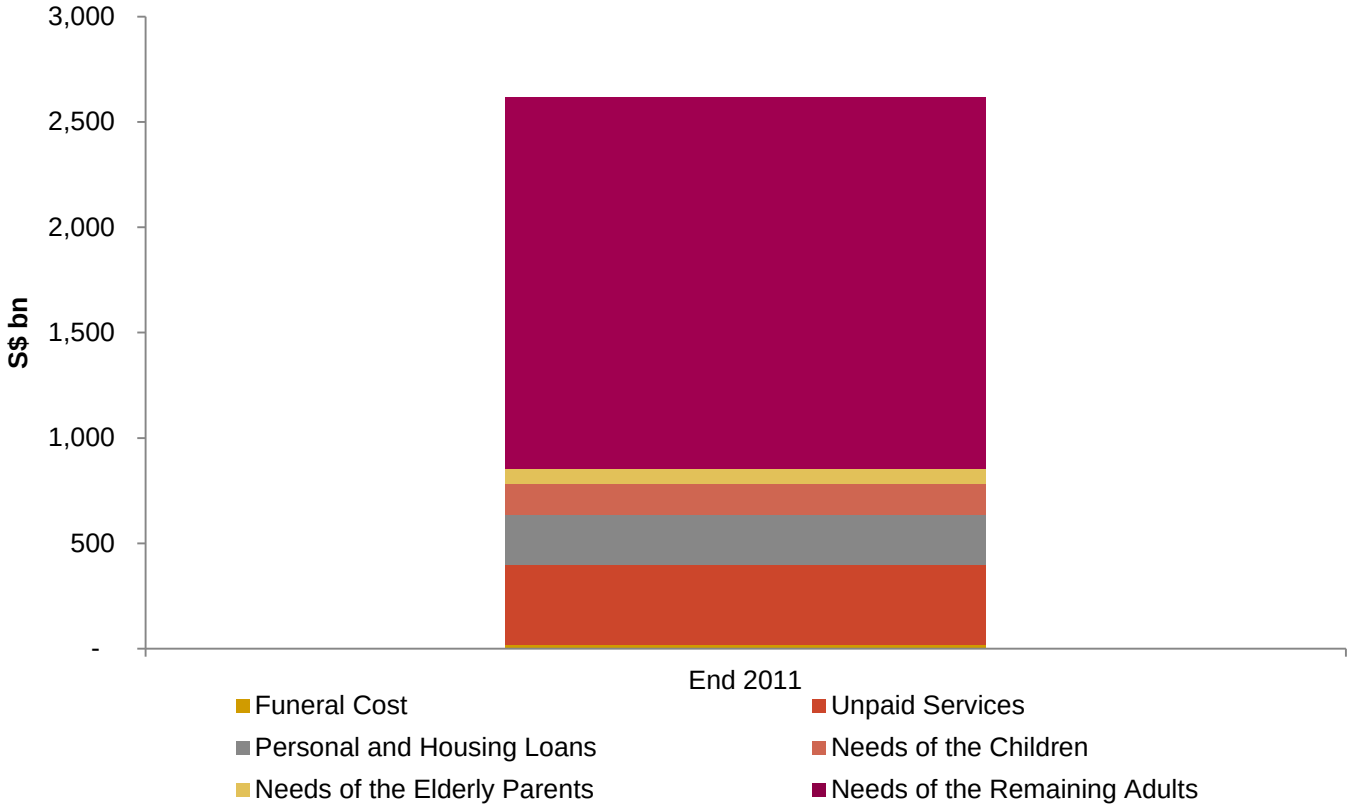
© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Definition of the Protection Gap



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

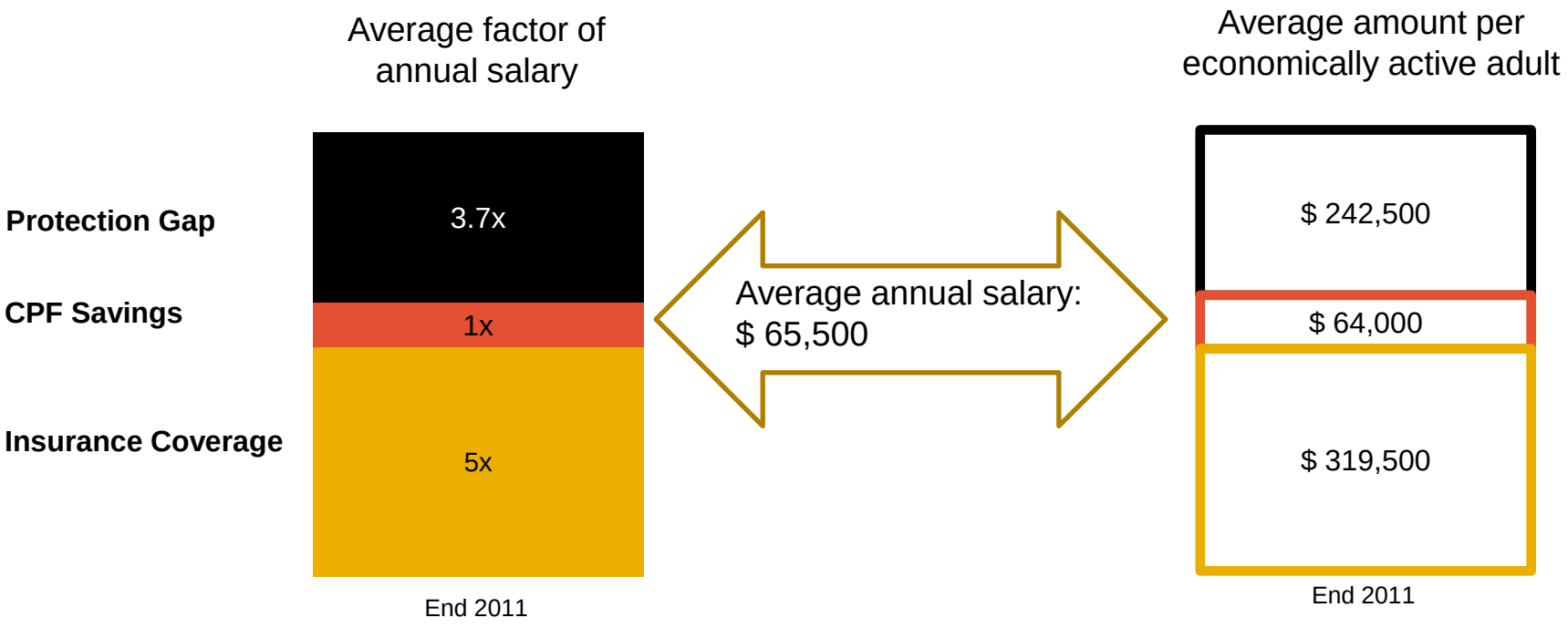
Total Protection Needs before Spouse's Income



- Total number of economically active adults: 1.9 million
- The Needs of the Remaining Adults are by far the most significant need.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

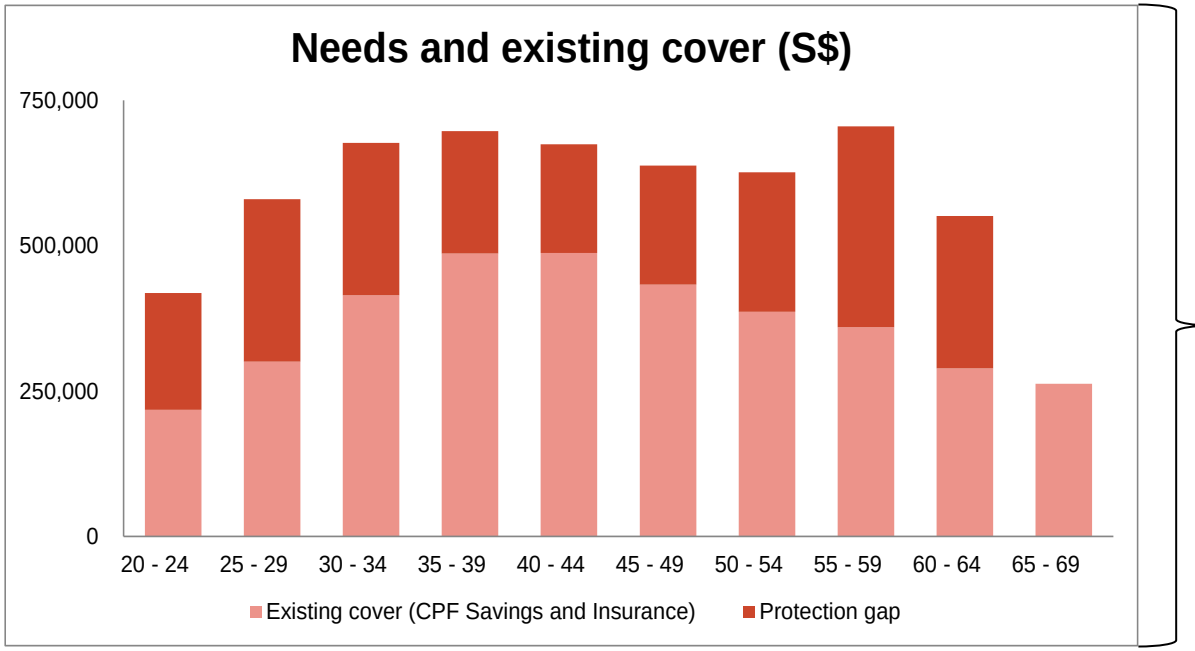
Protection Gap per Economically Active Adult



- Overall Protection Needs were nearly 10x annual income.
- Overall Protection Gap was 3.7x annual income.
- Insurance plays a key role in closing the Protection Gap.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Protection Gap per Economically Active Adult



Average Protection Gap per economically active adult:

2011: $242,500

Average insurance coverage per economically active adult:

2011: $319,500

- Note: the amount of Protection Needs and Protection Gap varies by age bands, gender, income level, and family profile.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

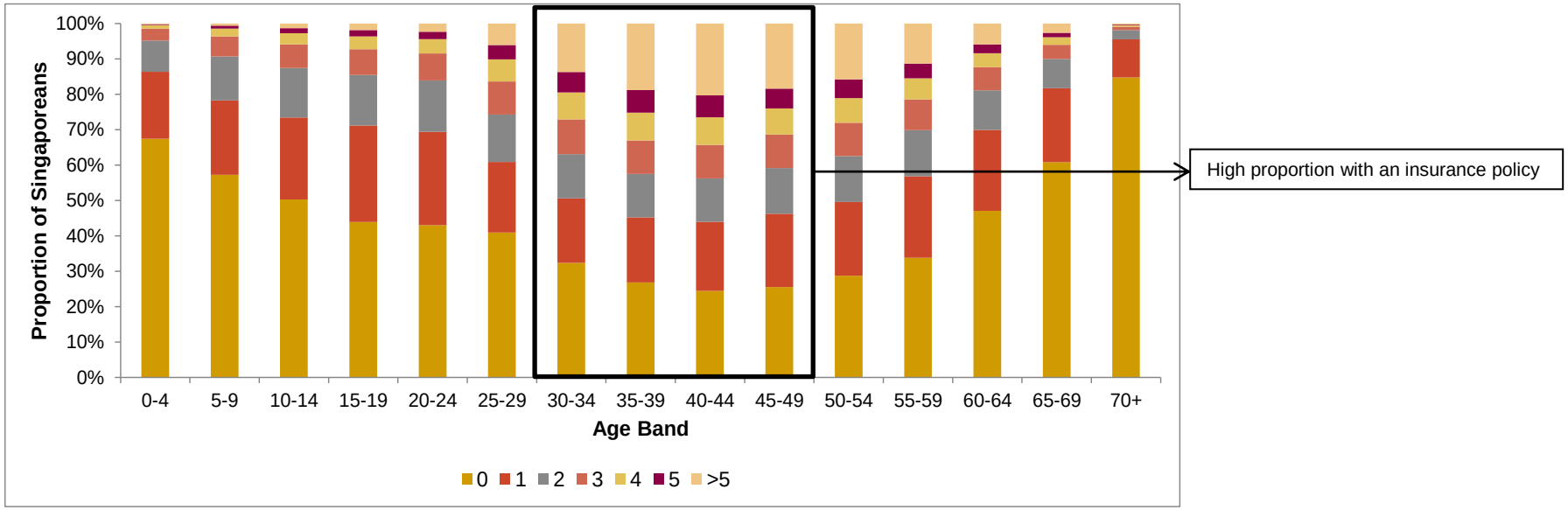
Insurance Statistics

- Conducted the first study in Singapore to merge data across insurers to get a single life insured view.
- Able to give a better understanding of the true level of coverage in the population.
- Study covered Singaporeans and PRs.
- Only included policies with some element of death coverage.
- Excluded DPS.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Insurance Statistics (1)

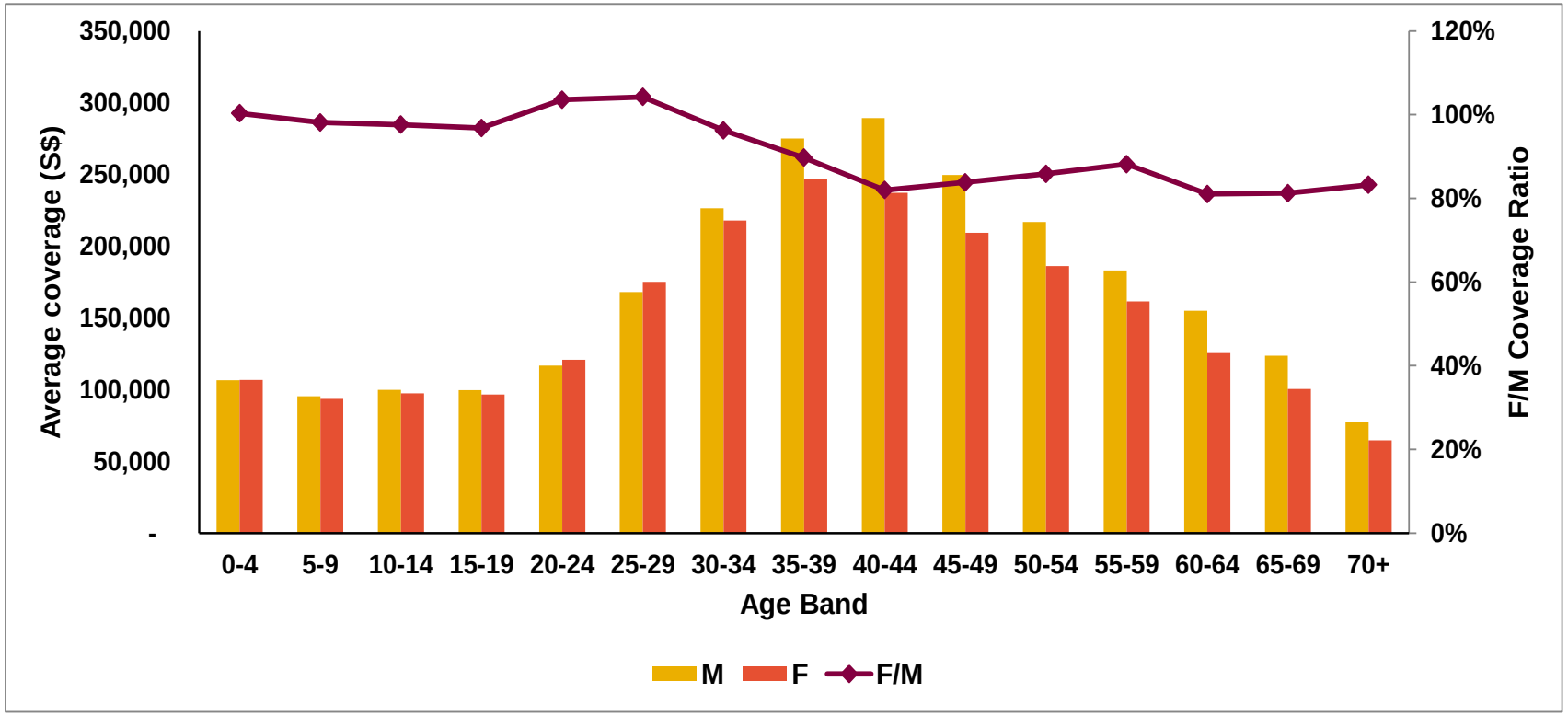
- A high proportion of Singaporeans own at least one individual insurance policy: 58% whole population, 73% for those aged 30-49.



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Insurance Statistics (2)

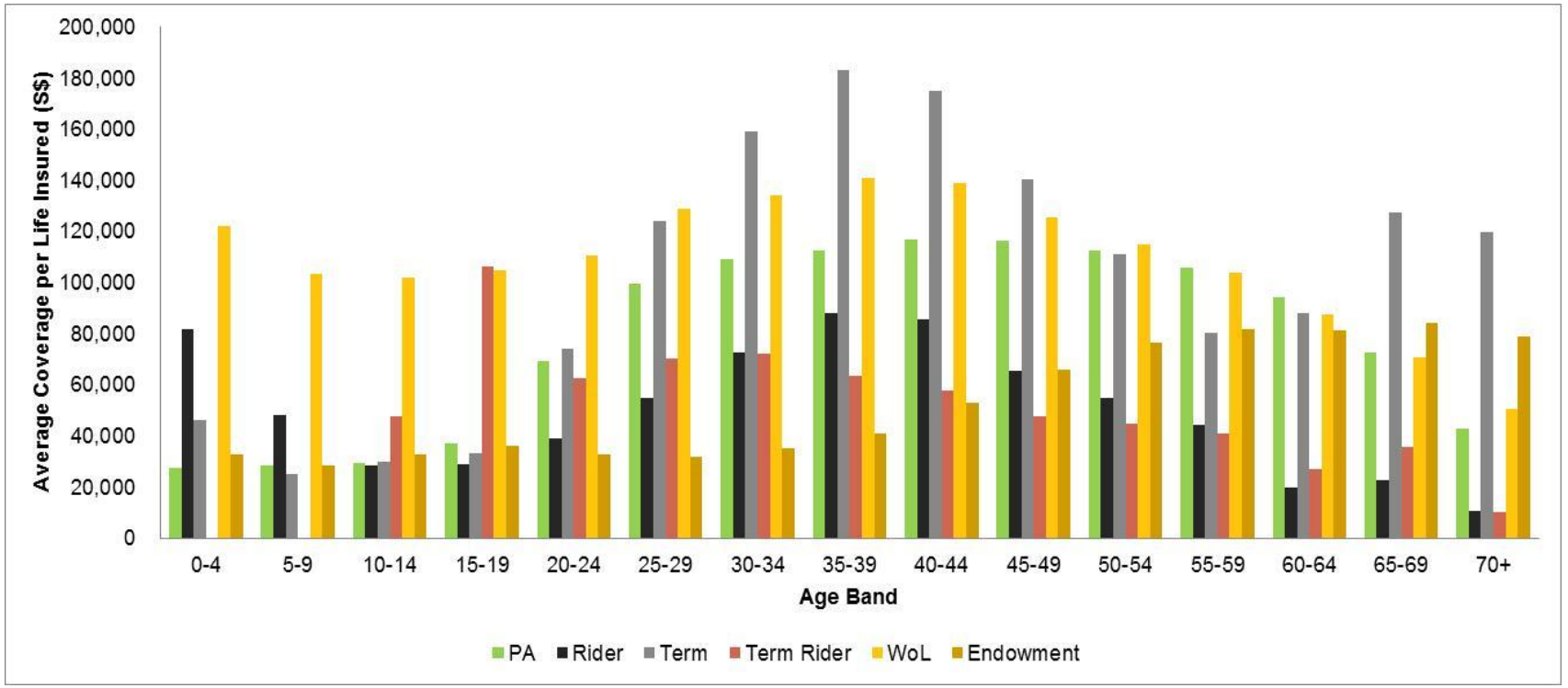
- In general, males had higher average sum assured compared to females (circa 80% from age 40)



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Insurance Statistics (3)

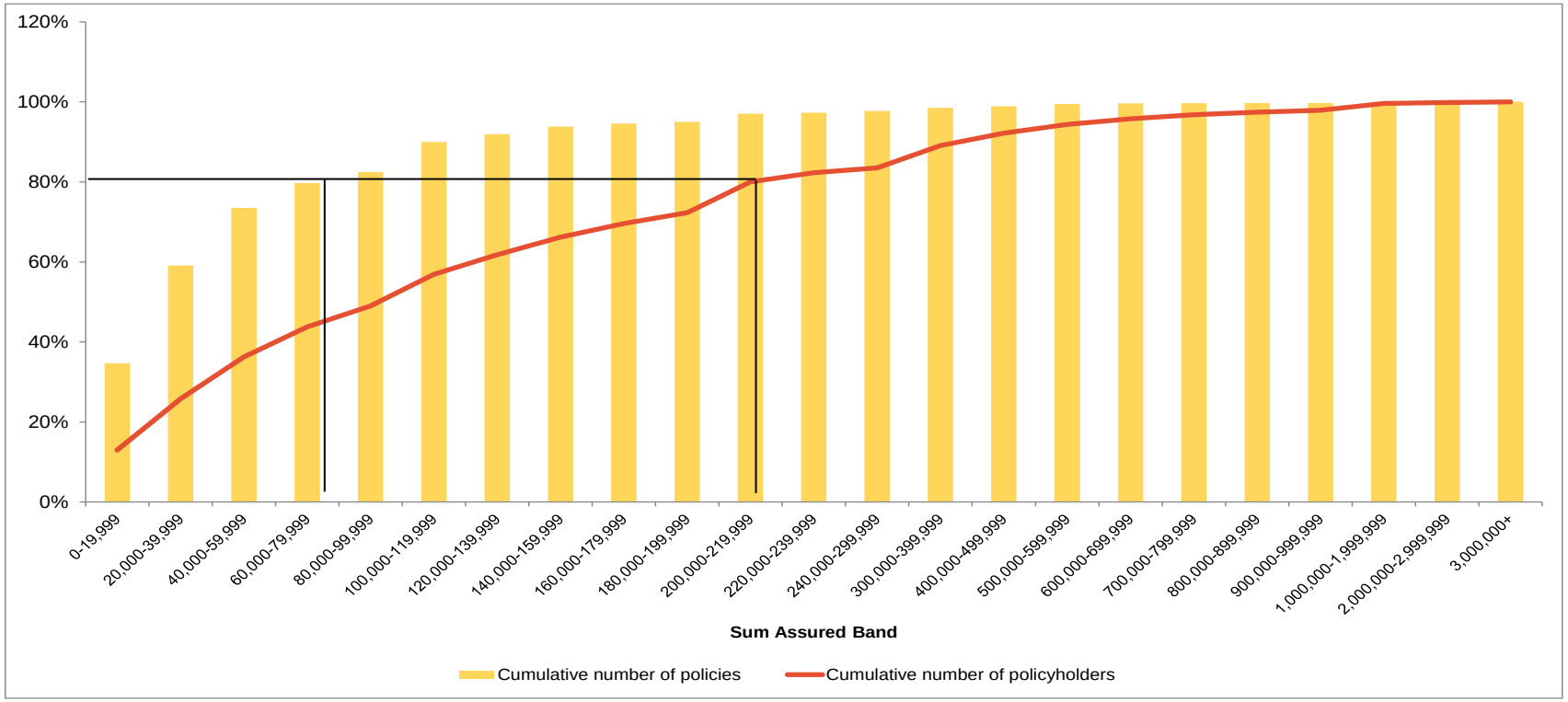
- Average sum assured for total Term coverage are around $170,000 in the age range of 30-44.
- Average sum assured for total Whole of Life coverage are around $140,000 in the age range of 30-44.



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Insurance Statistics (4)

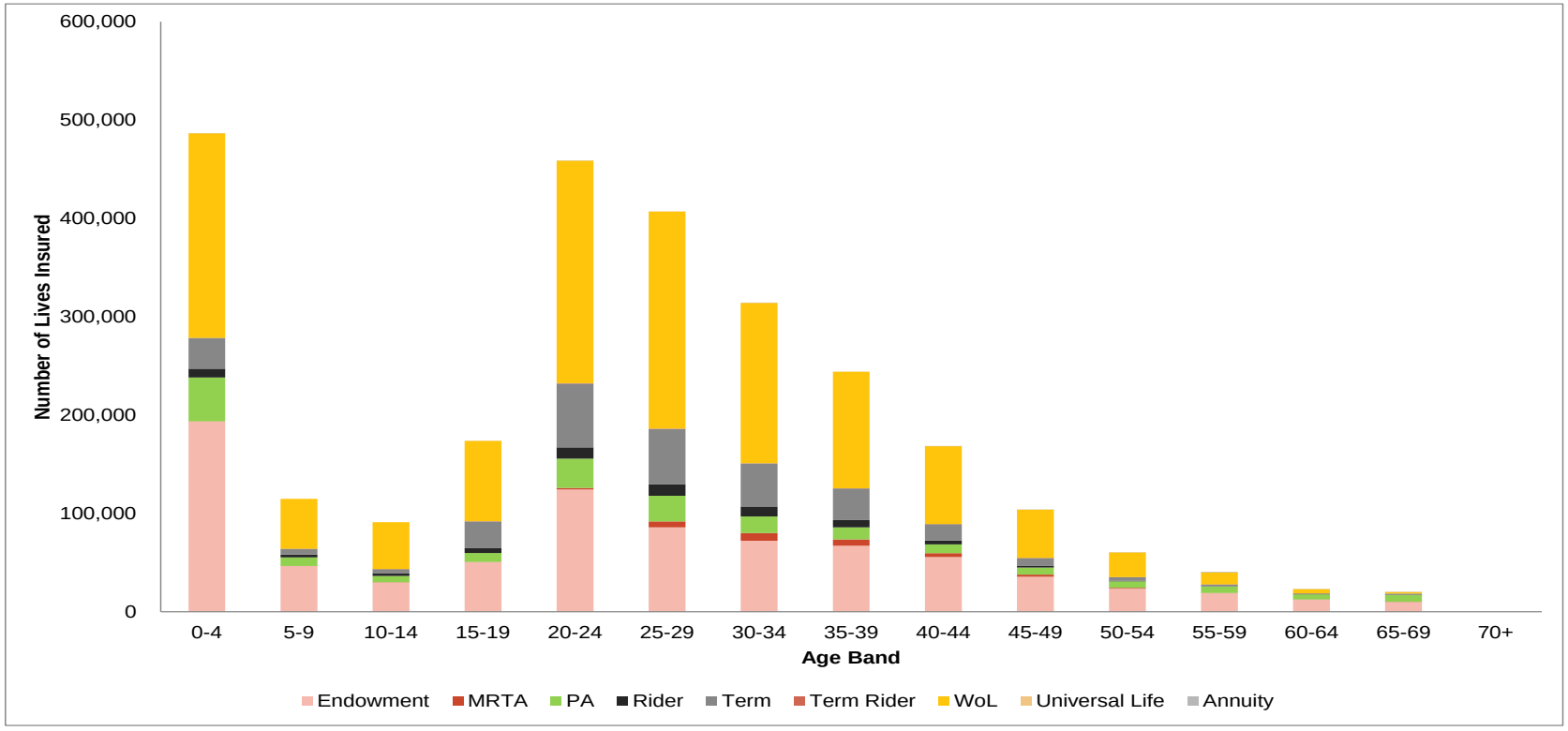
- 80% of policies had a sum assured of less than S$80,000. 80% of lives insured have total sums assured of less than S$220,000.



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

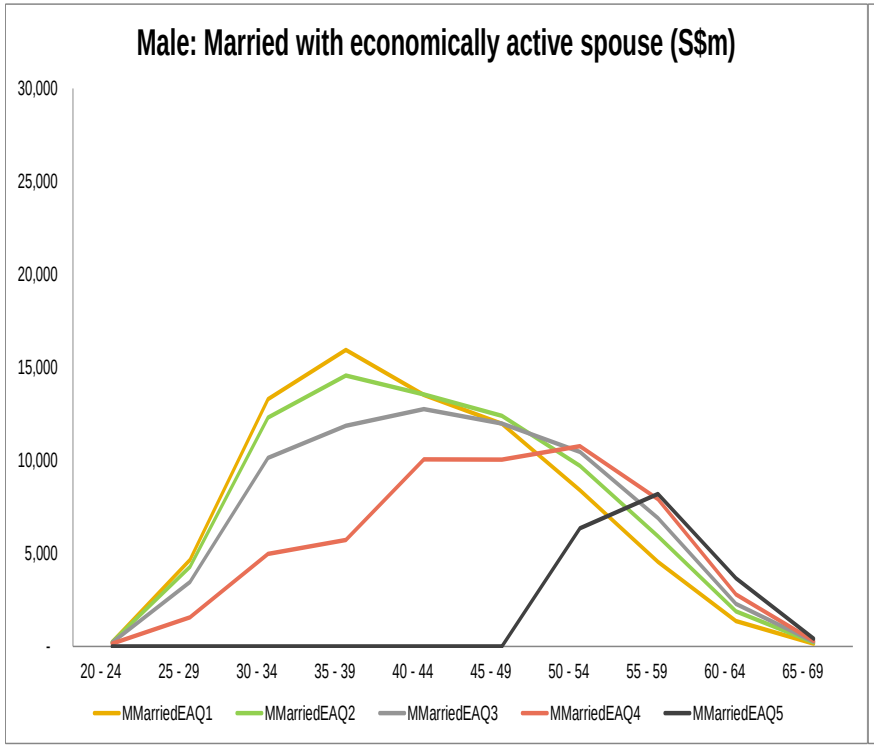
Insurance Statistics (5)

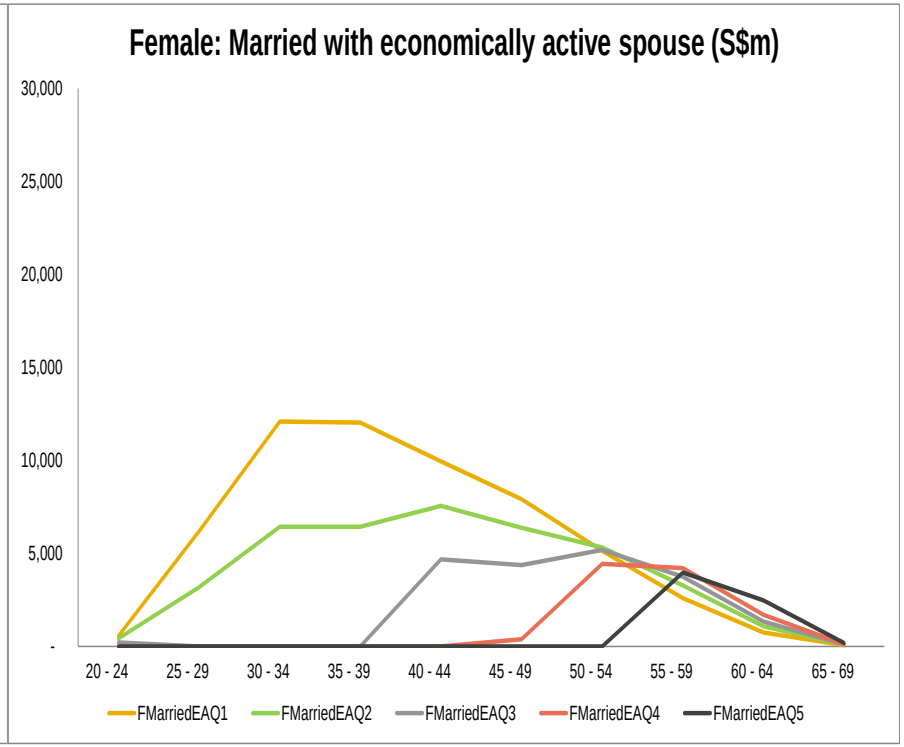
- A significant number of parents purchased Endowment and Whole of Life policies for their newborn.
- Subsequently, first purchases of insurance policies start picking up in the age group 20-24.



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

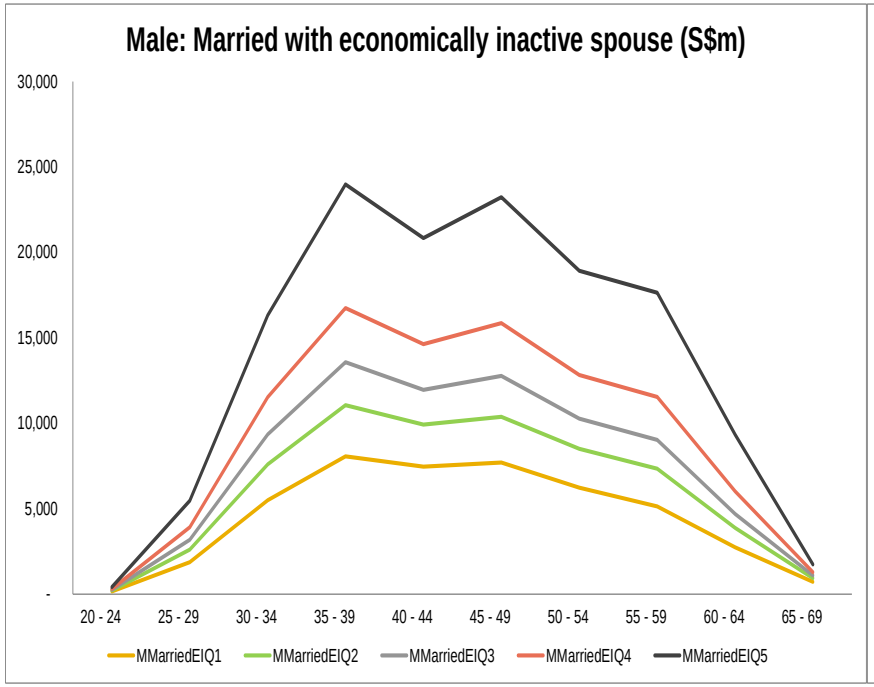
Protection Need by Profile (1)

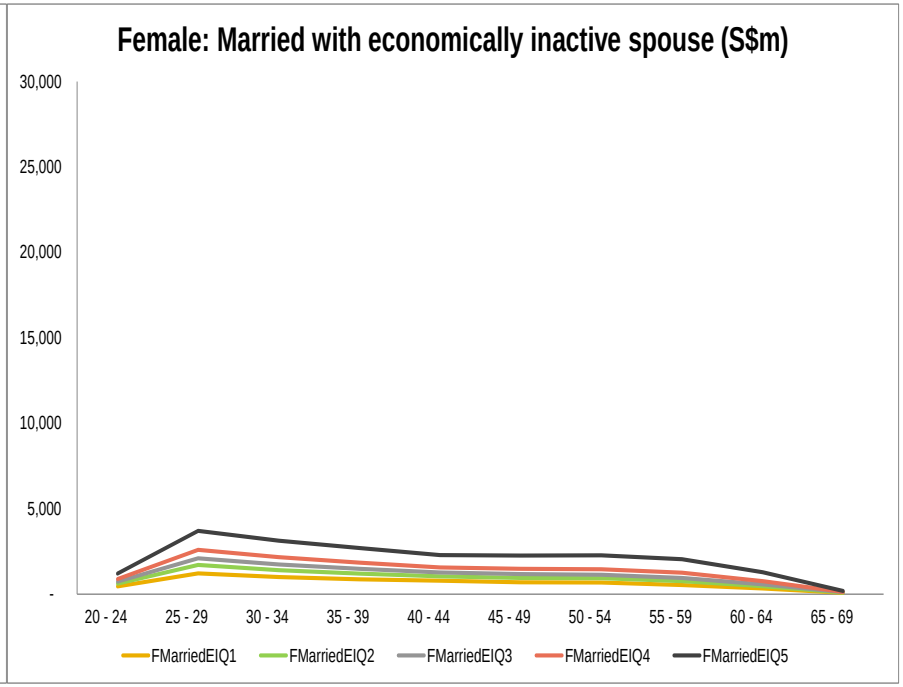




© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

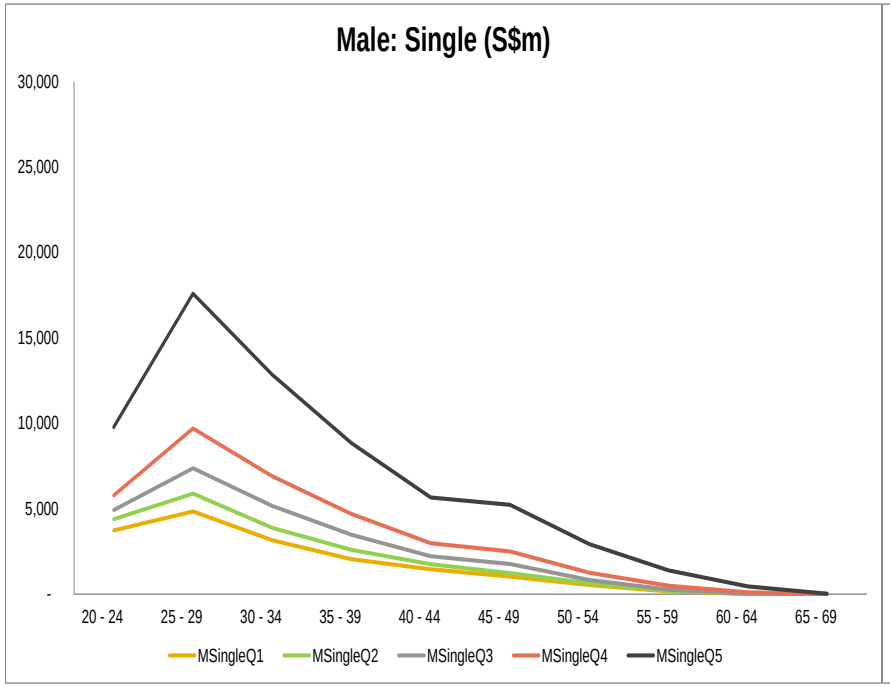
Protection Need by Profile (2)

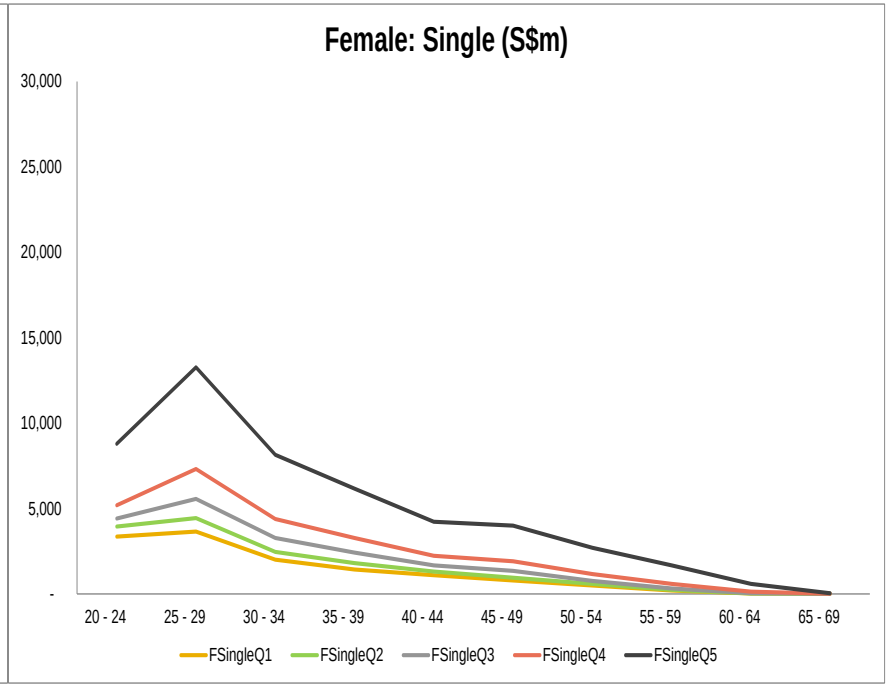




© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Protection Need by Profile (3)

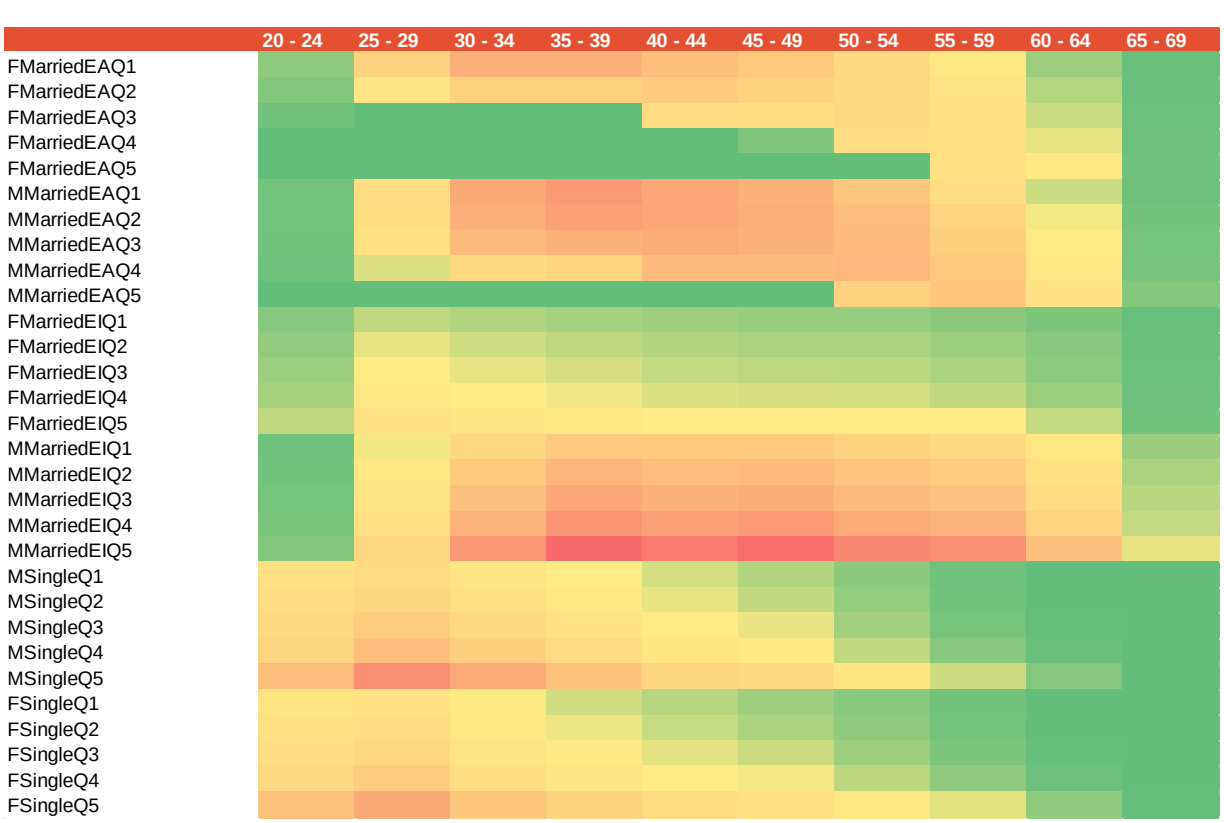




© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Opportunities

- Huge opportunities across the different segments



Multi-pronged approach needed due to the diversity between segments

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Opportunities to Close the Protection Gap

- Education;
- Funding for insurance premiums;
- Public perception; and
- Distribution of insurance products.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Opportunities – Some Ideas For Funding (1)

- **Use CPF to buy top-ups on the DPS product?**
  - Successful integrated Shield scheme 62% of members have an integrated Shield plan.
  - If 62% of all *DPS* members bought another $92,000 (2x current DPS coverage) sum assured through a top-up, total reduction in the Protection Gap would be about $110 bn, or about a quarter of the Protection Gap.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Opportunities – Some Ideas For Funding (2)

- **Lobby for higher individual tax relief for insurance premiums?**

"Total compulsory employee CPF contribution is less than $5,000.

*If your CPF contribution is less than $5,000, you can claim the **lower** of*

- *The difference between $5,000 and your CPF contribution.*
- *Up to 7% of the insured value of your own/your wife's life or the amount of insurance premiums paid, whichever is lower."*

IRAS website

- CPF contribution less than $5,000 means that gross salary has to be less than $25,000 (20% employee contribution rate).
- Tax rates are 0% up to $20,000.
- To get any tax relief, gross salary has to be between $20,000 and $25,000.
- Assume $22,000 gross salary, and tax relief will be at most $12.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

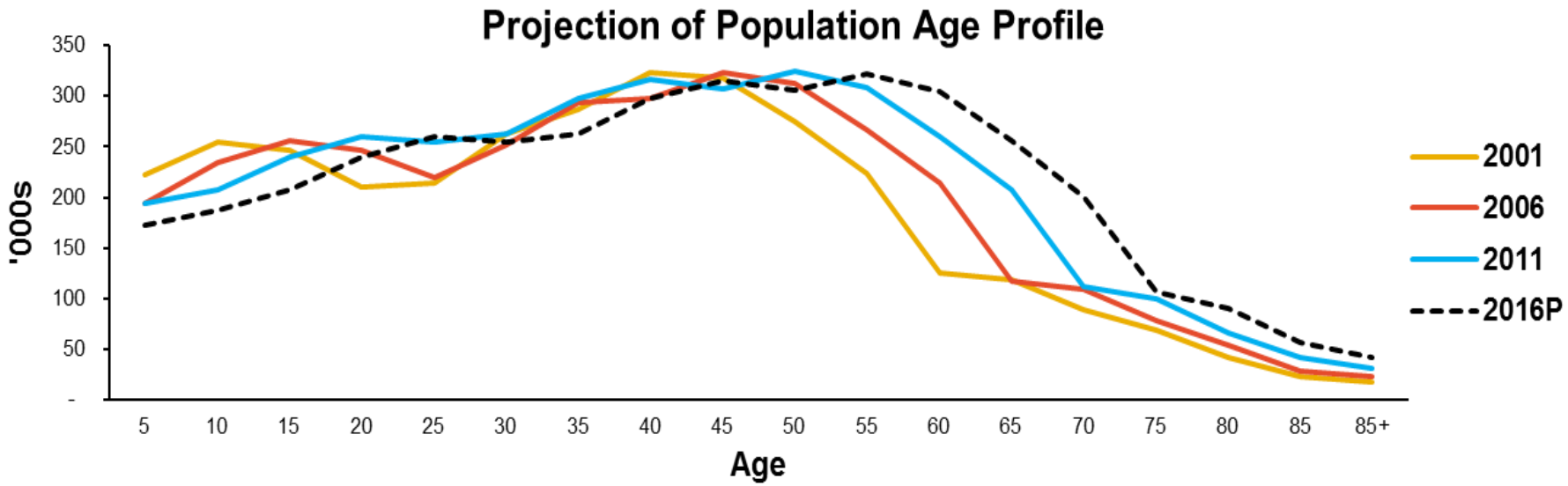
Opportunities – Other Ideas

- Other ideas:
  - Increased tax deduction for insurance premiums paid by employers;
  - Starting insurance education at younger ages (eg National School Savings Campaign);
  - Leverage affinity groups to bring more protection products to the lower income.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Protection Gap is only one component…

- Retirement Gap
- Health Gap



© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.

Conclusion

- Closing the Protection Gap is a huge challenge.
- The industry would need a multi-pronged approach to address the different segments in the population.
- Enormous opportunities for the industry to step up and lead initiatives to close the Protection Gap.

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential.